CalHFA[SM] BOARD OF DIRECTORS

California Housing Finance Agency
Board of Directors

Burbank Airport Marriott Hotel and Convention Center
2500 Hollywood Way, Burbank, CA 91505

Wednesday, November 17, 2010

10:00 a.m.

Table:#201223v1
BdMtg:11-17-10

9. Discussion of other Board matters.

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

11. Adjournment

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 January 20, 2011, at the Holiday Inn Capitol Plaza, Sacramento, California.

STATE OF CALIFORNIA

CALIFORNIA HOUSING FINANCE AGENCY

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BOARD OF DIRECTORS

PUBLIC MEETING

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Burbank Airport Marriott Hotel & Convention Center
2500 Hollywood Way
Burbank, California

Wednesday, September 15, 2010
10:09 a.m. to 1:01 p.m.

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Reported By: YVONNE K. FENNER, CSR #10909, RPR

Yvonne K. Fenner
Certified Shorthand Reporter
2256 Murieta Way
Sacramento, California 95822
Phone 916.531.3422
yfennercsr@aol.com

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

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

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

JACK SHINE, Chairperson
Chairman
American Beauty Development Co.

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

Board of Directors Present, continued:

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

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CalHFA Staff Present:

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

BRUCE D. GILBERTSON
Director of Financing

THOMAS C. HUGHES
General Counsel

JOJO OJIMA
Office of the General Counsel

DIANE RICHARDSON
Director of Legislation

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Public Testimony:

SARAH DUSSEAULT
Director of Policy
Los Angeles City Councilmember Eric Garcetti

TODD EMERSON
CEO/President
Springboard

FATHER THOMAS FRANK
One LA-Industrial Areas Foundations

STEPHANIE HAFFNER
Supervising Attorney
Neighborhood Legal Services of Los Angeles County

DEAN LUNDHOLM
COPA-Industrial Areas Foundation

YVONNE MARIAJIMENEZ
Deputy Director, Attorney at Law
Neighborhood Legal Services of Los Angeles County

Public Testimony, continued:

YVETTE D. ROLAND
Attorney at Law
Black Lawyers Association of California
Black Women Lawyers Association of Los Angeles

MARCOS SANCHEZ
Field Representative
Assemblymember Felipe Fuentes

NICKI UNG
Assemblymember Mike Eng

REBECCA WAYNE
District Director
Assemblymember Ted W. Lieu

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BE IT REMEMBERED that on Wednesday, September 15, 2010, commencing at the hour of 10:09 a.m., at the Burbank Airport Marriott Hotel and Convention Center, 2500 Hollywood Way, Burbank, California, before me, YVONNE K. FENNER, CSR #10909, RPR, the following proceedings were held:

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ACTING CHAIRPERSON CAREY: Thank you. It seems like we're getting more popular every month here.

I want to welcome everybody to the September 15th meeting of the California Housing Finance Agency Board of Directors.

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Item 1. Roll Call

ACTING CHAIRPERSON CAREY: Our first item of business is the roll call.

MS. OJIMA: Thank you.

Ms. Peters for Mr. Bonner.

MS. PETERS: Here.

MS. OJIMA: Mr. Gunning.

MR. GUNNING: Here.

MS. OJIMA: Mr. Hudson.

MR. HUDSON: Here.

MS. OJIMA: Mr. Hunter.

MR. HUNTER: Here.

MS. OJIMA: Ms. Jacobs.
MS. JACOBS: Here.
MS. OJIMA: Ms. Carroll for Mr. Lockyer.
MS. CARROLL: Here.
MS. OJIMA: Ms. Macri-Ortiz.
MS. MACRI-ORTIZ: Here.
MS. OJIMA: Mr. Shine.
MR. SHINE: Here.
MS. OJIMA: Mr. Smith.
(No audible response.)
MS. OJIMA: Mr. Taylor for Ms. Cox.
MR. TAYLOR: Here.
MS. OJIMA: Ms. Matosantos.
(No audible response.)
MS. OJIMA: Mr. Spears.
MR. SPEARS: Here.
MS. OJIMA: Mr. Carey.
ACTING CHAIRPERSON CAREY: Here.
MS. OJIMA: We have a quorum.
ACTING CHAIRPERSON CAREY: Thank you, JoJo.

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Item 2. Approval of the minutes of the July 13, 2010 Board of Directors meeting

ACTING CHAIRPERSON CAREY: Next item of business is approval of the minutes of the July 13th meeting.

MS. PETERS: So moved.

MS. JACOBS: Second.

ACTING CHAIRPERSON CAREY: We have a motion and a second. Any further discussion?

Roll call.

MS. OJIMA: Thank you.

Ms. Peters.

MS. PETERS: Yes.

MS. OJIMA: Mr. Gunning.

MR. GUNNING: Yes.

MS. OJIMA: Mr. Hudson.

MR. HUDSON: Yes.

MS. OJIMA: Mr. Hunter.

MR. HUNTER: Yes.

MS. OJIMA: Ms. Jacobs.

MS. JACOBS: Yes.

MS. OJIMA: Ms. Carroll.

MS. CARROLL: Yes.

MS. OJIMA: Ms. Macri-Ortiz.

MS. MACRI-ORTIZ: Yes.

MS. OJIMA: Mr. Shine.

MR. SHINE: Yes.

MS. OJIMA: Mr. Carey.

ACTING CHAIRPERSON CAREY: Yes.

MS. OJIMA: The minutes have been approved.

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Item 3. Chairman/Executive Director comments

ACTING CHAIRPERSON CAREY: Okay. With that, I would simply like to thank the Board members that are here and point out that we now have our calendar for 2011 with the meeting dates set.

I'd also mention it looks like the Audit Committee will be meeting at least the next two meetings, in November and January, prior to the Board meeting.

With that, Steve, I'll turn it over to you.

MR. SPEARS: Thank you, Mr. Chairman.

A couple of housekeeping items: One is you have the business plan as a handout before you. I'd point out that this was the plan adopted at the May Board meeting. We didn't make the July Board meeting to hand it out, so you will see some things that are probably slightly out of date at this point. And we're going to give you an update on this business plan in -- at the January Board meeting.

The next thing is a bit of good news, actually a lot of good news, and that is that CalHFA is now back in the homeownership lending business. We started taking reservations last week on an FHA program, and we're going to talk a little bit more about that, but I just wanted to say that it is nice to be back. Lots of -- it's a very big morale booster for -- for staff, and we are now receiving reservations. So -- so there is that.

Now, the other thing is that -- not to neglect our multifamily division. They are doing a lot of conduit financing with the New Issue Bond program for U.S. Treasury money that -- that we got. We have a pipeline of some $250 million of conduit, and we have more calls every day, I'm told by Mr. Deaner, and so that's -- that's good news too.

And then the other thing I wanted to mention is the asset management division, as you know, has 580 properties, roughly, that they look after. And staff conducted a very, very interesting survey. We put the results before you as a handout. And we heard from 250 property managers, and what we wanted to know is what kind of services that you're offering to your residents. And it was a really wonderful variety of things, classes and activities and -- and things that are offered at the site.

So there's -- there's a summary of all these things in this -- in this handout, and I just think it's a wonderful thing that is going on there at those properties. And what we're going to try to do is capitalize on this. We're going to let all the property owners know what's going on at other properties and hopefully generate some more interest in this sort of thing for all of our property owners and managers.

Finally, I just wanted to tell the Board that there are a couple other things you're going to hear about today. The Bureau of State Audits is conducting an examination of CalHFA. In -- the Joint Legislative Audit Committee in early August asked the Bureau of State Audits to conduct this. They have a list of eight questions that they're going to take a look at. I believe that in August I sent all of you a copy of that analysis, so if you have any questions about that, let me know.

But when you hear from the Audit Committee, we did discuss that this morning, and we'll have a chance to talk about that a little bit later on. But so far we've had terrific conversations with them. The planning is going well. They're going to start their work next week, so I just thought I'd bring that up at this point.

And the final thing is that at the November Board meeting I'm going to propose to the Board a reorganization. I'm been contemplating this for a very long time. I've talked to the Chairman about it, and I've talked to various staff about it and others and -- and with regard to the financial and administrative management of CalHFA, it is -- our org chart looks like -- more like a state department and not so much as a financial institution, and I think that we need to take a look at that. So that's what I'm going to be looking at and proposing to you at the November Board meeting, and I just thought I'd give you a heads-up on that. And if you have any ideas along those lines, I'd welcome input, so just thought I'd wind up with -- with that.

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Item 4. Discussion, recommendation and possible action regarding the amendment of multifamily financing Resolution 10-02 to include an additional form of multifamily bond indenture

ACTING CHAIRPERSON CAREY: Okay. Next item on the agenda is possible amendment to the multifamily financing Resolution 10-02.

Bruce.

MR. GILBERTSON: Yes, thank you, Mr. Chairman, Members of the Board. Good morning.

You have in front of you as agenda item No. 4 Resolution No. 10-08. This is simply a resolution that would amend a January resolution of the Board, No. 10-02. That resolution authorized the Agency to sell and issue bonds related to the multifamily lending program.

As Steve mentioned earlier, we do have quite a pipeline of conduit financing. We're using our New Issue Bond program proceeds for the multifamily program. This resolution today would allow us to issue those bonds under a new form of indenture. We have an exhaustive list in the existing 10-02 resolution. This would simply add one that would allow us to issue the bonds and use those proceeds to purchase a Ginnie Mae mortgage-backed security that is guaranteeing the rental housing development project.

At this point, a $230-million pipeline. I think there's four projects that are potentially going to be an FHA-insured loan securitized into a Ginnie Mae that would be the collateral ultimately in this conduit financing.

With that, if there's any questions, I'd be happy to answer any questions of the Board.

ACTING CHAIRPERSON CAREY: Ms. Jacobs.

MS. JACOBS: What, if any, increased risk is there to CalHFA by doing this, including interest-rate risk?

MR. GILBERTSON: Zero. Zero risk on the conduit program. So the bondholder in these instances gets their payment directly from the guarantee from Ginnie Mae. It's underwritten by HUD. The Agency has no risk in any way, shape or form.

Reputational risk, I suppose, but if we have the federal government backstopping the security under a Ginnie Mae security, there would be no interest-rate risk or any other financial risk imposed on the Agency.

Remember in I think it was January of 2009 the Board authorized three forms of indenture to do conduit financing at the time. One was for Freddie Mac execution. Another was for a Fannie Mae execution. And the third was a private placement type transaction where the bonds would effectively be placed to the lender who was financing the loan for the -- the borrower.

MS. JACOBS: Okay. And what's the difference between the interest rate on the bonds and the interest rate that the affordable housing project is paying?

MR. GILBERTSON: In this particular case, the interest rate on the bonds is set by Treasury -- and we have a later agenda item to talk about some of the updates to the New Issue Bond program that HFAs were the beneficiaries of last year -- but it's a formula base, ten-year Treasury rate at the time you release the moneys from the escrow account that was established last December plus a spread of 60 basis points.

We then add on additional spread for the Agency as an issuer fee. The developer in those instances pays all additional costs: The direct costs to issue the debt, counsel fees, that type of thing.

MS. JACOBS: Okay. Thank you.

ACTING CHAIRPERSON CAREY: Ms. Macri-Ortiz.

MS. MACRI-ORTIZ: Yeah. These are going to be fixed rate?

MR. GILBERTSON: These are fixed rate.

MS. MACRI-ORTIZ: And it's basically the same, we're just using FHA where we hadn't before, is that --

MR. GILBERTSON: FHA effectively is guaranteeing the mortgage obligation of the borrower.

MS. MACRI-ORTIZ: Is it something new that FHA is doing or we're just --

MR. GILBERTSON: No, this has been -- this is a standard form of a conduit financing for multifamily rental developments.

MS. MACRI-ORTIZ: So FHA has been in the business, but we just hadn't dealt with them before; is that it?

MR. GILBERTSON: Yeah. I mean, the big shift for the Agency, remember over the last couple years, related to the multifamily program is that we're not doing financing where we serve the role as the lender where we were taking real estate risk and other financial risk. This is -- this is a situation where there is a lender in place. The lender has insured the loan with FHA. That loan has been put into a security, and the security then becomes the collateral to the bondholder, who in this case is the federal government, under the New Issue Bond program.

MS. MACRI-ORTIZ: Okay. Thank you.

ACTING CHAIRPERSON CAREY: Other questions?

Do we have a motion?

MS. PETERS: I move to adopt the resolution on 10-02.

MR. GUNNING: Second.

ACTING CHAIRPERSON CAREY: We have a motion and a second.

Any further discussion?

Roll call, please.

MS. OJIMA: Ms. Peters --

ACTING CHAIRPERSON CAREY: Oh, I'm sorry. Yes, this is an opportunity -- we would offer the opportunity if there's anyone in the public who'd wish to speak on this particular matter, to please indicate.

Seeing none, roll call. Thank you.

MS. OJIMA: Ms. Peters.

MS. PETERS: Yes.

MS. OJIMA: Mr. Gunning.

MR. GUNNING: Yes.

MS. OJIMA: Mr. Hudson.

MR. HUDSON: Yes.

MS. OJIMA: Mr. Hunter.

MR. HUNTER: Yes.

MS. OJIMA: Ms. Jacobs.

MS. JACOBS: Yes.

MS. OJIMA: Ms. Carroll.

MS. CARROLL: Yes.

MS. OJIMA: Ms. Macri-Ortiz.

MS. MACRI-ORTIZ: Yes.

MS. OJIMA: Mr. Shine.

MR. SHINE: Yes.

MS. OJIMA: Mr. Carey.

ACTING CHAIRPERSON CAREY: Yes.

MS. OJIMA: Resolution 10-08 has been approved.

ACTING CHAIRPERSON CAREY: Thank you.

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Item 5. Report on the implementation of US Treasury Department programs – A. Hardest Hit program

ACTING CHAIRPERSON CAREY: Our next item of business is a report on two parts of the U.S. Treasury

Department program, and the first piece will be the Hardest Hit program. And we will have a staff report. And then in respect for the fact that I know we have a number of people here who would like to -- to comment specifically on this program, we will allow a period of public comment following the staff report.

MS. RICHARDSON: Mr. Chairman, Members, thank you very much.

(Court reporter interrupts for clarification.)

MS. RICHARDSON: Di Richardson, California Housing Finance Agency.

We've been working very diligently and very hard. We're still shooting for our November 1st rollout date, which we've had set for quite some time. I think the -- I have two pieces of big news to -- to share with you.

The first is covered in the background memo that I did. In mid-August Treasury awarded us an additional $476 million to assist unemployed borrowers. So while previously our principal reduction program was the largest, that's now been eclipsed by the unemployment program, which is probably not surprising to anyone, given the current unemployment numbers.

That announcement was -- the allocations were a little different than the previous funds, how the previous funds were allocated, and they included a number of new states that hadn't previously received any funds, so now there are 18 states, including D.C., that have been given funds from Treasury to assist unemployed borrowers.

So that, obviously, will -- has required us to suggest some modifications to our program to take into account the new level of funding that is now available. Those changes have been submitted to Treasury for approval, and I'm expecting that we will have that and close on that on September 23rd. So we'll still be able to hit the November 1st rollout date, I hope.

Also, I've asked Mr. Todd Emerson from Springboard to come up. I'd like to introduce him to you. One of the things that we've talked about is that we'll be utilizing a centralized processing center to help us do this in a more organized, cohesive fashion for borrowers and servicers. And we've entered into a letter of intent with Springboard, and we'll be signing the final contract any minute.

They've been working quite literally around the clock for a couple of months now -- excuse me -- to develop the systems and the portals and the things that we've asked them to do to make this as smooth as possible, so I'd like Mr. Emerson to just tell you a little bit about his organization.

MR. EMERSON: Good morning. Thank you for having me.

Again, my name is Todd Emerson. I'm the president and chief executive officer of Springboard Nonprofit Consumer Credit Management. We are a California-based 501(c)(3) nonprofit that specializes in credit and debt counseling, as well as housing, bankruptcy and program administration. We're based in Riverside, California. We have a strong California presence as well as a national feel. We are HUD-approved.

We are also accredited by the Executive Office of United States Trustee's Office for Bankruptcy Counseling. And we are one of the founders of the HOPE Hotline, the Homeowner Preservation Foundation, which is the 995-HOPE number I think most people are aware of. We are the largest housing counseling agency in the state and one of the largest housing counseling companies in the country and have been in this since the beginning, so to speak.

But I'm very open to taking any questions or answering anything that you may have at this point. I'm always available to -- to speak with anyone individually. We have been working with the CalHFA team for several months, and as Di spoke to, around the clock to make this thing a reality. I know we're shooting for a November 1st kickoff date, and our in-house team is shooting for an October 11th pilot, so we, at this point, think we'll hit it with no problems at all.

But I would like to open this up for questions, if you have any.

ACTING CHAIRPERSON CAREY: Questions?

UNIDENTIFIED SPEAKER: I have a question.

ACTING CHAIRPERSON CAREY: I'm sorry, we're going to have an opportunity for public comment after the staff report. Thank you, though.

MS. JACOBS: Let me ask a question.

ACTING CHAIRPERSON CAREY: Yes.

MS. JACOBS: Where are your offices? I mean, you're headquartered in Riverside, but you have offices around the state?

MR. EMERSON: Yes, ma'am, as well as out of the state. We have 15 offices in California from --

MS. JACOBS: That's what I'm interested in.

MR. EMERSON: Yeah, from Fresno, Bakersfield, all the way to San Diego.

MS. JACOBS: Great. Thank you.

ACTING CHAIRPERSON CAREY: What are the challenges getting this off the ground?

MR. EMERSON: Not enough hours in the day. It's -- it -- we have the expertise. We have -- you know, and this is more IT perspective than anything else, creating a portal and actually writing the physical code for it.

I think one of the reasons that we were chosen is because of the infrastructure that we have. It's leveraging existing technology. Within our industry we have one of the premier software platforms to use, so we were able to leverage that pretty easy. It's just writing on the extra component to make this a -- for short terms, you know, customer-facing portal to use on an outside level.

ACTING CHAIRPERSON CAREY: So the main function is getting documentation from the field in to the decision-makers?

MR. EMERSON: Yes, in a roundabout -- it's a process flow two ways. It goes from, you know, lender consumer internally, internally consumer lender. It's got to be free flowing both directions.

ACTING CHAIRPERSON CAREY: Okay. Do you have more to add, Di?

MS. RICHARDSON: No, not unless you have any additional questions. I think you're pretty up-to-date.

ACTING CHAIRPERSON CAREY: And -- and where is the process with the innovative fund applications?

MS. RICHARDSON: Those, we've done an internal review of the proposals that were submitted. There were 19 complete proposals. We -- I think we had letters of intent from between 25 and 30, but there were actually 19 complete proposals. We did an initial scrub of those, and they are at Treasury for review.

ACTING CHAIRPERSON CAREY: Okay. Just for the record, I wanted to disclose that the organization I work for has a somewhat peripheral connection to one of the applications that went in, so I just want to be clear about it. Though this Board is not directly involved in reviewing the applications or decision-making regarding those applications, I would remove myself from any discussion about them.

Mr. Hudson.

MR. HUDSON: Who has the approval? Is Treasury approving these?

MS. RICHARDSON: The financial approval is with Treasury staff. The CalHFA MAC -- the CalHFA MAC staff made recommendations to Treasury, but Treasury has final approval of all programs.

MR. HUDSON: So we submitted all 19, did you say?

MS. RICHARDSON: No, we did not.

MR. HUDSON: Is it --

MS. RICHARDSON: There were some that we did not believe met the minimum guidelines, so --

MR. HUDSON: So, this is a little awkward, is it -- is it privacy information? Is there a privacy issue? Is it discloseable information?

MS. RICHARDSON: It is not. We aren't planning to disclose it until we've had the final discussions with Treasury and they make their final decisions, and then it will all be public.

MR. HUDSON: But we don't even disclose how many we submitted to Treasury?

MS. RICHARDSON: Nope.

MR. SPEARS: We -- we haven't, Mr. Hudson. The reason is we have -- we're going to -- we've been pretty clear that we're not going to send every proposal back there because they -- they've said they don't want to see that. On the other hand, if Treasury says, "We're not interested in these three, what are your next three," we'll send those. "We're not interested in the top ten, we'd like to see them all," it's really up to them.

MS. RICHARDSON: Treasury actually made it very clear to us that they did not want to see them all, but that they, you know -- they didn't -- they did not believe and we would agree that we do not have the capacity to manage 19 individual programs, nor did they have the staff to review and approve 19 additional programs on top of everything else that they're doing with all of the other states.

MR. HUDSON: Yeah, so I don't think that's what I'm asking. So do we make the -- our selection criteria public?

MS. RICHARDSON: There was a public RFP that put out the criteria, had the criteria.

MR. HUDSON: And all that -- and we weighted the importance of different variables?

MS. RICHARDSON: Um-hmm.

MR. HUDSON: And so people had, I guess, requisite notice of how we were going to rank these based on the RFP proposal -- RFP criteria?

MS. RICHARDSON: Um-hmm. And we've been in contact with a number of the applicants asking follow-up questions.

MR. HUDSON: And let's say we submit four and Treasury accepts three. Are we going to report the four that we submitted or just the three that Treasury accepted?

MS. RICHARDSON: We're going to report the three that Treasury accepted.

MR. HUDSON: You know, I'm thinking that may be a great idea. I guess I don't know. What's the theory? If we submitted more and Treasury approved less, I would think we did -- we did more to be inclusive than Treasury did, and why would we not want people to know that? Or is Treasury saying don't let anybody know until we're finished with the process?

MS. RICHARDSON: Yeah, I mean, Treasury doesn't really want us to disclose anything until it's completely done. And, quite frankly, we think that if some of the -- some of the proposals might get approved up-front and then turn out not to be successful, and we want to sort of have the ability to resubmit some of the other proposals and kind of, you know, go for a plan B, see if we can, you know, maybe tweak them a little bit.

MR. HUDSON: Yeah. So I guess my final comment on this is I prefer an open, transparent process, and what I hear you saying is that Treasury does not want an open and transparent process, so our hands are tied in terms of an open, transparent process; is that correct?

MS. RICHARDSON: I don't -- I -- I believe that Treasury has asked us, as they did with our original proposal, to not say anything about any of the proposals while they're in the deliberative process, until final decisions are made. That's been their -- that's sort of been what they have asked us to do, because they want to be able to ask questions and suggest changes. And, you know, it might not look like what was originally submitted, and they want to be able to sort of have that -- be able to have that dialogue with us.

MR. HUDSON: Yeah, so that sounds pretty clear to me. For the record, it sounds to me that Treasury wants a less transparent process so that they can deliberate and decide without a whole lot of open public scrutiny and that they'll make their decisions and let you know what their decisions are, and then we will report those decisions to the public.

MS. RICHARDSON: Right. I can -- I can tell you that there have been a number of applicants who've already contacted Treasury in support of their own proposals. Treasury -- and so there's nothing to prohibit anybody from -- from doing that, whether --

MR. HUDSON: Right, but I assume, what you're saying, people don't know if their proposals have been sent to Treasury. They can call Treasury, but they don't even know if Treasury has their proposal.

MS. RICHARDSON: That's right.

MR. HUDSON: Okay. Thanks.

MR. SPEARS: Mr. Hudson, the only thing I would add is it's -- I think it's important to remember that the criteria that was put into the RFP was based on what Treasury would like to see in the way of projects coming back, so -- so in a way, you know, we've let everybody know what Treasury is interested in. Some of the proposals that we reviewed were very responsive to those published criteria. Some were not very responsive at all. Some were just completely off the mark. And -- and I think what Di is saying is that the ones that are most responsive that go to the top of that list are the ones that are going to go back.

Now, if Treasury -- Treasury's going to deliberate on those. And I think what they want is the ability to come back to us at any time and say, "We'd like to see more." But they really want to do this based on the applications that were submitted and not anything more than that at this point.

MR. HUDSON: Yeah, but just so we're clear, the criteria is very transparent and very open. Everybody knows about it. It's all clear. It's up-front. And everybody can submit proposals per those criteria or not, depending on their choice, and they'll -- and then we -- based on their responses, we'll -- we have made -- so -- so that process is all open and transparent.

From that point on, it is really -- it's based on Treasury's direction. We have basically not been communicative of which ones we thought were the best to submit to Treasury, which ones we submitted to Treasury and which ones didn't get and why. And then when Treasury makes a decision, we'll just report out what Treasury decided.

MR. SPEARS: That's right.

MR. HUDSON: And that's basically Treasury's call, and we're just complying with Treasury.

MR. SPEARS: Yes, sir.

MR. HUDSON: All right. Thank you.

ACTING CHAIRPERSON CAREY: And, you know, I think from a Board perspective, I think that my own perspective was that at some point in the process we, in essence, determined that this was a -- a process to be carried out by the staff and that the Board was not the -- the awarding body or the reviewing body for the --

MR. HUDSON: The Board was not.

ACTING CHAIRPERSON CAREY: Was not the reviewing body for the applications, so I think that subsequent to that and however clearly we thought through it, I think this is an unusual process for CalHFA --

MR. SPEARS: It is.

ACTING CHAIRPERSON CAREY: -- to have. And it may be in future processes we may want to think about how those processes are handled, but it does seem to me that we basically said this is run internally and that we are -- we have the concept and we'll get the results, was my perspective.

MS. MACRI-ORTIZ: Yeah, I can see that's one issue. And I think the other issue is, okay, at the end of the day, what happened? I think the public does have a right to know. And if it's during the process, it's confidential until it's done, that's one thing, but at the end of the day, I think, you know, we got these proposals, these were rejected, these were passed on, and of the ones we passed on, Treasury picked those. I think that, at a minimum, we should be able to disclose.

ACTING CHAIRPERSON CAREY: I certainly agree with you on that.

Yes, Ms. Jacobs.

MS. JACOBS: I'm totally supportive of the staff doing all the work and making all the decisions and recommendations on this. But I think -- I think it's very important that we have as public a process as possible in everything that we do at CalHFA. And, you know, I don't know if we have to -- have to ask for that to be put on an agenda to make a motion about that, but I think it's really important for the Board to be clear that when public processes are appropriate, we want to have public processes. I think what the staff is doing on this is perfect, but --

MS. RICHARDSON: And let me say, if I wasn't clear, we absolutely plan to tell every applicant, you know, either your -- your application was denied and, you know, why we didn't send it forward. I mean, it's not -- they're not going to know why we made the decisions we made to send things forward that -- we don't believe that serves anybody well. We -- you know, there are -- there was criteria. We do have reasons. People will be notified of what those decisions are once the decisions are final.

ACTING CHAIRPERSON CAREY: Further comments? Questions?

Okay. Thank you, both.

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Item 11. Public testimony

ACTING CHAIRPERSON CAREY: With that, we are going to adjust our agenda. Normally we take public testimony at the end of the agenda, but given the -- the number of people here to speak about the Hardest Hit program -- should we do that -- I'm sorry, just thinking -- before the New Issue Bond? Yeah, I think so. You answered my question.

We will go ahead and allow -- what I'd like to ask is if we could keep the presentations to within a 15-minute time frame. We do ask that anyone coming to speak state their name clearly because this is a transcribed meeting, and we need names for the record. Be brief, not repetitive, and just in case we have an enthusiastic crowd, I'd ask for no applause, just in the sense of keeping things moving along. With that --

MR. HUGHES: Mr. Chair, I'd just --

ACTING CHAIRPERSON CAREY: Yes.

MR. HUGHES: -- throw in there that while we do request the names of speakers, under the State's open meeting law, they're not actually required to provide that if they choose not to, and we follow that rule as well.

ACTING CHAIRPERSON CAREY: Great. Okay.

MS. RICHARDSON: And would you like us to stay or go? Stay close.

ACTING CHAIRPERSON CAREY: Why don't you move over to the side of the table, yeah.

With that, we would invite our speakers forward.

MS. PETERS: Mr. Chairman, before we get started with this may --

ACTING CHAIRPERSON CAREY: Yes.

MS. PETERS: -- I discuss just process?

ACTING CHAIRPERSON CAREY: Yes.

MS. PETERS: You did indicate that you hoped to keep this section of the agenda to 15 minutes, and I second that. There is time for public comment at the end of the agenda, and I would recommend that we keep this portion where we're giving special consideration to folks out of courtesy to 15 minutes. If there is anyone who is unable to speak in the initial 15 minutes who still wants to be heard, that they be heard at the normal time for public comment.

ACTING CHAIRPERSON CAREY: Sounds reasonable.

MS. PETERS: Because otherwise I'm afraid that we might be way off with it.

ACTING CHAIRPERSON CAREY: Okay.

MS. PETERS: But everyone who wants to be heard can be heard.

ACTING CHAIRPERSON CAREY: Thank you. That's an excellent suggestion.

Okay. With that, we'll start the clock now.

FATHER FRANK: Good morning, Mr. Chairman, Members of the Board.

My name is Father Thomas Frank. I'm the pastor of St. Brigid Church in South Los Angeles, and I am a leader of One LA-IAF of California.

I would like to recognize all of the leaders of One LA-IAF of California and ask them to simply silently stand before you at this time. They did already. Praise God, Creator of all.

With me are a number of collaborators and folks who are representing public officials who we have been busily working with with regard to the resolution that is before you today.

Today marks the second anniversary of the collapse of Lehman Brothers and the financial crisis that caused millions and millions of home foreclosures not only in California, but in the United States. Two years on there's still no workable plan to address the foreclosure crisis that threatens millions of families and thousands of communities and the viability of hundreds of banks, including CalHFA.

The Board of CalHFA has been given a sacred charge: To exercise fiduciary responsibility now for not just several hundred million dollars but more than a billion dollars, as you've just heard today, for the Hardest Hit Fund and also for those who are unemployed.

IAF has worked very, very, very hard to help develop a plan that will benefit as many people as possible. Let's face it. There are more than hundreds of thousands, 300,000, folks who have had their homes foreclosed in this state, and we know that these millions of dollars will not even be able to help all of them. Hopefully, we can help tens of thousands in order to be able to secure their homes.

And not only do we need to secure those tens of thousands, but there is, according to Stephen Levy, of the Center of Continuing Study for California Budget, the loss of 600,000 jobs for Californians where we are experiencing extremely high unemployment due to these home foreclosures. And until they're cleared out, those jobs cannot come back in the construction field.

We will not rest until a workable plan that addresses the interest of responsible homeowners is enacted by both the government and the banks. We have studied the CalHFA Principal Reduction plan. We've discussed it with our public officials, and you will hear from them today. They are at this -- represented at this table, and we recognize and appreciate their support, not only of our plan, but of the efforts to bring home foreclosure mitigation and home foreclosure reductions.

At stake is the health and livelihood of hundreds of thousands of homeowners. At risk is the future of the California economy. We believe that Wall Street has been helped. We believe we have a stake in helping Main Street be helped as well.

I now turn to our colleagues now in this effort.

MS. DUSSEAULT: Good morning.

My name is Sarah Dusseault. I'm policy director for the Los Angeles City Council president, Eric Garcetti. I'm here on behalf of our office, but I also want to recognize that Ackley Padilla from Councilmember Alarcon's office is here as well. You also have in your packet a letter from the mayor of the city of Los Angeles making some of the similar -- similar remarks to what I will make.

Our concern here today with the current proposal that CalHFA is considering with respect to the Hardest Hit housing funds is that you're -- we're not going to be able to help the number of families that we need to help with the provisions that are currently set forth.

We have developed some innovative strategies in L.A. We've been working on a pilot for some time with the members of One LA and the Los Angeles Housing Department. And what has been beautiful about this process is they've really gotten into the neighborhoods and talked to people and have specific data. And there's an example of a mortgage refinance in your packet that shows a specific example, and it is extremely common.

We've looked at many, many different families, and the reality is that we need to pay banks the net present value of that debt. We do not need to write down debt at a higher level. If we do that, we're not going to be able to help the families of Los Angeles that we need to help, and we're not going to be able to reach the people we need to help. And at the end of the day, they're not going to have a mortgage refi that puts them in a situation to not be at risk of foreclosure in another year or year after that.

So we -- we'd urge you to look at this data, to look at the specific policies and how they're going to be -- affect the families of Los Angeles. We think this is a reasonable approach.

You're offering banks -- you know, 6 to 21 cents is what this debt is worth. It is not worth up to 50 cents or more on the dollar. It is simply not worth that. These -- this is what market value is telling us. So we need to look at those -- those dollar figures and figure out how to reach the most families possible.

I also just wanted to add on the other comment about public process and the innovative grants for the RFP. I really appreciate the comments about your Agency being committed to a public process. I think we are going to urge on the behalf of the City of Los Angeles that we do more with respect to that piece. And I think if the Department of Treasury were here today, they might have different comments on that, because I know that, you know, even under Public Records Act requirements we're going to be able to get more data than that.

So we're going to be looking for a very public process in all regards, whether it's the innovative fund or it's the 700 million. And we want to make sure that the programs that we employ reward innovation and that we are as frugal as possible, that we really negotiate on behalf of our taxpayers and our constituents to meet the most people possible.

MR. SANCHEZ: Good morning, Chairman and CalHFA Board Members. My name is Marcos --

MS. PETERS: Excuse me. Bring the microphone closer.

MR. SANCHEZ: My name is Marcos Sanchez. I'm here on behalf of Assemblymember Felipe Fuentes.

I'm here today to express my opposition to the California Housing Finance Agency's Hardest Hit -- Hardest Hit Fund plan. As currently written, it will set bad policy for the State of California and violate the mandates of the Emergency Economic Stimulation Act, EESA, of 2008.

As you're aware, EESA gives rise to the -- to and funded the Troubled Asset Relief Program, TARP, and the source of the Hardest Hit Fund that the United States Department of Treasury has allocated for CalHFA. Collectively we must ensure that California implements a plan that will use taxpayer funds wisely and do not leave the homeowners severely underwater after public investment and using rational measures, the net present value to retire underwater mortgage debt as outlined under HAMP, Housing -- Home Affordable Modification Program guidelines.

I believe that the proposed CalHFA plan does not meet these standards for various reasons, one being by imposing a 120-percent minimum loan to value on a first mortgage after CalHFA modification, the CalHFA plan fails to ensure that after substantial public investment California homeowners are still not left -- are still not left with severe negative equity. This failure to seriously address homeowners with severe negative equity promotes instability of our housing market and is likely to result in homeowners eventually defaulting and losing their homes to foreclosure.

In conclusion, I strongly urge you to consider the criteria similar to those proposed by One LA Principal Reduction Plan, which meets the values set by EESA. California State Treasurer Bill Lockyer, the entire Los Angeles City Council, Assemblymember and Banking Chair Mike Eng, Assemblymember Fuentes, and other legislators have given their support to their plan. Join us in supporting and funding the One LA plan and its best interest for all of California.

Thank you.

ACTING CHAIRPERSON CAREY: Thank you.

MS. UNG: Good morning. I'm here -- my name is Nicki Ung. I'm here representing Assemblymember Mike Eng from the 49th Assembly District. He also -- the Member also sits as the chair of the Banking and Finance Committee in Sacramento. He writes in a letter:

Dear, Mr. Spears and Members of the CalHFA Board of Directors. I write to you for two reasons. First, I want to thank you for the diligent work in developing a plan to help keep California's families in their -- in their homes. As you know, the national and California housing markets are still struggling to recover from the foreclosure crisis. According to some estimates, there have been over 200,000 completed foreclosures in California since the beginning of 2010 alone, and the CalHFA's efforts are critical to addressing the situation.

Second, I would like to share some concerns that I have with CalHFA's proposed Hardest Hit Fund plan and shed light on some alternative strategies that may assist CalHFA's efforts to develop a mortgage relief plan that will resolve the state's housing market crisis.

EESA, as mentioned before, requires us to implement programs that minimize the impact of the national debt, maximize overall returns, and protect taxpayer interests. It further dictates the consideration of the net present value to the taxpayer when purchasing troubled mortgage debt and prevents unjust enrichment of financial institutions.

Additionally, the CalHFA plan excludes many long-term homeowners by disallowing the participation of anyone who receives a cash-out refinance regardless of the amount and/or purpose of the cash-out refinance. We cannot begin to solve the current economic crisis facing our nation and our state unless we first begin stabilizing the housing market.

I urge you to also consider other alternatives to the CalHFA approach, such as the One LA principal reduction plan which meets the values and priorities established in EESA. California's State Treasurer Bill

Lockyer, the entire Los Angeles City Council, Assembly Appropriations Committee Chair Felipe Fuentes, other legislators and I have all given support to this plan. I urge you to join us in supporting and funding the One LA plan because it is in the interest of all Californians and will help meet our goal of stabilizing California's housing market.

Please let me know if I or my office can provide additional information or assistance. Please keep me informed as CalHFA develops a more effective California mortgage relief program.

Sincerely, Mike Eng, Assemblymember 49th District.

ACTING CHAIRPERSON CAREY: Thank you. I'm not sure we have a copy of that letter.

MS. UNG: We don't. I wasn't able to make a copy for everyone. I will do that and forward that over to all the Board of Directors.

ACTING CHAIRPERSON CAREY: If you can just leave the one copy with --

MS. UNG: That would be great.

ACTING CHAIRPERSON CAREY: That would be great. Thank you.

MS. UNG: Thank you.

MS. WAYNE: Good morning. My name is Rebecca

Wayne. I'm the district director for Assemblymember Ted Lieu. Assemblymember Lieu is unable to be here. He has reserve, Air Force Reserve, duty today. I'm here representing him, and I'll read the following statement on his behalf:

During the 2008 mortgage meltdown and subsequent housing foreclosure crisis, I was the chair of the Assembly Banking and Finance Committee. In that capacity I was very proactive in trying to create solutions for the foreclosure crisis. I authored and introduced legislation that directly benefited people in danger of losing their homes to foreclosure. I was able to shepherd the California Foreclosure Prevention Act all the way to the Governor's desk and proudly celebrated when he signed this bill into law last year.

The California Foreclosure Prevention Act was an important step in addressing our foreclosure crisis, but it is critical that we remain vigilant about keeping people in their homes as this crisis continues. That is why I want to give testimony today regarding the California Housing Finance Agency's Hardest Hit Fund plan.

I would like to commend the California Housing Finance Agency for addressing our ongoing foreclosure issues and working to assist the hardest hit communities. I agree with CalHFA's focus on principal reduction as one of the most important components of actually keeping people in their homes.

One of the goals of my foreclosure prevention legislation was to urge lenders to work with their customers to develop loan modification plans. That way these homeowners can proceed on an agreed-upon path to reducing their debt and have a chance at paying off their homes, rather than walking away from their homes because they owe so much more than the worth of the property.

I also want to commend Neighborhood Legal Services for their diligent work on the foreclosure crisis. They are the folks who are on the ground talking with homeowners and victims of the housing meltdown. They are on the front lines every single day, and I thank them for their work.

As I understand it, however, the California Housing Finance Agency's Hardest Hit Fund plan does not adequately address the needs of struggling homeowners, while providing a windfall to the banks. I oppose this plan as currently written for the following reasons --

I'm only going to go over one reason because my colleagues here are going to talk about some of the other reasons.

-- First, the plan provides taxpayer funds to pay financial institutions 50 cents for every dollar of principal reduction, and in some cases banks will get $50,000 in taxpayer funds to reduce principal without investing any of their money to reduce principal any further. This is good for the banks, but based on the directives recently issued by the federal government under the Home Affordable Modification Program supplemental directive 10-5, mortgage debt today is worth anywhere from 6 to 21 cents on the dollar. A program that will pay 50 cents on the dollar is a waste of taxpayer money and a giveaway to the banks. I don't support this --

The other reasons are going to be covered by some of my other colleagues here.

-- In conclusion, I fully support well-crafted policies and programs to keep people in their homes and to provide homeowners incentive to pay off their loans. I ask California Housing Finance Agency Board to consider the One LA principal reduction plan, which better meets the needs of our hardest hit communities.

Thank you for your time and consideration of my requests. Assemblymember Ted Lieu.

ACTING CHAIRPERSON CAREY: Thank you.

MR. LUNDHOLM: Hello. My name is Dean

Lundholm. I'm a leader with COPA, Communities Organized for Relational Power and Action that covers -- an IAF organization that covers Santa Cruz and Monterey Counties.

We -- COPA has met with the housing chief for Santa Cruz County, and he is interested in an innovative program for the county. And the -- the local governments are the place where innovative solutions will arise. One size fits all will not be as efficient in spending our money as allowing people who are close to the problem to work on the problem. So I encourage you to reconsider this -- to consider and reconsider, actually, the -- increasing the funds for the innovative programs.

COPA has also met with Congressman Farr, and he supports the One LA and IAF changes to the -- to the current program.

And I'd like to just close with reading -- I have a letter, actually, from Sam Farr. I'm going to read one sentence from it:

The residents of California who are suffering from our economic recession and the families who are threatened with losing their homes to foreclosure deserve better stewardships of taxpayer funds.

Thank you.

ACTING CHAIRPERSON CAREY: Thank you.

MS. ROLAND: Good morning. My name is Yvette Roland, and I speak to you this morning on behalf of the California Association of Black Lawyers, the Black Women Lawyers Association of Los Angeles, and certainly as a One LA leader in South Los Angeles.

I'd like to ask you to consider -- first of all, we join in the comments previously made this morning by others and -- regarding the CalHFA plan, but I'd like to direct your attention to one particular aspect of the plan as it's currently structured. At this point the plan would exclude thousands -- thousands -- of California homeowners who have been the victim of predatory lending in California.

By excluding homeowners who refinanced and took cash out of their homes, even though they did that subject to loans that are known to have been predatory lending loans, this eliminates numerous individuals who have been -- who are targeted for unaffordable and unsustainable loans and who were victims of predatory lending.

There have been reports, such as the report prepared by the Center for Responsible Lending, that these were -- some of the loans, the refinances that resulted in cash-outs of equity of the homes, were some of the primary drivers of the current foreclosure crisis. And without including those individuals in the CalHFA plan, we cannot hope to really successfully address and resolve the foreclosure crisis in California.

For example, the California Center for Responsible Lending report states that 60 percent of the subprime loans that were refinanced subprime loans between 2004 and 2006 were loans that were of a predatory nature.

In addition, between 2005 and 2008, of all of these foreclosures that took place in California, 64 percent of those foreclosures were foreclosures that resulted from predatory refi cash-out loans. So we cannot hope to resolve this issue without including this large group of distressed California homeowners.

We're not asking you to develop a new formula. We're not asking you to determine what is a predatory loan and what isn't. We're not asking you to determine which homeowners cashed out based on their use of it and having been targeted by predatory lenders. What we're asking you to do is to use the criteria already established by the California Attorney General.

The California Attorney General in connection with the Countrywide settlement identified those loans in California which are predatory loans. We propose that you include California homeowners who refi'ed and cashed out subject to those predatory lending vehicles identified by the California Attorney General and that those individuals should be included if they obtained pay option ARM loans with negative amortization, loans that would increase, for example, each month if a borrower made only a minimum payment, subprime mortgage loans that combine higher risk features than risk borrower profiles with -- these are not criteria that are -- let's see -- they're criteria that are transparent. We talked about transparency before.

We encourage you to take a look at the California Attorney General's Web site that identifies in the stipulation and judgment in the Countrywide settlement that identifies those loans that are predatory loans.

We have -- we know that if we do not get this right, if the CalHFA Board does not get this right, California's families, California's economy, and California's homeowners will suffer.

As Assemblymember Speaker Emeritus Karen Bass stated in her letter directed to the CalHFA Board -- and you should have a copy of that letter in your packet -- the CalHFA plan excludes many long-term homeowners by disallowing participation of anyone who received a cash-out refinance, regardless of the amount and/or purpose of the cash-out refinance. As we all know, the current economic crisis, which is felt keenly in our state, will not begin to be solved until the housing market is stabilized. The CalHFA plan falls far -- falls way short in helping to meet that goal.

I'd also direct your attention to the letter in your packet from Los Angeles City Controller Wendy Greuel addressing the same issue.

It is California's duty to set policy on this issue. It is your duty to implement a plan which does not waste taxpayer dollars. It is your duty to implement a plan which -- that -- that has a policy that will not allow -- that will not allow banks to be paid more than the net present value for the reduced principal. And it is certainly your duty to include substantial groups of California homeowners who have been targeted by predatory lending practices. You set the policy. We are counting on you to get it right.

Thank you.

ACTING CHAIRPERSON CAREY: Thank you.

We have reached a little bit beyond our 15 minutes, and certainly appreciate all of the comments made, particularly from the staff of the elected officials.

Does anyone have any quick questions or --
Ms. Peters.

MS. PETERS: I'd like to thank all of the speakers for doing such a wonderful job in getting what you have to say out and being so well-coordinated and so organized. That was one of the most concise, well-coordinated sets of testimony I think I've ever seen, so thank you for being so respectful of our time and doing as much work as you had in advance coordinating with each other.

I have just a quick question for -- and I don't know whether the same folks are here that were here last time, but the last time the One LA program came to speak to us, they were still under negotiations with the banks, and I was wondering if anyone could speak on behalf of the program to let us know if the banks have finalized their negotiations and committed anything to paper.

MS. MARIAJIMENEZ: We have -- my name is Yvonne Mariajimenez, deputy director for Neighborhood Legal Services of Los Angeles County.

And all operational tools have been completed with Bank of America. We are also in negotiation with one other major bank, Chase. We are right now in discussions with a memorandum of understanding with regard to nondisclosure, which is a real issue.

We really feel that the California Housing Finance Agency plan undermines the negotiations we've had with our two major lenders because under the California Housing Finance Agency plan, the banks will receive 50 cents on the dollar, whereas our plan, as supported by the Obama Administration under the Home Affordable Modification Program directives that were just issued in June, indicate that mortgage debt today is worth 6 to 21 cents on the dollar, and that is what our program provides. So we do feel that the banks are waiting for the CalHFA plan to be implemented because they will receive the 50 cents on the dollar.

Also, looking at the policy question, the legislation that gave rise to Tarjley is --

MS. PETERS: We're not discussing the policy question. We've had a lot of testimony on that. I just wanted to know, simply, whether the banks had signed any agreement with you to fund your program yet.

MS. MARIAJIMENEZ: We believe that they are stalling because under the California Housing Finance Agency plan they'll receive more money.

MS. PETERS: Okay. On that note, when you folks were last here, I asked you to set up a meeting between your bankers and our staffers to discuss the CalHFA possible escalation of your program and scaling up. Have you set up that meeting?

MS. MARIAJIMENEZ: There has not been agreement for the banks to approach CalHFA.

MS. PETERS: Have you asked them to?

MS. MARIAJIMENEZ: We've -- we've mentioned it to one of the major lenders that we're at the end of negotiations with, and that has not been set up. I did call --

MS. PETERS: Well, I'd like you to --

MS. MARIAJIMENEZ: I did call the office --

MS. PETERS: -- please commit to set it up for us.

MS. MARIAJIMENEZ: Yes. I did call the office of the California Housing Finance Agency to set up a meeting, however, because Neighborhood Legal Services has -- is a partner in the proposal submitted under the innovative fund with the City of Los Angeles, I was advised, I think properly so, that the staff could not meet with us because we have a proposal before the California Housing Finance Agency plan. So I do want to raise that, as I believe --

MS. PETERS: Thank you. I appreciate that. That's very important, that we follow proper procedure.

I don't think there's anything stopping the staff from meeting with the banks, though, so if you could facilitate that, I think --

MS. MARIAJIMENEZ: And I think they have. I think the -- the banks have advised us that they have been meeting with the California Housing Finance Agency.

MS. PETERS: Thank you. That's all I need.

MS. MARIAJIMENEZ: Thank you.

ACTING CHAIRPERSON CAREY: Mr. Hudson, did you have a --

MR. HUDSON: Yeah.

ACTING CHAIRPERSON CAREY: -- comment?

MR. HUDSON: This is for staff. Refresh my memory. How much money did we get total?

MS. RICHARDSON: We received almost 700 million in the first allocation and an additional 700 -- I'm sorry, 476 million in the newest allocation.

MR. HUDSON: So let's say a million-two.

MS. RICHARDSON: Right.

MR. SPEARS: Billion.

MS. RICHARDSON: Billion. B.

MS. PETERS: A billion-two. You said a million-two.

MR. HUDSON: Oh, I said a million-two? 1.2 billion. And our estimate is that that would -- under our plan, that would meet the need of what percentage of the folks that need help in California?

MS. RICHARDSON: Well, we don't think it's going to help everybody. I mean, we've said that from the very beginning. I -- I can look at our term sheets if, you know -- and tell how many people we think we're going to help under each of the programs as proposed, but I -- I don't know off the top of my head what percentage that is of the total number of people that are -- that are having problems.

MR. HUDSON: So we don't have any rough estimates of what we think the dollar amount of the problem is.

MS. RICHARDSON: I don't -- I don't -- I -- we do, I just don't know it off the top of my head.

MR. HUDSON: Does Steve or anybody know what it is?

MR. HUNTER: There is a number in the staff report. And my question is -- it's 35,000 unemployed borrowers, but I don't know if that just refers to the new 400 --

MS. RICHARDSON: No, that just --

MR. HUNTER: -- million or if that's the total.

MS. RICHARDSON: That's how many borrowers we believe we're going to help with the allocation that we were given for the unemployment dollars. That doesn't relate to the total number of borrowers that are in, you know, 90-plus days delinquent or however you want to define it. I just don't have that number in front of me.

ACTING CHAIRPERSON CAREY: And just to clarify, that -- that second allocation of 476 million is strictly for the unemployment program, right?

MS. RICHARDSON: Yes.

ACTING CHAIRPERSON CAREY: Not the --

MS. RICHARDSON: Um-hmm.

MR. HUDSON: Okay. Then here's my sense of it. I believe that when people testify before agencies, it's important to have a dialogue, but it's not a -- it's not a -- you can't -- it's hard to have a dialogue, so what I'm going to do is I'm going to pose questions that I would like if people stay for the public comments afterwards to respond to as a way of having some sort of dialogue. So I'm assuming that we don't have enough dollars to solve the problem in California.

MS. RICHARDSON: That is correct.

MR. HUDSON: So there is a policy issue for me that I would like the public to respond to and that is a policy issue that says if you do cash -- there's three questions. One, if you do cash out per the California

AG's predatory lending guidelines and you assume there's not enough money to solve the problem, then there's a policy issue that you have to make when you expand the program to cash out.

My understanding is if you expand it to cash out, then you're going to have to shrink it from somewhere else. That's a policy issue, and I'd like guidance from the public on how you would -- how you would -- how you would have us solve that dilemma.

The second question is from a policy issue, people talked about negative equity that borrowers have. And the policy issue is is California trying to use their money to remove people's negative equity or to provide affordability for their ability to pay their loans? They're not the same.

The third question is, and I think it got answered, this 61 -- 6 cents to 21 cents is a function of the banks' willingness to accept 6 cents to 21 cents. I'm not convinced they'll accept 50 cents, but what I think the answer to that part -- but you can speak to this anyway, but I think the answer I heard is that the banks won't have a dialogue with anyone as long as California -- CHFA is giving -- is offering a 50-cents-on-the-dollar proposal.

So my theory of I don't think they'll accept 6 to 21 cents, you're saying, well, we'll never know because you're offering 50 cents on the dollar, and that's something I have to think about.

But I'm -- here's the policy issue that you can address: I'm very concerned that we could have a program that nobody takes because we could have a program, if the banks don't accept it, it's no program. It helps no one. So -- and we have no authority to force banks to take a program. So you can have it -- it's like you can have a party and nobody comes. And we have no authority, regulatory or otherwise, to force them to take the 6 cents and 21 cents, which our program requires.

Now, we could have a -- we could do something else. We could have a range, say the minimum is 6 cents and the maximum we'll do is 50 cents, and then everybody is going to come to us with a 50-cents offer. So you -- to make this work the way you want it to work -- and you can address all these questions when you come back -- you almost have to say, hey, take 6 cents or don't take this program, because when you start giving them variables up to 50 cents, as a banker I can tell you I'll figure out a way to get to the 50-cents number because that's in my best interests to do that.

So if -- if -- at -- when it's appropriate at the end of the day, we can get public comments again, I'm going to stay till you guys are finished talking to respond to those questions, and I would appreciate it. Thank you.

ACTING CHAIRPERSON CAREY: Any other --

MS. RICHARDSON: Can I --

ACTING CHAIRPERSON CAREY: -- comments or questions from the Board members?

MS. RICHARDSON: Mr. Chairman, if I -- if I could just add a couple of things to that.

I will tell you that we -- we did have a lot of discussion about, you know, what -- you know, what the match requirement would be, and I think we discussed this last time, that we did not believe we would have sufficient participation from the banks if it were too low. And having a program that offered, you know, 10, 20 cents on the dollar and nobody paid, no borrowers get helped, and that was an issue.

I -- I understand that they feel that we've undercut them. That clearly was never our intent. And, in fact, we're hoping -- you know, the goal here is to have two programs out there, figure out what works and then, you know, move money and pay for the one that is the most successful. The goal is to help as many borrowers as possible.

Also, with regard to the banks, as I said in my opening comments, the, you know, Treasury just gave more money, and now, I mean, first there were five states, and then there were ten states, and now there are 18 states, and the banks have made it very clear to us that they just do not have the resources, the platforms, whatever, to do 18 different programs. So they're looking to the state HFAs to come up with some uniformity amongst ourselves in order to make these programs so that they can administer these programs across the country to the states that have the money.

So it's not simply a matter of CalHFA versus the One LA plan. I think we all have to get our toe in the water and -- and do what we can.

MS. CARROLL: Mr. Chairman?

ACTING CHAIRPERSON CAREY: Yes, Ms. Carroll.

MS. CARROLL: Thank you.

And, Di, thank you for that because you did touch on something that I did want to ask our own staff, and that is working with banks every day, as I do in my position with the Treasurer's Office, I know that they are very concerned about what happens on the national level. And we work with a lot of national banks. I'm sure CalHFA is working with a lot of national banks.

And so the question is, it seems to me, that it's going to be difficult to get to any program unless it's sort of implemented on a national level. If you have a national bank that is -- has one program in one state and another program in another state, that -- it creates a difficulty.

So my question is in working with the federal government, are they trying to work with the states to create some equity in terms of --

MS. RICHARDSON: Yes.

MS. CARROLL: -- how the program --

MS. RICHARDSON: Yes. You'll remember when the program was initially announced, I think they were looking for as much diversity as possible so that they could, you know, again, also have sort of a plethora of programs and see what was working and then maybe replicate that among the other states.

It's just turned out that it -- it is impossible. The HAMP program, obviously, is -- is the big gorilla in the room. That's the one that the banks are using all their resources for. That's the one they've got to comply with.

And so, you know, the farther you move away from that, the harder it is for them to comply. There's different reporting requirements, you know, again, different -- different platforms. You heard us talk about sort of, you know, the machinations we're putting Springboard through to get all of our stuff done. And we're actually having a meeting next week to see if we can come up with some more commonality amongst the unemployment programs, since that's really a very key program across the country.

And then we'll be -- we're also having conversations with Nevada and Arizona about ways that we might be able to -- you know, pieces of our principal reduction program that we might be able to standardize. So that wouldn't be a national program, but it would at least be regional, and it might be easier for the banks to do.

ACTING CHAIRPERSON CAREY: Ms. Macri-Ortiz.

MS. MACRI-ORTIZ: I have, I guess, a question and then something that can be addressed in the second round.

On this 50 cents on a dollar, I want to understand more thoroughly the HAMP regulation because I'm looking at this letter from Sam Farr, who is a member of Congress so you think he might know what he's taking about. He says: I'm advised the federal guidelines issued pursuant to the Housing Affordable Modification Program currently value underwater mortgage debt from 6 to 21 cents on the dollar, depending on a variety of circumstances.

If we are trying to get some federal consistency and if HAMP has actually said when you're doing modifications this is your range -- and I realize this probably has come out after you started working and -- but I guess my question to staff is based on these new guidelines, do we have the ability or is our analysis maybe we need to look at it again to see if that 50 cents arbitrary top -- because I totally agree with the banker that the highest amount you're going to put out there is the amount everybody is going to want. But if we can model it as much as possible --

MS. RICHARDSON: I would say two --

MS. MACRI-ORTIZ: -- according to the HAMP guidelines --

MS. RICHARDSON: -- two things in response to that. First of all, Treasury reviewed our programs for compliance with EESA. They underwent legal review for compliance with EESA, and they determined that they were compliant.

The 6 to 20, 21 cents on the dollar, which is HAMP, I don't think there's anyone that will jump up and down and say that that's been a roaring success to date, and we're looking for a way to --

MS. MARIAJIMENEZ: It hasn't been implemented.

ACTING CHAIRPERSON CAREY: We're -- no dialogue from the audience, please.

MS. RICHARDSON: You know, they're offering HOPE -- HOPE Now or HOPE for Homeowners I guess it is. The HOPE for Homeowners was the same sort of formula, and it wasn't a roaring success.

We want to help borrowers stay in their home, and it's a delicate balance, and we're looking for the magic number. I'm not saying it's 50 cents. It might -- you know, we're going to -- we're going to get what we can get. We have -- you know, we have -- we cannot force a bank to match anything. We cannot force anything, so --

MS. MACRI-ORTIZ: So basically we're in a game of chicken, okay. And that's the way -- and that's what it is because we have money that the banks want. Okay. But they are going to hold back. And I think maybe we have to figure out a little finesse so that we can better play a game of chicken to get a little bit more. And I don't know. That's very --

(Applause.)

ACTING CHAIRPERSON CAREY: Please. I ask no applause, even for us.

Okay. Are there other further comments from Board members?

MS. MARIAJIMENEZ: Mr. Chair, if I could respectfully request that we could quickly answer Mr. Hudson's questions that he posed, and I believe if we could do that now rather than waiting till the end of the meeting. I think we could very quickly respond to Mr. Hudson's questions.

ACTING CHAIRPERSON CAREY: How quickly?

MS. MARIAJIMENEZ: Very quickly. Two minutes. Two minutes.

MR. HUDSON: Let me just interject. That's fine with me. If you do it now, there's no chance for a dialogue. If you do it at the end, there's a greater chance for a dialogue because we can all stay, you can all stay. I can tell you now you can answer the questions, but I'm going to respect the chairman's wish and I'm not going to -- I'm not going to do any follow-up questions. So however you want to handle it. I mean, it's up to the chairman. I'm just letting you know that that's -- it won't have the best outcome, but you can --whatever the chairman decides.

MS. MARIAJIMENEZ: If we -- if we have a quorum left, that would be great. If everyone is running for an airplane --

ACTING CHAIRPERSON CAREY: Yeah, I'm a little --

MS. MARIAJIMENEZ: -- we may just be talking to you.

ACTING CHAIRPERSON CAREY: I am a little concerned about plane schedules that several folks have talked to me about, flight schedules and such.

MR. HUDSON: But when you're talking about a quorum, though, you're not going to get a decision. We're not going to make --

MS. MARIAJIMENEZ: I understand.

MR. HUDSON: We're not going to take any action today.

ACTING CHAIRPERSON CAREY: Right.

MS. MARIAJIMENEZ: It's just an audience.

MR. HUDSON: Okay. But we are --

ACTING CHAIRPERSON CAREY: But we are a public meeting. We'll have to stay on the record.

MS. MARIAJIMENEZ: Yeah.

MS. PETERS: Let's do the two minutes and then --

ACTING CHAIRPERSON CAREY: Let's do the two minutes --

MS. PETERS: -- anybody who wants to stay, stay.

ACTING CHAIRPERSON CAREY: -- and then we'll play it as it lays at the end.

MS. MARIAJIMENEZ: Very quickly, with regard to your first question on cash out, as Ms. Roland testified, the -- there are criteria already set by the California State Attorney General's Office to use on the refinance parameters.

We all know there's not enough money to even help anybody who right now would qualify under the eligibility standards that are set out by the California Housing Finance Agency. What could be done is that a portion of that 500 million that CalHFA is not setting aside for principal reduction could be used for the population that is targeted here that refinanced.

Otherwise, there is going to be very large disproportionate discrimination against a disproportionate share on long-time homeowners who have owned their homes 30, 40 years, who had paid them off, refinanced to pay medical debt or what have you who are not going to be assisted under the current CalHFA plan.

So that's with regard to your first question.

On the negative equity, Stephanie can.

MS. HAFFNER: Yeah, my name is Stephanie Haffner. I'm an attorney with Neighborhood Legal Services of Los Angeles County.

And I'm refreshing my memory with respect to the negative equity question, which is that if

California is using money to -- oh, with respect to whether -- how removing negative equity relates to affordability?

MR. HUDSON: No, just whether -- are we trying to get the negative equity, or are we trying to get affordability? Which one are we trying to get to?

MS. HAFFNER: Modification programs currently solve for affordability, and the reason that money went to the states to solve hard-to-solve problems like borrowers with severe negative equity is that solving for affordability alone doesn't answer the whole question. So you're already -- everybody who's getting a modification should be, in the best of worlds, already getting an affordable payment, but they might have an affordable payment that leaves them with a $200,000 balloon at the end of 40 years because that's -- because they could only afford to pay a certain amount per month.

And so the issue is taking care of that balloon while also taking care of affordability, if that helps.

MS. MARIAJIMENEZ: And with regard to the third question on the 6 to 21 cents on the dollar, the Home Affordable Modification Program is putting together, is implementing, a principal reduction program. It is not yet implemented. It will be implemented at the end of the year, which calls for the 6 to 21 cents on the dollar for every dollar of principal reduction. Most of the major lenders have already signed onto HAMP and as so they are required to participate in that program.

So also referring to Ms. Carroll's point, talk about a national model that can be used, that is the national model, 6 to 21 cents on the dollar. And we believe that together we can have the banks come to the table and put pressure to have them take really what mortgage debt is worth today and implement the national model, which is 6 to 21 cents on the dollar.

ACTING CHAIRPERSON CAREY: Okay. With that, we're going to take a 15-minute recess. Thank you, everybody.

MS. MARIAJIMENEZ: Thank you.

(Recess taken from 11:26 a.m. to 11:42 a.m.)

ACTING CHAIRPERSON CAREY: We are -- we are back in session -- if we can turn the mikes back on -- back in session. And the next item on the agenda is report on the New Issue Bond program. And maybe we can take the mikes down a little bit.

MS. JACOBS: Mr. Chair?

ACTING CHAIRPERSON CAREY: Yes.

MR. SPEARS: I'd like to ask the staff in the back of the room to have a seat, please. Thank you.

MS. JACOBS: May I bring something up that I --

ACTING CHAIRPERSON CAREY: Yes. Of course.

MS. JACOBS: -- I don't know if Steve brought these, so I will -- I will steal his thunder.

CalHFA, the Department of Real Estate, and us have just completed a study called "Building California's Future," and it talks about the fiscal impacts of housing on state and local government. And it's a great report, if I do say so ourselves. So I'm sure that Steve will arrange to send copies to all the Board members. I have a couple of copies here.

But it basically -- what it shows is that housing has a positive fiscal impact on both state and local government.

ACTING CHAIRPERSON CAREY: Great.

MR. SPEARS: And my discussion with Lynn, however, is that the report probably could be more complete and include more fee revenue that's there.

MS. JACOBS: Right.

MR. SPEARS: So it is positive, and that's probably the most conservative number that you will find.

MS. JACOBS: Right. It talks about local government fees, and it does not include things like special district fees and school fees and those kinds of things.

MR. SPEARS: Right.

MS. JACOBS: Just purely the money that goes to state, county and city government. So it's a very good report, and it's been a long time in the making. We finally have it, so look forward to getting this in the mail. We didn't print very many copies because you might be aware the State doesn't have a budget. You might have heard that. It will be online by next week.

ACTING CHAIRPERSON CAREY: Great.

MS. JACOBS: On HCD and then we'll -- we'll work with CalHFA and DRE to have a link to it.

ACTING CHAIRPERSON CAREY: Great.

MR. HUDSON: One quick observation.

ACTING CHAIRPERSON CAREY: Yes.

MR. HUDSON: I see why nobody wanted to wait until the end for public comments. There is nobody left for public comments.

ACTING CHAIRPERSON CAREY: Their choice.

MR. HUDSON: So much for waiting till -- you know, giving committee to the public -- the public will.

MS. MACRI-ORTIZ: They're meeting out there.

MR. HUDSON: Yeah, okay.

MS. MACRI-ORTIZ: They'll come back in, hopefully.

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Item 5. Report on the implementation of US Treasury Department programs - B. New Issue Bond Purchase program

ACTING CHAIRPERSON CAREY: Okay. Returning to the agenda, the next item up is the report on the New Issue Bond program.

Bruce.

MR. GILBERTSON: Thank you again, Mr. Chairman.

I think it's good to go back and recap what this New Issue Bond program is really all about. We -- we touched on it, I think, earlier when I was up with the Resolution 10-08.

The New Issue Bond program was one of two programs that the HFA community received as a part of the HFA initiative last fall. So we received the New Issue Bond program as well as the Temporary Credit and Liquidity program.

The New Issue Bond program allowed us to apply for proceeds of bonds that Treasury effectively would purchase. We did all this not directly through Treasury, but we did this through the GSEs. So in December of 2009, we closed on a billion dollars of single-family New Issue Bond proceeds, and we closed on $380 million of multifamily New Issue Bond proceeds.

The rules under the New Issue Bond program were such that we had to use all of those proceeds by releasing them out of an escrow account during the course of this calendar year, so there is a definitive expiration date of the program: December 31, 2010. As the year unfolded and it took us a while to get especially a single-family program up and running, we were forewarning people that it would be great if they could extend this because otherwise this billion-dollar funding mechanism for new lending in California would really go to waste.

The other thing that happened, of course, is that interest rates had changed dramatically during the course of this year and have fallen to the point that we were below two and a half percent on the ten-year Treasury. The interest costs that we pay on the New Issue Bond programs are tied to the ten-year Treasury.

So last December we thought we had done the right thing, and we locked in when the ten-year Treasury was at 3.49 percent. We had to pay a credit spread on top of that of 60 basis points, so we had an all-in cost of 4 percent.

Well, as we got into the summer months, especially kind of post-April, ten-year Treasury was falling like a rock because of problems overseas and

Europe and just a variety of things. So it wasn't going to work. We also conveyed that through our national organization to Treasury and the GSEs.

The good news coming out of all of this is that they listened to us, and on September 1st we actually got -- we got the word from Treasury that they were going to allow modifications to the program. So the purpose of this report, really, is to go through that.

They've extended the time period under which we can use these proceeds by an entire year, so the New Issue Bond program is available to the Agency through December 31, 2011. They have allowed a mechanism for us to reset the interest rate, so we're not locked in on the 3.49 Treasury plus the spread. That will now serve as a ceiling for us this calendar year, and our rate can never be higher than that.

And once we get to the point where we're close enough to notice Treasury that we want to release moneys from escrow, we will then get the benefit of whatever the ten-year Treasury is between that date of notification and eight days prior to the bond -- the moneys actually being released out. So it's very advantageous to the Agency.

In December of this year, we'll establish a new ceiling based off where the ten-year Treasury is in

December 2010 for the entire year of 2011. So the amounts -- and we will clearly be carrying forward some of this into 2011, especially on the single-family program.

And then one other thing that they did is they allowed us to expand the number of draws. The original program design you could access for each of the single-family program and the multifamily program the escrow three times during the course of the year. Since they've extended it by a year, they've given us another three draws, so we have a total of six.

And so as we think about the billion dollars for the single-family program, you know, if we -- if we have one draw towards the end of this year, we would have five additional draws during the course of 2011. Remembering one other aspect with the New Issue Bond program for single-family is we have to go to the market and issue 40 percent of the bonds or one dollar for every two that we pull out of escrow in the public -- public marketplace.

So that's where we are. We're excited about this. This is really going to kind of get our program up to going. I think you're going to hear more from Steve and Gary about single-family lending programs, what's going on there, but this is exactly what we needed, and we really hope that we'll have some ability to kind of utilize these proceeds over the next 15 months or so.

Any questions?

ACTING CHAIRPERSON CAREY: Questions from Board members?

MR. SPEARS: We decided to put this in this spot on the agenda so that you could -- this is the reason why we're going to be able to talk to you in a second or two about other lending. If we had not gotten this relock on the rate and extension of time, the lending that we're doing right now that we just got started taking reservations on would be a very, very short program. It would have been a very short program, so that's it.

ACTING CHAIRPERSON CAREY: Great. Okay.

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Item 6. Report on CalHFA Homeownership lending - A. Fannie Mae Affordable Advantage program

ACTING CHAIRPERSON CAREY: Moving on, we've got a report on homeownership lending, the Fannie Mae program and FHA.

MR. SPEARS: I'm going to ask Gary to come on up, and I'll cover the A part of this agenda item.

The only reason this is on here is we had talked so much before with the Board and the discussion of the -- the business plan, that we were going to be doing this Fannie Mae Affordable product that was for those state FHAs that were participating in the Fannie Mae Affinity agreement. It was a hundred percent loan to value and it was -- we were having ongoing conversations.

And in June, we had a credit meeting with representatives from State Street, who are representing the U.S. Treasury and Fannie Mae, in our offices in Sacramento. Conference room full of people. And in the middle of that conversation, one of the credit folks from Fannie Mae said, "Oh, by the way, we're not going to be able to do that hundred percent affordable product, Fannie Mae Affordable, unless you guys are able to post some collateral against the loans that we own."

So as a -- just by way of background and it's in your memo here, in the last year and a half, roughly, of full-on lending that CalHFA was doing, we were offering the Interest Only Plus product to lenders, we were securitizing those loans through Fannie Mae. So we own mortgage-backed securities guaranteed by Fannie Mae. Fannie Mae owns those loans, so they have exposure for losses on those loans. What they were asking us to do is to right today move the money over on the line of credit between the General Fund and the Mortgage Insurance Fund.

And the way that works is that it works like a line of credit. When the Mortgage Insurance Fund is -- has insufficient cash to pay claims, at that time we can move money. But really what they wanted was additional security to Fannie Mae against the losses that may come up on the Interest Only Plus loans.

I consulted with Tom, I consulted with Bruce, about the impact that this would have on the indenture because we have the bondholders to think about in this whole balancing act -- here we go again with trying to balance everybody's interest -- and came to the conclusion that we couldn't move that over and -- and draw on the line of credit because the criteria just were not met.

So we asked Fannie Mae if they would consider a participation fee for the Fannie Mae Affordable and proposed a fee that would work for us economically. And they said, "Love the idea, but we can't live with that fee. We have to have a fee up here." And when they proposed the fee up here, it destroyed all the economics of making these loans. It's back to that old saying of we were going to lose money on every loan so we'd have make it up on volume.

So we decided at that point just not to do the Fannie Mae Affordable product. There are only four HFAs in the country that are doing this product right now. They're not doing a lot of lending on the product.

But what I asked Gary and the homeownership division, legal, finance, IT, and everyone is what we had been doing is working on an FHA product at the same time, and I simply said we need to go over, put all of our efforts in on that. And in three and a half weeks, the homeownership division and that team that I mentioned had an FHA program up and running, and last week we began taking reservations on that.

So let me ask if there are any questions about the Fannie Mae decision first. I just -- you know, we talked so much about it, and now, you know, we're not doing it. I thought an explanation was in order. Questions?

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Item 6. Report on CalHFA Homeownership lending - B. FHA lending program

MR. SPEARS: All right. So with that, I'll have Gary talk about the FHA product, just for a couple minutes and --

MR. BRAUNSTEIN: Sure. Thanks, Steve. Hello, Board Members.

As Steve had mentioned and in the memo in your Board package, when we decided not to move forward with Fannie and the Affordable Advantage, through the efforts of my staff and the other divisional staffs, we -- we regrouped, refocused, and moved forward with -- on a fast track in rolling out the -- the FHA product. It's structured as a standard FHA-insured loan. It follows FHA's guidelines and standards, such as FHA's loan to value, cumulative loan to value, and downpayment requirements.

Through the efforts of the NIBP and our financing group, we were able to launch the product at a below market interest rate. We were very pleased with that. Some of the reaction that we're getting from our lenders and other housing partners were favorable to that interest rate. It's about a 25 -- a quarter rate below the market, depending on the lending community and changing, obviously, on a daily basis.

A few overlays, we placed -- from a risk management standpoint -- on the FHA product. FHA doesn't have a minimum FICO requirement on a 95 and above loan to value. We placed a FICO minimum score of 620. We do have a requirement of homebuyer education counseling on all of our borrowers for our conventional and FHA product. FHA doesn't have a requirement for homebuyer education, but we feel it's prudent lending to have our borrowers as first-time homebuyers go through counseling. We chose not to allow for manual underwritten loans. We go through Fannie -- FHA's decision engine and score card. That allows us to have that rule set of FHA within the rule set of the decision engine.

We also are pleased that we were able to add to the FHA, our subordinate downpayment program, which is our CHDAP, and also the locality nonprofit downpayment and closing cost programs. We've gotten very good feedback from the localities and the nonprofits as it relates to this program allowing for their subordinate programs. And our borrowers do have the opportunity to add locality downpayment or closing costs assistance along with our CalHFA CHDAP downpayment and closing costs to allow for maximum financing for our typical borrower in our borrower's profile for the first-time homebuyer.

As you know, our business model is not holding whole loans. As we've talked in other Board meetings and we will -- these loans will be structured through the purchase of Ginnie Mae securities. We're still using a master servicer, Bank of America. They do a good job for us on our conventional product and will be facilitating our loans through Bank of America servicing the FHA product.

Any questions? Based on time, I just thought I'd give a quick summary.

MR. SPEARS: Right. Just to interject, the question, Ms. Jacobs, that you asked earlier about the multifamily conduit resolution, this is the same business model where Ginnie Mae will guarantee the income stream. FHA will back the loan with insurance, so it's -- it's very similar, just over on the single-family side.

MS. PETERS: I just want to say welcome back.

MR. BRAUNSTEIN: Thank you.

MS. PETERS: We're glad to have you back in business.

MR. BRAUNSTEIN: Really. You know, it's been a long time coming, and staff is very excited, so thank you.

MR. HUDSON: So we are portfolioing or we're not portfolioing these loans?

MR. SPEARS: We are not portfolioing.

MR. HUDSON: Right.

MR. SPEARS: We will own Ginnie Mae securities rather than FHA loans, whole loans.

MR. BRAUNSTEIN: And again, it's a business model we were using when we talked about the Fannie Advantage product and using a master servicer and the mortgage-backed securities. We moved the real estate risk off of our balance sheet.

MR. HUDSON: So how does that actually work? Lenders will use our program because we have a 25-basis-point-lower interest rate. The borrower gets an FHA loan through us, and then we sell that paper to FHA, and then we take a Ginnie Mae bond?

MR. BRAUNSTEIN: Um-hmm.

MR. HUDSON: Okay.

MR. BRAUNSTEIN: Yeah. I mean, the 25 -- you know, a quarter-percent drop in rate in today's market is important to the first-time homebuyer and to our lender community. Years gone by, the Agency was able to offer a much wider differential than we are today, but within that framework down, along with the downpayment programs and the closing costs programs that we could offer through our own CHDAP program and the localities, our lenders are finding it to be a favorable product.

MR. SPEARS: Our hope, by the way, is that if interest rates and mortgage rates do gradually climb over the next year and half, because we've locked a lot of the costs of our funds with this New Issue Bond program, that this product will become more and more competitive as we go through the program. If interest rates stay where they are or even drop, then, you know, we'll be able to relock at the lower rates that Bruce was talking about, but we'll be still at this quarter basis point below market sort of level of competitiveness.

Just one other note, the downpayment assistance is coming from GO bond funded downpayment assistance from Prop 46 and Prop 1C. No -- we're just not able to fund downpayment assistance with internal funds like we've done in the past, but I will say this: That there are CHDAP funds and School Facility funds that are available.

I had conversations with HCD, with Elliott Mandell, who is Lynn's deputy, this past week and Department of Finance. You know, bond funds were held up there for a while, and Department of Finance was acting as the traffic cop about who got what. Department of Finance is now officially out of the traffic cop business. So now we're back to the -- the sort of the regular process and that is that bond funds are sold by the Treasurer's Office. They go through HCD. We make requests to HCD, and they come to us.

So we have a request in to HCD for $32 million, $20 million of CHDAP funds and 12 and a half million dollars of School Facility Fees. And that's in the works, and I, you know -- neither Elliott nor Finance could see any obstacles of transferring that over, so -- so we'll have downpayment assistance.

Then the only other piece of downpayment is that Gary and his staff have really done a good job of going back out to our local government partners in the AHPP program to get them onboard, and it will be a partnership with them as far as downpayment assistance.

So we will report to you on volume the next time.

ACTING CHAIRPERSON CAREY: Yes.

MS. MACRI-ORTIZ: Question, on the downpayment assistance, is there any -- going to be any restrictions on the property in terms of ownership?

MR. SPEARS: Yes.

MS. MACRI-ORTIZ: Okay. And how long of a period will that be for?

MR. SPEARS: Well, you mean for the --

MS. MACRI-ORTIZ: Well, in terms of, you know, the restriction on the property. So people are going to get money from --

MR. SPEARS: Right.

MS. MACRI-ORTIZ: -- the State to buy a home for downpayment assistance, right?

MR. SPEARS: Right.

MS. JACOBS: Resale controls.

MS. MACRI-ORTIZ: Resale controls.

MR. SPEARS: Oh. There are no resale controls on CHDAP or School Facility Fee funds.

MS. MACRI-ORTIZ: They're aren't?

MR. SPEARS: No.

MS. MACRI-ORTIZ: Oh.

MR. SPEARS: It attaches to the borrower, and if the borrower sells that home, that loan is paid off at the time the home is sold. If the loan is paid off, then the downpayment assistance money becomes --

MR. BRAUNSTEIN: In some locality programs, there are some resale restrictions. And when -- when and before we approve a new locality, we internally through our legal counsel, bond counsel, and my group review the documentation in the program.

ACTING CHAIRPERSON CAREY: Generally if they're going beyond simply helping with closing costs.

MR. BRAUNSTEIN: Oh, right, yes.

ACTING CHAIRPERSON CAREY: Right. Then there's a fair amount of local restrictions.

MR. HUGHES: But I would point out that the CHDAP and School Fee programs are statutory. They're defined by statute, and there is no such provision in the statutes.

MS. MACRI-ORTIZ: Okay. At least we're getting some downpayment. So I saw this one as a little bit of an improvement on the prior program that we lost.

MR. BRAUNSTEIN: Right.

MS. MACRI-ORTIZ: Would you agree?

MR. BRAUNSTEIN: Oh, well, yes. I mean, this is a federally insured product through FHA product. It's a product that we've done through the Agency for years. The challenge we had in the past was really the interest rate that we could offer at the time. When we were talking about the other product, we didn't have the vehicle we have now through the NIBP and the opportunity to relock the rates, so months past, the rate -- to have offered this product the way it sits today, we would not have been able to offer a below market rate for our lenders to choose this product over their own.

Any other questions?

ACTING CHAIRPERSON CAREY: Thank you.

MR. BRAUNSTEIN: Thanks.

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Item 7. Report of the Chair of the Audit Committee

ACTING CHAIRPERSON CAREY: Next on the agenda is the report of the chair of the Audit Committee. I really appreciate Mr. Gunning for sitting in as chair and being willing to report out.

MR. GUNNING: I surely don't want to accept the title just yet.

ACTING CHAIRPERSON CAREY: I understand your feeling.

MR. GUNNING: Mr. Chair.

The Audit Committee met this morning, Members, and three main items on our agenda, the first being, of course, our request for proposals to select a new auditors for the Agency. Deloitte is our current auditor in the six-year contract, I believe -- four-year contract, and it's up for review. And so the staff is going through the process now of the request for proposal and looking for other auditors for our agency.

Steve, or anyone?

MR. SPEARS: And we think that process will --

MR. GUNNING: Lori?

MR. SPEARS: The contract expires at the end of December. We need to get either Deloitte's contract renewed or select the new auditor because the Mortgage Insurance Fund is a December 31 year-end, and so they will start right away with that, that audit. So the -- the contract covers both the Housing Fund and the Mortgage Insurance Fund, so we expect that we will come back to the Audit Committee in January with a name of a firm that we believe is qualified and then complete that process during January and have that contract done and signed by February the 1st of next year.

MR. GUNNING: Questions?

The second item, I think all of us have seen this, and it has to do with the examination by the Joint Legislative Audit Committee which was a request from the Pro Tem to perform an audit on the Agency. I think all of us saw the letter. So we talked about the breadth and scope of that audit.

And I guess the staff has already met -- begun the interviews with the -- the -- not the committee, but the Agency. We've supplied names of consultants to help them. Actually, a pretty fast timetable. They expect to be up and running the first week in October with the selected consultant and begin the audit.

As someone who has participated in requesting those audits on the Department of Insurance, sometimes can be scary having the Legislature looking at you, but I think they do a thorough job, and it does appear that they're working with us to make sure that they have professionals who will work with them to understand how we do our business, which I think is critical, that -- because you just can't come into this Agency and do it like any other state audit.

So Steve or Lori want to -- or Bruce want to add to that, but --

MR. SPEARS: Well, they -- they are going to start right away. I think they'll start their fieldwork next week and -- and as Mr. Gunning said, we've been very pleased with the amount of conversation that we've had so far. It's been very professional. Ms. Howle, the State Auditor, said in the Joint Legislative Audit Committee when this was considered and the request was granted that they don't have this expertise internally; they're going to have to go out and get a subject matter expert.

So they've talked to us about what sorts of consultants are out there. They need to know who already works with us or has in the past so they would know who to exclude from their request. And the RFP has already gone out, so they are going to get -- and they'll have a parallel track. They're going to get these folks in the door.

And the first few questions that are being asked by the Auditor have to do with the past. And my understanding is that their audit staff will start looking at old Board minutes and documents from ten years ago and on, while at the same time the subject matter experts are going to be dealing with the more technical questions that were asked. And those two things will be going along side by side.

The deadline for completion is February 28th. That deadline was the request of Senator Steinberg. He would like to get this -- these questions asked and answered as quickly as possible. I think that's a very ambitious time frame, but I think the way they've outlined it is -- I think they can -- they can meet that. It would be beneficial to get this --

MR. GUNNING: Yes.

MR. SPEARS: -- complete.

MR. GUNNING: Comments?

The third and final item I think is something we're very familiar with, which is our annual audit. I guess the bad news first is I think there will be a loss reflected for the current year similar to last year, focusing on four items, three of which we know about. One more is a new item. The first one, increase in our loan loss reserves. Second, our basis mismatch. Thirdly, our termination of our swap agreements. The fourth one is a change in accounting standards, which requires us -- forgive me here, I think it's Bruce or Tom that's prepared -- I guess it's the -- help me here, Steve.

MR. SPEARS: Well, this accounting rule

change -- just as background, you all know that in the back of your -- your binders every time, there's another one there, is a report from Bruce about how our swap contracts are functioning.

And the accounting rule change is not just for CalHFA and not just for the housing industry. It's for all government entities that use derivatives, and our swap contracts fall in that category. And it really takes a lot of the information that's in Bruce's report and folds it into the financial statement. So as I said in the Audit Committee, you really have to take our financial statements, Bruce's report, and the Milliman report about losses to get a complete financial picture of our Agency.

What this rule does is take a great deal of what's in Bruce's report and folds it in so you only have to look at the financial statements now to get the gist of that. And what it measures is the effectiveness of the swap contracts that we have. And if they're not perfectly matched, they're considered to be ineffective.

And there was a little bit of a debate, not to get too technical, that if they're slightly ineffective, then you have to consider the entire swap ineffective, and that would have been a very big hit to the income statement. The more reasonable approach that we believe the auditor is going to use is that they're only going to measure the ineffective portion of the swap and put that in. We believe that will be about a $50-million cost to the financial statement.

The other three items -- well, let me stop and see if there's any questions about that rule. It's a bit of a technical rule. I think what it means is that you can look at the financial statements to get a more complete picture of how we're doing on the -- on the swap contract side of things.

The other three things are things that we talked about last year. Loan losses, obviously delinquencies continue. We believe that the loan loss reserves that you're going to see are a very, very accurate reflection of the loan losses in the loans that are delinquent at June 30. It is not a complete report like the Milliman study of all losses expected over the life of the portfolio. So I would caution you about that.

The other two are the basis mismatch that we experience on swap contracts on the variable-rate debt. And a lot of that went away when the Treasury facility was put in place. That was taken care of.

And then we had swap terminations. That was at the beginning of the year when we terminated some swaps.

I believe they were Lehman Brothers swaps -- or others?

MR. GILBERTSON: No, it was actually -- excuse me. It was part of the negotiation that we did the summer of 2009.

MR. SPEARS: Right.

MR. GILBERTSON: So we terminated swaps with both Merrill Lynch and Citibank. A total of $39 million. And all of that shows as an expenditure, which puts you in an operating loss position.

MR. SPEARS: Right. The reason we bring up these four items under the theory of no surprises, I do not want you to be surprised by the fact that the income statement will reflect all of these accounting measurements and come up with a loss this year that's probably greater than what we saw last year just because of the loan loss reserve thing alone.

MR. GUNNING: And we'll let Ruben come back and give that news.

MR. SPEARS: Fair enough.

MR. GUNNING: That's all I have, Mr. Chairman.

ACTING CHAIRPERSON CAREY: Thank you.

Any other questions?

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Item 8. Update regarding facilities at 500 Capitol Mall, Sacramento and 1040 Riverside Parkway,

West Sacramento

ACTING CHAIRPERSON CAREY: Okay. We'll move on. Brief update on the facilities moves.

MR. SPEARS: Just very quickly, we're moving forward. The move date hasn't changed. We're going to move the Meridian staff into the new -- the new floors at 500 Capitol Mall the first week in October. Then the second week in October, most of the Senator staff will move to the 500 Capitol Mall location.

What we have done, though, is some of the staff in portfolio management, the Hardest Hit Fund staff, since we don't believe that we'll have REO inventory, you know, forever and ever at this level, those staff we're moving to West Sacramento in a more affordable rental space. And that -- gradually over time as we reduce that staff, then we wouldn't have to have committed to as much of the more expensive space in the downtown location.

So we're on track budgetwise and schedulewise, and things so far have gone smoothly.

MR. GUNNING: Will there be an open house, or will we have a chance to come by and look or --

MR. SPEARS: Yes, absolutely. You can come by and visit any time you want. I believe that Ken has open house plans up his sleeve. Frankly, I'd like to sort of get through the move first and then have a little open house session later on.

ACTING CHAIRPERSON CAREY: Great. Okay.

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Item 9. Reports

ACTING CHAIRPERSON CAREY: Steve, in the reports -- are there things in the reports that the Board should be particularly aware of?

MR. SPEARS: I would urge the Board to look at all of them, of course, but the homeownership loan portfolio update is important. I would note that what you have there on page 217 of your binder is a June 30 report, portfolio.

Of course, our concerns are with conventional loans, so if you look at the very last line on that page, there's a line called weight average of conventional loans, and it shows you the delinquency at 15.1 percent, is on page 217, the very last line of that page.

I have an unreconciled report as of August 31st that that has now gone down to 14.7 percent. So if you see some of the graphs that Bruce's staff have prepared later on in that report, I think it's fair to say that delinquencies have stabilized in some way. What you're seeing in the total delinquency going down every month is progress that we're making with a backlog of very old loans. We simply got behind. We had two moratoriums. We took time out to develop two loan modification programs. We moved staff to West Sacramento earlier in the year. And through that process and rapidly increasing delinquencies and -- and it took some time to get staff onboard, we got a little behind.

We are also trying to do our best to work with homeowners and keep them in their homes. But what's happening now is we're seeing the 90-plus category of delinquencies steadily go down. Unfortunately, those are folks that are leaving their homes, but -- but it does result in a decline in overall delinquencies.

MR. HUDSON: You know what would be interesting to look at is a trend, so if you go back 12 quarters or something like that or --

MR. SPEARS: What you may want is on page 219.

MR. HUDSON: 219?

MR. SPEARS: We've got --

MR. HUDSON: Oh, good. Okay.

MR. SPEARS: -- some trend analysis, but --

MR. HUDSON: But this is 90 plus?

MR. SPEARS: Yes.

MR. HUDSON: And --

MR. SPEARS: 90-plus FHA and then 90-plus conventional.

Now, I have more graphs than you can possibly --

MR. HUDSON: So, but -- no, but I'm just trying to figure out the trend. So it peaked when? It looks like it peaked like January of this year, right?

MR. SPEARS: January, February, in that range, and then we begin to make some progress. And it has steadily gone down. So what that means in -- is that we are making progress on processing a backlog of loans that have been delinquent for a very long time, and we have fewer and fewer loans going into that category, so it's steadily going down.

MR. HUDSON: Yeah, so if you have fewer and fewer loans going into that category, I would say that you're -- the delinquencies that are stabilizing will trend down over time, if they're not new ones going in.

And even though the economy is still in the dumps and unemployment is still high, you think that trend is going to continue that way?

MR. SPEARS: The only caveat that I have, and I've talked to Chuck about this a lot, in the last two months -- and I'm getting unreconciled reports as soon as I can and then they're going back and they're reconciling to the penny. But these two last months of unreconciled reports, I've seen a slight little uptick in the 60-plus category. And so that causes me a little concern that we might be seeing a few more homeowners, but it's not the kind of rise that we saw in the summer of last year, where -- and I have to say this: These graphs that you see here absolutely mirror the unemployment rate graph for California.

We did not see increase in delinquencies when subprime loans started going up in '08. This went up as soon as unemployment rates started going up. So when unemployment stabilized, Paul, then we started seeing improvement and stabilization of our own delinquencies. Absolutely.

MR. HUDSON: Okay.

MR. SPEARS: So that's an important report.

And I always want everyone to spend some time with -- because Bruce spends good, quality time on this variable-rate report. I would urge you to spend some time with that. And --

MS. JACOBS: Barbara's asking a question.

MR. SPEARS: I'm sorry.

MS. MACRI-ORTIZ: I've got a question, and this goes probably to the servicers that we're going to deal with for our new program. And I'm wondering whether we are considering the delinquency rates of the servicers that we've had in terms of selecting our new ones and whether we're going to have any servicers coming out of maybe the nonprofit CDFI-type organizations that can process loans. And just in terms of the focus, maybe in terms of changing a little bit on that, who's actually doing the work to figure out who's going to get that role?

MR. SPEARS: On these loans that we're going to start making --

MS. MACRI-ORTIZ: Yeah.

MR. SPEARS: -- going forward?

MS. MACRI-ORTIZ: Because I just -- there's one -- there's one servicing group here that's got 2800 loans, 35 percent of which are delinquent.

MR. SPEARS: That's Bank of America. And they're doing a terrible job, and we have been on their case.

MS. MACRI-ORTIZ: And -- and aren't we doing our new deal with Bank of America? Isn't there -- don't we have a disconnect here?

MR. SPEARS: A bit. I freely -- here's the issue: Bank of America has been our master servicer, and they've done a wonderful job on that side of the house, but if -- packaging loans up. And we -- we made a decision not to go out and -- and try to take the time to select a new master servicer, but -- but we have been working with them to try to get them to improve -- what I would do if we had the personnel to do it, and we simply don't have the ability to hire this many people, is start taking back loans from servicers that aren't doing a good job. We just don't physically have the capability of doing that at this point.

MS. MACRI-ORTIZ: Well, I'm just saying, though, that if you're dealing with somebody who's got 35 percent and we've got other servicers that are much lower, like Wells Fargo is 12 percent, we've got Bank of America at 35, to me that says maybe we've got -- because whoever is going to end up in the delinquency category, barring the unemployment issues which are pretty much across the board, is going to be based on what happens when that person gets a loan. Are we doing our homework right to get the right people into the right loan?

And I think if we're not doing those loans ourselves, then we've got to have more confidence in our servicers to do the right thing. And I'm just saying this is an indicator. I don't know what it means, but to me it's an indicator.

MR. SPEARS: A couple of comments. Every borrower in this new FHA program -- and if we ever do the Ginnie Mae program, the conventionally insured program -- is going to receive borrower -- first-time homebuyer education before they get one of our loans. We've never done that before. So that's No. 1.

No. 2, we're going to continue our practice of actually underwriting loans and actually documenting everything and working with borrowers to make sure that they are -- they have solid credit. And as Gary pointed out, we're asking for borrowers in this FHA program to have a 620 FICO score instead of a 580 score that FHA can deal with.

So I think we've taken steps, Barbara, to get the right folks in the home. And -- and I think one of those big steps is that borrower counseling before they ever take this step. The lenders don't like those programs.

MS. MACRI-ORTIZ: I know.

MR. SPEARS: Because those programs --

MS. MACRI-ORTIZ: That's --

MR. SPEARS: -- wind up talking people, some people, out of buying a home.

MS. MACRI-ORTIZ: Exactly.

MR. SPEARS: And --

MS. MACRI-ORTIZ: And that's why I like the nonprofits. And the more we can tap into that community for some of our servicing and for the work on the ground floor, the better shot we have and I think the healthier in the long term.

MR. GUNNING: I'd want to echo those comments because as we heard from the group here before, there are a lot of issues with servicers. And if we're not seeing the production here with our largest servicer, maybe we do want to look at other entities or keep them in mind.

MS. PETERS: I'd like to add to that. I've been talking about holding the servicers' feet to the fire for a long time now, and I hate to see us rewarding servicers who are overtaxed, overburdened and underperforming.

MR. SPEARS: Okay.

ACTING CHAIRPERSON CAREY: All right. Anything else in the reports that we need to be aware of?

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Item 10. Discussion of other Board matters

ACTING CHAIRPERSON CAREY: Hearing not, other Board matters?

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Item 11. Public testimony, continued

ACTING CHAIRPERSON CAREY: Hearing none, okay. We're at the point where we will open public testimony on other matters that the public would like to address the Board. Once again, we would like to keep the time brief and focused, as we are -- I see people checking their watches, and some are hungry.

So with that, we are open to public comment.

Seeing -- it was close. Welcome back.

MS. HAFFNER: So my name is Stephanie Haffner. I'm an attorney with Neighborhood Legal Services of Los Angeles County. We spoke to the Board previously and returned at the invitation of some Board members to engage in further dialogue. So I think that we would ask for your questions.

MR. HUDSON: So I have a question. So how much would you recommend be allocated -- of the money we have, the billion-two, how much would you allocation -- how much would you allocate to cash out?

MS. MARIAJIMENEZ: At this time we're not prepared to propose to the Board or to the staff of a certain amount of money. What we are asking the Board in setting forth policy is to take into consideration that by eliminating refinancing, you're closing the door to thousands of long-term homeowners. It disproportionately impacts communities of color, in particular South Los Angeles and others throughout the state, of long-term homeowners who were specifically targeted for subprime mortgage lending.

So what we're asking the Board to do is to reconsider, that that population be considered. We know there is not enough money to help everyone in foreclosure in the state of California even with the amount of money California has received, therefore, that the -- that the Board take into consideration that some portion of that money be allocated to assist those communities.

MR. HUDSON: So you trust our judgment on that?

MS. MARIAJIMENEZ: Well, we would -- we would like to hear your recommendation and then maybe we would comment to it. But at this time we're not prepared to say that the Board should do -- set aside a specific amount of money.

Frankly, what we're promoting here today is to look at the housing market. Unless it is stabilized, the economy in California is not going to recover. And we do understand that we're looking at innovative programs, even the California Housing Finance Agency program. We need to start somewhere, and we need to implement, but we need to implement keeping in mind that we use taxpayer funds responsibly and that we look to the guidance that has been set forth by the federal government and that we implement these innovative --

these pilot programs now -- and I'm sure we will be tweaking as we go forward -- but that the Board recognize that they set forth policy and that it would be bad policy to implement what's planned right now.

ACTING CHAIRPERSON CAREY: Mr. Hunter.

MR. HUNTER: I don't know if it's so much a question, it's just, you know, if we're looking at the policy issues, frankly, the -- the -- you know, when you have -- you have a hundred people who need help and the best case scenario you can help 30 of them, that's sort of the picture that we're in. Frankly, in this -- in this -- this $1.2 billion is not going to stabilize the California housing market.

I don't find the issue of predatory lending as compelling from a policy perspective as what the money was used for, particularly last month some of the testimony we heard from homeowners who did take cash out of their homes for very critical reasons. You know, that -- to me, that's much more compelling from a -- from a policy perspective than the fact that you were or weren't a victim of a predatory lender.

The other thing, though, that I've heard several times and -- and I guess it's the other kind of thing that I don't know how to frame it from a policy perspective, but the fact that somebody's been in a home for 20, 30 years, you know or even 10, 15 years, I don't know -- I'm trying to figure out how long I've been in my home.

MR. HUDSON: You want to make sure you're included in the mix, is that it?

MR. HUNTER: But that somebody -- that a family has been in a community and a member of a community, a neighborhood, for a long time, there's -- there's not just an economic value, there's a community value. But every time we try to figure out -- you know, each one of those things that we try to take from a policy perspective, ultimately what it comes down to is a very complex decision-making process at the level of actually deciding.

But I just -- I just have to say I'm not -- I can't say that I'm totally opposed to doing any lending to people who took cash out of their homes, but to me the more compelling policy perspective is why they took cash out of their homes.

ACTING CHAIRPERSON CAREY: Ms. Peters.

MS. PETERS: I've had a chance during the presentations -- not that I wasn't paying full attention to staff.

ACTING CHAIRPERSON CAREY: Right.

MS. PETERS: -- to go over the handout that you provided clarifying the cash-out refi criteria. Is this the AG's criteria that were --

MS. HAFFNER: Yes.

MS. PETERS: -- referred to?

MS. HAFFNER: Yes.

MS. PETERS: Okay. I have a question here. There are five listed. And so it's my understanding that CalHFA now says no cash-out refi's are eligible. You have proposed that some be eligible and that these criteria be used as the guidance to determine who gets it and who gets out, right?

MS. MARIAJIMENEZ: Well, what we're saying is that that serves as a guide to the staff, given that it has been adopted by the Attorney General.

MS. PETERS: Okay. Then I have more clarification here because there are five things on the list. So if we followed your recommendation, we would allow anyone that falls into these categories to apply for the CalHFA program. So it would be pay-option ARMS, subprime mortgage loans that combined higher risk features with higher risk borrower profiles, subprime adjustable rates such as 228s, subprime fixed rates, and Alt A residential loans. My question is who's not on that list?

MS. HAFFNER: Who's not on that list are prime borrowers.

MS. PETERS: So you could just say every subprime borrower.

MS. MARIAJIMENEZ: Well, it also sets parameters. If we're looking at that criteria, you're also looking at a time frame parameter which I believe is between 2005 and 2008, loans that were issued.

Another characteristic of these loans is that because of the substantial fees that were charged on these loans, the financial institutions that originated them made substantial amounts of money, so the idea that there's this moral hazard about assisting some that -- not assisting them because they refinanced, there's -- there's a -- just a culpable side as well on the financial institutions who earned substantial amounts of fees in having followed these predatory schemes.

MS. HAFFNER: And I think that that's why those criteria are part of the settlement of the Attorney General with Countrywide, because there was -- you know, while there's not admission of liability, I think it's an indicator of recognition that those are particularly risky types of loans for which there's particular responsibility to work them out in a certain way.

And so that's why -- and so the criteria from the AG's settlement, we thought, would be a compromise position for you to look at a way to include borrowers who did refinance, did take cash out, and were under -- under some -- under a measure taken advantage of because the loans were structured in a way that there was no realistic way to pay them back in the first place as -- which was knowable by the folks who issued the loans in the first place and who profited from the issuance of the loans.

MS. MARIAJIMENEZ: And which disproportionately impacted communities -- homeowners of color, which are, in fact, the hardest hit communities in California.

MS. PETERS: It's a policy debate which -- reasonable minds could differ.

There's another aspect to the consideration here, and that is the limited amount of resources not only in dollars, but also in staff, with, unfortunately, so few dollars. It sounds like a lot to say 1.2 billion, and in most situations that would be a lot of money.

MS. MARIAJIMENEZ: Right.

MS. PETERS: But the magnitude of the problem here in California, it is, unfortunately, a very little amount of money. And, you heard from staff, it's an extremely difficult program to run as it is to get those dollars out the door.

So I personally -- and, of course, I don't speak for the Board -- would hesitate to recommend that the staff then go through an additional hoop of analyzing all these different things we've been discussing here, but that's just my personal opinion.

MS. MARIAJIMENEZ: And just to that point, we do -- we do understand that there's a limited amount of money.

I do call the Board take administrative notice that the California Housing Finance Agency staff has indicated in their summary that of the 500 million they're setting aside, given the average amount that's going to be invested in a homeowner, that money is going to help about 13,000 homeowners in the state of California as currently written. And we do believe that that is not a wise use of money, that there could be many, many more homeowners.

We know we're not going to be able to help everybody, but we can help many, many more. We could double that amount if the plan was reconsidered.

ACTING CHAIRPERSON CAREY: I think that's --

MS. PETERS: It's already been approved by Treasury.

ACTING CHAIRPERSON CAREY: That's covering familiar territory.

Mr. Shine, do you have a question?

MR. SHINE: Well, I'm scratching my head here a little bit about this definition here. So you're saying that anybody -- not what you are saying. What is being said in this paper that I read, I think, that you're discussing is that if anybody took a dollar or $500,000 in cash in their pocket, that they should be eligible for this program. Or in the alternative, is there some difference in the thought process about a person owns a house, they paid their loan down pretty low. Someone comes in and hustles them to get a new loan and they borrow 50 percent of its value at the time, versus someone who comes in and makes a loan and someone gives them 99 percent of the value of their home, both cases of which existed at some point in time.

Is there any idea that there should be a difference in the way these people are treated? Is there any criteria? Or is it just if you took a buck or you took out half a million, doesn't matter, we'll just give you a reduction anyway?

MS. HAFFNER: National policy does not consider the origin of the loan, where the loan came from. Under national policy, what we're looking at is we have a crisis. And we have a crisis in California as well. We recognize that -- that the Board does have limited funds at the moment.

And we also recognize that policy follows practice and that the programs that the California Housing Finance Agency implements now stands to receive more money in the future to help more people in the future.

And so I think that the issue is how can the Board best address the housing crisis in California? And so to make a judgment call of you took money out for the right reason, you took money out for the wrong reason, will negatively impact the communities that were most targeted by bad loans and will fail to address the most serious parts of the housing crisis in the first instance.

MR. SHINE: Well, you said that there's a limited number of people who could be helped by virtue of the volume of dollars that are sitting in the pot that are available for that purpose. Given that it's going to be very difficult, I think, to come even close to solving a majority or a significant minority of the problems that exist today in the housing market and the housing stock that's in problems in California, do you not think that -- notwithstanding national policy, that good economic sensibility dictates that there be some kind of recognition of the variable ways in which people got into this problem?

MS. MARIAJIMENEZ: That's very difficult to determine. Therefore, what we're -- what we're promoting here is that the Board be open to the fact that barring at the gate people who refinanced means that you exclude disproportionally communities of color, long-time homeowners. And -- and the thing is that you -- we do -- that some portion of funds should be considered for those communities. We do understand there's not going to be enough money, but people should not be barred at the gate because they refinanced.

The other statistic is that more than 65 percent of all subprime mortgage lenders were refinanced, were refinances. So you're looking at barring a very large population of homeowners, and, again, that disproportionately impacts communities of color and long-term homeowners.

MR. SHINE: Well, so you're -- am I hearing you say that economics alone should be not considered, that the social implications of the government's funding should be also added to the criteria, notwithstanding the economics?

MS. HAFFNER: I think -- I think I understand your concern is, you know, basically why do you want to reward borrowers who -- who -- borrowers who took on risks that they shouldn't have and who got cash? Why should we -- why should we, the California Housing Finance Agency, help make that debt go away when they got cash?

And so I think the reason that we point to the Countrywide settlement as a measure is because there's a flip side of how did people get into these loans in the first place, who issued the loans, why were they risky. And so -- and that there's a finding that certain type of loans are very, very risky and so that there's culpability on both sides. And so if you want to look at culpability, say, okay, well, at least we know that certain type of subprime loans are defined as inherently risky, that there was some culpability there, we'll include those under the mix.

I don't know if that helps your concern, but I think that's one way to look at it, is that there's moral hazard on both sides.

MR. SHINE: I know exactly what you're saying. Thank you.

ACTING CHAIRPERSON CAREY: Ms. Jacobs.

MS. JACOBS: Can you share with us, not -- not at this second, but can you share with us any statewide statistics that actually show that refinances are skewed towards communities of color?

MS. MARIAJIMENEZ: We would -- we'll provide those statistics to you and the report to you.

MS. JACOBS: Okay. Because that would be -- but we need -- we are not looking at Los Angels alone. We need to look at statewide --

MS. MARIAJIMENEZ: We're -- we're -- we're here for the state --

MS. JACOBS: Okay.

MS. MARIAJIMENEZ: -- of California. Yes. There were members of our group from Northern California.

ACTING CHAIRPERSON CAREY: Ms. Macri-Ortiz.

MS. MACRI-ORTIZ: Okay. I'm looking at these, the five. And, yes, it's true it happened with refi's, but it also happened with firsts. I mean, anybody of low income, color, that was targeted -- you know, my community, we're all Mexican Americans because it was a heavy, heavy Latino community, so the Latino community was targeted. Most of them were not homeowners, so they got into firsts with all of these features. So I think, to me, it's a given that anybody that we're going to help, the majority of people we're going to help are going to come out of here.

Now, I think with respect to looking at the refi, I really agree with my colleague here in terms of the -- the damage that's done to a community when you have someone that's been in there a long time. But at the same time, there was a lot going on. And I -- where you have -- and maybe you can talk about the profiles of some of your clients or, you know, the people you're trying to help in L.A. I know about the profile of the clients that I've been working with in Oxnard.

And where the refi's came in was the elderly or the person on the last, you know, end of their -- their employment or the person on social security disability or whatever that got into a loan and what -- maybe the -- where you had the negatives, where every month somebody's -- their -- their principal increases every month. And I could see from myself voting for something in terms of a policy issue for the Board where we say, okay, we're not going to just totally exclude refi's, but --

MS. PETERS: Cash-out refi's.

MS. MACRI-ORTIZ: -- cash-outs. But you have to look at what was the amount of money that was taken out in comparison to what was the debt, No. 1; No. 2, you know, what was it used for; and then how much really did the lender rip them off? Because a lot of the people I know got in trouble, it was that extra $500 was added onto their premium every month because they picked the wrong coupon because they could only afford the minimum payment. And I could see that.

But, I mean, when we use a litigation with Countrywide, okay, that's where, you know, they did something that was illegal and because of that there was a settlement. And we're dealing in a climate where because of these bad practices, the whole thing collapsed. We're trying to rebuild it back up without having sufficient funds to be able to do it.

So I think we have to -- if we're going to err, we have to err on the side of those who pose the best chance of rebuilding their community. And I think with respect to that, the long-term homeowners do have something to say. But they can't just because they're long term -- they could have taken out 500,000, their original mortgage was 20,000, they got 500,000, now they want to get bailed out. You know, I mean, there has to be some relativity to what we're talking about.

MS. MARIAJIMENEZ: And we agree, Ms. Macri. We do. It's a very difficult situation. I could attest to the homeowners that we've seen here in Los Angeles and also in Northern California, but long-term homeowners, over 30 years of ownership, who at one time had paid off their mortgages, refinanced in order to pay off mortgage debt or pay educations or help their children purchase homes that have now been lost. But that is a story that's told time and time again.

And, yes, it's very difficult to narrow criteria and -- but we do feel that there can be rational criteria that can be used as a guideline, the Countrywide settlement being one, the time frame of the loans, and if you want to look at the purpose, that's going to be very, very difficult and time-consuming and unsure how you prove that, but all we're saying is that these long-time homeowners, hard-hit communities, not be barred at the gate and that some proportion of assistance be provided to those communities.

ACTING CHAIRPERSON CAREY: Other questions or follow-up from Board members?

MR. HUDSON: I had a question of staff, but I don't have any questions of the public comment.

ACTING CHAIRPERSON CAREY: Great.

MS. HAFFNER: Have we adequately addressed also the questions about negative equity and the -- Mr. Hudson, your questions about negative equity and the affordable payments and how addressing equity relates to an affordable payment as well as the banks' willingness to accept the 6 to 21 cents?

MS. MACRI-ORTIZ: That, I don't think, was adequately responded to. And I think that the question is in terms of a priority, if you're going to place a policy value, is it -- is the negative equity more of an issue or is the lack of affordability in terms of the amount a person can pay to keep his family in the home for next ten years? What should be the priority?

MS. HAFFNER: Both are important issues and -- and affordability is addressed in every scenario, or at least in every best case scenario affordability is addressed.

And the -- but as a matter of -- again, as a matter of national practice in loan workouts, the tools used to get to an affordable payment: Reduce interest rate, extend the term of the loan, and then impose a balloon payment, as you know. And so -- and so addressing affordability is one part of the equation.

However, in order to solve this crisis, you also need to deal with the problem of mortgage debt because people are 200-percent underwater. And when they're paying an amount of money that's 1500 a month, 2000 a month, you can call that 2-percent interest, 40 years, and a balloon payment at the end or you could call that 5-percent interest, 30 years, approximately, and it's the same monthly payment. So the issue is do homeowners have a chance of homeownership at the end of the day?

And that's the question that Treasury actually asked this Board to solve. Treasury asked the Board to help solve the problem of borrowers with severe negative equity. Treasury didn't ask the Board to solve the problem of affordability because there already are programs that address affordability. Treasury recognized that that's not the whole -- the whole issue, that there is a very serious issue of underwater homeowners in California, Nevada, Arizona, Michigan, and Florida and that different policies need to be in place to do that, and that's what you're in a position to do.

And I think it's so that -- so that -- so that you can actually prevent foreclosure long term. When I need to repair my roof, what wherewithal do I have to do that if I have an affordable payment but no equity? When I need to sell because I need to move, what wherewithal do I have if I don't have any equity and I'm not going to have any equity for 20 years?

ACTING CHAIRPERSON CAREY: And if I'm recalling, one of your points of disagreement is the LTV target?

MS. HAFFNER: Yes. That we have recommended that there be a loan to value cap. That after you invest public money, that there's a maximum loan to value so that you have some assurance that a foreclosure will be prevented at the end of the day so that somebody, again, five years down the road isn't faced with, okay, now I can't -- I can make the monthly payment but there's other things going on. I have to deal with the roof. I have to move.

ACTING CHAIRPERSON CAREY: And your cap would be?

MS. HAFFNER: What is in place at -- with the City of Los Angeles program is 125 percent combined loan to value.

ACTING CHAIRPERSON CAREY: Ms. Jacobs.

MS. JACOBS: I -- I appreciate your pointing out to us some of the criteria that Treasury is -- is trying to accomplish, but I'm pretty sure our plan has been approved by Treasury. Right? So I think it -- you know, it obviously meets their criteria. It may not meet what you think their criteria are, but it meets their criteria according to them.

The challenge that we all have is -- is what has been brought up over and over again, that $1.2 billion does not change the face of California real estate. It's a very small amount of money that's going to -- going to help very few families. And those families that are helped are going to be happy, but we are not going to change the real estate market by our investments. I would like -- you know, we'd have to add how many more zeros, Heather, two or three?

So I think we -- you know, we've got a program, and I think the best thing we can do is get our money out as quickly as we can get it out and help the families we can help. I'm always open to reevaluating it, you know, every six months and seeing if we need to make changes to the program.

I personally think that an affordable payment is a very important criteria. I think that when you look at our housing shortage in California, if I have an affordable payment and I'm in a house and I have negative equity, where am I going to go? Am I going to go to a rental that costs more when I have a little bit of a tax advantage with that affordable payment? I don't know.

So I mean, I think it's -- this is an issue, you know, I think we should do a gubernatorial debate on this or something, you know. This is a real thing we could have a -- not that I've heard the word "housing" in any government -- governor's candidate yet, but ever hopeful.

You know, I think this is something that -- that you bring up some great points, and if we could add some zeros, we would like to serve everybody we could serve. But I think, you know, I'm comfortable with the criteria that we have and the policy decisions that we've made, and I'm looking forward to, you know, the first monthly report of how many families we've helped and getting going and seeing what we can get done by the end of this year and then by the end of June of next year and all those, so --

ACTING CHAIRPERSON CAREY: Thank you.

MS. JACOBS: -- that's my two cents.

ACTING CHAIRPERSON CAREY: I think we're done. Thank you so much for staying.

MS. MARIAJIMENEZ: Thank you. And I just -- one final comment, again, it's just to, again, that the Board seriously look at the plan, that we do feel that given the loan to value that is set forth in the current plan, you will be -- we will be as taxpayers assisting people who are going to end up losing their homes anyway and the banks are still going to get a windfall from that. And also to consider that the Home Affordable Modification Program is implementing a principal reduction program not yet in place which will pay 6 to 21 cents on the dollar, and that will be the national standard.

Thank you.

ACTING CHAIRPERSON CAREY: Thank you very much.

Further comments from Board members?

MR. HUDSON: So the 476 million, is that going to go into the same program that we already have, or is there a new program?

MS. PETERS: Only unemployment.

MR. SPEARS: It's only for unemployment.

MR. HUDSON: I know, but I mean so everybody that's unemployed can get this money? I mean --

MR. SPEARS: The original proposal that went to Treasury had four elements: An unemployment assistance, reinstatement assistance, principal reduction, and relocation assistance. The -- we had about $45 million, roughly, for unemployment assistance --

MR. HUDSON: In the original --

MR. SPEARS: -- in the original --

MR. HUDSON: -- 700 million?

MR. SPEARS: Yes. This 476 all goes to that unemployment.

MR. HUDSON: So it's -- the unemployment program was part of our original program, it just -- it just got more money to that?

MR. SPEARS: Now, I will tell you and Di can give you a lot more detail, but we didn't -- we -- we then went back and changed the unemployment program a bit, and that is in to Treasury. Those changes are in to Treasury for approval. So it's not exactly the program that we had originally, but it's still pretty close to the original program, but it's all for unemployment.

MR. HUDSON: Okay.

MR. SPEARS: So we now have a total of approximately $526 million for unemployment assistance. I think that's the right number.

ACTING CHAIRPERSON CAREY: For unemployed homeowners?

MR. SPEARS: Unemployed homeowners.

MR. HUDSON: So then I guess my final point is then given all of the public concern about cash-out refi's, if -- if -- if staff could just revisit for my benefit our philosophy, the Agency's philosophy, behind not doing cash-out refi's so we could have just some sort of understanding as a Board of what we're doing, why we're doing it and why we think it's important.

MS. MACRI-ORTIZ: And one final thing, I think when we were discussing this earlier on, the understanding I had between what you are doing in this program and what we'd be doing in the other federal programs, that we would only be assisting people that at the end of the day were going to have an affordable payment.

MR. HUDSON: Who are you directing that to?

MS. MACRI-ORTIZ: Well, I guess that's --

MR. HUDSON: Right.

MS. MACRI-ORTIZ: -- who had said it, but in terms of that's what I'm hoping that's -- that's our focus, that at -- whoever we give money to is going to be able to survive, God willing, something --

MR. SHINE: And make the payments every month.

MS. MACRI-ORTIZ: Huh?

MR. SHINE: And make the payments every month so they're current.

MS. MACRI-ORTIZ: Well, exactly.

MR. SHINE: When we're -- when it's over.

MR. SPEARS: It was made very clear in the original guidelines that came out from Treasury last spring, early last spring, was that sustainable homeownership --

MS. MACRI-ORTIZ: Right.

MR. SPEARS: -- was the --

MS. MACRI-ORTIZ: Okay.

MR. SPEARS: -- primary goal.

MS. MACRI-ORTIZ: That's -- that -- if we do it for 13,000, that's 13,000 more. If we can do it for more, that's great, but whoever we do it for, if we can do that, we've done something.

MR. HUDSON: And then one final point to Lynn's question, Lynn's point, this is -- this program has already been approved by Treasury, right?

MR. SPEARS: Yes, it has.

ACTING CHAIRPERSON CAREY: Yes.

MR. HUDSON: And if we want to make a change, it's got to go back to Treasury, right?

MS. PETERS: Um-hmm.

MR. SPEARS: Yes.

MR. HUDSON: And I guess we could continue to fund under our current program while we have an application in to Treasury for a change, and then it's just whatever time frame they take to make that decision and get back to us would determine whether we could make that change if we wanted to. When Lynn says every six months we could revisit this, it really is saying if we -- if in six months we see we want to make a change, we could give it to Treasury and they'd get back to us.

MR. SPEARS: Yes. But we can fine-tune it, change it dramatically. Part of the objective of the innovation fund is to --

MR. HUDSON: See if it --

MR. SPEARS: -- find programs that --

MR. HUDSON: If we have an innovation fund that's --

MR. SPEARS: -- are on a statewide basis.

MR. HUDSON: If innovation fund comes up with a great program, then we can go back to Treasury say, "We want all of our money to go like that."

MR. SPEARS: Absolutely.

MR. HUDSON: Okay. Thanks.

ACTING CHAIRPERSON CAREY: Further -- and I'm assuming at some point at the end of the process we will get back information on all of the applications and --

MR. SPEARS: Yes.

ACTING CHAIRPERSON CAREY: -- that will be public information under the innovations fund.

Okay. Other -- other items from Board members?

--o0o--

Adjournment

ACTING CHAIRPERSON CAREY: With that, we are adjourned.

(The meeting concluded at 1:01 p.m.)

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REPORTER'S CERTIFICATE

I hereby certify the foregoing proceedings were reported by me at the time and place therein named; that the proceedings were reported by me, a duly certified shorthand reporter and a disinterested person, and was thereafter transcribed into typewriting by computer.

In witness whereof, I have hereunto set my hand this 6th day of October 2010.

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

State of California

M E M O R A N D U M

To Board of Directors **Date:** November 5, 2010

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

Subject: Update on Keep Your Home California Programs

The Keep Your Home California Program, funded by the federal governments Hardest Hit funds, will remain in pilot phase until the first of the year. As you know, we had established an aggressive roll out date of November 1, which we have been unable to meet for a number of reasons:

- The amount of overall funds allocated to California has nearly tripled since the original announcement, requiring significant changes in the systems that are being built and the staffing levels that will be required to handle the increased volume. These additional funds, when couple with recent announcements discussed below, are expected to increase the projected volume of transactions by approximately four times.

- Last Friday, Fannie and Freddie directed their servicers to participate in the Unemployment and Mortgage Reinstatement Assistance Programs, significantly increasing the number of loans that will now be eligible for full processing. Lack of participation from the GSE's originally lead us to determine a large number of callers would be ineligible – with this latest announcement those assumptions are now reversed. It is expected that the FHA will issue similar guidance in the near future. Again, this had a significant impact of system scalability and overall staffing needs.

- The initial pilot, that currently includes more than 300 loans working their way through all aspects of the system, has proven invaluable in helping to identify potential strengths and weaknesses within the system. The pilot also helped prioritize areas that needed additional attention to pass Treasury's stringent readiness assessment, which is required prior to a full roll out.

Implementation is continuing to move forward, and by the beginning of December, we expect to have at least three major servicers signed on and actively piloting 800-1000 homeowners in the Unemployment Mortgage Assistance (UMA) Program. Systems developed for the remaining programs will be adjusted through the remainder of this year based on results and insights garnered from the pilot programs. We continue to have discussions with servicers about participating in the Principal Reduction Program and expect a number of them to phase in their participation soon after the first of the year. Successful implementation of the UMA pilot will further instill needed confidence in our systems for fuller participation.

Meetings with the Tier 2 servicers are scheduled for later this month, and we expect many of them to be ready to get on-board by the first of the year.

We have received initial feedback from Treasury regarding the proposals we submitted for the Local Innovative Fund, and we are continuing to work with the most viable candidates to answer Treasury's outstanding questions and provide the additional information they have requested. Those applicants not chosen for participation will be notified the week of November 8.

State of California

M E M O R A N D U M

To Board of Directors **Date:** November 5, 2010

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

Subject: Item 5 - Update on the Recent Ratings Reports by Moody's Investors Service

On October 26, 2010 Moody's Investors Service released reports updating their credit ratings on the CalHFA Issuer Credit Rating (the Agency's G-O rating) and on the CalHFA Home Mortgage Revenue Bond (HMRB) indenture. The CalHFA senior unsecured issuer credit rating was downgraded one notch to A2 from A1. The HMRB indenture credit rating of A3 was confirmed. Both of the ratings were removed from credit watch and assigned negative outlook due to Moody's uncertainty of the timing and pace of the economic and real estate recovery in California.

The following table provides the current credit ratings from Moody's Investors Service and Standard & Poor's Ratings Services.

		CalHFA ICR	HMRB
Moody's			
	Credit Rating	A2	A3
	Outlook	Negative	Negative
	Date	10/26/2010	10/26/2010
S & P			
	Credit Rating	A	A
	Outlook	Negative	Negative
	Date	4/2/2010	4/2/2010

Moody's rationale for the ratings is based on the erosion of the Agency's fund balances, profitability and liquidity as a result of single family mortgage loan delinquencies and foreclosures, risks related to variable rate debt, and uncertainty about financial growth. Moody's believes the Agency to have a solid capital base, but comments that the risk profile is unique among State housing agencies because of its combined exposure to single family mortgage risk and risks related to variable rate bonds. Despite the severe increase in mortgage delinquencies and foreclosures Moody's expects the HMRB indenture will have sufficient resources to withstand stress losses at a level consistent with the current rating.

The attached reports are quite comprehensive and include discussions of financial performance, liquidity pressures, performance of the mortgage portfolio, variable rate debt, Agency management and the federal government's HFA initiatives.

Especially encouraging were statements from Moody's that CalHFA continues to have a sound balance sheet sufficient to support an A2 rating and that actions by management to address financial issues confronting the Agency have contributed positively to the rating assessment. Moody's specifically commented on the positive steps management has taken to decrease liquidity pressures including; the Agency's decision to cap the "gap" mortgage insurance obligation, the renegotiation of swap collateral provisions to lower rating levels, reduction of swap exposure through exercise of par terminations, and legislative authorization to resolve the permanent financing of the Bay Area Housing loans.

The reports make it very clear that significant work lies ahead to stabilize the Agency's credit ratings. Moody's will be closely monitoring the anticipated refinancing of the Bay Area Housing initiative by the California Health Facilities Financing Authority, single family loan losses, the credit rating of Genworth Mortgage Insurance Company, the performance of variable rate debt, collateral posting to swap counterparties, and the Agency's transition from TCLP liquidity facilities provided by the federal government at the end of 2012.

Within a very short period of time both Moody's and Standard & Poor's will begin the rating update process using the recently issued audited financial statements as an updated basis of the Agency's financial condition. These credit rating updates will likely be completed by March or April of 2011.

Attachments

Moody's Investors Service

Rating Update: MOODY'S DOWNGRADES CALIFORNIA HOUSING FINANCE AGENCY'S SENIOR UNSECURED RATING TO A2 FROM A1; OUTLOOK IS NEGATIVE

Global Credit Research - 26 Oct 2010

Approximately $1.2 billion of debt affected

Housing
CA

Opinion

NEW YORK, Oct 26, 2010 -- <RATINGS>

Moody's Investors Service has downgraded the senior unsecured (issuer) rating of California Housing Finance Agency (CalHFA) to A2 from A1. A negative outlook has been assigned. This action affects the ratings on the following outstanding bonds of CalHFA that are supported by the Agency's issuer rating: the Multifamily Housing Revenue Bonds III (approximately $1,079,130,000 outstanding) and the Housing Program Bonds (approximately $135,425,000 outstanding). This action does not affect the rating on the Agency's Home Mortgage Revenue Bonds (HMRB) which today was confirmed at A3 with a negative outlook and taken off of the watch list. HMRB is CalHFA's largest program, and although the HMRB bonds are not general obligations of CalHFA and thus not supported directly by the senior unsecured rating, there are key interrelationships between the strength of HMRB and the strength of the Agency as a whole. Please see today's report on HMRB for further details on that program and the Agency's single family lending programs.

RATINGS RATIONALE

The downgrade of CalHFA's senior unsecured (issuer) rating is based on erosion of the Agency's fund balances, profitability and liquidity as a result of single family mortgage loan delinquencies and foreclosures, risks related to the Agency's high level exposure of variable rate debt, and uncertainty about future financial growth. The Agency continues to have a solid capital base, but its risk profile is unique among State housing finance agencies because of its combined exposure to single family mortgage risk and risks related to variable rate bonds.

The Agency is an instrumentality of the State of California which has operated since 1975 with the mission of providing affordable housing for low and moderate income persons in California. Its debt obligations are not obligations of the State of California. The Agency's principal activities include the following: Single family lending, by issuing bonds to finance the purchase of home mortgage loans for low and moderate income buyers, which has primarily been conducted through the HMRB indenture, and multifamily lending, in the form of construction and permanent financing for affordable rental developments. The Agency also operates the California Housing Loan Insurance Fund (CalHLIF, rated B2 on watch for downgrade), a separately capitalized mortgage insurance fund that provides primary mortgage insurance for mortgage loans finance by the Agency. The Agency also operates other housing related programs including down payment assistance and certain programs administered on behalf of the State.

A negative outlook has been assigned reflecting the pressures CalHFA continues to face due to the uncertainty of the timing and pace of the economic and real estate recovery in California and its impact on mortgage losses, fund balances and profitability. Additionally, credit and liquidity facilities issued under the Temporary Credit and Liquidity Program (TCLP) expire at the end of 2012 and the repayment terms under the facilities are a potential source of additional stress on the financial performance if left unchanged.

Financial performance: while the balance sheet is still strong, recent financial stresses have reduced fund balances and profitability.

Despite recent weakening of its financial performance, CalHFA continues to have a sound balance sheet sufficient to meet its obligations with a margin sufficient to support an A2 rating. The Agency entered the current period of financial and mortgage stress after a period of strong long-term growth. As of 6/30/08 the Agency had a combined fund balance of $1.3 billion or 15.13% of bonds outstanding (the combined fund balance is assets less liabilities, after Moody's adjustments, including those in bond indentures but excluding the state-funded Contract Administration Account). The general fund balance (adjusted assets less liabilities outside of bond indentures) was $775 million. During 2009, as new lending activity came to a standstill, a combination of increased single family delinquencies and foreclosures, declining investment earnings, and increased costs associated with variable rate debt performance placed pressure on both earnings and net assets. As of 6/30/09 the combined fund balance held steady at $1.3 billion (15.8% of bonds outstanding), but the general fund balance declined 8% to $712 million. Further contraction of fund balances is anticipated in fiscal year 2010.

CalHFA's profitability contributed to fund growth from 2004-2008, averaging 9.4% per annum over the five-year period. However, for the fiscal year ended 6/30/09 CalHFA showed a Moody's adjusted operating loss of $12 million, 1.97% of gross revenues. The loss was due primarily to one-time expenses related to replacement of interest rate swaps related to the Lehman Brothers bankruptcy; without those losses the Agency showed a profit of $3 million or 0.6% of gross revenues. For the current fiscal year we expect continued losses.

Although this negative trend is a factor in the current rating action, the Agency's balance sheet is able to withstand Moody's capital charges related to single family and multifamily lending, interest rate swap exposure and other costs, at a level sufficient to support an A2 rating.

Potential liquidity pressures remain a concern, although recent steps have been positive.

A primary focus over the last year has been pressures on available liquidity. Two steps taken during the course of 2010 have significantly decreased liquidity pressure. First, in April 2010 the Agency placed a cap of $135 million on the Agency's general funds that would be made available for "gap" mortgage insurance - a form of umbrella coverage against mortgage losses benefitting the HMRB program which previously had constituted an open-ended exposure. Second, in October 2010, at CalHFA's request the California legislature approved a loan from the State to CalHFA to refinance CalHFA's borrowings for the Bay Area Housing Plan, which currently are financed on a line of credit with a financial institution that expires on February 28, 2011. This was an important step, because CalHFA might have faced a cash outflow in the amount of approximately $100 million had it not arranged other refinancing.

Despite these steps, liquidity resources remain a factor that contribute to today's downgrade. A remaining source of uncertainty in this area is the Agency's collateral posting obligations on its interest rate swaps. As a result of the current historically low interest rates and recent rating downgrades, CalHFA currently posts an estimated $63 million in collateral to swap counterparties. We believe that the Agency has sufficient resources to cover collateral posting so long as the rating remains in the A range; estimated additional collateral would be limited to approximately $30 million. However, if the Agency's issuer rating were to fall into the Baa range (or its equivalent by another rating agency), the possible increase in collateral posting (which could be in excess of $150 million of further collateral) could severely strain the Agency's liquidity resources.

CalHFA benefits from strong participation in the federal government's HFA initiatives.

CalHFA's participation in federal initiatives focused on state and local HFAs contribute to the potential for increased financial stability. These initiatives represent a significant investment by the federal government in the Agency, in recognition of the potential significance of CalHFA and other HFAs in providing assistance to distressed homeowners and new affordable mortgages going forward. In late 2009 the US Treasury implemented the New Issue Bond Program (NIBP), under which the GSEs purchased HFA bonds to provide capital for new multifamily and single family mortgage loans at low rates. CalHFA successfully closed a $1.1 billion NIBP escrow for single family bonds and a $380.5 million escrow for multifamily bonds, which have been used to establish new indentures as platforms for restarting mortgage loan activity.

Also in December 2009 CalHFA took advantage of the Temporary Credit and Liquidity Program (TCLP) to replace bank liquidity facilities on 100% of its outstanding VRDOs ($3.4 billion in bonds) with facilities issued by Fannie Mae and Freddie Mac (the GSEs). The TCLP facilities can be drawn both to provide funds for purchase of tendered bonds that are not remarketed (liquidity support) and to provide funds to pay bond debt service if sufficient funds are not otherwise available. The terms of the liquidity support are favorable in some ways compared with the bank facilities they replaced, because bonds purchased with liquidity support draws (bank bonds) are not subject to accelerated repayment of principal (term out). The strength of the TCLP liquidity and credit support may assist in assuring favorable performance of VRDOs in the market. The facilities expire in December 2012; if they are not replaced by new facilities or conversion of bonds to forms not requiring outside liquidity and are purchased by the GSEs, they would bear interest at a higher rate, and amortize according to regular amortization schedules for ten years (after which they would need to be repaid).

Finally, the receipt by CalHFA of $1.975 billion of federal Hardest Hit Funds (HHF) since July 2010 has the potential to reduce the level of losses associated with the CalHFA's single family lending program (primarily HMRB). The funds are available as a statewide program, administered by CalHFA, for relief of distressed homeowners by a combination of subsidies of mortgage payments and principal reduction. Although the funds are available to all mortgage lenders in the State, CalHFA has launched a focused effort to apply for funding for qualified borrowers in its portfolio.

Single family mortgage performance remains a key source of stress, although some signs of improvement may be developing.

In our opinion the stress to CalHFA stemming from the severe decline in performance of its single family mortgages has been a a key source of negative rating pressure. Single family lending is the Agency's largest activity; single family programs constitute approximately 84% of bonds and 78% of mortgages outstanding. Single family lending to date has been primarily in the HMRB indenture, which is not backed by the Agency's general obligation pledge. In the past year, management has elected to further reduce the potential impact of mortgage losses on the Agency's general obligation credit by placing a cap of a $135 million of Agency funds that are available to pay for gap insurance on HMRB loans. This is a significant positive in our assessment of the GO rating in reducing potential balance sheet and liquidity stress. Nevertheless HMRB is the Agency's largest program and constitutes an important component of the Agency's combined fund balance and profitability. In addition, the interest rate swaps that hedge interest rate exposure on VRDOs in HMRB are general obligations of the Agency. Net swap payments are initially advanced from the Agency's operating account and then reimbursed from HMRB. To date, HMRB has fully reimbursed all swap payments; this creates another source of linkage between the health of HMRB and the Agency's profitability.

The dramatic rise in single family foreclosures and delinquencies has contributed to greater losses and weaker performance in HMRB. Serious delinquencies increased from 4.68% at 12/31/08 to 11.28% at 12/31/09; however, delinquencies have now shown signs of leveling off (10.87% s of 7/31/10) and the number of loans in the delinquency/ foreclosure pipeline has decreased. The availability of HHF funds has the potential to reduce losses, but the program is in the early stages of implementation and its impact is not yet clear. The levels of losses stemming from single family mortgages will continue to be a key factor going forward.

Multifamily programs continue to experience sound performance.

The Agency issues bonds for multifamily financing primarily under the Multifamily Housing Revenue Bonds III Indenture (MFHRB III), which accounted for $1.1 billion of $1.3 billion of multifamily bonds outstanding at 6/30/09. MFHRB III has been the Agency's active multifamily program since 1997, and the bonds are general obligations of the Agency. In addition to the general obligation pledge, the bonds are secured by a pledge of mortgages and assets under the indenture, which had an asset to debt ratio of 1.09 as of 6/30/09. Although the indenture showed a loss of 2% of gross revenues for the year ended 6/30/09, this was largely attributable to one-time swap replacements. On an operating basis the indenture had net revenues comprising 16.7% of gross revenues and interim statements point to continued profitability during the current fiscal year. Overall, multifamily programs remain a significant contributor to agency profitability.

Moody's reviews the loans in the multifamily portfolio periodically and we believe that the Agency's fund balances are sufficient to offset the risks posed by the risk of non-performance of loans. Delinquency rates remain low. Approximately 54% of the loans are for projects with Low Income Housing Tax Credit equity, which leads to low loan to values and has traditionally helped to hold down delinquencies due to the interests of the equity holders in preventing default. Approximately 19% of the projects benefit from FHA risk sharing or other insurance, and approximately 9% have Section 8 HAP contracts. The Agency also has made special loans to multifamily projects to increase their financial strength or meet policy objectives. The Agency has had only six defaults over the past twenty years, and has been successful in selling its multifamily REO.

Variable rate debt adds additional risk.

Approximately 60% of CalHFA's bonds ($4.44 billion; as of 8/1/2010) are variable rate, including 44.8% of bonds ($3.28 billion) that are VRDOs. CalHFA has worked to decrease its variable rate exposure, which stood at over 88% of bonds in 2006; nevertheless it remains among the highest by % among state HFAs and exposes the Agency to additional risks, including roll-over risk, counterparty risk and basis risk among others. The replacement of bank liquidity facilities with TCLP was a positive development in the short term in reducing the potential stress of VRDO bank bonds, but these facilities are subject to replacement by the end of 2012, and the potential for higher liquidity costs in the future remains. The Agency reports that overall basis spread of VRDOs has improved as bonds have traded closer to the SIFMA benchmark; however, high SIFMA to LIBOR ratios continue to result in negative spread between variable rate swap receipts and variable rate bond payments, increasing interest costs and reducing profitability.

Moody's reviews cash flow projections to demonstrate that CalHFA's programs have sufficient strength to meet bond obligations, including variable rate obligations, in a variety of scenarios. Stress cash flow projections on both the HMRB indenture and the MFHRB III indenture demonstrate the ability of the program to meet obligations in both low and high interest rate environments, and to absorb certain portions of VRDOs becoming bank bonds for periods of time.

CalHFA has approximately 112 interest rate swap contracts, predominantly floating to fixed rate swaps that hedge interest rate risk of VRDOs, with a notional amount of approximately $3.4 billion. All of the swaps are general obligations of CalHFA. Counterparty risk is moderately well diversified among a group of large financial institutions with ratings in the A to Aa ranges: the largest exposures include JPMorgan Chase Bank NA, rated Aa3/P1 (32%); Merrill Lynch & Co, rated A2/P1 (22%) and Citigroup, rated A3/P1 (12.8%). In the current period of low interest rates, swap mark-to-market value remains materially negative to CalHFA, in excess of $300 million. Although outright termination triggers against the Agency are at levels below investment grade, as discussed above, the swaps expose the Agency to significant collateral posting risk were any of its general obligation ratings to fall into the Baa range.

The Agency purchased certain options on many of the swaps, including options that will allow the Agency to terminate the swaps, with no mark-to-market payment, ten years after the swaps were executed. These options become significant in size over the next three to five years as many swaps reach their ten-year mark. The option to reduce the swaps will increase the Agency's flexibility in managing its variable rate exposure.

Management actions remain a positive factor.

Actions by CalHFA's management to address financial issues confronting the Agency, particularly in light of the challenges of severe single family mortgage delinquencies and high exposure to variable rate debt, have contributed positively to our rating assessment. Over the past eighteen months, the Agency has substantially enhanced its single family asset management function and reduced timelines for moving defaulted loans through the pipeline. Successful application for the large HHF award should also contribute to efforts to reduce single family losses. The decision to cap the funds available for gap insurance relieved a source of liquidity pressure on the issuer rating.

In mid-2009, the Agency renegotiated interest rate swap collateral provisions to move triggers to lower rating levels, a positive development even though the new triggers continue to pose a challenge. Reduction of swap exposure through exercise of par terminations may also aid in restructuring variable rate debt.

Most recently, the Agency was successful in obtaining legislative authorization for refinancing from other state resources its short-term borrowing for the Bay Area Housing initiative, relieving a major source of near-term liquidity pressure.

The Agency completed two NIBP bond closings and conversion of liquidity facilities to TCLP in December 2009 and January 2010. These have been issued under new indentures as platforms for a revival of single family and multifamily lending going forward. The new indentures are not Agency GOs. New single family loans will be converted to Mortgage Backed Securities (MBS), and multifamily loans will have credit enhancement from Letters of Credit, the GSEs or Ginnie Mae which will minimize risk of loan performance to the Agency. The success in implementing new lending programs will be a key factor in the ability of the Agency to increase profitability and growth going forward.

Outlook

A negative outlook has been assigned reflecting the pressures CalHFA continues to face due to the uncertainty of the timing and pace of the economic and real estate recovery in California and its impact on mortgage losses, fund balances and profitability. Additionally, credit and liquidity facilities issued under the Temporary Credit and Liquidity Program (TCLP) expire at the end of 2012 and the repayment terms under the facilities are a potential source of additional stress on the financial performance if left unchanged.

What could stabilize the rating or change the rating - up

Increase in fund balances and/or profitability

Successful management of single family mortgage loan delinquencies and foreclosures (combined with successful implementation of HHF), so as to contain or reduce losses

Reduced variable rate bond exposure, including successful replacement of TCLP facilities through new facilities or conversions of bonds to modes not requiring external liquidity, reducing the size of the swap portfolio and/or reducing the potential impacts of swap collateral posting

What could change the rating - down

Failure to successfully close the anticipated refinancing of the Bay Area housing initiative

Continued low levels of profitability and/or declines in fund balances

Increases in single family losses, due to future increases in delinquencies/foreclosures, and/or higher than anticipated losses on delinquent/foreclosed loans

A downgrade of Genworth Mortgage Insurance Company, which provides reinsurance for HMRB mortgages

A significant downgrade of HMRB, impairing the ability of HMRB to reimburse the operating account for swap payments

Increase in variable rate pressures, including especially an increase in swap collateral posting due further declines in interest rates or ratings downgrades, unforeseen counterparty events, or lack of successful transition from TCLP liquidity facilities

The principal methodology used in rating California HFA Housing Program Bonds was Moody's Methodology for Assigning Issuer Ratings to Housing Finance Agencies rating methodology published in May 2001. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found on Moody's website.

REGULATORY DISCLOSURES

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Please see the Credit Policy page on Moodys.com for the methodologies used in determining ratings, further information on the meaning of each rating category and the definition of default and recovery.

Analysts

William Fitzpatrick
Analyst
Public Finance Group
Moody's Investors Service

Florence Zeman
Backup Analyst
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service
250 Greenwich Street
New York, NY 10007
USA

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Rating Update: MOODY'S CONFIRMS THE A3 LONG-TERM UNDERLYING RATING ON CALIFORNIA HOUSING FINANCE AGENCY'S HOME MORTGAGE REVENUE BONDS; OUTLOOK IS NEGATIVE

Global Credit Research - 26 Oct 2010

Approximately $6.2 billion of debt affected

California Housing Finance Agency
Housing
CA

Opinion

NEW YORK, Oct 26, 2010 -- Moody's Investors Service has confirmed and removed from watchlist the A3 long-term underlying rating on California Housing Finance Agency's Home Mortgage Revenue Bonds (HMRB). A negative outlook has been assigned to the bonds. The action affects approximately $6.2 billion in bonds outstanding as of 6/30/10. The Aaa/VMIG 1 enhanced ratings assigned to the variable rate demand obligations (VRDO) issued under the HMRB indenture are based on credit and liquidity support from Fannie Mae and Freddie Mac (the GSEs) under the Temporary Credit and Liquidity Program (TCLP) are not affected by this action.

RATINGS RATIONALE

Despite a severe increase in mortgage delinquencies and foreclosures we expect the HMRB program will have sufficient resources to withstand stress losses at a level consistent with the current rating. Additionally, strong efforts by management to enhance servicing of delinquent loans, a moderate improvement in delinquency trends in the HMRB mortgage portfolio over the past six months, and the availability of over $1.9 billion of federal Hardest Hit Fund (HHF) aid being administered by CalHFA to provide statewide mortgage relief, are factors that point to moderation of mortgage losses going forward.

The long-term underlying rating is supported by the indenture's overcollateralization level (Program Asset to Debt Ratio - PADR)) of 1.06x (as of the 6/30/09 audit), mortgage insurance on individual mortgage loans, support from the California Housing Finance Agency (CalHFA) to meet interest rate swap payments, the terms of the credit and liquidity support from Fannie Mae and Freddie Mac under TCLP which mitigates the impact of potential stresses related to variable rate demand obligations (VRDOs), and cash flow projections indicating the ability of the HMRB indenture to continue to meet debt service requirements assuming stressful mortgage loan and variable rate debt performance.

A negative outlook has been assigned reflecting the pressure the HMRB continues to face due to the uncertainty of the timing and pace of the economic and real estate recovery in California and its impact on mortgage losses. Additionally, the credit and liquidity facilities issued under TCLP expire at the end of 2012 and the repayment terms under the facilities are a potential source of additional stress on financial performance if left unchanged.

Legal Security

The bonds are special obligations of CalHFA, payable solely from the revenues, assets and properties pledged under the Indenture, including the single family mortgage loans financed under the Indenture and certain reserve accounts. Approximately 106 Series of Bonds outstanding under the indenture are secured on parity by the pledged assets. The bonds are not obligations of the State of California and are not supported by a general obligation pledge of CalHFA.

Financial Performance

Moody's views HMRB's over- collateralization and profitability as important measures of the ability of program to withstand the impact of mortgage losses as well as potential effects on changing interest rate markets on variable rate debt. The program entered the period of the mortgage crisis with a strong financial base. Mortgage origination came to a virtual halt at the end of 2008 as markets stalled and delinquencies began to rise, beginning a period of contraction of the program. At 6/30/09 the reported PADR was 1.067 and combined fund balance was $ 442.5 million, but these numbers reflected a change in accounting practice as CalHFA began to account for net HMRB swap payments in its operating account rather than in HMRB. Although this change was consistent with CalHFA's obligation to make swap payments as an Agency general obligation, practice remains for HMRB to reimburse the operating account for swap payments. The Agency reports it has been reimbursed in full by HMRB for swap payments made by the Agency. If the swaps were shifted back to HMRB on a pro forma basis at 6/30/09, Moody's estimates that HMRB PADR would be 1.059 and combined fund balance $389.5 million. Profitability based on the 6/30/09 audit was 35.89% but this also reflected the accounting change; with swaps returned to HMRB, Moody's estimates that HMRB operated at approximately a break-even basis for the fiscal year.

For the fiscal year ending 6/30/10 Moody's expects that the Agency will report further operating losses resulting from a combination of very low investment earnings, mortgage losses and variable rate bond costs. However, CalHFA management is working very actively to manage financial performance. They recently completed the sale of certain HMRB loans to create additional liquidity for the indenture that may be applied to reduce debt levels. The implementation of TCLP in December 2009, has contributed to improved performance of VRDOs which will contribute positively to the HMRB program in the near term.

Mortgage Performance

HMRB's portfolio of 26,523 mortgage loans, with an outstanding principal balance $5.17 billion as of 6/30/10, is a key source of security for the bonds. The severe increase in mortgage delinquencies and foreclosures has been a major focus of our ratings analysis. The percentage of serious delinquencies (loans delinquent 90+ days plus loans in foreclosure) in CalHFA's portfolio increased from 4.68% to 11.28% from 12/31/08 to 12/31/09. Serious delinquencies of loans insured by CalHFA's insurance fund, the California Housing Loan Insurance Fund (CAlHLIF, rated B2 on watch for downgrade) increased from 6.03% to 16.40% over the same period. These levels significantly exceeded statewide serious delinquencies of FHA fixed rate loan delinquencies (4.58% at 12/31/08 and 6.51% at 12/31/09, respectively) and delinquencies levels of other State housing finance agencies nationally. Of particular concern are the approximately 23% of the portfolio that are "IO" loans (interest only for five years and then fully amortizing) the first of which began to amortize during 2010. The rising delinquencies, combined with the severe decline in California house prices, are expected to increase losses upon foreclosure and delay the ability to successfully dispose of foreclosed homes.

The past six months have shown some improvement in the trend of mortgage delinquencies. Seriously delinquent rates declined 3.7% to 10.87% as of July 31, 2010; seriously delinquent rates for CalHLIF insured loans are down 7.67% to 14.81%. CalHFA has increased its focus on management of delinquent loans, tightening supervision of outside servicers and increasing in-house staffing. This has lead to a reduction in the average time of claims settlement and REO disposition and significant reduction of the number of seriously delinquent loans in the pipeline. The new HHF program (described below) provides additional resources that should help to decrease overall losses, as well as slow the use of available funds available for CalHLIF and gap insurance.

Mortgage insurance remains a significant, although diminished, mitigant against mortgage losses in HMRB. As of 7/31/10, 29.18% of the loan portfolio (as a % of principal outstanding) benefits from FHA insurance, which nearly eliminates the risk of loss to HMRB. Non-FHA loans with LTVs greater than 80% benefit from PMI insurance (coverage equal to 35% of loss) from CalHLIF. The obligations of CalHLIF are supported by 75% quota share reinsurance from Genworth Mortgage Insurance Corporation (Genworth, rated Baa2, with a negative outlook). In addition, all loans without FHA insurance benefit from additional "gap" insurance, provided by CalHLIF, with backing from CalHFA, sufficient to provide coverage of up to 50% of defaulted loan principal. In March, 2010, CalHFA capped the amount of funds available for "gap" coverage at $135 million (including amounts previously paid) which limits the funds available for this purpose.

We believe that the indenture's fund balance, combined with projected future cash flow, will be able to absorb losses at a stress level consistent with the program's rating. Our analysis limits the value of CalHLIF insurance, and of gap insurance, to the funds that remain available, but gives credit consistent with the rating level to the Genworth reinsurance.

CalHFA's receipt of a total of $1.9 billion of HHF funds has the potential to be a significant positive in the Agency's efforts to soften the impact of mortgage distress. The HHF initiative, first announced by the US Treasury in March 2010, has provided funds to nineteen state HFAs for use in providing relief to distressed homeowners. CalHFA's program, launched in October, may offer relief in different forms (which may be combined for a particular homeowner), including temporary subsidy of mortgage payments for unemployed homeowners, funds to bring delinquent loans current, assistance with relocation, and principal reduction (up to a maximum benefit of $50,000 per borrower). Although the size of the award is significant, the impact of HHF on the HMRB portfolio is difficult to assess at this time. The funds are available to lenders statewide, although CalHFA's active participation in managing the program for the state is expected to result in a portion of the funds benefiting HMRB loans.

Variable Rate Debt:

Approximately 58% of the HMRB bonds are variable rate debt, including 42% of bonds that are VRDOs. CalHFA has worked consistently to reduce variable rate exposure, which is down from over 70% at 6/30/07. The replacement liquidity facilities on all of the HMRB VRDOs with credit and liquidity facilities from the GSEs under the TCLP program was credit positive in the near to medium term; the GSE credit support reduces the chance of bank bonds, and the facilities require no accelerated principal amortization of bank bonds. However, the annual fees for the facility are significantly higher than HMRB's previous weighted average cost, and the TCLP fee increases each year. Furthermore, CalHFA faces the challenge of providing for replacement of TCLP by the end of 2012; if not replaced the facility could be drawn, with no term out for the first ten years but payable at an increased interest rate.

Approximately $2.5 billion (70%) of the variable rate debt is hedged with interest rate swaps; the remainder (15% of bonds) is unhedged, subjecting cash flows to interest rate risk. Swap payments are a general obligation of CalHFA, which is a benefit to HMRB as mark to market and collateral posting obligations, if any, do not fall on HMRB. The swaps are diversified among a group of twelve counterparties, all of them major financial institutions with ratings in the A3 to Aaa range. Swap basis mismatch, resulting from LIBOR-based swap receipts against SIFMA- based variable rate bond expense, continues to result in a net cost as SIFMA-LIBOR ratios have remained elevated. Going forward, par termination options will significantly increase CalHFA's flexibility in managing its variable rate exposure. At the inception of most the HMRB swaps CalHFA purchased certain options to terminate the swaps with no mark-to-market payment, including options to terminate at the end of ten years. Over the next three years this will allow termination of approximately half of the notional amount of the swaps.

Cash Flow Projections:

Moody's has reviewed consolidated cash flow projections for the HMRB program that continue to support the rating at this time. These include cash flows based on Moody's parameters for single family programs with variable rate debt. Separate cash flows modeled high and low interest rate stress scenarios, in each case at both low and high (3 year average life) mortgage prepayment speeds, and in a split rate scenario under which the higher-coupon IO mortgages prepay at higher speeds and other mortgages at lower speeds. Additional cash flows include scenarios demonstrating the program's ability to support 100% of VRDOs as bank bonds for a period of a year, and scenarios demonstrating the program's ability to sustain loan losses of approximately $460 million over a seven year period.

Outlook

The outlook on the rating is negative. Despite recent stabilization trends seen in the mortgage portfolio, HMRB continues to face negative pressures due to the uncertainty of the timing and pace of the economic and real estate recovery in California and its impact on mortgage losses. Additionally, the credit and liquidity facilities issued under TCLP expire at the end of 2012 and the repayment terms under the facilities are potential sources of additional stress on financial performance in the medium term if left unchanged.

What could stabilize the outlook or change the rating up:

Stable or increasing financial performance, including PADR and profitability

Continued improvement in mortgage performance, combined with successful implementation of HHF and successful efforts to work through the pipeline of delinquent loans with losses not in excess of levels consistent with the rating

Successful transition of TCLP liquidity support for VRDOs without material increases in indenture risk, through replacement facilities or conversion of bonds to fixed rate or other modes not requiring external liquidity

What could change the rating down

Declining PADR and/or profitability, diminishing the cushion available to the program to absorb losses from mortgages or variable rate bond performance

A downgrade of Genworth Mortgage Insurance Corporation, which provides crucial support through reinsurance of CalHLIF PMI

Sustained or increasing high levels of mortgage delinquencies or foreclosures, possibly triggered by a second downturn in general economic trends such as employment and house prices in California, resulting in increased potential for losses to the indenture

Future negative events related to variable rate exposure, including unforeseen counterparty events, periods of variable rate market disruption or challenges associated with transitioning from TCLP

The principal methodology used in rating California HFA - Home Mortgage Revenue Bonds was Moody's Rating Approach For Single Family, Whole-Loan Housing Programs rating methodology published in May 1999. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found on Moody's website.

REGULATORY DISCLOSURES

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Analysts

William Fitzpatrick
Analyst
Public Finance Group
Moody's Investors Service

Florence Zeman
Backup Analyst
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service
250 Greenwich Street
New York, NY 10007
USA

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State of California

M E M O R A N D U M

To: Board of Directors **Date:** November 4, 2010

Bruce D. Gilbertson, Director of Financing

From: **CALIFORNIA HOUSING FINANCE AGENCY**

Subject: Homeownership Loan Portfolio Update

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

- Delinquencies as of August 31, 2010 by insurance type,
- Delinquencies as of August 31, 2010 by product (loan) type,
- Delinquencies as of August 31, 2010 by loan servicer,
- Delinquencies as of August 31, 2010 by county,
- A chart of the number of CalHFA's FHA Delinquent Loan Trend for 30-90 Day and 120 Day (for the period of December 2008 thru August 2010)
- A chart of the number of CalHFA's Conventional Delinquent Loan Trend for 30-90 Day and 120 Day (for the period of December 2008 thru August 2010)
- A graph of CalHFA's 90-day+ ratios for FHA and Conventional loans (for the period of August 2005 through August 2010),
- A graph of 90-day+ ratios for CalHFA's three Conventional loan (products) types, for the period of August 2008 through August 2010,
- Real Estate Owned (REO) at September 30, 2010,
- Gains/ (Losses) on the Disposition of 1st Trust Deeds, for January 1 through September 30, 2010, and
- Write-Offs of subordinate loans for January 1 through September 30, 2010

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California Housing Finance Agency

CalHFA

HOMEOWNERSHIP LOAN PORTFOLIO DELINQUENCY, REO and LOSS REPORT

Reconciled Loan Delinquency Summary
All Active Loans By Insurance Type
As of August 31, 2010

	Loan Count	Balance	% of Balance	Loan Count	30-Day	Loan Count	60-Day	Loan Count	90(+) Day	Totals Count	Totals %
				DELINQUENCY RATIOS - % of Loan Count							
Federal Guaranty											
FHA **	11,140	$ 1,498,223,845	29.13%	666	5.98%	274	2.46%	1253	11.25%	2,193	19.69%
VA	369	56,344,228	1.10%	6	1.63%	4	1.08%	42	11.38%	52	14.09%
RHS	95	18,348,319	0.36%	0	0.00%	0	0.00%	18	18.95%	18	18.95%
Conventional loans											
with MI											
CalHFA MI Fund	8,049	2,178,418,213	42.36%	335	4.16%	198	2.46%	1165	14.47%	1,698	21.10%
without MI											
Orig with no MI	5,713	1,174,266,344	22.83%	128	2.24%	56	0.98%	321	5.62%	505	8.84%
MI Cancelled*	1,503	217,136,373	4.22%	36	2.40%	19	1.26%	46	3.06%	101	6.72%
Total CalHFA	26,869	$ 5,142,737,322	100.00%	1,171	4.36%	551	2.05%	2,845	10.59%	4,567	17.00%

*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 August 31, 2010

	Loan Count	Balance	% of Balance	Loan Count	30-Day	Loan Count	60-Day	Loan Count	90(+) Day	Totals Count	Totals %
				DELINQUENCY RATIOS - % of Loan Count							
30-yr level amort											
FHA	11,140	$ 1,498,223,845	29.13%	666	5.98%	274	2.46%	1,253	11.25%	2,193	19.69%
VA	369	56,344,228	1.10%	6	1.63%	4	1.08%	42	11.38%	52	14.09%
RHS	95	18,348,319	0.36%	0	0.00%	0	0.00%	18	18.95%	18	18.95%
Conventional - with MI	4,025	983,271,211	19.12%	135	3.35%	71	1.76%	466	11.58%	672	16.70%
Conventional - w/o MI	6,302	1,172,746,352	22.80%	131	2.08%	60	0.95%	283	4.49%	474	7.52%
40-yr level amort											
Conventional - with MI	637	186,065,421	3.62%	33	5.18%	22	3.45%	114	17.90%	169	26.53%
Conventional - w/o MI	223	44,942,912	0.87%	5	2.24%	6	2.69%	12	5.38%	23	10.31%
5-yr IOP, 30-yr amort											
Conventional - with MI	3,387	1,009,081,582	19.62%	167	4.93%	105	3.10%	585	17.27%	857	25.30%
Conventional - w/o MI	691	173,713,453	3.38%	28	4.05%	9	1.30%	72	10.42%	109	15.77%
Total CalHFA	26,869	$ 5,142,737,322	100.00%	1,171	4.36%	551	2.05%	2,845	10.59%	4,567	17.00%
	Weighted average of conventional loans:			499	3.27%	273	1.79%	1,532	10.04%	2,304	15.09%

California Housing Finance Agency

CalHFA

Reconciled Loan Delinquency Summary
All Active Loans By Loan Servicer
As of August 31, 2010

	Loan Count	Balance	% of Balance	Loan Count	30-Day	Loan Count	60-Day	Loan Count	90(+) Day	Totals Count	Totals %
				DELINQUENCY RATIOS - % of Loan Count							
CALHFA - LOAN SERVICING	10,240	$ 2,386,958,995	46.41%	362	3.54%	138	1.35%	930	9.08%	1,430	13.96%
GUILD MORTGAGE	6,256	1,148,106,229	22.32%	336	5.37%	157	2.51%	614	9.81%	1,107	17.70%
BAC HOME LOANS SERVICING, LP*	2,746	554,464,278	10.78%	142	5.17%	103	3.75%	692	25.20%	937	34.12%
WELLS FARGO HOME MORTGAGE	2,602	319,690,831	6.22%	79	3.04%	53	2.04%	172	6.61%	304	11.68%
EVERHOME MORTGAGE COMPANY	2,249	226,134,391	4.40%	122	5.42%	33	1.47%	95	4.22%	250	11.12%
FIRST MORTGAGE CORP	1,114	232,333,953	4.52%	51	4.58%	40	3.59%	157	14.09%	248	22.26%
GMAC MORTGAGE CORP	1,008	144,619,951	2.81%	67	6.65%	20	1.98%	88	8.73%	175	17.36%
BANK OF AMERICA, NA	302	52,714,436	1.03%	8	2.65%	3	0.99%	41	13.58%	52	17.22%
WASHINGTON MUTUAL BANK	229	57,711,110	1.12%	2	0.87%	3	1.31%	39	17.03%	44	19.21%
CITIMORTGAGE, INC.	67	16,001,968	0.31%	2	2.99%	0	0.00%	17	25.37%	19	28.36%
DOVENMUEHLE MORTGAGE, INC.	49	1,777,440	0.03%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
WESCOM CREDIT UNION	6	1,906,164	0.04%	0	0.00%	1	16.67%	0	0.00%	1	16.67%
PROVIDENT CREDIT UNION	1	317,579	0.01%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Total CalHFA	26,869	$ 5,142,737,322	100.00%	1,171	4.36%	551	2.05%	2,845	10.59%	4,567	17.00%

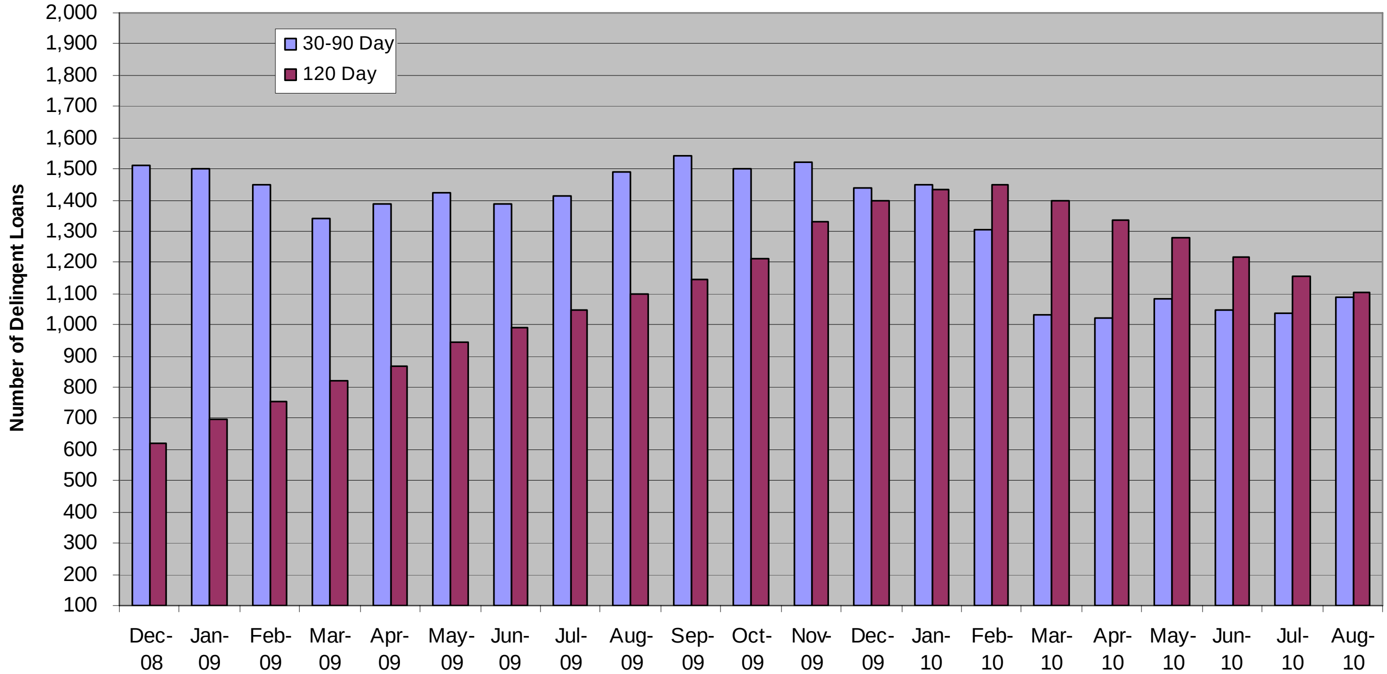
*The BAC Home loan count was decreased by 2,586 FHA loans (including 125 loans that were delinquent as of February 28, 2010) because the Agency requested Bank of America to pool the whole loans into Ginnie Mae securities. Effectively, these FHA insured whole loans were swapped for Ginnie Mae securities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

Reconciled Loan Delinquency Summary
All Active Loans By County
As of August 31, 2010

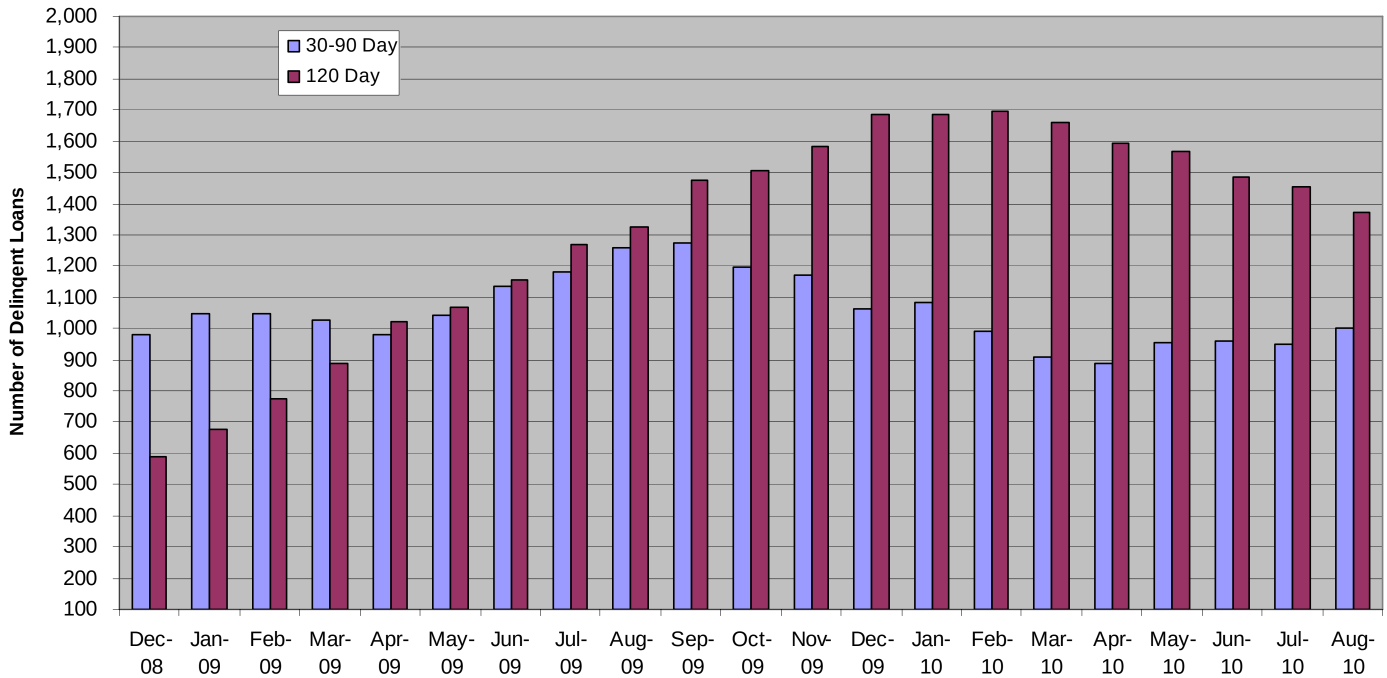
	Loan Count	Balance	% of Balance	Loan Count	30-Day	Loan Count	60-Day	Loan Count	90-Day+	Total Count	Total %
				DELINQUENCY RATIOS - % of Loan Count							
LOS ANGELES	4,257	$ 911,274,289	17.72%	192	4.51%	76	1.79%	413	9.70%	681	16.00%
SAN DIEGO	2,773	621,974,030	12.09%	105	3.79%	51	1.84%	417	15.04%	573	20.66%
SANTA CLARA	1,851	516,766,020	10.05%	43	2.32%	19	1.03%	114	6.16%	176	9.51%
KERN	1,579	181,155,755	3.52%	99	6.27%	55	3.48%	177	11.21%	331	20.96%
SACRAMENTO	1,456	277,765,537	5.40%	56	3.85%	30	2.06%	198	13.60%	284	19.51%
SAN BERNARDINO	1,402	248,428,771	4.83%	92	6.56%	45	3.21%	246	17.55%	383	27.32%
RIVERSIDE	1,362	240,315,812	4.67%	72	5.29%	46	3.38%	277	20.34%	395	29.00%
ORANGE	1,346	315,563,296	6.14%	39	2.90%	17	1.26%	107	7.95%	163	12.11%
FRESNO	1,231	121,188,738	2.36%	65	5.28%	22	1.79%	90	7.31%	177	14.38%
TULARE	1,227	122,830,143	2.39%	82	6.68%	37	3.02%	114	9.29%	233	18.99%
ALAMEDA	1,156	288,457,431	5.61%	21	1.82%	20	1.73%	65	5.62%	106	9.17%
CONTRA COSTA	957	220,938,950	4.30%	34	3.55%	15	1.57%	97	10.14%	146	15.26%
VENTURA	664	182,209,890	3.54%	25	3.77%	8	1.20%	49	7.38%	82	12.35%
IMPERIAL	552	58,351,352	1.13%	41	7.43%	15	2.72%	42	7.61%	98	17.75%
SONOMA	514	109,625,522	2.13%	20	3.89%	12	2.33%	38	7.39%	70	13.62%
OTHER COUNTIES	4,542	725,891,787	14.11%	185	4.07%	83	1.83%	401	8.83%	669	14.73%
Total CalHFA	26,869	$ 5,142,737,322	100.00%	1,171	4.36%	551	2.05%	2,845	10.59%	4,567	17.00%

California Housing Finance Agency

CalHFA's FHA Delinquent Loan Trend for 30-90 Day and 120 Day



CalHFA's Conventional Delinquent Loan Trend for 30-90 Day and 120 Day



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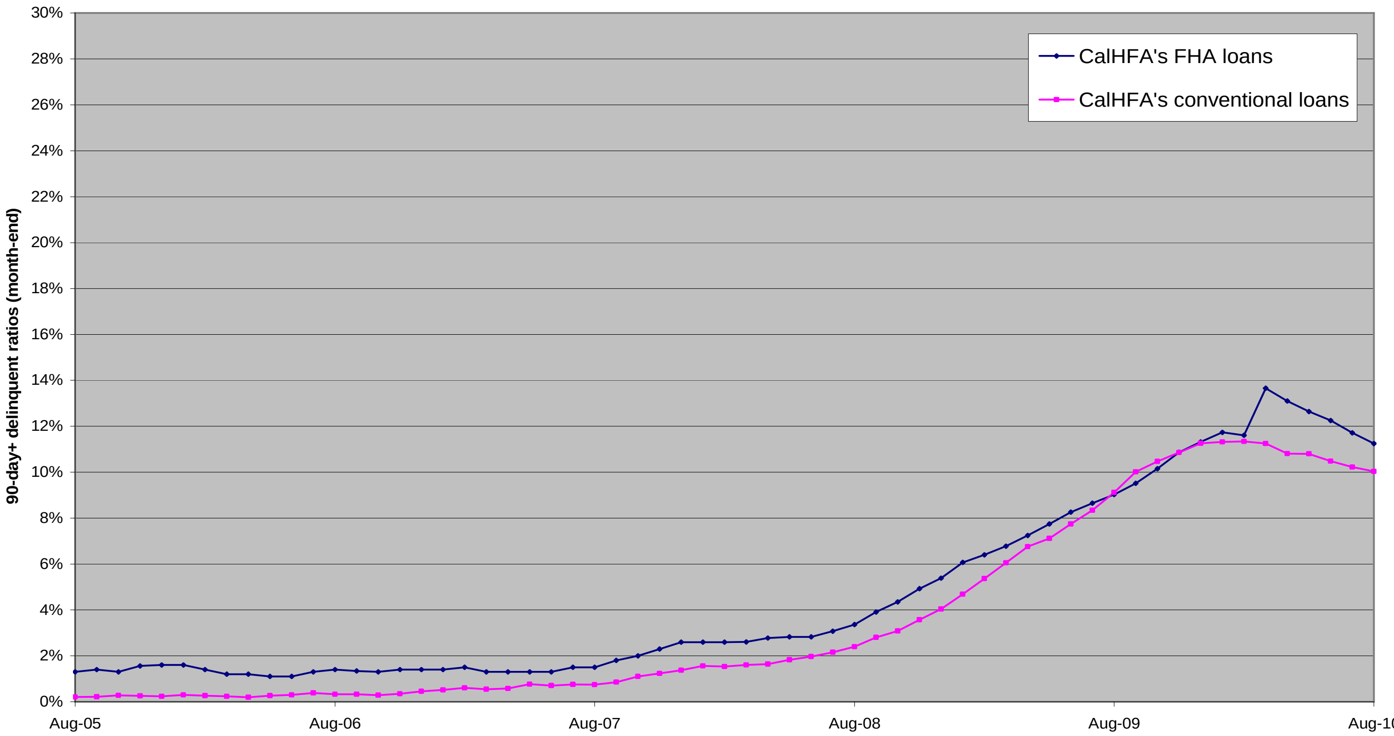
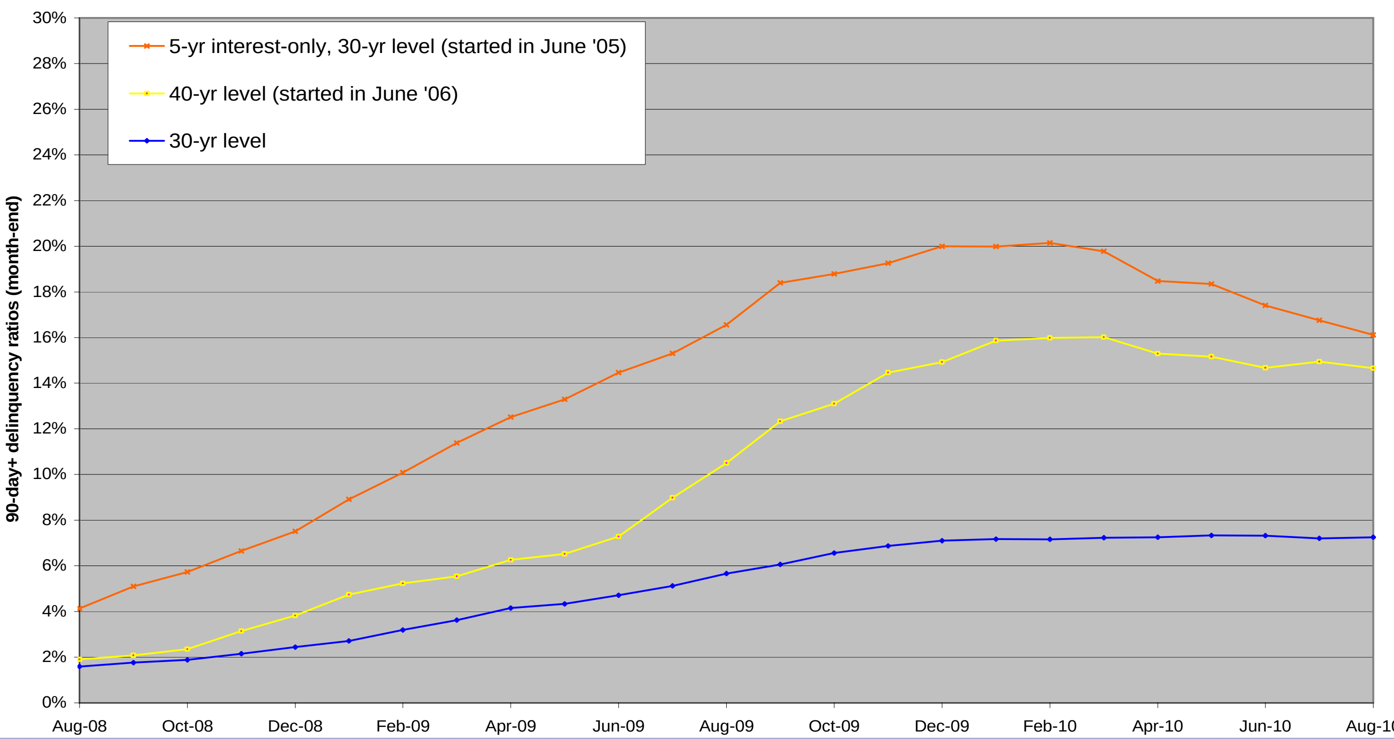
CalHFA

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



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



Real Estate Owned

Calendar Year 2010 (As of September 30, 2010)											
		*Trustee Sales			Disposition of REO(s)						
Loan Type	Beginning Balance # of Loans	Reverted to CalHFA Jan-Aug	Reverted to CalHFA Sept	Total Trustee Sales	Repurchased by Lender Jan-Aug	Market Sale(s) Jan-Aug	Repurchased by Lender Sept	Market Sale(s) Sept	Total Disposition of REO(s)	Ending Balance # of Loans	UPB of REO's Owned
FHA/RHS/VA	187	603	75	678	472		78		550	315	$ 62,140,586
Conventional	619	1043	156	1199		678		104	782	1,036	221,441,230
Total	806	1,646	231	1,877	472	678	78	104	1332	1,351	$ 283,581,817

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

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

**3rd party trustee sales are not shown in the tables (tltle to these loans were never transferred to CalHFA). There were eight (8) 3rd party sales in calendar year 2008, eighteen (18) 3rd party sales year 2009, and there are thirty-five (35) 3rd party sales to date for 2010.*

California Housing Finance Agency

Calendar Year 2010[1] Year to Date REO Uninsured Losses[2]		
1st TD Sale Estimated Gain/(Loss)	$	(16,626,184)
Subordinate Write-Off		(27,333,613)
Total Gain(Loss)/Write-Offs	$	(43,959,797)

(1) For the period of January 1, 2010 thru September 30, 2010.
(2) Includes both reconciled and unreconciled gains/losses to date.

2010 Year to Date Composition of 1st Trust Deed Gain/(Loss)
(As of September 30, 2010)

	Disposition				
Loan Type	Repurchased by Lender	Market Sales	Loan Balance at Trustee Sale	Estimated Indenture Gain/(Loss)	[1]Estimated GAP Loss
FHA/RHS/VA	550		$ 114,447,488		
Conventional		782	209,824,915	$ (16,626,184)	$ (29,721,915)
	550	782	$ 324,272,403	$ (16,626,184)	$ (29,721,915)

(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 September 30, 2010)

	Active Loans		Write-Offs			
Loan Type	**Active Loans**	**Dollar Amount**	**Number of Write-Offs**	**% (of Portfolio)**	**Dollar Amount**	**% (of Portfolio)**
CHAP/HiCAP	11,023	$118,061,865	1,492	13.54%	$16,046,165	13.59%
CHDAP/ECTP/HiRAP	20,224	169,297,954	1,442	7.13%	11,287,448	6.67%
Other [2]	280	3,688,758	0	0.00%	0	0.00%
	31,527	$291,048,576	2,934	9.31%	$27,333,613	9.39%

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

State of California

M E M O R A N D U M

To: Board of Directors **Date:** November 3, 2010

Bruce D. Gilbertson, Director of Financing

From: **CALIFORNIA HOUSING FINANCE AGENCY**

Subject: VARIABLE RATE BONDS AND INTEREST RATE SWAPS REPORT

Over a number of years the Agency has integrated the use of variable rate debt as a primary issuance strategy in providing capital to support its programmatic goals. Most of our interest rate exposure from variable rate debt is hedged in the swap market.

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

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

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VARIABLE RATE DEBT EXPOSURE

This report describes the variable rate bonds of CalHFA and is organized programmatically by indenture as follows: HMRB (Home Mortgage Revenue Bonds--CalHFA's largest single family indenture), MHRB (Multifamily Housing Revenue Bonds III--CalHFA's largest multifamily indenture), HPB (Housing Program Bonds--CalHFA's multipurpose indenture, used to finance a variety of loans including the Agency's downpayment assistance loans) and the Agency's newest indentures which were established to take advantage of the federal government's New Issue Bond Program: RMRB (Residential Mortgage Revenue Bonds—for single family loans), and AMHRB (Affordable Multifamily Housing Revenue Bonds—for multifamily loans.) The total amount of CalHFA variable rate debt is $5.8 billion, 66.1% of our $8.7 billion of total indebtedness as of November 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 *	348	0	0	348
Total	$1,364	$2,838	$1,603	$5,805

* *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, 18.2% 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)

	Tax-Exempt	Taxable	Totals
HMRB	$2, 261	$295	$2,556
MHRB	606	0	606
HPB	0	0	0
TOTALS	$2,867	$295	$3,162

The following table shows the diversification of our fixed payer swaps among the thirteen firms acting as our swap counterparties.

SWAP COUNTERPARTIES

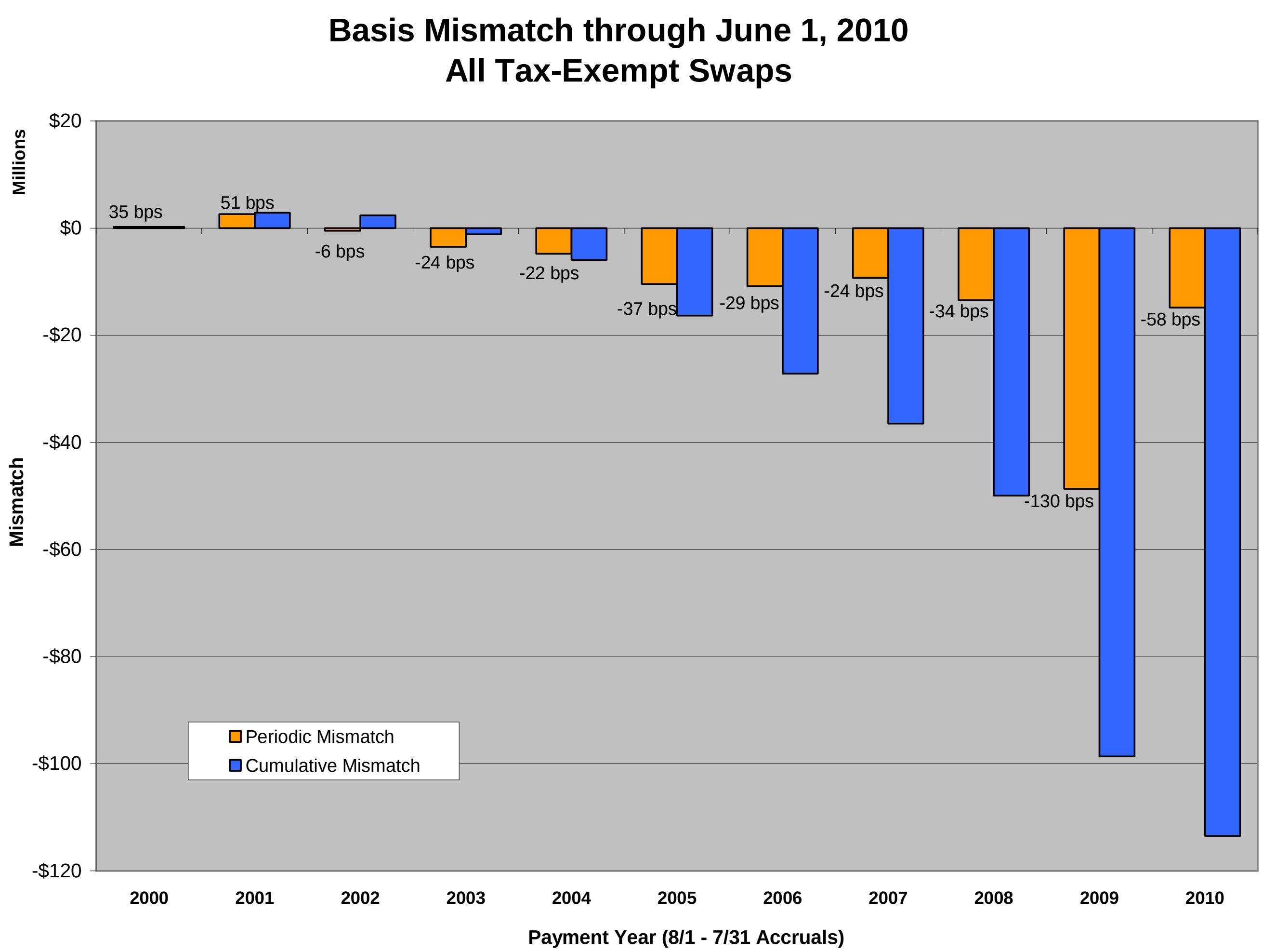
Swap Counterparty	Credit Ratings Moody's	S & P	Notional Amounts Swapped as of 8/1/10 ($ in millions)	Number of Swaps
JPMorgan Chase Bank, N.A.	Aa1	AA-	$ 833.1	22
Merrill Lynch Capital Services, Inc.	A2	A	757.0	33
Citigroup Financial Products, Inc.	A3	A	438.7	11
Goldman Sachs Mitsui Marine Derivative 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
			$ 3,162.4 *	112

** 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.

<u>BASIS RISK</u>

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.



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 preceeding 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	93.0%

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)

	Tax-Exempt	Taxable	Totals
% 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	0	21	21
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.

SEMI-ANUAL PREPAYMENT SPEED
FOR PAST FIVE YEARS

6-mo Period Ending:	PSA
Jun-2005	676%
Dec-2005	643%
Jun-2006	320%
Dec-2006	241%
Jun-2007	156%
Dec-2007	81%
Jun-2008	60%
Dec-2008	58%
Jun-2009	89%
Dec-2009	128%
Jun-2010	165%

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. 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.

The table below shows the required collateral amounts currently posted to swap counterparties. 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 being posted to the counterparties.

Swap Collateral Posting
as of 10/28/10
($ in millions)

	JPMorgan	Goldman Sachs	Deutsche	BofA / Merrill Lynch	Total
Marked-to-Market	93	34	40	23	
Collateral Threshold	50	25	40	0	
Posting Requirment	43	9	0	23	75

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

Date	Termination Value ($ in millions)
6/30/09 *	($276.8)
9/30/09	($295.5)
12/31/09	($226.7)
3/31/10	($242.9)
6/30/10	($329.6)
9/30/10	($353.7)

** 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 Securities	Indexed Rate Bonds	Variable Rate Demand Obligations	Total Variable Rate Debt
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	0	348	0	348
Total	$158	$2,362	$3,285	$5,805

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 11/1/10
($ in millions)

Financial Institution	$ Amount of Bonds
Freddie Mac	$1,642.5
Fannie Mae	1,642.5
Total	$3,285.0

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State of California

M E M O R A N D U M

To: **CalHFA Board of Directors** **Date:** 3 November 2010

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

Subject: Legislative Report

The 2009-2010 Legislative Session is finally over, and a budget has been adopted. There were very few bills still pending as of my last report, so this one will be very short. The most significant action was the Governor's signing of AB 1629 (Chapter 730, Statutes of 2010) – which contained the statutory changes needed to restructure the bond financing for the sixty Bay Area Housing Plan (BAHP) homes developed in response to the closure of the Agnews Developmental Center. Specifically, the bill created the authority for the California Health Facilities Financing Authority to issue the bonds to provide the permanent financing for these homes. The California Housing Finance Agency, which financed the acquisition and retrofitting of these homes with a line of credit, will be repaid from the bond proceeds. In the event the bond sale is temporarily delayed, this bill would also allow the Department of Finance to authorize a short-term loan to CalHFA to repay the line of credit, which comes due February 28, 2011.

Other bills that were finalized since my last report are included below.

LEGISLATIVE UPDATE

Bonds

AB 2293 **(Torres) Housing: construction loans.**
Status: VETOED

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 have, until June 30, 2013, required 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.

In his veto message, the Governor stated, "While I am sympathetic to the difficulties developers of affordable housing are facing, I am concerned that the practical effect of this bill would be to establish the Department of Housing and Community Development as an indirect guarantor of a developer's construction loan. The Administration has developed a plan that will enable it to meet the cash needs of all general obligation bond projects for 2010 and 2011. However, if the state is required to set cash aside that is not needed until a later time, it could compromise the ability to fund other projects that have current cash needs. In addition, this bill could remove incentives for bond recipients to perform their obligations in a timely manner and would further increase interest costs on bonds."

AB 2536 **(Carter) Housing and Emergency Shelter Trust Fund Acts of 2002 and 2006: supportive housing.**
Status: VETOED

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 have required that the funds transferred to the Emergency Housing and Assistance Fund pursuant to both acts also be made available for supportive housing purposes.

In his veto message, the Governor stated: "This bill would change the use of housing bonds contrary to the intent of the voters in approving Proposition 1C. These funds were intended to help some of the most vulnerable Californians by funding the construction of emergency shelters that also provide supportive service. It is not consistent with the intent of the voters to redirect these funds to provide services to families in permanent housing.

Mortgage Lending

SB 931 **(Ducheny) Mortgages: deficiency judgments.**
Status: SIGNED – Chapter 701, Statues of 2010

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.