STATE OF CALIFORNIA
CALIFORNIA HOUSING FINANCE AGENCY

BOARD OF DIRECTORS
PUBLIC MEETING

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

Thursday, July 21, 2011
10:02 a.m. to 11:53 a.m.

Minutes approved by the Board of Directors at its meeting held:
October 18, 2011

Attest: _______________________________

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

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APPEARANCES

Board of Directors Present:

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

CLAUDIA CAPPIO
Executive Director
California Housing Finance Agency
State of California

KATIE CARROLL
for BILL LOCKYER
State Treasurer
State of California

CATHY CRESWELL
Acting Director
Department of Housing and Community Development
State of California

MICHAEL A. GUNNING
Vice President
Personal Insurance Federation of California

JONATHAN C. HUNTER
Managing Director, Region 2
Corporation for Supportive Housing

HEATHER PETERS (arrival after roll call)
for TRACI STEVENS, Acting Undersecretary
Business, Transportation & Housing Agency
State of California

JACK SHINE
Chairman
American Beauty Development Co.

RUBEN A. SMITH
Partner
Adorno Yoss Alvarado & Smith

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CalHFA Board of Directors Meeting - July 21, 2011

**CalHFA Staff Present:**

GARY M. BRAUNSTEIN  
Special Advisor to Executive Director

KENNETH H. GIEBEL  
Director of Marketing

BRUCE D. GILBERTSON  
Director of Financing

VICTOR J. JAMES, II  
Deputy General Counsel

JOJO OJIMA  
Office of the General Counsel

DIANE RICHARDSON  
Director of Legislation

L. STEVEN SPEARS  
Chief Deputy Director

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CalHFA Board of Directors Meeting - July 21, 2011

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Yvonne K. Fenner, Certified Shorthand Reporter
BE IT REMEMBERED that on Thursday, July 21, 2011, commencing at the hour of 10:02 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:

--00--

ACTING CHAIRPERSON CAREY: I'd like to welcome everyone to the Board of Directors of the California Housing Finance Agency, July 21st.

--00--

Item 1. Roll Call

ACTING CHAIRPERSON CAREY: Our first of order of business is roll call.

MS. OJIMA: Thank you.
Ms. Creswell.

MS. CRESWELL: Present.

MS. OJIMA: Mr. Gunning.
MR. GUNNING: Here.

MS. OJIMA: Mr. Hunter.
MR. HUNTER: Here.

MS. OJIMA: Ms. Carroll for Mr. Lockyer.
MS. CARROLL: Here.

MS. OJIMA: Mr. Shine.
MR. SHINE: Here.

MS. OJIMA: Mr. Smith.
MR. SMITH: Here.

MS. OJIMA: Ms. Peters for Ms. Stevens.
(No audible response.)

MS. OJIMA: Mr. Alex.

(No audible response.)

MS. OJIMA: Ms. Matosantos.

(No audible response.)

MS. OJIMA: Ms. Cappio.

MS. CAPPIO: Here.

MS. OJIMA: Mr. Carey.

ACTING CHAIRPERSON CAREY: Here.

MS. OJIMA: We have a quorum.

ACTING CHAIRPERSON CAREY: Thank you, JoJo.

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Item 2. Approval of the minutes of the May 19, 2011 Board of Directors Meetings

ACTING CHAIRPERSON CAREY: Next item of business is approval of the minutes of the May 19th Board of Directors meeting.

MS. CRESWELL: So moved.

ACTING CHAIRPERSON CAREY: It's been moved.

MR. GUNNING: Second.

ACTING CHAIRPERSON CAREY: And seconded.

Roll call.

MS. OJIMA: Thank you.

Ms. Creswell.

MS. CRESWELL: Yes.
Item 3. Chairman/Executive Director comments

ACTING CHAIRPERSON CAREY: Next item of business is chairman/executive director comments. In keeping with my recently ended vacation, I'm simply going to turn it over to Executive Director Ms. Cappio.

MS. CAPPIO: Thank you. Good morning.

I have a couple of items to update the Board on. First, there has been a recent Court of Appeals decision regarding furlough pay. You may remember that the Legislature and Governor created the furlough system to save General Fund money, and this has been navigating...
its way through the courts. And there's been a recent
decision that distinguished CalHFA and about five or six
other agencies as not being subject to General Fund
or -- general funding, and therefore we've been asked
for more information. And the furloughs may or may not
apply.

We've looked at this, the senior staff, and
believe that we could accommodate any back pay, should
that occur in the next budget year. We'll keep you
posted on that, but this would have a budget implication
because of the furlough dates that have to be now
compensated.

Secondly, Chairman Carey asked me to comment
briefly on the notion that the Governor is very intent
upon consolidation and reorganization of the state
bureaucracy. We have been looking at this as a housing
function team in the last couple of months, meeting with
HCD, CalHFA, CDLAC, TCAC, in an effort to look at where
we -- there are opportunities to work better together.
And our aims have been efficiency, coordination and
better collaboration together, looking at such issues as
a common database, streamlining application procedures
and time lines, what we could do to consolidate
functions that make sense. We have this notion that
underwriting may be one of those that we do well and
could make sure that we offer that to other agencies.
And then the big -- the big dilemma about how to asset
manage effectively.

We'll continue to update you. Again, this is a
priority of the Governor, and I think now that the
budget is completed, thank goodness, we can get on to
that, that other work.

And lastly, there was a recent decision by HUD
regarding the PCBA program. We had spent lots of staff
resources and time and energy on submitting an
application and it -- staff worked exceedingly hard. We
think we had a very competitive application, and we lost
by two hundredths of a point. It was extremely
disappointing to us. And I figured -- I never knew it
was, like, failed by two hundredths of a point, but it
was.

There has been some -- some fallout from that.
We will be continuing to monitor that. Many state HFAs
were involved, and there has been some very surprising
decisions, to say the least. We will be continuing to
follow that, but I wanted to make sure that you all knew
that.

And that ends my report.

ACTING CHAIRPERSON CAREY: Could I ask, the Tax
Credit Allocation Committee's sponsoring meetings on
cost containment. Are we actively participating in those also?

MS. CAPPIO: Yes. We have a representative to that, and that's been one of my big ones, really big. I think we have to look at those subsidies per unit very hard, not only in an effort to look at how we can spread those resources more effectively -- because dime or dollar, there's going to be less resources to go around, at least in the next few years -- but also looking at how we can work together to provide that kind of efficacy as well.

So, yes, we are in that. And there's a lot of pressure on us as the subsidies we get continue to decrease.

ACTING CHAIRPERSON CAREY: Okay. Thank you.

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Item 4. Discussion, recommendation and possible amendment of Resolution 11-07 regarding the Agency's Two-Year Business Plan for Fiscal Years 2011/2012 and 2012/2013 (Resolution 11-09)

ACTING CHAIRPERSON CAREY: Next item of business is -- relates to the possible amendment of the two-year business plan which was approved at the last meeting. Is Steve going to handle that?

MS. CAPPIO: Yes. Steve and Gary.
ACTING CHAIRPERSON CAREY: Steve and Gary.

MR. SPEARS: Thank you, Mr. Chairman, Members.

Good morning.

At the last Board meeting where we discussed the business plan, there was -- there were several homeownership products that were discussed. A couple of them were approved. There were questions about two others, the MCC program, a tax-credit program, and a conventional loan product that was discussed where we would have 97-percent first mortgage, fixed rate. That would be insured by Genworth, and they were going to offer us a mortgage insurance product with job loss protection that was exclusive to us, terms that were exclusive to us. So there were questions asked about that.

We've brought that back. I'm going to let Gary go through the questions, the slides, follow the memo that -- that was presented to you in your binders. So just stop us anytime you want to ask questions as we're rolling through this, but I'd just ask Gary to kind of go through both of these two products.

MR. BRAUNSTEIN: Thanks, Steve.

Good morning, Board members.

What I thought I'd do before we just jump into the products themselves is to just give you a reminder
on what's common to all of our loan programs and our
current business model and how we're operating the
homeownership loan programs.

And what I did was I broke it down initially on
Agency risk, delinquency risk and Agency impact, and
then borrower risk and mission to the borrower. I just
wanted to highlight how these are all common to the
products that we're currently doing across the board,
and the new products that we're proposing will adhere to
this model as well.

So from an Agency risk, I just want to remind
the Board that we are using a master servicer, Bank of
America. So the loans are purchased and serviced by
them, and therefore the reps and warrants are
transferred to them from CalHFA because the lenders are
submitting their loans directly for purchase to Bank of
America.

There's no real estate risk on our balance
sheet. Bank of America pulls the loans, securitizes
them. We're buying the Ginnie Mae security or the MBS
security from Bank of America and putting them on our
balance sheet as assets. CalHFA only purchases the MBS
securities, and they're guaranteed by the federal
government.

From delinquency risk standpoint and any impact
to the Agency, just a reminder that we don't have any
delinquency risk in this business model. Again, we're
not holding whole loans. Bank of America has taken
those whole loans purchased by our lenders and then
converted those to securities, as I mentioned.

The borrower's pay history is -- is -- is
transparent to us because we still receive scheduled
payment and principal interest to the Agency, regardless
of a borrower not making payments on time. Again, we're
not holding the whole loan; it's a security that we
purchased, and Bank of America is servicing those loans
and guarantying those principal and interest payments to
us.

From a borrower risk standpoint and mission to
the borrower, I'd just remind that -- remind you that
our borrower profile is low and moderate income
borrowers who typically have a need for a higher --
higher loan to value purchase, and therefore at the time
of purchase there's limited equity, but it's within our
business model. It's our mission to -- to the low and
moderate income family. And, again, our borrower
profile is the high loan to value borrower.

Some -- some recent trends that are happening in
California are actually showing evidence of improving,
and I believe there's a chart that we received from
Genworth that shows what their risk managers went through in determining, offering us the 97-percent mortgage insurance in California statewide. And, in fact, they now are, in turn, offering that lender scheme to other outside lenders as well. So, again, their comfort level with California's economic improvement is moving in the right direction. It's beginning to stabilize, as with any other mortgage insurer, because there's about five other mortgage insurers that are now offering 97-percent loan to value in California. I'll go over that in just a minute.

I just wanted to point out that some of the evidence of the first-time homebuyer activity in California is evidenced by FHA's increased market share is now 35 percent of the market. And 85 percent of FHA's loan volume is to the first-time homebuyer. Why? Because they're at a 96.5-percent loan to value. And I'll go over later in the slides to show that they allow for government assistance downpayment and closing costs on a conventional product that we're talking about, as a reminder to the Board that the borrower's going to have 3 percent of their own cash into the transaction.

Additionally, we are imposing homebuyer education on all of our borrowers on all of our loan products. We initiated that last year, and we're
currently doing that today, and we'll be going forward
on the same -- same model.

So just a quick recap of what we presented to
you last Board meeting, the conventional product is a
30-year, fixed-rate, fully amortized, fully documented
loan. The insurer of this product will be Genworth.
The maximum loan to value is 97 percent. We do need to
take away the exclusive to CalHFA because, as I
mentioned, they are offering 97 percent to all lenders
throughout the state, but there are some concessions and
incentives to CalHFA within this relationship, and I'll
go over that in just a minute.

The maximum combined loan to value is 103
percent that's being offered through us as an HFA. They
offer this to other HFAs across the country. Obviously
HFAs have the opportunity of providing government
assistance for downpayment and closing costs. On a
conventional loan of a loan to value up to 97 percent as
an HFA, as other HFAs across the country, we're able to
do 103 percent, giving the benefit of the borrower to
have access to downpayment and closing cost assistance.

The minimum FICO when we presented it to you
last time was 720. I think in Steve's executive memo to
the Board members, we were having discussions with
Genworth, again, since they were offering this to
lenders throughout California and across the country. They did come back and looked at California again. They looked at our delinquency percentages, and they were offering us a FICO to our borrowers of 680 as a minimum. Our minimum FICO for FHA is currently 640, so there's a nice risk balance between the FHA product that we offer today with a minimum FICO of 640 to this conventional product on the same loan to value of -- or approximately the same loan to value of 97 versus 96.5 with a minimum FICO of 680.

Again, the difference between FHA is this product, if the loan is 95-percent to 97-percent loan to value, the borrower will need to come in with 3 percent of their own funds. They can't receive government assistance for that downpayment, nor the same for closing costs. It has to have their own funds of 3 percent. So there's an inherent equity spread of 3 percent on this product compared to the FHA that will have government assistance.

The borrower on this product needs two months' reserves. On an FHA product, they don't. So you can see how the risk balance of the two products are developing out. This will have a job loss protection, which is offered by Genworth through the relationship of offering the mortgage insurance, and we'll have that as
an opportunity for our borrowers.

And this particular product, we have agreed with Genworth that it won't be open to wholesale mortgage brokers. It will just be to our lenders who have a retail channel. Those channels deal directly with the lender whereas the wholesale brokerage community is a third-party originated product.

Some specifics to this program: The borrower's risk and the mission to the borrower, again, I pointed out earlier about the comparison of FHA at 96.5 and this product being 97. FHA, again, having government assistance for downpayment and closing costs. This product will have 3 percent of the borrower's funds.

Some unique components on conventional products today versus FHA, you may be asking why we're offering this product to -- to the borrowers, FHA is tightening up a little bit on some property restrictions. For our first-time homebuyers, oftentimes they're moving into communities or condominiums where there's a large percentage of -- there's -- excuse me, there's a smaller percentage of FHA loans in them, in the condominium, and therefore FHA has a maximum of how much of FHA exposure they'll have to a condominium, so it segments out our borrowers going into low and moderate income condos if we don't have a conventional product to allow them to do
that. This conventional product allows them to go into a property where the majority might be FHA. If we only had an FHA product, we wouldn't be able to, you know, help and assist those borrowers that were seeking that low and moderate and -- excuse me, their opportunity of purchasing that property.

The demographics, we talked about this last time, this is being offered to us statewide. Here's a reference to the quote the Genworth risk managers, you know, provided me and in support of their decision to go 97 percent. They were saying that in California, there's some positive changes in the home price indexes.

Those indexes include home inventory, price income, multipliers, price rent, multiple affordable index. And most of these indicators, other than the home -- home inventory, is all in a stabilizing and maintaining or improving mode that they're seeing in California.

An example of that is, as I mentioned before, there's about five other mortgage insurers that are offering 97-percent loan to value in California. They're UGI, PMI, MGIC, and RMIC. Again, just an example that they're seeing some stabilization in California.

Again, specific to this product there were some questions as to why Genworth. As you know, Genworth has
been a partner of CalHFA for eight years as the reinsurer for the California Housing Loan Insurance Fund. Genworth currently is paying CalHFA approximately $10 million in mortgage insurance claims.

MR. SPEARS: Per month.

MR. BRAUNSTEIN: Per month. And Genworth has agreed to offer this at 97 percent statewide with no county restrictions. Again, over the last 30 days when we last met, they are now offering that same opportunity statewide, so that's a piece that we're not having exclusivity with them.

From a rating agency impact, these will be fixed -- fixed bonds, insured. The finance is conventional MBS and expected to be AAA when they're financed by our bond portfolio. And, of course, profitable loans will increase the Agency's capital base.

The financing sources on this product is going to be bonds to the end of the year because we have the opportunity of the NIBP locked-in rate till the end of the year. Going forward we all are not sure if the NIBP will be extended, but this conventional product can be converted to and transparent to our lenders and borrowers by converting it to a capital market execution, which is a business model that I referenced.
last Board meeting.

In that non-bond structure, just as a reminder, Bank of America and Merrill Lynch will be hedging and taking on the interest-rate risk if we're moving in a capital market execution, so there's no impact to the Agency's expected revenue. And, again, when we work in the capital market, we can offer our loans to first-time homebuyers as well as not first-time homebuyers, so more opportunities for Californians to purchase homes through a CalHFA loan program.

Any questions on the conventional product?

Yes, Jack.

MR. SHINE: Stop me where I'm misinformed.

MR. BRAUNSTEIN: Okay.

MR. SHINE: Our program, the 97, lets a person come in and get a 97-percent loan, and they have to come up with 3 percent in cash.

MR. BRAUNSTEIN: Right.

MR. SHINE: The current program from FHA that Genworth is insuring lets them come up with a 97-percent loan and borrow the 3 percent.

MR. BRAUNSTEIN: No, the current program is insured by FHA. So it's not a Genworth --

MR. SHINE: I know that. The buyer can come in and get a 97-percent loan and borrow 3 percent under the
MR. BRAUNSTEIN: Let me make a little clarification. On an FHA product insured by the federal government through FHA, the loan to value is 96.5 percent. So the 3 and a half for the downpayment can be borrowed or financed through a government agency for the downpayment and the closing costs. And we do that today on our FHA --

MR. SHINE: So he moves in --

MR. BRAUNSTEIN: -- product.

MR. SHINE: He moves in with no money.

MR. BRAUNSTEIN: Excuse me?

MR. SHINE: The buyer moves in under that program with no money.

MR. BRAUNSTEIN: On an FHA loan, they -- they -- they could borrow for the downpayment and for the closing costs. If they borrow -- excuse me, if they use our downpayment or our closing costs assistance program, our CHDAP, they do require -- it's a thousand dollars of the borrower's funds in that case.

MR. SHINE: Why would a borrower use our program?

MR. BRAUNSTEIN: The conventional product? The conventional loan that's insured by --

MR. SHINE: The buyer comes in under Cal97 where
they can't -- when they have to put up 3 percent versus
an FHA where they put up zero, why would a borrower
charge -- why would a borrower choose our program versus
the FHA program?

MR. BRAUNSTEIN: Well, an example, the mortgage
insurers in California, Genworth for example, 15 percent
of their business in California is their conventional
product, so there's an example that there's a
marketplace for borrowers seeking a conventional loan
versus an FHA loan. In our case, our borrower who is
seeking, as I mentioned the example of a condominium
that may restrict them out of being able to purchase in
this condominium because FHA has a -- has a majority of
loans issued to borrowers in that condominium, they
would close out future borrowers getting an FHA loan for
that condominium project. So a borrower going to a
lender who is seeking that particular property for
purchase would be seeking out a conventional product,
either through us or anyone else.

MR. SHINE: Let me turn it around into my overly
simplistic way of saying it. You're saying that the
borrower would rather take an FHA loan, can't get one,
so to the extent that it's unavailable to him, he'll use
our product, and to the extent that it is available to
him, he will not use our product. Is that what you
think would happen?

MR. BRAUNSTEIN: Well, there's a time and place for a conventional loan to be the right loan for the borrower based off of either qualifications, eligibility or the property they're purchasing. I just gave you one example. There's many.

MR. SHINE: So if FHA wouldn't qualify him and a conventional would, then he'd go get with our product.

MR. SPEARS: Probably.

MR. BRAUNSTEIN: Right. I mean, this is a product --

MR. SHINE: So this is a backup program.

MR. BRAUNSTEIN: Well, right now 99 percent of our current business is FHA because our current conventional product is not structured the way we've just designed. I'm projecting around 150 million to close to 200 million in conventional business in the next fiscal year as a balance, an adjunct, to our FHA product. And so --

MR. SHINE: You could --

MR. BRAUNSTEIN: -- it's an opportunity of offering this product for those borrowers that either, A, don't qualify for FHA, the property they're purchasing doesn't meet FHA guidelines, and because of FHA's current monthly insurance renewals that have
recently increased, a borrower's monthly payment on a conventional product is somewhat close to what their monthly payment will be on an FHA product.

MR. SHINE: So we are then somewhat, you might say, like a safety net for people who can't get the loans, the FHA loans, under whatever other circumstances there are, would be able to use our loans because we can give them something that FHA can't.

MR. SPEARS: You could describe it as a backup program. We prefer to think of it as that we have more flexibility.

MR. BRAUNSTEIN: And a wider product.

MR. SHINE: That would work well. That's a terrific thing you're doing. I just want to -- in my own mind, I'm looking at the programs trying to figure out why would anybody use our program if they could get an FHA loan?

MR. BRAUNSTEIN: Well --

MR. SHINE: The answer, it seems to me, is --

MR. SPEARS: Over the years --

MR. SHINE: -- here we are.

MR. SPEARS: Right. Over the years, Jack, we've offered both for that reason, for the same reason. You may come in for whatever reason, people come from different parts of the state, they may want to buy a
condominium in the inner city, they may want to buy something rural, it just provides us with more products for somebody to qualify for.

MR. BRAUNSTEIN: An example --

MR. SHINE: We should let everybody know what we're doing here. I think that's a terrific opportunity for someone who needs to have a --

MR. SPEARS: We're going to turn that part over to Mr. Giebel in the marketing department.

MR. SHINE: Thank you.

MR. BRAUNSTEIN: A perfect example would be, Jack, if you go to Wells Fargo and you go online and you just look at the mortgage products that they offer, you'll see that they don't just offer a conventional product and nothing else or an FHA product and nothing else. You'll see they offer a handful of conventional products, a handful of different FHA products, and a few different, you know, loan terms as well for each of those that I described earlier.

MR. SHINE: I think it's terrific.

MR. BRAUNSTEIN: Thank you.

MS. CRESWELL: I just had a question, then. So can you clarify for me the circumstances in which somebody -- so who won't qualify for under the FHA program that might be interested in this, and then also
is it accurate, then, that the FICO score that you're
going to be requiring on this is going to end up
significantly higher than what the FHA is?

MR. SPEARS: 40 points, yeah.

MR. BRAUNSTEIN: 680 instead of 640.

MS. CRESWELL: Now it's 720?

MR. BRAUNSTEIN: No. It was able to be dropped, actually, for our -- to provide a little piece of exclusivity for CalHFA because, as I mentioned, they are offering that same product, this 97-percent conventional product, to the lending community at 720 based off of their review of our portfolio, our delinquencies, our quality of the paper that we -- that we bring in, the type of borrowers that we help for homeownership, they're comfortable in offering our program to be at a 580 -- excuse me, a FICO of 680 compared to the other lenders, so, again, a wider opportunity for our lenders to use our product. If they have a borrower that is 720 to 680, they'll seek our product because they won't be able to do it themselves, so we'll be able to help more borrowers.

For the qualifications, again, the marketplace, what's happening is some sellers who are selling their homes are actually in some cases not taking sales offers from borrowers who are considering using an FHA
financing. Sometimes the FHA insurability aspect of what our lenders need to go through becomes timely, and sellers are tending to push that away. In certain cases sellers oftentimes on an FHA loan are being asked to provide seller concessions. And there's cases where sellers are not wanting to offer a -- take a buyer who's seeking an FHA loan, so they'll push that -- they'll push that back, and they'll seek only borrowers that are prequalified or proceeding with a conventional product.

Again, it's another place for the conventional product to be an augmentation to our FHA product.

MS. CRESWELL: Thank you.

ACTING CHAIRPERSON CAREY: Other questions?

MR. SPEARS: It is an action item, Mr. Chairman, just because it's an amendment to the business plan that was adopted in May, so there is a resolution in the binder.

ACTING CHAIRPERSON CAREY: Were you going to discuss the MCC at all?

MR. BRAUNSTEIN: Yes.

MR. SPEARS: Oh, yes, I'm sorry.

MR. BRAUNSTEIN: And then we'll just combine the two in the resolution.

If you -- as you recall at the last Board meeting we presented the MCC product, there were some
questions as it related to results of a survey that my
group in conjunction with Ken Giebel's group in
marketing seeking answers from localities and
municipalities. Just as a reminder, the MCC program
gives a borrower a 20-percent tax credit based on their
mortgage insurance paid. That MCC won't be exclusive to
CalHFA. We have to offer it statewide if we do offer an
MCC program, and it must be used without a bond -- bond
funding.

The thought process of the product would be that
the MCC would be a great additional value-add to our
borrowers and to our lenders to attach to our FHA
product. On this particular FHA product, it will be
non-bond funded. It will be a capital market funded
loan, as we mentioned at the last Board meeting, and the
combination would be a valuable product to the borrower
and the lender.

If the MCC is attached to our first mortgage FHA
product, we are considering to waive the processing fee
of $500 for the MCC, hence another value benefit to the
lender and borrowers using our product because of the
way we're waiving the $500.

Again, because we have to offer it to all of our
lenders and to statewide, if we receive other MCC
requests, and I certainly anticipate us doing so, that
will be 500 per MCC that we issue. So we're not going into this product as a revenue generator just for the MCCs because this is going to take a lot of my staff's operation time in reviewing the MCC for its credit availability, but the idea would be to combine it into the benefit of having a CalHFA FHA first mortgage along with the MCC. Another way for our lenders to think twice about or think first of CalHFA for a mortgage loan for their borrowers that are low and moderate income because of our now wider product menu of FHA, FHA with an MCC, the $500 being waived on that MCC, and the conventional product as well, so that they can make a very nice comparison of what's the best product and what's the best way that's suitable for the borrower's eligibility.

ACTING CHAIRPERSON CAREY: Jack.

MR. SHINE: Did I hear you that you get a tax credit in an amount equal to 1 percent?

MR. BRAUNSTEIN: No. 20 percent of the mortgage insurance -- the mortgage interest that's paid.

MR. SHINE: 20 percent.

MR. SPEARS: 20 percent.

MR. BRAUNSTEIN: It's an income tax --

MR. SPEARS: It's an income tax credit --

MR. BRAUNSTEIN: -- credit to the borrower.
MR. SPEARS: -- to the borrower.

MR. SHINE: Is it a tax credit or a write-off?

Is it a deduction or --

MR. BRAUNSTEIN: No, it's just a tax credit to the borrower.

MR. SHINE: And how much is the tax credit for, please?

MR. BRAUNSTEIN: 20 percent.

MR. SHINE: Of what?

MR. BRAUNSTEIN: Of the insurance paid -- the mortgage interest. I'm saying insurance, I'm sorry. The mortgage interest paid on an annual basis.

MR. SHINE: So you get 20 percent of the mortgage interest you pay --

MR. BRAUNSTEIN: Interest.

MR. SHINE: -- on your tax return as a credit of the taxes due.

MR. BRAUNSTEIN: Right.

MR. SHINE: Tax credit.

MR. BRAUNSTEIN: Right. And what lenders do when they're --

MR. SHINE: That's a terrific -- why didn't you say that before? That's a terrific reason for people to use this product.

MR. BRAUNSTEIN: Well, I'm sorry, I thought I
did. We presented it that way at the last Board meeting, and I didn't want to be redundant.

MR. SHINE: I missed the last two meetings.

MR. BRAUNSTEIN: But you're absolutely right. And what lenders do -- I'm not sure if I added it. In fact I did. It's the third bullet. What lenders will do is they'll -- they know that there's a tax credit available to the borrower for having an MCC. And what they'll do is they'll -- they'll sometimes add that credit savings to the borrower's income. That enables -- to help them have a slightly more increased income to -- to be more eligible for potentially a higher priced house. They still have the debt service for the loan at the -- at the -- at the lender's, you know, qualifications or our qualifications, but it gives -- it gives a borrower just greater buying power for a home purchase because of the tax credit a lender is adding to their income.

MR. SHINE: That's about 3,000 a year.

MR. SPEARS: It's -- it is a good program. It is offered around the state in, you know, localities. It's not offered on a statewide basis, so when we brought this up at the May Board meeting, Jack, there were some questions about, well, are we going to, you know -- we have a lot of partners that are local
government entities that provide downpayment assistance through our AHPP program, and, you know, are we going crossways with anyone?

So I wanted Gary to let you know about the -- about the survey that went out and the results of that so that you can get comfort level about, you know, our relationships with our local government partners.

MR. BRAUNSTEIN: Thanks, Steve.

If you recall last Board meeting, we were -- we hadn't yet -- we sent the survey out. We hadn't yet gotten the respondents back, and so we did. We sent out a survey of four questions asking the localities and nonprofits that are part of our affordable housing partnership program, about 350 programs, 150 localities, the question that if CalHFA offered an MCC product, would you have, you know, an issue with that on a statewide, what restrictions, if any, were of concern to you.

We had received 60 respondents from the survey that we sent out. The majority of the respondents gave no significant resistance, us offering the MCC product. The further details of some -- some quotes and some information that we got is they felt it was a very positive incentive to be offered with our first mortgage product and other first mortgage products. They also
felt that how we were providing a waiver of the -- of
the fee was another nice incentive for the borrower. I
think it was only less than 25 percent of the
respondents made any type of mention of resistance or
hesitation to us offering it on a statewide basis.

ACTING CHAIRPERSON CAREY: Claudia.

MS. CAPPIO: Of that 25 percent, what were some
of the specific concerns?

MR. BRAUNSTEIN: I'm trying to recall.

MR. SPEARS: I think --

MR. BRAUNSTEIN: I'll have to come back with
some comments on that. I don't have the -- I don't have
the responses here, but if I recall in my initial review
there wasn't a -- it wasn't a significant poignant
concern.

MR. SPEARS: The main concern is that it would
have a negative impact on their program. They would
have fewer applications.

MS. CAPPIO: For MCC.

MR. SPEARS: For MCC in their localities.

MS. CAPPIO: So if that's the case, in those
localities, can we work with them not to be at
cross-purposes?

MR. SPEARS: Absolutely.

MS. CAPPIO: Just to be mindful of that, given
it's the same program.

MS. CRESWELL: Yeah, and that was my question is just are there ways to mitigate the impacts of doing the program in the communities that are already doing it? Because I do think it's -- 25 percent is not a small amount when you're talking about something that they might take very seriously. And so are there ways to address those concerns and limit --

MR. SPEARS: There could be.

MR. BRAUNSTEIN: We could actually reach out to all of our affordable housing partner localities and nonprofits and ask them the specific question, "Are you offering an MCC product?" And if not, then we'll be able to capture either that MSA or those counties that they service perhaps --

MS. CRESWELL: Can you limit --

MR. BRAUNSTEIN: -- restrict --

MS. CRESWELL: -- the market? I mean does it have to be statewide? Could you do it all places that it's not currently being offered?

MR. SPEARS: That's what we've talked about before, is that we would -- we would offer this on a statewide basis where it's not already offered, and then that would -- that would eliminate this sort of -- this sort of thing. We haven't had any objection from legal
counsel yet, but it would make it effectively MCC is
offered in California on a statewide basis, some by
locals, the rest by the State.

MS. CAPPIO: We'll be coordinating.

MR. SPEARS: Right. Right.

ACTING CHAIRPERSON CAREY: Other questions?

This -- then before we take action, I'm going to
ask if there's anyone in the audience who'd like to
comment on this matter.

Seeing none, is there a motion from the Board?

MR. SHINE: I'll move --

MR. HUNTER: I move adoption of Resolution

11-09.

ACTING CHAIRPERSON CAREY: Can we take that as a
second, then?

MR. SHINE: Yes.

ACTING CHAIRPERSON CAREY: Okay. Roll call,
please.

MS. OJIMA: Ms. Creswell.

MS. CRESWELL: Yes.

MS. OJIMA: Mr. Gunning.

MR. GUNNING: Yes.

MS. OJIMA: Mr. Hunter.

MR. HUNTER: Yes.

MS. OJIMA: Ms. Carroll.
MS. CARROLL: Yes.

MS. OJIMA: Mr. Shine.

MR. SHINE: Yes.

MS. OJIMA: Mr. Smith.

MR. SMITH: Yes.

MS. OJIMA: Ms. Peters.

MS. PETERS: Yes.

MS. OJIMA: Mr. Carey.

ACTING CHAIRPERSON CAREY: Yes.

MS. OJIMA: Resolution 11-09 has been approved.

ACTING CHAIRPERSON CAREY: Thank you, Gary.

MR. SPEARS: Thank you, Board members.

MR. BRAUNSTEIN: Thank you.

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Item 5. Discussion, recommendation and possible action regarding the approval of compensation of certain exempt management in accordance with Health and Safety Code section 50909(a) (Resolution 11-10)

ACTING CHAIRPERSON CAREY: Okay. Item 5.

MR. SPEARS: Item 5, Board members, is being brought to you because we have two vacancies at the senior level that Claudia's been working with the Governor's Appointment Office to fill. There is a handout, and copies been made for the public that describes what we believe is, you know, a consolidation
of all the resolutions that have been passed on senior executive compensation, I believe it was in early 2007.

Originally, there was a survey that was conducted. A compensation committee was established. They brought recommendations with regard to the survey, and the survey contained salary ranges. Once the ranges were adopted at the January Board meeting, then specific compensation levels were adopted.

For a variety of reasons, at the March Board meeting, the ranges were done away with and salary caps were established. There's one exception, and that is the salary cap originally for the director of multifamily was 190, and when the current director was brought onboard, that was raised to accommodate the salary that's at that level.

So -- so I believe that what you have here is what the Board has decided to do in the past. So the question, of course, is why are we bringing this up again? We're doing this just to clarify that for the two positions that are being filled -- the director of homeownership and the chief information officer, the director of IT -- that the Board reaffirm these salary levels so that we can inform through Claudia to the Appointments Office what the salary levels would be for
those people that are being considered.

And that's the reason for the action. It is an action item. There is a resolution there.

MR. GUNNING: I'm sorry, Steve, why do we need to do this again?

MR. SPEARS: Considering the current --

MR. GUNNING: The shift by the State from cap --
to a cap from a range?

ACTING CHAIRPERSON CAREY: We are simply reaffirming actions taken in the past, right?

MR. SPEARS: That is correct.

MR. GUNNING: Transparency.

MR. SPEARS: Transparency. Mr. Gunning, there were a number of members who were not here at the time. This offers the opportunity for people to ask questions about the process and the levels. I don't have all the answers to those questions because I was not privy to some of that conversation, but it's an opportunity.

MR. SHINE: I move to approve.

MR. GUNNING: Second.

ACTING CHAIRPERSON CAREY: We have a motion and a second.

MS. PETERS: Public comment.

ACTING CHAIRPERSON CAREY: If there's anybody in the public who'd like to comment on this matter, please
indicate.

Seeing none, roll call, please.

MS. OJIMA: Thank you.

Ms. Creswell.

MS. CRESWELL: Yes.

MS. OJIMA: Mr. Gunning.

MR. GUNNING: Yes.

MS. OJIMA: Mr. Hunter.

MR. HUNTER: Yes.

MS. OJIMA: Ms. Carroll.

MS. CARROLL: Yes.

MS. OJIMA: Mr. Shine.

MR. SHINE: Yes.

MS. OJIMA: Mr. Smith.

MR. SMITH: Yes.

MS. OJIMA: Ms. Peters.

MS. PETERS: Yes.

MS. OJIMA: Mr. Carey.

ACTING CHAIRPERSON CAREY: Yes.

MS. OJIMA: Resolution 11-10 has been approved.

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Item 6. Discussion, recommendation and possible action regarding the establishment of an employee recognition program for non-exempt employees to recognize superior performance and outstanding contribution to the Agency.
(Resolution 11-11)

ACTING CHAIRPERSON CAREY: Okay. On to the next item.

MR. SPEARS: Item No. 6, I'll need some technical assistance, and I'll need Mr. Giebel.

For some time senior staff has discussed having an employee recognition program that is specific to CalHFA. There is a statewide program that's offered by Department of Personnel Administration. They do have regulation that permits state departments to adopt an augmentation, if you will, to the program that's offered. And we have been contemplating this for a long time. We've established a committee. We've established standards for the committee to consider. And we believe that it meets all the requirements that DPA has established to set one of these programs up.

I'll let Ken go through the goals and the proposal itself. And just stop us anytime you have a question about that. It is an action item. There is a resolution for your consideration.

And just so we get this out of the way to begin with, the -- it was felt by senior staff that this contains monetary rewards, particularly for an annual reward. Not large dollar amounts, but it does contain awards that would be paid to recipients and that a Board
resolution is needed to adopt this so that we have the
correct amount of authorization when we send the warrant
over to the Controller's Office to ask that the warrant
be honored. So that's the reason for the resolution.

ACTING CHAIRPERSON CAREY: The proposed amount
is a total of $3,000?

MR. SPEARS: Yes.

MS. CRESWELL: Annually?

MR. SPEARS: Yes.

MR. GIEBEL: And I can take you through how that
breaks down.

MS. CRESWELL: Can I just -- can I just ask is
it -- are you going to use the state system so would it
be in addition where you can do a $500 award? So it's
in addition to the State's sustained superior
accomplishment? You would supplement that with this
amount?

MR. GIEBEL: That part needs to be clarified
because the level of our Tier III award, achievement
award, is at the state DPA level of $500, so I don't
know if you would refer to that as double-dipping
because then we would submit it over to DPA for their
consideration and we would have already in our program
rewarded them. So I don't -- we would have to clarify
that. But our level is exactly the same for that award
level as the DPA level, so.

MR. SPEARS: Our concept is this is in addition to whatever is offered otherwise by the State.

MR. SHINE: What is offered otherwise by the State?

MR. SPEARS: They have a superior --

MS. CRESWELL: Sustained superior accomplishment award that you can get annually, either $250 or a $500 award for meeting certain requirements.

MR. GIEBEL: And they have another program --

MS. CRESWELL: Yes.

MR. GIEBEL: -- where if there's -- I don't know the exact name of it, but if you demonstrate that you've made a significant savings, that you can get a portion of that savings. And they have a name for that.

MS. CRESWELL: But that's --

MR. DIEBLE: That's separate from this.

ACTING CHAIRPERSON CAREY: Is the state program widespread?

MS. CRESWELL: Um-hmm.

ACTING CHAIRPERSON CAREY: Used extensively?

MS. CRESWELL: Yes.

MR. SPEARS: It's available to any state employee from any department. It's statewide. They're not specific to, you know, any particular department.
ACTING CHAIRPERSON CAREY: Okay.

MR. SHINE: Do we use it a lot here in this Agency?

MR. GIEBEL: Pardon me?

MR. SHINE: Have you used it a lot here in this Agency?

MR. GIEBEL: No. This is just a proposal to start a formal recognition program, and I'll take you through a little bit of the background.

MR. SPEARS: But to answer your question, Jack, to my knowledge, the statewide program has not been used by very many departments.

MR. SHINE: Do we need a motion to be discussing it?

ACTING CHAIRPERSON CAREY: Not yet.

MR. SHINE: Pardon me?

ACTING CHAIRPERSON CAREY: We have a staff report on it.

MR. GIEBEL: Well, good morning. We've been working on this -- we've been working on this for about eight weeks now. We thought -- just a little background. From time to time in the Agency's history, there have been some recognition. We have teams, oh, when we did the Fannie sale of the seconds, that was done in four or five weeks. That team received
plaques at the annual State of the Agency. We
recognized those people who have milestones of service,
and there was kind of an informal thank you note program
with what's -- with the expansion of the Agency, the
staff being inundated with project after project over
the last four years and actually being stretched because
of the hiring freeze, we thought it was time that we
actually said thank you to people at different levels.
So this is really intended to provide staff with a
flexible yet meaningful method of acknowledging to their
colleagues and staff for superior and outstanding
contributions to the Agency and the end result being
quality and productivity and recognizing that.

What we're proposing is a three-tier program.
The first is what we're calling colleague to colleague.
It's simple. It's providing staff with a way of saying
thank you to their colleagues, promoting feedback, and
it's employee to employee at any level. It's simple,
and it's direct.

Then Tier II is either an employee or a team,
and it's a formal written recognition presented to the
employee or the team from the director, supervisor, or
manager. In addition to the written recognition, it
will -- there will be a letter that goes in their
personnel file, and it will be accompanied by a small
gift card, so in other words, a small Visa card or a Starbucks card or something like that, a couple of lattes, I think. So that's Tier II.

Tier II kind of rolls into Tier III in that this is the annual achievement award. And the directors will present their nominees, and we have to set up a committee to run this. That's one of the things from DPA. And they will review the documentation and select the winning individuals, and Claudia will get to see all those and confirm those.

In addition to an award, a certificate will be sent to their personnel file, and either the individual or the team as a whole will qualify for the $500 award. So if there's five team members, they get a hundred dollars a piece. The highest recognition level will be presented at the State of the Agency for the previous fiscal year. We would take those and pass them on to DPA to see if they would qualify for their awards.

We have set up criteria and procedural guidelines on how this works at every level. And what we've tried to build in is enough flexibility so the division managers have enough flexibility to customize this or work with it to meet their individual needs. The financing department, our accounting department, financial services, has a lot of people and they work in
teams, so it has to be flexible enough to work on that level as well.

Exempt employees, those are the Governor's appointees, are exempt from Tiers II and III. And right now we're in the process of branding the program and doing the creative for this, and we'll have ready it next week.

Tier I is 15 -- Tier II is $1500. Those are the small rewards. We worked to the formula and how many we thought that would be and broke it down by division, and needless to say we're going to have a pool of money, $1500, you know, see how that works. And then we have budgeted for obviously three $500 prizes.

So what we're asking for is approval to proceed with this so we can get this in the system and that Claudia can announce this at the State of the Agency in mid-August and kick it off for this fiscal year.

ACTING CHAIRPERSON CAREY: Any questions?

Jack.

MR. SHINE: Is it enough?

MR. GIEBEL: We think it is enough, yes. It's a starting point.

MR. SHINE: Are you satisfied that it should not be increased?

MR. GIEBEL: Well, the level is -- you can't go
above $5,000, so that's just -- that's the -- that's the
ceiling, so we're --

MR. SHINE: You can't --

MR. GIEBEL: -- three-fifths of the way there.

MR. SHINE: -- go over $5,000 for what?

MR. GIEBEL: For your recognition program.

MR. SHINE: In its entirety?

MR. GIEBEL: Yes.

MR. SHINE: Do you think we need to make it
5,000 instead of 3,000?

MR. SPEARS: To answer your question, Mr. Shine,
no. Given the efforts of the employees of this Agency
in the last three years to deal with everything they've
dealt with, you know, they get huge kudos, and they
should get performance bonuses for keeping us afloat.

But given the -- given the requirements of the
State, we thought that modest but specific recognition
was a good idea, and we're trying to keep it within our
budget constraints.

MR. SHINE: Fine. Thank you.

MR. GUNNING: Does -- does the Agency fall under
the State's whistle-blower program? Is there a way for
employees to --

MR. SPEARS: Yes. I believe we just sent a
memo, the annual notification from the director. This
is available to anybody, if you see anything you want to
blow a whistle about, you know, about three weeks ago.

ACTING CHAIRPERSON CAREY: This is a moment
we'll ask for public input, if anyone would like to

comment on this proposal.

Seeing none --

MS. CRESWELL: So moved.

ACTING CHAIRPERSON CAREY: -- is there a motion?

MS. CRESWELL: So moved to approve the program.

MR. HUNTER: Second.

ACTING CHAIRPERSON CAREY: Moved and seconded.

Roll call, please.

MS. OJIMA: Thank you.

Ms. Creswell.

MS. CRESWELL: Yes.

MS. OJIMA: Mr. Gunning.

MR. GUNNING: Yes.

MS. OJIMA: Mr. Hunter.

MR. HUNTER: Yes.

MS. OJIMA: Ms. Carroll.

MS. CARROLL: Yes.

MS. OJIMA: Mr. Shine.

MR. SHINE: Yes.

MS. OJIMA: Mr. Smith.

MR. SMITH: Yes.
MS. OJIMA: Ms. Peters.
MS. PETERS: Yes.
MS. OJIMA: Mr. Carey.
ACTING CHAIRPERSON CAREY: Yes.
MS. OJIMA: Resolution 11-11 has been approved.
ACTING CHAIRPERSON CAREY: Thank you, gentlemen.
MR. GIEBEL: Thank you.

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Item 7. Update and discussion regarding the status of
the U.S. Treasury's New Issue Bond Program and the
Temporary Credit and Liquidity Program

ACTING CHAIRPERSON CAREY: Item 7, an update on
the New Issue Bond Program and the Temporary Credit and
Liquidity Program.

MR. SPEARS: To be perfectly honest,
Mr. Chairman, I thought we would have some news on this
at this point, which is the reason we agendized it. It
is -- it being the extension, particularly, of the TCLP
program is of particular concern to the rating agencies,
particularly Moody's. We have applied specifically for
an extension of TCLP, and we have not heard word back on
that. We know that it's being discussed at a very high
level at Treasury, and the discussions are ongoing. And
we are having discussions between Bruce and Claudia is
in discussions with folks at Treasury, so we're actively
pursuing this. I just thought I would give Bruce an opportunity to give you a little more detailed update.

MR. GILBERTSON: Thanks. Good morning, Members of the Board.

I just want to make one correction I noticed as I was reviewing the report this morning. The first paragraph under status of the program, so I think that's page 141 in your Board binder, about six lines down where it has a number $96 million, that number actually should be $144 million of single-family proceeds used to finance the next lines.

So I thought I'd just give kind of a comprehensive overview of the programs. Remember, these initiatives were sponsored by the federal government, specifically the U.S. Treasury Department, both Fannie Mae and Freddie Mac, in the fall of 2009. We had been instrumental in having conversations with those parties during the course of 2009.

Ultimately, CalHFA received an allocation of approximately $5 billion. $1.4 billion of that allocation fell under the program that they called the New Issue Bond Program. We received $380 million for a multifamily program and just over $1 billion for a single-family program. All of this was available to get both state and local HFAs back into the lending
business. Because of the market disruptions, we just didn't have a capital source to finance any lending.

Currently the NIBP program is scheduled to expire at the end of this calendar year, on December 31st. And you might remember that we updated you about a year ago this time that it was extended by a year because the original expiration date was at the end of 2010.

TCLP, we received an allocation of $3.5 billion. Okay. TCLP, again, is the Temporary Credit and Liquidity Program. It's an enhancement to variable-rate bonds that existed at the time, back in October 2009. We had $3.5 billion outstanding. We elected to replace all of the liquidity that we had supporting those VRDOs in 2009.

That program is scheduled to expire in December of 2012, so, you know, not quite a year and a half from now. And as Steve pointed out, Moody's asks every time we have a conversation, "What are your plans to mitigate that expiration date?"

And I said, "Shouldn't you focus on the United States government and their credit ceiling or their debt ceiling that's coming?"

And they have, by the way. They have put 7,000 municipal credits on credit watch because they have
support from the federal government in one way, shape, or form.

So anyway, so the status of where are we. Now we're a little more than a year and a half into this, you know, both programs. I thought I'd run through both programs, tell you how much we've used and how it has benefited the Agency.

So as of June 30, 2011, in our multifamily New Issue Bond Program, 193 million of the 380 has been used. We've provided financing for 20 affordable rental projects. We have plans to use the balance during the course of the calendar year, and it's going to be used in two forms, some additional new lending for a handful of projects. One of them is a very large -- I think it's 75 or $80 million financing, and $90 million is going to be used to assist us in restructuring our debt again.

One of the program parameters for NIBP is that we could use it to do a fixed-rate bond re-funding of the variable-rate bonds that existed back in 2009. This has been part of our strategy all along. So we're actively working on improving the asset quality so that certain multifamily loan assets would be eligible for this fixed-rate re-funding. We hope to, you know, probably give you another update on that program at the
September Board meeting and closing in late November or December.

On the single-family program then, we've used 144 million of our $1 billion under the New Issue Bond Program. That's been in two transactions. We closed one bond financing last December. We closed another one in May of this year. There's a report in the back of the binder describing that financing.

Unfortunately, we aren't going to be able to use the remaining whatever that is, 850 million. It's more likely between now and the end of the calendar year we will use 50 to $75 million. We probably will have one or two more financings before the end of 2011. So approximately 800 million we'll go and use, if there isn't an extension of the program or some other modification of that program.

Let's jump back over to TCLP, and I'll give you a quick status on how we've been able to use those moneys.

MS. PETERS: Before you jump ahead --

MR. GILBERTSON: Sure.

MS. PETERS: -- what was the problem getting it out? Lack of demand or --

MR. GILBERTSON: Well, initially a lot of this -- one of the problems that HFAs have been facing
for several years now is that the federal government support of the mortgage market in general. So as they buy mortgage securities, they lower rates, and then we don't have a rate to compete against the private sector. And the value of tax exemption just doesn't really present itself. The original NIPB program, they gave us a rate lock, if you will, but then rates dropped, so the rate lock was out of the money. It didn't help. They reset that last October, which allowed us the opportunity to really make some traction.

So on TCLP, again, by January of 2010, we had put all of that money in place. We had replaced all of the liquidity facilities that we had from private sector banks, and I think we reported that back to you in January of 2010.

As of August 1, a little more than a week from now, our utilization of TCLP will have fallen from 3.5 billion to 2.8 billion, so we reduced our support level by some $700 million. The most impressive thing, though, is the performance of the underlying bonds supported by the TCLP over the last 16 months.

So these are bonds that have a weekly interest rate reset. Every -- every week we're getting a new interest rate reset. The most recent resets have averaged .04 percent, four basis points. Over 16 months
of the program, they have averaged 24 basis points.

    Pardon me.

The way we measure the success of that program is we compare it to basis mismatch, and I know a number of the Board members have heard lengthy presentations by Tim Tsu and myself about some of the financial challenges that we faced over the last couple of years, and basis mismatch was a big component of that. As an example, during calendar year 2009, our basis mismatch amounted to $30 million on our hedged variable-rate demand obligations. So we paid an additional $30 million in interest expense in one calendar year.

In the 16 months since TCLP has been in place, the basis mismatch has turned positive to the Agency, and we have benefited to the tune of two or three million dollars over that time frame. So those are numbers that you need to add together. So the cumulative benefit will -- for CalHFA is approximately $35 million. So it's extremely valuable to us, and one of the reasons we're pushing so hard for an extension.

There's a number of proposals underway, and I'm just going to wrap up by summarizing what I know today.

And as Steve pointed out, there is no news or an official announcement to report. You know, my sense -- and Claudia, I haven't had a chance to catch up with her.
today -- is now it may seem like it's a September thing
or maybe an October thing. And I'll let Claudia comment
as I just run through the proposals.

But for NIBP, one of the proposals from both
state and local housing agencies and their lobbyist
groups is to extend the program beyond 2011, you know,
add another year. Clearly we're going to have at least
$800 million available. Why not just tack another year
on it and let it run to 2012?

The other option is to modify the program and
perhaps extend it and allow some of that single-family
money to be used for multifamily purposes. And we've
been an advocate in California of trying to do some of
those things here.

And then a third proposal that has some
traction, it's very hard to gauge how Treasury and the
federal government feels about this, is that there may
be a second round of NIBP, a new funding source, derived
somehow, and there's several different ideas on that,
that could be available to, again, assist HFAs, both the
state and local level, over time.

And then the big one on TCLP, there was a much
smaller group of HFAs that participated in that. I
think the report says 11, if I'm not mistaken.

MR. SPEARS: Right.
MR. GILBERTSON: It's simply an extension, you know, and we have pushed hard for a five-year extension. That means the TCLP would be in place through 2017. By 2017 we're going to know an awful lot about that single-family loan portfolio that is causing the pain. Because the last loan finance of that indenture was done in 2008, so there will almost be ten-year seasoned. The borrowers that are going to pay are going to continue to pay. Those that have gone to foreclosure will have been settled by then, claims will have been paid, and we will know where we sit.

So -- so we end up with that request. There's a lot of conversation. Tim Tsu and my staff and several others in the financing division have provided some detailed analysis for them to compare options. We're working with both Treasury and their advisor, State Street, in trying to get them, you know, all the information they think is necessary. We're hopeful. We think they really want to make this work for CalHFA and have this benefit to our balance sheet and our financing programs.

So with that, I think we're a month or two off. I'm not sure if Claudia has any further update from some of her sources on that.

MS. CAPPIO: I was at the NCHSA conference
earlier in the week, and that is consistent with what you're saying. Unfortunately, timing is everything, but I would have much rather had this announcement behind us, but it's not, and I understand the distraction at the moment. But it would be great if it was September, not October. The sooner the better for us, but they all know that. And I think the -- I just want to reiterate that our staff has been working very closely and very positively with Treasury, and we are expecting good news, but I also know the political landscape out there.

MR. SPEARS: I would be a little more nervous if we were not hearing anything from Treasury, if they were just not -- but they seem to be actively discussing it within the halls of Treasury, so I'm encouraged by that, but I'm not ready to make an announcement for that.

But remember when we put this together back in 2009, it went from July to August to September to October, and, you know, it just seemed to go on and on. And it just takes a long time for those kinds of decisions to be made.

ACTING CHAIRPERSON CAREY: It takes patience.

Thank you.

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Item 8. Update and discussion regarding the Keep Your Home California program

Yvonne K. Fenner, Certified Shorthand Reporter
ACTING CHAIRPERSON CAREY: Okay. Next is the report on Keep Your Home California.

MR. SPEARS: So, Mr. Chairman, Members, if you recall, the last time you were discussing that we were about to go out with a marketing plan. That's been implemented. Di and I and Claudia thought it would be a good time for a pause, how are we doing with this. There's been other developments that I'll let Di discuss, but just an update for you at this time.

MS. RICHARDSON: I'll give Steve the buttons. I always mess that up.

Good morning, Members. Just a fairly brief update, although I can't possibly tell you everything that's an update because this seems to be all I do, live, breathe, sleep, eat.

You know, we have our four core programs. Those are out. They're performing very well. I'll give you a little bit of an update on those as we move into the program. The big -- one of the big news items from my perspective is that Treasury has finally signed off on our three proposals for the Innovation Fund. There's the one proposal by the Los Angeles Housing Department, which most of you are very well aware of as they have been here several times. That is a first mortgage modification program.
The second program is from the Sacramento NeighborWorks Organization, and it's a short sale gateway program. We had several -- several proposals offering lease-to-own scenarios. I'll talk about that a little bit more in a moment. But the Sacramento NeighborWorks proposal was the most cooked of all of them that we had. They had several of the key relationships already in place, and so we felt that that one would have -- is the best one that -- for us to take a look at and take a look and see how it works.

The third program is the Community HousingWorks, which is in San Diego. And this is a program that will help get rid of second or subordinate mortgages that don't qualify under the federal Making Home Affordable Program.

So we have -- we have finalized our contract with -- with CHW, and we're working with the other two to get those finalized. And I'm working with Treasury to finalize -- this will require a new contract with Treasury because it's an amendment of our existing contract. And I have the draft of that back from them, so that -- they usually -- they're shooting for the end of the month to get that done.

So you may recall that when we originally set out our allocations for the program, even though we knew
we were going to be funding the local innovative programs, we had to include all of the funding within our four core programs to start out because we needed to have that money allocated to us by October 1st. And then our plan was always that once we have the innovative programs approved, we could go back in and sort of redistribute the funds and take a look at what's going on.

So those funds -- this is -- this slide demonstrates how those funds have been redistributed based on our -- what we've worked out with Treasury. And you can see that basically, you know, we took that money out of the Principal Reduction Program. That was always our intent.

And there -- you know, the San Diego Community HousingWorks Program is going to be about 10 million. The other two are going to start with 5 million. Again, if they're wildly successful, we're more than happy to take a look at, you know, giving them more funding in the future, but we think that that's a good place to start. And this also talks about the number of units that we think will benefit from these funds.

So just to give you a little more information, the Los Angeles Housing Department Mortgage Modification Program, again, this is something that they came in and
talked to us about several times early on. The program has morphed a little bit. You know, each time we talk, it sort of morphs. But what we have agreed to with them, this is a program that they're going to pilot within the city of Los Angeles within existing NSP neighborhoods. And they believe that they can do, you know, principal reduction between 6 and 21 cents on the dollar, and I hope they're wildly successful. I'm looking forward to seeing those results.

You know, we've talked in the past about they have a pilot program with Bank of America, which Bank of America had given them a million -- committed a million dollars. And to my knowledge they haven't done any loans under that program yet. That would be separate than this.

The -- again, these -- because we want to judge the efficacy of these programs compared to those that we proposed, homeowners that qualify for those programs will not also be using the Keep Your Home dollars. They will be completely separate so that we can, you know, keep track of who's getting what.

The second program, the Sacramento NeighborWorks program, so this will -- these funds are going to be used as an incentive to lenders to get them to do a short sale. Sacramento NeighborWorks will buy the
property and lease it back to the existing homeowner, so
the homeowner won't be -- have the disruption of being
moved. The community, the neighborhood, won't have that
much -- have that -- have that disruption of having an
empty home.

And the homeowners have to qualify for the
program at the time the short sale is approved, and they
have to qualify again for the program. They have to
qualify to repurchase the home at the end of the period.
And there are several educational steps and things that
they have to do and go through to earn the -- the
privilege of buying back the home.

So the compensation to the lender is going to be
they're targeting 20 percent of the negative equity, and
it cannot -- under the contract it won't be able to
exceed 80 percent of the unpaid balance, but it also
won't exceed $45,000 per home.

So we're -- this is one -- like I said, we had
several lease-to-own proposals, and this one seemed the
best cooked, and they had an existing relationship with
the credit unions, and so it looks like it's ready to
go.

The third program, the Community HousingWorks
Second Mortgage Program, they're going to provide
capital, 35/65 percent match, to participating community
lenders. Again, these are lenders that are not participating in the federal program, so they can't take advantage of the -- the HAFA program to otherwise extinguish these seconds.

We signed this contract. I think I just signed it last week, and they've already got nine servicers -- eight servicers signed up. We asked that they have nine servicers signed up within three months, and they've already got eight onboard, so they're rocking and rolling and really ready to go on this one.

So the next slide talks about -- I'm sorry, I have a bunch of pages stuck in between all mine -- the servicers currently participating. We're actually up to 29 this morning that are currently participating. The newest onboard, Central Mortgage, Colonial Savings, Capital Mortgage. I also have four that have sent me partial documents. I'm trying to get those last few signatures that I need to get them onboard. Those include PHH First Mortgage, IBM, LBPS and Midland. And those -- we get a lot of calls for IBM, so I think those are -- and PHH. Those are pretty big for us.

We also have four that are currently in what we call the onboarding process, meaning they've -- I've got all their documents. We've got everything signed. They're going through the final training. They'll be
live on the Web site within the next week or two. That includes I-Serve, Specialized Loan Servicing, HSBC, and Cenlar. And we're really excited about Cenlar because Cenlar is a really big subservicer for a lot of the credit unions, and so we see a lot of those guys just now are going to start coming onboard.

The final bullet here that I want to highlight is the Bank of America PRP participation. I think we talked about at the last meeting the fact that we -- that Bank of America is signed on for the Principal Reduction Program. We started with them in a pilot mode where they were controlling the process. They -- instead of borrowers calling our central processing center and getting referred through, you know, and then going to Bank of America, Bank of America wanted to sort of get a handle on the flow and how it worked, so they were referring them up.

Bank of America is only doing the Principal Reduction with HAMP modifications. So every borrower that comes in that's -- that's qualified for a HAMP modification is supposed to be also looked at for their compatibility with the Principal Reduction Program. We did that with -- we did the model, the pilot, with them in that fashion for about six weeks, and they sent us six files.
We have now opened what we call the retail end
of it where we can now refer borrowers to them. We do
some of the front-end work. It still works a little
different than a lot of the other programs because what
we're telling those borrowers is, okay, we're going to
let Bank of America know that we think you're qualified
for this program. They're going to be sending you a
modification packet. Open it. Fill it out. Send it
back. And so we've sent them between 40 and 50 files
just in the last week and a half. So we think,
obviously, that -- we're hoping to see some bigger
numbers starting to come out of that.

We've got a press release that we're -- I'm
waiting for Bank of America to finish commenting on so
that we can make a really big announcement, but they are
live on our Web page. And, you know, we're excited
about that.

We are also starting to have some conversations
with Wells Fargo and Chase. I wouldn't say we're
exactly close, but we're having some conversations.

My conversations with Treasury, you know,
there's this whole big settlement that's sort of being
discussed and up in the air, and that might be pushing
them to start looking at participating in our programs a
little bit more. I'm fine with that. I'll take them
however I can get them, I just want them in the door.

The next page is our--some of our production
statistics. And the second quarter ended June 30th, and
at that time we had funded over 1,000 homeowners,
assistance to over a thousand homeowners, which we were
really excited about. That was a big milestone for us.
We're one of only four states that have hit that
thousand-homeowner mark. You'll remember that some of
the other states had existing unemployment programs that
they just added these funds to, so they were--they
were sort of up and rocking and rolling a little bit
sooner than us.

So just to sort of explain what this--what
these numbers mean, obviously the funded dollars, those
are funds that have actually gone out the door,
committed, you know. Some of the--especially under
the unemployment program, those are funded over six
months, those payments. So you can see the total
dollars committed, scheduled for disbursement for the
total there.

I would also like to just verbally give you
another set of numbers. When a borrower, a homeowner,
calls in and--if you remember, they go through triage,
then they go through the counseling program. And once
they successfully complete that counseling, we reserve
funds for them until we find out that either they don't really qualify or they withdraw.

So just going by the actual reserved numbers, we have funds reserved for over 1100 additional UMA households for 20 million; 352 additional PRP households for 17 million; over 2400 mortgage reinstatement households for 36 million; and TAP, which we haven't really focused on a whole lot, quite frankly, and, you know, everybody is trying to -- the banks and us are working on trying to keep people in their homes rather than pay them to move out -- we have 25 of those reserved for $125,000.

So what we've seen, quite interestingly in the last month is that -- and it's -- you can see by the HAP, the numbers here, we're getting a lot more people calling and participating in the mortgage reinstatement than the unemployment program. The mortgage reinstatement has sort of taken -- taken the lead. That horse is out in front at the moment.

This -- this chart just demonstrates those where we have completed the homeowner action plans. Again, this is where counseling has been complete. This -- these are the top ten counties where -- you know, we're monitoring not only where the calls come from, but where things are successful. These are -- these are the
completed homeowner action plans.

And the next one actually shows you where we've actually provided assistance. And so you can see there's a lot of the same counties. They're -- you know, there's a little moving around in there, but we still think that these are sort of the top ten at the moment.

So marketing has been a very large focus the last couple months. I'm beginning to feel like the Keep Your Home California madam. We have hired a community outreach manager. His job is specifically to go to events -- big, small, medium, I don't care, churches, fairs, foreclosure prevention events -- and just talk to people and get the word out about the Keep Your Home program. You know, we're finding that people need to hear about these in their own communities from somebody that they trust, and so that's really what we're focusing on.

We did produce two PSAs, two 30-second PSAs. They're playing on the radio statewide and on television in Sacramento, Los Angeles, and San Diego. They're on our Web site, if you haven't seen them. They're fabulous. They're on the resources section of our Web site. And, you know, we've spread the word about those. I'll talk about that a little bit more.
We have -- in addition to those PSAs, we've purchased traffic sponsorships throughout the state. You know, this traffic report is brought to you by Keep Your Home California. And, actually, that's the thing people seem to hear the most, you know, so we're -- we're -- we're -- I think sometimes -- somebody told me they heard one introducing a sports report the other day. That was just sort of a bonus for us.

We are really trying to -- we're trying different things in different areas and trying to measure the success so we can figure out what works the best so we know where to put our money. We've got billboards going up next week in Stockton and Merced, in English and in Spanish. We did a mass mailing to every city manager, county CEO, and legislator, again, telling them about the program, asking them to put the button on -- you know, the Keep Your Home California button on their page. Several of them have linked the PSAs on their page.

Several of them have called me back and told me that they have community access channels, and they want to play them on their community access channels, so that's actually something we're going to continue to pursue. I'm going to try to see if I can get a list of all those community channels and hit them up directly.
We also have a new video that I think just went up yesterday, and it's sort of a How to Keep Your Home California. It's a -- it's somebody that -- it's about a five-minute video that walks a borrower through the entire process -- this is what happens when you call. You know, these are the documents that you'll be asked to provide. This is how long it takes. These are all the steps -- just to sort of make it a little bit more friendly, a little less scary. That was filmed at the CalHFA loan servicing center in -- in West Sacramento.

We have -- we started a -- an SEM campaign, which is, you know, like if you go on Google and type in certain key words, so that we can -- we can pop up. That's already proving to be pretty successful. In the last couple of weeks, that's been sort of the number three. You know, we track marketing efforts to see what works, and that's the number three way people are saying they're getting to our Web site right now.

We do have a Twitter account, which is very, very active. We've got somebody tweeting three or four times a day. We have a new Facebook page that went up this week because we know, you know, that's how a lot of people are finding information these days, is on Facebook.

We're working with Experian. We're going to
take our -- our loans that have successfully completed the HAPs. We're doing some modeling with Experian. They're going to look for, you know, all the characteristics why these people were successful, and then, you know, we can look for people that were -- you know, that are 30-days delinquent and do very targeted mailings.

We're going to do that in one or two counties in the next month to see how that works. We're going to try two different things. We're going to try a postcard, and we're going to try a letter. We're going to see if one of those has a better pull-through rate than the other.

We're continuing to work with EDD. You know, I've been trying to get the UMA information in the packet that goes out to unemployed folks. They have been hesitant to do that because it's something that's paid with federal funds, and I need the approval of the federal government. I've talked to be federal government, and they keep saying, "We're thinking about it. We're not sure that's the best way to do it."

And I keep saying, "I don't care if it's the best way, let's just do it while you're thinking. Come on."

This week they're -- you know, we heard about
Cisco having some layoffs, Borders closing their doors, so I've got people calling Cisco and Borders to make sure that they have this information put in those severance packages, which led to the discovery that EDD actually has on their -- they have a database of the -- every company that's laying off more the 50 people, so I'll be getting my grubby little hands on that in the very near future. We're going to go after that.

I think that's pretty much everything.

Are there any questions?

MR. GUNNING: No, Madame.

MS. RICHARDSON: Thank you.

MS. PETERS: Not a question, just a comment. Great job. Incredibly creative outreach. Keep up the good work.

One comment, the Governor's Office has been stressing to the Cabinet to increase collaboration within state agencies, and a couple of things in your comments sort of brought that to the forefront of my mind, to make sure that you are communicating with Commissioner Haraf over the Department of Financial Institutions. He oversees the community banks and the credit unions. So on your Innovation Fund that is relying on them, he's a great contact.

Also, he has contact with the person from the
Attorney General's Office who is flying to Washington to negotiate those settlements, so it's worth making a phone call there to make sure --

MS. RICHARDSON: Right. Right. We actually talked about that last week.

MS. CAPPIO: That's, you know, in lieu of cash.

MS. PETERS: Cash is good. We'll take cash.

And, you know, while you're getting people to agree to -- servicers to agree to be a part of this, we know they're not necessarily always following though, from what they say in the press they're doing and what they're actually doing. It would be great if you could follow through with the Department of Corporations on state regulated services that you're dealing with in the event that they're not being as cooperative as we would hope they would be in living up with their agreements with staff. Please engage the Department of Corporations just to make sure that their enforcement programs are working.

MS. RICHARDSON: Yeah, I will say, though, once we have the servicers onboard, they're pretty good. They're -- they're -- it's -- you know, we're seeing very few problems.

One of the -- you know, in talking about the Mortgage Reinstatement Program, that's really taken off,
but it's only taken off as what we call MRAP pure, meaning pure reinstatement without a modification involved with it. So if there's any kind of a modification, which would actually -- you know, like the pure PRP or the MRAP with a mod that requires them to go in and do something to the loan, you know, they're a little bit more reluctant to take our money because that adds one more level of bureaucracy. So we're really pushing hard, and we're seeing more of them coming onboard for the -- for the MRAP mod, and we continue to push that very hard, along with PRP.

But, you know, those are good points, thank you.

MS. PETERS: Maybe if Commissioner DuFauchard can facilitate communication, that would be helpful.

MS. RICHARDSON: Great. Thank you.

ACTING CHAIRPERSON CAREY: Other questions or comments?

That is a huge undertaking. And I guess what -- the only thing that sobers me is that out of $2 billion, we've got 14 million out so far. We've got a huge distance to go, and it's a resource for the State in stabilizing the housing market. So I just -- I don't know what -- what more stops we need to pull out, but it would be great to see it really ratcheting up. And I don't know what the goals are for the next six months.
through December, but --

MS. RICHARDSON: I would also just point out too that, you know, the bigger dollars will be on the principal reduction, and those funds generally don't go out the first day. They generally go out after -- the first funding would be after a year, so there's always going to be that lag.

ACTING CHAIRPERSON CAREY: Right. Great. All right, thanks.

No other questions? We'll move on.

Let me see. It's 11:30. I think we'll just --

Yvonne, okay with you if we press on?

COURT REPORTER: Yes.

ACTING CHAIRPERSON CAREY: Great.

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Item 9. Reports

ACTING CHAIRPERSON CAREY: We'll just press on.

Item No. 9, reports. Steve.

MR. SPEARS: There are four in your -- in your binders. We usually just provide opportunity for Board members to ask staff any questions about what they have read. And the folks are here in the audience that helped prepare these reports, so if you have questions on them, now is the best time to ask.

ACTING CHAIRPERSON CAREY: I guess I'd like to
ask what -- what the delinquency trends are telling you.

MR. SPEARS: After I left the office to come
down yesterday, I received the next month of reconciled
data, and I haven't had a chance to review that. On an
unreconciled basis, we've seen a slight uptick in the
summertime, not in the over-90 but in the 30- and 60-day
categories.

So I went back and looked, and in the last two
summers we've seen the same thing. And when you talk to
the loan servicing folks and the portfolio management
folks, they'll tell you that those 60- and 30-day
categories go up in the summertime, and generally it's
I'm on vacation, you know, I thought I set this up with
Golden 1 to pay it automatically, it didn't. So you see
a lot of curing that goes on later on.

On the older loans, in the 90-plus and the REO
that we do have in inventory, we continue to make good
progress, and we've seen declines in those categories.

ACTING CHAIRPERSON CAREY: It seems like we're
moving more sales.

MR. SPEARS: Yes, we are talking to Bank of
America about the sale of delinquent -- seriously
delinquent FHA loans to them. We haven't finalized
that, but there are about 280 loans that are in that
category that would go to them. And as soon as you take
those out of the equation, delinquencies will improve.

And then we're going to be talking about taking back some loans from some recalcitrant servicers, and we're doing that too.

ACTING CHAIRPERSON CAREY: Yes.

MS. CAPPIO: Steve, would you go through quickly the Mortgage Insurance Fund, what we anticipate in the next --

MR. SPEARS: Right.

MS. CAPPIO: -- few weeks and how we're getting prepared.

MR. SPEARS: Right.

The Mortgage Insurance Fund, as we discussed before, is inadequately capitalized to deal with the losses that we've faced. We have a partner. It's Genworth. And we divide this risk 75-percent Genworth, 25 percent to us on the mortgage insurance policies. We, number one, have made sure -- and we've confirmed this with Genworth on a number of occasions -- if the Mortgage Insurance Fund is unable to pay claims, Genworth is legally obligated and will continue and has committed to pay claims no matter what happens to the MI Fund.

So a couple things we need to do just operationally. Our own loan servicing department knows
what to do. Our non-CalHFA servicers of CalHFA loans
file claims with our MI Fund and with Genworth, so
they're going to have to know that. So what they do,
they file the claims. They get paid. They submit it to
us. And it goes to the HMRB indenture. Cash. Cash
from the GAP Fund, cash from the MI Fund and cash from
Genworth flow into the HMRB Fund.

Stop me if I say anything wrong here, Bruce.

When we -- when we lose a loan and we file
claims and settle up, that's where this happened up to
this point. So two funds are going to run out shortly,
the GAP Fund that was established and the MI Fund. So
the question is what happens at that point?

What happens at that point is that Genworth
keeps making payments and that money keeps flowing
through the HMRB. Since payments will not be coming
from the MI Fund and the GAP Fund, the HMRB equity will
start to go down by the amount that they would have
otherwise received in cash.

This is what we've been talking about for some
time now. It's upon us. So we are going to send a
letter to servicers shortly. We're going to -- there's
only one thing ongoing with the MI plan and that is we
still have policies on the books. We still will be
receiving premium revenue in the MI Fund, and so the
question is what happens when that comes in the door, how do you pay claims? And so we're going to establish a first come first serve queue, and as claims are listed, they'll be paid in the order listed as we go down.

So that's the plan, and I think it's -- you know, borrowing additional capital from some source to put into the MI Fund and recapitalize it, this is what the plan needs to be going forward.

MR. SHINE: Explain -- I don't understand -- the HMRB Fund. What is that?

MR. SPEAIRS: The HMRB indenture is the indenture with most but not all of the single-family bonds used to finance the single-family program over the past year.

MR. SHINE: So when and if the time comes that our mortgage fund runs out of its share of the payment of the losses of Genworth, Genworth is funding a hundred percent.

MR. SPEAIRS: No, they'll keep paying their 75-percent share.

MR. SHINE: So they're not paying all of it. They're -- they'll pay their 75-percent share and --

MR. SPEAIRS: Right.

MR. SHINE: -- and where do we get the -- and we go to this fund here to get the other 25 percent?
MR. SPEARS: In essence, the equity of that fund absorbs the loss, rather than get reimbursed in cash from the MI Fund.

MR. SHINE: Somebody makes out a check to somebody to pay. If they're going to pay three quarters, where do we get the money to pay our quarter of the claim?

MR. SPEARS: We're no longer going to receive cash payments on insurance claims for those losses for the 25 percent because there won't be cash in the MI Fund to do that. It will come in as premiums come in and will be paid in this queue as premiums come in over the years, but in the meantime, borrowing those cash payments and if eventually, you know, the losses exceed any future ability to pay a few claims, the HMRB Fund equity that's built up over the years -- Bruce, I'm not sure what the amount is.

MR. GILBERTSON: Roughly 300 million.

MR. SPEARS: -- will absorb these losses as we go down the road.

MR. SHINE: So at the end of the day, the economics, we're still paying our quarter and they're still paying their three quarters.

MR. SPEARS: Yes, sir.

MR. GILBERTSON: We're not getting the --
MR. SHINE: Until we run out of --

MR. SPEARS: Until we run out of the 25 percent, yes. And that's going to happen in August.

MR. SHINE: In August, the HMRB Fund runs out of money?

MR. SPEARS: No, in August the MI Fund runs out of money.

MR. SHINE: The Mortgage Insurance Fund. I wasn't here. After then -- excuse me -- after that happens, then what? And for how long can we live with what's left in the HMRB Fund until -- and if it ever happens --

MR. SPEARS: Right.

MR. SHINE: -- that we have no longer the ability to make good?

MR. SPEARS: That's the 64,000 dollar question. It depends not only on Genworth's ability to keep paying their 75 percent. That's a very big number. And as we've said before, you know, in briefings to the Board, if that stops happening, the HMRB equity declines very rapidly, and, you know, serious -- that has serious consequences.

So it depends, one, on Genworth's continued paying of the claims to us, which they've done without interruption. Very few claims have been turned down.
When I did a review of the 20 claims that have been turned down in the last two years, they were all because we mistakenly thought that there was a policy -- it wasn't that they had been turned down because of some gotcha, you forgot to check a box. They’ve been very, very good partners about this.

So if they continue to meet their obligation, then it's a question of how long the losses continue in the portfolio and how quickly the home price market comes back. Because if we were to -- you know, if losses were to be extended into the future but suddenly, by some miracle, home prices rebound within the next year, you know, we would not be suffering the depth of loss on each loan. It's not only the frequency of loss, it's the depth of loss. It's the 50-percent loss in value. If that were to increase over the coming years, then those losses would increase accordingly.

MR. SHINE: Is it your assessment that the volume of foreclosed properties is somewhat getting better, or is it staying the same, or are the forecloses increasing?

MR. SPEARS: Bruce and I have a joint answer to that. There is no doubt -- and you can see the graphics. It's page 163 in the binder -- that both FHA and conventional delinquent loans continue to decline.
That's the trend. But they're still high. So we've got more work to do.

MR. SHINE: I know you got a handle on that. I'm just curious.

MR. SPEARS: Right.

MR. GILBERTSON: Another way to think of this is -- I've been doing some work on this because we want to present this to Moody's from an accounting perspective. Okay. So I've been doing the accounting records. It appears to me that the peak loss period for the single-family portfolio was the two fiscal years that are totally behind us, the 2008/9 and 9/10. And what we're seeing in the fiscal year that just ended, the 2010/2011, is a significant drop in losses on that portfolio.

By numbers, if I remember these correctly -- because I went back to the 2007/8 fiscal year, kind of just as things were starting to unwind. We had losses recorded by the accountants of about $20 million. The next two fiscal years, we had losses in excess of $150 million for each of those years, so a total of 300. And I -- the projection -- we don't have June 30th numbers as of 2011, but the projection for the last fiscal year is losses around a hundred million.

MR. SHINE: Of which we pay a quarter.
MR. GILBERTSON: These are -- this is a -- no, these are losses, not just principal balance of loans. These are losses that consist of several different types. So it's a loss based off that GAP insurance policy. So if we -- we set aside $135 million about 15 or 16 months ago for that purpose. There's losses that are from our Mortgage Insurance Fund, okay, that we've talked about. And there are losses that that bond indenture, HMRB, inherits because they are the investor in the mortgage.

So at the end of day, when the foreclosure happens and the property is sold to an investor or a homeowner, the net proceeds produce a loss to them. They don't get all their principal back. And so it's a total of all of those things on an annual basis.

So we think the trend is improving. It's still large. A hundred million is a lot. But I think if you look at the three quarters that we have, I'm anxious to see the fourth quarter, the trend is improving, you know, ever so slowly.

So I do -- my own personal opinion, and this is just from looking at numbers and feeling this over the last few years, it feels to me like we're about two thirds of way through this. There's a huge problem, I think, and that is that any borrower that has income
disruption is sitting in a home that is underwater. So they've made the decision to try to meet their mortgage obligations, but if they lose their job or have a medical situation or there's a divorce in the family or something else, then they're going to be faced with this tough challenge that they don't have equity to be the cushion for them because they're underwater.

MR. SHINE: I'm glad to hear you thinking that way.

MR. GILBERTSON: Yeah. I'm a fairly optimistic individual, both here and personally, so.

MR. SPEARS: Well, the real unknown is what happens to the economy. And if unemployment were to go back up again, that's the income disruption that Bruce is talking about. And so there -- there are a number of things that are critically important still. You're certainly not out of the woods. Genworth is absolutely number one. The economy is number two. Love to see the housing market come back, but it's not going to. It's just not.

There was -- in The Bee on Saturday or Sunday there was a small article about, you know, property values in Placer County have gone down by another 3 percent. And the -- you know, El Dorado Hills and Placer and -- what's the other county up in the El...
Dorado Hills? -- anyway. Those have been sort of, you know, stable price communities up there, a lot of them, and they continue to slide. So I don't think we can look for relief from that -- that sector.

So I'm not playing good cop/bad cop with Bruce here, but -- but I just think that I like the trends. I like the trends. We keep making progress. But my worry is that many of the folks in the 25 or 6 or 7 thousand loans that we have on the books, I can't remember the exact number, most of them are current. 85 percent of them are current, not even a payment late. 80 percent of those people are underwater. What would it take for them to walk at this point?

But as Bruce keeps saying when we have these conversations, why do they keep paying? You know, now they have paid through these two tough years, really tough years. And they're still current, not one payment late.

So someone is probably going to write a white paper for a thesis someday about the psychology of all this. I don't have the answer. But we continue just to really look closely at what's going on with Genworth and the economy.

ACTING CHAIRPERSON CAREY: Okay. Other questions or comments on the reports?
Item 10. Discussion of other Board matters

ACTING CHAIRPERSON CAREY: Any other Board matters to bring up?

Item 10. Public testimony

ACTING CHAIRPERSON CAREY: This is an opportunity for the public to address the Board on any item that was not on the agenda. If anyone wishes to address us, please indicate.

Item 12. Adjournment

ACTING CHAIRPERSON CAREY: Seeing none, we are adjourned.

(The meeting concluded at 11:53 a.m.)
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 11th day of July 2011.

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