STATE OF CALIFORNIA
CALIFORNIA HOUSING FINANCE AGENCY

BOARD OF DIRECTORS
PUBLIC MEETING

The Westin San Francisco Airport
One Old Bayshore Highway
Milbrae, California

Thursday, January 22, 2009
9:36 a.m. to 1:39 p.m.

Minutes approved by the Board of Directors at its meeting held:
March 26, 2009

Attest:

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

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APPEARANCES

Directors Present:

PETER N. CAREY, Acting Chairperson
President/CEO
Self-Help Enterprises

CAROL GALANTE
President
BRIDGE Housing Corporation

LORI R. GAY
President/CEO
Los Angeles Neighborhood Housing Services, Inc.

LYNN L. JACOBS
Director
Housing and Community Development

CARLA I. JAVITS
President
REDF
(formerly Roberts Enterprise Development Fund)

HEATHER PETERS
For Dale E. Bonner
Secretary
Business, Transportation and Housing Agency

BETTINA REDWAY
For Bill Lockyer
State Treasurer
State of California

JACK SHINE
Chairman
American Beauty Development Co.

L. STEVEN SPEARS
Acting Executive Director
California Housing Finance Agency

BROOKS TAYLOR
For Cynthia Bryant
Director
Office of Planning and Research

---00---
CalHFA Staff Present:

GARY BRAUNSTEIN
Special Advisor to the Executive Director
Homeownership Lending

ROBERT L. DEANER, II
Director
Multifamily Programs

BRUCE D. GILBERTSON
Director of Financing
Financing Division

TIMOTHY HSU
Financing Risk Manager
Financing Division

THOMAS C. HUGHES
General Counsel

HOWARD IWATA
Director of Administration

CHARLES K. McMANUS
Director
Mortgage Insurance

DENNIS MEIDINGER
Comptroller

JOJO OJIMA
Office of the General Counsel

DIANE RICHARDSON
Director of Legislation

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BE IT REMEMBERED that on Thursday, January 22, 2009, commencing at the hour of 9:36 a.m., at The Westin San Francisco Airport, One Old Bayshore Highway, Old Bayshore Room, Millbrae, California, before me, YVONNE K. FENNER, CSR #10909, RPR, the following proceedings were held:

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ACTING CHAIRPERSON CAREY: This is the January 22nd meeting of the California Housing Finance Agency Board of Directors, and our first order of business is the roll.

--o0o--

Item 1. Roll Call

MS. OJIMA: Ms. Peters for Mr. Bonner.

(No response.)

MS. OJIMA: Ms. Galante.

MS. GALANTE: Here.

MS. OJIMA: Ms. Gay.

MS. GAY: Here.

MS. OJIMA: Ms. Jacobs.

MS. JACOBS: Here.

MS. OJIMA: Ms. Javits.

MS. JAVITS: Here.

MS. OJIMA: Ms. Redway for Mr. Lockyer.

MS. REDWAY: Here.
MS. OJIMA: Mr. Shine.

MR. SHINE: Here.

MS. OJIMA: Mr. Smith.

(No response.)

MS. OJIMA: Mr. Taylor for Mr. -- Ms. Bryant.

(No response.)

MS. OJIMA: Mr. Genest.

(No response.)

MS. OJIMA: Mr. Spears.

MR. SPEARS: Here.

MS. OJIMA: Mr. Carey.

ACTING CHAIRPERSON CAREY: Here.

MS. OJIMA: We have a quorum.

ACTING CHAIRPERSON CAREY: Good. Thank you, Jojo.

--o0o--

Item 2. Approval of the minutes of the September 18, 2008; November 13, 2008; and December 12, 2008 Board of Directors meetings

ACTING CHAIRPERSON CAREY: The next item of business is the approval of the minutes for three meetings. Unless there are any corrections, can we take them as a group?

MR. SHINE: I'll move it.

MS. GAY: Second.
ACTING CHAIRPERSON CAREY: Moved and seconded.
Any further discussion?
All in favor -- I'm sorry, roll call.
MS. OJIMA: Thank you.
ACTING CHAIRPERSON CAREY: That would be too easy.
MS. OJIMA: Ms. Galante.
MS. GALANTE: Yes.
MS. OJIMA: Ms. Gay.
MS. GAY: Yes.
MS. OJIMA: Ms. Jacobs.
MS. JACOBS: Yes.
MS. OJIMA: Ms. Javits.
MS. JAVITS: Yes.
MS. OJIMA: Ms. Redway.
MS. REDWAY: Yes.
MS. OJIMA: Mr. Shine.
MR. SHINE: Yes.
MS. OJIMA: Mr. Carey.
ACTING CHAIRPERSON CAREY: Yes.
MS. OJIMA: The minutes have been approved.
ACTING CHAIRPERSON CAREY: Thank you.

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Item 3. Chairman/Executive Director comments

ACTING CHAIRPERSON CAREY: With that, we'll move
on to comments. I'm going to cede my time to our executive director, Steve Spears.

Steve, I know you've got a fair amount to share with us.

MR. SPEARS: A fair amount.

It has been an eventful month since last we met together. And I mean, despite the historic week, this week with the new administration in our nation's capital, a lot of things have been going on with the State that have now touched CalHFA, so many things going on.

On the federal level, just to start with that very quickly, our national association, the NCHSA, is -- has been very active in pursuing an ask list, that you have been briefed on before, with the new administration. It first appeared that that would show up in federal legislation, and now it appears that the new Obama administration will take that up themselves.

There are weekly calls. There's been one two weeks now at noon on Thursdays. We'll probably miss the one today, but I will be checking with Barbara Thompson, the president of the association, after our meeting here to check in the on the most recent development. At present there's not a lot to report because they're still in research mode trying to find out what the
administration is actually proposing.

We have heard a persistent rumor that the conservator, Mr. Lockhart, from the -- I guess the new nickname is "FeeFa," FHFA, the overseer for Fannie Mae and Freddie Mac, has indicated that Fannie Mae and Freddie Mac are going to provide somewhere in the neighborhood of 5 to 6 billion dollars to HFAs to help with variable-rate debt.

We're not sure what that's going to look like, but if that does come true, that would be terrific news for CalHFA. We want would want to be first in line for any of that sort of assistance, and we'll keep pursuing that.

But one thing I want to do first off, we have a new member of the senior executive team, Howard Iwata. Howard's in the front row there -- if you stand, thank you. Howard is our new director of administration. He'll be involved with facilities management, with HR, business support, budgeting. We'll all follow him.

And he has terrific background, broad background, in all these areas. He comes to us from the State Controller's Office. We stole him away from there where he was chief administrative officer for one of their largest divisions, the audit division. And before that he was with the San Francisco Bay Conservation
Development Commission, a 26-member board, so he has experience working with boards, with budgets. He was the assistant executive director for administration for that -- that body, so he has terrific experience.

So welcome, Howard.

And he will be talking about two items, the budget augmentation item and also an update on -- a midyear update on expenditures.

So I'd like to do -- not necessarily quickly, but set the stage for the discussion today and talk about three very important developments since last we met and then give you an overview of what you're going to hear with regard to the business plan.

So getting right to it, the first important item is you all know about Moody's decision to put the State -- CalHFA's general obligation credit rating on watch for possible downgrade. That occurred back in September. There was a 90-day review period. It ended roughly at the end of December. At the end of December, we had not heard anything, and they issued an extension, another 90 days.

So in a way, that's good news for us because the -- that provides additional time for us to execute some of our strategies and alleviate some of their concerns, so we're viewing that as a positive. It gives
us more time to work with the analyst, and they've asked for more information. Bruce might mention some of that a little bit later on, but we see it as a positive.

One thing -- and I think, Jojo, we made the letter, the Moody's letter, available --

MS. OJIMA: Yes, everyone has it.

MR. SPEARS: -- to all of you. When you have time, look through that.

But they specifically mentioned the retirement of Terri Parker as the executive director and the search for a new director, that they would be following that development closely. They'll be very interested in whoever the new ED is, that -- you know, their emphasis on solving these problems and their focus on that. So I thought that was very interesting.

And so, again, it's -- we're viewing it as good news.

The second thing, perhaps the most important, although maintaining our credit rating is, you know, of prime importance, the State's budget and cash crisis has finally come to touch CalHFA in a very real way.

Just as background, I'm not sure if all the Board members have been briefed on our cash flow business model, but it's very simple. As we purchase loans, we don't pre-fund those sales of bonds up-front.
We have a warehouse line of credit with something called the Pooled Money Investment Fund. We borrow money from that fund. We make those loan purchases. And then when that balance is built up, we go out, sell bonds in the normal circumstances, repay the loan at the PMIB.

Now, the Pooled Money Investment Board governs that fund, and that fund made up of surplus moneys from around the State, the General Fund, special funds, moneys that are available under ordinary circumstances.

On December 17, just after we met last for this Board, the Pooled Money Investment Board looked at the liquidity of that fund and determined that they could no longer make loan disbursements. We've been doing this at CalHFA for 14 years, and the amount of the loan has grown from somewhere around a hundred million dollars to now the total amount of our borrowing capacity is $350 million. We have about $118 million, I believe, on balance with them, but they said with regard to all loan disbursements for all state departments on December 17 that was cut off.

So I guess we have to go back and rewind the tape all the way back to September of last year. When Lehman Brothers went bankrupt and the bond market really began to shut down and then after that completely shut down, we closed off most lending. I think you remember
that we were only down to 30-year mortgages and some
downpayment assistance. We were getting one, two loans
a day, sometimes three or four loans a day, so it was
really sort of trickling in already, so we had already
pulled the pipeline down.

But when that line of credit was completely cut
off, we had to make a decision up or down immediately
whether to continue to lend, and we just didn't see how
we could continue to purchase loans on an ongoing basis
and decided to suspend lending at that time.

So at present, this Agency is only making loans
for two programs: the Community Stabilization Home Loan
Program, the small REO program, and our own REO program,
which we have named the SMART program after Jerry Smart.
Those are the only two lending programs, activities,
that we have doing right now. So it's a very
significant impact, and that's on an ongoing basis.

The big issue became immediately what to do with
our loan reservation pipeline, and there was no pipeline
protection in the PMIB's decision. I doubt if they even
would understand what we were talking about if we went
and asked for that protection.

But we had approximately a hundred million
dollars of commitments through our reservation system in
homeownership for promises that we had made that we
would buy loans if those loans worked their way through, people qualified, and then brought those loans to us for purchase.

We had a long discussion among the senior staff and decided that given our reputation in the community, the time of the year being the holiday season, the reputation of this Board and the administration on the line, that we would protect that pipeline, and we made that announcement.

It is going to impact our nest egg of liquidity because with that hundred million dollars -- I believe, Bruce, you may want to speak to this -- but of that hundred million dollars, we were going to use a $40-million line of credit that we had opened with Bank of America, but the remainder of it will be internal funds that we have available, and it will whittle down, if you will, our little nest egg that we have for liquidity.

MR. GILBERTSON: Yeah, I guess I would just add, Steve, that maybe hold this thought. We have a slide in one of the presentations that will walk through this. We broke down by loan type and loan program and the strategies that we had to honor the commitment, so I think that's in the last presentation, on the financial update.
MR. SPEARS: The only update is the PMIB recently met. Ms. Treadway was there as well. Bruce and I and Tom attended. And they met a week ago Friday -- is that correct? -- to decide is there any change to what they did in December. I believe they made 500 million available for various projects. Almost all of them were Caltrans infrastructure road building. Although we applied for an exemption, it wasn't granted, and so we still are in the -- the mode of no lending at this point.

So I don't know if you want to --

MR. SHINE: Except for the REO stuff.

MR. SPEARS: Except for REO stuff.

And we specifically asked for an extension on several multifamily projects where we're really joining with HCD. On construction projects, we put up a lot of the construction lending, but then when the projects are finished and MHP money becomes available, that's part of the -- those are part of the funds that take out our construction bonds.

Unfortunately, Ms. Jacobs is in the same boat as us. When they said no lending on -- on programs like that, they meant all G-O bond funded programs, and that's where the money comes from for MHP funds. And so they don't have the cash. We don't have the cash.
So we've asked for an exception, along with Lynn, for some of those multifamily projects. I believe that's correct.

The next PMIB meeting is in mid-February, I believe.

MS. REDWAY: Just to clarify, I think the Department of Finance actually makes the decisions.

MR. SPEARS: That's correct.

MS. REDWAY: PMIB just is sort of acting like a bank and saying, you know, we have $650 million available for you to use, and then the Department of Finance and the various state agencies decide to carry an equity line of credit. They're like the husband and wife deciding what it is they're actually going to spend the money on. So Finance is making those decisions.

MR. SPEARS: Are there any questions about that particular item?

It really goes to what we're going to be telling you as far as the business plan, so we'll cover that but I just wanted to set the stage.

MS. GALANTE: Are you going to go further into how much of the hundred million actually -- it sounds like there was some potential that some of that would fall out -- how much of that is single family, how much is multifamily? Is that in your slide later, Bruce?
MR. GILBERTSON: Yeah. The slide that we have is primarily on the homeownership program.

The multifamily program, we're going to talk about it through these financing resolutions that are first up on the agenda. As you will recall, we had a number of sponsors come before this Board at the September 2008 meeting. That's kind of the pipeline that we have.

We've come up with one strategy that will help some of those borrowers, and that's through a conduit financing program. We'll talk about more on that later.

So I think in total the one thing we've missed -- perhaps two things -- is that we do have the MHSA program. It's ongoing because that's separately funded. We received a transfer of funds for that.

And I think on the homeownership program side, the other thing that the PMIB action caused was we didn't have access directly to some of the Prop 46 and 1C moneys that also come to us via HCD and our interagency agreement with them.

MS. GALANTE: Can I ask one other? This may be one of those questions that's really ignorant, but did I hear you say that CalHFA had some of its money in this? So this is like the State's checking account, to keep it simplistic; right? So it's the liquidity for the State.
So CalHFA keeps its liquid money in this pool; is that correct?

MR. GILBERTSON: Correct. And I don't have it in front of me, Carol, but you do have a Board report, an annual investment report. It's about $1.4 billion.

But I -- our money is firewalled from the General Fund, and certainly the State Treasurer or anybody with the State could not access our moneys.

MS. GALANTE: Okay. So here's my question: So how can they freeze that money if it's our money?

MR. GILBERTSON: What we effectively did with the PMIB is we asked for a loan or line of credit from think of it as the State's General Fund. So we want to take a temporary loan to warehouse loans until we access the bond market to provide a permanent financing solution for some of our loan programs.

MS. GALANTE: So -- I'm sorry, so CalHFA has some cash.

MR. GILBERTSON: Um-hmm.

MS. GALANTE: And where is that cash?

MR. GILBERTSON: It's invested by the State Treasurer.

MS. REDWAY: It's in something called SMIF. It's a segregated account.

MR. GILBERTSON: SMIF is the State's Surplus
Money Investment Fund. All state agencies that are authorized can invest idle cash in that fund and the Treasurer then actually purchases specific securities.

Okay.

There's a broader board that governs their investment strategy called the Pooled Money Investment Board, and they have been -- they have served a role as a lender, a bank, as Ms. Redway has suggested. And so we have accessed that line of credit to allow us to warehouse loans without consuming all of our other liquidity.

Remember, a big portion of the 1.4 billion we have invested is restricted to serve indenture provisions. It's used for specific purposes. We couldn't necessarily use it to warehouse loans.

It sounds like it's all in one big bucket, but it is properly segregated, and our money is distinct from the rest of the State.

MS. GALANTE: I'm just trying to understand what liquidity CalHFA has that CalHFA has total discretion over.

MS. REDWAY: I think what Carol is asking, If I'm getting it, Steve, is you had referenced earlier that you had a $40-million line of credit with B of A that you might draw on --
MR. GILBERTSON: It falls into several different things. We hold -- as a loan servicer, we're holding borrowers' money. We service multifamily loans. We're holding reserve accounts.

We service first-time home buyer loans as well, and we have some of those. I don't believe -- there's not much of that invested in the State Treasurer's system.

We hold moneys that have been provided to us from MHSA. $400 million, I believe, was transferred to us during the last fiscal year. That is all sitting in the State Treasurer's investment pool as well. So it's a variety of things including certain accounts that are pledged as collateral to the bond investors in our various indentures.

MR. SHINE: Well, am I clear, all of that notwithstanding, the billion-four is in addition to that amount, that that amount is made up of buyers' deposits, escrows, things that we're holding and so on. The billion-four is CalHFA's unallocated money to be used as they want to.

MR. GILBERTSON: No. That is not correct.

MS. REDWAY: No, the billion-four includes all that stuff.

MR. SHINE: So the billion-four isn't all our
MR. GILBERTSON: The interesting thing -- and here's maybe the confusion -- we have about a billion-four of fund equity, and we have about a billion-four of cash invested in the State Treasurer's investment pool. You know, the composition of the fund equity is not all cash. We have a variety of loan types and programs that would comprise equity.

MR. SHINE: No, I understand. I think I said it incorrectly. When we started out, we had a billion-four. We said it was spread in different places. There was some cash and some investments in the Treasurer's Office and so on. My question is if you take that billion-four and put it into an asset column, are there liabilities against that billion-four or is that something we have invested in addition to the billion-four?

MR. GILBERTSON: The billion-four is an equity balance, but ironically there is cash that was put into the State Treasurer's investment pool that also is a billion-four. Some of that cash is restricted for purposes that this Board doesn't have direct rights to utilize it for any purpose. Then the smaller number that we have control over is about $300 million.

ACTING CHAIRPERSON CAREY: Will this surface,
Bruce, in your slides?

MR. GILBERTSON: Part of it will. And certainly as we go through this I think we should make sure that the Board asks any further questions they have to better understand this.

MR. SPEARS: The -- the difficulty is that when we get to the business plan, we get to the financial review. The slides are geared to, you know, what we're doing from this point on, and we just need to go back and set the stage for that a little bit. And I apologize for the confusion, but it is complicated.

But the bottom line is the money that we have invested with the State Treasurer's Office is not restricted, the money that is our nest egg, the money that Carol referred to. That is liquid to us that we have discretion over. The part that's been locked down is the amount that we were asking to borrow. The line of credit that we had worked out, that has been cut off.

No question, we could provide our own warehouse line of credit. We could fund our pipeline internally to try to keep that going. The problem is under current circumstances, we have other restructuring needs for those funds. We just don't have enough cash to do all those things all together. So it became necessary for us to shut down lending and focus on the things that
need to be done in Bruce's shop with debt restructuring.

MS. GAY: I want to say real quickly how much I applaud the decision to honor your pipeline for families --

MR. SPEARS: Thank you.

MS. GAY: -- in these difficult times.

MR. SPEARS: Thank you.

MR. GILBERTSON: Steve, if I can add, maybe later in the agenda, even though I wasn't planning to do this and I don't have a PowerPoint presentation, we could walk through the investment report that is in the back of the binder today, and that will help you understand the totality of the investments the Agency has.

MR. SPEARS: Any other questions? We'll move to the other important item.

ACTING CHAIRPERSON CAREY: While we have a short break, I'd like to note that Heather Peters has joined us. Thank you.

MR. SPEARS: The third important development in the last month is within a day or two after the and unrelated to the PMIB decision, we also got a letter from the Governor and an executive order with regard to a furlough plan for state employees. And to be clear, they're state employees of the departments under the
direction of the Governor's Office. CalHFA falls into some of this, but not all.

There are three things the letter and the executive order say: One is there will be layoffs. That only applies to General Fund departments. It does not apply to CalHFA.

The second thing is that employees would be subject to a furlough program and at that time yet to be determined. And that's why the memo that you received in your Board binders didn't have a plan -- we'll talk about that in a minute -- but that two days a month employees would be given off without pay.

And third thing was with regard to supervisors and exempts, that they would -- there would be an equivalent program, undefined at that point, that would result in pay reductions equivalent to two days month.

Recently since the Board package just went out, a furlough plan was distributed by -- with a letter from the Department of Personnel Administration, and it's really a simple program that all offices subject to this plan would be closed two days a month, the first and third Fridays of the month.

I'm sure all of you have heard about this in the news accounts and that sort of thing. It eliminates any bookkeeping with regard to furlough days, the management
of that sort of thing, but at the same time offices
would be completely closed.

    CalHFA falls under this program. There are
exceptions, but they are for public safety, protecting
lives, saving lives, caring for the sick and caring for
the disabled, and we don't fall under those.

    There is another exemption category called
self-directed, and that means if it is necessary to
accomplish one of those four categories, you are allowed
to open your office and have folks working on those
days, those closure days. Employees that are required
to work are able to bank those furlough days over a
two-year period of time.

    And there's a third category that we have gotten
permission, direct permission from BT and H, and that is
if there is an urgent matter of the Agency, we are
permitted to work employees on those closure days, and
then the employees are -- need to take the furlough days
within the pay period, within the next 30 days.

    So the bottom line for us is when we're subject
to the furlough, there's not a blanket exemption, but
with regard to the urgent matters of the Agency, we have
permission to meet those demands. There are legal
challenges to this, and there are two hearings next
week, I understand. The CCPOA, the corrections union,
and folks representing I believe it's Bargaining Unit One, which is most all state employees, have challenged this program, and the hearings are next week, so next week will be a big thing.

But in the meantime we are putting together -- I've asked all the senior managers for a list of urgent matters that might come up so that we can sort of give BT and H a heads-up of the kinds of things we would be contacting them about. Other than that, we will at this point be closed the first and third Fridays of the month beginning February 6.

So let me stop there and ask if there are any questions. Just full of good news today.

ACTING CHAIRPERSON CAREY: Steve, that's a -- basically an 18-month order regardless of what happens to the budget?

MR. SPEARS: At the present time, this plan ends June 30, 2010. It could be -- they specifically said it could be ended before that time, just so we all know.

The -- that leaves us with, you know, I just want to provide an overview then of what you're going to hear about the business plan. You know, traditionally the January Board meeting is when we tell you where we are with the business plan and how we're going to wind up the year.
Since we are not lending at this point, either the multifamily framework or the single-family framework, we are behind plan. You're going to hear that we're behind plan. We will end the year behind plan.

But you will also hear that we have shifted resources; that we are working on loss mitigation and REO management with an increasing REO inventory; that we are working on new systems; that we are working on a flow program that Gary will talk about -- or we will talk about through the midyear, and that will allow us to essentially purchase loans, have the loans delivered, pass them through to investors at the other end of the channel.

The loans would not belong to us after that, but we would earn a fee. It would allow us to keep lending, making CalHFA loans to folks who need those loans, without the issuance of bonds, so it would reduce our dependence on the bond market.

You're going to hear Bruce talk about debt restructuring. We're going to be conducting some loan sales; deleveraging our balance sheets, as many banks are, selling assets and retiring debt and bringing down both sides of the balance sheet.

And the whole idea, the picture that we're
trying to paint for you today, is that we'll be very busy, that there is no bond market at this point. There's nothing we can do about that. The real estate market is what it is. There's nothing we can do about that. The thing that we can do internally is to get to work cleaning up our balance sheet, doing things internally, and time those things so that when the bond market does come back, that we're ready to go.

I can tell you that all the folks in this room, all the senior managers, all the employees, cannot stand being on the sidelines. Homes are as affordable as they've ever been. Demand for affordable rental units is as high as it's ever been, and we're on the sidelines for forces that we can't control.

It is very frustrating to the staff, very frustrating, and we want to get back in the game as soon as possible. And that's why everyone is -- I've heard no complaints about being reassigned from loan production activities to other duties. And folks are very willing to help and get going. They're working very, very hard to do that.

So that concludes my remarks. We'll take any questions, otherwise we can move on.

ACTING CHAIRPERSON CAREY: Any questions?

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Item 4. Annual Single-Family Bond Reauthorizing;

Resolution 09-01

ACTING CHAIRPERSON CAREY: Okay. Next is discussion, action regarding the single-family bond indentures.

Bruce, you're up.

MR. GILBERTSON: Thanks, Mr. Chairman, Members of the Board.

Each January, for those members that have been on this Board for some time, we present to you a series of financing resolutions that reauthorize the Agency to issue debt. It establishes parameters for related financial agreements and those types of things that we would need as we go forward.

Steve's laid out a pretty dire picture as far as our issuance activity in the near term, but certainly this would establish and provide from the Board level the authority for us to enter the bond market when it becomes a viable alternative again.

There's actually four resolutions. Three of them tie into the financing resolution. The last one is a follow-up to a discussion we had at the Board at the December 2008 meeting regarding loan sales.

The single-family bond reauthorization, Resolution 09-01, simply is reauthorization to issue
single-family bonds for our homeownership loan program. Volume limits are established within the resolution equal to the amount of bond principal being retired and equal to the amount of new private activity bond volume cap that the Agency might be awarded by the California Debt Limit Allocation Committee and then also equal to no more than $900 million of federally taxable bonds.

These limits are established very similar to the -- or are exactly the same as the authorization provided by the Board last year.

The resolution would also allow the use of any of the previously approved bond indentures that are listed within the resolution.

The resolution also provides for the full range of financial agreements that provide and allow the Agency to invest bond proceeds to hedge interest rate exposure and to hire consultants and advisors to help us manage our debt portfolio and derivatives.

We've talked over the last four months several times with the Board about short-term credit facilities. We had a discussion this morning because the PMIB loan is a short-term credit facility. These resolutions this morning would authorize the Agency to enter into facilities of this type up to a billion dollars.

You may recall during the fall we asked the
Board for authority to raise that authority up to two billion dollars. I think as we thought about this resolution here today, the two billion dollars was simply, you know, much larger than we could ever anticipate. We went out, tried to secure those kinds of facilities, decided a more appropriate number would be one billion dollars. That allows the continued borrowing from the state investment fund, and we have a commercial bank that is also providing us a facility of this type.

The authority provided under the resolution would not expire for 30 days after the meeting in January of 2010 at which the Board has a quorum and can vote on a continuing authorization of this type.

We've covered a lot of this already. The status of the current bond markets are such that new bond issuance is expected to be limited. Don't know when that will free up. It's -- we certainly will be ready and very willing to enter the bond market when it comes back to us in a meaningful way.

We talked a lot with the Board over the last four or five months about the bond market disruptions, what it means to our debt portfolio. I think in the single-family homeownership program we're also facing an additional challenge, that is that the general mortgage
market is providing loan rates today in the 5 percent to 5.50 range.

We're going to talk in the follow-up presentation later this morning about the current bond market and the extremely high rate that you would have to pay bond investors if we were to go to the bond market today. So it simply doesn't provide us with a cost of funds that would allow us to be competitive in today's mortgage market.

And we expect at this point that if we were to enter the market, we would use our large single-family indenture, home mortgage revenue bond indenture. It is rated double A2, double A-minus. This indenture is not on watch for downgrade. Moody's has not sent us any letters in that regard.

Mr. Chairman, if you'd like, I think we should probably take these one at a time. I have a series of them, so I'll stop here and ask if there are any questions regarding Resolution 09-01.

ACTING CHAIRPERSON CAREY: Any questions?

MS. JACOBS: If there are no questions, I'd like to move approval of this resolution.

MS. PETERS: Second.

ACTING CHAIRPERSON CAREY: It's been seconded.

Any further discussion?
Roll call, please.

MS. OJIMA: Thank you.

Ms. Peters.

MS. PETERS: Yes.

MS. OJIMA: Ms. Galante.

MS. GALANTE: Yes.

MS. OJIMA: Ms. Gay.

MS. GAY: Yes.

MS. OJIMA: Ms. Jacobs.

MS. JACOBS: Yes.

MS. OJIMA: Ms. Javits.

MS. JAVITS: Yes.

MS. OJIMA: Ms. Redway.

MS. REDWAY: Yes.

MS. OJIMA: Mr. Shine.

MR. SHINE: Yes.

MS. OJIMA: Mr. Carey.

ACTING CHAIRPERSON CAREY: Yes.

MS. OJIMA: Resolution 09-01 has been approved.

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Item 5. Annual Multifamily Bond Reauthorization;

Resolution 09-02

ACTING CHAIRPERSON CAREY: On to multifamily.

MR. GILBERTSON: Okay. Resolution 09-02 is reauthorization to issue bonds to finance our
multifamily loan programs. Similar volume limits apply, slightly different. The volume limits would be equal to the amount of bond principal being retired and eligible for re-funding equal to the dollar amount of new private activity bond volume cap received or awarded by CDLAC and up to $800 million for qualified 501(c)(3) project sponsors and federally taxable bonds.

Like the single-family resolution, this resolution would allow the Agency to use any of the previously approved forms of indenture. We have included -- and one of the reasons your Board binder is so thick this time is that there's three new conduit financing indentures that are incorporated in there, and you will be authorizing the use of that form of indenture if this resolution is adopted. We're going to talk about that in a little more detail in just a moment.

The basic financing resolution, though, also provides for all of the related financial agreements as we discussed before. It allows us to reinvest proceeds, you know, hedge interest rate exposures to the extent that we feel we need to, and hire advisors and consultants as necessary to run our programs.

It's the same limit on the short-term credit facilities. This is not a new one billion dollars.
It's the same one billion dollars. And allows us to continue to borrow for purposes of loan warehousing, and it also has the same overlap of authority so that we have ongoing authorization to issue debt as those markets present themselves.

The multifamily conduit financing program. The bond market is extremely challenged today. I think it's going to extremely restrict new debt issuance for multifamily programs, and in this case I think we have one other thing to keep in our minds and that is the letter from Moody's. We have two of them now. And the current indenture that we use to finance our multifamily program is enhanced by the Agency's general obligation rating.

It would be very challenging to try to go to the market today with this cloud of this watch for downgrade hanging over our heads. We have to resolve that matter before we use an indenture backed by the G-O of the Agency.

So I think what we're looking at is we're trying to come up with an alternative for some of those project sponsors that had applied to this Board for a loan commitment during 2008. Many of them were at that September meeting. You may recall Terri, Steve, and I had come back from New York. The bond market had
totally froze up. And we were faced with this challenge of what do we do with these borrowers.

At the bottom of this slide we've listed some of the projects that potentially could take advantage of this conduit financing model. They include Mission Gardens, Montecito Village -- you can read them on there.

You know, Bob Deaner suggested maybe two to four of these loans might go forward in the conduit financing, you know, model. So let's talk about what is -- what is all the paper that's incorporated and attached to this resolution.

I think there's three documents: Exhibit A, B and C. They really break into two forms of credits. One would be a bond indenture that would take advantage of credit enhancement that Fannie Mae or Freddie Mac could provide.

Okay. If we were to go down that path and use those types of guarantees and credit enhancement, we do a publicly offered bond. We wouldn't be nearly as involved in the structure and the loan terms and bond terms because our role in this would not be as lender. It would be as the issuer of tax-exempt bonds. So all of the payment stream coming through on the loans would flow through to the ultimate investor in the bonds. The
Agency has a role as administrator and issuer of bonds and would get a very modest fee to cover our costs and ongoing responsibilities.

The alternative to a conduit financing model that uses credit enhancement from the government sponsored enterprises is to do a form of private placement, unrated, unenhanced bonds that really takes on the characteristics of a bank loan.

So if a multifamily affordable housing sponsor wanted to go and get financing from a bank, they would have every right to go and do that, and they would negotiate the terms.

In this scenario as issuer of tax-exempt bonds, we would again play the role of the issuer because we are a municipality and we can issue tax-exempt bonds, but we would not be as involved with the structuring of loans and bonds because all of the cash would flow through from the loan payment to the ultimate investor of the bonds. Typically in this scenario the investor in the bonds or the bonds that are placed would be placed to the commercial bank that is serving as the lender.

I don't know, Ms. Galante, if you've experienced any of these in the past, but this is the type of thing that we're -- we're trying to provide some avenue for
some of these borrowers who are caught up in this whole crisis.

The important part is that we're not the lender. We're only the issuer. So we don't service the loan. We don't have a tremendous amount of responsibility for the oversight of the project. We will have to make sure that the income limits of the tenants are appropriate, and there will be some ongoing oversight for that.

There's no credit risk to the Agency. There's no real estate risk to the Agency. The -- all of the cash is from whatever is derived from the loan payments, and the collateral provided to the bond investor will flow through to the ultimate investor in the bonds.

There's some things that we're going to start convening working groups on next week. We have to develop some program policies. We need to determine what our fees will be for this type of a program. I don't expect them to be very great. This isn't the type of program that we would replicate and do on an ongoing basis, probably, because we would much rather be a lender. That's a big part of what this Board is all about.

We have to come up with guidelines. If we're going to have lower rated or unrated debt, we'd probably want to restrict who can buy those bonds. We don't want
them to get in the wrong hands, somebody who doesn't understand the risks associated with those.

Maybe that's a good time to stop and just see if there's any questions regarding the multifamily financing resolutions or these three forms of new indenture that we're asking for the Board to authorize.

ACTING CHAIRPERSON CAREY: Yes.

MS. GALANTE: So on the model where you were describing just being the issuer, and maybe Bob wants to speak to this, have you -- are you talking about just for these projects that are stuck and maybe don't have a place to go right now and didn't go through a local issuance process so they can't go back?

MR. DEANER: That is absolutely correct. They can't go back. They'd have to give the allocation back and start over. So that's where we're basically assisting them to finish the project so they can get their financing and move forward.

MR. GILBERTSON: We should probably discuss, I failed to mention this, in early December the California Debt Limit Allocation Committee extended the authority to issue tax-exempt bonds for these projects, and CalHFA holds that issuance authority, and we have until the middle of April or thereabouts to issue bonds for these projects.
MS. GALANTE: So they can't go back and get resolutions from the local agency, so this is really their only --

MR. DEANER: Right. They --

MS. GALANTE: -- they've incurred costs and --

MR. GILBERTSON: Or they could go back and reapply to CDLAC for 2009 volume cap. This is 2008 calendar volume cap that we've received on a carry-forward basis.

MR. DEANER: Yeah, the volume cap would be lost, and they would have to reapply. And as you know, they've got -- they've sunk costs into, you know, making the finance work.

And we thought -- I went to Bruce and said with the projects -- of the eight, four or five have other lenders that they could move forward with, so we thought that this was a good option to help them to move forward with the projects until such time as we can get back and be a lender.

MS. GALANTE: So this is really an accommodation to these stuck deals. We're trying to help them.

MR. DEANER: Absolutely.

MS. GALANTE: They came to us. Okay.

And then on an ongoing basis for new, you don't anticipate continuing to do this for new projects, just
being --

MR. DEANER: No.

MS. GALANTE: -- the issuer?

MR. DEANER: No, absolutely not.

ACTING CHAIRPERSON CAREY: Other questions?

MS. JAVITS: We've talked a lot about the fact that we're not at risk, but is there risk? Is there any risk to the Agency?

MR. GILBERTSON: I think -- there's no financial risks or credit risks. I think reputational risk, potentially. Our name will be on the bonds. Even though they are kind of a conduit financing, CalHFA will be associated. There will be no economic financial harm to us, but if the project that was financed were to implode, there could be a little bit of reputational risk. That's --

MS. JAVITS: As the bond issuers.

MR. GILBERTSON: That CalHFA was involved.

MR. DEANER: Right. But then it goes the opposite. You know, we're helping them, too. We're maintaining our reputation, that we stepped up to help them finish this project.

MS. GALANTE: I just --

ACTING CHAIRPERSON CAREY: Yes, Ms. Galante.

MS. GALANTE: -- had one other question. Bruce,
when you went through your initial summary, you didn't
talk about the Number Four, the refinancing of that.
Did you leave that off purposely or -- the up to 300
million per financing?

MR. GILBERTSON: Oh, the 300? Yeah, I
consciously -- we've had that in there as authority to
the Agency for a number of years. We rarely utilize it,
but we certainly do. We've asked the Board for
$300 million to acquire portfolios. And so this is -- I
can't even remember the last time we've utilized that
authority. But we think it's one of the authorizations
that the Board might want to give us in case something
did present itself.

MS. GALANTE: Okay. So this isn't -- I'm
reading the words a little more closely now. This is
only refinancing of existing multifamily loans that the
Agency is somehow needing to step into, not this broader
program that we've had some conversation about, about
just refinancing existing loans in general?

MR. GILBERTSON: I think the closest thing that
I can think of that would utilize that type of
authority, and this precedes my involvement as the
director of financing, the Agency acquired portfolio
loans from Fannie Mae in about 2000. I think it was
$270 million worth of loans. These were Fannie Mae 236,
section 236, loans. We acquired them through a bond
sale that we placed back to Fannie Mae. So we simply
took title.

The programmatic reason for doing that at that
time as I recall was that we would have direct access to
the borrowers, and we thought we could do a lot of
preservation activity within that portfolio. Over time
we've done a few preservation loans with those
borrowers, but not a great deal.

MS. GALANTE: I know this probably isn't a good
time, you know, obviously with the bond market and such,
but I -- maybe this is a business plan discussion, but I
really do want to talk about the Agency allowing
refinancing on -- for borrowers on the multifamily
portfolio. It's just incredibly frustrating that the
only way you can refinance a CalHFA loan is if you sell
your property or it's in trouble. And it's just --
it's -- I think it's a huge problem for CalHFA for
people continuing to do business with CalHFA on
multifamily.

ACTING CHAIRPERSON CAREY: Further discussion?

MS. JACOBS: Yes, sir.

I'm going to try to say this right. These
particular projects that you're proposing the conduit
financing for, a number of them are dependent on
take-out financing through Prop 1C or Prop 46 from HCD. That financing is not available now. Does that change the risk on this?

MR. DEANER: I don't think -- it doesn't change the risk to CalHFA. It would change the risk to the new lender, if it's Freddie Mac that's going to do the loan or B of A, because those are the sources that guarantee the borrowers, that they -- the borrowers would need to let the new lender know that this financing -- what they would -- they would know that this financing is part of the takeout, and they would need that to assess that risk as the lender.

So they would need to determine if they were moving forward with the commitment with the Prop 1C or 46 coming in at a later date. So they would need to determine the risk as the new lender.

MS. REDWAY: Can I? I just wanted to add that -- in response to Lynn's question a little, that CDLAC has many conduit issuers in front of it with many of these projects that are in the exact same situation, where 1C money and Prop 46 money is not going to be available to the projects. So we're not sure whether they will be able to, you know, use the allocation that's been given to them.

So CalHFA acting as a conduit issuer in this
case is not in any different position than CFCDA or CMAF
or whoever else is out here, the local redevelopment
agencies who are doing this. So what is at risk is the
allocation will be lost and the deal won't go through.

MS. JACOBS: Right. And, you know, so the
question is is there any appetite for this product when
it comes right down to it? You'll just have to see.

MS. REDWAY: And we didn't -- I think the --
between CDLAC and CalHFA, we felt we wanted to give the
projects every opportunity to close the deal. We didn't
want to be the one saying, "Sorry, we're not going
help," so.

MR. GILBERTSON: Bob, you might want to talk a
little bit, we have two projects that we think are
more -- much further along in the process.

MR. DEANER: Well, there's --

MR. GILBERTSON: The lender is identified.

MR. DEANER: The lender -- yeah, the lender is
Freddie Mac, and they've -- they've issued commitments,
commitments to the borrowers.

There is one other project that is close to a
commitment, and the other ones are working through their
process, so I know for a fact two of which are pretty
solid with commitments from Freddie Mac as the takeout
lender.
Now, those are ACT rehab deals. They're a little different from construction, so your risk is less as a lender under that scenario with Freddie under reconstruction.

MS. JACOBS: Right.

MR. DEANER: And those -- those projects are not -- are having a harder time finding replacement moneys, there's no doubt. But the list we put on the slide is the list of the deals that are still trying to work out a deal with other lenders to make their projects work. And if we can, we wanted to be there as a conduit issuer. If we can't, the allocation will go back to CDLAC.

MS. JACOBS: Okay. I mean, I think it's great that we're trying to provide as many alternatives as possible. I just wanted to make sure everybody knew that, you know, we may be developing great programs that will --

MR. DEANER: Well, this -- and again, we did -- this is a -- this is a --

MS. JACOBS: -- not be as utilized as we'd like.

MR. DEANER: Yeah. And for us this is a one-time, just to help out the current deals to see if they can work and go forward. This is not a business model of where we want to be. We're a lender. This is
what -- you know, we want to get through this and get
the bond market back so we can start doing business
again.

MS. JACOBS: Thanks.

ACTING CHAIRPERSON CAREY: Further discussion?

I'd like to note for the record that Brooks
Taylor is here. Thank you for being here.

Would someone care to take a -- make a motion
here on this?

MS. PETERS: So moved.

MS. GAY: Second.

ACTING CHAIRPERSON CAREY: We have a motion and
a second. Any further discussion?

Let's call the roll.

MS. OJIMA: Ms. Peters.

MS. PETERS: Yes.

MS. OJIMA: Ms. Galante.

MS. GALANTE: Yes.

MS. OJIMA: Ms. Gay.

MS. GAY: Yes.

MS. OJIMA: Ms. Jacobs.

MS. JACOBS: Yes.

MS. OJIMA: Ms. Javits.

MS. JAVITS: Yes.

MS. OJIMA: Ms. Redway.
Item 6. Resolution 09-03 authorizing applications to CDLAC for private activity bond allocations for the Agency's homeownership and multifamily projects

ACTING CHAIRPERSON CAREY: You're still up, Bruce.

MR. GILBERTSON: Okay. Thanks, Mr. Carey.

The third of the financing resolutions is relatively simple. Each year we come before this Board to request specific authorization for the Agency to apply to the California Debt Limit Allocation Committee for private activity volume cap. This is the engine that drives CalHFA tax-exempt issuance authority. We may not think it today, but eventually there will be a bond market where there is a benefit of tax exemption.

So this would simply authorize the executive director and the executive director's delegates to apply to CDLAC for an amount not to exceed $900 million for single-family lending and up to $400 million for
multifamily. These amounts may be significantly higher than what we might apply for, but the presumption is that the Board would want to apply for it if it did become available.

You may remember last fall we had to go through a process to slightly amend this similar authorization from 2008 to increase it because of the HR3221 legislation that increased volume cap, as a result of the July legislation at the federal level.

Let me stop there, and I'd be happy to respond to any questions.

ACTING CHAIRPERSON CAREY: Questions?
MS. REDWAY: I'll move.
MS. PETERS: I'll second.
ACTING CHAIRPERSON CAREY: Moved and seconded.
Any further questions?
Seeing none, we'll call the roll.
MS. OJIMA: Thank you.
Ms. Peters.
MS. PETERS: Yes.
MS. OJIMA: Ms. Galante.
MS. GALANTE: Yes.
MS. OJIMA: Ms. Gay.
MS. GAY: Yes.
MS. OJIMA: Ms. Jacobs.
MS. JACOBS: Yes.

MS. OJIMA: Ms. Javits.

MS. JAVITS: Yes.

MS. OJIMA: Ms. Redway.

MS. REDWAY: Yes.

MS. OJIMA: Mr. Shine.

MR. SHINE: Yes.

MS. OJIMA: Mr. Carey.

ACTING CHAIRPERSON CAREY: Yes.

MS. OJIMA: Resolution 09-03 has been approved.

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Item 8. Resolution 09-05 regarding authorization for loan sales.

ACTING CHAIRPERSON CAREY: I'm going to, just to simplify things, Bruce, since you're already so comfortable there, perhaps we could take item 8 out of order.

MR. GILBERTSON: Okay. So the fourth resolution that I have to present is a follow-up to our discussion at the December 12th Board meeting. We informed the Board that we were working with Fannie Mae, Freddie Mac, and talked to several commercial banks about potentially selling single-family and/or multifamily loans that we own to try to convert them to cash.

So this is a formal authorization from the Board
now for us so enter into such loan sales. It would allow us to sell either single-family or multifamily loans. We didn't establish limits. You know, we went back and looked at the minutes from the prior meeting, and it talked about guidelines, so we wanted to establish a framework for us to think about loan sales as we go forward.

Clearly, if you read the memo and the resolution, the intent here is to provide liquidity for debt restructuring and what we refer to as continued normal Agency operations. Certainly in this environment, with tight credit and the way the financial markets are performing, to the extent that we have more cash on hand for those unanticipated events, we're going to be better off for that.

During the course of the morning you're going to hear about the business plan. You're going to hear about some of the things that are continuing to hammer away, chip away, at the nest egg that Steve referred to: The honoring the pipeline; we're going to have some growing GAP insurance claims that we have to honor, those types of things.

So following up on the $2-billion loan tape that we compiled and shared with Fannie Mae, Freddie Mac, and at least one commercial bank, we have received some
pricing proposals. We're actively working on a potential sale of single-family loans in the neighborhood of 95 or a hundred million dollars. Part of those would be sold to Fannie Mae, and part of those I believe would be sold to Freddie Mac.

This -- this resolution then would give us that authority, would help us to consummate the transaction with the buyer of the loans. And the resolution requires that we would report back to this Board any sales activity that we entered into.

Let me stop there and open it up to see if there's questions from any Board members.

MS. REDWAY: I'm sorry, I might have missed -- you might have said this and I wasn't paying attention. You said you're actively in discussions for a sale. Can you tell us about how much?

MR. GILBERTSON: Yeah, exactly. Certainly that's one of the important things. The initial, we have pricing indications we received in December. These are all above par, you know, about 101. The market moves daily. We don't think the market has moved away from us. It's probably at about the same place. So we think we would actually get paid more than par for the loans that we are successful in transferring.

MS. GALANTE: And the volume?
MR. GILBERTSON: Is about a hundred million dollars, what we're looking at right now.

MS. GAY: You've floated how much on this discussion? How much was --

MR. GILBERTSON: Two billion was shared with them. And it gets very painful as you work through all this. There's a high concentration of FHA-insured loans in there. We've learned some important things as we've talked to people about buying FHA loans.

FHA-insured loans typically go to the marketplace in the form of a mortgage-backed security. All of the loans we have we originated years ago, so they're called seasoned loans. There's a huge penalty that we'd likely pay if we tried to do this in today's market because the market investors in these FHA-insured loans come to them in the form of a mortgage-backed security are going to look to the investors if they're what is called reperforming loans.

A reperforming loan is a loan that originally was in a security but it was required to be pulled out because the borrower's in default. And then through a modification or through working with the loan servicer, the borrower began to perform again, and so it's gone back into a pool so the investor is thinking that, "I have some risk here potentially because this borrower
once was in default and then had to be pulled out of a pool."

We're working through this. You know, we're hopeful that maybe we can come up with something where we can package some of the FHA-insured loans as well, but at this point we're uncomfortable taking a discounted price that may be discounted by as much as 10 percent. That's kind of the indications that we're receiving, so -- so we'll work with them and see where we end up.

I think there are other conventionally insured loans that we can share with potential buyers. You must remember, though, is we're trying to sell a loan asset that might have been originated in 2005 or 2006. And when they look at the loan to the depreciated home value today, they're saying, "Why in the world would I want to buy that loan because the security behind it is not as large as the loan balance," so.

MS. GAY: Are you retaining servicing on these?

MR. GILBERTSON: That's something that we're in the middle of. Actually, servicing on these loans is going to be split up amongst the Agency and other servicers. I don't -- Gary may know the specific parameters of who has the servicing on this hundred million, but we're working through that because we've
got to come up with a mechanism that makes sense because I think in both instances Fannie Mae and Freddie Mac will want to make sure that they have recourse to that service.

MS. GAY: Right.

MR. GILBERTSON: So that's one of the things that we're going to be working through.

MS. GALANTE: This might have been discussed at the last meeting that I missed, so I apologize. We're probably going over old ground, but -- so this hundred million is all single family. Is there multifamily loans in here, too?

MR. GILBERTSON: Yeah. The hundred million I referred to that is probably the first portfolio loan sale that we're going to work on is all single family. We have about 280 to 300 million dollars of multifamily loans that we have shared as well.

Conversations with the GSEs have not gone as well on that. I mean there's a lot of due diligence, as you might imagine, on a multifamily loan. They want to look at a lot of things. The market is not as liquid for those.

The single-family loans are like a commodity. They're traded all the time, so it's a much easier transaction.
We had some meetings earlier this week with another potential borrower with a little different structure. It's just beginning, and it might allow us to achieve some of the objectives that we have on the debt side and serve to do a -- a loan sale in kind of a different form. Personally I think it's premature because I don't even understand all of the concepts yet, but we'll be having follow-up discussions with this particular entity in the coming weeks.

MS. GALANTE: I'm just, you know, as a borrower trying to think about the impact of loan sale on the -- on the actual property. On the single-family loan, you know, we get letters all the time that your loan's been transferred to some new servicer and it doesn't really affect anything, but on the multifamily side there's all kinds of interrelationships with CalHFA, you know, on the borrower. So I'm trying to envision how that all works.

MR. GILBERTSON: Well, I --

MS. GALANTE: Most lenders don't hold the reserve accounts the way CalHFA does. I mean, you know, my mind just has, you know, lots going through it about how that would actually work on a loan sale.

MR. GILBERTSON: Yeah, there's a number of challenges. I think the initial model that we've been
thinking about -- because we have a fully developed loan servicing and asset management group, that we want to retain that.

MS. GALANTE: Okay.

MR. GILBERTSON: Okay. So what we're trying to do is to potentially sell off the annuity, the income stream, that's coming through on the loan and still be involved as kind of the lender, the servicer that the borrower seeks.

MS. GALANTE: Thank you.

ACTING CHAIRPERSON CAREY: So, Bruce, what is -- we gain liquidity. What is the cost to the Agency in selling those loans off long term?

MR. GILBERTSON: Well, as long as we feel we're getting appropriate value for the loans, I think the economic analysis is you look at this from a present value standpoint. And we'll certainly go through this, but we believe we would only sell when we get an appropriate value for the asset that we're selling. I think we should be neutral on that perspective.

It's allowing us to achieve the objectives of all of this debt restructuring, getting rid of some of the poorly performing VRDOs.

MR. SPEARS: The message that we would like for you to get is that this is not a fire sale. We want to
get value for this. This is a market sale. If it
doesn't make economic sense, we will not go forward with
it if it doesn't help our structure.

And the question has come up how will this help
us with our Moody's debate? And, you know, it will be
less exposure to the California real estate market.
That should make them happy. But on the other hand,
we'll have fewer assets. And in the analysis that they
will have to make that we believe that we can make them
is with the assets left against the debt that's left, we
will be in better shape than we were before. But they
will have to perform an analysis of the loans that
remain in our portfolio compared to our debt obligations
and see how they match up.

MR. GILBERTSON: Another way to think of this
is, you know, our world in working with the rating
agencies, we do frequent updates of consolidated cash
flows. So if we sell off loans that are supporting
bonds that have been issued, we will identify those
loans and do a scenario where we have sold the loans off
to see that the cash flows of this indenture perform as
well or better than they would have without the loan
sale.

ACTING CHAIRPERSON CAREY: I'm sorry,

Ms. Javits.
MS. JAVITS: Along those same lines, I guess what I'm trying to understand with this resolution is the -- the Board is authorizing these sales to go through, and the only limit, really, on pricing or just in terms of the resolution itself is that these will meet the objectives, you know, for sale, the price you'll accept would meet the objectives of the debt restructuring plan.

I mean, I guess I'm just wondering just from a due diligence perspective is there -- I just want to at least raise the question is there sharper language or more pointed language that should be in here about what pricing we would accept? Because that -- that seems pretty broad to me. I mean there are many things that could arguably meet the terms of the debt restructuring plan.

I know there's a lot of pressure on the Agency from a number of different vantage points right now, short term and long term, so I'm just -- I'm real asking from a due diligence perspective. Obviously we have confidence in the staff and the judgments that you're making every day. Just from the perspective of the Board, is there anything --

MR. HUGHES: Well, I --

MS. JAVITS: Can you suggest anything more
pointed we might consider?

MR. GILBERTSON: Go ahead, Tom.

MR. HUGHES: Ms. Javits, that's a good question. Just to sort of fill you in on the wording of the resolution, you know, we struggled for quite a while to try and come with the resolution because as you recall at the December Board meeting, we essentially asked the Board the question of whether we would like to bring individual deals back to the Board or whether we would get like a blanket resolution.

The Board had indicated that it didn't necessarily want to see individual transactions, probably because that would mean we would have to schedule -- we might have to schedule more Board meetings to try and accommodate that because of the timing of Board meetings every two months.

The Board did indicate in the minutes that it wanted some type of guidelines, and we struggled with the notion of what kind of guidelines would be in there given the fact that, you know, from day to day we don't know what these deals are going be. They have changed rapidly. They have been hot. They have been cool. They have been all over the board. So it's a daily thing.

We did think that the objective that we were
trying to achieve and that the Board was authorizing us
to do was to identify deals that met the objectives of
achieving liquidity, taking out bad bonds on sort of a
broad basis, and that we thought were the guidelines
that the Board was asking for.

   I'm not sure we were really able to identify the
parameters of any particular deal with enough
specificity to write that in there. I think at the end
of the day probably that comes back to the decision
whether the Board wants to see each and every proposed
deal or whether it wants to see -- you know, whether it
wants to authorize the staff to enter into a deal in
some general terms and objectives, really.

   MR. GILBERTSON: Just to add to what Tom said, I
think a couple other things that we've learned as we go
through this process is we had hoped originally to take
full loans and just sell them for cash. It doesn't
appear that's going to be. In some cases that may
happen, but as we talked about even with these
FHA-insured loans, the notion is that we would create a
security.

   And so then how specific do we make the
language? Do we have the authority to sell a security
today? I think we probably at the Agency level think we
have the authority to sell securities. So we -- it just
is an evolving process, and I'm not sure what it is we ultimately would be selling.

MS. JAVITS: Would we -- would we ever consider selling at a discount?

MR. GILBERTSON: I would suggest that there are situations that we might want to consider selling at a discount based -- based off the other risks that we take on that loan. For example, if we have a conventionally insured loan that has our mortgage insurance and then we have to supplement or augment the mortgage insurance on a number of our conventionally insured loans and if we could sell it without that additional layer of insurance, it's removing one of the risk factors from the Agency, and maybe we would be willing to accept a slight discount.

MR. HUGHES: There's also some legal issues involved in doing that that we're trying to work through, particularly on the single-family side with indenture requirements as to pricing of the loans and selling at a discount. There's specific requirements. So all those are things we're still trying to work out as well.

MS. REDWAY: I think Carla raised a good point in that the -- what the staff was suggesting to the Board -- which is they will not sell at anything, that
it's not a fire sale, we're going to get more value -- and what the resolution actually reads are different.

So the resolution does not include anything regarding pricing on it. It doesn't say it has to be big value or if it's discounted it has to come back to the Board. It doesn't say anything like that. So the Board should be aware of that. I think that's more -- I don't think we want to see transaction by transaction, but I think the issue in front of us is whether -- that Carla raised is whether to include an item here saying we -- something about the value or not and whether we want to give full discretion to the staff if it's legal to sell at a discount.

ACTING CHAIRPERSON CAREY: I'm wondering procedurally whether -- the resolution provides the legal authority for you to make the sale. But there's nothing that prevents the Board from giving additional direction outside of the resolution.

MR. HUGHES: Right. That is true. We could amend the resolution to accommodate that. I think honestly what we were struggling with at the staff level was that the Board's suggestion was to come back with guidelines, and we weren't sure what those guidelines were. So we can clearly change this to require that we come back to the Board for specific approval of any
particular transaction that was sold at below par. I think we could do that.

MS. REDWAY: That would be --

MR. HUGHES: The only caveat I would have is realistically this may or may not be true in any given deal, but we may have to come back at an interim time between Board meetings to do that, depending on the dynamics of each deal.

MS. REDWAY: I guess I -- Bruce, would that work?

MR. GILBERTSON: Yeah, I think that would work.

Yeah.

MS. GAY: And I guess I just want to make a comment, that we should be advised that given the way the market's still going, the notion of a declining value portfolio may push us to a discounted sale option more than we think today, you know.

MR. GILBERTSON: Yeah.

MS. GAY: The reality is that the value is going down on your portfolio.

MR. GILBERTSON: Right.

MS. GAY: And it may not feel like a fire sale on the day we have to then sell.

MS. GALANTE: I would just, though, concur that in this environment where, again, we're looking at
trying to sell these loans for liquidity, I do think we want to be careful of not signaling that we're going to do fire sales. So if the staff feels like it's going to get to the point where we need to discount, I think that requires -- I think it should require another conversation.

MR. GILBERTSON: And I -- quite honestly, I think we would feel more comfortable coming back to the Board before we did that.

But certainly, Tom, we could amend.

MR. HUGHES: Absolutely.

MR. GILBERTSON: There's one other thing that we talked about, at least Tom and I, before we prepared the resolution was is there a limit, is there a dollar amount, that you want to put on that? We shared a $2-billion tape. Don't know that we ever expected that we would sell all two billion dollars, but is there an upper limit that the Board is comfortable with or wouldn't want us to exceed without coming back to them?

ACTING CHAIRPERSON CAREY: Ms. Jacobs.

MS. JACOBS: The way I read the resolution it says that this is in concert with the debt restructuring plan, which I believe we should, you know, review at every meeting from now on. And so to me that provides some limits, but I would be very happy if our counsel
could give us a sentence to add to this resolution that would talk about discounting or below par coming back to the Board. I think if the Board members make up the sentence, it doesn't work as well as if our counsel does.

MR. GILBERTSON: While Tom thinks of that sentence, I want to make sure -- I want to make sure that we added two things. It's for debt restructuring and continued normal Agency operations. The idea behind those words was we have some loans that are unencumbered. They're not attached to bonds. So if we were to sell those assets, those assets, that liquidity, newfound liquidity, could be used for a variety of purposes, and wouldn't the Board want us to be able to do that so that we can, you know, increase the size of the nest egg.

MS. GALANTE: But that's covered here, is it not?

MR. GILBERTSON: It is. I just want to make sure. Lynn focused on the debt restructuring, and that's one of the components. We're trying to achieve two -- two objectives.

MS. JACOBS: Right. It's just that the restructuring plan is spelled out there.

MR. GILBERTSON: Yeah. Much more in-depth on
the debt restructuring.

ACTING CHAIRPERSON CAREY: No pressure.

Lightning legal services here.

MR. HUGHES: Here's what I would suggest. I can suggest a sentence. I think really the motion when it's ultimately phrased simply has to incorporate this concept, and I can make sure that the sentence makes sense in the context of it.

It seems to me that perhaps what we should do is there's a paragraph one and two in the resolution part. One is sort of the general resolution, and two says that we'll come back with the details. I think maybe we should add a new two, make the current two, three. And the new two will say something to the effect of notwithstanding paragraph one above any sale of a pool of loans at a price below par shall be brought back to the Board for further approval.

And if that doesn't turn out to be a hundred-percent grammatically correct, we can tweak it, but I think the concept would go into the resolution.

MS. JACOBS: I'd like to move approval of the resolution with the addition of a new item number two as just cited and moving the current number two to be number three.

MS. JAVITS: Second.
MR. SPEARS: One thing I did want to clarify with that in mind, I want to make sure it's all right with the Board to have these discussions with Fannie Mae or Freddie Mac or whoever the investor is, and those discussions may wind up with a knowledge that, you know, we're going to be below par. I think that's only prudent because if we did come back and have a discussion, we would need enough data for you.

MS. JAVITS: Yes. Yes.

MR. SPEARS: I just wanted to make sure that's okay with the Board.

ACTING CHAIRPERSON CAREY: You'd be bringing back the proposal, in essence.

MR. SPEARS: Yes.

MR. HUGHES: I'd just like to add, I think I mentioned it in December, one of the primary reasons we're asking for this resolution, actually the existing financing resolutions cover some of the same ground, but we contemplated at some point in these discussions with various parties we talked about time lines for getting these deals closed, and obviously we were trying to move them as quickly as possible.

I anticipated that certainly on deals of the size of the $2-billion tapes we sent out, that the buyer's counsel would want an opinion of counsel from us...
that the Board had authorized these transactions, and we saw this resolution as having that and being able to close within that time period. So I do think if these do come together and those time lines are at issue, we would come back with a below-par deal potentially between scheduled Board meetings.

MS. JACOBS: Call the question.

ACTING CHAIRPERSON CAREY: Okay. With that we'll have roll call.

MS. OJIMA: Thank you.

Ms. Peters.

MS. PETERS: Yes.

MS. OJIMA: Ms. Galante.

MS. GALANTE: Yes.

MS. OJIMA: Ms. Gay.

MS. GAY: Yes.

MS. OJIMA: Ms. Jacobs.

MS. JACOBS: Yes.

MS. OJIMA: Ms. Javits.

MS. JAVITS: Yes.

MS. OJIMA: Ms. Redway.

MS. REDWAY: Yes.

MS. OJIMA: Mr. Shine.

MR. SHINE: Yes.

MS. OJIMA: Mr. Carey.
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ACTING CHAIRPERSON CAREY: Yes.

MS. OJIMA: Resolution 09-05 has been approved with the amended language.

ACTING CHAIRPERSON CAREY: Great. We're going to take a ten-minute recess for the benefit of our reporter, and when we return we'll be on item 7.

(Recess taken.)

ACTING CHAIRPERSON CAREY: Okay. I would -- we're back in session and would like to, with the indulgence of the Board, revisit item 7 for -- 8, I'm sorry -- for a moment.

Steve.

MR. SPEARS: Again, with the indulgence of the Board, it occurred to me on my break that there may be a situation where we have a sale of quite a number of loans, some of which could be a discount, some at par. I'm told by Bruce and reminded that in Denver when we had some discussions about this with Fannie Mae about how this would all come down, they generally just give a price for the portfolio.

You're not really sure sometimes, but there could be an investor who agrees to a loan-by-loan price. They generally do that on the multifamily side, Carol, but not on the single-family side. They just give you one price.
I just want to clarify, ask for your thoughts, if we do wind up with a net, you know, par or above sale, it's okay to go ahead with one of those? That's a question.

MR. SHINE: Where the pieces are at different levels, some are at 101, some are at 98, and we averaged it out at 100 or above?

MR. SPEARS: Yes.

MS. JACOBS: I think that we were talking about transaction deals, not individual deals. And maybe in my sentence I didn't say that.

MR. HUGHES: No, actually, the language that I read anticipated that issue because it says notwithstanding paragraph one above any sale of a pool of loans.

MS. JACOBS: Yes.

MR. SPEARS: I knew we could count on you, Tom.

MS. JACOBS: That's why I asked for an expert.

ACTING CHAIRPERSON CAREY: Okay. Thank you.

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Item 7. Resolution 09-04, FY 2008/2009 CalHFA Operating Budget

ACTING CHAIRPERSON CAREY: With that we'll move to item 7.

MR. IWATA: Hello, Chair and Board members.
I'd like to present Board Resolution 9.4, and provided also in your handouts is pages 696-A, -B and -C with the fiscal detail. Provided for your approval is a proposal for a $1,936,000 augmentation to the $4.6 million fiscal year 2008/2009 operating budget. The current year budget is proposed to be updated to reflect the baseline changes that were incorporated in the preliminary fiscal year 2009 CalHFA budget presented in the 2009 Governor's proposed budget. In submitting the Agency's preliminary operating budget to the Department of Finance for the 2009 Governor's proposed budget, it was necessary to reflect the most recent baseline changes in the current year, otherwise the '9/10 operating budget would not be accurate for the presentation to the Board in May.

The proposed midyear update to the fiscal year 2009/2010 operating budget reflects an increase of 4 percent over the current year's budget that was approved by the Board on May 14th, 2008. At that time the 2008/2009 operating budget approved by the Board reflected a 1.07-percent increase over the approved fiscal year 2007/2008 operating budget.

The proposed midyear update for the fiscal 2008/2009 operating budget includes a 2.4-percent consumer price index adjustment that Department of
Finance projected last year for operating expenses and equipment. That included areas like general expense, communication, travel, training, information technology and equipment. That all came out to approximately $91,000.

Also, an 8-percent increase in the formula of estimated staff benefits of 30 percent to 38 percent due to health premium and retirement increases. That came up to 1,723,000.

Also, there was a lease cost adjustment for agencies and offices in Sacramento. And based on the lease agreements and the consumer price index charges projected by Department of General Services, and this came up to about $122,000. And that was a -- the CPI for the lease agreements came to -- that was a 4-percent increase.

So in total we're asking for $1,936,000 in increase in operating expenses.

Also, for your information, in the current year, the Agency received almost $400 million anticipated from counties for Mental Health Services Act housing projects. Under the interagency agreement with the Department of Mental Health, 1 percent of this funding is allocated to the Agency for administrative costs. These costs will be used to cover the costs associated
with staff assigned to work on the MHSA projects and recent renovation of space in the Culver City office to accommodate the staff. Based on available information, no additional expenditure authority is anticipated at this time.

Also, for your information, with the current state of the economy and the housing market, the Agency is utilizing more external legal services to assist with major debt restructuring activities. Until more information is available, no additional expenditure authority is anticipated to be needed at this time.

So in summary, the proposed midyear update for the 2008/2009 operating budget is based on the current information and assumptions available to staff. At this time we are not requesting any positions for the current year, however, we may request additional positions for the proposed fiscal year 2009/2010 operating budget.

So if there are any questions.

ACTING CHAIRPERSON CAREY: Ms. Jacobs.

MS. JACOBS: I have a couple questions and concerns. On your increase in staff benefits here, that's a lot more than 8 percent, that number.

MR. SPEARS: Right. And I think the clarification is if you read that bullet, it's not an 8-percent increase in benefits, it is an increase in the
formula from 30 percent of salaries and wages to
38 percent salaries.

MS. JACOBS: Okay.

MR. SPEARS: So the percent increase is higher.

MS. JACOBS: Okay. Thank you for clarifying
that.

My other concern is here: You know, I think
this is the time to be making some hard choices, and I
don't think I'm comfortable approving a budget
projection that doesn't including potential layoffs, if
we're not lending. I think we have to look at some of
these alternatives.

I really don't think we can just say let's go
ahead with business as usual with just what the State is
saying are the increase you can have and, you know,
think about adding people in the next budget, I think
we're -- we're beyond that nice time in our lives where
we have to have some alternatives here that, you know --
shifting some of the remaining staff to helping with
REOs I understand, but I don't -- I really think from a
fiscal point of view we have to have some proposals to
look at potential staff reductions if we're not sure the
bond market is coming back.

ACTING CHAIRPERSON CAREY: Is the impact of the
furlough in here at all?
MR. IWATA: No, it's not.

MR. SPEARS: We struggled a little bit with how to present the augmentation versus, you know, the midyear how much have we spent of this budget, that sort of thing. We decided to put it into two separate Board agenda items. When we get to the financial review, we have the debt restructuring discussion, a discussion of our first quarter financials, and then a discussion of the budget under that heading.

And in there we talk about the impact, which is, I believe, just to give you a sneak peek, about $800,000 for this current fiscal year, a reduction of about that amount. So --

MR. IWATA: I think on this budget augmentation for the budget, it's basically for the authority to spend this amount, not that we're going to spend this amount.

And in order to show a good budget, a sound budget, we're starting with a baseline. We worked with Department of Finance and ran our numbers through Department of Finance, and they would review it and provide suggestions on things that we may have missed. And this is some of their suggestions, also working with them.

And that will give us the authority to start the
following fiscal year with a clean slate with a good baseline. And then Department of Finance also could see what we're doing. However, even though we -- all our information is not officially approved by the Department of Finance, it is approved here, we want to show a clean slate with a strong baseline.

MS. JACOBS: I mean, I understand what you're saying and what you're doing, I'm just not supportive of it. That's all.

ACTING CHAIRPERSON CAREY: Could I ask -- the increase in staff benefits, is that imposed by the broader State or is that --

MR. IWATA: Yeah. What happened was, my understanding is when we initially went forward with our budget and submitted it to Finance for review, they looked at it and said 30 percent was low, that most agencies with the State of California, what they're recommending is about a 38-percent increase. I mean not increase, but 38-percent staff benefit rate. So in doing that, we recalculated our numbers.

And really, I looked at actuals. And looking at the actuals to date on our staff benefit, it comes out to about 35 percent.

ACTING CHAIRPERSON CAREY: Ms. Javits.

MS. JAVITS: I think, you know, Lynn raised a
very pointed question. I'm interested in hearing a response. I mean, I think it's kind of common sense, you know. We're doing much less business. We don't really know what '09 is going to bring. So I'd just be interested in your perspective. I imagine you've had conversations about this. What's your perspective?

MR. SPEARS: We have. And, of course, we're just beginning the process of planning for next year, so the -- my three-year history here, my understanding is that we provide this update in January on everything, the business plan, where we are with the budget, everything.

The staff, we're in the process of scheduling an off-site planning session to put together a business plan and a budget to present to the Board in March. The business plan will be an updated five-year business plan. So that's where I would think that we would have -- present a plan for whatever level of business volume that we're going to have.

The question is do we -- do we downsize in the short period time when we think the bond market is out of commission but will be coming back and then try to go back under the civil service system and rehire and get these people from wherever they went in the meantime, or do we reallocate and have them work on other -- other
items? And you'll see when you, again, talk about the things that we're doing to get prepared for the return of the bond market, I think we have a lot of people at work.

But we haven't gone through that, where are we going to be on the other side of this. Are we going to experience a permanent, you know, downsizing of the volume of business because of the way the bond market is going to be on the other side of this and will that necessitate a reduction in workforce?

I would resist the idea that we need to downsize just because the State's having problems, you know, the economy is the way it is, because we haven't always tracked that. But we do need to look at it, and we're just beginning that process.

MS. JAVITS: Just one more thought on that. I mean, I think the question that was raised is less about the general state of the economy. I mean, it's really more pointed than that.

And I think that's -- at least that's what I would be looking for when you come back in March is -- I mean, the Agency is doing business at a very different level than it did some months ago, so we're staffed up to do business, a certain kind of business, and a certain volume of business, and we're not doing that
volume of business. I mean, that's the result of the economy, it's not just, you know, gee, the economy is bad, we should downsize.

So, I mean, I certainly respect the thinking that you're talking about, you know, do you stay staffed up, where are we going to be on the other side of this, what's the timing, what's the pacing? I mean, I think we have to look to you for some thoughts about that, but I think your Board is raising that pointed question. If the volume of business is down even for a year, you know, we'd like to hear you be really thoughtful about what it means in terms of the staff.

MR. SPEARS: There are a number of thoughts about what our business model will look like on other side. You heard some of that this morning. You heard us talk about conduit financing.

If you look at conduit financing organizations, CSCDA is one of the conduit financing localities, they're much slimmer organizations, and their overhead is able to be covered by the fee that you get, the one-time fee that you get with the conduit financing. We are set up as a portfolio lender. If that business model changes, we need to look seriously at how we're organized, how we're staffed and the whole thing.

But even if we're going to remain a portfolio
lender and it's roughly the same business model as we had had before but we're going to have substantially lower volume because of any number of things, the way the bond market comes back or doesn't come back, then we have to take a very hard look specifically at staffing levels, workload levels. And that's what we're going to be doing at this off-site in the planning process between now and March.

ACTING CHAIRPERSON CAREY: Ms. Redway, did you have a comment?

MS. REDWAY: Well, I was just -- I think that Lynn raised a valid point. I wonder about timing for staff. I understand what you're doing here is a midyear course adjustment or reporting on just the budget that we approved last year, and they are saying changes. I just wondered if maybe the Board would want to ask Steve to report back to the Board at the next meeting on any thinking that you have in regards to changing business plans, possible layoffs, how the furlough is working and also vacancies and how many you're keeping open toward reducing budget costs, cost savings, just to look at all of those things more comprehensively, rather than layoffs, which I'm not sure is always the best solution.

MR. SPEARS: On the next two agenda items from
here, I guess, we have one an update on staff -- current staffing levels, current vacancies and that sort of thing, but the March presentation is that plan.

And this is not -- although it's quite an increase, it is mainly due to the staff benefits formula number, not a request for increase in staffing.

But I understand Lynn's question and that is are we talking about staffing reductions, are we talking about downsizing? And, you know, we just ceased lending because what we believe is a temporary PMIB decision less than a month ago. So we're going to be talking about that when we get together at the off-site.

ACTING CHAIRPERSON CAREY: If I understand it, Steve, the change in the budget will not affect spending levels as they've been so far. The change in budget reflects spending levels as they have been up to this point in the fiscal year. Is that correct?

MR. SPEARS: Yes. And, of course, it goes back to the past practice of the Agency. Because this budget cycle is off from the -- from the standard Governor's presentation of the budget and the debate. We're not -- we're not associated with that, but we do submit a budget to Finance for review.

The prior practice was to submit what the Board approved in May and just drop it in. Legislative staff
and Legislative committee members objected to that a
year and a half ago or so and said, "We want you to give
us the real-time, right up-to-date."

So when -- we did that last year. We came back
this year, worked with Finance and put into the
Governor's process a budget for their review that is
up-to-date. And we discovered that our formula was off,
and the CPI index was inadvertently omitted back in May,
and there was a slight rent adjustment that needed to be
made.

So what we're doing is getting the baseline
correct based on formulas that are used by Finance.

ACTING CHAIRPERSON CAREY: Ms. Gay.

MS. GAY: Just a quick one since I look around
and I still think I'm the newest Board member for today.

Since I've been here, we've been making
adjustments, and I think this is the last of the big
dogs we got to look at. And it's a little disturbing
for me, being newer, that we haven't talked about this
before. And so I know Lynn's putting up a tough
question. But it should be, I think, in a much broader
context than just layoffs, you know, and just bond
financing. It's what does all of it mean in the context
of how we do business to serve the citizens of
California?
And I guess sitting here listening to all of it, I'm just chewing on how I would think, you know, if I was sitting in your chair and saying, "How do I redeploy all my team to be the most effective?" And while the loan activity's way down, it's been down, you know. So it's how do we look ahead because being geared up to do work for the future, well, what is the future? You know, it's really that question.

And I think the REO stuff that we struggle with a little bit probably will be a whole lot more in the future, so do we have the best staff for that, do we have the best systems?

So we know it's not an easy answer, but I think I would be remiss if I didn't say I don't want to approve any kind of increase, whether it's a formula adjustment or not, if it's not tied to the context of this report. And that's kind of where I'm sitting. Because otherwise it looks like we're kind of putting money in even though we know there's, you know, this other side of it.

ACTING CHAIRPERSON CAREY: Ms. Galante.

MS. GALANTE: I appreciate what everyone is saying, and I agree we need to look at this more holistically and not just layoffs, but all the questions.
But I still don't know that I got an answer to the question on this increase in staff benefits. I understand that you got a formula from Department of Finance. Is it required that we use that formula when, in fact, you're saying we're running at less than that formula?

MR. IWATA: Well, Department of Finance usually comes up with a statewide formula for -- that usually all state agencies use.

MS. GALANTE: So you're required to use it?

MR. IWATA: Right. Well, I wouldn't say required to use it, but that's their recommendation that they provide a baseline amount to use.

Now, based on actual uses of staff benefits, we can go to Department of Finance and say our rate is higher and show past expenditures what it is. Because a lot of that has to do with how much benefits a person claims, if they have children, you know. So the rates may go up; the rates may go down. And we justify that to Department of Finance and other state agencies.

So here we were looking at it and see in the past it was around 30 percent. But looking at current expenditures and what's been happening with the market and health benefits and retirement benefits, it's all been going up, but we stayed at the 30-percent rate.
So I'm looking at that, and then I just looked at the last fiscals from -- I think the end of November I was looking at and then our staff benefit rate overall looked at around 35 percent. So it was really a little bit under 38, but over 30 percent.

ACTING CHAIRPERSON CAREY: Ms. Peters.

MS. PETERS: Thank you.

Looking forward to March when we have this comprehensive discussion, which I agree needs to be done, I'd like to see staff give us a breakdown of how many employees we had when we approved our last business plan and what we anticipated them doing at that time versus how they have been reshuffled to the REO or other areas dealing with the immediate crisis so we get an idea of who's doing what now, in addition to the long-term plan of when we come out of this, you know, we're delivering loans directly to Fannie Mae, does that take less work than what we would normally do if we're doing, you know, any of the things we've been talking about doing, how that would adjust.

And then the other question is is there any reason for the Board to act on this today? Can we defer this item to March?

MR. SPEARS: I know of no reason why it has to be done today. It is -- I talked to Tom before this
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Board meeting about what is exactly the nature -- it's not like the state budget where the Governor signs it into law, and if you spend more or less on any particular line item, you have to move money around to pay for different things. It is a general spending authority by the Board, you know, passed in May traditionally for the coming year, adjusted periodically as necessary.

From what I can gather, it's more of an informational issue as opposed to just dollar for dollar spending authority. That's my understanding.

MS. REDWAY: So just for clarification on my part, if we didn't act on it today your -- the Board's approved spending authority would be that that we gave you last summer.

MR. SPEARS: Last May.

MS. REDWAY: Last May.

ACTING CHAIRPERSON CAREY: And yet the -- the expenditures for staff benefits then would exceed the budget as approved last year probably.

MR. SPEARS: That's possible.

ACTING CHAIRPERSON CAREY: Because they're at --

MS. GALANTE: 35.

ACTING CHAIRPERSON CAREY: Right.

MR. SPEARS: We're going to get invoiced from
the Department of Finance at a certain amount, and
they're saying you should set aside this amount based on
your salary and wages. If an invoice comes in at
38 percent and we're at 30, yes.

MR. IWATA: But if you look at the overall, our
expenditures versus what's been authorized for us to
spend, we'll be way under.

MS. REDWAY: That's what's kind of hard because
that's being presented at a different point.

ACTING CHAIRPERSON CAREY: That's my point. To
go back, to me this is largely symbolic, but
symbolically it's not very comfortable because it
appears to be out of context with the reality of the
time, and yet, you know, certainly the Board is very
clearly saying it's time to get -- to be very real and
intentional on the business level, and that will happen
in March. So it's the Board's pleasure.

MS. JACOBS: I can -- I really would be more
comfortable if this was deferred for a lot of reasons,
number one being this does not reflect the furlough, and
by March we will know whether the furlough has gone into
effect or not. And I would -- you know, I would really
like to see -- if we're going to adjust, I'd like to see
adjustments all through the budget, not just on the
expenditure side. It's not just on raising limits. I
mean if some maybe could be lowered.

ACTING CHAIRPERSON CAREY: And are we clear then
that deferring this does not create an obstacle?

MR. IWATA: No.

ACTING CHAIRPERSON CAREY: Do we need a motion
to defer it then?

MR. HUGHES: It doesn't raise any legal issue
that I'm aware of. I think what you're seeing here is
exactly what Steve said, the increased role of the
Department of Finance as a reaction to the Senate Budget
Committee and the Legislative Analyst comments it wanted
a more proactive role there.

But I am, you know -- it's the Board's decision.

ACTING CHAIRPERSON CAREY: Well, then we'll
simply see if there's a motion to approve, and if
there's not, we'll continue on.

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Item 9. Resolution 09-06, Implementation of Executive
Order S-16-08 for exempt employees

ACTING CHAIRPERSON CAREY: Seeing none, we will
move on to item 9.

MR. SPEARS: This item, Mr. Chairman, relates
back to the furlough issue. And Tom can chime in at
point, but since the Board does control the budget,
since the Board does control the salary setting of
exempt appointees, we felt that it was necessary to bring to the Board a resolution to allow the staff to implement the furlough program as presented by DPA, which, again, would involve two-day-a-month furloughs implemented by closing -- at this point closing offices the first and third Fridays of the month. It's just simply recognition that the Board has control, again, over the budget. The same process, the same salary-setting process. We're doing this voluntarily.

MS. GAY: Can I ask a small technical question? I thought I heard you mention earlier that it's two days off a month, offices close.

MR. SPEARS: Yes.

MS. GAY: Do they give you vacation time back? I know in prior years the State did things like that. Or is this just clean, that's it, everybody takes a cut?

MR. SPEARS: Under this plan everybody works two days less a month with the equivalent pay cut.

And the office closures solves an issue for exempt managers, supervisors, appointees because you're going to have to come up with an equivalent pay reduction. And if you just say you're not working, then it turns out to be a 9.23-percent reduction according to the DPA letter for exempt employees.

ACTING CHAIRPERSON CAREY: If I understand, in
situations where people do have to work under one of the exceptions, they will in the future have time off without pay.

MR. SPEARS: That's right. They're technically working that day for pay and taking a day off within the next 30 days.

ACTING CHAIRPERSON CAREY: Okay. So -- yes.

MS. REDWAY: The Treasurer is actually of the opinion that the Governor does not have the authority through an executive order to impose furloughs on civil servants or exempts, and that isn't going to be decided until the court hearings next week which Steve referred to. So I'm going to vote no on this resolution.

ACTING CHAIRPERSON CAREY: Thank you.

MS. JACOBS: Okay. Let's give this a shot. I'll move approval of --

MS. PETERS: Second.

MS. JACOBS: Does it have a number? -- Resolution 09-06.

MS. PETERS: You're putting us really on the spot.

MS. JACOBS: Well, you know.

ACTING CHAIRPERSON CAREY: Well, let's see, MHP, tax credits.

MS. JACOBS: No, we are never retaliatory at
HCD. Never.

ACTING CHAIRPERSON CAREY: Okay. We have a
motion and second. Any further discussion?

MS. JAVITS: Just a point of information.

ACTING CHAIRPERSON CAREY: Yes. This is the
further discussion. Thank you.

MS. JAVITS: Further discussion. So there's
nothing that says anything here about the court deciding
if this is legitimate. Does that mean --

MR. HUGHES: Just a little bit of the background
on this, again, we thought about this very carefully.
When we wrote this up, it had been before a plan had
been announced. And the fact that state offices will be
closed two days a month makes it kind of easy, but
nobody knows whether that will really survive the court
challenge or not.

What we think we need here is, to be honest, the
practical ability to implement a plan that we think we
need to comply with and yet reserve the Board's
statutory authority over salary setting for exempts.
For example, if the plan, the furlough plan, is
overturned by the courts and the ultimate decision is
that exempt employees will take a 10-percent salary cut,
the statutes provide that the Board set the salaries of
the exempts.
So it becomes very problematic in terms of we want to make sure that when the exempts take that salary cut, that's both been legally authorized and that we've protected essentially the Board's authority in this area by asking for that permission.

MS. GALANTE: I'm sorry.

ACTING CHAIRPERSON CAREY: Yes, Ms. Galante.

MS. GALANTE: I think I'm more confused. I thought this was a very simple thing, and, you know, given what I've just heard, it doesn't feel so simple. You know, we're talking about coming back in March with a plan for CalHFA with respect to staffing and, you know -- or other -- other measures to ensure that, you know, we stay fiscally sound.

And so I guess I'm not quite sure. By instituting this, we're saying we would comply with shutting offices two days a week -- I mean two days a month, which may or may not be for CalHFA the best way to save money. There are other ways to save money. Because, you know, we're not a big user of consumer -- we're not DMV where people are coming in and using the offices. So, you know, that may not be the most cost-effective way for CalHFA to attack its budget issues, whatever they are.

So, again, I'm just wondering do we need to do
this now? Can we have our -- can we have our
conversation about CalHFA's staffing structure and
business plan?

ACTING CHAIRPERSON CAREY: Ms. Peters
representing the Secretary.

MS. PETERS: Yes. It would be our position that
we need to address this now because the plan that came
out subsequent to this book from DPA institutes the
furloughs starting February 6th, so that would be
between today and our next meeting.

The Board, in my opinion, should either vote up
or down on it before then so that we're in track with
the rest of the State, not precluding any changes that
we may subsequently make at the March meeting, with the
caveat that there are court hearings next week and this
may be all moot and might very likely be since the
Controller's Office has said that he's not going to
implement and he's suing the Governor.

ACTING CHAIRPERSON CAREY: There is a line we
should look at. It does say that we authorize the
executive director, we don't direct the executive
director. It does give -- it gives the authority
without necessarily saying this is what has to happen.

MR. HUGHES: I would add that I do think it's
important legally that we have some clear resolution at
this time from the Board because we very likely -- after February 1st we could be in a position where as a practical matter we need to implement this and yet it enters into an area over which the Board has authority. I think it would certainly on a very practical level be helpful if the Board and the greater plan were in harmony on this issue because we'll be put in an exceptionally difficult situation if it's not.

MS. REDWAY: You know, just to be helpful to what I just said I was voting against, as I understand this, for represented and unrepresented civil servants who work for CalHFA, if the courts uphold the executive order, it will take effect. So your resolution only is applying to the exempt employees that would not be under the order were it to be upheld by the courts.

So this resolution is an attempt, I believe, to give staff the authority that if the order is upheld -- and the 90 percent or 95 percent of the employees at CalHFA are subject to that order -- the exempt employees -- the Board would direct that exempt employees be under the same order or the same governing rules that's implemented. Is that accurate?

MR. SPEARS: I believe that's accurate.

MR. HUGHES: This only addresses exempt employees because the SB257 legislation essentially
moved that authority from the Department of Personnel Administration to the CalHFA Board. As to the rank and file and supervisory employees, this is not an issue. DPA continues to have all the authority. This only relates to the specific positions over which the Board has salary-setting authority, which are essentially ten, I believe, exempts.

MS. GALANTE: So that's really helpful to me because if the order is upheld, then I don't think -- you know, just on the facts of the situation I, you know, at least as I understand it right now and I'm open to further conversation, I don't think I would want to see a situation where we're imposing or the State's imposing something on the rank and file and then the exempt employees don't have to also, you know, take -- take the hit, so to speak. So that makes me feel, if I'm understanding that right, better about voting for it.

MR. HUGHES: I think the contingency we're trying to cover here is exactly the opposite of that, that the rank and file may not have to take it and the exempts do. And since we will likely -- the last time this happened, the state exempts were requested -- were asked to volunteer for a pay cut, and I assume that would be the case again. I think the exempts would like
to feel that what we're doing is consistent with the Board's authority to set our salaries.

ACTING CHAIRPERSON CAREY: Did that help?

MS. GALANTE: No. I'm going to say that went right over my head.

MR. HUGHES: In simple English, the Board has authority to set our salaries.

MS. PETERS: On the exempts.

MR. HUGHES: The administration -- on the exempts, correct. That authority was taken away from the Department of Personnel Administration. If essentially an order is that DPA is going to reduce the exempts' salaries by 10-percent, that treads on the authority of the Board, and we want to make sure that the Board has issued us authority consistent with that order to avoid a Constitutional crisis, if you will, of having us be in a position of not being able to enact, then, an order which we think we have to comply with.

MS. JACOBS: Can I call the question, or do you want to talk about it a little longer?

ACTING CHAIRPERSON CAREY: Please.

MS. JACOBS: I'm calling the question then.

ACTING CHAIRPERSON CAREY: Okay. We are ready.

MS. JACOBS: There's a motion and a second.

ACTING CHAIRPERSON CAREY: Oh, there is. I'm
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1 sorry.

2 Okay. Roll call.

3 MS. OJIMA: Thank you.

4 Ms. Peters.

5 MS. PETERS: Yes.

6 MS. OJIMA: Ms. Galante.

7 MS. GALANTE: Yes.

8 MS. OJIMA: Ms. Gay.

9 MS. GAY: Yes.

10 MS. OJIMA: Ms. Jacobs.

11 MS. JACOBS: Yes.

12 MS. OJIMA: Ms. Javits.

13 MS. JAVITS: Yes.

14 MS. OJIMA: Ms. Redway.

15 MS. REDWAY: No.

16 MS. OJIMA: Thank you.

17 Mr. Shine.

18 MR. SHINE: Yes.

19 MS. OJIMA: Mr. Carey.

20 ACTING CHAIRPERSON CAREY: Yes.

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

22 --o0o--

**Item 10. Business Plan update**

23 ACTING CHAIRPERSON CAREY: With that we are

24 moving on to item 10, which is the business plan update.
MR. SPEARS: And I will shift to the other side of the desk.

Technical difficulties. If you would follow along in your books, you have slides. We don't have it for the overhead.

But what I thought I'd do is invite members of the senior team to come up one at a time in case you have questions or we need some clarification.

Probably Gary and Chuck, if you would join me for this first part.

MR. BRAUNSTEIN: Together or individually?

MR. SPEARS: I know how difficult that might be. Come on up, Chuck.

So thank you, Board members. I think we've set the stage for what you're going to see here. You're going to see a lot of below business plan reports and that sort of thing.

The first they have -- the first two pages that you have in your slide is what exactly appears in the business plan that was approved last May finally and what we'll be updating for you in March as a proposal and then adopted in May of 2009 for the next five years.

So we'll go right to the homeownership program.

And slide 5 is homeownership program's production, the highlights. The top line there, the blue line, of
course is what we had planned on doing total for the year, 1.2 billion. Again, this is slide number five. And these slides are in the binder already.

MS. RICHARDSON: We don't have them. There's nothing on the screen. I'm sorry, is the screen not working?

MR. SPEARS: No.

MS. RICHARDSON: I didn't hear that.

MR. SPEARS: So obviously the cumulative current purchases, the red line, is below plan.

And then if you'll notice the monthly gross reservations, of course, dropped to zero, except for the REO programs that we have. And that's -- that's where we stand.

If the bond market does not come back, if the PMIB warehouse line of credit does not open back up to us, those lines will flat line, and that's where we'll end up for the year because of those actions.

And here again I think to be fair with the Board members about when the PMIB will reverse their decision and come back, I believe there are two factors. One is that there is a resolution to the state budget and the State's cash situation, but not only that, a return of the bond market.

Because if you can imagine from the PMIB's point
of view, they would be reluctant to open those lines of
credit back up to folks like us who do not have access
to a take-out strategy through the bond market. So what
we've been hearing is that those two things both have to
happen. So here again, that could be late summer. It
could be the fall, down the road.

So my anticipation is that -- that this -- this
red line that we see here will drift upwards as the
pipeline finalizes. A few of these loans that are in
the pipeline will fall out. We'll have a few more
purchases as we go down the road. That's what Bruce was
talking about, using a portion of our nest egg to honor
the pipeline that Ms. Gay talked about. And then that
red line will straighten out and finish up the year like
that.

Any questions on that?

MS. GALANTE: So you're saying the flat lining
would be all due to the pooled investment board decision
and the bond market as opposed to -- I mean these
earlier -- it started back in July '08 before the world
fell apart in October. I'm just trying to understand
without the state situation, just the, you know, rest of
the mortgage world, you know, could you predict what the
loan volume would be, you know, if we solved the state
budget crisis and the bond market was, you know --
relatively quickly followed suit for California. You're just out there with -- you're not different than New Jersey now.

MR. SPEARS: A little difficult to answer, but if you see this second data point, that was September. Remember, this red line are loans that were reserved sometime before that, and they're just wrapping up. They finalize, they qualify, they get the happy news that they're going to get a CalHFA loan, and then we purchase it, so it's a ways down the road.

But then after that data point, there's a significant fall-off, and that's when we restricted the new reservations as a result of Lehman's bankruptcy and the real crash of the bond market. And then, of course, it begins to really flatten out after that.

MR. BRAUNSTEIN: The only thing we may want to add is that future projections on new reservations could also be impacted by the fact of us rolling out the flow business model that you've heard in the past of us originating new reservations and selling those loans directly to Fannie Mae under that -- under that business model. I think that was brought up to the Board a couple of times in prior meetings, and it may be included in this Board meeting.

So the flat line would be if the bond market
doesn't come back but it would be an increase in volume,
and we're just now working at what projections would be
based off of our Moody's rating, what the risk would be
in rolling out the flow business model and then how does
that impact our mortgage insurance volume cap for fiscal
year '08 and '09, which is around 300 million.

So if we were to just make an assumption that
the bond market is staying flat, we don't have access to
it, and we roll out a flow business model, which allows
us to originate new conventional single-family business
and flow it directly to Fannie Mae for delivery and a
cash gain on sale, then there will be about $300 million
of projected revenue for the calendar year '09. Just
using conventional restrictions on our mortgage
insurance allocation, about 300 million.

ACTING CHAIRPERSON CAREY: And I assume that the
decline in market mortgage rates makes it even harder.
The bond market has to come back even farther --

MR. SPEARS: Right.

ACTING CHAIRPERSON CAREY: -- in order to make
it work.

MR. BRAUNSTEIN: However, though, the flow
business model has us going directly to Fannie Mae, so
what interest rate we could offer today is very
competitive in today's market mortgage climate.
The -- the restriction to some of that is the lack of our downpayment assistance, which obviously draws a lot of our CalHFA type of borrowers to us, but we can be competitive on an interest rate with the rest of the market. And the flow program business model does allow for a higher loan to value opportunity, which most of our borrowers seek and use CalHFA, as well as the interest rate being reasonably competitive.

MS. GAY: I was going to just weigh in right there, that it's then a question of positioning with the Agency. A candid comment. Agency to consumers, while a lifeline at times, has over the years been an A to A-plus borrower preferential. And so who is the consumer as we look ahead? Is it a B paper borrower? C paper? You know, or is it the cream of the crop that's been waiting for a decade to buy at low prices? And then who are the players that are out there participating, or have they gone out of business?

So it's that kind of stuff for March that I guess I'm your homeownership person. I think the world is over as we knew it. And that doesn't mean business is over, but we've got to think hard and long about what our future caring to family looks like in the context of a market that's no longer the same.

Our properties can't go back to what they were.
It was artificial, anyway. So it's how do we strive as an Agency then to be, you know, competitive in that environment and -- because what I'm seeing, you know, is that a bunch of folks still can't play because there's credit, there's savings, there's income, you know.

There's a limited subsidy and so forth. And I just -- my sense is that people are not being straight up about that. They're not -- they're not looking at those very hard edges that are out there.

And that our state's in crisis, that's not coming back tomorrow. Programs like Cal Home, Lynn, you know, the simple stuff is suspended.

So I'm just putting it on the table because I think you've got a group who's really asking those questions now. And it behooves us to get some pretty hard answers or we're not going to serve well. That's all I'm saying.

Because underwriting has changed. It's not going to go back, thank God, to the mess we had before. And so who is CalHFA in the middle of that? That's a positioning issue.

So I just -- I want to bring that up because I think we've got to change. And if we don't change, I don't know what or who we are.

MR. BRAUNSTEIN: On the program, the flow
business model and the loan program piggybacks between what we sell directly to Fannie Mae, what their underwriting criteria is, and what our internal underwriting criteria is as well as being conventionally insured through the MI fund. So I think you heard last Board meeting that we changed some of the underwriting guidelines to have 3 percent to get in the game.

But the business model that we're proposing on the flow to be able to still allow new originations for CalHFA type of borrowers does allow for up to a 95-percent loan to value. From an underwriting standpoint, it would still be 3 percent to get in the game. Debt ratio, you know, it's still a reasonably high debt ratio for those hard to qualify borrowers.

So we're still in a position to attract the type of CalHFA borrowers we had in the past, other than those that were coming to us strictly for downpayment assistance, since we don't have the downpayment assistance available. We're still offering a first mortgage loan that has some value benefits outside of the conventional world that may still attract and help those in need of financing that would be more of a CalHFA type of borrower.

But the FICO scores have increased so it is still an A type of borrower. We're not playing in the B
or C or subprime world at all. The product model is still a thirty -- 30-year fixed-rate mortgage, similar to our old standard 30-year fixed. In this case it's just not backed by bond financing. It's just cash on delivery to Fannie Mae and the gain on sale and earning the revenue on that, on that gain on sale.

ACTING CHAIRPERSON CAREY: Ms. Redway.

MS. REDWAY: Yeah, I just wanted to be sure I understood this red line, Steve. If PMI -- if the State passes a sound budget in the next month -- that's a big if -- that is not subject to litigation and the bond markets open back up again and I'm going to add a third to that, which is it's my understanding that PMIA, even if both of those two things were to happen, is in such an illiquid position itself that, as you said, it could take until late summer before they actually are able to start to release loans again in any way similar to what they were doing prior to this all happening.

So assuming best case the budget is passed and the bond market is open but PMIA is unable to release funds for some extended period regardless of that, what happens to that red line? Does it flatten and go down?

Because that's the best case scenario. Putting aside the flow business model, just putting that aside for a second and just looking at our traditional model,
I kind of want to understand what's going to happen to loans.

MR. SPEARS: Well, assuming that, when you say the bond market comes back, the State can't go out and fund the liquidity with the sale of revenue --

MS. REDWAY: Well, let me clarify because my understanding is that even if the budget passed and there was no litigation and we could go out to market, the reality is for the State to go out for about a billion at a time is untenable. There's only so much you can borrow every quarter before you saturate the market. So that's a reality. We're not going to have a lot of even borrowed cash flow until later this year, so. The State won't.

MR. SPEARS: That's -- without the flow alternative, our dependence still is on the Pooled Money Investment Board line of credit warehouse line, so.

MS. REDWAY: If that is not available to you, even if all these things happen but the State just has a -- there's a long line in front of you of people looking for loans.

MR. SPEARS: Right.

MS. REDWAY: So you're probably not at the top of it.

MR. SPEARS: Since this is a cumulative line,
this would drift upwards. As the pipeline works its way out and we use internal funds to make these purchases for the rest of the pipeline, it would drift upwards and then go straight across. So it might drift upwards to 400 million, and we would wind up at the end of the year with a cumulative purchases of 400 million. That's, you know -- again, that's an estimate.

ACTING CHAIRPERSON CAREY: Strictly because of what's in the pipeline already.

MR. SPEARS: Strictly because what we've already done is clear the pipeline we've purchased for the year, and what's in the pipeline will clear out and then that's -- that would be -- that would be it for business volume for this year.

ACTING CHAIRPERSON CAREY: But next year's chart would begin at zero July 1, and that red line would not move.

MR. SPEARS: That's assuming --

MR. SHINE: Absent anything else.

ACTING CHAIRPERSON CAREY: Absolutely.

MR. SPEARS: That's assuming that the pipeline had completely cleared out that we would start down there at zero and would be running along the bottom for a while until that came back and we were back in business, yes.
ACTING CHAIRPERSON CAREY: Ms. Jacobs.

MS. JACOBS: I want to piggyback a little bit on what my colleague Ms. Gay said. She correctly identified that we're in a different world than we were before in pretty much everything. Now if only it would work on some other areas.

The -- and you talked about the typical CalHFA loan being up to 95 percent still an A borrower and so on and so forth. I think I would be very happy if you looked at other alternatives and explained to us why you don't want to do them. In other words, don't just assume we're going to continue to do things exactly the way we have been in the past. If you look at other alternatives in your off-site, then you can explain to us why they don't work.

Because I think what we're seeing is, you know, maybe we should be looking at B and C borrowers, and you can say, well, no, there's some fiscal reasons we shouldn't do that. But I don't think we should just look at what we've done before and replicate it. I think if you could look at some other, you know, alternatives and then if you could give us pros and cons, that would be real helpful.

MR. BRAUNSTEIN: From a business model,
from the way the Agency has conducted business before using bonds. The flow business model is purely a mortgage banking secondary market approach to business. And its restriction or common ground to what we've done in the past is really just the opportunity of a higher loan to value and the type of FICO underwriting guidelines.

Because most of our business is above the 90 percent that needs to have conventional mortgage insurance to cover that higher loan to value, some of what we do from an underwriting standpoint -- and then Chuck will, I'm sure, address this as well -- is impacted by, you know, Genworth and our mortgage insurance insurer or our mortgage insurance and our GAP coverage that will restrict some of the FICO guidelines that we place on the type of qualified borrowers that we can attract such as FICO scores have raised from now 620 to a high of 680, debt ratios, and then available, you know, loan to values.

Just some of what we're doing going forward may match similar to what we've done in the past mainly just because of some of the mortgage insurance restrictions that we have to adhere to. Some other opportunities may --

MS. JACOBS: I do understand that, but we have
one Board member and another Board member saying, gee, what if we helped out these other borrowers, could we do that? And so if you can look at that and say, well, we'd like to do that but we can't for the following reasons or --

MS. GAY: Or can we look --

MS. JACOBS: -- or is there another new product that, you know, you invented on February 14th, on Valentine's Day, that could work, you know. In other words, that's -- I think that's what we're getting at.

MR. SPEARS: Right.

MS. JACOBS: I understand the limitations of the product you're talking about, but since you are going to really be doing brainstorming on our behalf, we'd just like you to look at some other alternatives.

MR. SPEARS: It's prebrainstorming before we all brainstorm together in March.

MS. JACOBS: Yes.

MR. SPEARS: It's prebrainstorming, but I understand what you mean. It's a different world. We don't even know what this world looks like yet. We could actually form part of the world for ourselves, if we wanted to. It's time to take a look at that and take a very hard look and take a thoughtful approach to it. And if there are reasons at this point in our life of,
you know, cleaning up some things and restructuring our
balance sheet that we can't do that but we could do it
later on, we'll let you know what those things are.

   MS. JACOBS: Great. Thank you.

   ACTING CHAIRPERSON CAREY: Ms. Peters and then

Ms. Redway.

   MS. PETERS: I'm echoing the comments of both
Ms. Jacobs and Ms. Gay. I think we would like to hear a
full exposition of who our customers are and what our
value-add is. I think it would be very helpful at your
brainstorming session to analyze, you know, certainly
the short-term is crisis survival, live to lend another
day. CalHFA is an integral institution in the State of
California for housing, so we need live to lend another
day.

   But in the long term, I don't -- I personally
would not like to see and I don't think the
Administration would like to see us become another
lender. We're not in the business to just barely
compete with the retail market. We're -- we have, you
know, our fiduciary responsibilities as a bank which
require strong underwriting and responsibility to our
bondholders and everything a normal bank would do, but
we, in my opinion, need to really give some serious
thought to our public purpose. Where is our value add?
Where can we serve and what products can we offer that
the lender down the street can't?

And if our value add is just the tax-exempt
bonds, maybe that's all the value-add is at this point,
but in the future I think in our long-term planning we
need to be able to articulate where we diverge from
private lenders and how we're going to be a leader in
the brave new world.

ACTING CHAIRPERSON CAREY: Ms. Redway and then
Ms. Javits.

MS. REDWAY: So I'm sorry I'm going to go back
to my prior -- I had one more question. I agree with
everything that's been said, by the way, and I'm trying
to figure out if you could provide -- I guess the
question is are there alternatives to borrowing from
PMIA that we should be considering? Are there legal
barriers to that?

But in other words, if the bond market opens
again and CalHFA is able to go to market but PMIA is not
able to provide a loan, are we exploring alternative
ways of providing cash to the organization so that we
can make that red line go back up to the blue line? And
I don't know that you have an answer. You don't have to
have an answer today. I think it's something we want to
look at.
MR. SPEARS: First, I apologize for missing your point.

MS. REDWAY: Well, no, that wasn't -- I didn't get to ask that. That was going to be my second question.

MR. SPEARS: Oh, okay. I mean, I can let Bruce --

MR. GILBERTSON: Just a couple of quick observations, I think.

Certainly in today's market credit is very tight, so to find another warehouse lender would be a challenge. I think if the bond market came back in a robust way and we had pricing, we could structure financing sufficient that we can deal with this without a PMIB line.

It was very, very convenient for us to have that warehouse facility, but we'd do more deals more frequently. Smaller deals more frequently would be one of the first things that we would consider. So we shouldn't get too hung up on that. It was an extremely administratively convenient tool for us to have over the last dozen years or thereabouts.

ACTING CHAIRPERSON CAREY: Ms. Javits.

MS. JAVITS: I was going to hold this, but since we're on this topic, just I confirm all the comments.
that were made. Just also things that would be useful to know in the light of trying to look at the public purpose, you know, are we doing new units? Are we rehabbing existing units? How many of each? What's the level of income of the people who are prospective homeowners or multifamily renters that we're trying to serve?

And then I've expressed this, a little bit of frustration, before and we tend to look at numbers like we're going to spend so much money on this, we're going to spend so much money on that, and we tend not to look at how many people are we going to get into the unit of housing. Where do they live? What are their characteristics?

So just speaking to the public purpose, I would really urge us to get there. And I think there's a lot of ways to look at the value-add question, a number of different ways, including cost per person to serve those.

Thank you.

ACTING CHAIRPERSON CAREY: Ms. Galante.

MS. GALANTE: And I apologize for piling on here, but I think as someone has recently made the comment, you know, never waste a crisis, and I really think that's partly what we're trying to say here. This
may be an opportunity to really rethink what CalHFA's, you know, mission is in this new world, particularly around single-family mortgage financing.

And some of you know, because I've brought it to your attention, that I know the California home builders would love to see CalHFA play a much broader role in the mortgage finance system moving forward, for example, than we are today.

And I don't know whether that's, you know, legally feasible, technically feasible or even advisable, but I think it is time to, you know, open up the conversation. What are the legal restrictions about what, you know, CalHFA, the kinds of mortgage financing it can do? Where else can it get liquidity? Should we be having the Governor pounding on Congress' door for some of the stimulus money for something CalHFA might do for borrowers in this state?

I'm not saying that's a good idea. I don't know. But -- and I'm not sure, you know, we all here are the experts to come up with those ideas, and maybe you don't feel like you are, either, but I would encourage us to then get some outside consulting brain power maybe even on some of these issues. I mean, this is big stuff.

I know we're, I think, each in our own way
trying to layer into this business planning process, but I do think it's time, because we've got to reinvent ourselves, you know, and be relevant moving forward.

**ACTING CHAIRPERSON CAREY:** Ms. Peters.

**MS. PETERS:** In addition to our own brainstorming, does staff routinely have stakeholders meetings where you sit down with your partners, lenders, builders, homeowners, counselors, and get input on where they'd love to see the Agency go?

**MR. SPEARS:** Yes.

**MS. PETERS:** Good. We'll get to hear about that, too.

**ACTING CHAIRPERSON CAREY:** Ms. Gay.

**MS. GAY:** I'll wait for him.

**MR. McMANUS:** Thank you. Is this working?

**MS. REDWAY:** No, but we can hear you, though.

**MR. McMANUS:** Is this okay?

I just wanted to give the risk management mortgage default risk situation here because I think we're being a little humble about what our added advantages are to the borrowers.

When we say we had 80 percent of our business at the hundred percent loan to value with the 97 with no borrower cash required, I mean, there was downpayment assistance, that was our book in 2006. It was similar
in 2005. And in 2007 it tightened, so 80 percent of our people have less than 5 percent down and many of them zero. The average cash out of their pocket was one and a half percent.

Those books are now running in the 20 percent to 30 percent foreclosure rate lifetime. They're not there yet, but lifetime projection. We are at depression rate scenarios on the 2005, '6 and '7 books.

In that environment, the credit enhancers -- and Genworth is our reinsurer and a leader in that market right now, they've been downgraded to A-plus. They were the triple-A people. They only offer 10 percent down. The private mortgage insurance requires 10 percent down. We are an exception at the 5 percent down level. And we got that exception because of our full underwriting, full documentation, and went to the president of their company.

And while we're nothing like what we were, we didn't have to have any money down and we got all the assistance at a 3 percent cash out of your pocket, 95 LTV. We are still cutting edge and the easiest around.

Our FICO scores have gone to 680 if you're over 90, you know, up to 95, and really 700 to get the high ratios we get of payments. So -- but we're still the
cutting edge.

So while we're not as pretty as we used to be, we are still trying to reach that extra mile. And we fight the rating agencies now on whether or not our book will perform and we can maintain our rating, which is critical to us raising bonds, getting the tax-exempt interest and so forth.

So I don't think you have to say we're not trying real hard to do our mission because we really are stretching as far as we can and getting -- and still getting the reinsurance we need in order to have the credit enhancement to get the rating on the bonds and so forth.

So we are trying to meet that mission, it's just a different world when you've got housing prices down 40 percent in California. For anyone to want to play in this market, they're going to require that we do everything perfect and we maybe only service 300 million a year instead of a billion-six. It's just that environment. But it's a struggle, and it's not an easy solution.

ACTING CHAIRPERSON CAREY: It's interesting. What I'm hearing from a pretty engaged conversation here is that the Board is very interested in understanding or hearing the broader parameters of issues and engaging in
it, and it sounds like March will be a good discussion.

Ms. Gay.

MS. GAY: Yeah. I just -- thank you.

A couple of things for March, extra. Again, back to perception and positioning. There's people and property, marketing and money. It's just a simple box we came up with. And what I'd say is on the portfolio that's in delinquency, you may view it as cutting edge. On the street CalHFA to a lot of people is still viewed as not on the cutting edge.

So what I'm really driving toward is leadership now. And being like Fannie Mae or B of A is not -- I didn't come to this Board for that. I can talk to them without you. And so I'm really pushing because there are a whole lot of people who wanted to participate in homeownership who are good solid borrowers that haven't been able to play. And they may only have 1 percent down, and their FICO score might be, you know, 650 for a whole lot of reasons.

So the education component that we don't talk about here, I have to put on the record, is something that I think we need to look at. Also, partnerships and how are we really aligning in the future with groups that the State might already be supporting, the federal government might already be supporting to make sure that
borrowers borrow better.

So it's looking for the consumer who fits and being willing to target that consumer on a profile basis, like you mentioned. I think that is a huge issue. And I don't know what we've done because I haven't been here, but I can assure you that there are pockets of people that this Agency misses, and we can change that. This is our time to change it.

So I just want to encourage the staff about that. If there's ways that any of us -- I know I say this for everyone, I think -- can be helpful, we want to do that.

MR. SPEARS: I think that I hear a consensus.

ACTING CHAIRPERSON CAREY: All right. Let's move --

MR. SPEARS: A clear direction.

ACTING CHAIRPERSON CAREY: Let's move on with the presentation.

MR. SPEARS: I guess we're on slide No. 6, and we can move through, but, again, what you see -- what you saw in slide 5 is the loan production for the first mortgages. The next few slides are about downpayment assistance and subordinate loans.

The slides that you have there on page 6 is -- the goal is in the upper left hand where we were going
to do 50-percent HiCAP, 50-percent CHAP, what it's wound up to be is about 75-percent HiCAP and 25-percent CHAP. The percentages that you see on the pie chart on the bottom right, those are percentage of the goal, so you might want to jot that in so it's not confusing. We -- we did pass math class. We know what a pie chart is, but those are percentages of goal.

The next page, slide 7, these are the general obligation bond funded downpayment assistance programs through Prop 46 and Prop 1C.

The important column that I just want to spend a minute on are the recycled funds. Ms. Galante, those are funds that the bonds have already been sold. We have loaned that money out and it has come back and is now on deposit, whether in a bank account or with the PMIB. Those are our funds for use and cannot be taken by, shall we say, any other state entities.

The worry, the concern, that I've had is that if we get the flow project going, you know, again, that will only work if we are able to offer downpayment assistance. To offer downpayment assistance, that would require internal funds. If we're using internal funds that could be used for debt restructuring for downpayment assistance, then we're at conflict with our short-term and long-term goals.
These are funds that we believe could be available for downpayment assistance if that -- if the flow project gets going in a few weeks. That would be a good resource to have.

On pages 8 and 9 --

MS. JACOBS: Can I ask?

MR. SPEARS: Yes.

MS. JACOBS: This is on page 7.

MR. SPEARS: Yes.

MS. JACOBS: I am perfectly aware and fine with the footnote that we transferred the RDLP money to CHDAP. I remember that we did that. However, what I would like to ask you to do for me for the next meeting is make sure that you can do that in view of the wording of 1C, that there's nothing in the working of 1C that requires that the money be in those specific programs. If you could just affirm that for us, that would be great.

MR. SPEARS: Will do.

I've just been handed a note. Apparently legislation was passed that specifically provides that authority.

MS. JACOBS: Okay. Maybe you could just get us a copy of that for the next meeting.

MR. SPEARS: Okay. I'm making a little to-do
list here.

ACTING CHAIRPERSON CAREY: Little to-do list?

MR. SPEARS: Slides 8 and 9 are the special lending, HELP, RDLP, Habitat for Humanity. Those programs have all, unfortunately, had to be put on suspension. We do not use the word "canceled." They're on hold.

So I think the next thing to do is to move on to slide 11, the mortgage insurance, which is going to be consistent with what you saw with the first mortgage production. It is not surprising that we're below plan on first mortgages. Those are insured by Chuck's folks in mortgage insurance. So that slide is not -- shouldn't be a surprise.

Any questions on that before we go to a much more detailed, important topic of delinquencies, foreclosures, loss mitigation, REO management, et cetera, et cetera?

The dashed line -- what Gary is saying is that the dashed line assumes production under the flow program, so just so you're aware.

All right. Let me get right to Chuck. I know we're moving along timewise, so -- and let Chuck talk about what we're doing on the loss mitigation side. I think you all understand that we have moved a group of
people and consolidated loss mitigation and REO in one
group of folks in Chuck's shop so I'll let him spend a
couple minutes on this.

MR. McMANUS: Yeah. I don't know that we need
to go through the delinquency charts. Basically
delinquencies are up, and they're up significantly.
They increased beyond September. They continued to go
up through the end of December, so we have a lot of
delinquents, a lot of foreclosures, and a lot more
coming.

I would take you to slide 15. I think that's a
fairly dramatic presentation of what's happening. The
green bar is the buildup of REO inventory. The blue is
the inflow, and it's running around 25 month. That will
jump to an average of 50 in calendar year 2009. We will
have another 600 properties coming through, and so we
are very, very busy trying to repair, put on the market
and resell these properties.

I have transferred two full-time underwriters
over to REO to assist them in both short sales and in
listing properties and basically have merged my MI
division into the REO division, short sale, and the loss
mitigation in order to help them because I have good
people that can price properties and valuate them and so
forth. So we are not without a lot of work to do. I
almost came up here earlier to say we're extremely busy.

And the fact there's no new production, there's a huge amount of work on loss mitigation.

The loss mitigation, well, we'll do the inventory. If you leave 15, you go to 16, you'll see the mortgage insurance delinquency trends. November was an anomaly. That probably should have been -- you know, would have been 7 percent if it was following the pattern of an increase of a half a percent per month. We're up to 7.6 percent delinquency. That will be reflected in the financials in the buildup of reserves.

If you go to page 17, this is the backup in numbers and dollars of the portfolio of delinquent loans. And you can see that there's a total of $266 million in the mortgage insurance delinquent portfolio. If you take off the 77, the less than 120 days, you have 190 million over a 120 days. And I tell you, in this environment with the prices down 40 percent, they all go to foreclosure and claim. So we have another 190 million coming down the pike in the next six to eight months into portfolio. In numbers that's 650 to 700 units, properties. A lot of work to bring them, fix them and sell them.

We are losing on average a hundred thousand dollars of property after mortgage insurance, if they're
insured. Because the $300,000 properties, we're not --
we're not netting 200. It's under that. Properties
basically sell at about 60 cents on the dollar to
50 cents on the dollar of their original price, and it
costs us, you know, 10 percent to handle the selling and
everything. So we're losing 50 percent of the original
value, and we're talking the 2005, '6 and '7 books.

MS. REDWAY: I'm sorry, how many units did you
say --

MR. McMANUS: The units, on page 17 you can see
there's 978 delinquent properties.

MS. REDWAY: Uh-huh. So you --

MR. McMANUS: And I subtracted the under 120.
There's about 700. Because they're over 120 days
delinquent now and they're not going to be able to sell
because their prices are down so much, they're going to
go to foreclosure or short sale, same thing.

MS. REDWAY: So if you went back to chart 15,
would you just --

MR. McMANUS: I'm sorry, Jack?

MR. SHINE: So you're looking at a little under
a hundred million dollars.

MR. McMANUS: In foreclosure or in losses?

MR. SHINE: Well, if we're losing a hundred
grand a house, there's almost a thousand of them, it
doesn't take a mathematical genius to --

    MR. McMANUS: Okay. I'm not arguing with your number.

    MR. SHINE: It's really a question.

    MR. McMANUS: Yeah, let me go -- I have the reserves all done, so I'd rather -- and the reserves address exactly that, Jack. I'm very familiar with the reserve exhibit, and we've got it laid out days delinquent and percentage loss and the adjustment to the overall reserve, and I'd like to use what we've done a lot of work thinking about to answer that question, rather than say a hundred million is right.

    A hundred million is not the adjustment to the reserve. That, I know. Okay. But over time, it could be. It could be that much incurred over the next eight months. I'm not arguing with your number.

    MS. REDWAY: Can you help me? I'm just trying to -- what you just described, you just showed us on 17 and what you just said about the 700 units and then I'm looking back at like 15 which is the current portfolio of foreclosed properties?

    MR. McMANUS: Yes.

    MS. REDWAY: So will this green bar jump by 700 depending of what the red bar does?

    MR. McMANUS: The green bar, we're estimating,
will increase by 600 minus what we sell each month. And so --

ACTING CHAIRPERSON CAREY: That's exactly --

MR. McMANUS: -- we're selling --

ACTING CHAIRPERSON CAREY: That's exactly right, yes.

MR. McMANUS: -- 20 to 25 a month. We need to get to 50 a month, so it's depending on how we can get that sale rate going up. But, yes, there will be now another 600 to 700 properties coming into REO.

MS. GAY: Is that concentration Northern, Southern California, all over? What does it look like?

MR. McMANUS: It's all over, but there are pods of -- San Diego is probably our most desperate in total numbers, along with Riverside, San Bernardino. L.A. is growing. Sacramento is growing. But it's all statewide. It sort of followed where our lending was. The high-cost areas don't have many CalHFA loans, but it follows our lending. And you've read where biggest overbuilding is and overconversion, so.

ACTING CHAIRPERSON CAREY: Chuck, the REOs are all on the Website; right?

MR. McMANUS: The ones that have been priced, fixed up and priced, are listed on the Website in two groups, one that we'll refinance because they're fixed
up and repaired, one that we will not because the cost
to repair exceeds what we think it's worth, and they
basically go to investors and then fix and repair
people.

And we're working hard to get them on there.

We've got a backlog that are in repair. We won't sell
something that isn't in good livable environment unless
it's an investor property. We're trying to maintain
neighborhoods.

ACTING CHAIRPERSON CAREY: Ms. Galante.

MS. GALANTE: You know, this may not be the time
to talk about it. I know everybody's running out of
steam and maybe this is something else for March, but,
you know, I think we raised a number of months ago the
whole issue of loan modifications, and, you know, this
is all making an assumption that we're not modifying
loans. We're just foreclosing and moving on.

MR. McMANUS: Okay. I will say that the beyond
120 in the projection I just gave you, very few loans
can be modified that are that delinquent. We have a
loan modification program developed that we should be
able to roll out within two weeks. We've had to do a
lot of legal research on it.

We are constrained by acting in the best
interest of the bondholder, and they have 50-percent
coverage. So we have to say anything we do, like
reducing an interest rate, reducing a payment rate, we
cannot damage that bondholder's position. And if
foreclosing with that 50-percent cover protects them, we
have to foreclose.

Now, to the extent we can show an advantage of
avoiding it hitting the indenture -- and that's what
we're working on. We're working on modifications that
do help both the home buyer, the homeowner, and the
indenture total.

And those are the programs we're working on.
They involve reducing payment rates, capitalizing and
deferring payments. We have not gone with a write down
of principal because we don't think that we can do it
under the indenture, that that would damage that
bondholder unless we had a contribution from, say, the
federal government to cover that loss, which could come
with the TARP funds.

But we have a well designed -- it follows the
FDIC model, Fannie Mae's model, and that will be rolled
out. Up until now we've simply capitalized delinquent
payments and had them paid off over a time period.
We're looking at deferring it to the final payment, I
mean balloon payments and everything we are allowed to
do under the indenture.
And we should have that for you, as I say, in about two weeks, and we can give it to you at the next meeting.

And you all read the paper. I mean, if we can modify 10 percent, that would be a big huge win. 60 percent go back into default. It's the history of all the modification programs. But we still want to save that 4 to 5 percent if we can.

MS. GAY: I'm on record again. I just can't do it. I can't let this pass. For those of us who run some of those programs, Chuck, there's a reason they're not working, and they're not digging deep enough. Don't write off the principal, fine. But families need to be able to stay in a place of affordability if they've had a life change. All that has to be factored in.

The reason people are going back into default is the bulk of the servicers are not modifying in a way that really sets the family back on their feet. And we're probably running the largest numbers in the state right now in Southern California for in-person type meetings, and I can assure you if you model IndyMac, if you model what's typical, then these numbers, you're going to add zeros. It's not going to work for us, this Agency.

And so again, this is just -- when I say about
change is here, no offense to any of those people, but
I'm like Dr. Phil, how's it working for us? And so, you
know, how's it working?

And I think we've got to be able to ask those
really tough questions. A lot of those models are not
effective. And what I heard from Steve earlier is just
we're trying to get to a quality place for the Agency
that you don't have to waste your time, you know.

But if there are groups that the State's already
compensating to do some of this and part of what I think
is a gap in the alliance of CalHFA with some of those
agencies that can do this work, spend some time, service
the borrowers so that it doesn't have to be your staff
digging deep.

MR. McMANUS: I can tell you our program
involves and requires a record of referral to a
certified counseling, credit counseling, agency as part
of our program. And we're in conversation with three of
them and probably pick one or two as partners. We're
already referring to credit counseling. That's a
requirement to get the modification. You've got to have
someone helping you get back on your feet.

I just want to be truthful, that the one thing
that's hurting to make it really work is a contribution
to write down the overall cash flow required from the
borrower. That takes some kind of aid, and we don't
have that aid, and so we have to get it someplace if you
really want to make it effective.

MR. HUGHES: One of the things I'll chime in
that you want to mention, Chuck, that we have to look at
here is that the way our insurance fund is structured,
75 percent of the loss gets shifted to Genworth, and
some of the deep modifications have the financial effect
of transferring the loss from Genworth to ourselves. We
have to preserve that mortgage insurance claim. If the
reinsurer would step in and contribute, that makes a
difference. If they don't, we're taking a loss that
otherwise at least in part would be shifted, so it's
very, very tricky.

MR. McMANUS: Yeah. I think we'll find Genworth
very cooperative. I mean, they are just writing checks
now anytime we wanted it, any short sale. They have not
been a hindrance whatsoever. And I've got all their
programs laid against ours. They believe they're just
going to lose their -- they're at 75 percent of our
35-percent coverage. All these are more than 40-percent
loss. So I think they'll be flexible on any kind of a
workout.

MS. GAY: I would think if you could think a
hundred thousand a unit. Put that back through to the
family somehow. There's got to be a win there for you so you don't add, just keep adding.

MR. SPEARS: I think that brings us to the end of the homeownership. The only thing that I'd like to point out is that slide 18 gives you an idea of some of the actual write-offs that we're starting to see.

When we get to the financial review and we look at the first quarter financials, you will see very large increases in loan loss reserves. Those are accounting entries and estimates, but this slide 18 represents losses that have been incurred, you know, to date actually. So just so you know.

So let's move on to the multifamily side.

Thank you very much, gentlemen.

We have Bob and Margaret.

I think we've talked about some of these --- some of these multifamily loans that are in the pipeline, approved by the Board in the July and September Board meetings, and we know that some of those projects are --- may not make it, given the current availability of funds, given the economy and that sort of thing.

So, Bob, I don't know if you want to speak to slide 20.

MR. DEANER: All slide 20 is is an update as to where we were to date. We were having an extremely good
year until the credit market blew up. These loans that we show committed are loans that have been approved by the Board to date against year to date goal, which is 149 percent against a total goal of 202 million.

And then we just go into closed loans. Those are loans we're just converting. And then potential pipeline of which we've got about 165 million.

So we were on track to have an extremely good year until things got sideways.

MR. SPEARS: Pretty consistent with what you've heard on other fronts.

Very quickly on slide 21, two quick updates.

The Bay Area Housing Plan. The plan has been there to issue bonds in the amount of a hundred million. We had asked the PMIB for a line of credit that would give us some flexibility on when we go to the bond market, but now that appears to be shut off. So we are currently planning to sell and close bonds towards the end of February, early March. They would be below what we normally have for a rating on bonds, and they would be very high interest rate that we talked about before.

We're prepared to go ahead with that.

MR. DEANER: And that's so we -- part of that too is the rating agency, Moody's -- oh, this one doesn't work?
One thing I just wanted to point out on that is the sale of the bonds because I've been highly involved in that. I tried to do some direct placements with various other banks, and obviously they just -- you know, they don't have an appetite for unrated bonds with what they have going on. And so we exhausted every avenue to get to this point, and this is our only avenue is to sell bonds unrated in the public market. This is part of obviously our debt restructure with the concerns that Moody's gave us with our watch on our rating.

MR. SPEARS: Right.

The other update is on MHSA. And as you've heard, the approximately $400 million was actually transferred to the Controller's Office. It went onto our balance sheet. That raised the amount of money that we have available, but of course it's restricted so you'll see a higher fund equity if you were to look at our balance sheet right now, but that's all restricted just to MHSA.

For a list of MHSA projects -- which is the good news is there's a lot of work here to do because that's not dependent on the PMIB. It's not dependent on the bond market. We can continue to work on these. On slide 22 there's a list of the projects that the staff is actually working on.
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MR. DEANER: I'll just mention I've reallocated -- well, not reallocated, I had to add about half of my staff to the MHSA program because it has taken off so well. We have eight projects that we've approved internally for 19 million for both the project and the operating subsidy, but we also have 44 projects in the pipeline for another hundred million, and that is growing on a daily basis. Obviously developers are utilizing every source of funds to make their projects work.

And so we're getting -- they apply through the county and the counties come to us, but we're getting our pipeline. And this is, you know, very good for us, is -- is continuing to be a success and going forward. We're going to be extremely busy here. I will probably take more of my staff and add them under the MHSA program because we underwrite these similar to the projects we bring to the Board that we bring to senior staff. We still have to underwrite and scrub the data to present to senior staff to get these loans approved through the program.

ACTING CHAIRPERSON CAREY: Mr. Shine.

MR. SHINE: Are you saying that the Bay Area Housing and the Mental Health Services are two different plans financed two different ways?
MR. DEANER: Correct.

MR. SHINE: By the same or two different people?

MR. DEANER: Two different ways. They're two separate programs financed completely differently.

MR. SHINE: Do -- so all the homes we're buying under the Bay Area plan are not going to have incorporated anything with Mental Health Services?

MR. DEANER: That is correct.

MR. SHINE: And Mental Health Services money means dollars to build houses or to buy houses as the case may be?

MR. DEANER: Right. There's really -- the developers are using it for two functions. One is they're doing a mixed use, say a hundred units. They'll take ten of the units. They'll allocate that to the MHSA portion of the program, and the other 90 will be a mixed use. Or they can take an entire property, four units plus, and make it all shared housing under the MHSA program.

MR. SHINE: But the money comes to us.

MR. DEANER: We've already -- we've already -- the counties actually received the money under the approved MHSA plan or the bond that was passed, and the counties have transferred that money to CalHFA. So CalHFA has $371 million in an account to utilize for the
MR. SHINE: And we make first trust deed --
notes secured by first trust deed?

MR. DEANER: They are not. They are not first
trust loans.

MR. SHINE: What do we -- when we give somebody
money, is there a piece of paper that evidences it and
what is it?

MR. DEANER: Well, there is -- there is a
closing and I guess from the legal side I'd ask Tom, but
we come into a second or a third position because this
is really soft money that goes into a deal.

MR. SHINE: Have we as a firm, as an Agency,
guaranteed that money back to the person who gave it to
us?

MR. DEANER: No.

MR. HUGHES: Mr. Shine, the way that the Mental
Health Services Act money works, you'll recall that it
was Proposition 63 that created a tax on high income
earners, and that tax money is dedicated to mental
health essentially and goes in a circuitous way to the
counties to enact mental health plans. And the counties
and CalHFA have essentially worked out an arrangement
whereby that county money comes to CalHFA, and we simply
lend it out as soft money, a subordinate loan, to make

an apartment complex work for a low income mental health clientele.

MR. SHINE: We don't have to pay it back?

MR. HUGHES: We don't. It's tax money. It's not bond financed. It's simply income tax money. It's dedicated. It's continuously appropriated.

MR. SHINE: Can I have some?

MR. HUGHES: We essentially administer that program. But it's a way to fill a gap between -- on projects where the income levels won't pencil out.

MR. SHINE: It's a subsidy that we give as a -- as a way to fill the gap between cost and the financed portion of the cost to build or develop some place to put mental health patients in a home or other environment within each county.

MR. HUGHES: Yes.

MR. SHINE: And there's no obligation on our part to pay it back.

MR. DEANER: No. No.

MR. SHINE: And the Bay Area is the money we have with Bank of America's help, and that has to be paid back.

MR. DEANER: That has to be because that --

MR. SHINE: Are we continuing that program right now, or have we stopped it?
MR. DEANER: We have to finish the hundred million that we agreed to, and we have 60 million that we've completed and another 40 million behind it. That's why we're going to sell the hundred million dollars worth of bonds, but going forward we will not repeat the program.

MR. SHINE: So we're going to sell a hundred million dollars worth of bonds to pay back the hundred million I guess we got from the bank.

MR. DEANER: Well, 60 of it right now -- or close to 60 million of it is on our -- is currently on CalHFA or -- CalHFA lines or various sources that we funded because we have an obligation. Once the deal stabilizes, we have six months to buy that project from B of A. So they take it during the rehab period and then after it's stabilized, we have six months to buy it back.

We've accumulated up to 60 million to date. We have another 40 million we've agreed to buy, and that's -- gets you to the hundred million. When that's complete, we will need to sell bonds.

So then -- because all of that is on our general obligation, which was a concern to the rating agencies.

MR. SHINE: So that's a commitment that the Agency's made to put another $40 million into that deal.
MR. DEANER: Correct.

MR. SHINE: And then we're going to end up with a bunch of houses and a hundred million dollars worth of obligations that we're going to have to float bonds to raise the money to finance; is that right?

MR. SPEARS: Those bonds will be sold and closed by early March.

MR. SHINE: Good.

ACTING CHAIRPERSON CAREY: Ms. Javits.

MS. JAVITS: Just very quick, it's really exciting to see this program moving along. I would love to have whatever the time is appropriate down the road to hear a more full description of what's going on, perhaps with some of the people from Mental Health in terms of who the customers are.

MR. DEANER: Oh, sure.

MS. JAVITS: And particularly in light of the fact, kind of what Mr. Shine said, this is the only money around. We just want to make sure it's really actually going to supportive housing for mentally ill people and not for other --

MR. DEANER: It is as long as they let us keep it. We're pushing every deal as quickly as we can.

MS. JAVITS: I'll bet. It's very exciting to see it under way.
MR. DEANER: My staff is working -- just to give kudos to my staff, they are working extremely hard to get these through, these projects through in 60 days. Yeah. They're doing a great job.

ACTING CHAIRPERSON CAREY: Great.

MR. SPEARS: The next area, very quickly, the one person who -- I mean, Chuck's busy and his staff is busy. Gary is shifting some people around. Margaret's staff is -- only has more work to do every year as we close more multifamily deals and add to her workload. 524 properties you can see on slide 24. 13 new properties will close in 2009, adding to the workload, so they are already taxed to the limit staffwise and continue to do an outstanding job of inspecting, monitoring, our multifamily projects.

So if no other questions, that brings us to the end of the business plan update. We can move to the financial review.

ACTING CHAIRPERSON CAREY: Great. We -- we're at a point where we need a break for our recorder. I'd like the Board's sense of how much time we're willing to commit to that.

MR. SPEARS: I don't want to speak for Mr. Gilbertson, but I think there's the long way to do this and the shorter way to do this, and I think,
Bruce --

ACTING CHAIRPERSON CAREY: Let me get a sense of the Board, where --

MR. SHINE: What's longer and what's shorter?

MR. GILBERTSON: Well, 15 minutes probably versus 30 to 40 minutes.

MS. JACOBS: I'm going to leave a little before 2:00.

ACTING CHAIRPERSON CAREY: We're on the 15-minute -- I think we're on the 15-minute plan if we can we do that.

Would you rather press on or should we take a break?

THE REPORTER: Can you give me just two minutes?

ACTING CHAIRPERSON CAREY: Yes. Let's take a two-minute break. Please don't leave the room. Let's keep it short.

(Recess taken.)

ACTING CHAIRPERSON CAREY: We're back in session. All right. I think we're in the unfortunate position of being rushed when we get down to the heart of some of the issues here. And out the gate I would like to kind of get a thumbs-up from the rest of the Board that given the nature of the discussions and where we're at today and what we've asked for March that we
would commit the day in March for a meeting so that we
don't all find ourselves in that bind of having to leave
early.

    MS. JACOBS: Could you remind us where the March
meeting is physically?

    ACTING CHAIRPERSON CAREY: It is in Sacramento.

    MS. JACOBS: Okay.

    ACTING CHAIRPERSON CAREY: I mean till probably
3:00 or 4:00, I would think.

    MS. GALANTE: Will you give us lunch? Or we'll
pay for lunch?

    MS. JACOBS: If you could have lunch delivered
to the meeting, because it does make --

    MS. GALANTE: At least we can keep it going.

    ACTING CHAIRPERSON CAREY: We'll work our way
through lunch. We'll work the arrangements out, I'm
sure.

    --o0o--

Item 11. Midyear financial review and update

    ACTING CHAIRPERSON CAREY: Okay. Midyear
financial update, Steve, Howard, Bruce.

    MR. GILBERTSON: So in 15 minutes or less.

    MS. JACOBS: Less is good.

    MR. GILBERTSON: You can read a lot of this for
yourself. The bottom line on the municipal bond market
is that there is a bond market. It's still challenged. It's -- it's heavily reliant on retail investors not institutions. Okay. Interest rates are higher. You can read through the material. We've talked about it earlier that we could do some financings, but it's going to achieve an interest rate that's not going to be competitive in the marketplace.

The second slide is about the variable-rate bond market. Over the last four months we've talked a lot about our exposure to these and what's going on. There is some good news. Bank bonds are way down. We've had a lot of success in January. The marketplace is accepting some of the Dexia-backed paper.

And that, I think, you can see graphically on this slide. We were at almost a $1.2-billion total back the first week in October. We are now down to $211 million in bank bonds. We're hopeful by 2/1, that's a week and a half from now, that we will have no bank bonds in the HMRB indenture. We still have some, but we're working very hard on a lot of strategies.

Just talk a little bit about our successes because this is the hard work that gets us there. Successfully remarketing $308 million of bank bonds during January. We removed bond insurance on two financings totaling $135 million right at the end of the
year.

Just to give you a glimmer of how successful that was after the hard work, we had bond rates that were about the 5-percent range. We were in a call on New Year's Eve morning, and the remarketing rate was 1.1 percent. And then on January 2nd, it fell to 50 basis points, .5. So a huge benefit in going through and spending the time and effort.

MR. SPEARS: Just to give you an idea of the dedication of staff, early, early, early New Year's -- I mean Christmas Eve morning, what, 2:00 or 3:00 o'clock in the morning, they're working on disclosure documents to get this done. So a very hard working group of folks.

MR. GILBERTSON: The -- thank you, Steve.

The Board gave us authority to buy bank bonds, if you remember, in the fall. We took advantage of that and actually purchased $17.6 million in bank bonds. There's a report in the back of your binder that describes that. Again, an economic benefit to the Agency in doing so.

Tim.

MR. HSU: This slide here just emphasizes the point that we're hoping to have no bank bonds in HMRB come 2/1/09, and the reason that is a key success for us
if we were able to achieve that is that if we have no
bank bonds in HMRB, it would allow us to manage HMRB and
the G-O obligation in a way that we normally do, in a
very effective way.

On slide 7, this is an update of timeline that
you've seen before. The key thing that -- to be
emphasized here is that we're still working on the sale
of the loans, which we talked a lot about earlier. And
we're also starting to think about a transaction in
which we could have a bond sale to re-fund some of these
troubled bonds.

Page 8 is simply an update of something that --
a presentation that you've seen before. If you compare
this to some of the slides I've shown you before, you'll
notice that some of the more colorful numbers have
decreased because of some of the success that we had
recently, for example, the stripping of the bond
insurance, remarketing the bonds and what not.

And on page 9, the one thing that we have talked
about before is the concept called basis risk. This is
just an idea that we're paying more than we had expected
to pay. We have updated these numbers recently. For
the five months ending 12/31/08, we experienced
$14 million of basis risk.

And just to put that in context, which is why we
like to present this chart, that five months of extra
costs that we incurred, if you will, is equal to the
prior 24 months of basis risk. So that's -- that's
certainly a degree of basis risk that we never expected.

With my limited time I'm going to spend the most
time on this chart. I'd like to go back to an idea that
was talked about earlier, of the importance of the
warehouse line with PMIB, and I hope that this chart
does a better job to clarify this issue.

We take reservations off this chart. When we
take reservations, we -- when it's ready to be
purchased, we purchase into the PMIB warehouse. And
then after we purchase into the PMIB warehouse -- that's
why we call it a warehouse -- that's where we park these
loans first. We issue the bonds, and then we use the
bond proceeds to buy the loans out of the warehouse.

Now, we know that this has been frozen and this
is not really working very well. But if the warehouse
is still frozen and then the bond market comes back,
what would happen is that we would simply issue these
bonds in advance of actually buying the loans.

So -- but you would say, well, why didn't we do
that before? How come we got this? Well, because the
warehouse is an opportunity for us to reduce our
negative carry. Because normally when we issue bonds,
we issue 30-year bonds. And we -- when we have to reinvest the proceeds because we know we need to use the proceeds fairly quickly, it's invested short.

So normally the yield curve is steep just by the fact that we're crossing between tax-exempt market, taxable market. We're having to reinvest the proceeds at a negative carry. We're borrowing at 5 percent, reinvesting at 3 percent, for example. But since the PMIB is a short-term borrowing, that matches that funding better in the short term until we issue bonds, and then we swap these proceeds against each other.

Now, again, if the primary market to issue the bond comes back, we could have a program that could fund new production, but it would be a bit more expensive because we would be incurring this negative carry. I hope that clears up the issue.

I've shown this chart before, and the other connection I want to make is that this is a good segue into the financial statement discussion. We talked before about how we have higher delinquencies from these loans that we expect to repay. Now they have high delinquencies and there's higher default, and as a result, we're having to book higher loan loss reserves, which is an impact on the income statement.

When we have repayment -- these days we're
getting fewer repayments for sure, but when we do get
repayments, we tend to invest them into guaranteed
income contracts. And because of the downgrades of
these providers, we're having to flow more of this money
ironically into PMIB itself, which is investing in
short-term paper. So we're getting less reinvestment
income from the cash that we are getting, which is,
again, an impact on the income statement.

And because of the high debt service on some of
our bonds that have, let's say, insurance or some of the
liquidity banks are not doing so well and also bank
bonds themselves, the debt service that we're incurring
on our bonds are higher. And this idea that the loans
are paying a mortgage rate that's fixed for 30 years or
whatnot, and this, because it's going higher, is
squeezing our net interest margin, which is, again, an
impact on the income statement.

So these things -- these three things here -- at
a high level -- I'm not touching on all the things that
happens on the income statement because there are too
many to enumerate, but this is at a high level how we
think about the things that we normally are sort of
updating you about, let's say, high delinquencies and
the bank bonds and, you know, these storing bonds that
we have, how do they then trickle all the way into what
happens on the financial statements.

And normally we don't think about it because those numbers are black, and we don't dwell on it. But now as we enter into the red numbers, I think the questions will surface.

And the last thing I want to emphasize here is that in addition to the income statement now looking a little bit different, we are also using some of our restricted cash to do some of the strategic things that we talked about.

So, for example, we have been using our restricted cash to redeem some of these storing bonds, these bonds that were underperforming. We have another slide later that talks about how we use some of the unrestricted cash to meet some of the obligations that we have committed ourselves into, funding some of these loans that are already in the pipeline.

So this -- you know, these are sort of two take-aways that I would like you to have, that our income statements are being impacted by some of these things we talked about. In addition, our unrestricted or free cash is also declining because we are thinking that we -- partly because of days of like this in which we can use it strategically to get rid of certain issues.
And this is an illustration of the net -- the idea that why are we getting lower net income. This green line here is our net interest margin. Just to make sure that we're on the same page when I say that, what is the net interest margin? Net interest margin is simply what we're collecting on the loans minus all the expenses on the bonds and all the expenses that we have on the swaps.

And we talked earlier how in the five months -- in the five months towards the end of 2008, we incurred $14 million of basis risk, and that partly works into this number of our net interest margin sort of coming down to a lot lower than what it had been in the last four quarters.

And then these two lines also represent reserves, loan loss reserves, we've been booking over time. To be sure, this last quarter these numbers here, I think, are not definitive. I think that the folks are still working on those. But it illustrates the point that our net interest margin, as I said earlier, is declining while we're having to book more losses. These losses are reserves. They're not incurred yet. But nonetheless the income statements are way worse in that we now end up with a negative number.

MR. GILBERTSON: So many hours ago we talked
about the PMIB and the pipeline that we had projected
and the things, and I referred to a slide that was in a
later presentation. This is that slide. I'm not going
to spend a lot of time, but at the high level you can
see the very top row here says the loan pipeline net of
anticipated fallout on 12/22/2008. We identified
$126.8 million of loans that we had made commitments to,
and we had to figure out how we were going to finance
that and honor those commitments if we could.

The RDLP loan program, 31.4 of that we elected
not to honor, and letters went to the localities. All
of the others that represent some 95 million, we did --
we will honor. And I would bring you to the lower part
of that slide where it talks about the funding status of
the pipeline. And if you read all the way across the
column to the total column, we committed 39 and a half
million dollars of our Housing Assistance Trust to fund
that pipeline. We used $40 million of one of our
short-term credit facilities to fund that pipeline. And
the other two were smaller components.

Certainly we had some repayment moneys from some
of the state proposition programs. And then we also had
a strategy for a while -- I think we discussed this with
the Board -- to use bond indenture reserve account
moneys to acquire some of these MBSs, which are the Home
Choice and the CSHLP.

This is one other picture of kind of earlier conversations. We talked about available cash and some of those concepts. This slide was intended to give you a ballpark estimate of the unrestricted cash and investments the Agency has. There's three boxes. It works across. You have the HMRB, a special limited obligation of the Agency. We have access to that cash only if we have no bank bonds. There's $171 million there. And all of the other accounts would total 298, leaving us 469.

Some of that cash has already been deployed. Follow down the chart. Under the uses you will see that we've already noticed redemptions of the $42 million. We have bank bond term-outs before February -- at February 1st of $10 million. We're funding the pipeline, $79 million. And then this GAP reserves -- this is really the insurance reserves that we are committed to paying because of the defaults -- is $32 million.

Over the coming few Board meetings, we're going to really develop this, and I think we'll be back and present you something in a much bigger, more robust way so that it makes sense to you.

Here's another interesting thing, because this
is something in the back of our minds, Tim and I anyway, that we have these bank bonds. We have 158 million that still might be outstanding. And how does that play out over a time horizon? This lays it out. It's relatively modest except for two -- these are quarters. These are semi-annuals -- semi-annual term-outs of in excess of $10 million. To the extent that we don't redeem or re-fund the bonds, we'll be facing this accelerated principal amortization.

MR. SPEARS: Much of what we've talked about over the past few months has not yet been borne out in the financial statements. And so it is my unpleasant task to tell you that now things are starting to roll into the accounting records and accounting statements. Yesterday Dennis and his staff completed the preliminary combined CalHFA income statement and balance sheet for the first quarter.

So I mean, obviously the things that are going to impact that are increasing delinquencies and foreclosures. As a portfolio lender, the accounting rules require --

MS. GALANTE: First quarter?

MR. SPEARS: First quarter would be July, August, September.

MS. GALANTE: That just ended.
MR. SPEARS: It ended September 30.

As a portfolio lender, we hold the loans receivable on our books at unpaid principal balance. We reserve against that based on delinquency experience.

If we were an investor and somebody else, if we just bought these as investments, holding them as investments, we would be required to mark them to market, every single loan mark to market. That's not our accounting rules that we're required to abide by. So when we are increasing loan loss reserves, it is based on experienced delinquencies, and that's what's happening here.

Of course, home price depreciation isn't impacting us because as we make these estimations, it's based on what we believe we'll be able to sell that home for that goes into foreclosure. And, of course, as that home price declines, our losses go up.

So the disrupted bond market, obviously we have bank bonds that are -- we're required to pay a much higher rate of interest on. And lower short-term interest rates, the money that we do have on -- invested in the public -- the Pooled Money Investment Fund are earning less than in previous years because, as we've all seen, short-term interest rates have declined.

That's what the State Treasurer invests in, in a very

Yvonne K. Fenner, CSR, RPR, 916.531.3422
safe way, but, of course, it impacts our investment income.

So here's what we have in the preliminary financial statements for the first quarter. Year over year, first quarter of last fiscal year and the first quarter of this fiscal year, a $5-million decrease in investment income because of lower -- the investment base is pretty much the same across the board. We had the $400 million in MHSAA money came into that pool, but it was very late, so that doesn't factor into it.

The $14-million increase in bond interest costs, we have 800 million more in bonds outstanding, so part of that is just due to the fact that we have more bonds to pay interest on, but a great deal of it has to do with market disruption. The big hit, though, is the $14-million increase in loan loss reserves. Obviously that has a big hit.

The good news is we do have more loans on our books than we did last year, and we have interest income increase of about $10 million on loans receivable. The net swing from an $11-million income in the first quarter of last year and a $12-million loss for first quarter this year, that $23-million swing is pretty much explained by those four items.

So that's the news. I think on the next slide
my comments on that, that's a trend that we're going to see for a while. As delinquencies continue, as they go up, as more loans become delinquent, those loan loss reserves will have to be increased to match that, and that's what you're going to see.

What you're also going to see, though, are probably very little increase in the number of loans receivable over the next year because we're not bringing more loans in. So that will flatten out.

But quickly on the balance sheet summary, we did bring the $400 million in MHSA funds in. The fund equity went up by 389, but that's primarily due to that transfer. It's a restricted transfer. I wouldn't want you to get the idea that, yahoo, Moody's is going to think that there's an extra $400 million in capital. It's restricted. We would not be able to use that to make Moody's happy.

So that's it in a nutshell. That's a trend I think you should continue to expect. Again, these are accounting entries. As those REO inventories increase, as these things come -- as the delinquencies turn into foreclosures turn into REO inventory and we actually have losses, those will go against the reserve, and that will hit also our liquidity as we're, you know, paying money out for losses. That will come down -- down the
road. These are accounting losses. It's a shrinkage in our fund equity to that extent.

ACTING CHAIRPERSON CAREY: Ms. Galante.

MS. GALANTE: So have you tried to take this trend and take the actual delinquency trends and all of that and actually model what your expectations are for the next --

MR. SPEARS: We have and I think --

MS. GALANTE: -- year?

MR. SPEARS: -- Bruce might correct me slightly, but this is the exercise that we go through with Moody's. What they do is they add back this loan loss reserve. That's an accounting calculation. And then they take a loan-by-loan analysis, and this is some of what Chuck has been doing as well. And of that entire loan portfolio -- you know, forget about accounting rules and that sort of thing. Out of that whole loan portfolio how much do we expect will go delinquent, how much do we expect will go to foreclosure, how many losses, and then they compare that to the capital and they test our capital adequacy based on that.

And they have a number of different models, a number of different scenarios that they run, some more severe than others and some disastrously severe. And they pool all that together to some up with an estimate,
and then they compare it against the capital that we have available.

ACTING CHAIRPERSON CAREY: Ms. Jacobs.

MS. JACOBS: I think for the March meeting when we're going to sort of get into the fabulous future --

MR. SPEARS: Yes.

MS. JACOBS: -- you know, I think what we want to do is we want to look at the balance sheet as well as the income statement and projections and what plans you have to keep equity at a certain level. I think that's a real important thing to look at. What do you think is the equity that is necessary to maintain, unrestricted equity, for, you know, future ratings and ability to sell bonds? I mean, those are the kind of things that we want to discuss in March.

MR. SPEARS: Right.

MS. JACOBS: And that's why I think, you know -- that's why I may have been a little cavalier about when we were looking at the income statement and the authorization that you wanted, but I think we need to look at, okay, going forward what kind of tough choices do we have to make in terms of expenses?

MR. SPEARS: Right.

ACTING CHAIRPERSON CAREY: Mr. Shine.

MS. JACOBS: And I think that's appropriate for
the March discussion.

MR. SHINE: Can you tell me as to loan loss reserves and also again from the insurance loss reserves, how much are they now?

MR. SPEARS: The net amount -- do you have that?

MR. MEIDINGER: On the insurance fund, $18-
million loan loss reserve and that's --

MR. SHINE: On the insurance.

MR. MEIDINGER: That's on the insurance.

MR. SHINE: And on the loan loss reserves, is that different? That's a different reserve; right?

MR. MEIDINGER: Right. Well, that's on the insurance fund, which is covering the top 50 percent of just single-family loans.

MR. SHINE: And the rest?

MR. MEIDINGER: And the rest is about 32 million, and that's on the rest of the California Housing Finance --

MR. SHINE: So we've got about $50 million consolidated in reserves of one kind or another --

MR. MEIDINGER: Right.

MR. SHINE: -- in round numbers.

ACTING CHAIRPERSON CAREY: Just to piggyback on what Ms. Jacobs had said, I'm going to propose that at the meeting in March, that we pick up where we've left
off, that it seems to me that, you know, we don't want
to say we're fighting for survival, but we are. And the
Agency is facing financial challenges. And I think that
frames all of the discussion.

So I'd like to suggest that at the March meeting
we pick up at this point and talk about the fiscal
realities both in terms of what we have now and some
look ahead, which will certainly help to frame the
discussion of where we want to go and what our potential
is.

And I'd like to suggest that we limit or deal
with as expeditiously as possible the noncritical items
on the agenda so that we can focus our energies on both
completely understanding the fiscal picture and where
we're going.

Ms. Javits.

MS. JAVITS: I just want to second that. It
would be great to get to the work plan when we're fresh,
 clearer to the beginning.

And then there's two other things. Just I'm
sure I speak on behalf of everybody. We're just knocked
out by the staff that we have working on this. I mean
having watched this picture change, thank you for
working so hard. Thank you for working so late. Thank
you for being so smart about it. And we're just very
fortunate, given the level of resources that we're
talking about here.

And then the second thought, I would request --
I don't know if the other Board members would agree with
this -- that on behalf of the Board we ask the Chair to
write a letter to the Governor asking for some new
appointments to the Board. I have tremendous respect
for everybody on the Board. I think we have an
incredible Board. We try to be really attentive to the
issues that are at stake, but I just feel that the
complexity of the finances that we're talking about
there I just think beg for some additional -- you know,
in addition to the great people that we have here, it
would really be able to provide that kind of
thoroughness that I think would benefit the staff and
benefit the Board.

So I would -- unless there's objection, I would
ask for the Chair to please urge the Governor for new
appointments --

ACTING CHAIRPERSON CAREY: You bet.

MS. JAVITS: -- people who have that background.

MR. SHINE: Is that all that's left is the two
appointments from the Governor? Are the Legislature's
all done?

ACTING CHAIRPERSON CAREY: Yeah.
MR. HUGHES: There's two, the Board Chair and one other position is currently vacant.

MS. JACOBS: And does that position have an expertise attached with it? Or is it a general? What's the category? Do you know offhand?

MR. HUGHES: Honestly, unless you know, Jojo, I'd have to go -- we keep a chart of that, but I don't --

MS. OJIMA: We do have a chart.

MR. HUGHES: -- have it at my fingertips.

MR. SHINE: It would be nice to have someone from the bond issuing community.

ACTING CHAIRPERSON CAREY: Yeah.

Okay. I think we are at the point -- there are other things, other reports -- yes, Mr. Spears.

MR. SPEARS: There is one other slide about -- there is some good news, and that is we are far below current budget. This is consistent with prior -- I went back to see is this normally where we are. We're in the low 40s as far as percent of budget, and that has been the case for the last two or three years.

I know this, that there are substantial expenditures. We've just hired somebody to come in. They've either arrived or about to arrive to work on the new loan reservation system, talking about the future,
and that will require a great deal of experience, so I expect that that number would go up substantially in the second half of the fiscal year.

And you see the positions, the current vacancies, 32. This is where the number came in for the furlough impact. It's approximately 800,000. And, again, you guys already know this, we have shifted workload around. And those are the things -- the staffing issues is what we'll look at in the off-site.

MS. JACOBS: Great. And I think the alternative of what you could contract out for.

MR. SPEARS: Yes.

MS. JACOBS: As opposed to have staff.

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Item 12. Reports

ACTING CHAIRPERSON CAREY: In the reports is the investment report that Bruce was going to try to get back to you. It is in the packet, annual investment report.

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Item 13. Discussion of other Board matters

ACTING CHAIRPERSON CAREY: Are there other items from the Board?

So we will -- we will plan on the opportunity for a more involved discussion at the March meeting.
Oh, I'm sorry. But I'm not quite done. Thank you, though.

The -- I really want to express appreciation on behalf of the Board to the staff. I know that these are very, very trying times as an Agency, and we really -- we recognize and appreciate the progress that's been made and the amount of work that goes into it.

I also appreciate the Board and their patience and active engagement today.

And, Mr. Spears, welcome to the role of acting executive director.

MS. PETERS: Careful what you wish for.

ACTING CHAIRPERSON CAREY: And thanks for all that you've picked up in this first month.

MR. SPEARS: Thanks. And I will pass along to the staff. It will be greatly appreciated to know of your appreciation. We'll pass that along. We've tried to communicate, but it's been a rough month. The furlough plan's announced, a lot of uncertainty, the lending -- we're out of the lending market. They don't like to be on the sideline. They work here because they like what we do. They love our mission. They would like to be back doing that as soon possible. Thank you very much.
Item 14. Public testimony

ACTING CHAIRPERSON CAREY: This is the moment when we allow -- make an opportunity for public testimony. Is there anyone in the public who would like to address the Board?

Seeing none, we are adjourned.

(The meeting concluded at 1:39 p.m.)

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REPORTER'S CERTIFICATE

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

In witness whereof, I have hereunto set my hand this 29th day of January, 2009.

Yvonne K. Fenner
Certified Shorthand Reporter
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