Thursday, July 5, 2007

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

1:00 p.m.

1. Roll Call.

2. Approval of the minutes of the May 10, 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: (Margaret Alvarez/Jim Liska/Laura Whittall-Scherfee)

<table>
<thead>
<tr>
<th>NUMBER</th>
<th>DEVELOPMENT</th>
<th>LOCALITY</th>
<th>UNITS</th>
</tr>
</thead>
<tbody>
<tr>
<td>97-026-N</td>
<td>Mercy Village Folsom</td>
<td>Sacramento/Sacramento</td>
<td>81</td>
</tr>
</tbody>
</table>

   Resolution 07-18............................................................165

5. Update on Bay Area Housing Plan Financing. (Kathy Weremiuk/Edwin Gipson) .................................................................213

6. Discussion and possible action concerning Multifamily loan production and competitiveness. (Terri Parker/Laura Whittall-Scherfee/Edwin Gipson)
   a. Overview of Multifamily Lending
   b. Underwriting Requirements
   c. Rates, Yield and Financing Issues

7. Discussion, recommendation and possible action relative to the approval of a resolution approving amendments to the regulations of the Agency regarding the Conflict of Interest Code. (carryover from May Board meeting) (Tom Hughes)

   Resolution 07-17...............................................................219

(OVER)
8. Report to Board on status to date of the new building strategic project, and possible action regarding such project.

9. Report of the Chairman of the Audit Committee, and discussion and possible action concerning recommendations of the Audit Committee on matters relating to compensation policies and procedures, contracting authority, and a review of anonymous letters. (Jack Shine)

10. Closed session pursuant to Government Code section 11126 (a) (1) to hear complaints or charges against an employee.

11. Reports .................................................................................................................229

12. Discussion of other Board matters.

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

**NOTES**

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

FUTURE MEETING DATE: Next CalHFA Board of Directors Meeting will be September 12, 2007, at the Burbank Airport Marriott, Burbank, California.
STATE OF CALIFORNIA
CALIFORNIA HOUSING FINANCE AGENCY

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BOARD OF DIRECTORS

PUBLIC MEETING

--o0o--

Burbank Airport Marriott Hotel & Convention Center
2500 Hollywood Way
Burbank, California

Thursday, May 10, 2007
9:31 a.m. to 1:58 p.m.

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

07/05/2007

Attest: ______________________

--o0o--

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

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ORIGINAL
STATE OF CALIFORNIA
CALIFORNIA HOUSING FINANCE AGENCY

--o0o--

BOARD OF DIRECTORS
PUBLIC MEETING

--o0o--

Burbank Airport Marriott Hotel & Convention Center
2500 Hollywood Way
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APPARENCES

Directors Present:

JOHN A. COURSON, Chairperson
President
Central Pacific Mortgage

PETER N. CAREY
President/CEO
Self-Help Enterprises

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

JEFF DAVI
for Dale E. Bonner
Secretary
Business, Transportation and Housing Agency

CAROL GALANTE
President
BRIDGE Housing Corporation

LYNN L. JACOBS
Director
Department of Housing and Community Development

JOHN G. MORRIS
President
John Morris, Inc.

THERESA A. PARKER
Executive Director
California Housing Finance Agency

WILLIAM J. PAVAO
for Bill Lockyer
State Treasurer

TERRY ROBERTS
for Cynthia Bryant
Director
Office of Planning and Research

--o0o--
CalHFA Staff Present:

MARGARET ALVAREZ
Director
Asset Management

BRUCE D. GILBERTSON
Director of Financing

EDWIN C. GIPSON, II
Chief
Multifamily Programs

THOMAS C. HUGHES
General Counsel

JIM LISKA
Loan Officer
Asset Management

CHARLES K. McMANUS
Director
Mortgage Insurance

JOJO OJIMA
Office of the General Counsel

JACKIE RILEY
Director
Administration

GERALD F. SMART
Chief
Homeownership Programs

DOUG SMOOT
Chief
Special Lending Programs

L. STEVEN SPEARS
Chief Deputy Director

KATHY WEREMIUK
Multifamily Loan Officer

LAURA WHITTALL-SCHERFEE
Chief
Multifamily Programs
Speakers from the Public:

MARDIE OAKES
Hallmark Community Services

CHUCK GARDNER
Hallmark Group

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**Table of Contents**

<table>
<thead>
<tr>
<th>Item</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Roll Call</td>
<td>8</td>
</tr>
<tr>
<td>2. Approval of the minutes of the March 8, 2007</td>
<td>9</td>
</tr>
<tr>
<td>Board of Directors meeting</td>
<td>9</td>
</tr>
<tr>
<td>Motion</td>
<td>10</td>
</tr>
<tr>
<td>Vote</td>
<td></td>
</tr>
<tr>
<td>3. Chairman/Executive Director Comments</td>
<td>11</td>
</tr>
<tr>
<td>4. Discussion, recommendation and possible action relative to final loan commitment for the following projects:</td>
<td></td>
</tr>
<tr>
<td>06-079-A/N Parkview Apartments</td>
<td></td>
</tr>
<tr>
<td>Sacramento/Sacramento</td>
<td></td>
</tr>
<tr>
<td>Resolution 07-12</td>
<td>24</td>
</tr>
<tr>
<td>Motion</td>
<td>34</td>
</tr>
<tr>
<td>Vote</td>
<td>34</td>
</tr>
<tr>
<td>07-005-A/N Yosemite Manor</td>
<td></td>
</tr>
<tr>
<td>Madera/Madera</td>
<td></td>
</tr>
<tr>
<td>Resolution 07-13</td>
<td>35</td>
</tr>
<tr>
<td>Motion</td>
<td>46</td>
</tr>
<tr>
<td>Vote</td>
<td>46</td>
</tr>
<tr>
<td>5. Discussion, recommendation and possible action relative to an additional final loan commitment for the following project:</td>
<td></td>
</tr>
<tr>
<td>Bay Area Housing Plan</td>
<td></td>
</tr>
<tr>
<td>Bay Area Counties</td>
<td></td>
</tr>
<tr>
<td>Resolution 07-14</td>
<td>47</td>
</tr>
<tr>
<td>Motion</td>
<td>61</td>
</tr>
<tr>
<td>Vote</td>
<td>61</td>
</tr>
<tr>
<td>6. Discussion, recommendation and possible action relative to the adoption of a resolution approving the Five-Year Business Plan for fiscal years 2007/2008 to 2011/2012</td>
<td></td>
</tr>
<tr>
<td>Resolution 07-15</td>
<td>62</td>
</tr>
<tr>
<td>Motion</td>
<td>139</td>
</tr>
<tr>
<td>Vote</td>
<td>139</td>
</tr>
<tr>
<td>Item</td>
<td>Page</td>
</tr>
<tr>
<td>------</td>
<td>------</td>
</tr>
<tr>
<td>7. Discussion, recommendation and possible action relative to the adoption of a resolution approving the fiscal year 2007/2008 CalHFA Operating Budget</td>
<td>140</td>
</tr>
<tr>
<td>Resolution 07-16</td>
<td>140</td>
</tr>
<tr>
<td>Motion</td>
<td>152</td>
</tr>
<tr>
<td>Vote</td>
<td>153</td>
</tr>
<tr>
<td>8. Discussion and possible action regarding response by outside counsel to the Board's question asked at the March Board meeting as to whether the Board had the legal authority to retroactively modify compensation established pursuant to Health &amp; Safety Code section 50909</td>
<td>154</td>
</tr>
<tr>
<td>10. Discussion and possible action regarding compensation of exempt employees pursuant to Health &amp; Safety Code section 50909</td>
<td>161</td>
</tr>
<tr>
<td>11. Discussion, recommendation and possible action relative to the approval of a resolution approving amendments to the regulations of the Agency regarding the Conflict of Interest Code</td>
<td></td>
</tr>
<tr>
<td>Resolution 07-17</td>
<td></td>
</tr>
<tr>
<td>12. Discussion and possible action concerning referral of anonymous letter received by the Agency on March 5, 2007, to the Audit Committee (Postponed)</td>
<td>161</td>
</tr>
<tr>
<td>13. Discussion and possible action regarding the request of John Morris to be added to the Audit Committee (Postponed)</td>
<td>161</td>
</tr>
<tr>
<td>14. Reports</td>
<td></td>
</tr>
<tr>
<td>Item</td>
<td>Page</td>
</tr>
<tr>
<td>------------------------------------------</td>
<td>------</td>
</tr>
<tr>
<td>15. Discussion of other Board matters</td>
<td></td>
</tr>
<tr>
<td>16. Public testimony</td>
<td>161</td>
</tr>
<tr>
<td>Reporter's Certificate</td>
<td>162</td>
</tr>
</tbody>
</table>

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BE IT REMEMBERED that on Thursday, May 10, 2007, commencing at the hour of 9:31 a.m., at the Burbank Airport Marriott Hotel and Convention Center, Gala and Celebration Conference Rooms, 2500 Hollywood Way, Burbank, California, before me, YVONNE K. FENNER, CSR #10909, RPR, the following proceedings were held:

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Item 1. Roll Call

CHAIRPERSON COURSON: Good morning. I will call the Board meeting of the California Housing Finance Agency meeting to order and ask that we call the roll.

MS. OJIMA: Thank you.

Mr. Davi for Mr. Bonner.

(No audible response.)

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. Pavo for Mr. Lockyer.

MR. PAVAO: Here.

MS. OJIMA: Mr. Morris.
MR. MORRIS: Here.

MS. OJIMA: Mr. Shine.

(No audible response.)

MS. OJIMA: Ms. Bryant.

(No audible response.)

MS. OJIMA: Mr. Genest.

(No audible response.)

MS. OJIMA: Ms. Parker.

MS. PARKER: Here.

MS. OJIMA: Mr. Courson.

CHAIRPERSON COURSON: Here.

MS. OJIMA: We have a quorum.

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Item 2. Approval of the minutes of the March 8, 2007

Board of Directors meeting

CHAIRPERSON COURSON: Okay. Having a quorum, the first order of business is the approval of the minutes from our last meeting, which was March the 8th, which are in your Board binder. Is there a motion to approve the minutes?

MS. JACOBS: So moved.

CHAIRPERSON COURSON: And is there a second?

MR. MORRIS: Second.

CHAIRPERSON COURSON: Mr. Morris.

Is there any -- discussion?
MR. PAVAO: I actually just had one fairly minor correction on page 97, if I may.

CHAIRPERSON COURSON: Okay.

MR. PAVAO: Let's see. On line 11 it says, "And so I, for one, am at least troubled." That should read "least troubled, I am least troubled," not at least troubled.

MR. MORRIS: I'm impressed that you read the minutes that closely.

MS. JACOBS: When you get a preposition, that's pretty darn good.

CHAIRPERSON COURSON: Duly noted and very impressive, we must add from your fellow Board members. Is it acceptable that the mover and the seconder of the motion to approve the minutes accept that, would accept that change?

MS. JACOBS: Yes.

CHAIRPERSON COURSON: No other comments?

If not, we'll call the roll.

MS. OJIMA: Thank you.

Mr. Carey.

MR. CAREY: Here -- I mean aye. Sorry.

MS. OJIMA: Thank you.
Board of Directors Meeting - May 10, 2007

Mr. Czuker.

MR. CZUKER: Aye.

MS. OJIMA: Ms. Galante.

MS. GALANTE: Aye.

MS. OJIMA: Ms. Jacobs.

MS. JACOBS: Yes.

MS. OJIMA: Mr. Pavao.

MR. PAVAO: Yes.

MS. OJIMA: Mr. Morris.

MR. MORRIS: Yes.

MS. OJIMA: Mr. Courson.

CHAIRPERSON COURSON: Yes.

MS. OJIMA: The minutes have been approved.

CHAIRPERSON COURSON: Thank you.

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Item 3. Chairman/Executive Director Comments

CHAIRPERSON COURSON: I'll make a -- just a few brief remarks. We obviously have a very busy agenda and some very important items to discuss. We're going to, as we talked at the last meeting, spend a substantial amount of our time going through the business plan and budget presentations for the coming fiscal year, which we had a preview of at our last meeting.

So let me talk a little bit -- first of all, let me ask and just remind -- and I should have done this at
other meetings, and sometimes I'm remiss. If there's anybody in the room who -- we have a section of the -- at the end of the agenda for public testimony, and we ask anyone who wants to appear and give public testimony before the Board, that they identify themselves by filling out a slip of paper and submitting it to JoJo, and I believe those slips are on the back table over there. So if there's anyone who chooses to do that, we would ask that you move to the table and fill out that form.

Having said that, let me talk a little bit, first of all about the -- well, I want to mention one other thing first. In your binder and just so we don't miss it, I don't think we'll spend time talking about it unless somebody from the Board chooses to, but under the report section, the first two items are the recently released Standard & Poor's and Moody's ratings of the -- of the Agency. And I don't think we put those in the Board binders before, and I found them myself very instructive, had a lot of good information, a lot of good insight and certainly shows us, as a board, what our bondholders and our investment bankers and rating agencies are looking at. So I think that was very good summary information for the Board. I wanted to make sure it got included this time.
The other, I'll mention, is let me talk a little bit about schedule today. We obviously will move through our agenda. We have a couple of projects, we have an update on the Bay Area Housing, and then we're going to -- we have a -- go through the business plan. We'll take a break at some point, see where the natural breaking point is, and then we are going to move into a discussion of compensation, which we've had several times before. And part of that discussion will be in executive session.

So we will recess the Board meeting, have our executive session discussion, come back into open session, and finish up the Board meeting. So that's our logistics for the day. We'll move as expeditiously as we can but also make sure that every topic on the Board gets whatever discussion and consideration any of the Board members feel like. I don't want to feel like we are rushing through anything to meet a deadline. We have a busy agenda, and we're going to do it all in due course.

So having said that, I will turn the microphone over to our executive director, Terri Parker.

MS. PARKER: Thank you, Mr. Chairman.

Actually, I just have a couple news items that I wanted to let the Board be aware of. The first one is
to, sort of in keeping with the discussion about compensation; give you a report on where we are on trying to fill the two remaining vacancies we have, senior managers, the director of homeownership and the director of multifamily.

We have spent really the entire year working with a firm to try to recruit these two positions primarily. We have talked to over a dozen candidates for the director of homeownership and over a dozen people, candidates, for the director of multifamily from all over the country, all over the state, with no luck.

So two messages there, one of them is that from the recruiter that we have used, I've last week met with and signed a contract to hire a new recruiter, a new recruiting firm. I expect this individual to be successful in giving some candidates, in fact, just this morning received a candidate for multifamily -- excuse me, for homeownership and two yesterday for us to look through and the -- was informed that there is probably three or four people that he will be talking to on the multifamily side.

So I hope that we will be able to finally finish this recruitment effort and get the staff that we need and -- particularly given the initiatives we're going to talk about in the business plan today.
I will leave you this thought, though, that one of the -- the two major issues that we have heard from people primarily on the multifamily side, although also on the homeownership side, is compensation. Even with the numbers that the Board has talked about, these compensation numbers continue to be a problem for the individuals that we are looking at.

And it's interesting for those, particularly of us who have been state employees all our lives and it is always touted about what great benefits the State has. I think the interesting part about it is that for many of these people that we talk to; State benefits for State employees have changed so much. And particularly of note is one of the major items that is always touted as being such a unique thing the State offers, and that is health benefits. But in order to get health benefits, you need to essentially serve ten years to get 50 percent of that and 20 to get the entire amount.

So it is not seen by the individuals that we are talking about as a major incentive. And vesting alone taking a certain amount of time, that when you look at what the retirement benefits are, it's really not perceived by this caliber of people or this group of people. It is a very major benefit for people who are entering the State, but not for people coming in at
these particular levels.

So I have told the recruiter that we want to look at the caliber of people. We'll certainly be talking to the Board about what compensations we need to get the right individual, but I wanted to give you all the benefit of what I know to date about that particular effort.

The next item that I want to move to is just to give you an update. Many -- a couple of you had asked me whether or not we were going to have the individuals from Boles Creek come and speak with us today. And they are not here, but I want you to know that the staff has had a number of meetings with them, including sponsoring a meeting for them to meet with HUD to talk about their situation.

As a result of that, HUD has made some minor changes in their compensation, recognizing increased expenses to them. And so we continue to be in a process with them to discuss whether or not they might want to be making some changes to their reserve replacements. But I wanted to let you all know that we are continuing that dialogue with them. And at the moment they were invited to send any of their concerns to HUD in letter format, and we have not received that, nor has HUD.
CHAIRPERSON COURSON: And there's something in
the binder.

MS. PARKER: Yes, we did include that, but I
wanted to give you the most recent update.

The third thing, just to let you all know, you
had heard about and we will be talking about it at the
business plan today, the efforts the Agency has been
involved in, in working with the -- working with our
sister state agencies -- the Department of Mental
Health, the Tax Credit Allocation Committee, the
Department of Housing and Community Development and the
county mental health directors -- to put together the
initiative for using Prop 63 for creating housing for
chronically mentally ill homeless.

(Mr. Davi enters room.)

MS. PARKER: We're on the final stretch of that.

We will releasing a -- the required letter to the
Legislative Analyst in the next couple of days that
starts the 30-day clock, so that we hope, our intention
is, to have that program out on the street June 15th.

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

CHAIRPERSON COURSON: Thank you.

Let the record show that the Real Estate
Commissioner, Mr. Davi, has joined us.
Good to see you.

MR. DAVI: Good morning, Mr. Chairman, thank you. Sorry I'm late.

CHAIRPERSON COURSON: The next item then is -- I'm sorry, Mr. Morris.

MR. MORRIS: What is the new search firm that you've hired?

MS. PARKER: I -- I'm not going to be able to tell you what the name of his firm is because I can't think of it, but his name is Wayne Lucius.

MR. MORRIS: Pardon me?

MS. PARKER: Wayne Lucius.

MR. MORRIS: Okay.

MS. PARKER: He is somebody who has been in the mortgage insurance and mortgage business for most of his career and then turned to the recruiting then.

MR. MORRIS: And he's -- where is he? Is he in Sacramento?

MS. PARKER: No. No, he actually is -- he's on the East Coast. I'll be happy to send that information to all of you.

CHAIRPERSON COURSON: Ms. Jacobs.

MS. JACOBS: Could I make a suggestion about the recruiting efforts? If you could make sure that the new recruiter also provides some online services, because I
think one of the -- one of the problems is that some of our recruiting methods are old-fashioned and people are looking at jobs online, to make sure that he does online listing as well.

MS. PARKER: Okay. Steve, what did you hand me?
Oh, is this -- Management Advisors International out of Atlanta.

MR. MORRIS: They're in Atlanta?

MS. PARKER: Excuse me, Trowbridge, Georgia.

CHAIRPERSON COURSON: Dunwoody, Georgia, which is a suburb of Atlanta.

MR. MORRIS: The name of the firm is, I'm sorry?

MS. PARKER: Management Advisors --

MR. MORRIS: Okay.

MS. PARKER: -- International.

MR. MORRIS: Okay.

CHAIRPERSON COURSON: I think Ms. Jacobs has a very good point. There is a great deal now of online activity, posting of jobs and searching of jobs. Some sites actually even specifically have sections for government and state and federal government opportunities, so that's very good potential.

(Ms. Roberts enters room.)

CHAIRPERSON COURSON: Other questions of Terri or myself?
MR. MORRIS: I guess we're going to talk about
all this again when we get back into the recruiting;
right? So if we have other questions that relate to the
process and the recruiting, we can do that -- we'll do
that later in the agenda; right?

CHAIRPERSON COURSON: I would say we should do
it now. It's not an agenda item to talk about
recruiting specifically, so I think we should --

MR. MORRIS: Okay. Okay. We'll go ahead. I
just -- I wanted to find out more about kind of what is
the process that Wayne is going to be going through and
what he's done, if he's done any work with any other
state agencies or things of that nature.

MS. PARKER: Maybe it would be helpful if you --
I could, you know --

MR. MORRIS: I was just wondering the process
that we went through to select. We released one
recruiter. I don't know who we were using before, to be
honest with you, and then we went through a process to
select a new recruiter, so I'm just wondering what that
process was.

MS. PARKER: I know Jackie could help me with
the first recruiter that we had. She was somebody that
we hired to do some recruitment in the past for us. She
used to be with a California firm.
Jackie, I'm trying to remember -- and then

she --

MR. MORRIS: Have we ever thought about a large, like a Robert Half and Associates, someone with a larger national, true national presence or I'm not sure, but --

MS. RILEY: The first recruiter, we had used someone with a very large firm, the name escapes me right this moment, out of San Francisco.

MR. MORRIS: Okay.

MS. RILEY: I called him again. They specifically -- we had been recruiting at that point for deputy director for multifamily, and that gentleman had moved from that company, and that is a very large international company. And they were no longer doing multifamily, because at that point in time we were specifically looking for the multifamily director back in probably November of '05. They referred me to a couple other large firms.

Multifamily particularly is sort of like the needle in the haystack. There are very few people apparently that really focus on that. So I was given the name at that point of Sally Carlson, who had her own firm. She has since merged into a different firm. She was the one who -- and she is located in the Bay Area -- has been involved -- I see, Carol, you nodding your
head -- in some -- she worked for Wells Fargo, very knowledgeable in that particular industry.

So that was how we ended up with her, through going through several different companies and word of mouth to try and find what we thought at that point was the best person for that.

MR. MORRIS: And then the process for the selection of the new firm?

CHAIRPERSON COURSON: Ms. Galante.

MS. GALANTE: I was just going to say, wasn't the -- was the large firm Heidrick & Struggles?

MS. RILEY: Yes, thank you.

MR. MORRIS: Okay. All right.

MS. PARKER: Which, you know, from my understanding, just a comment, state government typically -- rarely uses search firms. In fact, state agencies to some extent normally are precluded from using --

MS. RILEY: Yes.

MS. PARKER: -- recruiting companies to do recruitment for positions. Usually, you know, the Governor's Office does its own recruiting, has its own positions for that, for exempt appointments. And so it is very unique to happen in state government. The only other ones that use them are sister state agencies like
PERS and STRS.

MS. RILEY: STRS, yes.

MS. PARKER: And these, Heidrick & Struggles, again --

MS. RILEY: Yes.

MS. PARKER: -- was, you know, an agency that for those few state agencies that have done recruitments, this is -- this has been sort of the go-to people. They're out of San Francisco. You know, you're looking for hopefully somebody from California, particularly in this case somebody who would be California based.

You know, obviously, we invested a year with this person, and it's not to say that they didn't try. And you know, there are many of you, I know, that were contacted by this individual, and we did speak to a lot of people. And part of that time, obviously, we had compensation levels that, you know, 118,000 for a director of multifamily, we weren't going to get anybody. But, it -- you know, it has proved problematic.

Frankly, I'll say that how we picked this particular person is I -- I asked colleagues around the country for a name and -- that I knew of someone who did work in this area that, you know, produced results. And
I have felt that, frankly, we had waited so long and
that we were such -- in such a need of someone that I
didn't want to spend more time trying to, you know,
perhaps, you know, go through a long process, but try to
get somebody in and see if that person could bring us
candidates of quality to move ahead. And so that's --
that is the process I have done, Mr. Morris.

MR. MORRIS: Thank you.

CHAIRPERSON COURSON: Questions? Okay. Let's
hope that the recruiter we have will be successful.
Actually, coming down on the plane yesterday, Terri
shared the first -- I think the first two candidates
that we've seen emerge from him in the homeownership
area. And having some experience in that area, one of
them -- you can't tell from a résumé, obviously. He's
either a very good writer or so on, but from the résumé,
it's probably one of the better qualified people I've
seen of the résumés Terri shared with me for that
position. So we'll see if that can pan out, but at
least it was one of the stronger résumés I'd taken a
look at over the last six months.

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Item 4. Resolution 07-12, Parkview Apartments

CHAIRPERSON COURSON: Okay. Let's move then, if
we may, to Laura, and we'll talk about our projects, the
first one being the Parkview Apartments.

MS. WHITTALL-SCHERFEE: Both of the projects that we're presenting to the Board for approval today are acquisition/rehab projects that are currently in the CalHFA asset management portfolio.

The first project is Parkview Apartments. It's located in Sacramento.

CHAIRPERSON COURSON: Oh, I'm sorry. I'm sorry. I'm going to interrupt you just a minute.

MS. WHITTALL-SCHERFEE: Okay.

CHAIRPERSON COURSON: I also should note for the record that Terry Roberts from the Office of Planning and Research has now joined us and is in attendance.

Sorry.

MS. WHITTALL-SCHERFEE: Okay. As I said, this project is Parkview Apartments. It's located in Sacramento. It was constructed in 1979, and it's a 97-unit family apartment complex.

The request that we have before the Board today is for an acq/rehab and permanent loans. The acquisition/rehab loan would really be in two parts. There would be a first mortgage in the amount of 4,295,000 at a 6.10 variable interest rate -- we used that as our underwriting rate -- for 24 months, interest only, and its tax exempt.
At the same time we would be making a second mortgage that would be for the remaining term of the existing HAP contract. That will be for 1,885,000 at 5.2 percent for 14 years or whatever the actual period is when we close the loan. That is also tax exempt. The second mortgage is going to remain in place once the permanent loan comes in. It will be junior to our permanent financing. And our permanent loan will be in amount of 4,520,000 at 5.3 percent for 30 years. It's also tax exempt.

The project is currently owned by Parkview Associates, Limited. It's a limited partnership, and the general partner is AIMCO, which is the Apartment Investment Management Company. They have quite a few loans in our portfolio. The project is being purchased is a limited partnership, Parkview Affordable, LP, whose general partners are Parkview AGP, LP, and Las Palmas Foundation.

Las Palmas Foundation is a nonprofit that is on quite a few of our project -- projects. And Parkview AGP, LP, is a subsidiary of Bentall Residential, which is also very familiar to CalHFA. They have approximately nine projects with us right now, and I think nine new -- they've developed nine projects with CalHFA, and they have two acq/rehabs that are very, very
similar to Parkview in terms of they were part of our portfolio.

There is no other financing involved in this transaction other than our own. We have a request in to HUD to -- seeking approval to extend or allow the 14-year HAP contracts to remain in place.

And Jim Liska is going to now take you through the slides and explain in more detail the rehab that's going to be done on the project and the project itself.

MR. LISKA: Mr. Chairman, Members of the Board --

MS. WHITTALL-SCHERFEE: Wait a minute. We've got a problem.

All right. Thank you.

MR. LISKA: I'm going to take you through a couple of the slides. Again, this project was built in 1979. Its 17 buildings of which one is a single-story manager office center. Oops. Let's go back.

As you can see, the surrounding site, it's located in South Sacramento. On one side of the site is a -- a Kia auto dealership. The other side, we have single-family detached housing. Across the street there's a Rite Aid store. There's a Food Mart grocery store. Right down the block on Munson Way is a bus stop. So as far as amenities, there are amenities in
the center around the site.

Expanded view, aerial view. This shows what's in the vicinity. Over here is the Florin Mall for some major shopping.

Typical view of the interior of the townhomes, and here's the single-story office. The majority of buildings are townhouses. This is a two-story walkup. It's all one-bedroom units. Another view of the interior courtyard.

And here are our rents. As you can see, 50-percent rents, 60-percent rents. Where we have some difficulty, the Section 8 rent on the one bedroom is obviously above market. You'll see in our cash flow that for the first seven to nine years, during the first two years of rehab and the first year -- first years of the project operations, we have not trended the Section 8 rents because it is above market. We are a little bit closer on the two-bedroom rent between -- the differential between Section 8 and the market. And we are also a little bit closer on the three bedroom.

As far as Laura indicated, this is an existing portfolio loan. Our existing interest rate on this project is 9.43 percent. The existing mortgage balance is approximately 2,673,028, 14 years remaining. It's a co-terminus mortgage with a Section 8.
We did a yield maintenance calculation, opportunity costs. And in the sales price, which the seller will be paying, is a $405,210 opportunity cost back to the Agency. As far as rehab, we're looking at $2,436,335 worth of hard costs or approximately $25,116 per unit. What this will be addressing, some of the larger items, are drainage. We needed roofing on all buildings. We're going to be putting in dual-pane windows. The T11 siding will be replaced with hardy board. New kitchen cabinets, bathroom, kitchen upgrades with appliances, floorings. The mechanical systems, we'll be replacing the HVAC equipment, upgrading the plumbing and the electrical.

As far as the relocation costs, we will have no permanent removing of tenants. It will be temporary. It will be a rolling rehab, as has been discussed in our past projects. Bentall and Mr. Reiner and Joe Michaels, as Laura indicated, have done nine projects with us in the past. They pretty much know what we're looking for in the way of relocation benefits as far as orienting the tenants at the outset on what's to take place, the timing, and taking care of their temporary needs as far as if they have to be relocated, living with relatives or partial replacement or temporary quarters with lodging, what have you, and reimbursement for per diem
costs. Again, that relocation cost is $73,800.

Our Phase I, our seismic, came out that there's no adverse findings, so that's okay there.

We do have a -- even though we have 14 years remaining on the Section 8 HAP contract, we have a transition operating reserve built into the project of around $115,000 in the event that we don't get Section 8 renewal for this project, and this will help to provide a transition, which is approximately, I don't know, maybe about 30 or 40 percent of a normal debt service year.

Cap rate, cap rate is 6.25 percent, which is a -- I feel, is a realistic value and rate in today's society with increasing interest rates. And even though there's still a lot of investor demand out there, this looks to be a realistic capitalization rate as well as a restricted value that was on the property of $8 million.

With that, we'd like to entertain any questions that you may have.

CHAIRPERSON COURSON: Questions from the Board on the project?

Mr. Czuker.

MR. CZUKER: Just by way of disclosure, I wanted to put on the record again, as I have in the past, I have no economic interest in Las Palmas as a nonprofit,
but I have done business with Las Palmas in other
affordable housing projects. And so in -- by way of
full disclosure, I wanted to make sure that the Board
and the public have knowledge that while I don't feel I
need to recuse myself because I have no economic
interest in this project and I have no economic interest
in one of the co-general partners, the nonprofit Las
Palmas, but the fact that I have done business with
them, I wanted it to be public knowledge.

CHAIRPERSON COURSON: Thank you.

Other questions or -- Mr. Davi.

MR. DAVI: I just was curious. I think you
mentioned there's a 405 or $4,000 --

MR. LISKA: $405,000.

MR. DAVI: -- opportunity cost?

MR. LISKA: Yield maintenance, which is a -- we
call it -- like another term is prepayment penalty, but
it's the differential between our current financing
versus the new financing.

MS. WHITTALL-SCHERFEE: It's on your sources --

MR. DAVI: I see --

MS. WHITTALL-SCHERFEE: -- and uses under
prepayment.

MR. DAVI: -- it. I just wasn't sure if it was
the same thing, and you answered the question. Thank
you.

MR. CZUKER: By way of public policy, is that a good use of funds? I mean, if we are trying to encourage affordable housing and have funds available for rehab or for promoting greater levels of affordability in rehab and rehabilitation of low income housing by charging a fee back to ourselves, are -- which, you know, we could always use the money, I'm sure, but -- it doesn't hurt the coffers, but it does put an added economic burden on penciling out or getting what are already tight budgets to work for affordable housing projects.

So I hope we can try to be lenient or flexible in trying to help make projects work when one of the disincentives or difficulties to overcome is the fact that -- the added burden of a prepayment penalty makes the ability to bring forward these types of projects more difficult.

In this particular case, I mean, both -- I agree with you, the appraisal, that a 6 and a quarter seems reasonable and the loan to value and loan to cost are staying within relatively low numbers, from 55 to 66 to 75 percent at its maximum. So I think CalHFA's exposure throughout the process from construction to permanent loan would be well protected and making this a very safe
and prudent restructure, and I would support the project.

CHAIRPERSON COURSON: Questions?

Ms. Galante.

MS. GALANTE: I'm sorry, I'm being a little dense this morning, I guess. So you said this was a -- it's a loan that's in the existing portfolio, but I'm just trying to figure out --

MR. LISKA: It's currently --

MS. GALANTE: -- is it being sold?

MS. WHITTALL-SCHERFEE: It is being sold.

MR. LISKA: It is being sold by AIMCO to a new buyer.

MS. GALANTE: And AIMCO won't have any further --

MR. LISKA: AIMCO will only be involved, they will be providing -- they are the tax credit investor for the new tax credits.

MS. GALANTE: So, yeah, tax credits was my second question. So there are tax credits.

MR. LISKA: There are tax credits. We are seeking 4-percent tax credits. This has been submitted to CDLAC for tax exempt bonds. So this is a sale.

MR. CZUKER: With new tax-exempt bonds.

MR. LISKA: Excuse me?
MR. CZUKER: With new tax-exempt bonds.

MR. LISKA: With new tax-exempt bonds.

MR. CZUKER: A new allocation.

MR. LISKA: A new allocation of funds.

CHAIRPERSON COURSON: Other questions from the Board?

Is there a motion to approve the project as stated in the resolution on page 191?

MS. JACOBS: So moved.

CHAIRPERSON COURSON: Ms. Jacobs moves.

Is there a second?

MR. PAVAO: Second.

CHAIRPERSON COURSON: Mr. Pavao seconds.

Any further discussion?

Is there any discussion or comments from the public?

See none, then let's call the roll.

MS. OJIMA: Thank you.

MS. WHITTALL-SCHERFEE: The next project is --

MS. PARKER: Wait.

CHAIRPERSON COURSON: We need to vote first.

MS. WHITTALL-SCHERFEE: Sorry. I was just ready to jump right in. I apologize.

MS. OJIMA: Mr. Davi.

MR. DAVI: 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. Pavao.

MR. PAVAO: Yes.

MS. OJIMA: Mr. Morris.

MR. MORRIS: Yes.

MS. OJIMA: Mr. Courson.

CHAIRPERSON COURSON: Yes.

MS. OJIMA: Resolution 07-12 has been approved.

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Item 4. Resolution 07-13, Yosemite Manor

MS. WHITTALL-SCHERFEE: Okay. Now I'll start speaking. This last project is Yosemite Manor, and this is also a portfolio loan. This loan is being brought to the Board very much in the same -- with the same type of structure that you saw at the last Board meeting for Eureka Family in that we have a locality who is selling it and is going to be involved in the new ownership entity as well.
We did pass out some additional or corrected information. I just want to make sure that all the Board members have that information. There was no change on the cover page, but what did change was information that we'll go over in the project summary and in the sources and uses, and I just wanted to make sure that everybody had that. Okay.

Yosemite Manor is an existing portfolio loan that is a 76-unit senior apartment complex located in Madera, which is in Madera County. It's currently owned by the Housing Authority of the City of Madera. It's a 76-unit three-story three-building structure that was constructed in 1979.

The new owners will be MORES Yosemite Manor, Limited Partnership. And the general partners of this new limited partnership will be Madera Opportunities for Resident Enrichment and Services, Inc. -- the acronym is MORES -- and the Housing Authority of the City of Madera. They're both California nonprofit corporations, and they both have the same executive director, Nicholas Benjamin.

The request is for acquisition/rehab and permanent financing. The acquisition/rehab involves a first mortgage in the amount of $3,400,000 at a variable interest rate for 12 months interest only with
tax-exempt money.

The second mortgage, which is based on your Section 8, will come in during the acquisition loan and is in the amount of $10,000 for 5.3 percent, 15 years, tax-exempt financing as well. That loan will be subordinated when the permanent financing closes to a first mortgage in the amount of $950,000 at 5.3 percent. It will be a 30-year loan, but it will be due in 15 years. It's going to be fully amortized, but it could be due if the HAP Section 8 that is currently on this project becomes -- goes away. There is a current HAP contract that expires on January 30th, 2020. It's on the entire project.

This project does have some additional financing, and the additional financing is provided by MORES and the Madera Housing Authority. MORES is providing a $600,000 capital contribution with no repayment provisions, and the Housing Authority of the City of Madera is going to carry back a loan in the amount of $1,840,000 at 3 percent for 55 years. Jim is going to explain a little bit more as to why there was a change.

Existing replacement reserves of 286,000 are going to also be used during the acquisition and rehab phase as is an operating reserve of $33,750.
And with that, Jim is going to take you through
the slides, go into more detail than I did on the
financing, and then we'd be happy to answer any of your
questions.

MR. LISKA: Okay. Here's our project. It's
really a rectangular site and the boundary goes --
should really be here. But we surrounded the whole
site. This building over here is a senior center. This
is a county school office. These buildings are not part
of the project, but what we do have, the parking -- we
have use of the parking. And we have a reciprocal
easement for parking, and the project is responsible for
maintaining the parking and the lights within this area.

The project is basically located in a mixed-use
neighborhood. We've got single family on a couple
sides, some commercial across the way. Here's a gas
station. We do have public transportation nearby.

Again, this is a larger aerial view.

This is the entrance. The project was built in
'79. You can see, barely, the shingles are curling.
We're going to be replacing the roof as part of our
rehab. We have wood trim that's dry rot deteriorating
that's going to be replaced.

The common area, pretty bleak, huh? We're going
to be upgrading this, renovating it. The heating and
Board of Directors Meeting – May 10, 2007

air conditioning system, this will also be upgraded.

    Typical kitchen view, and we'll be doing some
renovation here.

    Again, as Laura indicated, we have a Section 8
HAP contract in existence. And as you can see, the
Section 8 rent equals our market rate. We're in an area
where rents just don't increase that dramatically. And
one reason why we have the identity of interest project,
one reason why we're now looking at rehabilitation, the
project was built in '79, as was explained, and we need
to do some renovation, curing of some of the deferred
maintenance that has occurred over time. The project
has just not accumulated enough existing replacement
reserve.

    The market rents are such that we can't increase
our Section 8 rents, so we have discussed with our bond
counsel, we've discussed with the project attorney, and
in this case the tax -- proposed tax-credit investor.
It's going to be Merit Capital. They're going to be
providing 4-percent tax credits. And they're in
agreement that looking at this identity of interest
structure that it does meet the test with you don't have
conflict.

    On this project, we have an 8.375-percent
existing interest rate. We have approximately a
$1.8-million mortgage balance. And here again, we're looking at a $550,000 opportunity cost, yield maintenance, prepayment penalty for the project based upon the differential in financing from the existing to the proposed.

How did we arrive at a seller carry-back? Our value is $4,190,000. We deducted out the 1,800,000, approximately, mortgage balance. We deducted out the $550,000 yield maintenance. And we came up with a seller carry-back of $1,840,000. This is approximately -- well, it's not approximately. It's 43.91-percent loan to value. This meets the test that it doesn't exceed 50 percent for bond financing.

Again, we're doing a construction rehab loan. We're doing a first of $950,000. We're doing a second of the remaining Section 8, $810,000. Then we have the contribution by the City, and then finally we have the residual receipt, our seller carry-back loan, which will be paid out of residual receipts if there's any money left over. In all probability, you know, it could be a balloon payment at the end.

What was not discussed in the beginning, as you can see on the cash flow, there is only approximately 13 -- 14 to 15 years left on the existing Section 8 HAP contract, and we are basically requesting a 30/15-year
mortgage. If we do not get Section 8 after that period of time, you can see on the cash flow that it does not debt service. And the loan would have to be recapitalized, refinanced, in some form or fashion. We'd have to be paid off.

So that's a key, and that's part our new program, and that's why we allowed a 30/15. And if you remember, those that were in attendance at our last Board meeting, we had the same situation arise in the Eureka loan.

As far as relocation, we're looking at $500,000. Again, we're not looking that it be invasive. We have an executive director from the City of Madera. He's very familiar with dealing with rehab. He's familiar with dealing with tenants as far as orientation, providing information to them on what's going to take place during the rehab process.

MS. WHITTALL-SCHERFEE: I think Jim said 500,000, and it's 50,000 for relocation.

MR. LISKA: You're right. You're right. I should have worn my glasses on that one, sorry. 50,000. Let's not get carried away.

As far as the Phase I and seismic, there were no adverse findings.

And so with that, we would like to address any
questions that you may have.

CHAIRPERSON COURSON: Questions on the project from the Board?

Mr. Czuker.

MR. LISKA: Yes, sir.

MR. CZUKER: While I'm very supportive of the project, I have a question that relates to cap rate. I mean, we just saw on the prior project the 6-and-a-quarter cap rate. Here we're seeing 5.75. That drop in cap rate is significant in how would that change your whole analysis hypothetically if you were using a more similar 6, 6-and-a-quarter cap rate? Your loans, after all the third-party subsidies, are still relatively low percent wise. Wouldn't it be more prudent to be using a higher cap rate and reflect the loan to values a little bit more conservatively?

MR. LISKA: Your point is well-taken. The range, we looked at, we reviewed, the appraisal. A 5.75 to 6 and a quarter in today's market is -- it's pretty realistic. We can live with it. We looked at the sale comps. We looked at the cap rates. You're right. What would happen in the event of a higher cap rate, it would reduce the value. The result -- we would have a resultant lower seller carry-back. That would cause us to have -- encourage less tax credits as a result.
We did not sort of manipulate the numbers. I mean, this is the way it turned out. When we did our review with the appraisal, we felt the cap rate was appropriate. The value was appropriate for this type of project. It's a senior project. It's three-story elevator construction. Even though we're putting one and a half million dollars into rehabilitation, it doesn't look bad for its age. I will say that. It's very functional. So I did accept the cap rate at 5.75.

CHAIRPERSON COURSON: Other questions?

Mr. Davi.

MR. DAVI: I want to follow up on that and -- because I was taken aback by the cap rate on the prior project because I know the area very well. I don't know this area very well. And cap rates to me, although I'm not an appraiser, are very flexible depending on the area. And so I've got to defer to you. This is a lower cap rate. They're getting low as I see them go from 6 to 5. I know that the market's changed. Cap rates have gone down in the last ten years steadily.

MR. LISKA: Correct.

MR. DAVI: But, you know, it just seems to me that -- I'm just reacting to what he said. I kind of agree. Sometimes it's nicer to have a conservative cap rate on projects like this. And if you know this
area -- is that the reason? Is the area better than the Munson?

MR. LISKA: Munson or Sacramento?

MR. DAVI: It must be.

MR. LISKA: It is -- it is a good central location area, you know. For the Madera market, you know, it's well located. In conjunction -- in proportion like Fresno or a larger market area, yeah, you would probably see a -- maybe a lower cap rate.

Again, we're looking at $55,000 a unit versus, say, 47, which you just saw in Sacramento, which I think that project is in a little worse condition. Based upon this project's location, the quality, the design of the project, the use of the project, the 5.7-percent cap rate is probably at the bottom of the range. But, again, I would accept it, and, you know, make it --

MS. WHITTALL-SCHERFEE: We've also been seeing cap rates go up. I think a couple boards ago we were talking about cap rates in the range of 5.25. So we are using actually higher cap rates. I think you also need to take into account that this is a senior project and the other one was a family project, and so you have a little bit more stability in your rental population.

MR. DAVI: Okay. Thank you.

CHAIRPERSON COURSON: Mr. Morris.
MR. MORRIS: Just in general, as we all know, the problem with cap rates, I mean, it's purely just a best guess estimate of what you think this thing will sell for. But I think if you look at the replacement costs, the loan as it -- you know, loan to cost, then I think we're well protected. But cap rates are always tricky because, I mean, I've seen cap rates all over the board on multifamily and on office and on retail. There can be pretty big spreads. I mean, it's amazing what some people are willing to pay in this market. So -- but I think that we're well protected, given the loan to cost.

MR. LISKA: No, in reply to Mr. Czuker, his point is well-taken. Rates have -- cap rates have moved up, and we are cognizant of that, and we are looking for an appropriate cap rate and that not just trying to get a squeaker in there, something low.

CHAIRPERSON COURSON: Other questions, comments from the Board?

Mr. Czuker.

MR. CZUKER: You know, in support of the project, you still have obviously adequate debt coverage ratios and loan to cost and cost per unit, so the other criteria of dissecting and looking at different components of the project from different angles would
still give CalHFA a good collateral position and a good cash flow position, so I'm supportive of the project.

MR. LISKA: Thank you.

CHAIRPERSON COURSON: Other comments from the Board?

If not, is there a motion to approve the resolution on page 13 -- 213, approve the project?

MR. CZUKER: So moved.

CHAIRPERSON COURSON: Moved by Mr. Czuker.

Is there a second?

MS. JACOBS: Second.

CHAIRPERSON COURSON: Second by Ms. Jacobs.

Any other comments from the Board?

Are there any comments from the public?

Seeing none, we'll call the roll.

MS. OJIMA: Thank you.

Mr. Davi.

MR. DAVI: 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. Pavao.

MR. PAVAO: Yes.

MS. OJIMA: Mr. Morris.

MR. MORRIS: Yes.

MS. OJIMA: Mr. Courson.

CHAIRPERSON COURSON: Yes.

MS. OJIMA: Resolution 07-13 has been approved.

CHAIRPERSON COURSON: Laura, Jim, thank you very much.

MR. LISKA: Welcome.

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Item 5. Resolution 07-14, Bay Area Housing Plan

CHAIRPERSON COURSON: Well, it wouldn't be a CalHFA Board meeting if we didn't have the Bay Area Housing Plan. As you know, every Board meeting since we've been involved in this project, over more than a year, we do get an update as to the status. And Kathy and Edwin are about to do that.

I believe also they're -- unless somebody else's eyes are much better than mine, there is a larger version of the very small chart that was included in that, and we appreciate you -- your assistance for those of us who are in our twilight years. I'm speaking for myself as the Chair.
MR. GIPSON: Good morning. We do have a few extra handouts this morning. They aren't replacement pages, but they are additional reference materials and a little bit larger chart as -- as said.

We are here today for an additional final commitment request for $35 million for Bay Area Housing Plan. This will increase the Agency's aggregate commitment from 70 million to 105 million. It is expected that the number of houses will decrease from 71 to approximately 64. And if that does happen, we may or may not need to come back past the 105 million mark. So as we track progress, we'll see how that is as we get closer to the exact number of units we're going to need.

It's been a long road to here, and I'd like to commend our partners, including Hallmark and Bank of America. And joining us today is Chuck Gardner from Hallmark and Mardie Oaks from Hallmark. In addition, I'd like to thank Kathy and Liz Hogan, Sabrina Saxton and Catherine Dolph for the continued work.

The Bay Area Housing Plan has continued to be a multiplier, so we started off with a ton of work at the beginning to get it going, and all it's done is multiply itself as we got into more details. So it continues to be a very uphill road, but I think a great deal of progress has been made. Things are moving forward well.
They've been bumpy and -- I wouldn't say they haven't been bumpy, but they're moving well considering all the obstacles that have been placed before us.

We'll show you some good news along with slides when Kathy gets moving forward with the presentation.

And I just want to say that we started our commitments early, and there was, you know, a little bit of faith taken, but we had done a lot of homework to that point. But to get us here, we needed to make some additional commitments up-front and early based on all that information we had, and we are only here today because of those early commitments in moving forward through the details, and things have held up well.

So with that, I'll let Kathy take us through the latest updates to the project.

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

This request is for an additional 35 million in commitment authority. The security for the commitments will be between 64 and 71 single-family homes in three different types, two of which will be licensed. Repayment of the Agency's loans will be from a lease structure, which is backed up by guarantees from the regional centers with additional security in the forms of notes and deeds of trust on the individual properties.
which are cross-collateralized by regional center.

Included in our notes will be a one year of debt service reserve that will be within the bond structure and will have an additional security from the regional centers.

Over the last two months we've made, I think, substantial progress. The chart that's in front of you is not just an increase in size for readability, but we graduated to two pages because we currently have 51 projects in the pipeline and 31 that the Agency has made commitments on.

You'll notice that the Agency to date has committed $52 million. We missed by one day. We thought yesterday we were going to commit an additional four properties and bring us up to 60 million with a 10-percent guarantee from Bank of America and get to the full -- get to the top of their credit line. We'll do that on Monday. It moves fast.

We also have in our pipeline -- we have 21 projects in our pipeline which would require additional commitment up to 87 million with Bank of America, additional 6 million of commitment authority required. We are currently looking at needing 93 million in today's snapshot. That snapshot does change on a weekly basis.

We have reached -- as of Monday we'll reach the
top of Bank of America's line when they take down those
four properties, and the initial structure that the
Agency had been looking at was the idea that the
properties would go through completion and then we would
wait six months and issue bonds on approximately 40
million of properties.

Currently to meet the Agnews closing deadline,
which is a legislatively set deadline of June of next
year, we've been exploring a warehouse line where the
Agency will purchase the loans from Bank of America as
the properties are completed and do a bond issuance in
December of approximately 50 million with properties
that we've already purchased. It gives us more
certainty when we're doing the bonds. We know exactly
what the costs are. It works for the Agency, and we
believe that it also works for the bank and the
borrowers.

MR. GIPSON: And that was an originally
contemplated thought, that we may end up meeting the
line. You need to take it down off the line upon
stabilization instead of waiting to issue bonds just
because of the sheer speed of that, so the thought was
out there in the very beginning that that may be
necessary.

MS. WEREMIUK: And the documents were structured
both ways, although we had -- when we didn't know what
this project would look like, we had a different
snapshot in our mind as to how we would carry forward
with this.

That said, we -- when we purchase the
properties, what we're looking at doing is a
modification at bond sale, modifying the notes and the
lease. So it would be a very simple process after bond
sale. The closings would have taken place in advance.

When you look at the schedules and you look at
the second chart, which is a construction chart, you'll
see seven properties in that chart that were properties
that were rehabbed prior to the acquisition, prior to
acquisition with Bank of America. We anticipate that in
the next month with this commitment authority we'll be
purchasing those seven loans: The four Cupertinos,
Medina and Ginger and Taylor.

And I apologize for the small size of the second
page. If I had pulled it out and read it, I would have
made it into two pages as well. I couldn't read it
either this morning.

In terms of where we are with what's happened in
the last two months since you saw us last, we did
finally execute the memorandum of understanding with the
three regional centers in which they agreed to put
11.115 million of additional equity in the project. There is a chart in your staff report that shows basically a maximum and minimum loan amount that the Agency -- that each loan would have.

Under the formula in that commitment to date and since last month, the regional centers have committed and put in over five -- they put in $5,874,000 on the first 31 properties so we've had -- we've had good faith. It gives us a structure where we know what our maximum loans are going to be, what the minimums are going to be. And for DDS and the regional centers, it allows them to anticipate what their lease amounts are going to be and to do some planning. As they're going through the May revise with the Legislature, they can say with some certainty what the costs are going to be to them when the Bay Area plan is fully functional.

Currently six properties, the Agency has approved six properties for construction. Three of them are in construction, and that pace is speeding up. We're learning to get through the -- there's a preapproval process for the construction documents after the Agency makes its commitment and approval for the bank. We've had some bottlenecks in that process. Part of it's a learning curve on both our side and Hallmark's, and we feel confident that we're getting --
we're getting through that, so.

But we do see properties currently in
construction, and we anticipate that by the time of the
first bond sale, all but two of the properties -- I
think 30 properties, all but two that you see here and
one additional that was previously acquired under a
different line by Hallmark will have been completed.

One of the other bottlenecks that the -- that
Hallmark has faced, Hallmark Community Services has
faced, has been permitting. We have new licensure
types. They have done extensive education with
localities in terms of the permitting. Every building
is sprinklered and has many safeguards for the
residents, and they've been working with, I think --

MS. OAKS: Sixteen now.

MS. WEREMIUK: -- with 16 jurisdictions,
educating the fire departments in the 16 jurisdictions
as to the licensure categories. It has taken longer
than expected, but as we do repeats, it's starting to
speed up.

So I want to just show you, the other thing
we've had in the last -- in the last month, the last two
weeks, actually, is the opening of the very first 962
home. It is in San Bruno. The property is, we call it
Medina. It's a medical model, newly licensed, a med 4.
There will be four families in it. It was previously owned by the service person who's going to be the service provider who had developed it as a group medical home and decided when the licensure came through that he'd rather be a service provider with this program, sold the property to Hallmark Community Services.

You'll see in the front, the service providers and also -- let's see if I can do this -- Jim Shorter, who's the executive director of the Regional Center of the East Bay and Gabe Speyer, who's with Bank of America, and a couple of our staff. It was the day after the bridge -- it was the day after the bridge went down, so you won't see Ed and I from Southern California or anybody who had to drive down from -- drive down from Sacramento.

This is a front view of the property. This is the expanded kitchen and the kitchen facilities that the residents will have. Mardie took the pictures. This is a view of the expanded hallways, the shower facilities and the bath facilities.

This is a bedroom that didn't get a tremendous amount of -- it still needs to be refurnished from the looks of it, but it gives you a view of the bedrooms. And it was a four bedroom with a master. The master was converted into an office and a bedroom and expanded for
the master bath.

The property itself was purchased at the appraised value of a million-250. We were looking at an acquisition cost of a million-792. Over 200,000 of the difference is the bond, the debt service reserve. The property is well under the maximum purchase amount for a 962 home, which is 935,000, so the regional centers did not put equity into this -- this property. One of the successes is that two days after the opening, residents began to move in, and it is licensed.

With that, if you have questions, Chuck and Mardie are here to answer questions about construction schedule. I don't -- and I think I would prefer to have them with me to answer those questions.

CHAIRPERSON COURSON: Thank you.

Chuck, nice to see you again. Thank you for joining us.

MR. GARDNER: Good to see you again.

CHAIRPERSON COURSON: Mr. Morris.

MR. MORRIS: Maybe you could comment a little bit on just the housing environment. I mean, I've just been looking at this. It looks like the median prices of homes that we're acquiring tend to be trending down. Looks like we're able to afford things that possibly in the past not. It also looks like the loan to value is
improving as well in this environment. So it looks like we own seven properties, the recent properties, that you're making some good -- you're getting some opportunities where '06 was a tough market. Do you see that continuing? Are you seeing now that we basically have commitments up to 50 -- 47 properties, and I guess you've got commitments up to, what, 51 properties?

MS. WEREMIUK: Right.

MR. MORRIS: And feel that this funding will take you through 64 properties. Do you think given this environment that you might be able to get beyond that 64? Maybe just comment in general about the market.

MS. WEREMIUK: What's -- I won't comment on the market, but I'll comment on the numbers. We're not sure yet. In the last year, some of the residents at Agnews have been moved to other housing, into other housing arrangements due to some of their own medical issues. And so the need for replacement housing has gone down. We're not -- it hasn't been quantified yet, but the regional centers at the same time need some emergency housing for other families, and they're making the decision as to whether they want to go through and purchase all 71 homes or stop at the 64 that they currently think they need.

Mardie and Chuck, do you want to comment on
the --

MR. GARDNER: Well, there's a couple questions there, so. The other thing, DDS, the Department of Developmental Services, is in the process of reconciling what the ultimate number is going to be, so the number is still a little bit in flux, and they're going to be nailing that down shortly because we actually only have 17 more properties left to purchase, so they're going to have to decide pretty quick what that number is going to be.

In terms of the market conditions, in December we started to see -- you know, we went from being in a -- when we started this project, being one of six offers and competing and having to pay more than asking price to actually being the only offer and asking somewhere, you know, sometimes 20 to 40 thousand dollars below the asking price.

I would say sometime in February we saw the market change, and we started getting back to a multiple offer environment for homes that were attractive. It's not back to the level of activity that we saw in July, but we are kind of seeing it tick back up. And it could be just seasonal because it's spring and people are back in the housing market, but the market's a little tighter than it was back in December and January.
CHAIRPERSON COURSON: Mr. Czuker.

MR. CZUKER: I think there was a little
difficulty in getting the program off the ground and
ramping up, which obviously had a lot of logistics, so
my compliments to you in working through all of the very
complicated multiple disciplines and different agencies
that had to cooperate here.

My question is, are you experiencing in the
current period a drop in your rehab costs? It appears
that there could be some experience where costs are
coming down slightly, and will that improve your ability
to execute both forward?

MR. GARDNER: I don't know that we've seen any
reduction in construction costs. We've had ten projects
now that we have had -- put out to bid and had bid
results on. Generally we are on or below budget. We're
not seeing any big budget busts, so that's the good
news. I don't really expect that to trend down very
much.

You know, we still have -- we've done a lot of
recruitment to get general contractors interested in
this job. It is a really -- it's a difficult fit
because it's not big enough to attract the caliber of
commercial contractors that you might like to have, but
it has all the paperwork and maybe then some of a public
works project. So one of the challenges we have is, you
know, the contractor who bid our first batch of
projects, we're really having to kind of drag him along
through the paperwork, and he's not really so anxious to
bid our Batch II projects.

One of the things we did to try to attract a
little bit larger volume contractors is we batch them.
So our minimum batch is three homes, which gives the
contractor approximately a million-two worth of
construction value to bid on. And we aggregate them by
region. So we've gotten some better quality contractors
that way, but they, you know, were not really
anticipating the paperwork.

And so for our contractors, we're trying to keep
them on board and explain to them that every time we get
into a new phase of this project, there's a huge
learning curve by all the parties, but if they'll just
be patient with us, we'll get all the kinks ironed out
and it will become a smooth process, as it has been in
the past.

CHAIRPERSON COURSON: Other questions or
comments from the Board?

The motion would be to increase the funding by
$30 million up to --

MS. WEREMIUK: 35 million.
CHAIRPERSON COURSON: 35 million, sorry -- up to a total of 105 million as set forth in the resolution on page 225.

MR. CZUKER: So moved.

CHAIRPERSON COURSON: Mr. Czuker moves.

Is there a second?

MS. JACOBS: Second.

CHAIRPERSON COURSON: Ms. Jacobs seconds.

Is there any further discussion from the Board?

Any discussion or comments from the public?

Seeing none, we'll call the roll.

MS. OJIMA: Thank you.

Mr. Davi.

MR. DAVI: 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. Pavao.

MR. PAVAO: Yes.

MS. OJIMA: Mr. Morris.
MR. MORRIS: Yes.

MS. OJIMA: Mr. Courson.

CHAIRPERSON COURSON: Yes.

MS. OJIMA: Resolution 07-14 has been approved.

MR. GIPSON: Thank you.

CHAIRPERSON COURSON: Thank you.

MR. GARDNER: Thank you.

CHAIRPERSON COURSON: Thank you, Chuck.

The Chair is going to suggest that we're next going to move into the business plan and the operating budget, so let's take about a ten-minute break. We'll come back at about -- I have 17 till. We'll start at five till 11:00. So we can take a break, and then we're going to move straight through the rest of the agenda.

(Recess taken.)

--00--

Item 6. Resolution 07-15, Five-Year Business Plan

CHAIRPERSON COURSON: We'll reconvene after our recess, and now I'm going to ask Terri to lead us through the business plan, which we had a preview of last meeting, page 229 in your Board book, and there are additional handouts which you will see on the Five-Year Business Plan and the operating budget, which will be the next two items we'll be talking about.

MS. PARKER: Good morning, everyone.
This is the exciting meeting for us every year when we come and present to you our proposed business plan. I have to say, you know, we talked a lot about this at our January meeting where we gave you a recap of where we were in our current business plan. And also I think we gave you a -- pretty good proposed concept at our March meeting.

So in some respects what we have here is really not a big surprise to anyone or shouldn't be. And I think the emphasis here for us, if I really wanted to look at it in totality as a concept; the business plan actually proposes a lower production number over five years than it has in the past. Primarily that is because of the numbers in homeownership.

When you look at what we are doing this year, we're on track of almost a billion-seven, maybe a billion-eight of lending which we could do if we had the resources. Going back to proposed homeownership activity of a billion and a half is a reduction, but it is a reflection of how much we are trying to adequately guesstimate we will be receiving from the Treasurer's Office in tax-exempt financing. Particularly this year going forward, we had to share some of our allocation that we got in the past with the Department of Veterans Affairs, which we have not had to do in the past.
So I will say this -- or we will say this many times during our presentation today, but we are challenged about finding the resources to grow these programs, and that is one of the challenges and really underlying activities that the staff are working towards and have been in the last year. We have some successes that we are going to talk with you about of ways to approach that, but that continues to be our biggest challenge.

Having said that, though, in order to do business going forward, we have to essentially really start from scratch in bringing up our systems to make them consistent with the industry that we are actively involved in. We have, and we'll talk about this and have talked about this for a number of years, the strategic initiatives that we have unfortunately launched into all at one time, so it's a horrendous effort, but we are really at the point in time that if we did not do them, frankly, we would be having our systems crashing all around us.

And I will give -- share a little story with you. We -- as an example. We increased our rates the other day because our production, frankly, is much faster than we can -- than we have recourses to cover. And when we put the bulletin out to raise rates, we had
such an impact, we had 68 -- almost a $68-million day.  
It froze our intake system. And if it wasn't for our  
folks really getting all over this, handling calls --  
because we got calls from all our lenders -- we probably  
would have had, you know, a complete meltdown in our  
system.  

So these strategic initiatives are really the  
main story behind what we are, and they're not just  
about next year's production, but they are about the  
future of the Agency.  

So you can see -- I'm just going to go through  
this briefly -- total activity, 12.8 billion. Mortgages  
in the $7.8 billion range. Mortgage insurance, 3.6.  
Basically we are tracking mortgage insurance based on  
our homeownership lending programs. We have had an  
increase in the mortgage insurance programs, and we are  
fortunate to have them, given some of the new products  
that we have put together.  

Strategic initiatives, again, major investment.  
And we will be going through this at even greater depth  
when we talk about it because it is the major story in  
our operating budget. 

The overview is a great story. It's really --  
we have a very strong demand for our products. You  
know, we have made a name for ourselves out there in the
marketplace, and now we have to figure out how to, you
know, maintain that. That's why we need additional
liquidity and at the same time see if there aren't ways
for us to be more creative in some of the programs that
we can create in the future that might not need new bond
cap or housing trust funds.

We have been successful in building up some of
our special lending programs now to a point in time
where they are going to self-fund themselves, so we
won't be having to go to our Housing Assistance Trust
Fund to deplete those, but we can now essentially be
rotating and leveraging those funds on an ongoing basis.

The challenges and the complexities continue to
be, as I said earlier, recruiting the leadership for our
major program areas. And it's not just the fact that we
don't have a director of homeownership or we don't have
a director of multifamily, but we are actually missing
some of the key staff below those positions, and in many
of our areas the challenge of trying to hire lenders,
staff to do underwriting, it goes throughout the entire
agency.

Clearly the impact of a subprime crisis we'll be
involved in. Even if nothing else, it's a discussion of
coming to us as a flight to quality. But we do need
capital to do lending.
We will talk more about our multifamily products and the role in the marketplace and the things that we have been doing this year where we have not had the benefit of a director of multifamily, but we have had an outstanding staff who have been working very diligently bringing new products to the Board and new projects. And Edwin is going to be talking about, for example, changes in our architectural design.

So for anybody who thinks we haven't been doing things, we're here to tell you today that we've been trying to keep ourselves challenged and involved.

Again, strategic initiatives, I can't say that enough.

If you go to the next slide, this is a breakdown among the program areas of our use of the Housing Assistance Trust Fund. We put this chart together for you because for all intents and purposes, this really is at the heart of the Board making any changes about program direction or utilization of our resources.

These are the HAT funds where we have the discretion to really incentivize our programs. And if you look at these numbers -- for example, two years ago we were pretty much using about twice the amount of our Housing Assistance Trust funds for down payment assistance. We have been very successful in reducing
this amount considerably so that it frees up Housing Assistance Trust funds not only for other uses, but frankly to preserve the housing trust funds for the future. So we have been disciplining ourselves to do a better job and not eating our young all at once.

The multifamily programs, we'll talk about those. Again, we have tried to do some major investments in that area. We'll talk our way through it.

The money that we have in HELP and Habitat, these are dollars that we expect with this investment, particularly on HELP, we'll start having loans come back, and we'll be able to fund that from repayments in the future.

The GO bond programs are Prop 1C and Prop 46. And then obviously the Prop 63 fund, which is the homeless mentally ill, chronically mentally ill housing program.

The next one is an overall sheet that, if you look at the handout, will probably make you go blind, but it does give you, by program area, where the $12.8 billion business plan summary is proposed as far as production targets for us.

And with that, I'd like to have us go into the individual areas and ask the senior managers responsible
to come up and talk and answer any questions about these
program areas.

CHAIRPERSON COURSON: Good morning.

MS. PARKER: Gerry and Chuck McManus.

MR. SMART: Good morning, Mr. Chairman, Members
of the Board.

The homeownership --

CHAIRPERSON COURSON: Gerry, before you start on
this, I think to facilitate this it would be my
suggestion as we go through if we've got questions,
let's take them as they occur on each of the slides and
deal with any questions as we go through.

Thanks, Gerry.

MR. SMART: Okay. Our homeownership business
production goals, as shown in the previous slides,
project a first mortgage financing volume of $1.5
billion for low and moderate income first-time
homebuyers. It also includes 78.5 million down payment
assistance that will come from the Agency's HAP funds
and the Prop 46 and Prop 1C bond programs.

Five-year total is 7.8 million, is our projected
goal. And as Terri had indicated, our goals are
predicated or based on tax-exempt bond authority that we
anticipate receiving in the next five years, prudent
levels of taxable bond issuance, recycling of existing
authority or repayments, and the carry-forward that we have fortunately received in the last couple of years from CDLAC.

Our strategies for the homeownership program include providing 30-, 35- and 40-year fixed-rate financing throughout California with the emphasis focusing on low income homebuyers with -- by providing low interest rate financing, continued efforts to provide equity in the distribution of loans in high cost areas, targeted areas, federally designated targeted areas, continued assistance to teachers, administrators and classified employees in low performing schools, veterans assistance and assistance to disabled homebuyers and self-help builders, individual homebuyers.

We'll certainly continue our outreach efforts to promote our programs, provide lender training and leads to our loan officers in our lead program, lead generation program.

The Agency has been working to develop a mortgage-backed security platform with Fannie Mae for our interest-only product. We've been hard at work on that since the middle of this fiscal year. By implementing this platform, we should provide additional flexibility in homeownership and reduce the related real
estate risk. The advantage to the homebuyers is, of course, reduced payments that they should see as a result of reduced MI premiums.

We have selected Countrywide Home Loans as our master servicer to securitize and service the loans, and we anticipate completing the contracts by the end of the month. That's between Countrywide, CalHFA, Fannie Mae, and the trustee. If that goes as anticipated, then we should be able to announce the program in June. So we'll start the fiscal year with all of our performing IO loans in the new MBS platform.

The homeownership automated business solution, or the loan origination project as we referred to it in the past, is designed to replace our existing Legacy system, our reservation system. We'll do so with a more robust platform that will integrate all loan process across the Agency's business functions. That's homeownership, accounting, mortgage insurance, debt management and loan servicing. Our current system has very limited capacity, does not communicate well with these other business functions, and of course has antiquated language that is no longer supported, so it really is needing replacement.

We have planned for a more flexible responsive system that will improve the information quality and
integrity, provide appropriate and timely access to information, improve our business processes and efficiencies, diminish our reliance on paper driven process and improve our customer service. We've essentially completed Phase I of that, including project planning, the as-is assessment of our business processes, defining the conceptual business model for the full life cycle of the loan, evaluating alternative solutions, particularly those used by other HFAs across the country, and development of an RFP.

Now, as we have indicated in the past, this project has been put on hold so that we could put in place the MBS project, and once that's complete, we plan to go out with the RFP this summer. And with the selection of an integrator probably in the early or mid fall.

We'll be signing four full-time homeownership employees to the project, work with the other IT staff, subject matter experts and the integrator that we select to develop the system. The time line that we anticipate to complete the project is probably in the neighborhood of 18 months. Estimated costs for this coming fiscal year, we anticipate or estimate at 1.4 million. This is, of course, our best estimate without the benefit of having gone out with an RFP.
The total project cost we estimate about 3.9 to 5.6. We worked with IT on these costs, and this is what we anticipate for the system integrator, software licenses, independent validation and verification, project management and our personnel expenses to put this project in place.

We will continue to explore opportunities and relationships with GSEs to sell whole loans and subordinate loans. That may include selling loans on either a flow basis, forward commitment, or maybe a portfolio basis. Fannie has indicated to us their desire to buy more goal rich loans as they did last year in the $66 million subordinate loan sale, so we look forward to partnering with them and seeing what we can do.

The advantage for us and what we would anticipate is increased liquidity and expanding our resource capacity. We'll also be working to implement a new REO steering committee to monitor delinquencies and foreclosure trends and our government loans subordinate -- excuse me, conventional loan and our subordinate loan portfolio.

The committee will also reevaluate our -- and modify as necessary, foreclosure and REO policies and give direction as applicable for the disposition of
problem REOs, those that perhaps have structural damage or environmental issues that we need to work with.

And that concludes my comments. I'd be happy to answer any questions.

CHAIRPERSON COURSON: Questions on the homeownership portion of the goals?

Mr. Davi.

MR. DAVI: Thank you.

Terri, I just want to clarify, that last bullet about the REOs effectively is talking about our properties that we would take back. In addition or included in that could be if we were able to vet that concept that we had discussed potentially would fall in that category if it was ever able to be worked out in terms of solicitation of other REO properties that lenders may have taken back priced below market, so to speak, or at some level where they could reduce the value of the property and sell it to a nonprofit for a 30-percent reduction and then if -- or sell it to a new first-time homebuyer, rather, and we would help facilitate that and the bank would get some kind of credit for that in some terms of --

MS. PARKER: Mr. Davi, our business plan, staffing plan, does not make any assumptions with respect to that kind of a new program. Clearly we're
going to talk about increases in the operating budget and increases in staffing, primarily around strategic initiatives, so there isn't any proposed here.

I think what we have said, though, in our -- my opening comments are that the HFA may be an entity that could be used. There's probably discussions about programs at the federal level, some discussions about programs at the state level. There's nothing in the business plan, but because of the subprime crisis hitting, we may have some opportunity or some proposals. We will be bringing those to you as they come up and essentially having discussion about how these fit in with the rest of what we're doing, resources necessary for them, how they fit with our overall mission, et cetera, et cetera, et cetera.

MR. DAVI: Okay. Thank you.

CHAIRPERSON COURSON: I might -- I might add I've been engaged and shared with Terri on a national basis on the subprime and obviously there's -- there's plenty of proposals floating around Washington and every legislator's office and agency. I'm doing some work to try to consolidate those to see if there isn't a way to get some unification of some of these efforts, both at the federal and state level.

And some of the discussions have been
surrounding what role the HFAs should play outside of their traditional role, and that's controversial, both with state HFAs and what they feel their role should be and any expansion of that. And so those are ongoing discussions. Terri and I are going to be attending a meeting in Florida where this is going to be a wide-ranging discussion as to should the -- I think the National Conference of State Housing Agencies and the Board needs to make some decision about what, if any, role the HFAs should plan. So that's a debate that's ongoing.

The other thing I might mention, I had this discussion with Bruce and with Gerry last night, is the mortgage-backed securities. Clearly we're constrained by perhaps some increased demand for our loans and first-time homebuyers in these markets and constrained by this bond cap issue, and clearly the MBS program is only a first step. We're going to be, in effect, buying back our own securities, and the next step is can we now take these securities and is there a way to sell them either to one of the GSEs or elsewhere to get it out from under the bond cap so that we can create additional liquidity, and that's sort of Phase II.

MS. PARKER: Yeah. I think we've talked to all of you and reported to you the success of our sale of
seconds to Fannie Mae to the tune of $60 million of liquidity this year and what that has meant from the standpoint of the overall business plan. Fannie has told us that they are very interested and have appetite for more of those seconds. We have essentially said to them our primary interest is getting this first program done because of the opportunities to reduce costs to our borrowers through less mortgage insurance, increase our -- our -- reduce our demand for liquidity and in that sense also have a better view of our program from the rating agencies on Wall Street.

But we are looking at all of those things. Again, it's just our way to try to deal with the inadequacy of our capital capacity, but to be able to do future programs. So as the Chairman said, each and every one of these things is a -- you know, kind of a major initiative, major accomplishment on our part. But we see this as the future for where the Agency needs to go in order to be relevant in the marketplace.

MR. CZUKER: Is there a way to sell loans and still retain the bond capacity for future? I mean that would be like having your cake and eating it too. So you'd be able to book the loan, use CDLAC bond allocation, eventually package it, sell the mortgage, and if you're able to retain the bond cap capacity to
recycle it, is that possible?

MS. PARKER: Bruce, I don't know if you want to come up to speak to this.

We had thought about having Bruce sort of walk through a little bit of a discussion of our overall portfolio and, you know, the -- that really is the underpinning for the business plan that's presented.

So, Bruce.

MR. GILBERTSON: Thank you.

I think the notion that we've talked about to expand the program without expanding the use of bond cap would be one of two approaches. One is that we have the ability in the Fannie Mae partnership agreement to sell them whole loans at improved pricing.

So what that really means is that we would flow loans to them at the yield that we would need to -- or they would require. Okay. So we would never issue debt to purchase the loans, but we'd use internal warehousing facilities for a short period of time and then flow loans as often as monthly.

The other opportunity that we could have is we could, in lieu of doing whole loans, securitize loans again and sell them directly to the marketplace or Fannie Mae. All of that is highly dependent on the pass-through yield that would be required of Fannie Mae.
MR. CZUKER: Is that also dependent on the bond volume cap going with it?

MR. GILBERTSON: No, because we would not -- we would still use the bond cap to purchase either whole loans or MBSes at a below-market rate, but it would be at a rate sufficiently high to support the debt financing.

Does that help, Ed?

MR. CZUKER: Not really. I'm still confused.

MR. GILBERTSON: Well, I think, you know, our -- let me back up and start with a more complete answer, perhaps. The business model for the Agency has always been to issue bonds, use the proceeds from the bond issues to acquire the mortgage assets.

You know, this first step with the MBS program will be to, in lieu of purchasing whole loans, purchase securities that we create from the underlying mortgages that our lenders originate. Okay.

Beyond that I think to expand the program volumes, there's two other opportunities that potentially may exist, and that is in lieu of ever issuing debt, we would purchase loans from originating lenders and then sell them either in whole loan form or in an MBS form directly to Fannie Mae.

MR. CZUKER: Never using bond volume cap in that
whole process.

CHAIRPERSON COURSON: Never issuing debt for
that purpose.

MR. CZUKER: So how do we recycle, perhaps, the
volume cap we already have or are able to get in the
future so that we get two or three bites at the apple
with the same volume cap?

MR. GILBERTSON: We do that, and we have been
quite successful. Remember, there is a limitation in
federal tax law, the ten-year rule that requires you,
after ten years from the original date of issuance, that
all principal, be it in the form of repayment or
prepayment, must be used to redeem bonds. But during
that first ten-year period, we recycle in one of two
ways. We either refund the debt and reissue debt at the
then market rate or we recycle loans directly back into
those finances. So we --

MS. PARKER: Mr. Czuker, maybe one way to
provide a good visualization for this, our assumptions
to do a billion and a half next year assumes that we
will be getting -- how much?

MR. GILBERTSON: 300 million per year.

MS. PARKER: -- 300 million. The balance of
that is going to be made up through taxable and
recycling, which is exactly what you are talking about.
So it's a -- it's almost a third, a third, a third or a little greater. I mean, our leveraging of new bond cap is, you know, phenomenal. And that -- that really is our main challenge. I mean, at one point in time, we were leveraging every new dollar bond cap with another three dollars, on a, you know, four-to-one basis.

Because of the increase -- or the reduction in -- between taxable and tax exempt, it hasn't been as successful, but that's how we leveraged to do so much volume with really so little tax exempt new bond cap. To the extent that we can get more of that, you know, that will essentially help us. If the current market is -- if rates go up, then we may be able to do more taxable and still be relevant in the marketplace. But those are the things that Bruce and his folks and our debt management folks are looking at and dealing with on a daily basis.

MR. CZUKER: Thank you.

CHAIRPERSON COURSON: Other questions?

Thank you.

MS. PARKER: Mr. McManus.

MR. McMANUS: Thank you.

I take you to the next slide. It indicates mortgage insurance production. I'd just like to remind the Board that all conventional loans go through what is
called the mortgage insurance department. We have the 
credit underwriting function for all conventional loans, 
which is about 80 percent of the production. Of that, 
45 percent of the total production is what I'm 
forecasting will require mortgage insurance, will have 
less than 20 percent down. The balance is generally 
80-percent loan to value loans that have second 
mortgage, third mortgage and fourth mortgage assistance. 
Our average combined loan to value is 98.5. 

So we don't get much borrower cash into our 
loans. To the extent we are successful in getting low 
income people, most of those are coming with down 
payment assistance, so the more successful we are in low 
income, the lower percentage the mortgage insurance is. 

We ran about 55-percent mortgage-insured loans 
this fiscal year. I'm forecasting 45 percent. I will 
not dictate that. The market will dictate that. But I 
think it's reasonable to assume about 45 percent will 
have mortgage insurance and 55 percent of the 
conventional will be 80 and under and a high share of 
that being low income. 

On the new product opportunities, you're aware 
of the tightening of underwriting by the Comptroller of 
the currency and in turn OFHEO, who regulates Fannie Mae 
and Freddie Mac. On interest-only loans, they now
require that the loans be underwritten as if principal
was also going to be paid along with the interest only
and then spread over the total term of the loan. That
will tighten on our interest-only product. Where we've
been underwriting at the interest-only payment, it will
now be interest only plus principal. In our current
product divided by 35 years, it will reduce the
affordability. I expect a 10-to-15-percent drop in
volume of people qualifying because of that tighter
underwriting.

To somewhat counteract that, we will be working
on a 40-year interest only, which has a ten-year
interest-only period, and that will allow us to use a
40-year amortization, which will make a more affordable
payment for underwriting purposes. The interest-only
payment is identical to our current one. That doesn't
change. Interest is interest.

So we will be working on doing that to increase
the affordability of our interest-only product, which is
particularly useful to the moderate income people and
also in high cost areas.

CHAIRPERSON COURSON: Chuck, will that still
be -- will the 40 year still be eligible for the Fannie
Mae MBS?

MR. McMANUS: Yes. It is within the affinity
agreement and therefore eligible, and we're all set to
handle it technically also, so it will just take us two
or three months probably.

Next we introduce the lower cost MI coverage.
The Fannie Mae commitment reduces -- we have 35-percent
cover on every loan now. As part of our bond indenture
we actually guarantee 50 percent. 35 percent is
provided by the mortgage insurance fund. The additional
15 percent, also the mortgage insurance fund but
indemnified by the Agency. So that 50-percent cover is
in our bond indentures.

By selling to Fannie Mae, we will only be
providing 20-percent coverage on the hundred-percent
loans, 18 percent on 97 LTVs and so forth. The balance
of that coverage will now be covered by Fannie Mae.
That is an advantage for exposure to the Agency in case
there are big disruptions in the mortgage market.

Secondly, the price on a 100-percent LTV, 35
percent covers 85 basis points. On the 20-percent
coverage, it's 59 basis points. It will be, in effect,
a quarter-percent reduction in payment for the
borrowers. So good for borrowers, good for the Agency.
And those will be introduced simultaneously with the
Fannie Mae program.

Finally, the credit risk and property risk,
which everybody reads about in the paper every day with
the foreclosures and watching these and managing our
portfolio and trying to mitigate losses where we have
defaults, we're spending a lot of time making sure we're
not making big mistakes, concentrations of risk and so
forth and monitoring the markets where there are
debtions, making sure our appraisals are showing that
debt and trying to protect us against big losses.

So that's what we're doing. Any questions?

CHAIRPERSON COURSON: Questions on mortgage
insurance?

Thanks, Chuck.

MS. PARKER: Then I'll ask our multifamily and
special lending folks to come up and...

MS. WHITALL-SCHERFEE: We thought we would
start our discussion with a discussion of our production
goals for next year. We are focusing on $90 million of
construction and permanent lending for next fiscal year.
That's divided up $30 million on permanent loans and $60
million on construction and rehab.

We mentioned a little bit at the last Board
meeting that the reason we're doing a two-to-one spread
on our construction and rehab versus our perm, because
construction loans are closer to four to one, is because
we're seeing more and more emphasis on rehab. It's
going to be both portfolio rehab as well as rehab deals that are currently in somebody's portfolio.

MR. GIPSON: For the next fiscal year we're showing 15 million in the Bay Area Housing Plan, which is the balance of -- the difference between the 105 and 120 of the preliminary approvals we received. There will still be a great deal of work involved with going through the construction process and stabilization of the projects and then final conversion to the permanent loan stage along with all the bond sales that will need to take place when that happens.

But for the dollar amount itself, it only reflects 15 million, but it does not reflect, unfortunately, the amount of work that's going to be involved in moving that through the process for next year.

In addition, we have a new housing program starting or which has started, which is rather large, which is the Mental Health Services Act Housing Program. In partnership with the Department of Mental Health, we'll be administering this program.

It started up under the Governor's executive order, and basically the goal is to provide 10,000 additional units. We'll be getting 75 million a year for capital primarily and up to $40 million a year for
operating subsidy.

This is a program that is starting from the ground up, scratch. There have been numerous work groups with out -- internal state agencies, outside stakeholders, developers, the County Medical Health Directors Association, DMH, tax credits, to get this together.

Basically it is a new housing program. We'll be providing up to one third or a maximum of a hundred thousand dollars per unit for special needs mental health housing targeting those who are at risk of homelessness or are homeless. From this, we will have to develop everything from how the operating subsidy will be calculated and how all the capital will be disbursed. There are rules in the Mental Health Services Act that require equity distribution among the different counties, so each county will actually have its own allocation that we will actually have to monitor and watch as well, as those projects come forward.

To date we have the term sheet, the program description. We're working on the application. As part of the Governor's executive order, there are requirements that we provide information to the Legislative Analyst's Office. That report is in draft form. They are allowed to have 30 days to take a review
before we move forward. The expectation and hope is that we will be out somewhere mid to late June with a program.

Department of Mental Health is going to advance to us $400 million, which will be about three and a half years' worth of allocation to start the program. Multifamily programs is kind of being the point group for the Mental Health Housing Program, but we're also working internally with asset management as well, who have the responsibility of administering the operating subsidy. And we expect commitments to be somewhere, 15 million for capital for our next fiscal year and another 30 million for operating subsidy.

One more initiative. They keep me busy. The Homelessness Initiative Lending Program, it's really a supportive housing program dealing with homelessness and those needing supportive needs. It shows $5 million here. We expect to put $5 million out this year and $5 million out next fiscal year. You've seen it in the previous budget. It's for a loan program to a nonprofit entity that will do predevelopment and acquisitions loans to jump start special needs housing projects in areas.

So we have an applicant. They have a program put together. They will focus primarily in the
beginning on L.A. and Bay Area and San Diego type areas, not necessarily exclusively, but those are the ones that they've targeted where they can find the need and the demand.

It is truly supportive housing. This will be recourse lending back to the nonprofit, so they will be responsible for those loans. They have set aside a loan loss reserve to help buffer that, and so the Agency will make them an interest loan, basically, between 2.7 and 3 percent, depending on what year it is. And they will turn around and re-lend those funds. So that will be coming on shortly here, and so we will have another tool in the arsenal, if you will, to help develop affordable housing, particularly the special needs housing.

MS. WHITTALL-SCHERFEE: For several -- oh, I'm sorry.

MR. CZUKER: Go ahead and finish and then I had a question.

MS. WHITTALL-SCHERFEE: No, no.

CHAIRPERSON COURSON: Go ahead.

MS. WHITTALL-SCHERFEE: Okay. For several years we've had a multifamily working group within the Agency. This year we took on the task of trying to determine ways to make multifamily more competitive in the industry.
We've known for several years that there have been issues that have been of concern to our borrowers, and our feeling was that now is a really good time to take a look at them, especially since we were also looking at a new database system, Prolink, because there's no point in coming up with a database and then deciding that you're going to change some of your fundamental program requirements and how we wanted to be viewed and how we wanted to promote our programs in the industry.

So we developed the multifamily competitiveness initiative. The first section that I'm going to talk about is more of our programmatic changes. One of the things that we have been doing for years is really using interest rates and determining our interest rates based on Libor.

And we took a look at the various opportunities that we have and decided that we could provide more competitive interest rates in the industry if we went to what was then BMA and I understand is now -- I can't pronounce it correctly, but its S-I-F-M-A -- SIFMA, if we used that index. And so we've developed a competitive construction loan interest rate program that we just rolled out last month based on the SIFMA.

We've also taken a look at the kind of fees that
we charge as part of our regular program. We had things like legal fees that we were adding on to our standard package. And we've taken a look at the spread that's allowed and decided that things like legal fees are not fees that we're going to collect at this point in time.

Our processing has been very effective, but it's been a very, very paper-based, very, very extensive process that sometimes got in the way of the goals and the guidelines that the developers had and -- and when they needed to close.

So with Prolink, which I'm going to talk about a little bit later, we have decided to go to a more electronic-type system. This electronic system is going to work very well with the whole universal application that was tasked to all of the major state agencies in housing. TCAC, CDLAC, HCD and CalHFA were all asked by the Governor's Office to come up with a universal loan application.

We are incorporating this into our production process. We're using it right now, but it's going to actually be an electronic part of our new database system.

Processing also involved more fundamental things, just looking at how many times paper needs to be touched and who needs to really look at things and who
needs to review and approve things. So we've been going through some of that, not always in the competitiveness of a multifamily working group meeting, but internally within our own department.

The seismic review process, our seismic standards, the damage ratio that we required was much, much more conservative than the rest of the industry. We have not loosened to the industry levels. Our standards are still more stringent, but we also recognize that we can't expect borrowers to add hundreds of thousands of dollars of seismic costs to the buildings and still expect to ever have construction loans come to us again. So we are more realistic now in our seismic review standards.

We've also taken a look at earthquake insurance because we know that earthquake insurance providers are not providing the same level of earthquake insurance coverage. So what we've done is added the opportunity for acquisitions/rehab projects to get the seismic review process and get an earthquake insurance waiver. Prior to this no rehab project was eligible for an earthquake waiver regardless of what kind of seismic retrofitting had been done, and that just didn't make sense. So we are encouraging seismic retrofit and giving the carrot of an earthquake waiver if -- if the
borrower will do seismic retrofit to those levels.

MR. GIFSON: As a part of that multifamily
competitiveness initiative in the working group that we
have is the architectural review manual that fits inside
there. These are all -- along with interest rates and
fees, it's all a package deal to every developer that we
see. I handed out or had -- a list of what we've added
or changed, so a three-page document, changes, and some
of the additions to what have happened to the manual.

It's gone through many iterations and rewrites
and consolidation, if you will. It is a more
streamlined manual. It just is. Some of the things we
are not tracking anymore were things that were covered
by other codes, state building codes, local building
codes and so repeating them in our own way just didn't
seem necessary anymore.

And we've tried to add flexibility to the
process. That's part of the key thing, is now we've
always encouraged early review, but we're getting out
there and doing that as such, but the big one is now
there's also a waiver process. If there's an issue with
your design, let's -- we have a waiver process. Let's
get it down, get it discussed and get it clarified
quickly. I think historically there has been, you know,
maybe some agreement but not total clarity. We're going
to provide clarity so everybody knows that issue is done and gone and we're ready to move forward and everything that falls in line.

We all know architectural issues, you can't just touch one thing and it doesn't cause an impact to another wall or another building.

CHAIRPERSON COURSON: If I could, I think Ms Jacobs has a question.

MR. GIPSON: Absolutely.

MS. JACOBS: On the architectural standards, can you tell me why you are still requiring copper pipe?

MR. GIPSON: I can't specifically say why we're -- its requiring copper pipe, but I can say we've accepted other forms already. And so where it hasn't hit the actual manual, per se, at least in the current one, we have tested out other versions of piping.

MS. JACOBS: I'm going to suggest that the building code just changed so that copper pipe is no longer required. And I'm going to further mention to you that with the new lead requirements in 2010, copper pipe is not going to meet the test --

MR. GIPSON: That's right.

MS. JACOBS: -- so I think that you need to change that.

MR. GIPSON: And it's completely under review.
Thank you. That's right at the top of one of -- unfortunately, one of a handful of issues. That's a very good point. Actually, I do appreciate you pointing that out.

A lot of this process that we've gone through is we have met with a good number of the developers we work with and more particularly a good number of the architects, and that's limited to some of the engineers as well, about issues just like that, you know, what are we requiring and why we're requiring it, what is the process, what is it reviewing. And the key one is when are you stopping the review? When do we know we're actually --

MS. JACOBS: Finished.

MR. GIPSON: -- done? Yes. And I think that's a fair question because when you're going through the process, every time you touch something, something else keeps moving. So that's been very difficult. But meeting with all those outside groups, meeting with the developers, having the internal meetings with our own staff about what they've seen and what they've heard, we've come back, and each time we've had a compilation of different comments from different groups.

Nobody is fully agreeing on any one issue. I can honestly say that. Some say this. Some say this.
Some are criss-crossing across the top of each other about, you know, what the real issue is. Certain developers have even higher standards than we do. Great. That's great. We went to try to set about a floor, and we went about to set some flexibility for if it makes sense, we're going to try to help you get there, just plain and simple. So we've taken all that output.

You don't happen to have a copy of the draft at the moment, but there's still -- there's still issues about, you know, when air conditioning is required, where it's required when you're along the coast, things still about the copper pipe, what can be used, what's its durability, what's its life. Those types of issues still exist.

And so -- and a big one has been the cabinets. We have historically collected cabinet samples because the quality varies up and down unless you hit the highest quality standards. So we've met with cabinet makers to try to get some type of spec and understanding of certain levels so we can give you options. You can choose higher or you can choose this other level.

CHAIRPERSON COURSON: I've got hands shooting up, but I'm going to have the prerogative of the Chair and ask a naive question.
MS. JACOBS: It will be my line of questioning, I have a feeling.

CHAIRPERSON COURSON: Well, it seems to me if we're waiting to get everything right or are -- are we putting these changes in -- as we can put changes in, are we putting them in, or are we waiting to get one architectural review revised document out there?

MR. GIPSON: No, the -- we're actually not waiting on anything. This is actually one of those things that I don't care how fast you run, it's like 8,000 things coming at you at the same time.

We're completely moving forward. The hope is to have it out here in June, real quickly. The real hope was to have it now, but some comments came back and some cleanup items when we made -- went through the last set, all the conflicting stuff, we actually had to sort through. We will have one more internal review. And it will go out. And the process --

CHAIRPERSON COURSON: That's --

MR. GIPSON: Oh, I'm sorry.

CHAIRPERSON COURSON: No, I'm sorry. I don't want to interrupt.

MR. GIPSON: And then the process will be when you read it, it will say, "If you have any additional comments, feel free to submit those," and we will set up
some time line where we will start incorporating things
on an ongoing basis as -- so we've changed that process
as well.

CHAIRPERSON COURSON: That's my point. I think
you've got to put a marker out there and it's done. And
this is a living document. This is going --

MS. PARKER: And that's right. It's a dynamic
document.

CHAIRPERSON COURSON: -- to be something that
you're going to continue to take a look at issues, just
like the copper issue or other things that come up. And
I think this is a working document that's going to see
changes on a fairly frequent basis.

MR. GIPSON: I a hundred percent agree. And
that's why the only thing with the last review is to
tell everybody what we -- what we were doing.

CHAIRPERSON COURSON: Ms. Galante and Mr. Czuker
and Ms. Jacobs.

MS. GALANTE: I'm going to maybe -- I don't
think it's a naive question, but I want to take this
conversation back even further, and it may be that we
should have a whole separate conversation on multifamily
architectural review.

You know, I think all the initiatives that
you're presenting in terms of competitiveness are
terrible. I think the architectural review has been a bugaboo for this Agency for -- since I've been doing business with the Agency. And it has improved significantly over time, and yet it needs continual improvement if the Agency wants to be competitive in multifamily housing production. I think that's just a fact.

So the real question I want to ask is why do we have standards at all? And, you know, I mean I'm really serious about that question. I mean, is it a statutory mandate, a requirement? Is it something this Board can have a conversation about? Why are we doing this when other permanent lenders simply do not? They rely on local building codes. They rely on local building standards, local design review. And, you know, I just -- I've never understood and I don't think I've ever gotten a clear answer why we do this.

MR. GIPSON: I'll start with I don't know that it's an actual regulation that it has to be there. I would say as -- in comparison to the outside and to the governmental and what appears to be the use of public funds here, I think there's going to be some expectation which must have started 30 years ago, way prior to my arrival, particularly to our services in the last year and a half, that there needs to be some minimum standard
of the quality type of project that we're going to be involved with and making sure that the sustainability of that project is going to last a full term of 30 years.

One of the places where we vary from the outside was the sheer fact that we, particularly in the history, had a no prepayment, no refi policy, which meant you better have built that project very well for the term of the loan.

Well, if you go back a couple years ago now, we now have the -- what's 30/15, which we can prepay after year 15, which helped it out. Because the reality is every project is going to need a little bit of rehab. But I think when I -- when I look at the architectural guidelines and look at the history, you're right. Without a doubt those guidelines added some costs and price.

But when based against the outside sector, they did do their cost review, they relied on their architect telling them when they did their review that, yeah, and that was basically a market-type project of a reasonable quality. And I think what the Agency did is took another approach and said, "This is the type of quality we want to see, and we'll be okay."

And the bank would just say, "I don't want to do that deal because I don't like that product," and they
tended to develop great relationships with wonderful
developers who over time did put out a quality product,
and when they didn't, if they were doing a project with
someone who didn't, they just never got involved with
them, so.

MS. PARKER: Ms. Galante, let me just add to
this because -- just from the standpoint of longevity,
of being here longer. I think Edwin has given you a
very fair assessment.

The dilemma -- here's what we've found out. I
think some of it is just old pace. We -- because we
were lender of last resort and we figured that these
products were going to, you know, be there for a long
period of time, we felt we were different than some --
some entities in the marketplace who were doing projects
that may be essentially, you know, just trying to be in
there for the tax credit and then flip them.

And so the question has been asked of us, well,
there's a number of our partners who are -- you know,
have the same public benefit goal that we do, so why
should we be second-guessing people who have clearly the
same benefits we do? We have asked ourselves these
questions.

And some of them are not the best answers. We
struggle with trying to have guidelines as a state
entity that people can look at and say everybody has to adhere to them, whether they're, you know, X, Y or Z because if we don't, then we get into a situation about whether we as a government entity are treating everybody the same, and I think that has presented complications for us.

You know, that's the reason why we are in this process that we have been in to really go through this. This group knows that if we don't do something about this, we aren't going to be doing products. We aren't going to be doing programs. So we have to be responsive to this.

And I think this is a point in time. I don't think that we are done with it by any stretch of the imagination. But if we -- you know, if we wanted to essentially for the Board get the benefit of, at a future meeting, having some time to sit down and talk about this, I think it would be very helpful for us. But I want to just give you some sense -- and some of those things are old reasons that we now, because of going to reduced time frames, we don't need to deal with.

But I think we're trying to struggle with what should be some minimum requirements that we should hold people to. Because there are some people who perhaps
don't have the same quality concerns as other developers
do, and then we get into the situation of how do we, you
know, demonstrate from a public standpoint that we
aren't, you know, treating different people differently.

CHAIRPERSON COURSON: I think, Ms. Galante, if
you'd like, let's ask to put that on our July agenda
meeting and see if we can't have a more robust
discussion. By that time the final document or at least
the iteration that's going to be published will be out.
We can take a look at that. And I think it's an agenda
item that's worthy of discussion, so we'll do that.

MR. HUGHES: Mr. Chair. Part of Ms. Galante's
question was whether there's any statutory requirement,
and off the top of my head, I can't think of anything
that requires specific architectural mandates, but we do
have a general mandate to finance safe and sanitary
affordable housing. So to the extent that part of that
is obviously the asset management function of ongoing
regulation, but to a certain extent I think it's
historically implied some sort of standards, whether
they have to be specific architectural or --

CHAIRPERSON COURSON: I think when we have our
discussion, there are lots of pieces. There's this
piece. There's clearly indenture and the securities
piece. There's, you know -- there's clearly the
statutory piece. I think all that should be part of that discussion.

    I promised Mr. Czuker next and then Ms. Jacobs.

    MR. CZUKER: Thank you, Mr. Chairman.

    I'd like to focus our attention back up to the first line, construction and permanent 90 million, which is broken down for us as 30 million for permanent loans and 60 million going for rehab as well as new construction.

    I am very disappointed with that number. That is a tremendous lack or small goal for an entire year of production. $30 million in permanent loans could be one or two deals, if the deal was sizable, like a hundred units or more in a high cost area. So to have a goal of one or two projects for an entire year, all of permanent lending, is very disappointing. It should be perhaps ten times that number. Similarly with the rehab and potential -- and new construction potential, that could also be ten times that number.

    So I realize there's some internal restructuring going on and we're looking for a head of multifamily, but to reduce our goals for -- for a year going forward to that low level is disappointing as well as perhaps not serving the greater good of the need for affordable housing in multifamily that exists out there and in all
categories, rehab, new construction and multifamily.

And does that mean you can only do small deals now because your cap or volume in your five-year plan is so small that we're now going to be stuck with small deals?

And just to remind other Board members, perhaps, in past years, if you go back a handful of years, our goals were two to three hundred million for permanent loans alone.

So, you know, I'd like you to, please, address why and is there a way to try to be a little bit more aggressive than these dismal numbers of production 12 months going forward.

MS. WHITTALL-SCHERFEE: I'll start by answering your question. Regarding the dismal numbers that you're seeing before you, those dismal numbers, in fact, exceed what we intend to do this year.

We've discovered that in the last three years -- when we jumped into the construction loan industry three years ago, yes, we had $10-million construction loans as a matter of course. We also found that enough construction lenders thought that our program would fail, and they pulled out of the market. So for some time, we were not the only game in town, but we were the most competitive game in town.
Those lenders discovered that they could still make money, and, in fact, they had deposit bases. They had all kinds of other sources that they could use to lure borrowers to them.

We don't have that same ability, and what we have noticed is that the market has become very, very competitive. I speak to developers all the time, and what they're telling me is -- in one case, a developer told me that -- it was a nonprofit developer, that she had gone to a lender that had made a proposal that had responded to an RFP proposal and said, you know, if you lowered your construction and your perm rate half a percent, I'll go with you. And she said she did not think they would even consider it. They did it without blinking an eye. They waived all their fees. They -- they -- the industry is incredibly, incredibly competitive. The housing --

MR. CZUKER: You're focusing on the construction side of the business, which is relatively new for CalHFA, and I'm focusing more on the standard business of permanent loans, primarily -- both multifamily permanent loans and if we're getting into accusation/rehab, which primarily is larger dollar expenditures to acquire and rehab a building that already exists. It would be higher dollar volume and a
permanent loan.

MS. WHITTALL-SCHERFEE: Okay. To address, then, acquisition/rehab and permanent loans, those loans, we have been seeing, have been traditionally smaller. I think if you look at the loans that you saw come through today, they're $4-million loans.

That said, it's still a very competitive market out there. We think that this goal, for at least the next year, is one that we can meet. We found that the goal that was set for us last year -- I mean, we can set big numbers, but if the -- the volume can't be met, I would much rather see realistic numbers that we can truly, truly meet.

So four to five million, if you're looking at rehab, that's quite a few projects.

MR. CZUKER: If you're --

MS. PARKER: Maybe another way to say this is, you know, we're not -- we're trying to give you some numbers that we think are realistic in the marketplace.

I think there are some other factors, if you look at the -- the deals or the requests for money coming through CDLAC and TCAC, the number of deals have been reduced from what there have been in prior years in some of those programs because of the increased costs. So, you know, its -- the competitiveness has been, you
know, less than it has been because of, you know, their -- some of these projects are more and more difficult to do.

You know, we have exceeded -- our business plan for homeownership this year was a billion-five. We're doing a billion-seven. If we have an opportunity to do a greater amount, we're going to do that.

But one other thing I would like to point, to the Board, out -- and this is really Laura's shop and her part of the business. At the same time when we have reduced our, what we'd say our core, and we're trying to get back into that with the competitive initiative, the work that we're doing on special lending, the housing homeless program, the Bay Area, they aren't particularly big numbers, but the complexity of what we're doing there isn't done by anybody else.

And so what we have sort of done, and I've talked about this before, is during this period where we, you know, felt perhaps we might not be as competitive with some of the private bankers, who, frankly, you know, these are lost leaders for them. We can't compete with that because if we do, it's all going to come out of housing trust funds, and I don't know if you'd want to commit that much resources, because we'd be through it in a heartbeat.
But during that period, that we could essentially be focused on some of these special needs housing, a good area for us to, you know, do a public benefit mission and in that sense try to be going through some of these competitive issues so that we can help get back into -- from either a pricing standpoint or cost to our competitors. But even if we do get back in the market, it's going to take us a little bit of time.

MR. CZUKER: When I talk to stakeholders and borrowers of CalHFA up and down the state, what I'm hearing on a permanent loan, multifamily side, is we are relatively competitive. In the 5, 5.2, 5.3 permanent loan environment, the ability to come to CalHFA for a permanent loan is competitive.

And so the complexities and competitiveness of some of the other things we were discussing, including architectural review, has scared the people away from applying to CalHFA because of prior reputation, prior experience of bureaucracy and process and cost.

And, you know, I commend you for going through and reevaluating how to streamline and make our products more competitive, but at the same time there is a huge need, both in acq/rehab and in new construction in the permanent loan side, which is barely being scratched by
everyone out there. And to see budgets where we were in the past at two to three hundred million in permanent loan reduced to 30 million, maybe it's because we're going through some internal restructure, but it's not really serving the total need and demand that exists out there that I'm experiencing and hearing firsthand.

MS. WHITTALL-SCHERFEE: I can tell you that my staff is out there looking for deals. And, you know, that is our primary goal. Edwin and I are out meeting with our counterparts in the public.

What we have found is over the last couple of years there is a greater interest in combining acquisition financing with permanent financing, construction financing with permanent financing. Where we met that need as a permanent financing lender years ago, that is just not something people are as interested in, and so it's the whole package we have to look at.

And you're right. It's the architectural review, and it's all of those things that are part of our competitive initiative. And nothing would please me more than to be able to come back to you anytime during this fiscal year and say, you know, those numbers just were way too low and I really need to let you know that our production is going to go through the roof, because that is our goal. That is what we're here to do.
MR. GIPSON: And there has been -- there has been a fundamental shift in the market that, you know, just a few years ago when you look at our rates, our rates were very good. We were, you know, about 20 basis points below market. So when you're 20 basis points, you know, process is less of an issue.

But now, just as you've said, we are competitive and we're in the mix, and we're not necessarily always in the low end of the mix. Sometimes we're in the high end of the mix. And that is when everything from interest rate to loan fees to processing to timing to the architectural manual comes into play. And this is exactly why we started this process when we looked back.

Another shift is -- is that when we were in perm financing, the banks were mostly into construction financing, and things both evolved and the banks got into construction and a little bit more perm. And I'll tell you one of the most favorite things I've heard is -- talking to one of my fellow bankers is what -- "Hey, where are you with rates?"

Well, they never like to tell you that anyway, but the clear answer is, "Well, whatever yours is, mine will be lower," because I post my rate. You know exactly what I am, so all you have to do is challenge me with five little basis points and you've got it and not
the same process.

So it has been a very tough year. And I think those numbers, they're not rosy and glory. We're not happy with them, but either we have to -- we have to work on process. We have to be able to work on our costs of funds so we can do something about our rate so that we can get back in the game. And we need to work on building back the relationships.

MR. CZUKER: Well, I agree with everything you said. The one last point that I'd make is I think there's also a tremendous opportunity with the aging population and the aging nature of the existing housing that's out there, that you're going to see more opportunity in the acquisition/rehab and rehabilitation of older structures to make them habitable and give them extended useful lives, especially as infill areas are already completely built out and the competitiveness and cost of building new construction is so dramatically more expensive than rehabilitating old existing structures that instead of demolition and new construction, you will see rehab as a viable affordable housing alternative.

MS. PARKER: We have this with our own portfolio. I think Margaret will talk about -- you know.
MR. CZUKER: I've taken enough of your time.

CHAIRPERSON COURSON: Thank you. Thank you. A
very good discussion.

Ms. Jacobs.

MS. JACOBS: I do think that -- this was not
what I was going to say, but I do think that it is in
our purview as the Board to say we'd like to see some
adjustments in some categories rather than to just -- I
don't think our job is receive and file here. So I mean
I think we may want to, you know, have some further
discussion on maybe changing some of these goals.

MS. PARKER: You have the ability to -- now to
change these numbers.

MS. JACOBS: Right. But I'm just saying, you
know, this is the kind of thing that you don't
necessarily do in one meeting.

But secondly, this is just a small point that I
wanted to say, that when you have your architectural
document ready to go out, if you could send -- I mean, I
as a Board member would like to receive a package --

MR. GIPSON: Oh, yes.

MS. JACOBS: -- before the meeting. I mean when
it's ready to go out, I'd like to receive a package. I
don't know if anybody else would like to, but.

MR. GIPSON: I expected as such, so, yes.
CHAIRPERSON COURSON: I'm going to make a suggestion following up on what we just talked about in terms of architectural review. Maybe the agenda item is broader than that and --

MS. GALANTE: I was going to ask that.

CHAIRPERSON COURSON: -- maybe what we ought to do is in July put on -- having this number put on the agenda really a discussion time that talks about potential opportunities and challenges of increasing our multifamily production, looking at all these. I mean there's a lot of different areas up there and process and maybe a more thorough briefing of the Board of what that process is, what some of the changes are. I think it's a -- now I see it as a bigger issue addressing what really the -- my three fellow Board members have just talked about, and I think that's a very good discussion to have, the Board.

Mr. Carey.

MR. CAREY: I'm very supportive of that. I just want to point out that meeting is July 5th. Have we adjusted that schedule in any way?

MS. PARKER: I think we've talked about changing the time of the meeting to be later in the day. Unfortunately, we have not changed the date, but we have talked about making the meeting start later in the day.
CHAIRPERSON COURSON: If -- we did talk about -- we talked about starting later. If it is a problem, we can look at dates, I suppose. I don't know, we're meeting in Sacramento.

MS. PARKER: Sacramento.

MS. OJIMA: Hyatt.

CHAIRPERSON COURSON: At the Hyatt. And the question was --

MS. PARKER: Jojo, I mean, you know, you might want to talk a little bit about the problems that we had trying to even get --

MS. OJIMA: The month of July for Board locations, just any day, was a problem in Sacramento, the month of July.

MS. PARKER: So, you know, we serve, you know, whatever the pleasure of the Board.

CHAIRPERSON COURSON: I think the last discussion at the last Board meeting, if I recall, was we were going to go for an afternoon start, like a 1:00 o'clock, as opposed to a 9:30, which gives everybody a chance to get there.

Mr. Pavao.

MR. PAVAO: Is your point just the week of Fourth of July is a tough week to convene a meeting?

MR. CAREY: My point is I think it's an
excellent discussion, and I just want to be sure that we are all able to be there for it, that we'll have a broad enough representation.

CHAIRPERSON COURSON: Let me do -- let us -- let me do this: What we'll do is, let's -- we'll -- I'll ask -- we're asking her now, Jojo, let's go back and just take a look at what availability. Are there any other days available? And we've got to start with that. If we don't have the facility, we can't have the meeting. And what facilities would be available. And then if they are, we can circulate those to the Board and determine availability.

MS. PARKER: Mr. Chairman, may I ask the Board, I only would ask the Board if they could give us some input now about the inability to make that. Because I know that when JoJo does this, first of all we have a contract in place with --

CHAIRPERSON COURSON: Okay.

MS. PARKER: And it will cost us some money to essentially change that.

MS. OJIMA: That's correct.

CHAIRPERSON COURSON: Okay.

MS. PARKER: So may I just ask --

CHAIRPERSON COURSON: Sure.

MS. PARKER: -- Board members so we can start
there at least.

CHAIRPERSON COURSON: Mr. Pavao.

MR. PAVAO: I would be unavailable July 5.

CHAIRPERSON COURSON: Okay. Any -- and others unavailable?

MS. JACOBS: I'm looking at my calendar. It takes me a while to get it to come up.

CHAIRPERSON COURSON: You need to -- Ms. Jacobs, you need to carry one of those little things you write it down on paper and it stays on the page and it works. They're called pocket timers.

MS. PARKER: Mr. Pavao, if you don't come, will the Treasurer send someone else?

MR. PAVAO: Yeah.

MS. PARKER: But you wouldn't be able to be here for that --

MR. PAVAO: Correct. It would be an alternate.

MS. PARKER: -- presentation?

MR. DAVI: I'm in the same situation. There'd probably be an alternate here instead of myself.

CHAIRPERSON COURSON: Okay.

MR. CAREY: I would just say for me 9:00 or 9:30 is tough, but I could be here a little bit later.

CHAIRPERSON COURSON: Yeah. Well, I think we already made the decision to do the afternoon. All
right. Well, let's look. We'll take a look at it.

Let's see what the alternatives are. And if there are none, we'll communicate that. If there are some potential other dates, let's communicate those back so that we make sure we have the best participation possible. So we'll just take another look at it.

Things could have changed. The Hyatt may have grabbed an opening and there may -- frankly, we keep talking about the mornings. I mean, it may be if the 5th is a difficult time, we may be able -- as opposed to the morning of some other date, there may be availability at 1:00 o'clock in the afternoon on another day. Because normally we always go in for those morning start times.

So we will take a look at it and get back to the Board within the next couple of weeks.

Okay. Are we Prolink?

MS. WHITTALL-SCHERFEE: Yes. I'm ready to talk about Prolink, yes. Prolink is a project you've heard about. I believe we presented it at last year's budget discussion or goals and initiatives discussion. We are getting very, very close.

Prolink is a system in multifamily programs, and it's not just for multifamily programs. It's a system that's going to be used throughout our entire agency.
with any department that is involved in multifamily. So it touches asset management, finance, accounting and legal as well.

In your binder on page 247 is an explanation of Prolink, and I just wanted to add to that explanation a little bit. The whole purpose behind Prolink is to take the system that we have right now, which is -- which requires manual data entry of every single field that is on our database -- so the likelihood that there be may transpositions and errors is very, very high, or that there are just blanks, because the system's only as good as the people who take the time to fill it in. And it's a system that's antiquated. It's very, very difficult to navigate. It's not very user friendly from a management system. It has canned reports and very, very little flexibility.

This system will allow flexibility for those of us that are interested in more of an overview. For management, for the new director of multifamily programs, it will allow them to take a look at everything that multifamily is doing, not only in the division of multifamily programs, but with the exception, I believe, of Habitat for Humanity in the special lending side as well, so there will be a complete overview available for the director.
It's going to allow other departments to look at the process, where we are in the loan approval process, at documents, at whatever has come in on that particular project in real time. They can access it electronically. It will allow the Universal Act to be incorporated into our system and instead of having to manually update numbers and manually update information as it comes in, there's going to be an electronic way to do that.

It will get us away from really relying on files. We have binders full of paper. It will save a lot of trees, but it will also just add an efficiency that our division just has not ever had. And it goes to the whole multifamily competitiveness. It's going to be a system that will allow growth over time, growth in how we process, but growth in terms of how the whole system is used.

If it's effective and efficient for our division, other divisions can add to it and continue to use information that's been put in. For instance, with asset management, they could provide information that is critical to us in underwriting in terms of annual operating budgets and information that now we have to physically go ask them for, information like what is your average operating expense on a senior apartment
project approximately 50 units in San Jose. We can't go
into a system and really find that information right
now. We have to ask somebody to get it for us.

That is one of the strengths behind Prolink, and
it also allows for flexible reporting. You can prepare
your own reports. You can prepare reports that are
available for the entire population of users to view.

The other thing that it will do is allow us to
improve and simplify our communication with the
borrowers. Not only will they be able to electronically
give us application information, but they will in the
future -- this is not part of the first phase. They
will be able to go in and look at where they are in our
application process. That's one of our goals, is that
it's going to be a very interactive system, not only
within the Agency but with our developing population --
developer population as a whole.

Right now it is a huge -- it's a huge source of
work. There have been two people that have
traditionally been dedicated in the multifamily program
staff to this. This fiscal year that increased to four,
so there are four full-time staff people that are
working on Prolink with our outside vendor, who is
actually providing the program.

In addition, there are approximately between 15
and 20 subject matter experts in the areas that I've --
in the area I originally addressed, which was asset
management, finance, accounting and legal and
multifamily itself. All of those people have been very
critical contributors to coming up with the system that
we're going to end up with hopefully running and in play
by the middle of September.

Our goal right now is that we expect to get the
prototype in June or July. Then we'll be testing it.
We've seen samples of it along the way. We've seen the
screens. We know how they're going to work. We've had
lots of iterative discussions on the design to this
point.

And in June, end of June, we expect to see the
protocol, and we'll begin testing it and really making
sure the system works with the idea that it -- at the
middle of August, we will probably at that point then
begin the training, the training for the hundred users
within the Agency who are expected to be able to use it.

And this training is going to be very specific.
It's going to be very division specific. And this
training is based on what each division has told us they
wanted to see in that system. So it's going to teach
them how to use the system for their needs, but also
show them where they need to go for information in other
areas. So the hope is that we will have the prototype. Our goal is to have this rolled out by the end of September.

The total contracted cost of this program to date is approximately 685,000. To date we have paid 490,000 of that. We're optimistic that the product is going to be well received, and we think it should be because this process has taken almost two years because we have been actively soliciting information from staff, from the people that are going to use it. Because their -- their input is what's going to make this system the system that we need to move multifamily programs forward. And it's part of our competitiveness initiative, and its part of how we see ourselves getting back into being the lender of first choice as opposed to the lender of last resort.

CHAIRPERSON COURSON: Let me turn the spotlight a little bit, based on our discussion about volumes and production and so on, from our borrower customers. Is there availability -- as we make these competitive changes and so on, is there an ability for borrowers, for potential applicants, to come in and access through a portal all of that information as opposed to hard copy? Is there an ability -- for example, is there a forms digest? If I want to print out CalHFA forms, can
I go to a portal and find that form and print it? Can I find the architectural -- I mean, is there a borrower portal available?

MS. WHITTALL-SCHERFEE: Right now everything that we have is on the -- our internet system. You can print up the architectural manual on the Internet. What Prolink is designed to do is allow the borrower to have more access to the project they're working on.

CHAIRPERSON COURSON: No, I understand.

MS. WHITTALL-SCHERFEE: Yes.

CHAIRPERSON COURSON: Thank you.

MS. PARKER: Why don't we call Doug up so we can kind of -- Doug, if you want to go through special lending quickly.

MR. SMOOT: Good afternoon.

Special lending programs, as you are aware, there are three program areas within special lending: HELP programs, residential development loan program which we call RDLP, and the Habitat for Humanity loan purchase program. Unfortunately we don't have an acronym for that one.

$75 million for the HELP program is our five-year forecast on allocation for that particular program. And you should remember that is a HAT funded program. We're very much aware of the special nature of
this resource and its value elsewhere. This program has
put out about 167 -- a little over 167 million over --
starting we'll begin our ninth year next year.

As a result we're starting to get returning
funds. And in the next year, year and a half, we'll be
actually a fully sustaining program based on the
capitalization for that program to date. So it's not
going to draw upon future HAT funds. And we think that
that's a self sustaining amount with the amount of
demand that we're seeing also, so that's kind of a happy
marriage for us.

The residential development loan program was --
as you probably recall, was capitalized with about 170
million of funds between Proposition 46 and Proposition
1C. We show $200 million for the five-year plan. That
really is 40 million annually. As you can tell from
that number, that actually means that we're already
starting to count for the future that we're recycling.
We're going to get repayments. We're going to recycle
those funds, and we really think that is a very
long-term program based on that funding level.

You will recall last Board meeting, we actually
changed the terms of this program. We have -- tomorrow
is an application deadline for the first application
under those changed terms. We went from a four-year to
a five-year loan program, which really opened up to a
lot of new potential projects. We have increased the
maximum loan amount from four to five million. That and
we have a construction lending component of that where
we won't loan more than two million. My guess is we're
probably going to be involved no more than probably
25-percent of total construction financing in any
particular transaction.

And tomorrow we'll -- tomorrow is the test. We
already think we have significant increase in loan
applications as a result of this program, and it appears
to be fairly statewide, which is -- which is nice, not
just urban areas.

The third program, Habitat for Humanity, that
again is a loan, an individual loan, purchase program,
very staff intensive. We have budgeted the next two
years at $5 million a year of loans. Beyond that, we
really want to just see how it goes.

The previous two years of this program, we have
allocated two million the first year, three million the
second year. We think -- we don't know what the
sustaining level for that program is, and so beyond the
two-year time line out there, we're a little hesitant to
be able to target a dollar amount. And also it has to
do with the value of that HAT fund because, again, this
is HAT funded.

MS. PARKER: This is -- this is not a program that we could build in a recycling ability because these loans will end up being for the entire life. So that's one of the reasons why we wanted to come back and not make future out-year commitments so that the Board could be in a better position of essentially weighing this against the scarce resource of HAT funds in other program areas.

MR. SMOOT: That's correct. And the only other point would be to emphasize part of the discussion earlier regarding the Prolink system. All three of these programs will be using the database and the management that comes with that program.

MS. PARKER: Questions?

CHAIRPERSON COURSON: Questions?

MS. GALANTE: Can I just ask one? The residential development loan program, I know these are recycled Prop 46, Prop -- yeah, Prop 46 funds; right? The structure of that program, is that, again, dictated somewhere, or is there flexibility on how those moneys get used? Do they need to be for homeownership? I mean I know right now they are, but let me just tell you where I'm going before you answer, which is in terms of competitiveness for CalHFA, it seems to me that the
ability to lend predevelopment acquisition dollars to, one, more than public agencies and on broader product types would be a huge competitive advantage.

And one of the things that's happening out there in the marketplace is, you know, even private lenders or investors, tax-credit investors, are saying, you know, if you go with us, we'll give you X number of dollars to do all this predevelopment work. So I just want to -- it may be the conversation for July, but I just want to ask about that.

MS. PARKER: Yeah, I think I can answer that. Originally the Prop 46 fund was part of the deal where homeownership got so much of the bond and multifamily got so much of the bond, and when we weren't really spending it as quickly -- well, and that was the money that is in insurance program.

MS. GALANTE: Got it.

MS. PARKER: And we essentially said, it's kind of sitting here. We'd like to do something. And this was a particular program that we developed and brought forward as a way to help with creating new housing stock on the homeownership side. Then that was picked up in the bond. And so, again, it's -- it's on the homeownership side of the equation. That's just, you know, how it was viewed, so.
And it is also set up so that to the extent it's not used, it goes into our bucket of down payment assistance. And, you know, part of the reason why we have been able to, in our business plan, really reduce as much down payment as we have in the HAT funds, is to be using as efficiently and effectively as we can the bond funds in a Prop 46 and 1C.

MS. GALANTE: And it is designated to go to public agencies only, or is that something that could be --

MR. SMOOT: Yes, it is. There -- there are -- we're very open to be able to -- looking at other ideas, but there -- one, it was a staffing capacity as to how to, you know, initially design the program in the first place. The other is that there are some statutory requirements or roadblocks to us being able to make funds available to -- to other types of entities too. And that's -- that's quite a convoluted discussion, but we have looked at trying to be able to do that and found it difficult.

MS. PARKER: Carol, I guess to answer your question, is there a specific requirement that it be done this way, I think the answer is no. From a practical standpoint, what we did was when we created this, we essentially used the success of the HELP fund
and how we had done that as a way to put this one together.

But, you know, it may be a situation as time changes, this is a significant amount of money for us to see how the demand is. So I think that's something that we'll have to talk about, and maybe we need to spend some more time talking to the Board about, you know, why we have, you know, developed -- I think these would be all good conversations for us to have with you about kind of what we -- why we've done what we've done. I think we talked a little bit about it when we first brought the programs, but maybe we need refreshers or to have some discussion about how does it fit in, you know, sort of the marketplace today.

But to answer your question, I think that was more of a design issue on our part than an ultimate one. And again, I think it goes back to -- to some extent to the modeling it on HELP and then a staff resource issue.

CHAIRPERSON COURSON: Mr. Czuker.

MR. CZUKER: Just a quick question on the HELP program just to refresh my memory. How many years outstanding is that for a city?

MR. SMOOT: The loan itself is up to ten years, depending on the model.

MR. CZUKER: And so you have enough that are
Board of Directors Meeting - May 10, 2007

recycling. That's interesting.

MS. GALANTE: Some recycle earlier.

MR. CZUKER: So that some may not be that term; some may be much shorter?

MR. SMOOT: Right. A lot of redevelopment agencies are starting to refund those moneys because they need to recycle their debt. We've got almost $19 million of repayments of the principal amount, which is a little over $3 million of interest so far. And we expect about 11 million to come back next year, 15 million the next. So it's starting. The pattern will start recycling itself.

MR. CZUKER: And that's for specific projects, even though they're paid out of the general funds or the set-aside funds of a city?

MR. SMOOT: Yes. It's a general obligation to the entities to pay the loan back, but typically they tie that to repayment of the project funds to the city.

CHAIRPERSON COURSON: Any other questions on the special lending?

MS. PARKER: Margaret?

Thanks, Doug.

MS. ALVAREZ: Okay. And asset management, today I'm going to focus primarily on preservation, but lest you think there is no new business coming in, I think in
the last couple years we've had -- probably the last three or four years -- more than 30 loans close each of those years, and that has -- those projects go to my department, and we're busy, so.

But today, as I said, I'm focusing on the aging portfolio, and as a result of that, we have about 478 projects in our portfolio now, about half of those, roughly half, are 20 years and older, and the other half are newer.

We've dedicated this year ten million in HAT funds for primarily rehab needs, small loans. Typically they've been the ones we've been approving to date, around 500,000 to a million for the -- what we call the 80/20 portfolio, the non-Section 8 portfolio where they need some rehab work done at the properties.

This year we actually had two properties approved. I had 4 million dedicated to this last year, this past current fiscal year. Both dropped out. It was about almost $3 million, and in both cases the borrower decided that they either were going to fund it some other way -- part of adding HAT funds to their project has been extending the affordability of the loan based on a longer loan term, and in both cases those owners weren't so sure they wanted to do that and declined our money at this time, although they may come
back. But currently we're in negotiations with several
borrowers, and I do expect ten million to be spent in
the next year on HAT funds.

We also had a pot of money, about 50 million, in
earned surplus. And as a reminder, that's on the
Section 8 properties where borrowers are limited in
their distribution. So any excess money, if you will,
comes either to HUD or to the Agency. And that 50
million represent money that's in the Agency's pot that
we're allowed to spend and also in HUD's pot that is
project specific.

We've spent quite a bit of HUD's money going
back, approving it to go back to the projects this year
to do rehab work. And of that 50 million that -- of the
amount that the Agency had, let's see, about 22 million
has already been loaned for 21 loans ranging from
$54,000 loan to a $6.9-million loan.

So we have about 9.6 million in commitments
going forward, so we get about two and a half million
from the projects each year in earned surplus. I would
expect as rents remain flat in the HUD program and
operating expenses go up, that 2.5 million is probably
not consistent in the future years, although this year
we did actually get a little bit more than we did last
year. So we'll see how well the buildings have done.
In all these programs, we always stress sales. And like today, the two projects we brought forward were portfolio sales. And we already have a Section 8 sales policy in place. That's been in place for several years. It was tweaked a little bit this year to hopefully capture some of these high rehab need projects.

We've had 15 sales to date. Ten are pending in the pipeline. We had six taken, refinanced a couple years ago through that HUD OMAR project that was going on and one taken in eminent domain. So out of our 150 Section 8 projects, 32 have already been done or will be done, refinanced, which represents 22 percent of that portfolio. And I say that's pretty good. Looking on the flip side that leaves 78 percent still to be taken care of. Not all of those owners want to be taken care of, but we're hoping to use our funds as best we can to make that happen.

On the SB 707, that's actually a bill that's going through that HCD wrote, and we recently asked to amend that a little bit to take care of our loans. That original rental housing construction program set aside 60 percent of the funds that HDC was in charge of, and 40 percent came to our Agency. And each party did their own thing all these years. There was no real escape
clause to that money, and that's what this bill seeks to
do, is to prolong those bills -- excuse me, prolong the
loans and allow each of our departments to refinance
those projects.

We've submitted our comments and our amendments
to HCD and to the Governor's Office. It hasn't been
totally bought off on yet. We still have housing
advocates interested in how we want to do it versus how
HCD has done it, and so we're just at the early stages
of that.

And then we always have our ongoing challenge to
develop refinancing plans for our older 80/20 portfolio,
and that's the projects that before tax credits that
were what we used to call plain vanilla, where 20
percent of the units were set aside at 80 percent AMI,
so not a whole lot of affordability, but really a lot of
equity in those projects, and they're older.

And those owners want two things. They want
equity take-out, and they want to rehab their units.
They don't always necessarily want to extend their loans
and their affordability, so this is the discussion and
negotiations. We have some roadblocks. We have tax and
bond laws with our statutes and some other things, so
this is an ongoing effort and an ongoing challenge.

Edwin talked a lot about the Mental Health
Services Act. My division is going to be monitoring the real estate portion of that as loans close, just like we currently do with all our other projects, financial analysis, property inspections and so forth. But the big piece that we're going to be in charge of is the rent subsidy program, which is about 40 million a year, is what they're projecting.

So as kind of just -- I know everybody here is numbers people, but if you really figure that the program creates 500 units a year, over its 20 years that's 10,000 units. Currently the Agency has about 33,000 units that we oversee, so this is a huge growth in our Agency and in our division.

The $40-million subsidy would equate to an $800 million subsidy that we would be overseeing 20 years from now. So I expect -- this year we didn't ask for any new bodies. We're absorbing it with what we're already doing, but over time when you get the budgets each year, you'll be seeing increases in people and bodies to oversee this big program.

And then lastly I would just talk about our prepayment policy. Also as my predecessors up here on the discussions today have said, we don't allow prepayments. That's been our Agency policy. It's something that a lot of people have asked us to change.
It's a lot more complicated than it sounds for all the reasons that Terri and the others have discussed, that kind of we're expected that what we do for one, we'd be willing to do for all.

Every time we think we have somewhat of a plan, we hit more roadblocks and bumps because one idea leads to three roadblocks. So we have a work group in place. We continually challenge ourselves on this and try to figure out how we can make it happen, if we can make it happen, do we really want it to happen and what it will look like. So these are our challenges for the year and the things that keep us busy more than 40 hours a week.

And if anyone has any questions, I'm happy to answer them.

MR. CZUKER: Any questions from the Board?

MS. PARKER: Thank you, Margaret.

I'm going to skip the next two slides because they're really about strategic initiatives, and we're going to talk about that under operating budget anyway. Believe me, as I said, I'm going to keep saying strategic initiatives because when they're -- when we go to the operating budget, you're going to see what a, you know, major infrastructure commitment this is. But it is, obviously, part of the infrastructure that's needed to do the operating program goals we have.
So I'm just going to conclude my comments that I made in the very beginning. We believe that, you know, certainly on the homeownership side we have continued demand for our products, and we need to find capital to continue, particularly recognizing that as loan amounts grow, number of loans will decline, and we don't want to be in a situation where even though we doing a billion-five, our loan numbers are very low because the loan amounts are so great in California.

We -- clearly, again, a major theme of recruiting the positions that we need in the Agency. And then essentially, as I said, doing the strategic projects to support our automated systems and business support systems.

So with that, Mr. Chairman, I'd answer any other questions.

I would ask the Board for your support of this business plan with the one caveat that I would say that clearly we would really like, I think, to have this discussion on multifamily and we collectively, I think -- if we can discuss this and figure out ways for us to be more involved in the marketplace. I have always known that multifamily is very, very important to this Board, and we have tried to look at options and also to create new avenues of opportunity that were more
public benefit when we have not been as competitive.

So this is the product of the entire staff of the Housing Finance Agency. They are all, almost 300 of them, committed to making this be realized next year and the five years hence.

CHAIRPERSON COURSON: There is -- on page 277 there is a resolution to approve the business plan that we have been presented with. Is there a motion to approve that resolution?

MR. CZUKER: So move.

MR. DAVI: Second.

CHAIRPERSON COURSON: Mr. Czuker.

And a second?

Ms. Galante.

MS. GALANTE: Second.

CHAIRPERSON COURSON: Any other further discussion?

Any comments from the public?

Seeing none, let's call the roll.

MS. OJIMA: Thank you.

Mr. Davi.

MR. DAVI: 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. Pavao.

MR. PAVAO: Yes.

MS. OJIMA: Mr. Morris.

MR. MORRIS: Yes.

MS. OJIMA: Mr. Courson.

CHAIRPERSON COURSON: Yes.

MS. OJIMA: Resolution 07-15 has been approved.

CHAIRPERSON COURSON: Okay.

--00o--

Item 7. Resolution 07-16, Operating Budget

MS. PARKER: All right. Then the next discussion is of the operating budget for the Agency, and you also have a PowerPoint presentation in front of you. I've asked Jackie Riley, our Director of Administration/Human Resources, to participate with me, but I'm also going to ask Steve Spears if he would come up so that we can take over maybe a broader discussion about strategic initiatives as part of our operating budget.

Let me just say that I'm well aware that this is
a significant increase in what we have asked for in the past, and what I'm going to do is walk you through where exactly those are. There is a 21-percent increase in funding. There is -- and it's really broken down into -- 42-percent of it is for increased staffing. We'll talk through about what those -- where those staffing positions are. 48 percent of it is consulting and professional services, primarily related to strategic initiatives.

And I would stop for a minute, and if you look at what is in consulting and professional services and personnel services related to strategic initiatives, would say that probably well over 50 percent or greater of the increases year to year are tied around strategic initiatives.

And then the last area of it is pro rata central administrative services. I think we talked about this last year because it was one of the two biggest parts of our increases. We don't have any control over this. It includes everything from retirement costs to our donation to the ongoing cost of the support areas of government.

The next page is to show you the line item budgets broken down by personnel services, general expense, travel, et cetera, et cetera. And what I
wanted to call your attention to is a handout that is at
your seats on the list of what makes up the consulting
and professional services line item. And you can go
through that and see the individual contracts that make
up that entire number and how they are broken down by
the various areas, whether it be executive,
adминистation, marketing, legal, IT, homeownership.

And as you go through there, you can see that
number under IT of almost $7.7 million of a total 9.8,
almost 9.9 number. And you can see how much of that is
related to IT support and the strategic initiatives.
There is also money in here for -- under the executive
for our entity that's helping us with the new builder --
new building. That's $150,000 contract. But, you know,
if you want to go through here, be happy to answer any
questions about any of these contracts.

And lastly, the other important part of this
is -- and it's going to be a slide that I'm going to
show you. We have a substantial amount of hiring that
we're doing for our ongoing activities out of our
consulting line item since we cannot do it through our
personnel services item.

So if you go through here, you will find that
there are dollars for legal staff, because we haven't
been able to hire through the attorney classifications
of state government. So in order to meet the attorney
requirements to do our deals, we have several firms that
we contract with. We have a couple of underwriters
under contract and paid out of consulting professional
services.

So we have been using this as a way to deal with
our inability to hire people through civil service, but
that brings problems in and of itself because we can't
hire people in contract for long periods of time.

So moving right along, we thought some of the
slides again that would be helpful, the next one,
showing you really the growth in consulting and
personnel services and how we are -- our personnel
services dollars and really not as large a portion of it
as they have been in the past, but what is growing is
consulting.

Now, I would note that when we talk about the
strategic initiative, the positions, the 21 positions
that we've added, more than a quarter of those are
limited term positions tied to strategic initiatives.
That means in two-plus years, they're going to be gone
because those are positions we're adding to backfill, as
Gerry said, as we've said in some of the other areas,
positions that we are dedicating to these initiatives.

Other positions we are adding are in multifamily
to deal with the homeless new program and Bay Area, the other major program area that we're increasing the loan servicing. If you look back in our past, we -- the number of loans that we are servicing have more than doubled, and we have not increased the staff in years. We have a new loan servicing manager. We are trying to create a structure within the organization that has been sorely missing for quite some time.

The other area that needs to be explained too is along with new positions, we have the cost associated with some upgrades of some existing positions, but the -- some of the costs between this slide and the next slide that's important to note, we have talked in past years. We have not included usually at this time any dollars for salary increases, because usually the contracts have not been collectively bargained. And when we did the budget last year, we not include any salary increase.

What we are having now hit us is the fact that contracts were bargained where salary increases were granted in this current year starting -- was it December? Were they --

MS. RILEY: They were retroactive to July.

MS. PARKER: To July, okay.

So there's those increases. Then that -- that
amount is then annualized in the next year. Plus
there's another 3.4 percent that the contract calls to
be granted, and so we have built those costs in. We've
built in increased costs in retirement to go along with
it and the salary increases that the Board has made for
the exempt positions. So you've got, you know, two
years of, you know, increases built in and numbers going
forward which, you know, make up again for a significant
year-to-year increase.

If you look at the next slide, you can see that
if you're looking at our annual salaries, while there
have been increases, the retirement costs associated
with that have grown exponentially faster. And part of
that is it used to be that the State as an employer
didn't contribute as much to the retirement system. We
were able to accomplish that through the growth of the
retirement fund in and of itself. That has slowed down,
and so the State has had to contribute more and more,
and that is why we see the increases in retirement costs
through pro rata.

That -- again, these are things that the bill is
handed to us and we pay. We do not have any ability to
especially control those costs.

The strategic initiatives, I passed over that as
part of our production, but I think we have tried to lay
out to you what these eight initiatives are about, the significant dollar investment associated with them. We've got a chart which essentially shows what we're estimating the five-year commitment to be, which is close to $30 million. Some of these we have started, we have talked with you about.

But we really do need you to understand this because, one, fundamental -- it's fundamental to the business, but given the dollar amount, you know, we don't want there to be surprises. This is -- these are what we are anticipating. This is the largest increase in our operating budget. I think, you know, if we're not going to go forward, there's not the commitment here about doing this, then, you know, we need to seriously talk about it because you've got everything here from a new general ledger to new loan origination systems in both of our program areas to get debt management to risk management. We are hitting all of our infrastructure at one time.

Steve, I don't know if you want to add anything to those two slides.

MR. SPEARS: Just a note or two, Terri.

You can basically break these projects down between operational projects, the homeownership loan automation and the multifamily loan automation. And the
rest of it is a change in our business support
environment, the general ledger systems, how we manage
information and documents, how we all talk to each
other. It will completely change the Agency's
environment business wise, make us much more
collaborative, save costs, and kill fewer trees. It
will be a more secure environment for our employees as
well, so I think that's the important thing.

The only thing I want to add about the next page
on costs, what we've tried to do is include the costs,
an estimate of the costs of everything including the
individuals that you've heard about, the new positions,
the project teams that are going to be dedicated to
doing this, facilities at the Senator Hotel that we've
rented to house these folks, the independent
verification validation of our processes that we're
using to select vendors, systems integrators, software,
hardware.

We tried to estimate everything, but we're just
sending RFPs on a lot of these. We'll know a lot more
in the fall. We'll bring this back. You will have to
approve several of these contracts because they will be
large. So we will know more later. This is our best
estimate right at this point.

MS. PARKER: So as a conclusion, again, you
know, we'll feel that this budget is really all about an
investment in the future. We need to get this
infrastructure in place to meet the other challenges we
have of trying to find increased capacity, trying to
develop efficiencies in our loan products to essentially
be competitive in the marketplace, and try to look for
as much maximum public benefit this Agency can provide
in the affordable housing business in California.

We expect several of these strategic initiatives
to be done in the next year going forward, but it is a
major investment over the next three-or-four-year
period. And that's why we wanted to bring that to your
attention, because of the significant increase this year
and that these will -- we will see, at least for the
next year or two, these related to these strategic
initiatives. And we want to have people understand that
going in.

And with that, Mr. Chairman, we're happy to
answer any questions that any of the Board members have.

CHAIRPERSON COURSON: Questions from the Board?

Ms. Galante.

MS. GALANTE: I'm sorry. I think I get all the
cost side and the strategic investment, and maybe this
is only my second year doing the budgeting, but the
revenue side, I'm looking at page 290. So it talks
about, you know, where different revenues come from, and then there's this operating transfer. So I guess I'm trying to understand, can we afford -- you know, can we afford this. Because I don't understand the different pots of money. I mean I can kind of identify some that seem like they're fees and such that are earned income. Where does this operating transfer money come from?

MS. PARKER: Bruce.

MR. GILBERTSON: As succinctly as I can, the operating transfers really are revenues that are derived from our bond financing programs that we have budgeted that we have ample authority under the indentures to remove from the lien to help fund the operating expense budget of the Agency. I don't have with me a comprehensive analysis of this, but we certainly have more than sufficient funds to fund the operating budget for the '07/08 fiscal year and beyond.

It's -- you know, one of the decisions made many years ago now on our homeownership loan program was that we discontinued the collection of an admin fee on a monthly basis for all of the loan payments that were coming in. We used to collect 25 basis points, and that helped fund the operating budget, to provide more financing flexibility. We discontinued that in the mid to late 90s, and now we're incumbent on taking moneys,
excess moneys, out of the liens of indentures to fund
these things.

A couple things that I would note just for the
'07/08 transfers, we recently retired all the remaining
debt from one of our Section 8 -- multifamily Section 8
bond indentures. Embedded within that indenture was
approximately $60 million. Those moneys will be first
targeted for funding the operating budgets of the
Agency.

CHAIRPERSON COURSON: Correct me if I'm wrong
here, here comes my second naive shot at this, that by
looking at this in the fiscal year 2007/2008, in effect
we are making a $1.8-million investment overall in terms
of -- I'm looking at the beginning balance and the --
I'm sorry, the ending balance. The other way around.
We still are ending our fiscal year with a balance
slightly greater than that which we start our year based
on the transfer of these operating funds and the
expenses we're going to incur, clearly smaller than in
previous years, but still protecting, I guess, the
balance, if you will --

MR. GILBERTSON: Yes.

CHAIRPERSON COURSON: -- that's in the Agency at
the present time.

MR. GILBERTSON: And we will transfer as of the
end of this fiscal year sufficient cash to fund all of next year's operating budget, just so that we have no doubt in our minds that there's sufficient funds to cover all of the operating expenses of the Agency.

CHAIRPERSON COURSON: I think in -- I don't know, Mr. Czuker and Mr. Carey may have been around. We, two or three years ago, went through a very extensive look over a ten-year period, as I recall, of cash and did a very extensive cash analysis of sources of cash and how that and our bond capital, all of this would work together, trying to get a feel to really look ahead as to where we were headed so we don't run into any walls or train wrecks down the road. And I think some of this -- that was -- part of that exercise was to continue to look at that.

In fact, there's a point -- I mean, it's probably not now. We've got enough on our plate. But there's a point where that probably needs to be recycled again. After three years it tends to change.

MR. GILBERTSON: One of the building blocks to the business plan and the operating budget that you're being presented today is a look at what we call our liquidity budget. So we're actually budgeting for five years of the Agency's operations prospectively as well as the level of that we think that we can support the
special housing needs programs, those programs funded
from the Housing Assistance Trust. So as a part of
this, way back in January we started to look at this,
and we certainly have sufficient funding for those
programs and the operating budget for the five years.

MS. PARKER: Having said that, I think we are
very mindful of the fact that there's no free lunch and
that we need to manage the operating budget and
efficiencies as an overall part our budget from the
standpoint of what resource do we need to try to create
a budget -- or the production levels that will
essentially produce the revenues, you know, in measured
amounts to -- from the standpoint of the Board.

And when we did that, we talked about every -- I
think our internal, from staff perspectives -- view of
this is to look at every program that we are doing so
that it either accomplishes a public benefits mission or
a profitability goal so that we are using our resources
to the most efficient benefit or public benefit
mechanism in totality.

CHAIRPERSON COURSON: Any other questions on the
budget?

There is a resolution on page 291 to approve the
operating budget. Is there a motion to do so?

MR. CZUKER: So moved.
CHAIRPERSON COURSON: Mr. Czuker moves.

Is there a second?

MS. GALANTE: I'll second.

CHAIRPERSON COURSON: Ms. Galante seconds.

Any other comments or discussion? Questions from the Board?

Any comments from the public?

Seeing none, let's call the roll.

MS. OJIMA: Thank you, Mr. Chairman.

Mr. Davi.

MR. DAVI: 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. Pavao.

MR. PAVAO: Yes.

MS. OJIMA: Mr. Morris.

MR. MORRIS: Yes.

MS. OJIMA: Mr. Courson.

CHAIRPERSON COURSON: Yes.
Board of Directors Meeting - May 10, 2007

MS. OJIMA: Resolution 07-16 has been approved.

MS. PARKER: Thank you.

CHAIRPERSON COURSON: Thank you.

MS. PARKER: Thank you all very much. I look forward to our next discussion.

Mr. Chairman, that concludes our portion.

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Item 8. Discussion and possible action regarding response by outside counsel to the Board's question asked at the March Board meeting as to whether the Board had the legal authority to retroactively modify compensation established pursuant to Health & Safety Code section 50909

CHAIRPERSON COURSON: Okay. Let's move to the next topic. And as I said when we started this, we're going to break this, the next two items, into two separate pieces: One, we'll deal with in open session, the second, which will be a discussion, follow-up discussion, to conversation we've had at other Board meetings will likely entail or certainly is going to entail a discussion of alternatives and options, some of those being legal in nature, and therefore will be in the executive session. And then we'll come back into open session because there may be some things under advice of counsel that we talk about in the executive
session that, in fact, do need to come back into the open session.

So with that in mind, I'm going to ask Jason Jasmine, who has been sitting patiently with us, to join us. Let me introduce Jason first. Jason is an attorney with the firm of Carroll, Burdick and McDonough, which is a known firm in Sacramento. Partner Gary Messing is well-known in Sacramento, has done a -- the firm has done a lot of work for state boards such as ourselves and state Department of Personnel Administration, et cetera.

And so, Jason, thank you for sitting patiently and waiting.

Let me, if I may, tee this up by going back for a minute and reviewing where we are and why Jason has joined us. At the March 8th Board meeting, those who were here, and if you read the minutes, recall we took two actions regarding compensation. One was we reduced -- as a Board we reduced the maximum caps, compensation caps, and we reduced correspondingly the midpoints for the ten positions -- or I'm sorry, for the four -- five categories that were in our salary matrix. So we took that action.

And secondly, based on the request from the executive director, we approved a reduction in the
previously approved compensation for the executive
director to $175,000. So those were the two actions
that were taken.

As a part of that, the part we want to talk
about in this open segment, there was a discussion, and
there were questions raised to the Board regarding
retroactively going in and changing -- the Board
changing previously approved salaries. And we had a
discussion about was it permissible, what was allowable,
what under the law could we or could we not do as a
Board, and were there any -- by having had compensation
approved, did the individual whose salary was approved
by the Board have any, effect, rights, if you would, to
maintain that salary.

So after that Board meeting -- we said we'd
research that and come back to the Board at this
meeting. So based on that and talking to our general
counsel and so on, we did retain the firm. And Jason
and Terri did work for us to look at that topic, plus a
second topic, which was, as you saw in the letter, the
rights of the Board, if you would, in terms of
compensation under the existing statute and what, in
fact, our rights were vis-à-vis the DPA and Controller's
Office.

So -- I'm sorry, Mr. Davi.
MR. DAVI: Go ahead.

CHAIRPERSON COURSON: So that's the second piece which we'll be talking about because that leads to a different discussion we'll have in executive session, but for this point I'd like Jason -- well, Mr. Davi, go ahead.

MR. DAVI: I just want to ask you a question. I just would like to request the Chair to give me a moment for this question before we do this. I've got a situation where I'm going to have to leave in a few minutes, and I think I'm one of the reasons that we had this take place. Just as a clarification, you mentioned what we did do last month. I wanted to make sure from either legal counsels, the two actions you described where we changed the ranges and we accepted the voluntary change from our director, I don't perceive those as the Board going back and changing salaries from the January vote. Is that a true statement or false? I don't see us undoing something because we changed ranges, which was not salaries and it was a voluntary --

CHAIRPERSON COURSON: Let me -- let me at great peril of practicing law without a license and with counsel and outside counsel --

MS. JACOBS: They'll help.

CHAIRPERSON COURSON: Yeah, I'm sure they will.
The changing of the ranges, the maximum on the range and the midpoint changed no salary.

MR. DAVI: Thank you.

CHAIRPERSON COURSON: It just changed the matrix. We did not change any salaries, and we had that discussion.

The voluntary request from our executive director to have her salary reduced to $175,000, I'm going to need counsel on this, but we approved her request.

MR. DAVI: I understand.

CHAIRPERSON COURSON: And we had a discussion about not taking any other actions on any other salaries at that meeting, only responding and approving a request we received from the executive director. Now, at that point, I'm going to turn it over to Jason.

MR. DAVI: Then I appreciate that, and I just want to say thank you for that clarification. I understand what you've written in your memo, and I've read it thoroughly, and it all makes sense to me. And I didn't recall from last month or March, rather, that there was a desire to go any further and modify. This was more to answer the question if we wanted to, could we.
CHAIRPERSON COURSON: Right. And I think the question that was asked was I think in a broader sense. It had nothing to do with the action taken in connection with the request from the executive director.

MR. DAVI: Right.

CHAIRPERSON COURSON: There was a discussion that I recall, and it was in the minutes, talking about what retroactively -- if we deal with this in the future, what retroactively can we or can we not do or should we or should we not do, and that's how we engaged.

MR. DAVI: Thanks for letting me ask that. I'm sorry I've got to go.

CHAIRPERSON COURSON: Thank you, Mr. Davi.

MR. HUGHES: And I just simply wanted to add that I think that is exactly correct. At the March meeting I had indicated when the question came up -- I think, Mr. Davi, you had asked it primarily -- that I would recuse myself because my own salary was affected, and that's what we've done, and that's why we've gone ahead and hired outside counsel. So we're going to defer to outside counsel.

CHAIRPERSON COURSON: And I was just reminded, and that's true and I forgot, at the same time ironically that we had our discussion, shortly after the
meeting Senator Lowenthal, who's the chair of the committee, asked for the -- asked the same question and the same information, so we're really -- albeit, we're responding to the Board's request, it's going to respond to the Senator's request also.

MR. JASMINE: Good afternoon, Mr. Chair and Members of the Board. Thank you for having me.

I'm going to keep this as brief and to the point as possible, and then if you have questions, please feel free to ask. You do have the letter that we wrote April 26th, 2007, in your materials, so I'm not going to go over everything that's in there. I just wanted to, straight and to the point, answer the question.

Retroactively you can increase salaries, but you cannot decrease salaries. That's the simplest way to say it. There's ample case law on the point of being able to increase salaries retroactively, not decreasing them. It's a vested benefit once a board takes an action. That's based on the fact that we've come to the conclusion that the Board has the authority to set those salaries.

With that, I really don't see the need to get into any more detail, other than answering questions.

CHAIRPERSON COURSON: Questions on that particular point?
Board of Directors Meeting - May 10, 2007

--o0o--

Item 9. Closed executive session

CHAIRPERSON COURSON: Okay. If not, then I'm
going to recess our open meeting, our public meeting,
and we are going to go into executive session for a
discussion of the other issues raised in the letter and
potential legal issues dealing with the Board.

(Board meets in closed executive session.)

--o0o--

Item 10. Discussion and possible action regarding
compensation of exempt employees pursuant to
Health & Safety Code section 50909

CHAIRPERSON COURSON: We are going back into the
public session. We have finished our executive session,
and there was no action taken that would be reported in
open session.

--o0o--

Items 12 and 13. (Postponed)

And the next two items on the agenda, item No.
12 and 13, were items placed on the agenda by Mr.
Morris, and Mr. Morris had to leave, so we will hold
those over until the July meeting.

--o0o--

Item 16. Public testimony

I don't -- if there's -- seeing no other public
testimony, and so having said that, we will stand
adjourned.

(The meeting concluded at 1:58 p.m.)

--o0o--
Board of Directors Meeting - May 10, 2007

REPORTER'S CERTIFICATE

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

In witness whereof, I have hereunto set my hand this 17th day of May, 2007.

______________________________
Yvonne K. Fenner
Certified Shorthand Reporter
License No. 10909, RPR
CALIFORNIA HOUSING FINANCE AGENCY
Final Commitment
Mercy Village Folsom Apartments
Folsom, Sacramento County, CA
CalHFA # 97026N

SUMMARY

This is a Final Commitment request for a workout on an Agency portfolio loan. Security for the acquisition/rehabilitation and permanent second loans will be a 81-unit apartment complex known as Mercy Village Folsom Apartments, located at 1100-1190 Duchow Way, Folsom, California. Mercy Housing V, L.P., a California Limited Partnership, whose managing general partner is Mercy Properties, Inc. The investor-limited partner is the California Equity Fund/National Equity Fund. The original first mortgage is a 50/50 Risk Share with Special Needs requirements on 30 units of the development.

Mercy Village Folsom Apartments is a portfolio loan currently owned by Mercy Housing V, L.P., a California Limited Partnership. The original first mortgage of $2,350,000 has a remaining balance of $1,974,794, at 3.50% with remaining term of 22 years, six months.

LOAN TERMS

Loan to Lender (City of Folsom)

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Developer Loan*

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<tr>
<th>HAT Mortgage</th>
<th>1,000,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Rate</td>
<td>3.00%</td>
</tr>
<tr>
<td>Term</td>
<td>22.5 year fixed, residual receipts</td>
</tr>
<tr>
<td>Financing</td>
<td>HAT funds – Asset Management</td>
</tr>
</tbody>
</table>

*At the time of permanent loan funding, this loan will remain in place and will be subordinate to the CalHFA’s Permanent First Mortgage.

Construction Period Sources of Funds

<table>
<thead>
<tr>
<th>SOURCE OF FUNDS</th>
<th>AMOUNT OF FUNDS</th>
<th>INTEREST RATE</th>
<th>TERM IN MONTHS</th>
</tr>
</thead>
<tbody>
<tr>
<td>CalHFA Tax Exempt Bond</td>
<td>$3,705,000</td>
<td>5.50%</td>
<td>36</td>
</tr>
<tr>
<td>CalHFA HAT</td>
<td>$1,000,000</td>
<td>3.00%</td>
<td>270</td>
</tr>
<tr>
<td>NEF Tax Credits</td>
<td>$100,000</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Developer Equity</td>
<td>$176,494</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>NEF Contribution</td>
<td>$150,000</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>TOTAL NEW FUNDS</td>
<td>$5,131,494</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

6/4/07
CalHFA rehabilitation financing is subject to the assignment by the borrower of tax credit equity and all rights under non-CalHFA financing commitments.

**Second Permanent Financing Sources of Funds**

<table>
<thead>
<tr>
<th>SOURCE OF FUNDS</th>
<th>AMOUNT OF FUNDS</th>
<th>INTEREST RATE</th>
<th>TERM IN MONTHS</th>
</tr>
</thead>
<tbody>
<tr>
<td>CalHFA HAT Loan</td>
<td>$1,000,000</td>
<td>3%</td>
<td>270</td>
</tr>
<tr>
<td>Folsom Redevelopment</td>
<td>$1,215,000</td>
<td>3%</td>
<td>660</td>
</tr>
<tr>
<td>NEF Tax Credit Equity</td>
<td>$2,430,706</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Sponsor Equity</td>
<td>$778,337</td>
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<td><strong>TOTAL NEW FUNDS</strong></td>
<td><strong>$4,424,043</strong></td>
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<td></td>
</tr>
</tbody>
</table>

Folsom Redevelopment Agency to pay in $1,215,000 over three year period - $500,000 on 1/1/08, $500,000 on 8/1/08, and $215,000 on 2/15/09.

**OTHER FINANCING**

The following sources represent the existing permanent sources of financing secured by Deeds of Trust and owner equity for Mercy Village Folsom from the award of funds in 1998. These permanent sources are currently in place and will remain.

**First Permanent Financing Sources of Funds**

<table>
<thead>
<tr>
<th>SOURCE OF FUNDS</th>
<th>AMOUNT OF FUNDS</th>
<th>INTEREST RATE</th>
<th>TERM IN MONTHS</th>
<th>MONTHLY DEBT SERVICE</th>
</tr>
</thead>
<tbody>
<tr>
<td>CalHFA Tax Exempt</td>
<td>$2,350,000</td>
<td>3.50%</td>
<td>360 (270 remain)</td>
<td>$10,563</td>
</tr>
<tr>
<td>Western Fin-AHP</td>
<td>$324,000</td>
<td>0</td>
<td>360</td>
<td>0</td>
</tr>
<tr>
<td>Folsom Redevelopment</td>
<td>$100,000</td>
<td>0</td>
<td>480</td>
<td>0</td>
</tr>
<tr>
<td>Sac. Hsg &amp; Redevelop</td>
<td>$320,000</td>
<td>4%</td>
<td>480</td>
<td>0</td>
</tr>
<tr>
<td>Investor Equity</td>
<td>$1,498,195</td>
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<td>n/a</td>
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<tr>
<td>Sponsor Equity</td>
<td>$612,906</td>
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<td>n/a</td>
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</tr>
<tr>
<td><strong>TOTAL FUNDS</strong></td>
<td><strong>$5,205,101</strong></td>
<td></td>
<td></td>
<td><strong>$10,553</strong></td>
</tr>
</tbody>
</table>

**Special Needs Interest Rate**

As part of the original project approval, the Borrower agreed to provide for Special Needs tenants as defined in the CalHFA Regulatory Agreement for a period of ten years. The Borrower will extend the Special Needs program for an additional ten years and if needed, fund services from a portion of the developer fees out of the second mortgage or residual receipts. A requirement of both CalHFA and NEF is that no retention of developer fee occurs with this second financing, hence the commitment by MHS regarding Special Needs.
IMPROVEMENT DESCRIPTION

This is an 81 affordable unit existing development with ten buildings located at 1100-1190 Duchow Way, Folsom, California. Duchow Way is centrally located, with convenient access to shopping, schools, parks and Folsom’s historic downtown.

The buildings were built in approximately 1954 and underwent rehabilitation in 1999 by Mercy Housing. At that time, a small addition consisting of an office, community room and second story apartment was completed.

One two-bedroom unit is reserved for the on-site manager. The units are in eight-plex configurations. The buildings are typical of the period with simple forms and finishes. The buildings have gabled, hipped and low-slope “flat” roofs and a combination of wood, composite and cement plaster siding over wood frame construction. There are both slabs on grade and raised wood frame floors with crawl space. Open and tuck under parking is provided at the back of the property and there are some individual garages off of the Duchow Way frontage. Simple sheds house most maintenance utilities and three split face block trash enclosures with metal gates are accessed through the rear parking lot.

Horizontal aluminum sliding windows provide light and air. Many of these windows are original single pane windows. Metal security doors serve as screen doors for each entry. All ten buildings are currently painted the same colors with the building fielding a light beige and a dark green trim at the eaves. Entry to individual units is by a small stoop or at grade for ground floor units and via exterior metal stairs or interior wood frame stairs for the second floor units.

PREVIOUS PHYSICAL NEEDS ASSESSMENT/SCOPE OF WORK

The original rehabilitation was completed in December 1999. The rehabilitation and the need for additional items resulted in change orders of over a half million dollars.

Extensive exterior work was completed to tie together the ten individual parcels and architectural styles. However, during the initial scope of work, additional items needed to be addressed: Replacement of gas supply piping associated with slab foundations; extensive dry rot found in walls and flooring of two buildings; a raised foundation of another building was found to have severe dry rot; damaged stucco was found at two other buildings, and dry rot discovered at the sliding glass doors of one other building required total replacement. These additional costs were supplemental to interior repairs/replacements that had been added to the scope at that time.

The total for the original rehabilitation was $29,110 per unit.

PROPOSED PHYSICAL NEEDS ASSESSMENT / SCOPE OF WORK

The proposed rehabilitation will address the physical deficiencies identified in the Physical Assessment Report completed by Mogavero Notestine Associates dated July 19, 2006. In general, the work will restore the integrity of the building envelope. Roofing, siding with insulation and window replacement will eliminate water intrusion problems. Drainage improvements will eliminate standing water adjacent to the buildings and prevent sheet drainage
underneath the raised foundations. Interior work will address the damage from water intrusion and subsequent mold growth and refurbish sixty units identified by CalHFA and NEF.

The work is scheduled to begin during the late summer of 2007. The rehabilitation plan calls for all exterior work related to roofing, siding and windows to be completed prior to December 2007 when rainy weather could cause additional problems. Final interior and landscaping work would be completed by February 2008. The work will be staged to avoid relocation expenses through the use of units currently off-line due to mold concerns. A mold remediation certificate by registered hygienist will be required.

The cost of the proposed hard cost rehabilitation is $40,717 per unit.

**CONTRACTOR**

Precision General Commercial Contractors (Precision GCC)

- Precision GCC has been a general contractor since 1987. Their work includes primarily multi-family, government assisted (Low Income Housing and Tax Credit assisted) and commercial properties. They specialize in all aspects of construction and development in over 16 states, primarily California, Arizona, Texas, Oklahoma and Washington, representing over 30,000 units.
### Project Summary

**Project:** Mercy Village Folsom  
**Location:** 1100-1190 Duchow Way  
**City:** Folsom  
**County:** Sacramento  
**Zip Code:** 95630  
**Developer:** Mercy Housing  
**Partner:** Same  
**Investor:** NEF  
**No. of Buildings:** 10  
**No. of Stories:** 2  
**Residential Space:** 58,549 sq. ft.  
**Office Space:** 0 sq. ft.  
**Commercial Space:** 0 sq. ft.  
**Gross Area:** 58,549 sq. ft.  
**Land Area:** 98,546 sq. ft.  
**Investor:** 36

<table>
<thead>
<tr>
<th>CalHFA Construction Financing</th>
<th>Amount</th>
<th>Rate</th>
<th>Term (Mths)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount</td>
<td>$3,705,000</td>
<td>5.50%</td>
<td>36</td>
</tr>
</tbody>
</table>

#### Permanent Sources of Funds

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount</th>
<th>Rate</th>
<th>Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>CalHFA First Mortgage</td>
<td>$0</td>
<td>0.00%</td>
<td>0</td>
</tr>
<tr>
<td>CalHFA Bridge Loan</td>
<td>$0</td>
<td>0.00%</td>
<td>0</td>
</tr>
<tr>
<td>CalHFA Second Mortgage</td>
<td>$1,000,000</td>
<td>3.00%</td>
<td>22.5</td>
</tr>
<tr>
<td>City of Folsom Redev. Agency (1)</td>
<td>$1,215,000</td>
<td>3.00%</td>
<td>55</td>
</tr>
<tr>
<td>NEF</td>
<td>$150,000</td>
<td>0.00%</td>
<td>0</td>
</tr>
<tr>
<td>Source 4</td>
<td>$0</td>
<td>0.00%</td>
<td>0</td>
</tr>
<tr>
<td>Source 5</td>
<td>$0</td>
<td>0.00%</td>
<td>0</td>
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<tr>
<td>Source 6</td>
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<td>0.00%</td>
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</tr>
<tr>
<td>Source 7</td>
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<td>0.00%</td>
<td>0</td>
</tr>
<tr>
<td>Source 8</td>
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<td>0.00%</td>
<td>0</td>
</tr>
<tr>
<td>Source 9</td>
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<td>Source 10</td>
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</tr>
<tr>
<td>Source 11</td>
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<td>0.00%</td>
<td>0</td>
</tr>
<tr>
<td>Source 12</td>
<td>$0</td>
<td>0.00%</td>
<td>0</td>
</tr>
<tr>
<td>Income from Operations</td>
<td>$0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Developer Contribution</td>
<td>$214,831</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred Dev. Fee</td>
<td>$740,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax Credit Equity</td>
<td>$2,530,706</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(1) City of Folsom Redev. Agency to repay CalHFA loan of $1,250,000 in three years.

#### Construction Valuation

<table>
<thead>
<tr>
<th>Investment Value</th>
<th>N/A</th>
<th>Appraisal Value</th>
<th>N/A</th>
<th>Restricted Value</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan / Cost</td>
<td>72%</td>
<td>Appraisal Date</td>
<td>N/A</td>
<td>Perm. Loan / Cost</td>
<td>17%</td>
</tr>
<tr>
<td>Loan / Value</td>
<td>0%</td>
<td>Cap Rate</td>
<td>0.00%</td>
<td>Perm. Loan / Value</td>
<td>0%</td>
</tr>
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</table>

#### CalHFA Fees and Reserve Requirements

<table>
<thead>
<tr>
<th>CalHFA Loan Fees</th>
<th>Amount</th>
<th>Required Reserves</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>CalHFA Construction Loan Fee</td>
<td>$37,050</td>
<td>Other Reserve</td>
<td>$0</td>
</tr>
<tr>
<td>CalHFA Permanent Loan Fees</td>
<td>$5,000</td>
<td>Capitalized Operating Reserve</td>
<td>$63,000</td>
</tr>
<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

| Completion Guarantee Fee | $3,423,295 | CalHFA Operating Expense Reserve | $0 |
| Contractors Payment Bond | $3,423,295 | Rent Up Reserve | $0 |
| Contractors Performance Bond | $0 | Other Reserve | $0 |

| Tax-Exempt Bond Test (Min. 50%) | 64.08% |

**Date:** 6/20/2007  
**Senior Staff Date:** 6/4/2007
### 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>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>0 Bedroom Flat</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>1 Bedroom Flat</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>59</td>
<td>2 Bedroom Flat</td>
<td>1.5</td>
<td></td>
</tr>
<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>
<td></td>
</tr>
<tr>
<td>81</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Number of Regulated Units By Agency

<table>
<thead>
<tr>
<th>Agency</th>
<th>35%</th>
<th>45%</th>
<th>50%</th>
<th>60%</th>
<th>80%</th>
<th>Unrestricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>CalHFA</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>16</td>
</tr>
<tr>
<td>Tax Credits</td>
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<td>81</td>
</tr>
<tr>
<td>Locality</td>
<td></td>
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</tr>
<tr>
<td>Zoning</td>
<td></td>
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<td>Other</td>
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</tbody>
</table>

#### Restricted Rents Compared to Average Market Rents

<table>
<thead>
<tr>
<th>Median Income</th>
<th>Rent Levels</th>
<th>Units</th>
<th>Restricted</th>
<th>Avg. Market</th>
<th>Dollars</th>
<th>% of Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Studio</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
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<td></td>
<td>35%</td>
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<td>$845</td>
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</tr>
<tr>
<td></td>
<td>45%</td>
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<td>$0</td>
<td></td>
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<td>0%</td>
</tr>
<tr>
<td></td>
<td>50%</td>
<td>8</td>
<td>$539</td>
<td></td>
<td>$306</td>
<td>64%</td>
</tr>
<tr>
<td></td>
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<td>$0</td>
<td></td>
<td>$0</td>
<td>0%</td>
</tr>
<tr>
<td></td>
<td>80%</td>
<td>0</td>
<td>$0</td>
<td></td>
<td>$0</td>
<td>0%</td>
</tr>
<tr>
<td>One Bedroom</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>35%</td>
<td>0</td>
<td>$0</td>
<td>$1,057</td>
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<td>0%</td>
</tr>
<tr>
<td></td>
<td>45%</td>
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<td>$0</td>
<td></td>
<td>$0</td>
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</tr>
<tr>
<td></td>
<td>50%</td>
<td>14</td>
<td>$682</td>
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<tr>
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</tr>
<tr>
<td>Two Bedroom</td>
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<td>0</td>
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</tr>
<tr>
<td>Three Bedroom</td>
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</tr>
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<td>50%</td>
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<td>$0</td>
<td>0%</td>
</tr>
<tr>
<td></td>
<td>60%</td>
<td>0</td>
<td>$0</td>
<td></td>
<td>$0</td>
<td>0%</td>
</tr>
<tr>
<td></td>
<td>80%</td>
<td>0</td>
<td>$0</td>
<td></td>
<td>$0</td>
<td>0%</td>
</tr>
</tbody>
</table>
### Sources and Uses of Funds

#### Sources of Funds:

<table>
<thead>
<tr>
<th>Source</th>
<th>Funds in Construction ($)</th>
<th>Funds in Permanent ($)</th>
<th>Total Sources of Funds ($)</th>
<th>Sources per Unit</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>CalHFA Construction Financing</td>
<td>3,705,000</td>
<td></td>
<td>1,000,000</td>
<td>12,346</td>
<td>17%</td>
</tr>
<tr>
<td>Construction Only Source 2</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction Only Source 3</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CalHFA First Mortgage</td>
<td>1,000,000</td>
<td></td>
<td>1,215,000</td>
<td>15,000</td>
<td>21%</td>
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<tr>
<td>CalHFA Second Mortgage</td>
<td>-</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>City of Folsom Redevelopment Agency (1)</td>
<td>150,000</td>
<td>1,215,000</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>NEF</td>
<td>150,000</td>
<td>150,000</td>
<td>1,852</td>
<td>3%</td>
<td></td>
</tr>
<tr>
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<tr>
<td>Income from Operations</td>
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<td>2,430,706</td>
<td>2,530,706</td>
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<td>9,555,537</td>
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<td>100%</td>
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<td>(Gap)/Surplus</td>
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#### Uses of Funds:

<table>
<thead>
<tr>
<th>Source</th>
<th>Construction ($)</th>
<th>Permanent ($)</th>
<th>Total Development Costs</th>
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<tbody>
<tr>
<td><strong>Loan Payouts &amp; Rollovers</strong></td>
<td></td>
<td>$3,705,000</td>
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<td><strong>Acquisition</strong></td>
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<td>Lesser of Land Cost or Value</td>
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<td>Demolition</td>
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<td><strong>Subtotal - Land Cost / Value</strong></td>
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<tr>
<td>Off-Site Improvements</td>
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<tr>
<td>Contractors Profit</td>
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<td>0%</td>
</tr>
<tr>
<td>Contractor's Bond</td>
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<tr>
<td><strong>Total Rehabilitation</strong></td>
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<tr>
<td>Relocation Expense</td>
<td>50,000</td>
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<td>Relocation Compliance Monitoring</td>
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<tr>
<td><strong>Total Relocation</strong></td>
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(Continued on Next 2 Pages)
<table>
<thead>
<tr>
<th>USES OF FUNDS (Cont'd):</th>
<th>Construction ($)</th>
<th>Permanent ($)</th>
<th>Total Development Costs</th>
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<tr>
<td><strong>NEW CONSTRUCTION</strong></td>
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<tr>
<td>Contractors Profit</td>
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<tr>
<td>Other</td>
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<td>CalHFA Perm Loan Fees</td>
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<td>CalHFA Bridge Loan Fees</td>
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<td>Perm. Bridge Loan Interest Expense</td>
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<td>Total Attorney Expense</td>
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<td><strong>Total Uses of Funds ($)</strong></td>
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### USES OF FUNDS (Cont'd):

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<th>CONTRACT / REPORT COSTS</th>
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<th>Permanent ($)</th>
<th>Total Development Costs</th>
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<tr>
<td>Appraisal</td>
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<td>Physical Needs Assessment</td>
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<td>CalIFHA EQ Waiver Seismic Review Fee</td>
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<td>Environmental Phase I / II Reports</td>
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<td>Soils / Geotech Reports</td>
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<td>40,000</td>
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<td>Asbestos / Lead-based Paint Report</td>
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<tr>
<td>Noise/Acoustical/Traffic Study Report</td>
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<tr>
<td>Termina</td>
<td>1,200</td>
<td>1,200</td>
<td>15</td>
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<td>Other</td>
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<td><strong>Total Contract Costs</strong></td>
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<td><strong>62,200</strong></td>
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<th>Permanent ($)</th>
<th>Per Unit</th>
<th>%</th>
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<td>Soft Cost Contingency</td>
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<td><strong>Total Contingency</strong></td>
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<td><strong>5,011</strong></td>
<td><strong>7%</strong></td>
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<table>
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<th>RESERVES</th>
<th>Per Unit</th>
<th>%</th>
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<tbody>
<tr>
<td>CalIFHA Operating Expense Reserve</td>
<td>-</td>
<td>0%</td>
</tr>
<tr>
<td>Construction Defects Reserve</td>
<td>-</td>
<td>0%</td>
</tr>
<tr>
<td>Rent-Up Reserve</td>
<td>-</td>
<td>0%</td>
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<tr>
<td>Capitalized Operating Reserve</td>
<td>63,000</td>
<td>778</td>
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<tr>
<td>Other</td>
<td>-</td>
<td>0%</td>
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<tr>
<td><strong>Total Reserves</strong></td>
<td><strong>63,000</strong></td>
<td><strong>778</strong></td>
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<table>
<thead>
<tr>
<th>OTHER</th>
<th>Per Unit</th>
<th>%</th>
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</thead>
<tbody>
<tr>
<td>CTCAC App/Alloc/Monitor Fees</td>
<td>37,242</td>
<td>460</td>
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<td>Local Permit Fees</td>
<td>15,000</td>
<td>185</td>
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<tr>
<td>Local Development Impact Fees</td>
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<tr>
<td>Other Local Fees</td>
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<td>-</td>
</tr>
<tr>
<td>Advertising &amp; Marketing Expenses</td>
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<tr>
<td>1st Year Taxes &amp; Insurance</td>
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<td>Furnishings</td>
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<td>685</td>
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<td>Miscellaneous Admin Fees</td>
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<td>Other</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Other Expenses</strong></td>
<td><strong>117,742</strong></td>
<td><strong>1,454</strong></td>
</tr>
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| SUBTOTAL PROJECT COSTS    | 5,042,494 | 3,773,000 | 5,110,494 | 63,093 | 87% |

<table>
<thead>
<tr>
<th>DEVELOPER COSTS</th>
<th>Per Unit</th>
<th>%</th>
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</thead>
<tbody>
<tr>
<td>Developer Overhead/Profit (5% Acq.)</td>
<td>54,000</td>
<td>8,704</td>
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<tr>
<td>Developer Overhead/Profit (NC/Rehab)</td>
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<tr>
<td>Consultant / Processing Agent</td>
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<td>-</td>
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<tr>
<td>Project Administration</td>
<td>35,000</td>
<td>432</td>
</tr>
<tr>
<td>Broker Fees to a related party</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Construction Mgmt. Oversight</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Developer Fee / Costs</strong></td>
<td><strong>89,000</strong></td>
<td><strong>9,136</strong></td>
</tr>
</tbody>
</table>

| Total Costs               | 5,131,494 | 4,424,043 | 5,850,537 | 72,229 | 100% |
# Annual Operating Budget

## Mercy Village Folsom

### Final Commitment

<table>
<thead>
<tr>
<th>INCOME:</th>
<th>$ Amount</th>
<th>Per Unit</th>
<th>% of Total</th>
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<tbody>
<tr>
<td>Total Rental Income</td>
<td>$631,152</td>
<td>$7,792</td>
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<tr>
<td>Laundry</td>
<td>$5,012</td>
<td>$62</td>
<td>0.79%</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>$636,164</strong></td>
<td><strong>$7,854</strong></td>
<td><strong>100.00%</strong></td>
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## Less:

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<th></th>
<th>$ Amount</th>
<th>Per Unit</th>
<th>% of Total</th>
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<tr>
<td>Vacancy Loss</td>
<td>$31,808</td>
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<tr>
<td><strong>Effective Gross Income</strong></td>
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<td><strong>$7,461</strong></td>
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### EXPENSES:

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<th>Per Unit</th>
<th>% of Total</th>
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<td>Payroll</td>
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<td>$611</td>
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<tr>
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<td>$34,992</td>
<td>$432</td>
<td>7.80%</td>
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<tr>
<td>Utilities</td>
<td>$62,017</td>
<td>$766</td>
<td>13.82%</td>
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<tr>
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<td>$0</td>
<td>0.00%</td>
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<tr>
<td>Other</td>
<td>$0</td>
<td>$0</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Subtotal Expenses</strong></td>
<td><strong>$400,049</strong></td>
<td><strong>$4,939</strong></td>
<td><strong>89.14%</strong></td>
</tr>
<tr>
<td>Replacement Reserves</td>
<td>$48,600</td>
<td>$600</td>
<td>10.83%</td>
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<tr>
<td>Taxes &amp; Assessments</td>
<td>$150</td>
<td>$2</td>
<td>0.03%</td>
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<tr>
<td><strong>Total Expenses</strong></td>
<td><strong>$448,799</strong></td>
<td><strong>$5,541</strong></td>
<td><strong>100.00%</strong></td>
</tr>
</tbody>
</table>

### Financial Expenses

<table>
<thead>
<tr>
<th></th>
<th>Cost</th>
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<tbody>
<tr>
<td>CalHFA First Mortgage</td>
<td>$126,631</td>
</tr>
<tr>
<td>CalHFA Second Mortgage</td>
<td>$0</td>
</tr>
<tr>
<td>Other Required Debt Service</td>
<td>$0</td>
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</table>

### NET OPERATING INCOME

<table>
<thead>
<tr>
<th></th>
<th>$28,926</th>
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<tbody>
<tr>
<td></td>
<td>$357</td>
</tr>
<tr>
<td>Cash Flow</td>
<td>Final Commitment</td>
</tr>
<tr>
<td>-----------</td>
<td>------------------</td>
</tr>
<tr>
<td><strong>RENTAL INCOME</strong></td>
<td></td>
</tr>
<tr>
<td>Affordable Rents</td>
<td>631,152</td>
</tr>
<tr>
<td>Affordable Rent Increase</td>
<td>2.50%</td>
</tr>
<tr>
<td>Rental Subsidies</td>
<td>0</td>
</tr>
<tr>
<td>Rental Subsidy Increase</td>
<td>0%</td>
</tr>
<tr>
<td>Market Rate Units</td>
<td>0</td>
</tr>
<tr>
<td>Unrestricted/Market Unit Increase</td>
<td>0%</td>
</tr>
<tr>
<td><strong>TOTAL RENTAL INCOME</strong></td>
<td>631,152</td>
</tr>
<tr>
<td><strong>OTHER INCOME</strong></td>
<td></td>
</tr>
<tr>
<td>Laundry</td>
<td>5,012</td>
</tr>
<tr>
<td>Other Income</td>
<td>0</td>
</tr>
<tr>
<td>Other Income Increase</td>
<td>2.50%</td>
</tr>
<tr>
<td><strong>TOTAL OTHER INCOME</strong></td>
<td>5,012</td>
</tr>
<tr>
<td><strong>GROSS POTENTIAL INCOME</strong></td>
<td>636,164</td>
</tr>
<tr>
<td><strong>VACANCY ASSUMPTIONS</strong></td>
<td></td>
</tr>
<tr>
<td>Affordable (Blended Average)</td>
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</tr>
<tr>
<td>Rental Subsidy Income</td>
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</tr>
<tr>
<td>Unrestricted Units / Market Rate Units</td>
<td>0%</td>
</tr>
<tr>
<td>Laundry &amp; Other Income</td>
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</tr>
<tr>
<td><strong>LESS: VACANCY LOSS</strong></td>
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<tr>
<td>Expenses</td>
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<tr>
<td>Annual Expense Increase</td>
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</tr>
<tr>
<td>Taxes and Assessments</td>
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<td>Annual Tax Increase</td>
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<tr>
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<td>Percentage Increase Yearly</td>
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</tr>
<tr>
<td>CalHFA - Bridge Loan</td>
<td>0</td>
</tr>
<tr>
<td>CalHFA - 2nd Mortgage</td>
<td>0</td>
</tr>
<tr>
<td>None</td>
<td>0</td>
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<td><strong>DEBT COVERAGE RATIO</strong></td>
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<td>Cash Available for distribution</td>
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### Cash Flow

**CalHFA Project Number:** 97-026N  
**Mercy Village Folsom**

<table>
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<tr>
<th>RENTAL INCOME</th>
<th>Year 11</th>
<th>Year 12</th>
<th>Year 13</th>
<th>Year 14</th>
<th>Year 15</th>
<th>Year 16</th>
<th>Year 17</th>
<th>Year 18</th>
<th>Year 19</th>
<th>Year 20</th>
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</thead>
<tbody>
<tr>
<td>Affordable Rents</td>
<td>807,928</td>
<td>828,126</td>
<td>848,829</td>
<td>870,050</td>
<td>891,801</td>
<td>914,096</td>
<td>936,949</td>
<td>960,372</td>
<td>984,382</td>
<td>1,008,991</td>
</tr>
<tr>
<td>Affordable Rent Increase</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
</tr>
<tr>
<td>Rental Subsidies</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Rental Subsidy Increases</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>Market Rate 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/Market Unit Increases</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>TOTAL RENTAL INCOME</td>
<td>807,928</td>
<td>828,126</td>
<td>848,829</td>
<td>870,050</td>
<td>891,801</td>
<td>914,096</td>
<td>936,949</td>
<td>960,372</td>
<td>984,382</td>
<td>1,008,991</td>
</tr>
</tbody>
</table>

| OTHER INCOME | | | | | | | | | | |
| Laundry | 6,416 | 6,577 | 6,741 | 6,909 | 7,082 | 7,259 | 7,441 | 7,627 | 7,817 | 8,013 |
| Other Income | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other Income Increase | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% |
| TOTAL OTHER INCOME | 6,416 | 6,577 | 6,741 | 6,909 | 7,082 | 7,259 | 7,441 | 7,627 | 7,817 | 8,013 |

| GROSS POTENTIAL INCOME | 814,344 | 834,703 | 855,570 | 876,959 | 898,883 | 921,356 | 944,389 | 967,999 | 992,199 | 1,017,004 |

| VACANCY ASSUMPTIONS | | | | | | | | | | |
| Affordable (Blended Average) | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% |
| Rental Subsidy Income | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| Unrestricted Units / Market Rate Units | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| Laundry & Other Income | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% |
| LESS: VACANCY LOSS | 40,717 | 41,735 | 42,779 | 43,848 | 44,944 | 46,068 | 47,219 | 48,400 | 49,610 | 50,850 |

| EFFECTIVE GROSS INCOME | 773,627 | 812,978 | 832,500 | 861,929 | 881,589 | 901,964 | 930,328 | 957,589 | 981,824 | 966,104 |

| OPERATING EXPENSES | | | | | | | | | | |
| Expenses | 564,309 | 584,059 | 604,502 | 625,659 | 647,557 | 670,222 | 693,679 | 717,958 | 743,087 | 769,095 |
| Annual Expense Increase | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% |
| Taxes and Assessments | 183 | 187 | 190 | 194 | 198 | 202 | 206 | 210 | 214 | 219 |
| Annual Tax Increase | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |
| Replacement Reserve | 51,030 | 53,582 | 53,582 | 53,582 | 53,582 | 53,582 | 56,261 | 56,261 | 56,261 | 56,261 |
| Percentage Increase Yearly | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| TOTAL EXPENSES | 615,521 | 637,827 | 658,273 | 679,435 | 701,337 | 724,005 | 750,146 | 774,429 | 799,562 | 825,574 |

| NET OPERATING INCOME | 158,105 | 155,140 | 154,518 | 153,677 | 152,603 | 151,283 | 147,024 | 145,170 | 143,028 | 140,580 |

| DEBT SERVICE | | | | | | | | | | |
| CalHFA - Existing 1st Mortgage | 126,631 | 126,631 | 126,631 | 126,631 | 126,631 | 126,631 | 126,631 | 126,631 | 126,631 | 126,631 |
| CalHFA - Bridge Loan | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| CalHFA - 2nd Mortgage | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| None | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| DEBT COVERAGE RATIO | 1.25 | 1.23 | 1.22 | 1.21 | 1.21 | 1.19 | 1.16 | 1.15 | 1.13 | 1.11 |
| Cash Available for distribution | 31,475 | 28,509 | 27,888 | 27,046 | 25,972 | 24,652 | 20,394 | 18,540 | 16,397 | 13,950 |
### Cash Flow

**CalHFA Project Number: 97-026N**

<table>
<thead>
<tr>
<th>RENTAL INCOME</th>
<th>Year 21</th>
<th>Year 22</th>
<th>Year 23</th>
<th>Year 24</th>
<th>Year 25</th>
<th>Year 26</th>
<th>Year 27</th>
<th>Year 28</th>
<th>Year 29</th>
<th>Year 30</th>
</tr>
</thead>
<tbody>
<tr>
<td>Affordable Rents</td>
<td>1,034,216</td>
<td>1,060,071</td>
<td>1,086,573</td>
<td>1,113,738</td>
<td>1,141,581</td>
<td>1,170,121</td>
<td>1,199,374</td>
<td>1,229,358</td>
<td>1,260,092</td>
<td>1,291,594</td>
</tr>
<tr>
<td>Affordable Rent Increase</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
</tr>
<tr>
<td>Rental Subsidies</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Rental Subsidy Increases</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>Market Rate 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/Market Unit Increases</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>TOTAL RENTAL INCOME</td>
<td>1,034,216</td>
<td>1,060,071</td>
<td>1,086,573</td>
<td>1,113,738</td>
<td>1,141,581</td>
<td>1,170,121</td>
<td>1,199,374</td>
<td>1,229,358</td>
<td>1,260,092</td>
<td>1,291,594</td>
</tr>
</tbody>
</table>

| OTHER INCOME |
|--------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Laundry | 8,213 | 8,419 | 8,629 | 8,845 | 9,066 | 9,292 | 9,525 | 9,763 | 10,007 | 10,257 |
| Other Income | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other Income Increase | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% |
| TOTAL OTHER INCOME | 8,213 | 8,419 | 8,629 | 8,845 | 9,066 | 9,292 | 9,525 | 9,763 | 10,007 | 10,257 |

| GROSS POTENTIAL INCOME | 1,042,429 | 1,068,490 | 1,095,202 | 1,122,582 | 1,150,647 | 1,179,413 | 1,208,898 | 1,239,121 | 1,270,099 | 1,301,851 |

| VACANCY ASSUMPTIONS |
|----------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Affordable (Blended Average) | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% |
| Rental Subsidy Income | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| Unrestricted Units / Market Rate Units | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| Laundry & Other income | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% |
| LESS: VACANCY LOSS | 52,121 | 53,424 | 54,760 | 56,129 | 57,532 | 58,971 | 60,445 | 61,956 | 63,505 | 65,093 |

| EFFECTIVE GROSS INCOME | 990,308 | 1,015,065 | 1,040,442 | 1,066,453 | 1,093,114 | 1,120,442 | 1,148,453 | 1,177,165 | 1,205,594 | 1,236,759 |

| OPERATING EXPENSES |
|---------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Expenses | 796,013 | 823,874 | 852,709 | 882,554 | 913,443 | 945,414 | 978,503 | 1,012,751 | 1,048,197 | 1,084,884 |
| Annual Expense Increase | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% |
| Taxes and Assessments | 223 | 227 | 232 | 237 | 241 | 246 | 251 | 256 | 261 | 266 |
| Annual Tax Increase | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |
| Replacement Reserve | 58,261 | 59,074 | 59,074 | 59,074 | 59,074 | 59,074 | 62,027 | 62,027 | 62,027 | 62,027 |
| Percentage Increase Yearly | 5.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| TOTAL EXPENSES | 852,497 | 883,174 | 912,915 | 941,864 | 972,758 | 1,004,733 | 1,040,782 | 1,075,034 | 1,110,486 | 1,147,170 |

| NET OPERATING INCOME | 137,811 | 131,891 | 128,428 | 124,589 | 120,356 | 115,709 | 107,672 | 102,131 | 96,108 | 89,581 |

| DEBT SERVICE |
|---------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| CalHFA - Existing 1st Mortgage | 126,631 | 126,631 | 126,631 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| CalHFA - Bridge Loan | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| CalHFA - 2nd Mortgage | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| None | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| DEBT COVERAGE RATIO | 1.09 | 1.04 | 1.01 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |

| Cash Available for distribution | 11,181 | 5,260 | 1,797 | 124,589 | 120,356 | 115,709 | 107,672 | 102,131 | 96,108 | 89,581 |
Project Summary

Project Profile:

- **Project:** Mercy Village Folsom
- **Location:** 1100 thru 1190 Duchow Way Folsom 95630
- **Appraiser:** Tim Wright, MAI
- **Palmer, Groth & Pietka**
- **Capacity:** 8.50%
- **Market:** $3,100,000
- **Income:** $3,200,000
- **Final Value:** $3,200,000
- **LTC/LTV:** 23.9%
- **Program:** Special Needs
- **CHFA #:** 97026N
- **Loan/Value:** 37.4%
- **2 Loans/Val:** 73.4%

Project Description:

- **Units:** 81
- **Handicap Units:** 2
- **Bldg Type:** Rehabilitation
- **Buildings:** 10
- **Stories:** 2
- **Gross Sq Ft:** 58,549
- **Land Sq Ft:** 98,546
- **Units/Acre:** 36
- **Total Parking:** 65
- **Covered Parking:** 25

Financing Summary:

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<tr>
<th>Description</th>
<th>1st Closing</th>
<th>2nd Closing</th>
<th>FHA B-AHP Loan</th>
<th>City of Folsom CDBG Loan</th>
<th>SHRA HOME Loan</th>
<th>City of Folsom Grant</th>
<th>Limited Partner Equity</th>
<th>Insurance Proceeds</th>
<th>Interest Income</th>
<th>Funds from Operations</th>
<th>General Partner Contribution</th>
<th>CHFA TAX Exempt Bridge Loan</th>
</tr>
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<td>$1,154,776</td>
<td>$324,000</td>
<td>$92,940</td>
<td>$320,000</td>
<td>$1,450,000</td>
<td>$1,498,195</td>
<td>$40,195</td>
<td>$8,628</td>
<td>$38,620</td>
<td>$292,907</td>
<td>$164,500</td>
</tr>
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<td>$14,256</td>
<td>$4,000</td>
<td>$1,147</td>
<td>$3,951</td>
<td>$17,901</td>
<td>$18,496</td>
<td>$496</td>
<td>$107</td>
<td>$477</td>
<td>$3,616</td>
<td>$2,031</td>
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<td>3.50%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>4.00%</td>
<td>3.50%</td>
<td>4.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>3.50%</td>
<td>3.50%</td>
</tr>
<tr>
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<td>40</td>
<td>40</td>
<td>5</td>
<td>5</td>
<td>5</td>
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</table>

Unit Mix:

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<tr>
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<th>Size</th>
<th>Number</th>
<th>AMI</th>
<th>Rent</th>
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<td>$17,700</td>
</tr>
<tr>
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<td>$20,200</td>
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<tr>
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<td>441</td>
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<td>2 BR</td>
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<td></td>
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<td></td>
<td>81</td>
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Fees, Escrows and Reserves:

- **Escrows**
  - Commitment Fee - A Loan: 1.00% of Loan Amount, $23,500, Paid in Cash
  - Commitment Fee - B Loan: 1.00% of Loan Amount, $1,645, Paid in Cash
  - Rent Up Account: 15.00% of Gross Income, waived, NA
  - Operating Expense Reserve: 10.00% of Gross Income, $40,039, Cash or LOC
  - Marketing: 10.00% of Gross Income, waived, NA
  - Initial Replacement Reserve Deposit: $1,000 per unit, $81,000, Cash
  - Annual Replacement Deposit: $425 per unit, $34,425, Operations
  - Construction Deficit Security: 2.50% of Construction costs, $62,290, Cash or LOC
### Sources and Uses Worksheet

<table>
<thead>
<tr>
<th>Source/Use</th>
<th>Final Commitment</th>
<th>Cost Commitment</th>
<th>Variance</th>
<th>Percent of Total</th>
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<tr>
<td>CHFA 1st Closing</td>
<td>2,350,000</td>
<td>1,195,224</td>
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<td>38.6%</td>
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<td>CHFA 2nd Loan</td>
<td>164,500</td>
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<td>CHFA 2nd Loan</td>
<td>164,500</td>
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<td>FHLB AMP Loan</td>
<td>324,000</td>
<td>92,940</td>
<td>231,060</td>
<td>14.8%</td>
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<tr>
<td>City of Palmeto CDBG Loan</td>
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<td>231,060</td>
<td>0.9%</td>
<td>0.0%</td>
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<td>SHRA HOME Loan</td>
<td>320,000</td>
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<td>City of Palmeto Grants</td>
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<td>Funds from Operations</td>
<td>38,620</td>
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<td>Insurance Proceeds</td>
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<td>0.6%</td>
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<tr>
<td>General Partner Contribution</td>
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<td>Interest Income</td>
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<td>Limited Partner Equity</td>
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### Acquisitions

<table>
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<tr>
<th>Description</th>
<th>Final Cost</th>
<th>Phase I</th>
<th>Variance</th>
<th>Eligible Costs</th>
<th>Percent of Variance</th>
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<tbody>
<tr>
<td>Total Land Cost at Value</td>
<td>$423,407</td>
<td>$405,438</td>
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<tr>
<td>Off-Site Improvement</td>
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<td>Easements</td>
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<td>Existing Improvement Value</td>
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### Rehabilitation

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<th>Percent of Variance</th>
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<tbody>
<tr>
<td>Personal Property</td>
<td>$81,000</td>
<td>$103,210</td>
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<td>Structure</td>
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<td>$1,150,969</td>
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<td>Rehabilitation prior to 97/3/98</td>
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<tr>
<td>Contractor Overhead</td>
<td>0</td>
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<td></td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Contractor Profit</td>
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<td><strong>Total Rehab. Costs</strong></td>
<td>$1,288,003</td>
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### New Construction

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<th>Description</th>
<th>Final Cost</th>
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<th>Percent of Variance</th>
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<tbody>
<tr>
<td>Site Work</td>
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<td>Structures</td>
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<td>General Requirements</td>
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<td>Contractor Overhead</td>
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<td>0</td>
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<tr>
<td>Contractor Profit</td>
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<td><strong>Total New Const. Costs</strong></td>
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### Architectural Fees

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<tr>
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<th>Final Cost</th>
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<th>Variance</th>
<th>Eligible Costs</th>
<th>Percent of Variance</th>
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</thead>
<tbody>
<tr>
<td>Design</td>
<td>$12,000</td>
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<td>Supervision</td>
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### Survey & Engineering

<table>
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<th>Percent of Variance</th>
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</thead>
<tbody>
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<td>Construction Interest - Mercy</td>
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<td>$10,132</td>
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<td>Road Premium</td>
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### Permanent Financing

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<td>Construction Monitoring</td>
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<td>Lender Legal Pd. by Applicant</td>
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<td><strong>OTHER</strong></td>
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<td>TCAC Appeal/Notice Fees</td>
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<td>Total Other Costs</td>
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<td><strong>PROJECT COSTS</strong></td>
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<td><strong>DEVELOPER COSTS</strong></td>
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<td></td>
</tr>
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<td>Developer Overhead/Profit</td>
<td>$391,682</td>
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<td>$556,747</td>
<td>70%</td>
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<td>Consultant/Processing Agent</td>
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<td>$0</td>
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<tr>
<td>Other (specify)</td>
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<td>$0</td>
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<td>Total Developer Costs</td>
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<td>$220,084</td>
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<td>$1,405,485</td>
<td>$4,304,485</td>
<td>28%</td>
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## Sources and Uses Worksheet

### Sources:

<table>
<thead>
<tr>
<th>Source</th>
<th>Total Commitment</th>
<th>Cost Calculation</th>
<th>Variance</th>
<th>Percent of Total</th>
<th>Updated Sources</th>
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<tr>
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<td>2,310,000</td>
<td>1,195,224</td>
<td></td>
<td>18.6%</td>
<td></td>
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<tr>
<td>CHFA 2nd Lending</td>
<td>1,334,778</td>
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<td>CHFA 2nd Refinance</td>
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<td>PHLS-ARP Loan</td>
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<td>SHRA HOME Loan</td>
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<td>4.8%</td>
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</tbody>
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### Equity:

- City of Boise Grant: 1,450,000
- Funds from Operations: 38,620
- Insurance Proceeds: 40,195
- General Partner Contribution: 292,907
- Interest Income: 8,628
- Limited Partner Equity: 900,000

Total Sources: 5,099,485

### Uses:

- Land Cost: 4,415,645
- Construction Costs: 1,082,445

### Acquisition Costs:

<table>
<thead>
<tr>
<th>Description</th>
<th>Final Cost</th>
<th>Phase</th>
<th>Variance</th>
<th>Eligible Cost</th>
<th>Percent of Variance</th>
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</thead>
<tbody>
<tr>
<td>Total Land Cost of Value</td>
<td>$423,467</td>
<td></td>
<td></td>
<td>$405,438</td>
<td>($16,029) x.x.x</td>
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<tr>
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<td></td>
<td>$6,027</td>
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<td>Evaluation Reports</td>
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<td></td>
<td>$2,211,935</td>
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### Rehabilitation Costs:

- Personal Property: $91,000
- Structures: $2,237,972

Total Rehabilitation Costs: $2,328,972

### New Construction Costs:

- Site Work: $0
- General Requirements: $0
- Contractor Overhead: $0
- Contractor Profit: $0

Total New Const. Costs: $0

### Architectural Fees:

- Design: $12,500
- Supervision: $3,396

Total Architectural Costs: $15,896

### Survey and Engineering Costs:

- $0

### Construction Interest & Fees:

- Construction Interest: $61,375
- Origination Fee: $10,742
- Acquisition Lien Interest: $40,132
- Bond Premium: $10,742
- Taxes: $4,000
- Insurance: $1,000

Total Construction Interest & Fees: $101,359

### Permanent Financing Costs:

- Commitment Fee: $23,500
- Bridge Loan Fee: $1,645
- Bridge Loan Repayment: $10,000
- Bridge Loan Interest: $17,645
- Construction Monitoring: $21,600

Total Perm. Financing Costs: $65,000
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<th>Line Item</th>
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<td>Working Capital</td>
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<td>LOC</td>
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<td>Other</td>
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<td>TCAC App/Res/Monitor Fees</td>
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<td>Total Other Costs</td>
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<td>Developer Direct/Prof</td>
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</tr>
<tr>
<td>Other (specify)</td>
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<td>$0</td>
<td>$0</td>
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<td>$6,415,488</td>
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<td>$4,354,395</td>
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</table>
Executive Summary

Project Profile:

Project: Duchow Way Family Homes
Location: 1100 thru 1190 Duchow Way
          Folsom 95630
County: Sacramento
program: Special Needs

Borrower: Mercy Housing California V
          GP: Mercy Properties Inc.
          LP: CEF

CHFA #: 97026N

Financing Summary:

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<th>Source</th>
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<tr>
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<td>FHA-ALP Loan</td>
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<td>Limited Partner Equity</td>
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<tr>
<td>City of Folsom Grant</td>
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Unit Mix:

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<th>Number</th>
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<th>Rent</th>
<th>Max Income</th>
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<td>303</td>
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<td></td>
<td></td>
<td>81</td>
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<td>$384</td>
<td>$19,267</td>
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Index:

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Narrative</td>
<td>1</td>
</tr>
<tr>
<td>Project Summary</td>
<td>13</td>
</tr>
<tr>
<td>Project Profile</td>
<td></td>
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<tr>
<td>Reserve Requirements</td>
<td></td>
</tr>
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<td>Unit Mix and Income</td>
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<td>Source and Uses of Funds</td>
<td>14</td>
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<td>Operating Budget</td>
<td>15</td>
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<tr>
<td>Project Cash Flows</td>
<td>16</td>
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<tr>
<td>Location Maps (area and site)</td>
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</tbody>
</table>
SUMMARY:

This commitment request is for a $2,350,000 permanent loan for the Duchow Way Family Homes, an 81-unit existing family apartment building.

TERMS:

1st Mortgage: $2,350,000

Interest Rate: 3.50%

Term: 30

Financing: Tax Exempt

Special Needs: Very low income families of inmates in Folsom State Prisons

SPECIAL NEEDS TERMS:

Interest Subsidy: The Agency anticipates utilizing Financial Adjustment Factor (FAF) funds to reduce the interest rate to 3.5%. The reduced interest rate is required due to the limited income of the special needs tenants and required capital improvements to the property.

Social Services: The sponsor has secured $515,000 from non-agency sources to fund the social service programs for special needs tenants during the first 15 years of the project. In the event the sponsor elects to discontinue the social service aspect of this project after year 10, the Agency will increase the rate to an appropriate loan rate at the time of conversion effective for the remainder of the term. Initially, rents will be set at no more than 42% of Area Median Income (AMI). The Agency will require that 100% of the units be restricted to families who earn 50% or less of area median income. In the event the
sponsor elects to discontinue the service component of this project after year 10, the Agency's Occupancy restrictions will be modified to 20% at 50% of AMI and the balance to be determined by the Agency at the time of conversion.

LOCALITY INVOLVEMENT.

The City of Folsom is making a significant contribution to both the development of this property and the ongoing special needs services provided to the tenants. Assisting this special needs population is the City of Folsom's top housing priority. Folsom has provided:

- $1,435,000 in grant funds used for the acquisition of the project.
- additional $515,000 commitment to provide grant funds from their 1988-1999 and 1999-2000 funding cycles to fund the first 15 years of services for the project. These funds will be given as a grant to the Mercy Services Corporation, the management arm of the sponsor, Mercy Charities Housing California.
- assistance to maintain site security through the presence of a police substation. The Folsom police department is an active member of the coalition of groups assisting in this project and will maintain the substation if the sponsor deems it necessary.

SPECIAL NEEDS:

Special Need Population. The families of prisoners represent a distinct rental population whose problems result from the incarceration of one of the family members. Families of prisoners tend to be very low income because they have lost the income of one of the parents due to incarceration. Families of prisoners are also low income because they are not competitive in the job market. They face problems of extreme social, emotional and psychological isolation, discrimination based upon their connection to the prison, and drug and alcohol abuse. When families of prisoners are employed, they tend to be underemployed, due also to lower than average educational levels.

Problems faced by families of prisoners. The problems faced by families of prisoners are different from those faced by other single parent households because families of prisoners also suffer the emotional trauma of disrepute in the community and denial of normal social outlets to grieve for the "departed"member. The remaining parent must assume the roles of sole disciplinarian and caretaker and has the additional dilemma of deciding what and how to tell the children and extended family members. The remaining parent is also faced with the complexity of maintaining contact with the offender and dealing with the prison environment and the criminal justice system.
Incarceration is especially difficult for the children of prisoners. Researchers have concluded that children experience ostracism, guilt, discipline problems, failure to sustain school performance levels, loss of friends, and symptoms such as eating disorders, insomnia, or clinging. Many children of prisoners react through aggressive or withdrawn behavior with regression, nightmares, insomnia, truancy, poor achievement, teen age pregnancy, drug use, deep depression, and even suicide.

According to a representative at the "Welcome House" at Folsom State Prison, without outside intervention, 65% of the children of prisoners will end up incarcerated themselves. According to the representatives of Powerhouse Ministries, a local social service program that assists prisoners families in Folsom, 100% of the children of inmates in Folsom who were interviewed by Powerhouse Ministries staff indicated that they want to grow up to be gangsters like their dads. Discussions between the Borrower and area schools indicate that most children of prisoners in Folsom drop out of school, and most of them drop out before they enter high school.

**Special Needs Rent Levels.** The unit rents will be subsidized to 42% of the Area Median Income to make the units affordable to this special needs population. Rents will be at 42% of median for both special needs and non-special needs families to insure diversity in the tenants at the property. It is hoped that this rent level will attract families to the project who are employed.

**Special Needs Services.** Mercy Services Corporation (MSC), the social services and property management arm of the borrower, will administer the social services program for Duchow Way. The $515,000 grant from the City of Folsom will fund the first fifteen years of services provided by Mercy Services Corporation. MSC has extensive experience in providing special needs programs. All services will be offered to both families of prisoners and the non-special needs families. Specifically the grant funds will fund the following programs:

- a resident services coordinator who will be at the property 30 hours a week.
- a Community Activities Program which will include sports, games, movie nights, social events and field trips. This program will be run by the resident services coordinator.
- a Women's Art Therapy Group that will be offered 2 hours per week, 42 weeks per year. MSC will pay for both the instructor and for child care.
- a Children's Art Therapy Group that will be offered 2 hours per week, 46 weeks per year. MSC will pay for the instructor.
- a After School Homework Program that will be offered 2 hours per school day, 46 weeks per year. MSC will pay for the coordinator.
Computer Training Classes at two different levels for both children and adults. One class will be aimed at basics, and the other level will be for more advanced skills. This will be coordinated by the resident services coordinator, and will rely on a grant of computers from Hewlett Packard, Mercy Foundation, and Catholic Healthcare West.

In addition to the services paid for by the City of Folsom grant, MSC will arrange for health care, child care, job training and psychological counseling services to the tenants for free. Mercy Services Corporations has already entered into four separate Memorandums of Understanding with two service providers, Powerhouse Ministries and Mercy Hospital Folsom to run additional programs. Powerhouse Ministries is located across the street from the project and Mercy Hospital Folsom is located in the City of Folsom.

- Powerhouse Ministries has agreed to provide space for a child wellness clinic and Mercy Hospital has agreed to provide the staff and equipment. This will take the form of a health fair, and will be open to all residents of the neighborhood.

- Both the Folsom School Department and Powerhouse Ministries have agreed to provide space for a family oriented health clinic for residents and Mercy Hospital has agreed to provide the staff and equipment. Mercy Hospital has also agreed to provide a home health or parish nurse program which will be delivered to residents at the site.

- Powerhouse Ministries has agreed to house a trailer on its land for a daycare center that would accommodate ten to twenty children from Duchow Way. MSC would provide the daycare workers. MSC and Powerhouse Ministries have both agreed to fundraise for the cost of the trailer.

- Mercy Hospital has agreed to provide internship program for residents to teach them job skills at an administrative level. This program would accommodate one to two residents at a time for a six month internship.

Additionally MSC is currently discussing partnerships with the Folsom School District, the Park and Recreation Department and the Police Department to assist in a mentoring program geared toward school aged children to keep them enrolled in school and assist them with their studies.

Mercy Hospital is working with MSC to develop a counseling program at the site with both the University of San Francisco Branch Campus in Sacramento, and the University of California at Davis. Services to be provided by the counseling program would include both case management and crisis intervention.

Special Needs Housing Demand. The sponsor, Mercy Charities Housing California (MCHC) intends to target 40% of the project to prisoners families and the remainder of
the units to very low income families. Because of their chronic inability to pay market rents, the only housing stack available to the families of prisoners in Folsom are in the 300 older housing units and the 229 subsidized units discussed in the "Market" section of this report.

The Bay Area Economics (BAE) Market Study, dated September 19, 1997, addressed the marketability of the units not targeted at inmate families but was not able to answer it definitively. However, BAE's research indicated that diversity would be attainable if the non-inmate family units were affordable at 42% of AMI and affordable to very low income families because of the lack of very low income housing in Folsom. In the opinion of the project sponsor, the continued diversity of the project would only be enhanced by the proposed rehabilitation and services.

Folsom State Prison houses 3,826 inmates and the California State prison houses 3,126 inmates. The average tenure of a prisoner is 21 months although many are serving longer sentences. Statistically 18% of state prisoners are married, and 11% live in common law relationships; 56% of the men and 67% of the women in state prisons have at least one child under 18 years of age; 75% of prisoners wives expect to resume a shared relationship with the offender upon his release.

There are approximately 2,000 prisoners in the two Folsom prisons with families. Bay Area Economics was able to locate 40 to 50 prisoner families in the City. Currently between 15 and 30 prisoner families live in Duchow Way, and another 20 families live in another small cluster of multifamily properties in Folsom. BAE determined that most families of inmates do not disclose this fact to their landlords, based on interviews with landlords and local service providers. The Agency and the sponsor are in the process of determining more accurately how many families of inmates live in Folsom and how many more would live in Folsom if rental opportunities were available to them.

Anecdotal information from the Department of Corrections "Welcome House" Program at the Folsom Prisons and Powerhouse Ministries, a local social service agency that works with inmates families, indicates that many of the families of prisoners wish to locate in or near Folsom to be near incarcerated family members but are unable to find apartments that they can afford. The borrower will market the special needs units through referrals from the "Welcome House" Program, Powerhouse Ministries, and the referrals from local schools and churches.
MARKET:

A. Market Overview

The City of Folsom is located in the foothills of the Sierra Nevada, 20 miles northeast of Downtown Sacramento. It has one of the highest median incomes in Sacramento County and has few affordable housing options. Folsom is the site to two state prisons.

The housing stock is predominantly single family (77 percent) and high priced. The median sale price is $181,000. The few existing multifamily projects have average occupancy rates greater than 98 percent. All future multifamily developments currently in the process are projected to be market rate housing.

B. Housing Supply

Single Family. The City of Folsom has an estimated 14,100 housing units, of which approximately 77 percent (10,857 units) are single family homes. Single family homes are generally expensive relative to regional housing costs. During the past year, the median sale price for homes sold in Folsom (new and resale) was approximately $181,000. Fewer than five percent of the homes sold for less than $100,000. Single family 3 bedroom homes rent for approximately $900 and 4 bedroom homes rent for as much as $1200 or more. None of the single family housing units are affordable to families with incomes at or below 60% of area median income.

Existing Multifamily. Multifamily units comprise 17 percent (2,397 units) of the housing stock and the remaining 6 percent are mobile homes. Only 748 new multifamily units have been added to Folsom’s housing stock in the 1990’s.

The bulk of the City’s multifamily rental housing (2,097 units) is contained in medium to large apartment projects constructed from 1980 to the present. These projects are generally in good to excellent condition, offer extensive unit and complex amenities, and larger unit sizes. Rents in these projects range from $600 to $1060 for one bedroom units, and $685 to $1090 for two bedroom units. None of these units are affordable to families with incomes at or below 60% of area median income.

There is also a small submarket (300 units) of existing lower cost rentals which tend to be found in older, smaller projects that offer units in average to poor condition, minimal unit and complex amenities and relatively inexpensive rents, ranging from $375 to $400 for a one bedroom, and $450 to $475 for a two bedroom unit. The Duchow Way project currently falls within this submarket. Once the project is renovated, it will straddle its existing market and the higher quality rental market.

There are also 229 subsidized units in three projects within the City of Folsom and nearby unincorporated Sacramento County. These three projects report 100% occupancy and have waiting lists.

December 15, 1997
Page 6
Futuro Projects. Based on project information compiled by the City of Folsom Planning Department, residential projects totaling approximately 5,400 residential dwelling units are either under development, planned, or proposed for development. Based on the residential growth rate projected for the City of Folsom by the Sacramento Area Council of Governments (SACOG), this represents a 7 to 8 year supply of new housing.

Of the total housing (5,400) units planned, proposed, or under construction, approximately 70 percent (3,780 units) are single family units, and 30 percent (1,620 units) are multifamily units. According to Planning Department staff, all of the pipeline housing units are expected to be offered at market rate. There are no planned additions to the supply of low cost housing in Folsom. BAE reported that of the 14 planned residential developments, developers were focusing on the single family component and planning to build or sell the multifamily component last. Some developers indicated plans to substitute single family for the planned multifamily units.

<table>
<thead>
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<th>Rent Level</th>
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</thead>
<tbody>
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<tr>
<td>One bedroom 50%</td>
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</tr>
<tr>
<td>Two Bedroom 50%</td>
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<td>$580</td>
<td>$156</td>
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</tbody>
</table>

C. Apartment Demand

The multifamily rental market in Folsom is relatively expensive. The 2097 market rate apartments built after 1980 only are affordable to families with incomes at 80% of area median income or above. In these projects vacancy rates are 0% to 2%, with vacancies attributed to normal tenant turnover.

The older housing stock (300 units) is affordable to families with incomes below 80% of area median income. These units also have very low vacancy rates, typically 2% with vacancies attributed to normal tenant turnover.

As renovated, Duchow Way would represent the upper tier of the existing low-cost apartment supplying Folsom. The projects rental structure will be lower than its competition and the apartments will be in excellent condition. The completed project will offer very good value to tenants.
Very Low Income Rental Demand. The City’s 1992 Housing Element indicates that a total of 2,564 local households (or 29 percent) of 1990 households had housing cost burdens of over 30 percent of their incomes.

Bay Area Economics estimates that a city with Folsom’s existing household count and tenure split would normally be expected to include about 1,437 very low income renter households with one to three persons, based on analysis of 1990 Census Public Use Microdata Sample (PLUMS) data regarding renter household income distributions for Sacramento County overall.

This figure is much smaller than the City of Folsom’s existing supply of 529 housing units that potentially accommodate these very low income households and indicates pent-up demand. The numbers indicate that 1) very low-income households are currently experiencing excessive rent burdens, and 2) many of these families would otherwise prefer to live in Folsom, but are forced to reside in other locations where they are able to find more affordable housing.

<table>
<thead>
<tr>
<th>Location</th>
<th>0-50% AMI</th>
<th>51-80% AMI</th>
<th>81%+ AMI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Folsom</td>
<td>1,220</td>
<td>832</td>
<td>839</td>
</tr>
</tbody>
</table>

D. Market Conclusion

Duchow Way will experience strong market demand from the targeted households since the proposed rental rates for the rehabilitated units are among the most affordable in Folsom. The unit features and complex amenities offered are competitive with other low-cost housing offered elsewhere in Folsom. Additionally, the rehabbed units will be in much better shape than the competition and the rents will be lower. This combined with the array of services offered by Mercy Charities, along with the extremely low vacancy rates maintained by Mercy in their entire portfolio (less than 2% vacancy with over 2,000 units managed), make the demand risk on this project extremely low.

SITE AND PROJECT

A. The Site and Project

The site is situated approximately eight miles southeast of Interstate 80 in a mixed use commercial and multifamily residential neighborhood in the City of Folsom. The total land square footage of the site is 98,546 square feet. The gross residential area is 58,549 square feet. The ten Duchow Way apartment buildings were all built between 1960 and 1965 and vary in need of rehabilitation from cosmetic to structural. All buildings are situated contiguously on Duchow Way, a two lane residential street. The proposed development includes all but one of the apartment buildings on the block.
Across Duchow Way to the north are well maintained duplexes and single family homes. There is an alley to the south that separates the apartments from a commercial center. This retail shopping area is one of many retail and office complexes on the main thoroughfare south of the project.

Mercy Charities Housing California purchased 9 of the 10 buildings in October 1997 with the remaining building in escrow. Before acquisition by MCHC, the ten apartment buildings were owned and managed by seven separate absentee property owners. As a result, the buildings have gone into disrepair.

The buildings are typically two stories tall and have exterior comadors. They are between 32 and 37 years old. Most of the units are provided with gas fired wall furnaces and window mounted air conditioners. Overall, the properties exhibit significant deferred maintenance and the condition of the buildings ranges from fair to poor. Some of the buildings have structural pest damage, and damage to the building exterior and interiors. Parking is primarily available in unsecured parking areas at the rear buildings accessed via the alley, and on the street in front of the buildings. A limited number of the buildings have attached garages.

B. Rehabilitation Work

The total budget for both repairs and new construction is approximately $1,300,000 or $16,000 per unit.

The ten separate apartment projects will be visually unified through architectural treatments and landscaping to give the sense of a single project. The addition of a new office and community center will help create the sense that the ten previously independent buildings are now joined into one project.

MCHC proposes to upgrade all the unit interiors, and replace any structurally weakened components of the buildings. Most of the units will be painted and receive new carpeting. The remainder of the funds will be used to upgrade appliances as needed and make repairs necessary to make the units safe and habitable.

Different repair work is required at the various buildings but the bulk of the funds will be spent to address the following problems: removing dry rot; removing damaged balconies; replacing stairs; installing exterior lighting; repairing plumbing; installing new roofs and applying new paint to the buildings. When completed, the units will be renovated to a level of decent, clean, basic functionality which will compare to their “as new” condition.
OCCUPANCY RESTRICTIONS:

CHFA: 100% of the units will be restricted to 50% or less of median income.

Tax Credits: 100% of the units will be restricted to 60% or less of median income.

ENVIRONMENTAL:

An Environmental Site Assessment from Barr and Clark, dated September 16, 1997, indicates that there are no environmental concerns for the Ducho Way site in federal, state, or local database records. In addition, the report prepared to ASTM standards indicates that there is a low likelihood of adverse impact to the environmental integrity of the site from leaking underground tanks.

CHFA commissioned a comprehensive lead-based paint and asbestos survey of each building. The reports, also by Barr and Clark and dated September 22, 1997 and December 2, 1997, indicated that there is limited presence of these hazards in the buildings.

Only three (3) exterior doors were identified as having lead based paint. The remediation plan recommends that these doors be replaced.

Asbestos was found in the eighteen (18) linoleum kitchen floors, and five (5) bathroom floors. The remediation plan recommends an Operations and Maintenance Plan for those floors that are not damaged and will not be disturbed during the construction. But in the case of the ten (10) kitchen floors and one (1) that were considered damaged, the remediation plan requires that the asbestos containing material be disposed of by a prequalified, registered and certified asbestos abatement contractor.

Asbestos was also found in the acoustic ceiling, wallboard, and exterior stucco in building 1190. The condition of this asbestos was "good" and no action is required at this time. The Agency will require an Operations and Maintenance Plan for the maintenance of all the asbestos containing material on the property.

ARTICLE XXXIV:

An acceptable opinion letter will be required before loan close.
Mercy Charities Housing California (MCHC) is one of the state’s leading developers of affordable housing. The Sisters of Mercy and Catholic Charities of the Archdiocese of San Francisco merged their affordable housing programs to create MCHC.

MCHC has developed 2,074 units of affordable housing since 1974. They currently have 1357 units either in construction or in preliminary stages of development.

MCHC is a significant producer of projects for special needs tenants. MCHC has developed and manages ten (10) special needs projects (350 units) since 1983. MCHC’s special needs projects cater to the needs of many different populations, including individuals and families who were formerly homeless, those living with AIDS and the physically disabled.

MCHC is an affiliate of Mercy Housing, Inc. (MHI), a nationwide nonprofit that is at the heart of multiple regional development corporations that are active in 13 states. MHI serves as an administrative center for the Mercy system of affordable housing developers. The centralized approach gives the regional development corporations the resources of a large corporation when it comes to human resources, accounting, financial reporting and marketing. It also gives affiliates, like MCHC access to the Mercy Loan Fund, which is used for predevelopment, and construction debt. This Fund will be utilized in Duchow Way for construction financing.

CONTRACTOR:

The contractor is David Barden, principal of D.B.A. Barden Design and Construction. Mr. Barden has owned the firm since 1979 and has designed and built over 100 custom homes and over 100 residential and commercial remodels. The firm rehabilitated three apartment buildings in the last two years. The largest of these projects was the Arbor Pointe Apartments on Old Placerville Road in Sacramento. Total work was approximately $1 million.

The firm also designed and built a convent for the Sisters of Mercy, in Auburn in 1993.

ARCHITECT:

Shimotsu Architecture is a six person, Sacramento area based architectural/planning/interior design firm, providing a wide range of services for public and private clients throughout California. The firm has extensive experience in the design of a wide variety of new and renovation/remodeling projects ranging from industrial, governmental, commercial and military to educational and residential projects.
Shimotsu Architecture recently designed the CHFA financed Renwick Square, a 150-unit senior project.

**MANAGEMENT AGENT:**

Mercy Services Corporation, the management corporation of MHI will manage Duchow Way Family Homes. In addition to managing MCHC's developments, Mercy Services Corporation manages affordable housing projects for all the MHI affiliates and other nonprofit housing developers. MSC currently manages 80 properties with over 3,600 units and has been an integral part of the planning and design of the Duchow Family Way Homes project and its service program. MSC is divided into Property Management and Resident Services. Resident Services is headed by Sister Patsy Harney, the Regional Resident Services Coordinator who will oversee resident services at Duchow Way.
Project Summary

Project Profile:

**Project:** DuChow Way Family Homes
**Location:** 1100 thru 1190 DuChow Way
**Folsom** 95630

**Appraiser:** Tim Wright, MAI
**Palmer, Groth & Pietka**

**County:** Sacramento
**Borrower:** Mercy Housing California V
**GP:** Mercy Properties Inc.
**LP:** CEF

**Program:** Special Needs
**CHFA #:** 97026N

**LTCA/LTV:**
- Loan/Cost: 46.5%
- Loan/Value: 73.4%

Project Description:

- **Units:** 81
- **Handicap Units:** 2
- **Bed Type:** Rehabilitation
- **Buildings:** 10
- **Stories:** 2
- **Gross Sq Ft:** 58,549
- **Land Sq Ft:** 98,546
- **Units/Acre:** 36
- **Total Parking:** 65
- **Covered Parking:** 25

Financing Summary:

<table>
<thead>
<tr>
<th>Loan Source</th>
<th>Amount</th>
<th>Per Unit</th>
<th>Rate</th>
<th>Term</th>
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<tbody>
<tr>
<td>CHFA First Mortgage</td>
<td>$2,350,000</td>
<td>$29,012</td>
<td>3.50%</td>
<td>30</td>
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<tr>
<td>PHLB-AHP Loan</td>
<td>$324,000</td>
<td>$4,000</td>
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<tr>
<td>Limited Partner Equity</td>
<td>$900,000</td>
<td>$11,111</td>
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<td></td>
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<tr>
<td>City of Folsom Grant</td>
<td>$1,435,000</td>
<td>$17,716</td>
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Unit Mix:

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<tr>
<th>Type</th>
<th>Size</th>
<th>Number</th>
<th>AMI</th>
<th>Rent</th>
<th>Max Income</th>
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<tr>
<td>0 BR</td>
<td>303</td>
<td>8</td>
<td>50%</td>
<td>342</td>
<td>$16,950</td>
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<tr>
<td>1 BR</td>
<td>639</td>
<td>14</td>
<td>50%</td>
<td>385</td>
<td>$19,330</td>
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<tr>
<td>2 BR</td>
<td>775</td>
<td>58</td>
<td>50%</td>
<td>424</td>
<td>$21,800</td>
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<tr>
<td>2 BR</td>
<td>775</td>
<td>1</td>
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<td>N/A</td>
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<td></td>
<td>81</td>
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<td>$19,367</td>
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Fees, Escrows, and Reserves:

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<th>Escrow</th>
<th>Basis of Requirements</th>
<th>Amount</th>
<th>Security</th>
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<tbody>
<tr>
<td>Commitment Fee</td>
<td>1% of Loan Amount</td>
<td>$23,500</td>
<td>Cash</td>
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<tr>
<td>Finance Fee</td>
<td>0.0% of Loan Amount</td>
<td>$0</td>
<td>Cash</td>
</tr>
<tr>
<td>Bond Origination Guarantee</td>
<td>1.0% of Loan Amount</td>
<td>$23,500</td>
<td>FAF funds</td>
</tr>
<tr>
<td>Rent Up Account</td>
<td>15.00% of Gross Income</td>
<td>$60,039</td>
<td>LOC</td>
</tr>
<tr>
<td>Operating Expense Reserve</td>
<td>10.00% of Gross Income</td>
<td>$40,039</td>
<td>LOC</td>
</tr>
<tr>
<td>Marketing</td>
<td>10.00% of Gross Income</td>
<td>$40,039</td>
<td>Cash</td>
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<tr>
<td>Initial Replacement Reserve Deposit</td>
<td>$1,000 per unit</td>
<td>$81,000</td>
<td>Cash</td>
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<tr>
<td>Annual Replacement Deposit</td>
<td>$425 per unit</td>
<td>$34,425</td>
<td>Operations</td>
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### Sources and Uses

<table>
<thead>
<tr>
<th>Name of Lender / Source</th>
<th>Amount</th>
<th>% of total</th>
<th>$ per sq ft</th>
<th>$ per unit</th>
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</thead>
<tbody>
<tr>
<td>CHFA First Mortgage</td>
<td>2,350,000</td>
<td>46.9%</td>
<td>40.1</td>
<td>29,012</td>
</tr>
<tr>
<td>FHLLB-AHP Loan</td>
<td>324,000</td>
<td>6.5%</td>
<td>5.5</td>
<td>4,000</td>
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<tr>
<td>Total Institutional Financing</td>
<td>2,674,000</td>
<td>53.4%</td>
<td>45.7</td>
<td>33,012</td>
</tr>
</tbody>
</table>

**Equity Financing**
- Tax Credits                     | 900,000  | 18.0%      | 15.4        | 11,111     |
- City of Folsom Grant            | 1,435,000| 28.8%      | 24.5        | 17,716     |
- Total Equity Financing           | 2,335,000| 46.6%      | 39.9        | 28,827     |

**TOTAL SOURCES**                 | 5,009,000| 100.0%     | 85.6        | 61,840     |

### Uses

<table>
<thead>
<tr>
<th>Use</th>
<th>Amount</th>
<th>% of total</th>
<th>$ per sq ft</th>
<th>$ per unit</th>
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<tbody>
<tr>
<td>Acquisition</td>
<td>2,635,000</td>
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<td>45.0</td>
<td>32,531</td>
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<tr>
<td>Rehabilitation</td>
<td>1,288,003</td>
<td>25.7%</td>
<td>22.0</td>
<td>15,901</td>
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<tr>
<td>New Construction</td>
<td>0</td>
<td>0.0%</td>
<td>-</td>
<td>0</td>
</tr>
<tr>
<td>Architectural Fees</td>
<td>45,000</td>
<td>0.9%</td>
<td>0.8</td>
<td>556</td>
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<tr>
<td>Survey and Engineering</td>
<td>0</td>
<td>0.0%</td>
<td>-</td>
<td>0</td>
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<tr>
<td>Const Loan Interest &amp; Fees</td>
<td>101,359</td>
<td>2.0%</td>
<td>1.7</td>
<td>1,251</td>
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<tr>
<td>Permanent Financing</td>
<td>65,000</td>
<td>1.3%</td>
<td>1.1</td>
<td>802</td>
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<td>Legal Fees</td>
<td>26,800</td>
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<td>0.5</td>
<td>331</td>
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<tr>
<td>Reserves</td>
<td>126,000</td>
<td>2.5%</td>
<td>2.2</td>
<td>1,556</td>
</tr>
<tr>
<td>Appraisal Costs</td>
<td>4,500</td>
<td>0.1%</td>
<td>0.1</td>
<td>56</td>
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<tr>
<td>Construction Contingency</td>
<td>246,099</td>
<td>4.9%</td>
<td>4.2</td>
<td>3,038</td>
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<tr>
<td>Local Fees</td>
<td>0</td>
<td>0.0%</td>
<td>-</td>
<td>0</td>
</tr>
<tr>
<td>Relocation and Due Diligence</td>
<td>124,557</td>
<td>2.5%</td>
<td>2.1</td>
<td>1,538</td>
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<tr>
<td><strong>PROJECT COSTS</strong></td>
<td>4,662,318</td>
<td>93.1%</td>
<td>79.6</td>
<td>57,559</td>
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<tr>
<td>Developer Fee</td>
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<td>3,724</td>
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<td>Consultant/Processing Agent</td>
<td>45,000</td>
<td>0.9%</td>
<td>0.8</td>
<td>556</td>
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</table>

**TOTAL USES**                     | 5,009,000| 100.0%     | 85.6        | 61,840     |
### Annual Operating Budget

<table>
<thead>
<tr>
<th></th>
<th>Duchow Way Family Homes</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>% of total</td>
</tr>
<tr>
<td><strong>INCOME:</strong></td>
<td></td>
</tr>
<tr>
<td>Total Rental Income</td>
<td>392,616</td>
</tr>
<tr>
<td>Laundry</td>
<td>7,776</td>
</tr>
<tr>
<td>Gross Potential Income (GPI)</td>
<td>400,392</td>
</tr>
<tr>
<td><strong>Less:</strong></td>
<td></td>
</tr>
<tr>
<td>Vacancy Loss</td>
<td>20,020</td>
</tr>
<tr>
<td><strong>Total Net Revenue</strong></td>
<td>380,372</td>
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<tr>
<td><strong>EXPENSES:</strong></td>
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</tr>
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<td>Payroll</td>
<td>66,037</td>
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<td>Administrative</td>
<td>56,270</td>
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<tr>
<td>Utilities</td>
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<tr>
<td>Operating and Maintenance</td>
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<tr>
<td>Insurance and Business Taxes</td>
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<tr>
<td>Taxes and Assessments</td>
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<tr>
<td>Reserve for Replacement Deposits</td>
<td>34,425</td>
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<tr>
<td><strong>Subtotal Operating Expenses</strong></td>
<td>247,558</td>
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<tr>
<td>Financial Expenses</td>
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<tr>
<td>Mortgage Payments (1st loan)</td>
<td>126,631</td>
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<tr>
<td><strong>Total Financial</strong></td>
<td>126,631</td>
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<tr>
<td><strong>Total Project Expense</strong></td>
<td>374,189</td>
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</table>

Page 15
<table>
<thead>
<tr>
<th>RENTAL INCOME</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>
<th>Year 11</th>
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</thead>
<tbody>
<tr>
<td>Market Rent Increase</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
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<td>N/A</td>
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<tr>
<td>Market Rate</td>
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<td>N/A</td>
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<td>N/A</td>
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<td>N/A</td>
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<tr>
<td>Affordability Rent Increase</td>
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<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>TOTAL RENTAL INCOME</td>
<td>5992,616</td>
<td>402,431</td>
<td>412,492</td>
<td>422,804</td>
<td>433,375</td>
<td>444,289</td>
<td>455,314</td>
<td>466,697</td>
<td>478,364</td>
<td>490,324</td>
<td>502,867</td>
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<td>OTHER INCOME</td>
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</tr>
<tr>
<td>Other Income Increase</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
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<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
</tr>
<tr>
<td>Laundry</td>
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<td>7,970</td>
<td>8,170</td>
<td>8,374</td>
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<td>8,798</td>
<td>9,018</td>
<td>9,243</td>
<td>9,474</td>
<td>9,711</td>
<td>9,954</td>
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<tr>
<td>Other Income</td>
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<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td>TOTAL OTHER INCOME</td>
<td>7,776</td>
<td>7,970</td>
<td>8,170</td>
<td>8,374</td>
<td>8,583</td>
<td>8,798</td>
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<td>9,243</td>
<td>9,474</td>
<td>9,711</td>
<td>9,954</td>
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<td>GROSS INCOME</td>
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<td>410,602</td>
<td>420,662</td>
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<td>500,035</td>
<td>513,761</td>
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<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
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<td>N/A</td>
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</tr>
<tr>
<td>Vacancy Rate: Affordable</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>
<td>5.00%</td>
</tr>
<tr>
<td>Loss: Vacancy Loss</td>
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<td>20,625</td>
<td>21,140</td>
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<td>22,208</td>
<td>22,766</td>
<td>23,335</td>
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<td>410,038</td>
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<td>452,405</td>
<td>463,911</td>
<td>475,521</td>
<td>488,611</td>
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<td></td>
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<td></td>
<td></td>
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</tr>
<tr>
<td>Annual Expense Increase</td>
<td>4.00%</td>
<td>4.00%</td>
<td>4.00%</td>
<td>4.00%</td>
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<td>Replacement Reserve</td>
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<td>Annual Tax Increase</td>
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<td>2.00%</td>
<td>2.00%</td>
<td>2.00%</td>
<td>2.00%</td>
<td>2.00%</td>
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<td>Taxes and Assessments</td>
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<td>264,740</td>
<td>274,171</td>
<td>283,760</td>
<td>293,734</td>
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<td>313,895</td>
<td>324,612</td>
<td>335,760</td>
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<td>NET OPERATING INCOME</td>
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<td>134,397</td>
<td>135,293</td>
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<td>137,062</td>
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<td>DEBT SERVICE</td>
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<td>CHPA - A Loan</td>
<td>126,631</td>
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<td>CASH FLOW after debt service</td>
<td>6,194</td>
<td>7,566</td>
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<td>9,237</td>
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</table>

**OBSERVATIONS**

- Date: 1/1
- Time: 10:00
- Location: Office

**NOTES**

- Weather: Sunny
- Temperatures: 22°C
- Activity: Meeting

---

**REMARKS**

- Adjusted for holidays
- Budgeted for year-end

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**APPENDIX**

- Attachments: Sales Report
- Records: Financial Statement
RESOLUTION 98-03

RESOLUTION AUTHORIZING A FINAL LOAN COMMITMENT

WHEREAS, the California Housing Finance Agency (the "Agency") has received a loan application from Mercy Housing California V, a California limited partnership, (the "Borrower"), seeking a loan commitment under the Agency's Tax Exempt Loan Program in the mortgage amount described herein, the proceeds of which are to be used to provide a mortgage loan for a development to be known as Duchow Way Family Homes (the "Development"); and

WHEREAS, the loan application has been reviewed by Agency staff which has prepared its report dated December 15, 1997 (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 October 9, 1997, the Executive Director has exercised the authority delegated to him/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.

NOW, THEREFORE, BE IT RESOLVED by the Board:

1. The Executive Director, or in his/her absence, either the Chief Deputy Director or the Director of Programs of the Agency is hereby authorized to execute and deliver a final commitment letter, subject to the recommended terms and conditions set forth in the CHFA Staff Report, in relation to the Development described above and as follows:

<table>
<thead>
<tr>
<th>PROJECT NO.</th>
<th>LOCALITY</th>
<th>NO. UNITS</th>
<th>MORTGAGE AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>97-026-N</td>
<td>Duchow Way Family Homes</td>
<td>81</td>
<td>$2,350,000</td>
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<tr>
<td></td>
<td>Folsom/Sacramento</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2. The Executive Director, or in his/her absence, either the Chief Deputy Director or the Director of Programs of the Agency is hereby authorized to modify the
Resolution 98-03
Page 2

mortgage amount so stated in this resolution by an amount not to exceed seven percent (7%) without further Board approval.

3. All other material modifications to the final commitment, including changes in mortgage amount of more than seven percent (7%), must be submitted to the Board for approval. "Material modifications" as used herein means modifications which, in the discretion of the Executive Director, or in his/her absence, either the Chief Deputy Director or the Director of Programs of the Agency, change the legal, 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 98-03 adopted at a duly constituted meeting of the Board of the Agency held on January 8, 1998, at Millbrae, California.

ATTEST:________________
Secretary
RESOLUTION 07-18

RESOLUTION AUTHORIZING A FINAL LOAN COMMITMENT

WHEREAS, the California Housing Finance Agency (the "Agency") has received a loan application on behalf of Mercy Housing V, L.P., a California limited partnership (the "Borrower"), seeking a loan commitment, the proceeds of which are to be used to provide financing for a multifamily housing development located in the City of Folsom, County of Sacramento, California, to be known as Mercy Village Folsom Apartments (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 June 4, 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>MORTGAGE AMOUNT</th>
</tr>
</thead>
</table>
| 97-026-N       | Mercy Village Folsom Apts, Folsom, Sacramento County, California | Loan-to-Lender 2nd Mortgage: $3,705,000  
Loan-to-Lender HAT Mortgage: $1,000,000  
Permanent 2nd HAT Mortgage: $1,000,000 |
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 07-18 adopted at a duly
constituted meeting of the Board of the Agency held on July 5, 2007 at Sacramento, California.

ATTEST: __________________
Secretary
Bay Area Housing Plan
Terms for CalHFA Warehouse Line
Date: 6-11-07

Purpose:

To allow CalHFA to purchase Loans relating to up to 30 properties after Stabilization and achieve the following overall project goals:

1. Loan Purchase to be approximately 14 to 30 days following Stabilization
2. Hallmark Community Services ("HCS") can close out the acquisition phase of the BAHP while remaining below the Bank of America cap of $60 million (10% cost-overrun cushion results in a cap of $54 million in maximum loan amounts)
3. CalHFA can accumulate enough loans to create an attractive bond offering, resulting in better permanent rates for the Borrowers, without a bottleneck on the Bank of America line.

All capitalized terms not otherwise defined herein have the meanings assigned to them in the BAHP Loan Documents.

Structure:

The common goal is to achieve the above with as few changes to the BAHP Loan Documents as possible. From the HCS and Regional Center perspective, the salient difference between the proposed structure and the original structure is that interest-only payments will be made to CalHFA rather than to Bank of America while accumulating sufficient loans for an attractive Bond Issuance.

Borrowers: Non-Profit Organization, Limited Liability Corporations’ (Casa Milagro, LLC; A Home for Life, LLC; Inclusive Communities East Bay, LLC) (collectively, the “NPO LLC’s”)

Availability Requested: Up to $60 million

Security: Identical to security provided for in the BAHP Loan Documents at Loan Purchase.

Take-Out Source: Bond proceeds

Requested Availability: June 15, 2007

Term: From June 15, 2007 until February 28, 2008, which is the expiration of the of the Revolving Credit Agreement by and between CalHFA and Bank of America, N.A. dated as of March 7, 2003, as amended by that certain First Amendment to Revolving Credit Agreement dated as of February 25, 2005 (as amended, the “RCA/Warehouse Line”), with the possibility of extension at CalHFA’s discretion upon renewal of the RCA/Warehouse Line.

Pricing of Bonds Event: Approximately Mid-November, 2007

Bond Issuance: Approximately Mid-December, 2007

Direct Payment: Monthly interest only payments between Loan Purchase and Bond Issuance to be made directly from the Regional Centers to CalHFA as provided under the Lease.

Interest Rate:

CalHFA is offering the BAHP Regional Centers/LLC NPO’s a RCA/Warehouse Line Variable Rate of Monthly LIBOR plus 180 basis points (see Modification of note below). This rate is 150 basis points above CalHFA’s cost of funds of LIBOR plus 30 basis points, pursuant to the terms of the RCA/Warehouse Line. All fees charged by Bank of America to CalHFA under the RCA/Warehouse Line are included in the Monthly LIBOR plus 180 basis point RCA/Warehouse Line Variable Rate.
By way of comparison, the RCA/Warehouse Line Variable Rate is 50 basis points lower than the Variable Rate as currently described in the Permanent Financing Agreement (as amended the PFA), which rate is set at monthly LIBOR plus 230 basis points. All other terms are the same. The Bank of America rate at Stabilization matches the PFA Variable Rate of LIBOR plus 230 basis points but resets daily instead of monthly.

Amend the Definition of Variable Rate in the PFA to include the RCA/Warehouse Line Variable Rate: The definition of Variable Rate in the PFA will be amended to allow for a Warehouse Line variable rate (monthly LIBOR plus 180 basis points) for the period of time between CalHFA Loan Purchase using its warehouse line and the last day of the month of Bond Issuance. The RCA/Warehouse Line variable rate will reset monthly on the first day of each calendar month.

Modification Agreement – to be executed after Bond Pricing and approximately 15 days prior to Bond Issuance. The Modification Agreement will change the RCA/Warehouse Line variable interest rate to the Applicable Fixed Rate is defined in the PFA and set the Amortization Date The form of the Modification Agreement has already been agreed to by the parties and is an attachment to the PFA and the Construction Loan Agreement. The Applicable Fixed Rate is CalHFA’s Cost of Funds as determined through the Bond Pricing, plus 150 basis points. The Amortization date will be the first day of the month following Bond Issuance. The Applicable Fixed Rate will be effective on the Amortization Date.

Lease Amendment at Loan Purchase: The Long-Term Residency Lease Agreement (the “Lease”) will be amended (the “Lease Amendment”) at Loan Purchase to revise the Rent, and Monthly Base Rent charged under the Lease, and, if necessary, the Replacement Reserve amount. The Rent and Monthly Base Rent will be changed to reflect interest only payments on the outstanding principal balance of the loan at the RCA/Warehouse Line variable rate. A fully executed Lease Amendment will be required for each property prior to each Loan Purchase Closing. The Lease Amendment will also provide for notice by CalHFA after Bond Pricing and approximately 15 days prior to Bond Issuance of the new Rent and Monthly Base Rent based on the fully amortizing Applicable Fixed Rate.

Alternatively there will be a 2nd Lease Amendment that will amend the Rent and the Monthly Base Rent in the Lease to reflect the Applicable Fixed Rate and fully amortizing payments, to be executed after Bond Pricing and approximately 15 days prior to Bond Issuance.

Loan Fees: No additional fees beyond 1% CalHFA Board Commitment fee per the original BAHF Loan Documents.

Costs: HCS to pay all other costs and expenses incurred by CalHFA except those costs and expenses associated with the Bond Issuance.

Key Conditions for Closing: Each property to achieve Stabilization per the terms of the BAHF Loan Purchase Agreement prior to CalHFA Loan Purchase. The property will be transferred to the NPO LLC’s at CalHFA Loan Purchase. The NPO LLC’s will assume all of the obligations of the Hallmark Community Services under the loan documents.

TEFRA: CalHFA has taken official action required for tax-exempt bond inducement at Bank Acquisition closing for all applicable properties. CalHFA has conducted or will conduct TEFRA hearings prior to CalHFA Loan Purchase and transfer to the NPO’s for all applicable properties.

Title: CalHFA will require a 101.8 endorsement in addition to title requirements in the Preliminary Approval Letter/4.2 Estoppel if the statutory lien period has not passed at Loan Purchase Closing.

Anticipated Changes required to the previously agreed upon BAHF Documents:

1. First Amendment to the PFA with the 3 NPO LLC’s to allow a) bankruptcy remoteness required by bond rating agencies, b) creation of a limited power of attorney to allow the Agency to sign any Modification Agreement for the NPO’s and the Consent to the Modification Agreement for the Regional Centers and c) modification of the definition of Variable Rate to include the RCA/Warehouse Line variable rate (discussed above). [CalHFA Draft in circulation – further modification required to change the variable rate definition].
2. First Amendment to Loan Assumption Agreement between HCS and the applicable NPO LLC amending Exhibit A (Schedule of Assumed Loans) to reflect outstanding balance as of time of execution of Loan Assumption Agreement.

3. Form of Lease Amendment to allow for changes in the Rent, including, without limitation, the change in Monthly Base Rent, and changes to the Replacement Reserve. The Lease Amendment will also provide CalHFA a limited power of attorney from the Service Providers for the Agency to adjust the Rent, including without limitation, the Monthly Base Rent, and changes in the Replacement Reserve, and to reflect the Applicable Fixed Rate, and the Amortization Date in a Second Lease Amendment after the Bond Issuance. [CalHFA to provide Draft Lease Amendment]. Form of Second Lease Amendment if deemed necessary by CalHFA. [CalHFA to provide Draft 2nd Lease Amendment]/

4. Form of Modification Agreement modifying the note to reflect the Applicable Fixed Rate after Bond Issuance, and setting the Amortization Date and the debt service payments due after the Amortization Date. [CalHFA to provide Form of Modification Agreement- Administrative Agent to approve if any change to the form attached to the LPA/PFA].
### Senior Loan Committee Final Project Approvals $4 Million and Below FYE 2006

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<tr>
<th>Project Name/City/County</th>
<th>Project Type</th>
<th>Developer/Project Manager</th>
<th>CalHFA Financing</th>
<th>Other Financing Sources</th>
<th>Date Approved</th>
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<tr>
<td>Alexis Apartments San Francisco, San Francisco County</td>
<td>Family</td>
<td>Barbara Sanders &amp; Associates Barbara Sanders</td>
<td>$250,000.00- Predevelopment</td>
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<td>Aspen Tenderion Apartments San Francisco, San Francisco County</td>
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<td>Tenderion Neighborhood Development Corporation Jerry Jai</td>
<td>$2,400,000- Acquisition</td>
<td>$5,564,831- San Francisco HRA</td>
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<td>Pitch Mountain Terrace II Healdsburg, Sonoma County</td>
<td>Elderly</td>
<td>Burbank Housing Development John Lowry</td>
<td>$470,000.00- 1st $90,000.00- 2nd</td>
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<td>Los Flores Los Angeles, Los Angeles County</td>
<td>Special Needs</td>
<td>East Los Angeles Community Corporation Alejandro Martinez</td>
<td>$300,000.00- Loan Increase</td>
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<td>HFL Vanowen Apartments</td>
<td>Special Needs</td>
<td>Homes For Life Foundation Carol Lewis</td>
<td>$1,339,640.00- Construction</td>
<td>$2,679,280.00- HCD/MHP $2,997,900.00- HUD 811 $1,225,000.00- Los Angeles Housing Dept $240,000.00- AHP</td>
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6 Projects

$7,144,540.00 $12,707,011.00

Bay Area Housing Plan Summary on Page 2
# Bay Area Housing Plan

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<td>227 Pruney, San Mateo</td>
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<td>5508 Jasmine, Castro Valley</td>
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<td>488 E &amp; E8 Northlake, San Jose</td>
<td>$1,833,000.00</td>
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<td>625 &amp; 627 Vasona, Los Gatos</td>
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<td>623 &amp; 631 Vasona, Los Gatos</td>
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<td>7/26/2006</td>
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<td>637 &amp; 639 Vasona, Los Gatos</td>
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<td>1720 Pierce, San Mateo</td>
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<td>2508 Regent, Livermore</td>
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<td>4865 Wilshire Park, San Jose</td>
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<td>2178 3412 Shadygroves, Castro Valley</td>
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<td>633 Nevada, San Mateo</td>
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<td>3274 Olympiad, Union City</td>
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<td>2334 Oak Flat, San Jose</td>
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<td>14239 Mullberry, Los Gatos</td>
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<td>14446 Monroe, San Jose</td>
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<td>1112 Sunnydale, South San Francisco</td>
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<td>740 Palm, South San Francisco</td>
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<td>1169 Sand Beach, Alameda</td>
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<td>24615 Patricia, Hayward</td>
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<td>32724 Fairfield, Union City</td>
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<td>1908 Otis Drive, Alameda</td>
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<td>2360 Medina, San Bruno</td>
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<td>3208 Martin, San Mateo</td>
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<td>826 Caileo, San Jose</td>
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<td>5242 Bristol, Newark</td>
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<td>275 W. Dunne, Morgan Hill</td>
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<td>1441 Stonehedge, Pleasant Hill</td>
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<td>2977 Pimenton Creek, San Jose</td>
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<td>10506 N. Foothill, Cupertino</td>
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<td>10516 N. Foothill, Cupertino</td>
<td>$1,432,000.00</td>
<td>5/15/2007</td>
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<td>10328 N. Foothill, Cupertino</td>
<td>$1,438,000.00</td>
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<td>10336 N. Foothill, Cupertino</td>
<td>$1,417,000.00</td>
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33 Projects: $54,415,950.00
MEMORANDUM

To: Board of Directors

Tom Hughes, General Counsel

From: CALIFORNIA HOUSING FINANCE AGENCY

Subject: Updates to CalHFA’s Conflict of Interest Code (Resolution 07-17)

California’s Political Reform Act of 1974 (the “Act”) requires that each state agency enact by regulation a conflict of interest code pursuant to standards set forth in the Act. CalHFA has enacted such regulation, at Title 25, Code of California Regulations, Section 10001. The Act further requires that the regulation be updated periodically. The proposed amendment text presented to the Board is intended to be such an update.

The Agency’s conflict of interest code (the “Code”) designates personnel positions within the Agency which are required to annually file a Statement of Economic Interests (Form 700). The Code also specifies the types of business interests or sources of incomes that must be reported.

The types of positions within the Agency which are required to file the Form 700 are generally Board positions, management positions, and consultants. In addition, employees holding staff positions which directly interact with and influence those decision makers are also covered by the Code. As personnel classifications and titles change over time, the Code must be updated to accurately reflect the nature of those changes.

The proposed amended Code includes new positions and revises the titles of existing positions. Proposed deletions/additions are shown in strikeout/underline format as follows: deletions are in red strikeout font, and additions are in blue underline font.

Updates to CalHFA’s conflict of interest code are subject to the rulemaking process, which includes: public notice, public comment period, and public hearing (if requested); review and approval by Fair Political Practices Commission; submission to Office of Administrative Law; and, certification by Secretary of State.

We respectfully request the Board’s approval of the within proposed updates to CalHFA’s conflict of interest code, and authorization to proceed with the rulemaking process, including authorization to make non-material revisions to the proposed amendment text, without further Board approval, as may be appropriate.
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CALIFORNIA CODE OF REGULATIONS

TITLE 25. Housing And Community Development

Division 2. California Housing Finance Agency

Chapter 1. General

Article 1. Conflict of Interest Code

§10001. General Provisions.

Amend Section 10001 to read as follows:

§10001. General Provisions.

The Political Reform Act, Government Code sections 81000, et seq., requires state and local government agencies to adopt and promulgate Conflict of Interest Codes. The Fair Political Practices Commission has adopted a regulation, 2 California Code of Regulations section 18730, which contains the terms of a standard Conflict of Interest Code, which can be incorporated by reference, and which may be amended by the Fair Political Practices Commission to conform to amendments in the Political Reform Act after public notice and hearings. Therefore, the terms of 2 California Code of Regulations section 18730 and any amendments to it duly adopted by the Fair Political Practices Commission, along with the attached Appendix in which officials and employees are designated and disclosure categories are set forth, are hereby incorporated by reference and constitute the Conflict of Interest Code of the California Housing Finance Agency (the Agency).

Designated employees shall file statements of economic interests with the Agency, which will make the statements available for public inspection and reproduction. (Govt. Code Section 81008). Upon receipt of the statements of Board Members and the Executive Director, the Agency shall make and retain a copy and forward the original of these statements to the Fair Political Practices Commission. Statements for all other designated employees will be retained by the Agency.

NOTE


HISTORY

1. Repealer of chapter 1 (article 1, sections 10001-10006) and new chapter 1 (article 1, sections 10001-10011) filed 8-12-77; effective thirtieth day thereafter. Approved by Fair Political Practices Commission 4-20-77 (Register 77, No. 37). For prior history, see Registers 75, No. 49; and 76, No. 20.

2. Repealer of article 1 (sections 10001-10011 and Exhibits A and B) and new article 1 (section 10001 and Appendix) filed 2-26-81; effective thirtieth day thereafter. Approved by Fair Political Practices Commission 12-1-80 (Register 81, No. 9).
Proposed Amendment Text

3. Amendment of Appendix filed 6-14-84; effective thirtieth day thereafter. Approved by Fair Political Practices Commission 5-7-84 (Register 84, No. 24).

4. Amendment of Appendix refiled 10-4-84; effective thirtieth day thereafter. Approved by Fair Political Practices Commission 5-7-84 (Register 84, No. 40).

5. Amendment of section 10001 and Appendix filed 1-30-91; operative 3-1-91. Approved by Fair Political Practices Commission 12-6-90 (Register 91, No. 14).

6. Amendment of section and Appendix filed 4-18-96; operative 5-18-96. Approved by Fair Political Practices Commission 2-8-96 (Register 96, No. 16).

7. Amendment of section and Appendix filed 7-28-97; operative 8-27-97. Approved by Fair Political Practices Commission 6-4-97 (Register 97, No. 31).

8. Amendment of section and Appendix filed 2-7-2006; operative 3-9-2006. Approved by Fair Political Practices Commission 12-16-2005 (Register 2006, No. 6).

Conflict of Interest Code of the
California Housing Finance Agency

Appendix

<table>
<thead>
<tr>
<th>Designated Employees</th>
<th>Assigned Disclosure Category</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Persons holding the following positions</strong></td>
<td><strong>and/or the following classifications are</strong></td>
</tr>
<tr>
<td><strong>&quot;designated employees&quot;</strong></td>
<td></td>
</tr>
</tbody>
</table>

**Board of Directors**

Board Member (All members of the Board other than the State Treasurer) .................. 1, 2, 3

**Executive**

Executive Director ................................................................. 1, 2, 3
Chief Deputy Director ............................................................. 1, 2, 3
Director of Legislation .............................................................. 1, 2, 3

**Administration**

Director of Administration ........................................................ 1, 2, 3
Chief of Administrative Services ................................................. 1, 2, 3
Staff Services Manager † (Business Services) (all classes and all levels) .................. 3
Associate Business Management Analyst (Business Services) (all classes and all levels) 3
Telecommunications Systems Analyst (Business Services) (all classes and all levels) .... 3
Business Services Officer (Business Services) (all classes and all levels) .................. 3
Staff Services Analyst (Business Services) (all classes and all levels) ..................... 3

**Information Technology**

Chief Information Officer .......................................................... 2, 3
Staff Information Systems Analyst (Specialist) (Systems Administration) .................. 3
Senior Programmer Analyst (Supervisor) .................................................. 3
Senior Information Systems Analyst (Supervisor) ........................................ 3
Staff Information Systems Analyst (Specialist) (Systems Administration) ........... 3

Marketing
Director of Marketing (Staff Services Manager III) ...................................... 1, 2, 3

Legal
General Counsel ......................................................................................... 1, 2, 3
Assistant Chief Counsel ............................................................................ 1, 2, 3
Staff Counsel IV ....................................................................................... 1, 2, 3
Staff Counsel III ....................................................................................... 1, 2, 3
Staff Counsel ........................................................................................... 1, 2, 3
Information Security Officer ........................................................................ 2, 3

Financing
Director of Financing .............................................................................. 1, 2, 3
Risk Manager - Financing ......................................................................... 1, 2, 3
Housing Finance Chief (Financing) ............................................................ 1, 2, 3
Financing Officer ..................................................................................... 1, 2, 3
Financing Specialist .................................................................................. 1, 2, 3

Fiscal Services
Comptroller ............................................................................................. 1, 2, 3
Accounting Administrator III ................................................................. 1, 2, 3
Accounting Administrator II ................................................................. 3
Housing Finance Officer (Single Family) .................................................. 1, 2, 3
Housing Finance Specialist (Single Family) .............................................. 1, 2, 3

Homeownership
Director of Homeownership .................................................................... 1, 2, 3
Deputy Director of Homeownership Programs ......................................... 1, 2, 3
Housing Finance Chief (Single Family) .................................................... 1, 2, 3
Housing Finance Officer (Single Family) .................................................. 1, 2, 3
Housing Finance Specialist (Single Family) .............................................. 1, 2, 3

Multifamily
Director of Multifamily Programs ........................................................... 1, 2, 3
Deputy Program Director (Rental) .......................................................... 1, 2, 3
Housing Finance Chief (Rental) .............................................................. 1, 2, 3
Housing Finance Chief (Construction Services) ......................................... 1, 2, 3
Supervising Design Officer ...................................................................... 1, 2, 3
Senior Design Officer ............................................................................. 1, 2, 3
Senior Estimator ..................................................................................... 1, 2, 3
Senior Housing Construction Inspector .................................................. 1, 2, 3
Housing Construction Inspector .............................................................. 1, 2, 3
Housing Finance Officer (Rental) ............................................................ 1, 2, 3
Housing Finance Officer (Construction Services) ....................................... 1, 2, 3
Housing Finance Specialist (Rental) (Preservation Assistance) ................. 1, 2, 3
Housing Finance Specialist (Construction Services) ................................... 1, 2, 3
Chief, Special Lending Programs (CEA II) ............................................... 1, 2, 3
Asset Management
Deputy Director of Asset Management ...................................................... 1, 2, 3
Housing Finance Chief (Management Services) .............................................. 1, 2, 3
Housing Finance Officer (Management Services) ........................................... 1, 2, 3
Housing Finance Specialist (Management Services) ....................................... 1, 2, 3
Housing Maintenance Inspector ................................................................. 1, 2, 3

Mortgage Insurance Services
Director of Insurance .................................................................................. 1, 2, 3
Housing Finance Chief (Single Family) ......................................................... 1, 2, 3
Housing Finance Officer (Single Family) ....................................................... 1, 2, 3
Housing Finance Specialist (Single Family) ................................................. 1, 2, 3

Consultants
Consultant ....................................................................................................... 1, 2, 3

With respect to Consultants, the General Counsel of the Agency may determine in writing that a particular consultant, although a “designated employee,” is hired to perform a range of duties that is limited in scope and thus is not required to comply with the disclosure requirements described in this section. Such determination shall include a description of the consultant’s duties and, based upon that description, a statement of the extent of disclosure requirements. A copy of the written determination is a public record and shall be retained and made available for public inspection in the same manner and location as this Conflict of Interest Code. Nothing herein excuses any such consultant from any other provision of this Conflict of Interest Code.

Disclosure Categories

Category 1

Designated employees in Category 1 must report:
All investments and interests in real property located within the State of California.

Category 2

Designated employees in Category 2 must report:
All investments and business positions in, and sources of income, including gifts, loans, and travel payments, from, any person or entity which is (i) defined to be a “housing sponsor,” “limited-dividend housing sponsor,” or “qualified mortgage lender” by part I, chapter 2, of the Zenovich-Moscone-Chacon Housing and Home Finance Act (chapter 2 commences at section 50050 of the California Health and Safety Code) or which is (ii) a financial services company, information technology company, law firm, mortgage bank, investment bank, real estate services company, brokerage company, insurance company, title company, escrow company, building or construction contractor or subcontractor, that contracts with or otherwise does business with the Agency, or which is soliciting, a contract or other business from the Agency.

Category 3

Designated employees in Category 3 must report:
All sources of income, including gifts, loans, and travel payments, from and investments and business positions in any business entity that, within the last two years, has contracted with the Agency to provide services, supplies, materials, machinery or equipment to the Agency, or that has otherwise done business with the Agency.
RESOLUTION 07-17

RESOLUTION APPROVING PROPOSED AMENDMENTS TO REGULATIONS

WHEREAS, the California Housing Finance Agency (the "Agency") through its Board of Directors (the "Board") is authorized to adopt and, where appropriate, to amend or repeal regulations; and

WHEREAS, the Board has determined that the proposed amendments to certain Agency regulations, as attached hereto, are necessary and appropriate for adoption by the Agency,

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

1. The attached amendments to the Agency’s regulations, incorporated herein by reference, concerning Title 25, Division 2, Chapter 1, Article 1, § 10001 of the California Code of Regulations (the Conflict of Interest Code of the Agency) are hereby approved.

2. The staff is directed to give public notice, conduct any required public hearing and take such other action as may be necessary or proper for the adoption by the Agency of such amended regulations including submission of such amendments to the Fair Political Practices Commission and the Office of Administrative Law. The staff is authorized to make non-material revisions to these amendments, without further Board approval, as may be appropriate in the course of promulgating these amendments.

I hereby certify that this is a true and correct copy of Resolution 07-17 adopted at a duly constituted meeting of the Board of Directors of the Agency held on July 05, 2007, at Sacramento, California.

ATTEST: __________________________

Secretary