

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

MINUTES OF THE MEETING OF THE COMMITTEE OF THE WHOLE
AND THE REGULAR MEETING OF THE COMMISSIONERS
HELD ON JANUARY 18 AND 19, 2005

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 January 18 and 19, 2005 at the offices of the Authority, 601 South Belvidere Street, Richmond, Virginia.

COMMISSIONERS PRESENT:

Douglas R. Fahl, Chairman
Jay Fisette, Vice Chairman
Joan D. Gifford
Terri M. Ceaser
Jody M. Wagner
John P. McCann
Edward L. McCoy
Charles McConnell
Gerald W. Hopkins
Jack Loeb, Jr.
William C. Shelton

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
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
Tammy A. Tyler, Strategic Development Leader
Patrick J. Carey, Finance Director
Llewellyn C. Anderson, Business Planning Analyst
Barry S. Merchant, Policy Analyst
Richard B. Taylor, Governmental Relations Manager
Robert Halloran, Marketing Director

Brian C. Matt, Public Relations Manager
Teresa Coleman, Publications Manager
Frank Curbeira, Contact Center Manager

Chairman Fahl called the meeting of the Committee of the Whole to order at 2:05 p.m. on January 18, 2005. Chairman Fahl and Commissioners Gifford, McConnell, McCann, Hopkins, and Loeb were present at that time, and Vice Chairman Fisette and Commissioners Wagner, McCoy, Ceaser and Shelton joined the meeting in progress.

Chairman Fahl commented on the roles and responsibilities of the Commissioners in the strategic planning process and in considering the housing needs of all areas of the state and discussed the need to balance the short-term and long-term goals of the Authority. Ms. Dewey then discussed the desired outcomes of the meeting and the state housing context for the Authority's strategic plan and compared the roles and governance of the Authority and the Department of Housing and Community Development.

Mr. Bowen presented a report on the Authority's financial resources. During this presentation, the Commissioners and the staff discussed the following: Authority's role as a self-supporting financial intermediary; the debt, mortgage loans and net assets of the Authority; the classification and valuation of net assets, mortgage loans, and marketable securities on the Authority's balance sheet; the principal criteria and the stress tests used by the ratings agencies in evaluating the Authority; the Authority's risks of loan loss and unmatched funding; the need for excess revenues and net assets to accomplish the Authority's mission over the long-term; the sources of the Authority's excess revenues; the success of the Authority's long-term strategy in prior years; comparisons of the loan production of the Authority with the loan production of other state housing finance agencies; the balancing of short-term housing needs and the Authority's long-term financial strength; the comparison of the effects of long-term and short-term approaches; the present value of subsidy funds provided in the fiscal year 2005 Virginia Housing Fund programs; and a proposed methodology to determine the amount of funds, based upon a percentage of excess revenues, that the Authority may make available in the future to provide mortgage loans at reduced rates and other housing subsidies under its programs. Following this discussion, Commissioner McCann moved that the Committee recommend that, commencing with fiscal year 2006, the annual amount of the Authority net assets to be dedicated, on a present value basis as determined by the Authority, to reduce the interest rates or otherwise provide housing subsidies under its programs shall be equal to 15% of the average of the Authority's excess revenues (as unadjusted for the effect of GASB 31) for the immediately preceding three fiscal years. This motion was seconded by Commissioner McCoy and was approved by the affirmative vote of each of the Commissioners listed above as present at the meeting, except Commissioner Shelton who was not then present at the meeting.

Mr. Ritenour then presented a report on the Authority's strategic goals for fiscal years 2002 through 2010. During this presentation, the Commissioners and the staff discussed economic, population and housing trends in the regions of the state, the Authority's fiscal year 2002-2004 strategic goals, the key results achieved by the Authority for each of those goals, and

the Authority's homeownership and rental production in fiscal year 2004. Upon the conclusion of such discussion, the meeting of the Committee was recessed at approximately 6:40 p.m. on January 18, 2005.

The meeting of the Committee of the Whole was reconvened at 8:08 a.m. on January 19, 2005. The Commissioners listed above as present at the meeting were present at that time, except Vice Chairman Fisette and Commissioners Ceaser, McCoy and Shelton who joined the meeting of the Committee in progress.

Mr. Ritenour continued his presentation on the Authority's strategic goals for fiscal years 2002 through 2010. During this presentation, the Commissioners and the staff discussed the following: the Authority's unit and dollar production by geographic region in fiscal year 2002-2004; the uses and allocations by region of the Virginia Housing Fund in fiscal year 2002-2004; the allocations in the Virginia Housing Fund for fiscal year 2005; and the Authority's goal and strategic directions through fiscal year 2010 to expand affordable housing opportunities throughout Virginia's diverse communities. Upon the conclusion of such discussion, the meeting of the Committee was recessed at approximately 9:38 a.m. on January 19, 2005.

Chairman Fahl called the regular meeting of the Board of Commissioners to order at approximately 11:20 a.m. on January 19, 2005. All of 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 of the Committee in progress as noted below and thereafter remained present during the meeting and Commissioner Shelton who was not present at 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 regular meeting of the Commissioners held on November 14 and 15, 2004 were approved by the affirmative vote of each of the Commissioners present at the meeting.

Mr. Bowen presented a report on the Authority's unaudited financial statements for the periods ended September 30, 2004 and November 30, 2004. During this report, Vice Chairman Fisette joined the meeting.

Chairman Fahl reported that the Committee of the Whole had discussed the Authority's financial resources and the Authority's strategic plan through 2010 and had discussed and recommended a new methodology for determining the amount of funds that the Authority may make available in the future to provide mortgage loans at reduced rates and other housing subsidies under its programs. Commissioner McCann moved that, commencing with fiscal year 2006, the annual amount of the Authority net assets to be dedicated, on a present value basis as determined by the Authority, to reduce the interest rates or otherwise provide housing subsidies

under its programs shall be equal to 15% of the average of the Authority's excess revenues (as unadjusted for the effect of GASB 31) for the immediately preceding three fiscal years. Commissioner McCann explained that, for example, the subsidy to be made available for fiscal year 2006 programs would be 15% of the Authority's average excess revenues (as so unadjusted) for fiscal years 2002, 2003 and 2004. 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.

Commissioner McCann, on behalf of the Audit/Operations Committee, reported that the Committee had reviewed and discussed a proposed retiree health care plan to be implemented on January 1, 2006 as summarized on the attachment hereto. On motion duly made and seconded, the proposed retiree health care plan was approved by the affirmative vote of each of the Commissioners then present at the meeting. Commissioner McCann advised the Commissioners that the Committee had reviewed and discussed the Authority's other employee benefits and would discuss those benefits further at the Committee meeting in March. Commissioner McCann stated that the Committee had also reviewed and discussed (i) the reports from the General Auditor on the status of the internal audit schedule and the audit reports issued since the prior meeting and (ii) a report for Mr. Bowen on the salient features of the Authority's proposed Rental Housing Bonds, 2005 Series A-Taxable, B-AMT and C, and Commonwealth Mortgage Bonds, 2005 Series A-AMT and B.

Commissioner Gifford, on behalf of the Programs Committee, reported that the Committee had reviewed and discussed staff reports on the following matters: the homeownership and multi-family bi-monthly loan production; the Single Family SPARC allocations; the proposed Minimum Standards for Multi-Family Mortgage Loans and the proposed form of Board Approval Request; single family and multi-family loans delinquencies; and an update on the Housing Choice Voucher Program.

Ms. Dewey presented her report of operations in which she advised the Commissioners as to the following matters: the results of the recent meeting with HOME and nonprofit housing sponsors on the issue of the effect of the allocation of federal low-income tax credits on poverty and racial concentration; the NCSHA Legislative Conference on March 7-9; the agenda for the Board retreat on March 13-15; the NCSHA Annual Conference on September 24-27; and the receipt by the Authority of the unused 2004 state bond allocation in the amount of \$396 million. Following this report, Mr. McKellar reported on the status of legislation in the 2005 Session of the General Assembly.

There being no further business, the meeting was adjourned at approximately 12:20 p.m.

The meeting of the Committee of the Whole was reconvened at approximately 12:40 p.m. on January 19, 2005. The Commissioners listed above as present at the meeting were present at that time and remained present throughout the meeting of the Committee, except Vice Chairman Fisette who joined the meeting of the Committee in progress as noted below and thereafter remained present during the meeting of the Committee and except Commissioners Loeb and Shelton who were not present during the meeting.

Mr. Ritenour continued his presentation on the Authority's strategic goals for fiscal years 2002 through 2010. During this presentation, Vice Chairman Fiset joined the meeting. The Commissioners and the staff discussed the Authority's goals and strategic directions through fiscal year 2010 to address housing needs of minorities and diverse cultures, to support community revitalization efforts, and to increase housing opportunities for seniors and persons with disabilities. Following Mr. Ritenour's presentation, Ms. Dewey discussed with the Commissioners the Authority's goal and strategic directions to strengthen the Authority's long-term ability to provide affordable housing in Virginia. It was the consensus of the Commissioners that the staff proceed with the completion of the strategic plan based upon the goals and strategic directions presented at the meeting.

There being no further business, the meeting of the Committee of the Whole was adjourned at approximately 1:10 p.m.

Douglas R. Fahl, Chairman

J. Judson McKellar, Jr.
Assistant Secretary

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

MINUTES OF THE MEETING OF THE PROGRAMS COMMITTEE **ON JANUARY 19, 2005**

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 January 19, 2005, at the Virginia Housing Center, 601 South Belvidere Street, Richmond Virginia.

COMMITTEE MEMBERS PRESENT:

Joan D. Gifford, Committee Chairman
Terri M. Ceaser
William C. Shelton
Jay Fisette
Jack Loeb, Jr.
Charles McConnell

OTHERS PRESENT:

Donald L. Ritenour, Managing Director of Development
Thomas A. Dolce, Managing Director of Servicing and Compliance
J. Judson McKellar, Jr., General Counsel
John F. Hastings, Director of Multi-Family Development Programs
Michele G. Watson, Director of Single Family Programs
Llewellyn C. Anderson, Business Liaison
Sharon B. Fairburn, Housing Choice Voucher Program Director
Herb H. Hill, Jr., Managing Director of Policy, Planning, and Communications
Toni Ostrowski, Housing Initiatives Team
Tammy A. Tyler, Strategic Development Leader

The meeting of the Committee was called to order by Committee Chairman Gifford at approximately 10:35 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, except Commissioner Fisette who joined the meeting of the Committee in progress as noted below and thereafter remained present during the meeting.

On motion duly made and seconded, the minutes of the meeting of the Programs Committee held on November 15, 2004 were approved by the affirmative vote of each of the Commissioners then present at the meeting.

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

Mr. Ritenour next presented a memorandum on the recommended allocations of funds in the Homeownership Sponsoring Partnerships and Revitalizing Communities (SPARC) Round 4. He advised the Committee that thirty-six applications requesting a total of \$73.3 million of SPARC Funds will be awarded.

Mr. McKellar presented proposed Minimum Standards For Multi-Family Mortgage Loans and a proposed Board Approval Request form. Commissioner Loeb requested that the Board Approval Request form contain information regarding market rents for comparable units. Mr. McKellar advised the Committee that the proposed Minimum Standards for Multi-Family Mortgage Loans and the revised Board Approval Request form would be presented to the Committee at its March meeting for recommendation to the Board.

Mr. Dolce presented reports on delinquencies and foreclosures in the homeownership and multi-family loan servicing portfolios.

Ms. Fairburn presented an update on the Housing Choice Voucher Program. During this report, Vice Chairman Fisette joined the meeting.

There being no further business, the meeting was adjourned at approximately 11:03 a.m.

Minutes of the Meeting of the Audit/Operations Committee Held on January 19, 2005

The meeting of the Audit/Operations Committee of the Board of Commissioners of the Virginia Housing Development Authority was held on January 19, 2005 at the offices of the Virginia Housing Development Authority, 601 S. Belvidere Street, Richmond, Virginia.

Committee Members Present John P. McCann, Chirman
Douglas R. Fahl
Jody M. Wagner
Edward L. McCoy
Gerald W. Hopkins

Other Commissioners Present Jay Fiset, Vice Chairman
William P. Shelton
Jack Loeb
Joan D. Gifford
Terri M. Ceaser
Charles McConnell

Others Present Susan F. Dewey, Executive Director
Arthur N. Bowen, III, Managing Director of Finance & Administration
Tammy N. Taylor, Managing Director of Human Resources
Russ E. Wyatt, General Auditor
Judson McKellar, General Counsel
Herbert A. Hill, Managing Director of Policy, Planning & Communications
Barbara Blankenship, Human Resources Manager
Lauren Putnocky, HR Intern
Michelle Edmonds, Sr. Executive Assistant

Meeting Called to Order The meeting was called to order at 9:50 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 McCann moved approval of the minutes of the meeting of the Audit/Operations Committee held on November 15, 2004. Commissioner Hopkins seconded this motion. This motion was approved by the affirmative vote of each of the Commissioners then present at the meeting.

Human Resources (Benefits Overview) Tammy Taylor, Barbara Blankenship and Lauren Putnocky (HR intern) facilitated a presentation on VHDA benefits. The presentation was sent to the Board in advance and all Commissioners were invited to attend the presentation.

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**Human
Resources
(Benefits
Overview)**
(cont'd)

Retiree Healthcare. Tammy gave an overview of the current retiree healthcare plan citing concerns around solvency, ambiguity, equity and projected growth of retirees in the next 10-20 years. The current plan enables associates age 55 with 10 years of service to retire and receive a (non-cash) health care credit. Currently, VHDA has 28 retirees (which includes spouses of deceased retirees). VHDA funds the plan by setting aside 3.2% of salary. Given the above concerns, VHDA engaged the services of Palmer & Cay to conduct an actuarial study and recommend changes. The study findings indicated that 3.2% of salary was not sufficient to keep the plan solvent over the next 40 years. As a result, VHDA put together a team to analyze the plan and make recommendations.

Tammy went on to say that the team worked with the Leadership Team to develop a new plan, which will go into effect January 1, 2006. Highlights of the new plan include, but are not limited to, increasing the eligibility factor to age 55 with 15 years of service. The benefit (flex credit) will be based on years of service and age at the time of retirement, with a cap established for purposes of calculating annual benefit of 62 years of age and 30 years of service. Barbara reviewed a grid developed by Palmer & Cay that outlines the flex credit based on age and years of service. The plan will be set up as a Healthcare Reimbursement Account, which will allow retirees to purchase health insurance through VHDA or obtain their insurance through an external source. Similar to the current plan, retirees can submit receipts for medical/dental expenses for reimbursement up to the flex credit amount, less any premiums paid. At the time of retirement, retirees must elect either the Plan's "retiree only" option or the spousal survivorship option. Funds will be administered through a trust and VHDA will issue an RFP for a vendor. Current retirees will be grandfathered into the new plan. Plan changes will be communicated to current retirees and associates throughout this year.

Commissioner Wagner expressed concern over the median amount of savings that associates have invested for retirement. Staff was asked to research VHDA's ability to participate in the Virginia Retirement System. Staff will also be asked to look at salary ranges and length of service as it relates to retirement balances and/or contributions.

After lengthy discussion, Commissioner Wagner moved that the new plan be presented to the Board for approval. This motion was seconded by Commissioner Hopkins. This motion was approved by the affirmative vote of each of the members of the Committee then present at the meeting.

Paid Time Off (PTO) Policy. Tammy shared plans to move from traditional leave program to a PTO program. Commissioner Hopkins and Fahl expressed concern as to whether or not a PTO program is the best solution and shared their experience

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Audit/Operations Committee Minutes
January 19, 2005

Human Resources (Benefits Overview)
(cont'd)

with this type of leave program. Commissioner Fahl also suggested that staff look at the liability issue of what's paid out when an associate leaves. Staff shared that a team has been charged with determining what changes should be made for implementation January 1, 2006. Tammy will update the Committee of their findings in March.

Internal Audit Presentation

The General Auditor reported that his staff had completed the RS 6000 Operating System audit and that a standard report was issued which indicated that opportunities for improving controls were identified, however, the overall degree of compliance with existing practices and procedures and the quality of ongoing operations was found to be satisfactory. The General Auditor reported that findings in this audit revealed violations to VHDA's System Access Management Policies and that management is addressing those policy exceptions identified. The General Auditor also reported that there are two audits in progress: 1) SF Originations with its Gallagher Application System; and 2) Human Resources with its Ceridian HRIS Application System. The General Auditor further indicated that no adverse reports were issued since the last meeting of the committee.

Salient Features

Art Bowen reviewed for the Committee two upcoming bond issues. \$220 million Rental Housing Bond issue to be sold early March or late April. The issue will be a combination of taxable and tax-exempt bonds, sold competitively. The issue will use up to \$90 million of VHDA's remaining \$113 million private activity bond allocation carry forward designated for multifamily purposes. To accommodate the needs of the mortgagor of The Gates of Ballston project in Arlington, up to \$30 million of the bonds may be issued on a short-term basis to be subsequently refunded by another issuer, and such \$30 million of bonds may be separated from the contemplated transaction and issued on a separate basis. Expected ratings are Aa1/AA+.

The second bond issue is a Commonwealth Mortgage Bond issue for single-family loans that will be sold competitively in April or May, will be up to \$250 million and will consist of tax-exempt bonds.

Adjournment

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

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

John P. McCann
Chairman