



BOARD OF DIRECTORS

*California Housing Finance Agency
Board of Directors*

November 19, 2009

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

10:00 a.m.

1. Roll Call.
2. Approval of the minutes of the July 9, 2009 Board of Directors meeting.
3. Chairman/Executive Director comments.
4. Discussion, recommendation and possible action regarding the Agency's participation in the United States Treasury Department's HFA Initiative.
(Steve Spears/Bruce Gilbertson)
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6. Report from the Chair of the Audit Committee. (Peter Carey)
7. Closed session under Government Code §§ 11126 (e) (1) and 11126 (e) (2) (B) (i) to confer with and receive advice from counsel regarding litigation.
8. Report, discussion and possible action regarding update to 2 Year Business Plan.
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14. Discussion of other Board matters.	
15. 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 \$6.00 per night; and 2) rates for guests not staying at the hotel is also \$6.00.

FUTURE MEETING DATES: Next CalHFA Board of Directors Meeting will be January 21, 2010, at the Burbank Airport Marriott Hotel & Convention Center, Burbank, California.

STATE OF CALIFORNIA
CALIFORNIA HOUSING FINANCE AGENCY



BOARD OF DIRECTORS
PUBLIC MEETING



Hyatt Regency Sacramento
1209 L Street
Sacramento, California

Thursday, July 9, 2009
9:40 a.m. to 1:30 p.m.



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

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A P P E A R A N C E SBoard of Directors Present

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

MARJORIE M. BERTE
for DALE E. BONNER, Secretary
Business, Transportation, and Housing Agency
State of California

KATIE CARROLL
for BILL LOCKYER
State Treasurer
State of California

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

JOHN LLOYD
for MICHAEL C. GENEST, Director
Department of Finance
State of California

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

A P P E A R A N C E SBoard of Directors Present*Continued*

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

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Participating CalHFA Staff:

MARGARET ALVAREZ
Director of Asset Management

GARY M. BRAUNSTEIN
Special Advisor to Executive Director
and
Acting Director of Homeownership

ROBERT L. DEANER II
Director of Multifamily Programs

BRUCE D. GILBERTSON
Director of Financing

THOMAS C. HUGHES
General Counsel

HOWARD IWATA
Acting Director of Administration
and
Acting Director of Fiscal Services

CHARLES K. McMANUS
Director of Mortgage Insurance Services

JOJO OJIMA
Office of the General Counsel

LINN WARREN
Multifamily Programs

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1 BE IT REMEMBERED that on Thursday, July 9,
2 2009, commencing at the hour of 9:40 a.m., at Hyatt
3 Regency Sacramento, 1209 L Street, Sacramento,
4 California, before me, DANIEL P. FELDHAUS, CSR #6949, RDR
5 and CRR, the following proceedings were held:

6 --oOo--

7 CHAIR CAREY: I'd like to welcome everyone to
8 the July 9th meeting of the California Housing Finance
9 Agency.

10 The first item of business is *Roll Call*.

11 --oOo--

12 **Item 1. Roll Call**

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

14 *(No response)*

15 MS. OJIMA: Mr. Gunning?

16 *(No response)*

17 MS. OJIMA: Mr. Hunter?

18 *(No response)*

19 MS. OJIMA: Ms. Jacobs?

20 MS. JACOBS: Here.

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

22 MS. CARROLL: Here.

23 MS. OJIMA: Mr. Shine?

24 MR. SHINE: Here.

25 MS. OJIMA: Mr. Smith?

1 MR. SMITH: Here.

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

3 MR. TAYLOR: Here.

4 MS. OJIMA: Mr. Lloyd for Mr. Genest?

5 MR. LLOYD: Here.

6 MS. OJIMA: Mr. Spears?

7 MR. SPEARS: Here.

8 MS. OJIMA: Mr. Carey?

9 CHAIR CAREY: Here.

10 MS. OJIMA: We do not have a quorum.

11 CHAIR CAREY: We will proceed with items of
12 information in anticipation of having a quorum soon.

13 The next item of business is approval of the
14 minutes from May 21st.

15 MS. JACOBS: Can you do that without a quorum?

16 CHAIR CAREY: No, probably not. Thank you.

17 --o0o--

18 **Item 3. Chairman/Executive Director Comments**

19 CHAIR CAREY: We will move on to *Chair and*
20 *Executive Director Comments*.

21 I'm simply going to turn it to Steve, our
22 executive director.

23 MR. SPEARS: Thank you very much, Mr. Chairman.

24 There are a number of things like that that
25 we're going to update you on, and so I won't spend a lot

1 of time going over the roller-coaster ride that we
2 continue to be on. All of the staff are having a measure
3 of fun on this roller-coaster ride, but it's, you know,
4 from one day to the next.

5 Some good news. New Board members -- we have
6 two new Board members: Jonathan Hunter from CSH in
7 San Diego, and also Michael Gunning. And both have been
8 appointed: Mr. Hunter by the President Pro Tem of the
9 Senate, and Mr. Gunning by the Governor. And that's
10 welcome news.

11 We've also begun lending in a small way again.
12 Our CHDAP program is back out, and we continue to do MHSA
13 projects. And we also have started the Cal30, a 30-year
14 fixed-rate product, where we're delivering to Fannie
15 Mae's window for cash. And we'll talk more about that in
16 the business plan. But we're lending again.

17 On the federal assistance package, we continue
18 to work directly with U.S. Treasury staff and FHFA staff
19 and GSE staff -- at Fannie and Freddie, both -- to
20 provide input on various proposals, to provide pricing
21 indications, and to help them put together proposals.
22 Our understanding is that proposals have been presented
23 to Treasury attorneys, that they're reviewing that, and
24 they're working with policy staff.

25 We should have an announcement very soon, which

1 is also what I said at the May Board meeting and also
2 what I said at the March Board meeting, so we view that
3 with some skepticism. But there is some evidence that
4 they have been able to now get their entire time together
5 to consider these proposals.

6 The final thing, before we get to a couple of
7 housekeeping things, are the rating agencies. We
8 continue to work with Moody's. We continue to be under
9 watch for possible downgrade. Again, that started in
10 September, on September 29th. It has extended into
11 December, and it still goes on. So we're about ten
12 months in.

13 Mr. Carey and I were talking about this this
14 morning. We view it as good news that, obviously, if
15 they had found evidence that required a downgrade at some
16 point during the last ten months of their review, they
17 would have probably done that. So it's encouraging to
18 us that they continue to look at our situation.

19 Bruce and his staff continue to provide
20 statistics and data and analysis and discuss methodology.
21 So we believe there, too, that they're coming down to the
22 wire.

23 Moody's placed Maryland's HFA on watch for
24 possible downgrade on Monday, I believe; and on Tuesday
25 announced that a billion dollars of the Illinois Housing

1 Finance Agency's bonds had been downgraded from Aa2 to
2 Aa3.

3 I believe that's right; is it not, Howard?

4 So they're working very diligently and working
5 their way through a lot of reviews of lot of HFAs at this
6 time. So we're on the list. At some point very soon I
7 think they'll come out with a decision about what to do
8 on CalHFA's bonds.

9 The S & P, however, has been at work in two
10 different areas of CalHFA. They've been working on a
11 rating, the claims-paying rating of the Mortgage
12 Insurance Fund. And this was accomplished by their
13 Corporate Mortgage Insurance Group. We spent a lot of
14 time trying to get them used to the state environment
15 that we're dealing with. They were unhappy with the loan
16 loss experience that we're having, and they were also
17 unhappy with a decision that was made to reduce the
18 backstop that the housing fund has for the Mortgage
19 Insurance Fund. It was reduced from \$100 million to
20 \$10 million, and that was my decision that was created by
21 Board resolution several years ago.

22 The basis for that decision was an analysis
23 that we'd accomplished, that looked at the capital
24 adequacy of the Mortgage Insurance Fund. And we used
25 Standard & Poor's model for capital adequacy. And under

1 that model, there was no situation where we needed any
2 amount of the \$100 million backstop.

3 Moody's was concerned about that \$100 million
4 drag on our general-obligation credit on that side. And
5 so the decision was made to reduce that backstop from
6 \$100 million to \$10 million. That would reduce the
7 capital charge that Moody's was charging by \$90 million,
8 which is a very significant amount, given, you know,
9 where they are in their analysis. But that apparently
10 sent a signal to the mortgage insurance analysts that
11 we had somehow, you know, backed off of our commitment
12 to Chuck and the insurance fund which, strategically,
13 they're still as important as ever. And that was part of
14 their decision. So that's written in their analysis and
15 it's available for viewing.

16 But it had a ripple effect. And so the result
17 was that the Mortgage Insurance Fund was downgraded from
18 A+ to BBB. We have major concerns with their result.
19 We have major concerns with their methodology. And one
20 major concern is that 75 percent of the risk in the
21 Mortgage Insurance Fund is carried by Genworth.
22 Genworth's rating is BBB+. BBB+ plus the adequate
23 reserves that we have in the Mortgage Insurance Fund
24 ought to make a floor for our rating in the insurance
25 fund; and yet they decided to go through that, all the

1 way to BBB straight. And that is just not -- that just
2 defies comprehension on my part and our finance insurance
3 staff. So we are trying to figure that out. Our plan
4 is to approach executives at Moody's on the mortgage-
5 insurance side with our objections. And we plan to do
6 that next week. Just so you know, we're going to be
7 fighting city hall on that. I don't know that we would
8 win, but we want to at least put on the record that we
9 don't believe that that's correctly done.

10 At one point in the process, we were reviewing
11 a report that was on the way out the door. It was sent
12 to us for review. And the statement was made by the
13 S & P analysts that "CalHFA's loans are mainly to low-
14 and moderate-income borrowers who mostly come from the
15 civil-service background." When questioned about why
16 they put that in there, the analyst said, "Well, I, once
17 upon a time worked in California for CalPERS and CalSTRS,
18 and I was familiar with their programs, and just made the
19 assumption that you guys are just like them."

20 So when I told him on the phone call that
21 wasn't a confidence builder, he didn't take kindly to
22 that, and so words ensued. But that's the lack of
23 analysis that we're concerned about, frankly. And that's
24 all I'll say about that topic.

25 However, the decision to reduce the rating of

1 the claims-paying ability of the insurance fund, of
2 course, attracted the attention of the bond analysts at
3 S & P. They're now talking to Bruce, and they're
4 concerned because the Mortgage Insurance Fund backstops
5 the bonds. The first 35 percent of all conventionally
6 insured loans are supported by or backed by the insurance
7 fund. This caused them some concern. They started
8 conversations with Bruce; and, surprising to us, went to
9 their credit committee earlier this week and placed
10 our issuer credit rating and our HMRB indenture on credit
11 watch -- this is their technical term - "*credit watch*
12 *with negative implications.*" It is exactly the same as
13 Moody's watch for possible downgrade. It is a 90-day
14 review. We've already started the process of talking to
15 them about their methodology, about their timing of their
16 decision, what they need for data and all that sort of
17 thing.

18 So we'll be in a Moody's conversation and an
19 S & P conversation at the same time.

20 I'd be happy to -- we're going to talk a little
21 bit more about that in the business plan and our
22 assumptions. If there are any questions from any of the
23 Board members, I welcome your questions.

24 And that concludes my comments.

25 I just have a couple of housekeeping items.

1 You have three slide handouts in front of you
2 for -- let me make sure I get the item numbers correct.

3 *(Ms. Berte entered the meeting room.)*

4 MR. SPEARS: You have -- the first is -- or
5 should be -- may I borrow yours, Jack -- "Financial
6 Markets and Agency Update." That is for Item No. 4,
7 I believe. This would go under Tab 4. They're all
8 conveniently -- Tab 4 is empty, it's all ready for your
9 slides to drop in.

10 The next --

11 MR. SHINE: We'll put it on "report watch."

12 MR. SPEARS: Thank you.

13 The next set of housekeeping is this set of
14 slides for the business plan, two-year business plan.
15 And that one is also conveniently three-hole punched,
16 and that goes behind Item No. 6, Tab No. 6.

17 And finally, you should have this one for the
18 operating budget. And that goes behind Tab No. 7, if I'm
19 not mistaken -- yes, behind Tab No. 7.

20 I hope there's room for all this.

21 MR. SHINE: There is now.

22 MS. JACOBS: JoJo always gives us nice, big
23 binders.

24 MR. SPEARS: Excellent.

25 One final item that I'll get to when we --

1 there is an important typographical error that I need to
2 correct when we get to the budget negotiation --
3 "budget," not "negotiations." That's a Freudian slip.
4 It could be. It could be -- to the budget discussion.
5 I'll point that when we get there. I won't waste the
6 Board's time at this point.

7 CHAIR CAREY: Great.

8 For the record, we now have a quorum.

9 MS. BERTE: Sorry for being late.

10 CHAIR CAREY: No problem. Welcome.

11 For the record, Marjorie Berte.

12 --o0o--

13 **Item 2. Approval of Minutes**

14 CHAIR CAREY: Okay, with that, we'll move on to
15 *Approval of the Minutes of the May 21st Board Meeting.*

16 MS. JACOBS: Move approval.

17 MR. SMITH: Second.

18 CHAIR CAREY: Moved and seconded.

19 Roll call.

20 MS. OJIMA: Thank you.

21 Ms. Berte?

22 MS. BERTE: Here.

23 MS. OJIMA: Ms. Jacobs?

24 MS. JACOBS: Yes.

25 MS. OJIMA: Ms. Carroll?

1 MS. CARROLL: Yes.

2 MS. OJIMA: Mr. Shine?

3 MR. SHINE: Yes.

4 MS. OJIMA: Mr. Smith?

5 MR. SMITH: Yes.

6 MS. OJIMA: Mr. Carey?

7 CHAIR CAREY: Yes.

8 MS. OJIMA: The minutes have been approved.

9 --o0o--

10 **Item 4. Report, discussion, and possible action**
11 **regarding the Agency's financing and**
12 **program strategies and implementation,**
13 **in light of financial marketplace disruptions**

14 CHAIR CAREY: Okay, we'll move on to Item 4,
15 the report and discussion regarding action re Agency's
16 financing program.

17 Steve?

18 MR. SPEARS: Thank you, Mr. Chairman.

19 I've asked for the able assistance of
20 Mr. Gilbertson on this. This will start under Tab 4 of
21 your slide program.

22 This is getting to be a regular item in the
23 Board agenda to update you where we are in the financial
24 markets, with our variable-rate debt, with our loan
25 portfolio delinquencies, with our rating agencies.

1 So I'll turn this over to Bruce at this point.
2 Please feel free to stop him at any point and ask
3 questions throughout this presentation.

4 MR. GILBERTSON: Thank you, Steve.

5 Good morning, Mr. Chairman, Members of the
6 Board. As I sat here this morning, I was thinking about,
7 it's almost been a year since we were in the capital
8 markets for a publicly issued financing. We closed the
9 deal in August of 2008, \$250 million for a single-family
10 program. We were rather excited, back last July or
11 August, because we had received news from the federal
12 government that all of our bonds -- mortgage revenue
13 bonds -- were now exempt from even the AMT penalty of
14 federal tax law. So we quickly moved to market, did a
15 \$250 million financing; and then, of course, we know what
16 happened as September unfolded.

17 So quickly, some thoughts about capital markets
18 today.

19 There is a fixed-rate bond market for stronger
20 credits who want to issue new financing. It doesn't work
21 extremely well in the housing business these days. There
22 is limited participation from institutional investors.
23 And I think it's safe to say that most or the vast
24 majority of the bond transactions by housing issuers,
25 housing finance agencies, and others, are for

1 single-family bond programs.

2 I have some statistics here that kind of
3 illustrate this.

4 Housing bonds for the first six months of
5 calendar 2009 are down by 75 percent from the first half
6 of 2007. 2007 was really the year before the crisis all
7 began in the early months of 2008.

8 Single-family bond issuance is down by
9 80 percent. So by comparison, in calendar year 2007
10 through June 30th, housing issuers had issued over
11 \$13 billion of bonds in 2007. In calendar year 2009,
12 it's just over \$2.5 billion. So significantly,
13 significantly lower than had been historical, by
14 historical measures.

15 There is a few absolute interest rates from
16 recent bond financings in New Mexico, Idaho, Washington,
17 Ohio. The purpose of this is to show the bond rates that
18 are being paid by issuers, and then comparing it to the
19 mortgage rates that are published by Freddie Mac on a
20 weekly basis. So I simply gave you the last four months.

21 The first Freddie Mac survey in each of the
22 last four months, in a range from 4.78 in April, more
23 recently to 5.32. So perhaps things are going in the
24 right direction, but there was a significant rally, I
25 think, in interest-rate markets yesterday. So that's

1 kind of changed a little bit. But the point in all of
2 this is that the financing costs do not support the
3 mortgage rate.

4 Recently, an investment banker told me that
5 for single-family loan programs financed with fixed-rate
6 taxes and mortgage-revenue bonds, they're estimating that
7 the mortgage rate would have to be over 6½ percent to be
8 a self-sustaining program for an agency. Clearly,
9 CalHFA is kind of in that space these days with the
10 challenges we face. So we have a disconnection in the
11 mortgage marketplace as it's compared to the mortgage-
12 revenue bond market.

13 Turning to the variable-rate bond market
14 quickly, as you all know, we have several billion dollars
15 of floating-rate debt. There is some calmness in the
16 marketplace, an abatement of liquidity and credit
17 concerns. There isn't a lot of new credit or liquidity
18 support from commercial banks for housing issuers. A
19 lesson learned over the last few years, I think. And so
20 we continue to experience higher basis mismatch on the
21 majority of our interest swaps, which have a percentage
22 of LIBOR basis.

23 Some data points here, SIFMA, which is the
24 tax-exempt floating-rate index that is widely used in
25 the market base was recently at 35 basis points. You

1 know, one month LIBOR reset into the end of June at
2 31 basis points. So this relationship, or the ratio
3 that we talk about, SIFMA to LIBOR ratio was equal to
4 112 percent.

5 By comparison, our interest-rate swap contracts
6 perceive that we would receive 62 percent of LIBOR. So
7 even if we were paying SIFMA and receiving 62 percent of
8 LIBOR, we have a significant gap. And there is a chart
9 coming up here that will demonstrate that.

10 This is the historical perspective of what we
11 refer to as "basis mismatch," from the inception of our
12 variable-rate program back in 2000 through June 1st of
13 this year.

14 Just for clarification, the yearly increments
15 shown here are actually kind of a bond debt service year.
16 It starts on August 1 of a given year and it goes through
17 July 31st of a given year. So 2009 actually represents
18 ten months of basis mismatch activity. But, clearly, the
19 orange or gold bar is growing. That's the periodic
20 mismatch. So that's for ten months. The last ten months
21 through May 31st we've experienced over \$40 million of
22 basis mismatch, variable-rate portfolio that's in excess
23 of \$4 billion. And that's approximately half of the
24 basis mismatch from the time we started the program in
25 2000.

1 As you can see, the blue bar now totals in
2 excess of \$80 million of basis mismatch.

3 So this, again, is the difference between the
4 interest rate we have to pay to the bond holder, who
5 has a floating-rate instrument issued by CalHFA, and
6 the variable-rate payment we receive from our swap
7 counterparties as a part of the interest-rate swap
8 contracts we entered into over the last ten years.

9 Another complication of the basis mismatch
10 is this notion of having bank bonds. These are
11 variable-rate demand obligations that have not been
12 successfully remarketed for one of two reasons:

13 The bank liquidity support is of such a low
14 rating that the investor community doesn't want to
15 purchase the bond, or it could have -- some of our bonds
16 still have bond insurance attached to it and that has
17 become a credit challenge for investors as well.

18 And the other reason is that the facility
19 itself has expired. When we entered into these
20 transactions, we knew that we were issuing 30-year
21 variable-rate bonds, and we had a liquidity facility that
22 ran from three to seven years, sometimes as short as one
23 year and we would have the rollover risk, that we would
24 face renewals at times in the future and have to address
25 that.

1 The good news from this chart is that,
2 remember, back in October we gathered around a table
3 somewhere, either in Sacramento or in LA, and we had to
4 tell you that we were approaching \$1.2 billion of bank
5 bonds. So we've really done a remarkable job of trying
6 to bring that down.

7 Clearly, you can see it's been very stagnant
8 over the last few months. And what really remains is
9 \$313 million of bank bonds, \$92 million are due to failed
10 remarketings. Investors simply don't want to buy the
11 bond because of the liquidity support provided by the
12 bank. And \$210 million are due to expiration of the
13 underlying facilities, the first one going back to
14 November of last year. This is where the federal
15 assistance program will come in very handy for the
16 Agency. It would -- as we understand the program -- and
17 we'll talk more about that in a few minutes -- it would
18 provide a new liquidity source for housing finance
19 agencies; and certainly we are hopeful that it would take
20 us out of all of the bank bonds.

21 A quick snapshot of our debt portfolio as of
22 July 1st. It really hasn't changed much. We do have
23 some redemption activity that will be targeted to the
24 August 1, 2009, debt-service date. But we're sitting on
25 \$8.127 billion of bonds. It's kind of color-coded again.

1 In prior board meetings, we've talked a lot about debt
2 restructuring plans. We've done about everything we can
3 absent the federal assistance program at this point. We
4 certainly could do some potentially fixed-rate issuance.
5 We've shied away from going to the marketplace because of
6 the cloud hanging over our issuer name because of the
7 rating agency credit watch and watch for downgrade.

8 So we have a few auction-rate securities that
9 are still outstanding. Ironically, they're paying an
10 interest rate of about 3½ percent, which in the context
11 of things, is not horrible. And then we have some VRDOs
12 that are insured and otherwise have poor liquidity names,
13 such as Dexia, Depfa, and Fortis.

14 \$3 billion of fixed-rate bonds and all of our
15 index floaters or index floating rate bonds of a billion
16 dollars are performing quite well.

17 If you tally all this up, I would say today
18 we're looking at just short of 20 percent of the debt
19 portfolio that has structural problems. And the
20 performance is causing undue pain to the Agency and its
21 operating performance.

22 A quick look at the swap counterparty portfolio
23 that we have as of July 1st. Again, we have a number of
24 different counterparties that we've entered into swap
25 contracts with over time. The total amount of swap

1 notional understanding is \$4.5 billion. And a recent
2 market value of these swaps, if they were all to be
3 terminated, is \$237 million. That's a payment that
4 CalHFA would have to make to the counterparties to get
5 out of those contractual arrangements.

6 Maybe I'll stop there and see if there's any
7 questions from Board members regarding the marketplace
8 that we are facing today and the challenges within the
9 debt portfolio.

10 MR. SMITH: Bruce, is the only solution you see
11 to getting out of the variable-rate bonds is the federal
12 government?

13 MR. GILBERTSON: For now, we're waiting it out.
14 You know, at some point, I believe commercial banks --
15 some commercial banks will find that this is a business
16 line that they want to get into. I think the theoretical
17 discussions over the last ten years with partners that
18 supported this liquidity to variable-rate issuers has
19 become reality. And nobody really ever expected this to
20 be the reality.

21 MR. SMITH: What's the -- if somebody has a
22 variable-rate loan, what's the cap on the minimum that
23 it goes down?

24 MR. GILBERTSON: On the variable-rate bonds?

25 MR. SMITH: Yes, I'm thinking on the home

1 loans.

2 MR. GILBERTSON: Okay, now, remember our home
3 loans are all fixed rate, home loans to the mortgage.

4 MR. SMITH: Okay, so it's just the bonds that
5 are on the variable rate?

6 MR. GILBERTSON: Yes, so it's just the bonds.

7 This was a financing strategy where we're using
8 the interest-rate swap market to effectively have a fixed
9 rate, a synthetic fixed-rate borrowing cost.

10 MR. SMITH: Right.

11 MR. GILBERTSON: Any other questions?

12 MR. SMITH: If we've refinanced some of the
13 loans that are in those portfolios to get cash to then
14 pay back some of those bonds, does that help relieve some
15 of the pressure?

16 MR. GILBERTSON: Yes, if we had a viable
17 refinancing alternative with our home buyers. One of the
18 biggest problems we have in the portfolio is that the
19 borrower's home value is well underwater.

20 MR. SMITH: Are the loans that Fannie Mae is
21 offering today, are they of lower interest rates than the
22 ones we have out there?

23 MR. GILBERTSON: In general, I would say no,
24 they're probably about the same place.

25 We have, on a weighted-average, loan rate on

1 the portfolio was probably somewhere in the 5.4 percent
2 range. Some lower, some higher.

3 Any other questions?

4 *(No response)*

5 MR. GILBERTSON: We're going to take a look
6 here at the single-family loan portfolio quickly.

7 These are the delinquency ratios as of
8 April 30th. So these are fully reconciled loan payments
9 to the servicer records.

10 You've seen these charts before. I'll just
11 walk through the way we presented this to you quickly.

12 33,708 loans in portfolio for \$6.5 billion of
13 loan balances.

14 This first chart is sorted by the mortgage
15 insurance type. As you can see, we have over 15,000 FHA
16 loans. \$2.1 billion, we're not concerned about the
17 performance, the borrower's ability to pay there, because
18 we have the federal government backstopping the mortgage
19 insurance. They cover 100 percent of principal and
20 interest. So even though you have a 14.68 percent
21 delinquency ratio, it's simply -- it's even viewed by
22 the rating agencies as a AAA-type asset.

23 In our situation here, the mortgage loan
24 servicers are contractually obligated, upon foreclosure,
25 to repurchase the loan from us, CalHFA, before they file

1 a claim with the federal government.

2 You know, a few VA loans, \$71 million,
3 12.87 percent delinquency rate. And this RHS is a pretty
4 small component of the overall portfolio.

5 I think the concerns are really in the
6 conventionally insured portfolio. We've broken that out
7 into those loans that have a primary mortgage insurance
8 policy written by the California Housing Loan Insurance
9 Fund -- you know, Chuck's group. We have 10,000 loans
10 outstanding, \$2.7 billion. In large part, every one of
11 these insurance policies covers 35 percent of the loan
12 amount. And 75 percent of that risk is reinsured with
13 Genworth.

14 Steve mentioned earlier that both of those
15 entities have now been downgraded into the BBB range.

16 The rating agencies, as they view this, are
17 very concerned about total delinquencies in excess of
18 15 percent, and the significantly delinquent loans that
19 are 90+ days delinquent that are now over 10 percent.

20 I will also mention, we had some early
21 indicators -- as we go through May and June, these
22 numbers don't really improve. I've seen some indications
23 that perhaps June might be 13 percent. So we're still
24 increasing slightly.

25 The one thing that -- my personal belief -- is

1 distorting this a little bit, is that because there's
2 been a number of moratorium programs to prevent servicers
3 from foreclosing, including that we told our servicers
4 about at the holiday season at the end of last year, and
5 even as we were developing our loan-modification program,
6 we do have more loans that are more than 120 days
7 delinquent that simply have not gone through foreclosure.

8 And some of these will go through the cycle and then
9 become REO properties. Not that that's a better
10 situation for CalHFA, but I think sometimes when we
11 compare our delinquency ratio to other benchmarks in the
12 industry, we may be more inflated because of those
13 moratoriums than others.

14 Another look that overall number does not
15 change. This is simply looking at the portfolio by the
16 loan product. I think what I want to point out here is
17 that the interest-only 35-year fixed-rate mortgage
18 program that we created in 2005 certainly has a lot of
19 pressure on it. And none of these loans yet have had an
20 adjustment in their interest-only payment to a fully
21 amortizing payment. That will happen about 12 months
22 from now. But we have 20 percent of the portfolio is
23 delinquent, and even the 40-year portfolio is running
24 slightly higher than the conventionally insured 30-year
25 portfolio. But please remember that we only offered the

1 40-year program beginning in 2006, kind of at the peak of
2 the housing market.

3 Here's a perspective by vintage. Again, I
4 think there's some pretty simple takeaways. 2005 and
5 2006 were not good years, and that's because we were at
6 the peak of the housing bubble, if you will. I'm
7 looking, again, at the IOP, the 5/35 program. 22 percent
8 total delinquencies for the 2005 portfolio, and
9 similarly, 22.85 percent delinquencies on the 2006 book
10 of \$649 million.

11 MR. SPEARS: I just want to comment, Bruce.
12 In the discussions that we're starting to have with
13 Standard & Poor's bond analysts, you can see the
14 difference -- the impact of vintage year on
15 delinquencies. S & P's model does not account for
16 vintage year of loan. It's that unsophisticated. It's
17 something that we're going to discuss with them at
18 length. There is not a chance of them doing an accurate
19 analysis of our entire loan portfolio without taking
20 this chart into account.

21 MR. GILBERTSON: Here's a chart. Again, the
22 same loan totals, just sorted by who the servicing agent
23 is on the loan.

24 CalHFA has the highest number of loans, the
25 highest dollar amount as well. A total of 11.55 percent.

1 These are kind of getting on top of one
2 another. There are no superb performers in this list.
3 You might look at some -- Dovenmuehle and WaMu, but they
4 do have a relatively small number of loans that they're
5 servicing for the Agency.

6 And then this last chart shows delinquencies
7 and loan counts by counties. So these are the 15
8 counties where we have made the most loans. And so this
9 is kind of telling, too. I mean, we certainly know that
10 San Bernardino, 20 percent delinquency; Riverside,
11 19 percent delinquency were kind of huge targets for
12 subprime. And I think as home prices declined in those
13 regions, the other borrowers financed with appropriate
14 products such as CalHFA's were still drawn into this
15 high-delinquency and foreclosure mess.

16 CHAIR CAREY: So, Bruce, do you see a
17 correlation between decline in market values and the
18 performance here?

19 MR. GILBERTSON: Yes, clearly. And there was
20 a *Wall Street Journal* article, I think earlier this week,
21 that someone -- I can't remember who did it -- did a
22 survey -- help me, folks -- I think the survey results
23 were 25 percent of those surveyed suggested -- these are
24 borrowers -- suggested that they would default on their
25 mortgage even though they had not had hardship, an

1 economic hardship. Just the psychology of owing more
2 than the asset is worth.

3 MR. SPEARS: After it got over a certain LTV,
4 after it got over -

5 MR. GILBERTSON: Yes.

6 MR. SPEARS: And when it got to 150 -- they
7 kept going up the ladder. When they got to 150 LTV, if
8 you were that far underwater, 25 percent said that they
9 would walk.

10 CHAIR CAREY: Ms. Jacobs?

11 MS. JACOBS: Do we have any statistics
12 comparing the delinquency rates to what the major
13 mortgage banks are saying their delinquency rates are?

14 MR. GILBERTSON: We have -- I believe there's
15 a board --

16 MS. JACOBS: It might be in here further. I
17 don't know.

18 MR. GILBERTSON: Well, no, I don't have it in
19 the presentation. But I believe in the Board report,
20 in the back of your binder there should be -- on page 3
21 of the Delinquency and Loss Report -- I'm not sure which
22 tab it's under -- there are two charts that kind of show
23 our delinquency ratios compared to California mortgage
24 bankers ratios.

25 MS. JACOBS: Okay, great.

1 MR. GILBERTSON: I guess it's really -- we have
2 a lot of charts, Ms. Jacobs.

3 The one on top is really -- it's not doing a
4 comparison. I'm sorry, I thought it was. My mistake.
5 It's showing the two insurance types. We have those, and
6 we can send those to you electronically, if you'd like.

7 MS. JACOBS: Well, it might be interesting.
8 It would be interesting to me. I'm sure it would be
9 interesting to the Board. I know that we're -- CalHFA
10 is doing a better job than the rest of the market, and
11 I think we can't say that enough.

12 MR. SPEARS: A lot of those delinquency
13 statistics have to do with servicing subprime products
14 and Alt-A products and that sort of thing. But what we
15 try to do is compare ourselves to the MBA prime loans,
16 so that it's a close comparison. Not quite the same.
17 But we're very proud of the fact that we actually
18 underwrote loans and we actually asked for documents,
19 and we stayed by the good practices. We were the good
20 actors in all of this, I believe.

21 MS. JACOBS: Right.

22 MR. GILBERTSON: Then the next slide, on
23 page 16. Again, we showed this to you, I think, at the
24 last Board meeting as well -- maybe the last two Board
25 meetings. It shows the reserves that have been

1 established by us or the reserves that we believe are
2 established at Genworth to really cover some of these
3 losses as they materialize. It's one thing to incur on
4 financial statements or accrue a liability for a future
5 loss. It's another to actually have money set aside.

6 These are the reserves that are established.

7 Within the insurance fund, at March 31st, we
8 had \$34.6 million set aside. The simple math, we believe
9 Genworth would have set aside \$102 million for that
10 purpose.

11 For these gap-insurance losses that we would
12 be paying, which are the insurance that is supplemental
13 or replacement coverage, where there is no primary, we
14 set aside almost \$62 million of reserves.

15 And then there's an additional loan-loss
16 reserve on delinquent loans of \$11.7 million. And that
17 really represents losses that would be through the
18 insurance coverage. It goes all the way through
19 50 percent mortgage insurance coverage on every loan.

20 And then we have an additional \$9.7 million of
21 write-down of assets that are actually owned by the
22 Agency as an REO.

23 A total of \$220 million, up approximately
24 \$57 million, \$56 million from the end of calendar year
25 2008.

1 MR. SPEARS: And we're currently calculating
2 the June 30 numbers. We're not quite done with that
3 since the fiscal year just ended, but the \$220 million
4 will increase substantially.

5 MR. SMITH: Steve, is this the same area that
6 you're talking about, where you had the reduction in the
7 reserves? Or is that a different reserve prime?

8 MS. JACOBS: 100 percent.

9 MR. SMITH: Yes, that 100 percent.

10 MR. SPEARS: That's different. It's connected,
11 though.

12 I think if you look at that top line, "CalHFA
13 Insurance Fund Loss Reserves." If that number increased
14 and was actually drawn on above what the fund equity in
15 the insurance fund, then the housing fund would start to
16 backstop it if that number gets that high. And what
17 we -- the analysis that we did was to look at that,
18 stress the portfolio, calculate the amount. And
19 remember, this is the first 35 percent coverage on only
20 the insured conventional, and it's only 25 percent of
21 that number, because the next line is 75 percent of that
22 risk by Genworth. And when we stress that, it never
23 exceeded the amount of fund equity that is in the
24 insurance fund at any stress point. And that's the
25 reason why we reduced the backstop. It's not the

1 reserve. It was a contractual agreement, if you will,
2 between the two funds.

3 MR. SMITH: Okay, and the \$90 million that was
4 taken out of that reserve, where did that go to get used
5 for?

6 MR. SPEARS: Here again, it's not an accounting
7 entry. It's a number, though, that Moody's was looking
8 at and saying: "If anything ever happened, then there's
9 \$100 million that you're responsible for, so we're going
10 to have to charge you for that."

11 Regardless of the probability of that actually
12 happening, they were charging us that \$100 million on
13 their analysis for our capital adequacy.

14 MR. SMITH: Right.

15 MR. SPEARS: So all it means is that on Moody's
16 ledger sheet, when they're adding up the risks that we
17 have to guard against, that number went from 100 down to
18 10.

19 MR. SMITH: But where did we move the other
20 90 to? Was it to another reserve?

21 MR. SPEARS: No, it just is a commitment that
22 is no longer there between the two funds, contractually.
23 It was not an accounting --

24 MR. SMITH: So it's a contractual commitment --

25 MR. SPEARS: Yes.

1 MR. SMITH: -- not a -

2 MR. SPEARS: Right. It's a "what if."

3 MR. SMITH: So if we went back to the former
4 contractual agreement, would that bring back the rating,
5 or change the rating back to what it was before?

6 MR. SPEARS: That's a question that we've asked
7 ourselves. S & P's mortgage insurance group was
8 primarily concerned with the losses that they saw in the
9 insurance portfolio. This was a factor. But the thing
10 they talked about the most was the number of losses that
11 they were seeing, and consistently increasing over the
12 past few months.

13 So I can't guarantee you that it would have
14 gone up a notch or two notches or would have not even
15 been downgraded at all, because every single mortgage
16 insurance company in America has been downgraded for that
17 reason in the last few months. In fact, Genworth was
18 downgraded five notches in February or March, in that
19 time frame.

20 So our insurance fund is one of the last ones
21 to get downgraded. And even after the downgrade, it is
22 ranked No. 5 out of the top eight rankings in the United
23 States.

24 So I don't know what the answer to the question
25 is. It would signal to them that we're still committed

1 to the insurance fund in a monetary away.

2 In their write-up, they said, "We continue to
3 believe that the Mortgage Insurance Fund is strategically
4 important to the housing fund." So I'm not sure how to
5 respond. It would be pure speculation to say that they
6 wouldn't have been downgraded as far had we not pulled
7 that --

8 CHAIR CAREY: In essence, we've only seen half
9 of the impact of that because the goal also was to
10 mitigate the potential at Moody's.

11 MR. SPEARS: Right.

12 CHAIR CAREY: Right, and so we haven't seen
13 that side.

14 MR. SPEARS: And the question will be, if we're
15 sitting here a few months from now and Moody has affirmed
16 our rating -- I hope I haven't jinxed that -- but if
17 Moody has affirmed our rating, would they have done that
18 without reducing the backstop? Not sure. It's a call
19 that we made. It was based on applying Standard & Poor's
20 own capital adequacy model, and we decided to move ahead.

21 We believe it will make a significant impact on
22 Moody's analysis.

23 MR. GILBERTSON: Steve, it may be worthwhile
24 to just go over some of the events that led up to the
25 decision.

1 Remember, June 9th we spent two hours on the
2 phone with Moody's. Most of that time was going over
3 liquidity. You know, there are stress levels on the
4 liquidity balance of the Agency, which is really the cash
5 available to pay operating expenses, to cover
6 insurance-claim payments, to cover contractual
7 obligations with swap counterparties, those types of
8 things. And they had -- because of the Board resolution
9 in 2003, they effectively were tying up \$100 million of
10 our available liquidity because the insurance fund had
11 the ability to draw a line of credit, if you will, to
12 cover -- to augment their liquid resources to pay claims.

13 So after a lot of discussions two weeks
14 later -- and we went back and looked at some of the other
15 rating methodology -- we determined that we were better
16 served by reducing the backstop, because we believe that
17 we might be in a position now with Moody's that the
18 combination of that event and some other things that
19 we'll be talking about in closed session might allow us
20 to survive and be reaffirmed at the AA level. But the
21 problem is, we're not -- we're serving two masters here.
22 S & P has different rules, and Moody's has...

23 CHAIR CAREY: Right.

24 And I think, as I heard earlier -- and correct
25 me if I'm wrong, Steve - that there's far more

1 transparency and clarity to the S & P process than there
2 is to the Moody's process, which makes it...

3 MR. SPEARS: I'd have to agree with one
4 reservation, and that is, there's clarity and
5 transparency with methodology that we completely disagree
6 with.

7 MR. GILBERTSON: Well, and I would defer
8 because we're just starting a process here.

9 MR. SPEARS: Yes, and to be fair to them, in
10 the announcement that you're going to see today,
11 Standard & Poor's says, "We're putting these two ratings
12 on watch. If we find X, Y, and Z, we're going to have to
13 downgrade. If we find A, B, and C, we'll be able to
14 affirm." That's more clear, more clarity than we've ever
15 had from Moody's, so...

16 But as Bruce said, we're just starting the
17 process.

18 MR. HUGHES: I think there's just a couple of
19 points that might help the Board's understanding, to
20 understand the structure of this, because it is a bit
21 confusing. The \$100 million, as Bruce just correctly
22 pointed out, is simply a line of credit. It is not a
23 cash transfer in any way. There's a line-of-credit
24 agreement between the housing finance fund and the
25 insurance fund. That line of credit has never been

1 drawn upon.

2 But I think the key thing is that back in 2003,
3 the Board of Directors passed a resolution that enacted
4 two different credit supports for the insurance fund.
5 And one of them was authorization to create a line of
6 credit in the event that the insurance fund needed cash.
7 It was a liquidity provision for them.

8 One of the conditions of the Board resolution
9 was that the amount of the credit, which was initially
10 set at \$100 million, was required to be adjusted
11 annually. We have the -- the Agency had to review it
12 and adjust the amount annually. And that the amount of
13 credit extended could not adversely impact the Agency's
14 issuer-of-bond rating.

15 So one of the things I simply wanted to correct
16 is that we're not actually changing the agreement; we're
17 simply implementing the actual agreement that the Board
18 passed, which said, "You can extend a line of credit,
19 but don't extend more credit -- don't extend credit to
20 an amount that would adverse impact the Agency's rating."
21 And that's the internal adjustment we made, and that's
22 actually required by both the Board resolution and the
23 terms of the line of credit.

24 MR. SMITH: Right. And then just so I can
25 understand this because I'm kind of new to all this, but

1 CalHFA insurance fund not only insures our loans, but we
2 insure other loans?

3 MR. SPEARS: Correct.

4 MR. SMITH: So at the end of the day, we're
5 just insuring ourselves?

6 MR. SPEARS: Yes, sir.

7 MR. SMITH: So that really is kind of a
8 circular --

9 MR. SPEARS: With a strategic partnership with
10 Genworth.

11 MR. SMITH: Right.

12 MR. HUGHES: The HMRB, the bond indenture that
13 the single-family loans are primarily carried in,
14 requires 50 percent coverage. And it can be by any
15 insurer. It can be by the Agency's insurance fund or
16 outside. But that's essentially correct. But that
17 insurance is provided because of the requirement in the
18 indenture.

19 MR. SMITH: So it's really for the bondholders?

20 MR. HUGHES: Yes.

21 MR. GILBERTSON: Historically, there have been
22 small programs where the insurance fund did insure loans
23 of others. You know, they were low- and moderate-income
24 programs. This goes back ten years or more -- small
25 amounts.

1 MR. SPEARS: A very, very small amount.

2 MR. GILBERTSON: Okay, Steve did you want to
3 cover this, or did you want me to cover the federal
4 assistance package, what we know and --

5 MR. SPEARS: Here again, there's not a lot to
6 report. We've discussed this, and I think we, at the
7 last Board meeting, discussed the three basic elements in
8 this plan. And we've not seen these proposals. These
9 are things that we've talked to staff about. But our
10 understanding is that there are four or five variations
11 on this theme that they are sitting, being analyzed by
12 U.S. Treasury attorneys, HUD attorneys and staff, and
13 the policy staff at Treasury.

14 The three elements still are basically the
15 same: That the federal government -- and I use that
16 term broadly; we're not sure if it would be Fannie and
17 Freddie, Fannie and Freddie selling something to the
18 Treasury, Treasury buying something directly -- we're
19 just not sure -- but they would buy new bonds and
20 provide us with new bond money at these rates that would
21 allow us to offer competitive loan rates to low- and
22 moderate-income borrowers. We don't know what the
23 pricing is going to be.

24 I don't think they're going to offer us pricing
25 on these bonds that would allow us to be 100 basis points

1 below market. That's just not going to happen. They
2 don't feel that's their mission.

3 They will allow -- we're hoping that it would
4 allow us to get back into the market in a gradual way.
5 We're just not sure.

6 The second element are these replacement
7 standby purchase agreements that Bruce talked about
8 before that are expiring or already have expired. And
9 that will help get rid of some of those bank bonds, where
10 the bank bonds have been put back on a preemptive basis
11 because they don't like the bank that's there. And they
12 don't want to take any chances, and investors have put
13 bonds back to us.

14 And those agreements are expiring. And over
15 the next -- I don't know, what -- 12, 18 months, Bruce,
16 how much do we have that's expiring that's going to have
17 to be replaced?

18 MR. GILBERTSON: It's approximately a billion
19 and a half.

20 MR. SPEARS: So we need those -- we need this
21 help to -- and all through this is pricing. It wouldn't
22 be very helpful for them to offer this liquidity at
23 200 basis points, when a few -- last year, a year and a
24 half ago, we received an almost unsolicited offer for
25 \$3 billion worth of liquidity at some ridiculous price

1 as, I think, 30 basis points or something. The pricing
2 has just gone through the roof.

3 But the final thing is one of the most
4 important things that we've been talking to them about.
5 Four HFAs that are under threat of downgrading -- and the
6 list is growing: Maryland just got added this weekend,
7 Illinois's downgrade became a reality a couple of days
8 ago -- that credit support would be offered by -- again,
9 a broad term -- the federal government. We're not sure
10 how or what the pricing would be. But that's the third
11 element, and very important.

12 So, next slide.

13 This is what we've just talked about. The most
14 important thing on this slide is the last two issues.
15 We were on the phone with FHFA. And, again, that's the
16 organization that regulates Fannie and Freddie, and
17 that's the organization that's been brokering ideas back
18 and forth between Treasury and HUD and the GSEs. That's
19 been the focal point. So we've really focused on getting
20 our ideas in to that individual.

21 And Bruce asked the question, "How soon after
22 the announcement can we do this? Are you guys going to
23 be ready to go right now?" -- and didn't know the answer.

24 So the last thing is related to that, the last
25 bullet there. The rating agencies, both of them, have

1 said -- a nice announcement, that says, "We're going to
2 do some nice things for the HFAs. Details to follow"
3 just won't suffice. They're going to have to know
4 exactly -- enough details to know exactly how this
5 program will apply, not to some theoretical HFA, but to
6 CalHFA specifically, before the rating agency will be
7 able to take into account the benefits from this package.
8 So timing is very important.

9 I believe that's all we have to say about that.

10 Do you have any questions?

11 *(No response)*

12 MR. SPEARS: We will keep you apprised. As
13 soon as an announcement comes out, we will alert the
14 Board members and analyze the package that comes out and
15 try to give you our best estimate as to how that will
16 help us. We'll do that by announcement, e-mail, and
17 clear it through our esteemed General Counsel to make
18 sure that we meet all Open Meeting Act requirements.

19 On the ratings update, this may be --

20 MR. GILBERTSON: Let me add a few other
21 details, potentially. Don't need to dwell on this; but
22 certainly if there's questions, we want to respond to
23 them.

24 You know, with Moody's now, we've been almost
25 ten months on watch for downgrade. So one can say that's

1 somewhat positive. I mean, that is abnormal. You know,
2 this is usually a three-month cycle and they make a
3 determination. So we've either been doing a good job
4 sharing additional information for their consideration,
5 or they've been overwhelmed, or a combination of both,
6 I think.

7 The conversations more recently have become
8 sporadic. I mentioned earlier that we had a lengthy
9 conversation with the analysts the early part of June.
10 We provided them a lot of additional information for them
11 to consider once they showed us the analysis, you know,
12 largely centered around the liquidity position of the
13 Agency. They then kind of went dark for a period of
14 three weeks. And I tried to schedule update calls, and
15 they simply said, "Oh, we won't have time. We'll defer,
16 defer."

17 And then last Friday, I got a quick note, just
18 wanting some very minor pieces of additional information
19 that we shared. That led to an e-mail I received
20 yesterday morning that they actually wanted to have a
21 conversation on Friday of this week. I suggested that
22 perhaps we do that early next week. So we're now
23 scheduled to have another update call Monday at noon,
24 California time.

25 So I think they're getting close, is the way I

1 would assess this. They have a lot of information. They
2 were also going to do an updated loan-loss assumption on
3 this real-estate lending business that we have.

4 So I would expect -- we didn't know what to
5 say -- a rating decision very soon. My personal belief,
6 I think maybe by the end of the month, we will know
7 Moody's one way or the other. I just don't think this is
8 going to continue forever.

9 You know, S & P -- Steve covered, you know,
10 most of this. I think I would just add, I do have press
11 releases that were issued very late yesterday afternoon.
12 I think their full rating assessment of this "*credit*
13 *watch with implications*" will be available probably as we
14 sit here today.

15 They've mentioned a number of things for the
16 reasons. It's certainly the real-estate lending, higher
17 delinquencies, higher foreclosures, home-price
18 depreciation. They mentioned operating performance of
19 the Agency. We've talked pretty openly with you that we
20 certainly are going to have an operating loss for the
21 fiscal year. They've mentioned the use of variable-rate
22 debt instruments that, of course, historically performed
23 quite well for CalHFA. But because of their recent
24 performance, that that is -- I think they've labeled us
25 a high-risk portfolio, something like that.

1 Bottom line, we're a solid AA today. We don't
2 know if we'll be able to sustain that. And one of the
3 most significant fears we have is if we don't retain
4 AA ratings, is that the largest investor base that buys
5 variable-rate demand obligations, money market funds
6 simply won't be able to. They won't be to what's called
7 "2a-7 eligible."

8 Anyway, we expect to get going in earnest
9 with S & P in the next week, sharing with them loan
10 information, trying to get them to take a look at
11 vintage, FICO score, the borrower, loan product, and all
12 of the other elements, rather than putting it all into
13 one, big kettle and saying, "We're going to give you --
14 assume 55 percent foreclosure frequency," which I think
15 is ridiculous.

16 CHAIR CAREY: Okay, any questions from Board
17 members?

18 *(No response)*

19 CHAIR CAREY: Thank you, Bruce.

20 MR. GILBERTSON: You're welcome.

21 CHAIR CAREY: That was very good.

22 --o0o--

23 **Item 5. Executive Closed Session**

24 CHAIR CAREY: We are now going to adjourn to
25 closed session under Government Code section 11126(e)(1)

1 and (e)(2)(B)(i) to confer with and receive advice from
2 counsel regarding litigation.

3 *(The Board of Directors met in closed executive*
4 *session from 10:37 a.m. to 12:05 p.m.)*

5 CHAIR CAREY: We are back in open session, and
6 on the record.

7 --o0o--

8 **Item 6. Discussion, recommendation, and possible**
9 **action regarding the adoption of a**
10 **resolution approving the Two-Year Business**
11 **Plan for Fiscal Years 2009/2010 and 2010/2011**

12 CHAIR CAREY: And the next item of business is
13 Item 6, regarding the two-year business plan.

14 Steve?

15 MR. SPEARS: Thank you, Mr. Chairman.

16 This is unusual because normally, we are at
17 the May Board meeting updating a five-year business plan.
18 But as we discussed at the May Board meeting, we thought
19 it was more prudent, given the circumstances that we're
20 in, to present you the business plan for the next two
21 years, managing towards getting the Agency through these
22 challenging times and back to lending again.

23 I think all of us here would love to be talking
24 about housing issues and not 100 percent financing issues
25 at future Board meetings. And that would be wonderful.

1 So we are under Tab 6 in your binder. And
2 there is a memorandum there for the resolution. This
3 will be an action item to adopt this two-year plan. The
4 plan itself is included in your binder; and, of course,
5 we have slides, and we tried to summarize those.

6 So let's go to the major assumptions.

7 Here again, these are summarizations of what
8 you see in the plan itself, that we have adequate capital
9 reserve requirements -- this is what Moody's and
10 Standard & Poor's is looking at -- that is sufficient to
11 meet real-estate losses, credit adjustments, general
12 obligations of the Agency, including insurance payments
13 of the insurance fund, and that sort of thing. That we
14 will be able to maintain an issuer credit rating that's
15 in the AA category. And that's going to be a critical
16 assumption. We believe that that assumption depends on
17 a number of different things, things we talked about in
18 closed session. The federal assistance package. So
19 that's a very important assumption.

20 And finally, the tax-exempt bond market.

21 Without federal assistance for new bond money, we don't
22 think that the tax-exempt bond market will come back to
23 the point where it makes sense and the cost is in the
24 range that would allow us to offer competitive loan rates
25 on single-family and multifamily until the last half of

1 2010. It will recover gradually, that it may not recover
2 even to the volume that we saw before. But in the
3 meantime, for new bond money, what makes the most sense
4 is if there is a feature in the federal assistance
5 package for new bond money, that would be where we would
6 look.

7 Let's see, let's just move on to the next
8 slide.

9 Other assumptions:

10 That home-loan portfolio losses will be
11 contained through loss mitigation efforts and aggressive
12 REO management. That is, our loan servicers, both CalHFA
13 and non-CalHFA and REO management of Chuck's group.

14 That Agency liquidity will be sufficient to
15 fund our operation, insurance-claim payments, and other
16 obligations.

17 That we're going to put in place new business
18 models that reduce risk to the Agency and to the Agency's
19 balance sheet. We're going to shift real-estate risk to
20 other partners. In homeownership, we have several
21 different programs that we're going to be talking about.
22 In multifamily, we're talking about renegotiating
23 risk-share agreements and new agreements with either
24 Fannie or Freddie or both.

25 That there are no HAT funds, no Housing

1 Assistance Trust funds available for down-payment special
2 lending and multifamily programs in this two-year period.

3 That is a very difficult assumption for us to
4 deal with. It really is. It affects people around this
5 table, and it's a very difficult thing. But we are
6 trying to manage this situation to get back in the game,
7 and this is what we have to do in the meantime. But
8 there are G.O. funds available for down-payment
9 assistance, and we're doing that right now.

10 So moving on to single-family lending, let me
11 stop first and ask if there are any questions from Board
12 members about those assumptions?

13 *(No response)*

14 MR. SPEARS: If not, we can move -- I've asked
15 Gary and Chuck to join us at the table for the next two
16 or three slides.

17 We have this new business model --

18 MR. SMITH: Steve, before you move on, is there
19 some way we can get, I guess later, maybe some kind of
20 report as to what the efforts are going to be for loss
21 mitigation?

22 MR. SPEARS: Yes, absolutely, we can do that.

23 Chuck can speak to that in the next slide a
24 little bit, and we can get you something more detailed
25 about what those efforts are going to be, too.

1 So on the next slide, Bruce, the new business
2 model of transferring risk in the homeownership-lending
3 area are two new business models.

4 Let me just summarize those quickly. One is
5 to deliver loans to Fannie Mae on a flow basis, meaning,
6 loan by loan by loan. And we do this for cash, and it's
7 on a market basis. We get preferred pricing from Fannie
8 Mae because of an agreement that we worked out with the
9 state HFAs' national association, so we can offer
10 slightly below-market rates, but not giantly below-market
11 rates, with some limited down-payment assistance. And we
12 can actually do some lending.

13 So let me jump --

14 MS. JACOBS: Can I ask a question?

15 MR. SPEARS: Yes, absolutely.

16 MS. JACOBS: I'm assuming that you will do the
17 same -- you will still be doing the underwriting of the
18 deals? That won't change; right?

19 MR. SPEARS: Yes. The loans that come through
20 will be handled on a reservation basis. Files will come
21 in. They will be underwritten. And the only difference
22 is, instead of delivering to us and we're the final
23 investor in holding whole loans on our balance sheet,
24 we'll flow it straight through.

25 We're using Bank of America/Countrywide as a

1 master servicer in this case; and they're helping us flow
2 those through and help take care of the back office. But
3 we will still be underwriting them. They will be fully
4 documented.

5 This new Cal30 program, that I'll let Gary talk
6 about for a second here, is a 30-year, fixed-rate, fully
7 underwritten, fully-documented loan.

8 Gary, why don't you tell them a couple of
9 features about that? And then if we want to get more
10 into volume, there is a lot more detail about the volume
11 that we expect inside the business plan.

12 MR. BRAUNSTEIN: Okay, thanks, Steve.

13 Hello, Board Chairman and Board Members.

14 As Steve had mentioned, the Cal30 is a 30-year,
15 fixed-rate, conventional loan product. As indicated
16 before with the M.I. Fund, we're not adding any new
17 business to that fund so that this Cal30 program will
18 allow for outside private mortgage insurance holders to
19 be applicable to these submitted loans through our
20 approved lenders. They will be underwritten, as Steve
21 had mentioned.

22 Some of the features of the product does allow
23 for our down-payment assistance program, which we did
24 roll out June 8th, which is our CHDAP or down-payment
25 assistance and closing-cost assistance.

1 Because of the design of the product, it's
2 similar to a standard secondary-market product that is
3 delivered directly to Fannie Mae for cash through the
4 Fannie Mae cash window.

5 As Steve indicated, we are earning a fee for
6 that because it is strictly cash. And our net gain on
7 sale spread is about 100 basis points on a per-loan
8 basis. So estimated revenue on those returns would be
9 based off of the loan volume that you'll see on the next
10 slide that we're projecting.

11 The eventual access to the bond market
12 obviously would give us opportunity in the future to be
13 able to drive that interest rate down more dramatically,
14 to how we had interest rates structured in the past. But
15 on the Cal30, most -- initially, in our roll-out, it's
16 about a .25 to three-eighths interest rate that's below
17 the market. So not as heavily below market as we once
18 offered our loan products in the tax-exempt bond offering
19 but slightly below market to allow us to get back into
20 the game.

21 We don't have that slide? Oh, I'm sorry.

22 MR. SPEARS: So here again, volume -- this
23 would be in your Board packet, pages 105 to 106. What
24 we've tried to do is look at what we think volume will be
25 in a number of different scenarios. And it ranges from,

1 you know, \$40 million for conventional Cal30 loans, to,
2 you know, \$200 million or \$300 million in a best-case
3 scenario, if the bond market comes back.

4 So that's going to be the difficulty in talking
5 about the business plan and the volume of lending that we
6 expect. It just depends on so many different factors all
7 across the board, in single-family and multifamily.

8 Actually, in multifamily, because we have a
9 different source of funding for MHSA, it's actually a
10 little more predictable. But for single-family lending,
11 here again, we're talking about lending that's 90 or
12 95 percent LTV, not 100 percent as before. More limited
13 down-payment assistance. Those are going to be barriers
14 to really high-volume lending.

15 MR. BRAUNSTEIN: Steve, if I could just add to
16 that. Our approved lender database, who submits loans
17 to us -- again, we, as an investor, are dealing with
18 approved lenders. They view us obviously in the past
19 as a high loan-to-value lender with a multitude of
20 down-payment and closing-cost assistance.

21 Currently, through today's environment and
22 the Agency looking to avoid risk, we don't have those
23 luxuries anymore. So part of our business model in
24 homeownership, in an outreach approach to our lenders,
25 in part, is to attempt to reinvent ourselves and to

1 perhaps be slightly more proactive than we have been in
2 the past.

3 We had the luxuries of a very below-market
4 rate, a multitude of down-payment and closing-cost
5 assistance, lenders came to us. And we were able to,
6 obviously, do the type of loan-volume production that
7 we've done in past years.

8 Going forward, with many of the mergers and
9 acquisitions and closures of many of our approved
10 lenders, we'll be outreaching to add new business
11 partners to the homeownership group of approved lenders,
12 and look to target adding additional lenders, so that
13 our scale and scope of who we outreach grows larger, in
14 an opportunity of dealing with more lenders who now have
15 less volume to send to us; whereas before, we had less
16 lenders that were sending to us at a higher volume
17 percentage.

18 So going forward, in 2009 and 2010, we will be
19 slightly more proactive; and our reach-out to our lenders
20 will be to allow them to understand that CalHFA and
21 homeownership's value-add to them has changed slightly,
22 from 100 percent lending, to now being more in line with
23 the marketplace but still allowing them the opportunity
24 of access to down-payment assistance, the layering of
25 localities and jurisdiction programs, and piggybacking on

1 our first-mortgage Cal30 conventional fixed-rate loan at
2 a 95 percent loan-to-value.

3 So the projections that we've established with
4 all the moving parts creates a worst-case, mid-case, and
5 best-case scenario, broken down to the fact of not having
6 bond financing, nor a warehouse line, and probably as
7 important is no longer having internal mortgage insurance
8 capability to offer to our approved lenders to the past
9 high loan-to-values that we used to enjoy.

10 MR. SPEARS: Any questions from Board members?

11 *(No response)*

12 MR. SPEARS: The last bullet here is a
13 different business model all together. Again, in the
14 past, we have purchased whole loans and held them on our
15 balance sheet and taken the real-estate risk.

16 A new business model -- but in the past, we had
17 decided against purchasing mortgage-backed securities,
18 where you bundle these loans together, they're guaranteed
19 by Fannie or Freddie, and you offer those to -- you use
20 bond proceeds to buy those mortgage-backed securities,
21 and you hold those on your balance sheet. They're
22 guaranteed by the federal government. There is no
23 real-estate risk.

24 If we have access to the bond market, this
25 would be the way that we could do volume business and

1 reduce risk to the Agency. That would require access to
2 the bond market and a warehouse facility. And those are
3 big "ifs" at this point.

4 So we're just putting it out there that if a
5 federal package came through with new bond money and if
6 a warehouse facility that's sizable enough to make sense
7 to do that, that's the direction that we're headed.

8 And here again, the idea is transfer risk off
9 our balance sheet, partner with the federal government,
10 allow them to charge us a guarantee fee.

11 The only problem with that strategy is, it
12 makes it more expensive for the borrower because we have
13 to cover that extra expense of a guarantee fee from the
14 GSE. And that's the reason why it hasn't been done in
15 the past.

16 CHAIR CAREY: Ms. Jacobs?

17 MS. JACOBS: Thank you.

18 I think the homeownership programs that you're
19 presenting are very good. And I actually do think when
20 you're lending 90 to 95 percent, you're going to be by
21 yourselves in that market a lot of times, which is great.
22 I mean, I think that's exactly the mission, and that's
23 who you want to serve. And I think that's terrific.

24 I would be concerned about anything that has
25 the words "mortgage-backed securities" in it. And before

1 there's a final program with mortgage-backed securities,
2 I'd like it to come back to the Board.

3 MR. GILBERTSON: I was just going to ask for
4 a little clarification. We do have currently
5 authorization from the Board to issue bonds that would be
6 used to fund the purchase of mortgage-backed securities.

7 Is it the intent that we would clarify the loan
8 program that we establish, that would create the
9 mortgage-backed securities?

10 MS. JACOBS: The loan program and the quality
11 of the securities at this point.

12 MR. GILBERTSON: Okay.

13 MR. BRAUNSTEIN: Steve, could I add a quick
14 comment on the homeownership and the loan-to-value
15 consideration?

16 MR. SPEARS: Yes.

17 MR. BRAUNSTEIN: The Cal30 loan program is a
18 conventional loan product that does have an available
19 loan-to-value to 95 percent. The fact that we are no
20 longer offering internal mortgage insurance as a
21 functional component of the loan programs as we used to
22 offer, our availability of offering that program would be
23 also dictated by the outside private mortgage insurance
24 industry as it exists today.

25 We have the program structured where we're

1 using any approved -- Fannie or Freddie -- approved
2 mortgage insurance -- insurer. And, of course, our loan
3 program carries with it a cross-reference between
4 qualifying under our loan program, but also is
5 cross-benchmarked against the mortgage insurers'
6 guideline. So as the mortgage-insurance industry
7 changes, as it is constrained right now in the 90 percent
8 loan-to-value, and just one insurer that we know of is
9 currently offering 95 percent -- as that industry
10 changes, we will either be constrained or unconstrained
11 on how high of a loan-to-value we can offer our
12 prospective borrowers based off of our approved lenders
13 getting a mortgage-insurance certificate by an outside
14 mortgage-insurance holder.

15 MR. SPEARS: Okay, are there any other
16 questions?

17 *(No response)*

18 MR. SPEARS: If not, we can move to the next
19 slide. And this is Chuck's area.

20 I mean, obviously, we still have a very large
21 portfolio of insured loans. Chuck's responsibility --
22 part of his responsibility is to maintain that
23 relationship with Genworth, our insurance partner;
24 monitor their financial strength, maintain that
25 relationship. But in the coming two-year business plan,

1 we don't have plans for adding a lot of new mortgage-
2 insurance business to the insurance fund simply because
3 of the amount of risk that's there already. And so
4 that -- but Chuck has taken on new responsibilities of
5 mainly seeing the loss-mitigation efforts, the REO
6 management. So I think we'll let him answer Mr. Smith's
7 question about what our loss-mitigation efforts are.

8 It's pretty obvious, we've been pretty clear
9 with you about our expectations of increasing
10 delinquencies and increasing REOs. In the business
11 plan, again, the expectation is in the coming year, that
12 we take in an additional 2,900 REO properties on the
13 single-family side, and dispose of an equal number. That
14 will take an immense amount of work, and it's very
15 labor-intensive again.

16 So let me turn it over to Chuck and let him
17 talk about those efforts for a couple of minutes, and
18 then we'll take questions.

19 MR. McMANUS: Okay, I'd like to follow down the
20 slide that's there, just so we have a clear understanding
21 of what we're insuring and what we're not insuring and
22 how the reinsurance works.

23 As indicated, we have \$3 billion of insurance
24 in force. That means there's \$3 billion of mortgages on
25 which we've written insurance. Our coverage average is

1 about 35 percent coverage. So our risk in force is about
2 \$1.1 billion. We then reinsure 75 percent of that with
3 Genworth. So the remaining risk is approximately
4 \$280 million. That's what the insurance fund is on the
5 hook to guarantee.

6 And so we've run through all of the Standard &
7 Poor's risk analysis and stress tests and so forth, and
8 it would appear that we have sufficient capital and
9 reserves. You add together your equity and your loss
10 reserves -- sufficient capital to pay anticipated claims
11 over the next two years at a stress level, which is about
12 one out of four foreclosing.

13 But they've downgraded us to a BBB, which still
14 means we're going to pay all our claims and have some
15 excess cash. But they're going to watch us to see how
16 the California market performs on an ongoing basis, but
17 certainly the balance of this year.

18 In the portfolio management area, the
19 single-family portfolio management, we have two sections.
20 One is the loss mitigation and audit of our outside
21 servicers; and the second is the REO management.

22 I'd like to introduce Linn Warren.

23 Linn, would you stand up?

24 Linn is part of the reallocation of experienced
25 management. Linn has come over from the multifamily area

1 to run the portfolio management section, and so he's over
2 loss mitigation as well as REO.

3 On the loan modification, to respond to about
4 what we're doing on loan modification, Linn and his team
5 developed, in conjunction with the financing department
6 and the legal department, a loan-modification program
7 which would allow us to help people who have short-term
8 financial difficulties. We are only helping those that
9 have financial difficulties. So there must be some event
10 which has caused them to have difficulty in paying their
11 mortgage. This is not an across-the-board available to
12 the entire portfolio. If you have the money and choose
13 not to pay, that is not who we are offering this program
14 to. So there has to be a change of some kind: Loss of
15 some income, a partial loss, or a loss of one of two
16 income earners.

17 Given this hardship -- it's just called a
18 "hardship qualifier" -- we can offer an extension of
19 term. Most are 30- or 35-year. We can extend it to
20 40-year term, which lowers the monthly payment. We can
21 reduce the interest rate. And I would say our average
22 interest rate is about 5½ percent in the portfolio. We
23 can reduce it to an effective 3 percent interest rate,
24 again, reducing the monthly payments.

25 In order to qualify for this, besides having a

1 hardship, the people must be able to make those payments,
2 plus all of their other cost-of-living payments, and have
3 approximately a \$200 surplus. It's a cash flow, "Can you
4 pay your bills after we make this change?"

5 No checking of credit scores; no, you know,
6 anything else. We're expecting these people to have
7 financial problems. That's why they come to us: They
8 have a hardship.

9 This program went out in early May. And that
10 just began the review of people seeking help. And
11 there's quite a significant number of people in
12 difficulty who are delinquent.

13 The other qualifier was that they are 60 days
14 delinquent. And Linn has -- so the servicers have been
15 trained, they're to package and put together proposed --
16 people to get a modification, they come to Lynn's people,
17 make sure all the documentation is there. We underwrite
18 the credit to make sure the surplus, which can be a range
19 of, I don't know, \$150 to \$250 a month -- we're aiming
20 for \$200 a month -- is there so that the people can make
21 payments. We don't want them just to go into default
22 again.

23 CHAIR CAREY: Chuck, I'm sorry, how do
24 borrowers become aware of the program?

25 MR. McMANUS: We have trained all of the

1 servicers on the program, and they -- it's on our Web
2 site and everything else. But the servicers are the ones
3 that when people call in, if they have a CalHFA loan,
4 should be exposing it to them. They have worksheets to
5 complete, and then can offer this.

6 It's similar to the Freddie Mac, Fannie Mae,
7 FHA. There are a lot of loan-modification programs out
8 there. They have people that are dedicated to modifying
9 loans for people to qualify. We now have a CalHFA
10 program that they can offer to these people.

11 MR. SPEARS: I also believe that they received
12 a piece of correspondence from us, that each borrower
13 over a certain delinquency level received a letter that
14 says, "This is available."

15 MR. McMANUS: And it's going to be constant
16 follow-up because a lot of these people are hard to
17 reach. They don't answer their phones. They think it's
18 a collector and everything.

19 But Steve is right, it's a challenge to get
20 people to participate, to get them to understand and to
21 get them into the program. And we are at the initial
22 stages right now.

23 We are not writing down the principal balance,
24 which is a program that some investors have embraced to
25 maintain; and the federal government has considered

1 reductions in principal. That is not something we feel
2 we can do under our bond indenture. We have to protect
3 the interest of the bondholders so that is not one of
4 our options. We do not write down the balance due.

5 MR. SMITH: Do you extend maybe a 30-year to a
6 40-year?

7 MR. McMANUS: Yes, sir. Either the 30-year or
8 35-year can go to 40 years. That's the first adjustment.
9 The second adjustment is to reduce the effective payment
10 rate from 5½ to as low as 3; and then underwrite to see
11 if they can generate a cash surplus on a monthly basis,
12 so they can pay their bills. It's that simple.

13 MR. SMITH: When you reduce the rate, are they
14 negative-amortizing then at that point, or --

15 MR. McMANUS: No, sir.

16 MR. SMITH: -- it's a reduction --

17 MR. McMANUS: The shortage in interest going
18 to bondholders is, in most cases, in the privately -- in
19 the insured by our insurance company, the advances are
20 covered by our insurance fund and Genworth, our
21 reinsurer, as an advanced claims payment to the Agency.
22 So the cash flow is coming from the insurance funds,
23 which was a very big, positive to make this work. And
24 it's in effect -- and they don't get it back. It's just
25 a subsidy for the interest rate in hopes that these loans

1 will cure in the long-term and not turn into a claim.

2 And that was negotiated with Genworth.

3 So that's our program.

4 Please understand that we don't expect more
5 than 15 percent of the people to qualify. And then of
6 those that get it, the general experience has been
7 approximately half will default later. You know, in
8 nine months to two years, they'll be in default.

9 MR. SMITH: Would we have any other programs
10 for other folks, to the point of maybe just extending the
11 payment period to 40 years or 35 years, and not reducing
12 the interest rate as another option to reduce their
13 payment?

14 MR. McMANUS: That is the first option we
15 check. That is the very first thing we'll do, is extend
16 term. That's just a cash-flow problem for Bruce on his
17 indenture. But that one is the first thing we test, and
18 then we do the reductions in interest rate.

19 MR. SMITH: I guess the question is, would we
20 have another program down the road for everyone else in
21 the pool, to encourage them to stay, continue to pay, by
22 reducing their payment by extending the term?

23 MR. McMANUS: If they don't have a hardship?
24 Let us think about that and come back to you next
25 meeting, if that's okay. It's a cash-flow thing on the

1 bonds, is the only issue, okay. Otherwise the guarantor
2 has no problem with that, but it does reduce the
3 cash-flow interest to the bondholders. And Bruce would
4 have to have his people model it and making sure we can
5 afford it. But that would be an easy one because it's
6 not losing money.

7 CHAIR CAREY: Are you thinking of the borrowers
8 who are underwater and could be enticed to hang on?

9 MR. SMITH: Yes, I'm just trying to think, is
10 there a way -- I mean, it seems to us, the longer they
11 stay in their home, hopefully, the market turns around
12 and we're all okay.

13 CHAIR CAREY: Right.

14 MR. SMITH: And so how do we continue to give
15 incentives to people not to default for whatever reason,
16 and just stay in and hang in there with us.

17 MR. SPEARS: It's a difficult issue because at
18 some point, if we do this on a large scale, the math
19 doesn't work out. We're now amortizing loans over
20 40 years, when we have 30-year bonds to pay back.

21 It's difficult -- Di Richardson and I, and
22 Rhonda Barrow is in this room -- we're all three having
23 personal conversations with people who are underwater,
24 who believe that it's unfair that we're going to collect
25 \$300,000 on a home now that's worth \$150,000. And until

1 we explain to them that, you know, we're not just going
2 to pocket that, but we have to turn around and pay that
3 ourselves; that we're not, as I put it in with one
4 person, "I'm not in a boat like your boat. I'm in your
5 boat," that I'm turning around and paying somebody that
6 we borrowed money from. That's what makes this
7 particular thing difficult.

8 If we were dealing with shareholders, we could
9 go to and say, "You're going to have to take a lower
10 return. That's just the way it's going to be. You're
11 not going to get your whole investment back. That's the
12 way it's going to be." Dealing with a bond-funded
13 program is different. It's more difficult.

14 And that's the test, when we looked at the
15 President's loan-modification model, when we looked at
16 this idea of reducing principal, we always have to come
17 back to that we're bound by the indentures of the bonds,
18 and that's the standard.

19 MR. McMANUS: We have one other program, which
20 is a short sale, which is where we give permission for
21 them to pay us less back if they have a buyer of their
22 home that's less and they have a hardship -- again, we
23 are not trying to cover people that just had a loss on
24 their principal. Basically, the entire portfolio, after
25 2002, has had some loss on the value of their properties.

1 But if there is a hardship, we will take the deed in
2 lieu -- not really that, we'll approve the short sale,
3 and then take less proceeds. So that's another one.

4 And we've always had a capitalization of
5 delinquent payments. If you had a very short-term
6 problem, we just add it on and amortize it over the
7 balance of the time period.

8 So those are the tools we have right now.

9 If we can go to the next page, although it
10 refers to the forecast in here of 2,900 new REOs and
11 2,900 sales, the next page shows the delinquencies were
12 up to 1,636 just in the insured portfolio, there also
13 where we've canceled the insurance and where it started
14 at 80 percent LTV. But just the insured, and 1,209 of
15 these are over 120 days delinquent. Our experience is,
16 those are not going to cure. Those are going to
17 foreclosure or short sale. And so we have forecast an
18 increase in our REOs coming in. In 2008-09, the last
19 fiscal year that just ended, we acquired 493 properties.
20 And we now expect, in the next 12 months, to acquire
21 2,874. The round figure is 2,900. So we've gone from
22 500 to 3,000, a sixfold increase in the REOs expected
23 over the next 12 months.

24 In sales, over the past 12 months, we've sold
25 218 properties for about \$30 million. In the next

1 12 months, we anticipate selling 2,922 sales for about
2 \$450 million.

3 So the comparisons in relatively huge volume,
4 we're going to have to take in and resell is significant;
5 and we have reallocated resources to this department to
6 take on the properties, evaluate them, price them, fix
7 them, put them on the market, and handle the sale and the
8 closing of the sale. And so there's just a tremendous
9 amount of work going on, trying to liquidate foreclosed
10 properties.

11 If there are no questions, that's the end of
12 my section.

13 MR. SPEARS: All right, we have multifamily
14 lending and portfolio management next.

15 So we're going to ask Margaret Alvarez and Bob
16 Deaner to come and join us.

17 Bruce is going to stay and earn his pay,
18 pushing buttons at the laptop.

19 On the multifamily side, as I said before,
20 there are different funding sources available. The MHSA
21 program is still very active. We're, in fiscal year
22 2009-10, expecting fifty-plus deals, with \$75 million to
23 \$100 million of deals there.

24 The tax-credit program, which we're hoping that
25 Bill Pavao could stay and talk about, but we'll let Bob

1 say a couple of other things about that.

2 The thing, with both single-family lending and
3 multifamily lending, the demand is there. We're at the
4 low end of the single-family market. There is rental
5 demand there. The bank lending has declined on the
6 multifamily side. It's a great time for CalHFA to be
7 lending. We have to fix these other issues so that we
8 can get back in and be a factor, once again.

9 But, Bob, why don't you spend a couple of
10 seconds talking about the tax-credit programs that we're
11 going to be assisting on? HCD is also going to be
12 involved in that. And then get to some of these other
13 business-model considerations very quickly.

14 MR. DEANER: Sure. Under the tax-credit
15 program, Bill Pavao has requested or has asked CalHFA and
16 HCD to assist in just administering the program. So our
17 role purely is not a lender, but to administer the money
18 that they've gotten from the federal government. And the
19 role primarily will be to close the loans on behalf of
20 TCAC because we have the ability to close the loans.

21 There's two different programs within the
22 tax-credit program. There's a gap program and an
23 exchange program. And under the exchange program, we are
24 going to do a little more due diligence for TCAC, which
25 is doing some underwriting, looking at some documents for

1 them -- the sponsor, the market, to make sure that the
2 current deals that they came back and reapplied for,
3 make sense to go forward.

4 So we are going to have kind of a few staff
5 members working on different things. One would be from
6 a underwriting role. Two would be, we are going to help
7 them disburse the first 40 percent of the exchange money.
8 They're calling it "cash in lieu," which is basically
9 they're giving cash, and the folks that couldn't get tax
10 credit investors give the tax credits back and in lieu,
11 they get cash for their tax credits.

12 We will administer the first 40 percent of that
13 money for TCAC through our disbursements group, because
14 the construction lenders have asked that the first
15 40 percent go in from the cash-in-lieu program.

16 So we'll have our underwriting group, our
17 disbursements group, and then our closing through our
18 legal group close the loan. So we could have eight, ten,
19 12 people working on this program.

20 TCAC has approximated about 150 projects.
21 Talking to Bill earlier, that could be down to about 120.
22 And then we'll share that with HCD. So there could be
23 anywhere from 75 to 100 projects that CalHFA will be
24 asked to help administer in the program.

25 We're looking forward to administer the

1 program. We've set up a light application. We're going
2 to make this seamless and easy for the borrowers. And
3 we're here to support TCAC and to get this money out so
4 we can get these projects moving.

5 Moving down to the other business model
6 considerations, we're looking to do two things, as Steve
7 has mentioned. Our role has to change as putting our
8 general obligation on our bonds and multifamily projects
9 that we've presented to the Board over the years. What
10 we need to do today is have that risk be shared with
11 other groups.

12 The first is, I have been or the Agency has
13 been in negotiations with Fannie Mae. And I was a
14 previous Fannie Mae lender for 12 years, being on the
15 multifamily side. And they've established an HFA group
16 which they are now going out to HFAs and approving HFAs
17 as sellers/servicers, similar to their other multifamily
18 public groups -- or private groups.

19 So CalHFA, my understanding, is the first group
20 that's been approved by their credit group to move
21 forward under a seller/servicer agreement, in which now
22 we've got to negotiate a counterparty risk agreement,
23 meaning, what CalHFA and Fannie Mae are going to share
24 going forward in the risk. And that, we're hoping to do
25 in the next two to three months. This will give us the

1 ability to sell tax-exempt bonds with Fannie Mae's AAA
2 credit enhancement, and which the bondholders that buy
3 the bonds see Fannie Mae facing the bonds as a AAA
4 credit, we get better pricing. And behind the scenes,
5 CalHFA and Fannie Mae then share the risk in the event
6 of a loss. And there's a *pari passu* agreement we'll come
7 up with. And that's the counterparty risk that we still
8 need to negotiate. So Steve and I and Bruce will have
9 conversations with the HFA group on how we can do that.

10 The second piece would be, we have a risk-share
11 agreement with HUD currently in place on a 50-50 basis.
12 We are asking FHA to increase that to 75-25. Then taking
13 75 percent of the risk, us taking 25, going forward. And
14 we've got that in front of them currently.

15 If we had to, we could go back to the 50-50,
16 but we're looking to share some more of that -- or have
17 them share some more of that risk going forward.

18 That would be with them still accepting our
19 underwriting. If we go beyond a 75 percent and say we
20 wanted them to take 100 percent, we could pursue that
21 avenue, but that is a completely different underwriting
22 model that they would want from CalHFA and a different
23 approval process. So we're just trying to take what we
24 have and modify it up a little. And in the Fannie Mae,
25 we're 90 percent to the goal line.

1 So between these two programs going forward,
2 we'll share the risk when we can get back out and lend
3 again. It's just a function of what we've talked about
4 a number of times, and if the bond market comes back, to
5 have the ability to sell bonds, even under the Fannie Mae
6 or Freddie Mac or FHA model going forward.

7 MR. SPEARS: Right. It's the same theme. What
8 we're trying to do is reduce the risk of the Agency on an
9 ongoing basis. We're getting back into lending but doing
10 it a different way. We're not taking as much risk in the
11 future.

12 MR. DEANER: And I should just mention one more
13 thing. Under these two models, their risk share under
14 the permanent loan, we still want to pursue being the
15 construction-loan permanent lender. And the construction
16 loan that we have also asked HUD to ensure the
17 construction draws going forward so when we sell a bond,
18 CalHFA doesn't have 100 percent of the risk during the
19 construction period, and sharing just on the perm.

20 Fannie Mae is now -- is only a perm lender. So
21 we will always have the 100 percent of the risk during
22 the construction period. And that is the difference
23 between what Bruce and I need to talk to the rating
24 agencies about, is what that particular capital charge
25 would be for that short period of time.

1 So we want to maintain our current model as a
2 construction perm lender. But knowing that, part of --
3 more of that risk during the construction period will be
4 borne by CalHFA.

5 MR. SPEARS: Okay, any other questions?

6 CHAIR CAREY: Yes?

7 MS. JACOBS: Sorry. I don't know if you're
8 going to talk separately about the Multifamily Asset
9 Management or you just think it's covered, because that's
10 what I have a question on.

11 MR. SPEARS: That's the next one.

12 MR. DEANER: Well, Margaret is up here to talk
13 about that.

14 MR. SPEARS: That's the next one. This is
15 Margaret's area.

16 MS. JACOBS: Okay. Leaping ahead, as usual.

17 MR. SPEARS: Leaping ahead, right.

18 And Margaret's workload continues to increase.
19 As we close loans on the Multifamily side, that portfolio
20 that she has to manage gets bigger and bigger. She is
21 up to about 500 properties. But that -- there are a
22 number of those loans that are getting close to the end
23 of the term. Remember, those projects need
24 rehabilitation and recapitalization. That's difficult
25 for us to do right now because of the lack of internal

1 funds to help out with that.

2 One thing I wanted to know if she could spend
3 a couple of minutes explaining, there are about
4 70 properties that are problem children. The rents are
5 soft, the costs are going up; and currently, the
6 debt-service coverage is less than one. That means the
7 owners are having to put in money to make this work.
8 And these loans are performing. In fact, the entire
9 portfolio of loans is performing rather well, and that's
10 not a problem. It's just that on a long-term basis, that
11 could get very tiresome for owners.

12 And then finally, on a future business-model
13 basis, Margaret had a very astute staff person who was
14 in Washington, D.C., for a conference, and got into a
15 conversation with HUD folks about the performance-based
16 contract administration of HAP contracts in California.
17 And they said they were not very satisfied with the
18 current administration of it, and we're going to put it
19 out to RFP.

20 We have jumped on that idea, and we're going to
21 be putting that into place, I believe it's next January,
22 if I'm not mistaken.

23 MS. ALVAREZ: 2010.

24 MR. SPEARS: And I'll let Margaret talk about
25 that for a minute.

1 MS. ALVAREZ: Well, we can't just automatically
2 do that. HUD will be putting out an RFP later this year,
3 and we'll have to compete for that with probably the
4 current performance-based contract administrators and
5 anybody else who wants to compete for that contract.
6 But that is something we hope to pursue in the next
7 18 months. And that would be about 10,000 units. I
8 don't remember offhand what number of buildings that is.
9 But it would be quite an undertaking for the Asset
10 Management staff.

11 Probably our thinking would be at this time,
12 that we would partner with another entity, which is much
13 what the PBCAs do now. Nobody tries to do it all alone.
14 They partner either with other states or other
15 third-party contractors. And that would be our route as
16 well.

17 But this is all just in the infancy stages.
18 And as far as staff time dedicated to it, we're not even
19 starting until later this year.

20 MR. SPEARS: Do you want to spend a couple of
21 seconds talking about the 70 problem children?

22 MS. ALVAREZ: Yes. First, I just want to
23 assure everyone that none of the properties, of those
24 70 -- well, one -- one property out of the 70 is
25 currently in default. That is the only default. It's

1 a small loan under a million dollars in the Bay Area.
2 With the exception of that, we have no other properties
3 that are in default. Everybody is paying their mortgage,
4 everybody is making ends meet.

5 As Steve mentioned, the markets are a little
6 bit softer. About half of those 70 are our 80/20
7 product, not the Section 8's. Although many of the
8 Section 8s are also under 1.0 debt coverage ratio. It's
9 not a problem where their mortgage payment is too big;
10 it's a problem where rents have been soft over a number
11 of years and expenses keep going up, and they just aren't
12 making it.

13 A lot of them never made it. A lot of these
14 70 were always feeding a property, especially with the
15 nonprofits.

16 Where our concern is today, is that the
17 property that's defaulting in the Bay Area is because the
18 nonprofit ownership disappeared, and that's really what
19 we worry about is that a lot of these properties are
20 owned by nonprofits. And as their lives get tougher,
21 they make a lot of their money, oftentimes, by new
22 development. As things are stalled in that area, they
23 have to continually feed maybe not just our property, but
24 other properties with no new income coming in. And it's
25 just a concern of ours.

1 So we are stepping up our game in Asset
2 Management to really -- we made 25 points of interest on
3 each of these properties. My staff is fully engaged in
4 kind of putting a report together that we're going to
5 present to the senior staff of CalHFA. And we'll really
6 be watching these as we go through the next year or two.

7 MS. JACOBS: May I now?

8 CHAIR CAREY: Please.

9 MR. SPEARS: I'd defer to the Chair, but...

10 MS. JACOBS: I was looking at both of you
11 because you're both so handsome.

12 CHAIR CAREY: Won't that be stricken from the
13 record?

14 MR. SPEARS: Thank you.

15 MS. JACOBS: I am very impressed with the
16 programs that both of the multifamily and the
17 single-family side are doing. And I think anytime that
18 CalHFA can get back into any market, it's really
19 exciting. And it's also very important to pay close
20 attention to collateral, whether it's single-family or
21 multifamily.

22 I'm very impressed with the concept of bringing
23 the loan servicing of the CalHFA portfolio in-house. I
24 am very supportive of that. And I'm supportive of the
25 fact that you're managing your own Section 8 portfolio.

1 Where my concern lies is in going out and
2 competing to service other Section 8 projects, as well as
3 doing loan servicing for other portfolios. Because I
4 think that's competing with the private sector, and I'm
5 not sure that's in the CalHFA mission. So that's a
6 concern that I have.

7 MS. ALVAREZ: Are you referring to the
8 performance-based contract administration, the Section 8
9 piece?

10 MS. JACOBS: Yes.

11 MS. ALVAREZ: Okay.

12 MS. JACOBS: And also, somewhere in all of the
13 stuff I read -- I can't tell you where it was -- there
14 was talk about bringing the loan servicing in-house.
15 And that might be more on the single-family side, which
16 I think is great. But there was also some discussion
17 about earning fee income by doing other loan servicing;
18 and I have a concern about that.

19 Maybe I dreamt it because I read this so late
20 at night, but I thought that was in there somewhere.

21 MR. SPEAR: I don't remember.

22 MS. ALVAREZ: We currently don't service on the
23 multifamily side; we only service our loans. I don't
24 think there's any intent on servicing any loans that we
25 don't -- or any properties that we don't currently have

1 the loans for. That is on the single-family side.

2 MR. SPEARS: And I would have to say the same
3 thing on the single-family side.

4 MS. JACOBS: Very good.

5 MS. ALVAREZ: And just on the PBCAs, most of
6 the state housing finance agencies are the PBCAs for
7 their states, just so you'll know. So it is something
8 we're in the very early stages. Before we did anything,
9 we'd, of course, have to come back and talk about it
10 because it is a big resource of people and time and
11 effort.

12 CHAIR CAREY: And what's the rationale for that
13 around the country, that it's largely HFAs?

14 MS. ALVAREZ: Well, in many of the other
15 states, there's one housing agency, not three, within the
16 state. And so in a lot of the states, it's the group
17 that also is giving out the Section 8 contracts and other
18 things that are doing the PBCA work.

19 Everything is done under one roof. All the
20 governmental housing happens under one roof. It also is
21 a big fee generator.

22 When we had this opportunity to bid it out
23 several years ago, when the whole concept changed from
24 traditional contract administrators, like we currently
25 are -- we currently have our own, what they call

1 traditional contract administrating of our own portfolio.
2 And when they considered that in the past, we did spend
3 a lot of effort figuring out if we wanted to do it.

4 We were a little afraid of it because it hadn't
5 been done before. And from our best indications, we
6 needed, like, you know, 40 to 60 people to administer it.
7 And it just seemed like something that we really couldn't
8 get into. But as it turns out, there's a lot of
9 third-party contractors who are working with states, or
10 with the PBCAs in doing a lot of the behind-the-scenes
11 work of it, with the HFAs just mostly doing the
12 administering, the third-party contractor piece.

13 It also has turned out to be a very good fee
14 generator for most of the HFAs. Like we estimate that
15 our fee would be approximately \$4 million for taking it
16 on, annually. So it is a way to bring some income to the
17 Agency.

18 CHAIR CAREY: That request for proposal is not
19 out yet?

20 MS. ALVAREZ: No. It won't be published until
21 later this year.

22 CHAIR CAREY: So it can resurface at another
23 Board meeting.

24 MS. JACOBS: I would want that particular
25 aspect to come back for the Board because I'm really not

1 comfortable with it.

2 CHAIR CAREY: Other questions or comments?

3 MR. SPEARS: Okay, the last section we have,
4 just other business-plan considerations -- and I know
5 we're running short on time here -- but I did want to
6 cover a couple things that we're considering. Call us
7 eternal optimists, but we are continuing with strategic
8 initiatives that we believe are necessary to make this
9 Agency function better in our renewed life down the road.
10 That this is a going concern, and we're going to continue
11 investing in these projects.

12 On strategic initiatives, the next two pages
13 are devoted to that. And they are projects that are
14 ongoing, that we've discussed with you. There is a
15 revised time schedule -- a nice color chart later on --
16 that you can review. And I'll be quite willing to answer
17 any questions about it.

18 I thought I would just -- since we've talked
19 about these a lot before, it's another major workload
20 issue for the staff this year, it's another major
21 investment in contracts this year. I just wanted to let
22 you know that we're continuing on with that despite the
23 challenges that we face.

24 But the other couple things are, what I've
25 asked Howard Iwata to do is to, on an acting basis, serve

1 as the acting administration director and also the acting
2 director of fiscal services. Between those two
3 divisions, we have most of our business processes. And
4 I thought that we had not done this in a long time. It
5 would be an excellent time to review all of our business
6 processes, the flow of business information and
7 management information. Let's see if we can reorganize
8 those divisions. Let's see if we can reorganize the
9 business processes, make them more efficient, work
10 faster, and flow information to the senior executive team
11 and the management of the Agency on a more timely basis,
12 in a more qualitative way. So that's a process that's
13 going to be ongoing over the next year or so.

14 Succession planning in the current environment
15 of decisions that are being made with regard to civil
16 service staff has become more critical. That we have
17 more and more folks expressing interest in retirement,
18 and a very significant portion of the CalHFA workforce
19 in the next five years is considering retirement. Some
20 very key positions in mid- to upper-level management.
21 So I've asked Howard to take that on as well. And let's
22 start the process of identifying a succession plan out of
23 that.

24 The final thing on here, the final bullet, is
25 the Sacramento office consolidation. We haven't talked

1 about that in quite some time for obvious reasons. One
2 is that we never really identified a really terrific
3 option for the Agency. Then we were caught up in some
4 of the challenges that we have.

5 In the meantime, the Sacramento office lease
6 market has improved or worsened, depending on your point
7 of view, whether you're the lessor or lessee; and we have
8 received a very interesting proposal from the folks who
9 own 555 Capitol Mall. It involves six months' free rent,
10 it involves a virtually free move, consolidation of
11 everybody into three floors, where we would be
12 contiguous, not scattered over five or six floors at
13 the Senator Hotel and two at the Meridian.

14 It's a very interesting proposal. We are going
15 to go ahead and discuss this with them, pursue it.
16 Obviously, because that would exceed the \$1 million
17 annual limit on contracts, that would have to come back
18 to the Board. The only problem is, we don't meet again
19 until -- regularly, anyway -- until late September. So I
20 thought I would bring this to your attention to let you
21 know that we're going to continue talking to these folks
22 and exploring that proposal.

23 Obviously, a lot has to do with what we're
24 going to find out from Moody's, S & P, the federal
25 government, our swap counterparties, et cetera,

1 et cetera, et cetera. And it would probably not be
2 prudent for us to sign a ten-year lease when things
3 aren't turning out as we had hoped.

4 So I just want to bring this to your attention,
5 that that building lost two very large law firms to other
6 buildings, and they now sit on 120,000 square feet of
7 completely empty space. We don't need all of that space.

8 MR. SHINE: Per floor, how many square feet?

9 MR. SPEARS: It's approximately 25,000 per
10 floor. They have two wings -- I don't know if you're
11 familiar with the building -- but they have two wings,
12 and each have about 12,500 square feet.

13 MR. SHINE: So 75,000 square feet?

14 MR. SPEARS: Yes, right.

15 MR. SHINE: What do we have now?

16 MR. SPEARS: What we actually use and what
17 we're charged for is a problem, because we actually
18 use -- we're actually charged for about 90,000 square
19 feet, but we don't nearly need that amount. But because
20 so much common area is charged to us in the Senator Hotel
21 especially, our rent rate there is rather high.

22 MR. SHINE: So does our rent per year in the
23 total aggregate increase or decrease?

24 MR. SPEARS: Decrease. Over a ten-year period
25 of time, I believe the figure -- is this right,

1 Howard? --is an \$8 million savings over a ten-year period
2 of time.

3 MR. SHINE: How about the first two years?

4 MR. SPEARS: The first year, we would receive
5 six months free rent if we execute this in time. And
6 that alone is \$600,000 or \$700,000 of savings.

7 CHAIR CAREY: And what's the status of the
8 current leases?

9 MR. SPEARS: The current leases, in August of
10 this year, we earn the right under the current -- both
11 leases at Meridian and Sacramento -- to withdraw from
12 those leases without cost. The leases actually end,
13 I believe, in October of 2010. So we have some time, we
14 have some flexibility to consider this. And if we went
15 ahead with this proposal and we withdrew from our current
16 two leases in, say, the spring of 2010, we would do it
17 without penalty under the current two leases.

18 MR. SHINE: What does it cost to move?

19 MR. SPEARS: Well, that's another interesting
20 prospect. We have a proposal for a T.I. allowance, that
21 allows us to build the offices out, plus an addition on
22 top of that, that would be, I think, currently enough to
23 almost pay for the entire move.

24 CHAIR CAREY: Ms. Jacobs?

25 MR. SHINE: I don't want to own that building.

1 MS. JACOBS: I think it's quite exciting for
2 you guys to be in one place. I think this whole thing is
3 terrific.

4 Do you have to go through the DGS process like
5 we do?

6 MR. SPEARS: We do not.

7 In fact, when the budget comes up, I'll tell
8 you that Howard has jumped in the deep end and analyzed
9 our interagency charges, and found that we're being
10 charged by the State for managing our lease by DGS, which
11 is something they don't do. So we have asked them to
12 reduce our charge by that fee.

13 So, no, we don't.

14 CHAIR CAREY: So the hope would be to move
15 forward with negotiations; is that what I'm hearing?

16 MR. SPEARS: Yes.

17 CHAIR CAREY: With the potential -- and how
18 does that work out with the next Board meeting? Not
19 well?

20 MR. SPEARS: Not well.

21 We can ask counsel what the options are. We
22 could -- there are several different options, as I
23 understand it. We could sign a letter of intent, subject
24 to ratification by the Board. We could call the Board
25 into a special session to deal with this one issue. But

1 we also may have other issues that we might want to talk
2 to the Board about later this summer.

3 CHAIR CAREY: Are we hearing any suggestions
4 that they hold back or --

5 MR. SPEARS: No.

6 MS. JACOBS: I think it's a great opportunity,
7 and we should go ahead and pursue it. But I think if we
8 need a special meeting to dot the I's and cross the T's,
9 we should do that.

10 MR. SPEARS: Okay.

11 CHAIR CAREY: Are we all comfortable?

12 So, good.

13 MR. SPEARS: Thank you.

14 That is -- here again, there are a couple of
15 additional slides dealing with the strategic initiatives.
16 Obviously, again, the homeownership and the fiscal
17 services are the two largest. From the standpoint of
18 workload for staff and cost, those are the big issues.
19 The others are smaller projects.

20 The last bullet there, the "Loan Servicing
21 Reorganization," that's our goal of, one, bringing all
22 loan servicings so that in five years, we're servicing
23 100 percent of CalHFA's loans. For all the reasons that
24 I mentioned in -- I forget what page it was -- but I
25 devoted a paragraph to that. I think it's very important

1 from a mission standpoint. It would simplify the
2 operations that we have now, because now Chuck has to
3 manage outside servicers. He wouldn't have to do that.
4 Everything would be in-house.

5 At present, physically, Rhonda's group is
6 scattered all over the Senator -- in the basement,
7 crammed into offices on the first floor. They need
8 better space, they need better equipment, they need a
9 better situation. So we have identified a space in
10 West Sacramento that has the capabilities of being
11 organized into a call-center-type loan servicing --
12 mass-loan-servicing type arrangement, which will work
13 much, much better, and it's much, much cheaper. So on
14 this other building proposal, that square footage that we
15 need has been reduced by the loan-servicing aspect
16 because that would be offsite.

17 MS. BERTE: Mr. Chair?

18 CHAIR CAREY: Yes.

19 MS. BERTE: I'm under extreme time pressure.

20 CHAIR CAREY: Right.

21 MS. BERTE: And we barely have a quorum, and I
22 don't know that my alternate backup is going to get here
23 anytime soon.

24 CHAIR CAREY: Right.

25 MR. SPEARS: We're done with this part and can

1 move on.

2 MS. BERTE: May I make a motion that we adopt
3 Resolution 09-11?

4 CHAIR CAREY: Thank you.

5 Do we have a second?

6 MR. SHINE: Second.

7 CHAIR CAREY: Second, Mr. Shine.

8 Ms. Berte, Mr. Shine.

9 Roll call, please.

10 MS. OJIMA: Ms. Berte?

11 MS. BERTE: Aye.

12 MS. OJIMA: Ms. Jacobs?

13 MS. JACOBS: Yes.

14 MS. OJIMA: Thank you.

15 Ms. Carroll?

16 MS. CARROLL: Yes.

17 MS. OJIMA: Mr. Shine?

18 MR. SHINE: Yes.

19 MS. OJIMA: Mr. Smith?

20 MR. SMITH: Yes.

21 MS. OJIMA: Mr. Carey?

22 CHAIR CAREY: Yes.

23 MS. OJIMA: Resolution 09-11 has been approved.

24 //

25 //

1 **Item 7. Discussion, recommendation, and possible**
2 **action regarding the adoption of a**
3 **resolution approving the Fiscal Year**
4 **2009/2010 CalHFA Operating Budget**

5 CHAIR CAREY: And can we expeditiously deal
6 with the operating budget, recognizing there may be
7 questions, but keep the presentation concise?

8 MR. SPEARS: I believe that we can.

9 The main discussion here is centered around
10 workload.

11 Our assumption is that we will -- again, the
12 same as the business plan -- we will not be downgraded.
13 We will have some ability to lend, but we're not sure how
14 much. That we will manage to a downgrade scenario,
15 although we're asking for a budget that is a planning
16 scenario, with the capability of lending, we'll manage to
17 a smaller budget until we find out what's going on with
18 Moody's and S & P and the federal plan.

19 So what we've asked for is a \$47.9 million
20 budget. Your memo says 48.1. When you have time, if you
21 can go back and change that number.

22 But if you can flip, Howard, to the slide with
23 the overall budget.

24 A couple more.

25 This is the budget that we're asking for.

1 We've split this out so that you can see what the
2 baseline budget is, and you can see that each year we
3 have spent less than that on a baseline basis. And it's
4 less this year than last year. And it's obvious because
5 we're not doing the lending volume that we've done
6 before. But all I can tell you is that you're going to
7 see staffing levels that are not dramatically less --
8 they're somewhat less, but they're not dramatically less,
9 here again, because it is a labor-intensive process to
10 manage the delinquencies, foreclosures, loss-mitigation
11 efforts, and REO management.

12 If we add lending on to this, it will increase
13 that workload. And we'll have to be doing all those
14 things, all at the same time.

15 Maybe it would be -- flip two more slides,
16 Howard, and we can show you. If we have time -- one
17 more, if you will.

18 This will show you that, that last box on the
19 right is our flexibility in staffing.

20 A couple other things to note very quickly.
21 The homeownership segment has been reduced from forty- --
22 I'm having a tough time reading that, forty-something
23 down to 32. And here again, the reason is, Gary is not
24 doing quite as much lending as before. Staff has been
25 shifted to portfolio management, to loan servicing, to

1 more on the homeownership strategic project.

2 So we have about the same number of filled
3 positions as we did three years ago, roughly. But the
4 flexibility is going to be with the 40 vacancies. We're
5 asking to fill ten of those right away because they're
6 critical positions. The other 30, we're asking for
7 flexibility to fill those down the road.

8 If we're not lending and if we don't fill those
9 30 positions, that's about \$3 million of the budget, I
10 believe. So if that doesn't happen, you can expect this
11 budget to come in \$3 million under this number, to be
12 44 versus -- 45 versus 48, almost.

13 MS. JACOBS: That's okay. The only thing I
14 don't follow, Steve, here is you keep saying that the
15 budget's going down, but I see that the personnel
16 expenses are going up. I'm on page 127.

17 MR. SPEARS: Are you talking about positions,
18 or are you talking about --

19 MS. JACOBS: I'm talking about authorized - I'm
20 talking about dollars. And I'm just wondering --

21 MR. SHINE: Is this the chart? Is that the
22 same chart as this combined budget planning scenario?

23 MS. JACOBS: I'm just --

24 MR. IWATA: The salaries, why it went up was
25 because of increased temporary help and overtime. And

1 that's all included within the authorized salaries in
2 there. And what happens due to loan servicing's
3 increase of temporary help, we added -- that includes
4 approximately \$500,000 in temporary help and about
5 \$35,000 in overtime to accommodate their workload
6 situation currently.

7 MS. JACOBS: Well, I'm just -- when you look
8 at projected actual of \$18 million, I think going up
9 to \$23 million is a big increase, when we're getting
10 different signals from the administration. That's the
11 concern that I have. I'm just expressing my concern.

12 When we don't see -- I realize we have so many
13 different alternatives going forward in terms of the
14 income side, that we don't see an income side here, along
15 with an operating expense side. And that's a little bit
16 of a concern.

17 MR. SMITH: In this projected budget, are there
18 salary increases to existing employees? Or what's -- I
19 just assumed that the increase was based on salary
20 increases.

21 MR. SPEARS: There are none for the exempt
22 employees that this Board has control over, there are no
23 anticipated salary increases. The civil-service rank and
24 file are governed by contracts that are negotiated at the
25 state level. So we are at their mercy, if you will. So

1 the answer is "no" on the tax-exempt side; not sure
2 what's going to wind up on the rank-and-file side.

3 MR. SMITH: So on the rank-and-file side, are
4 we subject to all of the budget cuts and -- I mean, the
5 employees are subject to whatever the state does?

6 MR. SPEARS: Right. The pay-level contract
7 negotiations will apply to all these classes just as it
8 would in the rest of state government.

9 MR. SMITH: Yes, that's not good.

10 CHAIR CAREY: Questions or --

11 MR. IWATA: I think what we're looking at, as
12 far as when you're talking about the salaries, if you
13 look at the 2007-08 budget, it's compared to actuals.
14 In actuals, we don't spend as much as the budget in any
15 of the years. In fact, throughout the history, the
16 five-year history, we've really spent underneath our
17 overall budget amounts for the last five years, between
18 0.4 percent, to actually 12 percent savings throughout
19 the years. So providing overall personnel services that
20 will tie to our two-year plan, just in case, it gives us
21 the flexibility to manage the personnel services up or
22 down, depending on how the workload goes, that's the 40
23 positions you're talking about.

24 MR. SPEARS: The only comment I would have,
25 Lynn, is we have this balance sheet with this portfolio

1 that we have to manage, and we have this capital
2 structure that we have to manage. So far, with the
3 decisions that have been made with regard to furloughs
4 and that sort of thing, we've tried to overcome that by
5 cancelling the alternative workweek, by authorizing more
6 overtime. And at some point, though, the workload of
7 managing this exceeds all that and becomes very, very
8 expensive to have Rhonda with folks working every weekend
9 overtime and Fiscal Services having folks work every
10 weekend overtime because, you know, we need to keep
11 managing this ongoing --

12 MS. JACOBS: Portfolio, I totally understand,
13 believe me.

14 MR. SPEARS: Right. I understand.

15 MS. JACOBS: No, I'm just -- I'm not a fan of
16 budgeting with a lot of cushion. That's not how I
17 budget. So I understand that. I think that's one way
18 of budgeting, but it's not -- I like to see the budget --
19 I don't like to see rewards for coming in 20 percent
20 under-budget every year because you budget 20 percent
21 too high. That's just my own philosophy. But I
22 understand the reasoning.

23 MR. SPEARS: My only answer to that is that
24 we're not padding the budget for the business plan that
25 we believe will materialize during the year. What we

1 don't know is whether that plan materializes or not.
2 What we're saying is if that plan doesn't materialize,
3 then we will manage this to a lower number that fits the
4 scenario that reveals itself, which we think will not be
5 a padded budget but will be a budget that fits that
6 scenario. It's a budget that fits the business plan that
7 we think will materialize. We don't think it's padded.

8 CHAIR CAREY: The points for coming under
9 budget are offset by the points for misbudgeting; right?

10 MR. SPEARS: Or not meeting -- not coming out
11 with a business plan that we told you that we would be
12 able to do.

13 And for me, that's -- you know, you should ding
14 us for not being able to marshal the groups and get the
15 business plan done that we thought. That is more
16 important than saying, "Whoopee, you missed your budget
17 by -- you came in \$3 million under the budget."

18 CHAIR CAREY: The results of managing the
19 Agency will be the issue --

20 MR. SPEARS: Exactly.

21 CHAIR CAREY: -- rather than coming in under
22 budget.

23 MR. SPEARS: In my mind, yes.

24 MR. SMITH: How would the plan to take the
25 servicing in-house, how many more employees -- is that

1 already covered in this plan, in this budget?

2 MR. SPEARS: Yes.

3 MR. SMITH: So you're not going to need --

4 MR. SPEARS: And the strategy is to hire temp
5 help first. And one of the reasons to do that is, there
6 is no classification in state government for loan
7 servicing that we're aware of. We can't recruit from
8 other places. We have to bring in folks from outside who
9 know how to do this, who know how to service loans, who
10 know how to work loan modifications, and do cash for keys
11 and short sales and all that. So our strategy is to hire
12 temporary help to come in and do that.

13 At some point, we plan on giving an exam and
14 making it available -- an open exam, and making it
15 available to folks, and bringing those folks in on a
16 permanent basis. That's a little bit down the road,
17 though.

18 MR. SMITH: So what would be the budget for
19 this temporary help? Is that reflected in here
20 somewhere --

21 MR. SPEARS: Yes.

22 MR. SMITH: -- or is it just within the
23 salaries?

24 MR. IWATA: That's within the authorized
25 salaries.

1 MS. JACOBS: It's not -- is it broken out
2 anywhere?

3 CHAIR CAREY: There was a discussion of a
4 number of bodies at some point.

5 MR. SPEARS: They're about -- in this colorful
6 chart, Ruben?

7 MR. SMITH: Yes, I saw that you have, like for
8 loan servicing, 24 authorized positions and then five
9 agencies. But I'm wondering, you're going to have a
10 bunch of temporary --

11 MR. SPEARS: Yes.

12 MR. SMITH: -- in addition to that.

13 MR. SPEARS: Agencywide, temporary help in this
14 chart is about 27 people. I can't tell you right off the
15 bat how many of those are going to go to loan servicing.
16 I'll try to find out.

17 MR. SMITH: Agencywide, you have 27 temporary?

18 MR. SPEARS: Yes.

19 MR. SMITH: But if you bring them on full-time
20 or even just on the temporary side, does that change this
21 budget in any way?

22 MR. SPEARS: No. No, that's included in the
23 budget.

24 CHAIR CAREY: When fully implemented, the
25 budget represents an additional nine temporary positions

1 in loan servicing. Page 125.

2 MR. SPEARS: Does that answer the question,
3 Ruben?

4 MR. SMITH: Yes, I see it.

5 MR. SPEARS: So nine of those would be in loan
6 services.

7 CHAIR CAREY: Okay, are there other issues,
8 concerns?

9 I'm sorry, Ms. Berte?

10 MS. BERTE: I agree with Ms. Jacobs. I'm
11 looking at chronic positive variance, particularly in
12 the staffing model. I served on the CalPERS Board, and
13 we would regularly -- both the Finance Committee and the
14 Board -- make adjustments midyear as needed based on
15 changes in business activity.

16 I do think we need to take a look at the
17 OE & E, because we are anticipating an additional
18 executive order or revised one mandating across-the-board
19 reductions in OE & E across all of state government.
20 And the same questions apply as to whether we are subject
21 to or exempt from those mandates.

22 That being said, given the unusual
23 circumstances that we're in, I'm not uncomfortable that
24 we adopt a budget that appears to be sort of having --
25 it has a risk component baked into it, is how I view it.

1 But I wouldn't be averse to approving what's before us,
2 you know, again, subject to the periodic reviews that a
3 board, this committee would normally do.

4 So unless there's an objection, I would, again,
5 step forward to move adoption of Resolution 09-12.

6 CHAIR CAREY: We have a motion.

7 Do we have a second?

8 MR. SHINE: I'll second.

9 CHAIR CAREY: Mr. Shine.

10 So it's Ms. Berte and Mr. Shine.

11 Roll call, please.

12 MS. OJIMA: Thank you.

13 Ms. Berte?

14 MS. BERTE: Aye.

15 MS. OJIMA: Ms. Jacobs?

16 MS. JACOBS: I'm not sure what to do here.

17 MR. SHINE: Go ahead.

18 MS. JACOBS: Yes.

19 MS. OJIMA: Thank you.

20 Ms. Carroll?

21 MS. CARROLL: Yes.

22 MS. OJIMA: Mr. Shine?

23 MR. SHINE: Yes.

24 MS. OJIMA: Mr. Smith?

25 MR. SMITH: Yes.

1 MS. OJIMA: Thank you.

2 Mr. Carey?

3 CHAIR CAREY: Yes.

4 MS. OJIMA: Resolution 09-12 has been approved.

5 CHAIR CAREY: Thank you.

6 --o0o--

7 **Item 8. Discussion, recommendation, and possible**
8 **action relative to the approval of a**
9 **resolution approving amendments to the**
10 **regulations of the Agency regarding the**
11 **Conflict-of-Interest Code**

12 CHAIR CAREY: Our last item is fairly
13 ministerial judgment to the conflict-of-interest policy.

14 Can we do that briefly?

15 MR. HUGHES: Yes, I'll do that from right here.

16 This is a very routine amendment of the
17 Agency's conflict-of-interest code. Just very quickly,
18 by way of background, the Fair Political Practices
19 Commission requires every state agency to have a
20 conflict-of-interest code. It simply defines which
21 employees have to file the much-loved Form 700 and what
22 the disclosure categories for each employee are; and the
23 FPPC also requires that we periodically update the code
24 so that the actual employee positions are matched with
25 the disclosure categories. So that's what this does.

1 This is a routine update.

2 We've also tweaked some of the disclosure
3 categories a little bit just to make them better written
4 and to be more clear. So that is the proposal, that is
5 the resolution.

6 MS. JACOBS: I have one question, then I'll
7 move approval.

8 This doesn't change Board disclosure; correct?

9 MR. HUGHES: No, it does not.

10 MS. JACOBS: Okay. I move approval.

11 MR. SMITH: Second.

12 CHAIR CAREY: Ms. Jacobs, Mr. Smith.

13 Roll call.

14 MS. OJIMA: Thank you.

15 Ms. Berte?

16 MS. BERTE: Aye.

17 MS. OJIMA: Ms. Jacobs?

18 MS. JACOBS: Yes.

19 MS. OJIMA: Ms. Carroll?

20 MS. CARROLL: Yes.

21 MS. OJIMA: Mr. Shine?

22 MR. SHINE: Yes.

23 MS. OJIMA: Mr. Smith?

24 MR. SMITH: Yes.

25 MS. OJIMA: Mr. Carey?

1 CHAIR CAREY: Yes.

2 MS. OJIMA: Resolution 09-13 has been approved.

3 CHAIR CAREY: Thank you.

4 --o0o--

5 **Item 8. Reports**

6 CHAIR CAREY: We are down to *Reports*.

7 Are there any items that -- please come up.

8 MR. SPEARS: I believe we have covered all the
9 reports that are presented to the Board in the back of
10 the binder.

11 --o0o--

12 **Item 9. Discussion of Other Board Matters**

13 CHAIR CAREY: Any other issues from Board
14 members?

15 *(No response)*

16 --o0o--

17 **Item 10. Public Testimony**

18 CHAIR CAREY: Then we will open the meeting to
19 *Public Testimony*.

20 If there's anyone in the audience who wishes to
21 address the Board, please indicate.

22 *(No response)*

23 CHAIR CAREY: Seeing none, I do want to mention
24 that we have discount parking passes for those who have
25 parked in the parking structure here.

1 And with that, we are adjourned. I appreciate
2 everybody's patience.

3 *(Proceedings concluded at 1:30 p.m.)*

4 --oOo--

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REPORTER'S CERTIFICATE

I hereby certify that the foregoing proceedings were duly reported by me at the time and place herein specified;

That the testimony of said witnesses was reported by me, a duly certified shorthand reporter and a disinterested person, and was thereafter transcribed into typewriting.

I further certify that I am not of counsel or attorney for either or any of the parties to said deposition, nor in any way interested in the outcome of the cause named in said caption.

IN WITNESS WHEREOF, I have hereunto set my hand on the 27th of July 2009.

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

State of California

MEMORANDUM

To: CalHFA Board of Directors

Date: November 10, 2009



Steve Spears, Acting Executive Director

From: CALIFORNIA HOUSING FINANCE AGENCY

Subject: AUTHORIZATION TO PARTICIPATE IN THE FEDERAL HFA INITIATIVE -
Resolution 09-14

On October 19, the Obama Administration announced an initiative to assist state and local housing finance agencies (HFAs) in their efforts to stimulate first-time home buying, help distressed homeowners, and provide affordable rental homes. The initiative is part of the Administration's *Making Home Affordable* program and will be supported by Fannie Mae, Freddie Mac, the Federal Housing Finance Agency (FHFA – which acts as the Conservator for Fannie and Freddie) and the United State Treasury. The purpose of this memorandum is to provide Board members with a more detailed overview of the Initiative, request authorization to participate in the program and inform Board members of the amount of assistance that CalHFA staff has requested.

Basic Elements of the Initiative

The Initiative has two elements 1) a New Issue Bond Program (NIBP) and 2) A Temporary Credit and Liquidity Program (TCLP). Under the NIBP, Treasury has agreed to purchase HFA bonds for a short period of time as described below. The bond proceeds may be used to provide new loans to first time home buyers, finance loans for multifamily rental projects and facilitate refunding of existing HFA variable rate bonds. The TCLP has a three year term and will provide replacement liquidity facilities for existing variable rate HFA bonds. These facilities will also have the credit support of the U.S. Treasury.

The Authority for these two program is derived from the Housing and Economic Recovery Act of 2008 (HERA) and expires on December 31, 2009. HFAs must make all arrangements and complete all documents by this deadline to be eligible for participation in these programs.

New Issue Bond Program

The NIBP will allow CalHFA access to bond proceeds to once again make single family and multifamily loans. The program is only available for a limited time and requires that CalHFA sell bonds to the private sector as well. Here are the elements of the NIBP:

- Only fixed rate bonds may be issued under the program and must be issued under a new bond indenture. The CalHFA Board has already authorized appropriate forms of new bond indentures pursuant to annual financing resolutions adopted each January. The current year resolutions approved at the January 22, 2009 board meeting are Resolutions 09-01 and 09-02. Resolution 09-14 would authorize the Executive Director to make such amendments and changes to previously approved forms of indentures to insure such indentures are compatible with participation in the HFA Initiative.
- The interest rate on the bonds will be set at a spread to 10 year U.S. Treasury securities. The amount of the spread will depend upon the credit rating of the HFA bond indenture.
- Treasury will purchase \$3 of Single Family HFA bonds for every \$2 of bonds sold to the private sector. Treasury will buy all bonds issued to finance multifamily rental housing developments.
- All bonds will require the use of previously awarded or anticipated tax exempt bond volume cap allocated by the California Debt Limit Allocation Committee (CDLAC).
- Bonds must be “reserved” and escrowed by December 31, 2009 and HFAs may draw on this escrow to establish lendable proceeds up to three times. No draw may be made after December 31, 2010 but bond proceeds may be used to finance loans into 2011.
- Again, bond proceeds may be used to 1) acquire single family whole loans or mortgage backed securities, 2) finance multifamily loans; and 3) refund outstanding variable rate bonds.

NIBP is based on authority contained in the HERA legislation that allows Treasury to purchase Fannie and Freddie securities. Once CalHFA issues bonds, Fannie and Freddie will create securities backed by the HFA bonds and sell those securities to Treasury to establish the escrow account. Since the HERA authority ends on December 31, 2009, CalHFA must enter into a binding placement agreement and issue bonds by that date so that Fannie/Freddie can create their securities for sale to Treasury. Settlement under the placement agreement will occur in January 2010.

Treasury will base the size of the NIBP on the demand for bond issuance by HFAs and requested applications for participation in the program. CalHFA applied for \$1.123 billion in single family bonds and \$613 million in multifamily bonds under the NIBP – these amounts included requests for “refunding bonds.” As of the date of this memo, we have not been informed of the amount allocated to CalHFA under this program.

Temporary Credit and Liquidity Program

The TCLP will be used by HFAs to replace liquidity facilities on existing variable rate demand bonds (VRDBs). CalHFA has approximately \$3.8 billion in VRDBs with liquidity

agreements that will need to be replaced over the next few years. Two liquidity agreements have already expired resulting in \$196 million of bank bonds and many others have been repeatedly renewed for short periods while awaiting announcement of the HFA Initiative.

More than \$1.1 billion will expire and will need to be replaced within the next six months. As we have discussed with the Board on several occasions, the global credit crisis has made it difficult to replace these facilities at a reasonable price and with a reasonably long term. In addition, the credit quality of liquidity banks has declined significantly during the crisis.

FannieMae and Freddie Mac will provide the standby letter of credit and administer the TCLP by acting as the liquidity bank for HFAs interested in replacing existing liquidity agreements on their VRDBs. Treasury will backstop the liquidity facilities pursuant to the MOU between Treasury, FHFA and the GSEs.

The term of the TCLP facility is three years and expires December 31, 2012. Pricing is dependent on the credit rating of the HFA bond indenture and escalates each year during the three year term. At the end of the three year term, replacement liquidity must be found in the private sector. If sufficient liquidity cannot be found, the VRDBs will at that point be placed in "bank bond" mode and will be owned by the US Treasury. However, unlike the private sector bank bond mode, the bonds will be subject to their regularly scheduled amortization with a balloon payment ten years after the TCLP expiration. This feature greatly reduces the potential future demand for CalHFA cash to amortize bank bonds.

Once again, the authority for TCLP is provided under the HERA legislation and binding agreements must be in place by December 31, 2009. CalHFA VRDBs utilizing the TCLP facility will be reoffered to investors during January 2010. Under the same application process as discussed above, CalHFA applied for a liquidity facility in an amount necessary to replace the entire \$3.8 billion of existing liquidity agreements. This represents approximately 60 existing liquidity agreements and will involve updated disclosure documents for three bond indentures and require execution of a variety of other documents.

RESOLUTION 09-14

RESOLUTION APPROVING PARTICIPATION IN
US TREASURY DEPARTMENT HFA INITIATIVE

1
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6
7 WHEREAS, as a result of recent disruptions in the bond, capital and real estate markets,
8 the California Housing Finance Agency (the "Agency") has experienced pressure on its balance
9 sheet and on its long-term unsecured credit rating, and experienced significant capital and
10 liquidity constraints; and

11
12 WHEREAS, disruptions in the housing bond markets have prevented the Agency from
13 being able to raise capital to new single family and multifamily finance loans at competitive
14 rates of interest, and

15
16 WHEREAS, such marketplace disruptions have also had adverse effects on the
17 Agency's existing variable rate bond portfolio, in particular as expiring standby bond purchase
18 agreement liquidity facilities have become very difficult to replace, and such expirations cause
19 Agency bonds to become "bank bonds", with adverse financial consequences to the Agency;
20 and

21
22 WHEREAS, variable rate demand obligations of the Agency can be "put" by investors
23 to remarketing agents, and if such bonds can not be remarketed successfully, also become
24 "bank bonds" with adverse financial consequences; and

25
26 WHEREAS, on October 19, 2009, the United States Department of Treasury, in
27 conjunction with the Federal Housing Finance Agency, and the two government sponsored
28 enterprises, Fannie Mae and Freddie Mac (collectively, the "GSEs"), announced an initiative to
29 aid state and local housing finance agencies (the "HFA Initiative"); and

30
31 WHEREAS, the HFA Initiative is composed of two program, the Temporary Credit and
32 Liquidity Program ("TCLP"), and the New Issue Bond Program ("NIBP"); and

33
34 WHEREAS, the TCLP would permit the Agency to replace existing standby bond
35 purchase liquidity agreements supporting certain variable rate debt obligations with both
36 liquidity and credit support facilities with the GSEs, supported by the US Treasury, and

37
38 WHEREAS, the new GSE facilities available under TCLP would permit the Agency to
39 replace current liquidity facilities , thereby providing significant temporary liquidity and credit
40 support to the Agency's variable rate debt; and

41
42 WHEREAS, by providing enhanced credit ratings to Agency bonds supported by TCLP,
43 the new liquidity facilities would also reduce the risk of Agency bonds being put by investors to
44 remarketing agents and potentially becoming "bank bonds"; and

1 Resolution 09-14

2 Page 2

3

4

5 WHEREAS, the NIBP provides for the GSE's to facilitate the purchase of certain new
6 Agency bonds by the United States Treasury at favorable rates, which would permit the Agency
7 to begin lending again; and

8

9 WHEREAS, the NIBP would permit the Agency to refinance some of its current
10 variable rate debt into fixed rate debt; and

11

12 WHEREAS, the TCLP and the NIBP programs are expected to provide substantial
13 balance sheet relief to the Agency over the next three years, allowing the Agency to transition
14 to new private sources of capital when such become available at rates that will support future
15 lending, and

16

17 WHEREAS, while the Board recognizes that the HFA Initiative will not address loan
18 losses suffered by the Agency as a result of the downturn in the California real estate market,
19 the HFA Initiative will address certain critical capital issues faced by the Agency;

20

21

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

23

24 1. The Executive Director and other authorized officers of the Agency may enter
25 into such agreements and take such other actions as may be necessary or proper to permit the
26 Agency to participate in the HFA Initiative sponsored by the United States Department of
27 Treasury, the Federal Housing Finance Agency, Fannie Mae, and Freddie Mac.

28

29 2. The Executive Director and other authorized officers of the Agency may
30 authorize and make such amendments and changes to forms of bond indentures previously
31 approved by the Board of Directors, as the Executive Director may deem necessary to insure
32 that such indentures are compatible with and suited for participation in the HFA Initiative
33 program.

34

35

36 I hereby certify that this is a true and correct copy of Resolution 09-14 adopted at a duly
37 constituted meeting of the Board of Directors of the Agency held on November 19, 2009, at
38 Millbrae, California.

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42

ATTEST: _____

43

Secretary

44

Thomas C. Hughes

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State of California

MEMORANDUM

To Board of Directors

Date: November 10, 2009

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

Subject: UPDATE ON FINANCIAL CHALLENGES AND STRATEGIES REGARDING
AGENCY BOND AND LOAN PROGRAMS

Background:

Beginning in late 2007, troubles in the subprime mortgage market began spilling over into the financial markets in a major way, creating large write-downs of certain mortgage related asset classes resulting in significant losses at several of the major financial institutions that serve CalHFA as counterparties. Over the past two years counterparty risk has taken on an entirely new meaning and led to many of the financial market challenges to which the Agency has been reacting.

Disruptions in the housing bond markets have prevented the Agency from accessing new capital to fund the purchase or origination of new single family and multifamily loans at competitive interest rates. Such marketplace disruptions have also had adverse affects on the Agency's existing floating rate debt obligations. Particularly, the total failure of the auction rate securities market and expiring standby bond purchase agreements which have become very difficult to replace. These expirations have caused Agency variable rate demand obligations (VRDOs) to become "bank bonds" which poses rather adverse consequences to the Agency.

With the steady and dramatic increase in the rate of unemployment in California and with the dramatic decline in home prices, the Agency has also seen in recent months a dramatic increase in the number of delinquent loans. The increase in delinquencies has resulted in increased loan servicing efforts, foreclosure activity, loss mitigation efforts and an increase in the inventory of real estate owned (REO) properties held by CalHFA. These are very labor intensive activities and, as we have discussed with the Board, significant numbers of staff have been shifted from loan production activity to loan servicing and loss mitigation efforts in an effort to reduce losses to the Agency. Despite these efforts, CalHFA is experiencing substantial increases in loan losses and Loss Mitigation and Fiscal Services staff have worked diligently to accurately provide for increases in loan loss reserves.

This board update is not intended to recount the numerous actions deployed by the Agency in response to this crisis but rather provide a current snapshot of the Agency's ongoing financial challenges on both sides of the balance sheet. Increased interest paid to holders of variable rate debt and unanticipated swap related expenses have led to an overall increase in debt service payments while unemployment and home price declines have led to asset deterioration and increasing loan losses from the single family loan portfolio.

VARIABLE RATE DEBT AND SWAP EXPOSURE

- Basis mismatch, the floating rate payment received from swap counterparties compared to the floating rate payments made to bondholders, amounted to \$12 million of additional interest expense in FY 2007/2008 and \$38 million in FY 2008/2009.
- Termination of the Lehman Brothers swaps and other swap terminations added \$16 million of swap related expenses in FY 2008/2009. Market terminations negotiated with our three largest swap counterparties in exchange for collateral posting relief in July 2009 will result in \$39 million of additional swap related expenses in FY 2009/2010.
- Our current expectation is that swap counterparties will remain stable in the near term and that additional market terminations will not be necessary.
- The US Treasury announcement to provide liquidity and credit support for HFA variable rate debt will allow CalHFA to replace up to \$3.8 billion of our liquidity agreements and is expected to provide the following benefits:
 - The successful remarketing of \$197 million of bank bonds associated with expired liquidity facilities.
 - Generate very strong demand from municipal money market funds allowing remarketing agents to reset interest rates at very tight spreads to SIFMA.
 - Lower interest rate resets on VRDOs, especially for non-AMT bonds.
 - Significant improvement in basis mismatch.
 - Liquidity fees that increase over the three year term of the facilities will cause future cash flow shortfalls but should provide the bridge to better market and economic environments.
- Without the liquidity support from Treasury's HFA Initiative, CalHFA would need to replace or extend \$313 million of liquidity support in the remaining months of calendar year 2009 and an additional \$1.7 billion during calendar year 2010.

REAL ESTATE LOSSES AND MORTGAGE INSURANCE CLAIM PAYMENTS

- Loan related losses during FY 2008/2009 totaled \$155 million and are comprised of the following: 1) mortgage insurance losses of \$120 million (\$35Mn primary insurance and \$85Mn Gap insurance), 2) an increase in provision for anticipated loan losses of \$30 million (primarily on subordinate single family down payment assistance loans) and 3) the write-down of REO property values of \$5 million.
- As of August 31, 2009, 15.80% of single family borrowers were delinquent on their mortgage payments. On December 31, 2008 the total delinquencies stood at 10.83%.
- As of September 30, 2009, CalHFA owned more than 480 REOs.
- During FY 2008/2009 CaHLIF's fund balance fell by \$39 million and as of July 1, 2009 was \$30.4 million. During FY 2009/2010, CaHLIF's fund balance could fall to zero.

- A cumulative insurance loss reserve under the Gap policy is estimated to be approximately \$100 million as of September 30, 2009 and is causing additional pressure on available cash reserves in the Housing Finance Fund.
- The Home Mortgage Revenue Bond (HMRB) indenture absorbs loan losses in excess of mortgage insurance payments from primary MI and Gap MI coverage.
- Several strategies have been employed to meet the challenges with the single family portfolio of loans;
 - Staff have been transferred and trained internally and overtime has been authorized to meet the labor intensive demands involved in working with borrowers on workouts and loan modifications, in loss mitigation activities and management of REO properties;
 - Temporary employees have been hired to meet workload demand;
 - Genworth has agreed to loan several employees to meet workload demand;
 - Two loan modification programs (one for FHA borrowers and one for conventional borrowers) have been specifically designed by CalHFA to closely resemble Federal loan modification programs while satisfying the requirements of existing bond indentures;
 - An REO bulk sale program has been developed and staff have met with several outside vendors that have an interest in purchasing REO properties in bulk;
 - New standardized reporting requires all non-CalHFA loan servicers to report better information electronically (formerly, many servicers mailed printouts to the Agency) and on a more timely (5th of each month);
 - Metrics for all loan servicers have been developed and staff is meeting with each servicer to review performance;
 - Staff have met with outside vendors to investigate additional methods to “head off” strategic defaults which are defaults by credit worthy borrowers that simply do not wish to continue to pay their mortgage payments on a home that is worth substantially less than the unpaid principal balance of their CalHFA loan..
- Unfortunately, none of the provisions of the Federal HFA Initiative will directly assist CalHFA with the growing delinquency and loan loss issue. Indirectly, the ability to restructure our existing VRDOs will produce cost savings and reduce pressure on liquidity needs in the future that are caused by continued loan losses. In addition, the ability to issue new bonds provides an opportunity to resume lending which will allow the Agency to replace poorly performing loans with new performing loans in the single family portfolio.

IMPACT ON AGENCY FINANCIAL STATEMENTS

The increased costs associated with “underperforming” bonds discussed above and the dramatic increase in loan loss reserves are reflected in the Agency’s financial statements for the Fiscal Year ended June 30, 2009. These two factors are the cause of the Agency’s operating loss for the year.

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State of California

MEMORANDUM

To: Board of Directors

Date: November 11, 2009

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

Subject: TWO-YEAR BUSINESS PLAN UPDATE

Background:

Previously, the Board adopted a two year (as opposed to the traditional five year) business plan due to the uncertainties associated with 1) the credit and liquidity markets; 2) the bond market for tax-exempt housing bonds; 3) the California economy and real estate markets; and 4) the pending announcement pertaining to a Federal initiative to assist state and local HFAs around the country.

Although uncertainty still swirls around the first three items, the U.S. Treasury, as discussed in Agenda Item 4, finally announced plans to provide assistance to HFAs in the form of 1) the purchase of new bonds so that HFAs can resume lending activities and 2) liquidity and credit support for existing variable rate debt issued by HFAs and underperforming in the current credit and liquidity markets.

Agenda Item 8 provides a briefing to Board members on the impact of the bond purchase element of the Federal assistance plan on CalHFA's business plan. Both the single family and the multifamily business plans are affected. Significantly more lending may be possible for both the Homeownership Divisions and Multifamily Division. Of course, exact details of the Federal assistance are still being worked out and CalHFA's \$1.7 billion application for participation in the New Issue Bond Purchase (NIBP) program has yet to be approved. So the purpose of this agenda item is to provide Board members with a view of the potential increase in lending that may occur if the Agency's application is approved and the NIBP element is fully implemented.

Homeownership Division:

One other development must be discussed before an update to the Homeownership business plan can be presented. This development will have a significant impact on CalHFA's ability to offer conventional loans to single family homebuyers. In early October, Fannie Mae announced an HFA only loan product that offer 100% LTV and includes the equivalent of mortgage insurance. The guarantee fee paid to Fannie Mae will include the ordinary GSE loan guaranty and will also include an element for mortgage insurance.

The NIBP will allow CalHFA to offer two fixed rate 30 year fully amortizing first mortgage loan products.

- A fixed rate FHA loan product will be offered with 96.5% LTV and FHA insurance; and
- A fixed rate conventional loan product with 100% LTV and Fannie Mae provided mortgage insurance;
- Downpayment assistance will be limited to CalHFA's state G.O. bond funded programs such as the CHDAP program.

With these parameters, Homeownership staff believe that first mortgage lending will total approximately \$1 billion for the remainder of FY 2009-10 and all of FY 2010-11. Staff recommends that bond proceeds from the sale of bonds be used to purchase, not whole loans as was the practice in the past, but to purchase Fannie Mae mortgage backed securities (MBS) which will be backed by the conventional loans and Ginnie Mae securities which will be backed by the FHA loans. In this way, the Agency will avoid taking additional real estate risk into the balance sheet.

Multifamily Division:

Staff only recently received the first draft of the Multifamily version of the NIBP. This term sheet is still being reviewed and discussed by state and local HFAs across the country and details are being worked out with U.S. Treasury and Fannie and Freddie staff. Apparently, both tax-exempt and taxable bonds may be issued under the program. And it is anticipated that CalHFA will be delegated most of the authority needed to underwrite and process the new issue bond funded loans as long as they comply with the Fannie Mae and Freddie Mac guidelines. With these parameters, Multifamily staff believe that a total of approximately \$400 million in construction and permanent lending for multifamily projects may be possible under this program in FY 2009-10 and FY 2010-11.

As discussed with the Board on previous occasions, CalHFA has been approved by Fannie Mae as a multifamily seller/servicer. Staff is still negotiating with Fannie Mae on a counterparty risk agreement to finalize a true HFA Seller Servicer Agreement. Finally, the multifamily version of the NIBP likely will be used in conjunction with the existing 50/50 risk share arrangement that CalHFA has with the Department of Housing and Urban Development (HUD). Using the bond proceeds to make loans in a risk share arrangement with HUD will significantly reduce real estate risk on CalHFA's balance sheet.

State of California

MEMORANDUM

To: CalHFA Board of Directors

Date: November 5, 2009

From: Margaret Alvarez, Director of Asset Management
CALIFORNIA HOUSING FINANCE AGENCY

Subject: Performance Based Contract Administration (PBCA) - Request to Pursue Bid

The U.S. Department of Housing and Urban Development (HUD) created the Performance Based Contract Administration (PBCA) program in 2000. As originally envisioned, every state and the District of Columbia would have a PBCA Administrator to oversee the Section 8 program. The PBCA program hoped to provide uniform oversight of the Section 8 program, improve and standardize site reviews, and lower operating costs to the federal government while improving services to lower income tenants. The program required that participating entities be a "Public Housing Authority" as defined by the Housing Act of 1937. Over the last ten years the PBCA work has become a standard business model for HUD and the PBCA's. As hoped, the goals of the federal government were met and the program has proven to be a generous revenue source for the PBCA contractors. Since 2000, all but seventeen states sought and became their state's PBCA. In 2000, CalHFA did not pursue the PBCA work for reasons discussed below.

Now, ten years later, HUD will re-bid the PBCA contracts throughout the country. A Request for Proposal (RFP) is expected to be published by HUD in January 2010. Successful bidders will begin new PBCA contracts beginning January 2011. It is expected that the new contracts will have an initial term of five years with five one-year renewals. In 2000, the fees earned were based on a baseline fee plus an incentive that would give the PBCA a potential fee equal to 2% of the Section 8 contracts. Virtually all the original PBCA participants earned the incentive fee. In California, a 2% fee equates to a gross earnings of \$14M annually. The formal RFP from HUD for 2011 has not yet been published and the new fee structure is unknown. HUD has indicated that the incentive fee will no longer be offered and the disincentive fee has been restructured. Our best estimate is that the successful bidder's fee will range between 1%-2% of the Section 8 contracts. For California this equates to fees between \$7-14M annually.

CalHFA has the expertise to serve as a PBCA contractor. Since 1975, CalHFA has successfully provided Traditional Contract Administration (TCA) services on behalf of HUD. A TCA is a name given to Housing Finance Agencies that only service Section 8 contracts where they are the lender. PBCAs, on the other hand, service Section 8 contracts where they are NOT necessarily the lender. CalHFA has serviced over 130 contracts in its capacity of TCA earning annual fees of \$1.6M. The PBCA contract for the entire state totals over 1,300 contracts with potential gross earnings of approximately \$14M.

In 2000, the primary reasons CalHFA did not pursue the PBCA contract were staffing concerns and the uncertainty of working with HUD on a new program. Given that all CalHFA employees are considered state workers, there was concern about the ability to hire large number of qualified personnel in a timely manner and how the agency would redirect these permanent employees when the PBCA contract ended. In addition, there was great concern about identifying a qualified vendor with which we could partner to successfully pursue the PBCA contract for California. Lastly, at that time the agency was extremely busy with new production business and we did not believe we could dedicate the time and resources needed to become the PBCA. This was a disappointment to HUD and many of the Section 8 property owners who hoped CalHFA would fulfill the PBCA role. California was one of the last states to have a PBCA entity selected. In the end, two contracts were awarded, one for northern California and one for southern California – largely due to the size of the state and the high number of contracts. California, under one PBCA, would be the largest PBCA in the nation.

Today, in 2009, the PBCA program is a success. Many states are able to perform all of the PBCA duties in house. Many other states perform some of the PBCA work in-house and contract out the remainder. Many states are the designated PBCA and contract out ALL of the PBCA tasks. CalHFA, if successful in its bid, would contract out all of the PBCA tasks to a third party vendor.

CalHFA has identified three vendors with proven expertise in performing the tasks of a PBCA. CalHFA issued a RFP on November 2, 2009 with responses due by December 1, 2009. An in-house selection committee will complete an evaluation of the bids by mid-December and present a recommendation to the Executive Director by the end of December. It is anticipated that the selected vendor would begin working with CalHFA by January 1, 2010 to assist in the completion of the PBCA RFP from HUD. Upon the selection of CalHFA as the PBCA, this same vendor will perform all the tasks of the PBCA on behalf of CalHFA from the date of the award by HUD, approximately September, 2010 until the end of the HUD contract.

Conclusion & Recommendation:

The PBCA must be a Public Housing Authority and, therefore, CalHFA will not compete with the private marketplace. Pursuant to the enumeration of powers given to CalHFA under the California Health and Safety Code the agency has the authority to pursue the PBCA contract and hire a vendor to perform the work. Housing Finance Agencies already have a proven track record of successful contract administration as Traditional Contract Administrators and can readily apply that expertise to the PBCA oversight providing excellent services for the Section 8 owners and tenants. Lastly, but importantly, CalHFA's successful selection as PBCA would provide much needed financial resources to the agency on a consistent and long term basis.

Staff recommends the Agency pursue the PBCA contract with HUD.

RESOLUTION 09-15**RESOLUTION AUTHORIZING THE ACTING EXECUTIVE DIRECTOR TO BID
FOR AND ENTER INTO CONTRACT FOR HUD PERFORMANCE BASED
CONTRACT ADMINISTRATION**

WHEREAS, the California Housing Finance Agency (Agency) has performed Section 8 contract administration for HUD Section 8 projects held within the CalHFA multi-family loan portfolio for many years; and

WHEREAS, HUD is proposing to nationally rebid Performance Based Contract Administrator (PBCA) agreements in early 2010 for project based Section 8 housing developments; and

WHEREAS, the Agency believes that its continuation of Section 8 contract administration for housing developments held within the multi-family portfolio is beneficial to the oversight of the loans and regulatory agreements on such project based Section 8 housing developments; and

WHEREAS, the Agency believes that HUD will likely award one or more PBCA contracts to cover all project based Section 8 contracts in the State of California; and

WHEREAS, the Agency desires to bid on any PBCA contracts for project based Section 8 projects within the State of California; and

WHEREAS, the award of one or more PBCA contracts for the State of California, in addition to providing continued oversight by the Agency of project based Section 8 loans within the Agency portfolio, would provide an important additional revenue source to the Agency in connection with non-Agency loans; and

WHEREAS, the Agency, if awarded one or more PBCA contracts for the State of California, may need to enter into subcontracts for certain portions of such work; and

WHEREAS, the terms and conditions of the bidding process and resulting PBCA contracts by HUD have not yet been announced in detail; and

WHEREAS, the Agency needs to prepare for the bidding process that is expected in early 2010;

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

1. The Acting Executive Director of the Agency, or other authorized officers of the Agency, may bid upon any HUD PBCA contracts within the State of California, and may execute such any PBCA contracts awarded to the Agency.

2. If the Agency is awarded one or more PBCA contracts under the HUD bidding process, the Acting Executive Director of the Agency, or other authorized officers of the Agency, enter into such subcontracts as may be necessary in order to properly perform the terms and conditions of the PBCA agreements.

I hereby certify that this is a true and correct copy of Resolution 09-15, adopted at a duly constituted meeting of the Board of Directors of the Agency held on November 19, 2009, at Millbrae, California.

ATTEST: _____
Secretary

State of California**MEMORANDUM****To:** Board of Directors**Date:** November 11, 2009**From:** L. Steven Spears, Acting Executive Director
CALIFORNIA HOUSING FINANCE AGENCY**Subject:** RESOLUTION 09-16 -- AUTHORIZING THE EXECUTIVE DIRECTOR TO CONSUMMATE A TRANSACTION WITH CITIBANK THAT WILL ALLOW REFINANCE OF CALHFA BONDS AND PROVIDE LIQUIDITY TO THE AGENCY

Resolution 09-16 would authorize the The Executive Director and other officers of the Agency to enter into agreements and take such other actions as may be necessary or proper to consummate the sale of a pool of multi-family loans or enter into a refinancing transaction that would accomplish the objectives specified in Resolutions 09-05 and 09-07.

Summary

Resolution 09-05, approved by the CalHFA Board of Directors (Board) on January 22, 2009, authorizes the Executive Director to enter into one or more agreements for the sale of loans or other assets, as necessary to meet the debt restructuring objectives of the Agency, including such actions as may be needed to mitigate the adverse effects of the current real estate, bond and credit market disruptions. On May 21, 2009 the Board approved Resolution 09-07 which authorized the Executive Director to enter into a letter of intent with Citibank (Citi), an existing Banker of the Agency, only for the sale of multi-family loans as described to the Board at that time.

Negotiations have progressed since the passage of the Resolution 09-07 and Citi is no longer interested in a sale of loans to them. Instead, other structures are being discussed that are more akin to a refinancing and include the possibility of a loan from Citi and/or issuance of new CalHFA bonds that would be purchased by Citi. Resolution 09-16 includes authorization to complete the transaction with Citi under a broader range of structures that include techniques that would allow refinancing of the underlying bonds and provide some additional liquidity to the Agency.

The transaction currently proposed will involve a maximum of \$105 million on 34 multifamily projects – most are financed with both tax-exempt and taxable bonds under one or more CalHFA bond indentures, but a few are held as equity of CalHFA (i.e., the original bonds have been retired). The final amount of loans and number of projects included will not be known until negotiations have been completed.

Citi will provide CalHFA with a new financing structure for this specific pool of mortgage loans. The new structure, at Citi's direction and with CalHFA's approval, may be in the form of one or more loans (Loans) from Citi to CalHFA and/or one or more series of new bonds (Bonds) issued by CalHFA and purchased by Citi. In most cases, proceeds of the Loans and/or the Bonds are expected to be used by CalHFA to refund existing bonds currently financing the loans in the pool. Each Loan will be evidenced by a general obligation note of CalHFA and will be additionally secured by the pledge of the mutually agreed upon pool of mortgage loans. Each

Bond will be a general obligation of CalHFA and will be additionally secured by a pledge of the mutually agreed upon pool of mortgage loans. CalHFA will continue to service the loans and the Asset Management Division will continue to provide oversight on the projects.

Benefits, Costs and Limitations

The final details of this transaction will not be known until negotiations have been completed. But, the goal is to provide several benefits to the Agency. First, this will provide CalHFA with capital that will be used for the redemption of underperforming bonds. Staff believes this will result in significant savings to the Agency. Second, for the portion of the loans that are held as equity of CalHFA, the transaction will increase available liquidity that can be used to meet increasing cash demands of the Agency. Third, the Agency's Asset Management Division will still monitor the projects and will enforce the regulatory agreement on each property. Finally, CalHFA staff will continue to service these loans, but Citi will pay a loan servicing fee to the Agency.

Although Citi will pay for all of the due diligence costs associated with investing in this pool of multifamily loans, CalHFA will incur some attorney fees associated with the completion of legal documents for the transaction. Staff believes the savings generated with this new financing structure will exceed these additional legal costs.

A significant factor to consider is that the loans will remain a general obligation of the Agency. That is, no benefit will be gained in the analysis of our financial condition by the two rating agencies (Moody's and S&P).

Conclusion:

Staff believes the benefits outweigh the limitations and still recommends approval of this transaction. This will allow CalHFA to refinance underperforming bonds, provide some additional liquidity and will result in significant net cost savings to the Agency.

RESOLUTION 09-16**RESOLUTION AUTHORIZING THE EXECUTIVE DIRECTOR
TO ENTER INTO AGREEMENTS FOR THE SALE OR REFINANCING
OF ALL OR A PORTION OF THE AGENCY'S MULTIFAMILY LOAN PORTFOLIO**

WHEREAS, as a result of recent disruptions in the bond, capital and real estate markets, the California Housing Finance Agency (the "Agency") has experienced pressure on its balance sheet and on its long-term unsecured credit rating, and has experienced significant capital and liquidity constraints; and

WHEREAS, Section 10 of Resolution 09-02, approved by the Board of Directors of the Agency on January 22, 2009, authorizes the Executive Director to enter into one or more agreements for the sale of loans; and

WHEREAS, Resolution 09-05, approved by the Board of Directors of the Agency on January 22, 2009, authorizes the Executive Director to enter into one or more agreements for the sale of loans or other assets, as necessary to meet the debt restructuring objectives of the Agency, including such actions as may be needed to mitigate the adverse effects of the current real estate, bond and credit market disruptions; and

WHEREAS, Resolution 09-07, approved by the Board of Directors on May 21, 2009, authorized the Executive Director to enter into a letter of intent for the sale of multi-family loans as described in that Resolution, and

WHEREAS, Resolution 09-07 specifically recited that the terms and conditions of the proposed transaction, and the scope of the proposed transaction had not yet been fully determined or agreed to; and

WHEREAS, the structure of a potential transaction contemplated by Resolution 09-07 is, after negotiations, more similar to a loan refinancing than an outright sale of loans; and

WHEREAS, the existing authority of the Resolutions referred to above should be clearly amended to include authority for refinancing such loans, and to authorize the Executive Director and other authorized officers of the Agency to enter into such transactions;

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

1. The Executive Director and other officers of the Agency may enter into agreements and take such other actions as may be necessary or proper to consummate the sale or refinancing of multi-family loans to accomplish the objectives specified in Resolutions 09-05 and 09-07.

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I hereby certify that this is a true and correct copy of Resolution 09-16 adopted at a duly constituted meeting of the Board of Directors of the Agency held on November 19, 2009, at Millbrae, California.

ATTEST: _____
Secretary
Thomas C. Hughes

State of California

MEMORANDUM

To: Board of Directors

Date: November 11, 2009

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

Subject: OPERATING BUDGET AND STAFFING UPDATE

Background:

At the July meeting, the CalHFA Board was presented with three budget scenarios: "Downgrade," "Best Case," and "Planning." After discussion, the Board approved the "Planning" scenario budget for a total of \$47.943 million and 311 employee positions. This budget included a 2 day per month furlough reduction and a plan to leave 30 positions vacant until more was known about the lending, credit and business environment in the coming year. As workload changes became known, Staff would provide updates. This is the first opportunity to provide the Board with a progress report.

What actually is happening so far this year is a combination of all three scenarios. CalHFA was downgraded in July by Moody's, however no decision has been received from Standard & Poor's on their ongoing rating review. With regard to the potential for new lending during FY 2009-10, the most significant development, of course, is the Federal HFA Initiative and the announcement by Fannie Mae of their 100% LTV loan product that includes mortgage insurance. With this assistance and new bond issuance capability in the HFA Initiative, the Agency has the ability to renew lending activities albeit not at the levels experienced in FY 2005-06 and FY 2006-07.

Past Budget Experience:

The Agency's average actual operating expenditures for the past four years was approximately \$36.4 million and the average budget was \$41.0 million. The Board approved budget was not exceeded in any year (although the budget was augmented in FY 2006-07 to account for a statewide salary increase implemented in the state's general fund negotiations). The FY 2008-09 Board approved budget was \$46.2 million and the actual expenditures were \$39.2 million. Budget savings for last year can be attributed to: 1) reduced spending on strategic project contracts, 2) furlough reductions during the latter part of the fiscal year, 3) increased staff vacancies and 4) other expenditure reductions implemented by the Senior Staff such as reduced travel and reduced attendance at conferences and other meetings.

First Quarter Fiscal and Staffing Update:

As of the end of September 2009, the Agency's actual expenditures are \$8.115 million. This represents a 17% expenditure rate for the first quarter of the fiscal year. Not included in these actual expenditures is a large amount of contract expenses for which the Agency has not been billed. Based on past experience and taking into consideration the furlough savings, a more realistic

projection for the entire fiscal year would be approximately \$38.5 million of the FY 2009-10 authorized \$47.934 million budget.

After the July Board approval of the Agency's budget, the Governor implemented a third furlough day for state employees. As a result, the Agency will have an additional furlough reduction of \$931,000 for FY 2009-10.

Personal Services:

The Personal Service budget is by far the largest line item and for FY 2009/10 is \$28.515 million. For the first quarter, expenditures for personal services are \$5.832 million (20%). This cost is below budget mainly due to the fact that the Agency has 44 current vacancies while the budget "Planning" scenario was to maintain 30 vacancies. In the addition, the third furlough day has resulted in savings in this area.

The Agency has lost staff in recent weeks due to retirements (5) and transfers (2). Due in no small part to the furlough program, more retirements are expected in the near future.

The primary strategy to meet changing workload is to redirect staff from within the Agency. Overall staffing levels have been reduced and HR staff are advertising positions and developing and holding exams to find qualified individuals only where essential for Agency operations. But first, the issues of potential staff reductions and outsourcing should be discussed.

Potential Staff Reductions: Other state agencies and departments that receive general fund and even special fund support have experienced staff cutbacks. Understandably, this was necessary to close a very large general fund budget gap and, in the case of special fund operations, reduce cash requirements and increase borrowable reserves for the state general fund.

Of course, CalHFA is neither general fund nor special fund supported and is entirely supported by the financial performance of its assets – the single family and multifamily loan portfolios. Naturally, staff reductions can and have been made in areas where workload has been reduced. For example, in the Executive Office, two support positions are vacant and will not be filled. And, because it was implemented through an Executive Order that applied to all departments "regardless of funding source," the Agency has essentially reduced its workforce by 15% through the three-day per month furlough program.

Although lending activities have declined significantly, workload in other areas has increased dramatically. This is particularly true in the Loan Servicing, Loss Mitigation and REO Management areas. The additional tasks necessary to work with delinquent borrowers on workouts, loan modifications, short sales, deeds in lieu, bankruptcies, foreclosures, REO management and sales is very, very staff intensive. This is true throughout the mortgage banking and loan servicing industries. For example, Bank of America/Countrywide now has approximately 7,000 people employed in this area alone.

The importance of this work cannot be overemphasized. Mitigating loan losses at this point is critical to CalHFA's very survival and every effort must be made to manage these precious portfolios as effectively as possible. From a mission standpoint, CalHFA employees are best equipped to work with borrowers and do everything possible to keep them current on their payments

and help them continue their homeownership dream. When borrowers cannot remain in their homes, CalHFA employees do everything possible to make this a compassionate transition while at the same time protecting the Agency's interests.

Outsourcing Workload: Since many of the Agency's activities are duplicated in the mortgage banking and loan servicing industries, it is natural to think of outsourcing as an alternative to using internal staff. In fact, approximately 60% of all CalHFA loans are serviced by outside servicers. In addition, much of the "back office" work involved with the Mortgage Insurance operation is performed by Genworth as part of the reinsurance treaty. Finally, Genworth, during this peak time of staff needs in Loss Mitigation, has provided a number of employees at no cost to CalHFA to assist in calling and working with borrowers and non-CalHFA servicers.

We have researched and entertained proposals from a number of outside parties that have offered to provide services currently performed by CalHFA employees. To date, we have not seen a proposal that results in significant savings to the Agency.

Of course, any proposal to remove activities that could be performed by CalHFA employees to an outside source must be reviewed carefully in light of bargaining agreements that are in place. Bargaining agreements do allow for activities to be outsourced in emergency situations of excessive workload and when expertise cannot be found within the Agency. If we had no available employees in other parts of the Agency, outsourcing would be more viable. But, throughout the year as lending activities were winding down, loan production and other available staff were transferred to areas of the Agency that desperately needed help.

Salaries and Wages: The Agency currently has authority for 311 permanent positions. These 44 vacancies represent a 14% vacancy rate. For the first quarter, the 44 vacancies equate to approximately \$1.020 million in reduced costs. In addition, the three furlough day program represents an additional 15% reduction in workforce. A succession plan has been implemented by promoting qualified staff to the next level to make way for new hires. Most of the upgrades were due to filling vacancies caused by retirements and transfers. To compensate for lost workload due to the furlough program, temporary employees have been hired and overtime has been approved to meet workload demand and deadlines dictated by the legal requirements associated with such things as delinquencies, bankruptcies, foreclosures and trustee sales.

Staff Benefits. The budget for Staff benefits is \$7.046 million. Expenditures are on target in the first quarter with the Salaries and Wages expenditures.

Students/Retired Annuitants: The budget for Students/Retired Annuitants is \$458,000. The Agency has 20 Students and 10 Retired Annuitants. For the first quarter, this represents 29% of the budget: Students - \$61,000 and Retired Annuitants - \$70,000. This rate of spending should decrease because Students (1,500 hours) and Retired Annuitants (960 hours) are limited in the hours they can work.

Temporary Help. The budget for temporary help is \$864,000. For the first quarter, spending is at a rate of 24%. The Agency currently has 29 temporary positions. Contract employees are hired from Temp Agencies. First, temporary help has been needed to complete work (especially in the loan servicing, loss mitigation and REO management areas) that permanent staff were not able to complete due to the furlough program. The Agency also made the decision to hire temporary help to provide a short term workload fix until the need was known for permanent staff and a better

understanding of the Agency's financial situation was known. In this way, if workload declined, the level of temporary employees could easily be reduced.

The majority of the temporary help positions are located within Loan Servicing, Portfolio Management, and Fiscal Services. Temporary help was needed to address the immediate need for help while the exam and hiring process is put in place. In the meantime, these temp employees are trained and ready to take the exam while at the same time filling an immediate workload issue. Once they pass the exam, we will interview to hire. In this way, we know that we are hiring experienced candidates who know CalHFA and are able to hit the ground running. The temporary help expenditures are \$207,000 for the first quarter.

Overtime. The total budget for FY 2009-10 is \$144,000 and first quarter expenditures are \$40,000. Overtime has been used to meet critical deadlines in the three main areas: Loan Servicing, Portfolio Management, and Fiscal Services.

Operating Expenses and Equipment:

The Operating and Equipment budget for FY 2009/10 is \$12.815 million. For the first quarter, expenditures are \$1.982 million (15%). This is due to vacancies and a conscientious effort to hold down operating expenditures.

General Expense. The budget is \$803,000 and first quarter expenditures are \$111,000 (14%).

Communications. The budget is \$609,000 and first quarter expenditures are \$79,000 (13%).

Travel. The budget is \$425,000 and first quarter expenditures are \$57,000 (13%). Travel expenses are being held down by scrutinizing all travel (e.g. NCSHA Conference – in the past, we had from 10 to 33 staff attended. This year only 8 staff attended.)

Training. The budget is \$175,000 and first quarter expenditures are \$10,000. Training expenses are being applied to only the most critical areas. A training plan is being developed to prepare new hires in Loan Servicing. Instead of hiring outside training staff at a cost of approximately \$360,000, the decision has been made to provide the training from within CalHFA.

Facilities. The budget is \$3.260 million and first quarter expenditures are \$747,000 (23%). See Agenda Item 12 for a more complete discussion of office relocation plans.

Consulting and Professional Services (contracts). The budget is \$4.513 million and first quarter expenditures are \$475,000 (11%). These services represent expertise not present within CalHFA. Many of the contracts are based on "deliverables" that have not yet been completed. As work is completed throughout the year, contractors will invoice for services and expenditures in this line item will increase.

Central Administrative Services. The budget is \$1.679 million and first quarter expenditures are \$420,000 (25%). This budget line item represents expenses paid to the state for services received from other state agencies and departments such as the Controller's Office. The expenditures are formula based.

Information Technology. The budget is \$946,000 and first quarter expenditures are \$73,000 (8%). The Agency is in the process of purchasing many of its IT “refresh” supplies and equipment.

Equipment. The budget is \$405,000 and nothing was spent in the first quarter.

Strategic Project Contracts. To remind the Board, the budget has been broken 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 Strategic Project Contracts budget is \$6.613 million and the first quarter expenditures are \$311,000 (5%). Again, many of the contractors work on a “deliverables” based contract and have not yet billed for their services yet. Once these deliverables are completed, invoices will come in and the Agency will see an increase in expenditures. Some projects are being delayed or extended. This may delay some project expenditures to the following fiscal year.

Projection:

In conclusion, given the year to date expenditures and what is known now about our future needs, staff is projecting actual FY 2009-10 expenditures to be \$38.527 million as compared to the authorized \$47.943 million budget. Given the increased loan losses and other liquidity needs of the Agency, expenditures are being controlled as much as possible. However, as opportunities for new lending and other business opportunities arise, the Agency will experience increased costs. The costs may be associated with new loan production made possible by the Federal HFA Initiative and/or other business activities such as the Performance Based Contract Administration (PBCA) and the assistance that the Multifamily Division is providing to the Tax Credit Allocation Committee. But, these activities will result in renewed and new revenue streams to the Agency that will be vital to the future of CalHFA’s financial strength.

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State of California

MEMORANDUM

To: Board of Directors

Date: November 11, 2009

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

Subject: FACILITIES UPDATE

Background:

Leases for the Senator Hotel and Meridian offices are scheduled to expire in the Fall of 2010. At this time Staff are exploring several options that will enable us to take advantage of current commercial market conditions which favor tenant negotiations. The goals are to create a better working environment, consolidate offices and reduce the Agency's facilities costs.

The Agency has entered into a lease to move Loan Servicing staff to a new location in West Sacramento. Due to the high level of delinquencies, the number of Loan Servicing staff has been increased dramatically and now exceeds space available in the Senator Hotel. The new location, which will be available around the first of the year, will have space for growth with free parking and will result in significant savings in facility costs.

For the rest of the Agency, we are located in two different buildings. This makes teamwork continuity very challenging. Staff has been working with a tenant representative consultant to research several locations and the Agency is in preliminary negotiations with Plaza 555 located at 555 Capitol Mall. State law requires CalHFA's headquarters facility to be located within the city limits of Sacramento.

Loan Servicing:

The new address for Loan Servicing will be: 3650 Industrial Boulevard, West Sacramento, CA 95691. To date, the project meets budget estimates and is on target with an occupancy date of January 25, 2010. Contractors have received permit approvals and are one month into the building's interior construction. Wall layouts have been completed and all office furniture, equipment and finishes (paint, carpet, etc.) have been selected. The project team is busy coordinating a variety of diverse activities required to meet the occupancy deadline. Items such as selection and procurement of a new VoIP call center phone system, design and set up of a new server-telecom hot-site, plans for improved building security and cabling.

Financial Highlights:

- Original budget assumptions are accurate (furniture, equipment, technology, telecom, moving, and security expenses);
- Pricing invoices are on par with budget estimates;
- We have received \$257,000 worth of free furniture from Franchise Tax Board.

Restructure Highlights:

- New Call Center system will be installed. This will provide CalHFA customers with improved service levels in the following areas: increase average speed of answer; decrease number of calls abandoned; improved reporting tools; flexible call flow management; and introduce skill-based routing.
- Enhanced Interactive Voice Response (“IVR”) script will provide increase customer utilization by providing common customer information requests such as mailing address, and hours of operation. This will decrease the call center workload.
- Online payment system to provide customers with ability to make payments 24/7 through secure online portal.

Sacramento Headquarters Office:

Staff continues to work with Cresa Partners to gather renewal term information from our current landlords and obtain information for other downtown office buildings. The two locations receiving focused attention include, the old Bank of America building at 700 I Street and Plaza 555 at 555 Capitol Mall. Cresa continues to research other properties that come on the market. Our Business Services team is in the final phase of documenting the Agency’s functional space requirements. This step will enable us to move more quickly when a new building location is finalized.

Discussions have begun on both locations mentioned above on terms and conditions such as base rent, tenant improvements and moving allowances. At the same time we are responding to counter proposals on the terms just mentioned, developing an architectural pricing plan (to be paid for by the Landlord) and developing a master project plan to determine feasibility and scope.

Goals to Negotiate:

- Base rent in the neighborhood of \$2.10/sf with reasonable annual increases. We are currently paying an average of approximately \$2.63 per square feet for the Senator and Meridian. We would like to negotiate a reduced lease that produces savings of approximately \$5 million or more with a 10 year lease.
- Free initial rent period.
- Estimated office space of around 80,000 to 85,000 square feet.
- Option to reduce or add space in the future.
- Tenant improvement allowances equal to meet our needs.
- Office space with a good HVAC system and distribution.
- Ample parking.

We will continue with discussions and negotiations with building owners and representatives based on the support the Board provided at the July Board meeting. Because of the significant financial obligation associated with a lease commitment of this size, Board approval will be necessary. Discussions and negotiations are proceeding but terms will depend on final Board approval.

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MEMORANDUM

To Board of Directors

Date: November 5, 2009



Bruce D. Gilbertson, Director of Financing

From: CALIFORNIA HOUSING FINANCE AGENCY

Subject: REPORT OF SWAP TERMINATIONS AND COLLATERAL RE-ALIGNMENT

On July 14, 2009 the Agency executed revised ISDAs with our three largest counterparties for the purpose of modifying collateral posting requirements by negotiating the termination of swaps at current market valuation or by posting upfront collateral in exchange for higher threshold levels at lower CalHFA Issuer Credit Ratings (ICR). The terminations and collateral threshold changes were in response to rating agency requirements that the Agency have sufficient capital or liquidity available for collateral posting obligations under swap contracts in the event of a two notch rating downgrade of CalHFA's ICR. Interest rates have fallen in recent years leading to larger negative market values on the swap contracts and significantly larger potential collateral posting events. To alleviate future pressure on available capital, the Agency terminated \$237.8 million of swap notional with two counterparties: Citigroup Financial Products and Merrill Lynch (under several Merrill Lynch ISDAs). Citigroup Financial Products was paid \$12 million for termination of \$102.5 million swap notional and Merrill Lynch was paid \$27 million for termination of \$135.3 million swap notional. In addition, CalHFA posted mortgage backed securities and cash in the amount of \$18 million to JP Morgan Chase Bank as upfront collateral, and transferred all of the Bear Stearns swap contracts to the JPMorgan Chase Bank ISDA. The Agency received higher collateral thresholds from each bank serving as a swap counterparty in exchange for terminating swap notional or posting immediate collateral.

Interest rate 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, the 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 (the swap "counterparty") to us. Conversely, when current fixed rates are lower than the fixed rate of the swap (as is the case today for nearly all of our swaps), the

swaps have a negative value to us, and termination would result in a payment from us to our counterparty. The ISDA Master Agreements entered into with swap counterparties provide the contractual framework for each swap transaction, including events of default and consequences of credit deterioration. The ISDAs contain a schedule of collateral posting thresholds that specify the threshold amounts at each rating level for both the Agency and our counterparty. When credit ratings of either party falls below specified ratings levels the party affected by the rating action is required to post collateral against negative market valuations in accordance with negotiated threshold amounts.

By increasing the Agency's collateral threshold levels the Agency significantly reduced future posting events in low interest rate environments (such as we are in today) if the Agency's ICR rating (CalHFA's general obligation credit rating) were to be downgraded.

Using the JP Morgan ISDA shown in Table A below as an example we can illustrate the benefits of these changes to CalHFA assuming that the termination value (or market value) of all swaps under the ISDA have an aggregate negative value to CalHFA of \$60 million. At the A+/A1 rating level, the Agency would be required to post \$20 million under the original threshold requirements but only \$5 million would be posted under the new realignment of thresholds. The benefits of realignment are more pronounced at lower rating levels. For example, using the same negative market valuation of \$60 million at the A-/A3 rating level, CalHFA would post \$46 million under the original threshold and only \$20 million pursuant to the modified collateral thresholds.

Table A below illustrates the negotiated changes to CalHFA's collateral posting thresholds with each of our three largest swap counterparties.

TABLE A							
Modified Thresholds for CalHFA's posting requirements							
CalHFA ICR Ratings		JP Morgan (10/31/01)		Citi FP (3/15/00)		MLCS (11/17/99)	
<u>S & P</u>	<u>Moody's</u>	<u>Old</u>	<u>New</u>	<u>Old</u>	<u>New</u>	<u>Old</u>	<u>New</u>
A+	A1	\$40Mn	\$55Mn	\$120Mn	\$120Mn	-	\$120Mn
A	A2	\$27Mn	\$50Mn	\$5Mn	\$45Mn	\$5Mn	\$88Mn
A-	A3	\$14Mn	\$40Mn	\$2Mn	\$40Mn	\$2Mn	\$75Mn
Baa1	Baa1						

Table B illustrates CalHFA's consolidated collateral posting requirements at various rating levels before restructuring, after the restructuring was completed in July and after Moody's Investors Service downgraded CalHFA's ICR to A1 from Aa3 on July 22, 2009. Significant reductions in consolidated collateral posting requirements were achieved at each rating level with the largest reductions being achieved at the lowest rating levels.

	Mark-to-Market		Notional Outstanding	Consolidated Collateral Posing Requirement			
	Date	Total		Aa3/AA-	A1/A+	A2/A	A3/A-
Before restructuring	05/01/09	\$395Mn	\$4,227Mn	\$17Mn	\$67Mn	\$228Mn	\$273Mn
After restructuring	07/14/09*	\$356Mn	\$3,989Mn	\$35Mn	\$43Mn	\$65Mn	\$104Mn
After Moody's downgrade to A1 on July 22, 2009	11/05/09	\$304Mn	\$3,562Mn	N/A	\$32Mn	\$43Mn	\$78Mn

* Restructuring was done on 7/14/09, the Mark-to-Market reflected is 5/1/09.

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State of California

MEMORANDUM

To: Board of Directors

Date: November 12, 2009



From: Bruce D. Gilbertson, Director of Financing
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 August 31, 2009 by insurance type,
- Delinquencies as of August 31, 2009 by product (loan) type,
- Delinquencies as of August 31, 2009 by loan servicer,
- Delinquencies as of August 31, 2009 by county,
- Real Estate Owned (REO) at September 30, 2009,
- A graph of CalHFA's 90-day+ ratios for FHA and Conventional loans (for the period of August 1999 through August 2009),
- A graph of 90-day+ ratios for CalHFA's three Conventional loan (products) types, for the period of August 2007 through August 2009,
- Gains/ (Losses) on the Disposition of 1st Trust Deeds, January 1 through December 31, 2008, and January 1, 2009 through September 30, 2009, and
- Write-Offs of subordinate loans, January 1 through December 31, 2008, and January 1 through September 30, 2009,

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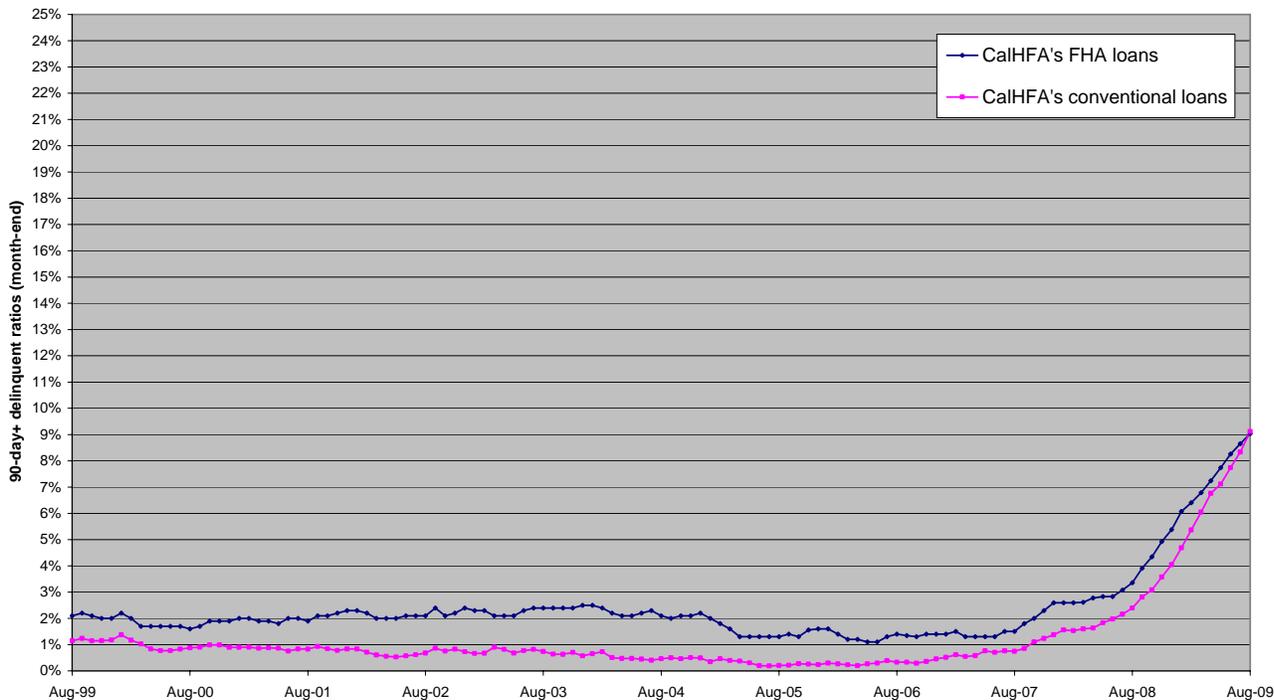
**Reconciled Loan Delinquency Summary
All Active Loans By Loan Servicer
As of August 31, 2009**

	Loan Count	Balance	Percent	DELINQUENCY RATIOS			
				30-Day	60-Day	90(+) Day	Total
CALHFA - LOAN SERVICING	11,501	\$ 2,744,788,130.75	43.59%	3.22%	1.90%	9.57%	14.69%
GUILD MORTGAGE	7,219	1,381,614,005.00	21.94%	5.26%	3.14%	10.17%	18.58%
BAC HOME LOANS SERVICING, LP	5,767	980,608,847.71	15.57%	5.32%	2.76%	9.73%	17.81%
WELLS FARGO HOME MORTGAGE	2,785	357,014,908.12	5.67%	4.24%	1.36%	5.21%	10.81%
EVERHOME MORTGAGE COMPANY	2,425	252,601,558.07	4.01%	4.70%	2.10%	4.70%	11.51%
FIRST MORTGAGE CORP	1,247	269,104,210.59	4.27%	4.65%	2.89%	12.59%	20.13%
GMAC MORTGAGE CORP	1,101	165,920,863.51	2.64%	5.81%	2.72%	9.08%	17.62%
BANK OF AMERICA, NA	324	58,374,389.40	0.93%	3.09%	1.23%	10.80%	15.12%
WASHINGTON MUTUAL BANK	253	64,831,281.54	1.03%	3.16%	1.98%	5.53%	10.67%
CITIMORTGAGE, INC.	70	17,045,406.27	0.27%	5.71%	4.29%	10.00%	20.00%
DOVENMUEHLE MORTGAGE, INC.	52	2,009,640.90	0.03%	0.00%	0.00%	1.92%	1.92%
WESCOM CREDIT UNION	8	2,476,800.30	0.04%	12.50%	0.00%	12.50%	25.00%
PROVIDENT CREDIT UNION	1	323,177.96	0.01%	0.00%	0.00%	0.00%	0.00%
Total CalHFA	32,753	\$ 6,296,713,220.12	100.00%	4.38%	2.35%	9.07%	15.80%

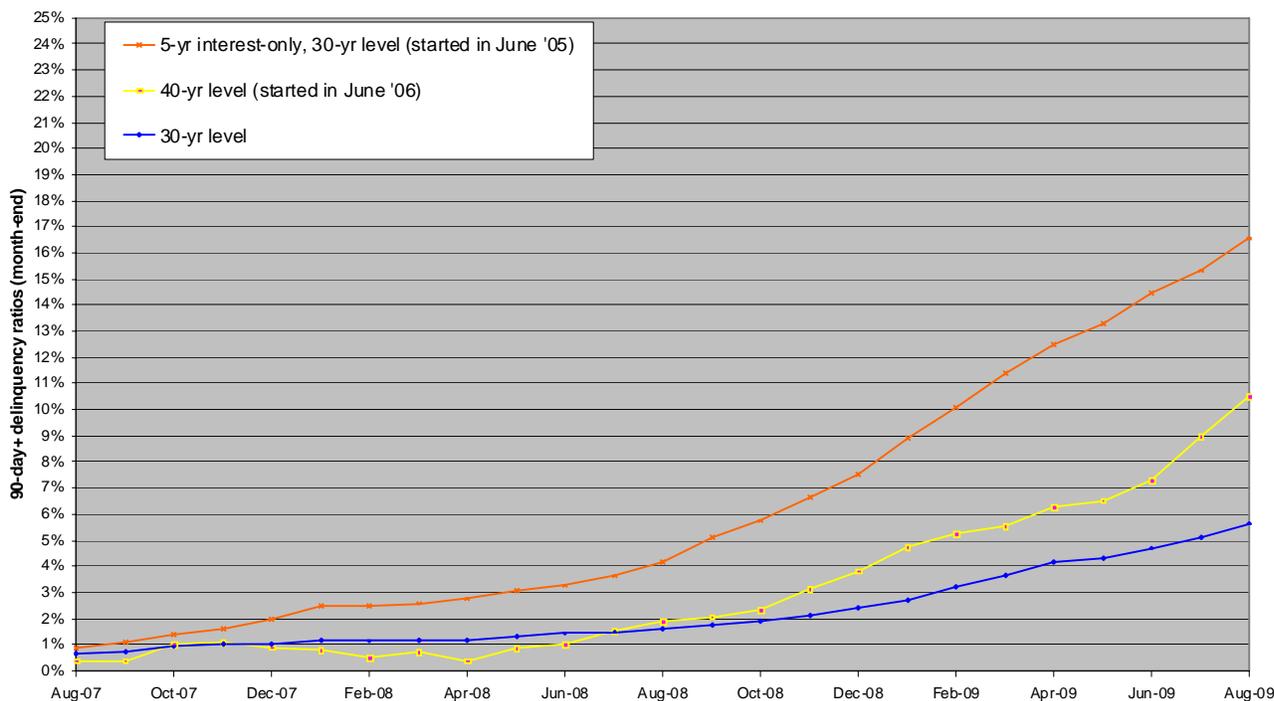
**Reconciled Loan Delinquency Summary
All Active Loans By County
As of August 31, 2009**

	Loan Count	Balance	Percent	DELINQUENCY RATIOS			
				30-Day	60-Day	90-Day+	Total
LOS ANGELES	5,010	\$ 1,072,956,305.38	17.04%	4.17%	2.38%	6.17%	12.71%
SAN DIEGO	3,405	777,735,452.46	12.35%	3.64%	2.50%	13.04%	19.18%
KERN	2,044	246,180,799.33	3.91%	7.05%	2.64%	10.57%	20.25%
SANTA CLARA	1,983	565,864,258.86	8.99%	1.31%	0.91%	3.68%	5.90%
RIVERSIDE	1,915	338,923,004.97	5.38%	6.21%	3.24%	15.46%	24.91%
SAN BERNARDINO	1,869	345,751,402.36	5.49%	6.47%	3.42%	16.91%	26.81%
SACRAMENTO	1,728	341,517,775.52	5.42%	4.05%	3.88%	11.23%	19.16%
ORANGE	1,698	394,122,042.67	6.26%	2.94%	1.59%	5.18%	9.72%
TULARE	1,658	168,953,347.83	2.68%	6.88%	2.41%	7.78%	17.07%
FRESNO	1,602	160,698,507.67	2.55%	5.87%	2.31%	6.93%	15.11%
ALAMEDA	1,263	323,056,385.04	5.13%	2.30%	0.63%	5.62%	8.55%
CONTRA COSTA	1,077	256,992,738.36	4.08%	3.44%	2.41%	10.12%	15.97%
VENTURA	758	213,402,991.27	3.39%	2.90%	1.19%	9.50%	13.59%
IMPERIAL	731	79,791,718.85	1.27%	6.84%	3.83%	9.03%	19.70%
SONOMA	579	127,918,171.45	2.03%	2.76%	1.55%	6.74%	11.05%
OTHER COUNTIES	5,433	882,848,318.10	14.02%	3.85%	2.17%	8.04%	14.06%
Total CalHFA	32,753	\$ 6,296,713,220.12	100.00%	4.38%	2.35%	9.07%	15.80%

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



Real Estate Owned

Calendar Year 2009 (As of September 30, 2009)											
Loan Type	Beginning Balance # of Loans	*Trustee Sales			Disposition of REO(s)					Ending Balance # of Loans	UPB of REO's Owned
		Reverted to CalHFA Jan-Aug	Reverted to CalHFA Sept	Total Trustee Sales	Repurchased by Lender Jan-Aug	Market Sale(s) Jan-Aug	Repurchased by Lender Sept	Market Sale(s) Sept	Total Disposition of REO(s)		
FHA/RHS/VA	51	384	70	454	275		42		317	188	\$ 39,286,622
Conventional	226	510	81	591		285		49	334	483	114,196,380
Total	277	894	151	1,045	275	285	42	49	651	671	\$ 153,483,002

Calendar Year 2008						
Loan Type	Beginning Balance # of Loans	*Trustee Sales	Disposition of REO(s)		Ending Balance # of Loans	UPB of REO's Owned
		Reverted to CalHFA 2008	Repurchased by Lender 2008	Market Sale(s) 2008		
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						
Loan Type	Beginning Balance # of Loans	*Trustee Sales	Disposition of REO(s)		Ending Balance # of Loans	UPB of REO's Owned
		Reverted to CalHFA 2007	Repurchased by Lender 2007	Market Sale(s) 2007		
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 thirteen (13) 3rd party sales year to date for 2009.

Calendar Year 2008 ⁽¹⁾ / 2009 ⁽²⁾ Year to Date REO Uninsured Losses ⁽³⁾		
	2008	2009
1st TD Sale Estimated Gain/(Loss)	\$ (500,796)	\$ (7,791,008)
Subordinate Write-Off	(6,421,515)	(12,387,652)
Total Gain(Loss)/Write-Offs	\$ (6,922,311)	\$ (20,178,660)

(1) For the period of January 1, 2008 thru December 31, 2008.

(2) For the period of January 1, 2009 thru September 30, 2009.

(3) Includes both reconciled and unreconciled gains/losses to date.

2009 Year to Date Composition of 1st Trust Deed Gain/(Loss) (As of September 30, 2009)					
Loan Type	Disposition			Estimated Indenture Gain/(Loss)	⁽¹⁾ Estimated GAP Loss
	Repurchased by Lender	Market Sales	Loan Balance at Trustee Sale		
FHA/RHS/VA	317		\$ 65,673,306		
Conventional		334	85,402,042	\$ (7,791,008)	\$ (12,638,691)
	317	334	\$ 151,075,348	\$ (7,791,008)	\$ (12,638,691)

(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 September 30, 2009)						
Loan Type	Active Loans		Write-Offs			
	Active Loans	Dollar Amount	Number of Write-Offs (of Portfolio)	%	Dollar Amount	% (of Portfolio)
CHAP/HiCAP	12,494	\$133,688,941	673	5.39%	\$7,143,076	5.34%
CHDAP/ECTP/HiRAP	21,859	183,446,863	675	3.09%	5,244,575	2.86%
Other ⁽²⁾	294	3,880,270	0	0.00%	0	0.00%
	34,647	\$321,016,075	1348	3.89%	\$12,387,652	3.86%

(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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MEMORANDUM

To: Board of Directors

Date: November 5, 2009



From: Bruce D. Gilbertson, Director of Financing
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), and HPB (Housing Program Bonds--CalHFA's multipurpose indenture, used to finance a variety of loans including the Agency's downpayment assistance loans). The total amount of CalHFA variable rate debt is \$4.9 billion, 61% of our \$8 billion of total indebtedness as of October 1, 2009.

VARIABLE RATE DEBT (<i>\$ in millions</i>)				
	Tied Directly to Variable Rate <u>Assets</u>	Swapped to <u>Fixed Rate</u>	Not Swapped or Tied to Variable Rate <u>Assets</u>	Total Variable <u>Rate Debt</u>
HMRB	\$0	\$2,834	\$1,119	\$3,953
MHRB	39	615	229	883
HPB	<u>0</u>	<u>0</u>	<u>88</u>	<u>88</u>
Total	\$39	\$3,449	\$1,436	\$4,924

As shown in the table above, our "net" variable rate exposure is \$1.4 billion, 17.9% 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 \$1.4 billion of net variable rate exposure (\$762 million taxable and \$674 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 \$654 million (six month average balance as of 7/31/09) 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 \$654 million is a balance sheet hedge for the \$1.4 billion 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 \$113 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 \$1.1 billion of LIBOR-based debt. As a result, the \$654 million of other Agency funds invested in SMIF effectively hedges approximately 57.1% 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 119 "fixed-payer" swaps with thirteen different counterparties for a combined notional amount of \$3.6 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. The table below provides a summary of our swap notional amounts.

FIXED PAYER INTEREST RATE SWAPS			
(notional amounts)			
(\$ in millions)			
	<u>Tax-Exempt</u>	<u>Taxable</u>	<u>Totals</u>
HMRB	\$2,536	\$387	\$2,923
MHRB	639	0	639
HPB	<u>0</u>	<u>0</u>	<u>0</u>
TOTALS	\$3,175	\$387	\$3,562

The following table shows the diversification of our fixed payer swaps among the thirteen firms acting as our swap counterparties. Note that our swaps with Goldman Sachs are with a highly-rated structured subsidiary that is a special purpose vehicle used only for derivative products. 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

<u>Swap Counterparty</u>	<u>Credit Ratings</u>		<u>Notional Amounts Swapped</u> <i>(\$ in millions)</i>	<u>Number of Swaps</u>
	<u>Moody's</u>	<u>S & P</u>		
JP Morgan Chase Bank	Aa1	AA-	\$ 894.0 269.1*	22 8*
Merrill Lynch Derivative Products, AG	Aa1	AAA	511.3	28
Citigroup Financial Products Inc.	A3	A	479.0	12
Merrill Lynch Capital Services Inc.	A2	A	438.5	14
Goldman Sachs Mitsui Marine Derivative Products, L.P.	Aa1	AAA	310.3	10
Deutsche Bank AG	Aa1	A+	257.9	11
AIG Financial Products Corp.	A3	A-	243.8	8
Bank of America, N.A.	Aa3	A+	122.0	5
Morgan Stanley Capital Services Inc	A2	A	136.7	2
BNP Paribas	Aa1	AA	79.3	2
UBS AG	Aa2	A+	36.6	2
Dexia Credit Local	A1	A	27.3	2
The Bank of New York	Aaa	AA	<u>25.0</u>	<u>1</u>
			\$3,561.7	119

* *Basis Swaps (not included in totals)*

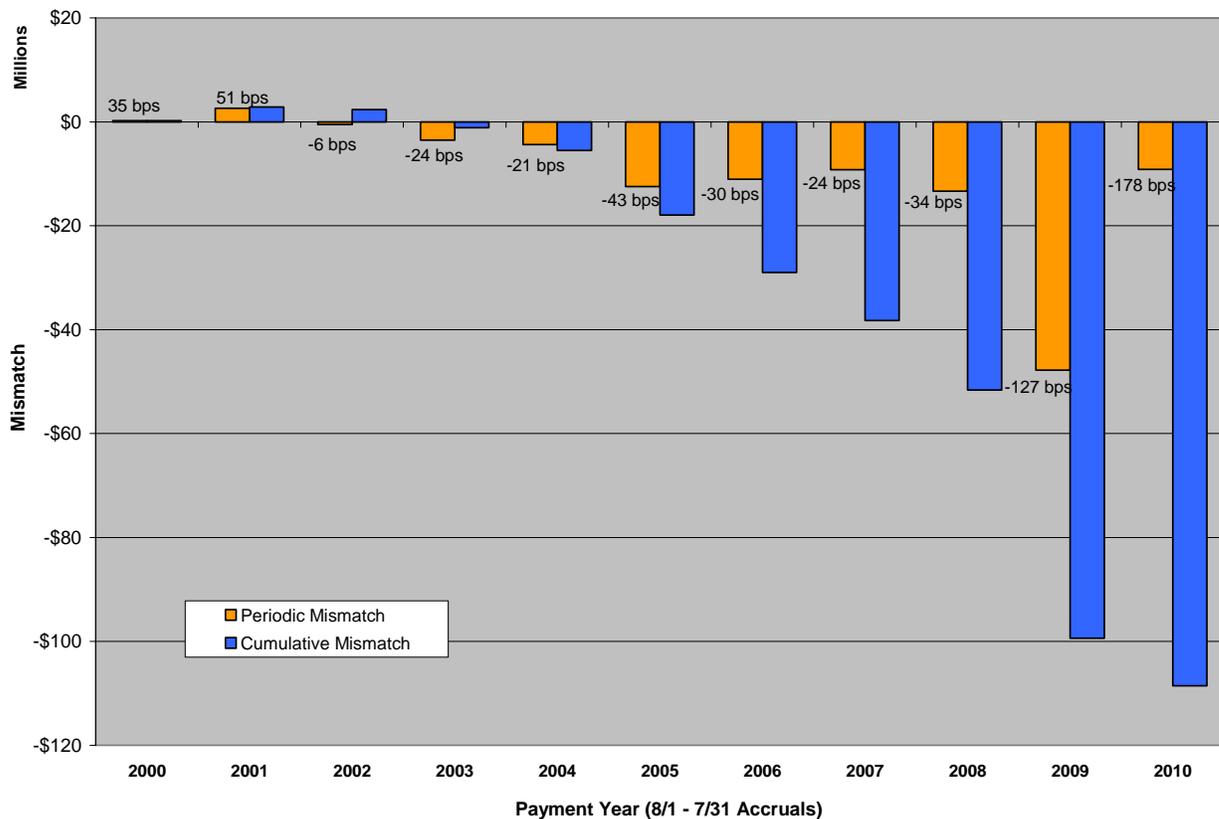
With interest rate swaps, the “notional amount” (equal to the principal amount of the swapped bonds) itself is not at risk. Instead, the risk is that a counterparty would default and, because of market changes, the terms of the original swap could not be replicated without additional cost.

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 August 1, 2009 semiannual debt service payment date we made a total of \$70.8 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.

Basis Mismatch through October 1, 2009
All Tax-Exempt Swaps



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 was 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 historically high levels over 100% for the past six months.

Over the lifetime of our swaps we have experienced approximately \$108 million of additional interest expense due to this basis mismatch. Over time, we have 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	124.9%

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)

	<u>Tax-Exempt</u>	<u>Taxable</u>	<u>Totals</u>
60% of LIBOR + 26bps	\$1,356	\$0	\$1,356
62% of LIBOR + 25bps	538	0	538
SIFMA – 15bps	374	0	374
65% of LIBOR	352	0	352
Stepped % of LIBOR ¹	269	0	269
3 mo. LIBOR + spread	0	244	244
1 mo. LIBOR	0	80	80
97% of SIFMA	73	0	73
SIFMA – 20bps	57	0	57
63% of LIBOR + 24bps	50	0	50
3 mo. LIBOR	0	33	33
6 mo. LIBOR	0	30	30
60% of LIBOR + 21bps	29	0	29
63% of LIBOR + 30bps	25	0	25
64% of LIBOR	16	0	16
SIFMA – 5bps	16	0	16
61% of LIBOR + 21bps	11	0	11
64% of LIBOR + 25bps	<u>9</u>	<u>0</u>	<u>9</u>
TOTALS	\$3,175	\$387	\$3,562

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 \$2.7 billion of the \$3.2 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 \$714 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, 42% of our \$8 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 structured swap amortization schedules and acquired swap par termination rights to coincide with the loan characteristics and expectations of borrower prepayment.

Also of interest is a \$113 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

<u>Date</u>	<u>Termination Value</u> <u>(\$ in millions)</u>
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)
6/30/09	(\$237.8)
7/31/09	(\$225.8)
8/31/09	(\$270.0)
9/30/09	(\$295.5)

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 <u>Securities</u>	Indexed Rate <u>Bonds</u>	Variable Rate Demand <u>Obligations</u>	Total Variable Rate <u>Debt</u>
HMRB	\$0	\$1,062	\$2,891	\$3,953
MHRB	184	0	699	883
HPB	0	0	88	88
DDB	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	\$184	\$1,062	\$3,678	\$4,924

LIQUIDITY PROVIDERS

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

LIQUIDITY PROVIDERS (<i>\$ in millions</i>)		
<u>Financial Institution</u>	<u>\$ Amount of Bonds</u>	<u>Indenture</u>
Dexia Credit Local	\$747.6	HMRB
Bank of America	389.3	HMRB
Fannie Mae	351.4	HMRB/MHRB
Lloyds TSB	339.1	HMRB
BNP Paribas	230.4	HMRB
KBC	232.7	HMRB
Bank of Nova Scotia	195.7	HMRB
Calyon	169.1 ²	HMRB
Bank of New York	147.4	HMRB
JP Morgan Chase Bank	134.6	HMRB
Landesbank Hessen-Thuringen	125.3	MHRB
Fortis	103.8	HMRB
Bayerische Landesbank	104.7	HMRB
Westdeutsche Landesbank	104.7	HMRB/MHRB
DEPFA Bank	86.9	MHRB
State Street Bank	83.5	HMRB
LBBW	60.3	HPB
CalSTRS	44.0	HMRB/MHRB
Citibank	28.0 ¹	HPB
Total	<u>\$3,678.5</u>	

^{1.} \$31.5 million of liquidity with Citibank expired on Nov. 3, 2008 and was not extended. (\$28m bonds outstanding)

^{2.} \$174.2 million of liquidity with Calyon expired on April 18, 2009 and was not extended. (169.1m bonds outstanding)

On October 19, 2009, the United States Treasury announced a new initiative for state and local housing finance agencies (HFAs) to provide a new bond purchase program to support new lending by HFAs and to provide a temporary credit and liquidity program (TCLP) to improve access of HFAs to liquidity for outstanding HFA bonds. On October 26th, the Agency applied to Treasury for TCLP allocation to replace all of the Agency's liquidity banks. We are awaiting the determination from Treasury regarding the allocation.

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 November 1, 2009)

<u>Liquidity Bank</u>	<u>\$ in millions</u>
Calyon	\$168.1
Citibank	<u>28.0</u>
Total Bank Bonds	\$196.1

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)

<u>Expiring Liquidity</u>	<u>HMRB</u>	<u>MHRB</u>	<u>HPB</u>	<u>Totals (by month)</u>
Nov-09	\$191	\$0	\$0	\$191
Dec-09	244	0	0	244
Jan-10	234	0	0	234
Feb-10	0	0	0	0
Mar-10	230	0	0	230
Apr-10	<u>95</u>	<u>130</u>	<u>0</u>	<u>225</u>
Totals	\$994	\$130	\$0	\$1,124

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

MEMORANDUM

To: CalHFA Board of Directors

Date: 9 November 2009

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

Subject: Legislative Report

Normally when I prepare the end of the year legislative report for this meeting, I can say with confidence that the statuses listed here are final for the year. I cannot say that this year. The Legislature continues to meet, both in regular and numerous special sessions, and any bill can be amended or revived at any time. We will continue to watch and report...

Bonds

AB 1364 (Evans) Public contracts: state bonds: grant agreements.

Last Amend: 08/17/2009

Status: 10/11/2009-Chaptered by the Secretary of State, Chapter Number 526, Statutes of 2009

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 is, or may be, unable to comply with the terms of that agreement because of the suspension of interim funding for projects and contracts by the Pooled Money Investment Board on or after December 18, 2008, shall, with the consent of the grant recipient, have the authority to either renegotiate, modify, or eliminate the deadlines and timetables for and deliverables within the grant agreement in order to address the suspension or to terminate the grant agreement if no grant funds have yet been delivered thereunder.

SB 501 (Correa) California Debt Limit Allocation Committee.

Last Amend: 04/20/2009

Status: Assembly Floor Inactive File.

Summary: Existing law requires the California Debt Limit Allocation Committee to allocate to authorized state and local agency applicants the volume ceiling for private activity bonds, as defined, that can be issued in California in accordance with federal law. This bill would authorize the committee to allow a local agency located within a county that has not applied to the committee for all or a portion of its unapplied for, or otherwise unassigned, allocation during any calendar year, to apply for all or a portion of the allocation for which that county would have been eligible had it applied. The bill would require the committee to award the allocation on a per capita proportionate basis, if there is more than one applicant.

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

Summary: Proposition 46 funded 17 different affordable housing programs. Proposition 1C funded a total of 15 affordable housing and infrastructure programs. While statute currently requires the Department of Housing and Community Development (HCD) to list the units produced and other data for each program, the author contends there is no requirement to provide an accounting of the 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.

CalHFA Misc**AB 1588 (Bass) Monitored Mortgage Workout Program.****Last Amend:** As Introduced**Status:** Referred to Assembly Committee on Banking and Finance

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 record in the office of the county recorder wherein the mortgaged or trust property is situated, a notice of default, and to mail the notice of default to the borrower named on the mortgage instrument. Existing law requires the notice to contain specified statements, including, but not limited to, those related to the borrower's legal rights, as specified. This bill would establish the Monitored Mortgage Workout (MMW) Program that would be offered to all borrowers to provide them with an opportunity to explore options to avoid foreclosure. This bill would require that any notice of default of a residential real property, as defined, sent to a borrower include a notice of the borrower's right to participate in the MMW Program as well as the documents that authorize the borrower to elect to participate in the MMW Program. This bill would authorize the California Housing Finance Agency to administer the MMW Program.

CalHFA Sponsor**ABX4 12 (Evans) Budget Trailer Bill.****Last Amend:** 07/23/2009**Status:** 07/28/2009 – Chaptered by the Secretary of State, Chapter Number 12, Statutes of 2009

Summary: Among the numerous provisions included in the bill was language would, among other things, allow the California Housing Finance Agency (CalHFA) to subordinate downpayment assistance loans made under the California Homebuyer Downpayment Assistance Program (CHDAP) to a new loan if a borrower has a demonstrated hardship and the subordination is required to avoid foreclosure on the property. This provision was sponsored by CalHFA.

SB 224 (Correa) Housing assistance.**Last Amend:** 07/06/2009**Status:** 10/11/2009-Chaptered by the Secretary of State, Chapter Number 172, Statutes of 2009

Summary: The CalHome program, administered by the Department of Housing and Community Development, provides rehabilitation assistance to preserve and expand affordable housing, including assistance for those living in manufactured homes or mobilehomes in parks. However, some agencies that administer CalHome-funded grants and loans do not consider mobile homes eligible, despite the low-income status of the homeowner. This bill would clarify that these types of homes are eligible. This bill also included language would allow the California Housing Finance Agency (CalHFA) to subordinate downpayment assistance loans made under the California Homebuyer Downpayment Assistance Program (CHDAP) to a new loan if a borrower has a

demonstrated hardship and the subordination is required to avoid foreclosure on the property. This provision was sponsored by CalHFA.

Homeless

AB 1177 (Fong) Homelessness: Interagency Council on Homelessness.

Last Amend: 07/09/2009

Status: Held under submission – Senate Appropriations.

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, 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 any reports or documents that it creates, within 90 days of being finalized by the council, to specified committees of the Legislature and to perform other duties as prescribed.

Insurance

SB 291 (Calderon) Insurance reserves.

Last Amend: 09/11/2009

Status: 10/11/2009-Chaptered by the Secretary of State, Chapter Number 574, Statutes of 2009

Summary: Existing law requires a mortgage guaranty insurer to maintain a policyholder's surplus at all times in an amount not less than that determined pursuant to specified provisions, and defines "face amount of an insured mortgage" for these purposes. Existing law requires a mortgage guaranty insurer to cease new business if the insurer does not have the amount of policyholders surplus required, as specified. This bill would revise the definition of "face amount of an insured mortgage" to exclude the outstanding principal balance of any loan that is in default and for which the insurer has established a loss reserve, as specified. The bill would provide that if a mortgage guaranty insurer will not have the amount of policyholders surplus required, it shall cease transacting new business, as specified, until its policyholders surplus is in compliance. The bill requires that the insurer notify the commissioner at least 60 days prior to the time the policyholders surplus is estimated to fall below the amount required and may at that time request a waiver of the requirements. If the commissioner fails to issue an order in response to the waiver request within 60 days, the insurer may continue transacting new business in California until the commissioner issues an order. The insurer would bear the commissioner's cost of retaining consultants reasonably necessary to evaluate the waiver request, and reimburse the commissioner for the cost of a hearing held.

Misc

AB 155 (Mendoza) Local government: bankruptcy proceedings.

Last Amend: 07/01/2009

Status: 07/08/2009-Senate Local Government Committee; held in Committee.

Summary: Under existing law, any taxing agency or instrumentality of the state may file a petition and prosecute to completion bankruptcy proceedings permitted under the laws of the United States.

This bill would provide that a local public entity may only file under federal bankruptcy law with the approval of the California Debt and Investment Advisory Commission.

AB 1215 (De La Torre) Public employment: furloughs.

Last Amend: 09/04/2009

Status: Senate Floor

Summary: Existing law vests the Department of Personnel Administration with the duties and responsibilities exercised by the State Personnel Board with respect to the administration of salaries, hours, and other personnel-related matters. This bill would exempt employees in positions funded at least 95% by sources other than the General Fund from furloughs implemented by any state agencies, boards, and commissions. The bill would also prohibit a state agency, board, or commission from directly or indirectly implementing or assisting in implementing a furlough of those employees. The bill would define "employee" for the purpose of those provisions and would also specify that nothing in those provisions shall be construed as legal authorization for the imposition of furloughs on employees through Executive order.

Mortgage Lending

ABX2 7 (Lieu) Residential mortgage loans: foreclosure.

Last Amend: 02/14/2009

Status: 02/20/2009-Chaptered by Secretary of State - Chapter No. 5, Statutes of 2009

Summary: This urgency bill would (1) require the Commissioner of the Department of Corporations (DOC) to adopt regulations regarding comprehensive loan modification programs; (2) prohibit, until January 1, 2011, a lender or servicer from foreclosing on a home occupied as the principal residence of certain borrowers for an additional 90 days following the filing of a notice of default unless the lender or servicer has a loan modification plan approved by the Commissioner of the DOC; and (3) exempt state and local housing agencies and authorities from these provisions.

Tax Credits

AB 1554 (Committee on Jobs, Economic Development, and the Economy) Low-income housing tax credit.

Last Amend: 09/04/2009

Status: Senate Third Reading

Summary: Existing law establishes a low-income housing tax credit program, administered by the California Tax Credit Allocation Committee, which provides procedures and requirements for the allocation of state tax credit amounts among low-income housing projects based on federal law. Existing law, among other things, provides for the recapture for noncompliance, in a specified amount, of tax credits previously granted with respect to the costs of constructing or rehabilitating farmworker housing. This bill would, in the case of the credit applicable to farmworker housing, modify the recapture amount, and would also require recapture of credit for low-income housing in conformity with federal law.

SB 16 (Lowenthal) Low-income housing tax credits.

Last Amend: 02/11/2009

Status: 2 Year Bill

Summary: Existing law establishes a low-income housing tax credit program, administered by the California Tax Credit Allocation Committee, which provides procedures and requirements for the allocation of state tax credit amounts among low-income housing projects based on federal law.

This bill would, in the case of a project that has received or receives preliminary reservation of state low-income housing tax credit on or after July 1, 2008, and before January 1, 2011, allow the credit to be refundable.

SBX3 37 (Ashburn) Income tax: credit: purchase: principal residence.

Last Amend: 10/14/2009

Status: Assembly Floor

Summary: Would expand usage of the Qualified Principal Residence Purchase Credit enacted as part of the 2009-10 Budget. Specifically, this bill (1) would reduce the total amount of tax credit available for allocation by 70 percent, thereby allowing \$30 million to be allocated to additional applicants, (2) would specify that the credit is only eligible for purchases of a qualified principal residence from March 1, 2009 through July 2, 2009, and from the effective date of this bill until March 1, 2010; the credit would not be available for purchases between July 2, 2009 and the effective date of the bill, (3) would specify that the total amount of tax credit that may be allocated under the program will be \$100 million, rather than the total amount that may be allowed, and (4) would require the specified certification to be provided by the seller within one week before or after the close of escrow and secured by the Franchise Tax Board no later than July 2, 2009.