

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

MINUTES OF THE MEETING OF THE COMMITTEE OF THE WHOLE
AND THE REGULAR MEETING OF THE COMMISSIONERS
HELD ON MARCH 23 AND 24, 2003

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 were held on March 23 and 24, 2003, at the offices of the Authority, 601 South Belvidere Street, Richmond, Virginia.

COMMISSIONERS PRESENT:

Sam Kornblau, Chairman*
Charles L. Krum, Jr., Vice Chairman*
H. Evans Thomas, V*
Allen H. Jones*
Jay Fisette*
Joan D. Gifford*
Terri M. Ceaser*
J. Cheryl J. Avery-Hargrove*
Gary C. Klein*
William C. Shelton**

COMMISSIONER ABSENT:

Jody M. Wagner*

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
Ronald A. Reger, Managing Director of Information Services
Tammy N. Taylor, Managing Director of Human Resources
Russ E. Wyatt, General Auditor
Brenda K. Goodman, Managing Director of Public Policy
J. Judson McKellar, Jr., General Counsel
John F. Hastings, Assistant Director of Multi-Family Development
Tammy A. Tyler, Strategic Development Leader
Michele G. Watson, Assistant Director of Single Family

*Authorized to vote

**Non-voting

Llewellyn C. Anderson, Business Liaison
Barry S. Merchant, Policy Analyst
Conrad K. Sterrett, Bonds and Investments Director
Richard B. Taylor, Governmental Relations Manager

The meeting of the Committee of the Whole was called to order at 1:00 p.m. on March 23, 2003. The Commissioners listed above as present at the meeting were present at that time and remained present throughout the meeting of the Committee, except Commissioner Jones who joined the meeting in progress as noted below and thereafter remained present during the meeting of the Committee and except Chairman Kornblau who left the meeting of the Committee as noted below.

Ms. Dewey reviewed the Authority's mission, vision, and strategic goals. During this presentation, Commissioner Jones joined the meeting. Mr. Bowen presented reports on the following: the trends in market mortgage rates, tax exempt borrowing rates, and short-term investment rates since 1990; the current market conditions affecting the Authority's loan programs; the impact of such trends and conditions on the Authority's loan production, net revenues, and single family loan portfolio; and the Authority's borrowing advantage between 30-year tax exempt borrowing rates and market mortgage rates since 1990. Mr. Ritenour reviewed the Authority's annual single family loan reservations since 1990 and estimated single family loan production for fiscal years 2003 and 2004, and Ms. Watson discussed recent changes made in the Authority's single family programs to increase loan production. Mr. Ritenour next reviewed the Authority's annual multi-family loan commitments since 1990, and Mr. Hastings reported on the Authority's estimated multi-family loan production for fiscal years 2003 and 2004. Mr. Bowen reviewed the Authority's annual net revenues since fiscal year 1996 and discussed the Authority's projected net revenues for fiscal year 2003, and Mr. Ritenour reported on actions taken by the Authority to stabilize production, servicing and earnings. Upon the conclusion of these presentations and reports, Chairman Kornblau left the meeting.

Mr. Ritenour, Ms. Watson, Mr. Hastings, Mr. Merchant, Ms. Goodman, and Mr. Dolce reviewed the Authority's strategies and key and/or new objectives in fiscal year 2004 for accomplishing the Authority's goals of increasing service to low income households, increasing homeownership opportunities for minorities and new immigrants, supporting local revitalization efforts, providing special needs populations with affordable housing linked with supportive services, and reducing affordable housing gaps not met by traditional lenders.

The Commissioners then discussed the measures of success for the Authority. It was the consensus of the Committee that the Authority should, in addition to maintaining necessary levels of loan production and net revenues, focus on coordinating and mobilizing parties and resources in areas such as local revitalization, community development, homeownership counseling and outreach, housing for persons with special needs, and green building in order to provide funding and opportunities for low and moderate income housing that are not currently being provided by the private sector. The Commissioners agreed that success should not be measured solely by the Authority's loan production but could be achieved by the Authority's increasing housing opportunities for low and moderate income persons and families even though financing or other assistance is provided by other parties. The Commissioners acknowledged that the Authority's loan production may be impacted since the resources required for the

strategic goals may not produce results in the short term. The Commissioners concurred in approving the Fiscal Year 2004 Strategic Plan but requested the staff to develop, to the extent possible, quantifiable outcomes for the objectives in the Plan.

There being no further business, the meeting of the Committee of the Whole was recessed at 5:09 p.m.

The Committee of the Whole reconvened at 8:30 a.m. on March 24, 2003. All of the Commissioners listed above as present at the meeting were present at that time and remained present throughout the meeting of the Committee, except Commissioners Shelton and Fisetta who joined the meeting in progress as noted below and thereafter remained present during the meeting of the Committee. Ms. Dewey reported on the status of federal legislation to repeal the 10-year rule on the recycling of single family prepayments and to provide for automatic adjustments in the single family sales price limits. Ms. Dewey next reported on the anticipated effects that the proposed elimination of taxation of dividends would have on the federal low-income housing tax credit program. During this report, Commissioner Shelton joined the meeting. Ms. Dewey reviewed federal legislation that was proposed by the Authority to the Virginia congressional delegation and that would exempt military personnel from various restrictions in the federal tax code applicable to single family and multi-family tax exempt bond financing and federal low-income housing tax credits. Following this report, Commissioner Fisetta joined the meeting. Ms. Dewey next discussed with the Commissioners the status of the provision in the state's budget bill for the Authority to purchase the loans and assets in the Virginia Housing Partnership Revolving Fund and reviewed alternative proposals for the use of the residual funds remaining after the transfer of \$40,822,000 of the sale proceeds to the state's general fund. Ms. Dewey advised the Commissioners as to the status of the legislation to create the Virginia Information Technologies Agency and the resolution authorizing studies by the Housing Study Commission. Ms. Watson discussed the bill that would prohibit the predatory lending practice of "flipping." Ms. Dewey then advised the Commissioners as to the provision in the budget bill that would provide for the Authority to fund the costs of the Housing Study Commission in fiscal year 2004, the approval of the resolution confirming the appointment of Commissioners Fisetta and Ceaser, and the enactment of the bill authorizing the Director of the Department of Housing and Community Development to vote on the Authority's Board and authorizing the Executive Director of the Authority to vote on the Board of Housing and Community Development. Ms. Dewey informed the Commissioners that, at the request of Delegate Purkey, she had made a presentation to the House Finance Committee on the status of Authority's programs and operations, had offered to make such a presentation to the House Appropriations Committee and Senate Finance Committee, and will offer to make such presentations annually to those three Committees. Mr. McKellar then reviewed a bill requiring that local governments include in their comprehensive plans the designation of areas and the implementation of measures for the construction, rehabilitation and maintenance of affordable housing sufficient to meet the current and future needs of residents of all levels of income. There being no further business, the meeting of the Committee of the Whole was adjourned at 9:25 a.m.

The regular meeting of the Board of Commissioners was called to order at approximately 11:15 a.m. All of the Commissioners listed above as being present at the meeting were present at that time and remained present throughout the meeting.

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

Commissioner Hargrove moved approval of the minutes of the meeting of the Committee of the Whole and the regular meeting of the Commissioners held on January 21 and 22, 2003. This motion was seconded by Vice Chairman Krum and was approved by the affirmative vote of each of the Commissioners noted above as present at the meeting and authorized to vote. Mr. McKellar advised the Commissioners that the minutes of the meeting of the Commissioners on November 19, 2002 would be corrected to include the comments of Commissioner Fisetta that had been inadvertently omitted from the draft of the minutes distributed for approval at the meeting on January 22, 2003.

Ms. Dewey presented the monthly financials and budget comparisons. Following that report, Mr. Sterrett reported on the salient features of the Authority's proposed Commonwealth Mortgage Bonds, Pass-Through Certificates, 2003 Series C-Taxable, Rental Housing Bonds, 2003 Series D-Taxable, E-AMT and F, and VHDA General Purpose Bonds, 2003 Series V-Taxable.

Commissioner Klein, on behalf of the Audit/Operations Committee, reported that the Committee had received and discussed reports from the General Auditor on the status of the audit schedule, the status of outstanding audit issues, and the status of reports issued and replies received since the last meeting of the Committee. Commissioner Klein further reported that the Committee had received and discussed a report on compensation trends and had approved, for inclusion in the Authority's proposed fiscal year 2004 budget, a pool of 3.5% for merit increases which will result during fiscal year 2004 in an impact of 2.625% on salaries in effect on June 30, 2003 due to the delayed effective date of the merit increases. Mr. McKellar advised the Commissioners as to the terms of a proposed series resolution authorizing the issuance of Commonwealth Mortgage Bonds. He reviewed the provisions which (i) authorized the sale and delivery of Commonwealth Mortgage Bonds in an aggregate amount not to exceed \$600 million to such purchasers or underwriters, at such purchase prices and on such terms and conditions as shall be set forth in or determined pursuant to one or more written determinations by an Authorized Officer of the Authority and in one or more purchase contracts, including notices of sale, in accordance with the series resolution; (ii) provided for the sale of the Bonds not later than May 31, 2004, (iii) established limitations and restrictions with respect to such written determinations; (iv) authorized the execution and delivery of purchase contracts and other necessary or appropriate agreements, instruments, documents and certificates; (v) specified that the portion of the Debt Service Reserve Fund Requirement allocable to each series of bonds to be issued pursuant to the series resolution shall be \$0 or such higher amount as may be set forth in or determined pursuant to the applicable written determinations; and (vi) authorized the distribution of one or more preliminary and final official statements in substantially the forms presented at the meeting. Mr. McKellar next advised the Commissioners as to the terms of the proposed bond limitations resolution setting forth the conditions and limitations for the issuance of Rental Housing Bonds. He reviewed the provisions which (i) provided for the maximum principal amount of Rental Housing Bonds to be \$500 million, (ii) provided for the sale of the Bonds not later than May 31, 2004 and (iii) authorized the distribution of one or more

preliminary and final official statements in substantially the form presented at the meeting. Commissioner Klein moved approval of the resolutions entitled "Series Resolution Authorizing the Issuance and Sale of Commonwealth Mortgage Bonds" and "Bond Limitations Resolution," both dated March 24, 2003, in the forms attached hereto. This motion was seconded by Vice Chairman Krum and was approved by the affirmative vote of each of the Commissioners noted above as present at the meeting and authorized to vote.

Commissioner Jones, on behalf of the Programs Committee, reported that the Committee had received staff reports on the following: single family, multi-family and SPARC loan production; proposed performance based contract administration of HUD project-based section 8 subsidy; the status of the Housing Choice Voucher Program; changes in income limits for multiple households occupying units in developments located in rural areas; and applications received for 2003 federal low-income housing tax credits. Commissioner Jones advised the Commissioners that the Committee recommended approval of the resolutions entitled "Supplemental Resolution Amendatory of and Supplemental to a Resolution Providing for the Issuance of Commonwealth Mortgage Bonds of the Virginia Housing Development Authority and for the Rights of the Holders Thereof," "Resolution Authorizing a Mortgage Loan to Finance Federation of Appalachian Housing Enterprises, Inc.," and "Resolution Approving the PHA Annual and Five-Year Plans for the Virginia Housing Development Authority for the Housing Choice Voucher Program," all dated March 24, 2003, in the forms attached hereto. Commissioner Jones then moved approval of such resolutions. This motion was seconded by Vice Chairman Krum and was approved by the affirmative vote of each of the Commissioners noted above as present at the meeting and authorized to vote.

Ms. Dewey presented her monthly report of operations in which she advised the Commissioners as to the following: the Board meetings for May, July and September are scheduled for May 19 and 20, 2003, July 22 and 23, 2003, and September 15 and 16, 2003, respectively; the NCSHA Annual Conference is scheduled for October 26-28, 2003 in Seattle; the Governor's Housing Conference is scheduled for November 12-14, 2003; the Authority will be participating in the building of a home for Habitat for Humanity on May 29-31, 2003 and June 5-7, 2003 in Chesapeake; the Appalachian Housing Summit will be held on June 10-12, 2003 in Glade Spring, West Virginia; the Authority had received a letter from Senator William Mims expressing appreciation for the Authority's funding of the costs of the Housing Study Commission for fiscal year 2004, a copy of which letter was distributed at the meeting; and the Authority had been notified that the Governor will seek an amendment exempting the Authority from the bills creating the Virginia Information Technologies Agency.

There being no further business, the meeting was adjourned at approximately 11:50 a.m.

Sam Kornblau
Chairman

J. Judson McKellar, Jr.
Assistant Secretary

Minutes of the Meeting of the Audit/Operations Committee Held on March 24, 2003

The meeting of the Audit/Operations Committee of the Board of Commissioners of the Virginia Housing Development Authority was held on March 24, 2003 at the offices of the Authority, 601 S. Belvidere Street, Richmond, Virginia 23220.

Committee Members Present Gary C. Klein, Chairman
J. Cheryl J. Avery-Hargrove
Jay Fisette
Charles Krum

Others Present Susan F. Dewey, Executive Director
Art Bowen, Managing Director of Finance & Administration
Linda Evans, Budget & Risk Management Analyst
Brenda Goodman, Acting Director of Public Policy
Ron A. Reger, Managing Director of Information Services
Tammy N. Taylor, Managing Director of Human Resources
Tammy A. Tyler, Strategic Development Leader
Russ Wyatt, General Auditor

Meeting Called to Order The meeting was called to order at 9:35 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 Minutes Commissioner Krum moved approval of the minutes of the meeting of the Audit/Operations Committee held on January 22, 2003. Commissioner Avery-Hargrove seconded this motion. This motion was approved by the affirmative vote of each of the Commissioners then present at the meeting.

Internal Audit Report The General Auditor reported on the status of the audit schedule indicating six audits or special projects are in the closing phase, two special projects have been reported to management and are awaiting a management reply, two audits were totally completed and reported in this agenda and one audit is in progress. The General Auditor indicated that the schedule is being completed as planned.

The General Auditor also reported on the status of open audit recommendations indicating that open audit items exist in HR, Payroll, Office Services and MF Compliance. The General Auditor reported that progress is being made on each open issue and that all should be resolved by the end of this fiscal year with the exception of the rewrite of the Retiree Healthcare Plan document. Tammy Taylor,

Continued on next page

Internal Audit Report (cont'd)

Managing Director of Human Resources, stated that the review of the rewrite of the Retiree Healthcare Plan document had been delayed as a result of other more critical issues and committed to completing this project by the end of FY '04.

The General Auditor also reported on the audits completed since the last meeting, which included two clean reports with no reportable issues (Investments Department and Real Time Application System). No adverse audit reports were issued in the time period covered by this report.

The General Auditor also reported that Audit's primary focus is on risk management techniques and that those used in the Investment Department are sound and limit VHDA's exposure to loss. However, the General Auditor acknowledged that Audit's experience and training in the area of risk tolerance is limited and as such, he had recommended to the Investments Manager that they contract for an independent external review of Authority Investment Policies as they relate to risk tolerance.

Compensation Trends

Tammy Taylor, Managing Director of Human Resources, distributed a handout on compensation planning for FY '03. In preparation for the FY '04 budget, the HR Division has conducted a study to determine what public and private sector organizations anticipated paying vs. actually paid out in 2002. In addition, data was gathered on what those same organizations anticipate paying in 2003. Approval was sought from the Board to 1) determine the aggregate merit pool for the current fiscal year and 2) project the incentive money for the upcoming fiscal year.

Information was gathered from published surveys (national and local), local mortgage companies and public-sector organizations such as the federal government, Commonwealth of Virginia and several local quasi-governmental authorities such as the Virginia Resources Authority, Virginia Port Authority, Virginia Economic Development Partnership, Virginia Retirement System, Virginia College Savings Program and the State Corporation Commission, Local county governments such as Henrico, Chesterfield and Hanover.

Based on findings from this survey, VHDA's Leadership Team and Human Resources management recommended the following:

1. That 3.5% be budgeted (approximately \$686,000) for the aggregate merit pool which will result during fiscal year 2004 in an impact of 2.625% on salaries in effect on June 30, 2003 due to the delayed effective date of the merit increases; and
2. Advise the Managing Director of Human Resources on
 - a. information desired for the May 2003 Audit/Operations Committee meeting and
 - b. thoughts regarding incentives which are based on organizational and individual performance.

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Compensation Trends (cont'd)

The Commissioners discussed VHDA's total compensation philosophy and practices. They instructed Ms. Taylor to provide a comparison of how VHDA's total compensation program compares to other organizations (such as those noted above) at the May meeting. After continued discussion, Commissioner Krum moved that the 3.5% aggregate merit pool be approved for inclusion in the fiscal year 2004 budget. Commissioner Avery-Hargrove seconded this motion. This motion was approved by the affirmative vote of each of the members of the Committee then present at the meeting.

The 3.5% merit pool will be used for budgeting purposes only. VHDA's Leadership Team will provide direction on how to administer the funds based on three criteria:

- individual performance
- salaries relative to market ranges, and
- percentages within those market ranges

The budget will be presented at the May 20th meeting. The Audit/Operations Committee will meet the night before to review the budget.

Annual Bond Resolutions

Art Bowen, Managing Director of Finance & Administration, gave an overview of the bond resolutions for the single family and multifamily bond programs. The single family series resolution authorizes the sale and issuance of \$600 million in single family bonds through May 2004. The multifamily bond limitations resolution authorizes the sale and issuance of \$500 million in multifamily bonds through May 2004. Commissioner Fisette moved that the resolutions be recommended to the Board for approval. Commissioner Avery-Hargrove seconded this motion. This motion was approved by the affirmative vote of each of the members of the Committee then present at the meeting.

Adjournment

There being no further business, Chairman Klein adjourned the meeting at 10:38 a.m.

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

Gary C. Klein
Chairman

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

MINUTES OF THE MEETING OF THE PROGRAMS COMMITTEE ON MARCH 24, 2003

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 was held on March 24, 2003, at the Virginia Housing Center, 601 South Belvidere Street, Richmond Virginia.

COMMITTEE MEMBERS PRESENT:

Allen H. Jones, Committee Chairman*
H. Evans Thomas, V*
Joan D. Gifford*
Terri M. Ceaser*
William C. Shelton**
Sam Kornblau, Ex Officio*

OTHER COMMISSIONERS PRESENT:

Charles L. Krum, Jr., Vice Chairman*
Gary C. Klein*
J. Cheryl J. Avery-Hargrove*
Jay Fisette*

OTHERS PRESENT:

Susan F. Dewey, Executive Director
Donald L. Ritenour, Managing Director of Development
Thomas A. Dolce, Managing Director of Servicing and Compliance
Ronald A. Reger, Managing Director of Information Services
Tammy N. Taylor, Managing Director of Human Resources
Brenda K. Goodman, Managing Director of Public Policy
J. Judson McKellar, Jr., General Counsel
Tammy A. Tyler, Strategic Development Leader
John F. Hastings, Assistant Director of Multi-Family Development
Michele G. Watson, Assistant Director of Single Family
Sharon B. Fairburn, Director of Special Programs
Llewellyn C. Anderson, Business Liaison

*Authorized to vote

**Non-voting

James M. Chandler, Senior Development Officer
Brenda D. Hawkins, Program Manager

The meeting of the Committee was called to order by Commissioner Jones at approximately 9:35 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.

Commissioner Thomas moved approval of the minutes of the meeting of the Committee held on January 22, 2003. This motion was seconded by Commissioner Gifford and was approved by the affirmative vote of each of the members of the Committee noted above as present at the meeting and authorized to vote.

Mr. Ritenour presented reports on single family, multi-family and SPARC loan production.

Mr. Ritenour next presented a supplemental bond resolution that would amend the Authority's general bond resolution for its Commonwealth Mortgage Bonds by authorizing the Authority to cancel private mortgage insurance on a single family mortgage loan if the outstanding balance of the mortgage loan is equal to or less than 80%, or such lesser percentage determined by the Authority, of the current property value. Commissioner Kornblau moved that the Committee recommend approval of the resolution entitled "Supplemental Resolution Amendatory of and Supplemental to a Resolution Providing for the Issuance of Commonwealth Mortgage Bonds of the Virginia Housing Development Authority and for the Rights of the Holders Thereof," dated March 24, 2003. This motion was seconded by Commissioner Gifford and was approved by the affirmative vote of each of the members of the Committee noted above as present at the meeting and authorized to vote.

Mr. Ritenour then presented a proposal to provide a \$750,000 line of credit to the Federation of Appalachian Housing Enterprises (FAHE) for the purpose of making loans to finance single family homes in Southwest Virginia. Commissioner Kornblau moved that the Committee recommend approval of the resolution entitled "Resolution Authorizing a Mortgage Loan to Finance Federation of Appalachian Housing Enterprises, Inc.," dated March 24, 2003. This motion was seconded by Commissioner Gifford and was approved by the affirmative vote of each of the members of the Committee noted above as present at the meeting and authorized to vote.

Mr. Ritenour reported on proposed changes to the Authority's income requirements for multi-family developments in which the owner has elected, in the case of any unit occupied by more than one household, to determine compliance with the income limit separately for each household. Mr. Ritenour advised the Committee that, in the case of such developments located in rural areas, the income limit for each household occupying a unit would be increased from 100% to 150% of the area median income and that 20% of the units would not be required to be occupied by persons and families with incomes at or below 80% of the area median income. It was the consensus of the Committee that the staff proceed with the proposed changes.

Mr. Dolce and Ms. Fairburn presented a report on the status of the Housing Choice Voucher Program. Ms. Fairburn advised the Committee that leasing remains at 95%.

Commissioner Kornblau requested a report at the next board meeting on the areas in which the Authority administers the Housing Choice Vouchers. Ms. Fairburn then presented a resolution to approve the Authority's annual and five-year plans for the Housing Choice Voucher Program. Commissioner Thomas moved that the Committee recommend approval of 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 24, 2003. This motion was seconded by Commissioner Kornblau and was approved by the affirmative vote of each of the members of the Committee noted above as present at the meeting and authorized to vote

Mr. Chandler presented a report on the applications received by the Authority for reservations of 2003 federal low-income housing tax credits.

Michele Watson then presented a brief report on the status of the single family program for soft second mortgage loans.

At this time Commissioners Fisette, Avery-Hargrove, Krum, and Klein joined the meeting and thereafter remained present during the meeting.

Mr. Dolce and Ms. Hawkins presented a report on proposed performance based contract administration of HUD project-based section 8 subsidy and advised the Committee that the staff had submitted a letter of intent to bid on the administration of the HUD project-based subsidy in Virginia and expected to contract with a private sector entity to perform the administrative responsibilities, subject to supervision and monitoring by the Authority.

There being no further business, the meeting was adjourned at approximately 11:22.