# 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, FEBRUARY 9, 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, February 9, 2012, at 9:00 a.m.

**CALL TO ORDER/ ROLL CALL**

Chairman David Lawrence called the meeting to order at 9:03 a.m.

Present: Director David Lawrence, Chairman
Director Ralph Mesick, Vice Chairman
Director Betty Lou Larson, Secretary
Director Michael Ng
Director Paul Kyno
Director Allan Los Banos

Executive Director Karen Seddon

Excused: Director Kalbert Young
Director Richard Lim
Director Francis Jung

Staff Present: Sandra Ching, Deputy Attorney General
Janice Takahashi, Chief Planner
Darren Ueki, Finance Manager
Rick Prahler, Development Branch Chief
Galen Lee, Fiscal Manager
Stuart Kritzer, Asset Manager
Stan Fujimoto, Development Section Chief
Marlene Lemke, Real Estate Services Section Chief
Dean Sakata, Housing Finance Specialist
Patrick Inouye, Housing Finance Specialist
Byron Chock, Housing Finance Specialist
Jocelyn Iwamasa, Housing Finance Specialist
Ken Takahashi, Development Project Manager
Mavis Masaki, Planner
Lorna Kometani, Housing Sales Coordinator
Lorraine Egusa, Budget Analyst
Kent Miyasaki, Housing Information Specialist
Esa Pablo, Secretary to the Board

Guests: Paul Fortino, VB Wilikina
David Nakamura, Mutual Housing Association of Hawaii
Makani Maeva, Vitus Group

**QUORUM**

A quorum was present.

**II. A. APPROVAL OF MINUTES** 12/8/11 Regular Meeting

Director Kyno moved, seconded by Director Los Banos, to approve the Meeting Minutes of December 8, 2011.

The motion was unanimously approved.

**II. B. APPROVAL OF MINUTES** 12/8/11 Executive Session

This item was discussed and approved in the later part of the meeting. (See page 492)

Director Larson asked that it be noted for the record that the January 12, 2012 Board Meeting was canceled.

**III. A. DISCUSSION AND/OR DECISION MAKING**
Approve Resolution No. 41, Authorizing The Issuance of Hula Mae Multi Family Tax-Exempt Revenue Bonds for the Wilikina Apartments Project Located in Wahiawa, Oahu, TMK Nos.: (1) 7-3-009: 003 to 013

Director Larson moved, seconded by Vice Chairman Mesick, to approve staff's recommendation:

That the HHFDC Board of Directors approve the following:

A. Resolution No. 41, attached as Exhibit E, which provides for the approval of the issuance of revenue bonds up to $12,000,000 for the Wilikina Apartments project subject to the provisions recommended in Exhibit D.

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

Finance Manager Darren Ueki presented the For Action, stating that the Wilikina Apartments (Project) consists of 119 family units, located in Wahiawa, Oahu.

The Hula Mae Multi Family (HMMF) Bond Program facts, previous Board approvals, proposed Financing Structure and Budget and Use of Funds, and the Project's estimate construction timeline was noted, with closing of the Project's construction financing anticipated in March 2012 and Project completion anticipated in March 2013.

The HMMF Bond shall be a public issuance split into Series A and Series B. Series A, estimated at $9,820,000, shall be a public issuance without credit enhancement through Standard & Poor's stand-alone Affordable Housing rating program. Series B, estimated at $2,180,000, shall be a public issuance backed by cash collateral in non-Alternate Minimum Tax (AMT), tax-exempt marketable securities. The cash collateral shall be provided by the proceeds from the Trillium Loan.

The estimated $12,000,000 in aggregate HMMF bond proceeds funds over 50% of the project's anticipated costs, qualifying the Project to receive Federal and State 4% non-competitive Low Income Housing Tax Credits (LIHTC).

Since the approval of Resolution No. 034, in March 2011, the total project budget increased by $734,670. Increased costs were absorbed by an increase to its LIHTC Equity, deferred developer fee, and accrued bond interest. There was no additional increase in State supported funding.

Only a governmental agency, such as the HHFDC, may issue these types of bonds.

Following the bond issuance, the HHFDC will monitor the Project's compliance pursuant to applicable rules and requirements. Approval to issue the HMMF tax-exempt bond is subject to the Governor's approval.

A TEFRA Hearing was conducted in September 2011, at the HHFDC Office. There were no testimonies submitted or presented.

Approval of Resolution No. 041 would satisfy the requirements that effectuate the sale of the Bonds and complete the transaction.

Mr. Ueki opened for questions, along with Mr. Paul Fortino, on behalf of the Project.

Director Larson noted that there is a 35-year affordability period under leasehold and asked on how the tenants would be displaced during the renovations. Mr. Fortino stated that with the high number of unoccupied units available, tenants would be assisted and relocated right within the building, in accordance with the HUD relocation guidelines.

Executive Director Seddon noted a correction to the statement made earlier regarding this Project being the second project acquired from the Hawaii Public Housing Authority. On page 2 of the For Action, section III. A., the second sentence, should read:

> "This is the third project acquired from the Hawaii Public Housing Authority to use the HMMF and LIHTC programs; Kuhio Park Terrace was the first, with the Banyan Tree being the second."

With no further discussion, the motion was unanimously approved.

**III. B. DISCUSSION AND/OR DECISION MAKING**
Approve Resolution No. 42, Authorizing the Issuance of Hula Mae Multi Family Tax-Exempt Revenue Bonds for the Ko'oloa'ula Phase I Project Located in Kapolei, Oahu, TMK No.: (1) 9-1-017: 107

Vice Chairman Mesick moved, seconded by Director Los Banos, to approve staff's recommendation:

That the HHFDC Board of Directors approve the following:

A. Resolution No. 42, attached as Exhibit E, which provides for the approval of the issuance of revenue bonds up to $17,700,000 for the Ko'oloa'ula Phase I project subject to the provisions recommended in Exhibit D.

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 request before Board is for the approval to issue the HMMF bonds for Ko'oloa'ula Phase I (Project), consisting of 120 family units, located in Kapolei, Oahu.

Previous Board approvals from December 2010 to January 2011 were noted.

The proposed Finance Structure and Budget and Use of Funds, and the Project's estimated construction timeline dates were noted, with construction anticipated to start in March 2012 and building completion being in June of 2013.

The HMMF Bond shall be a public issuance with credit enhancement provided by an East West Bank/Federal Home Loan Bank of San Francisco letter of credit during construction and a forward commitment for permanent financing provided by Freddie Mac.

The Bonds shall be split into Series A and B. Series A, estimated at $5,900,000, will be issued at closing at a fixed rate and Series B, estimated at $11,800,000, will be issued at closing at a variable rate.

The $17,700,000 in aggregate HMMF bond proceeds funds over 50% of the project's anticipated costs, qualifying the Project to receive 4% non-competitive Federal and State LIHTCs.

Since the approval of Resolution No. 032, in December 2010, the total project budget increased by $525,000. Increased costs were absorbed by an increase in permanent Bond Amount, reduction in contingency, and an increase in Sponsor Equity. There were no additional increases to the State supported financing.

Mr. Ueki opened for questions, along with Mr. David Nakamura, on behalf of the Project.

In response to Chairman Lawrence, Mr. Nakamura stated that grading permits are in hand, with D.R. Horton as the building contractor for the Project. Building permits have gone through review and are pending signatures at the Board of Water Supply. Approvals are anticipated by the end of the week, with families anticipated to move into the Project by 2013.

In response to Director Larson, Mr. Nakamura stated that the Project will be participating in the Ready-to-Rent Program.

With no further discussion, the motion was unanimously approved.

**III. C. DISCUSSION AND/OR DECISION MAKING**
Approve Resolution No. 043, Ratifying the Modification of the Hula Mae Single Family Mortgage Program to Continue Participation in the U.S. Department of Treasury's New Issue Bond Program

Director Kyno moved, seconded by Vice Chairman Mesick, to approve staff's recommendation:

That the HHFDC Board of Directors approve the following:

A. Adopt Resolution No. 43 ratifying the modifications to the Hula Mae Single Family Program to continue participation in the U.S. Department of Treasury's New Issue Bond Program and comply with its requirements; and

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

Mr. Ueki presented the For Action, stating that the Hula Mae Single Family (HMSF) Program issues tax-exempt mortgage revenue bonds to provide first mortgage loans to qualified first-time homebuyers in Hawaii. New Issue Bond Program (NIBP) events during November 2009 through December 2011 were noted.

On November 23, 2011, the Treasury informed participants that they may elect to extend its participation in the NIBP to December 31, 2012, under modified terms, which HHFDC elected to participate in on December 9, 2011. Bond documents were to be amended to modified terms by January 20, 2012.

Resolution No. 043 amends the HMMF Program's Trust Indenture to comply with the new requirements. Modifications are as follows:

1. Extension of Escrow Release Period. The deadline to release funds from escrow before unused funds are subject to mandatory redemption will be extended from December 31, 2011 to December 31, 2012.

2. Issuer Redemption Fee. Issuers are subject to a fee on Escrowed Proceeds applied to the redemption of NIBP Bonds. Such fees shall accrue on an actual basis commencing April 1, 2012.

3. Market Bond Requirement. Issuers releasing escrowed proceeds in 2012 will no longer be required to issue Market Bonds.

4. Interest Rates. There is a new formula in determining the interest rate for the NIBP, being based on the 10-year Constant Maturity Treasury Rate Index and the 30 "AAA" Municipal Market Data and the adjusted weighted average maturity of the NIBP Bonds.

   The Corporation elected to lock its interest rates ceiling at approximately 4.43% on December 8, 2011, based on the modified formula.

In response to Chairman Lawrence, Mr. Ueki clarified that the 4.43% is the ceiling rate based on the new modified formula. Therefore, if the markets go lower, that rate can improve. However, if the market increases, it will still have an approximate interest ceiling rate of 4.43%.

In response to Vice Chairman Mesick, Mr. Ueki stated that participating lenders are looking at opportunities to have an economic gain and pull rates down.

5. Increase in Number of Escrow Releases. The total number of times each issue is permitted to release funds from escrow is increased from six to nine.

In response to Chairman Lawrence, Mr. Ueki noted the following:

1. Since December 2011, the bonds were issued and staff has been working

very diligently on getting an active program up and running. The HHFDC has a program with Fannie Mae that has been approved, with 6 lenders under review. Fannie Mae's approval of lenders is anticipated by early April 2012, at which point the lenders will be able to initiate the loans.

2. Although the program has been well received by the lending community, staff will monitor how well received the program will be with the initial $43.5 million, with the remaining $70 million for future projects based off of the results.

3. Once the program structure was put into writing, eight of the fourteen lenders that were notified showed interest. Six of the lenders contacted Fannie Mae to inform them of their participation.

4. The two programs are: (1) a 30-year mortgage loan at 1 point, with an interest rate of approximately 3.4%. All underwriting guidelines and products will be similar to that of a conventional loan, but with the lower rate; and (2) the downpayment assistance will offer a 2% downpayment assistance to help with the actual purchase price. The lender will be required to provide the 2% downpayment assistance up front and the lender would be made whole once sold. Due to the business risk involved, participating partners may need time to work though the programmatic details of the downpayment assistance program.

Vice Chairman Mesick stated that he felt it was very important that the lending partners be made aware that by using this program they are able to obtain Community Reinvestment Act credits. Mr. Ueki stated that staff will definitely note that to the first set of lenders.

In response to Chairman Lawrence, Mr. Ueki stated that with the downpayment assistance program, the risk would fall upon the HHFDC if there is a refinance in the short-term. With a slightly higher interest rate, the HHFDC will recapture the 2% over time.

Chairman Lawrence commended staff for their efforts on these programs.

With no further discussion, the motion was unanimously approved.

**III. D. DISCUSSION AND/OR DECISION MAKING**
Approve Proposed Dwelling Unit Revolving Fund's Budget for Payment of Expenses Related to the Maintenance and Rehabilitation of HHFDC Units Located at 1951 Pahoehoe Street, Koloa, Kauai, Hawaii, TMK No.: (4) 2-8-24-014 and 85-280 D Ala Hema Street, Waianae, Hawaii, TMK No.: (1) 8-5-27-10

Vice Chairman Mesick moved, seconded by Director Kyno, to approve staff's recommendation:

That the HHFDC Board of Directors approve the Proposed DURF Budget for payment of expenses related to the maintenance and rehabilitation of the subject two Units.

Subject to:

1. Availability of DURF;

2. Approval and release of funds by the Office of the Governor; and

3. The Executive Director shall be authorized to take all actions necessary to effectuate the purpose of this For Action.

Real Estate Services Section Chief Marlene Lemke presented the For Action requesting Board approval of a budget, as show in Exhibit C, for expenses related to the maintenance and rehabilitation of two HHFDC rental units located in the Weli Weli Project, Koloa, Kauai, and the Waianae Community Development Project (Uluwehi), Waianae, Oahu. The Governor's approval is required to release DURF funds for the payment of these expenses.

Ms. Lemke opened for questions.

In response to the Board, Ms. Lemke stated that the HHFDC plans to rehabilitate the two units and procure a broker to sell the units to families who meet HHFDC eligibility requirements and the HUD median income guidelines for Kauai and Oahu.

Director Larson inquired on the difference between the rehabilitation cost and the accepted projected sale price. Ms. Lemke stated that currently, with regard to the unit at the Weli Weli project, a 4-bedroom/2-bath property is selling for approximately $543,000. The cost to rehab this unit is approximately $116, 100 with a 20% contingency cost. HHFDC projects to sell it for a lot more than the current assessed value of $352,100, subject to fair market value appraisal. For the Uluwehi project, nearby properties are being listed at about $120,000. The cost to rehab this unit is approximately $94,268 with a 20% contingency cost. HHFDC projects a sale price of approximately $115,000, depending upon the appraised fair market value.

In response to the Board, Ms. Lemke stated that the two units will be appraised after rehabilitation and sold to families whose incomes are at 140% and below the HUD median income guidelines.

In response to Director Larson, Ms. Lemke stated that the units are in pretty bad condition and to sell it "as-is," would be difficult for an affordable purchaser who can barely put a 5% downpayment to get a good loan. Development Branch Chief Rick Prahler added that the unit in Uluwehi is leasehold and the value is impacted by the remaining term of the existing lease. However, once sold, there will be a longer lease term established.

In response to Director Kyno, Ms. Lemke stated that for the Uluwehi unit, rehab costs are projected at $94,268, which includes utilities and maintenance costs to maintain the property through the closing of the sale.

In response to Director Larson, Ms. Lemke stated that the Uluwehi unit does not have to go through the Legislation process because it would be sold in leasehold, where as the Weli Weli unit has already gone through the Legislation process and the HHFDC has received the approval to sell the unit. Anticipated sale, after the Governor's approval, is expected within four to six months.

The motion was unanimously approved.

**III. E. DISCUSSION AND/OR DECISION MAKING**
Approve a Risk Management Policy To Establish a Cash Reserve for the Dwelling Unit Revolving Fund

Vice Chairman Mesick moved, seconded by Director Kyno, to approve staff's recommendation:

That the HHFDC Board of Directors approve a policy to establish an uncommitted cash reserve of $10 million in the Dwelling Unit Revolving Fund to manage risk exposure and ensure there is an adequate amount of funds to fund loan commitments, ongoing maintenance expenses, administrative expenses, and contingencies. The Board may permit exceptions to the $10 million cash reserve provided the need is justified and the implications relative to the functional management of the DURF are considered.

Chief Planner Janice Takahashi presented the For Action, stating the purpose of the Dwelling Unit Revolving Fund (DURF) Subcommittee, its members, and an overview of the Subcommittee's findings and recommendations for the management of the DURF.

With regard to the Subcommittee's findings and recommendations, staff had previously established a $10 million reserve policy as a means to ensure that the DURF cash balance could cover administrative costs, loans commitments, ongoing maintenance expenses, and unforeseen events. The DURF cash flow is currently monitored by staff to ensure that there are sufficient funds to make and meet DURF commitments and maintain the proposed $10 million cash reserve.

The proposed $10 million DURF reserve was found adequate by the Board and will remain flexible, to allow exceptions to be considered and made by the Board.

Other implementing actions being recommended include:

1. A semi-annual analysis on the adequacy of the DURF reserve.

2. Risk Assessment of making a DURF loan including the impact on the $10 million cash reserve.

3. Loan Guidelines to manage risk exposure.

4. Loans should have definitive interim milestones.

5. All information regarding the recommended implementing actions should be included in the "For Action" report to the HHFDC Board.

6. Performance and quality of individual DURF loans and entire portfolio should be monitored and "at risk" loans should be placed on a formal watch list an assessed accordingly.

Ms. Takahashi opened for questions.

Vice Chairman Mesick commented that staff does a good job in managing the DURF fund; however, more documenting of what is done are needed to avoid having to go back to the Legislature for additional funds.

Chairman Lawrence cited the six implementing actions recommended, stating that this is something that staff currently does, but is now placed in a more formalized process.

Director Larson commented that she likes the fact that this allows for the possibility to still take a risk on projects that are really in need.

Executive Director Seddon noted that the DURF cash flow projects a decreased balance of $3.5 million by June 2013, as discussed in previous meetings, but is expected to be shortly replenished after that point. However, there is no guarantee that the HHFDC will successfully obtain the $10 million from the Legislature.

In response to Director Larson, Executive Director Seddon stated that the negative $17.2 million DURF balance is not the available cash flow, but is rather a listing of projects and the fund amounts committed. Ms. Takahashi added that it shows that the DURF funds are oversubscribed. HHFDC can only expend its available resources.

In response to Director Larson's follow up question, Ms. Takahashi stated that the $10 million reserve would not impact projects in need of funding. The reserve would be flexible to be increased or decreased depending on the project. Executive Director Seddon stated that the $10 million reserve policy would not really take effect until after the $3.5 million balance mark in 2013, unless there is an infusion from the legislature.

Chairman Lawrence inquired on the public being notified of how important this fund is and how it helps affordable projects. Executive Director Seddon stated that the HHFDC has improved on reporting the positive economic impacts, and shared that a recent article on the Ma'ili Self-Help Project groundbreaking, which included information on how many jobs are produced and money that is put back into the State coffers.

With no further discussion, the motion was unanimously approved.

**III. F. DISCUSSION AND/OR DECISION**

Planner Mavis Masaki presented the For Information, stating that as of June 30, 2011, the Rental Housing Trust Fund (RHTF) has provided a total of $214,945,769 in equity gap low-interest loans and grants to help finance the

**MAKING**
Information on Report To the 2012 Hawaii State Legislature Pursuant to Section 201H-201(f), Hawaii Revised Statutes, Relating to Rental Housing Trust Fund Project Awards

development and preservation of 4,140 affordable rental units statewide. From June 30, 2011 to the end of 2011, there were two additional RHTF project awards totaling $12,660,000, bringing the total program unit count to 4,250 units.

Under Section 201H-202(f), Hawaii Revised Statutes (HRS), the HHFDC is required to report to the Legislature projects funded, and, with respect to the rental housing projects targeted for persons and families with incomes at or below the 30% median family income, its efforts to develop those rental housing projects, a description of proposals submitted for this target group and action taken on the proposals, and any barriers to developing housing for this target group.

The report was based on the 2010 and 2011 RHTF project awards. Based on the HHFDC's findings, the main barriers for rental housing developments for households at or below 30% of the median family income were a lack of sufficient funding to develop such projects, and that the low amount of rental income this population could supply does not cover ongoing operating expenses for such projects.

The report's conclusion was that the best way to address these barriers was to provide more resources to the RHTF to increase the amount of subsidy for projects that target this very low income group.

Ms. Masaki opened for questions.

In response to Chairman Lawrence, Ms. Masaki noted the following:

1. A developer is most likely not going to build a project that cannot sustain its operating costs based on the income generated by households at or below 30% of the median family income, because, based on the 2011 Affordable Rent guidelines, affordable rents for that population range from $489 to $670 per month. Outside resources need to be provided in order for those projects to be sustained. The demand for the RHTF program exceeds available resources.

2. The HHFDC has a supplemental budget request, seeking an additional $5 million infusion for the RHTF in Fiscal Year 2013.

In response to Director Larson, Ms. Masaki stated that the Report to the 2012 Hawaii State Legislature, submitted in December 2011, is up on the HHFDC website, along with the 2011 Housing Study.

With no further discussion, Chairman Lawrence proceeded to the Report of the Executive Director.

**IV. REPORT OF THE EXECUTIVE DIRECTOR**

Executive Director Seddon reported on the following:

1. Senate Bill 3072 - Transfers title of certain lands in the Waiahole Valley Agricultural Park from the HHFDC to the Department of Agriculture.

2. Kamaaina Hale - No proposals were received; probably due to Kamehameha Schools high rent and the remaining units that need asbestos abatement. Staff is currently working with a developer on possible solutions.

3. Kekuilani Gardens and Nani O Puna - A Request for Proposal is being prepared. Staff plans on proposing additional points to the developer who chooses to take on two projects.

In response to Director Larson, Executive Director Seddon stated that the HHFDC will very much be a functioning partner with the Public Lands Development Corporation (PLDC).

Director Larson inquired on a circulating bill that would place the HHFDC under the PLDC. Executive Director Seddon stated that she believes that the HHFDC will remain a separate agency, because the HHFDC is the only housing finance agency for the State.

With no further discussion, Chairman Lawrence proceeded and asked for a motion to approve the Executive Session Meeting Minutes of December 8, 2011.

**II. B. APPROVAL OF MINUTES**
12/8/11
Executive

Director Mesick moved, seconded by Director Los Banos.

The motion was unanimously approved.

With no further business on the agenda, Chairman Lawrence asked for a motion to adjourn the meeting.

**V. ADJOURNMENT**

Director Larson moved, seconded by Director Los Banos, to adjourn the meeting at 10:45 a.m.

The motion was unanimously approved.

Betty Lou Larson

BETTY LOU LARSON
Secretary