MINUTES
FINANCE/AUDIT COMMITTEE OF THE CONNECTICUT HOUSING FINANCE AUTHORITY ("CHFA")
SPECIAL MEETING
October 13, 2011

Members Present: Orest T. Dubno, Vice Chairperson of CHFA Board and Chairperson of the CHFA Finance/Audit Committee
Donald Kirshbaum representing Denise Nappier, State Treasurer
Michael Lyons
Kimberly Neilson
Howard Pitkin, State Banking Commissioner

Other Board Members Present: Catherine Smith, Chairperson of CHFA Board and Commissioner of the Department of Economic and Community Development
Anne Foley representing Benjamin Barnes, Secretary, Office of Policy and Management
Jeffrey Freiser
Barbara McGrath

Mr. Dubno, Chairperson of the Finance/Audit Committee (the "Committee"), called the meeting to order at 10:08 a.m. in the Board Room of CHFA's offices, 999 West Street, Rocky Hill, Connecticut 06067.

Ms. Whetstone, CHFA Interim President – Executive Director, indicated that the purpose of the special meeting is to have a broad discussion and obtain input on the Proposed 2012 Budget and Plan of Operations. Staff will provide a more detailed budget at the special meeting that will be held on November 3, 2011.

Mr. Ward, CHFA Administrator of Planning and Research, stated that he will be reviewing the major factors impacting the proposed 2012 Budget and Plan of Operations, as well as the 2011 activities and implications. He indicated that the feedback received today will help staff develop the proposed 2012 Budget and Plan of Operations.

Mr. Ward provided an overview of the major 2011 landscape issues with the financial market, noting that the financial market had a big influence on CHFA's activities in 2011. He explained how the short-term interest rates have severely reduced CHFA's earnings on short-term investments. He noted that earnings in 2007 were approximately $6,000,000 compared with $500,000 projected for 2011. Mr. Ward spoke about CHFA's tax-exempt borrowing costs compared with taxable borrowing costs. He discussed CHFA's estimated single-family rate compared with conventional mortgage rates and the estimated full spread mortgage versus lending rates. Mr. Kirshbaum questioned why CHFA's borrowing rates did not drop as much as the 30-year treasury or 10-year treasury yields. Mr. Craford, CHFA Executive Vice President, explained that the federal government intervened, so interest rates dropped. Additionally, the municipal and housing markets were significantly affected by the economic problems.

Mr. Ward spoke about the New Issue Bond Program ("NIBP") created by the federal government in 2009 to subsidize housing finance agency bond costs and make the bond programs for housing finance agencies more competitive. In response to a question, Mr. Craford explained that CHFA has taken advantage of the NIBP and is in the market with a second big deal that will use up CHFA's allocation before the expiration of the program at the end of the year. Mr. Ward explained that the lower borrowing costs of the NIBP have enabled CHFA to offer lower mortgage rates.

Mr. Ward reviewed the two basic revenue projections used by CHFA. He explained that revenue projections are prepared for the rating agencies based on extreme assumptions and depression scenarios. He noted that these assumptions are done and presented to the rating agencies every time CHFA issues bonds. Mr. Ward stated that CHFA has been able to maintain its AAA bond rating because of the financial strength of the organization under these stress tests. He explained that the assumptions made for business projections for the annual operating budget are based on reasonable and likely scenarios.

Mr. Ward discussed the 2011 program accomplishments. He stated that the estimated single-family mortgage purchases for 2011 are 1,600 compared with 2,794 in 2008. Mr. Ward indicated that single-family mortgage purchases in 2010 were 1,963 because of the homebuyers' tax credit that provided an incentive for single-family purchases. He noted that CHFA's purchases track with Connecticut home sales. Mr. Ward spoke about the significant increase in activity in the State Emergency Mortgage Assistance Program ("EMAP") because of the Federal Emergency Homeowner's Loan Program ("FEHLP"). A question arose as to whether CHFA will be ready to handle more foreclosure activity and whether there is any possibility of extending either FEHLP or EMAP. It was noted that FEHLP ended September 30. Ms. Whetstone mentioned that there have been internal discussions about possible legislative action for the next legislative session, and CHFA will head up discussions about funding sources and/or other tools to provide foreclosure assistance in Connecticut.

Mr. Ward mentioned that staff estimates that CHFA will finance approximately 1,890 affordable rental homes in 2011. He explained that the number of affordable rental homes financed represents the rental homes approved by the Board. Staff was asked to break out the affordable rental homes financed into categories (i.e. new construction and rehabilitation).

Mr. Ward reviewed the 9 percent Low-Income Housing Tax Credits that were awarded over the last several years and the 9 percent Low-Income Housing Tax Credits estimated to be available for the next two years. Ms. Whetstone acknowledged the work done by staff to be proactive with developers to utilize 4 percent Low-Income Housing Tax Credits with tax-exempt bond financing. It was noted that of the 1,890 affordable homes projected to be financed in 2011, approximately 1,035 are projected to be financed with 4 percent Low-Income Housing Tax Credits and tax-exempt bonds in 2011.

Mr. Ward summarized CHFA's accomplishments in 2011 compared with the State's goals. He discussed other 2011 CHFA institutional operational activities which included the implementation of Board policies, the implementation of various recommendations by outside groups to improve customer service, the implementation of improved tracking and reporting capabilities in support of asset management activities, and the simplification and improved transparency of the single-family loan submission process. In response to a question about other organizational improvements, Ms. Whetstone mentioned that staff is working with its independent auditors on an information technology strategy plan that emphasizes internal efficiencies. The plan is expected to be finalized by the end of the year and staff anticipates presenting in February broader strategic information technology improvements that are more customer oriented.

Mr. Ward discussed the outlook for 2012, noting that 2012 is not expected to improve from 2011. He summarized that staff believes that very low short-term interest rates will continue to limit investment earnings available for relending. Mr. Ward stated that government supported conventional rates are likely to remain low. Home sales and prices will continue to be stagnant. Mr. Ward indicated the likelihood of continued high demand for mortgage foreclosure assistance programs, counseling and continued demand for affordable multifamily rental homes. Mr. Ward mentioned that the NIBP will be ending. He indicated that federal tax reform threatens tax-exempt housing bonds and low-income housing tax credits. He noted the possible further reduction in federal subsidies for HOME, CDGB, rental assistance and public housing programs. Mr. Ward stated that there are also discussions about government-sponsored enterprise reform. He noted, as a positive factor, that the State of Connecticut has recognized that affordable housing is an economic driver and job creator. Mr. Ward mentioned that the State of Connecticut is providing $30,000,000 of new funding for supportive housing and $100,000,000 of new funding for affordable housing. He stated that CHFA is positioned to help with the Governor's housing and economic development agenda.

Mr. Ward reviewed some of the proposed 2012 priorities which include four major areas to support the basic mission of CHFA. He noted the need to aggressively pursue a federal housing policy agenda that includes the preservation and improvement of tax-exempt bonds, preservation and improvement of low-income housing tax credits and an affordable housing role for state housing finance agencies in the reformed housing finance system. Mr. Ward indicated the need to work actively with other housing finance agencies to find new financing mechanisms, products and programs for single family. He stated that CHFA will work collaboratively with the Department of Economic and Community Development ("DECD") to leverage tax-exempt bonds for the development of additional multifamily rental homes. Additionally, CHFA hopes to develop a 10-year comprehensive plan for the transformation of the state-funded public housing. In response to a question, Ms. Whetstone clarified that the 10-year comprehensive plan is for the state-funded public housing. She stated that approximately 13,000 units are publicly owned, approximately 1,000 units are owned by nonprofits and approximately 1,000 units are owned by for profits. A question arose as to whether and how the increased collaboration with DECD will impact CHFA and its budget and plan of operations. Ms. Smith indicated that some of the collaborative efforts have already occurred. Ms. Whetstone stated that representatives from the Connecticut Development Authority, Connecticut Innovations and CHFA will be meeting to identify synergies between the organizations and potential ways to share resources. A suggestion was made to articulate collaborative efforts as part of a Board objective for 2012. Staff was also urged to work with the Connecticut Energy Finance and Investment Authority ("CEFIA") about energy efficiency programs for housing. It was noted that CEFIA may be able to benefit from some of the expertise at CHFA.

Mr. Ward highlighted the annual funding sources estimated for 2012. As a result of the lack of 9 percent Low-Income Housing Tax Credits for 2012, a suggestion was offered to discuss the forward allocation of 2013 Low-Income Housing Tax Credits or moving the 2013 calendar into late 2012 as part of the budget process so that there is consistency and predictability for the development community. Ms. Kovel indicated that staff was going to make a recommendation to shift the calendar so that applications for the 2013 round would be due at the end of 2012. There was consensus that further discussion on this issue should be part of the budget process and staff should bring forward a recommendation at the October 27, 2011 Board meeting.

Mr. Ward reiterated that one of the important decisions to be made by the Board is the allocation of annual volume cap authority between single-family and multifamily programs. Since 2001, all of CHFA's carryforward has been designated to single-family programs and fully utilized through 2008. Once the carryforward is locked in, the bonds must be issued for the designated purpose within 3 subsequent years or the bonding authority is lost. Mr. Ward explained that new subsequent year bonding is utilized for any multifamily bond issuance required. This practice gives multifamily a longer lead time for development and minimizes the likelihood of bonding authority lapsing. Mr. Ward explained that by statute, CHFA receives 60 percent of the volume cap annually, which is approximately $200,000,000. He stated that during the first year, the bonding may be used for either homeownership or affordable rental housing. At the end of the first year, the unused authority may be "carried forward" but must be designated and locked in for either purpose. Mr. Craford noted that ever since the carryforward has been locked in for single family, it has never been lost. It was noted that the Office of Policy and Management polls the recipients of the annual cap and makes a decision by the end of the year on how to utilize any unused cap. Mr. Craford explained that typically CHFA receives the state bond authority that does not get utilized by other state agencies because CHFA is able to successfully utilize the allocation.

Some questions arose as to whether it is still advantageous to lock in the carryforward for single-family given the current bond market, the economy and CHFA's inability to purchase as many single-family mortgages as the past. Given the knowledge currently available, Ms. Smith questioned whether staff would change its current strategy for managing the annual bonding and carryforward. Mr. Craford stated that he does not believe that the current strategy should change this year. By locking in the carryforward for homeownership, Mr. Craford stated that CHFA has been able to successfully manage the resources. Ms. Whetstone noted that Mr. Craford has been leading collaborative discussions on a national level to develop additional financing tools. Mr. Craford mentioned that NCSHA is looking into ways to make changes to federal law. He noted that by the end of next year, CHFA will know more about the direction of Congress and the fate of NIBP. In response to a question as to whether CHFA should consider designating some of the carryforward to multifamily, Mr. Craford reiterated that there is always enough bonding authority in the new year for multifamily. He explained that in accordance with Connecticut

General Statutes, 15 percent of the annual volume cap has to be utilized for multifamily housing. Mr. Craford stated that there has never been a year when there was a need for more multifamily bonds than that year's allocation. He indicated that the allocation would be harder to use if they were locked in for multifamily. Mr. Kirshbaum noted the importance of ensuring that the resources get allocated. Mr. Craford indicated that with the additional tools for the single-family programs, CHFA will be able to continue to effectively utilize the bonding authority that is available to CHFA.

A suggestion was made to look at more creative legislation for multifamily housing as a result of the current economic climate and lack of 9 percent low-income housing tax credits for 2012.

Mr. Kirshbaum suggested that the tax-exempt authority be used for economic development opportunities elsewhere if it cannot be used by CHFA. He questioned whether the state could use tax-exempt bonds rather than general obligation bonds.

Ms. Neilson discussed some of the changes required under the Dodd-Frank Act and other potential changes that will affect mortgage lending, making it more difficult for borrowers to qualify for mortgages. She noted that housing finance agencies will become much more important for affordable housing borrowers. Ms. Neilson also spoke about the huge backlog of foreclosures that have been clogged by the mediation process. She suggested that the state develop its own foreclosure program.

Staff was asked to identify some of the advantages and disadvantages associated with the options for designating and locking in the volume cap authority.

Mr. Ward reviewed the estimated resources available for allocation for 2012. In response to a question about prepayments, Mr. Craford stated that prepayments vary significantly depending on interest rates. Mr. Craford will provide information on prepayments year to date.

Mr. Ward stated that the next meeting to discuss the budget will be November 3, 2011. In response to a question, Ms. Whestone noted that at the November 3, 2011 meeting, staff will be coming back with programmatic recommendations.

There being no further business to discuss, upon a motion made by Ms. Neilson, seconded by Mr. Kirshbaum and unanimously approved, the meeting was adjourned at 11:35 a.m.