

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

MINUTES OF THE MEETING OF THE COMMITTEE OF THE WHOLE
AND THE REGULAR MEETING OF THE COMMISSIONERS
HELD ON NOVEMBER 6 AND 7, 2007

Pursuant to the call of the Chairman and notice duly given, the meeting of the Committee of the Whole and the regular meeting of the Commissioners of the Virginia Housing Development Authority (the "Authority") were held on November 6 and 7, 2007 at the Virginia Housing Center, 4224 Cox Road, Richmond, Virginia.

COMMISSIONERS PRESENT:

John P. McCann, Chairman
Douglas R. Fahl, Vice Chairman
Jay Fisette
Charles McConnell
William C. Shelton
Gerald W. Hopkins
J. Braxton Powell
Nancy K. O'Brien
Yvonne T. Allmond
Jacqueline T. Black

COMMISSIONER ABSENT:

Edward L. McCoy

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
Janet W. Butler, Managing Director of Information Technology Services
Tammy N. Taylor, Managing Director of Organizational Development and Learning
Russ E. Wyatt, General Auditor
Herb H. Hill, Jr., Managing Director of Policy, Planning, and Communications
J. Judson McKellar, Jr., General Counsel
John F. Hastings, Director of Multi-Family Development Programs
Michele G. Watson, Director of Homeownership Programs
James M. Chandler, Director of Low Income Housing Tax Credit Programs
Neal Rogers, Manager of Asset Management
J. Michael Hawkins, Director of Community Housing
Costa Canavos, Community Housing Officer
Michael Scheurer, Community Housing Officer
Barry Merchant, Policy Analyst

Llewellyn C. Anderson, Strategic Business Planner
Melody S. Barackman, Controller
Brian Matt, Public Relations Manager
Robert Halloran, Marketing Director
Ronald A. Reger, Strategic Business Planner
Paul M. Brennan, Deputy General Counsel
Ann Bolen, Development Officer
Joseph K. Feasor, Business Performance Analyst
Sharon Fairburn, Housing Choice Voucher Director
Toni Ostrowski, Senior Community Housing Officer
Scott Heiry, Business Intelligence Manager
Rowland W. Flournoy, Compliance Auditor
Walter Webdale, AHC, Inc.

Chairman McCann called the meeting of the Committee of the Whole to order at 1:43 p.m. on November 6, 2007. The Commissioners listed above as present at the meeting were present at that time and remained present throughout the meeting, except Commissioner Powell who joined the meeting in progress as noted below and remained present through the meeting of the Committee and except Commissioner Fissette who was not present at the meeting on November 6, 2007.

Ms. Dewey reported on the Authority's strategic goal and her performance objective of addressing the housing needs of Virginia' communities and summarized the four areas of the Authority's multi-faceted approach- educating the public; identifying, developing and promoting best practices; providing research and marketing support; and developing and improving programs. Following Ms. Dewey's remarks, the Commissioners received and discussed the following additional reports on this strategic goal and performance objective: a report by Ms. Ostrowski on Housing Virginia's activities in educating the public and on a proposed training program by GCA Strategies for developers on conducting community outreach; reports by Mr. Hawkins and Mr. Canavos on the REACH Team's efforts to identify, develop and promote best practices; a report by Mr. Merchant on the Authority's analytic and best practices research and marketing; and a report by Mr. Rogers on the development and improvement of the Authority's programs by certification of management agents and establishment of minimum property construction standards. During this report, Commissioner Powell joined the meeting. Ms. Dewey then summarized how this multi-faceted approach will enable the Authority to understand local goals and perceptions and build community support for affordable housing. The Commissioners concurred that this approach was appropriate to achieve the Authority's strategic goal and the Executive Director's performance objective and that criteria and measures would be necessary to determine the success of this approach. Ms. Dewey confirmed that much of the work in this approach for fiscal year 2008 was to increase the Authority's understanding of local goals and perceptions so that the Authority could develop appropriate benchmarks.

Mr. Ritenour presented a report on the status of the multi-family developments owned by the Authority. Ms. Bolen discussed with the Commissioners the division of the

developments into three tiers, the disposition plans for the developments, and the process by which the developments would be sold and conveyed. It was the consensus of the Commissioners that the staff proceed with the disposition plans and process as proposed.

Mr. Bowen presented a report on the status of the Authority's allocation of tax-exempt bonds. During this report, the Commissioners and staff discussed the following matters: the Authority's single family and multi-family loan production trend; the high loan demand and the Authority's limited financial resources; the statutory allocation of the Commonwealth's private activity bond ceiling for calendar year 2007; the allocation and use of the Commonwealth's private activity bond ceiling in calendar years 2001-2006; the allocation and use of the Commonwealth's private activity bond ceiling through October 2007; the sources and costs of the Authority's bond capital; and the Authority's projected tax-exempt bond resources and usage from calendar year 2008 through 2013. Ms. Watson then presented two phases of programmatic changes that have been implemented, and a third phase that may be considered, for the single family program as a result of the reduction in financial resources and the increased loan demand.

Mr. Ritenour reported on proposed changes to the Qualified Allocation Plan for the federal low-income housing tax credits. In this report, Mr. Ritenour discussed with the Commissioners the original proposed changes, the opportunities for public input, the public comments received on the original proposed changes, and the recommended revisions to the original proposed changes. Upon the conclusion of this discussion, the Commissioners directed the staff to include in the proposed changes a point category for smaller projects that would provide a maximum of 20 points for projects of 50 or fewer units and that would decline by .4 of a point for each unit in excess of 50 units.

There being no further business, the meeting of the Committee of the Whole was adjourned at approximately 7:10 p.m. on November 6, 2007.

Chairman McCann called the regular meeting of the Board of Commissioners to order at approximately 11:21 a.m. on November 7, 2007. The Commissioners listed above as present at the meeting were present at that time and remained present throughout the meeting, except Commissioner Hopkins who joined the meeting in progress as noted below and thereafter remained present during the meeting.

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

On motion duly made and seconded, the minutes of the meeting of the Committee of the Whole and the annual meeting of the Commissioners held on July 31, 2007 and August 1, 2007 were approved by the affirmative vote of each of the Commissioners then present at the meeting. At this point, Commissioner Hopkins joined the meeting.

Chairman McCann then recognized Mr. Rowland W. Flournoy for his 30 years of service with the Authority. On motion duly made and seconded, the resolution entitled "Resolution in Recognition and Appreciation of Thirty Years of Service by Rowland W.

(Butch) Flournoy” dated November 7, 2007, in the form attached hereto was approved by the affirmative vote of each of the Commissioners then present at the meeting.

Chairman McCann, on behalf of the Committee of the Whole, summarized the staff reports that were received and discussed by the Committee on the following matters: the Authority’s approach to address the housing needs of communities; the status of the multi-family developments owned by the Authority and the disposition plans and process for the sale and conveyance of the developments; the status of the Authority’s allocation of tax-exempt bonds; the three phases of programmatic changes that have been and may be implemented for the single family program as a result of the reduction in the Authority’s financial resources; and proposed changes to the Authority’s Qualified Allocation Plan for the federal low-income housing tax credits.

Commissioner McConnell, on behalf of the Programs Committee, reported that the Committee had received and discussed, and recommended approval of, a resolution to approve the proposed changes to the Authority’s Qualified Allocation Plan for the federal low-income housing tax credits. Commissioner McConnell advised the Commissioners that the Committee recommended the following proposed changes: a point category for developments identified by Rural Development; the increases in threshold scores; and the restriction on premature retirement of tax-exempt bonds. Commissioner McConnell further advised the Commissioners that the Committee recommended the inclusion of a point category for smaller projects that would provide a maximum of 20 points for projects of 50 or fewer units and that would decline by .4 of a point for each unit in excess of 50 units, and the revision to the proposed changes that would include this point category was then distributed at the meeting. Commissioner McConnell then moved approval of the resolution entitled “Resolution Amending and Restating the Plan of the Virginia Housing Development Authority for the Allocation of Low-Income Housing Tax Credits Including Rules and Regulations” dated November 7, 2007 in the form attached hereto, as so revised to include the point category for smaller projects. This motion was seconded by Vice Chairman Fahl and was approved by the affirmative vote of each of the Commissioners noted above as present at the meeting. Commissioner McConnell next summarized the staff reports that were received and discussed by the Committee on the following matters: the homeownership and multi-family loan production; the homeownership and multi-family loan delinquencies; an update on the Housing Choice Voucher Program; and the status of the Authority’s emerging markets outreach efforts. Commissioner McConnell reported that the Committee had received a staff report on the annual SEMAP Certification for the Section 8 Housing Choice Voucher Program for 2007 and recommended approval of the resolution approving and ratifying the SEMAP Certification that had been filed electronically with HUD on August 27, 2007. Vice Chairman Fahl then moved approval of the resolution entitled “Resolution Approving and Ratifying the Housing Choice Voucher Section 8 Management Assessment Program Certification Filed Electronically on August 29, 2007 with HUD” in the form attached hereto. This motion was seconded by Commissioner Hopkins and was approved by the affirmative vote of each of the Commissioners noted above as present at the meeting. Commissioner McConnell reported that the Committee had received and discussed, and recommended approval of, a resolution to approve the proposed amendments to the

Authority's Rules and Regulations for Single Family Mortgage Loans to Persons and Families of Low and Moderate Income. Commissioner Hopkins then moved approval of the resolution entitled "Resolution Amending the Rules and Regulations for Single Family Mortgage Loans to Persons and Families of Low and Moderate Income" dated November 7, 2007 in the form attached hereto. This motion was seconded by Commissioner Fisette and was approved by the affirmative vote of each of the Commissioners noted above as present at the meeting. Commissioner McConnell reported that the Committee also recommended approval of the following resolution:

"Be it resolved that the Executive Director shall give at least 14 days' prior notice to the Commissioners of his or her intent to exercise discretion to (i) increase or decrease sales price limits under § 10-40-80 of the Authority's Rules and Regulations for Single Family Mortgage Loans to Persons and Families of Low and Moderate Income (the "Regulations") or (ii) to increase or decrease maximum gross incomes under § 10-40-100 of the Regulations. Unless the Executive Director shall receive, within 14 days after the date the notice is sent to the Commissioners, notification by any Commissioner of his or her objection to such exercise of discretion, the Executive Director shall have full authority to so exercise his or her discretion. In the event that the Executive Director shall receive from one or more Commissioners notification of objection to such exercise of discretion, the Authority staff shall contact each such Commissioner and shall provide him or her with such additional information as he or she may request. Each such Commissioner may revoke his or her objection, and in the event of such revocation by all such Commissioners, the Executive Director shall have full authority to so exercise his or her discretion. If any Commissioner shall object to the approval of any such exercise of discretion and shall not revoke his or her objection, then the Executive Director shall not be authorized to exercise such discretion without the adoption of a Board resolution."

Commissioner Hopkins then moved approval of the foregoing resolution. This motion was seconded by Vice Chairman Fahl and was approved by the affirmative vote of each of the Commissioners noted above as present at the meeting. Commissioner McConnell reported that the Committee had received and discussed a report on the status of the multi-family developments owned by the Authority and the disposition plan and process for the sale and conveyance of the developments and recommended approval of a resolution that would authorize the Executive Director to sell and convey the developments. Commissioner McConnell then moved approval of the resolution entitled "Resolution-Authorization for Sale and Conveyance of Owned Property" dated November 7, 2007 in the form attached hereto. This motion was seconded by Vice Chairman Fahl and was approved by the affirmative vote of each of the Commissioners noted above as present at the meeting. Commissioner McConnell next reported that the Committee had received

and discussed the Authority's participation in the Bridge Acquisition Loan Program of Virginia Community Capital, Inc., and recommended that the financing by the Authority of participation interests in mortgage loans pursuant to such Bridge Acquisition Loan Program be exempt from the procedures for Board approval of multi-family loans. Commissioner Hopkins then moved approval of the resolution entitled "Third Amended and Restated Resolution Adopting Minimum Standards for Multi-Family Mortgage Loans and Procedures for Authorization of Executive Director to Approve Mortgage Loans and to Authorize the Issuance of Multi-Family Mortgage Loan Commitments" dated November 7, 2007 in the form attached hereto. This motion was seconded by Vice Chairman Fahl and was approved by the affirmative vote of each of the Commissioners noted above as present at the meeting.

Commissioner Allmond, on behalf of the Audit Committee, summarized the report received by the Committee from Ms. Barackman on the Authority's monthly financials and budget comparisons for the period ended September 30, 2007. Mr. Bowen advised the Commissioners of the potential loss on a mortgage backed security held by the Authority. Commissioner Allmond next advised the Commissioners that the Committee had received reports from Mr. Wyatt on the status of the internal audit schedule, the internal audit reports and recommendations, and the status of the enterprise risk management activities.

Commissioner Allmond, on behalf of the Operations Committee, summarized the following staff reports that were received and discussed by the Committee: a performance management overview; a report on the salient features of the Authority's proposed Rental Housing Bonds, 2007 Series D-Taxable, E-AMT, and F; an update on status of the Authority's proposed Commonwealth Mortgage Bonds, 2007 Series-E Pass-Through Certificates; and a report on revisions to the Authority's 401(a) retirement plan.

Ms. Dewey's presented her report on operations in which she advised the Commissioners of the following matters: the receipt by the Authority of NCSHA annual awards for VHDA University and the REACH Northern Virginia program; the Governor's Housing Conference to be held on November 14-16 in Roanoke; the recommencement of bi-monthly Board meeting beginning in fiscal year 2009; the Board retreat to be held March 30- April 1 in Williamsburg; the installation of Commissioner Fisette as President of the Virginia Municipal League; the presentation of the first VHDA Hokie Memorial Scholarship at Virginia Tech; a letter from HUD commending the Authority for its housing counseling and homeownership education activities; the receipt of HUD's certification of "high performer" for the Authority's administration of the Housing Choice Voucher Program. Following such report, Mr. McKellar presented summaries of the requirements of the Conflict of Interests Act and the Freedom of Information Act and reviewed the roles and responsibilities of the Commissioners.

There being no further business, the meeting was adjourned at approximately 1:40 p.m. on November 7, 2007.

John P. McCann, Chairman

J. Judson McKellar, Jr.
Assistant Secretary

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

MINUTES OF THE MEETING OF THE PROGRAMS COMMITTEE
HELD ON NOVEMBER 7, 2007

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 November 7, 2007 at the Virginia Housing Center, Henrico Room, 4224 Cox Road, Richmond, Virginia 23060.

COMMITTEE MEMBERS PRESENT:

Charles McConnell, Committee Chairman
William C. Shelton
Douglas R. Fahl
Jacqueline T. Black
Gerald W. Hopkins
Jay Fisette

OTHER COMMISSIONERS PRESENT:

John P. McCann
Yvonne T. Allmond
Nancy K. O'Brien
Braxton Powell

OTHERS PRESENT:

Susan F. Dewey, Executive Director
Donald L. Ritenour, Managing Director of Development
Arthur N. Bowen, Managing Director of Finance and Administration
Thomas A. Dolce, Managing Director of Servicing and Compliance
J. Judson McKellar, Jr., General Counsel
Herb H. Hill, Jr., Managing Director of Policy, Planning, and Communications
Janet W. Butler, Managing Director of Information Technology Services
Tammy N. Taylor, Managing Director of Organizational Development and Learning
Barbara Blankenship, Managing Director of Human Resources
Russ Wyatt, General Auditor
Michele G. Watson, Director of Homeownership Development 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 C. Anderson, Strategic Planner
Ronald A. Reger, Strategic Planner
Paul M. Brennan, Deputy General Counsel
Melody S. Barackman, Controller
Michael Scheurer, Community Housing Officer
Ann Bolen, Multifamily Business Development Officer
Barry Merchant, Policy Analyst
Sharon Fairburn, Housing Choice Voucher Director
Walter Webdale, AHC, Inc.

The meeting of the Committee was called to order by Committee Chairman McConnell at approximately 9:33 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 August 1, 2007 were approved by the affirmative vote of each of the members of the Committee noted above as present at the meeting.

Commissioner McConnell opened the floor for public comments on the proposed changes to the Authority's Qualified Allocation Plan for the federal low-income housing tax credits. Mr. Webdale addressed the Committee and indicated that the changes proposed in the Qualified Allocation Plan were acceptable as modified and recommended by the Authority staff. He thanked the Authority staff for giving consideration to the written comments concerning the proposed changes and for their participation in the meeting held on October 22, 2007 in Northern Virginia. He also stated that a cost benefit analysis should be undertaken in order to assure that resources not only are targeted efficiently but also meet the needs of high cost areas such as Northern Virginia.

Mr. Ritenour then reported on the proposed changes to the Qualified Allocation Plan. In his report, Mr. Ritenour noted that the proposed changes had been revised to include a point category for smaller projects that would provide a maximum of 20 points for projects of 50 or fewer units and that would decline by .4 of a point for each unit in excess of 50 units. Following this report, Commissioner Hopkins moved that the Committee recommend approval of the resolution entitled "Resolution Amending and Restating the Plan of the Virginia Housing Development Authority for the Allocation of Low-Income Housing Tax Credits Including Rules and Regulations" dated November 7, 2007, as so revised to include the point category for smaller projects. This motion was seconded by Commissioner Fahl and was approved by the affirmative vote of each of the members of the Committee noted above as present at the meeting. In addition, it was the consensus of the Committee that in the future staff adjust the point thresholds on an annual basis to reflect any increase or decrease in the total number of points.

Mr. Hastings presented a report on the proposed participation by the Authority in the Bridge Acquisition Loan Program of Virginia Community Capital, Inc., and the staff recommendation that the financing by the Authority of participation interests in mortgage loans pursuant to such Bridge Acquisition Loan Program be exempt from the procedures for Board approval of multi-family loans. Commissioner Fahl moved that the Committee recommend approval of the resolution entitled "Third Amended and Restated Resolution Adopting Minimum Standards for Multi-Family Mortgage Loans and Procedures for Authorization of Executive Director to Approve Mortgage Loans and to Authorize the Issuance of Multi-Family Mortgage Loan Commitments" dated November 7, 2007. This motion was seconded by Commissioner Hopkins and was approved by the affirmative vote of each of the members of the Committee noted above as present at the meeting. Commissioners McCann, Allmond, Powell and O'Brien then left the meeting.

Mr. Ritenour and Ms. Watson presented a report on homeownership loan production for the first quarter of fiscal year 2008. Ms. Watson commented that homeownership loan production was currently on track to exceed \$1.4 billion but that actions were being taken by the Authority staff to slow production of homeownership loans financed with tax-exempt bonds.

Mr. Ritenour and Mr. Hastings reviewed the multi-family bi-monthly loan production summary. Mr. Hastings noted that 19 developments consisting of 1,271 units had been approved for mortgage loan financing of approximately \$40.1 million.

Mr. Dolce presented reports on the status of delinquencies and foreclosures in the homeownership and multi-family loan servicing portfolios. Mr. Dolce noted that, as of the September, 2007, the overall delinquency rate for homeownership loans had increased to 5.53% and the multi-family loan delinquency rate had increased to 0.8%. Mr. Dolce also presented an update on the Housing Choice Voucher Program in which he stated that current leasing was at 98% as of October 2007. Mr. Dolce next presented a resolution to approve and ratify the annual SEMAP Certification for the Section 8 Housing Choice Voucher Program for 2007 that had been filed electronically with HUD on August 27, 2007. Commissioner Fahl moved that the Committee recommend approval of the resolution entitled "Resolution Approving and Ratifying the Housing Choice Voucher Section 8 Management Assessment Program Certification Filed Electronically on August 29, 2007 with HUD." This motion was seconded by Commissioner Fisette and was approved by the affirmative vote of each of the members of the Committee noted above as present at the meeting.

Mr. Hawkins reported on the Authority's Hispanic and African-American outreach activities and reviewed The REACH Report recently issued by the Authority.

Mr. Ritenour presented proposed amendments to the rules and regulations for the Authority's single family homeownership program. Following a discussion of the proposed amendments, Commissioner Hopkins moved that the Committee recommend approval of the resolution entitled "Resolution Amending the Rules and Regulations for Single Family Mortgage Loans to Persons and Families of Low and Moderate Income" dated November 7, 2007. This motion was seconded by Commissioner Shelton and was approved by the affirmative vote of each of the members of the Committee noted above as present at the meeting. Commissioner Hopkins then moved that the Committee also recommend approval of the following resolution:

"Be it resolved that the Executive Director shall give at least 14 days' prior notice to the Commissioners of his or her intent to exercise discretion to (i) increase or decrease sales price limits under § 10-40-80 of the Authority's Rules and Regulations for Single Family Mortgage Loans to Persons and Families of Low and Moderate Income (the "Regulations") or (ii) to increase or decrease maximum gross incomes under § 10-40-100 of the Regulations. Unless the Executive Director shall receive, within 14 days after the date the notice is sent to the Commissioners, notification by any

Commissioner of his or her objection to such exercise of discretion, the Executive Director shall have full authority to so exercise his or her discretion. In the event that the Executive Director shall receive from one or more Commissioners notification of objection to such exercise of discretion, the Authority staff shall contact each such Commissioner and shall provide him or her with such additional information as he or she may request. Each such Commissioner may revoke his or her objection, and in the event of such revocation by all such Commissioners, the Executive Director shall have full authority to so exercise his or her discretion. If any Commissioner shall object to the approval of any such exercise of discretion and shall not revoke his or her objection, then the Executive Director shall not be authorized to exercise such discretion without the adoption of a Board resolution.”

This motion was seconded by Commissioner Shelton and was approved by the affirmative vote of each of the members of the Committee noted above as present at the meeting.

Mr. Ritenour next presented a resolution to authorize the Executive Director to sell and convey the multi-family developments owned by the Authority. Commissioner Hopkins moved that the Committee recommend approval of the resolution entitled “Resolution- Authorization for Sale and Conveyance of Owned Property” dated November 7, 2007. This motion was seconded by Commissioner Fahl and was approved by the affirmative vote of each of the members of the Committee noted above as present at the meeting.

There being no further business, the meeting was adjourned at 11:10 a.m.

Minutes of the Meeting of the Audit Committee Held on November 7, 2007

The meeting of the Audit Committee of the Board of Commissioners of the Virginia Housing Development Authority was held on November 7, 2007 at the offices of the Virginia Housing Development Authority, The Virginia Housing Center, 4224 Cox Road, Richmond, Virginia.

Committee Members Present Yvonne Allmond
John P. McCann
Nancy O'Brien
Braxton Powell

Committee Members Absent Edward McCoy

Others Present Arthur N. Bowen, III, Managing Director of Finance & Administration
Russ E. Wyatt, General Auditor
Melody Barackman, Controller
Barbara Blankenship, Managing Director of Human Resources
Michelle S. Edmonds, Sr. Executive Assistant

Meeting Called to Order The meeting was called to order at 10:05 a.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.

Approval of the Minutes On motion duly made by Commissioner O'Brien and seconded by Commissioner McCann, the minutes of the Audit Committee meeting of August 1, 2007 and September 21, 2007 were approved by the affirmative vote of each of the Commissioners then present at the meeting. Mr. Wyatt elaborated on a portion of the September 21 minutes in regards to KPMG complying with all provisions and reporting requirements for external auditors as established by the Audit Committee Charter.

Report on Monthly Financials and Budget Comparisons Melody Barackman reviewed VHDA's completed financial statements dated September 2007 and provided the Committee with a comparison of revenues and expenses to budget. Excess revenue over expenses before the GASB 31 adjustment was \$9.6 million for the month of September, below plan by \$1.3 million due to lower than projected income and higher than projected bond costs for the month as well as a higher loan loss allowance.

Continued on next page

**Report on
Monthly
Financials and
Budget
Comparisons**
(cont'd)

Ms. Barackman reported that mortgage interest is in line with budget target for the quarter. Investment income is ahead of budget and total revenue is also ahead of budget excluding GASB 31 adjustments. Bond interest exceeds plan but on a net revenue basis, we are ahead of budget. Administrative expenses are below budget gaining a savings of \$1.8 million. Expenses on deferred maintenance on owned properties and provision for loan losses is a little higher than originally planned. Additional expenses were incurred for deferred maintenance on owned properties and provision for loan losses. Commissioner McCann stressed the importance of reporting to the Board the reason for the increase in loan loss reserves which is primarily attributable to the multifamily loan portfolio.

Excess revenue over revenues for the quarter was \$38.4 million, exceeding plan by \$1.2 million, due to investment income and expense deferrals in administrative costs. ROI generated for the quarter was 1.52% while net assets surpassed \$2.0 billion this month and total assets have grown to exceed \$8.5 billion.

Art Bowen reported on an asset backed paper obtained through Goldman Sachs and bought from Morgan Keegan. There is concern as to the declining value of the paper. Our posture to date is to wait and see and if there is a reasonable market in which to sell, will do so accordingly. Mr. Bowen will keep the Board informed as to progress.

**Internal Audit
Report**

The General Auditor reported on the status of the audit schedule indicating that the annual loan and investment confirmations and two audits (ITS Operations and SF Default Administration) were completed since the last Committee meeting and clean reports were issued in both instances. The General Auditor also indicated that three audits are in progress and the Audit Division is on track to complete the schedule as planned. The General Auditor reported that a BETA system is being used to manage delinquencies in SF Default Administration and that Audit had identified some system reporting deficiencies that resulted in delinquent loans not appearing on the appropriate call reports, which further resulted in HUD violations regarding the timing of calls to delinquent borrowers. The General Auditor indicated that as a result of Audit's finding, Servicing had developed and implemented an internal report to work around this issue until Fidelity can fix their system.

The General Auditor also reported that there were no adverse reports issued since the last meeting. The General Auditor further reported that there are no control concerns that were previously reported that have not been addressed by management.

The General Auditor then reported that the Enterprise Risk Management project is progressing on three fronts: 1) tone of top assessment; 2) risk identification and analysis; and 3) automation. The General Auditor reported that he is developing

Continued on next page

Audit Committee Minutes
November 7, 2007

Internal Audit Report (cont'd)

Questions to include in the next Authority wide survey scheduled for the Spring of 2008 to determine what tone management is projecting regarding ethics, integrity, importance of controls, etc. The General Auditor also reported that he is working to ensure the annual SWOT analysis, which will be performed in December this year, includes ERM concepts and effectively addresses the identification of risks, their analysis and identification of appropriate risk management techniques. The General Auditor further reported that subsequent to the SWOT analysis a review would be performed to determine if changes are necessary for future SWOT analyses.

The General Auditor further reported that automation is essential to manage the process aspect of ERM. The General Auditor indicated that ITS does not have the capacity to write this system, however, outsourcing may be an option. The General Auditor reported that he is currently waiting for ITS to perform a study to determine the course of action with regard to automation.

Adjournment

There being no further business, Commissioner Allmond moved for adjournment of the meeting at 10:40 a.m.

Russ E. Wyatt
General Auditor

Yvonne Allmond
Chairman

Minutes of the Meeting of the Operations Committee Held on November 7, 2007

The meeting of the Operations Committee of the Board of Commissioners of the Virginia Housing Development Authority was held on November 7, 2007 at the offices of the Virginia Housing Development Authority, the Virginia Housing Center, 4224 Cox Road, Richmond, Virginia.

Committee Members Present Yvonne Allmond, Chair
John P. McCann
Braxton Powell
Nancy O'Brien

Commissioners Absent Edward McCoy

Others Present Arthur N. Bowen, III, Managing Director of Finance & Administration
Barbara Blankenship, Managing Director of Human Resources
Tammy Taylor, Chief Learning Officer, Organizational Development and Learning
Melody Barackman, Controller
Russ Wyatt, General Auditor
Janet Butler, Managing Director of Information Technology Services
Michelle S. Edmonds, Sr. Executive Assistant

Meeting Called to Order The meeting was called to order at 10:38 a.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.

Approval of the Minutes Commissioner O'Brien moved approval of the minutes of the meeting of the Operations Committee dated August 1, 2007. Commissioner Powell seconded this motion. This motion was approved by the affirmative vote of each of the Commissioners noted above as present at the meeting.

Performance Management Overview Barbara Blankenship, Managing Director of Human Resources, provided a handout outlining summary data from the FY '07 performance management process. Human Resources is looking at ways to improve the performance management process for FY '08. Before the next Committee meeting, will look at comparison data and ways in which this can best be reported to the Committee.

Continued on next page

Operations Committee Minutes
November 7, 2007

**Salient
Features**

Art Bowen reviewed the salient features of an upcoming sale of Rental Housing Bonds, comprised of taxable and tax-exempt bonds totaling up to \$140 million, to be sold competitively in November or December. The bonds are expected to be rated Aa1/AA+ by Moody's and S&P, respectively.

**Update on
Single Family
Commonwealth
Mortgage
Bonds Pass-
Through
Certificate
Program**

Art Bowen reviewed the status of a pending taxable Commonwealth mortgage bond transaction. Given the significant turmoil in the taxable bond market, VHDA is selling the bonds by competitive negotiation through UBS. VHDA has been working on the transaction for some time and is making good progress, but has not yet finalized the transaction. Freddie Mac is working with VHDA to see what type of pricing can be achieved.

**Memorandum-
Modification of
Retirement
Plans**

Art Bowen reviewed two upcoming changes to the VHDA retirement plans. Recent federal legislation gave sponsors of retirement plans subject to the Employee Retirement Income Security Act (ERISA) strong incentives to reduce the time period for vesting of non-matching employer contributions. Accordingly, Mr. Bowen proposed that VHDA shorten its' vesting schedule of its 401(a) plan from seven years to five years. There is no negative impact on employees since the vesting schedule is being shortened and no cost to the Authority.

In addition, VHDA is also eliminating the initial six-month waiting period prior to any employer contributions being made to a new associate's retirement accounts to provide new associates an incentive to start their contributions earlier as well as to simplify plan administration. This action will begin January 1, 2008.

Adjournment

There being no further business, Commissioner Allmond adjourned the meeting at 10:52 a.m.

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

Yvonne Allmond
Chairman