FLORIDA HOUSING FINANCE CORPORATION
Board Meeting
December 4, 2009
Information Items

Florida Housing
Finance Corporation
we make housing affordable

I. COMMUNICATIONS

A. Communications Update

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

a) Communications staff is finalizing the final issue of *What's Developing* and *Communicator* newsletters for 2009 to have it published by December.

b) Communications and Special Programs staffs should be ready to unveil the "Going Green" Web site for Florida Housing, which will serve as a resource guide to help homebuyers, housing providers and advocates throughout the state *go green* in their affordable homes or rental properties. The site should be live December 2009.

II. FISCAL

A. Operating Budget Analysis for October 2009

a) The Financial Analysis for October 31, 2009, is attached as Exhibit A.

b) The Operating Budget for the period ending October 31, 2009, is attached as Exhibit B.

III. GUARANTEE PROGRAM

A. Status of Defaults Within the Guarantee Program Portfolio

1. Background/Present Situation

a) In November 1994, the Guarantee Program entered into an agreement with HUD to participate in the Risk-Sharing Program; characterized by a 50/50 sharing of default risk in connection with the mortgage guarantee. Since then, the Guarantee Program alone and/or in conjunction with HUD has guaranteed 120 transactions, facilitating the construction of over 28,000 housing units in Florida. Of the 94 multifamily developments in the Guarantee Program portfolio today, 60 are Risk-Sharing transactions.

b) The seven (7) claims filed since November 2008 represent the only multifamily claims incurred in the 15-year history of the Guarantee Program.

c) As of November 17, 2009, there was only one (1) development in the portfolio in monetary default due to the borrower's failure to make timely payments on the note. On November 12, 2009, Vestcor Development advised the Guarantee Program that it would not be paying the mortgage/note payment due November 1st on Leigh Meadows, outlined below:

Development	Location	Closing Date	Total units	Mtg. bal.	Risk-share	Gen Ptr	Ltd Ptr	Status
Leigh Meadows	Jacksonville	9/26/1996	304	9,435,724	Yes	Vestcor Development	Wachovia	Past due: 11/1/09 pmt

d) The owner/borrower has been approved for funding under the subordinate mortgage initiative, but they have not yet proceeded with closing the transaction. When staff inquired as to the owner/borrower's intention for curing the default, a response was not received.

e) At any given time over the past 7 years, the Guarantee Program has had a handful of transactions (3 to 5) in default, usually in "rolling default" for an extended period. The current level of defaults is not extraordinary in relation to the portfolio's historical performance and overall financial capacity. However, the seven (7) claims filed to date are unprecedented.

B. Disposition of Walker Avenue Club

1. <u>Background</u>

a) Walker Avenue Club, Ltd. d/b/a Walker Avenue Club Apartments ("Walker Avenue") is a 172 unit multifamily development located in Vero Beach, Florida, Indian River County. The property was financed with FHFC bonds; 2000 Series L1 & L2, and an allocation of 4% housing credits. The Guarantee Program and HUD (through a Risk-Sharing agreement) guaranteed the first mortgage.

b) On March 16, 2009, the Guarantee Program filed an Application for Initial Claim Payment with HUD on Walker Avenue and on April 22, 2009, filed for foreclosure in the 19th Circuit Court in Indian River County, case number 31-2009-CA-010925.

c) On May 22, 2009, Walker Avenue filed their consent to summary judgment and final summary judgment was granted on August 21, 2009. A foreclosure sale date was set for November 12, 2009. FHFC was the winning bidder at the foreclosure sale and a certificate of title will be issued to FHFC II, Inc. by November 30, 2009.

2. <u>Present Situation</u>

The property will soon be listed for sale via a competitive bid process with Marcus & Millichap, a national real estate brokerage firm.

C. Disposition of Riverfront

1. <u>Background</u>

a) Worthwhile Development, Ltd. d/b/a Riverfront Apartments ("Riverfront") is a 356 unit multifamily development located approximately 12 miles east of downtown Orlando, near Union Park in Orange County, Florida. The property was financed with FHFC bonds, 1997 Series A, and an allocation of 4% housing credits. The Guarantee Program and HUD (through a Risk-Sharing agreement) guaranteed the first mortgage.

b) On December 12, 2008, the Guarantee Program filed an Application for Initial Claim Payment with HUD on Riverfront Apartments and on February 10, 2009, filed for foreclosure in the 9th Circuit Court in Orange County, case number 2009-CA-004089-O.

c) On April 20, 2009, Worthwhile Development, Ltd. filed an amended answer to the foreclosure complaint essentially consenting to summary judgment. On May 26th, summary judgment was granted and a foreclosure sale date was set for June 26th. FHFC was the winning bidder at the foreclosure sale and a certificate of title was issued to FHFC II, Inc. on July 24, 2009.

2. **Present Situation**

a) Following established protocol, Riverfront Apartments was listed for sale via competitive bid process with Marcus & Millichap. A total of 37 bids were received. On October 7, 2009, FHFC received the best and final offers from seven (7) bidders.

b) Staff met October 9, 2009 to select top bidders. On October 23, 2009, the Board approved staff recommendations to proceed with the activities required for the sale of Riverfront to JLC Southeast, and should the sale to JLC Southeast fail to close, engage Stoneleigh Companies.

c) FHFC II and JLC Southeast entered into a Purchase and Sale Agreement, as amended by a First Amendment dated October 23, 2009 and a Second Amendment dated November 10, 2009. As part of the purchaser's due diligence, invasive boring/testing was conducted on building exterior walls, which revealed extensive moisture intrusion and related damage.

d) JLC's capital partner, Eola Capital, apparently became apprehensive about the extensive moisture intrusion and related damage and withdrew their capital commitment. Although JLC previously provided confirmation of cash on hand to close the transaction without financing, JLC then sought capital from Real Estate Capital Partners without disclosure to Florida Housing even though JLC was aware of Florida Housing's preference for a bid that did not include financing contingencies.

e) On November 11, 2009, JLC Southeast exercised its right to terminate the contract due to complications accessing the capital necessary to close.

f) Staff is now engaging Stoneleigh Companies with the intention of entering to a purchase and sale agreement expeditiously and, if possible, closing on or before December 31, 2009. Staff has also received a request from JLC to reinstate the purchase and sale agreement with closing on or before December 17, 2009.

D. Status of Foreclosure of Turtle Creek Apartments

1. **Background**

a) Turtle Creek is a 268-unit development located in Naples, Florida, near the north end of Collier County. C.J. Communities, a relatively small developer, built the development in 1996. KeyBank is the limited partner (99% owner, tax-credit syndicator). 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.

b) On November 14, 2008, the Guarantee Program filed an Application for Initial Claim Payment with HUD, the first in its 15-year history, on Turtle Creek, and on December 19, 2008, filed for foreclosure in the 20th Circuit Court in Collier County, case number 08-9754-CA.

c) On December 22, 2008, Guarantee Program counsel petitioned the court for appointment of a receiver due to the owner/borrower's refusal to relinquish control of operations to a 3rd-party FHFC-approved management company. The court denied FHFC motion for receivership, leaving the Turtle Creek under the control of the owner/borrower. Following this ruling, the owner/borrower admitted in writing to withdrawing approximately $120,000 capital from the property. HUD initiated an inquiry into this matter, as possible "equity skimming", but staff has not received updated status of HUD's inquiry.

d) On April 29, 2009, one day prior to the scheduled hearing for motion for summary judgment of foreclosure, the owner/borrower filed Chapter 11 bankruptcy.

e) On June 22, 2009, the court granted an Interim Agreed Order granting Debtor authority to use Cash Collateral (i.e. revenues). The order provided the owner/borrower authority to pay monthly operating expenses, but required it to deposit net cash flow into a designated account opened by FHFC; the accumulated balance is approximately $56,000.

2. <u>Present Situation</u>

On November 5, 2009, the debtor's counsel made an oral motion to dismiss the case after FHFC was granted a relief from stay from bankruptcy protection. The motion to dismiss was granted, thus allowing FHFC to proceed against the debtor. To that extent, an Amended Motion for Summary Judgment of Foreclosure and a Renewed Motion for Appointment of Receiver have been filed with the circuit court; scheduled hearing dates are pending on both matters.

E. Ratings Affirmation of Guarantee Fund and its Capitalizing Bonds

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

On November 13, 2009, Standard & Poor's concluded its annual review and issued a report affirming its 'A+' credit rating with 'Stable' outlook on the Guarantee Fund, as well as the its Capitalizing Bonds (Series 1993A, 1999A and 2000A).

F. Status of Options for Replacing Liquidity Support or Refunding the 1993 Series A, 1999 Series A and 2000 Series A Capitalizing Bonds

1. <u>Background</u>

a) The Legislature authorized the Corporation to issue up to $400,000,000 in revenue bonds to capitalize the Guarantee Fund ("Fund" or "Corpus"). To date, four series of FHFC (taxable) revenue bonds (the "Bonds") have been issued for the purpose of capitalizing the Fund. Pursuant to the March 13, 2009 Board direction, staff utilized excess Corpus capacity not expected to be needed in the reasonably foreseeable future to redeem in full the 2002 Series A Bonds ($89,925,000 par) on May 1, 2009, reducing negative arbitrage in the Fund for the purpose of maintaining a risk-to-net capital leveraging ratio below 5:1. The remaining three outstanding series of FHFC Bonds are described below:

Florida Housing Finance Agency Affordable Housing Guarantee Revenue Bonds (Taxable) 1993 Series A, $75,000,000 (original par), $49,000,000 (outstanding)
Remarketing Agent: Jefferies & Company, Inc.
Insured by: MBIA
Liquidity Facility by: DEPFA BANK plc, acting through its New York Branch

Florida Housing Finance Corporation Affordable Housing Guarantee Revenue Bonds (Taxable) 1999 Series A, $50,000,000 (original par), $46,250,000 (outstanding)
Remarketing Agent: Jefferies & Company, Inc.
Insured by: MBIA
Liquidity Facility by: DEPFA BANK plc, acting through its New York Branch

Florida Housing Finance Corporation Affordable Housing Guarantee Revenue Bonds (Taxable) 2000 Series A, $75,000,000 (original par), $60,950,000 (outstanding)
Remarketing Agent: Jefferies & Company, Inc.
Insured by: Ambac
Liquidity Facility by: DEPFA BANK plc, acting through its New York Branch

b) The Bonds are weekly reset taxable variable rate demand obligations (VRDO). With the current and ongoing financial market crisis, weekly attempts to remarket the Bonds over the last 16 months have been substantially unsuccessful, resulting in most of the Bonds being "put" to the corresponding liquidity facilities provided by, but recently suspended by Depfa Bank plc (Depfa). The liquidity facilities act as a backstop to ensure sufficient liquidity is on hand at all times to support the "put" feature. In the case of the Bonds, each liquidity facility is evidenced by a separate Standby Bond Purchase Agreement (SBPA) for the corresponding series of the Bonds.

c) On June 5, 2009, following a downgrade of Ambac Assurance Corporation (Ambac) below investment grade, Depfa sent a 30-day notice of termination of liquidity support on the 2000A capitalizing Bonds. The 2000 Series A Bonds are insured by Ambac. Depfa exercised authority provided by the Bond Insurer Adverse Change provision within the supporting SBPA. Term-out is triggered upon termination, calling for repayment of the 2000 Series A Bonds ($60,000,000 par) over an accelerated term of five (5) years in equal semi-annual installments of principal plus accrued interest.

d) On September 29, 2009, Standard & Poor's (S&P) downgraded the financial strength rating of MBIA Insurance Corp (MBIA), the bond insurer on the 1993 Series A and 1999 Series A capitalizing Bonds, from "BBB" to "BB+" with a negative outlook. This downgrade triggered a Bond Insurer Event of Default under the SBPAs for the 1993 Series A and 1999 Series A Bonds. On October 1, Depfa sent a notice of suspension of liquidity support, suspending the available commitment and Depfa's obligation to purchase optionally-tendered 1993 Series A and 1999 Series A capitalizing Bonds under the SBPAs.

e) As a result of Depfa's suspension, Florida Housing provided notice of its intent to purchase a portion of the 1993 Series A bonds and 1999 Series A bonds, either directly from investors in the open market, or as a purchaser in a remarketing of the Bonds. Florida Housing intends to hold any Bonds purchased as investments until such time as Florida Housing determines they are to be remarketed, redeemed or otherwise sold or cancelled. Florida Housing expects to invest up to $60 million while enhancing the rate of return when compared to current investments. Florida Housing may invest in all bonds held by Depfa to take advantage of the rate of return in the bonds and to reduce the negative arbitrage currently experienced by the Guarantee Fund.

f) Absent an action by Florida Housing to invest in all of the Guarantee Fund bonds held by Depfa or other actions by the Guarantee Fund, the $37,910,000 of 1993 Series A and 1999 Series A bank bonds at Depfa would go into term-out, calling for repayment over an accelerated term of five (5) years in equal semi-annual installments of principal plus accrued interest. The first term-out payments would be due in July 2010. Payments due under the term-out provisions would total approximately $3.8 million in principal plus interest for the 1993 Series A and 1999 Series A bonds. Should efforts to replace liquidity on the 2000 Series A bonds not be successful, the first term-out payment on the 2000 Series A bonds (already in term out), of approximately $6 million plus interest, will be due in January 2010.

g) At November 13, 2009 the bond balances were:

Bond Series	Par Balance	(Depfa) Bank Bonds	"Street" Bonds
1993 A	$49,000,000	$23,505,000	$25,195,000
1999 A	$46,250,000	$14,405,000	$31,445,000
2000 A	$60,950,000	$60,950,000	$0

2. <u>Present Situation</u>

a) On October 19, 2009, the Obama Administration announced a two-point plan to help state HFAs expand their affordable lending efforts and strengthen their financial standing by providing a temporary Housing Bond purchase program, through housing Government-Sponsored Enterprises Fannie Mae and Freddie Mac, to fund home loans and finance rental production at affordable rates; and a temporary liquidity facility for outstanding HFA Variable Rate Debt Obligations (VRDO) to strengthen HFA lending capacity. On November 13, 2009, Florida Housing received notification that it was allocated $424,452,964 for single-family and $248,521,134 for multifamily from the New Issue Bond Purchase program and $156.2 million under the Temporary Credit and Liquidity Program (TCLP). While the TCLP is designed to provide 3 year temporary credit and liquidity facilities to HFAs to replace their existing liquidity facilities for eligible outstanding variable-rate demand obligations, it appears that the only bonds eligible for the program are bonds secured by multifamily mortgages and Bonds secured by (i) "Net Guarantee Fund Revenues", (ii) a pledge of money and investments held by the Bond Trustee and (iii) a pledge of the first documentary stamp revenues paid to the State Housing Trust Fund in the event of (and in the amount of) a "certified deficiency" in the Debt Service Reserve Fund (held by the Bond Trustee) may not be eligible.

b) Staff continues to seek options for replacing liquidity and/or capitalizing bonds for one, two or all three series of bonds whether through an irrevocable direct-pay letter of credit (LOC), replacing the existing Bonds in whole or in part with a term loan or other financial instrument(s), as well as reviewing other solutions including but not limited to, FHFC purchasing capitalizing bonds to hold as an investment, or the Guarantee Fund redeeming or cancelling the bonds, replacing and/or terminating the bond insurance providers, recapitalizing the guarantee fund, restructuring the capitalizing bonds to a fixed interest mode to eliminate the need for a liquidity facility, effecting any desirable amendment to the Bonds, selling portions or all of the portfolio, securing potential investors that will commit to holding the capitalizing bonds for a certain term, seeking sources of additional guarantees to provide security for liquidity and/or new financing, and negotiating possible solutions through TCLP, Federal Home Loan Banks or other sources.

G. Guarantee Program Capacity (Exhibit A)

IV. SINGLE FAMILY BONDS

A. Single Family Professional Development and Outreach

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

a) Florida Housing continues to honor our commitment to have funds continuously available for qualifying first time homebuyers through our First Time Homebuyer Program. In our uncertain housing market, Florida Housing’s program provides needed assistance to help eligible homebuyers achieve the “American Dream” of homeownership by offering low cost 30-year, fixed rate mortgages together with down payment and closing cost assistance.

b) To help ensure that we are providing this assistance to homebuyers who can not only complete the purchase process but also maintain homeownership after the home is purchased, we have recently implemented a minimum FICO score requirement for our program. Rather than increasing the FICO requirement to 620 or higher as many lenders have done with their own programs, we have established a modest 600 (mid-score) FICO requirement for our borrowers. Our delinquency data analysis showed that borrowers below this threshold show a high rate of serious delinquency. We want to make sure our program is targeted at those responsible homebuyers who can not only purchase a home but can actually maintain ownership after the purchase. Lenders may still continue to manually underwrite loans for borrowers with no FICO score based upon Agency underwriting guidelines. Because of the scrutiny of a loan being manually underwritten, this group of borrowers performs very well in terms of maintaining homeownership. We will continue to monitor loan performance and make necessary program adjustments as needed.

c) Single Family Programs staff continues to teach a three hour DBPR approved continuing education course offered through local Realtor Boards since 2003. We contract through the local Board of Realtors in the various counties to guarantee a minimum attendance of 20 Realtors per class. Florida Housing charges $25 per attendee to help defray our travel and other costs. Program staff has been reaching out to local Board of Realtor offices in smaller, rural counties in an effort to increase our network of lending partners in these often overlooked areas. For calendar year 2009 we have conducted 16 individual trainings with a total of 492 Realtors in attendance. Our 2010 realtor training calendar has been distributed to local realtor associations throughout the state.

d) The Single Family program staff, along with our Master Servicer, US Bank, and the program compliance team eHousing, conducted new lender training on September 10, 2009. These quarterly training sessions are conducted via a teleconference format called WebEx. The WebEx format allows lenders from offices around the state along with some out of state support centers to dial in via conference call and participate in an interactive computer based training session. We conduct two 3 hour classes which allows up to 300 registered participants in each session. The morning session is for loan officers and processors while the afternoon session is for underwriters, closers, shippers, and funders. By tailoring each class to the intended target group we find that we are able to provide useful more detailed information that is group specific.

e) Florida Housing sponsors a toll-free telephone line (800-814-HOME) for first time homebuyers to call for information about our program. For the month of October we received 605 total calls from first time homebuyers, Realtors, and lenders via the first time homebuyer line; of which 361 were transferred to the single family staff. The remaining callers were able to receive the information they were looking for online using the First Time Homebuyer Wizard tool. We will continue to monitor these calls and evaluate the best way to handle the call volume in the long term.

B. Single Family Bonds Information (Exhibit A).

V. UNIVERSAL CYCLE

A. 2009 Universal Cycle Update

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

a) Notice of Possible Scoring Error (NOPSE) scores were issued on October 23, 2009. Applicants had until 5:00 p.m., Eastern Time, on November 3, 2009, to file cures relative to items which, during preliminary and/or NOPSE scoring, failed to receive maximum points, maximum proximity points and/or failed threshold, as applicable. Cures were received from 129 Applicants. Applicants then had until 5:00 p.m., Eastern Standard Time, on November 12, 2009, to file a written Notice of Alleged Deficiency (NOAD) relative to another Applicant's cure. A total of 127 NOADs were received.

b) Final scores and a notice of appeal rights were issued to each Applicant on December 3, 2009. Petitions for Hearings are due no later than 5:00 p.m., Eastern Time, on December 28, 2009. Informal appeal hearings will be scheduled for mid-January 2010. Final orders and final rankings will be presented to the Board for approval at its February 19, 2010 meeting.