

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

MINUTES OF THE RETREAT AND REGULAR MEETING
OF THE COMMISSIONERS HELD ON MARCH 25-27, 2012

Pursuant to the call of the Chairman and notice duly given, the retreat and regular meeting of the Commissioners of the Virginia Housing Development Authority (the "Authority") was held on March 25-27, 2012 at the Berry Hill Conference Center at 3105 River Road, South Boston, Virginia.

COMMISSIONERS PRESENT:

Charles McConnell, Chairman
Yvonne T. Allmond, Vice Chairman
Gerald W. Hopkins
William C. Shelton
Manju Ganeriwala
Nancy K. O'Brien
Marjorie N. Leon
Kermit E. Hale
Jacqueline T. Black
Timothy M. Chapman
Charles L. Krum, Jr.

OTHERS PRESENT:

Susan F. Dewey, Executive Director
Donald L. Ritenour, Managing Director of Development
Thomas A. Dolce, Managing Director of Servicing and Compliance
Arthur N. Bowen, Managing Director of Finance and Administration
Barbara Blankenship, Managing Director of Human Resources
Tammy Neale, Chief Learning Officer
Herb H. Hill, Jr., Managing Director of Policy, Planning, and Communications
Russ E. Wyatt, General Auditor
Janet Wiglesworth, Managing Director of Information Technology Services
J. Judson McKellar, Jr., General Counsel
John F. Hastings, Director of Multi-Family Development Programs
Michele G. Watson, Director of Homeownership Programs
Ronald A. Reger, Strategic Business Planner
James M. Chandler, Director of Low Income Housing Tax Credit Programs
Llewellyn C. Anderson, Strategic Business Planner
J. Michael Hawkins, Director of Community Housing
Barry Merchant, Policy Analyst
Patrick J. Carey, Director of Finance
Scott Heiry, Business Intelligence Manager
Paul M. Brennan, Deputy General Counsel
Allen Andrs, Mobile Mortgage Field Originator
Leland Luck, Berry Hill Conference Center

The Honorable Daniel W. Marshall, III, House of Delegates
Danny Ellis, Gem Management, Inc.
Earl Howerton, Southside Outreach group
Dianne Morris, City of Danville
David Parrish, City of Danville
Robin Roarke, Telemon Corporation

Chairman McConnell called the meeting to order at 2:03 p.m. on March 25, 2012. All of the Commissioners listed above as present at the meeting were present at that time.

Ms. Dewey introduced Mr. Luck who presented a brief history of the Berry Hill Plantation.

Ms. Dewey reviewed the agenda and the issues to be addressed at the retreat meeting.

Mr. Carey and Ms. Watson presented a report on the single family loan program in which they discussed with the Commissioners the following issues: the current cost of capital in relation to the current mortgage loan interest rate; the issues related to funding loans through the Government Sponsored Enterprises; the loan product differentiation alternatives, including below market interest rates, down payment assistance loans, preferential pricing or products of Fannie Mae, and absorption of mortgage loan credit risk; a summary of the alternative funding channels; the current status of loan production by types of mortgage insurance; the loan products offered under the Fannie Mae HFA Preferred program; the challenges in transacting with Fannie Mae; and the quality control requirements, possible staffing changes and implications for technology systems related to offering the Fannie Mae HFA Preferred loan products.

The Commissioners discussed issues relating to the federal programs that provide rental assistance to low income families and the impact of such assistance on the persons and families receiving such assistance.

The resolution entitled "Resolution in Recognition and Appreciation of Thirty Years of Service by Maria K. Barrow" dated March 25, 2012, was read by Mr. Reger, and on motion duly made and seconded, was approved in the form attached hereto by the affirmative vote of each of the Commissioners noted above as present at the meeting.

The meeting was recessed at 5:40 p.m. on March 25, 2012.

Chairman McConnell reconvened the meeting of the Commissioners at 8:36 a.m. on March 26, 2012. All of the Commissioners listed above as present at the meeting were present at that time, except Commissioner Black who joined the meeting in progress as noted below.

Mr. Merchant and Mr. Hawkins reported on the deep subsidy rental development programs of the U.S. Department of Housing and Urban Development. During this report, Commissioner Black joined the meeting. In their report, Mr. Merchant and Mr. Hawkins discussed with the Commissioners the following matters: the new model for the

deep subsidy rental development programs; the impact of the new model on the Authority; the forthcoming decisions to be made regarding the Authority's participation in the new model; the lending risks for the Authority presented by the new model; the implications of those lending risks; the options for managing those lending risks; and the next steps to be taken with respect to the programs.

Commissioner Shelton reported on the status of funding for the housing trust fund in the state budget bills being considered by the General Assembly.

Mr. Ritenour and Mr. Bowen reported on the recommended allocations of REACH *Virginia* funds for fiscal year 2013. In their report, they discussed the following: the new demand for REACH *Virginia* funds; the programs currently being assisted by REACH *Virginia* funds; the annual allocations of REACH *Virginia* funds since fiscal year 2006 and the estimated allocations for fiscal years 2013 and 2014; the Authority's net revenue since fiscal year 2000 and the related REACH *Virginia* funding from fiscal year 2006 through fiscal year 2014; the impact of REACH *Virginia* funding on future net revenues; the anticipated utilization of REACH *Virginia* funds in fiscal year 2012; and the recommended allocations of REACH *Virginia* in fiscal year 2013 by categories of programs. Upon the conclusion of this discussion, it was the consensus of the Commissioners that the staff proceed with the allocations of REACH *Virginia* funds in fiscal year 2013 in accordance with the recommendations in the report.

The meeting was recessed at 12:01 p.m. and reconvened at 1:00 p.m. on March 26, 2012 for a bus tour of the Danville area. During this tour a panel composed of Mr. Ellis, Mr. Howerton, Ms. Morris, Ms. Roark, and Mr. Andrs made presentations to the Commissioners, with Delegate Marshall in attendance, at the Pepsi Building in Danville on housing development in the area, their participation in the Authority's programs, and the challenges facing affordable housing in the area. Following the panel discussion, the Commissioners and staff continued the bus tour by visiting multi-family developments and single family homes in the Danville area that have been or are being financed by the Authority.

Upon the conclusion of the bus tour at approximately 5:05 p.m. on March 26, 2012, the meeting was recessed.

Chairman McConnell reconvened the meeting of the Commissioners at 8:38 a.m. on March 27, 2012. All of the Commissioners listed above as present at the meeting were present at that time, except Commissioner Shelton who was not present during the meeting on March 27, 2012.

Mr. Bowen, Mr. Hill and Ms. Blankenship reported on the following areas of emphasis for the fiscal year 2013 budget: the factors impacting the Authority's net interest margin; the levels of loan losses anticipated in the single family and multi-family programs; the impact of reduced federal funding for housing programs; the Authority's anticipated marketing efforts; the factors affecting staffing costs; the positioning of business processes for future success; and the business and technology projects and initiatives, including the secondary marketing system and single family loan origination

system. Upon the conclusion of this report, the meeting was recessed at 9:48 a.m. on March 27, 2012.

Chairman McConnell reconvened the meeting of the Commissioners at 11:17 a.m. on March 27, 2012. All of the Commissioners listed above as present at the meeting were present at that time and remained present throughout the meeting, except Commissioner Shelton who was not present during the meeting on March 27, 2012.

No members of the public requested an opportunity to make any comments during the public comment period of the meeting.

The minutes of the meeting of the Committee of the Whole and the regular meeting of the Commissioners held on February 7 and 8, 2012 were approved by the affirmative vote of each of the Commissioners then present at the meeting.

On motion duly made and seconded, the resolution entitled "Resolution in Recognition and Appreciation of Thirty Years of Service by Gordon L. Wargo" dated March 27, 2012, was approved in the form attached hereto by the affirmative vote of each of the Commissioners then present at the meeting.

Commissioner O'Brien, on behalf of the Programs Committee, reported that the Committee had received and discussed, and recommended approval of, a proposed resolution to approve the five-year and annual plans for the Authority's administration of the housing choice voucher program. On motion duly made, the resolution entitled "Resolution Approving the PHA Five-Year and Annual Plans for the Virginia Housing Development Authority for the Housing Choice Voucher Program" dated March 27, 2012, in the form attached hereto was approved by the affirmative vote of each of the Commissioners then present at the meeting. Commissioner O'Brien reported that the Committee had received a staff report on the applications received by the Authority for allocations of federal low-income housing tax credits and a staff report on the status of the Authority's request for proposals for consulting services to establish cost limits for developments assisted under the low-income housing tax credit program. Commissioner O'Brien summarized the staff reports that had been received and considered by the Committee on the following matters: the delinquencies in the Authority's homeownership program; the new enhanced loan modification program for single family borrowers; the delinquencies in the multi-family loan program; the delinquencies in the Authority's Ginnie Mae portfolio; the status of leasing, funding and administration of the Housing Choice Voucher Program; the volume of calls to the Authority's contact center; the Authority's single family loan production; the enrollment in the Authority's homeownership education courses; the receipt of grants for homeownership education and housing counselors; the Authority's multi-family loan production; the disposition of multi-family developments owned by the Authority; the Authority's community outreach efforts; and the Authority's marketing activities.

Commissioner Hale, on behalf of the Audit Committee, summarized the reports received and considered by the Committee on the Authority's monthly financials and budget comparisons for the period ended February 29, 2012, the status of the internal

audit schedule and the internal audit reports and recommendations, and the quality assurance review of the Authority's Internal Audit Department.

Commissioner Hale, on behalf of the Operations Committee, reported that the Committee had received and discussed, and recommended approval of, a bond limitations resolution for the Authority's Commonwealth Mortgage Bonds that (i) provides for the issuance of Commonwealth Mortgage Bonds in aggregate amounts not to exceed \$1 billion, (ii) provides for the sale of the Commonwealth Mortgage Bonds not later than May 31, 2013 and (iii) authorizes the distribution of one or more preliminary and final official statements for the Commonwealth Mortgage Bonds in substantially the form thereof presented at the meeting. On motion duly made, the resolution entitled "Bond Limitations Resolution" dated March 27, 2012, in the form attached hereto was approved by the affirmative vote of each of the Commissioners then present at the meeting. Commissioner Hale summarized the following staff reports that had been received and considered by the Committee: an update by Ms. Blankenship on merit increase trends; a report by Ms. Neal on the Leadership Development Program and recent activities sponsored by the Organizational, Development and Learning Division; and a report by Mr. Hill on the status of ITS program projects.

Commissioner O'Brien reported on current activities in the Department of Housing and Community Development, including the status of the proposed five year plan for use of HOME funds and the status of the proposed revisions to the state-wide building code.

Ms. Dewey presented her report on operations in which she advised the Commissioners of the following matters: the regular meeting of the Board of Commissioners to be held on June 5 and 6, 2012 at the Virginia Housing Center; the annual meeting of the Board of Commissioners to be held on August 7 and 8, 2012 at the Authority's headquarters building; the regular meeting of the Board of Commissioners and the Authority's 40th anniversary celebration to be held on October 2 and 3, 2012 at the Virginia Housing Center; and the "40 under 40" awards to be presented at the annual dinner of the Virginia Housing Coalition and to be recognized at the Governor's Housing Conference. Following this report, Mr. McKellar advised the Commissioners as to the status of legislation in the 2012 Session of the General Assembly affecting the Authority.

There being no further business, the meeting was adjourned at approximately 11:58 a.m. on March 27, 2012.

Charles McConnell, Chairman

J. Judson McKellar, Jr.
Assistant Secretary

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

MINUTES OF THE MEETING OF THE PROGRAMS COMMITTEE
HELD ON MARCH 27, 2012

Pursuant to the call of the Committee Chairman and notice duly given, the meeting of the Programs Committee of the Board of Commissioners of the Virginia Housing Development Authority (the "Authority") was held on March 27, 2012 at the Berry Hill Conference Center, 3015 River Road, South Boston, Virginia.

COMMITTEE MEMBERS PRESENT:

Nancy K. O'Brien, Chairman
Charles McConnell
Jacqueline T. Black
Timothy Chapman
Gerald W. Hopkins

COMMITTEE MEMBERS ABSENT

William C. Shelton

OTHERS PRESENT:

Susan F. Dewey, Executive Director
Donald L. Ritenour, Managing Director of Development
Thomas A. Dolce, Managing Director of Servicing and Compliance
Herb H. Hill, Jr., Managing Director of Policy, Planning, and Communications
J. Judson McKellar, Jr., General Counsel
Michele G. Watson, Director of Homeownership Programs
John F. Hastings, Director of Multi-Family Development Programs
James M. Chandler, Director of Low Income Housing Tax Credit Programs
J. Michael Hawkins, Director of Community Housing
Llewellyn Anderson, Strategic Business Planner
Barry Merchant, Senior Policy Analyst
Ron Reger, Strategic Business Planner
Paul Brennan, Deputy General Counsel
Scott Heiry, Business Intelligence Manager

The meeting of the Programs Committee was called to order by Chairman O'Brien at approximately 10:10 a.m. All of the members of the Committee listed above as being present at the meeting were present at that time and remained present throughout the meeting, except Commissioners Black and Chapman who joined the meeting in progress as noted below and thereafter remained present during the meeting of the Committee.

On motion duly made and seconded, the minutes of the meeting of the Committee held on February 8, 2012 were approved by the affirmative vote of each of the members of the Committee then present at the meeting.

Mr. Dolce presented a resolution to approve the five-year and annual plans of the Housing Choice Voucher Program administered by the Authority. Mr. Dolce reported that the public hearing on the plans was held on March 8, 2012, that no comments were received, and that no changes had been made to the existing plans. Commissioner Hopkins moved that the Committee recommend approval of the resolution entitled “Resolution Approving the PHA Five-Year and Annual Plans for the Virginia Housing Development Authority for the Housing Choice Voucher Program” dated March 27, 2012. This motion was seconded by Commissioner McConnell and was approved by the affirmative vote of each of the members of the Committee then present at the meeting.

Mr. Chandler presented a report on the Low Income Housing Tax Credit Program reservation applications for 2012. Mr. Chandler informed the Committee that the costs of two of the 57 developments requesting low-income housing tax credits for calendar year 2012 exceed the adjusted HUD Section 221(d)(3) loan limits. Mr. Chandler noted that the costs of these two developments, The Shell and Buckingham Village Parcel B, will be subject to closer scrutiny by the Authority during its review of their applications. During this report, Commissioners Black and Chapman joined the meeting. Mr. Chandler advised the Commissioners as to the status of the Authority’s request for proposals for consulting services to establish cost limits for developments assisted under the low-income housing tax credit program.

Mr. Dolce presented reports on the status of delinquencies and foreclosures in the homeownership and multi-family loan portfolios. Mr. Dolce advised the Committee that as of February the overall delinquency rate, including foreclosures and bankruptcies, for the single-family loan portfolio had decreased to 11.66% and the multifamily loan delinquency rate had increased to 1.38%. Mr. Dolce provided an update on the enhanced loan modification program to assist borrowers whose loans have a principal balance that exceeds 110% of the value of their homes, noting that this program is available for borrowers who are experiencing a significant hardship and are likely to be unable to continue making their mortgage payments without loan modification. Mr. Dolce reported that delinquency ratios continue to be below Ginnie Mae thresholds and that the total unpaid principal balance of the Ginnie Mae portfolio is \$359 million representing 2,516 loans. Mr. Dolce reported that the lease-up rate in the Housing Choice Voucher Program was 96%. Mr. Dolce reported that the number of phone calls received by the Authority’s Contact Center was 3,969 and that the majority of the contacts came from Richmond followed by Hampton Roads and Northern Virginia.

Ms. Watson reported that single family loan reservations for the period July 1, 2011 to March 16, 2012 were lower than the same period last year. Ms Watson also noted that the government insured loan production represents approximately 95% of the Authority’s total single family production and that the average loan amount had increased to \$147,578.

Ms. Watson reported that the Authority received the second largest housing finance authority counseling grant from HUD in the amount of \$240,000. Ms. Watson also reported that the Authority received a counseling and education grant in excess of \$260,000 from NeighborWorks.

Mr. Hastings presented a report on multi-family loan production for the period January 31, 2012 to March 20, 2012. In this report, Mr. Hastings advised the Committee that eight developments consisting of 365 units had been approved for mortgage loans in the total principal amount of approximately \$12.6 million. Mr. Hastings also noted that 100% of the developments were supported with REACH funding.

Mr. Hawkins presented reports on the Authority's outreach to the African American and Hispanic markets between February 2012 and March 2012. In this report, Mr. Hawkins stated that the Authority provided planning and sponsorship support for the Second Annual Northern Virginia Housing Expo in Arlington, that the REACH team continues to assist Habitat Virginia with capacity building and board development efforts, and that the REACH team conducted a two-day training entitled "Revitalizing Neighborhoods through Housing and Economic Development". Mr. Hawkins also reported that the participation among landlords in the Virginia Housing Search initiative and the number of searches on the website continue to increase.

Mr. Hill presented an update on the Authority's marketing activities. In this report, Mr. Hill noted that the Authority continues to provide marketing efforts for The Independence in Charlottesville and that occupancy has increased to 22 residents. Mr. Hill also reported that the Authority is partnering with the Virginia Housing Coalition in an event that recognizes the top 40 affordable housing advocate individuals under age 40 as part of the Authority's 40th anniversary celebration.

Mr. Hastings presented a report on the status of the disposition of the multi-family developments owned by the Authority. Mr. Hastings reported that the portfolio currently consists of twelve developments that are not sold or under contract and that only one new acquisition had occurred since February.

There being no further business, the meeting was adjourned at 11:15 a.m.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

MINUTES OF THE MEETING OF THE AUDIT COMMITTEE
HELD ON MARCH 27, 2012

Pursuant to the call of the Committee Chairman and notice duly given, the meeting of the Audit Committee of the Board of Commissioners of the Virginia Housing Development Authority (the "Authority") was held on March 27, 2012 at the Berry Hill Conference Center, 3105 River Road, South Boston, VA 24592.

COMMITTEE MEMBERS PRESENT:

Kermit E. Hale, Chairman
Charles L. Krum, Jr.
Yvonne T. Allmond

COMMITTEE MEMBERS ABSENT:

Manju Ganeriwala
Marjorie N. Leon

OTHERS PRESENT:

Barbara Blankenship, Managing Director of Human Resources
Arthur N. Bowen, III, Managing Director of Finance & Administration
Tammy Neale, Chief Learning Officer
Russ E. Wyatt, General Auditor
Michelle Jackson, Office Manager

The meeting of the Audit Committee was called to order by Committee Chairman Hale at approximately 10:06 a.m. All of the members of the Committee listed above as being present at the meeting were present at that time and remained present throughout the meeting.

On motion duly made and seconded, the minutes of the meeting of the Committee held on February 8, 2012 were approved by the affirmative vote of each of the members of the Committee then present at the meeting.

Art Bowen reviewed highlights of the Authority's monthly financials and budget comparisons for the period ending February 29, 2012. He reported that excess revenue before GASB adjustments for the month of February was \$11.1 million, exceeding plan by \$1.1 million. Year-to-date earnings totaled \$53.1 million, just short of plan by \$4.3 million. He reported that with two-thirds of the year completed, net interest margin has remained ahead of plan by \$9.3 million. Lower than expected bond costs contributed \$10.1 million. Investment earnings contributed another \$3.1 million, while mortgage loan interest lagged behind expectations by \$3.9 million as the rate of pay-downs and pay-offs have slightly outpaced new loan production. He also reported programmatic expenses to date have exceeded budget by \$17 million due to loan losses that have thus far exceeded our estimates by \$9.7 million and, correspondingly, loan loss provision which has exceeded our estimates by \$6 million. Operating costs of the multi-family owned property portfolio and Housing Choice Voucher program have also exceeded budget by \$1.9 million and \$1.7 million, respectively. Mr. Bowen reported that administrative expenses have continued to come in under budget in all administrative categories by a total of \$3.1 million to date, with the largest cost deferrals occurring in facility expenses and technology

expenses. Lastly, net assets increased by \$60 million since last June, resulting in excess capital of \$2.38 billion or 24% of total assets.

Mr. Wyatt reported on the status of the Audit Schedule and reports issued since the last Committee meeting. He indicated that no adverse audit reports have been issued since the last Committee meeting and there are no control concerns that were previously reported to the Audit Committee that have not been successfully addressed by management. He also reported that a quality assurance review of VHDA's Audit activities had been performed to ensure compliance with the standards established by the Institute of Internal Auditors (IIA). Russ indicated that the IIA standards require such a review to be performed at least every five years. The review was conducted by Mr. Richard Tarr and his final report indicated that VHDA's audit activity "fully complies" with the *IIA International Standards for the Professional Practice of Internal Auditing*. This opinion represents the best possible evaluation outcome. In addition, Russ reported that Mr. Tarr offered several suggestions intended to improve the economy and efficiency of audit processes which he is taking into consideration.

There being no further business, the meeting was adjourned at 10:32 a.m.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

MINUTES OF THE MEETING OF THE OPERATIONS COMMITTEE
HELD ON MARCH 27, 2012

Pursuant to the call of the Committee Chairman and notice duly given, the meeting of the Operations Committee of the Board of Commissioners of the Virginia Housing Development Authority (the "Authority") was held on March 27, 2012 at the Berry Hill Conference Center, 3105 River Road, South Boston, VA 24592.

COMMITTEE MEMBERS PRESENT:

Kermit E. Hale, Chairman
Charles L. Krum, Jr.
Yvonne T. Allmond

COMMITTEE MEMBERS ABSENT:

Manju Ganeriwala
Marjorie N. Leon

OTHERS PRESENT:

Barbara Blankenship, Managing Director of Human Resources
Arthur N. Bowen, III, Managing Director of Finance & Administration
Herb Hill, Managing Director of Policy, Planning and Communications
Tammy Neale, Chief Learning Officer
Russ E. Wyatt, General Auditor
Michelle Jackson, Office Manager

The meeting of the Operations Committee was called to order by Committee Chairman Hale at approximately 10:32 a.m. All of the members of the Committee listed above as being present at the meeting were present at that time and remained present throughout the meeting.

On a motion duly made and seconded, the minutes of the meeting of the Committee held on February 8, 2012 were approved as amended by the affirmative vote of each of the members of the Committee then present at the meeting.

Herb Hill provided an update on the PMO Portfolio. He also provided an update on the Single Family Solutions Suite (SFSS) Program.

Mr. Bowen presented the Bond Limitations Resolution that will permit the Authority to sell and issue its single family Commonwealth Mortgage Bonds. This resolution (i) sets forth the limitations on the bonds which may be issued in a maximum principal amount of \$1.0 billion through May 2013 and (ii) authorizes the use and distribution of the form of official statement for such bonds. Mr. Bowen noted that the resolution will only be used if the issuance of single family bonds becomes feasible. The Committee recommends the adoption of this resolution.

Ms. Blankenship gave the Human Resources update.

Ms. Neale provided an update on work performed by OD&L in professional development, succession management, change management, and associate engagement.

There being no further business, the meeting was adjourned at 11:03 a.m.