STATE OF CALIFORNIA
CALIFORNIA HOUSING FINANCE AGENCY

BOARD OF DIRECTORS
PUBLIC MEETING

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

Wednesday, March 14, 2012
9:30 a.m. to 11:41 a.m.

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Minutes approved by the Board
of Directors at its meeting held:
May 17, 2012

Attest:  

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

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CalHFA Board of Directors Meeting – March 14, 2012

APPEARANCES

Board of Directors Present:

GRANT BOYKEN
for Bill Lockyer
State Treasurer
State of California

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

CLAUDIA CAPPIO
Executive Director
California Housing Finance Agency
State of California

JONATHAN HUNTER
Managing Director, Region 2
Corporation for Supportive Housing

JAN LYNN OWEN
for BRIAN KELLY, Undersecretary
Business, Transportation & Housing Agency
State of California

JACK SHINE
Chairman
American Beauty Development Co.

LINN WARREN
Director
Department of Housing and Community Development
State of California

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CalHFA Staff Present:

MARGARET ALVAREZ
Director of Asset Management

ROBERT DEANER II
Director of Multifamily

TIM HSU
Financing Risk Manager

VICTOR J. JAMES
Deputy General Counsel

JOJO OJIMA
Office of the General Counsel

DI RICHARDSON
Director of Legislation

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BE IT REMEMBERED that on Wednesday, March 14, 2012, commencing at the hour of 9:30 a.m., at the Burbank Airport Marriott Hotel & Convention Center, 2500 Hollywood Way, Burbank, California, before me, YVONNE K. FENNER, CSR #10909, RPR, the following proceedings were held:

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ACTING CHAIRPERSON CAREY: Welcome to the March meeting of the California Housing Finance Agency Board of Directors.

--o0o--

Item 1. Roll Call

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

MS. OJIMA: Thank you.

Mr. Gunning.

(No audible response.)

MS. OJIMA: Mr. Hunter.

MR. HUNTER: Here.

MS. OJIMA: Mr. Boyken for Mr. Lockyer.

MR. BOYKEN: Here.

MS. OJIMA: Mr. Shine.

MR. SHINE: Here.

MS. OJIMA: Mr. Smith.

(No audible response.)
Item 2. Approval of the minutes of the January 19, 2012 Board of Directors meeting

ACTING CHAIRPERSON CAREY: The second item of business is approval of the minutes from the January 19th meeting.

MR. HUNTER: I'll move approval.

MR. BOYKEN: Second.

ACTING CHAIRPERSON CAREY: Roll call, please.

MS. OJIMA: Thank you.

Mr. Hunter.
MR. HUNTER: Yes.

MS. OJIMA: Mr. Boyken.

MR. BOYKEN: Yes.

MS. OJIMA: Mr. Shine.

MR. SHINE: Yes.

MS. OJIMA: Ms. Owen.

MS. OWEN: Yes.

MS. OJIMA: Mr. Warren.

MR. WARREN: Yes.

MS. OJIMA: Mr. Carey.

ACTING CHAIRPERSON CAREY: Yes.

MS. OJIMA: The minutes have been approved.

ACTING CHAIRPERSON CAREY: Thank you.

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Item 3. Chairman/Executive Director comments

ACTING CHAIRPERSON CAREY: Lest I forget an important piece of business, if anyone wants parking discount stickers, please, they're up here, so get them after the meeting.

With that, just a couple of items. We've got some -- some new but familiar faces. I'd like to welcome Jan Owen, representing Business, Transportation and Housing.

MS. OWEN: Thank you.

ACTING CHAIRPERSON CAREY: Great to have you
here.

And Grant Boyken, today representing the Treasurer's Office.

And a face that's familiar to all of us, Linn Warren, now representing HCD. Congratulations on that.

MR. WARREN: Thank you.

ACTING CHAIRPERSON CAREY: And don't be too hard on the presenters today, okay?

MR. WARREN: No, but I will say I like this view better than my prior iterations. I think this will be a lot more fun.

ACTING CHAIRPERSON CAREY: I'm not sure.

Okay. With that, Director Cappio.

MS. CAPPIO: Hi, greetings. Nice to be here.

I just want to reiterate welcome to the new Board members and to Grant and to -- oh, and just to note that Mr. Warren has been saying that a lot lately to me, that he likes it from his new perch. So much, much success.

MR. WARREN: Thank you.

MS. CAPPIO: I also just wanted to just update everyone on we're rolling along on the affordable housing cost study. The request for proposal went out, and it's due this Friday. The proposal is back to us, so we're continuing to proceed on that.
And now I'm working with Linn on the reorganization efforts with Housing and Community Development. We -- our sense is that we need to get out ahead of what we think we believe will work, and we're working very hard on that. And we should have something at least framed and ready by summer to present to BT&H and the Governor's Office, so I'm looking forward to continuing my work in that way with Linn.

That's it.

ACTING CHAIRPERSON CAREY: Great. Thank you.

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Item 4. Closed Session under Government Code Section 11126(e)(2)(B)(i); significant exposure to litigation against the state body (one potential case)

ACTING CHAIRPERSON CAREY: With that, we will adjourn to closed session under Government Code section 11126(e)(2)(B)(i) -- you got that? -- to discuss significant exposure to litigation against the state body. So we'll clear the room.

(Whereupon the Board met in closed session from 9:32 to 9:57 a.m.)

ACTING CHAIRPERSON CAREY: Okay. Welcome back. We're in public session again.

--o0o--
Item 5. Discussion, recommendation and possible action regarding the adoption of a resolution authorizing a new Agency Investment Policy. (Resolution 12-05)

ACTING CHAIRPERSON CAREY: And move on to item 5, which is possible action for resolution regarding the Agency's proposed new investment policy. Tim Hsu.

MR. HSU: Good morning, Mr. Chairman, and good morning, Members of the Board.

In an attempt to provide a little bit of continuity from this Board meeting to the last one and also for the benefit of the new Board members --

MR. SHINE: Could you speak into the mike a little bit.

MR. HSU: Okay. At the last Board meeting, we spent a lot of time talking about the financing resolutions that the Board adopted for staff to engage in financing activities for the remainder of the year, and we also talked a lot about the restructuring plans that we're submitting to U.S. Treasury.

The extension of TCLP, as we had informed the Board, is linked to the Treasury's approval of the restructuring plan that we submitted to Treasury. That plan has not been approved, and -- but various pieces of that restructuring plan are being revealed to the Board. At the last Board meeting you might recall that
we spent a lot of time talking about that single-family refunding. And at the -- at this meeting, we're going to talk a little bit about the multi-family preservation program, which is also a part of that restructuring plan that was submitted to Treasury.

Once -- my expectation is that sometime between now and the next Board meeting our plan will be approved, and at the next Board meeting I'll do a quick summary of what that plan is so that we can tie all the pieces together.

The -- I mentioned that later on in the presentation we're going to talk a little bit about the multi-family preservation program. And in some sense this program is the Agency's attempt to begin lending again. And this is really a wonderful thing. I think that it's a way for us to become relevant again. And we're going to talk little bit about that more.

But the main narrative for financing is still one of restructuring. We're still in a mode of restructuring, and that could mean that we're trying to get rid of, eliminating, the variable-rate bonds that we have. We are eliminating the swaps that we have. We could be increasing the swap collateral thresholds that we have. And we are also finding ways to create flexibilities, financial flexibilities, so that we can,
in some sense, also engage, sort of, loop around and engage, in more debt restructuring.

And these things could be things such as the $15 million of -- pledged from the G-O to the single-family refunding that the Board approved last go-around, and this could also -- an example of this could also be that the purchasing of the fixed-rate bonds in the secondary market that we engaged in last year. So there's this theme of restructuring and also creating financial flexibility.

Agenda 5, here, is a good example of us trying to create financial flexibility for the Agency, and in so doing, we can advance this narrative of restructuring.

So this new investment policy, you might ask the question of what does a new investment policy have to do with restructuring our debt? This has more to do with creating the financial flexibility so we can keep some of the very valuable investment agreements that we have with a couple of European banks who have provided investment agreements to us. With the existing investment policy, there is a rule that the sovereign debt of the foreign bank must have at least one AAA rating, otherwise we have to liquidate the investment agreement.
So, as you can see on this chart here -- as you can see on this chart here, some 47 percent of our investment agreements are deposited with French banks which currently only has one AAA rating. It was downgraded by S&P some months ago in the midst of the European sovereign debt crisis, and my fear is if it were to lose the second AAA rate with Moody's, then despite the fact that the bank themselves could have a decent rating in the AA range, I'll be forced to liquidate these GICs.

So the last Board meeting I had suggested that this could be a reason why we're bringing the investment policy to the Board, and this is the main driver at this point of creating the financial flexibility to keep these GICs.

Keep in mind, I haven't mentioned why these GICs are so valuable. Some of these GICs are yielding a rate of 5 percent or 6 percent in the portfolio. And if we were to go out into the marketplace today to get the same kind of GICs, investment agreements, we could be only getting 1 percent or 2 percent or 3 percent. So these are extremely valuable investment agreements that we have that, if we can, we would very much like to keep them.

But the other reason of adopting a new
investment policy is that our investment policy
currently is simply very dated. It's very old. It was
last adopted in 1995. So the secondary reason to adopt
a new investment policy is to modernize our investment
policy and to -- at a high level to adopt a new
framework, a framework to look at investments. And I
would argue that this framework has been in practice
for some time, and this effort really is simply to
codify things that we have been doing.

And at the core of this framework is this
principle or this rule of prudent investor standard or
prudent investor rule.

And this prudent investor standard or rule is a
process of looking at investments based on what you
know and what you don't know at the time. And some
factors you would consider are the expected risks and
rewards that you expect out of that investment and the
needs of the beneficiary. So, for example, does it
need current income? Does it need capital
appreciation? When does it need the money? And also
it looks at the benefits of diversification. As Warren
Buffett once said, "Diversification is the only free
lunch in investment."

So -- so -- but a prudent investment is not
always a guarantee to be a good investment, and since
we're talking about Warren Buffett, even he has made a
few dud investments in the past. So a good fun
example -- a good fun example of the rule is to look
at -- a good fun example to look at, sort of, the
outcome and the limitations of the prudent investor
rule is this: Is that if you were to take all your
money and then you were to invest it in one lottery
draw, regardless of whether or not you win, that's
still not considered as a prudent investment.

So if you were to, you know, take all your
savings and then plop it down on one lottery draw and
win, you might be very rich but then the rule will
still say that that's not a prudent investment. Now,
if you just invested one dollar at a time, that's a
totally different question -- which is what we all do.

So some of the highlights of the investment
policy, of the new investment policy, if you would go
to page -- I'm sorry, I haven't been advancing as many
pages. If you would go to page 4, there is a formation
of the Investment Oversight Committee. And the main
responsibility of the committee is to approve new
credit counterparties and to monitor and review the
investment policy. And if there were any recommended
changes, we would bring that to the Board.
And the scope of the new investment policy is the nonconduit transactions that we have, along with the C-O proceeds that we have. And the general -- in the general target or the general objectives of the policy is to maintain safety, first and foremost, liquidity and also, to the degree that we can, maximize the return on investments. And you might argue that our attempt to keep these investment agreements that we have with these French foreign banks is an example of trying to, sort of, extend the return on investment by keeping them.

If you would go to page 5, there is a section, investment policy, that discusses the investment risks such as credit risk, interest rate risk and reinvestment risks. And there's also a whole discussion about the different classes of investments.

I think the idea here is that these risks wouldn't change, but the classes of investments could be added and subtracted. And I think that if they were to be added, we would bring that to the Board.

So I'm hoping that the Board would -- I'm hoping that this new investment policy is not going to be highly debatable; it's not going to be very controversial. I think that it's going to allow us the financial flexibility to keep some very valuable
agreements that we have. And, plus, really this is an attempt to modernize our investment policy to be on par with many of the investment policies out there.

And as I mentioned, I really do believe that this codifies many of the things we have been doing already, and it gives it a formal framework for the investment policy -- for the investment process.

That concludes my comments.

ACTING CHAIRPERSON CAREY: Thank you, Tim.

Do you have questions? Grant.

MR. BOYKEN: I have a comment. I just wanted to thank you for the presentation. I know that you worked with the Treasurer's investment staff and incorporated some of their input. I like the policy, and I think one thing that I like the best is that it anticipates revisiting the policy annually. And I think one thing we've learned over the past decade is that what we thought we knew about the capital markets changes. And so I think it is a good thing to keep revisiting it.

Thank you.

ACTING CHAIRPERSON CAREY: Thank you.

Other comments? Concerns or questions?

MR. WARREN: Can you -- on your -- you have an oversight group here. Who's -- who's on the
MR. HSU: It's the ED and also the chief deputy, comptroller, the director of financing and the general counsel and the financing risk manager.

MR. WARREN: Okay. So the -- really the primary change here is the opportunity to keep the sovereign investments and to give some latitude to retaining some of the yields, even though some of the ratings may go down for good and valid reasons, but you're comfortable that that's a prudent way to go?

MR. HSU: I am.

MR. WARREN: Okay.

MR. HSU: I am. I mean, I think the sovereign debt rating is usually a cap for the foreign bank's rating. So if the foreign -- if the sovereign debt of France is AA, the foreign bank wouldn't have a rating higher than AA. But what I don't want is that if France were to -- for example, if France were to lose its AA -- AAA rating with Moody's, I may have a solid AA foreign bank that I'll be forced to liquidate.

MR. WARREN: Okay.

ACTING CHAIRPERSON CAREY: This is a proposed action by the Board. And if there's anyone in the audience who would like to address the Board on this particular matter, please indicate so.
Seeing none, what's the pleasure of the Board?

We've got a resolution proposed.

MR. WARREN: I'll move approval.

MR. SHINE: Second.

ACTING CHAIRPERSON CAREY: We have a motion and a second. Roll call, please.

MS. OJIMA: Mr. Hunter.

MR. HUNTER: Yes.

MS. OJIMA: Mr. Boyken.

MR. BOYKEN: Yes.

MS. OJIMA: Mr. Shine.

MR. SHINE: Yes.

MS. OJIMA: Ms. Owen.

MS. OWEN: Yes.

MS. OJIMA: Mr. Warren.

MR. WARREN: Yes.

MS. OJIMA: Mr. Carey.

ACTING CHAIRPERSON CAREY: Yes.

MS. OJIMA: Resolution 12-05 has been approved.

ACTING CHAIRPERSON CAREY: Thank you.

Item 6. Discussion, recommendation and possible action regarding the adoption of a resolution authorizing interfund borrowing from the Earned Surplus Account

ACTING CHAIRPERSON CAREY: We'll now move on to
item 6, which is discussion of authorizing interfund borrowing from the earned surplus account.

Again, Tim. Mr. Hsu.

MR. HSU: Margaret is going to help me with this one. There's many things about the earned surplus funds that she knows that I do not.

This resolution of authorizing borrowing from the earned surplus account continues this narrative or this theme of creating flexibility, financial flexibility, for the Agency. And as it turns out, this particular one could lead directly to a restructuring opportunity that I'll be discussing in a few minutes.

I would like to say up-front, though, that on this particular resolution at this point in time, staff is not recommending a vote from the Board on this resolution. We're continuing to work with the Treasurer's office on agreeing on the legal basis of proceeding with this resolution. And I think that that's going to take a little bit of time.

But the thought here is that we'd like to present the idea to the Board to make the business case of why we think this could be helpful so that -- so that you can get an idea of some of the things that we're doing, trying to create, again, more flexibility, more financial flexibility, for ourselves so that we
can engage in really our mission, which is lending in
the affordable housing space.

ACTING CHAIRPERSON CAREY: So we'll have the
presentation. We'll ask for public comment, but then
we'll continue the item for a future meeting.

MS. CAPPIO: You don't have to take any action.

MR. HSU: Before I dive into the subject,
though, I thought I would spend a few minutes to
celebrate our success. About two weeks ago we paid off
our loan, and I've been told by Margaret that we don't
do this enough, that --

MS. ALVAREZ: Not the paying off the loan, the
celebrating success.

MR. HSU: I'm sorry.

MS. OWEN: That's very funny.

MR. HSU: We pay off all our loans.

-- that we don't celebrate our success enough,
which is true. I'm probably known to be Dr. Doom
sometimes.

About two weeks ago we paid off a loan, a
longstanding loan, that we've had from the Treasurer's
Office. This is a loan that we had from PMIA, which is
the Treasurer's Office short-term investment fund.

Just a little bit history, to give you a sense of, I
think, you know, sort of, the milestone of paying off
this loan, this loan was originally originated in 1994, and its initial intent was to warehouse single-family loans before we do a bond issuance.

We started out at $50 million, and at some point in 2006 it reached $350 million. And over the last couple years, I think that we have gotten a request from Treasurer's Office to have a plan to pay off this loan. And about two weeks ago, as I mentioned, we made our final payment of $10 million. And I think that this deserves, sort of, some recognition because it's another obligation that we have paid off.

And on that note, though, we currently do not have any outstanding warehouse loans or any line of credits with any financial institutions or any facilities with the State.

So as Steve -- yes.

MR. SHINE: We've paid off the loans, and we don't have any outstanding warehouse. Do we have lines available to us for warehousing if we want them?

MR. HSU: No.

MS. CAPPIO: That's part of -- this --

MR. SHINE: No?

MS. CAPPIO: No.

MR. SHINE: Oh.

MR. HSU: As Steve often says, enough
celebrating and back to business. So --

MR. SPEARS: Are you just making stuff up?

ACTING CHAIRPERSON CAREY: Tim, you’re getting

yourself in trouble here today.

MR. SHINE: He should get a cover charge.

MR. HSU: So what are the earned surplus funds?

This is a chart that -- I think that Peter berated me

at the last Board meeting for not bringing any colorful

charts, so I definitely created this one in this

spirit. And this is one that I think that we should

show more often than not because I think that the --

the Agency is fairly complicated, but at a high level,

at a very high level, if you are trying to connect to

the financial well-being of the Agency, there are

really primarily four buckets that we have.

So the first bucket that we have are these bond

indentures that we talk about very often. And this is

where all the variable-rate bonds are.

And then the second bucket are these contract

administrations. And this is -- for example, like Prop

1C, MHSA money, in which -- where a contract is

initiated but the money that sits in there really we

can't use it for the Agency's purposes.

And then the third bucket are these green boxes

there, the operating account, the unencumbered assets
and emergency reserve. And in some sense you can think of these accounts here as the equity of the Agency. Now, though it is equity, it doesn't mean that's not leveraged, so when we talk about when we post swap collaterals, it's being posted out of these three accounts.

And then the final bucket are these two boxes here in -- in orange, I've been told. And it's the Earned Plus Account and the FAF Savings Account. And these accounts, I liken them as accounts that are under our managerial control, but there is a specific mandate or specific statutory use for the money that sits in there so that they don't -- they don't, in some sense, mix with the green boxes.

So at the high level, there's these three -- there are these four buckets. And then the first thing I thought I would do is identify to you where the earned surplus account is and where we -- sort of, where it resides in relation to everything else.

So -- so now that we kind of have a sense of where they are, how do we get this earned surplus funds? The way that we have earned surplus funds is that we take a Section 8 project and the net operating come from that project, and we subtract out two things: Any allowable distributions to the owner of the
project and any reserves set aside as required for the
project. And what's left over is sometimes referred to
as residual receipts, and in our statutes it's referred
to as earned surplus.

So once you have that number, then it's further
divided between the projects that originated before
1980 and the projects that originated after 1980. So
the ones that are before 1980, we get to keep those
proceeds, and we get to manage those proceeds. And the
ones that are after 1980, HUD takes back those earned
surplus.

And as I mentioned, these earned surplus funds
have a very specific statutory use. And it's quite
simply to be used to reduce rents on either the project
that created the earned surplus or some other Section 8
projects that need subsidy to reduce rent.

And over the last couple years, this earned
surplus account, the earned surplus funds have
accumulated for primarily two reasons. The first is
that the use of the earned surplus funds is -- has a
higher -- has a more restricted regulatory requirement
than where most of our multi-family lending occurs,
which is in a different section of our statute. So
where the earned surplus accounts -- where the earned
surplus funds reside is in what's referred to section 5
of our statute.

And whereas most of our lending activities happen on a section 6 of our statute, the regulatory requirements of chapter 5 and chapter 6 are different. And the perception is that -- and the perception I think is also the reality, that the chapter 5 regulatory requirements are more stringent than chapter 6. So that's one, sort of, high level reason.

And the second reason is that as we paused our multi-family lending activities about three years ago now, the use of the earned plus funds also declined. And it's the confluence of those two reasons that have led to the accumulations of the funds. And as I pointed out here on the slide, in 2010 we only used $2 million, and in 2011 we only used $400,000. So this account has been accumulating, and the current balance is about $57 million.

Margaret, do you want to talk a little bit -- do you want to provide a little more flavor about some of the restrictions in chapter 5?

MS. ALVAREZ: With chapter 5 in our statutes, what comes with that money is what they call a tenant grievance procedure, which gives the current tenants an opportunity when they have a dispute with their landlord, primarily over whether they're going to get
evicted or not, to have an informal hearing with a
hearing officer that's a third-party nonbinding
hearing.

So there's a whole tenant's grievance agreement
that gets signed along with the lease agreement on the
site, and it does delay an owner's ability to evict
someone that they want to evict, oftentimes. So
there's sometimes in the chapter 6 world hesitance to
use the chapter 5 earned surplus money because owners
typically don't want that extra tenant grievance
procedure attached to the regulatory grievance of their
properties. So that's number one why that money is
more restricted.

In recent years, the last ten years or so, we
had an earned surplus lending program that we tried to
enact as much as possible with our Section 8 world in
asset management. Our owners all know about this
money, it's just it's up to them whether they want to
borrow it or not. But we've been lending it in small
amounts, typically under a million dollars, for capital
improvement projects at the sites, like to replace
roofs or decking, that type of thing, when the owners
don't have sufficient operating capital on their own to
make those repairs.

We typically have been lending it at basically
the same rate that the SMIF funds that we have is, which has been as low as 2 percent, 4 percent, over the years. And we also have some ability to completely postpone the payment, interest only, principal due upon the balloon payment at the end of the loan term. So those are ways we've used the earned surplus, and we have several loans outstanding where that's been the case.

Recently, I think as the portfolio has aged, owners have been hesitant to take on that -- it's viewed as a Band-Aid, I guess, at this point where the Section 8 properties are all close to 30 years old, some of them even older than that. And they're getting so close to the end of their term, they know they're going to recapitalize, so why borrow a million dollars now and put a Band-Aid on if they can just limp along a few years, get to the end, and be able to really recapitalize and do the whole entire project at once?

So that's the push-back we've been getting lately from our borrowers, is they're just going to wait until Bob's presentation next about the risk share program, getting something like that that's more comprehensive back in place or until they can get to the end of their term and just do everything all at once.
But it has been very successful where we have been able to use it. People have been very grateful for it. It has helped the buildings, and we use it as much as we can.

MR. HSU: To be sure, the idea here to borrow from the earned surplus account is not in any way trying to interfere with the statutory use of the funds. We -- we simply are identifying this source as a source that has been accumulating, and it's an opportunity for us to borrow it before the funds could be ultimately deployed for the permanent statutory use of the funds. We're not trying to interfere with the statutory use of the funds.

Why is this interfund account borrowing helpful to us? At this time we do two things that creates a cash or liquidity stress over time, and some of these things we've been talking about with the Board for quite some time. We make swap collateral posting requirements with our counterparties, our swap counterparties, and also once every six months we make a swap net payment to our counterparties.

So the confluence of these two activities sometimes creates -- or every -- twice a year creates this stress on cash. And then on the next slide I'm going to show you how -- how this is happening.
And if we were to have the ability to borrow from the earned surplus account, what we think we can do is that that ability to borrow would help us with these liquidity stresses that we have twice a year, and in so doing we can probably not save as much of our own cash for these activities and could be deploying this cash that we have on our own balance sheet, our unencumbered cash, to restructure debt, namely to redeem variable-rate bonds. So that's -- that's the why we're thinking about this.

On page 12 I thought I'd show a microcosm of this cash stress that I was referring to. So on January 25th, we had about $129 million of collateral posted with our counterparties. And on February 1st, the general obligation box makes a swap net payment on behalf of HMRB to the tune of $39 million, but it doesn't get that cash back into the blue box from the orange box until about three days later. So it's our $39 million basically for two or three days, depending on how you count.

And then furthermore, on February 8th, the blue box gets about $26 million of collateral back. So if you go to page 13, you can see this happening over time. So you can see that for most of December and most of January, the sum of the two bars -- so what you have
in the dark blue bar is the amount of collateral we're posting to our counterparties, and what you have in the light blue bar is the amount of cash that we have in the green boxes that I talked about earlier under the umbrella.

So you can see that the sum of the two, it's -- it's about the same over time, but then you approach on February 1st, then you can also appreciate that -- that the sum of the bar is now missing that $39 million I talked about in the previous slide because the general obligation advanced $39 million for the orange box and does not get that money back until a couple days later.

And then on the 8th, the blue box, the general obligation, gets that $26 million of collateral back in addition to that $39 million from the orange box, so all of a sudden our cash position improves tremendously between the first of -- February 1st and February 8th.

And that's -- that's that cash stress that I'm talking about, that it would be -- it would be very helpful if we had the ability to borrow from a source for a very short period of time to help us tie -- to tide us through this cash stress so that we wouldn't have to use our own cash and part with our own cash to survive this stress. And that's -- that's the, sort of,
business reason behind the idea of why we are requesting for this borrowing.

So on page 14, this is a summary of the suggested terms of this interaccount borrowing. So the lending party would be the earned surplus account, and the borrowing party would be one of the green boxes I showed you earlier, which is our -- which is the Agency’s operating account.

And just some high level terms of the borrowing, we would still recommend that the earned surplus account would maintain at least $10 million at any given time, we would not borrow through $10 million, and that the interest rate that we are suggesting would be the most recent SMIF rate plus 50 basis points.

So just as a way of background is that $57 million of earned surplus funds is currently invested in SMIF, so we believe that if we were to do this borrowing and we offer the terms of the borrowing to be 50 basis points above last quarter’s SMIF, that we think it’s -- the earned surplus account would earn more than what it would normally earn, but in a rising rate -- in a rising rate environment, perhaps that 50 basis points could be -- could mean that the earned surplus account would earn a little bit less than what...
it would earn.

The term of the borrowing would be three months.

Did you have a question, Jack?

ACTING CHAIRPERSON CAREY: It's okay. Go ahead.

MR. HSU: Okay. The term of the borrowing would be three months. As I mentioned, I think that the need that we have is fairly short term. We thought it was important to put a very short-term maturity on this.

And then in furtherance to the idea that this is a short-term borrowing, at any given time the earned surplus account as lender could demand the money to be repaid in seven days. And then in all likelihood we would probably repay the loan ahead of maturity anyway, so that with a seven-day notice we could pay back the loan.

So back to the umbrella. So I just wanted to make sure that people see -- that the members of the Board see where this borrowing and this lending is happening. So the operating account in green is the borrower, and the lender, which is the earned plus account, in orange is the lender.

And I show here that the money would be
transferred from the lender, the earned surplus account, to the operating account, which is the borrower. And then a maturity or with a seven-day notice, the operating account in green would repay the loan to the earned surplus account in orange.

The rationale for the interaccount borrowing are some of the reasons I mentioned already. These, in some sense, are the pros of this authorization. If we had the ability to borrow from the earned surplus account, it certainly gives us the financial flexibility so that we can do more debt restructuring, as I mentioned.

Can this borrowing interfere with the statutory use of the funds? As I mentioned, that -- the borrowing is not going to interfere with the statutory use of the funds, which is to reduce rent.

Is this need for the borrowing long term? And I think this is an important point. Suppose we had the authorization to do this. This is something that we want to do for five, ten years. The answer is no. As our swap obligations amortize, there's liquidity demands on the Agency, and need to borrow will decline over time.

If you flip to page 18, on page 18 this is a slide that shows the expected decline of our swap
notionals and the swap mark to markets over time. So
what you can see here is that between now and 2015,
just because we are exercising the options that we have
talked to the Board about in the past and also the
shortening of the swaps, using a static forward
interest rate curve, about a week before February 1st,
around January 25th, you can see that all else being
equal, even if we don't assume that interest rates were
to rise, we expect that the mark to market on the swaps
would decline. And again, if the mark to market
decline, the collateral demands would decrease, and our
need to borrow would also decline.

And last, it's -- it's a very important point
and something we've talked to the Board about a lot,
too, which is the ratings that we must maintain for the
Agency. Will this authority help the Agency's rating?

It is our belief that the rating agencies will
conclude that this is a credit positive. This will
allow us the financial flexibility and will give us a
better liquidity profile and also give us the ability
to use some of our cash to take out some of our VRDOs,
our variable-rate bonds. So we think that all in all
this is going to be -- this is going to be a credit
positive from the standpoint of the rating agencies.

And it wouldn't be fair for me not to present

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the cons of the borrowing. Would anybody object to this borrowing? And I think that it's possible that the project owners of these Section 8 projects or other project owners of Section 8 projects and certain affordable housing advocates in the state, they could argue that this is taking away a source of subsidy for affordable housing.

My counter to that would be that, again, this is not meant to -- this is not meant as a use of the funds. This is meant as a short-term borrowing. We're not going to interfere with the statutory use of the funds.

And the last question is that can we fail to repay this loan on a timely basis? And this is a subtle point that we have talked to the Board about at some length in the past as well. If our general obligation rating were to be downgraded out of the A range, the borrowing could become a longer term in terms of time horizon versus a short-term horizon as I've been discussing.

And the reason for that is that if we were to get downgraded, our collateral posting requirement, instead of roughly the hundred million dollars that it is today, it would roughly double to about a $200 million range.
But we believe that if that were to happen, while the horizon could lengthen, we do have some mitigants. We would probably -- we will. I shouldn't say "probably." We will immediately engage on monetizing some of the assets that I have shown under the umbrella in the green boxes. We do have some unencumbered assets under the green boxes, and we would immediately engage in monetizing them so that we can have cash to repay this loan sooner rather than later.

And the other mitigating factor is, as I mentioned, that -- on page 18, that our swaps are amortizing fairly quickly. And I see that as a mitigant because what you're -- what will probably cause the possibility of us having an issue here is the cross of the lending on the earned surplus account rising rapidly and also the decline of our swap collateral posting requirements.

So at some point if our lending out of the earned surplus account rises real quickly, then it would give us less time for the swap to amortize so that this becomes less of an issue. But if our lending out of the earned surplus account does not -- does not increase quickly over time, then it could give us the time to work off these swaps so that the need to borrow from this fund would also decline.
So that's our presentation. And as I mentioned earlier, we're not requesting for a vote from the Board at this time. This is simply informational. And we're happy to take any questions that you have at this time.

ACTING CHAIRPERSON CAREY: Questions?

MR. WARREN: Margaret, you mentioned that in the past the lending program based on our surpluses had moderate activity, might be a fair assessment. If you could change something within your power, not statutorily, but are there things that you could do to accelerate? Obviously there's original intent, but from a policy standpoint, the first question is what can be done to change now to make it more effective, if possible? So maybe talk a little bit about the eviction issues. Are there other issues that kind of hang onto this that restrict borrower interest in this?

MS. ALVAREZ: Well, I think one is that the Agency has always considered everything that we lend is a loan and it required payment back. With the earned surplus, you probably actually could give a grant and not expect money back, which would then, of course, deplete the money at some point and not make it useful for other people, but that is one way that you could do it.
I think in the past we haven't tied it as well to our first lending programs as we could. And with the amount of preservation needed and rehab needed on the -- on the properties, I think if we used it more in conjunction with our first lending program and actually made like a CalHFA second using the earned surplus money for specific rehab needs, that would probably help too.

The purpose of the money is you have to somehow decrease rents, so that makes it a little difficult to use, too.

At some point maybe we want to consider changing the wording of our statute if we were really brave, but that, you know, opens up a lot of possibilities and could hinder us more, depending on how the Legislature acted when presented with an opportunity to change the wording of the use.

MR. WARREN: And a technical question. If the money is re-lent with these -- lent with these restrictions and repaid, do the requirements under section 5 remain with the property once the loan is repaid?

MS. ALVAREZ: Yes, I believe so. Yes.

MR. WARREN: Okay.

ACTING CHAIRPERSON CAREY: Yes. Mr. Boyken.
MR. BOYKEN: Thank you.

I just wanted to thank you on behalf of -- the Treasurer thanks staff for agreeing to continue to work on the legal issues around the interaccount borrowing.

I think you made a very convincing case in your presentation on the need and the usefulness for the interaccount borrowing and the fact that the earned surplus account has the funds available for those needs. But the Treasurer's reservation really has to do with whether the statute gives us the authority to do that borrowing, so I just wanted to say that.

Thank you.

ACTING CHAIRPERSON CAREY: Other questions or --

MR. WARREN: I would just ask, I think in conjunction with the preservation efforts that -- to Ms. Alvarez's comments that it be part of the plan, I think, for the utilization of these funds and to be part of the preservation plan. And I think with that all said, I agree, I think short-term liquidity is a very important thing for the Agency today. And given the nuances of the market, I think it's a good idea to be able to do that, provided it's something that could be done, so.

ACTING CHAIRPERSON CAREY: In essence what
we're having to do is keep significant amounts of cash
on hand for very short-term uses. It ties it up
somewhat unnecessarily, depending on legal issues.

Okay. This is -- the Board will not be acting
today specifically, but we will take public input. If
there's anyone in the audience who would like to
comment on this matter specifically, please feel free
to do so at this time.

Seeing none, we will continue this to --

MS. CAPPIO: To whenever. I mean --

ACTING CHAIRPERSON CAREY: -- to a future
agenda.

MS. CAPPIO: Whatever it takes.

ACTING CHAIRPERSON CAREY: All right. Thank
you.

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Item 7a. Update and discussion regarding Multifamily
Portfolio Preservation Program using a renewed HUD
50/50 Risk Share Agreement.

ACTING CHAIRPERSON CAREY: Moving on to item
7a, update on the multi-family portfolio preservation
program. Mr. Deaner.

MR. HSU: You haven't gotten rid of me yet.

ACTING CHAIRPERSON CAREY: We aren't done with
you yet?
MR. DEANER: We try.

MR. HSU: I thought that I'd set the stage of the preservation program by setting the stage of our existing authority of doing risk share.

At the last Board meeting, the Board adopted financing Resolution 12-02. And in 12-02, the resolution adopted Article XIII of the residential mortgage revenue bond general indenture. And that's the -- that's the article of the indenture in which all this new multi-family lending business is going to occur this year. And inside that article it permits risk share as being a permitted mortgage for those bonds.

So I just want to set the stage by saying that we -- we determined that it was not necessary to make this into a resolution because the authority to do risk share and to finance risk share was embedded in the Board resolution that the Board adopted at the last meeting.

And in addition, the lending authorization for risk share is also in current existence, and Victor was going to talk about that a little bit.

MR. JAMES: Oh, but -- yes, by virtue -- do you have a slide?

MR. HSU: Yes.
MR. JAMES: Oh, I'm sorry. I was being chivalrous with putting a jacket on Ms. Owen.

MS. OWEN: I'm freezing.

MR. JAMES: Yes. As you know, some of you know, the risk share program has been in existence here at the Agency since 1994. And we -- we identified the two resolutions that created it and -- the risk share program. And the first, in July of '94, identified it as a pilot, but thereafter under -- pursuant to Resolution 95-19, it was actually adopted and has been adopted in subsequent years when risk share has been actively presented to the Board through the business plan, which, as you know, under our statutes and our regulations, there are effectively two ways to -- to approve a new lending program, and that's either through resolution and/or through adoption by the Board if it is expressly set forth as a line item in the budget.

So the program has never been rescinded. It's remained active. We -- meaning it's consistently been in our financing resolution and always a part of our -- the authorization for the Board to go forward with risk share projects, should they be prudent, if they're practical. And at this point, that has sort of resurfaced, and they make cost-effective sense to -- to
renew that program.

MR. HSU: So we have the financing authorization, and then we have the lending authorization. And then the final hurdle is our good friends in D.C.

Treasury, over this past weekend actually, just approved our use of the NIBP proceeds in conjunction with a risk share program, or it could also be said the other way around: They approved the use of risk share loans in conjunction with NIBP proceeds.

At the last meeting, we talked about we have just -- it just so happens that we have about $800 million of single-family allocation that remains unused, and about half of that, 400 million, would be transferred from single family into multi-family. And out of that $400 million, $150 million would be allowed to be used for risk share for our own multi-family preservation programs that can go to NIBP. And then the other half, the other half -- the $400 million that we're not going transfer, that will be used for the single-family refunding that we talked about last time.

I know that at some point members of the Board have expressed concern that new initiatives or new lending, what they do to our credit ratings and what they do to our capital adequacy. And I think I
represented at the last Board meeting that there's a lot of eyes on these kind of approvals. When Treasury approved this program, they looked at many, many things. They looked at the impact on TCLP and that there we made a case that we believed this preservation program would result in prepayments of the existing loans, which would allow us to cull down TCLP-backed VRDOs, which is a good thing from Treasury's point of view, to take out TCLP.

And in addition, the amount of capital set-aside that we think will result from the program is -- it's not going to be overly onerous to result in any impact on our credit ratings. And as I pointed out with this slide, that's to the tune of about $13 million. And that estimate can be reduced depending on the status of the loan that's paying off.

MR. DEANER: Okay. I wanted to give just a quick highlight of the existing program. As we've stated, we have had it since '94. It is a 50/50 risk share program, meaning that we take 50 percent of the risk and HUD takes 50 percent of the risk.

And what Tim was just saying on the capital, I kind of look at it as we have an existing loan we might have a hundred percent of the G-O on and we recapitalize that loan and do it through the risk share
program, might actually reduce our risk on that particular deal. It's going to depend on the size of the new loan and the amount of rehab, but that would be a positive.

We do want to, for this year, in 2012, marry this program with the New Issue Bond Program. Part of the approval of 150 million from Treasury was also that we have to do a 17-year term under the program. I have a waiver request in to HUD D.C. because they are fully amortizing loans, 30-year term, 30-year amts, 35, 35. And they -- it's a regulation waiver to them. So what they're -- they're doing is I made it specific to the New Issue Bond Program, and in turn they are drafting a waiver approval letter that will be specific to the New Issue Bond Program.

I spoke to them as of Monday. So that will be in conjunction with the New Issue Bond Program, and I will talk about the timing in a minute on how to do the preservation deal, we do need HUD to sign off to -- before we issue our firm commitment and the timing of that and going to CDLAC and TCAC. And I'll talk about that briefly in a minute.

All these loans will be beyond their 15-year compliance period. They will be subject to yield maintenance and bond costs associated. And Tim and I
are working on those types of charges and how we can work on those costs within the deal. And then obviously the projects are within the portfolio, so they are with nonprofits, for-profits, and various folks.

One thing we wanted to highlight was the portfolio in that we have over 500 loans. And you can see in there almost all of them are significantly affordable at the various levels. And by 2020 we are going to have more than a hundred loans maturing, which has 6,000 restricted units. To date we've had requests of 45 to 50 borrowers that have requested to recapitalize their loans. They're beyond their compliance period. They need to do -- some really need to do rehab. We have 10 or 12 projects that have water intrusion, termite, those types of issues, that would love to recapitalize their loan and recast and get new tax credit investor in to provide the rehab.

The goals and objectives is to obviously preserve the housing within the portfolio, to extend the affordability and to provide the rehab. That all benefits not only the developer -- the owner, but also benefits the tenants. We would like to renew the Section 8 contracts, the HAP contracts, and extend them out. So in the end, the program is achieving the goals
of the Agency that we've had for many years, which is
to extend affordability and to provide needed rehab on
a number of projects.

Also, it would give us the opportunity to do
maybe some energy efficient retrofits. Now that
there's a big push within California to see if we can
cut down on energy use and the carbon footprint and
such, that this could give us an opportunity to take
some of these older projects that are 25 years old or
plus and recapitalize with more energy efficiency
appliances, windows, roofs, that -- those types of
things.

All the projects will come to the Board for
approval. Again, that -- that goes to -- that goes to
timing, which I don't know if I brought that slide. I
had a slide about timing. But in essence, we need to
start talking to folks the first part of April, get
deals in the door to hit the New Issue Bond Program
time lines. The extension does expire at the end of
the year, and they only allow a number of release
dates, meaning that a lot of these loans have to close
at the same time. So there's a number of approvals
that need to happen -- Board approval, CDLAC approval,
TCAC approval, HUD's approval -- before we issue firm
commitment and then preclose these so we can do a
release date by the end of the year.

So we're going to be very busy come October, November, December. My guess is we'll start getting deals in sometime in May -- April and May, and we'll just have to timer line these out to get through the various approvals.

The next slide is on the previous New Issue Bond Program. I just want to give you an update. So at this point I just want to give you a quick overview of the -- of the risk share program and the things that we're planning on doing. If there's any questions, I'll be happy to answer.

ACTING CHAIRPERSON CAREY: Questions?

MR. WARREN: And I apologize, Bob, I have some passing familiarity with the subject matter, so I --

MR. DEANER: Just a little?

MR. WARREN: And I -- and I was -- just a little bit. I was in the room in May of 1995 when it was passed. I don't remember what I was doing, but I was there.

A couple of questions, though. Are these primarily the Section 8 assisted? Bob and Margaret? Is that really going to be the target here? You mentioned 15-year tax credit period. Are tax credit projects also in the mix for NIBP?
MR. DEANER: We're -- it's going to be both, yeah. We're going to -- we're working on the portfolio right now and trying to identify projects. Because we've had both Section 8 and we have some tax credit projects that are in need of rehab. So in talking to folks, I've talked to a number of developers, and there's a sense that there's projects out there for various reasons could use rehab, so we are going to look at both.

MR. WARREN: And these would be outside of Section 8?

MR. DEANER: Yes.

MR. WARREN: Explain to me again the waiver you're requesting from HUD.

MR. DEANER: The waiver is a 17-year waiver. So currently they're a -- they're a 30-year am with a 30-year term. We could put in a 17-year yield maintenance on that because we determine the yield maintenance, but it's not a hard term that Treasury needs. Treasury requires that year 17, that the deal refinance or they want out of the bonds in year 17. So we had to request their waiver -- to their regulation, I'm sorry, the regulation they have within their program, that they give us a waiver to allow to do a hard 17-year term on deals that will be married with...
the New Issue Bond Program.

MR. WARREN: So is that a due and payable in
year 17?

MR. DEANER: That is correct.

MR. HSU: Could I add a little color to that?

When we were -- when Treasury decided that the
unused single-family allocation could be transferred to
multi-family, they were trying to keep the OMB scoring
of the two programs at rough parity. So the
single-family program with some assumed prepayments
could have an average life of maybe 11 or 12 years.
And with a 30-year nonpayable multi-family loan, the
average life is much longer than that.

So the compromise that was struck was that they
said that we want -- we want single-family allocation
transferred to multi-family to have a balloon payment
at year 17 so that the two average lives, the two
expected average lives of the two programs could be
closer.

So that's why on the NIBP side they said that
the loans, underlying loans, need to have a balloon
feature at year 17 so that the balloon can be used to
redeem out NIBP bond proceeds. And that's filtering to
the HUD folks at risk share and making them -- thinking
that a waiver to allow the 17-year balloon would allow
folks like ourselves to use risk share inside NIBP.

Because as you know, the only folks who underwrite to a 17-year balloon are the GSEs and not HUD, traditionally.

MR. WARREN: Well, I would argue that HCD, for example, has a position that bullet loan 17 years is -- is a detriment to some projects, and it's an issue that we're dealing with today in the recasting of the RFCP loans. So traditionally that's not -- the GSEs and the HFAs traditionally diverge on their philosophies about bullet loans and have in the past, notwithstanding the realities of NIBP.

So I put that out there as a concern. I appreciate the need to shoehorn it in. But I can say that it is an issue because there are those advocates that say that bullet loans now put us in a position where projects are at risk, particularly if there's a mismatch between the 20-year contract term that you're going for and a loan that expires prior to the termination of that contract term. So I think there's an issue there for you to work out. I don't think it's a killer, quite honestly, Bob and Margaret, but just be cognizant that that's --

MR. DEANER: Okay.

MR. WARREN: -- that from a risk standpoint you
have a bit of a mismatch.

So the last question I have and I promise,

Mr. Chairman, I'll be quiet on this issue, but the
issue about yield maintenance and greening. Are you
going to put requirements in your rehab that are some
green requirements that mandate the borrowers to -- the
new borrowers to do, or is there a set of guidelines
you're going --

MR. DEANER: Well, we're going to work on --
MR. WARREN: -- to adopt for this program?
MR. DEANER: We're working on guidelines right
now. We're still working that out, but we're working
on guidelines. We'd like to see some green initiative
within the projects. We haven't decided if it's going
to be required or a guideline, but we are working on
those as we speak.

MR. WARREN: Okay. So I think that that's an
issue, and obviously there's always -- along with the
questions about yield, but I think that certainly
encourages staff to put elements in there and figure
out a way to pay for it has always been the complaint
in the past.

MR. DEANER: Um-hmm.
MR. WARREN: Okay. Thank you.

ACTING CHAIRPERSON CAREY: Other questions or
Item 7b. Update regarding 2011 New Issue Bond Program

MR. DEANER: Okay. Well, I'll go to the New Issue Bond Program from 2010/2011. I'll make this quick. For the folks, the Board members, that haven't been here before when I've made this presentation, just a quick overview.

And at the end of 2009, Treasury came out with the New Issue Bond Program to assist at the time when the bond market was frozen, to get projects off the ground. And so we were allotted $380 million to use for projects, multi-family projects, that would be credit enhanced either by Fannie Mae and Freddie Mac or HUD at the time.

We opted not to use our risk share at that time for various reasons, but we -- so we acted as a conduit issuer only. So our job was to make sure that we could get these dollars out and get a Fannie, Freddie or FHA credit -- or a HUD credit enhancement on the bonds to get a number of deals restarted, which is exactly what happened.

Most of the transactions got dumped through Freddie Mac. The next page will show all the projects we did. Of the 380 million, 287 million or so we did
in multi-family for new projects. We did use 90 million or so within the portfolio to refund some bond and -- through Fannie Mae, which Tim and I worked together on.

So the next page just gives the results that all the dollars went out in the program. In 2011 we did 122 million of what was left of the New Issue Bond dollars. The $147 million is -- is -- the way they structured the program, you could do both the New Issue bonds and have a taxable bond piece on top of it, so we had some projects that allotted to do that. But in 2011 it was a total of six projects, about a thousand units, and we made some fee income off of that.

If you combine 2010/2011, we put a total of -- of my 287 million, it was a total of 331 million including the market-rate bonds, and then Tim utilized the 90 million and did put out to refund some bonds. So we put out the full 380 million for a total of 22 projects of 2800 units, 25 -- 2500 of the units were affordable, and we generated a decent amount of fee income, and we did get some prepayments. We had eight projects that were within the portfolio that did utilize it to rehab their projects.

And as I put down there, we already discussed that Treasury extended the New Issue Bond Program and
what was left in single family to allocate some funds in multi-family, which we'll use for the preservation program. So I just wanted to highlight, the original use of the New Issue Bond Program went very well.

I do want to state that under this New Issue Bond Program where we acted as a conduit issuer only, the terms were quite different than what the terms are today. When Tim mentioned there's 400 million to come to multi-family and 150 we'll use for preservation, the 250 that's left we could use as an issuer, but those terms for the pricing and such are more on top of market than it was with this program. It was really below market because it was -- it was set up to get projects started again that had stalled.

So the remaining 250 that we have, it will be yet to be seen if it utilized just because the market, one, has -- has significantly come back and, two, the pricing is about where market is. So we'll see what the appetite on just the conduit issuer side will be on that, on that 250 that's remaining.

But it ended up being a very successful program. We put it out in 22 projects and created 29 -- or 2800 affordable units, so very successful.

ACTING CHAIRPERSON CAREY: Great.

MR. DEANER: So any questions?
ACTING CHAIRPERSON CAREY: Questions?

MR. HSU: Can I add one more comment?

The $400 million that were transferred from single to multi, that could be used to -- we could originate that $400 million at our convenience for the remainder of the year. That has been approved. The single-family refunding of $400 million, which is more tied to the extension of TCLP, that element has not been approved.

So Bob can do what he needs to do on his side, but on the debt restructuring side, the single family, that has not been approved with Treasury, with U.S. Treasury.

MR. SHINE: Do we get a break today?

ACTING CHAIRPERSON CAREY: I guess you deserve a break today.

We will take a ten-minute break between items.

Thank you.

(Recess taken.)

ACTING CHAIRPERSON CAREY: Okay. We're back in session.

--oo--


ACTING CHAIRPERSON CAREY: On to item 8, look
ahead at the business strategy framework for '12/13.

Ms. Cappio.

MS. CAPPIO: Thank you. I'd just like the
record to reflect I'm now acting in my executive
director capacity.

As the short memo that you have in front of you
notes, the senior management team has been working
since December on revamping the Agency, given our
financial context and status, the reorganization
efforts going on with the Administration and obviously
our diminishing resources, because we're not doing that
much tax-exempt bond work anymore.

We were helped in this effort by the Notre Dame
Mendoza School of Management. They do a lot of work
with HFAs around the country. We identified five broad
policy areas for focus in the next year, and you have
heard about two of them this morning, the restructuring
of debt and the pursuit of the multiple-family lending
with a focus on preservation and recapitalization.

In addition to that, we have to pursue new
sources of both capital and income and look at an
internal review of our business operations, most
specifically now with looking for efficiencies and
effectiveness on the REO loan modification and
delinquency of the HMRB.
We also have started and will continue vigilantly working with HCD in reorganization efforts. We're looking at this both in terms of transformational actions and transactional actions, knowing that our separations are -- our current operations are just as important as finding those new areas of focus to lead us into the future.

We have a task list. It's evolving. I plan to come back to you in May with that task list and strategy more formulated and obviously linking the budget for the next year to that. I look forward to presenting and discussing those results. I think senior management is both excited and committed to this effort.

And I look -- I will be glad to address any questions you've got.

ACTING CHAIRPERSON CAREY: Questions? Comments?

Yeah, I'd just mention that the emphasis on the -- in the policy on the advocacy role, I think is great. It's an enhancement of the historical role, and I think it's a great move for this Agency to get more engaged in that.

MS. CAPPIO: Okay. Thanks.

MS. OWEN: I'd like to also echo on I'll be
excited to look at the permanent and sustainable source of income for the sustainability of the organization. I think that's going to be crucial.

MS. CAPPIO: Well, I'm actually envisioning for the, sort of, sustainability of affordable housing in California, that's how important it is right now with the demise of redevelopment.

MS. OWEN: Agree.

ACTING CHAIRPERSON CAREY: Other thoughts?

Comments?

So in May we'll see --

MS. CAPPIO: Yes.

ACTING CHAIRPERSON CAREY: -- the final product. Great.

Changing hats again?

MS. CAPPIO: Yes.

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**Item 9. Keep Your Home California update.**

ACTING CHAIRPERSON CAREY: All right. With that, we'll move on to an update on Keep Your Home California. Di Richardson. Thank you.

MS. RICHARDSON: Good morning, Chair, Members.

I do have a memo that I prepared for you that's in your packet. It's a very brief memo just -- you
know, every day is different with this program. And so what I'm going to do is just, sort of, update you a little bit on what's changed since I wrote this a few days ago.

So right now the amount that we currently have committed is 263 million, and that represents over 13,000 unique. And this is homeowners -- it's households, I should have said, households.

We have, you know, in the past several months, as you know, really kicked up our marketing efforts quite significantly. Hopefully you've all heard the ads on the radio. They're playing statewide. We did purchase those ads through 2012. We can cancel them if we find they're not effective, but so far we're finding that that's one of the things that -- that homeowners are saying that they're finding helpful. We were able to purchase those in December so we could lock in the 2011 prices and not get caught up with the increases that are going to come in this fabulous election year.

We also have a new contract with the CBA, the -- to do more television PSAs. You know, we tried that a few months ago, and we were a little surprised that we didn't get a better lift from that. The CBA was actually -- that's the California Broadcasters Association. They were actually rather surprised as
well.

And in looking back, they think it was because we sort of hit at the same time the federal government hit with a bunch of HAMP PSAs, and they thought that may have confused the issue. And so they came back and offered us another deal at the same cost, twice as many stations and twice as long, so we jumped all over that.

We've entered into a contract with an organization called Crossings TV. It's a cable station that plays in five different languages all day long, and, you know, there's Russian, Hmong, Vietnamese. They actually took all of our -- our existing -- they took an existing PSA, they recreated it in each of those languages. Those are also available on our Web sites. And they took all of our collateral material and translated it as part of the contract. And it's a really -- we got a really good deal on that contract, so that's going to be playing for -- for quite a while.

We -- I think that is, sort of, the big -- well, first I'll tell you about our outreach efforts. You know, a few months ago -- I have no concept of time. I have to admit that right up-front. I mean, things just sort of run together for me. But we did bring onboard somebody, a community outreach manager,
to specifically focus on going to community events and
getting those scheduled and getting our brochures out.

And in the last few months through I think -- you
know, through April, we were counting, and we will have
done 150 community outreach events.

We've been working very closely with our
counseling agency partners to get them more involved to
going to some of these events for us. Again, this is
something that we always anticipated would happen. You
know, they're in those communities. They have those
relationships. And we really want to be able to
leverage that. And I think that that's really starting
to take off and become more successful.

Speaking of the counseling agencies, we have
reopened the RFP. It was -- you know, it was a year.
We went back. We sort of took a look at, you know,
performance and what was working and what wasn't, and
we have a new RFP that's available for other counseling
agencies that may want to apply.

That is being managed by RCAC. They manage the
current contract. So I -- I actually didn't ask Judy
before we left what kind of response she's getting, but
I believe that the period for applying runs through the
end -- through -- through this month, and we hope to
have some more agencies onboard beginning of April to
help us do more outreach.

There are two very large events that are going to take place next week, one in Sacramento on the 20th, one in Los Angeles on the 22nd. These are big events that are sponsored by the Making Home Affordable federal program, Hope Now Alliance. You know, this is -- these are those kinds of events -- it's at the Sacramento Convention Center and the L.A. Convention Center, where they bring in a number of lenders and counselors, and homeowners can come and hopefully get some help with their mortgages.

We will have our -- we have some of our counseling partners that are participating in each of those, and we will have Keep Your Home California staff at both of those events. In addition, a number of CalHFA staff have volunteered to help out at those events. I don't know how many of you have ever been to one, but they are, you know, exhausting, just the number of people that come through there and the issues that they're having. They're emotionally draining. So I just want to say again, thank you to the CalHFA staff that have stepped up to volunteer for that.

The -- the big piece of news for us this last week, we've been having conversations with EDD for a while now about trying to get some information about Daniel P. Feldhaus, CSR, Inc. 916.682.9482
the Keep Your Home unemployment program in mailings
that they do directly to unemployed borrowers. It just
seemed like a very natural match for us.

And they have a number of constraints, both at
the federal level and at the state level, statutorily,
that they haven't really been comfortable doing that
yet, and we've been trying to work through some of
those issues. And we got a call late last week, and
they told us that they've got a mailing going out this
weekend to one million EDD recipients, and they're
willing to put our flyer in there.

So we created a specific flyer for -- yeah,
it's good. It's really good. I'm kind of having heart
failure because, you know, if a million people call,
I'm -- you're never going to see me again, but -- and I
think it's a really -- it's -- it's a -- we know that
one of the problems in doing outreach is that people
don't open their mail. But this is a number 10
envelope with the EDD logo on it, so we think that
they're going to be much more likely to open this.

There are going to be three pieces of paper in
this envelope. Two are a black -- are black-and-white
pieces from EDD talking to them about this new tele
cert and Web cert thing that they've got going on, and
then there's this really gorgeous color, you know, Uma
(phonetic) piece that we think will really stand out.

So we're hoping that that will -- that that will give us a really great lift for the unemployment program.

And with that, I'll just open it up for questions.

MR. HUNTER: I just wanted to comment. I heard the radio ad probably half a dozen times in the last two weeks in San Diego, and I said, "Whoa, there it is." It was the first I'd heard it, so that was good.

I also -- the Times did a big article on this program nationally recently, and it -- as much as we've been struggling to get these funds out, it seems that no other states are having any better success.

MS. RICHARDSON: That -- that's -- that's correct. I mean, we actually have more money out the door than any other state. Percentage-wise -- you know, we did get more money than other states, so percentage-wise we're probably about third.

For us, I think that the biggest reason we don't have more money out -- and I meant to talk about this, actually. You know, we go back and we reevaluate and we look at things and why isn't this working and what can we do differently and how can we make this
work? And we do that, you know, every month, every
other month. And we're actually getting ready to
propose some significant new changes to Treasury in our
program that I think will make a very big difference.

The biggest, you know, we had the -- we knew
that the cash-out refi was a big reason that people
weren't being qualified. That's gone. That's made a
huge difference. We knew that the owning a second home
was a big issue. That's gone. You know, that's made a
very big difference.

We've done some things internally to streamline
some of the administration of the program. We think
that's made a really big difference. We've been
working with lenders. You know, we have the Mortgage
Reinstatement Program. That's been -- it hasn't worked
as well as we would have liked it to work. We've been
working now with other states and with the largest
lenders to, sort of, create some symmetry between all
of those programs. Again, that makes them easier for
the servicers to implement, and I think we're going
to -- you know, we're seeing that program starting to
take off.

The biggest -- the biggest drag for us is still
the lack of lender participation in the principal
reduction program and the fact that the GSEs will not
do principal write-down.

MR. HUNTER: So then that leads to my other question. Does staff have an opinion as to whether the settlement with the banks is going to lead to -- create a willingness to do principal reduction, and will those affect our portfolio?

MS. RICHARDSON: I always have an opinion, Mr. Hunter. Yes. I do have an -- I actually have had numerous conversations with the banks, and I actually think that it will make them less likely to participate in our program.

The reason is -- I mean, the argument that I tried to make to them is that you can do your write-down under the Attorney General's settlement, and that's your match. And you can bring in additional money, do a -- do a better, you know, modification for the borrower.

Under the Attorney General's settlement, they can go down to a hundred-percent LTV. Ours is at 115. So I think that they're going to try to go a little bit lower, because, you know, they get -- they have very significant penalties if they don't do their write-downs. So -- so that's something that's a little bit of a mismatch -- mismatch -- mismatch that we're going to, sort of, try to address here in
the near future.

And the other thing is, I mean, the banks, they get very focused, and they focus on one thing. And right now the thing that they're going to focus on is complying with that settlement.

So we're -- like I said, I -- you know, we have some ideas for some changes that we're going to propose that will make our program more -- more attractive and allow us to perhaps not -- you know, right now we're all kind of fighting over that same little pool of borrowers. And, you know, there's just not enough room in that pool for all of us, so we're going to try to figure out a way to get into one of those other pools.

MR. WARREN: I was going to ask, given the settlement, in a way it's positive because it opens up arguably more marketing opportunities and other borrowers that kind of slid by, so I'm interested that part of your plan is to look at those other areas as well as enhance the program itself.

MS. RICHARDSON: Correct.

MS. OWEN: Di, where's the RFP? Where did --

MS. RICHARDSON: Where can someone find it?

MS. OWEN: Right.

MS. RICHARDSON: It's on the CalHFA Web site, it's on the Keep Your Home California Web site, and
it's on the RCAC Web site. And it was sent to every HUD certified counseling agency in the state of California.

MS. OWEN: Thank you.

MS. RICHARDSON: So we did that last time. You know, I don't know what else to do if somebody hasn't seen it, but it's there. And everybody that's asked if -- we tweeted about it, we Facebooked about it, you know.

ACTING CHAIRPERSON CAREY: Has the State in any way added its weight to the GSE question?

MS. RICHARDSON: Well, the Governor did send a letter, let's see, how -- go ahead, thank you.

MS. CAPPIO: They have added their weight, but it wasn't very positive, although it's at their discretion. The Governor did send President Obama a letter about six weeks ago calling for Mr. DeMarco's -- to fire Mr. DeMarco. We were right in the middle of some discussions with the GSEs, so that didn't really help. But that was -- it's his executive privilege to do so, so.

MS. RICHARDSON: Right.

ACTING CHAIRPERSON CAREY: Other questions or comments?

It's exciting to see increased activity, and I
think we all -- we all would appreciate the fact that staff is volunteering in addition to those that were going to be able to make this and appreciate those who take their own time to really put that Agency mission out there in, again, what you point out is a really difficult room to be in.

MS. RICHARDSON: Yeah.

ACTING CHAIRPERSON CAREY: It's terrible stuff.

MS. RICHARDSON: It's very eye-opening.

ACTING CHAIRPERSON CAREY: Anger, sadness, all those things. Denial.

So, okay, thank you very much.

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Item 10. Reports.

ACTING CHAIRPERSON CAREY: With that, we have our normal reports. Are there any issues in those reports that Board members wish to raise or that staff feel deserve specific attention?

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Item 11. Discussion of other Board matters

ACTING CHAIRPERSON CAREY: Seeing none, any other Board matters?

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Item 12. Public testimony

ACTING CHAIRPERSON CAREY: Seeing none, this is
an opportunity to be afforded at every meeting for any member of the public to address the Board on any other matters that they would care to share with the Board. Is there anyone who wishes to speak to the Board today?

Seeing none, Ms. Cappio.

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**Item 13. Adjournment**

MS. CAPPIO: I would just respectfully request that we adjourn this meeting in a moment of silence for our beloved general counsel, Tom Hughes.

ACTING CHAIRPERSON CAREY: Thank you for that.

*(Period of silence.)*

ACTING CHAIRPERSON CAREY: With that, we are adjourned. Thank you.

*(The meeting concluded at 11:41 a.m.)*

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REPORTER'S CERTIFICATE

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

In witness whereof, I have hereunto set my hand this 2nd day of April 2012.

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