



BOARD OF DIRECTORS

(AMENDED)

*California Housing Finance Agency
Board of Directors*

September 15, 2010

Burbank Airport Marriott Hotel
& Convention Center
2500 Hollywood Way
Burbank, California
(818) 843-6000

10:00 a.m.

**8:00 a.m. to 9:30 a.m.: BOARD PICTURES FOR 2009/2010 ANNUAL REPORT*

1. Roll Call.
2. Approval of the minutes of the July 13, 2010 Board of Directors meeting.
3. Chairman/Executive Director comments.
4. Discussion, recommendation and possible action regarding the amendment of multifamily financing Resolution 10-02 to include an additional form of multi-family bond indenture. (Bruce Gilbertson)
Resolution 10-08111
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10.	Discussion of other Board matters.	
11.	Public testimony: Discussion only of other matters to be brought to the Board’s attention.	
12.	Handouts	

NOTES**

HOTEL PARKING: Cash @ \$10.00 per car, per entry, pay at gate with no in and out privileges.

FUTURE MEETING DATES: Next CalHFA Board of Directors Meeting will be November 17, 2010, at the Burbank Airport Marriott Hotel & Convention Center, Burbank, California.

STATE OF CALIFORNIA
CALIFORNIA HOUSING FINANCE AGENCY



BOARD OF DIRECTORS
PUBLIC MEETING



Hyatt Regency Sacramento
1209 L Street
Sacramento, California

Tuesday, July 13, 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

PAUL C. HUDSON
Chairman/CEO
Broadway Federal Bank

JONATHAN HUNTER
Managing Director, Region 2
Corporation for Supportive Housing

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

FRED KLASS
for ANA J. MATOSANTOS
Director
Department of Finance
State of California

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

A P P E A R A N C E S**Board of Directors Present***continued*

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

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

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

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Participating CalHFA Staff:

MARGARET ALVAREZ
 Director of Asset Management

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

ROBERT L. DEANER II
 Director of Multifamily Programs

BRUCE D. GILBERTSON
 Director of Financing

A P P E A R A N C E S**Participating CalHFA Staff:***continued*

THOMAS C. HUGHES
General Counsel

HOWARD IWATA
Director of Administration

JOJO OJIMA
Office of the General Counsel

DIANE RICHARDSON
Director of Legislation

LINN WARREN
Portfolio Manager

KATHY WEREMIUK
Housing Finance Officer
Multifamily Programs

--o0o--

Public Testimony

DEBORA BEARD
ACCE - One LA IAF

PAM CANADA
NeighborWorks Sacramento

STEPHANIE HAFFNER
One LA/IAF

RENEE LEE
SEIU - One LA/IAF

YVONNE MARIAJIMENEZ
One LA - IAF

MARK LINDER
COPA - IAF

A P P E A R A N C E S

Public Testimony

Continued

MICHAEL PROFANT

MARIA ROCHA
COPA - IAF

YVETTE ROLAND
One LA/IAF

JOSE VEGA
Cisco

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CalHFA Board of Directors Meeting – July 13, 2010

1 BE IT REMEMBERED that on Tuesday, July 13,
2 2010, commencing at the hour of 10:10 a.m., at the Hyatt
3 Regency Sacramento, 1209 L Street, Sacramento,
4 California, before me, DANIEL P. FELDHAUS, CSR #6949, RDR
5 and CRR, the following proceedings were held:

6 --oOo--

7 CHAIR CAREY: I want to welcome everybody to
8 the July 13th meeting of the California Housing Finance
9 Agency Board of Directors.

10 --oOo--

11 **Item 1. Roll Call**

12 CHAIR CAREY: Our first item of business will
13 be roll call.

14 MS. OJIMA: Thank you.

15 Ms. Peters for Mr. Bonner?

16 MS. PETERS: Present.

17 MS. OJIMA: Mr. Hudson?

18 MR. HUDSON: Here.

19 MS. OJIMA: Mr. Hunter?

20 MR. HUNTER: Here.

21 MS. OJIMA: Ms. Jacobs?

22 MS. JACOBS: Here.

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

24 MS. CARROLL: Here.

25 MS. OJIMA: Ms. Macri-Ortiz?

1 MS. MACRI-ORTIZ: Here.

2 MS. OJIMA: Mr. Shine?

3 *(No response)*

4 MS. OJIMA: Mr. Smith?

5 MR. SMITH: Here.

6 MS. OJIMA: Mr. Taylor for Ms. Cox?

7 MR. TAYLOR: Here.

8 MS. OJIMA: Mr. Klass for Mr. Matosantos?

9 MR. KLASS: Here.

10 MS. OJIMA: Mr. Spears?

11 MR. SPEARS: Here.

12 MS. OJIMA: Mr. Carey?

13 CHAIR CAREY: Here.

14 MS. OJIMA: We have a quorum.

15 Thank you.

16 CHAIR CAREY: Thank you, JoJo.

17 --oOo--

18 **Item 2. Approval of the minutes of the May 12, 2010,**

19 **Board of Directors Meeting**

20 CHAIR CAREY: The next item of business is

21 approval of the minutes of the May 12th Board meeting.

22 MS. JACOBS: Move approval.

23 MS. PETERS: Second.

24 CHAIR CAREY: Roll call.

25 MS. OJIMA: Ms. Peters?

1 MS. PETERS: Yes.

2 MS. OJIMA: Mr. Hudson?

3 MR. HUDSON: Yes.

4 MS. OJIMA: Mr. Hunter?

5 MR. HUNTER: Yes.

6 MS. OJIMA: Ms. Jacobs?

7 MS. JACOBS: Yes.

8 MS. OJIMA: Ms. Carroll?

9 MS. CARROLL: Yes.

10 MS. OJIMA: Ms. Macri-Ortiz?

11 MS. MACRI-ORTIZ: Yes.

12 MS. OJIMA: Mr. Smith?

13 MR. SMITH: Yes.

14 MS. OJIMA: Mr. Carey?

15 CHAIR CAREY: Yes.

16 MS. OJIMA: The minutes have been approved.

17 CHAIR CAREY: Thank you.

18 --oOo--

19 **Item 3. Chairman/Executive Director comments**

20 CHAIR CAREY: With that, we'll move on. I'd

21 just like to make a couple of introductory comments.

22 I want to welcome everybody here. It's nice to

23 see a fair amount of public here joining us today.

24 We do have an agenda ahead of us with a variety

25 of issues on it. I want to point out that none of these

1 items on the agenda are formal action items. They are
2 updates and reports for the Board on a variety of issues
3 facing the Agency.

4 We will be going into a closed session later in
5 the meeting to deal with litigation, and then return to
6 public session following that. During the closed
7 session, the room will be closed.

8 In order to accommodate people who have filled
9 out speaker slips and indicated a desire to address the
10 Board today, we will take public comment at a couple of
11 points.

12 I know that there are several folks here who
13 would like to speak specifically on the issues related to
14 the Hardest Hit Fund proposal. And I'm aware of one or
15 two other unrelated speakers. And I will try to work
16 them -- I'll work the speakers related to the Hardest Hit
17 Fund in following the staff report at Item 4.a on the
18 agenda. And at that point, we will try to -- we will set
19 some limits on time so we can keep the meeting moving
20 along.

21 With that, I'll turn it over to our executive
22 director, Steve Spears.

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

24 Welcome, Board Members. And to those who have
25 joined us in the audience, I extend my welcome. And I'm

1 glad to see a goodly number of people here. I'm sure
2 we'll have a good discussion today.

3 This Board meeting will be, again, limited to
4 review and update of the Board members of the major
5 activities that the staff is undertaking right now.

6 We are returning to lending, both on the
7 single-family side and the multifamily side, thanks to
8 the New Issue Bond purchase program provided by the
9 U.S. Treasury. You'll receive an update on that.

10 The Keep Your Home program funded by the
11 Treasury's Hardest Hit Funds was approved by Treasury in
12 late June. And we're very, very busily working towards
13 implementation of that. And we'll have a good discussion
14 on that.

15 The MHSA, you have not received a briefing on
16 that in some time. That's really moving along.

17 We have over 1,350 units have already been
18 created with that program. And it's been a real success.

19 Finally, we have been assisting the State
20 Treasurer's office in the distribution of ARRA funds
21 through the tax credit, the exchange program, and gap
22 financing.

23 The Multifamily staff has been helping the Tax
24 Credit Allocation Committee staff with that in a very big
25 way. So we have received requests from Mr. Bill Pavao,

1 who is the executive director of the State Treasurer's
2 Tax Credit Allocation Committee to address the Board and
3 the staff.

4 And I'd like to invite Bill to the microphone
5 at this time.

6 MR. PAVAO: Well, thank you for the
7 opportunity. And I don't want to take a lot of time out
8 of your busy agenda. But I did want to take the
9 opportunity to come over and formally thank the Board and
10 the staff who have been helping the Tax Credit Allocation
11 Committee administer those ARRA funds, the American
12 Recovery and Reinvestment Act, dollars that we received
13 from the federal government last year, to assist
14 multifamily rental housing developments that were
15 experiencing equity shortfalls.

16 You're probably all pretty familiar with that
17 program as we've been administering it over at the Tax
18 Credit Allocation Committee.

19 The CalHFA staff has been providing a
20 tremendous service to TCAC and to the affordable-housing
21 development community at large. And I want to commend
22 them and thank you for that effort.

23 Again, just by way of reminder, we received
24 \$325 million in the form of a grant from the federal
25 Department of Housing and Urban Development to operate a

1 Tax Credit Assistance Program.

2 In addition to that \$325 million, under federal
3 law, we were permitted to exchange in some of our
4 9 percent credits for cash and deliver that cash back to
5 multifamily housing developments that were experiencing
6 shortfalls, where in many cases, couldn't find an equity
7 partner at all to come in and purchase those tax credits.

8 And as you're probably aware, we're not in the
9 business of being lenders or grantors of federal dollars,
10 or any other dollars for that matter. So we sought and
11 received the help of your agency, and it's been
12 invaluable.

13 And to date -- this was as of last Friday, and
14 I know these numbers have increased a bit since -- just,
15 again, by way of reminder, we made 142 awards. That is,
16 142 rental housing projects that would not have gone
17 forward but for this federal assistance. So, again,
18 we're making those awards in the form of loans, in some
19 cases; grants, in others.

20 Of those 142, we've now closed 80 of those,
21 which we've done that in just the last few months. The
22 volume has been tremendous. These are complex deals. We
23 couldn't have done it without the help of CalHFA staff.

24 We've also got, as of last Friday, ten
25 additional projects in escrow and pending imminent loan

1 closing. So, again, we're approaching 90 in this
2 142-project portfolio.

3 We've received 123 transaction summaries at
4 this point from CalHFA staff. So again, they are, in
5 essence, doing the underwriting and giving us transaction
6 summaries as to the deal structures for these projects.
7 So, again, out of the 142, 123 have already come over.
8 So we're definitely seeing sort of the light at the end
9 of the tunnel on the closing. We're now disbursing these
10 federal funds, and these projects are coming up out of
11 the ground.

12 We also have been receiving assistance from the
13 Asset Management team. Again, we have an asset
14 management responsibility at the federal level associated
15 with these funds, so we're seeking the help of your
16 agency, once again, to get our arms around that function.

17 And so in closing, I want to, one, commend the
18 Multifamily Program's team that's been working on this.
19 They've been fantastic, very diligent. I want to call
20 out in particular -- of course, I want to thank Steve
21 Spears, the executive director, for all of the help and
22 resources he's been responsible for providing. I want
23 to also thank the director of the Multifamily programs,
24 Bob Deaner, for all of his help and insights; Laura
25 Whittall-Scherfee, and in particular, Marisa Fogal and

1 Bobbie Angulo. They actually helped us in our workshops
2 when we went out and quickly put together a training
3 program to advise folks: "Okay, here is how we're going
4 to roll out and operate this new program."

5 They helped us with that, and we continue to be
6 very instrumental.

7 On the Asset Management side, I want to thank
8 Margaret Alvarez and her team, including Chris Penny and
9 Tom Armstrong here in Sacramento. But also we've had
10 assistance in telephone conferences from folks in the
11 Culver City office, including Ron Carter, Richard Dewey,
12 and Abe Tsadik.

13 So I want to thank all of those folks. And
14 I also just wanted to bring to the attention of the Board
15 all the great work they're doing.

16 CHAIR CAREY: Great.

17 MR. PAVAO: And thank you, again, for helping
18 in this tremendous effort that's making a real
19 difference.

20 So thanks again for the time and opportunity to
21 come in and talk to you.

22 MR. SPEARS: Thanks very much, Bill.

23 CHAIR CAREY: Thank you, Bill.

24 MR. SPEARS: I know there are a number of
25 Multifamily and Asset Management staff.

1 here, to talk about Treasury's action to approval this,
2 a little bit about the process, and the programs
3 themselves.

4 I know you guys have been briefed at the
5 March meeting, at the May meeting, as part of the
6 business plan briefing. So we thought we would give you
7 the final word about the program that's been approved by
8 Treasury.

9 Di Richardson.

10 MS. RICHARDSON: Mr. Chairman, Members, thank
11 you very much. It's a pleasure to be here and a pleasure
12 to be working on something so non-controversial.

13 I really can't remember whether or not our
14 proposal had been approved by Treasury when we last met
15 and I last gave you an update. But we do have approval,
16 which is very exciting, and allows us to start moving
17 forward much more aggressively.

18 Since March, when the announcement came out,
19 we've been talking to our partners, people that we knew
20 we were going to need to partner with to be successful,
21 the counseling agencies, the servicers, the community
22 groups, to find out exactly what was needed, what kinds
23 of programs they thought would be, you know, of the
24 greatest benefit here in California, given the limited
25 resources that were allocated to us.

1 So our four programs, which I think I talked
2 about pretty extensively at our last meeting, have been
3 approved with not a lot of changes. There are some
4 changes.

5 We do have a Web site. It is
6 "KeepYourHomeCalifornia" -- or is it "CA"?

7 MR. SPEARS: Yes. KeepYourHomeCalifornia.com.

8 MS. RICHARDSON: Sorry. I just know how to get
9 there. It's bookmarked on my computer.

10 "KeepYourHomeCalifornia.ca.gov" or ".com,"
11 I think it works both ways. And there's a lot of
12 information there already, the proposals on the Web site.
13 And there are summaries -- there's a summary tab. And if
14 you click on those summaries, you'll get the term sheets
15 that are currently -- that have been developed to date.
16 And those, of course, are still works in progress as we
17 work out the details.

18 We have been working very diligently with
19 Treasury to set up the bank accounts so that we can get
20 the funding under control.

21 The agreements that we signed with Treasury
22 call for some very significant compliance reporting and
23 monitoring issues. So we're working to get those systems
24 and that infrastructure in place.

25 We're finalizing, I believe, our contract with

1 a central processing center because one of the things
2 that I had talked to you about was, we didn't just want
3 to do the programs; we wanted to improve the process on
4 how the whole process worked, so that hopefully there
5 would be less borrower frustration, less back and forth,
6 less "resubmit your documents, let's see it again, do
7 them again." And we think we're making some really good
8 progress in that area.

9 And the RFP for the local innovation fund has
10 gone out. And we're excited about that, to see the types
11 of initiatives that people are going to propose. Those,
12 of course, will also require Treasury approval. And
13 we've got a commitment from Treasury to continue to work
14 on those.

15 California is the only state that proposed a
16 local fund like that. So we're pretty excited. We think
17 it will give us a chance to sort of spread out a little
18 bit and try some more creative things.

19 I'm happy to answer any questions you have.

20 I think you know Linn Warren. He's been locked
21 in a room with me, poor guy. But I think we're getting
22 very close and looking forward to getting this out on the
23 road.

24 Pam Canada is from the Sacramento NeighborWorks
25 organization. And she is one of the people that we've

1 been talking to quite frequently about the program.

2 MS. CANADA: Good morning. I'm pleased to have
3 the opportunity to provide comment to you today about the
4 Keep Your Home program developed by CalHFA.

5 My name is Pam Canada. I'm the CEO of
6 NeighborWorks homeownership center, Sacramento region,
7 with offices here in Sacramento and also in Stockton.
8 We're a HUD-certified housing counseling agency, a
9 certified CDFI. And we provide comprehensive
10 homeownership services to an eight-county area of
11 Northern California.

12 Over the past two years, primarily,
13 NeighborWorks Sacramento, along with our peer counseling
14 agencies, have been heavily focused on assisting and
15 counseling homeownership in various stages of mortgage
16 distress. We've completed visits and counseling sessions
17 and conducted public workshops that have included
18 thousands of existing homeownership in California.

19 Many of our counsel clients are desperate to
20 preserve their homeownership but have been impacted by a
21 loss of employment or a drop in income due to reduced
22 employment. Loan modifications are often difficult to
23 achieve due to the significant drop in home values that
24 have made workouts complicated.

25 CalHFA, of course, recently announced four new

1 programs, collectively known as the "Keep Your Home
2 Program," made possible through the Hardest Hit Funding.
3 The objectives, as I understand them, are to preserve
4 homeownership and stabilize communities.

5 I commend CalHFA for the extensive community
6 outreach that they completed while they were creating
7 this innovative group of programs. They conducted a
8 variety of forums, made multiple phone calls, and met
9 with individuals and groups, set up call-in opportunities
10 for agencies and nonprofits and other stakeholders, to
11 participate and to provide important feedback that helped
12 shape the Keep Your Home Program.

13 Under an aggressive timeline, you completed
14 and utilized a good amount of outreach and collected
15 practical firsthand feedback from groups and agencies
16 that helped to inform your program development.

17 Losing your home through foreclosure action
18 is devastating, and there are thousands of homeowners in
19 California that continue to face this crisis every day.
20 There is no miracle solution that will address every
21 situation equitably and swiftly enough to please every
22 stakeholder.

23 CalHFA has provided a well-balanced set of
24 programs that strives to address the issue for many
25 homeowners, and includes in most cases an equal

1 investment from the lender, servicer, or homeowner in
2 reaching a solution. This was an important element.

3 Thank you for the opportunity to speak on this.

4 CHAIR CAREY: Thank you.

5 Questions from the Board?

6 *(No response)*

7 CHAIR CAREY: Di, can we talk a little bit
8 about time-lines, when this is all going to roll out?

9 MS. RICHARDSON: Sure. While we're hoping --
10 like I said, we're in the process of trying to finalize
11 our contract with our central processing center. And
12 there will be a significant amount of work which we're
13 going to require them to do in a very short period of
14 time to make sure that they have the systems in place
15 that are compatible to work with the counselors and with
16 the servicers, and to be able to generate the reports and
17 keep track of everything that we're going to need to keep
18 track of, to make sure that we're doing this right and
19 we're doing it successfully, and comply with all the
20 audit requirements.

21 And today, our goal is to have a pilot program
22 in place the first of October, and hopefully go live with
23 the full thing on November 1st. If we can do it sooner,
24 we'll do it sooner. We're pushing as hard as we can on
25 everybody without making them want to jump off a cliff.

1 CHAIR CAREY: Ms. Peters?

2 MS. PETERS: On the subject of time-lines, can
3 you summarize for us where we are in the process of
4 designing the program and what flexibility, if any, is
5 left to CalHFA to alter any terms of that?

6 MS. RICHARDSON: Sure. Well, the four programs
7 that you see before you have been approved by Treasury.
8 We've had -- I think I've been on the phone with them
9 daily, and Linn probably has had more conversations. And
10 so we have built in quite a bit of flexibility.

11 We're not -- if we propose something and it
12 doesn't work, we're not stuck with it forever. They've
13 given us the flexibility to make changes as needed, as
14 we find things that need tweaking. That's also one of
15 the reasons for the pilot program, so that we can do a
16 readiness assessment.

17 There's also the ability to -- if one program
18 is just going gangbusters and another is languishing,
19 we have the flexibility, with Treasury's approval, to
20 move dollars. The allocation that's included in the
21 original proposal, quite frankly, was simply to get the
22 entire allocation approved. And then we have flexibility
23 to move dollars around between programs, not just the
24 four that we've proposed, but anything that's approved in
25 the local innovation -- from the local innovation fund.

1 And we also -- you know, there are ten other --
2 or nine other states that have programs. And so those
3 programs, once they're approved, if there's something
4 there that's working fabulously that we think would
5 transport well to California, we can lift it off the
6 menu and bring it in and give it a go.

7 MS. PETERS: And for the benefit of the public
8 that's here, I know we have a lot of folks who have a lot
9 of input on this. What would be the process for them to
10 try and get their ideas incorporated into the program?
11 Would that be the RFP process?

12 MS. RICHARDSON: Right now, it would be the
13 RFP process. The RFP process is available. It's on the
14 Web site. It's been mailed to everybody that I had an
15 e-mail address for that attended any of the forums or
16 participated in any of the phone calls. And so we would
17 ask people to -- you know, we obviously can't provide
18 funds for a program that hasn't been approved by
19 Treasury.

20 So the first step is getting Treasury to
21 approve a program, getting some experience with it,
22 getting some success, and then figuring out, you know,
23 what the proper funding level is.

24 CHAIR CAREY: So we'll get the proposals and
25 then we'll get Treasury approval?

1 MS. RICHARDSON: Correct. We're still the
2 managers of the funds. We have to vet them first. But
3 Treasury has final approval over all program elements.

4 CHAIR CAREY: Okay. Ms. Carroll?

5 MS. CARROLL: Thank you.

6 A couple of questions.

7 You said that you have sort of first look at
8 the proposals. Does that mean that you'll screen the
9 proposals before they go in for approval, and maybe some
10 might go in and some might not, or do they all --

11 MS. RICHARDSON: Yes. If there's something
12 that goes in that we absolutely know isn't going to pass
13 the test -- and I think we would not do ourselves any big
14 favors if we sent 30 proposals to Treasury and asked them
15 to approve them by the end of September. So they're --
16 and, you know, we do have a limited amount of dollars.
17 And today, I don't have any idea how many proposals will
18 be submitted. We've asked for letters of intent to come
19 in this week, so we have a better idea of what that
20 universe is going to look like and whether or not we need
21 to sort of steal some more staff from other areas to help
22 us vet those -- hi, Steve -- to help us vet those
23 because, really, there's only so much we can do
24 ourselves.

25 MS. CARROLL: Okay, thank you.

1 The other question I have, you said that
2 other -- obviously, you'll be working with other states
3 and looking at what they're doing.

4 MS. RICHARDSON: Yes.

5 MS. CARROLL: So our program is the first to be
6 approved, is that --

7 MS. RICHARDSON: There were five in the first
8 round that were approved.

9 MS. CARROLL: That were approved. Okay.

10 And how do our programs compare to the other
11 states so far?

12 MS. RICHARDSON: California, Nevada, and
13 Arizona have principal-reduction programs. Michigan and
14 Florida have focused on unemployment assistance.

15 MS. CARROLL: Okay.

16 MS. RICHARDSON: The program that Michigan is
17 doing, is a program that they've done for years, and
18 they're just using these funds to continue that, I
19 believe.

20 MR. WARREN: Correct.

21 MS. CARROLL: And on the principal-reduction
22 programs, would we be working with the other states?

23 I mean, I'm assuming some of the same --

24 MS. RICHARDSON: Yes.

25 MS. CARROLL: -- things are involved.

1 MS. RICHARDSON: Yes, we are having
2 conversations with them. Because, quite frankly, the
3 servicers can only deal with so many programs. And
4 they've got HAMP that they're trying to implement, which
5 changes periodically, as you know. And every time that
6 changes, they've got to go in and change their platform.
7 So to the extent that we can provide some continuity
8 between programs, I think it would be to our benefit and
9 to everyone's. So we are working on that.

10 MS. CARROLL: And I would assume that would
11 also apply to any of the innovative programs that do get
12 approved and should be successful.

13 MS. RICHARDSON: Correct.

14 MS. CARROLL: Thank you.

15 CHAIR CAREY: Ms. Jacobs?

16 MS. JACOBS: Thank you.

17 Could you just confirm for me one more time the
18 dollar amount for the innovation program?

19 MS. RICHARDSON: Well, right now, in the
20 proposal, we've allocated -- and it's not really an
21 allocation. What we did was, we said it's about
22 \$32 million for the original application. But if you
23 look at the way the dollars are allocated in the proposal
24 for the four programs that were approved, you'll notice,
25 those take up the entire \$7 million. And the reason we

1 did that is because --

2 MS. JACOBS: \$700 million.

3 MS. RICHARDSON: Thank you -- \$700 million --
4 was because Treasury instructed us to do that so that the
5 entire amount was approved for us. In case, you know,
6 something happened and none of the local programs got
7 approved, we didn't want to leave \$32 million sitting on
8 the table.

9 MS. JACOBS: Great. Thank you.

10 MS. RICHARDSON: But we'll move those funds
11 around.

12 CHAIR CAREY: Mr. Hudson, did you have a
13 question?

14 MR. HUDSON: So on the principal-reduction
15 program, I'm led to believe it doesn't apply to
16 refinances?

17 MS. RICHARDSON: It applies to people that
18 didn't -- as long as they didn't take cash out. If they
19 did a refi for a better rate or term, then they're
20 eligible; but not for a cash refi. And the reason we
21 did that was because \$700 million really isn't a lot
22 of money. And, you know, we had to draw some lines
23 somewhere. And, quite frankly, we didn't know how to
24 determine who took cash out for a good reason and who
25 didn't. We just didn't really feel like we were the best

1 judges of that.

2 MR. HUDSON: And when you talk about
3 flexibility with the program, could we include in the
4 program incentives for lenders to do more than a 50-50?

5 MS. RICHARDSON: Well, I wouldn't say we're
6 actually -- we don't look at this as an incentive for
7 the lenders. If lenders want incentives, there are other
8 incentives in other programs out there for them. What
9 we're trying to do is, you know, help the borrowers.

10 Certainly, there are programs out there that
11 incent lenders to go down to 105 percent LTV. And we'll
12 take -- they can use these funds to get down to 120, and
13 certainly lenders can put in more than a one-to-one match
14 and get borrowers down further. And, in fact, that's
15 what we're hoping will happen.

16 MR. HUDSON: So "incent" maybe is the wrong
17 word.

18 Can you penalize lenders for not doing more?

19 MS. RICHARDSON: We can't penalize, no. We
20 don't have any authority to penalize lenders.

21 But we will probably -- what we're considering
22 and what we're thinking about is if there's a way for us
23 to give some kind of priority for lenders that do the
24 higher match.

25 MR. HUDSON: And can you move money around from

1 categories, from unemployment assistance to --

2 MS. RICHARDSON: Yes.

3 MR. HUDSON: You can?

4 MS. RICHARDSON: Yes.

5 MR. HUDSON: Without Treasury approval?

6 MS. RICHARDSON: No, it will require Treasury
7 approval, but I don't anticipate it being a problem.

8 MR. HUDSON: Okay, thank you.

9 CHAIR CAREY: Ms. Macri-Ortiz?

10 MS. MACRI-ORTIZ: Yes, on the line of principal
11 reduction, can we look at trying to get lenders to
12 cooperate to a point where we won't put in anymore?
13 Where they'll take, say, the difference between 120 and
14 105, and put that as deferred at the end of the loan?

15 MS. RICHARDSON: Sure, they can do that.

16 MS. MACRI-ORTIZ: At the end of the loan --

17 MS. RICHARDSON: There's nothing that would
18 prohibit them from doing that.

19 And, again, a point that I don't know if I've
20 made is that this program is not the actual loan
21 modification. We're trying to use these funds to get
22 people to a point where they can get to a sustainable
23 modification. And that's why also we went to
24 120 percent, because we know that there are loan
25 modification programs out there for borrowers that

1 are at 120 percent LTV.

2 So at that point, absolutely, lenders can go
3 lower. If they want to do forbearance for the rest of
4 it, absolutely there's nothing to prohibit that.

5 CHAIR CAREY: Mr. Smith?

6 MR. SMITH: I'm just curious if you've had any
7 preliminary discussions with any lenders and what their
8 response is to this program.

9 MS. RICHARDSON: Yes, we've been talking to all
10 of the lenders. And I think that they've -- I think that
11 we've had some pretty positive conversations. I would
12 characterize them as being very positive.

13 I think one of the biggest concerns that they
14 have, as I mentioned is, how will they do ten different
15 programs. I mean, we've got four.

16 And do you remember the number from each state?

17 I mean, I think there's something like 19
18 programs that have been proposed.

19 MR. WARREN: Yes, by the time, BofA added up,
20 it was almost 31 programs total if you taken into account
21 all the potential variations of the programs from the
22 ten states. So it's quite a few.

23 CHAIR CAREY: Ms. Peters, yes?

24 MS. PETERS: One more quick question to help
25 guide the public in their submissions in the response to

1 the RFP.

2 I know that we were lucky enough to have all of
3 our programs approved pretty much as we submitted them.
4 I know some other states had some difficulty with some
5 of the proposals, just not being acceptable to Treasury.

6 If you might give us some examples of the
7 things that we know that Treasury has not approved and
8 would be unlikely to approve in the future.

9 MS. RICHARDSON: Yes, I'll tell you, we had to
10 fight very hard to get the counseling piece approved.
11 We thought that was really critical, and we really went
12 to bat for that. And I know that there was the least --
13 there was down-payment assistance that was proposed that
14 was not approved, and there was legal aid that was not
15 approved.

16 CHAIR CAREY: Other questions?

17 *(No response)*

18 CHAIR CAREY: Okay, thank you very much.

19 MS. RICHARDSON: Do you want us to stay?

20 CHAIR CAREY: Yes, Linn and Diane, if you would
21 stay.

22 And then we have a number of people who have
23 filled out speaker slips, some of whom I have twice, and
24 I'm hoping will only speak once.

25 I think what I'd like to do, if we can keep

1 this to 15 minutes, it would be very helpful, recognizing
2 that there are, I think, about six people who have filled
3 out slips.

4 But, Yvonne Mariajimenez, I believe you're sort
5 of the lead on this. If you'd like to come on up and
6 take a seat at the table. And maybe the next person
7 up -- you have the list, I assume?

8 MS. MARIAJIMENEZ: Good morning.

9 If I could ask Mark Linder, Yvette Roland, and
10 Stephanie Haffner to join me at the table.

11 Good morning, Mr. Chairman, distinguished
12 Members of the Board, and the CalHFA staff. I am Yvonne
13 Mariajimenez. This morning, I'm here representing the
14 national network of the Industrial Areas Foundation.
15 In Los Angeles, we're known as "One LA."

16 Today, we are here joined by a coalition of
17 allies who are SEIU, ACCE, and Cisco, who are here
18 represented in the hall. Together, our organizations
19 represent millions of families across the state of
20 California.

21 One LA-IAF appeared before you at your
22 board meeting in March to address the Hardest Hit Fund
23 money allocated to California to prevent foreclosures.

24 We recognize and commend the staff of CalHFA
25 for their decision to allocate \$500 million of the

1 \$700 million toward principal reduction. We think that
2 that is a great decision and a very good start to
3 addressing foreclosure prevention in our state.

4 Yesterday, we met with the CalHFA staff. I'd
5 like to recognize Diane Richardson, Linn Warren, and
6 Jean Mills, who provided us a significant amount of their
7 time to sit down with us to discuss our concerns with the
8 CalHFA plan as currently written. We had a very fruitful
9 and very beneficial conversation; and we are very
10 confident that we will have an ongoing dialogue.

11 We provided to them why we feel -- what the
12 concerns are with the plan as currently written. The
13 major concern being that it provides far too much public
14 funds to investors and banks in return for the reduction
15 of mortgage debt to be reduced.

16 We appear before you this morning to urge you
17 to set policies that will insure the effective and
18 accountable expenditure of the Hardest Hit Funds, to
19 ensure that homeowners are not left substantially
20 underwater after significant public investment.

21 We urge the Board to consider the policies
22 set by the Obama Administration. In the enabling
23 legislation that established TARP, our Government has
24 stated that taxpayer funds should not be used to pay
25 more than what mortgage debt is worth. And it talks

1 about using net present value as a measure for
2 determining payment to investors in return for principal
3 reduction.

4 We believe -- and we've discussed, the One LA
5 plan with staff. We believe it meets the interests of
6 investors by giving them a better return than moving
7 forward on foreclosure, it keeps families in their homes,
8 and it keeps our communities intact. And it will go a
9 long way in establishing and stabilizing the housing
10 market in California.

11 Bank of America has agreed to participate in a
12 small demonstration project in a district in the city of
13 Los Angeles to demonstrate its effectiveness, and that
14 project will launch this month.

15 I'd now like to yield to the floor and to my
16 colleagues who will provide you more information.

17 MR. LINDER: Thank you, Yvonne.

18 I'm Mark Linder. I'm with the COPA
19 organization which is an IAF network organization in
20 Monterey and Santa Cruz counties. And, as you know,
21 that area is hit three to five times more than the state
22 average in terms of foreclosures.

23 Following what Yvonne has said, we actually
24 have a policy resolution that we would like the Board
25 to consider when it's appropriate, a policy resolution

1 to guide the programs that you're going to be working on.

2 And I'll just go through the resolution and
3 then I'll turn it over to another speaker.

4 "So whereas the U.S. Department of Treasury
5 established a program for states hardest hit by
6 the foreclosure crisis to innovate solutions for
7 distressed homeowners faced with a severe negative
8 equity, second liens, and unemployment, known as the
9 Hardest Hit Fund.

10 "And whereas the Hardest Hit Fund is funded
11 by the Troubled Asset Relief Program, TARP, funds under
12 the Emergency Economic Stabilization Act of 2008, or
13 EESA.

14 "And whereas the U.S. Treasury allocated to
15 the California Housing Finance Agency \$699,600 under the
16 Hardest Hit Fund program and directed CalHFA to draft a
17 plan to using the funds.

18 "And whereas EESA provides, in pertinent part,
19 for TARP funds to be used in a manner that:

20 "One: Protects the interests of taxpayers by
21 maximizing overall returns and minimizing the impact on
22 the national debt;

23 "Two: Considers the net present value to
24 the taxpayer when purchasing troubled mortgage debt;

25 "Three: Prevents unjust enrichment to

1 financial institutions; and

2 "Four: Takes into account the need to help
3 families keep their homes and stabilize communities.

4 "Whereas the CalHFA plan includes \$420,634,500,
5 or 60 percent of the funds for a principal-reduction
6 program and a maximum of 5 percent of funds or
7 \$32 million, as indicated earlier, for the local
8 innovation fund.

9 "And whereas the CalHFA, in its plans for the
10 Hardest Hit Fund, reserves the right to adjust these
11 allocations among the various programs based on various
12 factors, as you've heard earlier.

13 "Whereas as of February 2010 there were at
14 least 504,778 delinquent loans in California.

15 "And whereas subprime loans constitute
16 approximately 63.6 percent of completed foreclosures on
17 loans originated between 2005 and '08.

18 "Whereas from 2004 to 2008, 58.5 percent of
19 subprime loans were refinance or home-improvement loans.

20 "Now, therefore, be it resolved" -- and I do
21 have a copy of this which I'll get to you -- "be it
22 resolved that,

23 "One, CalHFA" -- these are the policies that
24 we're looking for -- "CalHFA shall ensure that funds for
25 principal reduction are used in a manner consistent with

1 the Emergency Economic Stabilization Act of 2008, and
2 leveraged to:

3 "1, maximize the number of homeowners reached,
4 homeowners helped;

5 "2, maximize the amount of principal reduction
6 for each dollar of taxpayer money or public investment;
7 and

8 "3, minimize the amount of mortgage debt held
9 by homeowners in order to ensure that after public
10 investment funds, foreclosure is prevented.

11 "Two, CalHFA shall revisit its exclusion of
12 long-term homeowners from participation in its programs
13 and shall consider permitting homeowners with subprime
14 loans in addition to homeowners who purchase money
15 mortgages and refinances to participate in its program;
16 and

17 "Three, CalHFA shall take all necessary steps,
18 including obtaining bank data to evaluate its
19 principal-reduction program using, at a minimum, the
20 criteria of:

21 "1, Number of homeowners reached,

22 "2, Amount of principal reduction for each
23 dollar of public investment,

24 "3, Post-modification of loan-to-value ratio
25 on the first mortgage,

1 "4, Post-modification of loan-to-value ratio
2 on all debt mortgage -- mortgage debt, and

3 "5, Loan performance,

4 "6, Geographic location, and

5 "7, Demographic information."

6 That is the resolution we urge you to consider.

7 I will -- who should I give the copies to? Who
8 is the appropriate party?

9 CHAIR CAREY: You can give it to Diane
10 Richardson.

11 MR. LINDER: And we can get copies around to
12 each of you.

13 CHAIR CAREY: Great.

14 MR. LINDER: Thank you.

15 MS. MARIAJIMENEZ: I'd like to call Renee Lee
16 forward, a homeowner, to tell her story.

17 Renee?

18 MS. LEE: Hi. My name is it Renee Lee. I live
19 in South Sacramento. I've been in my home for 21 years.

20 This is no fault of mine. The Governor reduced
21 our wages -- I'm a state worker also. I work for the
22 Franchise Tax Board for 32 years -- reduced my wages
23 15 percent. It became -- I had to make hard choices
24 because I also legally adopted my granddaughter.

25 Do we eat, have lights, or do I pay my

1 mortgage? So I had to make some hard choices.

2 I have been in New York City, New York, at
3 a vigil at Bank of America. I was also out on
4 Washington, D.C., on K Street -- shutting down K Street
5 because I'm not going to stop.

6 I bought this home 21 years ago. I paid my
7 mortgage on time. The banks are not working with me.

8 Bank of America finally contacted me after the
9 vigil in New York, trying to modify my loan. The first
10 package they sent to me, it was incomplete, so I made a
11 phone call, got a complete package.

12 Then I received the last package on the 24th.
13 I stayed up until ten o'clock at night to make sure
14 I finished this package and do what I needed to do to
15 get it returned back to them the next day.

16 To this day, I haven't heard from Bank of
17 America. They was going to sell my home on June 30th,
18 which I wasn't aware of. She claimed, she extended the
19 loan until July 31st. But at this point, I haven't heard
20 from them.

21 So I'm asking you to help them to adopt this,
22 to help me save my home. This is the only home me and
23 my granddaughter has. If we lose our home, we'll be
24 homeless and we'll be out on the street. And I shouldn't
25 be like this. I was living the American dream. Now

1 I'm living in this nightmare, and I just want it to
2 end. I just want to save my house, so I can raise my
3 granddaughter to make sure she graduates from school, be
4 whoever she's going to be, and give her a fair chance at
5 life.

6 Thank you.

7 CHAIR CAREY: Thank you.

8 *(Applause)*

9 MS. MARIAJIMENEZ: Jose Vega.

10 MR. VEGA: Hello. My name is Jose Vega. I'm
11 a realtor from Pittsburg, California. And I'm here today
12 to tell you I have been dealing with my bank for over a
13 year, approximately 16 months now. And I first was put
14 on a trial modification by Chase back in May of last
15 year, and made six trial payments.

16 Two weeks after that, I found the notice of
17 trustee sale on my door because they had decided I didn't
18 qualify. And they had done a foreclosure at the same
19 time as they were doing my modification.

20 Now, I have been -- I was able to stop that
21 sale, and I have been denied a modification twice after
22 that.

23 I have the office of Senator Feinstein involved
24 in this. And even with that, in the middle of my
25 negotiation, they foreclosed on my house back in April.

1 Now, after that, they rescinded the foreclosure
2 because of all the pressure that Senator Feinstein put on
3 them, and then they gave me a modification June 15th with
4 payments that are \$500 higher than they had originally
5 said, knowing very well that I wouldn't take it. But the
6 curious thing was on the same day, they sent me a third
7 letter of denial. This time, it has the net present
8 value formula.

9 It seems to me that all this help has been
10 designed with the banks' interest in mind, more over my
11 own interest and all of those thousands of homeowners
12 like myself. So I would like to ask you to please,
13 please consider a principal reduction.

14 My house is \$250,000 under while my loan is
15 \$40,000 more after the all the charges that they're
16 putting on me.

17 So I have a dream. And I know that we're going
18 to be better as a people after this crisis is over.

19 And I also have a dream that the change will
20 start, you know, in California. And we need you to help
21 us out.

22 Thank you very much.

23 CHAIR CAREY: Thank you.

24 *(Applause)*

25 MS. MARIAJIMENEZ: Maria Rocha.

1 MS. ROCHA: Hi, everyone. My name is Maria
2 Rocha. And I am a resident of Monterey County. I'm also
3 a member of the Catholic church, and I'm a leader of
4 COPA.

5 About 19 months ago, I applied for a loan
6 modification with Wells Fargo because of my husband and
7 my brother lost their jobs due to the economic crisis.
8 During this time, I had submitted my documents about
9 12 times. And every time I called Wells Fargo, they gave
10 me different information. That is why it took them so
11 long.

12 Finally about two months ago, they preapproved
13 me for the Making Home Affordable. They reduced my
14 payment to \$200. Right now, I'm in the trial period.
15 And I still have to wait for them to make the final
16 decision regarding my mortgage.

17 This process has been very long and very
18 stressful because on many occasions, my house was almost
19 sold by the bank. I have to be calling them almost every
20 month to ask them to postpone the sale of my house.

21 Seven years ago, when I bought this property,
22 we paid \$630,000. Right now, it's worth \$320,000, which
23 is almost 50 percent less of what I paid.

24 So I'm here today because I think that a
25 principal-reduction program is what we need here in

1 California. And in order for that to happen, we need to
2 invest in the people that are facing this crisis.

3 I know from what I've read from the draft,
4 is that if your house has been put up for sale, you won't
5 qualify for the loan principal reduction or if you have
6 a second mortgage. So I wanted to ask you if you can
7 please change some of the guidelines for this program.

8 Thank you.

9 CHAIR CAREY: Thank you.

10 *(Applause)*

11 MS. MARIAJIMENEZ: And Debora Beard.

12 MS. BEARD: Good morning. My husband Tommy and
13 I are both members of ACCE. He is a member of the SEIU.
14 I am a member of CSEA.

15 We asked for a modification on our loan because
16 we had gotten into some temporary financial problems, and
17 we thought that we would be able to get help from our
18 lender, who is Chase.

19 We didn't get any help from them. Upon asking
20 for a modification, we were waiting for an answer. The
21 next thing we got is somebody telling us we had to move
22 because our home had been sold.

23 At that point, we refused to get out. We
24 started with ACCE and we started fighting to stay in our
25 home to see what could be done.

1 We asked for the modification. We sent the
2 papers in, we sent papers in, we sent papers in. A lot
3 of the same papers that had been sent in already, we were
4 mailing them, we were faxing them, even Fed-Exing them.

5 What happened with us is that we're now way,
6 way under on our loan. We've been trying to make the
7 payments. We asked Chase to help us out, you know, is
8 there something that could be done so that we could
9 remain in our home.

10 Chase has not responded to us in a way we think
11 they should have. We feel like our modification was not
12 done properly. The formula should have been done better
13 because we ended up with a payment that was more than our
14 original payment plus, we had a \$157,000 balloon payment
15 at the end of that payment period. We need someone to do
16 something about principal write-downs because without
17 doing those, homeowners cannot stay in their homes.
18 There's no way they can get back on their feet.

19 The banks are getting assistance from the
20 government. They have gotten assistance. Now, if
21 they're in a position to give their employees and their
22 CEOs billion-dollar bonuses, there should be something
23 they can do for the average homemaker who's trying to
24 just stay afloat and stay in their homes. We're not
25 asking for a handout. We're asking for a hand-up.

1 We're willing to do our part. We have been doing our
2 part. We need Chase and the other banks to do their
3 parts, follow the guidelines that they send to us saying
4 that we need to do such-and-such a step, and they will do
5 such-and-such a step afterward. We need them to step up
6 to us now because we've been stepping up to them.

7 Thank you.

8 CHAIR CAREY: Thank you.

9 MS. ROLAND: Good morning. My name is Yvette
10 Roland, and I am a South Los Angeles leader with One LA.
11 And I'd like to ask that CalHFA reconsider one key
12 element of its plan as currently structured, and that is,
13 that the CalHFA plan eliminates and, in effect, bars any
14 homeowner who refinanced and pulled cash out for any
15 purpose.

16 This has the effect of eliminating the
17 participation of long-term homeowners, such as homeowners
18 who we've heard today who have actually been a part of
19 communities that were targeted by predatory lending.

20 We appreciate that CalHFA has made a diligent
21 effort to allocate funding and has advanced the concept
22 of principal reduction. However, by eliminating this
23 substantial group of people, most of whom are -- or many
24 of whom are from communities of color where they were
25 targeted, not because the lenders wanted to encourage

1 them to reduce their interest rates, but because they
2 wanted to encourage them to pull out the equity that they
3 had in their homes, and to do so with unfavorable
4 subprime loans.

5 We've had conversations with hundreds of
6 homeowners in South Los Angeles and in other communities
7 of color; and what we've learned is that these
8 individuals, contrary to the current -- to the publicity
9 that surrounds the purposes for which the funding was
10 used and was pulled out of these homes, contrary to that
11 publicity, there are not large numbers of mansions that
12 have sprung up in South Los Angeles; there are not
13 individuals who went out and bought boats, who went out
14 and bought luxury items.

15 What we've learned, based on our conversations
16 with hundreds of members of our institutions is that many
17 of them pulled out money to pay for tuition, many of them
18 pulled out money to pay for living expenses that arose as
19 a result of unemployment. Many of them pulled out money
20 to pay for medical debt.

21 We know that based on the statistics recently
22 compiled and circulated by the Center for Responsible
23 Lending, that individuals in primarily communities of
24 color face a 45 percent and 47 percent higher likelihood
25 of facing foreclosure than in other communities. We also

1 know based on the statistics compiled by the Center for
2 Responsible Lending that these are communities that were
3 targeted by subprime predatory lending practices.

4 And so we ask you to reconsider eliminating
5 this substantial group of individuals from this plan
6 because these individuals, too, should benefit from the
7 lifeline that is thrown out by the federal government in
8 connection with these TARP funds.

9 Thank you.

10 *(Applause)*

11 MS. HAFFNER: My name is Stephanie Haffner.
12 I'm the supervising attorney for housing and consumer
13 loans with Neighborhood Legal Services of Los Angeles.
14 Neighborhood Legal Services of Los Angeles is a member
15 of One LA that, as you know, has been involved in a
16 pilot program in the city of Los Angeles to demonstrate
17 loan modifications with principal reduction.

18 And my task here as sort of technical assistant
19 on that pilot is just to highlight for you very quickly
20 but specifically where we think the principal-reduction
21 program can be improved, and that would be with attention
22 to what is the mortgage balance after modification.

23 So after the public invests up to \$50,000 in a
24 principal-reduction loan modification, what is the
25 mortgage balance? Is it going to be low enough to

1 actually prevent foreclosure, or is it just going to be
2 a give-away for some foreclosure that would happen
3 anyway?

4 And the second point would be, what is the
5 amount of leverage that the public is getting for that
6 investment of public funds?

7 In Los Angeles, what we are piloting is that
8 the public will be investing the net present value of
9 forgiven principal.

10 What is in the CalHFA principal-reduction plan,
11 as written, is a target of a 50-50 match. So if CalHFA
12 invested \$50,000, the lender could forgive \$50,000, and
13 there would be a principal reduction of \$100,000 for a
14 participating homeowner.

15 However, this is a homeowner who is in distress
16 and who is already severely underwater. And so when you
17 take into account actually the actual present value of
18 that principal forgiveness, it's not 50 percent, it's not
19 50 cents on the dollar. And the bank's own calculations
20 to us have been that it's more in the range of 6 to
21 15 cents on the dollar. So that we think that with a
22 smaller investment, you can put more homeowners in a
23 better position to actually prevent enclosure long-term.

24

25 I have for you a one-page case study that

1 compares what the One LA pilot approach with the current
2 CalHFA plan. And the figure there -- this is an actual
3 case example using figures from Chase Bank -- in the
4 Los Angeles model, there would be a \$186,000 of principal
5 forgiveness in exchange for an investment of \$18,000 by
6 the public.

7 And at the end of the day, homeowner's mortgage
8 debt is going to be no more than 125 percent of the home
9 value. So they have a reason to keep paying because we
10 think values are going to go up.

11 Are they going to go up by 25 percent in a few
12 years? Possibly.

13 Are they going to go up by 100 percent in the
14 next few years? We think highly unlikely.

15 And so that is for your consideration. And I
16 will -- who should I hand this case study to?

17 CHAIR CAREY: Right behind you there.

18 Thank you very much.

19 *(Applause)*

20 MS. HAFFNER: Thank you for your time and
21 consideration.

22 CHAIR CAREY: Thank you very much.

23 I especially appreciate the homeowners who
24 brought themselves forward. I know these are difficult
25 stories, mixture of stress and sadness and I'm sure

1 anger. And I appreciate their willingness to tell the
2 stories that are occurring way too frequently around the
3 state.

4 Steve, do you have or does staff have some --
5 anything to add? Or, Board Members, questions to ask?

6 Go ahead.

7 MR. SPEARS: I just want to echo your remarks.

8 I know that there are literally hundreds of
9 thousands -- I think one of the statistics was quoted of
10 homeowners in California that are in trouble in one form
11 or another. Some are not very delinquent and some are
12 being foreclosed upon. And it is an enormous, enormous
13 problem. The staff has struggled with this. The Board
14 has struggled with this.

15 What we've tried to do is leverage these funds.
16 What we've tried to do -- and here again, it's a little
17 disconcerting to say that \$700 million is not a lot of
18 money. But when you spread it in a state our size and
19 look at the problem that's out there, I'm not sure the
20 total amount of principal balance of the 529,000 that
21 are delinquent, but it is a very, very large number. And
22 so we had to deal with a very, very limited resource.

23 What we've tried to do is put in the matching
24 element. Not only that, but what we're trying to do is
25 not make this the end game. The end game is to take as

1 many folks as we can and get them into programs that
2 they're being denied at this point. And you've heard
3 some of these stories, that they have been put into trial
4 programs and then told no. And that's what we're trying
5 to do. We're trying to leverage it, not only the money
6 that we have, the \$700 million, but also the federal
7 funds that are out there in HAMP, in HAFA, in Making Home
8 Affordable, in a lot of the other programs. And that is
9 our goal.

10 One final goal is that if we can make this work
11 really, really well, help as many people as we can, we'll
12 be the first ones back at Treasury saying, "This really
13 worked in California. We need more help. We need more
14 allocation of dollars."

15 CHAIR CAREY: Could I just ask a quick
16 question?

17 On the Chase example, is that a done deal?
18 Is that approved by Chase or is this just an example?

19 MS. HAFFNER: The Chase example is an example
20 that was worked up by their sort of financial analyst
21 team in assessing whether to participate in the local
22 pilot. And Chase has agreed to participate in the local
23 pilot based on examples such as this one.

24 CHAIR CAREY: Okay, thank you.

25 Ms. Macri-Ortiz?

1 MS. MACRI-ORTIZ: Yes, I have a question,
2 because you kind of hit the nail on the head in terms
3 of, are we looking at this program in a vacuum or are we
4 carrying it over to the modification? Because I know
5 we're saying this is kind of like a jump-start to the
6 modification.

7 It seems that we need to build into our program
8 some sort of structure to keep the banks honest. Because
9 I think what we're hearing is, okay, so we'll take that
10 money and then a few months later then it's -- you know,
11 you can't meet the 105 percent, or whatever their
12 standard is, and so you go out.

13 And I think maybe that's where maybe you can
14 use some sort of a commitment that isn't necessarily
15 in dollars, that are, you know, cash dollars.

16 Okay, so say they commit, you know, to match at
17 50 percent, but then we've got to have a catch on them,
18 we kind of have to have a hook that, okay, now, we're
19 going to send the family to the modification level.

20 MS. RICHARDSON: Absolutely.

21 MS. MACRI-ORTIZ: We've got to have a guarantee
22 that they're going to come out of the modification with,
23 you know, a loan that they can afford.

24 And so at that point, we need maybe -- we need
25 the commitment from the bank that if the math doesn't

1 work at that point, then the bank's got to be willing to
2 at least put that on the back end.

3 MS. RICHARDSON: Well, again, that's where we
4 think our central processing center is going to be very
5 key in making sure that these dollars are being used in
6 conjunction with sustainable long-term modifications.

7 So it's not going to be: Throw this money at
8 something, and then the borrower doesn't qualify for
9 modification, and this money is gone, anyway. There will
10 be a longer-term strategy.

11 MS. MACRI-ORTIZ: Okay, because that's kind of
12 like the biggest concern is, I don't believe in just
13 giving money at it, at the end of the day.

14 The other thing is -- and this is maybe for
15 the audience as much as where I'm coming from -- with
16 respect to your housing, if the consumer, the homeowner
17 is looking at it as their decision whether they're going
18 to stay or not is based on what the equity is in the
19 house as opposed to the way they spoke about, "I just
20 want a place where I can raise my grandkids," that's a
21 whole different ball game.

22 And so I don't know that it really -- you know,
23 the equity or the decision about what is it going to be
24 worth, or is it worth it to stay in the home because of
25 the property values have dropped \$300,000 or whatever.

1 If you can get the homeowner to a point where they can
2 afford the mortgage -- so they're at 30 percent or
3 35 percent of their pay is going to their mortgage, it
4 doesn't really matter how much.

5 MS. RICHARDSON: Right.

6 MS. MACRI-ORTIZ: Because I think in terms of
7 what our values are -- and that's where I'm coming from.
8 It's not to get them so they can sell the home in five
9 years; it's so they can raise their family --

10 MS. RICHARDSON: Right. That's why we sort of
11 went with the 120 percent LTV versus taking somebody down
12 to 100 and creating some kind of equity. We think this
13 is a program for people that want to stay in their homes
14 and need help staying there.

15 MS. MACRI-ORTIZ: So the focus has got to be
16 on what's the payment going to be for the family as
17 opposed to the --

18 MS. RICHARDSON: Absolutely.

19 MS. MACRI-ORTIZ: -- the loan-to-value, right?

20 MS. RICHARDSON: Yes.

21 CHAIR CAREY: Mr. Hudson?

22 MR. HUDSON: Yes. So I assume the Agency wants
23 to leverage the dollars as much as everybody else does.
24 We want to see as many people served as we can.

25 And this question of leverage, to me, there's

1 a major party not here today, and that's the banks.
2 Clearly, they are underrepresented at this meeting today
3 and, clearly, have no representatives here to give us
4 their thoughts on this.

5 But the issue -- and I want staff to respond to
6 this -- I'm assuming that the 50-50 match -- if a bank
7 wanted to put in, you know, 75 -- you know, \$3 for every
8 \$1, we would take it. And, thus, I assume that we came
9 with 50-50 on the theory that that's the best program to
10 get the most participation from the banks.

11 So, one, I want to know if that's true. And,
12 two, I want to know, kind of is there some analysis that
13 went into how we came at this number of the match?

14 MR. WARREN: Mr. Hudson, we had a number of
15 discussions with the servicers. And, yes, we believe
16 that the 50-50 match was the most acceptable to bring
17 in as many services as we possibly can to lenders.

18 Nobody has really attempted a large-scale
19 principal-reduction program up 'til now. There's been
20 lots of discussion, but nobody's really done one yet,
21 notwithstanding the program that's come out from Treasury
22 earlier this year. So these were based on discussions.

23 We did an analysis as to if we did a 70-30 or a
24 30-70, that kind of mix. And as Di said earlier, the
25 objective is to leverage the dollars to reach as many

1 borrowers as we possibly can. And predominantly a large
2 amount of dollars goes to principal reduction.

3 So this is also based again -- not just for the
4 major servicer but also the smaller servicers and smaller
5 lenders throughout the country. So it was our best
6 estimate, it was our best guess.

7 And as we've said earlier, if we find that
8 there is additional interest over and above the supply,
9 then we can put priorities with higher participations.
10 But we'll have to test these to find out.

11 CHAIR CAREY: Thank you.

12 Ms. Carroll?

13 MS. CARROLL: Thank you.

14 I'd like to thank the folks from One LA for
15 coming to talk to us today.

16 And I did have a question about the
17 demonstration project. I think it's about ready to
18 start; is that correct?

19 MS. MARIAJIMENEZ: That's correct.

20 MS. CARROLL: Okay, and how long do you think
21 it will take to see results?

22 MS. MARIAJIMENEZ: Within the month and a half
23 to two months, I think the 50 loans will be made and the
24 outcomes will be there.

25 MS. CARROLL: So this will be 15 -- the initial

1 program is 15 --

2 MS. MARIAJIMENEZ: 50, five-zero.

3 MS. CARROLL: 50.

4 MS. MARIAJIMENEZ: We have a million dollars.

5 It's a tiny demonstration project, in one district in the
6 City.

7 MS. CARROLL: Okay.

8 MS. MARIAJIMENEZ: And it's a million dollars
9 allocated to that.

10 MS. CARROLL: Okay, thank you.

11 And in terms of working with the lenders -- and
12 I understand it's a massive project and a lot of banks to
13 work with. But will you be able to take results from
14 this project and at least, you know, work to be able to
15 leverage our dollars as far as possible? I mean, we do
16 still have flexibility in our current program.

17 Just curious as to how we're incentivizing
18 lenders to give us a better match or a better leverage.

19 MS. RICHARDSON: Quite honestly, we want them
20 at the table. And, you know, our goal is to push them
21 as far as possible. But if we offer them 6¢ on the
22 dollar and no one participates, no borrowers get helped.
23 So we're trying to find a way to sort of find a middle
24 ground.

25 And, you know, if we put in \$50,000 and a

1 lender puts in \$50,000, that's a \$100,000 benefit to
2 the borrower. We do not think that's an insignificant
3 amount.

4 And, you know, it's a three-year -- forgiven
5 over a three-year period to incentivize -- again, to
6 incentivize the borrower to stay current, to not just get
7 the money and flip the house. So, you know, those are
8 all things that we're taking into account.

9 CHAIR CAREY: Could I ask, the loans, the Bank
10 of America loans that are part of the demonstration, are
11 they strictly -- is it strictly a geographic selection or
12 is there anything else that's --

13 MS. MARIAJIMENEZ: This demonstration project
14 is a selected geographic district because they are
15 AB 1290 funds that were allocated by a city council
16 member for his district.

17 CHAIR CAREY: Okay, so it's just --

18 MS. MARIAJIMENEZ: It's contained within that
19 district only.

20 CHAIR CAREY: But they're just BofA loans?

21 Is there anything on the BofA side that's
22 focused -- that they're focusing on specifically?

23 MS. MARIAJIMENEZ: They're BofA loans. They
24 have -- they've told us approximately 2,200 loans just
25 in that one district.

1 CHAIR CAREY: Okay. And could you say -- with
2 the issue of seconds, cash-out seconds, isn't there a
3 fair amount of liability to the borrower on the
4 deficiency judgment issue?

5 MS. MARIAJIMENEZ: I think Stephanie will
6 address that.

7 MS. HAFFNER: I guess what's the follow-up on
8 that, so I mean, the question is what is the liability
9 of borrowers who have a cash-out second lien for a
10 deficiency judgment? I mean, it would be subject to
11 California law. So it could be subject to being
12 addressed in bankruptcy if that were appropriate for
13 that homeowner. And if not addressed in bankruptcy,
14 then it would be otherwise subject to California law.

15 CHAIR CAREY: Okay. We have a rogue
16 microphone.

17 Ms. Peters?

18 MS. PETERS: I'd like to commend everyone who
19 has spoken today for having the lines of communication
20 open to discuss creative ways to leverage to the maximum
21 extent possible. And I understand how frustrating it is
22 to deal with banks for the public, and believe it or not,
23 sometimes it's frustrating for us as well.

24 So I'd like to encourage the communication to
25 continue. And to the extent that the folks who have a

1 pilot program, have the ear of bankers who are willing to
2 engage in discussions about high leveraging, that you try
3 to facilitate a meeting between those individuals who are
4 funding your pilot program and our staff so that we can
5 talk to a willing audience about possibly expanding that
6 and testing the waters to see if they are so inclined to
7 expand it beyond the initial.

8 So thank you for that introduction.

9 MS. MARIAJIMENEZ: Absolutely.

10 CHAIR CAREY: Any other -- yes, Mr. Smith?

11 MR. SMITH: Yes, I'm just curious. I know your
12 pilot program is with BofA.

13 Did you have discussions with other lenders --

14 MS. MARIAJIMENEZ: Yes.

15 MR. SMITH: -- and did they say that they might
16 be interested, or what?

17 MS. MARIAJIMENEZ: Yes. We're dealing with
18 four major lenders besides Bank of America. It's Chase
19 who has advised us that they will participate, Wells
20 Fargo, and OneWest, formerly IndyMac. And it is those
21 institutions that hold the bulk of the loans in our
22 communities.

23 MR. SMITH: And what is the percentage that
24 you put in and the percentage that they would write off?
25 Have you already, in your program, is it specified that

1 you're going to put in a percentage of funds and then
2 they're going to write off some percentage?

3 MS. HAFFNER: Yes, the City is going to
4 contribute the net present value of the forgiven
5 principal. And net present value is a concept that's
6 written into the TARP legislation; and it's the notion
7 that TARP funds shouldn't be used to overpay for assets.

8 Net present value is also -- there are formulas
9 to calculate this that have been blessed by Treasury that
10 the servicers use when they decide, "Do I foreclosure or
11 do I modify?" So they already have a way of calculating
12 if they take away that \$180,000 to bring somebody closer
13 to where they can sustain homeownership long-term, then
14 what is net present value of that, taking into account is
15 the property going to appreciate or depreciate, is this
16 homeowner going to be able to continue making payments,
17 and how far underwater are they?

18 The range is approximately 6 to 15 cents on the
19 dollar, but it depends on how far underwater they are,
20 the borrower's creditworthiness, and the economics of the
21 local community.

22 MS. MARIAJIMENEZ: And to the loan range.

23 MS. HAFFNER: The loan range?

24 So what we're saying is an average of about
25 \$10,000 to \$20,000 per homeowner contributed, and that

1 the principal forgiveness is in the range of \$100,000 to
2 \$200,000.

3 And it's in the investors' interest as well in
4 that when somebody is after -- it's not impossible at all
5 to have a \$100,000 write-down on a loan, and for that
6 homeowner to still be underwater by 150 percent or more.
7 And in that situation, their ability to stay -- no matter
8 what their motivation is, their ability to stay current
9 on the loan changes because life happens: A job happens,
10 I have to move, do I have to ask for permission from the
11 lender to move. Do I have the ability to take out money
12 to make repairs when something -- when a heater goes.
13 A divorce happens, life happens. And so that's why the
14 loan-to-value ratio and a cap on the loan-to-value is
15 really important. And that's an element that is
16 currently missing from the plan to use the bulk of the
17 funds.

18 MR. HUDSON: Mr. Carey?

19 CHAIR CAREY: Yes.

20 MR. HUDSON: On the innovation fund, if I was
21 concerned about elder abuse and people taking advantage
22 of the elders and refinance schemes, even though we don't
23 provide for principal reduction and a cash-out refinance,
24 could I come with a program under the innovation
25 program -- the innovation fund that does that?

1 MS. RICHARDSON: You can certainly propose
2 anything that you want to propose. I don't think that
3 we --

4 MR. HUDSON: But, I mean, the Treasury -- oh,
5 so what would happen is --

6 MS. RICHARDSON: I don't think that there --

7 MR. HUDSON: -- we would submit it to Treasury,
8 and Treasury would either sign off or not sign off,
9 right?

10 MS. RICHARDSON: Right.

11 MR. HUDSON: Got it.

12 MS. RICHARDSON: I think at the very beginning,
13 there were some proposals that actually never made it
14 into the official drafts, where a couple of states were
15 talking about having special programs for teachers who
16 had been laid off, and Treasury was not very excited
17 about carving out things based on specific occupations.
18 And I don't know whether, you know, something that did a
19 specific age group would pass the test; but they shot the
20 occupation thing down pretty quickly.

21 MR. HUDSON: Yes, so to Ms. Roland's point,
22 it sounds like the Agency is challenged at figuring out
23 how to segregate those folks that refied for the 52-foot
24 yacht from the folks that refied because somebody told
25 them they needed a new porch or new air-conditioning.

1 So the question is whether you can instruct us
2 on how we can segregate those people that have been taken
3 advantage of in poor communities and get Treasury to
4 accept some sort of segregated fund.

5 MS. HAFFNER: The response as reflected in the
6 resolution that's in front of you, would be, I think you
7 can identify who got a subprime loan. And we know that
8 subprime loans are leading the foreclosure crisis. And
9 we know that subprime loans were also overwhelmingly --
10 over 60 percent were more refinances. And so I think
11 that's one approach that you can include under the
12 umbrella of people who obtained subprime loans, with the
13 acknowledgment that it was the subprime lending crisis
14 that sort of was the leading edge of all of this, and
15 that that was because an appetite on Wall Street for
16 subprime loans to sell to investors.

17 MR. HUDSON: Yes, so the point -- and I think
18 it really requires a specific proposal, but subprime
19 lending includes a lot of folks. There's only
20 \$700 million. So it's unfortunate, but there aren't
21 enough dollars in government, including not enough
22 dollars that have been allocated to the state of
23 California, to address all of the borrowers that are
24 having problems.

25 So everybody is going to have to make some hard

1 decisions. And we took a first shot at it, and I think
2 the innovative fund is to say, if there's a better way
3 to do it, let us know, and we're more than happy to
4 figure out if there's a way for the lenders to do a
5 higher leverage, we're more than happy to support that.

6 I personally don't believe banks are committed
7 to that. I'm not even sure they're committed to a
8 50-50 match, no matter who you talk to or how long you
9 talk to them, because they have spoken louder with their
10 actions than with their words. And the people wouldn't
11 be here today depressed, if banks were doing the right
12 thing across the board.

13 So we are not perfect, and we are trying very
14 hard and I think we are open -- and I heard from the
15 staff, and I think the Board would support -- we are
16 open to suggestions, ideas that provide -- that can
17 leverage these dollars farther and can meet the neediest
18 of the needy.

19 So -- that's all I have to say.

20 CHAIR CAREY: That's an excellent summary.

21 Are there other comments from Board Members?

22 MS. MACRI-ORTIZ: I just have a question.

23 CHAIR CAREY: Yes, Ms. Macri-Ortiz?

24 MS. MACRI-ORTIZ: I'm trying to figure out, in
25 terms of your pilot program, are you dealing with seconds

1 as opposed to firsts? And where is that leaving the
2 borrower?

3 MS. HAFFNER: So in all candor, in our pilot,
4 because it's a pilot, we are starting with folks who have
5 a first lien. We anticipate that we will expand to folks
6 who have the first and second that are serviced by the
7 same servicer, which is not uncommon, although it's also
8 not necessarily common.

9 And thirdly, the pilot provides for the
10 opportunity for second liens to be treated in the same
11 way as first liens are, that the principal can be retired
12 at net present value to get somebody into a situation
13 where they're -- to right-side their loan, I guess.

14 MS. MACRI-ORTIZ: I was just thinking, because
15 from my experience, the only way that we would be able to
16 resolve those types of problems is because the first was
17 what the person could afford, the second would be what
18 dragged them down. And the only way you could really do
19 it is if you were dealing with a second, not to give them
20 a payment they could afford to have, but to get rid of
21 it.

22 MS. HAFFNER: Right, right.

23 MS. MACRI-ORTIZ: I mean, in terms of reality,
24 most of our folks out there, if they could get rid of
25 that bad loan they got into and just went back to their

1 first, they could survive.

2 And I'm just wondering, on the interplay, when
3 I think about it, the more I think about it, it's like,
4 how do you deal with that, particularly with different
5 lenders?

6 MS. HAFFNER: There is a combined loan-to-value
7 cap in the local pilot, and that's of 125 percent of the
8 loan's value. And the way we deal with that is through
9 negotiation. And I think the second-lien holders know
10 that when somebody is already underwater, that what they
11 have is not worth a lot. And so their loan can be gotten
12 rid of through this pilot, through the net present value
13 of what they've got.

14 I don't know if my colleagues would add
15 anything.

16 MS. MARIAJIMENEZ: No, I wouldn't add anything
17 other than to say that's still in the interest of the
18 investor. And so we've been in discussions with the bank
19 on that, on that concept, and they understand that as
20 well.

21 CHAIR CAREY: Great.

22 Well, the innovative program is about to get
23 off and running. I think the application period is --

24 MS. MARIAJIMENEZ: Now.

25 CHAIR CAREY: -- short, if I recall.

1 MS. MARIAJIMENEZ: Right.

2 CHAIR CAREY: Timely.

3 And it looks like you'll have your program off
4 the ground in July, which is great, as your localized
5 demonstration.

6 We are moving towards an October 1 beginning,
7 with November kickoff.

8 It sounds to me like there continues to be
9 thinking and flexibility necessarily all the way through
10 as we work our way through it.

11 MR. SPEARS: Absolutely.

12 CHAIR CAREY: And I think that's what the Board
13 wants and that's what the staff wants. And I think the
14 dialogue will continue. And I want to thank you very
15 much for what was an excellent presentation and for the
16 folks that you brought in today.

17 MS. MARIAJIMENEZ: Thank you. And we
18 appreciate that. And we will continue dialogue with the
19 staff at CalHFA.

20 CHAIR CAREY: Great.

21 MS. MARIAJIMENEZ: To conclude, we do ask that
22 the Board consider the resolution that's been submitted.
23 And the organizations here today respectfully request
24 that the Board take action on that resolution today.

25 CHAIR CAREY: You know, I need to just point

1 out procedurally, under law, we cannot take actions that
2 are not agendaed. So that would have to be put off to
3 a future agenda. But we have the resolution and we
4 appreciate the work that went into it.

5 MS. MARIAJIMENEZ: Thank you. And we
6 appreciate that, if that could be addressed at the next
7 Board meeting.

8 CHAIR CAREY: Great.

9 MS. MARIAJIMENEZ: Thank you.

10 CHAIR CAREY: Thanks very much.

11 With that, we're going to take a ten-minute
12 break.

13 *(Recess from at 11:29 a.m. to 11:46 a.m.)*

14 CHAIR CAREY: We're back in session.

15 That met the Chair's definition of ten minutes.

16 --oOo--

17 **Item 10. Public Testimony**

18 CHAIR CAREY: I'm going to divert momentarily
19 from the agenda. We have one speaker who has filed a
20 speaker's slip who has asked for the opportunity to speak
21 to us for a couple of minutes.

22 Michael Profant?

23 MR. PROFANT: Good morning, Directors,
24 Mr. Chairman. Thank you for giving me a few minutes
25 to address you at this meeting.

1 The topic that I wanted to raise with you today
2 is the issue of CalHFA giving temporary exceptions to
3 borrowers from the requirement for owner occupancy that's
4 embedded in some of the loans. I don't know if that's
5 true of all of the loans that you issue, but I guess it's
6 true in my case.

7 So I purchased a below-market rate home in
8 Fairfield back in the beginning of 2008 through the
9 city's inclusionary housing program. So it was probably
10 about seventy- -- maybe 75 to 80 percent of what a
11 market-rate home would have sold for. That was the
12 approximate discount.

13 In January of this year, I was laid off from my
14 job with Solano County due to its budget crisis, and have
15 had no luck in finding a new position.

16 Given the state's high unemployment rate, I
17 guess of around 12 and a half percent, I think it's
18 unlikely that I'll find a position in the near future,
19 and highly unlikely that if I do find a job, it will be
20 in commuting distance of Fairfield. So I find myself in
21 a situation where, you know, it's essentially impossible
22 for me to fulfill that requirement and also meet my
23 mortgage obligations to the Agency, since I'm essentially
24 living on unemployment which, you know, would cover the
25 mortgage and housing expenses, and that's it. So, you

1 know, staying in the house is not an option right now.

2 And my main objective is to pay my mortgage
3 payments. That's what I want to accomplish. They've
4 always been paid on time. They continue to be paid on
5 time.

6 In normal circumstances, I would sell my home,
7 right, to an income-qualified individual. But,
8 unfortunately, these are not normal circumstances.

9 Now, the houses are worth probably about less
10 than 50 percent of, you know, what they originally were.
11 And so I paid 75 percent, so that's still a dramatic
12 difference between what I paid as a moderate-income
13 person and what the current market value of the homes --
14 you know, what the current market value is.

15 So selling it at this point is very difficult
16 because essentially, in my case, it might be doable and
17 would result simply in the loss of my life savings, which
18 I used as a down payment.

19 I think in a lot of other people's cases, you
20 know, they simply wouldn't be able to sell it and pay off
21 their loans; so they would be in a foreclosure situation
22 or a short-sale situation.

23 You know, and, of course, the house would then
24 be lost; it would no longer be a below-market-rate unit,
25 and it would go through the foreclosure process and all

1 of that.

2 You know, I've talked to the City of Fairfield.
3 The City of Fairfield is willing, on an annual basis, to
4 waive this requirement for homes in its inclusionary
5 housing program because, of course, Solano
6 County/Fairfield, apart from Merced, that's probably the
7 area that's been hardest hit.

8 I imagine people on the Coast, you know, who
9 have inclusionary housing units are probably not in this
10 situation because they could probably still sell them at
11 the price that they paid.

12 I submitted a letter on May 7th to CalHFA
13 requesting a temporary exception to this requirement
14 based on my hardship circumstances. I haven't heard back
15 yet. And my understanding is that's, in part, due to the
16 fact that this policy is being reexamined. That's what
17 I was told, at least, by staff, when I called.

18 And the first thing I wanted to say is, I
19 definitely think that staff should not be reevaluating
20 whatever the existing policy is without the Board's input
21 and approval, because that obviously has a big impact on
22 those of us who find ourselves in this situation.

23 But, you know, it seems to me that the City of
24 Fairfield's policy is a fair one. On an annual basis,
25 having someone certify under penalty of perjury that

1 their circumstances have not changed, they're either
2 unemployed and cannot pay the mortgage or have only been
3 able to find employment, say, on the other side of the
4 state; and in this market, you cannot choose. You know,
5 you have to take what's offered. If I get a job in
6 Southern California, I'll have to move there, even though
7 I've never had any desire to move down there. And I
8 would not be able to pay the mortgage and rent on an
9 apartment down there.

10 So I guess what I'm saying is, for some of us,
11 I think the consideration that we need is that there
12 might be a period of a few years before the market
13 stabilizes to the point where one could realistically
14 sell the house and not take a total loss of one's life
15 savings. I mean, I do think that within three or four
16 years, things will have at least leveled off.

17 You know, this is not an issue of renting out
18 the house like it's an investment. It's not an issue
19 of making profit on a rental property. And I believe
20 that that was the public-policy reason for having that
21 restriction, because you didn't want people who had an
22 income and could pay their mortgage moving out and then
23 renting the house for a profit.

24 You know, this is just a matter of allowing
25 us to meet our loan obligations, you know, in a very

1 difficult situation that essentially has not been seen
2 since the 1930's.

3 So, I mean, that's why I'm asking for your
4 consideration that you could maybe approach this as an
5 annual issue where you contact everyone, determine what
6 their circumstances are, you know, and why they cannot
7 live in the house and, you know, give some consideration
8 to us until the market stabilizes and we can
9 realistically sell. So that's what I wanted to just
10 bring to your attention today.

11 I don't know if there are any questions for me.

12 CHAIR CAREY: Steve?

13 MR. HUGHES: Mr. Chairman, this is a very
14 timely issue. Mr. Profant's response from staff that
15 we're reviewing the policy is accurate. We have changed
16 the policy within the past week or so.

17 And here's the issue for the Board: It's not
18 a policy issue as much as is a tax-law issue. Taxes and
19 bonds -- the federal law behind tax and bonds require
20 owner occupancy. In fact, they leave us some leeway, but
21 not much. And we have made exceptions in the past that
22 have been very, very limited and very short-term. We've
23 required a certain amount of documentation and a lease,
24 and that sort of thing. And then we would do it on a
25 temporary basis. We were very reluctant to renew these

1 leases.

2 Obviously, with the current market condition,
3 the whole idea is to give time for the borrower to work
4 out a situation with their employer or something else,
5 perhaps have a one-year assignment in their job and
6 they come back in one year. Those were the kinds of
7 exceptions we made in the past.

8 But now what we find is that the market
9 imprisons folks in their homes because they can't
10 possibly sell it and not take an enormous loss.

11 I can sympathize with you because I was in
12 such a situation where I put a huge amount of life
13 savings in a home in the early nineties; was upside-down.
14 And, you know, I was not in the same situation. We were
15 able to wait this out. But had I been in the situation,
16 it would have been very difficult.

17 So we went back. One of the things that took
18 so much time is that we have two bond counsels to
19 consult. We consulted with those folks. We have found
20 a way, we believe, to comply with the law and extend
21 this to this current circumstance where we can allow the
22 extensions of these leases for two, three years, if
23 that's how long it takes for the market to come back
24 sufficiently to minimize these losses.

25 So you may be hearing a different answer soon.

1 We'll work with you on your personal situation.

2 MR. PROFANT: Okay.

3 MR. SPEARS: But I'm really glad you brought
4 this up because this gives us an opportunity to let the
5 Board know of a particular situation.

6 Here again, in California particularly, this is
7 a real issue for us.

8 MR. PROFANT: Okay, all right. Wonderful. And
9 thank you.

10 CHAIR CAREY: Thank you.

11 MR. PROFANT: So it sounds like there's at
12 least some hope in the policy formulation that you've
13 come up with.

14 MR. SPEARS: Yes, sir.

15 MR. PROFANT: Okay, wonderful. Thank you for
16 your time.

17 CHAIR CAREY: Great. Thank you.

18 MS. MACRI-ORTIZ: I'd like to just ask one
19 question.

20 CHAIR CAREY: I'm sorry, yes.

21 MS. MACRI-ORTIZ: The home was built in
22 conjunction with the inclusionary house?

23 MR. PROFANT: Yes.

24 MS. MACRI-ORTIZ: Is it a deed-restricted home?

25 MR. PROFANT: It is, it is. And, you know, the

1 City of Fairfield which I contacted about this issue
2 after my layoff, and they are obviously, because of how
3 hard-hit Fairfield specifically is and Solano County, you
4 know, they're finding that they have to make an exception
5 to that because, you know, there are so many people that
6 are being laid off, and it just isn't really realistic to
7 sell in this market. So they are making exceptions, and
8 they do understand that people -- it's just not -- it's
9 an extreme hardship to have to comply with that in the
10 current circumstances.

11 CHAIR CAREY: Okay, thank you.

12 MR. PROFANT: Thank you.

13 --oOo--

14 **Item 4.b Report on the Implementation of U.S Treasury**
15 **Department programs: New Issue Bond program**

16 CHAIR CAREY: Okay, we will return to the
17 agenda, Item 4.b, New Issue Bond program.

18 MR. SPEARS: Mr. Chairman, we have a number of
19 items here in a row that are, again, just briefings to
20 the Board on major activities staff has engaged in.

21 I've lined up staff to roll through these
22 items.

23 Obviously, as we go along, please ask questions
24 and interrupt when you have a question.

25 But we have -- Bruce will take up the New Issue

1 Bond program update. But I've also brought Gary
2 Braunstein, our director of Homeownership lending and
3 Bob Deaner along because we will use the capital from
4 this program to renew lending in Homeownership and also
5 Multifamily. So I thought this would be a good time to
6 tell you what we are going to use these funds for.

7 Bruce?

8 MR. GILBERTSON: Thank you, Steve.

9 Mr. Chairman, Members of the Board, in 2009,
10 the U.S. Treasury, both of the GSEs -- Fannie Mae,
11 Freddie Mac -- and the Federal Housing Finance Agency,
12 supported this program of initiatives for state and local
13 housing finance agencies. We talked a lot about this
14 during last year.

15 At the end of the year, one of the elements
16 was this New Issue Bond program. CalHFA elected to
17 apply for up to \$1.4 billion of New Issue Bond Program
18 under this initiative. Roughly, a billion dollars of
19 this is available for our homeownership program, and
20 almost \$400 million available for the Multifamily
21 program.

22 Some of the elements of the program were
23 such that we had options to rate-lock back in December
24 or defer. I think we mentioned to the Board in
25 December 2009 we did rate-lock based off the current

1 ten-year Treasury bond rate at that time. It was a
2 3.49 percent interest rate.

3 Unfortunately, especially in the last two
4 months, if you're following those kind of markets, you
5 know, the ten-year Treasury bond has been trading as low
6 as 2.90. It's rallied, and it's a little bit over
7 3 percent today as we speak. So we're already impaired
8 from an interest perspective from that program.

9 The other elements is that we had three times
10 to release from escrow these bond proceeds. In some
11 cases, we had to issue market bonds as a part of the
12 program to finance the Homeownership program.

13 Many HFAs, like CalHFA, has yet to use the
14 New Issue Bond proceeds. So Treasury was very willing
15 to allow the National Council of State Housing Agencies
16 to facilitate a conference call with all of the states.
17 And we talked about a number of things, including three
18 of the things that are most important to CalHFA.

19 The first is to extend the expiration date.
20 The design of the program is that all of the bonds to be
21 used by the end of this calendar year with only five
22 and a half months to go. It's unlikely we could use
23 \$1.4 billion of those proceeds.

24 The second was to allow the HFAs to relock
25 the interest rate, since the interest-rate markets have

1 declined as far as they have.

2 And the third option was to allow more than
3 three escrow release dates.

4 We haven't used an escrow release date. That's
5 arguably less important to us. But if they want to give
6 us more opportunities, that would be helpful, especially
7 if the program is extended.

8 You know, the Treasury representatives on the
9 phone call -- this is last month, towards the end of
10 June -- were very receptive to this, and really wanted to
11 be supportive.

12 What we know today is that this is in the hands
13 of the Treasury lawyers as they look at the legislation
14 to make sure that these types of program changes would
15 adhere to the federal legislation that backstops this
16 whole program.

17 With that, I'll turn it over to both Gary and
18 Bob to give you an update on where they are with their
19 programs that will be the lending programs that we'll be
20 financing with the New Issue Bond proceeds.

21 MR. BRAUNSTEIN: Good afternoon, Board Members,
22 Chairman.

23 At past board meetings we've talked about a new
24 lending program and product that we'll be launching soon,
25 we're pleased to announce. We're planning to be on

1 target to launch the new lending program this Monday,
2 July the 19th.

3 Just to recap from what we've talked about in
4 the past, the product, the program will be an exclusive
5 arrangement that we have as an HFA with relationship and
6 partnership and with Fannie Mae.

7 It will be financed through mortgage-backed
8 securities via the NIBP funds and the capital market.

9 From a risk-management standpoint, we've spoken
10 in the past that the mortgage-backed securities will be
11 the direction that we go versus holding whole loans, and
12 we'll be imposing a lender repurchase, early-payment
13 default provision that will help from a risk-management
14 standpoint.

15 Some of the limitations we may have from a
16 loan-production standpoint will be agency warehouse,
17 warehouse limitations or availability and, of course,
18 capital market rates.

19 We have put together a very proactive and
20 diligent marketing and outreach in business development
21 and training initiative that we will roll out in
22 conjunction with the launch of the product. So as
23 planned, we'll be shooting for July 19th to launch the
24 product officially and look forward to obviously getting
25 back strong in the lending business.

1 CHAIR CAREY: Oh, you have a question, Gary.

2 MR. BRAUNSTEIN. Sure.

3 MS. MACRI-ORTIZ: I just have one question.

4 If we don't get some relief from Treasury on the interest
5 rate, how is that going to impact the program?

6 MR. BRAUNSTEIN: Well, our focus groups, when
7 we were developing the product and we had these focus
8 groups about two or three months ago, the interest rate
9 itself wasn't really the driving factor from the
10 attendees that were part of this focus group. It was
11 the eligibility and the availability of this type of
12 product for our type of borrower profile.

13 At the time we had locked in with a full
14 spread of about five and three-quarters that would be
15 rolling the product out, mostly we'll be rolling in the
16 neighborhood of about five and a half to five and
17 three-quarters without the necessary need of a relock.

18 If the NIBP allows us the opportunity to
19 relock, I think we'll judge what our volume is to date
20 when that happens, see if we need to make an adjustment
21 to the rate, or keep it the way it is and still attempt
22 to be in a full spread to the Agency.

23 MS. MACRI-ORTIZ: Do you think you can actually
24 do loans at this interest rate?

25 MR. BRAUNSTEIN: Again, our focus groups were

1 saying at the time the difference between the five and
2 three-quarters and what market rate was at that time was
3 about 50 to 75 basis points. Again, it's a no-MI loan
4 so, again, the eligibility factor and the availability
5 factor to the borrowers and with the lenders' opportunity
6 of offering this product was really the driving force to
7 their excitement of the program.

8 I think initially, we'll probably go out at a
9 little bit below the five and three-quarters mainly
10 because of today's market conditions, but I don't think
11 we need to go much lower than that.

12 And again, from the presentations that we've
13 been offering out to our lenders on a coming-soon
14 scenario, because we haven't publicly launched the
15 product, it's been very favorable as it relates to those
16 types of rates. But at the end of the day, once we do
17 launch, we'll see the type of volume that comes in and
18 we'll revisit it in a month or two, depending on the
19 timeline of the NIBP relocking.

20 CHAIR CAREY: Steve?

21 MR. SPEARS: One barrier that's out there --
22 actually, I was just talking to Mr. Vega in the hallway
23 about -- is, first-time home buyers, just home buyers,
24 in general, are having a very difficult time landing
25 homes because of investors. In fact, he was letting me

1 know that some of these folks are international and
2 rolling into town with lots of cash at a very, very short
3 close period and beating out first-time home buyers every
4 day. And that's going to be something that we're going
5 to have to overcome with product terms and that sort of
6 thing. But it's going to be a tough market, I think, at
7 first until we get rolling.

8 MS. MACRI-ORTIZ: So you're saying availability
9 of product is going to be more of a challenge than
10 getting this type of a loan?

11 MR. SPEARS: Right. There will be this reality
12 of who the competition is out there. And then there will
13 be the rate, the product terms, and all that sort of
14 thing.

15 But the first thing we have to overcome is this
16 idea that you go head to head with somebody who has a --
17 I wouldn't say a briefcase full of cash, but they have
18 cash available. And it's a very difficult battle to win
19 for a first-time home buyer. So we're going to do our
20 best to overcome that, first of all.

21 MS. MACRI-ORTIZ: We've got to use our REOs.
22 That's my dream. We've got the product, we've got to put
23 them together.

24 MR. SPEARS: That's right.

25 CHAIR CAREY: Really.

1 Katie, yes?

2 MS. CARROLL: Just one question.

3 When do you expect that we will have to sell
4 market bonds?

5 MR. GILBERTSON: The market bonds only relate
6 to the Homeownership program. Based off of an announced
7 date of next week, it probably won't happen until
8 sometime in the fall.

9 I have been saying for the longest time I
10 thought it would be the end of September. I think it's
11 probably more like October, November. We'll try to close
12 clearly before the end of November, I would guess.

13 Is that going to compete with other --

14 MS. CARROLL: No, no, no. I'm just trying to
15 figure out in my mind how that works with the rates that
16 have been locked in under the federal side versus how
17 much we'll have to pay in the market and how that --

18 MR. GILBERTSON: Well, what we've done, kind of
19 even with the market rate at 3.49 and we add the spread
20 for a Triple-A backed bond, that's going to produce
21 something in the 4.09 range.

22 We think the market bonds would bring the
23 overall borrowing costs down to about 4 percent. And so
24 that's kind of our starting point.

25 Remember, though, when you think about the

1 borrower's loan rates, you have to add 25 basis points
2 for servicing right off the start. You have to cover
3 our cost to issue the debt, which is about 15. And in
4 this program, you have an 80-basis-point guarantee fee
5 that Fannie Mae collects because there's no -- so you
6 start adding these things, and you get quickly into that
7 5.25 to be a break-even kind of loan rate.

8 MS. CARROLL: Okay, thank you.

9 MR. GILBERTSON: Yes.

10 CHAIR CAREY: Bob?

11 MR. DEANER: Okay, on my side, we've got a nice
12 pipeline built of about 180 million, 190 million of
13 68 million is moving forward, another 120 is in the
14 process.

15 Again, being the conduit issuer only and not
16 the direct lender, we're waiting for the lenders to give
17 their commitments on the credit enhancement of the bonds.
18 Treasury requires it's either Fannie Mae, Freddie Mac, or
19 FHA.

20 But there's at least, I believe, 68 of the 188
21 we're processing have commitments, so those deals will go
22 forward.

23 We're working closely with Bruce to get those
24 transactions closed and do our first break. They're
25 going to be at various stages. And if we get additional

1 draws from the 3 to 6, that will alleviate a little
2 pressure of trying to close all these deals at the same
3 time because that's another issue, that is getting
4 simultaneous deals that are getting either FHA or
5 Freddie Mac or Fannie Mae credit enhancement to close.
6 But we're getting strong demand.

7 From an interest-rate standpoint, because these
8 deals are so far along and they're larger transactions
9 and they have a lot of costs embedded in them, 20 or
10 30 basis points aren't going to make or break these
11 deals.

12 It would be a benefit if we relocked to the
13 cash flow in the project, that could go back to the
14 project. But it's not going to be a determining factor
15 if they move forward or not. They'll close these deals
16 because a lot of these deals have been in progress for a
17 couple of years now and we're talking to folks daily.

18 If we can extend it to next year, we know
19 there's a pipeline of deals for next year that folks are
20 looking at, that that would be beneficial, too.

21 So we hope that Treasury makes a decision to
22 extend and relock.

23 MR. GILBERTSON: Just to add on to that for
24 Ms. Carroll. You know, on the Multifamily side, we
25 actually do have a very small sale occurring this week

1 that's kind of a companion bond to this first conduit
2 transaction.

3 MS. CARROLL: Thank you.

4 MR. SPEARS: One final note on the New Issue
5 Bond Program and this idea of approaching Treasury on
6 this change in the terms. It is in the hands of the
7 Treasury attorneys. I think we all remember how long it
8 took them last year to try to figure out how to get all
9 this done. So I was in contact with the Treasury
10 official who is shepherding this through the process as
11 late as Wednesday of last week, and he just said, "It's
12 with the attorneys, and I don't know when it's coming
13 out."

14 So I don't know what to tell you about the
15 timeline. We're moving ahead with renewing lending.
16 We'd like to have those more beneficial costs so we can
17 offer more beneficial rates; but at present, we're at
18 the mercy of the U.S. Treasury's legal division.

19 So unless there are other questions on Item 4
20 issues, we can move right on down the line to Item 5.

21 And we'll start off with Bob.

22 MR. DEANER: Two quick updates.

23 //

24 //

25 //

1 **Item 5.b Report on contract administered programs:**

2 **TCAP program with State Treasurer's Tax Credit**
3 **Allocation Committee**

4 MR. DEANER: TCAP, I won't talk about much
5 because I want to thank Bill for the kind words about my
6 staff. I'd like to thank my staff. I'd like to thank
7 Tom Hughes' legal staff. Combined with everybody, we're
8 able to help Bill and TCAC put this money out for the
9 project. So very successful there.

10 And we were able, for the Agency, to generate
11 some additional fee income. We couldn't do this -- we'd
12 like to say we could do it for absolutely free. But
13 we're a self-funding agency, we do need to pay the bills.
14 And so we did generate additional fees on this. And it
15 could be up to a million, a million and a half dollars.
16 So that would go in a year where it's been a tough year
17 for CalHFA. So that's always a benefit to CalHFA also.

18 --oOo--

19 **Item 5.a Report on contract administered programs:**

20 **MHSA program with Department of Mental Health**

21 MR. DEANER: On the MHSA program, that's been a
22 very successful program. That's been out there for a
23 while. We have 25 deals closed to date.

24 I am going to pass it over to Kathy Weremiuk.
25 She's been the chief of the program. And I'm going to

1 let her give a little history and update for some of the
2 Board members that weren't around the last few years,
3 that we've worked on this process for probably the last
4 three to five years. But we'll make it brief.

5 MS. WEREMIUK: Chairman Carey and Members of
6 the Board, it's a pleasure to present the Mental Health
7 Services Act housing program.

8 This program comes out of the Mental Health
9 Services Act which was passed by the voters in 2004. I
10 think people may or may not remember that it was authored
11 by Senate Pro Tem Darrell Steinberg, together with Rusty
12 Selix, who is with the California Council of Community
13 Mental Health Agencies.

14 MR. SPEARS: Kathy, can I just ask you to pull
15 the mike a little closer?

16 MS. WEREMIUK: Oh, sure.

17 The Mental Health Services Act was authored by
18 Senate Pro Tem Darrell Steinberg, who stayed very
19 involved in this program and the act since 2004.

20 In 2006, the Agency was asked to work on a
21 housing component of the program. The Act attempted for
22 the first time to develop, to define housing service for
23 the homeless mentally-ill. That's pretty revolutionary
24 in the mental-health world. And we've been a party to
25 that.

1 We worked -- we negotiated the program together
2 with the State Department of Mental Health with Jonathan
3 Hunter's group, with representatives of the 58 counties
4 in California and Housing California.

5 We arrived at a program definition in, I think,
6 2007. We entered into an interagency agreement in July
7 of -- July 1st of 2008. So the program has been out for
8 approximately two years.

9 We had just under \$400 million allocated to us
10 by 46 of California's counties. Fifty-two are eligible
11 to participate. Fifty-two of the 58 counties are
12 eligible to participate in the program.

13 And to date, 29 of those counties have
14 sponsored housing developments that have come through the
15 program.

16 As we, as the Agency, basically underwrite loan
17 requests from developers for projects that include units
18 for people who are homeless and mentally ill. And we
19 loan funds and we also administer through Margaret's
20 program an operating subsidy program that comes out of
21 the same capital dollars.

22 We've put the program together, the two
23 components. We put it together for rental housing,
24 leveraging tax credit dollars, and local dollars and
25 Lynn's dollars to finance housing that has units for the

1 homeless mentally-ill. And we also financed 100 percent
2 of shared housing, which is basically one- to four-unit
3 developments that can't get financing in other places.

4 Today, after two years, we've committed 81
5 loans. Thirty in our first year, and this last year, 51.
6 Twenty of the 51 were committed in the last couple of
7 weeks. They were projects applying for 9 percent tax
8 credits. And our staff basically pushed those through
9 in just a few weeks, getting every single project that
10 wanted to go to 9 percent tax credits through.

11 Last year, we've closed 25 loans, seven in
12 2008-2009 and 18 this last year. A number of the loans
13 we closed recently were projects that had ARRA funds and
14 9 percent tax credits. And we were pleased that in last
15 year's round, all about but two of the MHSA projects that
16 applied for 9 percent tax credits received them. And
17 those two, plus five others, received tax credits in the
18 spring round. It was almost all projects that applied
19 in the spring, and we had 20 apply again recently.

20 We've also changed the program recently and
21 began to do sort of a forward commitment for small
22 projects, so that a county can come in and say, "We want
23 to do five group homes and we want to get a commitment
24 from you for dollars, for MHSA dollars, so that when we
25 go in to buy a house, we can say we have cash and we can

1 do that." So that program, we're actually closing -- we
2 anticipate closing our first loan under that forward
3 commitment for single-family homes that are being used as
4 group homes in the next couple of weeks.

5 To date, through the program, we have committed
6 1,350 units for people who are homeless and mentally ill.
7 We have basically utilized through those commitments
8 \$216 million of the almost \$400 million that we received.
9 The total development costs of those projects was
10 \$1,000,685. So about 10 percent of our dollars are going
11 into projects to purchase -- basically, to guarantee and
12 hold units for people who have been living on the
13 streets.

14 The experience of the projects that have closed
15 is that people are stabilizing and they tend to recover
16 when they have housing and they have services. So the
17 program is working very successfully. I think probably
18 the only drawback is that there's not more money in it.

19 CHAIR CAREY: Thank you.

20 Ms. Jacobs?

21 MS. JACOBS: Thank you.

22 For our next Board meeting, could we get a list
23 of the projects by county?

24 MR. DEANER: Absolutely.

25 MS. WEREMIUK: *(Nodding head.)*

1 MS. JACOBS: Terrific. Thank you.

2 MR. DEANER: I wanted to add real quick to
3 thank my staff on the MHSA side.

4 As with TCAP, they've worked tremendously hard
5 to get these projects done. Twenty in the last couple
6 weeks to meet the TCAP deadlines for applications.

7 Between the TCAP and the MHSA programs, my
8 staff has done a fantastic job, and is working on well
9 over a hundred deals. So I just wanted to give them
10 recognition for the hard work that they've done.

11 CHAIR CAREY: Great.

12 MR. SPEARS: Thank you, Kathy.

13 MS. WEREMIUK: Thank you.

14 CHAIR CAREY: Thanks.

15 MR. SPEARS: Last but not least, Margaret
16 Alvarez, our director of Asset Management, an update on
17 the performance-based contract administration RFP that
18 we're responding to. And there have been a number of
19 changes with this proposal, so we'll have Margaret bring
20 us up to date.

21 --o0o--

22 **Item 5.c Report on contract administered programs**

23 **Section 8 Performance-Based Contract bid with**

24 **HUD**

25 MS. ALVAREZ: I'm sorry, I'm starting to feel

1 like a broken record every time I come up here. But our
2 PBCA contract has, once again, been postponed by HUD in
3 Washington. So the bidding process is still not really
4 officially underway. It was expected to be underway
5 January 1.

6 The late version of the bidding contract had
7 final comments that were due yesterday. So we expect any
8 day the final version of the RFP would actually come out,
9 and then we'd actually begin our bidding process.

10 But in the meantime, we have been busy. We
11 selected a third-party contractor that would help us with
12 that bidding process and also be the one who performs the
13 actual work if we are selected.

14 HUD is telling us we can still expect all the
15 selections to be determined by October 1st for a
16 January 1, 2011, start date.

17 And the whole compensation piece of this that
18 I discussed way back when has been reduced, but it's not
19 reduced so much that it's not profitable. That's too
20 many "nots." It's still very profitable. So we'll be
21 bidding for that.

22 HUD would like to choose the lowest bidder,
23 obviously. NCSHA has put in a letter of recommendation
24 to HUD that they consider giving a first right of refusal
25 to the housing finance agencies around the country.

1 Currently, 33 states are the PBCAs for their states, so
2 it's a good source of income for those HFAs and their
3 programs.

4 HUD, however, has made it pretty clear to all
5 parties in their bidding-process meetings that they
6 really don't want to consider giving HFAs first right of
7 refusal. But the request is on the table. We'll see
8 what happens with that between now and when the final bid
9 package comes out. And once we bid, I can give more
10 details, once all this is wrapped up, because it is a
11 competitive bid. So we have to keep some things quiet
12 until everything is decided, and then we can let folks
13 know what the terms are.

14 MR. SPEARS: Thank you, Margaret.

15 I'd just add that at a recent meeting of the
16 Board of Directors of the NCSHA that I attended, they
17 told us that the October 1 target date for selection and
18 the January 1, 2011, target date for starting up this
19 new contract was, in their words, very aggressive; that
20 they honestly didn't think that that could be
21 accomplished. So that would be really terrific. I just
22 put that word of caution out there.

23 They also have started a push for federal
24 legislation that would put into statute a preference for
25 state HFAs. I'm not sure what the success rate on that

1 would be at this late date. But as Margaret said, HUD
2 is focused on lowest cost. And they have said, though,
3 that they would consider other factors in their decision.

4 And, obviously, we believe that a statewide
5 administrator, such as a state HFA and CalHFA would
6 provide a statewide policy and uniformity to the
7 administration of Section 8 contracts. So, obviously,
8 we think that's a really great idea, but we have yet to
9 see what HUD finally says about that.

10 MS. ALVAREZ: I just wanted to throw in a last
11 little thing on that. As a reminder, you know, 35 years
12 ago CalHFA did the construction financing for the
13 Section 8 properties when that program was new. And
14 that's really kind of what CalHFA built its Multifamily
15 programs on in the way-back-when days. So we're starting
16 to see the first of those 30-year loans go out the door.
17 Kind of bad timing for us, since we can't really offer
18 new financing at this time. But our first couple of
19 projects have actually termed out and have gotten
20 affordable housing financing elsewhere, and plan to keep
21 the buildings as Section 8 buildings.

22 So we do have 35-plus years' experience now in
23 the Section 8 world. So being the PBCA is something we
24 can do and something we have knowledge of and something
25 I'm sure we will be very successful at performing if

1 we're selected.

2 CHAIR CAREY: Great.

3 Any questions?

4 MS. MACRI-ORTIZ: Just, do we know who the
5 competition is? I mean, what groups would be applying?

6 MS. ALVAREZ: No, we don't.

7 MR. SPEARS: Not yet. We will soon.

8 CHAIR CAREY: Okay, thank you.

9 MR. SPEARS: Thank you.

10 --o0o--

11 **Item 6. Facilities Update**

12 MR. SPEARS: The last item in open session
13 here, I believe, is an update on Sacramento facilities.

14 I've asked Howard to come forward.

15 We're still moving forward with an October 1
16 date to consolidate our two locations at the Meridian and
17 at the Senator Hotel.

18 CHAIR CAREY: I'll just say, great memo. So
19 let's focus on things that aren't in the memo.

20 MR. SPEARS: Exactly.

21 I think the most important thing is that when
22 we started this process of space planning three years
23 ago, we did not have the volume of single-family Asset
24 Management, shall we say. The loan servicing area has
25 been expanded broadly. We have a number of folks who are

1 working for Chuck now in the REO area that we did not
2 have on board then. So we've had to adjust. And rather
3 than put the bulk of those folks in the new facility at
4 \$2.65 a square foot, we elected to -- of course, we
5 started the loan servicing center in West Sacramento at a
6 substantially lower cost, and that is working out very
7 well. And given the way the market is, we have space
8 next door at about the same cost on both sides.

9 So what we've done is rather than house the
10 Hardest Hit Fund group that we started up to administer
11 that program in the more expensive space, those folks are
12 going to go over there.

13 And also, the lion's share of the folks that
14 are working for Chuck in the REO management, portfolio
15 management -- and those folks work together, they're
16 doing the same things. There's a lot of synergies there,
17 and that makes a lot of sense.

18 So what we've managed to do is move a lot of
19 folks across to West Sac. Over the years, as I'm sure
20 this activity will taper off, we'll move folks back to
21 the building. There is room for growth in this new
22 facility. So that's the overall plan at this point. It
23 provides us with a great cost-effective place in West
24 Sacramento. And then as we're able to, we can move folks
25 back.

1 CHAIR CAREY: Anything else that's not in the
2 memo?

3 MR. SPEARS: I don't believe so.

4 Howard, anything else that's not in the memo?

5 MR. IWATA: We're currently in negotiations for
6 the lease in West Sacramento. And hopefully, we'll get
7 it. We have a draft form right now, the attorneys are
8 looking over to formalize it.

9 That's pretty much it.

10 CHAIR CAREY: Any questions?

11 It seems like a very practical approach to the
12 space needs.

13 MR. SPEARS: Thank you.

14 CHAIR CAREY: Great.

15 --o0o--

16 **Item 7. Closed session under Government Code**

17 **Section 11126(e) (1)**

18 CHAIR CAREY: We are now going to go into
19 closed session in accordance with Government Code section
20 11126(e) (1) to confer with and receive advice from
21 counsel regarding litigation in connection with In Re
22 Lehman Brothers Holdings.

23 *(Closed session held from 12:28 p.m.*
24 *to 12:41 p.m.)*

25 CHAIR CAREY: We're back. We're in open

1 session again.

2 --oOo--

3 **Item 8. Reports**

4 CHAIR CAREY: Item 8, Reports. Brief reports.
5 Anything you want to bring up?

6 MR. SPEARS: No. The only thing is, we always
7 include something back here on the loan-portfolio update.
8 And I would encourage you to look at that.

9 We continue to see some progress in those older
10 loans. And the reason for that is, the number of people
11 in the organization and the equipment that we're giving
12 them to do their job over in West Sacramento. So we are
13 seeing some of that.

14 But on the REO inventory scale, Chuck and I
15 have had long conversations about this.

16 We continue to see a flow in of those, and the
17 market for selling those is tough. So we're probably
18 going to see an increasing inventory of REOs in the
19 future. It gives us more inventory for the possible
20 development of a first-time home buyer program. We'll
21 see.

22 So that's very important.

23 Also, the update on the variable-rate bonds, I
24 would direct your attention to that.

25 I continue to get information faster on

1 delinquencies. And we saw steady improvements -- I did
2 see one slight tick-up in the 60-plus category. And that
3 caused me a bit of worry. It's surprisingly not in the
4 *interest only PLUS* category of loans. Those, I'm keeping
5 my eye on particularly. We put together a loan
6 modification program just for the *interest only PLUS*
7 loans within the last month to allow those borrowers to
8 continue to just pay interest only.

9 It really is a way for them to hang on until
10 the Hardest Hit Funds program comes out. So we put that
11 in place and we're just trying to make progress on those
12 delinquent loans.

13 MS. MACRI-ORTIZ: Just to share something, I
14 was on the shuttle coming in with a guy that's working on
15 small business loans; and there's, I guess, some money
16 that's coming in to try to generate small businesses.
17 And maybe if some money comes in for that, maybe
18 partnering with some of the economic development people
19 around the state to give some construction, to be doing
20 some of the work on some of these homes.

21 MR. SPEARS: Yes, the REOs?

22 MS. MACRI-ORTIZ: Yes, to try to, you know,
23 make the best of a bad situation.

24 MR. SPEARS: Right. We have talked to a couple
25 of different individuals, one of them is Jay Stark that

1 Linn knows. And we're still trying to put together a
2 program that works. It's a little difficult with NSP
3 money. But the idea is you use NSP money to purchase the
4 homes, fix them up, turn them around. We're still trying
5 to work out the details on something like that.

6 That's it for the reports.

7 CHAIR CAREY: Great.

8 --oOo--

9 **Item 9. Discussion of other Board matters**

10 CHAIR CAREY: Other Board matters?

11 MS. JACOBS: Do we have a legislative report or
12 not?

13 MR. SPEARS: I don't believe that we do.

14 MS. OJIMA: I didn't get one.

15 MR. SPEARS: Okay, we do not.

16 MS. MACRI-ORTIZ: Do you have any progress on
17 that Bay Area?

18 MR. SPEARS: That's a very interesting
19 question.

20 We have a great deal of progress in this
21 respect: That for a great while, the idea was that
22 CalHFA would be the issuer, and that's the way it had to
23 be; and that we had approached another organization in
24 the state, called Cal Mortgage, it is the Division of the
25 Office of Statewide Health Planning, I think -- is that

1 the correct -- it's "OSHPD," whatever that stands for.

2 MS. CARROLL: Yes.

3 MR. SPEARS: They guarantee loans, they
4 specialize in health facilities. Because these are group
5 homes for clients -- former clients of the Agnew Center,
6 they qualify. But, of course, as we all know, after
7 dealing with this for a very long time, these are not
8 real-estate loans.

9 Katie, Bruce, Tim, Tom, we all met in the
10 Department of Finance.

11 The Department of Finance has been wonderful
12 in trying to pull all the different parties together.

13 We have several options now that we did not
14 have before. If CalHFA could remain the issuer and we
15 could just -- if nothing else works, we could still issue
16 bonds and go forward.

17 That probably results in the highest interest
18 rate for these homes, and that's not what we like. But
19 what's happened now is, I believe -- don't let me speak
20 out of turn here, Katie -- but I believe the California
21 Health Facilities Finance Authority, which is under the
22 direction of the State Treasurer, has the ability to
23 issue the bonds as a conduit issuer, with Cal Mortgage
24 being the mortgage guarantee. They would like to change
25 the transaction a little bit, and I think that's where

1 we're headed.

2 Right now, what's happening is, we have given
3 them a lot of information or we're in the process of
4 giving them a lot of information on what it would cost
5 for everyone if we were the issuer and they're collecting
6 information from Cal Mortgage and CHFFA on what it would
7 cost if CHFFA were the issue issuer.

8 They're going to do a side-by-side. We're
9 planning a meeting either Thursday or Friday, I believe,
10 Fred, is what Karen Finn has told us, and make a decision
11 which way is the best, and then we're going to head down
12 that path.

13 The only issue that remains is that our target
14 for cashing out of this, either through one method or
15 another, is February 2011, the Bank of America line of
16 credit on which these loans are placed at this point is
17 due. And we are assuming that we will need to zero that
18 out, if you will. And we've emphasized that. Our person
19 at the Department of Finance who has been helping us with
20 Karen Finn. Katie has been very involved in this.

21 We all know the deadlines, so we're all
22 proceeding along those lines.

23 CHAIR CAREY: Any other questions? Issues?

24 (No response)

25 --oOo--

1 **Item 10. Public Testimony** *(continued)*

2 CHAIR CAREY: Okay, this is the time when we
3 set aside for public testimony for anyone who wishes to
4 address the Board on a matter that's not on the agenda.

5 If there's anyone?

6 *(No response)*

7 CHAIR CAREY: Seeing none, before I adjourn, I
8 just want to say, we've heard a lot of work done by staff
9 today. And I hope you share the Board's appreciation for
10 the many tough projects that have been going on for the
11 last few months. And a lot of folks have been working
12 hard to get a lot of things done. I appreciate it.

13 MR. SPEARS: Thank you.

14 CHAIR CAREY: With that, we're adjourned.

15 *(Gavel sounded.)*

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

17

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REPORTER'S CERTIFICATE

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

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

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

IN WITNESS WHEREOF, I have hereunto set my hand on the 28th day of July 2010.

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

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State of California

M E M O R A N D U M**To: Board of Directors****Date:** September 2, 2010**From:** Bruce D. Gilbertson, Director of Financing
CALIFORNIA HOUSING FINANCE AGENCY**Subject:** AMENDMENT TO RESOLUTION 10-02 AUTHORIZING THE ISSUANCE OF BONDS UNDER A NEW FORM OF MULTIFAMILY INDENTURE (Resolution 10-08)

At the January 21, 2010 meeting of the Board of Directors, the Board adopted Resolution 10-02, reauthorizing the sale and issuance of Agency bonds to finance mortgage loans for the purpose of constructing or developing multi-unit rental housing developments. Bonds issued to finance these developments must be issued under a bond indenture that is similar in form to a bond indenture listed in the resolution. While there is currently an extensive list of approved prior indentures, the Agency has received a request to provide conduit financing for the development of a property using a bond structure and indenture that has not previously been authorized by the Board. Resolution 10-08 would authorize the issuance of bonds using the attached new form of indenture to finance the purchase of Ginnie Mae mortgage-backed securities, the proceeds of which are used to finance the construction, acquisition or development of affordable rental housing developments.

The Agency has received a number of requests to provide conduit financing to developers of multifamily housing using the New Issue Bond Program proceeds that are currently held in escrow. To date, the Multifamily Program staff has approved commitments totaling more than \$230 million for this purpose.

Included in the board binder today is a report on the closing of Belovida Apartments, the first conduit financing to close using the New Issue Bond Program proceeds.

Attachments

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RESOLUTION NO. 10-08

RESOLUTION OF THE CALIFORNIA HOUSING FINANCE AGENCY TO FACILITATE THE MULTIFAMILY HOUSING PROGRAM OF THE AGENCY BY AMENDING RESOLUTION NO. 10-02 TO AUTHORIZE THE ISSUANCE OF BONDS UNDER A NEW FORM OF INDENTURE

WHEREAS, the California Housing Finance Agency (the “Agency”) has determined that there exists a need in California for the financing of mortgage loans for the construction or development of multi-unit rental housing developments for the purpose of providing housing for persons and families of low or moderate income;

WHEREAS, the Agency has determined that it is in the public interest for the Agency to provide such financial assistance by means of an ongoing program (the “Program”) to make or acquire, or to make loans to lenders to make or acquire, mortgage loans, for the purpose of financing such developments; and

WHEREAS, pursuant to Parts 1 through 4 of Division 31 of the California Health and Safety Code, the Agency has the authority to issue bonds (including notes and other evidences of indebtedness) to provide sufficient funds to finance the Program;

WHEREAS, on January 21, 2010 the Agency adopted its Resolution No. 10-02 authorizing the issuance of bonds to provide funds to finance the Program;

WHEREAS, the Agency has determined that, to provide additional funds to finance the Program, it is in the public interest to authorize additional bonds to be issued pursuant to a proposed form of indenture not previously approved by the Agency;

WHEREAS, the bonds proposed to be issued by the Agency under an indenture or indentures in such form may be limited obligations of the Agency payable solely from certain amounts on deposit under the indenture relating thereto;

WHEREAS, the Agency now desires to amend Resolution No. 10-02 to approve a new form of indenture and to authorize the execution and delivery of one or more such indentures providing for the issuance of and securing such bonds (individually and collectively, the “New Form of Indenture”); and

NOW, THEREFORE, BE IT RESOLVED, by the California Housing Finance Agency as follows:

Section 1. Approval of New Form of Indenture. Section 3 of Resolution No. 10-02 is hereby amended to move the word “or” from immediately before subsection (a)(24) thereof to immediately after such subsection (a)(24) and to add thereafter a new subsection (a)(25) to read as follows:

“(a)(25) the form of indenture presented to the September 15, 2010 meeting of the Agency.”

1 Section 2. Approval of Form of Supplemental Indenture. To authorize the
2 execution and delivery of one or more supplemental indentures providing for the issuance of and
3 securing bonds, the first sentence of subsection (b) of Section 3 of Resolution No. 10-02 is
4 hereby amended and restated to read as follows:

5 “For each series of Bonds, the Executive Director and the Secretary are
6 hereby authorized and directed, for and on behalf and in the name of the
7 Agency, if appropriate, to execute and acknowledge and to deliver with
8 respect to each series of Bonds, a supplemental indenture (a
9 “Supplemental Indenture”) under a Prior Indenture or a New Indenture
10 and in substantially the form of any supplemental indenture or series
11 indenture executed or approved in connection with any of the Prior
12 Indentures, or in the form of such indenture as presented to the
13 September 15, 2010 meeting of the Agency, in each case, with such
14 changes therein as the officers executing the same approve upon
15 consultation with the Agency’s legal counsel, such approval to be
16 conclusively evidenced by the execution and delivery thereof.”

17 Section 3. Ratification of Prior Actions. All actions previously taken by the
18 officers of the Agency in connection with the issuance of bonds under one or more indentures in
19 the form of the New Form of Indenture are hereby approved and ratified.

SECRETARY'S CERTIFICATE

1
2
3
4 I, Thomas C. Hughes, Secretary of the Board of Directors of the California Housing
5 Finance Agency, hereby certify that the foregoing is a full, true, and correct copy of
6 Resolution No. 10-08 duly adopted at a regular meeting of the Board of Directors of the
7 California Housing Finance Agency duly called and held on the 15th day of September 2010,
8 of which meeting all said directors had due notice; and that at said meeting said resolution
9 was adopted by the following vote:

10
11 AYES:

12
13 NOES:

14
15 ABSTENTIONS:

16
17 ABSENT:

18
19 IN WITNESS WHEREOF, I have executed this certificate and affixed the seal of the
20 Board of Directors of the California Housing Finance Agency hereto this 15th day of
21 September 2010.
22

23
24 [SEAL]

25
26 _____
27 Thomas C. Hughes
28 Secretary of the Board of Directors
of the California Housing Finance Agency

SECRETARY'S CERTIFICATE

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I, Thomas C. Hughes, Secretary of the Board of Directors of the California Housing Finance Agency, hereby certify that the foregoing is a full, true, and correct copy of the Resolution 10-08 duly adopted at a regular meeting of the Board of Directors of the California Housing Finance Agency duly called and held on the 15th day of September 2010, of which meeting all said directors had due notice; and that at said meeting said resolution was adopted by the following vote:

AYES:

NOES:

ABSTENTIONS:

ABSENT:

I further certify that I have carefully compared the foregoing copy with the original minutes of said meeting on file and of record in my office; that said copy is a full, true, and correct copy of the original resolution adopted at said meeting and entered in said minutes; and that said resolution has not been amended, modified, or rescinded in any manner since the date of its adoption, and the same is now in full force and effect.

IN WITNESS WHEREOF, I have executed this certificate and affixed the seal of the Board of Directors of the California Housing Finance Agency hereto this ____ day of _____, _____.

[SEAL]

Thomas C. Hughes
Secretary of the Board of Directors
of the California Housing Finance Agency

SERIES INDENTURE

by and between

**CALIFORNIA HOUSING FINANCE AGENCY,
as Issuer**

and

**U.S. BANK NATIONAL ASSOCIATION,
as Trustee**

Dated as of [_____ 1, 20__]

Relating to

**[\$[BOND PAR]
CALIFORNIA HOUSING FINANCE AGENCY
[AFFORDABLE] [LIMITED OBLIGATION] MULTIFAMILY HOUSING REVENUE
BONDS
([_____ PROJECT])
[20__ SERIES __]**

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SERIES INDENTURE

THIS SERIES INDENTURE (this “Series Indenture”), is made and entered into as of [_____] 1, 20___], by and between the **CALIFORNIA HOUSING FINANCE AGENCY** a public instrumentality and political subdivision of the State of California (the “State”) (together with any successor to its rights, duties and obligations, the “Agency”), and **U.S. BANK NATIONAL ASSOCIATION**, a national banking association, organized and operating under the laws of the United States of America and authorized to accept and execute trusts of the character herein set out, having a corporate trust office in San Francisco, California, as trustee (the “Trustee”) hereunder and under the General Indenture (defined below) being amended and supplemented hereby;

WITNESSETH:

WHEREAS, pursuant to the provisions of the Zenovich-Moscone-Chacon Housing and Home Finance Act, consisting of Parts 1 through 4 of Division 31 of the California Health and Safety Code (as more particularly defined herein, the “Act”) and the Indenture dated as of December 1, 2009 (the “General Indenture”), as amended and supplemented by the Series Indenture dated as of December 1, 2009 (the “First Series Indenture” and, together with the General Indenture, the “Original Indenture”), each between the Agency and the Trustee, the Agency previously issued its California Housing Finance Agency Affordable Multifamily Housing Revenue Bonds, 2009 Series A (the “Program Bonds”) in the original aggregate principal amount of \$380,530,000 to provide for the financing of multifamily rental housing developments through the New Issue Bond Program of the Housing Finance Agency Initiative announced by the United States Department of the Treasury on October 19, 2009 (the “Program”);

WHEREAS, on [____], 20___, the Agency released and converted \$[____] principal amount of the Program Bonds, and as of the date of this Series Indenture, the remaining aggregate principal amount of the Program Bonds is \$[____];

WHEREAS, the Agency has agreed to use a portion of the proceeds derived from the sale of a portion of the Program Bonds, to be re-designated the “California Housing Finance Agency Affordable Multifamily Housing Revenue Bonds ([_____] Project]) 20__ Series ___” in the principal amount of \$[20__ SERIES ___] PAR] (the “Bonds”) on the related Release Date in the principal amount of \$[20__ SERIES ___] PAR], to provide for the financing of the acquisition and rehabilitation by [Borrower], a limited partnership duly organized and existing under the laws of the State of California (the “Borrower”) of a multifamily rental housing development located in [City], California, known as [_____] (the “Project”);

WHEREAS, from and after the execution and delivery of this Series Indenture, the Bonds will be issued under and secured by, and their terms governed by, this Series Indenture, which shall constitute a “Conversion Indenture” under the Original Indenture;

WHEREAS, the Bonds are designated by the Issuer as “Non-Parity Bonds” as defined and provided for in the General Indenture;

WHEREAS, the Borrower and [Lender] (as more particularly defined herein, the “Lender”) have completed the application and review process and have obtained a Commitment for Insurance of Advances, dated [____], 20__ (as the same may be amended, the “FHA Firm Commitment”) issued by the Federal Housing Administration (“FHA”) of the United States Department of Housing and Urban Development (“HUD”) pursuant to Section 221(d)(4) of the National Housing Act; and

WHEREAS, the Agency has determined to modify, convert and release the Bonds and to provide the proceeds thereof for the benefit of the Borrower, through the purchase of certain mortgage-backed securities (the “Ginnie Mae Certificates”) issued by the Lender in connection with the financing of the Project, which will be guaranteed as to the timely payment of principal and interest by the Government National Mortgage Association (“Ginnie Mae”) pursuant to the National Housing Act and the regulations promulgated thereunder; and

WHEREAS, upon satisfaction of the conditions set forth in this Series Indenture, the Trustee shall disburse the proceeds of the Bonds to the Lender in exchange for the Ginnie Mae Certificates, and through the funding of interim advances as provided in this Series Indenture, the Lender shall use such proceeds received from the Trustee to make advances on the Mortgage Loan; and

WHEREAS, to secure the payment of the principal of the Bonds and the premium, if any, and interest thereon, the Agency has assigned its rights, title and interests in (except its Reserved Rights), and delegated its duties under, the Loan Agreement dated as of [____] 1, 20__], among the Lender, the Borrower, the Agency and the Trustee (the “Loan Agreement”), without recourse, to the Trustee and has authorized the execution and delivery of this Series Indenture; and

WHEREAS, all acts and proceedings required by law necessary to make the released and converted Bonds, when executed by the Agency, authenticated and delivered by the Bond Registrar, the valid, binding and legal obligations of the Agency, and to constitute this Series Indenture a valid and binding agreement for the uses and purposes set forth herein in accordance with its terms, have been done and taken, and the execution and delivery of the Indenture have been in all respects duly authorized.

NOW, THEREFORE, THIS SERIES INDENTURE WITNESSETH:

GRANTING CLAUSES

The Agency, in consideration of the premises and the acceptance by the Trustee of the trusts hereby created and of the purchase and acceptance of the Bonds by the Owners thereof, and for other good and valuable consideration, the receipt of which is hereby acknowledged, to secure the payment of the principal of and premium, if any, and interest on the Bonds according to their tenor and effect and to secure the performance and observance by the Agency of all the covenants expressed or implied herein and in the Bonds, does hereby bargain, sell, convey, mortgage, assign, pledge and grant, without recourse, all of the Agency’s right, title and interest (whether now or hereafter existing) in and to the Trust Estate and a security interest in the

following described property to the Trustee and its successors in trust and assigns forever, for the securing of the performance of the obligations of the Agency hereinafter set forth:

1. All right, title and interest of the Agency in the Loan Agreement (except for the Agency's Reserved Rights);
2. All right, title and interest of the Agency in the Ginnie Mae Certificates, including all payments with respect thereto and any interest, profits and other income derived from the investment thereof;
3. The Project Fund, the Bond Fund and the Special Mandatory Redemption Fund (but excluding the Rebate Fund and the Costs of Issuance Fund), including money and investments therein, held by the Trustee pursuant to the terms of this Series Indenture;
4. All other property of any kind assigned, delivered, mortgaged, pledged or hypothecated at any time as and for additional security hereunder by the Agency or by anyone on its behalf or with its written consent in favor of the Trustee, which is hereby authorized to receive all such property at any time and to hold and apply it subject to the terms hereof; and
5. To the extent not covered above, all proceeds of all of the foregoing.

TO HAVE AND TO HOLD all the same, whether now owned or hereafter acquired, with all privileges and appurtenances hereby conveyed and assigned, or agreed or intended to be, to the Trustee and its successors in such trust and their assigns forever.

IN TRUST NEVERTHELESS upon the terms and conditions set forth herein, for the equal and proportionate benefit and security and protection of all present and future Owners of the Bonds issued under and secured by this Series Indenture without privilege, priority or distinction as to the lien or otherwise of any of the Bonds over any other Bonds, except as expressly provided herein.

PROVIDED, HOWEVER, that if the Agency, its successors or its assigns shall well and truly pay, or cause to be paid, the principal of and premium, if any, and interest on the Bonds due or to become due thereon, at the times and in the manner mentioned in the Bonds and as provided in Article VII according to the true intent and meaning thereof, and shall cause the payments to be made as required under Article IV, or shall provide, as permitted hereby, for the payment thereof in accordance with Article VII, and shall well and truly keep, perform and observe all the covenants and conditions pursuant to the terms of this Series Indenture to be kept, performed and observed by it, and shall pay or cause to be paid to the Trustee all sums of money due or to become due in accordance with the terms and provisions hereof and of the Financing Documents, then upon such final payments or deposits as provided in Article VII, this Series Indenture and the rights hereby granted shall, except as otherwise provided herein, cease, terminate and be void and the Trustee shall thereupon cancel and discharge this Series Indenture and execute and deliver to the Agency such instruments in writing as shall be requisite to evidence the discharge hereof.

THIS INDENTURE FURTHER WITNESSETH, that the Agency covenants to and agrees with the Trustee, for the benefit of the respective Owners from time to time of the Bonds, as follows:

**ARTICLE I
DEFINITIONS; CONTENT OF CERTIFICATES AND OPINIONS**

Section 1.1. Definitions. Unless the context clearly requires otherwise, the terms defined in this Section shall apply for all purposes of this Series Indenture and such defined terms shall also apply as and to the extent set forth in the Loan Agreement, the Regulatory Agreement, the Tax Certificate and any certificate, opinion or other document mentioned herein or delivered pursuant hereto.

“*Act*” means the Zenovich-Moscone-Chacon Housing and Home Finance Act, consisting of Parts 1 through 4 of Division 31 of the California Health and Safety Code, as now in effect and as it may from time to time hereafter be amended and supplemented.

“*Act of Bankruptcy*” means actual notice received by the Trustee that the Borrower has become insolvent or has failed to pay its debts generally as such debts become due or has admitted in writing its inability to pay any of its indebtedness or has consented to or has petitioned or applied to any court or other legal authority for the appointment of a receiver, liquidator, trustee or similar official for itself or for all or any substantial part of its properties or assets or that any such trustee, receiver, liquidator or similar official has been appointed or that insolvency, reorganization or liquidation proceedings (or similar proceedings) have been instituted by or against the Borrower.

“*Additional Administrative Fees*” means, collectively or each respectively, as applicable in the context used, that portion, if any, of the Agency Fees, the Trustee Fees, the Rebate Analyst Fees and the Dissemination Agent Fees, each respectively, that is not payable from amounts received by the Trustee under the Ginnie Mae Certificates, including, without limitation, all Extraordinary Agency Fees and Expenses and all Extraordinary Trustee Fees and Expenses, which amounts nonetheless shall be payable by the Borrower to the respective payee under the Loan Agreement, and in addition shall include the amount by which any of such Administrative Fees are reduced as a result of any unscheduled prepayment of the principal amount of the Ginnie Mae Certificates.

“*Administrative Fees*” means, collectively, the Agency Fees, the Trustee Fees, the Dissemination Agent Fees and the Rebate Analyst Fees.

“*Agency*” has the meaning given in the introductory paragraph hereof.

“*Agency Fees*” (i) the Agency’s initial fee payable in the amount of \$[_____] and (ii) the Ongoing Agency Fee.

“*Authorized Denomination*” means \$5,000 and integral multiples thereof, and, for purposes of redemption of the Bonds, \$10,000 or any integral multiple of \$10,000 in excess thereof.

“*Authorized Representative*” means, with respect to the Trustee, any trust officer or authorized agent thereof; with respect to the Agency, the Multifamily Director, Executive Director, the Chief Deputy Director or the Director of Financing of the Agency and such additional Person or Persons, if any, duly designated by the Agency in writing to act on its behalf; with respect to the Lender, the President or any Vice President thereof; and with respect to the Borrower, [the Manager of the Co-General Partner or the President of the Managing General Partner], as designated by a certificate of the Borrower filed with the Agency and the Trustee.

“*Available Money*” means proceeds of the Bonds, the proceeds of any Letter of Credit, any payments or prepayments of principal or interest on a Ginnie Mae Certificate, and any payments made by the Borrower and held by the Trustee for a period of at least 366 consecutive days (367 in a leap year), provided that no Act of Bankruptcy has occurred during such period, or any money with respect to which the Trustee has received an opinion of nationally recognized bankruptcy counsel to the effect that the use by the Trustee of such money in accordance with this Series Indenture would not constitute an avoidable preference or be subject to the automatic stay provisions of Sections 547 and 362(a), respectively, of the United States Bankruptcy Code or similar laws of the United States of America or the State in the event a petition in bankruptcy is filed by or against the entity depositing such money.

“*Bonds*” means the California Housing Finance Agency Affordable Multifamily Housing Revenue Bonds ([_____ Project]) [20__ Series ____] issued pursuant to the provisions of the Original Indenture and this Series Indenture, which shall constitute “Non-Parity Bonds” under the Original Indenture.

“*Bond Counsel*” means Orrick, Herrington & Sutcliffe, LLP, San Francisco, California, or any successor firm of nationally recognized bond counsel, duly admitted to practice law before the highest court of any state and designated by the Agency as its Bond Counsel for the Bonds.

“*Bond Fund*” means the Bond Fund established pursuant to Section 4.1 hereof.

“*Bond Proceeds Account*” means the Program Bond Proceeds Account within the Project Fund established pursuant to Section 4.1 hereof.

“*Bond Register*” means the books for registration of the Bonds kept for the Agency by the Bond Registrar as provided in Section 2.5 hereof.

“*Bond Registrar*” means the paying agent and bond registrar for the Bonds, initially the Trustee having a corporate trust office located in San Francisco, California (or such other office as may be designated by the Trustee), which will be utilized to perform payments and transfers.

“*Bond Resolution*” means the Resolution No. 10-02 adopted by the Agency on January 21, 2010, as amended by Resolution No. 10-[____], adopted on [September 15, 2010], authorizing the release and conversion of the Bonds, approving the terms of the Bonds and approving the documents related thereto.

“*Bond Year*” means, as to the first Bond Year, the period from the Release Date to and including [Month] ___, 20___], and thereafter, the annual period ending on [Month] ___] of each year.

“*Bondowner*” or “*Owner*” means the registered owner of any Bond.

“*Borrower*” means [Borrower], a California limited partnership, and its successors or assigns.

“*Borrower’s Advance Certificate*” has the meaning given in Section 4.2(a)(iii) hereof.

“*Building Loan Agreement*” means the [Building Loan Agreement] dated [_____, 20___], between the Borrower and the Lender, as amended from time to time in accordance with terms thereof.

“*Business Day*” means any day other than (i) a Saturday, a Sunday or another day on which banking institutions in the State of California or New York, New York, or the Principal Office of the Trustee and the office of the Bond Registrar are authorized or obligated by law or executive order to be closed; (ii) a day on which the New York Stock Exchange is authorized or obligated by law or executive order to be closed or (iii) a California state holiday when the Agency is authorized or obligated to be closed.

“*Carryover Amount*” means, as of any Payment Date, the applicable dollar amount of the cash flow carryover requirement set forth as the scheduled minimum Bond Fund balance for such Payment Date, which is attached to this Series Indenture as EXHIBIT B.

“*City*” means the City of [City], California.

“*Code*” means the Internal Revenue Code of 1986, and the regulations promulgated thereunder.

“*Completion Date*” means the final completion of construction of the Project as evidenced by the final payment to the General Contractor under the Construction Contract for all punch list items and all amounts payable thereunder (except any retainage or fees to be withheld until Final Endorsement of the Mortgage Note by HUD).

“*Construction Contract*” means the construction contract between the Borrower and the General Contractor, providing for the construction of the Project.

“*Construction Loan Certificate*” means any Ginnie Mae Certificate, other than the Project Loan Certificate, which represents an amount of proceeds of the Mortgage Loan advanced by the Lender to the Borrower.

“*Construction Loan Certificate Maturity Date*” means [_____, 20___], or such later date as may be permitted by the provisions of Section 4.2 hereof.

“*Continuing Disclosure Agreement*” means the Continuing Disclosure Agreement, dated as of [_____] 1, 20__], between the Borrower and the Dissemination Agent, as amended from time to time in accordance with the terms thereof.

“*Conversion*” or “*Converting*” or “*Converted*” means the conversion or the converting of the interest rate on all or a portion of the Program Bonds from a short-term rate to a permanent rate as provided the General Indenture.

“*Conversion Date*” means [_____] __, 20__].

“*Costs of Issuance*” means all expenses of issuing, reissuing, authenticating and delivering the Bonds or this Series Indenture, including but not limited to legal, financial, advisory and printing expenses, the initial fees of the Trustee (including reasonable fees and expenses of counsel to the Trustee) under this Series Indenture, the Agency’s expenses (including fees and expenses of counsel to the Agency), reasonable fees and expenses of Bond Counsel, the rating agency fees, any underwriter’s discount or fee for the Bonds or placement fee for the Bonds, and any and all other similar out-of-pocket expenses incurred for the purpose of issuing and reissuing the Bonds.

“*Costs of Issuance Fund*” means the Costs of Issuance Fund established pursuant to Section 4.1 hereof.

“*County*” means the County of [_____] , California.

“*Delivery Date*” means the earlier of (a) [Month] __, 20__], as such date may be extended in accordance with Section 4.2(g) hereof or (b) the date the Project Loan Certificate is delivered to the Trustee.

“*Dissemination Agent*” means initially U.S. Bank National Association, or any dissemination agent subsequently appointed in accordance with the Continuing Disclosure Agreement.

“*Dissemination Agent’s Fee*” means the annual fee for the Dissemination Agent’s fees and expenses in rendering its services under the Continuing Disclosure Agreement during each twelve month period.

“*DTC*” means The Depository Trust Company, New York, New York.

“*Electronic Notice*” means delivery of notice in a Word format or a Portable Document Format (PDF) by electronic mail to the electronic mail addresses listed in Section 12.4 hereof; provided, that if a sender receives notice that the electronic mail is undeliverable, notice must be sent as otherwise required by Section 12.4 hereof.

“*Event of Default*” means, with respect to this Series Indenture, any of the events enumerated and so designated in Section 8.1 of this Series Indenture.

“*Extension Payment*” means any combination of (i) Available Money, (ii) one or more Letters of Credit, if any, or (iii) an unconditional and irrevocable commitment from a solvent

commercial bank whose unsecured short-term debt is rated at least “A-1+” by the Rating Agency to make a cash payment to the Trustee on a specified date (which date shall be within one year of the date of the commitment).

“*Extraordinary Agency Fees and Expenses*” means all of those fees, expenses and disbursements payable to the Agency for Extraordinary Services and Extraordinary Expenses incurred in connection with the Financing Documents, including without limitation fees, costs and expenses incurred by Bond Counsel and Agency’s counsel, which are to be paid by the Borrower pursuant to the Loan Agreement.

“*Extraordinary Services*” and “*Extraordinary Expenses*” means and include, but not by way of limitation, services, actions and things carried out and all expenses incurred by the Trustee or the Agency upon the occurrence of an unscheduled event impacting the applicable party or parties of performance under any of the Financing Documents, or in connection with or to prevent default or subsequent to a default under this Series Indenture, the other Financing Documents or the Mortgage Loan Documents, including any attorneys’ fees actually incurred and other litigation costs, or other actions taken required in connection with the Financing Documents, but which are not expressly set forth in the Financing Documents, and costs associated with printing of replacement Bonds.

“*Extraordinary Trustee Fees and Expenses*” means (a) all those fees, expenses and disbursements payable to the Trustee under this Series Indenture for Extraordinary Services and Extraordinary Expenses incurred under the Financing Documents, which are to be paid by the Borrower pursuant to the Loan Agreement and (b) the amount of any reduction in the Trustee’s Ordinary Fees pursuant to the proviso contained in the definition of Trustee’s Ordinary Fees.

“*Federal Tax Status*” means the status of the interest on the Bonds as excludable from gross income for federal income tax purposes of the Holders of the Bonds.

“*First Series Indenture*” means the Series Indenture, dated as of December 1, 2009, between the Agency and the Trustee, as same may be amended or modified from time to time.

“*FHA*” means the Federal Housing Administration of HUD or any successor entity and any authorized representatives or agents thereof, including the Secretary of HUD, the Federal Housing Commissioner and their representatives or agents.

“*FHA Firm Commitment*” means the Commitment for Insurance of Advances, dated [_____, 20__], as amended, issued by FHA of pursuant to Section 221(d)(4) of the National Housing Act for a mortgage loan in the original principal amount of \$[TOTAL PAR].

“*FHA Insurance*” means the insurance of the Mortgage Note by FHA pursuant to Section 221(d)(4) of the National Housing Act.

“*Final Endorsement*” means the final endorsement of the Mortgage Note by FHA for FHA Insurance.

“*Final Endorsement Advance*” means the advance, if any, of Mortgage Loan Proceeds made by the Lender in connection with Final Endorsement.

“*Final Endorsement Construction Loan Certificate*” means the Construction Loan Certificate, if any, related to the Final Endorsement Advance.

“*Final Project Loan Certificate Amount*” means the principal amount of the Mortgage Loan, as determined by FHA at the time of Final Endorsement, reduced by: (a) all regularly scheduled payments of principal of the Mortgage Loan due on or before the date of the Project Loan Certificate and (b) all unscheduled payments of principal of the Mortgage Loan received by the Lender prior to the date of the Project Loan Certificate.

“*Financing Documents*” means the Loan Agreement, this Series Indenture, the Bonds, the Continuing Disclosure Agreement, the HUD Regulatory Agreement, the Regulatory Agreement and any other agreement or document executed in connection with the Bonds, together with all modifications, extensions, renewals and replacements thereof, but excluding the Ginnie Mae Documents and the Mortgage Loan Documents.

“*Four Week T-Bill Rate*” means the interest rate for Four Week Treasury Bills (secondary market) as reported by the Federal Reserve on its website at the following internet address: <http://www.federalreserve.gov/releases/h15/update/h15upd.htm>.

“*General Contractor*” means [_____], the general contractor retained by the Borrower for the construction of the Project, and any successor thereto in such capacity.

“*General Indenture*” means the Indenture dated as of December 1, 2009 between the Agency and the Trustee, as the same may have been and may be amended or modified from time to time.

“*Ginnie Mae*” means the Government National Mortgage Association, an organizational unit within HUD, or any successor entity and any authorized representatives or agents thereof, including the Secretary of HUD and his representatives or agents.

“*Ginnie Mae Certificate*” means a Construction Loan Certificate or the Project Loan Certificate, as the case may be, each being a mortgage-backed security issued by the Lender and guaranteed as to timely payment of interest, in the case of a Construction Loan Certificate, or of principal and interest, in the case of the Project Loan Certificate, by Ginnie Mae pursuant to the National Housing Act, as amended, and the regulations promulgated thereunder and backed by the Mortgage Loan.

“*Ginnie Mae Depository*” means any securities depository for recording in book entry form ownership interests in Ginnie Mae Certificates, initially the Federal Reserve Bank of New York.

“*Ginnie Mae Documents*” means the commitments issued by Ginnie Mae to the Lender to guarantee the Ginnie Mae Certificates and all other documents, certifications and assurances executed and delivered by the Lender, Ginnie Mae or the Borrower in connection with the Ginnie Mae Certificates.

“*Ginnie Mae Requirements*” means all applicable published regulations and requirements of general application of Ginnie Mae.

“*Government Obligations*” means bonds or other obligations of the United States of America or any subsidiary corporations of the United States government fully guaranteed by such government.

“*HUD*” means the United States Department of Housing and Urban Development.

“*HUD Override Provisions*” means, collectively, Section 12.8 hereof, Sections ___ and ___ of the Loan Agreement and Section ___ of the Regulatory Agreement.

“*HUD Regulatory Agreement*” means the Regulatory Agreement between the Borrower and HUD with respect to the Project, as the same may be amended or modified from time to time in accordance with its terms.

“*HUD Requirements*” means, collectively, all applicable provisions and requirements set forth in (a) the National Housing Act, (b) the United States Housing Act of 1937, as amended, and/or (c) HUD regulations and HUD rules, handbooks, guides, notices and other similar administrative requirements with respect to HUD mortgage insurance (and Section 8 of the United States Housing Act of 1937, as amended, if applicable).

“*Indenture*” means the General Indenture, as supplemented by the First Series Indenture, and as further supplemented by this Series Indenture, as the same may be amended, modified or supplemented from time to time.

“*Information Services*” means in accordance with then current guidelines of the Securities and Exchange Commission, to such services providing information with respect to called bonds as selected by the Trustee, or, as the Agency may designate in a request of the Agency delivered to the Trustee.

“*Initial Advance*” means the first advance of Mortgage Loan proceeds made by the Lender.

“*Initial Construction Loan Certificate*” means the Construction Loan Certificate backed by the first advance under the Mortgage Loan issued by the Lender to the Trustee or its nominee, in an amount not less than \$[_____].

“*Initial Construction Loan Certificate Delivery Date*” means [_____, 20__], or such later date as may be established pursuant to Section 4.2(c).

“*Initial Endorsement*” means the initial endorsement of the Mortgage Note by FHA for FHA Insurance.

“*Initial Equity Deposit*” means the funds paid by the Tax Credit Investor on the Release Date as its initial equity investment in the Borrower.

“*Investment Agreement*” means any investment agreement or similar investment instrument entered into by the Trustee at the written direction of the Borrower and approved by the Rating Agency (as evidenced by the Trustee’s receipt of the rating confirmation required by Section 6.7(e) hereof), as the same may be amended from time to time in accordance with its

terms, with the rating confirmation required by Section 6.7(e) hereof and with the prior written consent of the Borrower, providing for investment of moneys in the Bond Fund and/or the Project Fund, (i) if the term of the Investment Agreement is more than one (1) year, but less than three (3) years, with or guaranteed by an entity whose unsecured debt obligations are rated by the Rating Agency “AA-/A-1+” or better (or the equivalent thereof by the Rating Agency), or (2) if the term of the Investment Agreement is more than three (3) years, with or guaranteed by an entity whose unsecured long-term debt obligations are rated by the Rating Agency in a rating category at least as high as the then current rating on the Bonds, and which upon a downgrading of such rating will provide collateral at a level required by the Rating Agency to maintain a rating of “AAA” on the Bonds or remit such moneys to the Trustee, and any substitute investment agreement providing for the investment of such moneys, having substantially the same terms, and satisfying the aforesaid rating requirements.

“*Lender*” means [Lender], or its successors and assigns or, if [_____] loses its status as an FHA approved mortgagee, any other mortgagee approved by FHA and the Agency, and their respective successors or assigns.

“*Letter of Credit*” means an unconditional irrevocable letter of credit in favor of the Trustee, delivered to the Trustee pursuant to Section 4.2(g)(i) hereof, and in form and substance satisfactory to the Rating Agency (as evidenced by the written confirmation from the Rating Agency required hereinafter) and the Trustee, which is either issued or confirmed by a Qualified Financial Institution or which is collateralized in a manner approved in writing by the Trustee and in either case which the Rating Agency confirms will not adversely affect the rating then in effect for the Bonds.

“*Letter of Representations*” means the Blanket Agency Letter of Representations provided by the Agency to DTC.

“*Loan Agreement*” means the Loan Agreement dated as of [_____] 1, 20__], among the Lender, the Borrower, the Agency and the Trustee, and any supplements or amendments thereto entered into in accordance with Article XI hereof.

“*Managing General Partner*” means [_____] , the managing general partner of the Borrower, and its successors and assigns.

“*Mortgage*” means the Multifamily Deed of Trust with Assignment of Rents, dated [_____, 20__], from the Borrower in favor of the Lender, as the same may be amended or modified from time to time.

“*Mortgage Loan*” means the loan from the Lender to the Borrower evidenced by the Mortgage Note and secured by the Mortgage.

“*Mortgage Loan Documents*” means the Mortgage, the Mortgage Note, the HUD Regulatory Agreement, the Building Loan Agreement and any other agreement or document executed by the Borrower or the Lender in connection with the Mortgage Loan, together with all modifications, extensions, renewals and replacements thereof.

“*Mortgage Note*” means the note of the Borrower, dated [_____, 20__], payable to the order of the Lender in the principal amount of \$[TOTAL PAR], and any riders thereto, as the same may be amended or modified from time to time.

“*National Housing Act*” means the National Housing Act (Public Law 479, 48 Stat. 1246, 12 U.S.C. 1701 *et seq.*), as amended, and the applicable regulations thereunder.

“*Official Statement*” means the Official Statement dated [_____ 20__] relating to the release and conversion of the Bonds, as the same may be supplemented or amended.

“*Ongoing Agency Fee*” means the Agency’s annual fee in the amount as set forth in, and in accordance with and pursuant to the provisions of the Financing Agreement and Section __ of the Regulatory Agreement.

“*Opinion*” means a written opinion of any attorney or firm of attorneys acceptable to the Trustee and, if applicable, the Agency, who may be counsel to but shall not be a full time employee of the Agency, the Borrower or the Trustee.

“*Ordinary Services*” means, in the case of the Trustee, the actions taken and carried out and those fees incurred by the Trustee as set forth in this Series Indenture, excluding Extraordinary Services and Extraordinary Expenses.

“*Original Indenture*” means, together, the General Indenture and the First Series Indenture, as the same may be amended, modified or supplemented from time to time.

“*Outstanding*” as applied to the Bonds, means, as of the applicable date, all Bonds which have been authenticated and delivered by the Trustee under this Series Indenture, except:

1. Bonds canceled upon surrender, exchange or transfer, or canceled because of payment or redemption, on or prior to such date;
2. Bonds described in Section 7.1 hereof; and
3. Bonds in lieu of which others have been executed and authenticated under Section 2.6 or 2.7 hereof;

provided that Bonds that are owned by the Agency, the Borrower or any Person directly or indirectly controlling or controlled by or under direct or indirect common control with the Agency or the Borrower shall be deemed not to be Outstanding for purposes of determining whether the Owners of the requisite percentage of Bonds have concurred in any demand, direction, request, notice, consent, waiver or other action under this Series Indenture, except that for purposes of determining whether the Trustee shall be protected in relying on any such concurrence of Owners, only Bonds known by the Trustee to be so owned shall be deemed not to be Outstanding. Bonds so owned that have been pledged in good faith may be regarded as Outstanding for such purposes, if the pledgee shall establish to the satisfaction of the Trustee the pledgee’s right to vote such Bonds and the pledgee is not a Person directly or indirectly controlling or controlled by or under direct or indirect common control with the Agency or the Borrower. In case of a dispute as to such right, the Trustee shall be fully protected in relying on

an Opinion of counsel. At the time of any such determination, the Agency shall furnish the Trustee a certificate of an Authorized Representative of the Agency, upon which the Trustee may rely, describing all Bonds held by the Agency so to be excluded.

“*Pass-Through Rate*” means the rate of interest on the Ginnie Mae Certificates, equal to [_____] % per annum.

“*Payment Date*” means the 1st day of each [____] 1 and [____] 1], commencing [_____] 1, 20__]. In the case of payment of defaulted interest, “*Payment Date*” also means the date of such payment established pursuant to Section 2.2.

“*Permanent Rate*” means, with respect to the Bonds, [_____] % per annum (the sum of ____% per annum, plus the Spread).

“*Permitted Investments*” means any of the following to the extent permitted under the Act and other applicable law:

- (a) bonds or other obligations of the State, or bonds or other obligations the principal of and interest on which are guaranteed by the State, and which have been assigned a rating by the Rating Agency that is at least as high as the then-current rating on the Bonds;
- (b) Government Obligations;
- (c) Obligations of agencies of the United States government issued by the Federal Land Bank, the Federal Home Loan Bank, the Federal Intermediate Credit Bank, and the Bank for Cooperatives;
- (d) Bonds or other obligations issued by any public housing agency or municipality in the United States, which bonds or obligations are fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States government, or project notes issued by any public housing agency, urban renewal agency, or municipality in the United States and fully secured as to payment of both principal and interest by a requisition, loan, or payment agreement with the United States government, and which have been assigned a rating by the Rating Agency that is at least as high as the then current rating on the Bonds;
- (e) Certificates of deposit of national banks or state banks whose unsecured or uncollateralized long-term debt obligations are assigned a rating by the Rating Agency of “AAA” or better (or the equivalent thereof by the Rating Agency) or whose unsecured and uncollateralized short-term debt obligations are assigned a rating by the Rating Agency of “A-1+” or better (or the equivalent thereof by the Rating Agency) and which have deposits insured by the Federal Deposit Insurance Corporation, including the certificates of deposit of any such national bank or state bank acting as depository, custodian, or trustee for any such bond proceeds, and which certificates of deposit have a maturity of no more than 365 days; provided, however, that the portion of such certificates of deposit in

excess of the amount insured by the Federal Deposit Insurance Corporation, if any such excess exists, shall be secured by deposit with the Federal Reserve Bank, the Federal Home Loan Bank, or with any national bank or any state bank, which have deposits insured by the Federal Deposit Insurance Corporation, of one or more of the following securities in an aggregate principal amount equal to at least the amount of such excess:

- (i) Direct or general obligations of the State or of any county or municipality in the State;
 - (ii) Obligations of the United States or subsidiary corporations included in subparagraph (b) of this definition;
 - (iii) Obligations of agencies of the United States government included in subparagraph (c) of this definition; or
 - (iv) bonds, obligations, or project notes of public housing agencies, urban renewal agencies, or municipalities included in subparagraph (d) of this definition; and
- (f) Interest-bearing time deposits, reverse repurchase agreements, rate guarantee agreements, or other similar banking arrangements with a bank or trust company having capital and surplus aggregating at least \$50 million or with any government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York having capital aggregating at least \$50 million or with any corporation which is subject to registration with the Board of Governors of the Federal Reserve System pursuant to the requirements of the Bank Holding Company Act of 1956 and whose unsecured or uncollateralized long-term debt obligations are assigned a rating by the Rating Agency of “AAA” or better (or the equivalent thereof by the Rating Agency) or whose unsecured and uncollateralized short-term debt obligations are assigned a rating by the Rating Agency of “A-1+” or better (or the equivalent thereof by the Rating Agency), provided that each such interest-bearing deposit, repurchase agreement, guarantee agreement, or other similar banking arrangement shall permit the moneys so placed to be available for use at the time provided with respect to the investment or reinvestment of such moneys;
- (g) No-load, open-end money market mutual funds (including those of the Trustee and its affiliates) registered under the Investment Company of 1940 provided the portfolio of such fund is limited solely to Government Obligations and such fund has been rated “AAAm-G” by the Rating Agency;
- (h) Any Investment Agreement; and
- (i) Any other obligations assigned a rating by the Rating Agency of at least the higher of (A) the then current rating on the Bonds or (B) at least one of the three highest rating categories and having a national recognized market, including, but not limited to, guaranteed investment contracts offered by any firm, agency,

business, government unit, bank, insurance company, corporation chartered by the United States Congress or other entity, real estate mortgage investment conduits, mortgage obligations, mortgage pools and pass-through securities, provided that each such obligation shall permit moneys so placed to be available for use at the time provided in this Series Indenture.

“*Person*” means one or more natural persons, firms, associations, corporations or public bodies.

“*Principal Office*” means the corporate trust office of the Trustee in San Francisco, California, at the address designated in Section 12.4 or such other corporate trust office designated by the Trustee as its Principal Office for purposes of this Series Indenture.

“*Program Bonds*” means the California Housing Finance Agency Affordable Multifamily Housing Revenue Bonds, 2009 Series A in the original aggregate principal amount of \$380,530,000, issued pursuant to the Indenture, a portion of which has been re-designated as the Bonds pursuant to this Series Indenture.

“*Project*” means the acquisition, construction, rehabilitation and equipping of the multifamily rental housing facilities by the Borrower pursuant to the Loan Agreement and the Mortgage Loan Documents, to be known as [_____], to contain approximately [_____] multifamily rental housing units [(including one manager’s unit)] and related facilities and amenities, and located in [City], California.

“*Project Costs*” means costs, fees and other expenses incurred in connection with the acquisition, construction, rehabilitation and equipping of the Project, costs, fees and other expenses incurred in connection with the closing of the Mortgage Loan and Costs of Issuance, provided such costs in each case are permitted to be financed with proceeds of the Bonds under the Act.

“*Project Fund*” means the Project Fund established by Section 4.1 hereof.

“*Project Loan Certificate*” means the Ginnie Mae Certificate issued after the Mortgage Loan is finally endorsed for FHA Insurance.

“*Project Loan Certificate Maximum Amount*” means (i) \$[TOTAL PAR] (the original stated principal amount of the Mortgage Loan), minus (ii) (A) the amount of any scheduled principal amortization payments due and payable on the Mortgage Note on or before the dated date of the Project Loan Certificate and (B) an amount equal to the amount of any Bonds redeemed pursuant to Section 3.1(c)(i)(B) of this Series Indenture.

“*Property Management Agreement*” means the management agreement, between the Borrower and the Property Manager, relating to the Project, as the same may be supplemented, amended or replaced from time to time.

“*Property Manager*” means, initially, [_____] or any successor or replacement property manager appointed by the Borrower with any approval of the Lender or HUD required under the Mortgage Loan Documents and/or applicable HUD Requirements.

“*Qualified Financial Institution*” means (i) a securities dealer, the liquidation of which is subject to the Securities Investors Protection Corporation or other similar corporation, and which is on the Federal Reserve Bank of New York’s list of primary government securities dealers, provided such dealer has been approved by the Rating Agency; (ii) a bank, a trust company, a national banking association, a corporation subject to registration with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956 or any successor provisions of law, a federal branch pursuant to the International Banking Act of 1978 or any successor provisions of law, a domestic branch or agency of a foreign bank which branch or agency is duly licensed or authorized to do business under the laws of any state or territory of the United States of America, a savings bank, a savings and loan association, or an insurance company or association chartered or organized under the laws of any state of the United States of America and financial institutions that are rated “AAA” or financial institutions whose guarantors are rated “AAA”; (iii) a corporation affiliated with or which is a subsidiary of any entity described in (i) or (ii) above or which is affiliated with or a subsidiary of a corporation which controls or wholly owns any such entity or which is a subsidiary of a foreign insurance company; or (iv) the Government National Mortgage Association or any successor thereto or Fannie Mae or any successor thereto; provided that for each such entity delineated in clause (ii) and (iii) its unsecured or uncollateralized long-term debt obligations, or obligations secured or supported by a letter of credit, contract, agreement or surety bond issued by any such organization, have been assigned a credit rating by each Rating Agency which is not lower than the rating then assigned (i.e., at the time any Investment Agreement is entered into) to any Outstanding Bonds by such Rating Agency.

“*Qualified Project Costs*” means Project Costs that will be chargeable to the capital account of, and will constitute the federal tax basis of, the land and depreciable property that constitute the Project (or would be so chargeable either with a proper election by the Borrower or but for a proper election by the Borrower to deduct such amounts).

“*Rating Agency*” means each national rating agency then maintaining a rating on the Bonds, or any successor or assign thereof.

“*Rebate Amount*” means the amount required to be rebated to the United States pursuant to Section 148 of the Code with respect to the Bonds.

“*Rebate Analyst*” means the Person responsible for calculating the rebate amounts due to the United States of America with respect to the Bonds.

“*Rebate Analyst Fees*” means the fees to be paid to the Rebate Analyst.

“*Rebate Fund*” means the fund of that name, the creation of which is provided for in Section 4.6 hereof.

“*Rebate Year*” means the period beginning on the Release Date and ending on [Month] ____, 20__], and for all other Rebate Years, the one year period beginning on the day after the preceding Rebate Year and ending on the following [_____] 1, unless another period is required by the Code; provided, however, that the last Rebate Year for the Bonds shall end on the Retirement Date of the Bonds.

“*Record Date*” means the 15th day (whether or not a Business Day) immediately preceding each Payment Date.

“*Regulatory Agreement*” means the [Regulatory Agreement and Declaration of Restrictive Covenants] [or equivalent document] dated as of [_____, 20__], between the Agency, the Trustee and the Borrower, as amended from time to time in accordance with its terms.

“*Related Person*” means [_____].

“*Release Date*” means [Month] __, 20__, with respect to the Bonds.

“*Released Proceeds*” means proceeds of the Bonds released from escrow on the Release Date as provided in the General Indenture and the First Series Indenture.

“*Reserved Rights*” means those certain rights of the Agency under the Loan Agreement to indemnification and to payment or reimbursement of expenses of the Agency, the Agency’s right to enforce certain provisions of the Loan Agreement as they relate to the Agency’s rights to notice and reporting requirements, its right to enforce the performance of certain requirements with respect to any transfer of ownership of the Project, its right to inspect and audit the books, records and premises of the Borrower and of the Project, its right to collect attorneys’ fees and related expenses, its right to enforce the Borrower’s covenant to comply with applicable federal tax law and State law (including the Act and the rules of the Agency, if any), its right to receive notices and to grant or withhold consents or waivers under the Loan Agreement, the Regulatory Agreement and this Series Indenture, and its right to amend this Series Indenture, the Regulatory Agreement and the Loan Agreement in accordance with the provisions hereof and thereof.

“*Retirement Date*” means the date on which the last Bond is retired.

“*Scheduled Administrative Fees*” means, collectively, the Agency’s Administration Fees, the Trustee’s Ordinary Fees, the Dissemination Agent Fees and the Rebate Analyst Fees.

“*Securities Depositories*” means The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax (516) 227-4039 or 4191; Midwest Securities Trust Company, Capital Structures – Call Notification, 440 South LaSalle Street, Chicago, Illinois 60605, Fax (312) 663-2343; Pacific Securities Depository Trust Company, Pacific and Company, P.O. Box 7041, San Francisco, Texas 94120, Fax (415) 393-4128; Philadelphia Depository Trust Company, Reorganization Division, 1900 Market Street, Philadelphia, Pennsylvania 19103, Attention: Bond Department, Fax (215) 496-5058; or, in accordance with the then current guidelines of the Securities and Exchange Commission to such other addresses and/or such other securities depositories or, as the Agency may designate in a request of the Agency delivered to the Trustee, to no such depositories.

“*Short-Term Rate*” means an interest rate equal to the sum of the .60% plus the lesser of (A) the Four Week T-Bill Rate as of the Business Day prior to the Release Date or (B) the Permanent Rate less .60%.

“*Sinking Fund Redemption Date*” means the 1st day in each of the months specified in Section 3.1(d) as set forth in EXHIBIT C attached hereto.

“*Sinking Fund Redemption Requirements*” shall mean the aggregate principal amount of the Bonds required to be redeemed on each Sinking Fund Redemption Date pursuant to Section 3.1(d).

“*Special Mandatory Redemption Fund*” means the Special Mandatory Redemption Fund established pursuant to Section 4.1 hereof.

“*Special Record Date*” means the date established by the Trustee pursuant to Section 2.2 as a record date for the payment of defaulted principal of or interest on the Bonds.

“*Spread*” means [_____] percent.

“*State*” means the State of California.

“*Supplemental Indenture*” means any indenture hereafter duly authorized and entered into between the Agency and the Trustee, supplementing, modifying or amending this Series Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized hereunder.

“*Supplemental Account*” means the Supplemental Account within the Project Fund established pursuant to Section 4.1 hereof.

“*Surplus Cash*” shall have the meaning specified in the HUD Regulatory Agreement.

“*Tax Certificate*” means the Tax Certificate and Agreement dated as of the Release Date executed and delivered by the Agency and the Borrower.

“*Tax Credit Investor*” means [_____], as purchaser of the Tax Credits, together with its successors and assigns in such capacity.

“*Tax Credits*” means the low income housing tax credits allocated to the owner of the Project pursuant to Section 42 of the Code.

“*Title Insurance Company*” means [Title Company].

“*Title Insurance Policy*” means the ALTA Loan Policy issued by the Title Insurance Company as of the Release Date insuring the Lender’s interest under the Mortgage.

“*Trust Estate*” means the trust estate pledged by the Agency and described in the Granting Clauses of this Series Indenture.

“*Trust Estate Funds*” means the funds and the accounts therein created and established pursuant to this Series Indenture as part of the Trust Estate hereunder, including the Bond Fund, the Special Mandatory Redemption Fund and the Project Fund, but excluding the Rebate Fund and the Costs of Issuance Fund.

“*Trustee*” means U.S. Bank National Association, a national banking association organized and existing under the laws of the United States of America and being duly qualified to accept and administer the trusts created hereby, or its successor, as Trustee hereunder.

“*Trustee Fees*” mean, collectively, the Trustee’s Ordinary Fees and the Extraordinary Trustee Fees and Expenses.

“*Trustee’s Ordinary Fees*” means (a) the initial acceptance fee of \$[_____] payable to the Trustee on the Release Date as a Cost of Issuance of the Bonds, and (b) the amount payable to the Trustee pursuant to Section 4.3(b) for its Ordinary Services hereunder, in an amount equal to \$[_____] per year, payable in advance in semi-annual installments on each [____] 1 and [____] 1], commencing [____] 1, 20__] (which installment shall be pro-rated).

Section 1.2. Interpretation. Unless otherwise clear from the context of the terms, words or phrases, the following principles govern the interpretation of terms, words and phrases used in this Series Indenture, the Loan Agreement and the Regulatory Agreement:

1. The singular form of any word used herein, including the terms defined in Section 1.1, shall include the plural, and vice versa, unless the context otherwise requires. The use herein of a pronoun of any gender shall include correlative words of the other genders.

2. All references herein to “Articles,” “Sections” and other subdivisions hereof are to the corresponding Articles, Sections or subdivisions of this Series Indenture as originally executed; and the words “herein,” “hereof,” “hereunder” and other words of similar import refer to this Series Indenture as a whole and not to any particular Article, Section or subdivision hereof.

3. The headings or titles of the several Articles and Sections hereof, and any table of contents appended to copies hereof, shall be solely for convenience of reference and shall not limit or otherwise affect the meaning, construction or effect of this Series Indenture or describe the scope or intent of any provisions hereof.

4. All accounting terms not otherwise defined herein have the meanings assigned to them in accordance with applicable generally accepted accounting principles as in effect from time to time.

5. Every “request,” “order,” “demand,” “application,” “appointment,” “notice,” “statement,” “certificate,” “consent,” or similar action hereunder by any party shall, unless the form thereof is specifically provided, be in writing signed by a duly authorized representative of such party with a duly authorized signature.

6. Words importing any gender include masculine, feminine and neuter genders, where applicable.

7. Unless the context indicates otherwise, all references to rating categories shall be deemed to be without regard to any refinement or gradation of such categories by numerical modifiers or otherwise.

8. If any provision of this Series Indenture provides for the approval or consent of any party or any waiver by any party and if a basis for such party granting such approval, consent or waiver is not otherwise stated, then it is understood and agreed that such approval or consent will be given by such party in its discretion. Whenever any party shall have the right or option in this Series Indenture to exercise any discretion, to determine any matter, to accept any presentation or to approve any matter, such exercise, determination, acceptance or approval shall, without exception, be in such party's sole and absolute discretion.

9. References to ratings of one nationally recognized rating agency herein are deemed to mean and include the equivalent ratings of such other nationally recognized rating agency then serving as the Rating Agency, or equivalent successor ratings thereto.

Section 1.3. Content of Certificates and Opinions. Every certificate or opinion provided for in this Series Indenture with respect to compliance with any provision hereof made or given by an Authorized Representative of the Agency or the Borrower may be based, insofar as it relates to legal or accounting matters, upon a certificate or opinion or representation given by counsel or an accountant, unless such Authorized Representative knows, or in the exercise of reasonable care should have known, that the certificate, opinion or representation with respect to the matters upon which such certificate or statement is based is erroneous. Any such certificate or opinion made or given by counsel or an accountant may be based, insofar as it relates to factual matters with respect to which information is in the possession of the Agency or the Borrower, as applicable, upon a certificate or opinion or representation by an officer of the Agency or the Borrower, unless such counsel or accountant knows, or in the exercise of reasonable care should have known, that the certificate or opinion or representation with respect to the matters upon which such certificate, opinion or representation is based is erroneous. The same representative of the Agency or the Borrower, or the same counsel or accountant, as the case may be, need not certify to all of the matters required to be certified under any provision of this Series Indenture, but different officers, counsel or accountants may certify to different matters.

ARTICLE II THE BONDS

Section 2.1. Authorization of Bonds. Bonds of the Agency, designated "California Housing Finance Agency Affordable Multifamily Housing Revenue Bonds ([____]) 20__ Series __" in the original aggregate principal amount of \$[BOND PAR] are hereby authorized to be converted, modified, released, authenticated and delivered pursuant to this Series Indenture. The aggregate principal amount of the Bonds that may be issued, authenticated, delivered and Outstanding under this Series Indenture shall not exceed \$[BOND PAR]. This Series Indenture constitutes a continuing agreement with the Trustee and the Owners from time to time of the Bonds to secure the full payment of the principal of and premium, if any, and interest on all such Bonds subject to the covenants, provisions and conditions contained herein.

Section 2.2. Denominations, Maturity, Interest Rates and Payment of Bonds: Book-Entry Form.

(a) The Bonds shall be issued, authenticated and delivered as fully registered bonds issued in Authorized Denominations and shall initially be numbered consecutively from [R-A-1] upward. The Bonds shall be dated the Release Date and shall mature on [_____, 20__]. The Bonds will bear interest from the Release Date to, but not including, the Conversion Date at the Short-Term Rate and from and after the Conversion Date to maturity at the Permanent Rate.

The Bonds shall be subject to redemption as provided in Article III.

(b) The principal of and interest on the Bonds are payable in lawful money of the United States of America. Payments of interest on each Bond shall be paid by the Bond Registrar on each Payment Date, commencing [____1, 20__], by check mailed by first class mail, postage prepaid, on the Payment Date to the Owner of such Bond as shown on the Bond Register at the close of business on the applicable Record Date at the address of the Owner as it appears on the Record Date in the Bond Register or, at the written request, risk and expense of the Owner, by wire transfer of immediately available funds to an account within the United States designated in writing by the Owner not less than 15 days prior to the Record Date. Payments of principal of any Bond shall be made upon presentation and surrender of the Bond to a corporate trust office of the Bond Registrar designated by the Bond Registrar for that purpose. Notwithstanding the foregoing, as long as the Bonds are registered in the name of DTC or its nominee, payment of principal of and premium, if any, and interest on the Bonds shall be made in the manner set forth in the Letter of Representations.

The Bonds shall bear interest (computed on the basis of a 360-day year of twelve 30-day months and payable on each Payment Date) from the later of its date and the most recent Payment Date to which interest has been paid or duly provided for, except that when there is no existing default in the payment of interest on the Bonds, each Bond authenticated after the Regular Record Date for any Payment Date but prior to such Interest Payment Date shall bear interest from such Payment Date.

Any principal or interest not punctually paid or duly provided for hereunder shall forthwith cease to be payable to the Owners as of the applicable Record Date and shall be paid to the Persons in whose names the Bonds are registered at the close of business on a Special Record Date for the payment of such defaulted principal or interest, such Special Record Date and the date of such payment to be fixed by the Trustee in its sole discretion and notice thereof to be given by or on behalf of the Trustee to the Owners not less than 10 days prior to such Special Record Date.

The interest payable on each Payment Date shall be that interest which has accrued through the last day preceding the Payment Date or, in the case of the maturity or redemption of the Bonds, the last day preceding the date of such maturity or the date fixed for redemption, as the case may be.

(c) The Bonds initially shall be registered in the name of CEDE & CO., as the nominee of DTC. The Bonds so registered shall be held in fully immobilized form by DTC as depository. For so long as any Bonds are held in fully immobilized form, DTC or its successor depository shall be deemed to be the registered owner for all purposes hereunder and all references to registered owners, bondowners, bondholders or the like shall mean DTC or its

nominees and shall not mean the owners of any beneficial interests in the Bonds. Registered ownership of such Bonds, or any portions thereof, may not thereafter be transferred except: (i) to any successor of DTC or its nominee, if that successor shall be qualified under any applicable laws to provide the services proposed to be provided by it; (ii) to any substitute depository appointed by the Agency or such substitute depository's successor; or (iii) to any person as provided if the Bonds are no longer held in immobilized form.

While the Bonds are registered in the name of CEDE & Co. as nominee of DTC, neither the Agency nor the Trustee shall have any responsibility or obligation to any direct or indirect participant in DTC, any Person claiming a beneficial ownership interest in the Bonds under or through DTC or any such participant, or any other Person which is not shown on the Bond Register as being an Owner, with respect to: (i) the accuracy of any records maintained by DTC or any such participant; (ii) the payment by DTC or any such participant of any amount in respect of the principal or redemption price of or interest on the Bonds; (iii) the delivery to any participant or to any other Person, other than the Owners as shown on the Bond Register, of any notice with respect to the Bonds, including any notice of redemption; (iv) the selection of DTC or any such participant of any Person to receive payment in the event of a partial redemption of the Bonds; or (v) any consent given or other action taken by DTC as Owner.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to Agency or Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered. Agency may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

Section 2.3. Form, Execution and Authentication of Bonds; Limited Obligations. The Bonds shall be in Authorized Denominations and in substantially the form attached hereto as EXHIBIT A, with such variations, omissions and insertions as are permitted or required by this Series Indenture. The Bonds shall be executed on behalf of the Agency by the manual or facsimile signature of any Authorized Representative of the Agency, and attested by the manual or facsimile signature of the Secretary of the Board of Directors of the Agency or any other Authorized Representative of the Agency. Any facsimile signatures shall have the same force and effect as if said officers had manually signed the Bonds. The Bonds may be typewritten, printed, engraved, lithographed or otherwise produced.

In case any officer of the Agency whose signature or whose facsimile signature shall appear on the Bonds shall cease to be such officer before the authentication of such Bonds, such signature or the facsimile thereof shall nevertheless be valid and sufficient for all purposes as if he or she had remained in office until authentication; and any Bond may be signed on behalf of the Agency by such persons as are at the time of execution of such Bond proper officers of the Agency, even though at the date of this Series Indenture, such person was not such officer.

The Bonds are limited obligations of the Agency and are secured by and payable as to principal, interest and premium, if any, solely from payments to the Agency by the Borrower under the Loan Agreement, which payments have been assigned to the Trustee pursuant to this Series Indenture.

THE BONDS ARE LIMITED OBLIGATIONS OF THE ISSUER, PAYABLE SOLELY FROM THE REVENUES AND OTHER FUNDS AND MONEY PLEDGED AND ASSIGNED UNDER THE SERIES INDENTURE. NEITHER THE ISSUER, THE STATE OF CALIFORNIA, NOR ANY POLITICAL SUBDIVISION THEREOF (EXCEPT THE ISSUER, TO THE LIMITED EXTENT SET FORTH IN THE SERIES INDENTURE) NOR ANY PUBLIC AGENCY SHALL IN ANY EVENT BE LIABLE FOR THE PAYMENT OF THE PRINCIPAL OF, PREMIUM (IF ANY) OR INTEREST ON THE BONDS OR FOR THE PERFORMANCE OF ANY PLEDGE, OBLIGATION OR AGREEMENT OF ANY KIND WHATSOEVER EXCEPT AS SET FORTH IN THE SERIES INDENTURE, AND NONE OF THE BONDS OR ANY OF THE ISSUER'S AGREEMENTS OR OBLIGATIONS SHALL BE CONSTRUED TO CONSTITUTE AN INDEBTEDNESS OF OR A PLEDGE OF THE FAITH AND CREDIT OF OR A LOAN OF THE CREDIT OF OR A MORAL OBLIGATION OF ANY OF THE FOREGOING WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION WHATSOEVER. THE ISSUER HAS NO TAXING POWER.

Section 2.4. Delivery of Bonds. The Trustee shall authenticate and deliver the Program Bonds at the written request of the Agency when the Trustee shall have received the following:

- (a) a certified copy of the Bond Resolution;
- (b) an original executed counterpart of this Series Indenture;
- (c) an original executed counterpart of the Loan Agreement, the Regulatory Agreement and the Continuing Disclosure Agreement;
- (d) copies of the executed Mortgage Note, endorsed by HUD, the Mortgage, the HUD Regulatory Agreement and the Building Loan Agreement;
- (e) a copy of the Title Insurance Policy, and copies of the financing statements to be filed with respect to the Trust Estate;
- (f) the Opinion of Bond Counsel as to the validity of the Bonds and that interest on the Bonds is excluded from gross income for federal income tax purposes;
- (g) the opinion of Counsel for the Borrower to the effect, inter alia, that the Loan Agreement, the Regulatory Agreement, the other Financing Documents to which the Borrower is a party and each other agreement executed by the Borrower in connection with the initial issuance of the Bonds have been duly authorized, executed and delivered by the Borrower and are legal, valid and binding agreements of the Borrower;
- (h) the portion of the Initial Equity Deposit to be received by the Trustee in immediately available funds, which the Trustee shall deposit in the Costs of Issuance Fund;
- (i) the proceeds of the sale of the Bonds (and any additional amounts received from the Borrower), which the Trustee shall receive on the Release Date for deposit in accordance with Sections 4.1(b) and 4.1(d) hereof.

Section 2.5. Registration; Transfer of Bonds. The Agency shall cause the Bond Register for the registration and transfer of the Bonds as provided in this Series Indenture to be kept by the Bond Registrar.

Upon surrender for transfer or exchange of any Bonds in certificated form at an office of the Bond Registrar designated by the Bond Registrar for that purpose, the Bond Registrar shall authenticate and deliver in the name of the transferee or transferees a new Bond or Bonds of the same Series and interest rate, and for the aggregate principal amount the Owner is entitled to receive. No transfer of any Bond shall be binding upon the Bond Registrar, the Agency or the Trustee unless made at such office and shown on the Bond Register.

Any Bond in certificated form presented for transfer or payment (if so required by the Bond Registrar) shall be accompanied by a written instrument or instruments of transfer or authorization for payment, in form and with guaranty of signature satisfactory to the Bond Registrar, duly executed by the Owner thereof or by its attorney duly authorized in writing.

The costs of printing any new Bonds and any services rendered or expenses incurred by the Bond Registrar or the Agency in connection with any exchange or transfer of Bonds (including the exchange or transfer of a Bond redeemed only in part) shall be paid by the Borrower, except that as a condition to a transfer of a particular Bond, the Bond Registrar may require payment by the Bondowner of a sum sufficient to cover any tax, fee or other governmental charge that the Bond Registrar is required to pay in relation thereto.

Each Bond delivered upon transfer of or in lieu of any other Bond shall be a valid obligation of the Agency evidencing the same debt as the Bond surrendered, and except as otherwise provided herein shall be entitled to all of the security and benefits hereof to the same extent as the Bond surrendered, shall carry all the rights to interest accrued and unpaid, and to accrue, which were carried by such other Bond, and shall be so dated that neither gain nor loss of interest shall result from such transfer or exchange.

The Bond Registrar shall not be required to exchange or transfer any Bond or portion thereof that has been selected for redemption and also shall not be required to transfer or exchange any Bond or portion thereof during the period in which the Bond Registrar is selecting Bonds for redemption or during the 15 days preceding any principal payment or redemption date.

Section 2.6. Mutilated, Lost, Stolen and Destroyed Bonds: Cancellation of Bonds. In case any Bond issued hereunder shall become mutilated or be destroyed, stolen or lost, the Agency shall cause to be executed and delivered a new Bond of like amount, interest rate, maturity date and tenor in exchange and substitution for and upon cancellation of such mutilated Bond, or in lieu of and in substitution for such destroyed, stolen or lost Bond, upon payment by the Owner thereof of any applicable tax or governmental charge and the reasonable expenses and charges of the Agency and the Bond Registrar in connection therewith, and in the case of a Bond destroyed, stolen or lost, the filing with the Bond Registrar of evidence satisfactory to it that such Bond was destroyed, stolen or lost, and of the ownership thereof, and furnishing the Agency and the Bond Registrar with indemnity satisfactory to each of them. If the mutilated, destroyed, stolen or lost Bond already has matured or been called for redemption in accordance with its terms it shall not be necessary to issue a new Bond prior to payment.

Section 2.7. Cancellation. All Bonds that have been redeemed pursuant to Article III shall be canceled and destroyed by the Bond Registrar and shall not be reissued.

Section 2.8. Ownership of Bonds. The Agency, the Bond Registrar and the Trustee may deem and treat the Person in whose name any Bond is then registered on the Bond Register or its nominee, whether or not such Bond shall be overdue, as the Owner of such Bond for the purpose of receiving payment of the principal of and premium, if any, and interest on such Bond and for all other purposes whatsoever, and the Agency, the Bond Registrar and the Trustee shall not be affected by any notice to the contrary.

Section 2.9. Destruction of Bonds. Whenever any Bonds shall be delivered to the Bond Registrar for cancellation pursuant to this Series Indenture or if received by the Bond Registrar pursuant to Section 2.5, such Bonds shall be canceled promptly, held by the Bond Registrar for its retention period then in effect, and thereafter destroyed by the Bond Registrar in accordance with its general practices and procedures in effect from time to time after payment, if applicable, of the principal amount and premium, if any, and interest accrued thereon, in each case after a reasonable period of time, and counterparts of a certificate of destruction evidencing such destruction shall be furnished by the Bond Registrar to the Trustee and the Agency.

Section 2.10. Other Secured Obligations. Nothing contained in this Series Indenture shall prohibit or prevent, or be deemed or construed to prohibit or prevent, the Agency from issuing, without regard to the provisions of this Series Indenture, bonds, notes, certificates, warrants or other evidences of indebtedness that are (a) payable as to principal and interest and redemption premium solely from revenues, proceeds and earnings, which are not part of the Trust Estate or Bond proceeds, and (b) not payable, in whole or in part, from money in any of the Funds hereunder.

ARTICLE III REDEMPTION OF BONDS

Section 3.1. Redemption of Bonds. The Bonds shall be subject to redemption prior to maturity as provided in this Section.

(a) *General.* On each redemption date the Trustee shall transfer to the Bond Registrar, but only from and to the extent of funds held by the Trustee hereunder available for such purpose, an amount sufficient to pay the redemption price of all Bonds or portions thereof to be redeemed on such redemption date. For all purposes of this Series Indenture, unless the context otherwise requires, all provisions relating to the redemption of Bonds shall relate, in the case of any Bond redeemed or to be redeemed only in part, to the portion of the principal of such Bond that has been or is to be redeemed, provided, however, that Bonds shall be redeemed in part only in such amounts that the Bonds remaining outstanding after a redemption shall in all events be in Authorized Denominations.

(b) *Optional Redemption of Bonds.* The Bonds shall be subject to redemption prior to maturity, as a whole or in part, at any time on the earliest practicable Business Day after the Trustee's receipt of written notice thereof for which funds are available and proper notice of redemption may be given pursuant to Section 3.3 hereof, which redemption date shall be on or

after _____ 20, 20__, from (i) payments on the Ginnie Mae Certificates representing optional prepayments on the Mortgage Loan, (ii) a refunding of the Bonds (other than a refunding as a result of a default on the Mortgage Loan) or (iii) otherwise at the option of the Borrower, upon the written direction of the Borrower delivered to the Agency and the Trustee, at [par, plus accrued interest to the redemption date]:

(c) *Extraordinary Mandatory Redemption.* The Bonds shall be subject to extraordinary mandatory redemption, without premium, as a whole, or in part in Authorized Denominations:

(i) (A) in whole, on the tenth (10th) day after the Delivery Date (as such date may be extended pursuant to the provisions here), if the Project Loan Certificate is not delivered to the Trustee or its nominee on or before the Delivery Date (as such date may be extended pursuant to the provisions hereof); or

(B) in whole, on the tenth (10th) day after the Initial Construction Loan Certificate Delivery Date (as such date may be extended pursuant to the provisions hereof), if the Initial Construction Loan Certificate is not delivered to the Trustee or its nominee on or before the Initial Construction Loan Certificate Delivery Date (as such date may be extended pursuant to the provisions hereof);

(ii) in part, on the earliest practicable Business Day for which funds are available and proper notice of redemption may be given pursuant to Section 3.3, in a principal amount equal to the difference between the Project Loan Certificate Maximum Amount and the principal amount of the Project Loan Certificate attributed to a reduction of the Mortgage Loan confirmed in writing by the Lender (not including any difference due to scheduled amortization of the Mortgage Loan), as delivered, to the Trustee or its nominee; and/or

(iii) as a whole or in part, on the earliest practicable Business Day for which funds are available and proper notice of redemption may be given pursuant to Section 3.3, in a principal amount equal to payments received by the Trustee or its nominee on the Ginnie Mae Certificates exceeding regularly scheduled payments of principal and interest thereon (other than optional prepayments of the Mortgage Loan), including payments representing:

(1) casualty insurance proceeds or condemnation awards applied to the prepayment of the Mortgage Loan following a partial or total destruction or condemnation of the Project,

(2) FHA Insurance proceeds or other amounts received with respect to the Mortgage Loan or Ginnie Mae Certificates as a result of a default under the Mortgage Loan,

(3) a prepayment of the Mortgage Loan permitted or required by the applicable rules, regulations, policies and/or procedures of FHA or Ginnie Mae, particularly if FHA determines such prepayment would avoid an FHA Insurance claim,

(4) a prepayment of a portion of the Mortgage Loan to the extent a reduction in the amount of the Mortgage Loan is required by FHA based upon any cost certification or other report required by FHA, and/or

(5) a prepayment of the Mortgage Loan made by the Borrower without notice or prepayment penalty while under supervision of a trustee in bankruptcy.

In the event of a redemption pursuant to this Section 3.1(c), the Bonds shall be redeemed at a redemption price of 100% of the principal amount thereof plus accrued interest to the redemption date.

(d) *Mandatory Sinking Fund Redemption.* The Bonds shall be subject to redemption in part at a redemption price equal to 100% of the principal amount thereof to be redeemed plus interest accrued to the Sinking Fund Redemption Date in the amounts and on the Sinking Fund Redemption Dates set forth in EXHIBIT C hereto.

If the Bonds are redeemed in part pursuant to Section 3.1(b) or (c), the Sinking Fund Redemption Requirements of the Bonds set forth in EXHIBIT C hereto shall be reduced so that the resulting decrease in the Sinking Fund Redemption Requirements is proportional, as nearly as practical, to the decrease in payments under the Ginnie Mae Certificates, and so that the resulting Sinking Fund Redemption Requirements are in Authorized Denominations.

Section 3.2. Selection of Bonds for Partial Redemption. In the event of a partial redemption of Bonds pursuant to Section 3.1 hereof, (a) the particular Bonds to be redeemed shall be selected (and the mandatory sinking fund redemption schedule established pursuant to Section 3.1(d) hereof shall be adjusted accordingly) by the Trustee in order that the resulting decrease in the debt service on the Bonds in each six (6) month period ending on a Payment Date is proportional, as nearly as practicable, to the decrease in payments on the Ginnie Mae Certificates (provided, however, the Trustee shall have the right to retain a firm of certified public accountants, cash flow consultants, underwriters or other appropriate professionals, at the sole cost of the Borrower and the Trust Estate, to make the aforesaid calculations and selection of Bonds to be redeemed and aforesaid adjustment of the mandatory sinking fund schedule), and (b) the Bonds or portions thereof to be redeemed within each maturity shall be in Authorized Denominations and shall be selected by lot or in such manner as the Trustee may determine in its discretion. The remaining principal amount of any Bond redeemed in part shall be in an Authorized Denomination.

Section 3.3. Notice of Redemption.

(a) When any redemption of Bonds is to be made under this Series Indenture, the Trustee, or the Bond Registrar on behalf of the Trustee, shall give notice, in the name of the Agency, of the redemption of such Bonds, which notice shall meet the requirements of Section 3.3(b). Such notice shall be given by mailing by first class mail a copy of such notice, postage prepaid, not less than 15 nor more than 30 days (or not less than 5 nor more than 10 days in the case of extraordinary mandatory redemption pursuant to Section 3.1(c) hereof) before the redemption date, to the Owners of any Bonds or portions of Bonds to be redeemed, at their last addresses, if any, appearing upon the Bond Register, but any defect in such mailing shall not

impair any such redemption and failure so to mail any such notice shall not affect the validity of the proceedings for the redemption of Bonds; provided that notice of a redemption (other than a mandatory sinking fund redemption) shall also be mailed to the Rating Agency at its office in New York, New York (or its successor), and to such other Persons as the Agency shall specify in writing to the Trustee, including all Persons then required by law or regulation to receive notice of such redemption.

Notwithstanding the foregoing or any other provision of this Series Indenture, in the event of a redemption by reason of the Trustee receiving payments on the Mortgage Loan made by the Borrower without notice or prepayment penalty while under the supervision of a trustee in bankruptcy, prior notice of redemption of Bonds shall not be required if circumstances do not permit the Trustee to give such notice in accordance with the preceding paragraph.

Except in the case of an extraordinary mandatory redemption pursuant to Section 3.1(c)(i) or (ii) or in the case of a mandatory sinking fund redemption pursuant to Section 3.1(d), the Trustee shall not mail a notice of redemption until it has received Available Money to effect such redemption (including Available Money in the amount of any redemption premium due) or, in the case of an optional redemption pursuant to Section 3.1(b) hereof, certification from the Lender that it has in its possession (credited to the appropriate “servicer’s account”) immediately available funds paid by the Borrower as a prepayment of principal and the applicable prepayment premium on the Mortgage Note equal to the amount required to redeem the Bonds pursuant to Section 3.1(b) hereof.

Any notice of redemption pursuant to Section 3.1(c)(i) shall state that such notice of redemption is conditional and shall be rescinded if prior to redemption of the Bonds (i) the Initial Construction Loan Certificate Delivery Date, the Delivery Date and/or the Construction Loan Certificate Maturity Date (as applicable) is extended pursuant to Section 4.2(g), or (ii) in the case of a redemption pursuant to Section 3.1(c)(i)(A), the Project Loan Certificate is delivered to the Trustee or its nominee prior to the redemption date, or (iii) in the case of a redemption pursuant to Section 3.1(c)(i)(B), the Initial Construction Loan Certificate is delivered to the Trustee or its nominee prior to the redemption date.

The failure of the Trustee to mail notice of redemption to Persons other than the Owners of Bonds to be redeemed shall not affect the sufficiency of the proceedings for redemption. The Trustee shall be entitled to request, as an expense of the Trust Estate, receive and rely upon an opinion of counsel (which may be Bond Counsel) in determining who is required to receive such notice.

(b) All official notices of redemption shall be dated, shall be given in accordance with the Letter of Representations if the Bonds are registered in the name of DTC or its nominee, and shall state: (i) the redemption date; (ii) the redemption price; (iii) if less than all Outstanding Bonds are to be redeemed, the identification by designation, letters, numbers or other distinguishing marks (and, in the case of partial redemption, the respective principal amounts) of the Bonds to be redeemed; (iv) that on the redemption date the redemption price of each such Bond will become due and payable to the extent of funds on deposit with the Trustee for that purpose, and that interest on the principal amount of each such Bond to be redeemed shall cease to accrue on such date; (v) the place where such Bonds are to be surrendered for payment of the

redemption price, which place of payment shall be the Bond Registrar office of the Trustee; and (vi) such additional information as the Trustee or the Agency shall deem appropriate.

(c) In addition to the foregoing notice, further notice shall be given by the Trustee as set out below, but no defect in such further notice nor any failure to give all or any portion of such further notice shall in any manner defeat the effectiveness of a call for redemption if notice thereof is given as above prescribed. Each further notice of redemption given hereunder shall contain the information required above for an official notice of redemption and in addition (i) the complete official title, including Series designation, Release Date, interest rate and maturity date of each Bond being redeemed, (ii) the certificate and CUSIP number of each such Bond, and, in the case of a partial redemption, the amount of the principal represented by each such certificate that is being redeemed, (iii) the date of mailing of official notice of redemption, and (iv) any other descriptive information needed to identify accurately the Bonds being redeemed. Further notices of redemption shall be sent by first class mail.

(d) If the Bonds are not then being held under a book-entry system, each further notice of redemption (other than a redemption pursuant to Section 3.1(c)) shall be sent at least 30 days before the redemption date by first class mail or overnight delivery service to the Securities Depositories and to one or more Information Services. This further notice of redemption sent to the Securities Depositories pursuant to the preceding sentence shall be sent at such time as shall insure that such notice is received at least two Business Days before official notice of such redemption is received.

(e) A second notice of redemption shall be sent by the same means as the first such notice not later than 60 days after the redemption date to any Owner who shall not have presented for payment the Bond or Bonds called for redemption within 30 days after such date.

(f) In the event the Bonds are called for redemption under circumstances resulting in discharge of this Series Indenture under Section 7.1 hereof more than 90 days before the redemption date, additional official and further notice of redemption satisfying the requirements of this Section shall be given not less than 30 nor more than 60 days prior to such redemption date.

(g) Failure to give any official or further notice or any defect therein shall not affect the validity of the proceedings for redemption of any Bond with respect to which no such failure or defect has occurred or exists.

(h) Notice of any redemption of Bonds prior to the date the Project Loan Certificate is acquired by the Trustee or its nominee shall be given to the Lender in the same manner as such notice is given to the Owners.

Notice of redemption having been given as aforesaid, except as provided below and in Section 3.4, the principal amount of the Bonds so to be redeemed shall become due and payable on the redemption date at the redemption price specified, and on and after such date (unless the Agency shall default in the payment of the redemption price) such principal amount of the Bonds shall cease to bear interest. Upon surrender of any such Bond for redemption in accordance with such notice, such Bond shall be paid at the redemption price thereof to the extent that money is

on deposit with the Bond Registrar for that purpose. Neither the failure of an Owner to receive such notice nor any defect in any notice shall affect the sufficiency of the proceedings for such redemption. If any Bond called for redemption shall not be so paid on the redemption date upon proper surrender of the Bond for redemption, the redemption price and, to the extent lawful, interest thereon shall, until paid, bear interest from the redemption date at the rate borne by the Bond immediately before the redemption date.

If any Bond is to be redeemed only in part, it shall be surrendered to the Bond Registrar (with, if the Bond Registrar so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Bond Registrar duly executed by, the Owner thereof or its attorney duly authorized in writing) and the appropriate officers of the Agency shall execute and the Bond Registrar shall authenticate and deliver to the Owner of such Bond, without service charge, a new Bond or Bonds of the same interest rate and of any Authorized Denomination or Authorized Denominations, as requested by such Owner, in aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Bond surrendered.

Section 3.4. Recission of Extraordinary Mandatory Redemption and Optional Redemption.

(a) In the event that, prior to redemption of Bonds pursuant to Section 3.1(c)(i)(A) or Section 3.1(c)(i)(B) the Delivery Date or the Initial Construction Loan Certificate Delivery Date (as applicable) is extended pursuant to Section 4.2(g) or the Project Loan Certificate is delivered to the Trustee or its nominee, then, in any such event, the notice of such redemption shall be rescinded, the Trustee shall so notify the Owners of Bonds to whom such notice of redemption was sent, and the Bonds shall not be so redeemed. Any such event shall not constitute an Event of Default hereunder.

(b) With respect to optional redemption pursuant to Section 3.1(b), if the Bond Registrar does not have Available Money in its possession on the redemption date sufficient to pay the redemption price (including interest accruing to the redemption date) of all of the Bonds to be optionally redeemed for any reason (including, but not limited to, failure to issue any refunding obligations intended for such purpose on or prior to the redemption date), then the purported optional redemption and such notice of redemption shall be rescinded, the Bonds shall not be redeemed, and the Bond Registrar shall so notify the Trustee. Such event shall not constitute an Event of Default hereunder.

(c) In each such event, the redemption notice shall be rescinded by the Trustee sending written notice thereof to the Owners, the Rating Agency and any other parties to whom the notice of redemption was sent pursuant to Section 3.3(a) hereof.

ARTICLE IV
APPLICATION OF BOND PROCEEDS; CREATION OF FUNDS AND ACCOUNTS

Section 4.1. Establishment of Funds and Accounts.

(a) There are hereby established with the Trustee the following funds and accounts, to be held and maintained by the Trustee under this Series Indenture:

- (i) the Bond Fund;
- (ii) the Special Mandatory Redemption Fund;
- (iii) the Project Fund, and the Program Bond Proceeds Account and the Supplemental Account therein;
- (iv) the Costs of Issuance Fund; and
- (v) the Rebate Fund.

(b) On the Release Date, the Trustee shall deposit Released Proceeds in the amount of (\$[_____]) into the Program Bond Proceeds Account within the Project Fund.

(c) On the Release Date the Trustee shall deposit \$[_____] received from the Borrower into the Costs of Issuance Fund.

(d) [On the Release Date, the Trustee shall deposit the additional amounts received (\$[_____]), as follows] [to come]:

(e) Each fund and each account established under this Series Indenture shall be maintained by the Trustee as a separate and distinct trust fund or account to be held, managed, invested, disbursed and administered as provided in this Series Indenture. All money deposited in the funds and accounts created hereunder shall be used solely for the purposes set forth in this Series Indenture. The Trustee shall keep and maintain adequate records pertaining to each fund and account, and all disbursements therefrom, in accordance with its general practices and procedures in effect from time to time.

(f) The Trustee shall, at the written direction of an Authorized Representative of the Agency, and may, in its discretion, establish such additional accounts within any fund, and subaccounts within any of the accounts, as the Agency or the Trustee may deem necessary or useful for the purpose of identifying more precisely the sources of payments into and disbursements from that fund and its accounts, or for the purpose of complying with the requirements of the Code, but the establishment of any such account or subaccount shall not alter or modify any of the requirements of this Series Indenture with respect to a deposit or use of money in the funds or accounts hereunder, or result in commingling of funds not permitted hereunder.

Section 4.2. Deposits Into Project Fund: Use of Moneys in Project Fund.

(a) (i) The Trustee shall deposit into the Accounts within the Project Fund when and as received the following:

(A) Program Bond proceeds in the amount of \$[_____] received by the Trustee on the Release Date and the additional amounts from the Borrower as directed in Section 4.1(d)(iii) hereof shall be deposited into the Program Bond Proceeds Account within the Project Fund; and

(B) all earnings and gains from the investment of money held in the Bond Proceeds Account within the Project Fund shall be deposited into the Bond Fund.

(ii) The Trustee shall hold for the account of the Supplemental Account within the Project Fund (a) the amount set forth in Section 4.1 above or, (b) any Extension Payment or Letter of Credit delivered pursuant to Section 4.2(g)(i) hereof and the proceeds of any draw upon any Letter of Credit so provided. All earnings and gains from the investment of money held in the Supplemental Account within the Project Fund shall be deposited into the Bond Fund.

(iii) Moneys in the Project Fund (and the Bond Fund with respect to accrued interest) shall be applied to the acquisition of Ginnie Mae Certificates. Upon the acquisition thereof, the Initial Construction Loan Certificate and all other Construction Loan Certificates shall be registered in the name of the Trustee or its nominee in and for the benefit of the Project Fund. The Borrower shall deliver to the Trustee contemporaneously with its delivery of the requisition for each advance of the Mortgage Loan proceeds from the Lender a certificate, in substantially the form appearing as EXHIBIT B to the Loan Agreement, stating that such advance will not cause or result in the violation, or be in violation, of any covenant of the Borrower contained in the Regulatory Agreement, in particular Sections 2 or 5 thereof or in the Tax Certificate relating to the Bonds and dated the Release Date, including without limitation, the covenants that (i) at least 97% of the Net Bond Proceeds (as defined in said Certificate) will be used to pay costs chargeable to the capital account of the Project or would be so chargeable either with a proper election or but for a proper election to deduct such amounts and (ii) the issuance costs of the Bonds financed with proceeds of the Bonds will not exceed 2% of the proceeds of the Bonds (collectively, the "Borrower's Advance Certificate").

In the event the Trustee does not receive the Borrower's Advance Certificate, or in the event funds remain in the Bond Proceeds Account after [Month] __, _____], the Trustee shall, nevertheless, continue to disburse funds in accordance with this Section 4.2, the first paragraph of Section 3.7(b)(i) of the Loan Agreement and Sections 3.7(d) and 3.7(e) of the Loan Agreement.

(b) On each Payment Date occurring prior to the purchase of the Project Loan Certificate by the Trustee, the Trustee shall transfer from the Supplemental Account to the Bond Fund an amount which, together with money held in the Bond Fund for such purpose, is equal to the principal of and interest due on the Bonds on such Payment Date.

(c) (i) Prior to delivery of the Project Loan Certificate, the Trustee shall make the following disbursements from the Project Fund: disburse funds to the Lender to acquire from the Lender or its nominee (1) the Initial Construction Loan Certificate, (2) Construction Loan Certificates, in each case upon presentation of such Construction Loan Certificates, and (3) if issued by the Lender, the Final Endorsement Construction Loan Certificate upon presentation of the Final Endorsement Construction Loan Certificate pursuant to Section 3.7(d) of the Loan Agreement. The Trustee shall acquire such Construction Loan Certificates at the prices and times set forth in Sections 3.7(d) and 3.7(e) of the Loan Agreement. Each Construction Loan Certificate shall have the interest rate and terms specified in Section 3.7(a) of the Loan Agreement.

(ii) Following the disbursement of funds from the Project Fund to acquire each Construction Loan Certificate, the Trustee shall determine whether the sum of the total amounts of all advances of moneys from the Project Fund, plus the amount of funds held in the Project Fund is equal to at least \$[TOTAL PAR], in each case including all Accounts therein. In the event the aforesaid sum is less than \$[TOTAL PAR], the Trustee shall promptly notify the Borrower and the Lender in writing of the amount of the deficiency and shall direct the Borrower to deliver to the Trustee within ten (10) Business Days a Letter of Credit in an amount at least equal to such deficiency amount, which Letter of Credit shall be drawn in full and deposited by the Trustee into the Project Fund.

(d) The Trustee shall acquire the Project Loan Certificate from the Lender on or prior to the Delivery Date (or such later date as may be permitted under the terms of this Series Indenture), but only if the Trustee or its nominee has previously received all Construction Loan Certificates representing prior disbursements and all payments due thereon. The Project Loan Certificate shall have the interest rate and terms specified in Section 3.7(a) of the Loan Agreement. All Construction Loan Certificates held by the Trustee or its nominee shall be cancelled in exchange for the Project Loan Certificate in accordance with Section 3.7(b)(ii) of the Loan Agreement; provided, however, that such Construction Loan Certificates shall not be so cancelled if the principal amount of the Project Loan Certificate, as delivered to the Trustee, is less than the aggregate outstanding principal amount of such Construction Loan Certificates, unless the Lender has paid to the Trustee or its nominee an amount equal to such difference as a partial prepayment of such Construction Loan Certificates. Any amounts so received that is a result of the Mortgage Loan being reduced upon final endorsement (which shall be confirmed to the Trustee by the Lender in writing) shall be deposited in the Bond Fund and applied to the redemption of Bonds pursuant to Section 3.1(c)(ii). Upon the delivery of the Project Loan Certificate, the Trustee shall apply any amount remaining in the Project Fund in accordance with Section 4.2(j) hereof.

(e) In the event that the Mortgage Note commences amortization prior to the date that the Project Loan Certificate is purchased by the Trustee, the Lender shall retain for its own account all payments on the Mortgage Note that represent principal amortization payments thereof which are received prior to the date of purchase of the Project Loan Certificate by the Trustee and shall not pass through such principal amortization payments to the Trustee; provided, however, that the retention of such principal amortization payments by the Lender shall result in a reduction in the amount of the Project Loan Certificate when issued equal to any

such principal amortization payments. The Lender agrees in the Loan Agreement not to amend the Mortgage Note to accelerate amortization unless the Trustee has received (i) an Opinion of Bond Counsel that such amendment will not, in and of itself, adversely affect the excludability of interest on the Bonds from gross income for federal income tax purposes and (ii) written approval of such amendment from the Rating Agency.

(f) [Reserved.]

(g) If (a) the Initial Construction Loan Certificate cannot be delivered to the Trustee or its nominee by the Initial Construction Loan Certificate Delivery Date or (b) the Project Loan Certificate cannot be delivered to the Trustee or its nominee by the Delivery Date, the Initial Construction Loan Certificate Delivery Date or the Delivery Date, as applicable, may be extended one or more times. No extension of the Delivery Date shall be to a date which is later than fifteen (15) days prior to the Construction Loan Certificate Maturity Date (as it may be extended pursuant hereto with the written consent of the Lender). In order to extend the Initial Construction Loan Certificate Delivery Date or the Delivery Date, the Trustee must receive, on or before the Initial Construction Loan Certificate Delivery Date or the Delivery Date then in effect (as applicable), a written request from the Borrower (with the written consent of the Lender) or the Lender for such extension accompanied by:

(i) a cash flow projection verified to the reasonable satisfaction of Rating Agency (as evidenced by the Trustee's receipt of the written verification of the rating from the Rating Agency referred to in clause (iv) of this Subsection (g)) by an independent third party with nationally recognized expertise in structuring municipal bond issues and which is satisfactory to the Rating Agency to maintain the rating on the Bonds, demonstrating that the sum of (A) the amounts in the Project Fund (including any Letter of Credit delivered to the Trustee in conjunction with such cash flow projection and expiring no less than fifteen (15) days after the extended Construction Loan Certificate Maturity Date) and the Bond Fund, (B) the investment earnings to accrue on the amounts held in the Project Fund and/or the Bond Fund plus payments on any Construction Loan Certificates held by the Trustee or its nominee during the period ending ten (10) days after the extended Construction Loan Certificate Maturity Date so requested, (C) the payments on the Project Loan Certificate assuming it is delivered not earlier than the latest date on which it may be delivered to the Trustee or its nominee, (D) any additional Extension Payment delivered to the Trustee by or on behalf of the Borrower or the Lender for deposit into the Project Fund or the Bond Fund (and if additional cash or proceeds from a Letter of Credit are to be deposited for the extension, then proper bankruptcy and enforceability opinions, acceptable to the Trustee, must be provided by a nationally recognized bankruptcy counsel, acceptable to the Trustee), and (E) any surplus amount shown in the original cash flow projections provided to the Rating Agency, will be at least equal to the debt service on the Bonds (1) for the term of the Bonds and (2) through the extended Construction Loan Certificate Maturity Date so requested, assuming the Project Loan Certificate is not delivered (including the redemption price of the Bonds at par and excluding any premium thereon), as applicable, and which cash flow projection must show not less than the lowest carryover balance on any remaining Payment Date shown on the cash flow projections in effect on the date of

delivery of the Bonds, or such lower carry forward balance as is acceptable to the Rating Agency in connection with the verification required by Section 4.2(g)(iv),

(ii) written evidence of the consent of the Lender to the extension of the Construction Loan Certificate Maturity Date, if applicable, and

(iii) written verification from the Rating Agency that there will be no adverse impact on the then current rating on the Bonds.

Any fees incurred in connection with any such extension of the Initial Construction Loan Certificate Delivery Date or the Delivery Date can be paid out of funds held in the Trust Estate if such amounts are included in the cash flow projections reviewed by the Rating Agency.

(h) In the event that (i) the Trustee has given notice of an extraordinary mandatory redemption of Bonds pursuant to Section 3.1(c)(i), and (ii) such redemption has not been rescinded pursuant to Section 3.4, then on the date fixed for such redemption, the Trustee shall if such redemption is pursuant to Section 3.1(c)(i)(A) or Section 3.1(c)(i)(B), transfer to the Special Mandatory Redemption Fund all amounts and Construction Loan Certificates on deposit in the Project Fund (including all amounts representing payments at maturity of the Construction Loan Certificates) for application to the extraordinary redemption of Bonds pursuant to Section 3.1(c)(i)(A) or Section 3.1(c)(i)(B).

(i) In the event that the Construction Loan Certificate Maturity Date has been extended pursuant to Section 4.2(g), then, subject to receipt by the Trustee of a written confirmation from the Rating Agency that the rating on the Bonds will not be reduced, suspended or withdrawn, and if directed in writing by the Lender, the Trustee shall, five (5) Business Days before any Sinking Fund Redemption Date that is prior to the earlier of such extended Construction Loan Certificate Maturity Date or the date of delivery of the Project Loan Certificate to the Trustee or its nominee, sell to the Lender (or allow the Lender to redeem), at the price of the principal amount thereof, plus accrued interest to the date of payment to the Trustee or its nominee, Construction Loan Certificates in a principal amount equal to the principal amount of Bonds which mature or which are to be redeemed on such Sinking Fund Redemption Date, but only if the terms (including price, timing and source of payment) of such sale have been reviewed by the Rating Agency prior to its delivery of the confirmation described above. Any payments made by the Lender to purchase or redeem Construction Loan Certificates pursuant to this Section 4.2(i) shall be made with Available Money.

(j) Upon the earlier of (i) delivery of the Project Loan Certificate to the Trustee or its nominee or (ii) the last Business Day before Bonds are to be redeemed pursuant to Section 3.1(c)(i)(A) or Section 3.1(c)(i)(B) hereof (as such date may be extended hereunder), the Trustee shall apply any amount remaining within the Project Fund (in each case with funds to be withdrawn first from the Bond Proceeds Account (but only after the Trustee's receipt of an Opinion of Bond Counsel as described in Section 4.3(c) hereof), and second only after no funds remain in the Bond Proceeds Account from the Supplemental Account, and in connection therewith the Trustee shall make any necessary draws on any Letter of Credit held in the Supplemental Account, in the following order:

(A) first, transfer to the Special Mandatory Redemption Fund, for the redemption of Bonds pursuant to Section 3.1(c) the amount required to effect such redemption;

(B) second, transfer any remaining amounts in the Project Fund (including any cash or Letter of Credit held therein) to the Bond Fund; and

(C) third, on the Business Day following the first Interest Payment Date after the Construction Loan Certificate Maturity Date, transfer any remaining amounts in the Bond Fund in excess of the applicable Carryover Amount set forth in EXHIBIT B hereto, to the Borrower.

(k) If any Ginnie Mae Certificate is in book-entry only form, then the following shall apply:

(A) the Ginnie Mae Certificate must be registered in the name of the Trustee or the participant acting on behalf of the Trustee at the depository for such book-entry designation at the time of purchase of the Ginnie Mae Certificate by the Trustee and the Trustee or the participant acting on behalf of the Trustee shall have a first-lien position perfected security interest in the Ginnie Mae Certificate;

(B) the Trustee shall be or shall become a participant in the Ginnie Mae Depository or shall have entered into a custody agreement with respect to the Ginnie Mae Certificate with a participant of the Ginnie Mae Depository;

(C) the Trustee or the participant acting on behalf of the Trustee (in either case, the “Receiving Participant”) shall establish a limited purpose account with the Ginnie Mae Depository for this Series Indenture to be called the “Limited Purpose Account”;

(D) the Receiving Participant shall deliver an irrevocable instruction to the Ginnie Mae Depository to the effect that all fees arising in connection with the Limited Purpose Account are to be charged to another account maintained by the Ginnie Mae Depository for the Receiving Participant;

(E) the Ginnie Mae Depository shall deliver a certificate to the Receiving Participant acknowledging that the Ginnie Mae Depository will not charge the specified Limited Purpose Account at all times that the instruction in paragraph (D) above remains in effect (with exceptions only for mistake or to secure and repay any advance of principal and interest made by the Ginnie Mae Depository);

(F) there must be written evidence from the Ginnie Mae Depository or the Receiving Participant that the Ginnie Mae Depository has made an appropriate entry in its records of the transfer of such book-entry security to the Receiving Participant’s account; and

(G) the Ginnie Mae Certificate has been transferred and received into the Limited Purpose Account free of any payment obligation other than the Trustee's obligation to pay the Lender for the Ginnie Mae Certificate.

The Trustee may rely on representations made by the Lender regarding compliance with the foregoing requirements. The provisions of paragraphs (C), (D), (E) and (F) shall not apply if the Trustee receives written evidence from the Ginnie Mae Depository and the Receiving Participant that the Ginnie Mae Depository will not offset its fees against the Receiving Participant's custodial account.

Section 4.3. Deposits Into Bond Fund: Use of Money in Bond Fund.

- (a) The Trustee shall deposit in the Bond Fund when and as received:
- (i) the amounts deposited pursuant to Section 4.1(d)(i) hereof;
 - (ii) all income, revenues, proceeds and other amounts received from or in connection with the Construction Loan Certificates or the Project Loan Certificate;
 - (iii) all earnings and gains from the investment of money held in the Bond Fund;
 - (iv) all amounts transferred to or deposited in the Bond Fund pursuant to Section 4.2; and
 - (v) amounts paid by the Borrower pursuant to Section 4.1 of the Loan Agreement for deposit in the Bond Fund, additional security or any other amounts received by the Trustee which are subject to the lien and pledge of the Indenture for the benefit of the Owners.
- (b) All amounts in the Bond Fund shall be used by the Trustee in the following priority:
- (i) to the Lender, accrued interest on any Construction Loan Certificates purchased by the Trustee; and
 - (ii) on each Payment Date, for payment of principal of and premium, if any, and interest on the Bonds due on such Payment Date, and on each date on which Bonds are to be redeemed (other than pursuant to Section 3.1(c)) for payment of the redemption price of such Bonds.
- (c) Prior to the disbursement of any sums which are to be transferred to the Bond Fund from the Bond Proceeds Account within the Project Fund pursuant to Section 4.2(j) hereof, the Trustee must first obtain, at the expense of the Trust Estate, an Opinion of Bond Counsel to the effect that such transfer, in and of itself, will not adversely affect the excludability from gross income for federal income tax purposes of interest on the Bonds.

(d) Upon acquisition of the Project Loan Certificate, such Certificate shall be registered in the name of the Trustee or its nominee in and for the benefit of the Bond Fund.

Section 4.4. Special Mandatory Redemption Fund. Amounts transferred to the Bond Fund from the Project Fund pursuant to Section 4.2(h) or 4.2(j)(A) or attributable to the receipt by the Trustee of payments under the Ginnie Mae Certificates exceeding regularly scheduled payments of principal and interest shall be deposited in the Special Mandatory Redemption Fund and used by the Trustee solely to redeem Bonds pursuant to Section 3.1(c).

Section 4.5. Costs of Issuance Fund. On the Release Date, the Trustee shall deposit into the Costs of Issuance Fund the amount received pursuant to Section 4.1(c) hereof.

Promptly upon the issuance of the Bonds, the Trustee shall apply funds from the Costs of Issuance Fund to pay the Costs of Issuance of the Bonds itemized in an attachment to an instruction letter from the Borrower delivered to the Trustee on the Release Date upon its receipt of appropriate invoices or other evidence of amounts due.

With respect to payments made other than those to be made in accordance with the immediately preceding paragraph, before each payment is made from the Cost of Issuance Fund by the Trustee, there shall be filed with the Trustee a written Requisition in substantially the form attached to the Loan Agreement as EXHIBIT A thereto, signed by an Authorized Representative of the Borrower, accompanied by copies of appropriate invoices or other evidence of amounts due, and stating with respect to each payment to be made: (i) the requisition number; (ii) the name and address of the person to whom payment is due (which may be the Agency if the payment to reimburse the Agency for amounts previously paid); (iii) the purpose for which the payment is to be made; and (iv) the amount to be paid.

Any moneys remaining in the Costs of Issuance Fund on [_____ 1, 20__], shall be transferred to the Borrower.

Section 4.6. Rebate Fund. The Rebate Fund shall be used as a repository of the Rebate Amount, if any. Such Rebate Fund shall be held in trust for the benefit of the United States of America and shall not be subject to any lien, security interest, right, claim or encumbrance of any other person, including the Agency, the Borrower, or the Owners of the Bonds. The Borrower has covenanted in the Loan Agreement to employ and pay the Rebate Analyst to determine for each Rebate Year the Rebate Amount.

Upon the written request of the Borrower or the Rebate Analyst, the Trustee will make information that it has access to regarding the Bonds and investments under the Indenture available to the Rebate Analyst prior to the end of each Rebate Year (commencing with the date of delivery of the Bonds), will make deposits into and disbursements from the Rebate Fund in accordance with the directions received solely from the Rebate Analyst, will invest moneys in the Rebate Fund pursuant to the written direction of the Borrower, and will deposit income from such investments immediately upon receipt thereof in the Rebate Fund.

If a deposit to the Rebate Fund is required as a result of the computations made as of the end of each Rebate Year by the Rebate Analyst, the Borrower will pay the Trustee such amounts

as are necessary to make such deposit not more than twenty-five (25) days after the end of such Rebate Year as provided in the Regulatory Agreement.

The Trustee shall remit from the Rebate Fund to the United States Treasury, at the times designated in writing by the Rebate Analyst but in no event later than forty-five (45) days after every fifth (5th) Rebate Year the amount specified by the Rebate Analyst. Within forty-five (45) days after any Retirement Date, the Trustee shall remit to the United States Treasury the entire aggregate amount of the Rebate Amount, as finally directed and computed by the Rebate Analyst, not theretofore paid to the United States Treasury. If on any such payment date the amount on deposit in the Rebate Fund is less than the amount of the payment required to be made to the United States Treasury, the Trustee shall have the right to withdraw funds first from the Bond Fund in the amount of such insufficiency. All payments to the United States of America pursuant to this Section 4.6 shall be made by the Trustee for the account of and in the name of the Agency and shall be paid by check posted by certified United States mail (return receipt requested) addressed to the Internal Revenue Service address specified on Form 8038-T, and shall be accompanied by Form 8038-T and such other forms or statements required by the Code, the Regulations, or other Administrative guidelines. The Trustee shall retain records of all calculations and rebate payments required by this Section for a period ending six (6) years after the last Retirement Date.

The Trustee may conclusively rely, without further inquiry or investigation, on the information, instructions and forms provided or prepared by the Rebate Analyst hereunder or the Loan Agreement with regard to any actions to be taken by the Trustee, including payments to be made, pursuant to this Section and shall have no liability for any consequences of any failure of the Borrower or Rebate Analyst to supply accurate or sufficient instructions or to compute erroneously any payment due pursuant to this Section. The Trustee shall have no responsibility or duty to perform any rebate calculation or to expend its own funds to make any rebate payments.

If at any time during the term of this Series Indenture, the Borrower, the Agency or the Trustee, desire to take any action which would otherwise be prohibited by the terms of this Section, such person shall be permitted to take such action if it shall first obtain and provide, at the expense of the Borrower, to the other persons named herein an Opinion of Bond Counsel to the effect that such action shall not adversely affect the exclusion of interest on the Bonds from gross income of the Owners of any Bond for federal income tax purposes and shall be in compliance with the laws of the State.

Notwithstanding any provision of the Bond Documents and unless otherwise specifically agreed to in a separate written agreement, the Trustee shall not be liable or responsible for any method of calculation, or any calculation or determination which may be required in connection with or for the purpose of complying with Section 148 of the Code or any successor statute or any regulation, ruling, or other judicial or administrative interpretation thereof, including, without limitation, the calculation of amounts required to be paid to the United States of America or the determination of the maximum amount which may be invested in “non-purpose investments” having a yield higher than the yield on the Bonds, in connection with any such investments, and the Trustee shall not be liable or responsible for monitoring the compliance by the Borrower or the Agency of any of the requirements of Section 148 of the Code or any

applicable regulation, ruling or other judicial administrative interpretation thereof. It is acknowledged and agreed that the sole obligation of the Trustee in this regard shall be to invest monies received by the Trustee pursuant to the written instructions of the Borrower in a specific investment identified by the Borrower and to disburse monies in accordance with the terms of this Series Indenture.

Section 4.7. Disposition of Balance in Funds. Except as otherwise specifically provided herein, money held by the Trustee after payment or discharge of principal of and interest on all of the Bonds and payment of all amounts due to the Trustee hereunder and all other Administrative Fees shall be free from the trust hereof and shall promptly thereafter be transferred to the Agency to the extent certified to the Trustee by the Agency as amounts owed to the Agency under the Loan Agreement, and any amount remaining thereafter to the Borrower, and the Trustee shall be released and discharged with respect thereto. Upon payment or discharge of the Bonds in full and payment in full of all fees and expenses of the Trustee, the Trustee shall assign all of its rights and interest in the Trust Estate to the Agency if amounts are owed to the Agency under the Loan Agreement.

Section 4.8. Segregation of Money. All money paid to the Trustee pursuant to this Series Indenture for deposit and all investments purchased with money so deposited shall at all times be accounted for separately and shall not be commingled with any other funds of the Agency and the Trustee, and shall be held in trust by the Trustee.

Section 4.9. Letters of Credit.

(a) Any Letter of Credit provided pursuant to this Series Indenture and any renewal, extension or replacement thereof shall satisfy the following requirements:

(i) Unless the Letter of Credit is to be drawn upon on the Release Date, either the expiration date of the Letter of Credit must be at least fifteen (15) days after the Delivery Date, or the Letter of Credit must include an annual renewal provision satisfactory to the Borrower, the Trustee and the Rating Agency (as evidenced by the written confirmation from the Rating Agency required by the terms of clause (b) of the definition of "Letter of Credit" in Section 1.1 hereof).

(ii) If the term of the Letter of Credit (without regard to renewal provisions) is less than one year, the short-term rating of the issuer of the Letter of Credit shall be "A-1+", or if the term of the Letter of Credit is more than one year but not more than three years, the long-term rating of the issuer of the Letter of Credit shall be at least "AAA" and its short-term rating shall be "A-1+". If the term of the Letter of Credit is greater than three years, the short-term rating of the issuer of the Letter of Credit shall be "A-1+" and its long-term rating shall be not less than the rating on the Bonds.

(iii) The Letter of Credit must permit the Trustee to draw for the full amount of the available commitment at any time on or before the expiration date thereof.

(iv) The Letter of Credit must be irrevocable, unconditional and transferable without any fee or charge to the beneficiary.

(b) The Trustee shall draw upon the Letter of Credit in accordance with its terms to make full and timely payments to Bondowners:

- (i) to make any payment described in Section 4.2;
- (ii) to make payments due pursuant to Section 4.3(b), to the extent of any deficiency in the Bond Fund;
- (iii) in whole on the date which is fifteen (15) days prior to the expiration or termination date of such Letter of Credit (as such expiration date may be extended);
- (iv) within three (3) Business Days after receiving written instructions from the Lender to draw upon the Letter of Credit; and/or
- (v) in whole within three (3) Business Days after receiving notice of a ratings downgrade of the Letter of Credit provider below A/A-1.

The Trustee shall disburse proceeds of all draws on the Letter of Credit immediately upon receipt for the purposes for which such draws are made, and all such proceeds may be invested in any Permitted Investment.

ARTICLE V INVESTMENT OF FUNDS

Section 5.1. Investment of Funds.

(a) Subject to the provisions of Sections 4.6 and 6.5, money on deposit in the Funds and Accounts hereunder shall be invested and reinvested, to the extent practicable, by the Trustee in Permitted Investments, as directed in writing by the Lender until delivery of the Project Loan Certificate and thereafter by an Authorized Representative of the Borrower; provided that in the event of the failure of the Lender or the Borrower (as applicable) to provide timely written directions as to such investment or reinvestment, the Trustee shall invest or reinvest any or all money held by it in the Funds, to the extent practicable, in a money market fund satisfying the requirements described in clause (g) of the definition of Permitted Investments set forth in Section 1.1 hereof; provided further that such Permitted Investments shall mature on the earlier of 180 days or when needed. The Trustee may make Permitted Investments through its own or any affiliate's investment department. The Trustee is specifically authorized to implement its automated cash investment system to assure that cash on hand is invested and to charge its normal cash management fees, which may be deducted from income earned on investments.

In accordance with Section ____ of the Loan Agreement, it shall be the responsibility of the Borrower to insure that, in the event any funds remain in the Bond Proceeds Account within the Project Fund (including, without limitation, any investment earnings thereon) after [Month ___, ____], such funds shall be invested at a yield that shall not exceed the yield on the Bonds.

(b) Pending application of the money in the Rebate Fund as required pursuant to Section 4.6, such money shall be invested and reinvested, without regard to yield, in Government Obligations maturing on or before the date the money invested therein is required to be paid to

the United States of America pursuant to Section 4.6 as an Authorized Representative of the Borrower shall direct in writing. However, if no such investment is available or if no such direction is given, the Trustee shall hold such money uninvested.

(c) The Trustee, in making any investment pursuant to this Section 5.1, shall not be required to verify that an investment is authorized by law, but may at any time request, receive and rely upon an Opinion of Counsel, addressed to the Trustee and the Agency, to the effect that such investment is a Permitted Investment hereunder and/or the Opinion of Bond Counsel, addressed to the Trustee and the Agency, to the effect that such investment will not cause the Bonds to become “arbitrage bonds” under the Code. Any fees and expenses incurred by the Trustee in obtaining any such Opinion shall be an Extraordinary Expense reasonably incurred by the Trustee and shall be charged to and paid by the Borrower.

Section 5.2. Allocation of Income and Losses.

(a) The interest and income received with respect to the investments in any Fund or Account held by the Trustee hereunder, and any profit or loss resulting from the sale of any such investments, shall be deposited and credited upon receipt, or charged, as follows:

(i) All interest, income and profit received from the investment of money in the Rebate Fund shall be deposited and credited, upon receipt, to the Rebate Fund;

(ii) All loss resulting from the sale of any investments in any specified Fund or Account shall be charged to such Fund or such Account, and all earnings received from the investment of money in any Fund or Account shall be credited to such Fund or Account, except as specifically provided in this Series Indenture; provided, however, in all events earnings and losses on the Bond Proceeds Account within the Project Fund shall be credited or charged to such Account and earnings and losses on any other Fund or Account shall not be credited or charged to the Bond Proceeds Account.

(b) The Trustee may rely on the written instructions of the Borrower in investing money in any Fund or Account, and shall not be accountable for any depreciation in the value of the investments made in accordance with the provisions of this Article V or for any losses incurred upon any authorized disposition thereof.

Section 5.3. Commingling Investments. Investments in the Funds and the accounts therein may be commingled in a separate fund or funds for purposes of investment under this Article, provided that the Trustee shall at all times account for such investments strictly in accordance with the Funds and accounts to which they are credited and otherwise as provided in this Series Indenture.

Section 5.4. Limitations on Investment. Investment of money held in any Fund shall be limited to investment in Permitted Investments, which (other than the Investment Agreement) at the date of acquisition mature (or are subject to redemption at par at the option of the owner) not later than the dates on which such money will be needed for the purposes for which such money is to be applied hereunder and in no event later than six months following their acquisition.

Section 5.5. Valuation of Investments. For the purpose of determining the amount on deposit to the credit of any Fund or any account therein, obligations purchased as an investment of money therein shall be valued at the cost thereof, inclusive of accrued interest.

ARTICLE VI COVENANTS

Section 6.1. Payment of Bonds. The Agency shall promptly pay when due the principal of (whether at maturity, by acceleration or call for redemption or otherwise) and premium, if any, and interest on the Bonds at the places, on the dates and in the manner provided herein and in the Bonds according to the true intent and meaning thereof; provided, however, that the Bonds and the premium, if any, and interest thereon are special and limited obligations of the Agency payable solely from the revenues and receipts that have been pledged and assigned to the Trustee to secure payment thereof.

The Bonds are limited obligations of the Agency, payable solely out of the Trust Estate and the funds pledged for the payment thereof. No holder of any Bond has the right to compel the Agency or any of their members to pay the principal of, interest or redemption premium, if any, on the Bonds, except from the Trust Estate and funds pledged under this Series Indenture. The Bonds do not constitute a debt or liability of the Agency, or any of their members or any of their officers, employees or directors, the State or any political subdivision thereof for which the faith and credit of the Agency, any of their members, their officers, employees or directors, the State or any political subdivision thereof are pledged. The Bonds shall not constitute an indebtedness of the Agency, any of their members, the State or any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction. None of the Agency nor any of its officers, employees or directors nor any person executing the Bonds is liable personally on the Bonds or subject to any personal liability or accountability by reason of their issuance.

Section 6.2. Role of the Agency. The Agency shall not be required to take any action not expressly provided for herein. In addition, the Agency shall have no obligation to review, control or oversee the activities of the Trustee or any other person in connection with this Series Indenture or the Bonds. Furthermore, the Agency shall not be obligated to take any action that might in its judgment involve it in any expense or liability unless it shall have been furnished with assurance of payment or reimbursement for any expense and with indemnity for liability of the Agency, its officers, members, officials, agents and employees.

The Agency covenants that it will faithfully perform at all times any and all covenants, undertakings, stipulations and provisions contained in this Series Indenture and in any and every Bond executed, authenticated and delivered hereunder; provided, however, that the liability of the Agency under any such covenant, condition or agreement for any breach or default by the Agency thereof or thereunder shall be limited solely to the Trust Estate and the revenues and receipts held hereunder or derived from the Ginnie Mae Certificates.

The Agency acknowledges and agrees that all covenants contained in this Series Indenture are with and for the benefit of all Bondowners and may be enforced by the Trustee, in

its discretion or at the direction of the Bondowners as provided herein, or by the Bondowners, in accordance with the provisions of Article VIII.

Section 6.3. Further Assurances. The Agency shall, upon request and subject to its right to reimbursement and indemnity in Section 6.2, do, execute, acknowledge and deliver or cause to be done, executed, acknowledged and delivered, such indentures supplemental hereto and such further acts, instruments and transfers as the Trustee may reasonably require for the better assuring, transferring, conveying, pledging and assigning to the Trustee of all the rights assigned hereby and the revenues and receipts pledged hereby to the payment of the principal of and premium, if any, and interest on the Bonds. The Agency shall, upon request and subject to its right to reimbursement and indemnity in Section 6.2, cooperate reasonably with the Trustee and the Owners in protecting the rights and security of the Owners.

Section 6.4. Inspection of Books. All books and documents in the Agency's possession relating to the Project or the Ginnie Mae Certificates, if any, shall be open to inspection during normal business hours at the offices of the Agency at a reasonably convenient time to the Agency by such agents as the Trustee, the Lender, the Borrower or the Owners of 15% in aggregate principal amount of Bonds then Outstanding may from time to time designate.

Section 6.5. Tax Covenants.

(a) The Agency shall not knowingly take any action, or knowingly omit to take any action within its control, which, if taken or omitted, respectively, would cause the interest on the Bonds to become includable in the gross income, as defined in Section 61 of the Code, of the Owners thereof for federal income tax purposes, and, without limiting the generality of the foregoing, the Agency will observe and perform each provision of this Section, unless and until an Opinion of Bond Counsel shall have been delivered to the effect that failure to comply with such provision will not adversely affect such exclusion from gross income.

(b) The Agency shall not direct or itself make any investment of the proceeds of the Bonds or any other funds of the Agency in a manner which would result in the Bonds becoming "arbitrage bonds" within the meaning of Section 148 of the Code.

In the event the Agency or the Borrower is of the opinion that it is necessary to restrict or limit the yield on the investment of any money paid to or held by the Trustee hereunder in order to avoid classification of the Bonds as "arbitrage bonds" within the meaning of Section 148 of the Code, the Agency (at the expense of the Borrower) or the Borrower shall provide to the Trustee a written instrument to such effect (along with appropriate written instructions), in which event the Trustee will take such action as directed in such written instruction in order to so restrict or limit the yield on such investment in accordance with such instrument and instructions, irrespective of whether the Trustee shares such opinion. The Trustee may conclusively rely upon such instructions and shall not be responsible for any loss resulting from investment of any money held hereunder in accordance with such instructions.

(c) The Agency hereby authorizes the Borrower to pay to the United States of America all rebate payments required by Section 148(f) of the Code and the Regulations at the times, in the manner and accompanied by the forms or other information as is or may be required

by Section 148(f) of the Code and the Regulations and rulings thereunder. The Agency shall not, at any time prior to the maturity of the Bonds, direct or itself enter into any transaction that reduces the amounts so required to be paid to the United States of America pursuant to this subsection because such transaction results in a smaller profit or a larger loss than would have resulted if the transaction had been at arm's length and had the yield of Bonds not been relevant to either party. The Agency shall be entitled to rely conclusively upon the instructions and advice made by the Borrower or its counsel to the Trustee in performing its obligations under this paragraph, including without limitation, the necessity, timing and calculation of any rebate payments.

In the event of any conflict between the Tax Certificate and the tax covenants in this Series Indenture, including this Section 6.5, the Tax Certificate shall control.

Section 6.6. No Disposition of Ginnie Mae Certificates. Except as otherwise provided in Section 4.2(d) or 4.2(i) hereof, without the prior written consent of the Owners of 100% of the Bonds, neither the Agency nor the Trustee shall sell or otherwise dispose of a Ginnie Mae Certificate (other than delivery of a Ginnie Mae Certificate to the Lender in accordance with its terms) after its acquisition for an amount less than an amount sufficient, together with other amounts then held under the Indenture and available for the payment of the Bonds, to defease the Bonds in accordance with Article VII on the first date following such sale on which the Bonds may be optionally redeemed pursuant to Section 3.1(b).

Section 6.7. Reports and Notices by Trustee to Agency, Lender, Rating Agency and Borrower.

(a) On or before the 15th day of each month and at such other times as the Agency, the Lender or the Borrower may reasonably request in writing, the Trustee shall prepare and file with the Agency, upon its written request, the Lender and the Borrower, as the case may be, a report setting forth for and as of the end of the preceding month or other period for which such report is prepared: (i) amounts withdrawn from and deposited in each Fund and each account therein under this Series Indenture; (ii) the balance on deposit in each Fund and each account therein; (iii) a brief description of all obligations held as investments in each Fund; and (iv) the amount applied to the payment or redemption of Bonds and a description of the Bonds or portions thereof so paid or redeemed.

(b) The Trustee shall promptly, or at or within the time specified in this Series Indenture, give to the Rating Agency written notice of any of the following:

- (i) delivery of the Initial Construction Loan Certificates, within 15 days of such delivery;
- (ii) delivery of the Project Loan Certificate, within 15 days of such delivery;
- (iii) any change in the Trustee;
- (iv) any amendment of or supplement to this Series Indenture, the Bonds, the Loan Agreement or the Project Loan Certificate;

(v) any redemption, payment or defeasance of the Bonds as a whole or in part, and any discharge of this Series Indenture;

(vi) any whole or partial prepayment of the Project Loan Certificate, together with, in the case of a partial prepayment, the Lender's certificate as to the effect of such prepayment on the payments under the Project Loan Certificate provided for in the Loan Agreement;

(vii) the occurrence of any Event of Default hereunder (of which the Trustee is required to take notice or deemed to have notice under Section 9.1(b)) or under the Loan Agreement, immediately upon such occurrence; and

(viii) any proposed or impending sale of the Ginnie Mae Certificates (other than the delivery of the Construction Loan Certificates in exchange for the Project Loan Certificate pursuant to Section 4.2(d) hereof).

(c) The Trustee shall give to the Rating Agency 30-days advance written notice of any potential extension of the delivery date of the Project Loan Certificate or maturity date of the Construction Loan Certificates pursuant to Section 4.2(g) of which it has received written notice, and shall give immediate written notice to the Rating Agency of any such actual extension.

(d) The Trustee shall deliver to the Rating Agency copies of any notices sent to the Lender, FHA or Ginnie Mae after the Trustee has become entitled to claim any benefits under the Project Loan Certificate.

(e) The Trustee shall notify the Rating Agency of any proposed Investment Agreement or any proposed change in the identity of the provider of the Investment Agreement or any proposed amendment to any Investment Agreement of which the Trustee has received written notice, and the Trustee shall not enter into any Investment Agreement or any proposed amendment to any Investment Agreement or any proposed substitute for the Investment Agreement with such provider unless such Rating Agency shall confirm in writing that the rating assigned to the Bonds by such Rating Agency will not be reduced or withdrawn as a result.

(f) The Trustee shall provide to the Rating Agency such information as such Rating Agency may reasonably request in writing from time to time in connection with its ongoing surveillance of its rating on the Bonds.

(g) The Trustee shall furnish to any Owner upon written request and payment by the Borrower of the Trustee's reasonable charges for copying and mailing any information and copies of any reports, audits, prescribed forms and other written materials furnished to the Trustee by the Borrower pursuant to Section 5.6 of the Loan Agreement.

(h) The Trustee shall give written notice to the Owners within three (3) Business Days after the occurrence of any Event of Default (of which the Trustee is required to take notice or deemed to have notice under Section 9.1(b)) or after the occurrence of any default (of which the Trustee has given notice pursuant to Section 8.11), which with the passage of time or the giving of notice, or both, would constitute an Event of Default.

(i) Any Owner shall, upon written request to the Trustee specifying a second address, and at the expense of the Owner, be entitled to have each notice or other communication sent to such Owner hereunder at his address appearing in the Bond Register sent as well to such second address.

Section 6.8. Rights Under Loan Agreement and Ginnie Mae Certificates. Subject to the provisions of Article IX, the Trustee shall in its own name maintain and enforce all rights of the Agency and all obligations of the Borrower and the Lender under and pursuant to the Loan Agreement, for and on behalf of the Owners, whether or not the Agency is in default hereunder. The Trustee shall cooperate with the Lender and the Borrower in obtaining delivery of the Ginnie Mae Certificates as soon as possible following the execution of this Series Indenture and shall take all steps necessary to maintain and enforce its rights under the Ginnie Mae Certificates. Nothing herein shall be construed to require the Trustee to advance its own funds or to provide funds or pay principal of or premium, if any, or interest on the Bonds except from the revenues and receipts derived from the Trust Estate. Anything in this Series Indenture to the contrary notwithstanding, no Owner of any Bond shall have or be deemed to have any rights to proceed to obtain the benefits of the Ginnie Mae Certificates individually, such rights to be exercised solely by the Trustee for the equal benefit of the Owners of all Bonds then Outstanding.

Section 6.9. Extensions of Payment of Bonds. The Agency shall not directly or indirectly extend or assent to the extension of the maturity of any Bond or the time of payment of the interest thereon without the written consent of the Owner of such Outstanding Bond and an opinion of Bond Counsel stating that such extension will not adversely affect the exclusion from gross income of the interest of the Bonds for federal income tax purposes.

Section 6.10. Continuing Disclosure. Pursuant to Section ___ of the Loan Agreement and the Continuing Disclosure Agreement, the Borrower has undertaken all responsibility for compliance with continuing disclosure requirements under Securities Exchange Commission Rule 15c2-12, and neither the Agency nor the Trustee shall have any liability to the holders of the Bonds or any other person with respect to such disclosure matters; provided, however, the Trustee hereby covenants and agrees that it will promptly notify the Borrower and the Dissemination Agent in writing of the occurrence of any of the following events with respect to the Bonds of which the Trustee has actual knowledge: principal and interest payment delinquencies on the Bonds; non-payment related Events of Default under Section 8.1(b) hereof; payment defaults on the Ginnie Mae Certificates; adverse tax opinions or events affecting the tax-exempt status of the Bonds; modifications to rights of Bondholders; unscheduled redemptions of Bonds; defeasance of Bonds; release, substitution, or sale of any Ginnie Mae Certificate (other than the release of Construction Loan Certificates in exchange for the Project Loan Certificate in accordance with Section 4.2(d) hereof); and rating changes on the Bonds. For purposes of this Section 6.10, "actual knowledge" of such event shall mean actual knowledge of the existence of such event by an officer or authorized agent of the Trustee having direct responsibility for the administration of this Series Indenture. Notwithstanding anything to the contrary herein, the Trustee shall have no duty to determine the materiality of any such event. Notwithstanding any other provision of the Indenture or the Loan Agreement, failure of the Borrower to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default hereunder or under the Loan Agreement; provided, however, the Trustee may, or shall at the request of the Holders of at least 25% aggregate principal amount of Outstanding

Bonds (upon the Trustee's receipt of satisfactory indemnification), take such actions as such requesting party may deem necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Borrower or the Trustee, as the case may be, to comply with its obligations under this Section.

ARTICLE VII
DISCHARGE OF INDENTURE

Section 7.1. Defeasance of Bonds. In the event that the Agency shall issue refunding bonds or have money available from any other lawful source to pay the principal of and interest on the Bonds or such portion thereof as the same become due and payable and to refund or defease such then Outstanding Bonds and to pay the costs of such refunding or defeasance, and shall have set aside irrevocably in a special fund for and pledged to such payment, refunding or defeasance, money and/or Government Obligations that are not subject to redemption prior to maturity sufficient in amount, together with known earned income from the investments thereof but without regard to reinvestment thereof, to make such payments and to accomplish the refunding or defeasance as scheduled (the "Trust Accounts"), and shall make irrevocable provisions for redemption of such Bonds, if applicable, then in such case all right and interest of the Owners of the Bonds to be so retired, refunded or defeased (collectively, the "Defeased Bonds") in the covenants of this Series Indenture, in the Trust Estate, and in the funds and accounts obligated to the payment of such Defeased Bonds, other than the right to receive the funds so set aside and pledged, thereupon shall cease and become void, except that such Owners shall have the right to receive payment of the principal of and premium, if any, and interest on the Defeased Bonds from the trust account and, in the event the funds in the trust account are not available for such payment, shall have the residual right to receive payment of the principal of and premium, if any, and interest on the Defeased Bonds from the Trust Estate (but only if this Series Indenture has not been discharged as described in Section 7.2) without any priority of lien or charge against the Trust Estate or those covenants with respect thereto except to be paid therefrom (except that such rights as exist with respect to payment, exchange and transfer of such Bonds under the pertinent provisions of this Series Indenture shall continue in full force and effect). The Trustee shall, as it deems necessary, provide for the random selection of any Defeased Bonds that constitute less than all of the Bonds, for notice of the defeasance to be given to the Owners of the Defeased Bonds and to such other persons as the Trustee shall determine, and for any required replacement of Bond certificates for Defeased Bonds. After the establishing and full funding of such trust account, the Defeased Bonds shall be deemed to be discharged and the Agency then may apply any money in any other fund or account established for the payment or redemption of the Defeased Bonds to such lawful purposes as it shall determine, subject only to the rights of the Owners of any other Bonds then Outstanding and the rights of the Trustee hereunder. Notwithstanding the foregoing, no Bonds shall be defeased unless the Trustee has received written confirmation from each Rating Agency, if any, that such defeasance will not result in a reduction or withdrawal of the rating on the Defeased Bonds and unless the Scheduled Administrative Fees of the Trustee, the Dissemination Agent, the Agency and the Rebate Analyst through and including full payment of the Bonds have been paid or provided for to the satisfaction of the Agency and the Trustee. If the Bonds are registered in the name of DTC or its nominee, notice of any defeasance of Bonds shall be given to DTC in accordance with the Letter of Representations.

The Trustee may in its discretion request that the Borrower provide to the Trustee, at the expense of the Borrower, (a) an opinion of Bond Counsel stating that the Defeased Bonds are no longer deemed Outstanding under this Series Indenture and (b) verification by a firm of independent certified public accountants acceptable to the Trustee and Bond Counsel of the conformity of the trust account with the provisions of this section.

Section 7.2. Discharge of Indenture. The obligations of the Trustee hereunder shall remain in effect with respect to all Bonds until the principal of and premium, if any, and interest on all Bonds shall have been paid in full or discharged, notwithstanding that the lien of this Series Indenture may have been discharged with respect to some of the Bonds pursuant to Section 7.1. Any money held by the Trustee after payment or discharge of principal of and interest on all of the Bonds and payment of all amounts due to the Trustee hereunder and all other Administrative Fees shall be free from the lien hereof and shall promptly thereafter be transferred to the Agency to the extent certified to the Trustee by the Agency as amounts owed to the Agency under the Loan Agreement, and any amount remaining thereafter to the Borrower, and the Trustee shall be released and discharged with respect thereto. Upon payment or discharge of the Bonds in full and payment in full of all fees and expenses of the Trustee, the Trustee shall assign all of its rights and interest in the Trust Estate to the Agency if amounts are owed to the Agency under the Loan Agreement.

Neither the Trustee nor the Bond Registrar shall be responsible for accounting for, or paying to, any Bondowner any return on or benefit from money held for the payment of unredeemed Bonds or outstanding checks, and no calculation of the same shall affect or result in any offset against fees and expenses due to the Trustee or the Bond Registrar under this Series Indenture.

Section 7.3. Nonpresentment of Bonds. Notwithstanding any provisions of this Series Indenture, any moneys deposited with the Trustee or any paying agent in trust for the payment of the principal of, or interest or premium on, any Bonds remaining unclaimed for two (2) years after the principal of all the Outstanding Bonds has become due and payable (whether at maturity or upon redemption as provided in this Series Indenture), shall then be paid to the Borrower, and the holders of such Bonds shall thereafter be entitled to look only to the Borrower for payment thereof, and all liability of the Agency and the Trustee or any paying agent with respect to such moneys shall thereupon cease. In the event of the payment of any such moneys to the Borrower as aforesaid, the holders of the Bonds in respect of which such moneys were deposited shall thereafter be deemed to be unsecured creditors of the Borrower for amounts equivalent to the respective amounts deposited for the payment of such Bonds and so paid to the Borrower (without interest thereon).

ARTICLE VIII EVENTS OF DEFAULT AND REMEDIES OF BONDOWNERS

Section 8.1. Events of Default. The following events shall be Events of Default under this Series Indenture:

(a) default in the due and punctual payment of the principal of, premium, if any or interest on any Bond when and as the same shall become due and payable, whether at maturity as expressed therein, by proceedings for redemption (except as otherwise provided in Sections 3.3 and 3.4), by acceleration, or otherwise; or

(b) default in the performance or observance of any other of the covenants, promises, stipulations, agreements or conditions on the part of the Agency contained in this Series

Indenture or in the Bonds and failure to remedy the same after notice thereof pursuant to Section 8.11.

Section 8.2. Acceleration of Maturity. If an Event of Default described in paragraph (a) of Section 8.1 shall occur, then, and in each and every such case during the continuance of such Event of Default, the Trustee may, and shall, if requested in writing by the Owners of 50% of the aggregate principal amount of the Bonds then Outstanding, by notice in writing to the Agency, the Lender and the Borrower, declare the principal of all of the Bonds then Outstanding and the interest accrued thereon to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, but only from the revenues and receipts herein specifically pledged for such purpose, including, without limitation, amounts paid pursuant to the Ginnie Mae Certificates and amounts on deposit in the Bond Fund and accounts therein.

If an Event of Default described in paragraph (b) of Section 8.1 shall occur at any time after delivery of the Project Loan Certificate, then, and in each and every such case during the continuance of such Event of Default, the Trustee shall, if requested in writing by the Owners of 50% of the aggregate principal amount of the Bonds then Outstanding, by notice in writing to the Agency, the Lender and the Borrower, declare the principal of all of the Bonds then Outstanding and the interest accrued thereon to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, but only from the revenues and receipts herein specifically pledged for such purpose, including, without limitation, amounts paid pursuant to the Ginnie Mae Certificates and amounts on deposit in the Bond Fund and accounts therein.

The Trustee shall give or cause to be given notice of any such declaration of acceleration to the respective Owners of the Bonds at their addresses appearing on the Bond Register. Notice of such declaration of acceleration having been given as aforesaid, anything to the contrary contained in this Series Indenture or in the Bonds notwithstanding, interest shall cease to accrue on such Bonds from and after the date established for payment of the Bonds pursuant to the declaration of acceleration if and to the extent that money to make such payment is on hand with the Trustee in any of the Funds on that date.

Section 8.3. Remedies.

(a) Upon the occurrence and during the continuance of an Event of Default the Trustee may proceed to protect and enforce its rights as the owner of the Ginnie Mae Certificates and the rights of the Owners by mandamus or other action, suit or proceeding at law or in equity for specific performance of any agreement herein contained; provided, however, that no Event of Default under this Series Indenture shall be deemed to be a default by the Borrower under the Mortgage Note.

(b) Upon the occurrence of an Event of Default, if requested to do so and upon written request by the Owners of the required percentage of the aggregate principal amount of the Bonds then Outstanding and if indemnified as provided in Section 9.6, the Trustee shall exercise such one or more of the rights and powers conferred by this article as the Trustee, upon being advised by counsel, shall deem most expedient in the interests of the Owners.

(c) No remedy conferred by this Series Indenture upon or reserved to the Trustee or to the Owners is intended to be exclusive of any other remedy, but each such remedy shall be cumulative and shall be in addition to any other remedy given to the Trustee or to the Owners hereunder or now or hereafter existing at law or in equity or by statute.

(d) No delay or omission to exercise any right or power accruing upon any default or Event of Default shall impair any such right or power or shall be construed to be a waiver of any such default or Event of Default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient.

(e) No waiver of any default or Event of Default hereunder, whether by the Trustee pursuant to Section 8.10 or by the Owners, shall extend to or shall affect any subsequent default or Event of Default or shall impair any rights or remedies consequent thereon.

Section 8.4. Right of Owners to Direct Proceedings. Anything in this Series Indenture to the contrary notwithstanding, but subject to Section 9.6, the Owners of a majority in aggregate principal amount of Bonds then Outstanding shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of this Series Indenture or any other proceedings hereunder; provided, however, that such written direction shall not be otherwise than in accordance with the provisions of law and of this Series Indenture and provided, further, that the Owners of the Bonds shall look solely to the Trustee for the benefits of the Ginnie Mae Certificates and any payment of any claim on the Ginnie Mae Certificates may be made to the Trustee without any liability or accountability to the Owners to see to the application of the benefits of the Ginnie Mae Certificates.

Section 8.5. Application of Money. All money received by the Trustee pursuant to any right given or action taken under the provisions of this article shall, after payment of the cost and expenses of the proceedings resulting in the collection of such money, the expenses (including its counsel), liabilities and advances incurred or made by the Trustee and the fees of the Trustee and the expenses of the Agency in carrying out this Series Indenture, be applied to the payment of the principal and interest then due and unpaid on the Bonds, without preference or priority of principal over interest or of interest over principal, or of any Bond over any other, ratably, according to the amounts due respectively for principal and interest, to the Persons entitled thereto, without any discrimination or preference except as to any difference in the respective rates of interest specified therein.

Section 8.6. Remedies Vested in Trustee. All rights of action (including the right to file proof of claims) under this Series Indenture or under any of the Bonds, may be enforced by the Trustee without the possession of any of the Bonds or the production thereof in any trial or other proceeding relating thereto and any such suit or proceeding instituted by the Trustee may be brought in its name as Trustee without the necessity of joining as plaintiffs or defendants any Owners of the Bonds, and any recovery of judgment shall be for the equal benefit of the Owners of the Outstanding Bonds.

Section 8.7. Limitation on Suits. Except to enforce the rights given under Section 8.8, no Owner of any Bond shall have any right to institute any action, suit or proceeding at law or in

equity for the enforcement of this Series Indenture or for the execution of any trust thereof or any other remedy hereunder, unless (a) a default has occurred and is continuing of which the Trustee has been notified in writing as provided in Section 9.1(b), or of which by such Section it is deemed to have notice, (b) such default has become an Event of Default and the Owners of 50% of the aggregate principal amount of the Bonds then Outstanding have made written request to the Trustee and offered it reasonable opportunity either to proceed to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name, (c) they have offered in writing to the Trustee indemnity as provided in Section 9.6, (d) the Trustee has for 30 days after such written notice failed or refused to exercise the powers hereinbefore granted, or to institute such action, suit or proceeding in its own name, (e) no direction inconsistent with such written request has been given to the Trustee during such 30-day period by the Owners of a majority of the aggregate principal amount of the Bonds then Outstanding, and (f) written notice of such action, suit or proceeding is given promptly to the Trustee; it being understood and intended that no one or more Owners of the Bonds shall have any right in any manner whatsoever to affect, disturb or prejudice this Series Indenture by its, his or their action or to enforce any right hereunder except in the manner provided herein, and that all proceedings at law or in equity shall be instituted and maintained in the manner provided herein and for the equal benefit of the Owners of all Bonds then Outstanding. The notification, request and offer of indemnity set forth above shall, at the option of the Trustee, be conditions precedent to the execution of the powers and trusts of this Series Indenture and to any action or cause of action for the enforcement of this Series Indenture or for any other remedy hereunder.

Section 8.8. Unconditional Right to Receive Principal, Premium and Interest. Nothing in this Series Indenture shall affect or impair the right of any Owner to enforce, by action at law, payment of any Bond at and after the maturity thereof, or on the date fixed for redemption (subject to Sections 3.3 and 3.4) or (subject to the provisions of Section 8.2) on the same being declared due prior to maturity, as herein provided, or the obligation of the Agency to pay each Bond issued hereunder to the respective Owners thereof at the time, place, from the source and in the manner expressed herein and in the Bonds.

Section 8.9. Termination of Proceedings. In case the Trustee or any Owners shall have proceeded to enforce any right under this Series Indenture and such proceedings shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or any Owners, then and in every such case the Agency, the Borrower, the Trustee and the Owners shall be restored to their former positions and rights hereunder, and all rights, remedies and powers of the Trustee shall continue as if no such proceedings had been taken.

Section 8.10. Waivers of Events of Default. The Trustee may in its discretion waive any Event of Default hereunder and its consequences and rescind any acceleration of maturity of the Bonds, and shall do so at the written request of the Owners of (a) a majority of the aggregate principal amount of the Bonds then Outstanding in respect of which default in the payment of principal, premium, if any, or interest exists, or (b) a majority of the aggregate principal amount of the Bonds then Outstanding in the case of any other default; provided, however, that:

- (i) there shall not be waived without the prior written consent of the Owners of all Bonds then Outstanding any Event of Default in the payment of the principal of any

Outstanding Bonds at maturity, or any default in the payment when due of the premium, if any, or interest on any such Bonds unless, prior to such waiver or rescission,

(A) there shall have been paid or provided for all arrears of interest in respect of which such default shall have occurred, all arrears of principal and premium, if any, and all expenses of the Trustee in connection with such default, and

(B) in case of any such waiver or rescission or in case of any discontinuance, abandonment or adverse determination of any proceeding taken by the Trustee on account of any such default, the Agency, the Trustee and the Owners shall be restored to their former positions and rights hereunder, and

(ii) no acceleration of maturity under Section 8.2 made at the request of the Owners of 50% of the aggregate principal amount of the Bonds then Outstanding shall be rescinded unless requested in writing by the Owners of a majority of the aggregate principal amount of the Bonds then Outstanding.

No such waiver or rescission shall extend to any subsequent or other default or impair any right consequent thereon.

After any such waiver, the Trustee shall restore the balance in each fund or account to its level prior to the occurrence of the Event of Default from and to the extent of money transferred from such fund or account as a result of the occurrence of such Event of Default and not disbursed in accordance herewith.

Section 8.11. Notice of Certain Defaults: Opportunity of Agency and Borrower to Cure Such Defaults. Anything herein to the contrary notwithstanding, no event described in Section 8.1(b) shall constitute an Event of Default until written notice of such event shall be given (a) by the Trustee to the Agency, the Lender and the Borrower or (b) by the Owners of not less than 50% in aggregate principal amount of all Bonds Outstanding to the Agency, the Lender, the Borrower and the Trustee, and, in either case, until the Agency, the Lender and the Borrower shall have had 60 days after receipt of such notice to correct such event or cause such event to be corrected and shall not have corrected such event or caused such event to be corrected within 60 days of the giving of such notice, provided, however, if (i) such event is of such a nature that it cannot be corrected within such 60 day period or (ii) in the Opinion of Bond Counsel, a longer cure period does not adversely affect the validity of the Bonds or the exclusion from gross income of interest thereon for purposes of federal income taxation, such event shall not constitute an Event of Default hereunder if corrective action is instituted by the Agency, the Lender or the Borrower within such 60-day period and diligently pursued until such event is corrected.

With regard to any alleged default concerning which notice is given to the Agency, the Trustee, the Lender and the Borrower under the provisions of this section, the Agency hereby authorizes the Borrower, the Lender and the Trustee to perform any covenant or obligation the failure of which is alleged in such notice to constitute a default, in the stead of the Agency with full power to do any and all things and acts to the same extent that the Agency could do and

perform any such things and acts. However, nothing in this Section 8.11 shall obligate the Agency or the Lender to cure or to take any action to cure any default or Event of Default hereunder.

ARTICLE IX CONCERNING THE TRUSTEE

Section 9.1. Acceptance of Trust and Prudent Performance Thereof.

(a) The Trustee, as evidenced by its due execution of this Series Indenture, hereby accepts the trusts and obligations imposed upon it by this Series Indenture and agrees to perform and observe faithfully all of the duties, conditions and requirements imposed upon it in this Series Indenture. Except during the continuance of an Event of Default, the Trustee undertakes to perform such functions and duties and only such functions and duties as are specifically set forth in this Series Indenture, and no implied duties or obligations shall be read into this Series Indenture against the Trustee. In case an Event of Default has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by this Series Indenture, and use the same degree of care and skill in their exercise, as a prudent corporate trustee would exercise or use under the circumstances in the conduct of the affairs of its beneficiaries, subject to the limitations on liability set forth in Sections 9.1(c) and 9.2, and subject to the provisions of Sections 8.7 and 9.6.

(b) All notices or other instruments required by this Series Indenture to be delivered in writing to the Trustee, in order to be effective, must be delivered at the address for notices to the Trustee set forth in Section 12.4, or at such other location as the Trustee may designate to the Agency in writing. With respect to an Event of Default pursuant to Section 8.1(b), the Trustee shall not be deemed to have notice of any such Event of Default (other than failure by the Lender to make any payment on the Ginnie Mae Certificates when due or failure by the Agency to file with the Trustee any documents required by the Indenture to be so filed) unless and until it shall have received written notice thereof, and in the absence of such notice so received, the Trustee may conclusively assume that there is no such Event of Default. Nonetheless, the Trustee may in its sole discretion take notice of an Event of Default without specific notification thereof. In such case, the Trustee shall proceed as if it had received such specific notification.

(c) The Trustee shall not be liable with respect to any action taken or omitted to be taken hereunder except for its own gross negligence or willful misconduct; provided that:

(i) The duties and obligations of the Trustee shall be determined solely by the express provisions of this Series Indenture; the Trustee shall be obligated to take only such actions as are specifically set forth herein or as are specifically required to be taken by the Trustee when requested in writing from time to time in accordance with this Series Indenture by the Agency or by the Owners of not less than the aggregate principal amount of Outstanding Bonds specified herein with respect to the action in question (subject to the restrictions set forth in Section 8.7); and

(ii) The Trustee may rely, without any independent investigation or inquiry, as to the truth of the statements and to the correctness of the opinions expressed therein,

upon any certificate or opinion furnished to the Trustee conforming to the procedural requirements of this Series Indenture; but in the case of any such certificate or opinion which by any provision is specifically required to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not it conforms in all material respects to the procedural requirements of this Series Indenture; and

(iii) The Trustee shall not be liable for any error of judgment made in good faith by the Trustee unless it shall be proved that the Trustee was grossly negligent in ascertaining the pertinent facts; and

(iv) The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the written direction of the Owners of not less than a majority in aggregate principal amount of the Bonds Outstanding (or such lesser amount as may be specified herein) or otherwise in accordance with the express provisions of this Series Indenture.

Section 9.2. Trustee May Rely Upon Certain Documents and Opinions.

(a) Subject to Section 9.1(c)(ii), the Trustee may rely and shall be protected in acting upon the original or a copy (including a telecopy or an electronic copy sent pursuant to Section 12.4) of any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, bond or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties (including any such document sent to the Trustee by fax or electronic transmission).

(b) Any request, direction, election, order, certification or demand of the Agency shall be sufficiently evidenced by an instrument signed by an Authorized Representative of the Agency (unless specifically prescribed otherwise in this Series Indenture), and any resolution of the Agency may be evidenced to the Trustee by a certified resolution.

(c) The Trustee may, in its sole discretion and at the expense of the Borrower, consult with its counsel (either in-house or outside), counsel to the Borrower (unless the Borrower is in default under the Loan Agreement or the Continuing Disclosure Agreement) or Bond Counsel, and the legal advice or opinion of such counsel or Bond Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by the Trustee hereunder in good faith and in accordance with such legal advice or opinion of counsel or Bond Counsel.

(d) Whenever, in the administration of the trust created by this Series Indenture, the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof is specifically prescribed herein) may, in the absence of gross negligence or bad faith on the part of the Trustee, be deemed to be proved and established by a certificate of an Authorized Representative of the Agency or an Authorized Representative of the Borrower or an Authorized Representative of the Lender, as applicable; and, in the absence of gross negligence or willful misconduct on the part of the Trustee, such certificate shall constitute full authority for any

action taken, suffered or omitted by the Trustee under the provisions of this Series Indenture in reliance thereon.

(e) The Trustee shall not be concerned with or accountable to anyone for the subsequent use or application of any money which shall be released or withdrawn in accordance with the provisions hereof.

(f) The Trustee may execute any of the trusts or powers hereof and perform the duties required of it hereunder by or through attorneys, accountants, agents or receivers and may, in all cases, pay, and be reimbursed for, the reasonable fees and expenses thereof. The Trustee shall not be responsible for the conduct of such attorneys, accountants, agents or receivers in accordance with the standards specified herein.

(g) Any action taken or omitted to be taken by the Trustee in good faith pursuant to this Series Indenture upon the request or consent of Agency or any Person who at the time of making such request or giving such consent is the owner of any Bond, shall be conclusive and binding upon all future Owners of the same Bond and upon Bonds executed and delivered in exchange therefor or in place thereof.

(h) The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Series Indenture at the request or direction of any of the Owners of the Bonds pursuant to this Series Indenture, unless such Owners shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction.

Section 9.3. Trustee Not Responsible for Indenture Statements, Validity. The Trustee shall not be responsible for any recital or statement in the Financing Documents, the Mortgage Loan Documents, the Bonds or any official statement or other disclosure document prepared or distributed in connection with the Bonds or for the validity of the execution by the Agency of the Financing Documents to which the Agency is a party or the Bonds, or for the validity of the execution of any other or supplemental instrument by the Agency, or for the validity or sufficiency of the security for the Bonds issued hereunder or intended to be secured hereby, or for the value of or title to the Trust Estate or for the credit-worthiness of the Borrower. Except as otherwise expressly provided herein, the Trustee shall have no duty to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements herein or in the Financing Documents or Mortgage Loan Documents, or as to the existence of an Event of Default hereunder or thereunder but the Trustee may require of the Agency at the expense of the Borrower full information and advice as to the performance of such covenants, conditions and agreements and of the condition of the physical property included in the Trust Estate.

The Trustee makes no representation or warranty, express or implied, as to the title, value, design, compliance with specifications or legal requirements, quality, operation, condition, merchantability or fitness for any particular purpose for the use contemplated by the Agency of the Project. In no event shall the Trustee be liable for incidental, indirect, special or consequential damages in connection with or arising from this Series Indenture or in connection with or arising from the existence, furnishing or use of the Project.

Section 9.4. Limits on Duties and Liabilities of Trustee. The permissive right of the Trustee to do things enumerated in this Series Indenture shall not be construed as a duty of the Trustee and the Trustee shall be answerable only for its own gross negligence or willful misconduct. The Trustee shall not be required to give any bond or surety in respect of the execution of its trusts and powers hereunder or otherwise in respect of the premises.

Nothing contained herein or in the Bonds shall be construed to impose any duties upon the Trustee beyond those expressly contained in this Series Indenture. All immunities, indemnities and other provisions of this Series Indenture as related to the duties and liabilities of the Trustee shall apply to the Bonds.

Section 9.5. Money Held in Trust. All money held by the Trustee hereunder is held in trust for the purposes set forth herein and shall be segregated and kept apart from other funds held by it in accordance with its general practices and procedures in effect from time to time.

Under no circumstances shall the Trustee be liable in its individual capacity for the obligations evidenced by the Bonds. In accepting the trust hereby created, the Trustee acts solely as Trustee for the Owners and not in its individual capacity and, except as otherwise provided herein, all Persons, including without limitation the Owners and the Agency, having any claim against the Trustee arising from this Series Indenture shall look for payment only to the funds and accounts held by the Trustee hereunder.

Section 9.6. Costs for Maintenance of Suit: Indemnification.

(a) Other than to the extent described herein with respect to making the payments of principal of and interest on the Bonds when due from money held by the Trustee hereunder, and with respect to the redemption (other than optional redemption) or acceleration of payment of the Bonds, the Trustee shall be under no obligation to institute any suit, to take any proceeding under this Series Indenture, to enter any appearance in or in any way defend any suit in which it may be defendant, or to take any steps in the execution of the trusts hereby created or in the enforcement of any rights and powers hereunder, until it shall be assured to its satisfaction that repayment of all costs and expenses, including the reasonable fees and disbursements of its in-house and outside counsel, will occur in a timely manner, and until adequate indemnity against all risk and liability is assured to it to its satisfaction. However, the Trustee may begin suit, or appear in and defend suit, or do anything else in its judgment proper to be done by it as such Trustee, without assurance of reimbursement or indemnity, and in such case the Trustee shall be reimbursed or indemnified by the Owners for all costs and expenses, liabilities, outlays and fees of its in-house and/or outside counsel and other reasonable disbursements properly incurred in connection therewith, unless such liability or disbursement is adjudicated to have resulted from the gross negligence or willful misconduct of the Trustee. If the Owners shall fail to make such reimbursement or indemnification, the Trustee may reimburse itself from any money in its possession under the provisions of this Series Indenture subject only to the prior lien of the Bonds for the payment of the principal thereof and interest thereon, except as otherwise provided in Section 8.5.

(b) The Borrower, to the extent permitted by law, shall indemnify the Trustee for any loss, liability, outlays and fees of its in-house and/or outside counsel, other reasonable

disbursements, expenses or advances reasonably incurred or made, without gross negligence or willful misconduct on the part of the Trustee, arising out of or in connection with its acceptance or administration of the trust or performance of its duties hereunder, and shall reimburse the Trustee for any amounts paid to the Trustee by the Owners pursuant to Section 9.6(a) which the Trustee has spent for the purposes of that Section and which the Trustee has subsequently been required to return to the Owners.

(c) None of the provisions contained in this Series Indenture, or the Bonds shall require the Trustee to expend or risk its own funds or otherwise incur individual financial liability in the performance of any of its duties or in the exercise of any of its rights or powers hereunder.

(d) All indemnifications and releases from liability granted to the Trustee hereunder shall extend to its directors, officers, employees, officials and agents.

Section 9.7. Intervention in Judicial Proceedings. In any judicial proceeding to which the Agency is a party and which, in the opinion of the Trustee in its sole discretion, has a substantial bearing on the interest of the Owners of the Bonds, the Trustee may intervene on behalf of the Owners, and must do so if requested in writing by the Owners of not less than a majority in aggregate principal amount of Outstanding Bonds upon written assurance from such Owners satisfactory to the Trustee of indemnity and reimbursement for costs and expenses, including reasonable fees and disbursements of its in-house and/or outside counsel, incurred in so intervening. The rights and obligations of the Trustee under this Section are subject to the approval of the court having jurisdiction in the premises.

Section 9.8. Reports of Activities. The Trustee shall keep and maintain accurate and complete records of fund balances, any investments thereof and all transactions involving any part of the Trust Estate held by the Trustee pursuant to this Series Indenture and to furnish monthly reports thereof to the Agency in accordance with Section 6.7. The Agency and its agents shall have the right to inspect all such records at all reasonable times during regular business hours and upon reasonable notice and to make such copies and extracts, at their expense, as they may desire.

Section 9.9. Compensation of Trustee. All advances, in-house and/or outside counsel fees and other expenses reasonably made or incurred by the Trustee or its agents, directors, officials, officers and employees in and about the execution of the trust hereby created; any and all reasonable compensation to the Trustee for its services in the premises; any and all claims, damages, demands, expenses, liabilities and taxes of any character or nature whatsoever (including but not limited to claims for loss or damage to any property or injury to or death of any person) asserted by or on behalf of any Person arising out of, resulting from, or in any way connected with the Project or the real property and improvements thereon; and any and all costs and expenses (including reasonable fees and disbursements of its in-house and/or outside counsel, agents and other experts) incurred by or on behalf of the Trustee in defending any such claims, damages, demands, liabilities or claims for taxes of any character whatsoever (unless such claims, damages, demands or liabilities are adjudicated to have resulted from the gross negligence or willful misconduct of the Trustee), shall be paid by the Borrower in accordance herewith. The compensation of the Trustee shall not be limited to or by any provision of law in

regard to the compensation of trustees of an express trust. The Trustee shall have a lien against all money and other property or security held pursuant to this Series Indenture, with right of payment therefrom, subject only to the prior lien of the Bonds for the payment of the principal thereof and interest thereon when due, but also subject to Section 8.5, for (1) the Trustee's reasonable compensation, expenses, advances and fees and disbursements of its in-house and/or outside counsel, incurred on and about the execution of the trusts created hereby and the exercise and performance of the powers and duties of the Trustee hereunder; and (2) any and all claims, damages, demands, expenses, liabilities and taxes incurred by the Trustee or its agents, directors, officials, officers and employees, and any and all costs and expenses incurred by or on behalf of the Trustee in defending against the same, of any character whatsoever (unless such damage or liability is adjudicated to have resulted from the gross negligence or willful misconduct of the Trustee). In the event that there are not sufficient funds in the Bond Fund for payment of the Trustee's fees and expenses, unless and until an Event of Default has occurred hereunder, and in any event subject to its rights under this Series Indenture to satisfactory indemnification, and subject to its right to resign, the Trustee shall continue to perform its duties hereunder and seek payment for such fees and expenses from the Borrower pursuant to Section 4.1(b) of the Loan Agreement.

Section 9.10. Trustee May Hold Bonds. The Trustee and its officers, directors, employees and agents may acquire and hold or become pledges of Bonds and other obligations of the Agency and otherwise may deal with the Agency in the same manner and to the same extent and with like effect as though it were not Trustee hereunder, and may act as depository for and permit any of its officers, directors, employees and agents to act as members of, or in any other capacity with respect to, any committee formed to protect the rights of Bondowners, whether or not such committee represents the Owners of the majority in aggregate principal amount of the Bonds then Outstanding.

Section 9.11. Resignation of Trustee. The Trustee may resign and be discharged from the trusts created by this Series Indenture by giving to the Agency, the Lender and the Borrower at least 60 days' advance written notice. Such resignation shall take effect on the day specified in such notice, but the Trustee shall not be discharged from the trusts hereby created until a successor Trustee has been approved and appointed. Subsequent to such date, the Trustee shall have no further duties and obligations under this Series Indenture.

Section 9.12. Removal of Trustee.

(a) The Trustee may be removed at any time, either with or without cause, by the Agency at the written request of the Borrower so long as the Borrower is not in default under any of the Financing Documents or any of the Mortgage Loan Documents or by the Agency at the written direction of the Owners of a majority in aggregate principal amount of Outstanding Bonds, provided that all fees and expenses of the Trustee that are due and owing pursuant to Section 9.9 and that are not disputed shall first be paid and provided further that adequate provision is made for prompt resolution of such dispute and for payment of any disputed fees and expenses promptly upon resolution thereof.

(b) The Trustee may be removed at any time, either with or without cause, by the Agency provided that all fees and expenses of the Trustee that are due and owing pursuant to

Section 9.9 and that are not disputed shall first be paid and adequate provision is made for prompt resolution of such dispute and for payment of any disputed fees and expenses promptly upon resolution thereof.

(c) Any removal of the Trustee pursuant to this Section shall be effected by delivery to the Trustee, the Lender and the Borrower of a written instrument to that effect signed by an Authorized Representative of the Agency.

(d) Such removal shall take effect on the last to occur of the date specified in such removal notice or the date of appointment by the Agency of a successor Trustee hereunder. In any event the Trustee shall not be discharged from the trusts hereby created until a successor Trustee has been approved and appointed. Subsequent to the aforesaid effective date of any removal, the Trustee shall have no further duties and obligations under this Series Indenture.

Section 9.13. Appointment of Successor Trustee.

(a) In case at any time the Trustee shall resign, be removed or otherwise become incapable of acting, or shall be adjudged a bankrupt or insolvent, or if a receiver of the Trustee or of its property shall be appointed, or if a public supervisory office shall take charge or control of the Trustee or of its property or affairs, a vacancy shall forthwith and ipso facto be created in the office of such Trustee hereunder, and the Agency shall promptly appoint a successor trustee. Any such appointment shall be made by a written instrument executed by an Authorized Representative of the Agency. The Agency shall direct the successor Trustee to mail notice by first class mail, postage prepaid, at least once within 30 days of such appointment, to the Lender, the Borrower and the Owners of all Outstanding Bonds at their addresses on the Bond Register.

(b) If no appointment of a successor Trustee shall be made pursuant to Section 9.13(a) within 90 days after the receipt by the Agency of the Trustee's notice of resignation given pursuant to Section 9.11 or of removal of the Trustee pursuant to Section 9.12, the retiring Trustee, at the expense of the Borrower, or any Owner may apply to any court of competent jurisdiction to appoint a successor Trustee. The court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Trustee.

There shall at all times be a Trustee hereunder which shall be an association or a corporation organized and doing business under the laws of the United States or any state thereof, authorized under such laws to exercise corporate trust powers. Any successor Trustee, together with its affiliates, shall have a combined capital and surplus of at least \$[BOND PAR] and assets under trust of at least \$[BOND PAR], and be subject to supervision or examination by federal or state agency, or shall have been appointed by a court of competent jurisdiction pursuant to Section 9.13(b). If such association or corporation publishes reports of condition at least annually, pursuant to law or to the requirements of any supervising or examining Agency referred to above, then for the purposes of this Section, the combined capital and surplus of such association or corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time any successor Trustee shall cease to be eligible in accordance with the provisions of this Section and another association or corporation is eligible, the Trustee shall resign immediately in the manner and with the effect specified in Section 9.12.

Section 9.14. Merger of Trustee. Any Person into which the Trustee may be converted or merged, or with which it may be consolidated, or to which it may sell or transfer its corporate trust business and assets as a whole or in substantial part including the Trust Estate hereunder, or any corporation or association resulting from any such conversion, sale, merger, consolidation or transfer to which it is a party, ipso facto, shall be and become successor trustee hereunder and shall be vested with all of the title to the Trust Estate and all the trusts, powers, discretions, immunities, privileges and all other matters as was its predecessor, without the execution or filing of any instrument or any further act, deed or conveyance on the part of any of the parties hereto except for any required filing with FHA, anything herein to the contrary notwithstanding, but only if such resulting entity is entitled under state or federal law to exercise corporate trust powers.

Section 9.15. Transfer of Rights and Property to Successor Trustee. Every successor Trustee appointed hereunder shall execute, acknowledge and deliver to its predecessor and also to the Agency a written instrument accepting such appointment hereunder, and thereupon such successor, without any further act, deed or conveyance, shall become fully vested with the Trust Estate and the rights, powers, trusts, duties and obligations of its predecessor; but such predecessor shall, nevertheless, on the written request from an Authorized Representative of the Agency or from its successor execute and deliver a written instrument transferring to such successor all the Trust Estate and the rights, powers, trusts, duties and obligations of such predecessor hereunder, and every predecessor trustee shall deliver all funds held by it as Trustee hereunder to its successor. Should any assignment, conveyance or written instrument from the Agency be required by any successor Trustee for more fully and certainly vesting in such successor Trustee the Trust Estate and rights, powers, trusts, duties and obligations hereby vested or intended to be vested in the predecessor Trustee, any and all such assignments, conveyances and written instruments shall, on request, be executed, acknowledged and delivered by the Agency. Each successor Trustee shall give, or cause the Bond Registrar to give, notice of its appointment to all Owners appearing on the Bond Register as of the date of appointment and to the Lender and the Borrower. The Borrower shall reimburse the predecessor Trustee for any expenses (including fees and disbursements of its in-house or outside counsel) incurred under this Section.

Section 9.16. Survival of Rights. The Trustee's rights to immunity and protection from liability hereunder, its right to receive payment of its fees and expenses and its rights to indemnification hereunder shall survive its removal or resignation and the final payment, defeasance or discharge of the Bonds and the termination of the lien of this Series Indenture.

Section 9.17. Claims for Payment Under Ginnie Mae Certificates. If the Trustee does not receive a payment due on a Ginnie Mae Certificate by 5:00 p.m. on the sixteenth (16th) day (or the seventeenth (17th) day, if the Ginnie Mae Certificates are held in certificated form) of a month, or if such day is not a Business Day, on the next succeeding Business Day, the Trustee shall first notify the Lender, by telephone, confirmed in writing, or by facsimile, of such nonpayment, and if payment has not been made by 4:00 p.m. on the Business Day following notice to the Lender, the Trustee shall immediately notify, and seek payment from, Ginnie Mae.

Section 9.18. Appointment of a Co-Trustee. It is the intent of the Agency and the Trustee that there shall be no violation of any law of any jurisdiction (including particularly the

law of the State) denying or restricting the right of banking corporations or associations to transact business as Trustee in such jurisdiction. It is recognized that in case of litigation under this Series Indenture or the Loan Agreement, and, in particular, in case of the enforcement of any of them on default, or in case the Trustee deems that by reason of any present or future law of any jurisdiction it may not exercise any of the powers, rights or remedies granted herein to the Trustee or hold title to the properties, in trust, as herein granted, or take any other action which may be desirable or necessary in connection therewith, it may be necessary that the Trustee appoint, with the consent of the Agency, an additional individual or institution as a separate trustee or co-trustee. The following provisions of this Section 9.18 are adopted to these ends.

In the event that the Trustee appoints an additional individual or institution as a separate trustee or co-trustee, in the event of the incapacity or lack of authority of the Trustee, by reason of any present or future law of any jurisdiction, to exercise any of the rights, powers, trusts and remedies herein granted to the Trustee or to hold title to the Trust Estate or to take any other action which may be necessary or desirable in connection therewith, each and every remedy, power, right, obligation, claim, demand, cause of action, immunity, estate, title, interest and lien expressed or intended by this Series Indenture to be imposed upon, exercised by or vested in or conveyed to the Trustee with respect thereto shall be imposed upon, exercisable by and vested in such separate trustee or co-trustee, but only to the extent necessary to enable such separate trustee or co-trustee to exercise such powers, rights, trusts and remedies, and every covenant and obligation necessary to the exercise thereof by such separate trustee or co-trustee shall run to and be enforceable by either of them. Such separate trustee or co-trustee shall deliver an instrument in writing acknowledging and accepting its appointment hereunder to the Agency, the Trustee, the Borrower and the Lender. The Trustee shall give notice to the Rating Agency of the appointment of any such successor trustee or co-trustee.

Should any instrument in writing from the Agency be reasonably required by the separate trustee or co-trustee so appointed by the Trustee for more fully and certainly vesting in and confirming to him or if such properties, rights, powers, trusts, duties and obligations, any and all such instruments in writing shall, on request, be executed, acknowledged and delivered by the Agency. In case any separate trustee or co-trustee, or a successor to either, shall die, become incapable of acting, resign or be removed, all the estates, properties, rights, powers, trusts, duties and obligations of such separate trustee or co-trustee, so far as permitted by law, shall vest in and be exercised by the Trustee until the appointment of a new trustee or successor to such separate trustee or co-trustee.

ARTICLE X AMENDMENT OF INDENTURE

Section 10.1. Supplemental Indentures Not Requiring Consent of Owners. This Indenture shall not be supplemented or amended in any respect subsequent to the initial issuance of the Bonds, except as provided in and in accordance with and subject to the provisions of this Article. Subject to Sections 10.4 and 10.5, the Agency and the Trustee may from time to time and at any time, without the consent of or notice to any of the Owners, but upon 10 days' prior written notice to the Borrower and the Lender, enter into Supplemental Indentures for the following purposes:

(a) to cure any formal defect, omission, inconsistency or ambiguity in this Series Indenture in a manner not adverse to the Owner of any Bond;

(b) to impose on the Trustee (with its consent) for the benefit of the Owners any additional rights, remedies, powers, authority, security, liabilities or duties which may lawfully be granted, conferred or imposed and which are not contrary to or inconsistent with this Series Indenture as theretofore in effect;

(c) to add to the covenants and agreements of, and limitations and restrictions upon, the Agency in this Series Indenture other covenants, agreements, limitations and restrictions to be observed by the Agency which are not contrary to or inconsistent with this Series Indenture as theretofore in effect;

(d) to subject to this Series Indenture additional revenues, properties or collateral;

(e) to modify, amend or supplement this Series Indenture in such manner as required to permit the qualification hereof and thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect or state securities (“Blue Sky”) law, and, if they so determine, to add to this Series Indenture such other terms, conditions and provisions as may be required by such Trust Indenture Act of 1939, as amended, or similar federal statute or state securities law;

(f) to make any change required by the Rating Agency in connection with obtaining and maintaining a rating on the Bonds;

(g) to authorize different denominations of the Bonds and to make correlative amendments and modifications to this Series Indenture regarding exchangeability of Bonds of different Authorized Denominations, redemptions of portions of Bonds of particular Authorized Denominations and similar amendments and modifications of a technical nature;

(h) to make such changes as are required to provide for the conversion of the Bonds to certificated form;

(i) to make such changes as are elsewhere expressly permitted by this Series Indenture;

(j) to make any other change herein which will not adversely affect in any material respect the rights of the Owners of the Bonds then Outstanding; and

(k) to make any changes that will become effective only at the time when no Bonds remain Outstanding and that are not described in Section 10.1(c).

Before the Agency and the Trustee shall adopt any such Supplemental Indenture pursuant to this subsection or simultaneously with such adoption, there shall be or have been delivered to the Agency and the Trustee an Opinion of Bond Counsel, stating that such Supplemental Indenture is authorized or permitted by this Series Indenture and will, upon the execution and delivery thereof, be valid and binding upon the Agency in accordance with its terms and will not,

in and of itself, adversely affect the excludability of the interest on the Bonds from gross income of the Owners for federal income tax purposes.

Section 10.2. Supplemental Indentures Requiring Consent of Owners. Exclusive of Supplemental Indentures covered by Section 10.1 and subject to the terms and provisions contained in this Section and Sections 10.4 and 10.5, the Owners of 50% in aggregate principal amount of the Bonds then Outstanding shall have the right from time to time, notwithstanding any other provision of this Series Indenture, to consent to and approve the execution by the Agency and the Trustee of such other indenture or indentures supplemental hereto as shall be deemed necessary or desirable by the Agency for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in this Series Indenture or in any Supplemental Indenture; provided, however, that nothing in this Series Indenture shall permit, or be construed as permitting (a) (i) an extension of the maturity of the principal of or the interest on any Bond, or (ii) a reduction in the principal amount of or premium, if any, on any Bond or the rate of interest thereon, or (iii) an extension of time or a reduction in amount of any payment required by any sinking fund that may be applicable to any Bonds, or (iv) a privilege or priority of any Bond over any other Bond, or (v) a reduction in the aggregate principal amount of Bonds required for consent to such Supplemental Indenture, without the consent and approval of the Owners of all of the Bonds then Outstanding, or (b) any change in Section 6.6, without the consent of the Owners of all the Bonds.

If at any time the Agency shall request the Trustee in writing to enter into any such Supplemental Indenture for any of the purposes of this section, the Trustee shall, upon being satisfactorily indemnified with respect to expenses, cause notice of the proposed execution of such Supplemental Indenture to be sent to the Lender, the Borrower and to each Owner of Bonds then Outstanding by registered or certified mail to the address of such Owner as it appears on the registration books; provided, however, that failure to give such notice to the Owners of Bonds then Outstanding, or any defect therein, shall not affect the validity of any proceedings pursuant hereto. Such notice, which at the request of the Trustee shall be prepared by the Agency, shall briefly set forth the nature of the proposed Supplemental Indenture and shall state that copies thereof are on file at the Principal Office of the Trustee for inspection by all Owners. If, within 60 days or such longer period as shall be prescribed by the Agency following the giving of such notice, the Owners of two-thirds in aggregate principal amount of the Bonds then Outstanding shall have consented to and approved the execution thereof as herein provided, no Owner of any Bond shall have any right to object to any of the terms and provisions contained therein, or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee or the Agency from executing such Supplemental Indenture or from taking any action pursuant to the provisions thereof. Upon the execution of any such Supplemental Indenture as permitted and provided in this section, this Series Indenture shall be and be deemed to be modified and amended in accordance therewith.

Section 10.3. Amendment by Unanimous Consent. Notwithstanding any other provision in this Series Indenture, except Sections 10.4 and 10.5, the Agency and the Trustee may enter into any indenture supplemental to this Series Indenture upon receipt of the consent of the Owners of all Bonds then Outstanding.

Section 10.4. Opinion of Counsel and Consent of Borrower and Lender Required.

(a) Notwithstanding any other provision of this Series Indenture, the Trustee shall not execute any indenture supplemental to this Series Indenture unless there shall have been filed with the Trustee an Opinion of Bond Counsel stating that such Supplemental Indenture is authorized or permitted by this Series Indenture, that upon execution such Supplemental Indenture will be valid and binding on the Agency in accordance with its terms, and that giving effect to such Supplemental Indenture will not in and of itself, adversely affect the excludability of interest on the Bonds from gross income for federal income tax purposes

(b) Notwithstanding any other provision of this Series Indenture, the Trustee shall not, without the written consent of the Borrower so long as the Borrower is not in default under any of the Financing Documents or any of the Mortgage Loan Documents, execute any indenture supplemental to this Series Indenture which adversely affects in any material respect any rights of the Borrower. In addition, the Trustee shall not, without the written consent of the Lender, execute any indenture supplemental to this Series Indenture which (i) adversely affects any rights of the Lender, (ii) modifies the provisions of Article III or IV prior to delivery of the Project Loan Certificate, or (iii) modifies the provisions of Section 12.8. The Trustee shall be entitled to rely on an Opinion of counsel in determining whether any amendment adversely affects the rights of the Borrower or the Lender.

Section 10.5. Trustee's Rights Regarding Supplemental Indentures and Amendments to Loan Agreement and Ginnie Mae Certificates. If the Trustee in its discretion believes that such action is or may be materially adverse to the interest of the Owners of the Bonds or, except for amendments hereto or changes or modifications hereof required by the Rating Agency in connection with issuing a rating of "AAA" for the Bonds, increases the duties and/or liabilities of the Trustee, the Trustee shall not be required to enter into any Supplemental Indenture permitted by this article or to consent to any amendment, change or modification of the Loan Agreement or the Ginnie Mae Certificates permitted by Article XI.

ARTICLE XI

AMENDMENT OF LOAN AGREEMENT AND GINNIE MAE CERTIFICATES

Section 11.1. Amendment of Loan Agreement and Ginnie Mae Certificates Not Requiring Consent of Owners. Subject to the provisions of this Series Indenture, the Agency and the Trustee may, without the consent of or notice to the Owners, consent to any amendment, change or modification of the Ginnie Mae Certificates or the Loan Agreement as may be required:

(a) by the provisions of, or as contemplated in, the Loan Agreement, the Ginnie Mae Certificates or this Series Indenture;

(b) for the purpose of curing any ambiguity or formal defect or omission therein;

(c) to make any change therein that may be required by Ginnie Mae or HUD to conform such instruments to the requirements of applicable federal law or regulations and/or the terms of the Mortgage Loan Documents or the Ginnie Mae Documents;

(d) to make any change therein required by the Rating Agency in connection with obtaining and maintaining a rating on the Bonds; or

(e) to make any other change therein which will not adversely affect in any material respect the rights of the Owners of the Bonds then Outstanding.

Section 11.2. Amendments of Loan Agreement and Ginnie Mae Certificates Requiring Consent of Owners. Except for amendments, changes or modifications as provided in Section 11.1, neither the Agency nor the Trustee shall consent to any amendment, change or modification of the Loan Agreement or the Ginnie Mae Certificates without the written approval or consent of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding given and procured as provided in Section 10.2. If at any time the Agency and the Borrower shall request in writing the consent of the Trustee to any such proposed amendment, change or modification, the Trustee shall, upon being satisfactorily indemnified with respect to expenses, cause notice of such proposed amendment, change or modification to be given in the same manner as provided by Section 10.2 with respect to Supplemental Indentures. Such notice shall briefly set forth the nature of such proposed amendment, change or modification and shall state that a copy of the instrument embodying the same is on file at the Principal Office of the Trustee for inspection by all Owners.

Section 11.3. Amendment by Unanimous Consent. Notwithstanding any other provision of this Series Indenture, the Agency and the Trustee may consent to any amendment, change or modification of the Loan Agreement or the Ginnie Mae Certificates upon receipt of the consent of the Owners of all Bonds then Outstanding.

Section 11.4. Opinion of Counsel Required. The Trustee shall not consent to any amendment, change or modification of the Loan Agreement or the Ginnie Mae Certificates (except for extensions of the maturity date of the Construction Loan Certificates in accordance with Section 4.2) unless there shall have been filed with the Trustee an Opinion of counsel that such amendment, change or modification is authorized or permitted by this Series Indenture and an Opinion of Bond Counsel that such amendment, change or modification will not, in and of itself, adversely affect the excludability of interest on the Bonds from gross income for federal income tax purposes.

ARTICLE XII MISCELLANEOUS

Section 12.1. Consents of Owners. Any consent, request, direction, approval, objection or other instrument required by this Series Indenture to be signed and executed by the Owners may be in any number of concurrent writings of similar tenor and may be signed or executed by such Owners in person or by agent appointed in writing. Proof of the execution of any such consent, request, direction, approval, objection or other instrument or of the writing appointing any such agent, if made in the following manner, shall be sufficient for any of the purposes of this Series Indenture, and shall be conclusive in favor of the Trustee with regard to any action taken under such request or other instrument. The fact and date of the execution by any Person of any such writing may be proved by the certificate of any officer in any jurisdiction who by law has power to take acknowledgments within such jurisdiction that the Person signing such

writing acknowledged before him the execution thereof, or by affidavit of any witness to such execution.

For all purposes of this Series Indenture and of the proceedings for its enforcement, such Person shall be deemed to continue to be the Owner of such Bond until the Trustee shall have received notice in writing to the contrary.

Section 12.2. Limitation of Rights. With the exception of rights expressly conferred herein, nothing expressed or mentioned in or to be implied from this Series Indenture or the Bonds is intended or shall be construed to give to any Person other than the parties hereto, the Borrower, the Lender, HUD and the Owners any legal or equitable right, remedy or claim under or in respect to this Series Indenture or any covenants, conditions and agreements contained herein; this Series Indenture and all of the covenants, conditions and agreements hereof being intended to be and being for the sole and exclusive benefit of the parties hereto, the Borrower, the Lender, HUD and the Owners as provided herein.

Section 12.3. Limitation of Liability of the Agency. Notwithstanding anything in this Series Indenture contained, the Agency shall not be required to advance any moneys collected by the Agency, by the State or by any political subdivision thereof or from any source of income of any of the foregoing other than the Trust Estate, for any of the purposes in this Series Indenture mentioned, whether for the payment of the principal of or interest on the Bonds or for any other purpose of this Series Indenture. The Bonds are limited obligations of the Agency, and are only payable from and secured by the Trust Estate pledged under this Series Indenture. Neither the officers, members, officials, agents or employees of the Agency nor any persons executing the Bonds are liable personally on the Bonds or subject to any personal liability or accountability by reason of their issuance.

Section 12.4. Notices.

(a) Unless otherwise provided herein, all demands, notices, approvals, consents, requests, opinions and other communications hereunder shall be in writing and shall be deemed to have been given when delivered in person or mailed by first-class registered or certified mail, postage prepaid, or sent by registered overnight delivery services, charges prepaid, or sent by telecopy or other electronic means capable of producing a written notice and producing written confirmation of the date and time of receipt (provided, however, that the Trustee shall be entitled to receive upon request an executed original of any written communication or document furnished under this Series Indenture or any other Financing Document), addressed as follows (or at such other address as is provided in writing by any of such parties to the Trustee and the Agency as being the address for the giving of notice pursuant to this Section 12.4):

- (i) if to the Agency at: California Housing Finance Agency
500 Capitol Mall, Suite 1400
Sacramento, CA 95814
Attention: Financing – Mail Stop 940

- (ii) if to the Trustee at: U.S. Bank National Association
Mail Code – SF-CA-SFCT
One California Street, Suite 1000
San Francisco, CA 94111
Attention: Corporate Trust Department
- (iii) if to the Borrower: [Borrower]

Attention: [_____]
- (iv) if to the Lender at: Lender

Attention: [_____]
- (v) if to the Rating Agency at: _____

Attention: [_____]

The Agency, the Trustee, the Borrower and the Lender may, by notice given hereunder, designate any further or different addresses to which subsequent demands, notices, approvals, consents, requests, opinions or other communications shall be sent or Persons to whose attention the same shall be directed.

(b) If not otherwise specifically provided for herein, and subject to Section 9.1(b), any notice required or permitted to be given shall be deemed given where addressed as provided in this Section,

(i) on the Business Day on which it is given (or if given on a non-Business Day, then on the first Business Day thereafter) by messenger or courier or telecopy or other electronic means capable of producing a written notice and producing written confirmation of the date and time of receipt (provided, however, that if notice is given by messenger or courier or by telecopy or other electronic means, with confirmed receipt, and is received after 4:30 p.m. local time on the Business Day it is transmitted, such notice shall be deemed given on the first Business Day immediately following the Business Day on which it is received);

(ii) on the Business Day following the day on which it is sent by registered overnight delivery services, charges prepaid; or

(iii) on the third (3rd) Business Day following its mailing by certified or registered mail, return receipt requested.

(c) Without limiting the foregoing, so long as the Bonds are in book-entry only form and registered in the name of CEDE & CO. or another nominee of DTC, any notice required or permitted to be given by the Trustee to any Bondowner shall be deemed effective on the Business Day of its transmission by telecopy or other electronic means acceptable to DTC in accordance with Subsection (b)(i) of this Section 12.4.

Section 12.5. Successors and Assigns. This Indenture shall be binding on, inure to the benefit of and be enforceable by the parties and their respective successors and assigns.

Section 12.6. Severability. If any provision of this Series Indenture shall be held invalid by any court of competent jurisdiction, such holding shall not invalidate any other provision hereof.

Section 12.7. Applicable Law. Except to the extent regulated by federal law, this Series Indenture shall be governed by the applicable laws of the State.

Section 12.8. Subordination of Indenture; Supremacy of Mortgage Loan Documents, HUD Requirements and Ginnie Mae Requirements. So long as the FHA Insurance on the Mortgage Note remains in effect or any mortgage loan encumbering the Project is insured or held by HUD, notwithstanding anything in this Series Indenture or any other Financing Document to the contrary:

(a) In the event of any conflict between any provision contained elsewhere in this Series Indenture or in any other Financing Document and any provision contained in this Section 12.8, the provision contained in this Section 12.8 shall govern and be controlling in all respects.

(b) The provisions of this Series Indenture and the other Financing Documents are subject and subordinate to the National Housing Act, all other applicable HUD Requirements, the Mortgage Loan Documents, all applicable Ginnie Mae Requirements and the Ginnie Mae Documents; and in the event of any conflict between (i) the provisions of this Series Indenture or the provisions of any of the other Financing Documents and (ii) the provisions of the National Housing Act, any other applicable HUD Requirements, the Mortgage Loan Documents, any applicable Ginnie Mae Requirements, and/or the Ginnie Mae Documents, then the National Housing Act, HUD Requirements, Mortgage Loan Documents, Ginnie Mae Requirements and Ginnie Mae Documents shall be controlling in all respects.

(c) No amendment to this Series Indenture or any of the other Financing Documents shall be made if such amendment would result in a conflict with the National Housing Act, any applicable HUD Requirements, Ginnie Mae Requirements, the Mortgage Loan Documents or the Ginnie Mae Documents.

(d) Enforcement of the provisions of this Series Indenture or the provisions or any of the other Financing Documents shall not result in any claim under the Mortgage Loan, or any claim against the Project, the Mortgage Loan proceeds, any reserve or deposit made with the Lender or another person or entity required by HUD or the Lender in connection with the Mortgage Loan transaction, or against the rents or other income from the Project (other than available Surplus Cash, if any).

(e) The Borrower shall not be deemed to be in violation of this Series Indenture or any other Financing Documents if it shall take (or refrain from taking) any actions required (or prohibited) by HUD pursuant to the National Housing Act, other applicable HUD Requirements, the Mortgage Loan Documents, applicable Ginnie Mae Requirements and the Ginnie Mae Documents.

(f) The provisions of this Section 12.8 shall inure to the benefit of the Borrower, Lender and HUD, and their respective successors and assigns.

(g) Any assignment, transfer or pledge of the Mortgage Loan or a participation in the Mortgage Loan by way of a participation or other arrangement which may be made pursuant to the terms of the Indenture or any of the other Financing Documents shall be made in accordance with the National Housing Act and the HUD regulations, including specifically 24 C.F.R. 207.261 or any successor regulation. Any assignment, transfer or pledge not made in accordance with the terms of this Section 12.8(g) and said HUD regulations shall be void.

(h) A default under this Series Indenture or any other Financing Document shall not constitute a default under the Mortgage Note, Mortgage or any other Mortgage Loan Document.

(i) Nothing contained in this Series Indenture or any other Financing Document shall restrict or adversely affect the duties and obligations of the Lender under the contract of mortgage insurance between the Lender and HUD.

(j) Project funds held by the Lender on behalf of the Borrower under the contract of mortgage insurance are required to be maintained separate and apart from the funds established and held for payments to the Owners and the various escrows and funds under this Series Indenture and the other Financing Documents.

(k) Except for funds held under this Series Indenture, any pledge of Project funds for the benefit of the Owners is limited to a pledge of principal and interest payments received by the Trustee on the Ginnie Mae Certificates. There is no pledge of gross revenues of the Project or any Project assets.

(l) The Lender will maintain certain HUD-required escrow funds outside the terms of this Series Indenture. The enforcement of this Series Indenture will not result in the Trustee or any Borrower having any right to, interest in, or claim against any HUD-required escrow fund, the Project, the Mortgage Loan proceeds, any reserve or deposit required by HUD in connection with the Mortgage Loan transaction, or the rents or other income from the Project (other than available Surplus Cash, if any).

(m) The Bonds are not a debt of the United States of America, HUD, Ginnie Mae or any other governmental agency and are not guaranteed by the full faith and credit of the United States.

(n) In the event that proceeds are received from a condemnation award or from the payment of a claim under a hazard insurance policy, early redemption of the Bonds can occur only subsequent to a prepayment of the insured Mortgage Loan.

(o) This Indenture does not provide for the creation of a project reserve for replacement.

Section 12.9. Payments Due on Business Days. Any payment of principal, premium or interest due on a day which is not a Business Day may be made on the next succeeding Business Day with the same force and effect as if made on the due date, and if so made no interest shall accrue for the period after such due date.

Section 12.10. Counterparts. This Indenture may be executed in several counterparts, each of which shall be an original and all of which together shall constitute but one and the same instrument.

Section 12.11. Series Indenture To Control. In the event of any conflict between any provision contained in this Series Indenture or in any other Financing Document and any provision contained in the General Indenture, subject to Section 12.8(a) hereof, the provisions contained in this Series Indenture shall govern and be controlling in all respects but only with respect to the Bonds issued, authenticated and delivered hereunder.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the Agency and the Trustee have caused this Series Indenture to be executed by their duly authorized representatives, all as of the date first above written.

**CALIFORNIA HOUSING FINANCE
AGENCY**, as Issuer

By: _____
Authorized Signatory

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

By: _____
Authorized Signatory

EXHIBIT A**FORM OF BOND**

UNLESS THIS BOND IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION (“DTC”), TO THE ISSUER OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE, OR PAYMENT, AND ANY BOND ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

No. R-A-1

[\$BOND PAR]

UNITED STATES OF AMERICA
STATE OF CALIFORNIA

CALIFORNIA HOUSING FINANCE AGENCY

[AFFORDABLE] [LIMITED OBLIGATION] MULTIFAMILY HOUSING REVENUE
BONDS

([_____])

(GINNIE MAE COLLATERALIZED MORTGAGE LOAN)

INTEREST RATE **DATED DATE** **MATURITY DATE** **CUSIP**

Prior to the
Conversion
Date, the Short-
Term Rate, and
thereafter,
[_____]%

[Month] [____], 20____ [_____, 20____] _____

REGISTERED OWNER: CEDE & CO.**PRINCIPAL AMOUNT: [_____] DOLLARS**

CALIFORNIA HOUSING FINANCE AGENCY (the “Agency”), a public instrumentality and political subdivision of the State of California (the “State”), for value received, hereby promises to pay (but only out of the Trust Estate, as defined in the hereinafter described Indenture, and therefrom only to the extent provided for in the Indenture) to the registered owner specified above, or registered assigns, on the maturity date set forth above, the principal amount specified above, subject to the rights of prior redemption as hereinafter provided, and to pay interest (computed on the basis of a 360-day year of twelve 30-day months) on said principal amount at the interest rate set forth above on [_____] 1 and [_____] 1] of each

year (each a “Payment Date”), commencing on [_____ 1, 20__], from the Payment Date next preceding the date of authentication of this Bond to which interest has been paid or duly provided for, except that if this Bond is authenticated on any Payment Date to which interest has been paid, this Bond shall bear interest from such date, and except that if this Bond is authenticated prior to [_____ 1, 20__], or prior to the first payment of interest on the Bonds (hereinafter described), this Bond shall bear interest from the Dated Date specified above. The initial Bond Registrar (as defined in the hereinafter described Series Indenture) is U.S. Bank National Association, having a corporate trust office located in San Francisco, California.

The Bonds will be issued, authenticated and delivered solely as fully registered Bonds without coupons in Authorized Denominations, as defined in the hereinafter described Series Indenture.

The principal amount of Bonds outstanding and due shall bear interest (computed on the basis of a 360-day year of twelve 30-day months and payable on each Payment Date) at the Interest Rate stated above from the later of its date and the most recent Payment Date to which interest has been paid or duly provided for.

The principal of and interest and premium, if any, on this Bond are payable in lawful money of the United States of America.

Interest not timely paid or duly provided for will be paid by check mailed to the person in whose name this Bond is registered on the Bond Register at the close of business on a date (the “Special Record Date”) fixed by the Trustee (defined below), notice of which is to be mailed to all Bondowners.

This Bond is one of a duly authorized issue of bonds of the Agency known as its California Housing Finance Agency Affordable Multifamily Housing Revenue Bonds ([_____ Project]) 20__ Series __, issued in the original aggregate principal amount of \$[BOND PAR] (the “Bonds”) under and pursuant to the Zenovich Moscone Chacon Housing and Home Finance Act, consisting of Parts 1 through 4 of Division 31 of the California Health and Safety Code (the “Act”), and a bond resolution adopted by the Agency on [_____]. The Bonds are special, limited obligations of the Agency payable solely from and secured by the Trust Estate pledged therefor pursuant to the Series Indenture. The Bonds are issued to provide funds to finance the acquisition, construction, rehabilitation and equipping of certain multifamily housing rental facilities, known as [_____], located in the City of [City], in the County of [County], California (the “Project”).

Any term used herein as a defined term but not defined herein shall be as defined in the Series Indenture.

Part I — Payment and Redemptions

This Bond is payable and is subject to optional, extraordinary mandatory and mandatory sinking fund redemption prior to maturity as set forth in the Series Indenture.

Part II — General Provisions

The Bonds have been issued pursuant to the provisions of the Series Indenture and secured, to the extent provided in the Series Indenture, by the pledge of the Trust Estate thereunder.

THE BONDS ARE LIMITED OBLIGATIONS OF THE ISSUER, PAYABLE SOLELY FROM THE REVENUES AND OTHER FUNDS AND MONEY PLEDGED AND ASSIGNED UNDER THE SERIES INDENTURE. NEITHER THE ISSUER, THE STATE OF CALIFORNIA, NOR ANY POLITICAL SUBDIVISION THEREOF (EXCEPT THE ISSUER, TO THE LIMITED EXTENT SET FORTH IN THE SERIES INDENTURE) NOR ANY PUBLIC AGENCY SHALL IN ANY EVENT BE LIABLE FOR THE PAYMENT OF THE PRINCIPAL OF, PREMIUM (IF ANY) OR INTEREST ON THE BONDS OR FOR THE PERFORMANCE OF ANY PLEDGE, OBLIGATION OR AGREEMENT OF ANY KIND WHATSOEVER EXCEPT AS SET FORTH IN THE SERIES INDENTURE, AND NONE OF THE BONDS OR ANY OF THE ISSUER'S AGREEMENTS OR OBLIGATIONS SHALL BE CONSTRUED TO CONSTITUTE AN INDEBTEDNESS OF OR A PLEDGE OF THE FAITH AND CREDIT OF OR A LOAN OF THE CREDIT OF OR A MORAL OBLIGATION OF ANY OF THE FOREGOING WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION WHATSOEVER. THE ISSUER HAS NO TAXING POWER.

The transfer of this Bond shall be registered upon the books kept at the principal corporate trust office of the Trustee, at the written request of the Owner hereof or its attorney duly authorized in writing, only upon surrender of this Bond at said office, together with the assignment printed hereon duly completed and executed by the Owner or its duly authorized attorney with a duly authorized guarantee of signature as set forth therein. The Trustee also may require payment from the Owner of a sum sufficient to cover any tax or other governmental fee or charge that may be imposed in relation thereto. Such taxes, fees and charges shall be paid before any such new Bonds shall be delivered.

The Agency and the Trustee shall not be required (a) to transfer or exchange any Bond or portion thereof during the period in which the Bond Registrar is selecting Bonds for redemption or during the 15 days preceding any principal payment or redemption date or (b) to exchange or transfer any Bond or portion thereof selected for redemption.

Upon payment of any required tax or other governmental fee or charge and subject to certain conditions, upon surrender at the designated corporate trust office of the Trustee, Bonds in an Authorized Denomination may, at the option of the Owner thereof, be exchanged for an equal aggregate principal amount of the Bonds of any Authorized Denomination of the same series, bearing interest at the same rate, having the same maturity date and in the same aggregate principal amount as the Bonds surrendered for exchange.

The Agency and the Trustee shall deem and treat the person in whose name this Bond is registered on the books of the Agency maintained by the Bond Registrar as the absolute owner hereof for all purposes, whether or not this Bond is overdue, and shall not be bound by any notice to the contrary.

In certain events, on the conditions, in the manner and with the effect set forth in the Indenture, the principal of all of the Bonds then outstanding may be declared and may become due and payable before the stated maturity thereof, together with accrued interest thereon, but without premium.

The Owner of this Bond shall have no right to enforce the provisions of the Series Indenture, or to institute action to enforce the covenants therein, or to take any action with respect to any default under the Series Indenture, or to institute, appear in or defend any suit or other proceeding with respect thereto, except as provided in the Series Indenture. This Bond is issued with the intent that the laws of the State shall govern its construction.

With certain exceptions as provided therein, the Series Indenture and the Loan Agreement may be modified or amended only with the consent of the Owners of a majority in aggregate principal amount of all Bonds Outstanding under the Series Indenture.

Reference is hereby made to the Series Indenture and the Loan Agreement, copies of which are on file with the Trustee, for the provisions, among others, with respect to the nature and extent of the security, the rights, duties and obligations of the Agency, the Borrower, the Lender, the Trustee and the Owners of the Bonds, the terms upon which this Bond is issued, and the terms and conditions upon which this Bond will be deemed to be paid, at or prior to maturity or prepayment of this Bond, upon the making of provision for the payment hereof in the manner set forth in the Indenture, to all of the terms and conditions of which the Owner of this Bond hereby assents. The Owner of this Bond, by the acceptance hereof, is deemed to have agreed and consented to the terms and provisions of the Series Indenture and the Loan Agreement.

It is hereby certified, recited and declared that all acts, conditions and things required by the Constitution and laws of the State to exist, to have happened and to have been performed, precedent to and in the execution and delivery of the Indenture and the issuance of this Bond, do exist, have happened and have been performed in regular and due form as required by law.

No recourse under or upon any obligation, covenant or agreement contained in the Indenture, or in any Bond, or under any judgment obtained against the Agency, or by the enforcement of any assessment or by any legal or equitable proceeding by virtue of any constitution or statute or otherwise or under any circumstances, under or independent of the Indenture, shall be had against any officer, member, official, agent or employee, as such, present or future, of the Agency, either directly or through the Agency, or otherwise, for the payment for or to the Agency or any receiver thereof, or for or to the Owner of any Bond or otherwise of any sum that may be due and unpaid by the Agency upon any such Bond. Any and all personal liability of every nature, whether at common law or in equity, or by statute or constitution or otherwise, of any officer, member, official, agent or employee, as such, to respond by reason of any act or omission on his part or otherwise, for the payment for or to the Agency or any receiver thereof, or for or to the Owner of any Bond or otherwise, of any sum that may remain due and unpaid upon the Bonds or any of them, is hereby expressly waived and released as a condition of and consideration for the execution of the Series Indenture and the issuance of the Bonds.

This Bond shall not be entitled to any right or benefit under the Series Indenture, or be valid or become obligatory for any purpose, until this Bond shall have been authenticated by the

execution by the Trustee or its successor as authenticating agent of the certificate of authentication inscribed hereon.

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IN WITNESS WHEREOF, the California Housing Finance Agency has caused this Bond to be executed on its behalf by the facsimile signature of its [Authorized Officer], and its seal to be reproduced hereon and attested by the facsimile signature of the Secretary of its Board of Directors.

CALIFORNIA HOUSING FINANCE AGENCY

By _____
Authorized Officer

[SEAL]

Attest:

Secretary of the Board of Directors

CERTIFICATE OF AUTHENTICATION

This Bond is one of the Bonds issued under the provisions of and described in the within-mentioned Indenture.

Date of Authentication: _____

U.S. BANK NATIONAL ASSOCIATION

By _____
Authorized Signer

ASSIGNMENT

**FOR VALUE RECEIVED, THE UNDERSIGNED HEREBY SELLS, ASSIGNS AND TRANSFERS UNTO
(PLEASE INSERT SOCIAL SECURITY NUMBER OR OTHER IDENTIFYING NUMBER OF ASSIGNEE)**

(PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS OF ASSIGNEE)

the within bond and all rights thereunder, and hereby irrevocably constitutes and appoints _____ attorney to transfer the within Bond on the books kept for registration thereof, with full power of substitution in the premises.

Dated: _____.

Signature Guaranteed

NOTICE: Signature(s) must be guaranteed by an eligible guaranty institution.

Signature

NOTICE: The Signature to this assignment must correspond with the name as it appears upon the face of the within Bond in every particular, without alteration or enlargement or any change whatever.

EXHIBIT B

SCHEDULE OF MINIMUM BOND FUND BALANCES

(The "Carryover Amount")

<u>Date</u>	<u>Minimum Carryover Balance</u>
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EXHIBIT C

SINKING FUND REDEMPTION DATES

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State of California

M E M O R A N D U M**To:** CalHFA Board of Directors**Date:** September 9, 2010**From:** Di Richardson, Legislative Director 
CALIFORNIA HOUSING FINANCE AGENCY**Subject:** AGENDA ITEM 5A -- Keep Your Home (Hardest Hit Funds) Update**Late Developments:**

On August 11, 2010, the US Treasury announced the allocation of additional Hardest Hit Funds (HHF) to a number of states with unemployment rates that have equaled or exceeded the national average for the last 12 months. These new HHF dollars were targeted specifically to provide assistance for unemployed borrowers facing foreclosure. Based on a per capita formula, California's Keep Your Home program received an allocation of an additional \$476,257,070.

Given the increase in resources available for this purpose, CalHFA Mortgage Assistance Corporation (CalHFA MAC) submitted an updated proposal for our Unemployment Mortgage Assistance (UMA) Program, allowing the Agency to make better use of those funds, and ensure better integration with the federal unemployment program recently announced by Treasury. CalHFA's proposal is currently under review by Treasury and approval is expected soon. Based on staff assumptions, I believe the Agency now has enough funds within this program to assist approximately 35,000 unemployed borrowers.

The major barrier continues to be the reticence of servicers to participate. With this latest expansion of HHF to 18 States (including D.C), servicers have voiced concerns with their ability to implement numerous programs. Treasury has announced a meeting in Washington DC on September 21 with participating states, major servicers and the GSEs to determine if a uniform set of criteria can be agreed upon.

Innovation Fund:

With regard to the Local Innovation Fund, we received 18 responses to the Request for Proposals (RFP). Initial review has been completed, and a final proposal will be sent to Treasury for review for EESA compliance in the very near future. Our goal is to have a final response for all applicants by early October.

Implementation Update

The Keep Your Home staff has also been continuing to work on implementation of the programs previously approved by the Treasury. Our goal is to have a “pilot” program in effect by October 11, allowing us to meet Treasury’s strict readiness assessment requirements in time for a full launch by November 1.

To that end, the staff has made significant since the last Board meeting. We have signed a Letter of Intent and hopefully, by the time you read this memo, a full contract with a very experienced and well respected vendor to assist with the centralized processing and counseling aspects of the program. This vendor has already committed significant resources and time to help meet the needs of the clients as well as the aggressive timelines that we have established.

In addition, staff is working on an agreement with the Rural Community Assistance Corporation that will allow the Agency to bring additional counseling agencies throughout the state on board. Given the number of critical tasks that must be completed prior to the November 1 launch date, staff expects this piece to be implemented a short time after the launch. Additionally, we are working through agreements and statements of work with accounting and audit firms to help accurately account for program funding and ensure the Keep Your Home program is in compliance with strict federal and state guidelines.

We continue to make progress in developing the detailed processes, policies, procedures and documents necessary to efficiently and effectively process clients. We also continue to have dialogue with Treasury, servicers, lenders, investors and other states in an effort to implement these programs as efficiently and effectively as possible.

As always, if you have any questions, please don’t hesitate to contact me.

State of California

MEMORANDUM

To Board of Directors

Date: September 9, 2010

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



Subject: ITEM 5B – 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 as a tool to support the housing market by providing 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.

In July staff reported to the board on the implementation of programs to be financed with the NIBP and the planned utilization of such proceeds. Staff also reported on the difficulty of originating mortgages due to falling interest rates and program changes being advocated by a number of state housing finance agencies, including CalHFA. The proposed changes were discussed with Treasury on a conference call in June and included 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) allowing housing agencies more than three escrow release dates.

In response to the feedback provided to Treasury by the HFA community, the Obama Administration announced the following changes on September 1, 2010:

1. Extension of Escrow Draw period – The deadline to draw funds from escrow before unused funds are subject to mandatory redemption will be extended from December 31, 2010 to December 31, 2011.
2. Interest Rate Reset – The permanent interest rate established in December 2009 will become a maximum rate for all releases occurring in 2010. The actual rate for future issuance in 2010 will be the lower of the locked rate (from December 2009) and the lowest rate reported between notification of a release and the date eight days before the release is to occur. A maximum rate for 2011 draws will be set in December 2010, with the actual rate determined by the same process described above.
3. Increase in Number of Draws – The total number of permitted times to draw funds from escrow is increased from three (3) to six (6); however, no more than one draw is permitted in any 30-day period.

Each HFA may choose whether or not it will implement the above optional program modifications. As consideration for the benefits of these changes, those HFAs taking advantage of the changes will be required to adhere to certain revised reporting requirements and pay an annual 1 basis point (.01%) participation fee related to Program Bonds outstanding under the Single Family NIBP.

Last week, the Agency signed the Election Letter to accept the approved modifications for the Multifamily NIBP and notified Treasury of an escrow release date for \$230 million of multifamily NIBP proceeds. Staff plans to sign the Election letter for the Single Family NIBP the week of September 6, 2010.

State of California

MEMORANDUM

To: CalHFA Board of Directors

Date: September 9, 2010

From: L. Steven Spears, Executive Director

CALIFORNIA HOUSING FINANCE AGENCY

Subject: AGENDA ITEM 6A – Fannie Mae Affordable Advantage Loan Program

Background:

After the announcement of the New Issue Bond Purchase (NIBP) program last Fall, Fannie announced a loan program specifically designed for state housing finance agencies that are participating in the Fannie Mae Affinity Agreement. This program offers a 30 year fixed loan product that does not require mortgage insurance and offers the first-time homebuyer a 100% loan to value. A few HFAs are participating in this program now.

Staff discussed this program with the Board extensively during the March and May Board meetings. In fact, this loan product was incorporated into the Agency Business Plan that was approved by the Board at its May, 2010 meeting.

Unfortunately, Fannie Mae imposed a last minute requirement that caused me to withdraw CalHFA from the program. By way of background, Fannie Mae owns approximately \$123 million in “*interest only Plus*” CalHFA first mortgages that were originated in 2007 and 2008. These loans were securitized using Bank of America as master servicer and the HMRB indenture owns the mortgage backed securities. All of the loans are insured by CalHFA’s mortgage insurance fund with re-insurance provided by Genworth.

With increasing delinquencies in the *interest only Plus* loan portfolio (total delinquencies now stand at approximately 24.7%), Fannie Mae has become more concerned with the potential for loss exposure on these loans. Of course, Fannie would recover the first layer of losses on insured loans from the MI fund and Genworth. Because of this, they have a very great interest in the financial condition of the MI fund.

Fannie Mae Request:

In late June, when the program was very close to being introduced to CalHFA borrowers, Fannie Mae made a surprising request. As a condition to participating in the Affordable Advantage program, Fannie Mae’s credit risk department demanded that CalHFA prefund

the line of credit that is available to the MI fund from CalHFA's general fund. (Recall that the MI fund has access to a \$10 million line of credit from the general fund.)

Because Fannie Mae fears the MI fund's cash will eventually be insufficient, they demanded that additional cash be transferred now. CalHFA statutes prohibit using Agency general funds to pay insurance claims. Those statutes do permit the Agency, pursuant to Board resolution, to use general funds to support reserves in the MI Fund. In 2003, the Board passed a resolution permitting the establishment of a line of credit, which was intended to support reserves so that the MI Fund could maintain an adequate rating. In addition, the line of credit was intended to create a source of funds to pay claims. The Interfund Agreement implementing the line of credit, however, imposed Board required restrictions upon draws on the line of credit. Pursuant to the agreement, I determined that draws on the line of credit for the purposes requested by Fannie Mae were not appropriate uses of the credit line,

In an attempt to accommodate Fannie Mae's demands, CalHFA proposed a participation fee for the Affordable Advantage program. The fee could be used by Fannie Mae in any way it wished, including to offset any future shortfalls in claims payments from the MI fund. Although Fannie Mae accepted the concept of the participation fee, their fee counterproposal essentially eliminated any economic advantage to CalHFA in participating in the Affordable Advantage program.

Decision:

Although staff continued to negotiate with Fannie Mae on this issue, no agreement was reached. Therefore, on August 15, I made the decision to withdraw from the Affordable Advantage program and to immediately begin work on a CalHFA FHA program. To their credit, the Homeownership Division, IT, Legal, Financing and other CalHFA divisions were able to shift gears and finalize the FHA program within three and a half weeks. A truly amazing accomplishment.

As usual, please let me know if you have any questions.

State of California

MEMORANDUM

To: CalHFA Board of Directors

Date: September 9, 2010

From: L. Steven Spears, Executive Director

CALIFORNIA HOUSING FINANCE AGENCY

Subject: AGENDA ITEM 6B – Homeownership CalHFA FHA Loan Program

CalHFA FHA Loan Program:

September 7, 2010 was a hallmark day for CalHFA. On this day, the Homeownership Division of CalHFA launched CalHFA FHA and began taking reservations from the Agency's network of approved lenders around the State. At the September 15 meeting, staff will update you on the volume of reservations to date.

CalHFA's new FHA mortgage product is a fixed interest rate loan with a 30-year term. CalHFA FHA features standard FHA Loan to Value (LTV) and Combined Loan to Value (CLTV) limits including the downpayment requirements of FHA. CalHFA FHA also follows FHA underwriting and property guidelines. The Agency, however, has adopted a higher FICO requirement as an additional risk management factor. Although FHA allows FICO scores of 580, the CalHFA FHA program requires a minimum 620 FICO score for approval. Also, Homebuyer Education Counseling is required for a CalHFA FHA even though FHA does not require Homebuyer Education. Finally, standard CalHFA Sales Limits, Income Limits and First Time Homebuyer requirements will still apply.

Taking advantage of the recent Treasury decision to allow the Agency to relock the cost of New Issue Bond Purchase (NIBP) funds, the FHA lending program was launched with a below-market 4% interest rate. CalHFA and local government (AHPP) downpayment and closing cost assistance is available. Borrowers that use these downpayment assistance programs will receive a reduced interest rate on their CalHFA FHA first mortgage. Borrower contribution of at least 1% of the sales price is required for CalHFA's downpayment assistance program (CHDAP).

Keeping with the strategy contained in the Business Plan that was adopted by the Board at its May 2010 meeting, CalHFA FHA will be using a mortgage backed securities business model and will not be purchasing these FHA whole loans to hold in the Agency's portfolio. Using Bank of America as master servicer, these loans will be securitized into Ginnie Mae securities which will be purchased with CalHFA bond funds.

School Facility Fees (SFF):

I am happy to announce that Proposition 46 bond funds for the School Facility Fee grant program were recently released by the Department of Finance and are now available to homebuyers. When builders construct a new home, part of the fees they pay go toward the construction of new schools to service the new homes. This fee is usually passed on to the homebuyer. The SFF program provides a refund of the fees to the homebuyer.

California Homebuyer DownPayment Assistance Program (CHDAP):

To make these State general obligation bond funds available to more low to moderate first-time homebuyers in meeting our mission during these challenging times, we have reduced the required borrower contribution from 3% to 1%. We have also standardized underwriting requirements to streamline the approval process. These changes have been a long time request from professional realtors and lending partners doing business with CalHFA. Going forward, CHDAP will follow the guidelines of the first mortgage, such as CalHFA FHA for FHA loans and CalHFA's Cal30 for Conventional loans.

Affordable Housing Partners Program (AHPP):

As mentioned in prior Board Meetings, Homeownership has developed an initiative to expand efforts to partner with more cities and localities qualifying their down payment and closing costs assistance programs for our Affordable Housing Partnership Program. We have added additional localities and nonprofit partners programs and will continue to do so, building on how State and local and nonprofits can work together to further serve the needs of low and moderate income families towards affordable homeownership.

In conclusion, with all these changes, Homeownership is looking forward to *Opening Doors And Funding Possibilities*. The mortgage market has been very challenging for CalHFA over the past couple years, but we are excited to help low and moderate income Californians achieve the dream of homeownership with a mortgage they can afford.

State of California

MEMORANDUM

To CalHFA Board of Directors

Date: September 9, 2010

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

Subject: AGENDA ITEM 8 – FACILITIES UPDATE

Since our last Board Meeting of July 13, 2010, the staff has made good progress with the Agency Sacramento office consolidation. The following is an update.

500 Capitol Mall (Meridian Building and Senator Hotel consolidation):

To date, CalHFA is on schedule to move the Meridian office staff on the weekend of October 1-3, 2010 and the Senator Hotel office staff the weekend of October 8-10, 2010. The new phone system and work stations are now being installed; the IT server room is complete; security system has been installed; and HVAC system tested. Critical deadlines: Final City/State inspection - September 16; Smoke test - September 17; State Fire Marshall final inspection - September 22; Building Final inspection - September 22; Certificate of Occupancy - September 22.

West Sacramento, 1040 Riverside Parkway, Suite 115 (Hardest Hit Fund staff):

The build out is complete, furniture installed, communication lines active, and overall office space is ready to be occupied. The move there will be coordinated with the Meridian staff move to 500 Capitol Mall in early October.

West Sacramento, 1040 Riverside Parkway, Suite 125 (Portfolio Management):

The space is under construction. The space is planned to be ready for move in by October 22, 2010. Expenses will be limited due to the use of existing furniture. The portfolio management staff moving to West Sacramento will remain at the Senator location after the other Senator staff moves to 500 Capitol Mall.

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State of California

MEMORANDUM

To: Board of Directors

Date: August 25, 2010



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

Subject: Homeownership Loan Portfolio Update

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

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

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HOMEOWNERSHIP LOAN PORTFOLIO DELINQUENCY, REO and LOSS REPORT

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

	Loan Count	Balance	Percent	DELINQUENCY RATIOS			
				30-Day	60-Day	90(+) Day	Total
Federal Guaranty							
FHA	11,387 **	\$ 1,550,275,921	29.24%	5.29%	2.33%	12.25%	19.86%
VA	379	58,579,509	1.10%	2.90%	2.11%	10.29%	15.30%
RHS	97	18,762,843	0.35%	1.03%	1.03%	19.59%	21.65%
Conventional loans							
with MI							
CalHFA MI Fund	8,325	2,257,653,096	42.58%	3.92%	2.15%	15.18%	21.25%
without MI							
Orig with no MI	5,797	1,195,765,377	22.55%	2.12%	0.90%	5.78%	8.80%
MI Cancelled*	1,520	220,641,131	4.16%	2.43%	0.59%	2.63%	5.66%
Total CalHFA	27,505	\$ 5,301,677,877	100.00%	4.00%	1.87%	11.24%	17.11%

*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 June 30, 2010

	Loan Count	Balance	Percent	DELINQUENCY RATIOS			
				30-Day	60-Day	90(+) Day	Total
30-yr level amort							
FHA	11,387	\$ 1,550,275,921	29.24%	5.29%	2.33%	12.25%	19.86%
VA	379	58,579,509	1.10%	2.90%	2.11%	10.29%	15.30%
RHS	97	18,762,843	0.35%	1.03%	1.03%	19.59%	21.65%
Conventional - with MI	4,122	1,011,152,925	19.07%	3.23%	2.01%	11.79%	17.03%
Conventional - w/o MI	6,384	1,193,403,219	22.51%	2.01%	0.70%	4.43%	7.14%
40-yr level amort							
Conventional - with MI	653	190,491,035	3.59%	3.52%	2.30%	17.46%	23.28%
Conventional - w/o MI	226	45,589,455	0.86%	2.65%	1.77%	6.64%	11.06%
5-yr IOP, 30-yr amort							
Conventional - with MI	3,550	1,056,009,137	19.92%	4.79%	2.28%	18.70%	25.77%
Conventional - w/o MI	707	177,413,834	3.35%	3.68%	1.70%	10.89%	16.27%
Total CalHFA	27,505	\$ 5,301,677,877	100.00%	4.00%	1.87%	11.24%	17.11%

Weighted average of conventional loans: 3.11% 1.53% 10.48% 15.12%

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

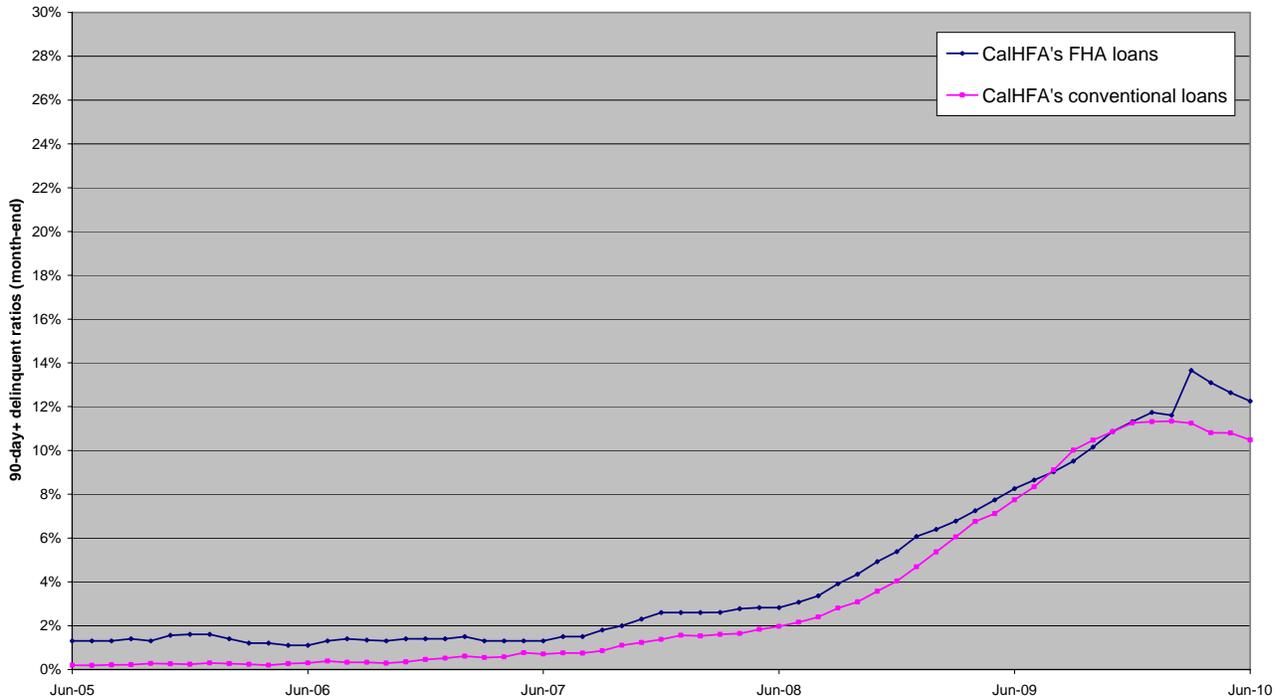
	Loan Count	Balance	Percent	DELINQUENCY RATIOS			
				30-Day	60-Day	90(+) Day	Total
CALHFA - LOAN SERVICING	10,457	\$ 2,449,581,240	46.20%	3.31%	1.31%	9.22%	13.84%
GUILD MORTGAGE	6,450	1,193,191,609	22.51%	4.48%	1.92%	11.27%	17.67%
BAC HOME LOANS SERVICING, LP	2,854 *	581,163,074	10.96%	4.70%	3.71%	26.77%	35.18%
WELLS FARGO HOME MORTGAGE	2,640	327,480,315	6.18%	3.22%	1.70%	7.12%	12.05%
EVERHOME MORTGAGE COMPANY	2,276	229,615,476	4.33%	5.14%	1.67%	4.17%	10.98%
FIRST MORTGAGE CORP	1,140	238,818,812	4.50%	3.42%	2.72%	15.26%	21.40%
GMAC MORTGAGE CORP	1,022	147,776,408	2.79%	6.26%	2.54%	8.41%	17.22%
BANK OF AMERICA, NA	308	54,070,508	1.02%	4.22%	1.30%	13.96%	19.48%
WASHINGTON MUTUAL BANK	233	59,366,329	1.12%	3.86%	0.00%	14.59%	18.45%
CITIMORTGAGE, INC.	68	16,283,467	0.31%	5.88%	2.94%	23.53%	32.35%
DOVENMUEHLE MORTGAGE, INC.	49	1,802,853	0.03%	0.00%	0.00%	0.00%	0.00%
WESCOM CREDIT UNION	7	2,209,251	0.04%	0.00%	14.29%	14.29%	28.57%
PROVIDENT CREDIT UNION	1	318,534	0.01%	0.00%	0.00%	0.00%	0.00%
Total CalHFA	27,505	\$ 5,301,677,877	100.00%	4.00%	1.87%	11.24%	17.11%

*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.

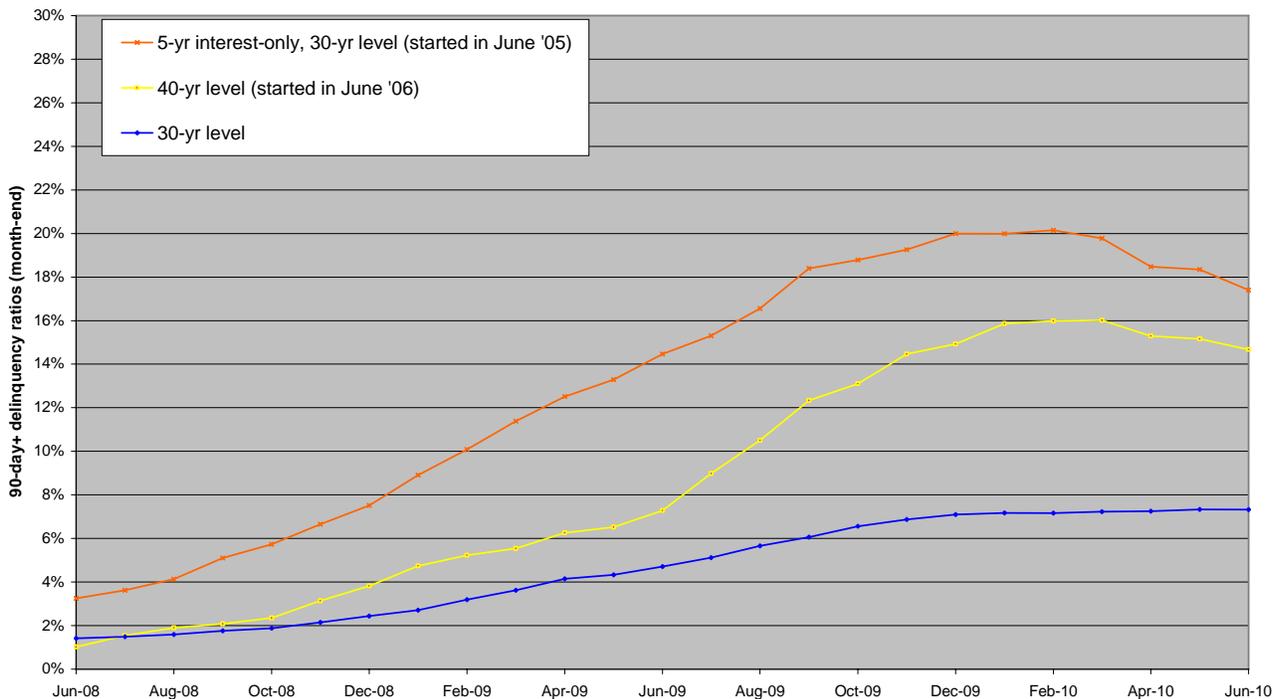
**Reconciled Loan Delinquency Summary
All Active Loans By County
As of June 30, 2010**

	Loan Count	Balance	Percent	DELINQUENCY RATIOS			
				30-Day	60-Day	90-Day+	Total
LOS ANGELES	4,323	\$ 929,939,308	17.54%	3.79%	1.92%	9.83%	15.54%
SAN DIEGO	2,866	645,771,838	12.18%	3.28%	1.99%	15.95%	21.21%
SANTA CLARA	1,882	526,906,227	9.94%	2.13%	0.90%	5.79%	8.82%
KERN	1,614	187,847,173	3.54%	6.75%	2.54%	11.59%	20.88%
SACRAMENTO	1,506	288,449,188	5.44%	4.45%	1.46%	14.48%	20.39%
SAN BERNARDINO	1,452	260,396,913	4.91%	5.58%	2.96%	19.15%	27.69%
RIVERSIDE	1,411	251,969,103	4.75%	5.10%	2.69%	21.47%	29.27%
ORANGE	1,378	324,511,595	6.12%	2.39%	1.16%	8.71%	12.26%
FRESNO	1,252	125,364,219	2.36%	5.11%	1.92%	8.63%	15.65%
TULARE	1,250	126,247,228	2.38%	5.68%	2.24%	10.24%	18.16%
ALAMEDA	1,179	296,776,060	5.60%	2.46%	1.27%	5.51%	9.25%
CONTRA COSTA	974	226,864,858	4.28%	3.80%	1.23%	10.57%	15.61%
VENTURA	683	189,253,392	3.57%	2.78%	1.46%	8.20%	12.45%
IMPERIAL	563	60,180,524	1.14%	5.68%	2.84%	9.24%	17.76%
SONOMA	525	112,984,097	2.13%	2.10%	1.71%	7.81%	11.62%
OTHER COUNTIES	4,647	748,216,154	14.11%	3.81%	1.79%	9.51%	15.11%
Total CalHFA	27,505	\$ 5,301,677,877	100.00%	4.00%	1.87%	11.24%	17.11%

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



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



Real Estate Owned

Calendar Year 2010 (As of July 31, 2010)											
Loan Type	Beginning Balance # of Loans	*Trustee Sales			Disposition of REO(s)					Ending Balance # of Loans	UPB of REO's Owned
		Reverted to CalHFA Jan-June	Reverted to CalHFA July	Total Trustee Sales	Repurchased by Lender Jan-June	Market Sale(s) Jan-June	Repurchased by Lender July	Market Sale(s) July	Total Disposition of REO(s)		
FHA/RHS/VA	187	425	89	514	287		71		358	343	\$ 59,472,973
Conventional	619	756	144	900		467		109	576	943	202,026,549
Total	806	1,181	233	1,414	287	467	71	109	934	1,286	\$ 261,499,521

Calendar Year 2009						
Loan Type	Beginning Balance # of Loans	*Trustee Sales	Disposition of REO(s)		Ending Balance # of Loans	UPB of REO's Owned
		Reverted to CalHFA 2009	Repurchased by Lender 2009	Market Sale(s) 2009		
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						
Loan Type	Beginning Balance # of Loans	*Trustee Sales	Disposition of REO(s)		Ending Balance # of Loans	UPB of REO's Owned
		Reverted to CalHFA 2008	Repurchased by Lender 2008	Market Sale(s) 2008		
FHA/RHS/VA	33	231	212	1	51	\$ 11,206,593
Conventional	42	255		71	226	52,475,997
Total	75	486	212	72	277	\$ 63,682,590

*3rd party trustee sales are not shown in the tables (title 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-eight (28) 3rd party sales to date for 2010.

Calendar Year 2010 ⁽¹⁾ Year to Date REO Uninsured Losses ⁽²⁾	
1st TD Sale Estimated Gain/(Loss)	\$ (12,417,197)
Subordinate Write-Off	(18,852,425)
Total Gain(Loss)/Write-Offs	\$ (31,269,622)

(1) For the period of January 1, 2010 thru July 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 July 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	358		\$ 75,179,636		
Conventional		576	155,421,622	\$ (12,417,197)	\$ (22,357,961)
	358	576	\$230,601,257	\$ (12,417,197)	\$ (22,357,961)

(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 July 31, 2010)**

Loan Type	Active Loans		Write-Offs			
	Active Loans	Dollar Amount	Number of Write-Offs	% (of Portfolio)	Dollar Amount	% (of Portfolio)
CHAP/HiCAP	11,583	\$123,534,500	1,037	8.95%	\$10,780,636	8.73%
CHDAP/ECTP/HiRAP	20,948	175,277,944	1,050	5.01%	8,071,788	4.61%
Other ⁽²⁾	285	3,722,609	0	0.00%	0	0.00%
	32,816	\$302,535,053	2,087	6.36%	\$18,852,425	6.23%

(1) Does not include FNMA and CalSTRS subordinates (non-agency loans serviced by in house loan servicing)

(2) Includes HPA, MDP, OHPA, and SSLP.

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State of California

MEMORANDUM

To: Board of Directors

Date: September 3, 2010



From: Bruce D. Gilbertson, Director of Financing
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

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 \$5.8 billion, 67% of our \$8.7 billion of total indebtedness as of August 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	\$2,303	\$1,304	\$3,607
MHRB	0	535	220	755
HPB	0	0	79	79
RMRB *	1,016	0	0	1,016
AMHRB *	381	0	0	381
Total	\$1,397	\$2,838	\$1,603	\$5,838

* 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 \$1.6 billion, 18.4% 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 \$1.6 billion of net variable rate exposure (\$805 million taxable and \$798 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 \$1.6 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 \$323.6 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 58.4% of our current net variable rate exposure.

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

HEDGED VARIABLE RATE DEBT

Currently, we have a total of 112 "fixed-payer" swaps with thirteen different counterparties for a combined notional amount of \$3.2 billion. All of these fixed-payer swaps are intended to establish synthetic fixed rate debt by converting our variable rate payment obligations to fixed rates. The table below provides a summary of our swap notional amounts.

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

	<u>Tax-Exempt</u>	<u>Taxable</u>	<u>Totals</u>
HMRB	\$2, 261	\$295	\$2,556
MHRB	606	0	606
HPB	<u>0</u>	<u>0</u>	<u>0</u>
TOTALS	\$2,867	\$295	\$3,132

The following table shows the diversification of our fixed payer swaps among the thirteen firms acting as our swap counterparties.

SWAP COUNTERPARTIES

<u>Swap Counterparty</u>	<u>Credit Ratings</u>		<u>Notional Amounts Swapped as of 8/1/10 (\$ in millions)</u>	<u>Number of Swaps</u>
	<u>Moody's</u>	<u>S & P</u>		
JPMorgan Chase Bank, N.A.	Aa1	AA-	\$ 833.1	22
Merrill Lynch Capital Services, Inc.	A2	A	757.0	33
Citigroup Financial Products, Inc.	A3	A	438.7	11
Goldman Sachs Mitsui Marine Derivative Products, , L.P.	Aa1	AAA	269.9	8
Deutsche Bank AG	Aa3	A+	231.7	11
AIG Financial Products, Corp.	A3	A-	217.1	7
Morgan Stanley Capital Services, Inc.	A2	A	136.7	2
Bank of America, N.A.	Aa3	A+	78.4	5
BNP Paribas	Aa2	AA	68.3	2
Merrill Lynch Derivative Products	Aa3	AAA	68.1	7
UBS AG	Aa3	A+	27.4	2
Bank of New York Mellon	Aaa	AA	25.0	1
Dexia Credit Local New York Agency	A1	A	11.0	1
			<u>\$ 3,162.4</u> *	<u>112</u>

* Basis Swaps not included in totals

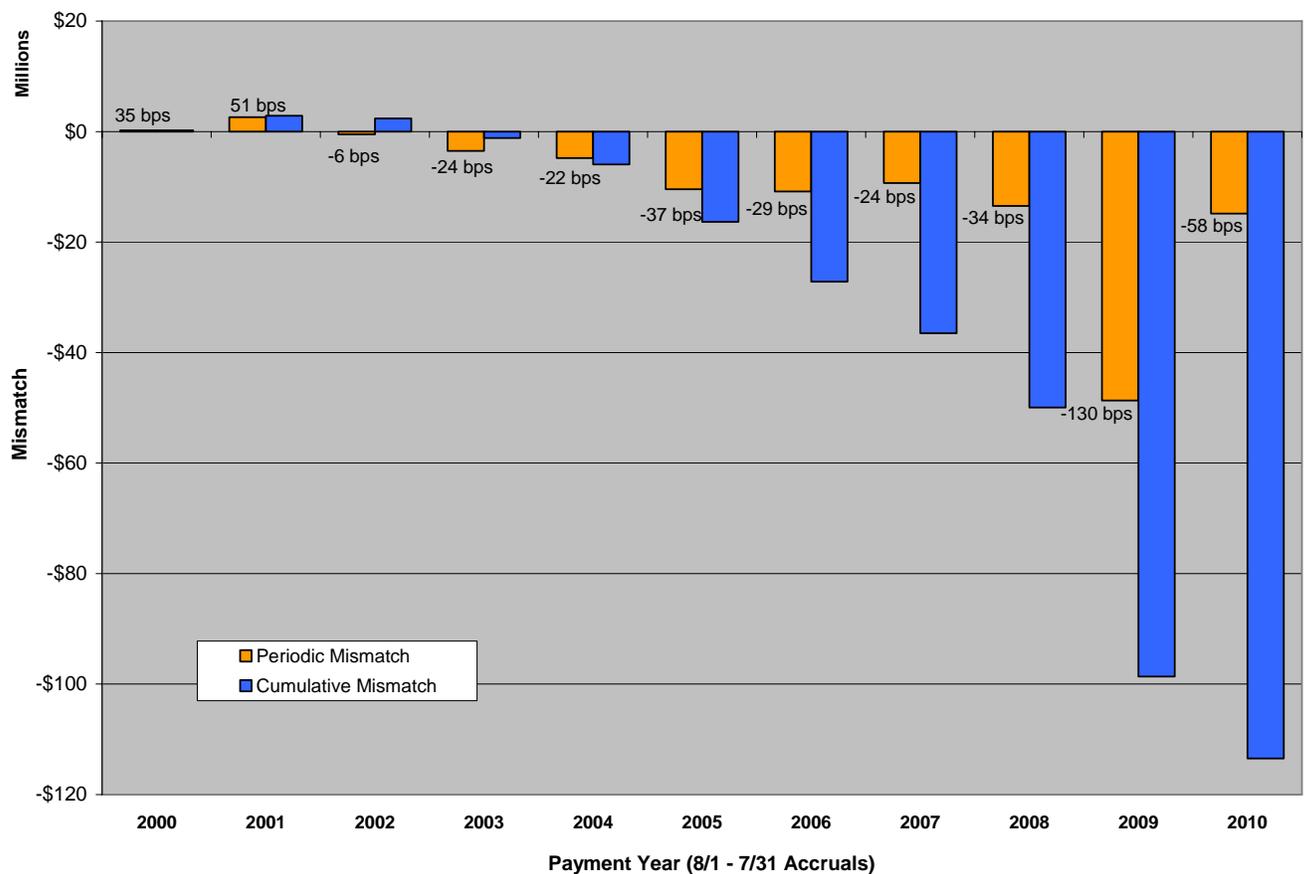
For all of our fixed-payer swaps, we receive floating rate payments from our counterparties in exchange for a fixed-rate obligation on our part. In today's market, the net periodic payment owed under these swap agreements is from us to our counterparties. As an example, on our August 1, 2010 semiannual debt service payment date we made a total of \$63.4 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 indices, which consist of market-wide averages, while our bond floating rates are specific to our individual bond issues. The only exception is where our taxable floating rate bonds are index-based, as is the case of the taxable floaters we have sold to the Federal Home Loan Banks. The chart below is a depiction of the basis mismatch that we have encountered since 2000 when we entered the swap market.

**Basis Mismatch through June 1, 2010
All Tax-Exempt Swaps**



As the chart shows, the relationship between the two floating rates changes as market conditions change. Basis mismatch for our 2008 bond year (August 1, 2007 – July 31, 2008) was 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 accounted for 45% of the total mismatch for 2008. We 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 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 has significantly reduced basis mismatch. As part of this process, all bond insurance was removed from VRDOs and the federal government now provides direct credit support on all CalHFA VRDOs. This has allowed CalHFA VRDOs to reset with little or no spread to SIFMA. Since January 2010, our VRDOs have reset at an average of 1 basis point or 0.01% below SIFMA, whereas in 2009, our VRDOs were resetting at an average of 106 basis points or 1.06% above SIFMA.. The Temporary Credit and Liquidity Facility (TCLF) has also provided us with a favorable basis mismatch for the first time since 2002. In the first four months under the TCLF, the basis mismatch is only 2 basis points or 0.02%, as compared to 92 basis points or 0.92% for the four months preceding the TCLF. The reduced basis mismatch has resulted in debt service savings of approximately \$2.5 million in the first four months. 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 formulas 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 monitored the SIFMA/LIBOR relationship and the performance of our swap formulas and made certain adjustments to the formula. The following table displays the SIFMA/LIBOR ratio for the past eight calendar 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	89.0%

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)

	<u>Tax-Exempt</u>	<u>Taxable</u>	<u>Totals</u>
% of LIBOR (+ spread)	\$2,127	\$0	\$2,127
SIFMA (+ spread)	420	0	420
Stepped % of LIBOR ¹	251	0	251
3 mo. LIBOR (+ spread)	0	181	181
% of SIFMA	70	0	70
1 mo. LIBOR	0	66	66
3 mo. LIBOR	0	26	26
6 mo. LIBOR	<u>0</u>	<u>21</u>	<u>21</u>
TOTALS	\$2,868	\$294	\$3,162

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 it 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.

The table below shows the speed at which the Agency's single family first mortgage loans have been prepaying for the past five years.

CalHFA Single-Family Loans
Semiannual Prepayment Speed
2005-2009

<u>6 Month Period Ending</u>	<u>SIFMA Prepayment Speed</u>
Jun-2005	643%
Dec-2005	320%
Jun-2006	241%
Dec-2006	156%
Jun-2007	81%
Dec-2007	60%
Jun-2008	58%
Dec-2008	89%
Jun-2009	128%
Dec-2009	189%

Of interest is an \$323.6 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 8/19/2010
(\$ in millions)

	<u>JPMorgan</u>	<u>BofA / Merrill Lynch</u>	<u>Goldman Sachs</u>	<u>Total</u>
Marked-to-Market	91	23	34	
Collateral Threshold	50	0	25	
Posting Requirement	41	23	9	73

The Government Accounting Standards Board (GASB) statement No. 53 requires that the market value of all of our swaps be disclosed in the notes to our financial statements. In addition, this accounting standard requires that the Agency's balance sheets and income statements recognize the market value of certain interest rate swaps that are deemed not to be "effective hedges" using the measurement tests provided in GASB 53. The Agency has adopted GASB statement No. 53 for financial statements as of June 30, 2010 and for the fiscal year ended June 30, 2010.

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

<u>Date</u>	<u>Termination Value (\$ in millions)</u>
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 or to a third party by investors; hence they typically bear higher rates of interest than do "put-able" bonds such as VRDOs.

TYPES OF VARIABLE RATE DEBT
(*\$ in millions*)

	Auction Rate & Similar <u>Securities</u>	Indexed Rate <u>Bonds</u>	Variable Rate Demand <u>Obligations</u>	Total Variable Rate <u>Debt</u>
HMRB	\$0	\$998	\$2,609	\$3,607
MHRB	158	0	597	755
HPB	0	0	79	79
RMRB	0	1,016	0	1,016
AMHRB	<u>0</u>	<u>381</u>	<u>0</u>	<u>381</u>
Total	\$158	\$2,395	\$3,285	\$5,838

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 enterprises (GSE) which are providing liquidity in the form of standby bond purchase agreements for our VRDOs.

LIQUIDITY PROVIDERS
As of 8/1/10
(*\$ in millions*)

<u>Financial Institution</u>	<u>\$ Amount of Bonds</u>
Freddie Mac	\$1,678.2

Board of Directors

September 3, 2010

Fannie Mae	<u>1,678.2</u>
Total	\$3,356.4

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State of California

MEMORANDUM

To: Board of Directors

Date: September 2, 2010



Bruce D. Gilbertson, Director of Financing

From: CALIFORNIA HOUSING FINANCE AGENCY

Subject: Report of Multifamily Bond Issuance California Housing Finance Agency:
New Issuance Bond Program: Affordable Multifamily Housing Revenue Bonds
(Belovida Apartments Project) 2009 Series A-1 \$12,500,000
Market Rate Bonds: Limited Obligation Multifamily Housing Revenue Bonds
(Belovida Apartments Project) 2010 Issue A \$11,390,000

The project Belovida at Newbury Park is a 185-unit senior, very low income project, located in San Jose.

CalHFA is providing financing assistance as a conduit issuer under the New Issuance Bond Program and conduit issuer for market rate bonds. The program bonds are credit enhanced by Freddie Mac with a direct pay structure that guarantees certain payments with respect to the bond mortgage loan. The market rate bonds are credit enhanced by JP Morgan Chase with direct pay structure under terms of an Irrevocable Transferable Letter of Credit that guarantees certain payments with respect to the bond mortgage loan.

The Belovida bonds closed on August 5, 2010. The interest rates for the bonds are fixed rate at 4.09% for program bonds (final maturity date: December 1, 2043) and 2.375% for the market rate bonds (final maturity date: August 1, 2014). The ratings on the program bonds are "Aaa" – Moody's and market rate bonds "Aa1" – Moody's.

The Agency collected an issuer fee of \$179,175.00 and will receive an annual administrative fee of 0.25% for the life of the loan.

The bonds are limited obligations of the Agency, payable solely from the revenues and other funds and moneys pledged and assigned under the trust indenture.

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State of California

MEMORANDUM

To Board of Directors

Date: September 3, 2010



Bruce D. Gilbertson, Director of Financing

From: CALIFORNIA HOUSING FINANCE AGENCY

Subject: REPORT OF SALE OF GINNIE MAE MORTGAGE-BACKED SECURITIES

In a report dated May 6, 2010, the Board was notified that during the week of March 15, 2010, the Agency securitized approximately \$326.8 million of FHA insured portfolio loans into Ginnie Mae (GNMA) mortgage-backed securities. Most of the loans were held as collateral to bondholders under various indentures and other loans were unencumbered by bonds on the Agency's balance sheet. All of the loans were serviced by Bank of America. By securitizing the whole loans the Agency created a more marketable asset.

Subsequently, on April 20, 2010, the Agency sold approximately \$255.65 million of these GNMA securities at a premium. The total premium realized on the sale of the securities is approximately \$10.79 million. The total fees paid to execute these transactions were about \$771,000, leaving a net premium of \$10 million. The sale of the GNMA securities immediately created liquidity for the Agency which was largely used to retire debt.

The remaining \$69.6 million of securities were retained under the HMRB and HMP indentures which benefited from the guaranteed payments received from these securities.

This report is to inform the Board that on August 19, 2010, these remaining securities were sold at a premium of \$1.62 million, bringing the total net premium on this project to \$11.62 million.

Exhibit A contains certain information regarding this transaction.

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State of California

MEMORANDUM

To: CalHFA Board of Directors

Date: 1 September 2010

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

Subject: Legislative Report

Last night was “technically” the last night of session. Except for final action by the Governor, most bills have either passed or failed. I use the qualifier “technically” because of course, there is still no State Budget. The enactment of a budget will inevitably require the enactment of a number of “budget trailer bills” – bills needed to implement policy changes to enact the budget. At this time, those bills are not currently in print, and it is not yet known exactly what will be included. Should any of those bills contain provisions that I believe will be of interest to you, I will include them in any subsequent reports.

LEGISLATIVE UPDATE

Bonds

AB 2293 (Torres) Housing: construction loans. (E-08/26/2010)
Status: To enrollment – Pending Governor’s Action

Summary:

Existing law establishes the Multifamily Housing Program, the Joe Serna, Jr. Farmworker Housing Grant Program, and the Transit-Oriented Development Implementation Program, administered by the Department of Housing and Community Development. This bill would, until June 30, 2013, require the Department of Housing and Community Development, upon request of a program award recipient unable to secure a construction loan on the private market, to contract with a construction lender to make permanent loan funds available and to escrow, reserve, or set aside permanent loan funds for a project as of the date of closing of the construction loan.

AB 2536 (Carter) Housing and Emergency Shelter Trust Fund Acts of 2002 and 2006: supportive housing. (E-08/31/2010)
Status: To enrollment – Pending Governor’s Action

Summary:

The Housing and Emergency Shelter Trust Fund Acts of 2002 and 2006 authorized the issuance of bonds pursuant to the State General Obligation Bond Law to fund various housing programs. This bill would require that the funds transferred to the Emergency Housing and Assistance Fund pursuant to both acts also be made available for supportive housing purposes.

Homeless

AB 1875 (Fong) Homelessness: Interagency Council on Homelessness. (A-03/25/2010)
Status: -DEAD

Summary:

Under existing law, several agencies have prescribed responsibilities relating to homeless persons. This bill would have created the California Interagency Council on Homelessness, composed of specified members and performing duties as prescribed, to construct cross-agency and community cooperation in responding to homelessness, and to identify and apply for increased federal funding to respond to homelessness.

Mortgage Lending

AB 1639 (Nava) Facilitated Mortgage Workout Program. (A-05/28/2010)
Status: DEAD

Summary:

This bill would have established, until January 1, 2014, the Facilitated Mortgage Workout (FMW) Program. The program would have been a process whereby borrowers and lenders would engage in conciliation sessions for purposes of developing a loan modification plan.

AB 2043 (Torrico) Redevelopment funds: mortgage assistance. (A-04/29/2010)
Status: DEAD

Summary:

This bill would have authorized a redevelopment agency to use redevelopment funds to issue a subordinate loan limited to low- and moderate-income borrowers and to owner-occupied homes, to reduce the principal balance on the home mortgages of qualified homeowners, as prescribed, who reside in or outside of the project area.

SB 931 (Ducheny) Mortgages: deficiency judgments. (E-08/23/2010)
Status: To enrollment – Pending Governor's Action

Summary:

This bill would prohibit a lender from pursuing a deficiency judgment in any case of short sale in which the property is sold for less than the amount owed when the lender first agrees to a short sale in writing.

- SB 1221** **(Calderon) Mortgages: notice of sale.** (C-08/23/2010)
Status: Chaptered by the Secretary of State, Chapter Number 180,
Statutes of 2010
- Summary:**
This bill would make a technical change to the non-judicial foreclosure process by allowing notices of sale to be recorded five days earlier in the process than is allowed under current law.
- SB 1275** **(Leno) Mortgages: foreclosures.** (A-08/16/2010)
Status: DEAD
- Summary:**
This bill would have required a mortgagee, trustee, beneficiary, or authorized agent to send borrowers a significant amount of additional written information before filing a Notice of Default and proceeding to foreclosure.

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