BOARD OF DIRECTORS

California Housing Finance Agency
Board of Directors

The Westin
San Francisco Airport
Millbrae, California
(650) 692-3500

January 22, 2009

9:30 a.m.

1. Roll Call.

2. Approval of the minutes of the following Board of Directors meetings:

   A) September 18, 2008 …….…….1

   B) November 13, 2008 ……...167

   C) December 12, 2008 ……305

3. Chairman/Executive Director comments.

4. Discussion, recommendation and possible action relative to the adoption of a resolution authorizing the Agency's single family bond indentures, the issuance of single family bonds, short term credit facilities for homeownership purposes, and related financial agreements and contracts for services. (Bruce Gilbertson)
   Resolution 09-01……..407

5. Discussion, recommendation and possible action relative to the adoption of a resolution approving new forms of multifamily bond indentures and authorizing all of the Agency's multifamily bond indentures, the issuance of multifamily bonds, short term credit facilities for multifamily purposes, and related financial agreements and contracts for services. (Bruce Gilbertson)
   Resolution 09-02…….……..….….421

6. Discussion, recommendation and possible action relative to the adoption of a resolution authorizing applications to the California Debt Limit Allocation Committee for private activity bond allocations for the Agency's homeownership and multifamily programs. (Bruce Gilbertson)
Resolution 09-03…….…….…..685

7. Discussion, recommendation and possible action to augment the 2008/2009 Operating Budget. (Steve Spears/Howard Iwata)
Resolution 09-04……..….……693

8. Discussion, recommendation and possible action regarding authorization of potential loan sales. (Bruce Gilbertson)
Resolution 09-05…….……..…….697

9. Discussion, recommendation and possible action regarding the implementation of Executive Order S-16-08 for exempt employees. (Steve Spears)
Resolution 09-06…….……...701

10. Business Plan update. (Steve Spears/Senior Staff) …….……..……705

11. Mid-year financial review. (Steve Spears/Howard Iwata/Bruce Gilbertson)

12. Reports:

    A: Multifamily Projects-Approved by Senior Loan Committee-Board Submission Not Required-Mid-Year Report FY 2008-2009……...….735

    B. Multifamily Projects-MHSA funded projects-Approved by Senior Loan Committee …….…...737

    C. Homeownership Loan Portfolio Update ……..……741

    D. Purchase of Agency Bonds …….…..……..…….…….. 747

    E. Update on Variable Rate Bonds and Interest Rate Swaps …….……..……. [handout]

    F. June 30, 2008 Investment Report …….….…….. [handout]

    G. Summary of Calendar Year 2008 Bond Financing …….…… [handout]

13. Discussion of other Board matters.

14. Public testimony: Discussion only of other matters to be brought to the Board's attention.

15. Handouts.

****NOTES****

HOTEL PARKING: Parking is available as follows: (1) overnight self-parking for hotel guests is $6.00 per night; and (2) rates for guests not staying at the hotel is also $6.00.

FUTURE MEETING DATES: Next CalHFA Board of Directors Meeting will be March 26, 2009, at the Hyatt Regency Sacramento, Sacramento, California.

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STATE OF CALIFORNIA

CALIFORNIA HOUSING FINANCE AGENCY

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BOARD OF DIRECTORS

PUBLIC MEETING

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Burbank Airport Marriott Hotel & Convention Center
2500 Hollywood Way
Burbank, California

Thursday, September 18, 2008
9:38 a.m. to 1:12 p.m.

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Reported By: YVONNE K. FENNER, CSR #10909, RPR

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A P P E A R A N C E S

Directors Present:

THERESA A. PARKER, Acting Interim Chairperson
Executive Director
California Housing Finance Agency

PETER N. CAREY
President/CEO
Self-Help Enterprises

CAROL GALANTE
President
BRIDGE Housing Corporation

LORI R. GAY
President/CEO
Los Angeles Neighborhood Housing Services, Inc.

LYNN L. JACOBS
Director
Department of Housing and Community Development

CARLA I. JAVITS
President
REDF
(formerly Roberts Enterprise Development Fund)

HEATHER PETERS
for Dale E. Bonner
Secretary
Business, Transportation and Housing Agency

WILLIAM J. PAVAO
for Bill Lockyer
State Treasurer

JACK SHINE
Chairman
American Beauty Development Co.

PETER N. CAREY, Chairperson
President/CEO
Self-Help Enterprises
Business, Transportation and Housing Agency

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CalHFA Staff Present:

GARY BRAUNSTEIN
Special Advisor to the Executive Director
Homeownership Lending

ROBERT L. DEANER II
Director
Multifamily Programs

BRUCE D. GILBERTSON
Director of Financing
Fiscal Services

THOMAS C. HUGHES
General Counsel

JIM LISKA
Loan Officer
Asset Management

JIM MORGAN
Loan Officer
Asset Management

JOJO OJIMA
Office of the General Counsel

DIANE RICHARDSON
Director of Legislation

L. STEVEN SPEARS
Chief Deputy Director

KATHY WEREMIUK
Multifamily Loan Officer

LAURA WHITTALL-SCHERFEE
Chief
Multifamily Programs

--o0o--

Also Present:

STAN DIRKS
Bond Counsel
Orrick, Herrington and Sutcliffe

JANET FALK
Vice President, Real Estate Development
Mercy Housing California

BEN PHILLIPS
Vice President, Regional Director
Mercy Housing California

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Table of Contents

Item **Page**

1. Roll Call 8

2. Approval of the minutes of the July 17, 2008 Board of Directors meeting 13
   Motion 13
   Vote 13

3. Chairman/Executive Director comments 14

4. Discussion, recommendation and possible action regarding final loan commitment for the following projects:

   07-010-A/S
   Desert Palms Apartments
   Resolution 08-23 68
   Motion 89
   Vote 92

   07-011-A/S
   Mountain View Apartments
   Resolution 08-24 93
   Motion 93
   Vote 94

   07-013-A/S
   Village Meadows Apartments
   Resolution 08-25 (withdrawn) . . . . . --

   07-012-A/S
   Westview Terrace Apartments
   Resolution 08-26 95
   Motion 95
   Vote 95

   08-012-A/S
   Golden Age Apartments
   Resolution 08-27 98
   Motion 101
   Vote 101

   07-021-A/N
   Eden Lodge Apartments
   Resolution 08-28 102
   Motion 104
   Vote 105

Table of Contents, continued

Item **Page**

08-014-A/S
Santa Clara Terrace Apartments
Resolution 08-29 105
Motion 119
Vote 121

07-026-A/S
Montecito Village Apartments
Resolution 08-30 123
Motion 126
Vote 127

08-019-C/N
Rochdale Grange Community
Resolution 08-31 127
Motion 128
Vote 130

08-425-C/S
El Centro Family Apartments
Resolution 08-32 (withdrawn) . . . . . --

07-017-A/N
Fairmount Apartments
Resolution 08-33 130
Motion 136
Vote 137

5. Discussion, recommendation and possible action regarding Approval to Negotiate and Enter into a Contract for Homeownership Loan Origination System Products and Services:

Resolution 08-34 139
Motion 146
Vote 148

6. Discussion, recommendation and possible action regarding an amendment to Resolution 08-03 permitting refinancing of home loans:

Resolution 08-35 149
Motion 155
Vote 159

Table of Contents, continued

Item	Page
7. Report of the Chair of the Search Committee regarding the status of the Executive Director search process	160
8. Closed session to consider the appointment or employment of a public employee (withdrawn)	--
9. Reports	163
10. Discussion of other Board matters	164
11. Public Testimony	164
Reporter's Certificate	165

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BE IT REMEMBERED that on Thursday, September 18, 2008, commencing at the hour of 9:38 a.m., at Burbank Airport Marriott Hotel and Convention Center, Glendale and Pasadena Rooms, 2500 Hollywood Way, Burbank, California, before me, YVONNE K. FENNER, CSR #10909, RPR, the following proceedings were held:

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MS. PARKER: Good morning. Good morning. I'm Terri Parker, the executive director of the California Housing Finance Agency. I'd like to call to order the California Housing Finance Agency Board of Directors meeting for Thursday, September 18th.

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Item 1. Roll Call

MS. PARKER: JoJo, would you call the roll.

MS. OJIMA: Thank you.

Ms. Peters for Mr. Bonner.

MS. PETERS: Here.

MS. OJIMA: Mr. Carey.

MR. CAREY: Here.

MS. OJIMA: Ms. Galante.

MS. GALANTE: Here.

MS. OJIMA: Ms. Jacobs.

MS. JACOBS: Here.

MS. OJIMA: Ms. Javits.

1 MS. JAVITS: Here.
2 MS. OJIMA: Mr. Pavao for Mr. Lockyer.
3 MR. PAVAO: Here.
4 MS. OJIMA: Mr. Morris.
5 (No response.)
6 MS. OJIMA: Mr. Shine.
7 MR. SHINE: Here.
8 MS. OJIMA: Ms. Bryant.
9 (No response)
10 MS. OJIMA: Mr. Genest.
11 (No response.)
12 MS. OJIMA: Ms. Parker.
13 MS. PARKER: Here.
14 MS. OJIMA: We have a quorum.
15 MS. PARKER: Thank you, JoJo.
16 Obviously, a little unique that I'm sitting in
17 this situation of chairing this Board today. For those
18 you who don't know it, our illustrious chairman, John
19 Courson, has resigned from the Board. You Board members
20 received his letter of resignation. John has the
21 exciting new challenge of leaving California and moving
22 with his wife Marsha to Washington, D.C., to take up a
23 COO, and starting January, will be the president of the
24 Mortgage Bankers Association. And he certainly has been
25 diving into that job with both feet, arms, legs and every

1 other body part that John Courson has.
2 He did come back for a couple of days to move,
3 and the staff met with him and gave him the gift that we
4 always give Board members -- many of you have seen and
5 have yet to receive since you're here -- a really nice
6 clock. We, staff, gave John a gift and thanked him for
7 his leadership and his commitment to the Agency. I think
8 it was with mixed emotions that he's moved onto his new
9 position, but I'm sure he would want me to tell you about
10 how much he really enjoyed his service as part of the
11 Board, and he and his leadership over the last five years
12 has certainly furthered the mission and goals of the
13 organization.
14 I, as has happened in the past -- it's very
15 unique that the Housing Finance Agency doesn't really
16 have the officers. It has a chairman by statute, but it
17 really doesn't go down a pecking order, so as I have done
18 in the past when there has not been a Board chair until
19 the Governor appoints the Board chair, I am just
20 facilitating, acting as the Board chair to essentially
21 run this meeting.
22 I will do so until we get to that point in the
23 Board meeting that really is -- it's -- when it becomes
24 the discussion about the recruitment process, and I've
25 asked Peter Carey to essentially, in his role as chair of

1 that subcommittee, to continue to conduct the meeting.
2 Just a point of clarification of sort of what
3 we're going to be doing today, the staff and I, Steve and
4 Bruce, just came back from spending four days in New
5 York. We think that it's very important before we go
6 through this meeting to do -- to give a briefing to the
7 Board on what we have seen in New York, where we believe
8 the Housing Finance Agency is positioned as far as we
9 know relative to that. So we want to take a little bit
10 of time, we think it's important to do this, before we
11 ask you to engage in your typical duties of acting as the
12 credit committee to approve these deals that we have
13 before us and discussions, other discussions, that we
14 have about the business, our business plan going forward.
15 I do want to ask you all, though, because we have
16 a number of things on this agenda, for what people's
17 times are. We do want to make sure that there is
18 sufficient time for you get to the latter part of the
19 Board, but also that there is sufficient time for us to
20 deal with the projects that we have on the Board, making
21 sure that we have a quorum. So I just want to get a
22 survey from the group about your -- your own time
23 commitments today and how -- if there's any desire to try
24 to manage our time so that we get through this but we do
25 have time to have a rich discussion.

1 Is there anyone leaving?
2 Carol, what time?
3 MS. GALANTE: I have a 2:00 o'clock flight.
4 MR. PAVAO: 2:30.
5 MS. GAY: I have an 11:30.
6 MS. PARKER: 11:30, okay.
7 So we -- we are in good shape for a quorum until
8 the afternoon.
9 MS. GALANTE: Can I make one point of
10 clarification. There are a number of multifamily deals
11 that seem like they're the same borrower, et cetera.
12 There's three or four of them. Is it possible to try to
13 have -- and I don't know legally if we have to do them
14 all separately, but just in terms of expediting, if that
15 makes sense, someone might --
16 MR. HUGHES: I think the presentations can be put
17 together, but the Board needs to vote separately on
18 each --
19 MS. GALANTE: Right. Okay.
20 MR. SHINE: You can group together like the first
21 four. The first four are the ones that are --
22 MS. GALANTE: I'm not sure which ones they are --
23 but --
24 MS. PARKER: Bob's prepared to do that. We -- we
25 want to do as much as you are comfortable making your

1 fiduciary responsibility and credit decisions. We will
2 have a little talk about what our recommendations are
3 with respect to these projects, but let me -- let me
4 first go into -- before I -- let's start the meeting.
5 And we've had roll call.
6 --o0o--
7 **Item 2. Approval of the minutes of the July 17, 2008**
8 **Board of Directors meeting**
9 MS. PARKER: We need to have an approval of the
10 minutes, so, JoJo.
11 MR. SHINE: So moved.
12 MS. PARKER: So moved by Mr. Shine. Second?
13 MS. JACOBS: Second.
14 MS. PARKER: Second by Ms. Jacobs.
15 So call the roll, please.
16 MS. OJIMA: Ms. Peters.
17 MS. PETERS: Yes.
18 MS. OJIMA: Mr. Carey.
19 MR. CAREY: Yes.
20 MS. OJIMA: Ms. Galante.
21 MS. GALANTE: Yes.
22 MS. OJIMA: Ms. Jacobs.
23 MS. JACOBS: Yes.
24 MS. OJIMA: Ms. Javits.
25 MS. JAVITS: Yes.

MS. OJIMA: Mr. Pavao.

MR. PAVAO: Yes.

MS. OJIMA: Mr. Shine.

MR. SHINE: Yes.

MS. OJIMA: The minutes have been approved.

MS. PARKER: Thank you, JoJo.

MS. GAY: Excuse me.

MS. PARKER: Oh, I'm sorry.

MS. GAY: I just want to make sure -- that's the second time I didn't hear my name called, so I just want to --

MS. OJIMA: Oh, I'm sorry. Ms. Gay.

MS. GAY: Yes.

MS. OJIMA: Thank you. Old sheet.

MS. PARKER: It's an extra vote that's important.

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Item 3. Chairman/Executive Director comments

MS. PARKER: Let me begin by asking Bruce and Steve to join us.

And, Bruce, since I gave you my sheets, can I have them back?

MR. GILBERTSON: Jason? Jason? Where did Jason go? We're going to see them here momentary, but.

MS. PARKER: Let me begin by sort of -- this is almost a real-time situation. We scheduled to go and

1 have rating agency meetings as we do every year beginning
2 on Monday. And we did the -- we did the presentation
3 booklets to go back and meet with Moody's and S&P that
4 are our rating agencies. We worked on them up through
5 Saturday afternoon, so in some respects the information
6 that we presented to them was as absolute current as
7 possible.
8 As we often do when we go to the rating agency
9 meetings, very interested in running us through models to
10 determine our capital adequacy, what sort of risk models
11 that the agency is going to be looking at so that they
12 can do that with rating our bonds sales that we have
13 moving forward, but rating for us in general.
14 We have a bond sale coming up for a couple of
15 multifamily deals. We have an S & P rating on it. Part
16 of our discussion when we're back there is to have
17 further conversations with Moody's around that particular
18 rating.
19 We spent -- unlike previous discussions, CalHFA
20 always feels like it has a great story to tell, but we
21 focused our discussions with the rating agencies, not so
22 much on the programs that we intended to be -- and the
23 business model we intend to be doing, but to give them a
24 sense of where we are in our debt management and our
25 asset management at this particular point in time.

1 And it was timely in that sense to have this
2 material put together, particularly because even as we
3 were traveling on Sunday, the news of Lehman, what was
4 going to happen with Lehman, was still playing itself out
5 in various chapters as we moved across the country
6 landing in various airports. And while we were in
7 Denver, then the chapter book changed, and instead of it
8 being discussions about, Lehman, it became discussions
9 about Merrill Lynch and Bank of America.
10 And as -- over our time that we were back there,
11 then there became discussions about AIG and as we leaving
12 yesterday, discussions of other of the investment banks
13 and whether or not the model of investment banks can
14 continue to hold in the market as it is today and going
15 forward.
16 We want to make sure that the Board understands
17 what we know and is as up to date on what is happening
18 because it's moving at lightning speed. We think it's
19 important for you to hear from our perspective where we
20 think the Housing Finance Agency is and that we give you
21 our recommendations from a staff standpoint of based on
22 what we know today, our thoughtful analysis of where we
23 believe we should continue to position ourselves at least
24 for the next days and weeks as more information becomes
25 available to us.

1 We are facing challenges. There is no question
2 about that. But we want to essentially educate you on
3 what we've been doing about challenges that we know of to
4 date and, to some extent, how we will continue to conduct
5 ourselves for challenges as they move forward and
6 reassure you and also to get your concurrence that what
7 we are proposing to do and our recommendations are
8 consistent with what you are comfortable as our fiduciary
9 Board.
10 I'm going to ask Bruce to walk through some what
11 felt are the most salient slides that we presented to the
12 rating agencies to give you an overview, but I will lead
13 you up to the end of this with us coming back with what
14 we believe our recommendation to you is of what we should
15 be doing as staff for our position in the Housing Finance
16 Agency and our relationship to our customers and also to
17 tell you that with part of that recommendation we will be
18 putting you all on notice that to the extent that there
19 are actions that we believe are important that go beyond
20 the delegation that you have given to us in January, we
21 will be calling this Board back into session as soon as
22 we can and for whatever reason that we need to to meet
23 our obligations and to present not only our face to our
24 investors on Wall Street, but also to our customers
25 inside the state.

1 So with that, Bruce, let's walk through and give
2 the Board the benefit -- obviously, this is meant to be a
3 discussion, so to the extent that there are questions, we
4 want to make sure that we answer every question that you
5 have for your own comfortability.
6 MR. GILBERTSON: Good morning. Thank you, Terri.
7 MS. PARKER: Pardon me. I'm sorry, Bruce.
8 I'm sorry, Bill, did you have --
9 MR. PAVAO: Are these graphics in the binder?
10 MR. GILBERTSON: No, they're not. First I was
11 going to apologize. This was not intended to be
12 presented today, but with the results of what's happened
13 this week we thought we'd --
14 MS. PARKER: Bruce and I literally took these out
15 of our presentation an hour ago and put them in slide
16 form, so we can get them for you, but we don't have them
17 for you.
18 MR. GILBERTSON: We pieced together a
19 presentation, but we think this is on target.
20 But Terri gave a great background, backstop, for
21 this whole situation. If you were to ask me today, I
22 would have to tell you we do not have access to the
23 municipal bond market today. It's not CalHFA. It's the
24 broader municipal bond market has just generally seized
25 up. We heard that twice yesterday in our meetings with B

1 of A and J.P. Morgan.

2 So that presents a challenge, if we don't have

3 access to the capital markets that is the source from

4 which we make all of our lending activity -- nearly all

5 of our lending activities.

6 Secondly, if we had access, when we do -- and I

7 do believe at some point we will have access again -- we

8 don't know at what borrowing costs we're going to have.

9 So I think the way we thought through this

10 presentation for this morning is we go back to when a lot

11 of the challenges in the credit markets and our bond

12 portfolio began, which is about February, March of this

13 year. This is what our debt profile looked like at that

14 time. We talked to you about this in March. We gave you

15 up update, I think in July.

16 Basically we were saying at that time that we had

17 auction rate securities. You can see the colors. The

18 red line totaled $545 million. In March we were

19 experiencing failed auctions regularly on almost all of

20 our auction rate securities. So we presented you the

21 notion that we needed to restructure those. We needed to

22 eliminate those, convert them into another form of bond.

23 At the same time, we believed that certain of the

24 bond insurers were having significant credit issues,

25 AMBAC and MBIA especially for this Agency, and so the

1 $462 million of variable rate demand obligations that
2 were insured by those two entities would also need to be
3 restructured. Those are color coded in orange, although
4 the colors are hard are to see.
5 The balance of the slide then shows what are the
6 other components of our portfolio. We have FSA insured
7 variable rate demand obligations today. They're still
8 performing reasonably well. All of the uninsured VRDOs
9 where the investor is simply taking credit risk to CalHFA
10 are performing very, very well.
11 We have some index floaters, $979 million. Not
12 an issue there because they simply -- we pay whatever the
13 index is and the spread to the index. And then fixed
14 rate bonds, of course, are something that once we have
15 issued those, the investor is taking all of the risks.
16 The bottom portion of this chart, then, kind of
17 shows what the risk factors are. I'll leave it to the
18 Board if you have questions about that, I can walk
19 through that. I think where I wanted to go with this is
20 that the auction rate or the red coded bonds and the
21 orange coded bonds totaled 13 percent of debt at the end
22 of February of this year.
23 Same slide with new balances as of September 5th.
24 One thing you'll notice is that the outstanding bond
25 went up from $7.9 billion at the end of February to

1 $8.5 billion the first week in September.
2 We've made significant progress with the auction
3 rate securities. We have a remaining balance of
4 $243 million. The reason why most of the rest of that
5 had not been restructured is that in order to reissue
6 these bonds as variable rate demand obligations, we
7 needed a commercial bank to provide us a liquidity
8 agreement or a facility that would backstop those bonds.
9 That marketplace has become very, very challenged at
10 this point.
11 We had begun a strategy with the insured VRDOs of
12 modifying the liquidity agreement to change the
13 investors' credit exposure to point to CalHFA. We did
14 that on almost all of those bonds. It simply wasn't
15 enough. The investors still saw an insurer, MBIA and
16 AMBAC, attached to the bonds, and it was forcing us to go
17 through a process of stripping the insurance policy,
18 making a settlement payment with the insurer, and moving
19 forward. And we have completed one of those, and we have
20 plans underway to continue that process.
21 So at the -- as of a week or so ago, we were
22 sitting with $8.5 billion of bonds. Six percent of the
23 bonds were not performing well. We had a larger portion
24 of green and black bonds, which are bonds that we think
25 are going to perform reasonably well. In fact, 4.2,

1 almost 50 percent of the bonds now are either index
2 floaters or fixed rate bonds.
3 That leads us to -- well, these were the plans
4 that we had as we were preparing on Saturday for our
5 presentations in front of S&P and Moody's this week.
6 This is what we were telling them, and this is, in fact,
7 what we did tell them, that we had plans to deal with the
8 remaining $465 million. We thought we could complete
9 this by sometime in November.
10 And this is how it would lay out, that we had for
11 the HMRB -- that's a single-family indenture, the largest
12 indenture of the Agency. The ones that have bond
13 insurance from MBI and AMBAC, we would simply remove the
14 insurance, reintroduce the securities without bond
15 insurance. The liquidity facilities would stay in place,
16 and everything would be fine.
17 So we thought that we clearly had strong
18 indications from BoNY, Bank of New York, Scotia Bank,
19 that they would stay in as a liquidity bank. And Lloyd's
20 bank was hedging their bet a little with us at this
21 point, so we were showing that we thought we could get
22 one extended and the other one may be in doubt.
23 The whole idea here is by stripping the
24 insurance, the bonds would perform well. You can see
25 that we did modify all of these bonds in June or August.

1 It didn't work at that time.

2 The other problem that we had was the auction

3 rate securities. Those were all in our multifamily

4 program. It was a little over $200 million. We've had

5 initial commitments from J.P. Morgan and Bank of America

6 that they have access to credit. They'll extend credit

7 to us for the purpose of providing a standby bond

8 purchase agreement so that we could convert the auction

9 rate bonds into these variable rate demand obligations.

10 In fact, while we were in New York -- in fact,

11 yesterday, we sat in front of a J.P. Morgan credit

12 committee to tell our story so that we could get final

13 approval for the $138 million.

14 Bank of America, there are representatives in the

15 room today, gave us an indication last Friday that they

16 were willing to step up and provide $85 million of

17 additional credit to backstop this process and allowing

18 us to do this.

19 With that, I think I'll just take a deep breath

20 and say what's happened is that these liquidity banks are

21 extremely challenged. Just yesterday we had $60 million

22 of bonds that were in investors' hands put back to the

23 underlying bank. Okay. So, for example -- and these

24 aren't the actual banks, but Bank of New York, who was

25 providing a liquidity facility, is now owning bonds.

1 That was not the intent when they signed up for this.
2 Their intent was to provide a credit facility to us and
3 earn a fee on it, but they really didn't believe they
4 were going to own bonds.
5 So $60 million of bonds have been put back.
6 $133 million of bonds as of last evening were in the
7 pipeline to go back to banks sometime between now and
8 next Wednesday.
9 So I think as we start -- continue our
10 negotiations with liquidity banks, we're going to have
11 some issues there. Don't know exactly how that will play
12 out. We have it both for the new facilities we're asking
13 for, and we also have a challenge as liquidity facilities
14 will need to be extended over time.
15 Just stepping back one more time, we issued
16 30-year bonds. We've always had this rollover risk where
17 the liquidity facilities would need to be extended
18 sometime in the future. Some of these facilities go out
19 for a year, two years, three years.
20 MS. PARKER: You have a chart to show that.
21 MR. GILBERTSON: Yeah, I was going to jump ahead
22 to show that.
23 This is a snapshot of where -- where in time
24 these liquidity facilities will roll off between now and
25 2014. So we will also be facing a challenge of

1 $200 million in liquidity that needs to be extended
2 before the end of the year.
3 There's another 500 million that will be, you
4 know, presenting itself for extension in the first six
5 months of 2009, and then we have big bar there in 2010.
6 We've done our best over time in managing this and
7 diversifying the expiration dates of these facilities
8 kind of over time.
9 Another reason for some of the bonds going back
10 to the banks, Lehman Brothers. Maybe we go back and stop
11 and talk about Lehman Brothers for a moment. Lehman
12 Brothers basically filed for bankruptcy on Monday
13 morning.
14 Lehman Brothers provided two things for us, quite
15 honestly. One is that they were a swap counterparty, and
16 the other they were a remarketing agent. They had a
17 portfolio of bonds that they were resetting rates on,
18 either a daily or weekly basis. The total of bonds is
19 $440 million, I believe.
20 Since they filed for Chapter 11, of course
21 they're not fulfilling their obligations very well, and
22 some of the bonds that have been put back to the banks
23 were remarketing activities that Lehman held.
24 We're in the middle of reassigning the
25 remarketing of those bonds to other banks and will hope

1 to do that by as early as next week. It just takes time
2 to get everybody to sign up to the assignment agreements
3 to do that.
4 When we -- when we landed in New York Sunday
5 evening, Terri, Steve and I were saying, oh, wow, Lehman
6 is in trouble. I didn't think when I left the office
7 Friday afternoon that we were going to be facing a
8 bankruptcy situation. I thought the feds or other
9 entities in the financial marketplace would come in and
10 backstop or purchase Lehman Brothers and we'd simply be
11 facing another entity.
12 Again, I apologize for the -- some of the
13 acronyms here. The rating agencies and who these were
14 intended for understand who these -- these acronyms stand
15 for. The Lehman Brothers exposure is the LBDP, the
16 second line or second row.
17 At the time we were facing a strong entity on
18 Friday. It's a AAA-rated entity. It was separately
19 capitalized. Unfortunately, it's a terminating entity.
20 And if the holding company, Lehman Brothers Holding, were
21 to go into bankruptcy, there's a trigger event, causes
22 the termination of the transaction.
23 So we had a total of 482 million of swap notional
24 outstanding with them. So we were -- what happens in the
25 termination event is that there's a fair valuation of the

1 contracts that we have in place.
2 That fair valuation on Friday afternoon was
3 estimated to be about $39.86 million. By Monday morning
4 because of further changes in the financial markets, it
5 had grown to almost $50 million.
6 We were contemplating that we were going to be
7 writing a check for upwards of $50 million to cancel the
8 trades, and effectively, then, we would be sitting with
9 unhedged floating rate bonds in a low interest rate
10 environment. It's not the end of the world. We have
11 other unhedged floating rate bonds.
12 Tuesday morning, we're sitting making our
13 presentation --
14 MS. PARKER: You've got to go back to Monday
15 night. You got --
16 MR. GILBERTSON: Oh. Yeah. Okay. Monday night
17 checking my e-mail while we're having dinner at some
18 place in New York and I was getting some unsolicited
19 opportunities to have other banks step into the shoes of
20 Lehman Brothers. Morgan Keegan was the one that comes to
21 mind. They were willing to kind of take on the
22 obligations of the counterparty.
23 Didn't ever get to the point of flushing out what
24 the economics of that would be because one of the
25 challenges would be if it was Morgan Keegan or one of

1 these other swap counterparties, they would effectively
2 be giving us a loan for $50 million and taking credit
3 exposure, and the challenge would be to negotiate what
4 those terms were.
5 So we had that in the back of our mind, and we
6 were going through with Moody's what we thought were four
7 different options to resolve the Lehman Brothers
8 situation.
9 About noon New York time, I was getting calls and
10 e-mails that I had to immediately call our bankers at
11 Lehman Brothers. At the same time, Peter Shapiro, who is
12 the president of Swap Financial, effectively our interest
13 rate swap advisor, was with us, as he always accompanies
14 us to the rating agency meetings, he was getting the same
15 contacts.
16 So we went out in the hall, talked quickly. We
17 were getting an opportunity to assign these swap
18 contracts to another entity within Lehman Brothers called
19 Lehman Brothers Special Funding, LBSF -- keep all the
20 acronyms straight.
21 So it seemed to us there's a no-risk transaction.
22 We could assign the swaps. The idea was that Barclays
23 Bank was going to buy some part of Lehman Brothers, and
24 there was some likelihood that they might be buying LBSF,
25 and now we would be facing a counterparty that was a

1 AA-rated entity. We wouldn't have to make a termination
2 payment.
3 So we kind of put our -- our meeting with Moody's
4 on hold, got Terri on the phone. We talked with the
5 bankers and gave them a verbal award. Late yesterday Tom
6 executed -- because the three of us were traveling from
7 New York to L.A. executed an assignment document, and so
8 we are now officially -- have a counterparty that is
9 Lehman Brothers Special Funding.
10 It is -- it is not in bankruptcy, but there's a
11 chance it could end up in bankruptcy. We may end up in
12 the exact same place, but we -- we're holding out for the
13 opportunity that maybe Barclays will step into the shoes
14 and we will now have a bank based in London that is a
15 counterparty of ours that has AA ratings.
16 At the same time, of course, AIG -- and it just
17 continues. The AIG, you've all read about that. You'll
18 see AIG Financial Products is on our list here. We have
19 a $303-million exposure to them. The mark to market is
20 significantly lower. At this point there's not an issue.
21 There has been kind of a situation where the federal
22 government has provided them some additional access to
23 capital and hopefully they can unwind that company in a
24 reasonable and orderly fashion.
25 I'm going to go back just -- we talked about

1 that. This is one other slide. What we were trying to
2 present to the rating agency, that basis mismatch is how
3 we measure the effectiveness of the variable rate
4 strategy because it's two components. It's the interest
5 rate we have to pay the bondholders, and it's the
6 variable rate formula that we have structured inside of
7 the swap contracts. They're intended to match very
8 closely. They're not going to be perfect. We knew that
9 going in.
10 With all of the disruption in the markets,
11 they've widened out. And so this shows -- the numbers at
12 the bottom of this page show for the last 12 months in
13 two six-month increments what the additional expense was
14 to CalHFA for basis mismatch: $2.9 million in the first
15 six months, $5.1 million from February 1 to August 1.
16 That all makes a lot of sense. We didn't have
17 failed auctions until February, and a lot of the widening
18 out of these insured VRDOs occurred in the second
19 six-month period. And you can see the actual numbers.
20 We had some that were -- a minus is a good situation for
21 us here. I'm looking at the HMRB VRDO uninsured total.
22 As you go across, it shows a negative $1.4 million.
23 So with all that's going on in the market, we
24 would expect to have high basis risk, continued mismatch.
25 To give you a sense of that, yesterday I was hearing --

1 remember we have a very large portfolio of variable rate
2 bonds. It's not totaled here, but we have something in
3 excess of $4 billion. Those bonds reset daily or weekly.
4 Okay.
5 Some of the rates that we're resetting earlier
6 this week were 5 percent or higher. We're in an interest
7 rate environment where tax exempt bonds should be
8 resetting in the 2s, perhaps as -- below 2 percent. So
9 we're extremely high. It's because there's a lack of
10 confidence. Nobody has confidence in the marketplace.
11 There was money market funds that had extreme challenges.
12 A money market fund should always have a net
13 asset value of one dollar, and some of them broke the
14 buck. That is unheard of in that marketplace, which
15 means that they had losses, and they had losses because
16 of the Lehman Brothers collapse. They had short-term
17 paper from Lehman Brothers that was a part of those money
18 market funds.
19 Leads me to this: We talked about SBPA is stand
20 by bond purchase agreement. That's technically what we
21 refer to that are these liquidity facilities. These are
22 the banks that provide us the liquidity facilities so
23 that a bond investor, typically a money market fund,
24 could put the bonds back to the remarketing agent and get
25 rid of them. They wouldn't have to have ongoing exposure

1 if they decided they didn't want it.
2 We have $307 million coming due in the next six
3 months. This goes through the end of February. We
4 asterisked the two Lloyd's. We had soft verbal
5 commitments, I think is the official word that I would
6 say, with them for some bonds that were going to -- or
7 facilities that would expire at the end of October.
8 I think where -- what we're thinking, we're
9 thinking about all kinds of options and ideas. Certainly
10 one of them would be to use liquidity that the Agency has
11 to simply redeem bonds. If we don't have a liquidity
12 facility to cover this $300 million, we really have two
13 options.
14 We can convert them to a fixed rate mode. The
15 fixed rates oftentimes won't work well with the loan
16 assets that we originated many, many years ago because
17 some of these go back to 2000, 2001, 2002, or at the low
18 point to the market's probably a better example, when
19 rates were hovering very low in 2003 and 2004.
20 We could use short-term credit facilities to do
21 of this as well. We have a lot of options to think
22 through. We haven't thought through them all. This has
23 all kind of happened very, very quickly. But I think
24 what we wanted to express to the Board is that we're
25 going to face some of these challenges.

1 I just say that we have a right or an option, we
2 can convert to a fixed rate bond, but we don't have
3 access to that market today. There's nobody that would
4 buy our fixed rate bonds even under a conversion. It's
5 just it's seized up at this point.
6 So I think this was a slide to show at a snapshot
7 some of the liquidity sources that we have. We have our
8 own reserves. They're sitting in the state Treasurer's
9 pool. They're -- they're moneys that were designed to be
10 used as a part of the Housing Assistance Trust Fund to
11 make loan programs available to other borrowers, either
12 from downpayment assistance or GAP loans in the
13 multifamily program.
14 We have moneys in the emergency reserve account.
15 The Board many, many years ago, 15 years ago or more,
16 created an emergency reserve account that has 60 or 70
17 million dollars available for this type of situation.
18 The supplementary bond security account is also
19 something that was created by the legislature and is
20 available in these times.
21 I think I'm going to stop there, open it up for
22 questions. Maybe Terri has some additional follow-up.
23 MS. PARKER: Let me just add a couple of comments
24 to sort of close this out. One of the reasons -- and
25 I -- and I appreciate we've been going through this for

1 the last four days on a minute-by-minute basis, and I
2 realize that by telling you all this, it's a lot to
3 digest in a very short period of time, particularly on
4 top of what you've been reading in the papers, sometimes
5 all of which do not have the complexities and the nuances
6 of what really is occurring in the financial markets,
7 given the complexity.
8 I can say that the past four days that we were
9 there that we were with some of the most professional
10 people I have dealt with in my career. These are people
11 who as their employers were perhaps moving to bankruptcy
12 were doing their jobs contacting their clients to make
13 sure that these investment strategies were used to the
14 benefit of the investors and the Agency and the clients
15 and customers in California that we serve.
16 We have some, obviously, uncertainty. One of the
17 reasons why I asked Bruce to give you this step-by- step
18 little painful process is to know that as things are
19 occurring in real time, there are options that are
20 occurring that we don't know about that we are
21 considering. Bruce has talked with you about some of the
22 things that we have thought about in the last 24 hours --
23 not even 24 hours -- of knowing that we may have
24 60 million in puts back to us as of last night and maybe
25 another 130.

1 We don't know what more things that will be
2 presented to us as options. So it is a matter of, and to
3 some extent, uncertainty how we suggest to everyone that
4 we move forward. We have real situations that we need to
5 go with. We've got a bond that we need transactions that
6 we need to do for some multifamily deals.
7 That's part of the reason for going back to
8 Moody's and walking them through this elaborate
9 presentation and also a presentation of our debt
10 management. We believe we had a very good meeting with
11 them through the information on Tuesday. We -- we need
12 to sell those bonds, and we have a drop-dead date that we
13 are working through to make that essentially happen.
14 We need to deal with access to the credit market.
15 I don't think that there's anybody who doesn't believe
16 that there will be access to the credit market and that
17 there will be bonds sold. It's really what day of the
18 next -- this week, next week, or next several weeks that
19 that will open itself back up.
20 I believe that when it does, we will be well
21 regarded in that. We will be, as our bankers told us,
22 one of the first entities that they will deal with with
23 what capacity they have between now and the end of the
24 year as opposed to some smaller, you know, less
25 significant more regional entity that's trying to sell

1 bonds in this environment. The question, again, will be
2 cost, and we will have to deal with that when we know it,
3 but we don't know it now.
4 The questions before us, some of which Bruce
5 talked about, how do we handle these. These are the
6 options that we have thought of. There will be many more
7 in the days to come, and we believe that we need to move
8 carefully to not stew, you know, knee-jerk reactions, you
9 know. Business is not as usual, but just as we have
10 handled these dilemmas that have been with us since the
11 beginning of the year with measured steps, we will want
12 to do measured steps to go forward.
13 We have to ask ourselves -- and I will say this,
14 but it's important that you know it, we will ask
15 ourselves the questions of whether or not particularly on
16 the homeownership side that we should take a holiday from
17 taking reservations, a short-term suspension, whatever
18 you went to call it -- not shutting the doors, not
19 closing down. That is not what we would be in any
20 stretch of our imagination -- but whether we need to
21 pause.
22 We are not at a point yet to say that we need to
23 do that, but we will look at everything from that to
24 continue to be doing the business that we're doing today.
25 Bruce has looked at what we have in the pipeline.

1 We have bond transactions in place that will cover the
2 interest rates that are on those reservations in our
3 pipeline, so we have -- we can assure you we have
4 comfortability from staff's standpoint of where we are
5 those bonds, those deals, those loans today.
6 We also -- that is what leads us to this
7 discussion this afternoon of these homeownership deals,
8 and what our recommendation will be to you is to continue
9 to proceed with these. These deals will be contingent
10 upon our getting our approval so that they can get access
11 to other financial tax credits, bond cap, to allow these
12 deals to at least have access to the marketplace if it's
13 not bonds from us, who else it might be, but there's 120
14 days for them to work through that. If we don't take
15 action today, then that stops the clock for people
16 without necessarily having a full comfortability of
17 whether that clock should be stopped.
18 So we want to, from a staff standpoint, make sure
19 that you know all of the things that we are faced with
20 that we know about today. We believe at this moment with
21 certain additional qualifications that we move forward in
22 a measured way, but that we do not have enough
23 information for us to essentially say we should take a
24 very strong negative reaction to the business that we
25 have before us.

1 But we want to leave that up to you and make sure
2 that you are comfortable with any questions that you
3 might have. We believe the last couple days that some of
4 the bankers have asked us some of the best, most pointed
5 questions, so we are certainly prepared to answer your
6 questions today.
7 MR. SHINE: So you're saying that if -- that
8 acting upon these deals that we have before us today is
9 one thing, but implementing them is another thing subject
10 to the conditions you're facing?
11 MS. PARKER: That's right. You know, we -- if we
12 had to sell bonds today, we do not have access to the
13 market, nor does anyone else. There was a deal done
14 Monday for Michigan. They stopped doing deals Tuesday.
15 But there was a lot of discussion, even with the
16 rating agencies around the sale of bonds and the access
17 to liquidity. And at the end of the day, people were
18 using the analogy of the oil crisis. And while there are
19 fields of oil that are not available and not worth
20 accessing at some price point, depending on what the
21 price point is there are more oil fields available.
22 The general feeling is that there will be a
23 market. There will be liquidity. There will be bonds
24 sold. It is at what price points, and we will know that
25 going forward. And we will be in discussions with our

1 customers, and they will have to be taking that into
2 consideration, but they have to take that into
3 consideration whether it's us or someone else that they
4 had started down this path of getting their financing
5 done.
6 And if we don't continue at this point in time
7 with at least allowing them to have an approval, then it
8 sets problems for them of covering. And I think many
9 people, certainly Carol, Lynn are very knowledgeable of
10 this, if I -- we believe it puts them at a greater
11 disadvantage and at least in the short run gives them
12 more options until all of us know how this situation
13 transpires. Rather than essentially having the deal blow
14 up today, there is more time that is available to see
15 whether it can be carried out before people have to make
16 a decision and say the deal is -- it is not possible.
17 MS. JACOBS: Could I ask a couple questions? On
18 the reserve account that's at the Treasury, could we get
19 that breakdown of what's in emergency, you know, of what
20 each of the funds are?
21 MR. GILBERTSON: Yeah, I don't have that with me,
22 but I could certainly break that out. The breakdown of
23 the 241 million?
24 MS. JACOBS: Yeah.
25 MR. GILBERTSON: And there's the parenthetical I

1 didn't cover, there are other additional excess revenues
2 that would be available to us. They're within the bond
3 indentures. My staff back in Sacramento is looking at
4 that as we speak to try to determine what other liquidity
5 sources we have.
6 MS. PARKER: We're looking -- and I'm going to
7 ask Bob to step up in case there's some more questions on
8 the multifamily deals.
9 We will look at everything. We will look at
10 whether or not there are loans in our portfolio that we
11 essentially can sell off, if there is, which will
12 essentially help strengthen our GO. You know, we will
13 look at everything. That goes back to essentially this
14 discussion of having the time to look at them in a
15 thoughtful, organized manner.
16 Again, I would go back to the strength of what
17 the Agency has done over the last several months by
18 suspending the HELP program, the RDLP program. We
19 essentially have increased our capacity of HAT funds,
20 that if we had been doing business as usual per our
21 business plan, we would have lent those funds over the
22 last three to six months and not had them available. But
23 we had -- we started way back in the early spring with
24 doing things that at least today have put us in a better
25 situation than if we had not done those things several

1 months ago.

2 The same thing is true on the asset management

3 side. We had data that we presented on there are greater

4 delinquencies, but we have taken steps six months ago to

5 change the underwriting in our homeownership loans by

6 raising FICO scores and reducing loan to values that we

7 would accept, you know. And so we have a corpus of loans

8 that we need to deal with, but they're not part of what

9 is moving forward.

10 So what we are suggesting is that we need to

11 have -- we need to look at that same team that's in place

12 that has been doing these things, that is the resources

13 to look at the present information and move forward in a

14 thoughtful manner.

15 MS. JACOBS: I'm wondering as -- I totally agree

16 with you. It's not whether there's going to be credit,

17 it's what it's going to cost. But I think that from our

18 role as a Board, do you think we should be looking at,

19 after this analysis is completed, just some stop-loss

20 direction rather than affirmative direction on

21 everything? I don't know, I'm just --

22 MS. PARKER: I -- I -- I think it's premature to

23 answer the question.

24 MS. JACOBS: Could we look at that as an

25 alternative in terms of having to --

1 MS. PARKER: Well, I believe that will be part of
2 what we will look at and be essentially determining as
3 potential options, because we certainly don't want to get
4 into a situation where we would be, you know, at the edge
5 of -- oh, I promised I wasn't going to use that word --
6 of our capacity.
7 And, as I said, we -- we have been comfortable
8 that $700 million of liquidity, given, is a very strong
9 position to be in. We haven't even begun to explore what
10 other sources that we have, an effective story that we
11 can be presenting.
12 We have had great relationships with the
13 Treasurer's Office over the years, so in a time of --
14 this, it is a matter of looking at what capacities we can
15 develop, things that we can get off of our balance sheet,
16 this is good timing to do that, and whether or not we
17 need to put some measures in place that essentially say
18 we go this far and go no farther.
19 MR. SPEARS: You know, Terri, the Board has
20 already started down that path by setting a goal of
21 50-percent fixed rate bonds, 50-percent variable rate
22 bonds, reducing the reliance on variable rate financing
23 in the future, so that was set some time ago when and --
24 MS. PARKER: We are on a course to --
25 MR. SPEARS: -- we have made quite a bit of

1 progress. I'm sorry.
2 MS. PARKER: -- to meet that. If you looked at
3 the -- some of the financial instruments that we have,
4 you could probably say we are at that are right now,
5 50 percent, because of some of those that we have. The
6 way --
7 MR. GILBERTSON: We don't have all the risks on
8 the --
9 MS. PARKER: Right.
10 MR. GILBERTSON: -- index floaters and --
11 MS. PARKER: Right. And so if you counted the
12 index floaters, we would be at and moving there. We have
13 no plans except for it's our REO program to sell much of
14 any variable rate debt. It's going to be fixed rate.
15 So, again, we go to the market, we do bonds. The --
16 we're going to be looking at the fixed rate market, which
17 is good news because the variable rate market right now
18 is even in greater chaos.
19 Carla.
20 MR. SPEARS: Oh, I'm sorry.
21 MS. JAVITS: Did you want to --
22 MR. SPEARS: Well, I was just going to say in the
23 last 15 years, my professional career has been about
24 municipal finance and going to see rating agencies at the
25 Treasurer's Office when I was Deputy State Treasurer and

1 for clients in the private sector, and as you can imagine
2 because of the events over the past two weekends --
3 remember two weekends ago all the news was all about
4 Fannie Mae and Freddie Mac, and last weekend it was even
5 more, and it's progressed during the week.
6 And it was exciting to be there in the middle of
7 all that, but the questioning was the toughest that I've
8 ever seen. I thought we were very well prepared. In
9 fact, Standard and Poor's said at the end of our meeting,
10 "We wish that all the HFAs didn't -- not that they would
11 present it, but that they had the ability to present the
12 detail that you have presented today." So I think Bruce
13 and his staff have done a terrific job in preparing for
14 the visits.
15 But, you know, I think the tendency in some of
16 these situations is to just focus on the here and now,
17 focus on the sensational news that you're hearing every
18 day, every day and -- but I think it's really important
19 to keep our eye on the ball and on the long-term benefit
20 for the Agency and make decisions that benefit us down
21 the road.
22 MS. PARKER: You have to realize that, well,
23 we've been hearing about this for the last four days.
24 Bear Stearns is gone and it's part of J.P. Morgan, and
25 it's moved on. It's all settled. U.S. Bank -- not U.S.

1 Bank.

2 MR. SPEARS: UBS.

3 MS. PARKER: UBS, excuse me, is gone too. That's

4 there. So there is -- it's -- and the JSEs, it's all

5 these steps. Many, many of the folks that we talked to

6 said that if we are not at bottom, we are close to it.

7 And so that -- what that means is that we are now

8 on -- very close to being on the up side out of this.

9 MR. SPEARS: And we have options.

10 MR. GILBERTSON: It's positioning ourselves for

11 the opportunities that will be better going forward, and

12 we just don't know when that is, I think is another way

13 to think about this as a Board.

14 MS. JAVITS: Thank you for this great

15 presentation. And, you know, I think just hearing how

16 you've been handling this give us more confidence as a

17 Board.

18 I have one question, kind of building on what

19 Lynn asked and then a more specific question about the

20 multifamily side.

21 I guess I'm hearing kind of you gave us a lot of

22 information, and I understand the perspective of long

23 term, taking advantage of the long term, but if you had

24 to characterize what the major risk to this Agency is in

25 the next month or two, what it is, what the size of it

1 is, and what we're doing to mitigate that, how would you
2 respond to that?
3 MR. GILBERTSON: I -- I don't know that I can --
4 size is probably the toughest part of that multipart
5 question you asked, but I think access to capital. Okay.
6 That is -- certainly once we can reenter the capital
7 markets, that will be a big plus for us.
8 I think the other thing is liquidity. You know,
9 liquidity is what the -- most of the financial
10 institutions that have failed, it has been about
11 liquidity.
12 MS. JAVITS: Right.
13 MR. GILBERTSON: So we will very actively --
14 we've been doing this all year long. The key phrase that
15 many of my colleagues at the Agency remember me saying is
16 I've been saying all year, "Cash is king. We need to
17 hang onto cash."
18 So that gives us the options. That gives us the
19 option to redeem bonds if we have to. That gives us, you
20 know, options to restructure, you know.
21 One of the challenges I think we'll face, we have
22 $10 billion of assets on the balance sheet. But I would
23 guess -- don't know exactly -- 90 percent of those are in
24 mortgages. Mortgages are not a very liquid asset. But
25 as Terri mentioned, I think we would look at selling

1 loans, certain loans. Some of our loans are high
2 quality, would have tremendous value, and we could
3 perhaps raise additional liquidity by selling off some of
4 those assets.
5 MS. PARKER: I remember how well we did -- we
6 held the REOs for years and years and years and then we
7 essentially sold those. It was excellent timing for us.
8 I guess I would just add to Bruce, again, trying
9 to -- we want to be as frank and candid as we have
10 knowledge to give and share with you. I believe one of
11 the unknowns is what the rating agencies will do.
12 And the importance of what the rating agencies
13 do, then, is what is the reaction of the investor market
14 because of what the rating agencies do. So if the rating
15 agencies decide to, because of this, make some global
16 pronouncement of credit watches or whatever, what will be
17 the investors' reaction to that, particularly because of
18 the amount of variable rate debt that we have out there
19 for dailies, weeklies, et cetera.
20 I will tell you when we were in discussions with
21 Moody's about our own rating and we presented and
22 prepared this material for them on Monday, they were --
23 they were looking at us very closely as an individual HFA
24 with far more outstanding swaps, variable rate debt, and
25 the complexities of things like Bay Area that nobody else

1 has. The counter side to that is the liquidity that
2 we've had available to us and a very strong management
3 team that they evaluate.
4 But if it is a situation where because of the
5 broader market they decide to do something globally,
6 then, you know, we will rise and fall with a broad group
7 as opposed to us individually, and that will be a
8 situation where investors will have to decide whether or
9 not -- you know, what their stomach is, whether or not
10 frankly this is a buying opportunity, just as they do
11 now.
12 And that's why we want to continue to have as
13 much information, we will share it with you as often as
14 you want to have it, but to at least keep progressing as
15 we find more before we -- we do something. We always
16 have the ability to kind of stop, but we -- our focus is
17 on managing the existing portfolio that we have in place
18 to us today, irrespective of what we go forward with in
19 additional loans.
20 MS. JAVITS: So my second questions really cuts
21 to that last point you made, that we always have of the
22 ability to stop. So it's just a practical question.
23 Let's say today we went forward and we approved all these
24 deals. And let's say that the market situation is such
25 that we don't want to make good on those. Is that -- can

1 we stop? I mean once the Board has approved these deals,
2 what --
3 MS. PARKER: I mean it's both -- it's both a
4 relationship and a legal question and we're -- Tom,
5 your -- and, Bob, if you want to.
6 MR. DEANER: Well, what it comes down to for
7 today is allowing the borrowers to get their application
8 because not only are we the lender, we're also the
9 applicant for the borrower. So they're in CDLAC for
10 their allocation that they're going to get on the 24th.
11 What the approval would do today is give them the ability
12 to still get the allocation, have their 90 to a hundred
13 days to go get other financing if we can't sell bonds.
14 MS. PARKER: We have -- we asked Tom. He
15 drafted, on his way to the plane, a revised amendment to
16 the resolutions of what we would be suggesting to
17 accompany all of the transactions today.
18 MS. JAVITS: That will reflect the fact that we
19 may not be able to sell the bonds and make good on the
20 deal?
21 MR. HUGHES: Yeah, I'll -- I'll walk through
22 this. I literally on the fly was preparing a proposed --
23 as I was talking to our folks in New York and the
24 dimensions of this became clear and the exact question
25 was raised what do we do tomorrow if we don't have access

1 to the capital markets or there are this many unknowns,
2 and we pondered exactly that question, in a very hectic
3 day with other things going on, as Bruce was talking
4 about, the swaps being transferred, I kind of cobbled
5 together in a couple of minutes a possible solution in
6 the form of the resolution.
7 I picked one of these, but it would apply to all
8 of them that are before the Board today. What it
9 essentially says is -- normally in the Board resolutions
10 the Board doesn't create a loan commitment. What it does
11 is authorize the staff to enter into a loan commitment
12 pursuant to the staff's recommendation. But at this
13 point, the staff can't recommend in the way that it
14 normally does because we don't know if we have the
15 ability to finance these loans today. We may tomorrow.
16 We don't know.
17 So what this would do is it recites that the --
18 you know, the events of the last couple of days in the
19 capital markets have caused massive disruption, that we
20 don't know what that will mean unless, you know -- unless
21 and until we determine that we can access those markets
22 on terms that will work, that what this goes ahead and
23 does then is gives to the staff -- it approves the
24 project, if you will, in the sense that the staff has the
25 ability to enter into a final loan commitment, but it

1 recognizes that that loan commitment can't be made until
2 the staff determines that there are financing mechanisms
3 to back that loan commitment.
4 So you'll see -- and that's the -- the recitals
5 on the first page. On the second page it basically says
6 that the Board recognizes that if the staff cannot
7 determine that we can find reasonable and prudent
8 financing mechanisms, we won't enter into a loan
9 commitment.
10 And it also further recognizes that, as I think
11 Terri and Bruce have both said and Bob said, we don't
12 know what rates we will access the market, and so we may
13 need to modify those loan commitments from the package
14 that was prepared before this hit. So this would also
15 give the staff the ability to make those modifications
16 based on the disruption of the capital markets without
17 coming back to the Board.
18 And I think that the intent is, as Bob just
19 explained, that because developers need to get their
20 projects rolling, there will be some window period after,
21 you know, we'll try and work this out, but at some point
22 Bob needs to be talking to those folks to determine
23 whether they need to look at other options.
24 So all this really does is try and buy some time
25 until we figure out whether we can be in the market or

not.

MS. JAVITS: Thank you.

MS. PARKER: Carol.

MS. GALANTE: I just wanted to follow up on a couple questions. Terri, I thought I heard you say that one of the options on dealing with this liquidity was to take a holiday, to be -- just taking a holiday on the ownership deals.

MS. PARKER: I -- I think I used the word -- I used that more -- I think we are more in the discussion of that on the homeownership side as opposed to the multifamily side.

MS. GALANTE: I'm just trying to make sure I'm understanding.

MS. PARKER: Because we have -- you know, we take reservations every day.

MS. GALANTE: Right.

MS. PARKER: On the multifamily side we have these deals. Bob is obviously working on other deals, but those deals aren't, you know, known or certainties of them yet. So what we're trying to do today is deal with those, and I have two groups. We've got deals that we have approved that we've got to sell bonds or find financing for, and then we have these.

And for this group, we're essentially saying the

1 resolution would be to go forward, but if we can't
2 finance them, at least there is time for those deals to
3 look to see if there's some other mechanisms. But, you
4 know, we're not trying to really talk about those that
5 are sort of in Bob's pipeline because there may be so
6 many other things that affect them.
7 But -- so that, you know, I don't see the same
8 timing for them that I do on should we do another
9 30-year, you know, fixed rate loan on the homeownership
10 side.
11 MS. GALANTE: So one option is -- on liquidity is
12 we take a holiday on the homeownership stuff, we -- which
13 I'm not saying we're making a decision on that, but
14 that's an option out there. For the multifamily deals
15 that we have in front of us, can someone just tell me
16 because I wasn't prepared for this discussion when I was
17 reading these what's the aggregate dollar amount of these
18 commitments.
19 And while you're looking that up and you don't
20 need to answer me right now, you know, I am interested
21 in -- of the deals we have on the table, there's a
22 certain number that are essentially CalHFA portfolio
23 deals that if I needed to make decisions, if I were doing
24 the underwriting about which deals were important to move
25 forward and which deals weren't -- at a point in time,

1 not today, let's just assume the Board approved all these
2 to move forward but you were trying to do some
3 prioritization if you needed to down the road, I would
4 have some thoughts about which ones are more important
5 from, you know, whatever, a mission standpoint to get
6 done than others. So I would like a breakdown of the
7 ones that are CalHFA portfolio deals versus the other
8 ones.
9 And then my last thing I'd like, piece of
10 information on, is how robust the multifamily pipeline is
11 because, again, to me, I think we might need to be
12 looking at, you know, if we have limited funds to make
13 loans, what should our priorities be to make those. We
14 may not be able to make any, but --
15 MS. PARKER: This is exactly what I had hoped we
16 would be able to have as a discussion from you. We want
17 to make sure that you have comfortability and confidence,
18 but in that sense directions to us for what we should be
19 doing in taking into consideration sort of our analysis.
20 I think Bob, once he adds it up, can tell you
21 what's in here and also, you know, you have a pretty good
22 handle on what is in the pipeline.
23 MR. GILBERTSON: Yeah, I was just going to add
24 quickly, that if we don't have access to tax exempt
25 markets, we're not leveraging tax credits, which all of

1 these projects need. I mean, it's a huge part of the --
2 the financing package.
3 MR. DEANER: Well, in addition to that, they've
4 got other soft sources, local money, MHP, and there's a
5 number of -- you know, our deals have five, six loans or
6 sources that are committed today on that, that they're
7 going to get their allocation, their tax credits, so this
8 gives them the ability to get the allocation. If we have
9 the ability to sell bonds, we do the deal and if we
10 don't, they have time to find another --
11 MS. PARKER: And again --
12 MR. DEANER: -- financing institution.
13 MS. PARKER: -- that's the urgency that we're
14 trying to address.
15 One other point, I sent a note out, I think we
16 talked about this when we were back in D.C. -- in New
17 York, while Bob's looking. On the multifamily side,
18 there's been a real concern because of the discussion
19 given what's happened with the GSEs, essentially they are
20 now being taken over by government, that they would no
21 longer necessarily need to continue to keep the tax
22 credit benefits in their portfolio.
23 And I've heard numbers to be as much as
24 $36 billion. And if there was a fire sale on the GSEs'
25 part, what would that do the tax credits, particularly

1 for any deal that is being done throughout the country.
2 I heard two things this last week. One I heard
3 that that number is not the number. It's perhaps more
4 like 12 billion. But irrespective, there is not an
5 intention on the GSEs' parts, and they have essentially
6 made this public, to do some kind of fire sale.
7 So, again, I think that provides a bit of
8 information that gives us some relief to not having to
9 deal with that potential crisis on top of everything
10 else.
11 MS. GAY: Since he's still adding up --
12 MR. DEANER: There's some -- there's some second
13 mortgages I'm adding in.
14 MS. GAY: Since I'm newer, it's probably a little
15 easier for me to do an airplane view. And what I'm
16 wondering is just what the balance between homeownership
17 and multifamily needs to be. And I'm listening kind of
18 to the tone, because daily reservations are much harder
19 to manage, but I'm also thinking about, with a lot of
20 years of real estate, and knowing that that's a bit of
21 the light at the end of the tunnel for this cyclical
22 awful mess we're in. So it's what way can we make sure
23 the Agency stays in the appropriate format, single versus
24 multi. It's what's the pipeline. It's what the dollar
25 value.

1 You're talking about relationship. If I'm a
2 developer and my deal gets approved today subject to this
3 kind of few minutes' change, you know, how likely is it
4 that I'm going to be able to get my deal funded somewhere
5 else if you're not my agency anymore. And so it's
6 that -- I'm kind of doing a bit of a two step listening
7 as the new kid on the block and wondering how we protect
8 consumers but also protect the Agency down the road.
9 MS. PARKER: I think I would answer your question
10 this way: And we said this. I said this many, many
11 times to a whole variety of people when we were back in
12 New York -- these are -- this is -- in some respects,
13 this is a huge opportunity time in California. There's
14 more affordability than there has been in decades. And
15 so the homeownership component is very, very important.
16 I guess I would start out by saying the staff, my
17 sense is that we want to try to come out with solutions
18 that continue to keep us in the market in all of these
19 programs, particularly because we are working very
20 diligently -- and we'll talk with you about this a little
21 bit later. There's more additional bond cap in the
22 homeownership area because of -- we haven't even talked
23 about it -- the passage of Congress of the stimulus bill.
24 There's important roles that the Housing Finance
25 Agency not only in California but across the country can

1 play, not only with these growing amounts of REOs, but
2 borrowers who are in bad loans that if something isn't
3 done for them, they're going to become -- those
4 properties are going to become the next REO on the block,
5 continuing to denigrate communities. And importantly,
6 these -- many of these properties are serving as rental
7 property, rentals for people who will be more challenged
8 in the rental side if something isn't done.
9 So while I think we will have to look at what are
10 the most urgent and try to -- but I would say that there
11 are probably more homeownership programs that we would
12 want to continue if we had limited resources than the
13 plain vanilla ones we've done in the past. Those are all
14 the things that we would want to look at.
15 Bob, you got a number?
16 MR. DEANER: If I -- computers these days usually
17 add it for me, but I did it quick in my head. It looks
18 like pretty close to $80 million would be on today. I
19 know our overall pipeline was 330 million that I
20 presented to senior staff last week, so that would take
21 us -- if we got 80 million today, there's still 250 --
22 250 million in the pipeline.
23 MS. PARKER: That's going to be over the next --
24 MR. DEANER: Right. Those are all work in
25 process because of tax credit equity and sub debt they

1 need and various other things that are going on, but
2 they're deals that we're actually looking -- that I
3 consider real deals that we're actively looking at.
4 So that's, you know -- it's -- it's -- we've
5 done -- we've done well. I'd like to say on my one-year
6 anniversary that I got sworn in last year, thank you,
7 that I was able to bring nine deals and have a
8 $300-million pipeline, which is really bad timing, so.
9 Thanks, Bruce. Just kidding.
10 But in the end, it's --
11 MS. PARKER: Remember, if we would have had this
12 meeting a week ago, it would be different. If we had
13 this meeting next week, it will be different. You know,
14 all we can do is, you know, the meeting is today, and I
15 would say to some extent there's a great benefit for it
16 because we have the advantage to have our Board, you
17 know, be involved in this instead of us sitting here
18 trying to figure out from staff's standpoint what we
19 should do under our delegated authority and not have the
20 benefit of our Board being involved and, you know,
21 certainly given your fiduciary responsibilities.
22 One last comment -- and I want to get back to
23 your questions -- I did ask Stan Dirks, who's been with
24 us the entire life of the Agency, to make sure that from
25 the standpoint of how the staff were conducting

1 themselves in this meeting and what we're informing you
2 that we were meeting our fiduciary responsibilities for
3 you all as Board members to make sure, you know, when we
4 hear about these collapses of things and what did people
5 know and not know, that we are doing everything to make
6 sure that in a transparent public process, that we are,
7 you know, providing you as much information for
8 decision-making as possible.
9 And Stan nodded and assured me that he was
10 comfortable.
11 MR. DIRKS: Very.
12 MS. PARKER: Questions?
13 MS. GALANTE: So one last question: These --
14 these deals that are the multifamily deals, there would
15 not be a way -- just back to the reputational and people
16 have -- you know, you've been developing this pipeline.
17 We're at this moment in time where the markets have
18 freezed up, but, you know, we've been doing all this work
19 to get to this place, you know, is there a possibility of
20 thinking about even if there -- you couldn't issue a new
21 80 -- was it $80 million?
22 MR. DEANER: Yeah.
23 MS. GALANTE: -- that some of these deals could
24 move forward with existing -- under some existing funds
25 that the Agency has?

1 MS. PARKER: Bruce --
2 MS. GALANTE: And then --
3 MS. PARKER: -- from the standpoint of us --
4 MS. GALANTE: -- and then put out --
5 MS. PARKER: -- warehousing them for some period
6 of time --
7 MS. GALANTE: Thank you. Warehousing, that's the
8 word.
9 MR. GILBERTSON: It really gets into the last
10 slide that we talked about, which is this number. So how
11 much of -- and this number is not precise. It wasn't
12 intended to be when we created this last week. It's an
13 approximation, but how much of that would you want to use
14 for temporarily warehousing, not knowing when we might
15 access to long-term capital markets.
16 You know, for example, the equivalent is those
17 daily reservations that come in for homeownership
18 effective if we can't issue bonds. We're using a source
19 like this to hold them until the capital markets are
20 available.
21 Just for full disclosure, we believed as of
22 September 1st, the first of the month, that we were about
23 neutral for the homeownership pipeline, that we had -- we
24 just closed a transaction at the end of August, was a
25 $250-million sale for the homeownership program, so we

1 were about at equilibrium at the first of the month.
2 MS. GALANTE: And, you know, to be clear, I'm
3 not -- I'm not sure that I could possibly understand
4 enough today to say that that would be a smart or a
5 prudent thing to do given the other liquidity issues, but
6 I wanted to understand whether, you know, you -- you
7 would have the authority to do that if we approved these.
8 MR. GILBERTSON: Clearly, we -- yeah.
9 MS. PARKER: That's one of the options.
10 MR. GILBERTSON: It's a redirection --
11 MS. PARKER: That's one of the options --
12 MR. GILBERTSON: -- of Agency resources.
13 MS. PARKER: -- we have. Again, I mean, the
14 benefit for them right now is, you know, at this moment,
15 you know, we don't have a huge capacity of that committed
16 to the reservations on the homeownership side. And,
17 again, the other possibility is whether or not we could,
18 you know, increase that to handle what we want to be
19 doing getting through this market time.
20 MS. JAVITS: So just to get back maybe to the --
21 to the question that Lori asked. So $80 million today of
22 multifamily, $250-million pipeline over, you know, a
23 fairly extended period of time. What -- are there
24 comparable numbers you can share? So I understand we're
25 at equilibrium on the homeownership, but --

1 MR. GILBERTSON: At the first of the month, yeah.
2 So we have three weeks of reservations.
3 MS. JAVITS: But then going --
4 MS. PARKER: We're talking --
5 MS. JAVITS: -- say a comparable period, you
6 know, so we can see --
7 MR. GILBERTSON: Well, we were planning to do a
8 billion-dollar homeownership program this fiscal year, so
9 that's about $80 million monthly for the homeownership
10 first mortgage program.
11 MS. JAVITS: So I mean, are you at -- I guess I'm
12 trying to understand what would be helpful to you. I
13 mean, we're -- we're -- you're asking us for what kind of
14 direction as you have to make these calls? And when -- I
15 guess from your point of view, you know, what would cause
16 you to call us back? I mean what are -- what are the --
17 you know, are there any -- is there guidance, is there
18 specific guidance, that would be helpful, most helpful,
19 now or are we waiting for some other trigger event before
20 you're asking us to provide?
21 I mean, because I hear the question is how much
22 of our liquidity do we tap and which or do we do all of
23 the $80 million of deals we might approve today and do we
24 keep the window open or not for the homeownership deals.
25 So, you know, I mean those are choices, obviously.

1 MS. PARKER: I'm not sure if I can answer all of
2 them, Carla. I mean, you know, there are many ways for
3 us to handle our flow of homeownership without
4 essentially saying that we're going to suspend taking
5 reservations. Frankly, we can suspend -- we can probably
6 impact the flow of reservations just by changing our
7 interest rates. The only -- I mean, you know, that's
8 reality.
9 But the thing that we need to do on the
10 homeownership side, just as we need to do on this side,
11 is that we -- we need to remember that when we do those
12 things, that -- that our relationships with our
13 lenders -- that CalHFA isn't in the market, then they go
14 someplace else. And then when you're back in the market,
15 it takes a certain amount of time for that -- for that
16 engine to get going.
17 We have had that happen, frankly. Not when
18 there's been a crisis in the financial market, but just
19 because I remember years ago, we -- we made loans so
20 quickly that we ran out of bond cap. So irrespective of
21 financing, we have a limited amount of cap. So we --
22 that's why we try to be very good about measuring how
23 much we do at any given time.
24 So there are ways for us, if we want to look at
25 if we're going to do this, how would we handle it, you

1 know? Would we do it by essentially slowing down the
2 reservations that we take in? Do we want to put a hiatus
3 for some short period of time?
4 I -- I -- you know, the other question is going
5 to be how fast is that pipeline going to really be
6 hitting us because of what's happened in the broader
7 market. So it may be a situation that we have this, the
8 bond -- the projects that we've got to take care of in
9 the next several weeks, this $80 million, that may --
10 that may be the immediate thing for the next several
11 months and then figure out at that same time how much
12 loan reservations do we want to be doing on the
13 homeownership side. And that, part of trying to answer
14 that is to go back and us to make sure that we have a
15 good sense of what is our access to our own warehouse
16 lines, credit, et cetera, et cetera.
17 MS. GAY: You know, Terri, what strikes me is
18 it's interesting the way you were answering. It's almost
19 like a positioning issue. So the multifamily business,
20 there's a strength that you have at the table right now
21 with the rating agencies, with your developers and
22 others.
23 Homeownership, what you describe is exactly the
24 window. And so if CalHFA is not in the game when we have
25 the largest housing stimulus bill in my lifetime that's

1 passed, it's who are you then in the state of California?
2 What does that look like? Because all these
3 municipalities get a little something to do better in the
4 neighborhoods. It's positioning.
5 And so I think there's a protection clause. I
6 can honestly say to you home buyer classes are full
7 everywhere. People have been waiting. This is the best
8 affordability time in decades. But there's a balance to
9 that as well and so --
10 MS. PARKER: We're going to talk with you about
11 the possibility of having the Housing Finance Agency get
12 involved in -- and you've asked us for a year now to look
13 and see if we can do something in the refi market. We
14 think we might have a model. We have been talking to
15 bankers across the country about this, and the good part,
16 although we would have to have access to sell bonds to
17 create the debt, the risk side of it would be shared by
18 FHA and in that sense would not denigrate our portfolio
19 on the asset management side.
20 So I -- I guess I just am saying I -- I can't
21 answer. I can't give you good solid answers to
22 information that is incomplete at this point time. I can
23 try to give you the benefit of what our thinking is to
24 see if you are comfortable with that.
25 I'm hearing from you, of what you're saying to

1 us, is that there is -- there are stratas of -- of loans
2 on the multifamily homeownership side that are more
3 important than others and that we should, from the
4 staff's standpoint, be thinking about that as we go
5 through our collective analysis.
6 And we will doing that to come up with what is
7 the best strategy that we think we can do, keep ourselves
8 in business, meet our goal, take advantage of the
9 marketplace, do all the things that we should doing that
10 I think that we have done in the past, given the
11 uniqueness of the California marketplace and that we will
12 try to do the best job that we can, given this set of
13 circumstances.
14 MR. DEANER: And I wanted to clarify too on our
15 pipeline, the 250, it may not be all tax exempt volume
16 bond cap. It could be 175 or 165, so we have some
17 taxable deals that we're looking at and there's other
18 soft debt. So in the end, the pipeline's that big, but
19 it may not be all tax exempt bonds. It may be a portion
20 of that.
21 MS. PARKER: I mean what I could see us calling
22 us back together is to the extent that we get more
23 information that it becomes, to some extent, a crisis of
24 such proportions that it's not just a question of
25 business not usual, but it is a defining moment in the

1 financial markets and that we all need to sit down and,
2 you know, have a, you know, discussion about it from the
3 standpoint of, you know, it needs to be a remarkable
4 change. And we, as staff, are not going to do that on
5 our own.
6 MS. JAVITS: Thank you.
7 MS. PARKER: Are we ready to move on to the
8 business before us?
9 Thank you very much for your time and your
10 thoughtful consideration. I will say on behalf of our
11 staff, I think that this is very, very helpful for us.
12 --o0o--
13 **Item 4. Resolution 08-23, Desert Palms Apartments**
14 MS. PARKER: All right. Bob, you're up, and you
15 have a number of deals to be presenting to the Board
16 today.
17 MR. DEANER: Okay. Thank you. We do have a
18 number of deals to present today. We will try to do this
19 efficiently because I know we're on -- we want to stay on
20 a timetable. What I'd like to do quickly is just clarify
21 under the acq. rehab transactions that we have in front
22 of us. We redid the first page.
23 MS. GALANTE: I can't hear, Bob.
24 MR. DEANER: Yeah, I got to move this closer. Is
25 that better?

1 We did -- we redid our first page to show the
2 existing financing, the new financing, and where the
3 transaction ends up.
4 One thing we did at the bottom, which I think
5 there were some questions on, we did a net proceeds to
6 the seller. In the first one, Desert Palms, as an
7 example, seven-million-eight. Of that, two-million-nine
8 includes -- would be repayment of principal over time, so
9 technically net proceeds to the seller in the real, real
10 world. The way they'd look at it is they'd get
11 four-million-nine because they repaid their own money
12 down on the amortization.
13 A lot of these deals, you're going to find under
14 these acq. rehabs through our preservation program that
15 we have, have been in the portfolio 20, 25 years. And we
16 want to preserve the Section 8. We went to get the rehab
17 done. And today we've done 75 of these transactions. So
18 it is a good program that works well.
19 What we wanted to clearly show what was the old
20 financing, what's new financing. The values also that we
21 utilized are also the restricted values. So -- because
22 these are all Section 8. And of these Section 8s, we
23 have three of them -- Desert Palms, Mountain View, and
24 Westview Terrace -- all are going to get renewals on
25 their HAP contracts for 20 years. That has happened on

1 those. I know we mentioned on all of them that we have
2 to get the renewals, but three of them did get the
3 renewals as of last week, I believe.
4 So I wanted to give some clarity as to how we're
5 presenting these deals going forward.
6 MR. PAVAO: Just a quick question on the
7 asterisk. Could you spend another second on that?
8 MR. DEANER: Oh, sure. Basically what that
9 equates to is you've got -- we show that
10 seven-million-eight on the first deal, say Desert Palms,
11 is the net proceeds to the seller --
12 MR. PAVAO: Um-hmm.
13 MR. DEANER: -- of which below that
14 two-million-nine has been repaid principal. So in
15 reality if, you know, I was to look at it, if I was the
16 investor, I'd say, you know, I paid back in
17 two-million-nine, so I'm really netting four-nine out of
18 the deal. I mean, they're getting their money back, but
19 it's principal they paid over time. And we just wanted
20 to show that they had paid down quite a bit of the
21 original mortgages.
22 MR. PAVAO: So the 7.8 million in that example
23 does include the 2.9; is that what I'm hearing?
24 MR. DEANER: Well, the 7.8 million that goes back
25 to them, yes, but from a net proceeds standpoint I guess

1 you could call it four-million-nine. It depends on how
2 you want to look at it because they paid two-eight in
3 principal back. But they are getting seven-eight total,
4 which includes their principal payment.
5 MR. PAVAO: Including the four-nine.
6 MR. DEANER: Yeah.
7 MR. PAVAO: Okay, thank you.
8 MR. DEANER: Yes, sir.
9 MR. SHINE: I notice on these four projects that
10 this is the same seller --
11 MR. DEANER: Correct.
12 MR. SHINE: -- in each case. And it's
13 structured, it looks to me, like each case has a buyer
14 which is an LLC with all the accoutrements. Do any of
15 the people in the buying entity directly or indirectly
16 have any interest in the selling company?
17 MR. DEANER: No.
18 MR. SHINE: So these are --
19 MR. DEANER: Unrelated. These are unrelated
20 transactions.
21 MR. SHINE: These are four new LLCs with new
22 principals, none of who have a relationship with or are
23 involved at all with the people who are from
24 Massachusetts?
25 MR. LISKA: The desert properties, the seller is

1 MMA Financial, and they're basically portfolio deals that
2 are being sold out because of time, tax depreciation,
3 what have you. And the new buyer is Dominium Development
4 Acquisition located out of Minneapolis, and it's an
5 unrelated sales transaction.
6 MR. SHINE: Thank you.
7 MS. GALANTE: Excuse me, but -- but they're a
8 portfolio sale, so they're unrelated? The buyer and the
9 seller are unrelated?
10 MR. LISKA: That is correct.
11 MS. GALANTE: But the buyer is essentially the
12 same in all cases, and the seller is the same in all
13 cases; is that --
14 MR. LISKA: That's correct.
15 MS. GALANTE: -- correct?
16 MR. LISKA: That's correct.
17 And just to clarify, one of the desert properties
18 is not going forward. It's been withdrawn. Village
19 Meadows. Because they were seeking state tax credits,
20 and they did not get the award and so with that it was
21 withdrawn just last week, late last week.
22 MR. DEANER: What we will do with these three
23 deals is summarize them together so then we can move
24 forward on the next deal, since they are the same seller
25 and buyer.

1 So do you want to start out, Laura?
2 MS. WHITALL-SCHERFEE: I think what -- yeah.
3 What we'll do is we'll explain to the Board what it is
4 that is -- that they all share in common and then perhaps
5 just list what the loan amounts are that we are
6 requesting approval for on each deal.
7 The question I would have is do you want us to do
8 that all at the same time, Tom, or should we do the
9 desert deals with the overview, then do Desert Palms with
10 the loan amounts and ask for approval and then do
11 Westview Terrace and ask for approval? Do you want it
12 done that way?
13 MS. PARKER: Yeah, what's the pleasure of the
14 Board?
15 MR. SHINE: I think it would be quicker if you
16 zip through a description of the project in the desert,
17 then Mountain and Westview, and then give us the overview
18 of the economic deals that we made, and then we can make
19 three motions, if you want.
20 MR. HUGHES: That's exactly right.
21 MS. WHITALL-SCHERFEE: So we'll do it all
22 together and then have three motions. Okay.
23 There are three desert deals, as Jim explained,
24 not four: Desert Palms, Mountain View and Westview
25 Terrace. All have received their 20-year HAP contract

1 extensions. All are with the same ownership structure.
2 The managing nonprofit for all of these projects will be
3 Central Valley Coalition for Affordable Housing, and the
4 comanaging general partner is Dominium Development and
5 Acquisition, LLC. All three projects will have the same
6 property management company, Dominium Management
7 Services, Inc., and all will have the same investor,
8 which is Alliant.
9 Jim -- oh, yes, and the same contractor. I think
10 that was Precision, general contractor.
11 The loan amounts that we are requesting approval
12 for on Desert Palms are a first -- an acquisition
13 rehabilitation first mortgage in the amount of 8,925,000
14 with a 5-percent interest rate for 14 months, and that's
15 a tax exempt loan. At the same time we would be
16 financing the second mortgage, which is 4,250,000 at 5.75
17 percent for 18 years tax exempt.
18 Then we will make a permanent first mortgage in
19 the amount of 1,975,000 at 5.75 percent, 30 year fixed,
20 with the option to prepare after year 15. The seconds
21 will remain in place subordinate to our permanent first.
22 In addition, this project has MHP financing
23 that's been awarded in the amount of 3,943,000, and a
24 residual receipts loan from the City of Coachella in the
25 amount of 500,000.

1 I'm going to go ahead, then, and tell you the
2 loan amounts that we're requesting on Mountain View,
3 acquisition and rehabilitation loan and a permanent loan.
4 The acq. rehab loan, the first mortgage, is 6,685,000 at
5 5 percent for 14 months, interest only, tax exempt
6 financing.
7 At the time the acquisition rehab loan is funded,
8 the second mortgage will also be funded in the amount of
9 3,380,000 at 5.75 percent, 18-year fixed, fully
10 amortized. It's also tax exempt. When the permanent
11 loans comes into place after the acquisition
12 rehabilitation loan, that will be in the amount of
13 $1,560,000 at 5.75 percent, 30-year fixed with the option
14 to prepay in year 15. That's tax exempt. Other
15 financing on this project that has already been awarded
16 is 2 point -- $2,960,000 in MHP money.
17 On Westview Terrace, the financing we are
18 requesting is an acquisition rehabilitation loan in the
19 amount of 7,220,000 at 5 percent for 14 months, interest
20 only, and that's tax exempt. The second mortgage that
21 gets financed at the same time as the acquisition
22 rehabilitation loan in the amount of 300 -- I'm sorry,
23 3,225,000 at 5.75 percent for 20 years, fully amortized,
24 and it's tax exempt.
25 When the permanent loan comes into place, it will

be in the amount of 2,075,000 at 5.75-percent interest rate, 30-year loan, fully amortized and repayable in 15 years with 120-day notice.

The other financing on this project is an MHP award that has been received in the amount of $2,833,000, and the City of Banning is providing a $500,000 residual receipt loan.

At this point would you like to hear anything about the rehab on the property, or would you -- if not, we're just going to request approval for these three deals.

MS. PARKER: Mr. Carey.

MR. CAREY: Just, in general, I was looking at the relocation section we've got a concern about in each of the three projects. There's just something that doesn't feel entirely -- because it talks about using vacant units, the tenants will be able to move into the rehabilitation units, but each of the projects is a hundred-percent occupied.

MR. LISKA: That's correct. That's something that was discussed this morning between Laura and I. And basically the relocation plan, if there is a vacant unit -- which you are correct, we're looking at 96-percent Section 8, a hundred-percent Section 8 on a couple of these projects. So you're not going to really

1 see the vacancy factor like we anticipated.
2 So the budget that we are setting for relocation
3 will be temporary. And it will be the least amount
4 invasive that they could, and we're still trying to do
5 the rolling rehab, building by building, what have you,
6 in order to minimize any disruption to the tenants. We
7 still encourage our new owners to go through a tenant
8 orientation program to explain what's being done, what
9 the time period is and address any questions or issues
10 they may have.
11 The other thing we're also going to be doing, I
12 think, on desert properties, a lot of these properties --
13 the three properties that we currently have, they have
14 drainage issues, what have you, that we have not gotten
15 satisfactory answers, and it needs more exploratory. So
16 we want to go out to the site with the new borrower,
17 Dominium, as well as Precision, the contractor, and our
18 own P and A staff to look at various parts of the site to
19 find out actually what they're going to be doing as far
20 as resolving the issue once and for all.
21 MR. CAREY: The second point is just that two of
22 them are legal nonconforming uses. In one of them the
23 comment's made that if it were destroyed by fire it could
24 be rebuilt. Is that verified with local ordinance?
25 Because that's not --

1 MR. LISKA: That's been verified with the zoning
2 planner that it can be rebuilt back to its present, as
3 long as they don't change the footprint, as long as it's
4 rebuilt to the exact whatever they had in place prior to
5 the fire.
6 MR. CAREY: That is not true in many cities.
7 MR. LISKA: Yeah.
8 MS. WHITALL-SCHERFEE: We did ask the borrower
9 to -- to verify that because we did have a project where
10 the investor researched that issue later and found out
11 that it could not be rebuilt, so we were very specific
12 that they needed to verify that --
13 MR. CAREY: Okay.
14 MS. WHITALL-SCHERFEE: -- fact for us.
15 MS. PARKER: Is there another question?
16 Carol.
17 MS. GALANTE: These three deals really go to my
18 earlier question about priorities of how we're -- again,
19 if we had all the money in the world and you were
20 bringing a pipeline, I don't have any issues with these.
21 But when I look at prioritization, I just think, you
22 know, are the sellers really going to be able to -- you
23 know, if we didn't go forward, are they really going to
24 be able to sell these properties and get the kind of net
25 proceeds that they're going to get out of these

1 transactions, you know, in the open market?
2 And, you know, I was trying to understand the
3 Section 8 renewal that you've now explained. So these
4 are now going to be locked in for extended Section 8.
5 Again, I know our loans are 30 years. Section 8 is only
6 for 20 years.
7 MR. LISKA: These are 30/15, but everything is
8 relevant. Right now they're on existing project-based
9 contracts.
10 MS. GALANTE: Correct.
11 MR. LISKA: Right. Now, the new letters of
12 intent that we're getting from HUD, they will -- HUD will
13 issue -- either San Francisco or Los Angeles will issue a
14 letter of intent for a 20-year HAP agreement, and that
15 HAP agreement, though, is only based upon annual
16 appropriations.
17 MS. GALANTE: Annual renewals.
18 MR. LISKA: Annual renewals; right. So even
19 though they're getting a 20-year HAP contract, you're
20 still tied to the funding of Congress and when it takes
21 place. And, yes, you know, there is a lot of pressure.
22 You know, HUD doesn't get the amount of funding that it
23 used to get in the past, and it's been shifting. But
24 right now, I guess, if we had -- you have to look at it
25 that your glass is half full right now, I guess.

1 You know, we are getting these 20-year HAP
2 agreements from HUD. They will stand by and honor them,
3 if it's -- if they get the funding. It has not been an
4 issue in the past. They have not dropped rents, so, you
5 know, right now we believe that the risk has been
6 minimized.
7 We try and do the -- again, the Section 8 is an
8 overhang on the second mortgage. It's for a shorter
9 period of time. And then we feel confident with the --
10 where we stand with the market in relationship to the
11 Section 8 rents.
12 A couple of these desert deals, you'll see that
13 the Section 8 rents do exceed market. We haven't trended
14 them for first eight years purposely to keep it flat and
15 make sure that we, you know, look at the risk component
16 of what we're doing for our mortgage.
17 MS. WHITALL-SCHERFEE: And the other piece is
18 that those second mortgages are not sized for 30 years,
19 they're sized for less than 30, and that's -- those are
20 the Section 8 pieces.
21 MS. GALANTE: I saw that. I believe you guys
22 have done a really good job of protecting the Agency and
23 the loans. I'm looking at the bigger picture. If these
24 deals did not move forward, it's my personal view that
25 these sellers would not be able to sell these properties

1 for this kind of dough and get this kind of money and
2 they -- they would likely sit still and continue to own
3 them, continue to use the Section 8.
4 The rehab that you're talking about looks pretty
5 much like modernization to me. It doesn't look like --
6 MR. LISKA: It's recapitalization.
7 MS. GALANTE: -- these places are falling off the
8 foundations or anything. We didn't go through it, but
9 just based on what you've articulated, you know, most of
10 the money is in interior and exterior unit upgrades. So
11 I'm just stating as my personal opinion that in a world
12 of limited resources, these would be my last priority.
13 MS. JACOBS: Could I piggyback on that? You
14 know, one of the things that we are seeing certainly at
15 HCD, and I don't know if you're seeing them at tax
16 credits as well, we're seeing a lot of -- a lot of
17 recapitalization deals with very little rehab.
18 So I think it would be -- it's helpful for me at
19 HCD to have this information, so I would like to see
20 somewhere in the first page the percent of the deal that
21 is going to rehab and the percent of the deal that's
22 going to the sellers as an information piece because, you
23 know, I'm too old to figure it out on each deal.
24 MS. PARKER: You know, I think it's interesting
25 that you bring this up because the staff certainly heard

1 this discussion in the last couple of meetings we've been
2 in, and I will tell you that we have been approached
3 by -- for some deals for sales that we have had very
4 strong conversations with the owners of those that we
5 would not bring those projects to the Board because we
6 felt that just that calculation in the amount of rehab
7 that, you know, it would -- it would not raise to what
8 you have been essentially telling us.
9 You know, I think we could do this. Clearly
10 while we have been working on this work, as you well
11 know, you know, this was a different environment when we
12 started having this conversation. I don't know, but I
13 think the question a little bit to us as staff, Bob,
14 is -- is there -- how would we, you know -- those people
15 have access given to what is resources that they're at
16 this moment eligible for.
17 MR. DEANER: Correct.
18 MS. PARKER: And I don't know, Lynn, if you're in
19 any more of a position than we are essentially trying to
20 change the eligibility criteria for what has been
21 approved for people if they need it and they are going to
22 receive it. You know, the best thing that they can do
23 when you look at these to see whether or not versus other
24 projects they compete adequately or, you know, don't.
25 But I'm a little uncomfortable with where we are

1 today. We know that there may be some problems with the
2 financial markets. Next week this may all blow over.
3 Should we not be proceeding forward?
4 MS. GALANTE: And I want to be clear. Let me
5 state my position more clearly. If you had not presented
6 what you presented this morning about where we are in the
7 financial markets, you know, I might have questions on
8 these deals, but I'd be willing to approve them. I'm
9 still willing to approve them today.
10 If we're going to be going into CalHFA cash, you
11 know, if that were one of the options to fund these
12 deals, I wouldn't do these three deals -- not -- not to
13 use our precious, you know, warehousing cash. You know,
14 if the markets unfreeze and you can sell bonds and, you
15 know, then, again, I'm just telling where I personally
16 am.
17 This is -- these aren't -- these aren't
18 unreasonable, given the criteria we have. It's business
19 for the Agency. The projects are going to get rehabbed.
20 I mean it's not a terrible thing to do, it's just not the
21 highest priority, in my world view.
22 MR. DEANER: Well, one thing we do do when we
23 look at these, and I should mention this, that we are
24 preserving the Section 8. The current owners probably
25 have five years left. And they don't have to go in and

1 get the HAP contracts renewed if they don't want to. So
2 in five years if we did nothing, they could roll and
3 become market-rate deals. So we look at the preservation
4 of keeping these.
5 MS. GALANTE: I understand that. I don't believe
6 these are really market-rate deals. I don't believe
7 these are really market-rate deals.
8 MR. DEANER: Well, they could -- I guess my --
9 MS. GALANTE: They could be trying to sell them
10 as market-rate deals.
11 MR. DEANER: Or they could let the Section 8 go,
12 and we want to preserve the Section 8.
13 MS. GALANTE: They wouldn't -- so do they. I'm
14 just telling you.
15 MS. JAVITS: I guess I would just second that
16 judgment, and, you know, it's -- obviously we're going to
17 have -- we may or may not be faced with some of these
18 choices, but in terms of relative risk and relative
19 benefit, I guess, relative cost and relative benefit, you
20 know, if you had to rate and rank them, obviously putting
21 new -- you know, new housing online, you know, would be
22 at, you know -- of a higher priority, preserve -- you
23 know, creating, you know, better stock and making that
24 accessible, fine, that's --
25 MS. PARKER: Let me make this suggestion to help

us get through this, because I believe, you know, we've heard this. Many of the people, the developers, are in the room and conveying this. We know that we have at least another meeting with you in November at which we'll be well within the time frame that if you vote on this today, that they'll be looking at financing. If we don't have a meeting beforehand, let us come back to you at that meeting and essentially report to you specifically on where we see these particular deals relative to our liquidity and availability to do bonds. Is that -- is that the way we can --

MS. GAY: Well, and I guess for someone like me who's not as well versed as my peers on these types of transactions, a prioritization would really be helpful.

MS. PARKER: Right.

MR. SHINE: Where we get the most bang for the bucks, if we've got the bucks.

MS. PARKER: Well, we may know at that point in time that we have X amount of capacity, and this is what we have been telling, you know, folks on the multifamily side and what -- what if anything we've been doing on the single-family side.

MS. PETERS: That was my next question. Hopefully everything will work out and we'll be able to fund everything we want to fund.

1 Assuming that between now and November things are
2 not working out, we're having difficulty with our
3 liquidity or any number of combinations of things that
4 would allow us -- would keep us from fulfilling all of
5 these obligations, is there going to be a judgment call
6 made by staff between now and November as to exercising,
7 just hypothetically, stopping reservations on single
8 family in order to fund these because we've approved
9 them?
10 MS. PARKER: Well, let me tell you the delegated
11 authority that we have. And I just -- I -- I articulated
12 earlier, we can manage our pipeline of reservations of
13 single families and have been for as long as I've been
14 here by managing the interest rates. And that is not
15 making a statement that we are going to stop taking
16 reservations, but we can manage it that way.
17 I would -- I would be very concerned if you felt
18 that that was not something that you were comfortable
19 continuing to delegate to the staff to have the authority
20 to do that, if you were saying to me that you would not
21 want us to suspend reservations without bringing this
22 back to the Board. Because while I'm -- I have no
23 problem, we can -- we can put a date on the calendar for
24 our next meeting in ten days, if you want to.
25 But if something happens in five days and I think

1 it is important and I have that authority to do it, I
2 would hope that you would have the confidence in us that
3 we should proceed in doing it.
4 However, again, I just say if there -- if the --
5 if the world changes so much that we believe it is very,
6 very important for you to be involved and -- Tom, I was
7 thinking about this this morning, I don't know what the
8 urgency criteria is, but we will -- we will not do things
9 unilaterally. We will want to have you all be involved,
10 particularly if it's something that is a, you know,
11 defining moment kind of situation.
12 I don't think I see depending on the suspension
13 of reservations of homeownership quite the same way I see
14 them on the multifamily side. I also think that I would
15 have comfortability that we might have some flexibility
16 and creativity even to handle on the multifamily side,
17 and we'll be looking at doing all of those things
18 following what I have heard from you all today of what
19 you believe is to be our priorities. Is that --
20 MS. PETERS: Thank you. And I just wanted to
21 commend both yourself and your staff on the way you've
22 navigated us through this. It has been an unbelievably
23 challenging time, and I wouldn't want to suggest taking
24 away the tools you need to deal with it on an
25 hour-by-hour basis, even over the weekend. I'd just

1 like, if we're making any macro decisions of changing
2 allocations, that --
3 MS. PARKER: Absolutely. I mean, I -- we concur.
4 I don't think it's right to ask you to be Board
5 members -- many of you, quite frankly it is a financial
6 liability for yourself -- to not have the respect of, you
7 know -- of having -- being part of these -- these
8 decisions. We -- we say when we go to Wall Street that
9 we are very fortunate by having professionals on our
10 Board. They're not, you know, political people. They're
11 making professional judgment decisions. And, you know,
12 in that sense we need to use every one of your minds to
13 figure out what is the best course.
14 So do you -- are we comfortable to move ahead
15 with making some -- taking some votes on these with that
16 understanding? I -- I will make sure that when we do
17 this that we talk a little bit about Tom's language. We
18 want to kind of make sure that everybody is comfortable
19 with exactly those wordings or if they want to make any
20 changes to those words, which is certainly acceptable,
21 you know, for us on our part.
22 MS. JACOBS: Okay. I will try a motion.
23 MS. PARKER: Are we ready, JoJo?
24 MS. OJIMA: Ready.
25 MS. JACOBS: We're going to do these one at a

1 time, so the first one is Desert Palms. Yes?
2 I will move approval of the final commitment for
3 Desert Palms with the addition of revised language on the
4 mortgage commitment that we received today and also with
5 some additional clarification on the relocation funding.
6 MR. SHINE: Second.
7 MS. PARKER: Moved by Ms. Jacobs, seconded by
8 Mr. Shine to approve the Desert Palms Apartments
9 resolution with the modification that General Counsel has
10 offered and with the understanding of getting further
11 clarification on relocation. Did I state that motion
12 correctly?
13 MS. JACOBS: Perfect.
14 MS. PARKER: Okay. Any comments or questions by
15 any of the Board members?
16 Carol.
17 MS. GALANTE: I guess I don't know whether my
18 concern that I raised needs to be in this motion or
19 whether that's just general, and I don't know whether
20 other people on the Board really agree with it, so I'm
21 trying to get a sense of, you know, the prioritization.
22 Are you saying that we just hold that conversation until
23 November or that you take that into consideration -- you
24 take that -- those thoughts into consideration. Do we
25 need to put that into the motion if other people agree

1 with me?

2 MS. PARKER: I don't know whether you want to add

3 it to the motion. I believe we, the staff, have

4 certainly heard that.

5 MS. JACOBS: I think the reason I made the motion

6 sort of with a few strings attached -- as opposed to no

7 strings attached -- is that I think we should go ahead

8 with these projects that are ready to go. The total

9 dollar amount that we're talking about today, while

10 significant, is not a huge amount in the overall

11 liquidity discussion. And so that's why I'm prepared to

12 go ahead.

13 MS. PARKER: Carol, let me -- let me answer it,

14 and then I went to ask Tom a question.

15 First of all, I believe we have heard you. I

16 also want to be measured about this from the standpoint

17 that I don't want to create a chilling effect on the

18 other side of this.

19 So, you know, I -- I don't know whether or not

20 from that standpoint what your comfortability is with the

21 motion as Lynn has reflected it, but I do want to ask

22 Tom, again, about the language you drafted: You believe

23 from your standpoint that the Housing Finance Agency

24 clearly has the ability, if there is a situation that we

25 don't have access to financing for this, that we can tell

1 this developer that we cannot complete the transaction
2 that you have voted on today?
3 MR. HUGHES: Yes, on a couple levels. That's
4 what this amended resolution clarifies, that the
5 authority -- the Board always grants authority to enter
6 into a resolution. It doesn't -- excuse me, a
7 commitment. It doesn't create that commitment. And this
8 clarifies that if we can't finance it, we don't have to
9 go forward.
10 I should say that -- although I don't have the
11 exact language firmly in my head, the commitments that we
12 do make have an exception if we cannot get tax exempt
13 financing.
14 MS. PARKER: I just want -- because we take
15 verbatim minutes, I want to have this on the record. I
16 think it's important. We'll certainly be conveying to
17 our developers that we want to make sure that everyone
18 that we're doing business with has the understanding, the
19 certainty, as opposed to being unclear. We think the
20 clarity in this environment is the most important thing
21 for all of us to move forward.
22 MS. JAVITS: And I mean just to restate, I think
23 we have now on the record that at least two members of
24 the Board would not prioritize this deal over others, in
25 fact, would set this as a lower priority than some of the

1 other deals that we're going to look at today.
2 MS. GAY: And I think I'd be a third listening to
3 your descriptions.
4 MS. PARKER: All right. Are we ready to call the
5 question?
6 JoJo, if you would take the vote.
7 MS. OJIMA: Thank you.
8 Ms. Peters.
9 MS. PETERS: Yes.
10 MS. OJIMA: Mr. Carey.
11 MR. CAREY: Yes.
12 MS. OJIMA: Ms. Galante.
13 MS. GALANTE: Yes.
14 MS. OJIMA: Ms. Jacobs.
15 MS. JACOBS: Yes.
16 MS. OJIMA: Ms. Javits.
17 MS. JAVITS: Yes.
18 MS. OJIMA: Mr. Pavao.
19 MR. PAVAO: Yes.
20 MS. OJIMA: Mr. Shine.
21 MR. SHINE: Yes.
22 MS. OJIMA: Ms. Gay.
23 MS. GAY: Yes.
24 MS. OJIMA: Resolution 08-23 had been approved
25 with the modification and clarification.

MS. PARKER: Thank you. Next item.

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Item 4. Resolution 08-24, Mountain View Apartments

MR. DEANER: Next deal, but I'd like to ask the Board, would you like us to proceed in the same manner as we did with the last three deals? Just highlight the economics?

MS. JACOBS: We haven't --

MS. PARKER: We haven't voted on --

MS. PETERS: We only voted on Desert Palms.

MR. DEANER: Oh, I'm sorry.

MS. PARKER: We need to vote on the others, and then we have a different -- the court reporter, I want to give her the opportunity to have a break.

MR. DEANER: Okay.

MS. PARKER: So proceed.

MR. DEANER: Sorry.

MS. PARKER: A motion? We're waiting for a motion on which?

MR. LISKA: Mountain View.

MS. WHITALL-SCHERFEE: This is a request for approval of Mountain View, would be the next.

MS. PARKER: Resolution 08-24.

MS. JACOBS: I move approval of the final commitment of Mountain View subject to the new language

1 from the -- from chief counsel.
2 MS. PARKER: There's a motion.
3 MR. PAVAO: Second.
4 MS. PARKER: There's a second from Mr. Pavao.
5 Question, comment by the Members?
6 JoJo, would you call the roll, please.
7 MS. OJIMA: Yes, thank you.
8 Ms. Peters.
9 MS. PETERS: Yes.
10 MS. OJIMA: Mr. Carey.
11 MR. CAREY: Yes.
12 MS. OJIMA: Ms. Galante.
13 MS. GALANTE: Yes.
14 MS. OJIMA: Ms. Jacobs.
15 MS. JACOBS: Yes.
16 MS. OJIMA: Ms. Javits.
17 MS. JAVITS: Yes.
18 MS. OJIMA: Mr. Pavao.
19 MR. PAVAO: Yes.
20 MS. OJIMA: Mr. Shine.
21 MR. SHINE: Yes.
22 MS. OJIMA: Ms. Gay.
23 MS. GAY: Yes.
24 MS. OJIMA: Resolution 08-24 has been approved
25 with the modification and clarification.

MS. PARKER: Thank you.

Resolution 08-25.

MS. OJIMA: That's been withdrawn.

MS. PARKER: Oh, sorry. I'm sorry -- what was the --

MR. CAREY: 26.

--o0o--

Item 4. Resolution 08-26, Westview Terrace Apartments

MS. PARKER: 26, 08-26, Westview Terrace. Is there a motion?

MS. JACOBS: I move approval of Westview Terrace, final commitment subject to the new language from chief counsel.

MS. PARKER: Okay. Is there a second?

MR. PAVAO: Second.

MS. PARKER: Mr. Pavao, second.

Any questions or comments from the Board members?

Hearing none, JoJo, please call the roll.

MS. OJIMA: Thank you.

Ms. Peters.

MS. PETERS: Yes.

MS. OJIMA: Mr. Carey.

MR. CAREY: Yes.

MS. OJIMA: Ms. Galante.

MS. GALANTE: Yes.

1 MS. OJIMA: Ms. Jacobs.
2 MS. JACOBS: Yes.
3 MS. OJIMA: Mr. Pavao.
4 MR. PAVAO: Yes.
5 MS. OJIMA: Mr. Shine.
6 MR. SHINE: Yes.
7 MS. OJIMA: Ms. Gay.
8 MS. GAY: Yes.
9 MS. OJIMA: Resolution 08 --
10 MS. JAVITS: My name wasn't called.
11 MS. OJIMA: I'm sorry, Ms. Javits.
12 Ms. Javits.
13 MS. JAVITS: Yes.
14 MS. OJIMA: Thank you, Ms. Javits.
15 Resolution 08-26 has been approved with the
16 modification and clarification.
17 MS. PARKER: Okay. Thank you. Can we take a
18 five-minute break, please. We'll reconvene at quarter
19 to.
20 (Recess taken.)
21 MS. PARKER: Let's go to Golden Age Apartments.
22 What -- you know, let me -- I've got ten to
23 12:00. Let's just talk a little bit about logistics for
24 a few minutes, because there are a couple of items --
25 thank you. There are a couple of items that we do

1 need -- we need votes on items all the way through --
2 MS. OJIMA: Six.
3 MS. PARKER: -- yes, through item 6. So I don't
4 want to not be fiduciary about these, but, you know, my
5 presumption is this group has read everything. You're
6 well aware of what this stuff is. I did not plan to
7 bring lunch in. We could do something individually for
8 you. But I'm a little concerned about, you know, to get
9 you out of here on time, whether or not you wish to have
10 me manage the timing of this so that you only have so
11 much time to deal with things and we carve out 30 minutes
12 or lunch. What -- what's the desire?
13 MS. GALANTE: Well, I need to leave by 1:15ish.
14 MS. JACOBS: Let's move as fast as we can through
15 the agenda.
16 MS. WHITALL-SCHERFEE: Would you like us to just
17 answer questions that you may have on the deals that
18 we've presented?
19 MR. DEANER: We could mention the deal and if you
20 had any questions -- do you want us to run through the
21 economics?
22 MS. GALANTE: Run through the economics, but no
23 pictures, no --
24 MS. WHITALL-SCHERFEE: No, we're -- the pictures
25 are --

MR. LISKA: Yeah, we took -- the way we did the first three.

MR. DEANER: We'll do the economics, and then we can vote.

MS. PARKER: Okay, fine. I'm going to start basically looking and if we're going for more than about five or ten minutes, I'm going to call for resolutions.

MS. WHITALL-SCHERFEE: Okay.

MR. DEANER: We'll do it in five.

MS. PARKER: Five is good.

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Item 4. Resolution 08-27, Golden Age Apartments

MS. WHITALL-SCHERFEE: The next project is Golden Age Apartments located in San Diego, and it's in San Diego County. It's a 78-unit senior apartment, and we are requesting acquisition, rehabilitation and permanent financing on this project.

The acquisition rehabilitation loan is in the amount of 7,200,000 at 5-percent fixed, 18 months interest only, and that's tax exempt money. The permanent loan is in the amount of 5,300,000 at 5.9-percent interest for 35 years fixed, fully amortized. It's prepayable after 15 years, and it too is tax exempt. Other financing on the project includes $3,662,000, a residual receipt loan from the San Diego Housing

1 Commission.
2 The project is also in our portfolio, and it
3 has -- it is a 100-percent Section 8 project.
4 MR. DEANER: Any questions?
5 MS. PARKER: Carol?
6 MS. GALANTE: Not a question, just the same
7 comment as the last group, portfoliowise.
8 MS. PARKER: Okay.
9 MS. JACOBS: I would -- I would ask a question
10 here.
11 MS. PARKER: Okay.
12 MS. JACOBS: On the first three, we were getting
13 rehab and were getting extensions of Section 8. I don't
14 see that we're getting an extension of Section 8 on this
15 particular project.
16 MS. GALANTE: I noticed that.
17 MS. JACOBS: I mean there is a -- there is a
18 Section 8 contract in place that will stay in place, but
19 there's no extension of the Section 8 contract due to
20 this transaction; am I right?
21 MR. LISKA: No, we are getting an extension of
22 the Section 8 contract too, as well as the remaining term
23 will stay in place, and we are ready at the Los Angeles
24 HUD office for an extension of a -- with a letter of
25 intent.

1 Again, it's a letter of intent because we
2 currently have a Section 8 contract in place, and the
3 letter of intent says once the project-based Section 8
4 expires, HUD will entertain a new 20-year HAP agreement,
5 again, based upon annual renewal. So that we are
6 seeking, and they will get the letter of intent.
7 MS. PARKER: So to answer Ms. Jacobs' question --
8 MS. JACOBS: I didn't read that in here.
9 MS. PARKER: -- this loan position is just as the
10 prior three.
11 MS. WHITALL-SCHERFEE: Yes.
12 MR. DEANER: Correct.
13 MS. WHITALL-SCHERFEE: We just don't have the
14 extension approved, the additional 20 years approved yet.
15
16 MR. LISKA: If you look on page 258, the first
17 paragraph.
18 MS. PARKER: Will we know -- we will be getting
19 that prior to loan close, et cetera, et cetera?
20 MR. LISKA: Yes. We will not --
21 MS. PARKER: You might want to do a motion
22 reflecting that.
23 MR. LISKA: We got a --
24 MR. DEANER: And to clarify, for the other
25 acquisition rehab loans it would be same. They have been

1 requested, and we would not close until they get the
2 Section 8.
3 MR. LISKA: It's in the second sentence.
4 MS. JACOBS: Okay. I missed it. It wasn't clear
5 enough to me.
6 I am prepared to make a motion that we approve
7 the final commitment for Golden Age Apartments subject to
8 the revised language from bond counsel and subject to
9 receiving a letter of intent for the extension of
10 Section 8 prior to the close.
11 MS. GALANTE: I'll second.
12 MS. PARKER: Thank you. We have a motion and a
13 second.
14 JoJo -- any questions or comments by the Members?
15 Hearing none, JoJo, call the roll, please.
16 MS. OJIMA: Thank you.
17 Ms. Peters.
18 MS. PETERS: Yes.
19 MS. OJIMA: Mr. Carey.
20 MR. CAREY: Yes.
21 MS. OJIMA: Ms. Galante.
22 MS. GALANTE: Yes.
23 MS. OJIMA: Ms. Jacobs.
24 MS. JACOBS: Yes.
25 MS. OJIMA: Mr. Pavao.

MR. PAVAO: Yes.

MS. OJIMA: Mr. Shine.

MR. SHINE: Yes.

MS. OJIMA: We have --

MS. JAVITS: Excuse me.

MS. OJIMA: I'm sorry, Ms. Javits.

MS. JAVITS: Yes.

MS. OJIMA: And you're written right here in front of me.

Resolution 08-27 has been approved.

MS. PARKER: Thank you.

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Item 4. Resolution 08-28, Eden Lodge Apartments

MS. PARKER: Resolution 08-28, Eden Lodge Apartments.

MS. WHITALL-SCHERFEE: Eden Lodge Apartments is located in San Leandro. It's in Alameda County. This is not a portfolio loan. This is a project that is currently owned by Eden Housing, and they are looking for money to do some rehabilitation.

We will not be doing the rehab loan, but what we are requesting today is approval for a permanent loan in the amount of $8 million at an interest rate of 5.85 percent for a 30-year term, fully amortized with the right to prepay after year 15.

1 This is not a tax exempt bond financed program --
2 loan. This is going to be a 501(c)(3) project. This
3 also has Section 8, and they are asking for an extension
4 on the Section 8 contract as well, and that is still
5 pending.
6 Questions?
7 MS. PARKER: Ms. Jacobs.
8 MS. JACOBS: Do we fund before or after the rehab
9 is completed?
10 MR. LISKA: We fund -- we're only doing a
11 permanent loan, so we fund after the rehab is completed.
12 MS. JACOBS: Thanks so much.
13 MS. PARKER: Questions?
14 MS. GALANTE: Again, just a clarification in
15 terms of this liquidity issue. So are you saying that
16 this deal, because it's not -- it's a 501(c)(3) bond does
17 not have the same issue so you can give them a hard
18 commitment if we approve this today? And do they -- do
19 they -- do they need a hard commitment?
20 MS. WHITALL-SCHERFEE: We don't have the bond
21 sale requirement.
22 MR. DEANER: We don't have the bond sale
23 requirement, so we have more time because it's a
24 501(c)(3).
25 MR. HUGHES: It's not a private activity bond.

1 MR. DEANER: It's not a private activity bond;
2 that's correct.
3 MR. GILBERTSON: But we still have the bond
4 market challenge because ultimately we will go to capital
5 markets to finance the loan. So I think with all of the
6 doubt today, that we should probably have the same
7 conditions on the -- the Board approval.
8 MS. JACOBS: I was planning on that.
9 MR. GILBERTSON: Okay.
10 MS. PARKER: Any other questions?
11 Ms. Jacobs, did you want to make a motion?
12 MS. JACOBS: Yes, I do. I will say on this one
13 because it's a hundred-percent occupied, I am concerned
14 about the relocation on this, but since our money isn't
15 coming in until after the rehab is done, I won't put a
16 condition in the motion.
17 I move that we approve the final commitment for
18 Eden Lodge with the additional language provided by chief
19 counsel.
20 MS. PARKER: Second?
21 MS. GALANTE: I'll second.
22 MS. PARKER: Second from Ms. Galante.
23 Any questions or comments by the Board members?
24 Hearing none, JoJo, would you call the roll?
25 MS. OJIMA: Thank you.

Ms. Peters.

MS. PETERS: Yes.

MS. OJIMA: Mr. Carey.

MR. CAREY: Yes.

MS. OJIMA: Ms. Galante.

MS. GALANTE: Yes.

MS. OJIMA: Ms. Jacobs.

MS. JACOBS: Yes.

MS. OJIMA: Ms. Javits.

MS. JAVITS: Yes.

MS. OJIMA: Thank you.

Mr. Pavao.

MR. PAVAO: Yes.

MS. OJIMA: Mr. Shine.

MR. SHINE: Yes.

MS. OJIMA: Resolution 08-28 has been approved.

MS. PARKER: Excellent.

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Item 4. Resolution 08-29, Santa Clara Terrace Apartments

MS. PARKER: The next one is Santa Clara Terrace Apartments, resolution 08-29.

MS. WHITALL-SCHERFEE: The next project is Santa Clara Terrace also know as Hideaway Apartments. It's located in Santa Clarita in Los Angeles County.

1 This too is an existing portfolio loan. We are
2 requesting rehabilitation -- acquisition rehabilitation
3 financing in the amount of 8,300,000 at 5-percent fixed
4 for 12 months, tax exempt money.
5 For permanent financing we are requesting a first
6 mortgage in the amount of $4,220,000 at 5.85 percent for
7 40 years prepayable after 15 with 120-day notice, and
8 that is tax exempt financing.
9 In addition, because of circumstances with this
10 particular project, we are recommending a HAT loan in the
11 amount of $700,000 at 4 percent, 40-year fixed residual
12 receipts, and this would be from the Agency's HAT funds.
13 And I'm going to ask Jim to just explain a little bit
14 about that.
15 MR. LISKA: Now, if you wanted to prioritize our
16 projects, this one we have to do a sale. Mercy is our
17 purchaser. They have -- this is -- I think, they're on
18 their second or third extension through October 17th.
19 What we planned to do was do the acquisition, make sure
20 they had their tax investor lined up when the next bond
21 pool that is anticipated is November 24th.
22 Here we have a seller who did not perform on a
23 soft financing from the L.A. County. Asset management
24 has been working on this for over a year, year and a
25 half. I got involved in it through multifamily, and we

1 have worked with the L.A. County to avoid them taking the
2 action of foreclosure. A simple $500,000 principal loan
3 has ballooned up to $1.6 million as of April. I don't
4 have current figures for you.
5 The other piece in this is we -- Mercy was able
6 to get the County to provide soft financing at
7 $1.6 million. They worked with the City of Santa Clarita
8 to come up with $2.7 million. This is their first
9 involvement in affordable housing, the redevelopment
10 agency.
11 Our existing portfolio, this is an 80/20, and
12 that means that 20 percent of the units are at 80 percent
13 AMI and the rest of the project is at market rate. This
14 is the first time we're running into their applying for
15 tax credits, and we're at deep affordability. At least
16 50 percent of the units in this project will be at 50
17 percent AMI, and the remainder will be at 60 percent.
18 And you see an extraordinary relocation budget
19 for this project because we -- this is the first time
20 that I've ever worked on something like this, but they
21 are moving out the market rate people. They have to
22 relocate them, and we have to conform to the uniform
23 relocation standards. They have a professional
24 relocation company that they have hired, as you can see
25 from our notes, and it's a big undertaking.

1 And so this is one, Ms. Galante, that I would say
2 that we want to prioritize it. I don't want the special
3 condition on this. I would like a commitment issued. I
4 would like us to see if we could just proceed forward on
5 this specific one because of the background of this
6 project, the issues it has between -- with the borrower
7 and the County of Los Angeles, and I rest my case.
8 MS. JACOBS: Could you say how long the
9 affordability term will be on with your project?
10 MR. DEANER: The term?
11 MS. PARKER: Pardon me?
12 MR. LISKA: The tax credits, it's 55 years.
13 MS. WHITALL-SCHERFEE: And then also we have been
14 asked -- the buyer, Mercy Housing, has requested the
15 opportunity to address the Board as well.
16 Did you still want to, Janet?
17 MS. FALK: Yeah.
18 MS. PARKER: All of you know Janet Falk.
19 MS. FALK: Yes, I'm Janet Falk with Mercy
20 Housing.
21 I wanted to -- what Jim -- I want to re-echo what
22 Jim has said. This project is putting -- if you attach
23 the special conditions, it will put us in an untenable
24 position. It probably will put the Agency in one as well
25 because it will be foreclosed on by the County. We have

1 to go hard on the -- with our deposit of $200,000
2 tomorrow. We can -- we will be unable to do that if we
3 do not have a firm commitment.
4 And in addition to -- I would also like to
5 request that we be -- you know, that this be designated
6 to be funded out of the warehouse line. It's supposed
7 close October --
8 MR. PHILLIPS: 20th.
9 MS. FALK: -- 20th for the acquisition, and so we
10 don't have time to do anything else. We have to move
11 very quickly and so that's -- that's our request to you.
12 And we are increasing the affordability from
13 20 percent to a hundred percent. We're going to do about
14 30,000 a unit in rehab.
15 MS. PARKER: Bruce, do you want to come up and
16 just for the Board just --
17 MS. JACOBS: Could I ask a question?
18 MS. PARKER: -- focus --
19 MS. JACOBS: I think our responsibility as a
20 Board member -- my responsibility, at least, is to ask do
21 we have the funds to do this without this provision from
22 chief counsel?
23 MR. GILBERTSON: Certainly as we talked to you
24 earlier, we have funds. I think the challenges that we
25 would face is that this is a tax credit deal, and if we

1 don't have access to tax exempt bond markets within the
2 time frame that CDLAC provides the volume cap, what
3 happens to the overall financing? At that point we have
4 a loan on our credit facility and we have -- we have a
5 short-term liquidity source financing a -- is this a
6 30-year term project?
7 MR. LISKA: 35.
8 MS. WHITALL-SCHERFEE: It's 40. It's a 40-year
9 term.
10 MR. GILBERTSON: It's a 40-year. And I don't
11 have any sense from Janet's perspective or the
12 developer's what the challenge would be if they don't get
13 the 4-percent credits. Is there an end gained there?
14 MS. PARKER: Mr. Shine has a question, but,
15 Bruce, so worst-case scenario, this would be a portfolio
16 loan on us out of our Housing Assistance Trust funds?
17 MR. GILBERTSON: Or some other source of the
18 Agency, yes.
19 MS. PARKER: Mr. Shine.
20 MR. SHINE: I just wanted to recap again. You
21 have 67 units, and you were talking about 50 percent,
22 60 percent, 80 percent. Would you give us the numbers?
23 Does it add up to 67 units?
24 MS. WHITALL-SCHERFEE: Yes.
25 MR. DEANER: Yeah, the project is a

1 hundred-percent affordable going forward with Mercy
2 Housing buying it, which --
3 MR. SHINE: How many at 80, how many at 50, how
4 many at --
5 MR. DEANER: None -- none at 80. Half will be at
6 50. The other half will be at 60.
7 MR. PAVAO: Going forward.
8 MR. SHINE: I'm sorry, I must have missed that.
9 How many at 80?
10 MR. PHILLIPS: Currently 14 are at 80.
11 MS. PARKER: On page 304.
12 MR. SHINE: Correct.
13 MS. PARKER: There will be 22 at 50, 24 at 60.
14 These are bedrooms. All of them --
15 MR. SHINE: So it's mostly -- okay.
16 MS. PARKER: 30 at 50 and 36 at 60, is that --
17 MR. LISKA: Yes. And there's one manager's unit
18 for a total of 67 units.
19 MS. WHITALL-SCHERFEE: I'm sorry, what did you
20 say, Mr. Shine?
21 MR. CAREY: And today only 20 percent of the
22 units are at 80 percent. The rest are --
23 MR. LISKA: That's correct.
24 MR. DEANER: Correct.
25 MR. LISKA: 14 units currently.

1 MS. GALANTE: So it's significantly changing the
2 affordability.
3 MR. CAREY: We're buying additional affordable
4 units for a long term.
5 MR. SHINE: I don't see any 80 percent here.
6 MS. JACOBS: No, no, there's no 80 percent in the
7 future. There's 80 percent now.
8 MR. SHINE: Okay. But the plan is to do 50s and
9 60s; is that right?
10 MS. WHITALL-SCHERFEE: Correct.
11 MR. SHINE: Thank you.
12 MS. PARKER: Mr. Pavao.
13 MR. PAVAO: Just a quick question. So what's the
14 status of the current owner vis-à-vis the county loan,
15 and what's the nature of the default on that?
16 MR. LISKA: The permanent loan came due and he
17 was unable to pay it. And it's right now -- the County
18 was holding -- we've been in discussion with the County
19 of L.A. and basically they've been holding off doing any
20 type of foreclosure proceeding because we went out and
21 helped find a seller that was acceptable to us and a
22 proposal that worked.
23 I -- I don't think it's in our benefit to the
24 Agency to do a -- you know, go through a legal
25 proceedings, a courthouse sale, what have you, the cost,

1 the time, and --
2 MR. DEANER: That would take up capital.
3 MR. PAVAO: I understand, but is this a seller
4 who couldn't repay that loan but are they now going to
5 get 3.1 million out of this?
6 MR. LISKA: That is correct. They are going to
7 get $3.1 million out.
8 MR. PAVAO: So walk me through the scenario where
9 we let that default go through and that's seller gets
10 wiped out.
11 MR. LISKA: That scenario can take place. It can
12 happen, but, again, at what cost to the Agency.
13 MR. PAVAO: Would it be less than 3.1 million?
14 MR. DEANER: Well, receivership, I don't know,
15 you know, what the costs would be for us to take it back
16 and then we cover the bonds on that in this market.
17 MS. PARKER: Let me just say that we have spent
18 tremendous time on this project trying to make this work.
19 And you are well aware of what we have gone through with
20 some of the projects that we have taken back and how we
21 are continuing to deal with some of the ramifications of
22 that over a period of time.
23 We have tried to come up with what we think is a
24 reasonable solution because the -- frankly, I will say
25 this: The amount of time and resources that we would

1 have to put to managing this, if it were -- if it came
2 back to us, I believe at this point in time would be very
3 counterproductive to the best use of those resources.
4 So I would essentially ask for your consideration
5 to move forward on this. If I have to have Tom and his
6 folks tied up in one more huge legal transaction, I think
7 Tom may jump up out a window.
8 MR. PAVAO: Is that true, Tom?
9 MR. HUGHES: Well, I'm on the fifth floor. I
10 might survive.
11 MS. JACOBS: Well, I'm still not clear if we have
12 a staff recommendation to go ahead and do this as
13 submitted or to do it with the additional bond language.
14 MS. PARKER: Well, I think what we need to do is
15 focus back on what Mercy Housing has asked of us today.
16 And I want to go back and, you know, reiterate we have a
17 recommendation to you today that doesn't, obviously,
18 presume that there is an access to capital market. If
19 there is a problem with access to capital market, what
20 is -- what is the committee's preference? Is this the
21 highest best priority of any resources that we might
22 have?
23 And, Bruce, again, I would go back and
24 essentially say, you know, since our business plan does
25 assume some use of Housing Assistance Trust funds, does

1 this essentially use Housing Assistance Trust funds to
2 the top of the list of anything else?
3 MR. GILBERTSON: Clearly that would be one of the
4 options. It appears to me that we would have -- we have
5 an ongoing obligation -- an initial obligation of
6 eight-million-three to provide funding for the
7 acquisition that is a 12-month term. We would then go
8 into a permanent loan of 4.2 million.
9 My question is I think it might grow rather
10 dramatically in the permanent loan if tax credits are not
11 provided because of the lack of access to that market,
12 that we could find ourselves with a permanent loan in
13 excess of $7 million, and I just don't know at what
14 return we would get on that $7 million. If debt service
15 is 4 million and a 5.85, I --
16 MS. GALANTE: I'm sorry, I'm not sure I'm
17 understanding and I --
18 MS. PARKER: Go ahead.
19 MS. GALANTE: You're saying they might not have
20 access to tax credits because the loan would not --
21 because if you -- if you warehouse this, it's not a tax
22 exempt facility?
23 MR. GILBERTSON: We have to issue tax exempt
24 bonds is my understanding to -- to leverage the 4-percent
25 credits.

1 MS. PARKER: Okay. But a couple things: One of
2 them would be we would be, I presume for this, the -- you
3 have -- you have an allocation now?
4 MR. DEANER: They'll get it on the 24th.
5 MS. PARKER: Okay. So -- and then there would be
6 120 days to essentially issue --
7 MR. DEANER: Correct.
8 MS. PARKER: -- debt. If for some reason you get
9 a five-day extension that for some reason by the end of
10 the year that isn't going to happen, we could go and
11 reapply at all of those various points in time to
12 continue to have a deal that would be bond cap and
13 taxable during that year time frame that we're talking
14 about.
15 MR. DEANER: Well, and I think Janet would also
16 like to address that with potentially other options.
17 MS. FALK: No, that's okay.
18 MR. DEANER: Okay.
19 MR. GILBERTSON: Is my conclusion correct? I was
20 jumping to the conclusion that our permanent loan may
21 become much larger.
22 MR. DEANER: If you could never get --
23 MR. GILBERTSON: But I wonder if Stan Dirks could
24 run us through are there challenges if we warehouse and
25 what length of time could we warehouse before we visited

1 the tax exempt markets.

2 MR. DIRKS: Yeah, it's pretty simple. We would

3 need to reimburse the Agency's original making of the

4 loan with taxes and bond proceeds within 18 months of the

5 original loan, so there is a time limit. We'll all be in

6 real trouble if we can't get to the bond market in that

7 period of time, but, anyway, there is a time limit.

8 MR. DEANER: Wouldn't we need to extend then the

9 120 days that CDLAC gives us for that authority?

10 MR. DIRKS: That's a separate question from the

11 CDLAC question. I was assuming that either at the end of

12 the year, the Agency would get a carryforward for this or

13 the ability to issue tax exempt bonds would be continued

14 by CDLAC.

15 MR. DEANER: Right.

16 MS. PARKER: Carla.

17 MS. JAVITS: I guess I just wanted to ask, we

18 haven't gone through all the rest of the deals that are

19 on the docket.

20 MS. PARKER: So you want to put this one off

21 until the end?

22 MS. JAVITS: Well, no. No, I'm just -- you're

23 making the recommendation that we waive the language on

24 this deal. Are you going to make the recommendation that

25 we waive the language on other deals? Is this the only

1 deal that you're recommending that the --
2 MR. DEANER: Correct.
3 MS. JAVITS: -- language be waived for?
4 MS. PARKER: I think that is very fair to say.
5 MS. JAVITS: And I'm asking the question because
6 I assume that it's possible that after this meeting there
7 will be others that we've approved with that language who
8 will come and plead their case to the Agency, very
9 vociferously, and so I just want to be sure that it's
10 appropriate in this case that it's the Board at the Board
11 level making a decision to waive the language in one and
12 only one case.
13 MS. PARKER: I think what I would say about this
14 is that this deal and the circumstances of this deal are
15 so unique that the other deals would not meet that level
16 test, whatever. And so I would not put the Board nor the
17 Agency in a situation where we, at the end of the day,
18 would not have a clear line of why we have made or
19 defined a special set of circumstances because we would
20 recognize that if that created a -- a platform that there
21 would be a number of people that we would have to be
22 offering or treating them exactly the same.
23 So, as I said, for all the reasons we've talked
24 about this particularly because of the potential for this
25 property to maybe come back or go to foreclosure, we

1 have -- the work on this has just been extraordinary.
2 And, you know, this is the best thing that we have been
3 able to come up with and recommend strong support for.
4 MS. JAVITS: Because you've had the authority to
5 go ahead and do that under this language, but you're
6 asking the Board to make that decision in this and only
7 this case?
8 MS. PARKER: I think -- well, the -- Mercy has
9 asked of this -- since all of this, we didn't come in
10 presuming that we were going to be given this, but I
11 guess if you're asking, I think -- yes, I will say that,
12 that had I known all this before we came in here, we
13 would be -- I would be recommending to you to not put the
14 language that Tom has proposed on this particular
15 project.
16 MS. JACOBS: Okay. How about a motion?
17 MS. PARKER: All right.
18 MR. SHINE: I'll make the motion.
19 MS. PARKER: Mr. Shine.
20 MS. JACOBS: Knock me out of the box, Mr. Shine.
21 MR. SHINE: You hesitated.
22 MS. PARKER: Motion to approve resolution 029.
23 MR. SHINE: I'll defer to my colleague.
24 MS. JACOBS: Okay. I'm going to make a motion to
25 approve -- I forgot the project's name already -- Santa

1 Clara Terrace final commitment with the proviso that we
2 get a status report at the November meeting and the
3 meeting after that.
4 MS. PARKER: Mr. Shine. Wait, let me just get a
5 second.
6 MR. SHINE: Second.
7 MS. PARKER: Mr. Shine has seconded.
8 Are there any questions or comments by the
9 Members?
10 MS. JAVITS: Yes. I guess since this is the one
11 unique circumstance and you're asking the Board to make
12 that decision, as a friendly amendment should we state
13 in -- as part of the motion why we're making the
14 exception in this case?
15 MS. PARKER: I leave it to the pleasure of the
16 Board.
17 MS. JAVITS: Again, assuming there will be others
18 who will come to the Agency and ask why an exception in
19 one case and in no others.
20 MS. PARKER: Would the maker of the motion
21 entertain additional --
22 MS. JACOBS: You come up with the language.
23 MS. PARKER: -- additional wording that I might
24 suggest, subject to, again, the transcriber's minutes of
25 this meeting that are articulating the uniqueness of this

1 particular loan that the staff have used as a
2 justification for recommending that general counsel's
3 language not to be attached.
4 MR. SHINE: And also --
5 MS. PARKER: Jack.
6 MR. SHINE: And also the area in which this
7 project is being -- exists is in dire need of this kind
8 of housing.
9 MS. JACOBS: And I don't want to add that because
10 we've got a lot of other areas like that in here.
11 MS. PARKER: For the record, so the motion
12 includes --
13 MS. JACOBS: The motion includes the language
14 just proposed by -- just formulated by the executive
15 director.
16 MS. PARKER: Okay. Any other comments?
17 Call for the question. JoJo, vote -- please call
18 for the vote, please.
19 MS. OJIMA: Thank you.
20 Ms. Peters.
21 MS. PETERS: Yes.
22 MS. OJIMA: Mr. Carey.
23 MR. CAREY: Yes.
24 MS. OJIMA: Ms. Galante.
25 MS. GALANTE: Yes.

MS. OJIMA: Ms. Jacobs.

MS. JACOBS: Yes.

MS. OJIMA: Ms. Javits.

MS. JAVITS: Yes.

MS. OJIMA: Mr. Pavao.

MR. PAVAO: Yes.

MS. OJIMA: Mr. Shine.

MR. SHINE: Yes.

MS. OJIMA: Ms. Gay is gone. She has been gone -- do you want that on the record -- since the break. I want to make sure we have that on record that Ms. Gay --

MS. PARKER: Left the meeting at -- at the break. Okay. I'm looking at the time, we have --

MS. OJIMA: Resolution 08-29 has been approved.

MS. PARKER: Thank you, JoJo.

We have three more items on here, Bob, if you can move through these.

MR. DEANER: Montecito Village.

MS. WHITALL-SCHERFEE: We actually only have two because we did withdraw --

MR. DEANER: El Centro.

MS. WHITALL-SCHERFEE: -- El Centro.

MS. PARKER: What about Fairmount Apartments?

MR. DEANER: We still have Fairmount.

1 MS. WHITALL-SCHERFEE: I'm sorry. I don't have
2 it marked correctly.
3 MS. PARKER: Okay. Let's go.
4 --o0o--
5 **Item 4. Resolution 08-30, Montecito Village Apartments**
6 MS. WHITALL-SCHERFEE: Okay. Montecito Village.
7 Montecito Village Apartments is located in Ramona, which
8 is in San Diego County. This is a portfolio loan. This
9 is a request for acquisition and rehabilitation financing
10 and permanent financing.
11 The request is for acquisition rehabilitation
12 financing in a first mortgage of 5,325,000 at a 5-percent
13 fixed rate for 24 months, and the financing is tax
14 exempt. A second mortgage would be funded at the same
15 time the acquisition rehab loan is funded, and that would
16 be in the amount of $1,625,000.
17 It has an A piece and a B piece. A million
18 dollars would be taxable, and that would be at an
19 interest rate of 6.75 percent. And then 625,000 of that
20 loan will be tax exempt, and that is at an interest rate
21 of 5 percent, and that would be over a term of seven
22 years.
23 The permanent loan will be a first mortgage in
24 the amount of 5,325,000. The interest rate would be
25 5 and a half percent for a 35-year term prepayable after

1 year 15 with 120-days written notice, and that is tax
2 exempt financing.
3 This property is encumbered by a ground lease,
4 and Jim Morgan is going to just give you an encapsulated
5 explanation as to how the ground lease works.
6 MR. MORGAN: Very encapsulated. But we are
7 collecting $156,000 of yield maintenance going to the
8 CalHFA coffers, so there is some good news.
9 The ground lease is -- we were able to -- through
10 the San Diego board of supervisors via their real estate
11 loan division able to put in place and have approved a
12 55-year ground lease. The structures of that -- the
13 existing ground leases for a dollar a year till 2027 and
14 with a 25-year renewal to 2052; however, it contains a
15 rent adjustment for an early payoff, and the rent
16 adjustment is the amended and restated ground lease that
17 you see here.
18 That ground lease is flawless. It's $17,000 a
19 year -- I mean 12,000 a year for the first seven years
20 for a total of $84,000. 60,000 of that 84,000 is paid
21 up-front. So the first five years are prepaid, and years
22 4 and 5 you have that $12,000. You'll notice that's
23 co-terminus with the Section 8 overhang loan.
24 From that point then after, after the $84,000 as
25 part of the -- the first seven years is paid, then there

is 20 years of $36,000 base plus 7 percent of the previous year's gross income less 2009's gross income and cannot exceed $80,000 from year 2016 to 2036. Do you like that? That's good.

And then from that point on, it's -- it's -- cannot exceed $110,000 after 2036.

The term of the ground lease is for 55 years to be co-terminus with affordability restrictions and most importantly as well is that the ground lease -- the board of supervisors approved the CalHFA lease rider, and the lease rider that we have provided states that all ground lease payments are subordinate to CalHFA and debt service payments. So the lease -- the lease is subordinated to us and the ground lease payments are subordinated to us, and they cannot be taken out of operations.

MS. PARKER: So, Jim, I think everyone is convinced we've done our homework on this ground lease.

MR. MORGAN: Well, yeah, the developer, it took -- it took us six months. It took him six months.

MS. PARKER: All right. Anything else?

MS. WHITALL-SCHERFEE: We pulled this from CDLAC before because of this issue.

No, that --

MS. PARKER: Are we ready to --

MS. WHITALL-SCHERFEE: -- is everything and we're

requesting approval.

MS. PARKER: Call for the motion, please.

MS. JACOBS: Okay. Move approval of Montecito Village with the language from bond counsel submitted today.

MS. PARKER: Is there a second?

MR. CAREY: Second.

MS. PARKER: By Mr. Carey.

Questions or comments?

Carol.

MS. GALANTE: I just want to make sure we're talking about the same situation, it's a hundred-percent Section 8?

MR. MORGAN: A hundred-percent Section 8.

MS. GALANTE: Section 8 rents are above the market. This is not a high priority in an era of scarce resources.

MS. PARKER: Okay. Thank you.

Any other questions or comments?

MS. JAVITS: Second.

MS. PARKER: All right. From Ms. Galante and Ms. Javits.

Any other questions, comments?

Call for the vote.

MS. OJIMA: Thank you.

Ms. Peters.

MS. PETERS: Yes.

MS. OJIMA: Mr. Carey.

MR. CAREY: Yes.

MS. OJIMA: Ms. Galante.

MS. GALANTE: Yes.

MS. OJIMA: Ms. Jacobs.

MS. JACOBS: Yes.

MS. OJIMA: Ms. Javits.

MS. JAVITS: Yes.

MS. OJIMA: Mr. Pavao.

MR. PAVAO: Yes.

MS. OJIMA: Mr. Shine.

MR. SHINE: Yes.

MS. OJIMA: Resolution 08-30 has been approved.

--o0o--

Item 4. Resolution 08-31, Rochdale Grange Community

MS. PARKER: Proceed to resolution 8 -- 08-31.

MS. WHITALL-SCHERFEE: The next project is Rochdale Grange Community. It's in Woodland, which is in Yolo County. This is not an acquisition rehabilitation loan. This is new construction.

This is a request for approval for 44 units of new housing for families. It's going to be a combination of townhomes and flats.

1 The construction loan that we are requesting is
2 in the amount of $8,850,000 at 5-percent fixed for
3 24 months, interest only. And that's tax exempt money.
4 The permanent loan, we're requesting a first and a
5 second. The first is in the amount of $700,000 at
6 5.75 percent for 25 years, fixed, fully amortized,
7 prepayable after 15 years.
8 We're also requesting a second mortgage in the
9 amount $180,000 at 4 percent for 25 years. It would be a
10 residual receipt loan. At this point we are intending to
11 use our -- the FAF money that the Agency has and if -- we
12 always would like to also reserve the right in the event
13 for some reason we don't choose to use FAF, that we could
14 use HAT money or other Agency funds.
15 In addition to our financing, there is almost $3
16 million of MHP financing that has been committed.
17 There's $4 million of HOME money that's been committed,
18 and the AHP loan from First Northern Bank has not yet
19 been committed, but they are going back, and an approval
20 for AHP money is pending.
21 MS. PARKER: Is there a motion?
22 MS. JAVITS: I move it.
23 MS. PARKER: Motion by Ms. Javits.
24 MS. JACOBS: Any language attached to it or
25 you're just moving it?

1 MS. JAVITS: With the language that Mr. Hughes
2 has proposed.
3 MR. PAVAO: Second.
4 MS. PARKER: Motion by Ms. Javits, second by Mr.
5 Pavao.
6 Questions, comments by Members?
7 MS. JACOBS: I'd like to make a comment. I think
8 that probably, pounding the nail into the ground harder,
9 the Board is very interested in producing new units and
10 not as interested in change of ownership rehab
11 transactions.
12 MS. PARKER: I presume that this would be taken
13 as a higher priority than the items that we have been
14 considering previously with the exception of the project
15 in San Diego.
16 MS. GALANTE: From my opinion, yes. My silence
17 did not mean to -- I just figured it would be lower
18 priorities for the other ones, which would assume that
19 things like this that I didn't make that comment on
20 should be a higher priority.
21 MS. PARKER: So noted on the record.
22 Any other question or comments of Members?
23 A motion is before us. JoJo, will you call the
24 roll.
25 MS. OJIMA: Thank you.

Ms. Peters.

MS. PETERS: Yes.

MS. OJIMA: Mr. Carey.

MR. CAREY: Yes.

MS. OJIMA: Ms. Galante.

MS. GALANTE: Yes.

MS. OJIMA: Ms. Jacobs.

MS. JACOBS: Yes.

MS. OJIMA: Ms. Javits.

MS. JAVITS: Yes.

MS. OJIMA: Mr. Pavao.

MR. PAVAO: Yes.

MS. OJIMA: Mr. Shine.

MR. SHINE: Yes.

MS. OJIMA: Resolution 08-31 has been approved.

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Item 4. Resolution 08-33, Fairmount Apartments

MS. PARKER: Our last project, Fairmount Apartments.

MS. WEREMUIK: Yes. Fairmount Apartments is a 31-unit existing property located at 401 Fairmount Avenue in the city of Oakland and the county of Alameda. It consists of 26 one-bedrooms and five two-bedrooms. The project will be a deeply affordable special needs project.

1 The rents, the proposed rents, are 35 percent of
2 AMI. I think it's -- oh, there's -- I'm sorry, it's 20
3 percent, 35 -- 35 percent and 50 percent of AMI. 35
4 percent of the units will be reserved for special needs
5 people. Five of them are proposed as MHSA units for
6 people who are homeless and mentally ill who have
7 wraparound full-service partnership services provided by
8 Bonita House, which is one of the premier full-service
9 partners in California.
10 The other six units of special needs housing will
11 be for people with physical disabilities with a service
12 provider, Toolworks, who is also an excellent service
13 provider we have worked with before for people with
14 orthopedic difficulties.
15 The loans that the Agency is -- the sponsor is
16 AHA. They have about a thousand units in the Bay Area.
17 We've worked with them on two previous projects.
18 The request before you today are for a tax exempt
19 construction loan in the amount of 6,300,000, an interest
20 rate of 5-percent fixed, with an 18-month term, interest
21 only.
22 There's a tax exempt permanent loan that's a loan
23 to a Section 8 overhang made against a Section 8
24 contract. It is 15 years, which will time with the
25 contract. It's 5.4 percent. It's fully amortizing.

1 Because of the Section 8 units, we are also
2 looking at a residual receipts GAP loan in the amount of
3 425,000. 275,000 of that would be funded at permanent
4 loan closing with 175 held back in case there was any
5 disruption in the Section 8 contract. And we negotiated
6 that with the equity investor, proposed equity investor,
7 Enterprise.
8 Because -- because there's a 15-year contract and
9 because the equity investors have changed the way they
10 underwrite Section 8, they're requiring very high
11 reserves. They agreed that we could make a commitment to
12 fund but not have to fund the full reserve and -- in the
13 event of Section 8 continue to function as we think it
14 will over term.
15 That GAP loan is repayable when our permanent
16 loan -- and probably would be refinanced at the point
17 that our permanent loan fully amortized and matured.
18 The -- you'll have before you a correction page.
19 The main import of this correction page is that it shows
20 you the appraisals, which were estimated at the time that
21 we provided the final commitment, but we have received
22 them in the property -- there is value in the property
23 and appraised this appropriately.
24 The other financing in the deal is a committed
25 loan from the City of Oakland for 3,491,000. It's

1 55 years residual receipts, 3 percent.
2 There is a committed HCD general MHP loan for
3 2,306,485, 55 years, 3-percent residual receipts.
4 We also anticipate that the project will get a
5 commitment of MHSA housing program loan from the Agency.
6 We don't have that application in to us yet, but the
7 project has been noticed by the County of Alameda. We
8 would need them both to notice, and also their board of
9 supervisors has to allocate their money over to the
10 Agency, which has not yet happened, but is in process.
11 There is also -- they are also applying for a
12 small MHP loan of $250,000. We would require that
13 those -- the MHSA and the AHP loans be committed prior to
14 funding.
15 The project currently has a commitment for ten
16 Section 8 units, a ten-year term. The new law allows for
17 a 15-year term. The City, the Housing Authority of
18 Oakland has that on their agenda, to extend the term.
19 They're also looking at committing an additional five
20 Section 8 units.
21 Right now the financing that's before you
22 anticipates that the project, instead of the Section 8
23 for the MHSA units, would get capitalized operating
24 subsidy from the MHSA program, but the county mental
25 health department, if they get the Section 8 unit, would

1 prefer that they hold that back and they use the
2 Section 8s. Again, we would require that the -- all of
3 the subsidy sources be committed as a condition of
4 funding.
5 Just to mention, there is relocation in this
6 deal, but 20 of the units are vacant. The project has
7 been held vacant under the purchase agreement since
8 February of 2007 in a -- to facilitate what will be very,
9 very deep rehab.
10 The acquisition cost, for Director Jacobs, is 31
11 percent of the costs, and the rehab is 43 percent of the
12 costs. With contingency they're rehabbing a hundred --
13 at 166,000 per unit. It's the deepest rehab I have ever
14 seen proposed.
15 There are no significant environmental issues
16 other than the normal lead and asbestos, which will all
17 be either removed or contained as is appropriate and
18 disposed of.
19 There are two other issues that you should -- I
20 should disclose to you. One is that the construction
21 contract has not been -- the contractor has not been
22 identified yet. They're out for bid. There is a chance
23 that that contract could come in higher, but we don't
24 anticipate -- I mean with the level of rehab we're
25 looking at, we think there's room in the -- in it to --

1 for the project to work once the contract comes in.
2 Again, we would not issue bonds -- given that we
3 can issue bonds -- prior to knowing that a contractor had
4 been selected and having at least a preliminary
5 indication that the project cash flowed.
6 The other issue for this project is that under
7 the new law, apparently the County of Alameda loses its
8 130-percent basis boost on the 1st of January, and the
9 funding for this project, the acquisition funding for
10 this project from the -- from the County of -- from the
11 City of Oakland is tied to them getting that basis boast,
12 which means allocation and nonfunding are funding by the
13 end of this year, so this project sits in a very
14 precarious place right now, and there's a good concern
15 that if we weren't able to issue bonds or in some way
16 fund, this project would fail.
17 MS. PARKER: Again, giving you some sense of
18 obviously the significance of any of these projects that
19 we're able to do with MHSA funds.
20 I will add to Kathy's comments to let you know
21 that at least between the last time of the last Board
22 meeting and now we have successfully had the money from
23 the County transferred to the Housing Finance Agency, so
24 we actually have ownership of that so we are able to move
25 forward when an application is submitted to us.

1 Are there -- is there a motion about this
2 project?
3 MS. JAVITS: Move it.
4 MS. PARKER: Ms. Javits approves the project. Is
5 there a second?
6 MS. JAVITS: With the -- are we -- with the
7 language that Mr. Hughes recommended.
8 MS. PARKER: Is there a second?
9 MS. JACOBS: Second.
10 MS. PARKER: Ms. Jacobs seconds.
11 Any questions or comments from the Board?
12 Ms. Galante.
13 MS. GALANTE: A comment. Again, I think the
14 amount of work that's gone into getting this to the place
15 where it is and the issue with the -- the difficult
16 development area, the basis for this going away is a
17 huge, huge problem for the entire Bay Area. And, you
18 know, doing everything we can to prioritize this project,
19 sounds like we have other work to do that goes beyond
20 what we need to do, but prioritizing it so it can close
21 this year before that impact hits.
22 MS. PARKER: Can I ask -- because I kept notes
23 here with the stars -- there's three projects, one
24 project of which we have not put the general counsel
25 language on, so obviously that wouldn't be the highest

1 priority. Between this project, Fairmont, and the
2 project in Woodland, is there a priority that you want
3 to -- if you don't want to, but if there is I believe the
4 timing of this one does make it somewhat critical.
5 MS. JACOBS: I think they're both high priority.
6 MS. PARKER: Okay.
7 MS. JAVITS: I mean getting the deal done is
8 obviously a critical element of deciding what's a
9 priority.
10 MS. PARKER: I just want to ask from the
11 standpoint of having, you know, a sense of the Board.
12 MS. JAVITS: Yeah.
13 MS. PARKER: Questions or comments?
14 We have a motion and a second.
15 If there are none, JoJo, call the roll, please.
16 MS. OJIMA: Thank you.
17 Ms. Peters.
18 MS. PETERS: Yes.
19 MS. OJIMA: Mr. Carey.
20 MR. CAREY: Yes.
21 MS. OJIMA: Ms. Galante.
22 MS. GALANTE: Yes.
23 MS. OJIMA: Ms. Jacobs.
24 MS. JACOBS: Yes.
25 MS. OJIMA: Ms. Javits.

1 MS. JAVITS: Yes.
2 MS. OJIMA: Mr. Pavao.
3 MR. PAVAO: Yes.
4 MS. OJIMA: Mr. Shine.
5 MR. SHINE: Yes.
6 MS. OJIMA: Resolution 08-33 has been approved.
7 MS. PARKER: Okay. Thank you, all members and
8 staff. You're outstanding.
9 One thing I would note as you can see and what
10 Bob has talked about irrespective of the market
11 situation, clearly the staff at the Housing Finance
12 Agency is increasing its volume of multifamily projects.
13 I believe that the staff will intend to come back and
14 have a very serious discussion with you all about whether
15 or not we want to do something around delegation, because
16 we could be in a situation, if there were not these two
17 pulled, we would have had 11 projects together. And we
18 want to have a discussion with you about how to focus our
19 time and your time in meetings going forward.
20 There are two more items on the agenda that we
21 need a vote of the Board, and I do want to be mindful of
22 Mr. Carey's time with you all on the recruitment item. I
23 think we can go through these and meet Ms. Galante's time
24 frame for being able to catch her flight.
25 --o0o--

1 **Item 5. Discussion, recommendation and possible action**
2 **regarding Approval to Negotiate and Enter into**
3 **a Contract for Homeownership Loan Origination**
4 **System Products and Services**
5 MS. PARKER: So, Steve, do you and Mike want to
6 come up and walk us through the approval to negotiate the
7 homeownership loan origination system -- and Gary.
8 Come on, folks.
9 MR. SPEARS: All right. As you know, over the
10 last two business cycles, we've spoken to you on a couple
11 of occasions, as recently as last March about a number of
12 strategic projects that the Agency has undertaken. We
13 have happy news. The largest and one of the most
14 important of these projects is before you now to be
15 considered. We have a vendor that we'd like to negotiate
16 a contract with, and we'd like to move for that. I know
17 this is exciting for us. It doesn't compete with the
18 Wall Street news that's going on, but it's very, very
19 important, and it's a very big step forward. We have
20 made a lot of progress on a number of the other projects
21 that I won't take time to go through now because, you
22 know, we'd like for Ms. Galante to have a chance to see
23 this.
24 So at this point I'll turn it over to Gary and
25 let him continue on with it.

1 MR. BRAUNSTEIN: Thanks, Steve.
2 Good morning, Board Members.
3 The project at hand on our PowerPoint that you'll
4 see today is a quick reference to the project memo that
5 you have in your Board package, along with the
6 resolution.
7 And the primary focus is today to seek your
8 authorization on negotiating and entering into a contract
9 with the homeownership loan origination project. That
10 also includes the loan acquisition part of our
11 origination project, and as you -- as you would certainly
12 suspect, it's the heartbeat of the system that
13 homeownership uses.
14 The current origination system basically is
15 obsolete. It's currently at capacity. It doesn't
16 support the information analysis that management needs
17 across the divisions from homeownership to fiscal
18 services and to finance and the other divisions that
19 impact homeownership.
20 The Agency has pursued procurement through the
21 system of using our best practices that were described to
22 you in the March 2008 strategic initiative briefing book.
23 The project budget is set up at 5.73 million as a
24 one-time cost over three fiscal years. For fiscal year
25 08/09, the budget is 1.75 million and has been approved.

1 We're requesting today from the Board resolution 08-34,
2 which is, again, to negotiate and enter into a contract
3 for the selected vendor. And, again, through the
4 PowerPoint we'll share with you how we procured that
5 vendor and what the processes were.
6 Primarily, just some background, the business
7 problem is basically our system is today very fragile.
8 It's technically in software that is primarily old and
9 archaic and not up to speed with today's technology.
10 As I mentioned, it's at capacity so it restricts
11 our ability as an Agency to adapt quickly and swiftly to
12 changing business needs, such as adding loan programs and
13 other components to allow us to stay competitive and to
14 meet our mission and to help our customers. It's
15 obsolete. It doesn't necessarily incorporate current
16 mortgage banking technology and information flow, as I
17 mentioned earlier, and, again, that restricts our ability
18 to expand what we currently do today as well as to be
19 competitive and accessible to the secondary market.
20 It's marginally responsive simply by the fact
21 that it, again, as I mentioned, doesn't allow us to
22 easily manage the data to make intelligent business
23 decisions and to allow the information, again, to flow
24 from homeownership to the other necessary divisions that
25 we constantly deal with on a daily basis.

1 The objective of the origination project simply
2 was to improve business operations and efficiencies,
3 provide flexibility necessary to respond to change,
4 integrate all of our processes across business
5 functions -- which I believe is a key component to the
6 project's effectiveness and the purpose of seeking your
7 resolution today.
8 It improves the information quality and the
9 integrity of that information, provides appropriate and
10 timely access to the information for all the stakeholders
11 that are involved in the process flow.
12 Another key component is it dramatically
13 diminishes our need to be paper driven in a future image
14 processing type of environment that we're looking to move
15 into through homeownership as well as in our content
16 enterprise project that we also have working for the
17 Agency.
18 In so doing this process, again, I want to
19 reflect that we were following the procurement process
20 that was briefed to you in the March 2008 strategic
21 briefing.
22 Just a quick overview of our best practices, the
23 procurement selection process. And we approached this
24 from seeking an RPF. Initially we determined qualified
25 vendors from that RFP request, selected a vendor of

1 choice, and was approved through the strategic project
2 governance committee of the Agency.
3 A quick summary of what we did as to where we --
4 where we got to today in this request. We had 25
5 vendors that initially responded to the RFP. The
6 prospective vendors were researched through an extensive
7 collaboration of homeownership and the others in the
8 Agency to seek those vendors.
9 There were three vendors with products that were
10 targeted to other HFAs, so we certainly took the
11 opportunity to look at what our colleagues in other
12 agencies are doing. Sixteen software vendors for those
13 that were targeted to the mortgage banking industry and
14 six local and international system integrators.
15 The three vendors that responded to our proposal
16 was MortgageFlex Systems; Housing and Development
17 Software, HDS; and HCL America.
18 Summary was that based on the review of the
19 financial proposals, one of the vendors, HCL, was
20 considered nonresponsive and we did not consider them.
21 The other -- the other vendors we then pursued further.
22 You can see from the next chart this is a
23 side-by-side comparison of those two vendors,
24 MortgageFlex and HDS. We not only looked, obviously, at
25 their financials, but in the next pages you'll see that

1 we did reference checks, clients checks, on-site visits
2 to make our determination.
3 The one-time cost on MortgageFlex is 5.7 million.
4 On HDS was 6.7 million. As I mentioned again, the cost
5 was not the direct driver or determination of our chosen
6 vendor, which you'll see was and is MortgageFlex, which
7 in this case happens to just be at a lower price point
8 than the other vendor that we didn't choose.
9 The next slide really just reiterates what I just
10 mentioned. The HDS proposal was -- was quite deficient
11 in what we were looking for and failed to meet the
12 responsibilities and the qualifications that we were
13 looking for at the end. We had presented our proposal to
14 the Agency's steering committee and with their approval
15 moved forward with client visits and interviews of the
16 selected vendor of choice, which was MortgageFlex.
17 Just based on time I may speed this up a little
18 bit. The summary to our recommendation was through,
19 again, the site visits, the interviews, looking at the
20 financial components and the strength of the vendor that
21 we selected. They did offer the most comprehensive
22 solution to meet our Agency needs. They are a strong
23 financially backed organization that has 25 years of
24 experience in the mortgage banking sector. And, again, a
25 key component of the vendor of choice was that we were

1 looking for a off-the-shelf vendor that was sensitive to
2 the mortgage banking industry.
3 Our recommendation to you today is resolution
4 08-34 to allow us to negotiate into contract
5 relationships with MortgageFlex and to buy the products
6 and services that will result from the homeownership
7 solution. We seek your approval.
8 Thank you, Terri. I just -- we seek your
9 approval.
10 MS. PARKER: Thank you, Gary.
11 MS. JACOBS: Can I ask one question?
12 MS. PARKER: Yes, question.
13 MS. JACOBS: If you could just enhance my memory
14 here. I believe when we were planning for the budget for
15 this year, this was one of the things that that we put in
16 the budget --
17 MR. BRAUNSTEIN: Yes.
18 MS. JACOBS: -- because we knew we needed a new
19 system.
20 MS. PARKER: Actually, this is one of the
21 strategic initiatives that we've been talking to you
22 about for several years now that has been in the budget.
23 We have updated over the last several years when we've
24 brought up the progress of this, and so it is within the
25 funding available of the operating budget. It is just

1 part of the -- our responsibility to bring back
2 significant contracts to this Board for the Board to
3 approve those contracts.
4 MR. SPEARS: I think there's $1.75 million in
5 this --
6 MS. JACOBS: Year's budget.
7 MR. SPEARS: -- '08/09, fiscal '08/09.
8 MS. JACOBS: And that was my recollection.
9 MR. HUGHES: The regulation that we enacted
10 requires when we believe a contract will reasonably
11 expend more than a million dollars in any fiscal year
12 that we bring it back to the Board.
13 MS. JACOBS: I would move approval. I think this
14 is great.
15 MS. PARKER: Motion to approve by Ms. Jacobs.
16 Is there a second?
17 MS. GALANTE: I'll second.
18 MS. PARKER: Second by Ms. Galante.
19 Questions, comments by other members of the
20 Board?
21 MR. CAREY: Could I ask one question?
22 MR. BRAUNSTEIN: Yes.
23 MR. CAREY: What sort of an impact do you
24 anticipate in terms of processing times for loans?
25 MS. GALANTE: I was going to ask that question.

1 MR. BRAUNSTEIN: To better serve our customers,
2 it should dramatically speed up our turnaround time from
3 a -- from a compliance review, an underwriting
4 perspective, as well as the process of it being submitted
5 to us in an image capacity versus paper.
6 MR. CAREY: You got a target that you're working
7 for in terms of speed?
8 MR. BRAUNSTEIN: A target of turnaround? One of
9 the key objectives is to speed the process and the
10 efficiencies of files coming in, the ease of flow going
11 in from input through -- through the origination piece
12 and the acquisition, as well as to the final purchase of
13 the loan.
14 We don't have a target relative to the goal that
15 we're seeking to object -- to seek to get out of the
16 solution of the vendor, but this is certainly one of the
17 key components that we'll be discussing with them to help
18 speed that process. It's certainly a very key component
19 within the RFP, that being one of our system
20 requirements.
21 MS. PARKER: Mr. Carey, I think speed is an
22 issue, but it's secondary to the fact that -- of
23 capacity. And we have had the situation -- the good news
24 of business, is that we have had a couple of times where
25 capacity has been so great that the system has been

1 severely strained to the -- if it were not for the talent
2 of our staff, particularly IT and homeownership, our
3 system would fail our production achievements.
4 Other questions or comments by the Members?
5 Hearing none, if Ms. Ojima will call the roll,
6 please.
7 MS. OJIMA: Thank you.
8 Ms. Peters.
9 MS. PETERS: Yes.
10 MS. OJIMA: Mr. Carey.
11 MR. CAREY: Yes.
12 MS. OJIMA: Ms. Galante.
13 MS. GALANTE: Yes.
14 MS. OJIMA: Ms. Jacobs.
15 MS. JACOBS: Yes.
16 MS. OJIMA: Ms. Javits.
17 MS. JAVITS: Yes.
18 MS. OJIMA: Mr. Pavao.
19 MS. PARKER: He's out of the room. When he come
20 back, we'll ask him if he want to add --
21 MS. OJIMA: Thank you.
22 MS. PARKER: -- his vote.
23 MS. OJIMA: Mr. Shine.
24 MR. SHINE: Yes.
25 MS. OJIMA: Resolution 08-34 has been approved.

MR. SPEARS: Thank you, Board Members.

MR. BRAUNSTEIN: Thank you.

MS. PARKER: I don't want to give short shrift to the significance of these issues, but I do believe in this particular case this item we have been keeping the Board up-to-date at many different opportunities, and this is just another one where we feel that we're at a milestone of success.

--o0o--

Item 6. Discussion, recommendation and possible action regarding an amendment to Resolution 08-03 permitting refinancing of home loans

MS. PARKER: Let me move to the next and last item that we'll need a vote by the Board for item 6, discussion and possible action regarding an amendment to Resolution 08-03 permitting refinancing of home loans.

MR. HUGHES: Thank you. This, the memo that we submitted, is pretty self-explanatory. There's a couple of points in there I'd just like to clarify.

What this -- what this resolution would do would be to add to our existing financing resolution or provision that specifically says that the financing and refinancing program would be -- it would be authorized. I think the Agency actually has that authority in the financing resolution now. This simply makes it specific.

1 Of course, the Agency has never done a homeownership
2 refinancing program before because tax law didn't permit
3 it.
4 When we went back and looked at our very old
5 statutory infrastructure from the 1970s, there was a
6 provision which suggested that we would need to enact
7 regulations to do refinancing. It's never come up before
8 because we've never done it.
9 And we -- there is an existing bill which was
10 passed by the legislature, although my memo is probably
11 in error. We believed at the time it had been sent to
12 the Governor, but I understand since that bills actually
13 haven't gotten to the Governor's Office, is that --
14 MS. RICHARDSON: It's gone now.
15 MR. HUGHES: It now has gone?
16 MS. RICHARDSON: Yes.
17 MR. HUGHES: Okay. Well, I take that back then.
18 MS. PARKER: Tom, let me interrupt you to sort of
19 step back and set the stage for this. The reason for the
20 legislation and the reason for the resolution is, again,
21 Congress has passed a housing stimulus bill. The Housing
22 Stimulus bill has provided an increase in bond cap for
23 states, particularly to address the -- the subprime REO
24 problems. California will be receiving somewhere between
25 1.1 billion and 1.2 billion of additional bond cap in

1 2008.
2 The Debt Limit Allocation Committee has to
3 allocate these funds this year before the end of the
4 year. They have met a couple of different times. They
5 have essentially determined that what they want to do is
6 have a process where 20 percent of that would be set
7 aside for multifamily, and the 80 percent would be set
8 aside for applications around two priorities: One,
9 lending programs to deal with REO properties and the
10 other to deal with lenders who could come up with
11 developing refinance programs for existing borrowers who
12 may be in danger of losing their house.
13 They, CDLAC, asked all potential issuers to give
14 them some sense of what they might be doing with respect
15 to those programs and application. They reported this to
16 the committee a couple of weeks ago.
17 The California Housing Finance Agency responded
18 with our request for funding, that we would propose to
19 essentially take at least the half that would come to the
20 state on a natural fair share to run two programs. One
21 of them is the REO program that you are aware that we
22 started a couple of months ago wherein we're using $200
23 million of special bond cap to work with four banks to
24 offer programs at discounted -- or properties at a
25 discounted sales price and special financing in limited

1 areas. What we would propose to do if we've got
2 additional cap is to expand that program to probably
3 statewide.
4 We can report today that we have five
5 reservations in hand, mostly in the San Joaquin Valley,
6 but we do have one in Oakland. So we are being very
7 aggressive, and we are continuing to work with more banks
8 to not only expand that program, but expand the number of
9 properties.
10 The other part of it would be to essentially look
11 at the capability of doing a refinance program. Let me
12 tell you about we have been working and really leading an
13 effort with our colleagues, housing finance agencies
14 cross the country, to design a model of a refi project
15 loan that would take advantage of the FHA HOPE program
16 that is offered also in the federal stimulus package.
17 It is a loan, in this particular case, that would
18 require the lenders who own these loans to go through
19 their portfolios and look at borrowers who would meet the
20 criteria that would be determined to be in danger of
21 losing their house and agree to have that loan refinanced
22 by another entity. And the loan refinance would be at 90
23 percent of the current value of the property, and
24 mortgage insurance would have to be paid for, the closing
25 costs would be paid for.

1 The question that we have been dealing with and
2 trying to work with a number of lenders is if lenders
3 would be willing to have HFAs throughout the country
4 develop a model, an FHA-HFA hybrid that they would be
5 willing to work with in certain circumstances to, in that
6 sense, write off the, you know, loan, a certain amount of
7 the actual proceeds of the loan.
8 We have -- when I was in New York, we met with
9 Citi, and we talked with them. We talked with Fannie
10 Mae. We have expressed interest. Wells Fargo has
11 expressed interest. We believe that as we go forward
12 over a period of time that this is maybe a viable option.
13 We are required to submit to CDLAC in October to
14 request these funds. I want to make sure -- the reason
15 why this is on here today is as much to capture a
16 resolution around if this legislation is implemented,
17 which would give us the authority to move forward, as --
18 also as much as to have you be aware of the work that we
19 are doing and to make sure that you are comfortable with
20 this direction so that we do not submit an application
21 subject to us getting it.
22 We certainly would be coming back to you before
23 we would be implementing any loan programs and
24 essentially walking you through them, but to make sure
25 that we're on target with where our work and priorities

1 are for your consideration. So I just -- I wanted to
2 give that as a framework to the specifics of how this
3 resolution fits in.
4 MR. HUGHES: I couldn't add to that.
5 MS. JAVITS: Tom, I'd just like to commend you
6 and the Agency for persisting despite all the challenges
7 of this and given the potential opportunity at least with
8 the new federal legislation of trying to get ahead of the
9 curve by coming up with an approach.
10 MS. PARKER: I will add that we had a meeting two
11 weeks ago in D.C. People from FHA came and met with the
12 housing finance agencies. They have included us now in
13 some calls they've had with lenders. I've -- we -- we
14 need to press them when we get more information from the
15 lenders about if we have some asks of them.
16 But I think that I would say that doing this REO
17 program has set the stage to some extent because it gives
18 these banks some sense of what their costs are if these
19 programs, if these, you know, units go to REO and do they
20 in that sense now want to recognize that they're going to
21 have a haircut somewhere and in that sense work with --
22 on another -- it won't be the only model out there, but
23 it could certainly be one model that -- for some group.
24 And we'll be limited by how much time that we have.
25 But there is a certain amount of time for this

1 because the -- the proceeds are available, and we have
2 refi authority for a limited period of time.
3 MS. JACOBS: I think it's terrific, and I think
4 anything that we can do, both at HCD and CalHFA to make
5 sure that California gets its fair share of these funds
6 by having good programs is terrific, so I'd like to move
7 approval of the resolution.
8 MS. PARKER: Tom, may I just ask one question
9 about the resolution as it is before the committee?
10 Should the legislation be just amended to add the words
11 subject to the passage and signature of the legislation?
12 MR. HUGHES: Well, I think this simply fits in
13 the existing financing resolution authority. This
14 doesn't try and define a program. I don't know that we'd
15 actually need to add that in. If the bill for some
16 reason didn't become law, we'd simply leave it there.
17 We'd have the authority to do a refi program, and we
18 might have to do regulations. So there's probably no
19 harm, no foul.
20 MS. PARKER: I just wanted to ask that so it was
21 clear to the Board members.
22 Ms. Peters.
23 MS. PETERS: I just wanted to make a comment and
24 also seek some clarification. I just want to, again,
25 commend the staff and the Board for the work on the REO

1 program. It is a nation leading program, and it has been
2 widely applauded across the nation. Both the Treasury
3 and HUD have asked me to address a 50-state summit
4 they're planning for first week of October to outline our
5 accomplishments in California on the housing crisis in
6 general, but to specifically let the other states know
7 how successful we've been in getting ahead of the curve
8 on this groundbreaking program. So thank you for your
9 leadership on that and as well on working on this
10 refinance program.
11 I just want to make the additional clarification
12 that that bill, given the state of the budget, may or may
13 not be signed this year and seek counsel's comment of if
14 the bill were not signed for any reason and we were to
15 approve the authority to explore the parameters of such a
16 program, we would need implementing regulations then, and
17 would the regulation time line be doable within the time
18 frame of when we have to spend this money under the
19 federal act?
20 MR. HUGHES: Well, that was certainly our concern
21 in getting this through. The issue of regulations in
22 CalHFA is a quite complicated one for a lot of reasons,
23 and we would have to look very carefully at what we could
24 do. It's difficult these days to do emergency
25 regulations because of changes to the law.

1 This -- this bill simply makes clear that we
2 don't have to go through that process. If we were -- if
3 we didn't have the bill, we'd have to look at a variety
4 of different approaches, some of which might include
5 regulations and some which might not. This simply avoids
6 the necessity for doing that. If this provision is in
7 the financing resolution, it's simply an authority to do
8 one. It doesn't talk to how we get there.
9 MS. PETERS: And if we were to decide to do one,
10 what would the next steps be?
11 MR. HUGHES: If we didn't pass the bill?
12 MS. PETERS: Assuming there's no bill and this
13 resolution is passed.
14 MR. HUGHES: Right. We would have to decide to
15 what extent exceptions in the law regarding regulations
16 would be applicable to whatever we devised, and to what
17 extent they were not, and we would probably have to do
18 regulations and that. That's a longer process for CalHFA
19 than for other entities because the resolutions have to
20 come to the Board first, and the Board only meets every
21 two months and then has to start the process with the
22 Office of Administrative Law, so clearly there is a
23 significant time frame if we have to go that route.
24 MS. PARKER: Mr. Carey.
25 MR. CAREY: If it's been sent to the Governor, it

1 becomes law unless he vetoes it; isn't that correct?
2 MR. HUGHES: If it's been sent, yes.
3 MS. RICHARDSON: Yes.
4 MR. CAREY: It has been sent. So we maybe needs
5 some effort there to make sure he doesn't veto it.
6 MS. PARKER: Let me just say that -- to answer
7 perhaps, your question, Ms. Peters. We were approached
8 by people who, you know, wanted to know if there was
9 anything they could do with legislation by the end of the
10 session, and before a complete analysis of what all we
11 would need to do to move forward on a refi program, we
12 essentially said this -- you know, if we got legislation
13 to do this, it would eliminate us spending time to look
14 through and do on that analysis. If the bill isn't
15 signed, then we have to go back and do that analysis.
16 So I don't believe Tom can answer your question.
17 We didn't ask it of ourselves, completely get through
18 that, because the opportunity was presented to us to get
19 this, and we, you know, jumped at it so we could spend
20 time doing other work.
21 If for some reason the bill does not become law,
22 certainly at the next meeting that we have, we're going
23 to be having more discussions with you about this, about
24 the whole implementation process.
25 MS. PETERS: Thank you.

1 MS. JACOBS: Call the question.
2 MS. PARKER: Call for the question.
3 MS. JACOBS: Did anyone second my motion?
4 MS. OJIMA: Not yet.
5 MS. JAVITS: I second.
6 MS. PARKER: Okay. Ms. Jacobs has a motion, and
7 Ms. Javits has seconded.
8 Any more questions, comments?
9 JoJo, go through the minutes, please -- go
10 through the roll. Thank you.
11 MS. OJIMA: Thank you.
12 Ms. Peters.
13 MS. PETERS: Yes.
14 MS. OJIMA: Mr. Carey.
15 MR. CAREY: Yes.
16 MS. OJIMA: Ms. Galante.
17 MS. GALANTE: Yes.
18 MS. OJIMA: Ms. Jacobs.
19 MS. JACOBS: Yes.
20 MS. OJIMA: Ms. Javits.
21 MS. JAVITS: Yes.
22 MS. OJIMA: Mr. Pavao.
23 MR. PAVAO: Yes.
24 MS. OJIMA: Mr. Shine.
25 MR. SHINE: Yes.

1 MS. OJIMA: Resolution 08-35 has been approved.
2 --o0o--
3 **Item 7. Report of the Chair of the Search Committee**
4 **regarding the status of the Executive**
5 **Director search process**
6 MS. PARKER: I see my watch says that it's 1:10,
7 Ms. Galante, so I would now turn over the gravel to
8 Mr. Carey for him to move to item No. 7.
9 MR. CAREY: Okay. I want --
10 MS. PARKER: I just want to thank you all for
11 your patience of moving through this and how much we
12 accomplished today.
13 MR. CAREY: -- to take a moment to update the
14 Board on the search process.
15 Remember, the last Board meeting in July, then
16 Chairman Courson proposed and the Board supported
17 creation of a search committee to undertake the task to
18 identify a potential executive director for when,
19 unfortunately, we lose Terri Parker later this year. The
20 committee was -- in John's last week on the Board, he
21 finalized the committee. It's Heather Peters, Carla
22 Javits, Jack Shine and me.
23 The committee met -- early in August met with
24 Undersecretary Marjorie Berte from BTH, who was helpful
25 in the entire process and outlining the Governor's

1 expectations. Because, as you remember, this is an
2 unusual situation. We are not selecting an individual.
3 We're not hiring an individual. We're making
4 recommendations to the Governor for a pool of -- from
5 which we would hope he would choose the ultimate
6 appointee for the position.
7 In August, the Committee selected the firm of
8 Management Advisors out of four proposals that were
9 submitted, and so we have contract with MAI to assist in
10 the search process.
11 There are a couple things unusual. As I pointed
12 out, this is, in essence, advisory to the Governor. We
13 are -- therefore have a broader realm for confidentiality
14 in closed sessions than are in some situations with Board
15 actions, and so we are conducting business where
16 appropriate in open session and where appropriate in
17 closed session. I think the Board received a memo
18 explaining -- from Tom explaining the nature of that.
19 The committee met again early in September and --
20 and established a process, a general job description,
21 qualifications and a flyer, which I think you have all
22 seen at this point.
23 So now the process -- right now the process is
24 open recruitment and with a rather narrow time window.
25 The committee will next be meeting on the 29th of

1 September. The goal is to at that point review the
2 résumés, potential applicants, and to make sort of a
3 first cut from -- from that point.
4 We would ask Board members to help in making
5 referrals to Management Advisors of names you think might
6 be appropriate. Recognize the time frame is short. So
7 that the -- on the 29th of September, there will be a
8 process to select, in essence, the top pool and -- and
9 with more follow-up from that.
10 In October we now have meetings set on the 20th
11 and 21st of October, at which the committee will be
12 conducting interviews with a pool of potential candidates
13 and then, as agreed with the Board earlier at the last
14 meeting, on November 12th there be a special meeting of
15 the Board at which the Search Committee will present to
16 the Board its recommendations, seeking concurrence and
17 discussion with the entire Board with the goal of passing
18 that recommendation on to the Governor's Office for his
19 consideration.
20 November 12th is the day before our next regular
21 Board meeting, which is the 13th. So the Board will be
22 meeting two days in Sacramento in November.
23 Do committee members have anything to add?
24 MS. GALANTE: I just have a question. So you're
25 saying it's an all-day Board meeting -- I know I missed

the last meeting -- on November 12th and is -- so are we going to be also interviewing people or is that an all-day Board meeting?

MR. CAREY: We discussed that. It will be -- I don't know that it would last all day, but that is the meeting at which the entire Board will meet to hear the recommendations from the Search Committee.

MS. GALANTE: So we should reserve all day at this moment in time?

MR. CAREY: Yes. At this point in time, yes.

MR. PAVAO: But the Board wouldn't be meeting the candidates at that time?

MR. CAREY: The proposal was not.

MR. PAVAO: Okay.

MR. CAREY: Any other issues?

And I think that wraps it up. I think we do not need, then, to go into closed session, absent any matters that would have to be discussed in that way.

MS. PARKER: Thank you, Mr. Carey.

MR. CAREY: Thank you.

MS. PARKER: That takes care of item No. 7.

--o0o--

Item 9. Reports

MS. PARKER: No. 8, reports, I would just articulate they're in your binders. Also, certainly look

at Bruce's reports, a reflection of what we knew last week, although obviously some of that information will be updated.

--o0o--

Item 10. Discussion of other Board matters

MS. PARKER: Are there any discussion of other Board Members' matters?

--o0o--

Item 11. Public Testimony

Hearing none, public testimony of any?

Seeing and hearing none, I would say we are adjourned.

(The meeting concluded at 1:12 p.m.)

REPORTER'S CERTIFICATE

I hereby certify the foregoing proceedings were reported by me at the time and place therein named; that the proceedings were reported by me, a duly certified shorthand reporter and a disinterested person, and was thereafter transcribed into typewriting by computer.

In witness whereof, I have hereunto set my hand this 24th day of September, 2008.

_____

Yvonne K. Fenner

Certified Shorthand Reporter

License No. 10909, RPR

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STATE OF CALIFORNIA

CALIFORNIA HOUSING FINANCE AGENCY

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BOARD OF DIRECTORS

PUBLIC MEETING

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Holiday Inn Capitol Plaza
Fresno Room
300 J Street
Sacramento, California

Thursday, November 13, 2008
9:38 a.m. to 12:50 p.m.

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Reported by: DANIEL P. FELDHAUS, CSR #6949, RDR, CRR

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A P P E A R A N C E S

Board of Directors Present

PETER N. CAREY
(Interim CalHFA Board Chair)
President/CEO
Self-Help Enterprises

CAROL GALANTE
President
BRIDGE Housing Corporation

LORI R. GAY
President/CEO
Los Angeles Neighborhood Housing Services, Incorporated

CARLA I. JAVITS
President
REDF
(formerly Roberts Enterprise Development Fund)

ELLIOTT MANDELL
for LYNN L. JACOBS, Director
Department of Housing and Community Development
State of California

HEATHER PETERS
for DALE E. BONNER, Secretary
Business, Transportation. and Housing Agency
State of California

BETTINA REDWAY
for State Treasurer BILL LOCKYER
State of California

BROOKS TAYLOR
for CYNTHIA BRYANT, Director
Office of Planning and Research
State of California

--o0o--

A P P E A R A N C E S
Continued

Participating CalHFA Staff:

GARY BRAUNSTEIN
Acting Director &
Special Advisor to the Executive Director
Homeownership Lending

BRUCE D. GILBERTSON
Director
Financing Division

TIMOTHY HSU
Financing Risk Manager
Financing Division

THOMAS C. HUGHES
General Counsel

CHARLES K. McMANUS
Director
Mortgage Insurance Services

DENNIS MEIDINGER
Comptroller

JOJO OJIMA
Office of the General Counsel

Also Present

STANLEY J. DIRKS, Esq.
Orrick Herrington & Sutcliffe, LLP
(Bond counsel)

--o0o—

Table of Contents

Item **Page**

1. Roll Call 6

2. Approval of the minutes of the October 2, 2008, and October 20, 2008, Board of Directors meetings 7
   Motion 7
   Vote 8

3. Chairman/Executive Director comments 8

4. Report, discussion, and possible action regarding the Agency's financing and program strategies and implementation, in light of financial marketplace disruptions 14

5. Discussion, recommendation, and possible action regarding authority to purchase bonds using Agency funds 119
   Motion 127
   Vote 127

6. Discussion and possible action regarding Loans under the Agency's Self Help Builder Assistance Programs 89

7. Discussion, recommendation, and possible action regarding amendments to Board resolutions relating to the Bay Area Housing Program 105
   Motion 118
   Vote 118

Table of Contents
continued

Item **Page**

8. Report of the Chair of the Audit Committee . . . 128

9. Reports 132

10. Discussion of other Board matters 132

11. Public testimony *(None)* 136

Adjournment 136

Reporter's Certificate 137

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BE IT REMEMBERED that on Thursday, November 13, 2008, commencing at the hour of 9:38 p.m., at Holiday Inn Capitol Plaza, Fresno Room, 300 J Street, Sacramento, California, before me, DANIEL P. FELDHAUS, CSR #6949, RDR and CRR, the following proceedings were held:

--oOo--

CHAIR CAREY: This is the November 13th meeting of the California Housing Finance Agency Board of Directors.

Welcome, everybody.

--oOo--

Item 1. Roll Call

CHAIR CAREY: Our first order of business is the *Roll Call*.

MS. OJIMA: Thank you.

Ms. Peters for Mr. Bonner?

MS. PETERS: Here.

MS. OJIMA: Ms. Galante?

MS. GALANTE: Here.

MS. OJIMA: Ms. Gay?

MS. GAY: Here.

MS. OJIMA: Mr. Mandell for Ms. Jacobs?

MR. MANDELL: Here.

MS. OJIMA: Thank you.

Ms. Javits?

MS. JAVITS: Here.

MS. OJIMA: Ms. Redway for Mr. Lockyer?

MS. REDWAY: Here.

MS. OJIMA: Mr. Shine?

(No response)

MS. OJIMA: Mr. Taylor for Ms. Bryant?

MR. TAYLOR: Here.

MS. OJIMA: Mr. Genest?

(No response)

MS. OJIMA: Ms. Parker?

MS. PARKER: Here.

MS. OJIMA: Mr. Carey?

CHAIR CAREY: Here.

MS. OJIMA: We have a quorum.

CHAIR CAREY: Thank you, JoJo.

--o0o--

Item 2. Approval of the Minutes of the October 2, 2008, and October 20, 2008, Board of Directors Meetings

CHAIR CAREY: We have the minutes of the meetings of October 2nd and October 20th for approval or correction.

MS. GALANTE: I'll so move.

MS. PETERS: Second.

CHAIR CAREY: Any discussion?

(No response)

CHAIR CAREY: All in favor? Or are we doing that roll call?

MS. OJIMA: Roll call.

CHAIR CAREY: Roll call, sorry.

MS. OJIMA: Thank you.

Ms. Peters?

MS. PETERS: Aye.

MS. OJIMA: Ms. Galante?

MS. GALANTE: Aye.

MS. OJIMA: Ms. Gay?

MS. GAY: Aye.

MS. OJIMA: Mr. Mandell?

MR. MANDELL: Aye.

MS. OJIMA: Ms. Javits?

MS. JAVITS: Aye.

MS. OJIMA: Thank you.

Ms. Redway?

MS. REDWAY: Aye.

MS. OJIMA: Mr. Carey?

CHAIR CAREY: Aye.

MS. OJIMA: The minutes have been approved.

--o0o--

Item 3. Chairman/Executive Director Comments

CHAIR CAREY: Okay, we have met frequently, but

1 I feel very confident that the Agency is moving forward,
2 dealing with issues. It's frustrating to be facing some
3 transitions in the process, but from everything I think
4 we've seen, the Agency is well equipped to deal with the
5 challenges, I think, facing it.
6 I would like to offer an opportunity for
7 Ms. Javits to make a couple of comments.
8 MS. JAVITS: Thank you.
9 I think maybe in an attempt to represent the
10 Board, but I will just represent myself, I just wanted to
11 express my appreciation to Terri by saying a few things,
12 as this is just the month before Terri's going to be
13 departing.
14 And the first thing I guess I want to say is,
15 Terri is, to me, the outstanding example of a public
16 servant. She's smart. She's independent. Way before it
17 was fashionable, Terri was all about balancing the social
18 mission and the business mission of government, before
19 people even sort of thought about it that way. She's
20 been willing to stick her neck out to do what's right.
21 There are too few people who are willing to do that, and
22 certainly who are willing to do that through an entire
23 career, as Terri has.
24 Life in the public spotlight is very hard. And
25 Terri has lived there for a very lengthy career. She's

1 done it with grace, with strength, and with 100 percent
2 total integrity. And I just want to express my
3 admiration and my appreciation on behalf of the Board to
4 Terri for leading us, and providing leadership in this
5 state for so many years in such an incredibly admirable
6 way, through good times and bad.
7 Thank you so much.
8 MS. PARKER: Thank you, Carla.
9 CHAIR CAREY: I think all of us feel the same
10 way. I know these are very challenging times. But I
11 personally can't think of anyone who could have done
12 better or who would have put more of themselves into the
13 mission of the Housing Finance Agency. And I know we'll
14 have additional opportunities to say "thank you," but it
15 won't be enough to fully represent the feelings of the
16 Board.
17 So thank you; and we will have more to say.
18 With that, I know everybody's got schedules to meet, so
19 we'll move forward.
20 And the first item is Item Number 4 on the
21 agenda.
22 MS. PARKER: *(Shaking head.)*
23 CHAIR CAREY: No?
24 MS. PARKER: Number 3.
25 CHAIR CAREY: No.

1 MS. PARKER: I'm the Executive Director.
2 CHAIR CAREY: I'm sorry, Terri. See, I'm
3 still -- that's why it says "*Interim*."
4 MS. PARKER: Thank you, Mr. Chairman.
5 I actually have -- maybe if I didn't have good news, I
6 might not just let you pass me by.
7 But I think we've got a good, prepared meeting
8 for you today. Certainly, we have tried to -- we were
9 working through late last night, making sure all the
10 information that we are presenting to you today is as
11 current as possible.
12 And one of the pieces -- and when we go through
13 the presentation, we'll talk to you about the most recent
14 meetings that Bruce and I were in Washington in the first
15 part of the week talking to the conservators for the
16 GSEs. We also met with Freddie, and we can tell you
17 about the various steps that we were doing that we were
18 trying to promote at the federal level as part of my
19 colleagues across the country, housing finance agencies,
20 the importance of continuing to have housing finance
21 agencies act in their role of really trying to deal with
22 affordable housing in this crisis when, you know, the
23 market is so disrupted.
24 But the one thing I wanted to tell you, as we
25 have talked over the last several weeks and months, we've

had to suspend some of the programs that we've been running because of not having access to the bond market, and trying to preserve for those programs that are funded out of our Housing Assistance Trust funds those dollars to deal with the issues for the rating agencies.

But one of the programs that we have tried to continue to look for ways to keep it alive is the most recent program that we started about three months ago, the Community Stabilization Home Loan Program that is in a limited number of localities.

And as you will recall, that was a loan that -- a program that we are working in partnership with a number of -- four banks, and where they are providing a discount on those properties relative to the market. And in exchange, we're offering a 5.5 percent interest rate 100 percent loan, which we are covering through our own mortgage insurance company.

As we told you and reported to you at one of the last meetings we had attended, to sell debt to support the 5.5 percent interest rate through the generosity of Fannie Mae giving us $200 million of liquidity, which these days is about as scarce as -- well, think of some scarcity. I'll leave that to your imagination.

But we were challenged with the offer on

1 Fannie Mae's part for us to use that $200 million to
2 solve some of our tainted-bond problems as we have
3 presented to you. And we'll reiterate that again today
4 in presentation.
5 So we have been trying to figure out what to do
6 with the CSHLP, as we affectionately refer to the
7 program.
8 Bruce, once again, has been the hero by finding
9 $25 million that we can use in this interim to continue
10 to provide 5.5 percent interest rate for these loans. We
11 only have about $4 million that has come in so far. The
12 program really sort of started to gain a little bit of
13 momentum. We're doing two, three, four loans a week.
14 So we think that this $25 million will be able to carry
15 us for a couple of months; and we won't have to make any
16 changes in the program.
17 We're very excited about that, particularly
18 because we're hoping that when the committee for CDLAC
19 meets next month, that we will be getting an allocation
20 of these funds so that hopefully next year we can start
21 expanding it to statewide.
22 The one last thing I'll report about, is that
23 in the last week I have had conversations with Bank of
24 America and Countrywide about participating in this
25 program. And also, we chatted a little bit about it with

1 Freddie Mac when we were with them on Monday. So I think
2 as the banks are beginning to deal with the impacts on
3 foreclosures, I think that there will be more opportunity
4 to see if they're interested in using this program to
5 deal with some of their REO properties.
6 So with that, Mr. Chairman, I think that
7 concludes my remarks.
8 CHAIR CAREY: Thank you, Terri.
9 --o0o--
10 **Item 4. Report, discussion, and possible action**
11 **regarding the Agency's financing and**
12 **program strategies and implementation,**
13 **in light of financial marketplace disruptions**
14 CHAIR CAREY: Now, we move on to Item 4.
15 Are you taking the lead on that?
16 MS. PARKER: Yes. I will come around and sit
17 with Bruce, and we will walk you through.
18 I think from the staff's standpoint, this has
19 worked very well for us. It seems like it's not our
20 regular meeting because we've had meetings so much.
21 But I can tell you for myself personally, it's been very
22 helpful for us and the staff.
23 I spent this morning on a conference call with
24 some of our partners in the mental-health community that
25 have great concerns about one of our programs. And these

1 are folks we haven't had a chance to talk with in the
2 last three or four months.
3 And when you don't talk to people, it's just --
4 their imaginations of what's happening is far worse than
5 what the facts are.
6 And I think it has served us really well to be
7 able to meet as frequently as we have and communicate to
8 you, and use that as an opportunity for us to be going
9 out and having conversations with other people about the
10 need to be coming back and giving information to our
11 Board on an exceptional and more-often schedule than
12 we've had in the past.
13 And I will just say that, again, that I thank
14 all of you for being a board member to come. I know when
15 you signed on, many of you thought this is kind of a more
16 lower-key board. And you all have professional
17 responsibilities. And to be coming on so regular a basis
18 now is really a credit to the Board, to the Housing
19 Finance Agency in totality, and well represents it to our
20 state public holders and partners, not only here in
21 California but across the country.
22 So with that, let's give you a financial market
23 update and we'll tell you what we've been doing.
24 MR. MEIDINGER: Good morning, Board.
25 Some of the presentation this morning is going

1 to look very familiar. We've gone through a similar
2 format the last two board meetings. Some of the data --
3 all of the data has been updated, but it hasn't changed
4 dramatically, in some cases.
5 So we still believe that we have limited market
6 access for new financings in the primary municipal bond
7 market. Again, as we've shared with you before, we are
8 certainly not alone. This is impacting all municipal
9 issuers.
10 New issuance activity is driven by the retail
11 participation that's Mr. and Mrs. Smith and Mr. and
12 Mrs. Gonzalez that are buying bonds as we go to market.
13 It's not the institutional investors that would typically
14 be the insurance companies, the municipal mutual-fund
15 families, be they short-term or long-term bond funds.
16 They just aren't there for us at this time.
17 Absolute rates are still high. I have a few
18 updates even this morning to the slides that we've
19 prepared last night. And I'll get to that in a moment.
20 But the retail investors are really being asked to
21 replace the institutional investors that traditionally
22 have bought the 20-year, 25-year, and 30-year bonds in a
23 financing structure.
24 Last week's municipal issuance included the
25 Indiana Housing Finance Agency. They were out for a

1 relatively small deal. They got their 30-year bond
2 yields set at 6.45 percent. That is not great
3 considering these are non-AMT bonds, fully tax-exempt.
4 This week includes Connecticut, Florida, and South
5 Dakota.
6 I did receive an e-mail a short while ago that
7 the Connecticut and South Dakota transactions have
8 actually been successfully issued, and the 30-year yield
9 has come down a little bit. I believe Connecticut
10 actually achieved something very close to 6 percent, and
11 South Dakota was at 6¼ percent.
12 So, you know, all in all, some improvement, I
13 think, is the take-away.
14 MS. PARKER: Bruce, are these primarily for
15 single-family?
16 MR. GILBERTSON: Yes, I think Connecticut
17 actually uses -- it's a triple-A indenture, and they were
18 financing both the multifamily program and the
19 single-family program from one indenture.
20 On the short-term market updates -- and these
21 are updated as of last week -- four weeks ago we were
22 telling you that our daily resets were ranging between
23 1.3 percent and 8.25 percent. Last week, it was down to
24 0.4 percent to 8 percent. This week, they've been 0.5 to
25 8 percent.

1 All of those are benchmarked. Again, our
2 expectation -- our expectation, remember, is what the
3 interest-rate swap contract would produce for us on a
4 variable-rate payment.
5 Remember, we received the variable-rate payment
6 from the swap counterparty. This is the variable rate
7 payment that we're paying to the ultimate bondholders.
8 To the extent that there's differences between the two,
9 we have basis mismatch. And we'll give you an update on
10 that in just a moment.
11 So the liquidity and credit concerns are still
12 driving all of this. If you have good, clean issues
13 without bond insurance, a good liquidity name, and if you
14 have a strong long-term credit rating, the rates are
15 being reset quite well. And those would be the ones that
16 are 0.4, 0.5 percent on a daily basis.
17 Many bonds still remain with liquidity banks,
18 although our total has come down somewhat, which is good
19 news for us, there are still many, many banks that are
20 holding tremendous amounts of bank bonds.
21 New draws on liquidity facilities have all but
22 stopped, really. I could have changed that to more than
23 slowing down. It's all but stopped at this point. And
24 more, the bonds are being successfully remarketed so that
25 our total is now down to the $648 million that we show at

1 the bottom of this slide. Just looking back to where we
2 were on October 20th, I think the update we were
3 reporting to you, that we had over a billion dollars of
4 bank bonds at that time.
5 Here's a picture of how the bank-bond portfolio
6 has increased over time. Remember, starting in the
7 middle of September, it peaked out the first or second
8 week in October. It's just under $1.2 billion. And it
9 has gradually come down from that point, and is in the
10 $640-million, $650-million range today.
11 One more thing, we can certainly attribute
12 some of this to the poorly performing credits, the
13 short-term credits that the liquidity banks provide. I
14 point out on this slide a couple of things: That we have
15 total variable-rate demand obligations outstanding of
16 $4,011,000,000. And of that, there's two that are
17 prominently causing us some stress.
18 DEPFA Bank, $133 million, of $134 million
19 issued, with their liquidity or 99 percent of all of the
20 bonds have been returned to DEPFA.
21 And the other one that we've talked most about
22 is Dexia. In large, part, it's our number-one, it is our
23 largest liquidity bank, with $789 million in liquidity
24 facility attached to our VRDOs. And 43 percent of those
25 bonds, $338 million, have been returned to the bank as of

1 yesterday.
2 So what's the impact on CalHFA? Again, this
3 slide should look familiar. We quantify this in terms
4 of the basis mismatch between the variable-rate payment
5 we receive from swap counterparties and the variable-rate
6 payments that we paid to the bondholders.
7 For the three-month period, from August 1,
8 2008, through the end of October, that has grown to
9 $14.8 million.
10 You may remember at the last board meeting, we
11 reported that that was $9.5 million for a two-month
12 period.
13 Just referring back to this slide, you can see
14 that during the October time-frame is when we had the
15 majority of these bank bonds outstanding. Not a surprise
16 that the basis mismatch has grown by over $5 million.
17 And to compare -- again, not that the one-year
18 period from August 1, 2007, through July 31st of 2008,
19 was a stellar year for us, because it actually was the
20 year in which we had the highest basis mismatch ever to
21 date, but that was $9.7 million for a full 12 months.
22 And we've experienced $14.8 million in a three-month
23 period.
24 So ongoing liquidity stress is placed on the
25 Agency as a result of these things. Clearly, you've seen

1 that we have increased debt service due to the elevated
2 interest rates on $4.2 billion of bonds.
3 The term-out provisions for bank bonds require
4 us to repay the loan to the bank sooner than we had
5 anticipated. A general rule of thumb is that 10 percent
6 of the outstanding bank bond balance will need to be
7 repaid on a semiannual basis.
8 The last two numbers at the bottom of the page
9 indicates the expected term-out payments that we're
10 projecting on February 1, 2009, and the potential amount
11 of term-out payments that would be due on August 1 of
12 2009: $12 million and $118 million, respectively.
13 MS. PARKER: Let me just say that I think what
14 we had talked with you about at one of the previous
15 meetings is to try to give you some kind of a time-line.
16 And Tim has supplied that and will be walking you through
17 that.
18 These numbers then tie to the time-line that
19 Tim will be walking you through today. So while what
20 Bruce has just said, because of the number of bank bonds
21 that we've been able to remarket, on almost half of them,
22 we're in an interest-rate mismatch situation but are not,
23 at the moment -- the clock isn't ticking on those to go
24 back in, have to start dealing with the amortization
25 issues.

1 We are, for that balance amount, in a battle
2 against time. And that is dependent upon the success of
3 some of the strategies that we will be walking you
4 through today. But we do want to make sure that you are
5 aware, but I think many of you had asked. And, you know,
6 we have to make some set of assumptions about whether
7 these things trigger or don't trigger; and if they don't,
8 then what is the impact to the Agency? And it will go
9 back to the financial impact to basis mismatch which is,
10 although certainly increasing, not as dramatic as if we
11 had to start making those amortization payments.
12 MR. GILBERTSON: Terri, do you want me to cover
13 this, or do you want to walk through this?
14 MS. PARKER: Yes.
15 MR. GILBERTSON: You mentioned some of this in
16 your opening remarks as well.
17 MS. PARKER: Right. Let me sort of give you an
18 update on some of the things that we have been working
19 on.
20 When we met last time, I think we told you
21 about the meetings and conversations that we had had in
22 Washington particularly with Fannie Mae. We had met as a
23 group, the National Council of State Housing Finance
24 Agencies, with Fannie Mae staff that work on housing
25 finance, to talk with them about, during the

1 circumstances of the financial market, things that Fannie
2 might be able to do to help housing finance agencies.
3 Then CalHFA met separately with one of their
4 senior VPs, Ken Bacon, to go through a letter that we've
5 all shared with you as far as our asks, which included
6 everything from additional liquidity to giving us letters
7 of credit, to buying our loans, to giving us basically
8 access as to bridge amounts of funds, to essentially
9 allow us to repackage and remarket some of these tainted
10 bonds for the next 18 months.
11 We had, as part of those discussions, also
12 always intended to go to Freddie Mac. We have not been
13 as successful in the past of going to Freddie Mac and
14 having any kind of partnerships or alliances with them
15 that we have with Fannie. But since both of them under
16 their authorizing legislation are responsible for dealing
17 with housing finance agencies, we wanted to basically be
18 responsible in sharing our asks.
19 So we had set up and had some initial contact
20 with some of their staff. And through those contacts,
21 as pointed out here, we have, in the interim, sent
22 tapes, first to Fannie, of over $2 billion worth of
23 single-family loans in our portfolio, and about
24 $200 million of multifamily loans.
25 We recently, last week, also sent these to

1 Freddie. So we have both Freddie and Fannie doing
2 evaluations of these loan sets to determine what they
3 would offer us from a pricing standpoint to purchase
4 them.
5 And then as Tim will show you later on, how
6 we propose to use that capital to deal with our tainted-
7 bond situation.
8 Fannie is far -- much further along in this
9 process than Freddie is. I think at the meeting that
10 we had on the second with my colleagues from Ohio,
11 Massachusetts, Colorado, it was as much an education
12 process as it was anything else.
13 We intend -- we had meetings set up, again, to
14 go back -- and the meetings that we started out with on
15 Monday morning were with the conservator's office of the
16 Federal Home Financing Agency. Their number-two person,
17 Mr. DeMarco and his staff. Where the HFAs went in and
18 talked about our problems, essentially reiterated the
19 same sort of a pitch that the housing finance agencies
20 never did subprime loans, we're the good guys. They're
21 impacted substantially because of the market that was
22 really created by all of these alternative financial
23 mortgage structures.
24 And even in the situation where now the federal
25 government is assisting those same banks, the housing

1 finance agencies are not assisted. And so we're really
2 looking for the GSEs to see if they can be helpful, not
3 only for the housing finance agencies, but to the extent
4 that they could come in and, for example, start buying
5 housing finance agency bonds, that that could be used as
6 a vehicle to jump-start that market, to have it start
7 writing itself to come back on-line, and, as Bruce has
8 said, to hopefully start getting investors back into it,
9 so they're not just retail investors for our bonds.
10 So the meeting on Monday for the staff of
11 FHFA -- boy, it's hard to do that -- as an aside, they
12 told us that they tried very hard to have that acronym
13 changed to something else.
14 But the meetings that our national association
15 has set up on the 8th and 9th, they've invited
16 Mr. Lockhart, who is the conservator and has agreed to
17 come and listen.
18 So this was an education process for staff that
19 will then go on to a briefing for him to be prepared to
20 meeting with us again on the 8th and 9th.
21 We've also asked Freddie to be available to
22 respond to our requests and ask at that time again.
23 So we'll hope that on the meeting on the 12th -- which
24 we'll talk about -- we will have more information to give
25 you on the status of those meetings.

1 So what we are waiting for now is to get prices
2 back. And our biggest concern is, you know, particularly
3 in the multifamily, these are our best loans. And, you
4 know, we would hope that they would get preferential
5 pricing.
6 On single-family, we would hope that we could
7 get something close to par.
8 The dilemma will be is if the response back
9 from Fannie is to give us a couple of haircuts, not only
10 because of many of these loans that they're looking at
11 are FHA loans, they don't buy FHA loans, they don't have
12 an exit strategy for FHA loans, but also because of the
13 real estate market in California.
14 So if it is a situation that they do agree to
15 buy them, but they offer us pricing that is substantially
16 out of whack from what our debt coverage is on them, then
17 we would have to go back and look at another plan. So
18 I'm giving you that context.
19 MR. GILBERTSON: So some of the other actions
20 that we've taken since the last board meeting, Terri
21 mentioned earlier that we -- you know, I found
22 $25 million -- let me just explain a little bit. It's
23 little complicated. I didn't find it out there in
24 Capital Park or anything. But we had a situation -- and
25 I think we've talked about this some before, where we

1 have historically entered into investment contracts to
2 invest bond proceeds, whether mortgage-loan payments that
3 were received after making loans for periods of time to
4 hold them until we meet debt service.
5 DEPFA Bank, we've talked a lot about that
6 institution, was one of the providers of investment
7 contracts. It was in the summer of 2007, when they were
8 first downgraded, that we converted what were investment
9 contracts into what are called "repurchase agreements."
10 Fully collateralized obligations of the bank.
11 We elected -- because it seems to us that DEPFA
12 is a downward spiral and won't ever come back -- why
13 continue to have a relationship with them even if there's
14 collateral posting? There are some risks that we could
15 be presented with if there was a bankruptcy filing, and
16 the collateral could be caught up in that court. We
17 elected to just terminate these.
18 So by doing so, what we found ourselves with
19 was about $25 million that are reserve-account
20 investments under our large single-family indenture. An
21 eligible investment of the reserve account is to buy
22 mortgage-backed securities of Fannie Mae or Freddie Mac.
23 The CSHOP program is a mortgage-backed security program
24 that we're using the guarantees of Fannie Mae.
25 So that's how we've achieved that. And at

1 least it's a start for that program. Hopefully as we get
2 into 2009, the market might present other opportunities.
3 A couple other things we did. The SMART loan
4 program, we modified it in a couple ways. One is to make
5 it more publicly available, and it's going to be on our
6 Web site, as I understand.
7 MS. PARKER: Just so you all know, the SMART
8 loan program is CalHFA REOs. We named that after Jerry
9 Smart, our -- because he made a pitch just before he left
10 to have us do a special program for these REOs. And so
11 much to the consternation of my staff, we named it the
12 *"SMART Program."*
13 But these are, again, our attempts at dealing
14 with our own REO portfolio which, as I mentioned in past
15 meetings, that we moved some parts of our asset -- or
16 portfolio management on the single-family side over to
17 Chuck McManus in the risk group to essentially be able to
18 put -- and with staff -- more efforts on dealing with our
19 own REOs because the impact is on our balance sheets.
20 MR. GILBERTSON: Then the last bullet here is
21 Terri, Steve, Bob Deaner, and myself have had several
22 meetings now in the last week with the Department of
23 Developmental Services. Some of these meetings have
24 included the State Treasurer's office, as well as -- the
25 Health and Human Services, is it? What was that?

1 MS. PARKER: Right. California Health and
2 Human Services Agency.
3 MR. GILBERTSON: California Health and Human
4 Services Agency, to discuss opportunities that we might
5 have or other options to financing the Bay Area Housing
6 Program loans.
7 I've listed several of the bullets. One is
8 to seek potentially a legislative change to
9 credit-enhance the bonds with perhaps a moral obligation
10 of the State of California. We've had some
11 preliminary -- very preliminary discussions with the
12 State Treasurer's office about applying for a
13 Pooled-Money Investment Board loan. It would allow us to
14 warehouse the loans for up to one year or thereabouts,
15 taking them off our balance sheet, effectively so we
16 don't get the pain that Moody's is imposing on us as it
17 relates to that lending program.
18 We continue to talk internally and with the
19 developer about opportunities that maybe we could just
20 sell the loans outright. At this point, we haven't seen
21 a proposal that makes any sense or improves that in any
22 way.
23 Then the last item would be that we might have
24 to issue low-rated limited obligations of the Agency to
25 finance the Bay Area Housing Program, consistent with the

1 resolution that the Board is going to be asked to approve
2 later in this board meeting. I'll save that for that
3 time. That's Resolution 08-44.
4 So a lot of this is future action items that
5 you've seen before. We're still working -- the
6 single-family program, to implement program capability,
7 to deliver loans to Fannie Mae's window.
8 We're trying to secure a secondary market to
9 deliver FHA-insured loans.
10 In the Multifamily Program, Bob is working hard
11 to develop a program to become an eligible DUS lender,
12 "delegated underwriting lender" for the GSEs.
13 As we talked earlier, considering the sale of
14 single-family and multifamily whole loans.
15 Just to add to that a little bit, we expect
16 maybe next week to get the initial pricing from
17 Fannie Mae. Certainly we want to wait to get the
18 Freddie Mac pricing. We want to play them off one
19 another. And it will then take us a period of time to
20 really analyze that pricing and the impact on these large
21 indentures; that if we were to accept pricing, especially
22 if it was below par.
23 And so that's going to take us a period of time
24 to do that. But we should have --
25 MS. PARKER: Yes, and again, you'll see that on

1 our time-line.
2 MR. GILBERTSON: Yes.
3 Then the last bullet on here is, again,
4 concepts that we've laid -- thrown out to the State
5 Treasurer's office about perhaps a broader Pooled-Money
6 Investment loan for a variety of purposes. We have not
7 applied. We know the standard that we would have to meet
8 before we would ever go forward with such an application.
9 MS. PARKER: And basically what we know as
10 part of this, is to be able to demonstrate some sort of
11 exit strategy. How, if we used some of these bridge loan
12 credit structures, what would be our exit strategies for
13 us to essentially pay back that?
14 And so, as we were talking about, everything
15 that we are doing in these different discussions is to
16 try to see if we can find ways to answer those questions
17 that would, in that sense, document what would be
18 necessary to have a credible application.
19 So I can also maybe just tell you that we
20 continue to have -- Bruce continues to have weekly,
21 multiple weekly conversations with the rating agency
22 analyst at Moody's.
23 We have a meeting set with them in New York on
24 December 4th, and where we're going to go back and talk
25 with them and giving them a status of where we are on the

1 three items that are in our letter. So when we come back
2 again on the 12th, we will have a report on that.
3 We hope to be able to, at that meeting, have
4 them finish their work that they are doing on the status
5 and capabilities of our M.I. fund. We think that's, in
6 some respects, the best way to address their concerns on
7 the California real estate market.
8 Again, our strategies on our bank bonds,
9 clearly what we're talking about today and what we're
10 putting in place can address those issues on the part of
11 the rating agencies. And then to the extent that we have
12 this plan in place, for the Bay Area, irrespective of
13 whether we've actually implemented, but that we have a
14 strategy with a specific time-line. We can go forward.
15 We talked to Moody's -- I was in Bruce's office
16 on Friday, where they continued to ask the very in-depth
17 questions. It's almost, we feel like they are circular
18 in their discussions. We know that they are never going
19 to get to any comfortability on the Bay Area; and that is
20 the reason why we were coming forward with this
21 alternative strategy to you today.
22 And we think, again, that where we are at as of
23 right now, with our ongoing and future actions, are as
24 timely and as placed in the marketplace as we could think
25 to be.

1 MR. GILBERTSON: So the last slide and then
2 we'll turn it over to Tim.
3 But this list of bullets here are some of
4 the tactical solutions that can help us in debt
5 restructuring. Tim is going to cover this in more
6 detail, and you will see it in kind of picture form.
7 But we're continuing to work to try to convert
8 liquidity-backed VRDOs, to letters of credit where it
9 makes sense.
10 We're updating consolidated cash flows. In
11 fact, for the large Home Mortgage Revenue Bond indenture,
12 we have sent off all of the consolidated cash flows to
13 Moody's, including the stressed ones, which are high
14 prepayment and low-rate and low prepayment and high rate.
15 And there's a variety of things that we have to go
16 through, as well as some stress on term bonds --
17 term-outs on bank bonds.
18 Working with them, as Terri mentioned, on
19 capital adequacy. That's an ongoing effort.
20 We're hopeful that we can strip bond insurance
21 of some of the bond-insured VRDOs that continue to cause
22 us pain.
23 We have transferred or reassigned remarketing
24 agencies responsibilities on some of our bonds. That has
25 actually proven to be a positive. We're seeing the

1 better remarketing and lower interest expense.
2 With that, I think we'll just jump to the
3 bottom.
4 Tim has developed a bond-redemption/bond-
5 restructuring plan. I'll let him walk you through that.
6 And it includes the time-line.
7 MR. HSU: I thought that it is instructive and
8 perhaps good to create a context for all the things that
9 we're talking about by stepping back and thinking about
10 what exactly is our business flow. And on the left-hand
11 side here is normally what we expect to happen. And I
12 refer to this as sort of a virtual cycle. This is what
13 used to happen. We issue bonds, and we normally take the
14 bonds and we put it in through some sort of investment
15 with -- I think Bruce mentioned earlier that we had some
16 investment invested with DEPFA. Sometimes we put a
17 little cash with the State's PMIA Board, and then we take
18 the cash and we make them into loans.
19 And this upper part here is really the part, I
20 guess, that gets the most headlines. If the new
21 production is when we come to you with our business plan,
22 we tell you how much we're going to do. And this is the
23 part of the business plan that you approve.
24 But without the lower half of this virtual
25 cycle, we wouldn't really be able to do this because as

1 these loans repay, normally, we park it in cash flow a
2 little bit, and then we pay back the bondholders. And as
3 the bondholders get accustomed to getting paid back, they
4 come back to buy more bonds. And this part is referred
5 to as "*portfolio management*."
6 So this is normally what we expected to happen
7 about six months ago. This is what used to happen.
8 And this is what's happening now. I think all
9 these writings here are in red.
10 So Bruce had talked to you --
11 MS. PARKER: Tim is color-blind.
12 MR. HSU: Yes.
13 I think Bruce has mentioned to you about the
14 high cost of the primary markets. So this is the box
15 here in which we're talking about the current issuers are
16 issuing bonds in the 6 percent to 6.25 percent range.
17 So all of this is attempting to sort of put the various
18 things we're talking about into these boxes. And you can
19 see how they flow through the system, if you will.
20 We talked about DEPFA and AIG getting
21 downgraded. An impact of that is that as they get
22 downgraded, we are taking money out of those financial
23 institutions and we're depositing with the State's PMIA.
24 And you might say, "Well, what's wrong with that?" Well,
25 what's wrong with that is that we're making some more

1 interest-rate risk, because the PMIA Board runs the
2 investment fund as if it were money markets. Meaning,
3 that if interest rates go down, we earn less money; and
4 if interest rates go up, we earn more money. But when we
5 had money invested with these financial institutions, we
6 had something called a GIC, which gave us a fixed rate of
7 return over time.
8 And this upper half here, because of primarily
9 things like this happening, and also the downturn in the
10 real estate market is causing more stringent underwriting
11 for new loans, so we are seeing less production as a
12 result.
13 So the new productions are getting impacted.
14 And then the portfolio management side -- the side that
15 if we run well, have the investors coming back -- is
16 also getting impacted, in that on the single-family side
17 we're experiencing extremely high delinquency rates,
18 which will come back -- I'll show you some historical
19 charts on that later on.
20 But it's worthwhile to mention this is
21 primarily the single-family side. On the multifamily
22 side, I think our delinquency rates are -- they are no
23 worse than what we had before, which is very, very good.
24 I think we had something like two or three loans that are
25 in some sort of fairly late delinquency. So this is

1 primarily addressing the single-family side. And as we
2 have high delinquencies, that means that we have fewer
3 repayments.
4 And this side is doing the same thing as what
5 is happening up there, meaning, that most of this cash
6 now is -- a lot of cash is going -- more and more cash
7 is going to the PMIA Board, meaning that we're taking
8 more interest-rate risk. And these are the bank bonds
9 that we talk about all the time. And since bank bonds
10 carry a higher interest rate than what they used to carry
11 than when they did money market funds, we now have higher
12 debt service to meet and also we have the term-outs to
13 meet that we talked about earlier.
14 So sort of simplistically, I think that we have
15 less that's coming in and more that's going out, which is
16 a squeeze, if you will.
17 I'll pause there.
18 I had presented this slide last time. And on
19 the left-hand side here, I presented this as the DNA of
20 the variable-rate financing. And I think I mentioned
21 that if any of these layers go sour, if you will, it
22 causes basis risk. So that $15 million -- roughly
23 $15 million of basis that we talked about, that was
24 experienced for the three months since 8/1/08, is because
25 of various pieces of this stack has gone bad.

1 And as I looked at that stack, I thought that
2 it might be instructive also to use that stack to
3 illustrate to you how our portfolio stacks up on that
4 stack. Because one of the things I mentioned last time
5 was that while, for example, auction-rate securities,
6 since the way that I stacked this up is that if the
7 bottom is not performing well, it doesn't really matter
8 what's on top. So in this case here, the auction-rate
9 security market is not functioning; so it doesn't matter
10 if we have, really, a fantastic hedge virtually halfway
11 up there. It doesn't matter because the bonds are really
12 not doing very well.
13 So from this illustration, you can see all the
14 things that we've been talking about, auction-rate
15 securities over here, and we still have almost
16 $200 million of that.
17 We have insured bonds with the AMBACs and MBIAs
18 and the FSAs of the world of $900 million, and then the
19 Dexias and DEPFAs of the world up here.
20 So what this sort of filters into is that we
21 have about $2.6 billion of bonds that are performing
22 okay. They're doing fine. Except some of it does have
23 some Lehman and AIG swaps on top of them. And they're
24 actually doing fine, too, except that for rating
25 purposes, because of the downgrades, they don't count

1 when we do our stress cash flows. But nonetheless, you
2 could think that $2.6 billion of bonds are still
3 performing fine.
4 And that was sort of the 2008 view and this is
5 sort of the microscope view, which I presented last time
6 in two slides, sort of what we're doing now and the
7 things we're proposing to do.
8 And this slide here puts the two of them
9 together. And I also attempted to print this in a legal
10 size for you so that you can see.
11 You can still see up here, but I think you can
12 see it here.
13 MS. PARKER: Lori, you weren't here last
14 time, so if you -- I don't think you were here last time.
15 MS. GAY: I wasn't, but I'm following this.
16 I can see it.
17 MS. PARKER: Please, if you have any questions.
18 MR. HSU: I'm moving pretty fast because I
19 think we want to get to the time-line because everybody's
20 waiting for that.
21 So one of the things that we talked about doing
22 last time -- we'll just go over it again -- is that
23 stripping insurance. So these green boxes here,
24 represented up here, are deals in which we're stripping
25 insurance; and we're hoping that after we're stripping

1 insurance, the bonds will continue to perform as they did
2 once before.
3 These x'ed boxes that you see here, these
4 weren't actually here last time. And that's my
5 oversight. These have transactions in which the
6 liquidity banks have not agreed to renew facilities.
7 So what we need to do is that we need to take our own
8 cash -- which I'll come back to at the end to give you
9 some sense of where our cash is and what we're using our
10 cash for -- take some of our own cash to either call down
11 the bonds in their entirety or meet some of the term-outs
12 that we're talking about.
13 So those are these three boxes.
14 And this box here, for example, is the Citi
15 box. That was a facility that expired on November 3rd.
16 So that actually went into bank bonds on November 3rd as
17 well.
18 So those are the x'ed boxes.
19 And then the orange boxes, I think that is
20 something that Bruce mentioned earlier as well, in which
21 we're converting the standby purchase agreements into
22 letters of credit. And, again, we're doing that because
23 we're thinking that, well, if we were to get downgraded,
24 these papers will continue to trade in the marketplace;
25 and we wouldn't have to come back to convert them to LOC,

after we get downgraded. Because just to refresh your memory, that these papers aren't insured so they trade on a long-term rating of double-A. If we get downgraded to single A, they'll become sort of debt-ineligible so the money market funds, we won't be able to buy them.

MR. GILBERTSON: Are you going to talk about the swaps, too?

MR. HSU: Oh, yes, I'm sorry.

And then the swaps on top. What the previous slide was showing when we talked about DNA, was that if the bottom layers are not really functioning, the swaps on top are basically irrelevant. And this is what we're showing in more detail, that some of these cases up here in which the swaps, on top of the red boxes, these are swaps that we need to terminate at some point.

And then we also have boxes that -- I think this is blue, but it looks gray to me -- blue boxes in which these are Lehman swaps which are going to be replaced because the bonds underneath these boxes are functioning just fine.

So in total, I think that you can see in the upper left-hand corner there, that of all these red boxes that you're looking at, which for now has no tactical solution, if you will, they amount to about $850 million in total. And of all the swaps that are in yellow, they

1 amount to a notional amount of $366 million. And then
2 the mark-to-market is about $33 million out of the money
3 to us, meaning that if we terminate that $366 million of
4 swap, we have to pay $33 million.
5 And, again, I'll show you where that cash is
6 going to come from later on.
7 Okay, and this is the time-line. This
8 time-line here is divided up into three sections. On the
9 very top here -- the upper section here, the upper deck,
10 if you will -- this represents the time-line of the
11 tactical solutions that you see on the previous page.
12 So you see that up here, where we're terminating swaps,
13 we're replacing swaps. And we think that we can
14 accomplish that in November.
15 And then these are the green boxes on the
16 previous slide, and we're showing that we're stripping
17 insurance. And we think that we can get those done in
18 the December and January time-line.
19 And these are the orange boxes in which we're
20 switching the standby purchase agreements into the LOCs
21 with BofA and Fannie Mae.
22 So this represents, again, just the time-line
23 of the tactical solutions from the previous slide.
24 And this middle section here, this is, it looks
25 like, a lot of arrows and complicated; but this is the

1 sale of the loans. And, actually, on the next slide I'll
2 show you -- we'll talk a little bit why it's necessary to
3 sell the loans, because I'm not sure if we have sort of
4 shown you why that's necessary.
5 But in any case, this middle section is talking
6 about the sale of the loans and what would we do with the
7 cash when we sell the loans. So what we will do is that
8 we would deal with the red boxes in the previous slide
9 that really has no tactical solution.
10 So, for example -- let's take this case with
11 less arrows. This here is representing the loans that we
12 have in the single-family world and what we would do with
13 the cash if you were to execute a sale. I think that we
14 mentioned that we sent the tapes to Fannie Mae for
15 $2 billion. But chances are, we won't be able to sell
16 the entire $2 billion. So what I'm showing here, just
17 for illustration purposes, is that if we were able to
18 sell in the single-family world $590 million of those
19 loans, it would be used to take care of the red boxes on
20 the previous slide.
21 And again, I didn't see any tactical solution.
22 So this, in some cases, the loan sale is being sized to
23 dealing with the red boxes that we have.
24 And someone had asked me a question -- I
25 believe it was Terri yesterday -- that, well, what if we

1 sold more? If we sold, say, a billion dollars? Well, if
2 you sell a billion dollars of single-family loans, then
3 what I would do with that cash is that I would do this --
4 I mean, I think that we would proceed to do this. But if
5 we did have more cash, then it just means that we can
6 take care of these problems rather than stripping
7 insurance, which actually is a complicated process. So
8 this is the single-family world.
9 And the rest of these arrows are actually
10 representing what's happening in the multifamily world.
11 So these are the red boxes in the G.O. multifamily world
12 in the previous slide that has not been addressed. And
13 you can see that we have this row here is representing --
14 for example, this $17 million -- these are representing
15 the conversion of multifamily loans from, let's say, a
16 construction or acq. rehab into a permanent loan, as
17 opposed to a construction loan is $10 million and a
18 permanent loan is only $4 million. That $6 million
19 piece that comes in during conversion, that's what's
20 being represented in this row of conversion -- net
21 proceeds, if you will, that can be used to call down
22 these bonds.
23 So that's money that we'd expect to come in
24 over this time frame.
25 And then down here, this number here, this

1 number is representing that amount of multifamily loans
2 that we need to sell to deal with these red boxes that
3 are net of these payoffs from these conversions.
4 So I think that we mentioned that the tape that
5 we sent to Fannie Mae on the multifamily world is
6 roughly, as it turns out, very, very close to this
7 number. And that was somewhat serendipitous. But I
8 think that if we extract the premium price on those
9 loans, it can certainly meet this number over here.
10 And lastly, not related to any sale of loans,
11 I mentioned in the previous slide that we had banks that
12 have not renewed liquidity facilities, and we have to
13 take some of our own cash to, let's say, retire them.
14 And that represents about $75 million of excess revenue
15 from our single-family indenture that would deal with
16 these two banks that have not renewed their facilities.
17 As the Citi facility is a G.O. obligation, so
18 that would take care of that in the sale of the
19 multifamily loans as well.
20 And the third section on here is an
21 illustration using a time-line of the renewals that we
22 have coming up this year, because one of the challenges
23 that I think we face in this coming year is that some of
24 these banks would have been more challenged to renew
25 their facilities going forward.

1 The two that we have coming up, fortunately, we
2 already have an agreement to renew them; but these,
3 that are coming up for the rest of the year, are going
4 to be a challenge to us. And one of the things that I
5 calculate on here -- by the way, this time-line is a
6 little bit truncated, just to save space and make it
7 more legible -- this is the $4 million term-out that we
8 talked about earlier, that Bruce had talked about
9 earlier, that August 2009 we have to make a $12 million
10 term-out. And this is primarily bonds associated with
11 DEPFA at about $3.5 million associated with this term-out
12 of CitiBank of $3.5 million.
13 This number here deserves a little bit more
14 explanation. This number assumes if we have to meet all
15 the term-out provisions of our existing bank bonds and
16 these facilities do not renew, what our term-out
17 obligation would be. So it's a substantial number of
18 close to $120 million.
19 And the next slide you'll see how substantial
20 that number is.
21 MR. GILBERTSON: But, Tim, is it fair to say at
22 this point we believe at least some of those liquidity
23 banks will renew their facility? We won't be facing
24 cancellations on all of them?
25 MR. HSU: Yes.

1 MS. PARKER: I mean, I don't think we're saying
2 definitively that is the number. Again, I think what
3 we're trying to say is we've made a set of assumptions
4 here to give, you know, a point-in-time picture.
5 You know, if you look at the top -- the first and the
6 second, these are the strategies that we've been putting
7 in place for two months -- just two months, right, Tim --
8 to take care of these problems.
9 It's hard to say how creative and talented
10 we'll be at continuing to address what is then this
11 bottom, which is the next need to go to. But we also are
12 trying to essentially say to you the real-hard impact, if
13 we can't, is there.
14 CHAIR CAREY: At some risk, Tim, could you
15 explain "*stripping insurance*," what that means?
16 MR. HSU: Can you go to the slide with the DNA?
17 That one, the previous one, yes.
18 All bonds, no matter what kind of bonds it is,
19 trades on at least a long-term rate. So, for example,
20 if you were to buy a bond -- and this is part of sort of
21 the issue with the current financial crisis -- is that
22 most people rely on a rating that's issued by the rating
23 agency.
24 So no matter what kind of bond you buy, it has
25 to have a long-term rating, meaning, that it's a

1 representation of the issuer's ability to pay you back.
2 That's what the long-term rating really represents.
3 However, in our variable-rate world, there is
4 also a short-term rating. Because, for example, like us,
5 we have, let's say, one capability to pay you back that
6 facility -- I mean, pay you back the money that you
7 supposedly gave the insured -- gave the agency that's
8 $100 million. And we have the ability to pay you back
9 according to the schedules that's enumerated in the
10 offering document. But variable-rate bonds are unique
11 in the sense that you also have the option to demand your
12 money back, let's say, overnight. You might say that,
13 "Well, I need to spend $100 million on buying a country,
14 and now I need the money back right away." And that
15 short-term rating is being provided by the liquidity
16 banks.
17 Now, when we strip insurance, what we're
18 talking about is that the insurance company, like the
19 AMBACs and FSAs and the MBIAs of the world, they're
20 providing us a credit enhancement on the long-term
21 rating. That's why they're over here.
22 So the process of stripping insurance was
23 actually nonexistent until this year. Because everybody
24 who got insurance, part of the reason why they got
25 insurance on, let's say, their bonds was there was

1 assurance that it was irrevocable.
2 So as the insurance companies started being
3 downgraded, there were all these legal issues coming up.
4 I was thinking that, well, what does it mean for us to
5 even think about touching something that is meant to be
6 irrevocable?
7 So what we're trying to do now is that we have
8 to negotiate with insurers of basically taking their
9 commitment -- irrevocable, what was once an irrevocable
10 commitment on these bonds and take them away by revising
11 the documents, by issuing a new offering document and,
12 in many cases, actually creating a new queue set so that
13 they are actually, after we strip the insurance,
14 invisible to the new bondholders, so that their guarantee
15 on the old bonds is no longer good.
16 And you might think it's really insane because
17 it's almost like saying that, well, let's suppose that
18 Terri and I borrow money from you, and then I became a
19 criminal. And let's say my credit is now horrible. And
20 you said to me that, "Well, you know what? The two of
21 you together is actually worse than Terri by herself."
22 In a sense, well, even though I am a criminal, I may
23 still have assets; but you said because I am a criminal,
24 you no longer want my assets, which seems really insane,
25 but that's what people are asking for. People are asking

1 that two somehow is less than one, no matter who the
2 second person is.
3 So that's sort of, in a nutshell, the process
4 that we are going through this sort of laborious legal
5 process of documentation of saying, okay, here's all
6 documents in which AMBAC, for example -- AMBAC needs all
7 the documents, it's covered, it's in the documents,
8 they're covenants in all the documents. And we're going
9 through the process of basically removing them out of all
10 the documents, so that a new buyer comes along and says,
11 "You know what? I'm buying something that has no mention
12 of AMBAC."
13 MS. PARKER: I think that's the reason why Tim
14 was saying if we get additional cash from selling loans,
15 we're just going to pay off these debt instruments.
16 MR. GILBERTSON: Very challenging. There's a
17 lot of aspects to this.
18 And, of course, it opens up renegotiation with
19 some of the parties as we try to go through this
20 modification process.
21 MS. GAY: I can't help but note that this is
22 how consumers feel when they want to modify their loans.
23 MR. HSU: Does that help?
24 CHAIR CAREY: Thank you.
25 MR. GILBERTSON: So we're going to go to this

one, which is --

MR. HSU: Right.

I think at one of the presentations I made, I think the Board members wanted to see before and after. This is the same stack that I showed three or four slides ago, except this shows what things look like after we go through all our tactical solutions. But it does exclude the sale of the loan for now. And I'll discuss that in a second.

So basically, what this shows is that I think that a couple slides ago, we showed that the bonds that are performing well was only about $2.5 billion. But after we go through our tactical that we're dealing with -- the green and the oranges and all that, all those colorful things we're doing -- we actually gain about $700 million more bonds that are going to perform okay.

And I think I would also emphasize that if we were to sell the loans, what we would do in the time-line -- in the time-line I showed what we were doing -- is that we're addressing the red boxes. And these are the red boxes right here.

So if we were to sell the loans, what we would do is this box here that we're talking about here, it would just expand and become basically all of this. So these are the things that we deal with when we sell the

1 loans, which is basically pay them off or redeem them.
2 And I thought that this slide is also
3 instructive in the sense that I think it answers a very
4 fundamental question, at least for me, of why are we
5 selling the loans. Because I think that you may have
6 heard more than once that we are a big agency with a big
7 equity of more than a billion dollars. And, indeed, we
8 have more than a billion dollars. And you can see that
9 this is a tally of -- it's obviously a very high-level
10 tally. If you look at the accounting standing, you see
11 all sorts of items that are indecipherable to the average
12 person.
13 So I basically filter all that stuff, and I
14 said, "Okay, of that $1.1 billion of equity, how much
15 cash did we have and how much of that is in loans?
16 And what you can see is that at the very high level --
17 we'll come back to this in a second -- what you can see
18 at the very high level is that of that $1.1 billion of
19 equity we have, we only have about $470 million in
20 unrestricted cash.
21 And you might ask what's in this unrestricted
22 cash? We have reserves, for example; we have program
23 accounts, we have covenants of principal. We have cash
24 that hasn't been spoken for through the contract or
25 through the covenants, not cash that we can use to do

1 anything we want.
2 And so this sort of -- I think that -- I hope
3 what it does is answer your fundamental question, is that
4 that's why we're selling the loan, because we need to
5 convert some of the equity into cash so we can address
6 some of these issues that we didn't quite expect in the
7 past.
8 So looking at this amount of money that we have
9 and looking at it from the credit point of view, if you
10 look at the HMRB indenture, which is a single-family
11 indenture -- and this is the indenture we're thinking
12 about selling $2 billion loans -- that the situation
13 seems to be quite extreme in the sense that we have
14 $6.8 billion of bonds. But if you look at the cash to do
15 what we want with, it only represents 2 percent of that
16 liability and $171 million.
17 And with that $171 million, some of it has
18 been spoken for from some of the things that I've shown
19 you previously. For example, I talked about taking
20 $75 million to deal with some of our standby purchase
21 agreements that have not renewed. So that would bring
22 you down to roughly $100 million.
23 And if that situation in terms of renewals for
24 standby purchases for the rest of the year doesn't pan
25 out, I think that on the previous slide, we showed you

1 that we have about $112 million, I believe, that will
2 term-out on 8/1. And what this does is that it divides
3 it up by credit, so that of the 8/1 term-out with HMRB,
4 that's a little bit more than $100 million.
5 So you might think that, well, if those
6 situations were to pan out, this money would be wiped out
7 at the end of next year.
8 On the G.O. side, we have nominally more
9 cash -- well, let me step back and say that while this
10 money will be wiped out by the $75 million in the
11 term-out that we might have to make, it certainly doesn't
12 come close to addressing these red boxes in the previous
13 slides. And that's why it's necessary for us to sell the
14 loans and address the red boxes, because we just don't
15 have cash to deal with these red boxes. That's why,
16 again, the sale of the loans are necessary.
17 And on the G.O. side, when I refer to "all
18 other cash abatement," little pieces of other sort of old
19 stand-alone single-family indentures, but they're not
20 really important in the grand scheme of things.
21 On the single-family side, we do have nominally
22 more cash of $298 million. But that $298 million is cash
23 that we would use to, for example, run the Agency. About
24 $238 million of that is sitting in our Agency account,
25 and about $60 million is sitting in the Multifamily III

1 indenture.
2 But, again, if we compare that number, though,
3 while it seems large, to all the things that we have to
4 do, related to the G.O. credit, it again sort of puts
5 it in perspective and shows why we would sell loans
6 again.
7 So the $33 million is swap terminations we
8 talked about -- the yellow boxes. And what it costs for
9 us to get out of those yellow boxes is $33 million, and
10 term-outs is $28 million, that's about $60 million. So
11 it would bring this number back down to about 230 or
12 240. And that number, again, is smaller than the red box
13 that we had to deal with on the G.O. side.
14 MR. GILBERTSON: It’s probably a good time to
15 pause, anyway, because the next slides are -- do you want
16 to go to questions?
17 CHAIR CAREY: Questions?
18 MS. REDWAY: I think I actually followed
19 everything, and it was a very good presentation. Thank
20 you.
21 The cash analysis -- the way I understand it,
22 you're going to sell good bonds in order to pay off some
23 of the red boxes or the not-so-great ones. Can you talk
24 a little bit about what the cash analysis would be when
25 you're doing the selling and buying, what you want to

1 have in those unrestricted balances? In other words, the
2 analysis you'll do, about how much you should sell and
3 how much you should buy and how much cash you should
4 leave in those unrestricted balances?
5 Am I making sense?
6 MR. GILBERTSON: I think what you're asking is,
7 have we done an analysis that says --
8 MS. REDWAY: Well, what would be the process
9 for that? This is going to be very fluid.
10 MR. GILBERTSON: Right. So we have -- the way
11 I would explain it -- and Terri, chime in -- we start a
12 process every January, which is our business-planning
13 process for the year. That leads to the Board adopting a
14 business plan and an operating budget in the spring, in
15 May of each year.
16 I think as we go through this, one of the
17 things that we always look at is liquidity -- Agency
18 liquidity, not liquidity in the form of standby bond
19 purchase agreements.
20 I think we will be asking ourselves a lot of
21 those questions that you're suggesting at this time, in
22 January, as we look at all of the things we know.
23 Hopefully, by then, we'll have clarity on what the price
24 of some of these loans are worth, what the value is, what
25 we can do with that as it relates to debt-restructuring;

and then how much should we hold back in reserve to keep the lights on is and pay the salaries?

I mean, our operating budget --

MS. REDWAY: Well, and just because we're in a credit crunch, it seems like liquidity is a pretty valuable resource --

MR. GILBERTSON: Cash is king.

MS. REDWAY: Yes.

MR. GILBERTSON: We've been saying that for a long time.

MS. REDWAY: So I was just wondering if you have any sense of what the proceeds should be --

MS. PARKER: Yes, I don't know that we have that yet. But it’s a little -- hindsight is great. If the Board will remember, when we came back to them starting in January, we essentially said we need to start really conserving the use of our Housing Assistance Trust Funds. And we made recommendations that the Board approve to pull back substantial programs that we had for the use of those funds in order to be building up some of these reserves in these capacities going forward.

So the best way to answer your question is, I think the analysis at that point in time will look at what we think is reasonable percentages given the uncertainty in the market.

1 MS. REDWAY: I don't know if you've had that
2 yet, but that's kind of the --
3 MS. PARKER: No, I think it's --
4 MS. REDWAY: No, you're doing a great job --
5 MS. PARKER: We're trying to --
6 MS. REDWAY: -- so I'm just asking --
7 MS. PARKER: If I did, I would tell you right
8 now it would be wrong for what it would be, what we'd
9 know two months from now.
10 But the plan would be at that point in time
11 to be giving you all of that, what would be our guess.
12 And, again, that would be policy considerations for the
13 Board, whether or not you feel that we should be more
14 conservative or whatever. Because, again, that goes
15 back to some of the things that we need to do.
16 You know, from a risk standpoint, moving
17 forward, I thought when we go forward with the
18 delinquency discussion on the loans, I would take a
19 minute because I think it was something that Tim and
20 Bruce mentioned earlier on, about there needs to be
21 tightening of our underwriting criteria. And I thought
22 I might ask Chuck -- Mr. McManus, our director of
23 Mortgage Insurance, who, obviously, is the person who
24 negotiates the relationship for reinsurance with
25 Genworth. And, you know, Genworth is fighting its own

1 battles in the financial market these days. And all of
2 the mortgage-insurance entities have retreated
3 significantly from where they are on their underwriting
4 criteria.
5 And so Chuck has been involved in trying to
6 negotiate with them what would be our reinsurance
7 contracts for 2009. And they are substantially changing
8 the parameters that we have been able to enjoy to the
9 benefit of our stakeholder groups and customers from the
10 standpoint of perhaps more flexibility in the
11 underwriting.
12 So, Chuck, I don't know if you want to come and
13 make some comments. But I think you can give them a
14 sense of the kinds of things that Genworth has come back
15 and been discussing with you about their preferences
16 relative to what have been our underwriting criteria in
17 the past year or so.
18 MR. McMANUS: I'll try and make this as simple
19 as I can. Basically, Genworth is very negative on the
20 State of California due to the drop in housing prices,
21 which estimates are 30 to 40 percent decline in the
22 housing prices the first half of this year. As a result,
23 they've limited their loan-to-value in the general market
24 90 percent of loan-to-value. They require 10 percent
25 down. They also have moved to appreciating borrower cash

1 into the deal -- in other words, out of the borrower's
2 own funds. And they're pretty much at a 5 percent
3 minimum. Our borrowers average approximately
4 1.75 percent cash out of their pocket into the deals.
5 So that puts us at a major conflict of being able to
6 serve our audience. And so we will probably end up at
7 3 percent cash out-of-pocket. I'm not sure -- that's at
8 their risk management committee, probably as we're
9 sitting here right now. And they also will restrict our
10 volume to maybe $300 million, and our LTV, our
11 loan-to-value, to 95 percent.
12 That is still stepping out from where they are
13 with the rest of the market. So they respect the fact
14 that we have full document packages, we do serious review
15 and underwriting, and we reenter D.U. findings. We
16 reenter the data in order to get our own findings to
17 check them out.
18 But it's very tight. And all the mortgage
19 insurers have been downgraded significantly, and they
20 continue to be downgraded more. Their stock prices have
21 dropped to $1 to $2 per share.
22 So mortgage insurance, what's called "private
23 mortgage insurance," is in great distress. And the
24 availability of reinsurance for the insurance fund --
25 we retain 25 percent of the risk, and we reinsure 75 - it

is not what it used to be -- is at a minimum, I should say.

So we will have to tighten our underwriting guidelines. It will involve increasing required credit scores, it will involve requiring borrower cash out-of-pocket, and it will involve restricting total loan-to-value to 95.

These, I know. I will know more tomorrow and tomorrow, but by next week, as to what we can do with reinsurance. And we need the reinsurance for rating purposes, because we are a single state fund. It's very good to have 75 percent of it reinsured.

If there's any questions, I'd be glad to share with you what I know.

Yes?

MS. GAY: Kind of standard business-protocol vision, what would you see? I mean, in my world, small-scale, we'd set up a pool, we do seconds, so we could avoid M.I. I don't see the State changing its whole business platform, but are there any discussions around ways to not have to be in the face of the M.I. community as aggressively as we have been?

MR. McMANUS: Well, the Agency, because we administer subordinate loan programs -- and we have a responsibility to try and keep the borrower in the home

also. We have a conscience of not trying to overextend people, which is what happened in the subprime fiasco. So we underwrite the subordinate loans also. I mean, we underwrite the first mortgage, but we have the total debt, the total payments, and do all the ratio analysis and so forth.

So using a subordinate loan will get you maybe to 95 or 90, which will make it safer for the primary mortgage insurer, which is what we do.

MS. GAY: Right.

MR. McMANUS: But we will still underwrite based on total payments as a percentage of income and so forth.

To the extent you can find the subordinate loans, especially silent subordinate loans that don't require payments and are paid at the end, when the loan is paid off, that will help people qualify.

MS. GAY: Right.

MR. McMANUS: And I think that will be the trend for affordable housing. There will be more subordinate-loan programs making it possible. Because there will be no private mortgage insurers taking that risk. And even FHA is going to 3½ percent cash down.

MS. GAY: Absolutely.

MR. McMANUS: So it will get tighter. It's a

tough market.

Any other questions?

MS. PARKER: Thanks, Chuck.

MR. McMANUS: Thank you.

MS. PARKER: Bruce, do you want to go through the last part of these just to give them some sense of loan delinquencies on our -- this is our total loan portfolio, so it's those loans that are both FHA and conventional, which Chuck insures the conventional loans.

MR. GILBERTSON: I wonder, if we should -- before we go there, are there any other questions on the restructuring plan and the whole time-line that Tim laid out?

(No response)

MR. GILBERTSON: Everybody's good? Okay, great.

The other thing I mentioned --

MS. PETERS: This is not a question. I just wanted to say that was an amazing presentation. I've never seen anything so complicated brought down to such an understandable level. So I'm happy to say, I don't have a single question. Great job.

MR. GILBERTSON: That's great.

Thank you, Ms. Peters.

The one other thing as we talk about these

1 charts -- and Tim is going to walk you through it --
2 there is a report in the binder section of your report
3 today, there's a four-pager that talks about
4 delinquencies, it talks about some of the insured losses
5 and uninsured losses as well.
6 MR. HSU: These are charts that we started
7 developing when the investors all started inquiring about
8 what's going on with the assets. I recall, there were
9 days in which, when we used to make investor
10 presentations, all we showed them is what is happening
11 on the bond side. And because there was such an
12 expectation that all these assets were performing well,
13 real estate was going up, people really didn't ask any
14 questions.
15 So when they started asking questions, we did
16 a lot of work to try to establish as long of a history
17 as we can of historical delinquency, because people were
18 looking to the past as a guide for the future.
19 So here, what we're showing is ten years of
20 delinquency information. And this is the total
21 delinquent ratio. So this is any loan that's more than
22 30-days delinquent which, in some sense, is a ratio that
23 exaggerates, if you will, the issue a little bit because
24 there could be loans that go 30-days delinquent and then
25 come back into current.

1 So we're showing four lines here. We are
2 showing ourselves compared to the quarterly Mortgage
3 Banker Association statistics that comes out quarterly.
4 So what you have here is this line here, which I believe
5 is in red, is the Mortgage Banker Association's
6 California FHA fixed-rate loans. And what you can see is
7 that, traditionally, we do better than that survey; but
8 recently, we have sort of crossed over and are becoming
9 worse than they are. But from a credit point of view,
10 since all of these loans are insured by FHA, you might
11 sort of make the strong argument -- and it's an accurate
12 argument -- that the fact that it crosses over looks bad;
13 but from a pure impact to the Agency, it's not very
14 important because we get paid off by FHA.
15 What's more important is what's going on with
16 the loans that we have, which are conventionally insured,
17 which is predominantly insured by Chuck's M.I. fund.
18 And here, it is a better story in the sense that this
19 line here is the MBA's California prime index. And this
20 line here, I would have to say, the prime, though, does
21 include fixed-rate and bonds. So if we compare ourselves
22 to that line, traditionally, we do -- I'm sorry, this
23 line, I've got it wrong.
24 MS. GALANTE: The green line is the --
25 MR. HSU: I'm sorry, that's what happens when

1 you're color-blind.
2 This line here is the MBA's California prime.
3 And, traditionally, we do worse in that. That's why
4 we're higher than them. But as you can see, recently we
5 have sort of crossed over, in which we actually are doing
6 better than they are.
7 And I mentioned earlier that these are
8 quarterly statistics. That's why their dots don't extend
9 out as far as ours, because we're now waiting for the
10 third quarter to come out. So this is the line here
11 that's making us a little bit more worried, because this
12 is the direct impact to Chuck's insurance business, and
13 Chuck's insurance business could potentially impact our
14 G.O.
15 The one other thing I would add about the sale
16 of loans, I know I explained the sale of loans in the
17 context of dealing with other boxes that I have; but the
18 other thing that's really important to remember is that
19 if we raise cash and we deal with the boxes, that's
20 fantastic. But what's also really great is that taking
21 the loans off our books would mean that it would release
22 pressure from our G.O. because when we hold loans on our
23 books, they get marked down for rating purposes by
24 haircuts. So we might be holding on to, let's say, a
25 billion dollars of single-family loans. From their point

1 of view, it's not worth a billion dollars.
2 So if we take a billion dollars of loans and we
3 realize a billion dollars cash and we're dealing with
4 a billion dollars of variable-rate bonds, we can also
5 release, let's say, the amount of haircut that the rating
6 agencies would place on that billion-dollar loan.
7 So suppose the haircut is 25 percent. It just
8 means that we saved $250 million out of our G.O.
9 capacity.
10 MR. MANDELL: I have a question for you. On
11 the CalHFA conventional loans line, the lower of the red
12 lines, August 2003, that level is where we're at now.
13 Did the agency do anything at that time to address that?
14 And if so, what?
15 MR. GILBERTSON: I think if you remember back
16 to 2003, what really happened then is, that's when we
17 fell to historic lows in interest rates. And I think if
18 you took a poll of people in this room, you'd find that a
19 pretty high percentage of people refinanced their
20 mortgages in the summer of 2003. I know, I'm one of
21 them.
22 So I think it was really more convenient that
23 there was cheap access to refinancing capital in a vastly
24 appreciating California housing market.
25 I don't know what led -- the more interesting

1 question to me, Mr. Mandell, is what led to the higher
2 delinquencies earlier in 2003.
3 I don't know if Chuck has any sense.
4 MR. McMANUS: I wasn't here in 2003.
5 MS. PARKER: Well, maybe one thing --
6 MR. GILBERTSON: But you can see it also
7 occurred in the FHA portfolios.
8 MS. PARKER: Yes, but one of the things that
9 I think might be interesting to point out is, this
10 doesn't really give you a sense of the percentage of the
11 portfolio that is FHA versus conventional.
12 MR. GILBERTSON: Right.
13 MS. PARKER: And while -- Chuck, correct me if
14 I'm wrong -- while those delinquency rates are higher,
15 the number of loans that we had, that were conventionally
16 insured by the Agency, was probably less --
17 MR. McMANUS: Very small.
18 MR. GILBERTSON: Very small. Less than
19 20 percent, probably. Probably 15 to 20.
20 MS. PARKER: So if you look at those lines,
21 while they were high, the number of loans that we had is
22 nothing like the number of loans that are in our books
23 now.
24 MR. McMANUS: It would almost be --
25 MR. MANDELL: So less exposure at the time.

1 MR. McMANUS: It would almost be an adverse
2 selection that was still on the books, because everyone
3 else, with the rising prices, refinanced.
4 MR. MANDELL: Okay.
5 MR. McMANUS: So what you were left with were
6 people that didn't qualify for refinancing. They were
7 delinquents, et cetera.
8 MS. PARKER: Right.
9 But from the standpoint -- the delinquency at
10 that point in time, at FHA, was much more representative
11 of what was happening with the loans. Although, in that
12 sense, because we had FHA coverage, the Agency in and of
13 itself wasn't impacted.
14 MR. MANDELL: Thank you.
15 MR. HSU: I will emphasize that these are total
16 delinquent ratios.
17 So on the next slide what we show is basically
18 that same information, except we now only show loans that
19 are 90-days-plus delinquent.
20 So the scale is almost the same. On the
21 previous slide, the scale went up to 15 percent. Here,
22 it only goes up to 10 percent. But you can see a big
23 sort of compression of these lines coming straight down.
24 But though the nominal delinquency ratios are much lower,
25 you can see sort of the relative relationships of these

terrible rates is pretty similar.

Next slide.

MS. PARKER: The next slide is really --

MR. HSU: Yes, we have various breakdowns of these slides.

The previous two slides are sort of giving people sort of a fairly global view because we group all the FHAs together, we group all the conventionals together.

But these next two slides are some of the slides that we have to try to address what is the underlying cause or what is the underlying trend that makes some of these statistics rational or makes sense.

And one of the breakdowns that we do is by loan type. And you can see that -- and this slide does tell half the story but -- it doesn't tell the complete story, which I'll tell you -- this slide here, ostensibly what it shows is that these I.O. loans that we have are far more delinquent than any other loan types. And that would actually jibe very well with what you hear in the popular press that, oh, all these I.O, interest-only, and ARM stuff is what's getting people in trouble.

MS. PARKER: Although these were not adjustable rates.

MR. HSU: They were not. That’s right.

1 MS. PARKER: They were fixed rates.
2 MR. HSU: They were still all fixed-rate.
3 But part of it is that some of the things that
4 truly matter to underlie some of these charts, which we
5 can show you more, if it interests you, is things like
6 vintage, for example. As it turns out, a lot of these
7 I.O.'s that are showing delinquency are from the 2005
8 vintage or 2006 vintage, which is something that you also
9 see in a conventional space, because that's basically
10 when the market, the real estate market, peaked.
11 So a lot of this is vintage-driven, and some
12 of it is also driven by LTV, for example. Some of the
13 things that Chuck had talked about in terms of how much
14 of the purchase price we financed.
15 So some, as we have done a very in-depth
16 analysis to show that some of these loans that we've seen
17 in the I.O. world, as it turns out, they have higher LTV
18 ratio than these other loan types.
19 And some of it could be addressing the
20 underlying, let's say, situation of the borrower:
21 Someone that goes into I.O. perhaps is more inclined,
22 more disposed to stretching his or her finances more.
23 And that could be underlying some of these trends you see
24 here.
25 Because you can see that the more traditional

1 product that perhaps I like is the 30-year loans, it has
2 the statistics that's sort of hitting the -- lower than
3 all these other loan types.
4 And this, again, is the total delinquency,
5 which shows that everything that's more than 30-days
6 delinquent shows up on this chart.
7 And the next chart, we again look at the same
8 chart, except this time we're looking at loans that are
9 more than 90 days delinquent. So that shows that all
10 these ratios, again, are getting compressed, so that
11 they're much lower.
12 And these are the loans that we truly, truly
13 worry about because these are the loans that perhaps are
14 either already in foreclosure or they're headed for
15 foreclosure. And these are sort of the population that
16 we're most concerned about.
17 But it's still basically the same story, that
18 the I.O., the 5/35 I.O. product that we have, is the loan
19 product that's sort of, from this point of view, causing
20 most of the pain on that. Because in the first two
21 slides that I showed, basically those are the averages of
22 these lines.
23 MS. GALANTE: So I was just trying to
24 understand a question that Terri started to get to but
25 I don't think we fully addressed.

1 So of the obviously higher-risk ones or the
2 interest-only, what proportion of our portfolio is in
3 that versus these other loan products that are, you know,
4 still incredibly low delinquencies, actually, even, in
5 this time.
6 MR. HSU: That's actually in the packet.
7 MR. GILBERTSON: Yes, I think if you look on
8 page 215, it's in the report.
9 At the time we produced this report, for
10 purposes of preparing your Board binder, we had July
11 delinquencies.
12 I think this had August delinquencies.
13 But you'll see at the bottom of page 215 the
14 interest-only. There's 5,300 loans for 1.5 -- almost
15 $1.6 billion of principal balances.
16 MS. GALANTE: Thank you.
17 MR. GILBERTSON: 24 percent.
18 MS. PARKER: And, you know, as you're aware,
19 that is a program that we suspended the first part of
20 September.
21 MR. HSU: And the last thing --
22 MS. PARKER: If --
23 MS. HSU: I'm sorry, Terri -- the last thing I
24 would say about these charts --
25 Bruce, can you go back to that chart with that

1 circle?
2 MR. GILBERTSON: Which one?
3 MR. HSU: The circle.
4 MS. PARKER: The circles?
5 MS. REDWAY: There were circles?
6 MR. GILBERTSON: I can read his mind.
7 MR. HSU: Or should I say that this is a
8 hexagon.
9 So the delinquencies -- I just want to kind
10 of put things in these boxes. For me, the delinquencies
11 that we're talking about on these last four charts are
12 here, so that it's causing us to have fewer payments.
13 MS. PARKER: But I think that's -- let me just,
14 sort of to summarize that, I think that if you keep this
15 diagram in mind and look at the different things that we
16 are trying to do to help on various fronts for the Agency
17 to manage our way through this, that we are managing both
18 above the line, from a new-production standpoint, but
19 also very much below the line on portfolio management.
20 Both, in the air, is the dealing with the investment
21 instrument, the debt-management part, but also the
22 portfolio management of the assets on our books. You
23 know, trying to -- again, as I mentioned earlier with
24 Chuck, add additional resources and staff to be selling
25 our REO properties in this market. To be adding

1 additional staff, to be working with the borrowers to try
2 to have them be successful and being current on their
3 loans.
4 So, you know, it is a multi-pronged approach
5 that each and everyone of them can contribute to the
6 bottom-line success of the Agency.
7 In closing, I did want to add one last comment.
8 We have in the past, in our discussions as a group,
9 there's been questions about, you know -- and I said some
10 of what we have been doing on the Agency's part of going
11 to the federal government and asking for assistance,
12 particularly in the forms of the GSEs, but I wanted --
13 and I think a couple of you have asked the State in
14 totality, are they doing anything with respect to making
15 a pitch to the federal government around housing. And
16 I don't really have any details to it.
17 But, obviously, the Governor spoke out
18 yesterday about the impact to the State's municipal
19 market of which we are part of. But the State
20 Treasurer's office is also involved in asking issuers --
21 CalHFA is one -- around the state of California,
22 Metropolitan Water District, there's a number of
23 issuers -- to sign on to a letter to the leadership in
24 Washington, the leadership of Pelosi and Senator
25 Feinstein and Senator Boxer, Congressman Barney Frank --

1 to essentially point out the problems to issuers of
2 municipal-type bonds and, you know, as far as doing our
3 missions and our public service. So we will be signing
4 on to that letter. It should be going out sometime next
5 week.
6 So, again, I think we are across this state
7 holding hands of looking at ways to have many voices in
8 a choir to be preaching the same sort of mantra.
9 MS. GAY: Thank you. That's exciting to hear,
10 too.
11 I guess the main thing that I take away from
12 all of this is how important it is for all hands to be
13 on deck. And I want to just encourage that, as you look
14 at new, more expanded distribution strategies with your
15 own REO, with vetting new types of buyers who are
16 stronger -- which is what Chuck was describing -- that
17 you don't leave out the people on the ground.
18 I think there's a huge opportunity, given all
19 the conversations I'm in nationally as well for the
20 not-for-profit sector to really stand on its best laurels
21 through this process and help vet the best of the best of
22 the best and the brightest and strongest candidates,
23 whether it's in the new purchase market and/or in
24 preserving homes for the families that can do it.
25 And so I put that out there, the Agency has

1 been a leader already. But I think even on the REO
2 distribution, there's huge ways that a lot of us can be
3 more helpful. And it's just knowing exactly what the
4 Agency wants to get done and how we bring that to bear.
5 And that doesn't mean we do the work even, per se, but it
6 may be pointing you to people who can help facilitate the
7 distribution strategies you need on the ground.
8 MS. PARKER: I agree. I mean, the
9 partnerships, particularly with the size of our state,
10 and the ability to get at those impacted populations.
11 You know, when I've been back in Washington,
12 I've said this a number of times to people, while they
13 think about California as being just something that is
14 so -- you know, the way they act, it would be like the
15 properties that we have, have no value whatsoever and
16 that it's just decimation. And I point out to them, even
17 with what we are doing right now, which is higher FICO
18 scores, lower loan-to-values, high interest rates even
19 that we're charging, we're dealing with between a million
20 and a half and two million dollars a day in business.
21 That means that there are people out there that are
22 taking advantage of the affordability that hasn't existed
23 for well over a decade --
24 MS. GAY: Absolutely.
25 MS. PARKER: -- and want to be able to buy a

house.

MS. GAY: Yes.

MS. PARKER: And so I keep saying, we need to be there to help take advantage of this point in time.

Ms. Javits?

MS. JAVITS: I had a few questions. Thank you for this outstanding presentation, and I agree with the comments that Lori made.

And it is still really complex, so forgive me if these are pretty simple-minded questions. But I just wanted to ask a couple things.

One: If I understood you correctly, there's outside potential liability of $118 million in 2009.

Is that fair?

MR. GILBERTSON: Yes, the term-out -- the projected term-out payments on August 1, 2009, are $118 million.

MS. JAVITS: Right, right.

MS. PARKER: Carla, but that doesn't include what we will be experiencing for continuation of basis mismatch that Bruce also gave you some numbers of what we know about to date.

MS. JAVITS: And that could be, roughly, up to…

MR. GILBERTSON: Well, based off October as a standard -- and I don't think that should be the standard

1 we use -- we had a $5 million basis mismatch in a
2 one-month period.
3 MS. JAVITS: So up to sixty?
4 MR. GILBERTSON: That would project to 60.
5 That, I believe, would be on the high side.
6 MS. JAVITS: So I'm just trying to get some --
7 just as a Board member -- just some sense of the relative
8 range of potential liability, and I guess in relation to
9 our ability to deal with that. So I'm hearing the very
10 highest end could be about $180 million, but you wouldn't
11 anticipate that.
12 So, I mean, I'm just trying to get just some
13 sense in terms of just trying to be a fiduciary steward
14 of what the range of potential liability is and what the
15 Agency's ability to deal with that is.
16 MR. GILBERTSON: Okay, I think that's fair from
17 an outside range. I was hoping to avoid further
18 complications.
19 MS. JAVITS: I'm sorry.
20 MR. GILBERTSON: But we spent the last week
21 or so working with bond counsel, and they're both
22 represented in the audience today.
23 To take a look -- we drafted -- we asked them
24 to draft a memorandum on bank bonds. The primary purpose
25 was to share it with the rating agencies, so that they

had a sense of where the priority of payments lie. And it becomes very, very complicated, very, very quickly. But let me try to take a stab at it. And I would certainly ask for representation, if I'm incorrect, that you clarify -- Stan or Dan.

You know, the general-obligation credits of the Agency, the Multifamily Program, what we call the Housing Program Bond, pretty clear-cut. If we have bank bonds, we need to pay the interest, we need to pay the principal as it was scheduled originally or as it comes due over time.

If it becomes bank bond and is termed out more quickly, we need to do everything we can to make sure that happens. Bad, bad things happen if we don't.

You know, and for the much larger program, the HMRB program, which is where the majority of that $118 million resides, the priority of payments under that bond indenture and the related standby bond-purchase agreements is a little bit different.

What it really does within that indenture is that all of the cash that is in the indenture, that is either from prepayment of loans or excess revenues -- and Tim did walk you through that -- become caught up, and can effectively only be used to term-out these bank bonds.

1 It isn't a negative thing -- an incredibly
2 negative thing for the Agency if we don't have the
3 $118 million of cash on 8/1/2009. We aren't in an event
4 of default by the big definition of an "*event of*
5 *default*"; and it simply rolls forward to the next
6 semiannual period. And they would effectively have a
7 priority to have them termed out what would be 2/1/2010.
8 MS. JAVITS: Okay.
9 MR. GILBERTSON: Fairly accurate?
10 MR. DIRKS: Fair enough.
11 MS. JAVITS: That's helpful. Thank you.
12 MR. DIRKS: If I might?
13 MS. PARKER: Stan?
14 You all know Stan Dirks.
15 MR. DIRKS: Thank you.
16 The perspective on that $118 million number is
17 that there may be a lot of money from the cash flows that
18 Bruce was talking about that, on balance, would be just
19 fine to put against that number, to use to pay that
20 number. There are a fair number of uncertainties as to
21 how much of that cash flow will be available, because we
22 don't know how fast single-family loans will prepay over
23 the next year.
24 If prepayment rates go up, that 118 million
25 might be easy to pay. If prepayment rates stay low, it

will be more difficult; but there still will be some money available, within the indenture, to pay that amount. So that $118 million is really a very outside number. I think that's --

MR. GILBERTSON: Correct.

MR. HSU: I think that if we were to do the sale of loans and get rid of these red boxes, this number would be about $70 million rather than $120 million. And so what that would represent, that $70 million represents, basically, is the term-out for the failure to renew these facilities here. Because that $120 million minus $70 million, or $50 million, represents the term-out of all these red boxes.

MS. JAVITS: Right. So if I could just ask two other quick questions.

CHAIR CAREY: Yes.

MS. JAVITS: One is, so I guess in relation to that -- and I appreciated how you showed in the circles kind of where the foreclosure issue kind of comes to play. Let's say foreclosure rates for us really continue to sort of -- or start ramping upward. Can you just give us some sense of what that means in terms of the scenario you just laid out?

MS. PARKER: Well, I'm going to start in a little bit. I mean, we would have to go back and look

at, are the foreclosures FHA loans or are they conventional loans?

MS. JAVITS: Right.

MS. PARKER: If they're primarily FHA loans --

MS. JAVITS: Yes, but let's say they're not.

MS. PARKER: If they're conventional loans, then it is -- you know, it's a situation where if we go through and we start doing refinancing -- or, you know, those are REO and we sell them, we have to look at what is the return that we can get on those properties. And that's something that Chuck is doing some analysis on because it not only -- you know, how much is covered -- and that has several categories that can impact us, too. If it is -- if we have reinsurance on those loans, then we're going to get some amount from Genworth.

MS. JAVITS: Right.

MS. PARKER: If we do not, and it's covered out of our GAP policies, then there is a bigger hit to the Agency. And if the property is -- the return on the -- when we resell the property, if it is really low, then it could have an impact actually on our reserves that are against our indentures.

MS. JAVITS: Right. So thank you.

And so that leads to my last question, which is sort of on the positive side of the ledger, in terms of

1 what business the Agency is now doing. I just wanted to,
2 just at a high level, have some sense of that. If
3 somebody were to ask me, you know, "So what's the Agency
4 doing now?" I heard Terri say, "We're putting out
5 $1½ million to $2 million a day in business." I heard
6 you talk about the SMART program. I heard you talk about
7 the C-S-H-L-P -- the "CSHLP" -- I love that name --
8 program. And then, obviously, we have something on the
9 Multifamily --
10 I mean, can you just give us just a high-level
11 sense of what positive business the Agency is doing now?
12 MS. PARKER: Okay. We are offering a 30-year
13 fixed-rate loan that we have designed; and we are working
14 through with Fannie Mae that is not, at this particular
15 point, dependent upon our ability to sell bonds.
16 MS. JAVITS: Right.
17 MS. PARKER: So that we can essentially make
18 these loans and then sell them directly to Fannie Mae.
19 And I think the ratios of the loans that we are doing now
20 are still primarily conventional-rate loans, although
21 there are some FHA in there.
22 And so part of it, as we noted in our documents
23 here, that we also need to work in as an exit strategy,
24 either with Fannie or some other way, that we could sell
25 those FHA loans because Fannie will buy the conventional.

1 And this is not an issue that's just unique to CalHFA.
2 All of our housing finance agencies are talking to Fannie
3 about a source for selling these FHA loans because of
4 what has happened with the access to mortgage insurance.
5 But we are only doing that as a first mortgage loan. And
6 the only down-payment assistance that we are offering is
7 that that is funded by bond funds. We are not -- any of
8 the programs that we used to use, our Housing Trust
9 funds, we have suspended those; and to preserve those
10 funds to deal with our portfolio and debt-management
11 problems.
12 We are continuing to offer this SMART program.
13 It is also within a constraint. It has $25 million total
14 to it. So the interest rates that are on that are part
15 of, again, what Bruce has structured, you know, within
16 the financial structure.
17 And the Housing Stabilization Program, now,
18 that's the one program that I would say it's unique.
19 That will all be on Chuck's M.I. It's all going to be
20 conventional loans because we are offering 100 percent
21 loan-to-value. So it won't qualify for reinsurance or it
22 doesn't qualify for FHA.
23 So right now, at the moment, the one loan that
24 probably has the most risks associated with it are those
25 loans. But, again, you know, Chuck and his folks are

1 going through and doing all the underwriting.
2 And the other part that we think is very key
3 to why we still think this is a very successful model is,
4 with the banks giving us those properties at 12 percent
5 what is below current value, the concern is that, you
6 know, if there was a need to refinance or for it to be
7 given back, at least we have value built into that loan
8 that we're making right now.
9 MS. JAVITS: So is that -- what's the volume
10 there?
11 MS. PARKER: We've done about $4 million so far
12 of those loans, and the majority of that has probably
13 been done in the last month.
14 MS. JAVITS: And is that included? Is the
15 $1½ million to $2 million a day just a 30-year
16 fixed-rate?
17 MS. PARKER: No, that would include those
18 loans. It includes all of our loans.
19 MS. JAVITS: Okay.
20 MS. PARKER: You know, I would say that we have
21 some loans that we are doing that are under -- and we'll
22 talk a little bit about this later in one of our issues,
23 resolutions that we have -- or not resolutions, but one
24 of the issues we want to bring forward -- we still have
25 some loans under our agreements with, for example, the

1 Self-Help Builders, where they brought forward
2 commitments at specific rates. And so those loans that
3 are delivered then, we are honoring that commitment to
4 them.
5 MS. JAVITS: Okay, thank you.
6 MS. PARKER: But there is, you know, nothing
7 else.
8 And, you know, I think on the Multifamily side,
9 I think you will remember the Board meeting that we had
10 in September where we essentially talked about -- and
11 really made some changes to the resolution -- that was
12 a big change for you all from the standpoint of the
13 resolutions that we had in the past. And there was
14 really only one deal. And we are trying to go back and
15 work on that because it doesn't sort of hold in the
16 current environment. But those deals and the interest
17 rates were predicated on what was happening with the
18 marketplace.
19 So we are continuing to work on them, work with
20 those partners. If those people have alternative ways
21 for them to do this, we're assisting them in any way we
22 possibly can.
23 MS. JAVITS: Thank you.
24 MR. MANDELL: I have just a quick question
25 about what you were saying on the new program where we

1 would be buying or doing the financing on the homes at a
2 12 percent reduction on the loan, the value of the
3 property.
4 Wouldn't that, on the natural then, allow
5 you to meet the test, Chuck, of a -- what did you say,
6 95 percent loan-to-value, or even 90 percent
7 loan-to-value?
8 MR. McMANUS: The rule is the lower of the
9 selling price, you know, or the appraised value. And,
10 therefore, the selling price sets your 100 percent. So
11 you still need the 5 percent reduction.
12 MR. MANDELL: Okay. Thank you.
13 MS. PARKER: Mr. Chairman, unless there's any
14 questions, I might suggest that we give our scribe a
15 break, and we'll get on with the other items that we have
16 before you.
17 CHAIR CAREY: Okay, we will recess for about
18 ten minutes.
19 *(Recess taken from 11:27 a.m. to 11:45 a.m.)*
20 CHAIR CAREY: We are back in session.
21 And we are going to rearrange the agenda slightly and
22 take up Item 6 next.
23 //
24 //
25 //

1 **Item 6. Discussion and possible action regarding**
2 **loans under the Agency's Self Help Builder**
3 **Assistance Program**
4 CHAIR CAREY: Tom, do you want to give a
5 preamble?
6 MR. HUGHES: Yes, Item 6, regarding Self Help
7 Builders Assistance Program, raises a potential conflict
8 of interest for Mr. Carey as he is employed by Self-Help
9 Enterprises, which is one of the participants in that
10 program.
11 We have discussed this and have concluded that
12 under the provisions of the Government Code regarding
13 conflicts of interest in contracts, and specifically
14 Government Code section 1091(b)(1), that as an
15 officer/employee of a nonprofit 501(c)(3), that that
16 interest would be what is called a "*remote interest*."
17 And so long as it's disclosed to the Board and that
18 disclosure is put on the official records of the Agency
19 and so long as Mr. Carey then basically doesn't
20 participate, doesn't vote on that matter, that that's an
21 acceptable process. So I believe Mr. Carey will put that
22 on the record and will remove himself from participation
23 in this matter.
24 CHAIR CAREY: Right. Thank you, Tom.
25 That being said, I'm going to recuse myself and

1 actually leave the meeting. And I've asked Board Member
2 Carla Javits if she would chair the discussion on this
3 issue. And I will leave.
4 Thank you.
5 *(Mr. Carey left the meeting room.)*
6 ACTING CHAIR JAVITS: Very good.
7 Are we going to have a presentation?
8 MS. PARKER: Yes, we are.
9 I'm going to swing around here and ask Gary
10 Braunstein to join me.
11 This item begins on page 211, and it should be
12 behind Tab 6 -- no, that's not right.
13 197.
14 ACTING CHAIR JAVITS: But it does say Tab 6.
15 MS. PARKER: All right, it’s behind Tab 4.
16 I want to just give a little context for this
17 item. And we've set it up for discussion and possible
18 action. But I wanted to essentially give you some
19 perspective on this issue.
20 As we've said earlier in our discussion, we
21 have suspended a number of our programs. And one of the
22 programs that we suspended also, on the 23rd of
23 September, was our forward-commitment program to Self
24 Help Builders. And I think we reported it at our last
25 meeting that we found that the suspension that we had of

1 the HomeChoice Program caught some people that had been
2 involved in a contract for sale of a property, but the
3 bank that they were dealing with, and in this case Guild
4 Mortgage, had not put in a reservation for them. And so
5 while they had been acting under the assumption of a
6 program that would be in place, Guild Mortgage had not
7 followed through. Really, there was no reason. But we
8 were concerned about those individuals being impacted.
9 And we went back and made them demonstrate for us that
10 those people were in contracts and that we offered them a
11 5.5 percent interest rate.
12 Those loans are in the process -- there's about
13 25 of them -- of being reunderwritten, to see whether or
14 not they will work. And we will make those loans
15 accordingly.
16 This is a second example of programs that we
17 have -- ongoing programs that we have with partners, that
18 the window caught some unaware. And while the Self Help
19 Builders, I think, would be the first to admit, and had
20 been working with both CalHFA and HCD, recognizing the
21 programs that they use of ours, that these things are
22 available over-the-counter every day for them, they had
23 some projects that they had started. They had actual
24 Self Help families beginning to work on them, but they
25 had not made reservations for forward commitments.

1 We did a survey, because they came to both
2 HCD and CalHFA to see if we would help them. And because
3 of -- and we've identified probably a number of projects
4 that they are in the process -- and that goes back to the
5 chart that we have -- projects that they have, that they
6 are working on, and those projects of which they actually
7 have people that are committed to the homes.
8 So for those that are not under construction,
9 we are not offering them any waivers, assistance, or
10 whatever. But for those -- and there's about
11 approximately 60 homes that are caught in this window
12 where they have started construction. And if they don't
13 have some certainty about a mortgage and what the
14 interest rates are, the Self Help Builders have really
15 been in a quandary about whether or not they should just
16 stop progress and, in that sense, leave those homes and
17 those people kind of in limbo.
18 There are some projects that the homes are
19 going to be completed as early as February, and then some
20 others that will go through the spring and summer of next
21 year. But we have done a full inventory of all of the
22 Self Help nonprofits that we worked with, to find out how
23 big a problem that this is so that we could figure out if
24 there was something that we could propose, what the
25 impact to the Agency would be.

1 We also looked at other, outside of Self Help,
2 nonprofit contractors and for-profit contractors. We
3 are only coming here and talking today about those that
4 are nonprofit because of the special circumstances with
5 that group.
6 Both HCD and CalHFA have had a number of
7 discussions with these groups of people. We've asked
8 them to try to find out -- because in the past, they have
9 been reliant on a loan from CalHFA at 3 percent. And we
10 had Bruce run the numbers; and if we were to give, as an
11 exception basis, these 60 loans a 3 percent loan, the
12 impact on the Housing Finance Agency in subsidy amount
13 would be almost $10 million.
14 What HCD has been looking at is to the extent
15 that either that the use of their funds of HOME or BEGIN,
16 that they could be used to write down what would be the
17 first mortgage loan. And then if that loan had a higher
18 interest rate, that the individuals would be kept in
19 somewhat the same financial impact on a monthly basis as
20 they were presuming when they started their house.
21 In the give-and-take of the discussions, we
22 came back and we thought the best thing to do would be to
23 make the case that because of the unique situation of
24 these people being caught, you know, really, I believe,
25 it is analogous to the HomeChoice people, that the

1 Housing Finance Agency, rather than offering interest
2 rates of 3 to 3¼, would offer them a 5.5 percent
3 interest rate.
4 And we targeted this to what we're doing for
5 HomeChoice. We targeted this to what we're doing for the
6 CSHLP or the SMART program. This is kind of the best
7 thing we're doing.
8 The other reason for doing that is it then gave
9 a target, to some extent, for the Self Help Builders to
10 go back and look at what are the ways that they could
11 mitigate the impact to the borrower. Through HCD or, if
12 that's not available, how much they might need to deal
13 with between now and when these homes close. But by us
14 coming in and giving an assurance, which would allow them
15 to have a forward commitment just for these, gives them
16 some predictability for these homes to continue and some
17 certainty.
18 We have, as we've told you by our analysis, if
19 all of these loans continue to materialize, relative to
20 what we think our cost of funds are today, it would mean
21 that we would have to use about $2½ million of our
22 Housing Assistance Trust Funds to make up that subsidy
23 cost.
24 We brought this for your consideration today.
25 I guess I would say -- and I could ask Tom to jump in

1 here because we've had discussions about whether we truly
2 need a resolution -- I think one could say that this is
3 certainly under the purview of my authority as the
4 executive director to do this. But I think in these
5 times, and particularly the significance of what we have
6 walked through, that we thought it was really important
7 to have the Board be aware of anything that was an
8 exception, and to bring that and present it and talk with
9 you about all of that, and give it all of the due
10 consideration, public airing, so that there is no
11 perceptions or anything else about what we are doing.
12 So we're here -- Gary has gone through, we've
13 continued to do surveys. We have a number of Self Help
14 developers that we have forward commitments that they're
15 delivering on, that was done last year. And we will be
16 monitoring as those come forward. And to the extent that
17 we know of, that there is at least one Self Help
18 developer that had purchased a forward commitment that is
19 not going to be delivering within that time frame, one
20 could say that there is probably some offsetting savings
21 to these rates that we are proposing to subsidize here.
22 So we're managing this, but it is an exception, and we
23 believe that it is consistent with what you would want us
24 to be bringing to you for your consideration.
25 ACTING CHAIR JAVITS: Thank you, and thank you

for bringing it to us.

Are there questions from members of the Board?

Carol?

MS. GALANTE: I have a couple of questions.

There are some existing forward commitments. So some people did go out and get a forward commitment from CalHFA and others did not.

Could you talk about -- there must be a cost, I would assume, to getting a forward commitment. What's the rationale for some developers that have done this and some that haven't?

MS. PARKER: You know, I met and so did Lynn Jacobs, we both met with this group about two weeks ago at the Rural Housing Summit in Asilomar. And I think I'll try to convey what they said to me.

There was a lot of embarrassment on their part and recognition that they failed really doing what they should have done. I guess I would say what their reason was, that there's been so much certainty to this program for so long, that we have not changed the rates. You know, we've not -- this is not a program that changes and fluctuates a lot. And so I think for all intents and purposes, it's not that they weren't planning to get a forward commitment, they just hadn't done it. And they probably were planning to do it, but they didn't think

1 that there was any urgency to be doing it when they did
2 it. And then the window closed, like that. Because when
3 we wrote that letter, it was effective the next day.
4 And I can tell you in the circumstances of one
5 Self Help developer, they were in the process of going to
6 one of the banks to get this and the person who did them
7 was on vacation. And so they couldn't complete their
8 transaction, or they would have met the date.
9 So they have, as a group, been great about
10 saying that they recognized that they really didn't do
11 what they should have done, kind of throwing themselves
12 on -- I have to say, I understand their case more than
13 I do the HomeChoice people because they were taking
14 reservations on individual properties for individual
15 people. But, you know, kind of, it is what it is.
16 And I don't think that they didn't do it because they
17 were trying to save the money on the forward commitments.
18 I think it was more just the timing.
19 MS. GALANTE: So there is a charge for the
20 forward commitment?
21 MS. PARKER: Yes.
22 MS. GALANTE: And were all these deals that --
23 the 60, I guess -- are they actually under construction
24 already?
25 MS. PARKER: Yes, yes.

1 Those that are not -- because they gave us a
2 list of all of the ones that they are currently involved
3 in. And we went through each one of those and if it
4 wasn't under construction, it got crossed off.
5 The number originally that they had, that they
6 were dealing with, that they should have gotten forward
7 commitments on, was approximately $25 million. And when
8 we took that number and we went through for what was
9 under construction and what wasn't, that got us down to
10 the $14.7 million number.
11 ACTING CHAIR JAVITS: Other questions --
12 MS. PARKER: It involves pretty much all four
13 of the Self Help developers, so…
14 ACTING CHAIR JAVITS: Other questions?
15 Comments from the Board?
16 MS. PARKER: You know, I think Elliott might
17 want to talk a little bit about what HCD is doing in
18 partnership on this.
19 MR. MANDELL: And, actually, Terri, I had a
20 question for you first. The $2.56 million, is that the
21 entire problem, or is that assuming that each HCD handles
22 a portion of the issue? Because I just have summary
23 documents, and that's why --
24 MS. PARKER: No, I'll tell you what the number
25 is. I can't tell you what the number is in totality that

1 is a problem for them, because they needed to go back and
2 do an assessment about how much they were getting --
3 almost back to each and every one of these houses of
4 subsidy through the BEGIN Program and the HOME Program.
5 MR. MANDELL: Well, so simply, the HCD piece
6 would be in addition to the $2.5 million?
7 MS. PARKER: Yes, right, because --
8 MR. MANDELL: Okay, that's all I was really
9 asking.
10 MS. PARKER: Because this is our portion --
11 there is more problem beyond this. Because all we're
12 doing is we're taking them from 3 to 5.5. And they're
13 looking to you to see if you can help them between the
14 3 and 5.5.
15 MR. MANDELL: Okay. Well, the reason I ask
16 that is because I do have some additional information.
17 Unfortunately without being able to ask the
18 staff person what did they mean in the information that
19 they sent in the e-mail, I want to kind of try to put it
20 into context, whether or not it effectively changed any
21 of the requests that is being discussed now -- or not the
22 request, but the action that's being talked about.
23 But what I do know is that we have looked at -- HCD has
24 looked at the issue and that there is an amount that is
25 about $1.1 million that we think can be assisted through

1 our BEGIN Program. There was no mention of CalHome
2 specifically or the federal HOME dollars so I'm not sure
3 if there's some other opportunities on that.
4 We have a NOFA, Notice of Funding Availability,
5 out right now on BEGIN that our legal staff has reviewed
6 the documentation. They think that this can be used --
7 can be amended to assist these various projects. There
8 is a limitation, however, for BEGIN, and that is, that
9 there's a $60,000 per-unit cap. And it cannot -- and
10 that's a new per-unit limit. It can't go retroactively
11 back to 2007, so that's going to effectively limit some
12 of the ability for us to assist.
13 What I'm not clear about is whether or not --
14 what the process is also in terms of for these particular
15 projects to be assisted, if there is a full and complete
16 application loan grant committee process or sort of on
17 the natural, if they apply, that that money is made
18 available. I was trying to get that information earlier,
19 and just haven't gotten it back from staff yet.
20 It sounds like for the amount that we
21 thought -- HCD thought we were being asked to assist
22 with, based on the limitation that I had just mentioned,
23 that we could help with all but about $12,000 of that
24 problem.
25 So I hope that, I'm telling you --

1 MS. GAY: Per unit?
2 MR. MANDELL: No, in total.
3 MS. GAY: Oh, wow.
4 MR. MANDELL: Among the four entities that I
5 understand that we've been asked to see if we could
6 provide assistance for.
7 MS. PARKER: Unfortunately, we don't have --
8 the staff, when we were in this discussion, we proposed
9 about two weeks ago moving to 5.5 so in that sense, HCD
10 could look at what was the difference to see what they
11 could do. So I don't know, but I'm presuming that that
12 1.1 that you're talking about then brings them back to
13 being within $12,000 of taking - plus, at our 5.5 percent
14 rate -- of taking the borrowers back to solve what would
15 have been their mortgage payments if they had been able
16 to get that loan at 3 percent.
17 MR. MANDELL: Well, basically, that's the
18 question I was trying to get a better handle on by asking
19 you a better question.
20 MS. PARKER: Yes, right.
21 MS. MANDELL: So I think at this point it is
22 still important to go forward with the $2.5 million from
23 CalHFA and for HCD to finalize what we can do to assist.
24 But we're here to help.
25 MS. PARKER: Since it is costing us

1 $2.5 million to buy a rate from 3 to 5.5, my presumption
2 is that the 1.1 that you're offering would be to take
3 care of whatever segment is a cost on top of that.
4 MR. MANDELL: Yes. And, unfortunately, I
5 can't -- I don't have the --
6 MS. PARKER: I don't think your 1.1 could --
7 MR. MANDELL: Drive down the 5.5.
8 MS. PARKER: -- would reduce the amount that we
9 think would be needed to provide.
10 ACTING CHAIR JAVITS: Thank you.
11 Are there other questions or comments from the
12 Board members?
13 *(No response)*
14 ACTING CHAIR JAVITS: Are there any -- is there
15 any testimony from the public?
16 *(No response)*
17 ACTING CHAIR JAVITS: What is the Board's
18 pleasure in terms of acting? Do we want to affirm
19 Terri's authority to make the decision in this case, or
20 is that -- I mean, I don't know, is there such a thing as
21 an affirmation?
22 MS. PARKER: Tom?
23 MR. HUGHES: Well, what we did on this was to
24 leave it wide open to what the Board wanted. We believe
25 that this kind of action is within the executive

1 director's authority, as is. But for the reasons that
2 Terri articulated, we felt the Board should know about
3 it. So we left it open that the Board could essentially
4 take no action, could just simply not object or could
5 affirm it, or could actually pass a resolution saying it
6 is okay. It's really up to the Board.
7 ACTING CHAIR JAVITS: Does anyone -- yes?
8 MS. GAY: I don't know if it's a motion then,
9 but I'd certainly like there to be some resolution that
10 provides support to putting in the appropriate money to
11 cover the gap as is noted on record that is needed.
12 ACTING CHAIR JAVITS: I guess maybe just one
13 thought. Generally, I would think we'd want our director
14 to have the authority that they have programmatically, so
15 that we don't set precedent in terms of coming to us for
16 approval on items that normally are under her purview.
17 And at the same time, I think in this case, you
18 decided to come to us, give us the information, there's
19 an interest in affirming the decisions that -- or at
20 least the recommendation that you're making today.
21 So, I mean, is there maybe some -- just as
22 perhaps something short of a resolution to approve --
23 perhaps a resolution to affirm Terri's recommendation?
24 MS. REDWAY: Could we just have the minutes
25 reflect that the direction -- the sense of the direction

of the Board is to support Terri's decision?

ACTING CHAIR JAVITS: Well, are all the Board members comfortable with that?

MS. PETERS: Yes.

ACTING CHAIR JAVITS: Are there any concerns about that? Any objections to that?

(No response)

ACTING CHAIR JAVITS: Okay.

MS. PARKER: Thank you. Thank you very much.

I do think you all are very aware of these developers. And seeing the faces of these individual people, they have been very much the victims of this. And you will make such a difference -- we'll all make such a difference in our lives about being able to help this particular group.

MS. GALANTE: And will this resolution -- this resolution of the issue, they feel good and would be satisfied with this?

MS. PARKER: I think it would be fair to say, they are very grateful. Again, they are -- they came, they recognized, to some extent, their role. They really looked for us to be helpful, if we could do anything. And, you know, we've gotten some great e-mails about being heroes so you all are heroes.

ACTING CHAIR JAVITS: We really appreciate the

1 efforts of the Agency to keep putting people in homes, in
2 affordable homes, in a really tough time.
3 MS. PARKER: Yes. I mean, we have heard so
4 much -- and I think we've all seen these new slides --
5 how dynamic things are. And, you know, if you just
6 weren't awake, it's like in a blink. And so, again, we
7 thought that this was consistent with what we had heard
8 before. We believe that this is the end of what are the
9 exceptions. We've heard from everybody that we would be
10 hearing from.
11 ACTING CHAIR JAVITS: Thank you.
12 Would someone ask Peter to come back in,
13 please?
14 MR. HUGHES: And we'll just note for the record
15 that Mr. Carey was absent during the consideration of
16 this matter and is now returning to the meeting.
17 ACTING CHAIR JAVITS: Okay, excellent.
18 It looks like the next item is the *Bay Area*
19 *Housing Program*, and that's under Tab 5.
20 MR. GILBERTSON: Actually, we have to back up
21 to resolution 08- --
22 MS. PARKER: Let's do this one first, then I'll
23 do that.
24 MR. GILBERTSON: Oh, okay.
25 *(Mr. Carey returned to the meeting room.)*

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Item 7. Discussion, recommendation, and possible action regarding amendments to Board resolutions relating to the Bay Area Housing Program

MS. PARKER: This is behind Tab 5. No, it's not.

MR. GILBERTSON: 08-44?

MS. PARKER: 08-44, yes. Page 201.

Let me just set the stage. I talked a little bit about this as we were going through the presentation.

As you are well aware, this is one of those three items that Moody's rating agency has pointed to and just agonized over. We have spent well over a year in trying to make them understand this transaction, to make them really understand that it is not a real estate risk transaction, that it is an appropriation risk transaction.

And I think much to our disappointment and the disappointment of our colleagues in the regional centers and the Department of Developmental Services and whatnot, we just have not been successful, and we're not going to be successful with Moody's. So the only thing that we can do right now, is to move forward and try to figure out a way to get this off of our G.O., in order to

1 improve that situation so that we can get the rating
2 agencies to lift this letter of possible downgrade.
3 This is just one item. We've given you what
4 we are doing on all three of them. But this one is
5 obviously very important.
6 We have been having a number of meetings,
7 really, for months, trying to give the Department of
8 Developmental Services centers, the regional centers, and
9 the developer some idea about where the financial market
10 was going on this as we essentially took in those loans,
11 completed the rehab, and started filling up the 61 homes
12 with what used to be developmental-center clients in
13 institutional settings now moving into community
14 settings.
15 And as we have -- as the market has progressed,
16 Bruce has continued to meet with those individuals and
17 given them some sense of what these costs of transactions
18 would be. We gave them numbers in the summertime. We
19 gave them numbers again early in September.
20 After the middle of September, we have
21 continued to meet with them more aggressively and point
22 out that we no longer can sit and have this be on our
23 General Obligation until the market gets to a point in
24 time where these individuals like what the interest rate
25 might be. And we've actually had to get to the point of

1 very candid conversations about what could be done.
2 And in doing that, there has been, you know,
3 the recent review by other people, the Department of
4 Developmental Services has brought in an advisor to look
5 through, to see if there's other financing mechanisms.
6 The Treasurer's office has come in and looked at this to
7 see if there are other financing mechanisms. And many of
8 these financing mechanisms were frankly looked at when we
9 started this project in 2005. So that's how long ago we
10 started doing it.
11 And at that point in time, the objective that
12 we were really trying to solve was a way that we could
13 have these new kind of facilities financed without using
14 state dollars for their development, but also in a way
15 that we could do it and continue to have the services
16 provided for them be reimbursed by federal Medicaid
17 dollars. So while we could have found ways to finance
18 these projects, the real -- one of the relationship
19 issues needed to be, is it needed to be done in a way
20 that the Department of Developmental Services could
21 continue to claim Medicaid dollars and, in that sense,
22 get 50 percent reimbursement for every dollar spent.
23 So that there was savings to the State General
24 Fund in two ways: One, closing the developmental
25 centers, and, two, to the extent that we could make them

1 these communities, have the continual influx of federal
2 financial participation.
3 And then most importantly, that all of this
4 could be done not on the State's ratings. In other
5 words, their debt-structure ratings wouldn't have to take
6 responsibility for this, which would limit for the State
7 of California the capacity, that they could use their
8 rating and their debt capacity for other state purposes.
9 So that was the plan. And we've been working
10 through -- and we've been successful in getting these
11 houses done, although it took much longer than anybody
12 had intended.
13 Now, we're at a situation where bonds can be
14 sold for these properties, but we can't get the kind of
15 rating that we had anticipated and hoped for, and had
16 been trying to do everything but set ourselves on fire to
17 make them understand it.
18 We have been able to -- at the moment, if we
19 were to sell bonds, they would be -- based on -- and
20 without our General Obligation, because if we do that,
21 then it is a direct hit to us -- it would mean
22 $100 million of our General-Fund capacity, our G.O.
23 capacity that's not available for any other things that
24 we've talked about. And that's part of the problem, was
25 that the rating agency is not even looking at -- they're

1 looking at dollar-for-dollar, as if these properties and
2 the land that they sit on and everything else has no
3 value.
4 So we've taken this back to the developmental
5 centers -- or to DDS, the regional centers, and said,
6 "Absent anything else, we have the authority to sell
7 bonds. And if it is a situation that we need to sell
8 bonds and the interest rate is going to be increased or
9 we can't use those proceeds to handle our other problem,
10 we don't have any choice."
11 As Bruce said, we're looking at four different
12 things right now. And one of them is to see if, during
13 the special session, that there might be an opportunity
14 for getting legislation that would put the State's moral
15 obligation -- not full faith and credit, there's a
16 difference -- moral obligation on these bonds.
17 We've had Stan Dirks work and prepare the
18 language that's currently being reviewed. And that
19 process is being considered, about people -- and even
20 if it's possible to do in a special-session environment.
21 If that were possible to do, it would allow the rating
22 for these bonds to go from what would be technically --
23 MR. GILBERTSON: Yes, the double-B, or B,
24 single-A --
25 MS. PARKER: Highly speculative to what would

1 be a triple-B, which is an investment-grade rating. And
2 we think that today's interest rates for these projects
3 would be probably in the --
4 MR. GILBERTSON: Tax-exempt 8 to 10 percent
5 range, if we had the moral obligation, as opposed to
6 something in the high teens, approaching 20 or 20-plus.
7 MS. PARKER: As we mentioned, we're also having
8 a discussion with the Treasurer's office about submitting
9 an application to the PMIB, that either -- not assuming
10 that we could get moral obligation with the PMIB, step in
11 and give us some window while we put an exit strategy
12 together to take out these. There always is the exit
13 strategy to take them out at the speculative-grade
14 rating.
15 We have tried every way to impress the
16 developers that if they have opportunities -- and they
17 have had in the past and they didn't take advantage of
18 them -- terms from some of their own banks, that if
19 they're better than these, to essentially go after and
20 pursue those. And in that sense, it would take it off
21 our G.O.
22 And then the fourth one -- and that really goes
23 to the heart of the resolution today -- is for us to
24 essentially have -- so we can go back and talk to the
25 rating agencies on the 4th of December and say, our

1 strategy, absent any of these other things happening, is
2 to sell debt in January.
3 And right now, we have a resolution that has a
4 cap on the interest that we could sell those bonds at,
5 and the purpose of the resolution today is to come
6 forward and ask to raise that cap to allow us --
7 clearly, we would continue to be as mindful as we can in
8 mitigating these costs to the State of California; but
9 that we would also have the option to take them off our
10 G.O. rather than having the situation of the Agency
11 perhaps be further penalized by having to cover this,
12 that it was really not a responsibility of the California
13 Housing Finance Agency but the State of California.
14 So we are here -- the resolution that we are
15 asking for, the cap currently is --
16 MR. GILBERTSON: 15 percent.
17 MS. PARKER: -- 15 percent.
18 This is asking you to raise it to 25 percent.
19 What we know in the marketplace today,
20 speculative grade, would probably be about, blended,
21 19 percent. But we put that as, you know, just a
22 worst-case scenario.
23 MR. GILBERTSON: One other thing the resolution
24 does, just more of a technicality than anything else:
25 There's a whole series of resolutions on this. We would

1 need to extend the time frame that the Agency has to
2 issue bonds for this purpose so it extends it out by
3 another full year, into early 2010.
4 MS. PARKER: Again, we are putting that in
5 because we don't know when we're going to do it; but we
6 thought we would bring both of them -- both of them
7 together as an issue.
8 MR. MANDELL: Terri, I have a question. It's
9 just a technical one.
10 When you talk about the interest rate and you
11 talked previously about Medicaid covering costs, do the
12 Feds also cover 50 percent of the interest rate?
13 MS. PARKER: Yes. In fact, I'm glad you asked
14 me this question, Elliott, because I think it really puts
15 it into perspective.
16 The developmental centers, when they first sort
17 of did this and when they met and gave their projections
18 with Finance as far as what are the costs, they were
19 trying to assume at that point in time that the interest
20 rates, including our spread, would be somewhere around
21 7½ percent.
22 They did an analysis the other day, based on
23 the information that we've given them, that if it was as
24 great as 20 percent, that over the 15-year life of the
25 bonds, it would be a $75 million additional expenditure.

1 Half of that would be paid by federal financial
2 participation.
3 So the costs in that sense to the General
4 Fund, if it went out the entire 15 years, would be
5 somewhere around thirty- -- excuse me, $70 million, not
6 seventy-five -- $70 million. So it would be about
7 $35 million over a 15-year period.
8 Many of you may or may not know the
9 Developmental Services budget, but it's billions
10 of dollars.
11 The other thing I want to add to you, we, in
12 our meetings with the Health and Welfare Agency, the
13 Treasurer's office, the regional centers, the developers
14 of this, told them about this meeting today, we were very
15 up-front about what we were doing. The director of the
16 Department of Developmental Services last weekend --
17 again in a meeting we had yesterday -- said that this
18 needs to move forward off our General Obligation.
19 We certainly said if you want to come and make
20 a presentation to the Board or express any concerns or
21 whatever, you know, here is when it’s at. And, you know,
22 I'm pleased to say it, I don't think that there is
23 anybody in the audience.
24 So we have made them fully aware, the
25 Department of Finance; and we'll continue to see if there

1 are ways to mitigate this. But we need to have an exit
2 strategy to take to the rating agencies on the 4th of
3 December.
4 MS. JAVITS: Can I just ask?
5 CHAIR CAREY: I didn't.
6 MS. JAVITS: Thank you for the options and the
7 presentation.
8 Just one question: Is it possible, or do we --
9 I guess what's the potential that people will actually be
10 displaced from their homes as a result of this?
11 MS. PARKER: Oh, there is no impact on that at
12 all. You know, there's -- these facilities have to
13 function. They will function. And, you know, there is
14 this probably -- outside of education, there is the
15 next-strongest entitlement for people who are
16 developmentally disabled for the State of California to
17 pay. This is what we have been trying to make this case
18 under the Lanterman Act to the rating agencies, to
19 Moody's in particular, and they just -- they just won't
20 get it.
21 You know, this is -- from my old days, I used
22 to have this budget when I was a little budget finance
23 analyst. And, you know, you try to do your best guess of
24 guessing what the costs will be. But the State is
25 constitutionally required to make these payments. And

1 so one way or the other, these people are guaranteed
2 those services and then they have to be paid for.
3 MS. JAVITS: Thank you.
4 MR. HUGHES: One thing that might explain in
5 a little more detail -- it goes really to both
6 Mr. Mandell's question and your question, Ms. Javits --
7 is that the way it works, technically, is that the
8 Medicaid waiver pays for services, and this housing is a
9 component of that. And it doesn't pay interest, but the
10 way we structured the transaction, the rent for those
11 properties scales automatically to our debt service.
12 So as the debt service goes up, so does the rent go up,
13 and then the Medicaid comes in to reimburse a portion of
14 that rent. So the transaction works exactly the same but
15 for the fact that the State and, to a certain extent, the
16 federal government is now responsible for a higher0rent
17 cost.
18 MS. PARKER: Tom, thank you. That is correct.
19 MR. MANDELL: And, Terri, without getting into
20 the specifics -- because I don't know that anyone in the
21 room has those -- what I'm gathering or assuming is that
22 the savings to the DDS budget from not having to operate
23 Agnews is substantially greater than a $75 million cost
24 over the life of these bonds.
25 MS. PARKER: I don't want to make a -- it's

1 $70 million.
2 MR. MANDELL: $70 million? I'm sorry, okay.
3 MS. PARKER: I think that that's very fair to
4 say, because --
5 MR. MANDELL: So maybe it won't be as good a
6 deal for them if they have to have a higher interest
7 rate, but it's still a much better deal for the State of
8 California to move this and continue this forward.
9 MS. PARKER: And also because, frankly, the
10 State of California is under court order for the
11 depopulation of the State developmental centers.
12 And so there would be penalties in addition to being
13 assessed to the State that by having these facilities,
14 the State is not incurring those on top of the benefit of
15 being able to have this shared contributions by the feds
16 through the Medicaid-waiver possibility.
17 So, you know, it sounds like a lot of money.
18 But when you look at it on an annual year appropriation,
19 depending on what interest rates we can get, it might
20 mean another $2 million General Fund. And as I said, you
21 know, a budget item that's -- we're obviously very
22 concerned about General Fund these days. But I do think
23 it’s the balance of that perspective, relative to what it
24 means to CalHFA. And, you know, what I've told these
25 developers, that they're looking for, “Where is CalHFA

willing to share the pain?" I've told them that we've got loans that we're selling, that we've got -- you know, some of our best multifamily properties that we're selling that have provided the Housing Assistance Trust Funds that allow us to do these things, that we're giving up. I think our share of pain is pretty apparent to you all.

MS. GALANTE: Are you ready for a motion?

CHAIR CAREY: Sure.

MS. GALANTE: I move approval.

MS. JAVITS: Second.

CHAIR CAREY: It's been moved and seconded. Is there further discussion?

(No response)

CHAIR CAREY: Is there anyone in the public that would like to comment on this action?

(No response)

CHAIR CAREY: Seeing none, we will call the roll.

MS. OJIMA: Thank you.

Ms. Peters?

MS. PETERS: Aye.

MS. OJIMA: Ms. Galante?

MS. GALANTE: Aye.

MS. OJIMA: Ms. Gay?

MS. GAY: Aye.

MS. OJIMA: Mr. Mandell?

MR. MANDELL: Aye.

MS. OJIMA: Ms. Javits?

MS. JAVITS: Aye.

MS. OJIMA: Ms. Redway?

MS. REDWAY: Aye.

MS. OJIMA: Mr. Carey?

CHAIR CAREY: Aye.

MS. OJIMA: Resolution 08-44 has been approved.

CHAIR CAREY: Thank you.

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Item 5. Discussion, recommendation, and possible action regarding authority to purchase bonds using Agency funds

CHAIR CAREY: Now, we will go back to Item 5 on the agenda, which is Tab 3 in the books.

MR. GILBERTSON: Great. Thank you.

One more resolution, it's resolution 08-42, that would allow the agency to purchase its own bonds. I'll just walk through this quickly.

At the last board meeting in October, the Board adopted resolution 08-36, allowing the Agency to borrow money to purchase our own bonds. That was part of our resolution where we asked for an increase in the

1 short-term credit facilities that this Agency could have.
2 This one simply -- you know, as we thought
3 about that one more, we thought, we have $400 million to
4 $500 million of our own cash that we could use as part of
5 this debt-restructuring that we talked about much earlier
6 this morning, that we might want to make sure that we
7 have board approval for that purpose as well. So that's
8 really what it does.
9 Just to go back and summarize quickly, the
10 authorized uses would be, as a part of our
11 debt-restructuring and bond-redemption strategies, it
12 may become apparent to us that the best alternative is
13 to buy bonds, be them bank bonds or auction-rate
14 securities or otherwise bonds that aren't performing
15 well, directly hold them as an investment of the Agency
16 for some short period of time until we complete the
17 overall restructuring plan. Basically, that's what
18 Resolution 08-42 authorizes us to do.
19 There is a technical section, I think, in the
20 actual write-up. There's a reference to the Health and
21 Safety Code section 51003, where the Board does have
22 power to authorize certain investments of the Agency's
23 idle cash.
24 And then lastly, there's a requirement that if
25 we were to do something like this and to purchase bonds,

1 that we report back to the Board at a subsequent meeting.
2 With that, I'd be willing to answer any
3 questions, if there are any.
4 MS. GALANTE: I have a question that really
5 relates to the conversation we were having before the
6 break, and it was getting time to take a break and so
7 I didn't ask it, and so it really only tangentially
8 relates to the motion, which is, there has been a lot of
9 press about restructuring existing -- this may be more
10 for Chuck than for you, Bruce -- but restructuring
11 existing -- modifying existing loans for home buyers.
12 You know, there was just a big announcement about that.
13 I haven't heard any conversation about CalHFA
14 doing that, whether that would be financially ultimately
15 better or worse than the path that we're on, and whether
16 it's legally possible under these various instruments.
17 So I just thought it was important to
18 understand --
19 MS. PARKER: Let me answer it because I think
20 what I have told the group is that we put together a
21 working group with our sister state HFAs across the
22 country, to see whether we could take advantage of the
23 creation of a loan-refi -- not loan-modification --
24 program to use part of the $11 billion, or $1.1 billion
25 given to California in additional bond cap, with the

1 authority that would allow the housing finance agencies
2 for the first time ever to use those bond finances to do
3 loan refinancing. We have been prohibited from anything
4 but a first-time home buyer in the past. Though, the
5 qualifications for using that require that the bond cap
6 be used for bonds that were subprime or, you know, Alt-A,
7 technically, they had a variable-rate loan on them. So
8 that's the first thing that we need to know.
9 And so we've been working to see if we can work
10 with some of the banks, to see if the housing finance
11 agencies across the country could play a role in helping
12 them with their -- they will do loan modifications based
13 on some of the things that Citi, Bank of America, and a
14 number of them have come out with. And we're looking
15 into that. But we're making a pitch to them, you know,
16 if there are loans at the end of the day that fit in a
17 bucket of the various things that they're looking at,
18 whether they be loan modifications through changing
19 interest rates or terms or getting as far down as
20 principal reduction, if there's another bucket that's
21 left, before they would go to foreclosure, to see if the
22 housing finance agencies could play a role in preserving
23 those people in their homes.
24 Now, let me switch to what I believe was your
25 question about CalHFA. To the extent that there is a

1 requirement that we cannot use those proceeds to do a
2 refinance of our loan, then it would be a matter of us
3 doing loan modifications. And we have had -- we're
4 starting to have some internal discussions. That's part
5 of the reason for the additional staff, is to look at if
6 there are ways for us to do things on the front end with
7 our borrowers to keep them in their homes.
8 What we have looked at so far are -- and we
9 have -- it's been the history of the Agency -- is that we
10 do do loan modifications, but within a certain time frame
11 for ability for people to repay the loan. There's not
12 been cases where the Agency has done principal reduction.
13 So if we continue down that path of looking to
14 see if changes in terms of or changes in interest rates,
15 how that impacts our return on our bond payments to our
16 investors, but also how that goes fundamentally to our
17 contract with our investors that's in our indentures,
18 and particularly from the standpoint of getting into a
19 situation where there would be principal forgiveness.
20 One of the differences that we have, from my
21 standpoint, that we have that is different from the
22 banks, the banks have the ability to go and look at every
23 loan on an individual basis and make a decision on those
24 loans on an individual basis. Whatever we do has to be
25 for everyone. So if we start doing that, then the line

1 forms, and everybody technically has to be sort of
2 treated equally, whatever "*equally*" means. You know, do
3 you then state some criteria for what is "*equally*" or
4 "*not equally*"?
5 So I have said to you in the past that -- and
6 I've been very public about it -- we're not doing those
7 kinds of loan modifications. We are going to try to see
8 if we can, first off, do the kinds of things that our
9 sister state HFAs are doing, being more proactive and
10 working with our borrowers, getting out there --
11 Massachusetts is talking about -- they start doing
12 contacts with their borrowers at 15 days.
13 But, on the other hand, we need to look at what
14 is the cost to us of foreclosures and, you know, is there
15 some amount that we can look at that might be tolerable
16 to keep people in their houses?
17 But I just -- I say to you that that -- you
18 know, you guys, this will be your considerations well
19 after I'm gone, but because we cannot do things on an
20 individual basis like the banks can, we also didn't do
21 subprime loans. They were fully underwritten. So if
22 there are problems with the performance on these loans,
23 it really comes back to more of the situation where
24 there's been a catastrophic occurrence to people than
25 it has been that they had their interest rate adjusted

1 or that they had a situation where they -- you know, they
2 didn't have the full documentation and really didn't have
3 the finances to make the mortgage.
4 So I would suggest that when you have these
5 further talks about this, that those things need to be
6 taken into consideration, because this is very different
7 than loans that were done by Countrywide and many other
8 banks.
9 MS. GALANTE: That's helpful. Thank you.
10 CHAIR CAREY: Other questions?
11 MS. REDWAY: I don't have a question, but I've
12 got kind of a -- I guess a question -- a statement.
13 The Treasurer's office is supportive. It's a
14 good idea. It definitely makes sense maybe to buy back
15 the bonds. I think we would like, just as a Board
16 member, to see a little bit -- or have a better
17 understanding of what you will ultimately decide in
18 terms of your cash analysis. That percentage, or what
19 you want to hold in reserve before there's a lot of this
20 done, just because that is a pretty critical piece of
21 this. We'll be generating cash and we will be spending
22 it, but how much should we hold back.
23 MS. PARKER: Bruce and -- Tim, I don't see him.
24 Maybe he went back to work.
25 MR. GILBERTSON: He might have gone back to the

office.

MS. PARKER: I think what we have given you, at least in our own minds, depending on how much capacity that we had -- you know, what we're mostly worried about is those insured bonds.

MR. GILBERTSON: Yes. And I would give you some reassurance that we're going to be quite conservative, I think, in going at this.

The one thing that we do have in the mix right now is about a $17 million potential purchase of VRDOs that are backed by DEPFA. We started some discussions with that, and so that would be the initial, perhaps, foray into this.

I think that the broader implications of how much liquidity we should hold back for different purposes will become a conversation, I think, at future board meetings, especially the January and the March meetings, as we start formulating our business plan and as this whole market event kind of plays itself out.

MS. PARKER: But I think, you know, particularly in these kinds of meetings, as we move through this, we will do these kinds of documentations.

Part of the biggest added complexity is that as some of these cash -- the capital is freed up, that depending on where they came from, we are limited to what

1 we can cash out. It's not -- you know, it's not green --
2 totally green money. So to some extent, if it came from
3 single-family, we have to do single-family. If it's
4 multifamily, we have to do multifamily.
5 CHAIR CAREY: Other comments? Questions?
6 *(No response)*
7 CHAIR CAREY: Do we have a motion?
8 MS. JAVITS: I'll move.
9 MS. PETERS: I'll second.
10 CHAIR CAREY: Moved and seconded.
11 Resolution 08-42, any further discussion?
12 *(No response)*
13 CHAIR CAREY: Does anyone from the public wish
14 to comment?
15 *(No response)*
16 CHAIR CAREY: Seeing none, we'll call the roll.
17 MS. OJIMA: Ms. Peters?
18 MS. PETERS: Aye.
19 MS. OJIMA: Ms. Galante?
20 MS. GALANTE: Aye.
21 MS. OJIMA: Ms. Gay?
22 MS. GAY: Aye.
23 MS. OJIMA: Mr. Mandell?
24 MR. MANDELL: Aye.
25 MS. OJIMA: Ms. Javits?

1 MS. JAVITS: Aye.
2 MS. OJIMA: Ms. Redway?
3 MS. REDWAY: Aye.
4 MS. OJIMA: Mr. Carey?
5 CHAIR CAREY:: Aye.
6 MS. OJIMA: Resolution 08-42 has been approved.
7 **Item 8. Report of the Chair of the Audit Committee**
8 CHAIR CAREY: Okay, the next item on the agenda
9 is the *Report of the Chair of the Audit Committee*.
10 I've taken the chair's prerogative to ask if
11 Ms. Galante would be nice enough to make that report for
12 us.
13 MS. GALANTE: It was so long ago, I'm not sure
14 I remember it.
15 We had an Audit Committee meeting this morning
16 where the audit for fiscal year ending June 2008 was
17 discussed with the auditors, as well as our Finance
18 staff. And I would say a couple of comments.
19 The first, is that the auditors were very
20 complimentary of the staff, and let us know that in terms
21 of the audit itself and the financial statements, there
22 were no deficiencies, no audit adjustments. So they were
23 very complimentary to the CalHFA staff in terms of
24 getting the audit done and the presentation of the
25 financial statements. So we should all feel very good

about that, given the complexity of these financial statements.

A couple of comments. We got kind of the lowlights and highlights from what the actual financial statements mean, obviously by going over them on an audited basis. And I think the lowlight was that the operating income for the year ending June 2008 was $10 million, whereas it had been $85 million for 2007.

And that was based on a couple things. There was some extraordinary income in 2007, including the sale of some REO property. So there was an unusually high number in 2007. And there was also an unusually low number in 2008, relative to some esoteric tax situation, the federal government level that impacted these financial statements.

So I would say the Audit Committee did ask for kind of what the historical number has been. And I believe that we're going to get a revised chart which shows a couple extra years, so we have some sense of what would normally be expected, because that was a big swing.

The other question -- and we actually spent so much time on all these bonds and the loan portfolio -- there was a question about the financial statements. You know, the largest chunk of our assets are in the program loans, and trying to understand the loan-loss reserves

1 against those assets, and how that's developed and, you
2 know, what kind of auditing requirements we have.
3 There's obviously a fair amount of judgment
4 that goes into creating that loan-loss reserve number.
5 So we did get some answers to how that was valued.
6 So I would say the last comment that the Audit
7 Committee had was given the volatility of all that we've
8 been discussing in the full board meeting, these
9 statements are, as of June 2008, which is a lifetime ago
10 given where we are today. And we thought it would be
11 important to actually get interim statements. I guess
12 they're done on a quarterly basis. So the September
13 statements are due fairly soon. And Dennis has said he
14 will get those. I don't think we've got a date, but I
15 think it is important for us to get those as quickly as
16 possible, as well as I think the December statements are
17 going to be incredibly telling. And so if we could get
18 a schedule for when the December statements are done.
19 But all in all, in terms of the audit, a good
20 job to both the auditors and staff.
21 That would be my report.
22 CHAIR CAREY: Thank you.
23 Questions or comments from -- do you have
24 anything to add, Elliott?
25 MR. MANDELL: No, I think that Ms. Galante did

1 a very fine job in encapsulating in the report the
2 actions taken this morning.
3 CHAIR CAREY: Great.
4 Okay, we will move on --
5 MS. PARKER: Mr. Chairman, can I just ask one
6 thing?
7 I'm not sure if it's in everybody's book.
8 Would you turn to page 211, which should be after -- at
9 least in my book, it's Tab 6.
10 And, Tom, could you remind me why this is in
11 there?
12 MR. HUGHES: At the last Board meeting, when
13 the Board considered the revised final commitment, there
14 was a requirement that the staff come back for the next
15 two meetings to report our progress or the status. And
16 this is the first such report.
17 MS. PARKER: And we continue to work on that
18 project. It's obviously difficult. At this point in
19 time, there's issues with the tax-credit investor,
20 there's issues on our ability to sell bonds. We had a
21 conference call last Friday; we're having another one
22 this week, on Friday. So this continues to be a
23 difficult project to try to deal with. It is in our
24 portfolio, though, so it's not like we think that somehow
25 this is going to become market and everybody kicked out.

1 But we will keep you apprised of that.

2 MS. JAVITS: Great. Thank you.

3 --o0o--

4 **Item 9. Reports**

5 CHAIR CAREY: *Reports*. We've covered most of

6 the information.

7 Is there anything to be added from the reports?

8 MS. PARKER: No.

9 CHAIR CAREY: Great.

10 MS. PARKER: I think we've reported everything.

11 MS. GALANTE: We couldn't possibly absorb any

12 more.

13 CHAIR CAREY: Yes, really.

14 **--o0o--**

15 **Item 10. Discussion of Other Board Matters**

16 CHAIR CAREY: *Other Board Matters*?

17 *(Ms. Peters left the hearing room for the day.)*

18 MS. PARKER: Mr. Chair, page 2 of the agenda

19 talks about the future meetings. The next one it shows

20 is a date of January 22nd in Millbrae. I believe we've

21 sent out notice that JoJo has contacted all of your

22 offices and has proposed a meeting date of December 12th,

23 at 1:00 p.m. in the afternoon. Based on the survey of

24 all of you, that was the best chance we had to get a

25 quorum to come to the meeting.

1 There are at least one, if not two items that
2 we know that we would like to have your -- we need your
3 approval on. One of them is an I.T. project that we have
4 been working on and reporting through, it's been in our
5 budget, you know, for many years.
6 But we also thought that given that these
7 meetings have been very beneficial, and right after that
8 period of time, we will have gone and talked to the
9 rating agencies, we will have completed another set of
10 meetings in Washington, we will know where we will be on
11 the potential sale of loans, that we thought it would be
12 a good time to come back -- it's my last day -- and give
13 you one more report.
14 CHAIR CAREY: Carla?
15 MS. JAVITS: There was an article in the
16 Los Angeles Times last week that I thought was, as a
17 Board member, inflammatory and highly inaccurate in terms
18 of actions that this Board has taken. And I would like
19 to respond as a Board member in some way to that. I
20 would welcome anyone else on the Board, at this time or
21 any other time after this meeting, who would like to
22 also respond. But as a member of this Board, I would
23 like to respond. And I'm not certain yet if that will
24 take the form of a letter to the editor or an attempt to
25 write an op-ed piece. But I think that we really – as

1 a Board member, I feel a responsibility to correct the
2 record.
3 The statements made kind of harken back to a
4 lot of conversation we had here, and findings from an
5 extensive audit, that there was absolutely nothing that
6 had been done that was inappropriate. And I just feel,
7 as a Board member, that I want to provide some kind of
8 response to that.
9 MS. GALANTE: I couldn't agree more, as someone
10 who was part of the audit investigation of all those
11 various claims, you know, to see that article was just
12 more than disappointing. Clearly, no one read the record
13 when they developed that article.
14 So I don't know whether -- maybe it's a
15 question for Tom, whether we just respond to that as
16 individual Board members or whether we can respond in
17 some more formal fashion.
18 Is there any prohibition against the Board --
19 MR. HUGHES: No. I think that you phrased the
20 question correctly, that the Board members could decide
21 as individuals to respond or the Board as a group or as
22 an entity could so decide if they chose. It's up to each
23 member and to the Board.
24 MS. JAVITS: So I guess I'm going to make an
25 attempt to respond, myself, within the next week. And

1 if anyone would like to participate in that response,
2 I would welcome that; and if not, I will certainly
3 indicate that I am a member of this Board in my response.
4 CHAIR CAREY: I'd certainly like to
5 participate.
6 As someone who spoke to the reporter who wrote
7 that story, I was very frustrated. He misrepresented the
8 current situation, he misrepresented the Board's actions,
9 he misrepresented the goals of the Board and was clearly,
10 in my conversations, looking for something. And I just
11 think it's irresponsible, and to suggest that it's
12 journalism is an overstatement.
13 I wanted to mention one more thing. The Board
14 Search Committee and then the Board met yesterday to
15 conclude the search process in advisory process to the
16 Governor's office. And just because I need to say this
17 to myself, and I'd like to say it for the Board -- both
18 the Search Committee process and then the Board meeting
19 yesterday was, of course, a closed-session meeting as
20 provided under the law, which means that everything in
21 that meeting was confidential, and not just as a
22 responsibility as a board, but also our responsibility
23 in our commitment to the Governor's office regarding
24 confidentiality. So I'm just reminding myself and all of
25 us that that was the result yesterday.

1 **Item 11. Public Testimony**

2 CHAIR CAREY: With that, we would open the

3 meeting to *Public Testimony*, if there's anyone in the

4 public who wishes to bring a matter to the Board's

5 attention?

6 *(No response)*

7 CHAIR CAREY: Seeing none, we will adjourn.

8 *(The meeting concluded at 12:50 p.m.)*

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REPORTER'S CERTIFICATE

I hereby certify:

That the foregoing proceedings were duly reported by me at the time and place herein specified;

That the proceedings were reported by me, a duly certified shorthand reporter and a disinterested person, and was thereafter transcribed into typewriting, through computer-aided transcription.

IN WITNESS WHEREOF, I have hereunto set my hand on the 18th day of November 2008.

_____
DANIEL P. FELDHAUS
California CSR #6949
Registered Diplomate Reporter
Certified Realtime Reporter

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STATE OF CALIFORNIA

CALIFORNIA HOUSING FINANCE AGENCY

BOARD OF DIRECTORS

PUBLIC MEETING

Holiday Inn Capitol Plaza
Hermosa Room
300 J Street
Sacramento, California

Friday, December 12, 2008
1:28 p.m. to 3:30 p.m.

Reported by: DANIEL P. FELDHAUS, CSR #6949, RDR, CRR

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A P P E A R A N C E S

Board of Directors Present

PETER N. CAREY
(Interim CalHFA Board Chair)
President/CEO
Self-Help Enterprises

LORI R. GAY
President/CEO
Los Angeles Neighborhood Housing Services, Incorporated

CARLA I. JAVITS
President
REDF
(formerly Roberts Enterprise Development Fund)

LYNN L. JACOBS
Director
Department of Housing and Community Development
State of California

WILLIAM J. PAVAO
for State Treasurer BILL LOCKYER
State of California

HEATHER PETERS
for DALE E. BONNER, Secretary
Business, Transportation. and Housing Agency
State of California

RUBEN A. SMITH
Partner
Adorno & Yoss

BROOKS TAYLOR
for CYNTHIA BRYANT, Director
Office of Planning and Research
State of California

--o0o--

A P P E A R A N C E S
Continued

Participating CalHFA Staff:

KENNETH H. GIEBEL
Director
Marketing Division

BRUCE D. GILBERTSON
Director
Financing Division

MICHAEL S. HOWLAND
Chief Information Officer

TIMOTHY HSU
Financing Risk Manager
Financing Division

THOMAS C. HUGHES
General Counsel

CHARLES K. McMANUS
Director
Mortgage Insurance Services

JOJO OJIMA
Office of the General Counsel

L. STEVEN SPEARS
Chief Deputy Director

--o0o--

Public Testimony

JEANNE LE DUC

--o0o--

Table of Contents

Item **Page**

1. Roll Call 6

2. Approval of the minutes of the December 12, 2008, Board of Directors meetings 7
   Motion 7
   Vote 8
   (Note: One abstention, no quorum. This item will be held over to the January 2009 meeting)

3. Chairman/Executive Director comments 9

4. Report, discussion, and possible action regarding the Agency's financing and program strategies and implementation, in light of financial marketplace disruptions 15

5. Discussion, recommendation, and possible action to delegate day-to-day operating authority to the Deputy Director on an interim basis 67
   Motion 70
   Vote 70

6. Discussion, recommendation, and possible action regarding approval to negotiate and enter into a contract for fiscal system replatforming services 71
   Motion 77
   Vote 77

7. Report, discussion, and possible action regarding the approval of sales of mortgage loans 79

Table of Contents

continued

Item **Page**

8. Reports 91

9. Discussion of other Board matters 91

10. Resolution recognizing Executive Director Terri Parker 94

11. Public testimony - Jeanne Le Duc 92

Adjournment 100

Reporter's Certificate 101

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BE IT REMEMBERED that on Friday, December 12, 2008, commencing at the hour of 1:28 p.m., at Holiday Inn Capitol Plaza, Hermosa Room, 300 J Street, Sacramento, California, before me, DANIEL P. FELDHAUS, CSR #6949, RDR and CRR, the following proceedings were held:

--oOo--

CHAIR CAREY: Thank you for your patience in waiting for it to get going.

This is the December 12th special meeting of the Board of Directors of the California Housing Finance Agency.

And the first item of business is *Roll Call*.

MS. OJIMA: Thank you.

--oOo--

Item 1. Roll Call

MS. OJIMA: Ms. Peters for Mr. Bonner?

MS. PETERS: Here.

MS. OJIMA: Ms. Galante?

(No response)

MS. OJIMA: Ms. Gay?

MS. GAY: Here.

MS. OJIMA: Thank you.

Ms. Jacobs?

MS. JACOBS: Here.

MS. OJIMA: Ms. Javits?

(No response)

MS. OJIMA: Mr. Pavao for Mr. Lockyer?

MR. PAVAO: Here.

MS. OJIMA: Mr. Shine?

(No response)

MS. OJIMA: Mr. Smith?

MR. SMITH: Here.

MS. OJIMA: Mr. Taylor for Ms. Bryant?

MR. TAYLOR: Here.

MS. OJIMA: Mr. Genest?

(No response)

MS. OJIMA: Ms. Parker?

MS. PARKER: Here.

MS. OJIMA: Mr. Carey?

CHAIR CAREY: Here.

MS. OJIMA: We have a quorum.

CHAIR CAREY: Great.

--o0o--

Item 2. Approval of the Minutes of the November 13, 2008, Board of Directors Meeting

CHAIR CAREY: The next item of business is approval of minutes of November 13th.

MR. PAVAO: Move approval.

MS. GAY: Second.

CHAIR CAREY: Moved and seconded.

Any further discussion?

(No response)

CHAIR CAREY: Roll call.

MS. OJIMA: Thank you.

Ms. Peters?

MS. PETERS: Yes.

MS. OJIMA: Ms. Gay?

MS. GAY: Yes.

MS. OJIMA: Ms. Jacobs?

MS. JACOBS: Abstain.

MS. OJIMA: Thank you.

Mr. Pavao?

MR. PAVAO: Yes.

MS. OJIMA: Mr. Smith?

MR. SMITH: I wasn't here, but yes.

MS. OJIMA: Thank you.

Mr. Carey?

CHAIR CAREY: Yes.

MS. OJIMA: We have a quorum.

MR. HUGHES: Wait a minute. We don't.

MS. PARKER: We do not.

MR. HUGHES: That's only five votes.

MS. OJIMA: But you said that --

MS. PARKER: No.

MS. OJIMA: You don't want to --

MS. PARKER: We have to have six votes to conduct -- everyone, today, just so you're all aware, we need everybody to vote. So if you can't be comfortable with it --

MS. OJIMA: Then we don't have a quorum.

MS. PARKER: We have a quorum, but all six have to vote. So from the standpoint that Ms. Jacobs prefers not to, then it's just to hold this over to the next Board meeting and have the minutes approved at that point in time.

--o0o--

Item 3. Chairman/Executive Director Comments

CHAIR CAREY: Okay. With that, we have a few things.

I think that perhaps there are two things today. I want to mention before we even start, that this is Terri Parker's last meeting with us as executive director and Board member. And we'll have some opportunity to talk about that later, but it is a moment of transition for this agency.

And in keeping with that transition, I'd like to recognize the fact that we have a brand-new Board member, Ruben Smith.

We are thrilled to have you join us. And we welcome you to the Board.

1 MR. SMITH: Thank you. I'm glad to be here.
2 CHAIR CAREY: And with that, I'm going to turn
3 it over to the executive director.
4 MS. PARKER: Thank you, Mr. Chairman.
5 I think when we all met in November, we thought
6 it was going to be my last Board meeting. And, you know,
7 it's like a bad penny. She just keeps showing up. So
8 thank you.
9 I just wanted to make a couple of comments.
10 As you all are aware, the Board has been
11 meeting significantly more often since the activities of
12 September on Wall Street, the changes with Lehman, the
13 Bank of America, Merrill Lynch, AIG -- all these
14 different financial institutions that we've been reading
15 about in the Wall Street Journal and the financial
16 papers.
17 But also, perhaps as equally, if not more
18 important, part of the reason why the Agency has been
19 meeting so regularly with the Board is given the letter
20 that we received from Moody's Financial Services on
21 September 29th, wherein Moody's sent us an opinion letter
22 that they were putting us on watch for a possible
23 downgrade of our AA rating. And to the extent that that
24 downgrade were to occur, the concern that we, as staff,
25 have had is whether or not we would meet the criteria to

be able in the future to sell debt even in this market and continue to essentially do the business and serve the mission of the Agency.

I want to report that following that concern, Bruce, Steve, and I went to New York last week to have one more meeting with Moody's before I left. I wanted to make sure that we convey to Moody's that the Board was well in hand with the issues that the Agency was facing, and could demonstrate that by the number of meetings that we've had, and the actions that the staff and the Board have taken to date. Many of those we will refresh and give you some information on what else we've accomplished since our last meeting.

We also talked with Moody's about the plans for this meeting, for the Board to take action, so that there was a seamless transition with me leaving, and for them, in that sense, to not have any concern about the management of the organization and the commitment to preserve the franchise.

So we really spent our time going through the presentation. We're going to take you through some of that today because it is the most current information on where we are at.

We tried to address, as Bruce will tell you, those three outstanding issues that Moody's wrote to us

in our letter: The fact that they are concerned about the real estate market in California; they were concerned about our delinquencies and our obligations for our Mortgage Insurance program; and then they were concerned about the transaction that we've been working on for several years, better known as the "Bay Area Housing Plan."

So we will talk you through today and touch on those three areas. But we did have a very good meeting. I believe it's probably unlikely, although the 90-day clock started on the 29th of September, wherein they essentially would take some action to either affirm our prior rating, continue to keep us on watch, or officially change our rating to downgrade us.

I think it was our sense in leaving the meeting that because of other analysis that they are dealing with on financial institutions that relate with us, particularly some mortgage insurance companies, that they may not be prepared to make a definitive rating announcement one way or the other within the 90 days.

We will hear something from them, and that should be just before the end of the year. But it's not likely that we will hear something because of the other work that they are doing. So in that sense, we're just doing as much as we can do.

The other work that I've done most recently, I was in Washington on Monday and Tuesday. The housing finance agencies, because of what has been occurring, asked to meet as a group. So we had our national association put a meeting together. Over almost 35 executive directors around the country met. We had excellent meetings to talk about what is happening on Wall Street, what is happening in Washington, and what is happening for individual HFAs and their states.

There are many HFAs that have essentially stopped doing any lending programs because they don't have access to capital. There's probably, among all the HFAs, over $3 billion worth of bank bonds that have been put back.

Everyone is facing the same issues of lack of access to liquidity; and yet there continues to be more and more concern of what is happening, by Treasury and some of the Administration and Transition Team Administration, interest in trying to do something around housing because they realize it is such a pivotal factor in turning the economy around.

We had meetings with Fannie and Freddie. I think it is kind of unfortunate to say this, particularly with Fannie who we've tried to work very hard with, they are in so much disarray, that I'm not sure they're having

1 difficulty taking care of themselves.
2 We met with the conservator, Mr. DeMarco, who
3 is number two to Mr. Lockhart, to talk with them about
4 their perspectives from the conservatorship on the use of
5 the GSEs, both Fannie, Freddie, and the Federal Home Loan
6 Bank. And we certainly see opportunity for there to be
7 further discussions between the conservator and the HFAs
8 in the future.
9 There was also a meeting late in the afternoon
10 with the Transition Team for the new president. Two
11 individuals have been named as far as the Transition
12 Team.
13 Bruce Katz, one, from the Brookings
14 Institute -- very knowledgeable -- worked in HUD under
15 the Clinton Administration.
16 And Roberta Achtenberg from San Francisco, who
17 also worked with HUD, and has served on the Federal Home
18 Loan Bank, San Francisco Federal Home Loan Bank.
19 So we think that they are considering good
20 people in transition, people from the Treasury that were
21 also there, people who were California -- steeped in
22 California real estate. And I think they were very open
23 to what the HFAs had to say as far as the ability of the
24 role that we could play in the administration to help
25 with the housing problem.

1 So the next day, on Tuesday, we met with the
2 staff counsels for both committees, where Mr. Engle is
3 the chair and Mr. Frank is the chair, and talked about
4 what changes might be possible in an upcoming stimulus
5 bill. They're very interested in having some kind of a
6 bill put together that might be available for the new
7 president to sign as soon as he takes his oath of office.
8 So I think there is a lot of activity
9 happening. And I think it just a matter to tell you all
10 that every day is a new dynamic day; and fortunately, as
11 you will see today with the presentation by the staff, I
12 think we continue to be as on top of everything that we
13 possibly can, and trying to position ourselves for any
14 possible activity that may be beneficial to either
15 preserving the franchise and/or assuring that there is a
16 business model for the Agency in the future mortgage
17 market.
18 So with that, Mr. Chairman, I think I would
19 conclude my remarks.
20 CHAIR CAREY: Thank you, Terri.
21 --o0o—
22 **Item 4. Report, discussion, and possible action**
23 **regarding the Agency's financing and program**
24 **strategies and implementation, in light of**
25 **financial marketplace disruptions**

1 CHAIR CAREY: With that, we'll move on to a
2 report about the current financing environment.
3 And Terri, Bruce, and Tim.
4 MR. GILBERTSON: Thank you, Mr. Chairman.
5 As Terri mentioned, this is going to be kind of
6 a recap status report of all of the activities the Agency
7 has undertaken in the last 60 to 75 days, centered around
8 the three things that had appeared within the Moody's
9 letter from late September.
10 I think to the extent that there's questions
11 and you want to interrupt, please ask during the course
12 of the presentation.
13 We'll start off with just a quick update on the
14 municipal capital markets. We didn't put a lot of
15 information on this slide. Things have not really
16 changed that much. There is still limited access.
17 Certain issuers, certain housing finance agencies are
18 entering the market and selling bonds now every week.
19 Typically, they're supported by retail
20 investors, not institutional investors. And the size of
21 the deals typically are structured based off of that
22 retail bond-investor demand.
23 Rates are not all that attractive, considering
24 that these are fully tax-exempt to any individual or
25 corporation for both federal, state taxation, and state

1 taxation for those issuers.
2 And rates typically are in the 6.25 to 6.50
3 range on the long end. So from there, you would work and
4 derive a cost of funds.
5 More specifically, to the CalHFA program. I
6 have a couple of bullets here on recent short-term
7 interest rates.
8 Over the last week, you can see that for our
9 VRDOs that are subject to the alternative minimum tax,
10 they range between 0.6 and 7.3 percent. Certainly the
11 average is 2.4, but it's still higher than what we would
12 like it to be. We'd like it to track on top of the SIFMA
13 index, which over the last week is 1 percent.
14 You also see similar numbers for the last full
15 month, 2.5 versus 1.3, kind of staying in the same,
16 general relationship.
17 A lot of concern about liquidity, credit
18 concerns in the marketplace.
19 You know, our bank bond total as of today is
20 actually $567 million.
21 Just to circle back, the three items in the
22 Moody's letter, I actually -- part of this is right out
23 of their letter. But the date of the letter is
24 September 29th, and centers around the real-estate risk
25 in California, devaluation of homes and what is that

1 going to do to the asset side of our balance sheet, what
2 are the challenges we face as it relates to the primary
3 mortgage insurance that our Mortgage Insurance Fund
4 writes, and the solvency of Genworth, even, who is the
5 reinsurer on that.
6 Credit Market and counterparty challenge, this
7 is kind of a discussion centered around the variable-rate
8 aspects of our debt program and the counterparties that
9 we have with interest-rate swap counterparties, liquidity
10 banks, and the like.
11 And then thirdly, the Bay Area Housing Plan.
12 Just to recap, many of you were at the Board
13 meeting on September 22nd. We suspended an awful lot of
14 programs. We felt that it was important for us to focus
15 on a single program, 30-year fixed-rate loans. So we
16 suspended the 35-year interest-only PLUS℠ program, the
17 40-year fixed-rate mortgage, the HomeChoice Program,
18 the Self-Help Builder Assistance Program. We suspended
19 down-payment assistance programs that were financed with
20 the Agency's equity: Specifically, High-Cost-Area
21 Home-Purchase Assistance and the CalHFA Housing
22 Assistance Program. And we also suspended
23 builder/developer new construction for commitments,
24 limiting ourselves to a single product.
25 MS. PARKER: But, again, just to refresh for

1 Board members, we have gone back since that date, though,
2 and taken care of two exceptional situations. Those
3 are some loans that were caught up in the HomeChoice
4 Program, where we did essentially allow them to submit
5 those loans that were caught up. We don't have the data
6 yet to report back to you how many of those have actually
7 closed; but we did allow all of those ones that were
8 caught to be able to apply for consideration.
9 And as you're aware from the activities that
10 we had at our last Board meeting last month, we've also
11 been working with the Self-Help developers for a number
12 of projects, a very limited amount, that were caught in
13 the window where we closed the door on projects that
14 were under development, where the sweat-equity families
15 are caught in a situation of needing to get financing to
16 be able to close their loans that they had actually
17 already started.
18 So those two exceptions have and are occurring.
19 And I would presume that over the spring, as these
20 projects come to fruition, that the staff report back to
21 you on actually what of those exceptions were taken
22 advantage of.
23 CHAIR CAREY: Terri, I'd just like to mention
24 that on the Self-Help program, I'd like to recognize that
25 the Department of HCD stepped in, too, and it became a

1 real partnership that was sort of the best of what
2 happens in state government.
3 MR. GILBERTSON: Very true.
4 Some additional things that we had to work on
5 related to the single-family programs were a growing
6 number of owned properties, REOs, that were coming back
7 because of foreclosure.
8 In November, we did a couple things surrounding
9 that. We established the CSHLP program back in the
10 summer months because of the market disruption and lack
11 of liquidity in the marketplace where we could have a
12 standby loan purchase agreement, provided we had to
13 reduce the size of that program, actually, from its
14 original design of $200 million to $25 million.
15 We also had established a SMART Loan Program,
16 which is a loan program to finance or provide financing
17 to first-time home buyers for them to buy CalHFA-owned
18 REOs. We made that program look a lot more like the
19 CSHLP program.
20 In addition, we reallocated sources internally.
21 This is the human capital of CalHFA so we could focus
22 more on loss-mitigation and the REO-disposition programs
23 that were underway.
24 Reorganization, some of these activities went
25 under the direction of Chuck McManus, who was analyzing

1 risk on the front end through the underwriting process
2 involved in the Mortgage Insurance, increased the
3 staffing for Chuck's new organization, tried to establish
4 early borrower intervention. Talking to borrowers, where
5 we were servicing their loans directly, earlier on in the
6 process as they stopped making payments.
7 And then we're aggressively trying to market
8 the REO markets that we have in portfolio.
9 On the Multifamily side, again, it was at a
10 Board meeting we had in Los Angeles on September 18th,
11 and we had to deal with eight to ten loan commitments
12 that were in front of the Board on that day.
13 Unfortunately, we had to kind of give those
14 borrowers at that time a soft commitment. Ultimately,
15 that led to kind of suspension of our issuance activity.
16 The good news, if there is good news from that
17 time frame, is that the volume cap that had already been
18 awarded to the Agency for those projects was reawarded
19 by the California Debt Limit Allocation Committee at
20 their meeting on December 3rd. And we now have 120 days
21 to try to enter the capital markets and provide a
22 financing for those projects.
23 At the same time, we're thinking about conduit
24 financing programs that might be able to -- where we play
25 just the issuer role, and let another lender come in and

1 actually provide the lending activity for that subset of
2 projects.
3 I don't know if I'm very successful in
4 competing with our neighbors next door.
5 MS. GAY: We have to sing.
6 MR. GILBERTSON: Is their material more
7 interesting than ours?
8 So where does that leave us today as far as the
9 current program, the lending platform that we're
10 offering?
11 Single-family program, limited to 30-year
12 fixed-rate loan. We're offering up to 95 percent
13 loan-to-value, probably more than other conventionally
14 insured loans are being offered at these days in
15 California.
16 FHA, of course, to the extent we can, we're
17 offering 97 percent loan-to-value. Current interest rate
18 is an unattractive 7.125 percent. But I'd remind you,
19 we're still getting a few loans every day, two or three
20 loan reservations.
21 We believe we can become more aggressive once
22 we have our FLOW program up and running, where we'll be
23 selling whole loans directly to Fannie Mae.
24 The date shown on here is actually the 14th.
25 It's probably slipped. We had some further meetings this

1 week. We're looking closer to the first of the year, to
2 have a program where all the reservations that come
3 through will go directly to the Fannie Mae window. We'll
4 sell the loans for cash.
5 We mentioned earlier the Expanded Mortgage Risk
6 Management Division to concentrate on loss mitigation and
7 foreclosure prevention.
8 In the Multifamily lending area, we've
9 developed program ability to become -- or developing the
10 program capability to become a Fannie Mae-approved HFA
11 lender. So we'll be an approved seller-servicer in the
12 multifamily space with Fannie Mae, and working on conduit
13 issuance programs.
14 Just a heads-up for the January meeting, I
15 think our plans today are that we'll present to the Board
16 for adoption a couple of forms of bond indentures that we
17 can use to become a conduit issuer. And those basically
18 take two forms. One will be kind of the GSE model, where
19 we'll be using a credit enhancement through Fannie Mae or
20 Freddie Mac; and the other bond-indenture option will be
21 kind of like a bank loan, where the bank is really making
22 the loan. We're simply issuing bonds. The collateral
23 for the bonds is the bank loan.
24 So more on that in January.
25 MS. PARKER: One other thing I wanted to

1 mention.
2 We talked about a little bit different --
3 JoJo, did you go ask them?
4 MS. OJIMA: Yes, I did.
5 MS. PARKER: Thank you.
6 As far as, our current programs, I just want to
7 also make the committee aware that the Treasurer's office
8 took action the week before last on allocation of the
9 2008 additional cap that was provided in the stimulus
10 legislation last summer. And the Housing Finance Agency
11 was awarded virtually all of the cap, that portion of the
12 $1.44 billion of cap that was not allocated by the
13 Treasurer's office for multifamily. So it exceeds
14 $800 million.
15 There is a slide later on at the very end that
16 talks about how the Agency right now has almost
17 $1.6 billion worth of private activity bond.
18 So I was remarking to staff the other day, I
19 think it was within the last year or so, my staff said to
20 me, "Terri, you've got to get more bond cap. We need
21 more cap. Get cap."
22 So I just want to let you know that in leaving,
23 I have fulfilled that responsibility. We now have more
24 cap than we have had available to us for quite some time.
25 So we're poised for greatness. And, obviously, we need

the market to come back so we can utilize it.

MR. GILBERTSON: Kind of the second category then or the second topic embedded in the Moody's letter is these credit market and counterparty challenges. One of the ones we talked about in the last two months are these bank bonds. This is a chart that shows you how we received these bank bonds beginning in the middle of September. They peaked at almost $1.2 billion and had a low spot last week of about $530 million. This week, there's been a little bit of additional activity. And so we have $560 million of bank bonds at this point.

We thought it's important because there is really two categories of these that we're thinking about.

One category are the bank bonds that are derived from the liquidity provided by the two European banks, DEPFA and Dexia.

This particular slide shows the bank bonds that we have that don't have liquidity provided by those two banks, DEPFA and Dexia. It's less than $200 million. We think that those are a big part of the tactical solutions we're going to talk more about as we roll those out over the coming months.

The other piece, though -- okay, we did just show the one slide, I'm sorry.

So in total, we have the $567 million. I'll

1 point out here the top two lines in red show the amount
2 of bank bonds that we have as a result of the Dexia and
3 the DEPFA liquidity agreements.
4 Mr. Pavao?
5 MR. PAVAO: So the purpose for teasing those
6 out of the display is what?
7 MR. GILBERTSON: Well, our belief is that the
8 Dexia and DEPFA liquidity banks are not going to be bonds
9 that will ever perform very well. We need to
10 aggressively deal with those. And probably work
11 towards -- more towards redemption rather than other kind
12 of tactical solutions.
13 The other names you see on here, we have a lot
14 of other tools that we're trying to roll out, such as
15 stripping the underlying bond insurance. Because some
16 of these are still impaired because they have bond
17 insurance attached.
18 MS. PARKER: And Mr. Pavao, I think, your
19 colleague in the Treasurer's office, in public finance,
20 we've had this chat before, that the State of California
21 also invested in Dexia and DEPFA. And so it is on your
22 watch list in the Treasurer's office.
23 So they have kind of been -- become synonymous
24 out there in the marketplace with sort of the "*toxic*
25 *portfolio.*"

1 MR. PAVAO: Okay, thanks.
2 MR. GILBERTSON: One of the other aspects of
3 counterparty risks are the interest-rate swaps that this
4 Agency has entered into.
5 This is a chart updated through November 30th.
6 The real point in all of this is to show you that at an
7 earlier Board meeting we presented a similar side. We
8 showed you we had Lehman Brothers swap counterparty
9 exposure. It was, in the aggregate, about $480 million
10 of swap notional. We have terminated all of those Lehman
11 Brothers swaps at this point, and we've replaced them
12 with two entities. A new entity is Deutsche Bank.
13 You'll see that the total swap notional is $286 million;
14 and the other swaps that were replaced as a part of the
15 termination activity went to Goldman Sachs.
16 A little more on that in some bullets coming up
17 later in the presentation.
18 So we thought we'd go back and summarize. And,
19 again, a lot of this presentation was prepared for
20 purposes of our meeting with Moody's last week. You
21 know, what are the actions that we've already taken to
22 deal with some of the credit-market challenges we face.
23 Decided to go all the way back, even January, we were
24 talking to the Board about doing more fixed-rate debt
25 issuance than we had done in the recent years.

1 In March, we had to deal with failed
2 auction-rate securities. We had to convert those or
3 redeem those.
4 In May, we were dealing with the bond insurers
5 that were totally upside-down. And that was a
6 two-pronged approach. We were modifying the underlying
7 liquidity agreements that we had; and we were also
8 starting to strip some bond insurance, to reintroduce
9 bonds, the same bonds, in the same amount, but without
10 the drag of this credit enhancement that we had bought
11 years ago.
12 In September, we had to deal with AIG. AIG had
13 real troubles. Credit ratings were downgraded. We had
14 investment contracts with them. We terminated all of
15 those so that we wouldn't get caught up in any potential
16 bankruptcy proceedings.
17 October, we did the same with DEPFA. Took all
18 of the money out of those contracts and effectively
19 invested them, for now, in the State Surplus Money
20 Investment Fund.
21 Also in October then, we spent a lot of time,
22 as we were recovering from the news of September, to
23 accelerate as quickly as we could some bond-redemption
24 activity. We issued notices on $126 million of Agency
25 General Obligation bonds, largely in the Multifamily

1 Program.
2 The amount of money that was used for the
3 redemption actually stemmed from loan prepayments. The
4 permanent loan conversions were to go from a construction
5 loan in the Multifamily Program to a permanent loan, and
6 some excess revenues. All of that effectively to deal
7 with $26 million worth of auction-rate securities and
8 another almost $100 million of VRDOs, $48 million of
9 which were bank bonds at that time.
10 There were more things that we were working on.
11 In October, we had to deal with -- Lehman Brothers was a
12 remarketing agent for the Agency. We had to deal with
13 the remarketing agent responsibilities attached to VRDOs.
14 We moved all of their bonds, as well as others, and
15 rearranged the responsibilities of the remarketing agents
16 to the tune of a billion dollars of bonds. We reassigned
17 the work to somebody else.
18 In November, we had to deal with the swaps that
19 we just talked about with Lehman Brothers. So that was
20 a total of $482 million. We terminated them all. We
21 were forced to make a termination payment equal to
22 $42 million. Even though they were kind of the
23 defaulting party, the contracts read that there's a
24 market value of these contracts. But at the same time,
25 we replaced them with swaps, where we had counterparties

1 willing to make a payment to us, to offset the
2 $42 million.
3 Goldman Sachs was awarded $53 million worth
4 of swap contracts; and they made a payment to us of
5 $2 million.
6 Deutsche Bank was awarded $286 million worth of
7 swap notional, and we received a payment from Deutsche
8 Bank of almost $27 million.
9 We've been working hard on the analytical parts
10 behind the scenes, and updated the consolidated cash
11 flows for our two large indentures, the Home Mortgage
12 Revenue Bond, Multifamily Housing Revenue Bonds III, and
13 then submitted those to Moody's because this is a part of
14 what Moody's needed to see to fully analyze the credits.
15 And then as you recall in November, we
16 presented to the Board and received your authorization
17 to purchase agency bonds using our short-term credit
18 facilities or agency cash. And we've already utilized
19 that authority.
20 The things that we've also had action taken
21 partially, I guess would be a fair way to say this, we
22 had a plan to deleverage a balance sheet by selling loans
23 back to someone. So we thought the primary candidates
24 would be Fannie Mae and Freddie Mac. We created two data
25 tapes: One of single-family loans and the other of

1 multifamily loans.
2 The single-family tape had more than 13,000
3 loans, with an outstanding loan balance of $2 billion.
4 And the multifamily tape consisted of 70 properties, with
5 loan balances of about $280 million.
6 The tapes have been delivered to the two GSEs.
7 We've had some conversations with them around the loans
8 that they're interested in buying. At this point, we
9 are a little underwhelmed with their willingness to
10 participate; but I think these discussions are ongoing.
11 I'm going to defer, because we have another
12 Board item to talk about authority to sell loans. We'll
13 talk about the rest of it at that time.
14 We also hope to share with Countrywide, a
15 component of Bank of America, perhaps some other loans
16 that Fannie Mae was not willing to look at. These are
17 the FHA-insured single-family loans within our portfolio.
18 So I've said a lot. I'm going to turn it over
19 to Tim, and he's going to walk through some of the
20 remaining tactical and strategic plans that we're working
21 on specifically related to our debt portfolio.
22 MR. HSU: At the last Board meeting, I think
23 that we had a lot of very detailed, hard-to-see charts
24 to show the Board members about some of the plans that
25 we have. And I think throughout the presentation so far,

1 we also talked a lot about various things that we have
2 been doing.
3 I thought it would be instructive to step back
4 a little bit and sort of categorize at a high level all
5 these little things that we're doing: What bucket they
6 fall into.
7 And, generally speaking, they fall into two
8 kinds of buckets. For convenience, we'll be calling them
9 "tactical plans." And these tactical plans are,
10 generally speaking, trying to get us back -- get our cost
11 of funds back to where we had originally expected them
12 to be. So we talked about us going through an exercise
13 of stripping the bond insurance. We talked about
14 transferring the remarketing agents from Lehman Brothers
15 to, let's say, someone else who is doing a better job of
16 that. We talked about at some point, too, switching some
17 of these variable-rate demand obligation bonds from
18 weekly mode to daily mode, because daily mode is a little
19 bit more receptive by investors these days because that
20 means that they can get out of the bonds faster. We
21 talked about converting the auction-rate securities into
22 VRDOs.
23 All those activities, a lot of which were done
24 and some of which is undergoing, fall under this sort of
25 tactical method in the sense that we're not trying to do

1 something completely different. All we're trying to do
2 is change some aspect of financing, such that our cost of
3 funds can go lower than it is now or go back to what we
4 originally expected.
5 And there's another kind of bucket that falls
6 into, is what we referred to as the "strategic plans."
7 And those are the plans in which we also talked about a
8 lot of selling loans. And I think in the last
9 presentation, we tried to make a case of why selling
10 loans is necessary because we just don't have the kind
11 of cash and liquidity to simply take out all these DEPFA
12 bonds and take out all these Dexia bonds.
13 And, generally speaking, the strategic plans
14 have to do with deleveraging, which is a word I hear a
15 lot. And also, to a large extent, they are also reducing
16 our dependence on external credit supports, meaning that
17 some of these transactions are only functioning because
18 the credit support -- banks, in many cases -- are
19 healthy. And if they're not healthy, then these
20 transactions don't work as they had expected.
21 So in that bucket of strategic plans, we're
22 talking about the sale of the loans, we're talking about
23 using some of our cash to redeem the bonds that are not
24 doing well, we're talking about refunding these
25 variable-rate bonds into fixed-rate bonds.

1 And one of the things that we have noticed is
2 that while it is true that our bank-bond position has
3 been declining dramatically over the last couple weeks,
4 that is obviously a positive development. But what has
5 sort of gotten a little bit worse, is the banks' appetite
6 to renew some of these standby purchase agreements on
7 liquidity over the next six months or so. So in that
8 light, we might be thinking more strategically that these
9 variable-rate financings need to be somewhat overhauled,
10 in the sense that we need to turn these variable-rate
11 financings into fixed-rate financings. And that would,
12 too, fall into this bucket of strategic planning because
13 we're not trying to achieve what we expected, but we're
14 just going to a completely different kind of financing.
15 On page 17, this is a tabular form that I think
16 I had presented in the past to the Board, because there
17 was a lot of talk about what is our association, what is
18 our dependence on some of these insurers.
19 So this chart here shows you that we still have
20 some bonds that are associated with a lot of monoline
21 insurers, but there are various plans that we have talked
22 about in the last Board meeting of us stripping the
23 insurance or of various plans that we have that falls
24 into these tactical or strategic buckets.
25 And this is also the tally, of course, of all

1 the bonds that we have. So while it is true that we have
2 these very colorful numbers on here which are meant to
3 sort of denote that there are some issues with them, you
4 could also see that the numbers that we have in green
5 and in black are much larger than some of these
6 underperforming bonds.
7 On page 18, this, again, is a presentation of
8 the layer-cake analogy that I've used in the past, in
9 which I'm showing and highlighting some of the troubled
10 bonds, so we can see that we still have an overwhelming
11 dollar amount of bonds that are doing okay. But we do
12 have these issues to deal with. And these issues, again,
13 as we pointed out at our last Board meeting, are greater
14 than some of the cash means that we have to deal with.
15 And I think that in addition to pointing out
16 that we have really two buckets of strategies that's
17 happening -- one is tactical, which is trying to fix
18 something so that it can work again; and another is
19 strategic, which is to change the direction. We also
20 have certain short-term goals and longer-term goals.
21 And one of the things that we talked about a lot is the
22 fact that we have term-outs to deal with when we have
23 bank bonds.
24 So one very important short-term goal that we
25 have is that we're trying to execute some of these

1 tactical plans or strategic plans such that for our
2 single-family indenture, for example, we would eliminate
3 all the bank bonds as of 2/1/09.
4 And there are various things that we are doing
5 that we're hopeful that on 2/1/09 we would actually have
6 no bank bonds. And one of the reasons why that's really,
7 really important, is that, for one thing, if we have no
8 bank bonds as of 2/1/09, our term-outs wouldn't start
9 until 2/1/2010, which is a very positive thing, because
10 that buys us a lot of time.
11 And another thing that's really important to
12 us, is that if we do not have any bank bonds as of
13 2/1/09, we could also have certain exchange of cash
14 between our single-family indenture and our G.O. credit,
15 which -- the General Obligation credit is the credit
16 under which we do a lot of our swaps and derivative
17 transactions. And if we had bank bonds outstanding as
18 of 2/1/09, that would preclude the reimbursement of cash
19 from the special credit, which is the single-family
20 credit, to the G.O. credit. So it sort of locks down the
21 indenture, if you will, so that there will be no -- we
22 won't be able to reimburse cash or G.O. credit. So it's
23 something that we're very concerned about.
24 So by not having bank bonds, we wouldn't be put
25 in that position. So we are executing a short-term over

1 the remainder of the month; and then for a good part of
2 January, plans in which we are hoping to get to a place
3 where on 2/1/09, at least we can say that we don't have
4 any bank bonds even for a week or so, and that would
5 allow us to do some of the things that we want to
6 accomplish.
7 And on the General Obligation side, it's a
8 little bit different because that's the side that's on
9 the credit watch, as you all know. And that side also
10 has the DEPFA bank bonds. And between DEPFA bank bonds
11 and the Dexia bank bonds, both of the names are very
12 tainted in the marketplace. But DEPFA is actually
13 significantly worse than Dexia, because the Dexia paper
14 is still going in and out; they are still getting traded
15 and still being bought by investors, but not the DEPFA
16 bonds. They are sort of stained in the bank-bond mode.
17 And there, what we're trying to do is that
18 we're trying to accelerate some of the redemption of the
19 DEPFA bank bonds such that for the remainder of 2009, we
20 wouldn't have any term-out obligations to DEPFA.
21 And some of these accelerated redemptions we're
22 doing are bonds that funded multifamily short-term loans,
23 meaning, that they're going to pay off in the short-term,
24 anyway, because we're going to accelerate their calls.
25 So in general, what we're hoping to do in the

1 short term is to strategically sort of poise ourselves
2 such that our term-out obligations in 2009 will either
3 be minimal or be deferred into 2010, so we wouldn't have
4 this cash concern that we've been expressing over the
5 last couple of Board meetings.
6 Our longer-term objective, of course -- yes?
7 MR. PAVAO: Going back to that last slide, is
8 there a cost associated with that accelerated redemption?
9 MR. HSU: What we're doing -- by "cost," do you
10 mean interest rate or do you mean liquidity?
11 MR. PAVAO: I mean, what is the downside of
12 this accelerated redemption?
13 MR. HSU: The downside. What we're doing is
14 that in the Multifamily transactions, I think what we
15 talked about at one point is that the financing itself,
16 let’s suppose it is a construction, the loan is
17 $10 million. But when we go into the permanent financing
18 mode, that loan is only $4 million. So what we're doing
19 is we are accelerating the redemption of that $6 million.
20 And so what we're doing is that we're taking a little bit
21 of our own cash, in some cases; and then in some other
22 cases, we're taking some minor credits that we have to
23 take out that $6 million first.
24 I don't see a great downside to that because
25 it's just a matter of timing, because that payoff, the

1 $6 million, might come, let's say, instead of this month,
2 it might come in March or April. But I'm not aware of
3 any cases in which the pay-out of that short-term loan
4 has not materialized.
5 MR. GILBERTSON: Let's maybe give the specific,
6 and you can help me with the details, make sure we've got
7 it 100 percent right.
8 But we just recently purchased bank bonds from
9 DEPFA, $17 million.
10 MR. HSU: Right.
11 MR. GILBERTSON: I can't remember the name of
12 the project, but it's one of our Multifamily loans.
13 The Board had agreed to a commitment to the borrower.
14 We financed it. It was through construction, but it
15 hadn't quite yet stabilized.
16 It was within, what, six weeks?
17 MR. HSU: The project is Lion Creek, and it
18 has not gotten its permanent certificate of occupancy
19 yet.
20 MR. GILBERTSON: But we're expecting that to
21 happen by sometime in January?
22 MR. HSU: That's right.
23 MR. GILBERTSON: So by effectively using the
24 $17 million -- and this happened to be a line of credit
25 that we have with Bank of America -- we used that line

of credit, borrowed at that rate, which is a lower rate than the bank-bond rate. So we were benefiting the Agency by trying to accelerate -- in this case, it wasn't really the redemption, because we aren't redeeming. We can't redeem until such point as the project converts. But we were maximizing the economic advantage for the Agency.

So that's kind of the type of thing that we're talking about.

MR. PAVAO: And that is an example of where you were substituting less-expensive debt for more-expensive debt. Is that an accurate characterization?

MR. GILBERTSON: Correct.

MR. PAVAO: And is that the typical scenario we're talking about?

MR. GILBERTSON: I think this goes further than that, quite honestly, the bullet here.

MR. HSU: Yes, I think that the strategies that we have on the G.O. side of trying to deal with the term-outs for the rest of 2009, they do generally fall in that bucket, where we're saying that we prefer to -- we do not prefer to have them in the bank-bond mode because most of our G.O. bank bonds, are DEPFA bank bonds, which, again, are not really going in and out of the investors; they're just sitting in bank bonds. So

1 it is true that we are saying that while we prefer not
2 to have bank bonds; and in those cases, since we already
3 have existing cash that we have or an existing line of
4 credit, which are cheaper, we're basically swapping the
5 two.
6 And I guess if I were putting on my risk hat,
7 I guess the real risk here is that the potential that
8 the loan doesn't ever convert. So if the loan -- which
9 is, again, let’s suppose it is $10 million, if it never
10 converts, then in theory, we could be on the hook for
11 that $6 million. But that's why I mentioned that, as
12 far as I know, we have had delays at times, but the
13 project not converting is not something that we have
14 experienced.
15 MS. PARKER: And I think you also are well
16 aware that one of the things that we did to sort of
17 reduce some of these outstanding bank bonds a couple
18 months ago is to basically have our Multifamily division
19 work with some of our developers to speed them along in
20 getting those conversions happening because in the past,
21 there really wasn't a huge incentive for them one way or
22 the other. But there is a huge impact to us.
23 And so Bob essentially went and worked with
24 his stakeholders and his customers to get a lot of that
25 cleaned up, which has been one of the benefits of us

being able to reduce some portion of those bank bonds. And this is just another nuance or attempt to essentially continue to deal with those kinds of activities.

MR. GILBERTSON: This is probably a good point to talk about the one other thing Terri and I were kind of huddling on here.

We've been working for some time with Fannie Mae on another short-term credit facility. They call their product Community Express.

We had applied officially for this, because we thought it could also help us accelerate redemption activities, especially if we got to a point where we thought we had a loan sale in place, and we were ready to sign on the dotted line, to commit ourselves to selling loans.

What's going on in this environment is that they're willing to proceed and let us go through a process and trying to get credit approval for a credit facility like this, but they've imposed a standard that requires 100 percent collateral, okay.

Tim and I had two conversations with people at Fannie Mae this week talking about this. And so they were drilling us about our repayment plans with some of these types of strategies that we're discussing here today.

1 And at some point, then we said, "Well, you
2 know, you have this collateral threshold that you're
3 imposing on us. Are you really concerned about the
4 repayment plan that we're suggesting we might use?"
5 And they were. I mean, it was very ironic.
6 And they said -- what did they tell us? The top
7 collateral that they would like to accept would be cash.
8 Okay, well, that doesn't make any sense. Why would we go
9 to you, pay you an interest rate to give you our cash?
10 But it shows you how tight these credit markets
11 are. And I guess, to Terri's point, Fannie Mae is really
12 kind of a shell of their former self.
13 MS. PARKER: I mean, this product really, to
14 some extent, was something that Fannie Mae had. But
15 after we went to them and started having meetings with
16 them in September and early October, asking them for
17 help, they came -- and their response back to us and some
18 of our colleagues, was that they could use this Community
19 Express product that, at point in time, did not have a
20 cap on it, to help out housing finance agencies and use
21 them in various mechanisms. And when we were in Denver
22 at our national association meeting, they touted this as
23 a product that had no cap on it.
24 And as time has gone on, then in November they
25 came back and said, "Well, we're still going to be

1 committed to do this, but we have heard that we can only
2 have $500 million for this purpose. So everybody needs
3 to apply for this $500 million. And that's about -- you
4 know, the door, window, whatever, closes, and we'll have
5 to see maybe next year whether there might be a phase two
6 or whatever.
7 And the good news about it is that since we
8 had been first in line in our meetings back there with
9 Fannie Mae -- I mean, we were right up there against the
10 door, feeling the pressure of everybody pushing us. So
11 whatever anybody was going to get, we were going to get
12 it first. But I guess it's, "Be careful what you ask
13 for," because now we're going to get some, and they've
14 talked to us about $150 million.
15 MR. GILBERTSON: Yes.
16 MS. PARKER: $150 million.
17 And as you said, in the most recent, just in
18 the last week or so, it has been "We'll be happy to give
19 this to you, but we need 100 percent guarantee."
20 And so from where we were in these discussions
21 in the first part of October to now -- it's almost
22 mid-December -- this was a strategy that we had put on
23 our list to pursue and see if it could essentially pan
24 out.
25 And from where we are right now, we believe

that this is something that we're going to be abandoning at this particular point in time.

So while we have some things that we will demonstrate to you as being -- you know, have worked well for us, we've been successful, some of the things that we have tried to do are not proving to be successful; and it's really dynamics of the marketing changing every day.

And so, you know, we keep coming up with ideas; and some of them are working and some of them aren't. But I just would hope the Board would realize when people come back and look at this, that we've continued to try anything that we possibly can that might be an appropriate solution for us.

MR. HSU: Just to make sure that we summarize the points about these short-term objectives, what we are very concerned about, and I think we had expressed this concern in the past, is that the bank bonds trigger term-out provisions that can cause liquidity stress on our balance sheet. And all these little things that we're doing, some of them seem very esoteric, but all of them are contributing to this cause of us not having bank bonds for some period of time and, therefore, deferring these term-out provisions into the future so we wouldn't be faced with liquidity stresses in the near-term.

On the longer-term, these are plans that we

1 talked about. But here, we're just trying to put in
2 perspective in terms of time that we are talking about
3 deleveraging our balance sheet and trying to disconnect
4 our dependency on some of these credit supports that we
5 have from external banks. And we're doing that by
6 selling some of our loans.
7 We think that while it has been very painful,
8 most dealing with the GSEs about buying these loans,
9 we think that they're getting ever closer, such that I
10 would not be surprised if we get some kind of pricing
11 vacation sometime next month, I think. So my expectation
12 is that either that's going to happen before 8/1/09 or
13 it's not going to happen before 8/1/09.
14 So that plan, I think, in sort of a high level
15 of deleveraging the balance sheet and trying to sever
16 ourselves from these external credit supports, that's
17 going to be accomplished, we believe, in the middle of
18 next year.
19 And here, this is our view, again, of our bonds
20 or our financings post all the plans that we have barring
21 the sale of the single-family loans. Because at the
22 moment, the indications are that the GSEs are a little
23 bit more interested in the multifamily loans than the
24 single-family loans, although we do have a window, I
25 think, that was created earlier this week from

1 Freddie Mac of buying a big number of our single-family
2 FHA-insured loans. So that was a positive development.
3 But in any case, this is sort of where we
4 expect, if all those things are to happen, that, as you
5 can see -- compare this chart to page 16, a lot of the
6 color numbers are gone, and we have primarily a few blue
7 numbers and the green and the black numbers.
8 And back to the cake analogy here. What we
9 would have left is some insured VRDOs and also a little
10 bit of Dexia bonds left. And these are the bonds that
11 if we were to, indeed, sell the single-family loans, we
12 would take some of the proceeds to help us take care of
13 these issues.
14 MR. GILBERTSON: Any other questions on kind of
15 the counterparty and credit-market concerns?
16 MS. PARKER: Okay, I feel like I want to talk
17 about the Bay Area, where we are at. This is the
18 "no-good-deed-goes-unpunished" program. And while I
19 think the Agency should have a significant point of pride
20 of the work that Kathy Weremiuk and her colleagues, Bob
21 Deaner, did on this program, and certainly irrespective
22 of where we end up with the balance sale and the cost of
23 those bonds, I don't believe that the activities of the
24 creation of this model to de-institutionalize Agnews
25 State Hospital would have happened without the Housing

1 Finance Agency's work.
2 But the most recent status that we are on with
3 this issue, as you all recall last we met, that we asked
4 for a resolution to allow the Agency to issue bonds with
5 interest rates up to 25 percent. The reason being that
6 based on these discussions with Moody's, we continue to
7 be unable to convince them of the credit quality of these
8 particular bonds.
9 And I will tell you that part of our meeting
10 last Thursday was to spend a great deal of time again,
11 you know, with kind of one more try. But recognizing
12 that if we would not be able to be successful, that at
13 least with the resolution that the Agency passed last
14 week or the last Board meeting, we could go to market.
15 And we had an exit strategy for these particular
16 transactions to get them off of our General Obligation.
17 And while there is no value that Moody's has
18 placed on those three different entities -- or three
19 different items -- two of the three, I guess I should
20 say -- they haven't said essentially what the hit is for
21 the decrease in real estate value or their concerns
22 about our liquidity. They are on our G.O. obligation,
23 have a hit of $100 million for the Bay Area. So
24 dollar-for-dollar, worst-case scenario.
25 We have been working over the last two months

1 with the Department of Developmental Services. We have
2 had some very good discussions with the Treasurer's
3 office, who has helped us look at what might be every
4 option or alternative in today's world to handle this
5 particular problem.
6 We looked at and had discussions about trying
7 to seek legislative change as part of the special session
8 that might put a moral obligation on the State of
9 California on these bonds if we were to get them rated.
10 And, obviously, that special session ended. And I think
11 that this never really got much of any legs, really
12 because, I think it's fair to say, the significance of
13 what the State is dealing with is so great, that this is
14 kind of a gnat. I say that with all deference to my
15 colleagues at the Department of Developmental Services.
16 We also, as we have chatted about, submitted
17 an application to the PMIB, the Pooled Money
18 Investment -- for a loan from the State Treasurer's
19 office to warehouse these loans for up to a year. And
20 that application is -- to the Treasurer's office, is to
21 PMIB; is scheduled for their meeting next week on the
22 17th. We have given them substantial additional
23 information to accompany the application; and we are
24 waiting to hear what their reaction will be.
25 I think it is also fair to note that there have

1 been a number of articles recently written where the
2 Treasurer's been quoted of whether there is the ability
3 to make any PMIB loans in the current state fiscal
4 environment, period.
5 And as we also told us in the past, there have
6 been very few examples, ever, where the PMIB has done
7 something like this, let alone of the dollar amount that
8 we are talking about.
9 So we also have, over the last month, spent
10 considerable time talking to banks or other investors
11 that might be interested in acquiring these loans through
12 some kind of mechanism other than issuing bonds. We
13 thought we had a real chance in some discussions which we
14 had with Deutsche Bank recently, but all of those have
15 continued to fall through.
16 So what we have talked about with staff, that
17 I've asked Tim to do several weeks ago, is get a calendar
18 together for a bond sale in January. The transaction
19 probably would happen, pricing, late in January; sale,
20 the first part of February. And the expectation is that
21 these would be B-grade bonds, and probably the interest
22 rates what we're hearing on the sale right now would be,
23 depending on whether they are taxable or tax-exempt, up
24 to about 19 percent.
25 If there is any change between now and then, where the

1 PMIB takes action or if some other investor comes
2 forward, we could stop that transaction. But at least
3 for our discussions with Moody's, we have a plan that we
4 will execute, we have all the authority to execute that.
5 And as of that date, they will be off our balance sheet.
6 We have kept the Department of Developmental
7 Services, the Department of Finance -- and to some
8 extent, the discussions with the Treasurer's office --
9 apprised every step of the way about what we are doing.
10 So this is certainly transparent. It will result in some
11 additional General Fund costs to the Department of
12 Developmental Services over the next 15 years. But those
13 costs, I think, will certainly be not that large, given
14 the overall significance of the Department of
15 Developmental Services budget.
16 And we have essentially shared this information
17 with both the Health and Welfare Agency and the
18 Department of Developmental Services, that if they have
19 concerns about this with the State Department of Finance,
20 that really it would be important for them to weigh in
21 because this fiscal situation really hits them as opposed
22 to the California Housing Finance Agency. So we are
23 now -- that is where we're at.
24 When we had our meeting with Moody's last week
25 and talked with them, we started out the meeting with the

1 major analyst of Moody's that deals with this, Bill
2 Fitzpatrick, saying that there had been some changes and
3 he was ready to tell us of his feelings about Bay Area.
4 And he had two outstanding issues. And one of them, he
5 now felt he was more comfortable with, and that was the
6 appropriation risk that we've been trying to tell them
7 that there is, you know, statutory and, to some extent,
8 fundamentally constitutional requirements for the State
9 of California to fund services for the developmentally
10 disabled. We finally made some headway there. But he
11 continues to have grave concerns because of these
12 entities, these nonprofits that are involved in it, that
13 are not rated and in a bankruptcy situation, where would
14 they stand.
15 So long story short, with him saying that, I
16 essentially said, "Thank you very much. Stop doing any
17 work on this."
18 There is no point -- we're never going to
19 convince them. It's just a waste of time. We need to
20 move on.
21 So that is the plan today.
22 Any questions?
23 *(No response)*
24 MS. PARKER: The last part of this, again, was
25 our message. Now, when we had our meeting with Moody's,

1 clearly we -- the best-case scenario is that we could
2 have convinced them and they all would have stood up and
3 said, "Hallelujah" and "We see the light" and, "We're
4 going to affirm your rating right now." That didn't
5 happen.
6 But the one I would say very positive thing
7 about that is that the people who are assigned to be our
8 contacts in Moody's, Florence Zeman, who is the managing
9 director of the housing group, and Bill Fitzpatrick, the
10 analyst, we had them in the meeting; but we also had
11 three of their colleagues and/or supervisors. So we had
12 the head credit person, the head of what is kind of their
13 municipal finance, and the person who does California
14 rating broadly. So we had people in the room for our
15 discussion and for us to make our pitch that, you know,
16 we'll be part of that credit committee when they meet in
17 secret and closed doors and discuss what they should be
18 advising their clients.
19 So this was the last part of the presentation,
20 where we essentially said to them, "We need to affirm our
21 rating, we need to affirm what we're doing," because
22 fundamentally, it is tantamount to the ability to
23 preserve the franchise; and we must preserve the
24 franchise.
25 And as part of that, that we have continued,

1 and will continue to do, through the change of
2 administration, going to Treasury and the Federal
3 Reserve, the conservators, to ask for any assistance we
4 possibly can, and to continue to be as much a vocal voice
5 of the importance of preserving the franchise of HFAs
6 across the country to solve the housing dilemma.
7 We are continuing to restructure the debt
8 portfolio. We again gave them the history that we've
9 getting rid of our auction-rate securities. We're
10 dealing with VRDOs. We have limited our access to
11 fixed-rate bonds. These are all things that we are
12 changing to essentially demonstrate the management of the
13 Housing Finance Agency; and that, you know, we are taking
14 responsibility of our situation and acting in a fiduciary
15 and conscientious approach. We're certainly not sitting
16 back, awaiting for somebody to throw us a lifeline.
17 We are obviously pursuing targeted debt
18 portfolios that we reduce our variable-rate debt to the
19 percentages that we have had back many years ago.
20 Certainly not the highs that we had when we had VRDOs
21 almost 90 percent of our portfolio. And, fortunately, we
22 started being successful in doing this, as we've told you
23 before, last year, before any of what we now know, and
24 that's given us a head start.
25 We are, as Tim said, actively pursuing loan

1 sales to deleverage our balance sheet. And we're going
2 to talk a little bit about that in a few minutes.
3 Also, the thing that's the most recent one that
4 we've been talking about and looking at, is, you know,
5 the ability for multifamily borrowers to prepay their
6 loans that are financed by auction-rate securities or
7 underperforming the VRDOs.
8 Now, you will all appreciate, this is something
9 that the Housing Finance Agency has practically died on
10 this sword, that we do not let people prepay. But we
11 think in this environment, that we have to look at
12 everything possible to preserve the franchise. And so
13 we may look at this as being something that we would
14 accept, that we would draw a very bright line around it,
15 so that we would not be allowing prepayment to anybody
16 who wanted to stand in line. That this would have to be
17 tied to a unique situation that we're in, and that it be
18 directly tied to benefiting our portfolio, because it's
19 tied either to auction-rate securities or VRDOs.
20 And then again, obviously, clearly what we've
21 been doing is trying to preserve the Agency's liquidity
22 for its highest priorities to meet our Agency operations;
23 but clearly, we continue to be mindful of those costs
24 to cover any of our losses because of the impact to our
25 lending and price depreciation on our single-family

1 loans. And, you know, as we have given you these numbers
2 periodically, the redemption cost of VRDOs.
3 So just to, again, reiterate continued
4 activity, the continued commitment of the management
5 team, that we are reviewing our core competencies of
6 underwriting our portfolio management, our loan
7 servicing, our debt management.
8 We do have, as I said early on, because of
9 past awards, but this most recent award, a totality of
10 $1.6 billion of non-AMT private activity volume cap. So
11 to the extent that the market can turn around, we do have
12 resources to be productive in a business environment.
13 And we are continuing to be very aggressive in developing
14 these loan-delivery platforms for both Fannie Mae and
15 Freddie Mac for cash but also develop conduit programs
16 for multifamily.
17 And the one other one that's not on here that
18 I would mention, too, is delivery platforms for FHA
19 loans. It may very well be a situation because of what
20 is happening in the MI arena and the requirements that
21 our reinsurer has put on us, we have been successful in
22 just about completing a new 2009 agreement with Genworth.
23 But the kinds of activities that they have asked for
24 continue to be more constricting.
25 The most recent one that we made changes on is

to now require 3 percent borrower cash, which is one of the major reasons why our lending has declined so rapidly. But if we shift, to go back to what we used to be, in the old days, of more of an FHA lender, and we don't see the loan limits -- or maybe to say it differently, we see the loan limits that are about to expire be recertified next year, that will take positive action on the federal government's part. We hope that will be happening; but it may very well be a situation that we need to develop a delivery platform that we can sell to Gennie or whatever, of FHA loans. Because clearly, in this case, the GSEs have told us that these are not loans that they can buy; or if they buy them, there is a significant penalty, financial penalty associated with it.

So continued lots of activity for us to keep ourselves busy with.

And if there are any questions, I'd be happy to have you ask and us to answer.

CHAIR CAREY: Questions?

MS. GAY: I was thinking, is now the time or would it be better a little later when we get to more portfolio details on delinquencies, REO, to save some questions about that until then?

MR. GILBERTSON: We don't really have it as an

1 agenda item, so this is probably it.
2 MS. PARKER: Yes, this is it.
3 MR. GILBERTSON: There's a report in the back
4 of the binder, yes.
5 MS. GAY: I just was curious about some of the
6 details, since that's part of the big business in
7 neighborhoods, as we look ahead with neighborhood
8 stabilization and some other details.
9 MS. PARKER: Lori, if you have some questions,
10 we can ask Chuck to come up. And if you have some
11 specific questions, I'm sure Chuck would be -- you know,
12 I think you all know that I had asked Chuck more than a
13 month ago to take on the responsibilities of moving over
14 our portfolio management under his leadership and also to
15 staff up a larger emphasis on our REOs. And he's been
16 putting a team together and working on that.
17 MR. GILBERTSON: Would you like us to walk
18 through the report?
19 There is a report attached.
20 MS. GAY: Right. I looked at it, and I wrote
21 down questions.
22 MR. GILBERTSON: Okay.
23 MS. GAY: But I don't want to be -- I want to
24 be sensitive to the time. But I think my issue is really
25 just in light of everything else. It's, what does

aggressiveness look like and how are you reaching more strategically in the communities to be able to help facilitate, in the case of REO, resale. In keeping with our customers, it's kind of the global picture --

MS. PARKER: Let me just ask the question of you first.

Is your question about our portfolio or is your question about what is the Housing Finance Agency doing with loans that are outside of our portfolio that were subprime, Alt-A?

MS. GAY: Your portfolio.

MS. PARKER: Our portfolio?

MS. GAY: Our portfolio.

MR. McMANUS: I'm going to address then the real estate owned that's flowing into our inventory. Monthly, it has accelerated dramatically from three to four per month, to 45 per month.

And what we do, because our mission is -- it's twofold: Number one, we have to protect the value, and get as much money as we can, realistically.

We have the second mission of trying to facilitate owner-occupied first-time home buyers. The houses we get that can be repaired or are already very livable and so forth, we make sure they're livable, we fix them up. We repair almost every house and put

1 them on the market and list them. We get broker opinions
2 of value, and list them at market rates, which are
3 probably are 5 percent below market rates, because
4 there's always a discount for real estate that's owned
5 by a bank-like entity.
6 And we work through two master realtors that
7 we have throughout the state. And we now publish them
8 on our Web site. We offer financing to first-time home
9 buyers that's favorable. It's called the SMART loan
10 Program, after our past Homeownership chief, Jerry Smart.
11 But it sort of fits into being a SMART loan. And we
12 moved it up to 5.5 percent. We had it at 4 percent for
13 a while, but we moved it up to 5.5 percent. We offered
14 down-payment assistance, and we offer 100 percent
15 loan-to-value financing, which is very attractive for
16 first-time home buyers.
17 And, as I say, we have those properties listed
18 on our Web site and priced.
19 It takes, however, time to take in the new REO,
20 get it fixed up, get all the repairs done, pay the bills
21 and put it on the market. So for that, we have increased
22 the staffing in the real estate-owned department. We
23 will have four REO managers and four assistants. And the
24 assistants are focused on paying the bills and filing the
25 claims and so forth. We may have to go to five. But

1 right now, we're trying it with four.
2 And we have opened up the Web site and we've
3 created a flyer to put in all the houses and to work the
4 realtors, so that our livable, occupiable houses are
5 being marketed to first-time home buyers.
6 The prices are down approximately 40 to
7 50 percent from what they sold for when we originally
8 financed them. That is the California market. Our
9 research, June 30 to June 30 of 2008, the average, lowest
10 quartile, average price in California declined
11 40 percent. It was 7 percent in the first six months of
12 that time period and 33 percent from the beginning of the
13 year to June 30th. They have dropped more in August and
14 September. I think they're stabilizing, and they're
15 stabilizing at about 50 percent of the peak prices at
16 the end of 2005.
17 That's the real market. We get them on the
18 market at realistic prices, we have appraisals, and we
19 attempt to market them.
20 We have some properties that are so beaten up
21 and destroyed, that it's a major rehabilitation task that
22 we're not staffed to do. And those, we will sell to fix
23 up and repair generally to investors that will fix,
24 repair them, and sell them. But we do not finance those
25 because we only finance owner-occupied; and we won't sell

a property that's not properly fixed up and ready to occupy.

So that's our program. We're hustling, we're marketing, and we --

MS. GAY: I just couldn't tell from your report how it's working for us.

MR. McMANUS: How's it working? We're having action, but it's at 50 to 60 percent of the original price.

There are buyers out there. There is a pretty healthy market in bank-owned real estate as far as activity. But there are also significant losses there. It's a big opportunity for first-time home buyers if they can be financed, if they still have jobs.

The recent development, of course, in the last three months or so is rising unemployment, which is very bad. For the first-time home buyer, they're usually subject to some of that unemployment push.

So, so far, so good. I just walked around with my REO managers this morning. They're all busy. They've got files everywhere coming in, and they're fixing and repairing. But it's expensive, we're losing money on each property, and we're trying to do it expeditiously and keep our mission in mind.

MS. GAY: Do we foresee ourselves doing any

1 kind of discussions with municipalities, given the
2 Neighborhood Stabilization Program and this whole detail?
3 Or will we kind of stay focused on where we are?
4 MR. McMANUS: Well, I've got two hands here,
5 because along with it, we have the servicing -- managing
6 of our servicers is another function; and then the
7 number-one project there is loss mitigation. And we are
8 focused on increasing our proactive approach to trying
9 to keep people in their houses. And, of course, the
10 Governor has a program, there are federal programs, and
11 Fannie and Freddie have programs. And we have a program
12 we are trying to expand within our legal obligations
13 under the indentures to the bondholders, because we are
14 obligated to try and maximize the proceeds.
15 MS. PARKER: Let me add one thing about that,
16 too.
17 Lori, I think our effort from the standpoint of
18 trying to deal -- coming up with the program, is the REO
19 program that we put together, the Treasurer's office has
20 financed; and, in fact, we told you that even in this
21 environment, we have kept the interest rates for that
22 program alive. And we are selling some of the portfolio.
23 The neighborhood stabilization funds that have come to
24 localities are really not around existing -- can't help
25 existing borrowers with that. That’s my understanding.

1 And so that's really only --
2 MS. GAY: It's only supposed to be new buyers?
3 MS. PARKER: Right, it's only supposed to be --
4 well --
5 MS. GAY: Or properties that are in REOs?
6 MS. PARKER: Right. And so I don't think that
7 we have dealt with trying to deal with the number of
8 properties that we have in any concentration. I think
9 that we'd go back to the REO and see whether or not you
10 could establish, with some of your groups, something that
11 we have enough capacity in certain locations to do
12 something.
13 We surprisedly did not have large blocks of
14 loans in what we've --
15 MS. GAY: It's scattered.
16 MS. PARKER: Yes, it's very scattered. And we
17 didn't have a lot of loans in the Central Valley that
18 people expected that they would.
19 MR. McMANUS: Anything else?
20 MS. GAY: I'll stop there.
21 MR. SMITH: Just a quick question.
22 So if you're buying an REO, the interest rate
23 is 5.5?
24 MR. McMANUS: Yes, that is correct. Our REOs
25 will get 5.5. There is another program, which is run by

1 our Homeownership division, the Community Stabilization
2 Home Loan Program, and that is also at 5.5. Both
3 programs will go up to 100 percent loan-to-value. Both
4 programs -- I put my other hat on -- our mortgage insurer
5 will insure. That's how we can do 100 percent. But it
6 is focused on REO and rehabilitating communities and
7 helping liquidate boarded-up houses and the other things
8 that come with it.
9 MR. SMITH: And then a traditional first-time
10 home buyer is 7.5?
11 MR. McMANUS: The traditional home buyer right
12 now is about 7.125. And we need to get an outlet. We
13 don't have a municipal-bond outlet. If we can get
14 Fannie Mae -- you know, Gary Braunstein is here, he could
15 give you a better fix -- but in the 6 percent range, if
16 we got that.
17 And if we could get back to having a working
18 mortgage-backed securities municipal-bond market, we'd be
19 at tax-exempt rates. And that would be the best of all
20 worlds.
21 MS. PARKER: One last thing to add in our
22 conversations. The last couple weeks, when we were both
23 in New York and in Washington, the news coming out of
24 Treasury the week before -- I'm trying to get -- it's
25 last week, I guess -- of the Treasury perhaps offering

1 loans at 4.5 percent interest rate tried to stimulate
2 more home-buying, get more borrowers in. We had a lot
3 of discussion among the HFAs, because it seemed the
4 Treasury was kind of getting involved in with what we
5 sort of see as not only our role, but certainly the role
6 of the GSEs. Aren't they the folks that are supposed to
7 be, in the current system, the ones providing secondary
8 market for loans?
9 So there was, you know, a lot of discussion.
10 We tried to find out from people, what is this
11 4.5 percent loan. And I'm not sure that I ever got much
12 more information than a headline in a newspaper. But
13 some of the specific things that we were trying to find
14 out that I believe is much more important than the
15 interest rate is, what are the credit underwriting? Is
16 this a 4.5 percent loan that has an 80 percent LTV,
17 90 percent LTV? 97 percent LTV? Does it have
18 down-payment assistance? Does it have closing costs?
19 What are the FICO scores? What are the credit ratios?
20 And until somebody addresses those issues, along with the
21 interest rate, I don't think it's much of anything
22 meaningful, but it's certainly a lot more noise out there
23 in the system that I'm not sure is generating any
24 substantive value.
25 CHAIR CAREY: Thank you very much.

1 With that, we're on to Item 6, which involves
2 the --
3 MS. PARKER: Are you done with 5?
4 CHAIR CAREY: Where am I?
5 Oh, yes, sorry.
6 That's right, Item 5 -- really, Steve wasn't
7 listening. It's okay.
8 --o0o—
9 **Item 5. Discussion, recommendation, and possible action**
10 **to delegate day-to-day operating authority to**
11 **the Deputy Director on an interim basis**
12 CHAIR CAREY: Item 5, which is delegation of
13 operating authority to deputy director.
14 Tom?
15 MR. HUGHES: Yes. Thank you, Mr. Chair,
16 Members of the Board.
17 As you know, obviously, Terri Parker's term
18 expires at midnight tomorrow, effectively, and that
19 office becomes vacant unless the Governor would appoint
20 a replacement within that time.
21 So when faced with this situation, the Agency
22 clearly has to establish some sort of operating authority
23 to continue day-to-day operations. The appointment of
24 the executive director, including an interim director,
25 is the sole prerogative of the Governor. So the Board

1 does not have the authority, in my view, to do that.
2 The Board does have a series of general powers,
3 including the power of general oversight and supervision
4 over the Agency. So you could imagine that if there were
5 no authorized operating officer, this Board could sit in
6 session every single day and we could bring every
7 decision to the Board in lieu of an executive director.
8 I've taken a leap of faith that the Board
9 probably doesn't want to do that. And what we've
10 arranged here is a resolution whereby the Board of
11 Directors would delegate to a specific officer all of
12 those general powers of oversight, administration, to a
13 person -- in this case, Steve Spears, the deputy
14 director.
15 It's worth pointing out that I don't think this
16 delegation creates an executive director or an interim
17 director. It creates an officer within the Agency who is
18 essentially empowered to fulfill those responsibilities.
19 It's perhaps a subtle distinction, but it's an important
20 one. And I mentioned in the memo, there is not
21 100 percent clarity as to what powers or authorities, if
22 you will, are solely the function of the executive
23 director and which are the prerogative of the Board. But
24 it is fair to say that there are sufficient operating
25 authorities under this delegation that the deputy

1 director could, in our view -- and this has been vetted
2 extensively with bond counsel as well -- could operate
3 the Agency and carry out all the normal functions
4 sufficiently for us to carry out all of the normal
5 operations of the Agency.
6 There's a few fine points to that. I mention
7 that, in part, for Mr. Pavao. Because one of the --
8 there are a number, but just focusing on one -- one of
9 the functions that our enabling statutes and other
10 statutes -- actually, the Treasury statutes identify the
11 executive director, for example, as an ex officio member
12 of TCAC and CDLAC. Because that is an ex officio role
13 which is dependent on there being a person in the office,
14 I think that probably we would, in the event of a
15 vacancy, we would not be able to have a member sit on
16 TCAC or CDLAC or similar situations. We could certainly
17 send someone to be a representative and observe. But
18 I think for those purposes -- and since those are
19 non-voting offices, I think it will work out fine.
20 Apart from that, I'd just note, as is in the
21 memo, that there is historical precedent for this. The
22 Board has done it twice before, in two turnovers between
23 executive directors for short periods of time, in any
24 event. And it seems to be the consensus that in the
25 absence of an appointment and a person taking the oath of

office and becoming the executive director, that this is the recognized way of continuing the operations of the Agency.

CHAIR CAREY: Any questions?

(No response)

CHAIR CAREY: We do have a resolution, 08-45 for which we would need a motion and a second.

MR. PAVAO: I move the resolution.

MS. GAY: Second.

CHAIR CAREY: Moved and seconded.

Any further discussion?

(No response)

CHAIR CAREY: Then let's have roll call.

MS. OJIMA: Thank you.

Ms. Peters?

MS. PETERS: Yes.

MS. OJIMA: Ms. Gay?

MS. GAY: Yes.

MS. OJIMA: Ms. Jacobs?

MS. JACOBS: Yes.

MS. OJIMA: Mr. Pavao?

MR. PAVAO: Yes.

MS. OJIMA: Mr. Smith?

MR. SMITH: Yes.

MS. OJIMA: Mr. Carey?

1 CHAIR CAREY: Yes.
2 MS. OJIMA: Resolution 08-45 has been approved.
3 CHAIR CAREY: Thank you.
4 Clearly, the continuity of this agency is
5 important, and I have great confidence in the staff to
6 keep moving forward while we wait for a new executive
7 director.
8 --o0o—
9 **Item 6. Discussion, recommendation, and possible**
10 **action regarding approval to negotiate and**
11 **enter into a contract for fiscal services**
12 **system replatforming services**
13 CHAIR CAREY: Now, finally, Item 6,
14 Replatforming.
15 MR. SPEARS: Good morning. Steve Spears,
16 deputy director.
17 Behind door number 6, tab number 6 in your
18 binders, you'll have this item. And it is a continuing
19 story of the progress of our strategic projects. The
20 fiscal services project is one of two major projects that
21 we're undertaking. The other is the homeownership
22 reservation system that we're making progress on.
23 We have for your consideration the approval of
24 a contract. And the reason it's here is because it
25 exceeds a million dollars, and those come to the Board of

1 directors.
2 This contract is for -- it depends on how you
3 look at the project. But for the second phase of this
4 part of the project, the fiscal services system that we
5 have, the accounting information system that we have,
6 was not only at capacity, but the technical hardware
7 foundation of the system was not very reliable,
8 susceptible to -- I think the best word is "hiccups" now
9 and then. And so we wanted to get that on a more
10 reliable basis.
11 We've done that part. Now what needs to
12 happen, is this new technical environment needs to be
13 reprogrammed to fit the applications that we do have.
14 Down the road, our ultimate goal is to put in
15 an entirely new application system that fits our
16 mortgage-lending system a lot better. And we can
17 generate reports at this point. It takes time. It takes
18 a lot of unnecessary people-power to do that. And we
19 need that information on a more timely basis. Also, it
20 takes time.
21 So what we've done is gone out with an RFP.
22 And there is a little bit of a story to tell on this
23 part.
24 The original RFP went to 17 different vendors.
25 We received exactly one response. The staff evaluated

that; determined that it was not responsive on a lot of different levels. It came to Terri and I, and said, "Look, we can redo this whole thing and do it all over again." But we went back, revised the RFP slightly, and sent it to four vendors that had expressed interest. And we received three responses out of that second offering of RFP.

One of the three was determined to be nonresponsive, and so we had two finalists.

It was a pretty easy selection because the one finalist that we are presenting to you today, Eclipse, was, as you can see, almost half the cost. They were also, as you can see, more responsive on schedule. And it was actually, for the staff, a fairly easy recommendation to make.

So we offer this for your consideration. We have a lot more slides, if you like. That's the project in a nutshell.

Again, it is for software programming, to get us from, you know, the new technical system and get our applications program to that.

If you want more technical responses, I have Liane Morgan and Mike Howland here with me, if you'd like to delve into that.

I told them the thing that I did, I think I

took a Fortran class in college, and that, I understand, is obsolete at this point. So beyond that, I'm not a software programmer in the least. I think my Fortran programmer instructor would say I wasn't then either, but, oh, well.

MS. PARKER: Just the most important thing, I think, to note, that while we need approval from you on the contract, that the funds for this are included in the budget that was presented and approved by the Board in May for fiscal year 2008-09.

So, again, this is a next step in a line of a commitment of substantial amount of funding resources to bring the Agency into the 21st century. So we have resources to finance this with; but per our discussion about contract approval, it's here for your consideration.

CHAIR CAREY: Questions?

MR. PAVAO: So does this tie in to any other state system or any other state I.T. regulatory scheme or financial, slash, I.T.?

MR. HOWLAND: We've actually had a number of conversations with the Department of Finance, to make sure that we are going to be able to exchange information with the new FI$Cal system. And that seems to be -- we're in an okay place with them, and we have gotten

1 their okay to go forward with this.
2 MR. SPEARS: The conversations wound up -- I
3 mean, they had a moratorium on system development. We
4 went to them and said we'd like an exception. Their
5 response at first was, "You're not big enough to be
6 different." That was their response. And when we said,
7 "Sorry, we are different. It's a mortgage lending
8 accounting system," they agreed that was pretty unique.
9 They let us proceed ahead.
10 And our promise is that whatever they wind up
11 with, that we will build the interface that translates
12 our information into whatever they need.
13 They just had not even gotten close to what
14 their requirements were, what they wanted it to look
15 like. And we're so much further down the road, and our
16 system -- that the main priority was to get this system
17 reliable. So that's what this part does.
18 CHAIR CAREY: One of two things happens when
19 there's a vast divergence in bids: Either the low bid
20 didn't understand it or the high bid didn't understand
21 it.
22 Are you confident that Eclipse understands the
23 scope and they've got half the hours that Kiefer had?
24 MR. HOWLAND: Their bid was actually very, very
25 responsive. They have a very clear understanding of the

1 scope of work. That's demonstrated in their proposal.
2 They made a good run at the project plan, the proposed
3 project plan. Their distribution of hours made a whole
4 lot of sense to us.
5 Where, on the Kiefer one, they clearly didn't
6 understand the scope of work, and their distribution of
7 hours made no sense to us whatsoever. They essentially
8 took the total number of hours that they were bidding and
9 distributed it among all the staff that were going to
10 work on it evenly. That made no sense to us whatsoever.
11 So we're very confident that this is a good
12 vendor.
13 We have experience with this vendor, too, by
14 the way. So that's to our advantage.
15 CHAIR CAREY: Great.
16 MR. SPEARS: So it appears, Mr. Chairman, that
17 this is your first scenario, not the second scenario.
18 CHAIR CAREY: Great.
19 MR. PAVAO: And you had a contractual
20 relationship with this vendor before?
21 MR. HOWLAND: Yes, we have.
22 MR. PAVAO: And a good experience?
23 MR. HOWLAND: Yes, excellent. And actually we
24 know the majority of the people that they propose on the
25 project team.

CHAIR CAREY: If there's no further questions, there is a resolution.

Oh, thank you.

Is there anyone from the public who would like to comment on this item?

(No response)

CHAIR CAREY: Seeing none, we have a resolution.

Yes, we do need a motion and a second.

MS. JACOBS: So moved.

MR. PAVAO: Second.

CHAIR CAREY: Okay, it's moved and seconded.

Any further discussion?

(No response)

CHAIR CAREY: Roll call.

MS. OJIMA: Thank you.

Ms. Peters?

MS. PETERS: Yes.

MS. OJIMA: Ms. Gay?

MS. GAY: Yes.

MS. OJIMA: Ms. Jacobs?

MS. JACOBS: Yes.

MS. OJIMA: Thank you.

Mr. Pavao?

MR. PAVAO: Yes.

1 MS. OJIMA: Mr. Smith?
2 MR. SMITH: Yes.
3 MS. OJIMA: Mr. Carey?
4 CHAIR CAREY: Yes.
5 MS. OJIMA: Resolution 08-46 has been approved.
6 MR. SPEARS: Thank you, Members.
7 CHAIR CAREY: Thank you.
8 Item 7.
9 MS. JACOBS: Could I make a comment that I
10 think might be related to this item that we just
11 finished?
12 CHAIR CAREY: Yes.
13 MS. JACOBS: Since we voted on the budget in
14 May and so many things have changed, do you think we
15 could have a budget update for our next meeting?
16 MS. PARKER: The answer is absolutely yes. But
17 I would say more to the point, we always do a midyear
18 update in January for both the business plan and the
19 operating budget. So the Agency has been working on it,
20 and particularly administration; because there are some
21 things in our operating budget that have changed.
22 Actually, there were some things that, when
23 the budget was approved by the Board in May, that we
24 said that we would have to look at and perhaps come back
25 from a midyear adjustment. One of those things being

1 the implementation of the Mental Health Services Housing
2 Act. The business plan, the operating budget did not
3 include staff resources. We said that we were still
4 working on that and that we'd have to bring that back.
5 So there are a couple of items that we're
6 doing -- that the staff are doing as far as transactions.
7 So they will be presenting this as part of the update in
8 January.
9 MS. JACOBS: Perfect.
10 CHAIR CAREY: Good.
11 MS. JACOBS: Then I asked a good question.
12 CHAIR CAREY: Yes, you did.
13 Item 7. Bruce?
14 --o0o—
15 **Item 7. Report, discussion, and possible action**
16 **regarding the approval of sales of**
17 **mortgage loans**
18 MR. GILBERTSON: This agenda item is really
19 more designed to be a discussion amongst the Board
20 members. We were forced -- at the time we had to produce
21 an agenda to determine whether or not we thought we'd
22 have something to present to the Board in the way of a
23 loan sale.
24 We don't have a lot of experience in the
25 Agency's history selling loans for a third party.

1 So I thought what I'd do to start -- and then
2 maybe stimulate discussion as to how to go about this --
3 we anticipate somewhere in January, we'll likely be back,
4 we'll have something firm that we want to do, either with
5 Fannie Mae or Freddie Mac or a bank -- and just try to
6 see what the Board wants to do as far as specifically
7 approving something.
8 And I know Tom probably has some thoughts on
9 this as well.
10 I'm going to lay the background by telling
11 you what we've done. You heard earlier that we had a
12 $2 billion-dollar single-family loan tape that we sent
13 off to both Fannie and Freddie. The initial indications
14 from Fannie Mae is that they were interested in
15 $65 million out of that $2 billion. They had no
16 appetite for FHA, and there is about half of those loans
17 were FHA-insured loans.
18 The others, there was a variety of factors that
19 would lead to them to not want to include them. And they
20 would be some of these:
21 That some of the data we had was not perfect,
22 was not on target for them.
23 There were jumbo loans embedded within the
24 portfolio, so those would be loans above $417,000.
25 There might have been loans -- we thought we

had perfected this, but some loans were delinquent at the time.

Some loan products they just weren't interested in. The current loan-to-value, or CLTV, was above any threshold that they would be interested in, or there was insufficient mortgage insurance. That's probably lending that we might have done that didn't have mortgage insurance because at the time, the borrower had a loan that was less than 80 percent loan-to-value.

So that's one category.

In dealing with Freddie Mac -- and we just heard back from them the other day -- their universe appears to be $52 million of conventionally insured loans. And we have yet to hear from -- well, let me back up a little bit. That's the conventional loan side. So let me summarize.

Fannie Mae was interested in about $65 million. We think the price is par, or a little higher than par. So we'll get dollar-for-dollar.

Freddie Mac was $52 million. Again, the same parameter, that we'll get at least dollar-for-dollar. Freddie Mac did say that they had an appetite for some of the FHA. And the number is quite large. It's $560 million worth of the FHA-insured loans. We don't have any pricing parameters on that.

1 The one thing that they asked for was recourse.
2 So we've had just a very initial discussion on what that
3 means.
4 By way of background, all of our lending
5 activity with FHA-insured loans, the lender that is
6 servicing the loan has full recourse to CalHFA, meaning,
7 that at the time the loan is 120 days past due, the
8 lender repurchases the loan from us, they deal with the
9 claim with the federal government, the FHA-insured loan,
10 and they settle it and they're done.
11 Freddie Mac effectively wants the same thing.
12 So we think, but we need to work through this in much
13 more detail, that the recourse we receive from the
14 servicing lender could be the same recourse that we
15 provide, pass it through to Freddie Mac, and allow us to
16 potentially sell up to $560 million of these loans.
17 We're very early on in those discussions.
18 The other segment is, we talked about
19 $280 million of multifamily loans. The latest on this is
20 Freddie Mac was looking for some additional data from us
21 on those loans. And Fannie Mae was concerned about the
22 liquidity of those loans. I don't know what that all
23 means, but they're very challenged organizations these
24 days.
25 We'll pursue both of those during the balance

of this month and into January. Hopefully, we'll have something that we can come back to the Board with at the January meeting. I think that's the third week in January.

Tom, is there any -- I'd ask Tom if there's any legal perspective that we ought to discuss with the Board in anticipation of a potential sale?

MR. HUGHES: Yes, I think there are a couple of thoughts that I have on this.

Since I've been in CalHFA, to my knowledge, we have done one bulk sale of loans. That was a $60 million sale to Fannie Mae. It was a challenging transaction, but we got that done. I think that's all that we've done so far.

However, as Bruce had indicated, we gave Fannie and Freddie loan tapes in excess of $2 billion. That's a pretty healthy-sized transaction if something along those lines came to pass.

My thought was that either in the context of attorney -- opinions of counsel that might be required or due diligence, that a prospective buyer might reasonably ask for a board resolution.

It is possible, as the Board recalls, each January the Board enacts a series of comprehensive financing resolutions which give the staff the authority

1 to enter into a wide variety of financial transactions.
2 Possibly it's covered by that. But I think the
3 belt-and-suspenders approach, I think it may be advisable
4 to actually approve specific loan sales or types.
5 So I think it comes down to there's probably
6 two broad possibilities here, depending on which way the
7 Board would prefer to go.
8 We could bring each and every loan sale
9 transaction, if we're lucky enough to have multiple
10 buyers, to the Board for approval of a specific
11 transaction, much in the way that the Board approves
12 multifamily loan transactions, at least when things were
13 normal; or we could present a resolution that would lay
14 out the reasoning, as we've gone through earlier in this
15 meeting, the reasoning behind having loan sales, and
16 generally authorizing the Agency to enter into bulk sales
17 of loans, which should be sufficient, I would think, to
18 satisfy any potential buyer.
19 So those -- and this item is really a
20 placeholder to get this in front of the Board to -- and
21 I think, as Bruce said, it would be likely in January we
22 might be bringing something more specific forward. So
23 I think we're looking for a little guidance how the Board
24 would like us to proceed in that regard.
25 CHAIR CAREY: Ms. Jacobs?

1 MS. JACOBS: Well, my perspective would be
2 that we should have general policy guidelines to vote on,
3 and that there should be some dollar limit. But I'm not
4 excited about looking at every transaction.
5 MR. PAVAO: What might the volume of
6 transactions be?
7 MR. HUGHES: Well, I don't think that -- we've
8 been trying to get one. I think it's fair to say --
9 CHAIR CAREY: One dollar?
10 MR. HUGHES: One transaction. Nothing has
11 really been locked down yet.
12 But since we're dealing with both Fannie and
13 Freddie, and we would welcome the prospect of a private
14 investor of some type taking some loans. I think we
15 don't know from day to day. Our world seems to change on
16 an hourly basis.
17 But there wouldn't be -- I don't think there
18 would be a lot of transactions. But again, it is
19 really -- again, we can't always anticipate what will
20 come our way.
21 MS. PARKER: Maybe a couple comments, because
22 we had some discussion about this when we were in New
23 York last week with the Moody's analyst; and I think that
24 if you want to talk about policies, you may first want to
25 think about whether or not you should have a different

1 policy for a single-family sale of loans in portfolio and
2 multifamily.
3 The tape that we sent on the multifamily was
4 basically after we did a review of what loans that we
5 had, that the Agency held, that we could have a clean
6 transaction. And to some extent, those are some of our
7 best loans.
8 And the concern on Moody's is, "Gee, what
9 happens to your portfolio when you sell your best loans?"
10 And we got back to them that, first of all, we wouldn't
11 be selling them at a fire sale; that we would expect to
12 have significant compensation for them.
13 The second thing was that some of those loans
14 probably only have a few years left to them, anyway, so
15 that their contributions and value to the Agency might
16 not be the same as if they had another 25 or 30 years on
17 it.
18 But the Moody's analyst at first became
19 concerned that if these good loans were sold, then that
20 must mean that everything else that we had in the
21 portfolio was not good, or less good, or something along
22 those lines; and we tried to clarify for him not being
23 the case.
24 But also the same thing on the single-family
25 side. You know, I think that was his first sort of

1 reaction: Are you creaming, are you doing whatever. And
2 I think certainly the numbers that we're seeing and what
3 we had anticipated -- I think we had anticipated, maybe
4 out of the single-family portfolio that we sent of almost
5 $2 billion, maybe selling a quarter of it.
6 And I think some of the scenarios that we went
7 through with Tim's slides in the past assumed that we
8 would have about $5 million worth of liquidity or capital
9 raised through that.
10 So I just want to give you the sense of, it
11 might help you with policy guidelines or dealing with the
12 impact on the Agency or risk or how you think about this
13 if you separate them out, or you have at least a little
14 bit of this different information. Or following around
15 that then, if the staff were to come back to you, what
16 specific information that you would want from them in
17 order to feel comfortable about giving them some
18 delegation.
19 CHAIR CAREY: Ms. Peters?
20 MS. PETERS: I echo the comments of Ms. Jacobs,
21 not necessarily being interested in going through
22 transaction-by-transaction.
23 I think that in this environment, having the
24 Board go on the record of giving staff authority is
25 probably going to allow them to be more responsive to an

1 ever-changing market and give the buyer more satisfaction
2 that they are going to actually have a deal here.
3 And with our Board meetings happening more and
4 more frequently, it may be difficult, if we do have a
5 transaction to come up, that they have to wait until the
6 next board meeting or we have to put together a special
7 board meeting to approve it. I think it might be -- I'd
8 be interested in hearing staff's thoughts on whether it
9 would be easier to facilitate a transaction with a
10 blanket authority with broad guidelines.
11 MR. HUGHES: It would clearly be for exactly,
12 I think, the reasons that you mentioned, Ms. Peters.
13 If we come back in January and have the
14 broad-based authority to do these sales, we can get them
15 inked and get them closed as soon as possible.
16 If we don't have that and we do it on a
17 deal-by-deal basis, assuming we're lucky enough to have
18 multiple deals, we really need to wait until the
19 transaction terms gel enough to really feel good bringing
20 it back to the Board so that you'd be making an informed
21 decision.
22 And I think you're exactly right with the
23 timing. We have certainly had a lot of special meetings.
24 And I don't know whether the Board wants to continue
25 having as many. But we have to respond to market

1 conditions at some point there and get it before the
2 Board as soon as possible.
3 CHAIR CAREY: Mr. Pavao?
4 MR. PAVAO: Yes, I was going to ask the same
5 question in terms of the timeliness of the
6 decision-making. And if we did go back to an
7 every-two-month schedule, is that not timely enough?
8 Or is it hard to tell?
9 MR. HUGHES: We've certainly operated for many
10 years bringing multifamily deals to the Board on that
11 schedule, and it's generally worked.
12 I guess -- and I think all my colleagues would
13 agree with me on this -- but our life in the last several
14 months has been nothing like the life in the last
15 30 years before that, in that the market conditions, the
16 world changes constantly. And I think they'd also agree
17 that particularly in dealing with the GSEs, and
18 particularly Fannie Mae, their world changes constantly.
19 One day they can do something and one day they can't do
20 something. So it's a very, very challenging environment.
21 But at the end of the day, it's the Board's prerogative,
22 which way you'd like to go.
23 MR. GILBERTSON: And I'd just add to that, I
24 don't think we want to miss the window of opportunity,
25 so we want to keep that in mind, because I think this

1 environment is going to be changing daily.
2 MS. PARKER: Let me just say, as I head out the
3 door, I think the answer to your question is no. You
4 know, the current -- or past practice of having meetings
5 every two months is not sufficient time given how dynamic
6 things are. There's a significant amount of work that
7 would have to be done on these sales in getting the loans
8 put together. And if there is a delay because of having
9 to get some sort of authority and, at the same time, if
10 there is a situation where that may call into question
11 pricing.
12 I mean, we just went through and told you that
13 from the first part of October through, like, the end of
14 October and now where we are at right now, there we went
15 from the Community Express being a great program, open,
16 no caps; to now, it's capped, and it has 100 percent
17 collateral due on it.
18 MR. PAVAO: If that's true, that seems decisive
19 to me then. If you're telling me it's a 60-day delay
20 would cost us a deal, then I would say let's figure out a
21 way to find guidance and then make an administrative
22 decision.
23 MR. GILBERTSON: Well, and I think ,like
24 everything, when we issue bonds, we report back to the
25 Board, give you a full display of what we accomplished,

and the economic parameters.

MR. HUGHES: We often, in general resolutions that allow staff to take specific types of actions, we often include a provision -- we could certainly do so in this -- that the staff will report back at each subsequent Board meeting the details of everything that has gone on to allow the Board to see the trends in that.

CHAIR CAREY: So discussion of the January meeting, and certainly, I think, we would want to see the pros and cons. There's an upside and a downside to the prospect and some general parameters that are proposed. It does sound like we have an agenda in January.

Thank you, Bruce.

MR. GILBERTSON: You're welcome.

--o0o—

Item 8. Reports

CHAIR CAREY: We have reports that we've asked for included.

Do we have any further questions or issues related to those reports?

(No response)

--o0o--

Item 9. Discussion of Other Board Matters

CHAIR CAREY: Other board matters?

(No response)

1 **Item 11. Public Testimony**
2 CHAIR CAREY: With that, I'm going to rearrange
3 slightly and take public testimony.
4 If there's anyone here who would like to bring
5 a matter to the attention of the Board, this is the time
6 set aside for that purpose.
7 MS. LE DUC: I don't know if there's anyone
8 else, but I did submit a speaker slip.
9 MS. PARKER: JoJo, was there a speaker slip
10 that was given to us?
11 MS. OJIMA: Yes, in the back.
12 MS. PARKER: Well, you need to retrieve it and
13 give it to the Chair, please.
14 MS. OJIMA: He’s got it.
15 MR. HUGHES: I just want to point out for the
16 record that the public -- the Open Meeting Laws don't
17 require a public member to identify themselves or
18 anything along those lines. But if they want to do that
19 voluntarily, that's certainly fine.
20 CHAIR CAREY: In any case, the floor is yours.
21 MS. Le DUC: Hello. And I thank you for the
22 opportunity to make a few comments.
23 With the upcoming appointment of a new
24 executive director, the Agency enters a new era. And
25 certainly you've alluded to that --

1 MS. PETERS: Can you use the microphone,
2 please?
3 MS. Le DUC: Oh, is the microphone not on?
4 MS. PETERS: You're way too far away from it.
5 You have to get really close.
6 MS. Le DUC: I have a loud voice, though.
7 With the upcoming appointment of a new
8 executive director, the Agency enters a new era, as
9 Mr. Carey, Board Chair Carey alluded to in his opening
10 remarks.
11 The economic environment in which the Agency
12 operates is dramatically different today, as you've
13 discussed in recent months and, in fact, today.
14 At the same time, a leadership change brings
15 an opportunity to bring a fresh perspective and new
16 ideas. As you move forward, I urge this Board to be more
17 involved in efforts achieving greater transparency in
18 Agency functions and operations. An open, engaged Board
19 that asks hard questions and challenges old assumptions
20 will help achieve this end.
21 Some of the discussion in the past year
22 regarding compensation highlights the need for informed
23 decision-making and more participatory process.
24 Secondly, I encourage the Board to take a
25 greater interest in the operational and administrative

1 functions of this Agency. In this economic crisis,
2 particularly, Board members should hold firmly to their
3 role as stewards of public resources in the support of
4 more efficient organization.
5 I'm happy to share my thoughts with you. I
6 have left my contact information on the speaker slip if
7 you have any questions. I thank you.
8 CHAIR CAREY: Great. Thank you very much.
9 I think we all share an interest in an open and
10 effective and efficient agency.
11 With that, is there anybody else from the
12 public who would like to speak?
13 *(No response)*
14 --o0o—
15 **Item 10. Resolution Recognizing Executive Director**
16 **Terri Parker**
17 CHAIR CAREY: With that, we are at our last
18 item on the agenda, which is an opportunity to recognize
19 Terri Parker.
20 I understand we have a bit of tradition and
21 some recognition.
22 I would like to say, from my own point of view,
23 that public service is a high calling. I think all of us
24 in this room recognize that. And we, as the Agency, we
25 as the housing industry, we as home buyers, renters, and

1 special-needs households, and we, the public, are
2 fortunate to have had the benefit of the tireless and
3 visionary leadership of Theresa Parker.
4 And I can speak from all of those vantage
5 points. And I think we are truly fortunate, as this
6 agency, in her 11 years of tenure, has moved forward,
7 expanded greatly and taken on significant challenges for
8 us.
9 So we have a couple of presentations.
10 The first, I understand, is traditional, and I
11 hope is done with a little more finesse perhaps, than the
12 traditional singing that took place yesterday.
13 Terri, why don't you join me here?
14 MS. PARKER: Yes, there's a great tradition
15 about Board members, that we give them a -- I hope that's
16 what this is -- a clock to have them have something to
17 take with them to memorialize their time on the Board.
18 And I would say that it's been our tradition to
19 give this to our Board members -- not every Board member.
20 We do expect that Board members will have at
21 least been here and been part of the organization. And
22 I'm saying that -- that's true, this is all -- you know,
23 11 and a half years, I can talk about many, many, many
24 Board members. So we always give all of our Board
25 members something. But those that serve for long periods

of time, they get the higher level coupon item that is a consideration.

So this is a beautiful clock. And I think it's great.

So all you have to do is just come on a regular basis.

And this one, it says my name on it, and it says, "*There is never enough time to do everything, but there is always enough time to do the most important things.*" And that's a quote by Brian Tracy, who I don't know who that is. But someone could educate me.

MR. SPEARS: It's a friend of mine.

MS. PARKER: Is there a sports analogy in there, Steve?

MR. SPEARS: No.

MS. PARKER: "Thank you for 11 years of doing the important things," from the CalHFA Board of Directors.

So thank you all very much.

(Applause)

MS. PARKER: I must say that I have been very honored this year with a number of awards and acknowledgements of my public service. I think you're all aware of the Public Administration Award, the academy, that they gave me last spring. And a month ago

I was in Washington, and the Corporation for Supportive Housing Leadership gave me the 2008 Supportive Housing Champion Lifetime Achievement Award. And I have yesterday, or two days ago, gotten recognition from the local mental health directors in the Housing California for the work around Mental Health Services Act housing.

And then my staff last night gave me many fine gifts. I have a beautiful treasured book of photography of many days served here. And so I have many wonderful, wonderful gifts. And a resolution that the chair of the Housing Committee of both the Senate and the Assembly put together that I can take home and put on my wall and have my grandkids say, "Granny, what's that?"

CHAIR CAREY: We have one final action by the Board, and this is a resolution on behalf of the Board that I will not read all these "whereases," but it does catalog just some of the highlights of Terri's service to CalHFA and to the State for over 30 years. And I will say that, "*Therefore, that the Board do hereby thank Ms. Parker for her unceasing effort on the Board's behalf, bid her a fond farewell, and extend to her our best wishes in her future endeavors; and that her name shall be entered into the rolls of CalHFA Directors Emeritus; and that this resolution is delivered*."

And I would like a motion and second from the

1 Board to move this.
2 MS. JACOBS: So moved.
3 MS. GAY: Second.
4 CHAIR CAREY: Further discussion?
5 *(No response)*
6 CHAIR CAREY: I don't even think we need a roll
7 call.
8 All in favor?
9 *(A chorus of "ayes" was heard.)*
10 MR. SPEARS: Public remark?
11 MS. PETERS: Public comment?
12 MR. GIEBEL: You'd better stick around for a
13 while because I'm out of clocks.
14 MS. PARKER: It's just beautiful. It's just
15 beautiful.
16 And, Ruben, I want you to know that your name
17 is on here.
18 MR. SMITH: Wow, that’s pretty good.
19 MS. PARKER: So it's very significant. I
20 appreciate -- and I have said many, many times how much
21 I appreciate this Board -- this Agency has been so
22 well-served because of the dedication and commitment of
23 being a professional board. That being said, that means
24 that each and every one of you who are sitting here,
25 Board Members, are respected and well-regarded in your

own individual fields, and the State of California and the Housing Finance Agency are very fortunate to have the benefit of you, your time, and your energy. Because certainly there's no way in the world that the compensation that we give you as a board member barely even probably would pay for your FPPC form analysis. So we would not be able to do the work that we do, nor serve the public with our mission, if we did not have the expertise of our board.

And it certainly goes without saying that the environment that we are in now, having the expertise of you participating and so willing to give of your time to help us work with these difficult times, is -- the staff and myself, we all thank you very much and feel very much a part of working our way through this together.

CHAIR CAREY: Thank you, Terri.

MS. PARKER: Thank you very, very much for these wonderful gifts. Most of all, the wonderful treasures, I will think about each and every one of you. And thank you again for letting me accomplish many of these things with you.

CHAIR CAREY: Thank you.

(Applause)

CHAIR CAREY: With that, I want to welcome Ruben Smith.

MR. SMITH: Thank you.

CHAIR CAREY: Thank you to the Board for sticking it out today. And I wish everybody happy holidays. Thank you.

We're adjourned.

(The meeting concluded at 3:30 p.m.)

--oOo—

REPORTER'S CERTIFICATE

I hereby certify:

That the foregoing proceedings were duly reported by me at the time and place herein specified;

That the proceedings were reported by me, a duly certified shorthand reporter and a disinterested person, and was thereafter transcribed into typewriting, through computer-aided transcription.

IN WITNESS WHEREOF, I have hereunto set my hand on the 18th day of December 2008.

_____
DANIEL P. FELDHAUS
California CSR #6949
Registered Diplomate Reporter
Certified Realtime Reporter

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State of California

M E M O R A N D U M

To: Board of Directors **Date:** January 8, 2009

Bruce D. Gilbertson, Director of Financing
From: **CALIFORNIA HOUSING FINANCE AGENCY**

Subject: ANNUAL SINGLE FAMILY BOND REAUTHORIZATION RESOLUTION 09-01

Resolution 09-01 would authorize the sale and issuance of CalHFA single family bonds with related interest rate swaps and other financial agreements, as necessary, for another year. In addition, the resolution would authorize the Agency to borrow for homeownership purposes using short-term credit facilities.

Annual reauthorization, a practice approved by the Board every year since 1987, enables the staff to schedule and size our bond transactions to meet demand for loan funds throughout the year without regard to the timing of individual Board meetings.

Resolution 09-01 would authorize single family bonds to be issued in various amounts by category, as follows:

(1) Equal to the amount of prior single family bonds being retired, including eligible bonds of other issuers;

(2) Equal to the amount of private activity bond volume cap made available for our single family program by the California Debt Limit Allocation Committee; and

(3) Up to $900 million of federally-taxable single family bonds (in addition to any taxable bonds issued under the first category).

The current bond market disruptions coupled with general availability of very low rate mortgage capital is expected to limit new issuance activity for the single family program during calendar year 2009. The challenges faced by municipal issuers have been well documented and discussed with this Board on many occasions over the last four months. However, if market conditions improve bonds would be authorized to be issued under any of the previously-approved forms of indenture as listed in the resolution. Current plans anticipate that any bond issuances for our single family program in 2009 will use the Home Mortgage Revenue Bonds indenture, with its Aa2/AA- ratings.

The resolution would also authorize the full range of related financial agreements, including contracts for investment of bond proceeds, for warehousing of mortgages pending the availability of bond proceeds, for interest rate hedging and for forward

delivery of bonds through August 1, 2011. The resolution would also authorize contracts for consulting services or information services related to the financial management of the Agency, including advisors or consultants on interest rate swaps, cash flow management, contracts for financial printing and other financial services.

The resolution would also reauthorize short-term credit facilities in an aggregate amount not to exceed $1 billion (for the Homeownership Programs, Multifamily Programs and Bay Area Housing Plan). This authorization would allow us to continue to utilize our warehouse line from the State's Pooled Money Investment Board, the Bank of America credit line and other such facilities that may become available to the Agency.

In addition, the resolution would reauthorize cooperation with local agencies similar to that accomplished in recent years with the Southern California Home Financing Authority, the City of Los Angeles Department of Housing and the CRHMFA Homebuyers Fund.

In order to allow for necessary overlap of authority for bond issues scheduled during the time that reauthorization is being considered, Resolution 09-01 would not expire until 30 days after the first Board meeting in the year 2010 at which there is a quorum. Likewise, last year's single family resolution (08-03) will not expire until 30 days after this meeting.

Attachment

RESOLUTION NO. 09-01

RESOLUTION OF THE CALIFORNIA HOUSING FINANCE AGENCY AUTHORIZING THE AGENCY'S SINGLE FAMILY BOND INDENTURES, THE ISSUANCE OF SINGLE FAMILY BONDS, CREDIT FACILITIES FOR HOMEOWNERSHIP PURPOSES, AND RELATED FINANCIAL AGREEMENTS AND CONTRACTS FOR SERVICES

WHEREAS, the California Housing Finance Agency (the "Agency") has determined that there exists a need in California for providing financial assistance, directly or indirectly, to persons and families of low or moderate income to enable them to purchase or refinance moderately priced single family residences ("Residences");

WHEREAS, the Agency has determined that it is in the public interest for the Agency to assist in providing such financing by means of various programs, including whole loan and mortgage-backed securities programs (collectively, the "Program") to make loans to such persons and families, or to developers, for the acquisition, development, construction and/or permanent financing of Residences (the "Loans");

WHEREAS, pursuant to Parts 1 through 4 of Division 31 of the Health and Safety Code of the State of California (the "Act"), the Agency has the authority to issue bonds to provide sufficient funds to finance the Program, including the purchase of Loans and mortgage-backed securities, the payment of capitalized interest on the bonds, the establishment of reserves to secure the bonds, and the payment of other costs of the Agency incident to, and necessary or convenient to, the issuance of the bonds;

WHEREAS, the Agency, pursuant to the Act, has from time to time issued various series of its Single Family Mortgage Purchase Bonds (the "SFMP Bonds"), its Home Ownership and Home Improvement Revenue Bonds (the "HOHI Bonds"), its Home Mortgage Revenue Bonds (the "HMP Bonds"), its Home Ownership Mortgage Bonds (the "HOM Bonds"), its Single Family Mortgage Bonds (the "SFMor Bonds"), and its Housing Program Bonds (the "HP Bonds"), and is authorized pursuant to the Act to issue its Residential Mortgage Revenue Bonds (the "RMR Bonds") and additional SFMP Bonds, HOHI Bonds, HMP Bonds, HOM Bonds, SFMor Bonds, and HP Bonds (collectively with bonds authorized under this resolution to be issued under new indentures, the "Bonds") to provide funds to finance the Program;

WHEREAS, pursuant to the Act, the Agency has the authority to enter into credit facilities for the purpose of financing the Program, including the making of Loans and the payment of other costs of the Agency incident to, and necessary or convenient to, the issuance of the bonds;

WHEREAS, pursuant to Chapter 6 of Part 5 of Division 31 (Sections 52060 et seq.) of the Health and Safety Code of the State of California (the "Local Agency Assistance Act"), the Agency also has the authority to enter into agreements with cities, counties and joint powers authorities created by cities and counties (collectively, "Local Agencies"), which provide that the Agency shall sell bonds on behalf of such Local Agencies for the purpose of providing

funds for home mortgages financing residences within the respective jurisdictions of such Local Agencies; and

WHEREAS, the Local Agency Assistance Act provides that although such bonds are to be bonds of the Local Agency ("Local Agency Bonds"), the proceeds of such Local Agency Bonds may be utilized in the Agency's Program, including borrowing such proceeds through the issuance of Bonds to the Local Agency;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors (the "Board") of the California Housing Finance Agency as follows:

Section 1. **Determination of Need and Amount.** The Agency is of the opinion and hereby determines that the issuance of one or more series of Bonds, in an aggregate amount not to exceed the sum of the following amounts, is necessary to provide sufficient funds for the Program:

(a) the aggregate amount of Bonds and/or other qualified mortgage bonds (including bonds of issuers other than the Agency) to be redeemed or maturing in connection with such issuance,

(b) the aggregate amount of private activity bond allocations under federal tax law heretofore or hereafter made available to the Agency (including any such allocations made available to a Local Agency in connection with the issuance of Local Agency Bonds) for such purpose, and

(c) if and to the extent interest on one or more of such series of Bonds is determined by the Executive Director to be intended not to be excludable from gross income for federal income tax purposes, $900,000,000.

Section 2. **Authorization and Timing.** The Bonds are hereby authorized to be issued in such aggregate amount at such time or times on or before the day 30 days after the date on which is held the first meeting of the Board in the year 2010 at which a quorum is present, as the Executive Director of the Agency (the "Executive Director") deems appropriate, upon consultation with the Treasurer of the State of California (the "Treasurer") as to the timing of each such issuance; provided, however, that if the bonds are sold at a time on or before the day 30 days after the date on which is held such meeting, pursuant to a forward purchase or drawdown agreement providing for the issuance of such Bonds on or before August 1, 2011 upon specified terms and conditions, such Bonds may be issued on such later date.

Section 3. **Approval of Forms of Indentures.** The Executive Director and the Secretary of the Board of Directors of the Agency (the "Secretary") are hereby authorized and directed, for and on behalf and in the name of the Agency in connection with the issuance of Bonds, to execute and acknowledge and to deliver to the Treasurer as trustee and/or, if appropriate, to a duly qualified bank or trust company selected by the Executive Director to act, with the approval of the Treasurer, as trustee or co-trustee, fiscal agent or paying agent of the Agency (collectively, the "Trustees"), one or more new indentures, trust agreements or similar documents providing for the issuance of bonds (the "New Indentures"), in one or more forms similar to one or more of the following (collectively, the "Prior Indentures"):

(a) that certain indenture pertaining to the SFMP Bonds (the "SFMP Indenture");

(b) that certain indenture pertaining to the HOHI Bonds (the "HOHI Indenture");

(c) that certain indenture pertaining to the HOM Bonds (the "HOM Indenture");

(d) those certain indentures pertaining to the HMP Bonds (the "HMP Indentures");

(e) that form of general indenture approved by Resolution No. 92-41, adopted November 12, 1992 (the "SHOP Indenture");

(f) that form of master trust indenture proposed by Fannie Mae ("Fannie Mae") in connection with their "MRB Express" program and approved by Resolution No. 93-30, adopted September 7, 1993 (the "Fannie Mae MRB Express Program Indenture");

(g) that form of general indenture designed for the Fannie Mae Index Option Program and approved by Resolution No. 94-01, adopted January 13, 1994 (the "Fannie Mae Index Option Program Indenture");

(h) those certain indentures pertaining to the SFMor Bonds (the "SFMor Indentures");

(i) the form of draw down bond indenture approved by Resolution No. 01-04, as amended by Resolution No. 01-39, adopted November 8, 2001;

(j) the form of bond indenture approved by Resolution No. 02-01, as amended by Resolution 02-17, adopted June 6, 2002;

(k) that certain indenture pertaining to the HP Bonds (the "HP Indenture"); and/or

(l) that certain indenture relating to the RMR Bonds.

Each such New Indenture may be executed, acknowledged and delivered with such changes therein as the officers executing the same approve upon consultation with the Agency's legal counsel, such approval to be conclusively evidenced by the execution and delivery thereof. Changes reflected in any New Indenture may include, without limitation, provision for a supplemental pledge of Agency moneys or assets (including but not limited to, a deposit from the Supplementary Bond Security Account created under Section 51368 of the Act) and provision for the Agency's general obligation to additionally secure the Bonds if appropriate in furtherance of the objectives of the Program.

Section 4. **Approval of Forms of Series and Supplemental Indentures.** The Executive Director and the Secretary are hereby authorized and directed, for and on behalf and in

the name of the Agency, to execute and acknowledge and to deliver with respect to each series of Bonds, if and to the extent appropriate, series and/or supplemental indentures (each a "Supplemental Indenture") under either one of the Prior Indentures or a New Indenture and in substantially the form of the respective supplemental indentures previously executed and delivered or approved, each with such changes therein as the officers executing the same approve upon consultation with the Agency's legal counsel, such approval to be conclusively evidenced by the execution and delivery thereof. Changes reflected in any Supplemental Indenture may include, without limitation, provision for a supplemental pledge of Agency moneys or assets (including but not limited to, a deposit from the Supplementary Bond Security Account created under Section 51368 of the Act) and provision for the Agency's general obligation to additionally secure the Bonds if appropriate in furtherance of the objectives of the Program.

The Executive Director is hereby expressly authorized and directed, for and on behalf and in the name of the Agency, to determine in furtherance of the objectives of the Program those matters required to be determined under the applicable Prior Indenture or any New Indenture, as appropriate, in connection with the issuance of each such series, including, without limitation, any reserve account requirement or requirements for such series.

Section 5. **Approval of Forms and Terms of Bonds.** The Bonds shall be in such denominations, have such registration provisions, be executed in such manner, be payable in such medium of payment at such place or places within or without California, be subject to such terms of redemption (including from such sinking fund installments as may be provided for) and contain such terms and conditions as each Supplemental Indenture as finally approved shall provide. The Bonds shall have the maturity or maturities and shall bear interest at the fixed, adjustable or variable rate or rates deemed appropriate by the Executive Director in furtherance of the objectives of the Program; provided, however, that no Bond shall have a term in excess of fifty years or bear interest at a stated rate in excess of fifteen percent (15%) per annum or in the case of variable rate bonds, a maximum floating interest rate of twenty-five percent (25%) per annum. Any of the Bonds and the Supplemental Indenture(s) may contain such provisions as may be necessary to accommodate an option to put such Bonds prior to maturity for purchase by or on behalf of the Agency or a person other than the Agency, to accommodate the requirements of any provider of bond insurance or other credit enhancement or liquidity support or to accommodate the requirements of purchasers of Dutch auction bonds or indexed floaters.

Section 6. **Authorization of Disclosure.** The Executive Director is hereby authorized to circulate one or more Preliminary Official Statements relating to the Bonds and, after the sale of the Bonds, to execute and circulate one or more Official Statements relating to the Bonds, and the circulation of such Preliminary Official Statements and such Official Statements to prospective and actual purchasers of the Bonds is hereby approved. The Executive Director is further authorized to hold information meetings concerning the Bonds and to distribute other information and material relating to the Bonds.

Section 7. **Authorization of Sale of Bonds.** The Bonds are hereby authorized to be sold at negotiated or competitive sale or sales. The Executive Director is hereby authorized and directed, for and in the name and on behalf of the Agency, to execute and deliver one or more purchase contracts (including one or more forward purchase agreements) relating to the Bonds, by and among the Agency, the Treasurer and such underwriters or other purchasers

(including, but not limited to, Fannie Mae) as the Executive Director may select (the "Purchasers"), in the form or forms approved by the Executive Director upon consultation with the Agency's legal counsel, such approval to be evidenced conclusively by the execution and delivery of said purchase contract by the Executive Director.

The Treasurer is hereby authorized and requested, without further action of the Board and unless instructed otherwise by the Board, to sell each series of Bonds at the time and place and pursuant to the terms and conditions set forth in each such purchase contract as finally executed. The Treasurer is hereby further authorized and requested to deposit the proceeds of any good faith deposit to be received by the Treasurer under the terms of a purchase contract in a special trust account for the benefit of the Agency, and the amount of said deposit shall be retained by the Agency, applied at the time of delivery of the applicable Bonds as part of the purchase price thereof, or returned to the Purchasers, as provided in such purchase contract.

Section 8. **Authorization of Execution of Bonds.** The Executive Director is hereby authorized and directed to execute, and the Secretary is hereby authorized to attest, for and on behalf and in the name of the Agency and under its seal, the Bonds, in an aggregate amount not to exceed the amount authorized hereby, in accordance with the Prior Indenture(s), the Supplemental Indenture(s) or the New Indenture(s) and in one or more of the forms set forth in the Prior Indenture(s), the Supplemental Indenture(s) or the New Indenture(s), as appropriate.

Section 9. **Authorization of Delivery of Bonds.** The Bonds, when so executed, shall be delivered to the Trustees to be authenticated by, or caused to be authenticated by, the Trustees. The Trustees are hereby requested and directed to authenticate, or cause to be authenticated, the Bonds by executing the certificate of authentication and registration appearing thereon, and to deliver the Bonds when duly executed and authenticated to the Purchasers in accordance with written instructions executed on behalf of the Agency by the Executive Director, which instructions said officer is hereby authorized and directed, for and on behalf and in the name of the Agency, to execute and deliver. Such instructions shall provide for the delivery of the Bonds to the Purchasers upon payment of the purchase price or prices thereof.

Section 10. **Authorization of Related Financial Agreements.** The Executive Director and the other officers of the Agency are hereby authorized to enter into, for and in the name and on behalf of the Agency, any and all agreements and documents designed (i) to reduce or hedge the amount or duration of any payment, interest rate, spread or similar risk, (ii) to result in a lower cost of borrowing when used in combination with the issuance or carrying of bonds or investments, or (iii) to enhance the relationship between risk and return with respect to the Program or any portion thereof. To the extent authorized by law, including Government Code Section 5922, such agreements or other documents may include (a) interest rate swap agreements; (b) forward payment conversion agreements; (c) futures or other contracts providing for payments based on levels of, or changes in, interest rates or other indices; (d) contracts to exchange cash flows for a series of payments; (e) contracts, including, without limitation, interest rate floors or caps, options, puts or calls to hedge payment, interest rate, spread or similar exposure; or (f) contracts to obtain guarantees, including guarantees of mortgage-backed securities or their underlying loans; and in each such case may be entered into in anticipation of the issuance of bonds at such times as may be determined by such officers. Such agreements and other documents are authorized to be entered into with parties selected by the Executive

Director, after giving due consideration for the creditworthiness of the counterparties, where applicable, or any other criteria in furtherance of the objectives of the Program.

Section 11. **Authorization of Program Documents.** The Executive Director and the other officers of the Agency are hereby authorized to enter into, for and in the name and on behalf of the Agency, all documents they deem necessary or appropriate in connection with the Program, including, but not limited to, one or more mortgage purchase and servicing agreements (including mortgage-backed security pooling agreements) and one or more loan servicing agreements with such lender or lenders or such servicer or servicers as the Executive Director may select in accordance with the purposes of the Program, and any such selection of a lender or lenders or a servicer or servicers is to be deemed approved by this Board as if it had been made by this Board. The mortgages to be purchased may be fixed rate, step rate, adjustable rate, graduated payment, deferred payment or any combination of the foregoing, may have terms of 40 years or less and may be insured by such mortgage insurers as are selected by the Executive Director in furtherance of the objectives of the Program.

The Executive Director and the other officers of the Agency are hereby authorized to enter into, for and in the name and on behalf of the Agency, one or more mortgage sale agreements with such purchasers as the Executive Director may select in accordance with the objectives of the Program, including but not limited to such agreements with Fannie Mae, Freddie Mac or other government-sponsored enterprise or similar entity for such sales in bulk or otherwise. Any such sale of Loans may be on either a current or a forward purchase basis.

The Executive Director and the other officers of the Agency are hereby authorized to enter into, for and in the name and on behalf of the Agency, contracts to conduct foreclosures of mortgages owned or serviced by the Agency with such attorneys or foreclosure companies as the Executive Director may select in accordance with the objectives of the Program.

The Executive Director and the other officers of the Agency are hereby authorized to enter into, for and in the name and on behalf of the Agency, contracts for the sale of foreclosed properties with such purchasers as the Executive Director may select in accordance with the objectives of the Program. Any such sale of foreclosed properties may be on either an all cash basis or may include financing by the Agency. The Executive Director and the other officers of the Agency are also authorized to enter into any other agreements, including but not limited to real estate brokerage agreements and construction contracts necessary or convenient for the rehabilitation, listing and sale of such foreclosed properties.

The Executive Director and the other officers of the Agency are hereby authorized to enter into, for and in the name and on behalf of the Agency, (i) contracts or agreements for the purchase or sale of mortgage-backed securities; (ii) servicing agreements, including master servicing agreements, in connection with the operation of a program of mortgage-backed securities; (iii) agreements with government-sponsored enterprises, or other secondary market issuers or guarantors of mortgage-backed securities; and (iv) such other program documents as are necessary or appropriate for the operation of a program of mortgage-backed securities.

Section 12. **Authorization of Credit Facilities.** The Executive Director and the other officers of the Agency are hereby authorized to enter into, for and in the name and on

behalf of the Agency, one or more short-term or long-term credit facilities for the purposes of (i) financing the purchase of Loans and/or mortgage-backed securities on an interim basis, prior to the financing thereof with Bonds, whether issued or to be issued; (ii) financing expenditures of the Agency incident to, and necessary or convenient to, the issuance of Bonds, including, but not limited to, Agency expenditures to pay costs of issuance, capitalized interest, redemption price of prior bonds of the Agency, costs relating to credit enhancement or liquidity support, costs relating to investment products, or net payments and expenses relating to interest rate hedges and other financial products; and (iii) enabling the Agency to restructure existing debt and related purposes, including, but not limited to, the redemption of existing bonds and the acquisition of bonds that have been put to liquidity providers as bank bonds. Any such credit facility may be from any appropriate source, including, but not limited to, the Pooled Money Investment Account pursuant to Government Code Section 16312; provided, however, that the aggregate outstanding principal amount of credit facilities authorized under this resolution or Resolution No. 09-02 (the multifamily financing resolution adopted at the same meeting) or Resolution 06-06 (the Bay Area Housing Plan resolution), as amended from time to time, may not at any time exceed $1,000,000,000 (separate and apart from the amount of Bonds authorized by Section 1 of this resolution).

The Executive Director and the other officers of the Agency are hereby authorized to use available Agency moneys (other than and in addition to the proceeds of bonds) (i) to make or purchase Loans and/or mortgage-backed securities to be financed by bonds (including bonds authorized by prior resolutions of this Board) in anticipation of draws on a credit facility, the issuance of Bonds or the availability of Bond proceeds for such purposes and (ii) to purchase Agency bonds to enable the Agency to restructure its debt and for related purposes as authorized under Resolution No. 08-42 and any future Board resolutions thereto amendatory or supplemental.

Section 13. **Local Agency Cooperation.** (a) The Executive Director is hereby authorized and directed, for and in the name and on behalf of the Agency, to execute and deliver one or more agreements with one or more Local Agencies providing that the Agency shall sell Local Agency Bonds for the purpose of providing funds for the Program for the purchase of Loans financing Residences (or mortgage-backed securities underlain by loans financing such Residences) within the jurisdiction of the applicable Local Agency. Each such agreement shall contain the provisions required by Section 52062 of the Local Agency Assistance Act and shall provide that the method by which the Agency shall utilize the proceeds of Local Agency Bonds in the Agency's Program shall be for the Agency to borrow such proceeds by the issuance of Bonds to the Local Agency. The Bonds shall be in the form and shall be issued under the terms and conditions authorized by this resolution, applied as appropriate under the circumstances. The Bonds shall serve as the primary source of payment of and as security for the Local Agency Bonds.

The Local Agency Bonds are hereby authorized to be sold at such time or times, on or before the day 30 days after the date on which is held the first meeting of the Board in the year 2010 at which a quorum is present, as the Executive Director deems appropriate, upon consultation with the Treasurer as to the timing of each such sale.

(b) The Executive Director is hereby authorized to circulate one or more Preliminary Official Statements relating to the Local Agency Bonds and, after the sale of the Local Agency Bonds, to execute and circulate one or more Official Statements relating to the Local Agency Bonds, and the circulation of such Preliminary Official Statements and such Official Statements to prospective and actual purchasers of the Local Agency Bonds is hereby approved. The Executive Director is further authorized to hold information meetings concerning the Local Agency Bonds and to distribute other information and material relating to the Local Agency Bonds.

(c) The Local Agency Bonds are hereby authorized to be sold at negotiated or competitive sale or sales. The Executive Director is hereby authorized and directed, for and in the name and on behalf of the Agency and the Local Agency, to execute and deliver one or more purchase contracts (including one or more forward purchase agreements) relating to the Local Agency Bonds, by and among the Agency, the Treasurer, the Local Agency (if appropriate) and such underwriters or other purchasers (including, but not limited to, Fannie Mae) as the Executive Director may select (the "Local Agency Bond Purchasers"), in the form or forms approved by the Executive Director upon consultation with the Agency's legal counsel, such approval to be evidenced conclusively by the execution and delivery of said purchase contract by the Executive Director.

(d) The Treasurer is hereby authorized and requested, without further action of the Board and unless instructed otherwise by the Board, to sell each series of Local Agency Bonds at the time and place and pursuant to the terms and conditions set forth in each such purchase contract as finally executed. The Treasurer is hereby further authorized and requested to deposit the proceeds of any good faith deposit to be received by the Treasurer under the terms of a purchase contract in a special trust account for the benefit of the Agency and the Local Agency, and the amount of said deposit shall be applied at the time of delivery of the applicable Local Agency Bonds, as the case may be, as part of the purchase price thereof or returned to the Local Agency Bond Purchasers as provided in such purchase contract.

Section 14. **Ratification of Prior Actions.** All actions previously taken by the Agency relating to the implementation of the Program, the issuance of the Bonds, the issuance of any prior bonds, the execution and delivery of related financial agreements and related program agreements and the implementation of any credit facilities as described above, including, but not limited to, such actions as the distribution of the Agency's Lender Program Manual, Mortgage Purchase and Servicing Agreement, Servicing Agreement, Developer Agreement, Servicer's Guide, Program Bulletins and applications to originate and service loans, and the sale of any foreclosed property, are hereby ratified.

Section 15. **Authorization of Related Actions and Agreements.** The Treasurer, the Executive Director and the officers of the Agency, or the duly authorized deputies thereof, are hereby authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all agreements and documents which they deem necessary or advisable in order to consummate the issuance, sale, delivery, remarketing, conversion and administration of Bonds and otherwise to effectuate the purposes of this resolution, including declaring the official intent of the Agency for purposes of U.S. Treasury Regulations Section 1.150-2, and including executing and delivering any amendment or supplement to any agreement or document relating

to Bonds in any manner that would be authorized under this resolution if such agreement or document related to Bonds is authorized by this resolution. Such agreements may include, but are not limited to, remarketing agreements, tender agreements or similar agreements regarding any put option for the Bonds, broker-dealer agreements, market agent agreements, auction agent agreements or other agreements necessary or desirable in connection with the issuance of Bonds in, or the conversion of Bonds to, an auction rate mode or an indexed rate mode, agreements for the investment of moneys relating to the Bonds, reimbursement agreements relating to any credit enhancement or liquidity support or put option provided for the Bonds, continuing disclosure agreements and agreements for necessary services provided in the course of the issuance of the bonds, including but not limited to, agreements with bond underwriters and placement agents, bond trustees, bond counsel and financial advisors and contracts for consulting services or information services relating to the financial management of the Agency, including advisors or consultants on interest rate swaps, cash flow management, and similar matters, and contracts for financial printing and similar services. The Agency's reimbursement obligation under any such reimbursement agreement may be a special, limited obligation or a general obligation and may, subject to the rights of the Bondholders, be secured by a pledge of the same revenues and assets that may be pledged to secure Bonds or by a pledge of other revenues and assets.

This resolution shall constitute full, separate, complete and additional authority for the execution and delivery of all agreements and instruments described in this resolution, without regard to any limitation in the Agency's regulations and without regard to any other resolution of the Board that does not expressly amend and limit this resolution.

Section 16. **Additional Delegation.** All actions by the Executive Director approved or authorized by this resolution may be taken by the Chief Deputy Director of the Agency, the Director of Financing of the Agency, the Comptroller of the Agency or any other person specifically authorized in writing by the Executive Director, and except to the extent otherwise taken by another person shall be taken by the Chief Deputy Director during any period in which the office of the Executive Director is vacant.

SECRETARY'S CERTIFICATE

I, Thomas C. Hughes, Secretary of the Board of Directors of the California Housing Finance Agency, hereby certify that the foregoing is a full, true, and correct copy of Resolution No. 09-01 duly adopted at a regular meeting of the Board of Directors of the California Housing Finance Agency duly called and held on the 22nd day of January, 2009, of which meeting all said directors had due notice; and that at said meeting said Resolution was adopted by the following vote:

AYES:

NOES:

ABSTENTIONS:

ABSENT:

IN WITNESS WHEREOF, I have executed this certificate and affixed the seal of the Board of Directors of the California Housing Finance Agency hereto this 22nd day of January, 2009.

[SEAL]

_____
Thomas C. Hughes
Secretary of the Board of Directors of the
California Housing Finance Agency

SECRETARY'S CERTIFICATE

I, Thomas C. Hughes, Secretary of the Board of Directors of the California Housing Finance Agency, hereby certify that the foregoing is a full, true, and correct copy of Resolution No. 09-01 duly adopted at a regular meeting of the Board of Directors of the California Housing Finance Agency duly called and held on the 22nd day of January, 2009, of which meeting all said directors had due notice; and that at said meeting said Resolution was adopted by the following vote:

AYES:

NOES:

ABSTENTIONS:

ABSENT:

I further certify that I have carefully compared the foregoing copy with the original minutes of said meeting on file and of record in my office; that said copy is a full, true, and correct copy of the original Resolution adopted at said meeting and entered in said minutes; and that said Resolution has not been amended, modified or rescinded in any manner since the date of its adoption, and the same is now in full force and effect.

IN WITNESS WHEREOF, I have executed this certificate and affixed the seal of the Board of Directors of the California Housing Finance Agency hereto this ___ day of _____, ____.

[SEAL]

_____
Thomas C. Hughes
Secretary of the Board of Directors of the
California Housing Finance Agency

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State of California

M E M O R A N D U M

To: Board of Directors **Date:** January 8, 2009

Bruce D. Gilbertson, Director of Financing
From: **CALIFORNIA HOUSING FINANCE AGENCY**

Subject: ANNUAL MULTIFAMILY BOND REAUTHORIZATION RESOLUTION 09-02

Resolution 09-02 would authorize the sale and issuance of CalHFA multifamily bonds with related interest rate swaps and other financial agreements, as necessary, for another year. In addition, the resolution would authorize the Agency to borrow for multifamily purposes using short-term credit facilities.

Annual reauthorization, a practice approved by the Board every year since 1987, enables the staff to schedule and size our bond transactions to meet the demand for loan funds throughout the year without regard to the timing of individual Board meetings.

Resolution 09-02 would authorize multifamily bonds to be issued in various amounts by category, as follows:

(1) Equal to the amount of prior multifamily bonds being retired, including eligible bonds of other issuers;

(2) Equal to the amount of private activity bond volume cap made available for the multifamily program by the California Debt Limit Allocation Committee (CDLAC);

(3) Up to $800 million for the combined amount of 501(c)(3) bonds, "governmental purpose" bonds, and federally-taxable multifamily bonds (in addition to any taxable bonds issued under the first category); and

(4) Up to $300 million for financing or refinancing the acquisition of existing multifamily loans;

The current bond market dislocation coupled with the possible downgrade of the Agency's general obligation rating is expected to severely limit new issuance activity for the multifamily program during calendar year 2009. The challenges faced by municipal issuers have been well documented and discussed with this Board on many

occasions over the last four months. However, if market conditions improve bonds would be authorized to be issued under any of the previously-approved forms of indenture as listed in the resolution and three new conduit forms of indenture attached to the resolution as Exhibits A, B and C. Current plans anticipate that the Agency will issue bonds under one or more of the conduit indentures to finance a small number of multifamily rental developments. Issuance under the Multifamily Housing Revenue Bonds III indenture, which relies on the Agency's general obligation ratings of Aa3/AA- for its credit, is less likely as of the date of this report.

The resolution would also authorize the full range of related financial agreements, including contracts for investment of bond proceeds, for warehousing of mortgages pending the availability of bond proceeds, for interest rate hedging, and for forward delivery of bonds through August 1, 2011. The resolution would also authorize contracts for consulting services or information services related to the financial management of the Agency, including advisors or consultants on interest rate swaps, cash flow management, contracts for financial printing and other financial services.

The resolution would also reauthorize short-term credit facilities in an aggregate amount not to exceed $1 billion (for the Homeownership Programs, Multifamily Programs and Bay Area Housing Plan). This authorization would allow us to continue to utilize our warehouse line from the State's Pooled Money Investment Board, the Bank of America credit line and other such facilities that may become available to the Agency.

In order to allow for necessary overlap of authority for bond issues scheduled during the time that reauthorization is being considered, Resolution 09-02 would not expire until 30 days after the first Board meeting in the year 2010 at which there is a quorum. Likewise, last year's multifamily resolution (08-04) will not expire until 30 days after this meeting.

Attachments

RESOLUTION NO. 09-02

RESOLUTION OF THE CALIFORNIA HOUSING FINANCE AGENCY AUTHORIZING THE AGENCY'S MULTIFAMILY BOND INDENTURES, THE ISSUANCE OF MULTIFAMILY BONDS, CREDIT FACILITIES FOR MULTIFAMILY PURPOSES, AND RELATED FINANCIAL AGREEMENTS AND CONTRACTS FOR SERVICES

WHEREAS, the California Housing Finance Agency (the "Agency") has determined that there exists a need in California for the financing of mortgage loans for the construction or development of multi-unit rental housing developments for the purpose of providing housing for persons and families of low or moderate income (the "Developments");

WHEREAS, the Agency has determined that it is in the public interest for the Agency to assist in providing such financing by means of an ongoing program (the "Program") to make or acquire, or to make loans to lenders to make or acquire, mortgage loans, for the purpose of financing such Developments (the "Loans");

WHEREAS, pursuant to Parts 1 through 4 of Division 31 of the Health and Safety Code of the State of California (the "Act"), the Agency has the authority to issue bonds to provide sufficient funds to finance the Program, including the making of Loans, the payment of capitalized interest on the bonds, the establishment of reserves to secure the bonds, and the payment of other costs of the Agency incident to, and necessary or convenient to, the issuance of the bonds; and

WHEREAS, pursuant to the Act, the Agency has the authority to enter into credit facilities for the purpose of financing the Program, including the making of Loans and the payment of other costs of the Agency incident to, and necessary or convenient to, the issuance of the bonds;

NOW, THEREFORE, BE IT RESOLVED, by the California Housing Finance Agency as follows:

Section 1. **Determination of Need and Amount.** The Agency is of the opinion and hereby determines that the offer, sale and issuance of one or more series of multifamily housing revenue bonds (the "Bonds"), in an aggregate amount not to exceed the sum of the following amounts is necessary to provide sufficient funds for the Program:

(a) the aggregate amount of prior multifamily bonds of the Agency (or of other issuers to the extent permitted by law) to be redeemed or maturing in connection with such issuance;

(b) the aggregate amount of private activity bond allocations under federal tax law heretofore or hereafter made available to the Agency for such purpose;

(c) if and to the extent the Bonds are "qualified 501(c)(3) bonds" under federal tax law, are not "private activity bonds" under federal tax law, or are determined by the Executive Director of the Agency (the "Executive Director") to be intended not to be tax-exempt for federal income tax purposes, $800,000,000; and

(d) if and to the extent the Bonds are issued for the purpose of financing or refinancing the acquisition of existing Loans that finance existing Developments, or for the purpose of refinancing such Developments, $300,000,000.

Section 2. **Authorization and Timing.** The Bonds are hereby authorized to be issued at such time or times on or before the day 30 days after the date on which is held the first meeting in the year 2010 of the Board of Directors of the Agency at which a quorum is present, as the Executive Director deems appropriate, upon consultation with the Treasurer of the State of California (the "Treasurer") as to the timing of each such issuance; *provided, however,* that if the Bonds are sold at a time on or before the day 30 days after the date on which is held such meeting, pursuant to a forward purchase or drawdown agreement providing for the issuance of such Bonds on a later date on or before August 1, 2011, upon specified terms and conditions, such Bonds may be issued on such later date; and *provided, further,* that Bonds being issued to refund Bonds of the type described in Section 1(d) of this resolution or to refinance Developments financed by Bonds of the type described in such Section 1(d) may be issued at any time prior to the original maturity date of the original Loans financed by such Bonds.

Section 3. **Approval of Indentures, Supplemental Indentures and Certain Other Financing Documents.** (a) The Executive Director and the Secretary of the Board of Directors of the Agency (the "Secretary") are hereby authorized and directed, for and on behalf and in the name of the Agency in connection with the issuance of Bonds, to execute and acknowledge and to deliver to a duly qualified bank or trust company selected by the Executive Director to act, with the approval of the Treasurer, as trustee, fiscal agent or paying agent of the Agency (the "Trustee"), one or more new indentures, trust agreements or similar documents providing for the issuance of bonds (the "New Indentures"), in one or more forms similar to one or more of the following (collectively, the "Prior Indentures"):

(1) the Multi-Family Revenue Bonds (Federally Insured Loans) Indenture, dated as of April 17, 1979;

(2) the Multi-Unit Rental Housing Revenue Bonds Indenture, dated as of July 12, 1979;

(3) the Rental Housing Revenue Bonds (FHA Insured Loans) Indenture, dated as of June 1, 1982;

(4) the Multi-Unit Rental Housing Revenue Bonds II Indenture, dated as of September 1, 1982;

(5) the Multifamily Rehabilitation Revenue Bonds, 1983 Issue A Indenture, dated as of December 1, 1983;

(6) the Multifamily Housing Revenue Bond (Insured Letter of Credit 1984-I) Indenture, dated as of March 1, 1984;

(7) the Housing Revenue Bond Indenture, dated as of July 1, 1984;

(8) the Multifamily Rehabilitation Revenue Bond, 1985 Issue A, Indenture, dated as of March 1, 1985;

(9) the form of indenture approved by the Board of Directors of the Agency at its May 11, 1989 meeting for the Financial Guaranty Insurance Company program;

(10) the Housing Revenue Bond II Indenture, dated as of July 1, 1992;

(11) the Multifamily Housing Revenue Refunding Bond Indentures, dated as of July 1, 1993 (including as originally delivered and as amended and restated);

(12) the Multifamily Housing Revenue Bond (Tara Village Apartments), 1994 Series A, Indenture, dated as of November 1, 1994;

(13) the Multifamily Housing Revenue Bond (FHA Insured Mortgage Loans) Indenture, dated February 1, 1995;

(14) the Multifamily Housing Revenue Bond II Indenture, dated as of October 1, 1995;

(15) the Multifamily Housing Revenue Bond III Indenture, dated as of March 1, 1997;

(16) the form of commercial paper note indenture presented to the May 11, 2000 meeting of the Agency;

(17) the Multifamily Loan Purchase Bond Indenture, dated as of July 1, 2000;

(18) the form of draw down bond indenture approved by Resolution No. 01-05, as amended by Resolution No. 01-39, adopted November 8, 2001;

(19) the form of bond indenture approved by Resolution No. 02-02, as amended by Resolution 02-17, adopted June 6, 2002;

(20) the Housing Program Bond Indenture, dated as of November 1, 2004;

(21) the form of Fannie Mae stand-alone Indenture attached hereto as Exhibit A;

(22) the form of Freddie Mac stand-alone Indenture attached hereto as Exhibit B; or

(23) the form of Master Pledge and Assignment attached hereto as Exhibit C.

Each such New Indenture may be executed, acknowledged and delivered with such changes therein as the officers executing the same approve upon consultation with the Agency's legal counsel, such approval to be conclusively evidenced by the execution and delivery thereof.

(b) For each series of Bonds, the Executive Director and the Secretary are hereby authorized and directed, for and on behalf and in the name of the Agency, if appropriate, to execute and acknowledge and to deliver with respect to each series of Bonds, a supplemental indenture (a "Supplemental Indenture") under either one of the Prior Indentures or a New Indenture and in substantially the form of any supplemental indenture or series indenture executed or approved in connection with any of the Prior Indentures, in each case, with such changes therein as the officers executing the same approve upon consultation with the Agency's legal counsel, such approval to be conclusively evidenced by the execution and delivery thereof.

The Executive Director is hereby expressly authorized and directed, for and on behalf and in the name of the Agency, to determine in furtherance of the objectives of the Program those matters required to be determined under the applicable Prior Indenture or the New Indentures, as appropriate, in connection with the issuance of each such series.

(c) For each series of Bonds, the Executive Director is hereby authorized and directed to execute, and the Secretary is hereby authorized to attest, for and in the name and on behalf of the Agency and under its seal, if and to the extent appropriate, a reimbursement agreement, a letter of credit agreement or any other arrangement with respect to credit enhancement or liquidity support, and any intercreditor agreement related thereto, in substantially the forms of the reimbursement agreements, letter of credit agreements or other such arrangements, and intercreditor agreements, contemplated under the Prior Indentures or New Indentures or used in connection with the bonds issued under one or more of the Prior Indentures.

(d) Any New Indenture, Supplemental Indenture, reimbursement agreement, letter of credit agreement or other such arrangement, or intercreditor agreement, as finally executed may include such modifications as the Executive Director may deem necessary or desirable in furtherance of the objectives of the Program, including, but not limited to, one or more of the following provisions:

(1) for the Agency's insured or uninsured, limited or general, obligation to pay any debt secured thereby,

(2) for a pledge of an amount of the Supplementary Bond Security Account to the extent necessary to obtain an appropriate credit rating or appropriate credit enhancement,

(3) for a pledge of additional revenues which may be released periodically to the Agency from the lien of one or more indentures heretofore entered into by the Agency, including but not limited to one or more of the following:

(A) the Prior Indentures,

(B) the Home Mortgage Revenue Bond Indenture, dated as of September 1, 1982, as amended, and

(C) the indentures under which are issued the Single Family Mortgage Bonds,

(4) for a deposit of such other available assets of the Agency in an appropriate amount in furtherance of the Program,

(5) for risk sharing provisions dividing between the Agency and any credit provider and/or FHA, in such manner as the Executive Director may deem necessary or desirable in furtherance of the objectives of the Program, the credit and financing risks relating to the Bonds and the Developments financed by the Bonds,

(6) for liquidity support,

(7) for contingent or deferred interest,

(8) for the subordination of any pledge of or lien on revenues or other collateral to any pledge or lien securing other obligations,

(9) for the use or application of payments or receipts under any arrangement entered into under Section 9 of this resolution.

Section 4. **Approval of Forms and Terms of Bonds.** The Bonds shall be in such denominations, have such registration provisions, be executed in such manner, be payable in such medium of payment at such place or places within or without California, be subject to such terms of redemption (including from such sinking fund installments as may be provided for) and contain such terms and conditions as each Indenture as finally approved shall provide. The Bonds shall have the maturity or maturities and shall bear interest at the fixed, adjustable or variable rate or rates deemed appropriate by the Executive Director in furtherance of the objectives of the Program; *provided, however,* that no Bond shall have a term in excess of fifty years or bear interest at a stated rate in excess of fifteen percent (15%) per annum, or in the case of variable rate bonds, a maximum floating interest rate of twenty-five percent (25%) per annum. Commercial paper shall be treated for these purposes as variable rate bonds. Any of the Bonds and the Supplemental Indenture(s) may contain such provisions as may be necessary to accommodate an option to put such Bonds prior to maturity for purchase by or on behalf of the Agency or a person other than the Agency, to accommodate the requirements of any provider of bond insurance or other credit enhancement or liquidity support or to accommodate the requirements of purchasers of Dutch auction bonds or indexed floaters.

Section 5. **Authorization of Disclosure.** The Executive Director is hereby authorized to circulate one or more preliminary official statements relating to the Bonds and, after the sale of the Bonds, to execute and circulate one or more official statements relating to the Bonds, and the circulation of such preliminary official statement and such official statement to prospective and actual purchasers of the Bonds is hereby approved. The Executive Director is further authorized to hold information meetings concerning the Bonds and to distribute other information and material relating to the Bonds.

Section 6. **Authorization of Sale of Bonds.** The Bonds are hereby authorized to be sold at negotiated or competitive sale or sales. The Executive Director is hereby authorized and directed, for and in the name and on behalf of the Agency, to execute and deliver one or more agreements, by and among the Agency, the Treasurer and such purchasers or underwriters as the Executive Director may select (the "Purchasers"), relating to the sale of the Bonds, in such

form as the Executive Director may approve upon consultation with the Agency's legal counsel, such approval to be evidenced conclusively by the execution and delivery of said agreements by the Executive Director.

The Treasurer is hereby authorized and requested, without further action of this Board and unless instructed otherwise by this Board, to sell the Bonds pursuant to the terms and conditions set forth in each such agreement as finally executed on behalf of the Agency. The Treasurer is hereby further authorized and requested to deposit the proceeds of any good faith deposit to be received by the Treasurer under the terms of such agreement in a special trust account for the benefit of the Agency, and the amount of such deposit shall be retained by the Agency, applied at the time of delivery of the applicable Bonds as part of the purchase price thereof, or returned to the Purchasers, as provided in such agreement.

Section 7. **Authorization of Execution of Bonds.** The Executive Director is hereby authorized and directed to execute, and the Secretary of this Board is hereby authorized and directed to attest, for and on behalf and in the name of the Agency and under its seal, the Bonds, in an aggregate amount not to exceed the amount authorized hereby, in accordance with each New Indenture or Supplemental Indenture in one or more of the forms set forth in such New Indenture or Supplemental Indenture.

Section 8. **Authorization of Delivery of Bonds.** The Bonds when so executed, shall be delivered to the Trustee to be authenticated by or caused to be authenticated by the Trustee. The Trustee is hereby requested and directed to authenticate, or cause to be authenticated, the Bonds by the execution of the certificate of authentication and registration appearing thereon, and to deliver or cause to be delivered the Bonds when duly executed and authenticated to the Purchasers in accordance with written instructions executed on behalf of the Agency by the Executive Director, which instructions said officer is hereby authorized and directed, for and on behalf and in the name of the Agency, to execute and deliver to the Trustee. Such instructions shall provide for the delivery of the Bonds to the Purchasers, upon payment of the purchase price thereof.

Section 9. **Authorization of Related Financial Agreements.** The Executive Director and the other officers of the Agency are hereby authorized to enter into, for and in the name and on behalf of the Agency, any and all agreements and documents designed (i) to reduce or hedge the amount or duration of any payment, interest rate, spread or similar risk, (ii) to result in a lower cost of borrowing when used in combination with the issuance or carrying of bonds or investments, or (iii) to enhance the relationship between risk and return with respect to the Program or any portion thereof. To the extent authorized by Government Code Section 5922, such agreements or other documents may include (a) interest rate swap agreements, (b) forward payment conversion agreements, (c) futures or other contracts providing for payments based on levels of, or changes in, interest rates or other indices, (d) contracts to exchange cash flows for a series of payments, or (e) contracts, including, without limitation, interest rate floors or caps, options, puts or calls to hedge payment, interest rate, spread or similar exposure, and in each such case may be entered into in anticipation of the issuance of bonds at such times as may be determined by such officers. Such agreements and other documents are authorized to be entered into with parties selected by the Executive Director, after giving due consideration for the

creditworthiness of the counterparties, where applicable, or any other criteria in furtherance of the objectives of the Program.

Section 10. **Authorization of Program Documents.** The Executive Director and the other officers of the Agency are hereby authorized and directed to execute all documents they deem necessary or appropriate in connection with the Program, including, but not limited to, regulatory agreements, loan agreements, origination and servicing agreements (or other loan-to-lender documents), servicing agreements, developer agreements, financing agreements, investment agreements, agreements to enter into escrow and forward purchase agreements, escrow and forward purchase agreements, refunding agreements and continuing disclosure agreements, in each case with such other parties as the Executive Director may select in furtherance of the objectives of the Program.

The Executive Director and the other officers of the Agency are hereby authorized to enter into, for and in the name and on behalf of the Agency, one or more mortgage sale agreements with such purchasers as the Executive Director may select in accordance with the objectives of the Program. Any such sale of Loans may be on either a current or a forward purchase basis.

The Executive Director and the other officers of the Agency are hereby authorized to enter into, for and in the name and on behalf of the Agency, contracts to conduct foreclosures of mortgages owned or serviced by the Agency with such attorneys or foreclosure companies as the Executive Director may select in accordance with the objectives of the Program.

The Executive Director and the other officers of the Agency are hereby authorized to enter into, for and in the name and on behalf of the Agency, contracts for the sale of foreclosed properties with such purchasers as the Executive Director may select in accordance with the objectives of the Program. Any such sale of foreclosed properties may be on an all cash basis or may include financing by the Agency. The Executive Director and the other officers of the Agency are also authorized to enter into any other agreements, including but not limited to real estate brokerage agreements and construction contracts, necessary or convenient for the rehabilitation, listing and sale of such foreclosed properties.

Section 11. **Authorization of Credit Facilities.** In addition, the Executive Director and the other officers of the Agency are hereby authorized to enter into, for and in the name and on behalf of the Agency, one or more short-term or long-term credit facilities for the purposes of (i) financing the purchase of Loans on an interim basis, prior to the financing of such Loans with Bonds, whether issued or to be issued; (ii) financing expenditures of the Agency incident to, and necessary or convenient to, the issuance of Bonds, including, but not limited to, Agency expenditures to pay costs of issuance, capitalized interest, redemption price of prior bonds of the Agency, costs relating to credit enhancement or liquidity support, costs relating to investment products, or net payments and expenses relating to interest rate hedges and other financial products; and (iii) enabling the Agency to restructure existing debt and related purposes, including, but not limited to, the redemption of existing bonds and the acquisition of bonds that have been put to liquidity providers as bank bonds. Any credit facility entered into pursuant to this Section 11 may be from any appropriate source, including, but not limited to, the Pooled Money Investment Account pursuant to Government Code Section 16312; *provided,*

however, that the aggregate outstanding principal amount of credit facilities authorized under this resolution, Resolution No. 09-01 (the single family financing resolution adopted at the same meeting), or Resolution No. 06-06 (the Bay Area Housing Plan resolution) may not at any time exceed $1,000,000,000 (separate and apart from the amount of Bonds authorized by Section 1 of this resolution).

The Executive Director and the other officers of the Agency are hereby authorized to use available Agency moneys (other than and in addition to the proceeds of bonds) to make or purchase loans to be financed by bonds (including bonds authorized by prior resolutions of this Board) in anticipation of draws on a credit facility, the issuance of Bonds or the availability of Bond proceeds for such purposes.

The Executive Director and the other officers of the Agency are hereby authorized to use available Agency moneys to purchase Agency bonds to enable the Agency to restructure its debt and for related purposes. Any Agency bonds so purchased shall remain outstanding for all purposes except to the extent that the Executive Director or the other officers of the Agency expressly provide for the retirement or redemption, and cancellation, of such bonds. Any Agency bonds so purchased may be purchased and resold, in each case on such terms as may be determined by the Executive Director and the other officers of the Agency in the best interests of the Agency. The agency may establish any account or accounts as may be necessary or desirable in connection with the purchase of such bonds.

Section 12. **Ratification of Prior Actions.** All actions previously taken by the officers of the Agency in connection with the implementation of the Program, the issuance of the Bonds, the issuance of any prior bonds (the "Prior Bonds"), the execution and delivery of related financial agreements and related program agreements and the implementation of any credit facilities as described above are hereby approved and ratified.

Section 13. **Authorization of Related Actions and Agreements.** The Treasurer, the Executive Director and the officers of the Agency, or the duly authorized deputies thereof, are hereby authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all agreements and documents which they deem necessary or advisable in order to consummate the issuance, sale, delivery, remarketing, conversion and administration of Bonds and Prior Bonds and otherwise to effectuate the purposes of this resolution, including declaring the official intent of the Agency for purposes of U.S. Treasury Regulations Section 1.150-2, and including executing and delivering any amendment or supplement to any agreement or document relating to Bonds or Prior Bonds in any manner that would be authorized under this resolution if such agreement or document related to Bonds authorized by this resolution. Such agreements may include, but are not limited to, remarketing agreements, tender agreements or similar agreements regarding any put option for Bonds or Prior Bonds, broker-dealer agreements, market agent agreements, auction agent agreements or other agreements necessary or desirable in connection with the issuance of Bonds in, or the conversion of Bonds or Prior Bonds to, an auction rate mode or an indexed rate mode, agreements for the investment of moneys relating to the Bonds or Prior Bonds, reimbursement agreements relating to any credit enhancement or liquidity support or put option provided for the Bonds or the Prior Bonds, continuing disclosure agreements and agreements for necessary services provided in the course of the issuance of the bonds, including but not limited to, agreements with bond underwriters and placement agents,

bond trustees, bond counsel and financial advisors and contracts for consulting services or information services relating to the financial management of the Agency, including advisors or consultants on interest rate swaps, cash flow management, and similar matters, and contracts for financial printing and similar services. The Agency's reimbursement obligation under any such reimbursement agreement may be a special, limited obligation or a general obligation and may, subject to the rights of the Bondholders, be secured by a pledge of the same revenues and assets that may be pledged to secure Bonds or by a pledge of other revenues and assets.

This resolution shall constitute full, separate, complete and additional authority for the execution and delivery of all agreements and instruments described in this resolution, without regard to any limitation in the Agency's regulations and without regard to any other resolution of the Board that does not expressly amend and limit this resolution.

Section 14. **Additional Delegation.** All actions by the Executive Director approved or authorized by this resolution may be taken by the Chief Deputy Director of the Agency, the Director of Financing of the Agency, the Comptroller of the Agency or any other person specifically authorized in writing by the Executive Director, and except to the extent otherwise taken by another person shall be taken by the Chief Deputy Director during any period in which the office of the Executive Director is vacant.

SECRETARY'S CERTIFICATE

I, Thomas C. Hughes, Secretary of the Board of Directors of the California Housing Finance Agency, hereby certify that the foregoing is a full, true, and correct copy of Resolution No. 09-02 duly adopted at a regular meeting of the Board of Directors of the California Housing Finance Agency duly called and held on the 22nd day of January, 2009, of which meeting all said directors had due notice; and that at said meeting said resolution was adopted by the following vote:

AYES:

NOES:

ABSTENTIONS:

ABSENT:

IN WITNESS WHEREOF, I have executed this certificate and affixed the seal of the Board of Directors of the California Housing Finance Agency hereto this 22nd day of January, 2009.

[SEAL]

_____
Thomas C. Hughes
Secretary of the Board of Directors of the
California Housing Finance Agency

SECRETARY'S CERTIFICATE

I, Thomas C. Hughes, Secretary of the Board of Directors of the California Housing Finance Agency, hereby certify that the foregoing is a full, true, and correct copy of the Resolution No. 09-02 duly adopted at a regular meeting of the Board of Directors of the California Housing Finance Agency duly called and held on the 22nd day of January, 2009, of which meeting all said directors had due notice; and that at said meeting said resolution was adopted by the following vote:

AYES:

NOES:

ABSTENTIONS:

ABSENT:

I further certify that I have carefully compared the foregoing copy with the original minutes of said meeting on file and of record in my office; that said copy is a full, true, and correct copy of the original resolution adopted at said meeting and entered in said minutes; and that said resolution has not been amended, modified, or rescinded in any manner since the date of its adoption, and the same is now in full force and effect.

IN WITNESS WHEREOF, I have executed this certificate and affixed the seal of the Board of Directors of the California Housing Finance Agency hereto this ____ day of _____, _____.

[SEAL]

_____
Thomas C. Hughes
Secretary of the Board of Directors of the
California Housing Finance Agency

EXHIBIT A

[FORM OF FANNIE MAE INDENTURE]

TRUST INDENTURE

between

CALIFORNIA HOUSING FINANCE AGENCY,

and

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

Relating to

$[_____]
CALIFORNIA HOUSING FINANCE AGENCY
MULTIFAMILY HOUSING REVENUE BONDS
([_____] PROJECT)
2009 SERIES [__]

[_____] 1, 2009

TRUST INDENTURE

This **TRUST INDENTURE**, dated as of **[____] 1, 2009** ("**Indenture**"), is by the **CALIFORNIA HOUSING FINANCE AGENCY,** a public instrumentality and a political subdivision of the State of California (herein called the "**Issuer**"), and **U.S. BANK NATIONAL ASSOCIATION,** a national banking association duly organized and existing under the laws of the United States of America, having a corporate trust office in San Francisco, California, and being qualified to accept and administer the trusts hereby created, as trustee (herein called the "**Trustee**").

The meaning of capitalized terms can be determined
by reference to Article I of this Indenture.

RECITALS

A. The Issuer is authorized by the Act to issue revenue bonds for the purpose of financing the development of multifamily rental housing for persons of low and moderate income.

B. The Borrower has requested that the Issuer provide financing for the Mortgaged Property to be owned by the Borrower by issuing the Bonds and by using the Net Bond Proceeds to fund the Loan to the Borrower and the Borrower has agreed to secure the Loan by placing the Security Instrument on the Mortgaged Property.

C. The Issuer has determined that the issuance and sale of the Bonds and the application of the Net Bond Proceeds to fund the Loan will facilitate the financing of the Mortgaged Property and will accomplish a valid public purpose of the Issuer.

D. The Issuer has, pursuant to the Act and the Bond Resolution, authorized (i) the issuance of the Bonds in the Principal Amount for the purpose of providing financing for the Mortgaged Property, (ii) the execution and delivery of this Indenture to establish the terms of the Bonds and the security for the Bonds and (iii) the execution and delivery of the Financing Agreement to establish certain terms and conditions of the Loan.

E. By executing this Indenture, the Issuer is directing the deposit of the Net Bond Proceeds with the Trustee, to be used by the Trustee to fund the Loan to the Borrower. The proceeds of the Loan will be applied, together with other funds, to the in order to effect the financing of the Mortgaged Property.

F. The Issuer, the Trustee and the Borrower are concurrently entering into the Financing Agreement.

G. The Loan will be (i) made by the Issuer pursuant to the Financing Agreement, (ii) evidenced by the Note, (iii) secured by the Security Instrument and (iv) otherwise documented, evidenced and secured by the other Loan Documents.

H. Fannie Mae has agreed, subject to the satisfaction of certain conditions, to facilitate the financing of the Mortgaged Property by providing credit enhancement and liquidity support for the Bonds pursuant to the Credit Facility.

I. The credit enhancement and liquidity commitments of Fannie Mae in the Credit Facility will expire on different dates and be subject to early termination as provided in the Credit Facility. The Liquidity Expiration Date will automatically extend by one additional calendar year on the Liquidity First Extension Date and on each anniversary of the Liquidity First Extension Date unless Fannie Mae sends written notice to the Trustee to the contrary in which case the Liquidity Expiration Date in effect at the time such notice is sent to the Trustee will not change.

J. Pursuant to the Assignment, the Issuer will assign and deliver all of its right, title and interest in and to the Loan, including the Note, the Security Instrument and the other Loan Documents, to the Trustee and the Credit Provider, as their interests may appear.

K. The operation of the Mortgaged Property will be subject to the Regulatory Agreement.

L. The Issuer has determined that all things necessary to make the Bonds, when executed by the Issuer and authenticated by the Trustee and issued in accordance with this Indenture, the valid, binding and legal special and limited obligations of the Issuer and to constitute this Indenture a valid assignment and pledge of the Trust Estate as security for the payment of the principal of and interest and any premium on, the Bonds, have been done, and the creation, execution and delivery of this Indenture and the creation, execution and delivery of the Bonds, subject to the terms of this Indenture, have been duly authorized by the Issuer.

J. The Trustee has trust powers and the power and authority to enter into this Indenture, to accept trusts generally and to accept and execute the trust created by this Indenture; the Trustee has accepted the trust so created, and to evidence such acceptance, has joined in the execution of this Indenture.

GRANTING CLAUSES

To secure the payment of the principal of and interest and any premium on, and the purchase price of, the Bonds according to their tenor and effect, to secure, on a parity basis, all obligations owed to the Credit Provider under the Credit Facility Documents and the Loan Documents, and to secure the performance and observance by the Issuer of the covenants expressed or implied in this Indenture and in the Bonds, the Issuer absolutely and irrevocably pledges and assigns the property described in the following paragraphs (1) through (5) to the Trustee for the benefit of the Bondholders and to the Credit Provider, as their interests may appear, subject to the Assignment and the provisions of this Indenture permitting the application of such property for the purposes set forth in this Indenture:

(1) all right, title and interest of the Issuer in and to the Loan, including the Note, the Security Instrument and the other Loan Documents and in and to the Financing Agreement, reserving, however, the Reserved Rights;

(2) all rights to receive payments on the Note and under the other Loan Documents, including all proceeds of insurance or condemnation awards;

(3) all right, title and interest of the Issuer in and to the Revenues, the Net Bond Proceeds and the accrued interest, if any, derived from the sale of the Bonds, and all Funds and Accounts under this Indenture (including, without limitation, moneys, documents, securities, investments, Investment Income, instruments and general intangibles on deposit or otherwise held by the Trustee) but excluding all moneys in the Fees Account, the Rebate Fund and the Costs of Issuance Fund [unless and to the extent funded with Net Bond Proceeds] (including within such exclusion Investment Income retained in the Costs of Issuance Fund and the Rebate Fund);

(4) all funds, moneys and securities and any and all other rights and interests in property, whether tangible or intangible, from time to time conveyed, mortgaged, pledged, assigned or transferred by delivery or by writing of any kind to the Trustee as additional security under this Indenture for the benefit of the Bondholders and the Credit Provider; and

(5) all of the proceeds of the foregoing, including, without limitation, Investments and Investment Income (except as excluded above);

TO HAVE AND TO HOLD unto the Trustee and the Credit Provider, as their interests may appear;

IN TRUST, NEVERTHELESS, upon the terms set forth in this Indenture for the equal and proportionate benefit, security and protection of (i) all Registered Owners of the Bonds, without privilege, priority or distinction as to the lien or otherwise of any of the Bonds over any of the other Bonds and (ii) the Credit Provider to secure the payment of all amounts owed to the Credit Provider under the Credit Facility Documents;

PROVIDED, FURTHER, HOWEVER, that if the Issuer or its successors or assigns pay or cause to be paid to the Registered Owners of the Bonds the principal of and interest and any premium to become due on the Bonds at the times and in the manner provided in this Indenture, and if no amount is owing by the Borrower to the Issuer or the Trustee under the Financing Agreement or to the Credit Provider under the Credit Facility Documents, and if the Issuer keeps, performs and observes, or causes to be kept, performed and observed, all of its covenants, warranties and agreements contained in this Indenture, this Indenture and the estate and rights granted by this Indenture shall terminate and be discharged in accordance with its terms, upon which termination the Trustee shall execute and deliver to the Issuer such instruments in writing as shall be necessary to satisfy the lien of this Indenture, and, in accordance with Article IX, shall reconvey to the Issuer any property at the time subject to the lien of this Indenture which may then be in the Trustee's possession, except amounts held by the Trustee for the payment of principal of and interest and any premium on the Bonds, or moneys held in the Rebate Fund for payment to the United States Government or moneys held in the Fees Account for the payment of accrued and unpaid Third Party Fees; otherwise this Indenture shall be and remain in full force and effect, upon the trusts and subject to the covenants and conditions set forth in this Indenture; and

FINALLY, all Bonds issued and secured under this Indenture are to be issued, authenticated and delivered, and all property, rights and interests, including, but not limited to,

the amounts payable under the Financing Agreement and any other amounts assigned and pledged by this Indenture are to be dealt with and disposed of under, upon and subject to, the terms, conditions, stipulations, covenants, agreements, trusts, uses and purposes expressed in this Indenture, and the Issuer has agreed and covenanted, and agrees and covenants with the Trustee and with the Registered Owners of the Bonds as set forth in this Indenture.

ARTICLE I
DEFINITIONS AND INTERPRETATION

SECTION 1.1 **Definitions**. All capitalized terms used in this Indenture have the meanings given to those terms in this Section 1.1 or elsewhere in this Indenture unless the context clearly indicates a different meaning.

"**Account**" means an account established within a Fund.

"**Act**" means Parts 1 through 4 of Division 31 of the Health and Safety Code of the State, and all laws supplementary thereto and amendatory thereof.

"**Act of Bankruptcy**" means any proceeding instituted under the Bankruptcy Code or other applicable insolvency law by or against the Issuer.

"**Adjustment Date**" means any date on which the interest rate on the Bonds is adjusted to a different Mode or to a different Reset Rate. An Adjustment Date may only occur on an Interest Payment Date or, if such date is not a Business Day, the following Business Day. Any Reset Date and the Fixed Rate Adjustment Date are Adjustment Dates.

"**Advance**" means an advance made under the Credit Facility.

"**Affiliate**" as applied to any person, means any other person directly or indirectly controlling, controlled by, or under common control with, that person. For the purposes of this definition, "control" (including with correlative meanings, the terms "controlling", "controlled by" and "under common control with"), as applied to any person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of that person, whether through the ownership of voting securities, partnership interests or by contract or otherwise.

"**Alternate Credit Facility**" means a letter of credit (whether or not so named), surety bond, insurance policy, standby bond purchase agreement, credit enhancement instrument, collateral purchase agreement, mortgage backed security or similar agreement, instrument or facility (other than the initial Credit Facility) provided in accordance with the Financing Agreement.

"**Alternate Credit Provider**" means the provider of an Alternate Credit Facility.

"**as their interests may appear**" or "**as its interest may appear**" means, with reference to any of the Assigned Rights, the respective interests, exclusive of the Reserved Rights of the Issuer, of Fannie Mae and of the Trustee to such documents and rights as set forth in the Assignment.

"**Assigned Rights**" has the meaning given to that term in the Assignment.

"**Assignment**" means the Assignment and Intercreditor Agreement, dated as of the date of this Indenture, among the Issuer, the Trustee and Fannie Mae, and acknowledged and agreed to by the Borrower, as it may be amended, supplemented or restated from time to time.

"**Authorized Attesting Officer**" means the Secretary of the Board of Directors, the Chairperson, the Executive Director, the Deputy Director or the Director of Financing and any other officer or employee of the Issuer designated by certificate of any of the foregoing as authorized by the Issuer to attest or certify official acts and records of the Issuer, and includes any assistant or deputy officer to the principal officer or officers exercising such responsibilities.

"**Authorized Borrower Representative**" means any person who, at any time and from time to time, is designated as the Borrower's authorized representative by written certificate furnished to the Issuer, the Loan Servicer, the Credit Provider and the Trustee containing the specimen signature of such person and signed on behalf of the Borrower by or on behalf of any authorized general partner of the Borrower if the Borrower is a general or limited partnership, by any authorized managing member of the Borrower if the Borrower is a limited liability company, or by any authorized officer of the Borrower if the Borrower is a corporation, which certificate may designate an alternate or alternates. The Trustee may conclusively presume that a person designated in a written certificate filed with it as an Authorized Borrower Representative is an Authorized Borrower Representative until such time as the Borrower files with it (with a copy to the Issuer, the Loan Servicer and the Credit Provider) a written certificate revoking such person's authority to act in such capacity.

"**Authorized Denomination**" means, (i) during any Weekly Variable Rate Period, $100,000 or any integral multiple of $5,000 in excess of $100,000, and (ii) during any Reset Period or the Fixed Rate Period, $5,000 or any integral multiple of $5,000.

"**Authorized Officer**" means the Chairperson, the Executive Director, the Deputy Director or the Director of Financing and any other officer or employee of the Issuer designated by certificate of any of the foregoing as authorized by the Issuer to perform a specified act, sign a specified document or otherwise take action with respect to the Bonds.

"**Available Moneys**" means, as of any date of determination, any of (i) the proceeds of the Bonds, (ii) remarketing proceeds received from the Remarketing Agent or any purchaser of Bonds (other than funds provided by the Borrower, the Issuer, any Affiliate of either the Borrower or the Issuer or any guarantor of the Loan), (iii) moneys received by the Trustee pursuant to a draw on the Credit Facility, (iv) any other amounts, including the proceeds of refunding bonds, for which, in each case, the Trustee has received an Opinion of Counsel acceptable to each Rating Agency to the effect that the use of such amounts to make payments on the Bonds would not violate Section 362(a) of the Bankruptcy Code (or that relief from the automatic stay provisions of such Section 362(a) would be available from the bankruptcy court) or be avoidable as preferential payments under Section 544, 547 or 550 of the Bankruptcy Code should the Issuer or the Borrower become a debtor in proceedings commenced under the Bankruptcy Code; (v) the price paid by the Credit Provider for the purchase of Bonds in lieu of redemption pursuant to Section 3.7; and (vi) Investment Income derived from the investment of moneys described in clause (i), (ii), (iii) or (iv).

"**Bankruptcy Code**" means Title 11 of the United States Code entitled "Bankruptcy," as in effect now and in the future, or any successor statute.

"**Beneficial Owner**" means, for any Bond which is held by a nominee, the beneficial owner of such Bond.

"**Bond**" or "**Bonds**" means the Issuer's Multifamily Housing Revenue Bonds ([_____] Project) 2009 Series [___] in the original aggregate principal amount of $[_____].

"**Bond Counsel**" means (i) on the Closing Date, the law firm or law firms delivering the approving opinion(s) with respect to the Bonds or (ii) after the Closing Date, any law firm selected by the Issuer and acceptable to the Credit Provider, of nationally recognized standing in matters pertaining to the exclusion from gross income for federal income tax purposes of the interest payable on bonds issued by states and political subdivisions.

"**Bond Documents**" means the Assignment, the Bonds, the Bond Purchase Agreement, the Credit Facility, the Disclosure Agreement, the Financing Agreement, this Indenture, the Regulatory Agreement (and any other agreement relating to rental restrictions on the Mortgaged Property), the Remarketing Agreement, the Tax Certificate, any Tender Agent Agreement, and all other documents, instruments and agreements executed and delivered in connection with the issuance, sale, delivery and/or remarketing of the Bonds, as each such agreement or instrument may be amended, supplemented or restated from time to time.

"**Bond Purchase Agreement**" means the Bond Purchase Agreement, dated as of [____] 1, 2009, among the Underwriter, the Issuer and the Borrower.

"**Bond Purchase Fund**" means the Bond Purchase Fund created by Section 5.1.

"**Bond Register**" means the Bond Register maintained by the Trustee pursuant to Section 2.16.

"Bond Resolution" means the resolution adopted by the Issuer on [_____], 2009, authorizing and approving the issuance and sale of the Bonds and the execution and delivery of this Indenture and certain other documents, making certain appointments and determining certain details with respect to the Bonds.

"**Bondholder,**" "**holder,**" "**Owner,**" "**owner,**" "**Registered Owner**" or "**registered owner**" means, with respect to any Bond, the owner of the Bond as shown on the Bond Register.

"**Book-Entry Bonds**" means that part of the Bonds for which a Securities Depository or its nominee is the Bondholder.

"**Book-Entry System**" means an electronic system in which the clearance and settlement of securities transactions is made through electronic book-entry changes.

"**Borrower**" means [_____].

"**Borrower Documents**" means the Bond Documents to which the Borrower is a party, the Credit Facility Documents to which the Borrower is a party and the Loan Documents and all other documents to which the Borrower is a party and which are being executed and delivered by

the Borrower in connection with the transactions provided for in the Bond Documents, the Loan Documents and the Credit Facility Documents.

"**Business Day**" means any day other than:

(a) a Saturday or a Sunday;

(b) any day on which banking institutions located in the City of New York, New York are required or authorized by law or executive order to close;

(c) any day on which banking institutions located in the city or cities in which the Designated Office of the Trustee or the Loan Servicer is located are required or authorized by law or executive order to close;

(d) prior to the Fixed Rate Adjustment Date, a day on which the New York Stock Exchange is closed or on which banking institutions located in the city in which the Remarketing Agent is located are required or authorized by law or executive order to close; or

(e) so long as a Credit Facility is in effect, any day on which the Credit Provider is closed.

"**Certificate of Borrower**" means the Certificate of Borrower dated [_____], 2009, as it may be amended, supplemented or restated from time to time.

"**Closing Date**" means the date on which the Bonds are issued and delivered to or upon the order of the Underwriter.

"**Code**" means the Internal Revenue Code of 1986, as amended ("**1986 Code**"); each reference to the Code is deemed to include (i) any successor internal revenue law and (ii) the applicable regulations whether final, temporary or proposed under the Code or such successor law. Any reference to a particular provision of the Code is deemed to include any successor provision of any successor internal revenue law and applicable regulations whether final, temporary or proposed under such provision or successor provision.

"**Conditional Redemption**" means a redemption where the Trustee has stated in the notice of redemption that the redemption is conditioned upon deposit of funds as further described in Section 3.4.

"**Costs of Issuance**" means:

(a) the fees, costs and expenses of (i) the Issuer, the Issuer's counsel and the Issuer's financial advisor, if any, (ii) the Underwriter (including discounts to the Underwriter or other purchasers of the Bonds, other than original issue discount, incurred in the issuance and sale of the Bonds) and the Underwriter's counsel, (iii) Bond Counsel, (iv) the Trustee and the Trustee's counsel, (v) the Loan Servicer and the Loan Servicer's counsel, if any, (vi) the Credit Provider and the Credit Provider's counsel, (vii) the Borrower's counsel and the Borrower's financial advisor, if any, and (viii) the Rating Agency;

(b) costs of printing the offering documents relating to the sale of the Bonds; and

(c) all other fees, costs and expenses directly associated with the authorization, issuance, sale and delivery of the Bonds, including printing costs, costs of reproducing documents, filing and recording fees, and any fees, costs and expenses required to be paid to the Loan Servicer in connection with the origination of the Loan.

"**Costs of Issuance Deposit**" means the deposit in the amount of $_____ to be made by the Borrower with the Trustee on the Closing Date to pay Costs of Issuance.

"**Costs of Issuance Fund**" means the Costs of Issuance Fund created by Section 5.1.

"**Credit Facility**" means the Credit Enhancement Instrument, dated the Closing Date, issued by Fannie Mae to the Trustee, or any Alternate Credit Facility in effect at the time, as any such facility may be amended, supplemented or restated from time to time.

"**Credit Facility Account**" means the Credit Facility Account of the Revenue Fund.

"**Credit Facility Documents**" means the Reimbursement Agreement, the Certificate of Borrower, all Collateral Agreements (as that term is defined in the Security Instrument), the Hedge Documents, the Hedge Reserve Escrow Account Security Agreement, the Hedge Security Agreement, [the Operating Reserve Agreement,] the Pledge Agreement and all other agreements and documents securing the Credit Provider or otherwise relating to the provision of the Credit Facility, as any such agreement may be amended, supplemented or restated from time to time.

"**Credit Provider**" means, so long as the initial Credit Facility is in effect, Fannie Mae, or so long as any Alternate Credit Facility is in effect, the Alternate Credit Provider then obligated under the Alternate Credit Facility.

"**Custodian**" means the custodian under the Pledge Agreement.

"**Designated Office**" of the Trustee, the Tender Agent, the Remarketing Agent or the Loan Servicer means, respectively, the office of the Trustee, the Tender Agent, the Remarketing Agent or the Loan Servicer at the respective address set forth in Section 13.4 or at such other address as may be specified in writing by the Trustee, the Tender Agent, the Remarketing Agent or the Loan Servicer, as applicable, as provided in Section 13.4.

"**Disclosure Agreement**" means the Continuing Disclosure Agreement, dated as of [___] 2009, by the Borrower**,** the Issuer and the Trustee.

"**DTC**" means The Depository Trust Company and any successor to it or any nominee of it.

"**DTC Participant**" has the meaning given to that term in Section 2.15(b).

"**Electronic Means**" means a facsimile transmission or any other electronic means of communication approved in writing by the Credit Provider.

"**Event of Default**" means, as used in any Transaction Document, any event described in that document as an Event of Default. Any "Event of Default" as described in any Transaction Document is not an "Event of Default" in any other Transaction Document unless that other Transaction Document specifically so provides.

"**Extension Date**" means, with respect to the initial Credit Facility, the date that is one Business Day prior to the Liquidity Expiration Date and, with respect to an Alternate Credit Facility, the date that is five Business Days prior to the expiration date of the Alternate Credit Facility.

"**Extraordinary Items**" means, with respect to the Trustee, reasonable compensation for extraordinary services and/or reimbursement for reasonable extraordinary costs and expenses including reasonable fees and expenses of its counsel.

"**Facility Fee**" has the meaning given to that term in the Reimbursement Agreement.

"**Fannie Mae**" means Fannie Mae, a corporation organized and existing under the Federal National Mortgage Association Charter Act, 12 U.S.C., § 1716 et seq., and its successors and assigns.

"**Fees Account**" means the Fees Account of the Revenue Fund.

"**Financing Agreement**" means the Financing Agreement, dated as of the date of this Indenture, among the Issuer, the Trustee and the Borrower, as amended, supplemented or restated from time to time.

"**Fixed Rate**" means the rate or rates of interest borne by the Bonds as determined in accordance with Section 2.7.

"**Fixed Rate Adjustment Date**" means the date on which the interest rate on the Bonds adjusts from the Weekly Variable Rate or a Reset Rate to the Fixed Rate pursuant to Section 2.8.

"**Fixed Rate Period**" means the period beginning on the Fixed Rate Adjustment Date and ending on the last stated Maturity Date of the Bonds.

"**Fund**" means any fund created by Section 5.1.

"**Government Obligations**" means direct obligations of, and obligations on which the full and timely payment of principal and interest is unconditionally guaranteed by, the full faith and credit of the United States of America.

"**Hedge Documents**" has the meaning given that term in the Hedge Security Agreement.

"**Hedge Reserve Escrow Account Security Agreement**" means the Hedge Reserve Escrow Account Security Agreement dated as of the date hereof among the Borrower, the Loan Servicer and Fannie Mae, as amended, supplemented or restated from time to time.

"**Hedge Security Agreement**" means the Hedge Security Agreement dated as of the date hereof among the Borrower, the Loan Servicer and Fannie Mae, as amended, supplemented or restated from time to time.

"**Highest Rating Category**" has the meaning, with respect to an Investment, given in this definition. If the Bonds are rated by a Rating Agency, the term "Highest Rating Category" means, with respect to an Investment, that the Investment is rated by each Rating Agency in the highest rating given by that Rating Agency for that general category of security. If at any time the

Bonds are not rated (and, consequently, there is no Rating Agency), then the term "Highest Rating Category" means, with respect to an Investment, that the Investment is rated by S&P or Moody's in the highest rating given by that rating agency for that general category of security. By way of example, the Highest Rating Category for tax-exempt municipal debt established by S&P is "A-1+" for debt with a term of one year or less and "AAA" for a term greater than one year, with corresponding ratings by Moody's of "MIG-1" (for fixed rate) or "VMIG-1" (for variable rate) for three months or less and "Aaa" for greater than three months. If at any time (i) the Bonds are not rated, (ii) both S&P and Moody's rate an Investment and (iii) one of those ratings is below the Highest Rating Category, then such Investment will, nevertheless, be deemed to be rated in the Highest Rating Category if the lower rating is no more than one rating category below the highest rating category of that rating agency. For example, an Investment rated "AAA" by S&P and "Aa3" by Moody's is rated in the Highest Rating Category. If, however, the lower rating is more than one full rating category below the Highest Rating Category of that rating agency, then the Investment will be deemed to be rated below the Highest Rating Category. For example, an Investment rated "AAA" by S&P and "A1" by Moody's is not rated in the Highest Rating Category.

"**Indenture**" means this Trust Indenture, as amended, supplemented or restated from time to time.

"**Interest Account**" means the Interest Account of the Revenue Fund.

"**Interest Payment Date**" means (i) during any Weekly Variable Rate Period, the 15th day of each calendar month commencing [____] 2009 ; (ii) during any Reset Period and during the Fixed Rate Period each _____15 and _____15 following the Adjustment Date, provided that the first Interest Payment Date during any such period may only occur on a date which is at least 30 days after the Adjustment Date; (iii) each Adjustment Date; (iv) for Bonds subject to redemption in whole or in part on any date, the date of such redemption, (v) the Maturity Date or, if the Bonds are adjusted to the Fixed Rate Mode, each Maturity Date and (vi) for all Bonds any date determined pursuant to Section 10.10(c).

"**Interest Requirement**" means (i) during the Weekly Variable Rate Period, 34 days interest on the Bonds at the Maximum Rate on the basis of a 365- or 366-day year, as applicable, for the actual number of days elapsed, and (ii) during a Reset Period or the Fixed Rate Period, 210 days interest at, respectively, the Reset Rate or the Fixed Rate, as the case may be, on the basis of a year of 360 days of twelve 30-day months; or, in the case of either (i) or (ii), such other number of days as may be required by the Rating Agency.

"**Investment**" means any Permitted Investment and any other investment held under this Indenture that does not constitute a Permitted Investment.

"**Investment Income**" means the earnings, profits and accreted value derived from the investment of moneys pursuant to Article VI.

"**Issuer**" means the California Housing Finance Agency, a public instrumentality and a political subdivision of the State, created by and existing under the Act, and its successors and assigns.

"**Issuer Documents**" means the Assignment, the Bonds, Financing Agreement, this Indenture, the Loan Documents to which the Issuer is a party, the Regulatory Agreement and the Tax Certificate.

"**Issuer's Fee**" means the Issuer's annual fee ([of $ _____ per annum] [in an amount equal to ___ percent per annum,] [in an amount equal to ___ basis points of the [original][outstanding] principal amount of the [Bonds][Loan]]) payable by the Borrower under the Financing Agreement.

"**Letter of Representations**" means when all the Bonds are Book-Entry Bonds, the Letter of Representations executed by the Issuer[, the Borrower] and the Trustee and delivered to the Securities Depository, as amended, supplemented or restated from time to time, or any agreement entered into in substitution therefor.

"**Liquidity Advance**" means an Advance to pay principal of, plus accrued interest on, any Bonds subject to an Optional Tender.

"**Liquidity Commitment**" means the obligation of Fannie Mae to honor from time to time a request of the Trustee under the Credit Facility to make a Liquidity Advance (as that term is defined in the Credit Facility). The Liquidity Commitment shall automatically expire on the Liquidity Expiration Date.

"**Liquidity Expiration Date**" means, subject to Sections 8(b), (c) and (e) of the Credit Facility, the date the obligation of Fannie Mae to make Liquidity Advances expires as provided in Section 8(a) of the Credit Facility, if not earlier terminated. The Liquidity Expiration Date may be extended from time to time in accordance with Section 2.2(a) or (d) of the Reimbursement Agreement.

"**Liquidity First Extension Date**" has the meaning given that term in the Reimbursement Agreement.

"**Loan**" means the loan made by the Issuer to the Borrower pursuant to the Financing Agreement for the purpose of providing funds to the Borrower to finance the acquisition of the Mortgaged Property.

"**Loan Documents**" means, collectively, the Note, the Security Instrument and all other documents, agreements and instruments evidencing, securing or otherwise relating to the Loan, as each such document, agreement or instrument may be amended, supplemented or restated from time to time. Neither the Financing Agreement nor the Regulatory Agreement is a Loan Document and neither document is secured by the Security Instrument.

"**Loan Fund**" means the Loan Fund created by Section 5.1.

"**Loan Servicer**" means the multifamily mortgage loan servicer designated from time to time by the Credit Provider.

"**Mandatory Tender**" means a tender of Bonds required by Section 4.2(a) or (b). Mandatory Tenders include any tender required because of (i) a change in Mode, (ii) with respect to the initial Credit Facility, the expiration of the Liquidity Commitment, (iii) with respect to an Alternate Credit Facility, the expiration of the Alternate Credit Facility, (iv) the substitution of a

new Credit Facility for the Credit Facility then in effect and (v) the receipt by the Trustee of written notice from the Credit Provider stating that an Event of Default under the Reimbursement Agreement has occurred and directing that the Bonds be subject to mandatory tender.

"**Mandatory Tender Advance**" means an Advance to pay principal of, plus accrued interest on, any Bonds (other than Excluded Bonds) due as a result of a Mandatory Tender.

"**Mandatory Tender Date**" means any date on which Bonds are required to be tendered pursuant to Section 4.2, including any Adjustment Date, Extension Date (unless the Trustee receives an extension of, as the case may be, the Liquidity Expiration Date or an Alternate Credit Facility prior to the Extension Date in which case such Extension Date shall not be a Mandatory Tender Date), any Substitution Date or date specified by the Trustee as provided in Section 4.2(b).

"**Maturity Date**" means [_____] or in the event the Bonds are adjusted to the Fixed Rate Mode and a Sinking Fund Schedule is established, the stated maturity date of any Bond.

"**Maximum Rate**" means 12 percent per annum; provided, however, that the Maximum Rate may be increased if the Trustee receives (i) the written consent of the Credit Provider and the Borrower to a specified higher Maximum Rate not to exceed the lesser of the maximum rate permitted by law to be paid on the Bonds and the maximum rate chargeable on the Loan, (ii) an opinion of Bond Counsel to the effect that such higher Maximum Rate is permitted by law and will not adversely affect either the validity of the Bonds or the exclusion of the interest payable on the Bonds from gross income for federal income tax purposes, and (iii) a new or amended Credit Facility in an amount equal to the sum of (A) the then outstanding principal amount of the Bonds and (B) the new Interest Requirement calculated using the new Maximum Rate.

"**Mode**" means any of the Weekly Variable Rate, the Reset Rate and the Fixed Rate.

"**Moody's**" means Moody's Investors Service, Inc., a Delaware corporation, and its successors and assigns, or if it is dissolved or no longer assigns credit ratings, then any other nationally recognized statistical rating agency, designated by the Credit Provider, as assigns credit ratings.

"**Mortgaged Property**" means the real property described in the Security Instrument, together with all improvements, fixtures and personal property (to the extent of the Borrower's interest therein) and located on such real property.

"**Net Bond Proceeds**" means the total proceeds derived from the issuance, sale and delivery of the Bonds, representing the total purchase price of the Bonds, including any premium paid as part of the purchase price of the Bonds, but excluding the accrued interest, if any, on the Bonds paid by the initial purchaser(s) of the Bonds.

"**Note**" means the Multifamily Note (together with all addenda thereto) dated as of the date of this Indenture, executed by the Borrower in favor of the Issuer, as it may be amended, supplemented or restated from time to time or any mortgage note executed in substitution therefor in accordance with the Bond Documents, as such substitute note may be amended, supplemented or restated from time to time.

"**Note Interest**" has the meaning given to that term in the Note.

"**Operating Reserve Agreement**" means the Operating Reserve and Security Agreement dated as of the date of this Indenture, among the Borrower, the Loan Servicer and the Credit Provider, as such agreement may be amended, supplemented or restated from time to time, or any agreement entered into in substitution therefor.

"**Opinion of Counsel**" means a written opinion of legal counsel, acceptable to the recipient(s) of such opinion. If the opinion is with respect to an interpretation of federal tax laws or regulations or bankruptcy matters, such legal counsel also must be an attorney or firm of attorneys experienced in such matters.

"**Optional Tender**" means any optional tender of any Bond pursuant to the demand of the Beneficial Owner pursuant to Section 4.1(a).

"**Optional Tender Notice**" means a written notice meeting the requirements of Section 4.1(a).

"**Outstanding**" means, when used with reference to the Bonds at any date as of which the amount of Outstanding Bonds is to be determined, all Bonds which have been authenticated and delivered under this Indenture except:

(a) Bonds cancelled or delivered for cancellation at or prior to such date;

(b) Bonds deemed to be paid in accordance with Article IX; and

(c) Bonds in lieu of which others have been authenticated under Article II.

In determining whether the owners of a requisite aggregate principal amount of Outstanding Bonds have concurred in any request, demand, authorization, direction, notice, consent or waiver under the provisions of this Indenture, Bonds which are owned or held by or for the account of the Borrower and Pledged Bonds will be disregarded and deemed not to be Outstanding under this Indenture for the purpose of any such determination unless all Bonds are Pledged Bonds, Bonds owned or held by or for the account of the Borrower or a combination of Pledged Bonds and Bonds owned by or held for the account of the Borrower. In determining whether the Trustee will be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Bonds which are registered in the name of or known by the Trustee to be held for the account of the Borrower, including Pledged Bonds, will be disregarded.

"**Permitted Investments**" means, to the extent authorized by law for investment of moneys of the Issuer:

(a) Government Obligations.

(b) Direct obligations of, and obligations on which the full and timely payment of principal and interest is unconditionally guaranteed by, any agency or instrumentality of the United States of America (other than the Federal Home Loan Mortgage Corporation) or direct obligations of the World Bank, which obligations are rated in the Highest Rating Category.

(c) Obligations, in each case rated in the Highest Rating Category, of (i) any state or territory of the United States of America, (ii) any agency, instrumentality, authority or political

subdivision of a state or territory or (iii) any public benefit or municipal corporation the principal of and interest on which are guaranteed by such state or political subdivision.

(d) Any written repurchase agreement entered into with a Qualified Financial Institution whose unsecured short-term obligations are rated in the Highest Rating Category.

(e) Commercial paper rated in the Highest Rating Category.

(f) (i) Interest-bearing negotiable certificates of deposit, interest-bearing time deposits, interest-bearing savings accounts and bankers' acceptances, issued by a Qualified Financial Institution if either (A) the Qualified Financial Institution's unsecured short-term obligations are rated in the Highest Rating Category or (B) such deposits, accounts or acceptances are fully insured by the Federal Deposit Insurance Corporation.

(g) an agreement held by the Trustee for the investment of moneys at a guaranteed rate with (i) the Credit Provider or (ii) a Qualified Financial Institution whose unsecured long-term obligations, obligations for which a current insurer financial enhancement rating is available or obligations for which an insurer financial strength rating is available, are rated in the Highest Rating Category, or whose obligations are unconditionally guaranteed or insured by a Qualified Financial Institution whose unsecured long-term obligations, obligations for which a current insurer financial enhancement rating is available or obligations for which an insurer financial strength rating is available, are rated in the Highest Rating Category; provided, however, that:

(1) the agreement provides that the invested funds will be available for withdrawal without penalty or premium, at any time that (A) the Trustee is required to pay moneys from any Fund established under this Indenture to which the agreement is applicable, or (B) subject to paragraph (4), any Rating Agency lowers, suspends or withdraws the rating on the Bonds on account of the rating of the Qualified Financial Institution providing, guaranteeing or insuring, as applicable, the agreement;

(2) the agreement is an unconditional and general obligation of the provider and, if applicable, the guarantee or insurance is an unconditional and general obligation of the guarantor or insurer of the agreement, and ranks pari passu with all other unsecured, unsubordinated obligations of the provider, and if applicable, the guarantor or insurer of the agreement;

(3) the Trustee receives an Opinion of Counsel, which may be subject to customary qualifications, that such agreement is legal, valid, binding and enforceable upon the provider in accordance with its terms and, if applicable, an Opinion of Counsel that any guaranty or insurance policy provided by a guarantor or insurer is legal, valid, binding and enforceable upon the guarantor or insurer in accordance with its terms;

(4) the agreement provides that if during its term the rating of the Qualified Financial Institution providing, guaranteeing or insuring, as applicable, the agreement, is withdrawn, suspended by any Rating Agency or falls below the Highest Rating Category, the provider must:

(A) within five days of such withdrawal, suspension or downgrade, notify the Trustee, the Borrower and the Credit Facility Provider; and

(B) within 15 days of such withdrawal, suspension or downgrade and at the option of the provider, either (i) collateralize the agreement (if the agreement is not already collateralized) with Permitted Investments described in paragraph (a) or (b) by depositing collateral with the Trustee or a third party custodian, such collateralization to be effected in a manner and in an amount sufficient to maintain the then current rating of the Bonds, or, if the agreement is already collateralized, increase the collateral with Permitted Investments described in paragraph (a) or (b) by depositing collateral with the Trustee or a third party custodian, so as to maintain the then current rating of the Bonds, (ii) transfer the agreement, guarantee or insurance, as applicable, to a replacement provider, guarantor or insurer, as applicable, then meeting the requirements of a Qualified Financial Institution and whose unsecured long-term obligations or claims paying ability are then rated in the Highest Rating Category; and

(5) the agreement also provides that if during its term the rating of the Qualified Financial Institution providing, guaranteeing or insuring, as applicable, the agreement, is withdrawn, suspended by any Rating Agency or falls below the Highest Rating Category, and the provider does not satisfy the requirements of paragraph (4) above within the required period of time, then the Trustee may or the Credit Provider may direct the Trustee to notify the provider that it intends to withdraw the entire balance of the agreement then on deposit, together with all of the accrued and unpaid earnings thereon. The provider will, if the requirements of paragraph (4) above have not been timely satisfied, repay the principal of and accrued but unpaid interest on the investment, with no penalty or premium unless required by law, to the Trustee within two (2) Business Days of receipt of such notice from the Trustee. Upon any such withdrawal the agreement shall terminate.

(h) Subject to the ratings requirements set forth in this definition, shares in any money market mutual fund (including those of the Trustee or any of its affiliates) registered under the Investment Company Act of 1940, as amended, that have been rated AAAm-G or AAAm by S&P or Aaa by Moody's so long as the portfolio of such money market mutual fund is limited to Government Obligations and agreements to repurchase Government Obligations. If approved in writing by the Credit Provider, a money market mutual fund portfolio may also contain obligations and agreements to repurchase obligations described in paragraphs (b) or (c). If the Bonds are rated by a Rating Agency, the money market mutual fund must be rated AAAm-G or AAAm by S&P, if S&P is a Rating Agency, or Aaa by Moody's, if Moody's is a Rating Agency. If at any time the Bonds are not rated (and, consequently, there is no Rating Agency), then the money market mutual fund must be rated AAAm-G or AAAm by S&P or Aaa by Moody's. If at any time (i) the Bonds are not rated, (ii) both S&P and Moody's rate a money market mutual fund and (iii) one of those ratings is below the level required by this paragraph, then such money market mutual fund will, nevertheless, be deemed to be rated in the Highest Rating Category if the lower rating is no more than one rating category below the highest rating category of that rating agency.

(i) Any other investment authorized by the laws of the State, if such investment is approved in writing by the Credit Provider.

Permitted Investments shall not include any of the following:

(1) Except for any investment described in the next sentence, any investment with a final maturity or any agreement with a term greater than one year from the date of the investment. This exception (1) shall not apply to any obligation that provides for the optional or mandatory tender, at par, by the holder of such obligation at least once within one year of the date of purchase, Government Obligations irrevocably deposited with the Trustee for payment of Bonds pursuant to Section 9.3, and Permitted Investments listed in paragraphs (g) and (i)).

(2) Except for any obligation described in paragraph (a) or (b), any obligation with a purchase price greater or less than the par value of such obligation.

(3) Any asset-backed security, including mortgage-backed securities, real estate mortgage investment conduits, collateralized mortgage obligations, credit card receivable asset-backed securities and auto loan asset-backed securities.

(4) Any interest-only or principal-only stripped security.

(5) Any obligation bearing interest at an inverse floating rate.

(6) Any investment which may be prepaid or called at a price less than its purchase price prior to stated maturity.

(7) Any investment the interest rate on which is variable and is established other than by reference to a single index plus a fixed spread, if any, and which interest rate moves proportionately with that index.

(8) Any investment described in paragraph (d) or (g) with, or guaranteed or insured by, a Qualified Financial Institution described in clause (iv) of the definition of Qualified Financial Institution if such institution does not agree to submit to jurisdiction, venue and service of process in the United States of America in the agreement relating to the investment.

(9) Any investment to which S&P has added an "r" or "t" highlighter.

"**Person**" means a natural person, estate, trust, corporation, partnership, limited liability company, association, public body or any other organization or entity (whether governmental or private).

"**Pledge Agreement**" means the Pledged Bonds Custody and Security Agreement dated as of the date of this Indenture, among the Borrower, U.S. Bank National Association, as collateral agent for the Credit Provider, and the Credit Provider, as such agreement may be amended, supplemented or restated from time to time, or any agreement entered into in substitution therefor.

"**Pledged Bond**" means any Bond during the period from and including the date of its purchase by the Trustee on behalf of and as agent for the Borrower with the proceeds of a Liquidity Advance or a Mandatory Tender Advance under the Credit Facility, to, but excluding, the date on which the Advance made by the Credit Provider on account of such Pledged Bond is reinstated under the Credit Facility.

"**Potential Default**" means, as used in any Transaction Document, any event that has occurred which, with the giving of notice or the passage of time or both, would constitute an Event of Default as described in that document. Any "Potential Default" as described in any Transaction Document is not a "Potential Default" in any other Transaction Document unless that other Transaction Document specifically so provides.

"**Preference Claim**" has the meaning given that term in Section 8.8.

"**Principal Amount**" means $[_____], the original principal amount of the Bonds on the Closing Date.

"**Principal Reserve Amount**" means $[_____].

"**Principal Reserve Fund**" means the Principal Reserve Fund created by Section 5.1.

"**Principal Reserve Schedule**" means the Schedule of Deposits to Principal Reserve Fund attached to the Reimbursement Agreement, as such schedule may be amended, supplemented or restated from time to time.

"**Qualified Financial Institution**" means any of: (i) bank or trust company organized under the laws of any state of the United States of America, (ii) national banking association, (iii) savings bank, a savings and loan association, or an insurance company or association chartered or organized under the laws of any state of the United States of America, (iv) federal branch or agency pursuant to the International Banking Act of 1978 or any successor provisions of law or a domestic branch or agency of a foreign bank which branch or agency is duly licensed or authorized to do business under the laws of any state or territory of the United States of America, (v) government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York, (vi) securities dealer approved in writing by the Credit Provider the liquidation of which is subject to the Securities Investors Protection Corporation or other similar corporation and (vii) any other entity which is acceptable to the Credit Provider. With respect to an entity which provides an agreement held by the Trustee for the investment of moneys at a guaranteed rate as set out in paragraph (g) of the definition of the term "Permitted Investments" or an entity which guarantees or insures, as applicable, the agreement, a "Qualified Financial Institution" may also be a corporation or limited liability company organized under the laws of any state of the United States of America.

"**Rate Determination Date**" means (i) with respect to the Weekly Variable Rate, [_____] of each week, or if such [_____] is not a Business Day, the following day or if such day is not a Business Day, then the first Business Day before such [_____]; provided, however, that upon any adjustment to the Weekly Variable Rate Mode from a Reset Rate, the first Rate Determination Date will be the Business Day prior to the Adjustment Date, and (ii) with respect to any Reset Rate and the Fixed Rate, the date selected by the Remarketing Agent which date must be a Business Day not less than five Business Days prior to the Adjustment Date.

"**Rating Agency**" means any nationally recognized statistical rating agency then maintaining a rating on the Bonds.

"**Rebate Analyst**" means a Person that is (i) qualified and experienced in the calculation of rebate payments under Section 148 of the Code and compliance with the arbitrage rebate

regulations promulgated under the Code, (ii) chosen by the Borrower and (iii) engaged for the purpose of determining the amount of required deposits, if any to the Rebate Fund.

"**Rebate Fund**" means the Rebate Fund created by Section 5.1.

"**Record Date**" means, with respect to any Interest Payment Date, (i) if the Bonds bear interest at the Weekly Variable Rate, the Business Day before the Interest Payment Date and (ii) if the Bonds bear interest at a Reset Rate or the Fixed Rate, the first day of the month in which the Interest Payment Date occurs.

"**Redemption Account**" means the Redemption Account of the Revenue Fund.

"**Redemption Date**" means any date upon which Bonds are to be redeemed pursuant to this Indenture.

"**Regulatory Agreement**" means the Regulatory Agreement relating to the Mortgaged Property, dated the date of this Indenture, between the Issuer and the Borrower, as it may be amended, supplemented or restated from time to time.

"**Reimbursement Agreement**" means the Reimbursement Agreement, dated as of the date of this Indenture, by the Credit Provider and the Borrower, as amended, supplemented or restated from time to time, or any agreement entered into in substitution therefor.

"**Remarketing Agent**" means [_____] or any successor as Remarketing Agent designated in accordance with Section 4.3.

"**Remarketing Agreement**" means the Remarketing Agreement, dated as of the date of this Indenture by the Issuer, the Borrower and the Remarketing Agent, as amended, supplemented or restated from time to time, or any agreement entered into in substitution therefor.

"**Remarketing Notice Parties**" means the Borrower, Issuer, Trustee, Tender Agent, Remarketing Agent, Credit Provider and Loan Servicer.

"**Reserved Rights**" means those certain rights of the Issuer under the Financing Agreement to indemnification and to payment or reimbursement of fees and expenses of the Issuer, its right to receive notices and to enforce notice and reporting requirements, its right to inspect and audit the books, records and premises of the Borrower and of the Mortgaged Property, its right to collect attorneys' fees and related expenses, its right to specifically enforce the Borrower's covenant to comply with applicable federal tax law and State law (including the Act and the rules and regulations of the Issuer, if any), and its right to give or withhold consent to amendments, changes, modifications and alterations to the Financing Agreement relating to the Reserved Rights.

"**Reset Date**" means any date upon which the Bonds begin to bear interest at a Reset Rate for the Reset Period then beginning.

"**Reset Period**" means each period of ten years or more selected by the Borrower, or such shorter period as may be selected by the Borrower with the prior written consent of the Credit Provider, during which the Bonds bear interest at a Reset Rate.

"**Reset Rate**" means the rate of interest borne by the Bonds as determined in accordance with Section 2.6.

"**Revenue Fund**" means the Revenue Fund created by Section 5.1.

"**Revenues**" means all (i) payments made under the Credit Facility, (ii) Investment Income (excluding Investment Income earned from moneys on deposit in the Principal Reserve Fund, the Rebate Fund, the Fees Account and the Costs of Issuance Fund, but including Investment Income earned on Net Bond Proceeds deposited into the Costs of Issuance Fund and Investment Income on such Investment Income) and (iii) payments made under the Note.

"**Securities Depository**" means, initially, DTC and any replacement securities depository appointed under this Indenture.

"**Security**" means the Trust Estate and the Credit Facility.

"**Security Instrument**" means the Multifamily Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing, dated as of [_____], together with all riders and exhibits, securing the Note and the obligations of the Borrower to the Credit Provider under the Credit Facility Documents, executed by the Borrower with respect to the Mortgaged Property, [as the same has been amended or conformed to the Loan and] as it may be amended, supplemented or restated from time to time, or any security instrument executed in substitution therefor, as such substitute security instrument may be amended, supplemented or restated from time to time.

"**SIFMA Index Rate**" has the meaning given to the term "USD-SIFMA Municipal Swap Index" in the 2006 ISDA Definitions published by the International Swaps and Derivatives Association, Inc., as amended or supplemented from time to time.

"**Sinking Fund Payment**" means, as of any particular date of calculation, the amount required to be paid by the Issuer on a single future date for the retirement of Outstanding Bonds which mature after such future date, but excluding any amount payable by the Issuer by reason of the maturity of a Bond or by optional redemption at the election of the Issuer.

"**Sinking Fund Payment Date**" means any of the dates on which any of the Bonds matures or is subject to redemption through the application of Sinking Fund Payments as set out in a Sinking Fund Schedule.

"**Sinking Fund Schedule**" means a schedule of principal amounts of Bonds to mature or be subject to redemption through the application of Sinking Fund Payments on the specified dates and/or a schedule of principal amounts of Bonds maturing as serial Bonds.

"**S&P**" means Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc., and its successors and assigns, or if it is dissolved or no longer assigns credit ratings, then any other nationally recognized statistical rating agency, designated by the Credit Provider, as assigns credit ratings.

"**State**" means the State of California.

"**Substitution Date**" means the date upon which an Alternate Credit Facility is to be substituted for the Credit Facility then in effect, which date must be an Interest Payment Date during a Weekly Variable Rate Period or an Adjustment Date which immediately follows a Reset Period.

"**Tax Certificate**" means the Tax Certificate and Agreement, dated the Closing Date, executed and delivered by the Issuer and the Borrower, as amended, supplemented or restated from time to time.

"**Tax Event**" has the meaning given to that term in Section 10.1(c).

"**Tender Agent**" means the Tender Agent named in Article XI or its successor as Tender Agent under this Indenture named in accordance with such Article.

"**Tender Agent Agreement"** means any Tender Agent Agreement entered into by the Issuer, the Trustee and the Tender Agent in the event that the Trustee does not serve as Tender Agent under this Indenture, as such agreement may be amended, supplemented or restated from time to time.

"**Tender Date**" means, for a Mandatory Tender, the Mandatory Tender Date or, for an Optional Tender, the date the Trustee must purchase a Bond from a tendering Beneficial Owner pursuant to an Optional Tender.

"**Tendered Bond**" means any Bond which has been tendered for purchase pursuant to a Mandatory Tender or an Optional Tender.

"**Third Party Fees**" has the meaning given to that term in Section 5.7(a).

"**Transaction Documents**" means the Bond Documents, the Loan Documents and the Credit Facility Documents.

"**Trust Estate**" means the property, interests, rights, money, securities and other amounts pledged and assigned pursuant to this Indenture and the property, rights, money, securities and other amounts pledged and assigned by the Issuer to the Trustee and the Credit Provider pursuant to the Assignment.

"**Trustee**" means U.S. Bank National Association, a national banking association, duly organized and existing under the laws of the United States of America, or its successors or assigns, or any other corporation or association resulting from or surviving any consolidation or merger to which it or its successors may be a party and any successor trustee at any time serving as successor trustee under this Indenture.

"**Trustee's Annual Fee**" means the annual continuing trust administration fee of the Trustee as provided in the Financing Agreement, computed and payable semiannually in [advance/arrears] on each [Interest Payment Date].

"**UCC**" means the Uniform Commercial Code of the State as in effect now or in the future, whether or not such Uniform Commercial Code is applicable to the parties or the transactions.

"**Underwriter**" means [_____], as selected by the Issuer.

"**Week**" means any seven-day period during a Weekly Variable Rate Period beginning on [_____] and ending on and including the following [_____]; except that:

(a) the first Week will begin on the Closing Date and end on and include the following [_____];

(b) the first Week of a Weekly Variable Rate Period immediately following an Adjustment Date will begin on such Adjustment Date and end on and include the following [_____];

(c) any Week ending immediately before an Adjustment Date will begin on a [_____] and end on the day before such Adjustment Date;

(d) the final Week will begin on a [_____] and end on the earlier of an Adjustment Date or the Maturity Date; and

(e) the first and last Weeks of a Weekly Variable Rate Period may consist of more (but not more than 13) or less than 7 days.

"**Weekly Variable Rate**" means the variable rate of interest per annum for the Bonds determined from time to time during the Weekly Variable Rate Period in accordance with Section 2.5.

"**Weekly Variable Rate Period**" means the period commencing on the Closing Date or an Adjustment Date on which the interest rate on the Bonds is adjusted from the Reset Rate to the Weekly Variable Rate and ending on the day preceding the following Adjustment Date or the Maturity Date.

"**Wrongful Dishonor**" means an uncured failure by the Credit Provider to make an Advance to the Trustee upon proper presentation of documents which conform to the terms and conditions of the Credit Facility.

SECTION 1.2 **Rules of Construction**. The rules of construction set forth in this Section 1.2 apply to this Indenture.

(a) The singular form of any word includes the plural, and vice versa, unless the context otherwise requires. The use of a pronoun of any gender includes correlative words of the other genders.

(b) All references to "Articles," "Sections" and other subdivisions are to the corresponding Articles, Sections or other subdivisions of this Indenture; and the words "in this Indenture," "of this Indenture," "under this Indenture" and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or subdivision.

(c) Any captions, headings or titles of the several Articles, Sections and other subdivisions, and the table of contents are solely for convenience of reference and do not limit or otherwise affect the meaning, construction or effect of this Indenture or describe the scope or intent of any provision.

(d) All accounting terms not otherwise defined have the meanings assigned to them in accordance with applicable generally accepted accounting principles as in effect from time to time.

(e) Every "request," "order," "demand," "application," "appointment," "notice," "statement," "certificate," "consent," "direction" or similar action under this Indenture by any party must be in writing and signed by a duly authorized representative of such party with a duly authorized signature.

(f) All references in this Indenture to "counsel fees," "attorneys fees" or the like mean and include fees and disbursements allocable to in-house or outside counsel, whether or not suit is instituted, and including fees and disbursements preparatory to and during trial and appeal and in any bankruptcy or arbitration proceedings.

(g) Whenever the word "includes" or "including" is used, such word means "includes or including by way of example and not limitation."

ARTICLE II
THE BONDS

SECTION 2.1 **Authorized Amount of Bonds**. No Bonds may be issued under this Indenture except as provided in this Article. The total principal amount of Bonds that may be issued and outstanding under this Indenture is expressly limited to the Principal Amount.

SECTION 2.2 **Issuance of Bonds**. The Bonds are authorized to be issued pursuant to and in accordance with this Indenture, substantially in the form set forth in Exhibit A with such appropriate variations, legends, omissions and insertions as permitted by this Indenture. The Bonds shall (i) be designated "California Housing Finance Authority Multifamily Housing Revenue Bonds ([___] Project) 2009 Series [___]", (ii) be issued in the Principal Amount, (iii) be dated the Closing Date, (iv) bear interest from the Closing Date at the rate or rates determined as provided in Sections 2.5, 2.6 and 2.7, payable on each Interest Payment Date and (v) mature on the Maturity Date, subject to prior redemption as provided in Article III. The Bonds shall be issued as registered bonds without coupons in Authorized Denominations. The Bonds shall be numbered consecutively from R-1 upwards.

SECTION 2.3 **Payment of Principal and Interest**. The principal of and the interest and any premium on the Bonds are payable in lawful money of the United States of America to the Registered Owners at the close of business on the applicable Record Date. Payment of interest on the Bonds shall be made on each Interest Payment Date by check drawn upon the Trustee and mailed by first class mail, postage prepaid, to the addresses of the Registered Owners as they appear on the Bond Register or to such other address as may be furnished in writing by any Registered Owner to the Trustee prior to the applicable Record Date. Payment of the principal of any Bond and premium, if any, together with interest (other than interest payable on a regularly scheduled Interest Payment Date) shall be made by check only upon presentation and surrender of the Bond on or after its maturity date or date fixed for purchase, redemption or other payment at the office of the Trustee designated for that purpose. Notwithstanding the foregoing, payment of principal of and interest and any premium on any Bond shall be made by wire transfer to any account within the United States of America designated by a Registered

Owner owning $1,000,000 or more in aggregate principal amount of Bonds if a written request for wire transfer in form and substance satisfactory to the Trustee is delivered to the Trustee by any such Registered Owner not less than five Business Days prior to the applicable payment date. A request for wire transfer that specifies that it is effective with respect to all succeeding payments of principal, interest and any premium will be so effective unless and until rescinded in writing by the Registered Owner at least five Business Days prior to a Record Date. If interest on the Bonds is in default, the Trustee, prior to the payment of interest, shall establish a special record date ("**Special Record Date**") for such payment. A Special Record Date may not be more than 15 nor less than ten days prior to the date of the proposed payment. Payment of defaulted interest shall then be made by check or wire transfer, as permitted above, mailed or remitted to the Registered Owners in whose names the Bonds are registered on the Special Record Date.

SECTION 2.4 **Limited Obligations.** The Bonds are special, limited obligations of the Issuer, payable solely from the Security. The Bonds are not a debt of the State or of any other political subdivision of the State, and neither the State nor any other political subdivision of the State will be liable for the payment of the Bonds. The faith and credit of the Issuer, the State or any political subdivision of the State are not pledged to the payment of the principal of or interest on the Bonds.

SECTION 2.5 **Weekly Variable Rate Mode**.

(a) **Weekly Variable Rate.** Except during a Reset Period or a Fixed Rate Period, the Bonds shall bear interest at the Weekly Variable Rate, determined from time to time pursuant to Section 2.5(b). During the Weekly Variable Rate Period, interest shall accrue on the basis of a 365- or 366-day year, as applicable, for the actual number of days elapsed.

(b) **Determination of Weekly Variable Rate**. During each Weekly Variable Rate Period, the Remarketing Agent shall determine the Weekly Variable Rate for each Week not later than 4:00 p.m. Eastern time on each Rate Determination Date. The Weekly Variable Rate shall be the minimum rate of interest necessary, in the professional judgment of the Remarketing Agent, taking into consideration prevailing market conditions, to enable the Remarketing Agent to remarket all of the Bonds on the applicable Rate Determination Date at par plus accrued interest on the Bonds for that Week. The Weekly Variable Rate so determined shall be effective for the Week for which such rate was determined. The Remarketing Agent shall provide notice of the Weekly Variable Rate before 5:00 p.m. Eastern time on the Rate Determination Date by telephone to any Beneficial Owner upon request and to the Trustee and the Loan Servicer, and not later than the next Business Day to the Remarketing Notice Parties by Electronic Means. The Weekly Variable Rate so determined by the Remarketing Agent will be conclusive and binding upon the Remarketing Notice Parties and the Registered Owners.

SECTION 2.6 **Reset Rate Mode**.

(a) **Reset Rate**. During any Reset Period, the Bonds shall bear interest at the Reset Rate determined pursuant to Section 2.6(b) for such Reset Period. During each Reset Period, interest shall accrue on the basis of a year of 360 days of twelve 30-day months.

(b) **Determination of Reset Rate**. The Remarketing Agent shall determine the Reset Rate not later than 4:00 p.m. Eastern time on the applicable Rate Determination Date. The Reset Rate shall be the minimum rate of interest necessary, in the professional judgment of the

Remarketing Agent, taking into consideration prevailing market conditions, to enable the Remarketing Agent to remarket all of the Bonds on the applicable Rate Determination Date at par for the applicable Reset Period. The Remarketing Agent will provide notice of the Reset Rate before 5:00 p.m. Eastern time on the Rate Determination Date by telephone to any Beneficial Owner upon request and to the Trustee and the Loan Servicer, and not later than the next Business Day to the other Remarketing Notice Parties by Electronic Means. The Reset Rate so determined by the Remarketing Agent will be conclusive and binding upon the Remarketing Notice Parties and the Registered Owners.

SECTION 2.7 Fixed Rate Mode.

(a) **Fixed Rate.** During the Fixed Rate Period, the Bonds shall bear interest at the Fixed Rate determined pursuant to Section 2.7(b). During the Fixed Rate Period, interest shall accrue on the basis of a year of 360 days of twelve 30-day months.

(b) **Determination of Fixed Rate**. The Remarketing Agent shall determine the Fixed Rate not later than 4:00 p.m. Eastern time on the applicable Rate Determination Date. The Fixed Rate shall be the minimum rate of interest necessary, in the professional judgment of the Remarketing Agent, taking into consideration prevailing market conditions and any Sinking Fund Schedule established for the Bonds, to enable the Remarketing Agent to remarket all of the Bonds on the Rate Determination Date at par for the Fixed Rate Period. The Remarketing Agent shall provide notice of the Fixed Rate before 5:00 p.m. Eastern time on the Rate Determination Date by telephone to the Loan Servicer, and not later than the next Business Day to the other Remarketing Notice Parties by Electronic Means. The Fixed Rate so determined by the Remarketing Agent will be conclusive and binding upon the Remarketing Notice Parties and the Registered Owners.

SECTION 2.8 Mode Adjustments.

(a) **Adjustment to Reset Rate from Weekly Variable Rate or from prior Reset Rate.** At the option of the Borrower, with the prior written consent of the Issuer, the interest rate on all Outstanding Bonds may be adjusted on any Interest Payment Date from the Weekly Variable Rate to a Reset Rate for a Reset Period of ten years or more selected by the Borrower, or such shorter period as may be selected by the Borrower with the prior written consent of the Credit Provider. Any Reset Period must end immediately before an Interest Payment Date. In addition, the interest rate on all Outstanding Bonds may be adjusted from a prior Reset Rate to a new Reset Rate on the Adjustment Date immediately following the Reset Period then in effect. Each such adjustment is subject to satisfaction of the following conditions precedent:

(1) not less than 45 days before the proposed Reset Date, the Borrower delivers (A) written notice to the other Remarketing Notice Parties of the proposed adjustment and designating the proposed Reset Date and the duration of the Reset Period to commence on such Reset Date and (B) the written preliminary consent of the Credit Provider to such adjustment which consent may be subject to the satisfaction of conditions prior to such adjustment;

(2) not less than 30 days before the proposed Reset Date, the Trustee gives written notice to the Bondholders by first class mail, postage prepaid, stating: (A) the proposed Reset Date; (B) that from and after the proposed Reset Date, if the conditions

specified in this Indenture to such adjustment are satisfied, the Bonds will bear interest at a Reset Rate (which rate need not be stated); and (C) that all Bonds are subject to Mandatory Tender and purchase on the proposed Reset Date, whether or not such conditions are satisfied, and no holder of any Bond shall have the right to elect to retain such Bond;

(3) on or prior to the proposed Reset Date, the Borrower delivers (A) to the Trustee and the Loan Servicer, written notice from the Credit Provider consenting to the adjustment to the Reset Rate, together with confirmation that the Credit Facility will be sufficient in amount and term to satisfy the requirements of Section 2.9 and (B) to the other Remarketing Notice Parties, an opinion of Bond Counsel to the effect that the adjustment of the interest rate on the Bonds to the Reset Rate is authorized and permitted by this Indenture and the laws of the State (including the Act), and will not adversely affect the exclusion from gross income for federal income tax purposes of the interest payable on the Bonds; and

(4) on or prior to the proposed Reset Date, the Remarketing Agent has given notice pursuant to Section 4.3(d) to the effect that all Outstanding Bonds have been remarketed for the Reset Period at the Reset Rate determined pursuant to Section 2.6(b).

(b) **Adjustment from Reset Rate to Weekly Variable Rate.** At the option of the Borrower, with the prior written consent of the Issuer, the interest rate on all Outstanding Bonds may be adjusted from a Reset Rate to the Weekly Variable Rate on the day following the last day of a Reset Period. Each such adjustment is subject to the satisfaction of the following conditions precedent:

(1) not less than 45 days before the proposed Adjustment Date, the Borrower delivers (A) written notice to the other Remarketing Notice Parties electing the proposed adjustment and (B) the written preliminary consent of the Credit Provider to such adjustment which consent may be subject to the satisfaction of conditions prior to such adjustment;

(2) not less than 30 days before the proposed Adjustment Date, the Trustee gives written notice to the Bondholders by first class mail, postage prepaid, stating: (A) the proposed Adjustment Date; (B) that from and after the proposed Adjustment Date, if the conditions specified in this Indenture to such adjustment are satisfied, the Bonds will bear interest at the Weekly Variable Rate (which rate need not be stated); and (C) that all Bonds are subject to Mandatory Tender and purchase on the proposed Adjustment Date, and that no holder of any Bond will have the right to elect to retain such Bond;

(3) on or prior to the proposed Adjustment Date, the Borrower delivers (A) to the Trustee and the Loan Servicer written notice from the Credit Provider consenting to the adjustment to the Weekly Variable Rate, together with confirmation that the Credit Facility will be sufficient in amount and term to satisfy the requirements of Section 2.9 and (B) to the other Remarketing Notice Parties, an opinion of Bond Counsel to the effect that the adjustment of the interest rate on the Bonds to the Weekly Variable Rate is authorized and permitted by this Indenture and the laws of the State, and will not

adversely affect the exclusion from gross income for federal income tax purposes of the interest payable on the Bonds; and

(4) on or prior to the proposed Adjustment Date, the Remarketing Agent has given notice pursuant to Section 4.3(d) to the effect that all Outstanding Bonds have been remarketed for the first Week of the Weekly Variable Rate Period at the Weekly Variable Rate determined pursuant to Section 2.5(b).

(c) **Adjustment to Fixed Rate**. At the option of the Borrower, with the prior written consent of the Issuer, the interest rate on all Outstanding Bonds may be adjusted to the Fixed Rate (i) from the Weekly Variable Rate on any Interest Payment Date designated by the Borrower, or (ii) from a Reset Rate (A) on the day following the last day of any Reset Period or (B) on any Interest Payment Date during a Reset Period on which the Bonds are subject to redemption pursuant to Section 3.2(a) at par without any premium. Such adjustment is subject to the satisfaction of the following conditions precedent:

(1) not less than 45 days before the proposed Fixed Rate Adjustment Date, the Borrower delivers (A) written notice to the other Remarketing Notice Parties designating the proposed Fixed Rate Adjustment Date and (B) the written preliminary consent of the Credit Provider to such adjustment which consent may be subject to the satisfaction of conditions prior to such adjustment;

(2) not less than 30 days before the proposed Fixed Rate Adjustment Date, the Trustee gives written notice to the Bondholders by first class mail, postage prepaid, stating the following: (A) the proposed Fixed Rate Adjustment Date; (B) that from and after the proposed Fixed Rate Adjustment Date, if the conditions specified in this Indenture to such adjustment are satisfied, the Bonds will bear interest at the Fixed Rate (which rate or rates need not be stated); and (C) that all Bonds are subject to Mandatory Tender and purchase on the proposed Fixed Rate Adjustment Date, whether or not such conditions are satisfied and no holder of any Bond(s) will have the right to elect to retain its Bonds;

(3) on or prior to the proposed Fixed Rate Adjustment Date, the Borrower delivers (A) to the Trustee, either (1) written notice from the Credit Provider consenting to the adjustment to the Fixed Rate, together with confirmation that the Credit Facility will be sufficient in amount and term to satisfy the requirements of Section 2.9 or (2) a written waiver from the Issuer of the requirement for a Credit Facility during the Fixed Rate Period so long as the Credit Facility then in effect remains in effect for the Mandatory Tender of the Bonds on the proposed Fixed Rate Adjustment Date (which waiver will acknowledge that the Rating Agency has been notified not less than ten days prior to the Fixed Rate Adjustment Date that the Credit Facility will be terminated on the Fixed Rate Adjustment Date); and (B) to the other Remarketing Notice Parties, an opinion of Bond Counsel to the effect that the adjustment of the interest rate on the Bonds to the Fixed Rate is authorized and permitted by this Indenture and the laws of the State (including the Act), and will not adversely affect the exclusion from gross income for federal income tax purposes of the interest payable on the Bonds; and

(4) on or prior to the proposed Fixed Rate Adjustment Date, the Remarketing Agent has given notice pursuant to Section 4.3(d) to the effect that all Outstanding Bonds

have been remarketed for the Fixed Rate Period at the Fixed Rate determined pursuant to Section 2.7(b).

(5) on or prior to the proposed Rate Determination Date (A) the Issuer, at the written direction of the Borrower and with the prior written consent of the Credit Provider, establishes a Sinking Fund Schedule, (B) the Issuer, the Trustee and the Credit Provider receive an opinion of Bond Counsel to the effect that establishing a Sinking Fund Schedule will not adversely affect the exclusion from gross income for federal income tax purposes of the interest payable on the Bonds, and (C) the Note is amended, with the prior written consent of the Credit Provider, to provide for principal amortization of the Loan consistent with the Sinking Fund Schedule.

The Trustee shall provide a copy of the Sinking Fund Schedule, Opinion of Bond Counsel and Note amendment to the Loan Servicer on or before the proposed Adjustment Date.

SECTION 2.9 **Credit Facility Requirement**. So long as the Bonds bear interest at the Weekly Variable Rate or at a Reset Rate, one or more Credit Facilities providing credit support for the Loan or the Bonds and liquidity support for the Bonds must be in effect. If the Bonds bear interest at the Fixed Rate, one or more Credit Facilities providing credit support for the Loan or the Bonds must be in effect unless the Issuer has expressly waived such requirement in writing. When delivered, each Credit Facility shall satisfy the following requirements:

(a) the Credit Facility shall be in an amount equal to the aggregate principal amount of the Bonds Outstanding from time to time plus the Interest Requirement;

(b) the Credit Facility shall provide for payment in immediately available funds to the Trustee, upon receipt of the Trustee's request for such payment with respect to any Interest Payment Date, purchase date (if applicable) or mandatory redemption date pursuant to this Indenture;

(c) if the Credit Facility is provided to secure Bonds during a Reset Period, the Credit Facility shall provide an expiration date no earlier than the earliest of (i) the day following the Adjustment Date immediately succeeding the Reset Period; (ii) ten days after the Trustee receives notice from the Credit Provider of an Event of Default under the Reimbursement Agreement and a direction to redeem all Outstanding Bonds; (iii) the date on which all Bonds are paid in full and this Indenture is discharged in accordance with its terms; and (iv) the date on which the Bonds become secured by an Alternate Credit Facility in accordance with the terms of this Indenture and the Credit Facility; and

(d) unless waived by the Issuer in its sole discretion, the Credit Facility shall result in the Bonds receiving a short-term rating in the highest rating category of each Rating Agency or a long-term rating in one of the three highest rating categories of each Rating Agency, or both, as applicable for the Mode then in effect.

SECTION 2.10 **Certain General Provisions Concerning Modes and Interest Rates**.

(a) **Failure to Satisfy Conditions Precedent to Mode Change**. If the conditions precedent to a change in Mode set forth in Sections 2.8 and 2.9 have not been satisfied, then the following will apply:

(1) The new Mode shall not take effect.

(2) The Bonds shall be subject to Mandatory Tender on the proposed Adjustment Date and the holders of the Bonds will not have the right to elect to retain their Bonds.

(3) If the Mode in effect immediately prior to the proposed Adjustment Date is the Weekly Variable Rate, the interest rate on the Bonds shall continue at the Weekly Variable Rate from and after the proposed Adjustment Date, without any further action by any party.

(4) If the Mode in effect immediately prior to the proposed Adjustment Date is a Reset Rate, the interest rate on the Bonds shall be adjusted on the proposed Adjustment Date to the Weekly Variable Rate if the Trustee and the Credit Provider receive an opinion of Bond Counsel to the effect that the change to a Weekly Variable Rate will not adversely affect the exclusion from gross income for federal income tax purposes of the interest payable on the Bonds. If such an opinion is not delivered, the interest rate on the Bonds shall be adjusted on the proposed Adjustment Date to a new Reset Rate for the shortest Reset Period ending on an Interest Payment Date which would enable the Remarketing Agent to remarket the Bonds on the proposed Adjustment Date at par with the Bonds bearing interest at the lowest possible rate, but in no event greater than the Reset Rate in effect for the Reset Period immediately prior to the proposed Adjustment Date or such higher rate to which the Credit Provider may consent from time to time without any further action by any party other than the selection of the Reset Period and the remarketing of the Bonds so long as the Trustee and the Credit Provider receive an opinion of Bond Counsel to the effect that the change to such Reset Period will not adversely affect the exclusion of the interest on the Bonds from gross income for federal income tax purposes. If such opinion is not delivered, the Bonds shall remain at the Reset Rate in effect for the immediately prior Reset Period, with a Reset Period equal to the Reset Period previously in effect without any further action by any party other than the remarketing of the Bonds.

(5) The Remarketing Agent will remarket the Bonds on the Adjustment Date at the applicable interest rate.

(b) **Failure by Remarketing Agent to Determine Weekly Variable Rate**. If the Remarketing Agent fails or refuses to determine the Weekly Variable Rate applicable for any Week, the interest rate to be borne by the Bonds during such Week shall be the latest SIFMA Index Rate published on or before the Rate Determination Date, or, in the event the SIFMA Index Rate is no longer published, the last Weekly Variable Rate determined by the Remarketing Agent.

(c) **Maximum Interest Rate**. Notwithstanding any other provision of this Indenture, the interest rate on the Bonds may not exceed the Maximum Rate.

(d) **Alternate Credit Facility**. Notwithstanding anything to the contrary in this Indenture, the consent of the Credit Provider to a change in Mode shall not be required if (i) an Alternate Credit Facility satisfying the requirements of Section 2.9 will be in effect on the Adjustment Date and (ii) the Credit Facility then in effect will remain available for Mandatory

Tenders of Bonds on the Adjustment Date. Each opinion of Bond Counsel relating to a change in Mode required to be delivered to the Credit Provider must also be delivered to the Alternate Credit Provider.

(e) **Reimbursement Agreement Default**. Notwithstanding anything to the contrary contained in this Indenture, in the event that the Credit Provider gives written notice to the Issuer and the Trustee to the effect that the Borrower has

(1) failed to satisfy the requirements of Section 2.1(e) of the Reimbursement Agreement by the Liquidity Action Date (as that term is defined in the Reimbursement Agreement), then the Credit Provider shall be entitled to exercise all rights of the Borrower to adjust the Mode and the Borrower shall not be entitled to exercise any such rights unless the Credit Provider consents in writing to the Borrower's resumption of the exercising of such rights; or

(2) defaulted in performing any of its obligations under Section 6.5 (Fannie Mae Right to Convert to Reset Rate, Fixed Rate) of the Reimbursement Agreement, then the Credit Provider shall be entitled to exercise all rights of the Borrower to adjust the Mode and the Borrower shall not be entitled to exercise any such rights unless and until the Borrower gives written notice, acknowledged in writing by the Credit Provider, to the Issuer, the Loan Servicer and the Trustee that either (i) such default has been cured or waived or (ii) the Credit Provider has consented to the Borrower's resumption of the exercising of such rights.

Such acknowledgement or consent by the Credit Provider shall not preclude the Credit Provider from exercising its rights under this subsection upon the occurrence of any subsequent failure or default by the Borrower under the Reimbursement Agreement. Any notice from the Credit Provider to the Issuer and the Trustee of a failure or default under the Reimbursement Agreement as set forth in this subsection must state whether or not it is also intended to constitute a notice described in Section 10.1(a)(4).

SECTION 2.11 **Temporary Bonds**. If definitive Bonds are not ready for delivery on the Closing Date, the Issuer shall execute, and at the request of the Issuer, the Trustee shall authenticate and deliver, one or more temporary typewritten, printed or lithographed Bonds, in any Authorized Denomination, in fully registered form, and in substantially the form provided for definitive Bonds with appropriate omissions, insertions and variations. The Issuer shall cause definitive Bonds to be prepared and to be executed and delivered to the Trustee. Upon presentation to it of any temporary Bond, the Trustee shall cancel the same and authenticate and deliver in exchange therefor, without charge to the owner of such Bond, a definitive Bond or Bonds of an equal aggregate principal amount of Authorized Denominations, of the same maturity and series, and bearing interest at the same rate as the temporary Bond surrendered. Until so exchanged, the temporary Bonds will in all respects be entitled to the same benefit and security of this Indenture as the definitive Bonds.

SECTION 2.12 **Execution**. The Bonds shall be signed by the manual or facsimile signature of an Authorized Officer and attested by the manual or facsimile signature of an Authorized Attesting Officer under the official seal, or a facsimile of the official seal, of the Issuer. In case any officer whose signature or a facsimile of whose signature appears on any Bonds ceases to be such officer before the delivery of such Bonds, such signature or such

facsimile will nevertheless be valid and sufficient for all purposes as if such officer had remained in office until delivery.

SECTION 2.13 **Authentication**. Only such Bonds as have endorsed on them a certificate of authentication substantially in the form set forth in Exhibit A to this Indenture duly executed by the Trustee shall be entitled to any right or benefit under this Indenture. No Bond shall be valid or obligatory for any purpose unless and until such certificate of authentication has been manually executed by the Trustee. Such executed certificate upon any Bond shall be conclusive evidence that such Bond has been authenticated and delivered under this Indenture. The Trustee's certificate of authentication on any Bond shall be deemed to have been executed by it if signed by an authorized representative of the Trustee, but it shall not be necessary that the same person sign the certificates of authentication on all of the Bonds.

SECTION 2.14 **Mutilated, Lost, Stolen or Destroyed Bonds**. If any Bond is mutilated, lost, stolen or destroyed, the Issuer shall execute and the Trustee shall authenticate and deliver a new Bond of the same maturity, interest rate, principal amount, series and tenor in lieu of and in substitution for the mutilated, lost, stolen or destroyed Bond, provided, however, that in the case of any mutilated Bond, the mutilated Bond must first be surrendered to the Trustee, and in the case of any lost, stolen or destroyed Bond, there must be first furnished to the Trustee evidence satisfactory to it of the ownership of the Bond, and of the loss, theft or destruction, together with indemnity satisfactory to the Trustee and compliance with such other reasonable requirements as the Trustee may prescribe. If any such Bond will mature within the ensuing 60-days, or if such Bond has been called for redemption or a redemption date pertaining to such Bond has passed, instead of replacing the Bond, the Trustee may, upon receipt of such indemnity, pay the Bond on such maturity date or redemption date. The Trustee shall cancel any mutilated Bond surrendered to it. In connection with any such substitution or payment, the Issuer and the Trustee may charge the holder of such Bond their reasonable fees and expenses, including attorneys' fees and expenses.

If, after the delivery of such replacement Bond, the original Bond in lieu of which such replacement Bond was issued is presented for payment or registration, the Trustee shall seek to recover such replacement Bond from the person to whom it was delivered or any person taking therefrom and shall be entitled to recover from the security or indemnity provided therefor to the extent of any loss, damage, cost or expense incurred by the Trustee, the Borrower or the Issuer in connection therewith.

SECTION 2.15 **Securities Depository Provisions**.

(a) **Registration in the Book-Entry System**. Initially, all Bonds shall be Book-Entry Bonds. All Bonds shall be registered initially in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). The Issuer and the Trustee acknowledge that they have executed and delivered a Letter of Representations with DTC. All payments of principal of, redemption premium, if any, and interest on the Book-Entry Bonds and all notices with respect thereto, including notices of full or partial redemption, shall be made and given at the times and in the manner set out in the Letter of Representations. This Indenture shall govern in the event of any inconsistency between this Indenture and the Letter of Representations. The Letter of Representations may be amended without Bondholder consent.

(b) **Exculpation**. With respect to Book-Entry Bonds, neither the Issuer, the Trustee, the Credit Provider, the Loan Servicer nor the Borrower will have any responsibility or obligation to any broker-dealer, bank or other financial institution for which DTC holds Bonds from time to time as securities depository ("**DTC Participant**") or to any person on behalf of whom such a DTC Participant directly or indirectly holds an interest in the Bonds ("**Indirect Participant**"). Without limiting the immediately preceding sentence, the Issuer, the Trustee, the Credit Provider, the Loan Servicer and the Borrower will have no responsibility or obligation with respect to (i) the accuracy of the records of DTC, Cede & Co. or any DTC Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any DTC Participant or any Indirect Participant or any other person, other than DTC, as Bondholder, of any notice with respect to the Bonds, including any notice of redemption, (iii) the payment to any DTC Participant or Indirect Participant or any other Person, other than DTC, as Bondholder, of any amount with respect to principal of, premium, if any, or interest on, the Bonds, (iv) any consent given by DTC or (v) selection of Bonds for redemption. The Issuer, the Borrower, the Credit Provider, the Loan Servicer and the Trustee shall treat DTC or any successor securities depository as, and deem DTC or any successor securities depository to be, the absolute owner of the Bonds for all purposes whatsoever and neither the Issuer, the Borrower nor the Trustee shall have any responsibility or obligation to any Beneficial Owner of any Book-Entry Bond. While in the DTC system, no person other than DTC will receive a Bond certificate with respect to any Bond.

(c) **Successor Securities Depository; Transfers Outside Book-Entry System**. DTC may discontinue providing its services with respect to the Bonds at any time by giving written notice to the Issuer, the Trustee, the Remarketing Agent, the Tender Agent and the Borrower and by discharging its responsibilities with respect to the Bonds under applicable law. The Issuer or the Borrower, with the consent of the other, may terminate the services of DTC. If the Borrower is in default under any Bond Document or any Loan Document, the Issuer will not be required to obtain the consent of the Borrower to terminate the services of DTC. Without the consent of the Issuer, the Borrower may terminate the services of DTC if the Tender Agent is not a DTC Participant. Upon the discontinuance or termination of the services of DTC, unless a substitute securities depository is appointed to undertake the functions of DTC under this Indenture, the Issuer, at the expense of the Borrower, shall provide Bond certificates to the Trustee for delivery to the Beneficial Owners of the Bonds, and the Bonds may be registered in whatever name or names the Registered Owners transferring or exchanging Bonds designate to the Trustee in writing. The Trustee may appoint a successor depository operating a securities depository system, qualified to act as such under Section 17A of the Securities Exchange Act of 1934, as amended, as may be acceptable to the Issuer.

SECTION 2.16 **Bond Registrar; Exchange and Transfer of Bonds; Persons Treated as the Bondholders**.

(a) **Bond Registrar; Bond Register**. The Trustee shall act as the initial Bond Registrar and in such capacity shall keep the Bond Register for the registration of the Bonds and for the registration of transfer of the Bonds.

(b) **Transfers and Exchanges**. Any Bondholder or its attorney duly authorized in writing may transfer title to or exchange a Bond upon surrender of the Bond at the Designated Office of the Trustee together with a written instrument of transfer (in substantially the form of assignment, including signature guarantee, attached to the Bond) satisfactory to the Trustee

executed by the Bondholder or its attorney duly authorized in writing. Upon surrender for registration of transfer of any Bond, the Issuer shall execute and the Trustee shall authenticate and deliver in the name of the Bondholder or its transferee or transferees a new Bond or Bonds of the same aggregate principal amount, rate of interest, maturity, series and tenor as the Bond surrendered and of any Authorized Denomination. If Fannie Mae is the Credit Provider, any purported transfer to Fannie Mae (other than a transfer of Pledged Bonds if Fannie Mae has become the owner of the Mortgaged Property and would be required to advance funds under the Credit Facility in connection with a mandatory purchase of Bonds) must be accompanied by the written consent of Fannie Mae.

(c) **Exceptions to Transfers and Exchanges**. Except as provided in Section 4.1, the Trustee will not be required to register any transfer or exchange of any Bond (or portion of any Bond) during the 15-day period immediately before the selection of Bonds for redemption, and from and after notice calling such Bonds (or portion of such Bonds) for redemption or partial redemption has been given and prior to such redemption.

(d) **Charges**. Registrations of transfers or exchanges of Bonds shall be without charge to the Bondholders, but any taxes or other governmental charges required to be paid with respect to a transfer or exchange shall be paid by the Bondholder requesting the registration of transfer or exchange as a condition precedent to the exercise of such privilege. Any service charge made by the Trustee for any such registration, transfer or exchange shall be paid by the Borrower.

(e) **Recognized Owners**. The person in whose name any Bond is registered on the Bond Register will be deemed the absolute owner of such Bond for all purposes, and payment of any principal, interest and premium will be made only to or upon the order of such person or its attorney duly authorized in writing, but such registration may be changed as provided above. All such payments shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid.

(f) **Bonds Protected**. All Bonds issued upon any registration of transfer or exchange of Bonds will be legal, valid and binding limited obligations of the Issuer, evidencing the same debt, and entitled to the same security and benefits under this Indenture, as the Bonds surrendered upon such transfer or exchange.

(g) **Issuer's Reliance**. In executing any Bond upon any exchange or registration of transfer provided for in this Section, the Issuer may rely conclusively on a representation of the Trustee that such execution is required.

SECTION 2.17 **Cancellation**. All Bonds that have been surrendered pursuant to Section 2.3 or Article III for payment upon maturity or redemption prior to maturity or Bonds which are deemed canceled or are canceled pursuant to Section 4.4(b) will be canceled by the Trustee and will not be reissued. Unless otherwise directed by the Issuer, the Trustee shall treat such Bonds in accordance with its document retention policies or as may be directed by the law of the State.

SECTION 2.18 **Conditions for Delivery of Bonds**. Upon the execution and delivery of this Indenture, the Issuer shall execute and deliver to the Trustee, and the Trustee shall authenticate, the Bonds and deliver them to or for the account of the Underwriter or to such persons as the Underwriter specifies, in each case in the records of DTC, provided, however, that

prior to delivery of the Bonds to the Underwriter each of the following must be delivered to the Trustee:

(a) a certified copy of the Bond Resolution;

(b) executed original counterparts of the Bond Documents, the Loan Documents and all other agreements, documents and instruments to be executed and delivered on the Closing Date by the parties to those agreements, documents and instruments, and the original executed Credit Facility;

(c) an opinion of Bond Counsel to the effect that the Bonds have been duly and validly authorized, issued and delivered and constitute valid and binding obligations of the Issuer, enforceable against the Issuer in accordance with their terms, and that the interest payable on the Bonds is excludable from gross income for federal income tax purposes;

(d) an opinion of counsel to the Issuer to the effect that the Issuer has the power to enter into the Bond Documents to which it is a party and each of the Bond Documents to which the Issuer is a party has been duly and validly authorized, executed and delivered by the Issuer and each constitutes the legal, valid and binding obligation of the Issuer, enforceable against the Issuer in accordance with its terms, subject to customary qualifications on enforceability;

(e) a written request and authorization by the Issuer (acting through an Authorized Officer) to the Trustee to authenticate and deliver the Bonds to or for the account of the Underwriter upon receipt from the Underwriter of $_____;

(f) receipt from the Underwriter of $_____;

(g) receipt from the Borrower of the Costs of Issuance Deposit;

(h) evidence, acceptable to the Credit Provider and the Loan Servicer, of proper recordation of the Security Instrument, the Regulatory Agreement and the Assignment or a title insurance binder acceptable to the Credit Provider and the Loan Servicer insuring the "gap" in a manner acceptable to the Credit Provider and the Loan Servicer;

(i) written evidence that the Bonds have been assigned a rating in the Highest Rating Category by the Rating Agency rating the Bonds; and

(j) the Letter of Representations if required by DTC.

ARTICLE III
REDEMPTION OF BONDS

SECTION 3.1 **Redemption**. The Bonds are subject to redemption prior to maturity only as set forth in this Article III. All redemptions must be in Authorized Denominations.

SECTION 3.2 **Optional Redemption**.

(a) **General Provisions**. The Bonds are subject to optional redemption with the prior written consent of the Issuer in whole or in part upon optional prepayment of the Loan by the

Borrower. Redemptions pursuant to this Section 3.2 will be made at the following times and at the following prices:

(1) On any Interest Payment Date within a Weekly Variable Rate Period and on any Adjustment Date at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the Redemption Date.

(2) On any date within a Reset Period at the respective redemption prices set forth in the table below expressed as percentages of the principal amounts of the Bonds called for redemption, such redemption prices declining **[____]** percent each year until such redemption price equals 100 percent of the principal amount of the Bonds, plus accrued interest, if any, to the Redemption Date:

Term of Reset Period	No-Call Period	Redemption Price	No Premium

The Borrower and the Remarketing Agent, not less than 15 days before any Reset Date, may give notice to the Issuer, the Credit Provider, the Loan Servicer and the Trustee setting forth a redemption schedule different from that set forth above, accompanied by (A) the written consent of the Credit Provider of the Credit Facility to be in effect for the ensuing Reset Period, and (B) an opinion of Bond Counsel to the effect that such change will not adversely affect the exclusion from gross income for federal income tax purposes of the interest payable on the Bonds. Such different redemption schedule will apply to any redemption pursuant to this Section 3.2(a)(2) for the new Reset Period, without further action by any party.

(3) On any date within the Fixed Rate Period, at the respective redemption prices set forth below expressed as percentages of the principal amounts of the Bonds called for redemption, such redemption prices declining **[____]** percent each year until such redemption price equals 100 percent of the principal amount of the Bonds, plus accrued interest, if any, to the Redemption Date:

Term of Fixed Rate Period	No-Call Period	Redemption Price	No Premium

The Borrower and the Remarketing Agent may, not less than 15 days before the Fixed Rate Adjustment Date, give notice to the Issuer, the Credit Provider, the Loan Servicer and the Trustee setting forth a redemption schedule different from that set forth in this paragraph, accompanied by (A) the written consent of the Credit Provider of the Credit Facility, if any, to be in effect for the ensuing Fixed Rate Period, and (B) an opinion of

Bond Counsel to the effect that such change will not adversely affect the exclusion from gross income for federal income tax purposes of interest payable on the Bonds. Such different redemption schedule shall apply to any redemption pursuant to this Section 3.2(a)(3) for the Fixed Rate Period, without further action by any party.

(b) **Premium from Available Moneys other than the Credit Facility**. The principal of and accrued interest on any Bond being redeemed under Section 3.2(a) shall be paid from an Advance under the Credit Facility and the premium, if any, must be paid with other Available Moneys. Neither the Issuer, the Trustee, the Credit Provider nor the Loan Servicer shall have any obligation to provide funds to be included in any premium.

SECTION 3.3 **Mandatory Redemption**. The Bonds are subject to mandatory redemption as provided in this Section 3.3 on the earliest practicable Redemption Date for which timely notice of redemption can be given pursuant to Section 3.4 following the occurrence of the event requiring such redemption. The principal of and accrued interest on any Bond being redeemed under this Section shall be paid from an Advance under the Credit Facility. Bonds will be redeemed at a redemption price equal to 100 percent of the principal amount of such Bonds plus accrued interest to the Redemption Date. Bonds subject to mandatory redemption in part shall be redeemed in Authorized Denominations or shall be redeemed in such amounts so that the Bonds Outstanding following the redemption are in Authorized Denominations. If the Trustee receives an amount for the mandatory redemption of Bonds which is not equal to a whole integral multiple of the Authorized Denomination, the Trustee shall redeem Bonds in an amount equal to the next lowest whole integral multiple of the Authorized Denomination to the amount received by the Trustee and hold any excess amount in the Redemption Account.

(a) **Casualty or Condemnation**. The Bonds shall be redeemed in whole or in part in the event and to the extent that proceeds of insurance from any casualty to, or proceeds of any award from any condemnation of, or any award as part of a settlement in lieu of condemnation of, the Mortgaged Property ("**Proceeds**") are applied in accordance with the Security Instrument to the prepayment of the Loan.

(b) **After an Event of Default under the Reimbursement Agreement**. The Bonds shall be redeemed in whole or in part in an amount specified by and at the direction of the Credit Provider requiring that the Bonds be redeemed pursuant to this subsection following any Event of Default under the Reimbursement Agreement. The Redemption Date shall be the earliest practicable date, but in no event shall such redemption occur later than two Business Days prior to the date, if any, that the Credit Facility terminates on account of the Credit Provider's giving of direction to the Trustee pursuant to this subsection to redeem all of the Bonds.

(c) **Principal Reserve Fund.** The Bonds shall be redeemed in whole or in part as follows:

(1) on each Adjustment Date in an amount equal to the amount which has been transferred from the Principal Reserve Fund on such Adjustment Date to the Redemption Account pursuant to Section 5.11(b)(5); and

(2) on any Interest Payment Date in an amount equal to the amount which has been transferred from the Principal Reserve Fund on such Interest Payment Date to the Redemption Account pursuant to Section 5.11(b)(6).

(d) **Sinking Fund Redemption**. The Bonds shall be redeemed during the Fixed Rate Period if the Issuer has established a Sinking Fund Schedule, at the times and in the amounts set forth in the Sinking Fund Schedule (subject to the provisions of Section 5.5(c) permitting amounts to be credited toward part or all of any one or more Sinking Fund Payments).

SECTION 3.4 **Notice of Redemption to Registered Owners**.

(a) **Notice Requirement**. For any redemption of Bonds pursuant to:

(1) Section 3.2 or 3.3(a) or (c), the Trustee shall give notice of redemption by first class mail, postage prepaid, not less than ten days prior to the specified Redemption Date, to the Registered Owner of each Bond to be redeemed at the address of such Registered Owner as shown on the Bond Register. With respect to Book-Entry Bonds, if the Trustee sends notice of redemption to the Securities Depository pursuant to the Letter of Representations, the Trustee shall not be required to give the notice set forth in the immediately preceding sentence.

(2) Section 3.3(b), the Trustee shall give immediate notice of redemption.

(3) Section 3.3(d), the Trustee will give notice of redemption as provided in Section 5.5(c)(3).

(4) Section 3.2, the notice of redemption shall state that it is conditioned upon receipt by the Trustee of sufficient moneys to redeem the Bonds including Available Moneys to pay any redemption premium in full ("**Conditional Redemption**"), and such notice and optional redemption shall be of no effect if either (i) by no later than the scheduled redemption date, sufficient moneys to redeem the Bonds and sufficient Available Moneys to pay any redemption premium have not been deposited with the Trustee, or, if such moneys are deposited, are not available on the redemption date or (ii) the Trustee at the direction of the Credit Provider rescinds such notice on or prior to the scheduled redemption date.

The Trustee shall cause a second notice of redemption to be sent by first class mail, postage prepaid, on or within ten days after the 30th day after the Redemption Date to any Bondholder who has not submitted its Bond to the Trustee for payment. The Trustee shall provide copies of all notices given under this Section and of all revocations of notices to the Credit Provider and the Loan Servicer at the same time it gives notices to Bondholders.

(b) **Content of Notice**. Each notice of redemption must state: (i) the date of the redemption notice; (ii) the Closing Date and the complete official name of the Bonds, including the series designation; (iii) for each Bond to be redeemed, the interest rate or that the interest rate is variable, maturity date and in the case of a partial redemption of Bonds, the principal amount of each Bond to be redeemed; (iv) the CUSIP numbers of all Bonds being redeemed; (v) the place or places where the Bonds to be redeemed must be surrendered for payment and where amounts due upon such redemption will be payable upon surrender of the Bonds to be redeemed; (vi) the Redemption Date and redemption price of each Bond to be redeemed; (vii) the name, address, telephone number and contact person at the office of the Trustee with respect to such redemption; (viii) that interest on all Bonds to be redeemed will not accrue from and after the

Redemption Date; (ix) if a redemption is a Conditional Redemption, that redemption is conditional upon receipt by the Trustee of sufficient moneys to redeem the Bonds including Available Moneys to pay any redemption premium and (x) that the Credit Provider may direct the Trustee to cancel such redemption upon the occurrence of any Event of Default under the Reimbursement Agreement.

(c) **Additional Notice**. At the same time notice of redemption is sent to the Registered Owners the Trustee shall send notice of redemption by first class mail, overnight delivery service or such other means as is acceptable to the recipient, postage or service prepaid (or as specified below) (i) to the Rating Agency, (ii) if the Bonds are not subject to the Book-Entry System, to certain municipal registered Securities Depositories (described below) which are known to the Trustee, on the second Business Day prior to the date the notice of redemption is mailed to the Bondholders, to be holding Bonds, and (iii) at least two of the national Information Services (described below) that disseminate securities redemption notices. For this purpose:

(1) Securities Depositories include: The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax-(516) 227-4039 or 4190; or, in accordance with the then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories or any such other depositories as the Issuer may designate in writing to the Trustee; and

(2) Information Services include: Financial Information, Inc. "Daily Called Bond Service," 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Kenny Information Services, "Called Bond Service," 65 Broadway, 16th Floor, New York, New York 10004; Moody's Investors Service "Municipal and Government," 99 Church Street, 8th Floor, New York, New York 10007, Attention: Municipal News Reports; and Standard and Poor's Ratings Group "Called Bond Record," 55 Water Street, New York, New York 10041; or, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other services providing information with respect to called bonds, or any other such services as the Issuer may designate in writing to the Trustee.

(d) **Validity of Proceedings for the Redemption of Bonds**. If notice is given as stated in subsection (a), failure of any Bondholder to receive such notice, or any defect in the notice, shall not affect the redemption or the validity of the proceedings for the redemption of the Bonds.

(e) **Rescission of Conditional Redemption; Cancellation of Optional Redemption**. The Trustee shall rescind any Conditional Redemption if the requirements of Section 3.2(b) have not been met on or before the Redemption Date or the Trustee has received a direction to cancel the Conditional Redemption from the Credit Provider. The Trustee shall give notice of rescission by the same means as is provided in this Section for the giving of notice of redemption or by Electronic Means confirmed in writing. The optional redemption shall be canceled once the Trustee has given notice of rescission. Any Bonds subject to Conditional Redemption where redemption has been rescinded shall remain Outstanding, and neither the rescission nor the failure of funds being made available in part or in whole on or before the Redemption Date shall constitute an Event of Default. Notwithstanding notice having been given in the manner provided above, any optional redemption of Bonds shall be canceled with the consent of or at the direction of

the Credit Provider if the Credit Provider has notified the Trustee in writing that an Event of Default under the Reimbursement Agreement has occurred.

SECTION 3.5 **Redemption Payments**. If notice of redemption has been given and the conditions for such redemption, if applicable, have been met, the Bonds called for redemption shall become due and payable on the Redemption Date, interest on those Bonds will cease to accrue from and after the Redemption Date and the called Bonds will no longer be Outstanding. The holders of the Bonds so called for redemption shall thereafter no longer have any security or benefit under this Indenture except to receive payment of the redemption price for such Bonds upon surrender of such Bonds to the Trustee. All moneys held by or on behalf of the Trustee for the redemption of particular Bonds will be held in trust for the account of the holders of the Bonds to be redeemed. If less than the entire principal amount of a Bond is called for redemption, the Issuer shall execute, and the Trustee shall authenticate and deliver, upon the surrender of such Bond to the Trustee, without charge by the Issuer or the Trustee to the Bondholder, in exchange for the unredeemed principal amount of such Bond, a new Bond or Bonds of the same interest rate, maturity and term, in any Authorized Denomination, in aggregate principal amount equal to the unredeemed balance of the principal amount of the Bond so surrendered.

SECTION 3.6 **Selection of Bonds to be Redeemed Upon Partial Redemption**. If less than all the Outstanding Bonds are called for redemption, the Trustee shall select by lot, in such manner as it determines in its discretion, the Bonds, or portions of the Bonds in Authorized Denominations, to be redeemed. In the selection process (i) any Pledged Bonds Outstanding will be called for redemption before any other Bonds are selected for redemption and (ii) if applicable, the Bonds with the highest interest rate will be called for redemption before any other Bonds are selected for redemption. For the purposes of this Section, Bonds which have previously been selected for redemption will not be deemed Outstanding. Notwithstanding the foregoing, the Securities Depository for Book-Entry Bonds shall select the Bonds for redemption within particular maturities according to its stated procedures.

SECTION 3.7 **Purchase of Bonds in Lieu of Redemption**. If the Bonds are called for redemption in whole or in part, the Bonds called for redemption may, with the prior written consent of the Issuer, be purchased in lieu of redemption in accordance with this Section.

(a) **Purchase in Lieu of Redemption**. Purchase in lieu of redemption shall be available for all of the Bonds called for redemption or for such lesser portion of such Bonds as constitute Authorized Denominations. The Credit Provider or the Borrower with the written consent of the Credit Provider may direct the Trustee to purchase all or such lesser portion of the Bonds so called for redemption. Any such direction to the Trustee must:

(1) be in writing;

(2) state either that all of the bonds called for redemption are to be purchased or, if less than all of the bonds called for redemption are to be purchased, identify those bonds to be purchased by maturity date and outstanding principal amount in Authorized Denominations; and

(3) be received by the Trustee no later than 12:00 noon one Business Day prior to the Redemption Date.

If so directed, the Trustee shall purchase such Bonds on the date which otherwise would be the Redemption Date. Any of the Bonds called for redemption that are not purchased in lieu of redemption shall be redeemed as otherwise required by this Indenture on the Redemption Date.

(b) **Withdrawal of Direction to Purchase**. On or prior to the scheduled redemption date, any direction given to the Trustee pursuant to this Section or any consent given by the Credit Provider to such a direction may be withdrawn by written notice to the Trustee. Subject generally to this Indenture, should a direction to purchase or the consent of the Credit Provider be withdrawn, the scheduled redemption of such Bonds shall occur.

(c) **Purchaser**. If the purchase is directed by the Credit Provider, the purchase shall be made for the account of the Credit Provider or its designee. If the purchase is directed by the Borrower with the consent of the Credit Provider, the purchase shall be made for the account of the Borrower or its designee.

(d) **Purchase Price**. The purchase price of the Bonds shall be equal to the outstanding principal of, accrued and unpaid interest on and the redemption premium, if any, which would have been payable on such Bonds on the Redemption Date for such redemption. To pay the purchase price of such Bonds, the Trustee shall use such Available Moneys, if any, in:

(1) the Credit Facility Account to pay the principal and interest components of the purchase price; and

(2) the Redemption Account to pay the redemption premium component of the purchase price;

that the Trustee would have used to pay the outstanding principal of, accrued and unpaid interest on and the redemption premium, if any, that would have been payable on the redemption of such Bonds on the Redemption Date. Otherwise, the Trustee shall pay the purchase price only from Available Moneys. The Trustee shall not purchase the Bonds pursuant to this Section if by no later than the Redemption Date, sufficient moneys have not been deposited with the Trustee, or such moneys are deposited, but are not available.

(e) **No Notice to Bondholders**. No notice of the purchase in lieu of redemption shall be required to be given to the Bondholders (other than the notice of redemption otherwise required under this Indenture).

ARTICLE IV
PURCHASE AND REMARKETING OF BONDS

SECTION 4.1 Purchase of Bonds on any Business Day.

(a) **Optional Tender**. During any Weekly Variable Rate Period, the Trustee shall purchase any Bond on behalf of and as agent for the Borrower, but solely from the sources provided in Section 4.1(g), on the demand of the Beneficial Owner of such Bond. The purchase price of any Bond tendered for purchase shall be 100 percent of the principal amount of such Bond plus accrued interest, if any, to the date of purchase. The Beneficial Owner may demand purchase of its Bond by delivery of a Optional Tender Notice complying with the requirements of this subsection to the Tender Agent at its Designated Office on any Business Day. Any

Optional Tender Notice received by the Tender Agent after 3:30 p.m. Eastern time on a Business Day will be treated as received at 9:00 a.m. Eastern time on the following Business Day. The date of purchase shall be the date selected by the Beneficial Owner in the Optional Tender Notice; provided, however, that such date is a Business Day which is at least seven days after the date of the delivery of the Optional Tender Notice to the Tender Agent. A Optional Tender Notice complies with the requirements of this subsection if it:

(1) is accompanied by a guaranty of signature acceptable to the Tender Agent; and

(2) contains the CUSIP number of the Bond, the principal amount to be purchased (or portion of a Bond, provided that the retained portion is an Authorized Denomination), the name, address and tax identification number or social security number of the Beneficial Owner of the Bond demanding such payment and the purchase date.

(b) **Irrevocability of Optional Tender**. Subject to Section 4.1(h), by delivering a Optional Tender Notice the Beneficial Owner irrevocably agrees to deliver the Tendered Bond (with an appropriate transfer of registration form executed in blank and accompanied by a guaranty of signature satisfactory to the Tender Agent) to the Designated Office of the Tender Agent or any other address designated by the Tender Agent at or prior to 10:00 a.m. Eastern time on the date of purchase specified in the Optional Tender Notice. Any election by a Beneficial Owner to tender a Bond or Bonds (or portion of a Bond or Bonds) for purchase on a Business Day in accordance with Section 4.1(a) shall also be binding on any transferee of the Beneficial Owner making such election.

(c) **Compliance with Optional Tender Requirements**. Bonds shall be required to be purchased pursuant to Section 4.1(a) only if the Bonds so delivered to the Tender Agent conform in all respects to the description of such Bonds in the Optional Tender Notice. The Tender Agent shall determine in its sole discretion whether a Optional Tender Notice complies with the requirements of Section 4.1(a) and whether Bonds delivered conform in all respects to the description of the Bonds in the Optional Tender Notice. Such determination shall be binding on the other Remarketing Notice Parties and the Beneficial Owner of the Bonds.

(d) **Notice of Optional Tender Notice**. Immediately upon receipt of a copy of a Optional Tender Notice, the Tender Agent shall notify the other Remarketing Notice Parties by telephone, promptly confirmed in writing, of such receipt, specifying the contents of such Optional Tender Notice.

(e) **Untendered Bonds**. If after delivery of a Optional Tender Notice to the Tender Agent the holder making such election fails to deliver any of the Bonds described in the Optional Tender Notice as required by Section 4.1(b), each untendered Bond or portion of such untendered Bond ("**Untendered Bond**") described in such Optional Tender Notice shall be deemed to have been tendered to the Tender Agent for purchase, to the extent that there is on deposit in the Bond Purchase Fund on the applicable purchase date an amount sufficient to pay the purchase price of such Untendered Bond, and such Untendered Bond from and after such purchase date will cease to bear interest and no longer be considered to be Outstanding. The Trustee shall promptly give notice by registered or certified first class mail, postage prepaid, to each Beneficial Owner of any Bond which has been deemed to have been purchased pursuant to

this Section, stating that interest on such Untendered Bond ceased to accrue from and after the date of purchase and that moneys representing the purchase price of such Untendered Bond are available against delivery of such Untendered Bond at the Designated Office of the Tender Agent. The Issuer shall sign and the Tender Agent shall authenticate and deliver for redelivery a new Bond or Bonds in replacement of the Untendered Bond not so delivered. The replacement of any Bond will not be deemed to create new indebtedness, but will be deemed to evidence the indebtedness previously evidenced by the Untendered Bond.

(f) **Purchase of Bond in Part**. Upon surrender of any Bond for purchase in part only, the Issuer shall execute and the Tender Agent shall authenticate and deliver to the holder of such Bond a new Bond or Bonds of the same maturity and interest rate, of Authorized Denominations, in an aggregate principal amount equal to the unpurchased portion of the Bond surrendered.

(g) **Payment and Sources of Purchase Price**. The Tender Agent shall make payment for any Tendered Bond to the Registered Owner at or before 4:00 p.m. Eastern time on the date for purchase specified in the Optional Tender Notice, **first** from remarketing proceeds on deposit in the Bond Purchase Fund, **second**, from proceeds of a payment under the Credit Facility, and **third**, from the Borrower.

(h) **Book-Entry-Only**. Notwithstanding the above, during any period that the Bonds are Book-Entry Bonds, (i) any Optional Tender Notice also must (A) provide evidence satisfactory to the Tender Agent that the party delivering the notice is the Beneficial Owner of the Bond(s) or a custodian for the Beneficial Owner referred to in the notice, and (B) if the Beneficial Owner is other than a DTC Participant, identify the DTC Participant through whom the Beneficial Owner will direct transfer; (ii) on or before the purchase date, the Beneficial Owner must direct (or if the Beneficial Owner is not a DTC Participant, cause its DTC Participant to direct) the transfer of said Bond(s) on the records of DTC to the account of, or as directed by, the Trustee; (iii) Tendered Bond(s) will be purchased without physical delivery as if such Bond(s) had been so delivered and (iv) the purchase price of such Bond(s) will be paid to DTC.

SECTION 4.2 Mandatory Tender and Purchase.

(a) **Mandatory Tender Dates (Other Than Upon Default); Notice**. The holders of the Bonds shall be required to tender their Bonds to the Tender Agent for purchase on each Mandatory Tender Date by the Trustee acting on behalf of and as agent for the Borrower, but solely from the sources provided in Section 4.2(d), at a purchase price equal to 100 percent of the principal amount of the Bonds plus accrued interest to the applicable Mandatory Tender Date. The Owner of any Bond may not elect to retain its Bond. Mandatory Tender Dates include each Adjustment Date (even if a proposed change in Mode fails to occur), each Extension Date (unless the Trustee receives an extension of, as the case may be, the Liquidity Expiration Date or an Alternate Credit Facility prior to the Extension Date in which case such Extension Date shall not be a Mandatory Tender Date), and each Substitution Date. The Trustee shall give notice of Mandatory Tender Dates as follows:

(1) Not less than 30 days before any proposed Adjustment Date, the Trustee shall give notice by first class mail, postage prepaid, to the Bondholders stating the information required to be set forth in notices pursuant to the applicable provisions of Sections 2.8(a)(2), 2.8(b)(2) or 2.8(c)(2).

(2) Not less than ten days before any Substitution Date, the Trustee shall give notice by first class mail, postage prepaid, to the Bondholders stating (i) an Alternate Credit Facility will be substituted for the Credit Facility then in effect, (ii) the Substitution Date, (iii) that the Bonds are required to be tendered on the Substitution Date and (iv) that Bondholders will not have the right to elect to retain their Bonds.

(3) So long as the initial Credit Facility is in effect, not less than ten days before any Extension Date, if the Trustee has not received either an extension of the Liquidity Expiration Date of the Credit Facility or a binding commitment from Fannie Mae to extend the Liquidity Expiration Date of the Credit Facility, the Trustee shall give notice by first class mail, postage prepaid, to the Bondholders stating (i) the Extension Date and that no extension of or commitment to extend the Liquidity Expiration Date then in effect has been received by the Trustee, (ii) that such Bonds are required to be tendered on the Extension Date, (iii) that the Bondholders will not have the right to elect to retain such Bonds if the Liquidity Expiration Date is not extended and (iv) that such Bonds shall not be required to be so tendered if the Trustee receives an extension of the Liquidity Expiration Date prior to the Extension Date.

(4) Not less than ten days before any Extension Date, if the Trustee has not received a binding commitment to extend the applicable Credit Facility, the Trustee shall give notice by first class mail, postage prepaid, to the Bondholders stating (i) the Extension Date and that no commitment to extend the Credit Facility then in effect has been received by the Trustee, (ii) that such Bonds are required to be tendered on the Extension Date (unless an extension of the Alternate Credit Facility is received prior to the Extension Date), and (iii) that the Bondholders will not have the right to elect to retain such Bonds if an extension of the Credit Facility is not received.

If the Trustee receives an extension of, as the case may be, the Liquidity Expiration Date of the initial Credit Facility or an Alternate Credit Facility prior to the then applicable Extension Date, such Extension Date shall not be a Mandatory Tender Date and the holders of the Bonds shall not be required to tender their Bonds as otherwise required by this subsection. In such case, the Trustee shall give immediate notice to the Bondholders to the effect that the Trustee has received an extension of, as the case may be, the Liquidity Expiration Date of the initial Credit Facility or an Alternate Credit Facility prior to the then applicable Extension Date and the holders of the Bonds shall not be required to tender their Bonds.

(b) **Mandatory Tender upon Default; Notice**. The Bonds shall be subject to Mandatory Tender upon receipt by the Trustee of written notice from the Credit Provider stating that an Event of Default under the Reimbursement Agreement has occurred and directing that the Bonds be subject to Mandatory Tender. Such Mandatory Tender shall be made on the earliest practicable date, after notice of tender has been given to Bondholders and shall be payable solely from the sources provided in Section 4.2(d)(2) at a purchase price equal to 100 percent of the principal amount of the Bonds plus accrued interest to the Mandatory Tender Date. The Owner of any Bond may not elect to retain its Bond. Immediately upon receipt by the Trustee of such written notice from the Credit Provider, the Trustee shall give notice by first class mail, postage prepaid, to the owners of the Bonds stating that (i) such event has occurred, (ii) the Bonds are required to be tendered on the Mandatory Tender Date specified in such notice, and (iii) the Bondholders will not have the right to elect to retain their Bonds.

(c) **Untendered Bond**. Any Bond which is not tendered on a Mandatory Tender Date ("**Untendered Bond**") will be deemed to have been tendered to the Tender Agent as of such Mandatory Tender Date, and, from and after such Mandatory Tender Date, shall cease to bear interest and no longer will be considered to be Outstanding. In the event of a failure by owners to deliver Bonds on the Mandatory Tender Date, such Owners will not be entitled to any payment (including any interest to accrue from and after the Mandatory Tender Date) other than the purchase price for such Untendered Bond, and any Untendered Bond will no longer be entitled to the benefits of this Indenture, except for the purpose of payment of the purchase price for such Untendered Bond. The Issuer shall sign, and the Tender Agent shall authenticate and deliver to the Remarketing Agent for redelivery to the purchaser, a new Bond in replacement of the Untendered Bond. The replacement of any such Untendered Bond shall not be deemed to create new indebtedness, but shall be deemed to evidence the indebtedness previously evidenced by the Untendered Bond.

(d) **Payment and Sources of Purchase Price**. The Tender Agent shall make payment for Bonds purchased pursuant to this Section at or before 4:00 p.m. Eastern time on the Mandatory Tender Date. The Trustee shall pay the purchase price:

(1) for Bonds purchased pursuant to Section 4.2(a), **first** from remarketing proceeds on deposit in the Bond Purchase Fund, **second**, from proceeds of a payment under the Credit Facility, and **third**, from the Borrower.

(2) for Bonds purchased pursuant to Section 4.2(b), **first**, from proceeds of a payment under the Credit Facility, and **second**, from the Borrower.

(e) **Purchase Price Moneys Held in Trust**. Following any Mandatory Tender Date, moneys deposited with the Tender Agent for the purchase of Bonds shall be held in trust in the Bond Purchase Fund and shall be paid to the former owners of such Bonds upon presentation of such Bonds at the Designated Office of the Tender Agent. The Tender Agent shall promptly give notice by registered or "certified first class" mail, postage prepaid, to each Registered Owner of Bonds whose Bonds are deemed to have been purchased stating that interest on such Bonds ceased to accrue on the date of purchase and that moneys representing the purchase price of such Bonds are available against delivery of such Bonds at the Designated Office of the Tender Agent. During any period that the Bonds are Book-Entry Bonds, (i) any notice delivered pursuant to this Section 4.2(e) shall be given only to the entity designated in the Letter of Representations, as required by Section 3.4(a) and (ii) it shall not be necessary for Bond(s) to be physically delivered on the date specified for purchase of such Bond(s), but such purchase shall be made as if such Bond(s) had been so delivered, and the purchase price of such Bond(s) shall be paid to DTC.

SECTION 4.3 Remarketing of Bonds.

(a) Resignation and Removal of Remarketing Agent.

(1) **Resignation of Remarketing Agent; Termination of Existence**. The Remarketing Agent may resign by giving no less than 30 days prior written notice to the other Remarketing Notice Parties, but in no event shall such resignation take effect prior to the date a successor Remarketing Agent is appointed and is serving under this Indenture and the Remarketing Agreement. Upon receipt of such notice or upon termination of the Remarketing Agent's corporate existence, the Issuer shall appoint a

successor Remarketing Agent, which must be a trust company or bank or investment bank in good standing, within or without the State. If the Issuer fails or refuses to make such appointment prior to the effective date of the resignation set forth in such notice, or upon such termination of existence, the Credit Provider may appoint a successor Remarketing Agent by written notice to the other Remarketing Notice Parties.

(2) **Removal of Remarketing Agent**. The Issuer may remove the Remarketing Agent at any time by a written notice to the other Remarketing Notice Parties, but such removal will not become effective until a successor Remarketing Agent is appointed. If (A) an Event of Default has occurred and is continuing under the Reimbursement Agreement or (B) the Remarketing Agent has failed to fulfill any of its duties and obligations under this Indenture or the Remarketing Agreement, the Credit Provider may remove the Remarketing Agent by written notice to the other Remarketing Notice Parties and appoint a successor Remarketing Agent.

(b) **Best Efforts to Remarket Tendered Bonds**. In accordance with Sections 2.5, 2.6 and 2.7, the Remarketing Agent shall offer for sale and use its best efforts to remarket, on or prior to each applicable Tender Date:

(1) all Bonds identified in a Optional Tender Notice delivered to the Tender Agent;

(2) all Bonds required to be tendered upon delivery of notice under Section 4.2(a)(1) and 4.2(a)(2);

(3) all Bonds required to be tendered pursuant to Section 4.2(a)(3) but only if the Liquidity Expiration Date has been extended or an Alternate Credit Facility meeting the requirements of Section 2.9 is effective;

(4) all Bonds required to be tendered pursuant to Section 4.2(a)(4), but only if an Alternate Credit Facility meeting the requirements of Section 2.9 is effective (because the Trustee has either received a new Alternate Credit Facility or received on or after the Extension Date an extension of the Alternate Credit Facility in effect immediately prior to the Mandatory Tender Date); and

(5) all Bonds required to be tendered upon delivery of notice pursuant to Section 4.2(b) but only if the Credit Provider directs that such Bonds be remarketed.

The Remarketing Agent shall offer such Bonds for sale at par plus accrued interest, if any.

(c) **Preliminary Notice of Remarketing.** The Remarketing Agent will give notice by telephone (immediately confirmed by Electronic Means) not later than 4:00 p.m. Eastern time (unless a Mandatory Tender pursuant to Section 4.2(b) is scheduled, in which case the Remarketing Agent will give such notice not later than 11:00 a.m. Eastern time) on the Business Day preceding each Tender Date, as follows:

(1) to the other Remarketing Notice Parties specifying the total principal amount of Tendered Bonds, if any, (A) that have been remarketed for settlement on such Tender Date, (B) that remain unremarketed at such time, and (C) that in its best good

faith estimate will remain unremarketed as of 10:00 a.m. Eastern time on the Tender Date; and

(2) to the Trustee, specifying the name, address and taxpayer identification number or social security number of each purchaser as well as the denominations of the Bonds to be issued to such purchaser.

(d) **Final Notice of Remarketing**. Not later than 10:00 a.m. Eastern time on the Tender Date, the Remarketing Agent shall give notice by Electronic Means to the other Remarketing Notice Parties (immediately confirmed in writing, together with instructions to the Tender Agent as to the manner in which any Bonds that have been remarketed are to be registered) specifying as follows:

(1) the principal amount of Bonds remarketed (together with the information required to be specified in Section 4.3(c) if not already provided);

(2) the amount of remarketing proceeds on deposit with the Tender Agent;

(3) the amount of Bonds to be purchased that have not been remarketed at the time of such notice; and

(4) the amount required to be paid under the Credit Facility;

except that the information specified in paragraphs (3) and (4) is not relevant to a remarketing described in Section 4.3(b)(4) and the Remarketing Agent need not give such information in that circumstance. Upon receipt of such notice, the Trustee shall draw on the Credit Facility pursuant to Section 8.2 in the amount necessary to pay the purchase price of the Bonds for which remarketing proceeds are not available.

(e) **Payment of Purchase Price**. Upon delivery (except as otherwise provided in, but subject to the tendering Beneficial Owner's compliance with, Section 4.1(h)) of Tendered Bonds to or upon the order of the Remarketing Agent, the Remarketing Agent shall deliver to the Tender Agent at its Designated Office, in immediately available funds, an amount equal to the purchase price of the total principal amount of Bonds specified in the notice given by the Remarketing Agent pursuant to Section 4.3(d), plus accrued interest, if any, on such Bonds.

(f) **Prohibited Remarketing**. Except as otherwise provided in this Indenture, the Remarketing Agent shall not remarket any Bonds directly to the Issuer, the Borrower, any Affiliate of the Borrower, any Affiliate of the Issuer or any guarantor of the Loan.

(g) **Remarketing Agent's Own Account**. The Remarketing Agent may, but is not obligated to, acquire for its own account any Bonds delivered to it, but not otherwise remarketed. The Remarketing Agent may purchase and sell Bonds for its own account at any time.

(h) **Periodic Notice to Credit Provider**. The Remarketing Agent shall provide the Credit Provider with a notice, in form satisfactory to the Credit Provider, by the next Business Day after the first Rate Determination Date in each calendar month, setting forth the name and telephone number of the person providing the notice, the name of the Remarketing Agent and the principal amount of Bonds tendered for remarketing that remain unremarketed as of the close of business on such Rate Determination Date, or, if no Bonds were so tendered, indicating that no

Bonds were tendered. The Credit Provider may waive its right to receive such notice(s) from time to time in writing.

(i) **Notices of Rate Determination Date and Nonpayment of Fees**. On or before a Rate Determination Date other than during a Weekly Variable Rate Period, the Remarketing Agent shall notify the other Remarketing Notice Parties of the date selected as the Rate Determination Date. The Remarketing Agent will promptly notify the Loan Servicer if the fees and expenses of the Remarketing Agent have not been paid under the Remarketing Agreement.

(j) **Duties of Trustee Concerning Remarketed Bonds**. Unless the Bonds are then Book-Entry Bonds, the Trustee shall deliver, or cause to be delivered, at the Designated Office of the Tender Agent, Bonds remarketed by the Remarketing Agent, before 1:00 p.m. Eastern time on the applicable purchase date or Mandatory Tender Date; provided, however, that prior to delivery of the Bonds (including Bonds previously purchased pursuant to Section 4.4 and then being remarketed) to such purchasers the amount available under the Credit Facility to secure the Bonds must equal the principal amount of the Bonds Outstanding (other than Pledged Bonds not then being remarketed) plus the Interest Requirement.

SECTION 4.4 Pledged Bonds.

(a) **No Credit Facility Support**. The Credit Facility shall not constitute security or provide liquidity for Pledged Bonds.

(b) **Ownership and Pledge of Pledged Bonds**. Pledged Bonds shall be owned by the Borrower and pledged to the Custodian under the Pledge Agreement for the benefit of the Credit Provider. As set forth in the Pledge Agreement, the Tender Agent shall either (i) ensure that Pledged Bonds are delivered to the Custodian or (ii) if, and only if, delivery of the Bonds is not possible, deliver a written entitlement order to the applicable financial intermediaries on whose records ownership of the Pledged Bonds is reflected directing the intermediaries to credit the security entitlement to the Pledged Bonds to the account of the Custodian for the benefit of the Credit Provider and deliver to the Custodian a written confirmation of such credit, whether or not the Borrower notifies the Remarketing Agent to do so. The Trustee shall cancel Pledged Bonds upon the written direction of the Credit Provider.

(c) **Remarketing of Pledged Bonds.** At such time as a Pledged Bond is remarketed by the Remarketing Agent, the Trustee or the Tender Agent, as appropriate, shall (i) remit the proceeds from the remarketing to the Credit Provider, (ii) pursuant to Section 10(e) of the Credit Facility, submit a Certificate in the form of Exhibit G attached to the Credit Facility and (iii) give written notice to the Remarketing Agent, the Borrower, the Loan Servicer and the Credit Provider that such Bond is no longer a Pledged Bond. During the occurrence and continuation of an Event of Default under this Indenture or the Reimbursement Agreement, no Pledged Bond shall be remarketed without the consent of the Credit Provider. No Pledged Bond shall be remarketed unless the Trustee takes such action, if any, required by the Credit Facility to reinstate the Credit Facility for a like amount and the Credit Facility provides credit enhancement and liquidity support for the Bonds Outstanding, including such Pledged Bonds to be remarketed, as required by Section 2.9 of this Indenture.

SECTION 4.5 No Sales After Wrongful Dishonor; No Purchase After Acceleration. Notwithstanding anything in this Indenture to the contrary, no Bonds shall be

remarketed if the Trustee has given notice to the Remarketing Agent that a Wrongful Dishonor has occurred and is continuing. No Bonds, other than Pledged Bonds, shall be purchased if the Trustee has given notice to the Remarketing Agent that there has occurred and is continuing an acceleration of the Bonds pursuant to Section 10.2.

ARTICLE V
FUNDS AND ACCOUNTS

SECTION 5.1 **Creation of Funds and Accounts**. The following Funds and Accounts are created with the Trustee:

(a) the Loan Fund;

(b) the Revenue Fund and within the Revenue Fund, the Interest Account, the Credit Facility Account, the Redemption Account, and the Fees Account;

(c) the Costs of Issuance Fund;

(d) the Rebate Fund;

(e) so long as any Bonds are Outstanding and have not been adjusted to the Fixed Rate, the Bond Purchase Fund; and

(f) the Principal Reserve Fund.

The Trustee shall hold and administer the Funds and Accounts in accordance with this Indenture.

SECTION 5.2 **Initial Deposits**. On the Closing Date, the Trustee shall make the following deposits:

(a) $_____, representing the Net Bond Proceeds, into the Loan Fund; and

(b) $_____, received from the Borrower, representing the Costs of Issuance Deposit into the Costs of Issuance Fund.

SECTION 5.3 **Loan Fund**. Amounts on deposit in the Loan Fund shall be disbursed by the Trustee to fund the Loan upon satisfaction of the conditions to delivery of the Bonds as provided in Section 2.18.

SECTION 5.4 **Revenue Fund - Interest Account.**

(a) **Deposits into the Interest Account**. The Trustee shall deposit each of the following amounts into the Interest Account:

(1) moneys provided by or on behalf of the Borrower relating to an interest payment under the Note;

(2) all Investment Income on the Funds and Accounts (except that Investment Income earned on amounts on deposit in the Loan Fund, Rebate Fund, Costs of Issuance

Fund, and the Principal Reserve Fund shall be credited to and retained in those respective Funds or Accounts); and

(3) any other moneys made available for deposit into the Interest Account from any other source, including, but not limited to, any excess amounts in the Bond Purchase Fund pursuant to Section 5.10.

(b) **Disbursements from the Interest Account.** The Trustee shall disburse or transfer, as applicable, moneys on deposit in the Interest Account at the following times and apply such moneys in the following manner and in the following order of priority:

(1) On each Interest Payment Date during any Reset Period or Fixed Rate Period, Redemption Date and any date of acceleration of the Bonds, the Trustee shall disburse (x) to the Credit Provider, the amount of the interest component of any Advance under the Credit Facility for payment of interest on the Bonds or (y) in the event of a Wrongful Dishonor until such Wrongful Dishonor is cured, to the Bondholders, an amount equal to the interest due on the Bonds on such date;

(2) If the Credit Provider or the Loan Servicer gives a written notice to the Trustee at any time to the effect that there is any unreimbursed Advance under the Credit Facility or any other amount required to be paid by the Borrower to the Credit Provider under the Loan Documents, the Bond Documents or the Credit Facility Documents remains unpaid, then the Trustee shall transfer any Investment Income earned on the Interest Account from and after the preceding Interest Payment Date or the Closing Date, as applicable, to the Credit Provider but not in an amount which exceeds the amount stated as unpaid by the Credit Provider or the Loan Servicer, as the case may be, in its notice to the Trustee; and

(3) Unless there is (A) a deficiency in the Principal Reserve Fund, the Fees Account or the Rebate Fund or (B) other than as described in paragraph (2) above, an Event of Default under the Reimbursement Agreement or any Bond Document or a default under any Loan Document has occurred and is continuing, on each Interest Payment Date the Trustee shall disburse to the Borrower the Investment Income earned on the Interest Account from and after the preceding Interest Payment Date or the Closing Date, as applicable. If a deficiency exists in the Principal Reserve Fund, the Fees Account or the Rebate Fund, such Investment Income shall be transferred to the Principal Reserve Fund, the Fees Account and/or the Rebate Fund, in that order of priority, prior to any payment to the Borrower.

SECTION 5.5 Revenue Fund - Redemption Account.

(a) **Deposits into the Redemption Account**. The Trustee shall deposit each of the following amounts into the Redemption Account:

(1) Available Moneys provided by or on behalf of the Borrower to fund the premium payable on Bonds in connection with a redemption of such Bonds which amounts shall be held in a segregated subaccount in the Redemption Account;

(2) moneys provided by or on behalf of the Borrower relating to a principal payment, including any prepayment under the Note;

(3) moneys transferred from the Principal Reserve Fund pursuant to Section 5.11; and

(4) any other amount received by the Trustee and required by the terms of this Indenture or the Financing Agreement to be deposited into the Redemption Account.

(b) **Disbursements from the Redemption Account**. On each Redemption Date, date of acceleration of the Bonds and Maturity Date, the Trustee shall disburse from the Redemption Account (x) to the Credit Provider, the amount of the principal component of any Advance under the Credit Facility for the payment of principal on the Bonds or (y) in the event of a Wrongful Dishonor, to the Bondholders, an amount equal to the principal due on the Bonds on such date. In addition, on any date on which premium payable on Bonds in connection with a redemption of such Bonds is due, the Trustee shall disburse to the Bondholders, from the segregated subaccount in the Redemption Account, Available Moneys in an amount sufficient to pay such premium.

(c) **Disbursements from the Redemption Account for Sinking Fund Payments**.

(1) **Application of Moneys**. Provided that no notice of optional redemption has been sent to Bondholders on or prior to the 30th day preceding a Sinking Fund Payment Date, at the written instruction of the Issuer (acting through an Authorized Officer), at the direction of the Borrower and with the prior written consent of the Credit Provider, the Trustee shall apply any Available Moneys accumulated in the Redemption Account on or prior to the 30th day preceding such Sinking Fund Payment Date to the purchase of Bonds of the maturity for which such Sinking Fund Payment was established at prices (including any brokerage and other charges) not exceeding the redemption price for such Bonds plus accrued and unpaid interest to the date of purchase, such purchase to be made in such manner as the Trustee (after consultation with the Issuer, the Borrower and the Credit Provider) determines. The Borrower shall provide a copy of such direction to the Loan Servicer concurrently with delivery to the Trustee.

(2) **Credit Toward Sinking Fund Payment**. Upon the purchase of any Bond pursuant to Section 5.5(c)(1), all such Bonds will be cancelled by the Trustee and an amount equal to the principal amount of the Bonds so purchased will be credited toward the Sinking Fund Payment next due with respect to the Bonds of such maturity. In the event the Trustee is able to purchase Bonds at a price less than the redemption price at which such Bonds were to be redeemed, then, presuming no notice of redemption has been sent to Bondholders, after payment by the Trustee of the purchase price of such Bonds and after payment of any other amounts due on the due date of such Sinking Fund Payment, the Trustee shall pay an amount not greater than the difference between the amount of such purchase price and the amount of such redemption price to, or at the direction of, the Borrower.

(3) **Redemption**. As soon as practicable after the 30th day preceding the due date of any such Sinking Fund Payment, and otherwise as provided in Section 3.4, the Trustee shall give notice of redemption of Bonds in such amount as is necessary to complete the retirement of a principal amount of Bonds equal to the unsatisfied balance of such Sinking Fund Payment. The Trustee shall call such Bonds for redemption whether or not it then has moneys in the Redemption Account sufficient to pay the applicable redemption price of the Bonds to be redeemed on the Redemption Date. The Trustee shall pay the

amount required for the redemption of the Bonds so called for redemption from the Funds specified in Article V of this Indenture, in the order of priority indicated, and such amount will be applied by the Trustee to such redemption.

SECTION 5.6 Revenue Fund - Credit Facility Account.

(a) **Deposits into the Credit Facility Account**. The Trustee shall deposit into the Credit Facility Account all Advances under the Credit Facility, except for (i) Advances on account of Issuer's Fee and (ii) Mandatory Tender Advances and Liquidity Advances. That portion of any Advance on account of Issuer's Fee shall be deposited into the Fees Account. Any Mandatory Tender Advance and any Liquidity Advance shall be deposited into the Bond Purchase Fund pursuant to Section 5.10(a)(2). No other moneys will be deposited into the Credit Facility Account and the Credit Facility Account shall be maintained as a segregated account and moneys therein shall not be co-mingled with any other moneys held under this Indenture. The Credit Facility Account shall be closed at such time as the Credit Provider has no continuing liability under the Credit Facility.

(b) **Transfers from the Credit Facility Account**. The Trustee shall cause amounts deposited into the Credit Facility Account to be applied on the date payment is due to the payments for which the Advance was made pursuant to the Credit Facility. In no event shall amounts in the Credit Facility Account be applied to the payment of principal of and interest and any premium on any Pledged Bonds or on any Bonds known by the Trustee to be held by the Borrower or any Affiliate of the Borrower. Any amounts remaining in the Credit Facility Account after making the payment for which the Advance was made pursuant to the Credit Facility shall be immediately refunded to the Credit Provider.

SECTION 5.7 Revenue Fund - Fees Account.

(a) **Deposits into the Fees Account**. The Trustee shall deposit into the Fees Account the (i) payments made by the Borrower under the Financing Agreement attributable to the Issuer's Fee, and the fees and expenses of the Trustee, the Tender Agent, the Remarketing Agent and the Rebate Analyst (collectively, "**Third Party Fees**"), and (ii) amounts derived from the Credit Facility for the payment of the Issuer's Fee.

(b) **Disbursements from the Fees Account**. On any date on which any amounts are required to pay any Third Party Fees, such amounts shall be withdrawn by the Trustee from the Fees Account for payment to the appropriate party, provided, however, that amounts derived from the Credit Facility and deposited into the Fees Account will be used only to pay the Issuer's Fee when due. In the event the amount in the Fees Account is insufficient to pay such Third Party Fees, the Trustee shall make written demand on the Borrower for the amount of such insufficiency and, pursuant to the terms of the Financing Agreement, the Borrower shall be liable to promptly pay the amount of such insufficiency to the Trustee after the date of the Trustee's written demand. The Trustee will provide notice of the insufficiency to the Loan Servicer.

(c) **No Other Claims to Trust Estate.** Neither the Tender Agent, the Remarketing Agent nor the Rebate Analyst shall have any right to any moneys in any Fund or Account or otherwise in the Trust Estate other than those moneys deposited pursuant to subsection (a) into the Fees Account specifically for such Person. Except as otherwise stated in Sections 5.17 and 9.2, the Issuer shall not have any right to any moneys in any Fund or Account or otherwise in the Trust

Estate other than those moneys deposited pursuant to subsection (a) into the Fees Account specifically for the Issuer. Except as otherwise stated in Sections 5.17, 9.2 and 10.10, the Trustee shall not have any right to any moneys in any Fund or Account or otherwise in the Trust Estate other than those moneys deposited pursuant to subsection (a) into the Fees Account specifically for the Trustee.

SECTION 5.8 Costs of Issuance Fund.

(a) **Deposits into the Costs of Issuance Fund**. On or before the Closing Date the Borrower shall deliver the Costs of Issuance Deposit to the Trustee. On the Closing Date, the Trustee shall deposit or transfer, as applicable, the Costs of Issuance Deposit into the Costs of Issuance Fund.

(b) **Disbursements from the Costs of Issuance Fund**. The Trustee shall disburse moneys on deposit in the Costs of Issuance Fund, pursuant to requisitions in the form of Exhibit C attached to this Indenture, signed by an Authorized Borrower Representative, to pay Costs of Issuance. The Trustee may conclusively rely on such requisitions for purposes of making such disbursements. Moneys on deposit in the Costs of Issuance Fund shall not be part of the Trust Estate and will be used solely to pay Costs of Issuance.

(c) **Disposition of Remaining Amounts**. Any moneys remaining in the Costs of Issuance Fund six months after the Closing Date and not needed to pay still unpaid Costs of Issuance will be returned to the Borrower. Upon final disbursement, the Trustee shall close the Costs of Issuance Fund.

SECTION 5.9 Rebate Fund. The Trustee shall hold and apply the Rebate Fund as provided in the Tax Certificate. Within 30 days after the end of every fifth Bond Year (as defined in the Tax Certificate), and within 55 days after the date on which no Bonds are Outstanding, the Borrower or the Trustee shall cause the Rebate Analyst to deliver to the Trustee and the Issuer a certificate stating whether any rebate payment is required to be made, as set forth in the Tax Certificate, and the Borrower shall deliver to the Trustee any amount so required to be paid.

SECTION 5.10 Bond Purchase Fund.

(a) **Deposits into Bond Purchase Fund**. The Trustee shall deposit each of the following into the Bond Purchase Fund:

(1) remarketing proceeds received upon the remarketing of Tendered Bonds to any person; and

(2) any Liquidity Advance or Mandatory Tender Advance under the Credit Facility to enable the Trustee to pay the purchase price of Tendered Bonds to the extent that moneys obtained pursuant to paragraph (1) are insufficient on any date to pay the purchase price of Tendered Bonds, which amounts the Trustee shall transfer to the Tender Agent on or before 3:00 p.m. Eastern time on each Tender Date.

Subject to Section 8.3 permitting reimbursement of amounts owed to the Credit Provider, moneys in the Bond Purchase Fund shall be held uninvested and exclusively for the payment of the purchase price of Tendered Bonds. Amounts held to pay the purchase price for more than

two years will be applied in the same manner as provided under Section 5.16 with respect to unclaimed payments of principal and interest.

(b) **Disbursements from the Bond Purchase Fund**. The Trustee shall transfer to the Tender Agent on or before 3:00 p.m. Eastern time on each Tender Date amounts on deposit in the Bond Purchase Fund to pay the purchase price of Tendered Bonds. The Tender Agent shall apply such amounts to pay the purchase price of Bonds purchased under this Indenture to the former owners of such Bonds upon presentation of the Bonds to the Tender Agent pursuant to Sections 4.1 or 4.2.

SECTION 5.11 Principal Reserve Fund.

(a) **Deposits into the Principal Reserve Fund**. The Trustee shall deposit each of the following amounts into the Principal Reserve Fund:

(1) All of the monthly payments made by the Borrower in accordance with the Schedule of Deposits to Principal Reserve Fund attached to the Reimbursement Agreement, as such schedule may be amended in accordance with the Reimbursement Agreement; and

(2) Investment Income earned on amounts on deposit in the Principal Reserve Fund.

The Trustee may rely upon the Schedule of Deposits to Principal Reserve Fund attached to the Reimbursement Agreement provided to it as of the Closing Date until it is furnished an amended schedule by the Credit Provider or the Loan Servicer.

(b) **Disbursements from the Principal Reserve Fund.** The Trustee shall pay or transfer amounts on deposit in the Principal Reserve Fund as follows:

(1) at the written direction of the Credit Provider, to the Credit Provider to reimburse the Credit Provider for any unreimbursed Advance under the Credit Facility and to pay any other amounts required to be paid by the Borrower under the Loan Documents, the Bond Documents or the Credit Facility Documents (including any amounts required to be paid to the Credit Provider);

(2) at the written direction of the Credit Provider, with the written consent of the Borrower (so long as an Event of Default has not occurred and is not continuing under any of the Credit Facility Documents), to the Credit Provider or the Borrower, as the Credit Provider elects, to make improvements or repairs to the Mortgaged Property;

(3) at the written direction of the Credit Provider, if a default has occurred under the Credit Facility Documents, any Loan Document or any Bond Document, to the Credit Provider for any use approved in writing by the Credit Provider;

(4) at the written direction of the Credit Provider, if a new mortgage and mortgage note have been substituted for the Security Instrument and the Note in accordance with the Loan Documents, or if the Borrower otherwise consents, for any purpose approved in writing by the Credit Provider;

(5) Unless the Credit Provider otherwise requires by written notice to the Trustee, on each Adjustment Date, to the Redemption Account;

[(6) during a Weekly Variable Rate Period, [on the tenth Business Day] prior to each Interest Payment Date, all amounts on deposit in the Principal Reserve Fund (rounded downward to the nearest multiple of $100,000) in excess of the Principal Reserve Amount, to the Redemption Account; and]

– or –

[(6) during a Weekly Variable Rate Period, if the aggregate amount on deposit in the Principal Reserve Fund (excluding all Investment Income) [on the tenth day] of any month equals or exceeds $100,000, an amount equal to the amount on deposit in the Principal Reserve Fund (rounded downward to the nearest integral multiple of $100,000), to the Redemption Account; and]

(7) pay to the Borrower, Investment Income on moneys in the Principal Reserve Fund on the Interest Payment Date following receipt by the Trustee of such interest or profits; provided that there is no deficiency in the Interest Account, the Redemption Account, the Principal Reserve Fund, the Fees Account or the Rebate Fund, and that the Trustee has not received written notice from the Credit Provider or the Loan Servicer to the effect that an Event of Default has occurred under a Credit Facility Document, Loan Document or Bond Document. If a deficiency exists in the Interest Account, the Redemption Account, the Principal Reserve Fund, the Fees Account or the Rebate Fund, the Trustee shall transfer such Investment Income to the Interest Account, the Redemption Account, the Principal Reserve Fund, the Fees Account and/or the Rebate Fund, in that order of priority, prior to any payment to the Borrower.

SECTION 5.12 **Moneys to be Held in Trust**. Except for (i) moneys deposited with or paid to the Trustee for the redemption of Bonds notice of the redemption of which has been duly given, and (ii) moneys on deposit in the Costs of Issuance Fund, the Rebate Fund and the Fees Account, all moneys required to be deposited with or paid to the Trustee for the account of any Fund or Account will be held by the Trustee in trust and, while held by the Trustee, shall constitute part of the Trust Estate and be subject to the security interest created by this Indenture.

SECTION 5.13 **Records**. The Trustee shall keep and maintain accurate records with respect to the Funds and Accounts. The Trustee shall file at least an annual accounting of the Funds and Accounts and the payment history on the Bonds and the Loan with the Issuer, the Loan Servicer and the Borrower and, upon request, with the Credit Provider. Any notices, reports or other information delivered by the Trustee to the Loan Servicer with respect to any Fund or Account also will be delivered, upon request, to the Credit Provider.

SECTION 5.14 **Reports by the Trustee**. The Trustee shall, on or before the 20th day of each month, file with the Loan Servicer and the Borrower a statement setting forth in respect of the preceding calendar month:

(a) the amount withdrawn or transferred and the amount deposited within or on account of each Fund and Account under this Indenture, including the amount of Investment Income on each Fund and Account transferred to the Interest Account;

(b) the amount on deposit at the end of such month to the credit of each Fund and Account;

(c) a brief description of all obligations held as an investment of moneys in each Fund and Account;

(d) the amount applied to the purchase or redemption of Bonds and a description of the Bonds or portions of Bonds so purchased or redeemed; and

(e) any other information which the Borrower, the Credit Provider, the Loan Servicer or the Issuer may reasonably request.

No monthly statement for a Fund or Account need be rendered if no activity occurred in that Fund or Account during such month. Upon the written request of any Bondholder owning 25 percent or more in aggregate principal amount of Bonds then Outstanding, the Trustee, at the Borrower's expense, shall provide a copy of such statement to the Bondholder. All records and files pertaining to the Trust Estate will be open at all reasonable times during regular business hours of the Trustee to the inspection and audit of the Issuer, the Loan Servicer, the Borrower and the Credit Provider and their agents and representatives upon reasonable prior notice.

SECTION 5.15 **Moneys Held for Particular Bonds**. The amounts held by the Trustee for payment of the interest, premium, if any, principal or redemption price due on any date with respect to particular Bonds, pending such payment, will be set aside and held in trust by the Trustee for the Bondholders entitled to such payment. For the purposes of this Indenture such interest, premium, principal or redemption price, after the due date of payment, will no longer be considered to be unpaid.

SECTION 5.16 **Nonpresentment of Bonds**. In the event any Bond is not presented for payment when the principal of such Bond becomes due, either at maturity or at the date fixed for redemption of such Bond or otherwise, if amounts sufficient to pay such Bond have been deposited with the Trustee for the benefit of the owner of the Bond and have remained unclaimed for two years after such principal has become due and payable, such amounts, to the extent amounts are owed to the Credit Provider as set forth in a written statement of the Credit Provider addressed to the Trustee, will be paid to the Credit Provider, with any excess to be paid to the Borrower. Upon such payment, all liability of the Issuer and the Trustee to the holder of any Bond for the payment of such Bond will cease and be completely discharged. The obligation of the Trustee under this Section to pay any such amounts to the Credit Provider or the Borrower will be subject to any provisions of law applicable to the Trustee or to such amounts providing other requirements for disposition of unclaimed property.

SECTION 5.17 **Disposition of Remaining Moneys**. Provided that the rebate requirements referenced in the Tax Certificate are first satisfied, any amounts remaining in the Revenue Fund or the Principal Reserve Fund after payment in full of the principal of and interest and any premium on the Bonds will be applied to pay (i) first, to the Credit Provider any unpaid amounts certified by the Credit Provider to be due and owing to the Credit Provider, (ii) second, to the person or persons entitled to be paid, all other unpaid amounts required to be paid under this Indenture or the Financing Agreement, and (iii) third, to the Borrower the balance upon the expiration or sooner cancellation or termination of the term of the Financing Agreement as provided in the Financing Agreement.

ARTICLE VI
INVESTMENTS

SECTION 6.1 **Permitted Investments; Investment Limitations**.

(a) **Permitted Investments Generally**. Moneys held as part of any Fund or Account shall be invested and reinvested in Permitted Investments. Permitted Investments shall have maturities corresponding to, or shall be available for withdrawal without penalty no later than, the dates upon which such moneys shall be needed for the purpose for which such moneys are held.

(b) **Certain Limitations on Permitted Investments**. Moneys on deposit in the:

(1) Interest Account shall be invested only in investments described in paragraphs (a), (b), (c) and (h) of the definition of Permitted Investments;

(2) Redemption Account shall be invested only in investments described in paragraph (a) of the definition of Permitted Investments, with a term not exceeding the earlier of 30 days from the date of investment of such moneys or the date or dates that such moneys are anticipated to be required for redemption;

(3) Credit Facility Account and Bond Purchase Fund shall be held uninvested; and

(4) Costs of Issuance Fund, until disbursed or returned to the Borrower pursuant to Section 5.8, shall be invested only in investments described in paragraph (h) of the definition of Permitted Investments.

(c) **Selection of Permitted Investments**. Subject to subsections (a) and (b), the Borrower may select all Permitted Investments by written direction to the Trustee; but if the Borrower fails to provide direction to the Trustee, the Trustee shall invest such moneys in investments described in paragraph (h) of the definition of Permitted Investments or, in the case of the Redemption Account, in investments described in paragraph (a) of the definition of Permitted Investments, or, in the case of the Credit Facility Account and the Bond Purchase Fund, shall hold the moneys uninvested.

SECTION 6.2 **Investment Income**. Investment Income from moneys held in the Loan Fund, the Rebate Fund, the Costs of Issuance Fund and the Principal Reserve Fund shall remain in the respective Fund where earned. All other Investment Income from moneys held in all other Funds and Accounts, upon receipt, shall be deposited into the Interest Account.

SECTION 6.3 **Trustee's Authority and Responsibilities**. All Permitted Investments shall be made by the Trustee in its name, as Trustee, and shall be held by or under the control of the Trustee. The Trustee shall take such actions as shall be necessary to assure that Permitted Investments purchased by it under this Indenture are held pursuant to the terms of this Indenture and are subject to the trusts and security interests created in this Indenture. The Trustee is authorized to sell and reduce to cash a sufficient amount of Permitted Investments whenever the cash balance is or will be insufficient to make a requested or required disbursement. The Trustee shall not be accountable for any depreciation in the value of any Permitted Investment or for any loss resulting from such sale. The Trustee may trade with itself and its Affiliates in the purchase

and sale of securities for investments, and may transact purchases and sales through its investment department or through its Affiliates. The Trustee and its Affiliates may act as principal, agent, sponsor, advisor or depository with respect to any investments. In computing the amount in any Fund or Account, Permitted Investments if purchased at par shall be valued at principal cost plus accrued interest, or, if purchased at other than par, at principal cost plus amortized discount or less amortized premium (amortization to be on a straight-line basis to the date of stated maturity without regard to redemptions or repayments of principal which may occur prior to maturity) plus accrued interest. The Issuer (and the Borrower by its execution of the Financing Agreement) acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the Issuer or the Borrower the right to receive brokerage confirmations of security transactions as they occur, the Issuer and the Borrower specifically waive receipt of such confirmations to the extent permitted by law.

ARTICLE VII
REPRESENTATIONS, WARRANTIES AND COVENANTS OF THE ISSUER

SECTION 7.1 **Issuer's Representations and Warranties**. The Issuer represents and warrants that:

(a) The Issuer is duly authorized under the Constitution and laws of the State, including the Act, to (i) issue the Bonds, (ii) execute and deliver this Indenture, the Financing Agreement, the Assignment and the Regulatory Agreement and to endorse the Note, (iii) assign its interest in the Financing Agreement (except the Reserved Rights) and (iv) pledge and assign the Trust Estate as set forth in this Indenture for the benefit of (A) the Bondholders, to secure the payment of the principal of and interest and any premium on the Bonds in accordance with the terms and provisions of this Indenture and the Bonds and (B) the Credit Provider to secure the payment of all amounts owing to the Credit Provider under the Credit Facility Documents.

(b) All actions on the part of the Issuer for the issuance, sale and delivery of the Bonds and for the execution and delivery of this Indenture, the Financing Agreement, the Assignment and the Regulatory Agreement and the endorsement of the Note have been or will be taken duly and effectively.

(c) The Bonds, together with all other indebtedness of the Issuer, are within all applicable debt limits.

(d) The Bonds will be valid and enforceable special obligations of the Issuer according to their terms, subject to bankruptcy and equitable principles.

SECTION 7.2 **Issuer's Covenants**. In addition to all other covenants and agreements of the Issuer contained in this Indenture or the Financing Agreement, the Issuer further covenants and agrees with the Bondholders and the Trustee as follows:

(a) Except as provided in Article XII, the Issuer shall not alter, modify or cancel, or agree to alter, modify or cancel, any agreement which relates to or affects the Security.

(b) Except as otherwise provided in this Indenture, the Financing Agreement, the Assignment or the Credit Facility Documents, the Issuer shall not sell, convey, mortgage,

encumber or otherwise dispose of any portion of the Security or create or authorize to be created any debt, lien or charge thereon.

(c) At the expense of the Borrower, the Issuer shall cooperate with the Borrower in the Borrower's performing the Borrower's obligation to cause this Indenture, or any related instruments or documents relating to the assignment made by the Issuer under this Indenture to secure the Bonds, to be recorded and filed in the manner and in the places which may be required by law in order to preserve and protect fully the security of the holders of the Bonds and the rights of the Trustee hereunder.

SECTION 7.3 **Limitations on Liability**. Notwithstanding any other provision of this Indenture to the contrary:

(a) The obligations of the Issuer with respect to the Bonds are not general obligations of the Issuer but are special, limited obligations of the Issuer payable by the Issuer solely from the Security.

(b) Nothing contained in the Bonds or in this Indenture shall be considered as assigning or pledging any funds or assets of the Issuer other than the Trust Estate.

(c) The Bonds are not and will not be a debt of the State, the Issuer or of any other political subdivision of the State, and neither the State, the Issuer nor any other political subdivision of the State is or will be liable for the payment of the Bonds.

(d) Neither the faith and credit of the Issuer, the State nor of any other political subdivision of the State are pledged to the payment of the principal of and interest and any premium on the Bonds.

(e) No failure of the Issuer to comply with any term, condition, covenant or agreement in this Indenture or in any document executed by the Issuer in connection with the Mortgaged Property or the issuance, sale and delivery of the Bonds shall subject the Issuer to liability for any claim for damages, costs or other charges except to the extent that the same can be paid or recovered from the Trust Estate.

(f) The Issuer shall not be required to advance any moneys derived from any source other than the Trust Estate for any of the purposes of this Indenture, any of the other Bond Documents or any of the Loan Documents, whether for the payment of the principal or redemption price of, or interest on, the Bonds, the payment of Third Party Fees or administrative expenses or otherwise.

SECTION 7.4 **Further Assurances; Security Agreement**. The Issuer, to the extent permitted by law, shall execute, acknowledge and deliver such supplemental indentures and other instruments and documents, and perform such further acts, as the Trustee or the Credit Provider may reasonably require to perfect, and maintain perfected, the security interest in the Trust Estate or to better assure, transfer, convey, pledge, assign and confirm to the Trustee or the Credit Provider all of its respective interest in the property described in this Indenture and the revenues, receipts and other amounts pledged by this Indenture. The Issuer shall cooperate to the extent necessary with the Borrower, the Trustee and the Credit Provider in their defenses of the Trust Estate and the Security against the claims and demands of all Persons. In addition to the assignment by the Issuer of its rights in the Trust Estate to the Trustee, the Issuer hereby

acknowledges that in order to more fully protect, perfect and preserve the rights of the Trustee, the Borrower and the Credit Provider in the Trust Estate, the Issuer grants to the Trustee a security interest in the Trust Estate and the proceeds thereof.

SECTION 7.5 **Enforcement**. The Issuer agrees that the Trustee and, so long as a Credit Facility provided by the Credit Provider continues in effect, the Credit Provider, in its name or in the name of the Issuer, may enforce against the Borrower or any other Person any rights of the Issuer under the Bond Documents (other than the Reserved Rights) whether or not the Issuer is in default under this Indenture or under the Financing Agreement, but neither the Trustee nor the Credit Provider will be deemed to have assumed any of the obligations of the Issuer under the Bond Documents. The Issuer shall fully cooperate with the Trustee or the Credit Provider in the enforcement by the Trustee or the Credit Provider of any such rights. At the request of the Trustee or the Credit Provider, the Issuer, upon being indemnified to its reasonable satisfaction against all liability, costs and expenses which may be incurred in connection with such enforcement, shall in its name commence legal action or take such other actions as the Trustee or the Credit Provider reasonably requests to enforce the rights of the Issuer, the Trustee or the Credit Provider under or arising from the Bonds or the Bond Documents.

SECTION 7.6 **Tax Covenants**. The Issuer agrees:

(a) it shall neither make nor direct the Trustee to make any investment or other use of the proceeds of the Bonds that would cause the Bonds to be "arbitrage bonds" as that term is defined in Section 148(a) of the Code and that it shall comply with the requirements of the Code throughout the term of the Bonds.

(b) it (i) shall take, or use its best efforts to require to be taken, all actions that may be required of the Issuer for the interest on the Bonds to be and remain not included in gross income for federal income tax purposes and (ii) shall not take or authorize to be taken any actions within its control that would adversely affect that status under the provisions of the Code.

(c) it shall enforce or cause to be enforced all obligations of the Borrower under the Regulatory Agreement in accordance with its terms and seek to cause the Borrower to correct any violation of the Regulatory Agreement within a reasonable period after any such violation is first discovered.

In furtherance of the covenants in this Section, the Issuer and the Borrower shall execute, deliver and comply with the provisions of the Tax Certificate, which is by this reference incorporated into this Indenture and made a part of this Indenture, and by its acceptance of this Indenture the Trustee acknowledges receipt of the Tax Certificate and acknowledges its incorporation into this Indenture by this reference. The Trustee agrees that in those instances where it exercises discretion over the investment of funds, it shall not knowingly make any investment inconsistent with subsection (a). In the event of a conflict between the terms of this Indenture and the Tax Certificate, the terms of the Tax Certificate shall control.

ARTICLE VIII
CREDIT FACILITY; ALTERNATE CREDIT FACILITY

SECTION 8.1 **Acceptance of the Credit Facility**. The Trustee shall hold the Credit Facility and shall enforce in its name all rights of the Trustee and all obligations of the Credit

Provider under the Credit Facility for the benefit of the Bondholders. The Trustee shall not assign or transfer the Credit Facility except to a successor Trustee under this Indenture. The Issuer and the Trustee acknowledge that the obligations of Fannie Mae as the Credit Provider under the initial Credit Facility are not backed by the full faith and credit of the United States of America, but by the credit of Fannie Mae, a federally-chartered, stockholder owned corporation.

SECTION 8.2 **Requests for Advances Under Credit Facility**. The Trustee shall request Advances under the Credit Facility in accordance with its terms and cause the proceeds of each Advance to be applied so that full and timely payments are made on each date on which payment of principal, interest or purchase price is due on any Bond or any payment of the Issuer's Fee is due and not paid by the Borrower pursuant to the Financing Agreement. The Trustee shall not request, and shall not apply the proceeds of, any Advance to pay (i) principal of, interest on or the purchase price of, any Pledged Bond or any Bond known by the Trustee to be held by the Borrower or any Affiliate of the Borrower, (ii) premium that may be payable upon the redemption of any of the Bonds or (iii) interest that may accrue on any of the Bonds on or after the maturity of such Bond. Prior to requesting an Advance to pay principal of or interest on the Bonds on an Interest Payment Date, the Trustee shall determine the amount necessary to make such payment of principal or interest.

SECTION 8.3 **Return of Payments Under the Credit Facility**. In the event the Trustee receives a Liquidity Advance or Mandatory Tender Advance from the Credit Provider on account of any Tendered Bond and thereafter the Trustee receives remarketing proceeds upon the remarketing of such Tendered Bond, then the Trustee shall promptly reimburse the Credit Provider with such funds to the extent of the amount so paid by the Credit Provider as a reimbursement on behalf of the Borrower.

SECTION 8.4 **Alternate Credit Facility**. Subject to the terms of the Credit Facility Documents, the Trustee shall accept any Alternate Credit Facility delivered to the Trustee in substitution for the Credit Facility then in effect if:

(a) the Alternate Credit Facility meets the requirements of Section 2.9;

(b) the Substitution Date for the Alternate Credit Facility is an Interest Payment Date during a Weekly Variable Rate Period or an Adjustment Date which immediately follows a Reset Period;

(c) the Alternate Credit Facility is effective on and from the Substitution Date for such Alternate Credit Facility; and

(d) the Trustee receives on or prior to the effective date of the Alternate Credit Facility (i) an Opinion of Counsel to the Credit Provider issuing the Alternate Credit Facility, in form and substance satisfactory to the Issuer and the Trustee, relating to the due authorization and issuance of the Alternate Credit Facility and its enforceability and (ii) an opinion of Bond Counsel to the effect that the substitution of such Alternate Credit Facility will not adversely affect the exclusion from gross income, for federal income tax purposes, of the interest payable on the Bonds.

The Trustee shall give notice to the Bondholders by first class mail, postage prepaid, of the substitution by such Alternate Credit Facility for the Credit Facility then in effect as provided in Section 4.2. On the Substitution Date, the Trustee shall draw, if necessary, on the Credit Facility

being replaced and shall not surrender such Credit Facility until all requests thereon have been honored.

SECTION 8.5 **Extension of Credit Facility**. In the event the term of any Credit Facility is extended (except in the case of a Credit Facility provided by Fannie Mae, the term of the Liquidity Commitment is extended by means of an automatic extension provision), the Trustee must receive, not later than, as the case may be, the Liquidity Expiration Date or the Extension Date, (i) the commitment relating to such extension of the Credit Facility; and (ii) an Opinion of Counsel for the Credit Provider, in substantially the form of the Opinion of Counsel delivered to the Trustee upon the issuance of such Credit Facility. The Trustee shall provide a copy of the commitment to extend and the extension of the credit facility upon receipt thereof to the Rating Agency and, upon request, to any Bondholder. Upon the failure of the Borrower to furnish the Trustee with either a satisfactory commitment to extend the Credit Facility or an Credit Facility pursuant to Section 8.4 and the accompanying Opinion of Counsel on or prior to each Extension Date, the Bonds shall be subject to Mandatory Tender pursuant to Section 4.2.

SECTION 8.6 **Limitations on Rights of Credit Provider**. Notwithstanding anything contained in this Indenture to the contrary, all provisions in this Indenture regarding consents, approvals, directions, waivers, appointments, requests or other actions by the Credit Provider shall be deemed not to require or permit such consents, approvals, directions, waivers, appointments, requests or other actions and shall be read as if the Credit Provider were not mentioned in such provisions (i) if a Wrongful Dishonor has occurred and is continuing, or (ii) after the Credit Facility ceases to be valid and binding on the Credit Provider for any reason, or is declared to be null and void by final judgment of a court of competent jurisdiction; provided, however, that the Credit Provider's right to notices and the payment of amounts due to the Credit Provider shall continue in full force and effect. The foregoing shall not affect any other rights of the Credit Provider.

SECTION 8.7 **References to Credit Provider When No Credit Facility Is In Effect**. All provisions of this Indenture relating to the rights of the Credit Provider shall be of no force and effect if there is no Credit Facility in effect and there are no Pledged Bonds and all amounts owing to the Credit Provider under the Credit Facility Documents have been paid. In such event, all references to the Credit Provider shall have no force or effect.

SECTION 8.8 **Certain Notices to the Credit Provider and the Loan Servicer**. The Trustee and Issuer shall promptly notify the Credit Provider and the Loan Servicer of any of the following as to which it has actual knowledge: (i) the occurrence of any Event of Default under this Indenture or under any of the other Transaction Documents, or any event which, with the passage of time or service of notice, or both, would constitute such an Event of Default, specifying the nature and period of existence of such event and the actions being taken or proposed to be taken with respect to such event, (ii) an Act of Bankruptcy or a bankruptcy filing by or against the Borrower and (iii) the making of any claim in connection with seeking the avoidance as a preferential transfer ("**Preference Claim**") of any payment of principal of, or interest on, the Loan.

SECTION 8.9 **Credit Provider to Control Insolvency Proceedings**. Each Bondholder, by its purchase of Bonds, the Trustee and the Issuer agree that the Credit Provider may at any time during the continuation of an insolvency proceeding of the Issuer or the Borrower ("**Insolvency Proceeding**") direct all matters relating to the Bonds in any such

Insolvency Proceeding, including, without limitation, (i) all matters relating to any Preference Claim, (ii) the direction of any appeal of any order relating to any Preference Claim and (iii) the posting of any surety, supersedeas or performance bond pending any such appeal. In addition, and without limitation of the foregoing, the Credit Provider shall be subrogated to the rights of the Issuer, the Trustee and the Bondholders in any Insolvency Proceeding to the extent it has performed its payment obligations under the Credit Facility, including any rights of any party to an adversary proceeding action with respect to any court order issued in connection with any such Insolvency Proceeding and rights pertaining to the filing of a proof of claim, voting on a reorganization plan and rights to payment thereunder.

ARTICLE IX
DISCHARGE OF LIEN

SECTION 9.1 Discharge of Lien and Security Interest.

(a) **Discharge**. Upon satisfaction of the conditions set out in subsection (b), the Trustee shall (i) cancel and discharge this Indenture and the pledge and assignment of the Security, (ii) execute and deliver to the Issuer such instruments in writing prepared by the Issuer or its counsel and provided to the Trustee and the Credit Provider as may be required to cancel and discharge this Indenture and the pledge and assignment of the Trust Estate, (iii) reconvey, assign and deliver to the Issuer so much of the Trust Estate as may be in its possession or subject to its control (except for (A) moneys and Government Obligations held for the purpose of paying Bonds and (B) moneys and Investments held in the Rebate Fund for payment to the United States Government) who shall, in turn, convey, assign and deliver the remaining Trust Estate to the Borrower and (iv) return the Credit Facility to the Credit Provider.

(b) **Conditions to Discharge**. The conditions precedent to the cancellation and discharge of this Indenture and the other acts described in subsection (a) are (i) payment in full of the Bonds, (ii) payment of the Trustee's Annual Fee and the Trustee's ordinary costs and expenses under this Indenture, (iii) receipt by the Trustee of a written statement from the Credit Provider stating that all obligations owed to the Credit Provider under the Credit Facility Documents have been fully paid, (iv) payment of all Extraordinary Items, (v) receipt by the Trustee of a written statement from the Issuer stating that all amounts owed to the Issuer in respect of Reserved Rights have been fully paid and (vi) receipt by the Trustee of an Opinion of Counsel, at the expense of the Borrower, stating that all conditions precedent to the satisfaction and discharge of this Indenture have been satisfied.

(c) **Survival of Rights and Powers**. The Reserved Rights of the Issuer and the rights and powers granted to the Trustee with respect to the payment, transfer and exchange of Bonds shall survive the cancellation and discharge of this Indenture.

SECTION 9.2 Payment of Outstanding Amounts. If the Bonds are paid in full, but any one or more of the other conditions precedent set out in Section 9.1(b) are not satisfied because an amount has not been paid, the Trustee, prior to cancellation and discharge of this Indenture, shall pay to the persons listed below, in the strict order set out below, the amounts required to satisfy those conditions precedent:

(a) **Trustee's Annual Fee and Ordinary Costs and Expenses**. If any portion of the Trustee's Annual Fee or ordinary costs and expenses of the Trustee remain unpaid, the Trustee shall pay to itself so much of the Trust Estate as will fully pay such unpaid amounts. No Extraordinary Items may be included under this subsection (a).

(b) **Credit Provider**. If the Trustee receives a written statement from the Credit Provider stating that moneys are owed to the Credit Provider under the Credit Facility Documents or the Loan Documents, the Trustee shall pay to the Credit Provider so much of the remaining Trust Estate as will fully pay all amounts due and owing to the Credit Provider, as determined by the Credit Provider. The Trustee is authorized to rely on the written statement of the Credit Provider.

(c) **Trustee**. If any Extraordinary Items have not been paid to the Trustee, the Trustee shall pay to itself so much of the remaining Trust Estate as will fully pay all amounts owing to the Trustee for Extraordinary Items.

(d) **Issuer**. If the Trustee receives a written statement from the Issuer stating that moneys are owed to the Issuer in respect of the Reserved Rights, the Trustee shall pay to the Issuer so much of the remaining Trust Estate as will fully pay all amounts owing to the Issuer in respect of the Reserved Rights.

SECTION 9.3 Defeasance.

(a) **Provision for Payment of Bonds**. So long as the Bonds are in a Reset Rate Mode or the Fixed Rate Mode, any Bond will be deemed paid within the meaning of Section 9.1 if each of the conditions set out in this Section is satisfied. The Bonds may not be defeased within the meaning of this Section if the Bonds are in the Weekly Variable Rate Mode. The conditions are:

(1) The Issuer or the Borrower deposits with the Trustee (A) Available Moneys or (B) Government Obligations which are not subject to early redemption and which are purchased with Available Moneys, of such maturities and interest payment dates and bearing such interest as will be sufficient, without further investment or reinvestment of either the principal amount of such Government Obligations or the interest earnings on Government Obligations (the earnings to be held in trust also), together with any Available Moneys, for the payment on their respective maturity dates, or redemption dates prior to maturity, of the principal of such Bonds and redemption premium, if any, and interest to accrue on such Bonds to such maturity or redemption dates.

(2) The Trustee receives, at the expense of the Borrower, and may rely upon: (A) a verification report of an independent certified public accountant or other firm nationally recognized in the certification of cash flow analyses; and (B) an Opinion of Bond Counsel to the effect that such deposit with the Trustee and consequent defeasance of the Bonds does not adversely affect the excludability from gross income for federal income tax purposes of the interest payable on the Bonds

(3) All Third Party Fees due or to become due have been paid or sufficient additional moneys to make the required payments have been irrevocably deposited with the Trustee.

(4) For any such Bonds to be redeemed on any date prior to their maturity, the Trustee has received in form satisfactory to it irrevocable instructions to redeem such Bonds on a date on which the Bonds are subject to redemption, and either evidence satisfactory to the Trustee that all redemption notices required by this Indenture have been given or irrevocable power authorizing the Trustee to give such redemption notices.

(5) If the Bonds are in a Reset Rate Mode, the Bonds will be redeemed on or before the last day of the current Reset Period.

The Trustee shall redeem the Bonds specified by such irrevocable instructions on the date specified by such irrevocable instructions.

(b) **Defeased Bonds No Longer Outstanding**. At such times as a Bond is deemed to be paid under this Indenture, it will no longer be secured by or entitled to the benefits of this Indenture, except for the purposes of payment in accordance with this Indenture.

(c) **Release of Certain Income**. All income from all Government Obligations in the hands of the Trustee pursuant to this Section which is identified by an independent certified public accountant or other firm nationally recognized in the certification of cash flow analyses as not required for the payment of the Bonds and interest on such income with respect to which such moneys have been so deposited will be deposited with the Trustee as and when realized and collected for use and application as are other moneys deposited with the Trustee.

(d) **Particular Bonds**. Notwithstanding any other provision of this Indenture to the contrary, all moneys or Government Obligations set aside and held in trust pursuant to the provisions of this Article IX for the payment of Bonds (including accrued interest on such Bonds) shall be applied to and used solely for the payment of the particular Bonds (including interest on such Bonds) with respect to which such moneys or Government Obligations have been so set aside in trust.

ARTICLE X
DEFAULT PROVISIONS AND REMEDIES

SECTION 10.1 Events of Default; Preliminary Notice.

(a) **Events of Default**. Each of the following constitutes an Event of Default under this Indenture:

(1) default in the payment when due and payable of any interest due on any Bond (other than a Pledged Bond);

(2) default in the payment when due and payable of (A) the principal of or any redemption premium on any Bond (other than a Pledged Bond) at maturity or upon any redemption, or (B) the purchase price of any Tendered Bond (other than a Pledged Bond);

(3) written notice to the Trustee from the Credit Provider of a default by the Issuer in the observance or performance of any covenant, agreement, warranty or representation on the part of the Issuer included in this Indenture or in the Bonds (other

than an Event of Default set forth in subsection (1) or (2) above) and the continuance of such default for a period of 30 days after the Trustee receives such notice;

(4) written notice to the Trustee from the Credit Provider of an Event of Default under the Reimbursement Agreement;

(5) written notice to the Trustee from the Credit Provider of an Act of Bankruptcy; or

(6) a Wrongful Dishonor.

(b) **Preliminary Notice**. The Trustee shall immediately notify the Issuer, the Loan Servicer, the Borrower and the Credit Provider after the Trustee obtains knowledge or receives notice of the occurrence of an Event of Default under this Indenture or an event which would become such an Event of Default with the passage of time, the giving of notice or both, identifying the paragraph in Section 10.1(a) under which the Event of Default has occurred or may occur.

(c) **Non-Default and Prohibition of Mandatory Redemption Upon Tax Event**. The occurrence of any event ("**Tax Event**") which results in the interest payable on the Bonds being includable, for federal income tax purposes, in the gross income of the Bondholders, including any violation of any provision of the Regulatory Agreement or any of the other Bond Documents, shall not (i) directly or indirectly constitute an Event of Default under this Indenture or permit any party (other than the Credit Provider) to accelerate, or require acceleration of, the Loan or the Bonds, unless the Credit Provider provides written notice to the Trustee that such Tax Event constitutes a default under the Reimbursement Agreement, or (ii) give rise to a mandatory redemption of the Bonds, or (iii) give rise to the payment to the Bondholders of any amount, denoted as "supplemental interest" "additional interest" "penalty interest" "liquidated damages" "damages" or otherwise, in addition to the amounts payable to the owners of the Bonds prior to the occurrence of the Tax Event. Nothing contained in this subsection will be deemed to amend or supplement the terms of the Loan Documents. Promptly upon determining that a Tax Event has occurred, the Issuer or the Trustee, by notice in writing to the Credit Provider, the Loan Servicer, all Registered Owners of the Bonds and the Remarketing Agent, shall state that a Tax Event has occurred and whether the Tax Event is cured, curable within a reasonable period or incurable. Notwithstanding the availability of the remedy of specific performance to cure a Tax Event that is curable within a reasonable period, neither the Issuer nor the Trustee shall have, upon the occurrence of a Tax Event, any right or obligation to cause or direct acceleration of the Bonds or the Loan, to enforce the Note or to foreclose the Security Instrument, to accept a deed to the Mortgaged Property in lieu of foreclosure, or to effect any other comparable conversion of the Mortgaged Property.

SECTION 10.2 **Acceleration, Redemption and Mandatory Tender**. The Bonds shall be subject to acceleration, redemption and Mandatory Tender as set out in this Section.

(a) **Acceleration.** Upon:

(1) the occurrence and during the continuance of a Wrongful Dishonor, the Trustee may, and upon the written request of Bondholders owning not less than 51 percent in aggregate principal amount of Bonds then Outstanding must, by written notice

to the Issuer, the Borrower, the Credit Provider and the Loan Servicer, declare the principal of all Bonds and the interest accrued, and to accrue, on the Bonds to the date of payment immediately due and payable; or

(2) the occurrence of any other Event of Default under this Indenture, the Trustee may, upon receiving the prior written consent of the Credit Provider, and must, upon the written direction of the Credit Provider, requiring that the Bonds be accelerated pursuant to this subsection, by written notice to the Issuer, the Borrower, the Credit Provider and the Loan Servicer, declare the principal of all Bonds and the interest accrued, and to accrue on the Bonds to the date of declaration immediately due and payable.

(b) **Redemption and Mandatory Tender**. Upon the occurrence of an Event of Default under Section 10.1(a)(4) of this Indenture:

(1) if the Credit Provider so directs pursuant to Section 3.3(b), the Bonds shall be redeemed in whole or in part in the amount specified by and at the direction of the Credit Provider.

(2) if the Credit Provider so directs pursuant to Section 4.2(b), the Bonds shall be subject to Mandatory Tender.

Notwithstanding anything to the contrary in this Indenture, if the Credit Provider directs that the Bonds be redeemed in part pursuant to Section 3.3(b), the Credit Provider may further direct on one or more other occasions under this subsection that the Bonds be redeemed in whole or in part or that the Bonds be subject to Mandatory Tender.

(c) **Notice**.

(1) Acceleration. Upon any decision to accelerate payment of the Bonds, the Trustee shall notify the Bondholders of the declaration of acceleration, that, in the event of acceleration pursuant to Section 10.2(a)(2), interest on the Bonds will cease to accrue upon such declaration, and payment of the Bonds will be made upon presentment of the Bonds at the Designated Office of the Trustee. Such notice shall be sent by registered mail or overnight delivery service**,** postage prepaid, or, at the Trustee's option, may be given by Electronic Means to each Registered Owner of Bonds at such Registered Owner's last address appearing in the Bond Register. Any defect in or failure to give notice of such declaration will not affect the validity of such declaration.

(2) Redemption. Upon the direction of the Credit Provider to redeem the Bonds in whole or in part pursuant Section 3.3(b) and as provided in Section 3.4(a), immediate notice of redemption will be given.

(3) Mandatory Tender. Upon any direction of the Credit Provider that the Bonds be subject to Mandatory Tender, the Trustee shall give notice to the Bondholders as provided in Section 4.2(b).

(d) **Draw on Credit Facility.** Immediately upon acceleration, mandatory redemption or Mandatory Tender of the Bonds, the Trustee shall request an Advance under the Credit Facility in accordance with its terms.

SECTION 10.3 **Other Remedies**. Upon the occurrence and continuance of an Event of Default under this Indenture, the Trustee may, with or without taking action under Section 10.2, but only with the prior written consent of the Credit Provider, and must at the direction of the Credit Provider if the Event of Default occurs under Section 10.1(a)(3), (4) or (5), pursue any of the following remedies:

(a) an action in mandamus or other suit, action or proceeding at law or in equity (i) to enforce the payment of the principal of and interest and any premium on the Bonds, (ii) for the specific performance of any covenant or agreement contained in this Indenture, the Financing Agreement or the Regulatory Agreement or (iii) to require the Issuer to carry out any other covenant or agreement with Bondholders and to perform its duties under the Act;

(b) the liquidation of the Trust Estate; or

(c) an action or suit in equity to enjoin any acts or things which may be unlawful or in violation of the rights of the Bondholders and to execute any other papers and documents and do and perform any and all such acts and things as may be necessary or advisable in the opinion of the Trustee in order to have the respective claims of the Bondholders against the Issuer allowed in any bankruptcy or other proceeding.

Subject to the provisions of Section 10.7 and the requirement, if any, that the Credit Provider consent in writing to the exercise by the Trustee of any remedy, upon the occurrence and continuance of an Event of Default under this Indenture, the Trustee shall exercise such of the rights and powers conferred by this Section as the Trustee, being advised by counsel, deems most effective to enforce and protect the interests of the Bondholders and, unless a Wrongful Dishonor has occurred and is continuing, the Credit Provider.

SECTION 10.4 **Preservation of Security and Remedies if Payment Under Credit Facility is Not Made or is Insufficient; Rights of Bondholders**. Upon the occurrence and during the continuance of a Wrongful Dishonor, the Trustee may proceed, and upon the written request of the holders of not less than 25 percent of the aggregate principal amount of the Bonds Outstanding and the receipt of indemnity reasonably satisfactory to the Trustee shall proceed, to protect and enforce its rights and the rights of the Bondholders under this Indenture by such suits, actions or special proceedings in equity or at law, whether for the specific performance of any covenant or agreement, or in aid of the execution of any power granted in this Indenture or by the Act, or for the enforcement of any legal or equitable right or remedy, as the Trustee, being advised by counsel, deems most effective to protect and enforce such rights or to perform any of its duties under this Indenture.

SECTION 10.5 **Remedies Not Exclusive; Delay or Omission**. No right or remedy conferred upon or reserved to the Trustee (or to the Bondholders) is intended to be exclusive of any other right or remedy, but each and every such right and remedy will be cumulative and in addition to any other right or remedy given to the Trustee or to the Bondholders under this Indenture or under the Financing Agreement, the Regulatory Agreement or the Credit Facility or now or later existing at law or in equity. No delay or omission to exercise any right or remedy provided in this Indenture will impair any such right or remedy or be construed to be a waiver of any Event of Default or acquiescence in it. Every such right and remedy may be exercised from time to time as often as may be deemed expedient.

SECTION 10.6 **Waiver**. Subject to the conditions precedent set out below, (i) the Trustee may waive, (ii) the Trustee shall waive if directed to do so by the Credit Provider in writing, and (iii) Bondholders owning not less than 51 percent in aggregate principal amount of Bonds then Outstanding may waive, by written notice to the Trustee, any Event of Default under this Indenture and its consequences and rescind any declaration of acceleration of maturity of principal. The conditions precedent to any waiver are:

(a) unless waiver is directed by the Credit Provider, the Credit Provider consents to such waiver in writing;

(b) the principal and interest on the Bonds in arrears, together with interest thereon (to the extent permitted by law) at the applicable rate or rates of interest borne by the Bonds has been paid or provided for by the Borrower in Available Moneys or by the Credit Provider and all fees and expenses of the Trustee have been paid or provided for by the Borrower or the Credit Provider; and

(c) after the waiver, the Credit Facility remains in effect in an amount equal to the aggregate principal amount of the Bonds Outstanding (other than Pledged Bonds) plus the Interest Requirement, provided, however, that such waiver will be permitted without the Credit Facility remaining in effect if (i) the Issuer consents to the waiver, (ii) the Rating Agency then rating the Bonds is notified and the Trustee gives written notice to the Bondholders that the ratings on the Bonds may be reduced or withdrawn upon the occurrence of such waiver, and (iii) 100 percent of the Bondholders consent to the waiver.

Upon any such waiver, the default or Event of Default shall be deemed cured and shall cease to exist for all purposes and the Issuer, the Borrower, the Trustee and the Bondholders will be restored to their former positions and rights under this Indenture. No waiver of any default or Event of Default shall extend to or affect any subsequent default or Event of Default or shall impair any right or remedy consequent thereto.

SECTION 10.7 **Rights of the Credit Provider and the Bondholders to Direct Proceedings; Rights and Limitations Applicable to Bondholders, Issuer and Trustee.**

(a) **Rights to Direct Proceedings**. Notwithstanding anything contained in this Indenture to the contrary, the Credit Provider itself or Bondholders owning not less than 51 percent in aggregate principal amount of Bonds then Outstanding, but only with the prior written consent of the Credit Provider, shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of this Indenture or any other proceedings under this Indenture, provided, however, that such direction will not be otherwise than in accordance with the provisions of law and of this Indenture, and provided that the Trustee will be indemnified to its reasonable satisfaction (except for actions required under Section 10.2(c) and (d)).

(b) **Limitations on Bondholders' Rights**. No Bondholder has or shall have the right to enforce the provisions of this Indenture or the Financing Agreement, or to institute any proceeding in equity or at law for the enforcement of this Indenture or the Financing Agreement, or to take any action with respect to an Event of Default under this Indenture or an Event of Default under the Financing Agreement, or to institute, appear in or defend any suit or other

proceeding with respect to this Indenture or the Financing Agreement upon an Event of Default unless (i) such Event of Default is a Wrongful Dishonor, (ii) such Bondholder has given the Trustee, the Issuer, the Credit Provider, the Loan Servicer and the Borrower written notice of the Event of Default, (iii) the holders of not less than 51 percent in aggregate principal amount of Bonds then Outstanding have requested the Trustee in writing to institute such proceeding, (iv) the Trustee has been afforded a reasonable opportunity to exercise its powers or to institute such proceeding, (v) the Trustee has been offered reasonable indemnity, where required, and (vi) the Trustee has thereafter failed or refused to exercise such powers or to institute such proceeding within a reasonable period of time. No Bondholder has or shall have any right in any manner whatever to affect, disturb or prejudice the pledge of revenues or of any other moneys, Funds, Accounts or securities under this Indenture. Except as provided in this subsection, no Bondholder has or shall have the right, directly or indirectly, individually or as a group, to seek to enforce, collect amounts available under, or otherwise realize on, the Credit Facility.

SECTION 10.8 **Discontinuance of Proceedings**. If the Trustee or any Bondholder has instituted any proceeding or remedy under this Indenture, and such proceedings have been discontinued or abandoned for any reason, or have been determined adversely, then and in every such case the Issuer, the Credit Provider and the Trustee will be restored to their former positions and rights under this Indenture, and all rights, remedies, powers, duties and obligations of the Issuer, the Trustee and the Credit Provider shall continue as if no such proceedings had been taken, subject to the limits of any adverse determination.

SECTION 10.9 **Possession of Bonds**. All rights under this Indenture or upon any of the Bonds enforceable by the Trustee may be enforced by the Trustee without the possession of any of the Bonds, or the production of the Bonds at trial or other proceedings. Any suit, action or proceeding instituted by the Trustee may be brought in its name for itself or as representative of the Bondholders without the necessity of joining Bondholders as parties, and any recovery resulting from such proceedings shall, subject to Section 10.10, be for the ratable benefit of the Bondholders.

SECTION 10.10 **Application of Moneys**. Amounts derived from payments under the Credit Facility (other than amounts derived from an Advance to pay the Issuer's Fee) shall be deposited into the Credit Facility Account and applied solely to pay the principal of and interest on the Bonds. Amounts on deposit in the Bond Purchase Fund shall be applied solely to pay the purchase price of the Bonds. All other moneys received by the Trustee pursuant to any action taken under this Article X shall be deposited into the Interest Account and the Redemption Account, as applicable, after payment of the ordinary fees, costs and expenses of the Trustee. The balance of such moneys, less such amounts as the Trustee determines may be needed for possible use in paying future fees and expenses and for the preservation and management of the Mortgaged Property (as identified by the Credit Provider), shall be applied as set out in the following subsections.

(a) **Principal on Bonds Not Declared Due and Payable**. Unless the principal on all Bonds has become or been declared due and payable, all such moneys will be applied:

First - to the payment of all interest then due on the Bonds, in the order of the maturity of such interest and, if the amount available shall not be sufficient to pay in full said amount, then to the payment ratably, of the amounts due, without any discrimination or privilege;

Second - to the payment of the unpaid principal of any of the Bonds which have become due (other than Bonds matured or called for redemption for the payment of which moneys are held pursuant to this Indenture), in the order of due dates, with interest upon the principal amount of the Bonds from the respective dates upon which they become due at the rate or rates borne by the Bonds, to the extent permitted by law, and, if the amount available shall not be sufficient to pay in full the principal of such Bonds due on any particular date, together with such interest, then to the payment ratably, according to the amount of principal due on such date, to the persons entitled to such payment without any discrimination or privilege;

Third - to the payment of amounts owed to the Credit Provider under the Credit Facility Documents and the Loan Documents, and then to any amounts due to the Trustee for Extraordinary Items, for this purpose including the costs and expenses of any proceedings resulting in the collection of such moneys and of advances incurred or made by the Trustee.

(b) **Principal of Bonds Declared Due and Payable**. If the principal of all the Bonds has become or been declared due and payable, all such moneys shall be applied **first,** to the payment of the principal and interest then due and unpaid upon the Bonds, without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably according to the amounts due respectively for principal and interest to the persons entitled to payment, until all such principal and interest has been paid; **second**, to pay the Credit Provider amounts owed to it under the Credit Facility Documents and the Loan Documents; and **third**, to any other amounts due and payable under this Indenture.

(c) **General**. Whenever moneys are to be applied pursuant to this Section, such moneys shall be applied at such times, and from time to time, as the Trustee determines, having due regard for the amount of such moneys available for application, the likelihood of additional moneys becoming available for such application in the future, and potential expenses relating to the exercise of any remedy or right conferred on the Trustee by this Indenture. Whenever the Trustee applies such moneys, it shall fix the date (which will be an Interest Payment Date unless it deems an earlier date more suitable) upon which such application is to be made, and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue, unless interest has already ceased to accrue in accordance with Section 10.2(c). The Trustee shall give such notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date, and shall not be required to make payment to the owner of any Bond until such Bond is presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

ARTICLE XI
THE TRUSTEE AND TENDER AGENT

SECTION 11.1 **Appointment of Trustee; Duties**. The Trustee is appointed and agrees to act in such capacity and to perform the duties of the Trustee under this Indenture, the Financing Agreement, the Assignment and the Regulatory Agreement upon the express terms and conditions of this Indenture.

(a) **Attorneys, Agents or Receivers.** The Trustee may execute any of its trusts or powers under this Indenture and perform any of its duties by or through attorneys, agents or receivers. The Trustee shall be entitled to advice of counsel concerning all matters of trust under this Indenture and its duties under this Indenture. The Trustee may in all cases pay such reasonable compensation to such attorneys, agents and receivers and shall be entitled to reimbursement from the Borrower for all such compensation paid. The Trustee may act upon the opinion or advice of counsel, accountants, or such other professionals as the Trustee deems necessary and selected by it in the exercise of reasonable care. The Trustee shall not be responsible for any loss or damage resulting from any action or nonaction based on its good faith reliance upon such opinion or advice which is not contrary to the express terms of this Indenture, any of the other Bond Documents or the Loan Documents.

(b) **Limitation of Responsibility.** The Trustee shall not be responsible for any recital in this Indenture (other than the last Recital) or in the Bonds (other than in the certificates of authentication on the Bonds), or for insuring the Mortgaged Property, or for the sufficiency of any insurance, or for collecting any insurance moneys, or for the validity of this Indenture or of any supplements to this Indenture or instruments of further assurance, or for the sufficiency of the security for the Bonds issued under this Indenture or intended to be secured by this Indenture, or for the value or condition of or title to the Mortgaged Property or the Security. The Trustee may require (but shall be under no duty to require) of the Borrower full information and advice as to the performance of the covenants, conditions and agreements aforesaid as to the condition of the Mortgaged Property. The Trustee shall not be liable for any loss suffered in connection with any investment of amounts made by it in accordance with this Indenture. The Trustee is not accountable for the use (i) of any Bonds delivered in accordance with instructions of the Issuer, (ii) by the Borrower of the proceeds of the Loan, or (iii) for the use or application of any moneys paid out by the Trustee in accordance with this Indenture.

(c) **Reliance.** The Trustee shall be protected in acting upon any Opinion of Counsel, notice, request, consent, direction, requisition, certificate, order, affidavit, letter, or other paper or document believed by it to be genuine and correct and to have been signed or sent by the proper person or persons and which is not contrary to the express terms of this Indenture, the other Bond Documents or the Loan Documents. Any action taken by the Trustee pursuant to this Indenture upon the request or authority or consent of any person who at the time of making such request or giving such authority or consent is the owner of any Bond as shown on the Bond Register will be conclusive and binding upon all future owners or holders of the same Bonds and upon Bonds issued in exchange therefor or in place of such Bonds.

(d) **Right Not Duty Until Undertaken.** The permissive right of the Trustee to do things enumerated in this Indenture or in the other Bond Documents to which the Trustee is a party shall not be construed as duties until specifically undertaken by the Trustee. Prior to an Event of Default under this Indenture, the Trustee shall only be responsible for the performance of the duties expressly set forth in this Indenture and in the other Bond Documents to which it is a party and shall not be answerable for other than its negligence or willful misconduct in the performance of those express duties.

(e) **No Personal Liability.** The Trustee shall not be personally liable for any debts contracted or for damages to persons or to personal property injured or damaged, or for salaries or nonfulfillment of contracts, relating to the Mortgaged Property.

(f) **No Bond or Surety Required.** The Trustee shall not be required to give any bond or surety in respect of the execution of its trusts and powers or otherwise in respect of the premises.

(g) **Security or Indemnity Bond.** Before taking any action requested by Bondholders under Article X (except for acceleration of the Bonds and drawing on the Credit Facility), the Trustee may require reasonably satisfactory security or an indemnity bond reasonably satisfactory to it from such Bondholders for the reimbursement of all expenses to which it may be put and to protect it against all liability, except liability which is adjudicated to have resulted from its own negligence or willful misconduct by reason of any such action so taken.

(h) **Not Bound to Inquire.** The Trustee is not required to take notice or deemed to have notice of any default or Event of Default under this Indenture, except Events of Default under Section 10.1(a) (1), (2) or (6), unless the Trustee has actual knowledge thereof or has received notice in writing of such default or Event of Default from the Issuer, the Borrower, the Credit Provider, the Loan Servicer, or the holders of at least 25 percent in aggregate principal amount of the Outstanding Bonds, and in the absence of any such notice, the Trustee may conclusively assume that no such default or Event of Default exists. The Trustee may nevertheless require the Issuer and the Borrower to furnish information regarding performance of their respective obligations under the Financing Agreement, the Regulatory Agreement and this Indenture, but is not obligated to do so.

(i) **Standard of Care.** The Trustee, during the existence and continuation of any Event of Default under this Indenture, shall exercise such of the rights vested in it by this Indenture, the Financing Agreement and the Regulatory Agreement, and use the same degree of care and skill in their exercise, as a reasonable person would exercise or use under the circumstances in the conduct of such person's own affairs. The foregoing will not limit the Trustee's obligations under Article VIII or Section 10.2(a).

(j) **Notice to Rating Agency.** At any time that the Bonds are rated by a Rating Agency, the Trustee shall give notice by mail to that Rating Agency at its address (as specified in Section 13.4) promptly upon the occurrence of any of: (i) the appointment of any successor trustee or separate trustee or co-trustee, (ii) any amendment of or supplement to this Indenture, the Financing Agreement, the Credit Facility or any Loan Document, (iii) the termination of the Credit Facility, the extension or expiration of the Credit Facility or the substitution of any Alternate Credit Facility for the Credit Facility, (iv) an Event of Default under this Indenture, (v) a redemption, acceleration or defeasance of the Bonds in whole or in part (other than any mandatory sinking fund redemption or redemption caused by the deposit and accumulation of moneys in the Principal Reserve Fund), (vi) any Mandatory Tender of the Bonds, (vii) execution by the Trustee of an agreement for the investment of moneys at a guaranteed rate as an Investment, (viii) any change in the provider of an agreement in the Trust Estate for the investment of moneys at a guaranteed rate; (ix) any resignation, removal or replacement of the Remarketing Agent, (x) any change in Mode, and (xi) any other event of which notice reasonably is requested by the Rating Agency. In addition, the Trustee shall supply to each Rating Agency such information as such Rating Agency may reasonably request from time to time in connection with its ongoing surveillance of its rating on the Bonds. Notwithstanding the foregoing, it is expressly understood and agreed that failure to provide any such notice to any Rating Agency or any defect in any such notice will not affect the validity of any action with respect to which notice is to be given or the effectiveness of any such action.

(k) **Notice to Loan Servicer.** The Trustee shall give prompt written notice to the Loan Servicer of the non-payment of any fee, cost or expense payable under the Financing Agreement.

(l) **Authority to Execute.** The Trustee is authorized and directed by the Issuer to execute or accept and acknowledge and to perform its obligations under, as applicable, in its capacity as Trustee, the Financing Agreement, the Assignment, the Regulatory Agreement and any financing statements.

(m)**No Disclosure Responsibility.** The Trustee shall have no responsibility with respect to any information, statement, or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the Bonds, except for any information provided by the Trustee.

(n) **No Financial Obligation.** No provision of this Indenture or any other Bond Document or any Loan Document shall require the Trustee to risk or advance its own funds or otherwise incur any financial liability in the performance of its duties or the exercise of its rights under this Indenture.

(o) **No Liability for Directions.** The Trustee will not be liable for any action taken or not taken by it in accordance with the direction of the Credit Provider or Bondholders pursuant to this Indenture except for the Trustee's own negligent action, its own negligent failure to act, or its own willful misconduct.

(p) **No Liability for Loan Servicer.** The Trustee shall not be responsible for the actions or omissions of the Loan Servicer and shall have no duty or responsibility to monitor the performance of the Loan Servicer.

(q) **Books, Records and Accounts**. The Trustee, on behalf of the Issuer, shall keep and maintain, or cause to be kept and maintained, proper books, records and accounts in which complete and accurate entries shall be made of all of its transactions relating to the Bonds, this Indenture, the Financing Agreement, the Regulatory Agreement, the Loan, the Credit Facility, the Funds and Accounts, Permitted Investments and Investment Income, all of which, at all reasonable times, and upon reasonable prior notice, will be subject to the inspection and audit by the Issuer, the Credit Provider, the Borrower, the Loan Servicer and Bondholders owning not less than 25 percent in aggregate principal amount of Bonds then Outstanding or any of their accountants or agents duly authorized in writing, each of whom will have the right, at its expense, to make copies of any such books of record and accounts.

(r) **List of Bondholders**. The Trustee shall keep the Bond Register available for inspection by any Bondholder or its attorney duly authorized in writing during normal business hours upon reasonable prior notice.

SECTION 11.2 **Qualification**. The Trustee and any successor Trustee shall at all times be a bank or trust company organized under the laws of the United States of America or any state, authorized under such laws to exercise corporate trust powers, having a combined capital stock, surplus and undivided profits of at least $50,000,000 (or an affiliate of a corporation or banking association meeting that requirement which guarantees the obligations and liabilities of the Trustee) and subject to supervision or examination by federal or state banking authority.

SECTION 11.3 **Fees; Expenses**. Each of the Trustee and the Tender Agent is entitled to payment and reimbursement from the Borrower, or from the Trust Estate to the extent otherwise permitted in this Indenture, for reasonable fees for its ordinary services rendered under this Indenture and the other Bond Documents and its ordinary costs and expenses reasonably incurred in connection with its services under this Indenture and the other Bond Documents. In the event that it should become necessary that the Trustee perform extraordinary services, it shall be entitled to Extraordinary Items; provided however, that if such Extraordinary Items are incurred as a result of the negligence or willful misconduct of the Trustee or the Tender Agent, as applicable, it will not be entitled to compensation or reimbursement for such services or expenses. The Borrower's failure to pay amounts owed to the Trustee or the Tender Agent shall not excuse the performance of its obligations. The Trustee recognizes that all fees, charges and other compensation to which it may be entitled under this Indenture are required to be paid by the Borrower under the Financing Agreement, and, accordingly, the Trustee and the Tender Agent agree that except for moneys that the Issuer may derive from the Borrower for purposes of the foregoing, the Issuer shall not be liable for any such fees, charges and other compensation.

SECTION 11.4 **Merger; Consolidation**. Any corporation or association into which the Trustee may be converted or merged, or with which it may be consolidated, or to which it may sell or transfer its corporate trust business and assets as a whole or substantially as a whole, or any corporation or association resulting from any such conversion, merger or consolidation, provided such corporation or association otherwise qualifies under Section 11.2, shall be and become the successor Trustee under this Indenture with all the estates, properties, rights, powers and duties of the predecessor Trustee without the execution or filing of any instrument or any further act, deed or conveyance (other than the provision of notice to the Issuer, the Credit Provider and the Loan Servicer).

SECTION 11.5 **Resignation or Removal of Trustee**. The Trustee may resign only upon giving 60 days prior written notice to the Issuer, the Credit Provider, the Loan Servicer, the Borrower and to each Registered Owner of Bonds then Outstanding as shown on the Bond Register. The Trustee may be removed at any time upon 30 days prior written notice to the Trustee, (i) by the Issuer, (ii) by the owners of not less than 51 percent in aggregate principal amount of Bonds then Outstanding, which written instrument shall designate a successor Trustee approved by the Issuer, or (iii) by the Credit Provider. Such resignation or removal shall not be effective until a successor Trustee satisfying the requirements of Section 11.2 is appointed and has accepted its appointment.

SECTION 11.6 **Appointment of Successor Trustee**. Upon the resignation or removal of the Trustee, a successor Trustee, satisfying the requirements of Section 11.2, shall be appointed by the Issuer (unless appointed by the Bondholders as provided in Section 11.5). If, in the case of resignation or removal of the Trustee, no successor is appointed within 30 days after the notice of resignation or within 30 days after removal, as the case may be, then, in the case of a resignation, the resigning Trustee shall appoint a successor with the prior written consent of the Issuer and the Credit Provider or apply to a court of competent jurisdiction for the appointment of a successor Trustee and, in the case of a removal, the Issuer shall have the right to appoint a successor Trustee or to apply to a court of competent jurisdiction for the appointment of a successor Trustee. The successor Trustee must accept in writing its duties and responsibilities under this Indenture, the Financing Agreement, the Assignment and the Regulatory Agreement. The successor Trustee shall give notice of such succession by first-class mail, postage prepaid, to each Bondholder, the Issuer, the Credit Provider, the Loan Servicer and the Borrower.

SECTION 11.7 Transfer of Rights and Mortgaged Property to Successor Trustee. The successor Trustee, without any further act, deed or conveyance, shall become fully vested with all moneys, estates, properties, rights, powers, duties and obligations of the predecessor Trustee, but the former Trustee shall nevertheless, on the written request of the Issuer, the Credit Provider or the successor Trustee, execute, acknowledge and deliver such instruments of conveyance and further assurance and do such other things as may be reasonably required for more fully and certainly vesting and confirming in the successor Trustee all the right, title and interest of the predecessor Trustee in and to any properties held by it under this Indenture, and shall pay over, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions set forth in this Indenture. The former Trustee shall execute and deliver a certificate of transfer or such other certificate or document as may be required by the Credit Facility for its transfer to a successor Trustee and do such other things as may be reasonably required to transfer all of its right, title and interest in and to the Credit Facility to the successor Trustee. Should any deed, conveyance or instrument in writing from the Issuer be required by the successor Trustee for more fully and certainly vesting in and confirming to the successor Trustee any such moneys, estates, properties, rights, powers and duties, any and all such deeds, conveyances and instruments in writing, shall, on request, and as may be authorized by law, be executed, acknowledged and delivered by the Issuer.

SECTION 11.8 Power To Appoint Co-Trustees and Separate Trustees.

(a) **Appointment of Co-Trustees**. At any time or times, for the purpose of meeting any legal requirements of any jurisdiction in which any part of the Mortgaged Property is located, the Issuer (at the request of the Borrower, unless the Borrower is then in default under any Bond Document or any Loan Document or if an event has occurred and is continuing which, with notice or the passage of time or both, would constitute such a default) shall have the power to appoint one or more persons approved by the Trustee either to act as co-trustee jointly with the Trustee or as separate trustee of all or any part of the Mortgaged Property, and to vest in such person, in such capacity, such title to the Mortgaged Property or any part of it, and/or such rights, powers, duties, trusts or obligations as the Issuer and the Trustee may consider necessary or desirable. If the Issuer is in default under this Indenture, the Trustee alone will have the power to make such appointment with the prior written consent of the Credit Provider. The Issuer shall execute, acknowledge and deliver all such instruments as may be required by any such co-trustee or separate trustee for more fully confirming such title, rights, powers, trusts, duties and obligations to such co-trustee or separate trustee. Any co-trustee shall give prompt written notice of such appointment to the Loan Servicer.

(b) **Effect of Death, Incapacity, Resignation or Removal of Co-Trustee or Separate Trustee**. In case any co-trustee or separate trustee dies, becomes incapable of acting, resigns or is removed, the pledge and assignment of the Security and all rights, powers, trusts, duties and obligations of the co-trustee or separate trustee, so far as permitted by law, shall vest in and be exercised by the Trustee unless and until a successor co-trustee or separate trustee is appointed in the same manner as provided in subsection (a).

(c) **Approval of the Issuer**. No co-trustee or separate trustee may assume its duties under this Indenture without the prior written approval of the Issuer, unless the Issuer is in default under this Indenture or has failed to respond timely as otherwise provided in this Article XI.

SECTION 11.9 **Filing of Financing Statements**. At the expense of the Borrower, the Trustee shall file or record or cause to be filed or recorded all financing statements which are required to be filed or recorded in order to protect and preserve the security interests relating to and the priority of (i) the Trust Estate and the Security, (ii) at the direction of the Credit Provider or the Loan Servicer, the Loan and (iii) the rights and powers of the Issuer, the Trustee and the Credit Provider in connection with such security interests, including, but not limited to, all continuation statements for the purpose of continuing without lapse the effectiveness of those financing statements which have been filed at or prior to the Closing Date in connection with the security for the Bonds pursuant to the authority of the UCC, and any previously filed continuation statements which have been filed as required by this Indenture; provided, however, that if the Credit Provider or the Loan Servicer gives written notice to the Trustee that it has filed or recorded all applicable financing statements, the Trustee shall be entitled to rely on such written notice. The Issuer shall sign, and the Trustee shall obtain from the Borrower, the Loan Servicer or the Credit Provider, all such financing statements as may be required for such purposes. Upon the filing of any such financing statement the Trustee shall immediately notify the Issuer, the Borrower, the Credit Provider and the Loan Servicer that the same has been done. If direction is given by the Loan Servicer or the Credit Provider, the Trustee shall file all financing statements in accordance with such directions.

SECTION 11.10 **Tender Agent**. The initial Tender Agent is U.S. Bank National Association**.** The Tender Agent shall designate to the Trustee, the Issuer, the Remarketing Agent and the Credit Provider its Designated Office and signify its acceptance of the duties and obligations imposed upon it under this Indenture by a written instrument of acceptance delivered to the Trustee under which such Tender Agent will agree particularly to:

(a) act as agent for the Trustee for the purpose of authenticating, accepting delivery of and delivering Bonds in accordance with Sections 2.11, 2.12, 2.13, 2.14, 2.16, 2.18, 4.1 or 4.2 or other provisions of this Indenture relating to authentication and delivery of Bonds;

(b) forward to the Trustee immediately after completion of such authentication the names, addresses, taxpayer identification numbers or social security numbers of all persons in whose names the Bonds are to be registered;

(c) deliver authenticated and registered Bonds to or to the order of the persons in whose names such Bonds are registered;

(d) as agent for the Trustee, hold all moneys delivered to it for the purchase of Bonds in trust in the Bond Purchase Fund for the account of the person who delivered such moneys until the Bonds purchased with such moneys have been registered, authenticated and delivered to or to the order of such person; and

(e) hold all Bonds delivered to it for purchase in trust for the owner of such Bonds until such owner has received the purchase price for such Bonds.

The Tender Agent shall be entitled to the same protections, immunities and limitations from liability afforded the Trustee under this Indenture. The Issuer shall cooperate with the Trustee, the Borrower and the Credit Provider to cause the necessary arrangements to be made and to be continued by which amounts from the sources specified in this Indenture and in the Financing Agreement shall be made available for the purchase of Bonds presented at the Designated Office

of the Tender Agent, and by which Bonds, executed by the Issuer and to be authenticated by the Tender Agent, shall be made available to the Tender Agent to the extent necessary for delivery pursuant to Sections 4.1 or 4.2.

SECTION 11.11 **Resignation or Removal of Tender Agent**. The Tender Agent may resign by giving no less than 30 days prior written notice to the Borrower, the Trustee, the Credit Provider, the Loan Servicer and the Issuer. The Tender Agent may be removed by the Issuer by an instrument signed by the Issuer stating the reason for such removal filed with the Tender Agent, the Trustee, the Credit Provider and the Issuer. The Trustee or the Credit Provider is authorized, with the prior written approval of the Issuer and the Credit Provider or the Trustee, as applicable, to remove the Tender Agent and appoint a successor. No removal of the Tender Agent shall be effective until a successor Tender Agent has been appointed and has accepted such appointment. Failing such appointment by the Issuer prior to the effective date of the Tender Agent's resignation, the Credit Provider shall have the right to appoint a successor Tender Agent acceptable to the Issuer. Any successor Tender Agent shall be a trust company or bank having trust powers and in good standing, within or without the State. The provisions of this Section shall apply if the resignation of the Tender Agent is due to the fact that the Tender Agent no longer exists. In no event shall the resignation or removal of the Tender Agent take effect prior to the date a successor Tender Agent has been appointed and is serving under this Indenture and the Tender Agent Agreement. The Trustee, when acting as Tender Agent, may transfer the Tender Agent duties to any related affiliate without further act or approval (other than the provision of notice to the Issuer, the Credit Provider, the Borrower and the Remarketing Agent).

ARTICLE XII
SUPPLEMENTAL INDENTURES; AMENDMENTS

SECTION 12.1 **Supplemental Indentures Not Requiring Bondholder Consent**. The Issuer and the Trustee, without the consent of or notice to any Bondholder, may enter into an indenture or indentures supplemental to this Indenture for one or more of the following purposes:

(a) to cure any ambiguity or to correct or supplement any provision contained in this Indenture or in any supplemental indenture which may be defective or inconsistent with any other provision contained in this Indenture or in any supplemental indenture;

(b) to amend, modify or supplement this Indenture in any respect if such amendment, modification or supplement is not materially adverse to the interests of the Bondholders;

(c) to grant to or confer upon the Trustee for the benefit of the Bondholders any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Bondholders or the Trustee, or to grant or pledge to the Trustee for the benefit of the Bondholders any additional security other than that granted or pledged under this Indenture;

(d) to modify, amend or supplement this Indenture in such manner as to permit qualification under the Trust Indenture Act of 1939, as amended, or any similar federal statute then in effect, or to permit the qualification of the Bonds for sale under the securities laws of any of the States of the United States;

(e) to appoint a successor trustee, separate trustee or co-trustee, or a separate Tender Agent or Bond Registrar;

(f) to make any change requested by the Credit Provider which is not materially adverse to the interests of the Bondholders, including, but not limited to, provision of a Credit Facility other than or in substitution for the initial Credit Facility, provided that the provision of such other Credit Facility does not adversely affect the rating then in effect for the Bonds;

(g) to make any changes in this Indenture or in the terms of the Bonds necessary or desirable in order to maintain the then existing rating awarded to the Bonds by the Rating Agency or otherwise to comply with requirements of any Rating Agency then rating the Bonds;

(h) to comply with the Code and the regulations and rulings issued with respect to the Code, to the extent determined as necessary in the Opinion of Bond Counsel;

(i) to modify, alter, amend or supplement this Indenture in any other respect, including amendments which would otherwise be described in Section 12.2, (A) if such amendments will take effect on a Mandatory Tender Date following the purchase of Tendered Bonds or (B) if notice of the proposed supplemental indenture is given to Bondholders (in the same manner as notices of redemption are given) at least 30 days before the effective date of such amendment, modification, alteration or supplement and, on or before such effective date, the Bondholders have the right to demand purchase of their Bonds pursuant to Section 4.1; or

(j) to change any of the time periods for provision of notice relating to the remarketing of Bonds or the determination of the interest rate on the Bonds.

If the Trustee has received written confirmation from the Rating Agency to the effect that such supplemental indenture will not result in the suspension, withdrawal or reduction of the then current rating on the Bonds and all conditions precedent in this Section 12.1 and in Sections 12.5 and 12.6 have been satisfied, the Trustee shall join the Issuer in the execution of any such supplemental indenture. The Trustee promptly shall furnish a copy of any such supplemental indenture to the Credit Provider, the Remarketing Agent, the Tender Agent, the Loan Servicer and the Borrower.

SECTION 12.2 **Supplemental Indentures Requiring Bondholder Consent**. The Issuer and the Trustee may, with the consent of Bondholders owning not less than 51 percent in aggregate principal amount of Bonds then Outstanding, from time to time, execute indentures supplemental to this Indenture for the purpose of modifying or amending any of the provisions of this Indenture provided, however, that nothing in this Section 12.2 permits, or shall be construed as permitting:

(a) an extension of the maturity of the principal of or interest on, or the mandatory redemption date of, any Bond, without the consent of the owner of such Bond;

(b) a reduction in the principal amount of, or the rate of interest on, any Bond, without the consent of the owner of such Bond;

(c) a preference or priority of any Bond or Bonds over any other Bond or Bonds, without the consent of the owners of all such Bonds;

(d) the creation of a lien prior to or on parity with the lien of this Indenture, without the consent of the owners of all of the Bonds then Outstanding;

(e) a change in the percentage of Bondholders necessary to waive an Event of Default under this Indenture or otherwise approve matters requiring Bondholder approval under this Indenture, including consent to any supplemental indenture, without the consent of the owners of all the Bonds then Outstanding;

(f) a transfer, assignment or release of the Credit Facility (or modification of the provisions of this Indenture governing such transfer, assignment or release), other than as permitted by this Indenture or the Credit Facility, without the consent of the owners of all of the Bonds then Outstanding;

(g) a reduction in the aggregate principal amount of the Bonds required for consent to such supplemental indenture, without the consent of the holders of all of the Bonds then Outstanding;

(h) the creation of any lien other than a lien ratably securing all of the Bonds at any time Outstanding under this Indenture, without the consent of the holders of all of the Bonds then Outstanding; or

(i) the amendment of this Section 12.2, without the consent of the holders of all of the Bonds then Outstanding.

The Trustee shall promptly furnish a copy of any such supplemental indenture to the Credit Provider, the Remarketing Agent, the Tender Agent, the Loan Servicer and the Borrower. Notice of any amendment pursuant to this Section shall be given to the Bondholders promptly following the execution thereof.

SECTION 12.3 **No Bondholder Consent Required for Amendment to Loan Documents**. Unless a Wrongful Dishonor has occurred and is continuing, the Credit Provider alone may consent to any amendment to the Loan Documents and no consent of the Bondholders is required; provided, however, that any amendment or substitution of the Note shall occur only following written confirmation of the Rating Agency that such amendment or substitution will not result in a reduction or withdrawal of the rating on the Bonds.

SECTION 12.4 **Amendments to the Credit Facility**. The Credit Facility may only be amended, supplemented or otherwise changed in accordance with the following:

(a) **Replacement Credit Facility**. At the request of the Credit Provider, the Trustee shall exchange the Credit Facility with the Credit Provider for a new Credit Facility issued by the Credit Provider, provided that there is delivered to the Trustee (i) a written confirmation from the Rating Agency to the effect that such exchange shall not adversely affect the rating then in effect for the Bonds and (ii) a written opinion of Bond Counsel to the effect that such exchange will not adversely affect the excludability of interest on the bonds from gross income for federal income tax purposes. No such exchange shall require the approval of the Issuer, the Trustee or any of the Bondholders or constitute or require a modification or supplement to this Indenture.

(b) **Amendment of the Credit Facility**. The Trustee may consent, without the consent of the owners of the Bonds, to any amendment of the Credit Facility not addressed in subsection (a) which does not prejudice in any material respect the interests of the Bondholders.

(c) **Other Amendments of the Credit Facility**. Except as provided in subsections (a) and (b), the Credit Facility may be amended only with the consent of the Trustee and the owners of a majority of the owners of all Outstanding Bonds. No amendment may be made to the Credit Facility which would reduce the amounts required to be paid under the Credit Facility or change the time for payment of such amounts; provided, however, that any such amounts may be reduced without such consent solely to the extent that such reduction represents a reduction in any fees payable from such amounts.

SECTION 12.5 **Notice to and Consent of Bondholders**. If consent of the Bondholders is required for any supplement, amendment or modification to this Indenture or for any other similar purpose, the Trustee shall give notice of the proposed supplement, amendment or modification by first class mail, postage prepaid, to the Bondholders. Such notice will be conclusively presumed to have been duly given and received when given in such manner, whether or not any holder actually receives the notice. Such notice shall briefly set forth the nature of the proposed supplement, amendment or modification, and shall state that copies of any such supplement, amendment or modification are on file at the Designated Office of the Trustee for inspection by the Bondholders. The consent of the holder of any Bond will be binding on any transferee and successor transferees of such Bond.

SECTION 12.6 **Required Approvals**. Subject to the provisions of Section 8.6, no amendment, supplement or modification may be made to any Transaction Document without the prior written consent of the Credit Provider. Anything in this Indenture to the contrary notwithstanding, a supplement or amendment or other document described under this Article XII which materially and adversely affects any rights or obligations of the Borrower will not become effective unless and until the Borrower (if the Borrower is not then in default under any Bond Document or any Loan Document and if no event which, with notice or the passage of time or both, would constitute such a default has occurred and is continuing) has consented in writing to the execution of such supplemental indenture, amendment or other document. The Trustee shall not be required to enter into any supplement or amendment which adversely affects the Trustee's rights and duties under this Indenture.

SECTION 12.7 **Opinions of Counsel**. Subject to the provisions of Section 11.1, the Trustee may obtain and will be fully protected in relying upon an Opinion of Counsel as conclusive evidence that any supplement or amendment to this Indenture is authorized and permitted by this Indenture and, if applicable, is not materially adverse to the interests of the Bondholders. No supplement or amendment with respect to this Indenture will be effective until the Issuer and the Trustee have received an opinion of Bond Counsel to the effect that such supplement or amendment will not adversely affect the exclusion from gross income, for federal income tax purposes, of the interest payable on the Bonds.

SECTION 12.8 **Notation of Modification on Bonds; Preparation of New Bonds**. Bonds authenticated and delivered after the execution of any supplemental indenture pursuant to the provisions of this Article may bear a notation, in form approved by the Trustee and the Issuer as to any matter provided for in such supplemental indenture, and if such supplemental indenture so provides, new Bonds, so modified as to conform, in the opinion of the Trustee and the Issuer, to any modification of this Indenture contained in any such supplemental indenture, may be prepared by the Issuer, authenticated by the Trustee and delivered without cost to the Bondholders, upon surrender for cancellation of such Bonds in equal aggregate principal amounts.

ARTICLE XIII
MISCELLANEOUS

SECTION 13.1 **Consents, Etc., of Bondholders**. Any consent, request, direction, or other instrument required to be signed by the Bondholders may be in any number of concurrent writings of similar tenor and may be signed by any Bondholder in person or by an authorized agent appointed in writing. The fact and date of the execution by any person of any such request, consent, direction, approval, objection or other instrument may be proved by the certificate of any officer in any jurisdiction who by law has power to take acknowledgments within such jurisdiction that the person signing such writing acknowledged before such officer its execution, or by an affidavit of any witness to such execution. Such proof of execution or of the writing appointing any agent will be sufficient for any of the purposes of this Indenture and will be conclusive in favor of the Trustee with regard to any action taken by it under such consent, request, direction or other instrument. In the event that the Trustee receives conflicting directions from two groups of Bondholders, each with combined holdings of not less than 25 percent in aggregate principal amount of all Bonds then Outstanding, the directions given by the group of Bondholders which hold the largest percentage of Bonds Outstanding will be controlling and the Trustee shall follow such directions as elsewhere required in this Indenture.

SECTION 13.2 **Limitation of Rights**. With the exception of rights expressly conferred in this Indenture, nothing expressed in or to be implied from this Indenture or the Bonds is intended or shall be construed to give to any Person other than the Issuer, the Trustee, the Bondholders, the Credit Provider, the Loan Servicer and the Borrower any legal or equitable right, remedy or claim under or in respect of this Indenture. This Indenture and all of the covenants, conditions and provisions in this Indenture are intended to be for the sole and exclusive benefit of the parties to this Indenture, the Bondholders, the Credit Provider, the Loan Servicer and the Borrower as provided in this Indenture. The Credit Provider is a third-party beneficiary of this Indenture with the right to enforce its provisions.

SECTION 13.3 **Severability**. If any provision of this Indenture is held to be in conflict with any applicable constitution or statute or rule of law, or is otherwise held to be unenforceable for any reason, such circumstance shall not have the effect of rendering the provision in question inoperative or unenforceable in any other part or circumstance, or of rendering any other provision or provisions contained in this Indenture invalid, inoperative or unenforceable to any extent whatsoever. The invalidity of any one or more phrases, sentences, clauses or Sections of this Indenture will not affect the remaining portions of this Indenture.

SECTION 13.4 **Notices**. Unless otherwise specified in this Indenture, it shall be sufficient service or giving of any notice, request, certificate, demand or other communication if the same is sent by (and all notices required to be given by mail will be given by) first-class registered or certified mail, postage prepaid, return receipt requested, or by private courier service which provides evidence of delivery, or sent by Electronic Means which produces evidence of transmission, confirmed by first-class mail, postage prepaid, and in each case will be deemed to have been given on the date evidenced by the postal or courier receipt or other written evidence of delivery or electronic transmission. Unless a different address is given by any party as provided in this Section, all such communications will be addressed as follows:

To the Issuer: California Housing Finance Agency
1415 L Street, Suite 500

Sacramento, California 95814
Attention: Director of Financing
Tel: (916) 322-7234
Fax: (916) 322-1464

To the Trustee:

U.S. Bank National Association
One California Street, Suite 2100
San Francisco, California 94111
Attention: Corporate Trust Department
Tel: (415) 273-4547
Fax: (415) 273-4591

To the Remarketing Agent:

_____
_____
_____

To the Borrower:

_____
_____
_____

To the Tender Agent:

U.S. Bank National Association
One California Street, Suite 2100
San Francisco, California 94111
Attention: Corporate Trust Department
Tel: (415) 273-4547
Fax: (415) 273-4591

To the Rating Agencies:

Standard & Poor's Rating Services
55 Water Street
38th Floor
New York, NY 10041
Attention: Public Finance Surveillance Group
Telephone: (212) 438-2054
Facsimile: (212) 438-2157

Moody's Investor Services
99 Church Street
New York, New York 10007
Attention: Fully Supported Group
Telephone: (212) 553-4441
Facsimile: (212) 553-4090

To the Credit Provider

Fannie Mae
3900 Wisconsin Avenue, NW
Drawer AM
Washington, DC 20016-2892
Attention: Director, Multifamily Asset Management
Telephone: (301) 204-8008
Facsimile: (301) 280-2065
RE: [_____]

with a copy to:

Fannie Mae
3900 Wisconsin Avenue, NW
Drawer AM
Washington, DC 20016-2892
Attention: Vice President, Multifamily Operations
Telephone: (301) 204-8422
Facsimile: (202) 752-8369
RE: [_____]

provided, however, that any notice required to be delivered to the Credit Provider pursuant to Section 4.1, 4.2 or 4.3 will be addressed as follows:

Fannie Mae
3900 Wisconsin Avenue, N.W.
Washington, DC 20016-2892
Attention: Director, Fiscal Agency Relations and Treasury Backoffice
Telephone: (202) 752-7916
Facsimile: (202) 752-6087
RE: [_____]

with a copy to:

Fannie Mae
3900 Wisconsin Avenue, N.W.
Washington, DC 20016-2892
Attention: Director, Multifamily Asset Management
Telephone: (301) 204-8008
Facsimile: (301) 280-2065
RE: [_____]

To the Loan Servicer:

_____
_____
_____
RE: [_____]

Copies of all notices given to the Credit Provider must be given concurrently to the Loan Servicer. By notice given under this Indenture, any entity whose address is listed in this Section

may designate any different addresses to which subsequent notices, certificates, requests, demands or other communications shall be sent, but no notice directed to any one such entity (except for Credit Provider) will be required to be sent to more than two addresses. All approvals required under this Indenture will be given in writing.

SECTION 13.5 **Action Required to be taken on a Non-Business Day**. If the date for making any payment or any date on which action is required to be taken is not a Business Day, then any action required to be taken or any payment required to be made may be taken or made on the following Business Day with the same force and effect as if made or taken on the date otherwise provided for in this Indenture and, in the case of any payment date, no interest will accrue for the period from and after such date.

SECTION 13.6 **Binding Effect**. From and after the Closing Date, this Indenture shall be binding upon the Issuer and the Trustee and their respective successors and assigns, subject, however, to the limitations contained in this Indenture.

SECTION 13.7 **Governing Law**. This Indenture shall be governed by and interpreted in accordance with internal laws of the State without regard to conflicts of laws principles.

SECTION 13.8 **No Personal Liability; No Recourse**. No member, officer, agent, employee or attorney of the Issuer, including any person executing this Indenture or the Bonds, will be liable personally on the Bonds or for any reason relating to the issuance of the Bonds. No recourse will be had for the payment of the principal of or the interest on the Bonds, or for any claim based on such Bonds, or otherwise in respect of such Bonds, or based on or in respect of this Indenture or any indenture supplemental to this Indenture, against any member, officer, employee or agent, as such, of the Issuer or any successor, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise, all such liability being, by the acceptance of this Indenture and as part of the consideration for the issue of the Bonds, expressly waived and released.

SECTION 13.9 **Counterparts**. This Indenture may be simultaneously executed in several counterparts, each of which will be an original and all of which will constitute but one and the same instrument.

(REMAINDER OF PAGE INTENTIONALLY LEFT BLANK)

The Issuer has caused this Indenture to be executed, sealed and attested in its name and on its behalf by its duly authorized officers, and the Trustee has caused this Indenture to be executed in its name by its duly authorized officer, all as of the date set forth above.

CALIFORNIA HOUSING FINANCE AGENCY

By: _____
Bruce D. Gilbertson
Director of Financing

(SEAL)

Attest:

_____
Secretary of the Board of Directors

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

By: _____
Authorized Officer

EXHIBIT A

CALIFORNIA HOUSING FINANCE AGENCY
MULTIFAMILY HOUSING REVENUE BONDS
([_____] PROJECT)
2009 Series [__]

No. _____ **$_____**

Dated: _____ **CUSIP #_____**

Maturity Date: _____

Interest Rate: Weekly Variable Rate,
Determined as described below
(Initial Rate: _____%)

REGISTERED OWNER: Cede & Co.
(Tax Identification No. 13-2555119)

PRINCIPAL AMOUNT: _____ DOLLARS

Unless this Bond is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to the Trustee for registration, transfer, exchange or payment, and any Bond issued is registered in the name of Cede & Co. or in the name of such other entity as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE OR OTHER USE OF THIS BOND FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the Registered Owner of this Bond, Cede & Co., has an interest in this Bond.

Capitalized terms used in this Bond but not defined in this Bond shall have the meanings given to those terms in the Indenture (as hereinafter defined).

FOR VALUE RECEIVED, **the California Housing Finance Agency (the "Issuer"), a public body corporate and politic organized and existing under the laws of the State of California (the "State") promises to pay to the Registered Owner identified above or registered assigns (subject to prior redemption as hereinafter provided), on the**

Maturity Date set forth above, the Principal Amount set forth above, and to pay interest on the Principal Amount on each Interest Payment Date.

Payment of interest on this Bond on each Interest Payment Date will be made to the Registered Owner of this Bond (as determined at the close of business on the Record Date (being the Business Day preceding the applicable Interest Payment Date) by check drawn upon the Trustee and mailed by first class mail, postage prepaid, on the Interest Payment Date to the address of the Registered Owner as it appears on the Bond Register or to such other address as may be furnished in writing by the Registered Owner to the Trustee prior to the applicable Record Date. Payment of the principal of this Bond and premium, if any, together with interest payable on any Bond Payment Date (other than interest payable on a regularly scheduled Interest Payment Date) will be made by check to the Registered Owner of this Bond only upon presentation and surrender of this Bond on or after its maturity date or date fixed for purchase, redemption or other payment at the office of the Trustee designated by the Trustee for that purpose. Notwithstanding the foregoing, payment of principal of, premium, if any, and interest on, this Bond will be made by wire transfer to any account within the United States of America designated by the Registered Owner if the Registered Owner owns $1,000,000 or more in aggregate principal amount of the Bonds and otherwise complies with the procedures set forth in the Indenture. Notwithstanding the foregoing, payments of the principal of, premium, if any, and interest on any Bonds that are subject to the Book-Entry System will be made as provided in the Indenture.

THIS BOND AND THE ISSUE OF WHICH IT IS A PART ARE SPECIAL OBLIGATIONS OF THE ISSUER, PAYABLE OUT OF AND SECURED BY A PLEDGE OF THE TRUST ESTATE (AS DEFINED IN THE INDENTURE). NEITHER THE ISSUER, THE STATE NOR ANY POLITICAL SUBDIVISION THEREOF IS OBLIGATED TO PAY THIS BOND OR THE INTEREST HEREON EXCEPT FROM SUCH TRUST ESTATE. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OR OF ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR THE INTEREST ON THE BONDS. THIS BOND AND THE ISSUE OF WHICH IT IS A PART ARE NOT GENERAL OBLIGATIONS OF THE ISSUER. THE ISSUER HAS NO TAXING POWER.

This Bond is one of a duly authorized issue of bonds of the Issuer designated as its Multifamily Housing Revenue Bonds ([___] Project) 2009 Series [__] (the "Bonds") in the aggregate principal amount of $[_____].

The Bonds are equally and ratably secured as to principal, premium, if any, interest and purchase price by a Trust Indenture dated as of [_____] 1, 2009 (the "Indenture"), by and between the Issuer and the Trustee (copies of which are on file at the Designated Office of the Trustee). Reference is made to the Indenture for a description of the Trust Estate, the nature and extent of the Security for the Bonds, the terms and conditions upon which the Bonds are secured, and the rights of the owners of the Bonds. The Security includes a Credit Enhancement Instrument (the "Credit Facility"), dated as of the Closing Date, issued by Fannie Mae to the Trustee.

FANNIE MAE'S OBLIGATIONS WITH RESPECT TO THE MORTGAGE LOAN AND THE BONDS ARE SOLELY AS PROVIDED IN THE CREDIT FACILITY. THE OBLIGATIONS OF FANNIE MAE UNDER THE CREDIT FACILITY WILL BE OBLIGATIONS SOLELY OF FANNIE MAE, A FEDERALLY CHARTERED STOCKHOLDER-OWNED CORPORATION. FANNIE MAE'S OBLIGATIONS ARE NOT BACKED BY THE FULL FAITH AND CREDIT OF THE UNITED STATES OF AMERICA. THE BONDS ARE NOT A DEBT OF THE UNITED STATES OF AMERICA, OR ANY AGENCY OF THE UNITED STATES OF AMERICA, OR OF FANNIE MAE, AND ARE NOT GUARANTEED BY THE FULL FAITH AND CREDIT OF THE UNITED STATES OF AMERICA, ANY AGENCY OF THE UNITED STATES OF AMERICA OR FANNIE MAE. FANNIE MAE HAS NO OBLIGATION TO PURCHASE, DIRECTLY OR INDIRECTLY, ANY OF THE BONDS.

The Bonds are subject to redemption prior to maturity only as set forth in the Indenture. The Bonds may be exchanged or transferred as provided in the Indenture.

Neither the members of the governing body of the Issuer nor any officer, agent, representative or employee of the Issuer nor any person executing this Bond shall be subject to any personal liability or accountability by reason of the issuance of this Bond, whether by virtue of any Constitution, statute or rule of law, or by the enforcement of any assessment or penalty, or otherwise, all such liability being expressly waived as a condition of and in consideration for the execution of the Indenture and the issuance of the Bonds.

This Bond shall not be entitled to any benefit under the Indenture, or become valid or obligatory for any purpose, until the certificate of authentication on this Bond has been manually endorsed by the Trustee.

It is certified and recited by the Issuer that all conditions, acts and things required by the Indenture or by the laws of the State, including the Act, to exist, to have happened or to have been performed precedent to or in the issuance of this Bond do exist, have happened and have been performed in due time, form and manner as required by law, and that the issuance of this Bond and the issue of which it forms a part is within every debt and other limit prescribed by said Constitution or statutes.

IN WITNESS OF THE ABOVE, the Issuer has caused this Bond to be duly executed in its name as of the date of delivery shown above.

CALIFORNIA HOUSING FINANCE AGENCY

By _____
Executive Director

[SEAL]

Attest:

_____
Secretary of the Board of Directors

CERTIFICATE OF AUTHENTICATION

This Bond is one of the issue described in the within-mentioned Indenture.

Authentication Date: _____

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

By: _____
Authorized Signatory

ARTICLE I
DEFINITIONS AND INTERPRETATION

SECTION 1.1 Definitions 4
SECTION 1.2 Rules of Construction 21

ARTICLE II
THE BONDS

SECTION 2.1 Authorized Amount of Bonds 22
SECTION 2.2 Issuance of Bonds 22
SECTION 2.3 Payment of Principal and Interest 22
SECTION 2.4 Limited Obligations 23
SECTION 2.5 Weekly Variable Rate Mode 23
SECTION 2.6 Reset Rate Mode 23
SECTION 2.7 Fixed Rate Mode 24
SECTION 2.8 Mode Adjustments 24
SECTION 2.9 Credit Facility Requirement 27
SECTION 2.10 Certain General Provisions Concerning Modes and Interest Rates 27
SECTION 2.11 Temporary Bonds 29
SECTION 2.12 Execution 29
SECTION 2.13 Authentication 29
SECTION 2.14 Mutilated, Lost, Stolen or Destroyed Bonds 30
SECTION 2.15 Securities Depository Provisions 30
SECTION 2.16 Bond Registrar; Exchange and Transfer of Bonds; Persons Treated as the Bondholders 31
SECTION 2.17 Cancellation 32
SECTION 2.18 Conditions for Delivery of Bonds 32

ARTICLE III
REDEMPTION OF BONDS

SECTION 3.1 Redemption 33
SECTION 3.2 Optional Redemption 33
SECTION 3.3 Mandatory Redemption 34
SECTION 3.4 Notice of Redemption to Registered Owners 35
SECTION 3.5 Redemption Payments 37
SECTION 3.6 Selection of Bonds to be Redeemed Upon Partial Redemption 38
SECTION 3.7 Purchase of Bonds in Lieu of Redemption 38

ARTICLE IV
PURCHASE AND REMARKETING OF BONDS

SECTION 4.1 Purchase of Bonds on any Business Day 39
SECTION 4.2 Mandatory Tender and Purchase 41
SECTION 4.3 Remarketing of Bonds 43

SECTION 4.4 Pledged Bonds 46
SECTION 4.5 No Sales After Wrongful Dishonor; No Purchase After Acceleration 46

ARTICLE V
FUNDS AND ACCOUNTS

SECTION 5.1 Creation of Funds and Accounts 46
SECTION 5.2 Initial Deposits 47
SECTION 5.3 Loan Fund 47
SECTION 5.4 Revenue Fund - Interest Account 47
SECTION 5.5 Revenue Fund - Redemption Account 48
SECTION 5.6 Revenue Fund - Credit Facility Account 49
SECTION 5.7 Revenue Fund - Fees Account 50
SECTION 5.8 Costs of Issuance Fund 50
SECTION 5.9 Rebate Fund 51
SECTION 5.10 Bond Purchase Fund 51
SECTION 5.11 Principal Reserve Fund 51
SECTION 5.12 Moneys to be Held in Trust 53
SECTION 5.13 Records 53
SECTION 5.14 Reports by the Trustee 53
SECTION 5.15 Moneys Held for Particular Bonds 54
SECTION 5.16 Nonpresentment of Bonds 54
SECTION 5.17 Disposition of Remaining Moneys 54

ARTICLE VI
INVESTMENTS

SECTION 6.1 Permitted Investments; Investment Limitations 54
SECTION 6.2 Investment Income 55
SECTION 6.3 Trustee's Authority and Responsibilities 55

ARTICLE VII
REPRESENTATIONS, WARRANTIES AND COVENANTS OF THE ISSUER

SECTION 7.1 Issuer's Representations and Warranties 56
SECTION 7.2 Issuer's Covenants 56
SECTION 7.3 Limitations on Liability 56
SECTION 7.4 Further Assurances; Security Agreement 57
SECTION 7.5 Enforcement 57
SECTION 7.6 Tax Covenants 58

ARTICLE VIII
CREDIT FACILITY; ALTERNATE CREDIT FACILITY

SECTION 8.1 Acceptance of the Credit Facility 58
SECTION 8.2 Requests for Advances Under Credit Facility 58
SECTION 8.3 Return of Payments Under the Credit Facility 59
SECTION 8.4 Alternate Credit Facility 59

SECTION 8.5 Extension of Credit Facility 59
SECTION 8.6 Limitations on Rights of Credit Provider 60
SECTION 8.7 References to Credit Provider When No Credit Facility Is In Effect 60
SECTION 8.8 Certain Notices to the Credit Provider and the Loan Servicer 60
SECTION 8.9 Credit Provider to Control Insolvency Proceedings 60

ARTICLE IX
DISCHARGE OF LIEN

SECTION 9.1 Discharge of Lien and Security Interest 61
SECTION 9.2 Payment of Outstanding Amounts 61
SECTION 9.3 Defeasance 62

ARTICLE X
DEFAULT PROVISIONS AND REMEDIES

SECTION 10.1 Events of Default; Preliminary Notice 63
SECTION 10.2 Acceleration, Redemption and Mandatory Tender 64
SECTION 10.3 Other Remedies 65
SECTION 10.4 Preservation of Security and Remedies if Payment Under Credit Facility is Not Made or is Insufficient; Rights of Bondholders 66
SECTION 10.5 Remedies Not Exclusive; Delay or Omission 66
SECTION 10.6 Waiver 66
SECTION 10.7 Rights of the Credit Provider and the Bondholders to Direct Proceedings; Rights and Limitations Applicable to Bondholders, Issuer and Trustee 67
SECTION 10.8 Discontinuance of Proceedings 68
SECTION 10.9 Possession of Bonds 68
SECTION 10.10 Application of Moneys 68

ARTICLE XI
THE TRUSTEE AND TENDER AGENT

SECTION 11.1 Appointment of Trustee; Duties 69
SECTION 11.2 Qualification 72
SECTION 11.3 Fees; Expenses 72
SECTION 11.4 Merger; Consolidation 73
SECTION 11.5 Resignation or Removal of Trustee 73
SECTION 11.6 Appointment of Successor Trustee 73
SECTION 11.7 Transfer of Rights and Mortgaged Property to Successor Trustee 73
SECTION 11.8 Power To Appoint Co-Trustees and Separate Trustees 74
SECTION 11.9 Filing of Financing Statements 74
SECTION 11.10 Tender Agent 75
SECTION 11.11 Resignation or Removal of Tender Agent 75

ARTICLE XII
SUPPLEMENTAL INDENTURES; AMENDMENTS

SECTION 12.1 Supplemental Indentures Not Requiring Bondholder Consent 76
SECTION 12.2 Supplemental Indentures Requiring Bondholder Consent 77
SECTION 12.3 No Bondholder Consent Required for Amendment to Loan Documents 78
SECTION 12.4 Amendments to the Credit Facility 78
SECTION 12.5 Notice to and Consent of Bondholders 78
SECTION 12.6 Required Approvals 79
SECTION 12.7 Opinions of Counsel 79
SECTION 12.8 Notation of Modification on Bonds; Preparation of New Bonds 79

ARTICLE XIII
MISCELLANEOUS

SECTION 13.1 Consents, Etc., of Bondholders 79
SECTION 13.2 Limitation of Rights 80
SECTION 13.3 Severability 80
SECTION 13.4 Notices 80
SECTION 13.5 Action Required to be taken on a Non-Business Day 83
SECTION 13.6 Binding Effect 83
SECTION 13.7 Governing Law 83
SECTION 13.8 No Personal Liability; No Recourse 83
SECTION 13.9 Counterparts 83

An extra section break has been inserted above this paragraph. Do not delete this section break if you plan to add text after the Table of Contents/Authorities. Deleting this break will cause Table of Contents/Authorities headers and footers to appear on any pages following the Table of Contents/Authorities.

EXHIBIT B

[FORM OF FREDDIE MAC INDENTURE]

TRUST INDENTURE

between

CALIFORNIA HOUSING FINANCE AGENCY

and

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

Relating to

$[_____]
CALIFORNIA HOUSING FINANCE AGENCY
MULTIFAMILY HOUSING REVENUE BONDS
([____] PROJECT)
2009 SERIES [__]

Dated as of [____] 1, 2009

TABLE OF CONTENTS

Page

ARTICLE I
DEFINITIONS

Section 1.01. Definitions 4
Section 1.02. Interpretation 19

ARTICLE II
THE BONDS

Section 2.01. The Bonds 19
Section 2.02. Determination of Interest Rate on the Bonds 21
Section 2.03. Limited Obligations 27
Section 2.04. Indenture Constitutes Contract 28
Section 2.05. Form and Execution 28
Section 2.06. Authentication 28
Section 2.07. Mutilated, Lost, Stolen or Destroyed Bonds 28
Section 2.08. Transfer and Exchange of Bonds; Persons Treated as Owners 28
Section 2.09. Temporary Bonds 29
Section 2.10. Delivery of Bonds 30
Section 2.11. Establishment of Bond Mortgage Loan Fund; Application of Bond Proceeds and Other Money; Assignment of Bond Mortgage Loan to Trustee 31
Section 2.12. Book-Entry Only System of Registration 31
Section 2.13. Mandatory Tender of Bonds on Substitution Date 33

ARTICLE III
REDEMPTION OF BONDS PRIOR TO MATURITY

Section 3.01. Redemption of Bonds Prior to Maturity 34
Section 3.02. Selection of Bonds for Redemption 37
Section 3.03. Notice of Redemption 37
Section 3.04. Cancellation 39
Section 3.05. Effect of Notice of Redemption 39
Section 3.06. Purchase of Bonds in Whole in Lieu of Redemption 39
Section 3.07. Cancellation of Purchased Bonds 40

ARTICLE IV
REVENUES AND FUNDS

Section 4.01. Pledge of Revenues and Assets 40
Section 4.02. Establishment of Funds 40
Section 4.03. Application of Revenues 41
Section 4.04. Application of Bond Fund 42
Section 4.05. Application of Redemption Fund 43
Section 4.06. Application of Administration Fund 43
Section 4.07. Principal Reserve Fund 44

Section 4.08. Investment of Funds 45
Section 4.09. Money Held for Particular Bonds; Funds Held in Trust 47
Section 4.10. Accounting Records 47
Section 4.11. Amounts Remaining in Funds 47
Section 4.12. Rebate Fund; Compliance with Tax Certificate 47
Section 4.13. Cost of Issuance Fund 49
Section 4.14. Reports From the Trustee 49
Section 4.15. Payments Under Bond Mortgage Loan 49
Section 4.16. Drawings Under Credit Facility 50
Section 4.17. Notices Under Credit Enhancement Agreement 50

ARTICLE V
GENERAL COVENANTS AND REPRESENTATIONS

Section 5.01. Payment of Principal and Interest 51
Section 5.02. Performance of Covenants 51
Section 5.03. Instruments of Further Assurance 51
Section 5.04. Inspection of Project Books 52
Section 5.05. No Modification of Security; Additional Indebtedness 52
Section 5.06. Damage, Destruction or Condemnation 52
Section 5.07. Tax Covenant 52
Section 5.08. Representations and Warranties of the Issuer 54

ARTICLE VI
DEFAULT PROVISIONS AND REMEDIES OF TRUSTEE AND BONDHOLDERS

Section 6.01. Events of Default 54
Section 6.02. Acceleration; Other Remedies Upon Event of Default 55
Section 6.03. Rights of Bondholders 58
Section 6.04. Waiver by Issuer 58
Section 6.05. Application of Money After Default 58
Section 6.06. Rights of the Credit Facility Provider 59
Section 6.07. Remedies Vested in Trustee 60
Section 6.08. Remedies of Bondholders 60
Section 6.09. Termination of Proceedings 60
Section 6.10. Waivers of Events of Default 61
Section 6.11. Notice to Bondholders if Default Occurs 61

ARTICLE VII
CONCERNING THE TRUSTEE

Section 7.01. Standard of Care 61
Section 7.02. Reliance Upon Documents 62
Section 7.03. Use of Proceeds 65
Section 7.04. Trustee May Hold Bonds 65
Section 7.05. Trust Imposed 66
Section 7.06. Compensation of Trustee 66
Section 7.07. Qualifications of Trustee 67

Section 7.08. Merger of Trustee 67
Section 7.09. Resignation by the Trustee 67
Section 7.10. Removal of the Trustee 67
Section 7.11. Appointment of Successor Trustee 68
Section 7.12. Concerning Any Successor Trustee 68
Section 7.13. Successor Trustee as Trustee, Paying Agent and Bond Registrar 69
Section 7.14. Appointment of Co-Trustee or Separate Trustee 69
Section 7.15. Notice of Certain Events 71
Section 7.16. Record of Freddie Mac Credit Enhancement Payments and Freddie Mac Reimbursement Amounts 71
Section 7.17. Filing of Financing Statements 71

ARTICLE VIII
SUPPLEMENTAL INDENTURES AND AMENDMENTS OF CERTAIN DOCUMENTS

Section 8.01. Supplemental Indentures Not Requiring Consent of Bondholders 72
Section 8.02. Supplemental Indentures Requiring Consent of Bondholders 73
Section 8.03. Amendments to Financing Agreement Not Requiring Consent of Bondholders 74
Section 8.04. Amendments to Financing Agreement Requiring Consent of Bondholders 75
Section 8.05. Amendments to the Credit Facility 75
Section 8.06. Opinion of Bond Counsel Required 76

ARTICLE IX
SATISFACTION AND DISCHARGE OF INDENTURE

Section 9.01. Discharge of Lien 76
Section 9.02. Discharge of Liability on Bonds 77
Section 9.03. Payment of Bonds After Discharge of Indenture 77
Section 9.04. Deposit of Money or Securities with Trustee 78

ARTICLE X
REMARKETING AND PURCHASE OF BONDS

Section 10.01. Demand for and Mandatory Purchase of Bonds 79
Section 10.02. Mandatory Tender of Bonds 80
Section 10.03. Remarketing of Bonds 80
Section 10.04. Purchase of Bonds Not Remarketed 82
Section 10.05. Remarketing Agent 82
Section 10.06. Qualifications and Resignation or Removal of Remarketing Agent 83
Section 10.07. Tender Agent 84
Section 10.08. Qualifications of Tender Agent 85
Section 10.09. Dealing in Bonds 86
Section 10.10. Purchased Bonds 86

ARTICLE XI
MISCELLANEOUS

Section 11.01. Consents and Other Instruments of Bondholders 87

Section 11.02. Servicing the Bond Mortgage Loan 88
Section 11.03. Limitation of Rights 88
Section 11.04. Construction of Conflicts; Severability 88
Section 11.05. Notices 88
Section 11.06. Credit Facility Provider 91
Section 11.07. Trustee as Paying Agent and Bond Registrar 91
Section 11.08. Payments Due on Non-Business Days 91
Section 11.09. Counterparts 91
Section 11.10. Laws Governing Indenture and Administration of Trust 91
Section 11.11. No Recourse 91
Section 11.12. Successors and Assigns 92

EXHIBIT A FORM OF BOND
EXHIBIT B FORM OF TENDER NOTICE
EXHIBIT C FORM OF PURCHASER'S LETTER
EXHIBIT D COST OF ISSUANCE REQUISITION

TRUST INDENTURE

THIS TRUST INDENTURE (this "Indenture"), made and entered into as of [_____] 1, 2009 by and between the **CALIFORNIA HOUSING FINANCE AGENCY** (the "Issuer"), a public instrumentality and a political subdivision of the State of California (the "State"), and **U.S. BANK NATIONAL ASSOCIATION**, a national banking association, duly organized and existing under the laws of the United States and authorized to accept and execute trusts of the character herein set out, with its principal office in the City of San Francisco, California (together with any successor trustee hereunder and their respective successors and assigns, the "Trustee"),

W I T N E S S E T H:

WHEREAS, pursuant to Parts 1 through 4 of Division 31 of the Health and Safety Code of the State (the "Act") and this Indenture, the Issuer has determined to issue its Multifamily Housing Revenue Bonds ([____] Project) 2009 Series [__] (the "Bonds") in the original aggregate principal amount of $[_____] to provide for the financing of a multifamily rental housing development located at [_____] in [_____] known as [_____] (the "Project"); and

WHEREAS, pursuant to a Financing Agreement dated as of the date hereof (the "Financing Agreement") among the Issuer, [_____], a [_____] duly organized and existing under the laws of the State of [_____] (the "Borrower"), and the Trustee, the Issuer has agreed to use the proceeds of the sale of Bonds to make a mortgage loan in the principal amount of $[_____] (the "Bond Mortgage Loan") to the Borrower in connection with the Project; and

WHEREAS, the Borrower has agreed to use the proceeds of the Bond Mortgage Loan to finance the [acquisition, construction and equipping of the Project] and to pay certain costs of issuance of the Bonds; and

WHEREAS, the Borrower's repayment obligations in respect of the Bond Mortgage Loan will be evidenced by a Bond Mortgage Note dated as of the Delivery Date (as defined below) (together with all riders and addenda thereto, the "Bond Mortgage Note") delivered to the Issuer, which Bond Mortgage Note will be endorsed by the Issuer to the Trustee pursuant to this Indenture; and

WHEREAS, the Borrower will cause to be delivered to the Trustee on the date of initial issuance of the Bonds (the "Delivery Date") a direct pay Credit Enhancement Agreement dated as of even date herewith (the "Credit Enhancement Agreement") between the Federal Home Loan Mortgage Corporation ("Freddie Mac") and the Trustee which will provide for (i) draws in an amount equal to Guaranteed Payments with respect to the Bond Mortgage Loan and (ii) the payment of the Purchase Price of the Bonds during any period the Bonds bear interest at the Variable Rate, to the extent there are insufficient remarketing proceeds to pay the Purchase Price of the Bonds tendered for purchase while the Bonds bear interest at a Variable Rate; and

WHEREAS, [_____] (the "Servicer") will act as initial servicer for the Bond Mortgage Loan; and

WHEREAS, to evidence the Borrower's reimbursement obligations to Freddie Mac for draws made under the Credit Enhancement Agreement, the Borrower and Freddie Mac will enter into a Reimbursement and Security Agreement dated as of even date herewith (the "Reimbursement Agreement"); and

WHEREAS, to secure the Borrower's obligations under the Bond Mortgage Note, the Borrower will execute and deliver to the Issuer a Multifamily Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing dated as of even date herewith (the "Bond Mortgage") with respect to the Project, which Bond Mortgage will be assigned to the Trustee; and

WHEREAS, to secure the Borrower's reimbursement obligations to Freddie Mac under the Reimbursement Agreement, the Borrower will execute and deliver to Freddie Mac on the Delivery Date a second Multifamily Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing dated as of even date herewith (the "Reimbursement Mortgage") with respect to the Project; and

WHEREAS, the Issuer, the Trustee and Freddie Mac have also entered into an Intercreditor Agreement dated as of even date herewith (the "Intercreditor Agreement") in connection with Freddie Mac's provision of credit enhancement; and

WHEREAS, the Issuer has determined that all things necessary to make the Bonds, when executed by the Issuer and authenticated by the Trustee and issued in accordance with this Indenture, valid, binding and legal obligations of the Issuer and to constitute this Indenture a valid lien on the properties, interests, revenues and payments herein pledged to the payment of the principal of, premium, if any, on, and interest on, the Bonds, have been duly taken, and the creation, execution and delivery of this Indenture and the execution and delivery of the Bonds, subject to the terms of this Indenture, have been duly authorized by the Issuer; and

WHEREAS, the Trustee has trust powers and the power and authority to enter into this Indenture, to accept trusts generally and to accept and execute the trust created by this Indenture; the Trustee has accepted the trust so created and, to evidence such acceptance, has joined in the execution of this Indenture.

NOW, THEREFORE, the Issuer, in consideration of the premises and the acceptance by the Trustee of the trusts hereby created and of the purchase and acceptance of the Bonds by the holders and owners thereof, and of the sum of one dollar, lawful money of the United States of America, to it duly paid by the Trustee at or before the execution and delivery of these presents, and for other good and valuable consideration, the receipt of which is hereby acknowledged, in order to secure the payment of the principal of, premium, if any, and interest on the Bonds according to their tenor and effect, the payment to Freddie Mac of the Freddie Mac Reimbursement Amount and the Freddie Mac Credit Enhancement Fee (as such terms are hereinafter defined) in accordance with the provisions hereof and of the Credit Enhancement Agreement and the Reimbursement Agreement, or the payment of amounts due and owing to any other Credit Facility Provider following termination of the Credit Enhancement Agreement, and the performance and observance by the Issuer of all the covenants expressed or implied herein and in the Bonds, does hereby grant, bargain, sell, convey, pledge and assign a security interest,

unto the Trustee, and its successors in trust and its and their assigns in and to the following (said property being herein referred to as the "Trust Estate"), to wit:

GRANTING CLAUSE FIRST

All right, title and interest of the Issuer in and to all Revenues.

GRANTING CLAUSE SECOND

All right, title and interest of the Issuer in and to the Financing Agreement, the Bond Mortgage Note, the Bond Mortgage and the Credit Facility (other than the Unassigned Rights), including all extensions and renewals of the terms thereof, if any, including, but without limiting the generality of the foregoing, the present and continuing right to receive, receipt for, collect or make claim for any of the money, income, revenues, issues, profits and other amounts payable or receivable thereunder (including all casualty insurance benefits or condemnation awards subject to the interest of the Credit Facility Provider under the Reimbursement Agreement and the Intercreditor Agreement) whether payable under the above-referenced documents or otherwise, to bring actions and proceedings thereunder or for the enforcement thereof, and to do any and all things which the Issuer or any other Person is or may become entitled to do under said documents.

GRANTING CLAUSE THIRD

Except for funds, money or securities in the Cost of Issuance Fund, the Bond Purchase Fund, the Principal Reserve Fund, and the Rebate Fund, all funds, money and securities and any and all other rights and interests in property whether tangible or intangible from time to time hereafter by delivery or by writing of any kind, conveyed, mortgaged, pledged, assigned or transferred as and for additional security hereunder for the Bonds by the Issuer or by anyone on its behalf or with its written consent to the Trustee, which is hereby authorized to receive any and all such property at any and all times and to hold and apply the same subject to the terms hereof.

TO HAVE AND TO HOLD, all the same with all privileges and appurtenances hereby conveyed and assigned, or agreed or intended so to be, to the Trustee and its successors in said trust and to them and their assigns forever;

IN TRUST NEVERTHELESS, upon the terms and trusts herein set forth for the equal and proportionate benefit, security and protection of all Holders of the Bonds issued under and secured by this Indenture without privilege, priority or distinction as to lien or otherwise of any of the Bonds over any of the other Bonds, except as set forth in this Indenture, and for the benefit, security and protection of the Credit Facility Provider to the extent of its interests hereunder and under the Reimbursement Agreement and the Intercreditor Agreement;

PROVIDED, HOWEVER, that if the Issuer or its successors or assigns shall pay or cause to be paid to the Holders of the Bonds the principal, interest and premium, if any, to become due thereon at the times and in the manner provided in Article IX hereof and shall discharge or cause to be discharged any and all obligations to the Credit Facility Provider hereunder and under the Reimbursement Agreement, and if the Issuer shall keep, perform and observe, or cause to be kept, performed and observed, all of its covenants, warranties and agreements contained herein,

then these presents and the estate and rights hereby granted shall, at the option of the Issuer, cease, terminate and be void, and thereupon the Trustee shall cancel and discharge the lien of this Indenture and execute and deliver to the Issuer such instruments in writing as shall be requisite to satisfy the lien hereof, and, subject to the provisions of Sections 4.09, 4.11 and 4.12 hereof and Article IX hereof, reconvey to the Issuer the estate hereby conveyed, and assign and deliver to the Issuer any property at the time subject to the lien of this Indenture which may then be in its possession, except for the Rebate Fund and cash held by the Tender Agent for the payment of the Purchase Price of Bonds tendered pursuant to the terms of this Indenture or held by the Trustee for the payment of interest on and principal of the Bonds or for payment of amounts payable to the Credit Facility Provider; otherwise this Indenture to be and remain in full force and effect and upon the trusts and subject to the covenants and conditions hereinafter set forth.

AND IT IS HEREBY COVENANTED AND AGREED by and between the parties hereto, that the terms and provisions upon which the Bonds are to be issued, executed, authenticated, delivered and secured, and the trusts and conditions upon which the Trust Estate is to be held and disposed of, which said trusts and conditions the said Trustee hereby accepts and agrees to discharge, are as follows (except that in the performance of the agreements of the Issuer herein contained, any obligation it may thereby incur for the payment of money shall not be a general obligation of the Issuer nor a debt or pledge of the faith and credit of the Issuer or the State, but shall be payable solely from the revenues and funds pledged for its payment in accordance with this Indenture):

ARTICLE I
DEFINITIONS

Section 1.01. ***Definitions.*** The terms used in this Indenture (except as herein otherwise expressly provided or unless the context otherwise requires) for all purposes of this Indenture and of any indenture supplemental hereto shall have the respective meanings specified below:

"Act" means Parts 1 through 4 of Division 31 of the Health and Safety Code of the State, and all laws supplementary thereto and amendatory thereof.

"Administration Fund" means the Administration Fund established by the Trustee pursuant to Section 4.02 hereof.

"Alternate Credit Facility" means a letter of credit, surety bond, insurance policy, standby purchase agreement, guaranty, mortgage-backed security or other credit facility, collateral purchase agreement or similar agreement issued by a financial institution (including without limitation Freddie Mac) which provides security for the payment of (a)(i) the principal of and interest on the Bonds (but in no case less than all of the Outstanding Bonds when due) or (ii) the Bond Mortgage Loan in an amount not less than the Guaranteed Payment, and (b) the Purchase Price of the Bonds, which Alternate Credit Facility is provided in accordance with Section 5.4 of the Financing Agreement. The Credit Enhancement Agreement (including any extension or renewal thereof) is not an "Alternate Credit Facility

"Alternate Credit Facility Provider" means the provider of an Alternate Credit Facility.

"Authorized Denomination" means, (a) with respect to Bonds during any Variable Period, $100,000 principal amount or any integral multiple of $5,000 greater than $100,000, and (b) with respect to Bonds during any Reset Period or the Fixed Rate Period, $5,000 principal amount or any integral multiple thereof within a maturity.

"Authorized Officer" means (a) when used with respect to the Issuer, the Chairperson, the Executive Director, the Deputy Director or the Director of Financing of the Issuer and such additional Person or Persons, if any, duly designated by the Issuer in writing to act on its behalf, (b) when used with respect to the Borrower, any [_____] of the Borrower and such additional Person or Persons, if any, duly designated by the Borrower in writing to act on its behalf, (c) when used with respect to the Trustee, any authorized signatory of the Trustee, or any Person who is authorized in writing to take the action in question on behalf of the Trustee, (d) when used with respect to the Servicer, the [_____] of the Servicer and such additional Person or Persons, if any, duly designated by the Servicer in writing to act on its behalf, (e) when used with respect to the Remarketing Agent, any [_____] of the Remarketing Agent and such additional Person or Persons, if any, duly designated by the Remarketing Agent in writing to act on its behalf, (f) when used with respect to the Tender Agent, any authorized signatory of the Tender Agent and such additional Person or Persons, if any, duly designated by the Tender Agent in writing to act on its behalf, and (g) when used with respect to the Credit Facility Provider, any Person who is authorized in writing to take the action in question on behalf of the Credit Facility Provider.

"Bankruptcy Code" means Title 11 of the United States Code entitled "Bankruptcy," as now and hereafter in effect, or any successor federal statute.

"Bond Counsel" means (i) on the Delivery Date, the law firm or law firms delivering the approving opinion(s) with respect to the Bonds, or (ii) any other firm of attorneys selected by the Issuer that is experienced in matters relating to the issuance of obligations by states and their political subdivisions who are listed as municipal bond attorneys in The Bond Buyer's Municipal Marketplace and is acceptable to the Credit Facility Provider.

"Bond Fee Component" means the regular, ongoing fees due from time to time to the Issuer, the Trustee, the Remarketing Agent, the Tender Agent, the Custodian and the Rebate Analyst, if any, expressed as a flat, fixed amount or in terms of a percentage of the principal amount of Outstanding Bonds (including Purchased Bonds) on an annual basis.

"Bond Financing Documents" means, collectively, this Indenture, the Bonds, the Financing Agreement, the Remarketing Agreement, the Tax Certificate and any Bond Mortgage Loan Documents not otherwise included in the foregoing list of documents.

"Bond Fund" means the Bond Fund established by the Trustee pursuant to Section 4.02 hereof.

"Bondholder" or *"Holder"* or *"Owner"* means any Person who shall be the registered owner of any Outstanding Bond or Bonds.

"Bond Mortgage" means the Multifamily Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing dated as of the date hereof, together with all riders and addenda

thereto, from the Borrower to the Issuer, securing payment of the Bond Mortgage Loan, as such Bond Mortgage may from time to time be amended, modified or supplemented, as such Bond Mortgage has been assigned by the Issuer to the Trustee.

"Bond Mortgage Loan" means the loan made by the Issuer to the Borrower in the original principal amount of $[_____] pursuant to the Bond Mortgage Loan Documents.

"Bond Mortgage Loan Documents" means the Bond Mortgage, the Bond Mortgage Note, the Financing Agreement, the Regulatory Agreement, any Custodial Escrow Agreement, the Credit Facility, the Reimbursement Agreement, the Reimbursement Mortgage, the Intercreditor Agreement, the Pledge Agreement and any and all other instruments and other documents evidencing, securing, or otherwise relating to the Bond Mortgage Loan or any portion thereof, or evidencing, securing or otherwise relating to the Borrower's obligations to the Credit Facility Provider in connection with the delivery of the Credit Facility.

"Bond Mortgage Loan Fund" means the Bond Mortgage Loan Fund established by the Trustee pursuant to Section 2.11 hereof.

"Bond Mortgage Note" means the Bond Mortgage Note dated the Delivery Date from the Borrower to the Issuer and subsequently assigned to the Trustee in the principal amount of $[_____], together with all riders and addenda thereto, evidencing the Bond Mortgage Loan, as such Bond Mortgage Note may from time to time be amended, modified or supplemented.

"Bond Purchase Fund" means the Bond Purchase Fund established by the Tender Agent pursuant to Section 10.03.

"Bond Register" means the books or other records maintained by the Bond Registrar setting forth the registered Holders from time to time of the Bonds.

"Bond Registrar" means the Trustee acting as such, and any other bond registrar appointed pursuant to this Indenture.

"Bond Resolution" means the resolution adopted by the Issuer authorizing the issuance of the Bonds.

"Bonds" means the California Housing Financing Agency Multifamily Housing Revenue Bonds ([____] Project) 2009 Series [__] issued pursuant to the provisions of this Indenture.

"Bond Year" means the period of twelve consecutive months ending on [_____] 1 in any year in which Bonds are Outstanding, provided that the first Bond Year shall commence on the Delivery Date and end on [_____].

"Borrower" means [_____], a [_____] duly organized and existing under the laws of the State of [_____], or any of its permitted successors or assigns, as owner of the Project.

"Business Day" means any day other than (a) a Saturday, (b) a Sunday, (c) a day on which the Federal Reserve Bank of New York (or other agent acting as the Credit Facility

Provider's fiscal agent identified to the Trustee) is authorized or obligated by law or executive order to remain closed, (d) a day on which the Principal Office of the Credit Facility Provider is closed or (e) a day on which (i) banking institutions in the City of New York or in the city in which the Principal Office of the Trustee, the Tender Agent, the Remarketing Agent or the Credit Facility Provider is located are authorized or obligated by law or executive order to be closed or (ii) the New York Stock Exchange is closed.

"Certificate of the Issuer," "Statement of the Issuer," "Request of the Issuer" and *"Requisition of the Issuer"* mean, respectively, a written certificate, statement, request or requisition signed in the name of the Issuer by an Authorized Officer of the Issuer or such other Person as may be designated and authorized to sign for the Issuer. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument.

"Commitment" means the commitment from Freddie Mac to the Servicer pursuant to which Freddie Mac has agreed to provide credit enhancement for the Bond Mortgage Loan and liquidity support for the Bonds, as the same may be amended, modified or supplemented from time to time.

"Costs of Issuance" means (i) the fees (excluding ongoing fees), costs and expenses of (a) the Issuer, the Issuer's counsel and the Issuer's financial advisor, (b) the Underwriter (including discounts to the Underwriter or other purchasers of the Bonds, other than original issue discount, incurred in the issuance and sale of the Bonds) and the Underwriter's counsel, (c) Bond Counsel, (d) the Trustee and the Trustee's counsel, (e) the Servicer and the Servicer's counsel, if any, (f) the Credit Facility Provider and the Credit Facility Provider's counsel, (g) the Borrower's counsel attributable to the issuance of the Bonds and the Borrower's financial advisor, if any, and (h) the Rating Agency, (ii) costs of printing the offering documents relating to the sale of the Bonds and (iii) all other fees, costs and expenses directly associated with the authorization, issuance, sale and delivery of the Bonds, including, without limitation, printing costs, costs of reproducing documents, filing and recording fees.

"Costs of Issuance Deposit" means the deposit to be made by the Borrower with the Trustee on the Delivery Date, which deposit shall equal $[_____] comprised of sources other than the proceeds of the Bonds.

"Cost of Issuance Fund" means the Cost of Issuance Fund established by the Trustee pursuant to Section 4.02 hereof.

"Counterparty" has the meaning given that term in the Reimbursement Agreement.

"Credit Enhancement Agreement" means the direct pay Credit Enhancement Agreement dated as of [_____] between Freddie Mac and the Trustee, as such Credit Enhancement Agreement may from time to time be amended or supplemented.

"Credit Facility" means the Credit Enhancement Agreement or any Alternate Credit Facility at that time in effect.

"Credit Facility Provider" means, so long as the Credit Enhancement Agreement is in effect, Freddie Mac, or so long as any Alternate Credit Facility is in effect, the Credit Facility Provider then obligated under the Alternate Credit Facility.

"Custodial Escrow Account" means, collectively, the account or accounts established and held by the Servicer, in accordance with the Guide or otherwise, for the purpose of funding (a) escrows for taxes, insurance and related payments and costs, if required by Freddie Mac, (b) a reserve for replacements for the Project, if required by Freddie Mac, and (c) a debt service reserve for the Bond Mortgage Loan, if required by Freddie Mac.

"Custodial Escrow Agreement" means any agreement (which agreement may be the Guide or the Commitment as applicable) pursuant to which a Custodial Escrow Account is established and maintained.

"Custodian" means U.S. Bank National Association, not in its individual capacity but solely in its capacity as collateral agent for the Credit Facility Provider, and any successor in such capacity.

"Delivery Date" means [_____], the date of initial delivery of the Bonds to the initial purchasers thereof against payment therefor.

"DTC" means The Depository Trust Company, New York, New York, as initial Securities Depository for the Bonds pursuant to Section 2.12 hereof or its successors.

"Electronic Notice" means delivery of notice in a Word format or a Portable Document Format (PDF) by electronic mail to the electronic mail addresses listed in Section 11.05; provided, that if a sender receives notice that the electronic mail is undeliverable, notice must be sent as otherwise required by Section 11.05.

"Eligible Funds" means (a) remarketing proceeds received from the Remarketing Agent or any purchaser (other than funds provided by the Borrower, any general partner, member or guarantor of the Borrower or the Issuer), (b) proceeds received pursuant to the Credit Facility, (c) proceeds of the Bonds received contemporaneously with the issuance and sale of the Bonds, (including any Bond proceeds deposited to the Bond Mortgage Loan Fund on the Delivery Date), (d) proceeds from the investment or reinvestment of money described in clauses (a), (b) and (c) above, or (e) money delivered to the Trustee and accompanied by a written opinion of nationally recognized counsel experienced in bankruptcy matters acceptable to the Rating Agency to the effect that if the Borrower, any general partner, member or guarantor of the Borrower, or the Issuer were to become a debtor in a proceeding under the Bankruptcy Code: (i) payment of such money to Holders of the Bonds would not constitute an avoidable preference under Section 547 of the Bankruptcy Code and (ii) the automatic stay provisions of Section 362(a) of the Bankruptcy Code would not prevent application of such money to the payment of the Bonds.

"Event of Default" or *"event of default"* means any of those events specified in and defined by the applicable provisions of Article VI hereof to constitute an event of default.

"Extraordinary Services" means and includes, but not by way of limitation, services, actions and things carried out and all expenses incurred by the Trustee, including in its capacity

as Paying Agent, Bond Registrar, Tender Agent and Custodian, in respect of or to prevent default under this Indenture or the Bond Mortgage Loan Documents, including any reasonable attorneys' or agents' fees and expenses and other litigation costs that are entitled to reimbursement under the terms of the Financing Agreement, and other actions taken and carried out by the Trustee which are not expressly set forth in this Indenture or the Bond Mortgage Loan Documents.

"Extraordinary Servicing Fees and Expenses" means all fees and expenses of the Servicer under the Guide during any Bond Year in excess of Ordinary Servicing Fees and Expenses.

"Extraordinary Trustee's Fees and Expenses" means all those fees, expenses and disbursements earned or incurred by the Trustee as described under Section 7.06 during any Bond Year for Extraordinary Services, as set forth in a detailed invoice to the Borrower.

"Fair Market Value" means the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm's length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of Section 1273 of the 1986 Code) and, otherwise, the term "Fair Market Value" means the acquisition price in a bona fide arm's length transaction (as referenced above) if (a) the investment is a certificate of deposit that is acquired in accordance with applicable regulations under the 1986 Code, (b) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the 1986 Code, (c) the investment is a United States Treasury Security--State and Local Government Series that is acquired in accordance with applicable regulations of the United States Bureau of Public Debt, or (d) any commingled investment fund in which the Issuer and related parties do not own more than a ten percent (10%) beneficial interest therein if the return paid by the fund is without regard to the source of investment.

"Financing Agreement" means the Financing Agreement dated as of the date hereof among the Borrower, the Issuer and the Trustee, as such Financing Agreement may from time to time be amended or supplemented.

"Fixed Rate" means the interest rate borne by the Bonds from and after the Fixed Rate Adjustment Date to the maturity date of the Bonds, determined in accordance with Section 2.02(d) hereof.

"Fixed Rate Adjustment" means the establishment of the interest rate on the Bonds at the Fixed Rate, pursuant to Section 2.02(d) hereof.

"Fixed Rate Adjustment Date" means the date on which the Fixed Rate for the Bonds becomes effective.

"Fixed Rate Period" means the period during which the Bonds bear interest at the Fixed Rate.

"Freddie Mac" means the Federal Home Loan Mortgage Corporation, a shareholder-owned government-sponsored enterprise organized and existing under the laws of the United States, and its successors and assigns.

"Freddie Mac Credit Enhancement Fee" shall have the meaning given to that term in the Reimbursement Agreement.

"Freddie Mac Credit Enhancement Payment" shall have the meaning given to that term in the Credit Enhancement Agreement.

"Freddie Mac Reimbursement Amount" shall have the meaning given to that term in the Reimbursement Agreement.

"Government Obligations" means investments meeting the requirements of clauses (a) or (b) of the definition of "Qualified Investments" herein.

"Guaranteed Payment" means the amount required to be paid to the Trustee pursuant to the Credit Facility, provided that so long as the Credit Enhancement Agreement is the Credit Facility, "Guaranteed Payment" shall have the meaning given to that term in the Credit Enhancement Agreement.

"Guide" means, collectively, the Freddie Mac Delegated Underwriting for Targeted Affordable Housing Guide and Freddie Mac Multifamily Seller/Servicer Guide (as applicable), as the same may be amended, modified or supplemented from time to time.

"Hedge Agreement" means any interest rate cap agreement, swap agreement or similar instrument required to be maintained for the benefit of the Credit Facility Provider under the terms of the Reimbursement Agreement.

"Hedge Fee Escrow" has the meaning given to that term in the Reimbursement Agreement.

"Investment Income" means the earnings and profits derived from the investment of money pursuant to Section 4.08 of this Indenture.

"Indenture" means this Trust Indenture, as the same may have been from time to time amended or modified, together with any other indentures supplemental hereto.

"Index Rate" means a rate equal to the index of the weekly index rate resets of tax-exempt variable rate issues included in a database maintained by Municipal Market Data, a Thomson Financial Services Company, or its successors, which meet specific criteria established by the Securities Industry and Financial Markets Association, such index currently known as the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index or any successor to such index.

"Information Services" means in accordance with then-current guidelines of the Securities and Exchange Commission, one or more services selected by the Trustee which are then providing information with respect to called Bonds, or, if the Trustee does not select a

service, then such service or services as the Issuer may designate in a certificate of the Issuer delivered to the Trustee.

"Intercreditor Agreement" means the Intercreditor Agreement dated as of [_____] among the Issuer, the Trustee and Freddie Mac, as the same may be amended or supplemented.

"Interest Payment Date" means [_____], and thereafter (i) for interest accrued during any Variable Period, the first Business Day of each month, (ii) for interest accrued during any Reset Period, [_____] 1 and [_____] 1 of each year, commencing on the [_____] 1 or [_____] 1 next following the applicable Reset Adjustment Date, (iii) for interest accrued on and after the Fixed Rate Adjustment Date, [_____] 1 and [_____] 1 of each year, commencing on the [_____] 1 or [_____] 1 next following the Fixed Rate Adjustment Date, (iv) each Reset Adjustment Date, Variable Rate Adjustment Date, Fixed Rate Adjustment Date, Substitution Date and the maturity date of the Bonds, and (v) for Bonds subject to redemption but only with respect to such Bonds, the date of redemption (or purchase in lieu of redemption).

"Interest Requirement" means (a) during the Variable Period, 35 days' interest computed at the Maximum Rate and (b) during a Reset Period or the Fixed Rate Period, 189 days' interest computed at the Reset Rate or Fixed Rate, as applicable, or in the case of either (a) or (b), such lesser number of days as is acceptable to the Rating Agency (as confirmed in writing by the Rating Agency).

"Issuer" means the California Housing Financing Agency, a public instrumentality and a political subdivision of the State, created by and existing under the Act.

"Issuer Fee" means [_____].

"Liquidity Advance" means an advance by the Credit Facility Provider pursuant to the terms of the Credit Facility to pay the Purchase Price of any Bonds tendered optionally by Bondholders pursuant to Section 10.01 of this Indenture which have not been remarketed by the Remarketing Agent pursuant to the Remarketing Agreement and this Indenture and, therefore, with respect to which there are no proceeds of remarketing.

"Market Risk Event" means (a)(i) legislation enacted by the Congress, (ii) a final non-appealable decision rendered by a court established under Article III of the Constitution of the United States, or the United States Tax Court, or (iii) an order, ruling or regulation issued by the United States Department of the Treasury or the Internal Revenue Service, with the purpose or effect, directly or indirectly, of causing interest received by any Bondholder (other than a Bondholder who is a "substantial user" of the Project or a "related person" of a substantial user (each within the meaning of Section 147(a) of the 1986 Code)) to be included in the gross income of such Bondholder for purposes of federal income taxation; or (b) legislation enacted or any action taken by the Securities and Exchange Commission which, in the opinion of counsel to the Remarketing Agent, has the effect of requiring the remarketing of the Bonds to be registered under the Securities Act of 1933, as amended (the "Securities Act"), or any other "security," as defined in the Securities Act, issued in connection with or as part of the remarketing of the Bonds to be so registered or this Indenture to be qualified as an indenture under the Trust

Indenture Act of 1939, as amended; or (c) any event shall have occurred or shall exist which, in the reasonable judgment of the Remarketing Agent, makes or has made untrue or incorrect in any material respect any statement or information contained in a reoffering circular or other disclosure document distributed in connection with the Fixed Rate Adjustment or Reset Adjustment Date or is not or was not reflected in such reoffering circular or other disclosure document but should be or should have been reflected therein in order to make the statements or information contained therein not misleading in any material respect; or (d) in the reasonable judgment of the Remarketing Agent, any event which makes it impractical or inadvisable for the Remarketing Agent to remarket or enforce agreements to remarket Bonds because trading in securities generally shall have been suspended on the New York Stock Exchange, Inc., or a general banking moratorium shall have been established by federal, New York or State authorities.

"Maturity Date" means the maturity date of the Bonds set forth in Section 2.01(c) hereof.

"Maximum Rate" means 12% per annum; provided that, without amendment to any Bond Financing Document pursuant to Article VIII of this Indenture, the Maximum Rate may be increased to a specified higher Maximum Rate if there shall have been delivered to the Trustee (a) an opinion of Bond Counsel to the effect that such higher Maximum Rate is permitted under applicable law and will not, in and of itself, cause the interest on the Bonds to be included in the gross income of the Bondholders for federal income tax purposes and (b) either (i) the written consent of the Credit Facility Provider to the specified higher Maximum Rate and evidence that the Credit Facility will cover the Interest Requirement at such higher Maximum Rate, or (ii) a new or amended Credit Facility in an amount equal to the sum of (A) the principal amount of the Outstanding Bonds and (B) the new Interest Requirement calculated using the new Maximum Rate; provided that the Maximum Rate shall never exceed the maximum rate permitted by applicable law to be paid on the Bonds or to be charged on the Bond Mortgage Loan.

"Moody's" means Moody's Investors Service, Inc., its successors and assigns, if such successors and assigns continue to perform the services of a securities rating agency.

"Net Proceeds" when used with respect to any insurance or condemnation award, means the proceeds from the insurance or condemnation award with respect to which that term is used remaining after payment of all reasonable expenses incurred in the collection of such proceeds, including reasonable attorney fees.

"1986 Code" means the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder.

"Official Statement" means the Official Statement dated [_____] relating to the sale and issuance of the Bonds, as the same may be supplemented or amended.

"Optional Tender Date" has the meaning set forth in Section 10.01 hereof.

"Ordinary Servicing Fees and Expenses" means the ordinary fees payable to the Servicer in connection with the servicing of the Bond Mortgage Loan under the Guide, payable monthly in arrears as provided in the Reimbursement Agreement.

"Ordinary Trustee's Fees and Expenses" means the annual administration fee for the Trustee's ordinary fees and expenses in rendering its services under this Indenture as Trustee during each twelve month period, which fee is equal to (and shall not exceed) $[_____] and shall be payable [semi-]annually [in arrears on] [in advance] on the Delivery Date and] each [_____ 1 and] [_____] [thereafter] commencing [_____].

"Outstanding" when used with respect to the Bonds or "Bonds Outstanding" means, as of any date, all Bonds that have been duly authenticated and delivered by the Trustee under this Indenture, except:

(a) Bonds surrendered and replaced upon exchange or transfer, or cancelled because of payment or redemption, at or prior to such date;

(b) Bonds for the payment, redemption or purchase for cancellation of which sufficient money has been deposited prior to such date with the Trustee (whether upon or prior to the maturity, amortization or redemption date of any such Bonds), or which are deemed to have been paid and discharged pursuant to the provisions of Section 9.01 hereof; provided that if such Bonds are to be redeemed prior to the maturity thereof, other than by scheduled amortization, notice of such redemption shall have been given or arrangements satisfactory to the Trustee shall have been made therefor, or waiver of such notice satisfactory in form to the Trustee shall have been filed with the Trustee; and

(c) Bonds in lieu of which others have been authenticated (or payment, when due, of which is made without replacement) under Section 2.07 hereof; and also except that

(d) For the purpose of determining whether the holders of the requisite amount of Bonds Outstanding have made or concurred in any notice, request, demand, direction, consent, approval, order, waiver, acceptance, appointment or other instrument or communication under or pursuant to this Indenture, Bonds known to the Trustee to be owned by or for the account of the Borrower or any Person owned, controlled by, under common control with or controlling the Borrower shall be disregarded and deemed to be not Outstanding, unless all Bonds shall be so owned, and provided that the Trustee has knowledge of the foregoing; provided, further, that all Purchased Bonds shall be deemed to be Outstanding, and the Trustee shall follow any direction provided by the Credit Facility Provider with respect to Purchased Bonds for the purposes hereof (Bonds so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee shall establish, to the satisfaction of the Trustee, the pledgee's right to vote such Bonds, and in the event of a dispute as to the existence of such right, any decision by the Trustee taken upon the advice of counsel shall constitute full protection to the Trustee). The term "control" (including the terms "controlling", "controlled by" and "under common control with") means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract, or otherwise. Beneficial ownership of 5% or more of a class of securities having general voting power to elect a majority of the board of directors of a corporation shall be conclusive evidence of control of such corporation.

"Paying Agent" means the Trustee acting as such, and any other paying agent appointed pursuant to this Indenture.

"Person" means an individual, a corporation, a partnership, an association, a joint stock company, a joint venture, a trust, an unincorporated association, a limited liability company or a government or any agency or political subdivision thereof, or any other organization or entity (whether governmental or private).

"Pledge Agreement" means that certain Pledge, Security and Custody Agreement dated as of [_____], by and between the Custodian and the Borrower, as originally executed or as modified or amended from time to time, together with any similar agreement executed in connection with an Alternate Credit Facility, as originally executed or as amended or modified from time to time.

"Principal Office of the Credit Facility Provider" means the office of Freddie Mac located at 8100 Jones Branch Drive, McLean, Virginia 22102 or such other office or offices as Freddie Mac may designate from time to time, or the office of any Alternate Credit Facility Provider where it principally conducts its business of serving as credit facility provider under indentures pursuant to which municipal or governmental obligations are issued, or such other office or offices as the Alternate Credit Facility Provider may designate from time to time.

"Principal Office of the Remarketing Agent" means the office of the Remarketing Agent referenced in Section 11.05(a) hereof or such other office or offices as the Remarketing Agent may designate from time to time, or the office of any successor Remarketing Agent where it principally conducts its business of serving as remarketing agent under indentures pursuant to which municipal or governmental obligations are issued.

"Principal Office of the Tender Agent" means the office of the Tender Agent referenced in Section 11.05(a) hereof or such other office or offices as the Tender Agent may designate from time to time, or the office of any successor Tender Agent where it principally conducts its business of serving as tender agent under indentures pursuant to which municipal or governmental obligations are issued.

"Principal Office of the Trustee" means the office of the Trustee referenced in Section 11.05(a) hereof or such other office or offices as the Trustee may designate from time to time, or the office of any successor Trustee where it principally conducts its business of serving as trustee under indentures pursuant to which municipal or governmental obligations are issued.

"Principal Reserve Amount" means an amount equal to 20% of the Bonds Outstanding on the Delivery Date ($[_____]).

"Principal Reserve Fund" means the Principal Reserve Fund established by the Trustee pursuant to Section 4.02 hereof.

"Principal Reserve Schedule" means the Principal Reserve Schedule calculated in accordance with, and attached as Exhibit A to, the Reimbursement Agreement, as the same may be amended from time to time.

"Principal Reserve Schedule Payments" means the payments to be made by the Borrower in accordance with the Principal Reserve Schedule as set forth in the Reimbursement Agreement.

"Project" means the land and residential rental apartment units, and related fixtures, equipment, furnishings and site improvements known as [_____] located at [_____] in [_____], including the real estate described in the Bond Mortgage.

"Purchase Price," with respect to any Bond required to be purchased pursuant to Sections 2.02, 2.13, 10.01 and 10.02 hereof, means the principal amount of such Bond plus interest accrued thereon to the Settlement Date and with respect to any Bond to be purchased pursuant to Section 3.06 hereof means the principal amount of such Bond plus any redemption premium due thereon plus interest accrued thereon to the Settlement Date.

"Purchased Bond" means any Bond during the period from and including the date of its purchase by the Trustee on behalf of and as agent for the Borrower with amounts provided by the Credit Facility Provider under the Credit Facility, to, but excluding, the date on which such Bond is remarketed to any Person other than the Credit Facility Provider, the Borrower, any general partner, member or guarantor of the Borrower or the Issuer. All Purchased Bonds are to be held in certificated form under and pursuant to the Pledge Agreement.

"Qualified Investments" means any of the following if and to the extent permitted by law: (a) direct and general obligations of the United States of America; (b) obligations of any agency or instrumentality of the United States the payment of the principal of and interest on which are unconditionally guaranteed by the full faith and credit of the United States of America; (c) senior debt obligations of Freddie Mac; (d) senior debt obligations of Fannie Mae; (e) demand deposits or time deposits with, or certificates of deposit issued by, the Trustee or its affiliates or any bank organized under the laws of the United States or any state or the District of Columbia which has combined capital, surplus and undivided profits of not less than $50,000,000; provided that the Trustee or such other institution has been rated at least ["VMIG 1"/ "A 1+"] by [Moody's/S&P] which deposits or certificates are fully insured by the Federal Deposit Insurance Corporation; (f) investment agreements with Freddie Mac or a bank or any insurance company or other financial institution which has a rating assigned by [Moody's/S&P] to its outstanding long term unsecured debt which is the highest rating (as defined below) for long term unsecured debt obligations assigned by [Moody's/S&P], and which are approved by the Credit Facility Provider; or (g) shares or units in any money market mutual fund (including mutual funds of the Trustee or its affiliates or for which the Trustee or its affiliates provide investment advisory or other management services) registered under the Investment Company Act of 1940, as amended, whose investment portfolio consists solely of (A) direct obligations of the United States government, or (B) tax exempt obligations and which fund has been rated "Aaa"/ "AAA" by [Moody's/S&P]; (h)(i) tax exempt obligations rated in the highest short term rating category by Moody's or S&P, or (ii) shares of a tax-exempt municipal money market mutual fund or other collective investment fund registered under the federal Investment Company Act of 1940, whose shares are registered under the federal Securities Act of 1933, having assets of at least $100,000,000, and having a rating of ["Aaa"/ "AAA"] by the Rating Agency, for which at least 95% of the income paid to the holders on interest in such money market fund will be excludable from gross income under Section 103 of the 1986 Code, including money market funds for which the Trustee or its affiliates receive a fee for investment advisory or other services to the fund [or; (i) any other investments approved in writing by the Credit Facility Provider]. For purposes of this definition, the "highest rating" shall mean a rating of at least ["VMIG 1"/ "A 1+"] for obligations with less than one year maturity; at least ["Aaa"/

"VMIG 1"/ "AAA"/ "A 1+"] for obligations with a maturity of one year or greater but less than three years; and at least ["Aaa"/ "AAA"] for obligations with a maturity of three years or greater. Qualified Investments must be limited to instruments that have a predetermined fixed dollar amount of principal due at maturity that cannot vary or change and interest, if tied to an index, shall be tied to a single interest rate index plus a single fixed spread, if any, and move proportionately with such index.

"Rating Agency" means each national rating agency then maintaining a rating on the Bonds, or any successor or assign thereof, if such successor and assigns continue to perform the services of a securities rating agency.

"Rebate Analyst" means a certified public accountant, financial analyst or bond counsel, or any firm of the foregoing, or financial institution (which may include the Trustee) experienced in making the arbitrage and rebate calculations required pursuant to Section 148 of the 1986 Code, selected by and at the expense of the Borrower, with the prior written consent of the Issuer, to make the computations required under this Indenture and the Financing Agreement.

"Rebate Fund" means the Rebate Fund established by the Trustee pursuant to Section 4.02 hereof.

"Record Date" means during any Variable Period, the Business Day immediately preceding an Interest Payment Date and during any Reset Period or the Fixed Rate Period, the 15th day of the month preceding the month in which any Interest Payment Date falls.

"Redemption Fund" means the Redemption Fund established by the Trustee pursuant to Section 4.02 hereof.

"Regulatory Agreement" means the Regulatory Agreement dated as of the date hereof between the Issuer and the Borrower, as it may be amended, supplemented or restated from time to time.

"Reimbursement Agreement" means the Reimbursement and Security Agreement dated as of the date hereof between the Borrower and Freddie Mac, as the same may be amended, supplemented or restated from time to time, and upon the effectiveness of any Alternate Credit Facility, any similar agreement between the Borrower and the Alternate Credit Facility Provider pursuant to which the Borrower agrees to reimburse the Alternate Credit Facility Provider for payments made under the Alternate Credit Facility, as such agreement may be amended, supplemented or restated.

"Reimbursement Mortgage" means the Multifamily Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing dated as of the date hereof from the Borrower to Freddie Mac, together with all riders and addenda thereto, granting a second priority mortgage and security interest in the Project to Freddie Mac to secure the obligations of the Borrower under the Reimbursement Agreement and all documents related thereto, and upon the effectiveness of any Alternate Credit Facility, any similar mortgage, deed of trust, deed to secure debt, security interest or other lien or encumbrance granting a mortgage and security interest in the Project to the Alternate Credit Facility Provider to secure similar obligations of the Borrower to the Alternate Credit Facility Provider, as the same may be amended, supplemented or restated.

"Remarketing Agent" means the remarketing agent appointed pursuant to Section 10.05 hereof.

"Remarketing Agreement" means the Remarketing Agreement dated as of [_____] between among the Remarketing Agent, the Issuer and the Borrower, or any similar agreement between among the Remarketing Agent, the Issuer and the Borrower, in each case as originally executed or as it may be amended or supplemented from time to time in accordance with its terms.

"Remarketing Date" means each date on which the Remarketing Agent is required to notify the Trustee, the Tender Agent, the Borrower and the Credit Facility Provider of the Bonds for which it has found purchasers, as set forth in Section 10.03 hereof.

"Reset Adjustment Date" means any date on which the interest rate on the Bonds is adjusted to a Reset Rate or to a different Reset Rate. During a Variable Period, a Reset Adjustment Date may occur only on an Interest Payment Date.

"Reset Period" means each period during which the Bonds bear interest at a Reset Rate.

"Reset Rate" means the rate of interest borne by the Bonds as determined in accordance with Section 2.02(c) hereof.

"Responsible Officer" means any officer of the Trustee employed within or otherwise having regular responsibility in connection with the corporate trust department of the Trustee and the trusts created hereunder.

"Revenue Fund" means the Revenue Fund established by the Trustee pursuant to Section 4.02 hereof.

"Revenues" means (a) all payments made with respect to the Bond Mortgage Loan pursuant to the Financing Agreement, the Bond Mortgage Note or the Bond Mortgage, including all casualty or other insurance benefits and condemnation awards paid in connection therewith (subject in all events to the interests of the Credit Facility Provider therein under the terms of the Credit Facility and the Reimbursement Agreement), (b) payments made by the Credit Facility Provider pursuant to the Credit Facility and (c) all money and securities held by the Trustee in the funds and accounts established pursuant to this Indenture (excluding money or securities in the Cost of Issuance Fund, the Bond Purchase Fund, the Principal Reserve Fund and the Rebate Fund), together with all investment earnings thereon. Principal Reserve Schedule Payments shall not constitute Revenues under this Indenture.

"Securities Depository" means (a) The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax: (516) 227-4039 or 4190; or (b) any replacement registered securities depository which has been designated in a certificate of the Issuer delivered to the Trustee and the Credit Facility Provider pursuant to Section 2.12 hereof.

"Servicer" means the eligible servicing institution designated by Freddie Mac from time to time (which may be Freddie Mac if Freddie Mac elects to service the Bond Mortgage Loan),

or its successor, as servicer of the Bond Mortgage Loan. Initially, the Servicer shall be [_____].

"Settlement Date" means any date on which any Bond is purchased or deemed purchased pursuant to Sections 2.02, 2.13, 3.06, 10.01, 10.02 or 10.04 hereof.

"S&P" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., and its successors and assigns, if such successors and assigns continue to perform the services of a securities rating agency.

"State" means the State of California.

"Substitution Date" means any Business Day established for the mandatory tender and purchase of the Bonds in connection with the delivery to the Trustee of an Alternate Credit Facility pursuant to Section 2.13 hereof.

"Tax Certificate" means the Tax Certificate and Agreement executed by the Issuer and the Borrower on the Delivery Date.

"Tender Agent" means the Tender Agent appointed in accordance with Section 10.07.

"Tender Notice" means a notice of demand for purchase of Bonds given by any Bondholder pursuant to Section 10.01 hereof.

"Trustee" means U.S. Bank National Association and its successors in trust hereunder.

"Trust Estate" shall have the meaning given to that term in the Granting Clauses.

"Unassigned Rights" means all of the rights of the Issuer and its directors, officers, commissioners, elected officials, attorneys, accountants, employees, agents and consultants to be held harmless and indemnified, to be paid its fees and expenses, to give or withhold consent to amendments, changes, modifications and alterations, to receive notices and the right to enforce such rights.

"Underwriter" means [_____], as selected by the Issuer.

"Variable Interest Accrual Period" means, during any Variable Period, a period beginning on the date following any Variable Interest Computation Date and ending on the next succeeding Variable Interest Computation Date, except that the first Variable Interest Accrual Period for any Variable Period shall begin on the first day of such Variable Period and end on the next succeeding Variable Interest Computation Date.

"Variable Interest Computation Date" means, with respect to any Variable Interest Accrual Period, each [Wednesday] during such period, or if any such [Wednesday] is not a Business Day, the next succeeding Business Day.

"Variable Period" means each period during which the Bonds bear interest at a Variable Rate.

"Variable Rate" means the variable rate of interest borne by the Bonds as determined in accordance with Section 2.02(b) hereof.

"Variable Rate Adjustment Date" means any date upon which the Bonds begin to bear interest at a Variable Rate for the succeeding Variable Period.

Section 1.02. ***Interpretation.*** The words "hereof," "herein," "hereunder," and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision. Words of the masculine gender shall be deemed and construed to include correlative words of the feminine and neuter genders. Words importing the singular number shall include the plural number and vice versa unless the context shall otherwise indicate. All accounting terms not otherwise defined herein have the meanings assigned to them in accordance with generally accepted accounting principles as in effect from time to time. References to Articles, Sections, and other subdivisions of this Indenture are to the designated Articles, Sections and other subdivisions of this Indenture as originally executed. The headings of this Indenture are for convenience only and shall not define or limit the provisions hereof.

ARTICLE II
THE BONDS

Section 2.01. ***The Bonds.***

(a) The Bonds are authorized to be issued hereunder as revenue bonds of the Issuer in accordance with the Bond Resolution. The Bonds shall initially be designated "California Housing Financing Agency Multifamily Housing Revenue Bonds ([____] Project) 2009 Series [__]." The Bonds shall be fully registered as to principal and interest, without coupons, and shall be numbered by series, if any, in the manner and with any additional designation as the Trustee, as Bond Registrar, deems necessary for the purpose of identification. All of the Bonds are equally and ratably secured. Bonds issued on the Delivery Date shall be dated such date; Bonds issued after the Delivery Date shall be dated the date they are authenticated by the Trustee.

(b) Interest on the Bonds during any Variable Period shall be computed on the basis of a 365- or 366-day year, as applicable, for the actual number of days elapsed. Interest on the Bonds during any Reset Period or Fixed Rate Period shall be computed on the basis of a 360-day year consisting of twelve 30-day months. Interest on the Bonds shall be payable on each Interest Payment Date, in each case from the Interest Payment Date next preceding the date of authentication thereof to which interest has been paid or duly provided for, unless the date of authentication is an Interest Payment Date to which interest has been paid or duly provided for, in which case from the date of authentication of the Bond, or unless no interest has been paid or duly provided for on the Bonds, in which case from the Delivery Date, until payment of the principal of the Bond has been made or duly provided for. Notwithstanding the foregoing, if a Bond is authenticated after a Record Date and before the following Interest Payment Date, such Bond shall bear interest from such Interest Payment Date; provided, however, that if there shall be a default in the payment of interest due on such Interest Payment Date, then the Bonds shall bear interest from the next preceding Interest

Payment Date to which interest has been paid or duly provided for, or, if no interest has been paid or duly provided for on the Bonds, from the Delivery Date.

(c) The Bonds shall be issued in Authorized Denominations and shall bear interest payable on each Interest Payment Date at the rate per annum determined as provided in Section 2.02 below. The Bonds shall mature, subject to redemption prior to maturity as provided in Article III hereof, on [_____].

(d) The Person in whose name any Bond is registered on the Record Date with respect to an Interest Payment Date shall be entitled to receive the interest payable on such Interest Payment Date (unless such Bond has been called for redemption on a redemption date which is prior to such Interest Payment Date) notwithstanding the cancellation of such Bond upon any registration of transfer or exchange thereof subsequent to such Record Date and prior to such Interest Payment Date; provided, however, that if and to the extent the Issuer shall default in the payment of the interest due on any Interest Payment Date, such defaulted interest shall be paid as provided in the next paragraph.

(e) Any interest on any Bond that is due and payable, but is not punctually paid or duly provided for, on any Interest Payment Date (herein called "Defaulted Interest") shall forthwith cease to be payable to the person in whose name such Bond is registered on the relevant Record Date and shall be paid in the manner set forth in this paragraph. The Trustee may elect to make payment of any Defaulted Interest to the Persons in whose names the Bonds (or their respective predecessor Bonds) are registered at the close of business on a special record date for the payment of such Defaulted Interest (a "Special Record Date"), which shall be fixed in the following manner. The Trustee shall determine the amount of Defaulted Interest proposed to be paid on each Bond and the date of the proposed payment (a "Special Interest Payment Date"), shall fix a Special Record Date for the payment of such Defaulted Interest which shall be not more than 15 nor less than 10 days prior to the Special Interest Payment Date and shall cause notice of the proposed payment of such Defaulted Interest on the Special Interest Payment Date and the Special Record Date therefor to be mailed, first class, postage prepaid, to each Bondholder at such Bondholder's address as it appears in the Bond Register not less than 10 days prior to such Special Record Date; notice of the proposed payment of such Defaulted Interest on the Special Interest Payment Date and the Special Record Date therefor having been mailed as aforesaid, such Defaulted Interest shall be paid to the Persons in whose names the Bonds (or their respective predecessor Bonds) are registered on such Special Record Date.

(f) Payment of principal of the Bonds and premium, if any, shall be made upon presentation and surrender of the Bonds at the Principal Office of the Trustee. Interest on the Bonds shall be paid by check mailed to the registered Owner thereof at such registered Owner's address as it appears on the Bond Register on the Record Date. Upon written request of a registered Owner of at least $1,000,000 in principal amount of Bonds Outstanding received by the Trustee at least five (5) days prior to a Record Date, all payments of principal, premium, if any, and interest on the Bonds, less any reasonable wire transfer fees imposed by the Trustee, shall be paid by wire transfer in

immediately available funds to an account within the continental United States designated by such registered Owner. Payment of the Purchase Price of any Bonds tendered for purchase on a Settlement Date shall be payable in lawful money of the United States of America only upon presentation thereof at the Principal Office of the Tender Agent.

(g) Before the date fixed for redemption, money shall be deposited with the Trustee to pay, and the Trustee is hereby authorized and directed to apply such money to the payment of, the Bonds or portions thereof called for redemption, together with accrued interest thereon to the redemption date. CUSIP number identification with appropriate dollar amounts for each CUSIP number must accompany all payments of principal, redemption price, premium, if any, and interest, whether by check or by wire transfer.

(h) No Bonds may be issued under the provisions of this Indenture except in accordance with this Article. The total principal amount of Bonds that may be issued hereunder, or in substitution for other Bonds pursuant to Section 2.07 hereof, is expressly limited to $[_____].

Section 2.02. ***Determination of Interest Rate on the Bonds.***

(a) *Initial Rate*. The Bonds shall initially bear interest at a variable rate as described in subsection (b) of this Section, until the first Reset Adjustment Date or Fixed Rate Adjustment Date, if any, and thereafter shall bear interest at the applicable rate set forth in this Section.

(b) *Variable Rate.* The Bonds shall bear interest from and including the Delivery Date to and including the immediately succeeding Variable Interest Computation Date at a Variable Rate agreed to by the Remarketing Agent and the Issuer, and thereafter shall bear interest at a Variable Rate for each Variable Interest Accrual Period as determined by the Remarketing Agent on each Variable Interest Computation Date until adjusted to a Reset Rate or Fixed Rate as provided herein.

The Variable Rate for each Variable Interest Accrual Period determined by the Remarketing Agent on each Variable Interest Computation Date shall be that rate of interest which, if borne by the Bonds, would, in the reasonable professional judgment of the Remarketing Agent, on the basis of prevailing financial market conditions, be the interest rate necessary, but which would not exceed the interest rate necessary, to be borne by the Bonds in order for the market value of the Bonds on such Variable Interest Computation Date to be equal to 100% of the principal amount thereof (disregarding accrued interest) if the Bonds were sold on such Variable Interest Computation Date; provided, however, that in no event shall the Variable Rate at any time exceed the Maximum Rate. If for any reason the Remarketing Agent shall fail to determine the rate of interest or if the rate of interest determined by the Remarketing Agent is held to be invalid or unenforceable for any Variable Interest Accrual Period, then the Variable Rate for such Variable Interest Accrual Period shall be the Index Rate in effect on the applicable Variable Interest Computation Date.

For each Variable Interest Accrual Period, the Variable Rate determined by the Remarketing Agent shall be communicated by facsimile (or Electronic Notice) to the Trustee, the Tender Agent, the Borrower, the Servicer and the Credit Facility Provider (which shall be by Electronic Notice) as provided in Section 10.05 hereof, on the Variable Interest Computation Date. The determination of the Variable Rate by the Remarketing Agent shall (in the absence of manifest error) be conclusive and binding on the Owners of the Bonds, the Issuer, the Borrower, the Credit Facility Provider, the Remarketing Agent, the Tender Agent and the Trustee, and each shall be protected in relying on it.

Following any Reset Adjustment Date, the interest rate on the Bonds may be converted again to a Variable Rate at the election or deemed election of the Borrower in accordance with the procedures in Section 2.02(c) hereof, which date of adjustment to a Variable Rate shall be the Variable Rate Adjustment Date. The Trustee shall give notice to the Bondholders, by first class mail not less than nine (9) days before the Variable Rate Adjustment Date specifying: (i) the Variable Rate Adjustment Date, and that the interest rate on the Bonds will be established at the Variable Rate on the Variable Rate Adjustment Date; and (ii) that all Bonds must be tendered for purchase at the Purchase Price and surrendered to the Tender Agent for purchase not later than 9:30 a.m., Washington, D.C. time, on the Variable Rate Adjustment Date.

(c) *Reset Rate.* At the written request of the Borrower with the prior written consent of the Issuer and the Credit Facility Provider or at the written request of the Credit Facility Provider on behalf of the Borrower if the Borrower has not provided the Credit Facility Provider proof satisfactory to it of the extension or substitution of a Hedge Agreement satisfying the requirements of the Reimbursement Agreement not later than sixty (60) days prior to the expiration of any Hedge Agreement, the rate of interest on the Bonds may be established at a Reset Rate on any Interest Payment Date during a Variable Period or on any Reset Adjustment Date, in accordance with the procedures set forth in this subsection (c). In order to effect establishment of a Reset Rate, the Borrower must deliver such written request (and the consent of the Issuer and the Credit Facility Provider), or, if applicable, the Credit Facility Provider on behalf of the Borrower must deliver such written request, to the Trustee, the Issuer, the Credit Facility Provider, the Servicer, the Tender Agent and the Remarketing Agent specifying (i) the Reset Adjustment Date, which shall be not less than forty (40) days after notice is received by the parties, (ii) any sinking fund redemption amounts for each Interest Payment Date, as provided in Section 3.01(c), at a price equal to the principal amount of Bonds subject to redemption plus interest accrued thereon to the date fixed for redemption, without premium, pursuant to Section 3.01(b)(v) hereof and any applicable optional redemption provisions pursuant to Section 3.01(a) hereof, (iii) the proposed duration of the Reset Period, which shall be at least five (5) years (ten (10) years so long as the Credit Enhancement Agreement is the Credit Facility) or such shorter period as may be consented to in writing by the Credit Facility Provider, and shall terminate not later than the Business Day before the last Interest Payment Date preceding the (A) "Termination Date" (as defined in the Credit Enhancement Agreement) if the Credit Enhancement Agreement is the Credit Facility to be effective with respect to the Bonds during such Reset Period and (B) the expiration of the Credit Facility if the Credit

Enhancement Agreement is not the Credit Facility to be effective with respect to the Bonds during such Reset Period, and (iv) the date on which the Reset Rate will be determined by the Remarketing Agent, which date shall be not later than the Business Day immediately prior to the Reset Adjustment Date.

Except as noted in the paragraph immediately below, the Trustee shall give notice to the Owners of the Bonds of the Reset Adjustment Date by first class mail not less than nine (9) days before the Reset Adjustment Date, provided that not less than five (5) Business Days prior to the Trustee giving such notice the Borrower shall have delivered or caused to be delivered to the Trustee (1) an opinion of Bond Counsel to the effect that the establishment of the Reset Rate for the Reset Period in accordance with the procedure described in this subsection (c) is permitted by this Indenture and the Act and will not adversely affect the exclusion of interest on the Bonds from gross income for federal income tax purposes, (2) if Bonds are to be held publicly after the Reset Adjustment Date, either an irrevocable commitment (which commitment may be subject to customary commercial conditions) of an Alternate Credit Facility Provider to issue an Alternate Credit Facility to be in effect upon and after the Reset Adjustment Date, together with accompanying documentation required by Section 5.4 of the Financing Agreement or the irrevocable written commitment of the Credit Facility Provider for an amendment to the Credit Facility to fulfill the Interest Requirement and, if applicable, to extend the termination date of the Credit Facility, (3) the form of notice to be given by the Trustee to the Bondholders with respect to the establishment of a Reset Rate(which form shall include (i) the Reset Adjustment Date, (ii) that the interest rate on the Bonds will be established at the Reset Rate on the Reset Adjustment Date; (iii) that all Bonds must be tendered for purchase at the Purchase Price and surrendered to the Tender Agent for purchase not later than 9:30 a.m., Washington, D.C. time, on the Reset Adjustment Date; and (iv) that the Reset Rate Adjustment Date (but not the mandatory tender of Bonds on the proposed Reset Rate Adjustment Date) is subject to cancellation upon receipt by the Trustee of notice from the Remarketing Agent that a Market Risk Event has occurred), (4) payment to the Trustee and the Issuer of such amounts as the Trustee and the Issuer reasonably determine may be required in connection with the establishment of the Reset Rate, including, but not limited to, their own fees and expenses (including those of their counsel) and the cost of printing new Bonds, (5) the proposed form of disclosure document, if any, to be distributed in connection with the remarketing of the Bonds on the Reset Adjustment Date and an undertaking of the Borrower which satisfies any applicable requirements of Rule 15c2-12 of the Securities Exchange Act of 1934, and (6) if Bonds are to be held publicly after the Reset Adjustment Date and an Alternate Credit Facility is being delivered on such date, written evidence from the Rating Agency to the effect that the Bonds will be rated at least "Aa"/"P-1" by Moody's or "AA"/"A-1" by S&P, without regard to pluses or minuses (or such lower ratings as shall be approved by the Issuer) on such Reset Adjustment Date.

If (i) the Credit Facility to be in effect upon and after a Reset Adjustment Date or (ii) an irrevocable commitment described in (2) of the preceding paragraph is not delivered to the Trustee in escrow at least fifteen (15) days before the applicable Reset Adjustment Date, or if on any Business Day at least ten (10) days before the applicable Reset Adjustment Date, the Trustee receives notice from the Borrower that it no longer

wishes to proceed with adjustment to a Reset Rate or from the Remarketing Agent that a Market Risk Event has occurred, the Trustee shall not give the notice specified in the above paragraph to the Owners of the Bonds. In the event that the Trustee receives notice from the Remarketing Agent that a Market Risk Event has occurred after giving the notice specified in the above paragraph to the Owners of the Bonds, the Trustee shall notify the Owners of the Bonds that the Reset Adjustment Date, but not the mandatory tender of Bonds on the proposed Reset Adjustment Date, has been cancelled. In such event, the Bonds shall (1) continue to bear interest at a Variable Rate if the Bonds then bear interest at a Variable Rate, or (2) if the Bonds then bear interest at a Reset Rate, on the day following the Reset Period, the Bonds shall be redeemed or purchased in lieu thereof pursuant to Section 3.01(b)(vi) or Section 3.06 hereof, as applicable.

Any Bond not tendered to the Tender Agent for purchase in accordance with the provisions of this subsection (c) on a Reset Adjustment Date (including a canceled Reset Adjustment Date) shall be deemed to have been tendered for purchase on such Reset Adjustment Date pursuant to Section 10.01 hereof for all purposes of this Indenture, including particularly Article X hereof; provided, however, payment on such Bonds shall only be made upon presentation thereof.

From and after each Reset Adjustment Date until the last day of the related Reset Period, the Bonds shall bear interest at the applicable Reset Rate. The Reset Rate shall be that rate of interest, determined by the Remarketing Agent on the date specified in the notice from the Borrower referred to in the first paragraph of this subsection (c), which, if borne by the Bonds, would, in the reasonable professional judgment of the Remarketing Agent, on the basis of prevailing financial market conditions, be the interest rate necessary, but which would not exceed the interest rate necessary, to be borne by the Bonds in order for the market value of the Bonds on such date to be equal to 100% of the principal amount thereof (disregarding accrued interest); provided, however, that in no event shall the Reset Rate exceed the Maximum Rate.

The determination of a Reset Rate by the Remarketing Agent in accordance with the provisions of this subsection (c) shall (in the absence of manifest error) be conclusive and binding upon the Owners of the Bonds, the Issuer, the Servicer, the Credit Facility Provider, the Remarketing Agent, the Borrower, the Tender Agent and the Trustee, and each shall be protected in relying on it.

At least 40 and not more than 50 days prior to the final Interest Payment Date of a Reset Period, the Borrower shall elect to have the Bonds bear interest from and after such Interest Payment Date at a Reset Rate for a new Reset Period or at a Variable Rate or Fixed Rate by giving written notice of such election to the Trustee, the Tender Agent, the Issuer, the Credit Facility Provider, the Servicer and the Remarketing Agent. If the Borrower fails to make such election, the Borrower shall be deemed to have elected to have the Bonds bear interest at a Variable Rate determined in accordance with the procedures set forth in subsection (b) of this Section commencing on the day immediately following the last day of the Reset Period, in which event there shall be no mandatory sinking fund redemption schedule for the Bonds during the succeeding Variable Period. Notwithstanding the election of the Borrower to have the Bonds bear

interest at a new Reset Rate or a Fixed Rate, as the case may be, at the end of a Reset Period, if the Borrower fails to supply the items required by this subsection (c) or subsection (d), as applicable, of this Section 2.02, the Bonds shall be redeemed (or purchased in lieu thereof) on the day following such Reset Period pursuant to Section 3.01(b)(vi) or 3.06 hereof, as applicable.

(d) *Fixed Rate.* At the written request of the Borrower with the prior written consent of the Issuer and the Credit Facility Provider or at the written request of the Credit Facility Provider on behalf of the Borrower if the Borrower has not provided the Credit Facility Provider proof satisfactory to it of the extension or substitution of a Hedge Agreement satisfying the requirements of the Reimbursement Agreement not later than sixty (60) days prior to the expiration of any Hedge Agreement, the rate of interest on the Bonds may be established at a Fixed Rate on any Interest Payment Date during a Variable Period or on the day following any Reset Period, in accordance with the procedures set forth in this subsection (d). In order to effect a Fixed Rate Adjustment, the Borrower must deliver such written request (and the consent of the Issuer and the Credit Facility Provider), or, if applicable, the Credit Facility Provider on behalf of the Borrower must deliver such written request to the Trustee, the Issuer, the Credit Facility Provider, the Servicer, the Tender Agent and the Remarketing Agent specifying (i) the Fixed Rate Adjustment Date, which shall be not less than forty (40) days after such notice is received by such parties, (ii) any sinking fund redemption amounts for each Interest Payment Date, as provided in Section 3.01(c), at a price equal to the principal amount of Bonds subject to redemption plus interest accrued thereon to the date fixed for redemption, without premium, pursuant to Section 3.01(b)(v) hereof and any applicable optional redemption provision pursuant to Section 3.01(a) hereof, and (iii) the date on which the Fixed Rate will be determined by the Remarketing Agent, which date shall be not later than the Business Day immediately prior to the Fixed Rate Adjustment Date. Such notice must be followed, except as noted in the paragraph immediately below, on or before the date that is five (5) Business Days prior to notice being given by the Trustee to the Bondholders with respect to Fixed Rate Adjustment, by (1) an opinion of Bond Counsel to the effect that Fixed Rate Adjustment in accordance with the procedures described in this subsection (d) is permitted by this Indenture and the Act and will not adversely affect the exclusion of interest on the Bonds from gross income for federal income tax purposes, (2) if Bonds are to be held publicly after the Fixed Rate Adjustment Date, either an irrevocable commitment (which commitment may be subject to customary commercial conditions) of an Alternate Credit Facility Provider to issue an Alternate Credit Facility to be in effect upon and after Fixed Rate Adjustment and until the maturity date of the Bonds, together with accompanying documentation required by Section 5.4 of the Financing Agreement or the irrevocable written commitment of the Credit Facility Provider for an amendment to the Credit Facility to fulfill the Interest Requirement and, if applicable, to extend the termination date of the Credit Facility, (3) the form of notice to be given by the Trustee to the Owners of the Bonds with respect to Fixed Rate Adjustment, (4) payment to the Trustee and the Issuer of such amounts as the Trustee and the Issuer reasonably determine may be required in connection with Fixed Rate Adjustment, including, but not limited to, its own fees and expenses (including those of its counsel) and the cost of printing new Bonds, (5) the proposed form of disclosure document (if

any) to be distributed in connection with the remarketing of the Bonds on the Fixed Rate Adjustment Date and an undertaking of the Borrower which satisfies any applicable requirements of Rule 15c2-12 of the Securities Exchange Act of 1934, and (6) if Bonds are to be held publicly after the Fixed Rate Adjustment Date and an Alternate Credit Facility is being delivered on such date, written evidence from the Rating Agency to the effect that the Bonds will be rated at least "Aa" by Moody's or "AA" by S&P, without regard to pluses or minuses (or such lower ratings as shall be approved by the Issuer) on the Fixed Rate Adjustment Date.

If (i) the Credit Facility to be in effect upon and after Fixed Rate Adjustment or (ii) an irrevocable commitment described in (2) of the preceding paragraph is not delivered to the Trustee in escrow at least fifteen (15) days before the Fixed Rate Adjustment Date, or if on any Business Day at least ten (10) days before the Fixed Rate Adjustment Date, the Trustee receives notice from the Borrower to the effect that it no longer wishes to proceed with the Fixed Rate Adjustment, or the Trustee receives written notice from the Remarketing Agent that a Market Risk Event has occurred, the Trustee shall not give the notice specified in the next paragraph to the Owners of the Bonds. In the event that the Trustee receives notice from the Remarketing Agent that a Market Risk Event has occurred after giving the notice specified in the next paragraph to the Owners of the Bonds, the Trustee shall notify the Owners of the Bonds that the Fixed Rate Adjustment, but not the mandatory tender of Bonds on the proposed Fixed Rate Adjustment Date, has been cancelled. In such event, (1) if the Bonds bear interest at a Variable Rate prior to the proposed Fixed Rate Adjustment Date, they shall continue to bear interest at a Variable Rate, and (2) if the proposed Fixed Rate Adjustment Date was to be the day following a Reset Period, then the Bonds shall be redeemed (or purchased in lieu thereof) on the day following such Reset Period pursuant to Section 3.01(b)(vi) or Section 3.06 hereof, as applicable.

The Trustee shall give notice to the Owners of the Bonds, by first class mail not less than nine (9) days before the Fixed Rate Adjustment Date, specifying: (i) the Fixed Rate Adjustment Date, and that the interest rate on the Bonds will be established at the Fixed Rate through the final maturity of the Bonds; (ii) that all Bonds must be tendered for purchase at the Purchase Price and surrendered to the Tender Agent for purchase not later than 9:30 a.m., Washington, D.C. time, on the Fixed Rate Adjustment Date; and (iii) that the Fixed Rate Adjustment Date (but not the mandatory tender of Bonds on the proposed Fixed Rate Adjustment Date) is subject to cancellation upon receipt by the Trustee of notice from the Remarketing Agent that a Market Risk Event has occurred.

Any Bond not tendered to the Tender Agent for purchase in accordance with the provisions of this subsection (d) on the Fixed Rate Adjustment Date (including a canceled Fixed Rate Adjustment Date) shall be deemed to have been tendered for purchase on such Fixed Rate Adjustment Date pursuant to Section 10.01 hereof for all purposes of this Indenture, including particularly Article X hereof; provided, however, payment on such Bonds shall only be made upon presentation thereof.

From and after Fixed Rate Adjustment and until maturity, the Bonds shall bear interest at the Fixed Rate. The Fixed Rate shall be that rate of interest, determined by the

Remarketing Agent on the date specified in the notice from the Borrower referred to in the first paragraph of this subsection (d), which, if borne by the Bonds, would, in the reasonable professional judgment of the Remarketing Agent, on the basis of prevailing financial market conditions, be the interest rate necessary, but which would not exceed the interest rate necessary, to be borne by the Bonds in order for the market value of the Bonds on such date to be 100% of the principal amount thereof (disregarding accrued interest); provided, however, that in no event shall the Fixed Rate exceed the Maximum Rate.

The determination of the Fixed Rate by the Remarketing Agent in accordance with the provisions of this subsection (d) shall (in the absence of manifest error) be conclusive and binding on the Owners of the Bonds, the Issuer, the Credit Facility Provider, the Servicer, the Remarketing Agent, the Borrower, the Tender Agent and the Trustee, and each shall be protected by relying on it.

Section 2.03. ***Limited Obligations.*** The Bonds and the interest thereon are limited obligations of the Issuer, payable solely from the Trust Estate pledged therefor under this Indenture, including, without limitation, its interest in payments received under the Bond Mortgage Note and the Credit Facility. None of the United States of America, the State, nor any other political subdivision or body corporate and politic, or agency, of the United States of America, the State, or the Issuer (except to the limited extent provided herein) shall in any event be liable for the payment of the principal of, premium, if any, or interest on the Bonds or for the performance of any pledge, obligation or agreement of any kind whatsoever of the Issuer, and neither this Bond nor any of the Issuer's agreements or obligations shall be construed to constitute an indebtedness of the United States of America, the State, or any other political subdivision or body corporate and politic of the United States of America, the State, or the Issuer (except to the limited extent provided herein), within the meaning of any constitutional or statutory provision whatsoever.

No agreement or obligation contained herein shall be deemed to be an agreement or obligation of any director, officer, employee, commissioner, servant or agent of the Issuer in his or her individual capacity, and neither the directors of the Issuer nor any officer thereof executing any Bond shall be liable personally on such Bond or be subject to any personal liability or accountability by reason of the issuance thereof. No director, officer, employee, commissioner, servant or agent of the Issuer shall incur any personal liability with respect to any other action taken by him or her pursuant to this Indenture.

THE BONDS ARE NOT A DEBT OF THE UNITED STATES OF AMERICA, OR ANY AGENCY OF THE UNITED STATES OF AMERICA, OR FREDDIE MAC, AND ARE NOT GUARANTEED BY THE FULL FAITH AND CREDIT OF THE UNITED STATES OF AMERICA OR BY FREDDIE MAC. PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS IS NOT GUARANTEED BY FREDDIE MAC. THE OBLIGATIONS OF FREDDIE MAC UNDER THE CREDIT ENHANCEMENT AGREEMENT ARE OBLIGATIONS SOLELY OF FREDDIE MAC AND ARE NOT BACKED BY THE FULL FAITH AND CREDIT OF THE UNITED STATES OF AMERICA.

Section 2.04. ***Indenture Constitutes Contract.*** In consideration of the purchase and acceptance of the Bonds issued hereunder by those who shall hold them from time to time, the provisions of this Indenture shall be part of the contract of the Issuer with the Holders of the Bonds and shall be deemed to be a contract between the Issuer and the Holders of the Bonds from time to time.

Section 2.05. ***Form and Execution.*** The Bonds shall be in substantially the form attached as ***Exhibit A***, with necessary and appropriate variations, omissions and insertions as are customary, permitted or required by this Indenture. The Bonds shall be executed on behalf of the Issuer by the manual or facsimile signature of the Authorized Officer of the Issuer, and attested by the manual or facsimile signature of the Secretary of the Board of Directors of the Issuer or any other Authorized Officer of the Issuer. Any facsimile signatures shall have the same force and effect as if said officers had manually signed the Bonds. Any reproduction of the official seal of the Issuer on the Bonds shall have the same force and effect as if the official seal of the Issuer had been impressed on the Bonds.

In case any officer of the Issuer whose manual or facsimile signature shall appear on any Bond shall cease to be such officer before the delivery of such Bond such signature or such facsimile shall nevertheless be valid and sufficient for all purposes, the same as if he had remained in office until delivery, and also any Bond may bear the facsimile signatures of, or may be signed by, such Persons as at the actual time of the execution of such Bond shall be the proper officers to sign such Bond although at the date of such Bond such Persons may not have been such officers.

Section 2.06. ***Authentication.*** No Bond shall be valid or obligatory for any purpose or entitled to any security or benefit under this Indenture unless a certificate of authentication on such Bond, substantially in the form set forth in ***Exhibit A***, shall have been duly executed by an Authorized Officer of the Trustee; and such executed certificate of authentication upon any such Bond shall be conclusive evidence that such Bond has been duly executed, registered, authenticated and delivered under this Indenture. It shall not be necessary that the same Person sign the certificate of authentication on all of the Bonds.

Section 2.07. ***Mutilated, Lost, Stolen or Destroyed Bonds.*** In the event any Bond is mutilated, lost, stolen or destroyed, the Issuer shall execute and the Trustee shall authenticate a new Bond of like denomination, interest rate, series, maturity and tenor in exchange and substitution for and upon cancellation of such mutilated Bond or in lieu of and in substitution for such lost, stolen or destroyed Bond, upon payment by the Owner thereof of any applicable tax or governmental charge and the reasonable expenses and charges of the Issuer and the Trustee in connection therewith, and in the case of a Bond lost, stolen or destroyed, the filing with the Trustee of evidence satisfactory to it that such Bond was lost, stolen or destroyed, and of the ownership thereof, and furnishing the Issuer and the Trustee with indemnity satisfactory to each of them. In the event any such Bond shall have matured, instead of issuing a duplicate Bond or Bonds the Issuer may pay the same without surrender thereof.

Section 2.08. ***Transfer and Exchange of Bonds; Persons Treated as Owners.*** The Trustee as Bond Registrar shall cause a Bond Register to be kept for the registration of transfers of Bonds. Any Bond may be transferred only upon an assignment duly executed by the

registered Owner or such registered Owner's duly authorized representative in such form as shall be satisfactory to the Bond Registrar and upon surrender of such Bond to the Trustee for cancellation. Whenever any Bond or Bonds shall be surrendered for transfer, the Issuer shall execute and the Trustee shall authenticate and deliver to the transferee a replacement fully registered Bond or Bonds, of Authorized Denomination or Denominations and for the amount of such Bond or Bonds so surrendered.

Any Bond may, in accordance with its terms, be exchanged, at the office of the Trustee, for a new fully registered Bond or Bonds, of the same maturity, of any Authorized Denomination or Denominations and for the aggregate amount of such Bond then Outstanding.

In all cases in which Bonds shall be transferred or exchanged hereunder, the Trustee may make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect to such transfer or exchange. The cost of printing Bonds and any services rendered or expenses incurred by the Trustee in connection with any transfer or exchange shall be paid by the Borrower.

The Person in whose name any Bond shall be registered shall be deemed and regarded as the absolute owner thereof for all purposes and payment of or on account of the principal of and premium, if any, and interest on any such Bond shall be made only to or upon the order of the registered Owner thereof, or such registered Owner's legal representative, and neither the Issuer nor the Trustee shall be affected by any notice to the contrary. All such payments shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums to be paid.

Neither the Issuer nor the Trustee shall be required to make any such exchange, registration or transfer of Bonds during the period of fifteen (15) days immediately preceding an Interest Payment Date if the Bonds bear interest at a Reset Rate or a Fixed Rate, or, in the case of any proposed redemption of Bonds, during the period of fifteen (15) days immediately preceding the selection of Bonds for such redemption and after the giving of notice of redemption, the Trustee is not required to transfer or exchange any Bond or portion thereof which has been or may be called for redemption.

Section 2.09. ***Temporary Bonds.*** Until definitive Bonds are ready for delivery, there may be executed, and upon the request of the Issuer the Trustee shall authenticate and deliver, in lieu of definitive Bonds temporary printed, typewritten, engraved or lithographed Bonds, in such denomination or denominations as shall be determined by the Issuer, in fully registered form, in substantially the form hereinabove set forth and with such appropriate omissions, insertions and variations as may be required.

If temporary Bonds shall be issued, the Issuer shall cause the definitive Bonds to be prepared and to be executed and delivered to the Trustee, and the Trustee, upon presentation to it at its principal trust office of any temporary Bond shall cancel the same and authenticate and deliver in exchange therefor, without charge to the Owner thereof, a definitive Bond or Bonds, as the case may be, of an equal aggregate principal amount, of the same maturities and bearing interest at the same rates as the temporary Bond surrendered. Until so exchanged the temporary Bonds shall in all respects be entitled to the same benefit and security of this Indenture as the

definitive Bonds to be issued and authenticated hereunder. Interest on temporary Bonds, when due and payable, if the definitive Bonds shall not be ready for exchange, shall be paid on presentation of such temporary Bonds and notation of such payment shall be endorsed thereon by the Trustee.

Section 2.10. ***Delivery of Bonds.*** Upon the execution and delivery of this Indenture, the Issuer shall execute and deliver to the Trustee, and the Trustee shall authenticate the Bonds and deliver them to or upon the order of the Issuer upon receipt by the Trustee of the following:

(a) executed counterparts of this Indenture, the Financing Agreement, the Regulatory Agreement, the Tax Certificate, the Remarketing Agreement, the Intercreditor Agreement, the Pledge Agreement, the Credit Enhancement Agreement and the Reimbursement Agreement;

(b) an opinion of Bond Counsel to the effect that the Bonds are valid and binding special obligations of the Issuer;

(c) an opinion of counsel to the Issuer to the effect that the Issuer has the power to enter into the Bond Financing Documents to which it is a party and each of the Bond Financing Documents to which the Issuer is a party has been duly and validly authorized, executed and delivered by the Issuer and each constitutes the legal, valid and binding obligation of the Issuer, enforceable against the Issuer in accordance with its terms, subject to customary qualifications on enforceability;

(d) sale proceeds of the Bonds;

(e) the Bond Mortgage Note;

(f) a copy of the Bond Mortgage and the Reimbursement Mortgage;

(g) an opinion of counsel to the Borrower to the effect that the Borrower is duly organized and validly existing and in good standing under the laws of the state in which it has been organized and in good standing under the laws of each other state in which the Borrower transacts business and has full power and authority to enter into the agreements described herein to which it is a party, that its execution and delivery of and performance of its covenants in such agreements do not contravene law or any provision of any other agreement to which it is a party or by which it or such property is bound or affected, and that all such agreements have been duly authorized, executed and delivered by the Borrower, and are legal, valid and binding agreements of the Borrower enforceable against the Borrower in accordance with their respective terms;

(h) an opinion of Bond Counsel to the effect that the interest on the Bonds, under laws in effect on the date of such opinion, is excluded from gross income for federal income tax purposes and, where applicable, for State income tax purposes;

(i) a certified copy of the Bond Resolution;

(j) the written request and authorization to the Trustee by the Issuer to authenticate and deliver the Bonds to the initial purchasers thereof upon payment to the Trustee, for the account of the Issuer, of the sum specified as the purchase price therefor in such request and authorization; and

(k) receipt by the Trustee of the amounts specified in Section 2.11 of this Indenture and Section 3.3 of the Financing Agreement.

Section 2.11. ***Establishment of Bond Mortgage Loan Fund; Application of Bond Proceeds and Other Money; Assignment of Bond Mortgage Loan to Trustee.***

(a) The Trustee shall establish, maintain and hold in trust a Bond Mortgage Loan Fund. Money on deposit in the Bond Mortgage Loan Fund shall be held uninvested. No amount shall be charged against the Bond Mortgage Loan Fund except as expressly provided in this Section 2.11.

(b) The proceeds of the sale of the Bonds shall be delivered to the Trustee on the Delivery Date. The Trustee shall deposit such proceeds to the credit of the Bond Mortgage Loan Fund (except any proceeds representing accrued interest on the Bonds shall be deposited in the Bond Fund). Amounts in the Bond Mortgage Loan Fund shall be disbursed as provided in subparagraph (d) below. Upon the disbursement of all amounts in the Bond Mortgage Loan Fund, the Trustee shall close the Bond Mortgage Loan Fund.

(c) The Issuer shall cause the Borrower to deliver to the Trustee, on or prior to the Delivery Date, $_____ for deposit to the credit of the Cost of Issuance Fund established pursuant to Section 4.01.

(d) Upon the deposit of money to the credit of the Bond Mortgage Loan Fund, the Issuer shall originate the Bond Mortgage Loan pursuant to the Financing Agreement and the Trustee shall make disbursements of amounts in the Bond Mortgage Loan Fund to the Borrower as provided in this Indenture and the Financing Agreement.

Section 2.12. ***Book-Entry Only System of Registration.***

(a) Notwithstanding the foregoing provisions of this Article II, each of the Bonds shall initially be issued in the form of one fully-registered bond for the aggregate principal amount of the Bonds of each maturity, which Bonds shall be registered in the name of Cede & Co., as nominee of DTC. Except as provided in paragraphs (f) and (g) below, and except with regard to Purchased Bonds issued in registered certificated form in accordance with Section 10.10(b), all of the Bonds shall be registered in the Bond Register in the name of Cede & Co., as nominee of DTC; provided that if DTC shall request that the Bonds be registered in the name of a different nominee, the Trustee shall exchange all or any portion of the Bonds for an equal aggregate principal amount of Bonds registered in the name of such nominee or nominees of DTC. No Person other than DTC or its nominee or any "FAST' agent for DTC shall be entitled to receive from the Issuer or the Trustee either a Bond or any other evidence of ownership of the Bonds, or any right to receive any payment in respect thereof unless DTC or its

nominee shall transfer record ownership of all or any portion of the Bonds on the Bond Register in connection with discontinuing the book entry system as provided in paragraphs (f) and (g) below or otherwise.

(b) So long as the Bonds or any portion thereof are registered in the name of DTC or any nominee thereof, all payments of the principal or redemption price of or interest on such Bonds shall be made to DTC or its nominee in same day funds on the dates provided for such payments under this Indenture. Each such payment to DTC or its nominee shall be valid and effective to fully discharge all liability of the Issuer and the Trustee with respect to the principal or redemption price of or interest on the Bonds to the extent of the sum or sums so paid. In the event of the redemption of less than all of the Bonds Outstanding of any series or maturity, the Trustee shall not require surrender by DTC or its nominee of the Bonds so redeemed, but DTC (or its nominee) may retain such Bonds and make an appropriate notation on the Bond certificate as to the amount of such partial redemption; provided that DTC shall deliver to the Trustee, upon request, a written confirmation of such partial redemption and thereafter the records maintained by the Trustee shall be conclusive as to the amount of the Bonds of such maturity which have been redeemed.

(c) The Issuer and the Trustee may treat DTC or its nominee as the sole and exclusive owner of the Bonds registered in its name for the purposes of payment of the principal or redemption price of or interest on the Bonds, selecting the Bonds or portions thereof to be redeemed, giving any notice permitted or required to be given to Bondholders under this Indenture, registering the transfer of Bonds, obtaining any consent or other action to be taken by Holders and for all other purposes whatsoever; and neither the Issuer nor the Trustee shall be affected by any notice to the contrary. Neither the Issuer nor the Trustee shall have any responsibility or obligation to any participant in DTC, any Person claiming a beneficial ownership interest in the Bonds under or through DTC or any such participant, or any other Person which is not shown on the Bond Register as being a Bondholder, with respect to either: (1) the accuracy of any records maintained by DTC or any such participant; (2) the payment by DTC or any such participant of any amount in respect of the principal or redemption price of or interest on the Bonds; (3) the delivery to any participant or to any other Person, other than the Holders as shown on the Bond Register, of any notice which is permitted or required to be given to Holders under this Indenture; (4) the selection by DTC or any such participant of any Person to receive payment in the event of a partial redemption of the Bonds; or (5) any consent given or other action taken by DTC as Holder.

(d) So long as the Bonds or any portion thereof are registered in the name of DTC or any nominee thereof, all notices required or permitted to be given to the Holders under this Indenture shall be given to DTC as provided in DTC's procedures, as the same may be amended from time to time.

(e) In connection with any notice or other communication to be provided to Holders pursuant to this Indenture by the Issuer or the Trustee with respect to any consent or other action to be taken by Holders, DTC shall consider the date of receipt of notice requesting such consent or other action as the record date for such consent or

other action, provided that the Issuer or the Trustee may establish a special record date for such consent or other action. The Issuer or the Trustee shall give DTC notice of such special record date not less than 15 calendar days in advance of such special record date to the extent possible.

(f) The book-entry system for registration of the ownership of the Bonds may be discontinued at any time if either: (1) DTC determines to resign as securities depository for the Bonds; or (2) the Issuer determines (with the prior written consent of the Credit Facility Provider) to discontinue the system of book-entry transfers through DTC (or through a successor securities depository) subject to the rules and regulations of DTC regarding the discontinuation of the system of book-entry transfers in effect at such time. In either of such events (unless, in the case described in clause (2) above, the Issuer appoints a successor securities depository), the Bonds shall be delivered in registered certificate form to such Persons, and in such series, maturities and principal amounts, as may be designated by DTC, but without any liability on the part of the Issuer or the Trustee for the accuracy of such designation. Whenever DTC requests the Issuer and the Trustee to do so, the Issuer and the Trustee shall cooperate with DTC in taking appropriate action after reasonable notice to arrange for another securities depository to maintain custody of certificates evidencing the Bonds.

Section 2.13. ***Mandatory Tender of Bonds on Substitution Date.*** Except during the Fixed Rate Period, the Borrower, pursuant to Section 5.4 of the Financing Agreement, is permitted with the written confirmation to the Trustee of the Credit Facility Provider that the provisions of the Reimbursement Agreement have been satisfied, to provide an Alternate Credit Facility to replace the then outstanding Credit Facility at the times specified in the Financing Agreement.

(a) The Bonds shall be subject to mandatory tender for purchase on any Substitution Date from the sources available pursuant to Sections 10.03 and 10.04, at a Purchase Price equal to the principal amount thereof plus accrued interest to the Substitution Date; provided, however, that any draw on a Credit Facility shall be made on the then-existing Credit Facility and not the Alternate Credit Facility.

(b) Upon receipt by the Trustee of (i) notice from the Borrower of a planned substitution of the Credit Facility, (ii) the aforementioned confirmation of the Credit Facility Provider; (iii) a form of the Alternate Credit Facility to be in effect on and after the Substitution Date and an irrevocable commitment to deliver such Alternate Credit Facility; (iv) a form of the disclosure document (if any) to be used in connection with the remarketing of the Bonds on the Substitution Date, and (v) a form of the documents required pursuant to Section 5.4 of the Financing Agreement, the Trustee shall establish the Substitution Date for the mandatory tender and purchase of the Bonds. Such Substitution Date shall be not less than five (5) days following the Trustee's receipt of the Alternate Credit Facility to be in effect on and after the Substitution Date (which Alternate Credit Facility may be delivered in escrow), and such other required documents; provided, however, the Substitution Date may be at a later date if the Trustee has received a commitment to extend the existing Credit Facility or the existing

Credit Facility will be in place for up to a time period of not less than fifteen (15) days following the Trustee's receipt of the Alternate Credit Facility.

(c) The Trustee shall give notice to the Owners of the Bonds, by first class mail not less than nine (9) days before the Substitution Date specifying: (a) the Substitution Date and (b) that all Bonds must be surrendered to the Tender Agent for purchase not later than 9:30 a.m., Washington, D.C. time, on the Substitution Date.

(d) Any Bond not tendered to the Tender Agent for purchase in accordance with the provisions of this Section 2.13 on the Substitution Date (including any Substitution Date which fails to occur) shall be deemed to have been tendered for purchase on such Substitution Date pursuant to Section 10.02 hereof for all purposes of this Indenture, including particularly Article X hereof; provided, however, payment on such Bonds shall only be made upon presentation thereof.

ARTICLE III
REDEMPTION OF BONDS PRIOR TO MATURITY

Section 3.01. ***Redemption of Bonds Prior to Maturity.***

(a) *Optional Redemption***.**

(i) The Bonds are subject to optional redemption with the prior written consent of the Issuer and the Credit Facility Provider, in whole or in part, upon optional prepayments on the Bond Mortgage Loan in accordance with the prepayment restrictions set forth in the Bond Mortgage Note and Section 4.4 of the Financing Agreement from payments made under the Credit Facility (subject to the limitations set forth in Section 3.01(a)(iii)) or other Eligible Funds deposited with the Trustee as follows:

(A) During the Variable Period, on any date, at a redemption price of 100% of the principal amount thereof, plus accrued interest thereon to the redemption date.

(B) During a Reset Period or the Fixed Rate Period, on any Business Day during the periods set forth in the table below and at the respective redemption prices set forth below expressed as percentages of the principal amounts of the Bonds called for redemption, such redemption prices declining as set forth below until such redemption price equals 100% of the principal amount of the Bonds, plus accrued interest, if any, to the redemption date:

Term of Reset Period or Fixed Rate Period	Redemption Prices as a Percentage of Principal Amounts	Earliest Call Date
Greater than 15 years	103% after 10 years declining 1% per 12 months to 100%	10 years
Greater than 10 and less than or equal to 15	102% after 7 years declining 1% per 12 months to 100%	7 years
Less than or equal to 10 and	102% after 4 years declining ½% per 12	4 years

greater than 7	months to 100%	
Less than or equal to 7 and greater than 5	102% after 3 years declining 1% per 12 months to 100%	3 years
Less than or equal to 5 and greater than 2	101% after 1 year declining ½% per 6 months to 100%	2 years
Less than or equal to 2 and greater than 1	100-½% after 1 year declining ½% per 6 months to 100%	1 year
Equal to 1 year	100% after 6 months	6 months

provided that, notwithstanding the foregoing, the Borrower and the Remarketing Agent may, not later than fifteen (15) days before the Reset Adjustment Date or Fixed Rate Adjustment Date, as applicable, give notice to the Issuer, the Credit Facility Provider, the Servicer, and the Trustee setting forth a redemption schedule different from that set forth in this paragraph, accompanied by (1) the written consent of the Credit Facility Provider, if any, to be in effect for the ensuing Reset Period or Fixed Rate Period, as applicable, and (2) an opinion of Bond Counsel to the effect that such change will not adversely affect the exclusion of interest on the Bonds from gross income for federal income tax purposes; and upon such notice and delivery of the consent and the opinion, such different redemption schedule shall apply to any redemption pursuant to this paragraph for such Reset Period or Fixed Rate Period, as applicable, without further action by any party.

(ii) While the Bonds are registered in the name of the Borrower pursuant to the Pledge Agreement, or on behalf of the Credit Facility Provider, in such other name as the Credit Facility Provider shall have directed, as a result of a mandatory tender for purchase of the Bonds pursuant to Section 3.06 hereof, the Bonds are subject to redemption, in whole or in part, on any date, at the option of the Credit Facility Provider, at a redemption price equal to the principal amount thereof plus accrued interest to the redemption date, without premium, from Eligible Funds or any other money acceptable to the Credit Facility Provider deposited with the Trustee.

(iii) Optional redemption of Bonds at a premium may only be made if the Trustee shall have received Eligible Funds (not consisting of funds drawn under the Credit Facility) on or prior to the redemption date in an amount sufficient to pay the applicable redemption premium.

(iv) The Trustee shall effect a redemption of Bonds pursuant to this Section 3.01(a) at the earliest practical date for which notice may be given hereunder but in no event later than 35 days following its receipt of money representing an optional prepayment of the Bond Mortgage Loan.

(b) *Mandatory Redemption***.** The Bonds are subject to mandatory redemption on any date, at a redemption price equal to the principal amount thereof plus accrued interest to the redemption date, without premium, at the earliest practicable date from payments made under the Credit Facility upon the occurrence of any of the following:

(i) in whole or in part, upon receipt by the Trustee of (1) proceeds of a draw under the Credit Facility, in the amount of Net Proceeds representing casualty insurance proceeds or condemnation awards paid as a prepayment of the Bond Mortgage Loan, such amount to be applied to reimburse the Credit Facility Provider for the draw under the Credit Facility as a result of casualty or condemnation of the Project and (2) a written direction by the Credit Facility Provider to redeem such Bonds using money obtained as a result of a draw upon the Credit Facility; or

(ii) in whole or in part, upon receipt by the Trustee of amounts from the Credit Facility Provider pursuant to the Credit Facility as a result of the occurrence of an event of default under any Bond Mortgage Loan Document and receipt by the Trustee of a written direction by the Credit Facility Provider to redeem the Bonds pursuant to the Credit Facility; or

(iii) in whole, on the last Business Day which is not less than five days before the date of expiration of any Credit Facility unless the Trustee receives a renewal or extension of or replacement for such Credit Facility meeting the requirements of Section 5.4 of the Financing Agreement or, in the case of a replacement of the Credit Facility in connection with a Reset Adjustment Date or the Fixed Rate Adjustment Date pursuant to Section 2.02(c) or (d), an irrevocable commitment of an entity to issue an Alternate Credit Facility to be in effect upon and after such Reset Adjustment Date or Fixed Rate Adjustment Date, in each case not less than thirty (30) days before the expiration of the then-existing Credit Facility; or

(iv) in part, at the written direction of the Credit Facility Provider (A) on each Reset Adjustment Date, each Variable Rate Adjustment Date and on the Fixed Rate Adjustment Date in an amount not greater than the amount in the Principal Reserve Fund on the first day of the month prior to such Reset Adjustment Date, Variable Rate Adjustment Date or the Fixed Rate Adjustment Date, as applicable, or (B) on any Interest Payment Date during a Variable Period, in an amount not greater than the amount in the Principal Reserve Fund on the first day of the month prior to such Interest Payment Date; or

(v) in part, on each Interest Payment Date, during any Reset Period or Fixed Rate Period, with respect to the Bonds that have term maturities occurring during such Reset Period or Fixed Rate Period commencing on the first sinking fund mandatory redemption date established for the Bonds for such Reset Period or Fixed Rate Period as provided in subsection (c) below; provided that if less than all the Bonds shall have been redeemed pursuant to Section 3.01(a) or 3.01(b)(i), the amount of Bonds to be redeemed in each year from sinking fund installments as provided in this Section 3.01(b)(v) shall be decreased by an amount, in proportion, as nearly as practicable, to the decrease in the payments on the Bond Mortgage Loan in such year as determined by the Servicer; or

(vi) in whole, on the day following any Reset Period if the Trustee has not received the items required by Sections 2.02(c) or (d), as applicable, to effect a new Reset Period or a Fixed Rate Adjustment or upon cancellation of a rate adjustment on a

Reset Adjustment Date or upon cancellation of a Fixed Rate Adjustment to a Fixed Rate; or

(vii) in part, on any Interest Payment Date, in an amount equal to the amount which has been transferred from the Principal Reserve Fund to the Redemption Fund pursuant to Section 4.07(g) for application to the redemption of Bonds; or

(viii) in part, in the event that the Borrower makes a Required Principal Paydown (as defined in the Reimbursement Agreement).

(c) At least fifteen (15) days before a Reset Adjustment Date or the Fixed Rate Adjustment Date the Borrower shall, with the prior written consent of the Credit Facility Provider, determine whether the Bonds shall have serial maturities, term maturities with sinking fund redemptions, term maturities without sinking fund redemptions or any combination thereof; provided that in all events the maturity structure shall be based on and consistent with the Principal Reserve Schedule; provided, however, the Borrower shall deliver to the Issuer, the Trustee and the Credit Facility Provider an opinion of Bond Counsel to the effect that such determination of maturities and/or sinking fund redemptions will not adversely affect the exclusion of interest on the Bonds from gross income for federal income tax purposes.

(d) Following a Variable Rate Adjustment Date, there shall be no mandatory sinking fund redemption schedule for the Bonds during the succeeding Variable Period.

Section 3.02. ***Selection of Bonds for Redemption.***

(a) The Trustee shall select Bonds subject to mandatory sinking fund redemption pursuant to Section 3.01(b)(v) hereof by lot within the appropriate maturity. If less than all the Bonds then Outstanding shall be called for redemption other than as a result of mandatory sinking fund redemption pursuant to Section 3.01(b)(v) hereof, the Trustee shall redeem an amount of Bonds so that the resulting decrease in debt service on the Bonds in each semiannual period ending on an Interest Payment Date is proportional, as nearly as practicable, to the decrease in the payments on the Bond Mortgage Note in each such semiannual period, as verified by the Servicer, and the Bonds shall be selected by lot within each maturity, the cost of such selection being at the Borrower's expense.

(b) Bonds shall be redeemed pursuant to this Article III only in integral multiples of $5,000 so long as all Bonds remaining Outstanding after the redemption are in Authorized Denominations.

(c) In no event shall Purchased Bonds be subject to Redemption without the prior written consent of the Credit Facility Provider.

Section 3.03. ***Notice of Redemption.*** Notice of the intended redemption of each Bond shall be given by the Trustee by first class mail, postage prepaid, or by facsimile transmission, to the registered Owner at the address of such Owner shown on the Bond Register. All such redemption notices shall be given not less than ten (10) days (not less than thirty (30) days in the case of optional or mandatory sinking fund redemptions) nor more than sixty (60) days prior to

the date fixed for redemption. The Trustee may provide a conditional notice of redemption upon the direction of the Credit Facility Provider or the Borrower (with the prior written consent of the Credit Facility Provider).

Notices of redemption shall state the redemption date and the redemption price, the place or places where amounts due upon such redemption will be payable, and, if less than all of the then Outstanding Bonds are called for redemption, shall state (i) the numbers of the Bonds to be redeemed by giving the individual certificate number of each Bond to be redeemed or shall state that all Bonds between two stated certificate numbers, both inclusive, are to be redeemed or that all of the Bonds of one or more maturities have been called for redemption; (ii) the CUSIP numbers of all Bonds being redeemed if available; (iii) the amount of each Bond being redeemed (in the case of a partial redemption); (iv) the date of issue of the Bond as originally issued; (v) the rate of interest borne by each Bond redeemed or that the Bonds bear interest at a Variable Rate; (vi) the maturity date of each Bond being redeemed; (vii) the possibility of a purchase of Bonds in lieu of redemption, if applicable; (viii) the conditions, if any, which must be satisfied in order for the redemption to take place on the scheduled date of redemption, including, as provided in Section 3.01(a)(iii), that Eligible Funds are available to pay any redemption premium on the Bonds; and (ix) any other descriptive information needed to identify accurately the Bonds being redeemed.

Each notice of redemption shall state that further interest on such Bonds will not accrue from and after the redemption date and that payment of the principal amount and premium, if any, will be made upon presentation and surrender of the Bonds at the Principal Office of the Trustee unless the Bonds are then held in a book-entry only system of registration.

Notice of such redemption shall also be sent by certified mail, overnight delivery service, facsimile transmission or other secure means, postage prepaid, to the Credit Facility Provider, to the Servicer, to the Rating Agency, to all municipal registered Securities Depositories and to at least two of the national Information Services that disseminate securities redemption notices, when possible, at least two (2) Business Days prior to the mailing of notices required by the first paragraph above, and in any event no later than simultaneously with the mailing of notices required by the first paragraph above; provided, that neither failure to receive such notice nor any defect in any notice so mailed shall affect the sufficiency of the proceedings for the redemption of such Bonds.

In addition to providing notice of redemption as set forth above, if the Bonds are no longer held in book-entry form, the Trustee shall send a second notice of redemption within sixty (60) days following the redemption date, by certified mail, overnight delivery service, or other secure means, postage prepaid to the registered Owners of any Bonds called for redemption, at their addresses appearing on the Bond Register, who have not surrendered their Bonds for redemption within thirty (30) days following the redemption date.

Failure to give notice by mailing to the registered Owner of any Bond designated for redemption or tender or to any depository or information service shall not affect the validity of the proceedings for the redemption of any other Bond if notice of such redemption shall have been mailed as herein provided.

Section 3.04. ***Cancellation.*** All Bonds that have been redeemed shall be marked cancelled by the Trustee, and shall not be reissued. A counterpart of the certificate of cancellation evidencing such cancellation shall, upon request, be furnished by the Trustee to the Issuer.

Section 3.05. ***Effect of Notice of Redemption.*** If a conditional notice of redemption has been provided pursuant to the terms of this Indenture and the conditions are not satisfied, such notice of redemption shall be of no force and effect and the Bondholders shall be restored to their former positions as though no such notice of redemption had been delivered. Notice of redemption having been given in the manner provided in this Article III and if either there were no conditions to such redemption or the conditions have been satisfied (or in the event no such notice is required under Section 3.03), and money for the redemption being held by the Trustee or Paying Agent for that purpose, thereupon the Bonds so called for redemption shall become due and payable on the redemption date, and interest thereon shall cease to accrue on such date; and such Bonds shall thereafter no longer be entitled to any security or benefit under this Indenture except to receive payment of the redemption price thereof.

Section 3.06. ***Purchase of Bonds in Whole in Lieu of Redemption.*** Notwithstanding anything in this Indenture to the contrary, at any time during which the Bonds are subject to redemption in whole pursuant to the provisions of this Indenture, all (but not less than all) of the Bonds to be redeemed may, with the prior written consent of the Issuer, be purchased by the Trustee (for the account of the Borrower or the Credit Facility Provider or their respective designee, as directed by such party) on the date which would be the redemption date at the direction of the Credit Facility Provider or the Borrower, with the prior written consent of the Credit Facility Provider (which direction shall specify that such purchase is pursuant to this Section 3.06 and shall be given no later than 12:00 noon, Washington, D.C., time on such redemption date), at a purchase price equal to the redemption price which would have been applicable to such Bonds on the redemption date. The Bonds shall be purchased in lieu of redemption only from amounts provided by the Credit Facility Provider or from other Eligible Funds. In the event the Trustee is so directed to purchase Bonds in lieu of redemption, no notice to the holders of the Bonds to be so purchased (other than the notice of redemption otherwise required hereunder) shall be required, and the Trustee shall be authorized to apply to such purpose the funds in the Redemption Fund which would have been used to pay the redemption price for such Bonds if such Bonds had been redeemed rather than purchased. Such Bonds so purchased for the account of the Borrower shall for all purposes under this Indenture constitute Purchased Bonds held by the Custodian pursuant to the Pledge Agreement and may be remarketed by the Remarketing Agent in accordance with the provisions of Section 10.03. In addition, the Credit Facility Provider shall have the right to direct the transfer of Purchased Bonds (without reinstatement of the then existing Credit Facility or delivery to the Trustee of an Alternate Credit Facility, which will result in such Bonds being unrated) to the Credit Facility Provider or any subsidiary of the Credit Facility Provider, or to a single Bondholder which has provided the Trustee with an investment letter in the form attached to this Indenture as ***Exhibit C*** (and otherwise subject to the provisions of Section 2.12(g) hereof), provided that any transfer to a single Bondholder as described above shall require delivery of an opinion of Bond Counsel to the Trustee to the effect that such transfer will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds. Such Purchased Bonds, if not remarketed or transferred as provided herein, shall be redeemed and cancelled automatically by

the Trustee on the date which is not later than two (2) years from the date of purchase, unless an opinion of Bond Counsel is delivered to the Trustee to the effect that not redeeming and canceling such Purchased Bonds will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds. Any purchase of Bonds hereunder is not intended as an extinguishment of the debt represented by the Bonds.

Section 3.07. ***Cancellation of Purchased Bonds.*** Upon a redemption date on which all Bonds (other than Purchased Bonds) are redeemed or on a date on which all Bonds (other than Purchased Bonds) are presented to the Trustee for cancellation pursuant to Section 3.06, all Bonds other than Purchased Bonds shall be deemed cancelled. The Credit Facility Provider also may, in accordance with the terms of the Reimbursement Agreement, direct the cancellation of Purchased Bonds in whole or in part at any time. No further money shall be required to be paid by the Issuer or the Credit Facility Provider in connection with such cancellation; provided, however, that such cancellation shall not release the obligation of the Borrower to reimburse the Credit Facility Provider for payments made in respect of principal of, interest on or Purchase Price of the Bonds, including Purchased Bonds.

ARTICLE IV
REVENUES AND FUNDS

Section 4.01. ***Pledge of Revenues and Assets.*** The pledge and assignment of and the security interest granted in the Trust Estate pursuant to the Granting Clauses hereof shall attach, be perfected and be valid and binding from and after the time of the delivery of the Bonds by the Trustee or by any Person authorized by the Trustee to deliver the Bonds. The Trust Estate so pledged and then or thereafter received by the Trustee shall immediately be subject to the lien of such pledge and security interest without any physical delivery thereof or further act, and the lien of such pledge and security interest shall be valid and binding and prior to the claims of any and all parties having claims of any kind in tort, contract or otherwise against the Issuer irrespective of whether such parties have notice thereof.

Section 4.02. ***Establishment of Funds.*** In addition to the Bond Mortgage Loan Fund established pursuant to Section 2.11 hereof and the Bond Purchase Fund established pursuant to Section 10.03 hereof, the Trustee shall establish, maintain and hold in trust the following funds and accounts, each of which is hereby established and each of which shall be disbursed and applied only as herein authorized:

(a) Revenue Fund, and within the Revenue Fund a General Account and a Credit Facility Account;

(b) Bond Fund and within the Bond Fund a Purchased Bonds Account;

(c) Redemption Fund;

(d) Administration Fund;

(e) Cost of Issuance Fund;

(f) Principal Reserve Fund; and

(g) Rebate Fund.

The Trustee shall, at the written direction of an authorized representative of the Issuer, and may, in its discretion, establish such additional accounts within any Fund, and subaccounts within any of the accounts, as the Issuer or the Trustee may deem necessary or useful for the purpose of identifying more precisely the sources of payments into and disbursements from that Fund and its accounts, or for the purpose of complying with the requirements of the 1986 Code relating to arbitrage, but the establishment of any such account or subaccount shall not alter or modify any of the requirements of this Indenture with respect to a deposit or use of money in the funds established hereunder, or result in commingling of funds not permitted hereunder.

Section 4.03. ***Application of Revenues.***

(a) All Revenues shall be deposited by the Trustee, promptly upon receipt thereof, to the General Account of the Revenue Fund, except (i) the proceeds of the Bonds received by the Trustee on the Delivery Date, which shall be applied in accordance with the provisions of Section 2.11 hereof; (ii) amounts paid pursuant to the Credit Facility, which shall be deposited in the Credit Facility Account; (iii) the Bond Fee Component received from the Servicer or the Borrower, which shall be deposited to the Administration Fund; (iv) as otherwise specifically provided in subsection (c) of this Section with respect to certain deposits into the Redemption Fund; (v) as otherwise specifically provided in the second paragraph of Section 4.06 hereof with respect to deficiencies in the Administration Fund; (vi) with respect to investment earnings to the extent required under the terms hereof to be retained in the funds and accounts to which they are attributable; and (vii) with respect to amounts required to be transferred between funds and accounts as provided in this Article IV.

(b) On each Interest Payment Date or any other date on which payment of principal of or interest on the Bonds becomes due and payable, the Trustee, out of money in the Credit Facility Account and the General Account of the Revenue Fund, shall credit the following amounts to the following funds, but in the order and within the limitations hereinafter indicated with respect thereto, as follows:

FIRST: to the Bond Fund from money in the Credit Facility Account of the Revenue Fund, an amount equal to the principal of and interest due on the Bonds on such date (excluding principal or interest on any Purchased Bonds and excluding the principal constituting a mandatory sinking fund payment on any Bonds on such date); and

SECOND: to the Redemption Fund from money in the Credit Facility Account of the Revenue Fund, an amount equal to the principal amount due and payable on the Bonds with respect to mandatory sinking fund redemption (excluding principal of any Purchased Bonds) on such date; and

THIRD: to the Redemption Fund from money in the Credit Facility Account (i) amounts paid to the Trustee under the Credit Facility to be

applied to the mandatory redemption of all or a portion of the Bonds pursuant to Section 3.01(b) hereof (other than a mandatory sinking fund redemption) and (ii) amounts paid to the Trustee under the Credit Facility to be applied to the optional redemption of all or a portion of the Bonds pursuant to Sections 3.01(a)(i) and 3.01(a)(ii) hereof; and

FOURTH: to the Purchased Bonds Account in the Bond Fund from money in the General Account, an amount equal to the interest due on the Purchased Bonds on such date.

(c) The Trustee shall deposit directly to the Redemption Fund (i) Net Proceeds representing casualty insurance proceeds or condemnation awards paid as a prepayment of the Bond Mortgage Loan, such amount to be applied to reimburse the Credit Facility Provider for a draw under the Credit Facility in such amount to provide for extraordinary mandatory redemption of all or a portion of the Bonds pursuant to Section 3.01(b)(i); (ii) Eligible Funds (other than draws under the Credit Facility) paid to the Trustee to be applied to the optional redemption of all or a portion of the Bonds pursuant to Section 3.01(a)(i) or 3.01(a)(ii); and (iii) Eligible Funds (other than draws under the Credit Facility) paid to the Trustee to be applied to the payment of any redemption premium in connection with an optional redemption of all or a portion of the Bonds pursuant to Section 3.01(a)(i) hereof.

(d) Should the amount in the Bond Fund be insufficient to pay the amount due on the Bonds on any given Interest Payment Date or other payment date after the transfers from the Credit Facility Account, the Trustee shall credit to the Bond Fund the amount of such deficiency by charging the following funds and accounts in the following order of priority**:** (1) the General Account of the Revenue Fund; (2) the Administration Fund; (3) the Redemption Fund, except no such charge to the Redemption Fund shall be made from money to be used to effect a redemption for which notice of redemption has been provided for or from money which are held for payment of Bonds which are no longer Outstanding hereunder; and (4) at the written direction of the Credit Facility Provider pursuant to Section 4.07(f), the Principal Reserve Fund.

Section 4.04. ***Application of Bond Fund.*** The Trustee shall charge the Bond Fund, on each Interest Payment Date, an amount equal to the unpaid interest and principal due on the Bonds on such Interest Payment Date, and shall cause the same to be applied to the payment of such interest and principal when due (excluding principal on any Purchased Bond). Any money remaining in the Bond Fund on any Interest Payment Date after application as provided in the preceding sentence may, to the extent there shall exist any deficiency in the Redemption Fund to redeem Bonds called for mandatory sinking fund redemption on such Interest Payment Date, be transferred to the Redemption Fund to be applied for such purpose. Any balance remaining in the Bond Fund on the Business Day immediately succeeding an Interest Payment Date shall be transferred to the Servicer for payment to the Credit Facility Provider to be applied in accordance with the Reimbursement Agreement.

Income realized from the investment or deposit of money in the Bond Fund shall be deposited by the Trustee upon receipt thereof in the General Account of the Revenue Fund.

No amount shall be charged against the Bond Fund except as expressly provided in this Article IV and in Section 6.05.

Section 4.05. ***Application of Redemption Fund.*** Any money credited to the Redemption Fund shall be applied as set forth in Sections 4.03(b) and 4.03(c) hereof; provided, however, that to the extent any money credited to the Redemption Fund from Eligible Funds (other than draws under the Credit Facility) is in excess of the amount necessary to effect the redemptions described in Sections 4.03(b) and 4.03(c) it shall be applied to make up any deficiency in the Bond Fund on any Interest Payment Date, to the extent money then available in accordance with Section 4.03(d) hereof in the General Account of the Revenue Fund and the Administration Fund are insufficient to make up such deficiency, provided that no money to be used to effect a redemption for which a conditional notice of redemption, the conditions of which have been satisfied, or an unconditional notice of redemption has been provided or money which are held for payment of Bonds which are no longer Outstanding hereunder shall be so transferred to the Bond Fund.

On or before each Interest Payment Date, the income realized from the investment of money in the Redemption Fund shall be credited by the Trustee to the General Account of the Revenue Fund.

No amount shall be charged against the Redemption Fund except as expressly provided in this Article IV and in Section 6.05.

Section 4.06. ***Application of Administration Fund.*** Amounts in the Administration Fund shall be withdrawn or maintained, as appropriate, by the Trustee and used **FIRST**, in accordance with Section 4.03(d), to make up any deficiency in the Bond Fund on any Interest Payment Date, to the extent money then available in the General Account of the Revenue Fund are insufficient to make up such deficiency; **SECOND**, to pay to the Trustee when due the Ordinary Trustee's Fees and Expenses; **THIRD**, to pay to the Issuer when due the Issuer Fee; **FOURTH**, to pay the reasonable fees and expenses of a Rebate Analyst when due in connection with the computations relating to arbitrage rebate required under this Indenture and the Financing Agreement, upon receipt of an invoice from the Rebate Analyst; **FIFTH**, to deposit to any Custodial Escrow Account any deficiency in the amount held therein as certified in writing by the Servicer (or subsequent holder of the account) to the Trustee; **SIXTH**, to pay to the Remarketing Agent any unpaid portion of the Remarketing Agent Fee owed to it; **SEVENTH**, to pay to the Trustee any Extraordinary Trustee's Fees and Expenses due and payable from time to time, as set forth in an invoice submitted to the Issuer and Freddie Mac; **EIGHTH**, to pay to the Issuer any extraordinary expenses it may incur in connection with the Bonds or this Indenture from time to time, as set forth in an invoice submitted to the Trustee and Freddie Mac; **NINTH**, to pay to the Credit Facility Provider any unpaid portion of the amounts due under the Reimbursement Agreement, as certified in writing by the Credit Facility Provider to the Trustee; **TENTH**, to pay to the Servicer any unpaid portion of the Ordinary Servicing Fees and Expenses and any Extraordinary Servicing Fees and Expenses due and owing from time to time, as set forth in an invoice submitted to the Trustee and Freddie Mac; **ELEVENTH**, to make up any

deficiency in the Redemption Fund on any redemption date of Bonds, to the extent money then available in accordance with Section 4.03(d) hereof in the Redemption Fund are insufficient to redeem Bonds called for redemption on such redemption date; **TWELFTH**, to pay to the Rating Agency when due the annual rating maintenance fee, if any; and **THIRTEENTH**, to transfer any remaining balance after application as aforesaid to the General Account of the Revenue Fund.

In the event that the amounts on deposit in the Administration Fund are not equal to the amounts payable from the Administration Fund as provided in the preceding paragraph on any date on which such amounts are due and payable, the Trustee shall give notice to the Borrower of such deficiency and of the amount of such deficiency and request payment within two (2) Business Days to the Trustee of the amount of such deficiency. Upon payment by the Borrower of such deficiency, the amounts for which such deficiency was requested shall be paid by the Trustee.

On or before each Interest Payment Date, the income realized from the investment of money in the Administration Fund not needed to pay the foregoing amounts shall be credited by the Trustee to the General Account of the Revenue Fund.

No amount shall be charged against the Administration Fund except as expressly provided in this Article IV and Section 6.05.

Section 4.07. ***Principal Reserve Fund.***

(a) There shall be deposited into the Principal Reserve Fund the Principal Reserve Schedule Payments. Any interest earned on or profits realized from amounts on deposit in the Principal Reserve Fund shall be deposited into the Principal Reserve Fund and, provided that the Trustee has not received notice from the Servicer of a deficiency in the Principal Reserve Fund, the Hedge Fee Escrow or other Custodial Escrow Account, and there is no deficiency in the Administration Fund or the Rebate Fund, and the Trustee has not received notice that a default exists under any of the Bond Mortgage Loan Documents, shall be paid to the Borrower on the Interest Payment Date next succeeding receipt of such interest or profits by the Trustee. In addition, there shall be deposited into the Principal Reserve Fund remarketing proceeds relating to Purchased Bonds, which shall be used to reimburse the Credit Facility Provider in an amount equal to the amount of any Liquidity Advance paid to the Trustee to purchase Bonds on any Settlement Date.

(b) At the direction of the Credit Facility Provider, amounts on deposit in the Principal Reserve Fund shall be used by the Trustee to pay any amounts required to be paid by the Borrower under any Bond Mortgage Loan Document, to pay any amounts owed to the Credit Facility Provider in connection with any loan purchased by the Credit Facility Provider and secured by the Project, or to pay any other amount agreed to in writing by the Borrower and the Credit Facility Provider; provided that the amounts on deposit in the Principal Reserve Fund shall, upon the occurrence of an event of default under any Bond Mortgage Loan Document, be used in any manner and for any purpose specified by the Credit Facility Provider.

(c) At the request of the Borrower, the Credit Facility Provider, in its sole and absolute discretion, may (i) consent to the release of all or a portion of the amounts on deposit in the Principal Reserve Fund to the Borrower (in which case the Trustee shall release such amounts to the Borrower, provided that if, in the judgment of the Rebate Analyst, the amount on deposit in the Rebate Fund at such time is less than the amount required under Section 4.12 to be rebated to the United States Treasury, then prior to any such release to the Borrower, any amounts on deposit in the Principal Reserve Fund (up to the amount of such deficiency) shall be transferred to the Rebate Fund) and/or (ii) reduce or no longer require deposits to the Principal Reserve Fund.

(d) On each Reset Adjustment Date, Variable Rate Adjustment Date and on the Fixed Rate Adjustment Date, amounts on deposit in the Principal Reserve Fund shall be used to reimburse the Credit Facility Provider in an amount equal to any Guaranteed Payment made by the Credit Facility Provider to the Trustee under the Credit Facility to redeem Bonds in Authorized Denominations pursuant to Section 3.01(b)(iv).

(e) On the first day of the month in which an Interest Payment Date falls during a Reset Period or a Fixed Rate Period, amounts on deposit in the Principal Reserve Fund shall be used to reimburse the Credit Facility Provider in an amount equal to any Guaranteed Payment made by the Credit Facility Provider to the Trustee under the Credit Facility to redeem Bonds in Authorized Denominations pursuant to Section 3.01(b)(v).

(f) On any Interest Payment Date, to the extent of any deficiency in the Bond Fund, to the extent money then available in accordance with Section 4.03(d) in the General Account of the Revenue Fund, the Administration Fund and the Redemption Fund are insufficient to make up such deficiency, at the direction of the Credit Facility Provider, amounts on deposit in the Principal Reserve Fund shall be transferred to the Bond Fund in the amount of such deficiency.

(g) During a Variable Period, on the tenth Business Day prior to each Interest Payment Date, all amounts on deposit in the Principal Reserve Fund in excess of the Principal Reserve Amount (rounded downward to the nearest integral multiple of $100,000), shall be transferred to the Redemption Fund and applied to the reimbursement of the Credit Facility Provider for amounts drawn under the Credit Facility in a like amount to effect the redemption of Bonds pursuant to Section 3.01(b)(vii) hereof.

(h) Any amounts remaining in the Principal Reserve Fund after payment in full of the principal of and interest on the Bonds shall be applied as provided in Section 4.11 hereof.

Section 4.08. ***Investment of Funds.*** The money held by the Trustee shall constitute trust funds for the purposes hereof. Any money attributable to each of the funds and accounts hereunder (except the Principal Reserve Fund as provided in this Section and the Bond Purchase Fund, the investment of which is provided for in Section 10.03) shall be, except as otherwise

expressly provided herein, invested by the Trustee, at the written direction of the Borrower and, during such time that the Credit Enhancement Agreement is the Credit Facility, approved by the Credit Facility Provider subject to Section 3.1(d) of the Credit Enhancement Agreement, at least two (2) Business Days prior to the date of investment, in Qualified Investments which mature on the earlier of (i) six months from the date of investment and (ii) the date such money is needed; provided, that if the Trustee shall have entered into any investment agreement requiring investment of money in any fund or account hereunder in accordance with such investment agreement and if such investment agreement constitutes a Qualified Investment, such money shall be invested in accordance with such requirements; and provided, further, that all funds derived from draws on the Credit Facility shall be held uninvested or shall be invested only in Government Obligations or in Qualified Investments of the type described in subparagraph (g) of the definition thereof which, in any case, shall mature or be subject to tender or redemption at par on or prior to the earlier of: (i) 30 days from the date of investment or (ii) the date such money is required to be applied pursuant to the provisions of this Indenture. Except as otherwise provided in the preceding sentence, in the absence of the written direction from the Borrower and the Credit Facility Provider, the Trustee shall invest amounts on deposit in the funds and accounts established under this Indenture in investments described in subparagraph (g) of the definition of Qualified Investments. Such investments may be made through the investment or securities department of the Trustee. All such Qualified Investments purchased with money in any fund or account hereunder shall mature, or shall be subject to redemption or withdrawal without discount or penalty at the option of the Trustee, prior to the next succeeding Interest Payment Date. The Trustee may purchase from or sell to itself or an affiliate, as principal or agent, securities herein authorized. Any instruction from the Borrower shall be deemed to include a representation that the investment constitutes a Qualified Investment and is in accordance with the terms hereof and of the Tax Certificate. The Trustee shall be entitled to assume, absent receipt by the Trustee of written notice to the contrary, that any investment which at the time of purchase is a Qualified Investment remains a Qualified Investment thereafter.

Amounts on deposit in the Principal Reserve Fund shall be invested and reinvested by the Trustee as provided in the Reimbursement Agreement.

Qualified Investments representing an investment of money attributable to any fund or account shall be deemed at all times to be a part of said fund or account, and, except as otherwise may be provided expressly in other Sections hereof, the interest thereon and any profit arising on the sale thereof shall be credited to the General Account of the Revenue Fund, and any loss resulting on the sale thereof shall be charged against the General Account of the Revenue Fund. Such investments shall be sold at the best price obtainable (at least par) whenever it shall be necessary so to do in order to provide money to make any transfer, withdrawal, payment or disbursement from said fund or account. In the case of any required transfer of money to another such fund or account, such investments may be transferred to that fund or account in lieu of the required money if permitted hereby as an investment of money in that fund or account. For investment purposes the Trustee may commingle the funds and accounts established hereunder (other than the Rebate Fund and the Credit Facility Account). The Trustee shall not be liable or responsible for any loss resulting from any investment made in accordance herewith.

The Issuer acknowledges that to the extent the regulations of the Comptroller of the Currency or other applicable regulatory agency grant the Issuer the right to receive brokerage

confirmations of the security transactions as they occur. To the extent permitted by law, the Issuer specifically waives compliance with 12 C.F.R. 12 and hereby notifies the Trustee hereunder, that no brokerage confirmations need be sent relating to the security transactions as they occur.

In computing for any purpose hereunder the amount in any fund or account on any date, obligations so purchased shall be valued at Fair Market Value.

Section 4.09. ***Money Held for Particular Bonds; Funds Held in Trust.*** The amounts held by the Trustee for the payment of the interest, principal or redemption price due on any date with respect to particular Bonds pending such payment, shall be set aside and held in trust by it for the Holders of the Bonds entitled thereto, and for the purposes hereof such interest, principal or redemption price, after the due date thereof, shall no longer be considered to be unpaid.

All money held by the Trustee, as such, at any time pursuant to the terms of this Indenture shall be and hereby are assigned, transferred and set over unto the Trustee in trust for the purposes and under the terms and conditions of this Indenture.

Section 4.10. ***Accounting Records.*** The Trustee shall maintain accurate books and records for all funds and accounts established hereunder and provide monthly statements of such funds and accounts to the Issuer and the Borrower.

Section 4.11. ***Amounts Remaining in Funds.*** After full payment of the Bonds (or provision for payment thereof having been made in accordance with Section 9.01 hereof) and full payment of the fees, charges and expenses of the Issuer and the Trustee and other amounts required to be paid hereunder or under any Bond Mortgage Loan Document, including, but not limited to, the Credit Facility and the Reimbursement Agreement, any amounts remaining in any fund or account hereunder other than the Rebate Fund shall be paid to the Borrower; provided however, that if a default shall have occurred and remain uncured under any Bond Mortgage Loan Document of which the Trustee shall have received written notice from the Credit Facility Provider or the Servicer, then any such amounts remaining in any fund or account hereunder shall be paid to the Credit Facility Provider in accordance with the Reimbursement Agreement.

Section 4.12. ***Rebate Fund; Compliance with Tax Certificate.*** The Rebate Fund shall be established by the Trustee and held and applied as provided in this Section. On any date on which any amounts are required by applicable federal tax law to be rebated to the federal government, amounts shall be deposited into the Rebate Fund by the Borrower for such purpose. All money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the rebate requirement (as set forth in the Tax Certificate) and as calculated by the Rebate Analyst, for payment to the United States Government, and neither the Issuer, the Borrower, the Credit Facility Provider nor the Bondholders shall have any rights in or claim to such money. All amounts deposited into or on deposit in the Rebate Fund shall be governed by this Section and by the Tax Certificate. The Trustee shall conclusively be deemed to have complied with such provisions if it follows the written instructions of the Issuer, Bond Counsel or the Rebate Analyst, including supplying all necessary information in the manner set forth in the Tax Certificate, and shall not be required to take any actions under the Tax

Certificate in the absence of written instructions from the Issuer, Bond Counsel or the Rebate Analyst.

Within 55 days of the end of each fifth Bond Year, the Borrower shall cause the Rebate Analyst to calculate the amount of rebatable arbitrage, in accordance with Section 148(f)(2) of the 1986 Code and Section 1.148-3 of the Rebate Regulations (taking into account any exceptions with respect to the computation of the rebatable arbitrage, described, if applicable, in the Tax Certificate (e.g., the temporary investments exceptions of Section 148(f)(4)(B) and (C) of the 1986 Code)), for this purpose treating the last day of the applicable Bond Year as a (computation) date, within the meaning of Section 1.148-1(b) of the Rebate Regulations (the "Rebatable Arbitrage").

Within 55 days of the end of each fifth Bond Year, upon the written direction of the Issuer, Bond Counsel or the Rebate Analyst, an amount shall be deposited to the Rebate Fund by the Trustee from amounts provided by the Borrower, if and to the extent required so that the balance in the Rebate Fund shall equal the amount of Rebatable Arbitrage so calculated in accordance with the preceding paragraph.

The Trustee shall pay, as directed by the Issuer, Bond Counsel or the Rebate Analyst, to the United States Treasury, out of amounts in the Rebate Fund:

(i) Not later than 60 days after the end of (A) the fifth Bond Year, and (B) each applicable fifth Bond Year thereafter, an amount equal to at least 90% of the Rebatable Arbitrage calculated as of the end of such Bond Year; and

(ii) Not later than 60 days after the payment of all the Bonds, an amount equal to 100% of the Rebatable Arbitrage calculated as of the end of such applicable Bond Year, and any income attributable to the Rebatable Arbitrage, computed in accordance with Section 148(f) of the 1986 Code.

Each payment required to be made under this Section shall be made to the Internal Revenue Service Center, Ogden, Utah 84201, or such other address provided in such direction on or before the date on which such payment is due, and shall be accompanied by Internal Revenue Service Form 8038-T, which shall be prepared by the Rebate Analyst and provided to the Trustee.

Notwithstanding any provision of this Indenture to the contrary, the obligation to remit payment of the Rebatable Arbitrage to the United States and to comply with all other requirements of this Section 4.12, Sections 2.4 and 4.3 of the Financing Agreement and the requirements of the Tax Certificate shall survive the defeasance or payment in full of the Bonds.

Any funds remaining in the Rebate Fund after redemption and payment of all of the Bonds and payment and satisfaction of any Rebate Requirement, or provision made therefore satisfactory to the Trustee, shall be withdrawn and remitted to the Borrower.

The Trustee shall obtain and keep such records of the computations made pursuant to this Section 4.12 as are required under Section 148(f) of the 1986 Code to the extent furnished to the Trustee. The Borrower shall or shall cause the Rebate Analyst to provide to the Issuer and the

Trustee copies of all rebate computations made pursuant to this Section 4.12. The Trustee shall keep and make available to the Borrower such records concerning the investments of the gross proceeds of the Bonds and the investments of earnings from those investments made by the Trustee as may be requested by the Borrower in order to enable the Borrower to cause the Rebate Analyst to make the aforesaid computations as are required under Section 148(f) of the 1986 Code.

Notwithstanding the foregoing, the computations and payments of Rebatable Arbitrage need not be made to the extent that neither the Issuer nor the Borrower will thereby fail to comply with any requirements of Section 148(f) of the 1986 Code based on an opinion of Bond Counsel, to the effect that such failure will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds, a copy of which shall be provided to the Trustee, at the expense of the Borrower.

Section 4.13. ***Cost of Issuance Fund.*** The Trustee shall use money on deposit to the credit of the Cost of Issuance Fund to pay the costs of issuance on the Delivery Date or as soon as practicable thereafter, upon delivery to the Trustee of appropriate invoices for such expenses and a requisition in the form attached as ***Exhibit D***. Amounts remaining on deposit in the Cost of Issuance Fund six (6) months after the Delivery Date shall be transferred to the Borrower. Upon such final disbursement, the Trustee shall close the Cost of Issuance Fund.

Section 4.14. ***Reports From the Trustee.*** The Trustee shall, on or before the fifteenth (15th) day of each month, file with the Multifamily Loan Servicing Department of the Credit Facility Provider and the Issuer (at its written request) a statement setting forth in respect of the preceding calendar month:

(i) the amount withdrawn or transferred by it and the amount deposited within or on account of each fund and account held by it under the provisions of this Indenture, including the amount of investment income on each fund and account;

(ii) the amount on deposit with it at the end of such month to the credit of each fund and account;

(iii) a brief description of all obligations held by it as an investment of money in each such fund and account; and

(iv) any other information which the Credit Facility Provider or the Issuer may reasonably request and to which the Trustee has access in the ordinary course of its operations.

Upon the written request of any Bondholder, the Trustee, at the cost of the Borrower, shall provide a copy of such statement to such Bondholder. All records and files pertaining to the Trust Estate shall be open at all reasonable times to the inspection of the Issuer and the Credit Facility Provider and their agents and representatives upon reasonable prior notice during normal business hours.

Section 4.15. ***Payments Under Bond Mortgage Loan.*** The Trustee and the Issuer hereby expressly acknowledge that references in this Indenture to payments or prepayments of

the Bond Mortgage Loan shall, for all purposes of this Indenture, refer solely to such portion of such payments or prepayments actually paid by the Credit Facility Provider to the Trustee as Guaranteed Payments pursuant to the Credit Facility for which the Borrower has correspondingly reimbursed the Credit Facility Provider in an amount equal to the Guaranteed Payments. Without in any way limiting the foregoing, the Trustee and the Issuer hereby acknowledge that, pursuant to the Guide, the Servicer will pay the Freddie Mac Credit Enhancement Fee, the Freddie Mac Reimbursement Amount and the Ordinary Servicing Fees and Expenses from payments under the Bond Mortgage Loan made by the Borrower prior to remitting the balance of such payments or prepayments to the Trustee for application as provided in this Indenture.

Section 4.16. ***Drawings Under Credit Facility.*** The Credit Facility shall be held by the Trustee and drawn upon in accordance with its terms and the provisions of this Indenture. Money derived from draws upon the Credit Facility shall be deposited in the Credit Facility Account of the Revenue Fund and applied by the Trustee to pay the principal of and interest on the Bonds, and, in the event of a purchase of the Bonds, to pay, to the extent provided in the Credit Facility, the Purchase Price of the Bonds in accordance with this Indenture.

The Trustee shall draw money under the Credit Facility in accordance with the terms thereof when needed and in amounts sufficient to make timely payments of the principal of and interest, but not premium, on the Bonds when due and payable (i.e., on any Interest Payment Date, any Settlement Date, any redemption date or the Maturity Date). The Trustee shall not, however, be permitted to draw on the Credit Facility to pay principal of and interest on Purchased Bonds.

While the Bonds are bearing interest at the Variable Rate, should any Variable Interest Computation Date fall between the date of the draw on the Credit Facility and the next Interest Payment Date on the Bonds, the Trustee shall assume that the Bonds will bear interest at the Maximum Rate from such Variable Interest Computation Date to the next Interest Payment Date and shall draw on the Credit Facility accordingly. In the event that the Maximum Rate exceeds the actual interest rate during such period, the excess interest shall be immediately returned to the Credit Facility Provider.

Should the Credit Facility Provider become the owner of the Project by foreclosure or otherwise, the Trustee shall nevertheless continue to make payments on the Bonds only from draws on the Credit Facility or from other Eligible Funds.

The Trustee shall send to the Borrower via facsimile a copy of any documents which are presented to the Credit Facility Provider in connection with a drawing on the Credit Facility concurrently with its submission of those documents to the Credit Facility Provider, if requested to do so by the Borrower. The Borrower shall be permitted to provide the Trustee with an Alternate Credit Facility in accordance with this Indenture and the Financing Agreement.

Section 4.17. ***Notices Under Credit Enhancement Agreement.*** The Trustee hereby agrees to provide to the Credit Facility Provider all such notices, including any notice of failure to receive a payment, as shall be required under the Credit Facility in the manner and within the periods of time provided therein and the Trustee and the Issuer each hereby acknowledges that

certain notices constitute a condition precedent to payment by the Credit Facility Provider under the Credit Facility.

ARTICLE V
GENERAL COVENANTS AND REPRESENTATIONS

Section 5.01. ***Payment of Principal and Interest.*** The Issuer covenants that it will promptly pay or cause to be paid, but only from the sources identified herein, sufficient amounts to provide for the payment of the principal of, premium, if any, the Purchase Price of and interest on the Bonds at the place, on the dates and in the manner provided herein and in the Bonds, according to the true intent and meaning thereof.

Section 5.02. ***Performance of Covenants.*** The Issuer covenants that it will faithfully perform at all times any and all of its covenants, undertakings, stipulations and provisions contained in this Indenture, in any and every Bond executed, authenticated and delivered hereunder and in all proceedings pertaining thereto.

Section 5.03. ***Instruments of Further Assurance.*** The Issuer covenants that it will do, execute, acknowledge and deliver or cause to be done, executed, acknowledged and delivered, such indentures supplemental hereto, and such further acts, instruments and transfers as may be reasonably required for the better assuring, transferring, conveying, pledging, assigning and confirming unto the Trustee all and singular its interest in the property herein described and the revenues, receipts and other amounts pledged hereby to the payment of the principal of, premium, if any, and interest on the Bonds. Any and all interest in property hereafter acquired which is of any kind or nature herein provided to be and become subject to the lien hereof shall and without any further conveyance, assignment or act on the part of the Issuer or the Trustee, become and be subject to the lien of this Indenture as fully and completely as though specifically described herein, but nothing in this sentence contained shall be deemed to modify or change the obligations of the Issuer under this Section of this Indenture. The Issuer covenants and agrees that, except as herein otherwise expressly provided, it has not and will not sell, convey, mortgage, encumber or otherwise dispose of any part of its interest in the Trust Estate or the revenues or receipts therefrom.

The Issuer will promptly notify the Trustee and, so long as Freddie Mac is the Credit Facility Provider, the Servicer in writing of the occurrence of any of the following:

(A) the submission of any claim or the initiation of any legal process, litigation or administrative or judicial investigation against the Issuer with respect to the Bonds;

(B) any change in the location of the Issuer's principal office or any change in the location of the Issuer's books and records relating to the transactions contemplated hereby;

(C) the occurrence of any default or Event of Default of which the Issuer has actual knowledge;

(D) the commencement of any proceedings or any proceedings instituted by or against the Issuer in any federal, state or local court or before any governmental body or agency, or before any arbitration board, relating to the Bonds; or

(E) the commencement of any proceedings by or against the Issuer under any applicable bankruptcy, reorganization, liquidation, rehabilitation, insolvency or other similar law now or hereafter in effect or of any proceeding in which a receiver, liquidator, conservator, trustee or similar official shall have been, or may be, appointed or requested for the Issuer or any of its assets relating to the Bonds.

Section 5.04. ***Inspection of Project Books***. The Issuer covenants and agrees that all books and documents in its possession relating to the Project shall, upon reasonable prior notice, during normal business hours, be open to inspection and copying by such accountants or other agents as the Trustee or the Credit Facility Provider may from time to time reasonably designate.

Section 5.05. ***No Modification of Security; Additional Indebtedness***. The Issuer covenants that it will not, without the written consent of the Trustee and the Credit Facility Provider, alter, modify or cancel, or agree to consent to alter, modify or cancel any agreement to which the Issuer is a party, or which has been assigned to the Issuer, and which relates to or affects the security for the Bonds or the payment of any amount owed to the Credit Facility Provider. The Issuer further covenants not to create or suffer to be created any lien upon the Trust Estate or any part thereof other than the lien created hereby and by the Bond Mortgage and the Reimbursement Mortgage without the prior written consent of the Credit Facility Provider.

Section 5.06. ***Damage, Destruction or Condemnation***. Net Proceeds resulting from casualty to or condemnation of the Project shall be applied as provided in the Bond Mortgage Loan Documents and, to the extent consistent therewith, Section 3.01(b)(i) hereof.

Section 5.07. ***Tax Covenants***.

(a) *Issuer's Covenants*. The Issuer covenants to and for the benefit of the Holders of the Bonds that it will:

(i) neither make or use nor cause to be made or used any investment or other use of the proceeds of the Bonds or the money and investments held in the funds and accounts in any manner which would cause the Bonds to be arbitrage bonds under Section 148 of the 1986 Code and the Regulations issued under Section 148 of the 1986 Code (the "Regulations") or which would otherwise cause the interest payable on the Bonds to be includable in gross income for federal income tax purposes;

(ii) enforce or cause to be enforced all obligations of the Borrower under the Regulatory Agreement in accordance with its terms and seek to cause the Borrower to correct any violation of the Regulatory Agreement within a reasonable period after it first discovers or becomes aware of any such violation;

(iii) not take or cause to be taken any other action or actions, or fail to take any action or actions, which would cause the interest payable on the Bonds to be includable in gross income for federal income tax purposes;

(iv) at all times do and perform all acts and things permitted by law and necessary or desirable in order to assure that interest paid by the Issuer on the Bonds will be excluded from the gross income for federal income tax purposes, of the Bondholders pursuant to Section 103 of the 1986 Code, except in the event where any such owner of Bonds is a "substantial user" of the facilities financed with the Bonds or a "related person" within the meaning of the 1986 Code; and

(v) not take any action or permit or suffer any action to be taken if the result of the same would be to cause the Bonds to be "federally guaranteed" within the meaning of Section 149(b) of the 1986 Code and the Regulations.

In furtherance of the covenants in this Section 5.07, the Issuer and the Borrower shall execute, deliver and comply with the provisions of the Tax Certificate, which is by this reference incorporated into this Indenture and made a part of this Indenture as if set forth in this Indenture in full, and by its acceptance of this Indenture the Trustee acknowledges receipt of the Tax Certificate and acknowledges its incorporation into this Indenture by this reference and agrees to comply with the terms specifically applicable to it. In the event of a conflict between the terms of this Indenture and the Tax Certificate, the terms of the Tax Certificate shall control.

(b) *Trustee's Covenants*. The Trustee agrees that it will invest funds held under this Indenture in accordance with the terms of this Indenture and the Tax Certificate (this covenant shall extend throughout the term of the Bonds, to all funds and accounts created under this Indenture and all money on deposit to the credit of any fund or account). The Trustee covenants to and for the benefit of the Bondholders that, notwithstanding any other provisions of this Indenture or of any other Bond Financing Document, it will not knowingly make or cause to be made any investment or other use of the money in the funds or accounts created hereunder which would cause the Bonds to be classified as "arbitrage bonds" within the meaning of Sections 103(b) and 148 of the 1986 Code or would cause the interest on the Bonds to be includable in gross income for federal income tax purposes; provided that the Trustee shall be deemed to have complied with these requirements and shall have no liability to the extent it follows the written directions of the Borrower, the Issuer, Bond Counsel or the Rebate Analyst. This covenant shall extend, throughout the term of the Bonds, to all funds created under this Indenture and all money on deposit to the credit of any such fund. Pursuant to this covenant, with respect to the investments of the funds and accounts under this Indenture, the Trustee obligates itself to comply throughout the term of the issue of the Bonds with the requirements of Sections 103(b) and 148 of the 1986 Code; provided that the Trustee shall be deemed to have complied with such requirements and shall have no liability to the extent it reasonably follows the written directions of the Borrower, the Issuer, Bond Counsel or the Rebate Analyst. The Trustee further covenants that should the Issuer or the Borrower file with the Trustee (it being understood that neither the Issuer nor the Borrower has an obligation to so file), or should the Trustee receive, an opinion of Bond Counsel to the effect that any proposed

investment or other use of proceeds of the Bonds would cause the Bonds to become "arbitrage bonds," then the Trustee will comply with any written instructions of the Issuer, the Borrower or Bond Counsel regarding such investment (which shall, in any event, be a Qualified Investment) or use so as to prevent the Bonds from becoming "arbitrage bonds," and the Trustee will bear no liability to the Issuer, the Borrower, the Holders of the Bonds or the Credit Facility Provider for investments made in accordance with such instructions.

Section 5.08. ***Representations and Warranties of the Issuer***. The Issuer hereby represents and warrants as follows:

(a) The Issuer is a public instrumentality and a political subdivision of the State, duly organized, validly existing and in good standing under the laws of the State.

(b) The Issuer has all necessary power and authority to issue the Bonds and to execute and deliver this Indenture, the Financing Agreement and the other Bond Financing Documents to which it is a party, and to perform its duties and discharge its obligations hereunder and thereunder.

(c) The revenues and assets pledged for the repayment of the Bonds are and will be free and clear of any pledge, lien or encumbrance prior to, or equal with, the pledge created by this Indenture, and all action on the part of the Issuer to that end has been duly and validly taken.

(d) The Bond Financing Documents to which the Issuer is a party have been validly authorized, executed and delivered by the Issuer, and assuming due authorization, execution and delivery by the other parties thereto, constitute valid and binding obligations of the Issuer, enforceable against the Issuer in accordance with their respective terms, except as enforceability may be limited by bankruptcy, insolvency, moratorium or other laws affecting creditors' rights generally and the application of equitable principles.

ARTICLE VI
DEFAULT PROVISIONS AND REMEDIES OF TRUSTEE AND BONDHOLDERS

Section 6.01. ***Events of Default***. Each of the following shall be an event of default with respect to the Bonds (an "Event of Default") under this Indenture:

(a) failure to pay the principal or Purchase Price of, premium, if any, or interest on any Bond (other than Purchased Bonds) when due, whether on an Interest Payment Date, at the stated maturity thereof, by proceedings for redemption thereof, by acceleration or otherwise; or

(b) failure by the Credit Facility Provider to make when due a required payment under the Credit Facility; or

(c) failure to observe or perform any of the covenants, agreements or conditions on the part of the Issuer (other than those set forth in Section 5.01 hereof) set

forth in this Indenture or in the Bonds and the continuance thereof for a period of thirty (30) days (or such longer period, if any, as is specified herein for particular defaults) after written notice thereof (which notice shall be effective only with the written consent of the Credit Facility Provider if no Event of Default has occurred and is then continuing under Section 6.01(b) hereof) to the Issuer from the Trustee or the Holders of more than 51% of the aggregate principal amount of the Bonds then Outstanding at such time specifying such default and requiring the same to be remedied; provided that if such default cannot be cured within such thirty (30) day period through the exercise of diligence and the Issuer commences the required cure within such thirty (30) day period and continues the cure with diligence and the Issuer reasonably anticipates that the default could be cured within sixty (60) days, the Issuer shall have sixty (60) days following receipt of such notice to effect the cure.

The Trustee and the Issuer agree that, notwithstanding the provisions hereof, no default under the terms of this Indenture shall be construed as resulting in a default under the Bond Mortgage Note, the Bond Mortgage or any other Bond Mortgage Loan Document, unless such event also constitutes an event of default thereunder.

The Trustee will immediately notify the Issuer, the Remarketing Agent, the Servicer and the Credit Facility Provider after a Responsible Officer obtains actual knowledge of the occurrence of an Event of Default or obtains actual knowledge of the occurrence of an event which would become an Event of Default with the passage of time or the giving of notice or both.

Section 6.02. ***Acceleration; Other Remedies Upon Event of Default***.

(a) Upon the occurrence of an Event of Default as provided in Section 6.01(a) hereof, the Trustee shall, but so long as no Event of Default has occurred and is then continuing under Section 6.01(b) hereof, only upon receipt from the Credit Facility Provider of a notice directing such acceleration (which notice may be given in the sole discretion of the Credit Facility Provider), by notice in writing delivered to the Issuer, declare the principal of all Bonds then Outstanding and the interest accrued thereon immediately due and payable, and such principal and interest shall thereupon become and be immediately due and payable and interest on the Bonds shall cease to accrue, anything contained in this Indenture or in the Bonds to the contrary notwithstanding.

(b) Upon the occurrence of an Event of Default as provided in Section 6.01(c) hereof, the Trustee may, but so long as no Event of Default has occurred and is then continuing under Section 6.01(b) hereof, only upon receipt of the written consent of the Credit Facility Provider (which consent may be given in the sole discretion of the Credit Facility Provider), by notice in writing delivered to the Issuer, declare the principal of all Bonds then Outstanding and the interest accrued thereon immediately due and payable, and such principal and interest shall thereupon become and be immediately due and payable and interest on the Bonds shall cease to accrue, anything contained in this Indenture or in the Bonds to the contrary notwithstanding.

(c) Upon the occurrence of an Event of Default under Section 6.01(b) hereof, the Trustee may, and upon the written request of the Holders of more than 51% of the aggregate principal amount of the Bonds then Outstanding and receipt of indemnity satisfactory to it shall, by notice in writing delivered to the Issuer, declare the principal of all Bonds then Outstanding and the interest accrued thereon immediately due and payable, and such principal and interest shall thereupon become and be immediately due and payable and interest on the Bonds shall cease to accrue upon such declaration, anything contained in this Indenture or in the Bonds to the contrary notwithstanding.

The payment on the Bonds resulting from a declaration of acceleration on the Bonds as the result of an Event of Default occurring under Section 6.01(a) or (c) shall be made from the Credit Facility.

If at any time after the Bonds shall have been so declared due and payable, and before any judgment or decree for the payment of the money due shall have been obtained or entered, the Issuer, the Borrower or the Credit Facility Provider, as applicable, shall pay to or deposit with the Trustee a sum sufficient to pay all principal of the Bonds then due (other than solely by reason of such declaration) and all unpaid installments of interest (if any) upon all the Bonds then due, with interest at the rate borne by the Bonds on such overdue principal and (to the extent legally enforceable) on such overdue installments of interest, and the reasonable fees and expenses of the Trustee (including its counsel) shall have been made good or cured or adequate provision shall have been made therefor, and all outstanding amounts then due and unpaid under the Reimbursement Agreement (including, without limitation, with respect to the Credit Facility Provider all outstanding amounts owed to the Credit Facility Provider and all fees owed to the Credit Facility Provider) (the "Cure Amount")) shall have been paid in full, and all other defaults hereunder shall have been made good or cured or waived in writing by the Credit Facility Provider (or, if an Event of Default under Section 6.01(b) hereof has occurred and is then continuing, by the Holders of more than 51% of the aggregate principal amount of the Bonds then Outstanding), then and in every case, the Trustee on behalf of the Holders of all the Outstanding Bonds shall rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default, nor shall it impair or exhaust any right or power consequent thereon. Notwithstanding the foregoing provisions of this paragraph, in the event the Cure Amount is derived in whole or in part from a draw on the Credit Facility, any such rescission or annulment of such declaration of acceleration shall not occur without the written consent of the Credit Facility Provider.

Upon the occurrence and during the continuance of an Event of Default, the Trustee in its own name and as trustee of an express trust, on behalf and for the benefit and protection of the Holders of all Bonds with respect to which such an Event of Default has occurred and of the Credit Facility Provider (if no Event of Default has occurred and is continuing under Section 6.01(b)), may also proceed to protect and enforce any rights of the Trustee and, to the full extent that the Holders of such Bonds themselves might do, the rights of such Bondholders under the laws of the State or under this Indenture by such of the following remedies as the Trustee shall deem most effectual to protect and enforce

such rights; provided that, so long as no Event of Default has occurred and is then continuing under Section 6.01(b) hereof, the Trustee may undertake any such remedy only upon the receipt of the prior written consent of the Credit Facility Provider (which consent may be given in the sole discretion of the Credit Facility Provider):

(i) by mandamus or other suit, action or proceeding at law or in equity, to enforce the payment of the principal of, premium, if any, or interest on the Bonds then Outstanding and to require the Issuer or the Credit Facility Provider to carry out any covenants or agreements with or for the benefit of the Bondholders and to perform its duties under the Act, the Bond Resolution, the Financing Agreement, the Regulatory Agreement, the Credit Facility or any other Bond Financing Document (as applicable) to the extent permitted under the applicable provisions thereof;

(ii) by pursuing any available remedies under the Financing Agreement, the Regulatory Agreement, the Credit Facility or any other Bond Financing Document;

(iii) by realizing or causing to be realized through sale or otherwise upon the security pledged hereunder; and

(iv) by action or suit in equity enjoin any acts or things that may be unlawful or in violation of the rights of the Holders of the Bonds and execute any other papers and documents and do and perform any and all such acts and things as may be necessary or advisable in the opinion of the Trustee in order to have the respective claims of the Bondholders against the Issuer allowed in any bankruptcy or other proceeding.

No remedy by the terms of this Indenture conferred upon or reserved to the Trustee or to the Bondholders is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given to the Trustee, the Credit Facility Provider or the Bondholders hereunder or under the Financing Agreement, the Regulatory Agreement, the Credit Facility, the Reimbursement Agreement or any other Bond Financing Document, as applicable, or now or hereafter existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient. No waiver of any Event of Default hereunder, whether by the Trustee, the Credit Facility Provider or the Bondholders, shall extend to or shall affect any subsequent default or event of default or shall impair any rights or remedies consequent thereto.

In all events the rights of the Trustee to exercise remedies under this Indenture upon the occurrence of an Event of Default shall be subject to the provisions of the Intercreditor Agreement.

Section 6.03. ***Rights of Bondholders.*** If an Event of Default under Section 6.01(b) hereof shall have occurred and is then continuing, and if requested in writing so to do by the Holders of more than 51% of the aggregate principal amount of the Bonds then Outstanding with respect to which there is a default, and if indemnified to its satisfaction, the Trustee shall exercise one or more of the rights and powers conferred by this Article as the Trustee, being advised by counsel, shall deem to be in the best interests of the affected Bondholders. If an Event of Default under Section 6.01(b) hereof shall have occurred and is then continuing, the Holders of more than 51% of the aggregate principal amount of the Bonds then Outstanding with respect to which an Event of Default has occurred shall have the right at any time, subject to the provisions of Section 6.08 hereof, by an instrument in writing executed and delivered to the Trustee, to direct the time, method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of this Indenture, or for the appointment of a receiver or any other proceedings hereunder, in accordance with the provisions of law and of this Indenture.

Section 6.04. ***Waiver by Issuer.*** Upon the occurrence of an Event of Default, to the extent that such right may then lawfully be waived, neither the Issuer nor anyone claiming through or under it shall set up, claim or seek to take advantage of any appraisal, valuation, stay, extension or redemption laws now or hereinafter in force, in order to prevent or hinder the enforcement of this Indenture; and the Issuer, for itself and all who may claim through or under it, hereby waives, to the extent that it lawfully may do so, the benefit of all such laws and all right of appraisement and redemption to which it may be entitled under the laws of the State and the United States.

Section 6.05. ***Application of Money After Default.*** All money (other than amounts drawn from the Credit Facility under Section 6.02 hereof) collected by the Trustee at any time pursuant to this Article shall, except to the extent, if any, otherwise directed by a court of competent jurisdiction, be credited by the Trustee to the General Account of the Revenue Fund. Such money so credited to the General Account of the Revenue Fund and all other money from time to time credited to the General Account of the Revenue Fund shall at all times be held, transferred, withdrawn and applied as prescribed by the provisions of Article IV hereof and this Section 6.05.

In the event that at any time the money credited to the Revenue Fund, the Bond Fund, the Redemption Fund, the Administration Fund and the Principal Reserve Fund available for the payment of interest or principal then due with respect to the Bonds shall be insufficient for such payment, such money (other than money held for the payment or redemption of particular Bonds as provided in Section 4.09 hereof and amounts drawn from the Credit Facility under Section 6.02 hereof) shall be applied as follows and in the following order of priority:

(a) For payment of all amounts due to the Trustee incurred in performance of its duties under this Indenture, including, without limitation, the payment of all reasonable fees and expenses of the Trustee incurred in exercising any remedies under this Indenture.

(b) So long as no Event of Default has occurred and is then continuing under Section 6.01(b) hereof, for the payment to the Credit Facility Provider of all amounts then due and unpaid under the Reimbursement Agreement (including with respect to

Freddie Mac all Freddie Mac Credit Enhancement Fees and Freddie Mac Reimbursement Amounts).

(c) Unless the principal of all Bonds shall have become or have been declared due and payable:

FIRST: to the payment to the Persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available is not sufficient to pay in full any installment, then to the payment thereof ratably, according to the amounts due on such installment, to the Persons entitled thereto, without any discrimination or preference; and

SECOND: to the payment to the Persons entitled thereto of the unpaid principal of and premium, if any (which payment of premium shall not be restricted to Eligible Funds), on any Bonds which shall have become due, whether at maturity or by call for redemption, in the order in which they became due and payable, and, if the amount available is not sufficient to pay in full all the principal of and premium, if any, on the Bonds so due on any date, then to the payment of principal ratably, according to the amounts due on such date, to the Persons entitled thereto, without any discrimination or preference, and then to the payment of any premium due on the Bonds, ratably, according to the amounts due on such date, to the Persons entitled thereto, without any discrimination or preference.

(d) If the principal of all of the Bonds shall have become or have been declared due and payable, to the payment of the principal of, premium, if any (which payment of premium shall not be restricted to Eligible Funds), and interest then due and unpaid upon the Bonds without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due, respectively, for principal, premium and interest, to the Persons entitled thereto without any discrimination or preference except as to any differences in the respective rates of interest specified in the Bonds.

(e) If an Event of Default has occurred and is then continuing under Section 6.01(b) hereof, for the payment to the Credit Facility Provider of all amounts then due and unpaid under the Reimbursement Agreement to the date of such Event of Default.

Section 6.06. ***Rights of the Credit Facility Provider.*** If an Event of Default under Section 6.01(a) or (c) shall have occurred and so long as no Event of Default has occurred and is then continuing under Section 6.01(b) hereof, upon receipt of the written direction of the Credit Facility Provider (which direction may be given in the sole discretion of the Credit Facility Provider), the Trustee shall be obligated to exercise any right or power conferred by this Article in the manner set forth in such written direction of the Credit Facility Provider. If such written direction expressly states that the Trustee may exercise one or more of the rights and powers conferred in this Article as the Trustee shall deem to be in the interest of the Bondholders and the Credit Facility Provider, the Trustee, being advised by counsel, shall exercise one or more of

such rights and powers as the Trustee, being advised by counsel, shall deem to be in the best interests of the Bondholders and the Credit Facility Provider; provided, however, that in any event, so long as no Event of Default has occurred and is then continuing under Section 6.01(b) hereof, the Trustee may not undertake any action to realize, through sale or otherwise, upon the Bond Mortgage Loan without the express written direction of the Credit Facility Provider. So long as no Event of Default has occurred and is then continuing under Section 6.01(b) hereof, in the case of an Event of Default under Section 6.01(a) or (c) hereof, the Credit Facility Provider shall have the right, by an instrument in writing executed and delivered to the Trustee, and upon receipt of indemnity satisfactory to the Trustee, to direct the time, method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of this Indenture, or for the appointment of a receiver or any other proceedings hereunder, in accordance with the provisions of law and of this Indenture.

Section 6.07. ***Remedies Vested in Trustee.*** All rights of action, including the right to file proof of claims, under this Indenture or under any of the Bonds may be enforced by the Trustee without the possession of any of the Bonds or the production thereof in any trial or other proceedings relating thereto and any such suit or proceeding instituted by the Trustee shall be brought in its name as Trustee without the necessity of joining as plaintiffs or defendants any Holders of the Bonds, and any recovery or judgment shall be for the mutual benefit as provided herein of all of the Holders of the Outstanding Bonds.

Section 6.08. ***Remedies of Bondholders.*** No Holder of any Bond shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of this Indenture or for the execution of any trust hereunder or for the appointment of a receiver or any other remedy hereunder, unless (a) a default shall have occurred of which the Trustee shall have been notified as provided herein; (b) such default shall have become an Event of Default under Section 6.01(b) hereof; (c) the Holders of more than 51% of the aggregate principal amount of the Bonds then Outstanding with respect to which there is such an Event of Default shall have made written request to the Trustee and shall have offered reasonable opportunity to the Trustee either to proceed to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name; (d) such Holders shall have offered to the Trustee indemnity as provided in this Indenture; and (e) the Trustee shall within sixty (60) days thereafter fail or refuse to exercise the powers hereinbefore granted, or to institute such action, suit or proceeding; it being understood and intended that no one or more Holders of the Bonds shall have any right in any manner whatsoever to affect, disturb or prejudice the lien of this Indenture or the rights of any other Holders of Bonds or to obtain priority or preference over any other Holders or to enforce any right under this Indenture, except in the manner herein provided with respect to the equal and ratable benefit of all Holders of Bonds with respect to which there is a default. Nothing contained in this Indenture shall, however, affect or impair the right of any Bondholder to enforce the payment of the principal of, the premium, if any, and interest on any Bond at the maturity thereof or the obligation of the Issuer to pay the principal of, premium, if any, and interest on the Bonds issued hereunder to the respective holders thereof, at the time, in the place, from the sources and in the manner expressed herein and in said Bonds.

Section 6.09. ***Termination of Proceedings.*** In case the Trustee shall have proceeded to enforce any right under this Indenture by the appointment of a receiver, by entry or otherwise, and such proceedings shall have been discontinued or abandoned for any reason, or shall have

been determined adversely, then and in every such case the Issuer, the Trustee, the Credit Facility Provider, the Borrower and the Bondholders shall be restored to their former positions and rights hereunder with respect to the Trust Estate herein conveyed, and all rights, remedies and powers of the Trustee shall continue as if no such proceedings had been taken.

Section 6.10. ***Waivers of Events of Default.*** So long as no Event of Default has occurred and is then continuing under Section 6.01(b) hereof, the Trustee shall waive any Event of Default hereunder and its consequences and rescind any declaration of maturity of principal of, premium, if any, and interest on the Bonds only upon the written direction of the Credit Facility Provider. If there shall have occurred and is then continuing an Event of Default under Section 6.01(b) hereof, the Trustee shall waive any Event of Default hereunder and its consequences and rescind any declaration of maturity of principal of, premium, if any, and interest on the Bonds upon the written request of the Holders of 100% of the Bonds then Outstanding with respect to which there is a default; provided, however, that there shall not be waived (a) any Event of Default in the payment of the principal of any Bonds (other than Purchased Bonds) at the date of maturity specified therein, or upon proceedings for mandatory redemption or in the Purchase Price of any Bonds (other than Purchased Bonds), (b) any default in the payment when due of the interest or premium on any such Bonds (other than Purchased Bonds), unless prior to such waiver or rescission all arrears of interest, with interest (to the extent permitted by law) at the rate borne by the Bonds in respect of which such default shall have occurred on overdue installments of interest or all arrears of payments of principal or premium, if any, when due (whether at the stated maturity thereof or upon proceedings for mandatory redemption) as the case may be, and all expenses of the Trustee in connection with such default shall have been paid or provided for, and in case of any such waiver or rescission, or in case any proceeding taken by the Trustee on account of any such default shall have been discontinued or abandoned or determined adversely, then and in every such case the Issuer, the Trustee, the Credit Facility, the Credit Facility Provider and the Bondholders shall be restored to their former positions and rights hereunder, respectively, but no such waiver or rescission shall extend to any subsequent or other default, or impair any right consequent thereto.

Section 6.11. ***Notice to Bondholders if Default Occurs.*** Upon the occurrence of an Event of Default, or if an event occurs which could lead to an Event of Default with the passage of time and of which the Trustee is required to take notice pursuant to Section 7.02(l) hereof, the Trustee shall, within thirty (30) days, give written notice thereof by first class mail to the registered Owners of all Bonds then Outstanding. Notwithstanding the foregoing, except in the case of an Event of Default with respect to the payment of principal of or premium, if any, and interest on the Bonds, the Trustee shall be protected in withholding such notice if and so long as the board of directors of the Trustee, the executive committee, or a trust committee of directors or officers of the Trustee in good faith determines that the withholding of such notice is in the best interests of the Holders of the Bonds.

ARTICLE VII
CONCERNING THE TRUSTEE

Section 7.01. ***Standard of Care.*** The Trustee, prior to an Event of Default as defined in Section 6.01 and after the curing or waiver of all such events which may have occurred, shall perform such duties and only such duties as are specifically set forth in this Indenture. The

Trustee, during the existence of any such Event of Default (which shall not have been cured or waived), shall exercise such rights and powers vested in it by this Indenture and use the same degree of care and skill in their exercise as a prudent Person would exercise or use under similar circumstances in the conduct of such Person's own affairs.

No provision of this Indenture shall be construed to relieve the Trustee from liability for its own negligence or willful misconduct, except that:

(a) prior to an Event of Default hereunder, and after the curing or waiver of all such Events of Default which may have occurred:

(i) the duties and obligations of the Trustee shall be determined solely by the express provisions of this Indenture, and the Trustee shall not be liable except for the performance of such duties and obligations as are specifically set forth in this Indenture; and

(ii) in the absence of bad faith on the part of the Trustee, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon any certificate or opinion furnished to the Trustee by the Person or Persons authorized to furnish the same;

(b) at all times, regardless of whether or not any such Event of Default shall exist:

(i) the Trustee shall not be liable for any error of judgment made in good faith by an officer or employee of the Trustee and upon receipt of indemnity satisfactory to the Trustee; and

(ii) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Credit Facility Provider or the Holders of more than 51% of the aggregate principal amount of the Bonds then Outstanding (or such lesser or greater percentage as is specifically required or permitted by this Indenture) relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under this Indenture.

Section 7.02. ***Reliance Upon Documents.*** Except as otherwise provided in Section 7.01:

(a) the Trustee may rely upon the authenticity or truth of the statements and the correctness of the opinions expressed in, and shall be protected in acting upon any resolution, certificate, statement, instrument, opinion, report, notice, notarial seal, stamp, acknowledgment, verification, request, consent, order, bond, or other paper or document of the proper party or parties;

(b) any notice, request, certificate, statement, requisition, direction, election, order or demand of the Issuer mentioned herein shall be sufficiently evidenced by an

instrument signed in the name of the Issuer by an Authorized Officer of the Issuer (unless other evidence in respect thereof be herein specifically prescribed), and any resolution of the Issuer may be evidenced to the Trustee by a copy of such resolution duly certified by an Authorized Officer of the Issuer;

(c) any notice, request, certificate, statement, requisition, direction, election, order or demand of the Borrower mentioned herein shall be sufficiently evidenced by an instrument purporting to be signed in the name of the Borrower by any Authorized Officer of the Borrower (unless other evidence in respect thereof be herein specifically prescribed), and any resolution or certification of the Borrower may be evidenced to the Trustee by a copy of such resolution duly certified by a secretary or other authorized representative of the Borrower;

(d) any notice, request, certificate, statement, requisition, direction, election, order or demand of the Servicer mentioned herein shall be sufficiently evidenced by an instrument signed in the name of the Servicer by an Authorized Officer of the Servicer (unless other evidence in respect thereof be herein specifically prescribed);

(e) any notice, request, direction, election, order or demand of the Credit Facility Provider mentioned herein shall be sufficiently evidenced by an instrument purporting to be signed in the name of the Credit Facility Provider by any Authorized Officer of the Credit Facility Provider (unless other evidence in respect thereof be herein specifically prescribed);

(f) any notice, request, direction, election, order or demand of the Remarketing Agent mentioned herein shall be sufficiently evidenced by an instrument purporting to be signed in the name of the Remarketing Agent by any Authorized Officer of the Remarketing Agent (unless other evidence in respect thereof be herein specifically prescribed);

(g) any notice, request, direction, election, order or demand of the Tender Agent mentioned herein shall be sufficiently evidenced by an instrument purporting to be signed in the name of the Tender Agent by any Authorized Officer of the Tender Agent (unless other evidence in respect thereof be herein specifically prescribed);

(h) in the administration of the trusts of this Indenture, the Trustee may execute any of the trusts or powers hereby granted directly or through its agents, receivers or attorneys, and the Trustee may consult with counsel (who may be counsel for the Issuer, the Servicer or the Credit Facility Provider) and the opinion or advice of such counsel shall be full and complete authorization and protection in respect of any action taken or permitted by it hereunder in good faith and in accordance with the opinion of such counsel;

(i) whenever in the administration of the trusts of this Indenture, the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or permitting any action hereunder, such matters (unless other evidence in respect thereof be herein specifically prescribed), may in the absence of negligence or

willful misconduct on the part of the Trustee, be deemed to be conclusively proved and established by a certificate of an officer or authorized agent of the Issuer or the Borrower and such certificate shall in the absence of bad faith on the part of the Trustee be full warrant to the Trustee for any action taken or permitted by it under the provisions of this Indenture, but in its discretion the Trustee may in lieu thereof accept other evidence of such matter or may require such further or additional evidence as it may deem reasonable;

(j) the recitals herein and in the Bonds (except the Trustee's Certificate of Authentication thereon) shall be taken as the statements of the Issuer and the Borrower and shall not be considered as made by or imposing any obligation or liability upon the Trustee. The Trustee makes no representations as to the value or condition of the Trust Estate or any part thereof, or as to the title of the Issuer or the Borrower to the Trust Estate, or as to the security of this Indenture, or of the Bonds issued hereunder, and the Trustee shall incur no liability or responsibility in respect of any of such matters;

(k) the Trustee shall not be personally liable for debts contracted or liability for damages incurred in the management or operation of the Trust Estate; and every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this subsection (k);

(l) the Trustee shall not be required to ascertain or inquire as to the performance or observance of any of the covenants or agreements (except to the extent they obligate the Trustee) herein or in any contracts or securities assigned or conveyed to or pledged with the Trustee hereunder, except Events of Default that are evident under Section 6.01(a) or Section 6.01(b) hereof. The Trustee shall not be required to take notice or be deemed to have notice or actual knowledge of any default or Event of Default specified in Section 6.01hereof (except defaults under Section 6.01(a) or Section 6.01(b) hereof) unless the Trustee shall receive from the Issuer, the Credit Facility Provider or the Holders of more than 51% of the aggregate principal amount of the Bonds then Outstanding written notice stating that a default or Event of Default has occurred and specifying the same, and in the absence of such notice the Trustee may conclusively assume that there is not such default. Every provision contained in this Indenture or related instruments or in any such contract or security wherein the duty of the Trustee depends on the occurrence and continuance of such default shall be subject to the provisions of this subsection (l);

(m) the Trustee shall be under no duty to confirm or verify any financial or other statements or reports or certificates furnished pursuant to any provisions hereof, except to the extent such statements or reports are furnished by or under the direction of the Trustee, and shall be under no other duty in respect of the same except to retain the same in its files and permit the inspection of the same at reasonable times by the Holder of any Bond; and

(n) the Trustee shall be under no obligation to exercise those rights or powers vested in it by this Indenture, other than such rights and powers which it shall

be obliged to exercise in the ordinary course of its trusteeship under the terms and provisions of this Indenture, at the request or direction of any of the Bondholders pursuant to Sections 6.03 and 6.08 of this Indenture, unless such Bondholders shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in the compliance with such request or direction.

None of the provisions contained in this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur personal financial liability in the performance of any of its duties or in the exercise of any of its rights or powers , except to the extent of negligence or intentional misconduct of the Trustee.

The Trustee is authorized and directed to execute in its capacity as Trustee the Financing Agreement, the Regulatory Agreement and the Intercreditor Agreement and shall have no responsibility or liability with respect to any information, statement or recital in any offering memorandum or other disclosure material prepared or distributed with respect to the issuance of the Bonds.

The Trustee or any of its affiliates may act as advisor or sponsor with respect to any Qualified Investments.

The Trustee agrees to accept and act upon facsimile transmission of written instructions and/or directions pursuant to this Indenture provided, however, that: (a) subsequent to such facsimile transmission of written instructions and/or directions the Trustee shall forthwith receive the originally executed instructions and/or directions, (b) such originally executed instructions and/or directions shall be signed by a person as may be designated and authorized to sign for the party signing such instructions and/or directions, and (c) the Trustee shall have received a current incumbency certificate containing the specimen signature of such designated person.

Any resolution, certification, notice, request, direction, election, order or demand delivered to the Trustee pursuant to this Section 7.02 shall remain in effect until the Trustee receives written notice to the contrary from the party that delivered such instrument accompanied by revised information from such party.

The Trustee shall have no responsibility for the value of any collateral or with respect to the perfection or priority of any security interest in any collateral except as otherwise provided in Section 7.17 hereof.

Section 7.03. ***Use of Proceeds.*** The Trustee shall not be accountable for the use or application of any of the Bonds authenticated or delivered hereunder or of the proceeds of the Bonds except as provided herein.

Section 7.04. ***Trustee May Hold Bonds.*** The Trustee and its officers and directors may acquire and hold, or become pledgees of Bonds and otherwise may deal with the Issuer and the Owner in the same manner and to the same extent and with like effect as though it were not Trustee hereunder.

Section 7.05. ***Trust Imposed.*** All money received by the Trustee shall, until used or applied as herein provided, be held in trust for the purposes for which they were received, but need not be segregated from other money except to the extent required by law.

Section 7.06. ***Compensation of Trustee.*** The Trustee shall be entitled to its Ordinary Trustee's Fees and Expenses in connection with the services rendered by it in the execution of the trusts hereby created and in the exercise and performance of any of the powers and duties hereunder or under any of the Bond Financing Documents of the Trustee to the extent money is available therefor, in accordance with Section 4.06 hereof, exclusive of Extraordinary Services. The Trustee shall be entitled to Extraordinary Trustee's Fees and Expenses in connection with any Extraordinary Services performed consistent with the duties hereunder or under any of the Bond Financing Documents; provided the Trustee shall not incur any Extraordinary Trustee's Fees and Expenses without the consent of the Credit Facility Provider (except that no consent shall be required if an Event of Default under 6.01(b) has occurred and is continuing). If any property, other than cash, shall at any time be held by the Trustee subject to this Indenture, or any supplemental indenture, as security for the Bonds, the Trustee, if and to the extent authorized by a receivership, bankruptcy, or other court of competent jurisdiction or by the instrument subjecting such property to the provisions of this Indenture as such security for the Bonds, shall be entitled to make advances for the purpose of preserving such property or of discharging tax liens or other liens or encumbrances thereon. Payment to the Trustee for its services and reimbursement to the Trustee for its expenses, disbursements, liabilities and advances, shall be limited to the sources described in Section 4.06, 4.11 and 6.05 hereof and in the Financing Agreement. Remarketing proceeds and proceeds of draws on the Credit Facility shall not be used to pay or reimburse the Trustee. The Issuer shall have no liability for Trustee's fees, costs or expenses. Subject to the provisions of Section 7.09 hereof, the Trustee agrees that it shall continue to perform its duties hereunder or under any of the Bond Financing Documents even in the event that money designated for payment of its fees shall be insufficient for such purposes or in the event that the Borrower fails to pay the Ordinary Trustee's Fees and Expenses, as required by the Financing Agreement or that the Extraordinary Trustee's Fees and Expenses are not paid.

The Borrower shall indemnify and hold harmless the Trustee and its officers, directors, officials, employees, agents, receivers, attorneys, accountants, advisors, consultants and servants, past, present or future, from and against (a) any and all claims by or on behalf of any person arising from any cause whatsoever in connection with this Indenture or transactions contemplated thereby, the Project, or the issuance, offering, sale or remarketing of the Bonds; (b) any and all claims arising from any act or omission of the Borrower or any of its agents, contractors, servants, employees or licensees in connection with the Project, or the issuance, offering, sale or remarketing of the Bonds; and (c) all costs, counsel fees, expenses or liabilities incurred in connection with any such claim or proceeding brought thereon; except that the Borrower shall not be required to indemnify any person for damages caused by the willful misconduct, negligence or unlawful acts of such person. In the event that any action or proceeding is brought or claim made against the Trustee, or any of its officers, directors, officials, employees, agents, receivers, attorneys, accountants, advisors, consultants or servants, with respect to which indemnity may be sought hereunder, the Borrower, upon written notice thereof from the indemnified party, shall assume the investigation and defense thereof, including the employment of counsel and the payment of all expenses; provided that if any settlement or final determination of arbitration or court preceding determines that the acts of the Trustee were

unlawful, negligent or willful misconduct, the Trustee shall indemnify the Borrower for all such costs of defense. The indemnified party shall have the right to approve a settlement to which it is a party and to employ separate counsel in any such action or proceedings and to participate in the investigation and defense thereof, and the Borrower shall pay the reasonable fees and expenses of such separate counsel. The provisions of this Section shall survive the termination of this Indenture.

Section 7.07. ***Qualifications of Trustee.*** There shall at all times be a Trustee hereunder which shall be an association or a corporation organized and doing business under the laws of the United States or any state thereof, authorized under such laws to exercise corporate trust powers. Any successor Trustee shall have a combined capital and surplus of at least $50,000,000 (or shall be a wholly-owned subsidiary of an association or corporation that has such combined capital and surplus), and be subject to supervision or examination by federal or state authority, or shall have been appointed by a court of competent jurisdiction pursuant to Section 7.09. If such association or corporation publishes reports of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority referred to above, then for the purposes of this Section, the combined capital and surplus of such association or corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section and another association or corporation is eligible, the Trustee shall resign immediately in the manner and with the effect specified in Section 7.09.

Section 7.08. ***Merger of Trustee.*** Any association or corporation into which the Trustee may be converted or merged, or with which it may be consolidated, or to which it may sell or transfer its corporate trust business and assets as a whole or substantially as a whole, or any association or corporation resulting from any such conversion, sale, merger, consolidation or transfer to which it is a party shall, ipso facto, be and become successor Trustee hereunder and vested with all the title to the whole property or Trust Estate and all the trusts, powers, discretions, immunities, privileges and all other matters as was its predecessor, without the execution or filing of any instruments or any further act, deed or conveyance on the part of any of the parties hereto, anything herein to the contrary notwithstanding, and shall also be and become successor Trustee in respect of the beneficial interest of the Trustee in the Bond Mortgage Loan.

Section 7.09. ***Resignation by the Trustee.*** The Trustee may at any time resign from the trusts hereby created by giving written notice to the Issuer, the Borrower, the Tender Agent, the Remarketing Agent and the Credit Facility Provider, and by giving notice by certified mail or overnight delivery service to each Holder of the Bonds then Outstanding. Such notice to the Issuer, the Borrower, the Tender Agent, the Remarketing Agent and the Credit Facility Provider may be served personally or sent by certified mail. The resignation of the Trustee shall not be effective until a successor Trustee has been appointed as provided herein and such successor Trustee shall have agreed in writing to be bound by the duties and obligations of the Trustee under the Intercreditor Agreement.

Section 7.10. ***Removal of the Trustee.*** The Trustee may be removed at any time, either with or without cause, by a written instrument signed by the Issuer and delivered to the Trustee, the Borrower, the Tender Agent and the Remarketing Agent, and if an Event of Default shall

have occurred and be continuing, other than an Event of Default under Section 6.01(b), by a written instrument signed by the Credit Facility Provider and delivered to the Trustee, the Issuer, the Borrower, the Tender Agent and the Remarketing Agent. The Trustee may also be removed, if an Event of Default under Section 6.01(b) shall have occurred and be continuing, by a written instrument or concurrent instruments signed by the Holders of more than 51% of the aggregate principal amount of the Bonds then Outstanding and delivered to the Trustee, the Issuer, the Borrower, the Tender Agent, the Remarketing Agent and the Credit Facility Provider. Any such removal shall take effect on the day specified in such written instrument(s), but the Trustee shall not be discharged from the trusts hereby created until a successor Trustee has been appointed and has accepted such appointment and has agreed in writing to be bound by the duties and obligations of the Trustee under the Intercreditor Agreement.

Section 7.11. ***Appointment of Successor Trustee***.

(a) In case at any time the Trustee shall resign or be removed, or be dissolved, or shall be in course of dissolution or liquidation, or otherwise become incapable of acting hereunder, or shall be adjudged a bankrupt or insolvent, or if a receiver of the Trustee or of its property shall be appointed, or if a public supervisory office shall take charge or control of the Trustee or of its property or affairs, a vacancy shall forthwith and ipso facto be created in the office of such Trustee hereunder, and the Issuer shall promptly appoint a successor Trustee and give notice of such appointment to the Remarketing Agent. Any such appointment shall be made by a written instrument executed by an Authorized Officer of the Issuer.

(b) If, in a proper case, no appointment of a successor Trustee shall be made pursuant to subsection (a) of this Section within sixty (60) days following delivery of all required notices of resignation given pursuant to Section 7.09 or of removal of the Trustee pursuant to Section 7.10, the retiring Trustee may apply to any court of competent jurisdiction to appoint a successor Trustee. The court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Trustee.

Section 7.12. ***Concerning Any Successor Trustee.*** Every successor Trustee appointed hereunder shall execute, acknowledge and deliver to its predecessor and also to the Issuer a written instrument accepting such appointment hereunder, accepting assignment of the beneficial interest in the Bond Mortgage, and thereupon such successor, without any further act, deed or conveyance, shall become fully vested with all the Trust Estate and the rights, powers, trusts, duties and obligations of its predecessor; but such predecessor shall, nevertheless, on the written request of the Issuer, the Borrower or the Credit Facility Provider, or of its successor, and upon payment of all amounts due such predecessor, including but not limited to fees and expenses of counsel, execute and deliver such instruments as may be appropriate to transfer to such successor Trustee all the Trust Estate and the rights, powers and trusts of such predecessor hereunder; and every predecessor Trustee shall deliver all securities, including, but not limited to, the existing Credit Facility, and money held by it as Trustee hereunder to its successor. Should any instrument in writing from the Issuer be required by a successor Trustee for more fully and certainly vesting in such successor the Trust Estate and all rights, powers and duties hereby vested or intended to be vested in the predecessor, any and all such instruments in writing shall,

on request, be executed, acknowledged and delivered by the Issuer. The resignation of any Trustee and the instrument or instruments removing any Trustee and appointing a successor hereunder, together with all other instruments provided for in this Article, shall be filed and/or recorded by the successor Trustee in each recording office where this Indenture shall have been filed and/or recorded. Each successor Trustee shall mail notice by first class mail, postage prepaid, at least once within 30 days of such appointment, to the Owners of all Bonds Outstanding at their addresses on the Bond Register.

Section 7.13. ***Successor Trustee as Trustee, Paying Agent and Bond Registrar.*** In the event of a change in the office of Trustee, the predecessor Trustee which shall have resigned or shall have been removed shall cease to be trustee and paying agent on the Bonds and Bond Registrar, and the successor Trustee shall become such Trustee, Paying Agent and Bond Registrar.

Section 7.14. ***Appointment of Co-Trustee or Separate Trustee.*** It is the intent of the Issuer and the Trustee that there shall be no violation of any law of any jurisdiction (including particularly the laws of the State) denying or restricting the right of banking corporations or associations to transact business as Trustee in such jurisdiction. It is recognized that in case of litigation under or connected with this Indenture, the Financing Agreement or any of the other Bond Financing Document, and, in particular, in case of the enforcement of any remedies on default, or in case the Trustee deems that by reason of any present or future law of any jurisdiction it may not exercise any of the powers, rights or remedies herein or therein granted to the Trustee or hold title to the properties in trust, as herein granted, or take any other action which may be desirable or necessary in connection therewith, it may be necessary that the Trustee, with the consent of the Issuer, appoint an additional individual or institution as a co-trustee or separate trustee.

In the event that the Trustee appoints an additional individual or institution as a co-trustee or separate trustee, in the event of the incapacity or lack of authority of the Trustee, by reason of any present or future law of any jurisdiction, to exercise any of the rights, powers, trusts and remedies granted to the Trustee herein or to hold title to the Trust Estate or to take any other action that may be necessary or desirable in connection therewith, each and every remedy, power, right, obligation, claim, demand, cause of action, immunity, estate, title, interest and lien expressed or intended by this Indenture to be imposed upon, exercised by or vested in or conveyed to the Trustee with respect thereto shall be imposed upon, exercisable by and vest in such separate trustee or co-trustee, but only to the extent necessary to enable such co-trustee or separate trustee to exercise such powers, rights, trusts and remedies, and every covenant and obligation necessary to the exercise thereof by such co-trustee or separate trustee shall run to and be enforceable by either of them, subject to the remaining provisions of this Section. Such co-trustee or separate trustee shall deliver an instrument in writing acknowledging and accepting its appointment hereunder to the Issuer and the Trustee.

Should any instrument in writing from the Issuer be required by the co-trustee or separate trustee so appointed by the Trustee for more fully and certainly vesting in and confirming to him or it such properties, rights, powers, trusts, duties and obligations, any and all such instruments in writing shall, on request, be executed, acknowledged and delivered by the Issuer, the Trustee and the Borrower. If the Issuer shall fail to deliver the same with thirty (30) days of such request, the

Trustee is hereby appointed attorney-in-fact for the Issuer to execute, acknowledge and deliver such instruments in the Issuer's name and stead. In case any co-trustee or separate trustee, or a successor to either, shall die, become incapable of acting, resign or be removed, all the estates, properties, rights, powers, trusts, duties and obligations of such co-trustee or separate trustee, so far as permitted by law, shall vest in and be exercised by the Trustee until the appointment of a new trustee or successor to such co-trustee or separate trustee.

Every co-trustee or separate trustee shall, to the extent permitted by law, but to such extent only, be appointed subject to the following terms, namely:

The Bonds shall be authenticated and delivered, and all rights, powers, trusts, duties and obligations by this Indenture conferred upon the Trustee in respect of the custody, control or management of money, papers, securities and other personal property shall be exercised solely by the Trustee;

(a) all rights, powers, trusts, duties and obligations conferred or imposed upon the Trustee shall be conferred or imposed upon or exercised or performed by the Trustee, or by the Trustee and such co-trustee, or separate trustee jointly, as shall be provided in the instrument appointing such co-trustee or separate trustee, except to the extent that under the law of any jurisdiction in which any particular act or acts are to be performed the Trustee shall be incompetent or unqualified to perform such act or acts, in which event such act or acts shall be performed by such co-trustee or separate trustee;

(b) any request in writing by the Trustee to any co-trustee or separate trustee to take or to refrain from taking any action hereunder shall be sufficient warrant for the taking or the refraining from taking of such action by such co-trustee or separate trustee;

(c) any co-trustee or separate trustee to the extent permitted by law shall delegate to the Trustee the exercise of any right, power, trust, duty or obligation, discretionary or otherwise;

(d) the Trustee at any time by an instrument in writing with the concurrence of the Issuer evidenced by a certified resolution may accept the resignation of or remove any co-trustee or separate trustee appointed under this Section and in case an Event of Default shall have occurred and be continuing, the Trustee shall have power to accept the resignation of or remove any such co-trustee or separate trustee without the concurrence of the Issuer, and upon the request of the Trustee, the Issuer shall join with the Trustee in the execution, delivery and performance of all instruments and agreements necessary or proper to effectuate such resignation or removal. A successor to any co-trustee or separate trustee so resigned or removed may be appointed in the manner provided in this Section;

(e) no Trustee or co-trustee hereunder shall be personally liable by reason of any act or omission of any other Trustee hereunder;

(f) any demand, request, direction, appointment, removal, notice, consent, waiver or other action in writing executed by the Bondholders and delivered to the

Trustee shall be deemed to have been delivered to each such co-trustee or separate trustee; and

(g) any money, papers, securities or other items of personal property received by any such co-trustee or separate trustee hereunder shall forthwith, so far as may be permitted by law, be turned over to the Trustee.

The total compensation of the Trustee and co-trustee or separate trustee shall be as, and may not exceed the amount, provided in Section 7.06 hereof.

Section 7.15. ***Notice of Certain Events.*** The Trustee shall give written notice to the Issuer, the Servicer and the Credit Facility Provider of any failure by the Borrower to comply with the terms of the Regulatory Agreement or any Market Risk Event of which a Responsible Officer has actual knowledge.

Section 7.16. ***Record of Freddie Mac Credit Enhancement Payments and Freddie Mac Reimbursement Amounts.*** The Trustee shall maintain records of all Freddie Mac Credit Enhancement Payments received by it from Freddie Mac under the Credit Enhancement Agreement and of all Freddie Mac Reimbursement Amounts paid by the Trustee to Freddie Mac or known by the Trustee to be due to Freddie Mac but unpaid from time to time. The Trustee hereby agrees, upon receipt of a written request from Freddie Mac, to cooperate with Freddie Mac and the Servicer in connection with the reconciliation of the Trustee's records maintained pursuant to this Section 7.16 and any similar records maintained by Freddie Mac or the Servicer.

Section 7.17. ***Filing of Financing Statements***. The Borrower shall file or record or cause to be filed or recorded on or prior to the Delivery Date all financing statements which are required to be filed or recorded in order fully to protect and preserve the security interests relating to the priority of the Bond Mortgage Loan, the Trust Estate and the Bond Mortgage, and the rights and powers of the Issuer, the Trustee and the Credit Facility Provider in connection with such security interests.

The Trustee shall, at the expense of the Borrower, file or record or cause to be filed or recorded all UCC continuation statements for the purpose of continuing without lapse the effectiveness of those financing statements which have been filed on or approximately on the Delivery Date in connection with the security for the Bonds pursuant to the authority of the UCC. Upon the filing of any such continuation statement the Trustee shall immediately notify the Issuer, the Borrower, the Credit Facility Provider and the Servicer that the same has been done. If direction is given by the Servicer or the Credit Facility Provider, the Trustee shall file all continuation statements in accordance with such directions.

ARTICLE VIII
SUPPLEMENTAL INDENTURES AND AMENDMENTS OF CERTAIN DOCUMENTS

Section 8.01. ***Supplemental Indentures Not Requiring Consent of Bondholders.*** The Issuer and the Trustee may from time to time and at any time, without the consent of, or notice to, any of the Bondholders, but with the prior written consent of the Credit Facility Provider, enter into an indenture or indentures supplemental to this Indenture for any one or more of the following purposes:

(a) to cure any formal defect, omission, inconsistency or ambiguity herein in a manner not materially adverse to the Holder of any Bond to be Outstanding after the effective date of the change;

(b) to grant to or confer upon the Trustee for the benefit of the Holders of the Bonds any additional rights, remedies, powers or authority that may lawfully be granted or conferred and that are not contrary to or inconsistent with this Indenture or the rights of the Trustee hereunder as theretofore in effect;

(c) to subject to the lien and pledge of this Indenture additional revenues, properties or collateral;

(d) to modify, amend or supplement this Indenture or any indenture supplemental hereto in such manner as to permit the qualification hereof and thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect or to permit the qualification of the Bonds for sale under any state blue sky laws;

(e) to make such additions, deletions or modifications as may be necessary, in the opinion of Bond Counsel delivered to the Issuer, the Trustee and the Credit Facility Provider, necessary to maintain the exclusion from gross income for federal income tax purposes of interest on the Bonds;

(f) to modify, amend or supplement this Indenture as required by the Rating Agency to obtain or maintain a rating or ratings for the Bonds, except no change may be made that will adversely affect the interests of the Holders of the Bonds to be Outstanding after the effective date of the change;

(g) during a Variable Period, to modify, amend or supplement this Indenture in any other respect, including amendments which would otherwise be described in Section 8.02 hereof, (1) if notice of the proposed supplemental indenture is given to Bondholders (in the same manner as notices of redemption are given) at least twenty (20) days before the effective date thereof and, on or before such effective date, the Bondholders have the right to demand purchase of their Bonds pursuant to Section 10.01 hereof or (ii) if such amendments will take effect on a mandatory tender date following the purchase of tendered bonds;

(h) to modify, alter, amend or supplement this Indenture in connection with the delivery of any Alternate Credit Facility or upon the occurrence of any Reset Adjustment Date, Variable Rate Adjustment Date or Fixed Rate Adjustment Date;

(i) to implement or modify any secondary market disclosure requirements; and

(j) to modify, amend or supplement this Indenture in any other respect which is not materially adverse to the Holders of the Bonds to be Outstanding after the effective date of the change and which does not involve a change described in Section 8.02.

Section 8.02. ***Supplemental Indentures Requiring Consent of Bondholders.*** With the prior written consent of the Credit Facility Provider, the Holders of more than 51% of the aggregate principal amount of the Bonds then Outstanding shall have the right, from time to time, to consent to and approve the execution by the Issuer and the Trustee of such indenture or indentures supplemental hereto as shall be deemed necessary and desirable by the Issuer for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in this Indenture; provided, however, that nothing in this Section contained shall permit, or be construed as permitting, (a) an extension of the time for payment of or reduction in the Purchase Price, or an extension of the time for payment of, or an extension of the stated maturity or reduction in the principal amount or reduction in the rate of interest on or extension of the time of payment, of interest on, or reduction of any premium payable on the redemption of, any Bonds, or a reduction in the Borrower's obligation on the Bond Mortgage Note, without the consent of the Holders of all of the Bonds then Outstanding, (b) the creation of any lien prior to or on a parity with the lien of this Indenture, (c) a reduction in the aforesaid percentage of the principal amount of Bonds which is required in connection with the giving of consent to any such supplemental indenture, without the consent of the Holders of all of the Bonds then Outstanding, (d) the modification of the rights, duties or immunities of the Trustee, without the written consent of the Trustee, (e) a privilege or priority of any Bond over any other Bonds or (f) any action that results in the interest on the Bonds becoming included in gross income for federal income tax purposes.

If at any time the Issuer shall request the Trustee to enter into any such supplemental indenture for any of the purposes of this Section, the Trustee shall, upon being satisfactorily indemnified with respect to expenses, cause notice of the proposed execution of such supplemental indenture to be mailed, postage prepaid, to all registered Bondholders and to the Credit Facility Provider. Such notice shall briefly set forth the nature of the proposed supplemental indenture and shall state that copies thereof are on file at the corporate trust office of the Trustee for inspection by all Bondholders.

Thirty (30) days after the date of the mailing of such notice, the Issuer and the Trustee may enter into such supplemental indenture substantially in the form described in such notice, but only if there shall have first been or is simultaneously delivered to the Trustee the required consents, in writing, of the Credit Facility Provider and the Holders of not less than the percentage of Bonds required by this Section. If the Holders of not less than the percentage of Bonds required by this Section shall have consented to and approved the execution and delivery

of a supplemental indenture as provided herein, no Holder of any Bond shall have any right to object to any of the terms and provisions contained therein, or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee or the Issuer from executing the same or from taking any action pursuant to the provisions thereof. Upon the execution of any such supplemental indenture as in this Section permitted and provided, this Indenture shall be and be deemed to be modified and amended in accordance therewith. The Trustee may rely upon an opinion of counsel as conclusive evidence that execution and delivery of a supplemental indenture has been effected in compliance with the provisions of this Article

Anything in this Article VIII to the contrary notwithstanding, unless the Borrower shall then be in default of any of its obligations under the Financing Agreement, the Reimbursement Agreement, the Regulatory Agreement, the Bond Mortgage Note, the Bond Mortgage or the Reimbursement Mortgage, a supplemental indenture under this Article which affects any rights of the Borrower shall not become effective unless and until the Borrower shall have expressly consented in writing to the execution and delivery of such supplemental indenture. In this regard, the Trustee shall cause notice of the proposed execution and delivery of any such supplemental indenture to be mailed by certified or registered mail to the Borrower or the Borrower's attorney at least fifteen (15) days prior to the proposed date of execution and delivery of any supplemental indenture.

Notwithstanding any other provision of this Indenture, the Issuer and the Trustee may consent to any supplemental indenture upon receipt of the consent of the Credit Facility Provider, the Holders of all Bonds then Outstanding and, as applicable, the Borrower.

Section 8.03. ***Amendments to Financing Agreement Not Requiring Consent of Bondholders.*** The Trustee shall, without the consent of, or notice to, the Bondholders, but with the consent of the Borrower and the Credit Facility Provider, consent to any amendment, change or modification of the Financing Agreement as follows:

(a) as may be required by the provisions of the Credit Facility, the Financing Agreement or this Indenture;

(b) to cure any formal defect, omission, inconsistency or ambiguity in the Financing Agreement in a manner not materially adverse to the Holder of any Bond to be Outstanding after the effective date of the change;

(c) to make such additions, deletions or modifications as may be necessary, in the opinion of Bond Counsel delivered to the Issuer, the Trustee and the Credit Facility Provider, to maintain the exclusion from gross income for federal income tax purposes of interest on the Bonds;

(d) to modify, amend or supplement the Financing Agreement as required by the Rating Agency to obtain or maintain a rating or ratings for the Bonds, except no change may be made that will adversely affect the interests of the Holders of the Bonds to be Outstanding after the effective date of the change;

(e) during a Variable Period, to modify, amend or supplement the Financing Agreement in any other respect, including amendments which would otherwise be described in Section 8.04 hereof, if notice of the proposed amendments is given to Bondholders (in the same manner as notices of redemption are given) at least twenty (20) days before the effective date thereof and, on or before such effective date, the Bondholders have the right to demand purchase of their Bonds pursuant to Section 10.01 hereof;

(f) to modify, alter, amend or supplement the Financing Agreement in connection with the delivery of an Alternate Credit Facility or upon the occurrence of any Reset Adjustment Date, Variable Rate Adjustment Date or Fixed Rate Adjustment Date; or

(g) to modify, amend or supplement the Financing Agreement in any other respect which is not materially adverse to the Trustee or Holders of the Bonds to be Outstanding after the effective date of the change.

Section 8.04. ***Amendments to Financing Agreement Requiring Consent of Bondholders.*** Except for the amendments, changes or modifications of the Financing Agreement as provided in Section 8.03 hereof, neither the Issuer nor the Trustee shall consent to any other amendment, change or modification of the Financing Agreement without the consent of the Credit Facility Provider and the Borrower and without the giving of notice and the written approval or consent of the Holders of at least 51% of the aggregate principal amount of the Bonds then Outstanding given and procured in accordance with the procedure set forth in Section 8.02 hereof; provided, however, that nothing contained in this Section 8.04 shall permit, or be construed as permitting, any amendment, change or modification of the Borrower's obligation to make the payments required under the Financing Agreement without the consent of the Holders of all of the Bonds then Outstanding. If at any time the Issuer and the Borrower shall request the consent of the Trustee to any such proposed amendment, change or modification of the Financing Agreement, the Trustee shall cause notice of such proposed amendment, change or modification to be given in the same manner as provided in Section 8.02 hereof. Such notice shall briefly set forth the nature of such proposed amendment, change or modification and shall state that copies of the instrument embodying the same are on file at the principal office of the Trustee for inspection by Bondholders.

Section 8.05. ***Amendments to the Credit Facility.*** The Trustee may, without the consent of, or notice to, any of the Bondholders enter into any amendment, change or modification of the Credit Facility (a) as may be required by the provisions of the Credit Facility (including but not limited to Section 3.4(b) of the Credit Enhancement Agreement), (b) to cure any formal defect, omission, inconsistency or ambiguity in the Credit Facility, (c) in a manner which is not prejudicial to the interests of the Bondholders (which shall be conclusively evidenced by an opinion of counsel delivered to the Trustee, the Issuer and the Credit Facility Provider or by a written confirmation from the Rating Agency of the then existing rating on the Bonds delivered to the Trustee, the Issuer and the Credit Facility Provider), or (d) as required by the Rating Agency to maintain the then current rating on the Bonds.

Section 8.06. ***Opinion of Bond Counsel Required***. No supplement or amendment to the Financing Agreement or this Indenture, as described in this Article VIII, shall be effective until the Issuer, the Trustee and the Credit Facility Provider shall have received an opinion of Bond Counsel to the effect that such supplement or amendment is authorized or permitted by this Indenture and, upon execution and delivery thereof, will be valid and binding upon the Issuer in accordance with its terms and will not cause interest on the Bonds to be includable in gross income of the Holders thereof for federal income tax purposes. The Trustee shall be entitled to receive, and shall be fully protected in relying upon, the opinion of any counsel approved by it as conclusive evidence that (i) any proposed supplemental indenture or amendment permitted by this Article VIII complies with the provisions of this Indenture, (ii) it is proper for the Trustee to join in the execution of that supplemental indenture or amendment under the provisions of this Article VIII, and (iii) if applicable, any such proposed supplemental indenture or amendment is not materially adverse to the interests of the Bondholders.

ARTICLE IX
SATISFACTION AND DISCHARGE OF INDENTURE

Section 9.01. ***Discharge of Lien.*** If the Issuer shall pay or cause to be paid to the Holders of the Bonds the principal, interest and premium, if any, to become due thereon at the times and in the manner stipulated therein and herein, in any one or more of the following ways:

(a) by the payment of the principal of (including redemption premium, if any) and interest on all Bonds outstanding; or

(b) by (i) the deposit or credit to the account of the Trustee, in trust, of money or securities in the necessary amount (as provided in Section 9.04) to pay the principal, redemption price or Purchase Price and interest to the date established for purchase or redemption (calculated at the Maximum Rate to the extent the Bonds then bear interest at a Variable Rate for any period for which the Variable Rate on such Bonds has not yet been established pursuant to Section 2.02 hereof) whether by redemption, purchase or otherwise, (ii) if the Bonds then bear interest at the Variable Rate, the delivery to the Trustee of a written confirmation by the Rating Agency of the rating then existing on the Bonds as of the date of such deposit or credit; and (iii) receipt by the Issuer and the Trustee of an opinion of Bond Counsel to the effect that such deposit will not adversely affect the exclusion of interest on the Bonds from gross income for federal income tax purposes; or

(c) by the delivery to the Trustee, for cancellation by it, of all Bonds Outstanding;

and shall have paid all amounts due and owing to the Credit Facility Provider hereunder and under the Credit Facility and the Reimbursement Agreement, including but not limited to the Freddie Mac Reimbursement Amount and the Freddie Mac Credit Enhancement Fee, and shall have paid all fees and expenses of the Trustee, the Servicer, the Tender Agent, the Remarketing Agent and each Paying Agent, and if the Issuer shall keep, perform and observe all and singular the covenants and promises in the Bonds and in this Indenture expressed as to be kept, performed and observed by it or on its part, then these presents and the estates and rights hereby granted

shall cease, determine and be void, and thereupon the Trustee shall cancel and discharge the lien of this Indenture and execute and deliver to the Issuer such instruments in writing as shall be requisite to satisfy the lien hereof, and reconvey to the Issuer the estate hereby conveyed, and assign and deliver to the Issuer any interest in property at the time subject to the lien of this Indenture which may then be in its possession, except amounts held by the Trustee for the payment of principal of, interest and premium, if any, on the Bonds, the payment of any amounts owed to the United States pursuant to Section 4.12 or the payment of any amounts payable to the Credit Facility Provider.

Any Outstanding Bond shall prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in the first paragraph of this Section if, under circumstances which do not cause interest on the Bonds to become includable in the Holders' gross income for purposes of federal income taxation, the following conditions shall have been fulfilled: (a) in case such Bond is to be redeemed on any date prior to its maturity, the Trustee shall have given to the Bondholder irrevocable notice of redemption of such Bond on said date; (b) there shall be on deposit with the Trustee, pursuant to Section 9.04 hereof, either money or direct obligations of the United States of America in an amount, together with anticipated earnings thereon (but not including any reinvestment of such earnings), which will be sufficient to pay, when due, the principal or redemption price, if applicable, and interest due and to become due on such Bond on the redemption date or maturity date thereof, as the case may be; (c) in the case of Bonds which do not mature or will not be redeemed within 60 days of such deposit, the Trustee shall have received a verification report of a firm of certified public accountants reasonably acceptable to the Trustee as to the adequacy of the amounts so deposited to fully pay the Bonds deemed to be paid; and (d) the Trustee shall have received an opinion of nationally recognized bankruptcy counsel, if required by subpart (e) of the definition of "Eligible Funds" herein, to the effect that such money constitutes Eligible Funds.

The Trustee shall in no event cause the Bonds to be optionally redeemed from money deposited pursuant to this Article IX unless the requirements of Article III have been met with respect to such redemption, including the requirements of Section 3.01(a)(iii) or (iv) hereof.

Section 9.02. ***Discharge of Liability on Bonds.*** Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount (as provided in Section 9.01) to pay or redeem Outstanding Bonds (whether upon or prior to their maturity or the redemption date of such Bonds) provided that, if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as in Article III provided or provision satisfactory to the Trustee shall have been made for the giving of such notice, all liability of the Issuer in respect of such Bonds shall cease, terminate and be completely discharged, except only that thereafter the holders thereof shall be entitled to payment by the Issuer, and the Issuer shall remain liable for such payment, but only out of the money or securities deposited with the Trustee as aforesaid for their payment, subject, however, to the provisions of Section 9.03.

Section 9.03. ***Payment of Bonds After Discharge of Indenture.*** Notwithstanding any provisions of this Indenture, any money deposited with the Trustee or any paying agent in trust for the payment of the principal of, or interest or premium on, any Bonds remaining unclaimed for five (5) years after the principal of all the outstanding Bonds, or any interest thereon, has

become due and payable (whether at maturity or upon call for redemption or by declaration as provided in this Indenture), shall then be paid to the Issuer, and the Holders of such Bonds shall thereafter be entitled to look only to the Issuer for payment thereof, and only to the extent of the amount so paid to the Issuer, and all liability of the Trustee or any paying agent with respect to such money shall thereupon cease. In the event of the payment of any such money to the Issuer as aforesaid, the Holders of the Bonds in respect of which such money were deposited shall thereafter be deemed to be unsecured creditors of the Issuer for amounts equivalent to the respective amounts so paid to the Issuer and deposited for the payment of such Bonds (without interest to such holders thereon). In the absence of any such written request, the Trustee shall from time to time deliver such unclaimed funds to or as directed by pertinent escheat authority, as identified by the Trustee in its sole discretion, pursuant to and in accordance with applicable unclaimed property laws, rules or regulations. Any such delivery shall be in accordance with the customary practices and procedures of the Trustee and the escheat authority. All moneys held by the Trustee and subject to this Section shall be held uninvested and without liability for interest thereon. Before making any payment under this Section, the Trustee shall be entitled to receive at the Borrower's expense an opinion of counsel to the effect that said payment is permitted under applicable law.

Section 9.04. ***Deposit of Money or Securities with Trustee.*** Whenever in this Indenture it is provided or permitted that there be deposited with or credited to the account of or held in trust by the Trustee money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held shall be Eligible Funds (or Government Obligations purchased with Eligible Funds) constituting:

(a) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which there shall have been furnished to the Trustee proof satisfactory to it that notice of such redemption on a specified redemption date has been duly given or provision satisfactory to the Trustee shall be made for such notice, the amount so to be deposited or held shall be the principal amount of such Bonds and interest thereon to the redemption date, together with the redemption premium, if any; or

(b) noncallable and nonprepayable direct obligations of the United States of America or noncallable and nonprepayable obligations which as to principal and interest constitute full faith and credit obligations of the United States of America, in such amounts and maturing at such times that the proceeds of said obligations received upon their respective maturities and interest payment dates, without further reinvestment, will provide funds sufficient, in the opinion of a nationally recognized firm of certified public accountants, to pay the principal, premium, if any, and interest to maturity, or to the redemption date, as the case may be, with respect to all of the Bonds to be paid or redeemed, as such principal, premium and interest become due; provided that the Trustee shall have been irrevocably instructed by the Issuer to apply the proceeds of said obligations to the payment of said principal, premium, if any, and interest with respect to such Bonds.

ARTICLE X
REMARKETING AND PURCHASE OF BONDS

Section 10.01. ***Demand for and Mandatory Purchase of Bonds.*** Any Bonds (other than Purchased Bonds), or any units of principal amount thereof in Authorized Denominations, shall be purchased from the proceeds of remarketing thereof as described in Section 10.03 or from the sources prescribed in Section 10.04 hereof, (a) on demand of the owner of such Bond (or, so long as Bonds are in "book-entry only" form pursuant to Section 2.12, demand of a DTC Participant, as defined in Section 2.12 hereof, with respect to such Bonds) on any Business Day during a Variable Period which is an Optional Tender Date (as defined below), or (b) upon being tendered or deemed tendered pursuant to Section 10.02 hereof, on any Reset Adjustment Date, Variable Rate Adjustment Date, the Fixed Rate Adjustment Date and any Substitution Date (even if such Reset Adjustment Date, Variable Rate Adjustment Date, Fixed Rate Adjustment Date or Substitution Date for which notice has been given by the Trustee to the Bondholders fails to occur). Bonds shall be purchased for a Purchase Price equal to the principal amount thereof, or of any units thereof purchased in Authorized Denominations, plus interest accrued thereon, if any, to the Settlement Date. Bonds shall be purchased upon (i) in the case of a purchase upon the demand of an owner or DTC Participant, delivery to the Tender Agent, with a copy to the Trustee and the Remarketing Agent, of a written notice in the form set forth as ***Exhibit B*** hereto (a "Tender Notice") which states (A) the principal amount of such Bond for which payment is demanded, (B) that such demand is irrevocable and (C) the date on which such Bond or units of principal amount thereof in Authorized Denominations shall be purchased pursuant to this Section 10.01, which date shall be a Business Day not prior to the seventh (7th) day next succeeding the date of the receipt of the Tender Notice by the Tender Agent (an "Optional Tender Date"); and (ii) in all cases, delivery of such Bond (with an appropriate transfer of registration form executed in blank and in form satisfactory to the Tender Agent) to the Tender Agent, at or prior to 9.30 a.m., Washington, D.C. time, on the Settlement Date. In the event that a depository is appointed pursuant to Section 2.12 hereof and a "book-entry only" system is in effect with respect to the Bonds, delivery of Bonds for purchase on the Settlement Date shall be effected in the manner set forth by such depository.

Bonds not delivered to the Tender Agent on or prior to 9:30 a.m., Washington, D.C. time, on the Settlement Date shall be deemed tendered and purchased for all purposes of this Indenture and interest shall cease to accrue on such Bonds on the related Settlement Date.

Payment of the Purchase Price of any Bond shall be made on the Settlement Date by check or by wire transfer (if requested in writing by the Bondholder) or as designated in the Tender Notice with respect to such Bond, but only upon delivery and surrender of such Bond to the Tender Agent.

If the Trustee shall have received the items required by Section 2.02 or Section 2.13, as the case may be, the Trustee shall (a) not later than the fifteenth (15th) day before any such Reset Adjustment Date, Variable Rate Adjustment Date, the Fixed Rate Adjustment Date or Substitution Date (or, if such day is not a Business Day, then on the next succeeding Business Day), notify the Tender Agent by telephone, promptly confirmed in writing, with a copy to the Remarketing Agent and (b) not later than the ninth (9th) day before any such Reset Adjustment Date, Variable Rate Adjustment Date, Fixed Rate Adjustment Date or Substitution Date, notify

the Bondholders by first class mail, that all Outstanding Bonds (other than Purchased Bonds) shall be subject to mandatory tender and if not so tendered, shall be deemed to have been tendered for purchase on each such Reset Adjustment Date as provided in Section 2.02(c), Variable Rate Adjustment Date as provided in Section 2.02(b), Fixed Rate Adjustment Date as provided in Section 2.02(d) or the Substitution Date as provided in Section 2.13, at the Purchase Price. Such notices from the Trustee shall be treated as a Tender Notice for all purposes of this Indenture, including this Section and Article X hereof.

If all of the Bonds shall have been called for redemption during any Variable Period, the Bonds may continue to be remarketed until the redemption date, provided the purchasers of such Bonds are given notice of the call for redemption prior to purchase of any Bonds.

Anything herein to the contrary notwithstanding, no Bonds shall be purchased pursuant to this Section or remarketed pursuant to Section 10.03 if an Event of Default hereunder (other than an Event of Default under Section 6.01(c) hereof) shall have occurred and be continuing and would not be cured as a result of such tender and remarketing of the Bonds or following a declaration of acceleration of the Bonds; nor shall any Bond be purchased pursuant to this Section if such Bond is registered in the name of the Issuer, the Borrower or the Credit Facility Provider, or known by the Trustee (the Trustee shall have no duty to inquire as to any such nominees) to be registered in the name of any general partner, member or guarantor of the Borrower or any nominee of the Issuer, the Borrower, the Credit Facility Provider, or any such general partner, member or guarantor of the Borrower unless the Credit Facility will be in full force and effect after such purchase with respect to such Bonds after such purchase.

Section 10.02. ***Mandatory Tender of Bonds***.

(a) Holders of Bonds shall be required to tender their Bonds to the Tender Agent on:

(i) any Reset Adjustment Date, Variable Rate Adjustment Date, or the Fixed Rate Adjustment Date in accordance with the provisions of Section 2.02; and

(ii) any Substitution Date in accordance with and subject to the provisions of Section 2.13.

(b) Any Bond required to be tendered on a Reset Adjustment Date, a Variable Rate Adjustment Date, the Fixed Rate Adjustment Date or a Substitution Date which is not tendered as of such date shall be deemed to have been tendered to the Tender Agent on such date and shall thereafter cease to bear interest and no longer be considered to be Outstanding hereunder.

Section 10.03. ***Remarketing of Bonds.*** Upon the receipt by the Remarketing Agent of any notice from the Tender Agent that any Bondholder (or DTC Participant, with respect to any Bonds in "book-entry only" form) has delivered a Tender Notice pursuant to Section 10.01 hereof, or upon receipt of any notice from the Trustee of Bonds deemed to have been tendered in accordance with the provisions of Section 2.02(c), 2.02(d) or 2.13, the Remarketing Agent shall offer for sale and use its best efforts to market the Bonds referred to in such Tender Notice or

such notice from the Trustee (which shall be deemed to be a Tender Notice as provided in Section 10.01) at a price of par plus accrued interest to the Settlement Date, in accordance with the Remarketing Agreement; provided, however, that the Remarketing Agent shall not knowingly offer for sale or sell such Bonds to the Issuer, the Borrower or any general partner, member or any guarantor of the Borrower. The Remarketing Agent has no obligation to remarket Bonds registered in the name of the Borrower, the Credit Facility Provider or any general partner, member or guarantor of the Borrower unless the Credit Facility shall be in full force and effect after such remarketing. On the Business Day immediately prior to each Settlement Date (each, a "Remarketing Date"), the Remarketing Agent shall give telephonic notice, promptly confirmed in writing and transmitted by facsimile, to the Trustee, the Tender Agent, the Borrower and the Credit Facility Provider by 11:00 a.m., Washington, D.C. time, stating whether all tendered Bonds have been remarketed successfully, specifying the names, addresses, and taxpayer identification numbers of the purchasers of, and the principal amount and denominations of, such Bonds, if any, for which it has found purchasers as of such Remarketing Date, and the Purchase Price at which the Bonds are to be sold (which shall be par plus accrued interest to the Settlement Date). The Remarketing Agent shall instruct such purchasers to deliver to the Tender Agent, no later than 9:30 a.m., Washington, D.C. time, on the Settlement Date, in immediately available funds, the amount required to purchase such Bonds. Upon receipt by the Tender Agent of such amount from such purchasers, the Tender Agent, as co-authenticating agent, shall transfer the registered ownership of the Bonds to the respective new purchasers and deliver such Bonds to such purchasers upon deposit of the Purchase Price with the Tender Agent. The Tender Agent shall hold all Bonds delivered to it in trust for the benefit of the respective Bondholders which shall have so delivered such Bonds until money representing the Purchase Price of such Bonds shall have been delivered to or for the account of or to the order of such Bondholders. The Tender Agent shall remit the Purchase Price of such Bonds to the tendering Bondholder or Bondholders entitled to the same as provided in Section 10.01. In the event that any purchaser which shall have been identified by the Remarketing Agent to the Trustee and the Tender Agent shall fail to pay the Purchase Price for any Bonds prior to 10:00 a.m., Washington, D.C. time, on the Settlement Date, the Tender Agent shall not be obligated to accept such amount after such time. The Tender Agent will immediately notify by telephone the Trustee, the Credit Facility Provider, the Borrower and the Remarketing Agent of any such failure to receive the Purchase Price for such Bonds. On the Settlement Date, the Tender Agent shall notify by telephone the Trustee, the Credit Facility Provider, the Borrower and the Remarketing Agent of the amount of funds held by the Tender Agent as of 10:00 a.m., Washington, D.C. time, on such date constituting the Purchase Price of the Bonds remarketed by the Remarketing Agent, promptly confirmed in writing and transmitted by facsimile. The Tender Agent shall hold all money delivered to it for the purchase of Bonds (including any remarketing proceeds or proceeds of draws on the Credit Facility) in trust in a non-commingled account to be known as the "Bond Purchase Fund" for the benefit of the Person or entity which shall have so delivered such money until the Bonds purchased with such money shall have been delivered to or for the account of such Person. Such money shall be held uninvested except as directed in writing by the Credit Facility Provider and then only in Qualified Investments of the type described in clauses (a) and (b) of the definition thereof, provided that such Qualified Investments shall mature the earlier of 30 days or as needed. The Issuer and the Borrower shall not have any right, title or interest in such money.

Except with respect to Bonds to be held under the terms of the Pledge Agreement and any Bonds purchased in lieu of redemption or acceleration pursuant to the provisions hereof, the Issuer, the Borrower or any general partner, member or any guarantor of the Borrower may not purchase any Bonds, from the Remarketing Agent or otherwise.

Section 10.04. ***Purchase of Bonds Not Remarketed.*** In the event that either the Tender Agent shall not have received notice of successful remarketing of tendered Bonds by the day which is one (1) Business Day prior to the Settlement Date, or the proceeds of remarketing of any tendered Bond have not been received by the Tender Agent on or prior to 10:00 a.m., Washington, D.C. time on the Settlement Date, the Trustee shall, within the time required by the terms of the Credit Facility, draw on the then existing Credit Facility (and in the case of a tender on a Substitution Date, shall draw on the Credit Facility being replaced) in an amount sufficient to enable the Tender Agent to pay the Purchase Price of each such Bond when due. On each Settlement Date, the Trustee shall pay or cause to be paid to the Tender Agent the Purchase Price of any Bonds tendered pursuant to, and in accordance with, Section 10.01 or Section 10.02 and which have not been remarketed pursuant to Section 10.03 hereof, but only from (i) money obtained by the Trustee pursuant to the Credit Facility then in effect to enable the Trustee to pay the Purchase Price of such tendered Bonds, which amounts shall be transferred by the Trustee to the Tender Agent at or before 3:00 p.m., Washington, D.C. time, on the Settlement Date; and (ii) Eligible Funds from the Borrower to the extent that money obtained pursuant to (i) above are insufficient on any date to pay the Purchase Price of tendered Bonds.

Upon receipt of such Purchase Price and upon receipt of the Bonds tendered for purchase pursuant to Section 10.01 or Section 10.02 hereof, the Tender Agent shall pay such Purchase Price to the registered Owners thereof; provided, that if the Purchase Price was theretofore paid from the proceeds of a draw on the Credit Facility, the Tender Agent shall pay such amount to the Credit Facility Provider. Any amounts drawn under the Credit Facility to purchase Bonds shall be used solely for such purpose. Any Bonds so purchased with amounts drawn under the Credit Facility by the Trustee shall be purchased for the account of the Borrower and registered as provided in the Pledge Agreement. Amounts drawn under the Credit Facility which are not used to purchase Bonds pursuant to this Section 10.04 shall be remitted by the Trustee or the Tender Agent to the Credit Facility Provider promptly upon payment of the Purchase Price of the Bonds.

Section 10.05. ***Remarketing Agent.*** The Issuer, with the approval of the Credit Facility Provider and the Borrower (which approval shall not be unreasonably withheld or delayed), shall appoint a Remarketing Agent for the Bonds, subject to the conditions set forth in Section 10.05 hereof. The Remarketing Agent initially appointed hereunder is [_____]. The Remarketing Agent shall designate to the Trustee its Principal Office and signify its acceptance of the duties and obligations imposed upon it hereunder by execution of the Remarketing Agreement. The Remarketing Agent shall, and shall agree in the Remarketing Agreement to, do each of the following:

(a) act as agent for the Issuer in determining the interest rates to be borne by the Bonds and act as agent for Bondholders in receiving and holding money to pay the Purchase Price thereof;

(b) use its best efforts to remarket bonds tendered for purchase (including Purchased Bonds) except in the circumstances described in the last paragraph of Section 10.01 and in the Remarketing Agreement;

(c) notify the Issuer, the Trustee, the Credit Facility Provider, the Servicer, the Borrower and the Tender Agent of the Variable Rate determined in accordance with Section 2.02(b), the Reset Rate determined in accordance with Section 2.02(c) and the Fixed Rate determined in accordance with Section 2.02(d), on the Variable Interest Computation Date or other date required for such determination, each such notification to be in writing or by Electronic Notice, telex or telecopier or other communication device which produces a written record thereof, or by telephone confirmed within one Business Day by any such written communication; and upon request by the Issuer, submit copies of any such notices to the Issuer;

(d) hold all money delivered to it hereunder for the purchase of Bonds in trust for the benefit of the Person which shall have so delivered such money until the Bonds purchased with such money shall have been delivered to the Tender Agent, and not commingle such money with other funds of the Remarketing Agent;

(e) keep such books and records with regard to the remarketing of the Bonds as shall be consistent with prudent industry practice and make such books and records available for inspection by the Issuer, the Trustee, the Borrower and the Credit Facility Provider at all reasonable times;

(f) perform the duties of the Remarketing Agent and comply with the provisions set forth in Article X hereof; and

(g) notify the Tender Agent, the Trustee, the Borrower and the Credit Facility Provider of the status of the remarketing of tendered Bonds one (1) Business Day prior to the Settlement Date and if remarketing proceeds for all tendered Bonds have not been received by the Remarketing Agent by 10:00 a.m., Washington, D.C. time, on the Settlement Date.

Section 10.06. ***Qualifications and Resignation or Removal of Remarketing Agent***.

(a) The initial and any successor Remarketing Agent shall be a commercial bank, national banking association, or trust company or a member of the National Association of Securities Dealers, Inc., and authorized by law to perform all the duties imposed upon it by this Indenture and the Remarketing Agreement.

(b) The Remarketing Agent may at any time resign and be discharged of the duties and obligations created by this Indenture by giving at least sixty (60) days' written notice to the Issuer, the Borrower, the Credit Facility Provider, the Trustee and the Tender Agent, but any such resignation shall not be effective until a successor is appointed and has accepted such appointment. The Issuer shall, promptly upon receipt of any notice of resignation by the Remarketing Agent, use its best efforts to cause the appointment of a successor Remarketing Agent within such sixty (60) day period.

(c) The Remarketing Agent may be removed at any time by the Issuer by an instrument signed by the Issuer and filed with the Remarketing Agent, the Issuer, the Borrower, the Credit Facility Provider, the Trustee and the Tender Agent. Any successor Remarketing Agent shall be selected by the Issuer. No removal of the Remarketing Agent shall be effective until a successor is appointed and has accepted such appointment.

(d) In the event of the resignation or removal of the Remarketing Agent, the Remarketing Agent shall pay over, assign and deliver any money held by it in such capacity to its successor.

Section 10.07. ***Tender Agent.*** The Trustee, with the prior written consent of the Issuer, shall appoint the Tender Agent for the Bonds, subject to the conditions set forth in Section 10.08 hereof. The Trustee shall initially serve as the Tender Agent. The Tender Agent shall designate to the Trustee its Principal Office and signify its acceptance of the duties and obligations imposed upon it hereunder by a written instrument of acceptance delivered to the Issuer, the Trustee and the Remarketing Agent under which the Tender Agent acknowledges its qualifications and authority to act as Tender Agent under this Indenture and agrees, particularly, as follows:

(1) The Tender Agent shall, upon receipt of a Tender Notice from any Bondholder (or DTC Participant, with respect to a Bond in "book-entry only" form), give prompt telephonic notice thereof to the Trustee and the Remarketing Agent, specifying the amount of Bonds to be purchased and the Settlement Date, and shall, not later than the following Business Day, confirm such telephonic notice in writing and deliver to the Remarketing Agent, the Trustee and the Credit Facility Provider a copy of such Tender Notice.

(2) On each Settlement Date, the Tender Agent shall give the Remarketing Agent, the Credit Facility Provider and the Trustee telephonic notice, confirmed in writing by the following Business Day, of the principal amount of Bonds delivered pursuant to Section 10.01.

(3) The Tender Agent shall hold all Bonds delivered to it pursuant to Section 10.01 in trust for the benefit of the respective Bondholders which shall have so delivered such Bonds until such Bonds are required by this Indenture to be delivered to the respective purchasers thereof.

(4) The Tender Agent shall cancel all Bonds for which it has received written notice of remarketing from the Remarketing Agent and shall authenticate new Bonds in a like aggregate principal amount in the names and in the denominations set forth in the written notice given to the Tender Agent by the Remarketing Agent pursuant to Section 10.03 hereof.

(5) The Tender Agent shall deliver Bonds to the purchasers thereof in accordance with Section 10.04 hereof. The Tender Agent shall establish the Bond Purchase Fund as provided in Section 10.03 hereof. The Tender Agent shall remit the

Purchase Price of tendered Bonds to the tendering Bondholders in accordance with Section 10.03 hereof.

(6) The Tender Agent shall deliver to the Trustee all tendered Bonds canceled.

(7) The Tender Agent shall keep such books and records as shall be consistent with prudent industry practice and shall make such books and records available for inspection by the Issuer, the Trustee and the Credit Facility Provider at all reasonable times.

(8) The Tender Agent shall send to the Trustee a copy of its transfer journal evidencing all changes in registration of the Bonds within two (2) days of making such changes.

The Tender Agent shall pay to tendering Bondholders the Purchase Price of any Bonds for which it has received a Tender Notice and which have not been remarketed pursuant to Section 10.03 hereof, but solely from the sources listed in Section 10.04 hereof; and the Tender Agent shall pay to tendering Bondholders the Purchase Price of any Bonds for which it has received a Tender Notice and which have been remarketed pursuant to Section 10.03 hereof, but solely from amounts received from the Remarketing Agent.

Section 10.08. ***Qualifications of Tender Agent.*** The Tender Agent shall be a commercial bank, national banking association or trust company with a principal office, or with an affiliate with an office, in New York, New York, having a capitalization of at least $10,000,000 and authorized by law to perform all the duties imposed upon it by this Indenture; provided that, in any event, the Trustee may serve as the Tender Agent so long as the Bonds are in "book-entry-only" form. The Tender Agent shall be an affiliate of the Trustee (unless the Tender Agent is the Trustee), unless the Trustee has no affiliate meeting the requirements of the first sentence of this Section, in which case the selection of the Tender Agent shall be an entity appointed by the Trustee with the written consent of the Credit Facility Provider, the Issuer and the Borrower.

The Tender Agent may at any time resign and be discharged by giving at least sixty (60) days' written notice to the Trustee, the Issuer, the Borrower and the Credit Facility Provider. The Tender Agent may be removed at any time by the Issuer by an instrument signed by the Issuer and filed with the Tender Agent, the Trustee, the Remarketing Agent, the Credit Facility Provider and the Issuer.

In the event of the resignation or removal of the Tender Agent, the Tender Agent shall pay over, assign and deliver any money and Bonds held by it in such capacity, and shall deliver all books and records relating thereto, to its successor or, if there be no successor, to the Trustee.

In the event that the Trustee shall fail to appoint a Tender Agent hereunder, or in the event that the Tender Agent shall resign or be removed, or be dissolved, or if the property or affairs of the Tender Agent shall be taken under the control of any state or federal court or administrative body because of bankruptcy or insolvency, or for any other reason, and the Trustee shall not have appointed its successor as Tender Agent, the Trustee, notwithstanding the provisions of the first paragraph of this Section 10.08, shall be deemed to be the Tender Agent

for all purposes of this Indenture until the appointment by the Trustee of the Tender Agent or a successor Tender Agent, as the case may be, notwithstanding the fact that the Trustee may not meet the qualifications set forth in the first paragraph of this Section 10.08.

Insofar as such provisions may be applicable, the Tender Agent shall enjoy the same protective provisions in the performance of its duties hereunder as are specified in Sections 7.01 and 7.02 with respect to the Trustee. The Tender Agent shall perform such duties, and only such duties, as are specifically set forth in this Indenture and the Financing Agreement and no implied covenants shall be read into this Indenture or the Financing Agreement against the Tender Agent.

Section 10.09. ***Dealing in Bonds.*** The Credit Facility Provider, the Trustee, the Tender Agent or the Remarketing Agent, in its individual capacity, may each in good faith buy, sell, own, hold and deal in any of the Bonds, and may join in any action which any Bondholder may be entitled to take with like effect as if it did not act in any capacity hereunder. The Trustee, the Tender Agent, the Credit Facility Provider or the Remarketing Agent, in its individual capacity, either as principal or agent, may also engage in or be interested in any financial or other transaction with the Issuer or the Credit Facility Provider, and may act as depository, trustee or agent for any committee or body of Bondholders secured hereby or other obligations of the Issuer as freely as if it did not act in any capacity hereunder. It is expressly understood that the Trustee and the Tender Agent in carrying out their respective duties hereunder shall each be acting as a conduit with respect to deliveries of Bonds for purchase pursuant to Section 10.01 hereof.

Section 10.10. ***Purchased Bonds***.

(a) *Unremarketed Bonds as Purchased Bonds; No Credit Facility Support*. Bonds for which the Purchase Price is funded with money provided under the Credit Facility and which are not remarketed in accordance with the Remarketing Agreement shall be deemed to be Purchased Bonds. The Credit Facility shall not constitute security for or provide liquidity for Purchased Bonds.

(b) *Ownership and Pledge of Purchased Bonds*. Purchased Bonds shall be owned by the Borrower and pledged to the Custodian under the Pledge Agreement for the benefit of the Credit Facility Provider pursuant to the Pledge Agreement. As set forth in the Pledge Agreement, the Tender Agent shall either (i) ensure that Purchased Bonds are delivered to the Custodian under the Pledge Agreement or (ii) if, and only if, delivery of the Bonds is not possible, deliver a written entitlement order to the applicable financial intermediaries on whose records ownership of the Purchased Bonds is reflected directing the intermediaries to credit the security entitlement to the Purchased Bonds to the account of the Custodian for the benefit of the Credit Facility Provider and deliver to the Custodian a written confirmation of such credit, whether or not the Borrower notifies the Remarketing Agent to do so. Purchased Bonds shall not be held through the facilities of any Securities Depository.

(c) *Payment Failure Not a Default*. Failure to pay interest on Purchased Bonds when due or failure to pay principal and interest on Purchased Bonds upon any redemption date, Settlement Date or the Maturity Date shall not constitute an Event of

Default. Upon the Maturity Date, any redemption date with respect to such Purchased Bonds or date of acceleration, all Purchased Bonds shall be deemed canceled. Purchased Bonds shall also be canceled upon direction of the Credit Facility Provider.

(d) *Remarketing of Purchased Bonds*. At such time as Purchased Bonds are remarketed by the Remarketing Agent (i) the Trustee or the Tender Agent, as appropriate, shall remit the proceeds of the remarketing to the Credit Facility Provider to reimburse the Credit Facility Provider for unreimbursed amounts paid under the Credit Facility to purchase the Bonds (and the Trustee or the Tender Agent shall submit a certificate to the Credit Facility Provider in the form contained in the Credit Facility), (ii) the Trustee or Tender Agent, as appropriate, upon receipt of notice from the Credit Facility Provider that it has received reimbursement for the amount provided under the Credit Facility (or notice from the Tender Agent that the Tender Agent has received funds that it will immediately remit to the Credit Facility Provider) and that the Credit Facility has been reinstated in accordance with its terms, the Custodian shall release all remarketed Purchased Bonds in accordance with the Pledge Agreement and (iii) the Trustee or the Tender Agent shall give written notice to the Remarketing Agent, the Borrower and the Credit Facility Provider that such Bonds are no longer Purchased Bonds.

ARTICLE XI
MISCELLANEOUS

Section 11.01. ***Consents and Other Instruments of Bondholders.*** Any consent, request, direction, approval, waiver, objection, appointment or other instrument required by this Indenture to be signed and executed by the Bondholders may be signed and executed in any number of concurrent writings of similar tenor and may be signed or executed by such Bondholders in Person or by agent appointed in writing. Proof of the execution of any such instrument, if made in the following manner, shall be sufficient for any of the purposes of this Indenture, and shall be conclusive in favor of the Trustee with regard to any action taken under such instrument, namely:

(a) the fact and date of the execution by any Person of any such instrument may be proved by the affidavit of a witness of such execution or by the certificate of any notary public or other officer of any jurisdiction, authorized by the laws thereof to take acknowledgments of deeds, certifying that the Person signing such instrument acknowledged the execution thereof. Where such execution is by an officer of a corporation or association or a member of a partnership on behalf of such corporation, association or partnership, such affidavit or certificate shall also constitute sufficient proof of such authority;

(b) the ownership of registered Bonds shall be proved by the Bond Register; and

(c) any request, consent or vote of the Holder of any Bond shall bind every future Holder of the same Bond and the Holder of every Bond issued in exchange

therefor or in lieu thereof, in respect of anything done or permitted to be done by the Trustee or the Issuer in pursuance of such request, consent or vote.

Section 11.02. ***Servicing the Bond Mortgage Loan.*** There shall be engaged at all times that Freddie Mac is the Credit Facility Provider an eligible servicing institution designated by Freddie Mac as the Servicer (which may be Freddie Mac if Freddie Mac elects to service the Bond Mortgage Loan) to service the Bond Mortgage Loan pursuant to the Guide.

Section 11.03. ***Limitation of Rights.*** With the exception of rights herein expressly conferred, nothing expressed or to be implied from this Indenture or the Bonds is intended or shall be construed to give to any Person other than the Parties hereto, the Credit Facility Provider, the Servicer, the Borrower and the Holders of the Bonds, any legal or equitable right, remedy or claim under or in respect to this Indenture or any covenants, conditions and provisions hereof.

Section 11.04. ***Construction of Conflicts; Severability.*** Notwithstanding anything provided herein, or in any of the documents referred to herein, in the event that any contracts or other documents executed by the Borrower or any other arrangements agreed to by the Borrower in order to finance or refinance the Project with the proceeds of the Bonds, the interest on which is excluded from gross income for federal income tax purposes under the 1986 Code are inconsistent with the Bond Mortgage Loan Documents, then the Bond Mortgage Loan Documents shall be controlling in all respects. If any provision of this Indenture shall be held or deemed to be, or shall in fact be inoperative or unenforceable as applied in any particular case in any jurisdiction or jurisdictions or in all jurisdictions, or in all cases because it conflicts with any other provision or provisions hereof or any constitution, statute, rule of law or public policy, or for any other reason, such circumstances shall not have the effect of rendering the provision in question inoperative or unenforceable in any other case or circumstance, or of rendering any other provision or provisions herein contained invalid, inoperative, or unenforceable to any extent whatever.

The invalidity of any one or more phrases, sentences, clauses or sections in this Indenture contained, shall not affect the remaining portions of this Indenture, or any part thereof.

Section 11.05. ***Notices***.

(a) Any provision of this Indenture relating to the mailing of notice or other communication to Bondholders shall be deemed fully complied with if such notice or other communication is mailed, by first class mail, postage prepaid, to each registered Owner of any Bonds then Outstanding at the address of such registered Owner as it appears on the Bond Register. Whenever in this Indenture the giving of notice by mail or otherwise is required, the giving of such notice may be waived in writing by the Person entitled to receive such notice and in any such case the giving or receipt of such notice shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

(b) Any notice, request, complaint, demand, communication or other paper required or permitted to be delivered to the Issuer, the Trustee, the Credit Facility

Provider, the Remarketing Agent, the Borrower or the Servicer shall be sufficiently given and shall be deemed given (unless another form of notice shall be specifically set forth herein) on the Business Day following the date on which such notice or other communication shall have been delivered to a national overnight delivery service (receipt of which to be evidenced by a signed receipt from such overnight delivery service) addressed to the appropriate party at the addresses set forth below. The Issuer, the Trustee, the Credit Facility Provider, the Remarketing Agent, the Borrower or the Servicer may, by notice given as provided in this paragraph, designate any further or different address to which subsequent notices or other communication shall be sent.

The Issuer: California Housing Finance Agency
1415 L Street, Suite 500
Sacramento, California 95814
Attention: Director of Financing
Tel: (916) 322-7234
Fax: (916) 322-1464

The Trustee: U.S. Bank National Association
One California Street, Suite 2100
San Francisco, California 94111
Attention: Corporate Trust Department
Tel: (415) 273-4547
Fax: (415) 273-4591

The Borrower: [_____]
Attention:
Telephone:
Telecopier:

with a copy to: [_____]
(which copy shall not constitute notice to Borrower)
Attention:
Telephone:
Telecopier:

Credit Facility Provider: Federal Home Loan Mortgage Corporation
8100 Jones Branch Drive
Mail Stop B4Q
McLean, Virginia 22102
Attention: Director of Multifamily Loan Accounting
Facsimile: (703) 714-3273
Telephone: (703) 903-2000

with a copy to: Federal Home Loan Mortgage Corporation
8200 Jones Branch Drive

McLean, Virginia 22102
Attention: Associate General Counsel – Multifamily
Legal Department
Facsimile: (703) 903-2885
Telephone: (703) 903-2000

with a copy to: Federal Home Loan Mortgage Corporation
8100 Jones Branch Drive
Mail Stop B4F
McLean, Virginia 22102
Attention: Director of Multifamily Loan Servicing
Facsimile: (703) 714-3003
Telephone: (703) 903-2000

The Servicer: [_____]
Attention:
Telephone:
Telecopier:

Remarketing Agent: [_____]
Attention:
Telephone:
Telecopier:

Tender Agent: U.S. Bank National Association
One California Street, Suite 2100
San Francisco, California 94111
Attention: Corporate Trust Department
Tel: (415) 273-4547
Fax: (415) 273-4591

Rating Agency: [Standard & Poor's Ratings Services
38th Floor
55 Water Street
New York, NY 10041-0003
Attention: Public Finance Surveillance

or: Moody's Investor Services
7 World Trade Center
250 Greenwich St.
New York, NY 10007
Attention: _____]

A duplicate copy of each notice or other communication given hereunder by any party to the Servicer shall also be given to the Credit Facility Provider and by any party to the Credit Facility Provider to the Servicer.

The Trustee agrees to accept and act upon facsimile transmission of written instructions and/or directions pursuant to this Indenture, provided, however, that subsequent to such facsimile transmission of written instructions, the originally executed instructions and/or directions shall be provided to the Trustee in a timely manner.

(c) The Trustee shall provide to the Credit Facility Provider (i) prompt notice of the occurrence of any Event of Default pursuant to Section 6.01 hereof and (ii) any written information or other communication received by the Trustee hereunder within ten (10) Business Days of receiving a written request from the Credit Facility Provider for any such information or other communication. The Trustee shall provide to the Rating Agency any information requested by the Rating Agency needed to maintain the rating on the Bonds.

(d) The Trustee shall provide to the Rating Agency notice of (i) any change in Trustee or Remarketing Agent hereunder, (ii) any material amendment to any of the Bond Financing Documents, (iii) any substitution, termination, expiration or extension of the Credit Facility, (iv) any change of the interest rate on the Bonds to a Reset Rate or Fixed Rate and (v) any acceleration or redemption in whole or defeasance of the Bonds.

Section 11.06. ***Credit Facility Provider.*** Following the release of the Credit Enhancement Agreement by the Trustee pursuant to the terms of this Indenture and the provision of an Alternate Credit Facility, all notices to be provided Freddie Mac and/or the Servicer hereunder shall be provided to the Alternate Credit Facility Provider and payments to be made to Freddie Mac or the Servicer from the Administration Fund shall be paid to the Alternate Credit Facility Provider.

Section 11.07. ***Trustee as Paying Agent and Bond Registrar.*** The Trustee is hereby designated and agrees to act as Paying Agent and Bond Registrar for and in respect to the Bonds.

Section 11.08. ***Payments Due on Non-Business Days.*** In any case where a date of payment with respect to any Bonds shall be a day other than a Business Day, then such payment need not be made on such date but may be made on the next succeeding Business Day with the same force and effect as if made on such date, and no interest shall accrue for the period after such date providing that payment is made on such next succeeding Business Day.

Section 11.09. ***Counterparts.*** This Indenture may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 11.10. ***Laws Governing Indenture and Administration of Trust.*** The effect and meanings of this Indenture and the rights of all parties hereunder shall be governed by, and construed according to, the laws of the State without regard to conflicts of laws principles.

Section 11.11. ***No Recourse.*** No recourse under or upon any obligation, covenant or agreement contained in this Indenture or in any Bond shall be had against any member, officer, commissioner, director or employee (past, present or future) of the Issuer, either directly or

through the Issuer or its governing body or otherwise, for the payment for or to the Issuer or any receiver thereof, or for or to the Holder of any Bond issued hereunder, or otherwise, of any sum that may be due and unpaid by the Issuer or its governing body upon any such Bond. Any and all personal liability of every nature whether at common law or in equity or by statute or by constitution or otherwise of any such member, officer, commissioner, director or employee, as such, to respond by reason of any act of omission on his/her part or otherwise, for the payment for or to the Holder of any Bond issued hereunder or otherwise of any sum that may remain due and unpaid upon any Bond hereby secured is, by the acceptance hereof, expressly waived and released as a condition of and in consideration for the execution of this Indenture and the issuance of the Bonds.

Section 11.12. ***Successors and Assigns.*** All the covenants and representations contained in this Indenture by or on behalf of the parties hereto shall bind and inure to the benefit of their successors and assigns, whether so expressed or not.

[Signature Pages follow]

IN WITNESS WHEREOF, the Issuer and the Trustee have caused this Trust Indenture to be executed and delivered by duly authorized officers thereof as of the day and year first written above.

CALIFORNIA HOUSING FINANCE AGENCY

By: _____
Bruce D. Gilbertson
Director of Financing

(SEAL)

Attest:

_____
Secretary of the Board of Directors

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

By: _____
Authorized Officer

EXHIBIT A

FORM OF BOND

UNITED STATES OF AMERICA
STATE OF CALIFORNIA
CALIFORNIA HOUSING FINANCING AGENCY
MULTIFAMILY HOUSING REVENUE BONDS
([____] PROJECT)
2009 SERIES [__]

NO. R-__ **$[_____]**

NOTICE: Unless this bond certificate is presented by an authorized representative of The Depository Trust Company to the Issuer or its agent for registration of transfer, exchange or payment, and any certificate issued is registered in the name of Cede & Co. or such other name as requested by an authorized representative of The Depository Trust Company and any payment is made to Cede & Co., ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL since the registered owners hereof, Cede & Co., has an interest herein.

INTEREST RATE: VARIABLE

MATURITY DATE:

DATED DATE:

DELIVERY DATE:

CUSIP NO.:

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: _____ AND NO/100 DOLLARS

THE CALIFORNIA HOUSING FINANCING AGENCY (the "Issuer"), a public instrumentality and political subdivision of the State of California (the "State"), for value received, hereby promises (but solely from the sources and in the manner provided for in the hereinafter defined Indenture) to pay to the registered owner identified above, or registered assigns, on the maturity date set forth above, unless previously called for redemption, the principal sum as set forth above, together with interest thereon at the rate provided in the Indenture (as defined below) from the Interest Payment Date (as defined below) next preceding the date of authentication of this Bond to which interest has been paid or duly provided for, unless the date of authentication is an Interest Payment Date to which interest has been paid or duly provided for, in which case from the date of authentication of this Bond, or unless no interest has been paid or duly provided for on this Bond, in which case from the Delivery Date identified above, until the principal amount hereof shall have been fully paid, at the rate per annum provided in the Indenture, payable (a) during the Variable Period (defined below), on the first (1st) Business Day of each calendar month, commencing [_____], (b) during a

Reset Period (defined below) or the Fixed Rate Period (defined below), on [_____] 1 and [_____] 1 of each year, (c) on each Reset Adjustment Date, Variable Rate Adjustment Date, Fixed Rate Adjustment Date and Substitution Date, (d) the maturity date, and (e) the date of redemption of this Bond (each, an "Interest Payment Date"), calculated as provided in the Indenture. Notwithstanding the foregoing, if this Bond is authenticated after a Record Date and before the following Interest Payment Date, this Bond shall bear interest from such Interest Payment Date; provided, however, that if there shall be a default in the payment of interest due on such Interest Payment Date, then this Bond shall bear interest from the next preceding Interest Payment Date to which interest has been paid or duly provided for, or, if no interest has been paid or duly provided for on this Bond, from the Delivery Date. Payment of principal, premium, if any, and interest on this Bond are payable in lawful money of the United States of America. Payment of principal of this Bond and premium, if any, will be made only upon presentation and surrender hereof at the Principal Office of the Trustee. Payment of interest on this Bond will be made by check mailed to the registered owner of this Bond as such address shall appear on the registration books for the Bonds (i) during the Variable Period, on the Business Day immediately preceding an Interest Payment Date, and (ii) during a Reset Period or the Fixed Rate Period, on the 15th day of the month preceding each Interest Payment Date (a "Record Date"). Upon written request of a registered owner of at least $1,000,000 aggregate principal amount of the Bonds received by U.S. Bank National Association, as trustee (together with any successor trustee appointed in accordance with the terms of the hereinafter defined Indenture, the "Trustee"), at least five (5) days prior to a Record Date, all payments of principal, premium, if any, and interest will be paid by wire transfer of immediately available funds to an account designated by such owner, less any reasonable wire transfer fees imposed by the Trustee. All capitalized terms not defined herein shall have the meaning set forth in the Trust Indenture dated [_____] 1, 2009 by and between the Issuer and the Trustee (the "Indenture").

THE BONDS ARE NOT A DEBT OF THE UNITED STATES OF AMERICA, OR ANY AGENCY OF THE UNITED STATES OF AMERICA, OR THE FEDERAL HOME LOAN MORTGAGE CORPORATION ("FREDDIE MAC"), AND ARE NOT GUARANTEED BY THE FULL FAITH AND CREDIT OF THE UNITED STATES OF AMERICA OR BY FREDDIE MAC, PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS IS NOT GUARANTEED BY FREDDIE MAC. THE OBLIGATIONS OF FREDDIE MAC UNDER THE CREDIT ENHANCEMENT AGREEMENT (AS HEREINAFTER DEFINED) ARE OBLIGATIONS SOLELY OF FREDDIE MAC AND ARE NOT BACKED BY THE FULL FAITH AND CREDIT OF THE UNITED STATES OF AMERICA.

THE BONDS AND THE INTEREST THEREON ARE LIMITED OBLIGATIONS OF THE ISSUER, PAYABLE SOLELY FROM THE TRUST ESTATE PLEDGED THEREFOR UNDER THE INDENTURE. NONE OF THE STATE, NOR ANY OTHER POLITICAL SUBDIVISION OR BODY CORPORATE AND POLITIC, OR AGENCY, OF THE STATE, OR THE ISSUER (EXCEPT TO THE LIMITED EXTENT PROVIDED HEREIN) SHALL IN ANY EVENT BE LIABLE FOR THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS OR FOR THE PERFORMANCE OF ANY PLEDGE, OBLIGATION OR AGREEMENT OF ANY KIND WHATSOEVER OF THE ISSUER, AND NEITHER THIS BOND NOR ANY OF THE ISSUER'S AGREEMENTS OR OBLIGATIONS SHALL BE CONSTRUED TO CONSTITUTE AN INDEBTEDNESS OF THE STATE, OR

ANY OTHER POLITICAL SUBDIVISION OR BODY CORPORATE AND POLITIC OF THE STATE, OR THE ISSUER (EXCEPT TO THE LIMITED EXTENT PROVIDED HEREIN), WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION WHATSOEVER.

This Bond is one of a duly authorized issue of bonds of the Issuer known as its Multifamily Housing Revenue Bonds, issued in the original aggregate principal amount of $[_____] (the "Bonds") under and pursuant to the Constitution and the laws of the State, particularly Parts 1 through 4 of Division 31 of the Health and Safety Code of the State of California, as amended (the "Act"). The Bonds are special, limited obligations of the Issuer payable solely from and secured by the Trust Estate pledged therefor pursuant to the Indenture. The Bonds are issued to provide funds to finance a multifamily rental housing development known as [_____] located in [_____] owned by [_____] (the "Borrower").

The Bonds are issuable as fully registered bonds in Authorized Denominations of $100,000 or integral multiples of $5,000 in excess of $100,000 during any period the Bonds bear interest at a rate determined weekly (the "Variable Period"), and $5,000 or integral multiples thereof during any period that the rate of interest on the Bonds is fixed for a period of five (5) years or more or such shorter period as may be consented to in writing by the Credit Facility Provider (a "Reset Period") or fixed to the maturity date of the Bonds (the "Fixed Rate Period").

To secure its obligation to make payments on the Bond Mortgage Note in accordance with its terms, the Borrower has caused to be delivered to the Issuer that certain Multifamily Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing dated as of [_____] (the "Bond Mortgage"), which has been assigned by the Issuer to the Trustee, and a direct pay Credit Enhancement Agreement dated as of [_____] (the "Credit Enhancement Agreement") between Freddie Mac and the Trustee. Under the Credit Enhancement Agreement, Freddie Mac has agreed to make advances to the Trustee (against proper draw requests made by the Trustee thereunder) in the amounts necessary to pay principal of and interest due under the Bond Mortgage Loan and to pay the Purchase Price of the Bonds during any period the Bonds bear interest at the Variable Rate, to the extent there are insufficient remarketing proceeds to pay the Purchase Price of the Bonds tendered for purchase (other than Purchased Bonds).

Reference is hereby made to the Indenture and all indentures supplemental thereto for a description of the Trust Estate under the Indenture, the nature and extent of the security, the terms and conditions upon which the Bonds are issued and secured and the rights of the holders thereof, to all of the provisions of which Indenture the registered Owner of this Bond, by acceptance hereof, assents and agrees. This Bond is equally and ratably secured under the Indenture with all other Bonds issued thereunder.

Variable Interest Accrual Period. From the Delivery Date of the Bonds to, but excluding, the earlier of (a) the date of adjustment to a Reset Rate (a "Reset Adjustment Date") or the Fixed Rate (a "Fixed Rate Adjustment Date") or (b) the maturity date, this Bond shall bear interest at the Variable Rate determined weekly on the Variable Interest Computation Date by the Remarketing Agent, as provided in the Indenture, for each Variable Interest Accrual Period, provided that in no event shall such rate exceed the Maximum Rate of interest which may be charged pursuant to the terms of the Indenture. The Variable Interest Computation Date shall be

Wednesday of each week during the Variable Period or, if any such Wednesday is not a Business Day, then the next day which is a Business Day. Interest on the Bonds during the Variable Period shall be computed on the basis of a 365- or 366-day year, as applicable, for the actual number of days elapsed. Bonds purchased with proceeds made available under the Credit Facility shall bear interest at the rate established pursuant to the Reimbursement Agreement.

Reset Period. The Borrower may, upon compliance with certain conditions of the Indenture, cause the interest rate on the Bonds to be adjusted to a Reset Rate, which shall be determined by the Remarketing Agent as provided in the Indenture. During the Reset Period, the Bonds shall bear interest at the Reset Rate, payable on each Interest Payment Date (commencing on the first Interest Payment Date occurring at least 30 days after the Reset Adjustment Date) to and including the next succeeding Reset Adjustment Date. Such interest shall be computed on the basis of a 360-day year consisting of twelve 30-day months. At the conclusion of a Reset Period, the Borrower may, upon compliance with certain conditions of the Indenture, cause the interest rate on the Bonds to be adjusted to a Variable Rate, a new Reset Date or a Fixed Rate, which shall be determined and redetermined by the Remarketing Agent as provided in the Indenture.

Fixed Rate Period. The Borrower may, upon compliance with certain conditions of the Indenture, cause the interest rate on the Bonds to be adjusted to a Fixed Rate, which shall be determined by the Remarketing Agent as provided in the Indenture. During the Fixed Rate Period, the Bonds shall bear interest at the Fixed Rate, payable on each Interest Payment Date (commencing on the first Interest Payment Date occurring at least 30 days after the Fixed Rate Adjustment Date) to and including the maturity of the Bonds. Such interest shall be computed on the basis of a 360-day year consisting of twelve 30-day months.

Redemption. The Bonds are subject to optional and mandatory redemption or purchase in lieu of redemption in accordance with the provisions of the Indenture.

Purchase in Lieu of Redemption. At any time that Bonds are subject to redemption in whole pursuant to the Indenture the Trustee may purchase such Bonds for the account of the Borrower or the Credit Facility Provider. The Purchase Price of such Bonds, excluding accrued interest, shall not exceed the applicable redemption price of the Bonds that would otherwise have been redeemed.

Purchase of Bonds at Option of Registered Owner. During the Variable Period, this Bond shall be purchased by the Trustee as Tender Agent (the "Tender Agent"), on behalf of and as agent for the owner of this Bond, on the demand of the beneficial owner of the Bond, on any Business Day (following notice) at a Purchase Price equal to one hundred percent (100%) of the principal amount thereof plus accrued interest, if any, to the date of purchase upon delivery to the Tender Agent, at its Principal Office specified in the Indenture, of a notice as required by the Indenture (a "Tender Notice"). The date stated in the Tender Notice on which such Bond shall be purchased shall be a Business Day not prior to the seventh day next succeeding the date of delivery of such notice to the Tender Agent.

Mandatory Tender on Certain Dates. The registered Owners of the Bonds shall be required to tender their Bonds to the Tender Agent for purchase by the Trustee on behalf of and

as agent for the owner of the Bonds for a Purchase Price equal to one hundred percent (100%) of the principal amount thereof plus accrued interest to the applicable Settlement Date on each Reset Adjustment Date, each Variable Rate Adjustment Date, the Fixed Rate Adjustment Date, and on the date of any substitution of any Alternate Credit Facility pursuant to the Indenture. Bonds shall be subject to mandatory tender and purchase on any date specified by the Trustee following a default under the Bond Mortgage Loan or the Reimbursement Agreement and receipt by the Trustee of notice from the Credit Facility Provider that the Bonds are to be tendered for purchase on the Settlement Date selected by the Credit Facility Provider. Bondholders may not elect to retain their Bonds in any such event (even if such Reset Adjustment Date, Variable Rate Adjustment Date, the Fixed Rate Adjustment Date or any Substitution Date fails to occur).

In the event of a redemption of less than all of the Bonds, the Bonds shall be selected by lot. Bonds shall only be redeemed in Authorized Denominations.

Unless notice of redemption is not required under this Bond and the terms of the Indenture, notice of redemption of this Bond shall be given by first class mail, postage prepaid, to the registered owner hereof at the address of such owner shown on the registration books maintained by the Trustee, as bond registrar. All such notices shall be given not less than ten (10) days (not less than thirty (30) days in the case of optional or mandatory sinking fund redemptions) nor more than sixty (60) days prior to the date fixed for redemption. Notice shall also be sent by certified mail, overnight delivery service or other secure means, postage prepaid, to the Credit Facility Provider and to certain information services as described in the Indenture. Failure to give notice by mailing to the registered owner of any Bond designated for redemption shall not affect the validity of the proceedings for the redemption of any other Bond if notice shall have been mailed as herein provided. The Trustee may provide a conditional notice of redemption upon the direction of the Credit Facility Provider or the Borrower (with the prior written consent of the Credit Facility Provider).

The owner of this Bond shall have no right to enforce the provisions of the Indenture or to institute action to enforce the covenants therein, or to take any action with respect to any event of default under the Indenture, or to institute, appear in or defend any suit or other proceeding with respect thereto, except as provided in the Indenture.

Modifications or alterations of the Indenture or of any indenture supplemental thereto may be made only to the extent and in the circumstances permitted by the Indenture.

This Bond is transferable by the registered owner hereof in Person or by such owner's attorney duly authorized in writing at the principal corporate trust office of the Trustee, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender and cancellation of this Bond. Upon such transfer, a new registered Bond or Bonds of the same series, maturity and interest rate and of authorized denomination or denominations for the same aggregate principal amount will be issued to the transferee in exchange therefore. The Bonds are issuable only as fully registered Bonds without coupons.

The Issuer and the Trustee may deem and treat the registered holder hereof as the absolute owner hereof for the purpose of receiving payment of or on account of principal hereof

and interest due hereon and for all other purposes and neither the Issuer nor the Trustee shall be affected by any notice to the contrary.

This Bond shall not be entitled to any benefit under the Indenture or become valid or obligatory for any purpose until this Bond shall have been authenticated by the certificate of the Trustee endorsed hereon.

In the event of a conflict between the terms of this Bond and the Indenture, the terms of the Indenture shall control.

It is hereby certified, recited and declared that all acts, conditions and things required to exist, happen and be performed precedent to and in the execution and delivery of the Indenture and the issuance of this Bond do exist, have happened and have been performed in the time, form and manner as required by law and that this Bond and the issue of which it forms a part does not exceed or violate any constitutional or statutory limitation.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the California Housing Finance Agency has caused this Bond to be executed on its behalf by the facsimile signature of its Executive Director, and its seal to be reproduced hereon and attested by the facsimile signature of the Secretary of its Board of Directors.

CALIFORNIA HOUSING FINANCE AGENCY

By _____
Executive Director

[SEAL]

Attest:

_____
Secretary of the Board of Directors

CERTIFICATE OF AUTHENTICATION

This Bond is one of the Bonds issued under the provisions of and described in the within-mentioned Indenture.

Date of Authentication: _____

U.S. BANK NATIONAL ASSOCIATION

By: _____
Authorized Officer

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto (Please insert Social Security Number or other identifying number of assignee)

(Please print or Typewrite Name and Address of Assignee)
the within bond and all rights thereunder, and hereby irrevocably constitutes and appoints_____ attorney to transfer the within Bond on the books kept for registration thereof, with full power of substitution in the premises.

Dated: _____.
Signature Guaranteed

_____
NOTICE: Signature(s) must be guaranteed by an eligible guaranty institution.

_____
Signature

NOTICE: The Signature to this assignment must correspond with the name as it appears upon the face of the within Bond in every particular, without alteration or enlargement or any change whatever.

EXHIBIT B
FORM OF TENDER NOTICE

$[_____]
CALIFORNIA HOUSING FINANCING AGENCY
MULTIFAMILY HOUSING REVENUE BONDS
([____] PROJECT)
2009 SERIES [__]

TO: U.S. BANK NATIONAL ASSOCIATION, as Tender Agent

Notice is hereby given pursuant to Section 10.01 of the Trust Indenture dated as of [_____] 1, 2009 (the "Indenture") pursuant to which the above-captioned bonds (the "Bonds") are issued and outstanding, that the undersigned Bondholder demands the purchase of $_____ in aggregate principal amount of Bonds, on _____, which date is a Business Day not prior to the seventh (7th) day next succeeding the date of your receipt of this Notice. The demand for purchase is irrevocable.

Date: _____

_____
Authorized Signature

Copies to: U.S. Bank National Association, Trustee
[_____], Remarketing Agent

EXHIBIT C

FORM OF PURCHASER'S LETTER

[To be prepared on letterhead of Purchaser]

[Date]

California Housing Finance Agency
1415 L Street, Suite 500
Sacramento, California 95814
Attention: Director of Financing

U.S. Bank National Association
One California Street, Suite 2100
San Francisco, California 94111
Attention: Corporate Trust Department

Re: California Housing Financing Agency Multifamily Housing Revenue Bonds ([____] Project) 2009 Series [__]

Ladies and Gentlemen:

The undersigned (the "Purchaser") hereby acknowledges receipt as transferee, from the previous owner thereof, of the above-referenced bonds (the "Bonds") in fully registered form and in the aggregate principal amount of $_____, constituting all of the Bonds currently outstanding. The Bonds have been checked, inspected and approved by the Purchaser.

The undersigned acknowledges that the Bonds were issued for the purpose of making a loan to assist in financing a multifamily rental housing development know as [_____] located in _____ (the "Project"), as more particularly described in that certain Financing Agreement dated as of [_____], as may be amended and supplemented from time to time (the "Financing Agreement"), by and among the California Housing Financing Agency (the "Issuer"), [_____], a [_____] duly organized and existing under the laws of the State of [_____] (the "Borrower"), and U.S. Bank National Association (the "Trustee"). The undersigned further acknowledges that the Bonds are secured by a certain Trust Indenture dated as of [_____] 1, 2009, as amended and supplemented (the "Indenture"), between the Issuer and the Trustee, which creates a security interest in loan repayments made pursuant to the Financing Agreement for the benefit of the holders and Owners of the Bonds, and by a Multifamily Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing [_____] with respect to the Project (the "Bond Mortgage"), which creates a security interest in the Project, subject to permitted encumbrances, as provided therein. Terms not otherwise defined herein shall have the meanings assigned thereto in the Indenture.

In connection with the sale of the Bonds to the Purchaser, the Purchaser hereby makes the following representations upon which you may rely:

1. The Purchaser hereby certifies that it is (a) a bank as defined in Section 3(a)(2) of the Securities Act of 1933 (the "Act) or a bank holding company or a wholly-owned subsidiary of a bank holding company, or a savings and loan association or other institution as defined in Section 3(a)(5)(a) of that act whether acting in its individual or fiduciary capacity; or (b) a broker or dealer registered pursuant to Section 15 of the Securities Exchange Act of 1934; or (c) an insurance company as defined in Section 2(13) of that act; or (d) an investment company registered under the Investment Company Act of 1940 or a business development company as defined in Section 2(a)(48) of that act; or (e) a Small Business Investment Company licensed by the U.S. Small Business Administration under Section 301(c) or (d) of the Small Business Investment Act of 1958; or (f) a plan established and maintained by a state, its political subdivisions, or any agency or instrumentality of a state or its political subdivision for the benefit of its employees, if investment decisions are made by a plan fiduciary which is a bank, savings and loan association, insurance company, or registered investment advisor and the plan establishes fiduciary principles the same as or similar to those contained in Sections 404-407 of Title I of the Employee Retirement Income Security Act of 1974; or (g) an employee benefit plan within the meaning of the Employee Retirement Income Security Act of 1974 if investment decisions are made by a plan fiduciary, as defined in Section 3(21) of such act, which is either a bank, savings and loan association, insurance company, or registered investment advisor, or if the employee benefit plan has total assets in excess of $5,000,000, or, if a self-directed plan, with investment decisions made solely by persons that are accredited investors or (h) an "accredited investor" as defined in Rule 501 of Regulation D of the Act, as amended.

2. The Bonds are being acquired by the Purchaser for its own account and for investment and not with a view to, or for resale in connection with, any public distribution of the Bonds. The Purchaser understands that it may need to bear the risks of this investment for an indefinite time, since any sale prior to maturity may not be possible due to unmarketability of the Bonds.

3. The Purchaser understands that the Bonds have not been registered under the Act.

4. The Purchaser acknowledges that it is familiar with the conditions, financial and otherwise, of the Borrower and understands that the Borrower has no significant assets other than the Project. To the extent deemed appropriate in making its investment decision, the Purchaser has discussed the Borrower's financial condition and the Borrower's current and proposed business activities with the Borrower. The Purchaser further acknowledges that it has such knowledge and experience in business matters that it is fully capable of evaluating the merits and risks of this investment and it is able to bear the economic risk of the investment. The Bonds are a security of the kind the Purchaser wishes to purchase and hold for investment, and the nature and amount of the Bonds are consistent with the Purchaser's investment program. The Purchaser has been furnished such information and such documents as the Purchaser deems necessary to make a decision to purchase the Bonds, including copies or forms of the Indenture, the Financing Agreement, the Bond Mortgage and the Regulatory Agreement (as defined in the Indenture), and certain other documents relating to the Bonds and the Project, all of which documents the Purchaser has reviewed. Specifically, but without limitation, the

Purchaser has reviewed information about the Project and the property manager for the Project, if any, as well as information about the investment risks relating to the Bonds, and the Purchaser understands that the Bonds involve a high degree of risk. SPECIFICALLY, AND WITHOUT IN ANY MANNER LIMITING THE FOREGOING, THE PURCHASER UNDERSTANDS AND ACKNOWLEDGES THAT, AMONG OTHER RISKS, THE BONDS ARE PAYABLE SOLELY FROM REVENUES DERIVED FROM THE PROJECT AND THAT THE BONDS ARE NOT ENTITLED TO THE BENEFIT OF ANY CREDIT FACILITY. The Purchaser has made such inquiry with respect to all of the foregoing as it believed to be desirable for its purposes.

5. The Purchaser has received from the Issuer no formal or informal offering or disclosure document relating to the Bonds and has concluded that the receipt of one prior to the purchase of the Bonds is not required. It is acknowledged that no written information has been provided by the Issuer, and that any written information furnished by any other party to the transaction does not purport to fully disclose all information pertinent to the Bonds.

6. Except as disclosed to the Issuer, the Purchaser is not now and has never been controlled by, or under common control with, the Borrower. Except as disclosed to the Issuer, the Borrower has never been and is not now controlled by the Purchaser. THE PURCHASER HAS ENTERED INTO NO ARRANGEMENTS WITH THE BORROWER OR WITH ANY AFFILIATE OF THE BORROWER IN CONNECTION WITH THE BONDS, OTHER THAN AS DISCLOSED TO THE ISSUER. The Purchaser hereby agrees to deliver to the Issuer a copy of any agreement between the Purchaser and the Borrower or any affiliate of the Borrower relating to the Bonds.

7. The Purchaser has authority to purchase the Bonds and to execute this letter and any other instruments and documents required to be executed by the Purchaser in connection with the purchase of the Bonds.

8. In entering into this transaction the Purchaser has not relied upon any representations or opinions made by the Issuer relating to the legal consequences or other aspects of the transactions, nor has it looked to, nor expected, the Issuer to undertake or require any credit investigation or due diligence reviews relating to the Borrower, its financial condition or business operations, the Project (including the refinancing, operation or management thereof), or any other matter pertaining to the merits or risks of the transaction, or the adequacy of any collateral pledged to the Trustee to secure repayment of the Bonds.

9. The Purchaser understands that the Bonds are not secured by any pledge of any money received or to be received from taxation by the State of California or any political subdivision or taxing district thereof, including, without limitation, the Issuer; that the Bonds will never represent or constitute a general obligation or a pledge of the faith and credit of the Issuer, the State of California or any political subdivision thereof; that no right will exist to have taxes levied by the Issuer, the State of California or any political subdivision thereof for the payment of principal, premium, if any, and interest on

the Bonds; and that the liability of the Issuer with respect to the Bonds is subject to further limitations as set forth in the Bonds and the Indenture.

10. The Purchaser has been informed that the Bonds have not been and will not be registered or otherwise qualified for sale under the "Blue Sky" laws and regulations of any jurisdiction, (ii) will not be listed on any stock or other securities exchange, and (iii) will carry no rating from any rating service.

11. The Purchaser has obtained, from representatives of the Borrower and others, all information regarding the Bonds which it has deemed relevant. The Purchaser has asked of the Borrower and all other relevant parties all the questions to which the Purchaser desired answers, and has had those questions satisfactorily answered. Neither the Borrower nor the Issuer nor any other relevant party has refused to disclose any information that Purchaser deems necessary or appropriate to its decision to purchase the Bonds.

12. Although the Purchaser does not intend at this time to dispose of the Bonds, the Purchaser acknowledges that it has the right to sell and transfer the Bonds, subject to the following requirements:

(a) The Purchaser may not dispose of the Bonds to a person or entity other than as described in Section 1 without the prior written consent of the Issuer;

(b) The Purchaser will not sell or otherwise transfer the Bonds unless such transfer will not result in the transferee owning less than all of the Bonds, except with the prior written approval of the Issuer;

(c) Prior to any transfer of the Bonds, the Purchaser shall deliver to the Issuer and the Trustee a certificate identifying any and all documents that have been executed by the Purchaser and the Borrower or any affiliate of the Borrower with respect to the Bonds; and

(d) The Purchaser will not sell or otherwise transfer the Bonds without requiring the transferee to deliver to the Issuer and to the Trustee an investor's letter to the same effect as this Purchaser's Letter, including this paragraph 12, with no revisions except as may be approved in writing by the Issuer.

[PURCHASER]

By: _____
Name:
Title:

EXHIBIT D
COSTS OF ISSUANCE REQUISITION
(Costs of Issuance Fund)

U.S. Bank National Association, as Trustee
One California Street, Suite 2100
San Francisco, California 94111
Attention: Corporate Trust Department

Re: California Housing Financing Agency Multifamily Housing Revenue Bonds ([____] Project) 2009 Series [__]

Trustee:

You are requested to disburse funds from the Costs of Issuance Fund pursuant to Section 4.13 of the Indenture in the amount(s), to the person(s) and for the purpose(s) set forth in this requisition (the "Requisition"). The terms used in this requisition shall have the meaning given to those terms in the Trust Indenture (the "Indenture"), dated as of [_____] 1, 2009, by and between the California Housing Financing Agency and U.S. Bank National Association, as trustee, securing the above referenced Bonds.

REQUISITION NO.:

PAYMENT DUE TO:

AMOUNT TO BE DISBURSED: $

The undersigned, on behalf of [_____], a [_____] duly organized and existing under the laws of the State of [_____] (the "Borrower"), certifies that:

(a) the expenditures for which moneys are requisitioned by this Requisition represent proper charges against the Costs of Issuance Fund, have not been included in any previous requisition and are set forth in the Schedule attached to this Requisition, with invoices attached for any sums for which reimbursement is requested; and

(b) the moneys requisitioned are not greater than those necessary to meet obligations due and payable or to reimburse the applicable party for funds actually advanced for Costs of Issuance.

Attached to this Requisition is a Schedule, together with copies of invoices or bills of sale covering all items for which payment is being requested.

Date of Requisition: _____

[BORROWER SIGNATURE BLOCK]

EXHIBIT C

[FORM OF MASTER PLEDGE AND ASSIGNMENT]

MASTER PLEDGE AND ASSIGNMENT

among

CALIFORNIA HOUSING FINANCING AGENCY,
as Issuer

and

[_____],
as Agent

and

[_____],
as Holder

Dated as of [_____] 1, 2009

Relating to

$[_____]
CALIFORNIA HOUSING FINANCING AGENCY
MULTIFAMILY HOUSING REVENUE BONDS
([_____] PROJECT)
2009 SERIES [__]

TABLE OF CONTENTS

ARTICLE I
DEFINITIONS

Section 1.1. Definitions 4

ARTICLE II
BONDS

Section 2.1. Issuance of Bonds to Fund Loan; Loan Fees 8
Section 2.2. Form, Face Amount and Delivery of Bonds 8
Section 2.3. Principal 8
Section 2.4. Interest 8
Section 2.5. Limited Obligation of Issuer and Agent to Make Payments 9
Section 2.6. Corresponding Payments 9
Section 2.7. Replacement of Bonds 9
Section 2.8. Registration and Transferability 9
Section 2.9. Circumstances of Redemption of the Bonds. 10
Section 2.10. No Notice of Redemption. 11
Section 2.11. Effect of Redemption. 11

ARTICLE III
SECURITY FOR THE BONDS

Section 3.1. Delivery of Collateral. 12
Section 3.2. Agent the Mortgagee of Record. 12

ARTICLE IV
SERVICING THE LOANS AND THE BONDS

Section 4.1. Servicing the Loan. 13
Section 4.2. Paying Agent for the Bonds; Investments. 14
Section 4.3. Standard of Care. 14
Section 4.4. Indemnification of Issuer by Agent. 14

ARTICLE V
DEFAULTS ON LOAN

Section 5.1. Defaults on Loan. 16
Section 5.2. Action After Consultation with Holder 16
Section 5.3. Losses and Expenses Upon Exercise of Rights 17
Section 5.4. Notice to Issuer 17

ARTICLE VI
REPRESENTATIONS AND COVENANTS BY AGENT AND ISSUER

Section 6.1. Representations by Agent. 18
Section 6.2. Representations by Issuer. 18

ARTICLE VII

BOOKS AND RECORDS; REPORTS

Section 7.1. Books and Records. 19
Section 7.2. Reports. 19

ARTICLE VIII
NONRECOURSE; OBLIGATIONS NOT DEBT OF ISSUER, AGENT OR STATE

Section 8.1. Limited Obligations. 20

ARTICLE IX
DEFAULTS UNDER THIS PLEDGE AND ASSIGNMENT AGREEMENT

Section 9.1. Events of Default. 22
Section 9.2. Remedies. 23
Section 9.3. Continuance of Obligations Upon Default by Agent. 23
Section 9.4. Continuance of Obligations and Servicing by Agent Upon Default by Issuer 23
Section 9.5. Holder Authorized to Execute Assignments, Etc. 24
Section 9.6. Waiver of Appraisal, Evaluation, Etc. 24
Section 9.7. Application of Proceeds of Sale. 24
Section 9.8. Right of Holder to Perform Covenants of the Issuer and the Agent. 24
Section 9.9. No Waiver, Etc. 24
Section 9.10. Remedies Cumulative, Etc. 25

ARTICLE X
MISCELLANEOUS

Section 10.1. Provisions Subject to Applicable Law. 26
Section 10.2. Applicable Law. 26
Section 10.3. Compromise of Action, Etc. 26
Section 10.4. Notices, Etc. 26
Section 10.5. Termination. 26
Section 10.6. Duty of Issuer. 26
Section 10.7. Consent to Assignment. 26
Section 10.8. Amendments, Successors and Assigns, Headings and Counterparts. 27

EXHIBIT A FORM OF BOND
EXHIBIT B PURCHASER'S LETTER

MASTER PLEDGE AND ASSIGNMENT

THIS MASTER PLEDGE AND ASSIGNMENT, dated as of [_____] 1, 2009 (this "Pledge and Assignment"), from the CALIFORNIA HOUSING FINANCING AGENCY, a public instrumentality and a political subdivision of the State of California (the "Issuer"), and [_____] (the "Agent"), as agent under and pursuant to that certain Master Agency Agreement dated as of [_____] 1, 2009 (the "Agency Agreement") between the Issuer and the Agent, to [_____], as initial holder of the Bonds described herein, and any successors and assigns (the "Holder").

WITNESSETH:

WHEREAS, the Issuer is, concurrently herewith, issuing its Multifamily Housing Revenue Bonds ([_____] Project) 2009 Series [__], in the aggregate principal amount of $[_____] (the "Bonds"), to evidence the obligation to repay the advances to be made hereunder by the Holder to the Agent for the account of the Issuer;

WHEREAS, the proceeds of the Bonds will be advanced by the Agent for the account of the Issuer to [_____], a [_____] (the "Borrower"), for the purpose of funding a loan (the "Loan") in the maximum aggregate principal amount of $[_____] to the Borrower to finance the Borrower's acquisition, [construction/rehabilitation] and development of a [_____]-unit multifamily rental housing project to be located in the City of [_____], State of California, to be known as the "[_____]" (the "Project");

WHEREAS, the Loan will be made to the Borrower by the Agent for the account of the Issuer pursuant to that certain [Loan Agreement] (the "Loan Agreement"), of even date herewith, by and between the Agent (for the account of the Issuer), as lender, and the Borrower, as borrower;

WHEREAS, the Borrower's obligation to repay the Loan will be evidenced by that certain Promissory Note (the "Note") made by Borrower to the order of the Agent for the account of the Issuer, as further described herein, and secured by that certain [Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing] (the "Mortgage") of even date herewith, executed by the Borrower, as trustor, for the benefit of the Agent, in its capacity as agent for the Issuer, as beneficiary;

WHEREAS, the Holder, as a condition to its purchase of the Bonds, has required that the Issuer and the Agent execute and deliver this Pledge and Assignment;

NOW, THEREFORE, as an inducement to the Holder to purchase the Bonds, as provided herein, and as an inducement to the Agent, as agent for the Issuer and for the account of the Issuer, to make and disburse the proceeds of the Bonds to make the Loan as provided herein, and in consideration of the premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Issuer and the Agent, in order to secure the due and punctual payment of the Bonds and other sums due the Holder hereunder or thereunder, do hereby pledge, grant, bargain, sell, convey, assign, mortgage and transfer, and grant a security

interest in, all of the Issuer's and the Agent's right, title and interest in and to the following described property, whether real or personal (the "Collateral"), to the Holder; provided, however, that this Pledge and Assignment and the agreements and covenants made hereunder shall not be construed to constitute a general obligation of the Issuer or the Agent, and any obligations hereunder are limited obligations of the Issuer and the Agent to be paid and satisfied solely from the following described Collateral:

(i) the Loan, including without limitation, the Note, the Mortgage and all other Loan Documents (as hereinafter defined) to which either the Issuer or the Agent now is, or hereafter may be, a party or a direct beneficiary, together with all rights, powers, privileges and other benefits of the Agent and the Issuer under the Loan Documents, including the right to make all waivers and agreements, to give and receive duplicate copies of all notices and other instruments or communications, to take such action upon the occurrence of any default under the Loan Documents, including the commencement, conduct and consummation of legal, administrative or other proceedings, as shall be permitted by the Loan Documents or by law, and to do any and all other things whatsoever which the Issuer or the Agent is or may be entitled to do under the Loan Documents;

(ii) any and all payments of principal, interest, premiums and late payment fees made on the Loan at any time hereafter by the Borrower;

(iii) the proceeds of the sale of the Bonds to the extent they have not been applied to fund the Loan;

(iv) all tax, insurance or other similar escrows now or hereafter held with respect to the Loan; and

(v) any and all proceeds received under any policy of title insurance, hazard insurance, or other such insurance with respect to the Project, proceeds received from Condemnation (as that term is defined below), and revenues, proceeds and other payments and tenders received from any foreclosure (or payments in lieu of foreclosure) of the Mortgage or from enforcement of the Mortgage or any other Loan Documents, and any and all proceeds from the conversion, voluntary or involuntary, of any of the foregoing into cash or other liquidated claims;

SUBJECT, HOWEVER, to (a) the interest of the Borrower, to the extent provided in the Loan Documents, with respect to the tax, insurance or other similar escrows and with respect to any property insurance proceeds or Condemnation awards or proceeds of foreclosure, (b) the right of the Agent and the Issuer to exercise, without the consent of the Holder until an Event of Default shall have occurred and be continuing, all rights, powers, privileges and other benefits under the Loan Documents, including the right to make all waivers and agreements, to give and receive duplicate copies of all notices and other instruments or communications, to take such action upon the occurrence of any default under the Loan Documents, including the commencement, conduct and consummation of legal, administrative or other proceedings, as shall be permitted by the Loan Documents or by law, but subject to, and only upon, the terms and conditions of Article 5 hereof, and (c) any of the rights of the Issuer and the Agent and their

respective directors, officers, elected officials, attorneys, accountants, employees, agents and consultants to be held harmless and indemnified thereunder, to be paid fees as described therein, to be reimbursed for attorneys' fees and expenses thereunder and to give or withhold consent to amendments, changes, modifications and alterations to and to enforce the provisions of the Regulatory Agreement as that term is hereinafter defined.

IT IS HEREBY COVENANTED by the parties hereto that the Collateral is to be held and applied subject to the further covenants, conditions, uses and trusts herein set forth; and the Issuer and the Agent, for themselves and their respective successors and assigns, hereby covenant and agree with the Holder as follows:

ARTICLE I

DEFINITIONS

Section 1.1. Definitions. The following terms shall, for all purposes of this Pledge and Assignment, have the following respective meanings:

"Act" Parts 1 through 4 of Division 31 of the Health and Safety Code of the State of California, and all laws supplementary thereto and amendatory thereof.

"Affiliate" means any entity of which the ultimate parent corporation is the same as that of [_____] (or any successor to [_____] as the Holder), including such parent corporation.

"Authorized Denomination" shall mean [_____].

"Authorized Officer" means the Chairperson, the Executive Director, the Deputy Director or the Director of Financing and any other officer or employee of the Issuer designated by certificate of any of the foregoing as authorized by the Issuer to perform a specified act, sign a specified document or otherwise take action with respect to the Bonds.

"Bond Counsel" means an attorney or a firm of attorneys of nationally recognized standing in matters pertaining to the tax status of interest on bonds issued by states and their political subdivisions, who is or are selected by the Issuer and duly admitted to the practice of law before the highest court of any state of the United States of America or the District of Columbia.

"Bonds" means the California Housing Financing Agency Multifamily Housing Revenue Bonds ([_____] Project) 2009 Series [__], issued and delivered in the aggregate principal amount of $[_____].

"Borrower" means [_____], a [_____], and its successors and assigns.

"Business Day" means any day (other than a Saturday or a Sunday) on which banks in New York, New York, are open for business.

"Closing Date" means the date of original issuance of the Bonds hereunder.

"Code" means the Internal Revenue Code of 1986 as in effect on the date of issuance of the Bonds or (except as otherwise referenced herein) as it may be amended to apply to obligations issued on the date of issuance of the Bonds, together with applicable proposed, temporary and final regulations promulgated, and applicable official public guidance published, under the Code.

"Collateral" shall have the meaning assigned to such term in the sixth paragraph under the heading "WITNESSETH" above.

"Condemnation" means a taking of all or any part of the Project or any Land or any interest therein or right accruing thereto as a result of or in lieu of or in anticipation of the exercise of the right of condemnation, eminent domain, change of grade, appropriation or confiscation.

"Conversion Date" shall have the meaning assigned to such term in the Loan Agreement.

"Interest Payment Date" shall mean the [first Business Day of each month] for so long as the Bonds are outstanding, commencing [_____].

"Investor Limited Partner" means [_____], and its successors and assigns.

"Loan" means the mortgage loans made by the Agent for the account of the Issuer to the Borrower with respect to the Project, from the proceeds of the Bonds, pursuant to the Loan Agreement.

"Loan Agreement" means that certain [Loan Agreement] dated as of [_____] 1, 2009 by and between the Agent, in its capacity as agent for the Issuer, as lender, and the Borrower with respect to the Project.

"Loan Documents" means all of the following documents or instruments entered into with respect to the Loan and the Project: the Note, the Mortgage, the Loan Agreement, the Regulatory Agreement and all other documents evidencing, securing or otherwise pertaining to the Loan.

"Moody's" means Moody's Investors Service, Inc., its successors and assigns, if such successors and assigns continue to perform the services of a securities rating agency.

"Mortgage" means the [Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing] of even date herewith by the Borrower, as trustor, for the benefit of the Agent, for the account of the Issuer, as beneficiary, encumbering (among other things) the Project, securing the Loan and recorded in the official records of the County of [_____], State of California.

"Note" means that certain Promissory Note relating to the Bonds in the maximum face principal amount of $[_____] executed by the Borrower to the order of the Agent, as agent for the Issuer, evidencing the obligation to repay the Loan.

"Permitted Investments" means, to the extent permitted by applicable law, any of the following:

(1) direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America) or obligations the timely payment of the principal of and interest on which are fully guaranteed by the United States of America, including instruments evidencing an ownership interest in securities described in this clause (1);

(2) obligations, debentures, notes or other evidences of indebtedness issued or guaranteed by any of the following: Federal Home Loan Bank System, Export-Import Bank of the United States, Federal Financing Bank, Federal Land Banks, Government National Mortgage Association, Federal Home Loan Mortgage Corporation or Federal Housing Administration;

(3) repurchase agreements (including those of the Agent) fully secured by collateral security described in clause (1) or (2) of this definition, which collateral (a) is held by the Agent or a third party agent approved by the Holder during the term of such repurchase agreement, (b) is not subject to liens or claims of third parties and (c) has a market value (determined at least once every fourteen (14) days) at least equal to the amount so invested;

(4) certificates of deposit of, or time deposits or deposit accounts in, any bank (including the Agent) or savings and loan association (a) the debt obligations of which (or in the case of the principal bank of a holding company, the debt obligations of the bank holding company of which) have been rated "A" or better by S&P, or (b) which are fully insured by the Federal Deposit Insurance Corporation, or (c) which are secured at all times, in the manner and to the extent provided by law, by collateral security (described in clause (1) or (2) of this definition) of a market value (valued at least quarterly) of no less than the amount of money so invested;

(5) investment agreements of financial institutions or insurance companies, in each case having uninsured, unsecured and unguaranteed obligations rated "AA-" or better by S&P, provided, however, that any such investment may be provided by a financial institution or insurance company having uninsured, unsecured and unguaranteed obligations not rated "AA-" or better by S&P, if such investment is unconditionally insured, guaranteed or enhanced by an entity whose uninsured, unsecured and unguaranteed obligations are rated "AA-" or better by S&P;

(6) shares in any investment company registered under the federal Investment Company Act of 1940 whose shares are registered under the federal Securities Act of 1933 and whose only investments are government securities described in clause (1) or (2) of this definition and repurchase agreements fully secured by government securities described in clause (1) or (2) of this definition and/or other obligations rated AAA by S&P, including investment companies and master repurchase agreements from which the Agent or an affiliate derives a fee for investment advising or other service;

(7) tax-exempt obligations of any state of the United States, or political subdivision thereof, which are rated A or better by S&P or mutual funds invested only in such obligations;

(8) units of a taxable or nontaxable government money-market portfolio composed of U.S. Government obligations and repurchase agreements collateralized by such obligations;

(9) commercial paper rated A or better by S&P;

(10) corporate notes or bonds with one year or less to maturity rated A or better by S&P; or

(11) any other investment approved by the Holder.

"Project" means the [_____]-unit multifamily rental housing project to be known as "[_____]" and to be located in the City of [_____], State of California.

"Purchaser's Letter" means the Purchaser's Letter in the form attached hereto as Exhibit B.

"Regulatory Agreement" means that certain Regulatory Agreement relating to the Project, dated as of [_____] 1, 2009, by and between the Issuer and the Borrower.

"S&P" means Standard & Poor's Ratings Services, a division of The McGraw Hill Companies, Inc., and its successors and assigns, if such successors and assigns continue to perform the services of a securities rating agency.

"State" means the State of California.

"Tax Certificate" means the Tax Certificate and Agreement executed by the Issuer and the Borrower on the Closing Date.

ARTICLE II

BONDS

Section 2.1. Issuance of Bonds to Fund Loan; Loan Fees. This Pledge and Assignment is entered into by the Issuer to assist in the acquisition and [construction/rehabilitation] of the Project by providing financing for the Project through the issuance of the Bonds, the proceeds of which shall be advanced by the Holder directly to the Agent for the account of the Issuer as and when needed by the Agent to make each advance under the Loan Agreement and shall be applied by the Agent for the account of the Issuer to the funding of the Loan pursuant to the terms of the Loan Agreement. As consideration for the issuance and delivery of the Bonds, the Holder agrees to purchase, at par, the Bonds in an original principal amount of up to $[_____]. Concurrently with each advance of principal by the Agent, for the account of the Issuer, to the Borrower under the Loan Agreement of the proceeds of the Loan, the Holder shall deliver to the Agent, for the account of the Issuer, and on account of the Holder's purchase of a corresponding principal amount of the Bonds, an amount equal to the amount so advanced by the Agent, on account of the Issuer, to the Borrower under the Loan Agreement. On the Closing Date, the Holder will purchase $[_____] aggregate principal amount of Bonds.

Section 2.2. Form, Face Amount and Delivery of Bonds. The Bonds secured hereby are designated "California Housing Financing Agency Multifamily Housing Revenue Bonds ([_____] Project) 2009 Series [__]," are to be issued substantially in the form attached hereto as Exhibit A, are being issued in the face principal amount of $[_____], and will be payable and mature as provided therein. The Bonds shall be executed, either manually or by facsimile, by an Authorized Officer of the Issuer and attested by the Secretary of the Board of Directors of the Issuer or any other Authorized Officer and shall be delivered to the Holder.

Section 2.3. Principal. The outstanding principal amount of the Bonds as of any given date shall be the total amount advanced by the Holder to the Agent on account of the Holder's purchase of the Bonds and advanced or constructively advanced by the Agent to the Borrower as proceeds of the Loan, less any payments of principal previously received by such Holder on the Bonds. The principal amount of the Bonds and interest thereon shall be payable on the basis specified in Sections 2.4 and 2.6. The Bonds shall be subject to redemption as provided in Sections 2.9 and 2.16 and shall mature, and become due and payable in full, together with all accrued and unpaid interest thereon, on [_____].

Section 2.4. Interest. Interest shall be paid on the outstanding principal amount of the Bonds, from and after the Closing Date, at the rate or rates equal to the interest rate in effect from time to time on the Note as provided in the Loan Agreement, payable on each Interest Payment Date. Interest on the Bonds shall be calculated as provided in the Loan Agreement.

The Bonds shall bear interest from the date to which interest has been paid on the Bonds next preceding the date of its authentication, unless it is authenticated as of an Interest Payment Date for which interest has been paid, in which event it shall bear interest from such Interest Payment Date, or unless it is authenticated on or before the first Interest Payment Date, in which event it shall bear interest from its Closing Date.

Section 2.5. Limited Obligation of Issuer and Agent to Make Payments. The payments of principal, interest, premiums, late payment fees and all other amounts to be made on the Bonds to the Holder thereof shall be made in accordance with the terms of the Bonds. In no event, however, shall the Issuer or the Agent have any obligation to make or remit such payments to the Holder unless and until moneys are received therefore by the Issuer or the Agent, as the case may be, from or with respect to the Loan.

Section 2.6. Corresponding Payments. The payment or prepayment of principal and interest, premiums, late payment fees and other amounts due on the Bonds shall be identical with and shall be made on the same dates, terms and conditions as the principal, interest, premiums, late payment fees and other amounts due on the Note as provided in the Loan Agreement. Any payment or prepayment made by the Borrower of principal, interest, premiums, late payment fees and other amounts due on the Note shall be deemed to be like payments or prepayments of principal, interest, premiums, late payment fees and other amounts due on the Bonds. Payments or prepayments by the Borrower under the Note shall be deemed to have been constructively received by the Holder as payments or prepayments on the Bonds on the date of receipt of such payments by the Agent, and interest with respect to each principal payment or prepayment shall cease to accrue upon receipt thereof by the Agent. Payments or prepayments of principal, interest, premiums, late payment fees and other amounts due shall be remitted immediately by the Agent to the Holder. Late payment fees payable on the Note as provided in the Loan Agreement and other amounts, if any, payable on the Note as provided in the Loan Agreement other than principal, interest and premium shall be retained by the Agent as additional compensation.

Section 2.7. Replacement of Bonds. Upon receipt of evidence reasonably satisfactory to the Issuer of the loss, theft, destruction or mutilation of the Bonds, or any replacement Bonds, and, in the case of any such loss, theft, or destruction, upon the delivery of an indemnity agreement reasonably satisfactory to the Issuer or, in the case of any mutilation, upon the surrender and cancellation of such mutilated Bond, the Issuer, at the expense of the Holder of such Bond, will issue a new Bond, of like tenor, in lieu of such lost, destroyed or mutilated Bond.

Section 2.8. Registration and Transferability. The Bonds shall be in fully registered form, registered in the name of the Holder upon registration books of the Issuer at the office of the Agent, such registration to be noted on the Bonds, after which no transfer shall be valid unless made in compliance with the provisions of this Section 2.8.

The Bonds shall be sold, assigned, transferred or otherwise disposed of only in Authorized Denominations. The Bonds shall be transferable upon said registration books by the Holder in person or by its attorney duly authorized in writing, upon surrender thereof together with a written instrument of transfer satisfactory to the Agent, duly executed by the registered Holder or its duly authorized attorney. Upon such transfer, the Agent will note the date of registration and the name and address of the newly registered Holder on the books of the Issuer and on the Bonds. The Issuer and the Agent may deem and treat the person in whose name the Bond is last registered upon the books of the Issuer, with such registration noted on the Bond, as

the absolute owner thereof for the purpose of receiving payment of or on account of the principal, or interest, premium and late payment fees and for all other purposes; all such payments so made to the registered Holder or upon its order shall be valid and effectual to satisfy and discharge the liability upon the Bond to the extent of the sum or sums so paid, and the Issuer shall not be affected by any notice to the contrary.

With the exception of a transfer to an Affiliate of Holder, the Bonds (and any participation interests therein) shall not be sold, assigned, transferred or otherwise disposed of by the Holder or any Affiliate of the Holder unless [the purchaser of the Bonds (or of any such interest) provides a Purchaser's Letter substantially in the form attached hereto as Exhibit B] or [the Bonds are then rated at least _____ by S&P or Moody's.] The Holder shall provide written notice to the Issuer identifying any person or entity acquiring a participation interest in the Bonds. No sale of participations in the Bonds by the Holder shall relieve the Holder of its obligation to advance the proceeds of the Bonds when required by this Pledge and Assignment. In no case shall a purchaser of participation interests in the Bonds be deemed to be a Holder of the Bonds. The Holder may disclose to any purchasers or prospective purchasers any information or other data or material in the Holder's possession relating to the Issuer, the Bonds and the Project, without the consent of or notice to the Issuer.

Section 2.9. Circumstances of Redemption of the Bonds. The Bonds are subject to redemption upon the circumstances, on the dates and at the prices set forth as follows:

(a) The Bonds shall be subject to redemption in whole or in part on any Interest Payment Date, at a redemption price equal to the outstanding principal amount of the Bonds to be redeemed plus interest accrued thereon to the date fixed for redemption, together with any applicable premium, upon prepayment of the Loan under the terms of the Loan Agreement in whole or in part.

(b) The Bonds shall be subject to redemption in whole on any date at a redemption price equal to the outstanding principal amount of the Bonds to be redeemed plus interest accrued thereon to the date fixed for redemption, together with any applicable premium, upon acceleration of the Loan in whole following an Event of Default (as defined in the Loan Agreement).

(c) The Bonds shall be subject to redemption in whole or in part on any date at a redemption price equal to the outstanding principal amount of the Bonds to be redeemed plus accrued interest to the redemption date, together with any applicable premium, from the proceeds of any mandatory prepayment of the Loan under the terms of the Note or the Loan Agreement including any mandatory prepayment in connection with regularly scheduled Loan amortization.

The premium due in connection with any of the foregoing redemption provisions shall be an amount equal to the amount paid on the applicable Note and/or the Loan Agreement in connection with such redemption that is in excess of the principal and interest on the Bonds otherwise due on the redemption date.

The Agent shall give written notice of any redemption pursuant to this Section 2.9 to the Issuer within 15 Business Days of such redemption.

Section 2.10. No Notice of Redemption. No notice of redemption of the Bonds need be given to the Holder or other owners of the Bonds.

Section 2.11. Effect of Redemption. The Bonds so called for redemption shall, on the redemption date selected by the Holder become due and payable at the redemption price specified herein, and if moneys provided from the sources contemplated by this Pledge and Assignment and the Loan Agreement for payment of the redemption price are then held by the Holder, interest on the Bonds so called for redemption shall cease to accrue, said Bonds shall cease to be entitled to any lien, benefit or security under this Pledge and Assignment, and the holders of said Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof.

All Bonds fully redeemed pursuant to the provisions of Section 2.9 shall be destroyed by the Agent, which shall thereupon note such destruction in the registration books maintained by the Agent pursuant to Section 2.8 of this Pledge and Assignment.

ARTICLE III

SECURITY FOR THE BONDS

Section 3.1. Delivery of Collateral. To provide security for the payment of the Bonds, the Agent and the Issuer have pledged, assigned, transferred, conveyed and granted their respective right, title and interest in the Loan and other security constituting the Collateral to the Holder. In connection with such pledge, assignment, transfer and conveyance, the Agent shall deliver to the Holder the following documents or instruments promptly following their execution:

(i) The Note endorsed without recourse by the Agent;

(ii) An originally executed Loan Agreement and Regulatory Agreement;

(iii) An originally executed Mortgage and all other Loan Documents constituting the Collateral existing at the time of delivery of the Note and a collateral assignment of the Mortgage from Agent to Holder, in recordable form;

(iv) Uniform Commercial Code financing statements or other chattel security documents giving notice of the Holder's status as an assignee of the Agent's security interest in any personal property forming part of the Project, in form suitable for filing; and

(v) Uniform Commercial Code financing statements giving notice of the pledge by the Issuer and the Agent of the Collateral pledged under this Pledge and Assignment.

The Agent and the Issuer shall deliver and deposit with the Holder such additional documents, financing statements, and instruments as the Holder may reasonably require from time to time for the better perfecting and assuring to the Holder of its lien and security interest in and to the Collateral.

Section 3.2. Agent the Mortgagee of Record. Notwithstanding the pledge, transfer and conveyance hereunder of the Loan and the other Collateral to the Holder, the Agent shall, except as otherwise provided in Section 9.2 of this Pledge and Assignment upon the occurrence of an Event of Default, be and remain the mortgagee of record for the Loan, and is fully authorized and empowered to service and administer the Loan as provided in Section 4.1 hereof.

ARTICLE IV

SERVICING THE LOANS AND THE BONDS

Section 4.1. Servicing the Loan. The Agent shall take all steps necessary to maintain its qualifications to act hereunder as mortgagee, and shall service and administer the Loan in accordance with standard mortgage banking practices, taking all steps and exercising the same degree of care and skill with respect to the Loan, Project and Loan Documents that it would take or exercise under the circumstances in protecting its own interests as a mortgage lender or investor therein. Except as specifically noted below, the Agent shall have full power and authority, acting alone, to do any and all things in connection with such servicing and administration of the Loan that it may deem necessary or desirable, including, without limitation, the following:

(i) The making of advances on the Loan directly to or for the account of the Borrower, pursuant to the Loan Agreement and other Loan Documents, in accordance with law and the Agent's usual practices and procedures in administering similar projects and mortgage loans.

(ii) Recording and filing of documents and statements to create, preserve and release the lien of the Mortgage on the Project and the site on which it is located, site inspections, obtaining title updates and endorsements, processing change orders, and maintaining required insurance and escrow funds.

(iii) The collection, holding and disbursement in accordance with the requirements of the Loan Documents and any applicable laws, of all payments of principal and interest due under the Loan, and any other payments or sums due under or with respect to the Loan, the Mortgage or other Loan Documents, including, without limitation, all payments for taxes, assessments, hazard insurance premiums, service charges and late payment fees, all proceeds of title and hazard insurance policies, letters of credit, and all condemnation awards.

(iv) The preservation, administration and enforcement of the Loan and the Loan Documents, and in this connection the Agent may do, or refrain from doing, all acts which are permitted under the terms of the Loan or the Loan Documents and which in its sole judgment may be appropriate; provided, however, that, except as otherwise permitted in accordance with Section 5.2 hereof upon the happening of a default by the Borrower under the Loan Agreement, the Note or the Mortgage, the Agent may not take any action that would cause interest on the Bonds to be included in the gross income of the owners thereof for purposes of federal income taxation without the prior written consent of the Issuer and the Holder or do any of the following without the prior written consent of the Holder:

(a) consent to or permit modification of the maximum face principal amount of the Loan, reduce the interest rate thereon, or extend the maturity date thereof or the due date of any principal payment thereof or the date for commencement of amortization (except as provided therein), or

(b) make or consent to any release of the Borrower from any liability under the Loan or any of the Loan Documents except as otherwise expressly contemplated under the Loan Documents.

(v) The preservation and administration of all escrow funds required by any of the Loan Documents, in accordance with the requirements of the Loan Documents.

Section 4.2. Paying Agent for the Bonds; Investments. The Agent shall serve as paying agent for the Bonds and on behalf of the Issuer, and shall remit, directly to the Holder, the payments of principal, interest, premiums, late payment fees and all other amounts due on the Bonds required by, and in accordance with, Sections 2.3, 2.4, 2.5, 2.6, 2.12, 2.13 and 2.14 hereof. The Agent shall invest any undisbursed Bond proceeds in Permitted Investments, as directed by the Borrower and as approved by the Holder.

Permitted Investments may be purchased at such prices as the Agent may in its discretion determine or as may be directed by written request of the Borrower, approved by the Holder, provided that, except as hereinafter provided in the next sentence, all Permitted Investments acquired with the proceeds of the Bonds (within the meaning of Section 148 of the Code) shall be acquired, disposed of and valued (as of the date that valuation is required by the Code) at fair market value in accordance with the Tax Certificate. Investments of such proceeds that are subject to a yield restriction under applicable provisions of the Code shall be valued at their present value (within the meaning of Section 148 of the Code). All Permitted Investments relating to the Bonds shall be acquired subject to any additional limitations set forth in the Tax Certificate dated the Closing Date executed by the Issuer and the Borrower.

Section 4.3. Standard of Care. In servicing and administering the Loan and acting as a paying agent for the Bonds pursuant to Sections 4.l and 4.2 hereof, the Agent shall act in the best interests of the Holder, but neither the Issuer nor the Agent shall be liable to the Holder or to any other person or entity if, in so servicing and administering the Loan and the Bonds, the Agent exercises that degree of ordinary prudence and skill which it would exercise under the circumstances in protecting its own interests as if it were the Holder, and further, neither the Issuer nor the Agent shall have any liability when the Agent acts, or refrains from acting, pursuant to the specific written instructions of the Holder. The Issuer shall have no liability to the Holder for actions taken by the Agent in servicing and administering the Loan or acting as paying agent for the Bonds, including, but not limited to, liability for the errors or omissions, willful misconduct or negligence of the Agent.

Section 4.4. Indemnification of Issuer by Agent. The Holder acknowledges that notwithstanding any other provision of this Pledge and Assignment, Agent is acting as an independent contractor and not as the agent of Issuer in servicing and administering the Loan. Agent agrees to indemnify, hold harmless and defend the Issuer against all loss, costs, damages, expenses, suits, judgments, actions and liabilities of whatever nature (including, without limitation, attorneys' fees, litigation and court costs, amounts paid in settlement, and amounts paid to discharge judgments) directly or indirectly resulting from or arising out of or related to any act or omission on the part of Agent with respect to the servicing and administration of the Loan under this Pledge and Assignment. If a third party makes a claim against the Issuer that

may be subject to indemnification pursuant to this Section 4.4, the Issuer shall give prompt notice of such claim to Agent: provided, however, that the failure to provide such notice shall not release Agent from any of its obligations hereunder except to the extent Agent is prejudiced by such failure. Agent shall be entitled to assume and control the defense of such claim at its expense through counsel of its choice. The Issuer shall cooperate with Agent in such defense and make available to Agent any witnesses, pertinent records, materials and information in Issuer's possession as reasonably required by Agent. The Issuer shall have no right to settle or compromise any claim or consent to the entry of any judgment against Issuer, which is the subject of indemnification hereunder without the prior written consent of the Agent. Notwithstanding the above, the Issuer shall have the right to employ separate counsel in any such action or proceeding and participate in the investigation and defense thereof, and the Agent shall pay the fees and expenses of such separate counsel; provided, however, that Issuer may only employ separate counsel at the expense of the Agent if in the judgment of the Issuer a conflict of interest exists or could arise by reason of common representation or if all parties commonly represented do not agree as to the action (or inaction) of counsel.

ARTICLE V

DEFAULTS ON LOAN

Section 5.1. Defaults on Loan. Except as provided in Section 5.2 hereof, upon the happening of any default by the Borrower under the Loan Agreement, the Note or Mortgage, or any other Loan Document, after expiration of any applicable cure periods, the Agent shall (a) promptly notify the Holder of the default, (b) take such action as it is directed to take by the Holder to enforce the Loan Documents, and (c) promptly apply all proceeds realized upon enforcement of the Loan Documents, if any, in the following order of priority:

(i) To reimburse the Agent for its losses and expenses (including reasonable attorneys' fees) incurred in taking such action to enforce the Loan Documents or as a result of an alternate cause or causes of action described in Section 5.2;

(ii) To pay to the Holder any interest accrued on the Bonds, without preference or priority of any installment of such interest over any other installment of such interest;

(iii) To pay to the Holder all principal outstanding on the Bonds and any corresponding unpaid premium and late payment fees, without preference or priority of any installment or amount of such principal, premium or fees over any other installment of principal, premium or fees; and

(iv) To reimburse the Holder for any losses or expenses incurred by it in connection with such default on the Bonds.

The balance, if any, of such proceeds shall be applied in accordance with the Loan Documents, if applicable, and otherwise in accordance with the applicable law or as determined by the Agent and the Issuer.

In the event that Agent or Holder accepts a deed in lieu of a foreclosure or credit bids at the foreclosure sale and subsequently takes title to the Project, Holder may request that the Issuer effect a termination of the Regulatory Agreement, but only in accordance with the terms of the Regulatory Agreement. In the event that the Agent accepts a deed in lieu of foreclosure or makes a credit bid at a foreclosure sale and subsequently takes title to the Project, the Agent shall take appropriate action to cause such deed to be delivered to the Holder.

The Issuer shall have no obligation to take any action or to incur any expense with respect to any default by the Borrower and shall have no liability to the Holder, the Agent or any other person for any losses or expenses incurred as a result of such a default.

Section 5.2. Action After Consultation with Holder. Upon the happening of any default by the Borrower under the Loan Agreement, the Note, Mortgage or any other Loan Document, after expiration of any applicable cure periods, the Agent shall notify the Holder of such circumstance. The Agent may request consent of the Holder, with a written copy of such request being delivered to the Issuer, to a course of action which is other than the enforcement of the

Loan Documents but which is considered reasonable or appropriate by the Agent. Such course of action may include, but shall not be limited to, waiver of payments to any escrow under the Mortgage, deferral of payment of principal of or interest on the Loan, entering into a forbearance agreement with the Borrower, and any similar work-out arrangement; provided, however, that no such course of action shall be pursued which, in the opinion of Bond Counsel, would cause interest on the Bonds to be included in gross income for purposes of federal income taxation without the prior written consent of Issuer. In the event the Holder shall approve in writing any such course of action, the Agent shall take such course of action.

Section 5.3. Losses and Expenses Upon Exercise of Rights. Any and all losses or expenses incurred in enforcing the Loan Documents, or as a result of an alternate course or courses of action approved by the Holder shall be borne by the Borrower. Such losses or expenses may include, but shall not be limited to:

(i) Subject to the non-recourse provisions set forth in the Loan Agreement, loss resulting from nonpayment of interest on or principal of the Loan or from receipt of interest at a rate other than the rate specified in the Loan Agreement.

(ii) Reimbursement of Agent for expenditures made voluntarily by it for taxes, assessments, water rates, hazard insurance and similar items with respect to the Project or the Loan, or for the completion and preservation of the Project.

(iii) Expenses of foreclosure (including reasonable attorney's fees and court costs) in the event the Agent forecloses the Mortgage.

(iv) Loss resulting from interest on the Bonds becoming includable in gross income for purposes of federal income taxation.

Section 5.4. Notice to Issuer. The Agent shall provide the Issuer a copy, delivered simultaneously with its delivery to other parties, of any notices given by it or delivered to it regarding the acceleration of the Loan or the foreclosure of the Mortgage.

ARTICLE VI

REPRESENTATIONS AND COVENANTS BY AGENT AND ISSUER

Section 6.1. Representations by Agent. The Agent hereby represents and warrants to the Holder that as of the date of execution of this Pledge and Assignment, the Agent is a national banking association duly organized, validly existing and in good standing under the laws of the United States, and has all requisite power and authority to enter into this Pledge and Assignment and to carry out its obligations hereunder.

Section 6.2. Representations by Issuer. The Issuer hereby represents and warrants to the Holder, that as of the date of execution of this Pledge and Assignment:

(i) The Issuer is a public instrumentality and a political subdivision of the State of California.

(ii) The Bonds have been duly authorized and issued in accordance with the Act and other applicable laws of the State of California.

(iii) The Issuer has all requisite power and authority to enter into this Pledge and Assignment and to carry out its obligations hereunder.

(iv) The Issuer will not take any action or permit any action to be taken if the result of the same would be to cause any of the Bonds to be "federally guaranteed" within the meaning of section 149(b) of the Code.

(v) The Issuer will take any and all actions within its power to assure compliance with section 148(f) of the Code, relating to the rebate of excess investment earnings, if any, to the federal government, to the extent that such section is applicable to the Bonds.

(vi) The Issuer will not take, or permit to be taken, any action with respect to the proceeds of the Bonds which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the date of issuance of the Bonds would have caused the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code.

(vii) The Issuer will take all actions within its power to assure the exclusion of interest on the Bonds from the gross income of the owners of the Bonds to the same extent as such interest is permitted to be excluded from gross income under the Code as in effect on the date of issuance of the Bonds. In the event of a conflict between the terms of this Pledge and Assignment and the Tax Certificate, the terms of the Tax Certificate shall control.

ARTICLE VII

BOOKS AND RECORDS; REPORTS

Section 7.1. Books and Records. The Agent shall at all times keep proper books, accounts and records relating to the Loan, the Project, the Loan Documents and the Bonds in a manner conforming to normal banking practices and in accordance with generally accepted accounting principles. All such books, accounts and records shall be accessible for inspection or duplication by the Holder or the Issuer, or their respective representatives during normal business hours or at any other reasonable times.

Section 7.2. Reports. The Agent shall issue a written report to the Holder of any material adverse condition known to the Agent which, in its reasonable judgment, could result in an Event of Default hereunder or a default under the Loan or the Loan Documents promptly upon learning of such condition. The Agent shall furnish to the Holder and the Issuer at least annually and upon request a statement of the principal balance outstanding on the Bonds.

ARTICLE VIII

NONRECOURSE; OBLIGATIONS NOT DEBT OF ISSUER, AGENT OR STATE

Section 8.1. Limited Obligations. The Bonds are limited obligations of the Issuer, payable solely from the Collateral, revenues and other funds and moneys pledged and assigned hereunder. Neither the Issuer, the State of California (the "State"), nor any political subdivision thereof (except the Issuer, to the limited extent set forth herein) nor any public agency shall in any event be liable for the payment of the principal of, premium (if any) or interest on the bonds or for the performance of any pledge, obligation or agreement of any kind whatsoever except as set forth herein, and none of the Bonds or any of the Issuer's agreements or obligations shall be construed to constitute an indebtedness of or a pledge of the faith and credit of or a loan of the credit of or a moral obligation of any of the foregoing within the meaning of any constitutional or statutory provision whatsoever. The Issuer has no taxing power.

The Bonds, together with the interest and premium (if any) thereon and the purchase price thereof, shall not be deemed to constitute a general debt or general liability of the Issuer, the State, any political subdivision thereof, any public agency or the Agent or a pledge of the faith and credit of the Issuer, the State, any political subdivision thereof, any public agency or the Agent within the meaning of any constitutional or statutory provisions, but shall be payable solely from the funds provided therefor pursuant to this Pledge and Assignment.

The Issuer shall not be obligated to pay the principal (or redemption price) of or interest on the Bonds, except from Collateral and other moneys and assets received by the Agent on behalf of the Issuer pursuant to this Pledge and Assignment. Neither the faith and credit nor the taxing power of the State or any political subdivision thereof, nor the faith and credit of the Issuer or any member is pledged to the payment of the principal (or redemption price) or interest on the Bonds.

No recourse shall be had for the payment of the principal of, premium, if any, or interest on the Bonds or for any claim based thereon or upon any obligation, covenant or agreement in this Pledge and Assignment contained (except from the Collateral), against the Issuer or the Agent, any past, present or future member of its governing body, its officers, attorneys, accountants, financial advisors, agents or staff, or the officers, attorneys, accountants, financial advisors, agents or staff of any successor public entity, as such, either directly or through the Issuer or any successor public entity, under any rule of law or penalty or otherwise, and all such liability of the Issuer, any member of its governing bodies and its officers, attorneys, accountants, financial advisors, agents and staff is hereby, and by the acceptance of the Bonds, expressly waived and released as a condition of, and in consideration for, the execution of this Pledge and Assignment and the issuance of the Bonds.

It is recognized that notwithstanding any other provision of this Pledge and Assignment, neither the Agent nor any Holder shall look to the Issuer or its members, directors, officers, attorneys, accountants, financial advisors, agents or staff or any successor or public entity for monetary damages suffered by the Agent or such Holder as a result of the failure of the Issuer to perform any covenant, undertaking or obligation under this Pledge and Assignment, the Agency Agreement, the Bonds, the Regulatory Agreement or any of the other documents referred to

herein, or as a result of the incorrectness of any representation made by the Issuer in any of such documents, nor for any other reason. Although this Pledge and Assignment recognizes that such documents shall not give rise to any pecuniary liability of the Issuer, nothing contained in this Pledge and Assignment shall be construed to preclude in any way any action or proceeding (other than that element of any action or proceeding involving a claim for monetary damages against the Issuer) in any court or before any governmental body, agency or instrumentality or otherwise against the Issuer or any of its officers or employees to enforce the provisions of any of such documents that the Issuer is obligated to perform and the performance of which the Issuer has not assigned to the Agent or any other person.

ARTICLE IX

DEFAULTS UNDER THIS PLEDGE AND ASSIGNMENT AGREEMENT

Section 9.1. Events of Default. Each of the following events shall constitute an event of default ("Event of Default") under this Pledge and Assignment:

(i) Any failure by the Agent to remit to the Holder any payment to be made on the Bonds in accordance with the provisions of this Pledge and Assignment or the Bonds on the due date thereof;

(ii) If the Agent shall fail to conform or comply with any other terms or provisions of this Pledge and Assignment or the Bonds and such failure shall continue for more than thirty (30) days after notice thereof to the Agent from the Holder or, where such default is not subject to cure within such thirty (30) day period, if the Agent within such period shall not have commenced with due diligence and dispatch the curing of such default or thereafter shall fail to prosecute and complete with due diligence and dispatch and within a reasonable time the curing of such default;

(iii) If any representation or warranty made by the Agent or by the Issuer contained in this Pledge and Assignment shall prove to have been false or incorrect in any material respect on the date as of which made;

(iv) If the Issuer shall fail or refuse to, or be unable after thirty (30) days' notice from the Agent or the Holder to perform or comply with any term or provision of Pledge and Assignment to be performed or complied with by the Issuer;

(v) If an action or proceeding shall be brought, or judgment rendered, against or relating to the Agent or the Issuer which has the effect of substantially impairing the rights and obligations of the Agent or the Issuer hereunder or under the Bonds or with respect to the Loan;

(vi) Upon the written election of Holder, if either the Agent (during the term of its agency) or the Issuer shall make a general assignment for the benefit of creditors, or shall admit in writing its inability to pay its debts as they become due, or shall file a voluntary petition in bankruptcy, or shall be adjudicated a bankrupt or insolvent, or shall file any petition or answer seeking, consenting to, or acquiescing in reorganization, arrangement, adjustment, composition, liquidation, dissolution, or similar relief under any present or future statute, law or regulation, or shall file an answer admitting or shall fail to deny or contest the material allegations of a petition against it for any such relief, but only if any such event adversely impacts the payment of debt service on the Bonds; or

(vii) Upon the written election of Holder, if, with respect to either the Agent (during the term of its agency) or the Issuer, a trustee, receiver or liquidator of any material part of its properties or assets shall be appointed with its consent or acquiescence, or if any such appointment, if not so consented to or acquiesced in, shall remain unvacated or unstayed for ninety (90) days.

Section 9.2. Remedies. If any Event of Default shall have occurred and be continuing, the Holder may give notice to the Issuer and Agent and shall have all rights, powers, and remedies with respect to the Collateral as are available under the Uniform Commercial Code applicable thereto or as are available under any other applicable law at the time in effect and, without limiting the generality of the foregoing, the Holder may proceed at law or in equity or otherwise, to the extent permitted by applicable law:

(i) to take possession of the Collateral or any part thereof, with or without legal process, and to hold, service, administer and enforce any rights thereunder or thereto, and otherwise exercise all rights of ownership thereof, including (but not limited to) the sale of all or part of the Collateral;

(ii) to become mortgagee of record for the Loan and to service and administer the same with the same power, authority and standard of care as had been provided for the Agent under Sections 4.1 and 4.3 hereof;

(iii) to service and administer the Bonds as agent and on behalf of the Issuer or otherwise, and, if applicable, to take all actions necessary to enforce the Loan Documents, and to take alternative courses of action, with the same power, authority and standard of care as had been provided for the Agent under Sections 4.3, 5.1, 5.2 and 5.3 hereof;

(iv) to take such steps to protect and enforce its rights whether by action, suit or proceeding in equity or at law for the specific performance of any covenant, condition or agreement of the Agent or the Issuer in the Bonds, this Pledge and Assignment, or the Loan Documents, or in and of the execution of any power herein granted, or for foreclosure hereunder, or for enforcement of any other appropriate legal or equitable remedy or otherwise as the Holder may elect.

Section 9.3. Continuance of Obligations Upon Default by Agent. Notwithstanding any other provision of this Pledge and Assignment, upon the occurrence and continuance of any Event of Default caused by or resulting from action, inaction or other condition on the part of the Agent (a) the Bonds shall for all purposes hereof remain outstanding and shall continue in full force and effect, and (b) the Holder shall exercise such rights, powers and remedies hereunder or at law as may be required to become the mortgagee of record for the Loan and to service and administer the Loan and the Bonds, and shall thereupon service and administer the Loan as mortgagee of record, or shall have the right to retain another mortgagee to so service and administer the Loan and administer the Bonds as agent and on behalf of the Issuer, in accordance with Sections 4.1, 4.2, 4.3, 5.1, 5.2 and 5.3 hereof, until retirement of the Bonds. Further, notwithstanding any such Event of Default, the provisions set forth in Section 4.4. hereof shall continue in full force and effect.

Section 9.4. Continuance of Obligations and Servicing by Agent Upon Default by Issuer. Notwithstanding any other provision of this Pledge and Assignment, upon the occurrence and continuance of any Event of Default caused by or resulting from action, inaction or other condition on the part of the Issuer, and not caused by action, inaction or other condition on the

part of the Agent, then, unless otherwise specified to the contrary by the Holder (a) the Bonds shall, to the extent possible under the law and in the best interests of the Holder, for all purposes remain outstanding and shall continue in full force and effect, (b) the Holder shall not take possession of the Collateral, become mortgagee of record for the Loan or otherwise exercise its remedies hereunder or at law, and (c) the Agent shall, to the extent possible under the law and in the best interests of the Holder, continue to service the Loan as mortgagee of record and continue to service and administer the Bonds as agent and on behalf of the Issuer in accordance herewith until retirement of the Bonds.

Section 9.5. Holder Authorized to Execute Assignments, Etc. Subject to Section 2.8 hereof, the Issuer and the Agent each hereby irrevocably appoints the Holder the true and lawful attorney of such party, in its name and stead and on its behalf, for the purpose of effectuating any sale, assignment, transfer or other disposition of the Bonds for the enforcement of this Pledge and Assignment and the Bonds, to execute and deliver all assignments and other instruments as the Holder may consider necessary or appropriate, with full power of substitution, the Issuer and the Agent each hereby ratifying and confirming all that its said attorney or any substitute shall lawfully do by virtue hereof. If so requested thereafter by the Holder, the Issuer or the Agent shall ratify and confirm any such sale, assignment, transfer or other disposition by executing and delivering to the Holder all proper assignments, releases and other instruments as may be designated in any such request. Notwithstanding the foregoing, the Holder shall not have the right to delegate the Holder's obligation to make advances to the Agent for the account of the Issuer.

Section 9.6. Waiver of Appraisal, Evaluation, Etc. The Issuer and the Agent each hereby waives, to the full extent it may lawfully do so, the benefit of all appraisal, evaluation, stay, extension and redemption laws now or hereafter in force and all rights of marshaling in the event of any sale hereunder or any taking of possession by the Holder, of the Collateral or any part thereof or any interest therein.

Section 9.7. Application of Proceeds of Sale. The proceeds of any sale hereunder of the Collateral or any part thereof or any interest therein shall be applied in the order of priorities set forth in Section 5.l hereof.

Section 9.8. Right of Holder to Perform Covenants of the Issuer and the Agent. If the Issuer or the Agent shall fail to take any action or to perform any obligation required of it hereunder following written notice from the Holder of not less than five (5) Business Days, the Holder, without further notice to or demand upon the Issuer or the Agent and without waiving or releasing of any obligation or default, may (but shall be under no obligation to) at any time thereafter take such action or perform such obligation for the account of the Issuer or the Agent and, in the case of the Agent, at the Agent's expense. All sums paid by the Holder or costs incurred (including, without limitation, reasonable attorneys' fees and expenses) together with interest thereon at the maximum legal rate from the date of payment by the Holder, shall be paid by the Agent.

Section 9.9. No Waiver, Etc. No failure by the Holder to insist upon the strict performance of any term hereof or of the Bonds or the Loan Documents or to exercise any right,

power or remedy consequent upon a breach thereof, shall constitute a waiver of any such term or of any such breach. No waiver of any breach shall affect or alter this Pledge and Assignment, which shall continue in full force and effect, or the rights of the Holder with respect to any other then existing or subsequent breach.

Section 9.10. Remedies Cumulative, Etc. Each right, power and remedy of the Holder provided for in this Pledge and Assignment or now or hereafter existing at law or in equity or by statute or otherwise shall be cumulative and concurrent and shall be in addition to every other right, power or remedy provided for in this Pledge and Assignment or now or hereafter existing at law or in equity or by statute or otherwise; each such right, power or remedy may be exercised by any such person in any order or sequence; and the exercise or beginning of the exercise by any such person of any one or more of such rights, powers and remedies shall not preclude the simultaneous or later exercise of any or all such rights, powers or remedies. No failure or delay on the part of the Holder to exercise any such right, power or remedy shall operate as a waiver thereof.

ARTICLE X

MISCELLANEOUS

Section 10.1. Provisions Subject to Applicable Law. All rights, powers and remedies provided herein may be exercised only to the extent that the exercise thereof does not violate any applicable provision of law, and are intended to be limited to the extent necessary so that they will not render this Pledge and Assignment invalid, unenforceable or not entitled to be rendered, registered or filed under the provisions of any applicable law. If any term of this Pledge and Assignment or any application thereof shall be invalid or unenforceable, the remainder of this Pledge and Assignment and any other application of such term shall not be affected thereby.

Section 10.2. Applicable Law. This Pledge and Assignment, the Bonds and the Loan Documents shall be interpreted in accordance with and governed by the laws of the State of California.

Section 10.3. Compromise of Action, Etc. Any action, suit or proceeding brought by the Holder pursuant to any of the terms of this Pledge and Assignment or the Bonds or otherwise, and any claim made by the Holder hereunder or under the Bonds, may be compromised, withdrawn or otherwise dealt with by the Holder following reasonable written notice to the Issuer and the Agent and without the approval of such parties.

Section 10.4. Notices, Etc. All notices, demands, requests, consents, approvals and other instruments under this Pledge and Assignment shall be in writing and shall be deemed to have been properly given if mailed by first class registered or certified mail, postage prepaid, addressed (a) if to the Issuer, California Housing Financing Agency, 1415 L Street, Suite 500, Sacramento, California 95814, Attention: Director of Financing, or at such other address as the Issuer may have designated by Notice to the Agent and the Holder; (b) if to the Agent, [_____], [_____], or at such other address as the Agent may have designated by notice to the Issuer and the Holder, (c) if to the Holder, [_____], [_____], or at such other address as the Holder may have designated by Notice to the Issuer and the Agent, (d) if to the Investor Limited Partner, [_____], or (e) if to Investor Limited Partner's Counsel, [_____].

Section 10.5. Termination. This Pledge and Assignment shall cease and terminate when the Bonds have been surrendered and finally paid and all obligations secured hereby shall have been observed.

Section 10.6. Duty of Issuer. Except for the actions set forth herein, the Issuer shall not be required hereby to take any action or incur any expense not expressly provided for herein. The Issuer shall not be obligated to take any action which might in its reasonable judgment involve it in any expense or liability unless it shall have been furnished with reasonable indemnity for the Issuer, its officers, directors and employees.

Section 10.7. Consent to Assignment. The Issuer agrees that [_____] shall have the right to assign all of the rights that it holds under this Pledge and Assignment, either as "Agent" or as "Holder," to any Affiliate. The Issuer will execute and deliver to Agent any documents

necessary to effectuate such assignment, and will not take any action to impair Agent's right to assign pursuant to this Section 10.7.

Section 10.8. Amendments, Successors and Assigns, Headings and Counterparts. Any of the terms of this Pledge and Assignment and the Bonds may be amended or waived only by an instrument signed by the Issuer, the Agent and the Holder. All of the terms of this Pledge and Assignment shall be binding upon the successors and assigns of and all persons claiming under or through the Issuer and the Agent or any such successor or assign, and shall inure to the benefit of and be enforceable by the successors and assigns of the Holder. The headings of this Pledge and Assignment are for convenience of reference only and shall not limit or otherwise affect the meaning hereof. This Pledge and Assignment may be executed in several counterparts, each of which shall be an original, and all of which shall constitute one and the same instrument

IN WITNESS WHEREOF, the Issuer, the Agent and the Holder have each caused this Pledge and Assignment to be executed in their respective names as of the date first above written.

Issuer:

CALIFORNIA HOUSING FINANCE AGENCY

By: _____
Bruce D. Gilbertson
Director of Financing

[Signatures continue on following page]

Agent:

[_____]

By:_____
Authorized Officer

Holder:

[_____]

By:_____
Authorized Officer

EXHIBIT A

FORM OF BOND

THIS BOND HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933. THE TRANSFERABILITY HEREOF IS RESTRICTED BY THE TERMS OF THE PLEDGE AND ASSIGNMENT DESCRIBED HEREIN, SUBJECT TO CERTAIN EXCEPTIONS.

CALIFORNIA HOUSING FINANCING AGENCY
MULTIFAMILY HOUSING REVENUE BONDS
([_____] PROJECT)
2009 SERIES [__]

Principal Amount	Interest Rate	Maturity Date	Dated Date
$[_____]	As determined in the below-defined Loan Agreement	[_____]	[_____], 2009

The CALIFORNIA HOUSING FINANCING AGENCY, a public instrumentality and political subdivision of the State of California (the "Issuer"), for value received, hereby promises to pay (but only from the Collateral as that term is defined in the Master Pledge and Assignment hereinafter described) to the order of [_____], a national banking association, or registered assign (the "Holder"), at its office in [_____], or such other place as the Holder may designate in writing, from the source and in the manner hereinafter provided, the principal sum of [_____] Dollars ($[_____]), or such portion thereof as is advanced by Holder to or for the account of Issuer, with interest on the unpaid balance of this Bond from the date hereof until this Bond is fully paid, at the rate computed as specified below, in any coin or currency which at the time or times of payment is legal tender for the payment of public or private debts in the United States of America. All capitalized terms used but not otherwise defined herein shall have the meanings ascribed thereto in the Pledge and Assignment hereinafter mentioned.

This Bond constitutes a portion of a series in the total authorized face amount of $[_____], issued by the Issuer in order to provide moneys to fund a loan (the "Loan") to be made for the account of the Issuer to [_____], a [_____] (the "Borrower") pursuant to that certain [Loan Agreement] dated [_____] 1, 2009 between [_____], as agent for Issuer pursuant to that certain Master Agency Agreement between Issuer and Agent dated [_____] 1, 2009 ("Agent") and Borrower ("Loan Agreement"), for the purpose of financing the acquisition and

[construction/rehabilitation] of an [_____]-unit multifamily rental housing project to be located in the City of [_____], State of California, to be known as "[_____]" (the "Project").

The obligations of the Borrower under the Loan will be evidenced by that certain Promissory Note in the original principal amount of $[_____] (the "Note") made by the Borrower to the order of Agent. This Bond is secured by a Master Pledge and Assignment (the "Pledge and Assignment"), dated as of [_____] 1, 2009, by and among the Issuer, the Agent and the Holder.

This Bond shall mature on the Maturity Date set forth above, and the entire unpaid principal balance of and any accrued interest on this Bond shall be paid in full on or before such date.

This Bond shall bear interest as provided in the Loan Agreement.

This Bond shall bear interest from the date to which interest has been paid on the Bonds next preceding the date of its authentication, unless it is authenticated as of an Interest Payment Date for which interest has been paid, in which event it shall bear interest from such Interest Payment Date, or unless it is authenticated on or before the first Interest Payment Date, in which event it shall bear interest from its Closing Date.

The payment or prepayment of the principal, interest, premium, late payment fees and other amounts due on this Bond shall be identical with and shall be made on the same terms and conditions as the payments or prepayments of principal, interest, premium, late payment fees and other amounts due on the Note. Any payments or prepayments made by the Borrower of principal, interest, premium, late payment fees and other amounts due on the Note shall be deemed to be like and corresponding payments or prepayments of principal, interest, premium late payment fees and all other amounts due on this Bond. Said payments or prepayments by the Borrower shall be deemed to have been constructively received by the Holder as payments or prepayments on this Bond on the date of receipt by the Agent under the Note, and interest on this Bond with respect to each principal payment or prepayment shall cease to accrue upon receipt thereof by the Agent. Payments or prepayments of principal, interest, premium, late payment fees and other amounts due shall be remitted to the Holder by the Agent immediately.

This Bond shall be subject to redemption as provided in the Pledge and Assignment.

This Bond (or any participation interest therein) may be sold, assigned, transferred, participated or otherwise disposed of only in Authorized Denominations (as defined in the Pledge and Assignment). This Bond (or any participation interest therein) may not be sold, assigned, transferred, participated or otherwise disposed of, in whole or in part, except upon satisfaction of the requirements of the Pledge and Assignment.

Subject to the foregoing, this Bond is transferable upon the books of the Issuer at the office of the Agent, by the registered Holder hereof in person or by its attorney duly authorized in writing, upon surrender of this Bond together with a written instrument of transfer satisfactory to the Agent, duly executed by the registered Holder or its duly authorized attorney. Upon such

transfer, the Agent will note the date of registration and the name and address of the newly registered Holder on the books of the Issuer and in the registration blank appearing below. The Issuer may deem and treat the person in whose name this Bond is last registered upon the books of the Issuer, with such registration noted on this Bond, as the absolute owner hereof for the purpose of receiving payment of or on account of the principal or interest and for all other purposes; all such payments so made to the registered Holder or upon his order shall be valid and effectual to satisfy and discharge the liability upon this Bond to the extent of the sum or sums so paid, and the Issuer shall not be affected by any notice to the contrary.

All of the agreements, covenants, conditions, limitations, provisions and stipulations contained in the Pledge and Assignment are hereby made a part of this Bond to the same extent and with the same effect as if they were fully set forth herein. If any payment of the principal of, premium, if any or interest hereon is not made when due in accordance with the terms and conditions of this Bond, then the Holder may at its right and option declare immediately due and payable the principal of this Bond and interest accrued hereon to the date of declaration of such default, together with any attorneys' fees incurred by the Holder in collecting or enforcing payment hereof, whether suit be brought or not, and all other sums due hereunder or under the Pledge and Assignment, notwithstanding anything to the contrary therein and payment thereof may be enforced and recovered in whole or in part, at any time, by one or more of the remedies provided in this Bond or the Pledge and Assignment.

The remedies of the Holder, as provided herein and in the Pledge and Assignment, may be pursued at the sole discretion of the Holder and may be exercised as often as occasion therefor shall occur. The failure to exercise any such right or remedy shall in no event be construed as a waiver or release thereof.

The Holder shall not be deemed, by any act of omission or commission, to have waived any of its rights or remedies hereunder unless such waiver is in writing and signed by the Holder and then only to the extent specifically set forth in the writing. A waiver with reference to one event shall not be construed as a continuing waiver or as a bar to or waiver of any right or remedy as to a subsequent event.

This Bond may not be amended without the prior written consent of the Issuer and the Holder and the Agent.

THIS BOND AND THE INTEREST HEREON IS A LIMITED OBLIGATION OF THE ISSUER, PAYABLE SOLELY FROM THE COLLATERAL. NEITHER THE ISSUER, THE STATE OF CALIFORNIA (THE "STATE"), NOR ANY POLITICAL SUBDIVISION THEREOF (EXCEPT THE ISSUER, TO THE LIMITED EXTENT SET FORTH IN THE PLEDGE AND ASSIGNMENT) NOR ANY PUBLIC AGENCY SHALL IN ANY EVENT BE LIABLE FOR THE PAYMENT OF THE PRINCIPAL OF, PREMIUM (IF ANY) OR INTEREST ON THIS BOND OR FOR THE PERFORMANCE OF ANY PLEDGE, OBLIGATION OR AGREEMENT OF ANY KIND WHATSOEVER EXCEPT AS SET FORTH HEREIN AND IN THE PLEDGE AND ASSIGNMENT, AND NONE OF THE BONDS OR ANY OF THE ISSUER'S AGREEMENTS OR OBLIGATIONS SHALL BE CONSTRUED TO CONSTITUTE AN INDEBTEDNESS OF

OR A PLEDGE OF THE FAITH AND CREDIT OF OR A LOAN OF THE CREDIT OF OR A MORAL OBLIGATION OF ANY OF THE FOREGOING WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION WHATSOEVER. THE ISSUER HAS NO TAXING POWER.

NO MEMBER, OFFICER, AGENT, EMPLOYEE OR ATTORNEY OF THE ISSUER, INCLUDING ANY PERSON EXECUTING THE PLEDGE AND ASSIGNMENT OR THE BONDS, SHALL BE LIABLE PERSONALLY ON THE BONDS OR FOR ANY REASON RELATING TO THE ISSUANCE OF THE BONDS. NO RECOURSE SHALL BE HAD FOR THE PAYMENT OF THE PRINCIPAL OF OR THE INTEREST ON THE BONDS, OR FOR ANY CLAIM BASED ON THE BONDS, OR OTHERWISE IN RESPECT OF THE BONDS, OR BASED ON OR IN RESPECT OF THE PLEDGE AND ASSIGNMENT, AGAINST ANY MEMBER, OFFICER, EMPLOYEE OR AGENT, AS SUCH, OF THE ISSUER OR ANY SUCCESSOR, WHETHER BY VIRTUE OF ANY CONSTITUTION, STATUTE OR RULE OF LAW, OR BY THE ENFORCEMENT OF ANY ASSESSMENT OR PENALTY OR OTHERWISE, ALL SUCH LIABILITY BEING, BY THE ACCEPTANCE OF THIS BOND AND AS PART OF THE CONSIDERATION FOR THE ISSUE OF THE BONDS, EXPRESSLY WAIVED AND RELEASED.

Neither the Borrower, the Agent nor any Holder shall look to the Issuer or any of its directors, officers, attorneys, accountants, financial advisors, agents or staff or any successor or public entity for monetary damages suffered by the Borrower, the Agent or such Holder as a result of the failure of the Issuer to perform any covenant, undertaking or obligation under the Pledge and Assignment, the Agency Agreement, this Bond, the Regulatory Agreement or any of the other documents referred to herein, or as a result of the incorrectness of any representation made by the Issuer in any of such documents, nor for any other reason. Although the Pledge and Assignment recognizes that such documents shall not give rise to any pecuniary liability of the Issuer, nothing contained in the Pledge and Assignment or this Bond shall be construed to preclude in any way any action or proceeding (other than that element of any action or proceeding involving a claim for monetary damages against the Issuer) in any court or before any governmental body, agency or instrumentality or otherwise against the Issuer or any of its officers or employees to enforce the provisions of any of such documents which the Issuer is obligated to perform and the performance of which the Issuer has not assigned to the Agent or any other person.

It is intended that this Bond is made with reference to and shall be construed as a contract governed by the laws of the State of California.

In the event of any inconsistency between the provisions of this Bond and the provisions of the Pledge and Assignment, the provisions of the Pledge and Assignment shall be controlling.

IT IS HEREBY CERTIFIED AND RECITED that all conditions, acts and things required to exist, happen and be performed precedent to or in the issuance of this Bond do exist, have happened and have been performed in regular and due form as required by law.

IN WITNESS WHEREOF, the Issuer has caused this Bond to be executed in its name by the manual or facsimile signature of its duly authorized officer and attested by the manual or facsimile signature of its Secretary all as of the Dated Date hereof.

CALIFORNIA HOUSING FINANCE AGENCY

By _____
Executive Director

[SEAL]

Attest:

_____
Secretary of the Board of Directors

PROVISIONS AS TO REGISTRATION

The ownership of the unpaid principal balance of this Bond and the interest accruing thereon is registered on the books of the Agent in the name of the registered Holder last noted below.

Date of Registration	Name of Registered Holder	Signature of Agent
	[_____]	

EXHIBIT B

PURCHASER'S LETTER

[TO COME]

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State of California

M E M O R A N D U M

To: Board of Directors **Date:** January 8, 2009

Bruce D. Gilbertson, Director of Financing
From: **CALIFORNIA HOUSING FINANCE AGENCY**

Subject: AUTHORIZATION TO MAKE APPLICATION TO THE CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE RESOLUTION 09-03

The California Debt Limit Allocation Committee ("CDLAC") is the State entity which, under California law, allocates the federal volume cap for "private activity bonds" to be issued each year by State and local bond issuers. Private activity bonds are federally tax-exempt bonds which are issued to benefit non-governmental borrowers such as first-time homebuyers or owners of affordable rental housing developments.

Resolution 09-03 would authorize application to CDLAC for a maximum of $900 million of single family allocation and $400 million of multifamily allocation. Such authorization would be in effect during the period of time in which Resolutions 09-01 and 09-02, which authorize the issuance of bonds for the Homeownership Program and Multifamily Program, are themselves in effect.

At the December 3, 2008 CDLAC meeting the committee approved action to grant to CalHFA supplemental volume cap arising from the enactment of HR 3221 for use in our homeownership program. As of this writing, the amount of supplemental volume cap was $878.3 million, but this amount is still subject to change. At the same meeting CDLAC approved action to carry forward 2008 volume cap totaling $77.1 million for bonds to be issued to finance seven multifamily projects. This volume cap is available to the Agency to issue bonds until April 13, 2009. Loan commitments made to the developers of these projects assumed that cash flows of the projects would be sufficient to cover the cost of funds achieved by the Agency from the sale of bonds. It is uncertain today if bonds sold before the April expiration date will achieve this objective.

The amounts proposed in Resolution 09-03 are greater than we would expect to apply for. However, the presumption is that the Board would want CalHFA to be authorized to apply and eligible to do so under CDLAC rules if allocation is available.

The attached table shows the amount of volume cap allocated to housing purposes over the past five years and what portion of these amounts were allocated to CalHFA.

Attachments

CDLAC ALLOCATIONS 2004 - 2008

		MULTIFAMILY ALLOCATIONS			SINGLE FAMILY ALLOCATIONS		
Year	Volume Cap for all Programs	All Multifamily	To CalHFA	% of MF Total	All Single Family	To CalHFA	% of SF Total
2004	$2,838,756,240	$1,552,900,000	$214,187,800 (1)	13.8%	$782,650,000 *	$695,804,851 (2)	88.9%
2005	$2,871,503,920	$1,669,700,000	$168,155,000 (3)	8.9%	$646,000,000 *	$1,015,521,544 (4)	157.2%
2006	$2,890,571,760	$1,635,000,000	$56,550,000 (5)	3.5%	$610,000,000 *	$618,625,729 (6)	101.4%
2007	$3,098,891,665	$1,740,891,665	$39,940,000	2.3%	$640,000,000	$468,257,154 (7)	69.2%
2008	$3,107,023,275	$1,722,023,275	$125,495,000	7.3%	$610,000,000	$450,000,000	73.8%
2008	$1,144,564,324	$194,575,935	$0	0.0%	$949,988,389	$878,361,228 **	92.5%

* Includes MRBs and Extra Credit Teacher Home Purchase Program.
** Subject to change.

(1) Includes $21,610,000 of multifamily carry forward allocation.
(2) Includes $307,804,851 of single family carry forward allocation.
(3) Includes $20,365,000 of multifamily carry forward allocation.
(4) Includes $756,521,544 of single family carryforward allocation.
(5) Includes $12,165,000 of multifamily carry forward allocation.
(6) Includes $258,625,729 of single family carry forward allocation.
(7) Includes $158,257,154 of single family carry forward allocation.

CDLAC 04-08.xls (lmf)
1/3/2008 9:14

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RESOLUTION NO. 09-03

RESOLUTION OF THE CALIFORNIA HOUSING FINANCE AGENCY APPROVING APPLICATIONS TO THE CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE FOR PRIVATE ACTIVITY BOND ALLOCATIONS FOR THE AGENCY'S HOMEOWNERSHIP AND MULTIFAMILY PROGRAMS

WHEREAS, the California Housing Finance Agency (the "Agency") has determined that there exists a need in California for providing financial assistance to persons and families of low or moderate income to enable them to purchase moderately priced single family residences (the "Residences");

WHEREAS, the Agency has determined that it is in the public interest for the Agency to provide such financial assistance by means of ongoing programs (collectively, the "Homeownership Program") to make lower-than-market rate loans for the permanent financing of Residences;

WHEREAS, pursuant to Parts 1 through 4 of Division 31 of the Health and Safety Code of the State of California (the "Act"), the Agency has the authority to issue bonds to provide sufficient funds to finance the Homeownership Program;

WHEREAS, the Agency has by its Resolution No. 09-01 authorized the issuance of bonds for the Homeownership Program and desires to authorize application to the California Debt Limit Allocation Committee for private activity bond allocations to be used in connection with the issuance of a portion of such bonds in order for interest on such bonds to be excludable from gross income for federal income tax purposes;

WHEREAS, the Agency has also determined that there exists a need in California for the financing of mortgage loans for the construction or development of multifamily rental housing developments (the "Developments") for the purpose of providing housing for persons and families of low or moderate income;

WHEREAS, the Agency has determined that it is in the public interest for the Agency to assist in providing such financing by means of an ongoing program (the "Multifamily Program") to make or acquire, or to make loans to lenders to make or acquire, mortgage loans, for the purpose of financing such Developments;

WHEREAS, pursuant to the Act, the Agency has the authority to issue bonds to provide sufficient funds to finance the Multifamily Program; and

WHEREAS, the Agency has by its Resolution No. 09-02 authorized the issuance of bonds for the Multifamily Program and desires to authorize application to the California Debt Limit Allocation Committee for private activity bond allocations to be used in connection with the issuance of a portion of such bonds in order for interest on such bonds to be excludable from gross income for federal income tax purposes;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors (the "Board") of the California Housing Finance Agency as follows:

Section 1. **Authorization to Apply to CDLAC for the Homeownership Program.** The officers of the Agency are hereby authorized to apply from time to time to the California Debt Limit Allocation Committee ("CDLAC") for private activity bond allocations in an aggregate amount of up to $900,000,000 per year to be used in connection with bonds issued under Resolution No. 09-01 or resolutions heretofore or hereafter adopted by the Agency for the Homeownership Program. In the alternative, subject to the approval of CDLAC and under such terms and conditions as may be established by CDLAC, any such allocation received is authorized by this Board to be used in connection with a mortgage credit certificate program or in connection with a teacher home purchase program.

Section 2. **Authorization to Apply to CDLAC for the Multifamily Program.** The officers of the Agency are hereby authorized to apply from time to time to CDLAC for private activity bond allocations in an aggregate amount of up to $400,000,000 per year, to be used in connection with bonds issued under Resolution No. 09-02 or resolutions heretofore or hereafter adopted by the Agency for the Multifamily Program.

Section 3. **Authorization of Related Actions and Agreements.** The officers of the Agency, or the duly authorized deputies thereof, are hereby authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all agreements and documents which they may deem necessary or advisable in order to effectuate the purposes of this resolution, including but not limited to satisfying in the best interests of the Agency such conditions as CDLAC may establish for private activity bond allocation applications. Such officers and deputies are also hereby expressly authorized to accept on behalf and in the best interests of the Agency any private activity bond allocations offered by CDLAC over and above those which may be granted pursuant to any application authorized hereinabove or in any prior resolution of the Board.

SECRETARY'S CERTIFICATE

I, Thomas C. Hughes, Secretary of the Board of Directors of the California Housing Finance Agency, hereby certify that the foregoing is a full, true, and correct copy of Resolution No. 09-03 duly adopted at a regular meeting of the Board of Directors of the California Housing Finance Agency duly called and held on the 22nd day of January, 2009, of which meeting all said directors had due notice; and that at said meeting said Resolution was adopted by the following vote:

AYES:

NOES:

ABSTENTIONS:

ABSENT:

IN WITNESS WHEREOF, I have executed this certificate and affixed the seal of the Board of Directors of the California Housing Finance Agency hereto this 22nd day of January, 2009.

[SEAL]

_____
Thomas C. Hughes
Secretary of the Board of Directors of the
California Housing Finance Agency

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State of California

MEMORANDUM

To: Board of Directors
California Housing Finance Agency

Date: January 9, 2009

From: Steven Spears, Acting Executive Director
California Housing Finance Agency

Subject: BOARD RESOLUTION 09-04: FY 2008-09 CalHFA OPERATING BUDGET

Attached for your approval is the proposal for a $1.9 million augmentation to the $46.2 million FY 2008-09 Operating Budget approved in May 2008. The current year budget is proposed to be updated to reflect the baseline changes that were incorporated into the preliminary FY 2009-10 budget presented in the 2009 Governor's Proposed Budget (print released in January 2009).

In submitting the Agency's preliminary FY 2009-10 Operating Budget to the Department of Finance (DOF) for the 2009 Governor's Proposed Budget, it was necessary to reflect the most recent baseline changes in the current year budget. Otherwise, the FY 2009-10 Operating Budget would not be accurate for presentation to the Board in May when the Senior Managers historically present the proposed baseline changes for the budget year.

The proposed mid-year update to the FY 2008-09 Operating Budget reflects an increase of 4% over the current year budget that was approved by the Board on May 14, 2008. At that time, the FY 2008-09 Operating Budget approved by the Board reflected a 1.07% increase over the approved FY 2007-08 Operating Budget. The proposed mid-year update to the FY 2008-09 Operating Budget includes:

- 2.4% Consumer Price Index adjustment that the DOF projected last year for Operating Expenses and Equipment (this adjustment was inadvertently omitted from the amounts that were previously approved by the Board);
- 8% increase in the formula in estimating staff benefits from 30% to 38% due to health premium and retirement increases;
- Lease cost adjustments for the Agency's offices in Sacramento (effective in September and October 2008) based on lease agreements and Consumer Price Index changes projected by the Department of General Services

In the current year, the Agency received most of the $400 million anticipated from the counties for the Mental Health Services Act (MHSA) housing projects. Under the interagency agreement with the Department of Mental Health, 1% of this funding is allocated to the Agency for administrative costs. These funds will be used to cover the costs associated with the staff assigned to work on the MHSA projects and the recent renovation of space in the Culver City office to accommodate the staff. Based on available information, no additional expenditure authority is anticipated to be needed at this time.

With the current state of the economy and the housing market, the Agency is utilizing more external legal services to assist with the major increase in debt restructuring activity. Until more information becomes available, no additional expenditure authority is anticipated to be needed at this time.

In summary, the proposed mid-year update to the FY 2008-09 Operating Budget is based on the most current information and assumptions available to staff. At this time we are not requesting any additional positions for the current year, however we may request additional positions for the proposed FY 2009-10 Operating Budget.

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RESOLUTION 09-04

RESOLUTION APPROVING REVISED 2008/2009 OPERATING BUDGET

WHEREAS, the Board of Directors of the California Housing Finance Agency (the "Board") has previously approved the 2008/2009 Operating Budget of the California Housing Finance Agency; and

WHEREAS, the Board has reviewed proposed amendments and revisions to the 2008/2009 operating budget of the Agency,

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors as follows:

1. The revised and amended 2008/2009 Operating Budget of the California Housing Finance Agency, as attached hereto, is hereby approved.

I hereby certify that this is a true and correct copy of Resolution 09-04 adopted at a duly constituted meeting of the Board of Directors of the Agency held on January 22, 2009, at Millbrae, California.

ATTEST: _____
Secretary

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January 9, 2009

CALIFORNIA HOUSING FINANCE AGENCY
2008-09 Mid Year Budget
CONSOLIDATED CalHFA AND MIS FUNDS OPERATING BUDGET
DETAILS OF EXPENDITURES

(DOLLARS IN THOUSANDS)

EXPENDITURE ITEM	Actual 2007-2008	Board Approved Budget 2008-2009	Proposed Increases 2008-2009	Proposed Budget 2008-2009
PERSONAL SERVICES				
Authorized Salaries	19,239	22,624	0	22,624
Exempt Employees Compensation Adjustments		49	0	49
Estimated Salary Savings		(1,134)	0	(1,134)
Staff Benefits	6,120	6,462	1,723	8,185
TOTALS, Personal Services	$25,359	$28,001	$1,723	$29,724
OPERATING EXPENSES AND EQUIPMENT				
General Expense	875	757	18	775
Communications	826	781	19	800
Travel	640	665	16	681
Training	166	244	5	249
Facilities Operation	3,198	3,007	122	3,129
Consulting & Professional Services	4,671	9,212	0	9,212
*Central Admin. Serv.	2,040	2,150	0	2,150
Information Technology	676	936	23	959
Equipment	366	405	10	415
TOTALS, Operating Expenses and Equipment	$13,458	$18,157	$213	$18,370
TOTALS, EXPENDITURES	$38,817	$46,158	$1,936	$48,094

* Central Administrative Services: These are service costs (e.g., Finance, Controller, Personnel Board, Treasurer, Legislature, etc.) incurred by the Agency. These charges are calculated by the Department of Finance using a formula that takes three budget years into consideration.

January 9, 2009

CALIFORNIA HOUSING FINANCE AGENCY
2008-09 Mid Year Budget
CalHFA FUND OPERATING BUDGET
DETAILS OF EXPENDITURES

(DOLLARS IN THOUSANDS)

EXPENDITURE ITEM	Actual 2007-2008	Board Approved Budget 2008-2009	Proposed Increases 2008-2009	Proposed Budget 2008-2009
PERSONAL SERVICES				
Authorized Salaries	18,413	21,571	0	21,571
Exempt Employees Compensation Adjustments		39	0	39
Estimated Salary Savings		(1,081)	0	(1,081)
Staff Benefits	5,858	6,159	1,642	7,801
TOTALS, Personal Services	$24,271	$26,688	$1,642	$28,330
OPERATING EXPENSES AND EQUIPMENT				
General Expense	848	717	17	734
Communications	806	756	18	774
Travel	614	635	15	650
Training	159	224	5	229
Facilities Operation	3,134	2,937	117	3,054
Consulting & Professional Services	4,337	8,787	0	8,787
*Central Admin. Serv.	1,984	2,092	0	2,092
Information Technology	654	911	22	933
Equipment	360	355	9	364
TOTALS, Operating Expenses and Equipment	$12,896	$17,414	$203	$17,617
Distributed Administration	($422)	($558)	$0	($558)
TOTALS, EXPENDITURES	$36,745	$43,544	$1,845	$45,389

* Central Administrative Services: These are service costs (e.g., Finance, Controller, Personnel Board, Treasurer, Legislature, etc.) incurred by the Agency. These charges are calculated by the Department of Finance using a formula that takes three budget years into consideration.

January 9, 2009

CALIFORNIA HOUSING FINANCE AGENCY
2008-09 Mid Year Budget
MIS FUND OPERATING BUDGET
DETAILS OF EXPENDITURES

(DOLLARS IN THOUSANDS)

EXPENDITURE ITEM	Actual 2007-2008	Board Approved Budget 2008-2009	Proposed Increases 2008-2009	Proposed Budget 2008-2009
PERSONAL SERVICES				
Authorized Salaries	826	1,053	0	1,053
Exempt Employees Compensation Adjustments		10	0	10
Estimated Salary Savings		(53)	0	(53)
Staff Benefits	262	303	81	384
TOTALS, Personal Services	$1,088	$1,313	$81	$1,394
OPERATING EXPENSES AND EQUIPMENT				
General Expense	27	40	1	41
Communications	20	25	1	26
Travel	27	30	1	31
Training	7	20	0	20
Facilities Operation	65	70	5	75
Consulting & Professional Services	333	425	0	425
*Central Admin. Serv.	56	58	0	58
Information Technology	22	25	1	26
Equipment	5	50	1	51
TOTALS, Operating Expenses and Equipment	$562	$743	$10	$753
Distributed Administration	$422	$558	$0	$558
TOTALS, EXPENDITURES	$2,072	$2,614	$91	$2,705

* Central Administrative Services: These are service costs (e.g., Finance, Controller, Personnel Board, Treasurer, Legislature, etc.) incurred by the Agency. These charges are calculated by the Department of Finance using a formula that takes three budget years into consideration.

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State of California

M E M O R A N D U M

To: **Board of Directors** **Date:** January 8, 2009

Bruce D. Gilbertson, Director of Financing
From: **CALIFORNIA HOUSING FINANCE AGENCY**

Subject: RESOLUTION REGARDING AUTHORIZATION FOR LOAN SALES 09-05

Resolution 09-05 would provide specific authorization for the Agency to enter into mortgage sale agreements for both single family and multifamily loans. Over the past year the Agency has experienced significant liquidity pressure resulting form disruptions in the municipal bond, credit and real estate markets. In response to these financial markets disruptions Agency management has developed debt restructuring plans including plans to redeem or purchase auction bonds and problematic variable rate demand obligations, and plans to modify or terminate other financial agreements. Mortgage loan sale proceeds would provide an additional source of liquidity to benefit the debt restructuring objectives previously outlined to the Board and provide for continued normal Agency operations.

Detailed loan information of more than $2 billion single family and multifamily mortgages was compiled by Agency staff during October 2008 and subsequently shared with Fannie Mae, Freddie Mac and several commercial banks. Pricing information on portions of the loans offered for sale has recently been received from several potential purchasers. It is currently anticipated that the Agency will enter into one or more mortgage loan sale agreements upon completion of a review of the pricing proposals.

Specific Board authorization as provided in Resolution 09-05 will be beneficial to the consummation of these potential loan sale transactions.

Resolution 09-05 requires a staff report of the details of any mortgage loan sales transaction at the subsequent meeting of the Board following execution of the agreement.

Attachment

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RESOLUTION 09-05

RESOLUTION REGARDING AUTHORIZATION FOR LOAN SALES

WHEREAS, the California Housing Finance Agency (the "Agency") has experienced significant liquidity pressures as a result of recent disruptions in the real estate, bond and credit markets; and

WHEREAS, the Agency needs to retire and restructure existing variable rate bond indebtedness that has reset at high rates of interest, as well as bonds that have been put to liquidity providers as bank bonds, and to modify or terminate other financial agreements or instruments affected by such disruptions; and

WHEREAS, the Agency needs additional sources of liquidity beyond those authorized in previous resolutions of the Board to be able to effectively accomplish the needed restructuring in the current marketplace; and

WHEREAS, an additional source of such liquidity is the sale of certain loans which the Agency determines will benefit the overall objectives of the general debt restructuring plan previously outlined to the Board, by providing liquidity sufficient to permit the Agency to redeem or purchase problematic bonds, modify or terminate other financial agreements or instruments, continue normal Agency operations, or which otherwise allow the Agency to secure financial benefits consistent with the objectives of such plan; and

WHEREAS, Section 10 of existing resolution 08-04 authorizes the Executive Director to enter into mortgage sale agreements with respect to multi-family mortgage loans, and Section 11 of existing Resolution 08-03 authorizes the Executive Director to enter into mortgage sale agreements with respect to single family mortgage loan; and

WHEREAS, the Agency believes that it would be beneficial to the consummation of potential loan sale transactions to have an additional resolution specifically authorizing the sales of loans to meet the objectives of the debt restructuring plan previously outlined to the Board ;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors as follows:

1. The Executive Director and the other officers of the Agency are hereby authorized to enter into, for and in the name and on behalf of the Agency, one or more agreements for the sale of any loans or other assets which the Agency determines will

benefit the objectives of the debt restructuring plan which staff has outlined to the Board in previous meetings. Those objectives include creating sufficient liquidity to enable the Agency to (i) redeem or purchase bonds which have been adversely affected by market disruptions; (ii) modify or terminate financial agreements or instruments which have been adversely impacted by market disruptions; (iii) continue Agency operations; and (iv) take such other actions as may be necessary to permit the Agency to mitigate the adverse effects of the current real estate, bond and credit market disruptions.

2. Staff will report to the Board the details of any sale agreement made pursuant to the authority contained in this Resolution, at the next Board meeting occurring after execution of such agreement.

I hereby certify that this is a true and correct copy of Resolution 09-05 adopted at a duly constituted meeting of the Board of Directors of the Agency held on January 22, 2009, at Millbrae, California.

ATTEST: _____
Secretary

State of California

M E M O R A N D U M

To: **CalHFA Board of Directors** **Date:** January 22, 2009

From: **CALIFORNIA HOUSING FINANCE AGENCY**

Subject: Implementation of Executive Order S-16-08

On December 19, 2008, Governor Arnold Schwarzenegger issued Executive Order S-16-08, regarding the State's budget crises. The order contains a number of operative provisions, including furloughs for rank and file employees, and salary reductions for non-represented and exempt employees. The Executive Order requires that the state Department of Personnel Administration develop plans to implement the terms of the order.

The Agency intends to comply with this order. With respect to represented rank and file employees and non-represented civil service employees, the DPA has the necessary authority to develop and implement the plan contemplated by the order. However, with respect to exempt CalHFA employees covered by SB 257 (see Health and Safety Code section 50509), the salary setting authority rests with the CalHFA Board of Directors rather than DPA. The Agency believes the most effective way to implement a DPA plan is for the Board to pass a resolution that simply implements whatever plan that DPA devises for other state exempt positions.

At this point, the Agency has not seen a DPA plan and we are not certain how the details of such a plan would be implemented. The Agency understands the plan will be implemented in a manner that will not affect retirement benefits of the employees whose salaries are reduced. Consequently, the recommendation is that the Board permit the Agency to follow the final DPA plan pursuant to the Executive Order.

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RESOLUTION 09-06

RESOLUTION REGARDING IMPLEMENTATION OF EXECUTIVE ORDER S-16-08

WHEREAS, Governor Arnold Schwarzenegger has issued Executive Order S-16-08 (the "Order"); and

WHEREAS, the Order directs the Department of Personnel Administration to adopt a plan to implement a furlough or salary reduction for all state managers, including exempt state employees, regardless of funding source; and

WHEREAS, Health & Safety Code section 50509 provides that the Board of Directors establishes the salaries of key exempt managers; and

WHEREAS, the California Housing Finance Agency ("Agency") intends to implement the provisions of the Order regarding exempt employees; and

WHEREAS, the Agency has not yet seen the provisions of the plan to be adopted by the Department of Personnel Administration; and

WHEREAS, it is the intent of the Board of Directors of the Agency that when such a plan is adopted that the Agency be able to implement its terms and provisions;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors as follows:

1. The Board of Directors of the Agency authorizes the Executive Director and other officers of the Agency to take such steps as are necessary to implement the Order with respect to exempt employees subject to Health & Safety Code section 50909.

I hereby certify that this is a true and correct copy of Resolution 09-06 adopted at a duly constituted meeting of the Board of Directors of the Agency held on January 22, 2009, at Millbrae, California.

ATTEST: _____
Secretary

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Business Plan Mid-Year Review

Presentation to CalHFA Board
January 22, 2009

CalHFA
California Housing Finance Agency

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TABLE II - PLAN SUMMARY
(In millions)

	2008/09	2009/10	2010/11	2011/12	2012/13	5 Yr Total
HOMEOWNERSHIP PROGRAMS [a]						
Homeownership First Mortgages	$1,000.0	$1,200.0	$1,200.0	$1,200.0	$1,200.0	$5,800.0
REO Program	200.0	0.0	0.0	0.0	0.0	200.0
Agency Funded Down Payment Assistance						
CalHFA Housing Assistance Program (CHAP) [b]	12.0	12.0	12.0	12.0	12.0	60.0
High Cost Area Home Purch. Assist. Prog. (HiCAP) [b]	12.0	12.0	12.0	12.0	12.0	60.0
Self-Help Builder Assistance (SHBAP) [b]	1.5	1.5	1.5	1.5	1.5	7.5
Prop. 46 Down Payment Assistance						
CA Homebuyer's Downpmt Assist. Prog.(CHDAP)	0.0	0.0	0.0	0.0	0.0	0.0
Homeownership In Revital. Areas Prog. (HIRAP)	0.0	0.0	0.0	0.0	0.0	0.0
Extra Credit Teacher Home Purchase Prog. (ECTP)	4.2	0.0	0.0	0.0	0.0	4.2
School Facility Fee Down Pay. Assist. Prog. (SFF)	7.2	7.6	7.9	2.8	0.0	25.5
Prop. 1C Down Payment Assistance						
CA Homebuyer's Downpmt Assist. Prog.(CHDAP)	40.0	40.0	40.0	40.0	40.0	200.0
Total Homeownership Programs	$1,276.9	$1,273.1	$1,273.4	$1,268.3	$1,265.5	$6,357.2
MORTGAGE INSURANCE						
CalHFA - CalHFA Production (30% of CalHFA 1st Produc	$300.0	$360.0	$360.0	$360.0	$360.0	$1,740.0
CalHFA REO program	200.0	0.0	0.0	0.0	0.0	200.0
Non-CalHFA	0.0	50.0	75.0	100.0	125.0	350.0
Total Mortgage Insurance	$500.0	$410.0	$435.0	$460.0	$485.0	$2,290.0
MULTIFAMILY PROGRAMS [c]						
Multifamily Loan Programs	$150.0	$175.0	$200.0	$225.0	$250.0	$1,000.0
Funded from Agency's Housing Assistance Trust:						
Acquisition Program [b]	5.0	5.0	5.0	5.0	5.0	25.0
Residual Gap Loan Program [b]	5.0	5.0	5.0	5.0	5.0	25.0
Portfolio Preservation [b]	5.0	5.0	5.0	5.0	5.0	25.0
Proposition 63 - Mental Health Services Act Housing Program [d]						
Loans	52.0	52.0	52.0	52.0	52.0	260.0
Operating Subsidy	28.0	28.0	28.0	28.0	28.0	140.0
Asset Management [b]	8.0	8.0	8.0	8.0	8.0	40.0
Total Multifamily Programs	$253.0	$278.0	$303.0	$328.0	$353.0	$1,515.0
SPECIAL LENDING PROGRAMS [c][e]						
Locality Programs						
Housing Enabled through Local Partnerships (HELP)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Residential Develop. Lending Prog. for Local. (RDLP)						
Prop 46	0.0	0.0	0.0	0.0	0.0	0.0
Prop 1C	0.0	0.0	0.0	0.0	0.0	0.0
Habitat for Humanity Loan Purchase Program	0.0	0.0	0.0	0.0	0.0	0.0
Total Special Lending Programs	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
TOTAL CalHFA PROGRAMS	$2,029.9	$1,961.1	$2,011.4	$2,056.3	$2,103.5	$10,162.2

CALHFA BUSINESS PLAN - 2008 / 2009 TO 2012/2013

Other Resources

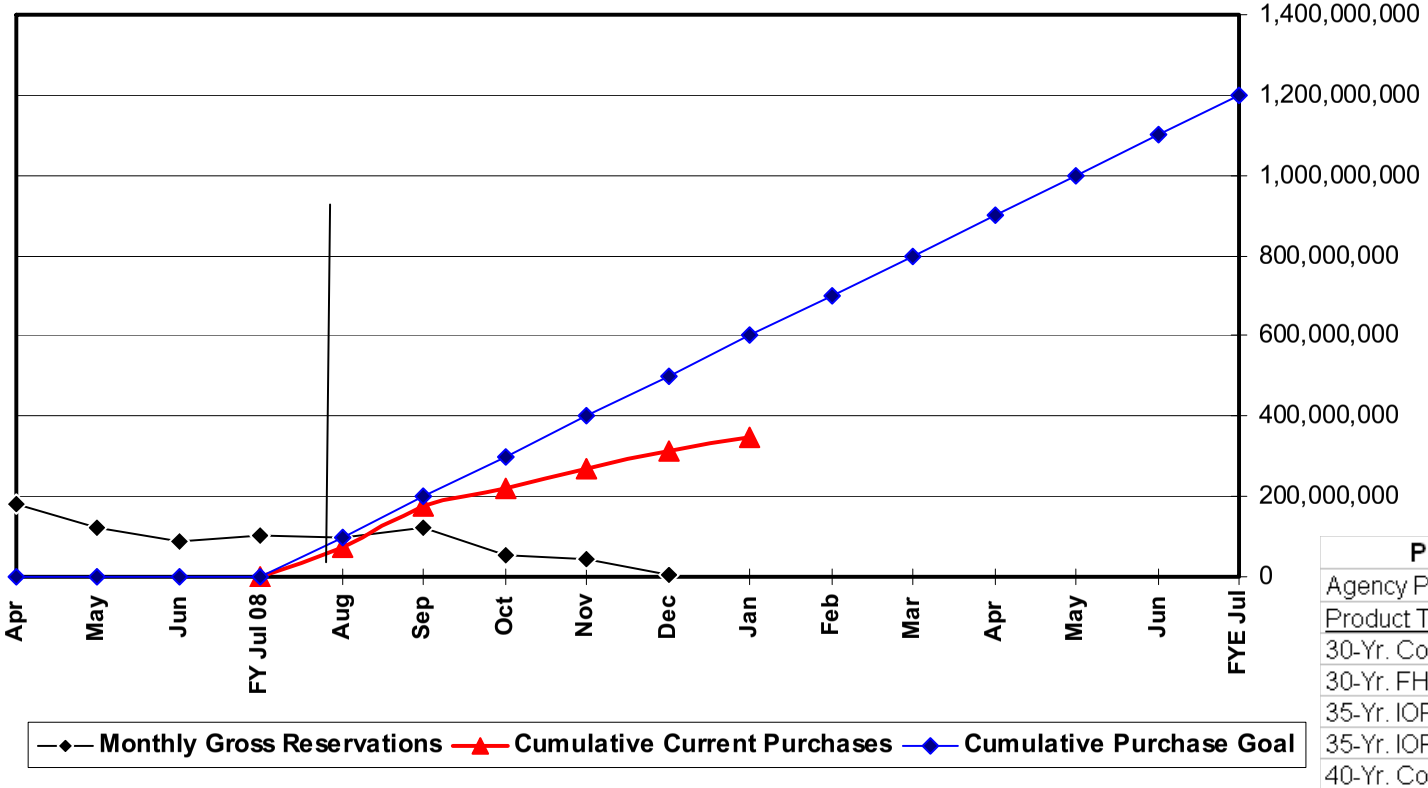
(in Thousands)

	2008/09	2009/10	2010/11	2011/12	2012/13	TOTAL
HAT FUNDED PROGRAMS						
Single Family Programs:						
CalHFA Housing Assistance Program (CHAP)	$ 12,000	$ 12,000	$ 12,000	$ 12,000	$ 12,000	$ 60,000
High Cost Area Home Purc. Assist. Prog. (HiCap)	12,000	12,000	12,000	12,000	12,000	60,000
Self-Help Builder Assistance (SHBAP)	1,500	1,500	1,500	1,500	1,500	7,500
Multifamily Programs:						
Acquisition program	5,000	5,000	5,000	5,000	5,000	25,000
Residual Gap loan Program	5,000	5,000	5,000	5,000	5,000	25,000
Portfolio Preservation	5,000	5,000	5,000	5,000	5,000	25,000
Asset Management:						
Portfolio Assistance	8,000	8,000	8,000	8,000	8,000	40,000
TOTAL HAT FUNDED PROGRAMS	$ 48,500	$ 48,500	$ 48,500	$ 48,500	$ 48,500	$ 242,500
GO BOND PROGRAMS						
Single Family Programs:						
Ca Homebuyer's Downpmt. Assist. Prog. (CHDAP)	$ 40,000	$ 40,000	$ 40,000	$ 40,000	$ 40,000	$ 200,000
Extra Credit Teacher Home Purchase Prog. (ECTP)	4,200	-	-	-	-	4,200
School Facility Fee Down Pay. Assist. Prog. (SFF)	7,200	7,600	7,900	$ 2,800	-	25,500
TOTAL GO BOND PROGRAMS	$ 51,400	$ 47,600	$ 47,900	$ 42,800	$ 40,000	$ 229,700
PROP 63 - MHSA PROGRAM						
Loans	$ 52,000	$ 52,000	$ 52,000	$ 52,000	$ 52,000	$ 260,000
Operating Subsidy	28,000	28,000	28,000	28,000	28,000	140,000
TOTAL MHSA PROGRAMS	$ 80,000	$ 80,000	$ 80,000	$ 80,000	$ 80,000	$ 400,000
TOTAL	**$ 179,900**	**$ 176,100**	**$ 176,400**	**$ 171,300**	**$ 168,500**	**$ 872,200**

708

Homeownership Program

Homeownership Programs Production Highlights
As of 12/31/08

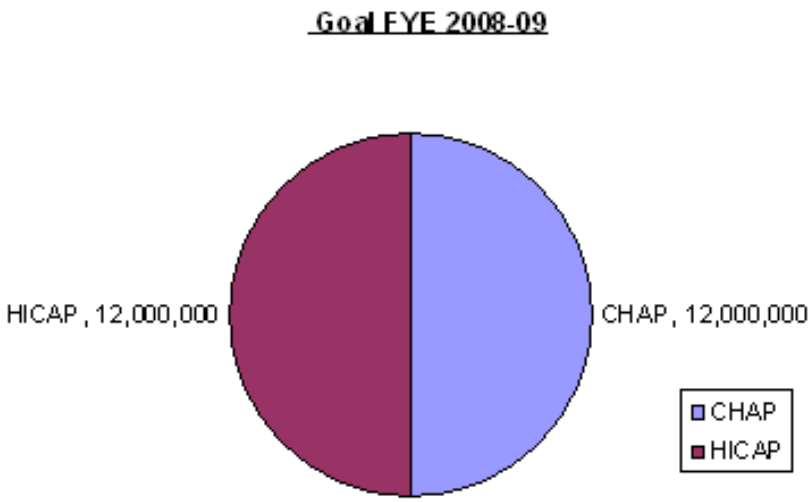


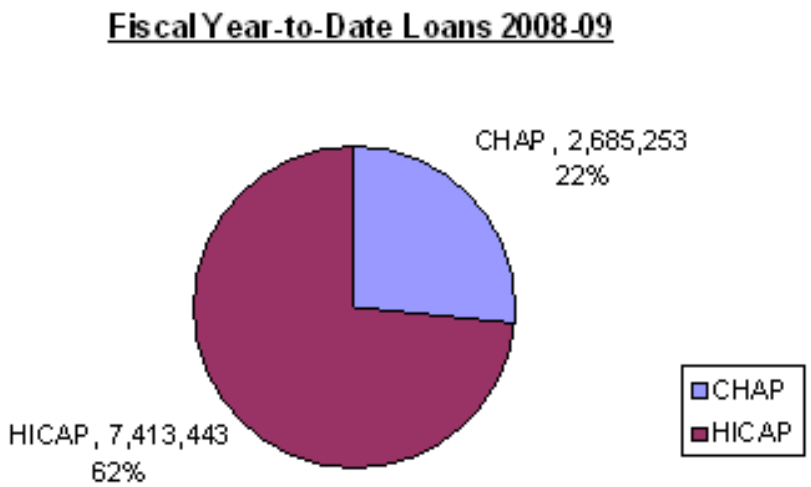
710

PRODUCTION BY PRODUCT		
Agency Purchased:	Volume	
Product Type	Volume	% of Vol.
30-Yr. Conventional	186,056,374	50.72%
30-Yr. FHA-Insured	72,203,167	19.68%
35-Yr. IOP - WL	46,695,910	12.73%
35-Yr. IOP - NC	6,518,275	1.78%
40-Yr. Conventional	35,201,203	9.60%
HomeChoice	18,377,667	5.01%
SMART REO	588,601	0.16%
CSHLP REO	956,569	0.26%
35-Year MBS IOP	240,952	0.07%
TOTAL	$ 366,838,718	100%

*** 50.22% of loans to low income homebuyers**

Subordinate Loans Purchase Actual vs. Goal
(HiCAP, CHAP)





711

Proposition 46 and 1C Statistics
As of 12/31/08

Program	Allocation*	Funded		Recycled Funds/Interest	Available Balance
SFF	$47,500,000.00	$29,239,679	6,985 grants	$1,874,664	$20,134,984
ECTP	$23,750,000	$21,658,277	1,802	$2,943,674	$5,035,397
CHDAP (SB 50)				$30,814,999	$30,814,999
CHDAP (Prop 46)	$145,751,193 [1]	$147,385,335	18,558	$35,580,699	$33,946,557
CHDAP (Prop 1C)	$190,000,000 [2]	$44,549,047	6,049	$501,875	$145,952,828
HIRAP	$11,900,000 (2/26/03)	$2,502,349	161 loans		$0.00
	$6,000,000 (5/6/05)	$5,786,176	323 loans	$542,402	$756,226
RDLP (Prop 46)	$75,000,000	$13,249,385	7 loans		$31,329,170

*Allocation amount is original Allocation amount less a 5% administrative fee

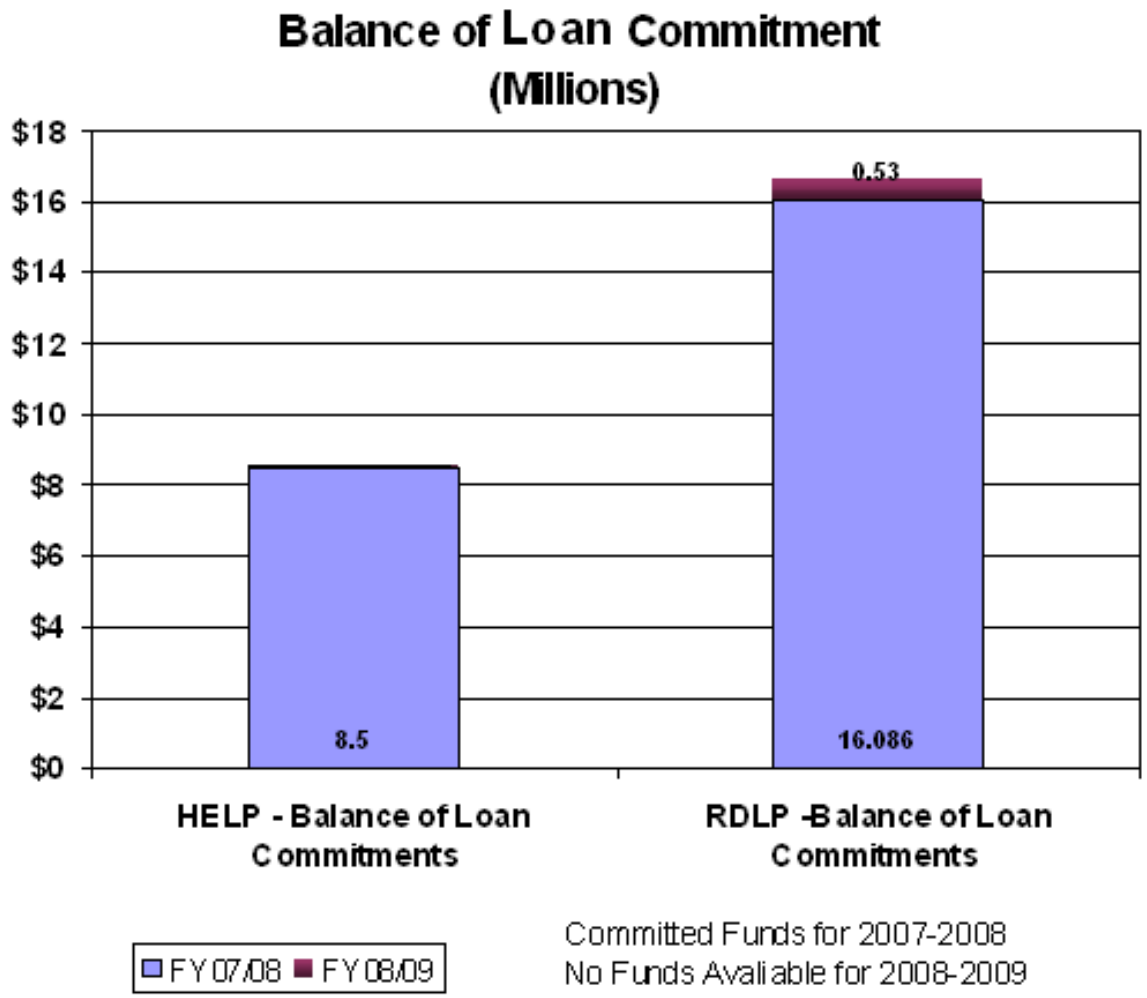
[1]Total amount includes:
- -Original allocation of $111,600,000
- -Under the terms of SB1227, on 5/6/05, the remaining unencumbered HIRAP funds less a new $6 million set-a-side reverted to CHDAP
- -Under the terms of SB1227, on 6/1/05, the remaining $75,332,097 unused funds from MIS reverted to CHDAP
- -Pursuant to AB1512 on 1/1/2006 $75 Million of CHDAP funds became available for the Residential Development Loan Prog.
- -Per statutory authority the remaining $30,421,445 uncommitted funds from RDLP will be reverted to CHDAP as of August 26, 2008.

[2] -Pursuant to CalHFA Board of Director's goals and existing statutory authority, all remaining uncommitted Residential Development Loan Program funds ($95,000,000) have been re-directed to CHDAP as of May 17, 2008

Recycled Funds/Interest is thru 09/30/2008 for ECTP, CHDAP, HIRAP & SFF

712

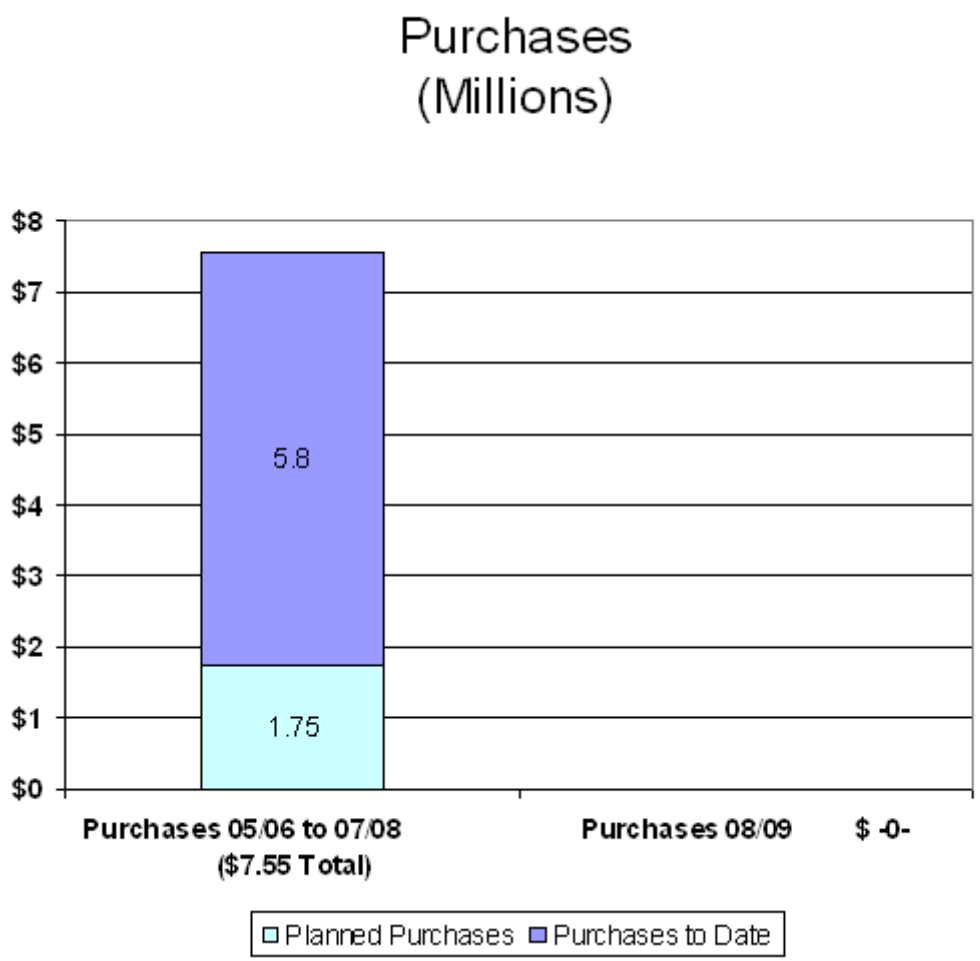
Special Lending Programs – HELP & RDLP



Committed Funds for 2007-2008
No Funds Avaliable for 2008-2009

713

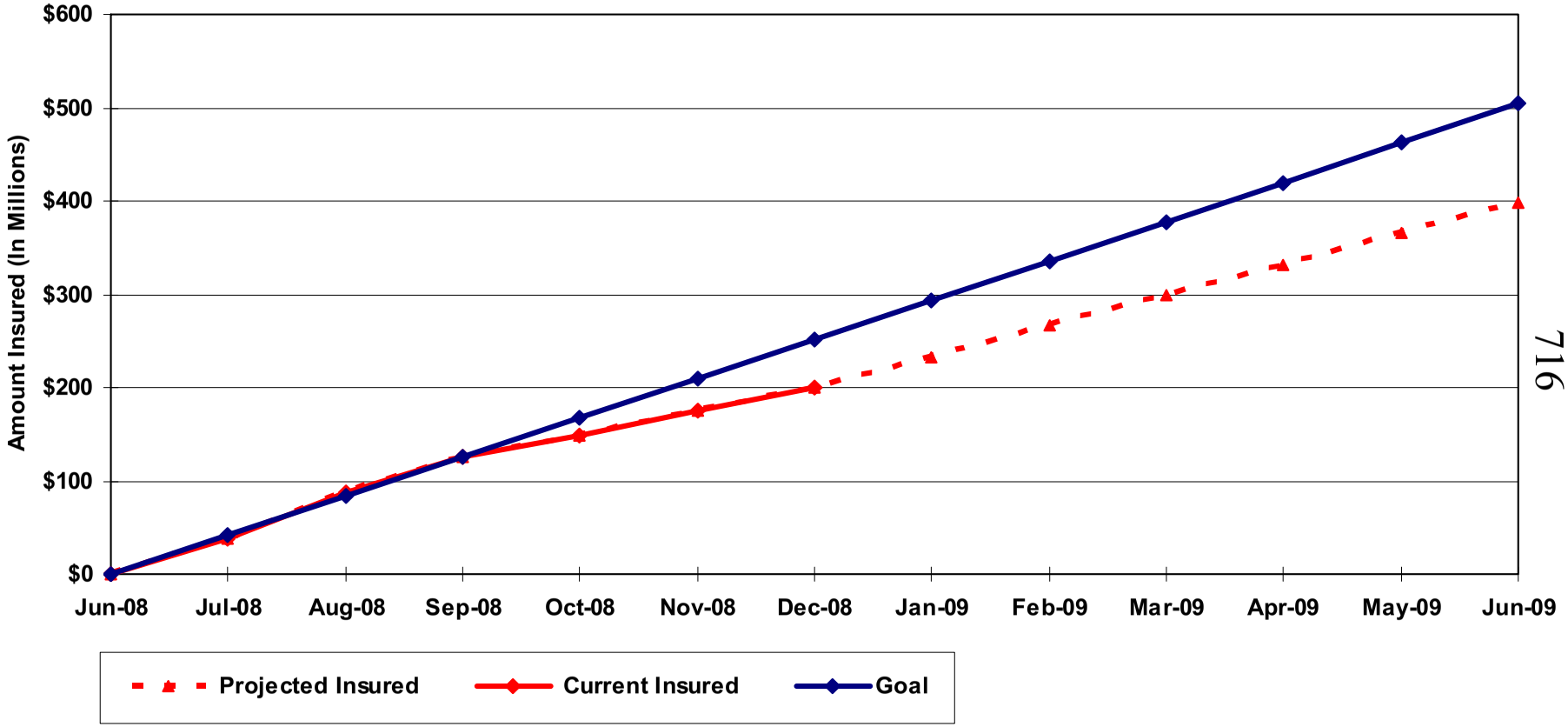
Special Lending Programs – Habitat for Humanity



714

Mortgage Insurance Services

Mortgage Insurance Highlights
As of 12/31/08

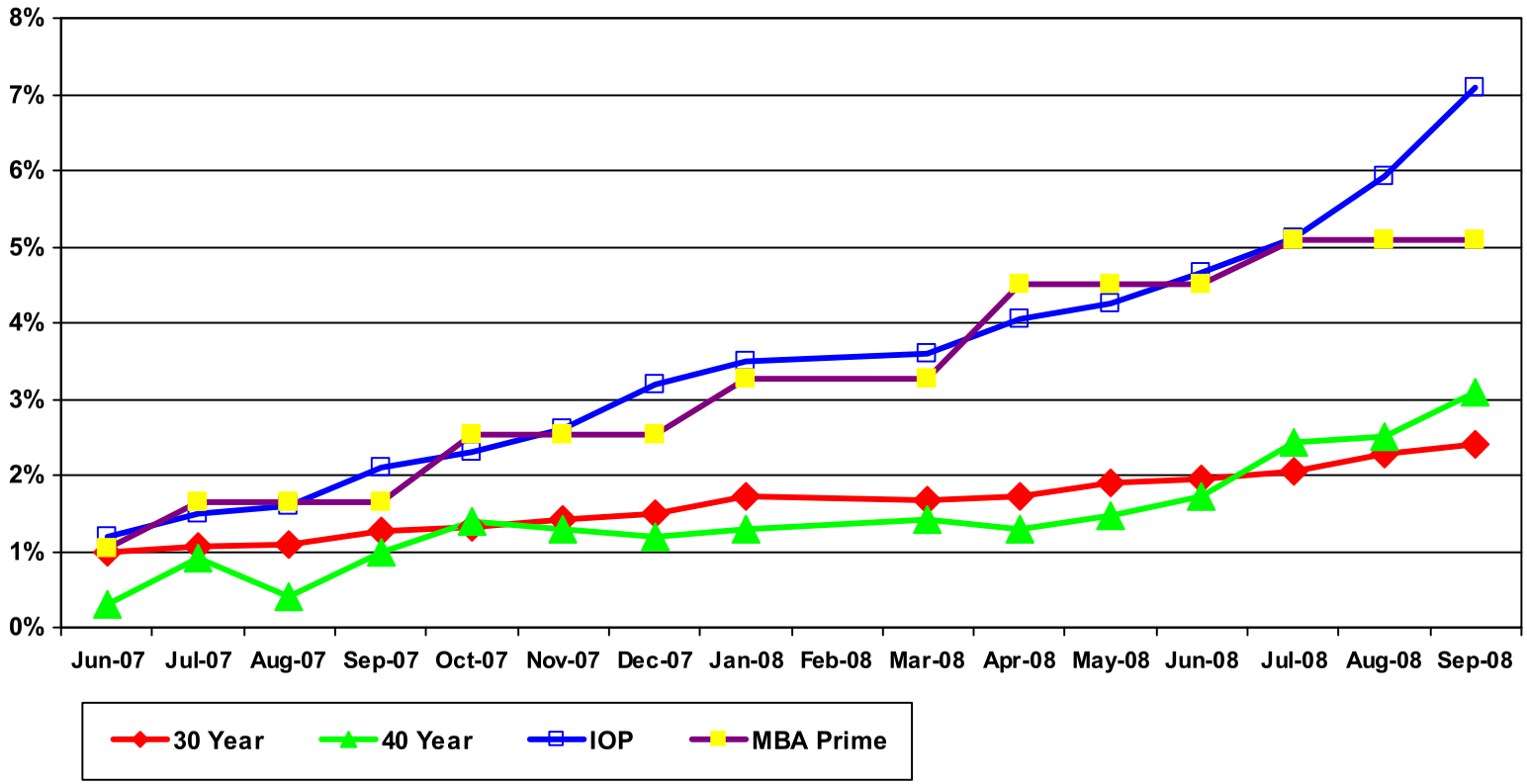


716

Single Family Portfolio

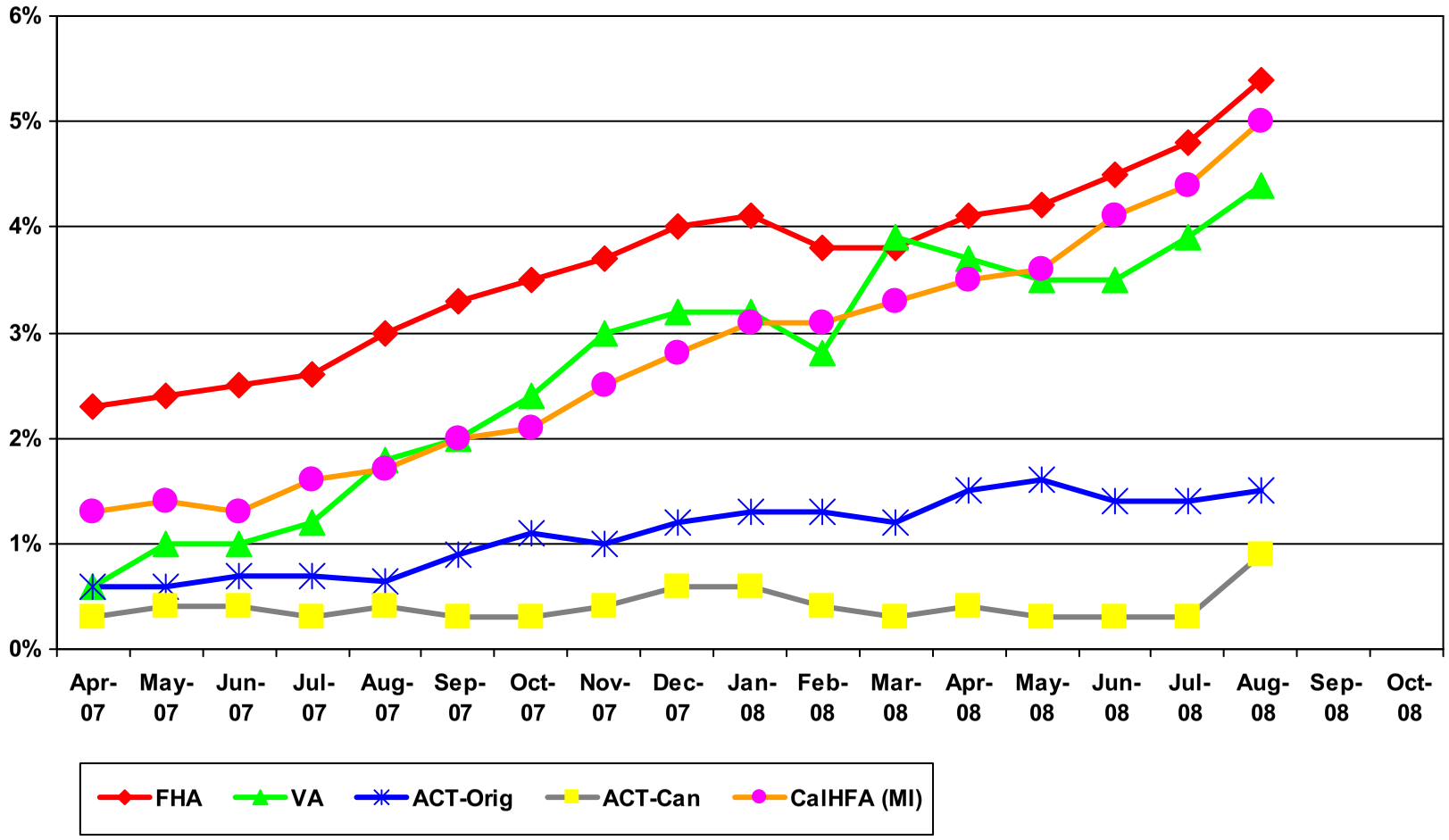
Loss Mitigation & REO Update

60 Day + Delinquency by Loan Type with MBA Data



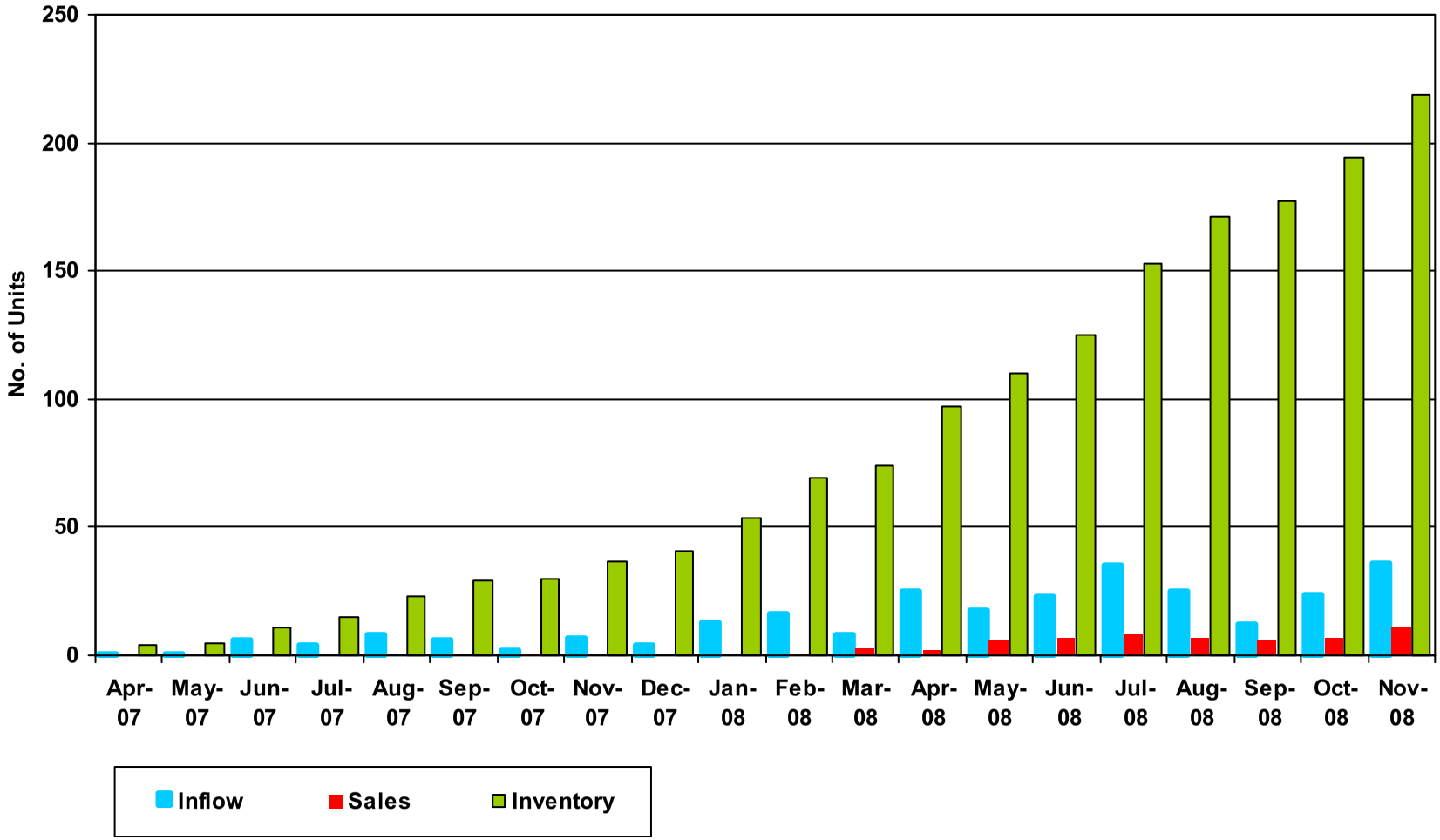
718

60 Day + Delinquency by Insurer



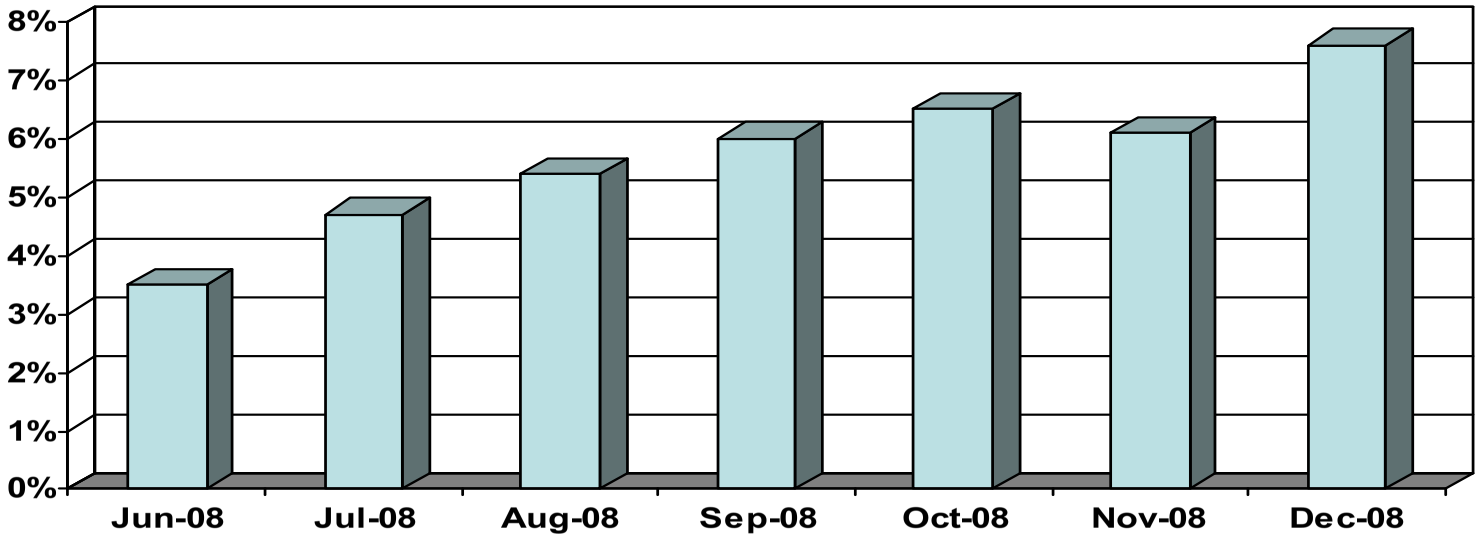
719

REO Inflow, Sales and Inventory
Conventional Loans



720

Mortgage Insurance Delinquency Trends
As of 12/31/08



	Jun 08	Jul 08	Aug 08	Sep 08	Oct 08	Nov 08	Dec 08
MI Delinquencies	3.5%	4.7%	5.4%	6.0%	6.5%	6.1%	7.6%

721

Mortgage Insurance Loan Delinquency Status
As of 12/31/08

Delinquency Category	<120 Days Delinquent	>=120 Days Delinquent	In Foreclosure	Title Held By Servicer	MI Claim Received	MI Claim Pending	Grand Total
Number of Loans Delinquent	286	331	170	73	106	12	978
Amount of Loans Delinquent (millions)	$77.3	$91.5	$45.5	$19.9	$28.2	$3.5	$266.0

722

Homeownership Gains and Losses
As of 12/31/08

2008 Year to Date REO Uninsured Losses[1] (As of December 31, 2008)	
1st TD Sale Gain(Loss)	$ (674,849)
Subordinate Write-Off	(6,456,068)
Total Gain(Loss)/Write-Offs	$ (7,130,917)

(1) Includes both reconciled and unreconciled gains/losses to date.

2008 Year to Date Composition of 1st Trust Deed Gain/(Loss) (As of December 31, 2008)					
	Disposition				
Loan Type	Repurchased by Lender	Market Sales	Loan Balance at Trustee Sale	Estimated Indenture Gain/(Loss)	[1]Estimated GAP Loss
FHA/RHS/VA	208	1	$ 44,711,407	$ (49,513)	
Conventional		74	19,010,242	(625,336)	$(2,227,051)
	208	75	$ 63,721,649	$ (674,849)	$(2,227,051)

(1) The MI Fund provides GAP Insurance as necessary to meet bond indenture requirements that all loans have a minimum of 50% mortgage insurance coverage for the life of the loan. The Agency has indemnified the the MI Fund for all GAP claim payments and will reimburse the MI Fund from general fund reserves.

2008 Year to Date Composition of Subordinate Write-Offs by Loan Type[1] (As of December 31, 2008)						
	Active Loans		Write-Offs			
Loan Type	Active Loans	Dollar Amount	Number of Write-Offs	% (of Portfolio)	Dollar Amount	% (of Portfolio)
CHAP/HiCAP	13,191	$141,057,480	328	2.49%	$3,711,122	2.63%
CHDAP/ECTP/HiRAP	22,274	187,587,896	352	1.58%	2,709,946	1.44%
Other[2]	315	4,102,065	1	0.32%	35,000	0.85%
	35,780	$332,747,441	681	1.90%	$6,456,068	1.94%

(1) Does not include FNMA and CalSTRS subordinates (non-agency loans serviced by in house loan servicing)

(2) Includes HPA, MDP, OHPA, and SSLP.

723

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Multifamily Program

Multifamily Loans

Committed Loans July 1, 2008 – December 31, 2008

	MF Commitments (Year-to-Date)	MF Commitments (Mid-Year Goal)	Percentage of Goal
MF Goal (Const. SPN. Pres. HAT MHSA)	$150,677,106	$101,000,000	149%
		Actual Annual Goal	
		$202,000,000	75%

Total Committed Units: 1,410 Projects: 19 Total Loans: $150,677,106

Closed Loans July 1, 2008 – December 31, 2008

Total Closed Units: 972 Projects: 6 Total Loans: $92,561,603

Potential Pipeline- January 1, 2009 – June 31, 2009

Total Potential Units: 1,413 Projects: 17 Total Loans: $164,725,481

This is the current Multifamily Pipeline in which we hope to approve within the next six months.

726

Multifamily Fiscal Year-To-Date Highlights

- FNMA is working with the Agency to establish a seller/servicer agreement specific to HFA's.
- Bay Area Housing Plan:
  - The Agency anticipates issuing bonds to take out the Agency warehouse line of credit funds in early 2009.
- Mental Health Services Act (MHSA) Housing Program
  - Staff continues to work with Department of Mental Health (DMH) and the County Mental Health Director's Association (CMHDA).
  - CalHFA executed an interagency agreement with DMH, and is approving projects for MHSA funding.

727

MHSA Housing Program Projects

Mental Health Services Act Mid Year Report 7/1/08-12/30/08

MHSA Projects Committed								
Project Name/County	Actual 7/1/08 to 12/31/08	Anticipated 1/1/09 to 6/30/09	MHSA Loan Amount	MHSA Subsidy	Senior Staff Approval Date	Pre-devmt Loan Amount	CalHFA Funds Approval Date/ Amt	
Mutual Housing at the Highlands Sacramento, County	$ 3,871,945	$ -	$ 2,071,945	$ 1,800,000	7/22/2008		None	None
Belovida Senior Housing Santa Clara County	$ 550,000	$ -	$ 300,000	$ 250,000	8/6/2008		None	None
Polk Senior Housing San Francisco County	$ 1,000,000	$ -	$ 1,000,000		8/11/2008		None	None
Cedar Gateway San Diego County	$ 5,052,000	$ -	$ 2,752,000	$ 2,300,000	9/8/2008		7/17/2008	$16,048,000 - Const $ 2,150,000 - 1st $ 325,000 - Gap Loan
Sunflower Garden Apartments Monterey County	$ 3,187,480	$ -	$ 1,649,000	$ 1,538,480	11/12/2008	$ 200,000	None	None
Vida Nueva Sonoma County	$ 1,200,000	$ -	$ 600,000	$ 600,000	11/13/2008		None	None
Young Burlington Los Angeles County	$ 2,800,000	$ -	$ 1,400,000	$ 1,400,000	12/15/2008	$ 500,000	None	None
MHA Garden Street Apartments Santa Barbara County	$ 1,500,000	$ -	$ 1,000,000	$ 500,000	12/15/2008	$ 500,000	None	None
Total MHSA Projects Committed	**$ 19,161,425**		**$ 10,772,945**	**$ 8,388,480**			**Total CalHFA**	**$ 18,523,000**

MHSA Projects expected to receive Commitments		
Project Name/County	Actual 7/1/08 to 12/31/08	Anticipated 1/1/09 to 6/30/09
44 projects	**$ -**	**$ 97,096,302**
Fees Earned	$ 1,500,000	$ 2,516,765

County Fund Balances		
MHSA County Funds	Actual 7/1/08 to 12/31/08	Anticipated 1/1/09 to 6/30/09
Starting Balance	0	$ 353,499,775
Transfers	$ 371,161,200	$ 30,515,300
Projects	$ (19,161,425)	$ (97,096,302)
Ending Balance	$ 351,999,775	$ 286,918,773

728

Asset Management

Asset Management Update

Portfolio and responsibilities are growing:

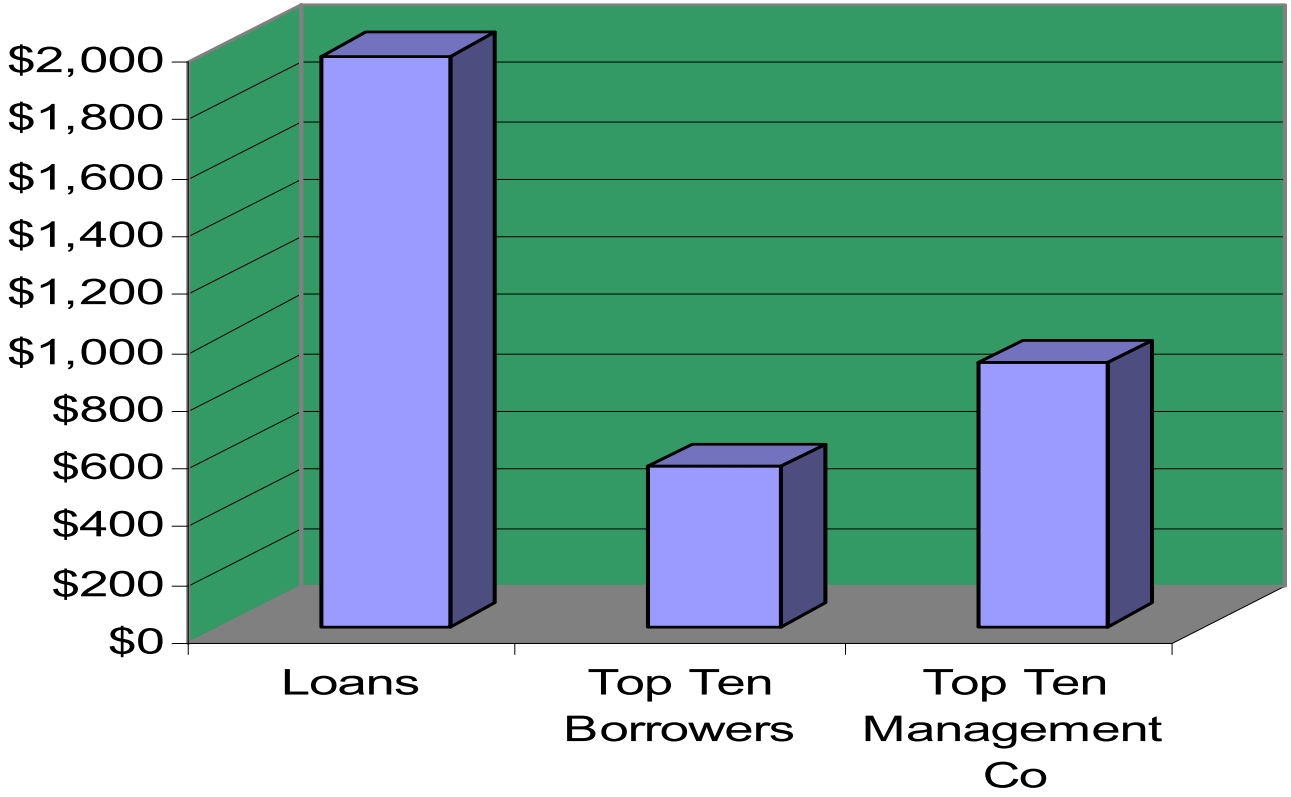
- 524 properties to oversee
- 13 new properties will close in 2009
- HUD has imposed greater subsidy oversight responsibilities on all its contract administrators (8,952 CalHFA Section 8 units)
- Earned Surplus funds remain available for Section 8 rehab. Committed $600,000 Pre-80 funds for one Section 8 property
- Committed $238,000 HAT funs for rehab of one 80-20 property. Future funds availability tentative.
- Prepared to administer Capitalized Operating Subsidy for MHSA properties

730

Concerns:

- Short staffed. More work per staff member than ever.
- 51 Section 8 properties have loans that terminate between now and 2015. Most in 2013.

Top Ten Borrowers & Management Companies by Loan Volume



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State of California

M E M O R A N D U M

To: CalHFA Board of Directors **Date:** December 31, 2008

From: Bob Deaner- Director of Multifamily Programs
CALIFORNIA HOUSING FINANCE AGENCY

Subject: Multifamily Projects- Approved by Senior Loan Committee- Board Submission Not Required- Mid-Year Report FY 2008-2009

The following is a report of Multifamily projects approved by Senior Loan Committee that did not require board approval.

Multifamily Projects- Approved by Senior Loan Committee- Board Submission Not Required- Mid-Year Report FY 2008-2009

As of 12/31/2008

	Project Name/City/County	Project Type	Developer/Project Manager	CalHFA Financing	Other Financing Sources	Date Approved
1	Civic Center Residences San Francisco, San Francisco County	Family	Tenderloin Neighborhood Development Corporation Dan Falk	$100,000 -Gap Financing HAT	$1,280,875 - CHRP R $8,482,895 - SF MOH $1,000,000 - AHP $ 125,000 - SF Redevelopment Agency $ 41,000 - JP Morgan	10/14/2008
	1 Projects			**$100,000.00**	**$10,964,770.00**	

Bay Area Housing Plan FY 2008-2009

	Project Address/City	Amount	Approval Date
1	771 Jill, Santa Clara	$1,935,000	7/28/2008
2	173 Westridge, Santa Clara	$1,935,000	7/28/2008
3	2990 St. Cloud, San Bruno	$1,455,000	9/22/2008
3	**Projects**	**$5,325,000.00**	

State of California

M E M O R A N D U M

To: CalHFA Board of Directors **Date:** January 6, 2009

Bob Deaner- Director of Multifamily Programs
From: **CALIFORNIA HOUSING FINANCE AGENCY**

Subject: Multifamily Projects- MHSA funded projects- Approved by Senior Loan Committee

The following is a report of approved projects that have MHSA funding, for mid fiscal year of 2008-2009.

Mental Health Services Act Mid Year Report 7/1/08-12/30/08

MHSA Projects Committed

Project Name/County	Actual 7/1/08 to 12/31/08	Anticipated 1/1/09 to 6/30/09	MHSA Loan Amount	MHSA Subsidy	Senior Staff Approval Date	Pre-devmt Loan Amount	CalHFA Funds Approval Date/ Amt	
Mutual Housing at the Highlands Sacramento, County	$ 3,871,945	$ -	$ 2,071,945	$ 1,800,000	7/22/2008		None	None
Belovida Senior Housing Santa Clara County	$ 550,000	$ -	$ 300,000	$ 250,000	8/6/2008		None	None
Polk Senior Housing San Francisco County	$ 1,000,000	$ -	$ 1,000,000		8/11/2008		None	None
Cedar Gateway San Diego County	$ 5,052,000	$ -	$ 2,752,000	$ 2,300,000	9/8/2008		7/17/2008	$16,048,000 - Const $ 2,150,000 - 1st $ 325,000 - Gap Loan
Sunflower Garden Apartments Monterey County	$ 3,187,480	$ -	$ 1,649,000	$ 1,538,480	11/12/2008	$ 200,000	None	None
Vida Nueva Sonoma County	$ 1,200,000	$ -	$ 600,000	$ 600,000	11/13/2008		None	None
Young Burlington Los Angeles County	$ 2,800,000	$ -	$ 1,400,000	$ 1,400,000	12/15/2008	$ 500,000	None	None
MHA Garden Street Apartments Santa Barbara County	$ 1,500,000	$ -	$ 1,000,000	$ 500,000	12/15/2008	$ 500,000	None	None
Total MHSA Projects Committed	**$ 19,161,425**		**$ 10,772,945**	**$ 8,388,480**			**Total CalHFA**	**$ 18,523,000**

MHSA Projects expected to receive Commitments

Project Name/County	Actual 7/1/08 to 12/31/08	Anticipated 1/1/09 to 6/30/09
Fairmount/Alameda	$ -	$ 500,000
West Columbus/Kern	$ -	$ 2,200,000
Haven Cottages/Kern	$ -	$ 1,432,246
Courtyards/Los Angeles	$ -	$ 4,284,352
Glenoaks Gardens/Los Angeles	$ -	$ 9,000,000
Progress Place I & II/Los Angeles		$ 2,200,000
Fireside Apartments/Marin	$ -	$ 950,000
Rancho Dorado/Riverside	$ -	$ 3,000,000

Mental Health Services Act Mid Year Report 7/1/08-12/30/08

Folsom Oaks Apts Sacramento	$ -	$ 500,000
5321 Stockton St. (Budget	$ -	$ 2,000,000
34th Street/San Diego	$ -	$ 683,051
Parcel G/San Francisco	$ -	$ 1,200,000
Kings Crossing/Santa Clara	$ -	$ 2,150,000
La Rahada/Ventura	$ -	$ 1,586,653
Liberty Senior Community	$ -	$ 6,400,000
Legacy & Advocates for the Mentally Ill/Placer	$ -	$ 3,000,000
Menifee Vineyards/Riverside	$ -	$ 3,000,000
Fair Oaks Senior Apts./Santa Clara	$ -	$ 1,100,000
220 Goldengate Ave/San Francisco	$ -	$ 1,600,000
Homebase on G/Santa Barbara	$ -	$ 600,000
House of Joy/Solano	$ -	$ 1,200,000
615-5th Street/Stanislaus	$ -	$ 400,000
Bennett Place/Stanislaus	$ -	$ 3,600,000
Hartle Court/Napa	$ -	$ 3,400,000
Paseo De Luz Apartments/Ventura	$ -	$ 2,400,000
Rosslin/Los Angeles	$ -	$ 5,000,000
Harmon Gardens/City of Berkeley	$ -	$ 1,000,000
Lillie Mae Jones/Contra Costa	$ -	$ 1,000,000
Mini Twelve Step House Inc/Los Angeles	$ -	$ 1,800,000
Charles Cobb Apts./Los Angeles	$ -	$ 2,500,000
5216 S. Figueroa St./Los Angeles	$ -	$ 1,700,000
Daniels Village/Los Angeles	$ -	$ 710,000
Nehemiah Court/Los Angeles	$ -	$ 2,000,000
Villas at Gower/Los Angeles	$ -	$ 4,000,000
Monterey/Monterey		
Palm Courts/Orange	$ -	$ 2,000,000

Mental Health Services Act Mid Year Report 7/1/08-12/30/08

Ardenaire Apartments/Sacramento	$ -	$ 800,000
Hotel Barry/Sacramento	$ -	$ 2,000,000
15th and Commercial/San Diego	$ -	$ 5,000,000
Comm 22/San Diego	$ -	$ 1,400,000
Raymond's Refuge II/San Diego	$ -	$ 1,600,000
San Diego 9th & Broadway/San Diego	$ -	$ 5,000,000
Lathono/Santa Clara	$ -	$ 1,200,000
Additional Anticipated	**$ -**	**$ 97,096,302**

California Housing Finance Agency (CalHFA) Estimated Fees

Fees	Actual 7/1/08 to 12/31/08	Anticipated 1/1/09 to 6/30/09	
Servicing Fee	$ -	$ 30,076	This is the fee expected to be paid annually on closed loans.
Program Administrative Fee	$ 1,500,000	$ 2,516,765	This is a one time fee paid to the Agency.
Loan Origination Fee	$ 2,000	$ 20,000	These fees are collected at loan close and are equal to 1% of the Perm. Loan amounts - not the Captial Operating Expense Reserve Amounts.
Total, Projects	**$ 1,502,000**	**$ 2,566,841**	

MHSA Fund totals

	Actual 7/1/08 to 12/31/08	Anticipated 1/1/09 to 6/30/09
Starting balance	$ -	$ 351,999,775
Transfers	$ 371,161,200	$ 30,515,300
Projects	$ (19,161,425)	$ (97,096,302)
Interest	$ 1,500,000	$ 9,835,772
Fees	$ (1,500,000)	$ (2,516,765)
County Balances	**$ 351,999,775**	**$ 292,737,780**

State of California

M E M O R A N D U M

To: Board of Directors **Date:** January 8, 2009

Bruce D. Gilbertson, Director of Financing
From: **CALIFORNIA HOUSING FINANCE AGENCY**

Subject: Homeownership Loan Portfolio Update

Attached for your information is a report summarizing the Agency's Homeownership loan portfolio:

- Delinquencies as of October 31, 2008 by insurance type,
- Delinquencies as of October 31, 2008 by product (loan) type,
- Real Estate Owned (REO) at December 31, 2008,
- Gains/ (Losses) on the Disposition of 1st Trust Deeds, January 1 through December 31, 2008,
- Write-Offs of subordinate loans, January 1 through December 31, 2008,
- Information on the MI portfolio delinquencies,
- A graph of CalHFA's 90-day+ ratios for FHA and Conventional loans (for the period of October 1998 through October 2008), and
- A graph of 90-day+ ratios for CalHFA's three Conventional loan (products) types, for the period of January 2007 through October 2008.

California Housing Finance Agency

CalHFA

HOMEOWNERSHIP LOAN PORTFOLIO DELINQUENCY, REO and LOSS REPORT

Reconciled Loan Delinquency Summary
All Active Loans
As of October 31, 2008 By Insurance Type

	Loan Count	Balance	Percent	DELINQUENCY RATIOS 30-Day	60-Day	90(+) Day	Total
Federal Guaranty							
FHA	15,673	$ 2,232,011,199.61	33.79%	5.44%	2.04%	4.35%	11.82%
VA	468	75,610,290.84	1.14%	3.21%	1.50%	4.06%	8.76%
RHS	104	21,842,276.34	0.33%	0.00%	0.96%	6.73%	7.69%
Conventional loans							
with MI							
CalHFA MI Fund	10,065	2,774,058,899.70	41.99%	3.15%	1.46%	4.60%	9.21%
without MI							
Orig with no MI	6,014	1,281,709,795.64	19.40%	1.45%	0.58%	1.31%	3.34%
MI Cancelled*	1,695	220,482,157.80	3.34%	1.42%	0.41%	0.41%	2.24%
Total CalHFA	34,019	$ 6,605,714,619.93	100.00%	3.81%	1.52%	3.69%	9.02%

*Cancelled per Federal Homeowner Protection Act of 1998, which grants the option to cancel the MI with 20% equity.

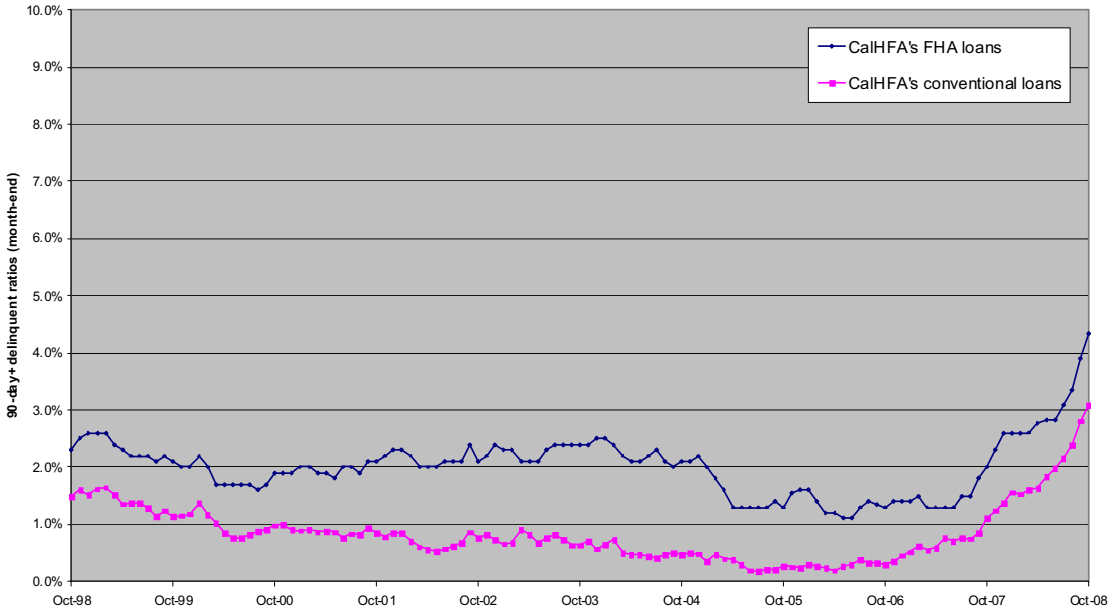
Reconciled Loan Delinquency Summary
All Active Loans
As of October 31, 2008 By Loan Type

	Loan Count	Balance	Percent	DELINQUENCY RATIOS 30-Day	60-Day	90(+) Day	Total
30-yr level amort							
FHA	15,673	$ 2,232,011,199.61	33.79%	5.44%	2.04%	4.35%	11.82%
VA	468	75,610,290.84	1.14%	3.21%	1.50%	4.06%	8.76%
RHS	104	21,842,276.34	0.33%	0.00%	0.96%	6.73%	7.69%
Conventional	11,354	2,433,516,039.44	36.84%	1.77%	0.67%	1.88%	4.32%
40-yr level amort							
Conventional	977	267,182,372.70	4.04%	3.28%	1.43%	2.35%	7.06%
5-yr IOP, 30-yr amort							
Conventional	5,443	1,575,552,441.00	23.85%	3.58%	1.82%	5.73%	11.13%
Total CalHFA	34,019	$ 6,605,714,619.93	100.00%	3.81%	1.52%	3.69%	9.02%
	Weighted average of conventional loans:			2.41%	1.06%	3.09%	6.56%

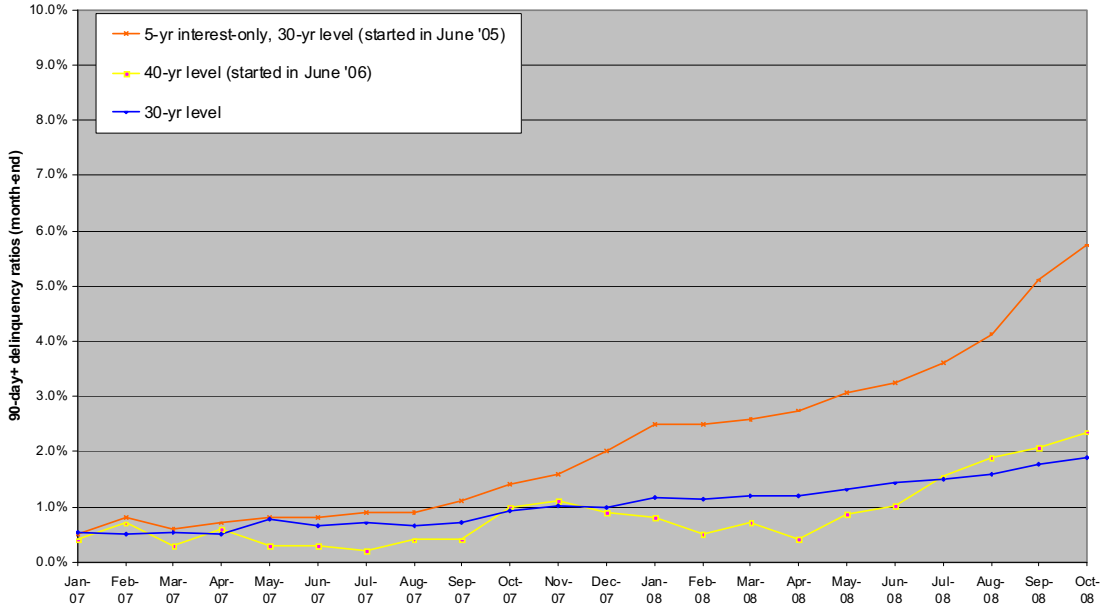
California Housing Finance Agency

CalHFA

90-day+ delinquent ratios for CalHFA's FHA and weighted average of all conventional loans



90-day+ delinquent ratios for CalHFA's Three Conventional Loan Types



California Housing Finance Agency

CalHFA

CalHFA Provided Mortgage Insurance

Primary Loan Portfolio Delinquency Summary (1)
(Information Submitted by Loan Servicers to CalHFA)

	Active Loans	Delinquent: Less than 120 Days (2)	Delinquent: 120+ Days	Loans in Foreclosure	Total	% of Portfolio
October Number of Loans	11,122	275	223	162	660	5.93%
October $ Amount	$ 3,076,165,655	$ 73,978,742	$ 58,891,648	$ 42,376,048	$ 175,246,438	5.70%
November Number of Loan	11,191	247	251	122	620	5.54%
November $ Amount	$ 3,092,043,139	$ 67,432,278	$ 68,488,563	$ 32,300,149	$ 168,220,990	5.44%
December Number of Loan	11,219	286	331	170	787	7.01%
December $ Amount	$ 3,099,144,367	$ 77,331,425	$ 91,543,500	$ 45,522,093	$ 214,397,018	6.92%

(1) Information does not correspond to fully reconciled data since loan servicers provide information on all loans in the pipeline as well as non-CalHFA insured loans.
(2) May not include all delinquencies since servicers are not required to report delinquencies less than 120 days.

Real Estate Owned

Calendar Year 2008 (As of December 31, 2008)											
		*Trustee Sales			Disposition of REO(s)						
Loan Type	Beginning Balance # of Loans	Reverted to CalHFA Jan-Nov	Reverted to CalHFA Dec	Total Trustee Sales	Repurchased by Lender Jan-Nov	Market Sale(s) Jan-Nov	Repurchased by Lender Dec	Market Sale(s) Dec	Total Disposition of REO(s)	Ending Balance # of Loans	UPB of REO's Owned
FHA/RHS/VA	33	217	14	231	188	1	20		209	55	$ 12,213,128
Conventional	42	233	20	253		55		19	74	221	53,409,968
Total	75	450	34	484	188	56	20	19	283	276	$ 65,623,096

Calender Year 2007						
		*Trustee Sales	Disposition of REO(s)			
Loan Type	Beginning Balance # of Loans	Reverted to CalHFA 2007	Repurchased by Lender 2007	Market Sale(s) 2007	Ending Balance # of Loans	UPB of REO's Owned
FHA/RHS/VA	8	57	32		33	$ 6,601,840
Conventional	2	42		2	42	$ 10,081,744
Total	10	99	32	2	75	$ 16,683,584

**3rd party trustee sales are not shown in the table (title to these loans were never transferred to CalHFA). There were twenty-one (21) 3rd party sales in calendar year 2007 and there are six (8) 3rd party sales year to date for 2008.*

California Housing Finance Agency

CalHFA

2008 Year to Date REO Uninsured Losses[1] (As of December 31, 2008)	
1st TD Sale Gain(Loss)	$ (674,849)
Subordinate Write-Off	(6,456,068)
Total Gain(Loss)/Write-Offs	$ (7,130,917)

(1) Includes both reconciled and unreconciled gains/losses to date.

2008 Year to Date Composition of 1st Trust Deed Gain/(Loss) (As of December 31, 2008)					
	Disposition				
Loan Type	Repurchased by Lender	Market Sales	Loan Balance at Trustee Sale	Estimated Indenture Gain/(Loss)	[1] Estimated GAP Loss
FHA/RHS/VA	208	1	$ 44,711,407	$ (49,513)	
Conventional		74	19,010,242	(625,336)	$(2,227,051)
	208	75	$ 63,721,649	$ (674,849)	$(2,227,051)

(1) The MI Fund provides GAP Insurance as necessary to meet bond indenture requirements that all loans have a minimum of 50% mortgage insurance coverage for the life of the loan. The Agency has indemnified the the MI Fund for all GAP claim payments and will reimburse the MI Fund from general fund reserves.

2008 Year to Date Composition of Subordinate Write-Offs by Loan Type[1] (As of December 31, 2008)						
	Active Loans		Write-Offs			
Loan Type	Active Loans	Dollar Amount	Number of Write-Offs	% (of Portfolio)	Dollar Amount	% (of Portfolio)
CHAP/HiCAP	13,191	$141,057,480	328	2.49%	$3,711,122	2.63%
CHDAP/ECTP/HiRAP	22,274	187,587,896	352	1.58%	2,709,946	1.44%
Other [2]	315	4,102,065	1	0.32%	35,000	0.85%
	35,780	$332,747,441	681	1.90%	$6,456,068	1.94%

(1) Does not include FNMA and CalSTRS subordinates (non-agency loans serviced by in house loan servicing)

(2) Includes HPA, MDP, OHPA, and SSLP.

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M E M O R A N D U M

To: Board of Directors Date: January 9, 2009

Bruce D. Gilbertson, Director of Financing
From: **CALIFORNIA HOUSING FINANCE AGENCY**

Subject: REPORT ON PURCHASE OF AGENCY BONDS

As of the date of this memorandum, $49,545,000 of outstanding California Housing Finance Agency Multifamily Housing Revenue Bonds III 2006 Series A bonds are "Bank Bonds" under a Standby Bond Purchase Agreement (SBPA) with Depfa Bank (the "Bank").

These bonds have not been successfully remarketed due to the bank's deteriorating credit ratings and were put back to the Depfa Bank. Under the terms of the SBPA with the Bank, CalHFA must pay a higher interest rate to the Bank for any bank bonds purchased. Due to the additional interest expense together with accelerated principal amortization of Bank Bonds, the Agency has decided to target these bonds for restructuring and/or redemption.

On December 5, 2008 the Agency entered into an arrangement with the Bank to purchase $17,650,000 of Bank Bonds at par plus accrued interest using a short term credit facility available to the Agency. The amount of bonds purchased is approximately the amount of bonds that will be redeemed upon successful conversion of the Lion Creek Crossings Phase III construction loan to permanent loan. The projects financing is currently scheduled to convert by the end of January 2009. As a custodial agent, the U.S. Bank National Association is currently holding the Bank Bonds for the Agency. On or before February 1, 2009 the Agency will select the Bank Bonds to be redeemed. The construction loan repayment will be used to reimburse the credit facility. The Agency has benefited by purchasing these bonds and realized debt service savings of approximately $1,600 per day.

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