VIRGINIA HOUSING DEVELOPMENT AUTHORITY

MINUTES OF THE RETREAT AND REGULAR MEETINGS
OF THE COMMISSIONERS HELD ON MARCH 29-31, 2009

Pursuant to the call of the Chairman and notice duly given, the retreat and regular meetings of the Commissioners of the Virginia Housing Development Authority (the "Authority") were held on March 29-31, 2009 at the offices of Arlington Economic Development, 1100 North Glebe Road, Suite 1500, Arlington, Virginia.

COMMISSIONERS PRESENT:
Gerald W. Hopkins, Chairman
Charles McConnell, Vice Chairman
John P. McCann
Jay Fisette
William C. Shelton
Manju Ganeriwala
Jacqueline T. Black
Nancy K. O'Brien
Yvonne T. Allmond
Marjorie N. Leon

COMMISSIONER ABSENT:
Kermit E. Hale

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 N. Taylor, Managing Director of Organizational Development and Learning
Herb H. Hill, Jr., Managing Director of Policy, Planning, and Communications
Russ E. Wyatt, General Auditor
Janet W. Butler, 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
Paul M. Brennan, Deputy General Counsel
Melody S. Barackman, Controller
Llewellyn C. Anderson, Strategic Business Planner

J. Michael Hawkins, Director of Community Housing
Barry Merchant, Policy Analyst
Scott Heiry, Business Intelligence Manager
Patrick Carey, Finance Director
Michael Scheurer, Community Housing Officer
Dale Witte, Senior Tax Credit Allocation Officer
J.D. Bondurant, Research Analyst
Paula Sampson, Fairfax County Department of Housing and Community Development
Walter D. Webdale, AHC, Inc.
Mildrylin Davis, City of Alexandria Office of Housing
Shelley Murphy, Wesley Housing Development Corporation
Rick Edson, Housing Capital Advisors
Elijah Johnson, Prince William County Office of Housing and Community Development
Sarah Coyle Etro, Loudoun County Office of Family Services
Ken Aughenbaugh, Arlington County Housing Division
Barbara A. Favola, Chairman of the Board of Supervisors of Arlington County
John Welsh, AHC, Inc.
Carol Jackson, Falls Church Housing Development Corporation

The retreat meeting commenced at 2:05 p.m. on March 29, 2009 with a bus tour of 19 multi-family developments that are currently financed by the Authority or are being considered for financing by the Authority. All of the Commissioners listed above as present at the meeting were present during the retreat meeting on March 29, 2009, except Commissioner Ganeriwala. The bus tour concluded at 4:50 p.m.

Following the bus tour, the Commissioners met at Chesterbrooke Residences, and, after a tour of the development and dinner, a panel composed of Mr. Edson, Ms. Sampson, Ms. Murphy, Ms. Davis and Mr. Webdale discussed with the Commissioners the challenges facing affordable multi-family housing in Northern Virginia, the escalating costs to construct multi-family housing in Northern Virginia, and new actions that the Authority should take to assist in the development of affordable multi-family housing in Northern Virginia. This discussion included the following issues: the decline in resources available for affordable multi-family housing; the preservation of existing affordable multi-family housing; the need for construction of new affordable multi-family housing; the effectiveness of programmatic limits on construction costs; the status of the housing market; the costs of transportation and benefits of public transportation that is accessible to affordable multi-family housing; the need to construct affordable rental housing that conforms with neighborhood standards; the local economic impact of the construction of affordable multi-family housing; and changes to the Qualified Allocation Plan for the federal low income housing tax credits to allocate the monetization and gap funding included in the federal stimulus bill for developments assisted by the tax credits. Upon the conclusion of these discussions, the retreat meeting was recessed at 7:45 p.m.

Chairman Hopkins reconvened the retreat meeting of the Commissioners at 8:50 a.m. on March 30, 2009. All of the Commissioners listed above as present at the meeting were present at that time.

Ms. Favola welcomed the Commissioners to Northern Virginia and briefly discussed major housing issues and initiatives in Arlington County.

A panel composed of Mr. Johnson, Ms. Etro, and Mr. Aughenbaugh discussed with the Commissioners the expected single family foreclosure situation in Northern Virginia over the next 12-18 months, the other challenges facing affordable single family housing in Northern Virginia, and new actions that the Authority should take to assist affordable single-family housing in Northern Virginia. This discussion included the following issues: the status of the inventory of foreclosed homes; the recent trends in foreclosures; the market demand and prices for affordable homes; the availability of credit for homebuyers; the availability and uses of federal funds under the Neighborhood Stabilization Program; the need for Authority financing under its Single Family SPARC loan program; the local resources and initiatives available to reduce foreclosures; the impact of local economic conditions and unemployment; the need for homeownership counseling for homebuyers and individual counseling for homeowners at risk of foreclosure; and the capacity of nonprofit organizations to provide assistance to homebuyers and homeowners.

Mr. Bowen, Mr. Ritenour, Mr. Dolce and Mr. Carey presented reports on strategic issues relating to the Authority's single family program, including (i) the Authority's access to capital and its implication on loan originations and (ii) foreclosure prevention. Mr. Bowen advised the Commissioners that the Authority's business model of issuing bonds and lending the proceeds at a positive spread is not currently viable, that selling pools of FHA-insured loans guaranteed by Ginnie Mae is the most likely means to provide capital for the single family program in the short run, and that the Authority should be able to provide $800 million to $1 billion in annual single family lending by the sale and securitization of loans through Ginnie Mae. Mr. Bowen stated that the FHA Plus second mortgage loans that finance down payments and closing costs in conjunction with the FHA-insured first mortgage loan are expected to be funded in the approximate amount of $50 million annually and, since such loans are not covered by the FHA insurance, are at risk of loss upon default. He noted that while the past performance of the FHA Plus second mortgage loans has been satisfactory, future performance may be materially and adversely affected by declines in real estate values and increases in unemployment. Mr. Dolce discussed with the Commissioners the Authority's proposed $9 million in fiscal year 2010 REACH funding for the Borrower Assistance Program that would mitigate single family loan losses by reducing the monthly payment to an affordable 31%-38% mortgage debt-to-income ratio, principally for mortgagors of the Authority's conventional loans. Mr. Dolce advised the Commissioners that the Authority may be able in the future to offer subsidized refinancing as a loss mitigation option for its mortgagors through Ginnie Mae sale and securitization but that due to current conditions in the bond market the Authority does not expect to have a source of capital that will enable the Authority to refinance the loans of other lenders at a rate that is lower than market rates. Ms. Dewey discussed with the Commissioners the recent activities by the Authority in support of the state foreclosure prevention strategies. Mr. McKellar presented proposed amendments to the Authority's single family loan regulations that would implement programmatic changes relating to the sale of loans to Fannie Mae, Freddie Mac and Ginnie Mae, the FHA Plus Program, the underwriting of federally insured or guaranteed loans, and loan assumptions, and he noted that additional changes to the single family regulations, including requirements for minimum credit scores of borrowers and minimum ratings for mortgage insurers, may be included in the proposed amendments. Mr. McKellar explained that a public hearing on the proposed regulations would be held in April and that the final regulations would be presented to the Commissioners for their consideration at their June Board meeting. Upon the conclusion of the discussion of these matters, it was the consensus of the Commissioners that the staff proceed with the strategies for the single family program as presented in the reports.

Mr. Bowen, Mr. Dolce and Mr. Carey presented reports on strategic issues relating to the Authority's access to capital for its multi-family program. In this report, Mr. Bowen advised the Commissioners that housing bonds are paying a "housing penalty" in higher interest rates for the bonds, that the Authority has been able to sell taxable bonds for some multi-family developments receiving the 9% low income housing tax credits, that the tax credit pricing had become extremely volatile, and that many developers are waiting for the opportune time in the bond market to proceed with their mortgage loan financing. Mr. Carey reviewed the Authority's three most recent multi-family bond transactions and noted that future bond transactions will depend upon the feasibility of the interest rates for the developments to be financed by the bonds. Mr. Dolce reported on the status of delinquencies in the Authority's multi-family loan portfolio.

Mr. Chandler presented a summary of the impacts of the recent federal stimulus bill on the Authority's administration of the low income housing tax credit program, including the criteria, challenges and status of the funds provided in the stimulus bill for funding the equity gap in the developments (the "tax credit assistance funds") and the funds provided in exchange for tax credits (the "monetization funds"). Mr. Brennan reviewed the assumptions for allocation of the new federal funds and presented proposed changes to the Authority's Qualified Allocation Plan for the federal low-income housing tax credit program that would allocate such funds. In this presentation, the Commissioners and staff discussed the changes that (i) would allow an applicant to structure its application so that up to 40% of its tax credit request will be exchanged for $.85 per $1.00 of monetization funds and up to $3.4855 of tax credit assistance funds can be requested to fill any gap in the funding of the development; (ii) would allow the Authority to substitute monetization funds with tax credit assistance funds and to substitute tax credit assistance funds for monetization funds; (iii) would increase underwriting standards on developments applying for tax credit assistance or monetization funds in order to ensure investor interest; (iv) would impose a cap on developer's fees; (v) would allow 2007 and 2008 competitive round developments that have not closed their syndications to re-compete in the 2009 competitive round or exchange their credits for monetization funds in amounts not to exceed the lesser of $.85 per $1.00 of credits or the tax credit amounts in their allocation applications; (vi) would utilize the tax credit assistance and monetization funds for the 2009 competitive round and any remainder for tax exempt bond financed developments; and (vii) would treat the tax credit assistance and monetization funds as grants or forgivable loans and require subordinate deeds of trust to secure the owners' repayment obligations in the event of a violation of the program requirements during the extended use period. Ms. Dewey noted that, because of the expected future adequacy of the tax exempt bond allocation due to adverse conditions in the bond market, the Authority would be willing to waive the restriction on premature retirement of tax-exempt bonds in the Qualified Allocation Plan. Upon the conclusion of the discussion of these matters, it was the consensus of the Commissioners that the staff proceed with the proposed changes to the Qualified Allocation Plan and, after receiving public comment, present the final changes to the Board for approval at its June meeting.

Mr. Ritenour provided background information on the current guidelines for the mixed use, mixed income program and presented the following proposed changes to the program guidelines, subject to review and comment from stakeholders: (1) for developments that are 15,000 square feet or larger, the development must be in a revitalization area determined by the locality, at least 60% of its income must be derived from the residential portion of the development, 20% of the units must target households earning income of 80% or less of area median income; 20% of the units must target households earning income of 120% or less of area median income; and the remaining 60% of the units have no income restriction; (2) for developments under 15,000 square feet, the development must be in a revitalization area determined by the locality, and the percentage of income that must be derived from the residential portion and the incomes targeted will be determined on a case-by-case basis; and (3) for developments receiving REACH funds, 30% of the units must target households earning income of 80% or less of area median income, 20% of the units must target households earning income of 120% or less of area median income, and the remaining 50% of the units have no income restriction. Mr. Ritenour noted that two mixed use, mixed income developments that are currently being underwritten would be exempt from the recommended changes but would be required to target at least 20% of the units in the developments to households earning income of 80% of less of area median income. It was the consensus of the Commissioners that the staff proceed with the implementation of the recommended changes to the guidelines for the mixed use, mixed income program, subject to review and comment from stakeholders.

During the public comment period of the meeting, Ms. Jackson, and Mr. Walsh addressed the Commissioners on issues relating to the proposed changes to the Qualified Allocation Plan for the low income housing tax credit program. Ms. Jackson discussed housing issues in Falls Church and stated her concern about the proposed restriction on developers' fees and the impact on nonprofit organizations. Mr. Walsh expressed concern about the availability of tax credit assistance and monetization funds for tax exempt bond financed developments under the proposed changes and stated that the restriction on developers' fees would adversely affect nonprofit organizations that invested their own funds in the development of the projects and guaranteed the completion of construction of the projects.

There being no further business on the agenda for the day, the meeting was recessed at 4:15 p.m.

After the meeting was recessed, the Commissioners went to the Parc Rosslyn Apartments where they were given a tour by Ms. Nina Janopaul and had dinner, during which Ms. Janopaul informed the Commissioners about the development of the apartment project.

Chairman Hopkins reconvened the retreat meeting of the Commissioners at 8:50 a.m. on March 31, 2009. All of the Commissioners listed above as present at the meeting were present at that time, except Commissioner Fisette who joined the meeting in progress as noted below and thereafter remained present during the meeting on March 31, 2009.

Mr. Bowen presented an update report on the financial status of the Authority. During this presentation, Mr. Bowen advised the Commissioners that the projected excess net revenues for fiscal year 2009 is $126.1 million and that the excess net revenues are on target through February 2009, although lower investment earnings during the balance of fiscal year 2009 are expected to result in excess revenues of $120 million or less at the end of the fiscal year. Mr. Bowen stated that the financing of single family loans by the sale and securitization of single family loans through Ginnie Mae, in comparison with the financing of single family loans at full spread by the issuance of bonds, would result in approximately $3.2 million lower annual revenues beginning in fiscal year 2010. At this point, Commissioner Fisette joined the meeting. Mr. Bowen advised the Commissioners that the amount of excess net revenues in fiscal year 2010 will be at or below the excess net revenues in fiscal year 2009 and that in the foreseeable future the Authority's excess net revenues will likely be in a steady state primarily because of reduced loan spreads, low investment returns (including some losses), and possible increases in the loan loss reserve. Mr. Bowen then discussed with the Commissioners the financial and economic variables that could have a material impact on the Authority's future operating results.

Mr. Ritenour presented a report and recommendations for the utilization of REACH funds for fiscal year 2010. The Commissioners and staff discussed the proposed increase in funding for the Borrower's Assistance Payment Program from $1,000,000 in fiscal year 2009 to $9,000,000 in fiscal year 2010 and the proposed deferral of funding for the Single Family SPARC program. Ms. Watson stated that the primary concern for localities with regard to the Single family SPARC Program was having an allocation of funds to assist them with the Neighborhood Stabilization Program and that the Authority could address that concern. Mr. Ritenour advised the Commissioners that it may be necessary to request a one-time increase in the REACH allocation to support funding of Single Family SPARC program later in fiscal year 2010.

Mr. Bowen, Ms. Butler, Mr. Hill and Ms. Blankenship presented reports on the budget drivers for fiscal year 2010. Mr. Bowen discussed the projected excess net revenues for fiscal year 2009, the status of excess net revenues through February 2009, and the variables affecting excess net revenues. Mr. Bowen advised the Commissioners that excess net revenues for fiscal year 2009 would likely be less than the projected $126.1 million. Mr. Bowen explained that the fiscal year 2010 budget was being developed for presentation to the Commissioners at their June Board meeting and that the preliminary outlook for fiscal year 2010 was that administrative expenses would likely be close to those in fiscal year 2009, programmatic expenses would likely be above those in fiscal year 2009, and revenues are uncertain at this time but would likely be below those in fiscal year 2009. Mr. Bowen discussed with the Commissioners the following budget drivers for fiscal year 2010: single family loan production of $800 million to $1 billion (including $200 million in SPARC funding) using Ginnie Mae securitization to raise necessary capital and $50 million in uninsured second mortgage loans for the FHA Plus program; the dependency of multi-family loan production on interest rates; the spread on the mortgage loans and the market climate as key factors affecting the budget; the depressed rates and limited options for investments; the current posture of investing in short term and safe investments to place safety and liquidity ahead of return; the effect of losses from illiquid investments; the uncertainty about the future interest rate environment with both deflation and inflation as possibilities; and the projected provision for loan losses in the amount of $21 million composed of $15.2 million for single family loans and $5.8 million for multi-family loans. Ms. Butler advised the Commissioners that no increase in budgeted expenditures for technology was anticipated for fiscal year 2010. Ms. Butler noted that the "light on" expenses for the Authority's technology systems is expected to be $3.32 million and that the costs of new projects is expected to be $2.03 million, and she reviewed the major technology projects that were completed in fiscal year 2009 and are to be included in the budget for fiscal year 2010. Ms. Blankenship advised the Commissioners that no new positions are expected for fiscal year 2010, that the anticipated cost increase in employee benefits is $352,000, and that an extra payroll date in fiscal year 2010 will result in additional costs of $800,000. Ms. Blankenship stated that a 3% increase in salaries had been approved by the Operations Committee for the purpose of preparing the fiscal year 2010 budget to be presented to the Commissioners at their June Board meeting. The Commissioners discussed recent actions by local and state governments with respect to employment and salaries and concurred that they would discuss merit increases further at their June Board meeting. Mr. Hill reviewed the homeownership education marketing campaign that is focused on the African-American and Hispanic communities in the Northern Virginia and Tidewater areas. He explained that the anticipated amount in the fiscal year 2010 budget to continue the campaign is $790,000, which is the same as the budgeted and projected actual amounts in the fiscal year 2009 budget, and that the fiscal year 2010 budget for the Policy, Planning and Communication Division is expected to be 3.3% less than the fiscal year 2009 budget. Mr. Bowen reported that Phase I of the improvements to the headquarters building is substantially complete and that the Wytheville office building is expected to be completed in calendar year 2009. Mr. Bowen noted that Phase II of the improvements to the headquarters building is on hold and that the estimated costs for Phase II is $9.8 million, and he discussed with the Commissioners the pros and cons for proceeding with Phase II in fiscal year 2010. After this discussion, it was the consensus of the Commissioners that the staff not proceed with Phase II in fiscal year 2010. Mr. Bowen advised the Commissioners as to the possible impact on the fiscal year 2010 budget as a result of any reductions in federal funding of administrative expenses and subsidy for the Housing Choice Voucher Program, expenditures for foreclosure prevention efforts, and operating expenses for multi-family developments owned by the Authority. Mr. Bowen then reviewed revenue and expense trends from fiscal year 2000 through fiscal year 2009.

There being no further business, the retreat meeting was adjourned at approximately 11:50 p.m., and Chairman Hopkins convened the regular meeting of the Board of Commissioners. The Commissioners listed above as present at the meeting were present at that time and remained present throughout the meeting, except Commissioner McCann who left during the meeting as noted below.

The minutes of the meeting of the Committee of the Whole and the regular meeting of the Commissioners held on February 3 and 4, 2009 were approved by the affirmative vote of each of the Commissioners then present at the meeting.

The resolution entitled "Resolution in Recognition and Appreciation of Thirty Years of Service by John F. Hastings" dated March 31, 2009, 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 then present at the meeting. At this point, Commissioner McCann left the meeting.

Mr. McKellar reviewed proposed bond limitations resolutions for the Authority's Rental Housing Bonds and Commonwealth Mortgage Bonds that (i) provide for issuance of Rental Housing Bonds in an aggregate amount not to exceed $400 million and Commonwealth Mortgage Bonds in an aggregate amount not to exceed $1 billion, (ii) provide for the sale of the Rental Housing Bonds and Commonwealth Mortgage Bonds not later than May 31, 2010 and (iii) authorize the distribution of one or more preliminary and final official statements in substantially the forms presented at the meeting. On motion duly made and seconded, the resolutions entitled "Bond Limitations Resolution" both dated March 31, 2009, in the forms attached hereto, were approved by the affirmative vote of each of the Commissioners then present at the meeting.

Ms. Dewey presented a resolution to approve the Authority's five year and annual plans for the Housing Choice Voucher Program. On motion duly made and seconded, the resolution entitled "Resolution Approving the PHA Annual and Five-Year Plans for the Virginia Housing Development Authority for the Housing Choice Voucher Program" dated March 31, 2009, in the form attached hereto was approved by the affirmative vote of each of the Commissioners then present at the meeting. Ms. Dewey next presented a resolution to approve the transfer of 133 vouchers to the Marion Redevelopment and Housing Authority. On motion duly made and seconded, the resolution entitled "Resolution Regarding Transfer of Budget Authority and Corresponding Baseline Units under Section 8 Annual Contributions Contract" dated March 31, 2009, in the form attached hereto was approved by the affirmative vote of each of the Commissioners then present at the meeting.

Ms. Dewey's presented her report on operations in which she advised the Commissioners of the following matters: the Authority's participation with Habitat for Humanity in construction of two homes in New Kent County on April 3rd and 4th and with Rebuilding Richmond Together in rehabilitation of a home on April 25th; the Authority's annual charity golf tournament on May 21st; the annual NCSHA Conference in San Antonio on October 3rd-6th; the Governor's Housing Conference in Norfolk on November 18th-20th; the meeting of the Board of Commissioners on June 2nd and 3rd at the Authority's headquarters; future updates on important matters that will be sent to Commissioners by email; access by the Commissioners to a portal on the Authority's website that will be demonstrated at the June Board meeting; and the special meeting of the Board tentatively scheduled for 10:00 a.m. on April 20th at the Authority's headquarters to review and consider the final changes to the Qualified Allocation Plan.

There being no further business, the meeting was adjourned at approximately 12:18 p.m. on March 31, 2009.

Gerald W. Hopkins, Chairman

J. Judson McKellar, Jr.
Assistant Secretary

Minutes of the Meeting of the Operations Committee Held on March 30, 2009

The meeting of the Operations Committee of the Board of Commissioners of the Virginia Housing Development Authority was held on March 30, 2009 at the offices of Arlington Economic Development, 1100 North Glebe Road, Suite 1500, Arlington, Virginia.

Committee Members Present

Yvonne T. Allmond, Chair
John P. McCann
Manju Ganeriwala

Other Commissioners Present

Gerald Hopkins, Chairman of the Board

Others Present

Susan F. Dewey, Executive Director
Arthur N. Bowen, III, Managing Director of Finance and Administration
Barbara Blankenship, Managing Director of Human Resources

Meeting Called to Order

The meeting was called to order at 4:25 p.m. All of the members of the Committee noted above as being present at the meeting were present at that time and remained present throughout the meeting.

FY 10 Budget

There was discussion about the major budget drivers for the FY 10 budget, specifically benefits and compensation. The Committee recommended a 3% merit for FY10 budgeting purpose only and asked for additional comparable data to be presented at the June Board meeting.

Adjournment

There being no further business, Commissioner Allmond adjourned the meeting at 4:50 p.m.

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Arthur N. Bowen, III
Managing Director of Finance & Administration

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Yvonne Allmond
Chairman