BOARD OF DIRECTORS

California Housing Finance Agency
Board of Directors

July 9, 2009

Hyatt Regency Sacramento
1209 L Street
Sacramento, California
(916) 443-1234

9:30 a.m.

1. Roll Call.

2. Approval of the minutes of the May 21, 2009 Board of Directors meeting ……..…..…1

3. Chairman/Executive Director comments.

4. Report, discussion and possible action regarding the Agency's financing and program strategies and implementation, in light of financial marketplace disruptions. (Steve Spears/Bruce Gilbertson)

5. Closed session under Government Code §§ 11126 (e) (1) and 11126 (e) (2) (B) (i) to confer with and receive advice from counsel regarding litigation.

6. Discussion, recommendation and possible action regarding the adoption of a resolution approving the Two-Year Business Plan for Fiscal Years 2009/2010 and 2010/2011. (Steve Spears/Senior Staff)
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7. Discussion, recommendation and possible action regarding the adoption of a resolution approving the Fiscal Year 2009/2010 CalHFA Operating Budget. (Steve Spears/Howard Iwata)
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8. Discussion, recommendation and possible action relative to the approval of a resolution approving amendments to the regulations of the Agency regarding the Conflict of Interest Code. (Tom Hughes)
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10. Discussion of other Board matters.

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

****NOTES****

HOTEL PARKING: Parking is available as follows: (1) overnight self-parking for hotel guests is $18.00 per night; and (2) valet parking is $24.00.

FUTURE MEETING DATES: Next CalHFA Board of Directors Meeting will be September 17, 2009, at the Burbank Airport Marriott Hotel & Convention Center, Burbank, California.

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, May 21, 2009
10:07 a.m. to 12:14 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:

PETER N. CAREY, Acting Chairperson
President/CEO
Self-Help Enterprises

KATIE CARROLL
For BILL LOCKYER
State Treasurer
State of California

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

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

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

JACK SHINE
Chairman
American Beauty Development Co.

RUBEN A. SMITH
Partner
Adorno Yoss Alvarado & Smith
A Professional Corporation

L. STEVEN SPEARS
Acting Executive Director
California Housing Finance Agency
State of California

BROOKS TAYLOR
For Cynthia Bryant
Director
Office of Planning and Research
State of California

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CalHFA Staff Present:

ROBERT L. DEANER, II
Director
Multifamily Programs

BRUCE D. GILBERTSON
Director of Financing
Financing Division

LORALYN HAMAHASHI
Deputy Comptroller

THOMAS C. HUGHES
General Counsel

CHARLES K. McMANUS
Director
Mortgage Insurance

JOJO OJIMA
Office of the General Counsel

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Speakers from the Public:

DOUGLAS K. AUSLANDER
Managing Director, Credit & Financial Products
Municipal Securities Division
Citigroup

RICHARD GERWITZ
Managing Director, Municipal Securities Division
Citi Community Capital
Citigroup

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BE IT REMEMBERED that on Thursday, May 21, 2009, commencing at the hour of 10:07 a.m., at the 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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ACTING CHAIRMAN CAREY: This is the May 21st meeting of the California Housing Finance Agency Board of Directors. Thank you, Board Members, for taking the time to be here.

The first order of business is the roll call.

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Item 1. Roll Call

MS. OJIMA: Thank you.

Ms. Peters for Mr. Bonner.

MS. PETERS: Here.

MS. OJIMA: Ms. Gay.

MS. GAY: Here.

MS. OJIMA: Ms. Jacobs.

MS. JACOBS: Here.

MS. OJIMA: Ms. Carroll for Mr. Lockyer.

MS. CARROLL: Here.

MS. OJIMA: Mr. Shine.

MR. SHINE: Here.

MS. OJIMA: Mr. Smith.

MR. SMITH: Here.

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

MR. TAYLOR: Here.

MS. OJIMA: Mr. Genest.

(No audible response.)

MS. OJIMA: Mr. Spears.

MR. SPEARS: Here.

MS. OJIMA: Mr. Carey.

ACTING CHAIRMAN CAREY: Here.

MS. OJIMA: We have a quorum.

ACTING CHAIRPERSON CAREY: Thank you, JoJo.

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Item 3. Chairman/Executive Director comments

ACTING CHAIRPERSON CAREY: A couple of brief things. First, I'd like to mention that I've asked Reuben Smith if he would be willing to join the Audit Committee in the seat recently vacated by Carol Galante, and he was very nice to agree to do that. And so he is now a member of the Audit Committee.

One other thing for the Board, it appears that we're going to need to have a meeting in June to approve the business plan and the budget and with great hope that we'll have some sense of actions on a national level. And the starting point would be the 18th of

June, and so perhaps folks could check their calendars. And if that works, we could agree on that this morning and save a lot of back and forth.

MS. JACOBS: Okay. I know I'm not available.

ACTING CHAIRPERSON CAREY: You're not available.

MR. SHINE: I am not available.

ACTING CHAIRMAN CAREY: You're not available. That starts to -- is the next day a possibility, the 19th?

MS. JACOBS: No.

ACTING CHAIRMAN CAREY: No, okay.

MR. SHINE: It's a bad week.

MS. JACOBS: It's the Pacific Coast Builders Conference.

MR. SHINE: You'll be the only one there.

ACTING CHAIRMAN CAREY: What about the following week?

MS. JACOBS: But I'll be speaking so at least I can practice if there's nobody in the audience.

MR. SMITH: If I'd have known that, I'd have changed my plans.

ACTING CHAIRMAN CAREY: So just for JoJo's benefit since she's going to have to manage this, Ms. Jacobs, that week is out for you, pretty much?

MS. JACOBS: Um-hmm.

ACTING CHAIRPERSON CAREY: And, Jack, that week is out for you pretty much?

MR. SHINE: Yeah, that's a bad week.

ACTING CHAIRMAN CAREY: Okay. What does --

MR. SHINE: How about the following week?

ACTING CHAIRPERSON CAREY: What does the following week look like? The 25th? Any problems with the 25th?

MS. JACOBS: Possibly. The 26th would be okay, though.

MR. SHINE: Traveling on Friday?

ACTING CHAIRMAN CAREY: The 26th? Any problems with the 26th? Does that work, the 26th, Friday, the 26th? For those who are --

MS. JACOBS: Ms. Carroll?

MS. CARROLL: Possibly.

MS. OJIMA: Mr. Smith?

MR. SMITH: I'm fine.

MS. OJIMA: Mr. Shine, the 26th?

MR. SHINE: If you need a quorum.

MS. OJIMA: Thank you.

MS. GAY: Fine with me.

MS. OJIMA: Thank you. Okay, the 26th.

MR. SMITH: Sacramento or here?

ACTING CHAIRMAN CAREY: I think the thought

would be here.

MR. SHINE: Oh.

ACTING CHAIRPERSON CAREY: Okay. With that, we will move on. And, Steve, you're up, discussion, recommendation, possible action --

MR. SPEARS: Well, just a few comments before that.

ACTING CHAIRMAN CAREY: Oh, I'm sorry, yeah. Every time.

MR. SPEARS: No worries.

The first thing is I think you'll hear a little more good news from staff today. The main thing is we have a new tool to help with growing delinquencies, lengthening delinquencies. We've announced a loan modification program. A bulletin went out.

It is very similar to the FDIC approach. It is not the President's plan, and the reason for that was the President's plan is geared off a net present value model, which we have to go back and look at how that impacts bondholders. Because our bond indenture is an old bond indenture and has 50-percent coverage for the life of the loan, there's almost no situation where there's a positive NPV. So rather than do that, we went back, followed the FDIC approach, and we think we have a program that will be very successful.

In the meantime, while we were designing this program, I placed a moratorium on foreclosures because I just thought it would be pretty tragic if we got done with the program, it worked really great, and unfortunately two weeks before somebody got kicked out of their house. It just didn't make any sense. But it has created a backlog of files, and so we've pulled I think -- Gary, am I correct? -- eight people, seven or eight people, to go from homeownership where not much activity is going on now over to loan servicing to pick up those files and start going through the process and try to speed up the process.

We've sent a bulletin out -- we've sent a letter out to servicers because we expect this tool and this new activity to improve their performance in servicing loans. We expect to see some -- some improvement. And we've let them know in a very professional way that we expect to see better performance and we're going to be looking at that. So it's something that we promised the Board at the last meeting, that we would start to get after, if you will, some of those servicers. So we've done that.

The other activity item is that we're back in the lending business. We have made CHDAP and school facility fee available for downpayment assistance again,

and we're going out close to June the 1st, it might be a little bit after that, with a 30-year fixed-rate loan product that we do not need bond financing for. It is a deliver for cash program where in partnership with Fannie Mae, with Bank of America/Countrywide or whatever they're called now, we will deliver these loans for cash to them for them to own, but we are now going to start being able to put CalHFA loans back out there or CalHFA back out there in lending, which is such a relief for staff.

Staff are frustrated right now. They work here to lend. They work here for the mission. They really want to get back out and get borrowers applying again for CalHFA loans. And that -- that will be happening very quickly.

Yes.

MS. GAY: Will the underwriting look similar to what we've seen in the past?

MR. SPEARS: Yes. And it has to. We've got -- it will be similar. It's -- you know, we've got Fannie Mae as a partner. We've got Bank of America/Countrywide as a partner. It's -- I remember your comments of January. Understood.

The final thing before we get to item 4 on the agenda is that we still do not have news from Moody's.

We have one significant event. They have sent Bruce a significant piece of work product which is their first go at capital adequacy, if you will. They -- they take a look at what capital we have by their definition, make a list of all the risks they believe that are in our balance sheet, and then assign a capital charge to each one of those and then weigh those two numbers.

And finally they have sent Bruce a work product to look at, review. Had a very long conversation with them last Friday. Conversations continue on. There are a number of other issues that they're still looking at, but it is a step closer to some sort of rating action of some sort. It could be ten days. It would be two weeks. It could be another month. They are not given to putting out a schedule on these things.

They have had conversations -- and this is kind of getting us to our next agenda item. They have had conversations with our counterparts at the federal government that are working on the state FHA plan about should they wait, what's the package look like, and those conversations have been between the federal folks and Moody's. We don't know exactly what those conversations have been like. But it's action. You know, at this point we're happy with them taking as much time as they would like. Take your time, get it right.

In the meantime, we have the federal assistance package to look at.

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Item 2. Approval of the minutes of the March 26, 2009 Board of Directors meeting

ACTING CHAIRMAN CAREY: Steve, before you move on, let me correct an oversight on my part. I neglected to bring the minutes up for approval.

And so if folks have had a chance to review those minutes --

MS. JACOBS: Move approval.

MS. GAY: Second.

ACTING CHAIRPERSON CAREY: It's been moved and seconded. Roll call, please.

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: Ms. Carroll.

MS. CARROLL: Yes.

MS. OJIMA: Mr. Shine.

MR. SHINE: Yes.

MS. OJIMA: Mr. Smith.

MR. SMITH: Yes.

MS. OJIMA: Mr. Carey.

ACTING CHAIRMAN CAREY: Yes.

MS. OJIMA: The minutes have been approved.

ACTING CHAIRMAN CAREY: Thank you.

MR. SPEARS: Okay. A housekeeping item: You have several different handouts in front of you. I'm going to try to get these organized before we dive into the program --

This secret document, which the seal cannot be broken until into we get into closed session, is for item 6, closed session, so just set that aside, and we'll deal with that down the road under item 6.

We have something called CalHFA Board Meeting Tax-Exempt Bond Securitization, "TEBS." Do you have that? That goes -- it's already neatly hole-punched and everything. That goes under item 7 tab, so if you could just place that in your binder, that will come up conveniently under item 7.

Then you have two more handouts. One just simply says "CalHFA Board Meeting." Looks like this. You have all but one page of this in your -- so if you can just reach to the back of that little package and take off the last page. It says "Financial Results."

Looks like that. And that goes in the back of -- the very back, if you're going by your -- if you're going by your Board page numbers, it's the very, very last page of that.

MS. JACOBS: I have the wrong handout, sorry.

MR. SPEARS: This follows page 120 in your Board binder.

And once you've got those in place, the other handouts that you have are already in your binder, so I think once we complete those little tasks, we're ready to roll.

All right. So if we could start with the slides, Bryce.

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Item 8. (Business Plan)

Item 9. (Operating Budget)

MR. SPEARS: Behind tab No. 4 you have some slides that are also going to be on the screen. And if you go to the next slide.

This is the presentation outline for today. And as I notified you in the e-mail last week, without information from Moody's regarding their intentions on our rating, without more detail or any detail about a state HFA assistance package and the details that would apply to CalHFA, we just don't have enough information

to deal with items 8 and 9, which is the business plan and the operating budget. This will mainly be a briefing session.

The only choice was to not have this meeting and put all of this briefing and all of this updating plus the business plan plus the operating budget in a June meeting, which would again be a marathon session, which we thought it's better and more timely to do the briefing now, ask for your guidance, for your direction, on a couple of items, and then go to the June meeting with a lot -- with a lot more focus on just the business plan and the operating budget.

So we're going to brief you on the federal assistance plan. Bruce, Chuck and Lori are going to brief you on the financial strategies, our six months' accounting financial statements and our delinquencies and portfolio performance in item 5. And then we're going to go into closed session and have a continuing -- a continuation of our discussion that we had at the last closed session. I don't think it will be long.

And then in item 7 we'll talk about this multifamily loan sale and securitization action. And we have Citibank here with us, bond counsel and Bob Deaner, Bruce, will all be involved in that discussion. We have one other or two other minor items that we'll have to

deal with besides that, but that's the bulk of what we're going to talk about.

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Item 4. Discussion, recommendation and possible action regarding federal assistance for state housing finance agencies

MR. SPEARS: So let me move on to the next slide and move on to item 4, the possible federal assistance.

Since we put this slide together, things have progressed to the point where I think the status is that we could see an announcement on this very soon. A HUD official, a special -- a senior advisor to HUD Secretary Shaun Donovan testified this morning before the House Financial Services Committee on this package. It was a bit of a surprise. Nobody really knew. The testimony, I have a copy of it here. We can probably get copies for everybody. We just received it. I just barely had a chance to read it. But it looks like this is moving along.

This -- we've been in frequent contact. There is a working group. And the process that has been followed to this point is that Treasury has been the point on all of this. HUD weighs in on policy decisions, but options, proposals, have been floated up the line from Fannie Mae and Freddie Mac to FHFA and

then on to Treasury, and those have gotten vetted back and forth and back and forth. So the principals in all of this are the HUD and Treasury Secretaries and the White House, but we're not sure at what level at the White House.

So we know now that the principals have met with Treasury, the point individual there, and gone over a number of options, and they've come back with a lot of questions. And those questions are being answered, and more fact sheets are being put together.

And pricing now is the conversation of the day. In fact, Friday afternoon I received a call from the Treasury fellow that's the point person who started to talk about pricing. We got together with Bruce, Tim was involved, and a number of us on a pricing call with them on Tuesday. I found out later they were calling a lot of people around the country, not only other HFAs but also bankers to try to figure out how to price these various options.

They are still talking about a three-pronged approach, which is the way this testimony is written up: New bond money, so the ability to sell bonds to finance loans at a competitive rate; new liquidity to replace existing standby bond purchase agreements for existing variable-rate debt; and credit support for weaker

credits or threatened credits, those three things. And that's kind of come down to the basic package.

So the status, we believe right now, is this is all -- once they get the pricing determined in the next day or two, that an announcement could be made as early as Friday. And we've heard Friday. We've heard Monday. This has been just a terrific rumor mill.

But let's flip to the next slide and talk about -- in a little more detail what this would look like. But the federal government, and we're not sure how, would buy bonds, state HFA bonds. And the number that we've heard thrown around is $30 billion of bonds nationwide over the next two years, which would be a tremendous amount of money. And if they would buy them at a rate that would allow us to mark them up a bit to pay the bills and then put a loan out there that would be competitive in the marketplace, that would be wonderful. But we're not sure of the number, and we are not sure yet of the pricing.

On liquidity, as we've told you before and Bruce can recap in the next segment, we have a lot of variable-rate debt that's out there that has attached to it standby bond purchase agreements that are coming due for renewal over the next two years, and they're being priced completely out of all bounds of reason to what

we've seen in the past, is the best way to put it.

So we need reasonably priced, reasonably termed liquidity facilities, and they're talking about that, but only for state HFAs with strong credit, which they define as Double A. For those state HFAs under threat of downgrade or with a weaker credit, they are discussing -- and I don't know where they are with this -- credit support. And their objective is to try to prevent a downgrade, try to prevent this watch from turning into a downgrade.

Well, our hope is that they will be able to do that, and we're not sure what form that takes yet, and we don't know what the pricing is with that. But those are discussions that are going on right now.

So it's very late in the game. We've discussed several different ideas with them, an idea to backstop Genworth claims, you know, for CalHFA and other whole loan states, an idea to backstop Genworth period, to provide us with a direct pay letter of credit. We've talked about a number of different options. We're just not sure which one they liked and are proceeding on. They may have a whole bunch of them that they take up to the HUD and Treasury Secretary for discussion, just not sure yet.

So let me stop there, ask if there are any

questions. I don't have a lot of answers, unfortunately. Wish we did.

MS. PETERS: How many states fall into that third category with us?

MR. SPEARS: I know of the following: Vermont has already been downgraded, and they're on watch by both Moody's and S&P. Moody's has already put on watch for possible downgrade Wisconsin, Illinois, South Carolina -- who else, Bruce? Is that it?

MS. JACOBS: You would think Michigan. I don't know.

MR. SPEARS: Michigan, that's what we hear, is that Michigan is having its troubles. No rating action has happened. But I don't disagree, Lynn, I really don't.

Some of these state HFAs are not like us in the sense they don't hold whole loans. They may have had a huge decline in home values in Michigan, but if they are an MBS state and they hold MBS on their balance sheet, unaffected.

MS. JACOBS: They're unaffected.

MR. SPEARS: Right.

So -- and they may be FHA driven. And if they're FHA or they hold MBS, they don't have the real estate risk on their balance sheet that we do. So that

may be the -- that may be the answer. I'm not totally sure.

But I would guess somewhere in the neighborhood of six or eight of us altogether, including CalHFA.

And I know that -- I know that on Monday when the Treasury individual talked to us, he was also calling all around the country to other HFAs and getting pretty much the same information about pricing that -- at present they don't believe that liquidity facilities were priced correctly in the past. I don't know. I can't be the judge of that. They were priced the way they were priced.

We put our capital structure together the way we did, and I believe it would be wrong for them to come in and plop down on top of us right now a theoretically correctly priced liquidity facility, given all the history. But we can only tell them what we can stand, how much pain we can stand, and let them make the decision.

So we'll -- as soon as we find out the details, I will e-mail all the Board members with the package. We'll let you know. We'll do a little analysis. We'll let you know how it impacts us as far as we can tell. Can't predict what it will be.

Here's one issue, though, and that is since we

don't know what it is exactly, I can't really tell you what level of authority it will take to accept it. So it's not beyond the realm of possibility, Mr. Chairman, that we would have to have some sort of emergency Board meeting to accept all or part of this. I don't think so, but I just want to put everybody on notice that that's a possibility.

MS. JACOBS: Question.

ACTING CHAIRMAN CAREY: Ms. Jacobs.

MS. JACOBS: Is there any possibility with an emergency Board meeting you can do it on the phone? I know I could ask over there, but.

ACTING CHAIRMAN CAREY: Mr. Hughes?

MR. SHINE: Oh, boy.

MR. HUGHES: Well, we have something of a history with this. There is a provision in the open meeting laws that allows for teleconference meetings with a variety of limitations. We as a matter of policy have elected not to do that in the past but sometimes limitations are great significant difficulties, but it's legally possible.

ACTING CHAIRMAN CAREY: There are great complications including the fact that every site has to be a public -- a noticed public --

MR. HUGHES: And it has to be -- those sites

have to be identified in the agenda notice that goes out ten days before, and they have to public -- they have to be posted for public access, and they have to be wheelchair accessible, ADA accessible, and so forth. There's a variety of things, but, yes. You can't use cellphones. You have to have a public place. It has to be a duplex system, a speaker phone system where everybody in the room can hear. And again, it has to be posted and made public in advance.

MS. JACOBS: I'm just wondering when you talk about an emergency meeting, which has a shorter notice period you would think?

MR. HUGHES: There are also provisions for emergency and special meetings. Those are somewhat different things, but they are very, very limited in what -- in the conditions that will trigger the ability to do that, so we'd have to go back and look. I'm not sure this falls within that frame.

ACTING CHAIRMAN CAREY: But that would certainly be an issue to look at, whether we could do that.

MS. JACOBS: Just if you need action right away, it's going to be a challenge to get a quorum that way. You might have one site in L.A. and one site in Sacramento, for example. Just to, you know -- if you have to have action right way. That's all. Just a

thought.

ACTING CHAIRMAN CAREY: Mr. Shine, did you have a --

MR. SHINE: Steve and I had a conversation a couple of weeks ago when I called to inquire about the status of Genworth, which I had read was getting precarious. And my question is -- not my question, my request is would you talk to us for a moment about Genworth, its impact on us if it fails, its impact on us if it's left alone and only penalized the way it's been penalized thus far. And I'd like to clarify because I'm concerned about Genworth being an off-site partner, so to speak, in the insurance, and here they are maybe precariously going broke. If they go broke, what is the impact on us and our financial statement and situation?

MR. SPEARS: Moody's downgraded all the major mortgage insurance companies in I think February -- correct, Chuck?

MR. McMANUS: Yes.

MR. SPEARS: Although -- and before they did that, Genworth was the highest rated mortgage insurance company. Even after they did that I think they are tied --

MR. McMANUS: Second.

MR. SPEARS: -- they're second. So of all the

mortgage insurance companies, they're still rated, you know, in one of the highest of the group.

The way it impacts CalHFA is, as you will recall, 35-percent coverage on our single-family loan portfolio is -- is the primary coverage. On that 35-percent coverage, 75 percent of that risk is laid off to Genworth. So when Moody's completes our calculation and they put up there the whole loan risk, they give us credit for what they think Moody's -- or, I'm sorry, Genworth will pay us on those claims.

In the past, before that downgrade, they would give us one hundred cents on the dollar of credit. After the downgrade, because of the rules that they have that at certain levels of credit rating for the MI they started giving less and less credit, so they only give us 25 cents on the dollar at the rating that it is now.

So the capital charge for that risk just went up, and I can't tell you how much but it's significant, as you can imagine, going from a hundred cents on the dollar to 25 cents on the dollar. And that's how it impacts us. An upgrade of Moody's would start to move that up from 25 cents to 50 cents to 75 cents to a full credit.

The first thing that we asked for of the federal government through our national association was a

backstop for Genworth for state HFAs -- for home loan states that rely on mortgage insurance, have a federal backstop for whatever they might not be able to pay.

I would note this, by the way, that in Moody's write-up of the downgrade, they said, "By the way, we don't really think that this will impact Moody's ability -- Genworth's ability to pay claims. Even though we're downgrading their credit, we don't believe that they will have a problem paying claims."

MR. GILBERTSON: Steve, I put up one of the slides from the later presentation, but it does kind of quantify the Genworth exposure in one respect.

MR. SPEARS: That's true.

MR. GILBERTSON: The second line shows the -- what we believe the Genworth loss reserve should be for the insurance or the reinsurance they provide on our loans today. So as of March, we believe it would be a little over a hundred million dollars.

So if they were to fail, Mr. Shine, then that would --

MR. SHINE: At a hundred cents on a dollar, it's 102 million?

MR. SPEARS: Yes.

MR. GILBERTSON: Yeah, as of March --

MR. SHINE: So if it's 25 cents on the dollar,

then it goes from a hundred million to 25 million?

MR. SPEARS: That's all they're giving us credit for.

MR. GILBERTSON: We would have to absorb the difference between the 25 million and the hundred million.

MR. SHINE: Is the downgrade reflected on this chart?

MR. GILBERTSON: No, these are actual expected loss reserves that they would have to pay.

MR. SHINE: The real world.

MR. GILBERTSON: Um-hmm.

MR. SPEARS: That's the real world. That is Genworth's --

MR. GILBERTSON: These are real delinquencies.

MR. SHINE: Okay.

MR. SPEARS: That is Genworth's contractual obligation to pay based on the delinquencies we have today.

MR. SHINE: And Moody's has downgraded them even though Moody's says they can pay anyway. And then once it's downgraded, that has an impact on us that we have to deal with in our dealings with Moody's, right?

MR. SPEARS: Yes, sir, that's correct. I understand how you feel.

MR. GILBERTSON: We live that every day, Mr. Shine.

MR. SPEARS: That's right.

When Bruce and I -- and one of the things I wanted to let you know, since the last Board meeting, Bruce and I made a trek to Washington, D.C. We took our case to a number of different people. We met with the national association, the NCSHA. We let the Governor's Office know while we were there what we were up to, and they offered their help in any way they could. We met with the Treasury Department. We met with Seth Wheeler. We met with both Fannie and Freddie, and we met with the FHFA director, the conservator of Fannie and Freddie, James Lockhart, and his senior staff just -- for about an hour and 20 minutes, just talking about CalHFA.

They were trying to understand the whole state HFA thing, but they understood that we represent a lot of the things that are going on piecemeal with a lot of the different HFAs around the country. So we thought this conversation would be valuable.

In that conversation we asked about the mortgage insurance companies. And although Mr. Lockhart was very attentive and listened very closely, the only time he spoke in the meeting was when this issue came up, and he said, "I'm working on that issue myself." And what he

told us was that his objective was not to get them upgraded, that they didn't think that they could endure that kind of pain from the federal government. Their objective was to find a way to help them enough to stay in business and pay claims.

MR. SHINE: But they wouldn't work toward the upgrading or the rating of them, just the ability to pay?

MR. SPEARS: That was what we -- I believe that we heard and I think, Bruce, you --

MR. GILBERTSON: I don't think -- the federal government doesn't want them to default on their obligations, but they don't want to provide such levels of capital support that their ratings would go back up to where they were historically. And this is all about reality and ability to pay claims and the theoretical assessment of credit quality and if you're taking credit exposure to Genworth, how much capital should be in reserve if they're going to have a Double A rating, for example, versus a double B plus, which is kind of where they are today.

MR. SHINE: Thank you.

MR. SPEARS: Other questions?

As soon as we find something out and can analyze it -- you're going to have to give us a little time

because I think if we just sent you a fact sheet on the package, I'm not sure it would make a lot of sense to you. So we'll get it, take a look at it, and send something out to you as soon as possible. And then we'll have to assess the need for a meeting or not, and I'll get together with counsel here at the table and figure out what's necessary.

So if there are not further questions on item 4, we'll move to item 5.

ACTING CHAIRMAN CAREY: All right.

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Item 5. Discussion and update regarding the Agency's financial strategies and action plan

MR. SPEARS: So I've asked Bruce and Tim if they would give us a market update and an update on our financial strategies. I've asked Chuck in this section to give us an update on -- as soon as his phone is answered -- for Chuck to give us an update on the single-family portfolio delinquencies. And we've sliced it a lot of different ways than you've seen before. I think it will be very interesting for you.

And then I've asked Lori to come up at the same time, and at the back end of this presentation we have completed the first six months' financial statements and a summary. We put a draft of those financial statements

in your report section. I'm sure you've poured over those in detail and memorized all the numbers. We'll just give you a summary.

So without further ado, Mr. Gilbertson.

MR. GILBERTSON: Thank you, Steve, Members of the Board.

We've discussed this so many times I'm sure you're probably tired of hearing me talk, but we'll go through kind of similar slides. Some of the slides look very similar. They're updated to current information.

The first couple slides really deal with the municipal capital market, where are they, are they performing, and what -- what could an issuer like CalHFA expect to achieve if we were to go to the bond market.

So what we're finding is that there's limited participation from institutional investors when they consider the purchase of housing bonds. Most of the financings that are getting done are driven by the retail investor, individuals in-state that want tax-exempt securities for both state and federal tax. Most of the issuance is limited to single-family transactions.

In the multifamily space there are challenges with tax credit investors and things like that that are all subordinate financing and equity aspects of the

overall financing for an affordable rental housing property.

Two recent examples of single-family transactions are shown here. The Tennessee HFA issued a bond recently. The longest bond was a 20-year bond. They sold it to yield 5 percent. All of the bonds were sold to retail individuals, retail investors. Ohio issued a 30-year bond recently at a five-and-three-eighths, 30-year level. Again, all the bonds went to, you know, retail investors, rather than having money market funds or insurance companies or what we would consider institutional investors buying those.

If you compared the borrowing cost, the cost of funding, from these programs to what Freddie Mac has recently reported in their national survey of mortgage interest rates, you find that there's going to be a gap. The most recent survey from Freddie Mac showed that the national average 30-year mortgage loan was set at 4.84 percent compared.

Remember, embedded in the loan rate or the note rate is compensation for a loan servicer. Typically that's 25 to 30 basis points. So the effective passthrough yield from the borrower's mortgage is closer to 4 and a half percent. So it's hard to run a program these days if your cost of borrowing has bonds at levels

of 5 percent or 5 and three-eighths if you can really only expect to achieve 4 and a half percent on the mortgage coupon.

Turning the page and looking at the variable-rate bond market, as you know we have a lot of exposure to floating rate securities. 3.8 billion of these are these variable-rate demand obligations. Over time since, you know, the big event last September, liquidity and credit concerns have abated somewhat.

We're now faced with some other challenges because of what we refer to as yield compression. We're in such a low interest rate environment that the historical relationships between a tax-exempt rate and a taxable rate are compressed upon one another and the normal relationships of 65 percent, a tax-exempt bond yielding 65 percent of a taxable bond, are distorted significantly.

We thought one way to share that with you was to show you what -- a recent reset of the SIFMA index. SIFMA is really just the tax-exempt weekly variable-rate or floating rate security index. It reset at 47 basis points two weeks ago. By comparison, Charles Schwab's California tax-exempt money market fund has an expense ratio of 45 basis points. So if they were only purchasing bonds, municipal securities that were right

on top of the index, where they should be, they would have little to no yield to pass through to their investor.

So we believe -- and we've talked to Charles Schwab in this regard. They're looking for bonds that have slightly higher yields. We'll call them storied bonds, if you will. And we have a lot of those in our portfolio. We've talked about this over time. We have depth of securities. We have Dexia-backed paper that has insurance that isn't a bond that the general marketplace would really desire, but to pick up additional yield, they will sometimes buy these so that they have yields they can pass through to their money market investor.

Continuing on to the last bullet on this page, it just lays out the relationship between LIBOR and SIFMA. LIBOR represents the taxable variable-rate index, and SIFMA would represent the tax-exempt index. One month LIBOR on that same date in May, May 6th, was at 39 and a half basis points, which produces a tax exempt to taxable ratio of 119 percent. So the investor that bought a SIFMA index bond is receiving 119 percent of the taxable interest they would have received if they had selected a federally taxable index. You can see that that's a dysfunctional marketplace. You receive

less yield for a tax-exempt investment.

One of the things that that causes is what we call basis mismatch. You've seen this chart before. It's in every Board report that we do on the variable-rate exposure of the Agency and our swap exposure.

Let me define for you quickly again what basis mismatch is. It's the difference between the interest rate that we pay to our bondholders who invest in our floating rate securities -- the VRDOs, the auction-rate securities -- and the variable rate that we receive from our swap counterparties and the contracts that we entered into with them. So we typically receive 62 percent of LIBOR as the hedging ratio in an awful lot of our interest-rate swap contracts, but when we're paying 119 percent or higher, then we develop this mismatch.

So this chart has gotten worse over time. We thought -- the year represents a period from August 1 of each year, one of our debt service dates, to July 31st of the next year. So the 2008 time frame was August 1, 2007, through last July. We had in the aggregate 30 basis points of mismatch that represented almost $50 million to the Agency of increased interest expense.

From the period of August 1 of 2008 through

April 1 of this year, it's grown to 125 basis points. It's grown for several reasons. We have failed auctions. We had an awful lot of bank bonds back in October and November. You've seen slides, and you'll see -- you'll get a reminder of that in a moment, $1.2 billion of bank bonds at that time. We've whittled that down to something less than $400 million today, but irrespective, we're still experiencing an awful lot of basis mismatch. We've quantified it at one and a quarter percent or 125 basis points. And for that eight-month period of time, it's already equal to $30 million for the period.

I think I misspoke earlier. I said $50 million for the year. That's the cumulative basis mismatch from when we started this strategy through July 31 of 2008. I apologize if I've confused you.

Here's our bank bond chart. It shows the almost $1.2 billion of bonds that we had in early October. It shows the success we had between October, November and February 1 of 2009, where we got down to a point where we had $130 million of bank bonds. It's spiked up a little bit in the last few months. It's been down again here in May, and I saw a note yesterday that we had another $21 million of bank bonds that were successfully remarketed.

The significance of all of this is that it's very important for us to try on two dates a year, February 1 and August 1, to have no bank bonds in our home mortgage revenue bond indenture because it effectively allows us to access any accumulated excess revenues that may be available in the indenture to help pay swap settlement payments and other obligations of the Agency.

We do have some successes. It's, you know -- so we had some successful renewals with the standby bond purchase agreements, which is the liquidity support for the variable-rate bonds. In March, KBC Bank agreed to renew a $65-million facility.

These -- because of the awareness of the marketplace, that the federal government is trying to provide assistance especially as it relates to liquidity facilities to the state HFAs, many of the banks are willing to provide a short-term extension. They range from three months to a year, most typically probably three to six months.

We also were successful in the negotiations with Bank of New York for a $25-million facility in April. JPMorgan and Fannie Mae both also agreed earlier this month.

The only unsuccessful situation we faced was

with Calyon Bank. In April, after considering their options, they decided not to extend, so $174 million of VRDOs became bank bonds, and that's embedded in this chart on the prior page. I just flipped back. It's -- effectively it's the -- I guess that looks like green -- the green bar that is shown, the top colored bar on that slide.

So we have some other renewals that we're facing. BNP Paribas is one of the banks that we're negotiating with. We believe we have an agreement with them, and that will be completed before the June expiration date. And then we have a renewal in July for $120 million of liquidity with Fortis Bank. Interesting thing there is that BNP effectively owns Fortis these days, so we think we'll be successful there as well.

The other thing that we did -- and there's a Board report in the back of your binder today about this $50-million private placement that we completed in early May. This was really an opportunity for us to enhance the liquidity position of the Agency. If you remember, in December we lost our warehouse facility with the State of California through the Pooled Money Investment Board because of some of the challenges the State of California faces. Effectively that line was frozen. We had to then honor the commitments we had made to

borrowers to purchase their loans with Agency liquidity.

This was an effort we went to the capital -- didn't go to the capital markets direct. We went to a bank and negotiated a private placement so that we could fund those loans with borrowed capital rather than our own Agency resources. So it was net play of a $28-million increase to the Agency's liquidity position.

You've seen this slide before. We've updated it now through May the 1st. It shows all of our debt outstanding in relative terms. It's color coded so that the red, the blues and the dark reds are kind of bonds that aren't exactly performing as we had hoped. The green and black numerals represent bonds that are performing better, although one could get into a lengthy debate about relative performance, I think.

Bottom line is we have a little over $8 billion of bonds outstanding that we're hopeful that the federal assistance package will help us in many respects with all the color coded numerals. The auction-rate securities would be addressed, poorly performing VRDOs, and certainly any of the VRDOs that are in bank bond mode.

Thought we'd introduce this slide again. You've seen this. Again, this is the totality of our interest-rate swap exposure to a variety of

counterparties. We have $4.2 billion of fixed payer swap notional outstanding as of May 1st, an additional 277 million of basis swaps, for a grand total of $4.5 billion. And the aggregate mark to market on those contracts as of May 1st was $357 million to the Agency, meaning that if they were all terminated as of May 1st, we would owe our counterparties a payment of $357 million.

With that, I think it's time to talk about the portfolio. I think Chuck and Lori are going to join me up here.

MR. McMANUS: Thank you. I'll begin on page 9 and just try and hit highlights for you on the delinquency figures and then -- they sort of roll together, so at the end I think we can talk about it.

On page 9, you can see that the FHA and VA have very high total delinquency ratios. The Agency is a hundred-percent protected on those, so they are not a threat to our financial status.

If you drop down to conventional loans with MI, you can see we have a 13.95-percent delinquency rate. And of that, we have 8 percent of the portfolio is 90 days plus, which is a probability that they will go to foreclosure and claim.

Those originated without mortgage insurance,

which means they're 80 percent and under, have a 4.71-percent delinquency rate. And the MI cancelled means that the loans became less than 80 percent of the value of the property. The value of the property basically increased. And they have a 3.66 delinquency rate.

MR. SPEARS: And just as a note, that disparity right there, between those categories and the 13.95 right above it, leads me to believe that a lot of people are becoming delinquent, walking away from their homes because they're upside down, not because they can't make the payment, they are upside down and they just don't want to be in that situation anymore.

MR. McMANUS: Okay. If we could go to page 10, I'd just point out three numbers to you. In the top 30-year level amortization group, the conventional with MI, you go to the far right and you see a 10.21-percent delinquency rate. Down beneath it in the 40-year level, the conventional with MI is 12.43-percent delinquent. These are fixed payments. These are not exotic. There's no adjustable anything. But these are the -- our loan payment because of the 40-year amortization period, and we still have a 12.43-percent delinquency. To me, the major cause, this product started in 2006, peak prices in the marketplace. These borrowers bought

houses whose value then dropped 30 percent over the next two years.

And finally down under the five-year IO for interest only, you see an 18-percent delinquency rate in the conventional with MI. And if you look to the left, the 90 day plus is at 11 percent. Those loans are highly unlikely to cure unless we can do a modification. So, again, that product started in mid-2005, so it is -- was originated at the peak of the house prices, and that leads to people not having a way to stay in the house. They can't borrow against it. It's underwater.

If you go to page 11, I just will confirm that 2006 theory. Under 30-year level up at the top, if you go to 2006 and go to the far right, you'll see a 9.25-percent delinquency rate and above it 2005 -- this started in the middle of 2005 -- you have 8.85 percent. So these -- just the timing of when people got loans is driving their behavior as far as staying in the house.

The 40-year level, one of our lowest priced products, has a 22-percent delinquency rate. That is a fixed payment, the lowest payment we can give people, and no changes, and it's still got one out of five delinquent.

And finally down under the interest only, you can see 2006 is the peak at 20.94 percent, 2005 right

behind it, and 2007 at 15. So we just have a big batch of loans that all of a sudden are underwater, 25-to-40-percent underwater, and it's being reflected in their delinquency behavior.

My final page is 12, I think. No, it's almost the final.

On page 12, we look at where are these delinquencies the worst. I'd recommend you take a pen and make a little arrow by the ones I'm going to mention to you. The top one is San Diego at 12.51. Drop down four to Sacramento at 12.66. Drop all the way down to Riverside, No. 8, at 12.94. And No. 10, San Bernardino at 18.81.

It starts in San Diego. It goes into Riverside and San Bernardino. And then there's a real bubble that burst in Sacramento. So those four counties are major issues for us.

MR. SPEARS: The difference between the San Diego and Sacramento count is that we have higher volume, so that's a problem. I think, again, the reason why you see a lower volume in some of these other counties, down in San Bernardino, Tulare, Kern, San Joaquin, those all -- our customers got taken away by subprime lenders, and it's fortunate for us now, it's unfortunate for them, but I think that's the reason why

you see smaller numbers down there. If we had -- if we had, you know, San Diego type numbers down, you know, in these other counties, we would be in a much different situation.

MR. McMANUS: But there are concentrations of where we have high delinquencies leading to high foreclosure in inventory. And on the inventory, I can tell you in San Diego we have 69 properties; in Los Angeles 16; in Sacramento 37; down in Riverside 35; and San Bernardino 18; and -- which is not on this list, but Imperial, which is east of San Diego, so it's all there together with Riverside and San Bernardino, we have 15.

So we have a real glut of REO, real estate owned, in the San Diego and adjacent counties, a concentration of our REO, then a big spot in Sacramento. So those are where we're very busy trying to repair and market the properties.

Finally on page 13, we look at servicers. And we've had a lot of discussion. We have three major servicers: CalHFA's in-house loan servicing, Guild, and Countrywide. And the total delinquencies you can see on the far right at 10.52, 13 and 13. We are closely monitoring the behavior.

Right now Countrywide doesn't seem to be getting the cures. They're an extremely large company and

servicing operation, and they're professionally run. I mean, they're very responsive and know what they're doing, but we're not getting the cure results from them. And we've compared the three, and they come out the worst, and CalHFA and Guild are pretty similar in their results so far in curing.

The rest of the delinquency facts can relate to how seasoned the book is, how seasoned the book of business is. So if you've got an old book, it's going to perform well. And we have an old book at CalHFA. We've got lot of loans from a long time, so -- but we're very -- working very closely on the loan modification program with these servicers on short sales where people can get out without tarnishing their record too much, and so it will be a focus for the next two years.

ACTING CHAIRMAN CAREY: Ms. Gay.

MS. GAY: I was trying to wait. I'm going to always have just a little bit of trouble when I hear low to moderate income families kind of boxed in to similar response patterns on servicing. Are we talking to the customers on our service platform at CalHFA, actively reaching out, having conversations?

MR. McMANUS: Steve, do you want me to answer or do you want to?

MR. SPEARS: To servicers or borrowers?

MS. GAY: Borrowers.

MR. McMANUS: CalHFA servicing. She's asking about CalHFA's.

MR. SPEARS: CalHFA servicing, we speak directly to borrowers, work with them on their monthly budgets, try to find surplus, try to find a way for them to rearrange their financing, enter into agreements. Some of them are successful, some not, but we deal directly with them.

MS. GAY: Okay. Let me ask a question. When you were mentioning about people kind of not paying because the valuation of the property is down, have you broken that out geographically in your conversation with both servicers and customers? And what I mean by that is what most of us see throughout the state is variation based on -- you know, if you're in Palmdale, this is a very difficult conversation. It's not a won't pay, it's a can't pay, versus a San Diego which might be a won't pay. Do you follow me?

MR. McMANUS: Yes. And, quite honestly, until we announced our loan modification program, we didn't have a lot to offer people.

MS. GAY: Right.

MR. McMANUS: I mean, we -- the only thing we could do was capitalize delinquencies and pay us back

over 18 months.

We now have what we think is a proactive loan modification program. The underwriting, you will be pleased to know, it is not standard underwriting. It is a cash flow developed with loan counseling helping, and it's cash flow. And if it can generate a $200 surplus in your monthly cash flow after settling with your short-term creditors and what we can offer in interest rate reductions, extension of term, if you can -- we can get it to there and we have a willing borrower who wants to modify, then they will be approved for a modification program. And the payments will be the same for three years, and then they will step back up.

MS. GAY: Graduate back up.

MR. McMANUS: So that has just been sent out there, and the first step is to get them to loan counseling. I mean we're requiring homebuyer counseling for all of the candidates because they need to understand their cash flow, and then we will work with them. And we've trained them, but this has just really gotten out to the servicers now, and --

MS. GAY: Right.

MR. McMANUS: -- we'll know over the next three months if we're going to be able to modify a lot of loans.

MS. GAY: Thank you. I ask those questions because we see that across the country, servicers are just now starting to get it and it's been a while. But they're just now starting to get it, and with the making home affordable plan, they've got to get a whole new plan. So given fixed-rate product, I was asking because I was curious, very different than the adjustable business, you know. And so if someone stops paying and it was something they could really afford from the beginning, then usually the thought is that either they've lost their job, there's been some life change. And so I just want to put that on the record because I think it's important.

And I think it's also important to say there is a notion of my home's not worth as much so maybe I can walk away, but that's -- that's not typically what most of us who are in this business have been seeing.

MR. McMANUS: Yeah. Our goal is not to help the people that are looking for an economic mark my house down to half because that's all it's worth. It's those that have had a hardship, and we'll work with them if they've had a hardship.

MS. GAY: Good.

MR. McMANUS: And that's our step one, is to verify that there has been a problem and then we'll work

with it and make cash advances.

MS. GAY: Thank you.

ACTING CHAIRPERSON CAREY: Go ahead.

MR. SPEARS: The comment that I made about borrowers being underwater is strictly anecdotal. I'm starting to talk to at least one a week because they want to talk to the person in charge. And I talked to an individual in Lancaster, teaches for the L.A. Unified School District, wants to do the right thing, doesn't want to walk away from the house, but asked me, "Why should I stay in this house? Why should I keep making my payments?"

MS. GAY: It's out there.

MR. SPEARS: And it's out there. Up to this point, we haven't had any good news about home prices bottoming out and coming -- I've instructed staff as soon as we start hearing anything that's of any kind of word of encouragement, I think we need to go on a full-out campaign to emphasize to borrowers, "Stay in these homes. Make your payment. This is an asset that can turn around. And, you know, if you walk away, that's on your record and you're out of this for whatever period of time," and there's some disagreement. I think it's seven years.

"So think of it this way: In seven years, you

stay in the house, make your payments, seven years where do you think that house value is going to be at that point down the road? You'll be way better off. Don't do this." And just hoping that they will stop and think before they mail us the keys.

But I'm not -- it's all anecdotal, though.

MS. GAY: Well, I don't think you can start that messaging too soon.

MR. SPEARS: Not quite.

MS. GAY: You know, it's -- I'm going to just encourage you about that.

And then I think the other side of it is when families are paying for loan modifications, they could be paying you. And so it's that simple. People are spending -- one in three of our customers -- we see 2000 people a month just in L.A. County -- are paying three to ten thousand dollars for a loan mod. I look at that and they need to pay CalHFA. You know what I'm saying? It's just there's nothing to discuss there. And so I think that families are confused, many of them. And so clear messaging from this Agency and any other servicer, I think, is relevant now versus later, if you can do it.

ACTING CHAIRMAN CAREY: Thank you.

MS. HAMAHASHI: Okay. We'll go over the slide on page 14. This slide was developed to show you the

reserves for both the Insurance Fund and the Housing Finance Fund, along with the estimated Genworth portion of the loss reserves. Because of the 35-percent MI coverage in the Insurance Fund, there is a GAP insurance loss reserve set for the other 15 to make up -- to come up with the 50 under the indenture. And of the 35 percent that's reserved in the Insurance Fund, 25 percent is what we book, and the other 75 is the risk that Genworth takes.

So if you look at the numbers for December, right now we have -- the Insurance Fund loss reserves are set at close to 26 million. We're estimating that Genworth loss reserves are 76.6. The additional 15-percent GAP coverage is close to 45.

We also have a loan loss reserve on delinquent loans, and this is estimated losses not covered by either the primary MI or the GAP.

So the last line item in there is the REO, the market value adjustments for the properties that we currently have in our portfolio.

So the total that we have for December '08 is 163.7. This is about a $45-million increase from September. And using the delinquency reports that we have for the period ending in March, we show that at the end of March we will be increasing the reserve up to

222 million, an increase of a total of 60.

MR. GILBERTSON: So I think the point with that is that we're actively reserving as we experience and see the delinquencies develop. Of course, we don't know the end game. You know, these are reserves. Hopefully we won't have to pay all of this out, but time will tell as these things evolve.

MR. SPEARS: This is a combination of accounting reserves and contractual obligations. The Genworth line, that's their contractual obligation to step up and pay claims on delinquencies that we see right now. These reserves, this is not mark to market. We don't go to the $6.5-billion portfolio and mark it to what -- if we sold it off today what it would be. Those are accounting reserves.

The capital reserves contained in our fund equity, $1.7 billion has capital reserves that we have for losses that come up in the future for loans that become delinquent in the future. And we gradually pull out of that fund equity into these accounting reserves as those losses -- as those delinquencies materialize down the road.

So it's a little confusing. We don't have to mark to market because we're not an investor. We hold these loans to maturity, but I just want to make sure

you understand that these are what the accountants do.

There's no question that in our $4.4-billion conventional loan portfolio that we will have more delinquencies roll forward in the future. No question about it. And as you can see, we went from 118 million to 163 to 222 for accounting reserves, and those will keep going up and keep getting hit along the way.

I -- you know, this is what the battle is with Moody's over our real estate risk. How much do we have in our capital reserves to -- to withstand future losses. And we believe that we have adequate reserves to do that.

ACTING CHAIRMAN CAREY: Mr. Shine.

MR. SHINE: So you're saying that the 222 million that you estimate that we have as of now is a floating number from which you deduct losses you have to take care of and add in terms of how much you put away each month to increase the reserve account. Is there any particular goal level that you have in mind for the 4.3 million, whatever it was, $4 billion-300 million, the 222 million of reserve? Because the focus seems to be on our reserves and our ability to withstand loss of value and having to come up with the money. 222 million on a $400-million thing, that's pretty darn good, I think.

MR. GILBERTSON: It's 5 percent.

MR. SHINE: Well, yeah.

MR. GILBERTSON: That is good.

I think what we got to remember here is we don't -- we don't reserve for the portfolio. The reserving that's going on here is based off -- and Chuck should probably walk you through at a high level how the reserve calculation is done for the Insurance Fund, for example. He's looking at the stage of delinquency for various borrowers. He's looking at the year of origination to determine what the frequency of default as well as the severity of the loss will be and comparing that to the obligations that he has as the primary mortgage insurer on those loans.

And so the similar thing is being done for Genworth and then the GAP policy as well. But again, it's not portfolio-wide. It's what we see today as far as an expectation for borrower performance based on the status of their loan payments.

Chuck, do you want to add anything to that on reserve methodology?

MR. McMANUS: Yeah, the key concept is we're reserving for loans that are delinquent today based on our pretty good guess on which ones will end up in foreclosure and result in claims, and we have enough

money to pay all of those claims.

In addition, we take in premium on the insured business going forward, so there will be income to pay some of the new foreclosures coming in the future. And so, you know, there's even some good news. If the thing turns, we all of a sudden make money, rather than losing money.

MR. SHINE: Am I correct in looking to see there's 222 million of reserves set aside for a loss of about 10 percent of -- about 430 million of problems; is that right? You have a 9.82 percent of 4-billion-three. Am I looking at this right? On page No. 122 or your page 12.

MR. GILBERTSON: If we go I think here --

MR. SHINE: Am I off a zero or -- I don't think so.

MR. GILBERTSON: I think what you're suggesting is that we have 4.3 billion of conventionally insured loans, which is where the risk is, and there's a 9.82-percent delinquency ratio at 228. So if we make the math simple, 10 percent would be 430 million, and we have reserves of 222 against that.

MR. SHINE: That's not 5 percent, that's 50 percent.

MR. GILBERTSON: Yeah, that -- exactly. I was

doing it on the full 4.3, so I think that would be -- if we reserved against the whole portfolio, then it would be 5 percent, but it's a 50-percent reserve on the delinquent loans.

MR. McMANUS: It should be even more than that. If you remember when we went through the reserve calculations, at 60 days delinquent I have 70 percent; at 90 I have 80 percent; and at 120 I have 90 percent. And I have it at full claim. I have the full coverage marked up.

MR. SHINE: But the average between that 30 days and 120 days when you put it all into one basket is around 10 percent, 9.82 percent.

MR. McMANUS: Well, remember, our coverage -- yeah, okay. Because our coverage is only 35 percent, but you're not going to lose the whole amount of the mortgage. You're only going to lose some off the top.

MR. SHINE: Right.

MR. McMANUS: I mean --

MR. GILBERTSON: There's property and improvements. There is some value there.

MR. SHINE: I'm fine with it. I just wanted to make sure that I'm understanding what you're telling me.

MR. McMANUS: Yeah.

ACTING CHAIRMAN CAREY: And you do.

MR. SHINE: I think so.

ACTING CHAIRPERSON CAREY: Good.

MR. GILBERTSON: One more?

MS. HAMAHASHI: Okay. If you turn to slide No. 15, this slide is summarizing our financial results for December 31st. And what we did was try to summarize the items that directly impacted the net income the most to come up with our results for the quarters.

In the first quarter, we had a GAP claim payment reserve increase of 25.2 million, and this is, you know, the change for the quarter. And the six months is the total of the two columns.

As far as the indentured loss reserve increase, that went from 3.8 in the first quarter to only 1.8 in the second quarter.

The next item that we had that impacted net income was the basis mismatch. And I know that Bruce went over his slide and briefly explained that this was the difference between what we actually paid to the bondholders on our variable-rate securities versus what we actually received from the swap counterparties. So in the first quarter it was $9.3-million difference, and in the second quarter it was 13.

As far as the swap termination payments, what we did was -- Bruce?

MR. GILBERTSON: Yeah, I'll cover that quickly. You may remember that back in September Lehman Brothers, who was one of our swap counterparties, filed for bankruptcy. That led to the situation where we had to terminate $480 million of swap-related contracts. We did that in November.

If I remember the numbers approximately correctly, we paid $42 million to Lehman Brothers to get out of those contracts, and we negotiated with two new counterparties, Goldman Sachs and Deutsche Bank, to replace about $280 million of the swap exposure, and they paid us approximately $28 million. So there was a net termination payment or an expenditure that was reflected on these financials of $13 million for the Lehman Brothers transaction.

The additional 2 million that is on here is we go through a process every six months because the swap contracts and the bonds outstanding don't amortize exactly correctly over time because there's a lot of variables, so we go through and terminate certain amounts of swaps as we need to try to keep the hedge position in the proper alignment. It's explained in a Board report in narrative, if you'd like to read that at some point.

MS. HAMAHASHI: Okay. The next line item is our

other operating results, and what we show here is what, you know, we actually made during the quarter had it not been for the items up above. We are going to be reporting our -- a loss for the quarter ending 12/31 of 48.9. And for comparison reasons, we wanted to show that in the same quarters in the '07/08 fiscal year, we had $11 million in the first quarter and 11.5 in the second, earning about 22.5. So we're actually a little bit ahead of what we did back then if we were not looking at the items above the other operating results.

MR. GILBERTSON: So maybe I can try to put a positive spin on this a little bit because --

MR. SPEARS: If you --

MR. GILBERTSON: -- it's always nice to put a positive spin if there is one.

MR. SPEARS: If you don't, I am.

MR. GILBERTSON: Okay. I think what I would focus on is the other operating results line. The base business model of the Agency raising capital to finance the purchase of loans would have produced $16 million of net income to the Agency if there hadn't been these other disruptions. Remember, we have an $11-billion balance sheet. We have a lot of assets. So they're designed to produce a net income margin, a spread to the Agency.

We are in an environment where we're getting hit from all sides. Torpedos are coming from all different directions. We have it on the real estate risk, and we've covered that in great detail. We have to properly reserve for that. I think it's important for the Board to remember some of that is going to consume cash that we have because we have to honor claim payments. Some of it is just a write-down of assets.

If we owned the loan and through the insurance policies if we aren't fully paid and we end up selling it for less than we had it booked on the financial statements, it's a loss and the asset balance goes down, but it doesn't all mean it's liquidity. So we need to make sure that we're thinking along these lines correctly.

You know, the basis mismatch, it's -- there's the municipal bond market has not been kind to us for two years now. You know, hopefully the federal assistance will help us minimize basis mismatch. I don't think we'll ever be in a situation where the basis mismatch is going to go away altogether.

I think we should remember a couple other things. Swap contracts and bond contracts are entered in for a long period of time, but they don't last forever. And over time we do amortize our way through

that as the bonds and swaps go away.

So I think there is a silver lining there, but certainly when you look at this the operating loss is $48 million. My guess is it will be larger as we go through the rest of the fiscal year. We hope at some point that it starts to level out and that we, you know, absorb the loss in this year, and maybe beyond it will become more positive.

MR. SPEARS: Because we held up on proceeding with foreclosures and that sort of activity as we were designing the loan modification program, I think the next quarter's increase in reserves will probably be more than last quarter just because we're going to be going through a backlog, probably giving some people some bad news and working through that. I think you will see the quarter ended March 31 with probably a little bit more in reserves, an increase in reserves, just because of that backlog.

ACTING CHAIRMAN CAREY: Heather. Ms. Peters.

MS. PETERS: Are you able to speak to projections of diminished income based on the fact that we put a freeze on lending earlier, sort of where are we going to see that and of what magnitude?

MR. GILBERTSON: No, not really. I think what we have is the one thing that we came out of a cycle in

the real estate market of extremely high prepayment. You know, some of you heard us talk in 2004/2005 these huge amounts of loan payments, which was an environment where we did a lot of lending activity, but it went away very quickly. So our ability to cover our costs and to actually make a profit on that so that we could afford -- invest in other affordable housing programs was diminished because of the quick prepayment of the loans.

Here we're in an environment where prepayments have all but stopped. You know, I think the new form of prepayment we see is when insurance claim payments are made because of a borrower foreclosure.

So from that perspective, the income that we would achieve, the 16 million, is going to stay on and be available to the Agency for a longer period of time, but certainly we haven't really been able to handicap that in any meaningful way, Ms. Peters.

ACTING CHAIRMAN CAREY: Okay. Any other questions or comments?

With that, we are going to adjourn to closed session as the Board. Thank you.

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Item 6. Closed session under Government Code sections 11126(e)(1) and 11126(e)(2)(B)(i) to confer with and

receive advice from counsel regarding litigation

(The Board met in closed session from 11:29 a.m. to 12:14 p.m.)

ACTING CHAIRMAN CAREY: Okay. We are back in open session.

Item 7. Bruce.

--o0o--

Item 7. Resolution 09-07: Discussion, recommendation and possible action regarding the approval of one or more transactions to sell loans through a bond securitization program

MR. GILBERTSON: Okay. I'm going to start this and then I think we have Bob Deaner is going to join me, and we actually have some folks from Citibank that will be participating as well.

You've heard us discuss as one of the strategies that we've had over the last three or four months anyway is to do a fairly large resecuritization of a big portion of our multifamily loan portfolio. So this is referred to as the TEBS transaction, Tax-Exempt Bond Securitization. We're doing this together with Citibank and with Freddie Mac.

So we're going to go over at a high level the proposed transaction, some of the -- the current status, the benefits, the challenges that we have. There is an

actual resolution in the Board binder today. We need you to take a vote on it. It basically gives Steve, as executive director, authority to enter into an agreement to move forward on this transaction, and as you'll find out through the course of the next 15 or 20 minutes, that there’s lots of pieces that need to be thought through as we move forward in this transaction.

MR. HUGHES: Just I should -- it will probably make it easier if I throw in here that after discussing this at great length, what we decided we would do is to present this to the Board in two stages, if you will. The resolution that you have before you would authorize the Agency to enter into a nonbinding letter of intent to pursue this transaction, and the intent is we would come back later to approve, have you approve, a definitive agreement.

And the reason that we did that is that this is such a large and complex transaction, requires so much expenditure of time and money for due diligence and other things, that we wanted to -- and the parties want some assurance that there's a high degree of interest that we thought we would use the traditional way to do deals, a nonbinding letter of intent followed by a definitive agreement later.

MR. GILBERTSON: So while I have a moment, why

don't I just introduce a couple other gentlemen that have joined me at the table here. To my right is Richard Gerwitz, with Citi, and at the end of the table is Doug Auslander, and of course you know Bob Deaner, Director of Multifamily.

So the transaction as we contemplate it today could be as large as $932 million involving 215 different properties throughout the state, approximately 20,000 units of affordable rental housing. All of these properties are stabilized. They've been in our portfolio for a number of years. Some of them are amongst the oldest loans the Agency ever made, some of the Section 8 portfolio that was actually originated, constructed and converted to permanent loans in the 1980s.

The transaction, as I mentioned earlier, does involve Freddie Mac, who's providing liquidity and a guarantee. It would involve Citi and their delegated underwriting license with Freddie Mac to do the reunderwriting of the property so that we can get the liquidity and credit enhancement from Freddie Mac.

Some of the benefits that CalHFA would achieve if we move forward with this transaction is that we would remove approximately a billion dollars of loans from our balance sheet.

Now, why is that a benefit? Well, the only benefit there, is that for the lending activity we do have, we do -- we have capital charges for various categories of multifamily lending. In recent months we've talked more and more about capital charges for the single-family loan portfolio, but it's not -- the same exact analysis occurs for the multifamily lending activity.

So they're looking at the strength of the property. They're looking at debt service coverage ratios. They're looking at loan to values. I refer to "them" as the rating agencies are doing this to come and assess a capital charge for the loans that we have on our balance sheet.

So we believe we'll get relief from some of those capital reserves by removing the loans. Certainly we have in our multifamily program both bank bonds and auction-rate securities. We would remove the pressure and the basis mismatch kind of caused by them being nonperforming.

Citi has agreed to provide kind of a bridge loan to buy the re-funding bonds that go into a trust. I'm going to try to keep at a high enough level because I don't think this is the Board meeting to get into the depths of the transaction. It's somewhat complicated,

and you're going to see one slide here in a moment that I'm going to talk about briefly and then we're going to move on. If you want to ask questions, feel free to interrupt me.

And then CalHFA could become -- because we hope to remain the servicer of these loans and we have our asset management function under the directorship of Margaret Alvarez to continue to play the regulatory role on these properties and service the loans.

Current status is that Citi is preparing some initial bond terms and structuring analysis so we can really understand what the transaction looks like. Legal counsels are reviewing tax law and the compliance issues. This is kind of a unique challenge in this environment to kind of go through to make sure that we're fully complying with tax law and can get a tax-exempt opinion.

The economic benefit is the other element here that we need to fully understand what the economics would be to the Agency, and it goes hand in hand with the structuring and legal analysis.

Here's the chart. This is the TEBS structure overview at the highest level. We need to deliver tax-exempt bonds and loans into a trust or a partnership that has Freddie Mac in the middle of it. It has the

liquidity support and the credit support. There will be more than likely variable-rate bonds issued out of the trust. They are not variable-rate bonds of CalHFA. Those bonds will probably be hedged with an interest-rate swap. CalHFA will not be a participant on the interest-rate swap.

Ultimately out of the trust then are -- two pieces are created, an A certificate, if you will, and a B certificate. The A certificate is going to be a money market eligible floating rate security that has a tax-exempt yield, be sold off into the marketplace as we've talked so often about our own portfolio of variable-rate demand obligations.

The B certificate is going to be the piece that has the additional yield, the yield above and beyond what is necessary to be paid to the floating rate bond investors. It also has a component of the loss, the risk associated with the real estate program. Those are parts of the structuring analysis that needs to kind of be finalized so that we can get a full appreciation of the benefits of that transaction.

I'm going to stop there and see if there's any questions, and then I think we're going to move on to kind of the underwriting process and what needs to happen to really get this project, this financing,

underway. Any questions from the Board?

MS. JACOBS: I have one.

MR. GILBERTSON: Okay.

MS. JACOBS: You're talking about a seasoned portfolio here. Right?

MR. GILBERTSON: Um-hmm.

MS. JACOBS: How do you account for rehabilitation?

MR. GILBERTSON: There's no plans to rehabilitate the portfolio. These are loans that we've had in portfolio for a long time so we have replacement reserves. Margaret would be better -- a better person to talk about the quality of the properties today and whether or not they're in a state of repair. There is a PNA process you'll see on a subsequent slide.

MS. JACOBS: Okay.

MR. GILBERTSON: There will be a PNA assessment. There's going to be some challenges there if there's significant rehabilitation necessary to move forward because we'd have to figure out a way to finance that.

MR. DEANER: There's also a way we'll be working -- my group will be working with Citigroup, and I'm going to have Citi kind of go through the process in a second because they're really going to be doing the underwriting on behalf of Freddie Mac.

But as we go through the process and we look at the projects, if we find a project and some of the reports come back, we don't necessarily have to put it in the pool because of the -- because our loans are seasoned. So it's -- it's -- we're kind of looking at this as it could be as big as the 932 million, but it could be a -- smaller than that, depending on what projects kind of make the underwriting criteria because every loan is going to be reunderwritten to the Freddie Mac criteria via through Citi, which I have the background in 'cause I used to underwrite back in my old day to that. So I'll work closely with them to make sure that, you know, what we're looking at is what Citi's going to be looking at on behalf of Freddie Mac and that those deals make sense or don't make sense to go into the pool.

MS. JACOBS: Okay.

MR. GILBERTSON: Just one other thing I think that that conversation pointed out to me. There are several components to this portfolio, and again, as Bob said, not to exceed 932. There is a portion of the portfolio that is today not encumbered by bonds outstanding. So, you know, that may or may not be included. And if they were included, it would be a taxable TEBS transaction. It's going to be a little --

we're embarking on some new territory here. But until we take the next step on structuring and defining terms and analyzing, I don't think we have a lot of good answers for you today.

All right. I guess I'm going to turn it over to Richard.

MR. GERWITZ: Yeah. Just to reintroduce myself, my name is Richard Gerwitz. This is Doug Auslander to my right. We're both managing directors. We're both housed in the Los Angeles office. My focus is exclusively financing affordable multifamily housing, largely in California, but also across the United States. Doug's real specialty is he's on the structuring side of it. We're both in the municipal securities division.

So this is a very highly structured transaction, but ultimately what this is is a real estate transaction. And I would point out that this is -- this is a way that Citi and our predecessors have basically been financing our lending to afford -- the affordable housing community for the last number of years. In fact, I think we did our first transaction back in 1999.

And it's also the way some of the other competitors, the historical competitors of CalHFA, people like Centerline, people like MMA, who have been

in this multifamily space, have financed their projects. They've basically position loans -- they originate loans, they position them on their balance sheet and ultimately they put them into the securitization structure making room to do additional loans. So this is a tried and true -- a tried and true structure.

And answering some of the questions that you had, Ms. Jacobs, is that this is a pooled financing. It's a portfolio financing, so, yes, while every loan is very important and the attributes of every loan are important, what we're looking at is the entire pool. And obviously some of the better performing assets will offset some of the assets that may be having issues, although to be honest with you, looking at the portfolio, it's pretty -- it's obviously a portfolio that's performed quite well and has been around for a long period of time.

There are ways of adjusting if we see problems in the portfolio where you increase that residual amount that -- that -- for its loss position or you decrease it, and that's something that we would discover over time.

But the only points I wanted to make was -- is that this is ultimately a real estate transaction. It does require a full underwriting and -- full

underwriting and due diligence because Freddie Mac is going to provide credit enhancement and liquidity for this transaction over the remaining life of the portfolio. So this is not a situation where you're going to have a bank putting a letter of credit in for a limited period of time and has to be renewed. Freddie Mac is actually putting their credit on the line for the life of the remaining loans.

Citibank, this group, is a delegated -- a Fannie Mae delegated underwriter and servicer, what's known as a DUS -- a DUS lender. And we're also a Freddie Mac delegated risk sharing partner, one of only four in the United States. And we are, Citi is, the largest affordable housing lender in the United States, so we've been doing this for quite some time.

Not only do we have delegated responsibilities for individual transactions, which we do frequently, but this is the way, as I said, that we do our own portfolio. So after we've gathered all these assets over a period of time, we end up doing the same type of review we're going to do with CalHFA on our own portfolio again after this -- after the portfolio has been seasoned, before we put it into the tax-exempt securitization.

This is clearly going to be a significant

undertaking given simply the number of assets that we're looking at, 200 -- over 200 assets is going to be a lot of effort, and fortunately we have a team headed by the gentleman whose name is on the screen, Hartley Hall, who's been doing this for a long time, and it is -- has been -- is approved by Freddie Mac to do this type of underwriting. And Hartley has, in fact, met with Margaret and other members of the asset management staff of CalHFA on some initial discussions to see what's going to be entailed.

And we work -- we have worked closely not only with Freddie, but with our own borrowers and borrowers whose loans have been put in this structure, so we understand that sometimes this can be a very sensitive process, and we will make every effort to make sure that the process goes very smoothly.

MR. DEANER: Can I say before he gets into the underwriting, one thing that I'd like to say from our group is obviously we're fully supported and have the staff to move the transaction forward, so I have a number of folks ready to go.

But also, this model going forward will assist CalHFA and the multifamily group. It may be a new model, business model, that we may utilize going forward to do new business 'cause Citibank has CRA needs and

CalHFA has lending needs, and this is a way where CalHFA wouldn't have to utilize their full general obligation to do a structure like this going forward.

So once we kind of get through this once, it may be a model that we may look at as a new business model through multifamily that we partner with Citi to pool these up and that ultimately put them into the TEBS structure where we limit the obligation of the Agency yet still have the capacity to lend.

MR. GERWITZ: I'm not going to really go through this in great detail. As we said, we're going to try to keep this on a high level, but to the extent anyone has any questions, please feel free to address them.

But certainly if you're going to do due diligence on any multifamily portfolio, the list you see here is a typical list that you'd be looking at. And these are things that we expect to have -- that we expect to be able to receive, to review, to analyze and to put into underwriting packages. Nothing very unusual here, rent rolls, operating information, ground leases, regulatory agreements, things that anyone who's going to be using this real estate as security is going to want to see.

Since it is on a portfolio basis, we get a little bit more latitude, and we've already started

negotiations with Freddie Mac and a couple of the highlights just from those discussions are potential areas of flexibility. We've eliminated the need to get individual appraisals on every one of these properties, which would we consider to be significant. That is a typical requirement. We also don't need to get -- have mold assessments on each project.

We are going to need a PNA, a physical needs analysis, on every project. And the thought is -- is rather than having a separate mold person go and take a look, we're going to have the person who's doing the physical needs assessment go in, see if there's any obvious issues that need to be looked at in more detail. So it's things like that where we've been able to -- at least we've been able to make -- reduce the requirements of the individual property inspections.

Very importantly -- and the next area was labeled as a gray area, but actually it's pretty clear to us right now, is that Freddie Mac is a -- is very much a sponsor driven, a sponsor oriented, lender. It's very important to them who the sponsor of a project is. In fact, they have continuing requirements for what are bad boy carve-outs on any project that they do. We've basically been able to eliminate the need to get individual guarantor and sponsor information on each of

these loans, which I think is a real significant concession on the part of Freddie Mac and will make our job that much easier.

The other thing they want to know is they want as much detail as possible about the tax credit investor and what the status of the pay-ins are. We're going to be able to use whatever data -- the data basically that we have on hand here at CalHFA to satisfy Freddie's need.

But you can see the threshold issue, the things we do need, are things like a physical needs analysis. We're going to do an inspection and lease audit. We're going to need original Phase I reports plus data drawdowns. Wood infestation reports are required on transactions ten years or older.

So these are things that we're working with your asset management people on to make sure that when we go in and do this, if we're going to go in and do this, that we do it without -- without upsetting the borrower, upsetting the project, and do it in a way that's as efficient as possible.

The last slide that we have is simply the list of due -- the outline of responsibilities. Quite frankly, this is Citibank's outline of responsibilities. So these are things that we'll be doing in order to put

together underwriting packages that will ultimately be reviewed by Freddie. As you can see, it's quite extensive.

The process does take time and we -- and it does require third-party reports. And the goal -- we have some aggressive timing goals, which I assume we'll discuss at a certain point in time. And so it is a massive project on 200 loans. We'll probably -- we would probably start wanting to order third-party reports pretty soon and then getting into -- get into the underwriting process.

If there are any questions, I am happy to answer them.

ACTING CHAIRMAN CAREY: Questions?

MS. JACOBS: I have another question. I'm sorry to be awake in this part of the meeting.

Could you just give me a thumbnail on how you feel this is a CRA credit deal.

MR. GERWITZ: How I think it's a CRA credit deal?

MS. JACOBS: Yeah.

MR. GERWITZ: Well, it's a -- we consider it -- we have both. As a bank that has CRA requirements, we both have an investing -- a lending need and an investing need. An investing need is usually satisfied

by buying tax credits. Actually, lately, we've been interpreting the purchase of bonds as an investing need. A lending need is -- a lending -- satisfying a lending requirement is on a 9-percent transaction if we would make a construction loan or if we would extend credit.

The way this is going to work is we actually are going to extend you credit to buy the re-funding bonds, which will then be put into the trust. It actually needs to go through us for a variety of reasons having to do with the structure, including the fact that Freddie's going to be looking to us to give reps and warranties.

MS. JACOBS: Right. I can --

MR. GERWITZ: So we believe that's -- you know, we have needs in various parts of the state, and that loan is going to enable us to call this a CRA, satisfying CRA.

MS. JACOBS: Right. It just seems that most of the things you described before actually are geared toward new housing production where this is not.

MR. GERWITZ: Well, we --

MS. JACOBS: So that's -- I'm just -- I'm talking not so much --

MR. GERWITZ: Right.

MS. JACOBS: -- as a CalHFA Board member --

MR. GERWITZ: Right.

MS. JACOBS: -- on that issue, but as the director of HCD.

MR. GERWITZ: Right. But of course acq rehab is -- we consider acquisition rehab to be -- also to be -- satisfy CRA needs, and that is not creating new housing as much as preserving old, preserving housing. This, again -- in our minds, this is also preserving housing. It's providing the Agency with additional flexibility to continue its mission. So to us this is -- falls right into -- it certainly satisfies our CRA.

MS. JACOBS: Okay.

MR. GERWITZ: And as you know, CRA is somewhat touchy feely.

ACTING CHAIRMAN CAREY: Other questions?

Thank you.

MR. GILBERTSON: There's a vote required, though.

ACTING CHAIRMAN CAREY: We have Resolution 09-07, I believe. I would be thrilled to have a motion.

MR. SHINE: Moved.

ACTING CHAIRPERSON CAREY: Mr. Shine.

MS. PETERS: Second.

ACTING CHAIRMAN CAREY: Ms. Peters.

Roll call.

MS. OJIMA: Thank you.

Ms. Peters.

MS. PETERS: Yes.

MS. OJIMA: Ms. Gay.

MS. GAY: Yes.

MS. OJIMA: Ms. Jacobs.

MS. JACOBS: No.

MS. OJIMA: Thank you.

Ms. Carroll.

MS. CARROLL: Yes.

MS. OJIMA: Mr. Shine.

MR. SHINE: Yes.

MS. OJIMA: Mr. Smith.

MR. SMITH: Yes.

MS. OJIMA: Mr. Carey.

ACTING CHAIRMAN CAREY: Yes.

MS. OJIMA: Resolution 09-07 has been approved.

ACTING CHAIRMAN CAREY: Okay. We're moving onto -- and obviously there will be more opportunity for discussion on that issue as we move forward.

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Item 10. Discussion, recommendation and possible action regarding CalHFA's implementation of Section 114 of the Fair and Accurate Credit Transactions Act of 2003

16 C.F.R. Section 681.2, also known as the "Red Flag Rule"

ACTING CHAIRPERSON CAREY: Moving on to item 10 on the agenda, the Red Flag Rule.

MR. SPEARS: This is a small item that requires the Board's action by federal law. We at CalHFA already comply with a number of state and federal laws on privacy. This is an additional requirement that counsel has advised us that we need to be in compliance with. The general idea is that we need a system that red flags sensitive information when it pops up.

The clearest example is when social security numbers are included in an e-mail. We've already -- we already have a system to deal with privacy issues. This is an addendum to that, so it was easy to put this new system in with everything else. And, again, back to the example, we've already started notifying employees when they have social security numbers in an e-mail, which I thought might have a Big Brother impact on employees, but it had the exact opposite: Thanks very much, didn't even know it was buried somewhere in some document.

So it makes us more secure with regard to privacy information, and it is in compliance with federal law. Federal law requires that the Board adopt this policy, and that is -- that's the reason for the

resolution.

If you want to know what the red flags are, you can look on page 138. They're identified on pages 138 and 139.

ACTING CHAIRMAN CAREY: Anyone care for further information or clarification?

We do have a resolution to adopt this.

MS. JACOBS: Move approval.

MS. PETERS: Second.

ACTING CHAIRMAN CAREY: Ms. Jacobs. Ms. Peters.

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: Ms. Carroll.

MS. CARROLL: Yes.

MS. OJIMA: Mr. Shine.

MR. SHINE: Yes.

MS. OJIMA: Mr. Smith.

MR. SMITH: Yes.

MS. OJIMA: Thank you.

Mr. Carey.

ACTING CHAIRMAN CAREY: Yes.

MS. OJIMA: Resolution 09-10 has been approved.

MR. HUGHES: Mr. Chair, I just -- is the resolution in your package? Because I don't see it in this.

ACTING CHAIRMAN CAREY: Yes.

MS. JACOBS: It's in my package.

MR. HUGHES: Okay, then I take it back.

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Item 11. Report of the Chair of the Audit Committee

ACTING CHAIRMAN CAREY: Okay. We are on to item 11, and Mr. Smith has kindly agreed to report out for the Audit Committee.

MR. SMITH: Yes. The Audit Committee met this morning to review the California Housing Loan Insurance Fund audit, and I'm happy to report it was a very clean audit thanks to the good job staff is doing. And no action was taken, but I think we're considering it here.

ACTING CHAIRMAN CAREY: We -- so that concludes that. That was the annual audit of the Mortgage Insurance Fund.

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Item 12. Reports

ACTING CHAIRPERSON CAREY: Item 12. Are there

any items to --

MR. SPEARS: There are no items to report discussion other than the fact that these reports were referred to at previous points in the discussion earlier.

ACTING CHAIRMAN CAREY: Right.

--o0o--

Item 13. Discussion of other Board matters

ACTING CHAIRPERSON CAREY: 13, other Board matters. Any Board members have anything to bring up?

--o0o--

Item 14. Public testimony

ACTING CHAIRMAN CAREY: Item 14 is an opportunity for the public to address the Board on any matters. Is there anyone wishing to address the Board?

Seeing none, we are adjourned.

(The meeting concluded at 12:14 p.m.)

--o0o--

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 9th day of June, 2009.

_____

Yvonne K. Fenner
Certified Shorthand Reporter
License No. 10909, RPR

State of California

M E M O R A N D U M

To: **CalHFA Board of Directors** **Date:** June 30, 2009

From: L. Steven Spears, Acting Executive Director
CALIFORNIA HOUSING FINANCE AGENCY

Subject: **CalHFA Two-Year Business Plan**

For your consideration and approval, I offer the 17th annual CalHFA Business Plan for Fiscal Years 2009/10 and 2010/11.

Due to the unpredictability of the California housing market and the capital markets, CalHFA Senior Staff is presenting a two-year business plan instead of past presentations of a five-year plan. A two-year plan enables the Agency to concentrate on the short-term priorities of CalHFA without having to make predictions into a very unclear future.

The Single-Family divisions (Homeownership, Mortgage Insurance/Single-family Portfolio Management, Loan Servicing) anticipate lending volume of between $100 and $450 million, dependent on how quickly we are able to sell mortgage revenue bonds, how quickly we find another warehouse line of credit, and other factors.

The Multifamily divisions (Multifamily Lending, Multifamily Asset Management) anticipate fee-based revenue of $5 million due to ongoing work with the Mental Health Services Act, the Tax Credit Assistance Program, a Fannie Mae Seller/Servicer agreement, and a reworking of our HUD risk-share agreement. Asset Management, in addition to the approximately $1 million in revenue it provides through its Section 8 housing agreements, will apply to become the Performance Based Contract Administrator for all of California's Section 8 housing contracts, with potential revenue in future fiscal years of approximately $4 million.

In creating this business plan, CalHFA has dealt with a number of constraints. Housing Assistance Trust funds (HAT), previously used for down payment assistance programs, must be kept on-hand to maintain liquidity requirements for rating agencies. There is minimal, if any, market for CalHFA's tax-exempt revenue bonds, which has crippled our ability to offer competitive rates on single-family mortgage purchases, or to make loans for multifamily developments. Many of our largest partner lenders have gone out of business, or have restricted their loan officers' access to government programs. The recession has hit California particularly hard, and even though CalHFA did not enter the sub-prime mortgage

market, mounting job losses have led to mounting delinquencies and foreclosures in our portfolio, which we must manage on an individual basis: obligations to bondholder prevent many low-price bulk sales available to private lenders.

Despite these challenges, the Senior executive team remains optimistic about CalHFA's future. We will continue to implement our long-term strategic initiatives, on the assumption that CalHFA will remain a viable entity. Executive staff has contacted the Federal Government directly regarding the possibility of Federal assistance. We have introduced, and will continue to introduce, new programs and products for first-time homebuyers and others. Above all, CalHFA remains committed to our mission of helping create safe, decent and affordable rental housing and assisting first-time homebuyers in achieving the dream of homeownership.

Your approval of Resolution 09-11, adopting the 17th CalHFA Business Plan is requested.

CALIFORNIA HOUSING FINANCE AGENCY

BUSINESS PLAN

FY 2009 / 2010 & 2010 / 2011

New DIRECTIONS

CalHFA℠
California Housing Finance Agency

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EXECUTIVE SUMMARY

This Business Plan for the Fiscal Years 2009/10 and 2010/11 represents a departure for CalHFA from business plans of the past. The wholesale shifting of the business climate from just last year has meant significant rethinking of CalHFA's business model, the best ways to meet our obligations—to bondholders, rating agencies, and other stakeholders—and, to be blunt, how to ensure that CalHFA continues as a going concern.

For the immediate future, CalHFA will be concentrating its resources on minimizing risk while maintaining liquidity. This has led to a short-term shift toward fee-based revenue instead of whole loan purchases and large-scale bond sales.

The Single-Family divisions (Homeownership, Mortgage Insurance/Single-family Portfolio Management, Loan Servicing) anticipate lending volume of between $100 and $450 million, depending on how quickly we are able to sell mortgage revenue bonds, how quickly we find another warehouse line of credit, and other factors. Fee-based revenue is contingent upon how many loans we have in our portfolio; loan servicing is working towards expanding this number. Portfolio Management anticipates acquiring 2,874 properties and selling 2,930, in addition to facilitating the modification of 216 loans for a savings of approximately $8 million.

The Multifamily divisions (Multifamily Lending, Multifamily Asset Management) anticipate fee-based revenue of $5 million due to ongoing work with the Mental Health Services Act, the Tax Credit Assistance Program, a Fannie Mae Seller/Servicer agreement, and a reworking of our HUD risk-share agreement. Asset Management, in addition to the approximately $1 million in revenue it provides through its Section 8 housing agreements, will apply to become the Performance Based Contract Administrator for all of California's Section 8 housing contracts, with potential revenue of $4 million.

In creating this business plan, CalHFA has dealt with a number of constraints. Housing Assistance Trust funds (HAT), previously used for down payment assistance programs and subsidized lending to multifamily sponsors, must be kept on-hand to maintain liquidity standards for rating agencies. There is minimal, if any, market for CalHFA's tax-exempt revenue bonds, which has crippled our ability to offer competitive rates on single-family mortgage purchases, or to make loans for multifamily developments. Many of our largest partner lenders have gone out of business, or have restricted their loan officers' access to non-bond HFA programs. The recession has hit California particularly hard, and even though CalHFA did not enter the sub-prime mortgage market, mounting job losses have led to mounting delinquencies and foreclosures in our portfolio, which we must manage on an individual basis: obligations to bondholders effectively prevent many low-price bulk sales available to private lenders.

Despite these challenges, the Senior executive team remains optimistic about CalHFA's future. We will continue to implement our long-term strategic initiatives, on the assumption that CalHFA will remain a viable entity. Executive staff has contacted the Federal Government directly regarding the possibility of Federal assistance. We have introduced, and will continue to introduce, new programs and products for first-time homebuyers and others. Above all, CalHFA remains committed to our mission of helping create safe, decent and affordable rental housing and assisting first-time homebuyers in achieving the dream of homeownership.

INTRODUCTION

Despite the temporary suspension of many of our Homeownership first mortgage programs, the loss of many forms of down payment assistance programs, and the constant threat of downgrade from credit-rating agencies, CalHFA decided early on that the Agency would operate under the assumption that it would remain a viable entity for the long term. CalHFA conducted several day-long planning meetings with senior staff members to identify strategies to ensure the Agency would continue as a going concern.

The first step in these meetings was a rigorous evaluation of every division and its potential cash flow. As with the state of California, CalHFA's cash flow could be put in a precarious situation if some of the worst-case scenarios were realized. Although prudent past financial management has thus far enabled CalHFA to avoid being in the position of making apocalyptic predictions of running out of cash by a certain date, the Agency wanted to be sure to maximize our buffer against that possibility.

The three major revenue generators of the Agency traditionally have been Homeownership, Mortgage Insurance and Multifamily. These three divisions, however, had slowed down their business immensely in the wake of the housing crisis, and it was obvious that their traditional business models of predicting volume were not going to be an effective or accurate way of looking toward the future this year. Last year's Homeownership business plan, for instance, contained "a first mortgage purchase goal of $1.5 billion." As of June 22, 2009, Homeownership volume stood at about $379 million for the year—barely one-quarter of the goal. A different approach was needed.

Further, the unprecedented upheavals in the private and public credit and liquidity markets have had a tremendous effect on the way CalHFA will be able to make and do business in the future. To continue, CalHFA must minimize additional risk, while somehow making loans that, by necessity, involve some amount of risk to some party. In this climate, however, CalHFA is limited to making loans that are not funded through tax-exempt bonds, and hence cannot carry the very low interest rates we'd offered in the past. CalHFA must count on either the recovery of the private credit and liquidity markets to re-enter the bond market, or an assistance package from the Federal Government. The National Council of State Housing Agencies (NCSHA) and CalHFA are discussing a plan with U.S. Treasury and HUD. In addition, CalHFA has essentially no ability to use Housing Assistance Trust funds or other general reserves for lending. HAT money (i.e., the unrestricted funds of the Agency) is necessary to satisfy rating agencies' liquidity requirements; lending that money would not only decrease our unencumbered reserves; it would reduce available capital in a kind of negative leverage.

Due to all these challenges, executive staff has approached this year's Business Plan as a more strategic document, laying out specific steps and approaches it will use to ensure that CalHFA remains a viable entity in the marketplace, and will be poised to return to full strength once conditions in the housing market at large make that a possibility. Most importantly, this document only addresses the next two fiscal years, as opposed to the traditional Five-Year Business Plan. These next two years will be crucial to laying the foundation for the re-emergence of CalHFA: if we do not execute this two-year plan effectively and efficiently, a third year will be problematic.

To that end, the Homeownership, Mortgage Insurance (now Mortgage Insurance and Single Family Portfolio Management) and Multifamily Divisions have each put together plans that

identify specific steps for the next two years, based on different scenarios that may play out. Given the tumultuousness and unpredictability of the past twelve months, we felt it prudent to present several options, and show how CalHFA is prepared to deal with these different options, rather than put all our proverbial eggs in one basket.

In addition, two other divisions traditionally labeled as "support divisions" have been identified as potential revenue generators, and have submitted plans for how they may be able to contribute to the Agency's liquidity. Loan Servicing and Asset Management currently contribute millions of dollars to the agency's bottom line, and their plans address how they may be able to increase that number.

The most important aspect of this year's Business Plan is its commitment to the future, and how it addresses many different scenarios. In the past, CalHFA had relied upon relatively infrequent (every 8-10 weeks) housing bond sales to finance its loans. That won't happen in the near future even if the bond market returns, and without an identified warehouse line in these risk averse times, CalHFA will have more frequent sales of smaller bond amounts, perhaps $25 million to $50 million at a time. The availability of a line of credit for warehousing is very important to the Agency because it enables the Agency to accomplish a large volume of lending. Without the line of credit the Agency would need to issue debt more frequently which can lead to increased costs to our borrowers. Another sea change is the evolving role of the Pooled Money Investment Account and CalHFA's warehouse line of credit. As of this writing, the PMIA has frozen most disbursements, but there's a possibility that they, or some other institution, could open up a line of credit to CalHFA once again.

There are many other variables, and many other major factors that we simply cannot take into account right now because we do not know whether they will happen. There is the possibility of the Federal government intervening directly in the housing bond market. There is the possibility of changes to our bond rating that would affect our cash position and obligations to bondholders. There is the possibility of further decline in staff availability due to increased furloughs, which could affect our ability to accomplish our goals and meet our obligations.

Nonetheless, CalHFA remains optimistic that we will weather these challenges and emerge on the other side as strong as we have been in the past. We will continue to strive toward meeting the lofty goals of our mission: to finance below market rate loans to create safe, decent and affordable rental housing and to assist first-time homebuyers in achieving the dream of homeownership.

FINANCIAL ASSUMPTIONS

The current global credit crisis and the continued decline in the California housing market have resulted in unprecedented challenges for the Agency. The implosion of the credit market has increased the Agency's counterparty risk to private mortgage insurers, swap counterparties, guaranteed investment contract providers, and providers of bank liquidity in the form of stand-by bond purchase agreements. The steep decline in the California housing market has increased expected losses from the Agency's Loan Insurance Fund, the Agency's General Obligation, and the single family bond indentures.

Though we believe that the Agency is adequately capitalized for stress-level real estate losses, it has become evident over the last twelve months that the Agency's liquidity position has the potential to be stressed to untenable levels. In general, liquidity represents the Agency's unencumbered cash balance, ability to access external funds, and ability to liquidate assets. Due to a global contraction of liquidity markets, the Agency has been unsuccessful in attaining additional lines of credit. Perhaps more importantly, as a result of the credit crisis, the Agency has failed in its attempts to convert the Agency's equity, which is largely held in loans and mortgages, into cash. Thus, the Agency's Business Plan must rely solely on the existing unencumbered cash balance and future revenues from existing assets to meet all future cash funding needs.

Since our ability to increase our total liquidity pool is limited, the Agency's management has been working diligently to contain the demands on liquidity. On balance, we believe the Agency will survive the current credit crisis and economic downturn; however, it is imperative that the Agency learns from its current challenges and continues to evolve its business model.

Major Assumptions

- Agency fund balances are adequate over the life of the Business Plan to maintain capital reserve requirements related to credit adjustments, real estate losses and Agency general obligations.
- Agency general obligation issuer credit ratings (ICR) remain in the double A rating category.
- The tax-exempt municipal bond market will not produce a fixed rate borrowing cost sufficiently below taxable rates to attract borrowers to utilize Agency lending programs in calendar year 2009 and the first six months of calendar year 2010. The further assumption is that the bond market will gradually improve over the final year of the Business Plan allowing for the Agency to fund loan programs with bond proceeds in moderation.

Other Assumptions

- Losses from the home loan portfolio are contained through loss mitigation efforts and an aggressive REO disposition strategy.
- Sufficient Agency liquidity is available to make timely insurance claim payments on conventionally insured mortgages.
- Contractual obligations of Genworth under our reinsurance agreement with them are honored and paid as presented to them.
- Capital reserve requirements for multifamily loans can be reduced through risk-sharing agreements or other forms of credit enhancement and as a result of continued low delinquency and default rates.

- Average investment rate in the absence of investment agreements to equal one month LIBOR.
- Financial strength of the entire multifamily portfolio to remain at the current level.
- Operating budget is assumed to grow no more than 5% per year.
- California real estate valuations will continue to fall during calendar year 2009 but begin to flatten out in 2010 and beyond.
- No principal losses from investments.
- No failures of swap counterparties or unanticipated swap termination events.

CURRENT STATE OF CALIFORNIA'S HOUSING MARKET

California's housing market has been battered over the past two years, with the median home price falling by more than 50%, hundreds of thousands of borrowers forced into delinquency or default, and dozens of mortgage lenders going out of business. Much of this was fueled by subprime lending, which grew to a jaw-dropping 20% of loans across the nation in 2006, more than $600 billion worth of loans. Approximately one-quarter of those dollars were originated in California.

Unfortunately, the boom could not continue, and California is feeling the effects of no-documentation loans, lending to borrowers with low FICO scores and questionable loan products. Many so-called Option Adjustable Rate Mortgages, or ARMs, wherein the buyer could pick his own payment (even if it led to the mortgage balance growing) have seen their rates ratchet up, making payments unaffordable for buyers, which has led to the current boom in foreclosures that now make up more than half of home sales in a given month. Foreclosure sales further depress the housing market, as potential borrowers see median prices falling further and decide to wait on the sidelines. Yet another negative consequence is for the people who are looking to move up in home size, but cannot compete with foreclosure pricing to find a buyer for their current home.

While most agree that the California housing market is not in good shape, the extent of the trauma does not lend itself to easy or consistent characterization, as exemplified by these June 2009 divergent opinions from industry experts and analysts.

- The housing market "is starting to reach the bottom; prices have reached levels where they make sense again," says economist Christopher Thornberg, and the Wall Street Journal reported in late June that median home prices had risen for three straight months.
- The President of the California Association of Realtors (CAR) says, "The strength in California home sales in recent months signifies that the market is gradually working its way through the large numbers of distressed sales that have followed in the wake of the troubled mortgage problems."
- "At best, some markets have at least temporarily leveled off in price," says Andrew LePage, analyst at MDA Dataquick Information Services, a market-research firm in La Jolla, Calif. "I don't see any markets that have clearly bottomed out."

Clearly, any assessment of the California housing market as of June 2009 is fraught with uncertainty. For instance, January-March default notices in California numbered 135,431, an all-time high, which was up 80% from the previous quarter and 19% from the previous year. On the other hand, foreclosed properties made up 55% of sales in April 2009, down from a high of 58% in February. Virtually any housing statistic that can be interpreted as "bad," can be counteracted with an equally impressive-sounding statistic that trumpets "good."

For buyers, what would seem to be good news in terms of affordability is tempered by difficulty of access to credit. The median home price in California has plummeted to below $250,000 from a high of $505,000 in July of 2007. CAR's Affordability Index has skyrocketed commensurately, with 69% of Californians being able to afford the median-priced home, up from 26% in that same July. On the other hand, the ability of Californians to actually obtain financing has declined precipitously. Many banks are requiring at least a 680 credit score, up from the 580s of 2006. 100% financing has disappeared, and there is only one private mortgage insurer

willing to insure 95% LTV in California, and then only with a 720 FICO. All other mortgage insurers will only insure up to 90%, leaving borrowers to come up with at least a 10% down payment, in addition to closing costs—this is extremely difficult for low and moderate income first-time homebuyers

California's Overall Economy

California's—and the nation's—booming economy in the early to middle 2000s was driven in large part by the explosion of building. The collapse of the building industry has had a parallel effect on the California economy. Unemployment rose yet again to 11.5% in May 2009, up from 6.8% in May 2008. Not surprisingly, the construction sector showed the largest percentage decline in jobs over the year, down by 18.6%, or 149,200 jobs. This comes on top of the previous year's 7.6% decline in construction jobs, again the largest single-sector decline. Only one sector, educational and health services, showed an increase, and that was a mere 1.4% or 23,300 jobs.

All this bad economic news is compounded by California's multi-billion dollar budget deficit, which has had effects across all sectors of the marketplace and led earlier in the year to CalHFA suspending many of its popular down payment assistance programs (although two have since been reinstated). One must keep in mind, however, that California's problems are far from unique, as there are only three states that are **not** running budget deficits this year.

SINGLE FAMILY

The Homeownership, Mortgage Insurance and Loan Servicing Divisions have traditionally been mostly separate entities: Homeownership purchased the loans, MI underwrote the loans, and Loan Servicing took care of the loans after closing. The changing single family market, however, has led CalHFA to make changes in its own approach to the single family market. Although the three divisions have their own separate sections (see below) it may be more useful to think of them as interdependent parts of a larger single entity, that of Single Family.

Due to the loss of the PMIB warehouse line of credit, the Homeownership Division had to essentially suspend single-family lending for a short period early in 2009. It has re-emerged with two programs devoted to Real-Estate Owned, or REO, properties, in addition to Cal30, a program that delivers loans for cash through a master servicer to Fannie Mae. Although the business model of the past has been to purchase whole loans using capital derived from the sale on the open market of Mortgage Revenue Bonds, interest rates on MRBs are such that offering competitive rates on whole loan purchases is impossible. CalHFA is facing the possibility that whole-loan purchases are unworkable, a completely new development in our 30-year history.

Mortgage Insurance's business has, in the recent past, been tied directly to the Homeownership lending activity. The shrinking of Homeownership's volume has led directly to a shrinking of Mortgage Insurance volume: few loans coming through the pipeline means few loans to insure. Simultaneously, the number of defaults on CalHFA mortgages rose exponentially, necessitating the shift of staff and resources away from underwriting mortgage insurance and toward management of our rapidly-expanding portfolio of Real-Estate Owned, or REO properties. Consequently, CalHFA renamed and repurposed this division as Mortgage Insurance and Single Family Portfolio Management.

The third function inside Single Family is that of Loan Servicing. Loan Servicing has traditionally fallen under Fiscal Services, but once again, changing times have led to change in focus. Loan servicing is a profitable venture, with CalHFA earning fees well in excess of expenses for each loan we service. CalHFA, however, has recently implemented a Loan Modification program for borrowers who have suffered a financial hardship and are having trouble making their payments. The rising delinquency rate among our borrowers has led to an increase of phone calls to Loan Servicing, which has in turn increased the workload of Loan Servicing Staff and stress on Loan Servicing's increasingly overburdened technological infrastructure.

The Marketing Division, although not a revenue-generating unit, also works in concert with the above divisions to maximize their potential. Advertising for loan products, direct mail to delinquent homeowners, communications to business partners, and other initiatives will help Single Family achieve the goals and implement the plans laid out below.

Homeownership Program Lending

Past Homeownership Division business plans have adhered to a relatively straightforward formula: For each product or program, look at the past, project a number for the upcoming fiscal year, and multiply by five. For instance, last year's business plan projected $1.5 billion in first mortgages for FY 2008-09, and $7.5 billion for the entire five-year plan. The plan made similar projections for down payment assistance, special programs and other programs.

Past Homeownership Division business plans have also had several significant underlying assumptions. First, it assumed that CalHFA would have access to the bond market, and would be able to fund whole loans. Second, it assumed that CalHFA would have access to a warehouse line of credit, enabling it to leverage a single dollar multiple times. Third, it assumed that CalHFA would have access to internal mortgage insurance, giving a much greater degree of independence. And lastly, it assumed that HAT funds would be available for down payment assistance programs and other supportive lending programs.

In the past year, all four of those assumptions have evaporated.

Homeownership's business plan for 2009/10, then, must come together without those assumptions. There is, however, the possibility that one or all of those previously-assumed variables may once again be valid. Hence, this year's homeownership plan is presented below in the form of a chart with different alternatives delineated, with the attendant business volume connected to each assumption.

The first chart ("Current Market Conditions Continue") displays three scenarios: 1-A, 1-B and 1-C. Each of these scenarios assumes no bond funding, no warehouse line of credit and no internal mortgage insurance. Starting in the left column, it lists the individual first-mortgage program, the expected insurer, expected purchaser, expected deliveree, and total volume planned.

The second chart ("Bond Market Returns") displays two scenarios, augments the Cal30 program for as-yet-unnamed bond programs, and delineates the same categories as above.

The third chart ("Subordinate Loans and Grants") displays three scenarios while showing our current programs on the left, sources of funding, and total proposed amounts.

Note there are no HAT funds available for down payment assistance and other supportive lending programs.

Description of Programs and Products

<u>First Mortgage Lending</u>:

The *Cal30 Conventional* first mortgage features a fixed interest rate, fully amortized loan over a 30-year term. It has a maximum Loan-to-Value (LTV) of 95% and a maximum total Combined-Loan-to-Value (CLTV) of 102%. All Cal30 Conventional loans are sold to Fannie Mae through Bank of America, NA, as master servicer. An FHA version of Cal30 is anticipated to launch mid-July. CalHFA's subordinate loan programs, when available, may be used in conjunction with Cal30

The *Community Stabilization Home Loan Program* features a below market, 30-year, fixed interest rate, fully amortized loan reserved for REO properties of participating financial institutions. CSHLP is currently in a pilot phase in several counties across the state, selected for their high rates of delinquencies and other factors. The program offers low interest rates and lowered sales prices, and can offer 100% financing.

The *SMART Program* offers low interest rates and 100% financing for CalHFA-owned properties that meet certain standards.

State Bond Funded Down Payment Assistance

The *California Homebuyer's Downpayment Assistance Program (CHDAP*) is a deferred payment, simple interest rate junior loan not to exceed 3% of the sales price or appraised value, whichever is less. The junior loan may be combined with a CalHFA or non-CalHFA conventional or government first mortgage loan.

The *School Facility Fee Down Payment Assistance Program (SFF*) provides qualified homebuyers with assistance to purchase their newly constructed home. Eligible applicants receive a conditional grant based on either a partial or full rebate of the school facility fees paid by the builder. There are two options for SFF, designated as SFF#1 and SFF#2.

The *Residential Development Loan Program* provides low-interest loans to local agencies for site acquisition, predevelopment and construction costs for infill development of single family homes.

Current Market Conditions Continue

1-A Worse Case	**NO BOND FUNDING, NO WAREHOUSE LINE, NO INTERNAL MIS BUSINESS**					
Loan Type/Description:	Insurer	Purchased By	Delivery	Amount	*Sub-Total*	**Total**
Cal30 (Flow Loans)						
FHA	FHA	BofA	GNMA	$40,000,000		
Conventional	Lender Secured MI	BofA	FNMA cash or MBS	$30,000,000		
Other Loans:					*$70,000,000*	
SMART REO	FHA/VA/USDA/CALHFA MIS	Agency	n/a	$1,500,000		
CSHLP REO	CalHFA MIS	BofA	FNMA MBS	$7,500,000		
					$9,000,000	
						$79,000,000

1-B Mid Level Case	**NO BOND FUNDING, NO WAREHOUSE LINE, NO INTERNAL MIS BUSINESS**					
Loan Type/Description:	Insurer	Purchased By	Delivery	Amount	*Sub-Total*	**Total**
Cal30 (Flow Loans)						
FHA	FHA	BofA	GNMA	$80,000,000		
Conventional	Lender Secured MI	BofA	FNMA cash or MBS	$70,000,000		
Other Loans:					*$150,000,000*	
SMART REO	FHA/VA/USDA/CALHFA MIS	Agency	n/a	$3,500,000		
CSHLP REO	CalHFA MIS	BofA	FNMA MBS	$12,500,000		
					$16,000,000	
						$166,000,000

1-C Best Case	**NO BOND FUNDING, NO WAREHOUSE LINE, NO INTERNAL MIS BUSINESS**					
Loan Type/Description:	Insurer	Purchased By	Delivery	Amount	*Sub-Total*	**Total**
Cal30 (Flow Loans)						
FHA	FHA	BofA	GNMA	$130,000,000		
Conventional	Lender Secured MI	BofA	FNMA cash or MBS	$120,000,000		
Other Loans:					*$300,000,000*	
SMART REO	FHA/VA/USDA/CALHFA MIS	Agency	n/a	$3,900,000		
CSHLP REO	CalHFA MIS	BofA	FNMA MBS	$15,000,000		
					$18,900,000	
						$268,900,000

Bond Market Returns

2-B Mid Level — **BOND FINANCING, SEEKING WAREHOUSE LINE WITH MASTER SERVICER(S) FOR MBS, NO INTERNAL MIS BUSINESS**

Loan Type/Description:	Insurer	Purchased By	Delivery	Amount	*Sub-Total*	**Total**
Bond Funded Loans:						
Government	FHA/VA/USDA	Agency	n/a	$125,000,000		
Conventional	Lender Secured MI	Agency	n/a	$100,000,000		
Other Loans:					*$225,000,000*	
SMART REO	FHA/VA/USDA/CALHFA MIS	Agency	n/a	$10,000,000	Increased Agency REO properties & 4% rate.	
CSHLP REO	CalHFA MIS	BofA	FNMA MBS	$12,500,000	Additional Counties or Sellers	
					$22,500,000	
						$247,500,000

2-C Best Case — **BOND FINANCING, WAREHOUSE LINE WITH MASTER SERVICER(S) FOR MBS, NO INTERNAL MIS BUSINESS**

Loan Type/Description:	Insurer	Purchased By	Delivery	Amount	*Sub-Total*	**Total**
Bond Funded Loans:						
Government	FHA/VA/USDA	Agency	n/a	$200,000,000		
Conventional	Lender Secured MI	Agency	n/a	$175,000,000		
Other Loans:					*$375,000,000*	
SMART REO	FHA/VA/USDA/CALHFA MIS	Agency	n/a	$10,000,000	Increased Agency REO properties & 4% rate.	
CSHLP REO	CalHFA MIS	BofA	FNMA MBS	$12,500,000	Additional Counties or Sellers	
					$22,500,000	
						$397,500,000

Subordinate Loans and Grants

1-A Worse Case	**Assumes "No further funding availability" from HCD in 2009/2010**			
Loan Type/Description:	Funding Source:	Amount	SB50-Prop46&1C	HAT
Subordinate				
CHDAP	SB50-Prop 46 & 1C	$20,000,000	$20,000,000.00	
SFF#1	Prop 46	$500,000	$500,000.00	
SFF#2	Prop 46	$1,500,000	$1,500,000	
RDLP	Prop 46	$16,200,000	$16,200,000	
HiCAP	N/A	$0		
CHAP	N/A	$0		
		$38,200,000	$38,200,000	$0
1-B Best Case	**Assumes additional funding availability from HCD**			
Loan Type/Description:	Funding Source:	Amount	*SB50-Prop46&1C*	HAT
Subordinate				
CHDAP	SB50-Prop 46 & 1C	$30,000,000	$30,000,000	
SFF#1	Prop 46	$3,000,000	$3,000,000	
SFF#2	Prop 46	$9,000,000	$9,000,000	
RDLP	Prop 46	$24,000,000	$24,000,000	
HiCAP	N/A	$0		
CHAP	N/A	$0		
		66,000,000	$66,000,000	$0

Note: Amounts shown for RDLP are carry-forward balances from FY 2008/2009 (difference between amount already committed and what has been disbursed). Best Case RDLP also includes funding from HCD.

Mortgage Insurance and Single Family Portfolio Management

The Mortgage Insurance and Single Family Portfolio Management Division is comprised of five main operational units: Mortgage Insurance; Credit Underwriting; Quality Assurance; Single Family Servicing Administration and Loss Mitigation; and Single Family REO Management for the repair, marketing and sale of real estate owned (REO) properties. In addition, there is an Operations Unit that oversees the development and enhancement of processes, and provides systems support.

Mortgage Insurance/Credit Underwriting

The Mortgage Insurance / Credit Underwriting Section has developed a business plan that accommodates a changing production environment over the next two fiscal years. The Mortgage Insurance plan is based on the Homeownership Division's production assumptions including differing scenarios of a continuation of funding sources for two REO programs without MRB funds, no new MRB loan financing, and the potential of reinstituting MRB loan financing once a primary market for tax exempt bonds at competitive rates has been re-established. The expectation for Mortgage Insurance business therefore ranges from $12.5 million to $82.5 million in fiscal year 2009-2010, depending on Homeownership conventional volume. Additionally, Mortgage Insurance / Credit Underwriting is the CalHFA credit underwriter for all conventional loans and standalone mortgages using Agency subordinate loans.

Management of the Insured Portfolio

The California Housing Loan Insurance Fund expects to maintain Insurance-In-Force of approximately $3 billion, with expected gross insurance premium revenues of approximately $22 million and net insurance premiums of $8 million, for each of the next two fiscal years. The Mortgage Insurance Division will continue to manage this portfolio with current staff and through contractual arrangements with service providers for premium collection, claim administration, reinsurance, actuarial analysis, job loss insurance and loss mitigation management.

Risk Management

CalHFA has employed a number of Single Family Mortgage risk management tools to combat the deteriorated economic environment in the California housing market. The Division has increased mortgage insurance premium rates to continue to offer insurance that is financially sound for the Agency. Conventional underwriting guidelines have also been adjusted to reflect tighter and safer criteria for both borrowers and the Agency. Along with credit evaluation changes, appraisal methods for declining house values in distressed markets have been introduced by the mortgage industry and adopted by the Mortgage Insurance / Credit Underwriting Section. Insurance risk and underwriting criteria are continually reviewed and will be adjusted as the economy deteriorates or improves.

Production Expectations

Based on the Homeownership Division's business plan, the variation in the range of production expectations for Fiscal Year 2009-2010 (from $12.5 million to $82.5 million) primarily impacts the credit underwriting function. Previously, a typical year of credit underwriting involved approximately 6,000 loan underwritings per year. This includes loans that require mortgage insurance, and loans that require credit underwriting only. A $25 million to $100 million first mortgage production level would require credit underwriting on approximately 900 to 1,800 loans. Full production levels of $350 million to $500 million per year, would require underwriting on 5,000 to 6,200 loans.

Single Family Portfolio Management Section

Servicer Administration
The Servicer Administration Unit will oversee and audit the performance of all CalHFA single family loan servicers for compliance with the CalHFA Mortgage Purchase and Servicing Agreement default management and the implementation of CalHFA mandated servicing programs. CalHFA Loan Servicing, the Agency's in-house Single Family Mortgage servicer, is audited by an independent third-party service. The CalHFA Servicer Examiners and Administrator also assist in administering loan loss mitigation programs under the direction of the Loss Mitigation Manager.

Loss Mitigation
The Loss Mitigation Section will focus on training all CalHFA Loan Servicers on the CalHFA Loan Loss Mitigation Program. The Unit will also recommend ways to improve collection efforts, implement the CalHFA Loan Modification Program to help borrowers with approved hardships, evaluate and approve or deny short sales for borrowers with hardships and manage "deed-in-lieu" requests or expedited foreclosure programs when required.

During fiscal year 2009/2010 the Loss Mitigation section expects to facilitate the modification of approximately 216 loans at a cost of $2.5 million, resulting in a gross savings of approximately $8 million.

REO Management Section

The REO Management Section manages the acquisition, eviction, repair, pricing, listing and sale of all CalHFA REO properties. During 2009/2010 the REO section expects to acquire approximately 2,874 new properties and sell approximately 2,930 properties: 1,500 retail and 1,430 to bulk purchase investors.

The REO section will be expanded to manage the large growth in incoming properties, including two additional staff members to support a new Bulk Sales section that will package and wholesale groups of properties to investor/management groups.

Loan Servicing

The Loan Servicing unit will spend the next 24 months implementing a comprehensive restructure plan. The plan will ensure that Loan Servicing is appropriately staffed with experienced personnel who possess the critical business tools, training programs, and facilities required to ensure success. The ultimate goal is to service 100% of CalHFA's loans within the next five years.

One of the essential components of the Agency's business after making loans to our first time homebuyers is to provide loan servicing and escrow services for the life of the loans. The Agency's Loan Servicing Unit currently services 12,000 single family first loans, or 35% of our total 34,000 loan portfolio. It also services all 41,000 subordinate loans. The remaining loan servicing is performed by 10 outside loan servicers. The Loan Servicing Unit is profitable, as annual servicing fees are 30 basis points on Conventional loans, 37.5 basis points on FHA loans. ($750/$937 per year for a $250,000 loan). The current servicing portfolio of 12,000 loans grosses $8.6 million annually. With restructuring, profitability is expected to increase as the Agency takes on more loans through either whole loans, Fannie Mae loans or Mortgage Backed Securities.

Currently, the facility of offices used by Loan Servicing is not large enough to accommodate the current staff and consequently a portion of the staff was relocated to another floor of the building. This has proved to be inefficient as there is only one supervisor.

Although the Loan Servicing Unit is using a good automated servicing system, many other equipment needs are lacking: there is no call center phone system, no automated check processing and depositing, and no ability for borrowers to make payments online.
Most loan servicers are struggling with increasing delinquencies and foreclosures, and are not accepting any new business. CalHFA's Loan Servicing Unit is also facing surging delinquencies but must be available to take on new servicing when required. As the unit was only established to act as a backup to outside loan servicing many changes are needed in staffing and equipment to be an efficient loan servicer.

After Loan Servicing is restructured it will grow as it takes on more loans from the Agency's business model, whatever that may be. For each 1,000 loans the unit acquires, the Agency will gross $750,000 each year and would be profitable after three years.

The five year goal of servicing 100% of CalHFA’s loans in house is driven by a desire to work more directly with our borrowers. The Agency’s loan servicing staff consistently accomplishes lower delinquency ratios than outside servicers by intervening earlier and working more closely with borrowers. In addition, with complete control over loan servicing, we have control over the implementation of loan modification and other loss mitigation efforts. Finally, control over all servicing will give the Agency much greater access to information needed to better manage cash flow. At present, it takes six weeks to gather and reconcile all information from outside servicers.

MULTIFAMILY

Much of the news regarding difficulties in the housing sector has focused on the single-family market, as declining housing prices and increasing "bank-owned" signs make for good pictures and easy headlines. The tightened credit markets and limited access to funding, however, have also had an effect on the multifamily lending market, as investors insist on high rates of return for what they view as risky investments in housing bonds. In addition, the freezing of PMIB capital has slowed the flow of dollars from the California Department of Housing and Community Development, which has in turn slowed the development of joint projects. This has curtailed much of CalHFA's multifamily lending, in the same way that single-family lending has been slowed.

Nonetheless, Multifamily has plans in place to continue generating cash flow for the agency. These plans involve working with several different entities, and although it remains to be seen how things work out in the credit markets, volume could return to the $100 million-plus range relatively quickly.

In addition, this section addresses Multifamily Asset Management, another division traditionally viewed in a support capacity. Asset Management, however, has the potential to be another revenue-generating division, through various potential administrative agreements.

Multifamily Lending

Mental Health Services Act

Multifamily will continue to lend, underwrite and process the MHSA program. It is estimated we could fund 150 to 200 projects over the next two years, which equates to $150 to $200 million in deals. Fee and on-going income generated over this time frame is estimated at $2.5 million +.

Tax Credit Assistance Program

Under the American Recovery and Reinvestment Act of 2009, the Tax Credit Assistance Program (TCAP) provides grant funding for capital investment in Low Income Housing Tax Credit projects via a formula-based allocation to State housing credit allocation agencies. California has been allocated $325,877,114 of TCAP funds. Multifamily is working with TCAP to potentially administer the new gap and exchange tax credit programs. CalHFA’s role will be to underwrite, provide loan documents and close the loans. For this CalHFA will receive a fee of the lesser of .5% of the loan amount or $25,000. Based on preliminary discussions of the potential of 150 deals to be underwritten, Multifamily could generate additional $2 to $3 million dollars in fee income to the agency.

Fannie Mae/Freddie Mac Seller/Servicer

Multifamily has been working with Fannie Mae to become an HFA multifamily seller/servicer This would allow for Fannie Mae credit enhancement via tax exempt bonds or allow CalHFA to issue taxable debt through a mortgage-backed security. CalHFA would receive an origination fee and on-going servicing fees based on the amount of risk share it plans to take under the HFA agreement.

Currently multifamily has been approved by Fannie's Mae's credit team which allows current staff to underwrite to CalHFA and Fannie guidelines. Fannie Mae and CalHFA still need to enter into a counterparty risk agreement and negotiate term sheet relating around the programs. This is estimated to occur first quarter of FY 2009/10. Once finalized, CalHFA estimates multifamily could start lending again with volume in the range of $50 to $300 million over the next 18 to 24 months. CalHFA will also open negotiations to become a Freddie Mac Seller/Servicer, similar to Fannie Mae, in the next six months. These projects are contingent on other outside factors that could affect the viability of any given project.

Risk-share agreement with the Department of Housing and Urban Development

Multifamily is re-negotiating its FHA risk share agreement with HUD. Under the new proposal, the FHA would assume up to 75% of the risk share on permanent loans; currently, CalHFA assumes a 50/50 risk share. The higher 75% risk share would relieve pressure on the agency's general obligation, yet still provide multifamily an avenue to lend on new affordable housing projects. CalHFA would receive a fee and servicing on an on-going basis. Multifamily is also engaging with a pension fund to buy our bonds directly (private placement) with a FHA risk wrap. CalHFA would not have to sell bonds in the public market, which would also relieve some of the rating pressure we are currently receiving. Multifamily would combine the two resources and if successful could generate $100 + million in additional volume.

The above plans, with the exception of our work with MHSA, assume that we will be doing construction loans in addition to permanent loans. If market conditions take away our ability to do construction financing, we will be left with MHSA and permanent loan financing as revenue streams. We would have to use a private bank for construction loans, and this would also leave open the possibility of private banks doing their own permanent financing.

Multifamily Asset Management

Asset Management oversees approximately 500 multi-family properties. The portfolio remains strong, with the exception of one small loan under $1M being in default. Asset Management's main focus will be on continuing our current revenue generating endeavors while working to open new avenues of cash flow. The agency earns over $1M annually for our work involving our project-based Section 8 loans, and we will strive to complete HUD-required contract administrator tasks in a timely manner and according to our contracts which bind us to HUD.

During 2010 HUD will be offering a Request for Proposal (RFP) for a new contract for Performance Based Contract Administrator (PBCA) effective January 1, 2011. Currently the agency provides contract administrator duties on its own portfolio of 134 Section 8 contracts. If awarded the PBCA contract, the agency would provide contract administrator duties for the state's entire portfolio of over 1,200 contracts. It is anticipated that this would provide annual net earnings to the agency of $3.9-4.5M.

In addition to these projects, we will also continue monitoring financial performance, focusing primarily on trends: Are operations trending upward or downward? Are vacancies increasing? Are capital reserves sufficient to remedy capital needs? The focus will be on maintaining projects to a 1.0 DCR or better.

We will also pay close attention to the financial performance of ownership groups with multiple properties, particularly where the owner is also the management agent, and prepare for a shift in loan servicing strategy: As the agency moves away from bond-financed deals to selling

loans to government-sponsored entities (GSE), Asset Management will need to adjust from its own long-term style of loan servicing to following the dictates of the GSE. This will lead to a significant shift in goals and objectives and how servicing is performed, including changes to our software and reporting systems.

STRATEGIC AND LONG-TERM PROJECTS

CalHFA's long-term, large-scale projects are essential for the Agency to emerge from the current environment strong, quick and ready to lead the way in lending once again. Hence, CalHFA senior staff decided that the Agency's strategic projects should continue to move forward, even while other programs and products were suspended.

The Agency's Strategic Projects Initiative was launched in 2006 to help CalHFA improve its business practices and environment. Each project is assigned an executive sponsor who is responsible for making sure the project gets done. This sponsor also chairs a steering committee for the project, which is in turned staffed by a project manager, who oversees the day-to-day project activities.

All projects are supervised by the Strategic Projects Governance Committee, made up of all executive sponsors and chaired by the Acting Executive Director of the Agency. The Committee provides overall policy guidance to executive sponsors and directs the allocation of resources between projects. The Committee also monitors all project scopes, costs and schedules.

Major Strategic Projects Currently Underway

The Homeownership Loan Origination System project is replacing the system CalHFA uses to reserve, process and acquire loans, enabling better communication and functionality both internally with employees and externally with our business partners. The current system is more than fifteen years old, and is becoming increasingly burdensome for all who use it; a new system is imperative for CalHFA to remain competitive.

The Debt Management Project will consolidate and simplify access to important CalHFA debt information for ease of use among all divisions, giving CalHFA better data for decision-making and managing exposure to risk in our complex capital structure.

It is currently very difficult to share information across divisions. The Enterprise Content Management project will enable sharing and management of documents across divisions and the entire Agency via a shared, secure electronic depository.

The Fiscal Services Re-Platforming Project will update Fiscal Services' fragile, outdated and at-capacity infrastructure. Phase 1, Step 1 was completed in September 2008; Step 2 is currently underway, with a target of having a new application in place January 2010. This and future phases of the project will facilitate vastly improved access to critical financial information needed to manage the Agency.

The Multifamily Loan Origination System Project will enable the Multifamily division to work more efficiently with business partners and other divisions, as current systems are a mélange of ad hoc programs and custom applications that do not communicate well with each other, if at all. New systems will assist Multifamily in conducting business in alignment with industry best practices.

The Office Consolidation Project looks to consolidate all Sacramento-based CalHFA workers (with the exception of Loan Servicing) into a single office space. CalHFA currently occupies parts or all of seven floors in two buildings separated by three blocks, which leads to

inefficiencies and difficult communications. Rising office space vacancies have led to more favorable conditions, and possibly lower costs, for implementing this project by the end of our current leases in 2010.

Other Initiatives

CalHFA faces the possible retirement of more than 20 managers and employees over the next three years, and more than 50 in the next five years. This represents a huge potential loss of skills, attributes, and institutional memory. This is in addition to losses from promotions, transfers, and other non-retirement events. Succession planning will combat these potential losses through six-month processes of identifying workforce needs, development of training strategies, and implementation of the plan in the first months of FY 2010/11.

The Agency is using a telecommunications system that is over 25 years old. It lacks the power and reliability to meet our Customers' needs. Upgrading the system will reduce unanswered calls resulting in late fees and improve our public image. A modernized communications system will integrate with Outlook and existing directories and maximize staff resources with skill-based call routing. The Agency will undertake a project to identify requirements and make recommendations for a new, responsive telecommunications system.

FINANCIAL SUMMARY

The purpose of the Financial Summary is threefold: 1) to present the Agency's equity position as of December 31, 2008 and describe its components; 2) to discuss rating agency considerations when assigning the Agency's Issuer Credit Rating (ICR) and limited obligation indenture credit ratings and 3) to describe the Agency's liquidity position.

Discussion of Equity

"Equity" is synonymous with "net assets." It is derived by applying the Agency's assets against its liabilities at any given point in time. The Agency's assets and liabilities are reported within the California Housing Finance Fund (Finance Fund) and the California Housing Loan Insurance Fund (Loan Insurance Fund). As of December 31, 2008, the Finance Fund had total assets of $11.2 billion, comprised primarily of mortgage loan receivables; and total liabilities against those assets of $9.4 billion, comprised primarily of bond indebtedness. The Loan Insurance Fund had total assets of $81.8 million and total liabilities against those assets of $27.6 million. The residual restricted assets of both funds, $1.8 billion and $54.2 million, respectively, represent the Agency's equity position as of December 31, 2008.

As described in the notes to the audited financial statements, all of the Agency's equity in both the Housing Fund and the Loan Insurance Fund is restricted. As of December 31, 2008 $494 million is restricted by indenture; $1.4 billion is restricted by statute; and $838,000 is invested in capital assets.

Restricted by Indenture: As of December 31, 2008, $494 million of the Finance Funds equity was restricted by indenture. These funds represent the combined equity balances under the liens of various bond indentures that are pledged to bondholders. Generally, covenants with bondholders require equity to be retained under the lien of its indenture until certain asset coverage tests and cash flow tests have been met.

The Agency issues two types of revenue bonds, (i) general obligation revenue bonds in which the repayment of the debt is secured by the assets financed with bond proceeds and held as collateral under the indenture as well as by the Agency's general obligation or ICR and (ii) limited obligation revenue bonds in which debt repayment is only backed by the assets financed with bond proceeds and other revenues and assets pledged to the indenture. Of the $8.5 billion of outstanding bond indebtedness as of December 31, 2008, $1.4 billion is backed by both the assets under their respective indentures as well as the Agency's general obligation pledge. The Agency has no taxing power, and bonds issued by the Agency are not obligations of the State of California.

Equity balances that are restricted by indenture totaling $494 million as of December 31, 2008 are held in the amounts shown below under the following indentures:

Home Mortgage Revenue Bonds	$ 384.4 million
Single Family Mortgage Bonds II	$ 32.2 million
Multifamily Housing Revenue Bonds II	$ 6.6 million
Multifamily Housing Revenue Bonds III	$ 73.1 million
Housing Program Bonds	$ (2.3) million

Restricted by Statute/Contract: Restricted by Statute means that the equity is either restricted by (i) specific CalHFA statutes (ii) general CalHFA Statutes (iii) statutes governing state general obligation programs or (iv) contracts governing state general obligation programs. Equity classified as Restricted by Statue totaled $1.3 billion as of December 31, 2008 and provides general support for all other contractual and administrative obligations of the Agency. These obligations include support for general obligation bonds enhanced with the Agency's ICR credit rating, payments owed to counterparties under interest rate swap agreements, mortgage insurance claim payments, obligations related to multifamily loans subject to FHA Risk Share, operational expenses of the Agency, and program funding requirements and administrative responsibilities for those programs administered by the Agency for the state of California

The accounts that make up the $1.4 billion in equity are as follows:

Supplementary Bond Security Account (SBSA): Equity balance of $21.6 million as of December 31, 2008. The SBSA was statutorily established to secure issuances of bonds. This security may be accomplished by creating supplementary reserve accounts to provide for payment of principal and interest on bonds, or by insuring mortgage loans made with the proceeds of bond issues. The SBSA is primarily being used to indemnify the Loan Insurance Fund for losses on first mortgage loans that require supplemental or replacement insurance coverage (GAP Insurance) under the program covenants of the Home Mortgage Revenue Bond (HMRB) indenture (as of December 31, 2008 the reserve established for this purpose was $44.9 million) and to fund reserves for uninsured losses caused by earthquake on loans secured by condominiums (as of December 31, 2008 there was a $25 million contingency reserve established for this purpose).

Emergency Reserve Account: Equity balance of $83.9 million as of December 31, 2008. This account was established by the Agency to meet its obligations and liabilities incurred in connection with its housing loan programs. All of the equity under the Emergency Reserve Account supports the general pledges of the Agency and enables the Agency to maintain its issuer credit ratings and capital adequacy position. The maintenance of these reserve requirements at the levels prescribed by the rating agencies is as critical to the Agency's ability to achieve its mission as are the regulatory capital requirements of any other conventional marketplace lending institution.

Housing Assistance Trust (HAT): Equity balance of $524.8 million as of December 31, 2008. All of the equity in HAT is required to meet general pledges and capital adequacy requirements of the rating agencies. While meeting these financial requirements, the Agency may also invest these funds in support of Agency programs which are not otherwise funded by bond proceeds, being careful to take into consideration the rating agencies requirements for liquidity. In addition to providing the needed liquidity required by the rating agencies, HAT is comprised of Agency investments in special affordable housing loan programs promoting both rental housing and homeownership, remaining investments in mortgage loans from fully redeemed bond indentures, Earned Surplus funds and FAF savings received from HUD on certain Section 8 projects. These special HAT programs are discussed elsewhere herein.

Contract Administration Programs: Equity balance of $625.8 million as of December 31, 2008. The Agency is the administrator for various loan and grant programs funded by state appropriations and by voter authorized state bond programs to other departments and agencies within the state that have contracted with the Agency to administer the programs. Although monies transferred in accordance with the agreements are assets of the Agency their use is restricted to the purposes of the programs and are therefore not available for other Agency purposes. The equity in these programs is not considered by the rating agencies when determining the Agency's ICR.

Operating Account: Equity balance of $37.1 million as of December 31, 2008. The Operating Account was established for purposes of depositing payments received for fee based services and providing a funding source for payment of Agency operating and administrative expenses and financing expenditures not associated with specific bond funds. The Operating Accounts equity is restricted for meeting the Agency's capital adequacy and general reserve requirements of the rating agencies, as well as funding the Agency's operating budget and financing requirements.

Loan Servicing and Loan Warehousing: As of December 31, 2008 the Loan Servicing and Loan Warehousing Accounts had Equity Balances of $17.2 million, $11 million and $6.2 million, respectively.

Loan Insurance Fund: The California Housing Loan Insurance Fund had an Equity Balance of $54.2 million. The Fund's total equity is restricted pursuant to the Agency's enabling legislation for payment of mortgage insurance claims and the operating expenditures of the Mortgage Insurance Services staff.

Invested In Capital Assets: The equity classified as invested in capital assets ($838,800 as of December 31, 2008) is reported within the Operating Account and represents office equipment and furniture.

Rating Agency Considerations

The credit rating services (Moody's Investors Service and Standard & Poor's) provide certain quantitative guidance regarding the need for reserves to protect against certain risks. The Agency has always judged the soundness of its Business Plan by projecting financial results for the business planning period and determining that these projections are consistent with rating agency criteria. The rating agencies assessment of the Agency's equity is very similar to the determination of capital adequacy of financial institutions and is necessary for the financial well-being of the Agency as the state's affordable housing bank. Both Moody's and S&P provide ratings for each Indenture as well as an Issuer Credit Rating. Only S&P provides a rating for the Loan Insurance Fund.

Indenture Ratings: Both rating agencies require the Agency to establish reserves for each bond issue, intended to protect bondholders and the Agency in the event that the actual cash flows associated with a bond issue differ from the cash flows projected at the time of bond issuance. In order to determine the size of the reserves to be established for each issue, the rating agencies analyze the performance of the projected cash flows and assets financed with bond proceeds under a "worst case scenario." The Agency is

required to set aside and maintain reserves in an amount necessary to cover any projected cash flow shortfalls under these worst case scenarios as they change over the life of the bond issuance. In determining the credit ratings of an indenture, Moody's and S&P look at a variety of factors including; asset parity (the excess of assets over liabilities), asset quality, mortgage insurance coverage, creditworthiness of counterparties, strength of the cash flows to meet ongoing expenses of the financing and provide an issuer fee to provide for program growth over time; diligent program management and oversight and enforceable legal provisions.

Issuer Credit Ratings (General Obligation Rating): The ICR rating is determined based on the ability of the Agency to honor all of its long-term unsecured financial obligations and contracts. In determining an ICR, Moody's and S&P consider available financial resources and liquidity of the Agency, asset quality, management, the strength of the Agency's bond programs, the strength of the economy and general underwriting criteria of the loan programs of the Agency. In addition the rating agencies analyze the Agency's general reserves (equity balances that are restricted by statute) to determine their sufficiency to cover contingent liabilities that are not secured by specific pledges of assets but rather by all assets of the Agency that are not otherwise pledged or obligated. These contingent liabilities include periodic swap settlement payments, swap termination payments, self-insurance, GAP insurance coverage, necessary support to meet debt service payments for bonds issued with general obligation pledges and other general obligations such as the Mortgage Insurance Interfund Credit Agreement.

On September 29, 2008, Moody's placed the Agency's ICR on watch for possible downgrade, stating that this action was based on the combined effects of increased losses from delinquencies and foreclosures from single family mortgages, heightened risk related to the Agency's variable rate debt resulting from a volatile market and counterparty risk, and a lending initiative that had placed additional leverage on the Agency's balance sheet. Moody's is currently reviewing the Agency's capital adequacy and liquidity position in finalizing their determination of the Agency's ICR.

The current ICR ratings and rating outlook for CalHFA are as follows:

Moody's:	Aa3 / Watch for possible downgrade
Standard and Poor's:	AA- / Negative Outlook

The rating agency assessment of the Agency's equity is very similar to the determination of capital adequacy requirements of financial institutions and is necessary for the financial well-being of the Agency as the state's affordable housing bank. In addition, other benefits of meeting the rating agencies' capital adequacy requirements and maintaining existing credit ratings include:

- Higher bond ratings, resulting in lower cost of funds
- Reduced interest expense to the home buyer or multifamily project sponsors
- Elimination of special hazard insurance requirements
- Reduction or suspension of other credit enhancements on Agency bond issues
- Continuation of CalHFA's credit support for its mortgage insurance program

The costs of not meeting or maintaining existing credit ratings include:

- Additional interest expense and the accelerated amortization of principal on variable rate demand obligations that are put to the liquidity bank because of the rating event.
- The possibility of a technical default under one of the covenants contained in our swap, bond, liquidity, or bond insurance agreements
- Jeopardizing the Agency's Aa3/A+ ratings of its insurance claims paying ability
- Jeopardizing ratings on the Agency's currently outstanding bonds
- An increase in the Agency's cost of funds
- Increased cost of credit enhancement and liquidity for variable rate bonds
- Less favorable terms for new financial agreements
- Reduction in the number of willing financial partners such as investors, bond insurers, liquidity providers

Staff fully intends to continue their strong management practices, sound program planning, and internal control systems that have allowed us to maintain the Agency's issuer credit rating.

Agency Liquidity

Although having liquid assets (cash and cash equivalents) may seem at odds with the Agency's mission of providing mortgage capital for borrowers and developers to access affordable loans, the rating agencies analyze liquidity to measure the Agency's ability to cover short-term financial obligations. The ability to cover all the Agency's general obligations is very crucial in maintaining its rating and thus helping the Agency accomplish its mission of providing decent affordable housing to all Californians.

Although the Housing Finance Fund has equity of $1.8 billion and the Loan Insurance Fund has equity of $ 54.2 million as of December 31, 2008, this is not synonymous with liquidity (cash and cash equivalents). In addition, all of the Agency's liquid assets are not available to cover the short-term general financial obligations of the Agency. As mentioned earlier, cash and cash equivalents under indentures in which the equity is restricted by indenture (equity balance of $494 million) can not be released from the lien of the indentures unless certain cash flow covenants and asset coverage tests are met and the cash and cash equivalents under Contract Administration Programs (equity balance of $625.8 million) are designated to programs that are administered by the Agency and therefore, are not available to meet the Agency's short term obligations. The liquidity position of the remaining programs and accounts (equity of $684.6 million) within the Finance Fund is $298 million. In addition, the Loan Insurance Fund has liquidity of $ 78.5 million as of December 31, 2008. The rating agencies assess the sufficiency of the Agency's available liquidity to meet the following potential short term obligations:

- Swap collateral posting
- Swap termination payments
- Primary mortgage insurance and GAP claim payments
- Cash flow shortfalls in bond indentures enhanced with the Agency's ICR
- Operating and administrative expenses of the Agency
- Draws on the Interfund credit agreement by the Loan Insurance Fund to meet its insurance claim payment obligations

The Agency has also negotiated short term liquidity facilities, or lines of credit, from banks and the Pooled Money Investment Board (PMIB) to provide supplemental liquidity to warehouse loans in advance of bond issuance and fund other short-term needs of the Agency. A commercial bank line of credit of $100 million is currently available to the Agency and the PMIB recently approved the renewal of a $250 million credit line. However, in December the PMIB advised that additional draws on this credit line are frozen due to the state's strained cash position. Both of these credit lines are general obligations of the Agency and repayment is secured by the Agency's general reserves.

RESOLUTION 09-11

WHEREAS, pursuant to the Zenovich-Moscone-Chacon Housing and Home Finance Act ("Act"), the California Housing Finance Agency ("Agency") has the authority to engage in activities to reduce the cost of mortgage financing for home purchase and rental housing development, including the issuance of bonds and the insuring of mortgage loans;

WHEREAS, the Agency's statutory objectives include, among others, increasing the range of housing choices for California residents, meeting the housing needs of persons and families of low or moderate income, maximizing the impact of financing activities on employment and local economic activity, and implementing the objectives of the California Statewide Housing Plan;

WHEREAS, the Agency desires to amend Resolution 08-18 adopted on May 14, 2008, which committed the Agency to a Business Plan for the fiscal years 2008/2009 through 2012/2013;

WHEREAS, the current global credit crisis and the continuing decline in California real estate markets have resulted in unprecedented challenges for the Agency;

WHEREAS, Moody’s Investor’s Service placed the Agency’s Aa3 Issuer Credit Rating (ICR) on watch for possible downgrade on September 29, 2008 and the ICR rating continues on watch for downgrade as of this date, and Standard and Poor’s affirmed the Agency’s AA-ICR rating on February 27, 2009 but revised the outlook to negative;

WHEREAS, the Agency must minimize additional real estate related risk and preserve liquidity for operating expenses and financial obligations;

WHEREAS, the Agency has presented to the Board of Directors a Two-Year Business Plan covering fiscal year 2009/2010 through 2010/2011, with case based scenarios in order to adjust to the ever changing economic, fiscal and legal environment, which updated Business Plan is designed to assist the Agency to meet its financial obligations, its statutory objectives, support the housing needs of the people of California and to provide the Agency with the necessary road map to reemerge from this crisis as a leading affordable housing lender providing bond financing, mortgage financing, and mortgage insurance activities well into the future.

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Agency as follows:

1. The updated 2009/10-2010/11 Business Plan, a copy of which is attached hereto and made a part hereof, is hereby fully endorsed and adopted.

2. In implementing the updated Business Plan, the Agency shall strive to satisfy

all the capital adequacy, liquidity reserve, credit and other reserve and any other requirements necessary to maintain the Agency's general obligation credit ratings and the current credit ratings on its debt obligations, to comply with the requirements of the Agency's providers of credit enhancement, liquidity, and interest rate swaps and to satisfy any other requirements of the Agency's bond and insurance programs.

3. Because the updated Business Plan is necessarily based on various economic, fiscal and legal assumptions, in order for the Agency to respond to changing circumstances, the Executive Director shall have the authority to adjust the Agency's day-to-day activities to reflect actual economic, fiscal and legal circumstances in order to attain goals and objectives consistent with the intent of the updated Business Plan.

I hereby certify that this is a true and correct copy of Resolution 09-11 adopted at a duly constituted meeting of the Board of Directors of the Agency held on July 9, 2009, at Sacramento, California.

ATTEST: _____
Secretary

State of California

MEMORANDUM

To: **Board of Directors** **Date:** June 29, 2009

From: **Steven Spears, Acting Executive Director**
CALIFORNIA HOUSING FINANCE AGENCY

Subject: Board Resolution 09 – 12: OPERATING BUDGET FOR FY 2009/10

Assumptions and Overview

Provided for your approval is the proposed 2009-10 operating budget. Our objective is to provide a meaningful and effective budget in the face of daunting uncertainties. These uncertainties include Moody's decision regarding the Agency's general obligation "issue credit rating", a potential Federal assistance package, negotiations with swap counterparties, "recovering" bond and liquidity markets and the availability of warehouse credit from the Pool Money Investment Account or other sources. These uncertainties make it very difficult to formulate an accurate operating budget, but we must move forward with planning for the Agency.

We have considered three possible scenarios for FY 2009-10:

- ***Downgrade Scenario:*** Downgrade of our issuer credit rating; little or no Federal assistance; and no availability of a warehouse credit facility from any source. This scenario would result in little or no volume of lending and significant cash requirements to the Agency. We do not believe this downgrade scenario is likely if Federal assistance materializes and negotiations are successful with swap counterparties;

- ***Best Case Scenario:*** No credit rating downgrade; the receipt of Federal assistance in the form of bonds purchased at preferred rates, available liquidity facilities and credit facilities; plus a restored inexpensive warehouse line of credit with the Pooled Money Invest Board (PMIB). This scenario would result in our ability to resume a substantial amount of lending, but not to the levels of 2006/07 or 2007/08. We do not believe this scenario is likely; and

- ***Planning Scenario:*** No downgrade by Moody's but our issuer credit rating remains on Negative Outlook by one or both rating agencies; Federal assistance in the form of the purchase of bonds at preferred rates, available liquidity facilities and a credit facility; plus a limited amount of warehouse financing from a combination of internal funds and the use of external lines of credit. We assume the PMIB warehouse would not be available.

In all three scenarios, we make the assumption that a great deal of effort will be placed on the following activities: 1) improving loan servicing both with CalHFA Loan Servicing Division and with outside servicers; 2) keeping borrowers in their homes through counseling and work on loan

modifications; 3) management of single family REOs; 4) and continued management of the Agency's portfolio of multi-family properties.

In the discussion below, we are proposing a budget for the "Planning Scenario" as described above. Nevertheless, we plan to manage the Agency's operations and expenditures in the "Downgrade Scenario" until such time as Moody's reveals their decision.

If a "Best Case Scenario" develops during FY 2009/10, staff would undertake to complete a detailed evaluation of the changes and added workload associated with the substantial volume of lending that would be possible. At that time, a revised FY 2009/10 budget would be presented to the Board.

FY 2008/09 Review: Shifting Workload and Monitoring Expenses

To accommodate workload changes and program needs, we have shifted staff and dollars between Divisions. The workload changes and new programs accommodate increased activity in Mortgage Insurance (REO management and Loss Mitigation); Loan Servicing (Loan Modification, Foreclosure, Claims and Collections); Asset Management (Multifamily Housing Portfolios), Homeownership (Cal30, SMART, School Facilities Fee and CHDAP), Information Technology (Strategic Initiatives) and Multifamily lending (BAHP, MHSA, and TCAP). Every effort has been made to accommodate qualified staff from other areas of the Agency that have experienced a downturn in activities such as Homeownership Lending.

For the last few months of the current fiscal year, while waiting for Moody's decision, we have held back and scrutinized our expenditures and we have postponed filling 40 vacancies at the Agency. We did, however, make the decision to hire some temporary help in the hope that this would provide a short term workload fix until we knew for sure we needed permanent staff and we had a better understanding of our financial situation. In this way, if we needed to cut back temporary help, that would be something that could be done more easily.

We also reduced our operating expenses in FY 2008/09 with less travel, consolidated training classes, and more efficient use of information technology and equipment expenditures. During this time, we were constantly assessing and adjusting to our financial status. As a result, we estimate that we will end FY 2008/09 with actual expenditures below budget by a total of $6.92 million. Savings in personal services account for approximately $3.22 million, followed by savings of approximately $2.0 million and $1.7 million in Operating Expenses and contracts for Strategic Projects, respectively. We plan to continue to manage our ongoing expenditures by making adjustments as our financial situation changes over the coming months.

Budget Proposal

The proposed FY 2009/10 Planning Scenario budget of $48.1 million is submitted for your consideration. (See Attachment 1) For the first time we have broken the budget into two parts, the "Baseline Budget" and the "Strategic Projects Contracts" which will provide Board members with a better way to track the budgeted basic operating expenses of the Agency and the major expenditure for the Agency's ongoing Strategic Projects. The baseline operating budget is approximately $359,000 more than last year's while the budget for Strategic Projects contracts is increased by

approximately $1.4 million to facilitate the continued developed of strategic initiatives for the Agency.

Most of the increase in the baseline budget can be explained by 6 factors 1) increase in staffing costs ($ .514 million); 2) increase in lease costs for Sacramento and Culver City Offices ($ .260 million); 3) increase in loan servicing legal and consulting fees for delinquencies and foreclosures ($ .488 million); 4) reduction in travel and employee training costs ($ .309 million); 5) reduction in offsite costs for lender training ($ .172 million) and 6) reduction in state administrative charges ($ .425 million).

When fully implemented, the budget represents an addition of 9 temporary positions in the Loan Servicing Department and contemplates all 40 vacancies being filled by the end of the year. No additional authorized permanent positions are needed. This level of staffing is needed in the Planning Scenario to 1) properly staff Loan Servicing activities; 2) meet workload needs associated with the management of rapidly rising foreclosures and REO inventory; 3) replace the loss of key personnel throughout the Agency; and 4) to staff the increased lending volume to the extent it is possible in the Planning Scenario.

Obviously, it is Item 4) that is the biggest unknown in the coming fiscal year. Staff plans to manage personnel strategically in the following way. First, we will begin the fiscal year with 40 personnel vacancies. Ten vacancies must be filled as soon as possible to replace the loss of key personnel in Loan Servicing, Asset Management, Single Family Portfolio Management and other areas.

The remaining 30 vacancies represent approximately $3 million in the proposed budget. As various elements of the Planning Scenario become known (e.g., Moody's decision and/or the details of a Federal assistance package), achievable lending activity levels can be identified, staffing levels can be set and the vacancies will be filled according to projected workload.

Other comments regarding line items in the budget will help your understanding of our management plans.

Personal Services

- Temporary Help and Overtime.

  The strategy to use more temporary help verses permanent employees causes an increase in temporary help dollars by $521,000. We use limited term staff to help with one time workload needs. Once the workload is completed, we are able to let them go. Temporary help provides us the flexibility to fulfill our short term staffing needs. Increase in temporary help is mainly due to workload issues in Loan Servicing. Loan Servicing hired 9 temporary staff for an increase of approximately $623,218.

  Overtime budget for 2009-10 will be $144,000 which is an increase of $35,000 from last year's budget. This is mainly due to workload increases in Loan Servicing. Loan Servicing is projecting an increase of $36,000.

- Staff Benefits.

  Our current actual staff benefit rate is 35%. Last year's rate was 28.6%. Based on the actual rate, we budgeted $7,046,000 for an increase of $584,000. This is the item

that was discussed at the January 2009 Board meeting.

- Furlough.
  We currently have a two-days-a-month-per-staff furlough in effect (9.24%). This results in a salary savings of $2,186,000. There are talks of implementing a third furlough day which may increase salary savings by an additional $1,093,000. *If a third furlough day is implemented, this will have a drastic impact on the functioning of the Agency and our ability to execute our Mission.*

Operating Expenses

- Communication (Phones, Blackberry's, postage, advertising, trade shows, room rental, etc.).
  This line item will decrease by $172,000 due to reduction in room rentals (lender training). We are now doing webinars.
- Travel (In State and Out-of –State).
  The travel budget will decrease by $240,000. We have cut back on in-state and out of state travel. This is due to the use of webinars for loan service training, cut back on out out-of-state travel, and cut back on conference travel. .
- Training (Staff/Supervisor/Management improvement, development and education classes).
  This budget line item will decrease by $69,000. Senior managers have been asked to save substantially in this area.
- Contracts (Interagency and External Agreements)
  This expenditure will increase by $488,000. As discussed above, this is due to Loan Servicing needs for special legal and foreclosure, default and loss mitigation consultants, and payment scanning deposit system. See Attachment 2 for a complete list of all contracts for the Agency. The total of $11.126 million on Attachment 2 is the combination of "Consulting and Professional Services" of $4.513 million and "Strategic Projects Contracts" of $6.613 million in Attachment 1.
- Central Administrative Services (Control Agency Overhead Costs: Dept. of Finance, State Controllers Office, State Treasurer, Legislature, etc.).
  Our Administrative Pro rata costs have decreased by $471,219. This amount is calculated by the Department of Finance.
- Strategic Project Contracts.
  This area will increase by $1,426,000. Projects have been delayed and some expenditures for projects will be carried over to the next fiscal year. Two major projects (Homeownership loan origination system and the Fiscal Services financial information system replatforming) are now in full development and major expenditures are anticipated for FY 2009/10.

Conclusion

This proposed budget covers the most likely events for the 2009/10 fiscal year based on what we know right now. And the approval of our operating budget plan will provide Staff with the flexibility to carry out the Agency's two year business plan. Once again, it is important to point out that the Agency is entirely self supported from operations. The cost of the Agency's operations have no impact on the State's general fund budget and, with the closure of the Agency's warehouse line of credit with the PMIB, do not create a cash flow drain to the State.

June 29, 2009

Attachment 1
CALIFORNIA HOUSING FINANCE AGENCY
2009-10
CONSOLIDATED CALHFA AND MIS FUNDS OPERATING BUDGET
DETAILS OF EXPENDITURES

(DOLLARS IN THOUSANDS)

EXPENDITURE ITEM	Budgeted 2007-08	Actual 2007-08	Budgeted 2008-09	Projected Actual 2008-09	***Planning Scenario*** Proposed 2009-10
PERSONAL SERVICES					
Authorized Salaries	$22,136	$19,240	$22,624	$18,082	$23,655
Proposed Exempt Employee Compensation Adjustments	0	0	49	0	0
Staff Benefits	6,309	6,119	6,462	6,636	7,046
Estimated Salary and Benefit Savings	(1,107)		(1,134)		(2,186)
TOTALS, Personal Services	$27,338	$25,359	$28,001	$24,718	$28,515
OPERATING EXPENSES AND EQUIPMENT					
General Expense	757	875	757	681	803
Communications	725	826	781	567	609
Travel	580	640	665	394	425
Training	185	166	244	107	175
Facilities Operation	3,000	3,198	3,007	3,083	3,260
Consulting & Professional Services	4,276	3,267	4,025	2,983	4,513
*Central Admin. Serv.	1,971	2,040	2,150	2,200	1,679
Information Technology	825	676	936	777	946
Equipment	400	366	405	179	405
TOTALS, Operating Expenses and Equipment	$12,719	$12,055	$12,970	$10,971	$12,815
TOTALS, Baseline Budget	$40,057	$37,413	$40,971	$35,689	$41,330
TOTALS, Strategic Project Contracts	$5,614	$1,403	$5,187	$3,500	$6,613
TOTALS, EXPENDITURES	$45,671	$38,816	$46,158	$39,189	$47,943

* 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.

June 29, 2009

Attachment 2
CalHFA Consulting and Professional Services 2009/10

DIVISION CONTRACTS	Proposed 09/10	Remarks
REGULAR ONGOING CONTRACTS		
ADMINISTRATION		
Building Safety Solutions	5,000	Yearly Licensing Fee
State Personnel Board	7,500	Exam processing
State Controller's Office	3,000	Leave accounting
Biddle Consulting	15,000	Job analysis for new classifications
Cornerstone	600	Security monitoring
Administration Total:	**31,100**	
FINANCING		
DBC Software (SS & C Technologies)	60,000	Cash flow projection software (2 licenses)
Bloomberg	25,000	Financial services used to monitor interest rate swap markets and fixed income markets
Financing Total:	**85,000**	
FISCAL SERVICES		
Audits		
Deloitte & Touche	175,000	Housing Finance Fund financial audit
Loan Servicing		
Fidelity Information Services	385,000	Single Family Loan Servicing ASP - ongoing
Check Printers, Inc.	100,000	Loan payment coupons, tax forms, etc
Check Processors, Inc.	30,000	Lock Box Service
Boliard, Tahasugi	73,600	Annual examination of the Loan Servicing operation required by HUD
DeDe Timmons	40,000	Loss Mitigation
Antonella Davis	30,000	Loss Mitigation
Mary Bolar	50,000	Policies and Procedures
Audio Tel/Profit Star	20,000	Payment Scanning/Deposit System Installation and Setup
Law Offices of Les Zieve	50,000	Legal Services in foreclosures, evictions, and backruptcies
Nationwide Title Clearing	50,000	Research, release, and record reconveyances for PIF subordinate loans - online
Jean Mills	150,000	Contractor for Loan Servicing Strategic Projects (i.e. making Loan Servicing into a profit center, Flow-based bulk loan sales)
National Field Representatives	300,000	Property Inspection Service
Sprint	75,000	Property Inspection Service
Foreclosure Links	50,000	Property Inspection Service
Other		
McCracken Financial Solutions	175,000	Multifamily Loan Servicing ASP - ongoing
Omnicap	200,000	Tax Compliance Calculations
Bloomberg	30,000	Financial services for bonds
Miscellaneous	10,000	
Fiscal Services Total:	**1,993,600**	
LEGAL		
Litigation related		
O'Melveny and Myers**	25,000 **	Appeal of HC judgment
Felderstein, Fitzgerald**	25,000 **	HC (Bankruptcy)
Reserve	350,000	Other litigation matters
Non-litigation related		
Bingham, McCutchen	175,000	M/F Project Legal Work
McDonough, Holland & Allen	150,000	BAHP, other loans
Special Loan Reserve	100,000	BAHP and Prop 63
HUD Counsel (Nixon Peabody)	100,000	Washington DC counsel for federal HUD matters
Reserve	200,000	Reserve for contingencies
Other		
Orrick and Hawkins	150,000	Bond Advice
Vendor TBD	100,000	Consultant to advise and create new physical file system
Legal Total:	**1,375,000**	

DIVISION CONTRACTS	Proposed 09/10	Remarks
MARKETING		
Alcone	85,000	Agency promotion and printing
CitiMortgage, Inc.	40,000	CalHFA Leads Program
Fuze Digital Solutions, LLC	12,000	Web Enhancements
In Other Words (Translation)	4,000	Spanish translation of business literature
Lazzarone Photography	7,500	Photographer for annual report
Thomas/Ferrous	2,000	Web Enhancements
Winter Advertising	15,000	Consultant for annual report
Marketing Total:	**165,500**	
HOMEOWNERSHIP		
Production		
Brooks Systems	2,500	Used to determine APR , as necessary
Bloomberg	19,200	Provides real time market conditions and market movement for the Secondary Marketing unit
Citrix Webinars	7,500	Used for lender training presentations
Gary Brauntstein	183,000	Acting Director of Homeownership Programs
National Reconveyance Center	1,000	School Facility Fee recording searches
Thomas Bros	10,000	Mapping
Vernazza Wolfe Associates	32,500	Used to evaluate sales price limits
Homeownership Total:	**255,700**	
MULTIFAMILY		
Dun & Bradstreet	4,000	Construction related reports
Matt Mielewski	130,000	Consultant - MHSA
Multifamily Total:	**134,000**	
PORTFOLIO MANAGEMENT		
Clear Capital.com, Inc.	18,000	BPO's for REO in evaluating Loan Servicing protecting their subordinate loans
Database Consulting	5,000	Services used to update the REO database
Merscorp, Inc.	500	Electronic registry service
Lexis Nexis	1,750	Statutes, Codes, and Regulations Service
	25,250	
MIS		
O'Melveny and Myers**	5,000 **	Appeal of HC judgment
Felderstein, Fitzgerald**	5,000 **	HC (Bankruptcy)
Deloitte & Touche	45,000	Housing Loan Insurance Fund financial audit
MIAS User Requirements	100,000	Support for MI System
Standard and Poor's	100,000	Credit rating service
Data Quick	5,000	Property valuation service
Experian	5,000	Credit Reporting
Milliman USA	150,000	Insurance and reinsurance performance metrics and reporting and capital adequacy modeling
Lexis Nexis	1,750	Statutes, Codes, and Regulations Service
First American CoreLogic Inc.	2,500	Property valuation service (QC & REO)
Seisint, Inc. (Accurint)	3,500	Search service used to locate borrowers - SSA Verification
National Tax Verification	1,000	Used for quality assurance
CBC Innovis, Inc.	7,500	Follow up credit checks for quality assurance
MIS Total:	**431,250**	
ASSET MANAGEMENT		
Reaction Inspection Services	9,600	REAC inspections for Section 8 properties per HUD
24/7 Markan Family Mobile Notary	7,200	REAC inspections for Section 8 properties per HUD
Asset Management Total:	**16,800**	
CALHFA REGULAR ONGOING CONTRACT TOTALS	**4,081,950**	
MIS REGULAR ONGOING CONTRACT TOTALS	**431,250**	
TOTAL ONGOING CONTRACTS	**4,513,200**	

DIVISION CONTRACTS	Proposed 09/10	Remarks
STRATEGIC PROJECT CONTRACTS		
EXECUTIVE		
CRESA Partners of Los Angeles, Inc.	20,000	Loan Servicing Relocation Project
Robinson, Mills & Williams dba RMW Architecture	100,000	New Building
Executive Total:	**120,000**	
I.T.		
Fiscal Services		
Eclipse	946,000	System Integrator (SI)
Infiniti Consulting	150,000	Project Management Support (PM)
Phase 2	150,000	Project Initiation
Homeownership		
Mortgage Flex	3,538,000	System Integrator (SI)
VIP	198,000	Independent Verification & Validation (IV & V)
Infiniti Consulting	240,000	Project Management Support (PM)
Debt Management		
Infiniti Consulting	273,000	I.T. Program Analyst and Programming Support
Infiniti Consulting	40,000	Project Management Support (PM)
Multifamily		
Eclipse	51,000	Project Management Support (PM)
Nortridge	160,000	Software/Software Support and Training & Development
Enterprise Content Management		
Business Advantage Consulting	183,000	System Integrator (SI)
Interwoven/Infinisys	50,000	Technical Support
Project Support		
Infiniti Consulting	233,600	Technical Support
Infiniti Consulting	50,000	Project Management Support (PM)
Eclipse	230,400	Project Management Support (PM)
I.T. Total:	**6,493,000**	
CALHFA STRATEGIC PROJECT CONTRACT TOTALS	**6,613,000**	
MIS STRATEGIC PROJECT CONTRACT TOTALS	**0**	
TOTAL STRATEGIC PROJECT CONTRACTS	**6,613,000**	
CalHFA Total Contracts	**10,694,950**	
MIS Total Contracts	**431,250**	
Sum:	**11,126,200**	
TOTAL, EXPENDITURES	**11,126,200**	

**O'Melveny contract and Felderstein contract are shared contracts between MIS and Legal 50/50.

RESOLUTION 09-12

CALHFA OPERATING BUDGET

FISCAL YEAR 2009/2010

WHEREAS, the Board of Directors of the California Housing Finance Agency has reviewed its proposed operating budget for the 2009/2010 fiscal year;

NOW, THEREFORE, BE IT RESOLVED as follows:

1. The operating budget attached hereto is hereby approved for operations of the California Housing Finance Agency Fund for fiscal year 2009/2010.

I hereby certify that this is a true and correct copy of Resolution 09-12 adopted at a duly constituted meeting of the Board of the Agency held on July 9, 2009, at Sacramento, California.

ATTEST: _____
Secretary

Attachment

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M E M O R A N D U M

To: Board of Directors **Date:** July 09, 2009

Tom Hughes, General Counsel
From: CALIFORNIA HOUSING FINANCE AGENCY

Subject: Updates to CalHFA's Conflict of Interest Code (Resolution 09-13)

California's Political Reform Act of 1974 (the "Act") requires that each state agency enact by regulation a conflict of interest code pursuant to standards set forth in the Act. CalHFA has enacted such regulation, at Title 25, Code of California Regulations, Section 10001. The Act further requires that the regulation be updated periodically. The proposed amendment text presented to the Board is intended to be such an update.

The Agency's conflict of interest code (the "Code") designates personnel positions within the Agency which are required to annually file a Statement of Economic Interests (Form 700). The Code also specifies types of business interests and sources of incomes that must be reported.

Personnel positions ("designated employees") within the Agency which are required to file the Form 700 are generally Board positions, management positions, and consultants. In addition, employees holding staff positions which directly interact with and influence those decision makers are also covered by the Code.

Reportable interests and investments ("disclosure categories") are specific to the Agency's business. The disclosure categories include interests in real property, investments in businesses that provide financial services and/or real estate services, persons or entities that contract with the Agency, and computer hardware, software, and consultant companies.

As personnel classifications and titles change over time, and as the Agency's business plan evolves, the Code must be updated to accurately reflect the nature of those changes.

The proposed amendment text to the Conflict of Interest Code updates the designated employees (adds new positions, revises titles of existing positions, deletes non decision-making positions) and updates the disclosure categories (adds a new category, revises existing categories). Proposed deletions/additions are shown in strikeout/underline format as follows: deletions are in ~~red strikeout~~ font, and additions are in blue underline font.

In addition to presenting the Board with the proposed amendment text, we are also presenting a written explanation of the reasons for the proposed amendments, which lists all of the proposed amendments, and provides an explanation for each.

Updates to CalHFA's conflict of interest code are subject to the rulemaking process, which includes: public notice, public comment period, and public hearing (if requested); review and approval by Fair Political Practices Commission; submission to Office of Administrative Law; and, certification by Secretary of State.

We respectfully request the Board's approval of the within proposed updates to CalHFA's conflict of interest code, and authorization to proceed with the rulemaking process, including authorization to make non-material revisions to the proposed amendment text, without further Board approval, as may be appropriate.

Attachments:
1. CalHFA Conflict of Interest Code, Proposed Amendment Text
2. Explanation of Reasons for Amendment to the CalHFA Conflict of Interest Code
3. Resolution 09-13

Proposed Amendment Text

CALIFORNIA CODE OF REGULATIONS

TITLE 25. Housing And Community Development

Division 2. California Housing Finance Agency

Chapter 1. General

Article 1. Conflict of Interest Code

§10001. General Provisions.

Amend Section 10001 to read as follows:

§10001. General Provisions.

The Political Reform Act, Government Code sections 81000, et seq., requires state and local government agencies to adopt and promulgate Conflict of Interest Codes. The Fair Political Practices Commission has adopted a regulation, 2 California Code of Regulations section 18730, which contains the terms of a standard Conflict of Interest Code, which can be incorporated by reference, and which may be amended by the Fair Political Practices Commission to conform to amendments in the Political Reform Act after public notice and hearings. Therefore, the terms of 2 California Code of Regulations section 18730 and any amendments to it duly adopted by the Fair Political Practices Commission, along with the attached Appendix in which officials and employees are designated and disclosure categories are set forth, are hereby incorporated by reference and constitute the Conflict of Interest Code of the California Housing Finance Agency (the Agency).

Designated employees shall file statements of economic interests with the Agency, which will make the statements available for public inspection and reproduction. (Govt. Code Section 81008). Upon receipt of the statements of Board Members and the Executive Director, the Agency shall make and retain a copy and forward the original of these statements to the Fair Political Practices Commission. Statements for all other designated employees will be retained by the Agency.

NOTE

Authority cited: Sections 87300 and 87304, Government Code. Reference: Sections 87300, et seq., Government Code.

HISTORY

1. Repealer of chapter 1 (article 1, sections 10001-10006) and new chapter 1 (article 1, sections 10001-10011) filed 8-12-77; effective thirtieth day thereafter. Approved by Fair Political Practices Commission 4-20-77 (Register 77, No. 37). For prior history, see Registers 75, No. 49; and 76, No. 20.

2. Repealer of article 1 (sections 10001-10011 and Exhibits A and B) and new article 1 (section 10001 and Appendix) filed 2-26-81; effective thirtieth day thereafter. Approved by Fair Political Practices Commission 12-1-80 (Register 81, No. 9).

3. Amendment of Appendix filed 6-14-84; effective thirtieth day thereafter. Approved by Fair Political Practices Commission 5-7-84 (Register 84, No. 24).

4. Amendment of Appendix refiled 10-4-84; effective thirtieth day thereafter. Approved by Fair Political Practices Commission 5-7-84 (Register 84, No. 40).

5. Amendment of section 10001 and Appendix filed 1-30-91; operative 3-1-91. Approved by Fair Political Practices Commission 12-6-90 (Register 91, No. 14).

6. Amendment of section and Appendix filed 4-18-96; operative 5-18-96. Approved by Fair Political Practices Commission 2-8-96 (Register 96, No. 16).

7. Amendment of section and Appendix filed 7-28-97; operative 8-27-97. Approved by Fair Political Practices Commission 6-4-97 (Register 97, No. 31).

8. Amendment of section and Appendix filed 2-7-2006; operative 3-9-2006. Approved by Fair Political Practices Commission 12-16-2005 (Register 2006, No. 6).

Conflict of Interest Code of the
California Housing Finance Agency

Appendix

Designated Employees	*Assigned Disclosure Category*
Persons holding the following positions and/or the following classifications are "designated employees":	
Board of Directors	
Board Member (All members of the Board other than the State Treasurer)	1, 2~~, 3~~
Executive	
Executive Director	1, 2~~, 3~~
Chief Deputy Director	1, 2~~, 3~~
Director of Legislation	1, 2~~, 3~~
Information Security Officer	2
Administration	
Director of Administration	1, 2~~, 3~~
~~Chief of Administrative Services~~	~~1, 2, 3~~
Staff Services Manager ~~I (Business Services)~~ (all classes and all levels)	~~3~~ 1, 2
~~Business Services Officer~~	~~3~~
Information Technology	
Chief Information Officer	2~~, 3~~
Systems Software Specialist III (Supervisory)	2
Senior Programmer Analyst (Supervisor)	4
Staff Information Systems Analyst (Specialist) ~~(Systems Administration)~~ (Technical Support & Procurement Administration)	~~3~~ 4

~~Senior Information Systems Analyst (Supervisor) . . . . . 3~~

Marketing
Director of Marketing ~~(Staff Services Manager III)~~ . . . . . 1, 2~~, 3~~

Legal
General Counsel . . . . . 1, 2~~, 3~~
Assistant Chief Counsel 1, 2
Staff Counsel ~~IV~~ (all classes and all levels) . . . . . 1, 2~~, 3~~
~~Staff Counsel III . . . . . 1, 2, 3~~
~~Staff Counsel . . . . . 1, 2, 3~~

Financing
Director of Financing . . . . . 1, 2~~, 3~~
Risk Manager . . . . . 1, 2~~, 3~~
Housing Finance Chief ~~(Financing)~~ (all classes) . . . . . 1, 2~~, 3~~
Accounting Administrator III 1, 2
Financing Officer . . . . . 1, 2~~, 3~~
Financing Specialist . . . . . 1, 2~~, 3~~

Fiscal Services
Comptroller . . . . . 1, 2~~, 3~~
Deputy Comptroller 1, 2
Accounting Administrator III . . . . . 1, 2~~, 3~~
Accounting Administrator II 3
Housing Finance Officer ~~(Single Family)~~ (all classes) . . . . . 1, 2~~, 3~~
~~Housing Finance Specialist (Single Family) . . . . . 1, 2, 3~~

Homeownership
Director of Homeownership . . . . . 1, 2~~, 3~~
Deputy Director 1, 2
Housing Finance Chief ~~(Single Family)~~ (all classes) . . . . . 1, 2~~, 3~~
Housing Finance Officer ~~(Single Family)~~ (all classes) . . . . . 1, 2~~, 3~~
~~Housing Finance Specialist (Single Family) . . . . . 1, 2, 3~~

Multifamily
Director of Multifamily Programs . . . . . 1, 2~~, 3~~
Deputy Program Director ~~(Rental)~~ . . . . . 1, 2~~, 3~~
Housing Finance Chief ~~(Rental)~~ (all classes) . . . . . 1, 2~~, 3~~
~~Housing Finance Chief (Construction Services) . . . . . 1, 2, 3~~
Supervising Design Officer . . . . . 1, 2~~, 3~~
Senior Design Officer . . . . . 1, 2~~, 3~~
~~Senior Estimator . . . . . 1, 2, 3~~
Senior Housing Construction Inspector . . . . . 1, 2~~, 3~~
~~Housing Construction Inspector . . . . . 1, 2, 3~~
Housing Finance Officer ~~(Rental)~~ (all classes) . . . . . 1, 2~~, 3~~
~~Housing Finance Officer (Construction Services) . . . . . 1, 2, 3~~
~~Housing Finance Specialist (Rental) (Preservation Assistance) . . . . . 1, 2, 3~~
~~Housing Finance Specialist (Construction Services) . . . . . 1, 2, 3~~
Chief, Special Lending Programs (CEA II) . . . . . 1, 2~~, 3~~

Asset Management
Deputy Director of Asset Management . . . . . 1, 2~~, 3~~
Housing Finance Chief ~~(Management Services)~~ (all classes) . . . . . 1, 2~~, 3~~
Housing Finance Officer ~~(Management Services)~~ (all classes) . . . . . 1, 2~~, 3~~
~~Housing Finance Specialist (Management Services) . . . . . 1, 2, 3~~
~~Housing Maintenance Inspector . . . . . 1, 2, 3~~

Mortgage Insurance Services
Director of Mortgage Insurance . . . . . 1, 2~~, 3~~
Deputy Director 1, 2
Housing Finance Chief ~~(Single Family)~~ (all classes) . . . . . 1, 2~~, 3~~
Housing Finance Officer ~~(Single Family)~~ (all classes) . . . . . 1, 2~~, 3~~
Housing Finance Specialist ~~(Single Family)~~ (all classes) . . . . . 1, 2~~, 3~~

Consultants
Consultant . . . . . 1, 2~~, 3~~

With respect to Consultants, the General Counsel of the Agency may determine in writing that a particular consultant, although a "designated employee," is hired to perform a range of duties that is limited in scope and thus is not required to comply with the disclosure requirements described in this section. Such determination shall include a description of the consultant's duties and, based upon that description, a statement of the extent of disclosure requirements. A copy of the written determination is a public record and shall be retained and made available for public inspection in the same manner and location as this Conflict of Interest Code. Nothing herein excuses any such consultant from any other provision of this Conflict of Interest Code.

Disclosure Categories

Category 1 – Interests in Real Property

Designated employees in Category 1 must report:
All ~~investments and~~ interests in real property ~~located within~~ in the State of California.

Category 2 – Full Disclosure (excluding interests in real property)

Designated employees in Category 2 must report:
All investments, ~~and~~ business positions ~~in,~~ and sources of income, including gifts, loans~~,~~ and travel payments, from~~, any person or entity which is (i) defined to be a "housing sponsor," "limited-dividend housing sponsor," or "qualified mortgage lender" by part I, chapter 2, of the Zenovich-Moscone-Chacon Housing and Home Finance Act (chapter 2 commences at section 50050 of the California Health and Safety Code) or which is (ii) a financial services company, information technology company, law firm, mortgage bank, investment bank, real estate services company, brokerage company, insurance company, title company, escrow company, building or construction contractor or subcontractor, that contracts with or otherwise does business with the Agency, or which is soliciting, a contract or other business from the Agency.~~ sources that:

(A) Are any person or entity which is defined by part I, chapter 2, of the Zenovich-Moscone-Chacon Housing and Home Finance Act (chapter 2 commences at section 50050 of the California Health and Safety Code) to be any of the following:

(1) "housing sponsor"

(2) "limited-dividend housing sponsor"

(3) "qualified mortgage lender"; or,

(B) Are any person or entity that contracts or otherwise does business with the Agency, or is soliciting a contract or other business from the Agency, and which is any of the following:

(1) financial services company

(2) bank, including commercial bank, mortgage bank, thrift, credit union, or similar lender

(3) investment bank

(4) real estate services company

(5) brokerage company

(6) insurance company

(7) title company

(8) escrow company

(9) building or construction contractor or subcontractor

(10) sources that are the type that, within the previous two years, have contracted with the Agency to provide leased facilities, supplies, materials, machinery, equipment, or services, including training and consulting services, to the Agency, or have otherwise done business with the Agency

(11) sources that manufacture, distribute, supply, or install computer hardware or software of the type utilized by the Agency, as well as entities providing computer consultant services to the Agency

(12) law firm that represents persons or entities described in Category 2A in matters directly related to their status as described in Category 2A.

(13) law firm that represents persons or entities described in Category 2B in matters directly related to their status as described in Category 2B.

Category 3 – General Procurement

Designated employees in Category 3 must report:
All ~~sources of income, including gifts, loans, and travel payments, from and~~ investments and business positions in ~~any~~ business entit~~y~~ies, and income, including gifts, loans, and travel payments, from sources that are of the type that, within the ~~last~~ previous two years, ~~has~~ have contracted with the Agency to provide ~~services,~~ leased facilities, supplies, materials, machinery,

~~or~~ equipment, or services, including training and consulting services, to the Agency, or ~~that has~~ have otherwise done business with the Agency.

Category 4 – Information Technology

Designated employees in Category 4 must report:
All investments and business positions in business entities, and income, including gifts, loans, and travel payments, from sources that manufacture, distribute, supply, or install computer hardware or software of the type utilized by the Agency, as well as entities providing computer consultant services to the Agency.

EXPLANATION OF REASONS FOR AMENDMENT TO THE CALIFORNIA HOUSING FINANCE AGENCY CONFLICT OF INTEREST CODE

The California Housing Finance Agency ("Agency") is amending its conflict of interest code to: (1) modify provisions of the code; (2) revise disclosure categories; (3) include new positions as designated employees; (4) revise the titles of existing positions; and, (5) delete titles of positions that have been reclassified, are not being utilized by the Agency, or are no longer "designated employees." The specific amendments and an explanation of each amendment are as follows.

1. MODIFY PROVISIONS OF THE CODE

Category 1 – Interests in Real Property

Add descriptor; minor clean-up changes.

Assigned to designated employees whose decision-making includes real property.

Category 2 – Full Disclosure (excluding interests in real property)

Add descriptor; itemize "person or entity"; add "sources that are of the type that, within the previous two years, have contracted with the Agency to provide leased facilities, supplies, materials, machinery, equipment, or services, including training and consulting services, to the Agency, or have otherwise done business with the Agency" (*i.e.,* general procurement); change "information technology company" to "sources that manufacture, distribute, supply, or install computer hardware or software of the type utilized by the Agency, as well as entities providing computer consultant services to the Agency" (*i.e.,* information technology); limit reportable law firms.

Assigned to designated employees whose decision-making affects a wide range of interests (including general procurement and information technology), but does not include real property.

Category 3 – General Procurement

Add descriptor; minor clean-up changes; addition of leased facilities; exemplify services.

Assigned to designated employees whose decision-making is limited to procurement of a general nature of services, supplies, materials, machinery, equipment, or leased facilities.[1]

Category 4 – Information Technology

New category.

Assigned to designated employees (typically information technology staff) whose decision-making is limited to procurement of computer hardware, software and consultant services.[2]

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[1] Category 3 is also subsumed in category 2. Accordingly, a filer in category 2 makes a full disclosure, including general procurement; whereas, a filer in Category 3 makes a limited disclosure.
[2] Category 4 is also subsumed in category 2. Accordingly, a filer in category 2 makes a full disclosure, including information technology; whereas, a filer in category 4 makes a limited disclosure.

2. REVISE DISCLOSURE CATEGORIES

Board of Directors

Revise *"Board Member (All members of the Board other than the State Treasurer)"* by deleting category 3, which is subsumed in category 2; position's disclosure requirements are unchanged.

Executive

Revise "*Executive Director," "Chief Deputy Director,"* and *"Director of Legislation"* by deleting category 3, which is subsumed in category 2; positions' disclosure requirements are unchanged.

Administration

Revise *"Director of Administration"* by deleting category 3, which is subsumed in category 2; position's disclosure requirements are unchanged.

Revise *"Staff Services Manager (all classes and all levels)"* by deleting category 3, which is subsumed in category 2, and assigning categories 1 and 2; this position makes or participates in making decisions, or influences decisions, which may foreseeably have a material financial effect on any financial interest, and affects a wide range of interests, including real property.

Information Technology

Revise *"Chief Information Officer"* by deleting category 3, which is subsumed in category 2; position's disclosure requirements are unchanged.

Revise *"Staff Information Systems Analyst (Specialist) (Technical Support & Procurement Administration)"* by deleting category 3, and assigning category 4; this position makes or participates in making of decisions, or influences decisions, which may foreseeably have a material financial effect on any financial interest, but affects a narrow range of interests, limited to procurement of computer hardware, software and consultant services.

Marketing

Revise *"Director of Marketing"* by deleting category 3, which is subsumed in category 2; position's disclosure requirements are unchanged.

Legal

Revise "*General Counsel"* and *"Staff Counsel (all classes and all levels)"* by deleting category 3, which is subsumed in category 2; positions' disclosure requirements are unchanged.

Financing

Revise "Director of Financing,*" " Risk Manager," Housing Finance Chief (all classes)," "Financing Officer,"* and *"Financing Specialist"* by deleting category 3, which is subsumed in category 2; positions' disclosure requirements are unchanged.

Fiscal Services

Revise "Comptroller," " *Accounting Administrator III,"* and *"Housing Finance Officer (all classes)"* by deleting category 3, which is subsumed in category 2; positions' disclosure requirements are unchanged.

Homeownership

Revise *"Director of Homeownership," " Housing Finance Chief (all classes),"* and *"Housing Finance Officer (all classes)"* by deleting category 3, which is subsumed in category 2; positions' disclosure requirements are unchanged.

Multifamily

Revise *"Director of Multifamily Programs," "Deputy Program Director," "Housing Finance Chief (all classes)," "Supervising Design Officer," "Senior Design Officer," "Senior Housing Construction Inspector," Housing Finance Officer (all classes),"* and *"Chief, Special Lending Programs (CEA II)"* by deleting category 3, which is subsumed in category 2; positions' disclosure requirements are unchanged.

Asset Management

Revise *"Deputy Director of Asset Management," " Housing Finance Chief (all classes),"* and *"Housing Finance Officer (all classes)"* by deleting category 3, which is subsumed in category 2; positions' disclosure requirements are unchanged.

Mortgage Insurance Services

Revise *"Director of Mortgage Insurance," " Housing Finance Chief (all classes)," "Housing Finance Officer (all classes),"* and *"Housing Finance Specialist (all classes)"* by deleting category 3, which is subsumed in category 2; positions' disclosure requirements are unchanged.

Consultants

Revise *"Consultant"* by deleting category 3, which is subsumed in category 2; position's disclosure requirements are unchanged.

<u>3. INCLUDE NEW POSITIONS AS DESIGNATED EMPLOYEES</u>

Executive

Add *"Information Security Officer,"* and assign category 2; this position makes or participates in making decisions, or influences decisions, which may foreseeably have a material financial effect on any financial interest, and affects a wide range of interests, but not real property.

Information Technology

Add *"Systems Software Specialist III (Supervisory),"* and assign category 2; this position makes or participates in making decisions, or influences decisions, which may foreseeably have a material financial effect on any financial interest, and affects a wide range of interests, but not real property.

Add *"Senior Programmer Analyst (Supervisor),"* and assign category 4; this position makes or participates in making of decisions, or influences decisions, which may foreseeably have a material financial effect on any financial interest, but affects a narrow range of interests, limited to procurement of computer hardware, software and consultant services.

Legal

Add *"Assistant Chief Counsel,"* and assign categories 1 and 2; this position makes or participates in making decisions, or influences decisions, which may foreseeably have a material financial effect on any financial interest, and affects a wide range of interests, including real property.

Financing

Add *"Accounting Administrator III,"* and assign categories 1 and 2; this position makes or participates in making decisions, or influences decisions, which may foreseeably have a material financial effect on any financial interest, and affects a wide range of interests, including real property.

Fiscal Services

Add *"Deputy Comptroller,"* and assign categories 1 and 2; this position makes or participates in making decisions, or influences decisions, which may foreseeably have a material financial effect on any financial interest, and affects a wide range of interests, including real property.

Homeownership

Add *"Deputy Director,"* and assign categories 1 and 2; this position makes or participates in making decisions, or influences decisions, which may foreseeably have a material financial effect on any financial interest, and affects a wide range of interests, including real property.

Mortgage Insurance Services

Add *"Deputy Director,"* and assign categories 1 and 2; this position makes or participates in making decisions, or influences decisions, which may foreseeably have a material financial effect on any financial interest, and affects a wide range of interests, including real property.

4. REVISE THE TITLES OF EXISTING POSITIONS

Administration

Revise *"Staff Services Manager I (Business Services)"* to *"Staff Services Manager (all classes and all levels);* this position may be any class/level, is not limited to a particular section (*e.g.,* not limited to Business Services section), and has the same disclosure requirements regardless of class/level and section.

Information Technology

Revise *"Staff Information Systems Analyst (Specialist) (Systems Administration)"* to "*Staff Information Systems Analyst (Specialist) (Technical Support & Procurement Administration)"*; this position's working title is revised, and the duty statement is updated.

Marketing

Revise *"Director of Marketing (Staff Services Manager III)"* to *"Director of Marketing";* this position is not limited to this class, and has the same disclosure requirements regardless of class.

Legal

Revise *"Staff Counsel IV"* to *"Staff Counsel (all classes and all levels);* this position may be any class/level, and has the same disclosure requirements regardless of class/level.

Financing

Revise *"Housing Finance Chief (Financing)"* to *"Housing Finance Chief (all classes);* this position is transferrable within Agency divisions, is not limited by class, and has the same disclosure requirements regardless of class and division, if transferred to a division which has identified this position as a designated employee.

Fiscal Services

Revise *"Housing Finance Officer (Single Family)"* to *"Housing Finance Officer (all classes);* this position is transferrable within Agency divisions, is not limited by class, and has the same disclosure requirements regardless of class and division, if transferred to a division which has identified this position as a designated employee.

Homeownership

Revise *"Housing Finance Chief (Single Family)"* and *"Housing Finance Officer (Single Family)"* to *"Housing Finance Chief (all classes)"* and *"Housing Finance Officer (all classes);* these positions are transferrable within Agency divisions, are not limited by class, and have the same disclosure requirements regardless of class and division, if transferred to a division which has identified these positions as designated employees.

Multifamily

Revise *"Deputy Program Director (Rental)"* to *"Deputy Program Director";* this position is not limited to this class, and has the same disclosure requirements regardless of class.

Revise *"Housing Finance Chief (Rental)"* and *"Housing Finance Officer (Rental)"* to *"Housing Finance Chief (all classes)"* and *"Housing Finance Officer (all classes);* these positions are transferrable within Agency divisions, are not limited by class, and have the same disclosure requirements regardless of class and division, if transferred to a division which has identified these positions as designated employees.

Asset Management

Revise *"Housing Finance Chief (Management Services)"* and *"Housing Finance Officer (Management Services)"* to *"Housing Finance Chief (all classes)"* and *"Housing Finance Officer (all classes);* these positions are transferrable within Agency divisions, are not limited by class, and have the same disclosure requirements regardless of class and division, if transferred to a division which has identified these positions as designated employees.

Mortgage Insurance Services

Revise "Director of Insurance" to "Director of Mortgage Insurance"; this position title is revised, and the duty statement is updated, but the disclosure requirements are unchanged.

Revise *"Housing Finance Chief (Single Family)," "Housing Finance Officer (Single Family),"* and *"Housing Finance Specialist (Single Family)"* to *"Housing Finance Chief (all classes)," "Housing Finance Officer (all classes),"* and *"Housing Finance Specialist (all classes)";* these positions are transferrable within Agency divisions, are not limited by class, and have the same disclosure requirements regardless of class and division, if transferred to a division which has identified these positions as designated employees.

5. <u>DELETE TITLES OF POSITIONS THAT HAVE BEEN RECLASSIFIED, ARE NOT BEING UTILIZED BY THE AGENCY, OR ARE NO LONGER "DESIGNATED EMPLOYEES"</u>

Administration

Delete *"Chief of Administrative Services."* This position is not being utilized by the Agency. The duties of this position are assumed by the *"Staff Services Manager (all classes and all levels)"* as described above.

Delete *"Business Services Officer."* This position is no longer a designated employee because the Agency has determined that this position neither makes nor participates in the making of decisions, nor influences decisions, which may foreseeably have a material financial effect on any financial interest.

Information Technology

Delete *"Senior Information Systems Analyst (Supervisor)."* This position is reclassified as *"Systems Software Specialist III (Supervisory)"* as described above.

Legal

Delete *"Staff Counsel III"* and *"Staff Counsel."* These positions are reclassified as *"Staff Counsel (all classes and all levels)"* as described above.

Fiscal Services

Delete *"Housing Finance Specialist (Single Family)."* This position is no longer a designated employee because the Agency has determined that this position neither makes nor participates in the making of decisions, nor influences decisions, which may foreseeably have a material financial effect on any financial interest.

Homeownership

Delete *"Housing Finance Specialist (Single Family)."* This position is no longer a designated employee because the Agency has determined that this position neither makes nor participates in the making of decisions, nor influences decisions, which may foreseeably have a material financial effect on any financial interest.

Multifamily

Delete *"Housing Finance Chief (Construction Services)"* and "Housing Finance Officer (Construction Services)." These positions are reclassified as "Housing Finance Chief (all classes)" and "Housing Finance Officer (all classes)" as described above.

Delete *"Senior Estimator," "Housing Construction Inspector," "Housing Finance Specialist (Rental) (Preservation Assistance),"* and *"Housing Finance Specialist (Construction Services)."* These positions are no longer designated employees because the Agency has determined that these positions neither make nor participate in the making of decisions, nor influence decisions, which may foreseeably have a material financial effect on any financial interest.

Asset Management

Delete *"Housing Finance Specialist (Management Services)"* and *"Housing Maintenance Inspector."* These positions are no longer designated employees because the Agency has determined that these positions neither make nor participate in the making of decisions, nor influence decisions, which may foreseeably have a material financial effect on any financial interest.

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RESOLUTION 09-13

RESOLUTION APPROVING PROPOSED AMENDMENTS TO REGULATIONS

WHEREAS, the California Housing Finance Agency (the "Agency") through its Board of Directors (the "Board") is authorized to adopt and, where appropriate, to amend or repeal regulations; and

WHEREAS, the Board has determined that the proposed amendments to certain Agency regulations, as attached hereto, are necessary and appropriate for adoption by the Agency,

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors as follows:

1. The attached amendments to the Agency's regulations, incorporated herein by reference, concerning Title 25, Division 2, Chapter 1, Article 1, § 10001 of the California Code of Regulations (the Conflict of Interest Code of the Agency) are hereby approved.

2. The staff is directed to give public notice, conduct any required public hearing and take such other action as may be necessary or proper for the adoption by the Agency of such amended regulations including submission of such amendments to the Fair Political Practices Commission and the Office of Administrative Law. The staff is authorized to make non-material revisions to these amendments, without further Board approval, as may be appropriate in the course of promulgating these amendments.

I hereby certify that this is a true and correct copy of Resolution 09-13 adopted at a duly constituted meeting of the Board of Directors of the Agency held on July 09, 2009, at Sacramento, California.

ATTEST: _____
Secretary

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State of California

M E M O R A N D U M

To: Board of Directors **Date:** June 25, 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 April 30, 2009 by insurance type,
- Delinquencies as of April 30, 2009 by product (loan) type,
- Delinquencies as of April 30, 2009 by loan servicer,
- Delinquencies as of April 30, 2009 by county,
- Real Estate Owned (REO) at May 31, 2009,
- Gains/ (Losses) on the Disposition of 1st Trust Deeds, January 1 through December 31, 2008, and January 1, 2009 through May 31, 2009
- Write-Offs of subordinate loans, January 1 through December 31, 2008, and January 1 through May 31, 2009,
- Information on the MI portfolio delinquencies,
- A graph of CalHFA's 90-day+ ratios for FHA and Conventional loans (for the period of April 1999 through April 2009), and
- A graph of 90-day+ ratios for CalHFA's three Conventional loan (products) types, for the period of January 2007 through April 2009.

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California Housing Finance Agency

CalHFA

HOMEOWNERSHIP LOAN PORTFOLIO
DELINQUENCY, REO and LOSS REPORT

Reconciled Loan Delinquency Summary
All Active Loans By Insurance Type
As of April 30, 2009

	Loan Count	Balance	Percent	DELINQUENCY RATIOS 30-Day	60-Day	90(+) Day	Total
Federal Guaranty							
FHA	15,363	$ 2,164,533,949.87	33.18%	5.05%	2.38%	7.24%	14.68%
VA	443	71,565,328.36	1.10%	3.84%	1.35%	7.67%	12.87%
RHS	101	20,615,817.95	0.32%	1.98%	1.98%	6.93%	10.89%
Conventional loans							
with MI							
CalHFA MI Fund	10,033	2,752,168,693.43	42.19%	3.23%	2.16%	10.16%	15.55%
without MI							
Orig with no MI	6,125	1,292,887,031.23	19.82%	1.70%	0.88%	2.68%	5.26%
MI Cancelled*	1,643	221,803,365.11	3.40%	1.83%	0.30%	1.22%	3.35%
Total CalHFA	33,708	$ 6,523,574,185.95	100.00%	3.72%	1.93%	6.99%	12.64%

*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 By Loan Type
As of April 30, 2009

	Loan Count	Balance	Percent	DELINQUENCY RATIOS 30-Day	60-Day	90(+) Day	Total
30-yr level amort							
FHA	15,363	$ 2,164,533,949.87	33.18%	5.05%	2.38%	7.24%	14.68%
VA	443	71,565,328.36	1.10%	3.84%	1.35%	7.67%	12.87%
RHS	101	20,615,817.95	0.32%	1.98%	1.98%	6.93%	10.89%
Conventional - with MI	4,742	1,184,982,260.48	18.16%	2.49%	1.69%	7.09%	11.26%
Conventional - w/o MI	6,762	1,274,284,987.95	19.53%	1.58%	0.53%	2.09%	4.20%
40-yr level amort							
Conventional - with MI	752	221,941,410.22	3.40%	3.46%	1.86%	7.58%	12.90%
Conventional - w/o MI	238	48,189,149.95	0.74%	0.84%	2.10%	2.10%	5.04%
5-yr IOP, 30-yr amort							
Conventional - with MI	4,539	1,345,245,022.73	20.62%	3.97%	2.71%	13.79%	20.47%
Conventional - w/o MI	768	192,216,258.44	2.95%	3.26%	2.34%	4.95%	10.55%
Total CalHFA	33,708	$ 6,523,574,185.95	100.00%	3.72%	1.93%	6.99%	12.64%
		Weighted average of conventional loans:		2.57%	1.55%	6.76%	10.88%

California Housing Finance Agency

CalHFA

Reconciled Loan Delinquency Summary
All Active Loans By Loan Servicer
As of April 30, 2009

	Loan Count	Balance	Percent	DELINQUENCY RATIOS 30-Day	60-Day	90(+) Day	Total
CALHFA - LOAN SERVICING	11,856	$ 2,836,801,483.56	43.49%	2.77%	1.61%	7.17%	11.55%
GUILD MORTGAGE	7,454	1,441,130,529.71	22.09%	4.57%	2.23%	7.90%	14.70%
BAC HOME LOANS SERVICING, LP	5,909	1,013,215,799.54	15.53%	4.26%	2.18%	7.87%	14.32%
WELLS FARGO HOME MORTGAGE	2,857	369,486,350.35	5.66%	3.33%	1.54%	4.34%	9.21%
EVERHOME MORTGAGE COMPANY	2,496	261,645,708.56	4.01%	4.53%	1.88%	3.45%	9.86%
FIRST MORTGAGE CORP	1,286	279,493,700.52	4.28%	4.04%	2.26%	9.18%	15.47%
GMAC MORTGAGE CORP	1,132	173,431,739.79	2.66%	5.30%	3.18%	7.07%	15.55%
BANK OF AMERICA, NA	326	59,175,926.24	0.91%	2.15%	0.92%	7.36%	10.43%
WASHINGTON MUTUAL BANK	259	66,810,127.64	1.02%	0.77%	0.77%	5.79%	7.34%
CITIMORTGAGE, INC.	71	17,519,719.83	0.27%	1.41%	4.23%	5.63%	11.27%
DOVENMUEHLE MORTGAGE, INC.	53	2,059,445.06	0.03%	1.89%	0.00%	1.89%	3.77%
WESCOM CREDIT UNION	8	2,478,678.14	0.04%	12.50%	0.00%	12.50%	25.00%
PROVIDENT CREDIT UNION	1	324,977.01	0.00%	0.00%	0.00%	0.00%	0.00%
Total CalHFA	33,708	$ 6,523,574,185.95	100.00%	3.72%	1.93%	6.99%	12.64%

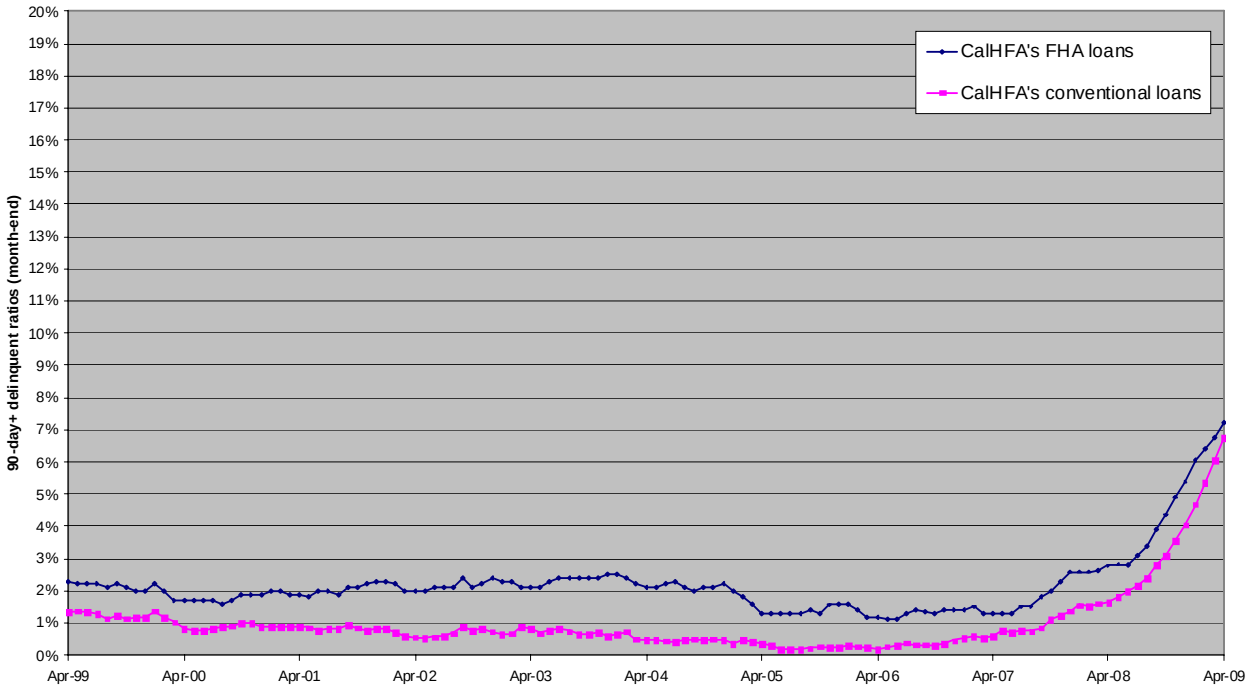
Reconciled Loan Delinquency Summary
All Active Loans By County
As of April 30, 2009

	Loan Count	Balance	Percent	DELINQUENCY RATIOS 30-Day	60-Day	90-Day+	Total
LOS ANGELES	5,132	$ 1,104,972,288.61	16.94%	3.13%	1.86%	4.19%	9.18%
SAN DIEGO	3,575	814,512,763.05	12.49%	3.17%	1.98%	9.10%	14.25%
KERN	2,106	258,158,549.37	3.96%	6.70%	2.64%	8.16%	17.51%
SANTA CLARA	2,019	579,277,844.22	8.88%	1.53%	0.64%	2.23%	4.40%
RIVERSIDE	1,993	356,798,857.38	5.47%	4.68%	2.44%	12.05%	19.16%
SAN BERNARDINO	1,947	364,302,910.44	5.58%	5.01%	3.63%	11.55%	20.19%
SACRAMENTO	1,784	355,613,235.09	5.45%	3.73%	2.40%	7.64%	13.77%
ORANGE	1,747	405,014,643.89	6.21%	2.22%	1.25%	3.41%	6.89%
TULARE	1,688	173,830,080.39	2.66%	5.12%	2.18%	5.59%	12.89%
FRESNO	1,617	163,890,879.81	2.51%	5.48%	2.34%	4.00%	11.82%
ALAMEDA	1,291	332,643,356.14	5.10%	1.70%	1.08%	3.48%	6.26%
CONTRA COSTA	1,104	265,328,128.22	4.07%	1.99%	2.35%	6.50%	10.83%
VENTURA	772	218,263,822.71	3.35%	1.81%	1.81%	5.56%	9.17%
IMPERIAL	763	85,194,185.10	1.31%	5.34%	2.86%	8.59%	16.80%
SONOMA	600	133,839,668.53	2.05%	1.83%	1.67%	5.83%	9.33%
OTHER COUNTIES	5,570	911,932,973.00	13.98%	3.70%	1.59%	5.70%	11.00%
Total CalHFA	33,708	$ 6,523,574,185.95	100.00%	3.72%	1.93%	6.99%	12.64%

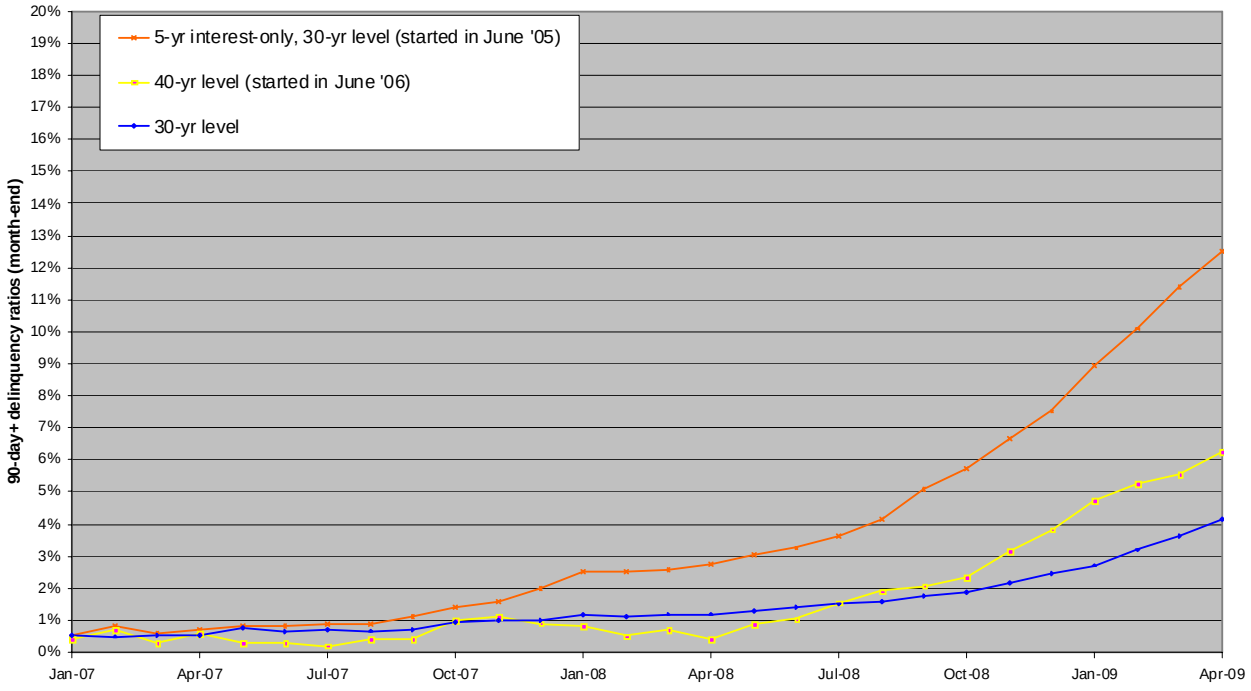
California Housing Finance Agency

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
March 2009 Number of Loans	11,107	406	475	210	1,091	9.82%
March 2009 $ Amount	$ 3,068,493,657	$ 114,740,949	$ 131,225,751	$ 57,505,316	$ 303,472,016	9.89%
April 2009 Number of Loans	11,037	409	600	221	1,230	11.14%
April 2009 $ Amount	$ 3,051,046,688	$ 115,779,454	$ 169,132,273	$ 59,772,056	$ 344,683,783	11.30%
May 2009 Number of Loans	10,968	409	645	268	1,322	12.05%
May 2009 $ Amount	$ 3,038,584,060	$ 113,883,863	$ 183,495,083	$ 73,335,051	$ 370,713,997	12.20%

(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 2009 (As of May 31, 2009)											
		*Trustee Sales			Disposition of REO(s)						
Loan Type	Beginning Balance # of Loans	Reverted to CalHFA Jan-April	Reverted to CalHFA May	Total Trustee Sales	Repurchased by Lender Jan-April	Market Sale(s) Jan-April	Repurchased by Lender May	Market Sale(s) May	Total Disposition of REO(s)	Ending Balance # of Loans	UPB of REO's Owned
FHA/RHS/VA	51	170	43	213	102		44		146	118	$ 25,383,799
Conventional	226	156	114	270		95		34	129	367	84,434,720
Total	277	326	157	483	102	95	44	34	275	485	$ 109,818,519

Calendar Year 2008						
		*Trustee Sales	Disposition of REO(s)			
Loan Type	Beginning Balance # of Loans	Reverted to CalHFA 2008	Repurchased by Lender 2008	Market Sale(s) 2008	Ending Balance # of Loans	UPB of REO's Owned
FHA/RHS/VA	33	231	212	1	51	$ 11,206,593
Conventional	42	255		71	226	52,475,997
Total	75	486	212	72	277	$ 63,682,590

Calendar 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 eight (8) 3rd party sales in calendar year 2008, and there are ten (10) 3rd party sales year to date for 2009.*

California Housing Finance Agency

CalHFA

Calendar Year 2008[1] / 2009[2] Year to Date REO Uninsured Losses[3]		
	2008	2009
1st TD Sale Estimated Gain/(Loss)	$ (610,082)	$ (2,792,008)
Subordinate Write-Off	(6,433,527)	(5,579,108)
Total Gain(Loss)/Write-Offs	$ (7,043,609)	$ (8,371,116)

(1) For the period of January 1, 2008 thru December 31, 2008.
(2) For the period of January 1, 2009 thru May 31, 2009.
(3) Includes both reconciled and unreconciled gains/losses to date.

2009 Year to Date Composition of 1st Trust Deed Gain/(Loss) (As of May 31, 2009)					
	Disposition				
Loan Type	Repurchased by Lender	Market Sales	Loan Balance at Trustee Sale	Estimated Indenture Gain/(Loss)	[1]Estimated GAP Loss
FHA/RHS/VA	146		$ 29,761,272		
Conventional		129	33,073,937	$ (2,792,008)	$(4,578,156)
	146	129	$ 62,835,209	$ (2,792,008)	$(4,578,156)

(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.

2009 Year to Date Composition of Subordinate Write-Offs by Loan Type[1] (As of May 31, 2009)						
	Active Loans		Write-Offs			
Loan Type	Active Loans	Dollar Amount	Number of Write-Offs	% (of Portfolio)	Dollar Amount	% (of Portfolio)
CHAP/HiCAP	12,926	$138,678,269	302	2.34%	$3,201,607	2.31%
CHDAP/ECTP/HiRAP	22,388	187,868,234	307	1.37%	2,377,501	1.27%
Other [2]	301	3,939,308	0	0.00%	0	0.00%
	35,615	$330,485,811	609	1.71%	$5,579,108	1.69%

(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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State of California

M E M O R A N D U M

To: Board of Directors **Date:** June 25, 2009

Bruce D. Gilbertson, Director of Financing
From: **CALIFORNIA HOUSING FINANCE AGENCY**

Subject: UPDATE ON VARIABLE RATE BONDS AND INTEREST RATE SWAPS

Over a number of years the Agency has integrated the use of variable rate debt as a primary issuance strategy in providing capital to support its programmatic goals. Most of our interest rate exposure from variable rate debt is hedged in the swap market. This strategy has enabled us to achieve a significantly lower cost of funds and a better match between assets and liabilities.

The following report describes our variable rate bond and interest rate swap positions as well as the related risks associated with this financing strategy. The report is divided into sections as follows:

- Variable Rate Debt Exposure
- Fixed-Payer Interest Rate Swaps
- Basis Risk and Basis Swaps
- Risk of Changes to Tax Law
- Amortization Risk
- Termination Risk
- Types of Variable Rate Debt
- Liquidity Providers
- Bond and Swap Terminology

VARIABLE RATE DEBT EXPOSURE

This report describes the variable rate bonds and notes of CalHFA and is organized programmatically by indenture as follows: HMRB (Home Mortgage Revenue Bonds--CalHFA's largest single family indenture), MHRB (Multifamily Housing Revenue Bonds III--CalHFA's largest multifamily indenture), HPB (Housing Program Bonds--CalHFA's multipurpose indenture, used to finance a variety of loans including the Agency's downpayment assistance loans), and DDB (Draw Down Bonds used to preserve tax-exempt authority.) The total amount of CalHFA variable rate debt is $5.1 billion, 62% of our $8.2 billion of total indebtedness as of June 1, 2009.

VARIABLE RATE DEBT
($ in millions)

	Tied Directly to Variable Rate Assets	Swapped to Fixed Rate	Not Swapped or Tied to Variable Rate Assets	Total Variable Rate Debt
HMRB	$2	$3,342	$707	$4,051
MHRB	39	710	171	920
HPB	0	32	60	92
DDB	0	0	0	0
Total	$41	$4,084	$938	$5,063

As shown in the table above, our "net" variable rate exposure is $938 million, 11.4% of our indebtedness. The net amount of variable rate bonds is the amount that is neither swapped to fixed rates nor directly backed by complementary variable rate loans or investments. The $938 million of net variable rate exposure ($715 million taxable and $223 million tax-exempt) is offset by the Agency's balance sheet and excess swap positions. While our current net exposure is not tied directly to variable rate assets, we have approximately $632 million (six month average balance as of 9/30/08) of other Agency funds invested in the State Treasurer's investment pool (SMIF) earning a variable rate of interest. From a risk management perspective, the $632 million is a balance sheet hedge for the $938 million of net variable rate exposure.

In order to maintain a certain level of confidence that the balance sheet hedge is effective, we have reviewed the historical interest rates earned on investments in the SMIF and LIBOR interest rate resets (most of our unhedged taxable bonds are index floaters that adjust at a spread to LIBOR). Using the data for the last ten years, we determined that there is a high degree of correlation between the two asset classes (SMIF and LIBOR) and that for every $1 invested in SMIF we can potentially hedge $1 of LIBOR-based debt.

The net variable rate exposure is further reduced by two other considerations: 1) as mentioned in the Amortization Risk section of this report, we have $144 million notional amount of interest rate swaps in excess of the original bonds they were to hedge, and 2) a portion of our unhedged exposure is tax-exempt debt which resets at the theoretical ratio of 65% of Libor. These two

considerations serve to reduce the net effective variable rate exposure to the equivalent of $767 million of LIBOR-based debt. As a result, the $632 million of other Agency funds invested in SMIF effectively hedges approximately 82.4% of our current net variable rate exposure.

In addition, taking unhedged variable rate exposure mitigates the amortization risk without the added cost of purchasing swap optionality. Our unhedged variable rate bonds are callable on any date and allow for bond redemption or loan recycling without the cost of par termination rights or special bond redemption provisions. In addition, taking unhedged variable rate exposure diversifies our interest rate risks by providing benefits when short-term interest rates rise slower than the market consensus. In a liability portfolio that is predominately hedged using long-dated swaps, the unhedged exposure balances the interest rate profile of the Agency's outstanding debt.

FIXED-PAYER INTEREST RATE SWAPS

Currently, we have a total of 130 "fixed-payer" swaps with fourteen different counterparties for a combined notional amount of $4.2 billion. All of these fixed-payer swaps are intended to establish synthetic fixed rate debt by converting our variable rate payment obligations to fixed rates. These interest rate swaps generate significant debt service savings in comparison to our alternative of issuing fixed-rate bonds. This savings has allowed us to offer loan products with exceptionally low interest rates to multifamily sponsors and to first-time homebuyers. The table below provides a summary of our swap notional amounts.

FIXED PAYER INTEREST RATE SWAPS
(notional amounts)
($ in millions)

	Tax-Exempt	Taxable	Totals
HMRB	$2,971	$491	$3,462
MHRB	731	0	731
HPB	35	0	35
TOTALS	$3,737	$491	$4,228

The following table shows the diversification of our fixed payer swaps among the fourteen firms acting as our swap counterparties. Note that our swaps with Bear Stearns, and Goldman Sachs are with highly-rated structured subsidiaries that are special purpose vehicles used only for derivative products. We have chosen to use these subsidiaries because the senior credit of those firms is not as strong as that of the other firms. Note also that our most recent swaps with Merrill Lynch are either with their highly-rated structured subsidiary or we are benefiting from the credit of this triple-A structured subsidiary through a guarantee.

SWAP COUNTERPARTIES

Swap Counterparty	Credit Ratings Moody's	S & P	Notional Amounts Swapped ($ in millions)	Number of Swaps
Bear Stearns Financial Products Inc.	Aaa	AAA	$ 757.1	15
			277.4*	8*
Citigroup Financial Products Inc.	A3	A	652.4	19
Merrill Lynch Derivative Products, AG	Aaa	AAA	600.0	28
Merrill Lynch Capital Services Inc.	A2	A	591.0	18
Goldman Sachs Mitsui Marine Derivative Products, L.P.	Aa1	AAA	373.8	10
AIG Financial Products Corp.	A3	A-	287.1	8
Deutsche Bank AG	Aa1	A+	271.9	11
JP Morgan Chase Bank	Aa1	AA-	204.6	7
Bank of America, N.A.	Aa3	A+	177.0	5
Morgan Stanley Capital Services Inc	A2	A	136.7	2
BNP Paribas	Aa1	AA	82.5	2
UBS AG	Aa2	A+	41.3	2
Dexia Credit Local	A1	A	27.3	2
The Bank of New York	Aaa	AA	25.0	1
			$4,227.7	130

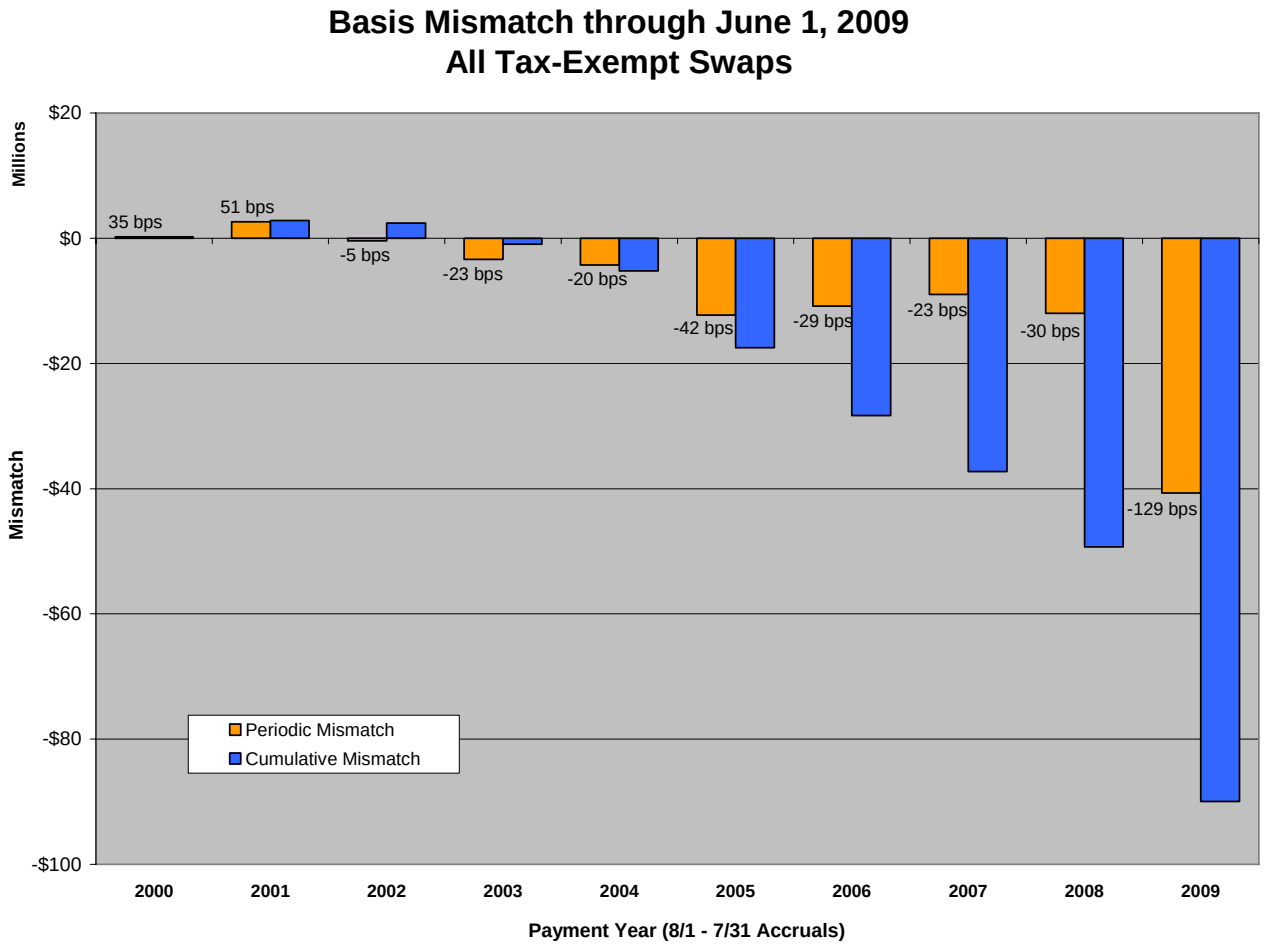
* *Basis Swaps (not included in totals)*

With interest rate swaps, the "notional amount" (equal to the principal amount of the swapped bonds) itself is not at risk. Instead, the risk is that a counterparty would default and, because of market changes, the terms of the original swap could not be replicated without additional cost.

For all of our fixed-payer swaps, we receive floating rate payments from our counterparties in exchange for a fixed-rate obligation on our part. In today's market, the net periodic payment owed under these swap agreements is from us to our counterparties. As an example, on our February 1, 2009 semiannual debt service payment date we made a total of $47.5 million of net payments to our counterparties. Conversely, if short-term rates were to rise above the fixed rates of our swap agreements, then the net payment would run in the opposite direction, and we would be on the receiving end.

BASIS RISK AND BASIS SWAPS

Almost all of our swaps contain an element of what is referred to as "basis risk" – the risk that the floating rate component of the swap will not match the floating rate of the underlying bonds. This risk arises because our swap floating rates are based on indexes, which consist of market-wide averages, while our bond floating rates are specific to our individual bond issues. The only exception is where our taxable floating rate bonds are index-based, as is the case of the taxable floaters we have sold to the Federal Home Loan Banks. The chart below is a depiction of the basis mismatch that we have encountered since 2000 when we entered the swap market.



As the chart shows, the relationship between the two floating rates changes as market conditions change. Basis mismatch for our 2008 bond year (August 1, 2007 – July 31, 2008) has been primarily due to the collapse of the auction rate securities market and the impact of bond insurer downgrades on variable rate demand obligations. Auction rate securities account for 55% of the total mismatch and insured variable rate demand obligations have accounted for 45% of the total mismatch for 2008. We have responded to the market disruption by refunding, converting, or otherwise modifying many of the under performing auction rate securities and insured VRDOs. In 2009, the basis mismatch has been further compounded by bank bonds and the disparity between the SIFMA to LIBOR ratio. The rate on bank bonds are much higher than the rate that we receive on swaps, and the SIFMA/LIBOR ratio has been at historical high levels of over 100% for the past six months.

Over the lifetime of our swaps we have experienced approximately $89 million of additional interest expense due to this basis mismatch. Over time, we have since mitigated some of this risk by changing our swap formulas. The earliest swaps entered into utilized a floating rate formula of 65% of LIBOR, the London Inter-Bank Offered Rate which is the index used to benchmark taxable floating rate debt. These percentage-of-LIBOR swaps afforded great savings with minimal basis risk compared to fixed rate bonds when the average SIFMA/LIBOR ratio was steady at 65%. Short-term interest rates can be volatile and as short-term rates fall, the SIFMA/LIBOR ratio tends to increase. When short-term interest rates rise the SIFMA/LIBOR ratio usually falls to the theoretical ratio of one minus the marginal federal income tax rate. The SIFMA (Securities Industry and Financial Markets Association) index is the index used to benchmark tax-exempt variable rates. The following table displays the SIFMA/LIBOR ratio for the past eight years.

Average SIFMA/LIBOR Ratio			
2002	77.9%	2006	67.6%
2003	85.4%	2007	69.1%
2004	81.7%	2008	83.7%
2005	72.5%	2009 to date	123.7%

When the SIFMA/LIBOR ratio is very high the swap payment we receive falls short of our bond payment, and the all-in rate we experience is somewhat higher. The converse is true when the percentage is low. We continually monitor the SIFMA/LIBOR relationship and the performance of our swap formulas and make adjustments to the formula as necessary.

The table on the next page shows the diversification of variable rate formulas used for determining the payments received from our interest rate swap counterparties.

BASIS FOR VARIABLE RATE PAYMENTS
RECEIVED FROM SWAP COUNTERPARTIES
(notional amounts)
($ in millions)

	Tax-Exempt	Taxable	Totals
60% of LIBOR + 26bps	$1,687	$0	$1,687
62% of LIBOR + 25bps	555	0	555
65% of LIBOR	507	0	507
SIFMA – 15bps	412	0	412
3 mo. LIBOR + spread	0	278	278
Stepped % of LIBOR [1]	277	0	277
1 mo. LIBOR	0	141	141
97% of SIFMA	74	0	74
SIFMA – 20bps	58	0	58
63% of LIBOR + 24bps	50	0	50
3 mo. LIBOR	0	37	37
6 mo. LIBOR	0	35	35
60% of LIBOR + 21bps	30	0	30
64% of LIBOR	25	0	25
63% of LIBOR + 30bps	25	0	25
SIFMA – 5bps	16	0	16
61% of LIBOR + 21bps	11	0	11
64% of LIBOR + 25bps	10	0	10
TOTALS	$3,737	$491	$4,228

[1] Stepped % of LIBOR – This formula has seven incremental steps where at the low end of the spectrum the swap counterparty would pay us 85% of LIBOR if rates should fall below 1.25% and at the high end, they would pay 60% of LIBOR if rates are greater than 6.75%.

RISK OF CHANGES TO TAX LAW

For an estimated $3.2 billion of the $3.7 billion of tax-exempt bonds swapped to a fixed rate, we remain exposed to certain tax-related risks, another form of basis risk. In return for significantly higher savings, we have chosen through these interest rate swaps to retain exposure to the risk of changes in tax laws that would lessen the advantage of tax-exempt bonds in comparison to taxable securities. In these cases, if a tax law change were to result in tax-exempt rates being more comparable to taxable rates, the swap provider's payment to us would be less than the rate we would be paying on our bonds, again resulting in our all-in rate being higher.

We bear this same risk for $263.8 million of our tax-exempt variable rate bonds which we have not swapped to a fixed rate. Together, these two categories of variable rate bonds total $3.4 billion, 41.8% of our $8.2 billion of bonds outstanding. This risk of tax law changes is the same risk that investors take when they purchase our fixed-rate tax-exempt bonds.

AMORTIZATION RISK

Our bonds are generally paid down (redeemed or paid at maturity) as our loans are prepaid. Our interest rate swaps amortize over their lives based on assumptions about the receipt of prepayments, and the single family transactions which include swapped bonds have generally been designed to accommodate prepayment rates between two and three times the “normal” rate. In other words, our interest rate swaps generally have had fixed amortization schedules that can be met under what we have believed were sufficiently wide ranges of prepayment speeds.

As market conditions change, we modify the structuring of new swaps by widening the band of expected prepayments. In addition, with the introduction of our interest only loan product we are structuring swap amortization schedules and acquiring swap par termination rights to coincide with the loan characteristics and expectations of borrower prepayment.

Also of interest is a $144 million forced overswap mismatch between the notional amount of certain of our swaps and the outstanding amount of the related bonds. This mismatch has occurred as a result of the interplay between loan prepayments and the “10-year rule” of federal tax law. Under this rule, prepayments received 10 or more years beyond the date of the original issuance of bonds cannot be recycled into new loans and must be used to redeem tax-exempt bonds. In the case of many single family bond issues, a portion of the authority to issue them on a tax-exempt basis was related to older bonds.

While this mismatch has occurred (and will show up in the tables of this report), the small semiannual cost of the mismatch will be more than offset by the large interest cost savings from our “net” variable rate debt. In other words, while some of our bonds are “over-swapped”, there are significantly more than enough unswapped variable rate bonds to compensate for the mismatch. We will continue to monitor the termination value of our “excess swap” position looking for opportunities to unwind these positions when market terminations would be at minimal cost or a positive value to us. In addition we plan to reuse unrestricted loan prepayments to purchase new loans when financially prudent to do so.

TERMINATION RISK

Termination risk is the risk that, for some reason, our interest rate swaps must be terminated prior to their scheduled maturity. Our swaps have a market value that is determined based on current interest rates. When current fixed rates are higher than the fixed rate of the swap, our swaps have a positive value to us (assuming, as is the case on all of our swaps today, that we are the payer of the fixed swap rate), and termination would result in a payment from the provider of the swap (our swap "counterparty") to us. Conversely, when current fixed rates are lower than the fixed rate of the swap, our swaps have a negative value to us, and termination would result in a payment from us to our counterparty.

Our swap documents allow for a number of termination "events", i.e., circumstances under which our swaps may be terminated early, or (to use the industry phrase) "unwound". One circumstance that would cause termination would be a payment default on the part of either counterparty. Another circumstance would be a sharp drop in either counterparty's credit ratings and, with it, an inability (or failure) of the troubled counterparty to post sufficient collateral to offset its credit problem. It should be noted that, if termination is required under the swap documents, the market determines the amount of the termination payment and who owes it to whom. Depending on the market, it may be that the party who has caused the termination is owed the termination payment.

Currently, the Government Accounting Standards Board only requires that our balance sheet and income statement be adjusted for the market value of our swaps in excess of the bonds being hedged. However, it does require that the market value be disclosed for all of our swaps in the notes to our financial statements.

Monthly we monitor the termination value of our swap portfolio as it grows and as interest rates change. The table below shows the history of the fluctuating negative value of our swap portfolio for the past year.

TERMINATION VALUE HISTORY

Date	Termination Value ($ in millions)
6/30/08*	($180.5)
7/31/08	($183.9)
8/31/08	($194.6)
9/30/08	($216.9)
10/31/08	($238.1)
11/30/08	($370.2)
12/31/08	($502.5)
1/31/09	($385.3)
2/28/09	($345.0)
3/31/09	($406.6)
4/30/09	($377.6)
5/31/09	($308.0)

** As reported on the Financial Statements.*

TYPES OF VARIABLE RATE DEBT

The following table shows our variable rate debt sorted by type, i.e., whether auction rate, indexed rate, or variable rate demand obligations (VRDOs). Auction and indexed rate securities cannot be "put" back to us by investors; hence they typically bear higher rates of interest than do "put-able" bonds such as VRDOs.

TYPES OF VARIABLE RATE DEBT
($ in millions)

	Auction Rate & Similar Securities	Indexed Rate Bonds	Variable Rate Demand Obligations	Total Variable Rate Debt
HMRB	$0	$1,070	$2,981	$4,051
MHRB	191	0	729	920
HPB	0	0	92	92
DDB	0	0	0	0
Total	$191	$1,070	$3,802	$5,063

LIQUIDITY PROVIDERS

The table below shows the financial institutions providing liquidity in the form of standby bond purchase agreements for our VRDOs.

LIQUIDITY PROVIDERS
(*$ in millions)*

Financial Institution	$ Amount of Bonds	Indenture
Dexia Credit Local	$768.6	HMRB
Bank of America	401.6	HMRB
Fannie Mae	355.1	HMRB/MHRB
Lloyds TSB	341.7	HMRB
BNP Paribas	245.8	HMRB
KBC	237.8	HMRB
Bank of Nova Scotia	199.5	HMRB
Calyon	174.2 [3]	HMRB
Bank of New York	147.9	HMRB
JP Morgan Chase Bank	138.8	HMRB
Landesbank Hessen-Thuringen	126.4	MHRB
Fortis	120.0	HMRB
Bayerische Landesbank	108.5	HMRB
Westdeutsche Landesbank	108.5	HMRB/MHRB
DEPFA Bank	105.9 [1 & 4]	MHRB
State Street Bank	85.0	HMRB
LBBW	60.3	HPB
CalSTRS	45.3	HMRB/MHRB
Citibank	31.5 [2]	HPB
Total	$3,802.4	

1. *$4.0 million of liquidity with Depfa Bank expired on Nov. 3, 2008 and was not extended.($2.2m bonds outstanding)*
2. *$31.5 million of liquidity with Citibank expired on Nov. 3, 2008 and was not extended.($31.5m bonds ourstanding)*
3. *$174.2 million of liquidity with Calyon expired on April 18, 2009 and was not extended.*
4. *$10 million of liquidity with Depha Bank expired on June 15 2009 and was not extended.*

Under these agreements, if our variable rate bonds cannot be remarketed or the standby bond purchase agreement expires and a replacement facility has not been obtained, these banks are required to buy the bonds from bondholders. Shown below is the amount of bonds that were put back to the liquidity providers and are now held as bank bonds.

Bank Bonds
(as of June 19, 2009)

Liquidity Bank	$ in millions
Calyon	$174.2
Dexia Credit Local	84.1
Citibank	31.5
DEPFA Bank	24.4
KBC/CalSTRS	3.4
Total Bank Bonds	$317.6

Unlike our interest rate swap agreements, our liquidity agreements do not run for the life of the related bonds. Instead, they are seldom offered for terms in excess of five years, and a portion of our agreements require annual renewal. Renewals were expected to take place as a matter of course; but in the current environment, liquidity banks are either unable to renew or are charging exorbitant fees for the renewals. Below is a table of the liquidity agreements that are expiring in the next six months.

Liquidity Expiring in Next Six Months
($ in millions)

Expiring Liquidity	HMRB	MHRB	HPB	Totals (by month)
Jul-09	$110	$6	$0	$116
Aug-09	123	0	0	123
Sept-09	0	0	0	0
Oct-09	90	0	0	90
Nov-09	71	0	0	71
Dec-09	52	0	0	52
Totals	$446	$6	$0	$452

BOND AND SWAP TERMINOLOGY

COUNTERPARTY
One of the participants in an interest rate swap

DATED DATE
Date from which first interest payment is calculated.

DELAYED START SWAP
A swap which delays the commencement of the exchange of interest rate payments until a later date.

DELIVERY DATE, OR ISSUANCE DATE
Date that bonds are actually delivered to the underwriters in exchange for the bond proceeds.

GENERAL OBLIGATION BOND
A type of security which is evidence of a debt secured by all revenues and assets of an organization.

INDENTURE
The legal instrument that describes the bonds and the pledge of assets and revenues to investors. The indenture often consists of a general indenture plus separate series indentures describing each issuance of bonds.

INTEREST RATE CAP
A financial instrument which pays the holder when market rates exceed the cap rate. The holder is paid the difference in rate between the cap rate and the market rate. Used to limit the interest rate exposure on variable rate debt.

INTEREST RATE SWAP
An exchange between two parties of interest rate exposures from floating to fixed rate or vice versa. A fixed-payer swap converts floating rate exposure to a fixed rate.

LIBOR
London Interbank Offered Rate. The interest rate highly rated international banks charge each other for borrowing U.S. dollars outside of the U.S. Taxable swaps often use LIBOR as a rate reference index. LIBOR swaps associated with tax-exempt bonds will use a percentage of LIBOR as a proxy for tax-exempt rates.

MARK-TO-MARKET
Valuation of securities or swaps to reflect the market values as of a certain date. Represents liquidation or termination value.

MATURITY
Date on which the principal amount of a bond is scheduled to be repaid.

NOTIONAL AMOUNT
The principal amount on which the exchanged swap interest payments are based.

OFFICIAL STATEMENT
The "prospectus" or disclosure document describing the bonds being offered to investors and the assets securing the bonds.

PRICING DATE

Date on which issuer agrees (orally) to sell the bonds to the underwriters at certain rates and terms.

REDEMPTION

Early repayment of the principal amount of the bond. Types of redemption: "special", "optional", and "sinking fund installment".

REFUNDING

Use of the proceeds of one bond issue to pay for the redemption or maturity of principal of another bond issue.

REVENUE BOND (OR SPECIAL OBLIGATION BOND) (OR LIMITED OBLIGATION BOND)

A type of security which is evidence of a debt secured by revenues from certain assets (loans) pledged to the payment of the debt.

SIFMA INDEX

Securities Industry and Financial Markets Association Municipal Swap Index. A weekly index of short-term tax-exempt rates.

SALE DATE

Date on which purchase contract is executed evidencing the oral agreement made on the pricing date.

SERIAL BOND

A bond with its entire principal amount due on a certain date, without scheduled sinking fund installment redemptions. Usually serial bonds are sold for any principal amounts to be repaid in early (10 or 15) years.

SERIES OF BONDS

An issuance of bonds under a general indenture with similar characteristics, such as delivery date or tax treatment. Example: "Name of Bonds", 1993 Series A. Each series of Bonds has its own series indenture.

SWAP CALL OPTION

The right (but not the obligation) to terminate a predetermined amount of swap notional amount, occurring or starting at a specific future date.

SYNTHETIC FIXED RATE DEBT

Converting variable rate debt into a fixed rate obligation through the use of fixed-payer interest rate swaps.

SYNTHETIC FLOATING RATE DEBT

Converting fixed rate debt into a floating rate obligation through the use of fixed-receiver interest rate swaps.

TERM BOND

A bond with a stated maturity, but which may be subject to redemption from sinking fund installments. Usually of longer maturity than serial bonds.

VARIABLE RATE BOND

A bond with periodic resets in its interest rate. Opposite of fixed rate bond.

State of California

M E M O R A N D U M

To: **CalHFA Board of Directors** **Date:** 24 June2009

From: **Di Richardson, Director of Legislation**
CALIFORNIA HOUSING FINANCE AGENCY

Subject: Legislative Report

Listening to the Senate debate the most recent changes to the State Budget as I put this report together – not seeing any light at the end of this tunnel.

As always, below I have provided a list of bills I think may be of interest to you. As always, feel free to call me if you have any questions.

CalHFA Sponsored

SB 224 (Correa) - Housing Assistance
Last Amend: 05/27/2009
Status: Assembly Appropriations Committee

- **Summary:** Co-sponsored by CalHFA, this bill would explicitly authorize the use of CalHOME funds (administered by HCD) for the rehabilitation of manufactured or mobilehomes. It would also authorize CalHFA to subordinate the downpayment assistance loans made under the California Homebuyer Downpayment Assistance Program (CHDAP) to a new loan if the borrower has suffered an economic hardship and the subordination is necessary to prevent foreclosure. The language authorizing subordination of CHDAP has also been approved for inclusion in a budget trailer bill.

Bonds

AB 1364 (Evans) - Public contracts: state bonds: grant agreements.
Last Amend: 04/29/2009
Status: Senate Governmental Organization Committee

Summary: Existing law permits the modification of contracts by state agencies in specified instances. This bill would provide that, notwithstanding any other provision of law, any state agency that has entered into a grant agreement for the expenditure of state bond funds where the state agency or grant recipient has or may be unable to comply with the terms of that agreement because of the suspension of programs by the Pooled Money Investment Board (as described in California Department of Finance Budget Letter 08-33) shall, with the consent of the grant recipient, have the authority to either renegotiate the deadlines and timetables for and deliverables within the grant agreement, or to invalidate the grant agreement. This bill is intended to provide an affirmative solution to validate state contracts that have not been able to meet deliverables, by allowing state agencies to amend the timetables for those contracts.

SB 501 (Correa) - California Debt Limit Allocation Committee.
Last Amend: 04/20/2009
Status: Assembly Appropriations Committee

Summary: Existing law requires the California Debt Limit Allocation Committee (CDLAC) to allocate to authorized state and local agency applicants the volume ceiling for private activity bonds that can be issued in California in accordance with federal law. This bill would authorize CDLAC to allow a local agency, which is located within in a county that has not in any calendar year applied for all of its bond cap, to apply on or after October 1 for a portion of that bond cap. This bill is sponsored by the Independent Cities Lease Finance Authority.

SB 608 (Ducheny) - Department of Housing and Community Development: bond fund expenditures: report.
Last Amend: As Introduced
Status: Assembly Housing and Community Development Committee

Summary: The Housing and Emergency Shelter Trust Fund Act of 2002 and the Housing and Emergency Shelter Trust Fund Act of 2006 authorize the issuance of general obligation bonds in to fund various housing and code enforcement programs. This bill would expand the reporting requirements associated with those bonds. According to the author's staff, while statute currently requires HCD to list the units produced and other data for each program, there is no requirement to provide an accounting of the infrastructure assistance provided by each bond. This bill requires HCD to provide cumulative information on the programs funded under the 2002 and 2006 housing bonds, thereby improving oversight and public accountability.

Homelessness

AB 1177 (Fong) - Homelessness: Interagency Council on Homelessness.
Last Amend: 06/01/2009
Status: Assembly Appropriations Committee

Summary: Under existing law, several agencies have prescribed responsibilities relating to homeless persons. This bill would, among other things, create the California Interagency Council on Homelessness, composed of specified members

(including CalHFA), to construct cross-agency and community cooperation in responding to homelessness, use a more efficient and supportive method in implementing evidence-based approaches to address homelessness, and, to the extent possible, plan to end homelessness in the state. This bill would also require the council to submit reports, not less than annually, to specified committees of the Legislature and to perform other duties as prescribed. According to the author's staff, California has the largest homeless population in the nation, but is the only large state without an interagency council on homelessness. More than 10 California agencies administer programs affecting homelessness, but there is no official coordination to ensure greatest efficiencies. Proponents argue the state lacks coordination between state agencies, local government, and non-profit organizations.

Miscellaneous

AB 155 (Mendoza) – Bankruptcy Proceedings.
Last Amend: 06/01/2009
Status: Senate Local Government Committee

Summary: This bill would prohibit a municipality from filing for bankruptcy without the approval of the California Debt and investment Advisory Commission.

AB 224 (Portantino) – State Employment: salary freeze
Last Amend: 06/02/2009
Status: Senate Rules

Summary: This bill would prohibit a person employed by the state whose base salary on or after the effective date of the bill is greater than $150,000 per year from receiving a salary increase while employed in the same position or classification, and from receiving a bonus or other compensation in excess of that person's base salary for 24 months after the effective date of the bill. The bill would exempt from this prohibition a person whose compensation is governed by an operative memorandum of understanding, a person who has been exempted by executive order of the governor, or a person whose salary is set pursuant to the California Constitution.

AB 1494 (Eng) - Public meetings: definition.
Last Amend: 06/04/2009
Status: Senate Appropriations Committee

Summary: In 2006, the California Appellate court ruled in Wolfe v. Fremont (2006, 144 Cal. App. 4th 533) that a board member who went to a majority of members in individual meetings to discuss a public issue did not violate the serial meetings provision of law, unless the communication actually resulted in a decision by the board. Attorneys for the newspapers and public agencies believe the decision effectively sanctioned unlimited serial meetings involving a majority of board members, so long as it could not be proven the body agreed to a specific action as

a result of the communications. This bill would address that issue within the Bagley-Keene Act by prohibiting a majority of members of a state body from using a series of communications of any kind, directly or through intermediaries, to discuss, deliberate, or take action on any item of business that is within the subject matter of a state agency, board, or commission. This bill would make the Bagley-Keene Act's serial meeting prohibition identical to the Ralph M. Brown Open Meeting Law - the counterpart to the Bagley-Keene Act that is applicable to local government bodies-which was changed last year

Mortgage Lending

AB 34 (Nava) - Real estate, finance lender, and residential mortgage lender licenses: mortgage loan originators.

Last Amend: 06/01/2009
Status: Senate Banking, Finance and Insurance Committee.

Summary: This bill would establish the licensing of all mortgage loan originators and registration with the Nationwide Mortgage Licensing System and Registry (NMLSR). This bill would not apply to state chartered banks and credit unions.

AB 1422 (Bass) - Redevelopment: affordable housing.

Last Amend: 05/21/09
Status: Senate Transportation and Housing Committee

Summary: This bill would authorize a redevelopment agency, until January 1, 2013, to expend any money that is not held in its Low and Moderate Income Housing Fund to (1) purchase, assume, or refinance, or assist lenders or nonprofit or for-profit developers in purchasing, assuming, or refinancing, subprime or nontraditional mortgages on homes owned by persons meeting a specified income level within its jurisdiction, or make loans to those homeowners and (2) purchase, or assist lenders or nonprofit or for-profit developers in purchasing, homes within its jurisdiction that have been foreclosed and are vacant and sell those homes, without regard to income.

SB 127 (Calderon) - Mortgages.

Last Amend: 05/20/09
Status: Assembly Banking and Finance Committee

Summary: Existing law governs the transfer of an interest in property in the case of a default on a mortgage. Existing law requires a mortgagee, trustee, or other person authorized to record the notice of default or notice of sale to make specified disclosures after recording the notice of default or notice of sale and prior to the date of sale. A notice of sale must be recorded with the county recorder at least 14 days prior to the date of sale. This bill requires a mortgagee or trustee to make specified disclosures on an Internet web site or in a 24-hour telephone recording at least once a week before the scheduled sale of a property. This bill (1) requires a beneficiary to provide an opening bid to a trustee at least one week prior to the first scheduled sale date, and (2) require a trustee to provide a list of liens and

encumbrances on a foreclosed property and to charge a reasonable fee for that information, as specified.

SB 483 (Corbett) - Mortgages: foreclosure.
Last Amend: 06/23/2009
Status: Assembly Judiciary Committee

Summary: Upon a breach of the obligation of a mortgage or transfer of an interest in property, existing law requires the trustee, mortgagee, or beneficiary to post a notice of sale, as specified. Existing law also requires that the notice of sale in the case of default be mailed to the resident of the property and posted on the property, as specified. It is an infraction to tear down the notice within 72 hours of posting. This bill would revise the content of the notice described above that is required to be posted on the property. The bill would also revise the latter provision to provide that a tenant or subtenant in possession of a rental housing unit at the time the property is sold in foreclosure shall be given 60 days' written notice to quit, as specified, or 90 days if required by any other provision of state or federal law, before the tenant or subtenant may be removed from the property.

Tax Credits

AB 765 (Caballero) - Income tax credit: principal residence
Last Amend: 05/21/2009
Status: Senate Revenue and Taxation Committee

Summary: The Personal Income Tax Law authorizes a credit against the taxes imposed by that law in an amount equal to the lesser of 5% of the purchase price or $10,000 in the case of the purchase of a qualified principal residence on and after March 1, 2009, and before March 1, 2010, but not to exceed an aggregate limitation of $100,000,000 for all credits allowable. Existing law requires a certification that the residence has never been occupied be provided to the Franchise Tax Board within one week of the sale of the qualified principal residence. This bill would allow a taxpayer to reserve a credit with the Franchise Tax Board and would require that the certification be provided to the Franchise Tax Board within one week of the close of escrow of the qualified principal residence.

SB 49 (Dutton) - Income tax credit: qualified principal residence.
Last Amend: 06/092009
Status: Senate Revenue and Taxation Committee

Summary: The Personal Income Tax Law authorizes various credits against the taxes imposed by that law. Existing law authorizes a credit against those taxes in an amount equal to the lesser of 5% of the purchase price of a qualified principal residence, as defined, purchased on and after March 1, 2009, and before March 1, 2010, or $10,000, allocated by the Franchise Tax Board on a first-come-first-served basis. Existing law requires a taxpayer to provide the Franchise Tax Board with a certification from the seller of the qualified principal residence that the residence has never been previously occupied within one week of the sale of the

residence and caps the total amount of the credit at $100,000,000. This bill would provide that the tax credit is authorized for purchases of a qualified principal residence made before December 1, 2010, subject to specified restrictions. This bill would revise the certification requirements to provide that the taxpayer receive the certification no later than one week after the close of escrow on the qualified principal residence and that the Franchise Tax Board be provided with the certification upon request by the board. This bill would also remove the cap on the total credit amount allowed and the requirement that the tax credits be allocated on a first-come-first-served basis.

SB 477 (Florez) - Low- and moderate-income housing: agency powers.
Last Amend: As Introduced
Status: Senate Floor

Summary: This bill would include among a redevelopment agency's powers the authority to loan, grant, or otherwise contribute or pledge funds to an authorized purchaser, of low-income housing tax credits for the construction of low-income rental housing located within the community. The bill seeks to use the Low and Moderate Income Housing Fund of redevelopment agencies as a source of financing to serve as a substitute for the lack of tax credit equity investors throughout California, and to stimulate the economy by way of creating immediate jobs in the in the construction arena. The bill defines an authorized purchaser as a joint powers entity that consists of no less than 100 local agencies.