California Debt Limit Allocation Committee

Jesse Unruh Building
915 Capitol Mall, Room 587
Sacramento, CA 95814

December 11, 2013
Meeting Minutes

OPEN SESSION

1. Call to Order and Roll Call

Michael Paparian, Chairperson, called the California Debt Limit Allocation Committee (CDLAC) meeting to order at 2:02 p.m.

Members Present:	Michael Paparian for Bill Lockyer, State Treasurer Jennifer Rockwell for Edmund G. Brown, Jr., Governor Alan Gordon for John Chiang, State Controller
Advisory Members Present:	Claudia Cappio for the California Housing Finance Agency (CalHFA) Laura Whittall-Scherfee for the Department of Housing and Community Development (HCD)

2. Approval of the Minutes of the November 13, 2013 Meeting (Action Item)

Alan Gordon moved approval of the minutes from the November 13, 2013 meeting. Upon a second by Jennifer Rockwell, the minutes passed 3–0 with the following votes: Alan Gordon: Aye; Jennifer Rockwell: Aye; Michael Paparian: Aye.

3. Executive Director's Report (Informational Item)

Sean Spear began his report by notifying the Committee Members about changes to documents in the Agenda packet. The first revision is on Item 7.3 related to the San Diego Square Apartments which has been withdrawn. This change is also reflected on the Revised List of Applications, the pink sheet, which identifies all of the projects that were subsequently withdrawn.

Mr. Spear then reported on the Allocation Status Report which is under the Item 3 tab. Pending approval by the Board, the report would be inclusive of the awards made today. The allocation at the end of the year reflects that CDLAC will have close to $2.8 billion remaining for this year. This is about $300 million more than remained last year, and as part of Item 8 staff's recommendation will be to distribute the remaining allocation as carry-forward into the next three (3) years. Staff will present to the Board at the January meeting a review and summary of the allocation usage for 2013. For the most part, the additional amount of allocation remaining in comparison to last year is reflective of the continuing decline in the multi-family applications that CDLAC has been receiving. In comparison to last year, however; the single family allocation is up. Mr. Spear will give the Board a full accounting of the usage of allocation at the January meeting.

Alan Gordon stated that the Controller's Office recently had its bi-annual economics briefing. One of the primary components from the economists that spoke at the briefing was the huge impact that the lack of affordable housing has had on the development and expansion of business in California. There are several national news stories right now about San Francisco and the disaster going on there as wealthy new individuals are forcing out longtime residents. Mr. Gordon asked Mr. Spear if there is any sense as to why multi-family is going down when it would strike him that demographics should be going in the exact opposite direction right now.

Mr. Spear stated that in part it is the nature of the market when it comes to having access to capital for multi-family developers. On the market rate side, there has been a tremendous amount of activity around purchasing existing Class A and Class B multi-family properties. Over the last couple of years, there has been a huge amount of private equity that has provided access to capital for those deals; however, in terms of new construction, for the most part much of the lending community considers that a very high risk at this point. The other factor, particularly when it comes to affordable housing, is that the increasing costs on the construction side translate to an additional amount of subsidy that is needed for many of the projects. As many are aware, the resources, particularly the public resources used to subsidize new multi-family construction, have declined. Prop 1C funds from HCD and alike have been nearly fully expended. Redevelopment agencies and the funds that it had traditionally set aside for subsidizing multi-family housing are no longer available.

Mr. Spear concluded his report by giving a quick status update on the anticipated timing of the release of the three housing agencies cost study. The report for that study has been drafted, but there remain a few follow-up items that are still being discussed with the consultants on the study. These items relate to the comments that the Advisory Committee provided as well as other interested parties in the study. It is likely that the cost study report will be out some time in early January. There will be a series of public meetings to discuss the findings of the study as well as begin to discuss what may or may not translate into some policy and regulatory decisions between the Agencies from that point forward.

4. California Housing Finance Agency (CalHFA) Single Family Housing Program Presentation
(Informational Item)

Mr. Spear reported that Item 4 actually relates to Item 6 and the request by CalHFA for additional Single Family Housing (SFH) allocation. Staff thought it would be a good opportunity for CalHFA to discuss its latest actions related to SFH. He then introduced Claudia Cappio, Executive Director of CalHFA.

Claudia Cappio briefly stated that it has been a few years since CalHFA has been lending. CalHFA is once again in the lending business; therefore, it is important for the Committee to be aware of how the market has changed and how CalHFA is responding to that change. Ms. Cappio then turned the discussion over to Tim Hsu, Director of Finance CalHFA, who gave a Power Point presentation on the current status of CalHFA's loan portfolio and its revamped SFH Program. This overview provided the context for its large allocation requests found in Item #6.

Mr. Hsu presented an overview of CalHFA's loan portfolio and the strategies it might embark upon to finance the re-launching of its programs. As the agency fills up its origination pipeline, it has requested new Mortgage Revenue Bond (MRB) Volume Cap for the year. Mr. Hsu stated that there were other members of the agency in the audience to help with any questions the Committee or public may have. Mr. Hsu introduced Ken Giebel, Director of Marketing, who is also heading up the SFH Origination Site; Rick Okikawa, Program Administrator; Cheryl Angst, Secondary Marketing Area Lead and Jim Foley, Secondary Marketing Area Chief.

Ken Giebel covered the lending side of the presentation. Mr. Giebel gave an overview of three items; first, what a current CalHFA borrower looks like these days; second, what its current first mortgage products are, which are basically Federal Housing Administration (FHA) products; and, lastly, what CalHFA has planned for its first mortgage products in the first quarter of 2014.

Mr. Giebel reported on the demographics of the people who are currently using the California Homebuyer Down-Payment Assistance Program (CHDAP) product, which reduces the borrower portion of the required down-payment to 3%. These figures are based on 2012 and 2013 data. CalHFA did over 6,000 CHDAP loans during the last fiscal year. Of those loans, 3,141 were sampled. 97.5% were FHA mortgages; 64% of those loans were to ethnic borrowers with 52% of them Hispanic borrowers; and15% were single person borrowers.

Mr. Giebel went on to report that 75% of FHA CHDAP loans were in seven (7) counties: including the Inland Empire, Sacramento, San Joaquin, Fresno and Eastern Los Angeles. Those seven (7) counties have the best affordability indexes. 65% of these loans were made to borrowers under 80% of the median income. It is currently more affordable to purchase a home than rent a similar home in these counties at the current sales price limits.

Mr. Giebel then reported that the loan program objectives are to enable low and moderate income first-time homebuyers to enter a market where it is cheaper to own a home rather than rent, so the buyer may begin to build wealth through home equity. CalHFA will provide first-time homebuyer loan products with a public purpose; for example, the Extra Credit Teachers Program (ECTP) and the Energy Efficient Mortgage Program (EEM). CalHFA has been working with teachers and the California State Teachers' Retirement System (CalSTRS) to get the ECTP Program up and running.

Mr. Giebel went on to state that CalHFA's EEM Program was just approved by its Board. It will be one of the newer products as they look at the housing needs across the state to determine where it can be of service. CalPLUS FHA and CalHFA FHA are two (2) existing loan products of CalHFA that will be re-instituted, with the funding source To Be Announced (TBA). The subordinate financing used with the

CalPLUS product has a built-in Zero Interest Payment Loan (ZIP) which can be used with CHDAP or the ECTP. CalPLUS has a premium price on it right now of fifty (50) basis points. All of these products may be combined with a Mortgage Credit Certificate (MCC). CalHFA also has a 'straight' FHA loan and a Cal-EEM (Energy Efficient Mortgage Program), which is an FHA product that gives a 5% grant for energy efficiency. CalHFA will add 4% to that grant. CalHFA also has a CalPLUS Conventional product that will have a built-in ZIP. That conventional product will be one-of-a-kind because it will be a Fannie Mae product offered only to Housing Finance Agencies (HFA) making loans available up to 97% of the home value. There will also be a straight CalHFA Conventional Loan Product which will make loans available up to 90% of the home value.

Mr. Giebel went on to state that the CalPLUS FHA and the CalPLUS Conventional Loan Products have the 3.5% of purchase price ZIP DPA built in to it. The CalHFA and the CalHFA Conventional will be at the current market rate on the first-mortgage portion, and the Cal-EEM has the additional total 9% of home value grant built in to it. CalHFA, CHDAP or ECTP and MCC products may be combined with any of these first-mortgage products.

Mr. Giebel reported on CalHFA's compliance underwriting guidelines. Borrowers must have a minimum credit score of 640 as per the Government Sponsored Enterprise (GSE) requirements. Borrowers with a credit score between 640 and 680 must make a minimum cash (down-payment) contribution of $1,500. The cash contribution is $1,000 on a credit score of 681 or greater. The total debt-to-income ratio (DTI) can be no more than 43%. The maximum combined loan to value ratio (CLTV) is 103%. It is a little higher on the Cal-EEM + Grant because as permitted by FHA. Homebuyer education is required on first-mortgage products through either eHome, an eight (8) hour on-line course, or in person with a NeighborWorks counselor. A two-year home warranty protection plan is required for CalHFA first-mortgages, except on new construction since it is already required as per California law.

Tim Hsu reported on how CalHFA is financing all of its lending activities. CalHFA is now using the "To Be Announced (TBA) Market", which is a proven reliable funding channel. TBA Market-based financing is a way of hedging loan commitments as well as delivering originations directly to the mortgage-backed securities market. This funding channel does not require private activity volume cap since bonds are not being issued. The loan is being securitized into a Mortgage-Backed Security (MBS) and then sold as a package into the capital markets. The resulting economics of this TBA Market model is that an Agency earns a one-time up-front premium based on the size of the loan. It could be a ½ point, one point, etc.

Mr. Hsu stated that the Power Point presentation shows the life cycle of a loan, how it goes through securitization, how it becomes an MBS, and how it gets sold in the capital markets. This model does not require an MRB because bonds are not being issued. [Item 2, Attachment A, a written copy of the PowerPoint Presentation, is included at the end of the December 11, 2013 Meeting Minutes]

Mr. Hsu further stated that CalHFA does prefer to diversify some of its origination revenues into earnings that look less like an up-front premium and more like an annuity. This strategy aligns better with CalHFA's ability to sustain its operations over the ups and downs of the mortgage origination cycle. At this time, CalHFA is financing all of its originations using the TBA Market model; however, staff expects to bring before the CalHFA Board, sometime in March, a request to have the ability to do the TBA Market hedging of the pipeline in-house. Over the summertime, CalHFA expects some of the origination revenues it has accumulated to be used as collateral to back MRB's in the tax-exempt market. All of this is why CalHFA is requesting volume cap this year.

Mr. Paparian asked for clarification regarding the energy efficiency program (EEM) and how it's funded.

Ken Giebel stated that it is funded through a premium on the first mortgage that funds the EEM over time.

Mr. Hsu stated that the key thing is the interest rate on the first loan is higher than what a borrower would get from his bank. For example, if you got a FHA insured loan from a bank that is 4%, the loan that CalHFA would give you would have a higher coupon than 4%. By having a higher coupon, CalHFA would get a premium back. That premium, in part, would help to finance the EEM loan. Some of that is predicated on the borrower class which is much more sensitive to the amount of up-front down payment required rather than to an increase in interest rates.

Mr. Paparian asked if the borrower would get the advantage of lower cash out-of-pocket and then pay for it over time.

Mr. Hsu replied yes. In this case, an investment is made in energy efficiency upgrades so their utility bills would be lower.

Mr. Paparian then asked if the energy efficiency upgrades are beyond the normal requirements under Title 24.

Ken Giebel stated that energy efficiency upgrades have to be pre-approved and then the upgrades are audited to make sure they take place and they make the level of the amount of money saved that is given to them.

Claudia Cappio stated that the housing is not always new, so this could be generationally very significant in terms of energy use.

Mr. Paparian thanked the speakers.

5. <u>Consideration and Approval of a Revised Resolution 09-93 for the Emerald Cove Senior Apartments Project (09-117) – Qualified Residential Rental Program</u> (Action Item)

Misti Armstrong reported that Emerald Cove was originally acquired by Jamboree Housing from the City of Huntington Beach (the "City"), which represented all tenants as being income qualified. At that time, the City requested that no tenants be permanently relocated and the Project Sponsor did not budget for such since they were told by the City that no one was over-income. However, the Project Sponsor became aware of eleven (11) over-income residents after the Project was acquired and bonds were issued. As of the placed-in-service date, ten (10) of the 162 total units were still being rented to over-income households.

Ms. Armstrong further reported that Jamboree is now requesting a revision to the existing CDLAC resolution to account for the ten (10) over-income units. Both the City and Jamboree have informed CDLAC staff that since Huntington Beach is a high rent city, it would be very difficult to find comparable rental housing for these senior residents. Additionally, a mandatory permanent relocation of these residents would be highly disruptive to their lives. Lastly, Jamboree has been able to revise the project financing plan to balance the loss of tax credit equity for the once-restricted units against the increased rental income expected to be received for the proposed market rate units. The revision will change the project from 162 rent restricted units to 152 rent restricted units. The project will now include 113 units at 50% of the area median income and 39 units at 60% of the area median income.

<u>RECOMMENDATION</u>:

Staff recommended approval of reducing the restricted units from 162 units to 152 units on CDLAC resolution 09-93 for Emerald Cove Senior Apartments.

Alan Gordon moved approval of staff's recommendation. Upon a second by Jennifer Rockwell, the motion passed 3-0 with the following votes: Alan Gordon: Aye; Jennifer Rockwell: Aye; Michael Paparian: Aye.

6. <u>Consideration of Appeals and Applications for an Allocation of the State Ceiling on Qualified Private Activity Bonds for Single Family Housing Programs and Awards of Allocation</u> (Action Item)

a. Consideration of appeals**

Sarah Lester stated that there are no appeals.

b. Consideration of applications – See Exhibit A for a list of Applications***

<u>Local Pool</u>

The Local Pool received two (2) applications requesting their 2013 Fair Share Single Family Housing allocations for a total of $41,690,550; both for the issuance of Mortgage Credit Certificates under their respective single-family homeownership programs.

<u>CalVet/CalHFA Pool</u>

The CalVet/CalHFA Pool received two (2) CalHFA applications: one (1) requesting $200,000,000 in 2013 allocation for the issuance of Mortgage Revenue Bonds under their single-family homeownership programs; and one (1) application requesting $180,000,000 in reverted 2010 carry-forward allocation for the issuance of Mortgage Credit Certificates under their single-family homeownership programs.

RECOMMENDATION:

Staff recommended approval of the aggregate total of $421,690, 550 to fund these four (4) single-family housing programs.

a) $41,690,550 to fund two (2) programs in the Local Pool; and

b) $380,000,000 to fund two (2) programs in the CalVet/CalHFA Pool.

Alan Gordon moved approval of staff's recommendation. Upon a second by Jennifer Rockwell, the motion passed 3-0 with the following votes: Alan Gordon: Aye; Jennifer Rockwell: Aye; Michael Paparian: Aye.

7. **Consideration of Appeals and Applications for an Allocation of the State Ceiling on Qualified Private Activity Bonds for Qualified Residential Rental Projects, $30 million Maximum Allocation Limit Waivers, and Awards of Allocation** (Action Item)

a. Consideration of appeals**

Misti Armstrong stated that there are no appeals.

b. Consideration of applications – See Exhibit A for a list of Applications***

Rural Pool

The Rural Pool received one (1) complete application for a project requesting allocation for a total of $4,750,000.

General Pool

The General Pool received twenty-two (22) applications for projects requesting a total allocation of $234,101,527: four (4) of which failed to meet the threshold QRRP requirements; and two (2) of which were later withdrawn but are expected to be heard at the January CDLAC Meeting. One (1) project that previously-received a HUD Forward Commitment Letter from CDLAC Staff has recently received its HUD Firm Commitment approval and is now ready to be heard by the Committee for an award of allocation at this time.

RECOMMENDATION:

Staff recommended approval of sixteen (16) QRRP multi-family housing projects for a total of $160,185,276. There is one (1) project over the $30,000,000 cap. Staff recommended approval of a waiver of the $30,000,000 cap for the Baker Ranch Apartments Project, Agenda Item 7.8, for a total of $39,000,000.

a) $4,750,000 to fund one (1) project in the Rural Pool; and

b) $155,435,276 to fund fifteen (15) projects in the General Pool.

Alan Gordon moved approval of staff's recommendation for a waiver of the $30,000,000 cap for Baker Ranch Apartments. Upon a second by Jennifer Rockwell, the motion passed 3-0 with the following votes: Alan Gordon: Aye; Jennifer Rockwell: Aye; Michael Paparian: Aye.

Jennifer Rockwell moved approval of staff's recommendation of $160,185,276 for all sixteen (16) projects. Upon a second by Alan Gordon, the motion passed 3-0 with the following votes: Jennifer Rockwell: Aye; Alan Gordon: Aye; Michael Paparian: Aye.

7.1	13-118	SL	California Municipal Finance Authority	Willows Senior Apartments	Willows	Glenn	$4,750,000
7.2	13-033	SL	City of Hayward	Hayward Senior Housing II Apartments	Hayward	Alameda	$5,608,749
7.4	13-106	CA	Housing Authority of the County of Kern	Park 20th Apartments	Bakersfield	Kern	$6,500,000

7.6	13-109	LC	Area Housing Authority of the County of Ventura	Los Feliz Phase II Apartments	Thousand Oaks	Ventura	$5,500,000
7.7	13-110	CA	Housing Authority of Oxnard	Terraza De La Cortes Apartments	Oxnard	Ventura	$11,000,000
7.8	13-112	RF	California Statewide Communities Development Authority	Baker Ranch Apartments	Lake Forest	Orange	$39,000,000
7.9	13-113	CA	California Statewide Communities Development Authority	College Park Apartments	Lancaster	Los Angeles	$5,340,000
7.10	13-114	LC	California Statewide Communities Development Authority	Fernwood Senior Apartments	Lancaster	Los Angeles	$4,880,000
7.11	13-115	RF	California Statewide Communities Development Authority	Sherwood Villa Apartments	Victorville	San Bernardino	$7,030,000
7.12	13-117	CA	Housing Authority of the City of San Diego	Alpha Square Apartments	San Diego	San Diego	$6,291,527
7.13	13-116	LC	California Statewide Communities Development Authority	Sierra Villa East Apartments	Lancaster	Los Angeles	$6,900,000
7.14	13-120	SL	California Housing Finance Agency	Mountain Breeze Villas Apartments	Highland	San Bernardino	$12,000,000
7.15	13-121	LC	California Housing Finance Agency	Villa San Pedro Apartments	San Jose	Santa Clara	$20,215,000
7.16	13-122	RF	California Municipal Finance Authority	Avenida Serra Apartments	San Clemente	Orange	$5,000,000
7.18	13-128	RF	California Statewide Communities Development Authority	Willow Village Apartments	Rialto	San Bernardino	$9,170,000
7.19	13-129	SL	California Statewide Communities Development Authority	Minerva Manor Apartments	Fontana	San Bernardino	$11,000,000

8. <u>Consideration of Staff's Recommendation to Transfer and Award Unused 2013 Allocation to Various Issuers</u> (Action Item)

a. Consideration of appeals**

Sarah Lester stated there are no appeals.

b. Consideration of applications – See Exhibit A for a list of Applications***

Sarah Lester reported that after the December 11, 2013 allocations have been made, there will be a 2013 volume cap balance of approximately $2,789,557,022 remaining. This amount is likely to increase as projects that have received bond authority may issue only a portion of their allocation or fail to issue bonds entirely. Staff surveyed the 10 most highly active issuers that were contacted for the 2012 lump sum carryforward analysis. Five of these issuers responded with interest in receiving a lump sum 2013 carryforward allocation. The multifamily housing applicants identified both projected demand over the next three program years and their existing unused 2012 lump sum carryforward allocation. Staff recognizes that some of the anticipated demand identified by the issuers is based on projects that may or may not ultimately come to fruition. However, staff is comfortable with these assumptions and feels that the projected amounts are reasonable at this point in time. Lastly, the Exempt Facility bond issuer, CPCFA, also indicated that it is possible that a sufficient number of projects may be approved over the next three years to support a 2013 lump sum allocation.

In order to ensure the best chance that no amount of 2013 allocation is lost, staff is recommending that the remaining allocation as of December 11, 2013 be made available to the following issuers in the following amounts:

NAME OF ISSUER	RECOMMENDED TRANSFER AMOUNT
City of Los Angeles	$150,000,000*
California Statewide Communities Development Authority	$700,000,000*
California Municipal Finance Authority	$750,000,000*
Sacramento Housing and Redevelopment Agency	$50,000,000*
California Pollution Control Financing Authority	$1,000,000,000

*This carry-forward allocation will be applied to future individual QRRP requests for allocation made by the issuer to the Committee until the amounts are exhausted.

RECOMMENDATION:

Staff recommended that of the remaining $2,789,557,022 December 11, 2013 allocation, $1.65 billion be transferred to the four (4) aforementioned issuers of multifamily housing projects for the Qualified Residential Rental Project Program, and all allocation remaining thereafter be transferred to the California Pollution Control Financing Authority for the Exempt Facility Program; all on a carry-forward basis.

Alan Gordon moved approval of staff's recommendation. Upon a second by Jennifer Rockwell, the motion passed 3-0 with the following votes: Alan Gordon: Aye; Jennifer Rockwell: Aye; Michael Paparian: Aye.

9. Public Comment (Action Item)

There was no public comment.

10. Adjournment

The Chairperson adjourned the meeting at 2:34 p.m.