MINUTES
FINANCE/AUDIT COMMITTEE OF THE CONNECTICUT HOUSING FINANCE AUTHORITY ("CHFA") REGULAR MEETING
November 17, 2011

Members Present: Michael Lyons, Chairperson of the CHFA Finance/Audit Committee
Orest T. Dubno, Vice Chairperson of the CHFA Board
Anne Foley representing Benjamin Barnes, Secretary, Office of Policy and Management
James Heckman representing Howard Pitkin, State Banking Commissioner
Donald Kirshbaum representing Denise Nappier, State Treasurer
Kimberly Neilson

Mr. Lyons, Chairperson of the Finance/Audit Committee (the "Committee"), called the meeting to order at 9:12 a.m. in the Connecticut Room of CHFA's offices, 999 West Street, Rocky Hill, Connecticut 06067.

Mr. Lyons asked the Committee members to consider the minutes from the October 13, 2011 and October 27, 2011 meetings.

> Upon a motion made by Mr. Dubno, seconded by Ms. Neilson, the Committee members voted unanimously in favor of adopting the minutes from the October 13, 2011 and October 27, 2011 meetings as presented.

Mr. Myskowski, CHFA Investment and Debt Management Officer, discussed the resolution authorizing the commencement of preparations for the 2011 Series G bond issue in an amount up to $20,000,000. He explained that the sale would provide tax-exempt bond financing for two multifamily developments in New Haven: 1) River Run Apartments, an elderly 140 unit Section 8 apartment complex that was approved by the Board in October for up to $8,800,000 to purchase and rehabilitate the property; and 2) West Village Apartment, a mixed-use property requesting $7,900,000 of construction financing for the purchase of the residential portion of the property and for substantial rehabilitation, resulting in 127 supportive housing apartments. Mr. Myskowski mentioned that the proposal for West Village Apartments is being presented to the Mortgage Committee and Board today. Mr. Myskowski explained that the bonds may be closed before the initial closing on West Village Apartments to combine with the other multifamily projects for a common tax plan; and since West Village Apartments is a construction loan only to be financed with short-term bonds, negative arbitrage is not expected to be an issue if the closing on the loan is delayed.

In response to a question, Mr. Myskowski explained that in addition to providing funding for both developments, the amount of the issue includes a capital reserve fund deposit under the General Bond Resolution and other costs of issuance. He noted that the amount of bonds actually sold will only include the amount necessary to finance the projects.

Mr. Kirshbaum asked about the existing mortgage for River Run Apartments. Mr. Craford explained that the mortgage loan was acquired by CHFA from the Department of Economic and Community Development ("DECD"). The loan continues to accrue interest, but no payments are being made on the mortgage loan. Mr. Craford stated that when CHFA received the mortgage, there was no value on the property. However, a lien remains. Mr. Craford explained the structure of the new mortgage which is expected to generate sufficient income to pay the new loan to CHFA. Noting that the Internal Revenue Service ("IRS") rules allow the bonds to be outstanding for some time, Mr. Craford explained how CHFA will earn income on the new loan during the construction period. He stated that this deal is part of an overall tax plan to meet IRS requirements and maximize earnings. Mr. Kirshbaum stated that even though there is little expectation that the original investment will be repaid, this proposal allows CHFA to save the property and the affordable housing units. By keeping a lien on the property, Mr. Craford explained that if the property is ever sold or transferred and there are excess funds, CHFA would have the ability to recoup the original investment.

Mr. Myskowski stated that since the bond issue is relatively small, the bonds for these projects will be sold in conjunction with other CHFA bonds. Therefore, the resolution authorizes the President – Executive Director to determine the underwriters for the bonds so that the underwriters will be the same underwriters that are designated for the bonds they are sold with.

> Upon a motion made by Mr. Dubno, seconded by Ms. Foley, the Committee members voted unanimously in favor of recommending to the Board for consideration the resolution regarding the commencement of preparations for the 2011 Series G Bond Issue.

Mr. Lyons asked Ms. Whetstone, CHFA Interim President – Executive Director, to discuss the proposed 2012 Budget and Plan of Operations. Ms. Whetstone explained that the Committee and Board will be asked to consider two separate resolutions: 1) to adopt the annual Budget and Plan of Operations for 2012; and 2) to authorize staff to make decisions on small and emergency loans up to $250,000 per loan from the Investment Trust Account ("ITA") not to exceed an aggregate of $2,500,000 per year.

A discussion ensued on the proposed staff authorization for small and emergency loans. Mr. Craford clarified that the intent of the authorization is for multifamily programs and on rare occasions for single-family emergencies such as septic repair, burst pipes, etc. A suggestion was made to lower the individual loan amounts for single-family loans. Mr. Dubno explained that the Board requested a resolution delegating authority to staff to make these smaller loans to avoid having to wait in emergency situations and so that the Board can focus on bigger issues. After further discussion, there was consensus to leave the resolution as drafted and to allow staff some flexibility. Staff will be reporting to the Committee and Board on the small and emergency loans, and the authorization can be modified at any time as needed.

> Upon a motion made by Mr. Dubno, seconded by Ms. Foley, the Committee members voted unanimously in favor of recommending to the Board for consideration the resolution regarding Authorization for Small and Emergency Loans.

Ms. Whetstone noted that in response to suggestions made at the November 3, 2011 Special Finance/Audit Committee meeting, staff made changes to the budget presentation. Mr. Ward, CHFA Administrator of Planning and Research, explained that the chart listing CHFA's bond issuance was amended to include 2009, 2010 and 2011. Additionally, columns were added to show the volume cap, carryforward issued and the total bonds issued in each of the respective years. Mr. Ward explained that the remaining carryforward available for 2009, 2010 and 2011 are shown in the next chart. He noted that the carryforward anticipated for 2011 may change to approximately $141,000,000 rather than $129,076,662 and does not include any additional reallocation of state carryforward from the Office of Policy and Management ("OPM"). Mr. Ward stated that a new chart was provided showing the carryforward and home mortgage program funding for 2012 through 2014. He noted that the assumptions on the home mortgage program funding assume the current practice of allocating the entire annual tax-exempt bond volume cap for multifamily and the State's Long-Range Housing Plan of purchasing 2,750 single-family mortgages annually. Mr. Ward summarized that based on those assumptions there will be sufficient resources in 2012 to meet the goal for single-family mortgage purchases. However, in 2013 and 2014, there will be a shortage of approximately $450,000,000 to meet the annual goal. In response to a question, Mr. Ward stated that the projected funding deficit for the single-family program does not take into consideration any new allocation or other carryforward allocation. Mr. Craford stated that the chart shows how CHFA manages the funding sources available from prepayments, carryforward allocation, and convertible option bonds. He explained the diminishing availability of sources of funds for single-family in future years, including the substantial drop in prepayments which is anticipated to continue to be low for the foreseeable future. Mr. Craford stated that if CHFA did not allocate any volume cap allocation to multifamily in years 2012, 2013, and 2014, there would still be a shortfall of approximately $150,000,000 in 2015 for single family based on the annual goal of 2,750 mortgage purchases. He noted that CHFA is hopeful that it will receive additional unused volume cap allocation from OPM. Ms. Neilson stated that CHFA may have to reconsider in the future splitting the new volume allocation between single-family and multifamily.

Mr. Ward explained that the charts showing the multifamily rental homes' goals have been amended to represent only those affordable rental homes that will be financed by CHFA. He mentioned that the supportive housing units and the state-funded housing portfolio moderate renovation initiative, funded from non-CHFA financing resources, have been removed from the goal. Ms. Whetstone stated that although CHFA intends to hold the 9 percent low-income housing tax credit round in the fall of 2012, generating approximately 550 to 600 units, the reservations will not be made until 2013 and will be included in the 2013 goals. Mr. Ward indicated that the plan of operations chart was amended to include program activities related to CHFA staff support and/or administration of supportive housing and the state-funded housing portfolio.

Ms. Foley noted that she expressed a concern at the November 3, 2011 Finance/Audit Committee that the multifamily goal of 600 units was too low, and staff was asked to explore whether 600 units is the maximum that can be supported by CHFA. Mr. Craford spoke about the funding gap with multifamily projects. He explained how CHFA has been able to sell its bonds and fund multifamily projects as a result of the federal capital subsidies and rental subsidies that have been available. The lack of the additional capital subsidies and rental subsidies in 2012 limits CHFA's ability to make more multifamily mortgage loans with tax-exempt bond financing. Ms. Whetstone explained how CHFA derived its financing goal based on the FLEX and Housing Trust Account capital funding available through DECD and rental subsidies from the Department of Social Services. She stated that CHFA could do more than 600 multifamily units if there were more operating subsidies or capital subsidies. Ms. Whetstone clarified that the new properties being underwritten need operating and/or capital subsidies. Ms. Foley requested that the resolution be amended to direct staff to examine options for increasing externally funded capital and/or operating subsidies which can allow an increase in rental homes to be financed above the 600 units specified in the 2012 annual budget; and that if any externally funded capital and/or operating subsidies become available, the goal and amount allocated in the 2012 annual budget should be increased commensurate with such availability.

Mr. Kirshbaum questioned whether there is any federal activity that could impact CHFA and its cash flow. Mr. Ward indicated that the federal government is locked into contracts and is obligated to pay existing contracts. However, it is unlikely that any new programs will be funded. Mr. Craford stated that CHFA could end up in a better situation. He noted that CHFA is working with the other housing finance agencies and the National Council of State Housing Agencies to modify the Mortgage Credit Certificate Program to make that more workable.

In response to a question that arose at the November 3, 2011 Special Finance/Audit Committee meeting, Ms. Whetstone reviewed the details of the expenses for temporary employees. She stated that when the 2011 budget was prepared, there was no consideration of the Federal Emergency Homeowners' Loan Program ("FEHLP"). The estimated actual costs for temporary employees for Emergency Mortgage Assistance Program ("EMAP") and FEHLP for 2011 are $1,714,500, and the total estimated actual costs for temporary employees for 2011 are $1,862,200. A majority of the temporary expenses for FEHLP in 2011 was a direct charge to the federal grant. The costs for temporary employees for EMAP and FEHLP for 2012 are anticipated to be $980,200 and will be carried in the CHFA operating budget. Ms. Whetstone indicated that there will be a need for temporary staff in 2012 to perform the recertifications and service the loans. Mr. Craford noted that CHFA was recognized by the federal government and received additional funding because it had the staffing and mechanisms in place to get the federal funding out within such a short time frame.

Ms. Whetstone stated that at a future meeting, staff would like to review with the Board CHFA's approved Development Cost Policy Statement, which sets forth guidelines for CHFA staff for cost standards, and cost review and limits on CHFA funding.

Mr. Craford reported on the projected revenues for 2012. He summarized that the total net revenues projected for 2012 are $9,700,000.

> Upon a motion made by Mr. Kirshbaum, seconded by Ms. Foley, the Committee members voted unanimously in favor of recommending to the Board for consideration the resolution regarding the adoption of the Annual Budget and Plan of Operations for 2012 as amended to direct staff to examine options for increasing externally funded capital and/or operating subsidies to allow an increase in rental homes to be financed above 600 units specified in the annual budget; and in the event externally funded capital and/or operating subsidies become available the goal and amount allocated in the 2012 annual budget shall be increased commensurate with such availability.

Mr. Myskowski provided an update on the New Issue Bond Program ("NIBP"). He explained that CHFA had authorization to convert up to approximately $192,000,000 of Treasury NIBP for the single-family program. Approximately $100,000,000 of that authorization was converted last year, and CHFA converted the remaining $91,720,000 of escrow bonds. Mr. Myskowski explained that CHFA was able to take advantage of the Treasury NIBP rule changes to use its allotted draws and take advantage of falling Treasury rates to achieve a fixed rate of 2.32 percent on the 30-year bonds and a full spread mortgage rate of approximately 3.5 percent on approximately $202,000,000 for single-family mortgages. He noted that Citibank bought $45,000,000 of bonds to address its investment needs under the Community Reinvestment Act. Mr. Craford mentioned that due to changes in Treasury rules, CHFA's quantitative consultant, cfX, was able to structure a bond to take advantage of the changes; and this last piece of the issue came together after Citibank stepped in and agreed to purchase $45,000,000 of bonds at rates which the market would not support. He noted that CHFA was able to leverage approximately $380,000,000 of AAA rated bonds, utilizing only $13,000,000 of CHFA's and the State's credit, while achieving a 3.5 percent full spread mortgage rate.

Mr. Myskowski reported on the state-supported special obligation bond issue. He mentioned that CHFA received authorization to sell $50,000,000 of bonds for EMAP and sold approximately $30,000,000 last year. Mr. Craford discussed FEHLP and the immediate need to continue with the EMAP assistance. After working with OPM and the Treasurer's office to get expedited authorization for the state to provide debt service to allow CHFA to issue bonds quickly to support additional EMAP loans, CHFA was able to sell the remaining $20,000,000 of bonds for EMAP. The bonds were closed on November 14, 2011 under the Special Needs Housing Mortgage Finance Program Indenture. Mr. Myskowski mentioned that M.R. Beal was the book running senior manager for the bond issue.

Ms. Lambert, CHFA Manager of Research and Analysis, briefly discussed the monthly tracking report. She noted that CHFA has financed the development of more than 550 new rental homes and the rehabilitation of almost 1,800 rental homes. The total development activity will create more than 4,000 jobs and more than $42,000,000 in new state revenue.

Mr. Craford provided the delinquency report and noted that delinquencies are close to the same rate as reported for the same period last year.

There being no further business to discuss, upon a motion made by Ms. Neilson, seconded by Ms. Foley unanimously approved, the meeting was adjourned at 10:09 a.m.