

Draft

**MINUTES OF MEETING
OF THE
BOARD OF COMMISSIONERS**

A regular meeting of the Rhode Island Housing and Mortgage Finance Corporation Board of Commissioners was held on Thursday, June 17, 2010 at 8:30 a.m. at the Offices of the Corporation, 44 Washington Street, Providence, RI.

Commissioners in attendance were: Chairman Mark Noble; Vice Chairwoman Denise Barge; Michael Solomon, designee for General Treasurer Frank T. Caprio; Michael Marques, Director of Department of Business Regulation; and Kevin Flynn, designee for Rosemary Booth Gallogly, Director of Department of Administration; Jose Monteiro and Perry Clough.

Also in attendance were: Richard H. Godfrey, Jr., Executive Director; Susan Bodington, Deputy Director; Tom Hogg, Deputy Director; John Gordon, Director of Asset Management; Cathleen Paniccia, Director of Homeownership and Administration; Leslie McKnight, Director of Servicing; Michael V. Milito, Corporation Counsel and Jo-Ann Ryan Communications Director.

Ed Pare, Counsel to the Corporation was also present, as were members of the public.

Pursuant to Chapter 46 of Title 42 of the General Laws of Rhode Island, notice of the meeting of the Board of Commissioners was posted in the Offices of the Corporation and at the first floor bulletin board in the State House.

Chairman Noble called the meeting to order at approximately 8:38 a.m.

Approval of Minutes of Board Meeting Held on May 20, 2010

Upon a motion made by Commissioner Marques and seconded by Commissioner Clough the following was unanimously adopted:

VOTED: That the Minutes of the Board Meeting held on May 20, 2010 hereby are approved.

Chairman's Report

There was no report from the Chairman.

Committee Reports

Chairman Noble noted that the Audit Committee met on June 15, 2010 and that the recommendations from the meeting would be presented as part of agenda item number 12, Approval of External Auditor Services.

Executive Director's Report

Mr. Godfrey referred the Commissioners to his written report, which had been previously distributed and commented on several topics of interest.

Mr. Godfrey announced that the Hardest Hit Fund Working Group has submitted proposed plans to utilize the \$43 million in federal Hardest-Hit funding to the U.S. Treasury. The proposal is expected to help approximately 5,000 Rhode Island homeowners, and once approval is received from Treasury officials, Rhode Island Housing will begin working with its partners to make the funds available to Rhode Islanders in need of assistance. While the proposal is under review, staff is communicating with the public, encouraging them to seek assistance from a HUD-approved counseling agency if they are unable to make mortgage payments. The HelpCenter staff are assessing individual situations and helping homeowners consider their available options. It is anticipated that funds will be available in early fall.

Rhode Island Housing's strategic planning consultants have submitted a draft report on the one-on-one, confidential interviews with both external partners and various staff members conducted at the end of April. The interviews were part of the high level 'diagnostic phase' in which information was gathered about the issues and stakeholders needed to conduct a more in-depth second phase. Additionally, they have submitted a draft proposal for the strategic planning process we hope to undertake in FY 2011. Staff is currently reviewing these materials and Mr. Godfrey plans to present the outcomes of the interview process and a proposal for next steps in the process at the next Board meeting.

Mr. Godfrey noted that homeless numbers are up significantly for the first half of 2010. Crossroads, the largest shelter for homeless families in Rhode Island, has reported a disturbing trend – more families coming to them for help, with a 31% increase in the number of homeless families this year compared to last. The shelter is filled beyond capacity and families are forced to sleep in the overflow room. A number of these families are experiencing homelessness for the first time. Other shelters throughout the state are also full; several have long waiting lists. Typically, when shelters are full, Crossroads will issue families hotel vouchers provided by West Bay Community Action; there are currently no more vouchers. The resources of our partners are already stretched thin, these additional requests for help exacerbate an already difficult situation.

Statewide, foreclosure initiations in April returned to a level consistent with the overall pattern of decline during the past several months. April's total of 648 initiations was a 32.6% decrease from March, and is the lowest monthly total for foreclosure initiations during the past twelve months. As reported in last month's foreclosure report, Rhode Island Housing witnessed a dramatic increase in foreclosure initiations for March 2010 that ran counter to recent trends. The state's NSP communities, continue to be hardest hit by foreclosures, comprising the majority of the state's foreclosure initiations with 519 initiations in these cities in April, representing 80.0% of all statewide initiations.

On a positive note, Mr. Godfrey announced that the House Finance Committee restored \$1.5 million in funding to the Neighborhood Opportunities Program (NOP), which had been eliminated from the Governor's proposed FY2011 state budget. NOP is a unique, state-funded

program designed to provide homes for low-wage working families and individuals with disabilities. The program provides funds to cover the difference between the rental cost affordable to very low-wage Rhode Islanders and the cost to owners of actually operating the rental unit. Since its inception in 2001, NOP has contributed to the production of over 2,400 homes. 1,127 of these homes are for low and moderate-income families in 26 Rhode Island communities. The program has contributed \$42 million in gap funding for the development and operation of 1,127 units. A recent HousingWorks RI poll showed that 75% of likely Rhode Island voters opposed the elimination of NOP in the Governor's proposed budget.

The General Assembly recessed early in the morning of Friday, June 11th. Bills passed by both Chambers included the supplemental FY2010 budget which included an assumption that \$5.2 million will be realized through the sale of the Old Training School property in Cranston to Rhode Island Housing, and the FY2011 budget which included \$1.5 million for the Neighborhood Opportunity Program (NOP), \$500,000 for the Thresholds program and level funding for the Housing Resources Commission. Also passed by both chambers was a bill extending the Housing Act of 2004 Implementation and Oversight Commission and state purchasing legislation requiring state purchasing agents, when choosing between identical bids, to select Rhode Island businesses or joint ventures that have a Rhode Island location over out-of-state companies.

Approval of Home Funding Bonds, Series 3 and Sub-Series 2A

Richard Godfrey presented this request. Mr. Hogg, CFO, provided additional comments.

Staff continuously monitors single family loan origination activity; prepayment speeds of existing mortgages; refunding, recycling and optional redemption opportunities related to bonds; seasonality; bond market tone; short term investment yields applicable to escrowed bond proceeds; and volume cap available to issue tax exempt mortgage revenue bonds. All of these activities have the objective of maximizing our lending flexibility and minimizing our interest costs in order to provide mortgages to low and moderate income borrowers in connection with the purchase of their first home.

Proceeds from the previous issue of single family bonds have been expended and market conditions are appropriate to initiate an issue of new bonds. New bonds will be sold using a new resolution created last December in conjunction with a Treasury Department program designed specifically to support housing finance agencies. In order to isolate the collateral for the new program, a new resolution was created and named Home Funding Bonds.

This new issue will be composed of a mix of long term bonds purchased by the Treasury Department through Fannie Mae and Freddie Mac ("GSE's") in an amount of up to \$45 million (Subseries 2A), and short to intermediate bonds of up to \$30 million (Series 3) sold in the public bond market.

Upon a motion made by Commissioner Marques and seconded by Commissioner Flynn, the resolution was unanimously adopted in the form presented to the meeting, which Resolution is attached as part of the June 17, 2010 board package.

Approval of Financing for Kane's Way

Mr. Godfrey made this presentation.

This Request for Action is for approval to purchase an existing first mortgage loan from Bank of America ("BofA"). This loan was used to finance the construction of Kane's Way, an apartment site in Bristol, now completed and currently structured as mixed income units, but experiencing significantly slower unit sales than projected. The note purchase will be priced at a discount to its current balance and will provide several benefits. It will simplify the financing structure, allow BofA to close its construction loan, avoid a foreclosure proceeding, allow a more patient sale process, provide a sharing of the loss among the lenders, and improve LISC's and Rhode Island Housing's ability to support the project's long term affordability.

In June 2005, Rhode Island Housing acquired 2.06 acres of vacant property located at Metacom Avenue in Bristol through its Land Bank on behalf of East Bay Community Development Corporation (EBCDC). The original purchase price of the property was \$500,000 and EBCDC proposed to develop 26 condominium units, 13 of which were to be affordable to low- and moderate-income purchasers.

Subsequent to purchase of the site EBCDC commenced the requisite planning and zoning processes, in addition to permitting through the Rhode Island Department of Environmental Management. Due to site constraints and town requirements, EBCDC was forced to revise the original development plan and was limited to construction of 19 units. To finance the construction, in 2007 EBCDC successfully secured a first lien, construction loan in the amount of \$3,392,000 from BofA, as well as grant funding under the Building Homes Rhode Island program and a bridge loan through LISC. Rhode Island Housing agreed to own the property in the Land Bank during construction in order to facilitate the project and agreed to share in a portion of future sales proceeds to settle the land bank debt.

Contemporaneous with the project construction, the market for condominiums began to collapse. In addition to the marketing challenges, financing of condominiums became difficult. It became evident that the sales projections originally proposed by EBCDC would be impossible to achieve, thereby reducing the overall revenue that could be used to settle the BofA construction loan, the LISC bridge loan and the Rhode Island Housing Land Bank debt.

In 2008, BofA commissioned a new appraisal of the Kane's Way development. Based upon the revised appraisal numbers and depletion of the interest reserves, Bank of America declared a default of its construction loan and exercised its senior rights to claim 100% of any sales proceeds generated by sale of the condominium units. EBCDC responded by seeking funding under the Rhode Island Housing HOME Program and in 2009 was awarded \$400,000 in grant funding to cover the projected shortfall created by the loss of revenue due to declining sales proceeds.

In 2009, Rhode Island Housing staff met with EBCDC, BofA and LISC to discuss options for the project. The development was substantially complete at that time but there was little interest in the condominiums. Rhode Island Housing agreed to provide down payment assistance to any eligible buyers of the condominiums and set aside approximately \$250,000 in HOME Program

funding for assistance to purchasers of eligible condominiums, including but not limited to Kane's Way. Rhode Island Housing and LISC requested that BofA investigate potential resources that could be provided through the bank or any affiliates.

To date, five condominiums have sold. All sales proceeds have been used to write down the BofA construction loan. Based upon the current sales prices of the unsold condominiums, EBCDC will have insufficient sales proceeds to retire the debt on the property. Rhode Island Housing and LISC, as subordinated lenders, would absorb the full amount of the shortfall.

Discussions among the lenders regarding work-out and refinancing options for the project have been ongoing since last fall. BofA's loan balance is \$1,564,995. The most recent proforma suggests an ultimate loss of approximately \$532,920. BofA agreed to a sharing on a 40%/60% basis to themselves and the junior lenders. This translates into a discount to the first mortgage note of \$213,168. Rhode Island Housing and LISC would share the remaining loss of \$319,752 equally.

This financing structure will also allow all of the units to be priced at levels affordable to families earning 80% of area median income.

Upon a motion made by Commissioner Clough and seconded by Commissioner Solomon the following resolution was unanimously adopted:

**Resolution of the Board of Commissioners
of Rhode Island Housing and Mortgage Finance Corporation**

Whereas: Bank of America has made a construction loan to the East Bay Community Development Corporation ("East Bay CDC") for the construction of Kane's Way, a condominium development located in Bristol (the "BofA Loan"); and

Whereas: Rhode Island Housing and Local Initiatives Support Corporation ("LISC") are subordinate lenders to East Bay CDC for the Kane's Way development; and

Whereas: due to the decline in the condominium market associated with the current housing crisis in Rhode Island, East Bay CDC is unable to sell the units at Kane's Way as originally forecast; and

Whereas: the BofA Loan is currently in default and Kane's Way is subject to foreclosure and loss of the affordability restrictions associated with Rhode Island Housing's subordinate loan; and

Whereas: in the event of foreclosure, Rhode Island Housing and LISC will be unable to recover the outstanding principal amount on their subordinate loans for Kane's Way; and

Whereas: Bank of America is willing to sell and assign the BofA Loan to Rhode Island Housing at a discount of approximately 14% of the outstanding balance; and

Whereas: LISC has expressed an interest in participating in the acquisition of the BofA Loan by Rhode Island Housing;

Whereas: Rhode Island Housing staff has determined that purchase of the BofA Loan at a discount, with LISC's participation, is in the best interests of Rhode Island Housing in that (i) Rhode Island Housing will realize a greater recovery on its subordinate loan to Kane's Way through this proposed acquisition than if the property is foreclosed on by Bank of America, and (ii) Kane's Way will continue to be an affordable housing resource to low and moderate income families; and

Whereas: Rhode Island Housing and Mortgage Finance Corporation ("Rhode Island Housing") is authorized to purchase and take assignments from mortgage lenders of notes and mortgages evidencing loans for the construction of housing for persons and families of low and moderate income.

Now, therefore, it is hereby

Resolved: that Rhode Island Housing be, and hereby is, authorized to purchase and take assignment from Bank of America the BofA Loan, on such terms and conditions as the Executive Director, or his designee, determines to be in the best interests of Rhode Island Housing.

Resolved: that Rhode Island Housing be, and hereby is, authorized to sell a participation interest to, or enter into an alternative financing arrangement with LISC with respect to the BofA Loan, on such terms and conditions as the Executive Director, or his designee, determines to be in the best interests of Rhode Island Housing.

Resolved: that the Executive Director, and any Deputy Director, each acting singly, be and hereby is authorized and directed to execute any and all documents and take any actions they determine to be necessary and in the best interests of Rhode Island Housing to carry out the foregoing Resolutions.

Approval of Financing for Cranston Commons Apartments

Mr. Godfrey presented this request.

This Request for Action (RFA) is for firm approval of financing for Cranston Commons East, an existing family housing development originally financed by Rhode Island Housing. The current owner of the property has requested new financing through Rhode Island Housing's Preservation Program to preserve the property's long term affordability.

Cranston Commons East is an existing 19-unit development consisting of two buildings located at 1303 Elmwood Avenue, Cranston, Rhode Island. The development contains 4 one-bedroom units, 9 two-bedroom units, and 6 three bedroom units. Originally built as a convent and garage, the buildings were redeveloped and financed as affordable housing in 1991. From 1991 until 2008, all of the units received rental assistance under the State Rental Assistance Program

(“State RAP”). In 2008, the owner applied for and received a Project Based Section 8 contract through the Housing Choice Voucher program administered by Rhode Island Housing, which replaced the State RAP contract.

The current owner of the property is 1303 Elmwood Associates Limited Partnership. An affiliate of the Cranston Comprehensive Community Action Program (“CCAP”) is the general partner, with Statewide Affordable Housing, Inc. (“SAH”) as a co-member of the general partner, and the Rhode Island Housing Equity Pool is the majority limited partner. Upon refinancing, the current limited partner will exit the limited partnership and CCAP and SAH will continue to own and operate the development. Given the small size of the development, it was determined that a re-syndication of the property was not viable. However as part of this transaction the borrower will extend the affordability of the property.

The owner will complete approximately \$500,000 in improvements. The improvements will focus primarily on preserving the building envelope as well as unit upgrades. The current scope of work includes roofing, site drainage improvement, repairs to the community room, life safety system upgrades as well as painting, kitchen and bathroom upgrades within the units. A capital needs assessment was previously performed and the project architect completed an extensive evaluation of the physical needs of the development upon which the scope of rehabilitation work has been based. A contractor has been selected for the roof replacement and community room repairs. With regard to unit and life safety system upgrades, the project architect is currently analyzing bids from several potential contractors and a contract will be awarded shortly. The owner will also establish a reserve to cover the costs of necessary upgrades and improvements forecasted in future years.

The primary sources of financing for the transaction will include a 40-year taxable first mortgage from Rhode Island Housing, a loan from the Affordable Housing Trust and existing project reserves.

Upon a motion made by Commissioner Flynn and seconded by Commissioner Marques the following resolution was unanimously adopted:

**Resolution of the Board of Commissioners
of Rhode Island Housing and Mortgage Finance Corporation**

Whereas, Rhode Island Housing and Mortgage Finance Corporation (“Rhode Island Housing”) is authorized to make loans to mortgagors or sponsors for such developments as in the judgment of Rhode Island Housing have promise supplying well-planned, well-designed apartment units which will provide housing for low- and moderate-income persons or families, or the elderly, or others in locations where there is a need for such housing;

Whereas, Rhode Island Housing intends to issue bonds for the purpose of financing qualified housing developments throughout the state;

Whereas, Said bonds shall have a term not to exceed forty (40) years and shall be in the approximate amount sufficient to finance the mortgage, pay the costs of issuance,

fund a capital reserve fund and to provide the capitalized interest if determined to be necessary;

Whereas, The applicant (“Applicant”) listed below has presented an application to Rhode Island Housing requesting mortgage financing to acquire and rehabilitate the building as set forth below:

<u>Development</u>	<u>Applicant</u>	<u>Amount</u>
Cranston Commons East	1303 Elmwood Associates Limited Partnership	\$975,000

Whereas, Rhode Island Housing staff has reviewed the submission and determined that this development may qualify for financing under Rhode Island Housing’s enabling legislation, regulations, guidelines and policies; and

NOW, THEREFORE, IT IS HEREBY:

Resolved, That, subject to the special conditions listed below, Rhode Island Housing hereby declares firm approval to 1303 Elmwood Associates Limited Partnership., for taxable mortgage financing in an amount not to exceed \$975,000 for rental housing known as Cranston Commons East located at 1303 Elmwood Avenue, Cranston, Rhode Island.

Resolved, That the foregoing resolutions are subject to the following conditions:

- Completion of all items required for closing in accordance with normal underwriting and processing requirements.
- Completion of a Phase I environmental assessment and any such other environmental studies deemed necessary by Rhode Island Housing.
- Final approval by Rhode Island Housing of Development Team members.
- Final Approval of plans, specifications and construction documentation
- FHA Risk-Sharing approval from HUD for a minimum of 50% of the first mortgage.
- Firm approval of a loan from the Affordable Housing Trust.

Resolved, That the Executive Director, either Deputy Director, and the Director of Development, each acting singly, is authorized to take any and all actions they deem necessary to carry out the foregoing Resolutions.

Approval to Purchase Land and Building in Pastore Complex (The Training School)

This item was withdrawn from the agenda.

Approval of Prepayment for McAuley Village

Mr. Godfrey made this presentation.

This Request for Action (“RFA”) is for approval of prepayment of the mortgage for McAuley Village an existing transitional housing development originally financed by Rhode Island Housing.

McAuley Village is a 23 unit multi-story brick building located on Niagara Street in Providence comprised primarily of 2 and 3 bedroom apartments and a day care facility. The development provides housing and services for homeless single parents. Rhode Island Housing, through its RoadHome Program, provides rental subsidies and service stipends to support operating and program service expenses at McAuley Village. The development was constructed in 1990 and financed with a Rhode Island Housing mortgage loan to McAuley Corporation, the umbrella organization of McAuley Village. McAuley Corp. also owns and manages McAuley House which is a meal site, the Warde-robe which provides clothing to the poor in Central Falls and Pawtucket and the daycare which is part of McAuley Village. McAuley Corporation is a sponsored ministry of the Sisters of Mercy of the Americas Northeast Community.

The current loan balance is approximately \$1,050,000. The loan had an initial term of 30 years and has approximately 10 years left. The interest rate is 9%. McAuley Corporation is current on the loan; however McCauley Village does not generate enough cash flow to pay the mortgage and therefore they must subsidize the mortgage payments each month. The Sisters of Mercy (“SOM”) have approved a new loan to McAuley Corporation at a lower interest rate that would fully prepay the Rhode Island Housing mortgage and substantially reduces the development’s annual interest expense.

The Development Division, in consultation with Loan Servicing, has reviewed the request under the Rhode Island Housing Regulations Governing Proposed Prepayments or Transfers and has determined that the proposed prepayment is acceptable. Staff has reviewed the operating expenses of McAuley Village and McAuley Corporation, the proposed commitment letter from SOM, and the Capital Needs Assessment for the property as well as an updated report outlining the improvements undertaken over the past 24 months. Rhode Island Housing did discuss an option to refinance the existing loan with McAuley; however they determined that the SOM loan better serves their goals of reducing interest expenses and increasing funds for future capital improvements. As part of the prepayment approval, McAuley will be required to extend the affordability of the property for 20 years beyond the remaining term of the existing mortgage to ensure 30 years of continued affordability.

Upon a motion made by Commissioner Marques and seconded by Commissioner Flynn the following resolution was unanimously adopted:

Resolution of the Board of Commissioners of Rhode Island Housing and Mortgage Finance Corporation

RESOLVED: That the prepayment of the existing first mortgage for McAuley Corporation be, and hereby is, approved, subject to the following terms and conditions:

1. Final approval of the sources and uses of the proposed transaction including a firm commitment letter from the new Lender with terms and conditions.
2. Execution of a new Regulatory Agreement satisfactory to Rhode Island Housing for the development.
3. Final approval of the application materials submitted under the Regulations Governing Proposed Prepayments and Transfers, with the exception of such requirements that may be waived or modified by the Executive Director, consistent with the nature of this transaction and the protection of the interests of Rhode Island Housing.
4. Satisfaction of any additional requirements which the Executive Director believes to be necessary or advisable to protect the interests of Rhode Island Housing with respect to McAuley Village.

RESOLVED: That the Executive Director, any Deputy Director, or the Director of Development, each acting singly, be and hereby is authorized to execute and deliver on behalf of Rhode Island Housing all documents necessary or advisable to consummate such prepayment and to take such further actions as he or she shall deem necessary or advisable in connection therewith.

Approval of Prepayment for Broadway Plaza

Mr. Godfrey outlined this request.

This Request for Action (“RFA”) is for approval of prepayment of the mortgage for Broadway Plaza (the “Development”) an existing development originally financed by HUD under Section 236 Program.

Broadway Plaza is a 96 unit Section 8 elderly apartment complex located in Providence. The development was constructed in 1974 with a loan from Citizen’s Bank. The loan was subsequently assigned to Rhode Island Housing. The right to prepay provided in the Note allows the mortgagor to prepay the loan without consent by the holder or by HUD after 20 years. Thirty-six years have elapsed since the original financing.

Broadway Associates (the “Owner”) seeks to refinance the project with HUD under the Section 223(f) program. The Owner will execute a Section 236 Use Agreement which will maintain the existing Regulatory Restrictions through 2016, the term of the original loan. The Owner also seeks to extend the Section 8 contract for 20 years. Because the Owner is maintaining the affordability, the project meets the requirements of R.I.G.L. Section 34-45A-9(B) which requires a two-year notice of termination if the affordability is not extended. The Owner understands that a two-year notice of termination will need to be provided in 2014 given that the new use agreement will terminate in 2016.

As part of the refinancing, the Owner has submitted an outline of anticipated capital improvements totaling approximately \$1.1 Million. The scope of work includes upgrade of the fire alarm system, new windows, upgrades to some of the kitchens and baths, roof and boiler replacements and common area improvements.

The Development Division in consultation with General Counsel has reviewed the request under the Rhode Island Housing Regulations Governing Proposed Prepayments or Transfers and has determined that the proposed transaction complies with these requirements.

Upon a motion made by Commissioner Barge and seconded by Commissioner Flynn the following resolution was unanimously adopted:

**Resolution of the Board of Commissioners
of Rhode Island Housing and Mortgage Finance Corporation**

RESOLVED: That the prepayment of the existing first mortgage for Broadway Plaza be, and hereby is, approved, subject to the following terms and conditions:

1. Execution of a Section 236 Use Restriction satisfactory to Rhode Island Housing for the development.
2. Final review of the Capital Needs Assessment, Appraisal and refinancing commitment.

RESOLVED: That the Executive Director, any Deputy Director, or the Director of Development, each acting singly, be and hereby is authorized to execute and deliver on behalf of Rhode Island Housing all documents necessary or advisable to consummate such prepayment and to take such further actions as he or she shall deem necessary of advisable in connection therewith.

Approval of Revolving Construction Loan for Smith Hill Community Development Corporation

Mr. Godfrey made this presentation.

This Request for Action is for approval of a two year, \$400,000 revolving construction loan for Smith Hill Community Development Corporation (“SHCDC”). The \$400,000 loan will provide financing for the development of homeownership opportunities in the Smith Hill neighborhood of Providence.

In October, 2001 the Board of Commissioners authorized the creation of the Home Development and Homeownership Loan Program (the “Program”). Over the past eight years, this Program has provided financing to several non-profit organization for the construction of over 80 homes in Providence that have been sold to first time homebuyers.

SHCDC is a community development corporation formed in 1994 in the Smith Hill neighborhood working to provide affordable housing, promote economic development, and

foster a sense a community. Among the projects it has completed are Project Renaissance, a 30 unit rental development on Goddard Street; Smith Hill Visions I, a 26 unit development on scattered sites throughout Smith Hill; and most recently the Capitol Square mixed-use project on Douglas Avenue. SHCDC is presently proceeding to closing on the Smith Hill Visions II development, a 52 unit 9% Housing Tax Credit project designed to bring 20 abandoned and foreclosed properties back into productive use as affordable family rentals.

In addition to the production of rental housing, creating affordable homeownership opportunities in this neighborhood is an important component of SHCDC's overall strategy for stabilizing the neighborhood. The Smith Hill area has been significantly impacted by foreclosures, threatening the positive work accomplished by SHCDC over the last 16 years. SHCDC has been aggressive in pursuing acquisition of foreclosed properties in the neighborhood through the Neighborhood Stabilization Program and the Rhode Island Housing Land Bank. SHCDC intends to invest in homeownership opportunities through the renovation of existing buildings.

SHCDC has initial plans to develop from three (3) to six (6) 2-family homeownership properties during the next two years. Market research has demonstrated that there is demand for larger family ownership units in the neighborhood. The 2-families will be comprised of a larger, townhouse-style unit with the other unit serving as an affordable rental providing income to the owner. All homes will be sold to first time homebuyers and we expect that several buyers will obtain permanent financing through Rhode Island Housing's FirstHomes Programs.

Smith Hill Community Development Corporation currently controls several of the properties slated for redevelopment but they are also working with agents and partners in the community to identify other desirable properties available through sale or foreclosure. SHCDC may seek funding from the Rhode Island Housing Land Bank to purchase properties for construction under this initiative.

This revolving loan will be used for construction costs only. SHCDC intends to use City of Providence HOME funds, City of Providence Neighborhood Stabilization Program ("NSP") funds and City of Providence Lead Funds to make up the balance of the financing needed for each of the individual projects. The construction loan will be repaid from the proceeds realized from the sale of each property.

Given Smith Hill Community Development Corporation's past success, the Development Division is recommending a new \$400,000 revolving loan to fund SHCDC's homeownership development activities. Under the agreement, SHCDC will be able to develop up to two properties at any time. At least one of the two properties must be pre-sold to a qualified buyer prior to Rhode Island Housing making a construction loan, minimizing the risk of increased carrying costs due to the inability to sell the homes. The loan amount will be the lower of the appraised value (based on a Rhode Island Housing commissioned appraisal) or the sales price of the homes. SHCDC's authority to borrow under this agreement will expire in 24 months.

As with the previous loan programs, the Homeownership Division will pre-qualify applicants with purchase and sales commitments to purchase homes. The homes will be sold to first time low and moderate-income homebuyers at or below 80% of median income. A provision will be

made to allow for the sale of homes to buyers with incomes at or below 115% of median if no HOME funds have to be used and an appraisal supports the higher loan and sales price.

The interest rate for each mortgage under the Master Loan will be set at the one-month LIBOR plus 3.5%, with a rate floor of 4.50% and cap of 7.50%. The rate for each individual mortgage will be set at closing.

Upon a motion made by Commissioner Clough and seconded by Commissioner Monteiro the following resolution was unanimously adopted:

**Resolution of the Board of Commissioners
of Rhode Island Housing and Mortgage Finance Corporation**

Whereas, Rhode Island Housing and Mortgage Finance Corporation (“Rhode Island Housing”) is authorized to make loans to sponsors for such developments which in the judgment of Rhode Island Housing have promise of supplying well planned, well designed single family and two family homes and condominiums which will provide housing for low and moderate income persons or families or others in locations where there is a need for such housing;

Whereas, Rhode Island Housing is authorized to provide permanent financing with assistance, as applicable, to homebuyers;

Whereas, Smith Hill Community Development Corporation (“SHCDC”) has presented an application to Rhode Island Housing requesting a revolving line of credit to construct residential housing as set forth in this Request for Action; and

Whereas, Rhode Island Housing staff has reviewed the submission, will inspect the sites and will determine that these developments may qualify for financing under Rhode Island Housing’s enabling legislation, regulations, guidelines and policies.

NOW, THEREFORE, IT IS HEREBY:

Resolved, That Rhode Island Housing be and hereby is authorized to make a revolving construction loan up to \$400,000 to Smith Hill Community Development Corporation. The loan will be structured generally in accordance with the description contained herein, with such changes as the Executive Director, either Deputy Director or the Director of Development may, in their sole discretion determine to be necessary or advisable.

Resolved, That the Executive Director, any Deputy Director or the Directors of Housing Development and Homeownership, each acting singly, be and hereby is authorized, empowered and directed to take any and all action to execute, file and deliver any contract, agreement or other instrument as each in his/her sole discretion shall deem necessary or advisable in connection with this loan.

Resolved, That the foregoing resolutions are subject to the following conditions:

1. Execution of a Master Loan Agreement by SHCDC satisfactory to Rhode Island Housing.
2. Submission of all construction contracts, plans and specifications, marketing plans, construction budgets, schedule of payments, lien releases, commitment for gap financing, home buyers' applications and other documentation necessary for loan funding and construction loan and end loan approval.
3. Rhode Island Housing Homeownership Division approval of end loans for homebuyers.

Approval of Engagement of External Auditor Services

Mr. Godfrey presented this request and Commissioner Flynn relayed the outcome of the Audit Committee meeting held on June 15, 2010.

At its May 2010 meeting, the Board approved the Audit Committee's recommendation to engage CCR, LLP ("CCR") for external accounting and audit services. CCR submitted the second lowest cost proposal, is highly qualified with a local presence and other Rhode Island governmental clients. The lowest cost proposal was received from Blum Shapiro, a firm with offices only in Connecticut and no Rhode Island governmental clients. Based upon the recommendation of staff, the Audit Committee interviewed the three Rhode Island firms who submitted mid-range cost proposals. The Request for Proposal ("RFP") states that Rhode Island Housing will select an audit firm considering a range of factors including cost and explicitly reserves the right to select other than the low cost respondent.

Following the Board meeting, notification was made to the Auditor General and the Director of the Department of Administration requesting their approval pursuant to Rhode Island statute. Subsequently, both the Auditor General and the Director of Administration declined to approve the selection based on the large size of Blum Shapiro, their experience with the Connecticut Housing Finance Agency, and the lower cost bid.

Based on the declination of approval from the state officers, the Audit Committee reconvened on June 15 to interview Blum Shapiro as it had other respondents to the RFP. The interview covered a range of subjects including the firm's understanding of Rhode Island Housing's bond and program related activities, the firm's knowledge and experience relevant to State governmental clients, and their ability to give full diligence to the audit considering the significant discounting of their fee, the additional travel time and charges they will incur and the larger scope of work with regard to Rhode Island Housing compared to their experience with their less diversified housing agency client in Connecticut.

Following the interview, the Committee expressed the following strengths and challenges regarding Blum Shapiro:

Strengths:

- Blum Shapiro is one of the largest accounting firms in New England

- Blum Shapiro fulfills all of the regulatory requirements to perform accounting and auditing services in Rhode Island
- Blum Shapiro has an extensive government accounting practice in Connecticut providing services to many state and local agencies including the Connecticut HFA
- The CFO of the Connecticut HFA is satisfied with the firm's performance as their auditor and is changing firms only because it is good practice to change audit firms from time to time
- With the loss of CHFA as a client, Blum Shapiro has staff resources available to serve the needs of Rhode Island Housing.
- Blum Shapiro will absorb all of the costs of travel associated with serving Rhode Island Housing
- The estimated cost of services proposed by Blum Shapiro was about 10% lower than the next lowest cost respondent

Challenges

- Blum Shapiro has no government clients outside of Connecticut
- Blum Shapiro significantly under-estimated the work required to perform the federally required A-133 audit at Rhode Island Housing and noted that they assumed that Rhode Island Housing's federal program work was similar in scope to CHFA
- Blum Shapiro did not demonstrate an understanding of the differences in the financial structures between CHFA and Rhode Island Housing and noted that their obligations under various securities laws did not change with the nature of the issuer
- The proposed hourly rate of Blum Shapiro was substantially higher than other respondents but their total price estimate was substantially lower
- While Blum Shapiro must absorb the financial responsibility for underestimating the costs associated with the work, there is concern that the level of service may be affected.

The Audit Committee carefully considered the concerns and preferences raised by the Auditor General and the Director of the Department of Administration regarding awarding the contract to the lowest cost and qualified respondent. The Audit Committee also noted the deep economic crisis in Rhode Island and the benefits that would inure to the state by selecting a firm that has significant presence in the state.

After weighing all of the factors discussed above, the Committee expressed strong affirmation for its initial recommendation and voted to recommend to the full Board the engagement of CCR. to perform external audit services for the fiscal years ending June 30, 2010 and June 30, 2011. The Committee also voted to authorize the engagement of Blum Shapiro as an alternate service provider if the Auditor General and the Director of the Department of Administration again decline to approve CCR.

A discussion followed the presentation. Commissioner Flynn thanked the Audit committee members for their time and participation during the second round of interviews and discussions.

Chairman Noble also expressed his appreciation to staff and committee members for the quick response to the State's request for due diligence in reviewing Blum Shapiro's proposal.

Following the discussion, the Commissioners requested that the proposed resolution be modified to reflect two separate actions for approval. Mr. Godfrey and Mr. Milito restated the resolutions to clarify the issue. The first resolution to be voted on was approval of the engagement of CCR as External Auditor for Rhode Island Housing.

Upon a motion made by Commissioner Flynn and seconded by Commissioner Marques the following resolution was unanimously adopted:

**Resolution of the Board of Commissioners
of Rhode Island Housing and Mortgage Finance Corporation**

- Whereas,** on February 9, 2010, Staff of Rhode Island Housing issued a Request for Proposals (RFP) for Audit services in accordance with its purchasing regulations and received responses from five firms; and
- Whereas,** staff reviewed the proposals and estimated the approximate annual cost of services for each of the firms; and
- Whereas,** staff determined that the lowest cost proposal was from a firm located in West Hartford, Connecticut with no prior experience auditing a Rhode Island public agency such as Rhode Island Housing; and
- Whereas,** based on the finding of the general assembly that the public interest is best served when Rhode Island agencies engage the services of qualified firms located within the state, staff recommended that the Audit Committee interview and consider the three Rhode Island-based firms; and
- Whereas,** the Audit Committee interviewed the three Rhode Island firms and recommended, considering the variety of evaluation factors specified in the RFP, including cost, that the firm of CCR be engaged to perform audit services beginning with the fiscal year ending June 30, 2010; and
- Whereas,** based upon that recommendation, the Board of Rhode Island Housing, on May 20, 2010 approved the engagement of CCR to provide audit services; and
- Whereas,** in accordance with Rhode Island law, the proposed engagement of CCR was submitted to the Auditor General and the Director of the Department of Administration for approval; and
- Whereas,** those officers indicated that Rhode Island Housing should have considered the lowest cost proposal, notwithstanding the location and prior experience of that firm; and

Whereas, the Audit Committee reconvened and interviewed Blum Shapiro, the lowest cost responder, on June 15, 2010; and

Whereas, the Audit Committee considered the qualifications and cost elements of the proposal of Blum Shapiro based on the evaluation factors specified in the RFP; and

Whereas, the Audit Committee has determined that it believes the best interest of Rhode Island Housing and the State of Rhode Island are served by the engagement of CCR as Auditor for the fiscal year ending 2010; and

Now therefore be it hereby:

Resolved: That CCR be engaged as external auditor for fiscal year 2010 and that at the discretion of the Executive Director or any Deputy Director, the contract may be extended through the fiscal year 2011 and such preference be conveyed to the Auditor General and Director of the Department of Administration.

The Commissioners next discussed In the event that the Auditor General and the Director of the Department of Administration does not approve CCR's engagement, then the Commissioners voted to approve Blum Shapiro to provide audit services for Rhode Island Housing.

Upon a motion made by Commissioner Flynn and seconded by Commissioner Clough the following resolution was approved on a 5 – 1 vote, with Commissioner Monteiro voting in the negative. Commissioner Solomon abstained from the vote.

**Resolution of the Board of Commissioners
of Rhode Island Housing and Mortgage Finance Corporation**

Whereas, the Audit Committee of Rhode Island Housing has recommended the engagement of CCR, LLC as External Auditor for the fiscal year ending June 30, 2010, which recommendation was adopted by the Board of Commissioners; and

Whereas, such engagement is subject to the approval by the Auditor General and Director of the Department of Administration; and

Whereas, in the event that approval is not provided, the Audit Committee recommends the engagement of Blum Shapiro as External Auditor.

Now therefore be it hereby:

Resolved: If the Auditor General does not approve the engagement of CCR, LLC as external auditor, then Rhode Island Housing approves the engagement of Blum Shapiro as External Auditor for the fiscal year ending June 30, 2010, with extension possible through 2011.

Final Approval of 2011 Qualified Allocation Plan (QAP)

Mr. Godfrey gave this presentation.

Pursuant to the Revenue Reconciliation Act of 1989, each tax credit allocating agency must adopt a Qualified Allocation Plan (the “Plan”) that establishes the priorities and criteria for both allocating and monitoring low-income housing tax credits. The Plan must receive a Public hearing and a subsequent public comment period prior to being finalized and presented to the Governor for approval.

In accordance with these requirements, Rhode Island Housing has administered its tax credit program under a Plan that was first adopted in January, 1990. The Plan was last amended in June 2009.

Staff has proposed the following changes to the Plan.

Section I.B.	RI Annual Tax Credit Allocation Pool
Section I.C.	Tax Credit Requirements
Section II. B.	Project Selection Process
Section III.A.2.	Readiness to Proceed
Section III.A.3.	Creditworthiness and Good Standing
Section III.A.4.	Financial Feasibility
Section III.B.3.	Satisfaction of State Housing Needs
Section III.B.4.	Site Design Factors
Section III.B.5.	Building Design Factors
Section III.B.9.	KeepSpace Communities
Section III.E.	Supportive Housing
Section V.	Tax Credit Exchange Program
Section VIII.G.	Annual Compliance Training

A black-lined draft of the Plan is attached as Attachment B and a clean version is attached as Attachment C.

The Plan will become effective after (i) the expiration of the public comment period; (ii) final approval by the Board of Commissioners of the Plan (including any changes, pursuant to public comments); and (iii) approval by the Governor.

Upon a motion made by Commissioner Solomon and seconded by Commissioner Marques the following resolution was unanimously adopted:

Resolution of the Board of Commissioners of Rhode Island Housing and Mortgage Finance Corporation

WHEREAS, Rhode Island Housing and Mortgage Finance Corporation (“Rhode Island Housing”) has been designated by the Governor as the Principal Housing

Agency and Tax Credit Allocation Agency for the State of Rhode Island (the “State”);

WHEREAS, The Revenue Reconciliation Act of 1989 requires tax credit allocating agencies to allocate low-income housing tax credits according to a Qualified Allocation Plan (the “Plan”);

WHEREAS, The Plan must establish priorities and criteria for allocating the tax credits that best meet the housing needs and must be adopted pursuant to a public hearing and comment period; and

WHEREAS, Housing needs for the State of Rhode Island have been established pursuant to the Rhode Island Five Year Strategic Housing Plan: 2006 – 2010

NOW, THEREFORE, BE IT:

RESOLVED: That Rhode Island Housing be, and hereby is, authorized to publish notice of its intent to approve and adopt the proposed Qualified Allocation Plan, substantially in the form attached hereto as Attachment C.

There being no further business to discuss, a motion was duly made by Commissioner Solomon and seconded by Commissioner Flynn to adjourn the open meeting at approximately at 9:28 a.m.

Respectfully submitted,

Richard H. Godfrey, Jr.
Secretary and Executive Director