

State of California

M E M O R A N D U M

To: Board of Directors

Date: January 16, 2009

A handwritten signature in black ink, appearing to read "B. D. Gilbertson", is centered on a light gray rectangular background.

Bruce D. Gilbertson, Director of Financing

From: CALIFORNIA HOUSING FINANCE AGENCY

Subject: ANNUAL INVESTMENT REPORT

In 1995 the Board adopted an investment policy and asked for a periodic investment report. Attached for your information is an investment report as of June 30, 2008, the end date for the most recent fiscal year. This report shows that CalHFA moneys continue to be invested conservatively and in accordance with the Board-approved investment policy.

INVESTMENT REPORT
JUNE 30, 2008

SUMMARY

As of June 30, 2008, CalHFA had \$10.9 billion of assets, of which \$2.3 billion (21%) consisted of investments (not mortgages). During the 2007/2008 fiscal year, CalHFA's total revenues were \$581 million, of which \$91 million (16%) was investment interest income. When comparing the investment balance as of June 30, 2007 to the investment balance as of June 30, 2008, there is a \$209 million increase. The primary reason for the increase is the use of bond acquisition proceeds, that in previous years would have been used to make whole loans, to purchase securitized loans (the securitized loans are classified as securities on the financial statements), see the discussion below under the heading "Securities".

The following table shows the types of investments we hold for different categories of funds.

<u>Investment Type</u>	AMOUNT INVESTED		
	<i>(\$ in millions)</i>		
	<u>Bond</u>	<u>Non-Bond</u>	<u>Total</u>
	<u>Moneys</u>	<u>Moneys</u>	
Investment agreements	\$ 484.6	\$ 0.0	\$ 484.6
State investment pool	866.5	542.5	1,409.0
Securities (Fair market value)	181.2	38.6	219.8
Money market and Bank deposit	<u>84.3</u>	<u>80.5</u>	<u>164.8</u>
Totals	\$1,616.6	\$ 661.6	\$2,278.2

INVESTMENT AGREEMENTS

As stated in the Investment Policy, we normally invest bond moneys in investment agreements. Such agreements give us a high level of security of principal, a fixed rate of return to match the fixed cost of our debt, and complete liquidity so that we can use them like interest-bearing checking accounts and make deposits and withdrawals on short notice. Balances invested in investment agreements have decreased by \$325 million from last fiscal year primarily due to the Agency's use of the State's Investment Pool (Surplus Money Investment Fund "SMIF") for the reinvestment of bond proceeds because we were unable to obtain investment agreements with fixed rate yields at or above the cost of our debt issuance. In addition, SMIF is a good hedge against our unhedged variable rate debt.

The following table shows the types of bond moneys that are deposited into investment agreements.

INVESTMENT AGREEMENT BALANCES
(\$ in millions)

	Bond Proceeds (For Loan Purchases)	Drawdown Bond Proceeds	Reserve Funds	Debt Service Funds	Totals
Single Family	\$ 12.7	\$ 0	\$122.6	\$208.8	\$344.1
Multifamily	<u>13.2</u>	<u>0</u>	<u>1.7</u>	<u>125.6</u>	<u>140.5</u>
Totals	\$ 25.9	\$ 0	\$124.3	\$334.4	\$484.6

The first two attachments, Attachments 1 and 2 show information about our \$484.6 million of deposits with financial institutions providing us with investment agreements. Note the high credit ratings of the institutions. If these credit ratings were to fall below a certain threshold level, we have the right to request collateralization or the return of our deposits. During the 2007/2008 fiscal year Depfa Bank's ratings fell below an acceptable level and the Agency requested Depfa Bank to transfer the funds invested in the investment agreements to collateralized repurchase agreements. Subsequent to June 30, 2008 we have liquidated the repurchase agreements with Depfa Bank and invested the funds in SMIF. In addition AIG's ratings fell below acceptable levels and in September 2008 as a result we liquidated those investment agreements and invested the funds in SMIF.

STATE INVESTMENT POOL (SURPLUS MONEY INVESTMENT FUND “SMIF”)

As shown in the table on the first page, we have \$1.409 billion invested with the State Treasurer in the SMIF, which, over time, has given us security, a fair return (3.108%) during the quarter ending June 30, 2008, complete liquidity, and administrative simplicity.

As stated in the Investment Policy, we invest most non-bond moneys (Funds invested under our Housing Assistance Trust, Contract Administration Programs, money received from HUD for the Section 8 projects, servicing impound account moneys, funds set aside for warehousing of loans, funds held in the Agency’s operating account and general reserves of the Agency), in the SMIF. In recent years the Agency has been investing an increasing amount of bond moneys in the State Investment Pool.

The State’s treasury operations are managed in compliance with the California government code and according to a statement of investment policy which sets forth permitted investment vehicles, liquidity parameters and maximum maturity of investments. The Pooled Money Investment Account (PMIA) operates with the oversight of the Pooled Money Investment Board (consisting of the State Treasurer, the State Controller and Director of Finance).

The Treasurer does not invest in leveraged products or inverse floating rate securities. The investment policy permits the use of reverse repurchase agreements subject to limits of no more than 10 percent of the PMIA. All reverse repurchase agreements are cash matched either to the maturity of the reinvestment or an adequately positive cash flow date which is approximate to the maturity of the reinvestment. The PMIA does not hold any investments in obligations of California investor-owned utilities. As of June 30, 2008 the average life of the investment portfolio of the PMIA was 212 days.

SECURITIES

The third attachment, Attachment 3 provides additional information about the \$219.8 million (fair market value) of securities held by the Agency. This category includes \$216.9 million of Fannie Mae and Ginnie Mae securities backed by loans originated for our single family and multifamily programs. During fiscal year 2007/2008 we had used acquisition proceeds to purchase \$92 million of FNMA securities backed by the Agency’s loans.

MONEY MARKET AND BANK DEPOSITS

Our bond trustee sweeps overnight deposits into a U.S. Treasury money market fund. The amount invested in the money market includes some bond program moneys which we expect to use to purchase loans or to pay costs of issuance. In addition, this category includes loan servicing revenues held in commercial bank deposit accounts.

ATTACHMENT 1

SUMMARY OF CALIFORNIA HOUSING FINANCE AGENCY FUNDS DEPOSITED IN INVESTMENT AGREEMENTS - JUNE 30, 2008

INVESTMENT AGREEMENT PROVIDER	MOODY'S RATING	STANDARD & POOR'S RATING	AMOUNT INVESTED
Societe General	Aa2	AA-	147,605,678
Aegon Institutional Markets	Aa3	AA	88,954,037
*Bayerische Landesbank	Aaa	NR	62,713,706
Matched Funding Corp. (AIGMFC)	A3	A-	59,848,308
Depfa Bank	A2	BBB+	43,527,959
Rabobank Int.	Aaa	AAA	16,625,796
MBIA Inv. Management Corp.	A2	AA	15,109,143
Trinity	NR	AAA	14,214,346
NATIXIS	Aa3	AA-	12,861,689
*Westdeutsche LB	Aaa	AA-	5,764,953
General Electric Capital Corp.	Aaa	AAA	5,560,546
Citibank	Aa1	AA	4,051,036
Bank of America	Aa2	AA-	3,565,901
Citicorp	Aa3	AA-	1,884,254
Pacific Life Co.	Aa3	AA	1,274,116
Royal Bank of Canada	Aaa	AA-	989,418
Total Funds Invested in Investment Agreements			484,550,886

*Institution's ratings based on state guarantee

** NR Not Rated

ATTACHMENT 2

<p align="center">California Housing Finance Agency Funds Invested in Investment Agreements As of June 30, 2008 Totals by Financial Institution Ratings</p>		
Moody's Ratings	Amount Invested	Percentage of Total Invested
Aaa	\$ 91,654,419	18.92%
Aa1	4,051,036	0.84%
Aa2	151,171,579	31.20%
Aa3	104,974,096	21.66%
A2	58,637,102	12.10%
A3	59,848,308	12.35%
NR	14,214,346	2.93%
Total	<u>\$ 484,550,886</u>	<u>100.00%</u>
S & P Ratings		
AAA	\$ 36,400,688	7.51%
AA	109,388,332	22.58%
AA-	172,671,893	35.64%
A-	59,848,308	12.35%
BBB+	43,527,959	8.98%
NR	62,713,706	12.94%
Total	<u>\$ 484,550,886</u>	<u>100.00%</u>

Summary of CalHFA Investments in Securities

As of June 30, 2008

Type of Investment	Par Value	Book Value	Market Value	Weighted Average Coupon	Weighted Average Remaining Maturity
GNMA Securities	\$ 6,718,142	\$ 6,718,142	\$ 6,669,420	5.52%	22.88 Years
FNMA Securities	220,216,434	220,216,434	210,260,462	5.08%	31.48 Years
LNMA Securities*	374,571	374,571	376,137	3.00%	3.19 Years
Commercial Paper	0	0	0	-	- -
U.S. Treasury Bonds	1,085,000	951,261	1,291,489	6.25%	15.12 Years
REFCORP Bonds	158,000	176,236	211,925	8.63%	12.54 Years
FHLMC Securities	780,000	789,423	967,931	8.25%	7.92 Years
Totals	<u>\$ 229,332,146</u>	<u>\$ 229,226,067</u>	<u>\$ 219,777,365</u>		

*Linda Mae Securities: securities associated with habitat for humanity loans.