

**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, April 18, 2013 at 8:30 a.m. at the Offices of the Corporation, 44 Washington Street, Providence, RI.

Commissioners in attendance were: Chairman James DeRentis; Vice Chairwoman Denise Barge; Louis DeQuattro, designee for Paul McGreevy, Director of Department of Business Regulation; Chris Feisthamel, designee for General Treasurer Gina Raimondo; Steven Costantino, designee for Richard Licht, Director of Administration; and Paul Dimeo. Jose Monteiro was absent.

Also in attendance were: Richard H. Godfrey, Jr., Executive Director; Robert Wickey, Deputy Director/CFO; Kara Lachapelle, Director of Finance and Technology; Carol Ventura, Director of Development; Cathleen Paniccia, Director of Homeownership; Leslie McKnight, Director of Servicing; Carlos Hernandez, Director of Resident Services, and Peter Walsh, Director of Administration Customer Service and Community Relations.

Steven Richard, 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 DeRentis called the meeting to order at approximately 8:30 a.m.

**Approval of Minutes of Board Meeting Held on March 21, 2013**

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

VOTED: That the Minutes of the Board Meeting held on March 21, 2013 hereby are approved.

**Chairman's Report**

Chairman DeRentis welcomed everyone to the meeting.

**Committee Reports**

Chairman DeRentis announced that the Intergovernmental Relations committee met on March 21, 2013 to review proposed legislation. Commissioner Barge, Chair of the committee, provided a brief overview of the meeting and highlighted a few of the bills that were of interest to Rhode Island Housing. A detailed report was provided to the Commissioners for review.

## Executive Director's Review of Recent Activities and Trends

Mr. Godfrey noted that with the Governor nomination of a new member to the Board, this was the last meeting for Board Vice Chair Denise Barge.

Mr. Godfrey extended Rhode Island Housing's Board and staff's gratitude to Commissioner Barge for her twelve years of dedicated support to Rhode Island Housing's goals and mission. In appreciation of her service as Vice Chair of the Board of Rhode Island Housing, Mr. Godfrey presented Commissioner Barge with a crystal plaque and a bouquet of flowers recognizing her efforts in assisting Rhode Island Housing in achieving its mission of providing safe, healthy homes for all Rhode Islanders.

Chairman DeRentis also expressed his appreciation and wished Ms. Barge success in her endeavors.

Commissioner Barge thanked Mr. Godfrey, Chairman DeRentis and the board for the plaque, flowers and also for the opportunity of serving on Rhode Island Housing's board of commissioners for the past twelve years.

Mr. Godfrey announced that staff has completed a year-to-date budget estimate. In preparing the budget, four key factors were identified for consideration: Operating Income, Operating Expenses, Program Expenses and Loan Losses. Rhode Island Housing is doing well in the first three areas, but loan losses are running dramatically ahead of projections. While it still expects to finish FY 2013 in positive financial territory, the improvements in the broad Rhode Island housing market, which was hoped would be significant for FY 2014, have not materialized. Budgeted loan losses for 2013 were \$5 million but may be in the \$9 million vicinity for this year and next. Mr. Godfrey explained that with federal funding cuts, it will be challenging to make up this loss through increased income. Therefore, it is likely that Rhode Island Housing will have to make even greater cuts in operating and program costs for 2014 and will likely start to implement them over the next few months.

However, the 5 major operational initiatives which Rhode Island Housing has undertaken over the past 14 months have already had a positive impact, but have come with some current year costs. The costs associated with the implementation of the MBS sale program over the next few months should be significantly offset by increased income generated by such sales.

Mr. Godfrey reported that as a result of the past few years' turbulence in the economy and in real estate, the Agency is experiencing dramatic increases in the scope and demand for housing assistance, while also seeing radical changes in long-established housing programs and housing finance mechanisms. In addressing the situation, Rhode Island Housing has undertaken a comprehensive look at how it accomplishes its statutory mission through a strategic plan referred to as "Rhode Island Housing 15-18-20."

The plan's name refers to the future – 2015, when major federal tax and housing policies are likely to be more predictable but we will still be experiencing significant negative affects of the

recession; 2018, when housing and real estate will hopefully achieve a full and stable recovery; and 2020, to ensure we plan for sustainability post-recovery.

This process will allow staff to step back from day-to-day delivery of services and identify how best to make living in Rhode Island easier for low- and moderate-income residents.

Commissioner Costantino arrived at this point of the meeting at approximately 8:46 a.m.

Mr. Godfrey informed the Board that on April 10, the Administration sent Congress its FY14 Budget, proposing funding for all federal programs. The Budget also contains the Administration's tax proposals which include proposals to provide Housing Finance Agencies with additional resources through the Housing Credit and Bond programs. The Budget proposes to increase funding for Housing Choice Vouchers by 6 percent, project-based rental assistance by 10 percent and homeless assistance by 17 percent. It would cut funding for the HOME Investment Partnerships (HOME) program by 5 percent and the Community Development Block Grant (CDBG) program by 14 percent. The Budget again proposes \$1 billion in new mandatory spending to launch the Housing Trust Fund.

Finally, Mr. Godfrey invited the Commissioners to join Governor Chafee and Chairman DeRentis to attend the Partners in Housing Awards ceremony at the State House on Thursday, May 9, at 3 p.m. The awards were created to honor members of the housing community who demonstrate outstanding commitment and achievement in ensuring affordable and healthy homes for all Rhode Islanders.

### **Approval of Preliminary Commitment of Financing for Mount Hope Court Apartments**

Mr. Godfrey presented this request.

This Request for Action ("RFA") is for preliminary approval of preservation financing for Mt Hope Court Apartments (the "Development"), an existing family housing development originally financed with housing tax credits and a HUD mortgage program. The principals of Cornell Management, Stephan and Kevin Baptista, are the developers (the "Developer").

Mt. Hope Court is a Project Based Section 8 development with 36 apartments located on Pleasant Street in the Mt. Hope section of Providence. This development currently has 135 residents. The apartments are a mix of flats and townhouse style homes. The property was originally built in 1974. In 1995, the property was moderately rehabilitated with low income housing tax credits. Rhode Island Housing was not the lender on that transaction. The property is at the end of its initial compliance period and the current General Partner has negotiated a purchase price with the limited partner equity investors (formerly First Partners, now Wentworth Capital).

Section 8 rental assistance has been provided through a Housing Assistance Payment ("HAP") contract. The existing HAP contract for this site expires August 2013. As part of this transaction the Developer will seek a 20 year renewal of the HAP.

Mt. Hope Court Associates, LP, a newly formed Rhode Island limited partnership, will purchase the property from the existing owner, We the People Associates. The new managing general partner will be SHK Mt. Hope, LLC a wholly owned affiliate of the Developer. Cornell Management Corp., also an affiliate of the Developer, which has served as the property manager of this development for many years, will continue in this role. The proposed transaction under Rhode Island Housing's Preservation Program, will enable Mt. Hope Court Associates, LP to acquire the property, extend the property's affordability restrictions, and complete approximately \$1.2 million in improvements.

The Developer will undertake approximately \$35,000 per unit of rehabilitation improvements. These improvements will include new cementitious siding, windows, roofs and some façade improvements to break up the uniform entry ways. Interior work will include hi-efficiency furnaces, new kitchens cabinets and countertops, bath upgrades, carpeting and painting. Interior courtyard fencing will be removed and perimeter fencing will be replaced. The on-site office will be upgraded and landscaping is proposed. The developer has a full set of plans and specifications and has bid out the construction contract. The new owner will establish a reserve to cover the costs of necessary upgrades and improvements forecasted in future years.

The primary source of financing for the construction phase of this transaction will be a tax-exempt bond funded mortgage that will be retired at construction completion and replaced with the proceeds of the permanent mortgage loan and tax credit syndication. The permanent debt will be supported by the lower of HAP or market rents to comply with HUD risk share requirements. Additional sources of funds include a note for a portion of the acquisition price taken back by the former general partner note (the "GP Note"), a deferred developer fee, and income from operations.

The Developer has received a Letter of Intent from a syndicator expressing its interest in purchasing the HTCs. The syndicator, Michel Associates, is requiring a \$275,000 deficit reserve to hedge against the unlikely event that the Section 8 subsidies are reduced or eliminated prior to the end of the 15 compliance period. Since the project, as structured, does not have enough excess capital to establish such a reserve, as part of its overall proposal for this transaction Rhode Island Housing would agree to provide a guarantee for the reserve (the "Rhode Island Housing Guarantee"). The Rhode Island Housing Guarantee will be secured by a lien of like amount on the GP Note. The HAP Contract is annually funded, and as maximum possible obligation under the Rhode Island Housing Guarantee declines each year Rhode Island Housing will simultaneously release equal portions of its GP Note collateral.

This RFA requests preliminary approval for a \$3,500,000 tax exempt mortgage and a permanent loan of up to \$2,500,000. The permanent loan will be funded with either: 1) the proceeds of a new multi-family bond offering or 2) a participation certificate with another lender.

Upon a motion made by Commissioner Barge and seconded by Commissioner DeQuattro 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 of 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 tax-exempt bonds for the purpose of financing qualified housing developments throughout the state;

**Whereas,** Said bonds shall have a term not to exceed two (2) years and shall be in the approximate amount sufficient to finance the mortgage, pay the costs of issuance fund a capital reserve fund and 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:

<b>Development</b>	<b>Applicant</b>	<b>Construction Loan</b>	<b>Permanent Loan</b>
Mt. Hope Court	Cornell Management Corporation	\$3,500,000	\$2,500,000

**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, Rhode Island Housing hereby declares preliminary approval for tax exempt mortgage financing in an amount of \$3,500,000 to Cornell Management Corporation or an affiliated partnership (the “Borrower”). for the construction of Mt. Hope Court Apartments (herinafter the “Development”) to be located on Pleasant Street in Providence, Rhode Island.

**Resolved,** That Rhode Island Housing hereby declares that this preliminary approval of financing for the Borrower constitutes the affirmative official act of Rhode Island Housing and evidences Rhode Island Housing’s intention to issue tax-exempt bonds sufficient to provide \$3,500,000 of mortgage funds for construction of the Development, plus any required bond reserve funds and the related costs of issuing the bonds for the Development pursuant to the Internal Revenue Code of 1986, as amended, and any regulations promulgated thereunder. This resolution shall take effect immediately upon adoption.

**Resolved,** That Rhode Island Housing hereby declares preliminary approval for a permanent first mortgage loan of up to \$2,500,000 for the Development

**Resolved,** That the issuance of any bonds or the creation of any other obligations of Rhode Island Housing pursuant to the foregoing resolutions are subject to the prior completion, receipt or delivery (as the case may be) of all of the following conditions in all material respects to the satisfaction of Rhode Island Housing in its sole and absolute discretion:

- Completion of all items required for firm commitment and closing in accordance with normal underwriting and processing requirements.
- Acceptable appraisal by an independent appraiser demonstrating that the first mortgage does not exceed 90% of the as-stabilized value of the property.
- Completion of a Phase I environmental assessment and any such other environmental studies deemed necessary by Rhode Island Housing.
- Approval by Rhode Island Housing of Development Team members.
- Final approval of the new operating budget.
- Approval of a new 20 year HAP Contract
- Approval by Rhode Island Housing of construction plans, specifications, and supporting construction documentation.
- Approval by bond underwriter and bond counsel that the loans will satisfy all required bond provisions for the bond issue.
- FHA Risk-Sharing approval from HUD for a minimum of 50% of the first mortgage.
- Agreement with Credit Suisse or another investment bank for a Participation Certificate Agreement for Taxable Financing.

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

### **Approval of Draft 2014 State of Rhode Island Qualified Allocation Plan (QAP)**

Mr. Godfrey made this presentation.

Pursuant to the Revenue Reconciliation Act of 1989, each Housing Credit allocating agency must adopt a Qualified Allocation Plan (the "Plan") that establishes the priorities and criteria for both allocating and monitoring Housing 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 the Housing Credit program in Rhode Island under a Plan that was first adopted in January 1990. The Plan was last amended in August 2012.

Staff has proposed changes to the following sections of the Plan. These changes seek to amplify and explain our goals and procedures.

Section I.A.	Overview
Section I.C.	Tax Credit Requirements
Section I.C.3.	Housing Needs
Section I.D.1.	Lock-In of Applicable Credit Percentages
Section III.B.3.a.,c.& d.	Satisfaction of State Housing Needs
Section III.B.6.d	Development and Construction Costs
Section III.B.7	Leveraging/Cost Effectiveness
Section IV.	Tax Exempt Financing with 4% Credit
Section VII.E.	Notification of Non-Compliance
Section VIII	Events of Recapture
Section X.	Miscellaneous

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.

The public comment period will begin on or about April 21, 2013. The public hearing will be held on or about June 7, 2013. Final approval by the Board of Commissioners will be on or about June 20, 2013.

Staff recommends that the Board of Commissioners approve the attached Resolution authorizing publication of Rhode Island Housing’s notice of its intent to approve and adopt the Plan as set forth in Attachment C.

Upon a motion made by Commissioner Dimeo and seconded by Commissioner Barge the following resolution was unanimously adopted in the form presented to the meeting, with the draft Qualified Allocation Plan which is attached as part of the April 18, 2013 board package.

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

WHEREAS, 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 Housing Credit allocating agencies to allocate Housing Credits according to a Qualified Allocation Plan (the “Plan”);

WHEREAS, The Plan must establish priorities and criteria for allocating the Housing 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: 2011-2015.

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.

### **Approval of Engagement of Single-Family Consultants**

Mr. Godfrey gave this presentation with additional comments provided by Robert Wickey, Deputy Director/CFO.

Later this year Rhode Island Housing plans to begin funding its single-family lending activities through one or more of the following actions: 1) sale of originated whole loans to Fannie Mae and other aggregators; 2) exchange of originated whole loans for mortgage backed securities (“MBS”) issued by Ginnie Mae and/or Fannie Mae and subsequent sale of such MBS; or 3) issuance of mortgage pass-through bonds secured by such Ginnie Mae and Fannie Mae issued MBS.

To participate in any of these markets Rhode Island Housing must incur two types of risk, delivery risk and interest rate risk. Delivery risk is created in situations where Rhode Island Housing sells mortgage loans (that have not yet closed) for delivery on a specified future date. Interest rate risk is the risk Rhode Island Housing assumes when it locks in the rate at which a homebuyer will borrow when their loan closes 60 to 90 days in the future. Delivery risk can be largely mitigated through the efficient operation of our in-house loan processing, closing and securitization functions. Interest rate risk can be largely mitigated through the forward sale of loans at or near the date on which the borrower’s rate lock occurs.

On March 1, 2013 we issued two Requests for Proposals (RFP) for separate consulting assignments related to the process of initiating a new single-family loan funding program. In general terms these consulting assignments involve: a) assessing and where necessary adjusting our single family mortgage loan origination and processing operations to consistently deliver closed and securitized loans within 60 to 90 days after locking the borrowing rate for the homeowner (the “Operations RFP”); and b) assisting Rhode Island Housing with the formulation, activation and operation of policies and procedures to routinely sell whole loans and/or MBS whether originated and closed by our Homeownership Center or our correspondent network (the “Ongoing RFP”). We received three responses to the Operations RFP’s and six responses to the Ongoing RFP. All of the responses to each RFP were reviewed by staff.

Based on its review, staff concluded that the best choices for these engagements are Peak

Performance Resources for the Operations review and Caine Mitter for Ongoing consulting services.

Betsy Cavanna, the principal of Peak Performance, has had a career in mortgage banking that has spanned three decades during which she has established, grown and profitably sold two mortgage banks. Since 2006, she has provided consulting advice to nine HFAs (including Washington, DC, Massachusetts, Pennsylvania, Virginia, Minnesota, New Mexico, Colorado, Vermont, New Jersey, South Carolina and Iowa) on both pipeline delivery risk and interest rate risk mitigation matters. Her proposed fees of \$200 per hour, which we anticipate will not exceed \$35,000, are in line with those of the other two respondents to this RFP. Based on the exceptional level of prior experience with both mortgage banking generally and extensive work with other HFA's on similar engagements Peak Performance is uniquely qualified for the Operations consulting engagement.

Caine Mitter and its principals have provided financial advisory services to the HFA community since the early 1970s. Thomas Caine provided Rhode Island Housing with structuring advice on our first ever bond offering. The firm provides ongoing advice and TBA market-related services to the HFAs of Maryland, New Hampshire, North Dakota, Oklahoma, Washington, DC and South Dakota and other quantitative consulting services to the HFAs of Oregon, Kentucky, New Jersey, Tennessee, Wyoming, Pittsburgh, and Allegheny County, PA and Montgomery County, MD. Caine Mitter has provided Rhode Island Housing with two alternative fee structures: a) 20 basis points on all single-family loans processed through our pipeline; or b) \$295 per hour of consulting advice. The choice between these options will depend upon several factors including the projected and actual volume of loans originated, what portion, if any, of the single-family pipeline interest rate risk Rhode Island Housing chooses to hedge and the amount of fixed overhead expenses Rhode Island Housing chooses to put in place to manage TBA delivery and interest rate risks. Based on the projected volume of work over the first year of the contract, we project payments to Caine Mitter to approximate \$70,000.

The attached resolution authorizing the negotiation and execution of contracts with Peak Performance Resources for its Operations review and Caine Mitter for ongoing secondary market consulting is recommended for approval.

Upon a motion made by Commissioner DeQuattro and seconded by Commissioner Dimeo the following resolution was unanimously approved:

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

**Resolved:** That Peak Performance Resources, Inc. be engaged to provide operations consulting services related to single family lending secondary marketing.

**Resolved:** That Caine Mitter & Associates Incorporated be engaged to provide ongoing consulting services related to single family secondary marketing.

**Resolved:** That the Executive Director or the Deputy Director-CFO, each acting singly, be authorized to negotiate and execute any and all contracts, agreements and other documents deemed necessary to effect these engagements.

There being no further business to discuss, a motion was duly made by Commissioner Costantino and seconded by Commissioner Barge to adjourn the open meeting at approximately at 9:17 a.m.

Respectfully submitted,

Richard Godfrey  
Secretary and Executive Director