FLORIDA HOUSING FINANCE CORPORATION

Board Meeting

December 12, 2008

Information Items

COMMUNICATIONS

Information

I. COMMUNICATIONS

A. Corporate Marketing and Outreach

1. <u>Background/Present Situation</u>

a) During October, Florida Housing staff attended and participated in the NCSHA 38th Annual Conference in Denver. In addition to staffing a booth in the HFA Showcase (along with 26 other state housing agencies), Executive Director Steve Auger was co-host for the 2008 Awards Presentation. As the conference theme was “Going Green,” Florida Housing’s exhibit featured the programs and developments that have incorporated green initiatives in the application/award process, and building practices. There were approximately 37 states in attendance at the conference.

b) Florida Housing staff has been part of the state CFO Alex Sink’s Financial Action Team (F.A.T.), which was established to analyze the recently passed Housing and Economic Recovery Act of 2008 (H.E.R.A.) to maximize Florida’s share of the billions in available federal dollars to help taxpayers weather a range of economic challenges. In addition to Single Family staff serving on the team, Communications staff will work with counterparts of the many team members to develop outreach efforts to educate Florida citizens on the benefits available to them as a result of the passage of HERA. Currently, a website is in development by the CFO’s office; it will link to team members’ websites to give citizens’ access the many resources available to them during this economic crisis.

c) Florida Housing’s Communications and Chief Information Officer are working together to develop a Foreclosure Prevention Packet for homeowners facing the possibility of foreclosure. The packet will include helpful foreclosure prevention information, resources and contacts, household budgeting and workout forms, and a template for a letter to the homeowner’s mortgage holder. This packet should be available by December 2008.

d) Florida Housing also has updated and streamlined its Corporate Packet, which is used to provide basic information on Florida Housing and its programs to the public.

e) Finally, Florida Housing staff will start conducting internal meetings to plan the 2009 Lenders Appreciation Awards Gala, which is scheduled to be held on Friday, June 12, 2009, at the Peabody Hotel Orlando.

II. FISCAL

A. Operating Budget Analysis for October 2008

a) The Financial Analysis for October 31, 2008, is attached as Exhibit A.

b) The Operating Budget for the period ending October 31, 2008, is attached as Exhibit B.

III. GUARANTEE

A. Claim Payment and Pending Foreclosure of Turtle Creek Apartments

Development Name: Turtle Creek	**Location: Collier County**
Developer: C.J. Communities, Inc. ("Developer")	**Set-Aside: MMRB 40%@60% AMI HC 100%@60% AMI**
Funding Sources: MMRB 1996 Series C HC 97L-507 Guarantee Fund #10 HUD Risk-Sharing 066-98001	**Amounts: MMRB $12,440,000 HC $573,401 (annually) GF $6,002,503 (50% mtg guarantee)**
Number of Units: 268	**Type: Family**

1. Background

a) Turtle Creek apartments is located in Naples, Florida, near the north end of Collier County. C.J. Communities, whose principal is Charles "Chuck" Erdman, a relatively small developer, built the development in 1996, which makes it one of the earlier deals in our portfolio. C.J. Housing Inc (i.e. Mr. Erdman) is the general partner (1% owner), and KeyBank is the limited partner (99% owner, tax-credit syndicator).

b) The property was financed with FHFC bonds; 1996 Series C1 & C2, and an allocation of 4% housing credits. The Guarantee Program and HUD (through a Risk-Sharing agreement) guarantee the first mortgage. To our knowledge there is no subordinate debt, however, we have ordered a title insurance update. The development is comprised of 268 units (20 x 1BR, 228 2BR, 20 3BR), with set-asides at 100% @ 60% of area median income by virtue of the housing credit use restriction agreement. As of 10/31/08, physical occupancy was approximately 70%.

c) Historically, the Guarantee Program has maintained a satisfactory relationship with the owner/borrower. Furthermore, in recent years, the property has been satisfactorily managed by a FHFC-approved, developer-related entity. From a physical condition standpoint, the property has been relatively well-maintained, despite its age, based on staff's last inspection conducted on August 25, 2008.

d) In considering the contributing factors for the default, at this juncture, we don't attribute it to the more typical catalysts, such as mismanagement, deferred and inadequate maintenance and the like. To the contrary, we feel that the current extraordinary adverse economic climate is the driving factor. On that note, Collier County is perceived to be one of the hardest hit by the real estate "bust" and resulting downturn.

e) Generally speaking, with respect to troubled properties, the Guarantee Program expects limited partners (equity providers/tax-credit syndicators) to assist in keeping properties financially viable by helping funding operating deficits, which has been our experience to date. However, the circumstances on Turtle Creek are contrary to our experience to date. As such, KeyBank's involvement, or the lack thereof, should be briefly discussed. Due to the age of the property [approximately 11 years], KeyBank has calculated its federal income tax recapture at just over $1 million and, in their judgment, felt the property would likely require $1 million or more to fund operating deficits until the property recovers operationally and financially. At this juncture, KeyBank has apparently deemed it economically desirable to effectively walk away. Furthermore, the elimination of future business with Florida Housing, which will result from their actions, holds little leverage, as KeyBank exited the tax-credit syndication business several years ago. Lastly, based on conversations with the general partner's counsel, without assistance from KeyBank, his client (Mr. Erdman) is unable to continue funding deficits, hence the current default and claim-filing status.

2. <u>Present Situation</u>

a) On Friday, November 14, 2008, the Guarantee Program filed an Application for Initial Claim Payment with HUD on Turtle Creek Apartments, representing the first time in the Program's history that we've been required to take such action.

b) The claim amount of $12,188,376 represents the $12 million mortgage balance plus approximately $180k in accrued interest (note: the claim amount equates to approximately $46,000/unit). The amount received from HUD was paid to the Trustee to be used to redeem the outstanding bonds. As a Risk-Sharing property, HUD shares in the mortgage guarantee 50/50 with the Guarantee Program. As such, our half will be approximately $6 million plus costs. HUD pays the entire sum upfront to the Trustee. Typically, an HFA must provide a debenture to HUD evidencing its indebtedness for its half of the mortgage exposure. In our case, in lieu of a debenture, we are allowed to segregate funds within the Guarantee Program corpus for such purpose, evidenced by an enforceable certificate (the "certificate"). HUD provides a five (5) year term for repayment; a balloon payment, allowing time for Florida Housing to settle the matter and dispose of the property. During that term, interest accrues on the certificate at HUD's debenture rate (at this point undetermined by HUD), which is payable annually.

c) We have instructed our counsel to immediately pursue all appropriate legal and equitable remedies under the note, mortgage and other loan documents to attain direction over monthly net operating income, prevent any deterioration of the property, and to obtain total control of Turtle Creek. Furthermore, we have begun discussions with management companies for assumption of management duties. We have also requested the current rent roll, most recent income statement and an accounts payable aging list, and will be making a follow-up inspection of the property in the first half of December 2008. An environmental site assessment and physical needs assessment have both been ordered, and an appraisal may be ordered at a future date. The property's current tax assessed value is $14,987,734.

d) On November 18, 2008, the Trustee issued a redemption notice to bondholders calling for full redemption of the bonds on December 10, 2008.

B. The Guarantee Program and HUD Risk-Sharing

1. Background/Present Situation

a) In November 1994, the Guarantee Program entered into an agreement with HUD to participate in the Risk-Sharing Program; at that point a "pilot" program, and closed its first Risk-Sharing transaction in February 1995. Over the past 14 years, the Guarantee Program and HUD have closed 76 multifamily bond-financed transactions, representing approximately $940 million of combined risk in force, and thereby facilitating the construction of over 19,400 units in Florida. Today, out of 101 multifamily developments in the Guarantee Program portfolio, 67 of them are Risk-Sharing transactions. With that said, again, last Friday's claim on Turtle Creek represents the first in our nearly 14-year relationship with HUD, as well as the first in the Guarantee Program's history.

b) Currently, there are eight (8) developments in the portfolio in monetary default as a result of the borrower's failure to make timely payments on the note. Of those, six (6) are Risk-Sharing transactions and two (2) are not, as outlined in Exhibit A.

c) Over the past 7 years, the Guarantee Program has had a handful (3 to 5) of transactions in default at any given time, usually in "rolling default" for an extended period. For example, years ago, the TV Spano Development deals; five (5) in all, were in "rolling" default for 24-36 months before being cured by virtue of their sale and/or assumption of control by the limited partner/tax-credit syndicator. Likewise, more recently, the Worthwhile Development (H.J. "Jay" Royall) deals; four (4) in all, have been in and out of default over the past couple years, and several of the Creative Choice (Dilip Barot) properties have been in default at various times since early 2007. The point being, while the eight properties highlighted above, as a whole, represent an increase in defaults, this level of delinquency is not overly alarming in relation to the portfolio's historical performance.

d) The pending foreclosure on Turtle Creek and, specifically, any loss incurred upon settlement/disposition of this property is not expected to have a material impact on the Guarantee Fund, as the corpus is currently over-collateralized by approximately $130 million. Furthermore, the rating agencies, Fitch and Standard & Poors (S&P), have been notified of our action on Turtle Creek, but we don’t believe the rating agencies will view the claim as being indicative of a systemic issue within the portfolio. Note, S&P recently affirmed our A+ rating on October 30, 2008. Nevertheless, the Guarantee Program will continue its monitoring efforts and exercise the same sound risk management that has contributed to our success to date, particularly in the current extraordinarily challenging economic environment.

C. Guarantee Program Capacity (**Exhibit B**)

IV. LEGAL

A. In Re: 2007 CWHIP Litigation

Clear Lakeside Village, LLC FHFC Case No. 2008018CW/DOAH Case No. 083024

1. <u>Background</u>

a) Following the completion of the 2007 CWHIP Application Cycle numerous Applicants filed Petitions under Chapter 120, Fla. Stat., and Rule 67-58.004, Fla. Admin. Code (2007), challenging the scoring decisions of Florida Housing in various respects. All such matters not resolved via informal hearings before the Corporation's Hearing Officers[1] were referred to the Division of Administrative Hearings ("DOAH"), and consolidated into a single case. This case included Petitions regarding the scoring of the following Applications:

(1) 2008-021W Clear Lakeside Village

(2) 2007-035W Villages at Delray (multiple Petitions)

(3) 2008-040W Estero Place

(4) 2008-044W The Reserve at the Falls of Portofino

(5) 2008-047W Village at Portofino Meadows

(6) 2008-048W Park Royale Residences at Portofino Springs

(7) 2008-035W Midtowne Village

b) Subsequent to consolidation, a hearing on the scoring of the above applications was scheduled for August 18-22, 2008. This hearing was continued until November 17-20, 2008, due to the unavailability of crucial witnesses.

c) Prior to hearing, additional funds became available to the 2007 CWHIP Program, which resulted in two unfunded Applications, including that of the Petitioner Auburn Development (Villages at Delray), becoming eligible for funding due to their position on the unfunded "wait list", thereby rendering many of the Petitioners' claims as moot. As a result, all parties to the case executed a Joint Stipulation, Notices of Voluntary Dismissal, and Motion for Continuance ("Stipulation"), which provided that all parties, with the exception of Clear Lakeside Village, LLC, withdrew their Petitions challenging Florida Housing's scoring of their Applications. In addition, the Stipulation provided that should Clear Lakeside prevail, it could at best only be placed in a position on the "wait list." Accordingly, no funded 2007 CWHIP Application could be affected by the result of litigation remaining between Florida Housing and Clear Lakeside, this permitting Florida Housing to proceed with the credit underwriting process regarding all Applications currently on the funded list.

[1] All such informal hearings have been held and have resulted in Final Orders already issued by the Board.

2. **<u>Current Situation</u>**

On November 7, 2008, DOAH Administrative Law Judge Stuart Lerner accepted the Stipulation and issued an Order dismissing all remaining Petitions filed against Florida Housing regarding the 2007 CWHIP Program, with the exception of the Petition filed by Clear Lakeside Village, LLC. Judge Lerner's Order requires Clear Lakeside and Florida Housing to respond by December 7, 2008, with dates regarding the scheduling of a final hearing. Such hearing is expected to be conducted in or about January, 2008. As noted above, the results of this hearing, should it occur as planned, will not affect the funding of those CWHIP Applications that have passed threshold and for which funds are currently available.

V. MULTIFAMILY BONDS

A. New Bond Issues in 2008

Number Closed	Principal Amount of Bonds Issued	Total Units	Set Aside Units
13	$104,648,500	1890	1353

In addition to the closings referenced above, as of the date of this report, there are two additional bond deals that are currently scheduled to close by the end of the year, Fairview Cove Phases I and II, in the principal amount of $8,000,000 and $6,400,000 respectively, which will add an additional 153 units and 108 set aside units to this total. It should be noted that the properties represented in these bond issues are located in eight (8) separate Florida counties.

B. The Current Market

We continue to see a number of deals delayed, postponed or terminated as a result of tax credit equity Syndicators, Bond Purchasers and/or Credit Enhancers withdrawing from deals, leaving developers scrambling to find new investors from a dwindling supply of interested parties willing to invest in their projects. Alliant Capital, Red Capital Markets and Red Mortgage Capital, the Syndicator and Credit Enhancer respectively for two potential bond deals, recently withdrew their offerings. We were further informed that Raymond James would not be pricing equity until January or February and J.P. Morgan would not be providing any fixed rate permanent financing at this time. Washington Mutual (WaMu) a Private Placement provider and Credit Enhancer on two recent bond issues is obviously no longer in the market nor is Wachovia Bank (as equity provider or Credit Enhancer). This reduction in the number of investors interested in investing in Housing Credits coupled with a resulting reduction in the overall demand for Housing Credits continues to put downward pressure on pricing, which is currently in the 70 cent range. The resulting reduction in equity has caused several deals to no longer be financially feasible.

On a positive note, we have recently seen investors, such as Sherwin Williams, the Equity Provider on a recent bond issue, which had previously withdrawn from the tax credit equity market due to perceived inflated equity prices, return at these lower equity prices as margins have improved. We have also seen that, while the economic downturn has negatively impacted the housing market, particularly in the area of single family housing, there has been a resulting increase in demand for multifamily housing along with a reduction in both land and construction costs. We feel that this, coupled with a return to normal equity pricing and Credit Enhancement providers, will allow bond deals to be more economically viable and attractive to investors, resulting in an increase in bond deals being closed, thereby relieving the pent up demand for affordable multifamily housing. In addition, Fannie Mae and Citibank, two entities whose recent involvement in affordable housing financing had been dramatically reduced, were the Credit Enhancer and Delegated Underwriting and Servicing lender respectively on a recent bond closing.

However, this transaction was negotiated several months ago and recent financial issues for both Fannie Mae and Citibank have caused their future involvement in affordable housing to be in doubt. In fact, a recent refunding of a FHFC bond transaction through Fannie Mae was not consummated.

C. Greater Miami Neighborhoods/POAH Deals

The bond deals in connection with POAH's purchase of several GMN properties are not expected to close. Due to the recent uncertainty in the bond market and volatility in bond rates, POAH is now pursuing conventional financing through Prudential Multifamily Mortgage, where they were able to obtain a proposed fixed interest rate which was less than that in connection with a bond issue. As a result, they will be paying off the FHFC bonds. They are expected to, however, assume the current SAIL and EHCL loans along with the bond LURA.

VI. SINGLE FAMILY BONDS

A. Corporate Marketing and Outreach

a) During October, Florida Housing staff attended and participated in the NCSHA 38th Annual Conference in Denver. In addition to staffing a booth in the HFA Showcase (along with 26 other state housing agencies), Executive Director Steve Auger was co-host for the 2008 Awards Presentation. As the conference theme was “Going Green,” Florida Housing’s exhibit featured the programs and developments that have incorporated green initiatives in the application/award process, and building practices. There were approximately 37 states in attendance at the conference.

b) Florida Housing staff has been part of the state CFO Alex Sink’s Financial Action Team (F.A.T.), which was established to analyze the recently passed Housing and Economic Recovery Act of 2008 (H.E.R.A.) to maximize Florida’s share of the billions in available federal dollars to help taxpayers weather a range of economic challenges. In addition to Single Family staff serving on the team, Communications staff will work with counterparts of the many team members to develop outreach efforts to educate Florida citizens on the benefits available to them as a result of the passage of HERA. Currently, a website is in development by the CFO’s office; it will link to team members’ websites to give citizens’ access the many resources available to them during this economic crisis.

c) Florida Housing’s Communications and Chief Information Officer are working together to develop a Foreclosure Prevention Packet for homeowners facing the possibility of foreclosure. The packet will include helpful foreclosure prevention information, resources and contacts, household budgeting and workout forms, and a template for a letter to the homeowner’s mortgage holder. This packet should be available by December 2008.

d) Florida Housing also has updated and streamlined its Corporate Packet, which is used to provide basic information on Florida Housing and its programs to the public.

e) Finally, Florida Housing staff will start conducting internal meetings to plan the 2009 Lenders Appreciation Awards Gala, which is scheduled to be held on Friday, June 12, 2009, at the Peabody Hotel Orlando.

B. Single Family Bonds Information (Exhibit A)

VII. UNIVERSAL CYCLE

A. 2009 Universal Cycle

1. <u>Background/Present Situation</u>

a) A public meeting was held on August 8, 2008, and rule development workshops were held on September 25, 2008, October 30, 2008 and December 11, 2008, in order to solicit comments on Rule Chapters 67-21 and 67-48, F.A.C., and proposed changes to the Universal Application.

b) As a result of the August, September and October meetings, staff has revised the Universal Application and the rules governing the multifamily programs. A supplement to the Board Package will be provided which contains the proposed Rules, Application and Qualified Allocation Plan (QAP).

c) The Board will be asked to approve the proposed Rules, Application and QAP at a January 2009 telephonic Board Meeting, after which staff will file the Notice of Proposed Rulemaking (NOPR) for publication in the January 23, 2009 edition of the Florida Administrative Weekly. The NOPR will announce the Rule Hearing which is scheduled for February 16, 2009. It is anticipated that the application cycle will open on March 12, 2009.

d) As a result of the rule development workshop held on December 11, 2008, should material, substantive changes to the proposed Rules, Application and/or QAP be required, new copies will be provided prior to the January telephonic meeting.