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, NOVEMBER 14, 2013 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, November 14, 2013, at 9:00 a.m.

CALL TO ORDER/ ROLL CALL

Chair Ralph Mesick called the meeting to order at 9:05 a.m.

Present: Director Ralph Mesick, Chair
Director Paul Kyno, Vice Chair (Arrived at 9:39 a.m.)
Director Michael Ng
Director Betty Lou Larson
Designee Luis Salaveria for Director Kalbert Young
Designee Mary Alice Evans for Director Richard Lim (Arrived at 9:05 a.m.)

Interim Executive Director Janice Takahashi

Excused: Director Leilani Pulmano, Secretary
Director Allan Los Banos
Director Kalbert Young
Director Richard Lim

Staff Present: Sandy Ching, Deputy Attorney General
Colette Honda, Deputy Attorney General
Darren Ueki, Finance Manager
Rick Prahler, Development Branch Chief
Ann Nakagawa, Chief Financial Officer
Valerie Dionne, Personnel Management Specialist
Dean Sakata, Housing Finance Specialist
Patrick Inouye, Housing Finance Specialist
Jocelyn Iwamasa, Housing Finance Specialist
Glori Ann Inafuku, Housing Finance Specialist
Christopher Woodard, Property Management Coordinator
Lorraine Egusa, Budget Analyst
Krystal Tabangcura, Procurement Specialist
Kent Miyasaki, Housing Information Specialist
Esa Pablo, Secretary to the Board

Guests: Paul Ainger, Rural Community Assistance Corporation
Blake Vance, Kunia Village Development Corporation
Kevin Carney, EAH Housing
Aaron Eberhardt, EAH Housing/Hui Kauhale, Inc.
Marian Gushiken, EAH Housing
Craig Hirai, Bowen Hunsaker Hirai Inc.
Stephanie Whalen, Hawaii Agriculture Research Center
Makani Maeva, Vitus Group

QUORUM

A quorum was present.

II. A. APPROVAL OF MINUTES 10/10/13

Designee Salaveria moved, seconded by Designee Evans, to approve the Meeting Minutes of October 10, 2013.

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Motion carried, as circulated.

Regular Meeting

II. B. APPROVAL OF MINUTES
10/10/13 Executive Session

Action on this item was taken in Executive Session, and approved as circulated.

II. C. APPROVAL OF MINUTES
10/17/13 Special Meeting

Designee Salaveria moved, seconded by Designee Evans, to approve the Special Meeting Minutes of October 17, 2013.

Motion carried, as circulated.

II. D. APPROVAL OF MINUTES
10/17/13 Special Executive Session

Action on this item was taken in Executive Session, and approved as circulated.

II. E. APPROVAL OF MINUTES
09/12/13 Executive Session

Action on this item was taken in Executive Session, and approved as circulated.

III. A. DISCUSSION AND/OR DECISION MAKING
Approve: (1) Resolution No. 56, Which provides for Official Intent with Respect to the Issuance of Hula Mae Multi-Family Tax-Exempt Revenue Bonds; and (2) Reservation of Low Income Housing Tax Credits for the Kunia Village Project Located in Kunia, Oahu, TMK Nos.: (1) 9-2-005; 023 CPR 0003 and 0004

Chair Mesick asked that the Board go straight into questions, noting that the first three For Actions are non-binding inducement resolutions that will allow staff to further discuss and make a final recommendation to the Board at a later date.

Designee Salaveria moved, seconded by Designee Evans, to approve staff's recommendation:

That the HHFDC Board of Directors approved the following:

A. Approve Resolution No. 056, attached as Exhibit 056, which provides for official intent with respect to the issuance of revenue bonds up to $24,200,000 for the Kunia Village project subject to the provisions recommended in Exhibits C and E.

B. Reserve up to $1,000,565 in annual Federal LIHTC and $500,282 in annual State LIHTC from the non-competitive pool (4% LIHTC) to the Kunia Village project subject to the provisions recommended in Exhibits D and E.

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

Finance Manager Darren Ueki stated that the Kunia Village (Project) consists of 82 family units, located in Kunia, Oahu, with an affordability period of 30 years.

Occupancy for the Project will be limited to households with at least one member who is current, retired, or disabled agricultural worker.

This is the first step in the issuance of bonds and allows the developer to recognize project expenditures.

A For Action for the final issuance will be presented to the Board for approval once the financing structure is completed.

In reference to the Low Income Housing Tax Credit (LIHTC) guidelines on page 3 of the For Action, Designee Evans asked if the requirement of "All units must be available to the general public," would be removed if the Project should proceed with its occupancy limitation. Mr. Ueki stated that the requirement would not be removed.

Further discussions on the targeted group are still pending. The HHFDC has been given permission to proceed by its Bond Counsel on the application received. Staff assured the Board that the occupancy limitation would not violate any program requirements of the LIHTC program or Internal Revenue Code.

However, the Board does have the authority (from a policy perspective) to make an objection, if the occupancy limitation is deemed not compliant to the mission of the Corporation.

Director Larson asked on the reasoning for the shorter affordability period of 30 years in comparison to the majority of projects coming in at 61 years. Mr. Ueki stated that the initial application received was for 61 years. However, in further review of its application the Project elected to reduce its affordability period with other agreements in place that will keep the Project affordable well beyond the 30 years.

Director Larson asked on the future intentions of the Project. Mr. Ueki introduced Ms. Stephanie Whalen, Executive Director of the Hawaii Agriculture Research Center (HARC), and Mr. Paul Ainger with Rural Community Assistance Corporation (RCAC), who stated that the mission of the HARC is to save its existing infrastructure and retain this property for agricultural workers (by a deed restriction with Campbell Estate) in perpetuity.

Director Larson asked on the maximum percentage of affordability after the 30 year period is fulfilled. Ms. Whalen stated that after the 30-year affordability period, Area Median Income (AMI) percentages will range from 80% - 140% in order to comply with various funding program restrictions (e.i., Campbell Estate deed, 201H, and USDA Farm Worker Housing), also providing long-term income flexibility.

Director Larson asked what would happen to the current residents of the 82 units during the demolition and reconstruction period. Ms. Whalen stated that in use of federal funds, the Project must comply with relocation requirements. Therefore, as new houses are constructed, qualified tenants will be moved in to those vacant units while their houses are being constructed. Those that cannot be accommodated will be relocated out using allocated funds within its budget. There will be a waiting list with first priority being given to qualified existing tenants within the village.

There being no further discussion, the motion was unanimously carried.

III. B. DISCUSSION AND/OR DECISION MAKING
Approve: (1) Resolution No. 57, Which provides for Official Intent with Respect to the Issuance of Hula Mae Multi-Family Tax-Exempt Revenue Bonds; and (2) Reservation of Low Income Housing Tax Credits for the Kalani

Designee Evans moved, seconded by Director Ng, to approve staff's recommendation:

That the HHFDC Board of Directors approve the following:

A. Approve Resolution No. 57, attached as Exhibit F, which provides for official intent with respect to the issuance of revenue bonds up to $12,700,000 for the Kalani Gardens project subject to the provisions recommended in Exhibits C and E.

B. Reserve up to $696,708 in annual Federal LIHTC and $348,354 in annual State LIHTC from the non-competitive pool (4% LIHTC) for the Kalani Gardens project subject to the provisions recommended in Exhibits D and E.

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

Gardens Project Located, in Mililani, Oahu, TMK No.: (1) 9-5-006: 015

Mr. Ueki stated that the Kalani Gardens (Project) consists of 118 family units, located in Mililani, Oahu, with an affordability period of 65 years.

Mr. Kevin Carney, and Ms. Marian Gushiken, with EAH Inc., and Mr. Arron Eberhardt, with Hui Kauhale, Inc., were introduced and available for questions.

Chair Mesick asked on the collaboration of the EAH Inc. and Hui Kauhale, Inc. Mr. Eberhardt stated that EAH was invited by the U.S. Department of Housing and Urban Development (HUD) to acquire, own, and manage the Project in 1996 through Hui Kauhale, Inc.

Director Larson asked on the type of rent subsidy obtained for the Project. Mr. Eberhardt stated that the Project has a Housing Assistance Payments (HAP) Contract for 20% of its units (21 units), through which the HAP Section 8 subsidies covers the difference between 30 percent of a tenant's income and the monthly rental rate.

Director Larson asked what would happen with the tenants during the Project rehabilitation. Mr. Eberhardt stated that the Project will follow a relocation plan similar to the Federal Relocation Act, with units provided during the first phase, and then tenants will be moved around accordingly thereafter. Relocation monies are available.

Designee Evans asked about the acquisition piece. Mr. Eberhardt stated that the acquisition is based on an assessed value, which is currently about $8 million. An additional assessment is pending in determining the final acquisition amount.

Designee Evans asked if the ownership would be moved from Hui Kauhale to EAH. Mr. Eberhardt concurred, clarifying that the Project is actually owned by Kalani Mala, which is a non-profit Board, controlled by EAH, for the purpose of acquiring sufficient rehabilitation funds.

Director Larson asked on how much of the estimated $8 million would be utilized for Project rehabilitation. Mr. Eberhardt stated that approximately 80% - 85% will be used towards renovations pending its financing position at the time of bond closing. The Project will use a seller payback note to help fund the rehabilitation.

There being no further discussion, the motion was unanimously carried.

III. C. DISCUSSION AND/OR DECISION MAKING
Approve: (1) Resolution No. 58, Which provides for Official Intent with Respect to the Issuance of Hula Mae Multi-Family Tax-Exempt Revenue Bonds; and (2) Reservation of Low Income Housing Tax Credits for the Kekuilani Gardens Project Located in Kapolei, Oahu, TMK No.: (1) 9-1-078:052

Designee Salaveria moved, seconded by Designee Evans, to approve staff's recommendation:

That the HHFDC Board of Directors approve the following:

A. Approve Resolution No. 58, attached as Exhibit G, which provides for official intent with respect to the issuance of revenue bonds up to $9,000,000 for the Kekuilani Gardens project subject to the provisions recommended in Exhibits C and E.

B. Reserve up to $572,215 in annual Federal LIHTC and $286,107 in annual State LIHTC from the non-competitive pool (4% LIHTC) to the Kekuilani Gardens project subject to the provisions recommended in Exhibits D and E.

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

Mr. Ueki stated that the Kekuilani Gardens (Project) consists of 56 family units, located in Kapolei, Oahu.

The Project is a U.S. Department of Agriculture (USDA) project owned by the HHFDC and has been approved to be sold.

Ms. Makani Maeva, with Vitus Development LLC, was introduced and available for questions.

Director Larson asked on the Project rent subsidy. Ms. Maeva stated that the Project is under USDA, with Section 521 Rural Rental Assistance, covering the difference between 30 percent of the tenant's income and the monthly rental rate.

Director Larson asked what would happen to the existing project reserves once the transaction transpires. Ms. Maeva stated that the Project reserves are to be transferred with the asset. However, the current balance of the reserves will need to be brought up to USDA required levels in order to complete the transfer.

Designee Evans asked on the acquisition piece. Ms. Maeva stated that the Project will enter into a long-term lease of the land and acquisition of the building once the transfer is completed.

Director Larson noted that a 13% Developer's fee seems high. Chair Mesick concurred. Ms. Maeva explained the complexity of the transaction and the responsibility that the developer holds in terms of running its business and covering unexpected expenses.

With no further discussion, the motion was unanimously carried.

Vice Chair Kyno arrived at 9:38 a.m.

Designee Evans asked if more new construction proposals are anticipated. Mr. Ueki stated that the 4% LIHTC are primarily used for preservation of existing affordable housing due to the additional debt that is carried with the use of the bonds, with the 9% LIHTC typically used for new construction. However, it was stated that a reasonable amount of new construction projects have come in for 4% LIHTC. Interim Executive Director Takahashi added that within the Hula Mae Multi-Family 2013 Funding Round, the HHFDC has received 3 proposals for new construction type projects along with other acquisition/rehabilitation projects.

Director Larson commented on the positive outcomes of projects as a result of its policy change of excluding 9% LIHTC for project acquisition.

Chair Mesick asked that staff communicate more of its evaluation process within its reports to the Board, providing information on the property and how the valuation of the project was determined in terms of income and expenses.

With no further discussion, the Board proceeded to Item D.

III. D. DISCUSSION AND/OR DECISION MAKING
Accept the Audited Financial Statements of the Nani O Puna Project and Kekuilani Gardens Project for the Fiscal Year Ended June 30, 2013

Designee Evans moved, seconded by Vice Chair Kyno, to approve staff's recommendation:

That the HHFDC Board of Directors accept the audited financial statements for Nani 'O Puna Project and Kekuilani Gardens Project for the fiscal year ending June 30, 2013.

Chief Financial Officer Ann Nakagawa stated that the audit was performed by Accuity LLP and issued.

Both the Nani 'O Puna and Kekuilani Gardens are USDA projects and are therefore, subject to its audit requirements and deadlines. The audit was submitted to USDA prior to this meeting.

The following facts were noted:

1. Total assets of the Nani ʻO Puna project decreased by $282,000 primarily due to a net operating loss of $254,000. Operating cash has been supplemented by the Dwelling Unit Revolving Fund (DURF).

2. Total assets of the Kekuilani Gardens project decreased by $62,000.

Two comments were noted on internal controls over the financial reporting of Kekuilani Gardens.

1. The Project has not been meeting the minimum USDA reserve requirements on an annual basis.

   - There have been discussions on raising rents. However, the combination of the amount charged to renters plus the rent subsidy from USDA exceeds the current market rental rate.

   - Therefore, Property Management will review, along with the Project Manager, the expenditures for the Project to determine which expenses can be reduced or eliminated in order to meet the Replacement Reserve minimum funding requirements.

2. The Project has had recurring adjustments, with this year being primarily due to an interest subsidy received from the USDA.

   - The Management unit and the Fiscal Management will monitor the monthly financials to ensure that accrual basis adjustments at year-end is accounted for prior to submitting to the auditors.

Chair Mesick asked if the $5.5 million mortgage debt for the Kekuilani Gardens could be paid off. Ms. Nakagawa stated that the DURF fund could be utilized.

Chair Mesick found the sale transaction of the Nani ʻO Puna and Kekuilani Gardens projects to be unclear, asking if another alternative option could be explored.

Staff noted the following reasons for electing its sale option of the Projects:

1. This would suffice the guidance of the Board in breaking away from owning and managing projects, which is not a part of the HHFDC mission.

2. The Projects would be sold at leasehold, which would eventually generate income back to the Corporation.

3. The two USDA projects were packaged together for the purposes of utilizing the Kekuilani Gardens project as an asset to support the additional repair expenses needed for the Nani ʻO Puna project.

Staff reported that a financing request was only received for the Kekuilani Gardens project. The approximate $9 million sale price would pay off the $500,000 Rental Housing Trust Fund loan. The sale of the lease and acquisition of the building has already been approved by the Board.

The Board thanked and welcomed Ms. Nakagawa to the Corporation.

With no further discussion, the motion was unanimously carried.

Chair Mesick expressed that the Board needed a deeper operational understanding of the various financing programs of the Corporation in order to formulate effective policies and philosophies to guide the Corporation in its daily operations and use of its limited resources.

With no further discussion, the Board proceeded to Item E.

III. E. DISCUSSION AND/OR DECISION MAKING
Accept the Audited Financial Statements of Kama'aina Hale Project for the Fiscal Year Ended June 30, 2013

Designee Evans moved, seconded by Vice Chair Kyno to approve staff's recommendation:

That the HHFDC Board of Directors accept the audited financial statements for the Kama'aina Hale Project for the fiscal year ending June 30, 2013.

Ms. Nakagawa stated that a separate audit for the Kama'aina Hale (Project) was also conducted by Accuity and issued, due to the request made by the potential buyer (University of the Nations), which would have otherwise not been conducted.

Designee Evans asked if the net operating loss is something consistent with this Project. Ms. Nakagawa concurred, stating that the net loss is about the same amount reported in 2012.

Designee Salaveria asked if the Project received an annual subsidy from DURF. Development Branch Chief Rick Prahler stated that is due primarily to the lease rent renegotiation of the Bishop Estate. A previous issue with asbestos has resulted in the vacancy of units. Asbestos abatement has been completed and unit renovations are pending the sale transfer.

Staff continues to work on the sales agreement that was approved by the Board in May 2013.

With no further discussion, the motion was unanimously carried.

The Board proceeded to Item F.

III. F. DISCUSSION AND/OR DECISION MAKING
Discussions Relating to the Hula Mae Single Family Mortgage Program

Mr. Ueki stated that the Hawaii Single Family Mortgage Purchased Revenue Bond Program, also known as the Hula Mae Single Family (Hula Mae) program, provides first mortgage loans to qualified first-time homebuyers in Hawaii.

The Hula Mae program goals were noted, as follows:

1. To provide mortgage programs benefitting homebuyers that address an unmet need in the market;

2. Provide program sustainability; and

3. Provide compliance with federal regulations and indenture requirements.

The Hula Mae program first issued bonds in the 1980's.

Over the years, the Hula Mae program has issued 33 series of bonds under the Trust Indenture totaling $1.948 billion and has assisted 10,064 families purchase homes as of June 30, 2013.

In the 1990's the Hula Mae program moved to a Mortgage Backed Security (MBS) program, where loans were pulled with Fannie Mae security, eliminating the risk of default on individual loans, allowing the HHFDC to strengthen its program and achieve the highest bond ratings with all three rating agencies – Standard and Poor's, Moddy's, and Fitch.

In the 2000's, the Federal Government looked to stimulate the economy by establishing a New Issued Bond program to secure capital and originate loans at a very low interest rate.

In addition to the New Issued Bond program, the HHFDC added on a 3% (Of the sale price) Downpayment Assistant (DPA) program that became a Ginnie Mae program, opening doors for mortgage insurance from HFA, VA, and USDA. However, with the rise of interest rates, the HHFDC, along with the guidance of the Board, elected to remain at a standstill until another opportunity was given and therefore, focused its attention back on the Mortgage Credit Certificates (MCC) program, which allows a borrower to claim 20% of the interest they pay on their mortgage as a tax credit, not being affected by interest rates.

> Chair Mesick asked if an analysis was done to determine which program is better. Mr. Ueki stated that if the Hula Mae program was left the way it was, the MCC program would end up having more value, due to the fact that it is not interest rate driven.
>
> Chair Mesick asked which would have been a better use of bond cap. Mr. Ueki commented that he did not believe there was a right or wrong answer. The changes made to the Hula Mae program, adding the DPA piece, allowed the opportunity for homeownership that would not have otherwise happen with the utilization of the MCC program.
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> Interim Executive Director Takahashi added that according to the Hawaii Housing Planning Study, one of the top things that hold buyers from becoming homeowners is the lack of a downpayment. Therefore, the downpayment feature within the Hula Mae program adds value, addressing a need in the market place for first-time homebuyers.

The 2011 Hula Mae Loan program utilized approximately $44 million to originate mortgage loans, assisting 129 families become homeowners.

Possible program opportunities were noted, as follows:

1. Expand who can be assisted by the Hula Mae program – allow former recipients of Hula Mae loans to use the Hula Mae program to purchase a home (allowing people to use the program more than once);

    - Currently HHFDC serves those at or below 120% AMI and first-time homebuyers

    - Income restrictions could be eliminated, but would potentially put the HHFDC in competition with the banks.

2. Expand how Hula Mae assists homebuyers – allow eligible home improvement loans and/or refinance existing loans (would require amendment to statute);

    - Additional staff and different types of expertise would be required.

    - The HHFDC would be in direct competition with its conventional lending partners relied on to promote and originate its loans.

    - Each activity would require written rules, which could further disclose potential impacts and benefits.

3. Expand lender participation – fund DPA at closing for all loans to increase lender participation in the DPA program and/or use a common master servicer to service future loans; and/or

    - The DPA program has shown to be very successful.

    - Having the master services may open up opportunities with smaller mortgage brokers.

4. Add additional funding channels by transitioning from being an issuer of bonds to a seller of loans/MBS to supplement issuing bonds.

- The current municipal bond market is unfavorable to raise funds for mortgages at competitive mortgage rates.

- The HHFDC would need to actively manage its interest rates that are charged to borrowers and would be entering in to a new market dealing with investors of mortgages and MBS and run the risk of holding on to such mortgages/MBS.

- Source of funds used to originate new mortgages needs to be determined.

- The HHFDC has approximately $80 million in Mortgage Backed Securities, which would sustain the operations of the HHFDC short term.

Further discussion ensued, with the following Board comments noted:

1. The HHFDC needs to determine what need it is trying to fill and why.

2. The HHFDC may be indirectly adding to the demand for housing by making people homeownership ready or qualified, which may contribute to a rise in housing costs.

3. Although the intent of the Agency is not to make a profit, resources are needed in order to self-sustain the functions and operations of the Corporation.

4. Balanced leveraging is needed in determining the product the Corporation will provide to those it serves.

5. Compliance is currently the contributing factor in the difficulty of obtaining a loan.

6. Timing is an important factor in the success of initiating a product/program.

7. The purchase market is currently in demand; not the refinancing market.

Chair Mesick asked that a business model be provided to the Board, focusing on how it will work, how income will be generated, what is needed, and potential impacts.

With no further discussion, the Board proceeded to Executive Session.

Designee Salaveria noted that he would need to be excused shortly to attend another meeting.

V. EXECUTIVE SESSION

Designee Evans moved, seconded by Director Larson, to convene in Executive Session to discuss personnel matters related to the hiring of the new Executive Director.

The Board of Directors of the Hawaii Housing Finance and Development Corporation anticipates convening in Executive Session pursuant to Section 92-5(a)(2) and/or Section 92-5(a)(4).

The motion carried.

The Board convened in Executive Session at 11:08 a.m.

Designee Salaveria was excused at 11:13 a.m.

RECONVENED
11:40 a.m.

The Board reconvened back into Regular Session at 11:40 a.m.

IV. REPORT OF THE EXECUTIVE DIRECTOR

Interim Executive Director Janice Takahashi introduced the new Personnel Management Specialist Valarie Dionne, who has taken over the position of Steven Sung, who is now the Department Personnel Officer of DBEDT.

The Board welcomed Ms. Dionne.

Chair Mesick announced that the Board will dissolve the Finance Subcommittee and establish a Financing Policy Subcommittee for the purposes of looking at the different financing programs of the HHFDC.

Members of the Financing Policy Subcommittee will include: Chair Mesick (as the Chair), and Directors Kyno, Lim, and Salaveria.

Deputy Attorney General Sandra Ching stated that any recommendations set forth from the Subcommittee has to be presented to the full Board at subsequent meeting. Any decision making, as a result of any recommendation, will then have to come at another subsequent meeting.

Chair Mesick asked if there are any time limits to be set for the Subcommittee.

Deputy Attorney General Ching stated that there are no time limits as long as the Subcommittee is working towards the scope of what was described, which is the policy of looking into the financing programs.

With that said, Chair Mesick proceeded and opened for questions on the Report of the Executive Director.

Director Larson noted that Senator Chun Oakland and others are pushing for $100 million for RHTF, which she believed to be something the Board needs to be proactive on, looking at what the real need is and support a major initiative.

Designee Evans stated that according to the Hawaii Revised Statutes, regarding legislative communications, this Board must flow any position it takes through the Director of DBEDT, Richard Lim.

Interim Executive Director Takahashi added the HHFDC cannot support funding requests which are not in the executive budget.

Director Larson asked on how the Board could work towards the true need in accomplishing the number of units that are needed.

Chair Mesick stated that perhaps that is something that could be achieved as the Corporation continues to work towards improving the way it manages the resources it has.

In reference to the Report of the Executive Director, Interim Executive Director Takahashi stated that staff met with the Governor yesterday regarding its proposed bills and is able to proceed.

VI. ADJOURNMENT

With no further discussion, Designee Evans moved, seconded by Vice Chair Kyno, to adjourn the meeting at 11:45 a.m.

The motion was unanimously carried.

LLPL

LEILANI PULMANO
Secretary