BOARD OF DIRECTORS

California Housing Finance Agency
Board of Directors

July 13, 2010

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

10:00 a.m.

1. Roll Call.

2. Approval of the minutes of the May 12, 2010 Board of Directors meeting.

3. Chairman/Executive Director comments.

4. Report on the implementation of US Treasury Department programs:

   a. Hardest Hit Fund program 137

   b. New Issue Bond program.....143

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Table:#196623v1
BdMtg:07-13-10

7. Closed session under Government Code §§ 11126 (e) (1) to confer with and receive advice from counsel regarding litigation in connection with In re Lehman Brothers Holdings, Inc, et al, United States Bankruptcy Court, Southern District of New York, Case No. 08-13555 (JMP).

8. Reports:

   A. Homeownership Loan Portfolio Update 153

   B. Update on Variable Rate Bonds and Interest Rate Swaps 161

   C. Legislative Report ..... [handout]

9. Discussion of other Board matters.

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

11. Handouts.

NOTES**

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

FUTURE MEETING DATES: Next CalHFA Board of Directors Meeting will be September 15, 2010, at the Burbank Airport Marriott Hotel & Convention Center, Burbank, California.

STATE OF CALIFORNIA

CALIFORNIA HOUSING FINANCE AGENCY

BOARD OF DIRECTORS

PUBLIC MEETING

Burbank Airport Marriott Hotel
2500 Hollywood Way
Burbank, California

Wednesday, May 12, 2010
10:00 a.m.

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

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A P P E A R A N C E S

Board of Directors Present

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

KATIE CARROLL
for BILL LOCKYER
State Treasurer
State of California

MICHAEL A. GUNNING
Vice President
Personal Insurance Federation of California

JONATHAN HUNTER
Managing Director, Region 2
Corporation for Supportive Housing

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

BARBARA MACRI-ORTIZ
Attorney at Law
Law Office of Barbara Macri-Ortiz

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

JACK SHINE
Chairman
American Beauty Development Co.

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

A P P E A R A N C E S

Board of Directors Present
continued

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

BROOKS TAYLOR
For CATHERINE COX, Acting Director
Office of Planning & Research
State of California

--o0o--

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

TIMOTHY HSU
Financing Risk Manager
Financing Division

THOMAS C. HUGHES
General Counsel

HOWARD IWATA
Director of Administration

CHARLES K. McMANUS
Director of Mortgage Insurance Services

A P P E A R A N C E S

Participating CalHFA Staff:
continued

JOJO OJIMA
Office of the General Counsel

DIANE RICHARDSON
Director of Legislation Division

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1 BE IT REMEMBERED that on Wednesday, May 12,
2 2010, commencing at the hour of 10:02 a.m., at the
3 Burbank Airport Marriott Hotel and Convention Center,
4 2500 Hollywood Way, Burbank, California, before me,
5 DANIEL P. FELDHAUS, CSR #6949, RDR and CRR, the following
6 proceedings were held:
7 --oOo--
8 *(The following proceedings commenced with*
9 *Mr. Hudson, Mr. Hunter, and Ms. Peters*
10 *absent from the hearing room.)*
11 CHAIR CAREY: With that, welcome to the
12 May 12th meeting of the Board of Directors of the Housing
13 Finance Agency.
14 --oOo--
15 **Item 1. Roll Call**
16 CHAIR CAREY: Our first order of business is
17 roll call.
18 MS. OJIMA: Thank you.
19 Ms. Peters for Mr. Bonner?
20 *(No response.)*
21 MS. OJIMA: Mr. Gunning?
22 MR. GUNNING: Here.
23 MS. OJIMA: Mr. Hudson?
24 *(No response.)*
25 MS. OJIMA: Mr. Hunter?

1 *(No response.)*
2 MS. OJIMA: Ms. Jacobs?
3 MS. JACOBS: Yes. Here.
4 MS. OJIMA: Ms. Carroll for Mr. Lockyer?
5 MS. CARROLL: Here.
6 MS. OJIMA: Ms. Macri-Ortiz?
7 MS. MACRI-ORTIZ: Here.
8 MS. OJIMA: Mr. Shine?
9 MR. SHINE: Here.
10 MS. OJIMA: Mr. Smith?
11 MR. SMITH: Here.
12 MS. OJIMA: Mr. Taylor for Ms. Cox?
13 MR. TAYLOR: Here.
14 MS. OJIMA: Ms. Matosantos?
15 *(No response.)*
16 MS. OJIMA: Mr. Spears?
17 MR. SPEARS: Here.
18 MS. OJIMA: Mr. Carey?
19 THE WITNESS: Here.
20 MS. OJIMA: We have a quorum.
21 CHAIR CAREY: Thank you, JoJo.
22 --oOo--
23 **Item 2. Approval of Minutes of the March 25,2010,**
24 **and March 26, 2010, Board of Directors Meeting**
25 CHAIR CAREY: The next item of business is

1 approval of the minutes for March 25th and 26th.
2 MS. MACRI-ORTIZ: Moved.
3 MS. JACOBS: Seconded.
4 CHAIR CAREY: Moved and seconded.
5 Any further discussion?
6 *(No response)*
7 CHAIR CAREY: Roll call, please.
8 MS. OJIMA: Thank you.
9 Mr. Gunning?
10 MR. GUNNING: Aye.
11 MS. OJIMA: Ms. Jacobs?
12 MS. JACOBS: Yes.
13 MS. OJIMA: Ms. Carroll?
14 MS. CARROLL: Yes.
15 MS. OJIMA: Ms. Macri-Ortiz?
16 MS. MACRI-ORTIZ: Yes.
17 MS. OJIMA: Mr. Shine.
18 MR. SHINE: Here -- yes, whatever.
19 MS. OJIMA: Mr. Smith?
20 MR. SMITH: I'm here, too. And, yes.
21 MS. OJIMA: Mr. Carey?
22 CHAIR CAREY: Yes.
23 MS. OJIMA: The minutes have been approved.
24 CHAIR CAREY: Thank you.
25 //

1 **Item 3. Chairman/Executive Director comments**
2 CHAIR CAREY: It seems that the first order of
3 business ought to be to recognize our Executive Director,
4 Steven Spears.
5 *(Applause)*
6 CHAIR CAREY: So even though the word "acting"
7 is not there, you'll still have to act like one.
8 MR. SHINE: He's a good actor.
9 MR. SPEARS: I promise.
10 CHAIR CAREY: All right. From what I see on
11 the sidelines, it's been a pretty crazy couple of months.
12 Lots of progress and lots of change.
13 I would love to hear today that the environment
14 has all settled down; but I don't think that will be the
15 case. So we look forward to discussion and your reports,
16 Steve.
17 The first thing I'd like to insert in here is
18 to give Mr. Smith a chance to report on behalf of the
19 Audit Committee which met this morning.
20 *(Ms. Peters entered the meeting room.)*
21 MR. SMITH: Thank you, Mr. Chairman.
22 The Audit Committee met this morning. And I'm
23 glad to tell you that we have an unqualified audit
24 opinion or letter that was given to us. Obviously, there
25 was lots of financial issues that we'll be discussing,

1 I'm assuming, in other portions of this agenda later
2 today. But it was an unqualified opinion.
3 So thanks to all those that worked hard in
4 putting it together. I know it was a tight time frame to
5 do all you had to do.
6 Thank you again.
7 CHAIR CAREY: Any members have any questions
8 for Mr. Smith or the Committee members on the audit of
9 the Mortgage Insurance Fund?
10 MR. SPEARS: I have one comment, Mr. Chairman.
11 There was one footnote that had a technical
12 correction needed. So the auditors have taken the
13 financials back. We're not going to distribute them to
14 anybody. They're going to make that technical
15 correction, and then rerelease the financials.
16 CHAIR CAREY: Okay, with that, I'll turn it
17 over to Mr. Spears.
18 MR. SPEARS: Thank you, Mr. Chairman.
19 With regard to the appointment, I want to say,
20 thank you to all for support over the last 15 or
21 16 months, whatever it was. I think that's some kind of
22 a record, I was told by some folks in the Governor's
23 Office, for acting director.
24 It's been a very challenging period. We've had
25 some ups and downs. And we have a very strong team of

1 folks in the senior staff that have been helping with
2 this effort. And I just want to say "thank you" to them
3 as well.
4 So with that, we'll move into the --
5 AUDIO TECHNICIAN: That's somebody's cell
6 phone. Somebody's cell phone is going off.
7 MS. JACOBS: Somebody's cell phone?
8 Okay, fess up.
9 MR. SPEARS: We'll continue. All right.
10 A couple of housekeeping matters.
11 You have in front of you two sets of slides.
12 If you would take the operating budget set, if you
13 haven't already, and place those behind, let's see,
14 Tab 6. It's agenda Item 6.
15 Just drop the slides in there, and we'll get to
16 those slides a bit later.
17 It might help you keep everything organized
18 around your area.
19 Then the other housekeeping item is,
20 ordinarily, at the May Board meeting, that you receive in
21 your board materials a written narrative of the business
22 plan.
23 After the March discussion and after review of
24 the current financial situation and the ups and downs
25 that the chairman just spoke about, we felt it was

1 probably best if we put in a detailed PowerPoint
2 presentation that would give you some detail about the
3 business plan, have the discussion, write the narrative
4 after this meeting rather than before.
5 And I think that that will work out well. So
6 that's why you get slides instead of a narrative in the
7 board binder.
8 What we did, though, was prepare another
9 presentation that some of the slides are slightly
10 different in the sense that they are simplified --
11 they're not as busy -- consolidated, that sort of
12 thing -- for presentation up on the screen.
13 If you want to keep these separate, that would
14 be fine; or you can use the slides that came with your
15 board material. They'll generally follow along -- I
16 think you'll be able to follow along nicely with the
17 discussion as it goes along. But some of the slides that
18 you see won't be exactly the way they appear in the Board
19 material. We're just trying to make it more appealing to
20 the eye on the screen.
21 With that, I want to give you a quick update on
22 the Hardest Hit funds.
23 And if I could ask Di, if she's -- did she hide
24 from me in the back there -- to come up.
25 We didn't agendize this. And the reason we

1 didn't was because Treasury hasn't approved anything yet.
2 We did submit a detailed proposal to Treasury.
3 I sent you guys all a copy, I believe, when it came out,
4 when it was distributed to Treasury on, I believe, it was
5 April the 16th was the deadline.
6 MS. RICHARDSON: Correct.
7 MR. SPEARS: They have since held several calls
8 with all of the states to go over various aspects of the
9 proposals that they did receive.
10 And then we had a call with Treasury that was
11 just for us.
12 And this is how it went:
13 First of all, they sent questions ahead of
14 time. And we thought they were fairly routine. Di
15 prepared answers to the questions for their team, sent
16 them back.
17 And then we had a phone call, and it was,
18 "Well, do you have any questions for us?"
19 "Well, not really. Well, do you have any
20 questions for us?"
21 And that was about it.
22 I'll tell you this: That the proposal that we
23 turned in is being used by some folks in Treasury as the
24 example to follow for all the rest of the states.
25 Di has done an amazing job. The team that she

1 has is Jean Mills and Linn Warren, Scott Bie is the
2 project manager, and we have a research individual,
3 Robert Sessions, who is helping. And that's on her
4 project team.
5 And then the steering committee is Chuck's on
6 that, Bruce is on that, of course, Di, me.
7 And who else?
8 Rhonda -- and Tom.
9 MS. RICHARDSON: And Tom.
10 MR. SPEARS: And that's sort of the high-level
11 steering committee.
12 But the proposal that went out was, I have been
13 told by Treasury people, the most professional, the most
14 thorough, the most researched. It was the top-notch
15 proposal that went in.
16 So thanks to Di.
17 And I don't mind if I ask for a round of
18 applause for her.
19 *(Applause)*
20 MS. RICHARDSON: Thank you.
21 MR. SPEARS: It's a four-part program. I'll
22 let you just give a brief update of where we are with all
23 these folks, and talks with banks and et cetera.
24 MS. RICHARDSON: Right.
25 Well, thank you. That was very nice, very

1 unexpected, but very welcome. Thank you.
2 You know, the announcement came from Treasury
3 on March 5th, and we had to have a proposal in on
4 April 16th. So I don't know if you -- there was an
5 article in one of the papers that said there were four
6 of us locked in a room somewhere. And that was pretty
7 close. I mean, it was hot and -- but we were churning
8 through it.
9 We also started having conversations right away
10 with servicers, to find out what would work for them
11 because we didn't want to create another program that's
12 going to sit on the shelf and the money's not going to go
13 out.
14 *(Mr. Hunter entered the meeting room.)*
15 MS. RICHARDSON: We met with advocates. We met
16 with counselors. We met with local governments. We did
17 three forums. And I'm sorry if this is repetitive of the
18 last meeting. I missed that one. But we got really
19 great feedback all along. And we heard a lot of the same
20 things, which was helpful.
21 So the proposal that we put together -- oh, and
22 I'll just say, as we were working on our proposal, about
23 halfway through -- we had been having conversations with
24 Treasury, and then they amended HAMP right in the middle,
25 and sort of announced some of the things that we had in

1 our proposal.
2 So we had to sort of take a step back and pull
3 some of those things out because, again, if they were
4 going to do it, why should we?
5 And, you know, the thing we heard the most
6 clearly from servicers -- you have to remember, we can't
7 mandate anybody to do anything. And they already have
8 signed service agreements with Treasury to do HAMP, and
9 they're going to do HAMP. So if we came out of left
10 field with something really bizarre, that's where it was
11 going to stay.
12 So we were looking at something that would
13 overlay the HAMP process and make it more effective, you
14 know, find out if there were holes in the process, and
15 why those things weren't working in California, why there
16 were so many NPV fails, things of that nature.
17 So we did end up proposing four different
18 programs.
19 And if you haven't seen them -- and I know it's
20 just the most fascinating reading, I know you're dying
21 for it -- Ken's Marketing team put up a great Web site,
22 it's www.KeepYourHome.com. And the proposal -- the
23 initial proposal is on that Web page.
24 And you can also get there from the front page
25 of the CalHFA Web site, so it's really easy to get to.

1 But what we did was we -- you know, there was
2 some discussion at the beginning about whether we were
3 going to target certain areas of the state. And as we
4 looked at the different data, every area is challenged,
5 they all have different challenges. And, you know, if
6 you go with this set of data, you're leaving out
7 San Diego; and if you go with this set of data, you're
8 leaving out the Central Valley.
9 So we decided that, really, the thing that we
10 would concentrate on are the borrowers. They're the ones
11 that need the help. And so it's focused on low- and
12 moderate-income borrowers that have had some kind of
13 economic hardship, and that are either 60 days delinquent
14 or in imminent default, or imminent, it's going to
15 happen.
16 So the first program that we came up with is
17 called the Unemployment Mortgage Assistance Program. And
18 this was one of them that we announced, and then Treasury
19 came in right in front of us and announced theirs. So
20 the Treasury has announced a program that will help
21 people -- what their program actually does, is allow
22 those payments to be forborne for a number of months.
23 What we're actually talking about is helping
24 the borrower make those payments for a period of time.
25 So the way that we see that working with HAMP is --

1 again, they'll use the HAMP benefits first, and it's
2 three to six months, depending on who they're regulated
3 by; and then our program will come in on the back side of
4 that, because we know most people in California that are
5 unemployed don't find another job within three to six
6 months. So they'll get another -- right now, I think our
7 proposal says six months. But, you know, that's
8 something we're discussing with the servicers. They've
9 asked us to look at nine months.
10 The benefit would be $1,500 per month -- up to
11 $1,500 or 50 percent of the PITI. And there would be a
12 $9,000 cap for a household for that program. So we think
13 that that would get them through for quite a while.
14 The second program is called the Mortgage
15 Reinstatement Assistance Program, or the MRAP program.
16 And this is a program that we heard from every counselor
17 that we talked to, that there were actually individuals
18 that had fallen behind, they maybe were unemployed,
19 they're reemployed but they've got this arrearage and
20 they can't catch up. So we want to help them, help bring
21 them forward so that either they can sustain a
22 modification or they can pick up their payment and start
23 over again without having to have this chunk
24 recapitalized on the end, which actually ends up raising
25 a lot of their folks' payments.

1 So that -- we think 20 percent of the funds
2 we've proposed using for that program. And that would be
3 up to $15,000, or 50 percent of the past-due arrearages.
4 And, of course, we're hoping that the servicers or
5 lenders or investors are going to kick in and match that,
6 so that we can bring those borrowers whole.
7 The third program, which is really the big dog
8 in the fight, is the Principal Reduction Program, or the
9 PRP. And we think that the lion's share of the funds
10 will go to this program. And although several of these
11 programs do work together -- you know, you can get the
12 unemployment assistance, you can have your arrearages
13 brought forward, you can get your principal reduction,
14 mortgage reduction piece -- there's a $50,000 cap on the
15 total amount of assistance for a household. So if you
16 didn't take advantage of the first two, you could get
17 $50,000 right off the bat for your mortgage reduction.
18 And what our proposal is, is to try to bring
19 people down to 125 percent LTV. There's been a lot of
20 discussion about that, how did we pick that number. And
21 we were really looking for the sweet spot, where our
22 people -- you know, we know that there are programs out
23 there that people can get modified at 125 percent. And
24 we don't want it -- we want to create an incentive for
25 them to want to stay in the home but not, you know,

1 create equity for them unnecessarily because we think
2 that will encourage other people to drop out.
3 The last program that we have is actually
4 something that we developed after talking to folks in the
5 San Diego area and the Merced area, where they said, "You
6 know, there are just -- there are a lot of people and
7 they're too far gone, they can't recover. And if we can
8 get them out of the house, we've got other buyers lined
9 up, we can turn these neighborhoods around. These folks
10 just need help, you know, transitioning out."
11 So we developed this Transition Assistance
12 Program. And, again, this is something that we were
13 originally looking at doing something to help pay off the
14 seconds; but the new HAMP guidelines came in and did
15 that, right where we were going to go, so we didn't want
16 to duplicate that.
17 So what we heard loudly from all the counselors
18 was that the HAMP -- I'm sorry, the HAFA program will
19 provide assistance up to $3,000, which just may not be
20 enough to really get you into a new housing -- or a new
21 sustainable living situation in California. So we're
22 going to take -- we're proposing to take that up to
23 $5,000 to supplement that, so that they can get up to
24 $5,000 to get into some sort of stable living
25 arrangement.

1 The final piece, which if you read the
2 proposal, is the least defined, is a local innovation
3 fund. And quite frankly -- I think at the last meeting,
4 you had some folks come and talk to you about getting
5 some of the money.
6 We were flooded with proposals. Everybody had
7 the perfect idea. And in that time frame, we simply did
8 not have the ability to do proper diligence in reviewing
9 those and figuring out what really made sense and what
10 really worked.
11 And so we've got this -- we've asked to set
12 aside $20 million for this local innovation fund. And
13 we're going to -- I think what we'll end up doing is
14 putting out an RFP, having them submit their proposals,
15 having them do a lot of the same kind of due diligence we
16 had to do in our proposal. And then those have to
17 actually go to Treasury, just like our proposal did, and
18 be approved, and make sure that they're consistent with
19 the EESA statute.
20 So we anticipate getting that -- we've talked
21 to Treasury a little bit about that. We hope to get that
22 RFP out within the next few weeks, couple weeks. And,
23 you know, that all -- the authorization for Treasury to
24 commit this money expires in October, so all of this has
25 to be done by October.

1 So we've continued having conversations with
2 servicers. We're continuing to have conversations with
3 Treasury. We're continuing to have conversations with
4 all of the interest groups.
5 I think, actually, we've done a pretty good job
6 because not everybody is completely happy but not -- you
7 know, but there's something in there for everyone. And
8 everyone would like more, but there's only so much to go
9 around.
10 MR. SPEARS: One issue that keeps coming up is
11 a lot of the loans that are going to be available for --
12 or candidates for this program, are owned by Fannie and
13 Freddie. And their regulator, FHFA, really -- they're
14 not -- I think the nicest thing to say is that they're
15 not totally in sync with what Treasury is trying to do.
16 And because FHFA is not part of the Administration and
17 Treasury, they need to work that out. So we're not
18 trying to negotiate that or mediate, but that's going to
19 have to get worked out --
20 MS. RICHARDSON: Right.
21 MR. SPEARS: -- for this to be really
22 successful.
23 MS. RICHARDSON: If we can get that, that's a
24 home run because everybody knows that most of the loans
25 are there.

1 But we think that if they don't want to play,
2 then, you know, the pressure is on them, that we're going
3 to say they wouldn't play. And we think that there are
4 enough servicers who have enough loans in their own
5 portfolio that we -- I mean, $700 million isn't really
6 that much money that we can get it out and we can get it
7 out effectively.
8 And the other thing we included in our
9 proposal, which Treasury thought was a great idea, was
10 doing a -- before we kick it off for everyone, we're
11 going to pilot it with our own portfolio to, you know,
12 work out some of the kinks and get a little bit of a
13 jump-start and see how it works.
14 CHAIR CAREY: Did I hear you say that the money
15 has got to be out by October?
16 MS. RICHARDSON: Treasury has to commit the
17 funds to us by October.
18 CHAIR CAREY: Okay.
19 MS. RICHARDSON: We don't have to have it out.
20 But their authority to encumber the funds, is sort of how
21 I would say it, ends the end of October.
22 MR. HUGHES: Right. The EESA that I referred
23 to, the Emergency Economic Stabilization Act of 2008,
24 actually authorizes TARP, and that expires in October.
25 MR. SPEARS: And the question that has come up

1 a couple times, is this $700 million just going to come
2 in one wire to Bruce?
3 MR. GILBERTSON: Bruce who?
4 MR. SPEARS: Or did it come --
5 MS. RICHARDSON: I don't think so, because they
6 have very, very preliminary discussions about a draw
7 schedule. So I'd doubt it, but…
8 MR. SPEARS: Right. It will be similar, I
9 think, to the HFA initiative from the fall, where the
10 funds would be committed, escrowed, we draw them on a
11 schedule.
12 MS. RICHARDSON: Right.
13 Oh, the other piece of this that I forgot to
14 mention is, we really see a very integral piece of this
15 for counselors. And so there will be some funding in
16 here for counselors. We think that they know these
17 people best, they know their situations. They're going
18 to know which ones would qualify for which programs, the
19 unemployment piece. They'll be key on the back end for
20 the Transition Assistance Funds. And we're hoping that
21 if somebody is going to -- they're to the point where
22 they need to take advantage of the transition funds, that
23 instead of just regular homeownership counseling, we can
24 ask them to partake in total debt-management counseling,
25 so they can sort of start turning their lives around.

1 MR. GUNNING: Diane, the folks that did apply
2 to us, so you're saying you're going to -- you've talked
3 to them --
4 MS. RICHARDSON: Oh, yes.
5 MR. GUNNING: Well, we saw here, and I know
6 I've been contacted…
7 MS. RICHARDSON: Yes.
8 MR. GUNNING: So you'll tell them to reapply
9 under the RFP program and take a look at?
10 MS. RICHARDSON: Yes.
11 MR. GUNNING: They understand the Treasury
12 process as well? Or is that part of the RFP?
13 MS. RICHARDSON: I'm not sure if they do or
14 not. They should. I know they've had conversations with
15 Treasury, but that will be made clear in the RFP.
16 And we've actually -- you know, that group has
17 been pretty vocal.
18 MR. GUNNING: One LA?
19 MS. RICHARDSON: Very persistent, yes.
20 So I think we're going to -- we have asked
21 Treasury if we could go ahead and send that proposal
22 in --
23 MR. GUNNING: Good.
24 MS. RICHARDSON: -- pre- -- you know, before
25 any of that, just so that if there's a problem, we can

1 let them know sooner than later.
2 MR. GUNNING: That's smart.
3 MS. RICHARDSON: You know, One LA sounds great,
4 but they haven't done any loans yet, so it's not
5 something we can point to as a successful program.
6 MR. GUNNING: In theory?
7 MS. RICHARDSON: Yes.
8 MS. JACOBS: Do we know when the Treasury's
9 supposed to approve plans?
10 MS. RICHARDSON: I'm sorry, I didn't --
11 MS. JACOBS: When is the Treasury supposed to
12 approve plans?
13 MS. RICHARDSON: We're expecting it by the end
14 of this month.
15 MS. JACOBS: Okay, good.
16 MS. RICHARDSON: And, again, you know, they
17 have told me numerous times that, really, they're simply
18 reviewing it to make sure it's consistent with EESA.
19 They have no intention of really telling us how to use
20 the money or what to do.
21 But I will tell you, it is sort of interesting
22 because they started out telling us, they didn't want to
23 see something that looked like it was just going to help
24 HAMP because they didn't want it to look like HAMP wasn't
25 successful and we were needing to rescue HAMP.

1 But now they know there is really no other way
2 to go. So that's the direction they're telling the five
3 new states that have come in.
4 CHAIR CAREY: Di, I just find myself a little
5 overwhelmed, thinking about the onslaught of potential
6 beneficiaries.
7 MS. RICHARDSON: Yes.
8 CHAIR CAREY: How do you see that happening?
9 MS. RICHARDSON: That's a good question.
10 We're actually -- that's what we're really
11 looking at now.
12 MR. SPEARS: This might be a good time to --
13 sorry to interrupt -- but a good time to remind
14 everybody, these funds are not just for our borrowers.
15 This is a statewide program. The pilot program would be
16 just for our borrowers that we service; but it's going to
17 be statewide, so…
18 MS. RICHARDSON: Right. I mean --
19 MS. SPEARS: Hence the term.
20 MS. RICHARDSON: -- we expect them to come in
21 through the counselors, a great number of them through
22 the servicers, that we'll have the service agreements
23 with.
24 We're looking at -- we have several proposals
25 for different portals for that now, that we're taking a

1 look at. We're looking at the HOPE NOW portal. We're
2 talking to Springboard. We're talking to a number of
3 different businesses.
4 I don't think we have the capacity in-house
5 to do this, so this will be something that will be
6 contracted out. I think it will probably be a different
7 call center -- you know, the whole works. But that's
8 something that funds -- you know, it's built into the
9 budget for the funds, so it will pay for itself.
10 CHAIR CAREY: Other questions?
11 Ms. Peters?
12 MS. PETERS: It's not a question.
13 I just want to let everyone know that I sat in
14 on the internal meeting one day and also sat in on one
15 of the roundtable discussions out in the field. And
16 congratulations, you guys handled a political football
17 and a logistical nightmare and came out shining. So
18 thank you very much.
19 CHAIR CAREY: Good. Thank you.
20 MR. SPEARS: Those are the end of my comments.
21 If we can start the slides, I think we're ready
22 to begin the discussion of the business plan.
23 --oOo--
24 //
25 //

1 **Item 4. Discussion, recommendation, and possible action**
2 **regarding the adoption of a resolution**
3 **Approving the Two-Year Business Plan for**
4 **Fiscal Years 2010/2011 and 2011/2012**
5 ***[Resolution 10-06]***
6 MR. SPEARS: We have in front of you a business
7 plan for the next two years.
8 We, again, chose a two-year time frame because
9 of the economic conditions, the condition of the
10 California real-estate market, the uncertainty in the
11 employment markets. And we decided to, again, present a
12 two-year business plan.
13 The objective is to follow the same five
14 priorities that were canonized by me in the list that
15 we talked about in March, which you'll see in the
16 colorful little chart right after this.
17 But our current challenges remain a backlog
18 of underperforming single-family loans. It is a very
19 labor-intensive process to deal with these loan
20 delinquencies: Workout plans, loan modifications,
21 foreclosures, the REO inventory, and all the associated
22 losses and all the associated back-office work.
23 We were talking about this in the senior staff
24 meeting on Monday: A group in Lori's area, in Fiscal
25 Services, are processing thousands of little invoices for

1 repairs of doors, cabinets, new carpet, that are coming
2 in on almost a thousand REO properties that we have. So
3 it goes through the entire organization.
4 Obviously, these losses are putting pressure on
5 our liquidity; and not everyone in the banking community
6 is all broken out with enthusiasm to provide short-term
7 lines of credit. And that remains a challenge.
8 And the credit-rating concerns remain a
9 challenge. There is pressure for further downgrades.
10 They're watching how our delinquencies are going to
11 perform over the next year and how our loan losses are
12 going to behave.
13 The resources and opportunities, we have --
14 Fannie Mae has offered a program where they will provide
15 the insurance.
16 We have the New Issue Bond purchase capital
17 of a billion dollars that Treasury has committed and
18 escrowed. And we just need -- we have to draw on it,
19 but remember, we have to go to the private market for a
20 portion of that money.
21 And we have the $700 million in Hardest Hit
22 funds, which, of course, won't help all of -- it's not
23 dedicated all to our loans but a substantial portion
24 could help our borrowers.
25 And we have the highest-affordability situation

1 as far as homeownership that we've seen in a very, very
2 long time.
3 And we have the new tax credit for -- the
4 California tax credit that the Governor just signed in
5 the last couple of weeks for first-time home buyers and
6 for new construction.
7 So the only real challenge to all this is how
8 the tax-exempt housing bond market is going to work in
9 the future. It can't just work -- we could sell bonds.
10 It's just, it has to work commercially for us and result
11 in a rate that we can offer to borrowers that will be --
12 that will make sense to them to come to us for a loan.
13 So let's go to the next slide and -- oh, it
14 doesn't show up quite as colorful.
15 I call this my "Easter egg" slide. The colors.
16 But it basically has a Survive, Revive, and Thrive --
17 full credit to Ms. Peters -- time frames.
18 And here again, I don't know about you, I'm not
19 sure how far I can see with the glasses that I'm wearing
20 today. But I think that we're in survival mode for most
21 of the next -- of the business plan period that we're
22 going to discuss today.
23 That, again, the focus is going to be the
24 maintaining credit ratings, mitigating loan losses,
25 working off our backlog. We'll do some renewed lending,

which Gary will get to a little bit later, and Bob. And we're going to go back and look at old partnerships and see if we can do things new -- discover new ways to do things.

And in the "Revive" mode, it's how much access are we going to give to warehouse lending lines of credit so that we can do more lending down the road. You know, how well is the bond market going to behave? And if that begins to return to normal, the life we saw before, then I think that we can get into "Revive" mode with the old business model.

If that doesn't fix itself, we're going to be looking for a different way to do business and a possibly different role.

"Thriving," obviously, if things were great and we get back into substantial lending volumes, and we've returned to profitability and we have the ability to fund programs internally, like we did before, then we'll be thriving. And I think that's a long ways down the road. 2014, 2015, maybe.

So here again, I don't know if anybody has any comment on my guesstimates there. But I was trying to summarize our March afternoon discussion in a one-slide presentation. And I hope I hit this one on the mark.

All right, next.

1 A little more detail. Perhaps I can get Bruce
2 to chime in here as well. But I don't -- I think I said
3 this last time, I don't believe that we're going to be
4 able to return to the old volume levels of lending that
5 we had. I don't think we'll see $1.5 billion,
6 $1.7 billion, those record high years, anytime soon. And
7 part of the reason is, we don't really believe that that
8 bond market will return and behave like it did before.
9 We're not going to return to the use of variable-rate
10 debt for obvious reasons. And it will depend on CDLAC
11 allocating appropriate amounts of debt limit. And it
12 will also, in the multifamily area, depend on how the
13 low-income housing tax credit returns or behaves in the
14 future. Right now, that market is still struggling quite
15 a bit.
16 So, I don't know, Bruce, if you want to chime
17 in about some of these challenges.
18 MR. GILBERTSON: Well, I think one of the
19 themes in this presentation today is going to be about --
20 and maybe a way to think of it would be that we see that
21 there's potential clouds on the horizon.
22 If we don't have a funding source -- you know,
23 tax-exempt housing bond market that produces a borrowing
24 cost sufficiently low for us to lend and compete in the
25 marketplace, what does that mean? And so that's -- you

1 know, that's really in the back of our minds.
2 I mean, theoretically, we stop and think for a
3 moment of what we're trying to produce on the asset side.
4 We're going to have Fannie Mae, Freddie Mac, or
5 Ginnie Mae security. There's active markets out there
6 for taxable investors to purchase these things.
7 We ought to be able to create a bond market
8 that would want to pay up for a tax-exempt equivalent.
9 The risks are identical.
10 And there's people in this state that pay well
11 over 30, 40 percent of their income in taxes, marginal
12 income tax rates. So there should be somebody out there
13 to buy this.
14 So that's the objective -- I think the last
15 couple of years have, you know, just put us in a
16 situation where we don't feel a hundred percent certain
17 that the bond market is going to provide that viable
18 alternative. So that's a theme running through this.
19 I think the theme that attaches to that then is
20 if you don't have that, then what do you have? And
21 you've got to look for other business models,
22 potentially, or platforms to do the lending. And we'll
23 get into that a little bit throughout the session.
24 MR. SHINE: Have you given any effect to the
25 belief out there that taxes, in general, are not going to

1 go down, they're going to go up? And would that not then
2 make tax-exempt bonds that much more valuable, based upon
3 the actual after-tax cost both ways?
4 MR. GILBERTSON: I totally agree with you.
5 I think what we're trying to do, is to try to compare
6 forecasted interest rates and then forecast what our cost
7 of funds are. I'll get into that when we get into this
8 economic section here a little bit.
9 I believe that that's true, that taxes will go
10 up, and there should be even more advantage for somebody
11 who would want to buy a tax-exempt AAA federal
12 government-backed bond.
13 MR. SPEARS: The last bullet here just throws
14 something out, and that is, Fannie Mae and Freddie Mac
15 may not exist the way they exist today. They may have
16 a different role in the future. They may be combined
17 and merged and…
18 They also have indicated a renewed interest in
19 doing business with state HFAs. So state HFAs and local
20 HFAs may be a new platform for them to deliver programs
21 that the federal government has for borrowers at the
22 state level. We're not really sure.
23 At Fannie Mae, our liaison for state HFAs
24 described his -- he has had a different role. They're
25 still trying to figure this out, but he said his profile

1 in the company is, quote, "embarrassingly high."
2 I'm not sure exactly what that means, but I
3 think it's good for state HFAs in the long run. But
4 we'll just have to see how this turns out.
5 So let's go to the next slide.
6 And you'll recall that these are the five
7 priorities, maybe not exactly the way I've listed them in
8 answer to Mr. Hudson's question on Thursday afternoon in
9 March, but pretty close. Pretty close.
10 And this is Priority Number 1, that obviously
11 credit ratings are vital.
12 And we'll have a section with more detail on
13 each one of these. It's just a summary slide.
14 Loss-mitigation efforts are our high priority.
15 It is labor-intensive. When we get to the budget, most
16 of the hires that we're proposing -- almost every single
17 one of them go into REO Management, Loss Mitigation,
18 Multifamily, Asset Management, Fiscal Services in the
19 back office, and Loan Servicing. We're pouring
20 everything we can. And we've spent this year setting
21 things up so that we could put more personnel towards
22 this.
23 We've also -- by the way, just note for later
24 discussion, we are also looking at opportunities to
25 outsource this to folks when we can in a cost-effective

1 way.
2 Renew Lending Activities, in both the
3 single-family and multifamily area with New Issue Bond
4 Program. That's the capital. That's what we're going to
5 use for the next year.
6 Remember, that goes away at least at this
7 point. December 31, 2010, we have to have made our third
8 draw by that -- our third and final draw by that time.
9 Renew and Strengthen Old Partnerships. Gary
10 has already started a program reaching out to the local
11 government organizations, looking for down-payment
12 assistance and other ways to help borrowers get into
13 homes. Bob is doing the same thing with nonprofits and
14 folks.
15 And when you've been out of the lending
16 business for 15, 16 months, you have to go out and
17 reconnect. And that's what that's all about.
18 And finally, the last bullet, it's what we've
19 talked about, Exploring New Business Models.
20 I can't tell you what those are exactly. We're
21 going to have a concerted effort over the business-plan
22 period to look for different ways of doing the same
23 business and new business opportunities, period.
24 Okay, any questions before we go on?
25 Yes, sir.

1 MR. SHINE: How are we doing with Genworth?
2 MR. SPEARS: We will -- we're doing
3 marvelously. Genworth -- Chuck, I don't know, is it true
4 anymore to say that Genworth has one of the highest
5 credit ratings of all of the mortgage insurers?
6 MR. McMANUS: They're in the top three, BBB,
7 that's pretty high for the private mortgage insurance.
8 MR. SPEARS: Right. All of the mortgage
9 insurers are not doing well.
10 I suppose you could describe Genworth's
11 position in this world as in the top three of these
12 mortgage insurers.
13 MR. SHINE: It hasn't gotten worse with them,
14 right?
15 MR. SPEARS: No, it has not.
16 MR. SHINE: Okay.
17 MR. SPEARS: In fact, Moody's had some -- I
18 wouldn't describe it as nice things to say, but they had
19 encouraging things to say about how Genworth is managing
20 their claims processes.
21 They are rescinding coverage on audits for
22 other organizations based on lack of documentation, a
23 violation of underwriting standards, and that sort of
24 thing. So far, that hasn't been us.
25 So we're maintaining -- they have approached

1 us -- and we'll talk about this a little bit more
2 later -- they have approached us about a different role.
3 Obviously, for the time being, Mortgage Insurance is not
4 writing new business; and they have stepped up and said,
5 "Well, instead of being your reinsurer, how about if
6 we're your primary insurer?" And we're exploring that
7 idea with them.
8 And they would like to do new business in
9 California. We said, "Well…" -- and one encouraging
10 thing about the mortgage markets companies there, for
11 a while there last year, nobody would do anything more
12 than 98 percent LTV in California. Now, that's moved up
13 to 95. And what they are discussing with us is 97. An
14 FHA-like product that we could offer.
15 So I think that's all encouraging.
16 MS. PETERS: How are they doing on the claims
17 payment? Are they prompt or still slow?
18 MR. McMANUS: They pay our claims. I mean,
19 they are our claims administrator. And I think they're
20 timely, they're not fast; and they do a lot of
21 investigation because of the drop in values versus the
22 appraised value when they issue the insurance. They have
23 a process they go through to make sure there wasn't fraud
24 in the original appraisal and things.
25 So while they're not fast, they are consistent,

1 and they're paying about $8 million a month to us.
2 And their rescissions are maybe a total of 22,
3 23, lifetime, since we've had our relationship. But where
4 they find a problem, they will rescind coverage.
5 We have a right to demand repurchase by the
6 originator if the originator is in business. And that's
7 the challenge, so…
8 But we're doing very well versus the industry.
9 I hope that continues going forward.
10 MR. SPEARS: That is definitely true.
11 The only thing I would say -- I forgot to say
12 this about the last bullet -- I should have used stronger
13 words than *"probably"* and *"may."* "It's *probably* needed
14 for reviving and thriving…" "…*may* need new business." I
15 think it's "*likely*" rather than *"probably"* or *"may."*
16 Just to be –
17 CHAIR CAREY: Steve?
18 MR. SPEARS: Yes?
19 CHAIR CAREY: Just back, so from a
20 financial-management point of view, Number 1, is we
21 can't do without?
22 MR. SPEARS: Right.
23 CHAIR CAREY: And from an operating basis, it's
24 all about 2, right at the moment, really?
25 MR. SPEARS: Yes, sir.

1 We'd really love to begin new lending
2 activities. It's important for our balance sheet to
3 start putting performing loans on our balance sheet. But
4 the first two are the highest priority.
5 MR. HSU: Peter, we have a chart later on to
6 show how these are all related or dependent on each
7 other.
8 I would add to Chuck's comment about
9 rescissions. The 20 or 30 that he was referring to are
10 actual numbers of loans of rescissions. And in the
11 industry, I believe they are closer to 30 percent of all
12 the loans for rescission. And so there's a big
13 difference.
14 MS. MACRI-ORTIZ: Over what period of time are
15 those, the 20 or 30?
16 MR. McMANUS: There are articles. And maybe
17 I can find some that I can e-mail to you. I would say a
18 better --
19 MR. SPEARS: Chuck, can you get closer to a
20 mike, please?
21 Thank you.
22 MR. McMANUS: A better number for an entire
23 portfolio of defaults and foreclosures might be in the
24 15 to 20 percent range of what the mortgage insurers are
25 rescinding right now, keeping in mind there were a lot of

1 no-doc, low-doc loans. So you really underwrite a claim
2 where, "Were we told the truth?" because the originator
3 said, you know, "This is what they told me. I think it's
4 true."
5 So because ours are fully documented we have
6 a little less of it. Because we have a high percentage
7 that were done under delegated underwriting which
8 triggers a tougher audit also.
9 So, you know, our percentage is way down versus
10 the industry. And we hope that continues. It's been a
11 friendly relationship with our reinsurer, who is our
12 administrator of claims for the insurance fund.
13 MS. MACRI-ORTIZ: No. My question was, with
14 respect to the numbers that you've given us, what period
15 of time are we talking about? Is that --
16 MR. McMANUS: We're really talking the last two
17 to three years.
18 MS. MACRI-ORTIZ: Two to three years? Okay.
19 MR. McMANUS: I mean, that's when the claims
20 have really started to roll in.
21 MS. MACRI-ORTIZ: Okay.
22 MR. McMANUS: It's been the tough period. So
23 the last three years, I'd say.
24 MR. GILBERTSON: So the only other thing I
25 would add is that, remember, we're talking about a

1 business plan, we're talking about a forecast. I think
2 our assumption regarding Genworth, is that they're going
3 to pay the vast majority of all claims presented to them.
4 That that may not be what the rating agencies think, and
5 we'll get into that a little later in the presentation
6 this morning.
7 MR. SPEARS: Other questions?
8 All right, the next group of slides -- before
9 we got started talking about our priorities, I just
10 wanted you guys to understand the environment we're going
11 to operate in, both in the outside economics that are
12 going to go on, but also internally, from a liquidity
13 standpoint. And that's the purpose of these slides.
14 So let's move to those.
15 And Bruce and Tim are going to walk us through
16 the economic forecast in these other assumptions.
17 MR. GILBERTSON: Thanks, Steve.
18 So when we built the business plan and started
19 to think about it, we thought we had to forecast this
20 operating environment that we're likely going to face
21 over the next 12 to 24 months. So there's slides in here
22 that highlight the key factors that we think will deem
23 success or create more challenges for the Agency over
24 time.
25 I think one of the important things is that

1 these aren't our own forecasts because we don't have that
2 capability. We relied on people. So we relied on
3 information from the UCLA Anderson School of Business,
4 their March 31, 2010, quarterly forecast. They do a
5 great forecast for California only, as well as the
6 national forecast. So I think from that perspective,
7 it's right on target for us.
8 We also utilized online resources available
9 via Bloomberg, and some internal projections, especially
10 of our own borrowing costs based off of some of what's
11 happening in the marketplace these days.
12 Please remember, forecast is that. These are
13 not for-certain going to happen, but it's the best guess
14 as to where things might go over the next two years.
15 I will tell you that we were working on this
16 last Wednesday. And last Thursday, we all know what
17 happened in the marketplace. The Dow was off a thousand
18 points, backed out to minus 400. The ten-year Treasury
19 went from 3.80 to 3.30.
20 MR. SPEARS: I think the board packages were on
21 the way to the Fed Ex truck when all that happened, so…
22 A very fluid situation.
23 MR. GILBERTSON: So, again, we have to be very
24 flexible in our thinking. And some things have developed
25 as a result of last week's market events that we'll get

1 into as it relates in liquidity.
2 I don't want to spend a lot of time on this,
3 but I want to respond to any questions you may have.
4 The California economy, we thought we would
5 focus on a couple of things. We have borrowers that have
6 to be employed in order to make their mortgage payments,
7 so we looked at unemployment numbers. These numbers come
8 directly from the UCLA forecast.
9 I think what we've concluded is that we're
10 over 12 percent today. It's going to be almost two years
11 before we dip below 10 percent. So it's a slow job
12 creation, kind of a slow growth.
13 For what it's worth, residential building
14 permits look like they're going to increase but, again,
15 at a pretty slow rate.
16 Yes, Lynn?
17 MS. JACOBS: I think that number is wildly
18 high.
19 MR. GILBERTSON: Wild? The unemployment?
20 MS. JACOBS: No, no. The residential building
21 permits.
22 You know, the residential building permits for
23 2009 are 36,000. The highest they've ever been in the
24 state of California, which was 2005, is 200,000.
25 I think these numbers are --

1 MR. GILBERTSON: We will double-check on these
2 numbers.
3 MS. MACRI-ORTIZ: Are you talking about a
4 quarter or a year?
5 MS. JACOBS: A year.
6 MS. MACRI-ORTIZ: Well, this, they're saying a
7 quarter.
8 MS. JACOBS: But this is through the third
9 quarter. It can't be per quarter. It would be
10 completely crazy.
11 MR. GILBERTSON: So what this is saying --
12 MS. JACOBS: Through the third -- through the
13 third quarter of 2011, they'll be 146,000, or annually or
14 something. But even if that's the annual rate for 2011,
15 I would just look at a couple of other forecasts, like
16 Cal Lutheran and Berkeley, just to see on that number, or
17 just call CBIA. Because, you know, I would love that
18 number, but I just don't see it in the information we
19 were given.
20 MR. GILBERTSON: We'll definitely verify that
21 we picked it up correctly as well. But I believe it
22 would be --
23 MS. JACOBS: I'm sure you picked it up
24 correctly.
25 MR. GILBERTSON: Yes. Those should be

1 quarterly numbers. So that's the number per quarter.
2 That's a lot.
3 MS. JACOBS: No, that's impossible.
4 MR. GILBERSON: Yes, okay.
5 MR. SHINE: It's never been more than 210,000
6 units.
7 MS. JACOBS: Ever.
8 MR. SHINE: Since they've been keeping records
9 at the Construction Industry Research Board, there's
10 never been a year with more than two hundred per year
11 through the state.
12 MS. PETERS: It has an extra zero.
13 CHAIR CAREY: And what's most important is the
14 degree to which that assumption affects the predictions
15 for CalHFA. And if they are wild, then what's the impact
16 of that?
17 MR. GILBERTSON: Yes, correct. And so that
18 could flaw some of the other forecasts within the report.
19 So we'll spend some time when we get back to the office
20 to look at that.
21 More importantly perhaps for us is interest
22 rates. Because all of what we do is backed by, you know,
23 bonds that we sell in the capital markets. So we focused
24 a lot on the ten-year Treasury. I think the takeaways
25 is that the forecast is for a general rise in interest

1 rates, even irrespective of what happened last week.
2 So by early 2011, the ten-year Treasury might
3 be over 4 percent, a year and a half later, over four
4 and a half percent. That will also drive the general
5 direction of conventional mortgage rates. As you can
6 see, they would move to 5.50 and 6 percent over the next
7 couple years.
8 Again, I think the cloud that we potentially
9 see is, if we don't have investors willing to pay up and
10 accept a lower rate of interest for our housing bonds --
11 tax-exempt housing bonds -- what does that mean?
12 And so we'll go through a little bit more on
13 this page 8 when we get into this table about the
14 correlation between our borrowing costs and mortgage
15 rates and how that all works.
16 The first thing you're going to see -- and I
17 guess the last bullet on page 7, just quickly -- is that
18 once we lose the New Issue Bond Program -- remember,
19 this is the federal government program we started last
20 December. We locked in our cost of funds on
21 a billion dollars based off the ten-year Treasury in
22 December. So once that goes away, you can see there is
23 a pretty good jump in our projected cost of bonds, bond
24 costs.
25 Just to make sure we're all reading this table

1 correctly, these are fiscal-year quarters. So Quarter 1,
2 under 2011 is July 1 through September 30th. And the
3 fourth quarter would be the spring of 2011.
4 Again, we've talked about some of this. You
5 can see the ten-year Treasury, we expect in July to be
6 3.87. That's got a ways to go to get there right now
7 because it's fallen. I think it's currently in about the
8 3.50, 3.55 range. And then generally trend up, you know,
9 over the next two years.
10 Short-term rates as measured by the Fed funds
11 currently at 25. This is kind of a consensus estimate
12 that it will have to move up higher and the Feds will
13 have to raise short-term rates over this next two-year
14 period.
15 The domestic municipal bonds line that's shown
16 on here is, again, right out of the UCLA Anderson
17 forecast. It's their proxy for a municipal bond. It's
18 probably more akin to what Katie's world is with a
19 municipality that has taxing power in the G.O. of a
20 state or a county other a city. So we derived our own,
21 which is slightly different, which is based off the
22 blended rate that we would achieve in the marketplace for
23 a housing bond.
24 Remember, there are special features regarding
25 a housing bond. We have special redemption rights that

1 allow us to call out a bondholder with prepayments and
2 things like that.
3 But you can see the trend. And I think what's
4 important for us to do -- and I think I can just walk you
5 through it.
6 If you look at the housing bond cost, which is
7 our approximation of going forward in the conventional
8 mortgage rate line, you need to add 1 percent to the
9 housing bond cost, because that's normally what we would
10 do when we were setting the interest rate for what we
11 would determine to be a full-spread mortgage loan.
12 So in the first quarter of 2010-2011, the 4.02,
13 if we add 1 percent, it would be 5.02. And that would
14 be the rate that we would offer to our first-time home
15 buyers. And that would actually compare favorably to a
16 conventional mortgage rate of 5.25.
17 If you go out to the third quarter of that
18 first fiscal year, you see that we're projecting this big
19 bump from 4.05 to 4.60, and that's because we've lost the
20 New Issue Bond Program, we've lost our rate lock on all
21 of those bonds.
22 So when you add a point to 4.60, you come up
23 with a borrowing -- or loan rate for us of 5.60 that may
24 not compare very favorably to the marketplace.
25 And that kind of trend continues.

1 So, we hope we're off on that forecast, but
2 that's part of what's driving our thinking here. That's
3 part of what's leading us to believe that we need to look
4 at other platforms, perhaps go to the federal government
5 and ask for an extension of the New Issue Bond Program,
6 allow it to go beyond 12/31 of 2010. Those types of
7 things.
8 I won't dwell on the rest of this.
9 Single-family loan projection. These are some
10 projections from Chuck, in large part, about the number
11 of modifications we'll do per quarter, the number of
12 short sales that might be accepted, foreclosure activity,
13 and REO projections.
14 And then the bottom line, these are some
15 relatively new programs for Multifamily. These
16 projections drive part of the liquidity analysis that Tim
17 is going to walk us through on the next couple pages.
18 Let me stop there and see if there's any
19 questions.
20 CHAIR CAREY: Questions?
21 MR. GUNNING: Under the last one, Bruce, the
22 Mental Health Services Act, please explain final
23 commitments. What are those?
24 MR. GILBERTSON: So this is -- and Bob will get
25 into this a little bit later -- but, in general, we do a

1 loan commitment for the use of these funds, and we
2 receive an administrative fee, number one, at the time of
3 commitment, and then we earn a small fee over time, over
4 the life of the program.
5 MS. PETERS: I have one question back.
6 Under the single-family loan program
7 information, the numbers don't seem to vary very much.
8 Why not?
9 MR. GILBERTSON: Chuck, do you want to answer
10 that now, or do you want to --
11 MS. PETERS: Or at all in some case.
12 MR. McMANUS: Number one, we can't tell the
13 future, so we're making a good business estimate for
14 staffing and expenses.
15 And our assumptions, which are focused on the
16 REO market, is that there's going to be more competitive
17 REO, that the banks are finally going to foreclose and
18 put them on the market and so forth.
19 So we think we're going to have a tougher
20 market out there to sell our REO. We're in a pretty good
21 market right now. It's not an oversupply of REO because
22 there's a shadow inventory of delinquencies that just
23 aren't getting foreclosed. We think that's going to
24 come. And that's going to make it more competitive.
25 So for planning purposes, we put what we think

1 we can get in and out in a month. And that's where you
2 get the 315 sales based on our seven REO managers. And
3 the foreclosures are from our portfolio of loans, how we
4 see the foreclosures working ten months after the initial
5 delinquency.
6 So, we see a building of inventory, and then a
7 dissipation of inventory as our rate of sales catches up
8 with that income, so -- and this is for planning
9 purposes. It's just staffing purposes is why we did it.
10 We didn't try to model new interest rates and so forth.
11 MS. PETERS: So the number of short sales, the
12 number of foreclosure sales is just a function of how
13 many people you have to do them?
14 MR. McMANUS: Well, no. The short sales, it's
15 our anticipation of dual loan requests coming in.
16 There's a hardship requirement, and then the proceeds
17 from the short sale must equal or exceed our anticipated
18 foreclosure outcome, the net proceeds from a foreclosure
19 option, because we have to do it for the bondholders. We
20 have to get at least equal money.
21 So that's just the activity, we feel, of
22 applications.
23 We have kicked that up significantly to 273
24 based on the Hardest Hit fund, we think that's going to
25 trigger a lot of requests because now there's a pay-down

1 of principal option, which is much more attractive than
2 what we're currently doing, which is reducing monthly
3 payment through interest and extension of the term.
4 So we think that's a pretty high activity.
5 Remember, that's your existing portfolio. That's just
6 delinquent loans and your existing portfolios coming in
7 as applications.
8 MS. PETERS: I'm just surprised that, for two
9 years, you are forecasting flat, exactly the same short
10 sales as REOs.
11 MR. McMANUS: I'm really taking the two years,
12 and just chopping them into four pieces because I don't
13 know how it's going to come in, I don't know the outside
14 interest rates, I don't know the other. And when you're
15 staffing and planning people and resources, a level flow
16 is reasonable.
17 If I thought it was going to go way up or way
18 down, I would have slanted it up or slanted it down. But
19 I had no more sophisticated way of doing it. I could
20 match the loan-modification requests with our IOP change
21 of payment, because our interest-only loans are now
22 starting to schedule, and pretty heavy, the 2005's. And
23 2006 was our banner year. And 2007 was still heavy.
24 So I see IOP changes coming, but they're
25 reasonably steady, the number of changes per month, they

1 go up, but it's up maybe 30 percent from initially. And
2 it's spread out over time. And I think that's where my
3 modification requests are coming.
4 It was a big portion of the book of business.
5 It was 80 percent of the business.
6 So that's pretty steady. It does go up. I
7 could slope it up and slope it back down --
8 MR. SPEARS: Right.
9 MR. McMANUS: -- I thought --
10 MR. SPEARS: Heather, I think if I put a
11 pattern on this, I think I'd front-load this, because our
12 emphasis this year is going to be to ramp up getting the
13 backlog out; and then I would tail it off at the end a
14 little bit more.
15 MS. PETERS: Okay, thanks.
16 MS. MACRI-ORTIZ: This is a little bit off the
17 subject, but just a thought occurred to me in terms of
18 the REOs and getting those things out.
19 Since you're working with counselors and
20 partners, making that effort to get out into the
21 communities, I don't know if you thought about maybe, you
22 know, letting in the different counties where you have
23 REO stock of trying to get some partnerships there. And
24 where they're dealing with first-time home buyers, maybe
25 they can start routing them into those homes. I don't

1 know if that's something you've already thought about.
2 MR. McMANUS: Steve, do you want to talk about
3 first-look, or do you want me to talk about it?
4 MR. SPEARS: We have talked to local
5 governments -- actually, this conversation started with
6 Jay Stark, somebody that Lynn knows -- about a program
7 where local governments that have NSP funds could take
8 these properties, buy them from us, use NSP money to fix
9 them up, use NSP money for down-payment assistance. And
10 then if we're lending again by that time, they could
11 actually complete this process by getting a CalHFA loan.
12 That is not free of legal questions. We're
13 trying to work out all the details of that. But that's
14 what we're trying to do at this point.
15 The only problem is that we do have -- we have
16 a thousand properties now that are REO. About 300 are
17 FHA and the rest of them are ours to keep and do with
18 what we want.
19 The problem is if they were in about five
20 concentrated areas around the state, that would be really
21 great. But there are two and three here, two and three,
22 two and three, around. And if you add them all up in
23 such a big state, over a large geographic area, it adds
24 up to 700. We don't have an inventory of a hundred that
25 we could walk in and offer to Ventura or Stockton or --

1 they just -- they didn't collect themselves like that.
2 So I guess what I'm saying is, it's not as
3 efficient a process as I would like to have. I mean, I
4 don't want more REOs. I want people staying in their
5 homes. But it just doesn't work out to be a really
6 high-volume program that works efficiently.
7 MS. MACRI-ORTIZ: Yes, well, I'm just thinking,
8 in terms of the way it's working in the communities, with
9 some of these commercial REO people, the homes are a
10 mess, and it takes them forever to get them in any kind
11 of shape. And then you do have, say, like the
12 neighborhood-type organizations out there that are
13 helping people that want to become homeowner, that maybe
14 even just kind of a listing, saying, "Okay, this is what
15 we have in Ventura County. This is what we have in LA
16 County."
17 Just letting the people who are dealing with
18 customers, who are looking for homes that -- because a
19 lot of people are looking, thinking, "Well, I can afford
20 an REO. I can't afford something else." So it's just,
21 how do you hook up people who --
22 MR. McMANUS: We post all of our properties on
23 the Web site, and we have a special Web site we're
24 getting for the counties and the cities where we'll post
25 them in advance, and they'll have 14, 15 days, first look

1 to get them, and get an appraisal and make an offer, and
2 we'll be getting an appraisal at the same time.
3 And as long as we can come out even for the
4 bondholders -- and that's after deducting for expenses
5 we're not going to have, the selling expenses, so there's
6 a slight discount for the buyer and equal proceeds for
7 the indenture, we will sell, and are trying to sell to
8 the cities, the counties, and so forth.
9 And on the others, it's pretty much, a lot of
10 the properties require a fix-up and repair in order to
11 be financeable. And we look to the investors to get it
12 done.
13 If it's extensive, we do it ourselves. If it's
14 more or less cosmetic -- you know, paint, carpet, clean.
15 And we are posting and trying to promote for
16 the first-time home buyer. But some are so damaged, that
17 they're not financeable, okay.
18 MS. MACRI-ORTIZ: I've seen some.
19 MR. McMANUS: Okay, they have to be purchased
20 by someone who will put the money in to fix and repair
21 them.
22 MR. SPEARS: One key statistic, obviously, for
23 the backlog and the performance of the portfolio is the
24 unemployment line. And if that doesn't come down like
25 that, we could continue to have increasing delinquencies.

1 And if it comes down faster than that and they perform
2 better, then the numbers down below there in
3 loan-modification, short sales won't be necessary for
4 folks who got jobs and are paying their loans. So that's
5 a very key line.
6 CHAIR CAREY: And the unemployment issue is
7 regional.
8 MR. SPEARS: Yes.
9 CHAIR CAREY: It depends on how the
10 unemployment matches with where the portfolio is. And
11 there's certainly areas where there's high portfolio and
12 very high unemployment.
13 MR. McMANUS: One comment earlier on the new
14 construction numbers -- and we were concerned about new
15 construction. Most of our borrowers do not buy new
16 homes. And the inflow of very affordable REO is a big
17 opportunity for affordable housing and low- and
18 moderate-income people. And without -- I guarantee you,
19 there's going to be heavy flow of affordable-housing
20 inventory available for the next two or three years, for
21 sure.
22 And so our volume of lending or so forth, this
23 is the opportune time to do it if we could get affordable
24 funds.
25 MR. HSU: I believe -- I missed the last Board

1 meeting, but I believe a question was asked last time
2 that -- a question that we wrestled with all the time,
3 that are we taking in more money than we're spending?
4 And I believe that's Mr. Shine's question.
5 The best place to answer that question is,
6 oftentimes, we talk about something called "Agency
7 liquidity." And when we refer to the Agency liquidity,
8 what we really are talking about is a collection of
9 accounts that sits under the Housing Finance Fund. So
10 if you're an accountant, you sort of -- you will go look
11 for these accounts under the Housing Finance Fund.
12 And when we talk about rating agencies, I'm
13 trying to use -- I'm trying to connect the dots here by
14 the various things that we're talking about. And when
15 we're talking about rating agencies, this is really the
16 General Obligation money that's not sitting inside
17 somebody's bond indentures we have.
18 And if you're sort of a private-industry
19 person, the collection of these accounts together, which
20 we sort of refer to as the "Agency's liquidity," is
21 really our working capital.
22 So what we're going to present over the next
23 two slides is sort of the ins and outs of this working
24 capital account.
25 And I'm going to -- again, this account doesn't

1 exist in one entity. It's sort of a collection of
2 accounts. And what we have done here is sort of pretend
3 as if it were one account for the sake of presentation.
4 And this account is the account that we use to
5 fund operating budget. It is the account that we use to
6 pay cost of issuance when we issue bonds. It is an
7 account that we use to support General Obligation, desk
8 service, shortages out of some of these bond indenture
9 funds that we have.
10 And it is also this account, the money that
11 sits in the account, that we have been talking about to
12 the Board that we have been trying to preserve. We've
13 been trying to limit the amount of HAT contributions to
14 down-payment assistance loans for single-family
15 production.
16 And HAT, which stands for Housing Assistance
17 Trust -- which is an acronym that I missed in the back of
18 the glossary, I'm sorry -- is one of these accounts
19 that's under the Housing Finance Fund which is part of
20 our working capital. We've been trying not to use those
21 kind of funds to increase or help us make single-family
22 loans.
23 And we also have been trying to preserve this
24 money in not contributing to preservation projects in the
25 multifamily space.

1 And this is also the very same account, or
2 collection of accounts, that we've been trying to
3 increase the cash by doing opportunistic de-leveraging of
4 the balance sheet or monetizing our loan assets recently
5 when we did Ginnie Mae securitization of taking FHA
6 loans, making them to Ginnie Mae, selling them to the
7 open market. We have a report in the binder that talks
8 about the whole process.
9 We also have done a Citi transaction, in which
10 we have taken multifamily loans and we sold them to
11 Citibank. And, again, all of these transactions are
12 basically an attempt to say, "We have loan assets, and
13 loans are great for producing an annuity, but we actually
14 would like to have that cash today." So that act of
15 monetizing the loan assets can increase the amount of
16 money that we have in this collection of funds that we
17 refer to as "Agency liquidity" or "Working capital."
18 On the --
19 MR. SHINE: Can I ask you a question, please?
20 MR. HSU: Sure.
21 MR. SHINE: You're talking about aggregating
22 everything that this agency has and figuring out how much
23 came in and how much went out; is that right?
24 MR. HSU: That's correct.
25 MR. SHINE: And included in that are the sale

1 of assets which adds to the "cash in" for this particular
2 period that you're using?
3 MR. HSU: Yes. But keep --
4 MR. SHINE: On an ongoing basis, do you have
5 other -- so your projection is for one year -- or one
6 period of time, aggregating income -- it's a cash flow,
7 aggregating income and expenses, what did you have when
8 you started, what did you have when you left.
9 Is that correct?
10 MR. HSU: That's correct. When we have --
11 MR. SHINE: Am I correct in understanding that
12 part of the income side came from selling assets?
13 MR. HSU: I think the better analogy, although
14 I don't have formal accounting training, is that this is
15 more of a statement of cash flows for the Agency's
16 working capital. Because when we sell an asset --
17 suppose that you sold a loan at par, you don't realize
18 any income. We just turned something that's under
19 receivables into something that's now cash.
20 MR. SHINE: Did you, in your estimate,
21 aggregating as you're doing, take into account assets
22 that sold where we made money?
23 MR. HSU: Yes, yes.
24 So, for example --
25 MR. GILBERTSON: Well, only transactions that

1 have actually occurred. There are no future anticipated
2 transactions like that.
3 MR. SHINE: But -- understood. You're right on
4 the point.
5 I'm trying to clarify in my mind that when the
6 next period comes to aggregate income and expense on this
7 cash-flow concept that we're talking about, will it be
8 necessary to sell more assets if we have them, to keep
9 the cash income sufficient to cover the cash out-go?
10 MR. GILBERTSON: Not necessarily. But, of
11 course, we'll look for opportunities to do that if they
12 avail themselves.
13 MR. SHINE: Of course. Okay, thank you.
14 MR. HSU: Right.
15 A point of clarification here, is that it takes
16 a while to understand our accounting financial
17 statements. Well, what we're trying to do here is to
18 bring this whole exercise to a very high level, so that
19 you don't have to look through our financial statements
20 to understand the big picture. And the big picture is
21 what we're trying to present here.
22 But we do have assets that are inside bond
23 indentures, that are really pledged to the bondholders.
24 And to say it in sort of a conversational way is: We
25 can't simply just take the cash on those indentures to,

let's say, pay for any employee's salaries.

So what we're trying to do here is an exercise to say, while those indentures may have, under certain circumstances, situations where they could release funds into this account that I'm sort of describing today as the Agency's working capital, we do capture those events; but we do not avail ourselves to all the cash inside these indentures because they don't belong to us.

When I say "us," again, I'm sort of defining this working capital that could be used to fund operating budget.

MR. SHINE: So if you have assets which you don't use to convert to cash, you don't count it as cash?

MR. HSU: That's correct.

MR. SHINE: Good.

MR. GILBERTSON: And just maybe to add one other thing. We're not using income stream or the conversion of an asset that's pledged to a bondholder under a specific indenture. Because remember, this is -- we have many more assets under the lien of an indenture than we have assets for this working capital fund.

MR. SHINE: Understood.

MR. HSU: And the one thing that we have learned over the last two years or so, is that when you want to monetize your assets, so does everybody else.

1 So these opportunities to de-leverage a balance sheet is
2 very, very specialized situations. And we're trying to
3 unearth them as the best -- to the best that we can, but
4 we have not captured them, sort of captured future
5 anticipated events, but we only have reflected things
6 that we've done.
7 There are some assumptions on page 9. I'm just
8 going to go through the assumptions at the same time I'm
9 going through page 10.
10 And to give the punch line here, the short
11 answer to Mr. Shine's question is: Yes, we are taking in
12 a little bit more than we are using over the next two
13 fiscal years.
14 What we have here is the projected balances.
15 Because you'll notice that the beginning balance at
16 July 1st, 2010. And that balance, obviously, is not
17 today. So all the balances here are projected balances.
18 And, again, if you were looking for where this
19 cash is, this is some subsidiary accounts under the
20 Housing Finance Fund, and it's also under our General
21 Obligation we talked about, and this is sort of our
22 working capital account.
23 We start out on July 1st with about
24 $120 million of cash in this account. And the biggest
25 contribution, the inflow, or how much money we're taking

1 in, into this account, is the assets that we have, there
2 are not inside bond indentures. And they sit also under
3 this very all-encompassing HAT, which is Housing
4 Assistance Trust, which is under the Housing Finance
5 Fund.
6 So these are, in large part, very seasoned
7 multifamily loans that we have originated years ago, and
8 they generate, you can see here, for the next fiscal
9 year, or the coming fiscal year, $36 million.
10 And the next large item is that $27 million,
11 which is in large part admin fees. And the biggest
12 component of that $27 million is that our single-family
13 indenture, which is the home, if you will, of a lot of
14 the loans that we've been talking about, that are
15 undergoing delinquency and troubles, that indenture, if
16 it passes certain cash-flow tests, can also generate
17 about $14 million to $15 million of admin fees to the
18 General Obligation.
19 And the next item is the Bay Area Housing,
20 which we have spent a lot of time talking about. We
21 believe that in this fiscal year we would finally be able
22 to take that off our balance sheet, which will contribute
23 a liquidity of $88 million to the cash position.
24 I would note, however, that if you look at the
25 $88 million and you look below, where we have the "Uses

1 of Liquidity," you'll see that we also, in that time
2 frame, need to repay the revolving credit agreement of
3 $100 million to BofA. So net that transaction would
4 actually mean that the Agency loses about $12 million of
5 cash.
6 In terms of answering a question about intake
7 and also outtake, for that -- if you're in that time --
8 if you're in that mindset, you should probably ignore
9 the $88 million and $100 million because they're more
10 liquidity issues and not sort of free cash flow and
11 expenditure, if you will.
12 And in that fiscal year, we have $46 million of
13 operating expense, which does increase slightly over the
14 next fiscal year, which I think Steve is going to talk
15 about a little bit more later.
16 We do have another $5.1 million of loan
17 commitments. And this is, in large part, the HELP loans
18 that we have committed to the local agencies that have
19 not drawn yet.
20 And we also inserted about $5.3 million of
21 basically the cost of doing the NIPB bonds when they go
22 out; and also, again, this cash that we have in this
23 working-capital account, if you will, does help out on
24 some of the General Obligation indentures that we have
25 which are not cash-flowing.

1 So at the end of the year, you'll notice that
2 we actually have a little bit less cash than we started
3 out with. And, again, that's, in large part, because of
4 this loss in cash because of the Bay Area transaction,
5 which I would remind the Board that the Bay Area Housing
6 loans are now sitting on this line of credit with BofA.
7 So if you carry on to the next year, the
8 $116 million is where we start out. And we have another
9 two numbers here, which are almost identical to the
10 first fiscal year of $34 million of intake from the
11 unencumbered loans, another $27 million of admin fees.
12 And we don't have to deal with a Bay Area Housing again,
13 thank God. So we don't have that line.
14 MR. SPEARS: Ever.
15 MR. HSU: It doesn't come back on the debt
16 somehow.
17 So -- and here, you can see a little bit better
18 what that phenomenon, if you will, that I was talking
19 about, is that these two numbers together add to 61. If
20 you look at the expenditure below, it's 52. We have a
21 slight positive cash flow into this working capital
22 account.
23 The one thing that I didn't mention about when
24 we talked about this $5.3 million of financing costs and
25 debt-related costs, is that we are assuming two things,

1 which is covered on a previous page -- two things.
2 One is that we have spent quite a bit of time
3 in the past talking about this relationship between the
4 single-family indenture and a General Obligation and the
5 reimbursement relationship between those two entities
6 with respect to swaps.
7 We're assuming that because we have the TCLF in
8 place, which is the liquidity support from the federal
9 government on the bonds inside the HMRB indenture, that
10 the reimbursement will continue during those two fiscal
11 years, which we fully expect because those bonds are
12 performing quite well.
13 And the other thing that we assumed is that
14 we wouldn't have to post a lot more money for swap
15 collateral purposes in the next two years.
16 While we have assumed that, over the last
17 couple weeks, I think Bruce alluded to earlier, because
18 of this flight to quality and fear in the equity market,
19 the fixed-income market has rallied a lot. And by that,
20 I mean, rates have come down a lot. So we are now more
21 negative on some of these swaps to our counterparties.
22 So we have had to post another $70 million to our
23 counterparties in the months of April and May. And then
24 because we lost our credit rating with respect to S & P
25 to the single-A range, we posted another $8 million

1 because now we have lower thresholds to the
2 counterparties.
3 So all in all, in April and May, we lost
4 $25 million of cash to posting the collateral -- posting
5 collateral to the swap counterparties. But keep in mind
6 that if we are answering a question about cash inflow and
7 cash outflow, that $25 million could as well come back to
8 us later on.
9 So, for example, we were just getting e-mails
10 earlier that we have requested $2.4 million of cash back
11 from JPMorgan. So that is a very fluid situation that is
12 basically happening all the time.
13 So those are two large assumptions we made.
14 And what you can see here is that at the end
15 of that two -- at the end of those two fiscal years, we
16 actually have $5 million more cash than we had at the
17 start. And that seemingly -- how should I say – that in
18 light of everything else that we've been talking about,
19 in light of all the other doom and gloom, that may seem
20 really a sort of positive note.
21 And a note of caution. One, is that if you --
22 this is sort of just from an outsider point of view --
23 that slight increase of $5 million, even if it were to
24 happen -- because I sort of outlined some assumptions --
25 it's very, very small when you consider the amount of

1 leverage that we have and the total size of the balance
2 sheet, which is in excess of, you know, $7 billion.
3 MR. SHINE: But the fact of the matter is that
4 the way this is set up, we spend -- we get $9 million
5 more than we spend in that year on general debt, general
6 overhead, and so on; is that right?
7 MR. HSU: That's correct.
8 And this annuity, however, if you go out a bit
9 longer, does drop off rather quickly. Because as I
10 mentioned, these are seasoned multifamily loans, and some
11 of them are in their last, let's say, five years of
12 payments and whatnot. So it is a fairly positive picture
13 if you're looking over those two fiscal years.
14 So what I would caution is that in terms of
15 the -- if someone were looking at some sort of, like,
16 return on equity ratio, this ratio is very, very low.
17 And Bay Area Housing, while we are very
18 ever-hopeful that we will be able to sell these loans
19 this year, it's still an open question.
20 And the RCA, the RCA, if we could renew it,
21 then we would be in a much better position. But if we
22 can also is a big assumption.
23 And last but not least, is the swaps, with the
24 assumption that the swap-reimbursement relationship can
25 continue over those two years, between HMRB and the

1 General Obligation.
2 CHAIR CAREY: Are there questions? Are there
3 other questions regarding liquidity?
4 MR. SHINE: I'm loaded with questions.
5 Am I clear -- or is it a correct statement that
6 the situation with respect to the Bay Area Housing, at
7 the end of the day, when we're all through with it, cost
8 us $12 million?
9 MR. GILBERTSON: No.
10 I think what we're comparing here is that it's
11 ironic that we're using the BofA revolving credit
12 agreement to finance those on the short-term.
13 And all we're saying is that if the underlying
14 assumption here is that if that credit line goes away in
15 February of 2011, which reduces our liquidity base by
16 $100 million, and if we don't sell the Bay Area Housing
17 properties between now and then, it's going to cause some
18 serious pain.
19 Because we could simply change an assumption
20 here and say the $88 million of Bay Area Housing loans
21 does not convert to cash, and then we would have a
22 $100 million credit line going away -- a use of cash --
23 and you get a much different result.
24 MR. SHINE: But on a P&L basis, would you say
25 that, at the end of the day, when we're all through with

1 Bay Area Housing, that we ended up getting something out
2 of it?
3 MR. GILBERTSON: Yes.
4 MR. SHINE: Or we ended up -- we did get some
5 income?
6 MR. GILBERTSON: Yes.
7 MR. SHINE: So it was a positive financial
8 experience for us?
9 MR. GILBERTSON: If we can get it off our
10 balance sheet, it would be a positive financial
11 experience for the Agency.
12 CHAIR CAREY: And if we can't -- and if we
13 can't do the sale of the Bay Area Housing Plan, that
14 takes our liquidity down to about thirty-some million?
15 MR. GILBERTSON: If the assumption is the Bank
16 of America would not extend an allowance to at least
17 continue to hold those.
18 You know, we've been very, very up-front, very
19 honest. We've talked a lot with the Department of
20 Developmental Services and the Department of Finance in
21 the last six weeks. We have to get this solved by
22 November of this year. Not January of next year, but
23 November of this year.
24 So I think we've got everything -- the message
25 is out there, hopefully it all comes together. And

there's a number of different solutions that are being kicked around to help in that regard.

CHAIR CAREY: And I would hope the "we" is inclusive of others outside of CalHFA, because I don't think we got into that entirely of our own devices. That was a state priority that we took on the challenge. And I think it's important that the "we" be a very inclusive --

MR. GILBERTSON: As our former director, Terri Parker would say, again, "No good deed goes unpunished." And clearly, we were trying to be helpful, I think; and it's really backfired in this situation.

MR. SPEARS: I will say, the corporate "we" includes the Department of Finance. And I've had two or three personal conversations with Ana Matosantos, the director; Fred Klaas, since he's not here to speak for himself, I'll speak for him.

He's been very active with his own staff in coming up with solutions. And on his return next week, from the reason why he couldn't be at this meeting, they -- his staff has been tasked with coming up with a proposal for him when he returns. So we are that far along in talking about various options.

All right, if there are no more questions on that, then I will take you to another colorful chart

1 which you may recognize from a chart you've seen before,
2 and explain the relationship between the HMRB indenture
3 and CalHFA.
4 And all I'm trying to do here is illustrate
5 to you in one-page, graphic form the forces that we're
6 working with and the priorities.
7 So the Priority 1 in the HMRB indenture and
8 with our General Obligation is to maintain our credit
9 ratings, in those top two boxes.
10 Obviously, that's dependent on how our
11 single-family loan portfolio operates and performs. So
12 the highest priority -- the next highest priority is the
13 gray box on the left, and that is to deal with that
14 backlog of delinquencies, mitigate losses, modify loans
15 if we can, short sales, and get that resolved.
16 And involved in that, of course, is the U.S.
17 Treasury's Hardest Hit funds will help with Priority 2.
18 So when we get to that.
19 Then managing Agency's liquidity, that we just
20 talked about, obviously, helps with Priority 1. The
21 better liquidity position we're in, the better the rating
22 agencies like it, as you can possibly imagine.
23 With our liquidity, with new lending comes
24 better liquidity. Now, not right away, it takes a while
25 for new loans to come online and begin to be profitable.

1 It takes two or three years to recover the cost of going
2 out and issuing those loans. But the sooner we get
3 started with that, the better. And the New Issue Bond
4 Program will help on the single-family side and on the
5 multifamily side.
6 And then this is not a stop sign down here in
7 the bottom right.
8 MS. PETERS: You ran out of shapes?
9 MR. SPEARS: I didn't even think about that.
10 It should be a circle, a circle-of-life type of
11 illustration.
12 But Priorities 4 and 5 are down here. We're
13 going to have to get --
14 MR. HSU: I did mention the octagon was a stop
15 sign, Steve. You just ignored me.
16 I did make sure it wasn't in red.
17 MR. SPEARS: But that will be a very important
18 priority down the road.
19 Drawing on partnerships we've already been in,
20 looking for new partnerships, exploring new business
21 models. And that's everything in a nutshell.
22 This, you can fold up, put in your pocket,
23 carry around with you.
24 CHAIR CAREY: "You are here"?
25 MR. SPEARS: Yes. "You are" -- on the entire

1 page.
2 CHAIR CAREY: Okay, any further questions on
3 that point?
4 *(No response)*
5 CHAIR CAREY: Before we launch into specifics,
6 I think we'll take a ten-minute break.
7 *(Recess 11:33 a.m. to 11:51 a.m.)*
8 CHAIR CAREY: Okay, we're back in session.
9 I think that we've really taken our time to
10 understand the environment in the current and some of the
11 anticipated future here.
12 And so I'm hoping we can move the presentations
13 through in a timely manner as we work through the
14 priorities, with ample time for questions from Board
15 members, obviously.
16 So with that, we'll lead off with Priority 1.
17 MR. GILBERTSON: Okay, and this should not be a
18 new topic before you at all.
19 We talked a lot about the credit ratings of the
20 Agency. You've seen a similar slide like this before.
21 Clearly, what we're hoping to do is maintain the ratings
22 at levels that work for the Agency.
23 This slide shows you the current rating levels
24 for the General Obligation rating of the Agency, as well
25 as HMRB. And then the bottom line is kind of the floor

where we start having more stress if ratings were to fall.

So how do we go about maintaining ratings?

Really, the key points in every conversation with either Standard & Poor's or Moody's is, "Tell me how that single-family loan portfolio is doing," "Tell me your loss mitigation efforts," and "Tell me how that's all going to work out." We have those conversations frequently. I had one with Moody's again just yesterday actually.

The other component is they want to understand liquidity, they want to know that we have enough cash to pay our bills as they come due and all of that.

We just covered that. Tim did an excellent job of walking you through kind of the Agency's liquidity projection.

The third item on their list would be, they look at available capital, and then they say, "How are you pledging that or committing it?" And we do it oftentimes in our Multifamily Program.

The bullet -- the third bullet here, where we talk about limiting the Multifamily lending because we don't have capital support the program, is that we don't have capital support on uninsured lending or unguaranteed lending in the Multifamily space as the Agency has done

1 for the last 15 years or so.
2 So until we have more clarity on where the
3 rating agencies end up, we feel it's best to not do that.
4 And Bob will talk about the initiatives that
5 he has in using conduit financing for the better part of
6 this business plan cycle.
7 And then the other thing to remember is that
8 we're always on guard, Tim and I, to look for things to
9 improve the capital structure, how do we get out of some
10 variable-rate debt, how do we better interact with swap
11 counterparties and make them perform better for us.
12 Clearly, we haven't issued new variable-rate debt for the
13 last two or three years, and have no plans to do that.
14 We need to stabilize the business model and the ratings.
15 And hopefully, during the life of this business plan,
16 things will work out and we'll be able to maintain the
17 ratings at sufficiently high levels for us to operate
18 going forward.
19 Questions on the Number 1 priority, kind of, of
20 the Agency?
21 CHAIR CAREY: Any questions?
22 MR. SPEARS: Did we answer the question about
23 sort of where we are with Moody's?
24 S & P has given us their decision on both HMRB
25 and the General Fund.

1 MR. GILBERTSON: Correct, back in April, early
2 part of April.
3 MR. SPEARS: We are now off CreditWatch with
4 them.
5 MR. GILBERTSON: Yes, we have our ratings.
6 They're A rating levels. They're on negative outlook.
7 We don't really anticipate any further interaction with
8 them until later this year, once we have the audited
9 financials of the Housing Finance Fund, they'll ask us to
10 update and do new cash flows and all of that, which is
11 the standard part of their ongoing rating surveillance of
12 the Agency. So that would be in November, December,
13 January kind of time frame.
14 Moody's, on the other hand, I did talk to our
15 analyst at Moody's just yesterday. They're working hard.
16 They still have not determined loss projections on the
17 single-family portfolio. It's hard for us to react to
18 anything until he shares with us some of his own numbers.
19 They're working hard on it.
20 I would expect that during the month of May,
21 we'll have some additional information from them. And
22 then once they're finished with HMRB, they'll move on and
23 finish up the General Obligation rating overview.
24 So in four to six weeks I would expect we would
25 probably get the Moody's analysis as well.

1 CHAIR CAREY: Great.
2 MR. SPEARS: All right, Priority 2, Loss
3 Mitigation.
4 I'm going to ask Chuck to come back up.
5 We've talked a great deal about where we are in
6 our portfolio.
7 You can hit the button there, Tim, and go to
8 the next slide.
9 We have approximately 4,900, almost 5,000 loans
10 that are in some form of delinquency. About 4,400 of
11 those are over 90 days. That's our backlog.
12 The loans in foreclosure, about 1,400 and,
13 again, about 1,000 REO.
14 Now, the left-hand side of this, the FHA side,
15 are claims that we're going to file with the federal
16 government through our servicers, including our own loan
17 servicing department for -- if those loans run into
18 trouble.
19 The ones that we really worry about are the
20 ones on the other side there, the 16,000 loans that are
21 conventionally insured or not insured at all. And
22 there's 80 and under loans.
23 So we continue to monitor this. This is going
24 to be the focus this year to put many more staff into
25 this process. Probably reduce the use of temporary help,

1 outside help. Use limited-term appointments in the Civil
2 Service System to bring folks in to work on this until
3 the backlog is worked out. You know, we talked about
4 that peak. And as it tails off towards the end, then
5 those terms would end.
6 But the loan-modification program that we do
7 have in place, this is without any of the Hardest Hit
8 funds so far, has been very active. And it's ramped up
9 nicely. There are 615 applications. We've approved 363,
10 but quite a few those get rejected. And some of them get
11 rejected simply because people thought we were going to
12 write their balances down, and we didn't, and so they
13 just say, "Well, then I'm leaving." And that's
14 unfortunate.
15 But the good news is that we have almost
16 170 borrowers. And I think it's a little bit over the
17 number that you see on the slide here now, that are in
18 their homes now because of a loan mod. And that's good
19 news.
20 We're going to try to improve this as much as
21 possible. I've asked the staff for some specific goals
22 about, you know, what we want this number to be as far as
23 total delinquencies by the end of the year. We want to
24 substantially reduce that by two or three thousand loans
25 by the end of the calendar year, so that we can begin to

1 show some progress.
2 If that happens, then you will see our
3 delinquency rate come down just for the simple fact that
4 we have worked off this backlog.
5 And if you go to the next couple of slides
6 there then, Tim --
7 MS. MACRI-ORTIZ: Can I just ask one question
8 on that?
9 MR. SPEARS: Yes.
10 MS. MACRI-ORTIZ: In terms of 169, are they
11 still showing in the figures here of the 16,000 and
12 14,000?
13 MR. SPEARS: They're in the --
14 MS. MACRI-ORTIZ: They're considered -- I mean,
15 are they part of this picture or have we already deducted
16 them out of there?
17 MR. SPEARS: They're in the total number, in
18 the 14,000 and 16,000.
19 MS. MACRI-ORTIZ: Yes, okay.
20 MR. SPEARS: They're no longer in the
21 delinquency category. We've pulled them out.
22 MS. MACRI-ORTIZ: Okay.
23 MR. SPEARS: I've also asked staff to follow
24 these so that we know if anybody redefaults and what the
25 performance level is. So we're going to learn a little

1 bit more about that. It's a little early, but…
2 Okay, in the next slide, I wanted to give you
3 an idea here of the trend that we're seeing. As you can
4 see, it's a little bit of a roller coaster. But over the
5 past few months, what we started to notice is that, in
6 general, I can a make a couple statements. One is in the
7 30-day category -- 30- to 60-day category, it's all over
8 the map: It's up, it's down, it's up, it's down. And we
9 believe that's because there are a lot of people in there
10 that just, they forgot to make their payment, they made
11 it one day late. And that goes and comes just with, you
12 know, life.
13 In the 60-day category, however -- and I
14 brought all of my charts just in case you wanted to see
15 more charts -- in the 60-day category, there's a very
16 steep drop-off in total delinquencies. Even in the IOP
17 and 40-year products, there's a drop-off in
18 delinquencies.
19 Now, word of warning: The IOPs are just now
20 beginning to reset, and we could see that go back up
21 again. But that's the trend that at the current time, is
22 this: We're seeing fewer loans go into that 90-plus
23 category, and that's good news.
24 The only word of warning is the last bar on the
25 right there, the March, that's not a reconciled number

1 yet. And by that, I mean, the accounting folks and all
2 the servicers haven't squared away to the penny exactly
3 whether all the right amounts of money are in the right
4 loans yet.
5 Now, the next slide shows us the -- you can
6 see how the backlog built. And, again, this is during
7 the time when we had moratoriums, this is during the time
8 when we were developing loan-mod programs, this is during
9 the time we developed a call center and moved everybody
10 across. And I will admit to you that during that time,
11 we got behind and that backlog built up.
12 So what we're starting to see now, though, is
13 we're making some headway, we're making some progress.
14 Some of that decrease is due to loan mods. Some of it's
15 due to short sales that we've done. Some of them are due
16 to foreclosures and going to REO. And I hope that is an
17 improving trend.
18 Well, let me just stop and ask if there are any
19 questions on that point. Just my point here is that
20 we're seeing a little bit of progress here, especially on
21 the backlog.
22 MS. MACRI-ORTIZ: On the loans that are going
23 to be resetting, what interest rates are they looking at?
24 MR. SPEARS: Oh, they'll be -- the interest
25 rate is fixed for these loans throughout the life of the

1 loan.
2 MS. MACRI-ORTIZ: No, I mean, on the
3 interest-only loans that are they going to reset. What
4 are they going to --
5 MR. SPEARS: What's happening is, they only
6 paid interest for the first five years. They're going to
7 pay the same interest rate, but now they're going to
8 start amortizing their loan.
9 And on average --
10 MS. MACRI-ORTIZ: So they'll be -- so their
11 total payment will go up to incorporate some principal?
12 MR. SPEARS: They'll start amortizing those
13 loans. And the average increase is about 17 percent.
14 MR. McMANUS: Correct.
15 MR. SPEARS: Increase in the payment.
16 Which we don't have a variable-rate borrowable
17 product. We just simply say, "Here's a loan product."
18 And for the first few months of this program,
19 we underwrote to the smaller interest-only payment.
20 Chuck got here and clanged an alarm bell, and we started
21 underwriting to the bigger payment.
22 So I'm more worried about the earlier loans
23 that got in this program than I am the later ones. But
24 we seem to have the same experience, no matter what, at
25 least at this point, with both loans, that that's the

1 case.
2 CHAIR CAREY: Does it change in the payment not
3 at that point which triggers people thinking?
4 MR. McMANUS: Yes, I think it's more the
5 thinking. They've been paying, and so they're in a rut
6 and they're paying; and all of a sudden, you're going to
7 pay 17 percent more. That's a big payment shock because
8 these were generally people whose housing payment was
9 probably 45 percent of their income.
10 MS. MACRI-ORTIZ: Already?
11 MR. McMANUS: Yes, already, it was about that
12 average on our underwriting ratio.
13 And so you're going to increase that. So it's
14 45 percent, and the 17 percent is the percentage increase
15 of income. But it will get them to think about it, and
16 "Do I still want to continue to pay on this house?"
17 MS. MACRI-ORTIZ: The only selling points you
18 have -- I mean, if they were resetting on the interest
19 rates, I think you'd have even a hard time keeping them.
20 But if they're resetting as well, you're paying principal
21 now. You're paying for your house. It's a little bit
22 easier to stomach.
23 MR. McMANUS: Yes, I think it's going to take
24 a very proactive loan-modification program before we can
25 bring down interest rate, possibly buy down the principal

1 to some degree, et cetera. But it will be a challenge.
2 MS. PETERS: On these loans, are they high
3 priority in the pilot of Hardest Hit?
4 MR. SPEARS: Yes. The only problem there will
5 be if they have a job, they're not an employee, they
6 don't have a hardship, they just -- if somebody comes
7 along and says, "I don't think that I can afford this
8 17 percent because I like to live the way I like to
9 live," we're not going to able to help them with a
10 Hardest Hit loan.
11 MS. MACRI-ORTIZ: But if they're already at
12 45 percent? I have read something about the goal was to
13 get people down to a certain percentage, which it was
14 like -- it was in the thirties.
15 MR. McMANUS: 31, 31.
16 MS. MACRI-ORTIZ: 31?
17 So is there a way that the overpayment that
18 they're paying for housing can be taken into that
19 equation, and be able to use that money because they
20 are so --
21 MR. McMANUS: If they have a hardship.
22 MS. MACRI-ORTIZ: I mean, that is a hardship,
23 by definition.
24 MS. PETERS: But not in that Hardest Hit fund
25 proposal, it's not defined as a hardship.

1 MR. SPEARS: No.
2 MR. McMANUS: We'll go through a waterfall in
3 evaluating what relief they need, and getting them down
4 to that percentage will be one of the considerations.
5 So as long as they have the qualifying
6 financial hardship, they'll then be put into a formula
7 that will bring them down in payments. So it does fix
8 that issue to the extent allowable by extension of term
9 interest-rate subsidy and buy-down of principal, that
10 combination.
11 CHAIR CAREY: But it doesn't address the folks
12 who just decided it wasn't worth it?
13 MR. McMANUS: Those that just walk away and
14 send the keys -- or don't even send the keys --
15 MS. MACRI-ORTIZ: Usually they don't.
16 MR. McMANUS: -- that is a challenge.
17 CHAIR CAREY: Right.
18 MR. SPEARS: Any other questions then?
19 *(No response)*
20 MR. SPEARS: All right. Then to sum up, with
21 the last slide -- thank you.
22 We're going to use Hardest Hit funds. As Di
23 told you, this is going to be operational by the end of
24 the September.
25 This second sub-bullet here, "All CalHFA

1 borrowers with a hardship shall qualify," we should
2 really qualify that word "*qualify.*" They will be
3 candidates.
4 MS. PETERS: Eligible.
5 MR. SPEARS: Eligible. Because they were, by
6 definition low- and moderate-income borrowers. If you
7 tack on that they have a hardship, they're eligible for
8 application to the program, not certain that they would
9 be able to be helped.
10 The one thing that we've tried to do in the
11 last month or so, is to find ways to have faster
12 resolution of borrower delinquencies and defaults.
13 We're going to see -- you're going to see
14 increased staffing levels in the budget proposal for
15 work-outs, loan modifications, short sales, FHA claims,
16 MI. All this is very labor-intensive.
17 Somebody told me the other day, "So we're going
18 to spend a whole bunch of money and get absolutely
19 nothing?" Well, I wouldn't say that; but I'd say that
20 we're going to spend a whole a lot of money trying to
21 mitigate losses and keep people in their homes. Those
22 are going to be the objectives.
23 So we think that loan modifications will go up
24 substantially with Hardest Hit funds. We're going to be
25 more aggressive with short-sales solutions.

1 We've put into a category, just for an example,
2 people were rejecting our loan modifications when they
3 thought that our surplus, what we considered a surplus on
4 their monthly budget, wasn't nearly enough. And what
5 we've decided is to say, all right, in a zone, we'll give
6 them the benefit of the doubt, if they disagree with our
7 loan-modification calculation and the surplus we've come
8 up with -- and I think it's $500, right?
9 MR. McMANUS: $500 is our guideline, not
10 published.
11 MR. SPEARS: Right. But if they have up to a
12 $500 calculated surplus in their monthly budget and they
13 reject the loan modification, we'll consider a short
14 sale.
15 If it's above that, then we're just going to
16 say, "Look, that's the best we can do, and that's what
17 we've got."
18 Before, it's been a gray area and wishy-washy,
19 and it just has taken too long. We're going to try to
20 clarify the guidelines and just speed up the resolution.
21 And it may result in some tough love, in some cases. But
22 we're going to try to do as much as we can to help people
23 gracefully exit if we possibly can.
24 And then finally, REO levels are going to
25 increase, as Chuck said. Those levels are going to go up

1 just because there are a lot of them that are sitting
2 there in the backlog that you saw with the steep graph.
3 And they're just going to have to get resolved some way.
4 And we don't have enough folks on board. And we're also
5 going to look at whatever we can find in the way of
6 economically beneficial outsourcing. We haven't found
7 any yet. We've been looking, but we haven't found any
8 yet, but we're going to try to get that. We're going to
9 try to go from one to two master brokers. We think that
10 will speed things up a bit.
11 Okay, any questions?
12 Yes?
13 CHAIR CAREY: Did I hear earlier that you're
14 going to have sort of a first-look program for the NSP
15 partners?
16 MR. SPEARS: Yes, yes -- well, we have one
17 drafted up, it's being reviewed by Legal. There's some
18 legal difficulties we have to overcome. But that's what
19 we're trying to go for, is to have something where we
20 can get NSP money to help us get these back out in the
21 communities.
22 These are going to be really affordable homes.
23 And, unfortunately, the homeowners that are gone, that's
24 an unfortunate story. If we could wrap this up with a
25 good story on the other end, that would be great.

1 All right, Priority 3, I'll get to -- you know,
2 why don't we bring Gary and Bob and Margaret all up at
3 the same time?
4 Really where -- if you can hit that button,
5 Gary, I'll get started while you guys are getting settled
6 in.
7 This is continuing the March discussion. We
8 talked about the products that we were developing. We've
9 continued that, and we're getting these products ready to
10 go out on the single-family side. I think Bob just told
11 me that we've really talked about the risk share with
12 Fannie Mae, the TCAC program, and the MHSA a number of
13 times to the Board. So none of these are surprising.
14 We mentioned the state income tax credit for
15 first-time home buyers, and we've already mentioned the
16 fact that these are really -- this is, in the
17 single-family side, a period of time where you're going
18 to see a very high affordability index.
19 So what I'd like for Gary to do is talk about
20 the kind of volume that we might be able to see with
21 these products that we've talked to you guys about before
22 and the down-payment assistance that we have.
23 We did get a piece of good news, by the way.
24 Department of Finance released a budget letter the other
25 day, and released some budget -- of some bond-funded

1 program money out. And that's what CHDAP is, and that's
2 what the School Facility Fee Program is. So we'll be
3 getting more money into those programs.
4 So, Gary, why don't you kind of talk about this
5 worst-case/best-case scenario? Explain that a little bit
6 first.
7 MR. BRAUNSTEIN: Okay. Thanks, Steve.
8 Hello, Board Members.
9 This slide is a consolidated-version slide of
10 what you saw already in the board package that were sent
11 to you, that provided to you a fairly comprehensive list
12 of assumptions that I drove these figures off of.
13 The worst-case scenario and best-case scenario
14 just on total first-mortgage volume, as you can see,
15 worst case, $342 million on first-mortgage volume,
16 $8 million on second-mortgage volume. That is made up
17 by our School Facility Fees and our CHDAP. And the
18 first-mortgages products will be an FHA product that
19 we talked about at the last Board meetings, and the
20 California Housing Finance Agency for Fannie Mae
21 Advantage is the Fannie Mae 100 first-mortgage product
22 that we talked about.
23 On a best-case scenario, again, the assumptions
24 of having warehouse facilities and perhaps an extension
25 of the NIBP in 2011-2012 can really dictate some of these

1 best-case scenarios.
2 2010 to 2011 we're looking at around
3 $776 million on first mortgages and $28 million on second
4 mortgages.
5 For 2011-2012, again, the assumption on having
6 a warehouse facility, some other assumptions that Bruce
7 and his group mentioned earlier today, as well as the
8 consideration of possibly Fannie Mae extending their
9 Affordable Advantage product will drive some of the
10 best-case scenarios that we have in 2011 and 2012.
11 So that would give us about $855 million in the
12 first mortgage in 2011-2012, and around $33 million in
13 second mortgages, which include our CHDAP and our
14 subordinates.
15 As Steve had mentioned, School Facility Fees
16 and CHDAP are dictated by the disbursement of available
17 funds. We do have available funds already disbursed on
18 CHDAP, and School Facility Fees is still currently in the
19 works. That's why in the worst-case scenario you see in
20 2010-2011 the zero in both years.
21 MR. SPEARS: Obviously, two big points here.
22 One is we need some warehousing facilities.
23 And we talked to Fannie Mae, a couple other partnerships
24 with private banks about that. If we can't have the
25 ability to process large loans, we're not going to be

able to get through the NIBP money.

So that brings me to the second. And we're going to do a full-court press on getting Treasury to extend that program into 2011.

If they don't, our last draw has to be mid-December of this year. That money -- those funds would carry over into the spring of 2011. But we're taking interest-rate risk on bonds. And we're going to be paying interest on those bonds and not have any loans to go with them. So I mean, we'll have invested at Smith, and that's going to be a negative arbitrage situation, so…

MR. BRAUNSTEIN: Again, the last comment, just to finish up. And we've talked about a rate-differential need that we have with availability to the bond market. In 2010-2011 we have a locked-in rate with the NIBP. 2011-2012, my worst-case scenario and best-case scenario, you know, is if our access to funds is limited, we might look at the possibility of volume against a slighter, lesser spread.

In the best-case scenario, all those assumptions are with a full spread, a full-spread assumption.

So in 2011-2012, we'll just revisit where we are and the possibility of a slighter reduction in spread

to offset some volume. We'll have a risk-versus-revenue return analysis made.

MR. SPEARS: Right. It makes the rate more competitive.

The only fear, of course, is the fear that Mr. Hudson expressed last time, that one and an eighth isn't enough to really cover the expenses, cover the anticipated losses possible down the road and everything. It's a worry, that's all.

MR. BRAUNSTEIN: Right. That's why we do a risk-revenue analysis.

MR. SPEARS: The only other thing that I want to reemphasize is that all these borrowers, every one of them, will receive education before they get one of our loans going forward.

MR. BRAUNSTEIN: And one added component on the Fannie Mae Advantage program, we are going to impose a borrower early-payment default program that the Agency hasn't had before. So that's slightly new to our lenders and understanding our culture. But we've done a high-level survey of eight of our top lenders that have done the most business with CalHFA, and they show an acceptance to us imposing an early payment default provision.

MS. MACRI-ORTIZ: How does that work?

1 MR. BRAUNSTEIN: It's structured very simply.
2 If the borrower is 120 days past due within the first
3 four months, then we would trigger an early-payment
4 default provision back to the lender to repurchase the
5 loan.
6 MS. MACRI-ORTIZ: Oh, for the lender?
7 MR. BRAUNSTEIN: Yes. Yes, yes, absolutely.
8 MS. MACRI-ORTIZ: Oh, okay.
9 MR. BRAUNSTEIN: So we'd impose -- you know,
10 the risk management that we've imposed on perhaps -- you
11 know, on the Fannie Mae product is a component that's new
12 for the Agency. The Agency hasn't had an early-payment
13 default provision buy-back to our lenders.
14 And so it's going to be a little bit of an
15 education curve for our lenders to digest this nuance to
16 the Agency. But we're certainly -- we're up for the
17 challenge, and we don't think it will be a major problem.
18 MS. MACRI-ORTIZ: And they'll also scrutinize
19 their customers a little closer.
20 MR. BRAUNSTEIN: Absolutely. It will be
21 motivation.
22 CHAIR CAREY: Good risk-sharing.
23 And just for clarification, on the warehouse
24 line, which is critical to the high volume for new Board
25 members, that's traditionally been a State Fund, right,

1 until the State's financial situation eliminated that as
2 a possibility; right?
3 MR. SPEARS: Yes.
4 CHAIR CAREY: So that's why we're having to
5 look elsewhere.
6 MR. SPEARS: Right. And this summer's
7 prospects are not --
8 MS. JACOBS: Not good.
9 MR. SPEARS: -- not good. Right.
10 So we're not a -- not going to put Katie on the
11 spot and beg and whine and plead because it wouldn't do
12 any good.
13 CHAIR CAREY: It wouldn't do any good.
14 MR. SPEARS: Any other questions?
15 MR. BRAUNSTEIN: I'd just like the Board to go
16 back to the slides that were in your board packages.
17 There's a much more detailed, in-depth review of the
18 assumptions that we're making. And I just want to make
19 sure that we're not just keying on the one piece of the
20 warehouse facility.
21 MS. MACRI-ORTIZ: Okay, I may have missed this
22 at the last meeting, but can you explain the School
23 Facility Fee money, how you use that?
24 MR. BRAUNSTEIN: It's a grant for --
25 MS. MACRI-ORTIZ: Is that for -- is that

1 available?
2 MR. BRAUNSTEIN: Yes, it's available to people
3 in the education industry --
4 MS. MACRI-ORTIZ: Oh, so it's not --
5 MR. BRAUNSTEIN: -- and it's a grant that --
6 MR. SPEARS: No, no, no, it's not --
7 MR. HUGHES: It's a statutory program.
8 MS. MACRI-ORTIZ: The School Facilities Fee
9 program?
10 MR. HUGHES: Right, it's a reimbursement of
11 school development fees.
12 CHAIR CAREY: It really goes -- it goes to the
13 buyer.
14 MS. MACRI-ORTIZ: So it basically has to be --
15 it has to be new construction?
16 CHAIR CAREY: Yes.
17 MS. MACRI-ORTIZ: Because that goes to the
18 developer --
19 MS. JACOBS: It goes to the buyer.
20 MR. HUGHES: No, it goes to the buyer.
21 CHAIR CAREY: It's support to the buyer. It,
22 in essence, helps the buyer pay the school fees.
23 MR. HUGHES: It is a statutory program that we
24 administer. It's not one we've created ourselves. The
25 program is outlined in statute.

1 MS. MACRI-ORTIZ: But the buyer -- well, I
2 guess the buyer pays the school fees through --
3 MR. SPEARS: When they buy the house. Then
4 this program reimburses --
5 MS. MACRI-ORTIZ: -- the house price.
6 MR. SPEARS: Right, right.
7 Any other questions on the single-family side?
8 *(No response)*
9 MR. SPEARS: If not, Mr. Deaner will press the
10 button magically, and we'll go to the next slide.
11 MR. DEANER: Certainly.
12 I'll make this short because we've talked about
13 this a number of times.
14 MHSA, our program we've been lending on the
15 last couple years, it's got half my staff running with
16 their hair on fire. We anticipate at least another
17 50 deals. I think we have 30 coming in in the next two
18 weeks that have to get ready for the TCAC application
19 award dates. And then with TCAC, we're -- let me back
20 up a little bit here -- we're doing the consulting role.
21 With the ARRA funds, that's going extremely
22 well. And we're anticipating anywhere from 80 to 120
23 projects that we'll work on in the next year.
24 MR. SPEARS: How many of those have we done so
25 far?

MR. DEANER: We've closed, to date -- we've got about 50 in-house and we've closed about 15. And so we have 35 in the process.

We're taking in about -- probably about ten a week right now. So my other half of the staff is running with not-too-hair-on-fire, on that program.

CHAIR CAREY: How's that working between CalHFA and TCAC?

MR. DEANER: Very well. Very well.

Actually, Bill Pavao did tell me a couple weeks ago when I talked to him, that if the board meeting would have been in Sacramento, he wanted to attend to let the board know how well our two groups, synergy-wise, are working together. Because we're doing a lot of the work from an underwriting standpoint. And then they came to us and actually said, "Hey, we don't have enough to close. Can you guys even close the loans for us?" So we're doing that for them, too.

And what that's done -- at that closing stage, we're working hand in hand with them, to get it done. And we've created a process, an executive summary to make it simplified on both sides that's going very well. Very well.

So that's going to be another at least hundred projects.

1 I think right front in-house, I have over a
2 hundred projects between the two programs that my staff
3 is working on.
4 And then the New Issuance Bond Program, we're a
5 conduit issuer only for the credit reasons that we've
6 discussed previously.
7 We anticipate that anywhere from five to 20
8 projects, depending on if they can get the credit
9 enhancements through the various sources.
10 I've really got one loan officer on that with
11 myself, and so the two of us are running that program.
12 We're hoping to put out $200 million-plus,
13 that's kind of our goal, that's the current pipeline.
14 We'd like to get the full three-forty out. But, again,
15 as a conduit issuer only, we don't have -- we're not the
16 lender, so we don't -- we can't tell if they can get
17 their credit enhancement through Fannie, Freddie, or FHA.
18 But we'll get some of that money out.
19 We're doing our first escrow break July 15th
20 for about $50 million. And we'll generate about $500,000
21 off that break for the Agency.
22 And then we've got a break schedule -- and when
23 I say "escrow break," it's break in the funds to fund the
24 project that are in the pipeline for October 15th.
25 And then December 15th will be our big date.

1 We'll probably have well over a hundred million that we'd
2 like to close in that break there.
3 So between those three programs, we're quite
4 busy.
5 And I keep arm-twisting Bruce for capital to
6 run my program and lend and hopefully --
7 MR. GILBERTSON: Thank you, Mr. Deaner.
8 MR. DEANER: Maybe he'll call "uncle" one of
9 these days.
10 MR. SPEARS: You've got to give Bob credit for
11 trying. He does keep trying.
12 MR. DEANER: Yes.
13 MR. SPEARS: I'd like for Margaret to just
14 comment briefly on all the impact of all this on her.
15 It's fairly substantial, so…
16 MS. ALVAREZ: Well, just as Bob creates new
17 business here down the line, all those loans bumped to
18 my shop. We already had a lot of loans for the amount
19 of people that we had working on it. And although we
20 haven't made any new loans in the last couple years, the
21 loans that were in the process started closing. So it
22 does -- my portfolio keeps growing.
23 And we're working very hard to keep on top of
24 that and to manage everything in a way that protects the
25 Agency and keeps the loans safe.

1 MR. SPEARS: I think we have about 500
2 properties that Margaret watches over. So if you add
3 everything on this, we'll have more along the lines of
4 650 to possibly 700 by that time.
5 So just keep that in mind when you see the
6 personnel allocations in the next agenda item in the
7 budget.
8 MS. ALVAREZ: We're not exactly making the
9 loans on all those, necessarily. But on the Mental
10 Health Services Act, for instance, we are -- the Asset
11 Management side is overseeing the capitalized operating
12 subsidy, which is the money to make the project's cash
13 flow in their operations.
14 MR. SPEARS: Any other questions?
15 *(No response)*
16 MR. SPEARS: Excellent.
17 CHAIR CAREY: Great.
18 MR. SPEARS: Well, we can -- actually, Gary or
19 Bob, can somebody stay there and press a couple of
20 buttons?
21 MR. BRAUNSTEIN: Sure.
22 MR. SPEARS: So we've consolidated Priorities 4
23 and 5, so that you can see that I think -- go ahead and
24 press that button, Gary -- we're really going to need, as
25 I said before, draw on old partnerships, look for new

1 partnerships, explore new business ideas, maybe even a
2 new role, we're not sure. We're going to really
3 concentrate on this effort over this business plan
4 period.
5 The first thing we are going to do is seek an
6 extension of the New Issue Bond Program to give Gary more
7 time to get his money out the door and Bob to get more
8 time to get his money out the door.
9 We will be using an MBS model for Gary's
10 production to limit our risk. But the Mortgage Revenue
11 Bond funding source is going to be dependent on
12 interest-rate movements, spreads, and that sort of thing.
13 So if you want to get way out there, this would
14 require legislation, but if CalHFA became a direct
15 lender, that's one idea.
16 The GSEs' role may be changed, as we talked
17 about before. So we just have a lot of exploring to do
18 over the next couple years. And it will really, again,
19 depend on how the global credit markets sort out, our
20 availability to warehouse lines of credit, and the
21 products that we can offer and be competitive with.
22 And there are many other changes coming in
23 government. We have an election year coming up. That
24 could change things as well. So we have a very
25 interesting couple of years coming up. It will be a

1 challenge. It will be a challenge.
2 I will say this: That the NCSHA, the national
3 association for housing finance agencies, has had a
4 working group on the future of HFAs. That's the title of
5 it. And we're exploring various roles going forward.
6 And I'm on the board and participating in that process,
7 too. So hopefully, those will be fruitful discussions as
8 well.
9 Let me ask if there are any questions?
10 *(No response)*
11 MR. SPEARS: If not, we'll go into the budget
12 part of this.
13 MR. HUGHES: It's an action item. It needs to
14 be passed.
15 MR. SPEARS: I'm sorry, yes, there is.
16 Mr. Chairman, the staff recommends adoption of
17 Resolution --
18 MS. OJIMA: 10-06.
19 MR. SPEARS: -- 10-06, which would adopt the
20 business plan as presented this morning to the Board.
21 MS. JACOBS: Move approval.
22 MS. MACRI-ORTIZ: Second.
23 MR. GUNNING: Second.
24 CHAIR CAREY: Okay, we have a motion and a
25 second.

1 Any further discussion?
2 *(No response)*
3 CHAIR CAREY: Roll call, please.
4 MS. PETERS: Do you want public comment?
5 CHAIR CAREY: Thank you.
6 MS. PETERS: I got your back.
7 CHAIR CAREY: If there is anyone in the public
8 wishing to comment on this matter, please indicate.
9 *(No response)*
10 CHAIR CAREY: Seeing none, we will have roll
11 call.
12 MS. OJIMA: Ms. Peters?
13 MS. PETERS: Aye.
14 MS. OJIMA: Mr. Gunning?
15 MR. GUNNING: Aye.
16 MS. OJIMA: Mr. Hunter?
17 MR. HUNTER: Aye.
18 MS. OJIMA: Ms. Jacobs?
19 MS. JACOBS: Yes.
20 MS. OJIMA: Ms. Carroll?
21 MS. CARROLL: Yes.
22 MS. OJIMA: Ms. Macri-Ortiz?
23 MS. ORTIZ: Yes.
24 MS. OJIMA: Mr. Shine?
25 MR. SHINE: Yes.

1 MS. OJIMA: Mr. Smith?
2 MR. SMITH: Yes.
3 MS. OJIMA: Mr. Carey?
4 CHAIR CAREY: Yes.
5 MS. OJIMA: Resolution 10-06 has been approved.
6 --o0o--
7 **Item 5. Discussion, recommendation, and possible action**
8 **regarding the adoption of a resolution**
9 **approving the Fiscal Year 2010/2011 CalHFA**
10 **Operating Budget**
11 ***[Resolution 10-07]***
12 MR. SPEARS: All right, as Mr. Rengstorff
13 brings up the presentation on the operating budget, I
14 hope I didn't tell you to put it under the wrong tab.
15 MS. JACOBS: You did. That's all right.
16 MR. SPEARS: I apologize. It should be under
17 Tab 5.
18 And I've asked Howard Iwata to join us for this
19 presentation.
20 Howard and Kelly Sacco work with senior staff
21 and put together the proposals.
22 My view of the operating budget is -- I mean,
23 obviously, this is not like a state-department type
24 budget where we've been given an appropriation.
25 My view of this is that these are the numbers

1 that go with the business plan that you just saw.
2 Obviously, and in most cases, this is true of any state
3 department or business operation, a large degree of the
4 expenditures are related to personnel costs. And so a
5 lot of this discussion centers around that.
6 Let's go to the first slide, Howard.
7 So the overview is that the proposed budget is
8 $48.3 million. It's not very much more than the budget
9 that was adopted last year. However, the budget adopted
10 last year had a number of assumptions in it, including
11 ramping up -- filling vacancies, and that sort of thing.
12 And instead of doing that, we actually ran with more
13 vacancies last year.
14 So the bottom line is, I think you approved a
15 budget of about forty-seven and a half million last year
16 and we spent about forty, roughly. And you can see that
17 from this chart we're coming up to.
18 So in my estimation and what I'm trying to
19 present here is, I think we ought to talk about how much
20 more we're spending than we actually spent last year, and
21 that will probably make more sense for the discussion.
22 It's 19 percent more than what Howard is projecting that
23 we will spend by the end of June 30.
24 The planning scenarios, we have two. But no
25 matter what we do next year, we're going to go after loss

1 mitigation with every effort that we can. The same
2 thing: Workouts, loan mods, short sales, REO management,
3 foreclosures. It's very, very labor-intensive.
4 In Scenario 1, we'll see a very modest amount
5 of lending. And as we said, that's going to be dependent
6 on how much we get in the way of credit lines.
7 In Scenario 2, we'll have a higher degree of
8 lending, greater success in obtaining warehouse lines of
9 credit.
10 Now, what we're going to see is that we're
11 going to be asking to be fully staffed up with all
12 311 positions that we have authorized by the Department
13 of Personnel and administration.
14 If we get to Scenario 2 and we have a very high
15 degree of success in the lending area, what that's going
16 to mean is, we're going to have to use more temporary
17 help on top of those authorized positions, because we'll
18 be doing everything in the baseline activities plus lots
19 of lending. It will be more activity than this agency
20 has seen for a very long time. And here again, it's
21 because we're trying to work off the backlog of
22 delinquent loans.
23 So let's go to the next slide.
24 Personnel services account for 64 percent. Not
25 surprised there.

1 We are operating at either 35 or 40, I can
2 never remember which --
3 MR. IWATA: About 35.
4 MR. SPEARS: -- vacancies at this point.
5 And the objective here is to fill those
6 vacancies and put them towards these efforts that we've
7 talked about.
8 We had no idea what to assume on the furlough
9 front. Furloughs are due to expire at the end of June.
10 So we took them out, and they assumed that there are no
11 furlough savings.
12 Other cost increases, strategic projects were
13 put behind last year because we shifted personnel to
14 deal with some other issues, including loss mitigation
15 efforts. We're going to return schedule, that's an
16 increase of $3 million over the last year. But we will
17 be finishing up, as we'll talk about later, some major
18 projects, including in the spring of 2011 Gary's loan
19 origination system. That will be new.
20 Then the other thing is that we get charged
21 overhead from the State of California for things they do
22 for us. And they have seen fit to increase our invoice
23 by $600,000. And I plan on protesting that vigorously
24 and will get absolutely nowhere, so…
25 MS. PETERS: Good luck with that.

1 MR. SHINE: $600,000 over what?
2 MR. SPEARS: It was -- to answer your question,
3 Mr. Shine, it was about $1.7 million last year, and it
4 will be --
5 MR. SHINE: A 33 and a third percent increase?
6 MR. SPEARS: Yes, sir.
7 Like I said, I will be protesting vigorously.
8 MS. MACRI-ORTIZ: What is that for? I mean,
9 what kinds of services do you get?
10 MR. SPEARS: Let me let Howard answer that.
11 MR. IWATA: That's for the Department of
12 Finance, the administrative costs for State Treasury --
13 MR. SPEARS: The Controller's office.
14 MR. IWATA: -- Controller's office --
15 MR. SPEARS: Processing our payroll checks.
16 MR. IWATA: -- our payroll.
17 And then so just a general overview of our
18 budget, Finance reviews it, and then puts it and
19 publishes it.
20 And then throughout the State, now they're
21 going to this new fiscal program which really we're not
22 part of. But sometimes they --
23 MS. MACRI-ORTIZ: But you've got to pay for it?
24 MR. IWATA: Sometimes, yes.
25 MR. SPEARS: We get a bill.

1 MR. SHINE: Without an editorial, it sounds
2 like a lot.
3 MR. SPEARS: Understood.
4 I mean, to pay our bills, which go through the
5 normal process, it involves the Department of Finance,
6 the Controller's office, and the Treasurer's office
7 because it's a warrant system, that warrants are drawn by
8 the Controller's office and presented to banks, and the
9 Treasurer's office takes care of that. So it involves
10 everybody.
11 MS. CARROLL: I would say, however, the
12 Treasurer's office has had budget cuts, just so you know.
13 MR. SPEARS: Maybe it's time to move to the
14 next slide.
15 We do have some -- we need to back up one.
16 We do have some cost reductions. Most of them
17 relate to the lease on the new building. We're getting
18 ten months of free rent. It's a cheaper rate overall.
19 But we also have some reductions in general expense and
20 travel, consulting, professional, there's I.T. equipment
21 costs. We just tried to find little savings in every
22 place that we can.
23 But the -- let's go to the next slide and just
24 take a summary of everything -- which you can't see.
25 You're going to have to refer to your -- I tried to back

1 this little table up here as far as I could.
2 But you can see again, what we've done is,
3 in the top right-hand corner for personnel services, for
4 salary and wages, that $22.5 million is for 311
5 positions.
6 I asked Howard to go back -- and we were going
7 to just present that total number, but I'd doubt it if
8 Howard could get 35 people hired in the civil service
9 system between now and July the 1st. And he doubted
10 that. And we would have some vacancies. So we
11 programmed in a million dollars off that just because
12 you're going to take a while to staff up and everything.
13 We're going to use less temporary help. You
14 can see a little more in the "overtime" category.
15 And again, we're going to use some limited-term
16 positions. In the civil service system, you have
17 full-time permanent and you can have full-time limited
18 term. And so what we're thinking about doing is bringing
19 folks on to help with the backlog. And once the work
20 goes away, then the terms expire, and that's the current
21 plan.
22 The one thing I want to point out is down at
23 the bottom there's a new item for the Hardest Hit funds.
24 Part of the Hardest Hit funds are going to be paid for
25 out of the nonprofit organization that Treasuries has

1 required us to set up to receive the money. For
2 consultants and that sort of thing, we can pay for it out
3 of Treasury funds. But for a lot of the things -- Di's
4 time, employee time that have to be in the civil service
5 system, we'll get reimbursed with Treasury funds from
6 that.
7 And so we anticipate that this year, that will
8 be about a million dollars. 985,000. I think that might
9 be a little low, but that's our best estimate at this
10 point.
11 Here again, we don't really know what the
12 program looks like because Treasury hasn't approved it
13 yet, but that's an estimate of that.
14 Any questions so far?
15 *(No response)*
16 MR. SPEARS: Well, let's go to the next slide.
17 We already talked about this. Most of these
18 hires are going to be for -- in fact, if you'll just go
19 to the next slide and go to the next page in your
20 binders, you'll see where the hires are, really.
21 In Fiscal Services, there are seven more people
22 there. And that's back-office operations for a lot of
23 what Chuck does, REO management in loss mitigation.
24 In Loan Servicing, 12 more people there to help
25 Rhonda to take care of the backlog there.

1 Over on Homeownership, because we're going to
2 have lending, we're going to bring people back in there
3 that have been reassigned, and we're going to have more
4 people there to do the lending we planned.
5 But in Portfolio Management, that's Chuck's REO
6 management group, there are six more people there.
7 And then finally, in Margaret's group, because
8 we need to staff up for her, she's been operating
9 shorthanded for a while, on the far right, that's four
10 positions there.
11 So if you add up the numbers on top of all the
12 yellow -- light-yellow boxes, that all adds up to 311.
13 I tested it out with the trusty HP-12c, right here, and
14 those are all the positions that the Department of
15 Personnel Administration has authorized us to run.
16 I don't anticipate running at that once we get
17 the backlog worked off. But over the next two years,
18 that's Priority 2.
19 Any questions on that?
20 *(No response)*
21 MR. SPEARS: If not, let's take a look at the
22 next slide.
23 Again, we were not going to try to guess at
24 what happens on the furlough side of things. They end on
25 June 30. There are State budget considerations, I

1 understand that.
2 I have an appointment with the DPA director to
3 ask about how this is all going to work out, because
4 you'll be adopting a budget today. They're not going to
5 be adopting a budget at the State for a very long time.
6 In the meantime, we will be operating on this budget.
7 Now, here's one thing. There is a lot of
8 litigation right now about the furloughs. We are the
9 subject of that. I am, according to Mr. Hughes, the most
10 sued executive director ever of CalHFA.
11 MS. PETERS: And you've only been on the job a
12 week and a half.
13 MR. SPEARS: So I'm just rolling up the whole
14 last year, the current resumé.
15 The remedies in these cases are back pay. If
16 a back-pay remedy for that litigation were to occur in
17 the next budget, it is not in this budget. And the
18 number is $4.5 million. It was about $3.5 million or so
19 for the fiscal year last year.
20 But remember, furloughs started in February.
21 So if you add all that up, plus interest, would be the
22 remedy that we would pay if that's the result of the
23 litigation.
24 Now, personally -- I've consulted with our
25 general counsel and others, and we don't think that the

1 litigation will be resolved within the next year or so --
2 within the next two years.
3 It's got to go to the appellate court. It's
4 got to go to the Supreme Court probably, so… But I think
5 it's a long time coming. But I need for you to have this
6 number in the back of your heads because it's a
7 possibility, just so you know.
8 We do have some extra training costs budgeted
9 in to train new hires. A lot of these folks -- you saw
10 we're going to hire 12 people in Loan Servicing --
11 they've got to know -- they've got to get to know our
12 loan-servicing system, our methodologies, our mission.
13 And that's going to take a little while.
14 We have talked before at this board about
15 outsourcing rather than doing these new hires, and these
16 were the considerations. We're always exploring ways to
17 save costs. We are exploring proposals, and we've
18 received a number of proposals, to do what we do with an
19 outside contractor.
20 I haven't seen one yet that has been really
21 economically beneficial, but I will keep looking.
22 There are some mission considerations. I'm not
23 certain that I want to just outsource loan modifications.
24 I don't think they have the same idea that we do about
25 our mission.

And the other is, it's a bargaining issue. Unless you're hiring technical expertise that we don't hire inside or it exceeds all abilities to fill these positions, it becomes an issue at the bargaining table.

There is also an issue, with increasing retirements, increasing our salary, we will be increasing retirement costs down the road.

I will remind you that I think it was at the January 2009 Board meeting -- remember, there was an issue about the budget and fixing it in the middle because we got a new rate in the middle of the year from the Department of Finance?

I'm sorry, poor Fred, we're talking about him and he's not here.

That rate, I think, stays the same for this next year.

Is that right, Howard?

MR. IWATA: *(Nodding head.)*

MR. SPEARS: So that's not going to change; but the base, the calculation base will go up, so that will cost a little bit more.

Any questions about those before we go to the strategic projects?

(No response)

MR. SPEARS: Let's go to the next slide,

1 Howard.
2 I'm not saying we're to the end of the
3 strategic project, but we're getting through a lot of
4 major projects.
5 We finished a very big phase of the Fiscal
6 Services system and took our accounting system off an
7 old, decrepit platform that was giving us a huge number
8 of problems. I know Lori is happy about this.
9 The next phase of that, though, is to get new
10 accounting software that's Windows-based, and that will
11 give us not only faster process and more timely
12 information, but better information. A way to get the
13 kind of management information that I think that we need
14 going forward. And so we're going to move right into the
15 next phase of that, and we'll show you the cost of that.
16 But the Homeownership Division's loan
17 automation system, we're spending a lot of money on that
18 this year and next year. But it's going to be done and
19 implemented next spring, a year from now. So we think
20 this will be a very big thing.
21 The document management is a shorthand way of
22 saying -- or a longhand way of saying, we're trying to go
23 as paperless as we can. Save money. And document costs
24 in storage fees, not to mention the green aspect of this.
25 So the debt-management tool is already

1 finished. That's done. We've spent a lot of money on
2 that this year, not relative to some of the other bigger
3 systems.
4 And then the Sacramento office consolidation
5 will be done. We'll give you a quick update on that.
6 But I signed a lease yesterday. It's going to start
7 October the 1st. So that should be all taken care of.
8 One of the things that we just can't estimate
9 is the efficiencies that we're going to get by being from
10 one floor to the other, as opposed to down the street and
11 scattered all over the Senator Building.
12 I know this, that Rhonda Barrow tells me that
13 within two weeks' time, with everybody on one floor,
14 right in front of her and with the hiring and the
15 management area that we've given her, in, I'll say less
16 than a month's time, she was already beginning to hit
17 due dates that she had not hit before, and was able to
18 let temporary help go because she was getting caught up.
19 It happened that fast.
20 So I think there are real benefits though I
21 haven't tried to quantify it. I just don't know how to
22 do that. But I think that's a great -- that will be a
23 great benefit of being all together in the same building.
24 So the last slide, I think, almost, is these
25 are the costs.

1 I've put this up every year for, like, three
2 or four years now. Just to let you know, this is
3 substantial investment in the future of the Agency. The
4 Fiscal Services system is going to spend a lot of money
5 in '11-12 trying to finish this up and get this new
6 software on board.
7 And you'll see the costs go away for
8 Homeownership. Multifamily is done. Document management
9 is done. Debt management is done. Business continuity
10 management, all done. And then we'll get the new
11 building done in '10-11.
12 So that's a substantial investment, I realize;
13 but I think it's very, very important to the future of
14 the Agency.
15 So in summary, before I ask for another
16 resolution, these budget increases represent the need to
17 increase efforts, keep borrowers in their homes, and to
18 meet loss-mitigation challenges. The strategic projects,
19 as we just said, represent investment in the long-term
20 viability of the Agency.
21 So, Mr. Chairman, with that, I'll entertain any
22 questions. But if there are none, staff recommends that
23 the Board approve Resolution 10-07.
24 MR. SHINE: I'll move.
25 MS. JACOBS: I'll second it.

1 I do have a comment. I think that you did a
2 great job with this budget. It's got some diet pills in
3 it as well as expansion, so that's great.
4 And I would assume that should the State budget
5 have an impact on this budget, you will bring a revised
6 budget back to the Board.
7 MR. SPEARS: Yes, we will.
8 MS. JACOBS: Okay.
9 CHAIR CAREY: Further comments? Questions?
10 MS. MACRI-ORTIZ: I just have a question in
11 terms of your temporary and…
12 Does the State have a pool where you can draw
13 temporary workers? Or how do you get temporary workers?
14 MR. SPEARS: Normally, from an outside temp
15 agency. And what we've used them for have been in the
16 technical areas of loan servicing, which the State
17 doesn't have anything like that.
18 To my knowledge -- correct me if I'm wrong,
19 Howard -- there is not a place where we can just go and
20 hire somebody from the State for temporary.
21 If you get an employee -- and what I'm getting
22 to is, there are developing pools of employees that have
23 been laid off from other State -- they call them
24 "surplus list/SROA list." But those are employees that
25 are looking for permanent employment places. It's not a

1 temporary temp pool. So we get them from outside
2 agencies. But the main reason we go to those agencies is
3 because they have expertise that we need.
4 MR. IWATA: What we did this year was, in order
5 to hire people on to the State service, they need to have
6 a civil service exam. And a lot of the workload that was
7 happening this fiscal year, we didn't have the
8 appropriate exams in place. So to make a quick fix for
9 our workload, we hired outside temps. And then we have a
10 temporary help budget that we stay within.
11 And then with that, as we hold the exams and
12 have people eligible to be coming into the State, we can
13 hire them either as limited-term, on a one-year term,
14 based on the workload; and then they would get some of
15 the civil-service status.
16 And then if the workload continues, we can
17 extend it for another year or make it perm, if we want
18 to.
19 So what we're trying to do is use the exam
20 process. In that way, we're training the employees to
21 the civil-service process. And then with CalHFA, then
22 if they turn out to be good workers or we have additional
23 workload, we can make them permanent.
24 Right now, with temps, we can't make them
25 permanent. Once they're there, and then we have to let

1 them go.
2 CHAIR CAREY: Other questions? Comments?
3 Yes?
4 MS. JACOBS: I'd just like to make a quick
5 comment.
6 One of the sources that we use for temporary
7 help is, there's a pool of retired annuitants, and that's
8 a good way to get experienced people that are temporary,
9 if you can use them 50 percent time.
10 MR. SPEARS: There are several "retired" CalHFA
11 employees who have come back to help out.
12 They have been very helpful, because they have
13 the institutional knowledge.
14 MS. JACOBS: That's fabulous.
15 MR. SPEARS: Jeannie Stribling is one. There
16 are some others, and they've just been really helpful.
17 CHAIR CAREY: Even some retired HCD employees.
18 MR. SPEARS: Yes. That's right, Rich Friedman.
19 CHAIR CAREY: Any further questions for the
20 Board?
21 *(No response)*
22 CHAIR CAREY: We would now, if there's any
23 public comment on this action item, we would hear that at
24 this point.
25 *(No response)*

1 CHAIR CAREY: Seeing none, we'll take a roll
2 call.
3 MS. OJIMA: Ms. Peters?
4 MS. PETERS: Yes.
5 MS. OJIMA: Mr. Gunning?
6 MR. GUNNING: Yes.
7 MS. OJIMA: Mr. Hunter?
8 MR. HUNTER: Yes.
9 MS. OJIMA: Ms. Jacobs?
10 MS. JACOBS: Yes.
11 MS. OJIMA: Ms. Carroll?
12 MS. CARROLL: Yes.
13 MS. OJIMA: Ms. Macri-Ortiz?
14 MS. MACRI-ORTIZ: Yes.
15 MS. OJIMA: Mr. Shine?
16 MR. SHINE: Yes.
17 MS. OJIMA: Mr. Smith?
18 MR. SMITH: Yes.
19 MS. OJIMA: Mr. Carey?
20 CHAIR CAREY: Yes.
21 MS. OJIMA: Resolution 10-07 has been approved.
22 CHAIR CAREY: Great.
23 --o0o--
24 **Item 6. Report on the Sacramento office consolidation**
25 CHAIR CAREY: Next up, the report on the

1 Sacramento office consolidation. Done deal.
2 MR. SPEARS: I guess we've mentioned this a
3 couple times. The details of the lease got worked out
4 in the last week. I can report that it's signed.
5 We moved the date a bit. One of the problems
6 is a practical problem. The final fire marshal sign-off
7 is right in the middle of fire season. And you have to
8 have the city and the state fire marshal sign off because
9 it's a state lease. And the state fire marshal won't
10 guarantee that, you know, they will be available.
11 So it is just a little bit of a glitch. That,
12 plus we really pushed their construction schedule. We
13 moved from September 1 to October 1. But the building
14 owner, as a matter of pride, is going to do everything
15 they can to get us in by September 1st, which, of course,
16 will start the running of the free rent, but that will be
17 good.
18 So we've already started a communication plan
19 with employees, where we put up a Web site section on the
20 building.
21 We have worked out floor plans -- I'll tell you
22 this: With 311 employees, it's going to be a very tight
23 fit. And some of these employees -- obviously, some of
24 them are already across in West Sac in the Loan Servicing
25 area. We'll probably have to put some of those

1 limited-terms and hires in that space over there just
2 to make things fit.
3 It's a long-term lease. It's a 13-year-and-
4 something-month lease. And, obviously, we don't
5 anticipate having this backlog and delinquencies for
6 13 years. It's just not going to happen, so…
7 MS. MACRI-ORTIZ: There isn't going to be any
8 growth, either; huh?
9 MR. SPEARS: Well, we have the ability to
10 increase that space in the first years, and we also have
11 the ability to give up space in the first few years. So
12 we left ourselves --
13 MS. MACRI-ORTIZ: Open?
14 MR. SPEARS: -- open.
15 I don't want to use the word "hedge," really.
16 MS. JACOBS: Mr. Chair, I have to excuse
17 myself. I have to speak at another board meeting.
18 CHAIR CAREY: Thank you very much.
19 I might mention that some of us have the
20 opportunity to join Ms. Jacobs tomorrow when she is
21 honored at the California Housing Consortium.
22 MS. JACOBS: Thank you.
23 *(Applause)*
24 MS. PETERS: Mr. Chair, I have to excuse myself
25 for a conference call.

CHAIR CAREY: Okay, well, let's move through the rest of the agenda then.

MS. PETERS: With the Governor's office.

CHAIR CAREY: Check on that warehouse line, would you?

MR. SPEARS: I did want to say this -- and before Lynn leaves the room -- the Chair asked for a memo on the Agency's prepayment policy. It's in the materials. I just want everybody to -- duly note it.

We do have a pilot program that we're putting in place. So on the report section, I just did want to mention that.

MS. JACOBS: Okay.

(Ms. Jacobs and Ms. Peters left the meeting room for the day.)

--o0o--

Item 7. Reports

CHAIR CAREY: Are there items which you want to refer to specifically in the reports or --

MR. SPEARS: Many of these reports are standard.

Bruce, I'm not sure if you want to mention any particular items on the report section.

MR. GILBERTSON: I can respond to any questions. There's four reports in there.

1 MR. SPEARS: Right.
2 CHAIR CAREY: Are there any questions on any --
3 is there anything we should know specifically about that?
4 MR. GILBERTSON: Well, let me just go through a
5 couple of items.
6 There are two things, clearly, that you have
7 heard about and the reports have happened now, so we
8 wrote reports.
9 One was the Citi loan sale. Tim mentioned that
10 earlier. So we took just short of $100 million of
11 multifamily loans, and effectively refinanced them with
12 loans from Citibank. They need this for CRA credit. It
13 works for us. It monetized assets. That was a good
14 thing.
15 The other thing is we took some of our FHA
16 single-family loans. First, we securitized them, created
17 Ginnie Mae securities, and then we were able to go to
18 the marketplace and sell those for a premium. So we
19 sold them for 1.05 or 1.04 on average. So we made a
20 four-point premium.
21 We're in the process of utilizing that for a
22 variety of purposes, including debt reduction. And there
23 are some strategies whereby we may be able to actually
24 buy back some of our bonds at a discount.
25 So we sold at a premium, buy back debt at a

discount. It's a win-win all the way around. We'll report to the Board on that once we get through the end of that. That's something that will happen in June or July.

CHAIR CAREY: Good.

MS. MACRI-ORTIZ: I have just one question on this, the securitization, that's the one you're dealing with.

What's a buy-down loan? It says you can't contain any buy-down loans.

MR. GILBERTSON: See, those are programs where builders provide buy-down capital, so the borrower gets a rate reduction over time. So there's buy-downs embedded in it. And the servicer holds them, and apply a portion of that to reduce the interest rate for the borrower for a period of time.

CHAIR CAREY: Other questions? Comments?

(No response)

CHAIR CAREY: Thanks, Bruce.

MR. GILBERTSON: Uh-huh.

--o0o--

Item 8. Discussion of other Board matters

CHAIR CAREY: Other items?

(No response)

CHAIR CAREY: Seeing none, with that, we will

take a moment for public testimony.

--o0o--

Item 9. Public Testimony

CHAIR CAREY: If there's anyone in the audience who would like to address the Board on any general matters, feel free to step forward.

(No response)

CHAIR CAREY: Seeing none, we are adjourned.

(Gavel sounded.)

(The meeting concluded at 12:58 p.m.)

--o0o--

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 day of May 2010.

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

State of California

M E M O R A N D U M

To Board of Directors **Date:** July 13, 2010

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

Subject: ITEM 4a – Hardest Hit Fund Program

On June 23, 2010, the United States Treasury approved CalHFA MAC's Hardest Hit Fund Proposal. President Obama established the Hardest Hit Fund in February 2010 to provide aid to families in the states hit hardest by the housing market downturn. The states approved to receive aid as part of the first round of funding each experienced a 20 percent or greater decline in average home prices as well as high protracted unemployment.

Following are brief summaries of the programs CalHFA MAC will implement under the **Keep Your Home** Program.

Unemployment Mortgage Assistance (UMA) – Intended to assist homeowners who have experienced involuntary job loss. CalHFA will provide temporary financial assistance in the form of a mortgage payment subsidy of varying size and term to unemployed homeowners who wish to remain in their homes but are in imminent danger of foreclosure due to short-term financial problems. These funds could provide up to six months of benefits with a monthly benefit of up to $1,500 or 50% of the existing total monthly mortgage, whichever is less.

Mortgage Reinstatement Assistance Program (MRAP) – Intended to assist homeowners who have fallen behind on their mortgage payments. CalHFA will provide limited financial assistance in the form of funds to reinstate mortgage loans that are in arrears in order to prevent potential foreclosures. These funds will provide benefits of up to $15,000 per household or 50% of the past due amount, whichever is less, with a required dollar-for-dollar contribution match from the lender, servicer, insurer and/or borrower.

Principal Reduction Program (PRP) – Intended to assist homeowners who have severe negative equity. CalHFA will provide capital on a matching basis with participating financial institutions to reduce outstanding principal balances of qualifying borrowers with negative equity. Principal balances will be reduced to market levels needed to prevent avoidable foreclosures and promote sustainable homeownership. The principal reduction program should most likely be a prelude to loan modification.

Transition Assistance Program (TAP) – Intended to promote community stabilization by providing homeowners with relocation assistance when it is determined that they can no longer afford their home. CalHFA's transition assistance will be used in conjunction with servicer/investor short sale and deed-in-lieu of foreclosure programs in order to help borrowers transition into stable and affordable housing. Borrowers will be responsible to occupy and maintain the property until the home is sold or returned to the lender as negotiated. Funds will be available on a one-time only basis.

General borrower and property eligibility criteria for California's programs include low and moderate income limitations, owner-occupied residences only, loan balance limited to no more than $729,750, loan origination date no later than January 1, 2009, and a documented financial hardship. In most cases, the borrower will also be required to prove that they have adequate income to sustain the new modified mortgage payment.

The CalHFA MAC team will spend the next 120 days building the infrastructure, systems, and processes required to support these four unique foreclosure prevention programs. CalHFA is sensitive to the unintentional stress factors experienced by homeowners, servicers and counseling agencies that will be impacted by these programs. Because it is our goal to avoid or minimize these effects to the best of our ability, we will use CalHFA's low and moderate income first-time homebuyer portfolio to test loans in conjunction with each of the Keep Your Home Programs. In addition, CalHFA will make every effort to include an external servicer actively participating in HAMP in this "pilot" program. Pilot program launch is scheduled for October 2010 with full statewide roll out occurring no later than November 1, 2010. Other critical activities that must be accomplished prior to statewide launch include counselor, lender, and servicer enrollment and training, marketing and outreach program development including program material creation and dissemination, hiring and training resources for the centralized processing center, successful completion of Treasury's required Readiness Assessment, establishing internal and external cash advance and accounting procedures, underwriting and financial review, and fraud, risk and quality control practices and comprehensive performance and reporting mechanisms.

In addition to the core Keep Your Home programs, and in response to Treasury's request for innovative approaches, CalHFA MAC established a local innovation fund Request For Proposal (RFP) to further encourage a variety of alternatives to foreclosure prevention from local governments, housing counseling agencies, financial advisors and the general public. Proposal responses are due to CalHFA on July 30, 2010. Treasury approval and final selection is scheduled for late September 2010. Innovative program launch will occur based on projected dates as provided by RFP responses.

CalHFA
Unemployment, Housing Price Decline and Mortgage Loan Delinquency Data – By California Counties

	Unemployment		Housing Decline	Delinquent Loans		
County	Rate by County	Unemployment Ratio	Price Decline	Delinquent Loans	Pct. Delinquent	Delinquency Ratio
Alameda	11.5%	0.92	-42.7%	16,663	11.0%	0.77
Alpine	11.6%	0.93	-24.5%	17	5.6%	0.39
Amador	14.1%	1.13	-45.7%	525	11.9%	0.84
Butte	14.9%	1.19	-27.5%	1,981	10.3%	0.72
Calaveras	16.8%	1.34	-44.2%	839	12.0%	0.84
Colusa	27.6%	2.21	-55.8%	302	16.2%	1.14
Contra Costa	11.7%	0.94	-56.1%	17,716	13.6%	0.95
Del Norte	13.6%	1.09	25.9%	132	8.0%	0.56
El Dorado	13.2%	1.06	-35.7%	2,945	11.3%	0.79
Fresno	18.5%	1.48	-46.7%	13,233	16.1%	1.13
Glenn	18.2%	1.46	-39.1%	293	15.1%	1.06
Humboldt	12.2%	0.98	-18.0%	809	6.7%	0.47
Imperial	27.2%	2.18	-55.2%	2,611	22.7%	1.59
Inyo	10.4%	0.83	-20.4%	75	6.0%	0.42
Kern	17.4%	1.39	-53.0%	14,865	19.9%	1.40
Kings	18.2%	1.46	-39.6%	1,622	15.7%	1.10
Lake	19.3%	1.54	-49.2%	839	14.6%	1.02
Lassen	16.8%	1.34	-17.8%	358	11.4%	0.80
Los Angeles	12.3%	0.98	-37.9%	117,557	14.8%	1.04
Madera	16.6%	1.33	-56.2%	2,513	19.0%	1.33
Marin	8.4%	0.67	-22.0%	1,526	4.7%	0.33
Mariposa	14.5%	1.16	-33.1%	147	9.7%	0.68
Mendocino	12.5%	1.00	-37.5%	612	9.4%	0.66
Merced	22.1%	1.77	-69.4%	5,273	22.6%	1.59
Modoc	17.6%	1.41	-16.7%	46	8.6%	0.60
Mono	7.8%	0.62	-31.4%	261	7.3%	0.51
Monterey	17.7%	1.42	-65.0%	5,472	16.0%	1.12
Napa	10.4%	0.83	-41.7%	1,667	10.8%	0.76
Nevada	11.9%	0.95	-29.5%	1,158	8.0%	0.56
Orange	9.7%	0.78	-34.1%	30,625	10.7%	0.75
Placer	11.6%	0.93	-34.9%	6,162	12.7%	0.89
Plumas	22.8%	1.82	-31.6%	230	9.4%	0.66
Riverside	14.9%	1.19	-54.9%	49,302	22.2%	1.56
Sacramento	12.9%	1.03	-51.9%	26,875	16.6%	1.17
San Benito	22.1%	1.77	-57.3%	1,019	18.5%	1.30
San Bernardino	14.4%	1.15	-59.2%	45,203	22.0%	1.54
San Diego	10.6%	0.85	-38.0%	36,493	12.3%	0.86
San Francisco	9.9%	0.79	-14.8%	2,726	4.3%	0.30

San Joaquin	18.4%	1.47	-63.7%	14,757	21.4%	1.50
San Luis Obispo	10.2%	0.82	-31.6%	2,362	8.0%	0.56
San Mateo	9.4%	0.75	-23.5%	5,009	6.4%	0.45
Santa Barbara	9.9%	0.79	-44.9%	3,954	10.9%	0.77
Santa Clara	11.7%	0.94	-32.4%	16,459	8.9%	0.62
Santa Cruz	15.3%	1.22	-40.4%	2,609	8.8%	0.62
Shasta	17.7%	1.42	-31.4%	2,292	12.2%	0.86
Sierra	18.7%	1.50	-30.1%	33	9.6%	0.67
Siskiyou	19.4%	1.55	-23.1%	359	8.8%	0.62
Solano	12.7%	1.02	-57.6%	8,035	17.2%	1.21
Sonoma	11.0%	0.88	-43.1%	5,291	9.9%	0.69
Stanislaus	19.1%	1.53	-63.4%	11,023	20.1%	1.41
Sutter	22.4%	1.79	-48.1%	1,663	16.8%	1.18
Tehama	17.0%	1.36	-41.3%	671	15.2%	1.07
Trinity	22.3%	1.78	-17.1%	81	9.1%	0.64
Tulare	18.7%	1.50	-43.1%	6,433	17.3%	1.21
Tuolumne	15.0%	1.20	-33.8%	591	9.1%	0.64
Ventura	11.1%	0.89	-40.7%	11,053	12.0%	0.84
Yolo	14.6%	1.17	-39.9%	2,252	12.0%	0.84
Yuba	20.3%	1.62	-51.7%	1,559	21.6%	1.52

Unemployment Rates: Unemployment statistics were provided by the California Employment Development Department website. Data is through February 2010.

Housing Price Decline: Housing Decline statistics provided by third party vendor DataQuick. The period selected illustrates the peak decline for California based on the change (decline) in home sales price for each county from 2006 to 2009.

Delinquent Loans: Delinquent loan statistics, as of January 2010, provided by Federal Reserve Bank of New York from a data base of approximately 31.5 million active mortgage loans across the U.S. This database includes mortgages from 9 of the top 10 mortgage servicers and represents approximately 50-70% of the number of mortgages in the U.S. The database segment utilized in the chart is limited to California. The Federal Reserve Bank believes the percentages in its database are likely indicative of market conditions. Data are calculated based on first-liens only for single and 2-4 family residences, condos, and cooperatives. Active loans include loans with current, delinquent or foreclosure status (excluding REOs).

Weighted Ratios:
Unemployment Ratio is defined as the county's unemployment rate as compared the State of California's overall unemployment rate which was 12.5% as of February 2010.

Delinquent Ratio is defined as the county's delinquent loan percent as compared to the State of California's overall delinquent loan percent which was 14.5% as of January 2010.

A ratio of 1.00 indicates the county is experiencing the same level of decline experienced overall by the state of California. A ratio greater than 1.00 indicates the county is experiencing a higher level of decline and a ratio less than 1.00 indicates the county is experiencing a lower level of decline as experienced overall by the state of California respectively.

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State of California

M E M O R A N D U M

To Board of Directors **Date:** July 13, 2010

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

Subject: ITEM 4b – Report on the Implementation of the New Issue Bond Program

In January 2010 staff reported to the Board that the Agency had issued more than $1 billion of single family bonds and $380 million of multifamily bonds as part of the HFA Initiative sponsored by the US Treasury Department, Fannie Mae and Freddie Mac. The nearly $1.4 billion of bonds were settled on January 12, 2010 and are held in escrow by US Bank, CalHFA's bond trustee. The New Issue Bond Program (NIBP) was designed to provide a temporary market to allow state and local housing finance agencies to issue bonds to finance new lending programs for homeownership and rental housing development.

Under the NIBP, proceeds of the Program Bonds are available for release from the escrow accounts established under both the single family and multifamily bond indentures up to three times during calendar year 2010. Upon release from escrow, the Program Bonds will bear an interest rate of 3.29%, the 10-year treasury rate at the time, plus a spread of between 60 -75 basis points based on the long term rating of the underlying bonds. CalHFA, like most other HFA's, elected to lock in the Program Bond interest rate in December 2009 assuming that interest rates would rise during the year. Unfortunately interest rates have fallen, especially over the last two months, and the 10-year treasury bond is now yielding less than 3%, and mortgage interest rates have fallen to 50 year lows of around 4.5%.

Program staff has made very good progress in developing new lending platforms and loan products during the year. The Homeownership staff plans to announce several new loan products over the next few months with the initial announcement scheduled later this week. All of the homeownership loan production will be pooled into mortgage-backed securities and those securities will be purchased with proceeds of bonds issued as part of the NIBP. The Multifamily program staff has received loan applications totaling more than $68 million from developers and assembled an additional pipeline of potential borrowers of almost $120 million. Loan eligibility parameters under the NIBP will limit the Agency's involvement in these rental housing developments. Current plans are to release bonds from escrow under the NIBP to finance these developments on a conduit basis. As a conduit issuer the Agency will not be the lender as it has been in the past but instead will provide tax-exempt bond proceeds to other lenders. The first of these conduit transactions is scheduled to close in early August.

Last month the National Council of State Housing Agencies coordinated a conference call with member state housing agencies and representatives from the US Treasury Department to discuss the status of the NIBP including program concerns and suggestions. CalHFA and a number of other state housing finance agencies advocated for three changes to the NIBP: 1) extending the expiration date for escrow releases under the program beyond December 31, 2010, 2) allowing housing finance agencies to relock the NIBP interest rates based on current 10-year treasury bond yields, and 3) to allow housing agencies more than three escrow release dates. US Treasury representatives on the call indicated that the Treasury Department was favorably disposed to all three suggestions with some limitations. For example, while Treasury may extend the expiration date for use of the NIBP proceeds, an HFA may not be able to carry forward all of their original NIBP allocation. An update from Treasury on these suggested changes is anticipated sometime during July; it is our current understanding that the proposed changes have been submitted to Treasury lawyers for review.

State of California

M E M O R A N D U M

To: **CalHFA Board of Directors** **Date:** July 7, 2010

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

Subject: Agenda Items 5a and 5b

Proposition 63 – Mental Health Services Act Housing Program (MHSA Housing Program)

The Mental Health Services Act Housing Program was created under the Governor's Executive Order S-07-06. It created a partnership between CalHFA, the Department of Mental Health and the California Mental Health Directors Association, in consultation with the Department of Housing and Community Development and the State Treasurer as well as other stakeholders, to fund $400 million of housing units. The $400 million plan also includes dollars available for operational services. The Mental Health Services Act funds are used for development, acquisition, construction and/or rehabilitation of permanent supportive housing for individuals with mental illness and their families, including homeless individuals and their families. About a third of the total dollars will go into operating subsidies for the projects. The remaining two thirds will be utilized for capital dollars for the projects. The Program's anticipated implementation date was November 2007. However, due to delays beyond CalHFA's control, MHSA approved its first loans at the beginning of fiscal year 2008/2009.

The Program has been a huge success with 25 projects closed to date, another 56 committed to close and 13 applications received. A total of 46 counties have allocated money. More than 1,350 units will have been created of the $216 million requested for capital and services dollars to date.

Tax Credit Assistance Program

Under the American Recovery and Reinvestment Act of 2009 ("ARRA"), the ARRA Program provides grant funding for capital investment in Low Income Housing Tax Credit projects via a formula-based allocation to State housing credit allocation agencies ("TCAC"). Multifamily is working as a consultant to TCAC on projects that have been awarded ARRA funds. ARRA projects are eligible for funds under three programs: Gap funding, where the investor remains in place, but there is money still needed for the project to have sufficient cash for construction; Cash-in-lieu funding for projects without an investor and HCD Backfill for projects with commitments that have not been funded by PMIB. CalHFA consulting role is to review the loan underwriting that was included in the original ARRA application, to complete loan documents for TCACs review and signature, send the completed, executed escrow package to the title company, and to review and recommend disbursements during construction and rehabilitation. Also CalHFA provides completed ARRA files to TCAC after the final disbursement has been approved by TCAC.

Currently CalHFA has assisted in closing 74 projects to date for more than 4,900 units and more than $470 million in ARRA dollars allocated for these projects. It is still expected that we will assist with up to another 75 deals to be underwritten over the next year.

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State of California

M E M O R A N D U M

To: **CalHFA Board of Directors** **Date:** July 7, 2010

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

Subject: Agenda Item 5c -- Performance Based Contract Administration – Upcoming Bid Process

Over the past year, Staff have discussed with the Board the Agency's intention to bid for the opportunity to become the Performance Based Contract Administrator (PBCA) for the State of California on behalf of the Department of Housing and Urban Development (HUD). As the PBCA, CalHFA would oversee the Housing Assistance Payment subsidy program for all HUD's project-based section 8 housing throughout the State of California. The Agency has extensively experience in this area as we currently serve as a Traditional Contract Administrator for HUD; meaning that the Agency oversee the subsidy for only those projects for which CalHFA holds the first mortgage.

After some initial delays in Washington, HUD released its final draft of the Annual Contributions Contract (ACC) that will govern the PBCA process and has initiated an invitation for public comment through July 12, 2010. HUD will publish a final ACC and Request for Proposal some time after July 12 and open the official bidding period. HUD expects to select a PBCA for each state and begin new contracts effective January 1, 2011. These contracts will be for a term of two years.

The PBCA process began in 2000. At that time HUD awarded the PBCA an initial five year contract with an additional five year extension for a total of 10 years.

Because the Agency is in the middle of the bidding process, it would not be appropriate to disclose specific elements of the proposal however, a third party vendor has been selected that will partner with CalHFA during the bidding process and if we are selected as PBCA, will perform all the PBCA work with CalHFA oversight. Staff are working with the vendor to prepare the bid package in anticipation of the official HUD RFP being released some time after July 12. Although HUD has made many changes to the method of compensation for the PBCA between the contract awarded in 2000 and the one to be awarded in 2011, winning this award would provide significant economic benefits to the Agency. Most importantly, CalHFA has over 30 years of experience with the Section 8 program and with HUD which makes the Agency an ideal PBCA candidate for the state of California.

You should be aware that the National Association of State Housing Agencies (NCSHA) is working to introduce legislation that will provide state HFAs as the preferred provider of PBCA services for HUD. NCSHA believes that state HFAs provide the best opportunity for consistent statewide administrative policy and services for Section 8 contracts.

We will continue to provide updates on the bidding process.

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M E M O R A N D U M

To Board of Directors **Date:** July 13, 2010

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

Subject: ITEM 6 – Update on Sacramento Facilities

Since the May 12, 2010 Board Meeting, staff have made good progress with the Agency Headquarters move. Currently, the move to 500 Capitol Mall is scheduled for October 11, 2010.

Due to hiring plans for the two year business plan, it was necessary to make an adjustment to the original space plan. The initial space plan was developed for 271 of our 311 authorized positions. With the approved 2010-11 fiscal year budget, however, all 311 positions are needed to meet our workload demands. Upon assessing the space needs for these additional positions, staff identified several options: 1) achieve some accommodation by reducing file space; 2) negotiate more floor space at 500 Capitol Mall at $2.65 psf; and/or 3) lease additional space where Loan Servicing is located in West Sacramento.

After reviewing the options, the decision was made to reduce file space, negotiate additional space at 1040 riverside Parkway, West Sacramento (adjacent to the new Loan Servicing Center) and move the bulk of the Portfolio Management team to that location. Since Portfolio Management and Loan Servicing work closely together, this seemed like a logical solution. Staff is negotiating a lease of 6,082 square feet on terms comparable with the lease for the Loan Servicing Center. The two offices will be able to share common areas such as conference rooms, break rooms and training facilities. The Loan Servicing Center reception area will also serve both groups and all visitors will be greeted and directed to the proper area for assistance. The projected move date for Portfolio Management will be November 1, 2010. The move of Portfolio Management from 500 Capitol Mall also helped with file space needs. The original space plan for 500 Capitol Mall was very tight with no room for growth, but with this additional space in West Sacramento, the 500 Capitol Mall location will be able to accommodate growth and file space needs.

In addition to the Portfolio Management move to West Sacramento, staff is negotiating a lease at that location for the personnel needed to run the Hardest Hit Funds program (the “Keep Your Home” program). As you know, this program is on the fast track and the Agency will need to occupy the space by August 6, 2010. We are negotiating 1,526 rsf for the Hardest Hit program and an additional 1,243 of warehouse space. The space under negotiation is adjacent to the Loan Servicing Center and already built out for occupancy. This space also comes with additional storage space at a proposed cost of $.36 psf. The storage/warehouse area will be used for equipment (IT and Marketing) and file storage.

To accommodate all aspects of these moves, staff have successfully negotiated a three month extension of the Senator Hotel location that expires November 30, 2010.

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CalHFA Facilities Overview **June 23, 2010**

	500 Capitol Mall Headquarters	**1040 Riverside Parkway Loan Servicing #100**	**1040 Riverside Parkway – Portfolio Mgt #125**	**1040 Riverside Parkway Hardest Hit #115**
Building Ownership:	Tsakopoulos Family	Harsch	Harsch	Harsch
Size:	69,022 RSF 4 floors	16,533 RSF	6,082 RSF	1,526 RSF Office – Hardest Hit 1,243 Whs. – CalHFA Storage
Lease Term:	12 years, 10 months	5 years, 4 months Through 5.31.15	4 years, 7 months Through 5.31.15	4 years, 10 months Through 5.31.15
Base Lease Rate:	$2.65 psf/mo FS with 2% annual increases	+/-$.83 psf/mo NNN or Est. $1.40 psf/mo FS with 3% annual increases	+/-$.83 NNN – Proposed – Office 3% annual increases	+/-$.83 NNN – Proposed – Office – Hardest Hit +/-$.36 NNN – Proposed Whs – CalHFA 3% annual increases
Operating Expenses:	Base Year 2011	Est. $.57 psf/mo NNN charges	Est. $.57 psf/mo NNN charges	Est. $.57 psf/mo NNN charges
Estimated Tenant Improvements:	"Turnkey" – estimated to be $50 per rsf	"Turnkey" with amortized Tenant Improvements of +/-$45,000 which will increase rent to +/-$.88 psf/mo	"Turnkey" based on pricing plan up to $37.82 per rsf	"Turnkey" based on pricing plan up
Rental Abatement:	10 months free $1,829,083	4 months free $54,889	4 months free $20,192	4 months free $7,863
Moving Allowance:	$2.00 per rsf $138,044	None.	None.	None.
Total Estimated Monthly Base Rent:	$182,908 Full Service	$13,722 NNN +/-$23,146 Full Service	$5,048 NNN increasing to $5,199 NNN 6/11 +/-$8,514 Full Service	$1,965 NNN increasing to $2,054 NNN 6/11 +/-$3,876 Full Service increasing to $3,992 Full Service 6/11

Total Estimated Annual Base Rent:	$2,194,896 Full Service	$164,664 NNN +/-$277,752 Full Service	$61,333 NNN +/-$103,445 Full Service	$23,758 NNN +/-$46,744 Full Service
Delivery Date:	**Meridian Move – 9/28/10 Senator Move – 10/1/10**	**Occupied 2/1/10**	**REO Move – 11/1/10**	**Hardest Hit Move and CalHFA Whs Move – 8/6/10**

Disclaimer – Broker has relied on information provided by various Landlords and has not independently confirmed the accuracy of such information. Such information should be verified before proceeding with the transaction.

State of California

M E M O R A N D U M

To: Board of Directors **Date:** July 6, 2010

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

Subject: Homeownership Loan Portfolio Update

Attached for your information is a report summarizing the Agency's Homeownership loan portfolio:

- Delinquencies as of April 30, 2010 by insurance type,
- Delinquencies as of April 30, 2010 by product (loan) type,
- Delinquencies as of April 30, 2010 by loan servicer,
- Delinquencies as of April 30, 2010 by county,
- A graph of CalHFA's 90-day+ ratios for FHA and Conventional loans (for the period of April 2005 through April 2010),
- A graph of 90-day+ ratios for CalHFA's three Conventional loan (products) types, for the period of April 2008 through April 2010,
- Real Estate Owned (REO) at May 31, 2010,
- Gains/ (Losses) on the Disposition of 1st Trust Deeds, Calendar 2008, Calendar 2009, and January 1 through May 31, 2010, and
- Write-Offs of subordinate loans for January 1 through May 31, 2010

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California Housing Finance Agency

CalHFA

HOMEOWNERSHIP LOAN PORTFOLIO
DELINQUENCY, REO and LOSS REPORT

Reconciled Loan Delinquency Summary
All Active Loans By Insurance Type
As of April 30, 2010

	Loan Count		Balance	Percent	DELINQUENCY RATIOS 30-Day	60-Day	90(+) Day	Total
Federal Guaranty								
FHA	11,619	**	$ 1,597,493,879	29.32%	5.03%	2.18%	13.10%	20.30%
VA	387		60,282,332	1.11%	2.07%	2.84%	9.30%	14.21%
RHS	97		18,816,289	0.35%	3.09%	1.03%	18.56%	22.68%
Conventional loans								
with MI								
CalHFA MI Fund	8,582		2,334,451,966	42.85%	3.32%	2.19%	15.70%	21.21%
without MI								
Orig with no MI	5,861		1,213,131,560	22.27%	2.01%	0.82%	5.84%	8.67%
MI Cancelled*	1,541		224,178,329	4.11%	1.62%	0.65%	2.53%	4.80%
Total CalHFA	28,087		$ 5,448,354,354	100.00%	3.64%	1.82%	11.76%	17.23%

*Cancelled per Federal Homeowner Protection Act of 1998, which grants the option to cancel the MI with 20% equity.

**The FHA loan count was decreased by 2,586 loans (including 125 loans that were delinquent as of February 28, 2010) because the Agency requested Bank of America to pool the whole loans into Ginnie Mae securities. Effectively, these FHA insured whole loans were swapped for Ginnie Mae securities during March 2010.

Reconciled Loan Delinquency Summary
All Active Loans By Loan Type
As of April 30, 2010

	Loan Count	Balance	Percent	DELINQUENCY RATIOS 30-Day	60-Day	90(+) Day	Total
30-yr level amort							
FHA	11,619	$ 1,597,493,879	29.32%	5.03%	2.18%	13.10%	20.30%
VA	387	60,282,332	1.11%	2.07%	2.84%	9.30%	14.21%
RHS	97	18,816,289	0.35%	3.09%	1.03%	18.56%	22.68%
Conventional - with MI	4,199	1,033,766,456	18.97%	3.02%	1.67%	11.62%	16.31%
Conventional - w/o MI	6,453	1,210,577,342	22.22%	1.81%	0.67%	4.40%	6.88%
40-yr level amort							
Conventional - with MI	681	200,384,418	3.68%	2.94%	2.64%	18.65%	24.23%
Conventional - w/o MI	228	46,124,139	0.85%	1.32%	1.75%	5.26%	8.33%
5-yr IOP, 30-yr amort							
Conventional - with MI	3,702	1,100,301,092	20.20%	3.73%	2.70%	19.77%	26.20%
Conventional - w/o MI	721	180,608,407	3.31%	3.19%	1.53%	11.79%	16.50%
Total CalHFA	28,087	$ 5,448,354,354	100.00%	3.64%	1.82%	11.76%	17.23%
		Weighted average of conventional loans:		2.68%	1.54%	10.81%	15.03%

California Housing Finance Agency

CalHFA

Reconciled Loan Delinquency Summary
All Active Loans By Loan Servicer
As of April 30, 2010

	Loan Count		Balance	Percent	DELINQUENCY RATIOS 30-Day	60-Day	90(+) Day	Total
CALHFA - LOAN SERVICING	10,667		$ 2,511,118,128	46.09%	2.47%	1.16%	9.74%	13.38%
GUILD MORTGAGE	6,627		1,233,557,228	22.64%	4.59%	2.23%	11.94%	18.76%
BAC HOME LOANS SERVICING, LP	2,940	*	600,832,134	11.03%	5.24%	3.23%	27.28%	35.75%
WELLS FARGO HOME MORTGAGE	2,675		335,616,050	6.16%	2.77%	1.72%	7.03%	11.51%
EVERHOME MORTGAGE COMPANY	2,303		234,700,722	4.31%	4.91%	1.61%	4.73%	11.25%
FIRST MORTGAGE CORP	1,157		244,066,360	4.48%	3.03%	2.51%	16.08%	21.61%
GMAC MORTGAGE CORP	1,038		151,306,200	2.78%	5.59%	2.31%	9.25%	17.15%
BANK OF AMERICA, NA	316		55,634,916	1.02%	4.43%	0.63%	13.92%	18.99%
WASHINGTON MUTUAL BANK	239		60,853,547	1.12%	1.26%	1.67%	13.39%	16.32%
CITIMORTGAGE, INC.	68		16,329,906	0.30%	4.41%	1.47%	22.06%	27.94%
DOVENMUEHLE MORTGAGE, INC.	49		1,829,301	0.03%	2.04%	0.00%	0.00%	2.04%
WESCOM CREDIT UNION	7		2,190,385	0.04%	0.00%	14.29%	28.57%	42.86%
PROVIDENT CREDIT UNION	1		319,480	0.01%	0.00%	0.00%	0.00%	0.00%
Total CalHFA	28,087		$ 5,448,354,354	100.00%	3.64%	1.82%	11.76%	17.23%

*The BAC Home loan count was decreased by 2,586 FHA loans (including 125 loans that were delinquent as of February 28, 2010) because the Agency requested Bank of America to pool the whole loans into Ginnie Mae securities. Effectively, these FHA insured whole loans were swapped for Ginnie Mae securities during March 2010.

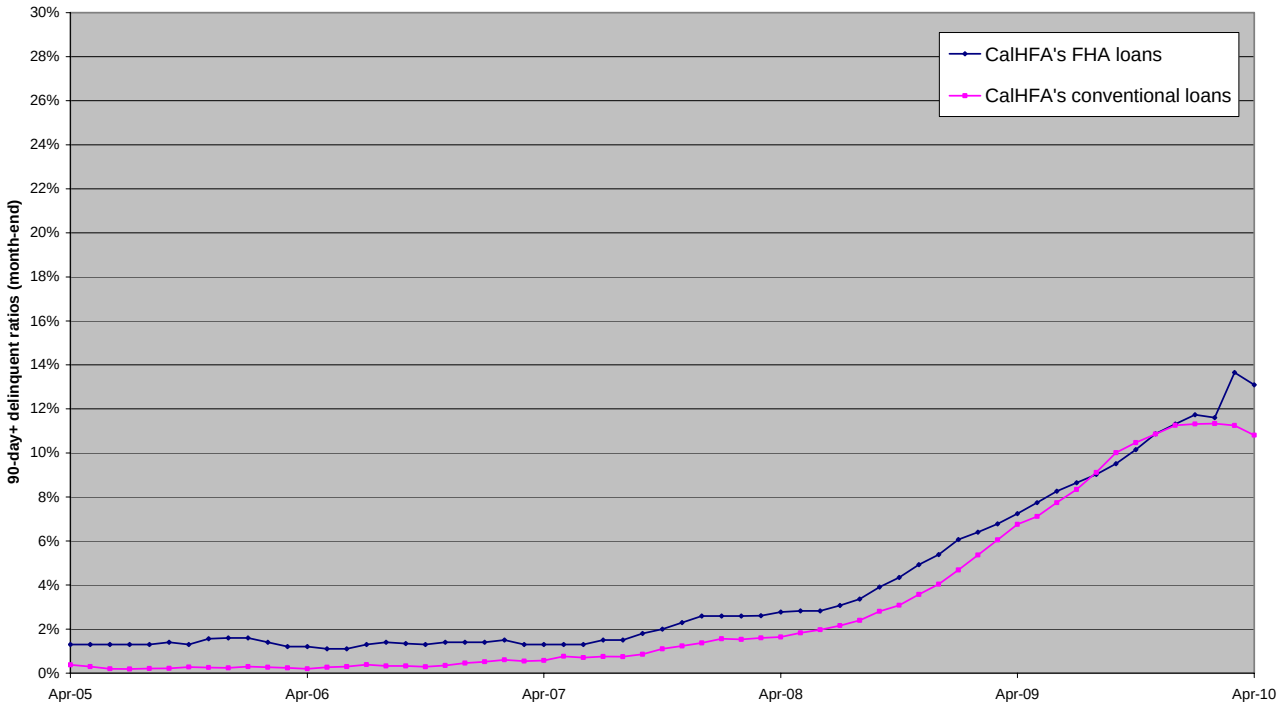
Reconciled Loan Delinquency Summary
All Active Loans By County
As of April 30, 2010

	Loan Count		Balance	Percent	DELINQUENCY RATIOS 30-Day	60-Day	90-Day+	Total
LOS ANGELES	4,391	$	948,752,289	17.41%	3.32%	1.64%	10.16%	15.12%
SAN DIEGO	2,948		667,506,373	12.25%	2.78%	2.04%	16.15%	20.96%
SANTA CLARA	1,902		534,788,551	9.82%	1.52%	0.63%	5.52%	7.68%
KERN	1,652		195,011,840	3.58%	5.51%	2.85%	12.95%	21.31%
SACRAMENTO	1,541		297,685,559	5.46%	4.74%	2.21%	14.08%	21.03%
SAN BERNARDINO	1,500		271,475,133	4.98%	4.73%	3.00%	20.53%	28.27%
RIVERSIDE	1,463		263,649,460	4.84%	4.51%	2.60%	22.35%	29.46%
ORANGE	1,403		333,032,919	6.11%	2.21%	1.50%	8.77%	12.47%
FRESNO	1,271		129,027,422	2.37%	5.43%	2.12%	9.21%	16.76%
TULARE	1,270		128,921,943	2.37%	5.28%	1.65%	11.42%	18.35%
ALAMEDA	1,196		302,373,027	5.55%	1.59%	1.00%	5.60%	8.19%
CONTRA COSTA	992		233,006,100	4.28%	2.92%	1.71%	11.69%	16.33%
VENTURA	697		194,011,248	3.56%	3.30%	1.00%	8.46%	12.77%
IMPERIAL	579		62,852,163	1.15%	7.77%	1.90%	10.71%	20.38%
SONOMA	536		116,210,874	2.13%	2.61%	1.12%	8.21%	11.94%
OTHER COUNTIES	4,746		770,049,453	14.13%	3.54%	1.71%	10.07%	15.32%
Total CalHFA	28,087		$ 5,448,354,354	100.00%	3.64%	1.82%	11.76%	17.23%

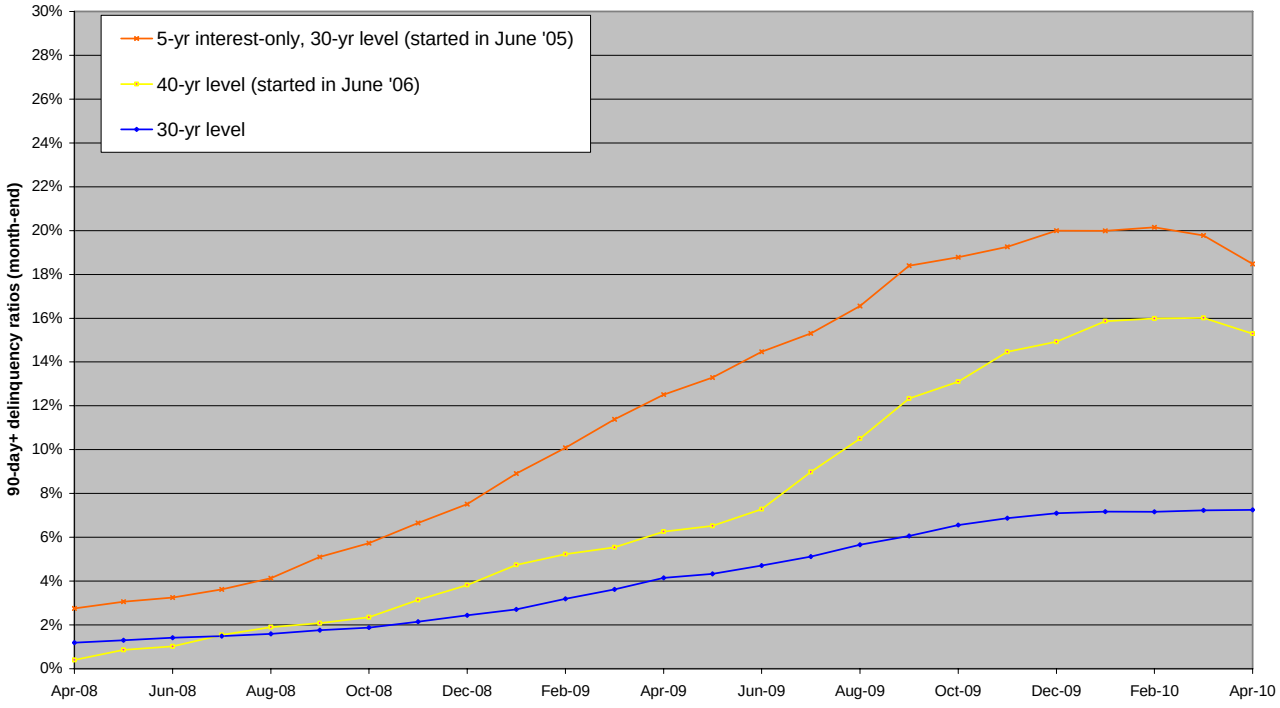
California Housing Finance Agency

CalHFA

90-day+ delinquent ratios for CalHFA's FHA and weighted average of all conventional loans



90-day+ delinquent ratios for CalHFA's Three Conventional Loan Types



California Housing Finance Agency

CalHFA

Real Estate Owned

Calendar Year 2010 (As of May 31, 2010)											
		*Trustee Sales			Disposition of REO(s)						
Loan Type	Beginning Balance # of Loans	Reverted to CalHFA Jan-Apr	Reverted to CalHFA May	Total Trustee Sales	Repurchased by Lender Jan-Apr	Market Sale(s) Jan-Apr	Repurchased by Lender May	Market Sale(s) May	Total Disposition of REO(s)	Ending Balance # of Loans	UPB of REO's Owned
FHA/RHS/VA	187	268	83	351	191		49		240	298	$ 59,667,494
Conventional	619	498	108	606		266		89	355	870	191,177,215
Total	806	766	191	957	191	266	49	89	595	1,168	$ 250,844,709

Calendar Year 2009						
		*Trustee Sales	Disposition of REO(s)			
Loan Type	Beginning Balance # of Loans	Reverted to CalHFA 2009	Repurchased by Lender 2009	Market Sale(s) 2009	Ending Balance # of Loans	UPB of REO's Owned
FHA/RHS/VA	51	588	452		187	$ 40,850,369
Conventional	226	929		536	619	150,498,899
Total	277	1517	452	536	806	$ 191,349,268

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

**3rd party trustee sales are not shown in the tables (tltle to these loans were never transferred to CalHFA). There were eight (8) 3rd party sales in calendar year 2008, eighteen (18) 3rd party sales year 2009, and there are twenty-one (21) 3rd party sales to date for 2010.*

California Housing Finance Agency

CalHFA

Calendar Year 2010[1] Year to Date REO Uninsured Losses[2]		
1st TD Sale Estimated Gain/(Loss)	$	(7,951,840)
Subordinate Write-Off		(12,960,821)
Total Gain(Loss)/Write-Offs	$	(20,912,661)

(1) For the period of January 1, 2010 thru May 31, 2010.
(2) Includes both reconciled and unreconciled gains/losses to date.

2010 Year to Date Composition of 1st Trust Deed Gain/(Loss)
(As of May 31, 2010)

Loan Type	Disposition			Estimated Indenture Gain/(Loss)	[1]Estimated GAP Loss
	Repurchased by Lender	Market Sales	Loan Balance at Trustee Sale		
FHA/RHS/VA	240		$ 50,284,809		
Conventional		355	96,060,938	$ (7,951,840)	$ (13,553,958)
	240	355	$146,345,747	$ (7,951,840)	$ (13,553,958)

(1) The California Housing Loan Insurance Fund (the MI Fund") provides GAP insurance to meet HMRB bond indenture requirements that all loans held within that indenture have 50% of the unpaid principal balance insured by a mortgage insurance policy for the life of the loan. The insurance may be provided by any combination of government insurance, private mortgage insurance, or a policy from the MI fund. The Agency has currently agreed, pursuant to an internal interfund agreement, to indemnify the MI Fund for claims paid for principal losses under the GAP insurance policy, up to a cumulative maximum amount of $135 million . The indemnification is payable solely from available funds held in a sub account within the California Housing Finance Fund. The interfund agreement may be modified or terminated by the Agency at any time.

2010 Year to Date Composition of Subordinate Write-Offs by Loan Type[1]
(As of May 31, 2010)

Loan Type	Active Loans		Write-Offs			
	Active Loans	Dollar Amount	Number of Write-Offs	% (of Portfolio)	Dollar Amount	% (of Portfolio)
CHAP/HiCAP	12,007	$127,978,002	692	5.76%	$7,212,118	5.64%
CHDAP/ECTP/HiRAP	21,478	179,761,352	696	3.24%	5,748,703	3.20%
Other [2]	285	3,760,821	0	0.00%	0	0.00%
	33,770	$311,500,175	1,388	4.11%	$12,960,821	4.16%

(1) Does not include FNMA and CalSTRS subordinates (non-agency loans serviced by in house loan servicing)
(2) Includes HPA, MDP, OHPA, and SSLP.

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M E M O R A N D U M

To: Board of Directors **Date:** July 6, 2010

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

Subject: VARIABLE RATE BONDS AND INTEREST RATE SWAPS REPORT

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. .

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
- Unhedged Variable Rate Debt
- Hedged Variable Rate Debt
- Basis Risk
- Amortization Risk
- Termination Risk
- Types of Variable Rate Debt
- Liquidity Providers

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VARIABLE RATE DEBT EXPOSURE

This report describes the variable rate bonds of CalHFA and is organized programmatically by indenture as follows: HMRB (Home Mortgage Revenue Bonds--CalHFA's largest single family indenture), MHRB (Multifamily Housing Revenue Bonds III--CalHFA's largest multifamily indenture), HPB (Housing Program Bonds--CalHFA's multipurpose indenture, used to finance a variety of loans including the Agency's downpayment assistance loans) and the Agency's newest indentures which were established to take advantage of the federal government's New Issue Bond Program: RMRB (Residential Mortgage Revenue Bonds—for single family loans), and AMHRB (Affordable Multifamily Housing Revenue Bonds—for multifamily loans.) The total amount of CalHFA variable rate debt is $5.9 billion, 66.6% of our $8.9 billion of total indebtedness as of July 1, 2010.

VARIABLE RATE DEBT
($ in millions)

	Tied Directly to Variable Rate Assets	Swapped to Fixed Rate	Not Swapped or Tied to Variable Rate Assets	Total Variable Rate Debt
HMRB	$0	$2,528	$1,159	$3,687
MHRB	0	542	222	764
HPB	0	0	79	79
RMRB *	1,016	0	0	1,016
AMHRB *	381	0	0	381
Total	$1,397	$3,070	$1,460	$5,927

* *The RMRB and AMHRB bonds are variable rate index bonds during the initial escrow period. After each public offering (up to three times in 2010), they will be released from escrow and converted to fixed rate debt. The debt service payment of the bonds during the escrow period is equal to the interest earned from the money market funds in which the proceeds are invested.*

UNHEDGED VARIABLE RATE DEBT

As shown in the table above, our "net" variable rate exposure is $1.4 billion, 16.4% of our indebtedness. The net amount of variable rate bonds is the amount that is neither swapped to fixed rates nor directly backed by complementary variable rate loans or investments. The $1.4 billion of net variable rate exposure ($781 million taxable and $679 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 $650 million (six month average balance) 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 $650 million is a balance sheet hedge for the $1.4 billion of net variable rate exposure.

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 $356.4 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 $650 million of other Agency funds invested in SMIF effectively hedges approximately 65.6% 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.

HEDGED VARIABLE RATE DEBT

Currently, we have a total of 119 "fixed-payer" swaps with thirteen different counterparties for a combined notional amount of $3.4 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)

	Tax-Exempt	Taxable	Totals
HMRB	$2, 460	$336	$2,796
MHRB	631	0	631
HPB	0	0	0
TOTALS	$3,091	$336	$3,427

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

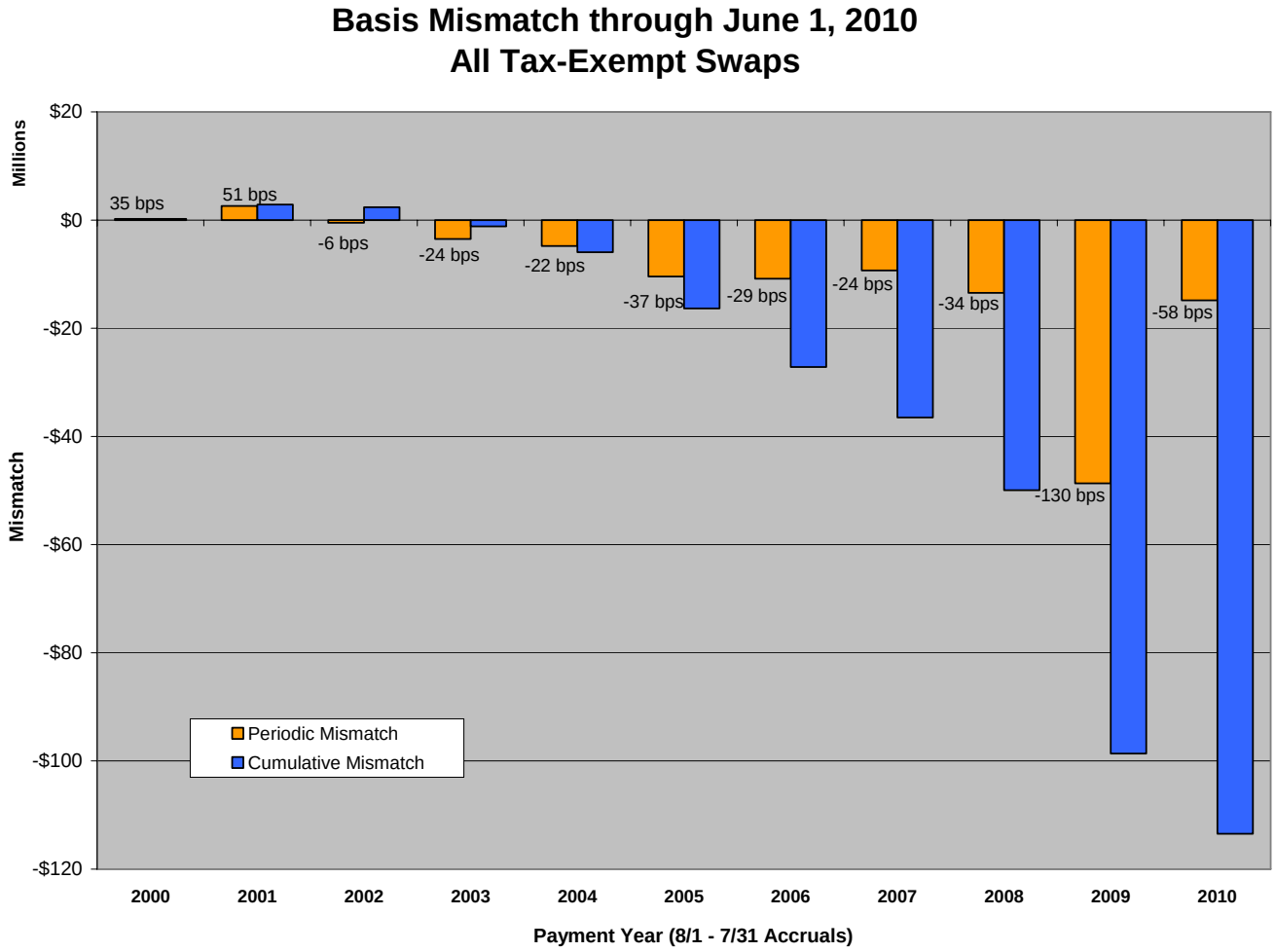
Swap Counterparty	Credit Ratings Moody's	Credit Ratings S & P	Notional Amounts Swapped as of 7/1/10 ($ in millions)	Number of Swaps
JPMorgan Chase Bank, N.A.	Aa1	AA-	$ 862.4	22
Merrill Lynch Capital Services, Inc.	A2	A	843.7	35
Citigroup Financial Products, Inc.	A3	A	453.9	12
Goldman Sachs Mitsui Marine Derivative Products, , L.P.	Aa1	AAA	302.6	10
Deutsche Bank AG	Aa3	A+	244.3	11
AIG Financial Products, Corp.	A3	A-	233.7	8
Morgan Stanley Capital Services, Inc.	A2	A	136.7	2
Bank of America, N.A.	Aa3	A+	120.3	5
BNP Paribas	Aa2	AA	73.7	2
Merrill Lynch Derivative Products	Aa3	AAA	71.8	7
UBS AG	Aa3	A+	32.0	2
Dexia Credit Local New York Agency	A1	A	27.2	2
Bank of New York Mellon	Aaa	AA	25.0	1
			$ 3,427.2 *	119

** Basis Swaps not included in totals*

For all of our fixed-payer swaps, we receive floating rate payments from our counterparties in exchange for a fixed-rate obligation on our part. In today's market, the net periodic payment owed under these swap agreements is from us to our counterparties. As an example, on our February 1, 2010 semiannual debt service payment date we made a total of $66.2 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

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



As the chart shows, the relationship between the two floating rates changes as market conditions change. Basis mismatch for our 2008 bond year (August 1, 2007 – July 31, 2008) has been primarily due to the collapse of the auction rate securities market and the impact of bond insurer downgrades on variable rate demand obligations. Auction rate securities account for 55% of the total mismatch and insured variable rate demand obligations have accounted for 45% of the total mismatch for 2008. We have responded to the market disruption by refunding, converting, or otherwise modifying many of the under performing auction rate securities and insured VRDOs.

In 2009, the basis mismatch was further compounded by bank bonds and the disparity between the SIFMA to LIBOR ratio. The rates on bank bonds are much higher than the rates that we receive on swaps, and the SIFMA/LIBOR ratio had been at historically high levels over 100%..

These same factors have continued to contribute to our basis mismatch into the 2010 bond year. The new Temporary Credit and Liquidity Program from the federal government and the GSEs should significantly reduce or eliminate any basis mismatch. As part of this process, all bond insurance was removed from VRDOs and the federal government will now provide direct credit support on all CalHFA VRDOs. We expect that this will allow CalHFA VRDOs to reset with little or no spread to SIFMA. The first two full months under the Temporary Credit and Liquidity Facility have provided us with a favorable basis mismatch; for the first time since 2002. The main risk that exists is that the SIFMA/LIBOR ratio continues to be high and as market rates rise our basis mismatch may remain higher than expected due to general market conditions. Over the lifetime of our swaps we have experienced approximately $113 million of additional interest expense due to this basis mismatch.

The floating side of Agency swaps are usually indexed to LIBOR or SIFMA. LIBOR is the London Interbank Offered Rate index which is used to benchmark taxable floating rate debt, and SIFMA is the Securities Industry and Financial markets Association Index to benchmark tax-exempt variable rates. 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 following table displays the SIFMA/LIBOR ratio for the past eight years.

Average SIFMA/LIBOR Ratio			
2003	85.4%	2007	69.1%
2004	81.7%	2008	83.7%
2005	72.5%	2009	122.9%
2006	67.6%	2010 YTD	91.2%

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

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

	Tax-Exempt	Taxable	Totals
% of LIBOR (+ spread)	$2,316	$0	$2,316
SIFMA (+ spread)	442	0	442
Stepped % of LIBOR [1]	261	0	261
3 mo. LIBOR (+ spread)_	0	211	211
% of SIFMA	72	0	72
1 mo. LIBOR	0	70	70
3 mo. LIBOR	0	29	29
6 mo. LIBOR	0	26	26
TOTALS	$3,091	$336	$3,427

[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%.

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. 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.

Of interest is an $356.4 million overswap mismatch between the notional amount of certain of our swaps and the outstanding amount of the related bonds. This mismatch has occurred for two reasons: 1) as a result of the interplay between loan prepayments and the “10-year rule” of federal tax law and 2) the strategic debt management of the Agency to redeem bonds that were hedged but were associated with troubled or problematic financial partners. While some of our bonds are “over-swapped”, there are significantly more than enough unswapped variable rate bonds to compensate for the mismatch. To mitigate our overswapped position, we continually

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 and by exercising the par swap options as they become available.

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 "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. The table below shows the swap collateral postings that we currently have to some of our swap counterparties. 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. In the past months, falling interest rates have caused the swaps to have a negative value to the Agency thereby increasing the amount of collateral we have to post to the counterparties.

Swap Collateral Posting
as of 6/24/2010
($ in millions)

	JPMorgan	BofA / Merrill Lynch	Goldman Sachs	Total
Marked-to-Market	93	22	32	
Collateral Threshold	50	0	25	
Posting Requirment	43	22	7	72
Agency MBS Posted	40	0	0	40
Agency Cash Posted	2	22	5	29
Over/Under Collateral	-1	0	-2	-3

Currently, the Government Accounting Standards Board only requires that our balance sheet and income statement be adjusted for the market value of our swaps for those swaps that are deemed not to be effective hedges by the test provided in GASB 53. 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 a quarterly history of the fluctuating negative value of our swap portfolio for the past year.

TERMINATION VALUE HISTORY

Date	Termination Value ($ in millions)
6/30/09 *	($276.8)
9/30/09	($295.5)
12/31/09	($226.7)
3/31/10	($242.9)
6/30/10	($326.9)

** As reported in the Financial Statements*

TYPES OF VARIABLE RATE DEBT

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

TYPES OF VARIABLE RATE DEBT
($ in millions)

	Auction Rate & Similar Securities	Indexed Rate Bonds	Variable Rate Demand Obligations	Total Variable Rate Debt
HMRB	$0	$1,013	$2,774	$3,687
MHRB	160	0	604	764
HPB	0	0	79	79
RMRB	0	1,016	0	1,016
AMHRB	0	381	0	381
Total	$160	$2,410	$3,357	$5,927

LIQUIDITY PROVIDERS

On October 19, 2009, the United States Treasury (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 December 23, 2009, the Agency closed eight TCLP transactions with Treasury to replace the liquidity for $3.5 billion of variable rate bonds. The new liquidity became effective in January 2010 on the mandatory tender dates of the bonds and will expire on December 23, 2012.

The table below shows the government-sponsored enterprise (GSE) which are providing liquidity in the form of standby bond purchase agreements for our VRDOs.

LIQUIDITY PROVIDERS
As of 7/1/10
(*$ in millions)*

Financial Institution	$ Amount of Bonds
Freddie Mac	$1,678.2
Fannie Mae	1,678.2
Total	$3,356.4

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