

HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION

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, JANUARY 14, 2010
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, January 14, 2010, at 9:00 a.m.

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

**CALL TO
ORDER/
ROLL CALL**

Present: Director Charles King, Chairman
Director David Lawrence, Vice Chairman
Director Betty Lou Larson, Secretary
Director Linda Smith
Director Ralph Mesick

Excused: Director Theodore Liu
Director Georgina Kawamura
Director Allan Los Banos, Jr.
Director Francis Jung

Staff Present: Sandra Ching, Deputy Attorney General
Janice Takahashi, Chief Planner
Darren Ueki, Finance Manager
Rick Prahler, Development Branch Chief
Stan Fujimoto, Development Section Chief
Marlene Lemke, Real Estate Services Section Chief
Ken Takahashi, Development Project Manager
Cynthia Okubo, Acting Asset Manager
Dean Sakata, Housing Finance Specialist
Alex Watanabe, Housing Loan Services Officer
Lisa Wond, Planner
Lorna Kometani, Housing Sales Coordinator
Kent Miyasaki, Housing Information Specialist
Esa Pablo, Secretary to the Board

Guests: David Bierwert, THM Partners
Serge Krivatsy, THM Partners
Sam Chung, THM Partners
Frank Leslie, Concepts Unlimited GMAC
Michael Johnson, CB Richard Ellis

Chairman King noted that Director Smith would need to be excused at 10:00 a.m., at which point the Board will no longer have a quorum and therefore, asked that the agenda be amended to address first, the For Action items III.B. and III.C.

QUORUM

Director Lawrence moved, seconded by Director Smith, to approve the Meeting Minutes of December 10, 2009.

**II. A.
APPROVAL
OF MINUTES**
12/10/09
Regular
Meeting

The motion was unanimously approved.

Chairman King proceeded to Item III. B., as stated above.

**III. B.
DISCUSSION
AND/OR
DECISION
MAKING**

Director Lawrence moved, seconded by Director Larson, to approve staff's recommendation:

Approve Resolution

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That the HHFDC Board of Directors approve the attached Resolution No. 023, determining that renewable energy projects are an integral part of HHFDC's developments and satisfy the requirements of Section 201H-44, HRS, substantially as discussed in this For Action, and authorize the Executive Director to take all actions necessary to effectuate the purpose of this For Action.

Development Section Chief Stan Fujimoto presented this For Action, stating that the HHFDC is the owner of several affordable housing projects and facilitates the development of affordable housing pursuant to Chapter 201H, Hawaii Revised Statutes (HRS).

Under Section 201H-44, HRS, the HHFDC is permitted to undertake renewable energy projects, if the HHFDC determines that renewable energy projects are an integral part of its housing developments, and that it can help to preserve the lifestyles of the residents of the development. As such, the integration of renewable projects in the HHFDC's housing developments would align the State's policies, goals, and initiatives that are encouraged in promoting renewable energy and housing efforts.

Therefore, this For Action requests the approval of the attached Resolution No. 023, determining that renewable energy projects are an integral part of the HHFDC's developments and satisfies the requirements of Section 201H-44, HRS.

Mr. Fujimoto opened for questions.

Chairman King inquired on the basis of this Resolution being a part of the HHFDC's scoring criteria and if so, what would be the point value system. Mr. Fujimoto responded that each type of project is evaluated by its own point system and that the Resolution would address the legal requirements for undertaking renewable energy projects. Executive Director Seddon added that the scoring value would still need to be determined, but will eventually be applied in the HHFDC's Request for Proposals (RFP), Qualified Allocation Plan, and other grading systems.

Director Lawrence commented that he is in favor of renewable energy because it significantly benefits the tenants of affordable projects on an annual basis and suggested that the effort be encouraged by providing an incentive. Director Smith concurred.

Discussion ensued on the implications of the Resolution and concerns expressed at the December 10, 2009 Board Meeting. Staff's responses were as follows:

- (1) Resolution No. 023 was established to clarify a direction in the HHFDC's support to promote renewable energy components within its development of affordable housing, if the Board should determine that those uses are an integral part of the development. Furthermore, the approval of a project's request for funding, such as the Dwelling Unit Revolving Fund (DURF), will continue to be at the discretion of the Board on a case-by-case basis.

The Board suggested that an additional policy, in conjunction with this Resolution, would need to be addressed concerning the award of renewable energy projects to developers.

- (2) Under the procurement process, the HHFDC is not required to do an RFP for voluntary proposals. However, because the Board has expressed a concern regarding perception, staff has prepared a Request for Information (RFI), which is due to HHFDC by January 22, 2010.

Director Lawrence commented that he believes the Resolution to be adequate in complying with the State's initiative on renewable energy and furthermore, does not affect the Board's ability to approve a project on a case-by-case basis, setting the stage for new opportunities.

No. 023, Determining that Renewable Energy Projects are an Integral Part of HHFDC Developments and Satisfy the Requirements of Section 201H-44, Hawaii Revised Statutes.

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- (3) Section 201H-44, HRS, also states that any income or revenues derived from the land used as an integral part of the housing project, be deposited into the dwelling unit revolving fund.

Director Smith inquired on the duration of a resolution and if there were any past resolutions that were no longer applicable to the HHFDC. Deputy Attorney General Ching stated that a resolution remains in effect until amended or withdrawn. Ms. Takahashi added that there are some provisional resolutions that were adopted by previous boards, such as the Housing and Community Development Corporation of Hawaii and the Housing Finance and Development Corporation, which continue to apply to the HHFDC.

The motion was unanimously approved.

Director Smith moved, seconded by Director Lawrence, to approve staff's recommendation:

That the HHFDC Board of Directors approve a partial advance of up to \$3.5 million from the existing DURF loan approved for the Holomua Project, substantially as described in this For Action, subject to the following:

- A. Availability of DURF funds;
- B. Approval and execution of amended loan documents by the Executive Director;
- C. Compliance with all rules and regulations and such other terms and conditions as may be required by the Executive Director; and
- D. The Executive Director shall be authorized to take all actions necessary to effectuate the purposes of this For Action.

Development Branch Chief Rick Prahler presented this For Action, stating that the request before the Board is for a \$3.5 million partial advance on the Holomua Project's originally approved DURF interim loan for the repayment of its land loans.

The outstanding loan balances were \$3.075 million with Central Pacific Bank (CPB) and \$650,000 with Pacific Rim Bank (PRB). Both loans had maturity dates in December and November of 2009 respectively.

KRC Partners LLC (Developer) is currently working with PRB, on an offer to subordinate its remaining balance of the loan to a new first mortgage on the property and when inquiring on a balance discount with CPB, its bank representative indicated that they did not have the ability to provide a write-down on the loan .

Mr. Prahler covered the proposed terms of the DURF loan advance and stated that the purpose of the original DURF loan was to be used towards the project's land loan payments once pre-sales requirements of 90% affordable units and 65% of market units were met. However, due to the unprecedented economic circumstances, the project was successful in meeting only 25% of its pre-sale requirements for both affordable and market units, delaying its loan repayments and dramatically slowing down project production.

Mr. Prahler addressed the Board's concerns expressed at the December 10, 2009 Board Meeting, as follows:

- (1) Staff has reviewed the appraisal report prepared by CB Richard Ellis (CBRE) and finds the methodology used to be in conformance with the Uniform Standards of Professional Appraisal Practice, Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute, and the State of Hawaii.

**III. C.
DISCUSSION
AND/OR
DECISION
MAKING**

Approve a Partial Advance of Up to \$3.5 Million From an Existing Dwelling Unit Revolving Fund Interim Loan for the Holomua Project Located in Honolulu, Oahu, TMK Nos.: (1) 2-4-6: 017 and 018.

CBRE further provided a "land residual" analysis to test its land value compute of \$6.8 million and the residual analysis methodology concluded the value to be true, with a 12.2% net profit based on the Developer's proforma.

Mr. Prahler gave an overview on the Exhibits, further explaining staff's approval of the appraisal process and highlighted the substantial discounts reflected in the reports comparables.

Director Mesick questioned the methodologies of the land residual analysis of \$6.8 million, commenting that even at a 50% net profit, the present value would only be \$61 million, showing that the project is not feasible. Mr. Michael Johnson, CBRE, responded that calculations based on land residuals tend to be highly susceptible to changes in retail proceeds and construction costs, which is the reason that it is rarely used. This appraisal is based on comparable sales, with static residuals used to verify those results.

In response to Director Mesick, Mr. Sam Chung, THM Partners, concurred that CPB's loans are classified as substandard and is unaware of CPB's appraised land amount.

In response to Director Lawrence, Mr. Prahler reported on the Project's progress from its 201H application approval in September 2008, to date. At this point, no State funds have been invested into the project; however, at the time in which pre-sale requirements are met, DURF funds will then be available for the project's use.

The Board discussed loan security risks and the project's overall feasibility.

Director Lawrence commented that he believes this to be a good project.

In response to Director Smith, Mr. Prahler concurred that for whatever reason the project is unable to proceed, the HHFDC will still have the ability to utilize the project's parcel for other housing opportunities.

Director Smith inquired on any legal obligations on discontinuing construction. Mr. Chung stated that construction would not commence until a primary construction lender is in place.

Director Larson commented that in these hard economic times, this Board has stepped out and taken risks for other projects in order to support its mission of affordable housing and believed that the Board should do the same for this project.

Mr. Chung stated that the Partnership has invested over \$2 million into the project and under its development agreement with the HHFDC, all plans and drawings would become the possession of the State if the project should be unsuccessful in its efforts.

In response to Director Mesick, Executive Director Seddon assured that staff is comfortable with the terms of the project considering the circumstances in the overall economy and will continue to work through any future obstacles.

Director Mesick reiterated that he did not believe the current economics to be favorable in doing this project and that the Board should be cognizant of the possible risks involved.

Mr. Prahler proceeded on presenting the For Action, reporting on the following:

- (2) The Developer proposes to address its marketing strategies and stimulate sales by marketing up to 50% of the total units with offers of up to \$8,000

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in credits at closing and fund a 50% portion of the commissions to participating brokers once contracted deposits are received and construction has commenced.

- (3) The HHFDC has the ability to transfer entitlements to another entity, as necessary.
- (4) The partial advance will require the following amendments to the existing DURF loan:
 - Deferral of the pre-sale requirements, which will instead be enforced prior to the release of the remaining DURF loan funds.
 - Deferral of primary construction financing, which will instead be required prior to release of the remaining DURF loan funds.
 - First position on the Project property and all other lenders will assume subordinate mortgage positions until pre-sale requirements have been met, unless otherwise approved by HHFDC.
 - All other terms and conditions of the existing DURF loan are to remain in effect.
- (5) Additional terms and conditions of the partial advance are:
 - Necessary loan documents shall be prepared by the Developer for HHFDC's approval and all closing associated costs shall be borne by the Developer.
 - The loan shall be secured by a valid ALTA-insured first mortgage lien on the subject property as well a title insurance in the full amount of the loan, issued by a title insurer acceptable to HHFDC, insuring the lien of the mortgage to be free and clear of all defects, liens, encumbrances and exceptions to title, and to include full coverage against losses arising out of boundary or setback encroachments, mechanics' and materialman's liens, and other losses to which HHFDC may require coverage. The Developer shall obtain a subordination agreement with other lender(s), if any, to ensure HHFDC's first mortgage position for the duration of this loan.
 - The executed Guarantee(s) of Samuel J. Chung, David L. Bierwert, and Serge M. Krivatsy.

In response to Director Lawrence, Mr. Chung responded that in current discussions with PRB, the subordination process is anticipated to commence once the Board's approval is received.

Director Mesick advised that the Board proceed with caution in dealing with the terms of the subordination to ensure that the HHFDC is able to proceed forward without any complications, if the property should go into foreclosure.

The motion was unanimously approved.

Chairman King thanked THM Partners, wishing them luck on the project.

Chairman King excused Director Smith at 10:00 a.m., noting that there was no longer a quorum present. However, matters on the For Information and the Report of the Executive Director would still be discussed.

Chairman King called for a recess at 10:05 a.m.

RECESS
10:05 a.m.

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The meeting was reconvened at 10:10 a.m.

RECONVENED
10:10 a.m.

Chairman King proceeded to Item III. A.

III. A.
DISCUSSION
AND/OR
DECISION
MAKING

Finance Manager Darren Ueki presented the For Information, providing the Board with an update on the Neighborhood Stabilization Program (NSP), under the Housing and Economic Recovery Act, 2008.

Information on the
Status of the
Neighborhood
Stabilization Program.

Mr. Ueki reported on the following:

The purpose of the NSP is to provide targeted emergency assistance to state and local governments to acquire and redevelop foreclosed properties that might otherwise become sources of abandonment and blight.

In March 2009, the HHFDC entered into an agreement with the U.S. Department of Housing and Urban Development (HUD) to receive \$19.6 million in NSP funds, that may be used for the following purposes: (A) Establishing financing mechanisms for purchase and redevelopment of foreclosed homes and residential properties; (B) Purchasing and rehabilitating homes and residential properties abandoned or foreclosed; (C) Establishing land banks for foreclosed homes; (D) Demolishing blighted structures; and (E) Redeveloping demolished or vacant properties. The HHFDC selected to focus on the uses indicated in items B and E.

Under the requirements of HUD, all NSP funds must benefit households whose incomes do not exceed 120% of the area median income (AMI), at least 25% of the NSP funds must benefit households whose incomes do not exceed 50% AMI, and up to 10% of the NSP funds may be used to fund administrative expenses.

The NSP has two milestones regarding the obligation of NSP funds to be under contract by September 18, 2010, and secondly, the disbursement of all NSP funds to be expended by March 18, 2013. The HHFDC's failure to meet any of these milestones will result in the recapture of the NSP funds by HUD.

On November 13, 2008, the Board approved the NSP Substantial Amendment to the State of Hawaii's Consolidated Plan, Action Plan for NSP Year 2008 - 2009, which allocated NSP funds to five applicants for six activities. The HHFDC retained \$980,000 for administrative expenses as well as reimbursement of administrative expenses requests made by the Counties of Kauai and Hawaii.

To date, the HHFDC has obligated approximately \$5.45 million of the \$19.6 million in NSP funds.

The Seawind Apartments and Ewa Villages Apartments projects will fulfill the 25% of NSP funds requirement by HUD, to be set-aside to serve residents at 50% of AMI or less.

Mr. Ueki provided an overview on the progress made on each of the six activities, noting that the County of Kauai's acquisition, rehabilitation, and resale of foreclosed properties and the Hui Kauhale, Inc. (Hui Kauhale) projects are at high risk of not meeting its NSP milestones.

The Hui Kauhale is currently working on securing its financing through the sale of their Low Income Housing Tax Credits and Tax-Exempt Bonds, as well as earlier commitments made by the HHFDC's Rental Housing Trust Fund. A revised detailed timeline has been submitted to the HHFDC earlier in the week, which staff will review and address any questions or issues with Hui Kauhale next week.

The County of Kauai determined that the approval process required at the county level will not permit them to achieve its originally proposed activity. An alternative activity is pending.

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Chairman King inquired on the issue being a result of the turnover in the County of Kauai staff. Mr. Ueki stated that he did not believe the problem to be with staff, but rather an issue of the procedures in place to do a foreclosure activity, in terms of the timing permitted.

In response to Director Lawrence, Mr. Ueki clarified that the contractual deadline would fall on June 18, 2010, for the project to obligate its funds. However, if the HHFDC were to wait until that deadline, the Corporation's ability to utilize the NSP funds within the given timeframe would be slim and may result in the recapture of those funds. However, in the case of the Hui Kauhale project, they have indicated that they would forfeit their right to the \$2 million in NSP funds immediately, if circumstances showed they were unable to meet the June 18, 2010 deadline, in order to allow the State sufficient time to utilize those funds in a timely manner.

In response to Chairman King, Mr. Ueki stated that in the case that a project is unsuccessful in achieving its proposed activity, the HHFDC would have the right to reallocate those funds to accomplish another activity. However, both the County of Kauai and the Hui Kauhale are aware of the State's position on the timing of those funds and are receptive to working with the HHFDC to ensure that obligation is met.

Mr. Ueki stated that staff is looking to begin a process of soliciting potential alternative uses of the NSP funds to avoid losing the opportunity to utilize the NSP funds. At the point in which those funds may be returned and become available, the HHFDC would revisit and work with other potential projects in assuring alternative uses are in place. Staff will keep the Board apprised on the projects' progress.

In response to Director Lawrence, Chief Planner Janice Takahashi stated that a project would need to reapply for any additional NSP funding that may become available.

In response to Director Lawrence, Housing Finance Specialist Dean Sakata responded that staff has been working with the County of Kauai on a regular basis, trying to improve their program. In that process, the question of procuring with a non-profit to do the acquisition was in favor. However, there are a few non-profits, such as the Na Hale O Maui, that have the capacity to acquire and sell foreclosed homes. Mr. Ueki added that staff has provided the County of Kauai with suggestions; however, they have elected to seek the use of another activity. As such, staff will continue to work with the County of Kauai to ensure targets are met.

Mr. Ueki reiterated to the Board that staff will be soliciting other potential opportunities to ensure that the NSP funds are expended in a timely manner. Director Larson inquired on the NSP funds having to stay within the counties. Mr. Ueki stated that the NSP funds were awarded to the State as a whole and therefore, would be able to be circulated in that way.

In response to Director Mesick, Mr. Ueki stated that depending on the activity chosen, the Action Plan may need to go through the amendment process. Ms. Takahashi added that such an amendment would require HUD's approval, being a 45-day process.

In response to Chairman King, Mr. Sakata stated that the obligation milestone would require a purchase contract or result in an offer accepted.

In response to Director Larson, Mr. Ueki stated that in the cases of the Hui Kauhale and the County of Kauai, alternative activities would need to be determined relatively quickly in order to meet the tight timeframes, which would be reviewed and determined if eligible by staff.

Director Lawrence commented that purchase transactions dealing with

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foreclosures or short sales tend to be a lengthy process.

In response to Director Larson, Mr. Ueki stated that nothing on the books would be applicable for NSP funds; however, with NSP being federal funds, it would necessitate environmental requirements that would prolong the process further.

Director Lawrence encouraged staff to ensure that the NSP funds are utilized in a timely manner.

Executive Director Seddon informed the Board that the State of Hawaii did not receive any NSP 2 funding.

In closing, Mr. Ueki stated that staff will continue working with all recipients to ensure that the NSP funds are utilized in the best way possible. Staff will continue to provide updates within the Report of the Executive Director.

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

Executive Director Seddon opened for questions.

In response to Chairman King, Executive Director Seddon stated that staff strives to meet with as many legislative committee chairs as possible.

Director Mesick inquired on affordable housing bills being proposed. Executive Director Seddon called upon Ms. Takahashi, who stated that staff will know more once the Governor's entire proposed package is finalized. However, anticipated administrative bills would address: (1) the monetization of the State Low Income Housing Tax Credits (LIHTC); and (2) the legislative approval process for the sale of state owned properties, portrayed in Act 176, to apply only to properties on ceded land.

Director Lawrence inquired on proposed bill that will affect the HHFDC's budget. Ms. Takahashi stated that the Governor's executive supplemental budget will not include last year's \$30 million appropriation for the Rental Housing Trust Fund and Capital Improvement Program (CIP) requests in efforts of balancing the State's budget. Therefore, the HHFDC would need to rely on its conveyance taxes and leveraging of its LIHTC. Executive Director Seddon noted that staff would be attending a Finance Budget briefing today at 1:30 p.m. to present the supplemental budget.

Executive Director Seddon stated that the HHFDC would need an appropriation of approximately \$10 million to leverage its LIHTC. Mr. Ueki added that the budget crunch would probably result in fewer units and with the decline in LIHTC pricing, obtaining such funding would be a challenge.

In response to Director Larson, Ms. Takahashi stated that additional bills included within the housing administration package would address the permit approval process and infrastructure dedications.

Director Lawrence inquired on the Urban Land Institute forum on Emerging Trends in Real Estate 2010. Executive Director Seddon stated that the national perspective on real estate is expected to be flat throughout 2010. Director Mesick added that banks are told to do standard loans and raise its capital, further prolonging the economic conditions.

Chairman King inquired on the status of the Hawaii Coalition of Christian Churches at the Uluwehi project in Waianae, Oahu. Executive Director Seddon stated that she is not aware of any problems. Real Estate Services Section Chief Marlene Lemke added that the Uluwehi project is on track and has just renewed its lease for another year.

In response to Director Lawrence, Executive Director Seddon reported that the

**IV.
REPORT
OF THE
EXECUTIVE
DIRECTOR**

HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION

Lokahi Ka'u project in Kona, Hawaii, had its grand opening and is currently obtaining occupancy.

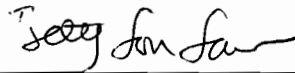
Director Larson inquired on the status of the Keahuolu project in Kona, Hawaii. Executive Director Seddon reported that the project's 201H application is currently with the County for review and is anticipated to then, go to the Land Use Commission for land use boundary amendments.

Director Larson inquired on the status of a renewable energy project at the Villages of Leiali'i, as presented at the December 10, 2009 Board meeting. Executive Director Seddon stated that project possibilities are to be determined at the time the RFI's are received on January 22, 2010.

In response to the Board, Executive Director Seddon stated that there is a benefit if the DURF funds are loaned out since HHFDC is able to retain interest received on withdrawn funds. However, DURF funds are utilized on short-term loan basis rather than long-term.

With no quorum present, Chairman King adjourned the meeting at 10:50 a.m.

V.
ADJOURNMENT



BETTY LOU LARSON
Secretary