

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

MINUTES OF THE MEETING OF THE COMMITTEE OF THE WHOLE
AND THE REGULAR MEETING OF THE COMMISSIONERS
HELD ON MAY 15 AND 16, 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 May 15 and 16, 2007 at the offices of the Authority, 601 South Belvidere Street, Richmond, Virginia.

COMMISSIONERS PRESENT:

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

COMMISSIONER ABSENT:

Terri M. Ceaser

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
J. Michael Hawkins, Director of Community Housing
Llewellyn C. Anderson, Business Planning Analyst
Melody S. Barackman, Controller
Robert Halloran, Marketing Director
Ronald A. Reger, Organizational Development Manager
Linda Evans, Budget and Risk Management Analyst
Thomas James, Treasury and Investment Manager
Paul M. Brennan, Deputy General Counsel

Charles C. Bennett, Assistant Director of Planning and Business Intelligence
Joseph K. Feasor, Business Performance Analyst
Richard Rupertus, Assistant Director of ITS Operations
Sharon Fairburn, Housing Choice Voucher Director
Toni Ostrowski, Senior Community Housing Officer
William Fuller, Senior Community Housing Officer
Linda H. Wine, Business Development Officer

Chairman McCann called the meeting of the Committee of the Whole to order at 2:10 p.m. on May 15, 2007. The Commissioners listed above as present at the meeting were present at that time and remained present throughout the meeting, except Vice Chairman Fisette who joined the meeting in progress on May 15, 2007 as noted below and thereafter remained present during the meeting, except Commissioner McCoy who was present but left during the meeting on May 15, 2007 as noted below, and except Commissioner Powell who was not present at the meeting on May 15, 2007.

Mr. Bowen presented a report on the Authority's proposed annual budget for fiscal year 2008. During this report, Vice Chairman Fisette joined the meeting. The Commissioners and the staff discussed the following matters during this presentation: the fiscal year 2008 budget process; the loan production, revenues and expenses in fiscal year 2007; the net revenues, non-interest expenses and excess revenues in the adopted and projected actual budgets for fiscal year 2007; market interest rate trends and U. S. Treasury yield curves in fiscal year 2007; the loan production and loan asset balances projected for fiscal year 2008; the projected net revenues, non-interest expenses and excess revenues in the proposed budget for fiscal year 2008; the sources of projected revenues in the proposed budget for fiscal year 2008; the Authority's strategic goals and outcomes through fiscal year 2010; the components of the projected total expenses and excess revenues in the proposed budget for fiscal year 2008; the initiatives and on-going expenses projected in the fiscal year 2008 budget for outreach, marketing and research, building for the future, technology, salaries and benefits, organizational development, Section 8 project-based and housing choice voucher expenses, Authority owned properties, provision for loan losses, and on-going operations; the revenue and expense trends since fiscal year 2000; and the impact on REACH *Virginia* subsidy. Upon the conclusion of the discussion of this report, Commissioner Hopkins moved that the Committee recommend approval of the resolution entitled "Resolution – Adoption of Operating Budget – Fiscal Year 2008" dated May 16, 2007. This motion was seconded by Commissioner Fahl and was approved by the affirmative vote of each of the Commissioners then present at the meeting.

Mr. Chandler reviewed the final rankings for reservations of the 2007 federal low-income housing tax credits and presented the staff recommendation that federal low-income housing tax credits in the Tier Two At-Large Pool be reserved for Belleville Senior Apartments in the amount of \$80,000 and The Views at Clarendon in the amount of \$1,500,037. Following a discussion by the Commissioners and staff, Commissioner Fahl moved that the Committee recommend approval of such reservations of federal low-

income housing tax credits for Belleville Senior Apartments and The Views at Clarendon. This motion was seconded by Vice Chairman Fisette and was approved by the affirmative vote of each of the Commissioners then present at the meeting.

Mr. Chandler next presented the proposed changes to the Authority's Qualified Allocation Plan for the federal low-income housing tax credit program. Mr. Chandler advised the Commissioners that a task force to be composed of representatives of tax credit developers and syndicators would be formed to consider and recommend any changes to the Qualified Allocation Plan after 2008 that would provide incentives for mixed income developments. During this presentation, Commissioner McCoy left the meeting. Upon the conclusion of the discussion by the Commissioners and staff of these proposed changes, it was the consensus of the Commissioners that the staff proceed with the forums and hearing to receive comment from the public on the proposed changes.

Ms. Dewey advised the Commissioners as to a scholarship fund to be established by the Authority in the Residential Property Management Program at Virginia Tech in memory of the faculty and students who had been recently killed. Ms. Dewey noted that the Authority would fund up to \$50,000 on a matching basis with contributions from other donors.

The meeting of the Committee of the Whole was recessed at approximately 6:37 p.m. on May 15, 2007.

Chairman McCann reconvened the meeting of the Committee of the Whole at 8:40 a.m. on May 16, 2007. The Commissioners listed above as present at the meeting were present at that time and remained present throughout the meeting, except Commissioners Powell and Fahl who were not present during the meeting of the Committee on May 16, 2007.

Mr. Halloran presented a video of a television public service announcement by Governor Kaine for the housing fair to be sponsored by the Authority in Roanoke.

Ms. Fairburn presented materials being used by the Authority and its administrative agents to encourage rental property owners to participate in the Housing Choice Voucher program. Following this presentation, Ms. Fairburn explained that, unlike the situation in 1999, the surplus Housing Choice Voucher funds being held by the Authority in the approximate amount of \$10,000,000 could not be used for additional vouchers due to the limit on the number of vouchers imposed by HUD and that such funds could only be used for any increase in the funding needed for the current number of vouchers. Ms. Fairburn further explained that such funds could be recaptured by HUD upon the enactment of federal legislation authorizing HUD to do so.

Mr. Ritenour and Ms. Watson then presented a report on the allocations of REACH subsidy for new and existing programs for fiscal year 2008. In his report, Mr. Ritenour noted that the REACH allocations may be redistributed among programs depending on usage or program performance. Mr. Ritenour and Ms. Watson next

presented a report on the allocation of funds in Round 6 of the Single Family SPARC program.

There being no further business, the meeting of the Committee of the Whole was adjourned at approximately 9:37 a.m. on May 16, 2007.

Chairman McCann called the regular meeting of the Board of Commissioners to order at approximately 11:21 a.m. on May 16, 2007. The Commissioners listed above as present at the meeting were present at that time and remained present throughout the meeting, except Commissioner Fahl who was not 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 retreat and regular meeting of the Commissioners held on March 18-20, 2007 were approved by the affirmative vote of each of the Commissioners then present at the meeting.

Commissioner McConnell, on behalf of the Programs Committee, 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; and an update on the Housing Choice Voucher Program. Commissioner McConnell next reported that the Committee recommended proposed changes in the procedures for authorization of the Executive Director to approve, and authorize the issuance of commitments for, mortgage loans to finance multi-family developments to be occupied by eight or fewer persons with disabilities under any program licensed by the Department of Mental Health, Mental Retardation and Substance Abuse Services. Vice Chairman Fisetle then moved that the resolution which was adopted by the Authority on March 15, 2005, entitled "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" be amended and restated, in its entirety, by adoption of the resolution entitled "Second 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 May 16, 2007 in the form attached hereto. This motion was seconded by Commissioner Shelton and was approved by the affirmative vote of each of the Commissioners then present at the meeting. Commissioner McConnell next reported that the Committee had received and discussed the staff report on the status of the Authority's minority outreach efforts. Commissioner McConnell noted that the Committee of the Whole at its meeting on May 15, 2007 had recommended that federal low-income housing tax credits in the Tier Two At-Large Pool be reserved for Belleville Senior Apartments in the amount of \$80,000 and The Views at Clarendon in the amount of \$1,500,037. Vice Chairman Fisetle then moved approval of such reservations for Belleville Senior Apartments and The Views at Clarendon. This motion was seconded by Commissioner Hopkins and was approved by the affirmative

vote of each of the Commissioners then present at the meeting. Commissioner McConnell reported that the Committee had discussed the possible future short-term financing by the Authority of multi-family developments with tax exempt bonds in order to qualify the developments for the 4% federal low-income housing tax credits.

Chairman McCann then recognized Ms. Linda H. Wine for her 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 Linda H Wine” dated May 16, 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 proposed budget for fiscal year 2008; the final rankings for reservations of the 2007 federal low-income housing tax credits; the recommended reservations of tax credits from the Tier Two At-Large Pool for Belleville Senior Apartments and The Views at Clarendon; the proposed changes to the Authority’s Qualified Allocation Plan for the federal low-income housing tax credits; the scholarship fund to be established by the Authority in the Residential Property Management Program at Virginia Tech in memory of the faculty and students who had been recently killed; the video of Governor Kaine’s public service announcement for the housing fair in Roanoke; the materials to encourage rental property owners to participate in the Housing Choice Voucher Program; and the REACH *Virginia* allocations for fiscal year 2008. Commissioner Hopkins then moved approval of the resolution entitled “Resolution – Adoption of Operating Budget – Fiscal Year 2008” dated May 16, 2007 in the form attached hereto. This motion was seconded by Commissioner O’Brien and was approved by the affirmative vote of each of the Commissioners then present at the meeting.

Commissioner Allmond, on behalf of the Audit Committee, reported that the Committee had received a presentation from KPMG LLP on the preparation of the Authority’s audited financial statements for fiscal year 2007. Commissioner Allmond next summarized the following reports that were received and discussed by the Committee: the report from Ms. Barackman on the Authority’s monthly operating statement, balance sheet, financial highlights and budget comparisons for the period ended March 31, 2007; the reports from Mr. Wyatt on the status of the internal audit schedule and internal audit reports and recommendations; the results of the Quality Assurance Review by Mr. Richard Tarr indicating full compliance of the Authority’s internal audit activities with the standards of the Institute of Internal Auditors; and a review of the proposed internal audit schedule for the next five-year period. Commissioner Allmond advised the Commissioners that the Committee had reviewed and reaffirmed the Charter of the Authority’s Internal Audit Division.

Commissioner Allmond, on behalf of the Operations Committee, summarized the staff reports that were received and discussed by the Committee on the Authority’s organizational development and learning activities, talent management, succession planning and on the performance management process. Commissioner Allmond next

reported that the Committee recommended approval of the resolution stating the Authority's official intent to reimburse single family loan expenditures with proceeds of the Commonwealth Mortgage Bonds to be issued by the Authority. By motion duly made and seconded, the resolution entitled "Declaration of Official Intent to Reimburse Expenditures with Proceeds of Bonds" dated May 16, 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 Executive Committee, reported that the Committee had received and discussed a staff report on the Authority's succession planning process, had directed Mr. McKellar to draft amendments to Ms. Dewey's contract to provide for automatic annual renewals of the contract unless otherwise terminated and to provide for severance payments in the amount of the greater of 6 months' salary or the severance payments under the Authority's Personnel Policies and Procedures upon termination of the contract by the Authority for reasons other than cause under the contract, and had requested Ms. Blankenship to provide the Committee at its August meeting with the necessary information to determine Ms. Dewey's compensation.

Ms. Dewey's presented her report on operations in which she advised the Commissioners of the following matters: the dates and locations of upcoming meetings and events; the dates for the Board meetings through 2008; the resignation of Ms. Tammy Tyler who had served as the Authority's Strategic Development Leader; and the status of the Authority's business continuity plan.

Mr. Hill presented a video by the Northern Virginia Affordable Housing Alliance on the need for affordable housing in the Northern Virginia area.

There being no further business, the meeting was adjourned at approximately 12:15 p.m. on May 16, 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 MAY 16, 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 May 16, 2007 at the office of the Authority, 601 South Belvidere Street, Richmond, Virginia.

COMMITTEE MEMBERS PRESENT:

Charles McConnell, Committee Chairman
William C. Shelton
Gerald W. Hopkins
Jay Fissette

COMMITTEE MEMBERS ABSENT

Douglas R. Fahl

OTHERS PRESENT:

Donald L. Ritenour, Managing Director of Development
Herb H. Hill, Jr., Managing Director of Policy, Planning, and Communications
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, Organizational Development Manager
J. Judson McKellar, Jr., General Counsel
Thomas A. Dolce, Managing Director of Servicing and Compliance
William Fuller, Senior Community Housing Officer
Paul Brennan, Senior Counsel
Brenda Brophy, Development Officer Manager
David White, Associate Development Officer

The meeting of the Committee was called to order by Committee Chairman McConnell at approximately 9:51 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 March 20, 2007 were approved by the affirmative vote of each of the members of the Committee noted above as present at the meeting.

Mr. Ritenour and Ms. Watson presented a report on homeownership loan production through March 31, 2007. Ms. Watson commented that the Authority's single family loan production is steady and estimated that the Authority will finance \$1.2 billion

in single family loans for fiscal year 2007. Ms. Watson remarked that the reason for the continued high rate of single family loan production appears to be that eligible borrowers who would previously have obtained subprime loans have been applying to the Authority for single family loans.

Mr. Ritenour and Mr. Hastings reviewed the multi-family bi-monthly loan production summary. Mr. Hastings noted that 80% of the developments for which Board Approval Requests were submitted during the period March 7, 2007 to May 1, 2007 were assisted with REACH *Virginia* funds. Mr. Hastings further noted that the Authority expects to finance 4,200 multi-family units for fiscal year 2007, which exceeds the Authority's most likely production goal.

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 end of March 2007, the overall delinquency rate for homeownership loans had decreased to 4.29% and the multi-family loan delinquency rate had decreased to 0.57%. Mr. Dolce also presented an update on the Housing Choice Voucher Program in which he stated that current leasing was at 99.4% for April 2007.

Mr. Ritenour next presented a resolution regarding proposed changes in the procedures for authorization of the Executive Director to approve, and authorize the issuance of commitments for, mortgage loans to finance multi-family developments to be occupied by persons with disabilities under any program licensed by the Department of Mental Health, Mental Retardation and Substance Abuse Services. After a discussion by the Commissioners and staff, Commissioner Hopkins moved that the Committee recommend that the resolution which was adopted by the Authority on March 15, 2005, entitled "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" be amended and restated, in its entirety, by adoption of the resolution entitled "Second 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 May 16, 2007, as modified by deletion of the phrase "in a principal amount of less than \$1,000,000" and by insertion of the phrase "eight or fewer" before the phrase "persons with disabilities." This motion was seconded by Commissioner Fissette and was approved by the affirmative vote of each of the members of the Committee noted above as present at the meeting.

Mr. Hawkins presented an overview of the Authority's Hispanic and African-American outreach activities during March and April 2007.

Mr. Ritenour reported on the possible future short-term financing by the Authority of multi-family developments with tax exempt bonds in order to qualify the developments for the 4% federal low-income housing tax credits. Mr. Ritenour explained that local redevelopment and housing authorities may offer such financing and that multi-family

developers may request such financing from the Authority in conjunction with taxable bond financed loans.

There being no further business, the meeting was adjourned at 11:12 a.m.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

MINUTES OF THE MEETING OF THE EXECUTIVE COMMITTEE
HELD ON MAY 15, 2007

Pursuant to the call of the Chairman and notice duly given, the meeting of the Executive Committee of the Board of Commissioners of the Virginia Housing Development Authority (the "Authority") was held on May 15, 2007 at the offices of the Authority, 601 South Belvidere Street, Richmond, Virginia.

COMMISSIONERS PRESENT:

John P. McCann, Chairman
Jay Fisette
Charles McConnell
Yvonne T. Allmond
Douglas R. Fahl

OTHERS PRESENT:

Susan F. Dewey, Executive Director
Tammy N. Taylor, Managing Director of Organizational Development and Learning
Barbara Blankenship, Managing Director of Human Resources
J. Judson McKellar, Jr., General Counsel

Chairman McCann called the meeting of the Committee to order at approximately 6:53 p.m. All of the Commissioners listed above as present at the meeting were present at that time.

Ms. Taylor presented a report on the Authority's succession planning process and discussed the relationship of succession planning to talent management. Ms. Dewey recommended to the Committee that, in the event of her extended absence for a period of 3 to 6 months, Mr. McKellar serve as the acting Executive Director. Following a discussion of these matters, it was the consensus of the members of the Committee that the Authority continue with its succession planning process as presented by Ms. Taylor, and the members of the Committee concurred with the recommendation of Ms. Dewey that Mr. McKellar serve as acting Executive Director in the event of her extended absence.

At the request of the Committee, Mr. McKellar joined the meeting. Mr. McKellar discussed with the Committee members the proposed amendments to the employment contract between Ms. Dewey and the Authority. Upon the conclusion of this discussion, Mr. McKellar was directed to draft amendments that would provide for automatic annual renewals of the contract unless otherwise terminated and would provide for severance payments in the amount of the greater of 6 months' salary or the severance payments under the Authority's Personnel Policies and Procedures upon termination of the contract

by the Authority for reasons other than cause under the contract. Mr. McKellar then left the meeting.

Ms. Blakenship reviewed the process that was followed in 2006 for approving Ms. Dewey's compensation. It was the consensus of the Committee to follow the same performance review process, and Ms. Blankenship was requested to provide the Committee at its August meeting with the necessary information to determine such compensation.

There being no further business, the meeting was adjourned at approximately 8:43 p.m.

John P. McCann, Chairman

J. Judson McKellar, Jr.
Assistant Secretary

Minutes of the Meeting of the Audit Committee Held on May 16, 2007

The meeting of the Audit Committee of the Board of Commissioners of the Virginia Housing Development Authority was held on May 16, 2007 at the offices of the Virginia Housing Development Authority, 601 S. Belvidere Street, Richmond, Virginia.

Committee Members Present	Yvonne Allmond John P. McCann Nancy O'Brien Edward McCoy
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Committee Members Absent	Braxton Powell
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Others Present	Susan F. Dewey, Executive Director Arthur N. Bowen, III, Managing Director of Finance & Administration Russ E. Wyatt, General Auditor Melody Barackman, Controller Donna Craver, KPMG Kevin Strecker, KPMG (via conference call) Michelle S. Edmonds, Sr. Executive Assistant
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Meeting Called to Order	The meeting was called to order at 9:47 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.
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Approval of the Minutes	On motion duly made by Commissioner O'Brien and seconded by Commissioner McCoy, the minutes of the Audit Committee meeting of March 20, 2007 were approved by the affirmative vote of each of the Commissioners then present at the meeting.
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KPMG Entrance Presentation in Preparation for FY '07 Audit	Donna Craver and Kevin Strecker of KPMG discussed their plan for the 2007 audit. Processes to be reviewed in the current year include: lending, bond management, treasury management, OREO management, investment management and financial reporting (includes investments). Preliminary fieldwork will be performed from June 11 to June 22, 2007. Actual tests of controls will occur from July until mid-September, 2007. KPMG will prepare audited financial statements, which are due to the Governor's Office within 90 days of fiscal year end (anticipated release date September 21, 2007). The management letter and single audit reports will be issued
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Audit Committee Minutes
May 16, 2007

**KPMG
Entrance
Presentation in
Preparation for
FY '07 Audit**
(cont'd)

prior to October 9, 2007. KPMG will update the Board on the status of its findings prior to issuance of the final report at the August meeting.

The following areas of audit emphasis have been identified for the June 2007 audit:

- Loan loss allowance (especially related to the single family Flex and first choice products); and
 - New GASB statements that are effective in FY 2007.
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**Report on
Monthly
Financials and
Budget
Comparisons**

Melody Barackman reviewed VHDA's completed financial statements dated March 2007 and provided the Committee with a comparison of revenues and expenses to budget. Excess revenue over expenses before the GASB 31 adjustment was \$10.7 million for the month of March and \$118.6 million for 9 months. Total assets now exceed \$7.9 billion and net assets have grown to \$1.93 billion.

**Internal Audit
Report**

The General Auditor reported that two audits were completed since the last Committee meeting: Asset Management and MF Servicing. The General Auditor also reported that there are four audits currently in progress: 1) IT Operations; 2) MF Development; 3) Finance; and 4) Year-End Confirmations. The General Auditor then reported that the Audit Division is on track to complete the schedule as planned. The General Auditor also reported that no adverse reports have been issued since the last meeting.

The General Auditor further reported that there are no control concerns that were previously reported to management that have not been successfully resolved.

The General Auditor reported that a quality assurance review had been completed of the Internal Audit Activities at VHDA as required by the Institute of Internal Auditors. The General Auditor reported that the quality assurance report identified two objectives of the review: 1) to provide assurance that the internal audit work being performed by the Internal Audit Division at VHDA meets the requirements of the IIA Standards; and 2) to identify whether or not there are opportunities that would enhance the functionality of the audit process and improve the value of the internal auditing activity to VHDA. The General Auditor then discussed the recommendations made as a result of that review, which he divided into two categories: those applicable to the Audit Committee and those applicable to the Internal Audit Division. Those recommendations applicable to the Audit Committee were as follows:

Continued on next page

Internal Audit Report (cont'd)

1. The Audit Committee should concur in the appointment, replacement, or dismissal of the General Auditor;
2. The Audit Committee should review and approve the Internal Audit Division's annual financial and staffing budget; and
3. The Audit Committee should review and approve the annual audit plan based on an annual risk assessment.

The Committee agreed to implement these recommendations and directed the General Auditor to amend the Audit Committee's Charter accordingly.

Those recommendations applicable to the Internal Audit Division included:

1. The Internal Audit Division should adopt an annual audit planning process based on an annual risk assessment.
2. The Internal Audit Division should adopt the COBIT control framework as their best practices Information Technology (IT) control reference model.

The General Auditor distributed copies of his most recent risk assessments to the committee members and advised them that his practice has been to prepare a global risk assessment to compare the relative risk between audit areas only when the five-year plan is developed. The General Auditor indicated that in the future he will include an annual review of activities planned for the next year with the Executive Director to ensure changes in the risk profile of the audit portfolio are considered and the schedule of activities is adjusted accordingly. The General Auditor also indicated that he would advise the Audit Committee of schedule changes resulting from this process. With regard to the recommendation made to adopt COBIT as VHDA's control framework, the General Auditor indicated that as this is a control framework rather than an audit framework, he is not at liberty to adopt it unilaterally for the organization. The General Auditor did, however, point out that COBIT is an excellent control framework and that he has recommended that the managing director of ITS consider adopting it. The General Auditor also reported that he has provided the managing director of IT'S a COBIT Quickstart manual, which he believes will make the review and analysis less cumbersome.

The General Auditor then presented the Audit Division's new five (5) year schedule and activity plan. The General Auditor reported that the five-year plan was meant to be flexible enough to make changes annually based on VHDA's changing risk profile.

Finally, the Audit Committee reviewed the Internal Audit Division Charter and made suggestions for changes based on the recommendations made in the quality assurance review. A motion to recommend approval of the Internal Audit Division Charter with the recommended changes was made by Commissioner O'Brien and seconded by Commissioner McCoy. This motion was approved by the affirmative vote of each of the Commissioners noted above as present at the meeting.

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Audit Committee Minutes
May 16, 2007

Adjournment

There being no further business, Commissioner Allmond moved for adjournment of the meeting at 10:45 a.m. Commissioner O'Brien seconded this motion. This motion was approved by the affirmative vote of each of the Commissioners noted above as present at the meeting.

Russ E. Wyatt
General Auditor

Yvonne Allmond
Chairman

Minutes of the Meeting of the Operations Committee Held on May 16, 2007

The meeting of the Operations Committee of the Board of Commissioners of the Virginia Housing Development Authority was held on May 16, 2007 at the offices of the Virginia Housing Development Authority, 601 S. Belvidere Street, Richmond, Virginia.

Committee Members Present Yvonne Allmond, Chair
John P. McCann
Edward McCoy
Nancy O'Brien

Commissioners Absent Braxton Powell

Others Present Susan F. Dewey, Executive Director
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
Michelle S. Edmonds, Sr. Executive Assistant

Meeting Called to Order The meeting was called to order at 10:45 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 March 20, 2007. Commissioner McCoy seconded this motion. This motion was approved by the affirmative vote of each of the Commissioners noted above as present at the meeting.

Organizational Development & Learning Update Tammy Taylor, Chief Learning Officer, gave an overview of the Organizational Development & Learning Division's function and the VHDA University (Knowledge Center). This is a web-based system that provides access to on-line courses and is available through any Internet connection and over 400 courses are offered. Commissioner O'Brien expressed a desire to preview the site. Tammy will arrange a demo at the next Board retreat.

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Operations Committee Minutes
May 16, 2007

**Performance
Management
Process Update**

Barbara Blankenship, Management Director of Human Resources, distributed a handout and provided an update and timeline on the upcoming performance management process. Barbara explained the four phases of the performance management process, reiterating the fact that the year-end performance review is approaching. Barbara will update the Committee on the results of the year-end review at the November meeting.

**Declaration of
Official Intent
Resolution**

Art Bowen presented a resolution to state VHDA's intent to use the proceeds of tax-exempt bonds to reimburse itself for single family mortgage loans funded prior to the issuance of such bonds, in an amount not to exceed \$1.3 billion. The resolution is required pursuant to U.S. Treasury regulations governing the issuance of tax-exempt bonds. This declaration of official intent was inadvertently omitted from the Bond Limitations Resolution adopted by the Board in January 2007. A motion to recommend approval by the Board was made by Commissioner O'Brien and seconded by Commissioner McCoy. This motion was approved by the affirmative vote of each of the Commissioners noted above as present at the meeting.

Adjournment

There being no further business, the meeting adjourned at 11:05 a.m.

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

Yvonne Allmond
Chairman