

# MEMORANDUM

To: CHFA Board of Directors

Date: June 25, 2001

From: Linn Warren   
CALIFORNIA HOUSING FINANCE AGENCY

Subject: Payment Assistance for Low-Income Residents

The CHFA Board of Directors requested that staff prepare a summary of federal, state and utility company payment assistance programs targeted for low income renters, specifically those tenants that occupy CHFA financed projects. There are a number of programs that serve to mitigate the increasing cost of energy for low-income households. Utility companies in California have generally always offered some form of payment assistance programs to low income individuals; however, in the current utility rate environment an increased emphasis is now being placed on these programs. These plans included deferred payments, extended terms and reductions in actual bills depending income levels. The primary assistance from the federal government is offered through the Low-Income Home Energy Assistance Program (LIHEAP). This program was originally established in 1981 and has been reauthorized several times. LIHEAP itself is a block grant program in which grantees (mainly individual states) receive grants on an annual basis. LMEAP has now been supplemented by CAL LMEAP, a state funded program. Outlined below is a summary of these programs and the Agency's policy regarding individual project sponsors involvement with the programs.

**Federal and State Programs.** As indicted above, the primary federal program for energy payment assistance is LIHEAP. This grant program was originally implemented in response to the energy crises of the late 1970's and was formally established in 1981. Assistance takes the form of grants to pay utility cost or provide funds for the weatherization of individual residences. The funding for LIHEAP for FY 2001 was \$1.7 billion, \$1.4 billion in regular funding and \$300 million for weather emergencies. Congress is currently debating funding levels for FY 2002 with President Bush seeking an increase to \$1.7 billion (up from **\$1.4** billion) and the Senate is discussing a potential funding of **\$3.4** billion. In August of 2000, President Clinton authorized the release of **\$2.6** million in LIHEAP funds to low income residents of Southern California to help offset the effect of utility spikes that occurred last summer. LIHEAP funds are allocated to individual states for distribution to localities.

The Community Services and Development Department (CSD) is the California state agency responsible for approving LIHEAP payments approved by local community service agencies. These local agencies in turn evaluate individual requests for assistance. To qualify for LIHEAP



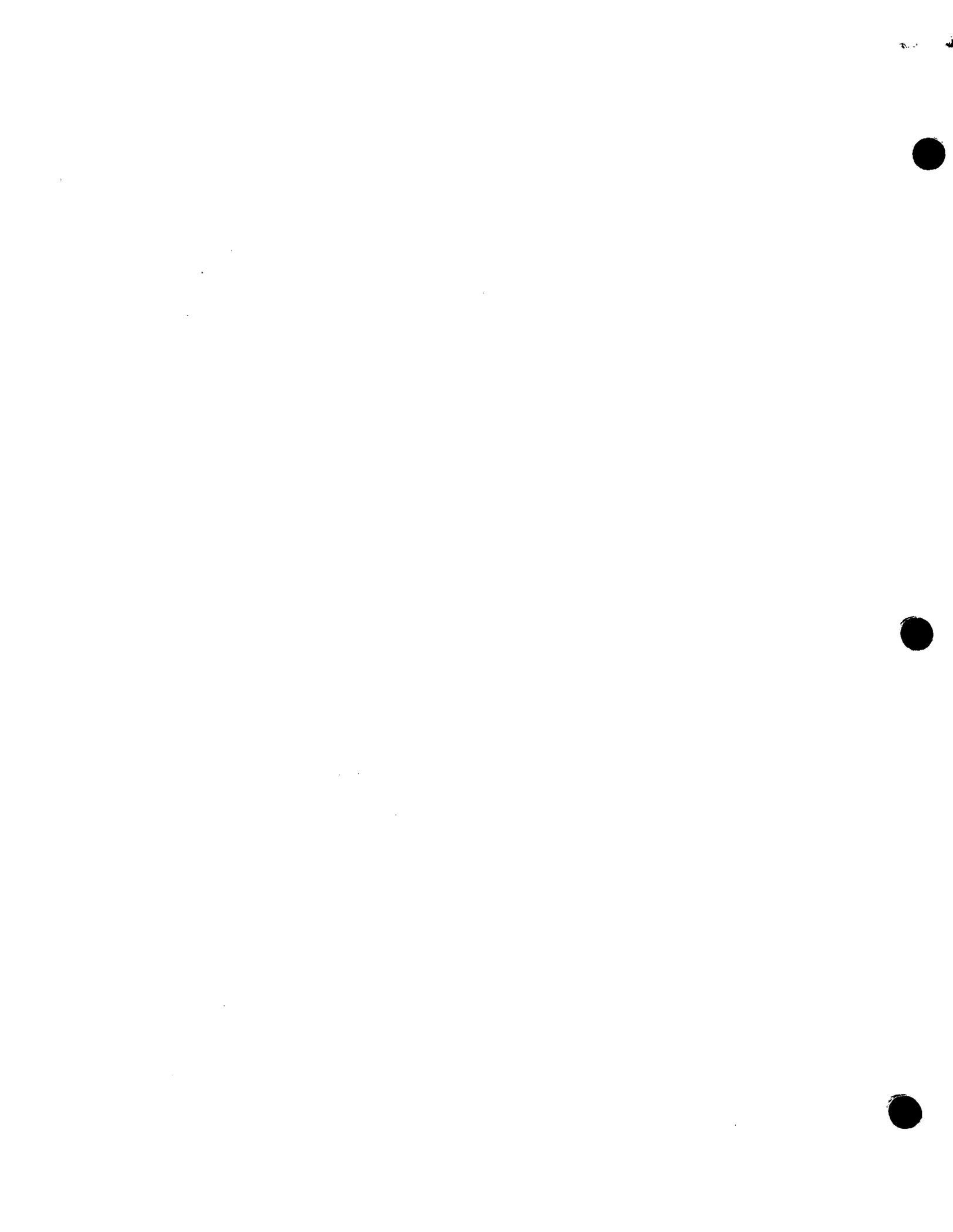
assistance, recipients are limited to households with incomes up to 150% of the federal poverty income guidelines or 60% of state median income, whichever is greater. (Note: Discussions in Congress are examining the possibility of raising the income level to 200% of the federal poverty guideline). Outside of these guidelines, grantees (i.e. California) have significant latitude in setting qualifying criteria. Generally LIHEAP assistance cannot exceed a single annual payment of \$320, with the average payment being \$187. Assistance monies are generally sent to ratepayer's utility company by CSD after receiving approval from the local community service provider. Federal funding for this year consisted of \$45 million of budget monies and an additional \$45 million of emergency funds.

The State of California has also created the CAL-LMEAP Program to supplement the federal LMEAP funding. CAL-LMEAP has received general funds in the amount of \$120 million for both financial assistance and weatherization (one-half of the total funds for each program). The financial assistance component differs from the federal program in that higher household incomes are targeted up to 250% of the federal poverty level, which is equivalent to 80% of state median income. The weatherization component of the program is targeted toward the replacement of lights, microwaves, water heaters and refrigerators. These guidelines supplement the federal program, which does not specifically target the replacement of appliances. An additional component of CAL-LMEAP is the possibility of multiple funding. Under federal LIHEAP, generally only one payment of financial support is allowed per year. Under CAL-LMEAP approved recipients may receive multiple payments of assistance depending on the recommendation of the local service provider.

**Utility Company Programs.** The major utility companies in California offer at least two forms of payment assistance for low-income households. The most common is the California Alternative Rates for Energy (CARE) program. Utility bills under the CARE program are generally reduced by 15% to 20% depending on the individual utility company. Once under the CARE program, participants are protected from subsequent rate spikes. In the PUC decision of May 15, 2001, CARE eligible households were exempted from the baseline increases for utilities. A fundamental problem with the CARE programs is the targeted income levels. While qualifying income levels have recently increased, generally households with incomes at or above the 60% of state median income range do not qualify under CARE.

Utility companies also offer a range of energy conservation, weatherization and appliance replacement programs. Southern California Edison for example, offers refrigerator replacement for appliances over 10 years old on a first come, first serve basis. Edison also offers weatherization options such as attic insulation, weather-stripping water heater blankets.

**CHFA Program Requirements.** Tenant assistance has become an increasingly important component of the solution to energy costs impacting affordable housing projects. CHFA is now requiring that all projects in our pipeline for funding and existing projects to research and make available to all project tenants the various federal, state and utility company assistance programs. Any requests for budget increases that projects submit will be evaluated in the light sponsor's success informing and implementing assistance programs for their tenants.



# CALIFORNIA HOUSING FINANCE AGENCY

## *Amended Final Commitment*

### Los Gatos Apartments

### CHFA Ln. 01-017-N

**SUMMARY:** This is a Final Commitment request for a first mortgage using 501(c)(3) bonds in the amount of **\$695,000** amortized over thirty years at 5.70%. The project is Los Gatos Apartments, 12 studio units, a recently completed project located at 31 Miles Avenue, Los Gatos, Santa Clara County.

#### **LOAN TERMS:**

<b>1<sup>st</sup> Mortgage Amount:</b>	<b>\$695,000</b>
Interest Rate:	5.70%
Term:	30 year fixed, fully amortized
Financing:	501(c)(3)

#### **LOCALITY INVOLVEMENT:**

- County of Santa Clara, HOME: \$250,000, 6%, 30 year term, payment deferred
- *Town of Los Gatos: \$233,000, 3%, 30 year term, payment deferred*
- Town of Los **Gatos** Redevelopment Agency, CDBG: \$425,000, Grant

#### **MARKET:**

##### **A. Market Overview**

The project is located in the town of Los Gatos in Santa Clara County. Santa Clara County is located south of the San Francisco Bay and is one of the nine Bay Area Counties. The population of Santa Clara County is approximately 1,736,700 as of January 1, 2000. This represents a 1.6% increase over the population base of 1999.



Manufacturing plays a dominant role in the regional economy, accounting for approximately one third of the total county employment. The electronics industry account for a major portion of manufacturing jobs.

The Town of Los Gatos (“Los Gatos”) is located on the lower slope of the Santa Cruz Mountains at the southwestern edge of the Santa Clara Valley. It is a suburban, residential area that abuts the cities of San Jose and Campbell to the south and ‘Saratoga to the east. The mean household income in Los Gatos is roughly 50% higher than for the county as a whole.

**B. Market Demand**

Demand for all types of housing in Los Gatos exceeds supply. Business owners complain that they cannot hire employees because rental housing in the town is too expensive. This project was approved by the Los Gatos RDA with the understanding that preference would be given to those who work and live in Los Gatos and second preference to those that live or work in the Los Gatos.

**C. Housing Supply**

There is little rental housing available in Los Gatos. Of the four market rate apartment comparables, one is in Los Gatos and the remaining three are from other towns located between 6 and 12 miles from the project. The project in Los Gatos does not have any studio units. The three remaining projects have studio units which rent for an average of **\$1,250**. Pools are included as an additional amenity in all four comparables.

**PROJECT FEASIBILITY:**

**A. Rent Differentials (Market vs. Restricted)**

Rent Level	Subject Project	Mkt. Rate Avg.	Difference	% of Market
<b>Studio</b>		<b>\$1,250</b>		
<b>50%</b>	\$738		<b>\$512</b>	<b>59%</b>
<b>60%</b>	\$891		\$359	71%

**PROJECT DESCRIPTION**

- Currently zoned Medium Density Residential **5-12** units per acre. However, Policy 1 of the Town’s Housing Element allows a density bonus up to 100% for land that is to be developed for persons in the very low and low-income groups.



The Development Review Committee for the Town of Los Gatos approved the 100% density bonus, thereby allowing the construction of 12 units on this site.

- Project location: In the southwest portion of Los Gatos adjacent to the Los Gatos/Monte Sereno city boundary. The project is on Miles Avenue, a short street on the east side of Highway 17
- Surrounding improvements: The project is surrounded by a PG& E substation to the north, Highway 17 to the east, the Town of Los Gatos Corporation yard to the south and the Los Gatos Creek and bike path to the west.
- Project description: 12-unit apartment; 2 two-story buildings; 18 open parking spaces. 12 studio, one-bath units (408 and 451 sq. ft.)
- Amenities: A laundry room and a picnic area.

#### **OCCUPANCY RESTRICTIONS:**

**CHFA:** 20% of the units (3) will be restricted to 50% or less of median income.  
60% of the units (7) will be restricted to 60% or less of median income.

**CDBG:** *100% of the units (12) will be restricted to 50% or less of median income.*

**HOME:** *17% of the units (2) will be restricted to 60% or less of median income.  
83% of the units (10) will be restricted to 80% or less of median income.*

#### **ENVIRONMENTAL:**

- A Phase I was completed by Confidential Compliance Consultants on April 10, 1998. No adverse conditions were noted. An updated Phase I-Environmental Assessment Report conforming to current ASTM standards has been ordered. The final commitment is conditioned upon receipt and acceptance by CHFA of the Phase I.
- A seismic review by URS has been ordered. The final commitment is conditioned upon receipt and acceptance by CHFA of the seismic review.
- A noise study was completed by Edward L. Pack Associates, Inc. on August 6, 1998 and a subsequent noise study dated February 3, 1999 was also completed. The second study required a 6-foot high wall at the north of the project, mechanical ventilation and windows rated a minimum STC 27.



## **ARTICLE 34:**

An opinion letter has been requested by the sponsor and the permanent loan closing will be conditioned upon review and approval by the Agency.

### **DEVELOPMENT TEAM:**

#### **A. Borrower's profile**

The current owner of the project is Community Developers Local Development Company, Inc., a non-profit public benefit corporation ("CDLDC") that is the developing company for Community Housing Developers, Inc., a non-profit public benefit corporation ("CDC"). CDLDC has twenty years of experience developing and rehabilitating multifamily rental housing. They own and /or manage six tax-credit projects totaling 1,086 units. CDC is the non-profit on El Rancho Verde, a project currently in CHFA's portfolio.

#### **B. Contractor**

Trident Construction, Inc. has been constructing multifamily projects since 1993. To date they have constructed nine projects with a total of 690 units. Another three projects with a total of **84** units are under construction.

#### **C. Architect**

The project was constructed by Thacher & Thompson Architects was founded in 1973. They are a full service architectural firm specializing in rental housing.

#### **D. Management Agent**

The John Stewart Company was founded in 1978 and is a full service housing management organization with employees throughout the state of California. John Stewart manager 1,567 rental apartment units in 21 tax credit projects. They are known to CHFA and manages several projects in the CHFA portfolio.



# Project Summary

Date: 19-Jun-01

## Project Profile:

**Project:** Los Gatos Creek Village  
**Location:** 31 Miles Avenue  
 Los Gatos  
**County/Zip:** Santa Clara 95050  
**Borrower:** CDLDC, Inc.  
**GP:** TBD  
**LP:** TBD

**Appraiser:** Stephen Kuhnhoff  
 Hulberg & Associates  
**Cap Rate:** 7.00%  
**Market:** \$ 1,320,000  
**Income:** \$ 1,310,000  
**Final Value:** \$ 1,310,000

**LTC/LTV:**  
**Loan/Cost** 43.1%  
**Loan/Value** 53.1%

## Project Description:

**Units** 12  
**Handicap Units** 1  
**Bldge Type** New Const.  
**Buildings** 3  
**Stories** 2  
**Gross Sq Ft** 5,585  
**Land Sq Ft** 20,274  
**Units/Acre** 26  
**Total Parking** 16  
**Covered Parking** 0

## Financing Summary:

	Amount	Per Unit	Rate	Term
CHFA First Mortgage	\$695,000	\$57,917	5.70%	30
Town of Los Gatos RDA	\$425,000	\$35,417	0.00%	
County of Santa Clara HOME	\$250,000	\$20,833	6.00%	30
Town of Los Gatos Loan	\$233,800	\$19,483	3.00%	30
CHD Loan	\$9,776	\$815	5.70%	30
Tax Credit Equity	\$0	\$0		
Deferred Developer Fee	\$0	\$0		
CHFA Bridge	\$0	\$0	0.00%	
CHFA HAT	\$0	\$0	0.00%	

## Unit Mix:

Type	Size	Number	AMI	Rent	Max Income
0 BR	435	12	50%	\$737	\$30,450
		12			

## Fees, Escrows and Reserves:

Escrows	Basis of Requirements	Amount	Security
Commitment Fee	1.00% of Loan Amount	\$6,950	Cash
Finance Fee	1.00% of Loan Amount	\$6,950	Cash
Bond Origination Guarantee	1.00% of Loan Amount	\$6,950	Letter of Credit
Operating Expense Reserve	10.00% of Gross Income	\$10,670	Letter of Credit
Utility Stabilization Reserve	150.00% of Utility Estimates	\$15,626	Letter of Credit
Annual Replacement Reserve Deposit	\$300.00 per unit	\$3,600	Operations
Construction Defects Security Agreement	2.50% of Hard Costs	\$11,038	Letter of Credit



# Sources and Uses

# Los Gatos Creek Village

## SOURCES:

<i>Name of Lender / Source</i>	<b>Amount</b>	<b>\$per unit</b>
CHFA First Mortgage	695,000	57,917
CHFA Bridge	0	0
CHFA HAT	0	0
Town of Los Gatos RDA	425,000	35,417
County of Santa Clara HOME	250,000	20,833
Other Loans	243,576	20,298
<b>Total Institutional Financing</b>	<b>1,613,576</b>	<b>134,465</b>
<b>Equity Financing</b>		
Tax Credits	0	0
Deferred Developer Equity	0	0
<b>Total Equity Financing</b>	<b>0</b>	<b>0</b>
<b>TOTAL SOURCES</b>	<b>1,613,576</b>	<b>134,465</b>

## USES:

Acquisition	230,000	19,167
Rehabilitation	0	0
New Construction	1,082,056	90,171
Architectural Fees	77,305	6,442
Survey and Engineering	0	0
Const. Loan Interest & Fees	57,505	4,792
Permanent Financing	14,400	1,200
Legal Fees	7,591	633
Reserves	26,296	2,191
Contract Costs	6,000	500
Construction Contingency	9,028	752
Local Fees	0	0
TCAC/Other Costs	40,895	3,408
<b>PROJECT COSTS</b>	<b>1,551,076</b>	<b>129,256</b>
Developer Overhead/Profit	62,500	5,200
Consultant/Processing Agent	0	0
<b>TOTAL USES</b>	<b>1,613,576</b>	<b>134,465</b>



**Annual Operating Budget****Los Gatos Creek Village**

	Amount	\$ per unit
<b>INCOME:</b>		
Total Rental Income	106,128	8,844
Laundry	576	48
Other Income	0	-
Commercial/Retail	0	-
<b>Gross Potential Income (GPI)</b>	<b>106,704</b>	<b>8,892</b>
<b>Less:</b>		
Vacancy Loss	5,335	445
<b>Total Net Revenue</b>	<b>101,369</b>	<b>8,447</b>
<b>EXPENSES:</b>		
Payroll	4,564	380
Administrative	9,070	756
Utilities	11,717	976
Operating and Maintenance	6,221	518
Insurance and Business Taxes	5,139	428
Taxes and Assessments	4,393	366
Reserve for Replacement Deposits	3,600	300
<b>Subtotal Operating Expenses</b>	<b>44,704</b>	<b>3,725</b>
<b>Financial Expenses</b>		
Mortgage Payments (1st loan)	48,405	4,034
<b>Total Financial</b>	<b>48,405</b>	<b>4,034</b>
<b>Total Project Expenses</b>	<b>93,109</b>	<b>7,759</b>



**Cash Flow**

**Los Gatos Creek VIII CHFA # 01-017-N**

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
<b>RENTAL INCOME</b>										
Market Rent Increase	N/A									
Market Rents	N/A									
Affordable Rent Increase	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Affordable Rents	106,128	108,781	111,501	114,288	117,145	120,074	123,076	126,153	129,307	132,539
<b>TOTAL RENTAL INCOME</b>	106,128	108,781	111,501	114,288	117,145	120,074	123,076	126,153	129,307	132,539
<b>OTHER INCOME</b>										
Other Income Increase	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Laundry	576	590	605	620	636	652	668	685	702	719
Other Income	N/A									
<b>TOTAL OTHER INCOME</b>	576	590	605	620	636	652	668	685	702	719
<b>GROSS INCOME</b>	106,704	109,372	112,106	114,909	117,781	120,726	123,744	126,838	130,008	133,259
Vacancy Rate -Market	N/A									
Vacancy Rate -Affordable	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Less: Vacancy Loss	5,335	5,469	5,605	5,745	5,889	6,036	6,187	6,342	6,500	6,663
<b>EFFECTIVE GROSS INCOME</b>	101,369	103,903	106,501	109,163	111,892	114,690	117,557	120,496	123,508	126,596
<b>OPERATING EXPENSES</b>										
Annual Expense Increase	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Expenses	36,711	38,179	39,707	41,295	42,947	44,665	46,451	48,309	50,242	52,251
Replacement Reserve	3,600	3,600	3,600	3,600	3,600	3,780	3,780	3,780	3,780	3,780
Annual Tax Increase	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Taxes and Assessments	4,393	4,481	4,570	4,662	4,755	4,850	4,947	5,046	5,147	5,250
<b>TOTAL EXPENSES</b>	44,704	46,260	47,877	49,557	51,302	53,295	55,178	57,135	59,169	61,281
<b>NET OPERATING INCOME</b>	56,665	57,643	58,624	59,606	60,590	61,395	62,378	63,360	64,339	65,315
<b>DEBT SERVICE</b>										
CHFA - 1st Mortgage	48,405	48,405	48,405	48,405	48,405	48,405	48,405	48,405	48,405	48,405
CHFA - Bridge Loan	0	0	0	0	0	0	0	0	0	0
CHFA - HAT Loan	0	0	0	0	0	0	0	0	0	0
CASH FLOW after debt service	8,259	9,237	10,218	11,201	12,185	12,989	13,973	14,955	15,934	16,909
DEBT COVERAGE RATIO	1.17	1.19	1.21	1.23	1.25	1.27	1.29	1.31	1.33	1.35



# Cash Flow

	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16	Year 17	Year 18	Year 19	Year 20
<b>RENTAL INCOME</b>										
Market Rent Increase	N/A	N/A	N/A	N/A	W/A	N/A	N/A	N/A	W/A	N/A
Market Rents	N/A									
Affordable Rent Increase	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Affordable Rents	135,853	139,249	142,730	146,299	149,956	153,705	157,548	161,486	165,523	169,662
TOTAL RENTAL INCOME	135,853	139,249	142,730	146,299	149,956	153,705	157,548	161,486	165,523	169,662
<b>OTHER INCOME</b>										
Other Income Increase	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Laundry	737	756	775	794	814	834	855	876	898	921
Other Income	N/A									
TOTAL OTHER INCOME	737	756	775	794	814	834	855	876	898	921
GROSS INCOME	136,590	140,005	143,505	147,093	150,770	154,539	158,403	162,363	166,422	170,582
<b>VacancyRate : Market</b>										
VacancyRate -Affordable	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Less: Vacancy Loss	6,830	7,000	7,175	7,355	7,538	7,727	7,920	8,118	8,321	8,529
EFFECTIVE GROSS INCOME	129,761	133,005	136,330	139,738	143,231	146,812	150,483	154,245	158,101	162,053
<b>OPERATING EXPENSES</b>										
Annual Expense Increase	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Expenses	54,341	56,515	58,775	61,127	63,572	66,114	68,759	71,509	74,370	77,345
Replacement Reserve	3,969	3,969	3,969	3,969	4,167	4,167	4,167	4,167	4,167	4,376
Annual Tax Increase	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Taxes and Assessments	5,355	5,462	5,571	5,683	5,796	5,912	6,031	6,151	6,274	6,400
TOTAL EXPENSES	63,665	65,946	68,316	70,778	73,535	76,194	78,957	81,828	84,811	88,120
<b>NET OPERATING INCOME</b>	<b>66,096</b>	<b>67,059</b>	<b>68,014</b>	<b>68,960</b>	<b>69,666</b>	<b>70,518</b>	<b>71,525</b>	<b>72,417</b>	<b>73,289</b>	<b>73,933</b>
<b>DEBT SERVICE</b>										
CHFA - 1st Mortgage	48,405	48,405	48,405	48,405	48,405	48,405	48,405	48,405	48,405	48,405
CHFA - Bridge Loan										
CHFA - HAT Loan	17,690	18,653	19,609	20,554	21,291	22,213	23,120	24,011	24,884	25,528
CASH FLOW after debt service	1.37	1.39	1.41	1.42	1.44	1.46	1.48	1.50	1.51	1.53
DEBT COVERAGE RATIO										



# Cash Flow

	Year 21	Year 22	Year 23	Year 24	Year 25	Year 26	Year 27	Year 28	Year 29	Year 30
<b>RENTAL INCOME</b>										
Market Rent Increase	N/A									
Market Rents	N/A									
Affordable Rent Increase	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Affordable Rents	173,903	178,251	182,707	187,275	191,956	196,755	201,674	206,716	211,884	217,181
<b>TOTAL RENTAL INCOME</b>	<b>173,903</b>	<b>178,251</b>	<b>182,707</b>	<b>187,275</b>	<b>191,956</b>	<b>196,755</b>	<b>201,674</b>	<b>206,716</b>	<b>211,884</b>	<b>217,181</b>
<b>OTHER INCOME</b>										
Other Income Increase	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Launchy	944	967	992	1,016	1,042	1,068	1,095	1,122	1,150	1,179
Other Income	N/A									
<b>TOTAL OTHER INCOME</b>	<b>944</b>	<b>967</b>	<b>992</b>	<b>1,016</b>	<b>1,042</b>	<b>1,068</b>	<b>1,095</b>	<b>1,122</b>	<b>1,150</b>	<b>1,179</b>
<b>GROSS INCOME</b>	<b>174,847</b>	<b>179,218</b>	<b>183,699</b>	<b>188,291</b>	<b>192,998</b>	<b>197,823</b>	<b>202,769</b>	<b>207,838</b>	<b>213,034</b>	<b>218,360</b>
<b>Vacancy Rate - Market</b>										
Vacancy Rate - Affordable	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Less: Vacancy Loss	8,742	8,961	9,185	9,415	9,650	9,891	10,138	10,392	10,652	10,918
<b>EFFECTIVE GROSS INCOME</b>	<b>166,105</b>	<b>170,257</b>	<b>174,514</b>	<b>178,876</b>	<b>183,348</b>	<b>187,932</b>	<b>192,630</b>	<b>197,446</b>	<b>202,382</b>	<b>207,442</b>
<b>OPERATING EXPENSES</b>										
Annual Expense Increase	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Expenses	80,438	83,656	87,002	90,482	94,101	97,866	101,780	105,851	110,085	114,489
Replacement Reserve	4,376	4,376	4,376	4,376	4,595	4,595	4,595	4,595	4,595	4,595
Annual Tax Increase	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Taxes and Assessments	6,528	6,658	6,791	6,927	7,066	7,207	7,351	7,498	7,648	7,801
<b>TOTAL EXPENSES</b>	<b>91,342</b>	<b>94,690</b>	<b>98,169</b>	<b>101,785</b>	<b>106,762</b>	<b>109,667</b>	<b>113,726</b>	<b>117,944</b>	<b>122,328</b>	<b>126,885</b>
<b>NET OPERATING INCOME</b>	<b>74,763</b>	<b>75,567</b>	<b>76,344</b>	<b>77,091</b>	<b>77,586</b>	<b>78,265</b>	<b>78,904</b>	<b>79,502</b>	<b>80,054</b>	<b>80,557</b>
<b>DEBT SERVICE</b>										
CHFA - 1st Mortgage	48,405	48,405	48,405	48,405	48,405	48,405	48,405	48,405	48,405	48,405
CHFA - Bridge Loan										
CHFA - HAT Loan										
<b>CASH FLOW after debt service</b>	<b>26,357</b>	<b>27,162</b>	<b>27,939</b>	<b>28,686</b>	<b>29,181</b>	<b>29,859</b>	<b>30,499</b>	<b>31,096</b>	<b>31,649</b>	<b>32,152</b>
<b>DEBT COVERAGE RATIO</b>	<b>1.54</b>	<b>1.56</b>	<b>1.58</b>	<b>1.59</b>	<b>1.60</b>	<b>1.62</b>	<b>1.63</b>	<b>1.64</b>	<b>1.65</b>	<b>1.66</b>



State of California

MEMORANDUM

To: Board of Directors

Date: June 26,2001



**Kenneth R. Carlson**, Director of Financing

From: CALIFORNIA HOUSING FINANCE AGENCY

Subject: REPORT OF MULTIFAMILY BOND SALE  
MULTIFAMILY HOUSING REVENUE BONDS III, 2001 SERIES D & E

On June 28 we plan to issue \$84,805,000 of our Multifamily Housing Revenue Bonds 111,2001 Series D and E as shown in the table below:

Series	Amount of Bonds	Maturities	Amount of Swap	Interest Rates	Tax Status
2001 D	\$6,070,000	8/1/2022	\$3,265,000	4.452%*	Non-AMT
2001 E	78,735,000	2/1/2036	55,870,000	4.712%*	AMT
Total	\$84,805,000		\$59,135,000		

\* Swaprates

All of the bonds will be issued as tax-exempt variable rate demand obligations, for which interest rates will be reset weekly and interest paid semiannually. The bonds are backed by our general obligations as well as by a standby bond purchase agreement with Fannie Mae. This is the first time Fannie Mae has provided any issuer with liquidity for variable rate put bonds without also providing credit enhancement. Because of our strong credit ratings (Aa3/AA-) we determined that Fannie Mae credit enhancement was unnecessary and would not be cost effective.

The bonds will be issued to provide funds to finance new loans to 10 multifamily projects and to refund two prior CHFA bond issues totaling \$20.9 million. A total of 8 prior loans and one REO will be transferred as a result of the refunding. It should be noted that six of the new projects being financed are participating in the CHFA loan-to-lender program.

We have entered into interest rate swaps to fix the interest cost on \$59.1 million of the bonds, an amount related to the new permanent loans plus the loans for most of the projects involved in the refundings. What is notable about these swaps is that we were again able (as we were for the previous multifamily transaction) to utilize the Bond Market Association ("BMA") index of tax-exempt variable rates. By using this index we avoid assuming the risk that federal tax law would fundamentally change over the life of the bonds. The variable rate we receive from our swap counterparty will be linked to the BMA index even if tax-exempt rates are the same as taxable rates (in the event that the tax exemption is no longer of value).

**a**

The tables below provide summary information about the transaction.

**2001 Series D Loans**

Project Name	Permanent Loan Amount	Interest Rate	Actual Loan Origination Date
Casa de Vida	\$743,389	7.25%	01-Jul-82
Corinthian House	944,204	7.25%	01-Nov-81
Padre Apartments	3,268,187	7.25%	15-Mar-01
Eureka Central	933,963	7.50%	01-Jun-81
Total	\$5,889,743		

**2001 Series E Loans**

Project Name	Permanent Loan Amount	Interest Rate	Actual/Projected Loan Origination Date
Coronado Terrace	\$15,153,307	6.375%	01-Jul-01
Cottonwood Apts.	7,292,122	7.75%	01-Jul-92
Grayson Creek	5,700,000	5.70%	15-Jan-03
International Blvd. Apts.	415,000	3.00%	15-Jan-03
Marina Towers Annex	2,225,000	5.70%	01-Feb-02
Monticelli Apts.	2,990,000	5.70%	01-Dec-02
Olive Tree (**)	2,871,168	(**)	(**)
Parlier Parkwood Apts.	1,440,793	8.60%	01-Nov-92
Riverwood Grove Apts.	4,500,000	5.70%	15-Jan-03
Rohit Villas	493,327	8.50%	01-May-94
Skyline Village	2,750,000	6.00%	15-Jun-03
Torrey del Mar Apts.	3,970,060	5.70%	15-Dec-02
Villa del Rey	873,922	8.109%	01-Aug-91
Vista las Flores	295,000	6.05%	01-Feb-02
Willowbrook Apts.	2,873,697	8.60%	01-Aug-92
Total	\$55,843,336		

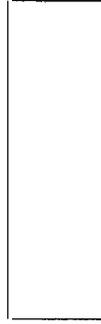
(\*\*) REO



# Update on Variable Rate Bond Liabilities

California Housing Finance Agency

June 26, 2001





## CHFA Variable Rate Debt (August 1, 2001)

*(Millions)*

	Tied Directly to Variable Rate Loans	Swapped to Fixed	Not Swapped or tied to Variable Rate Loans	Total Variable Rate Debt
Single Family	\$33	\$1,550	\$592	\$2,175
Multifamily	16	264	54	334
<b>Total</b>	<b>\$49</b>	<b>\$1,814</b>	<b>\$646</b>	<b>\$2,509</b>



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## CHFA Net Variable Rate Debt (August 1, 2001)

*(Millions)*

	<b>Tax-Exempt</b>	<b>Taxable</b>	<b>Totals</b>
<b>Short Average Life</b>	<b>\$249</b>	<b>\$227</b>	<b>\$476</b>
<b>Long Average Life</b>	<b>30</b>	<b>140</b>	<b>170</b>
<b>Totals</b>	<b>\$279</b>	<b>\$367</b>	<b>\$646</b>



**CHFA Interest Rate Swaps (August 1, 2001)**

*(Millions)*

	<b>Tax-Exempt</b>	<b>Taxable</b>	<b>Totals</b>
<b>Single Family</b>	<b>\$492</b>	<b>\$1,058</b>	<b>\$1,550</b>
<b>Multifamily</b>	<b>264</b>	<b>0</b>	<b>264</b>
<b>Total</b>	<b>\$756</b>	<b>\$1,058</b>	<b>\$1,814</b>



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## CHFA Types Variable Rate Debt (August 1, 2001)

*(Millions)*

	Variable Rate			Total Variable
	Auction Rate	Indexed Rate	Demand Obligations	Rate Bonds
Single Family	\$87	\$701	\$1,387	\$2,175
Multifamily	0	0	334	334
<b>Total</b>	<b>\$87</b>	<b>\$701</b>	<b>\$1,721</b>	<b>\$2,509</b>



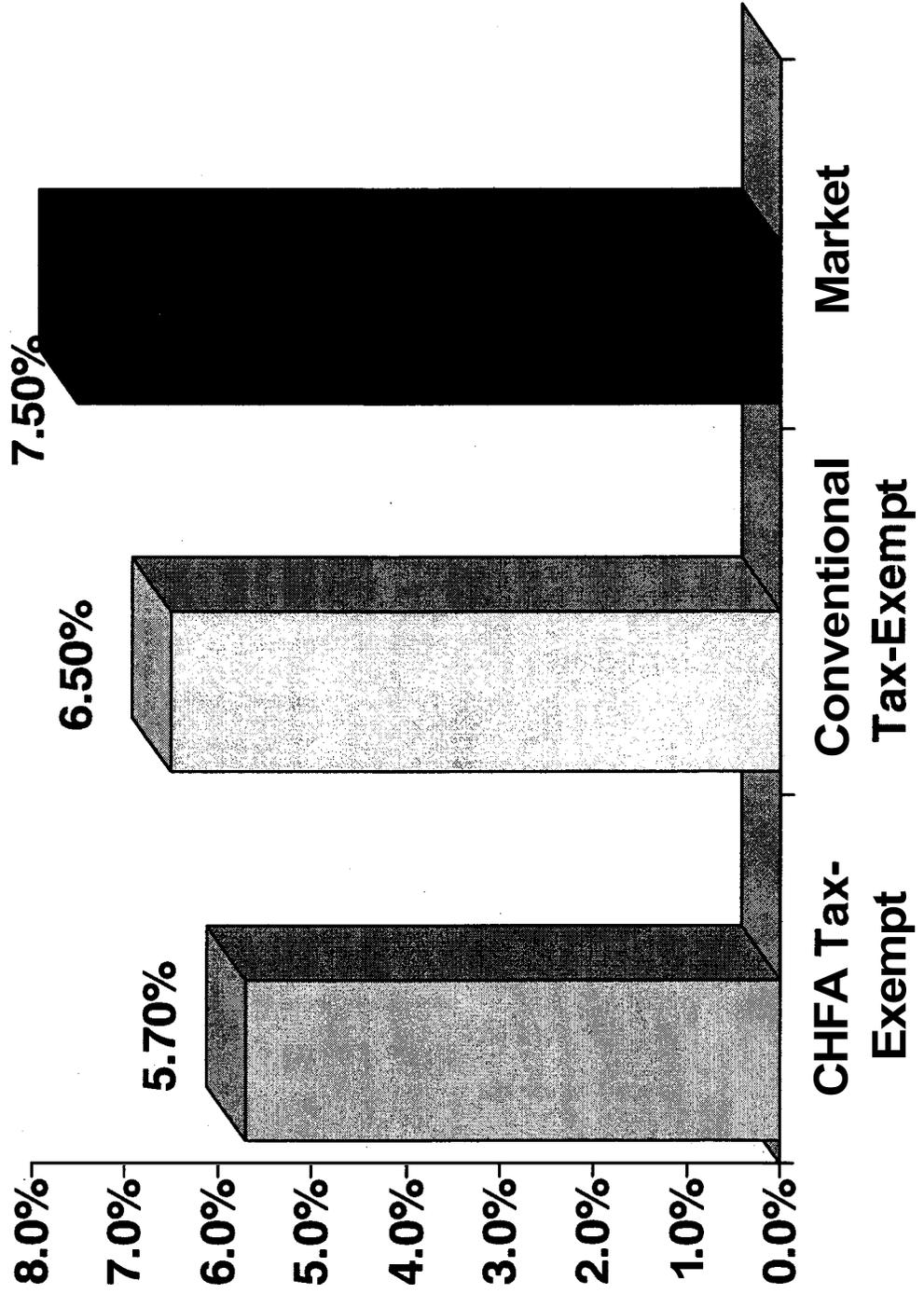
## CHFA Types Variable Rate Debt (August 1, 2001)

*(Millions)*

	Variable Rate			Total Variable Rate Bonds
	Auction Rate	Indexed Rate	Demand Obligations	
Tax-Exempt	\$57	\$ 0	\$ 1,027	\$1,084
Taxable	30	701	694	1,425
<b>Total</b>	<b>\$87</b>	<b>\$701</b>	<b>\$1,721</b>	<b>\$2,509</b>



# Swap Strategy Multifamily Lending Rates





# Swap Strategy Single Family Lending Volume

COF 6.2%

Tax Exempt onds \$400M	Taxable Bonds \$200M	Tax-Exempt Bonds \$400M	\$600M
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Traditional  
Fixed Rate  
Transaction

Variable Rate Bonds  
Swapped to Fixed



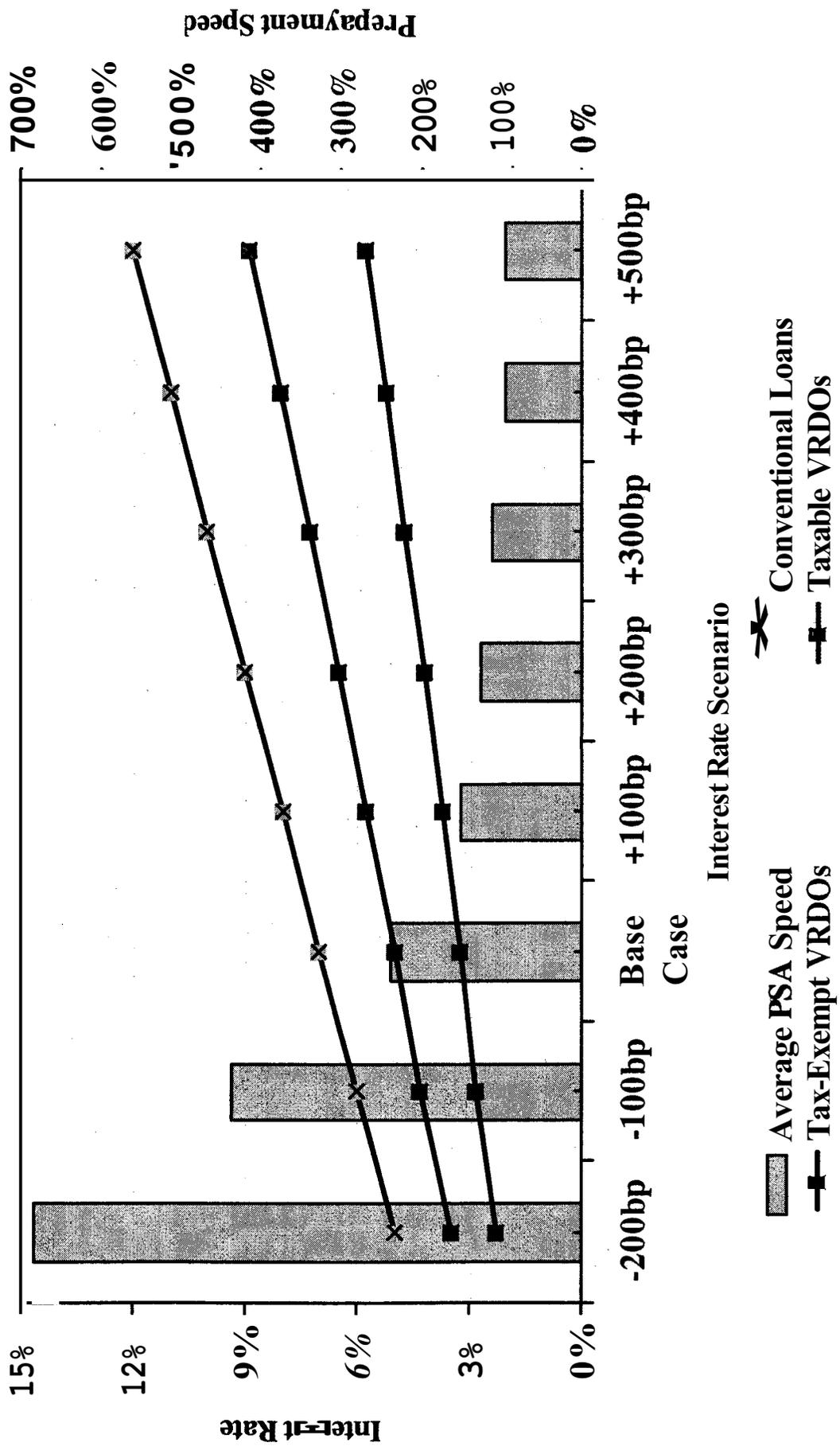
# HMRB Variable Rate Sensitivity Analyses

**David Notkin**  
*Director*  
Memll Lynch & Co.

June 26, 2001



# Merrill Lynch Variable Rate Sensitivity Analysis Rate Assumptions





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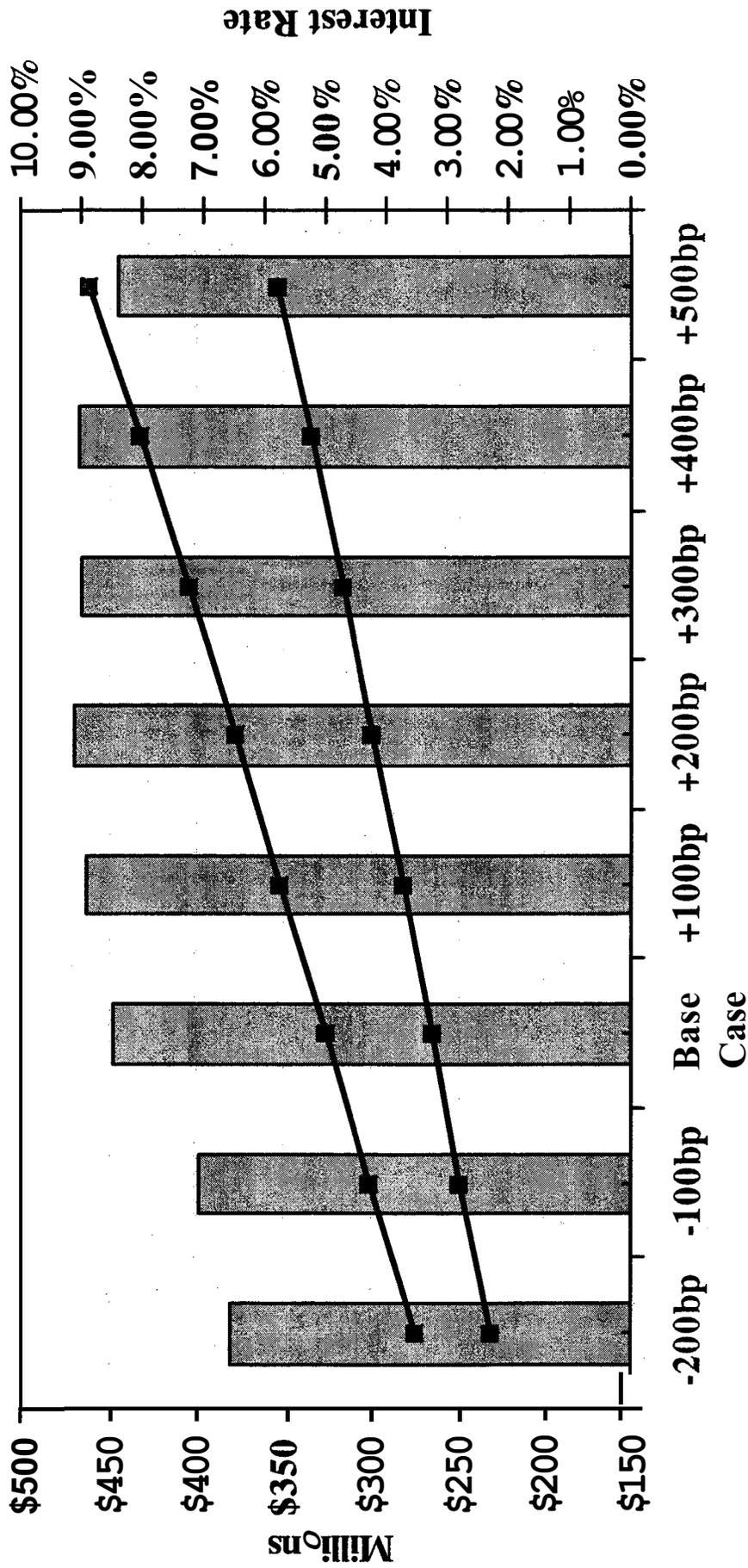


## **Present Value Residual Assets as HMRB Wealth Measurement**

- Variable Rate sensitivities compared by discounted level of residual assets
  - Residual Assets: Equity comprised of cash, mortgage loans and investments remaining after all bond liabilities are retired
  - Value of residual assets discounted to today at 5.50%
  
- Residual asset value will vary depending on:
  - Mortgage prepayment speed and resulting bond redemptions;
  - Variable interest rate scenario and surplus revenues generated; and
  - Indenture cash withdrawals by CHFA



# HMRB Present Value Residual Under Various Interest Rate Scenarios No Tax Code Change Assumed



Present Value Residual  
 Tax-Exempt Variable Rate Bonds  
 Taxable  
 Variable Rate Bonds

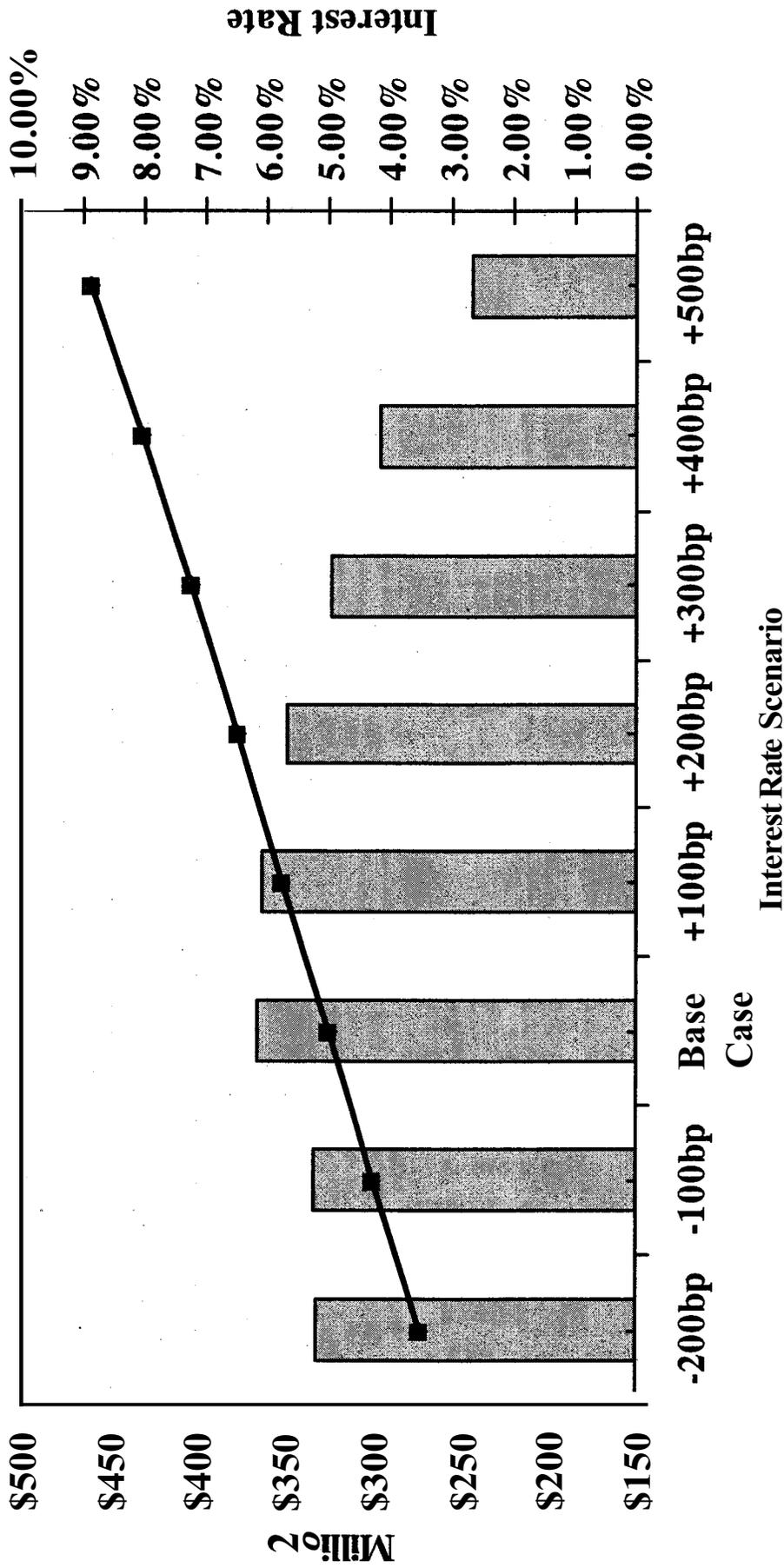




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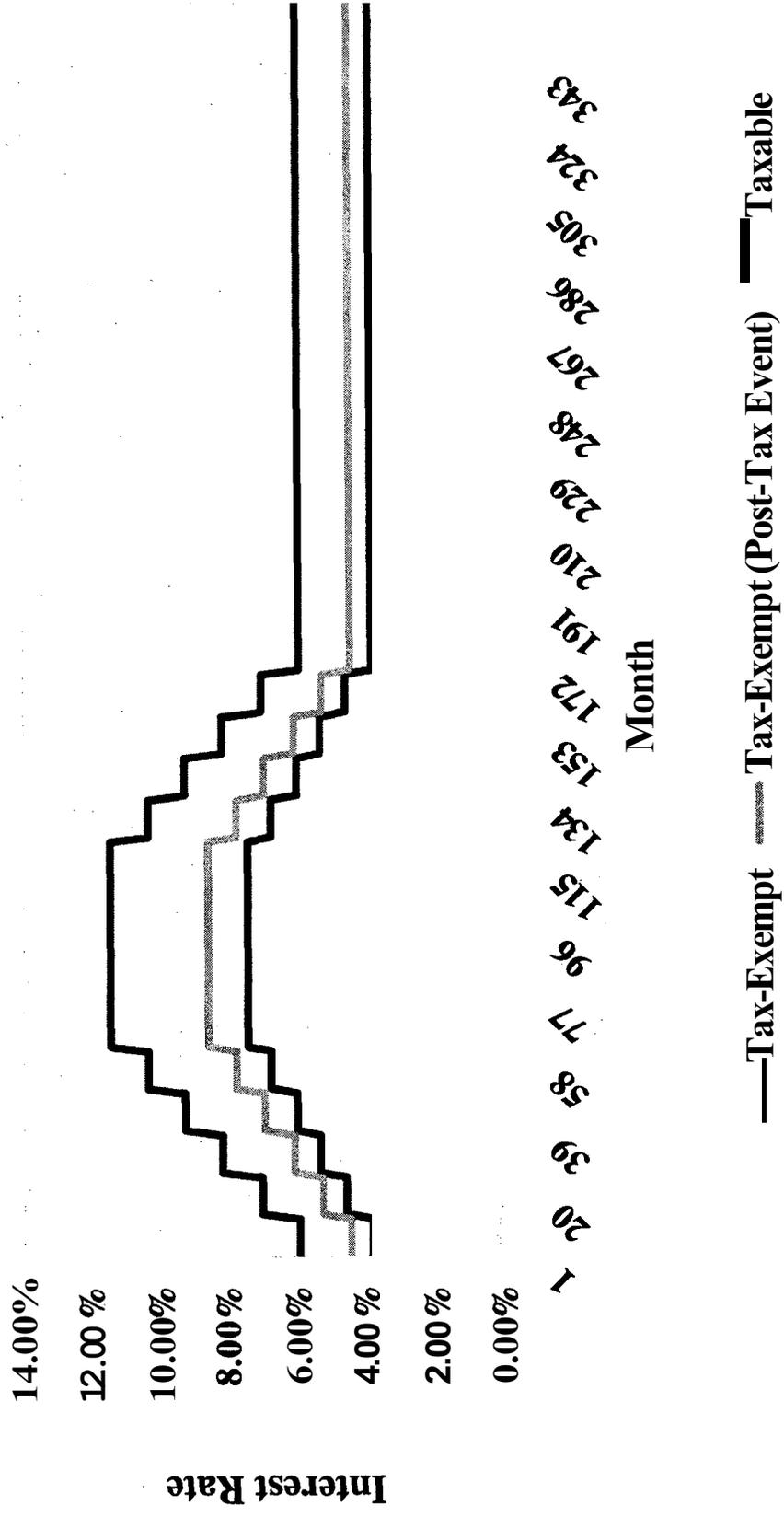
# HMRB Present Value Residual Under Various Interest Rate Scenarios Conversion to Value Added Tax System



Present Value Residual  
 Tax-Exempt and Taxable Variable Rate Bonds

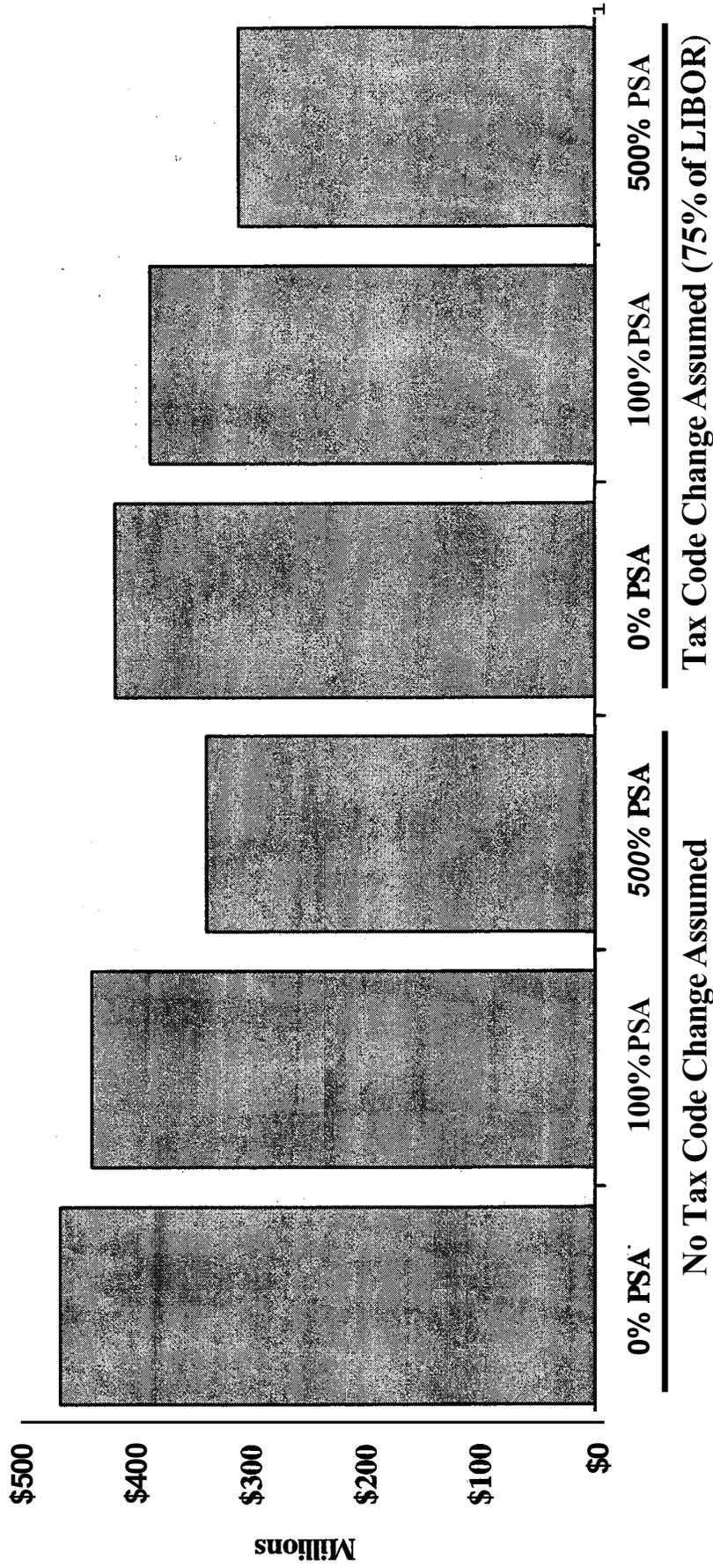


# Moody's Variable Rate Bond Stress Scenario Assumptions



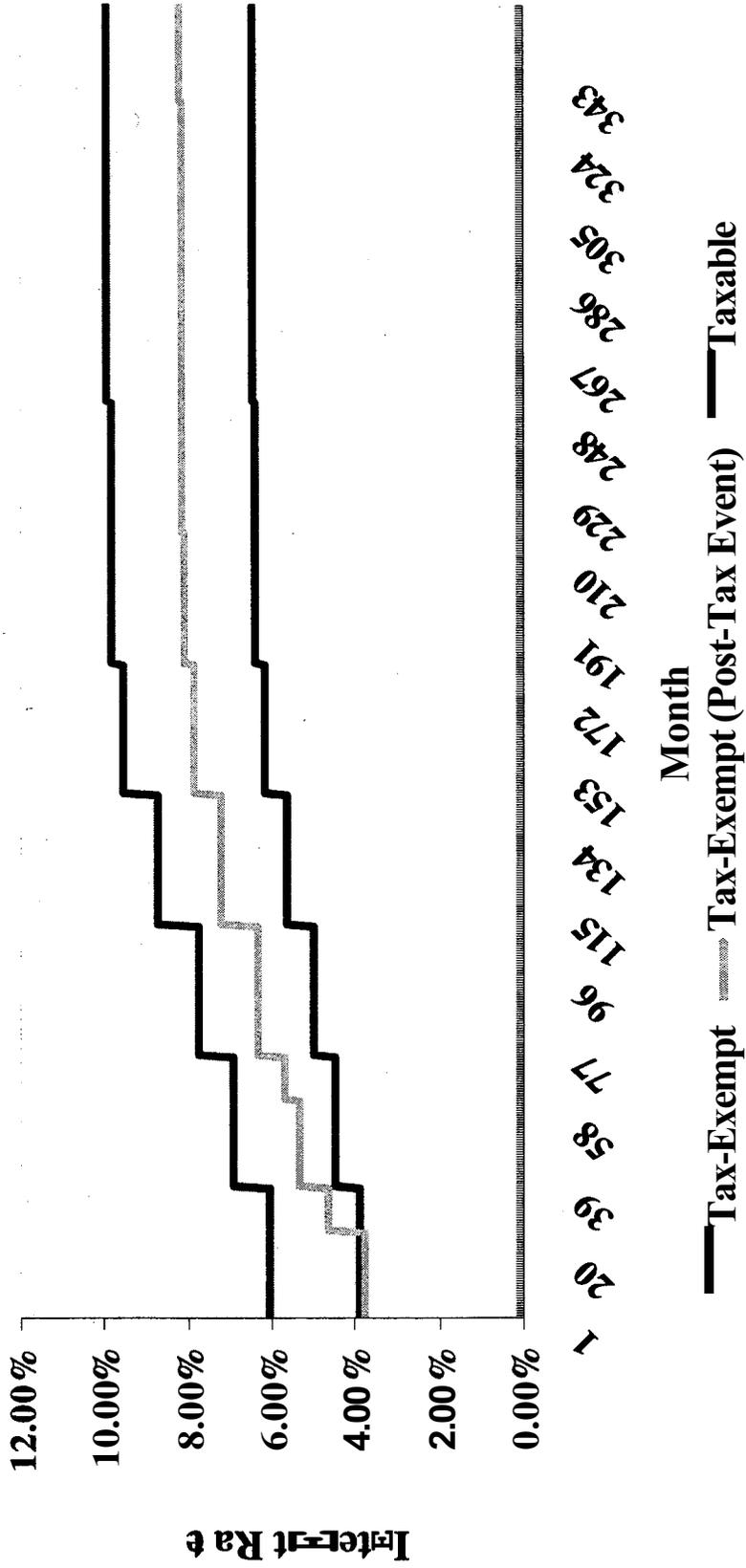


# HMRB Present Value Residual Under Moody's Stress Scenarios





# S&P Variable Rate Bond Stress Scenario Assumptions





# HMRB Present Value Residual Under S&P Stress Scenarios

