STATE OF CALIFORNIA
CALIFORNIA HOUSING FINANCE AGENCY

BOARD OF DIRECTORS
PUBLIC MEETING

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

Wednesday, November 17, 2010
10:03 a.m. to 11:38 a.m.

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

January 26, 2011

Attest: 

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

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CalHFA Board of Directors Meeting - November 17, 2010

APPEARANCES

Board of Directors Present:

GRANT BOYKEN
for BILL LOCKYER
State Treasurer
State of California

PETER N. CAREY
Acting Board Chair
President/CEO
Self-Help Enterprises

MICHAEL A. GUNNING
Vice President
Personal Insurance Federation of California

JONATHAN HUNTER
Managing Director, Region 2
Corporation for Supportive Housing

ELLIOTT MANDELL
For LYNN L. JACOBS, Director
Department of Housing and Community Development
State of California

JACK SHINE, Chairperson
Chairman
American Beauty Development Co.

L. STEVEN SPEARS
Executive Director
California Housing Finance Agency
State of California

BROOKS TAYLOR
for CATHERINE COX, Acting Director
Office of Planning & Research
State of California

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CalHFA Staff Present:

BRUCE D. GILBERTSON
Director of Financing

THOMAS C. HUGHES
General Counsel

Yvonne K. Fenner, Certified Shorthand Reporter
CalHFA Board of Directors Meeting - November 17, 2010

CalHFA Staff Present, continued:

CHARLES K. McMANUS  
Director of Mortgage Insurance

JOJO OJIMA  
Office of the General Counsel

DIANE RICHARDSON  
Director of Legislation

LINN WARREN  
Deputy Program Director

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Public Testimony:

FATHER BILL ANTOINE  
Pastor, Mary Immaculate  
One LA

KimMARIE JOHNSON-ROUSELL

YVONNE MARIAJIMENEZ  
Deputy Director, Attorney at Law  
Neighborhood Legal Services of Los Angeles County

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BE IT REMEMBERED that on Wednesday,
November 17, 2010, commencing at the hour of 10:03 a.m.,
at the Burbank Airport Marriott Hotel and Convention
Center, Producers A and B, 2500 Hollywood Way, Burbank,
California, before me, YVONNE K. FENNER, CSR #10909,
RPR, the following proceedings were held:

ACTING CHAIRPERSON CAREY: Okay. Welcome to the
California Housing Finance Agency Board of Directors
meeting for November 17th.

Item 1. Roll Call

ACTING CHAIRMAN CAREY: First item of business
is roll call.

MS. OJIMA: Thank you.
Mr. Bonner.
(No audible response.)
MS. OJIMA: Mr. Gunning.
MR. GUNNING: Here.
MS. OJIMA: Mr. Hudson.
(No audible response.)
MS. OJIMA: Mr. Hunter.
MR. HUNTER: Here.
MS. OJIMA: Mr. Mandell for Ms. Jacobs.
MR. MANDELL: Here.
MS. OJIMA: Mr. Boyken for Mr. Lockyer.

MR. BOYKEN: Here.

MS. OJIMA: Mr. Shine.

MR. SHINE: Here.

MS. OJIMA: Mr. Smith.

(No audible response.)

MS. OJIMA: Mr. Taylor for Ms. Cox.

MR. TAYLOR: Here.

MS. OJIMA: Ms. Matosantos.

(No audible response.)

MS. OJIMA: Mr. Spears.

MR. SPEARS: Here.

MS. OJIMA: Mr. Carey.

ACTING CHAIRMAN CAREY: Here.

MS. OJIMA: We have a quorum.

ACTING CHAIRMAN CAREY: Thank you.

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Item 2. Approval of the minutes of the September 15, 2010 Board of Directors meeting

ACTING CHAIRMAN CAREY: Next item of business is approval of minutes of the September 15th meeting.

MR. SHINE: Move to approve.

MS. OJIMA: Mr. Shine.

MR. HUNTER: Second.

ACTING CHAIRMAN CAREY: Motion and second.
(Interruption by the court reporter for clarification of the record.)

MS. OJIMA: Mr. Shine and --

ACTING CHAIRMAN CAREY: Mr. Hunter.

MS. OJIMA: -- Mr. Hunter.

ACTING CHAIRMAN CAREY: Roll call.

MS. OJIMA: Thank you.

Mr. Gunning.

MR. GUNNING: Yes.

MS. OJIMA: Mr. Hunter.

MR. HUNTER: Here -- yes.

MS. OJIMA: Mr. Mandell.

MR. MANDELL: Yes.

MS. OJIMA: Mr. Boyken.

MR. BOYKEN: Yes.

MS. OJIMA: Mr. Shine.

MR. SHINE: Yes.

MS. OJIMA: Mr. Carey.

ACTING CHAIRMAN CAREY: Yes.

MS. OJIMA: The minutes have been approved.

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**Item 3. Chairman/Executive Director comments**

ACTING CHAIRMAN CAREY: All right. With that, we'll move on. We have a relatively short agenda, largely updates, today, but of key issues facing the
Agency.

But before that, I think our executive director has some comments to make.

MR. SPEARS: Just a few, Mr. Chairman, thank you very much.

We have a little bit of better news to report this time. We're going to be talking about the Moody's decision on the -- on CalHFA's credit ratings, both the general obligation credit rating and the HMRB credit rating. The best news, I think, is that we are off credit watch, and these ratings will stay in place for a little while. Bruce gets to think about other things than the Moody's report upcoming, so we'll -- we'll spend some time talking about that under item five.

The other thing I thought I'd bring up is the lending. Gary's folks have been busy. We have the FHA program up and running. We have 160 loans in the reservation pipeline. That's $33 million of new lending that we're doing now. Most of those have CHDAP downpayment assistance with it, so that's -- that's good news all the way around.

And along with that -- and of course this is all made possible by the U.S. Treasury's New Issue Bond program. You remember that we need to sell market-rate bonds to go with the Treasury draws, and we have a bond
sale planned for December 15 to close. And that's something that we haven't been doing lately, and so things are beginning to look a little more normal at CalHFA, and that's good news I'd like to bring to -- to the Board.

The other thing to report is that I've met for the first time with the representative from the transition team for Governor-elect Brown's transition team. This individual has responsibility for Business, Transportation and Housing. I met with him for two hours day before yesterday. We had a very good meeting. We have follow-up meetings planned. They're just beginning to sort of get to know all the different branches of government divisions, and we were one of the first that they met with.

It was just the one individual, a guy by the name of Jacob Applesmith. He's been with the Attorney General's Office for a very long time. He's a special assistant to the Attorney General and has been assigned to the transition team for BT&H issues.

The other is that the State Auditor General continues their fieldwork on their examination of CalHFA. They plan -- I believe Bruce told me the other day -- to be halfway done with their engagement by about halfway through December. I think that's correct,
roughly.

And they -- they continue to ask a lot of questions about details. They're just kind of laying a foundation of understanding about how things work -- that they, again, have hired a contractor, Caine Mitter, somebody that is known to the HFA community and is very familiar with HFA operations and financial analysis. And so I think they will be very helpful to the State Auditor.

Still planning on a completion date of February 28 and that -- we're not sure exactly what that means, whether it's the completion of the fieldwork, completion of the writing. But the report, we think, will be written by that time. That's the plan at this point, anyway.

Anyway, and then finally one more thing and that is that we have some Board members who will -- we think may be moving on, but it's the end of the Schwarzenegger Administration, and we wanted to recognize Brooks Taylor, Heather Peters, who's not here, and also our very good friend Lynn Jacobs, who's represented by Elliott today.

So we had a little something made up. We'd like to give this to you guys at this time.

And, Brooks, if you'd come on up.
MR. GUNNING: Picture time.

MR. SPEARS: I'm not sure we have a photographer. We'll have to photograph it later.

MR. GUNNING: Anyone have a camera with their phone?

MR. SPEARS: I didn't ask Ken about the base for this, but we think that this rocky base here is the solid rock that CalHFA is built on. We just want to thank you for your participation. Thank you very much.

MR. TAYLOR: Thank you.

MR. SPEARS: And, Elliott, if you would accept this for Lynn. Both of these say:

"With sincere appreciation for your outstanding leadership, dedication and support of affordable housing as a member of the Board of Directors, CalHFA."

And it has the dates, a little bit of variation on Brooks.

MR. MANDELL: On behalf of Lynn --

MR. SPEARS: Thank you very much.

MR. MANDELL: -- I'll be glad to. Thank you very much.

MR. SPEARS: And those are my comments, Mr. Chairman.

ACTING CHAIRMAN CAREY: Thank you.
I -- I just mention as we see some transition, I think that it's -- it's the nature of public business to see some transition, but I think that over the past couple of years, this Board has really solidified in a way that's been very productive, and I will personally miss the participation of those who will probably be moving on with the end of the Administration.

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Item 4. Update and discussion regarding the status of the Hardest Hit program

ACTING CHAIRMAN CAREY: With that, we will move on to item four, which is update and discussion of the Hardest Hit Fund.

MR. SPEARS: I've asked Di if she would come and give us an update, where we are with development of the program. Linn Warren is also going to join.

We -- and the slides there, Di, I think you just -- it's already up. You just click there at the bottom of the screen, and they'll pop up.

MS. RICHARDSON: Mr. Chairman, Members, thank you for having us again. I have several things that I'd like to report to you -- you're not hearing? -- several things that we would like to report, what -- things that are happening with the program. Excuse me.

As most of you know, we had a very ambitious
goal. We tried to get the program out by November 1st and despite our best efforts haven't quite been able to have the full launch that we were hoping for. But there are -- you know, we have made a significant amount of progress that I would like to talk to you about.

You know, since the program was originally -- I guess we should go one more. Since the program was originally announced in March, it has nearly tripled in size. It is now nearly a two-billion-dollar program, which is really great news for California homeowners. And we've been working extremely hard to get all of the systems in place and the personnel hired and trained that we think that we need to make this effective.

We, on October 29th -- another very significant change was on October 29th. Fannie and Freddie issued guidance that they -- to their servicers that they would be participating in the unemployment program, which was a very significant change for us in the development phase. As you know, Fannie and Freddie own about 70 to 80 percent of the loans in California. And as we were developing a program expecting them not to participate, based on what they'd been telling us, you know, before, we knew that those calls were going to be coming in in the triage phase, but they'd be stopping there because their investor wasn't participating.
Now their participation means that more of those loans actually move through the pipeline into counseling and processing and eligibility, which required us to make sure we had more phone lines, computers, trained staff, you know, to be able to handle that aspect.

We do -- we did begin a pilot program in October. We currently have about 300 borrowers that are working their way through the process. It's been -- I would say it's been very successful. It's been very educational. We've learned, you know, where we needed to make some adjustments, things that were working well, things that weren't working so well. And we currently have -- of the applicants that are currently in the process, about 45 are in the unemployment program. About 108 are in the -- the mortgage reinstatement program, and about 159, 160, are being considered for the principal reduction program. And I think about 20 are in the transition -- are being looked at for the transition program.

And of those, 36 have made it all the way through and are in -- were in the stages where there's -- the central processing center is having conversations with -- you know, working on the lender worksheets and just trying to confirm all the numbers, but we expect those to -- to fund in the very near
future.

We have been working closely with Treasury. You know, we've got some very stringent readiness requirements that we have to meet. We've got to pass a SIGTARP audit, so that's really a fun little challenge.

We are -- where we are at the moment is in early December we will have -- you know, we're in -- we're testing all the systems now with the 300 loans from CalHFA. We will be opening it up. We'll have at least three more major servicers onboard to participate in the pilot in December. And we've asked them to give us, you know, up to 200 more loans to put through on the unemployment program.

Most of them have asked to start with the unemployment program. They -- lenders are not in a position in December to take on new big technology projects. It's the end of year. They're closing their books. They -- the way they say it is they sort of go dark in December, but they're -- they're looking at this as an opportunity to allow them to test our systems, to test the security of our systems, which is also a very big deal for them. And then, you know, based on the success of that pilot, we'll do a full rollout of the unemployment program in January, early January, and they'll be able to get the resources that they need and
the teams that they need to build -- to build out the
other programs on their end.

MR. GUNNING: Excuse me, Di, which servicers are
participating? Can you say?

MS. RICHARDSON: I would rather not say only
because they are pilot programs, and if somebody is not
picked for the pilot, it creates other problems, so
I'd --

MR. GUNNING: I understand.

MS. RICHARDSON: -- rather not say.

The principal reduction and reinstatement
programs, again we're having -- I will tell you we are
having conversations, and I would say I would still
characterize them as very positive conversations, with
at least four major servicers. I've had conversations
with my colleagues in Nevada and Arizona in the last
couple of days, and they are not -- they are not as far
along in those conversations. They're -- so we're going
to bring them in to make sure that we're all talking to
the same people and try to get more synergy that way.

On the Innovation Fund, we talked about that a
little bit the last time. We had submitted three
proposals to Treasury. We got some feedback from
Treasury. They had a number of questions that they
asked us to follow up on. Those questions have gone
back out to the sponsors of those proposals. And
we're -- I think we just got the last one --

MR. WARREN: Yes.

MS. RICHARDSON: -- a few days ago, so we're in
the process of gathering that information and trying to
collect those finalized, but the other applicants that were
not chosen at this time have been notified.

I will leave it there unless you have other
questions.

ACTING CHAIRMAN CAREY: Questions of Board
members?

MR. GUNNING: Just one. So I can understand it
that the delay is Treasury?

MS. RICHARDSON: Which delay?

MR. GUNNING: For the rollout of all the
programs.

MS. RICHARDSON: Well, the delay -- the delay is
really just that the build has changed a few times. You
know, it's grown significantly. And the systems that we
have to have in place -- the phones, the number of
phones, the number of people available to answer the
phones -- I don't -- I don't know if I -- we've hired --
we're hiring about 200 people. We're going to be
actually operating a call center. And I think we've --
we've got about 185 of those that we've already hired
and that are going through training now.

Now, this -- the Freddie and Fannie coming onboard and having more people, that will make it -- you know, I mean the triage part is the easy part. Those -- that's a lower skill set. But since more people are going to be moving through that pipeline, that's going to require a little bit more, obviously, higher skill set and more training for that staff.

MR. WARREN: We did assume, because non-GSE involvement, a number of them would not be successful because they wouldn't qualify. And as Di said, it's correct, so that the intake would be roughly the same, but as we go forward with the processing, now two or three times more borrowers will now be in the pipeline for processing because the GSEs are now involved. That has a ripple effect all through the project, so that's -- that's -- that's caused a lot of our issues, to try to -- try to get the infrastructure organized to accomplish -- it mainly is a change of GSEs as well as the additional funds.

MS. RICHARDSON: And I believe FHA will be coming on --

MR. WARREN: Yes.

MS. RICHARDSON: -- for the unemployment program very soon in RDA.
MR. WARREN: RDA, there's already been discussion about RDA, but the FHA does want to participate, and that's a whole nother set of borrowers that would be eligible for the unemployment.

MR. GUNNING: I'm sorry, RDA?

MR. WARREN: Rural Development.

ACTING CHAIRMAN CAREY: RD.

MR. WARREN: Yeah, RD.

MS. RICHARDSON: Sorry. I'm just used to that redevelopment.

And I -- I had another thought, but I lost it, sorry.

ACTING CHAIRMAN CAREY: So -- so there's -- there's internal issues, and there's program design issues. There's structure of hiring and phone lines, and that's all internal to CalHFA?

MS. RICHARDSON: Yes.

ACTING CHAIRMAN CAREY: What about the -- what about the external side? What about -- is it Springboard that is -- are they where they need to be?

MS. RICHARDSON: Yeah, that's who we're talking about. They're actually -- all of the hiring and the systems are going on down at Springboard in Riverside. We've had to expand to two new buildings. We've had to completely, you know, renovate them, get -- you know,
build them out as call centers, cubicles, computers, phones. We've had to expand the trunk line so that the volume of calls that can come in can happen.

You know, they've -- we've -- they've actually got a -- we meet with Springboard all day and then they actually have a development team that works all night to develop everything that we've talked about during the day, so it's -- it is -- it's a 24/7 process.

ACTING CHAIRMAN CAREY: Di, I'm -- I'm just confused. Springboard is doing it, but you say "we've hired."

MS. RICHARDSON: Well --

MR. WARREN: It's merging, I think, but, yeah. Springboard is doing the actual hiring of the primary staff, which are the counselors, the phone folks, the programmers, the decisioners, so that when we say "we," it is collective but it is the Springboard organization we've contracted with to perform the function of hiring staff to deal with the problems.

MS. RICHARDSON: Right. In collaboration with CalHFA MAC.

ACTING CHAIRMAN CAREY: Technically they're where they need to be in their platform?

MR. WARREN: Yes. I think that -- we spent -- two weeks ago we spent a long time, a whole week,
basically calibrating where we are. As Di said, overnight, we'd make decisions on programs, the programming would be done. They're hiring rapidly. So we feel very confident on the December dates, and I think it's --

MS. RICHARDSON: Yeah, I'm --

MR. WARREN: We're in a good place.

MS. RICHARDSON: We're going to also -- I mean, we've had a core team that's been, you know, sort of pulling the cart most of the way, and we're in the process of creating some parallel teams to just keep things moving in different swim lanes, as we sort of call them.

But it's also, you know, finding the people that are qualified to do that that's -- you know, it's easy to find the lower level, like I said, you know just to do the initial triage, but a lot of the more technical work is a little bit more sophisticated and a little bit more difficult.

ACTING CHAIRMAN CAREY: Yeah, from my point, there's no question the ramp-up of the thing is horrendous. I mean it's from -- from a standstill to a hundred miles an hour because the volume is going to be huge, I suspect. I worry about the public concerns that there's two billion dollars here to help homeowners and
it isn't getting out.

    MS. RICHARDSON: Right.
    MR. GUNNING: Correct.

    ACTING CHAIRMAN CAREY: And it just seems to me we've got to get it out there.

    MR. WARREN: Yes.
    MS. RICHARDSON: I agree.

    ACTING CHAIRMAN CAREY: I know you do.

Other questions? Thoughts?

Okay. Thanks, Di. Thanks, Linn.

    MR. WARREN: Thank you.
    MS. RICHARDSON: Thank you.
    MR. HUGHES: Mr. Chair, we -- we should solicit public --

    ACTING CHAIRMAN CAREY: Yes. You're right.
    MR. HUGHES: -- comment.

    ACTING CHAIRMAN CAREY: Thank you. I've learned a new approach. Is that why you kicked me?

    With that, we are now -- and I would appreciate the reminder. We are now going to open up for comment on each agenda item as we move through the agenda, as a routine. So with that, we would take public comment related to this item on the agenda.

    MS. MARIAJIMENEZ: Good morning. We are here to provide comments on the Hardest Hit Fund. You don't
have the cards or notepads out there for the speakers, but one of the speakers just arrived, so if I could be given a few minutes to go get her and bring her in because she's lost.

ACTING CHAIRMAN CAREY: Sure.

MS. MARIAJIMENEZ: Thank you.

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Item 5. Update and discussion regarding the recent ratings reports by Moody's Investor's Service for the CalHFA general obligation issuer rating and the Home Mortgage Revenue Bond rating.

ACTING CHAIRMAN CAREY: Let's -- well, let's -- let's -- let's move forward and cover item five and come back to the public comment on the Hardest Hit Fund. Given that it's a non-action item, I'm not that concerned about it.

MR. SPEARS: Fair enough.

MR. GILBERTSON: Steve, did you want to kick this off, or did you want me to just launch in?

MR. SPEARS: Why don't you lead out, Bruce, and I'll join you along the way.

MR. GILBERTSON: Well, good morning, Mr. Chairman, Members of the Board.

We have talked to you many times about our ratings with both Moody's and S&P, and after many months
of anticipation -- sometimes positive anticipation, sometimes negative -- Moody's did call and give us an update on their view of the two primary credit ratings of CalHFA, the CalHFA general obligation, or what is referred to as the issuer credit rating, and the Home Mortgage Revenue Bond indenture credit rating, which is our large single-family bond indenture that we've used for some, you know, almost 30 years at this point.

So the good news was we were downgraded, but we were only downgraded by one notch on the GO from an A-1 rating to an A-2 rating, and the HMRB credit rating was confirmed at A-3. And perhaps the most important thing, and Steve mentioned this in his comments earlier, we were removed from credit watch, and they're no longer closely monitoring us for downgrade.

However, we are on negative outlook, and that really is due to the uncertainties, in their mind, as to the pace of the economic recovery and the real estate recovery in California. Clearly there's not a clear direction at this point. And quite honestly, my own personal perspective, this perhaps is the best result we could have expected. You know, we had been planning and anticipating for much worse and looking at the consequences of lower credit ratings and what we would have to do, especially as related to some of the
GO-related exposures that we have with swap
counterparties, a bank that provides a revolving credit
agreement, and that type of thing.

So I'll run through this fairly quickly. You
have full reports in your Board binder. I wrote a quick
summary as well, but I think we ought to just highlight
some of the things that are noted within the reports.

You know, one of the big -- and there's two
reports. Remember, they write a separate report or
rating letter for the GO rating and a separate rating
report for the HMRB credit rating.

So most of the negatives and the reason for the
downgrades and what's happened over the last two
years -- because, remember, we started -- before the
crisis, we had, you know, strong double-A ratings,
mid-double-A to lower double-A ratings on both the GO
rating and HMRB. We've lost notches a little bit over
time, over a period of time that's elapsed, about two
years. And the erosion of the Agency's fund balances,
profitability and liquidity, as well as single-family
loan delinquencies and foreclosures have really led to
this.

So just to keep this in context, over the last
two fiscal years the Agency has had an operating loss in
excess of $330 million. That is a fact. It's on the
financial statements that I think you've all received. We've had delinquencies on our single-family portfolio of loans ranging between 17 and 20 percent at different times. It appears to be on the decline, which is all good news.

Moody's put us through a rigorous test where we had to absorb $460 million of losses related to the loan portfolio after the benefit of mortgage insurance. Okay, so this is after our own MI fund pays their portion of the mortgage insurance claim, after Genworth pays their three-quarters percent of that mortgage insurance claim, after the amounts that are set aside for the GAP coverage. We -- we ran a model for them with $460 million of losses that incurred over a seven-year period.

The good news is the cash flows work. They continue to perform debt services paid to bondholders, and that is, you know, significant reason why the HMRB credit rating was left unchanged.

On the positive side, they made special note of many things, two more recent events: One, the action that the Agency took -- Executive Director Spears in April of 2010 after consulting with the Board to place a cap of $135 million on the Agency's general fund support for HMRB in the form of this GAP mortgage insurance.
coverage. You'll recall those conversations back in March of this year.

And then second, in October 2010, at the Agency's request over the summer, the California Legislature was able to approve a loan sale -- was able to approve legislation to allow a loan refinancing of the Bay Area Housing loans that we've had. We've talked many times about the Bay Area Housing financing plan. It goes back to 2005. It originally was going to be a hundred million dollars. We were planning to issue bonds. Market turmoil and disruption didn't let us get to market. We didn't always have stakeholders and partners that wanted to cooperate fully with us as well.

So this is a great -- this is an excellent outcome for us. We -- we fully anticipate that the sale will be concluded in January, no later than the first week in February.

You know, on the -- further items on -- on the positives, they pointed to some specific things that management has done, actions that we have taken, that have contributed positively to the rating decision. I won't go through all of them, just mention cap the GAP, some of the things we've done to organize ourselves better to deal with loan losses and foreclosures and REO properties that we take back as a real estate lender.
We renegotiated interest rate swap collateral provisions over a year ago. They continue to note that and make special attention of that. Our application and success, as Di has pointed out, to receive almost two billion dollars of Hardest Hit moneys that will not only go to support our portfolio, but other Californians that are in dire need of potentially having to be foreclosed upon, and the authorization from the Legislature to deal with a permanent financing solution for the Bay Area Housing program.

Just as we think about the negative outlook, what they -- what they provide in the rating letter is what are the things that could change the ratings for the positive and what things could change the ratings, you know, further downgrade, further negative going forward.

Many of these things are outside of our control, quite honestly. We will do the best that we can to manage those that we can control. We can -- we can be efficient in managing the single-family loan delinquencies, the portfolio borrowers that are having financial trouble, the related foreclosures, the acquisition of the property, the disposition of the property, you know, all of those things.

We continue to actively deal with our
variable-rate bond portfolio. Of note in the ratings is that we've reduced the variable-rate component of our debt profile from 90 percent to about 62 percent over the last few years. Continue to work with our swap counterparties in looking for opportunities to reduce or otherwise minimize the collateral postings that goes along with that because of low interest rates and our credit rating deterioration.

Things that could change the ratings more negatively is if something unanticipated happened with the Bay Area Housing and if that financing did not get concluded early next year. Remember, those loans are on a credit line that we have with Bank of America that does -- is set to expire on February 28th, so we're really running up against the clock. We hope that all comes together. We have no indication that it won't happen in January.

Genworth Mortgage Insurance, you know, a significant counterparty to the Agency providing credit support for the HMRB indenture, if they were to suffer a downgrade or otherwise start rescinding claim payments that they're liable for on the mortgage insurance policies.

If for some reason economic conditions led to a greater number of mortgage delinquencies than even
stress levels might project leading to higher
foreclosures and additional loan losses, that would be a
negative impact on the credit ratings. And if, in fact,
swap collateral postings became so large that we were
unable to deal with them financially because of low
interest rates or further deterioration of our credit
ratings, that would become an issue.

And then they are very carefully watching what
happens at the end of 2012 when the Temporary Credit
Liquidity program, which is a credit support and
liquidity support for over three billion dollars of
variable-rate bonds, expires. This was provided to us
by the federal government via the GSEs.

Steve did not mention, but we are planning to go
back and visit some of the folks in Washington the first
week in December, specifically some of the folks at
Treasury that will be making some of these decisions
about extending those facilities to HFAs or not, so we
think that's a positive indication as well.

And then the last slide simply is a summary of
the ratings. You've seen a similar chart like this
before. It shows the two primary credits and where --
where we stand from S&P's perspective and Moody's
perspective and the dates of the last significant rating
action.
The only other thing that I would add is that that is all very good news. With the completion of the audited financial statements recently, we're already beginning to update the basis for them to do a rating review again using June 30, 2010. I don't anticipate that either S&P or Moody's will conclude that process until sometime in the first quarter of next year. It's just a lot of work to get the basis updated, get them the information that they're requesting, and they have to have the time to spend to review the rating.

With that, I'll ask if there's any questions.

ACTING CHAIRMAN CAREY: Questions from Board members?

MR. SPEARS: Acknowledgement from the executive director. Bruce and Tim and Tom Hughes have all done a lot of work on this, but I also sent an e-mail out to all CalHFA staff. It was very clear from the Moody's report that they placed a lot of -- of value in the work that we've done in all areas of the -- of the Agency. The new lending, particularly they gave attention to the work that we've done in trying to pay even more attention, staffing supervision, reorganization of the loan servicing areas. Multifamily asset management is a solid part of what we do, and the fact that it remains solid is a credit to Margaret and her staff. So all
across the board I think there's credit to be given.

The one thing that I would say is that on the finance side, what Bruce and Tim have tried to do is take advantage of every little opportunity. The analogy that I'll use is the little dodge ball game that we all used to play in elementary school. The worst thing you could do if you wanted to get out is stand still. You had to keep moving, and that's the thing here. We have to keep moving, looking for every single little opportunity that we have to improve our balance sheet, to improve our financial structure, to improve our -- our approach to managing our single-family portfolio. And that's what we're doing every day, every day.

So my thanks to the entire staff, to Bruce for leading this effort, and all the hard work that's gone into this.

It's -- it was very nice. It was unusual to get congratulatory e-mails on a downgrade, but we got them. It was -- it was nice.

MR. GUNNING: Mr. Chairman.

ACTING CHAIRMAN CAREY: Yes.

MR. GUNNING: On behalf of the Board and I guess as one of the newer members here, I just want to echo those comments. And also, I don't know if congratulations is the appropriate word or a sigh of
relief is the appropriate word, but certainly to have Moody's commend specifically in their report the management's performance, I just want to thank you guys as well and let you know we appreciate your steering of the ship and helping us stay on course.

MR. GILBERTSON: Thank you so much.

MR. GUNNING: Thank you.

MR. HUGHES: And you should solicit public comment.

ACTING CHAIRMAN CAREY: Yeah. So just to -- we are now going to open public comment. The first piece of public comment we'll ask for is back to item -- agenda item four, which is the Hardest Hit Fund. I believe we have three speakers.

FR. ANTONE: Good morning. I'm Father Bill Antone, pastor of Mary Immaculate Church located in northeast San Fernando Valley of the city of Los Angeles, one of the communities hardest hit by foreclosures in the county of Los Angeles. My parish is in Pacoima.

I appear before you this morning in my capacity as pastor of Mary Immaculate Parish and as a leader of One LA. I come with a perspective, I suppose, from the bottom, of seeing many families who are on the edge of financial survival in their humble homes struggling from
month to month, and I simply invite you to share that
concern of -- of real families that I myself know.

Hundreds of our homeowners have managed to avoid
foreclosure sales because of the intervention of -- by
One LA member institutions such as Neighborhood Legal
Services who continue to do what has been characterized
as hand-to-hand combat with the banks to make sure they
follow the federal mandates in providing meaningful
modifications which keep families who are capable of
homeownership in their homes.

As you know from previous testimonies, One LA
has been long in the forefront of promoting the notion
of principal reduction as a foreclosure prevention
strategy that provides a long-term and sustainable
solution to the foreclosure crisis and goes a long way
in stabilizing our housing market. We believe this is a
win-win solution for both investors and for our economy.

It is my understanding that the Obama
Administration has essentially agreed with this strategy
of One LA. Federal guidelines issued by the U.S.
Treasury provide you, CalHFA, a tool for principal
reduction. Our concern is that the current principal
reduction program of CalHFA permits you to invest
$50,000 to reduce mortgage debt without any standard for
a bank's or investor's share of responsibility.
As the Board of California Housing Finance
Agency, you have been entrusted with a heavy
responsibility for hundreds of millions of taxpayer
dollars allocated by the U.S. Treasury's Hardest Hit
Fund. My understanding is that you are ultimately
responsible for more than a billion dollars in federal
funds. It is a sacred responsibility and a moral issue
which impacts the real lives of real people.

I would love to give any of you the opportunity
to meet families that I know and visit their homes. I
urge you to please review your current plan so that
these funds are used in a way that benefits as many
Californians as possible. Your leadership is crucial in
setting forth good public policy in administering the
more than a billion dollars in TARP funds.

And I add one further concern regarding those
homeowners who received cashout refinancing. I urge you
in your plan and decision-making to not unfairly bar
these long-time homeowners who have refinanced in this
way. There's no doubt that many homeowners with equity
were preyed upon during the housing boom. They were
entrapped to take out mortgages in the greatest amount
possible. Meanwhile, the brokers and bankers could
profit even more without any regard to the homeowner's
ultimate ability to pay.
The sad reality is that our communities of color were targeted by this practice. Your plan as currently written will discriminate against and bar homeowners in these poor communities who have been preyed upon.

One LA and with that our parish I serve, Mary Immaculate in Pacoima, will continue to fight this battle to ensure the funds provided to California are used to help the people who live on Main Street and not as another bailout.

So thank you for your attention.

ACTING CHAIRMAN CAREY: Thank you, Father.

MS. JOHNSON-ROUSSELL: Good morning, Members of the Board. I am KimMarie Johnson-Roussell, and I appear before you as a One LA -- One LA homeowner who has fought more than two years to save my home of 21 years.

My husband and I purchased a home in 1991 for $90,000. Prior to that, my husband was struck with an illness, and we undertook a long battle of illness, required extensive medical care and hospital treatment. We incurred a great deal of medical debt in the process.

My husband died in 2003. I refinanced my home to pay my husband's burial, the medical bills and improvements on the home and pay my daughter's college expenses. At the time I refinanced, I owed $80,000 on my home. Today because I was led down the path of
financial entrapment and given high-cost subprime mortgage loans, I owe approximately $340,000 of my home that it's worth 215,000.

I battled with Bank of America for almost two years. I fought a long battle to save my home. Several times I nearly lost it. Bank of America lost paperwork repeatedly. I begged them to work with me and provide me a modification so that I could stay in my home.

Almost -- after a year of fighting Bank of America on my own, I turned to Bank of -- I mean to One LA through my church and joined One LA's hundreds of organized homeowners fighting to save their home. I also met with an attorney from Neighborhood Legal Services, an institutional member of One LA.

Because I had fought, I had the good fortune of obtaining a pro bono lawyer and member of a powerful constituency of families fighting for their homes, Bank of America finally provided me with a modification under the Home Affordable Modification Program, the Obama plan, and I gladly signed the modification papers at the end of January this year and promptly began to make payments, my new mortgage payments. I finally had peace of mind or so I thought.

Not less than four months later, Bank of America began sending me letters saying that I was behind on
mortgage payments. Not only did I -- not only did they claim that I had not made payments, but the letters reflected a monthly mortgage amount hundreds of dollars in excess of the payments that we had agreed under the HAMP program. I had made all my mortgage payments since January 2010, and I had my canceled check and evidence from my bank where checks had -- the payments had been made. I am still battling with Bank of America. It's a nightmare.

I understand that the federal government has provided California 1.2 billion dollars to help homeowners and other -- and their families to keep their homes. I also understand that California Housing Finance has set aside 500 million for principal reduction; however, the plan currently written will bar me from getting help to reduce my principal.

I have owned my home for over 20 years. I've raised my kids there. I refinanced my home to pay significant amounts of medical debt, and I know I could not do on a regular monthly plan. I also made improvements to my home, which helped preserve the bank's investment on their loan.

I am -- I'm an industrious woman. I acquired skills and am employed as a mediator and interpreter. I am fluent in Spanish. I believe I'm a graphic example
of many African American families in South Los Angeles who worked hard to be middle class and to achieve the American dream who are now losing their homes.

I am not doing -- I didn't do anything irresponsible. I implore you to reconsider barring -- bearing homeowners like me with receiving -- from receiving help from -- sorry. I implore you to reconsider from barring homeowners like me from receiving help from the program Hardest Hit Fund. There are thousands of homeowners like me in South Los Angeles, throughout the city of Los Angeles and county of Los Angeles. The California Housing Finance plan as currently written does discriminate against me and many other families like me.

Thank you for listening.

ACTING CHAIRMAN CAREY: Thank you, Ms. Roussell.

MS. MARIAJIMENEZ: Good morning. I'm Yvonne Mariajimenez. I'm the deputy director of Neighborhood Legal Services of Los Angeles County.

We are a member institution of One LA, and we're here this morning -- again, we've appeared before you, your Board meetings, throughout the year. We are very pleased and we commend CalHFA for allocating a good chunk of the money -- the TARP funds that are coming to California for principal reduction. However, we do
implore you that it be studied to ensure that taxpayer
money is spent diligently and is spent in the best
manner to serve as many people as possible.

It is incumbent upon us and primarily you as the
board and body that sets public policy for the
California Housing Finance Agency to ensure that
taxpayer money is being spent in a wise manner and that
we leverage these funds to help as many Californians as
possible.

And, also, we believe that you've been provided
guidelines by the federal government that although you
can pay up to 50 cents on the dollar, that we need to
start low and maximize the use of those moneys.

Also, we again, as KimMarie asked -- that you
reconsider and review the exclusion of long-time
homeowners who refinanced and cashed out. As KimMarie
said, she is an example of many of the African American
families in South Los Angeles that are middle class,
were middle class, and purchased their homes, many who
paid for their homes completely and then refinanced and
were enticed to take out their equity.

So we ask that you do seriously consider that
issue as it will disproportionately impact a community
of color.

And we thank you for your time again this
morning. Thank you.

ACTING CHAIRMAN CAREY: Thank you,

Ms. Mariajimenez.

Are there Board members who would like to ask
questions of the three speakers at all?

MR. SHINE: I think I understand.

MR. GUNNING: My question was answered.

ACTING CHAIRMAN CAREY: Okay. Thank you very

much.

MS. MARIAJIMENEZ: Thank you.

FR. ANTONE: Thank you.

ACTING CHAIRMAN CAREY: From a personal

perspective and someone whose organization is involved
day-to-day with folks facing foreclosure, I think that
the issue of the -- of some cases of cashout refinancing
is probably the toughest piece for me because it comes
down to the -- the most personal, and every case is very

personal.

Di, could I ask you in the -- in the meetings

with counselors before the rollout of the program, was

there a general sense among counselors about the issue

of participation by cashout borrowers?

MS. RICHARDSON: It was discussed with the

various groups and there -- I would say that there were

some people that -- that thought that we should consider
allowing cashout refi's, but I believe the majority of
them understood that the resources were limited and
that -- you know, that it would -- it would, you know --
you needed to make the money go as far as possible. You
know, I -- this is really the only -- only opposition
we've received to the -- to the program, is from this
group.

ACTING CHAIRMAN CAREY: Okay. Thanks, Di.

MR. GUNNING: I've got one.

ACTING CHAIRMAN CAREY: Yeah.

MR. GUNNING: Just a follow-up on that, Diane.

Was -- in those conversations, was there consideration
to the impact on minority communities as in terms of
cashouts and subprime lending?

MS. RICHARDSON: I don't -- I don't think we
discussed it in terms of minority communities. I think,
you know, we -- we obviously held the meetings in a
state -- you know, statewide. We had representatives
from statewide organizations that we met with and, you
know, including the Center for -- what's Kevin Stein's
group? I'm sorry, I'm --

MR. GUNNING: Responsible Lending.

MS. RICHARDSON: Right. And, you know, I know
that that's a concern that they've raised, but they --
we discussed it and I -- I just don't think it was -- it
certainly wasn't a decision that we made based on the impact to minority communities. It was strictly an economic decision. We have a limited amount of dollars. You know, what's the -- what's the most common pool of borrowers? You know, what's the fairest way for us to do that?

And as we've said, if it turns out that the -- that the program -- you know, we -- if the program's -- the money's not going out the door and we want to expand the eligible pool of borrowers, we can do that at a later time. But at this point, we felt it was -- you know, it's easier to start with a narrower pipeline and -- and open the gates a little bit than to try to shut gates and have all the money go out in the first two weeks.

MR. GUNNING: Thanks, Diane.

ACTING CHAIRMAN CAREY: And it is a difficult thing, too. I mean, some of the -- some of the worst stories you hear are the other end of the spectrum from the story, very personal story, we heard here today, which are cashouts that went to all sorts of -- I mean, we have families who did cashouts while they were facing inability to make a payment, but anyway.

Well, it's an issue that obviously will stay on the table for us.
Thank you, Di.

MR. GUNNING: Thanks, Diane.

ACTING CHAIRMAN CAREY: We will now -- if there's any public comment on item five on the agenda, the update on the investor ratings.

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Item 6. Report of the Chairman of the Audit Committee

ACTING CHAIRMAN CAREY: Seeing none, we'll move on to the report from the Chair of the Audit Committee, Mr. Gunning. And thank you very much for filling in this morning.

MR. GUNNING: Thank you, Mr. Chairman.

The Audit Committee met this morning and reviewed the audit from Deloitte. And notwithstanding some of the losses we knew about from our last meeting, we had a good audit.

I think of important notice was the new GASB 53 that the staff was required to now look at all of our swaps and derivatives and list those in their values. And being one of the first agencies in the country and one of this size to do this, I think a lot of compliments should go to Lori and her team for getting that done and getting the audit done.

So with that, Mr. Chairman, I submit the audit report. I think it's included in all of your packets.

Yvonne K. Fenner, Certified Shorthand Reporter
ACTING CHAIRMAN CAREY: Any questions?

Thank you, Mr. Gunning.

Now, moving on to item seven -- I'm sorry, I need to ask does anybody have comment on that item?

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Item 7. Discussion regarding proposed reorganization of CalHFA financial management responsibilities

ACTING CHAIRMAN CAREY: Seeing none, we move on to discussion of proposed reorganization. The -- moving on to the proposed reorganization, Mr. Spears.

MR. SPEARS: The announcement last time and opening comments that I made about the consideration of rearranging the financial management responsibilities of the Agency, we gave that a lot of thought. I've talked to members of the senior staff. I've done some research on my own, talked to the Board chair, and the result was the memorandum that you received very recently. It did not go out with the Board package, but came to you by e-mail and then it's -- it's available here.

Really I can break down the three sections that are or, I'm sorry, the two sections that are in the -- in the memorandum. One of my main concerns is that as a financial institution -- and I realize that we are not a private sector bank. It is a mission-based
state organization. But with that said, we really are a financial institution with financial risk and real estate risk that have to be managed with assets and liabilities that have to be managed in concert. You cannot segregate that.

That -- a concern that I've had is that there is not a single position at CalHFA for the management of the financial risk, what you would see in a financial institution as a senior vice president for financial operations, chief financial officer, CFO. So I've given a lot of thought to that and done a lot of research, and Tom helped with this as well.

The statutory definition of the director of finance, our own Bruce Gilbertson, fills that position at this point. The statutory -- there are only three positions that are created by statute for CalHFA: The executive director, the director of finance, and I believe the mortgage insurance director.

The definition of finance director includes a very broad definition, to manage -- let me see if I can find the quote -- the overall --

MR. SHINE: Responsibility.

MR. SPEARS: -- responsibility of managing the financial risk of the Agency, responsibility for the financial operations of the Agency is the way it's
worded, which can be interpreted very broadly in the past, going, I believe, all the way back to Executive Director Karney Hodge.

The position of director of finance, however, has been limited to issuing bonds, investing the proceeds, managing the bond portfolio, and over the years as our bond structure got more complicated, swap contracts, collateral postings, liquidity facility negotiations, all of that. But with regard to financial statement analysis, financings -- overall financing strategies, that fell outside what previous directors have done.

So my thought is to move forward with a plan to broaden the director of finance's role to an overall chief financial officer. I used to discuss, tease, banter with Terri Parker about my role as chief deputy, that you're there with all the other senior directors reporting through the chief deputy up to the executive director, that I was both the chief operating officer and chief financial officer and that did she really, you know, trust me to do that exactly.

So I think having a separate CFO position with broader responsibilities where -- in your -- in the memorandum -- and I agree that the -- the second chart that I added to the back of the -- to the memorandum,
the attachment two, is not truly a personnel
organization chart. It's part of a -- first of all, it
only deals with the business processes and financial
management of the Agency. And the boxes in the -- in
the bottom part of that chart just represent functions
that would report up through these individuals.

How this would actually be outlined and what
individuals would fill those positions and manage those
responsibilities, how they might be combined under, you
know, one person perhaps would be something to discuss
and analyze down the road. But the idea in attachment
two is that under the director -- under the executive
director would be the CFO position, that the financial
management, a controller, the IT, the chief information
officer, the IT area, a treasurer function that
essentially is what Bruce does now would report directly
to the CFO, and all these functions would fall below
that.

We also have just ongoing business processes in
the Agency, and this is the second half of the
memorandum, that I believe need to get completely looked
at, top to bottom. I think we need to look at it from
the standpoint of do we have duplication? Can we save
money? Can we streamline? Can we make things go -- go
faster, kill fewer trees? I think we need to do that
from soup to nuts, and my idea would be that we would
have Howard Iwata, our administrative director, and
Bruce, our director of finance, get together and carry
that project on, of looking at all of our business
processes over the next few months, however long it
took.

And that -- we need to do that for a couple
reasons. One is to find out if we can operate this
organization more efficiently, save a little money, but
the other is that we're right at the phase of putting
together a financial information system. Our old
accounting system, we've moved off an old rickety
platform to a more stable platform, and it's working
better. I think Lori is a happier person.

But we really just have an accounting system,
and what we need is something more than that. We need
an information system that incorporates financial
information and management information about our
programs, our lending, our functions, that are blended
together, and they can provide reports to the senior
executive team and the Board of Directors that we can
use to better run this Agency.

And before we can design a system that looks
like that, before we can tell some vendor that comes in,
I think we need to take a look at our business processes
first. I think you need to start from the ground floor
and work up. So -- so that's -- that's the idea for the
first part of this.

The other two issues that are in the back, the
second section of the memorandum, contract
administration and insurance management, we've known for
a long time that CalHFA has grown very fast over the
years and that a lot of the processes we have have been
in place for a long time, and, like I said, I think we
need to review those.

But one thing we do have is a bit of a siloed
management of the Agency. On the contract part, we have
a lot of different divisions that have contracts. They
all manage them individually. Some contracts pertain to
several different divisions. What we don't have is a
central place where those contracts are managed,
watched, and folks are held accountable for the
deliverables under the contract.

And so what I'd like to do is centralize that,
review the contracting process, and I believe we'll have
a more accountable system. We'll get more out of
vendors. We'll be -- I'll have a higher degree of
confidence that when we get to the end of the contract,
we got everything out of that contract that we were
entitled to, and if we didn't, we got concessions for a
change in whatever happened along the way.

Then the final thing is insurance services, and
this really just has come up recently. Chuck now has
under his control 1200 --

MR. McMANUS: 1100. 1100.

MR. SPEARS: All right. I exaggerated a bit --
over a thousand REOs. We have an insurance policy for
the Agency, a general liability policy. When we had
two, three, four REOs back two or three years ago, this
was not a big concern. This is a concern now.

We have an earthquake policy that Margaret
manages. So my only thought at this point is to do a
complete soup-to-nuts review of our need for insurance
services and see if it doesn't make sense to have an
overall policy where we can go to a broker and we can
negotiate all of these different needs into one
insurance contract and save money for the Agency and
have it easier to manage in a single place. Simple
concept.

I'm not trying to make the Agency more
bureaucratic. I'm trying to make it more accountable.
I'm trying to see if we can streamline some things, have
better coordination, have fewer silos, break these down
and have a lot more coordination between divisions and
that's -- that's the -- that's the idea.
I know this is a lot of detail about the
day-to-day management of the Agency. I brought it up to
the Board of Directors because, you know, in the end it
could mean that the Agency looks a lot different,
behaves, you know, differently than before, and thought
it would be a good idea to discuss this, see if the
Board members had questions before we proceed.

ACTING CHAIRMAN CAREY: Yeah, Mr. Boyken.

MR. BOYKEN: Thank you.

This is sort of hard, being the newest member
here, but I come sort of with some concerns and
questions from the Treasurer's Office, but the first one
has to do with the CFO position. Is it -- is what
you're suggesting, taking the statutory position that
Bruce Gilbertson is in right now and then sort of
reaffirming the duties that are in statute and taking
some of the other duties, the treasury-type duties that
Mr. Gilbertson is doing, and putting those into a
different position? Is that sort of what you're --
you're not suggesting going for legislation to create a
new position of CFO?

MR. SPEARS: No, on the contrary. I think we
can do this with the current statute that's in place.

MR. BOYKEN: Okay. So you wouldn't be
necessarily creating a different position, but it would
be redefining the existing position?

    MR. SPEARS: Right. Just simply saying whereas
before the director of finance -- despite the fact that
the statutory definition is this, that person's duty
statement at CalHFA does this. It's much narrower.

    MR. BOYKEN: Right.

    MR. SPEARS: Just rewriting that person's duty
statement and opening it up.

    Now, there are other movements, you know, in the
organizational chart that may need to take place
underneath that to make sure that --

    MR. BOYKEN: Right.

    MR. SPEARS: -- things are equitably distributed
as far as the scope of management, but, no, I don't
foresee any legislation at all.

    MR. BOYKEN: All right. And then just one
observation, and I'm not the expert on this, but when
I've seen major accounting systems being adopted by
organizations, it often seems that it's the accounting
system that drives the reorg rather than the reorg that
drives, you know, what type of system you're going to
get. And I'm just wondering, you know, would -- the
reality is it'll probably kind of work in tandem as you
get whatever vendor, you'll see what's there, but I'm
just wondering if it would make sense to look at the
business processes a little bit more once you get closer
down the road of adopting a new accounting system.

MR. SPEARS: That's my -- that's exactly my
proposal.

MR. BOYKEN: Okay.

MR. SPEARS: If I didn't make that clear, I
apologize. But I think you have to do that review of
business processes and responsibilities right down to
the documentation, you know, how is that going to work
with a new, you know, accounting system and decide what
kind of system we're going to have.

If we just need a bookkeeping system, we don't
need that. We've got something along that line. What
we really need is an information system that -- the
amount of manual labor that goes into creating our
financial statements is unreasonable. I'll be kind. We
need -- we need systems that work for us. We're working
for the systems now, and that's backwards, so.

So I completely agree with you. We need to get
all this groundwork done first, decide how
responsibilities are going be laid out and what we want
the organization to look like and how we want it to work
and then we can put this information system together
intelligently. But if you try to get a vendor onboard
and you don't know how it looks and you're trying to
invent this along the way with a vendor -- and we have
some IT folks here -- you're going to pay a lot of money
while you start and stop and start and stop and try
different things, and that's not going to work.

MR. BOYKEN: Thanks.

ACTING CHAIRMAN CAREY: Mr. Mandell.

MR. MANDELL: Just some comments for you, Steve.
I think that thinking about how to make the organization
work the best it can is always a good idea, so I applaud
your thinking about it.

With regard to that last comment about the
accounting system and the database and all that, HCD is
still going through an effort that was started I think
in 2000 where -- the thing that I like about the
proposed org chart that you have is that you have a
fairly direct relationship between the money people and
the program people. And without that, I think that you
don't have to have that on an organizational chart, to
kind of get to another point I want to make, but
recognizing, as you just said, the importance of that as
you move forward on your IT side is critical. They
can't -- they are -- they are both served by the same
system, and they both need to have a part in that
discussion and look at it as you were suggesting, not
necessarily at the bottom, that might be the right
perspective, but from the business that you're trying to accomplish and rather than laying some arcane rules over it, you know, figure out what rules you really need and make sure everyone's using the same rules. That's a really great thought.

I'm a little bit concerned that from the org chart that shows the proposed CFO position, that you've got the director of administration reporting to the executive director. To add it as you had previously a direct report through what would now be labeled as the chief financial officer would be a workload, but while some people will say, well, those are the minor activities, sometimes the tail does wag the dog. And to have those responsibilities, the HR -- and I don't mean that -- with no disrespect, but, you know, that you do need to have a proper managing HR system. You have to be hiring qualified people. You have to keep those people happy, otherwise nothing works.

Well, all of that shouldn't be given short shrift and I think needs to be integrated in the day-to-day discussions along with the money issues, the program issues. So I'm not going to make a -- I'm not making any recommendations. I'm just pointing out things that I have seen in the past could be problems.

And the third thing I wanted to suggest is that
there is some truth to some humor -- humorous stories.

MS. RICHARDSON: Can't hear.

MR. MANDELL: I'm sorry. There is some truth to some humorous stories, and the one that comes to mind is the make three envelopes. You -- I think, Peter, you know the one I'm referring to.

And so when you're talking about silos, it's just one pie. And there are lots of, an infinite number of, ways to slice the pie. It's not really who reports to whom but how those people relate to each other.

So it should be more important -- and maybe it's through the business processes review as opposed to putting a box under a different box, that that might be the way to focus on how the organization should look. So it's who's -- not who's doing what, but how the what's being done and how people need to relate in that regard.

So I just wanted to give you those comments.

Thank you for that opportunity.

MR. SPEARS: Thank you.

ACTING CHAIRMAN CAREY: Okay. Other comments or questions? Mr. Hunter.

MR. HUNTER: I just had a couple of things. One -- one it seemed to me to be missing from attachment two is Mr. Hughes seems to have disappeared. And that
role is such a critical role, both in relationship to
the Board and to the activity of the organization, it
just -- I didn't see where it was functioning.

MR. SPEARS: Well, a number of people
disappeared in attachment two, no disrespect to the
remainder of the senior executive staff. But the only
thing on attachment two, I just was dealing with just
the financial and -- and business processes, day-to-day
part of this, so that there is the legal division, all
the program areas are somewhere off to the right, off
screen here, off stage. And just the only people that
were on stage would be the -- just the financial
management part, so --

MR. HUNTER: Okay.

MR. SPEARS: -- that would still be out there.

And just -- the other quick response to one of
Elliott's concerns is I debated this administrative
area. It's got HR, business services, facilities. I
mean, part of my job is to make sure that their job is
as easy as possible, and I try to allocate HR services,
business services, picking up the mail, I thought it
would be better if those broad support services reported
directly to me, I mean, just as an impartial way to
allocate support services around the Agency, so.

Like I said, not -- this concrete is still not
set, if it is even concrete.

MR. HUNTER: Yeah. Then that was actually --
your comment about the support services was my other
comment, which is far too many years ago when I was
trying to learn management and we used to talk about
span of control, in other words, how many people can --
how many supervisees can a supervisor supervise?

And increasingly I feel that really successful
and highly functional organizations are the ones that
really have turned that upside down and are talking
about the role of supervisor not as a control point, but
as a facilitation point. So that, to me, the -- the
kind of inverting the structure and starting -- looking
at it from the top up rather than the top down, what
does the executive director need to do to facilitate the
successful work of the CFO? What does that person need
to do to facilitate the successful work, you know, all
the way down to the line staff. How do you create the
resources, the mentoring and the facilities that are
necessary for, in the traditional point of view, the
person who's at the bottom of the ladder being most
successful, because that's where our organization's
success always resides.

And, you know, one of the places I learned that
was in managing a public health center where when I did
a business review found myself scared to death that the person who is most responsible for the financial success of our organization was the person who was paid minimum wage and greeted people when they came in the door and picked one of 17 boxes to check. And so our most critical function was the person who was the lowest paid person in the organization just struck me as insane.

So, you know, just as we're looking at this, if we can keep that in mind, that the point of supervision is to enable the success of the people that are being supervised, and how do we -- how does the structure then facilitate that.

ACTING CHAIRMAN CAREY: Great comments.

MR. SPEARS: This is very helpful. Thank you.

ACTING CHAIRMAN CAREY: Other thoughts or comments from Board members?

Is there anyone from the public who'd like to comment on the proposal?

MR. HUGHES: Well, my mortgage lender thanks Mr. Hunter for that clarification on me disappearing from that chart, so that would be my comment.

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Item 8. Reports - A. Homeownership Loan Portfolio

Update

ACTING CHAIRMAN CAREY: Okay. With that, we are
on to reports.

MR. SPEARS: We don't have any special presentations. I just would encourage the Board members to each time please review the -- I believe it was the January 2009 meeting, my very first meeting as executive director, when the Board in its wisdom asked for a homeownership loan portfolio report each time, so I would encourage you to take a look at that.

We have made a lot of progress since delinquencies, total delinquencies, peaked in February of 2010. That's declined dramatically for a couple reasons. Not great news for borrowers because that represents foreclosures that have taken place on the older loans, and it represents REO properties that Chuck is managing. So -- but total delinquencies have gone down.

I have seen in recent months, and we have a little more recent reconciled information than what you see right here that I just received this last week after Board packages went out, that looks like delinquencies might be ticking up just a bit in each of the categories 30, 60 and 90-plus. I think the unrelenting grip the economy has on unemployment is just giving borrowers a nightmare, and it's -- it's unfortunate, but it is a reality that we're dealing with.
And I receive what Lori refers to as unreconciled information about portfolio performance. What you see here, what we provide, is a reconciled, and that means that we've taken all the payments that have come in from all the servicers plus our own servicing department and made sure that it's all applied correctly to all the bond indentures, all the borrowers, and it's reconciled to the penny.

I do get early information that gives me a little bit of a -- more of a heads-up, and what I have just received are the October 31 numbers, and that's what I've seen gone up. I've seen it go up a little bit in the 60-day category for the last couple months. This month is the first time it's gone up just a tad in each one, and the overall delinquencies have gone back up for the first time since February.

So it's not a dramatic increase. I wouldn't describe it as a trend just yet, but it's a cause for a little bit of concern. I just want you to know that.

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Item 8. Reports - B. Update on Variable Rate Bonds and Interest Rate Swaps

MR. SPEARS: And then the other very important report is the variable-rate bonds. This is where you get the bimonthly report from Bruce about where we stand
with variable-rate debt, swaps, et cetera, et cetera, so.

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**Item 8. Reports - C. Legislative Report**

MR. SPEARS: And there is a brief legislative report under tab C in the back, and that would be Di's responsibility.

So if there are any questions, I'd be happy to entertain those. If the Board members would like additional reports, I would encourage you to let me know that. We'd like to give you whatever you think you need to keep up to date.

ACTING CHAIRMAN CAREY: Thank you.

Any questions?

MR. HUNTER: I just have one on the variable rate. You know, we've been talking about what are the maximum numbers that we can hit, and I'm looking at the basis mismatch chart on page 158. That, you know -- clearly 2010 so far is -- has been much better than 2009. Do you foresee a time when the little orange bar will go above the line and we can start regaining some of the ground we've lost?

MR. SPEARS: I'll let Bruce comment on it. One of the reasons why this improved dramatically, I believe, was because of the Treasury program that we
engaged in. Further improvement, I believe, has to do
with interest rate movements.

MR. GILBERTSON: Yeah, basis mismatch is a
multifaceted kind of phenomenon. You can see back in
2001 the incremental bars were above the line. I
wouldn't anticipate, Jonathan, that we would see that
cumulatively ever. I don't even know that a periodic
positive mismatch is likely.

The challenges that we faced over the last few
years, as you can see, the orange or golden bars
becoming larger, dealt with inefficiencies in the
marketplace and the relationship of some of the
securities that are these floating-rate securities,
action-rate securities. Remember, you've heard us talk
at length about that marketplace simply not existing
anymore. Auction-rate bonds simply don't have
successful auctions anymore.

Variable-rate demand obligations, we had a huge
experience in 2008 and into 2009 until the Treasury
facilities came into place where we couldn't find a
liquidity provider, which meant that we paid a penalty
rate of interest which is reflected in this chart. And
even if we did, interest rates and the compression of
rates -- you know, a lot of this is driven based off the
relationship of a short-term tax-exempt bond and a
short-term taxable bond because of the Agency's election
to -- to enter into most of their swaps on a percentage
of LIBOR rather than a SIFMA-based swap.

So there are several things going on. The short
answer to your question is I think we should look for
further improvement. This -- this is not a calendar
year, remember. It's explained in the report. This
goes from a debt service or a bond year, if you will.
It starts on August 1st and goes to July 31. So it will
start again for what we call 2011 on August 1 of 2010,
and I would expect that it's going to be significantly
improved, even over what's shown in 2010, but I don't
think it will become positive.

MR. HUNTER: Thank you.

ACTING CHAIRMAN CAREY: Other questions?

All right. Thanks, Bruce.

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Item 9. Discussion of other Board matters

ACTING CHAIRMAN CAREY: Other Board matters.

MR. SPEARS: Mr. Chairman and Learned Counsel,
is it appropriate for me to go back and point out one
other thing in item four?

MR. HUGHES: Sure.

MR. SPEARS: The criticisms you heard are not
new from the group One LA. And I'm not sure, I know we
have new Board members around the table, those filling
in this time around, but I did send to the Board members
a November 8 memorandum. It's almost like a points and
authority, but not quite. But it is a, you know --
criticisms that we've heard and staff's response to
those criticisms. And I encourage you to take a look at
that.

I -- I think more Board members are going to be
contacted about this. I know the Treasurer's Office has
been contacted and others, so I think it would be
important for you to understand the staff's position on
this.

I know there is testimony here today that --
that we have federal guidance on, you know, how much to
pay. The federal guidance that they have referred to
again and again is Supplemental Directive 10-05 issued
in June 2010 for the Help America's -- the HAMP program,
making homes affordable. Our program is not the HAMP
program. Treasury designed this completely outside of
HAMP.

We are following federal guidelines that were
provided to the states that were provided Hardest Hit
funds, and we followed those guidelines to the letter,
submitted proposals according to those guidelines and
been approved by Treasury. So what you'll see in the
response memo that I put out is a rebuttal to the argument that we're bound by this directive that came out.

Two thoughts. One is this a HAMP directive and we're not HAMP so this doesn't bind to us, but even if it did, what's in this is an incentive payment, not a purchase of a portion of a loan. It is not what has been purported to be a net present value calculation of a written-down loan amount or a purchase loan amount.

I looked and looked and looked to try to find the 6-to-21-cents number and finally found it in the back of this under the section entitled "Incentive Compensation." And I don't claim to be a HAMP specialist. I think that would be a dangerous thing to claim. But this is the -- this is the basis for their argument that we should be paying much, much less for the loans that -- for the principal reduction that we're talking about in the -- in the -- in our program.

So I would just say that. I thought about it after they left, and I would just put that on the record.

MR. HUNTER: Is that --

ACTING CHAIRMAN CAREY: Mr. Hunter.

MR. HUNTER: Was that memo in the packet?

MR. SPEARS: No. This is something that I sent
out by e-mail a week or so ago. I brought mine just in

case, but I should have sent a reminder.

MR. SHINE: It came out by e-mail?

MR. SPEARS: Yes. From me to Board members. So

if -- and, Grant, I didn't know you were going to be

here, but --

MR. BOYKEN: It should be in the office.

MR. SPEARS: -- it should be somewhere.

I would be happy to send that out again,

Mr. Hunter.

MR. HUNTER: Thank you.

ACTING CHAIRMAN CAREY: And it seems to me that

we're dealing with two different issues in their

concerns, one of which is some factual issues, which I

think the memo does a good job of pointing out are not

correct and were the basis of some of the legislative

letters that we got. And the other is subjective, about

what's the right way to roll the program out. And --

and at this point it seems the decisions are made and

the program is moving.

And there is a world of disagreement about how

best to deal with -- with foreclosure issues out there.

I think the Agency's working very hard to choose a

prudent path.

Other Board matters?
MR. HUGHES: I think, Mr. Chair, since we went
back to item four for a moment, we just ought to ask for
another round of public comments, if there --

ACTING CHAIRMAN CAREY: Great.

MR. HUGHES: -- are any.

ACTING CHAIRMAN CAREY: Sure.

Yeah, is there anybody from the public who'd
like to add to the discussion?

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Item 10. Public testimony: Discussion only of other
matters to be brought to the Board's attention

ACTING CHAIRMAN CAREY: Seeing none, we'll move
on. And, in fact, this is an opportunity that we permit
the public to speak on matters that are not on the
agenda that ought to be brought to the Board's
attention. Is there anyone who wishes to speak?

MR. GUNNING: Mr. Chairman, I did want to --

ACTING CHAIRMAN CAREY: Yes.

MR. GUNNING: -- just have one comment back on
the previous item.

Is there a way, Steve, to inform the One LA
group of our discoveries or can we push back a little
bit or -- I don't mean push back, I shouldn't say that.

MR. SPEARS: We've certainly done that in
private conversations with them.
MR. GUNNING: Okay. So that has --

MR. SPEARS: Di --

MR. GUNNING: That has occurred.

MR. SPEARS: I would say this: They have --

they have a proposal in for Innovation funds that's
being reviewed and -- and Di is spending an enormous
amount of time providing folks who have been approached
by One LA and are asking us questions, so we're -- we're
refuting their arguments but only indirectly because
they -- they don't talk to us much anymore because they
know where we stand on it.

I respect very much what they're trying to do.
I respect -- I think the testimony this morning was
brave and it's -- it's -- it's -- there are difficult
situations like that. But Di's comment that we have
limited resources is -- I did a -- you'll see in the
memorandum, I did a quick calculation that there are
about two to three million homes in California that are
underwater. If they're average underwater by $50,000,
it's an enormous amount of money. Even if only a
portion of those people qualify for our program, it far
exceeds the amount of money that we have available.

And I -- as Di said, if we roll this program
out, we don't get people to come to the door and
participate and we have the ability to open it up and
open it up on the basis of medical expenses, education expenses and, you know, a -- a limited list of -- a limited list of proceeds, I mean use of proceeds --

MR. GUNNING: Right.

MR. SPEARS: -- we'll do that. We'll do that.

I can tell you that will create an enormous headache of trying to document what that money was spent for. That's going to be -- that's going to be almost impossible to do, but we are willing to try if we have funds left over to do that.

MR. GUNNING: Okay. Thanks, Steve.

ACTING CHAIRMAN CAREY: Okay. No further public testimony -- actually, having -- having sat here and thinking a little bit, I'd just like to point out that this is our last meeting for 2010. It's also the last meeting under the Schwarzenegger Administration. And most of us are here as appointments by Governor Schwarzenegger or by virtue of being in office or particular public functions with this Administration.

It's -- it's good to note that the Agency was designed in a way to somewhat isolate it from political transition, so -- so many of us will continue on the Board and provide some continuity, which I think is very, very healthy. And -- and we have some excellent Board members. The next time we meet, Thanksgiving will
have passed. The holidays will have passed. We'll be in a new administration and facing some of the same challenges, but -- but it will be a new year.

And this has been a year. I mean this has been a very challenging year. Some of the news today is some of the best news we've had all year, I think, and it's nice to take a deep breath and realize that we did end with some positive news.

And I think -- I know I speak for the entire Board when I say that I know that isn't the winds that blew in. That's the incredibly hard work of the organization in every piece of the organization and every -- every staff member making -- making things work in an incredibly difficult environment. We all appreciate all the staff in every piece of the organization and -- and would like that known.

And I'd also like to mention two Board members who are retiring from the Board. Lynn Jacobs, who serves by virtue of being director of HCD, has not just been an incredibly loyal and active Board member here, but an incredibly driven advocate for affordable housing statewide and has -- has worked hard to roll the ball uphill in dealing with what we in the affordable housing world call the permanent source campaign and has kept that in the forefront all the way along and has rolled...
that ball, moved that ball, forward.

And other is Heather Peters, who represents Dale Bonner and has, again, been an incredibly active and helpful and supportive Board member and excellent representative connecting the Board and the Agency to the field, particularly during the early days of the foreclosure crisis. And her knowledge and personal investment in that area has been very helpful.

And we're going to miss both of those people, in addition to missing Brooks and -- and Fred Klass.

MR. MANDELL: If I may, Peter?

ACTING CHAIRMAN CAREY: Yes.

MR. MANDELL: Just because I know we have verbatim minutes that I assume that Ms. Jacobs will read your words and will appreciate what you said, but I think she'll be at the next meeting --

ACTING CHAIRMAN CAREY: Oh, really?

MR. MANDELL: -- when it's called. It's not my understanding that Lynn is intending to retire from the Board until she is no longer the HCD director.

ACTING CHAIRMAN CAREY: Better news yet. That's wonderful.

MR. SPEARS: That's great news.

ACTING CHAIRMAN CAREY: Just -- in the -- in the --
MR. MANDELL: I hope I'm not misspeaking, but --

ACTING CHAIRMAN CAREY: Yeah. No, that would be --

MR. MANDELL: -- at least not to my knowledge.

ACTING CHAIRMAN CAREY: That would be wonderful.

But in the -- in the transition of not knowing, I wanted to be sure to be on the record. That's great news.

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Item 11. Adjournment

ACTING CHAIRMAN CAREY: Okay. With that, we are adjourned.

(The meeting concluded at 11:38 a.m.)

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REPORTER'S CERTIFICATE

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

In witness whereof, I have hereunto set my hand this 6th day of December 2010.

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