BOARD OF DIRECTORS

(AMENDED)

Thursday, March 8, 2007

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

10:00 a.m.

1. Roll Call.

2. Approval of the minutes of the January 18, 2007 Board of Directors meeting.

3. Chairman/Executive Director comments.

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

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

6. Discussion, recommendation and possible action regarding an augmentation of the 2006-2007 Operating Budget. (Jackie Riley)

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7. Report of the Compensation Committee Chairman regarding the meeting of CalHFA’s Compensation Committee. (John Courson)

8. Possible discussion and action by Board relating to the Compensation Committee’s review and recommendations, if any, regarding (i) development of compensation policies and procedures; (ii) possible CalPERS contributions by the Agency in connection with exempt salaries; (iii) exempt salary ranges previously adopted by the Board; and (iv) the salary of the Executive Director previously adopted by the Board. (John Courson)

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11. Discussion of other Board matters.

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

NOTES:

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

FUTURE MEETING DATE: Next CalHFA Board of Directors Meeting will be May 10, 2007, at the Burbank Airport Marriott Hotel & Convention Center, Burbank, California.
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STATE OF CALIFORNIA
CALIFORNIA HOUSING FINANCE AGENCY

BOARD OF DIRECTORS
PUBLIC MEETING

The Westin San Francisco Airport
1 Old Bayshore Highway
Millbrae, California

Thursday, January 18, 2007
9:34 a.m. to 1:06 p.m.

Minutes approved by the Board of Directors at its meeting held: 03/08/2007

Attest:

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

Daniel P. Feldhaus, C.S.R., Inc.
Certified Shorthand Reporters
8414 Yermo Way, Sacramento, California 95828
Telephone 916.682.9482    Fax 916.688.0723
FeldhausDepo@aol.com
STATE OF CALIFORNIA
CALIFORNIA HOUSING FINANCE AGENCY

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APPEARANCES

Board of Directors Present

JOHN A. COURSON
(CalHFA Board Chair)
President/CEO
Central Pacific Mortgage

PETER N. CAREY
President/CEO
Self-Help Enterprises

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

JEFF DAVI
for Barry R. Sedlik, Acting Secretary
Business, Transportation and Housing Agency
State of California

CAROL GALANTE
President
BRIDGE Housing Corporation

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

JOHN G. MORRIS
President
John Morris, Inc.

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

WILLIAM J. PAVAO
for State Treasurer Bill Lockyer
State of California
APPEARANCES

Board of Directors Present
Continued

TERRY ROBERTS
for Cynthia Bryant, Director
Office of Planning and Research
State of California

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

---o0o---

Participating CalHFA Staff:

MARGARET ALVAREZ
Director of Asset Management

SANDY CASEY-HEROLD
Deputy General Counsel

BRUCE D. GILBERTSON
Director of Financing

EDWIN C. GIPSON II
Housing Finance Chief - Culver City
Multifamily Programs

THOMAS C. HUGHES
General Counsel

ROGER KOLLIAS
Housing Finance Officer
Multifamily Program

CHARLES K. McMANUS
Acting Director
Mortgage Insurance Services
APPEARANCES

Participating CalHFA Staff:
Continued

JOJO OJIMA
Office of the General Counsel

JACKLYNNE RILEY
Director of Administration

KATHY WEREMIUK
Housing Finance Officer
Multifamily Programs

LAURA WHITTALL-SCHERFEE
Housing Finance Chief - Sacramento
Multifamily Programs

--o0o--

OTHER SPEAKERS

KENNETH A. BJURSTROM
Financial Consultant
Milliman
Re Item 12, Mortgage Insurance

JOHN DUNLAP
Owner, Boles Creek Apartments
Re Item 16, Public Testimony

PERLA ESTON
Inclusive Homes, Inc.
Re Item 4, Diamond Aisle Apartments

JOHANNA GULLICK
Jamboree Housing Corporation
Re Item 4, Diamond Aisle Apartments

TINA ILVONEN
Consultant
Re Item 5, Coyote Run Apartments Phase II
APPEARANCES

OTHER SPEAKERS
Continued

PAT MEEHAN
Consultant
Re Item 7, Compensation Committee Report

MICHAEL OCLARAY
Watson Wyatt
Re: Item 7, Compensation Committee Report

BRENT OWEN
Owner, Boles Creek Apartments
Re Item 16, Public Testimony

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BE IT REMEMBERED that on Thursday, January 18, 2007, commencing at the hour of 9:34 a.m., at the Westin San Francisco Airport, 1 Old Bayshore Highway, Millbrae, California, before me, DANIEL P. FELDHAUS, CSR #6949, RDR and CRR, the following proceedings were held:

--oOo--

Item 1: Roll Call

CHAIR COURSON: Good morning everyone.
I will call the meeting to order, and ask that JoJo call the roll.

MS. OJIMA: Thank you.

Mr. Pavao for Mr. Lockyer?

MR. PAVAO: Here.

MS. OJIMA: Mr. Carey?

MR. CAREY: Here.

MS. OJIMA: Mr. Czuker?

MR. CZUKER: Here.

MS. OJIMA: Ms. Galante?

MS. GALANTE: Here.

MS. OJIMA: Ms. Jacobs?

MS. JACOBS: Here.

MS. OJIMA: Mr. Morris?

MR. MORRIS: Here.

MS. OJIMA: Mr. Davi for Mr. Sedlik?

MR. DAVI: Here.

Daniel P. Feldhaus, CSR, Inc.  916.682.9482
MS. OJIMA: Mr. Shine?

MR. SHINE: Here.

MS. OJIMA: Ms. Roberts for Ms. Bryant?

MS. ROBERTS: Here.

MS. OJIMA: Mr. Genest?

(No audible response)

MS. OJIMA: Ms. Parker?

MS. PARKER: Here.

MS. OJIMA: Mr. Courson?

CHAIR COURSON: Here.

MS. OJIMA: We have a quorum.

CHAIR COURSON: Thank you.

--000--

Item 2. Approval of the Minutes of the November 9, 2006, Board of Directors Meeting

CHAIR COURSON: And the first order of business is as set forth in your Board book, the approval of the minutes from our meeting of November 9th in Burbank.

Is there a motion to approve the minutes?

MR. CZUKER: So moved.

CHAIR COURSON: Is there a second?

MR. DAVI: Second.

CHAIR COURSON: Any discussion, changes?

(No audible response)

CHAIR COURSON: Please call the roll.
MS. OJIMA: Mr. Pavao?

MR. PAVAO: Yes.

MS. OJIMA: Mr. Carey?

MR. CAREY: Yes.

MS. OJIMA: Mr. Czuker?

MR. CZUKER: Yes.

MS. OJIMA: Ms. Galante?

MS. GALANTE: Yes.

MS. OJIMA: Ms. Jacobs?

MS. JACOBS: Yes.

MS. OJIMA: Mr. Moore?

MR. MOORE: Yes.

MS. OJIMA: Mr. Davi?

MR. DAVI: Yes.

MS. OJIMA: Mr. Shine?

MR. SHINE: Yes.

MS. OJIMA: Mr. Courson?

CHAIR COURSON: Yes.

MS. OJIMA: The minutes have been approved.

CHAIR COURSON: Thank you.

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Item 3. Chairman/Executive Director Comments

CHAIR COURSON: I have just a couple of brief comments and then another comment I want to make.

First of all, I will announce that being a full
service to our Board members, we have the communal
Kleenex box up here on the front desk for those who are
carrying around the Northern California cold.

And secondly, we do have a long meeting today.
I know all of you who have been forewarned that we have a
number of very important items on our agenda today.
We're going to move through them in proper form. We're
not going to rush, we're going to take our time, and have
full and complete discussion because these are very
important items we're going to be looking at through the
day.

As in some past meetings, I know we've had an
agenda where we could move through fairly expeditiously.
I suspect this is one that will not be that way. So
we'll move through the morning and when we get to an
appropriate time, we'll probably take a short break and
then come back and continue our work.

The other comment I would like to make is I, as
a Board member, and I trust other Board members are in
receipt of an anonymous memorandum that was sent a couple
of weeks ago. If you do not have one, we do have copies
with us; but I assume everybody on the Board has one. If
you don't, we have them; and we'd be happy to supply
those to you.

JoJo, I think you have them, if somebody
doesn't.

Let me make some remarks regarding that.

I became aware of that a week ago last Friday,
upon a call from CalHFA and from Terri. And shortly after
that, I got on the phone with Terri and counsel,
Mr. Hughes, and we discussed the memorandum I had
received. I had received a copy of it via fax. I
actually got a mail copy, I believe, Monday of the
following week. And I made the decision, after
discussion, that based on the information that was in the
memorandum, that it would be appropriate as Board chair
for me to undertake a process to do a review of some of
the items that were included in that memorandum.

So I have, on behalf of the Board, in working
with counsel, with Sandy Casey-Herold, because our
general counsel, Mr. Hughes, has recused himself from
this particular item of our work because of his name
being mentioned in the memorandum; and working with
Sandy, we have retained the law firm of Seyfarth Shaw out
of their office in Sacramento, a gentleman by the name of
Mr. Mark Van Brussel, to do a review of certain of the
items that are in that memorandum.

Mr. Van Brussel is known to me for the last
15, 16 years; has done, to my knowledge, I'm specifically
aware of very, very similar type of work where there are
management, employee-employer, inter-employee types of conflicts and allegations, both known and on an anonymous basis, and done an excellent job in the work that I've seen him do, and in doing these reviews, digging through the information, and issuing a report upon which in that case the management or a board can make a decision if any further action is necessary.

So he is undertaking that task. I believe that the engagement letter was received back yesterday from his firm, and he now today is starting on that review.

In going through the memorandum with Mr. Van Brussel and our counsel and myself, there is a lot of -- obviously, several pages long, a lot of information in there. And I think we concluded that there are what I would call three for-cause allegations in there. They rise in my mind to very specific allegations that were set forth in the memorandum.

One had to do with the way the legislation setting the -- giving the Board authority to review personnel and set salaries; one having to do with reappointment of the executive director; and the third having to do with the mortgage insurance fraud law litigation that we all know about.

So I think we picked those three out as being the primary issues that were very specific allegations.
And I think Mr. Van Brussel is going to be starting his
review by zeroing in on those. If it does lead to other
items, obviously he will look at that.

The plan is for him to continue that task. He
will issue a written report to me as Board chair and to
the Board, which obviously will immediately be
distributed to the Board. And then, as a Board, based
on what is in that report and in his findings of the
review, we can make a decision whether, in fact, any
additional action by the Board is necessary or
appropriate.

I'd be happy to answer any questions. I really
think it's a pretty full and complete briefing, unless
counsel has anything to add to it.

(No audible response)

CHAIR COURSON: Okay, that concludes my remarks.

Ms. Parker?

MS. PARKER: Thank you, Mr. Chairman.

I have three items of news to share with you.

The first one is to report back to the Board.

At the last meeting we were visited by Mr. John Dunlap,
who is the part owner of Boles Creek in Northern
California. And if you recall, he essentially asked the
Board to consider his request to the Agency for the
ability to prepay the remaining seven years on his loan,
or to have the Agency decrease the interest rate for the
remaining term.

    I have left at your desks a copy of the memo
that I intend to send him, for your information. And
basically, what it speaks to is it reaffirms that the
Agency for past loans subject to what was in their
contract, has a no prepayment penalty. Our contracts do
allow us to consider refinancing with a quid pro quo for
additional affordability, either in additional units
and/or length of term.

    Mr. Dunlap was not interested in the options
that we have given him and other similarly situated
owners of properties. And so we have essentially told
in this letter that -- we have offered him another
alternative, which is to reduce his reserve replacement
funds that would allow him to have some success with
increasing cash flows. I don't think that's, again,
something that he is interested in; but this letter does
reaffirm that offer.

    This is consistent with the many letters that
Margaret gets from our over 600 property owners who would
like to have consideration for different interest rates
and/or the ability to prepay. And as we have been
reminded many, many times, we need to make sure that we
keep all of our sponsors and owners similarly situated.
And this particular one, it has not only the Agency's policies involved in it, but also HUD's approval. Because if there were a reduction in the interest rate, it would have to be passed on to the tenants, in that it reduced affordability. So there would be no net gain to the property owner.

So I wanted to bring you back where we are on this. This is what we have concluded. It is consistent with how we have similarly treated all of our borrowers. But I will tell you that there continues to be interest on many of our borrowers, to see if it would be willing to look into other kinds of options. Primarily, many of these people who have had these properties for a long period of time would like to take some of the profit out of them. And we want to try to see whether or not our goal is to try to again maintain affordability for tenants as long as possible, and also to look at this relative to the various federal tax laws that we have to operate.

As you're aware in the business plan that we're currently involved in, we did make some changes to our Multifamily Program, on a going-forward basis where we're allowing 15-year prepay on a 30-year fixed-rate mortgage. But anything on our prior portfolio continues to be an exercise of continual research and dedication on our
part.

So unless there are any questions from members, that is the memo that I'm planning on sending out.

Two other items. I want to report to the Board that we had alerted you to work we were doing with Fannie Mae. The major initiative was to implement on a going-forward basis the resolution that you passed at our last meeting for us to look at implementing an MBS program. But as part of that, we had discussions with Fannie Mae, their interest in buying some second loans that we had, down payment assistance loans that we had, a portfolio of over 6,000 loans. That transaction was completed in December of last year. It was an extremely difficult but very, very successful endeavor. And the Agency was able to sell loans and increase our liquidity bottom line by almost $60 million.

The exciting thing about that is that we will be able to use those funds to revolve for down-payment assistance without having to go to other HAT funds, which will allow us more flexibility when we do our business plan next year.

So that is two of the three.

The third item is to report to the Board the continual work that I and my staff are doing with the counties, our sister state agency, the Department of
Mental Health, and other housing agencies to implement
the Governor's Homeless Phase II Initiative. I'm very
pleased to announce that our most recent discussions with
counties have proved to be so positive, that the counties
are not only going to commit $75 million for construction
of housing for the homeless, but to commit another
$40 million of their own Prop. 63 dollars for operating
subsidies, so the Agency will be operating for at
least -- or running for at least the next five years,
a program of $115 million for this housing.

That concludes my report, Mr. Chairman.

CHAIR COURSON: Okay, thank you.

Any questions of the executive director?

(No audible response)

CHAIR COURSON: Okay, seeing none, then let's
move then to our item -- agenda Item Number 4, which
is a presentation on the Diamond Aisle Apartments.

Incidentally, I have to say congratulations to
the new dad.

MR. GIPSON: Thank you.

FEMALE VOICE: Twins.

MR. GIPSON: Thanks.

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Item 4. Resolution 07-01, Diamond Aisle Apartments

MR. GIPSON: For Diamond Aisle, you guys do have in front of you some replacement pages. The major change is that we've eliminated the bridge loan that was in the financing package.

Diamond Aisle is a 25-unit project in the City of Anaheim. It is a special-needs project, which falls under the Governor's Homelessness Initiative Phase I, and as such, has those funds in it as well.

The owner will be Diamond Aisle L.P., a California limited partnership, and the managing general partner will be Jamboree Housing Corporation, a 501(c)(3).

They are requesting a $5.4 million construction loan for 24 months, and a permanent mortgage of 770,000 for 1 percent, which falls in line with the Agency's reduced interest rate for 100 percent special-needs projects.

Other entities going into the project are Anaheim, who is providing a ground lease for the project for 65 years; and it will be on residual receipts. It's valued at about $2.2 million. The Governor's Homelessness Initiative Phase I funds with MHP and the Department of Housing and Community Development of $3.1 million. They have AHP financing, and they also have
a capitalized grant for operating of 180,000 from the
Governor's Homelessness Initiative as well.

Roger Kollias is the project officer, and he will
take us through the project.

MR. KOLLIAS: In attendance today, representing
Diamond Aisle Apartments, is Johanna Gullick of Jamboree
Housing Corporation, Helen Cameron of HOMES -- HOMES
stands for Helping Our Mentally Ill Experience Success --
and Perla Eston, the project consultant.

Diamond Aisle is located at the northeast corner
of Wilshire and Pearl in north central Anaheim. The site
is one block east of the Santa Ana Freeway, along Lincoln
Avenue.

Here is the freeway. Here is Lincoln Avenue.

Here is our subject property, right here (pointing).

This property is the assemblage of three parcels,
three remnant parcels, which resulted from the Interstate
5 freeway expansion.

The site obviously is irregular in shape,
containing approximately 36,962 square feet, or .85
acres.

As Ed has said, the project consists of
25 rental units. There are 15 one-bedroom units and ten
two-bedroom units. The common areas will include a
2,500-square foot resident service center, two common-use
washrooms, an elevator, a tot lot, common-area laundry, and project offices.

This is a view of the site to the west. Wilshire Avenue is on the left side of the screen.

Here is a view to the east, northeast, from the intersection of Wilshire and Pearl. The subject parcel is right on the corner.

This is typical rental housing in the area.

This is the view west, along Wilshire. The subject property is on the right.

This is an artist's rendering of the elevations.

And this is an artist's rendering of the site plan.

The project will be rented to a target population of chronically homeless and severely mentally-ill with a household income not exceeding 30 percent of area median income. And it will be comprised of adult or an adult member eligible for services under the Mental Health Services Act.

The one-bedrooms will be leased at $439. Market rents in the area are $984 for a comparable unit.

Two-bedrooms will be leased at $524, versus a market rent of $1,206.

The County of Orange Health Care Agency has committed to provide, pursuant to the Mental Health
Services Act, funding for supportive services for the
duration of a 55-year HCD loan. These amounts will be
committed annually.

The Telecare Corporation will provide supportive
services by way of a contractual arrangement with the
County of Orange Health Care Agency; and social services
will be provided by Housing with HEART, which is a
501(c)(3) corporate affiliate of Jamboree Housing
Corporation.

MR. GIPSON: The project has a HAP contract to
operate for rental subsidies for it, and our loan is
based on a ten-year period to their 15-year contract.
And the County of Orange has also provided a guarantee
commitment behind that, in case some financing falls
through for operating subsidy as a backup as well.

With that, we'll answer any questions.

CHAIR COURSON: Are there any questions from the
Board?

Mr. Czuker?

MR. CZUKER: In terms of the presentation, I'm
wondering if we could ask staff in the future to include
the names of the principals because when a project is set
up and an LLC is formed, you have a fictitious business
name, and it's very difficult for the Board to understand
who the principals are behind the entities that we're
reviewing.

And as projects come before us, I think it would be helpful, since many are repeat borrowers and many are new borrowers, and it's very, very difficult to ascertain the level of experience, prior track record, when we're dealing with new names and fictitious names, either for the project, such as the J.H.C. Diamond Aisle, LLC, who are the principals behind that, and not just talking about Jamboree Housing, but I think it would be helpful to have who the partners are, who the principals are, and some discussion as to their prior experience with CalHFA and experience in the industry.

Thank you.

CHAIR COURSON: Thank you, Mr. Czuker.

I think that we'll take that under advisement. I think that's a good idea to identify some of the principals in case we have knowledge or past experience with them.

MR. GIPSON: Absolutely, a portion of that's in there; but we can get some more of the rest of the information as well.

MR. CZUKER: Can you tell us who Diamond Aisle L.P. is comprised of?

MR. GIPSON: It will be comprised of Jamboree Housing as the managing general partner.
The limited will be -- who turns out to be the equity investor, which I don't know at this particular time.

But as we go forward, we could put more of that information in front of you.

MR. CZUKER: Who owns Jamboree Housing?

MR. GIPSON: It's a 501(c)(3).

MR. CZUKER: Who is the managing member? Who is the one that --

MR. GIPSON: I couldn't tell you that off the top of my head.

MR. KOLLIAS: We can ask.

MR. GIPSON: Only if he needs to know at the moment.

MR. KOLLIAS: They're in the audience. Do you want to ask?

MR. GIPSON: Do you need to -- we have members of Jamboree Housing here, if you'd like.

MR. CZUKER: Okay, yes, I'd like to hear the names.

CHAIR COURSON: If the representatives who are here --

MS. GULLICK: Certainly.

CHAIR COURSON: Could you please identify yourself for the Board?
MS. GULLICK: Good morning, Board and Member --

I'm sorry, I don't see your last name.

MR. CZUKER: Edward Czuker.

MS. GULLICK: Czuker.

I'm Johanna Gullick, Housing Development

Director with the Jamboree Housing Corporation.

On page 6 of your report, there is a brief report
of Jamboree Housing Corporation, who we are. We are
officed in Irvine, Orange County, California. We own and
operate approximately 5,000 units throughout Southern
California, of which a good number of about a thousand are
in Northern California.

Our partner is HOMES. Helen Cameron, who is
their president, is here today. And they are our
social service and service partner.

We have about -- we have two projects currently
under construction in Orange County. We have six projects
going into the ground this year. And we have several
joint venture partners. Also we work with Preservation
Partners. We actually are partners with BRIDGE Housing on
a development.

And so anything else I can answer, I'd be
delighted to.

We're very pleased to be here. We have one
prior CalHFA loan with you.
MR. CZUKER: Where is that one?

MS. GULLICK: You know, I -- where is it?

UNIDENTIFIED FEMALE: It's in North Orange County.

MS. GULLICK: It's in North Orange County. Is it Camden Place? We did it about five years ago.

UNIDENTIFIED FEMALE: La Palma.

MS. GULLICK: La Palma. A very successful development.

CHAIR COURSON: Other questions on the Diamond Aisle Apartments project?

MS. GALANTE: First of all, a comment. I am quite familiar with Jamboree, and I think they're a great organization.

My comment, or my question is, is this project already approved through the local planning body? This looks like it would be a challenging approval process. And I'm just wondering about that.

MS. GULLICK: I'd be delighted to answer that.

We held several community meetings. In fact, this was a big success in Orange County. It was first turned down by the redevelopment agency the first time it went through; and the community stepped up, and it was approved unanimously. We held about seven community
meetings, toured people through other developments throughout Orange County. And really, it was the community came together.

We have the general plan amendment and the zone change are complete, and the entitlements for planning are right now -- have been submitted, and it's an administrative process.

So there's no more discretionary entitlements nor approvals by the local planning commission, nor the redevelopment agency housing authority, or the city.

MS. GALANTE: Congratulations.

MS. GULLICK: Thank you. It was quite a lot of work.

CHAIR COURSON: Other questions?

Mr. Shine?

MR. SHINE: Are you saying that you don't yet have the ability to pull your building permits for lacking certain -- at whatever level, approvals from government?

MS. GULLICK: No. We will get an administrative approval of our planning permits within about two to three weeks. So all of the discretionary approvals have been -- are completed.

MR. SHINE: Okay, but you have yet to get from government 100 percent of everything in the world you
need to build a project at this moment in time?

MS. GULLICK: That's correct. We still need our
planning approval, which is administrative in nature.

MR. SHINE: I understand that part.
So then we're not going to fund this until
everything is done and permits are received; is that
right?

MS. GULLICK: That's correct.

MR. GIPSON: That is correct.

MS. GULLICK: That's a condition.

MR. GIPSON: We never fund until we have the
permits. Until we can pull permits.

CHAIR COURSON: Other questions? Comments?

Mr. Pavao?

MR. PAVAO: Yes, just a quick question.
So this project has a 15-year HAP contract for
all 24 units?

MS. GULLICK: Yes.

MR. PAVAO: And what is the relationship then of
the Governor's Homelessness Initiative, Prop. 46
capitalized rent subsidy? How does that fit into the
project?

MS. GULLICK: I'm going to let Perla Eston come
up and answer that.

MS. ESTON: Hi, my name is Perla Eston. I'm the
financial consultant on the project.

The $180,000 is basically a reserve in case and after the Section 8 expires. It will help either transition to more affordable rents or be used to keep the project at 30 percent affordability, even after the Section 8 goes away.

There's an intermediate back-up step also of the mental health services money also has rent-subsidy commitment attached to it, which also is available if and when Section 8 expires.

And in addition to that, out of the cash flow, because of the Governor's Homeless Initiative, we're required to fund substantial reserves out of the excess cash flow, as long as the project-based vouchers are available.

MR. PAVAO: Okay, so the Prop. 46 funds then are really sort of just a --

MS. ESTON: It's like an operating reserve.

MR. PAVAO: -- transition reserve?

MS. ESTON: A transition reserve.

MR. GIPSON: Yes.

MR. PAVAO: Okay, so it's not forecasted that that would be drawn on over the years? Rather --

MS. ESTON: No, only in the event that one or the other or all of the subsidy contracts go away.
MR. PAVAO: Okay, thanks.

CHAIR COURSON: Other questions or comments on
the project?

(No audible response)

CHAIR COURSON: If not, I think a motion to
approve is in order.

Mr. Czuker?

MR. CZUKER: A point of clarification. I
understand that the project sponsors have done business
or are partners on another deal with BRIDGE Housing.
Should BRIDGE Housing abstain from this particular vote?

CHAIR COURSON: Well, I guess I would ask
counsel to comment.

MR. HUGHES: I think that question gets back to
the previous memos that I sent to the Board on how to
judge conflicts. It depends on who the Board member is
and what their position is.

But in terms of BRIDGE Housing, the non-paid
executive director of -- or excuse me, the paid executive
director -- the paid director of a nonprofit is what
I was attempting to say -- has a remote interest, and can
recuse themselves if there's a direct involvement. I
have no knowledge of the extent of what the relationships
are, if any.

MS. GALANTE: I would just comment. We don't
have -- BRIDGE has a relationship with Jamboree on another project, not on this project in question at all. So I don't see what the conflict would be.

MR. HUGHES: I think that if there's no connection at all and there isn't a financial interest, directly or indirectly, that BRIDGE would have -- I don't think it would be an issue.

MS. GALANTE: There is not.

MR. HUGHES: And what has happened in the past with Board members is that they can make an election to recuse themselves, not based on an actual conflict, but an appearance if they so choose in that event.

As a general reminder, if there is a possibility of a Board member having a financial interest in a project, of course, it's strongly advisable to let us review it ahead of time so we can get into the detail of that. But it would appear on the face of it that that's not an issue.

CHAIR COURSON: Is there a motion to approve the project according to the resolution on page 141?

MR. PAVAO: So moved.

CHAIR COURSON: Mr. Pavao.

Is there a second?

MR. CAREY: Second.

CHAIR COURSON: There's a second by Mr. Carey.
Any further discussion?

(No audible response)

CHAIR COURSON: Are there any comments from the public?

(No audible response)

CHAIR COURSON: Seeing none, we'll call the roll.

MS. OJIMA: Mr. Pavao?

MR. PAVAO: Yes.

MS. OJIMA: Mr. Carey?

MR. CAREY: Yes.

MS. OJIMA: Mr. Czuker?

MR. CZUKER: Yes.

MS. OJIMA: Ms. Galante?

MS. GALANTE: Yes.

MS. OJIMA: Ms. Jacobs?

MS. JACOBS: Yes.

MS. OJIMA: Mr. Moore?

MR. MOORE: Yes.

MS. OJIMA: Mr. Davi?

MR. DAVI: Yes.

MS. OJIMA: Mr. Shine?

MR. SHINE: Yes.

MS. OJIMA: Mr. Courson?

CHAIR COURSON: Yes.
MS. OJIMA: Resolution 07-01 has been approved.

CHAIR COURSON: Thank you.

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Item 5. Resolution 07-02, Coyote Run Apartments Phase II

CHAIR COURSON: Our next project is the Coyote Run Apartments Phase II, in Palm Springs.

MS. WHITTALL-SCHERFEE: Good morning. This is a request for a modified final commitment on Coyote Run Phase II. Coyote Run Phase II is a project in Palm Springs, Riverside County. It's a 66-unit project that the Board approved a construction and a permanent loan on, in September of 2003.

Since that time, the project has been constructed. It is 100 percent occupied. And we are currently ready to convert the loan from construction to perm.

However, due to cost overruns, the borrower had to significantly come out-of-pocket. And they have asked for an increase in the permanent loan, from $1.6 million that was originally approved, to a $2 million permanent loan. And that is the subject of our request today.

The borrower is a limited partnership, and the managing general nonprofit is Coachella Valley Housing. Coachella Valley Housing is headed by John Mealey. And today we have Steven Crowell with us, who's available if
there are any questions.

Coachella Valley also has one other project that they have through CalHFA, and that is Las Casas Phase III.

And if you're interested in a more detailed explanation as to the borrower and the partnership structure, that's available on page 158 of your Board package.

At this point, Tina Ilvonen, who is the loan officer on this project, is going to take you through the project and explain a little bit more about the cost overruns and the purpose of our request today.

MS. ILVONEN: Good morning.

Can everybody hear me okay?

MS. WHITTALL-SCHERFEE: Yes.

MS. ILVONEN: Okay, this is an aerial view of the project looking to the east. The project is two miles from the airport in the northwestern section of Palm Springs. The site is south of Interstate 10 and Indio Hills, and north of Highway 111.

These aerial views were taken when we went to Board in 2003. So the project is complete now and this land is not vacant.

This is a 6.7-acre site. And --

MS. WHITTALL-SCHERFEE: Okay, we're having
technical difficulties.

Do you want to show that?

MS. ILVONEN: Yes.

And this is the Phase II site, this "L" right here. And this is the city park that has been built, along with the Phase II site.

This is Phase I right here, and the project is connected to Phase I. And there is a child-care development center right in this section of Phase I that's cut off from the picture.

This site here is developed with single-family homes that are selling for $450,000.

This site here is developed as well.

And this is Sunrise.

The project is 66 units. It was completed in August 2006. It consists of 17 residential buildings and one community building.

The project also has 75 carports and 68 open spaces on-site for parking.

The Palm Springs Unified School District operates a Head Start and state preschool program out of the Early Childhood Development Center on-site at Phase I. Although this is a picture of Phase II.

This is the community building lease office, which is 2300 square feet. It contains a management
office, laundry room and restrooms, kitchen, and meeting room. And here's the pool off to the left.

The reason for this loan increase request is because of construction cost overruns of approximately $810,000. Other cost increases for the project include architecture and engineering increases of approximately $148,000, and construction interest increases of approximately $120,000 from the original Board request.

The sponsor has covered a portion of these overruns, and is currently out-of-pocket for $480,000.

This is just a schematic of the site. Again, here is the connection to Phase I, it is right here (pointing). This is Sunrise. This is the main entrance to the project. This is the city park.

Other revisions in the financing since the Board approval include an equity increase of $600,000 by National Equity Fund, and the deferred developer fee is up by $120,000, even with this $400,000 loan increase request.

These are the current rents for the project which are based on 2006 rents, whereas the original rents were based on 2003 rents. The rents are 72 to 79 percent of market rents as of 2003.

The project has been 100 percent occupied since September.
And expenses for the project are up from 3,614 per unit, per the original Board write-up, to 4,325 per unit, per this write-up and per the operating budget. And the cash flow is 1.18 debt coverage in year one.

And with that, I'm going to open it up for any questions.

CHAIR COURSON: Thank you.

Questions or comments on the Coyote Run Project?

MS. PARKER: Mr. Chairman, could I just make one comment?

I guess for the refreshment of the Board members' memories, the staff have delegated authority up to -- Tom, is it 7 percent?

MR. HUGHES: Yes.

MS. PARKER: -- for variance in the loans once you approve them. That is not an absolute that staff adhered to. To the extent that there are any sensitive issues, irrespective of the percentage, they would bring them back. But clearly, that's the reason why we brought this back. It's above that discretionary ceiling, and we've gone through this; and to be in compliance with that, we ask for your approval.

CHAIR COURSON: Mr. Morris?

MR. MORRIS: Yes, you're showing the appraisal
using a cap rate of 7 and a half percent.

What is the net operating income figure that you're using, for year one?

MS. ILVONEN: That appraisal was done in 2003.

MR. MORRIS: Okay.

MS. WHITTALL-SCHERFEE: Yes, and we do not do an updated appraisal when we get ready to convert to perm. We just use actual rents and we use actual expenses.

MR. MORRIS: And what were the actual rents last year?

I have got these projections.

MS. ILVONEN: The actual rents were shown in that last slide that was up.

MS. WHITTALL-SCHERFEE: Let me bring it back up. These rents are actual rents. These are what tenants are paying today.

MR. MORRIS: So the net operating income last year was what?

MS. WHITTALL-SCHERFEE: Last year, the project wasn't constructed. The project was completed in September.

MR. MORRIS: Okay, but this year it's fully leased?

MS. WHITTALL-SCHERFEE: Yes.
MR. MORRIS: So what will the net operating income -- the projected net operating income be this year?

That would be this figure right here (pointing); right? That would be the one fifty-six?

MS. ILVONEN: Yes, yes. Net operating income for the year, assuming 95 percent occupancy, is 156,000. And they've been at 100 percent occupancy since September.

MR. MORRIS: Okay, so if you took that one fifty-six, and what are you saying now is kind of a market-rate cap? I mean, I understand that the appraisal was done at 7 and a half, but what would you guess now would be a value for that type of product?

MS. ILVONEN: I haven't looked at any current appraisals in the Palm Springs area to know if caps have gone up and down.

MS. WHITTALL-SCHERFEE: And we've seen everything from 5 and a half to 7. But I'm not sure in the Palm Springs area what would be relevant.

And I'm looking at Steve Crowell, and he is kind of shrugging his shoulders. I don't think we have an answer for you.

We could find out by talking to an appraiser, if that's something you'd like to know.
MR. MORRIS: Okay, so if you, say, used a 6, the value would be somewhere around 2 and a half to 2.6 million?

MS. ILVONEN: And I also don't have a calculator on me.

CHAIR COURSON: Other questions or comments?

(No audible response)

CHAIR COURSON: If not, Mr. Morris, do you have the -- well, I know you don't have an answer, but do you have enough facts?

MR. MORRIS: Yes.

CHAIR COURSON: Okay.

Then if not, then call for a motion. The resolution is on page 189 of your Board book. It's Resolution 07-02.

Is there a motion to approve?

MS. GALANTE: I'll move approval.

CHAIR COURSON: Okay, Ms. Galante.

Is there a second?

MR. CAREY: Second.

CHAIR COURSON: Mr. Carey?

Is there any further discussion or questions on the project?

(No audible response)

CHAIR COURSON: Any comments or questions from
Okay -- I'm sorry, Mr. Czuker?

MR. CZUKER: I noticed in the package that there's a deferred developer fee of 135,000, approximately, against approximately 1.3 million and change in developer fee.

Given the cost overruns, is there any attempt to increase the deferred developer fee so that the million three fifty --

MS. ILVONEN: I can answer that.

MR. CZUKER: -- developer fee, a greater portion is deferred to ensure there aren't additional cost overruns, and that this is the very end, the last time we see this request?

MS. ILVONEN: There is also general partner equity of $665,000 that is not being taken as developer fee; in addition to the 134,000 that is a deferred developer fee that may or may not be paid back to the developer from cash flow. But the 665,000 will not be paid back to the developer.

Where is developer fee?

So that leaves the developer fee of about 600,000 total.

MR. CZUKER: Are you counting the six hundred as an offset from the million three-fifty?
MS. ILVONEN: The six sixty-five -- you should subtract the six sixty-five from the million three eighty-five.

MR. CZUKER: Okay.

CHAIR COURSON: Other questions?

(No audible response)

CHAIR COURSON: Seeing none, we'll call the roll.

MS. OJIMA: Mr. Pavao?

MR. PAVAO: Yes.

MS. OJIMA: Mr. Carey?

MR. CAREY: Yes.

MS. OJIMA: Mr. Czuker?

MR. CZUKER: Yes.

MS. OJIMA: Ms. Galante?

MS. GALANTE: Yes.

MS. OJIMA: Ms. Jacobs?

MR. JACOBS: Yes.

MS. OJIMA: Mr. Morris?

MR. MORRIS: Yes.

MS. OJIMA: Mr. Davi?

MR. DAVI: Yes.

MS. OJIMA: Mr. Shine?

MR. SHINE: Yes.

MS. OJIMA: Mr. Courson?
CHAIR COURSON: Yes.

MS. OJIMA: Resolution 07-02 has been approved.

CHAIR COURSON: Thank you.

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Item 6. Bay Area Housing Plan Financing

CHAIR COURSON: Item 6 on our agenda is our regular update on the Bay Area Housing Plan by Kathy and Edwin.

MR. GIPSON: Good morning.

In front of you, you should have a two-page handout from us, listing off some of the properties and the status of those properties.

And Kathy is going to give us the latest update on where we are with the Bay Area Housing Plan now.

Thanks.

MS. WEREMIUK: Chairman Courson and Members of the Board, it's a pleasure to be here with you again today.

On the handout, as you look at it, it will show that since the last Board meeting, the Agency approved three commitments for properties. It's in the first 24.

We've approved 23 commitments total, three since the last Board meeting, and five properties have been acquired since the last Board meeting, bringing the Agency's total commitment to $40 million, which is
$25 million below what you've approved.

Consistent with the decisions at the last Board meeting, we have not approved additional properties pending a resolution of a discussion with the Regional Centers and the Department of Developmental Services as to how the additional $11,115,000 is going to come into the project, which the Regional Centers have agreed to put in as equity to reduce what our fairly high costs that the Agency has been concerned about.

We have reached -- and pending that, a resolution of that issue in contract language being written between DDS and the Regional Centers, allowing them to use that money, we have not agreed to take forward additional commitments.

We have had several meetings with them, the most recent of which was last week. That meeting was very productive. We have a tentative agreement that they are going to be putting in $156,000 per property, on average. The average will not be based on a loan-to-value ratio, but instead, a per-property cost, per-property type, and per-catchment-area type. And that's the final detail that we need to work out in the agreements with the Regional Centers.

We're hopeful that that agreement will be reached -- that agreement will be reached sometime next
week. But in terms of -- on the major issues between ourselves, we do have an agreement.

In the interim, while we have not committed to new loans, the Hallmark Community Services has used other sources of funds to take down three additional properties. And the properties that are in blue are properties that they have purchased with funds other than the Bank of America syndicate credit line. They've used funds from the Regional Centers, and they have gone forward with their purchases. They also have added four more properties for a total, I believe, of 38 -- it will be 37 properties to the pipeline.

You will notice that -- or I have noticed that the totals on the pipeline take us above our commitment -- or right up to our commitment level and above Bank of America's commitment level. Right now, they have properties in the pipeline that total a little over $70 million.

Those totals, they have a proposal into ourselves and to Bank of America to take down seven properties, a total of about $10 million that require no rehab and do that as a pass-through through the Bank of America line; not adding it to their credit limit. We are in discussions with them about that, but we have not taken any action on it pending a resolution on the
additional equity issue.

The other item that I have to report is not as favorable. We have no properties at this point in construction. They have had some setbacks in that regard. Their design-build contract with Fine Line did not work out. Fine Line was not able to meet their time-lines or to produce; and they terminated that contract. They're going through a -- they're going to act as their own construction manager. They have staffed up, and they have gone out to bid with four different contractors. They expect to award some of the bids within the next week or two.

We have -- they do have 11 properties that have gone through the design stage and are in the various building departments for permits. They have another nine in the design stage.

Two are prefabs. They do have design on a prefab that they're still negotiating with prefab contractors; and one was on hold pending the resolution of a homeownership issue that we resolved between ourselves and Bank of America with them this week.

We have had concerns -- both Bank of America and ourselves have had concerns about the slowness of getting properties into construction, and are in ongoing discussions with them.
And I think that would conclude my report.

CHAIR COURSON: Are there questions on the project, or Kathy or Edwin's status report?

(No audible response)

CHAIR COURSON: I guess we'll see you in two months.

MS. WEREMIUK: Thank you.

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Item 7. Report of CalHFA Board of Directors

Compensation Committee

CHAIR COURSON: The next agenda item is the report of the Compensation Committee. And as chair of Compensation Committee, let me make a few opening comments --

MR. HUGHES: Mr. Chairman, sorry.

CHAIR COURSON: Oh, yes, I know. Go ahead.

MR. HUGHES: I'm sorry. As I had reported to the Compensation Committee earlier and now to the full Board, I've recused myself from advising the Board in my capacity as the secretary and general counsel. And Sandy Casey-Herold, the deputy general counsel, has been advising the Compensation Committee all along. So Sandy and I will trade places at this time.

CHAIR COURSON: I think it's appropriate that we start and not go back over items we discussed before, but
I think to make sure that everybody starts out on the same basis.

We're all aware of the legislation that was approved and signed by the Governor. And through our deliberations -- let me mention that Mr. Czuker and Mr. Morris are the other two members of the committee, along with myself -- that the legislation contains some standards and very specific items and methodology discussions that we've been very careful in our deliberations in our committee meetings to follow.

And having done that, not to repeat what some may know, but I think it's important to look at parts that at least in my mind have driven the process that we've been using to come where we are today.

Some of that is that in the legislation, it says that the Act enables the Board to attract and retain key personnel by clarifying the Board's authority to establish compensation for key executive and management positions. This compensation will be competitive with that of other comparable state and local housing financing entities according to the salary survey methodology reviewed by the Department of Personnel. The compensation of key exempt management -- and then it lists the ten positions that we're talking about today -- shall be established by the Board and the Agency's annual budget
in amounts which are reasonably necessary in the
discretion of the Board to attract and hold a person of
superior qualifications.

In addition to that, it goes on, which we'll
talk about when we talk about the survey, some specifics
in terms of hiring of an independent outside advisor,
salary surveys, and some specifications for what would be
included in that survey.

So I think that we just need to be mindful, and
I continue to try to remember that our job as a committee
and as a Board is to assure that all we do is in
compliance with the law that the legislation was passed
and signed by the Governor.

Having said that, as you know, a couple of
meetings ago, we approved a charter for the Compensation
Committee, which really sort of gave us a road map as to
how to conduct our activities and bring us to the point
we are today of making recommendations to this Board.

The Committee, and I thank Mr. Morris and
Mr. Czuker -- we've worked hard. We've spent a lot of
time looking at a lot of information. We have met face
to face on two occasions -- actually, three occasions,
twice in the Los Angeles area and then once here
yesterday, to complete our deliberations. Those meetings
were busy and intense, and we have covered a lot of
information. And really coming from a blank sheet of paper, given our guide from our charter and the legislation, I think we've accomplished a lot of ground, and we'll share that with you today.

Let me sort of parse out how we went about this, and then I'll introduce the folks who have been a key ingredient in helping out on this. We really started -- the first meeting we had was one wherein we really reviewed or did review after the completion of the survey, the survey information that was provided. And the members of the Board should have -- and I believe you all should have, I see around, the binder, which is the Watson Wyatt survey. And then at the second meeting we had, was given the survey, and we'll talk a little bit about how we got additional information.

And we really then said we're now ready to move on and try to establish some salary grades, and commensurate ranges of salaries for each of those grades. And I believe that you have that. That was submitted to you, along with the package of materials.

And then our job meeting last night was to take that information and do personnel reviews of the specified positions, and ask the executive director, as it says in our charter, to make recommendations for specific salaries for these individuals.
So that's sort of the Reader's Digest version of what we've done and where we've been. And I'd like to go back now because I think this is obviously of great importance, and we'll go through in some specificity of some of the work that we've done.

You have met, and at our last Board meeting Pat Meehan was with us. Pat has been our consultant on this project. Pat has 39 years of service, state service in California, and last served as the chief deputy director of the Department of Conservation. Has worked in several other agencies, including the Department of Finance, where she was the chief of administration. So she has certainly a background in personnel and human resources matters, and was selected to be a consultant to us and help us really staff, if you would, the functions of the Committee.

She's joined by Michael Oclaray. Michael is with Watson Wyatt, and has met with the Committee in two meetings, our first two face-to-face committee meetings. And we'll talk a little bit about his help and assistance as we move through it.

But, Pat, I think the place to start is really talking a little bit about putting out a request for proposal, and then move in and let Michael talk about the survey work.
MS. MEEHAN: Okay, fine. Thank you,

Mr. Chairman, Members of the Board.

The proposals were requested from a number of firms, based on the firm's experience in dealing with salary surveys, and their familiarity with the mortgage, banking, and financial institutions.

Watson Wyatt was selected. We believe that because they were housed close and a California-based company, that that would expedite the process. They had also done similar work for the California Public Employees' Retirement System.

It was determined that the most comprehensive approach would be to utilize three distinct sources of data. A custom survey was developed by Watson Wyatt to assess housing finance agencies nationally, and then they also suggested the use of published salary data for similarly-sized organizations, both profit and not-for-profit.

As John mentioned, my role has been to develop a contract with the consultant and to provide liaison between the Compensation Committee, the Board, and CalHFA.

The methodology and the process information was provided to the Department of Personnel Administration as required by statute. And the report was provided to the
Board in December.

CHAIR COURSON: Okay, and, Michael, maybe now you can take us through sort of the survey process, and then, I trust -- I will assure the Board, we are not -- unless you choose, we are not going through every page in the survey. But, Michael, I think it's very important that we do get an understanding of how it was done and how these ranges were determined.

MR. OCLARAY: It's also not my intention to even look in the book, unless any of the Board members want to look at a specific page.

I just wanted to step back and just give the Board a little bit more information about Watson Wyatt, our firm. Watson Wyatt is one of the world's largest human resource consulting firms. We've got about 6,000 employees, annual revenue of about $1.3 billion, and our employees are in 90 offices throughout about 30 countries. We're also a publicly-traded company. Our stock is traded on the New York Stock Exchange.

As explained, we are engaged by the Agency to conduct this study, and to be the third party in conducting the study. The study covered the ten positions that we're discussing today, and analyzed competitive compensation-based salary as well as total cash compensation, which for some organizations can
include annual short-term incentives.

And it also included an analysis of mix -- a
typical mix of pay and benefits.

The study included two parts, as Pat briefly
mentioned. The first was a custom survey of selected
organizations. Twenty-two organizations were invited
to participate. Those organizations were other housing
finance agencies, as well as other nonprofit and
government-sector organizations that were deemed to be
similar in nature, and with similar roles to those of
CalHFA.

In addition to the -- I should speak about that
custom survey process. What we do as the third party --
what Watson Wyatt does as the third party for a custom
survey is we work with the organization to design a
survey questionnaire, a tool to collect data. The
questionnaire was sent to the organizations. I had
mentioned that there were 22 organizations that were
invited to participate. I believe all but four did agree
to participate.

CHAIR COURSON: And I will say, they are on
page 6 of the binder.

MR. OCLARAY: Thank you.

And each organization completed the
questionnaire and then returned them to Watson Wyatt.
We, in turn, reviewed the data carefully, did any data cleaning we needed to do, went back and contacted any of the organizations if any questions arose from our end so that we fully understood the data. And then we compiled the information in statistical format. In other words, we provide pay statistics of the 25th, 50th, and 75th percentiles, so to maintain the confidentiality of any particular organization's compensation or responses back to us. So, again, that was a key part of our role as the consultant, is in that sort of third-party capacity.

In addition to the custom survey data, we supplemented it with published survey data from a couple of published compensation surveys, including our own -- Watson Wyatt's own survey -- and a survey conducted by another HR consulting firm, Mercer Human Resource Consulting. And that data is broader in nature. It is not what I've just described as a custom survey, where we go out and go to individual companies. But instead, it's a broader cross-section of organizations, and include -- the data that we looked at from those surveys includes other not-for-profit organizations and in some cases, other for-profit organizations that are similar in size and with similar roles to CalHFA.

The key there being that, in general, the
Committee had access to different cuts of data, if you will, that the intention being that the data is reflective of the competitive market for talent which in many cases could include other agencies, in many cases -- or in some cases, may include other organizations outside that particular realm.

With respect to the findings, just the high-level findings, if you've had a chance to review the report at all, you'll see that, in general, CalHFA's positions' salary falls below the market in relation to the published survey data, just about in all cases.

With respect to the custom survey data, many of the positions also fall below the market. When I refer to "market," I'm speaking of the 50th percentile, the midpoint of the market data that we had. And in a couple cases, it falls at the market. But again, for the most part, the positions were falling below market.

Before I -- maybe that should be a stopping point.

Are there particular questions?

CHAIR COURSON: Are there questions? I mean, I know it's a lot of material. You'll see, I think that some of the key elements I take are -- one is the ten positions that you can see there. You can see there are really three databases available to the Committee. One
was the for-profit, one was the not-for-profit, and then
the custom. And for each of the positions, with one
exception, that being the director of Mortgage Insurance,
where there weren't comparable jobs sufficient in the
custom area to have a viable database, you won't see it
there, but clearly that there was some market information
available there. So that was the material for each of the
ten positions.

I think it's also important in there to note
that -- you'll see, when the methodology in the survey
was presented to DPA, they did have some questions. And
you'll see those questions and Watson Wyatt's response,
and the response that we gave back to DPA to satisfy
their inquiry. So we've met that standard in the law,
of going back and forth between DPA and ourselves.

But clearly, if there are other questions on the
survey itself, the methodology, the material -- let me
move then -- I'm going to take a step further. Because
when we looked at this, as a committee, in our first
meeting, we spent an awful lot of time and talked about
methodology, and questions were raised about do we have
the right mix, do we have the right people in the custom
survey, was the selection of those 22 people -- and we
went through the discussion with that. And then I think
out of that, made a request that Pat Meehan gather
specific, additional information for us by getting
specific compensation information from participants in
the survey.

Watson Wyatt, clearly in their role, cannot
release, and appropriately so, the specific information
from each of the participants. It's confidential. They
take it in that nature.

But we asked Pat, knowing who was in the
survey, to go back to I believe it was six of the
participants, and ask if they would give their specific
data to us so we could have that.

Pat, do you want to talk about that? Because I
know you put that process in place.

MS. MEEHAN: Sure. I requested additional
information from three of the housing finance agencies:
Virginia, Colorado, and Massachusetts. In addition,
I requested information from three state agencies that
were not in the survey, which were the State Teachers
Retirement System, the Public Employees' Retirement
System, and the State Compensation Insurance Fund, and
provided that to the Committee.

MR. MORRIS: They were in the survey.

MS. MEEHAN: Pardon me?

MR. MORRIS: They were in the survey.

MS. MEEHAN: Oh, they were?
CHAIR COURSON: Yeah, we went back. All six that we asked for information for were in the survey, CalPERS, CalSTRS, Insurance Fund, Mass., Colorado, and Virginia.

And we did receive data back from all of those, except Virginia.

MS. MEEHAN: Correct.

CHAIR COURSON: So having done that at our second meeting now, we had this survey and we had specific information from those entities -- those five entities on specific -- on the ten jobs.

And I believe that additional information was also given to you, so you now have the same thing we had in terms of when we sat down a second time at our Committee meeting.

MR. MORRIS: Mr. Chair, I wanted to mention they were in the survey, but we didn't have the specific numbers. So what we asked you to do is get from those specific organizations, specific numbers. But they were included in the universe of the 22 that we sent information to.

MS. MEEHAN: That was my error.

MR. MORRIS: Right.

CHAIR COURSON: So we had that information now at our second meeting and met, and our job at the second
meeting was to take all of this information we had then
and try to formulate a salary matrix or salary grades, if
you will, much along the line of what you see in terms of
the format of Watson Wyatt, identifying jobs and
appropriate salary ranges.

I must say as the chairman -- and this is my
third time through chairing an organization and the
compensation committee going through the same process, I
have never done it starting with a blank sheet of paper.
I've always been able to come in and take over on an
existing.

So I went to the meeting with great apprehension
as to, frankly, how we were going to accomplish this. We
had lots of information.

And I will say to Michael, I'll say it to you,
I think you did a very good job, an excellent job of
helping us keep order, giving us a way of approaching
this, that got us through that difficult task. And I
appreciate that. And you might explain sort of how the
methodologies you gave us, how we approached that.

MR. OCLARAY: Sure. I would be glad to. Thank
you for that.

Many of you are familiar with how salary
structures look at other organizations, where you have
salary grades. And those grades encompass positions that
are at similar levels, both internally within the
organization, as well as externally, in terms of market
compensation.

And so the approach that the Committee took, was
to identify positions that are in similar levels, and
came up with five different salary grades. That was
really the first step.

The second step then was to go grade by grade
and refer to the market data, and come up with a salary
range for each grade.

The primary data that were used by the Committee
to begin that process were the custom survey data. And
specifically, the 50th percentile -- in most cases, the
50th percentile data point from, again, the custom survey
cut of information. And that became the starting point
for range development; and specifically was set, in most
cases, at the midpoint of the range. That was done by
each level. And in addition to setting the midpoint, the
range includes a minimum and a maximum around that
midpoint. The minimums and maximums were set at about the
25 percentile and the 75th percentile, respectively.

So the ranges in the end, from my perspective,
are market-based ranges, number one; and, secondly, each
range is wide enough, in our view -- Watson Wyatt's
view -- to allow for movement of an incumbent up into a
range, or throughout a range, from minimum to max, not only current incumbents but future incumbents, based on each incumbent's experience and time at position and performance.

CHAIR COURSON: Thank you, Michael.

Let me talk about that a little more.

The first job we did do was really grouping of positions, and as I said, that was the methodology.

The other, what we did was, frankly, we had flip charts around. And for every position, we took every comparable piece of information we had and put them on flip charts. So when we were look at a position, we would have the midpoint for a job from maybe three or four different sources. And we'd at least see how those midpoints clustered together, and see if we could make some sense out of where a midpoint might -- using all of that different data.

And sometimes we'd say, "Well, this particular comparable organization -- is more comparable to our organization than another."

So if you look -- and we have, and we're clearly happy to share -- we have these charts with all of these different numbers on them for each position, by each of the participants that we were able to use to identify to reach that.
The other thing I will say is this is the first year of a process. The Compensation Committee will be an ongoing committee. The grades that we have established and the salary ranges, minimum, maximum, and midpoints that we have recommended are just that, they're recommendations to the Board. We're going to discuss them in a minute.

But know also that every year, that we have -- and we will appropriately revisit not only the grades, but the job groupings, the minimums and maximums. This is an ongoing proposition. This is our starting point. It does get easier once you get a point to start from, but every year this will be reviewed by the Compensation Committee and the Board.

So we're approving this, but I want to make it clear that that is what we're approving or discussing today, is for utilization for establishing this year's salary, and does not mean that a compensation committee next year or a Board next year may not choose to come back and change groupings, or change things as we get more experience and we see how this operates.

After you have -- and if you don't have it, we have copies -- you were furnished a sheet that looks like this (indicating), that's called the "Preliminary Salary Structure by Compensation Committee 1/9/07." If you don't
have it, you do need it.

MR. OCLARAY: I have extra copies for anyone who needs it.

CHAIR COURSON: I want to make sure everybody has got one in front of them.

Does everybody have a copy now?

MS. JACOBS: Terry doesn’t, so we’re sharing.

CHAIR COURSON: No?

So -- Mr. Carey?

MR. CAREY: Two sort of practical questions, and I don't know when or --

CHAIR COURSON: Now is as good of time as any.

MR. CAREY: Okay. Do these employees participate in Social Security?

CHAIR COURSON: Yes.

MR. CAREY: Okay.

MR. MORRIS: We're just looking at base. These surveys, by the way, we're just purely looking at base. We're not looking at any other form of compensation.

CHAIR COURSON: Yes, the survey is base salary. It does not roll in value of benefits or -- it's just base salary.

MR. MORRIS: And there's no --

MR. CAREY: Well, for instance, teachers don't pay into Social Security, which does have a differential
effect of compensation.

MR. MORRIS: We didn't balance them.

CHAIR COURSON: I personally can't answer it.

Can someone in the room answer if the CalHFA employees that we're talking about pay Social Security?

UNIDENTIFIED FEMALE: Yes.

CHAIR COURSON: Yes, they do?

MR. CAREY: Great. Thank you.

The second question is, in the report it does seem to indicate some valuation for retirement benefits.

CHAIR COURSON: Yes. Peter, what page is that?

MR. CAREY: I'm just looking at the summary chart on page 30.

And my question is, as much for my own education as anything, how you value the defined benefit retirement. Because that seems to be one of those key issues between a private-sector and a public-sector position, is the value of that retirement benefit.

CHAIR COURSON: Let me do -- okay, that was clearly -- that was a point of discussion that we spent a lot of time on in the Committee talking about and discussing.

And, Michael, before I call on you, one of the things that we discussed is, the next cut through this, is do you, as part of the next survey -- because there will
be ongoing surveys -- do you roll in and value benefits
and try to get some cash equivalent of benefits to factor
in along with your cash compensation?

This chart -- I'm going to ask Michael to talk
about this, because we spent a lot of time on that. And
I think that the next time through -- I don't want to
speak for the Committee because we have some ongoing
roles we'll talk about and we may well recommend to the
next group that the survey does include the value of the
benefits.

But, Michael, do you want to talk about that?
Because we spent a lot of time on this point.

MR. OCLARAY: Sure, sure.

Again, we're looking at page 30. And the first
two bars are referred to as "market data." They come from
-- the data that comprise those bars come from a database
of Watson Wyatt's, which is a total rewards database in
which organizations have -- throughout the U.S., have
submitted data for not only their compensation, but also
for their individuals' benefits: retirement benefits,
health and welfare benefits, time off, and so forth.

Likewise, we gathered the same information from
CalHFA, and valued that using the same methodology in
order to compare the typical mix of the elements.

I cannot -- I am not a benefits valuation expert.
My expertise is in executive compensation, mainly cash and stock; so I can't answer the specific question on any of the technical areas of valuation under this methodology. But we'll be glad to provide further background.

MR. MORRIS: John?

CHAIR COURSON: Yes, Mr. Morris?

MR. MORRIS: Peter, we did address this in one of the meetings in Burbank. And just for background, this was not part of the survey. It was an issue which some people -- I personally had a problem with it. I mean, I thought that it was a flaw in the survey; that when we -- and we discussed this, John, Ed, and I discussed this, that a future survey -- like I said, this is the first year. Pat was hired, Watson & Wyatt were hired prior to the Compensation Committee ever meeting. And so the marching orders of the survey were given prior to any meeting, and it did not include total compensation. It included just cash compensation.

So, you know, we're going to discuss things that we might want to do going forward; but clearly, that was an issue that John and Ed and everybody else, even in the public meeting in the notes, it was something that I had an issue with.

The reason it wasn't done, quite frankly, was
it wasn't instructed in the beginning; and, number two, it was a question of time.

For whatever reason, there was a real urgency to get this done by the end of the year, and to go ahead and do that type of survey would have required -- from what I was told in the meeting in Burbank, would have required a great deal more time to do and far more complicated. So that's why it wasn't done.

But I think next year, the Compensation Committee should raise that issue.

MR. CAREY: Thank you.

CHAIR COURSON: Right. And we're -- not to jump ahead, but the task we have today is a specific task, but the Committee itself is ongoing. And I'll describe after we finish this portion of our report and so on, our next jobs. We've got some other jobs to do, and that methodology for another survey is certainly going to be part of that.

Other questions?

(No audible response)

CHAIR COURSON: So what you have in front of you is the result of our second meeting in Burbank, where each of the ten positions you see we have recommended a minimum and a maximum, and there are some notes.

Clearly -- I will tell you just where we're
headed, I think that we're looking for two pieces, two
actions by the Board. One is approval for this year; and
obviously we'll say, this is not for perpetuity -- not
forever, but approval for this year, of this salary grid.
And then the second, after we move through this, whether
we change it or approve it or so on, we're going to move
into specific recommendations of salaries for specific
individuals. So we'll have two different actions today.
Are there questions or comments or issues or
discussion of the chart in front of you?
Mr. Shine?
MR. SHINE: Just for clarification, so you're
saying today you want to get an approval of the format
with these numbers, but not take any action on any
specific person or salary?
CHAIR COURSON: No. After we approve this -- if
we approve this, this was sort of the -- this was the
basis on which we then reviewed each of the individuals
here. So the next action will be a recommendation of a
specific salary for each of the incumbents in one of
these ten positions.
MR. SHINE: So that's a yes? We're just doing
the basic plan --
CHAIR COURSON: Correct, correct.
MR. SHINE: -- and then the implementation of
CHAIR COURSON: That's going to be a second vote and a second discussion that we'll have after we finish this.

MR. SHINE: And is it the Committee's intention then to go forward with it to the next step, to evaluate the present value of these benefits and all the things that we're discussing?

MR. MORRIS: Yes.

MR. SHINE: And that would leave this format intact. It might change the numbers? Or no? Or yes?

MR. MORRIS: It could.

CHAIR COURSON: Yes, it could.

You could -- the answer is, I always like to say, I can't make that decision until I have to make it, and I can't make it today.

But it seems like you could come up with a couple. I mean, you could do -- Michael, help me. I think that you could still do next year, if you chose, a salary structure that looks like this is based on cash. You could also then supplement that with another one that rolls in and values, if you will, benefits. So you could look at it a couple ways. You could say here's cash and here's benefits; here's value of our benefits versus the others in the model, and so on.
I mean, there's a lot of other ways.

Michael, I don't know what the methodology would be.

MR. OCLARAY: The numbers could change. I would guess they wouldn't change substantially at all to any significant degree. Only because, I mean, it is typically done, meaning, salary ranges are typically developed based on cash compensation data. It's very appropriate for a committee to look at total rewards, pay and benefits, and to keep track of the competitive value of it.

But as a starting point for salary management, typically, organizations focus on market data for salary or, at most, total cash compensation which, again, in the market, could include annual incentives or short-term incentives.

CHAIR COURSON: Go ahead, Mr. Shine.

MR. SHINE: Is the information contained in your report, where you got the PERS and STRS and all those people's levels of pay, was that strictly cash? Nothing to do with any benefits of any kind?

MR. OCLARAY: That's correct, yes.

I mean we -- now, I believe --

MR. SHINE: You have a level playing field, vis-à-vis the definition of the components is very simple,
cash --

MR. OCLARAY: That's correct.

MR. SHINE: -- as opposed to other components from other places to take into consideration?

MR. OCLARAY: That's right.

CHAIR COURSON: What we don't have is in addition to cash, the relative value of benefits at CalHFA versus other participants in the survey; yes? That's the piece we don't have. We have cash and cash. And that's the piece that Mr. Morris was talking about, we would likely recommend that that's where we're going to try to go.

MR. SHINE: So you would try to identify the -- I don't want to use the "perk package," but "benefits," let's call it that --

CHAIR COURSON: Yes.

MR. SHINE: -- of this group, of CalHFA, vis-à-vis PERS and STRS and everybody else, to see if there's any --

CHAIR COURSON: And other HFAs, or whoever we believe should be the participants in the survey.

MR. CAREY: And I would just say that given one of the issues, is the ability to bring talent from the private sector. And therein lies the differential, right? The differential of benefits between here and STRS or
CalPERS or whatever is not going to be so great; but the difference between the private sector and here is significant.

Unfortunately, it's very complicated with retirement, bringing someone in that's 55 from the private sector, the retirement is worth a lot less than for someone who has been in public service for a long time. I think it's very complicated. But it's hard to, in this day and age, act as though those benefits don't cost.

CHAIR COURSON: Ms. Jacobs?

MS. JACOBS: First of all, I'd like to compliment the committee and the consultant for doing such a thorough job on such a tight time frame. This is great information.

I just have one question: Are there any union contracts that affect any of these job classifications?

CHAIR COURSON: No. And when the jobs -- my understanding is when the jobs were specified in the legislation, that was the factor, that there were no union relationships.

MS. JACOBS: Thank you.

CHAIR COURSON: Ms. Galante?

MS. GALANTE: Just on the piece of paper we have before us.

CHAIR COURSON: Yes.
MS. GALANTE: So is this saying that in each of these boxes -- for example, where the chief deputy director or the director of Financing, director of Multifamily, they're all in the same range?

CHAIR COURSON: Yes, right.

And again, those ranges, as we've said, can be revisited.

We talked yesterday in our meeting last night in open session, before we went into closed session, about perhaps next year wanting to revisit and rearrange people in different grades. You know, this is the first time. It may be that we'll find that through the year, with the executive director's recommendation and with Watson Wyatt and with the Committee and so on, that we want to next year put people in different grades. I mean, you'd have to take a cut at this thing; and this was our best shot at it this time around.

MS. MEEHAN: Mr. Chairman, with regard to your discussion on the total compensation versus inclusion of the benefits, I would point out to the Board that the State of California, the Department of Personnel Administration, when they embarked on doing a salary survey to set the salaries for state government, in general, have the same difficulty. And their report noted the difficulties in obtaining a level playing
field, if you will, or an apples-and-apples type of configuration of data that would include benefits. So they are going to be looking into that further, and the Committee and the Board may want to have a discussion with DPA and see how they progress and get some assistance.

CHAIR COURSON: Is there a time frame on that, that we know of?

MS. MEEHAN: Not that I know of.

CHAIR COURSON: Well, certainly any information we could get would certainly be valuable as we go down this path for next year.

Are there other questions, comments, discussion on the salary structure?

*(No audible response)*

CHAIR COURSON: Seeing none, is there a motion to approve?

MS. JACOBS: So moved.

CHAIR COURSON: Ms. Jacobs?

MS. JACOBS: You don't have a written-out motion for this; right?

CHAIR COURSON: No, we're sort of --

MS. JACOBS: Okay, then I move approval of the submitted Preliminary Salary Structure Chart dated January 9th, 2007, subject to annual review by the Compensation Committee.
CHAIR COURSON: Correct.

Thank you.

MR. DAVI: Second.

CHAIR COURSON: Second.

MR. MORRIS: And may I comment?

CHAIR COURSON: Yes, Mr. Morris?

MR. MORRIS: Okay, I just have a general comment.

And I want to explain why I'm going to be voting the way
I'm voting.

We discussed the legislation quite a while ago.
We knew that this legislation was the pipeline. We knew
that we were going to have at some point the Compensation
Committee to adjust the salaries. Because clearly, from
the survey, you could see that our salaries were below
market.

This whole process started because of the fact
we were having problems filling vacant positions because,
quite frankly, we weren't competitive.

One of the problems that I had with the process
was that the Compensation Committee met -- our first
meeting was after Pat had been hired, after Watson &
Wyatt had been hired, after the universe of organizations
used to conduct the survey -- for the survey, and which
generated these ranges, had already been given to Watson
Wyatt by CalHFA.
If we were a public company, we could never get away with this.

The next year I may not be around. I don't know who is going to be on the Board next year. But the Compensation Committee must be involved early on. They must be involved in the selection of the consultant. They must be involved in the selection of who -- if we're going to do a survey, who is going to do a survey. If a survey is done, they must be involved in the mission of the survey, what items will be included, what universe we're going to look into.

As a result, I've got a real problem with the salary ranges and some of the final recommendations. I totally agree that our salaries are below what they should have been. And I think there should have been adequate adjustments. And I think that the legislation clearly states that the purpose for this was to attract new candidates and to retain good employees. It wasn't designed to give huge windfalls to long-time, existing employees.

But clearly, I've been supportive of some adjustments.

I'm not supportive of the process, and I just want to be on public record that next year I would urge members on the Committee to get involved early. Nothing
should be done until a committee is formed. And clearly, you shouldn't have senior staff giving the universe of the survey without any input at all -- zero input from the Compensation Committee. Because, quite frankly, when I look at the organizations that we used, some I think are good comps, some I think are very poor comps.

But you know what? We had no input. We were given this report. Our first meeting was this report. So I'm going to be voting against these. They're going to get approved, the salaries are going to get approved, the adjustments are going to get approved. The reason I'm voting no is, I'm not happy with the process.

I think John did a great job given the time that he had to deal with, and he did a great job; but I'm not happy with the process.

CHAIR COURSON: I'll make a comment -- Mr. Morris and I had these conversations. We frankly had interesting Committee meetings, and I think a lot of give and take and a lot of different viewpoints, and I think that's what this Board is for.

I certainly was not involved in great detail; but I will say, as I said to Mr. Morris and Mr. Czuker last night, clearly after Watson Wyatt -- and I'm well aware of Watson Wyatt, and I've worked with them before,
and I think they were an excellent choice through
our process of the RFP -- and did meet with
representatives of Watson Wyatt and with Ms. Meehan, as
they started the process.

Now, in terms of picking the people and so on,
we knew we had to use HFAs. We identified that. We
thought we should use California PERS and STRS and so on.
We identified that, and after that process, clearly they
went away and clearly did their job. So there was that
level of involvement, not to the depth that Mr. Morris
would recommend that we have the Committee be involved in
the future. And I think that his comments are
instructive.

But I will say that despite all that, I am
satisfied as chair of the Compensation Committee, that
the data, the work that Watson Wyatt did, the data that
we have, the supplemental data that we got, frankly the
specifics of the five others, were very helpful. And I
am satisfied with the fiduciary responsibility as
chairman of the committee and chairman of this Board with
what we bring to you today for your consideration. And I
would not bring it forward if I wasn't comfortable with
that.

Are there other comments? We have a motion and
a second.
Mr. Czuker?

MR. CZUKER: The presentation before you with the schedules establishes the Compensation Committee and suggests the preliminary salary structure.

I would think that since this is going to be the first year that this salary structure is put in place, that the headings should be changed from "Preliminary Salary Structure" to "Year 1 Salary Structure," since this is going to be the framework and the basis to move forward, at least for the first year.

And so rather than referencing it as "preliminary," I'd rather reference it as the "Year 1 Salary Structure" or "CalHFA Salary Structure for Calendar Year 2007," which would more accurately reflect what its intended use is.

CHAIR COURSON: Yes, I think that -- and if I'm correct with Ms. Jacobs' motion, it was clear that this was subject to annual review, which is appropriate. So however we want to head the document, I'm certainly open, if there's a better way to do that.

MR. CZUKER: It's the word "preliminary" that I'm referring to.

MS. JACOBS: Well, I'm referencing the document as we have the document.

I mean, I'm happy to amend my motion if it's
okay with the seconder, to be appropriate. That's why
I appreciate when we have the motions drawn up for us
ahead of time, so I can't make any mistakes.

CHAIR COURSON: I would say you could say it was
the CalHFA's annual salary structure, as established on
1/9/07.

And then Ms. Jacobs's motion says it is subject
to annual review, and that might get you there. It takes
the word "preliminary" out.

MR. CZUKER: I'm satisfied.

MR. SHINE: I think the way you have done it is
great, because that's exactly what it is. You have
several other issues -- other issues to deal with that
may impact this; and you may not want to wait a year to
do it. I don't know.

CHAIR COURSON: Well, I'll leave it up to the
Board. I'm not a wordsmith.

It seems to me that -- I think Mr. Czuker raises
an appropriate point.

Once we approve this, this is not preliminary.
It is the basis for some other decision, recommendations
are coming forth; but it is also just that. And it is
subject to annual review and change by the Committee.

MS. JACOBS: Okay, if I could withdraw my motion
with the acceptance of the seconder, and try again.
I move approval of using for basis of 2007
salaries the information provided for us on the handout
entitled "CalHFA's Preliminary Salary Structure,"
established by the Compensation Committee on 1/9/2007,
and have it subject to annual review by the Compensation
Committee.

CHAIR COURSON: Is there a second?

MR. DAVI: Second.

CHAIR COURSON: Mr. Davi.

All right, now, is there any further discussion?

Yes, Mr. Pavao?

MR. PAVAO: I suppose I just have one final
question before casting a vote.

But I guess, Mr. Morris, I'd like to make sure I
understand your position.

You persuasively state that going forward
there's lots of room for process improvements as we go
forward, and that's certainly understandable. But is it
your position that, from your perspective, this process
was of such a nature that you don't feel confident we've
captured the right ranges here?

MR. MORRIS: I think in some cases, we've got
the right ranges. I think in some cases, we don't. I'm
going to be voting no purely on process.

MR. PAVAO: Okay. Thanks.
CHAIR COURSON: Mr. Davi?

MR. DAVI: I just have a clarification to what Mr. Morris brought up -- can you all hear me okay?

CHAIR COURSON: Yes.

MR. DAVI: I want to make sure, the way I understand this, this is coming from the Compensation Committee.

CHAIR COURSON: It's a recommendation to the Board from the Compensation Committee.

MR. DAVI: Okay, so there must have been the majority of the Compensation Committee approve this; and, therefore, recommend it.

CHAIR COURSON: That is accurate. That is accurate.

MR. DAVI: Okay. And the reason that I am moving forward in supporting this motion and seconded it is because I look at the -- this is new ground here for this agency, obviously, as a result of legislation; but I'm looking at the minimum ranges here as a base -- and I understand it's a base. And I'm looking at that as the minimum. And I don't look at that as a substantial windfall to existing -- and there's no commitment to existing employees or to people that are there.

And I expect the next step that you talked about, Mr. Chairman, is going to be identifying the
correct dollar amount to the positions of the individuals, whether they're existing or they're new for their compensation.

CHAIR COURSON: Correct.

MR. DAVI: I want to make sure that's --

CHAIR COURSON: That is correct. That's why we're doing this in two pieces.

MR. DAVI: Okay.

CHAIR COURSON: We get the salary grades approved for this year, and then we have to go back and look at the individual.

MR. DAVI: Okay, thank you.

CHAIR COURSON: Any other discussion, comments?

(No audible response)

CHAIR COURSON: Any comment from the public?

(No audible response)

CHAIR COURSON: Seeing none, let's call the roll.

MS. OJIMA: Thank you.

Mr. Pavao?

MR. PAVAO: Yes.

MS. OJIMA: Mr. Carey?

MR. CAREY: Yes.

MS. OJIMA: Mr. Czuker?

MR. CZUKER: Yes.
MS. OJIMA: Ms. Galante?

MS. GALANTE: Yes.

MS. OJIMA: Ms. Jacobs?

MS. JACOBS: Yes.

MS. OJIMA: Mr. Morris?

MR. MORRIS: No.

MS. OJIMA: Mr. Davi?

MR. DAVI: Yes.

MS. OJIMA: Mr. Shine?

MR. SHINE: Yes.

MS. OJIMA: Mr. Courson?

CHAIR COURSON: Yes.

MS. OJIMA: Is there a resolution number?

CHAIR COURSON: There is no resolution number.

The wording for the motion will be in the minutes.

MS. OJIMA: Thank you.

CHAIR COURSON: Okay, now, we're going to move to Phase Two. And I will ask JoJo to distribute those. And there are extras from the company.

MS. OJIMA: Thank you.

MR. DAVI: Could I ask a question of the chair?

CHAIR COURSON: Sure. Yes, Mr. Davi?

MR. DAVI: At what point do our discussions -- maybe this is a legal question -- our discussions of personnel become closed session? Or is there a moment
where we can do this among ourselves? Or is there none
of that happening?

CHAIR COURSON: I will take a crack at it and
let counsel help me.

MR. DAVI: Okay.

CHAIR COURSON: The way -- and I will tell you
how we proceeded in the Committee last night, and I trust
that the rules that we operated under the Committee last
night are the same rules as we operate under the Board
here in terms of the public meetings.

MR. DAVI: Okay.

CHAIR COURSON: Based on a memo that was
issued -- and I believe you all have this, actually --
there is a memo dated January 12th from our deputy counsel
to the Board that talks about this open meeting. And I
refer to those that talk about on page 2, in the first --
the second line, it says, "However, performance
evaluations are viewed as the personnel exception to the
Open Meetings Law. Specifically, Government Code section
11126(a)(1) permits closed sessions to be held during a
regular meeting to consider evaluation of performance of
employees. In addition, case law allows for closed
sessions for the purposes of determining whether an
individual warrants salary adjustment. Actual
determination of salaries must be considered in a
properly noticed meeting."

What we did, therefore, last night was we had an open session, which we talked about some matters and more surveys, we talked about maybe adjusting salary grades in future years and so on; and then we went into the closed session, with the Committee and with the executive director in the closed session; and what we did was we looked at -- talked about performance evaluations that had been done by the executive director, and talked about specific salary adjustments for each of those individuals.

And once we came up with the recommendations you see and once we finished that task, we went back into open session.

We're here now in open session, going to give the Committee's recommendation. You have what you have in front of you that came out of our meeting yesterday.

It would be my understanding that we can have, in a public session, properly, a discussion of the report of the Committee. It would also be my understanding, however, that if, in fact, the Board wants to discuss a performance evaluation or a specific salary adjustment for an individual, we would go into closed session.

MS. CASEY-HEROLD: You don't necessarily have to go into closed session.

CHAIR COURSON: We can go into closed session,
if we choose.

MS. CASEY-HEROLD: Right.

CHAIR COURSON: So there can be a broad
discussion: Here's the report, and so on.

If any member of the Board chooses or wants to
go into closed session to talk about the salary
adjustment of any -- a specific salary adjustment of any
individual or individuals, we can go into closed session.

What you have is, obviously, the proposed salary
ranges are the same --

MR. DAVI: But it seems -- I'm sorry.

CHAIR COURSON: I'm sorry, Mr. Davi, sure.

Please.

MR. DAVI: I'm just reacting.

CHAIR COURSON: No, please.

MR. DAVI: Given that -- thank you -- it seems
to me that for us to go forward in terms of process, I'd
like to suggest that we mimic the process you did last
evening, so that we have the benefit of the evaluation,
and at least have that information. Unless the rest of
the Board feels they don't need that. But for me, I'd
like to proceed and get the report and go into closed
session and hear if we're going to do those steps.

CHAIR COURSON: Well, if you're asking that we
discuss each individual salary adjustment --
MR. DAVI: Correct.

CHAIR COURSON: -- which is what we did last night, and if you want to have that discussion, as counsel said, we can do that in closed session, if you're talking about specific individuals.

MR. DAVI: I'm just saying, if we do have that discussion, I'd like it to be in closed session.

MS. CASEY-HEROLD: The closed session would be for the purposes of looking at the evaluations. But the actual salary setting needs to be done in an open session.

CHAIR COURSON: Well, at some point we're going to be in general session, and we're going to have salary recommendations, and we're going to set those salaries in a public setting by having -- there will be -- ultimately, we're going to move towards a motion that's going to approve specific salaries for these specific individuals that are considered. That's going to be public. We have it now, we have our recommendation. That's the way we proceeded last night.

Mr. Morris?

MR. MORRIS: What I would suggest is that you do that, John. You go ahead, make your presentation, and then I would like to go into closed.

MR. DAVI: We're saying the same thing.
MR. MORRIS: And I've done this, believe me. I mean I've been through this a lot. I've served on other state board commissions, I know how it works.

So why don't we make the presentation; then if there are going to be specific comments that we want to make regarding specific positions, then we go into closed?

MR. DAVI: I concur.

MR. MORRIS: Okay?

CHAIR COURSON: In the presentation that you have -- I mean, if you look, you see that what we have done is taken each item in the groupings that we have, current salary, this is the minimum, midpoint, and maximum, same ones on the salary grade we just approved, and you'll see on the right a salary alignment.

Let me make a comment of another thing that we -- something else that we talked about. And I think that's important. We talked with Watson Wyatt about, obviously, looking at what market was and, in particular, market, given attracting individuals -- recruiting individuals to fill open spots or if, in fact, a spot became open, what would you have to -- what would be the proper compensation that you could use to recruit, which is really where we started all this well over a year ago.

We had four open positions, and trying to figure out how
can we recruit into those jobs. And so we talked about that and said that, in some respects, obviously, for the open positions, we are getting a sense what the market is because we're recruiting those people, and we know what compensation it takes to attract people competent to fill those jobs, and said sometimes you have to phase these things in.

And we talked last night in our open session about the potential of a two-year plan, and coming to you with a plan that said, "Here's Year 1 and here's Year 2." And the committee made a decision that we did not want to move that way; that we would deal with year one. And there will be another compensation committee, there will be another survey, and we will probably use benefits and so on, and to let next year's compensation committee to address, given the facts we've gotten now, or the new facts they have, where they want to move adjustments or where they want to move salaries for next year.

So we're coming forth to you as a committee with only a proposal for year one, knowing that the Compensation Committee next year will have to deal with the facts as we have them now, or any new facts they have, or how they want to deal with that with any phase or second-step or adjustments off of these for the next
year.

So we've made a decision just to come back and deal with the one year this year.

That really is -- I mean, without running my finger down and talking about specific people, you see the recommendations. I will say that in most cases, they are either at or slightly above or slightly below the midpoint, which resulted from our discussions last night.

We did go person by person and review personnel -- personnel evaluations were done by Terri. And everyone on this position, of the eight positions -- eight of these positions are filled.

Let me remind you, the director of Multifamily and the director of Homeownership are open positions. All the other positions are filled, in that -- and I don't even think we mentioned, Terri, that our chief deputy director and our director of Mortgage Insurance are confirmed. Their appointments are in place, and they were before the end of the year; so those jobs are filled.

And what we did is give everyone -- all the eight individuals in these positions the opportunity to provide any additional information to the Compensation Committee they want. And many of them did, gave us additional information, additional statements, additional
accomplishments they wanted us to consider, in addition
to Terri's evaluation. And as we went through these one
by one, we looked at each those individual evaluations.

And then person by person, if you go position
by position, we went through and established the
compensation you see. And the recommendation of the
Committee that's being brought to you today are those
salaries that are in that column called, "New Salary
Realignment."

Ms. Galante?

MS. GALANTE: I had three questions, but you
answered one, which is what the open positions were.

The second question I had is -- and you might
have addressed this, but I maybe got confused -- the
terminology, "New Salary Realignment," for positions that
are not open -- for positions that are open, there is a
minimum and a maximum range, and then there's a salary
realignment number. And so I'm confused by that. I
mean, you could hire someone closer to the minimum based
on their experience; or are we saying we would recruit at
the new salary alignment number?

CHAIR COURSON: That's a very good question, and
I should have mentioned that because we talked about that
last night.

Clearly, we are now in the process, and the
executive director is in the process of interviewing
people for Multifamily and Homeownership.

Let me remind the Board, the Multifamily
position is a position that is hired by the Board.
That is by statute. The Homeownership position is not.

Having said that, however, I think what we
talked about with Terri last night was trying to give
her -- we have a pretty good sense of the people we've
interviewed and trying to fill these jobs over the last
year, what the market might be, a range of the market
might be for those positions.

And I think what we're giving to Terri was, she
was looking for some guidelines. And basically if you
look at this, we're saying that we think that we should be
able to hire, and we hope that Terri, as sort of her
guideline to go out there, to try to hire those two
positions, is someplace around the midpoint. And that
someplace around the midpoint is one hundred eighty. It
doesn't have to be, but we think that that's a target.
And I think based on what we've heard in the marketplace,
we think that a capable candidate can be hired in that
range.

MS. GALANTE: Okay, so for the director of
Multifamily, which is, you're saying, a Board appointment
as opposed to, say, director of Homeownership, which
really goes to my third question. The Board and the Compensation Committee have been charged with establishing these salary ranges on an annual basis. But on a filling of an actual position, everything on this chart, except for the director of Multifamily, is in the executive director's purview.

CHAIR COURSON: No, no, she recommends and the Board approves.

MS. GALANTE: For all of these?

CHAIR COURSON: Yes.

MS. GALANTE: Okay, thank you. That was my third question.

CHAIR COURSON: Yes. That's in our charter, and that's the way we have it set up.

MS. GALANTE: Okay.

CHAIR COURSON: So she'll make a recommendation. But she needs to know sort of a general range of the target she's shooting at when she goes and does this recruiting.

MS. GALANTE: Got it. That's very helpful.

CHAIR COURSON: Any other questions?

(No audible response)

CHAIR COURSON: Seeing none, I think that we have a request from two members of the Board that we go into closed session to talk about individuals with
specific salary adjustments.

MS. CASEY-HEROLD: Specific evaluations, not
specific salaries.

CHAIR COURSON: Well, according to the memo,
case law allows for closed sessions for the purposes of
determining whether an individual warrants a salary
adjustment.

MS. CASEY-HEROLD: Right, but not establishing
the specific dollar amount.

CHAIR COURSON: Okay.

MS. CASEY-HEROLD: It's a fine line to walk.

MR. SHINE: The difference between establishing
and discussing it.

MS. GALANTE: Yes, you can go back into open
session and set the amount.

MS. CASEY-HEROLD: That's -- yes.

CHAIR COURSON: Correct. Okay.

All right, we are now going to go into closed
session.

(A recess was taken from 11:24 a.m.
to 11:36 a.m.)

CHAIR COURSON: I'm going to call the Board
meeting back to order after a recess. And in discussions
with the Board and with counsel, the request that we have
a closed session is not possible, since a closed session
was not noticed on the agenda for this meeting.

So I do believe, and based upon the Board's
discussion, that it's clear that the directors want to
have an opportunity in a closed session to discuss
performance evaluations and performance and adjustments.

MS. JACOBS: Mr. Chairman, if I could make a
comment.

CHAIR COURSON: Yes.

MS. JACOBS: I'm sorry to interrupt you.

CHAIR COURSON: Yes, please.

MS. JACOBS: Perhaps if you explained how you
arrived at these recommendations. In other words, what
I'm not aware of is if the executive director has
submitted to you performance evaluations and whether or
not they've been reviewed by the Compensation Committee
and they're making a recommendation.

CHAIR COURSON: Okay, that's fair.

The process that we had: Prior to last night's
meeting, the executive director furnished to us her
performance evaluations of the eight incumbents whose
salaries we are now considering. We had those prior to
our meeting last night. She then gave each of the eight
individuals an opportunity to provide additional
information for consideration by the Compensation
Committee.
A number of those individuals did that. They gave us additional performance information, résumés, et cetera, talking about their performance and their anything else that they wanted to share.

In addition to that, the executive director, in accordance with the charter, came with a salary recommendation, specific salary recommendation for each of the eight incumbent positions.

And so what we did is we went position by position, we talked about the position, the individual. We looked at the evaluation -- performance evaluation being given by Terri. We looked at the supplemental information, and then we looked at the salary recommendation given by the executive director. And from that, then the Committee made a decision -- or prepared a recommendation for each job for the salary for that position. And those are included in the report that you see today.

MS. JACOBS: Okay, knowing that, which I did not know when we were having our previous discussion, I am personally not in need of a closed session here, since the Compensation Committee has had a chance to review the performance reviews, and that's their charge. However, whatever the majority of the Board wants to do, I'm totally fine with that.
CHAIR COURSON: Let me -- and I appreciate that, Ms. Jacobs.

Let me say, here are our choices: We certainly can notice a meeting. It's my understanding it takes at least a ten-day notice. We can do it in person. I believe I'm correct in past discussions about doing this, that we can do it by conference call, as long as we're in a location where a director is going to be on the conference call, there is access that the public can be in that location and listen and participate. So if we do that, the notice, we could start with an open session, we move to closed. Those people, if they showed -- if they arrived at the location where the director is and we went into closed session, they would be asked to leave that room where we are, and then at the end, could come back in for the remainder of the meeting, which will be open.

So we could establish locations in the Los Angeles area, in Sacramento, Fresno, Bay Area -- I mean, we can establish places where, if we can find locations, where we can set up a conference call, and there are facilities for the public to go and listen to that call and have a closed session, and do that not sooner than ten days from now. We'd have to come up with an appropriate date. So I leave that up to the Board.

We are certainly capable of doing that. We're
certainly willing to schedule that, if the Board so

desires. We just have to find an appropriate date and

the locations to work out the logistics.

Mr. Davi?

MR. DAVI: That could be fine with me. I just

need to understand some things.

I'm hearing from legal counsel, in closed session

we can only discuss evaluations. If that's the case, I

can rely on the Compensation Committee's analysis of the

evaluations; and we can move forward today.

MS. CASEY-HEROLD: Yes.

MR. DAVI: There's no discussion of other

issues?

MS. CASEY-HEROLD: *(Nodding head.)*

MR. DAVI: Then I don't know that we're going

to accomplish much more than simply receiving the

evaluations. I trust the three of you have seen and

don't find any pejorative information contained therein.

CHAIR COURSON: Mr. Morris?

MR. MORRIS: I should note that if there are

Board members that want to go into closed, we must honor

that request, number one.

Number two, there were three people on the

Committee last night. We did not have agreement by the

three of us as it relates to a number of these positions.
CHAIR COURSON: The recommendation is coming to you. Two approved the recommendation, and one didn't.

So I think -- and, Counsel, you can help me -- if any Board member wants a closed session, then we would schedule a meeting.

MS. CASEY-HEROLD: I think that's true, yes.

CHAIR COURSON: I really leave it up to the Board. I'm not asking for anything.

Mr. Pavao?

MR. PAVAQ: Without giving too much away, was the source of the disagreement among you based on information that we can't discuss openly? Or the disagreement was based on information you feel we should probably cover in closed session?

MR. MORRIS: No, I can cover it in open.

MR. PAVAQ: And since I have the floor, I would be curious just to hear a bit more, since there is a bit of deviation from the midpoint, for example, just what was some of the thinking that went into the deviations from the midpoint; and how did you consider the percent -- you've displayed the percentage increase over current salary. How did that factor into your decision-making? I'd be curious to hear more about those.

CHAIR COURSON: Okay, and I think at that point, since they were recommendations of the executive director,
I would ask her to talk about those also. But let's deal
with the other first.

MR. PAVAO: Okay.

MR. MORRIS: I think it gets back to what I
discussed earlier, where we were discussing the survey.
I had a real problem with the process. Because you've
got to remember, the process drives everything, okay.
It drives the salary ranges, it drives the final
recommendations, it drives the implementation. And there
were a lot of discussions on how many years it would take
to phase in these recommendations. Once again, this is
year one.

This does not reflect what we received last
night. Okay, the Board will have a chance next year to
reevaluate some of these positions. Some of these
numbers were different. Okay, we made changes last
night. And we went to what John had mentioned earlier
was, we're not phasing it in. This is a one-time
increase. And it's up to the Board -- it's up to the
Board to make decisions as it relates to future
increases.

The reason that I voted against the salary
ranges, the reasons I'm voting against all these
positions is not because I don't think that the ten
exempt positions, current positions -- eight current
positions and two open positions -- deserve increases.
I have a real problem with the process. I think the
numbers that were generated were flawed because -- that's
my own personal opinion. Others may disagree -- and go
right ahead and disagree.

I can't support it, and I'll say it publicly. I
think that some of the increases were fair and
reasonable. Some, I think, were grossly in excess of what
I think is reasonable to attract and to retain employees.
So I'm going to vote against it. I'm going to say it in
public. I don't need to go into private to discuss any
individual. You all know my feelings. I think I've made
it pretty clear.

CHAIR COURSON: Other questions or comments?

If there's not, Mr. Pavao had a question. And
maybe the executive director brought the recommendations
forth, and so I think she would be the one most qualified
to speak to deviations.

MS. PARKER: Mr. Chairman and Members, the chart
that you have before you reflects several sections. And
what I tried to do is essentially for the workability of
the -- and your consideration -- give you as much
information as possible that I want you to sort of look
at.
I put down the first section as the current salary. And for the purposes of the director of Mortgage Insurance and the chief deputy director, these are the positions that I offered these two individuals through contract last year. So we didn't go back to what was the original state salary. This is really the starting point.

The salary -- the proposed salary range, the next three columns, is the document that the Compensation Committee recommended in its meeting that you -- in your previous vote, voted on.

I essentially then took this salary range, and went back and looked at it for each of the individuals who currently work for me.

I do performance evaluations of all of the managers every year. Their performance evaluation is tied to their business plan, and their performance goals and expectations in the business plan, and an activity plan tied in, which is -- there are reviews of those throughout the year and discussions about their performance.

When I made my recommendations last night to the Compensation Committee, I essentially made them based on the salary range as it was, which was mostly a reflection of either existing state agencies that have the same
benefit structure as CalHFA does, or HFAs throughout the
country that are somewhat similarly situated as CalHFA
is, in assets and employees.

And I think if you'll note in the Watson Wyatt
study, the ones that were selected, while all of them
have asset bases less than CalHFA, they run multiple
programs and are somewhat similar to what we essentially
do.

The report also does take into consideration
geographical cost-of-living differentials.

So since the Committee had essentially adopted
this proposed salary range, I went back and used it to
essentially say, "What is fair compensation for the
existing employees?" and also asked the Compensation
Committee last night, "What is it that you are
instructing me to do in working with the recruiter for
the two vacant positions?" So I have some sense of a
range, so I've been talking all along with recruiters
about ranges.

So it is as John articulated, that the salary in
the category for realignment for the Multifamily and
Homeownership, is a salary that, at the moment, I had
given to the recruiter as the top of a range. And it's
my intention to hopefully come in around that number with
a qualified candidate, a qualified candidate of the same
caliber of the two individuals that I've recruited within
the last year, Mr. Spears and Mr. McManus.

Then it was a matter of going back and looking
at each of the individual positions and their
performance. And I have to say that there isn't a one
of my senior managers that hasn't been fully
performing -- a number of them have been there a number of
years, some of them have been there as few as two years --
and looked at comparisons to some of the positions that
are more akin to positions in state government. And I
think that would be, I would just articulate that's the
chief information officer and director of legislation,
look at how they are similarly situated with their
colleagues in state government.

I would note in the information officer position
that this is a person, a candidate who previously had
come from a state agency where just this most recent
year, there had been an increase above general salary
increases for the IT area. And my recommendations in
this particular sense really keep this person where this
person would have been, had they stayed in the
information technology field.

So these recommendations are really, I think,
very much in line with colleagues that somewhat function
the same that they do in other parts of state government.
The rest of the positions, I make recommendations based on the uniqueness of them, and that they really operate more in a business fashion, and that their performance dictates our business. People don't come to us -- if we don't have people who can create products for business, we won't do business.

Starting at the bottom, the risk manager is a very unique position. We have somebody who comes from Wall Street to do this work. My argument for giving this person above the midpoint is really trying to look at where he should fit within the range. This is a position, if we were not able to have this individual, we would be doing what we have done in the past, and that is hiring a consultant. And the consultant costs for the work that this person does exceeds -- well exceeds what the salary recommendation is. And we have the additional benefit of having this person in-house to do all kinds of extra work for us. He is a very qualified candidate. And it's clear to me if we were not able to retain him, given the amount of time it took for us to recruit him, we would be going back to having to have work done for our rating agencies analysis through a contract.

The director of Mortgage Insurance and chief deputy director -- I will group them -- their salaries are really within their range, reflect that they came in
at a salary that was with the understanding that this
legislation will be passed and we would look at their
salaries with respect to comparable positions in other
housing finance agencies. They are fairly new in their
positions. And so from that standpoint, I have really
mostly recommended at mid or below mid, just from the
standpoint of creating additional growth, and them fully
performing at a mid to max level.

Certainly Mortgage Insurance that's specifically
called for in statute to have somebody of a highly
qualified nature are incumbent, meets those goals. And
if I were to have to recruit again, you know, we would be
having probably to go back and have a discussion about the
numbers that were in the salary survey.

I also, from my standpoint, kind of grouped the
general counsel and the director of Financing. They,
along with the chief deputy director, are in every
meeting that I am in. They are involved in the work that
encompasses the entire Agency. The director of Financing
is -- as you all are aware, is the person who is
responsible for creating the financing schemes that
have -- and fiduciary quality of it that is regarded, he
has a national reputation in that sense, is often called
on to serve in national forums.

We were very lucky to be able to recruit him
through a national search, although he was our comptroller.

There have been instances where people like this have been hired by the private sector. I know somebody in the Treasurer's office lost someone just like this. And so these salaries are really trying to reflect fair compensation for them relative to their peers, and to essentially retain them.

The general counsel is someone who has been involved in some very key things this year. Without his assistance, I would be very concerned about our ability to maintain, for example, the HC Law case. This is our $13 million judgment. Tom did the majority of this work. It continues to go on. We need to go to the criminal stage. He has worked on the MBS, he's worked with Fannie Mae, he's worked on the Bay Area Housing Plan -- all of these things, to essentially protect the Agency from, you know, contentious people who want to challenge our tax laws at all times.

I have reviewed each and every one of these people.

My pitch to you from the standpoint of looking at this with respect to new retention versus going out and recruiting is, I've had to go out and recruit four people in the last year. I believe what I have asked for...
is fair compensation for them and what they do.

I would not want to be in a situation because
they felt that there wasn't some recognition of what they
do, relative to their peers, it wasn't fair, that I'm in
a situation of having to come back and ask you for
salaries that would certainly be in this range, if not
more, or through contracts that would be greater.

And with that, Mr. Chairman, that is the basis
of my recommendations.

CHAIR COURSON: Are there other questions?

Mr. Davi?

MR. DAVI: Are these proposed for calendar year
'07?

CHAIR COURSON: Yes, the proposal is that they
be retroactive to January 1st of '07.

MR. DAVI: Based on legal counsel's advice and
what we're being told and what we've heard of the
Compensation Committee's recommendation, I just want the
Board to know, since I kind of opened this Pandora's box,
that I would be okay to move forward with what you see
before you for the calendar year '07, and I'd be
supportive of a motion in that direction without having
to go to closed sessions.

CHAIR COURSON: Is there any request from any of
the directors specifically that we notice and schedule a
closed session?

(No audible response)

CHAIR COURSON: All right, well, seeing none then, I don't know if that was a motion, Mr. Davi, but it was pretty close to one.

Is there a motion?

I think the motion is to approve the Compensation Committee recommendations as they are set forth on this document for the calendar year 2007.

MS. CASEY-HEROLD: Yes.

CHAIR COURSON: That would be the motion.

MS. JACOBS: So moved.

CHAIR COURSON: Is there a second?

MS. GALANTE: Second.

CHAIR COURSON: Is there further discussion from the Board?

(No audible response)

CHAIR COURSON: Is there any discussion from the public?

(No audible response)

CHAIR COURSON: Call the roll.

MS. OJIMA: Mr. Pavao?

MR. PAVAO: Yes.

MS. OJIMA: Mr. Carey?

MR. CAREY: Yes.
MS. OJIMA: Mr. Czuker?

MR. CZUKER: Yes.

MS. OJIMA: Ms. Galante?

MS. GALANTE: Yes.

MS. OJIMA: Ms. Jacobs?

MS. JACOBS: Yes.

MS. OJIMA: Mr. Morris?

MR. MORRIS: No.

MS. OJIMA: Mr. Davi?

MR. DAVI: Yes.

MS. OJIMA: Mr. Shine?

MR. SHINE: Yes.

MS. OJIMA: Mr. Courson?

CHAIR COURSON: Yes.

MS. OJIMA: It has been approved.

CHAIR COURSON: Thank you.

A very, I would say, ground-breaking process that certainly needs work, it needs refinement. We need other work to do.

There are two follow-up jobs. One is that the Committee has agreed that we are going to continue to meet, and we're going to work on a set of policies and procedures for the Compensation Committee.

Going back to some of the comments Mr. Morris said, we think it's important; and we know other
organizations have such policies and procedures, which really sets down the specifications for future surveys, methodology for future surveys, the process, revisiting the Committee's charter, and just how sort of laying out a road map for all of those based on the experience that we have this year to move forward for next year.

So it would be my plan that we would bring forth that policy and procedure, and give ourselves some time -- we've spent a lot of time on this. But hopefully by at least the July meeting, because the Committee is going to have to get going again in September or October. So by the July meeting, it would be a good target for us to have worked through some drafts and submit them for your comments, and see if we can't put in place some policies and procedures that address some of the comments that came up not only at the Committee, but here at the Board meeting. So that's our next task.

Okay, Mr. Carey?

MR. CAREY: Mr. Chair, I'd just like -- once in a while it's worth recognizing those moments. We set out a year ago or some time ago to achieve something, and we really have achieved it. Although there are perhaps some refinements needed in the process, we've achieved something that we set out to do, but I'm not sure we were sure we would be successful at. And I appreciate your
willingness to see that process through, and I appreciate
the director's dogged pursuit of this result, because I
think it will serve CalHFA and our constituents well.

CHAIR COURSON: And I will make a comment, too,
Mr. Czuker and Mr. Morris and I have worked together, not
only on the Board but certainly closely on this Committee.
And in some respects, I know in all of our conversations
we're spirited and everybody had their point of view; and
I have to say, I think that's healthy in this process.

I feel that we certainly have a fiduciary
responsibility to the public, and I think it's healthy
to have different points of opinion. Mr. Morris has
expressed those. And I think we can take some of those
concerns, and it will give us a better process as we
continue to refine this going forward.

And I appreciate, John, your candidness, and
wanting to put forth. And I think Ed and I and you have
worked well together, and we'll take those and I think
that's a positive input to move forward from here.

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Item 8. Resolution 07-03

Discussion, recommendation, and possible action
re adoption of a resolution authorizing the
Agency's single-family bond indentures, the
issuance of single-family bonds, short-term
credit facilities for homeownership purposes,

and related financial agreements and contracts

for services

CHAIR COURSON: Okay, having said that, we now

move to the next agenda item, which are three resolutions

by Mr. Gilbertson.

MR. GILBERTSON: It actually is afternoon. So

good afternoon, Mr. Chairman and Members of the Board.

Each January we present for the Board's

consideration a series of resolutions to provide

continuing authorization to issue bonds and enter into

the full range of financial agreements to manage our debt

obligations.

This morning I have in front of you, and I will

present three resolutions for the Board's consideration.

The first has to deal with our single-family

financing resolution, reauthorization to issue bonds in

support of the single-family programs of the Agency.

Resolution 07-04 is our multifamily financing

reauthorization, again to provide us with the authority

to issue bonds and enter into related agreements as it

relates to the multifamily loan programs of the Agency.

And the third resolution is authorization for

the Agency to apply to the California Debt Limit

Allocation Committee, to receive private activity volume
cap, which, of course, is the backbone of the Agency and our ability to issue tax-exempt bonds.

Resolution 07-03 is authorization to issue our single-family bonds in the following amounts under any of the previously approved forms of indenture, including the most recently approved form of indenture from the November meeting, our new residential mortgage revenue bond indenture. This resolution would authorize the issuance of bonds equal to the amount of bond principal being retired and certainly eligible to be refunded pursuant to federal tax law.

In addition, we would be able to issue bonds equal to the amount of the private activity bond cap that we received from the California Debt Limit Allocation Committee, and, lastly, would authorize the issuance of up to $900 million of taxable bonds.

Now, I guess before I skip ahead here, I wanted to just cover, Resolution 07-03, in addition, would authorize the full range of these financial agreements that we need to conduct our business. This ranges from agreements to enter into investment of bond proceeds, to hedge interest-rate exposure in the derivatives market, to hire consultants and advisors as needed to help us manage our swap portfolio and assist us in quantitative analysis.
This resolution would also reauthorize the use of short-term credit facilities. We're asking this year for up to $500 million in short-term credit facilities in the aggregate for all program purposes.

Remember, the short-term credit facilities are those sources we use to warehouse loans stemming from the pipeline of both single-family and multifamily.

And lastly, Resolution 07-03 is a form of continuing authorization. I just want to cover this. Each year we come in January. The resolution will not expire until 30 days after the January 2008 Board meeting, at which there is a quorum to vote.

A quick look then at some of our plans as we move forward in calendar year 2007. We anticipate a very busy financing calendar this year. Specifically, in support of our single-family loan programs, we plan to issue bonds every other month, with a planned introduction of our mortgage-backed securities program. Sometime later this spring, it is very likely that we will actually close ten separate bond financings during the calendar year, all in support of the single-family program.

We will continue to use the Home Mortgage Revenue Bond program for whole loan purchases. Again, our plan is to continue to purchase whole loans that are
FHA-insured and VA-guaranteed; while at the same time, by May, we hope to have issued our first bonds under the Residential Mortgage Revenue Bond indenture. And those bonds, of course, will be issued to finance the purchase of mortgage-backed securities.

As I mentioned earlier, we'll continue to use the short-term credit facilities. This is an ideal mechanism for us to temporarily -- all the single-family first mortgages coming through and originated by our network of originating lenders prior to their individual assignment, either in a whole loan form or in a mortgage-backed security to specific bond series.

Instrumental in this, of course, is the existing line of credit that we have from the State Pooled Money Investment Board, which facilitates that for us.

As Terri mentioned earlier, the recently completed sale of approximately $60 million of loans to Fannie Mae has provided us ample liquidity for our down payment assistance programs as we look out over the next year to two years, potentially. So there are no current plans for us to issue bonds for down payment assistance, as we have in each of the last several years.

At that point, I think I'll stop and see if there are any questions regarding Resolution 07-03.

I would be happy to answer any questions.
CHAIR COURSON: Mr. Czuker?

MR. CZUKER: Can you share with us -- first of all, I think you're doing a great job, and my compliments to everything you're doing for the Agency, specifically because this is a large institution with a lot of moving parts. And you are on the front line of hedging our risk, especially whether it's interest-rate risk or whether it's portfolio risk. And so we really appreciate the time and effort and the performance you've put in here.

I'm very curious just to fill in a few blanks. I think the hedging program is going great. And I compliment you there.

I wanted to ask, on the short-term credit facilities, who are those with and what terms -- you know, lending rates? And then similarly, on the continuing borrowing with the state investment fund and the bank line of credit for loan warehousing, who are those with, and what type of rates and costs are there to the Agency from those facilities or lending practices?

MR. GILBERTSON: Certainly.

Our short-term credit facilities really are comprised of two different lines of credit. The first one and the largest one -- is that me making all the static? -- is currently $350 million. It's with the
State Surplus Money Investment Fund.

Basically, what we do is, it's renewable on a semi-annual basis.

The State Treasurer assesses an interest rate based off the time of application. So we most recently renewed this in the summer of 2006; and it would have reflected the earnings rate of the pool that the State Treasurer administers at that time.

My recollection -- and I don't have this exact number -- it was in the mid to high 4 percent range at that time.

The other line of credit that we have is with a commercial bank. It's the Bank of America. We entered into this approximately two years ago. It has one additional year to run. The interest earnings -- and that is, currently, it's a $100 million line. We have the ability to increase it to $150 million.

We use that line more specifically for our multifamily programs; and there's a number of loans as we're originating and directly funding those loans that we initially warehouse before we utilize bond proceeds.

The interest rate there is dependent on the length of time we want to draw on the line.

We typically, not in all cases, these are relatively short-term, weekly; and we pay one-month LIBOR
plus the spread. I believe that spread is 30 basis points.

So in today's environment, with one-month LIBOR, at about 5.40, we'd be paying 5.70.

CHAIR COURSON: Any other questions?

MR. CZUKER: A comment, but it might be -- I support all three of the resolutions. But my comment is as a reflection of multifamily towards single-family in terms of the Agency's volume, I'd like to see the multifamily portfolio increase; and hopefully with the new addition of the salary increases and some greater stability with the depth and breadth of the Agency staff, there could be a marketing effort to increase the multifamily portfolio, so that it -- I know we've made great strides in the single-family portfolio, as evidenced by all the different channels for marketing and distribution and purchases of loans -- if there's a way that we could encourage you and the Agency as a whole to make a similar effort to increase the Agency's portfolio towards multifamily -- especially with all the new financing products, both taxable and tax-exempt, and creative financing -- that could encourage affordable housing on a rental basis throughout the state, I think it would be greatly needed and should be an added focus to the business plan, which is perhaps premature to the
next topic.

MR. GILBERTSON: Yes, absolutely. I can't tell you the number of hours that we have met in a senior management group discussing the lack of competitiveness today of our multifamily products.

We've spent an awful lot of time in calendar year 2006 reassessing from interest rates, to architectural and design requirements, trying to fine-tune the program.

I believe the anticipation is within a month to two months -- I was looking for Steve -- that we will try to go out and actively try to market the new features of the multifamily program, that would be multi-faceted, to try to attract new business.

CHAIR COURSON: Mr. Gilbertson, do you want to deal with these one by one, the resolutions, or what would you --

MR. GILBERTSON: I think -- that's my recollection of how we've done it in the past.

CHAIR COURSON: Then I think a motion is in order for the approval of Resolution 07-03.

MR. CZUKER: So moved.

CHAIR COURSON: Is there a second?

MS. JACOBS: Second.

CHAIR COURSON: Is there any discussion?
(No audible response)

CHAIR COURSON: Any comments from the public?

(No audible response)

CHAIR COURSON: If not, call the roll.

MS. OJIMA: Mr. Pavao?

MR. PAVAO: Yes.

MS. OJIMA: Mr. Carey?

MR. CAREY: Yes.

MS. OJIMA: Mr. Czuker?

MR. CZUKER: Yes.

MS. OJIMA: Ms. Galante?

MS. GALANTE: Yes.

MS. OJIMA: Ms. Jacobs?

MS. JACOBS: Yes.

MS. OJIMA: Mr. Morris?

MR. MORRIS: Yes.

MS. OJIMA: Mr. Davi?

MR. DAVI: Yes.

MS. OJIMA: Mr. Shine?

MR. SHINE: Yes.

MS. OJIMA: Mr. Courson?

CHAIR COURSON: Yes.

MS. OJIMA: Resolution 07-03 has been approved.

CHAIR COURSON: Thank you.

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Item 9. Resolution 07-04

Discussion, recommendation, and possible action relative to the adoption of a resolution authorizing the Agency's multifamily bond indentures, the issuance of multifamily bonds, short-term credit facilities for multifamily purposes and related financial agreements and contracts for services

MR. GILBERTSON: Moving on to Resolution 07-04, this is the multifamily bond reauthorization resolution. And this would provide authorization for us to issue multifamily bonds, again under any of the approved forms of indentures that are all listed in the resolution in the following amounts, again, equal to the amount of bond principal being retired, and as well, the amount of any private activity bond volume cap we would receive from the Debt Limit Allocation Committee, up to $800 million for the combination of any 501(c)(3) eligible bonds, and federally taxable bonds. In addition, it would provide authority for us to issue up to $300 million to acquire existing loan portfolios.

Like Resolution 07-03, the single-family financing resolution, this resolution would authorize the full range of related financial agreements. We do this somewhat repetitive, but we want to make sure that we
have clear authority to enter into agreements for the
investment of bond proceeds to hire advisors and
consultants in managing our complex debt instruments, if
you will.

This resolution, again, authorizes the same
$500 million as a short-term credit facility to allow us
to do the loan warehousing that we just discussed; and
just as the single-family resolution, this resolution
provides for continuing authorization, and would not
expire until 30 days after the board meeting in January
of 2008.

A quick look then, if you will, at our plans in
Multifamily. They're certainly not as robust as they are
in single-family, but we hope that changes during the
course of the year.

(Chair Courson briefly left the meeting room.)

MR. GILBERTSON: The plans at this point are to
really issue three pooled bond financings that will
closely coincide with when private activity bond cap is
awarded to us by the Debt Limit Allocation Committee.
Current plans call for those to be issued in March,
July, and October. We would continue to use the
Multifamily Housing Revenue Bonds III indenture, this
is a General-Obligation-backed indenture of the Agency.
It has worked very, very well in financing, both
construction, bridge, and permanent loans for the Agency.

Again, the use of the short-term credit
facility, as I described, would be to allow us to access
capital, to warehouse loans if our timing of bond
issuance is not exactly identical with the needs of the
borrowers in financing their loans.

And I'd be happy to answer any questions
relating to Resolution 07-04.

VICE CHAIR SHINE: Are there any questions from
the Board? Comments?

MS. GALANTE: Is the $300 million for loan
acquisitions, is this a new program, or is this just --

MR. GILBERTSON: This is a component of the
resolution that dates back to about 2000.

The Agency has one time made an acquisition
portfolio, and I believe it was in calendar year 2000.

At that time we acquired the Fannie Mae 236 portfolio.

VICE CHAIR SHINE: Do we have a motion?

MR. CZUKER: So moved.

VICE CHAIR SHINE: Second?

MS. JACOBS: Second.

VICE CHAIR SHINE: Any further discussion from
the Board?

(No audible response)

VICE CHAIR SHINE: From the public?
(No audible response)

VICE CHAIR SHINE: If not, call the roll, please.

MS. OJIMA: Thank you, Mr. Shine.

Mr. Pavao?

MR. PAVAO: Yes.

MS. OJIMA: Mr. Carey?

MR. CAREY: Yes.

MS. OJIMA: Mr. Czuker?

MR. CZUKER: Yes.

MS. OJIMA: Ms. Galante?

MS. GALANTE: Yes.

MS. OJIMA: Ms. Jacobs?

MS. JACOBS: Yes.

MS. OJIMA: Mr. Morris?

(No audible response)

MS. OJIMA: Mr. Davi?

MR. DAVI: Yes.

MS. OJIMA: Mr. Shine?

VICE CHAIR SHINE: Yes.

MS. OJIMA: Mr. Courson?

(No audible response)

VICE CHAIR SHINE: And?

MR. GILBERTSON: And the last resolution that I have to present is Resolution 07-05.
MS. OJIMA: Resolution 07-04 has been approved.

MR. GILBERTSON: Thank you, JoJo.

VICE CHAIR SHINE: Thank you.

And?

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Item 10. Resolution 07-05

Discussion, recommendation, and possible action relative to the adoption of a resolution authorizing applications to the California Debt Limit Allocation Committee for private activity bond allocations for the Agency's homeownership and multifamily programs

MR. GILBERTSON: And Resolution 07-05 would authorize our application to the California Debt Limit Allocation Committee for an award of private activity bond volume cap for both our single-family and multifamily programs. This resolution would authorize the application for a maximum of $900 million for the single-family program and $400 million for the multifamily program.

While I realize that the authorization requested by this resolution may actually be in excess of the amounts we actually apply for, we think it's important or presume that the Board would want us to have this authority in case additional amounts became available.
through the creation of the pools that the California Debt Limit Allocation Committee creates on an annual basis. And lastly, the authorization requested by this resolution would be in effect during the period of that the two previous resolutions would be in effect. So this would be overlapping authority that would extend into January of 2008.

(Mr. Courson returned to the meeting room.)

MR. GILBERTSON: With that, I'd be more than willing to answer any questions you may have.

VICE CHAIR SHINE: From the Board?

(No audible response)

VICE CHAIR SHINE: Can we get a motion?

MR. CZUKER: So moved.

MS. JACOBS: Second.

VICE CHAIR SHINE: Thank you.

Any comments from the Board?

(No audible response)

VICE CHAIR SHINE: From the public?

(No audible response)

VICE CHAIR SHINE: If not, let's call the roll.

MS. OJIMA: Mr. Pavao?

MR. PAVAO: Yes.

MS. OJIMA: Mr. Carey?

MR. CAREY: Yes.
MS. OJIMA: Mr. Czuker?
MR. CZUKER: Yes.
MS. OJIMA: Ms. Galante?
MS. GALANTE: Yes.
MS. OJIMA: Ms. Jacobs?
MS. JACOBS: Yes.
MS. OJIMA: Mr. Davi?
MR. DAVI: Yes.
MS. OJIMA: Mr. Shine?
CHAIR COURSON: Mr. Shine?
VICE CHAIR SHINE: Yes.
Thank you, sir.
CHAIR COURSON: Was that a "yes" vote?
VICE CHAIR SHINE: Yes.
MS. OJIMA: Thank you, Mr. Shine.
Mr. Courson?
CHAIR COURSON: Yes.
MS. OJIMA: Resolution 07-05 has been approved.
MR. GILBERTSON: Thank you.
CHAIR COURSON: Thank you, Bruce.

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**Item 11. Business Plan Update**

CHAIR COURSON: The next item on our agenda is the business plan update. Every year in January, we revisit our business plan that we approved for the year.
And Terri, I think, is going to take us through that.

You should have at your place a business plan update package.

MS. PARKER: Mr. Chairman, Members, I'm going to do this presentation today.

Mike, do we have this on? Because I don't do these.

I'm walking you through this today. I wasn't sure, frankly, how long the different items would go and what your tolerance was for sitting in a chair. So I was going to walk you through this information very briefly.

Just some opening remarks, though. All of the staff here representing the various program areas are here and more than ready to answer any questions that you might have.

I will say, again, this is our usual process to give you an update on where we are in our business plan from a production standpoint in January. Then what we would be doing is following up in our March meeting, with coming back and talking to you based on the staff having an off-site, trying to work with our constituency stakeholder groups about where the market might be, what changes we might want to propose, what the Agency's liquidity is for consideration, and internal staff
resources for new and innovative programs.

And we would be bringing you some suggestions
and ideas at the March meeting; and certainly that is the
time for looking for key direction on policy, philosophy
from the Board on where the staff should be developing
alternative program considerations for you that we could
then go back and work into a business plan proposal to
come to you in May for your consideration and adoption.

So let me go through these slides briefly.

The first slide -- Steve, if you'll help me --
is really an overview of our Homeownership Program. As
you can see, our goal of a little over $1.4 billion,
we're on track to exceed that, of almost $1.8 billion.
There are some statistics on the side, about the success
of the various programs. The interest only PLUS\textsuperscript{SM} has been
a major success, and keeping our volume up. And this will
be the prime program that, when we institute the MBS
program with Fannie Mae, that these loans will be
converted into an MBS and securitized and then held on
our balance sheet in that manner.

The benefit, again, will be the liquidity
provided, but also the fact that the risk associated with
these loans will no longer be on our Mortgage Insurance
program.

This also reflects that we've sold our 6,000
subordinate loans to Fannie Mae. We have selected a
master servicer for the implementation of the MBS program.

And Ken Giebel and his staff have done an
outstanding job with continuing their marketing efforts
with realtors, lenders, and stakeholder groups.

Including just recently, if you were in the Sacramento
area, you may or may not have seen some ads that we have
on television, which I have had a number of e-mails of
comments by people of the quality of them, and the
message is right on point.

Going to the second --

CHAIR COURSON: Can I ask?

I think you said that by virtue of selling our
interest-only product to Fannie Mae, our mortgage
insurance is no longer in effect.

MS. PARKER: There is the risk --

CHAIR COURSON: We are still the mortgage
insurer --

MS. PARKER: Yes.

CHAIR COURSON: -- on those loans.

We're just selling the loans into an MBS?

MS. PARKER: That's correct.

CHAIR COURSON: Okay.

MS. PARKER: But from a rating-agency
standpoint, the rating agency's concern about our reserve
requirements for that risk is reduced by the partnership
with Fannie Mae.

CHAIR COURSON: No -- I mean, yes, I meant to
clarify your statement.

MS. PARKER: That was my point. Thank you.

Thank you, Mr. Chairman.

The next slide is a combination of the two down
payment assistance programs that are funded out of our
discretionary Housing Trust Fund. Our HiCAP Program,
which is in a few geographical locations that are high
housing cost, and our CHAP Program, which is a down
payment assistance program.

The reason why I'm including this in the message
on this chart is if you look at the production of
$1.8 billion, almost, over a planned goal over a little
bit over $1.4 billion, we had presumed that we needed
approximately 35 -- or had $35 million worth of housing
trust funds for down payment assistance to try to
generate a little over $1.4 billion worth of loans.

We have been so successful with managing this
resource that we have been able to achieve an even
greater goal with this same amount of dollars. And I
think the good news for the Board is, particularly a
couple of years ago when we spent almost $85 million in
funds for these two programs, that we have been
significantly able to reduce the use of Housing Trust Funds and meet or exceed our housing goals in single-family.

Moving along, for those of you, more than anything else, it's just an update of where we are with Prop. 46 funds. As you can see, we continue to have strong available balances in a number of our programs. And I think that this goes hand in hand with why the Prop. 1-C bond that just passed really did not include as much new money for down payment assistance programs as Prop. 46 did for CalHFA because we still have a number of programs that we have fund balances left in it. But we will be augmenting these to reflect the additional funds through 1-C.

The next slide, I think it's important, I just want to give you a sense of where we track as far as our REOs. And I know it's not a great line; but down there, at the very bottom, kind of running into the months of December, March, June, September, October, and November, is really CalHFA's line. And I think if you can just look at this, it continues to demonstrate that CalHFA's REOs relative to the rest of the market continues to be low and well-managed.

Mr. Chairman, that's my comments. I want to try to go through these by program. If anyone else has
anything on Homeownership, otherwise, I'll move into Mortgage Insurance.

CHAIR COURSON: Questions from the Board?

(No audible response)

CHAIR COURSON: Okay.

MS. PARKER: The next slide is really to give you an idea of the tremendous success of our Mortgage Insurance program. You can see where we are year-to-date. We're 141 percent of goal.

Clearly, if we're -- that given the relationship between the use of the IOP program, having the ability of our own Mortgage Insurance program and the successes of that, have enabled us to create products that we would not otherwise have, given the decline of other insurances like FHA or private mortgage insurers.

The programs in the Mortgage Insurance Program have been successful, well-received by our stakeholders, and really are providing a great complement to the huge success that we are having in our First Mortgage Program.

So I want to compliment, we are reaching new heights every day of insurance written; and also for you to note that the percentage of CalHFA loans that have mortgage insurance continues to increase. And so that's going to, again, be a key factor that we think will be significant in managing the programs going forward.
through the MBS program with Fannie.

Moving right along, we'll talk a little bit
about the Multifamily Program.

Mr. Czuker, you mentioned earlier, and I wanted
to tell you that from the staff's standpoint, there is
nothing that would make us happier than to see these
numbers be substantially greater than what they are. We
feel like this year what we have done is really used as
an interim year to work on extensive loan closings. The
Bay Area Housing Plan, which you all know in here is a
very difficult program to be implementing and
administrating, but also to do a whole retooling of our
Multifamily Program.

We have talked about everything from interest
rates, as Bruce had said, to our requirements for
earthquake insurance, to just our loan-processing
program, and including the ever-famous architectural
review, which I will point out, in discussion with our
stakeholder and focus groups, and we expect to be coming
back with a final proposal, hopefully before the next
board meeting.

So this is the area that we are all most focused
on wanting to try to be improving. I think when we do
our discussions with you next Board meeting, we'll be
talking about some of our ideas from the working group
and certainly are interested in any important comments from you all.

One of the things that we're going to be doing is asking a former economist from the Department of Finance to speak to our staff about what the market looks like, try to take that into consideration. I think many of you that are in this business realize that for anybody, including CalHFA, this has been a tough time to do multifamily projects. But we are committed. We know that this is one of the Board's major priorities. And the staff will be coming forward with every good thought and recommendation we can do to increase this area.

The next sheet is just a recap of Asset Management. This is the good work Margaret and her staff are doing, in continuing to look at ways to recapitalize and preserve our properties in our portfolio. Clearly, we all recognize that to preserve projects is easier and cheaper than if we have to go out and create them again. But it is, and as Margaret has reported, a continual issue for us to be mindful of, that as these projects age, the need for them to be recapitalized. And so we are looking at those particular issues, along with the issue that I mentioned in my opening remarks about a concern on many of our owners' parts about trying to see if there are alternatives to gain capital or equity.
that's currently embedded in their projects.

So we'll be coming forward with further
information. But I think the big story for Margaret's
area is the success of her and her staff in selling five
of our six REOs. We had previously gone out to the
market to do this as a package; it was not successful.
We worked with a broker. Came back. And I think as we
reported to you in the past, we were successful in
selling five of them and creating almost $350 million of
new liquidity for the Agency.

The good news about that is the people who have
bought these projects and the commitment to maintain them,
to do refurbishing and what-not were necessary; and all of
those transactions have been very successful and
completed.

Let me take a breath here.

Special lending programs. These are the niche
programs that we have created, many of them with your
leadership, that we feel, while they're small programs,
are making a big difference out there with our customers,
and particularly our partners in local government --
levels of local government.

The Residential Development Loan Program is a
new one that we have implemented just this last year.
The purpose of this program was to really work with
creating housing stock in the homeownership and
single-family area. We've had one funding round to date
where we have committed $7.75 million to three
localities. We have two funding rounds to go in
additional, as part of this business plan.

I would also point out that this is one of the
areas in Prop. 1-C that included another $100 million.
So I think it is recognition that this is a program that
we hope to really do some good partnerships with
localities, with developers, to get affordable
single-family housing in the marketplace.

CHAIR COURSON: When you say "funding rounds,"
we have not yet funded any of those loans?

MS. PARKER: We've committed.

CHAIR COURSON: Right.

MS. PARKER: Seven, almost eight million
dollars.

CHAIR COURSON: Because I was going back, and I
noticed on the previous page that we had the full
$75 million still available.

MS. PARKER: Right.

CHAIR COURSON: So I assume we haven't closed
anything.

MS. PARKER: Right.

The Housing Enabled by Local Partnerships
continues to be a program in high demand. We are working through our second -- we've just worked through our first round of commitments to our clients, to nine localities. We are about ready to announce our second round out in the community in February. This continues to be a program that is highly used by localities for anything from multifamily to homeownership and down payment assistance. And we continue to be told by localities that this is the programs that really make a difference for them, in their individual areas, in getting high-housing-need housing accomplished by them.

The last program is also a new program that was instituted just this last year, and that is the Habitat for Humanity Loan Purchase Program. We had $5 million for this program. We have committed to seven Habitat programs about $3.1 million in commitments. And to date, we've purchased $1.6 million of these programs.

And we continue to be working with the Habitat community, to make sure that they're aware of these monies that are available, and what might be appropriate programs for future funding rounds.

With that, Mr. Chairman, that concludes my discussion about the business plan from the production standpoint.

And the last page that JoJo just handed out, is
the mid-year update for our administrative budget, our expenditure item that the Board approves.

    Just to say, again, that this is our administrative budget. This does not include the major contracts that we have with everything from bond counsel to underwriting counsels, but is our administrative services budget.

    The approved budget was a little over $36 million. We are not quite at half of that with mid-year actuals. But I want to point out two things:

One, the additional budgeted amount that the Board approved in May did not include anything for general salary increases. We told the Board that when those were approved, we would come back with a request, depending on where we were in our operating budget.

    With the action that you've taken today for our exempt appointments, it also does not include that salary increase.

    So I will be working with Jackie over the next two months, and to the extent, looking and following very closely where we are on a month-by-month basis of actuals to budgeted to see what we need to do as far as coming into an amendment to our budget.

    CHAIR COURSON: The line that -- there's a line here called "consulting and professional services," but I
think you said also that bond counsel and outside
advisors aren't included in this budget.

MS. PARKER: Not on this line item.

CHAIR COURSON: I have two questions. First of
all, what's in this line item; and, secondly, why aren't
they?

MS. PARKER: I probably might have Tom answer
the second, but I'd be happy to answer the first one.

I think that we have, in the past, when we do
this budget, given you what is the detail to these
particular line items. Consulting and professional
services, a good part of this are the consultants that we
are using for strategic planning initiatives. It
also includes legal fees to the O'Melveny law firm for
the HC case, and another law firm for our Ridgeway
lawsuit. Those are probably some of the biggest members
that are in the consulting and professional services line.

Jackie, correct me if I'm wrong, were the
salaries for the two consultants that we hired to fill
Multifamily -- to fill --

MS. RILEY: Outside firms --

MS. PARKER: But where was Chuck's and
Steve's -- did they come out of --

MS. RILEY: They are reported out of this line,
yes.
MS. PARKER: Yes, so both Steve's and Chuck's consulting contracts of last year come out of this line item also.

CHAIR COURSON: And a question: Why are there other consulting arrangements that aren't included as part of this?

MR. HUGHES: I'll take a shot at answering that. I may have to partially punt to my colleagues in Financing; but my understanding is the Agency's operating budget, as you see it, is a very small component of our overall operating expenses, as shown on our financials. And many of those costs are bond-related costs, cost of issuance, and matters that are essentially paid for within the bond indentures rather than part of our operating expenses that we'd cover out of the spread that we make from the loans that we've made.

And if that is not correct, I'm sure that my colleagues will correct that. But that's generally how we show our expenses.

CHAIR COURSON: Thank you.

MR. HUGHES: Is that correct?

Good.

MS. PARKER: Mr. Chairman, I'm not sure if I did mention, but just so the Board is aware of this, we do have a number for the general salary increase, and that's
a little over a million dollars. So when we price out
the other, we'll be looking at that. But I just wanted
to -- since I did have that number, I wanted to leave
that with you.

CHAIR COURSON: Right.

Mr. Czuker?

MR. CZUKER: One suggestion to look into,
perhaps, is perhaps a program for multifamily that might
make CalHFA more competitive, is if a multifamily low
floater bond option would be available with a rolling,
sinking fund for an interest rate cap, Fannie Mae has a
five-year rolling sinking fund for future interest rate
caps. If CalHFA offered low floater bonds, it may, once
again, be attractive to the affordable housing community,
and certainly put it on par with private activity bonds.
So I'm just throwing that out as a -- in the past, the
issue has been hedging, and I think that provided: One, a
cap is purchased up-front; and, second, the sinking fund
to a rolling cap for future caps. The problem is, you
can't buy the cap for the full term of the loan because
it's cost-prohibitive. So by doing it in rollovers of
some term, as an example, five-year increments, it becomes
economically viable and maybe something worth exploring.
And so I just throw that out as a concept to make our
Multifamily Program more competitive.
MS. PARKER: Thank you.

CHAIR COURSON: Okay, any other questions of the executive director?

(No audible response)

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Item 12. Presentation and public comment regarding schedule of mortgage insurance premiums pursuant to Health & Safety Code Section 51657

CHAIR COURSON: Okay, if not, we will move to the next agenda item, which is Mortgage Insurance.

And Chuck McManus is going to help us.

You have a handout in front of you, and I think it also is duplicated inside the Board books. So you have --

MR. HUGHES: Mr. Chair, Chuck and I just spoke, and several people have asked about the nature of this presentation. And I just wanted to explain why we put this on the agenda. It's not an action item.

Our statutes require the mortgage insurance premiums to be subject to some public comment or some public hearing when we made adjustments to them. And it contemplates a relatively simple rate card; and the rates in reality are really formative, based on depth of coverage and LTVs and things like that.

We felt this would be a good opportunity, as our
products have become more complex, to lay out the
totality of our rate card and solicit any public comment
that folks might have about how that rate card is made
up.

And that's the presentation we'll have today.

(Mr. Czuker left the meeting room.)

MR. McMANUS: Thank you, Tom.

First, just to position it, you saw some charts,
but the Mortgage Insurance fund reached $2 billion of
insurance in force at year end. And of that, we have
risk in force of just under $800 million, 75 percent of
which is reinsured with Genworth. And so the insurance
fund under the Agency has about $200 million at risk on
our Mortgage Insurance.

What I'd like to do is review -- we've got two
different rate sets.

Our goals and our rates are: Number one, we
have to generate enough premium revenue to pay claims, to
pay our expenses, and to have a slight contribution to
building capital for future insurance needs. And our
other goal is to minimize the premium rate for the
borrowers. And so I'll go through the rates and show you
where we are versus public competition, and also our new
rates under the Fannie Mae program, which will save our
borrowers significant money.
On page 226, which is also the second page of the freestanding handout, entitled "Mortgage Insurance Comparison." And it's got "30-, 40-Year Fixed Rate" just under the title.

This is the coverage we use for bond-financed mortgages. This is our traditional, what has been operating in the past, and they're still operating today. We require 35 percent primary mortgage insurance. I've used 100 percent LTV as the example here, because that's over 50 percent of our business. And I've gone down on requirements and what the rates are. And if you look at cost, our premium rate on a 100 percent LTV, 30- or 40-year fixed rate, is .85 percent per year, versus public PMI, MGIC, and Radian of .96.

So we're 11 basis points lower. That works out on a $300,000 loan, which is close to our average, of a $330 savings for our borrowers.

Next, on the manually underwritten, just under that, I just wanted to show our underwriting criteria of a minimum 620 FICO score. And that is the lowest. Radian has that. We have a higher total debt ratio, so we're more liberal in what loans we'll make at 45 percent. And again, our cost is lower than the public competition.

On the next page, page 227 in your book, or the
third page of the freestanding handout, we're going to do a Fannie Mae MBS program. And Fannie Mae only requires 20 percent coverage on the 100 percent LTV loan and then less, as you go down the loan-to-value ladder.

Because of that, our borrowers will only have to pay 59 basis points instead of 85. That is a significant savings. It amounts to $780 per year on a $300,000 loan. So that's $65 a month. And for our borrowers, that's very significant in qualifying them and in reducing their cost of housing. So that's one of our big motivators to moving into the Fannie Mae program, is to reduce the cost to the borrowers.

Again, on underwriting criteria, you can see the FICO minimum scores. And we're lower than any other at 620 versus the 680, 700, and 640. So we're trying to accommodate borrowers who haven't got the FICO scores that the public companies require.

If you go to page 228, to the fourth one, this is our interest-only. This is the product that will be our first product going into the Fannie Mae program. It's about half of our business right now, today. And for the 20 percent coverage, we're going to charge 59 basis points. That's comparable for the highest, most reliable borrowers. But when you move down the FICO-score chain, we stay at 59 and the others grow.
And I believe Ms. Galante brought this up when we first introduced the 620, and Chairman Courson said "the public companies risk rate, and here's their risk rating, so you can look at it." And I call your attention to say a 575 to 599 category, we're still at 59 basis points if they have some offsetting strengths that we think it's going to be a good loan, they're going to be able to make their payments. But PMI will be at 1.86, MGIC at 1.74. They're three times as expensive. And quite honestly, that higher rate may make the borrower not qualify.

So if the Board wants us to risk rate, we can certainly do it. And I apologize, I meant to introduce Ken Bjurstrom.

Ken, would you stand up?

This is our partner from Milliman, our actuarial firm. They are number one by far in the mortgage insurance business. Ken, himself, personally deals with most of the other mortgage insurers and also the Massachusetts Housing Finance Agency. So if anyone wants to ask actuarial questions, today is the day. He is here.

CHAIR COURSON: Ken has been with us before -- those of us who have been on the Board -- to make presentations here.

MR. BJURSTROM: Thank you for inviting me.
MR. McMANUS: And he's here.

We're also working on a ten-year plan and
capital adequacy and S & P, and a few other things we
have to deal with.

But I just wanted to show you our rates are
lower, but we have to charge enough so that we can pay
our claims, and we have to underwrite the criteria. We
think we can maintain that claims per hundred. And we
are avoiding the 575 FICO because it has five times the
foreclosure rate. It's over 30 percent foreclosure rate
on a 575 FICO score versus our average, which is about
695.

And so we don't want to throw one in three
people out. So the only time we're going to go down to
the low FICO score is where we see a reason in the file
that whatever happened is not going to happen again, and
the people will be able to make their payments.

And finally, the last page, from 229 in the
book, it shows the rates that we'll charge on our
bond-financed loans, which basically is 35 percent
coverage. And underneath it, the rates that we'll charge
our borrowers on GSE, government-sponsored enterprise,
which is just a group word for Freddie Mac, Fannie Mae --
at least to us, those are the two primary ones. If we do
their programs, our borrowers will have much lower
mortgage insurance premium rates.

Are there any questions?

CHAIR COURSON: Questions of Mr. McManus?

(No audible response)

CHAIR COURSON: Chuck, that's a good report.

MR. McMANUS: Thank you very much.

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Item 13. Report of the Audit Committee Chairman

CHAIR COURSON: The next item on our agenda is a report of the Audit Committee, which met this morning prior to the Board.

Chairman Shine?

MR. SHINE: Thank you, Mr. Chairman.

Since many of you were here, let me for the record just state that we held our meeting this morning. Staff gave its report, which encompassed the process by which we're going to make a selection for auditors for the next three years, which we'll be receiving proposals in about a week. And everything seems to be going ahead nicely.

And unless there's any questions, that's my report.

MS. JACOBS: Excellent.

MR. SHINE: Thank you.

CHAIR COURSON: I could see the Board appreciates
your report, and perhaps its brevity.

MR. SHINE: Succinct.

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Item 14. Reports

CHAIR COURSON: We have in our books, and if anyone chooses, as you know, the director of Financing puts an update on our financing; you have them in your books. If we have questions, we can certainly ask Bruce if he'd be willing to discuss them.

I would suggest that at this point, if no one makes that request, that we have the information, and you can consider that on your own, and clearly ask Bruce any questions you have.

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Item 15. Discussion of other Board matters

CHAIR COURSON: We've come to the time for any public testimony. And we need to hold for just a minute because we may have some public testimony awaiting us. And I don't want to deny anybody the opportunity to appear before the Board that has shown up at this location.

While we are waiting, I will talk. Mr. Czuker raised a question about the July 5th meeting. We have all sorts of problems with scheduling facilities and in
schedules for a July meeting. So we will see -- I believe I'm correct in saying this year that July 4th is on a Wednesday. It's the middle of the week. Our Board meeting is scheduled for Thursday, July the 5th. I know that those -- and it's in Sacramento.

I know those -- so all of the Sacramento people are okay with that, but I think some of the Southern California, Fresno people may have a question. We really had a problem with it.

One of the things that we could do, if it would facilitate everyone, we could start that meeting later and give everybody from Southern California an opportunity to come in; and perhaps as a change, do maybe a one o'clock meeting, to finish by 4:00. And I don't know what everybody -- that would give people -- so the Southern California people would not have to travel on the 4th; they could come up on the 5th, in the morning, and give them plenty of time to get there, and have the meeting and finish in time, and they could return that evening.

MR. CAREY: That works for me.

CHAIR COURSON: We're talking about moving -- keeping the date of the 5th, to see if we could move the meeting to an afternoon meeting, perhaps starting at one o'clock; and then we would normally finish by about
4:00 or so, which gives the out-of-towners a chance to travel.

JoJo will confirm that and reconvene the Board for that meeting; but we'll try for an afternoon meeting on the 5th, rather than a morning meeting, so we can accommodate the travelers, so that they don't have to travel on the 4th to come to Sacramento.

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Item 16. Public Testimony

CHAIR COURSON: We have come to a time for public testimony.

I know we have two gentlemen on the project that we previously discussed under Terri's report. But please, gentlemen, if you'd like to --

MR. OWEN: Thank you, Mr. Chairman.

CHAIR COURSON: And we have Mr. Brent Owen and --

MR. DUNLAP: John Dunlap.

CHAIR COURSON: -- John Dunlap.

MR. OWEN: We're the two sole owners of Boles Creek Apartments in Weed, California.

I'm sure you recall, we were here in the November meeting with some very specific problems. Probably what was -- you were very pushed for time, and we didn't get into any details. We were promised a
response back, which I guess the first time I've seen
anything was this draft that was handed me a second ago.

There was no conversation with CHFA, with any
staff persons to the development. So I don't even know
what this says. But I've got a pretty good idea what it
says.

The long and the short of it is really quite
simple. We requested urgent action last January. And
since this cannot go on, we have to do something. We
requested meeting after meeting with HUD, with you folks.
You're always friendly. You always meet. Unfortunately,
we can never get there. We can never get to a decision.
We're told that it requires a policy change in the Board.
So, well, let's go to the Board and talk to them.

And as you recall, what we specifically needed if
we are going to -- if CHFA is going to stonewall on this
project, which is just a bizarre set of circumstances.
You have 48 units. You have a mortgage rate of 9.125, and
it's 48 units. We're just shy of $19,000 of a mortgage
rate per unit. Relatively low compared to what you guys
are financing now.

And if you drop the interest rate down to
7 percent, the thing economically works. If you keep it
at 9.125, it doesn't work. We said there has to be a way
to refinance that. Let us put our private money into it.
You can still take your 2 percent. If that doesn't work, let's refinance the thing for the life of the loan, which is only five more remaining years. And it's impossible; we can't get from here to there. That's all I'm told. And, obviously, there's a way to do it.

This project is in default right now. It's not in default in terms of mortgage payments; but it's certainly defaulting materially because we have no operating budget. We've been operating for two years without an operating budget. There's no cash flow. There's cash payables for 120 days out. And something has to give.

And so if CHFA wants to keep this in, then -- and I heard that loud and clear today, that your concern is protecting multifamily -- well, what you're saying to the public and what you're doing privately are two different things. There's got to be a way to preserve this.

Because our only way out is to file bankruptcy and get a federal judge to say, "This contract is canceled. This is fair market rent. We're done."

That's our only option out that we can see. And it's a very ugly option, and it's one that we do not want to do. We prefer to refinance this thing for five years at a rate that we can live with that cash flows out, and then we're done.
Why does that seem such an impossible task to get done?

CHAIR COURSON: I think you have -- Mr. Owens, I appreciate your comments. And you have the letter, which I think is the response. And when we discussed this earlier, you probably may not have had a chance to read the letter. There are some suggestions and some alternatives that CalHFA has offered to help you work with your problem.

Obviously, they are not the solution you'd like to have, but they are the recommendations and some alternatives that we have offered to you.

So I guess at this point we're at the position, saying that that is the response from CalHFA. There are some alternatives, either through reserves or refinancing with an extended term, our potential sale of the project. And if none of those three alternatives are acceptable to you, then you, as the owner of the project, will have to make a determination as to how you want to proceed.

MR. OWEN: All right, I guess that is the answer.

I asked you specifically at the last Board meeting to have it on the next board meeting, a request to withdraw from the contract. And we're not expecting a favorable response. But that's necessary for us to go
through that administrative procedure. And if you'd
check your minutes, you will see that request is on
there.

I'm going to make the same request now. At the
next meeting, we would like that request to be on there,
and so we can proceed to do what we have to do.

CHAIR COURSON: Well, the request -- and,
actually, it's ironic, because I did look at the minutes
about a week or so ago to make sure that we were back on
the agenda to discuss that. And the minutes, they say
that,

"I would specifically ask for you to let us
prepay the mortgage. If I can't -- if I can't
come up with a solution to the problem, then I
specifically am going to ask, and you
obviously have the right to do that or reject
it, and we need to know that information."

Those are the minutes from the last meeting.

MR. DUNLAP: From November?

CHAIR COURSON: Yes.

MR. OWEN: We've been with CHFA for 23 years
now, and never had a problem. And you talk about
fiduciary responsibilities; and I can tell you that this
Board is not meeting its fiduciary responsibilities when
you have a mortgage rate that is so outlandishly high,
and you're making HUD pay that subsidy for that, because
their subsidy is based on the amount of the interest
rate. And HUD forced you to refinance all your programs
once before. And maybe that's the solution. Maybe we
have to go back through that channel, to force that
again.

But something has to happen. It's not
reasonable to have a mortgage rate over 9 percent that
we're paying today, when the standard mortgage rates are
far, far less than that.

Thank you very much.

MR. DUNLAP: I have one comment to make before
we go. And that is that I assume you understand that we
didn't know anything about this letter, coming into the
meeting. Nobody advised us. We just drove down here to
see why it was that since that last meeting no one has
called or said anything to us at all. And there were
promises made that we would hear something right away.

And I am offended that I would come down here
today and have somebody discuss an item that involves us,
hand out a letter, and not even tell us if we were going
to be discussed on the agenda. I don't think that's
appropriate.

CHAIR COURSON: Thank you.

Mr. Davi?
MR. DAVI: Could I ask a couple questions of staff, if it's okay?

CHAIR COURSON: Please.

MR. DAVI: What's their total loan? Is it $912,000?

MS. PARKER: Margaret?

MS. ALVAREZ: I'm sorry?

MR. DAVI: What's their loan?

CHAIR COURSON: Approximately nine fifty, according to the letter.

MR. DAVI: Okay, great. And their rate is 9 percent.

CHAIR COURSON: 9.15 percent.

MR. DAVI: Okay. And it matures in 2013, if I'm not mistaken?

MS. PARKER: Correct.

MR. DAVI: It's fully -- it's an amortized loan or is it interest-only?

MS. ALVAREZ: Fully amortized.

MR. DAVI: So the bulk of their payment today is principal; is that a fair statement?

MS. ALVAREZ: Correct.

CHAIR COURSON: Yes.

MR. DAVI: Okay. What's the annual shortfall? Is it less than $13,000 they're negative, or a loss, the
negative they can't seem to meet? There's a cash flow problem is what I'm hearing. If it's -- is it less than $15,000? $19,000? Because I don't see how a 2 percent rate change is going to produce any cash flow for this property. I mean, I'm just trying to throw myself into their problem because I'm hearing what they're saying at the second meeting. I don't see a reduction of interest rate at this point alone, giving them any new cash flow or any significance between fifteen and sixteen thousand dollars annually.

And is your shortfall $10,000, or is it 30,000 or 40,000 or 50,000?

MR. OWEN: She's the asset manager. Ask her.

MR. DAVI: What's the annual shortfall for operation?

MS. ALVAREZ: I don't know specifically the answer to that.

But I appreciate very much -- I appreciate their comments. And many of our Section 8 owners feel the same. So people should be aware that that is a general sense of the portfolio, of many parts of the Section 8 portfolio. Which is why in the last couple years when I have come here and talked about asset management, we've talked about the Section 8 coterminous portfolio, the aging of it, the need for recapitalization. And we've
been trying so hard to come up with a program that would
work for the borrowers and for the Agency.

There's a lot of nits on this. It isn't just a
simple matter of reducing an interest rate.

The HUD contracts call for a commensurate
reduction in the HAP subsidy payments if we just reduce
the interest rate. There's an expectation from CalHFA
and from HUD that to leave the rents higher when there
is an interest-rate reduction, there's a quid pro quo of
substantial rehab to the property or a lengthening of the
loan term, both of which, my understanding is, either
isn't necessary or not desired at the Boles Creek
property. And then there's, you know, 101 policy issues
and financing issues behind that, that have to be
resolved.

We have been working very hard on this; and, in
fact, at the next Board meeting we'll be presenting our
first Section 8 refinance loan that we'll be bringing to
the Board for approval. We've been, like I said, working
on this very diligently. And probably the number one
focus of the Asset Management group is to try to resolve
some of these issues.

But one of the things where we come to a stop at
Boles Creek is, they simply would like to prepay or have
a rent reduction for the rest of their term, and the
Agency's fundamental, number one rule is quid pro quo of a longer term or more affordable units in exchange for a refinance.

MR. DAVI: I understand that. I just want to make sure that everyone here knew it. I don't think that solution is to reduce the rate change by 2 percent. I think we need to have staff continue to do what they've been doing. The letter says what we can do. And I want to make sure everybody here doesn't think that we're ignoring these people, because I don't see that a 2 percent rate change --

MS. PARKER: Margaret, do you know --

MR. DAVI: -- creates any cash flow.

MS. PARKER: -- do you know, the 50 percent reduction that we talked about, the deposits, if they were reduced, what that would have freed up for them in capital?

MS. ALVAREZ: I think it's around 2,500 a month, 2,500 to 3,000. I'm not sure what they're paying on a monthly basis.

CHAIR COURSON: Roughly 30,000 to 35,000 a year.

MS. ALVAREZ: Yeah, about there.

MR. SHINE: If you would reduce the interest rate, it would be less of a benefit than $30,000 a year.

That's a very good point.
MR. DAVI: Actually, less than 20,000, to be honest, at 9.15.

MR. SHINE: If, in fact, this is truly a cash flow situation that we're discussing, that's the real core of the issue, then the answer should be how to get more cash out. And if you can reduce something you're making payments on, then you get more cash because you pay less. Now, maybe that's the way to do it, is to take care of it on the expense side.

MS. ALVAREZ: Well, the other point I would like to make is that for many years HUD has not allowed rent increases, especially where rents are already over what they consider over fair market rent. And that's one of the things we will continue to look into on their behalf also.

MR. SHINE: I understand that, but that's not what I'm saying.

MS. ALVAREZ: Right.

MR. SHINE: I'm on a different track. I'm on your track, that if there's a twenty or thirty or forty thousand, or a hundred thousand, a million, whatever -- there's a number somewhere that you're feeling your cash flow isn't fitting, that you want it to fit with, even if -- no matter what you do is going to end up being cash flow to you. I mean, if you own the property, that's what
you want.

You should take a look at the proposal and get back to staff and see if maybe a reduction in what you have to pay into the reserves or whatever could accomplish the same goal on a dollar basis. That's just a suggestion. You don't have to do anything, but it's a thought you may want to consider.

MR. OWEN: A couple comments, is that a number of years ago CHFA required us to do a long-term maintenance reserve replacement calculation to go through line item by line item on the entire 48 units. And we did that. And that's where the replacement reserve budget was created in order to accommodate that to the life of the project, because it was anticipated that this would be rolled over to a nonprofit low-income housing at the end.

Those are the numbers that we're working from today. This is an extraordinarily difficult environment in which to maintain units. The weather is enormously harsh in Weed, California. If you've ever been there, it's windy and the winds are huge. And that's why the replacement reserves are what they are; that's the way that money has been spent that way for 23 years now, and we are continuing to pay it.

If we were enormously concerned about cash flow,
we would have been screaming our holy heads off about no
return to the investor for the last four years.

We've not taken a dime out of this project in
four years. We've put money into the project that we
have zero interest rate back. We've loaned money to the
project, and we don't get anything back on that. And to
suggest that we could solve the problem by reducing our
maintenance reserves might work in the short-term; but
then we end up with a project that is in a dilapidated
condition of which we don't want.

And I think that your staff will tell you that
the maintenance of this project is superb, and it has
always been written up very well.

So obviously, if we came to you and said a
rent reduction -- excuse me, an interest-rate reduction
would solve the problem, we must certainly believe that
our numbers are correct or we would not have made the
proposal. We would not have come here with a solution
that was not going to be a solution.

The problem was simple. We went eight years
without a rent increase. Eight years without a rent
increase. Now, how can you go through eight years of
inflation and not get one dime more, and expect the
project to pay? How can you do that? And the answer is,
you can't. It doesn't work. We don't get the annual
rent adjustment factor because our mortgage rate is too high, and our mortgage rate is too high because the interest rate is too high. Not because of maintenance. And that's the crux of the problem. And so we go in a circle, and we can't get -- and I could tell you, there has never been a serious discussion with this organization about trying to solve our problems. There has been many discussions with this organization, saying, "We can't do that because the Board policy doesn't allow that," or "We can't do that because HUD won't allow us to do that."

"Well, let's have a meeting with HUD and hear it from HUD."

"Well, they're pretty busy. And they're --" you know, and it never happens. It doesn't matter how many times we requested that meeting with HUD. And it has been in writing. It has been verbal. It's never happened.

And you people are sitting here, thinking that staff is doing all this stuff and trying to solve the problem, and it's simply not true.

Thank you.

CHAIR COURSON: Thank you very much, Mr. Owen and Mr. Dunlap.

Are there any other comments from the public?

(No audible response)
CHAIR COURSON: Seeing none, our meeting will stand adjourned.

(Proceedings concluded at 1:06 p.m.)

--000--
REPORTER'S CERTIFICATE

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

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

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

IN WITNESS WHEREOF, I have hereunto set my hand on the 22nd of January, 2007.

DANIEL P. FELDHAUS
California CSR #6949
Registered Diplomate Reporter
Certified Realtime Reporter
CALIFORNIA HOUSING FINANCE AGENCY
Final Commitment
Eureka Family Housing
Eureka, Humboldt County, CA
CalHFA # 07-004 A

SUMMARY

This is a final commitment request for a tax-exempt Acquisition/Rehabilitation Loan in the amount of Three Million Three Hundred Seventy-Five Thousand Dollars ($3,375,000), a tax-exempt Second Loan of One Million One Hundred Fifty Thousand Dollars ($1,150,000), and a Third Loan of Three Hundred Five Thousand Dollars ($305,000) from Earned Surplus, and a tax-exempt Permanent First Loan in the amount of Nine Hundred Forty Thousand Dollars ($940,000). Security for the loans will be a 50-unit family apartment complex known as Eureka Family Housing, located at 615 W. Hawthorne, 1112 E Street, and 735 P Street in Eureka. Eureka California Family Housing, a limited partnership, whose managing general member is Eureka Family Housing LLC, with its sole member being Eureka Housing Development Corporation, will own the property, and Eureka Housing Development Corporation will be the sponsor.

Eureka Family Housing is an existing portfolio loan currently owned by the Housing Authority of the City of Eureka. The project was constructed in 1980 and will be an acquisition/rehabilitation of a one and two story, 50 unit walk-up townhouse family apartment complex located on three sites in Eureka. The project is 100% Section 8 and the initial 40-year term of its HAP contract will expire September 30, 2021. Fourteen (14) years remain on the existing HAP contract. The Borrower will seek a new HAP contract upon expiration. CalHFA loan terms and conditions may be modified by staff in the event that said approvals impact the transaction.

The project failed HUD's Real Estate Assessment Center's ("REAC") inspection on January 23, 2007 with a failing score. If the project is not rehabbed and meet HUD's standards for safe, decent, and affordable housing, the project can be at risk for losing Section 8 subsidy funds.

LOAN TERMS

Acquisition/Rehabilitation

<table>
<thead>
<tr>
<th>Loan Type</th>
<th>Amount</th>
<th>Interest Rate</th>
<th>Term</th>
<th>Financing</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Mortgage</td>
<td>$3,375,000</td>
<td>5.30%, variable</td>
<td>12 Months, interest only</td>
<td>Tax-exempt</td>
</tr>
<tr>
<td>Second Mortgage</td>
<td>$1,150,000</td>
<td>5.30%</td>
<td>14 years</td>
<td>Tax-exempt</td>
</tr>
<tr>
<td>Third Mortgage</td>
<td>$305,000</td>
<td>3.0%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

February 16, 2007
Term Financing 30 years Earned Surplus

Permanent

**First Mortgage** $940,000
Interest Rate 5.30%
Term 30/15 year fixed, fully amortized *
Financing Tax-exempt

**Second Mortgage** $1,150,000
Interest Rate 5.30%
Term 14 years
Financing Tax-exempt

**Third Mortgage** $305,000
Interest Rate 3.0%

*If the HUD Section 8 subsidy is extended past the remaining 14 year term, the loan term will remain at 30 years. Otherwise, the loan is due and payable when the subsidy expires.

CalHFA construction financing is subject to the assignment by the borrower of tax credit equity and all rights under non-CalHFA financing commitments.

OTHER FINANCING

A Redevelopment Agency rehabilitation and permanent loan of $500,000, with a rate of 3% and a term of 40 years, payable only from residual receipts. A Housing Authority carry back loan of $2,400,000, with a rate of 3% and a term of 55 years, payable only from residual receipts.

HOUSING ASSISTANCE PAYMENT ("HAP") CONTRACT

The original HAP contract was executed on January 8, 1981, for a term of 40 years. The HAP contract will expire on September 30, 2021. CalHFA is the Section 8 Contract Administrator.

Assignment of the HAP contract to the Borrower, any required modification to the HAP contract, and the general plan of financing, are all subject to the approval of the Department of Housing and Urban Development ("HUD").

On January 29, 2007, the borrower submitted its request to the San Francisco HUD office to approve the waiver of the current Section 8 rent limits to provide for the financing of needed rehabilitation. Section 8 rents would be increased 3.3% above normal limits. The San Francisco HUD office is recommending approval of the increase to the HUD Washington Central Office. A condition of CalHFA commitment approval is HUD's approval of the Section 8 rent increase for the remaining term of the HAP contract.

The borrower will be required to seek and accept any renewals of the project based Section 8 contract.

February 16, 2007
PROJECT DESCRIPTION

Project Location

- The project is located in the northern portion of the City of Eureka, in Humboldt County.
- Highway 101 traverses north through Eureka and continues into Oregon, to Tillamook, and intersects with Highway 6 into Portland. Highway 299 travels east inland and conjuncts with Interstate 5 in Redding.
- Eureka is the county seat for Humboldt County. The two largest cities in the area are Eureka and Arcata. The two cities have contiguous boundaries adjacent to Arcata Bay, and combine to be the industrial, medical, financial, educational, governmental, commercial, and social center for the north coast of California.
- The sites are located at 735 P Street, 1112 E Street, and 615 W. Hawthorne Street in the northern section of the City of Eureka.
- All three sites are surrounded by single family and multifamily residential residences.
- The subject properties are located in an established area of Eureka. Commercial developments are located along major thoroughfares. The subject properties have average locations with respect to commercial services, thoroughfares, public transportation, and community services.
- The area is anticipated to experience limited growth in the foreseeable future.

Site

- All three sites are irregular in shape and are 1.10 (735 P Street), 0.65 (1112 E Street), 0.56 (615 W. Hawthorne Street) acres respectively in size.
- The sites are zoned RM2500 and RM1000, and are legally conforming. The subject and surrounding land uses are consistent with the zoning of the area.

Improvements

- Each property was built in 1980 and the total 50-units comprise one and two story walk-up and townhouses consisting of 12 one bedrooms, 27 two bedrooms, and 11 three bedrooms. The basic structure is wood siding and concrete foundation with pitched composition asphalt and single-pane glass windows. Access for all the units is through exterior stairwells or ground floor entrance. Each unit is served by wall mounted gas furnace heating.
- All the units are flat style units with the exception of 15 townhouse, two bedroom, two bath units, with sheet vinyl in the kitchen and bath areas and wall-to-wall carpet in the remaining areas. Each unit has a garbage disposal, gas range/oven, and refrigerator. Each unit is equipped with washer and dryer hook-ups. Individual hot water heaters are in each unit.
- The common area amenities include landscaped areas.
- The project offers 74 uncovered parking spaces. Street parking is also available.

PHYSICAL NEEDS ASSESSMENT / SCOPE OF WORK

- The project is in fair to average overall condition for a development of this type and in average condition when compared to other developments of similar type and age in the City of Eureka.
• The scope of rehabilitation work is as follows:
  • Shear Panel and Exterior Siding Replacement, $1,150,000 – Removal and replacement of T1-11 siding w/Hardi-Plank. Replace shear panel at siding replacements.
  • Building and common areas, $904,000 – parking area resurfacing ($75,000), dual pane windows ($180,000), Demolish building at E Street, build a new community building ($120,000), exterior painting ($117,000).
  • Residential Units, $499,800 – cabinets ($126,000), carpet and vinyl flooring ($60,000), paint interior ($102,000), appliances, water heaters, and gas wall heaters ($50,000).
  • The total amount of immediate rehabilitation is $2,897,784 or $57,955 per unit.
  • Work is scheduled to commence no later than June 2007 and be completed within 12 months after commencement.

Off-site improvements

• No off-site improvements and/or costs are required.

Relocation

• The Eureka Housing Authority’s Relocation Plan/Guide has been adopted from HUD’s “HOME VI” program and addresses all relocation issues. The Housing Programs Compliance Officer for the Eureka Housing Authority will monitor compliance. The renovation will take place around the occupied units, with some temporary displacement (approximately 1-2 weeks) required. The borrower will make every effort to minimize the disruption to the project’s family residents by relocating residents to a location within close proximity to the project. The borrower will comply with all state and federal regulations requiring temporary relocation, including assurance that all temporary relocation costs will be borne by the project and not by the tenant. The specific unit renovation such as window replacement, kitchen cabinets and carpeting and vinyl will require temporary displacement of the tenant. The Borrower will conduct tenant orientation meetings prior to the purchase of the property and before and during the rehabilitation period regarding the scope of work, timelines, and address any tenant issue or concerns regarding the project.

MARKET

Market Overview

The Primary Market Area (PMA) consists of a three-mile radius from the subject properties in the northern portion of the city of Eureka. It is estimated that 80+% of the tenant population will be from this area. The estimated PMA population is 38,219 persons (2006) and is expected to grow by 1.97% to 40,020 by 2011. There are 16,217 households within the PMA population, of which 50.2% are owners and 44.3% are renters, and 5.5% are vacant.

Housing Supply and Demand

• The rental housing stock in the PMA is primarily comprised of average market rate apartments (1970-1980s) in good condition.
• Occupancy rate for market rate units as of December 2006 is 96.3%. LIHTC properties have an average occupancy rate of 100%, with waiting list ranging from six months to several years long.

• At the time of rehabilitation completion in 2008, there will be a projected total demand for 1,282 rental units targeting general households in the Eureka Market Area with incomes between 50% and 60% of AMI. Specifically, there will be a demand for 219 one bedroom, 574 two bedroom and 489 three bedroom units. Given this demand, the project would need to capture 3.9 percent of the income eligible renter households in the Primary Market Area.

• There are no new affordable or market rate housing currently planned within the PMA.

Estimated Lease-up Period

• The project is currently 100% leased and the proposed rehabilitation will not interfere with occupancy other than temporary displacement during the rehabilitation period.

ENVIRONMENTAL

An updated Phase I Environmental Assessment report was completed on January 12, 2007, by SHN Consulting Engineers and Geologists. The report concludes that there are no adverse environmental conditions that warrant further investigation or remedial action.

A seismic evaluation is currently in process.

DEVELOPMENT TEAM

Borrower

Eureka California Family Housing, a limited partnership

• The non-profit Managing General Partner will be Eureka Family Housing LLC whose sole member is Eureka Housing Development Corporation, located in Eureka California.

Management Agent

Housing Authority of the City of Eureka

• The Housing Authority of the City of Eureka will manage the property. The Housing Authority of the City of Eureka has been in existence for 51 years providing affordable housing. Robert H. Morelli, Executive Director, who is certified as a Public Housing Manager (PHM), and is charged with the authority, responsibility and accountability of the management system. The Housing Authority of the City of Eureka operates 198 units of Public Housing. In 1976, by Article 34 Referendum vote of the citizens of Eureka, the Housing Authority of the City of Eureka was given authority to produce 250 units of affordable housing within the Eureka city limits. The subject is part of this referendum authority.

• Presently, both the Housing Authority of the City of Eureka and the Housing Authority of the County of Humboldt administer the Section 8 Choice Voucher Program which is

February 16, 2007
governed by Section 8 of the United States Housing Act of 1937, the Housing and Community Development Act of 1974, and the Quality Housing and Work Responsibility Act of 1998. In this program, staff administers 663 units for the Eureka program and 543 units for the Humboldt Count program.

Architect

Joan Briggs, JMB Architecture

- Since acquiring her license in 1985 to practice Architecture, Ms. Briggs has established a successful practice including public, commercial, residential and retail projects in Ventura, Los Angeles, San Louis Obispo, Sacramento, and Humboldt Counties.
- She is providing consulting services for the Eureka Housing Authority that include design studies, producing construction and procurement bid documents, and providing construction management.

Contractor

William Cosby Construction

- The firm is located in Eureka, California. The construction firm has previously done work with the Housing Authority of the City of Eureka.
## PROJECT SUMMARY

<table>
<thead>
<tr>
<th>Project:</th>
<th>Eureka Family Housing</th>
<th>Developer:</th>
<th>Eureka Hsg Dev. Corporation</th>
</tr>
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<tbody>
<tr>
<td>Location:</td>
<td>1112 E Street, 735 P Street, 615 W. Hawthorne</td>
<td>Partner:</td>
<td>Same</td>
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<tr>
<td>City:</td>
<td>Eureka</td>
<td>Investor:</td>
<td>Merritt Capital</td>
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<tr>
<td>County:</td>
<td>Humboldt</td>
<td></td>
<td></td>
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<tr>
<td>Zip Code:</td>
<td>95503</td>
<td>No. of Buildings:</td>
<td>9</td>
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<tr>
<td>Project Type:</td>
<td>Existing</td>
<td>No. of Stories:</td>
<td>1 &amp; 2</td>
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<td>Occupancy:</td>
<td>Family</td>
<td>Residential Space</td>
<td>47,940 sq. ft.</td>
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<tr>
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<td>50</td>
<td>Office Space</td>
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<tr>
<td>Style Units:</td>
<td>Stack/Flats</td>
<td>Commercial Space</td>
<td>0 sq. ft.</td>
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<tr>
<td>Elevators:</td>
<td>NONE</td>
<td>Gross Area</td>
<td>47,940 sq. ft.</td>
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<tr>
<td>Total Parking</td>
<td>74</td>
<td>Land Area</td>
<td>100,775 sq. ft.</td>
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<tr>
<td>Covered</td>
<td>0</td>
<td>Units per acre</td>
<td>22</td>
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### CalHFA Acquisition Financing

<table>
<thead>
<tr>
<th>Amount</th>
<th>Rate</th>
<th>Term</th>
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</thead>
<tbody>
<tr>
<td>CalHFA Acquisition/Rehab Financing</td>
<td>$3,375,000</td>
<td>5.30%</td>
</tr>
<tr>
<td>CalHFA Second Mortgage</td>
<td>$1,150,000</td>
<td>5.30%</td>
</tr>
<tr>
<td>CalHFA Earned Surplus Loan</td>
<td>$305,000</td>
<td>3.00%</td>
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</table>

### Permanent Sources of Funds

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<thead>
<tr>
<th>Amount</th>
<th>Rate</th>
<th>Years</th>
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<tr>
<td>CalHFA First Mortgage</td>
<td>$940,000</td>
<td>5.30%</td>
</tr>
<tr>
<td>CalHFA Bridge Loan</td>
<td>$0</td>
<td>0.00%</td>
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<tr>
<td>Eureka Redevelopment</td>
<td>$500,000</td>
<td>3.00%</td>
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<tr>
<td>Eureka Agency (funded at acquisition)</td>
<td>$2,400,000</td>
<td>3.00%</td>
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<tr>
<td>RFO (funded at acquisition)</td>
<td>$33,289</td>
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<tr>
<td>Existing Reserves</td>
<td>$57,835</td>
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<tr>
<td>Source 7</td>
<td>$0</td>
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<tr>
<td>Source 8</td>
<td>$0</td>
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<tr>
<td>Source 9</td>
<td>$0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Source 10</td>
<td>$0</td>
<td>0.00%</td>
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<tr>
<td>Source 11</td>
<td>$0</td>
<td>0.00%</td>
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<tr>
<td>Source 12</td>
<td>$0</td>
<td>0.00%</td>
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<tr>
<td>Income from Operations</td>
<td>$0</td>
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<tr>
<td>Developer Contribution</td>
<td>$62,900</td>
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<tr>
<td>Deferred Dev. Fee</td>
<td>$0</td>
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<tr>
<td>Tax Credit Equity</td>
<td>($541,858 funded at acquisition)</td>
<td></td>
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<tr>
<td>Total</td>
<td>$3,081,821</td>
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### Construction Valuation

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<tr>
<th>Investment Value</th>
<th>$7,850,000</th>
<th>Appraisal Date:</th>
<th>01/07/07</th>
<th>Value Upon Completion</th>
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<tbody>
<tr>
<td>Loan / Cost</td>
<td>58%</td>
<td>Cap Rate:</td>
<td>5.50%</td>
<td>Restricted Value:</td>
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<tr>
<td>Loan / Value</td>
<td>61%</td>
<td></td>
<td></td>
<td>Perm. Loan / Cost:</td>
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<tr>
<td></td>
<td></td>
<td></td>
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<td>Perm. Loan / Value:</td>
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</table>

### CalHFA Fees and Reserve Requirements

<table>
<thead>
<tr>
<th>CalHFA Loan Fees</th>
<th>Amount</th>
<th>Required Reserve</th>
<th>Amount</th>
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<tbody>
<tr>
<td>CalHFA Construction Loan Fee</td>
<td>$33,938</td>
<td>Other Reserve</td>
<td>$0</td>
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<tr>
<td>CalHFA Permanent Loan Fees</td>
<td>$10,450</td>
<td>Replacement Resv. Initial Deposit</td>
<td>$106,500</td>
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<tr>
<td>Other Fee</td>
<td>$0</td>
<td>Repl. Reserve - Per Unit / Per Yr</td>
<td>$600</td>
</tr>
</tbody>
</table>

### Construction Loan - Guarantees and Fees

| CalHFA Operating Expense Reserve | $45,913 |
| Completion Guarantee Fee | $0 |
| Contractors Payment Bond | $0 |
| Contractors Performance Bond | $0 |
| Rent Up Reserve | $0 |
| Other Reserve | $6,250 |
| Transition Operating Reserve | $0 |

| Date: | 2/21/2007 | Senior Staff Date: | 2/16/2007 |
### UNIT MIX AND RENT SUMMARY

#### Total Unit Mix

<table>
<thead>
<tr>
<th># of Units</th>
<th>Unit Type</th>
<th># of Baths</th>
<th>Average Sq. Ft.</th>
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<tbody>
<tr>
<td>12</td>
<td>1 Bedroom Flat</td>
<td>1</td>
<td>685</td>
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<tr>
<td>27</td>
<td>2 Bedroom Flat</td>
<td>1</td>
<td>950-980</td>
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<tr>
<td>11</td>
<td>3 Bedroom Flat</td>
<td>1.5</td>
<td>1,235</td>
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<tr>
<td></td>
<td>2 Bedroom Townhome</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3 Bedroom Townhome</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td></td>
<td>4 Bedroom Townhome</td>
<td>2.5</td>
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#### Number of Regulated Units By Agency

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#### Restricted Rents Compared to Average Market Rents

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<th>Median Income Rent Levels</th>
<th>Units Restricted</th>
<th>Restricted Rents</th>
<th>Avg. Market Rate Rents</th>
<th>Dollars Difference</th>
<th>% of Market</th>
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<td></td>
<td></td>
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<tr>
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<td>$0</td>
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## Sources and Uses of Funds

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<thead>
<tr>
<th>SOURCES OF FUNDS:</th>
<th>Funds in during Construction ($)</th>
<th>Funds in at Permanent ($)</th>
<th>Total Development Sources</th>
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<tbody>
<tr>
<td>CalHFA Acquisition/Rehab Financing</td>
<td>3,375,000</td>
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<td></td>
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<tr>
<td>Construction Only Source 2</td>
<td>-</td>
<td></td>
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<tr>
<td>Construction Only Source 3</td>
<td>-</td>
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<tr>
<td>CalHFA First Mortgage</td>
<td>-</td>
<td>940,000</td>
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<tr>
<td>CalHFA Second Mortgage</td>
<td>1,150,000</td>
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<tr>
<td>Existing Reserves</td>
<td>57,835</td>
<td>57,835</td>
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<tr>
<td>RFO</td>
<td>33,289</td>
<td>666</td>
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<tr>
<td>Eureka Redevelopment</td>
<td>500,000</td>
<td>10,000</td>
<td>6%</td>
</tr>
<tr>
<td>Eureka HA seller take-back</td>
<td>2,400,000</td>
<td>48,000</td>
<td>28%</td>
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<tr>
<td>CalHFA Earned Surplus Loan</td>
<td>305,000</td>
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<td>Source 7</td>
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<td>Source 8</td>
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<td>0%</td>
</tr>
<tr>
<td>Source 9</td>
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<td>0%</td>
</tr>
<tr>
<td>Source 11</td>
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<td>0%</td>
</tr>
<tr>
<td>Source 12</td>
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<tr>
<td>Income from Operations</td>
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<tr>
<td>Developer Contribution</td>
<td>62,900</td>
<td>1,258</td>
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<td>Tax Credit Equity</td>
<td>541,658</td>
<td>61,636</td>
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<td><strong>Total Sources</strong></td>
<td><strong>8,362,982</strong></td>
<td><strong>3,542,863</strong></td>
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<tr>
<td><strong>(Gap)/Surplus</strong></td>
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## USES OF FUNDS:

<table>
<thead>
<tr>
<th>LOAN PAYOFFS &amp; ROLLOVERS</th>
<th>Construction ($)</th>
<th>Permanent ($)</th>
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<tbody>
<tr>
<td>Construction Loan payoffs</td>
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### Total Development Costs

<table>
<thead>
<tr>
<th>Total Uses of Funds ($)</th>
<th>Cost per Unit ($)</th>
<th>%</th>
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<td><strong>ACQUISITION</strong></td>
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<tr>
<td>Land value</td>
<td>570,000</td>
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<td>Prepayment Penalty</td>
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<tr>
<td>Legal - Acquisition Related Fees</td>
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<tr>
<td><strong>Subtotal - Land Cost / Value</strong></td>
<td>570,000</td>
<td>570,000</td>
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<tr>
<td>Existing Improvements Value</td>
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<td>Off-Site Improvements</td>
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<td>Other</td>
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<tr>
<td><strong>Total Acquisition</strong></td>
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<td><strong>86,000</strong></td>
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### REHABILITATION

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<tr>
<td>Site Work</td>
<td>150,000</td>
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<tr>
<td>Rehab to Structures</td>
<td>2,350,000</td>
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<tr>
<td>General Requirements</td>
<td>125,000</td>
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<tr>
<td>Contractors Overhead</td>
<td>50,000</td>
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<tr>
<td>Contractors Profit</td>
<td>175,000</td>
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<tr>
<td>Contractor's Bond</td>
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<tr>
<td>General Liability Insurance</td>
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</tr>
<tr>
<td>Environmental Mitigation Expense</td>
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<tr>
<td>Other</td>
<td>-</td>
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<tr>
<td>Other</td>
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<tr>
<td><strong>Total Rehabilitation</strong></td>
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### RELOCATION EXPENSES

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(Continued on Next 2 Pages)
## USES OF FUNDS (Cont’d):

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<td>Site Work</td>
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<tr>
<td>Structures (Hard Costs)</td>
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<tr>
<td>General Requirements</td>
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</tr>
<tr>
<td>Contractors Overhead</td>
<td>-</td>
<td>-</td>
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</tr>
<tr>
<td>Contractors Profit</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Contractor's Perf. &amp; Pymt Bond</td>
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<tr>
<td>General Liability Insurance</td>
<td>-</td>
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<td>Other</td>
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<td>Cost for Completion Guarantee</td>
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<td>Perm. Bridge Loan Interest Expense</td>
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<td>Other</td>
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<td><strong>LEGAL FEES</strong></td>
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<td>Borrower Legal Fee</td>
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<td>Total Attorney Expense</td>
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## USES OF FUNDS (Cont'd)

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<th></th>
<th>Construction ($)</th>
<th>Permanent ($)</th>
<th>Total Development Costs</th>
</tr>
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<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Per Unit</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>permanent of Funds ($)</td>
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<td>per Unit</td>
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### CONTRACT / REPORT COSTS

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<td>Appraisal</td>
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<tr>
<td>Physical Needs Assessment</td>
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<td>HUD Risk Share Environ. Review</td>
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<td>-</td>
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<tr>
<td>CalHFA EQ Seismic Review Fee</td>
<td>3,200</td>
<td>-</td>
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<tr>
<td>Environmental Phase I / II Reports</td>
<td>10,000</td>
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<tr>
<td>Soils / Geotech Reports</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Asbestos / Lead-based Paint Report</td>
<td>6,800</td>
<td>-</td>
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<tr>
<td>Noise/Acoustical/Traffic Study Report</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Termite/Dry Rot Report</td>
<td>1,200</td>
<td>-</td>
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<tr>
<td>Other</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Contract Costs</strong></td>
<td><strong>63,200</strong></td>
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</table>

### CONTINGENCY

<table>
<thead>
<tr>
<th>Item</th>
<th>Construction ($)</th>
<th>Permanent ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hard Cost Contingency</td>
<td>292,500</td>
<td>292,500</td>
</tr>
<tr>
<td>Soft Cost Contingency</td>
<td>50,000</td>
<td>50,000</td>
</tr>
<tr>
<td><strong>Total Contingency</strong></td>
<td><strong>342,500</strong></td>
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### RESERVES

<table>
<thead>
<tr>
<th>Item</th>
<th>Construction ($)</th>
<th>Permanent ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CalHFA Operating Expense Reserve</td>
<td>-</td>
<td>45,913</td>
</tr>
<tr>
<td>Construction Defects Reserve</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Transition Operating Reserve</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Replacement Resv. Initial Deposit</td>
<td>-</td>
<td>106,500</td>
</tr>
<tr>
<td>Other</td>
<td>-</td>
<td>-</td>
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<tr>
<td><strong>Total Reserves</strong></td>
<td><strong>-</strong></td>
<td><strong>152,413</strong></td>
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### OTHER

<table>
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<tr>
<th>Item</th>
<th>Construction ($)</th>
<th>Permanent ($)</th>
</tr>
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<tr>
<td>CTCAC App/Alloc/Monitor Fees</td>
<td>43,200</td>
<td>43,200</td>
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<tr>
<td>Local Permit Fees</td>
<td>50,000</td>
<td>50,000</td>
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<tr>
<td>Local Development Impact Fees</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other Local Fees</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Advertising &amp; Marketing Expenses</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1st Year Taxes &amp; Insurance</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Furnishings</td>
<td>30,000</td>
<td>30,000</td>
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<tr>
<td>Final Cost Audit Expense</td>
<td>10,000</td>
<td>10,000</td>
</tr>
<tr>
<td>Miscellaneous Admin Fees</td>
<td>1,841</td>
<td>1,841</td>
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<tr>
<td>Other</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Other Expenses</strong></td>
<td><strong>135,041</strong></td>
<td><strong>135,041</strong></td>
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</table>

### SUBTOTAL PROJECT COSTS

<table>
<thead>
<tr>
<th>Item</th>
<th>Construction ($)</th>
<th>Permanent ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developer Overhead/Profit (5% Acqu.)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Developer Overhead/Profit (NC/Rehab)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Consultant / Processing Agent</td>
<td>40,000</td>
<td>40,000</td>
</tr>
<tr>
<td>Project Administration</td>
<td>80,000</td>
<td>80,000</td>
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<tr>
<td>Broker Fees to a related party</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Construction Mgmt. Oversight</td>
<td>75,000</td>
<td>75,000</td>
</tr>
<tr>
<td>Other</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Developer Fee / Costs</strong></td>
<td><strong>195,000</strong></td>
<td><strong>195,000</strong></td>
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### TOTAL COSTS

<table>
<thead>
<tr>
<th>Item</th>
<th>Construction ($)</th>
<th>Permanent ($)</th>
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</thead>
<tbody>
<tr>
<td><strong>Total Costs</strong></td>
<td><strong>8,362,982</strong></td>
<td><strong>8,530,845</strong></td>
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### Annual Operating Budget

#### INCOME:

<table>
<thead>
<tr>
<th></th>
<th>$ Amount</th>
<th>Per Unit</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Rental Income</td>
<td>$471,024</td>
<td>$9,420</td>
<td>99.50%</td>
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<tr>
<td>Laundry</td>
<td>$2,350</td>
<td>$47</td>
<td>0.50%</td>
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<tr>
<td>Other Income</td>
<td>$0</td>
<td>$0</td>
<td>0.00%</td>
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<tr>
<td><strong>Gross Potential Income (GPI)</strong></td>
<td><strong>$473,374</strong></td>
<td><strong>$9,467</strong></td>
<td><strong>100.00%</strong></td>
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#### Less:

<table>
<thead>
<tr>
<th></th>
<th>$ Amount</th>
<th>Per Unit</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vacancy Loss</td>
<td>$14,248</td>
<td>$285</td>
<td>3.10%</td>
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<tr>
<td><strong>Effective Gross Income</strong></td>
<td><strong>$459,126</strong></td>
<td><strong>$9,183</strong></td>
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</table>

#### EXPENSES:

<table>
<thead>
<tr>
<th></th>
<th>Total Cost</th>
<th>Per Unit</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payroll</td>
<td>$86,705</td>
<td>$1,734</td>
<td>33.37%</td>
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<tr>
<td>Administrative</td>
<td>$19,000</td>
<td>$380</td>
<td>7.31%</td>
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<tr>
<td>Management fee</td>
<td>$25,800</td>
<td>$516</td>
<td>9.93%</td>
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<tr>
<td>Utilities</td>
<td>$22,100</td>
<td>$442</td>
<td>8.50%</td>
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<tr>
<td>Operating and Maintenance</td>
<td>$50,600</td>
<td>$1,012</td>
<td>19.47%</td>
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<tr>
<td>Insurance and Business Taxes</td>
<td>$23,942</td>
<td>$479</td>
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<td>Locality Compliance Monitoring Fee</td>
<td>$0</td>
<td>$0</td>
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<tr>
<td>Other</td>
<td>$1,700</td>
<td>$34</td>
<td>0.65%</td>
</tr>
<tr>
<td><strong>Subtotal Expenses</strong></td>
<td><strong>$229,847</strong></td>
<td><strong>$4,597</strong></td>
<td><strong>88.45%</strong></td>
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<tr>
<td>Replacement Reserves</td>
<td>$30,000</td>
<td>$600</td>
<td>11.55%</td>
</tr>
<tr>
<td><strong>Taxes &amp; Assessments</strong></td>
<td>$0</td>
<td>$0</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td><strong>$259,847</strong></td>
<td><strong>$5,197</strong></td>
<td><strong>100.00%</strong></td>
</tr>
</tbody>
</table>

#### Financial Expenses

<table>
<thead>
<tr>
<th></th>
<th>$ Amount</th>
<th>Per Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>CalHFA First Mortgage</td>
<td>$62,638</td>
<td>$1,253</td>
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<tr>
<td>CalHFA Second Mortgage</td>
<td>$116,526</td>
<td>$2,331</td>
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<tr>
<td>Other Required Debt Service</td>
<td>$0</td>
<td>$0</td>
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</tbody>
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#### NET OPERATING INCOME

|                                | $20,115  | $402     |
### Cash Flow

#### Rentable Income

<table>
<thead>
<tr>
<th></th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
<th>Year 6</th>
<th>Year 7</th>
<th>Year 8</th>
<th>Year 9</th>
<th>Year 10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Affordable Rents</td>
<td>347,448</td>
<td>356,134</td>
<td>365,038</td>
<td>374,163</td>
<td>383,518</td>
<td>393,106</td>
<td>402,933</td>
<td>413,006</td>
<td>423,332</td>
<td>433,915</td>
</tr>
<tr>
<td>Affordable Rent Inc</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
</tr>
<tr>
<td>Rental Subsidies</td>
<td>123,576</td>
<td>128,648</td>
<td>128,568</td>
<td>131,140</td>
<td>133,763</td>
<td>136,438</td>
<td>139,167</td>
<td>141,960</td>
<td>144,789</td>
<td>147,685</td>
</tr>
<tr>
<td>Rental Subsidy Inc</td>
<td>2.00%</td>
<td>2.00%</td>
<td>2.00%</td>
<td>2.00%</td>
<td>2.00%</td>
<td>2.00%</td>
<td>2.00%</td>
<td>2.00%</td>
<td>2.00%</td>
<td>2.00%</td>
</tr>
<tr>
<td>Unrestricted Units</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Unrestricted Inc Inc</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

**TOTAL RENTAL INCOME**: 471,024, 482,182, 493,606, 505,303, 517,280, 529,543, 542,100, 554,956, 568,121, 581,600

#### Other Income

<p>| | | | | | | | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Laundry</td>
<td>2,350</td>
<td>2,397</td>
<td>2,445</td>
<td>2,494</td>
<td>2,544</td>
<td>2,595</td>
<td>2,647</td>
<td>2,700</td>
<td>2,754</td>
<td>2,809</td>
</tr>
<tr>
<td>Other Income</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Other Income Inc</td>
<td>2.00%</td>
<td>2.00%</td>
<td>2.00%</td>
<td>2.00%</td>
<td>2.00%</td>
<td>2.00%</td>
<td>2.00%</td>
<td>2.00%</td>
<td>2.00%</td>
<td>2.00%</td>
</tr>
</tbody>
</table>

**TOTAL OTHER INCOME**: 2,350, 2,397, 2,445, 2,494, 2,544, 2,595, 2,647, 2,700, 2,754, 2,809

#### Gross Potential Income

<p>| | | | | | | | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Laundry &amp; Other Inc</td>
<td>5.00%</td>
<td>5.00%</td>
<td>5.00%</td>
<td>5.00%</td>
<td>5.00%</td>
<td>5.00%</td>
<td>5.00%</td>
<td>5.00%</td>
<td>5.00%</td>
<td>5.00%</td>
</tr>
</tbody>
</table>

**LESS: VACANCY LOSS**: 14,248, 14,585, 14,930, 15,284, 15,646, 16,016, 16,395, 16,784, 17,181, 17,588

**EFFECTIVE GROSS INCOME**: 459,126, 469,994, 481,121, 492,514, 504,179, 516,122, 528,351, 540,873, 553,693, 566,820

#### Operating Expenses

<p>| | | | | | | | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenses</td>
<td>229,847</td>
<td>237,892</td>
<td>246,218</td>
<td>254,836</td>
<td>263,755</td>
<td>272,987</td>
<td>282,541</td>
<td>292,430</td>
<td>302,665</td>
<td>313,259</td>
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<tr>
<td>Annual Expense Inc</td>
<td>3.50%</td>
<td>3.50%</td>
<td>3.50%</td>
<td>3.50%</td>
<td>3.50%</td>
<td>3.50%</td>
<td>3.50%</td>
<td>3.50%</td>
<td>3.50%</td>
<td>3.50%</td>
</tr>
<tr>
<td>Taxes and Assessments</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Annual Tax Inc</td>
<td>2.00%</td>
<td>2.00%</td>
<td>2.00%</td>
<td>2.00%</td>
<td>2.00%</td>
<td>2.00%</td>
<td>2.00%</td>
<td>2.00%</td>
<td>2.00%</td>
<td>2.00%</td>
</tr>
<tr>
<td>Replacement Reserve</td>
<td>30,000</td>
<td>30,300</td>
<td>30,603</td>
<td>30,909</td>
<td>31,218</td>
<td>31,530</td>
<td>31,846</td>
<td>32,164</td>
<td>32,486</td>
<td>32,811</td>
</tr>
<tr>
<td>Percentage Increase Yearly</td>
<td>1.00%</td>
<td>1.00%</td>
<td>1.00%</td>
<td>1.00%</td>
<td>1.00%</td>
<td>1.00%</td>
<td>1.00%</td>
<td>1.00%</td>
<td>1.00%</td>
<td>1.00%</td>
</tr>
</tbody>
</table>

**TOTAL EXPENSES**: 259,847, 268,192, 276,821, 285,745, 294,973, 304,517, 314,387, 324,594, 335,151, 346,069

#### Net Operating Income

<p>| | | | | | | | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
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<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Debt Service</td>
<td>199,279</td>
<td>201,802</td>
<td>204,300</td>
<td>206,769</td>
<td>209,205</td>
<td>211,605</td>
<td>213,965</td>
<td>216,278</td>
<td>218,542</td>
<td>220,751</td>
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<tr>
<td>CalHFA - Bridge Loan</td>
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<td>0</td>
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<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td>Earned Surplus</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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</tbody>
</table>

**Total DJS**: 179,164, 179,164, 179,164, 179,164, 179,164, 179,164, 179,164, 179,164, 179,164, 179,164

**DSCR on Total Income and 1st Mtg**: 1.11, 1.13, 1.14, 1.15, 1.17, 1.18, 1.19, 1.21, 1.22, 1.23

**Excess Cash**: 20,115, 22,638, 25,136, 27,605, 30,041, 32,441, 34,801, 37,114, 39,378, 41,587
<table>
<thead>
<tr>
<th>Cash Flow</th>
<th>CalHFA Project Number: 07-004-A</th>
<th>Eureka Family Housing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>RENTAL INCOME</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Year 11</td>
<td>444,763</td>
<td>455,862</td>
</tr>
<tr>
<td>Year 12</td>
<td>2.50%</td>
<td>2.50%</td>
</tr>
<tr>
<td>Year 13</td>
<td>150,638</td>
<td>153,651</td>
</tr>
<tr>
<td>Year 14</td>
<td>2.00%</td>
<td>2.00%</td>
</tr>
<tr>
<td>Year 15</td>
<td>2,865</td>
<td>2,922</td>
</tr>
<tr>
<td>Year 16</td>
<td>3,00%</td>
<td>3.00%</td>
</tr>
<tr>
<td>Year 17</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Year 18</td>
<td>5.00%</td>
<td>5.00%</td>
</tr>
<tr>
<td>Year 19</td>
<td>18,005</td>
<td>18,432</td>
</tr>
<tr>
<td>Year 20</td>
<td>358,266</td>
<td>612,456</td>
</tr>
<tr>
<td><strong>OTHER INCOME</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Laundry</td>
<td>2,865</td>
<td>2,922</td>
</tr>
<tr>
<td>Other Income</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Other Income Increase</td>
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</tr>
<tr>
<td>TOTAL OTHER INCOME</td>
<td>2,865</td>
<td>2,922</td>
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<tr>
<td><strong>GROSS POTENTIAL INCOME</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>598,266</td>
<td>612,456</td>
<td>626,984</td>
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<tr>
<td><strong>VACANCY ASSUMPTIONS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Affordable (Blended Average)</td>
<td>3.00%</td>
<td>3.00%</td>
</tr>
<tr>
<td>Rental Subsidy Income</td>
<td>3.00%</td>
<td>3.00%</td>
</tr>
<tr>
<td>Unrestricted Units</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Laundry &amp; Other Income</td>
<td>5.00%</td>
<td>5.00%</td>
</tr>
<tr>
<td><strong>LESS: VACANCY LOSS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18,005</td>
<td>18,432</td>
<td>18,869</td>
</tr>
<tr>
<td><strong>EFFECTIVE GROSS INCOME</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>580,261</td>
<td>612,456</td>
<td>626,984</td>
</tr>
<tr>
<td><strong>OPERATING EXPENSES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expenses</td>
<td>324,223</td>
<td>335,570</td>
</tr>
<tr>
<td>Annual Expense Increase</td>
<td>3.50%</td>
<td>3.50%</td>
</tr>
<tr>
<td>Taxes and Assessments</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Annual Tax Increase</td>
<td>2.00%</td>
<td>2.00%</td>
</tr>
<tr>
<td>Replacement Reserve</td>
<td>33,139</td>
<td>33,470</td>
</tr>
<tr>
<td>Percentage Increase Yearly</td>
<td>1.00%</td>
<td>1.00%</td>
</tr>
<tr>
<td><strong>TOTAL EXPENSES</strong></td>
<td>357,361</td>
<td>369,040</td>
</tr>
<tr>
<td><strong>NET OPERATING INCOME</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>222,900</td>
<td>224,483</td>
<td>226,995</td>
</tr>
<tr>
<td><strong>DEBT SERVICE</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CalHFA - Bridge Loan</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>CalHFA - 2nd Mortgage</td>
<td>116,526</td>
<td>116,526</td>
</tr>
<tr>
<td>Earned Surplus</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>None</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total Dis</td>
<td>179,164</td>
<td>179,164</td>
</tr>
<tr>
<td><strong>DSCR on Total Income and 1st Mtg</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.24</td>
<td>1.26</td>
<td>1.27</td>
</tr>
<tr>
<td><strong>Excess Cash</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>43,736</td>
<td>45,819</td>
<td>47,831</td>
</tr>
</tbody>
</table>
### Cash Flow

<table>
<thead>
<tr>
<th>Cash Flow</th>
<th>CalHFA Project Number: 07-004-A</th>
<th>Eureka Family Housing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>RENTAL INCOME</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Affordable Rents</td>
<td>569,334</td>
<td>583,567</td>
</tr>
<tr>
<td>Affordable Rent Increase</td>
<td>2.50%</td>
<td>2.50%</td>
</tr>
<tr>
<td>Rental Subsidies</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Rental Subsidy Increase</td>
<td>2.00%</td>
<td>2.00%</td>
</tr>
<tr>
<td>Unrestricted Units</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>TOTAL RENTAL INCOME</strong></td>
<td>569,334</td>
<td>583,567</td>
</tr>
</tbody>
</table>

### OTHER INCOME

| Launder            | 3,493                           | 3,562                 |
| Other Income       | 0                               | 0                     |
| **TOTAL OTHER INCOME** | 3,493                           | 3,562                 |

### GROSS POTENTIAL INCOME

| 572,827            | 587,130                         | 601,790               |

### VACANCY ASSUMPTIONS

| Affordable (Blended Average) | 5.00%                           | 5.00%                 |
| Rental Subsidy Income       | 3.00%                           | 3.00%                 |
| Unrestricted Units           | 0%                              | 0%                    |
| Laundry & Other Income      | 5.00%                           | 5.00%                 |
| **LESS: VACANCY LOSS**      | 28,641                          | 29,356                |

### EFFECTIVE GROSS INCOME

| 544,185             | 557,773                         | 571,701               |

### OPERATING EXPENSES

| Expenses            | 457,348                         | 473,355               |
| Annual Expense Increase | 3.50%                       | 3.50%                 |
| Taxes and Assessments | 0%                             | 0%                    |
| Annual Tax Increase  | 2.00%                           | 2.00%                 |
| Replacement Reserve  | 36,606                          | 36,972                |
| Percentage Increase Yearly | 1.00%                      | 1.00%                 |
| **TOTAL EXPENSES**   | 493,954                         | 510,327               |

### NET OPERATING INCOME

| 50,232             | 47,446                          | 44,437                |

### DEBT SERVICE

| CalHFA - 1st Mortgage | 62,638                          | 62,638                |
| CalHFA - Bridge Loan  | 0                               | 0                     |
| CalHFA - 2nd Mortgage | 0                               | 0                     |
| Earned Surplus        | 0                               | 0                     |
| None                 | 0                               | 0                     |
| **Total DIS**         | 62,638                          | 62,638                |

### DSCR on Total Income and 1st Mtg

| 0.80                | 0.76                             | 0.71                  |

### Excess Cash

| (12,407)            | (15,192)                        | (18,202)              |
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Eureka Family Housing
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RESOLUTION 07-07

RESOLUTION AUTHORIZING A FINAL LOAN COMMITMENT

WHEREAS, the California Housing Finance Agency (the "Agency") has received a loan application on behalf of Eureka California Family Housing, a limited partnership (the "Borrower"), seeking a loan commitment, the proceeds of which are to be used to provide financing for a multifamily housing development located in Eureka, Humboldt County, California, to be known as Eureka Family Housing (the "Development"); and

WHEREAS, the loan application has been reviewed by Agency staff which prepared a report presented to the Board on the meeting date recited below (the "Staff Report"), recommending Board approval subject to certain recommended terms and conditions; and

WHEREAS, Section 1.150-2 of the Treasury Regulations requires the Agency, as the issuer of tax-exempt bonds, to declare its reasonable official intent to reimburse prior expenditures for the Development with proceeds of a subsequent borrowing; and

WHEREAS, on January 17, 2007, the Executive Director exercised the authority delegated to her under Resolution 94-10 to declare the official intent of the Agency to reimburse such prior expenditures for the Development; and

WHEREAS, based upon the recommendation of staff and due deliberation by the Board, the Board has determined that a final loan commitment be made for the Development;

1. The Executive Director, or in his/her absence, either the Chief Deputy Director or the Director of Multifamily Programs of the Agency is hereby authorized to execute and deliver a final commitment letter, in a form acceptable to the Agency, and subject to recommended terms and conditions set forth in the Staff Report, in relation to the Development described above and as follows:

<table>
<thead>
<tr>
<th>PROJECT NUMBER</th>
<th>DEVELOPMENT NAME/ LOCALITY</th>
<th>NUMBER OF UNITS</th>
<th>MORTGAGE AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>07-004-A</td>
<td>Eureka Family Housing</td>
<td>50</td>
<td>$3,375,000 1st Mortgage</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$ 940,000 Permanent</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$1,150,000 2nd Mortgage</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$ 305,000 3rd Mortgage</td>
</tr>
</tbody>
</table>
2. The Executive Director may modify the terms and conditions of the loans or loans as described in the Staff Report, provided that major modifications, as defined below, must be submitted to this Board for approval. "Major modifications" as used herein means modifications which either (i) increase the total aggregate amount of any loans made pursuant to the Resolution by more than 7%; or (ii) modifications which in the judgment of the Executive Director, or in his/her absence, either the Chief Deputy Director or the Director of Multifamily Programs of the Agency, adversely change the financial or public purpose aspects of the final commitment in a substantial way.

I hereby certify that this is a true and correct copy of Resolution 07-07 adopted at a duly constituted meeting of the Board of the Agency held on March 8, 2007 at Sacramento, California.

ATTEST:________________________
Secretary
RESOLUTION 07-08

RESOLUTION APPROVING REVISED 2006-2007 OPERATING BUDGET

WHEREAS, the Board of Directors of the California Housing Finance Agency (the "Board") has previously approved the 2006-2007 operating budget of the California Housing Finance Agency; and

WHEREAS, the Board has reviewed proposed amendments and revisions to the 2006-2007 operating budget of the Agency,

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

1. The revised and amended 2006-2007 operating budget of the California Housing Finance Agency, as attached hereto, is hereby approved.

I hereby certify that this is a true and correct copy of Resolution 07-08 adopted at a duly constituted meeting of the Board of Directors of the Agency held on March 8, 2007, at Sacramento, California.

ATTEST: _________________________
Secretary