MINUTES OF THE REGULAR MEETING
OF THE HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION
HELD AT THEIR OFFICE AT 677 QUEEN STREET, SUITE 300,
ON THURSDAY, NOVEMBER 13, 2008
IN THE CITY AND COUNTY OF HONOLULU, STATE OF HAWAII

The Board of Directors (Board) of the Hawaii Housing Finance and Development Corporation (HHFDC) met for their Regular Meeting at 677 Queen Street, Suite 300, Honolulu, Hawaii, on Thursday, November 13, 2008, at 9:00 a.m.

Chairman Charles King called the meeting to order at 9:00 a.m.

Present:
Director Charles King, Chairman
Director David A. Lawrence, Vice Chairman
Director Betty Lou Larson, Secretary
Director Georgina Kawamura
Director Ralph Mesick
Director Los Banos

Executive Director Karen Seddon

Excused:
Director Theodore E. Liu
Director Linda Smith
Director Richard Toledo

Staff Present:
Sandra Ching, Deputy Attorney General
Craig Iha, Deputy Attorney General
Scott Kami, Budget & Finance
Janice Takahashi, Chief Planner
Darren Ueki, Finance Manager
Rick Prahler, Development Branch Chief
Stan Fujimoto, Development Project Manager
Marlene Lemke, Real Estate Services Section Chief
Dean Sakata, Housing Finance Specialist
Patrick Inouye, Housing Finance Specialist
Brian Davidson, Housing Finance Specialist
Byron Chock, Housing Finance Specialist
Jocelyn Iwamasa, Housing Finance Specialist
Leonell Domingo, Development Project Manager
Beth Malivestitii, Development Project Coordinator
Esa Pablo, Secretary to the Board

Guests:
Jon C. Wallenstrom, Forest City Hawaii
Race Randle, Forest City Hawaii
Tom Yamamoto, Forest City Hawaii
Scott Settle, Yamamoto & Settle
Kevin Carney, EAH, Inc.
Marian Gushiken, EAH, Inc.
Makani Maeva, Allied Pacific Development
Joelle Chiu, Allied Pacific Development
Stephen Spears, Kauai Habitat for Humanity
Kathi Hasegawa, Hawaii Habitat for Humanity
Mike Condry, Micon Real Estate
Sarah VanDevanter, Micon Real Estate
Gary Furuta, Hawaii Housing Development Corporation
Patti Barbra, Hawaii Community Development Corporation Board

Chairman King declared a quorum present.

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Director Lawrence moved, seconded by Director Mesick, to approve the meeting minutes of October 9, 2008.

The motion was unanimously approved.

Chairman King noted that the Board will be losing one voting member at 11:00 a.m. and would like to do as much as possible before then. Furthermore, Chairman King announced the resignation of Director Richard Toledo Jr. and stated that there is a search for an interim replacement from the Big Island.

Director Lawrence moved, seconded by Director Mesick, to approve Staff’s recommendation:

That the HHFDC Board of Directors approve a junior mortgage DURF interim loan to Forest City Hawaii Residential, Inc., or other successor entity approved by HHFDC, substantially as described in this For Action, subject to the following:

A. The Availability of DURF funds;
B. Approval and release of DURF funds by the Governor;
C. Approval and execution of necessary loan documents by the Executive Director;
D. Execution of a development agreement; and
E. Compliance with all rules and regulations and such other terms and conditions as may be required by the Executive Director.

Development Project Manager Stan Fujimoto summarized the For Action, stating that the Kamakana Villages at Keahului project (Project) is a 2,206-unit master planned mixed-use affordable housing project on Palani Road, located in Keahului, Kailua-Kona, Hawaii.

On April 11, 2008, the Board approved Forest City Hawaii Residential, Inc. (Forest City) as the developer for the Project. The For Action seeks approval of a $25 million DURF interim loan (DURF loan) that will enable Forest City and the HHFDC to seek entitlements, additional public funding of $8.2 million to complete Phases I and II, and another $76 million required to complete the balance of the project.

Forest City will be invested up to approximately $7 million if no additional public funding are acquired and will make a projected profit of $23 million if all $84 million of additional public funding is obtained and the entire project is completed and occupied.

Senior Vice President of Forest City Hawaii Residential, Inc. Jon Wallenstrom introduced his development team: Mr. Race Randle, Forest City; Mr. Tom Yamamoto, self-employed consultant; and Mr. Scott Settle, Yamamoto & Settle; and provided a brief update on the Project.

Director Kawamura inquired on the $84 million in public funding to complete the Project. Mr. Wallenstrom stated that Forest City would look to project-based financing solutions such as Community Facilities District (CFD) financing, Tax Increment Financing (TIF), as well as Federal and County public assistance.

Director Kawamura inquired on the 2009 Legislature funding request for the mid-level road. Mr. Fujimoto stated that the mid-level road is assumed not to be required for Phases I and II. However, the HHFDC has the option to discontinue funding of the DURF loan at any point that the assumptions made of the mid-level road are determined to be false.
Director Lawrence inquired on the DURF loan terms listed in Sections III.A.3 and 5, of the For Action. Mr. Fujimoto stated that the HHFDC plans to convey land to Forest City in phases as the Project proceeds, reiterating that if the loan term assumptions are found to be false, the HHFDC can stop its funding at anytime.

Director Kawamura inquired on other funding sources for the construction of the mid-level road. Mr. Fujimoto stated that the County of Hawaii has funded the alignment study, environmental assessment, and construction design for the mid-level road. If the CIP funds are obtained at the 2009 Legislature, the mid-level road could be completed sometime in 2011.

Director Lawrence inquired on the sale of finished undeveloped parcels being sold or leased. Mr. Wallenstrom stated that Forest City tends to be more of a land developer rather than an onsite, vertical developer. However, in this case, the for-sale residential parcels would be sold to onsite developers as fee-simple.

Chairman King inquired on the surrounding neighbors near the Project. Executive Director Seddon stated that Forest City and the HHFDC are coordinating with its neighbors, such as the Department of Hawaiian Home Lands and other landowners.

The motion was unanimously approved.

Director Kawamura moved, seconded by Director Lawrence, to approve Staff’s recommendation:

That the HHFDC Board of Directors approves the change in entity from THM Partners LLC to KRC Partners LLC, subject to the following:

A. The term “Developer” shall include future successors and assigns to KRC Partners LLC, as approved by the Executive Director;

B. Other terms and conditions as may be required by: 1) statutes; 2) administrative rules; and 3) the Office of the Executive Director; and

C. Authorize the Executive Director to take all actions necessary to effectuate the purpose of this For Action.

Development Project Coordinator Leonell Domingo stated that the For Action seeks the approval of the Board to change the Certification of Eligible Developer from THM Partners LLC (THM) to KRC Partners LLC (KRC) for the Holomua affordable for-sale condominium project (Project). On October 1, 2008, THM requested that its affiliate be the developing entity to develop the property as a single purpose entity.

Mr. Domingo opened for questions.

Director Larson inquired on the status of the community’s opposition on the Project. Mr. Domingo stated that there were public testimonies given by residents of the neighboring properties and prospective buyers, either in opposition to or in favor of the Project. However, the Council had voted seven to one, in favor of the Project.

The motion was unanimously approved.

Director Larson moved, seconded by Director Lawrence, to approve Staff’s recommendation:

A. That the HHFDC Board of Directors Approve a Proposal to Execute a Development Agreement and Conveyance of five (5) Lots for the development of six (6) Single Family Detached Affordable Units on Puolo Road in Hanapepe, Kauai, as substantially described in this For Action:

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1. Proposal for Puolo Road, Hanapepe, Kauai submitted by Kauai Habitat for Humanity, Inc., six (6) single family affordable units targeted to families at or below 80% HUD median income;

2. Execution of a development agreement with Kauai Habitat for Humanity substantially consistent with this For Action; and

3. Conveyance of the Property to the applicable party substantially in accordance with this For Action and the executed development agreement;

B. Subject to the following:

1. If a development agreement is not executed with the developer within one calendar year from the date of this approval, HHFDC reserves the sole and absolute right to terminate negotiations with the developer to reissue the RFP; and

2. The term “developer” shall include any successor or assign approved by HHFDC.

C. The Executive Director approving all actions and undertaking all tasks necessary to effectuate the purposes of this For Action.

Development Project Coordinator Beth Malvestiti stated that the For Action seeks approval to execute a development agreement and conveyance of five lots for the development of six single-family detached affordable units on Puolo Road, located in Hanapepe, Kauai (Project).

A Request for Proposal (RFP) was issued in May 2008 for the development of affordable housing units on five vacant lots located on ceded land. In August 2008, two proposals were received.

A selection committee was compiled and consisted of three HHFDC employees. Based on the RFP criteria, the selection committee selected Kauai Habitat for Humanity (KHH), a local affiliate of the Habitat for Humanity International, as the developer for the Project.

The six affordable units will be targeted to families at or below 80% of the U.S. Department of Housing and Urban Development (HUD) median income.

KHH is a non-profit organization offering a 0% mortgage to the families that occupy the units. All committed homeowners are required to attend a homeownership and financial counseling workshop as well as provide 700 hours of sweat equity.

The standard features of the one story single-family units will consist of solar hot water heating, energy-efficient appliances, 30-40 year roof shingles, plywood cabinets, laundry hookup, stove, and refrigerator.

The Project’s total estimated budget is $650,350 and is scheduled to start construction in the first quarter of 2009, with an estimated completion date in March 2010.

Ms. Malvestiti introduced Mr. Stephen Spears, the Executive Director of KHH and opened for questions.

Director Lawrence inquired on the maximum amount of units permissible on each zoned lot. Mr. Spears stated that per 6,000 square feet is zoned for one house. However, it is possible to build an apartment complex or townhouse on one of the lots that is 16,000 square feet.

Director Larson commented that the Project provided a great bargain for single-
family homes on Kauai and commended staff on working efficiently to obtain proposals on potential projects.

Executive Director Seddon stated that the HHFDC plans to continue on improving the RFPs on other remnant lots and work with KHH on other potential projects on Kauai.

Chairman King asked that "Executive Director" be inserted in IV. Recommendation Section B.2., to read as follows: "The term "developer" shall include any successor or assign approved by the HHFDC Executive Director."

The motion was unanimously approved.

Director Kawamura inquired on the order of the agenda items, stating that the approval of the funds should come before the bonds are issued.

Chairman King asked that the order of the agenda items be amended accordingly.

Director Lawrence moved, seconded by Director Mesick, to approve Staff's recommendation:

That the HHFDC Board of Directors approve the following:

A. Extend the Letter of Intent dated November 15, 2006 for the Hale Wai Vista Phase II project through November 30, 2009, subject to the requirements as set forth in the For Action dated November 9, 2006.

B. Authorize the Executive Director to undertake all tasks necessary to effectuate the purposes of this For Action.

Director Larson recused herself from voting on the For Action.

Finance Manager Darren Ueki presented the For Action, stating that the Hale Wai Vista Phase II project (Project) is a 132-unit new construction family project, located in Waianae.

On November 9, 2006, the Board awarded the following to the Project: a Rental Housing Trust Fund (RHTF) Project Award of approximately $16.2 million; federal and state Low Income Housing Tax Credits (LIHTC); and an allocation of Hula Mae Multi-Family (HMMF) Bonds.

Extensions to the Letter of Intent (LOI) dated November 15, 2006, had been approved by the Board, which will expire on November 30, 2008.

The Project’s revised construction timeline is as follows: Building Permit Acquisition and Construction Start Date - 3rd Quarter of 2009; Project Completion - 4th Quarter of 2010.

Mr. Ueki opened for questions, noting that Mr. Gary Furuta, representing the Project, had a personal matter and is not available at this time.

Director Lawrence inquired on the building permit process. Mr. Ueki stated that in prior discussions with the developer, the proposed 3rd Quarter of 2009 is a relatively conservative estimate.

The motion was unanimously approved.

Director Lawrence moved, seconded by Director Mesick, to approve Staff's recommendation:

That the HHFDC Board of Directors approve the following:

A. Amend the For Action dated November 6, 2006 issuing an Inducement...
Resolution for the Hale Wai Vista Phase II project by extending the deadline to issue Hula Mae Multi-Family Bonds through November 30, 2009.

B. Authorize the Executive Director to undertake all tasks necessary to effectuate the purposes of this For Action.

Mr. Ueki noted the Project’s facts and discussion have been covered in the previous For Action and opened for questions.

The motion was unanimously approved.

Director Lawrence moved, seconded by Director Mesick, to approve Staff’s recommendation that the HHFDC Board of Directors approves the following:

A. Amend the RHTF Project Award loan terms as described in Section III.H., of this For Action.

B. Increase the RHTF Project Award by $2,000,000 to $11,750,000.

C. Authorize the Executive Director to undertake all tasks necessary to effectuate the purposes of this For Action.

Finance Manager Darren Ueki summarized the For Action, stating that the Lokahi Ka’u Affordable Apartments project (Project) is a 306-unit new construction family project, located in Kailua-Kona. Hoʻoʻlehua Housing, LP (Partnership) would own the Project and the Managing General Partner for the Partnership is Hoʻoʻlehua Management, LLC, which is controlled by Allied Pacific Development, LLC.

The Rental Housing Trust Fund (RHTF) Project Award Program provides “Equity Gap” low-interest loans or grants to qualified owners and developers constructing affordable rental housing units.

Mr. Ueki provided background information on the Project, touching upon the following approvals made by the Board:

- December 13, 2007 - adoption of Resolution No. 008, which provided official intent with respect to the issuance of the Hula Mae Multi-Family (HMMF) Bonds and an allocation of federal and state Low Income Housing Tax Credits (LIHTC).
- March 13, 2008 - adoption of Resolution No. 011, authorizing the issuance of bonds for the Project and an increase in the reservation of the federal and state LIHTC.
- October 9, 2008 - approval of a RHTF Project Award in the amount of $9.75 million in the form of an interim and permanent loan.

The Project’s estimated construction timeline is as follows: 1) Bond Issuance Date – November 2008; 2) Construction Start Date – December 2008; Project Completion of the First Building – August 2009; and Project Completion of the Last Building – October 2010.

To address the initial funding shortfalls encountered shortly after the Board’s March 13, 2008 approval due to the loss of the Credit Facility Provider (Fannie Mae) and the softness in the economy, the Project’s financing was restructured with the following requests to: 1) RHTF Project Award request of $9.75 million; 2) increase the bond principal amount from $30.5 million to $33.5 million; and 3) restructuring of the bond to a public issuance of variable rate bonds.

On October 27, 2008, the Partnership verbally informed HHFDC that the investor for the County of Hawaii Affordable Housing Credits was lost. It was requested that the
$2 million gap left by this action be funded out of the RHTF. This would increase the RHTF loan from $9.75 million to $11.75 million.

Also on October 27, 2008, the Partnership verbally advised HHFDC that the Bond Underwriter, LIHTC Investor, and Credit Facility Provider (Freddie Mac) could not accept certain terms of the $9.75 million RHTF loan awarded at the October 9, 2008 HHFDC Board meeting.

On October 29, 2008, the Partnership formally submitted their request for the additional $2 million loan and amendments to certain terms of the RHTF loan. The request stated that the requests would allow the Project to maintain the anticipated bond closing date of November 30, 2008.

The following amendments to the RHTF loan are recommended:

1) Loan Amount: $11,750,000 (increase from $9,750,000).
2) Interest Rate: a) 0% from Initial Closing until Conversation to Permanent Mortgage, and
       b) 1% Thereafter.
3) Payment Terms: Initial Closing to Conversion to Permanent Mortgage: No Payments, Conversion to Permanent Mortgage until Developer Fee Repayment: 10% of available cash flow.
       Upon Repayment of Developer Fee and Loan Maturity: 50% of available cash flow. All remaining principal and accrued interest due at maturity.
4) Form of Loan: Fourth Mortgage Loan secured by a subordinate fee interest in the premises, improvements, and chattels.
5) Additional Security: $2,000,000 1st priority assignment from the sale of the Project’s Affordable Housing Credits.
6) Guarantee: Completion Guarantee. Non-recourse after conversion to permanent loan.
7) Other Terms: 1. Removal of the interest only payment requirement during construction;
       2. Lower the RHTF lien position on the Project to 4th;
       3. The RHTF loan documents would be subordinate to the bond and the senior lien holders;
       4. Removal of the provision requiring the Partnership to acknowledge that all of the Partnership’s obligations, agreements, and completion of the improvements are the direct obligations of any of the Partnership’s partners;
       5. Amend the reappraisal provision to no more than once every three years, unless the Project is in default;
       6. Allow the submission of financial information within 120-days from year-end instead of 90-days;
       7. Amend the Permanent Bond Amount to $19.22 million from the originally approved $19.5 million; and
       8. Removal of the requirement for interim and permanent financing commitments from the County Affordable Housing Credits.

8) All other terms and condition of the RHTF Project Award approved on October 9, 2008 remain unchanged.

Subsequent to the preparation of the For Action, the Partnership informed staff that the contractor is unable to obtain the RHTF required construction and payment performance bond. As a replacement, a letter of credit in the amount of 10% of the construction contract has been offered.
Mr. Ueki opened for questions, introducing Ms. Makani Maeva, on behalf of the Project.

Director Kawamura inquired on the sponsor equity proposed in the original financing structure. Mr. Ueki stated that the sponsor equity is zero. However, any monies obtained from the sale of the Affordable Housing Credits are viewed as developer equity. The Partnership will continue its efforts to sell the Housing Credits in order to fulfill the $2 million 1st priority assignment to the RHTF loan.

Director Lawrence inquired on Section III.H.8., in the For Action, contradicting the intent to generate revenues from the RHTF. Mr. Ueki stated that the original approval of the RHTF required the sale of the Affordable Housing Credits in order to close the RHTF loan. With the loss of the Partnership's investor, that requirement would need to be removed from the LOI in order for the financing of the RHTF loan to proceed.

Director Kawamura inquired on the original RHTF loan amount of $9.75 million being the 1st priority assignment amount from the sale of the Affordable Housing Credits as opposed to a limited amount of $2 million as currently proposed. Mr. Ueki stated that the $9.75 million was based on the sale of the Affordable Housing Credits. Ms. Maeva added that placing the $9.75 million as 1st priority would be difficult to calculate in terms of yields and investments.

Director Mesick inquired on the bonding for the Project. Mr. Terry Metcalf, from Metcalf Construction responded that a letter of credit was created to bridge the 10% repayment cash flow. Ms. Maeva explained that Citibank has moved towards a corporate policy to provide a letter of credit in place of construction and payment performance bonds.

Director Mesick inquired on how the 10% repayment cash flow is determined to be sufficient for the Project. Ms. Maeva stated that a depth analysis was done by Citibank to determine the 10% amount.

Director Mesick inquired on subcontracts being met by the closing of the RHTF loan. Ms. Maeva stated that the subcontracts would need to meet the due diligence of the RHTF. Mr. Metcalf added that the contracts are negotiated and are pending based upon the approval of the bonds and all documents would need to be finalized by December in order to lock the prices in before the New Year.

Director Kawamura inquired on timing issues that are pending on Board approval. Mr. Ueki responded that the approval of the RHTF Project Award and the issuance of the HMMF Bonds would need to be approved in order to keep Freddie Mac's commitment and keep the Project progressing.

Director Kawamura expressed concern as the Budget and Finance (B&F) Director, stating that B&F is intimately involved in the issuance of the bonds, but was not informed of the $2 million shortfall. Due to the limited discussion on the $2 million shortfall, Director Kawamura stated that she will be voting "Nay" on the For Action.

In response to Director Kawamura's concern, Ms. Maeva addressed that the Project is on a very short timeframe and she has made every effort to obtain equity resources to fulfill the project's gap financing. The Partnership is at its peak in terms of equity contributions, providing guarantees on $60 million in loans, covering construction cost overruns, and liability coverage.

Mr. Metcalf stated that everyone has been working very hard on holding this Project together. The Project not only addresses the need of affordable housing to the people that need it, but also provides jobs during these difficult economic times.

Director Kawamura reiteratated on sponsor equity for the Project. Ms. Maeva stated that there is none. Mr. Metcalf stated that the Project is very important to the community and offered to contribute a $100,000 in sponsor equity for the Project. Mr. Ueki explained that with the time given and the tools available, staff has made
every attempt to continue the Project’s progress, while maintaining the fiduciary duties of using state funds.

Director Larson commented that she felt this Project would provide economic stimulus and assist the State during these tough economic times.

Director Mesick commended Ms. Maeva on moving the Project forward given the limited timeframe and issues faced with the financial markets, concurring with Director Larson in terms of the Project providing economic development.

Discussion ensued on sponsor equity and Mr. Metcall’s offer of a $100,000. Ms. Maeva stated that the issue is not the amount of money, but lies within the restructuring of the loan documents.

Director Mesick inquired on providing additional security in the form of cash or mutual funds in order to support the commitment of the sale of credits. Ms. Maeva stated that she did not want to minimize the value of the $2 million and the additional security offered will impact future sales made by the tax credit investor and lender to other buyers of the credits. Furthermore, additional cash contributed to the deal would change the economics of how the loan documents are structured.

Director Lawrence indicated that there are 5 votes on the table, which is adequate to approve the For Action. Chairman King added that negotiations with the Partnership will proceed.

With no further discussions, the motion was passed, with Director Kawamura voting in opposition.

Director Lawrence moved, seconded by Director Larson to approve Staff’s recommendation that the Board approve the following:

A. Approve Resolution No. 016, attached as Exhibit B, which provides for the approval of the issuance of revenue bonds up to $33,500,000 for the Lokahi Ka’u project subject to the provisions recommended in Exhibit C.

B. Authorize the Executive Director to undertake all tasks necessary to effectuate the purposes of this For Action.

Mr. Ueki stated that the For Action seeks the approval of the Hula Mae Multi-Family (HMMF) Bonds for the Lokahi Ka’u Affordable Apartments project (Project).

The Resolution No. 016 satisfies the requirement to effectuate the Bond sale from the HMMF Program and would authorize the issuance, sale, and delivery of the mortgage revenue bond in a principal amount not to exceed $33.5 million and repeal Resolution No. 011.

Mr. Ueki opened for questions with Ms. Makani Maeva, representing the Project.

Director Kawamura inquired on the placement of the bonds. Mr. Ueki stated that as of June 2008 the bond placement was changed from private placement to a public issuance.

The motion was unanimously approved.

Director Lawrence moved, seconded by Director Larson, to recess the Meeting at 10:55 a.m.

Chairman King reconvened the Meeting at 11:03 a.m.

Director Lawrence moved, seconded by Director Mesick, to approve Staff’s recommendation:

HHFDC Regular Meeting – November 13, 2008
That the HHFDC Board of Directors approves the following:

A. Approve a Project Award loan of $6,620,903 to the Koloa Hale Ohana, LP or its successors approved by the HHFDC with terms as shown in III. I. of this For Action, and the issuance of the Letter of Intent subject to the following:

1. Authorization and approval by the Governor of the proposed project and the release of RHTF program funds as mandated under Chapter 15-180, Hawaii Administrative Rules.

2. Execution of documentation satisfactory to the HHFDC outlining the terms and conditions of the Project Award. The documents will specify the standard terms and conditions as required in order to meet all statutory requirements of the RHTF program and the specific terms and conditions that are applicable to the applicant’s request for Project Award funds.

3. Completion of all documentation necessary and required to secure the release of RHTF funds.

4. Certification of the Applicant to comply with all applicable statutory and Program requirements, including but not limited to, Chapters 343, 103D, §103-50 and §104, Hawaii Revised Statutes, as they may relate to the use of State funds.

5. Availability of the RHTF program funds.

6. Applicant will actively renew the USDA 515-RA contract.

B. Authorize the Executive Director to undertake all tasks necessary to effectuate the purposes of this For Action.

Mr. Ueki presented the For Action, stating that the Hale Ohana Apartments project (Project) is a 48-unit family acquisition/rehabilitation project located in Koloa, Kauai. The Project consists of two phases. Both phases were funded by the Farmers Home Administration 515, now known as the United States Department of Agriculture 515 (USDA 515) program. The Project is at risk of going to market and qualifies to prepay its USDA 515 loan and exit the program.

Koloa Hale Ohana, LP (Applicant) proposes to assume the existing USDA 515 loan and request financing to purchase and rehabilitate the Project, and extend its affordability for an additional 30 years.

The Project’s estimated construction timeline is as follows: 1) Building Permit Acquisition - June 2009; 2) Bond Issuance Date - March 2009; 3) Construction Start Date - June 2009; 4) Project Completion - June 2010; and 5) RHTF Loan Closing Date - June 2010.

The contract rent for the USDA 515-RA program is higher than the restricted rent for both the LIHTC and RHTF programs. The majority of the debt service of the RHTF loan will be paid from the higher contract rent from the USDA 515-RA program. Without the USDA 515-RA, the RHTF loan is not feasible. The principal amount of the permanent bond is based on cash flow generated from the lower of market rents or the restricted rents resulting in a lower principal amount.

Staff has reviewed the Applicant’s request and proposes the following:

| Loan Amount: | $6,620,903 Permanent Loan |
| Form of Loan: | Third mortgage Loan secured by the fee simple interest |
| Interest Rate: | 1.00 percent |
| Origination Fee: | None |
| Loan Term: | 360 months (30 years) |

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Payment Terms: Years 1 to 30:
Annual Debt Service consisting of Interest Only payment for the RHTF loan plus 100% of the surplus cash flow after payment of operating expenses, debt service on the bonds, debt service on the USDA 515 loan, funding of required reserves, asset management fees and RHTF interest, and disbursement of Return to Owner approved by the USDA.

Any accrued interest and outstanding loan principal shall be due and payable at end of Loan term.

If the Board approves Staff’s recommendation, a Letter of Intent describing the terms and conditions of the Project Award will be sent to the Applicant to execute and return to the HHFDC by the expiration date of December 12, 2008.

Chairman King asked that “Executive Director” be added to the recommendation in section A., to read as follows: “Approve a Project Award loan of $6,620,903 to the Koloa Hale Ohana, LP or its successors approved by the HHFDC Executive Director with terms as shown in III.I. of this For Action, and the issuance of the Letter of Intent subject to the following:”

Director Larson inquired on the 30-year affordability period being too short. Mr. Ueki explained that the project meets the minimum requirements under the program.

Director Larson inquired on how the acquisition price for the Project is determined. Mr. Ueki responded that the $6.2 million is a negotiated cost between the developer and the current owner. Mr. Condry added that the USDA has a preservation program for affordable housing, which allows an affordable housing developer to negotiate and retain the affordability of a project. The program will raise the rental assistance rents to market rent levels to finance the acquisition and relocation of the project.

Director Lawrence inquired on the reasoning of rehabilitating the Project rather than rebuilding based on the amount of funding requested. Mr. Condry responded that it would not be cost effective to rebuild the project. The Project’s conversion from a cesspool system to a waste water treatment plant facility alone, will cost approximately a million dollars.

Director Larson inquired on retaining the requested amount of $6.6 million to look at other potential projects that would provide more. Mr. Ueki responded that part of the purpose of the RHTF is to assist projects in areas of acquisition, preservation, and rehabilitation. Housing Finance Specialist Dean Sakata added that by preserving these units, it not only preserves the USDA 515 Subsidy Program for the Project, but also preserves the subsidy as a State.

Chairman King commented that this Project is needed in the Koloa area.

Discussion ensued on a longer affordability period and Mr. Ueki asked that further discussions with the Applicant be granted, deferring the For Action to a later date.

Director Larson inquired on specific time constraints for the Project. Mr. Ueki stated that there are no specific time constraints at this point; however, deferring the For Action runs the risk of losing the ability to act on the proposed request.

Director Lawrence moved, seconded by Director Mesick, to withdraw the motion.

Director Larson moved, seconded by Director Mesick, to defer the For Action.

The Meeting recessed at 11:35 a.m.
Chairman King reconvened the Meeting at 11:43 a.m.

Given that there are no pressing time constraints on the remaining For Actions, Mr. Ueki asked that the Board allow staff the opportunity to continue discussions with the developers and return to the Board at a future date.

This For Action item was deferred to a later date.

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Director Larson asked for clarification on recusals. Deputy Attorney General Sandra Ching responded that a recusal is not necessary unless there is a financial interest or personal involvement.

HHFDC Regular Meeting – November 13, 2008
Director Los Banos moved, seconded by Director Mesick, to approve Staff’s recommendations to:

A. Approve the proposed NSP Substantial Amendment to the State of Hawaii’s Consolidated Plan, Action Plan for Program Year 2008-2009;

B. Authorize the Executive Director to make any non-substantive amendments to the NSP Substantial Amendment pursuant to comments received; and

C. Authorize the Executive Director to undertake all tasks necessary to submit and implement the NSP Substantial Amendment to the State of Hawaii’s Consolidated Plan, Action Plan for Program Year 2008-2009.

Planner Lisa Wond summarized the For Action, seeking approval of an amendment to the State’s 2008 Action Plan by including the Neighborhood Stabilization Program (NSP), under Title III of the Housing and Economic Recovery Act of 2008 (Act of 2008).

The Act of 2008 authorizes emergency assistance to state and local governments to acquire and redevelop foreclosed properties that might otherwise become blights on neighborhoods and communities. The State of Hawaii, through the HHFDC, is eligible to receive $19.6 million.

NSP funds may be used for activities such as, but not limited to: 1) establishing financing mechanisms for purchase and redevelopment of foreclosed homes and residential properties; 2) purchasing and rehabilitating homes and residential properties abandoned or foreclosed; 3) establishing land banks for foreclosed homes; 4) demolishing blighted structures; and 5) redeveloping demolished or vacant properties.

However, all NSP funds must benefit households whose incomes do not exceed 120% of the U.S. Department of Housing and Urban Development (HUD)’s area median income (AMI), and at least 25% of NSP funds must benefit households whose incomes are at or below 50% of the AMI. Up to 10% of NSP funds may be used for administrative purposes.

HHFDC staff collaborated with the Counties of Honolulu, Hawaii, Maui, and Kauai, to determine how NSP funds would be used to meet the needs of the State. In reviewing the Counties’ proposals, staff considered areas with the greatest percentage of home foreclosures, areas with the highest percentage of homes financed by a subprime mortgage related loan, and areas identified as likely to face a significant rise in the rate of home foreclosures. Staff also considered housing activities that comply with the NSP requirements, projects or programs that have the capability of being completed within the NSP time restrictions, and projects or programs that will be administered by qualified experienced entities able to effectively carry out the activity in a timely manner.

Based upon the criterions listed above, staff proposed the following allocations to the Counties:

- **City and County of Honolulu:** $5.5 million in two redevelopment activities for Seawinds Apartments and Ewa Villages Apartments.
- **County of Hawaii:** $4.8 million for the Kaloko Rental Housing Project in Kailua-Kona.
- **County of Kauai:** $4.2 million for the redevelopment of three county-owned lots in Waimea and Ele’ele, and for the purchase, rehabilitation, and sale of at least six foreclosed residential properties throughout the County of Kauai.
- **County of Maui:** $3 million for the purchase, rehabilitation, and sale of foreclosed properties in the County of Maui.
A 15-day comment period on the draft NSP Substantial Amendment was held and the HHFDC received 20 letters and emails, most of which were in support of HHFDC's Draft Substantial Amendment. Others recommended that the NSP funds be used for small group transitional living facilities for veterans or youth and the allocation of funds to the neighbor islands be reduced in favor of a larger allocation to the City and County of Honolulu.

Ms. Wond opened for questions.

Chairman King inquired on Oahu not having more allocated funding. Ms. Wond responded that the City and County of Honolulu originally requested $17.5 million; however, the HHFDC wanted to meet the needs of all the Counties.

Director Lawrence inquired on whether there was adequate funding for the requested projects. Ms. Wond responded that the recommended projects had adequate funding available. Furthermore, the City and County of Honolulu will also provide some of the funding resources for the Oahu projects.

Director Larson asked for clarification on the last paragraph, page 1. Ms. Wond responded that program income received from projects using NSP funds may be reinvested for other NSP activities until 2013. However, after the July 30, 2013 deadline, NSP program income is required to be returned back to the U.S. Treasury.

Director Lawrence inquired on the Counties' requests being in line with the NSP requirements. Ms. Wond responded that the HHFDC worked closely with HUD for clarification and guidance on eligible activities for the NSP.

Director Larson inquired on whether the projects had been approved by the Counties and whether the projects could change. Ms. Wond stated that the projects submitted by the Counties had been previously approved by the Counties and the HHFDC will be entering into contracts with the Counties and with non-profit organizations for these specific projects and activities. Chief Planner Janice Takahashi stated that Housing Finance Specialist Brian Davidson will be monitoring the use of the NSP funds to ensure compliance with our approved activities.

Chairman King inquired on when the funds would be available. Ms. Wond responded that the approval process is 45 days. If the HHFDC submits the NSP Substantial Amendment by December 1, 2008 to HUD, approval can be expected by mid to late January 2009.

The motion was unanimously approved.

Executive Director Karen Seddon reported the following on the Urban Land Institute (ULI) 2008 Fall Meeting held at Miami Beach Convention Center: 1) Other states were in the process of using their Neighborhood Stabilization Program (NSP) funds for bulk property purchases of foreclosed properties; 2) Large capital investors indicated that they are very selective on funding and preferred to do the $600 million projects as opposed to the $30 million projects; and 3) The meeting provided an understanding of the challenges that the developers face regarding capital investment and the focus on seeking more government capital.

Director Mesick, who also attended the ULI Meeting, reported on potential opportunities that were discussed, such as stabilizing housing markets through public-private-partnerships and the Obama presidency providing economic development in terms of infrastructure and transportation systems.

Development Project Manager Stan Fujimoto, who accompanied Executive Director Seddon at the ULI Meeting, added that in the Obama National Policy session, there were discussions on Obama's plan to address the economy crisis by providing tax cutbacks and rebates to the working population in order to stimulate
the economy and investing in infrastructure and energy-efficiency.

Director Larson inquired on housing being a part of infrastructure. Executive Director Seddon stated that workforce housing is one of the top priorities in terms of the workforce development priority.

Director Mesick stated that “The City in 2050” was an interesting exhibit, which talked about the need for sustainable communities. Executive Director Seddon added that with the concept of “the more sustainable a community is the more valuable the home,” the HHFDC is looking even more towards sustainable energy-efficient homes.

Director Larson inquired on the remaining amount of Rental Housing Trust Fund (RHTF). Mr. Ueki stated that the RHTF will have approximately $4 million of uncommitted funds once the Lokahi Ka‘u, the Hale Ohana Apartments, and Honokowai Villa projects are funded, with two remaining applications on the Approved List. With the $600,000 - $700,000 obtained from the conveyance tax, there will be approximately $10 million in the RHTF for the 2009 funding round. Staff will continue to work with the remaining projects on the Approved List and possibly bring it back to the Board for approval at a future meeting.

Chairman King inquired on the Iwilei Senior Housing project. Chief Planner Janice Takahashi stated that in the upcoming legislature the HHFDC will be putting in a budget request of $33 million in GO Bonds to fund the project.

Director Larson inquired on the status of the Holomua project. Executive Director Seddon stated that the Holomua project has been approved by the City & County of Honolulu Council and the developers are continuing to work with the senior residents at Kulana Hale.

Director Larson inquired on other workforce affordable housing located in town. Executive Director Seddon stated that the HHFDC continues in its efforts to promote the Corporation’s programs and encourage developers to utilize the 201H process, such as the Holomua project. In addition, the HHFDC is looking at developing partnerships with the private industry as another means of producing affordable housing in the urban core.

Director Larson inquired on the replenishment of the Dwelling Unit Revolving Fund (DURF). Executive Director Seddon stated that the replenishment of the DURF funds is based on project timing. With the approval of the Board, release of funds by the Governor, and a DURF loan agreement, the Corporation is able to put the requested funds to work on affordable housing projects, with the funds returning on an approximately two-year cycle.

With no further business on the agenda, Director Los Banos moved, seconded by Director Mesick, to adjourn the meeting at 12:15 p.m.

V. ADJOURNMENT

[Signature]
BETTY LOU LARSON
Secretary