AMENDED
01/10/2013

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, DECEMBER 13, 2012 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, December 13, 2012, at 9:00 am

CALL TO ORDER/ ROLL CALL

Chairman Ralph Mesick called the meeting to order at 9:05 am

Present:
Director Ralph Mesick, Chairman
~~Director Allan Los Banos, Vice Chairman~~
Director Betty Lou Larson, Secretary
Director Francis Jung
Director Leilani Pulmano
Director Michael Ng
Designee Mary Alice Evans for Director Richard Lim
Designee Scott Kami for Director Kalbert Young

Executive Director Karen Seddon

Excused:
Director Paul Kyno
Director Kalbert Young
Director Richard Lim
Director Allan Los Banos, Vice Chairman

Staff Present:
Colette Honda, Deputy Attorney General
Janice Takahashi, Chief Planner
Darren Ueki, Finance Manager
Rick Prahler, Development Branch Chief
Galen Lee, Fiscal Manager
Stan Fujimoto, Development Section Chief
Marlene Lemke, Real Estate Services Section Chief
Patrick Inouye, Housing Finance Specialist
Byron Chock, Housing Finance Specialist
Jocelyn Iwamasa, Housing Finance Specialist
Peter Nelson, Property Management Coordinator
Lorna Kometani, Housing Sales Coordinator
Lorraine Egusa, Budget Analyst
Kent Miyasaki, Housing Information Specialist
Esa Pablo, Secretary to the Board

Guests:
Julian Lipsher, State of Hawaii Department of Health
Jill Tamashiro, State of Hawaii Department of Health
Delene Osorio, Big Island Housing Foundation
Monika Mordasini, Michaels Development
Glenn Okino, GMO Construction Services
Liz Char, Housing Partners
Ed Otani, Catholic Charities Housing Development Corporation
Doug Bigley, Urban Housing Corporation
Bruce Barrett, Castle & Cooke Hawaii
Gary Furuta, GSF LLC
Keith Kato, Hawaii Island Community Development Corporation
Makani Maeva, Vitus Group
Marvin Awaya, Pacific Housing
Maile Sakamoto, Coalition for Tobacco Free Hawaii
Gene Slater, CSG Advisors

QUORUM

A quorum was present.

II. A. APPROVAL OF MINUTES 11/08/12 Regular Meeting

Designee Evans moved, seconded by Director Jung, to approve the Meeting Minutes of November 8, 2012.

The motion was unanimously approved.

II. B. APPROVAL OF MINUTES 10/11/12 Executive Session

The approval of the Executive Session Meeting Minutes of October 11, 2012 was deferred to the next meeting.

III. A. DISCUSSION AND/OR DECISION MAKING Approve an Award of Federal and State Low Income Housing Tax Credits from the State's 2012 Volume Cap to Meheula Vista I Project Located in Mililani, Oahu, TMK No.: (1) 9-5-002: 032 (portion)

Chair Mesick announced that Agenda Item A is to be removed from the agenda as a result of the Riverside Apartments Project meeting the conditions of its LIHTC Award.

On behalf of the Project, Ms. Delene Osorio and Mr. Doug Bigley thanked the Board.

With no further discussion, Chair Mesick proceeded to Agenda Item B.

III. B. DISCUSSION AND/OR DECISION MAKING Information on Report to the 2013 Hawaii State Legislature Pursuant to Section 201H-202(f), Hawaii Revised Statutes, Relating to Rental Housing Trust Fund Awards

Chief Planner Janice Takahashi presented the For Information, stating that the Report to the 2013 Hawaii State Legislature Pursuant to Section 201H-202(f), Hawaii Revised Statutes, relating to the Rental Housing Trust Fund (RHTF) Awards (2013 Report) is submitted annually, providing the progress of the RHTF and the HHFDC ability to assist those at or below the 30% Area Median Income (AMI).

During the 2012 Calendar Year, the HHFDC received nine RHTF applications, of which four awards were made. The HHFDC exceeded the RHTF 5% set aside requirement and is averaging 9% at 30% and below the AMI.

The largest barrier to adding more units is the lack of funding to subsidize at the very extremely low income level, along with the lack of sufficient income to cover ongoing operating expenses without other substantial rent subsidies.

The 2013 Report will be reviewed by the Governor's Policy Office for approval.

Director Larson stated that being a part of the Governor's prevention on homelessness initiative, the HHFDC needs to create and retain units for that population together with other housing entities and non-profits.

Designee Evans agreed that homelessness is a State issue, not just an HHFDC issue, so along with the Homeless Taskforce and Hawaii Public Housing Authority, HHFDC can continue to look at how best to support the 30% and below AMI.

Ms. Takahashi noted that the statistics on the LIHTC Program show that 55% of Tax Credit project units are serving the 30% and below AMI. While 138 units were set aside for 30% and below AMI, there are 2,817 units serving that income level.

Director Larson stated that it is important to find out the percentage of units serving various income levels within the 30% and below AMI to see where the

gap is.

With no further discussion, Chair Mesick proceeded to Agenda Item C.

III. C. DISCUSSION AND/OR DECISION MAKING
Discussion on the Status of the Hula Mae Single Family Bond and Lending Program

Housing Finance Specialist Dean Sakata presented the For Discussion, providing the Board with program facts and background for the Hawaii Single Family Mortgage Purchase Revenue Bond Program, also known as the Hula Mae Single Family (HMSF).

On October 9, 2012, the 2011 HMSF Program (HMSF Program) announced a Ginnie Mae loan program to the public with the addition of US Bank as the master servicer. Participation in the Ginnie Mae program allows the 2011 HMSF Program to fund government-insured loans through the Federal Housing Administration (FHA), Veterans Affairs (VA), or U.S. Department of Agriculture – Rural Development (USDA-RD).

This is in addition to earlier changes which included loan reservation by lenders being accepted on a "first-come, first-serve" basis rather than requiring advanced reservation of funds and eligible borrowers having the option of a low interest rate program or down payment assistance (DPA) program that provides borrowers with up to 3% of the purchase price of the home.

As of December 4, 2012, the 2011 HMSF Program has approximately $33 million of the approximately $43 million in lending capacity remaining.

The HHFDC has reserved approximately $11.3 million for 31 mortgages, 20 of which have been pooled into Fannie Mae in the form of Mortgage Backed Securities (MBS).

In response to low conventional interest rates, the 2011 HMSF Program offered a lower interest rate for the first $15 million in loan reservations.

Fannie Mae increased the guaranty fee in December 2012 by 12 basis points and an additional 0.5 basis points in January 2013. These increases could be passed on to homebuyers; however, the Executive Director decided that HHFDC would absorb the guaranty fee increases for loans pooled and funded after December 1, 2012 until further notice.

Marketability of the HMSF Program and its new features will require proactive marketing to stakeholders, which the HHFDC plans to do by reorganization of staff positions and duties, along with public-private partnerships to insure program success.

The Executive Director opted to halt temporarily, the exchange of private activity volume cap for additional Mortgage Credit Certificate (MCC) capacity to allow Staff and the stakeholders to focus on assisting more homebuyers through the HMSF Program.

Pass-through Bonds for new mortgages will require the HHFDC to change its HMSF Program process by establishing a pipeline to deliver the MBS at closing, minimizing interest rate risk.

Advantages:

1. Lower interest rates in the current market.

2. Mitigation of negative arbitrage by issuing bonds and bonds in the pass-through will be issued when loans have already been originated.

3. The investors for pass-through bonds include non-municipal bond investors, which potentially broadens the market for HFA bonds.

Risks:

1. Default risk. The HHFDC will be holding loans in its HMSF portfolio until loans can be placed in a bond issue.

2. Interest rate risk. Since a bond issue would not establish the cost of funds prior to originating mortgages, the HHFDC will need to set interest rates in anticipation of future bond issue.

3. The pass-through bonds are a recent development and consequently, the market is limited to a few participants.

The HHFDC has been approved by Fannie Mae to provide Fannie Mae HFA Risk-share loans up to $20 million in total volume. The program was created under the premise that risk traditionally underwritten by Fannie Mae would instead be underwritten by the HFA in return for preferred terms.

Advantages:

1. The HFA Risk-share program benefits from lower fees.

2. Does not require private mortgage insurance relative to Fannie Mae market products.

Risks:

1. Default Risk. The HHFDC will be required to portfolio the HMSF loans originated until the loans meeting certain requirements to be pooled to an MBS. The minimum time necessary to convert the loan to MBS is 6 months.

2. Commitment of funds. Participation in the program requires the commitment of HHFDC funds to initially purchase loans with the funds being reimbursed when the loans are polled to MBS. Additional reserves would be committed from the HMSF Program to mitigate default risk.

In response to Chair Mesick, Mr. Sakata clarified that after six months the bonds become a Fannie Mae guaranteed MBS loan.

Taxable Bonds are not subject to tax-exempt bond restrictions, providing HHFDC the flexibility for the HMSF Program to serve a broader range of clients.

Advantages:

1. Excess spread from refunding not subject to arbitrage rebate that limits the amount of profit that can be earned through an economic refunding.

2. Use of spread is not subject to tax-exempt refunding requirement of directly benefiting mortgages.

3. Ability to expand financing products to:

    a. Non-first time homebuyer,
    b. Higher income homebuyer than IRS limits,
    c. Refinance existing mortgages, and
    d. Homeowner rehabilitation

Risks:

1. Taxable mortgages have a higher interest rate than tax-exempt.

2. The spread between tax-exempt and taxable rates varies. Historically, the

spread has been much larger than it is in the current market.

The DPA addresses the lending needs of homebuyers that have limited equity. The HHFDC would need to amend its statutes in order to provide DPA loans.

Advantages:

1. Potential broadens the availability of DPA to lenders that currently do not participate in the DPA program due to concerns about risk.

2. HUD may require DPA to be funded directly from HFA. Funding DP at closing would comply with a potential change in HUD policy.

Risk:

1. By funding DPA directly, HHFDC incurs the risk of losing the funded DPA if the loan is not pooled to an MBS. The DPA is repaid through a portion of the interest paid by the MBS; the funds are at risk if the loan is not polled into an MBS.

HHFDC staff is conducting due diligence to refund certain outstanding bonds through the public issuance of taxable bonds. Using taxable financing allows HHFDC to keep the increased spread, which is not the case under the IRS for tax-exempt bonds.

The HHFDC will work with its financial advisor, underwriter, bond counsel, and the Department of Budget and Finance to structure the refunding of its outstanding bonds, anticipated to be issued in the first quarter of 2013, in which staff will present its recommendation for the Board's approval at a future meeting.

Financial Advisor Gene Slater further discussed the strategic implications of the proposed program options in reference to the distributed Single Family Program Update and Strategy report, noting that the goal of the program is to simplify the rules for a more "user-friendly" and desirable product.

In reference to the HFA Risk-share program, Mr. Slater clarified that HHFDC, the issuer, does not hold loans, but rather the loans are placed into a Fannie Mae pool. There is a set-aside of $250,000 available in case of loan default, with $16 million available in the general coffers. Mr. Sakata added that the HHFDC has not yet funded the $250,000 and is currently in the application process to become a Fannie Mae seller.

With regard to staff time/workload, Executive Director Seddon stated that an outside marketing consultant would be hired temporarily, until positions can be filled for the marketing side of the program. Initially two to three staff positions are needed, with the potential to expand over time.

In the State strategy to reduce its long term bond cost, Designee Kami stated that in refinance deals the State takes the debt service savings; on the other hand, the proposed program creates additional cash flow to subsidize or buy down rates of new mortgages.

Mr. Slater stated that the time limit on the $10 million program hedge for rate fluctuation would last until 2014, in which the HHFDC could then have the option to go through a competitive procurement process to select someone to find potential investors.

With much discussion, Chair Mesick asked for a business case that would articulate the following information:

1. Business opportunity

2. Competition
3. Financial Plan - identify resources needed, anticipated income expense, accountability
4. Risk Management - understanding of interest rates needed and how it will be managed.
5. Repurchase credit - perception and what is set aside.

Chair Mesick applauded the hard work of Mr. Slater and staff.

Designee Kami asked that suspension of the Mortgage Credit Certificates (MCC) program also be addressed within the proposal.

RECESS
10:40 am

With no further discussion, a motion was made by Director Larson, seconded by Director Jung, to recess the meeting at 10:40 am.

The motion was unanimously carried.

RECONVENED
10:55 am

The Board reconvened the meeting at 10:55 am and proceeded to Agenda Item D.

III. D. DISCUSSION AND/OR DECISION MAKING
Discussion on the Public-Private Preservation of the Hawaii Rental Housing System Revenue Bond Program Portfolio

As directed by the Board, the HHFDC is evaluating the disposition of its six Hawaii Rental Housing System (HRHS) rental projects, engaging the services of CBRE to perform a multi-phase valuation study on the properties under the HRHS.

The initial phase of this study is anticipated to be completed by mid-January 2013 and will assess the strengths and weaknesses of the HRHS portfolio, serving as the basis to develop the range of possible future scenarios and options.

In preparation of the Request for Proposal (RFP), the following factors are being considered.

1. Affordability set-asides. The current allocation of affordable unit set-asides may be different from the restrictions assigned to future operators. The distribution of these settings greatly impact valuation.

2. Limitations on annual rent inflation. HHFDC's current rents are below the program limits. The pace of possible rent escalations greatly impacts portfolio valuation and illustrates the need to find balance between current versus future residents.

3. Follow on financing burdens to HHFDC. A subsequent 4% LIHTC syndication with Tax-Exempt bonds would likely lead to a corresponding requirement for RHTF gap financing.

4. Continuation of Rental Assistance Program (RAP) commitments. The proper duration and affiliation of the RAP program going forward under a disposition scenario is unclear.

5. Distribution and/or reservation of potential proceeds. Potential sales proceeds could be used to create a dedicated reserve fund for HRHS projects, being deposited into the RAP fund, etc.

6. Achievable market values versus replacement cost values. Achievable prices under a sale scenario may be significantly below replacement cost values. This is not atypical; however, the extent of the differential and impacts need to be explored.

The Board and staff discussed that the right balance of mixed incomes to generate the best return will need to be determined, while keeping the overall mission of the agency in mind. There needs to be a macro perspective rather than focusing

on one issue in isolation.

Staff is taking advantage of the positives and negatives of the City and County of Honolulu's Request For Proposal (RFP) in creating its RFP for the HRHS portfolio.

The use of proceeds, if any, will be directed to adding to the affordable housing inventory and/or adding funds to the Rental Assistance Program (RAP).

In reference to section III. B. of the For Discussion, the Board directed staff to look into a potential conflict of interest.

With no further discussion, Chair Mesick proceeded to Agenda Item E.

III. E. DISCUSSION AND/OR DECISION MAKING
Discussion on the 2013 Qualified Allocation Plan Modification

Designee Kami stated for the record that he was a member of the Pacific Housing Assistance Board, one of the entities that is testifying today, and would need to recuse himself if any action would be taken. Executive Director reassured that this item would strictly be discussion only.

Programmatic facts and background information on previous changes to the Qualified Allocation Plan (QAP) were noted by Finance Manager Darren Ueki.

Over the course of the last year, the Board has discussed various aspects of the QAP that could possibly be modified with regard to the Low Income Housing Tax Credit (LIHTC) program. Topics of discussion were noted as stated within the For Action.

With combined input from members of the 2012 QAP Review Committee, the Board of Directors Finance Subcommittee, and public comments, the staff has attempted to modify the QAP.

Staff is seeking comment and additional guidance from the Board prior to finalizing the modified QAP into the Draft 2013 QAP, which will be presented to the Board for approval at a future Board Meeting. This approval will allow staff to proceed with the required public comment period and finalization of the 2013 QAP.

Executive Director Seddon asked Chair Mesick to share the discussions of the Finance Subcommittee.

Chair Mesick summarized the Finance Subcommittee findings, stating that they are looking at past experiences of the QAP and ways to be more efficient in terms of allocating its limited resources. Executive Director Seddon added that any change to the QAP can result in unintended consequences, making it very difficult to determine exactly how the provisions should be changed to insure the most efficient allocation.

Clarification on the QAP process were noted and Chair Mesick opened for public testimony.

Mr. Marvin Awaya, Pacific Housing Assistance; Mr. Julian Lipsher, State of Hawaii Department of Health; Ms. Makani Maeva, Vitus Group; Mr. Gary Furuta, GSF LLC; Mr. Keith Kato, Hawaii Island Community Development Corporation; and Mr. Doug Bigley, Urban Housing Corporation; provided their comments on the draft modifications of the QAP.

Chair Mesick noted that this is the first viewing of the modified QAP for the Board and Finance Subcommittee.

The preferred timeline for the approval of the 2013 QAP would be in January 2013, considering the approval process has been delayed, resulting in less time for applications to go out and proposals coming in.

Designee Kami mentioned that the Vice President of Munekiyo & Hiraga, Inc. also sits on the Pacific Housing Assistance Board, which may create a need for Director Pulmano to recuse herself from voting on any action pertaining to the QAP.

Recusal of voting on the QAP was questioned for all parties. Response is to be followed up with Deputy Attorney General Sandra Ching.

It was decided that the Finance Subcommittee would meet again on the QAP to sort through the comments provided and report its recommendation to the Board at a future Board Meeting. Staff was asked to provide the Finance Subcommittee a matrix with the comments received at today's meeting along with findings from the 2013 QAP Committee.

A major concern brought up by the testifying entities was attributed to the acquisition/rehabilitation portion of the QAP.

Director Larson suggested that the HHFDC look at how the agency could partner with its sister housing agencies in working together to accomplish its mission as a State, over the upcoming year.

IV. REPORT OF THE EXECUTIVE DIRECTOR

With no further discussion, Chair Mesick proceeded to the Report of the Executive Director.

Executive Director Seddon referred to the distributed HHFDC Resource Book for the Board's review, provided by the Planning & Evaluation Office. The three discussion items from the agenda were noted to be strategic discussions for a better understanding on the direction of the agency.

The recent Washington DC NCSHA Conference had only about 28 executive directors in attendance, providing a more informal setting to meet with government housing officials and others in the housing industry to discuss housing matters.

In reference to Exhibit C, the HHFDC is requesting $25 million for the Rental Housing Trust Fund (RHTF) (biennium), $20/$10 million for the Dwelling Unit Revolving Fund (DURF), $7.25 million for Low Income Housing Tax Credit (LIHTC)loans, and $7.8 million for Waiahole to be submitted in the Governor's Budget for the 2013 Legislation. However, only $10/$10 million was approved for the DURF and $7.8 million for Waiahole for this Legislation, with the HHFDC receiving its annual RHTF income from the conveyance tax.

Director Larson stated that it is her understanding that Senator Oakland is asking for a big request for affordable housing CIP funding for the RHTF and looking for ways to increase revenue of the conveyance tax.

V. ADJOURNMENT

With no further discussion, a motion was made by Director Larson, seconded by Designee Evans, to adjourn the meeting at 1:38 pm.

The motion was unanimously carried.

Betty Lou Larson

BETTY LOU LARSON
Secretary