# BOARD OF DIRECTORS

***California Housing Finance Agency***
***Board of Directors***

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

Wednesday, March 16, 2011

9:30 a.m.


1. Roll Call.

2. Approval of the minutes of the January 20, 2011 and February 8, 2011 Board of Directors meetings ........ 1

3. Chairman/Executive Director comments.

4. Closed session under Government Code section 11126(a)(1) to consider the evaluation of performance of a public employee.

5. Report of the Chairman of the Compensation Committee. (Michael Gunning)

6. Discussion, recommendation and possible action regarding the amendment of Resolution 11-01 regarding the Agency's single family bond indentures and related financial agreements. (Bruce Gilbertson)
   **Resolution 11-04** ........ 145

7. Discussion, recommendation and possible action regarding the amendment of Resolution 11-02 regarding the Agency's multifamily bond indentures and related financial agreements. (Bruce Gilbertson)
   **Resolution 11-05** ........ 165

8. Update and discussion regarding the status of the Keep Your Home California Program. (Di Richardson) ........ 187

9. Discussion and possible action regarding the audit recommendations of the Bureau of State Audits. (Steve Spears) ........ 209

10. Update and discussion regarding the Agency's Business Plan. (Senior Staff) ...................... 237

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    A. Homeownership Loan Portfolio Update ...................................................................... 257

    B. Update on Variable Rate Bonds and Interest Rate Swaps .......................................... 265

12. Discussion of other Board matters.

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

14. Adjournment

15. Handouts

**NOTES*****

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

**FUTURE MEETING DATES: Next CalHFA Board of Directors Meeting will be May 19, 2011, at the Holiday Inn Capitol Plaza, Sacramento, California.**

# STATE OF CALIFORNIA

# CALIFORNIA HOUSING FINANCE AGENCY

## BOARD OF DIRECTORS

## PUBLIC MEETING

**Holiday Inn Capitol Plaza**
**300 J Street**
**Sacramento, California**

**Thursday, January 20, 2011**
**10:30 a.m.**

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

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**A P P E A R A N C E S**

**Board of Directors Present**

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

KATIE CARROLL
for BILL LOCKYER
State Treasurer
State of California

CATHY CRESSWELL
Acting Director
Department of Housing and Community Development
State of California

MICHAEL A. GUNNING
Vice President
Personal Insurance Federation of California

JONATHAN C. HUNTER
Managing Director, Region 2
Corporation for Supportive Housing

HEATHER PETERS
for Traci Stevens, Acting Undersecretary
Business, Transportation, and Housing Agency
State of California

JACK SHINE
Chairman
American Beauty Development Co.

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

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

## A P P E A R A N C E S

### Participating CalHFA Staff

MARGARET ALVAREZ
Director of Asset Management

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

ROBERT L. DEANER II
Director of Multifamily Programs

BRUCE D. GILBERTSON
Director of Financing

LORI HAMAHASHI
Fiscal Services

THOMAS C. HUGHES
General Counsel

JOJO OJIMA
Office of the General Counsel

LINN WARREN
Portfolio Manager

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### Other Testimony

STANLEY J. DIRKS, Esq.
Orrick Herrington & Sutcliffe, LLP
(Bond counsel)

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BE IT REMEMBERED that on Tuesday, January 20, 2011, commencing at the hour of 10:44 a.m., at the Holiday Inn Capitol Plaza, 300 J Street, Sacramento, California, before me, DANIEL P. FELDHAUS, CSR #6949, RDR and CRR, the following proceedings were held:

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**Item 1. Roll Call**

CHAIR CAREY: I'd like to welcome everybody to the January meeting of the California Housing Finance Agency Board of Directors.

It's nice to be up here to enjoy some sunshine. I haven't seen it in about three weeks.

The first order of business is roll call.

MS. OJIMA: Thank you.

Ms. Peters for Ms. Stevens?

MS. PETERS: Present.

MS. OJIMA: Ms. Creswell?

MS. CRESWELL: Present.

MS. OJIMA: Mr. Gunning?

MR. GUNNING: Present.

MS. OJIMA: Thank you.

Mr. Hudson?

*(No response)*

MS. OJIMA: Mr. Hunter?

MR. HUNTER: Present.

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

MS. CARROLL: Present.

MS. OJIMA: Mr. Shine?

MR. SHINE: Here.

MS. OJIMA: Mr. Smith?

MR. SMITH: Here.

MS. OJIMA: Mr. Taylor?

*(No response)*

MS. OJIMA: Ms. Matosantos?

*(No response)*

MS. OJIMA: Mr. Spears?

MR. SPEARS: Here.

MS. OJIMA: Mr. Carey?

CHAIR CAREY: Here.

MS. OJIMA: We have a quorum.

CHAIR CAREY: Good. Thank you.

--oOo—

**Item 2. Approval of the Minutes of the November 17, 2010, Board of Directors Meeting**

CHAIR CAREY: The next item of business is approval of the minutes of the November 17th meeting.

MS. PETERS: So moved.

MR. HUNTER: Second.

CHAIR CAREY: Roll call, please.

MS. OJIMA: Thank you.

Ms. Peters?

MS. PETERS: Yes.

MS. OJIMA: Ms. Creswell?

MS. CRESWELL: I'm going to abstain.

MS. OJIMA: Thank you.

Mr. Gunning?

MR. GUNNING: Yes.

MS. OJIMA: Mr. Hunter?

MR. HUNTER: Yes.

MS. OJIMA: Ms. Carroll?

MS. CARROLL: Yes.

MS. OJIMA: Mr. Shine?

MR. SHINE: Yes.

MS. OJIMA: Mr. Smith?

MEMBER SMITH: Yes.

MS. OJIMA: Mr. Carey?

CHAIR CAREY: Yes.

MS. OJIMA: The minutes have been approved.

CHAIR CAREY: Great.

--oOo—

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

CHAIR CAREY: The first thing I'd like to do, actually, is to welcome Cathy Creswell, joining us.

Cathy is a longtime friend of Housing and a longtime team player at Housing and Community

Development.

And it's great to have you with us. Welcome.

MS. CRESWELL: Thank you. I'm very happy to be here.

CHAIR CAREY: With that, I'll turn it over to our executive director.

MR. SPEARS: Thank you, Mr. Chairman.

I would also like to add my welcome to Cathy.

We haven't had a lot of occasion to work together yet, but I'm looking forward to it very much.

But I'm not sure about some of the other changes so far. And we're happy that Heather is here, representing Acting Undersecretary Traci Stevens.

And I'm not sure about the OPR seat at this point. So we'll just play along with that, whenever we find out what the news is there.

The second thing is that we are settling into our new offices, both in West Sacramento. We expanded that location, as you know, to accommodate some additional portfolio management staff.

But the new, consolidated headquarters office are in 500 Capitol Mall, which is just two blocks away, which makes it a very convenient walk for most of the people in this room.

But I would invite all of you to come by. If you have time after the meeting today, before you zoom off to flights and other meetings, please come over.

We haven't put together a reception yet. We'd like to do something rather low key at some point. Punch and cookies or something, and invite our friends that we do business with, to come and see the new place. An evening -- I think we're going to try to do this with employees, to invite their families and come by for something really informal and see where mom and dad worked, I think would also be a pretty good idea.

So with that, let me just open up the proceedings today.

This is traditionally when we review midyear, this halfway point, and review the business plan that you adopted in May -- at least most of you were here -- May of 2010. And the other part is to adopt financing resolutions that give us guidance on how to conduct our bond business for the rest of the year.

And that's most of today's proceedings.

There is some discussion that you'll see from the Audit Committee, a recommendation from staff, particularly that will be an interesting discussion, I think, for all of you.

So I think just, in general, about the business plan, you're going to hear -- first of all, we've organized this by the five priorities that the Board adopted in May.

The first priority -- and they were listed, as I remember, in order of importance:

Maintain credit ratings. To the extent that we had authority and power to do that for actions of our own, to maintain credit ratings.

The second was to engage actively in loss mitigation, especially on the single-family side, because that's where our challenges are.

The third is to renew lending. I think you're going to hear some very good news on that front.

The fourth was to renew old partnerships.

And the fifth was to explore new business opportunities, although at the May board meeting, we talked about both of those at the same time. And that's kind of how we pursued that.

So we're going to hear some good news; however, I would caution you that, by no means, what I consider is out of the woods as far as our financial challenges go, we still have a ways to go. We have ratings reviews that are going to be coming up in the first quarter. So they're going to know about that right off the bat.

So just a word of caution -- I mean, I want to mix the good news with a cautionary note on that.

Finally, there's somebody here that I would like to recognize. Kathy Weremiuk is trying to sit in the back row and stay out of view.

I have some sad news, but happy news for her. Kathy is going to be retiring shortly.

Kathy, if you would stand for everyone.

Kathy Weremiuk has been at the Agency for a very long time, but she is the driving force behind both the Bay Area Housing Plan projects and also probably more work is the Mental Health Services Act projects that we have done.

Without Kathy, these projects would not have gone as well as they've gone. And we just owe her an immense amount of respect and gratitude. We are very sorry to see her go. But she's already started making plans. I think they're sort of drifting out towards the Palm Springs area. So we don't want to stand in the way of that.

But I just wanted everybody to have Kathy stand and be recognized, and to extend my thanks to her for all the really, really hard work -- years and years of experience. It's going to be difficult to, you know, manage the replacement strategy here.

So just, please, a big round of applause for Kathy.

(Applause)

MR. SPEARS: And with that, Mr. Chairman, I think we're ready to begin.

Just a housekeeping item. You have in front of you some slides. I, unfortunately, forgot to have holes punched in these. But you can do that yourself and put them in their correct place.

This is only, though, for Items 4, 5, 6, 7, and 8; and they'll be up on the screen as well.

So just when you have a chance to flip through them as we're moving along, we'll...

Here's one thing: I try to summarize these things. Bruce and I have a different opinion on this, I think. He tends to put more stuff on the slides and I tend to put summary things.

So I would keep your pen or pencil handy, because I think you'll be taking notes and adding facts and figures and that sort of thing along the way. Just a note or two.

Okay.

CHAIR CAREY: Great. Thank you, Steve.

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**Item 4. Update and Discussion of the status of the Hardest Hit Program**

CHAIR CAREY: And so the next item on our agenda is Update and Discussion on the status of the Hardest Hit Program.

And, Linn Warren, I understand you're doing that.

MR. SPEARS: Linn is helping Di lead this project. Di was called away to San Francisco to meet with servicers. We do not want to stand in the way of that process.

So Linn got the call to make this presentation.

MR. WARREN: Thank you.

Mr. Chairman, Members of the Board, good morning.

As Steve said, he asked me to --

MR. SPEARS: Linn, you might want to scroll down on the slide.

MR. WARREN: All righty.

He asked me to give you an update on the Keep Your Home Program.

We do have some good news along these lines.

Let me first give just a brief background for some Board members who may not recall some of our allocations.

As the Board may recall, in June of last year, we received an allocation of $700 million from the U.S. Treasury, under the federal Hardest Hit Program.

That was augmented shortly thereafter with an additional $476 million. This was exclusively for the unemployment programs.

And then the Treasury continued, later on in the year, with a final allocation to California of a little under -- of approximately $800 million. So approximately or exactly, we have an allocation of $1.975 billion for the Hardest Hit Fund.

Since we last met, we've made a lot of progress in what we've been doing. The allocations to date -- and these could change as the inflow comes in from various borrowers -- is we have $875 million allocated for principal reduction.

$129 million for reinstatement. This is for borrowers that have fallen behind on their mortgages, but now are able to make payments on a go-forward basis. We've allocated money for that.

A core program is principal reduction, which is relatively new across the board for modification programs in the country. We've allocated almost $800 million for that program.

And the last program, which is transition assistance for those borrowers that can no longer stay in the homes, we've allocated $32 million to help them move on to alternative housing.

As I indicated, we have made some very good progress since we last met. The unemployment assistance program went live on January 10th. And along those lines, the five major servicers have signed up for this program.

This coming month on the 24th, RCAC, the Rural Community Assistance Corporation, has selected 37 HUD certified counselors around the state to also augment the program. Those counseling agencies will go live and actively refer borrowers to our processing center on the 24th.

The retail, which is borrowers coming in individually for the remaining three programs -- principal reduction, reinstatement, and transition assistance -- will go live on February 7th.

We're in discussions with a major servicer to incorporate a bulk program for principal reduction. And if that goes well, then that program will augment the other ones, and will be effective in early March.

We have had one change on the participating servicers. Bank of America has joined in for the unemployment program.

So we're very pleased to report that the five major servicers, plus CalHFA and CalVet, are now signed up for the programs under the Hardest Hit Funds.

MR. SPEARS: And Citi is on board as well?

MR. WARREN: Citi is on board. Yes.

MR. SPEARS: All five are on board --

MR. WARREN: All five.

MR. SPEARS: -- for the unemployment program.

MR. WARREN: Citi signed it up very recently. They were, quite honestly, a bit of a reluctant participant in our fly-ins. But they have changed their attitude towards the program and joined in.

So in our first week, starting on January 10th -- this is their first week of operation -- we received 3,146 calls to our triage. This is an operation in which borrowers are asked their preliminary eligibility for the program as well as other types of questions go to them.

Of this, approximately 3,100, 609 made it into our counseling. This is a more extended process in which borrowers are asked more specific questions about our programs and their eligibility.

And within the first week, 236 of that number have made it into -- completed counseling, and are now being eligible for assistance.

An important thing to note about the program is, as the Board knows, we've spent a great deal of time trying to develop a great deal of assistance for this project. All the phone systems operated normally. The average wait time, for example, in the triage area was approximately 15 seconds. The wait time in counseling was a minute. So we thought that was very, very good news, that everything was going very, very well.

MR. SPEARS: I just make this one note. You may think it odd that we put in "All phone systems operated normally." But when the state of Michigan opened their program, it crashed not only the Internet system but the phone system for several of their different state departments.

MR. WARREN: It brought down half of the state government's system, basically.

MR. SPEARS: We just wanted to put that in, that everything went fine.

MR. WARREN: As soon as we learned that, we sort of increased our phone budget. But it is important, because part of the main experience for the borrowers here is to not be frustrated and to get answers.

And as I'm sure the Board knows, it's very important that if borrowers are to be told that they don't qualify, they should be told that quickly and move on back to their servicers, which we are trying to do.

So we're paying very close attention to this. The technical term is "pull-through rate," the number of borrowers that come through the system. We want to add more. And we're trying to figure out today why they're not making it through. And that's the analysis that will be going out in the next several weeks.

Steve asked me to keep this short and to the point. So I'd be happy to question any questions about where the program is at. But we're very encouraged that everything appears to be working as we had hoped.

Yes?

MS. CRESWELL: Can I just ask, so do you have a sense then of the other 2,000 folks who didn't make it through? Does that mean they didn't -- I presume didn't qualify?

MR. WARREN: There were a number of qualifications, Ms. Creswell.

One of the main ones is that the servicers had not signed up. So, for example, we can't take a borrower in unless their servicer is part of the program.

Not all the main servicers were operational. As I said, Citicorp was not, but they are now. But what we found was, there were a large number of Tier 2 and Tier 3 servicers, the smaller ones, that have not been signed up. So there must have been at least 20 to 30 of those types. Those were referred back to the servicers.

The other issue is, we have criteria around cash-out refinancing and second homes, and that disqualified a number of borrowers as well. So we're paying attention, but we have a general sense now as to why they did not qualify.

MS. CRESWELL: And are you generally going to be keeping track of that?

MR. WARREN: Yes, yes. It's important for us to know why they're not qualifying and, if need be, downstream for the project, we have to make adjustments on criteria. So we need to pay close attention to that.

CHAIR CAREY: Ms. Peters?

MS. PETERS: I know the other programs aren't live yet, but what has been the general response of servicers to resisting participation or joining participation?

MR. WARREN: We were very pleased to find out that in GMAC, for example, since they have publicly, embraced all four programs, including principal reduction. So that was very encouraging.

We've met with two other servicers that are signed up for the unemployment program but are also looking at principal reduction.

So we're surprised and kind of pleased that there's been a lot of attention made to that. So I think that's been kind of the shift.

So the unemployment was easy for them. The reinstatement, I guess more of a function of getting their systems organized.

So there is a momentum building, I guess is the best way to put it, that they want to participate in as many programs as they can. So we're encouraged.

CHAIR CAREY: Mr. Gunning?

MR. GUNNING: There's been a couple articles, as you know, in the LA Times, I think, last week. And I know we've tried to do as much as we can to get these programs going.

But is there any thoughts, Steve, or contemplation about just announcing the unemployment piece and then saying that we're trying and we're just waiting on some other guys to participate or play with us in this effort?

MR. WARREN: I'll -- Steve has some thoughts on that.

MR. SPEARS: That's what happened on Monday. We had these pilot programs --

MR. GUNNING: Right.

MR. SPEARS: -- and we kept acquiescing to the servicers' requests: "Please let us test our systems. Please don't overwhelm us by making a general announcement." So we finally said, "Okay, we've waited long enough."

So the unemployment program is statewide. And we haven't done the PSAs. We haven't done the -- I mean, we can do more outreach as we feel more successful about this part. But if a borrower calls now, if their servicer participates, we could handle it. But we've told them, "You need to go back to your servicer, to your Assembly member, to your senator. You know, let it be known that your servicer is not participating." And that's the only thing we have now.

We're ready for any servicer to join any day of the week.

MR. GUNNING: But we're not going to do anything?

MR. SPEARS: Well, we can't.

This is the debate that's going on. We've met with several members. How do we force servicers to participate? And short of unlawful interference with the contract, we don't have any options.

There's leverage. The only thing that a lot of banks understand is money. So you can incentivize them, you can withhold other things from them, but you can't -- we haven't found a way yet -- perhaps the Legislature can find something that we haven't discovered, of saying "Servicers, you are required to participate in this program," because it's a contract between borrower and servicer that got put together when everybody signed the note and the closing documents on the house years ago.

MR. SHINE: Are these servicers with whom we are doing business or servicers some of whom we are, some of whom we're not?

MR. SPEARS: Some of whom we are, some of whom we're not.

So far, the five folks that are all biggies, they're on board. I think, you know, we do business with all those folks.

It's the second-tier servicers that are not on board right now.

Is that right?

MR. WARREN: That's right, that's right. I mean, there's a large number of them, they're just not on board and this has been on their radar, but...

MR. SHINE: Do we want to push this? Because if you want to push it, you must have some leverage somewhere, of some kind, sitting in the closet, maybe, or something or whatever.

MR. SPEARS: Well, those folks are on board already. It's the ones that are --

MR. SHINE: Well, it's the half that has nothing to do with you, anyway?

MR. WARREN: That's right.

MR. SPEARS: I don't think, of the second-tier servicers, we really don't have very much to do with them.

The only other option is, pay them a lot of money to incentivize them to come on board. And early on, we made the decision that those are funds that don't get out to the borrowers.

And here's the philosophy that we took on, and that is, this isn't a loan modification program in and of itself. It's a mortgage assistance program, and it's a bridge to loan modification programs. It's a bridge to a proprietary program, it's a bridge to the HAMP program. HAMP pays incentives for them to participate.

So we said we're going to help them get to a point where the banks can be compensated. If that turns out to be not enough incentive, we may have to change our ways.

MR. SHINE: If you don't spend some money to get the servicers on board and that money doesn't go to homeowners, it isn't going to homeowners, anyway, because their servicers won't be processing them, anyway. So, I mean...

MR. SPEARS: Right.

MR. WARREN: Mr. Shine, to your point: As soon as we get a notification that a servicer or borrower has called but the servicer has not been signed up, we have staff that that's all they do is call up the servicers to say, "We have received notification from one of your borrowers. Where are you at with respect to signing up for the program?" So we're trying to be as proactive as we can.

MR. SHINE: Well, sure.

MR. WARREN: But you're right, I mean, it's very hard at this juncture, anyway, to compel them to participate if it's just not something that they're willing to.

MR. SHINE: Linn, I know you have your ways.

MR. WARREN: Thank you for that.

MR. SMITH: Well, do we have a program that reaches out to them independently?

MR. WARREN: We do. We've contacted -- there is this generally accepted list of Tier 2. And there's about 30 servicers. And we have someone, we have a manager who -- that is what she is doing. We've contacted all of them several times, and they're coming in gradually. But it's not a flood yet.

But Steve alluded to our strategy was to go after the major servicers first as a way to get the market rolling versus the other way around. And we think that's going to work to our benefit.

And there's a finite amount of money. And the pitch is, when we talk to them: If you care to wait, then the money could be gone within a limited period of time; and it's incumbent upon you to get organized and join the process.

CHAIR CAREY: What's their reluctance?

MR. WARREN: I think it's a question of, they're not that familiar with the program. I think there's a lot of that going on.

You'd be surprised how many servicers in the Tier 2 level are familiar with HAMP but not Hardest Hit. That was somewhat surprising to us.

I think a lot of the pressure that's come from the federal government has been directed to major servicers versus Tier 2, and that happens quite a bit.

The other thing that's happening is, the Tier 2s also have portfolios that are held privately versus having GSE-held or other types of pass-through conduits. And those servicers with their investors have different types of modifications and different types of goals for their loans. And it may not include this. And that seems counter-intuitive, but that may be the case. So it's really all across the Board, Mr. Carey, why they don't want to participate.

MR. SPEARS: We've definitely been more successful with the unemployment program, the UMA program; and fairly successful in conversations with the reinstatement program that's going to go statewide at the beginning.

And it's the principal reduction that's the controversial one.

And we've tried to get an answer from banks. We don't understand. We've done this analysis internally. It makes sense for our borrowers. We don't understand why it doesn't work for your borrowers. It may be tied up in regulatory accounting issues, recognition of losses, seconds. I think it's a variety of answers, but...

MR. SHINE: They just don't want to be bothered.

MR. SPEARS: Well, there is this -- and I can tell you this from our loan-servicing division -- and that is, we do very, very well -- and that operation works great when it operates normally, where you get a borrower, and you know what the payment is every month, and you send out a statement, you know, electronically or through the snail mail, they send in a check, you make it sure it gets on the right one, and you send them another statement, put the check in the bank, and away you go.

When you start saying, "Okay, well, so we're going to modify that, we're going to adjust it, we're going to -- you know, you've got three payments behind, some check is going to come from some other source to get you reinstated. We're going to write the principal down."

Just from a systems standpoint, they're not set up to do that. They're just not. They're set up for high-volume, low-hassle transactions.

And so on a large scale, changing what people owe in the middle of the stream, payments coming from other sources, besides the borrower, has been difficult for them to handle, just from a business-model standpoint.

So I can't answer the reason why accepting a chunk of money that they used to owe and now they don't from some white-horse-riding knight, I don't understand why that doesn't make sense to them. But, I don't know, I just don't understand it.

CHAIR CAREY: Ms. Peters?

MS. PETERS: Well, since we have a limited amount of money, I don't think we'll have any trouble finding enough people to help.

Of the servicers we're working with now, are we doing anything or are they doing anything to reach their borrowers who might qualify but may never have heard of this?

MR. WARREN: Yes. We've asked them, in all cases, that as they sign up, that their own loan counselors and their collection people have this program up and available as an option, as they would solicit for HAMP and other types of those. We've asked that to be done, and we are assuming that they are. It's in their self-interest to do so. So that is a request that they do that.

To solicit formally their borrowers requires our permission pursuant to Treasury guidelines. And we've given that on a couple of occasions, where they want to do a campaign.

The issue there is, we want to make sure the solicitation is even-handed, across the board. We have issues there, obviously.

But the short answer is, yes, we think they would be aggressive in picking out their portfolios and referring borrowers to us.

MS. PETERS: Great.

CHAIR CAREY: Mr. Smith?

MR. SMITH: How long do we anticipate that this money will last?

MR. WARREN: Approximately 18 months. I would say 18 months to two years. It really depends on, really, the principal-reduction piece.

If lenders adopt that in a very strong method, that money could go out fairly quickly because the allocation of that is much higher on a per-borrower basis. That money could drain very quickly, we think.

But we have the ability under Treasury guidelines that as we find one particular pot of money is running out more quickly, we can reallocate with Treasury's permission.

But I would say our best estimate right now is 18 months to two years.

MR. SMITH: And I apologize, so the principal reduction is if we give a certain amount, does the bank also kick in something?

MR. WARREN: Yes. They will match dollar-for-dollar.

CHAIR CAREY: Ms. Creswell?

MS. CRESWELL: And, I'm sorry, some folks may know this. Can you tell me a little bit more about the transition assistance?

MR. WARREN: Certainly.

MS. CRESWELL: What that involves?

MR. WARREN: When we held our outreach

meetings, particularly in the Central Valley, we found there are a number of borrowers that were so upside-down on their mortgages, that staying in the home was not viable. So we added some funds to help them with transition, which is essentially moving expenses or finding alternative housing.

So we have an agreement with the servicers that they will close a short-sale or a deed-in-lieu transaction.

And part of that closing would make available up to $5,000 per household to help with those types of expenses.

So that was the general theory behind that.

MS. CRESWELL: And each of your servicers who have agreed to participate in this program must --

MR. WARREN: Not yet. No, that is something that -- first of all, it's not ready to go yet until February 7th.

MS. CRESWELL: Oh, okay.

MR. WARREN: But some servicers have very robust programs like this for short sales. Others are not as involved.

So we suspect that we will have two or three servicers that have very strong programs in this area that will use the money and others won't. But regrettably, we only have approximately $32 million for that. But the idea was to find alternative housing and help with those expenses.

MS. CRESWELL: And just how did the amount get determined that would be allocated to this program?

MR. WARREN: We basically took the total money we had; and based upon what the focus groups told us they would use the money for, we sort of backed into these numbers.

CHAIR CAREY: Other questions or comments?

*(No response)*

CHAIR CAREY: Thank you.

MR. WARREN: Thank you.

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**Item 5. Discussion, Recommendation, and Possible Action Regarding the Adoption of a Resolution Authorizing the Agency's Single-Family Bond Indentures, the Issuance of Single-Family Bonds, Short-Term Credit Facilities for Homeownership Purposes, and Related Financial Agreements and Contracts for Services**

CHAIR CAREY: The next item is the single-family bond indenture.

Bruce?

MR. GILBERTSON: Good morning, Mr. Chairman and

Members of the Board.

Did you want to tee this up at all, Steve? Or did you want to --

MR. SPEARS: Just that when we talked about our whole approach in the business plan last May, these were the three objectives that you see on Slide 9 that we agreed to adopt.

That we would take on more conservative financing strategies, translated into fixed-rate bonds, essentially; that we would avoid additional real-estate risk to the Agency; and that we would take every advantage, of every market opportunity to reduce financial risk related to existing variable-rate debt. You know, try to help us out any time the market would allow us to do so.

That goes for all the resolutions that you're going to see in the next three agenda items.

And I'll turn it over to Bruce at that point.

MR. GILBERTSON: Yes, excellent. Thank you, Steve.

Just by way of background, the Agency has, for many, many years, adopted financing resolutions in the January Board meeting so that we would have continuous authority to issue debt obligations as the market dictated and as our programs developed. So in previous years, the Agency or the staff has requested from the Board quite broad authority to issue bonds in an amount -- yes, sir?

Staff has requested very broad authority from the Board to issue bonds under a number of indentures for a variety of purposes, for fixed-rate bond issuance and variable-rate bond issuance, a variety of financial agreements that correspond with that.

Unfortunately, in the last three years, I've been in front of the Board more often than I really care to be, to tell you about the financial challenges.

My sidekick, Tim Hsu, and I have spent a great deal of time trying to educate and inform the Board of the challenges that we face because of the market turmoil and the disruption.

So as a result of that, we've made conscious decisions as Steve mentioned in the objectives. We are no longer going to issue variable-rate bonds to finance loan programs, but we may have to restructure some existing debt obligations with financial instruments.

So we kind of tore apart the financing resolutions that we had used before. Made significant changes, and want to present them to you in a little more orderly flow.

I think it's probably best as we go through this, if you have questions or comments -- and I know there may be a comment or two from at least one Board member -- that we just talk about it. But I would hope at the end of the day we can achieve this, that the Board will authorize something. And we may have to come back at a subsequent meeting in March to amend some of what we wrote in the last few weeks and present it to the Board here today.

So Resolution 11-01 is the resolution to authorize a lot of authority to staff to issue bonds related to our single-family loan program.

The resolution is composed of three articles now. So there's a component, our Article 1, that deals with a refunding bond authority.

The refunding bonds would be issued so that we could manage the existing bonds we have outstanding. We would be able to issue bonds -- fixed rate, variable-rate -- as long as we were issuing bonds in no greater amount than bonds that we were redeeming or retiring.

It would further allow us to amend, modify, or replace existing financial agreements related to those bonds. So this would be interest-rate swap contracts, this would be liquidity facilities or credit facilities that might be attached to the bonds.

It would not allow us to increase the notional amount of swap contracts. It would not allow us to increase liquidity support or credit support on the bonds. So it's trying to keep things neutral. But it would still benefit the Agency overall by doing those debt restructurings.

And then we further added, that the executive director would make a determination, that by doing so, that there would be no greater risk to the Agency or the Agency's General Fund. Effectively, meaning, the General Obligation credit rating of CalHFA.

Our Article 2 deals with bonds that we might issue to finance new loan programs. So a little different twist on this.

Last year, for the first time, we modified the resolution, or amended it, so that we would only finance mortgage-backed securities, so that we would avoid additional real-estate risks related to the single-family program. So we made that very clear again.

I think there's a statement in the resolution that we simply may not use new bond proceeds to purchase whole loans that would not be guaranteed by Fannie Mae, Freddie Mac, Ginnie Mae.

The amount of this authority is limited in a couple of ways. It's limited to those bonds that would be eligible to be replaced pursuant to federal tax law.

A creature of the IRS code, is that we have the ability to recycle the use of tax-exempt money for a relatively short period of time, and so we would do that.

We would have the right to issue bonds in an amount of the private activity bond volume cap that has been provided to us by the California Debt Limit Allocation Committee.

And it would further authorize us to issue bonds at the direction of the executive director of up to $200 million that are federally taxable. Okay, all of our other bonds would be both state and federal income tax-exempt.

And then the third article, we felt if we broke down the resolution into a refunding component and a new money bond program or component, that we had to deal with a variety of other things that have historically gone into these resolutions.

So we've listed some of them here.

The Board gives us authorization to create and disclose information to potential bond investors, meaning, that we can circulate official statements, that we can do the bond transactions at either a negotiated or competitive sale; and we can sell the bonds in a public offering or we can make a private placement of these bonds to a bank or other institution.

It provides us to run the programs and provide and enter into agreements to facilitate a mortgage-backed security program, meaning, that we could have contracts with servicers, we can contract for the guarantee itself -- whatever else might be needed for us to facilitate the program that the bonds would allow us to do.

It would also allow us to enter into financial agreements, if we needed to, for guaranteed investment contracts, to invest the bond proceeds once the bonds have been sold.

And lastly, it allows for short-term credit facilities, so that we could warehouse loans, or have working capital that is borrowed in an amount not to exceed $400 million. And that would be for all programs.

And you'll see that on subsequent slides for the Multifamily authorization as well.

And then in Article 3, we also had to deal with other financial agreements that we may have that are attached to bonds that might not be refunded, but we still might have a very valid reason, where we may need to amend, modify, or replace that.

If you think back, some of you Board members, back in 2009, we renegotiated our interest-rate swap contracts with the three largest counterparties. This is the type authority that we would need to take advantage of those opportunities, or to replace the temporary credit and liquidity facility when it comes due. It's not going to be due until 2012. But if there was an opportunity to replace some or part of that during 2011, this part of the resolution would provide that authorization.

So with that, I'll stop and discuss and comment.

I just would ask, Tom, maybe if you could keep notes if we are going to -- because we're going to try to amend away from the meeting and bring back an amendment, if there are amendments to this resolution.

CHAIR CAREY: Ms. Carroll?

MS. CARROLL: First, I would like to say that I really like this new format because I know that the staff have worked really hard to -- what was the terminology we used -- revive?

So I think this just starts to put into writing and acknowledge in the resolution what the staff are already doing. So I really like that.

One of the things, though, that created a question for me -- and I called Bruce and asked him -- I said, "Well, in my world, in dealing with bonds, if we were to actually come up with a new resolution for an existing program -- not a supplemental, but a new resolution -- that would really normally involve a big restructure of the program, pretty significant."

So I had said to him, you know, "I'm just not quite sure what you would do in that."

And Bruce said, "Well, you know, normally, we'd bring new indentures to the Board, anyway."

So I said, "Well, could we maybe amend this at some point to say that new indentures would come back to the Board? Not supplemental, but new indentures would come back to the Board?"

Because that would seem to represent a pretty significant restructuring that I just think I'd be interested in seeing what it was, anyway.

MR. GILBERTSON: Yes, just to be clear, the resolution today -- I believe the resolution says this, that we can use a form of an existing indenture as listed, but make it a new indenture.

And so I think I'm on board with Katie. I don't think that's a huge problem for the Agency for the single-family resolution if we were to limit these things to existing approved forms of indentures.

MS. CARROLL: Okay, the second thing for me is that -- I love this language, simply, Steve, we're putting the onus on you; but actually what we're doing is acknowledging what you already do, which is, you know, you've been working really hard to make sure that anything that you did didn't put the Agency at more risk and, in fact, helped us to manage those risks.

And so it occurred to me that some of the financial agreements -- the swaps, the credit facilities -- have significant embedded risks in them; and that any renegotiation that you were doing, I know, would be to help manage those risks in a way that would not further put the Agency at risk.

So just as an acknowledgment of that, I would love to see similar language under those authorizations.

MR. SPEARS: Just a little broader description of what this certification process -- or --

MS. CARROLL: No. I think what's going on is, that certification process is there for supplemental resolutions and resolutions. But then when you get back to, I believe it's Article 3, Bruce, where we talk about authorizing you to renegotiate credit facilities -- and I think there is -- I don't know if it specifically says "swaps," but I think those are in there, you're going to have --

MR. SPEARS: This is on the issue of what Bruce is calling "prior bonds"?

MR. GILBERTSON: Yes, I think it may touch in two places. And this is where we want to kind of do this offline where we can think it through. I think section 6, for example, gives authority to amend financial agreements related to refunding bonds. And I think back in section 18 or 19, it's providing similar authority -- it would be section 18. It's the last couple lines of section 18, that provides authority to amend, modify, or replace financial agreements of the types described in section 6.

I think Katie's comment is if there was a form of a determination by the executive director if we were to do one of those.

It gets a little tricky -- a little tricky, I think, because on the surface, some of these things may not look like it's always going to be in the best interest.

The example I'll use, in 2009, to convince the swap counterparties to negotiate with us, we had to agree to terminate some of our swaps, which was a rather large disbursement of Agency money to terminate certain swaps to receive larger thresholds when we compare to the market value.

So I guess it's --

MS. CARROLL: Yes, I understand what you're saying, in "tricky." But I think as we look back and, you know, speaking from someone who has at points tried to look back at just gaining an historical perspective on the Agency and how it's sometimes hard to do that, I think that, clearly, when you're renegotiating these -- even if there are clauses that seem to be, on their face, more detrimental -- as you look back, really what you were doing, were things that were going to help the Agency to move forward.

So I just think it would be great to have a documentation of that process somewhere, that that's what, indeed, you were doing and the Board was approving, was a restructure. That even if parts of it didn't seem to be -- you know, if you took each swap in isolation, maybe it doesn't look like that. But if you take the whole program, that's what you were doing. I just think it's a good record of what...

MR. SPEARS: I completely agree, and I think that will be the trick -- Bruce talked about something tricky, and that is, if it's a strategy that lasts over several weeks or months that involves several different actions, some of them would be worse for the Agency, but they balance off through the whole process, things that are better for the Agency than -- it just is a matter of when do you issue that, this is our plan, we're going to engage in this, it's my opinion at this point, before we start that," that this whole strategy is going to put us in no worse-off shape than we are now.

MS. CARROLL: Right.

MR. SPEARS: That's a great idea.

MR. HUGHES: I don't disagree with that, but I wanted to just make a couple more points clear on this because I think it's a little bit more complicated than that. And we actually faced this directly, Bruce had alluded to it, but our strategy was a little bit broader than you might have taken away from his comments.

Section 6 is essentially a laundry list of different types of agreements that we could modify. But we have been in the position, and may well be in the position in the future, where we take one type of agreement that's in this laundry list, and do something which, in a vacuum, would be a negative to us in order to get a completely different agreement on this laundry list amended in a way that provides a significant benefit to us.

In other words, we might do something that's intentionally negative in one set of agreements to accomplish a more valuable goal in a different set of agreements.

And so, as it's drafted, I think it's --

perhaps it's just a drafting exercise. But it would be more than looking at a single transaction to determine that it is a positive, but perhaps looking at unrelated transactions, to see -- we would make them related -- but that it's a net positive.

And we face that. We face the situation which didn't happen, in which we essentially offered to give a counterparty something else that we would give up in order for a significant benefit in a swap agreement.

So I just wanted to bring that to the Board's attention, that it is not necessarily all embedded within a single type of agreement or a series of agreements, but it might be broader than that.

CHAIR CAREY: Okay, I'm wondering whether, given the complexity of some of the language drafting and the external reliance on those resolutions, whether some issues couldn't be addressed by the language that the Board uses in adopting the resolution?

MS. CARROLL: Uh-huh, yes.

CHAIR CAREY: Because I think the word "intent" can be stated as part of the action. And that's just as clear for the staff and the organization without having to recraft --

MS. CARROLL: Right.

CHAIR CAREY: -- technical language in the resolution. I'm not sure if that would --

MS. CARROLL: Okay. No, I think that's fair. I think that would be a good solution to the drafting problems.

MR. HUGHES: So just for the benefit of me, are we looking at an amendment or are we looking at just a statement of intent? I wasn't entirely sure.

CHAIR CAREY: I think that I'm suggesting that perhaps some of this could be dealt with as a statement of intent as part of the action of the Board rather than crafting the specific legal language of the resolution.

MR. HUGHES: Yes, I understand.

CHAIR CAREY: Did you have additional --

MS. CARROLL: Well, I had one just real technical question, Tom, and just probably because I've dealt with these things for too many years.

What -- this whole secretary certificate -- and I think there's parts of it where it says -- and I'm not clear if it's the executive director and the secretary have to sign things, or it's the executive director or the secretary that sign documents. So I'm just unclear what that whole purpose was.

MR. SPEARS: I think, Ms. Carroll, some of it's statutorily defined.

MS. CARROLL: Okay.

MR. SPEARS: So I'm going to defer to Tom on this.

MS. CARROLL: Okay.

MR. HUGHES: Well, typically, for example, in a bond transaction, the secretary -- I think people -- investors -- people you're dealing with are used to, and what is the normal practice in corporate transactions, is that the secretary of the board of directors will attest to certain things, namely, that the board took certain actions or things along that line, things that the board has done or is authorized.

So it is typical, for example, that as secretary, I would certify that the Board issued and passed this resolution that would be passed today so that they don't just see a copy. They have the secretary of the Board attesting to it.

MS. CARROLL: Sure, sure.

MR. HUGHES: Things like that are typical.

I will say that under our regulations, the executive director can -- and under this resolution, as well, too -- the executive director can authorize certain officers of the Agency to sign substantive documents when the director is unavailable --

MS. CARROLL: Sure.

MR. HUGHES: -- and there is a written

delegation.

And there are several of us, myself included, who are on that list for other things like contracts.

MS. CARROLL: Right. Sure. That makes a lot of sense. I just wasn't -- there was -- I thought there was like an execution of an indenture or something that was in here.

MR. GILBERTSON: Section 14 is specifically what you had discussed with me.

MR. HUGHES: For general information, our statutes actually -- Health and Safety Code 50911(a) says that the general counsel serves as the secretary to the board. So it is a statutory position.

MS. CARROLL: Okay.

MR. HUGHES: And I think it was created that way because the Agency was originally set up on a corporate model, and a corporate secretary would attest to the actions of the board of directors.

MS. CARROLL: Okay, great. Thank you.

CHAIR CAREY: Okay, are there other questions or discussion related to the resolution?

*(No response)*

CHAIR CAREY: Do you want to craft a motion?

MS. CARROLL: Well, first -- and I think, Tom, you helped last year -- I think the agreement is to go ahead and bring it back for the new indenture piece.

MR. GILBERTSON: Right. Yes, there's at least -- yes, at least that amendment.

MS. CARROLL: So last year, I know what we did is we approved it as it was, and then agreed that the staff would bring back a revised resolution for that piece. So I think we could do that the same way. And, I'm sorry, I don't recall what the motion was then.

MR. HUGHES: That's exactly what we did. We decided that it was -- on a technical resolution like this, it was a challenge to amend on the fly, sitting here.

MS. CARROLL: Right, right.

MR. HUGHES: And so it was easier to go back to the office and do it, bring it -- to pass the existing resolution with the understanding that we would bring it back with changes at the next meeting, that you could then authorize.

MS. CARROLL: And I think with regard to the other piece of it, I think we're just acknowledging that any agreement that's entered into is -- any replacement agreement -- is entered into with the goal in mind of not further -- well, what's right -- jeopardizing the financial security of the Agency.

MR. SPEARS: Not subjecting the Agency to any additional risk.

MS. CARROLL: Thank you.

CHAIR CAREY: So there's really two issues then. One is to clarify the existing practice that new forms of indenture would come back to the Board -- that this wouldn't authorize a new form of indenture.

Is that right?

MR. GILBERTSON: Right.

MS. CARROLL: Right.

CHAIR CAREY: The resolution would be amended for that purpose at the next meeting, but that we're stating the intent today that, obviously, any refinancing actions are done with the determination from the executive director that it does not increase the Agency's risk.

MR. SPEARS: Right.

MS. CARROLL: Right. That's good.

CHAIR CAREY: Is that clear enough to serve as the --

MR. GUNNING: Good job, Mr. Chairman.

MS. CARROLL: Very good job.

CHAIR CAREY: Is that your motion?

MS. CARROLL: That's fine. That's good.

CHAIR CAREY: So we do have a motion.

Can we get a second on that?

MR. GUNNING: Second.

CHAIR CAREY: We have a second.

Okay.

Roll call, please --

MS. PETERS: Public comment.

CHAIR CAREY: Oh, I'm sorry. Thank you -- and I wrote it down.

This is an opportunity for public comment.

If there's anyone in the audience who would like to address the Board on this issue, please do so.

*(No response)*

CHAIR CAREY: Seeing none, we will have a roll call.

MS. OJIMA: Ms. Peters?

MS. PETERS: Yes.

MS. OJIMA: Ms. Creswell.

MS. CRESWELL: Yes.

MS. OJIMA: Mr. Gunning?

MR. GUNNING: Yes.

MS. OJIMA: Mr. Hunter?

MR. HUNTER: Yes.

MS. OJIMA: Ms. Carroll?

MS. CARROLL: Yes.

MS. OJIMA: Mr. Shine?

MS. SHINE: Yes.

MS. OJIMA: Mr. Smith?

MR. SMITH: Yes.

MS. OJIMA: Mr. Carey?

CHAIR CAREY: Yes.

MS. OJIMA: Resolution 11-01 has been approved.

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**Item 6. Discussion, Recommendation and Possible Action Regarding the Adoption of a Resolution Authorizing the Agency's Multifamily Bond Indentures, the Issuance of Multifamily Bonds, Short-Term Credit Facilities for Multifamily Purposes, and Related Financial Agreements and Contracts for Services**

CHAIR CAREY: Okay, so we move on to --

MR. GILBERTSON: Yes, now to agenda Item 6, the multifamily financing resolution. Similar in many respects but not identical.

Let me just recap again.

The drafting of this resolution follows the same guidelines, three articles. The first article is for refunding bonds to allow us to do debt restructuring, to the extent the marketplace extended some opportunities to the Agency.

It would allow us to do that in the same amount as the bonds as being redeemed, who we again would not make new loan programs with the refunding bond in this context.

We would also, again, be able to amend, modify, or replace financial agreements. We wouldn't increase the notional amount of swap contracts or the amount of credit extended to the Agency or liquidity supporting the bonds.

A similar concept, the executive director would make a determination for the refunding bonds, that there is no additional greater risk to the Agency or the general fund of the Agency for those purposes.

The new money bonds, the same concepts again -- well, let me back up because in Article 1, you'll see section 3, where it lists the current indentures under which we have outstanding bonds. It has similar language that we could use one of the forms of those seven indentures to create a new indenture.

I believe that Ms. Carroll will have the same comment; and I think we should just be thinking about that as an amendment to the multifamily indenture as well, with one -- actually, it's going to pertain to the new money fund, so I'll hold my other comment regarding the new indenture for a moment.

Article 2 then provides authority to issue bonds to finance new programs, multifamily programs.

These would be either conduit financings or other programs that the Agency has done, so long as they have FHA insurance or security, effectively.

The amount of bonds that could be issued is limited to the amount of volume cap that has been made available to us by CDLAC, and up to $150 million of bonds in the aggregate that are either 501(c)(3), governmental purpose bonds, or otherwise federally taxable.

Can issue bonds, you know, at fixed or convertible rates. The convertible feature is not a variable-rate bond. It simply is it might be a graduated interest rate. It's kind of something that we experienced under the New Issue Bond Program, one of the HFA initiatives that we're a participant of.

You can go out 50 years for the maturity.

And it allows for conduit financing bonds, which has really been the program that we have done over the last 12 months.

Bob Deaner will talk a little bit more about some of the financings that we've done year-to-date.

I think when we talk about conduit financing bonds, we have a form of an indenture. And for every project that we finance, technically, we're issuing bonds under a new indenture.

So I think we want to be careful as we draft any amendment to the multifamily resolution, that we pick up on that aspect of things.

And there's a separate paragraph dealing exclusively with the conduit bonds on page 106 -- yes, section 10, beginning on page 106 of the Board binder.

And again, conduit bond would not -- they would all be structured so that the Agency would not be required to pledge any funds or assets or other revenues that aren't derived from the conduit business. So that we may have to pledge a commitment fee that we receive from a lending activity on a conduit bond, but we wouldn't pledge other resources of the Agency for that purpose.

And then Article 3, very similar again. It has the same programmatic provisions. It allows the executive director to execute documents and circulate official statements.

The bonds can be sold, negotiated or competitive, publicly or privately. And we can enter into whatever financial agreements may be necessary for the purposes of these bonds.

And, again, the $400 million in short-term credit facilities for our working capital or warehousing of loans is a part of this resolution as well.

And then lastly, the prior bonds also have interest-rate swaps or liquidity agreements that may need to be extended, replaced, or otherwise modified during the course of calendar 2011.

With that, are there any other comments or questions specific to the multifamily resolution?

CHAIR CAREY: Mr. Hughes?

MR. HUGHES: I just wanted to amplify one thing that Bruce said, just so it's perfectly clear -- and I'm not sure I know the answer to this, so it may be more of a question myself -- but the concern that I had with the possible language that was actually okay in the single-family about coming back to approve new forms of indenture, the resolution says that the Agency can use these forms, these listed forms of indenture or ones similar to it, which in the prior resolution was the language we were changing.

My question or concern is that with the conduit issuances in which the Agency isn't liable, doesn't have the financial or the real-estate risk, presumably we could be using the same form of indenture over and over; or it may well be -- and maybe I defer to Justin or Stan who are in the audience -- that those forms of indentures might change somewhat to make a particular deal work. And if that were the case, the change that we made in the single-family indenture would -- or resolution would require us to come back every single time for a new conduit issue.

MS. CARROLL: Right. And my comments don't extend to the conduit. It's only the programs of the Agency.

MR. HUGHES: Okay, so I wanted to clarify whether we needed a similar change to Section 8 of the multifamily, or whether we needed to do something else to make that clear because I wasn't sure.

MS. CARROLL: Well, I think my objective is just that anything that might obligate the Agency -- which conduits don't -- that for a new indenture, you would come back to us; but for your supplementals, it would be the normal -- your normal practice of being able to enter into those without --

MR. GILBERTSON: These would all be new general indentures every time for a conduit program.

MS. CARROLL: Okay. No, for a conduit program, I'm fine.

MR. GILBERTSON: Okay.

MS. CARROLL: So that one, yes, it doesn't extend to the conduit.

MR. GILBERTSON: Okay.

MR. HUGHES: To help in what I may need to do to this -- and Bruce or Stan or Justin, you can help me on this -- but in the five listed forms of multifamily indenture, I know that some of those are conduit indentures and --

MR. GILBERTSON: Yes, you'll also note that they all went to the Board, Tom. And that's what I was noticing as I looked at this, because we have the resolution numbers.

So I would almost suppose that if there was a change significant enough to a conduit form, that we come back to the Board.

If the multifamily financing space changed enough that we thought it was a change for a conduit, that we would present that resolution.

MR. HUGHES: Well, that's not exactly my concern.

MR. GILBERTSON: Okay, I'm sorry.

MR. HUGHES: I'm sorry to take the time, but I think the Board needs to know what they're approving; and I think the answer is going to come from Stan or Justin, which is in the process of negotiating the indenture for a conduit transaction in which we're not on the hook -- which Orrick is really doing -- do you make significant enough changes that we would trigger a requirement to come back to the Board, in your view? Or do those just -- are those just documents that are not negotiated?

MR. DIRKS: Stan Dirks. I think it would depend on the level of change.

If we're talking about a format that's basically the same as a previous issue and a type of indenture that's been approved by the Board for a conduit issue, it is technically a new indenture, we would not want to have to come back to the Board for that.

And I think that we can draft this so that it works for conduit indentures without requiring approval by the Board of each new indenture.

Now, if we decided to do a new form of conduit transaction, yes, that would come back to the Board.

MR. HUGHES: Right. And I just wanted to make it clear that within those conduits, there might be some changes to indenture that didn't reach that threshold that Stan mentioned --

MR. DIRKS: Right.

MR. HUGHES: -- and the presumption was, we would not need to bring it back because it was a conduit. So I just wanted to make sure that was clear.

MR. DIRKS: Yes, as long as the Agency is not at risk --

MR. HUGHES: Right.

MR. DIRKS: -- and which is part of the

definition of what a conduit financing is.

MR. HUGHES: Okay. And we can work on that and then bring that back.

MR. DIRKS: Yes.

MR. HUGHES: Thank you.

CHAIR CAREY: Other comments or questions?

Yes, Ms. Peters?

MS. PETERS: I'd just like to echo Katie's comments about how nice it is to see the new format of these regulations and how the staff has always conducted themselves in accordance with the principles we're articulating here today.

But for anyone on the outside, looking in, it's nice to see it formalized. So thank you for bringing this forward.

CHAIR CAREY: With that, we'll need a motion.

MR. HUNTER: I'll move the adoption of Resolution 11-02.

MS. CARROLL: So do you --

MR. GILBERTSON: So I think we should proceed the same way, if we can. I want Tom to approve the resolution. We'll come back at the March meeting with the amendment, to incorporate the new indenture changes that we need to, after consulting with bond counsel on that amendment.

CHAIR CAREY: Okay. We need a second.

MR. SHINE: Second.

CHAIR CAREY: Second, Mr. Shine.

This is an item that's open to public comment.

If there's anyone in the audience who would like to address the Board on this matter, please indicate.

*(No response)*

CHAIR CAREY: Seeing none, we'll have roll call.

MS. OJIMA: Ms. Peters?

MS. PETERS: Yes.

MS. OJIMA: Ms. Creswell?

MS. CRESWELL: Yes.

MS. OJIMA: Mr. Gunning?

MR. GUNNING: Yes.

MS. OJIMA: Mr. Hunter?

MR. HUNTER: Yes.

MS. OJIMA: Ms. Carroll?

MS. CARROLL: Yes.

MS. OJIMA: Mr. Shine?

MR. SHINE: Yes.

MS. OJIMA: Mr. Smith?

MR. SMITH: Yes.

MS. OJIMA: Mr. Carey?

CHAIR CAREY: Yes.

MS. OJIMA: Resolution 11-02 has been approved.

CHAIR CAREY: Thank you.

--oOo—

**Item 7. Discussion, Recommendation, and Possible Action Regarding the Adoption of a Resolution Authorizing Applications to the California Debt Limit Allocation Committee for Private Activity Bond Allocations for the Agency's Homeownership and Multifamily Programs**

CHAIR CAREY: Now, on to Item 7, which is authorization to CDLAC.

MR. GILBERTSON: Thank you, Mr. Chairman.

So Resolution 11-03 is authorization from the Board for staff to apply to the California Debt Limit Allocation Committee for award of private activity bond volume cap. This is our tax-exempt bond issuance authority.

The resolution authorizes applications in amounts not to exceed $900 million for the single-family program, and not to exceed $400 million for the multifamily program.

Those are larger amounts than we would probably otherwise expect to apply for; and we thought we might want to have that, especially -- it depends sometimes on how much demand there is for the volume cap during the course of the year.

In certain instances, we may be asked by the State Treasurer's office and CDLAC to apply for carryforward allocation that would be available at the end of the year.

If we don't have room, we may get into a problem in not having proper authorization to do so.

So our assumption has been that the Board would want to give us that authority. We wouldn't be applying for amounts that we didn't think we could otherwise utilize.

And these days, most of what we're getting is authorized for a three-year period because most of what we've been receiving has been as carryforward allocation.

Any questions from the Board?

CHAIR CAREY: Questions or comments?

MS. CRESWELL: Could I just --

CHAIR CAREY: Yes.

MS. CRESWELL: So what you would expect? This is more than what you expect. But what, approximately, would you expect in both of these?

MR. GILBERTSON: Historically, for single-family, for the calendar year 2011, I would expect the amount will be $250 million to $300 million.

And multifamily, it always has been done on a project-by-project basis. So as loans are approved by the committee, we go to CDLAC for an award of allocation.

In both instances today, full disclosure, we have carryforward allocation for both programs. Okay, so this is kind of looking to the future, potentially, because it may be advantageous for the Agency to apply towards the end of 2011 for carryforward that would be good through 2014.

The, roughly -- and I don't have the exact numbers with me, I don't believe -- we have about $900 million available for our single-family program, as we sit here today. And CDLAC awarded multifamily an $800 million carryforward award in December of 2010. And I think, in total, we might have almost $1 billion of authority for multifamily as we sit here today.

MS. PETERS: I move to adopt Resolution 11-03.

CHAIR CAREY: Thank you.

MR. SMITH: Second.

CHAIR CAREY: A motion and a second.

This is an opportunity for public comment.

If there's anyone who would like to address the Board on this resolution, this action, please indicate so.

*(No response)*

CHAIR CAREY: Seeing none, we'll have roll call.

MS. OJIMA: Ms. Peters?

MS. PETERS: Yes.

MS. OJIMA: Ms. Creswell?

MS. CRESWELL: Yes.

MS. OJIMA: Mr. Gunning?

MR. GUNNING: Yes.

MS. OJIMA: Mr. Hunter?

MR. HUNTER: Yes.

MS. OJIMA: Ms. Carroll?

MS. CARROLL: Yes.

MS. OJIMA: Mr. Shine?

MR. SHINE: Yes.

MS. OJIMA: Mr. Smith?

MR. SMITH: Yes.

MS. OJIMA: Mr. Carey?

CHAIR CAREY: Yes.

MS. OJIMA: Resolution 11-03 has been approved.

CHAIR CAREY: Thank you.

--oOo—

**Item 8. Update and Discussion Regarding the Midyear Business Plan and Operating Budget**

CHAIR CAREY: We now move on to the midyear Business Plan update.

MS. PETERS: Can we take a five-minute break?

CHAIR CAREY: Yes, we'll do that.

We'll take a ten-minute break.

*(Recess taken from 11:55 a.m. to 12:15 p.m.)*

CHAIR CAREY: We're back in session.

And the next item of business is the midyear business plan update.

Mr. Spears?

MR. SPEARS: I'd like to invite Bruce -- Tim, if necessary. We might as well bring up, you know, Gary, and Bob and Margaret and Chuck. I mean, if there's room at the table, just so that we can move rapidly.

Bring your own chairs to the card table.

MR. GILBERTSON: Obviously, I took too much time on those three resolutions.

MR. SPEARS: Time well spent.

As I said -- Bruce, if you wouldn't mind going to the next -- as I said, we organized this along the lines of the five priorities that were established by the Board at the May Board meeting.

And Maintain Agency Credit Ratings. Everything we've done this year, as far as managing our existing structure, getting back in lending, has been geared towards making us healthier, and impressing our friends in New York at Moody's and S & P.

And I'm sorry to put it in a way that sounds like we're sucking up to them; but in a way, I guess we are.

So Mitigation of Single-Family Loan Losses between Rhonda Barrow and Chuck, and the Hardest Hit Fund team, we've been doing a lot of work on that. We're now in the lending business again, which is really great. I said at the holiday party for the employees: We're looking more and more like the CalHFA of old, although it is a different -- much, much different environment. And again, we're kind of combining the last two -- Renew and Strengthen Old Partnerships and Explore New Business Model, because we've been talking to Fannie Mae, Freddie Mac. We're doing new business with Ginnie Mae indirectly, in that we're buying Ginnie Mae securities.

So I would just say this before we move on to the first priority: Some of the assumptions, however, that we all used as a board to plan this year's business plan have not come to pass. For example, unemployment, I believe we used the UCLA Anderson School of Business projection, and they projected that unemployment at this point in the business year would be about 10.9 percent. It's still over 12 statewide.

So interest rates were supposed to take off. I think they had mortgage rates at much higher than they are now; and I think the ten-year Treasuries were projected at this point to be almost 4.4 or 5. They are still in the -- Bruce, where are they?

MR. GILBERTSON: 3.30's.

MR. SPEARS: 3.30's?

MR. GILBERTSON: Yes, 3.35, I think.

MR. SPEARS: So interest rates have not done exactly what we thought they were going to do.

Despite that, I think, again, we have some good news. So if you wouldn't mind going to the next slide, Bruce.

I'll let you move these -- we're going to try to move through them fairly rapidly. Staff is here to answer questions.

I don't want to rush this at all. On the other hand, we've talked about some of this all along through the fall. So some of this will not be a surprise.

MR. GILBERTSON: Okay, I'll run through this Priority 1 fairly quickly.

Last time, we had a rating change from Standard & Poor's, it was from the spring of 2010. We don't believe anything is on the horizon other than normal annual surveillance. And then we'll have to go through the whole cycle, which is, you know, an updated basis, all the cash-flow analysis, they'll ask a lot of questions about the loan portfolio and delinquencies and defaults and losses and all of that standard stuff.

Sometime, by April or May, I would guess, that we might see, you know, an updated rating analysis from S & P. You know, again, we're talking on our two primary credits: the General Obligation credit rating of the Agency and the single-family bond indenture, the Home Mortgage Revenue Bond indenture.

Moody's Investors Service concluded in October. They did that using the June 30, 2009, financials. So even at the time, they were kind of out-of-date. I'm guessing, again, they'll come back and engage with us and want to update everything, you know, as we get into the late spring. You know, and by late spring, early summer, we may have some additional news there. And we'll see where they are.

In the meantime, you'll see on the next slide that they did go back and complete a couple other little things after their October announcement. They had a rating on our insurance fund, and you'll see that they lowered that rating in December.

We had one other General Obligation Bond indenture for the multifamily program that they're still analyzing. It, actually, interestingly, might get an upgrade because all of the loans were FHA-insured. So that would be kind of a positive thing for us to at least rally around for a brief moment. A change of direction, if nothing else.

The other things we've been doing, of course -- and we've shared this with you, we've securitized single-family loans when we could. We were able to sell those securities at a premium. And we have done some, in lieu of a bond redemption, we have purchased back fixed-rate bonds at a discount. That has created about $40 million of additional equity for the Agency, most of it in the single-family program.

As we're permitted to by the legal documents, we'll continue to do those strategies to try to further improve the bottom line for the Agency.

The next page is -- you've seen this chart before -- everyone, probably, maybe with the exception of Cathy. And this is just the ratings for the three key ratings: The General Obligation rating, Special Obligation rating, and the Mortgage Insurance Fund. Nothing has changed since the last time we've looked at this for the G.O. or HMRB.

As I mentioned earlier, the Moody's rating on the Mortgage Insurance Fund is now at Caa3. I think it was in the B category prior to that change.

Again, that's not news. And I think that's covered later. But we're projecting an inability to pay claims sometime by summertime for the Mortgage Insurance Fund. And we'll have to prioritize those. And there will be subsequent premiums that come in on the insurance policy where borrowers are paying. But it will be a temporary disruption in our ability to honor the claim obligations.

MR. GUNNING: Bruce, what's does "withdrawn" mean?

MR. GILBERTSON: Excuse me?

MR. GUNNING: Standard & Poor's, the "withdrawn," what does that mean?

MR. GILBERTSON: Yes, it was a decision that we made last summer, I believe.

Standard & Poor's had a rating on the M.I. Fund. Historically it was A+. Standard & Poor's business model is such that they want about $100,000 every year to renew a rating. So we've effectively said there is no benefit in having a very low rating on the M.I. fund.

MR. GUNNING: And we're paying for it.

MR. GILBERTSON: And so we would rather save $100,000.

MR. SPEARS: We thought about this carefully because withdrawing a rating has negative implications.

On the other hand, you're paying $100,000, and we couldn't see any benefit, and so we just don't have that sort of money these days.

The next priority involves, again, the Hardest Hit Fund team, Chuck's group in managing REOs and other servicers.

And so the Hardest Hit Funds, we've got an update on that already. So unless folks have more conversations about that.

But we are using those funds now, and have been since last fall on our own loans that are serviced by us.

The challenge now is to get other servicers, who service our loans, on board in doing this. And that's what we're in the process of doing.

We are expecting more loan modifications. We've got a backlog sitting there. And as soon as we get these other banks on board, I think you'll see a big spike -- a spike in CalHFA loan mods.

We have increased staffing levels. We've added seven positions in this area. We now have ninety-plus people between loan servicing, REO management, portfolio management. And three years ago, I think in senior staff yesterday, we figured that we had 24 people doing this. So in three years, we've, you know, quadrupled the size of the staff working on this. And that's pretty consistent with the banking industry.

We are allowing short sales in hardship situations. And a hardship is not when you're underwater. A hardship is declining income, increase in expenses.

We've had some tough calls to make in this area. But we have had, as you'll see, a number of short sales.

In the REO area, we've added another master broker. We just fired somebody that wasn't doing a very good job. So we're actively managing that.

And REO sales have jumped in November -- and December, both -- was it October and December? There are two months recently where we had more than 200 sales for the first time. And we've had a decline in REO inventory in two months recently.

The reason for the decline in December, though, was annually, traditionally during the holiday season, you go on a foreclosure moratorium. And so not as many foreclosures went into the REO inventory as normally would have. So I just wanted a little cautionary note there.

Chuck provided two really good charts.

The next slide here shows you what we had planned on.

And so we're a little under on loan mods approved. I think that's probably because we got quite a bit of a backlog waiting for these other banks to come on board with the Keep Your Home California.

Short sales were a little under.

Foreclosures were a little under.

And REO sales.

The next slide, though, is the one I want you to take a look at, and that is year over year, you can see the workload increase is quite substantial: 33 percent increase in loan mods. 76 percent increase in the number of short sales year over year. Foreclosures up 26 percent. REO sales up 40 percent. I mean, it's just a tremendous workload increase.

And I don't know if you want to add anything at this point, Chuck. But it has been a very, very busy year for that group.

MR. McMANUS: Yes, we've had to add people, train people. And it's just constant. I mean, it has -- over time, it has worked from the day that they get in -- the minute they get in, to the minute they leave.

And you have to service the realtors or they're not going to sell your property. So we have to turn around on offers, we have to give prices, we have to approve or not approve, and so forth. And they've done just a great job. We're out in West Sac, adjacent to the loan-servicing operation. And we just have a lot of good people out there.

And we have a number of temps out there because this is a temporary thing. It should end in two and a half years, something like that, the number of foreclosures and REOs should drop off.

MR. SPEARS: We are actively considering taking some loans back from some folks who are not doing a very good job of servicing.

The worst performer -- we've said this before -- and I got calls from these folks -- is BofA, and it is substantially more. You guys have seen the numbers before when we presented this. It's not improved.

If we took the 2,600 loans back today, we wouldn't have a place to put them or people to work on them.

We are exploring the idea of subservicing, hiring somebody and just giving them; although we don't find anybody really eager to take over some loans that aren't performing very well.

But we are actively considering taking them back in, in some way or another. We're not ready to make a decision on that yet, but I just wanted you to know that.

Any questions on this part?

The next slide kind of gives a "Where we are so far," but...

MS. PETERS: Just a quick question on the BofA.

Is there any value to sending a solicitation directly to those 2,600 borrowers and seeing if you can get them talking to you, or...

MR. SPEARS: On?

MS. PETERS: On the BofA portfolio.

MR. SPEARS: When we get them on board, that's the plan. When we sent out notices before on the pilot program and the beta, we sent cards out, 3-by-5 cards out to every single borrower we thought qualified for a loan mod. But those are the only ones. As soon as we get these other folks on board, then we can do the same thing.

MS. PETERS: Good.

MR. SMITH: My question is actually on this chart, so if we could go ahead and --

MR. SPEARS: This one?

MR. SMITH: Yes.

MR. SPEARS: So if I walked up here and did this, I think it would be better.

This is my teaching background.

This is all you saw when we were in May, because that's all the information that was available. So I just wanted to show you the progress made.

60+ delinquent is the chart that the rating agencies look at.

I think that's correct, Bruce?

And so that includes all the really seriously delinquent loans: The 120+ that are technically in foreclosure.

The only reason I didn't put a total delinquency here is because 30-day goes up and down and up and down. People will miss a payment and they catch up; and so it's not a real indicator.

I think what you see here is significant progress. It's bad news for the borrowers. This is not what we're in the business of doing, is kicking people out of their homes. But there are just a lot of situations where foreclosure is the best way to proceed. And we've made a lot of progress in moving ahead with foreclosures.

So some of this that you will see over that period of time is an increase -- reflected over in Chuck's shop, is an increase in REO inventory. So that's why that workload has increased. But we have made progress.

The only reason why this chart would go down like this, is because we're putting fewer loans in than we're moving out on the back end.

I believe Mr. Smith had a question, Mr. Chair.

MR. SMITH: Yes, what you just said right now, I'm just trying to get a sense of, is this a true reflection that things will coming back to the good, old days? Or is this a reflection of, we are not -- we don't have new loans? I mean, what's your sense in terms of the trend? Are we going to see less foreclosures going forward now?

MR. SPEARS: No, I don't think so. I think we're going to see -- certainly not a decrease in foreclosures this year. There's still a large backlog there, and there's still people who are going into this category in the coming year.

MR. SMITH: But we have less people going into default. That's what I was just trying to get an understanding.

MR. SPEARS: Then we're moving out in foreclosures, that is true. But it doesn't mean that we're going to have fewer foreclosures.

MR. SMITH: What's our backlog on foreclosures that are targeted?

MR. SPEARS: I'm trying to -- now, these are the conventional loans. You know, on FHA loans, we file claims.

I may have to ask Chuck for some help here. But our seriously delinquent 90+ part of this --

MR. McMANUS: I think because we have so few cures for 60-day-plus. 60, we assume 70 percent will go to foreclosure. 90, we assume, 80. And at 120+, we assume 90 percent will go to foreclosure.

And if you -- I'm sorry, I have a chart here I can refer you to. It's --

MR. SPEARS: I think it's conservatively -- if you wanted to, you could say conservatively, would be everybody in this category: 1,500 loans. But that's probably too conservative.

We also have high hopes for the Hardest Hit Funds that would be able to help some of these folks. Some of them will cure.

But I'd say a large portion of the 1,500 loans or so in this category are probably going to eventually not come back.

MR. SMITH: Right.

MR. SPEARS: Is that fair, Chuck?

MR. McMANUS: I think that's accurate in this environment. With values at 50 percent of original, people just don't fight to save their home if there's a financial problem.

MR. SPEARS: Right.

MR. SMITH: Do we have a sense of those that are not in default, what percentage of those are the values substantially lower than the loan?

MR. McMANUS: Most, because we have a relatively young portfolio of loans because everybody refinanced when their values went up and cashed out.

I would say -- the values are at about year 2000 right now. The price of homes is at the year 2000 prices, which is about 50 percent less than the 2006 prices -- 2005, 2006.

So you're going all the way up, and now it's coming all the way down to the 2000. And our book of business is relatively young. Basically, huge amounts in 2005, 2006, and 2007. That's probably 70 percent of our book.

So it's people that can make their payments and want to stay living where they're living. And we've got 85 percent of the people making those payments. Those are the ones we hope keep making their payments. And those that have a little financial problem, we'll help with a mod program.

MR. SPEARS: The rough estimate, I think, Ruben -- and we're updating the Milliman study to try to predict how many folks are now current that will eventually go in default. And I'm not sure when that's scheduled to be done. But what we're trying to do is to use the latest data that we can. But I think the last time we took a look at this, our estimate is somewhere in the 75 to 80 percent of our loans are underwater, to some degree. And a very large percentage of those are seriously underwater -- I guess more than one-third. 130 percent LTV.

Despite that fact, as Chuck says, about 85 percent of our borrowers are current. They're not even one payment behind.

And if our former colleague on the Board, Barbara Macri-Ortiz was here, she'd tell you that she believes that that is because they didn't buy these as investments. They didn't buy these to flip them, they didn't buy them to suck equity out, they bought them as homes. That's their first home. They feel differently about it than some other folks might have in the rest of the world.

So that can't be borne out in any statistic that I can find. The only thing I can tell you is that I've gone to loan servicing and asked for a copy of the logs that people say why they're going in default, and they say all kinds of things. But they don't just come right out and saying, "I'm leaving because I'm underwater." Most of it is: "I have expenses, I have a decline in income, I'm unemployed." They talk all around it, but they don't actually say, "Well, I'd rather keep my credit cards and lose my house." Nobody actually says that in a telephone conversation.

MR. SMITH: So is the loan -- the principal reduction program that we have, do you think most of these folks would qualify, the 85 percent that are paying, since most of them are underwater? Or at what point do they qualify for the principal reduction?

MR. SPEARS: That program requires you to have a hardship, to be in default, or to be in imminent danger of default. So if you still have your job and you can make your payment, but you're just simply underwater, you don't qualify for that program.

MR. SMITH: Okay.

MR. McMANUS: Yes, reduced income is the absolute requirement to then be considered. If you have that, then we generally can offer a program that will give you an affordable payment.

MR. SMITH: Right. That makes sense.

MR. SPEARS: They qualify on all the other points. They own and occupy, they're low and moderate income -- everything else. They just have to have that hardship.

MR. SHINE: All these people whose homes are underwater, that large a percentage of them are current on their monthly payments. Is that what you're saying?

MR. SPEARS: Yes, sir.

MR. McMANUS: Yes.

MR. SHINE: I hope they don't get smart.

That's amazing.

MR. GUNNING: Not well underwritten.

MR. SHINE: And the fact that if it's a first-time home buyer, he's right, they don't buy -- everybody else advises you, "Don't worry, it's a great investment, we're going to do this. You take 100, 200 grand out," blah-blah; and these people, they just walk.

You said 60 to 70 percent or something like that of those people underwater are still making payments?

MR. SPEARS: I think it's higher than that. I think it's 75 to 80.

MR. SHINE: Be nice to the collecting agencies. That's amazing.

CHAIR CAREY: I tend to agree with Barbara, that is the focus, is homeownership. And folks are in there.

Is it reasonable to say then that the apparent improvement in this chart is largely due to processing rather than the declining number of delinquents?

MR. McMANUS: Yes, the number of delinquents, because we haven't been adding new delinquents very fast. And we've processed -- we've either modified or foreclosed, is reducing the number still delinquent.

But it has, as Steve said, stabilized. I mean, we're not having a big rush.

CHAIR CAREY: And what's the situation with the *interest-only* portfolio right now?

MR. McMANUS: They will be changing payment, about 150 loans a month this year, so...

CHAIR CAREY: And that's just starting?

MR. McMANUS: Yes, and the change will be between 16 and 19 percent. Their payments will be going up. But they will be calling, I'm sure, for modification. And we can respond to that if they're qualified for modification. And that alone could cause the problem, the affordability problem.

MR. SMITH: Is it true then, that modifications, you're only qualifying if you have a reduced income?

MR. McMANUS: Unless you have a changing payment mortgage which causes there to be a problem relative to the payment, your income is reduced as a percentage.

So we will definitely consider that if it's an affordability issue, and we'll run it through our model, and we will get a positive cash surplus on a monthly basis for that borrower.

MR. SHINE: Is the actual number of fresh problem deals coming in more, less, or equal to what it was several months ago?

MR. McMANUS: It has declined.

MR. SHINE: Is that --

MR. McMANUS: It has declined because our portfolio is smaller and aged and, therefore, it's reduced.

MR. SHINE: But the new people coming in, that have had loans for whatever time, there is less of those people coming in now than there was --

MR. McMANUS: Slightly. But we expect it to plateau where it is because of the impact of the IOP will cause those to go delinquent.

So we expect that total number of new, fresh delinquents to be pretty consistent with where it's been, and then we have to proactively modify.

MR. SHINE: But those are going to go down more, the red bars and the line -- the number of loans.

As each month goes by and you process out the bad ones and you get less new ones that are bad --

MR. McMANUS: I think it's going to flatten out, Jack. But that's my projection.

MR. SHINE: Do you think so?

MR. McMANUS: It's going to flatten out at a level because of the new one's coming from the IOPs. And then we cure them, and then we can reduce.

But we've got two years of IOP -- big years. 2006 is coming now, 2007 is after. Those were big years. So I really think we'll have to work very hard to keep that flat.

CHAIR CAREY: But keeping it flat is better than what could have happened.

MR. McMANUS: It will be wonderful.

MR. SHINE: Well, I know.

CHAIR CAREY: It's very positive.

MR. McMANUS: If we could keep it flat, that would be great because we're then curing the ones that are in there, a significant portion.

"Curing" means brings current.

MR. SPEARS: Someone asked about process.

This steep climb, back in '09, was definitely process-oriented. That's the same phenomenon that you saw in banks all across America. Bank of America told us about a month ago that since this all started, they had hired 18,000 new people to deal with their loan services.

I wish just a few of those people could be dedicated to our loans. But we were caught in the same way. Lots of hiring -- this is when we moved the loan servicing center, got everybody into one room, hired more temps. But by the time you did all that and trained, we got behind. A backlog built up.

Plus, if you remember, we had several foreclosure moratoriums at first when there were various programs being considered, nationally and state. And so we simply got behind.

And so this decline is, part of it is catch-up, so...

CHAIR CAREY: Okay.

MR. SPEARS: The next slide -- so off of the sort of depressing news to better news, and that is that we have renewed single-family lending. And we have two or three slides here: One on renewing single-family lending, a couple or renewing multifamily lending, and then the reason Margaret is up here is because this impacts her. When Bob does more work, it gets transferred over to Margaret in Asset Management.

The single-family side, remember, in May we were going to do this 100 percent LTV Fannie Mae, affordable project. That worked great, right up to the point where Fannie Mae changed the rules right at the last minute in the economics, and we basically had to tell them that we weren't interested anymore. At which point Gary got his staff in gear, and we told the story to you last summer and in the fall. We put together -- revived our FHA program very quickly, and got back to the Board. And so we have 627 loans in play.

This flow started rather slowly. And then as interest rates took off in October, November, this really picked up. So we have $127 million in reservations. We've actually purchased 64 loans. And a lot of that's because, again, these take two or three months to close. And by the time you do that, some time goes by.

So here's a picture of the quality of the loans purchased.

I just took the 64 loans and divided them into 12 million bucks. And it's a lot less than our average loan used to be. No surprise there. Home prices have declined. It's $187,000.

I think our loans were averaging in the $275,000 range before we shut down lending.

The FICO scores are a bit of a surprise. They're almost 700. And prior experience -- Gary went back -- I don't know if you guys remember this, but FHA didn't pay any attention to FICO scores for a while. But at the tail end, we were seeing FICO scores of 685. So that's gone up a bit.

The average LTV, not surprisingly, is 96 percent because that's what FHA has, 96 and a half percent.

But if you add on CHDAP and our local partners in AHPP, that's getting pretty close to a combined LTV of 100 percent.

A really significant change is that 65 percent of all the loans we purchased so far are in the low-income category. And at CDLAC -- and we have Joanie Jones-Kelly here, who used to be the director there, she was always wondering what the statistic was. The goal for CDLAC when we get our allocation is 40 percent. So we are far above our goal at this point. And that's a really good thing.

Gary, I don't know if you want to add anything at this point?

MR. BRAUNSTEIN: I think you highlighted most everything, Steve.

The one reminder to the Board you mentioned was, there's a ramp-up period. So, you know, we were running fast and furious prior to our fiscal year on the Fannie Mae Advantage product, which we were anticipating rolling out.

We got light on our feet, stepped back, developed the FHA product, and launched that in September.

And to Steve's point, it takes a good three months to build up a pipeline, get the lenders back aware that we're lending this project, get our outreach and business development focused in on the products we're offering. And we're seeing the rewards of those efforts with a pipeline today of $127 million.

A good portion of that has been in December. So we'll start seeing this pipeline ramp up quite considerably.

One other point is, we're enjoying a more diversification of lenders submitting loans to us than we've done before in the Agency. We're getting more loans from a number of different lenders, large lenders as well as mid-tier versus a concentrated effort of loans from just a smaller group of lenders.

And some of the large lenders that we're beginning to establish relationships again is: Wells Fargo; of course, Bank of America, who is our master servicer; Chase; Citi; MetLife; and some of the other larger players.

And so we're getting business from them. And then we'll be targeting more of the mid-tier lenders to round out the group.

MR. SPEARS: Just, again, for the Board members, I just want to confirm with them, we're not buying FHA whole loans; we're buying Ginnie Maes. Bank of America is acting as master servicer and securitizing those. And in keeping with that business model that we talked about before: No additional risk to the Agency.

All right, again, moving along.

Priority 3, Renewed Multifamily Lending. This is -- the same is true with the FHA program -- all possible because we're participating in the New Issue Bond Program. U.S. Treasury money is available there, at a very low rate.

We were able to extend that. And that was one of our objectives. So that now we could use this program all the way through 2011.

We received $380 million in commitments to buy our bonds from Treasury. So that's been escrowed.

$262 million has already been done --

MR. DEANER: Well, $242 million is the New Issue Bond dollars, $20 million is private placement. We can leverage some of the New Issue Bond dollars with market-rate dollars, which we did on some projects. So 242 of the 262 has been either committed or closed.

To date, we have another $70 million -- $80 million that we're closing in the first quarter. We have 40-plus million in process. And then the last $90 million or so, we're going to look to use for refundings within the portfolio. Treasury gave us the ability to use 30 percent of the bonds for refunding of our portfolio. And we have some securities that we're looking to refund on the multifamily side.

If, for some reason, we can't do that, those dollars will go back out. And I'll easily be able to put them out.

When I went to the loan closings, we have to close these because you only get so many draws to deliver to Treasury. So we closed 12 deals in one week, which was quite a task.

But meeting with the borrowers, a good portion of those had indicated that their deals wouldn't have happened if it wasn't for the New Issue Bond Program just because of the financial constraints and the market.

And a number of them said, "If you can get more of this money, I've got plenty of projects for you." So I could easily put out another $400 million or $500 million.

Unfortunately, we know that's not going to happen. We have the 380, that's what we're going to get for 2011. But all of those dollars will end up going out in 2011. So it was very successful.

With the extension, we became everybody's best friend in 2011.

MR. SPEARS: I'm happy to say that many of the projects, as we noted up there, wouldn't have been completed but for this funding.

MR. DEANER: Yes.

MR. SPEARS: So that's good news economically, it's good news for affordable housing, units that are needed in the state every year.

It's been nice to be back in the business again, even on a conduit basis. We've been helpful to a lot of projects.

MR. DEANER: And because we did this as a conduit lender, it got us to retool as a conduit lender. And so, therefore, with the carryforward that Bruce talked about earlier, the $800 million from 2010, we're looking to utilize that as a conduit program in 2011, with no risk to the Agency.

So I'll bring that in March. But that is something that we're going to look to do in 2011, to continue it outside of the New Issue Bond Program.

MR. SPEARS: Right.

The other two things we continue to be active with are the MHSA program that, as I mentioned before, Kathy is very involved in.

I put total program numbers up here for you, so you can get an idea of the size. Remember, we received almost $400 million for this. $236 million has been requested. We have produced 2000 MHSA units so far. So this has been a really, really successful program.

And I know some of you may have heard that some of the MHSA money that has not been committed, they're trying to pull that into the General Fund.

My understanding is that that would not apply to these funds. That they're committed and have been transferred to us and they are -- they're considered not available for the General Fund purpose.

MR. DEANER: And I would add that these dollars also helped projects get done, because there's a number of projects that, when the market turned, that utilized these dollars and transferred the units for the MHSA program, so it assisted in getting the actual projects done.

MR. SPEARS: Yes, I wouldn't describe them exactly as gap financing, but it gave us a -- it's a little different than, I think we thought we were going to see whole MHSA properties, and it wound up to be units here and there.

And so from a policy standpoint, I think that's a good thing for folks, tenants. From a project standpoint, it was definitely very helpful to get some projects done that, again, probably would not have been done. But 2,000 units --

Is Kathy still back there?

Too bad. I'd like for her to take a bow. She's been very, very instrumental in this.

And then finally, we've talked about this before, but the TCAC processing of ARRA funds, of economic recovery funds, we've been helpful to them, providing staffing.

All three of these, though, are fee-based. And they've brought in a very large amount of fees for the Agency. On a long-term basis, if we're going to be a fee-based outfit, we're going to have to seriously look at how our overhead is structured, because we're not set up to do just fee-based financing in multifamily.

But, you know, we are keeping busy with the opportunities that are out there. That's what we're trying to do right now.

So, all right, again as I said, everything that Bob winds up doing gets transferred to Margaret.

So we have almost $2 billion in loans. 40,000 units under her management at 96 percent occupancy.

This is not the problem area for CalHFA. These are very proforma loans.

We have one small change. There are two very small properties in the Southern California area that are over 30 days delinquent. So two out of 500 is a pretty low delinquency rate. So I think that's pretty good.

But this is where Margaret's -- you don't realize this, but we're going to manage MHSA units in Asset Management once they're done. And we've had 12 permanent closings, 95 more units. 85 are receiving Capital Operating Subsidy funds. And that gets all managed by our Asset Management group.

Finally, we've talked to you about this Pilot Prepayment Program if you're within seven years of the loan maturing, that we're talking to folks -- four interested parties, anyway.

How many letters did we send out originally?

MS. ALVAREZ: 51.

MR. SPEARS: Right. So four out of 51 have expressed an interest so far. So we'll keep moving ahead with that.

In the past, there's been more interest in prepayment.

MR. DEANER: I was going to say, then those four are in the New Issue Bond Program. They're the ones in the pipeline.

MS. ALVAREZ: Well, actually not.

MR. DEANER: Well, there's --

MS. ALVAREZ: No, we counted them as something else because they got -- they paid off their loans because of being refinanced, not because they had the chance to prepay and get out.

MR. DEANER: Oh, okay.

MS. ALVAREZ: I'm sorry, there's a distinction there.

MR. DEANER: It's technical.

MS. ALVAREZ: It's fine, but it's a technical distinction.

MR. DEANER: Her payment, my money.

MR. SPEARS: Okay, any other questions on the multifamily side of things?

*(No response)*

MR. SPEARS: I would love for the bond market to come around and, you know, we're doing permanent financing and will be able to do construction financing again at some point in the future. We're just not able to do it at this point.

All right. So then again, the next slide, Mr. Operator.

Thank you.

MR. DEANER: Not a problem.

MR. SPEARS: At the May Board meeting, we combined 4 and 5. I think it's still appropriate.

We did put this first bullet in the old partnerships because I guess we consider ourselves old partners with the United States Treasury at this point.

We are spending more time going back and forth to Washington, D.C., than we are going to New York. It's a sign of the times.

But one of our main objectives was, back in May, was to see if we could get this program extended on into 2011.

We were able to do that. I can't take full credit for it. But one of the big reasons why Treasury felt a lot of pressure to get this done is because a very large chunk of money in California was not going to get used unless it got extended. So I think we were able to put a lot of pressure on them.

But one of the big elements was the rate relock. They allowed us to drift in -- because we all thought we were geniuses by locking in the rate last winter at -- what was it, Bruce, 3.49?

And then it continued to slide during the year. So we've been able to take advantage of a declining interest rate.

It's been great for the single-family program. It makes our product very competitive. And that's been a real success.

Then on the single-family side -- Gary, why don't you spend just a couple minutes talking about the BLOCK Program --

MR. BRAUNSTEIN: Sure.

MR. SPEARS: -- and the Federal Targeted Areas Program.

MR. BRAUNSTEIN: Sure.

The BLOCK Program was a new initiative that we rolled out recently to nonprofits. And we allocated $50 million out of the NIBP towards this program. And it's simply for new construction. And we're providing a forward commitment of a forward rate, as well as allocating the funds. So we're offering a 5¼ rate on a forward commitment of 11 months, ten months, or nine months out for nonprofit builders and developers to take advantage of this for new construction.

MR. SPEARS: This is something we've done before? We're reviving this, right?

MR. BRAUNSTEIN: Yes. Yes, it's something that we've done it before. We're just reviving it again, and we just launched it recently last week. And so we're just beginning to get some activity and some interest and responses.

On the Federal Targeted Area Program, this is a new initiative that will be rolling out shortly. It's based off of census tracts and allows us to offer our loan programs to non-first-time home buyers and in the federal targeted areas by census tract. It carries with it a little higher sales price, a little higher income limit to allow us to take advantage and provide our loan programs to these federally targeted areas that are based off a census tract.

MR. SPEARS: Again, I think this is revival of something we were doing a few years ago, right?

MR. BRAUNSTEIN: Yes, it something we have -- yes, it's a revival of what we've done before. We've offered this all along. We're now putting it into a more proactive business development effort because there's opportunities for potential homeowners that we, in the past, were not, if you will, proactively marketing and seeking.

MR. SPEARS: Right.

MR. BRAUNSTEIN: And so this initiative is really packaging that opportunity in a little bit more of a focused task force consortium arrangement throughout the state, where we're bringing realtors, lenders, loan officers, potential borrowers in these federal targeted areas and providing a more concentrated opportunity for those individuals.

MR. SPEARS: Any questions on that?

The other thing we've been doing is talking to both Fannie Mae and Freddie Mac about new initiatives for them to provide credit enhancements, where we can do some lending.

But, again, in keeping with the objective of trying not to take on additional real-estate risk at this point, see if we can partner with them, get some lending done that wouldn't otherwise be done, earn a fee, and stay active.

Bob, you just want to mention a couple things about that?

MR. DEANER: Sure, sure.

The good news is that I was a Fannie Mae/Freddie Mac multifamily lender for 12 years before I came to CalHFA, so I know their programs very well.

And what we're targeting is, with Fannie Mae it's utilizing one of their DUS licenses. They call it "DUS." It's "Delegated Underwriting Servicing." We would partner with one of their DUS licenses, and we would deliver loans to them, which then would turn into commitments that would be credit enhanced, either at the loan level or the bond level by Fannie Mae through one of the DUS groups. So we're in negotiations. What CalHFA, we've talked about, is we'd get some fee income and some servicing out of it.

The other is Freddie Mac. We flew back to D.C. and met with them. And their program is similar to Fannie from an underwriting standpoint. I used to battle between the two of them when I had deals. But the only difference is that they take 100 percent risk. They don't delegate to any of their servicers. So you deliver actually an underwritten package directly to them, and in Targeted Affordable Housing they do it out at D.C., they look at that, reunderwrite it, approve it, and then give you approval to issue a commitment.

In that case, we would be a direct seller/servicer to Freddie, is what we're talking to them about.

They have a new program they're rolling out, where they want to do more preservation housing. And they're targeting groups that do more preservation housing, like at CalHFA.

So the good news is we're one of the first in line when they decide to roll this out; and then it will just be an agreement between CalHFA and Freddie Mac on how we establish that. But it would give us the ability to use their Aaa credit enhancement to deliver bonds with no real-estate risk to CalHFA. And again, we'd get fees and some servicing for that.

So we've already -- I've taken our staff, and with the help of Laura Whittall-Scherfee, one of my chiefs, we've retooled our underwriting to what they call their guidelines, the Fannie Mae and Freddie Mac guidelines, because they are pretty similar. So we're ready to go. It's a question of when can we tee it up with these two groups to start rolling it out.

And it's going to take some time. I wish we could do it in 60 or 90 days. But they're bigger gorillas than we are. So they move at their pace. And so we'll keep pushing them as hard as we can, but it's going to take a little time to get that established, but we'll get it going.

MR. SPEARS: Excellent.

Any questions about that?

*(No response)*

MR. SPEARS: If not, we'll move on to something that we have talked about several times, but I wanted Margaret -- Margaret just returned this week from some meetings in Washington, D.C., about the performance-based contract administration. This is HUD's national renewal of contracts to administer HUD projects in every state.

And I'll let Margaret just give you a quick update on that.

MS. ALVAREZ: Yes. As a reminder, we do 131 projects right now as what they call a traditional contract administrator. So this is something we know how to do.

The performance-based contract administrator does Section 8 properties that the Agency doesn't finance. It's the state's entire portfolio of Section 8 properties.

And there's a lot of interest, that there will be other bidders. I've talked about this for two years, and I feel like I never have a new song to sing about it. But HUD promises now that the contract will be out for bid the first part of February, and they still have a target date of October 1st, 2011, for the chosen contractors to begin their work.

I think last -- two years ago, when I first started talking to you all about this, their intent was to start the contract January 1st, 2011. And they haven't even put it out to bid yet. So they're behind. And as soon as it comes out, we'll jump in the game and put in our best bid and work very hard to get it.

MR. SPEARS: They've reduced -- to try to catch up, they've reduced the response time on the RFP from

90 days to 60 days. So they're taking -- we're having to pay for their inefficiency. But, whatever...

We do have a contractor on board to help us with that process and to help us write that and do the work. So that's good.

Well, I'd say this, before we get to the operating budget, next Monday, Tuesday, are the days when we have our senior staff offsite to start the planning process for Board members who haven't been through this a lot and for Cathy who it's her first time through. Our procedure is for us to do this review, get feedback from the Board, meet in an offsite, put together a proposed business plan, present that to the Board at the March Board meeting, get your comments, then bring back a finalized business plan at the May Board meeting with a budget that goes with that business plan. That gets adopted, usually, in May. And then we're ready to go for the July 1 -- because we don't have a June Board meeting -- then we're ready to go for the July 1 start of the year.

So that's going to be the process with the Bureau of State Audits examination, plus this response that we're going to have to put together for PBCA.

There were a couple other things, very quickly, I was going to tell you about: The Bay Area Housing Plan bonds, which Katie is working with us on; and the M.I. audit that's going to go on and all this new lending.

It's going to be a very busy winter and spring for everybody at CalHFA.

MR. SHINE: Can you give us a little quick two-sentence update on the Bay Area Housing Plan, on getting rid of that stuff?

MR. SPEARS: Yes. I thought that we were going to do that later, but I'll do it right now.

The update on the Bay Area Housing Plan bonds. Scheduled to close the bond sale February 17th. Now, that means the sale has to occur before that, right? So the official statements have either gone out or they're about to go out, Bruce -- they're about to go out.

California Health Facilities Finance Authority is going to be the ones to sell the bonds. Cal-Mortgage, which is another branch of state government, is going to guarantee the loans -- not the bonds, correct?

So this is going to be sold now as a health facilities bond deal, not a housing bond deal, which we think will work much better.

So that's the schedule. Our loan, where we're carrying these loans right now, the loan from BofA is due February 28. So if all goes according to plan at this point, the bonds will be closed, the loan will be paid off to Bank of America on time, everything will be great.

The only -- it's not really a hiccup. But we keep getting queried by our friends at Moody's, you know, "What are you going to do? What are you going to do? What are you going to do if that schedule gets delayed again?"

So the legislation allows for the director of the Department of Finance to provide a General Fund loan to CalHFA if the bonds are not sold by January 15. That day has come and gone.

As you know, the General Fund is not all broken out with cash. So what we're trying to do is a little bit different take. And this afternoon at four o'clock, we're going to head down to the Treasurer's office and meet with Katie and her staff and some folks from Finance and talk about some options with regard to that.

And the only reason to do that at this point -- because I have every confidence that the bond sale will go off on schedule -- it's very rare that you pull back a bond sale once the official statements go out and bondholders start getting ginned up to buy the thing.

So I think it will go off on schedule. But we're doing this exercise to help make our friends at the rating agencies a little happier.

MR. GUNNING: Talk to New Jersey.

MR. SPEARS: Sir?

MR. GUNNING: They pulled back on their bond sale.

MR. SPEARS: They did. It's not the same as a state deal, but --

MR. GUNNING: Different -- right, right.

MR. SPEARS: -- but I understand.

And that's why we're going ahead with the conversation.

MR. GUNNING: Think positively.

MR. SPEARS: Right. I'll say this: I'll give Katie Carroll huge kudos for helping to convince the folks at Cal-Mortgage. We were in a meeting. And it was really great to see Katie in action. She convinced them right away there was no reason --

MS. CARROLL: Thank you. But I think we have to give our friends at Finance some kudos for that one, too.

MR. SPEARS: Well, yes, I think it was -- they very quickly saw the light, that this was something that needed to be done.

MS. CARROLL: That's good. Well, you guys did a good job. And I think that sort of selling these as a health facility was the right thing to do. I think that really moved the conversation along.

MR. SPEARS: Right. If you wouldn't mind operating there for a second --

Well, I'm sorry. Howard can come up.

MR. DEANER: I can be the button guy, if you want.

MR. SPEARS: I know the hour is late. We have a couple more things.

Howard, why don't you come on up?

MR. DEANER: I'll hand off the baton.

MR. SPEARS: And just a quick update on the budget.

I think the bottom line is this: That at present, we are under budget. We're planning -- if we keep going at this same rate, by the time we get to the end of the fiscal year, we'll be under our adopted $48 million budget by about two and a half million dollars.

There are a number of reasons for that. We're still operating at a very high vacancy rate. But we have increased costs for temps and overtime. So I think you can kind of pretty quickly see what we're doing here. We're dealing with temporary issues with temporary help. We're authorizing overtime when we need to. We've added seven positions.

But what we told you at the May Board meeting, if lending really took off July 1, we would start to fill vacancies. And that didn't happen. I mean, lending really didn't take off until September, October, or even into December. Gary said that most of the reservations that we have in the pipeline came in, in December. So that's the reason why these costs are probably lower than what we would have otherwise had.

MR. SHINE: What about the income side?

MR. SPEARS: Well, we'll get to that in just a second when we go over the financial statements. This is just on the operating budget side.

We are still spending money on the strategic projects. The biggest one that we have going that we are almost finished is the loan reservation system for single-family. That system is really decrepit and needs help. We're also spending more time -- well, the move went according to schedule. We made a move of loan servicing to West Sac. We moved the portfolio folks to West Sac. We moved the Hardest Hit Funds people to West Sac. And we consolidated the Senator Hotel and Meridian locations into one location over here and did that under budget. So I'm very happy to report that.

But I think it's still important to invest these monies in updated systems because I think I have every confidence that we can meet our challenges and move on with renewed lending down the road. And we're going to need these newer, updated systems as we move along.

So any questions on the operating budget side of things?

*(No response)*

MR. SPEARS: I hope I can report that we are spending less money than planned at the end of the year. I think we'll probably do that.

MR. GUNNING: Just one comment, Steve.

MR. SPEARS: Yes, sir.

MR. GUNNING: The Hardest Hit Funds reimbursements, so are they slow? Or what's the story there?

MR. SPEARS: No, I think we're getting reimbursed for everything we need to be reimbursed for on time.

I think, in reflecting back, when we -- we sort of sent out to staff, if you're going to be working on Hardest Hit Funds this year, we need to know how much, and we need to plan for that.

And I think the difficulty is this: I spend time working with Chuck on implementing, you know, our program at CalHFA. You know, banks around the state are doing the same thing. We don't get reimbursed for that part of it.

If you're helping Di with the statewide Keep Your Home California campaign, that's what we get reimbursed for. So I think we probably overestimated inadvertently.

I may put down some time -- some of that time that I spend with Chuck, and I'm not turning in that time for reimbursement at this point.

So I think it was a misunderstanding early on about what we could and could not get reimbursed for.

Next is a quick update on the first quarter financials.

Lori, come on up.

Again, I don't want to rush this, but I know the hour is late. I just want you to see how we're doing so far.

And we put in year-over-year quarters of -- why don't you hit the button and go to that first slide?

I think you can see, year over year, we've lost program-loan interest income. We don't have as many loans as we did before. And that's pretty obvious. We've lost a little income from investments, but those are assets that we have invested in the State Treasurer's Pooled Money Investment Fund.

This Treasurer, and every Treasurer before this one, has the ability to brag that they have never lost money on a single securities transaction. It's just a function of interest rates. And as interest rates slid over the year, we saw less interest income from investments. So that's not a surprise.

We have, down below, again, a drop in interest rates has meant that we spend less money on interest expense as well.

And so the only thing is, Lori, you might want to just take a couple of seconds and tell people what the big items are in the $69 million of other expenses.

MS. HAMAHASHI: In that total, we do have all of the REO expense -- I'm sorry, am I close enough?

MR. SPEARS: Yes.

MS. HAMAHASHI: All the REO expenses that we're paying out --

MR. SPEARS: The mikes are turned down pretty low.

MS. HAMAHASHI: Is this better?

MR. SPEARS: Yes.

MS. HAMAHASHI: Okay, all the REO expenses that we're paying out, all the gap-related insurance claims that are being recorded -- I mean, this actually is a summary of probably about, I don't know, 50, 60 accounts and, you know, throughout the years, when we've always had, you know, expenses. But as far as they're related to delinquent and REO-related properties, that, you know, those amounts have gone up. I believe we're spending about $5 million on the gap claim payments, so they're averaging about $5 million --

MR. SPEARS: Per month.

MS. HAMAHASHI: -- a month.

And $2 million for the quarter for the REOs.

I don't know if you want to go over some of the other numbers that looked like they may have fluctuated during the quarter.

But, you know, in June, we did have to record transactions related to the new standard that came out. And it's on GASB 53.

So, you know, some of the fluctuations in the other revenues account may have gone up or down. But all of these transactions that we're recording were approved by the auditors. I mean, we had to, you know, close out certain accounts and start using a different set of accounts in order to show that we were complying with the new standard that came out.

I don't know if you have any other questions on the income statement.

MR. SHINE: Is it accurate to say that at the end of September '09 we lost 77 -- I guess these are all millions, right?

MS. HAMAHASHI: Yes, they're in millions.

MR. SHINE: Dollars.

And now things got really tough, and we only lost $28 million this last quarter. Is that right?

MS. HAMAHASHI: Well, you know, within this time frame, we've been a part of the NIBP and TCLP programs.

MR. SHINE: But the bottom line, at the end of the day, it's $28 million negative, right?

MS. HAMAHASHI: Correct.

MR. SHINE: Where does that money come from? Where do you get the $28 million to break even?

MS. HAMAHASHI: Okay --

MR. SPEARS: I think the simplest answer to that is, we have earned-fund equity retained earnings over time.

MR. SHINE: Is that cash money?

MR. SPEARS: I think that, from an accounting standpoint, it would be retained earnings.

Our cash liquidity situation is something that Bruce follows pretty closely. But we have a pretty solid liquidity situation now under current conditions, and so --

MR. SHINE: And so this income here that makes up these losses for all these periods comes out of retained earnings that have not been applied?

MR. SPEARS: Correct.

MR. SHINE: The auditors are okay with that? That's a question.

MS. HAMAHASHI: Yes. Yes.

MR. SHINE: Then so am I.

MR. SPEARS: Another chart -- well, let's -- we don't have the balance sheet up there, but let's go to the next slide.

You'll see that overall, we have, you know, roughly a billion or so in additional cash and investments. And we have a large increase in bonds payable. And that's a direct result of participating in the New Issue Bond Program.

We sold bonds, and they were escrowed. So liabilities increased and cash and investments increased.

Now, you're wondering, I'm sure, why then -- how come bonds only went up by $700 million. We've retired a lot of debt -- about $300 million. So that puts us in better shape than we would have been in the fund equity.

As Bruce said before, some of these strategies have resulted in an increasing -- or retained earnings, our fund equity by as much as $40 million collectively.

So at present, we have about $11.3 billion in assets and $1.5 billion in restricted equity.

And as Bruce always admonishes me to do, I want to be careful and advise you that not all of that $1.5 billion can be applied to loan losses and General Obligation expenses and that sort of thing. So we should take care.

But the next slide is one that we showed you before. And I think it's been helpful so we're showing it to you again, and that is, if we have concerns about our loan losses, what are we relying on as far as the ability to absorb those losses?

So here again, a chart you've seen before. The loan insurance -- the Mortgage Insurance Fund has claims -- and let me preface this by saying, these loan loss reserves are available for loans that are currently delinquent.

So we would, first of all, pay the loan insurance portion -- the loan insurance fund's portion. Their portion is $52.9 million, almost $53 million. They only have equity of 35 -- almost 36, as the footnote says. So that fund has negative equity.

Plan A is that, over time, the remaining policies will generate premiums and help to pay off that deficit.

If, for some reason, that just didn't happen, those losses would be absorbed by HMRB. But at present -- and we're in discussions with the auditors about how to present this exactly -- but I think as we've said before, in about July, the Mortgage Insurance Fund is going to have to tell folks, "Here's part of your claim, and here's the process we're going to use to just settle up down the road."

And the individual that they're making that statement to, really, is the HMRB indenture because that's where these flow to.

We are relying on Genworth at this point for, again, the loans that are in -- for about $150 million. They continue to pay claims in full and in a timely manner.

The gap insurance -- this is the amount that was limited at one time. There are $63.4 million left in that reserve.

And finally, the HMRB indenture is on the hook for $55.4 million in loan losses and additional losses with regard to REO inventory of $34 million.

And so the question is, how much do we have in HMRB to absorb those last two lines. I don't know if we have that number available. The last time we checked, it was somewhere in the $300 million range.

MS. HAMAHASHI: 292.

MR. SPEARS: 292?

MS. HAMAHASHI: Yes.

MS. CARROLL: So the large jump in September, is that as a result of foreclosures? What -- it just seems like it went up a lot.

MR. SPEARS: In the HMRB?

MS. CARROLL: Yes.

MR. SPEARS: Well, the main reason for that, is that that gap insurance reserve is dwindling down.

MS. CARROLL: Okay, okay.

MR. SPEARS: And so what used to be a gap reserve number is going to go straight through to offset the HMRB funding.

MS. CARROLL: So the gap isn't -- it's not like -- I guess you must be taking a percentage of it. It's not like you're just moving all the gap over until it's gone, right?

MR. SPEARS: Oh, no. I describe it this way: That as gap claims come through, we're paying them in full at this point.

MS. CARROLL: Okay.

MR. SPEARS: But what we've done is, we're saying that taking the loans that are there now, estimating the losses based on that, we're not going to be able to do that.

MS. CARROLL: Oh, okay, okay. I think I get it.

MR. SPEARS: And so beyond that, it just gets transferred down.

MS. CARROLL: Okay.

MR. SPEARS: And, again, we think we have the equity in HMRB to absorb that.

MS. HAMAHASHI: I'm sorry, it was 310. I was looking at the consolidated total amounts. It's 310.

MR. SPEARS: Oh, even better. $310 million at the present time.

Now, what are we doing about losses that may go beyond those that are in delinquency now? And that's the Milliman report that we're having updated.

And I can't remember, Bruce, when we're hoping that will get done.

MR. GILBERTSON: I'm guessing in the next five or six weeks, we'll get it done.

MR. SPEARS: Okay.

MR. GILBERTSON: But part of it on us, just getting them the data so they could do the update.

MR. SPEARS: Right, right.

And that's important, too, because that's the rest of HMRB fund equity, and that's the total number that we expect from Genworth.

MS. CARROLL: And so that would help predict how long that 310 would last?

MR. SPEARS: Yes.

MS. CARROLL: Okay.

MR. SPEARS: That's the real concern.

And so I think if we can get that -- I don't know if that would be ready to go by the March Board meeting, but certainly by the May Board meeting, I think we could share that.

MR. SMITH: Does that mean every time there's a foreclosure, then the claim follows that, and that has to be -- the difference has to be paid? Or how does that work?

MR. SPEARS: Yes. And then if it's an insured loan, we have our portion from the Mortgage Insurance, but we have Genworth's portion of the deal, and we have the gap claims, as long as that fund lasts.

And then those are cash payments into HMRB to cover losses that we insured. After that, it's a degradation, if you will, of the fund equity in there. And that's what the $310 million is there to absorb.

MR. SMITH: So we're expecting 1,500 mortgages in this fiscal year?

MR. SPEARS: I don't think necessarily in this fiscal year.

MR. SMITH: We did seven whatever --

MR. SPEARS: They will be over time.

MR. SMITH: We did seven hundred-something for the halfway mark.

MR. SPEARS: I think so --

MR. SMITH: We're expecting to do, I'm assuming, the same or more?

MR. SPEARS: Over the next six months?

MR. SMITH: Six months.

MR. SPEARS: Roughly, roughly.

MR. SMITH: And then do we have any projections for the following year, foreclosures?

MR. SPEARS: We did -- at this point, I'm assuming, at least for the first half of the year, about the same rate.

I think we might see some decline, but I'm trying to be conservative about this.

MR. SMITH: Right.

MR. SPEARS: Well, I think that's the end of the business update presentation.

And are there other questions at this point?

CHAIR CAREY: Questions? Comments?

MR. SPEARS: Okay, well, we will take all this into our off-site on Monday, Tuesday; and we'll bring you a proposed business plan in the March Board meeting.

CHAIR CAREY: Thank you.

--oOo—

**Item 9. Discussion, Recommendation, and Possible Action Regarding a Process to Evaluate the Executive Director as Provided by Resolution 08-17**

CHAIR CAREY: The next item on the business -- I think we can keep it brief -- back in 2006, the Board created a Compensation Committee. It now seems long ago and far away. And it was a different time. But one of the responsibilities of the committee is to do a review of the -- an evaluation of the executive director. And while the committee has not been fully functional for the past year or so, I would like to suggest that we move forward with that process of doing an evaluation as part of our responsibilities.

And so I've asked Mr. Gunning if he'd be willing to chair the committee, and he has agreed. I appreciate it.

And at the moment, I've also asked Ms. Peters and Mr. Shine to serve on that committee with us.

And so our goal would be to map out a time-line. And our preference would be to meet, I think, and get back here at the March meeting, if we can do that, recognizing that these are difficult meetings to schedule because they are open meetings.

But that's the process.

MR. SHINE: Do you want to try and handle it after our meeting on the 8th? Just extend that meeting, and get it all done in one day?

CHAIR CAREY: That's a possibility. That's a possibility.

MR. SHINE: I didn't realize before, if you want to get this back here by March, that's a much shorter fuse. So it will be beginning at the beginning of the month --

MR. GUNNING: I was thinking of being more aggressive.

MR. SHINE: Do you want to give him the answer before we have the question?

CHAIR CAREY: Well, I will ask that JoJo help coordinate the meeting at the first opportunity for us.

MR. GUNNING: Thank goodness for JoJo.

CHAIR CAREY: It's her responsibility that she takes enthusiastically, I know.

Yes?

MR. HUGHES: Mr. Chair, just as a reminder what the ground rules are. Obviously, the Compensation Committee meetings -- any committee meetings -- are open meetings. They have to be noticed and agendized and the whole thing.

Any discussions of the process by which the Board wants to evaluate the executive director are open meetings. An actual evaluation will be a closed session meeting. So we have to know what the timing will be to set those appropriately.

MR. GUNNING: Right. I will work with JoJo.

CHAIR CAREY: Okay, any other comments or thoughts on that?

*(No response)*

--oOo—

**Item 10. Report of the Chairman of the Audit Committee**

CHAIR CAREY: Okay, with that, we have a report from the chair of the Audit Committee, Mr. Smith.

MR. SMITH: Yes. We reviewed the charter for the Audit Committee at our meeting this morning, and it was recommended we change some of the provisions there.

One specific one which we want to bring before you is the way that we select the auditor. And that instead of the staff doing it and reporting to the Board, that we put into place a process whereby the staff would do the RFP and the Audit Committee would approve it -- I mean, the Board would approve it.

And then there would be either the Audit Committee would do the interviews with the approved or selected, recommended accounting firms, or the Board would do that.

And so we really wanted to come before you to see -- get a sense of how the other Board members feel in terms of whether you want to sit in on those interviews as a full board, or whether to let the Audit Committee do that and then recommend whichever one they feel is best to the full board.

And so the idea would be, at the next meeting, we would have something before us to amend the charter for the Audit Committee, so that we could spell out how that process would work.

So I guess at this point, I'd like to open it up to Board members, to see if you feel that -- I mean, normally, I think most boards operate where the committees kind of go through and do all that and then make a recommendation to the full board.

This being such a big issue, and given the times we're in and given the situation we're in, it may be something that we'd want the full board to participate in.

Also, logistically, the staff is going to look at whether or not that makes sense; because if it shortens it in the sense that you don't have to do those interviews with the Audit Committee, the interviews will be done with the full board. So logistically, it might work better.

But, anyway, I guess the idea is to open it up to the Board to see if there's any interest in being a part of that.

The other thing could be that, if there were, those that were interested could participate in the Audit Committee interviews as well.

So with that, I'd like to open it up to get the Board's input on that issue.

MS. CARROLL: For my part, I'm happy to have the Audit Committee do those because I'm sure that you guys will come back to us and let us know the basis on which you're making the recommendations. So that would be my preference.

MR. SMITH: Any other comments?

CHAIR CAREY: Ms. Creswell?

MS. CRESWELL: The only question I had was the issue of timing. You know, so maybe before a final decision can get made, we hear back from you on whether or not -- I thought I heard you say there may be reasons why, beyond just whether it makes sense practically or not, that it makes sense to do it all at one time, to either expedite or whatever. And so I don't know if you still have more work to do before we make a final decision or if you know enough now to...

MR. SPEARS: We don't. I admitted in Audit Committee that I came up with this brain child too late in the current process.

There's probably never a great time, because we have an audit that's done based on a December 31 financial date, and another one June 30. So we're constantly in audit mode.

So we haven't started this yet. We'd need to send out an RFP, and do whatever level of work that the Board would like us to do before -- until we got to this point, we could conduct those interviews, come up with three finalists, make a recommendation to the Board, give a presentation to either the Committee or the full Board; or we could get down to two or three finalists and have those folks come and either give a presentation to the Committee or the Board. We haven't done anything yet this year.

The timing issue for this year is that we need for Deloitte to start the work on the Mortgage Insurance Fund audit fairly quickly.

So we had the ability under the current contract to extend their contract to do that. We talked with Peter about this a few weeks ago. I told him about my idea. And he said, "You know what? Let's just extend the current contract. Go ahead and do that."

So they're going to do this year's mortgage insurance audit.

The next real work date then is in June, they start getting ready for the next audit.

So we could extend their audit contract even further to include the summer's audit. We can take -- don't rush, get the procedure right, put it in place, get it all ready to go, to select an auditor for next year.

MR. SHINE: December.

MR. SPEARS: Yes.

MR. SHINE: That makes a lot of sense.

MR. SPEARS: And just not rush and do this right, get the timing right.

We will have to -- because it will take a little bit longer, which is fine, we'd probably have to move the selection process further up into the -- you know, the early -- the late summer, early fall, in that time frame. So I don't want to make this any more complicated. But I don't want you to feel like, you know, you have to rush through this to get an auditor on board. I'd rather get the process right, frankly.

MR. SHINE: I think we did that last time.

CHAIR CAREY: Yes?

MR. HUNTER: Just a question.

If the Audit Committee were to have a meeting to interview potential firms in response to an RFP, is that a public meeting?

MR. HUGHES: Yes.

MR. HUNTER: So that any Board member who is inclined to attend and listen to that could do so?

MR. HUGHES: Yes. And, in fact, that happens quite frequently, that additional Board members come to the committee meetings.

MR. HUNTER: In which case, my inclination would be definitely to leave this to the Audit Committee, with the reminder to other Board members that they're welcome to participate in that process.

And then I guess the other thing I would say is, I'd rather extend the current contract and get the process right for next year rather than trying to rush a process at this point. There are way too many things on both the staff and the Board's plate at this point.

MR. SMITH: I think that was the consensus as well in the Audit Committee. But we wanted to let everyone have an opportunity to give direction or comment. This is not an agendized item, so we're not voting on it; but we're just giving direction, I think, to staff to prepare that process.

CHAIR CAREY: It would seem at this point that for the March meeting -- the March meeting, we could have a revised charter; and perhaps a recommendation to extend the current contract through the fiscal year -- the audit for the year ending June 30th, so that we could do both of those things.

Would that make sense?

MR. SMITH: And I would add maybe having a schedule of how that's going to -- how that process is going to play out in terms of when we would do the RFP and when we do the interviews, so that we have that all done at the same time.

CHAIR CAREY: Great. All right, thank you, Mr. Smith.

MR. SMITH: Thank you.

--oOo—

**Item 11. Reports**

CHAIR CAREY: There are other reports in the packet.

Is there anything anyone would like additional follow-up on or has specific questions about?

MR. SPEARS: In light of the times, please read these reports. They contain a lot of valuable information about the portfolio of assets and our existing bond structure, capital structure. I just would like to put that out there for you.

--oOo–

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

CHAIR CAREY: Other Board matters?

*(No response)*

--oOo–

**Item 13. Public Testimony**

CHAIR CAREY: With that, this is an opportunity for the public to address the Board on any matters that were not agenda'd or opened already.

Are there any comments from anyone in the public?

*(No response)*

--oOo–

**Item 14. Adjournment**

CHAIR CAREY: Seeing none, we will stand adjourned.

*(Gavel sounded.)*

*(The meeting concluded at 2:40 p.m.)*

--oOo–

**REPORTER'S CERTIFICATE**

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

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

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

IN WITNESS WHEREOF, I have hereunto set my hand on the 9th day of February 2011.

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

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# STATE OF CALIFORNIA

# CALIFORNIA HOUSING FINANCE AGENCY

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## BOARD OF DIRECTORS

## PUBLIC MEETING

--o0o--

**Hyatt Regency Sacramento**
**1209 L Street**
**Sacramento, California**

**Tuesday, February 8, 2011**
**10:06 a.m. to 12:02 p.m.**

--o0o--

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

**Yvonne K. Fenner**
**Certified Shorthand Reporter**
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**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:**

KEN ALEX
Director
Office of Planning & Research
State of California

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

KATIE CARROLL
for BILL LOCKYER
State Treasurer
State of California

CATHY CRESWELL
Acting Director
Department of Housing and Community Development
State of California

MICHAEL A. GUNNING
Vice President
Personal Insurance Federation of California

JONATHAN HUNTER (arrival after roll call)
Managing Director, Region II
Corporation for Supportive Housing

FRED KLASS (arrival after roll call)
for ANA J. MATOSANTOS, Director
Department of Finance
State of California

HEATHER PETERS
for TRACI STEVENS, Acting Undersecretary
Business, Transportation & Housing Agency
State of California

JACK SHINE
Chairman
American Beauty Development Co.

RUBEN A. SMITH
Partner
Adorno Yoss Alvarado & Smith

**Board of Directors Present, continued:**

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

--o0o—

**CalHFA Staff Present:**

THOMAS C. HUGHES
General Counsel

JOJO OJIMA
Office of the General Counsel

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BE IT REMEMBERED that on Tuesday, February 8, 2011, commencing at the hour of 10:06 a.m., at the Hyatt Regency, Carmel Room A and B, 1209 L Street, Sacramento, California, before me, YVONNE K. FENNER, CSR #10909, RPR, the following proceedings were held:

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ACTING CHAIRPERSON CAREY: Okay. Welcome to the February 8th meeting of the Housing Finance Agency's Board of Directors.

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**Item 1. Roll Call**

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

MS. OJIMA: Thank you.

Ms. Creswell.

MS. CRESWELL: Present.

MS. OJIMA: Mr. Gunning.

MR. GUNNING: Here.

MS. OJIMA: Mr. Hudson.

(No response.)

MS. OJIMA: Mr. Hunter.

(No response.)

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

MS. CARROLL: Here.

MS. OJIMA: Mr. Shine.

MR. SHINE: Here.
MS. OJIMA: Mr. Smith.
MR. SMITH: Here.
MS. OJIMA: Ms. Peters for Ms. Stevens.
MS. PETERS: Here.
MS. OJIMA: Mr. Alex.
MR. ALEX: Here.
MS. OJIMA: Mr. Klass for Ms. Matosantos.
(No 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.
MR. SPEARS: Just a note, Mr. Chairman. Mr. Klass said he would be arriving about 11:00 o'clock.
ACTING CHAIRPERSON CAREY: Okay. And Mr. Hunter is on his way also?
MR. SPEARS: Yes.

--o0o--

**Item 2. Chairman/Executive Director comments**

ACTING CHAIRPERSON CAREY: Okay. This is an unusual meeting for the specific purpose of reviewing a draft audit from the Bureau of State Audits.

--o0o--

**Item 4. Public testimony**

ACTING CHAIRPERSON CAREY: Given the fact that we're going into closed session, I'm going to go ahead and open up the public testimony section in case there is anyone in the audience who would like to address the Board on any matter of public interest. This would be the opportunity to do so.

--o0o--

**Item 3. Closed session under Government Code section 11126.2(a) to discuss response to confidential draft audit from Bureau of State Audits**

ACTING CHAIRPERSON CAREY: Seeing none, we will move on. And at this point we will enter into closed session under Government Code 11126.2(a) to discuss response to confidential draft audit from the Bureau of State Audits. We are in closed session.

(Board met in closed session from 10:08 a.m. to 12:01 p.m.)

--o0o--

**Item 4. Public testimony**

ACTING CHAIRPERSON CAREY: We are back in public session. And we will take the opportunity to reopen the public comment. If there is anyone in the audience who cares to address the Board on a matter at this point, we would entertain that.

--o0o--

**Item 5. Adjournment**

ACTING CHAIRPERSON CAREY: Seeing none and without further business, we are adjourned.

(The meeting concluded at 12:02 p.m.)

--o0o--

**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 28th day of February 2011.

______________________________

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

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**State of California**

# M E M O R A N D U M

**To:** Board of Directors **Date:** March 10, 2011

Bruce D. Gilbertson, Director of Financing

**From:** **CALIFORNIA HOUSING FINANCE AGENCY**

**Subject:** AMENDMENT TO RESOLUTION 11-01 REGARDING THE AGENCY'S ANNUAL SINGLE FAMILY BOND REAUTHORIZATION - RESOLUTION 11-04

At the January 20, 2011 meeting of the board of directors, the board approved Resolution 11-01 after a discussion regarding the bond indentures authorized and directed to be used for the issuance of bonds as part of bond refunding initiatives or as part of a new money bond issuance to fund new lending.

The motion to approve Resolution 11-01 included a requirement that staff prepare an amendment to the resolution limiting the issuance of bonds to those bond indentures listed within the resolution as prior indentures, all of which have been previously presented to the board and approved by the board. The intent of the amendment was to require staff to present all new bond indentures; regardless how similar the indenture may be to an existing approved form of an indenture, to the board for approval.

Attached for your review and consideration is Resolution 11-04 that is intended to incorporate the above mentioned amendments by restating certain sections of Resolution 11-01 by deleting references to new bond indentures and authorizing the issuance of bonds to only those approved bond indentures listed in Section 3 and Section 9 of Resolution 11-01.

In addition, Resolution 11-01 is attached, marked to incorporate the amendments of Resolution 11-04 and to reflect the changes from the original version.

Attachments

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RESOLUTION NO. 11-04

RESOLUTION OF THE CALIFORNIA HOUSING FINANCE AGENCY
TO FACILITATE THE SINGLE FAMILY HOUSING PROGRAM OF THE AGENCY
BY AMENDING RESOLUTION NO. 11-01
TO LIMIT THE ISSUANCE OF BONDS TO PRIOR INDENTURES

WHEREAS, the California Housing Finance Agency (the "Agency") has determined that there exists a need in California for providing financial assistance, directly or indirectly, to persons and families of low or moderate income to enable them to purchase or refinance moderately priced single family residences;

WHEREAS, the Agency has determined that it is in the public interest for the Agency to assist in providing such financing by means of various programs, including whole loan and mortgage-backed securities programs (collectively, the "Program") to make loans to such persons and families, or to developers, for the acquisition, development, construction and/or permanent financing of such residences;

WHEREAS, the Agency, pursuant to the Act, has from time to time issued various series of its Home Mortgage Revenue Bonds, its Housing Program Bonds, and its Residential Mortgage Revenue Bonds under their respective indentures (collectively, the "Prior Indentures") to provide funds to finance the Program;

WHEREAS, on January 20, 2011 the Agency adopted its Resolution No. 11-01 authorizing the issuance of bonds (the "Bonds") to provide funds to finance the Program;

WHEREAS, the Agency has determined that it is in the public interest that Bonds be issued under indentures previously approved by the Agency; and

WHEREAS, the Agency now desires to amend Resolution No. 11-01 to limit the issuance of Bonds pursuant thereto to the Prior Indentures;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors (the "Board") of the California Housing Finance Agency as follows:

Section 1. **Amendment of fourth WHEREAS clause of Resolution No. 11-01.** The fourth WHEREAS clause of Resolution No. 11-01 is hereby amended to read in its entirety as follows:

"WHEREAS, the Agency, pursuant to the Act, has from time to time issued various series of its Home Mortgage Revenue Bonds (the "HMP Bonds"), its Housing Program Bonds (the "HP Bonds"), and its Residential Mortgage Revenue Bonds (the "RMR Bonds"), and is authorized pursuant to the Act to issue additional HMP Bonds, HP Bonds, and RMR Bonds (collectively, the "Bonds") to provide funds to finance the Program;"

Section 2. **Amendment of Section 3 of Resolution No. 11-01.** Section 3 of Resolution No. 11-01 is hereby amended to read in its entirety as follows:

"Section 3. **Approval of Indentures Related to Debt-Management Bonds.** Debt-Management Bonds may be issued under and pursuant to any one or more of the following (collectively, the "Prior Indentures"):

(a) those certain indentures pertaining to the HMP Bonds (the "HMP Indentures");

(b) that certain indenture pertaining to the HP Bonds (the "HP Indenture"); and/or

(c) that certain indenture relating to the RMR Bonds (the "RMR Indenture")."

Section 3. **Amendment of Section 4 of Resolution No. 11-01.** Section 4 of Resolution No. 11-01 is hereby amended to read in its entirety as follows:

"Section 4. **Approval of Forms of Series and Supplemental Indentures Related to Debt-Management Bonds.** The Executive Director and the Secretary of the Board of Directors of the Agency (the "Secretary") are hereby authorized and directed, for and on behalf and in the name of the Agency, to execute and acknowledge and to deliver with respect to each series of Debt-Management Bonds, if and to the extent appropriate, series and/or supplemental indentures (each a "Debt-Management Supplemental Indenture") under one of the Prior Indentures and in substantially the form of the respective supplemental indentures previously executed and delivered or approved, each with such changes therein as the officers executing the same approve upon consultation with the Agency's legal counsel, such approval to be conclusively evidenced by the execution and delivery thereof. Changes reflected in any Debt-Management Supplemental Indenture may include provision for a supplemental pledge of Agency moneys or assets (including but not limited to, a deposit from the Supplementary Bond Security Account created under Section 51368 of the Act) and provision for the Agency's general obligation to additionally secure the Bonds if appropriate in furtherance of the objectives of the Program; *provided* that such provisions may be therein included with respect to such Debt-Management Bonds *only* if and to the extent any such provision was made with respect to the bonds thereby refunded, and *provided further* that in each such case the Executive Director shall have determined that the inclusion of such provisions with respect to the Debt-Management Bonds is not expected to result in greater financial risk to the Agency or its General Fund than existed with respect to the bonds thereby refunded.

The Executive Director is hereby expressly authorized and directed, for and on behalf and in the name of the Agency, to determine in furtherance of the objectives of the Program those matters required to be determined under the applicable Prior Indenture in connection with the issuance of each such series, including, without limitation, any reserve account requirement or requirements for such series."

Section 4. **Amendment of Section 9 of Resolution No. 11-01.** Section 9 of Resolution No. 11-01 is hereby amended to read in its entirety as follows:

"Section 9. **Approval of Indenture Related to MBS Bonds.** MBS Bonds may be issued under and pursuant to the RMR Indenture."

Section 5. **Amendment of Section 10 of Resolution No. 11-01.** Section 10 of Resolution No. 11-01 is hereby amended to read in its entirety as follows:

"Section 10. **Approval of Forms of Series and Supplemental Indentures Related to MBS Bonds.** The Executive Director and the Secretary are hereby authorized and directed, for and on behalf and in the name of the Agency, to execute and acknowledge and to deliver with respect to each series of MBS Bonds, if and to the extent appropriate, series and/or supplemental indentures (each an "MBS Supplemental Indenture"; together with the Debt-Management Supplemental Indenture, the "Supplemental Indenture") under the RMR Indenture and in substantially the form of the supplemental indentures previously executed and delivered or approved, each with such changes therein as the officers executing the same approve upon consultation with the Agency's legal counsel, such approval to be conclusively evidenced by the execution and delivery thereof. Changes reflected in any MBS Supplemental Indenture may include provision for a supplemental pledge of Agency moneys or assets (including but not limited to, a deposit from the Supplementary Bond Security Account created under Section 51368 of the Act) to additionally secure the Bonds if appropriate in furtherance of the objectives of the Program.

The Executive Director is hereby expressly authorized and directed, for and on behalf and in the name of the Agency, to determine in furtherance of the objectives of the Program those matters required to be determined under the RMR Indenture in connection with the issuance of each such series, including, without limitation, any reserve account requirement or requirements for such series."

Section 6. **Amendment of Section 14 of Resolution No. 11-01.** Section 14 of Resolution No. 11-01 is hereby amended to read in its entirety as follows:

"Section 14. **Authorization of Execution of Bonds.** The Executive Director is hereby authorized and directed to execute, and the Secretary is hereby authorized to attest, for and on behalf and in the name of the Agency and under its seal, the Bonds, in an aggregate amount not to exceed the amount authorized hereby, in accordance with the Prior Indenture(s) or the Supplemental Indenture(s) and in one or more of the forms set forth in the Prior Indenture(s) or the Supplemental Indenture(s), as appropriate."

Section 7. **Ratification of Prior Actions; Not a Repeal of Prior Resolutions.** All actions previously taken by the Agency relating to the implementation of the Program and the issuance of the Bonds are hereby approved and ratified.

SECRETARY'S CERTIFICATE

I, Thomas C. Hughes, Secretary of the Board of Directors of the California Housing Finance Agency, hereby certify that the foregoing is a full, true, and correct copy of Resolution No. 11-04 duly adopted at a regular meeting of the Board of Directors of the California Housing Finance Agency duly called and held on the 16th day of March, 2011, of which meeting all said directors had due notice; and that at said meeting said Resolution was adopted by the following vote:

AYES:

NOES:

ABSTENTIONS:

ABSENT:

IN WITNESS WHEREOF, I have executed this certificate and affixed the seal of the Board of Directors of the California Housing Finance Agency hereto this 16th day of March, 2011.

[SEAL]

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

SECRETARY'S CERTIFICATE

I, Thomas C. Hughes, Secretary of the Board of Directors of the California Housing Finance Agency, hereby certify that the foregoing is a full, true, and correct copy of Resolution No. 11-04 duly adopted at a regular meeting of the Board of Directors of the California Housing Finance Agency duly called and held on the 16th day of March, 2011, of which meeting all said directors had due notice; and that at said meeting said Resolution was adopted by the following vote:

AYES:

NOES:

ABSTENTIONS:

ABSENT:

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

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

[SEAL]

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

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RESOLUTION NO. 11-01

RESOLUTION OF THE CALIFORNIA HOUSING FINANCE AGENCY AUTHORIZING THE AGENCY'S SINGLE FAMILY BOND INDENTURES, THE ISSUANCE OF SINGLE FAMILY BONDS, CREDIT FACILITIES FOR HOMEOWNERSHIP PURPOSES, AND RELATED FINANCIAL AGREEMENTS AND CONTRACTS FOR SERVICES

WHEREAS, the California Housing Finance Agency (the "Agency") has determined that there exists a need in California for providing financial assistance, directly or indirectly, to persons and families of low or moderate income to enable them to purchase or refinance moderately priced single family residences ("Residences");

WHEREAS, the Agency has determined that it is in the public interest for the Agency to assist in providing such financing by means of various programs, including whole loan and mortgage-backed securities programs (collectively, the "Program") to make loans to such persons and families, or to developers, for the acquisition, development, construction and/or permanent financing of Residences (the "Loans");

WHEREAS, pursuant to Parts 1 through 4 of Division 31 of the Health and Safety Code of the State of California (the "Act"), the Agency has the authority to issue bonds to provide sufficient funds to finance the Program, including the purchase of mortgage-backed securities ("MBSs") underlain by Loans, the payment of capitalized interest on the bonds, the establishment of reserves to secure the bonds, and the payment of other costs of the Agency incident to, and necessary or convenient to, the issuance of the bonds;

WHEREAS, the Agency, pursuant to the Act, has from time to time issued various series of its Home Mortgage Revenue Bonds (the "HMP Bonds"), its Housing Program Bonds (the "HP Bonds"), and its Residential Mortgage Revenue Bonds (the "RMR Bonds"), and is authorized pursuant to the Act to issue additional HMP Bonds, HP Bonds, and RMR Bonds (collectively~~ with bonds authorized under this resolution to be issued under new indentures~~, the "Bonds") to provide funds to finance the Program;

WHEREAS, the Bonds may be issued for the primary purpose of purchasing MBSs ("MBS Bonds") or for debt management purposes of the Agency ("Debt-Management Bonds"); and

WHEREAS, pursuant to the Act, the Agency has the authority to enter into credit facilities for the purpose of financing the Program, including the making of Loans and the payment of other costs of the Agency incident to, and necessary or convenient to, the issuance of the bonds;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors (the "Board") of the California Housing Finance Agency as follows:

## ARTICLE I
## AUTHORIZATION AND TERMS OF DEBT-MANAGEMENT BONDS

Section 1.**Determination of Need and Amount of Debt-Management Bonds.** The Agency is of the opinion and hereby determines that the issuance of one or more series of Debt-Management Bonds in an aggregate amount not to exceed the aggregate amount of Bonds and/or other qualified mortgage bonds (including bonds of issuers other than the Agency) to be redeemed in connection with such issuance is necessary to provide sufficient funds for the management of the Agency's existing debt related to the Program. In no event may proceeds of or allocable to Debt-Management Bonds be used to purchase Loans or MBSs.

Section 2.**Authorization and Timing of Debt-Management Bonds.** The Debt-Management Bonds are hereby authorized to be issued in such aggregate amount at such time or times on or before the day 30 days after the date on which is held the first meeting of the Board in the year 2012 at which a quorum is present, as the Executive Director of the Agency (the "Executive Director") deems appropriate, upon consultation with the Treasurer of the State of California (the "Treasurer") as to the timing of each such issuance; provided, however, that if the bonds are sold at a time on or before the day 30 days after the date on which is held such meeting, pursuant to a forward purchase or drawdown agreement providing for the issuance of such Debt-Management Bonds on or before August 1, 2013 upon specified terms and conditions, such Debt-Management Bonds may be issued on such later date.

Section 3.**Approval ~~of Forms~~ of Indentures Related to Debt-Management Bonds.** ~~The Executive Director and the Secretary of the Board of Directors of the Agency (the "Secretary") are hereby authorized and directed, for and on behalf and in the name of the Agency in connection with the issuance of~~ Debt-Management Bonds~~, to execute and acknowledge and to deliver to the Treasurer as trustee and/or, if appropriate, to a duly qualified bank or trust company selected by the Executive Director to act, with the approval of the Treasurer, as trustee or co-trustee, fiscal agent or paying agent of the Agency (collectively, the "Trustees"), one or more new indentures, trust agreements or similar documents providing for the issuance of Debt-Management Bonds (the "New Debt-Management Indentures"), in one or more forms similar to~~ may be issued under and pursuant to any one or more of the following (collectively, the "Prior Indentures"):

(a)those certain indentures pertaining to the HMP Bonds (the "HMP Indentures");

(b)that certain indenture pertaining to the HP Bonds (the "HP Indenture"); and/or

(c)that certain indenture relating to the RMR Bonds (the "RMR Indenture").

~~Each such New Debt-Management Indenture may be executed, acknowledged and delivered with such changes therein as the officers executing the same approve upon consultation with the Agency's legal counsel, such approval to be conclusively evidenced by the execution and delivery thereof. Changes reflected in any New Debt-Management Indenture may include provision for a supplemental pledge of Agency moneys or assets (including but not limited to, a deposit from the Supplementary Bond Security Account created under Section 51368 of the Act) and provision for the Agency's general obligation to additionally secure the Debt-Management~~

~~Bonds if appropriate in furtherance of the objectives of the Program; *provided* that such provisions may be therein included with respect to such Debt-Management Bonds *only* if and to the extent any such provision was made with respect to the bonds thereby refunded, and *provided further* that in each such case the Executive Director shall have determined that the inclusion of such provisions with respect to the Debt-Management Bonds is not expected to result in greater financial risk to the Agency or its General Fund than existed with respect to the bonds thereby refunded.~~

Section 4. **Approval of Forms of Series and Supplemental Indentures Related to Debt-Management Bonds.** The Executive Director and the Secretary of the Board of Directors of the Agency (the "Secretary") are hereby authorized and directed, for and on behalf and in the name of the Agency, to execute and acknowledge and to deliver with respect to each series of Debt-Management Bonds, if and to the extent appropriate, series and/or supplemental indentures (each a "Debt-Management Supplemental Indenture") under ~~either~~ one of the Prior Indentures ~~or a New Debt-Management Indenture~~ and in substantially the form of the respective supplemental indentures previously executed and delivered or approved, each with such changes therein as the officers executing the same approve upon consultation with the Agency's legal counsel, such approval to be conclusively evidenced by the execution and delivery thereof. Changes reflected in any Debt-Management Supplemental Indenture may include provision for a supplemental pledge of Agency moneys or assets (including but not limited to, a deposit from the Supplementary Bond Security Account created under Section 51368 of the Act) and provision for the Agency's general obligation to additionally secure the Bonds if appropriate in furtherance of the objectives of the Program; *provided* that such provisions may be therein included with respect to such Debt-Management Bonds *only* if and to the extent any such provision was made with respect to the bonds thereby refunded, and *provided further* that in each such case the Executive Director shall have determined that the inclusion of such provisions with respect to the Debt-Management Bonds is not expected to result in greater financial risk to the Agency or its General Fund than existed with respect to the bonds thereby refunded.

The Executive Director is hereby expressly authorized and directed, for and on behalf and in the name of the Agency, to determine in furtherance of the objectives of the Program those matters required to be determined under the applicable Prior Indenture ~~or any New Debt-Management Indenture, as appropriate,~~ in connection with the issuance of each such series, including, without limitation, any reserve account requirement or requirements for such series.

Section 5. **Approval of Forms and Terms of Debt-Management Bonds.** The Debt-Management Bonds shall be in such denominations, have such registration provisions, be executed in such manner, be payable in such medium of payment at such place or places within or without California, be subject to such terms of redemption (including from such sinking fund installments as may be provided for) and contain such terms and conditions as each Debt-Management Supplemental Indenture as finally approved shall provide. The Debt-Management Bonds shall have the maturity or maturities and shall bear interest at the fixed, adjustable or variable rate or rates deemed appropriate by the Executive Director in furtherance of the objectives of the Program; provided, however, that no Debt-Management Bond shall have a term in excess of the maturity of the bonds thereby refunded or bear interest at a stated rate in excess of fifteen percent (15%) per annum, or in the case of variable rate bonds a maximum floating interest rate of twenty-five percent (25%) per annum. Any of the Debt-Management Bonds and the Debt-Management Supplemental Indenture(s) may contain such provisions as may be necessary to accommodate an option to put such Bonds prior to maturity for purchase by or on behalf of the Agency or a person other than the Agency, to accommodate the requirements of any provider of bond insurance or other credit enhancement or liquidity support or to accommodate the requirements of purchasers of indexed floaters, *provided* that variable-rate Debt-Management Bonds may not be issued to refund fixed-rate bonds.

Section 6. **Authorization of Financial Agreements Related to Debt-Management Bonds.** Subject to the limitation set forth in the last sentence of this Section, the Executive Director and the other officers of the Agency are hereby authorized to enter into, for and in the name and on behalf of the Agency, any and all agreements and documents designed (i) to reduce or hedge the amount or duration of any payment, interest rate, spread or similar risk, (ii) to result in a lower cost of borrowing when used in combination with the issuance or carrying of bonds or investments, or (iii) to enhance the relationship between risk and return with respect to the Program or any portion thereof (each of the foregoing a “Hedging Instrument”). To the extent authorized by law, including Government Code Section 5922, such agreements or other documents may include (a) interest rate swap agreements; (b) forward payment conversion agreements; (c) futures or other contracts providing for payments based on levels of, or changes in, interest rates or other indices; (d) contracts to exchange cash flows for a series of payments; (e) contracts, including, without limitation, interest rate floors or caps, options, puts or calls to hedge payment, interest rate, spread or similar exposure; (f) contracts to obtain guarantees, including guarantees of mortgage-backed securities or their underlying loans; or (g) letters of credit, standby bond purchase agreements, or other similar arrangements; and in each such case may be entered into in anticipation of the issuance of bonds at such times as may be determined by such officers. Such agreements and other documents are authorized to be entered into with parties selected by the Executive Director, after giving due consideration for the creditworthiness of the counterparties, where applicable, or any other criteria in furtherance of the objectives of the Program. *Notwithstanding* anything herein to the contrary, a Hedging Instrument may be entered into only for the purposes of amending, modifying or replacing a then-existing Hedging Instrument and may in no event increase the notional amount outstanding under the Hedging Instrument so amended, modified or replaced.

## ARTICLE II
## AUTHORIZATION AND TERMS OF MBS BONDS

Section 7. **Determination of Need and Amount of MBS Bonds.** The Agency is of the opinion and hereby determines that the issuance of one or more series of MBS Bonds, in an aggregate amount not to exceed the sum of the following amounts, is necessary to provide sufficient funds for the Program:

(a) the aggregate amount available for the retirement of Bonds and/or other qualified mortgage bonds and deemed replaced for federal tax law purposes with proceeds of such issuance, (b)the aggregate amount of private activity bond allocations under federal tax law heretofore or hereafter made available to the Agency for such purpose, and

(c)if and to the extent interest on one or more of such series of Bonds is determined by the Executive Director to be intended not to be excludable from gross income for federal income tax purposes, $200,000,000.

Section 8.**Authorization and Timing of MBS Bonds.** The MBS Bonds are hereby authorized to be issued in such aggregate amount at such time or times on or before the day 30 days after the date on which is held the first meeting of the Board in the year 2012 at which a quorum is present, as the Executive Director of the Agency (the “Executive Director”) deems appropriate, upon consultation with the Treasurer of the State of California (the “Treasurer”) as to the timing of each such issuance; provided, however, that if the bonds are sold at a time on or before the day 30 days after the date on which is held such meeting, pursuant to a forward purchase or drawdown agreement providing for the issuance of such Bonds on or before August 1, 2013 upon specified terms and conditions, such Bonds may be issued on such later date.

Section 9.**Approval of Indenture Related to MBS Bonds.** MBS Bonds may be issued under and pursuant to the RMR Indenture.

~~Section 9. **Approval of Forms of Indentures Related to MBS Bonds.** The Executive Director and the Secretary of the Board of Directors of the Agency (the “Secretary”) are hereby authorized and directed, for and on behalf and in the name of the Agency in connection with the issuance of MBS Bonds, to execute and acknowledge and to deliver to the Trustees one or more new indentures, trust agreements or similar documents providing for the issuance of MBS Bonds (the “New MBS Indentures”; together with the New Debt-Management Indentures, the “New Indentures”), in one or more forms similar to the RMR Indenture.~~

~~Each such New MBS Indenture may be executed, acknowledged and delivered with such changes therein as the officers executing the same approve upon consultation with the Agency’s legal counsel, such approval to be conclusively evidenced by the execution and delivery thereof. Changes reflected in any New MBS Indenture may include provision for a supplemental pledge of Agency moneys or assets (including but not limited to a deposit from the Supplementary Bond Security Account created under Section 51368 of the Act) to additionally secure the MBS Bonds if appropriate in furtherance of the objectives of the Program.~~

Section 10.**Approval of Forms of Series and Supplemental Indentures Related to MBS Bonds.** The Executive Director and the Secretary are hereby authorized and directed, for and on behalf and in the name of the Agency, to execute and acknowledge and to deliver with respect to each series of MBS Bonds, if and to the extent appropriate, series and/or supplemental indentures (each an “MBS Supplemental Indenture”; together with the Debt-Management Supplemental Indenture, the “Supplemental Indenture”) under ~~either~~ the RMR ~~Indenture or a New MBS~~ Indenture and in substantially the form of the ~~respective~~ supplemental indentures previously executed and delivered or approved, each with such changes therein as the officers executing the same approve upon consultation with the Agency’s legal counsel, such approval to be conclusively evidenced by the execution and delivery thereof. Changes reflected in any MBS

Supplemental Indenture may include provision for a supplemental pledge of Agency moneys or assets (including but not limited to, a deposit from the Supplementary Bond Security Account created under Section 51368 of the Act) to additionally secure the Bonds if appropriate in furtherance of the objectives of the Program.

The Executive Director is hereby expressly authorized and directed, for and on behalf and in the name of the Agency, to determine in furtherance of the objectives of the Program those matters required to be determined under the RMR Indenture ~~or any New MBS Indenture, as appropriate,~~ in connection with the issuance of each such series, including, without limitation, any reserve account requirement or requirements for such series.

Section 11. **Approval of Forms and Terms of MBS Bonds.** The MBS Bonds shall be in such denominations, have such registration provisions, be executed in such manner, be payable in such medium of payment at such place or places within or without California, be subject to such terms of redemption (including from such sinking fund installments as may be provided for) and contain such terms and conditions as each MBS Supplemental Indenture as finally approved shall provide. The MBS Bonds shall have the maturity or maturities and shall bear interest at the fixed rate or rates deemed appropriate by the Executive Director in furtherance of the objectives of the Program; provided, however, that no MBS Bond shall have a term in excess of thirty-five (35) years or bear interest at a stated rate in excess of fifteen percent (15%) per annum.

## ARTICLE III
## PROVISIONS APPLICABLE TO ALL BONDS ISSUED UNDER THIS RESOLUTION

Section 12. **Authorization of Disclosure.** The Executive Director is hereby authorized to circulate one or more Preliminary Official Statements relating to the Bonds and, after the sale of the Bonds, to execute and circulate one or more Official Statements relating to the Bonds, and the circulation of such Preliminary Official Statements and such Official Statements to prospective and actual purchasers of the Bonds is hereby approved. The Executive Director is further authorized to hold information meetings concerning the Bonds and to distribute other information and material relating to the Bonds. Circulation of Preliminary Official Statements and Official Statements and distribution of information and material as provided above in this Section may be accomplished through electronic means or by any other means approved therefor by the Executive Director, such approval to be conclusively evidenced by such circulation or distribution.

Section 13. **Authorization of Sale of Bonds.** The Bonds are hereby authorized to be sold at negotiated or competitive sale or sales, including but not limited to private placements and public offerings. The Executive Director is hereby authorized and directed, for and in the name and on behalf of the Agency, to execute and deliver one or more purchase contracts (including one or more forward purchase agreements) relating to the Bonds, by and among the Agency, the Treasurer and such underwriters or other purchasers as the Executive Director may select (the "Purchasers"), in the form or forms approved by the Executive Director upon consultation with the Agency's legal counsel, such approval to be evidenced conclusively by the execution and delivery of said purchase contract by the Executive Director.

The Treasurer is hereby authorized and requested, without further action of the Board and unless instructed otherwise by the Board, to sell each series of Bonds at the time and place and pursuant to the terms and conditions set forth in each such purchase contract as finally executed. The Treasurer is hereby further authorized and requested to deposit the proceeds of any good faith deposit to be received by the Treasurer under the terms of a purchase contract in a special trust account for the benefit of the Agency, and the amount of said deposit shall be retained by the Agency, applied at the time of delivery of the applicable Bonds as part of the purchase price thereof, or returned to the Purchasers, as provided in such purchase contract.

Section 14.**Authorization of Execution of Bonds.** The Executive Director is hereby authorized and directed to execute, and the Secretary is hereby authorized to attest, for and on behalf and in the name of the Agency and under its seal, the Bonds, in an aggregate amount not to exceed the amount authorized hereby, in accordance with the Prior Indenture(s)~~,~~ ~~the Supplemental Indenture(s)~~ or the ~~New~~Supplemental Indenture(s) and in one or more of the forms set forth in the Prior Indenture(s)~~,~~ or the Supplemental Indenture(s)~~ or the New Indenture(s)~~, as appropriate.

Section 15.**Authorization of Delivery of Bonds.** The Bonds, when so executed, shall be delivered to the Trustees to be authenticated by, or caused to be authenticated by, the Trustees. The Trustees are hereby requested and directed to authenticate, or cause to be authenticated, the Bonds by executing the certificate of authentication and registration appearing thereon, and to deliver the Bonds when duly executed and authenticated to the Purchasers in accordance with written instructions executed on behalf of the Agency by the Executive Director, which instructions said officer is hereby authorized and directed, for and on behalf and in the name of the Agency, to execute and deliver. Such instructions shall provide for the delivery of the Bonds to the Purchasers upon payment of the purchase price or prices thereof.

Section 16.**Authorization of Program Documents.** The Executive Director and the other officers of the Agency are hereby authorized to enter into, for and in the name and on behalf of the Agency, all documents they deem necessary or appropriate in connection with the Program, including, but not limited to, one or more mortgage purchase and servicing agreements (including mortgage-backed security pooling agreements) and one or more loan servicing agreements with such lender or lenders or such servicer or servicers as the Executive Director may select in accordance with the purposes of the Program, and any such selection of a lender or lenders or a servicer or servicers is to be deemed approved by this Board as if it had been made by this Board. The proceeds of MBS Bonds to be issued under the authority of this Resolution shall be used to purchase MBSs guaranteed by Fannie Mae, Freddie Mac, Ginnie Mae, or other appropriate guarantor and shall not be used to purchase whole loans. The MBSs to be purchased may be underlain by loans that have terms of 30 years or less.

The Executive Director and the other officers of the Agency are hereby authorized to enter into, for and in the name and on behalf of the Agency, one or more mortgage sale agreements with such purchasers as the Executive Director may select in accordance with the objectives of the Program, including but not limited to such agreements with Fannie Mae, Freddie Mac or other government-sponsored enterprise or similar entity for such sales in bulk or otherwise. Any such sale of Loans may be on either a current or a forward purchase basis.

The Executive Director and the other officers of the Agency are hereby authorized to enter into, for and in the name and on behalf of the Agency, contracts to conduct foreclosures of mortgages owned or serviced by the Agency with such attorneys or foreclosure companies as the Executive Director may select in accordance with the objectives of the Program.

The Executive Director and the other officers of the Agency are hereby authorized to enter into, for and in the name and on behalf of the Agency, contracts for the sale of foreclosed properties with such purchasers as the Executive Director may select in accordance with the objectives of the Program. Any such sale of foreclosed properties may be on either an all cash basis or may include financing by the Agency. The Executive Director and the other officers of the Agency are also authorized to enter into any other agreements, including but not limited to real estate brokerage agreements and construction contracts necessary or convenient for the rehabilitation, listing and sale of such foreclosed properties.

The Executive Director and the other officers of the Agency are hereby authorized to enter into, for and in the name and on behalf of the Agency, (i) contracts or agreements for the purchase or sale of mortgage-backed securities; (ii) servicing agreements, including master servicing agreements, in connection with the operation of a program of mortgage-backed securities; (iii) agreements with government-sponsored enterprises, or other secondary market issuers or guarantors of mortgage-backed securities; and (iv) such other program documents as are necessary or appropriate for the operation of a program of mortgage-backed securities.

Section 17. **Authorization of Credit Facilities.** The Executive Director and the other officers of the Agency are hereby authorized to enter into, for and in the name and on behalf of the Agency, one or more short-term or long-term credit facilities, including but not limited to repurchase agreements, for the purposes of (i) financing the purchase of Loans and/or mortgage-backed securities on an interim basis, prior to the financing thereof with Bonds, whether issued or to be issued; (ii) financing expenditures of the Agency incident to, and necessary or convenient to, the issuance of Bonds, including, but not limited to, Agency expenditures to pay costs of issuance, capitalized interest, redemption price of prior bonds of the Agency, costs relating to credit enhancement or liquidity support, costs relating to investment products, or net payments and expenses relating to interest rate hedges and other financial products; and (iii) enabling the Agency to restructure existing debt and related purposes, including, but not limited to, the redemption of existing bonds and the acquisition of bonds that have been put to liquidity providers as bank bonds. Any such credit facility may be from any appropriate source, including, but not limited to, the Pooled Money Investment Account pursuant to Government Code Section 16312; provided, however, that the aggregate outstanding principal amount of credit facilities authorized under this resolution or Resolution No. 11-02 (the multifamily financing resolution adopted at the same meeting) or Resolution No. 06-06 (the Bay Area Housing Plan resolution), as amended from time to time, may not at any time exceed $400,000,000 (separate and apart from the amount of Bonds authorized by Sections 1 and 7 of this resolution).

The Executive Director and the other officers of the Agency are hereby authorized to use available Agency moneys (other than and in addition to the proceeds of bonds) (i) to make or purchase Loans and/or mortgage-backed securities to be financed by bonds (including bonds authorized by prior resolutions of this Board) in anticipation of draws on a credit facility, the issuance of Bonds or the availability of Bond proceeds for such purposes and (ii) to purchase Agency bonds to enable the Agency to restructure its debt and for related purposes as authorized under Resolution No. 08-42 and any future Board resolutions thereto amendatory or supplemental.

Section 18. **Ratification of Prior Actions; Not a Repeal of Prior Resolutions.** All actions previously taken by the Agency relating to the implementation of the Program, the issuance of the Bonds, the issuance of any prior bonds (the "Prior Bonds"), the execution and delivery of related financial agreements and related program agreements and the implementation of any credit facilities as described above, including, but not limited to, such actions as the distribution of the Agency's Lender Program Manual, Mortgage Purchase and Servicing Agreement, Servicing Agreement, Developer Agreement, Servicer's Guide, Program Bulletins and applications to originate and service loans, and the sale of any foreclosed property, are hereby ratified.

This resolution is not intended to repeal in whole or in part any prior resolution of the Agency with respect to the authority granted to the Executive Director and the other officers of the Agency in relation to Prior Bonds and related agreements, including but not limited to (i) the authority to determine in furtherance of the objectives of the Program those matters required to be determined in relation to Prior Bonds, whether under indentures or other related agreements, and (ii) the authority to amend, modify or replace financial agreements of the types described in Section 6 of this resolution.

Section 19. **Authorization of Related Actions and Agreements.** The Treasurer, the Executive Director and the officers of the Agency, or the duly authorized deputies thereof, are hereby authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all agreements and documents which they deem necessary or advisable in order to consummate the issuance, sale, delivery, remarketing, conversion and administration of Bonds and Prior Bonds and otherwise to effectuate the purposes of this resolution, including declaring the official intent of the Agency for purposes of U.S. Treasury Regulations Section 1.150-2, and including executing and delivering any amendment or supplement to any agreement or document relating to Bonds or Prior Bonds in any manner that would be authorized under this resolution if such agreement or document related to Bonds is authorized by this resolution. Such agreements may include, but are not limited to, remarketing agreements, tender agreements or similar agreements regarding any put option for the Bonds or Prior Bonds, broker-dealer agreements, market agent agreements, auction agent agreements or other agreements necessary or desirable in connection with the issuance of Bonds in, or the conversion of Bonds or Prior Bonds to, an indexed rate mode, agreements for the investment of moneys relating to the Bonds or Prior Bonds, reimbursement agreements, letters of credit, intercreditor agreements or other arrangements relating to any credit enhancement or liquidity support or put option provided for the Bonds or Prior Bonds, continuing disclosure agreements and agreements for necessary services provided in the course of the issuance of the bonds, including but not limited to, agreements with bond underwriters and placement agents, private placement purchasers, bond trustees, bond counsel and financial advisors and contracts for consulting services or information services relating to the financial management of the Agency, including advisors or consultants on interest rate swaps, cash flow management, and similar matters, and contracts for financial printing and similar services.

This resolution shall constitute full, separate, complete and additional authority for the execution and delivery of all agreements and instruments described in this resolution, without regard to any limitation in the Agency's regulations and without regard to any other resolution of the Board that does not expressly amend and limit this resolution.

The Executive Director and the officers of the Agency, or the duly authorized deputies thereof, are hereby authorized and directed, jointly and severally, in connection with the issuance of bonds authorized under this resolution, to use funds of the Agency to purchase MBSs, make a capital contribution with respect to such bonds, establish reserves to secure such bonds, and pay other costs of the Agency incident to, and necessary or convenient to, the issuance of such bonds.

Section 20. **Additional Delegation.** All actions by the Executive Director approved or authorized by this resolution may be taken by the Chief Deputy Director of the Agency, the Director of Financing of the Agency, the Financing Risk Manager of the Agency or any other person specifically authorized in writing by the Executive Director, and except to the extent otherwise taken by another person shall be taken by the Chief Deputy Director during any period in which the office of the Executive Director is vacant.

SECRETARY'S CERTIFICATE

I, Thomas C. Hughes, Secretary of the Board of Directors of the California Housing Finance Agency, hereby certify that the foregoing is a full, true, and correct copy of Resolution No. 11-01 duly adopted at a regular meeting of the Board of Directors of the California Housing Finance Agency duly called and held on the 20th day of January, 2011, of which meeting all said directors had due notice; and that at said meeting said Resolution was adopted by the following vote:

AYES:

NOES:

ABSTENTIONS:

ABSENT:

IN WITNESS WHEREOF, I have executed this certificate and affixed the seal of the Board of Directors of the California Housing Finance Agency hereto this 20th day of January, 2011.

[SEAL]

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

SECRETARY'S CERTIFICATE

I, Thomas C. Hughes, Secretary of the Board of Directors of the California Housing Finance Agency, hereby certify that the foregoing is a full, true, and correct copy of Resolution No. 11-01 duly adopted at a regular meeting of the Board of Directors of the California Housing Finance Agency duly called and held on the 20th day of January, 2011, of which meeting all said directors had due notice; and that at said meeting said Resolution was adopted by the following vote:

AYES:

NOES:

ABSTENTIONS:

ABSENT:

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

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

[SEAL]

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

**State of California**

# M E M O R A N D U M

**To:** Board of Directors **Date:** March 10, 2011

Bruce D. Gilbertson, Director of Financing

**From:** **CALIFORNIA HOUSING FINANCE AGENCY**

**Subject:** AMENDMENT TO RESOLUTION 11-02 REGARDING THE AGENCY'S ANNUAL MULTIFAMILY BOND REAUTHORIZATION - RESOLUTION 11-05

At the January 20, 2011 meeting of the board of directors, the board approved Resolution 11-02 after a discussion regarding the bond indentures authorized and directed to be used for the issuance of refunding bonds, new money bonds or conduit bond issuance.

Similar to the motion to approve the single family financing resolution, the motion to approve Resolution 11-02 included a requirement that staff prepare an amendment to the resolution limiting the issuance of bonds to those bond indentures listed within the resolution as prior indentures, all of which have been previously presented to the board and approved by the board. The intent of the amendment was to require staff to present all new bond indentures financing multifamily loan programs of the Agency; regardless how similar the indenture may be to an existing approved form of an indenture, to the board for approval.

The board did acknowledge that multifamily conduit issuance requires the authority to issue bonds under a new indenture for each project financing and that this amendment was not intended to restrict the use of new indentures for stand-alone conduit issuance activity so long as the indenture is in substantially the form of those stand-alone indentures previously approved by the board and listed in Section 3 and Section 8 of Resolution 11-02.

Attached for your review and consideration is Resolution 11-05 that incorporates the above mentioned amendments by restating certain sections of Resolution 11-02, deleting references to new bond indentures and authorizing the issuance of bonds to only those approved bond indentures listed in Section 3 and Section 8 of Resolution 11-02.

In addition, Resolution 11-02 is attached, marked to incorporate the amendments of Resolution 11-05 and to reflect the changes from the original version.

Attachments

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# RESOLUTION NO. 11-05

## RESOLUTION AMENDING RESOLUTION NO. 11-02 OF THE CALIFORNIA HOUSING FINANCE AGENCY AUTHORIZING THE AGENCY'S MULTIFAMILY BOND INDENTURES, THE ISSUANCE OF MULTIFAMILY BONDS, CREDIT FACILITIES FOR MULTIFAMILY PURPOSES, AND RELATED FINANCIAL AGREEMENTS AND CONTRACTS FOR SERVICES

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

WHEREAS, the Agency has determined that it is in the public interest for the Agency to assist in providing such financing by means of an ongoing program (the "Program") to make or acquire, or to make loans to lenders to make or acquire, mortgage loans, for the purpose of financing such Developments (the "Loans");

WHEREAS, pursuant to Parts 1 through 4 of Division 31 of the Health and Safety Code of the State of California (the "Act"), the Agency has the authority to issue bonds to provide sufficient funds to finance the Program, including the making of Loans, the payment of capitalized interest on the bonds, the establishment of reserves to secure the bonds, and the payment of other costs of the Agency incident to, and necessary or convenient to, the issuance of the bonds; and

WHEREAS, pursuant to the Act, the Agency has the authority to enter into credit facilities for the purpose of financing the Program, including the making of Loans and the payment of other costs of the Agency incident to, and necessary or convenient to, the issuance of the bonds;

WHEREAS, on January 20, 2011, this Board of Directors (the "Board") of the Agency adopted Resolution No. 11-02 (the "Multifamily Bond Resolution") authorizing, among other things, the issuance of bonds and the execution and delivery of related financial agreements (including certain forms of the indentures to provide for the issuance of and securing the bonds) for the purpose of financing Loans;

WHEREAS, the Agency has determined to amend the Multifamily Bond Resolution to specify and limit the purposes for which new indentures may be executed and delivered;

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

Section 1. **Indentures for Refunding Bonds.** Section 3 of the Multifamily Bond Resolution is hereby amended and restated to read as follows:

"Section 3. **Approval of Refunding Bond Indentures and Certain Other Financing Documents Related to Refunding Bonds.** (a) Refunding Bonds may be issued under and pursuant to any one or more of the following (collectively, the "Refunding Bond Prior Indentures"):

(1) the Multifamily Housing Revenue Bond II Indenture, dated as of October 1, 1995;

(2) the Multifamily Housing Revenue Bond III Indenture, dated as of March 1, 1997;

(3) the Multifamily Loan Purchase Bond Indenture, dated as of July 1, 2000;

(4) the form of Fannie Mae stand-alone Indenture approved by Resolution No. 09-02;

(5) the form of Freddie Mac stand-alone Indenture approved by Resolution No. 09-02;

(6) the form of Master Pledge and Assignment approved by Resolution No. 09-02;

(7) the form of FHA/GNMA stand-alone Indenture approved by Resolution No 10-08;

(8) the Affordable Multifamily Housing Revenue Bonds Indenture, dated as of December 1, 2009.

(b) The Executive Director and the Secretary of the Board of Directors of the Agency (the "Secretary") are hereby authorized and directed, for and on behalf and in the name of the Agency, if appropriate, to execute and acknowledge and to deliver with respect to each series of Refunding Bonds, either an indenture (which may include a supplemental indenture) in substantially the form of the conduit stand-alone Refunding Bond Prior Indentures specified in subsections (a)(4) through (a)(7) of this Section 3 (a "Refunding Bond Stand-alone Indenture") or a supplemental indenture (a "Refunding Bond Supplemental Indenture" and, collectively with the Refunding Bond Stand-alone Indentures, "Refunding Bond Indentures") under a Refunding Bond Prior Indenture specified in subsections (a)(1) through (a)(3) and (a)(8) of this Section 3 in substantially the form of any supplemental indenture or series indenture executed or approved in connection with any of the Refunding Bond Prior Indentures, in each case with such changes therein as the officers executing the same approve upon consultation with the Agency's legal counsel, such approval to be conclusively evidenced by the execution and delivery thereof.

The Executive Director is hereby expressly authorized and directed, for and on behalf and in the name of the Agency, to determine in furtherance of the objectives of the Program those matters required to be determined under the applicable Refunding Bond Indenture in connection with the issuance of each such series of Refunding Bonds.

(c) For each series of Refunding Bonds, the Executive Director is hereby authorized and directed to execute, and the Secretary is hereby authorized to attest, for and in the name and on behalf of the Agency and under its seal, if and to the extent appropriate, a reimbursement agreement, letter of credit agreement, standby bond purchase agreement, or other arrangement with respect to credit enhancement or liquidity support, and any intercreditor agreement related thereto, in substantially the forms of the reimbursement agreements, letter of credit agreements, standby bond purchase agreements, other such arrangements and intercreditor agreements contemplated under the Refunding Bond Indentures or used in connection with the Refunded Bonds.

(d) Any Refunding Bond Indenture, reimbursement agreement, letter of credit agreement, standby bond purchase agreement, other such arrangement or intercreditor agreement executed in connection with the issuance of Refunding Bonds may include such modifications as the Executive Director may deem necessary or desirable in furtherance of the objectives of the Program, including, but not limited to, one or more of the following provisions:

(1) for the Agency's general obligation to pay any debt secured thereby, or

(2) for risk sharing provisions dividing between the Agency and any credit provider, mortgage lender, commercial bank or other financial institution and/or FHA, in such manner as the Executive Director may deem necessary or desirable in furtherance of the objectives of the Program, the credit and financing risks relating to Refunding Bonds and the Developments financed by such Refunding Bonds;

*provided, however*, that in each such case the Executive Director shall have determined that the inclusion of such provisions with respect to the Refunding Bonds is not expected to result in greater financial risk to the Agency or its General Fund than existed with respect to the related Refunded Bonds."

<u>Section 2</u>. **<u>Refunding Bonds.</u>** Section 4 of the Multifamily Bond Resolution is hereby amended and restated to read as follows:

<u>"Section 4</u>. **<u>Approval of Forms and Terms of Refunding Bonds.</u>** Refunding Bonds shall be in such denominations, have such registration provisions, be executed in such manner, be payable in such medium of payment at such place or places within or without California, be subject to such terms of

redemption (including from such sinking fund installments as may be provided for) and contain such terms and conditions as each Refunding Bond Indenture as finally approved shall provide. Refunding Bonds shall have the maturity or maturities and shall bear interest at the fixed, adjustable or variable rate or rates deemed appropriate by the Executive Director in furtherance of the objectives of the Program; *provided, however*, that no Refunding Bond shall bear interest at a stated rate in excess of fifteen percent (15%) per annum or have a final maturity later than forty-five years from the earlier of the date of issuance of the Refunded Bonds or, if the Refunded Bonds were refunding bonds, the original bonds in the series of refunding.

Refunding Bonds and the related Refunding Bond Indenture(s) may contain such provisions as may be necessary to accommodate an option to put such Refunding Bonds prior to maturity for purchase by or on behalf of the Agency or a person other than the Agency, to accommodate the requirements of any provider of bond insurance or other credit enhancement or liquidity support or to accommodate the requirements of purchasers of indexed floaters; *provided, however,* that variable rate Refunding Bonds may not be issued to refund fixed rate bonds."

Section 3. **Indentures for New Money Bonds.** Section 8 of the Multifamily Bond Resolution is hereby amended and restated to read as follows:

"Section 8. **Approval of New Money Bond Indentures and Certain Other Financing Documents.** (a) New Money Bonds may be issued under and pursuant to any one or more of the following (collectively, the "New Money Bond Prior Indentures"):

(1) the form of Fannie Mae stand-alone Indenture approved by Resolution No. 09-02;

(2) the form of Freddie Mac stand-alone Indenture approved by Resolution No. 09-02;

(3) the form of Master Pledge and Assignment approved by Resolution No. 09-02;

(4) the form of FHA/GNMA stand-alone Indenture approved by Resolution No 10-08; or

(5) the Affordable Multifamily Housing Revenue Bonds Indenture, dated as of December 1, 2009.

(b) The Executive Director and the Secretary are hereby authorized and directed, for and on behalf and in the name of the Agency, if appropriate, to execute and acknowledge and to deliver with respect to each series of New Money Bonds, either an indenture (which may include a supplemental indenture) in substantially the form of the conduit stand-alone New Money Bond

Prior Indentures specified in subsections (a)(1) through (a)(4) of this Section 8 (a "New Money Bond Stand-alone Indenture") or a supplemental indenture (a “New Money Bond Supplemental Indenture,” and, collectively with the New Money Bond Stand-alone Indentures, "New Money Bond Indentures") under the New Money Bond Prior Indenture specified in subsection (a)(5) of this Section 8 in substantially the form of any supplemental indenture or series indenture executed or approved in connection with such New Money Bond Prior Indenture, in each case with such changes therein as the officers executing the same approve upon consultation with the Agency’s legal counsel, such approval to be conclusively evidenced by the execution and delivery thereof.

The Executive Director is hereby expressly authorized and directed, for and on behalf and in the name of the Agency, to determine in furtherance of the objectives of the Program those matters required to be determined under the applicable New Money Bond Indenture in connection with the issuance of each such series of New Money Bonds."

Section 4. **New Money Bonds.** Section 9 of the Multifamily Bond Resolution is hereby amended and restated to read as follows:

"Section 9. **Approval of Forms and Terms of New Money Bonds.** New Money Bonds shall be in such denominations, have such registration provisions, be executed in such manner, be payable in such medium of payment at such place or places within or without California, be subject to such terms of redemption (including from such sinking fund installments as may be provided for) and contain such terms and conditions as each New Money Bond Indenture as finally approved shall provide. New Money Bonds shall have the maturity or maturities and shall bear interest at fixed or convertible rates deemed appropriate by the Executive Director in furtherance of the objectives of the Program; *provided, however,* that no New Money Bond shall have a term in excess of fifty years or bear interest at a stated rate in excess of fifteen percent (15%) per annum.

New Money Bonds and the related New Money Bond Indenture(s) may contain such provisions as may be necessary to accommodate an option to put such New Money Bonds prior to maturity for purchase by or on behalf of the Agency or a person other than the Agency, to accommodate the requirements of any provider of bond insurance or other credit enhancement."

Section 5. **Execution of Bonds.** Section 13 of the Multifamily Bond Resolution is hereby amended and restated to read as follows:

"Section 13. **Authorization of Execution of Bonds.** The Executive Director is hereby authorized and directed to execute, and the Secretary of this Board is hereby authorized and directed to attest, for and on behalf and in the name of the Agency and under its seal, the Bonds, in an aggregate amount not to exceed the amount authorized hereby, in accordance with each Refunding Bond Indenture, or New Money Bond Indenture in one or more of the forms set forth in such indenture."

SECRETARY'S CERTIFICATE

I, Thomas C. Hughes, Secretary of the Board of Directors of the California Housing Finance Agency, hereby certify that the foregoing is a full, true, and correct copy of Resolution No. 11-05 duly adopted at a regular meeting of the Board of Directors of the California Housing Finance Agency duly called and held on the 16th day of March, 2011, of which meeting all said directors had due notice; and that at said meeting said resolution was adopted by the following vote:

AYES:

NOES:

ABSTENTIONS:

ABSENT:

IN WITNESS WHEREOF, I have executed this certificate and affixed the seal of the Board of Directors of the California Housing Finance Agency hereto this 16th day of March, 2011.

[SEAL]

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

SECRETARY'S CERTIFICATE

I, Thomas C. Hughes, Secretary of the Board of Directors of the California Housing Finance Agency, hereby certify that the foregoing is a full, true, and correct copy of the Resolution No. 11-05 duly adopted at a regular meeting of the Board of Directors of the California Housing Finance Agency duly called and held on the 16th day of March, 2011, of which meeting all said directors had due notice; and that at said meeting said resolution was adopted by the following vote:

AYES:

NOES:

ABSTENTIONS:

ABSENT:

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

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

[SEAL]

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

RESOLUTION NO. 11-02
[as amended by RESOLUTION NO. 11-05]

RESOLUTION OF THE CALIFORNIA HOUSING FINANCE AGENCY AUTHORIZING THE AGENCY'S MULTIFAMILY BOND INDENTURES, THE ISSUANCE OF MULTIFAMILY BONDS, CREDIT FACILITIES FOR MULTIFAMILY PURPOSES, AND RELATED FINANCIAL AGREEMENTS AND CONTRACTS FOR SERVICES

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

WHEREAS, the Agency has determined that it is in the public interest for the Agency to assist in providing such financing by means of an ongoing program (the "Program") to make or acquire, or to make loans to lenders to make or acquire, mortgage loans, for the purpose of financing such Developments (the "Loans");

WHEREAS, pursuant to Parts 1 through 4 of Division 31 of the Health and Safety Code of the State of California (the "Act"), the Agency has the authority to issue bonds to provide sufficient funds to finance the Program, including the making of Loans, the payment of capitalized interest on the bonds, the establishment of reserves to secure the bonds, and the payment of other costs of the Agency incident to, and necessary or convenient to, the issuance of the bonds; and

WHEREAS, pursuant to the Act, the Agency has the authority to enter into credit facilities for the purpose of financing the Program, including the making of Loans and the payment of other costs of the Agency incident to, and necessary or convenient to, the issuance of the bonds;

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

ARTICLE I
AUTHORIZATION AND TERMS OF REFUNDING BONDS

Section 1. **Determination of Need and Amount of Refunding Bonds.** The Agency is of the opinion and hereby determines that the offer, sale and issuance of one or more series of multifamily housing revenue bonds ("Refunding Bonds") in an aggregate amount not to exceed the aggregate amount of prior multifamily bonds of the Agency to be redeemed or maturing in connection with such issuance (the related "Refunded Bonds") is necessary to provide sufficient funds for the management of the Agency's existing debt related to the Program.

Section 2. **Authorization and Timing of Refunding Bonds.** The Bonds described in Section 1 ("Refunding Bonds") are hereby authorized to be issued for the purpose of financing, refinancing or carrying existing Loans. Refunding Bonds may be issued at such time or times on or before the day 30 days after the date on which is held the first meeting in the year 2012 of the Board of Directors of the Agency at which a quorum is present, as the Executive Director deems appropriate, upon consultation with the Treasurer of the State of California (the "Treasurer") as to the timing of each such issuance; *provided, however,* that if the Refunding Bonds are sold at a time on or before the day 30 days after the date on which is held such meeting, pursuant to a forward purchase agreement providing for the issuance of such Refunding Bonds on a later date on or before August 1, 2013, upon specified terms and conditions, such Refunding Bonds may be issued on such later date.

Section 3. **Approval of ~~Indentures, Supplemental~~Refunding Bond Indentures and Certain Other Financing Documents Related to Refunding Bonds.** (a) ~~The Executive Director and the Secretary of the Board of Directors of the Agency (the "Secretary") are hereby authorized and directed, for and on behalf and in the name of the Agency in connection with the issuance of Refunding Bonds, to execute and acknowledge and to deliver to a duly qualified bank or trust company selected by the Executive Director to act, with the approval of the Treasurer, as trustee, fiscal agent or paying agent of the Agency (the "Trustee"), one or more new indentures, trust agreements or similar documents providing for the issuance of bonds (the "New Indentures"), in one or more forms similar to~~Refunding Bonds may be issued under and pursuant to any one or more of the following (collectively, the "Refunding Bond Prior Indentures"):

(1) the Multifamily Housing Revenue Bond II Indenture, dated as of October 1, 1995;

(2) the Multifamily Housing Revenue Bond III Indenture, dated as of March 1, 1997;

(3) the Multifamily Loan Purchase Bond Indenture, dated as of July 1, 2000;

(4) the form of Fannie Mae stand-alone Indenture approved by Resolution No. 09-02;

(5) the form of Freddie Mac stand-alone Indenture approved by Resolution No. 09-02;

(6) the form of Master Pledge and Assignment approved by Resolution No. 09-02;

(7) the form of FHA/GNMA stand-alone Indenture approved by Resolution No 10-08;

(~~7~~8) the Affordable Multifamily Housing Revenue Bonds Indenture, dated as of December 1, 2009.

~~Each such New Indenture may be executed, acknowledged and delivered with such changes therein as the officers executing the same approve upon consultation with the Agency's legal counsel, such approval to be conclusively evidenced by the execution and delivery thereof.~~

(b) ~~For each series of Refunding Bonds, the~~The Executive Director and the Secretary of the Board of Directors of the Agency (the "Secretary") are hereby authorized and directed, for and on behalf and in the name of the Agency, if appropriate, to execute and acknowledge and to deliver with respect to each series of Refunding Bonds, either an indenture (which may include a supplemental indenture) in substantially the form of the conduit stand-alone Refunding Bond Prior Indentures specified in subsections (a)(4) through (a)(7) of this Section 3 (a "Refunding Bond Stand-alone Indenture") or a supplemental indenture (a "Refunding Bond

Supplemental Indenture”~~) under a Prior Indenture or a New Indenture and~~ and, collectively with the Refunding Bond Stand-alone Indentures, "Refunding Bond Indentures") under a Refunding Bond Prior Indenture specified in subsections (a)(1) through (a)(3) and (a)(8) of this Section 3 in substantially the form of any supplemental indenture or series indenture executed or approved in connection with any of the Refunding Bond Prior Indentures, in each case with such changes therein as the officers executing the same approve upon consultation with the Agency’s legal counsel, such approval to be conclusively evidenced by the execution and delivery thereof.

The Executive Director is hereby expressly authorized and directed, for and on behalf and in the name of the Agency, to determine in furtherance of the objectives of the Program those matters required to be determined under the applicable ~~Prior Indenture or New~~Refunding Bond Indenture in connection with the issuance of each such series of Refunding Bonds.

(c) For each series of Refunding Bonds, the Executive Director is hereby authorized and directed to execute, and the Secretary is hereby authorized to attest, for and in the name and on behalf of the Agency and under its seal, if and to the extent appropriate, a reimbursement agreement, letter of credit agreement, standby bond purchase agreement, or other arrangement with respect to credit enhancement or liquidity support, and any intercreditor agreement related thereto, in substantially the forms of the reimbursement agreements, letter of credit agreements, standby bond purchase agreements, other such arrangements and intercreditor agreements contemplated under the ~~Prior Indentures or New~~Refunding Bond Indentures or used in connection with the Refunded Bonds.

(d) Any ~~New Indenture, Supplemental~~Refunding Bond Indenture, reimbursement agreement, letter of credit agreement, standby bond purchase agreement, other such arrangement or intercreditor agreement executed in connection with the issuance of Refunding Bonds may include such modifications as the Executive Director may deem necessary or desirable in furtherance of the objectives of the Program, including, but not limited to, one or more of the following provisions:

(1) for the Agency’s general obligation to pay any debt secured thereby, or

(2) for risk sharing provisions dividing between the Agency and any credit provider, mortgage lender, commercial bank or other financial institution and/or FHA, in such manner as the Executive Director may deem necessary or desirable in furtherance of the objectives of the Program, the credit and financing risks relating to Refunding Bonds and the Developments financed by such Refunding Bonds;

*provided, however,* that in each such case the Executive Director shall have determined that the inclusion of such provisions with respect to the Refunding Bonds is not expected to result in greater financial risk to the Agency or its General Fund than existed with respect to the related Refunded Bonds.

Section 4. **Approval of Forms and Terms of Refunding Bonds.** Refunding Bonds shall be in such denominations, have such registration provisions, be executed in such manner, be payable in such medium of payment at such place or places within or without California, be subject to such terms of redemption (including from such sinking fund installments as may be provided for) and contain such terms and conditions as each Refunding Bond Indenture as finally approved shall provide. Refunding Bonds shall have the maturity or maturities and shall bear interest at the fixed, adjustable or variable rate or rates deemed appropriate by the Executive Director in furtherance of the objectives of the Program; *provided, however,* that no Refunding Bond shall ~~have~~ bear interest at a stated rate in excess of fifteen percent (15%) per annum or have a final maturity later than forty-five years from the earlier of the date of issuance of the Refunded Bonds or, if the Refunded Bonds were refunding bonds, the original bonds in the series of refunding.

Refunding Bonds and the related ~~Supplemental~~Refunding Bond Indenture(s) may contain such provisions as may be necessary to accommodate an option to put such Refunding Bonds prior to maturity for purchase by or on behalf of the Agency or a person other than the Agency, to accommodate the requirements of any provider of bond insurance or other credit enhancement or liquidity support or to accommodate the requirements of purchasers of indexed floaters; *provided, however,* that variable rate Refunding Bonds may not be issued to refund fixed rate bonds.

Section 5. **Authorization of Other Financial Agreements Related to Refunding Bonds.** The Executive Director and the other officers of the Agency are hereby authorized to enter into, for and in the name and on behalf of the Agency, any and all agreements and documents designed to amend, modify or replace existing agreements and documents that related to Refunded Bonds in order to (i) reduce or hedge the amount or duration of any payment, interest rate, spread or similar risk with respect to Refunding Bonds or related investments, (ii) result in a lower cost of borrowing when used in combination with the issuance or carrying of Refunding Bonds or related investments, or (iii) enhance the relationship between risk and return with respect to the existing debt of the Program or any portion thereof; *provided, however,* that the aggregate notional amount of such agreements related to the Program may not be increased. Such agreements and other documents are authorized to be entered into with parties selected by the Executive Director, after giving due consideration for the creditworthiness of the counterparties, where applicable, or any other criteria in furtherance of the objectives of the management of the debt of the Program.

## ARTICLE II
## AUTHORIZATION AND TERMS OF NEW MONEY BONDS

Section 6. **Determination of Need and Amount of New Money Bonds.** The Agency is of the opinion and hereby determines that the offer, sale and issuance of one or more series of multifamily housing revenue bonds ("New Money Bonds") in an aggregate amount not to exceed the sum of the following amounts is necessary to provide sufficient funds for new lending under the Program:

(a) the aggregate amount of private activity bond allocations under federal tax law heretofore or hereafter made available to the Agency for such purpose; and

(b) if and to the extent the Bonds are “qualified 501(c)(3) bonds” under federal tax law, are not “private activity bonds” under federal tax law, or are determined by the Executive Director of the Agency (the “Executive Director”) to be intended not to be tax-exempt for federal income tax purposes, $150,000,000.

Section 7. **Authorization and Timing.** The Bonds described in Section 6 ("New Money Bonds") are hereby authorized to be issued for the purpose of financing or carrying new Loans for the acquisition, construction, rehabilitation, refinancing or development of Developments. New Money Bonds may be issued at such time or times on or before the day 30 days after the date on which is held the first meeting in the year 2012 of the Board of Directors of the Agency at which a quorum is present, as the Executive Director deems appropriate, upon consultation with the Treasurer of the State of California (the "Treasurer") as to the timing of each such issuance; *provided, however,* that if the New Money Bonds are sold at a time on or before the day 30 days after the date on which is held such meeting, pursuant to a forward purchase agreement providing for the issuance of such New Money Bonds on a later date on or before August 1, 2013, upon specified terms and conditions, such New Money Bonds may be issued on such later date.

Section 8. **Approval of ~~Indentures, Supplemental~~New Money Bond Indentures and Certain Other Financing Documents.** (a) ~~The Executive Director and the Secretary of the Board of Directors of the Agency (the "Secretary") are hereby authorized and directed, for and on behalf and in the name of the Agency in connection with the issuance of New Money Bonds, to execute and acknowledge and to deliver to a duly qualified bank or trust company selected by the Executive Director to act, with the approval of the Treasurer, as trustee, fiscal agent or paying agent of the Agency (the "Trustee"), one or more new indentures, trust agreements or similar documents providing for the issuance of bonds (the "New Indentures"), in one or more forms similar to~~New Money Bonds may be issued under and pursuant to any one or more of the following (collectively, the "New Money Bond Prior Indentures"):

(1) the form of Fannie Mae stand-alone Indenture approved by Resolution No. 09-02;

(2) the form of Freddie Mac stand-alone Indenture approved by Resolution No. 09-02;

(3) the form of Master Pledge and Assignment approved by Resolution No. 09-02;

(4) the form of FHA/GNMA stand-alone Indenture approved by Resolution No 10-08; or

(5) the Affordable Multifamily Housing Revenue Bonds Indenture, dated as of December 1, 2009.

~~Each such New Indenture may be executed, acknowledged and delivered with such changes therein as the officers executing the same approve upon consultation with the Agency's legal counsel, such approval to be conclusively evidenced by the execution and delivery thereof.~~

(b) ~~For each series of New Money Bonds, the~~The Executive Director and the Secretary are hereby authorized and directed, for and on behalf and in the name of the Agency, if appropriate, to execute and acknowledge and to deliver with respect to each series of New Money Bonds, either an indenture (which may include a supplemental indenture) in substantially the form of the conduit stand-alone New Money Bond Prior Indentures specified in subsections (a)(1) through (a)(4) of this Section 8 (a "New Money Bond Stand-alone Indenture") or a supplemental indenture (a "New Money Bond Supplemental Indenture~~") under a Prior Indenture or a New Indenture and~~," and, collectively with the New Money Bond Stand-alone Indentures, "New

Money Bond Indentures") under the New Money Bond Prior Indenture specified in subsection (a)(5) of this Section 8 in substantially the form of any supplemental indenture or series indenture executed or approved in connection with ~~any of the~~such New Money Bond Prior ~~Indentures~~Indenture, in each case with such changes therein as the officers executing the same approve upon consultation with the Agency's legal counsel, such approval to be conclusively evidenced by the execution and delivery thereof.

The Executive Director is hereby expressly authorized and directed, for and on behalf and in the name of the Agency, to determine in furtherance of the objectives of the Program those matters required to be determined under the applicable ~~Prior Indenture or~~ New Money Bond Indenture in connection with the issuance of each such series of New Money Bonds.

Section 9. **Approval of Forms and Terms of New Money Bonds.** New Money Bonds shall be in such denominations, have such registration provisions, be executed in such manner, be payable in such medium of payment at such place or places within or without California, be subject to such terms of redemption (including from such sinking fund installments as may be provided for) and contain such terms and conditions as each New Money Bond Indenture as finally approved shall provide. New Money Bonds shall have the maturity or maturities and shall bear interest at fixed or convertible rates deemed appropriate by the Executive Director in furtherance of the objectives of the Program; *provided, however,* that no New Money Bond shall have a term in excess of fifty years or bear interest at a stated rate in excess of fifteen percent (15%) per annum.

New Money Bonds and the related ~~Supplemental~~New Money Bond Indenture(s) may contain such provisions as may be necessary to accommodate an option to put such New Money Bonds prior to maturity for purchase by or on behalf of the Agency or a person other than the Agency, to accommodate the requirements of any provider of bond insurance or other credit enhancement.

Section 10. **Conduit Issuances.** In addition to the authority provided by the other provisions of Article II, the following provisions shall apply to any limited obligation New Money Bonds ("Conduit Bonds") issued on behalf of Development sponsors for which, by the terms of the documents providing for the issuance of such New Money Bonds, (a) the Agency is not liable for payment of the principal of, premium or interest on such New Money Bonds, except from revenues received from loans made with the proceeds of such New Money Bonds ("Conduit Loans"), (b) the Agency has not contributed or pledged any funds or assets to such New Money Bonds other than revenues derived from or related to such Conduit Loans, and (c) there is otherwise no obligation of or material financial risk to the General Fund of the Agency under the terms of such Conduit Bonds:

(1) Conduit Bonds may be issued as drawdown bonds for which the bond purchaser purchases Bonds in installments as funds are needed by the Development sponsor, and, if the initial draw is funded pursuant to authority granted under this Article II prior to the first meeting in the year 2012 of the Board of Directors of the Agency at which a quorum is present, additional draws necessary to complete the Development may be issued at any time, whether before or after August 1, 2013;

(2) Conduit Bonds may be issued with variable rates of interest; and

(3) Conduit Bonds may otherwise have such commercially reasonable terms as may be approved by the Executive Director, such approval to be evidenced by the execution and delivery of the documents relating to such Conduit Bonds in accordance with this Resolution.

(4) For each series of Conduit Bonds, the Executive Director is hereby authorized and directed to execute, and the Secretary is hereby authorized to attest, for and in the name and on behalf of the Agency and under its seal, if and to the extent appropriate, any and all necessary documents, including but not limited to reimbursement agreements, letter of credit agreements or other arrangements with respect to liquidity or credit enhancement, and any intercreditor or subordination agreements related thereto.

## ARTICLE III
## PROVISIONS APPLICABLE TO ALL BONDS ISSUED UNDER THIS RESOLUTION

Section 11. **Authorization of Disclosure.** The Executive Director is hereby authorized to circulate one or more preliminary official statements relating to Refunding Bonds and/or New Money Bonds (collectively, "Bonds") and to execute and circulate one or more official statements relating to Bonds, and the circulation of such preliminary official statement and such official statement to prospective and actual purchasers of Bonds is hereby approved. The Executive Director is further authorized to hold information meetings concerning Bonds and to distribute other information and material relating to Bonds, including by posting of such information on one or more websites maintained by or at the direction of the Agency.

Section 12. **Authorization of Sale of Bonds.** Bonds are hereby authorized to be sold at negotiated or competitive sale or sales, including but not limited to private placements and public offerings. The Executive Director is hereby authorized and directed, for and in the name and on behalf of the Agency, to execute and deliver one or more agreements, by and among the Agency, the Treasurer, if applicable, and such purchasers or underwriters as the Executive Director may select (the “Purchasers”), relating to the sale of the Bonds, in such form as the Executive Director may approve upon consultation with the Agency’s legal counsel, such approval to be evidenced conclusively by the execution and delivery of said agreements by the Executive Director.

The Treasurer is hereby authorized and requested, without further action of this Board and unless instructed otherwise by this Board, to sell the Bonds pursuant to the terms and conditions set forth in each such agreement as finally executed on behalf of the Agency. The Treasurer is hereby further authorized and requested to deposit the proceeds of any good faith deposit to be received by the Treasurer under the terms of such agreement in a special trust account for the benefit of the Agency, and the amount of such deposit shall be retained by the Agency, applied at the time of delivery of the applicable Bonds as part of the purchase price thereof, or returned to the Purchasers, as provided in such agreement.

Section 13. **Authorization of Execution of Bonds.** The Executive Director is hereby authorized and directed to execute, and the Secretary of this Board is hereby authorized and directed to attest, for and on behalf and in the name of the Agency and under its seal, the Bonds, in an aggregate amount not to exceed the amount authorized hereby, in accordance with each ~~New~~Refunding Bond Indenture, or ~~Supplemental~~New Money Bond Indenture in one or more of the forms set forth in such ~~New Indenture or Supplemental Indenture~~indenture.

Section 14. **Authorization of Delivery of Bonds.** The Bonds when so executed shall be delivered to the Trustee to be authenticated by or caused to be authenticated by the Trustee. The Trustee is hereby requested and directed to authenticate, or cause to be authenticated, the Bonds by the execution of the certificate of authentication and registration appearing thereon, and to deliver or cause to be delivered the Bonds when duly executed and authenticated to the Purchasers in accordance with written instructions executed on behalf of the Agency by the Executive Director, which instructions said officer is hereby authorized and directed, for and on behalf and in the name of the Agency, to execute and deliver to the Trustee.

Section 15. **Authorization of Program Documents.** The Executive Director and the other officers of the Agency are hereby authorized and directed to execute all documents they deem necessary or appropriate in connection with the Program, including, but not limited to, regulatory agreements, loan agreements, origination and servicing agreements (or other loan-to-lender documents), servicing agreements, developer agreements, financing agreements, investment agreements, intercreditor agreements, agreements to enter into escrow and forward purchase agreements, escrow and forward purchase agreements, refunding agreements and continuing disclosure agreements, in each case with such other parties as the Executive Director may select in furtherance of the objectives of the Program.

The Executive Director and the other officers of the Agency are hereby authorized to enter into, for and in the name and on behalf of the Agency, one or more mortgage sale agreements with such purchasers as the Executive Director may select in accordance with the objectives of the Program. Any such sale of Loans may be on either a current or a forward purchase basis.

The Executive Director and the other officers of the Agency are hereby authorized to enter into, for and in the name and on behalf of the Agency, contracts to conduct foreclosures of mortgages owned or serviced by the Agency with such attorneys or foreclosure companies as the Executive Director may select in accordance with the objectives of the Program.

The Executive Director and the other officers of the Agency are hereby authorized to enter into, for and in the name and on behalf of the Agency, contracts for the sale of foreclosed properties with such purchasers as the Executive Director may select in accordance with the objectives of the Program. Any such sale of foreclosed properties may be on an all cash basis or may include financing by the Agency. The Executive Director and the other officers of the Agency are also authorized to enter into any other agreements, including but not limited to real estate brokerage agreements and construction contracts, necessary or convenient for the rehabilitation, listing and sale of such foreclosed properties.

Section 16. **Authorization of Credit Facilities.** In addition, the Executive Director and the other officers of the Agency are hereby authorized to enter into, for and in the name and on behalf of the Agency, one or more short-term or long-term credit facilities, including but not limited to repurchase agreements, for the purposes of (i) financing the purchase of Loans on an interim basis, prior to the financing of such Loans with Bonds, whether issued or to be issued; (ii) financing expenditures of the Agency incident to, and necessary or convenient to, the issuance of Bonds, including, but not limited to, Agency expenditures to pay costs of issuance, capitalized interest, redemption price of prior bonds of the Agency, costs relating to credit enhancement or liquidity support, costs relating to investment products, or net payments and expenses relating to interest rate hedges and other financial products; and (iii) enabling the Agency to restructure existing debt and related purposes, including, but not limited to, the redemption of existing bonds and the acquisition of bonds that have been put to liquidity providers as bank bonds. Any credit facility entered into pursuant to this Section 15 may be from any appropriate source, including, but not limited to, the Pooled Money Investment Account pursuant to Government Code Section 16312; *provided, however*, that the aggregate outstanding principal amount of credit facilities authorized under this Section 15 or the comparable sections of Resolution No. 11-01 (the single family financing resolution adopted at the same meeting) and Resolution No. 06-06, as amended (the Bay Area Housing Plan resolution) may not at any time exceed $400,000,000 (separate and apart from the amount of bonds authorized by Sections 1 and 6 of this resolution and such other resolutions).

The Executive Director and the other officers of the Agency are hereby authorized to use available Agency moneys (other than and in addition to the proceeds of bonds) (i) to make or purchase loans to be financed by bonds (including bonds authorized by prior resolutions of this Board) in anticipation of draws on a credit facility, the issuance of Bonds or the availability of Bond proceeds for such purposes and (ii) (ii) to purchase Agency bonds to enable the Agency to restructure its debt and for related purposes as authorized under Resolution No. 08-42 and any future Board resolutions thereto amendatory or supplemental.

The Executive Director and the other officers of the Agency are hereby authorized to use available Agency moneys to purchase Agency bonds to enable the Agency to restructure its debt and for related purposes. Any Agency bonds so purchased shall remain outstanding for all purposes except to the extent that the Executive Director or the other officers of the Agency expressly provide for the retirement or redemption, and cancellation, of such bonds. Any Agency bonds so purchased may be purchased and resold, in each case on such terms as may be determined by the Executive Director and the other officers of the Agency in the best interests of the Agency. The Agency may establish any account or accounts as may be necessary or desirable in connection with the purchase of such bonds.

Section 17. **Ratification of Prior Actions; Not a Repeal of Prior Resolutions.** (a) All actions previously taken by the officers of the Agency in connection with the implementation of the Program, the issuance of the Bonds, the issuance of any prior bonds (the "Prior Bonds"), the execution and delivery of related financial agreements and related program agreements and the implementation of any credit facilities as described above are hereby approved and ratified.

(b) This resolution is not intended to repeal in whole or in part any prior resolution of the Agency with respect to the authority granted to the Executive Director and the other officers of the Agency in relation to Prior Bonds and related agreements, including but not limited to (i) the authority to determine in furtherance of the objectives of the Program those matters required to be determined in relation to Prior Bonds, whether under indentures or other related agreements, and (ii) the authority to amend, modify or replace financial agreements of the types described in Section 5 of this resolution.

Section 18. **Authorization of Related Actions and Agreements.** The Treasurer, the Executive Director and the officers of the Agency, or the duly authorized deputies thereof, are hereby authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all agreements and documents which they deem necessary or advisable in order to consummate the issuance, sale, delivery, remarketing, conversion and administration of Bonds and Prior Bonds and otherwise to effectuate the purposes of this resolution, including declaring the official intent of the Agency for purposes of U.S. Treasury Regulations Section 1.150-2, and including executing and delivering any amendment or supplement to any agreement or document relating to Bonds or Prior Bonds in any manner that would be authorized under this resolution if such agreement or document related to Bonds authorized by this resolution. Subject in all cases to the express limitations set forth above in this resolution, such agreements may include, but are not limited to, remarketing agreements, tender agreements or similar agreements regarding any put option for Bonds or Prior Bonds, broker-dealer agreements, market agent agreements, auction agent agreements or other agreements necessary or desirable in connection with the issuance of Bonds in, or the conversion of Bonds or Prior Bonds to, an auction rate mode or an indexed rate mode, agreements for the investment of moneys relating to the Bonds or Prior Bonds, reimbursement agreements, letter of credit agreements, intercreditor agreements or other arrangements relating to any credit enhancement or liquidity support or put option provided for the Bonds or the Prior Bonds, continuing disclosure agreements and agreements for necessary services provided in the course of the issuance of the bonds, including but not limited to, agreements with bond underwriters, remarketing agents, placement agents, private placement purchasers, bond trustees, bond counsel and financial advisors and contracts for consulting services or information services relating to the financial management of the Agency, including advisors or consultants on interest rate swaps, cash flow management, and similar matters, and contracts for financial printing and similar services. The Executive Director and the officers of the Agency, or the duly authorized deputies thereof, are hereby authorized and directed, jointly and severally, to provide as necessary for payment of costs of issuance related to Bonds and to provide for the Agency to contribute capital as necessary to facilitate the issuance of Bonds.

This resolution shall constitute full, separate, complete and additional authority for the execution and delivery of all agreements and instruments described in this resolution, without regard to any limitation in the Agency's regulations and without regard to any other resolution of the Board that does not expressly amend and limit this resolution.

Section 19. **Additional Delegation.** All actions by the Executive Director approved or authorized by this resolution may be taken by the Chief Deputy Director of the Agency, the Director of Financing of the Agency, the Financing Risk Manager of the Agency, the Director of Multifamily Programs of the Agency (but only with respect to Conduit Bonds issued in accordance with Section 10 hereof), or any other person specifically authorized in writing by the Executive Director, and except to the extent otherwise taken by another person shall be taken by the Chief Deputy Director during any period in which the office of the Executive Director is vacant.

SECRETARY'S CERTIFICATE

I, Thomas C. Hughes, Secretary of the Board of Directors of the California Housing Finance Agency, hereby certify that the foregoing is a full, true, and correct copy of Resolution No. 11-02 duly adopted at a regular meeting of the Board of Directors of the California Housing Finance Agency duly called and held on the 20th day of January, 2011, of which meeting all said directors had due notice; and that at said meeting said resolution was adopted by the following vote:

AYES:

NOES:

ABSTENTIONS:

ABSENT:

IN WITNESS WHEREOF, I have executed this certificate and affixed the seal of the Board of Directors of the California Housing Finance Agency hereto this 20th day of January, 2011.

[SEAL]

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

SECRETARY'S CERTIFICATE

I, Thomas C. Hughes, Secretary of the Board of Directors of the California Housing Finance Agency, hereby certify that the foregoing is a full, true, and correct copy of the Resolution No. 11-__ duly adopted at a regular meeting of the Board of Directors of the California Housing Finance Agency duly called and held on the 20th day of January, 2011, of which meeting all said directors had due notice; and that at said meeting said resolution was adopted by the following vote:

AYES:

NOES:

ABSTENTIONS:

ABSENT:

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

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

[SEAL]

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

www.KeepYourHomeCalifornia.org

# Keep Your Home California

## Foreclosure Prevention Programs

**CalHFA Board of Directors Meeting**

**March 2011**

CalHFA MAC
CALHFA MORTGAGE ASSISTANCE CORPORATION

# Keep Your Home California Program Objectives

- Develop programs that help prevent avoidable foreclosures for eligible low and moderate income homeowners
- Programs designed to address one or more aspects of the current foreclosure crisis:
  - Financial hardship when combined with negative equity impacts homeowner's ability to help themselves
    - Cannot refinance loan to obtain better terms
    - Unable to sell their home
  - Unemployment
  - Change in household circumstance such as death, illness or disability
  - Recent or upcoming increase in their monthly mortgage payment that will result in financial hardship
  - Help homeowners that need help to reinstate their delinquent loan
  - Help homeowners that can no longer afford their home

# Overview

- Four programs currently offered by Keep Your Home California
  - Unemployment Mortgage Assistance
  - Mortgage Reinstatement Assistance Program
  - Principal Reduction Program
  - Transition Assistance Program

# Estimated Program Assistance

| Program | Allocated Program Dollars | Projected # of Households Assisted |
|---|---|---|
| Unemployment | $875 million | 60,500 |
| Mortgage Reinstatement | $129 million | 9,200 |
| Principal Reduction | $790 million | 25,135 |
| Transition Assistance | $32 million | 6,470 |

# General Homeowner Eligibility Requirements

- Own and occupy home as primary residence
- Meet low and moderate income limits (120% AMI)
- Complete and sign a Hardship Affidavit – document reason for hardship
- Mortgage loan is delinquent or in imminent default
- Adequate income to sustain mortgage payments after reinstatement and/or modification, according to participating lender guidelines
- Up to $50,000 of assistance per household

# General Property Eligibility Requirements

- The property must be located in California
- Property must be owner occupied, principal residence
- Mortgage is the first lien loan
- Current unpaid principal balance of first mortgage cannot exceed GSE limit (currently $729,750)
- Property must not be abandoned, vacant, or condemned

# General Property *Exclusion* Criteria

- Homeowner owns property other than the primary residence being considered for assistance
- Additional exclusions applicable to PRP only – effective 4/4/11
  - Loan was originated after January 1, 2009
  - Homeowner has consummated a “cash out refinance,” including a cash out junior lien
    - Streamline refinance - OK
    - Junior liens obtained to purchase home - OK

# Unemployment Mortgage Assistance (UMA)

- Provide assistance to homeowners who have experienced involuntary job loss and are receiving California EDD unemployment benefits
- Provide temporary benefit assistance in the form of a mortgage payment subsidy for maximum of six months
- Monthly benefit up to $3,000 or 100% of the first lien mortgage loan PITIA, whichever is less
  - Maximum per household assistance is $18,000
  - Benefit assistance does not include servicer corporate advances or fees
- Servicer to provide homeowner with 3 months of additional forbearance, as allowed by investor guidelines; can precede or follow UMA assistance
- Designed to complement other foreclosure prevention programs including HAMP UP and proprietary forbearance plans

# MORTGAGE REINSTATEMENT ASSISTANCE PROGRAM (MRAP)

- Assist eligible homeowners with reinstatement by providing payment assistance for first lien mortgage loan
- Benefit assistance up to $15,000 per household - homeowner participation is limited to one-time payment
- Can be combined with loan modification that may or may not include Principal Reduction Program
- Can follow UMA if homeowner hardship is not cured during unemployment benefit assistance period

# PRINCIPAL REDUCTION PROGRAM (PRP)

- Help homeowner attain affordable monthly payment with goal of 31% front-end ratio
- Benefit assistance up to $50,000 per household, less monies previously received from other KYHC Programs
- Designed to work in conjunction with standard HAMP and proprietary loan modification programs, including HAMP PRA
- One-to-one financial match from participating investors provides homeowners with a maximum first lien principal reduction up to $100,000.
- Homeowner earns principal forgiveness over time; must occupy home and maintain payment in good standing

# THE TRANSITION ASSISTANCE PROGRAM (TAP)

- Provide transition assistance benefits to homeowners who can no longer afford their home and want to avoid foreclosure; help homeowners make a smooth transition to alternative housing
- Benefit assistance up to $5000 per household; when combined with HAFA assistance is limited to $2000 per household
- Benefit assistance provided in conjunction with investor approved short sale and deed-in-lieu transactions
- Servicers to follow HAFA guidelines for allowable costs

# Servicer Participation

- Program registration includes Standardized Agreement *(homeowners are ineligible to receive KYHC benefit assistance unless their servicer has signed a Servicer Agreement )*
- Agreement and exhibits provide program details including:
  - Operational Program term sheets
  - Common Data File format and process
  - Funding agreement
  - Point of contact information
  - Compliance, data and reporting requirements
- Servicers to dedicate knowledgeable staff to the HHF/KHYC program – unique phone and email
- Servicers may chose not to participate in any or all programs

# List of Servicers currently participating

- All four KYHC Programs
  - CalHFA
  - CA Department of Veterans Affairs
  - GMAC
  - Guild Mortgage
- UMA/MRAP only
  - Chase Home Finance LLC
  - JP Morgan Chase Bank, NA
  - EMC Corporation
  - Wells Fargo
  - CitiMorgage
- UMA only
  - BAC (advanced discussions to add MRAP and PRP)

# List of Servicers in process of on-boarding

- Navy Federal Credit Union
- Midland Mortgage
- PNC
- IBM LBPS
- Flagstar
- Sun Trust
- Outreach to more than 50 additional servicers

# KYHC Centralized Processing Center

Designed to perform the following functions:

Call Center

- Homeowner intake, processing and eligibility analysis
- Foreclosure Prevention Counseling

Processing

- Eligibility determination includes Servicer interaction
  - Bi-directional CPC/Servicer Common Data File transfer process
  - KYHC Funding made directly to Servicers

Compliance, data collection and reporting

# KYHC Program Counseling

- The Centralized Processing Center is staffed with Program counselors that provide foreclosure prevention assistance to eligible homeowners and help determine which, if any, of the KYHC Program may be of assistance
- Statewide network of 37 external HUD-certified counseling agents specifically trained on the KYHC Programs. These external counselors will help the CPC provide outreach and support to eligible homeowners
- KYHC external counselors route eligible homeowner files directly to the CPC through a secure counselor portal for final processing

# Overview of Recent Developments

- Full program implementation 3/7/11
- Servicer outreach/onboarding continues – currently working with 53 additional servicers
- CalHFA, CalVET, GMAC, Guild on board for all 4 programs
- Innovation Fund
  - Three finalists under consideration
  - Working to satisfy Treasury requirements before finalizing

# Production
# Homeowner Action Plans by Program

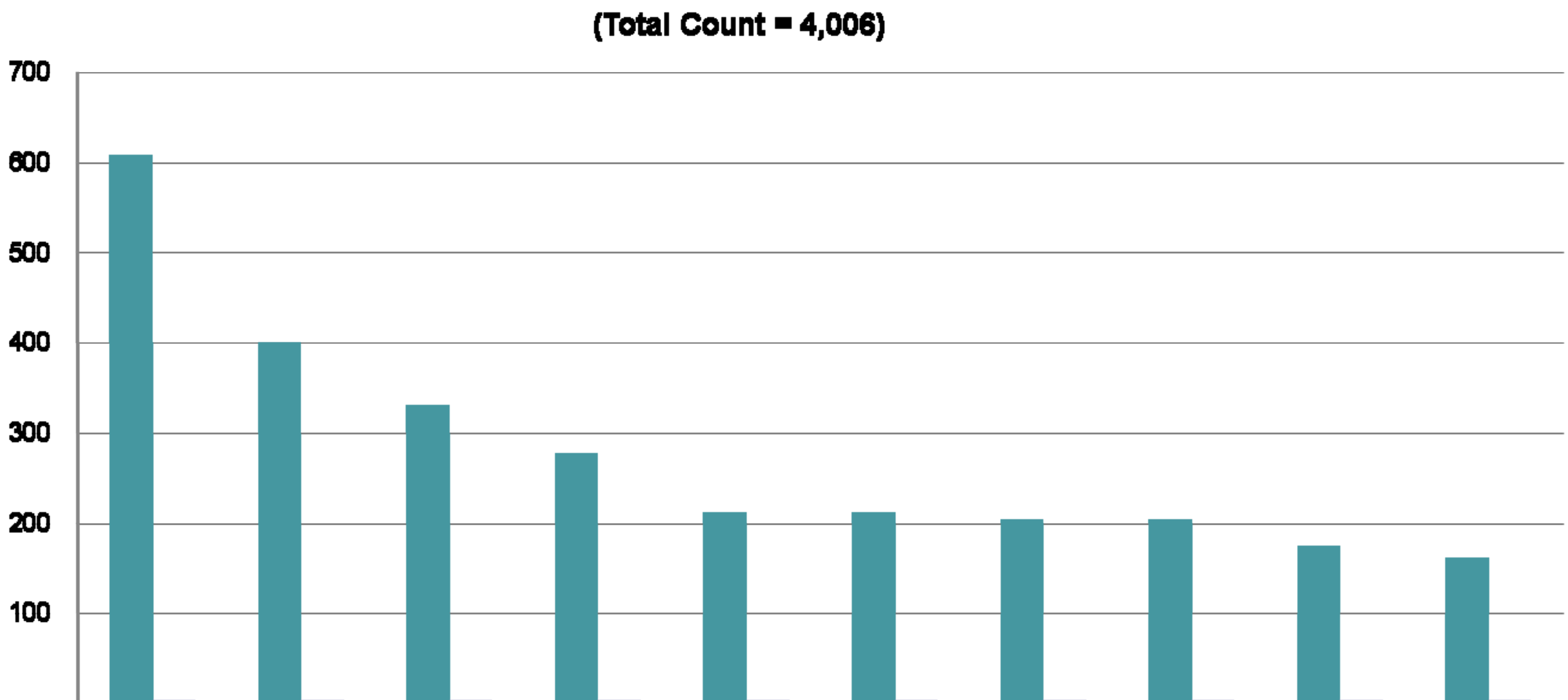
| Total HAP transactions (Sept 21-Mar 08) | # | % | Reserve $ | Fund $ |
|---|---|---|---|---|
| UMA | 801 | 48.90% | $ 14,418,000 | $276,489 |
| MRAP | 358 | 21.86% | $ 5,370,000 | $232,520 |
| PRP | 465 | 28.39 % | $23,250,000 | $ 190,954 |
| TAP | 14 | 0.85 % | $ 70,000 | $ 10,000 |
| Total | 1,638 | 100.00% | $43,108,000 | $709,963 |

(1) Figures may be slightly overstated due to duplicate records.
(2) Fund $ associated with 95 transactions

# Production
# Ineligible Statistics by Program

| | | |
|---|---|---|
| Total Ineligible transactions (Sept 21-Mar 08) | | |
| | # | % |
| UMA | 304 | 45.31% |
| MRAP | 164 | 24.44% |
| PRP | 196 | 29.21 % |
| TAP | 7 | 1.04 % |
| Total | 671 | 100.00% |
| | | |
| (1) Excludes ineligible reasons from counseling | | |
| (2) Figures slightly overstated due to duplicate records | | |

# Top 10 Counties




| | Los Angeles | Sacramento | San Diego | Riverside | San Bernardino | Contra Costa | Alameda | Santa Clara | Orange | San Joaquin |
|---|---|---|---|---|---|---|---|---|---|---|
| Count | 607 | 399 | 330 | 277 | 211 | 210 | 202 | 202 | 173 | 161 |
| % of Total | 19.5% | 12.8% | 10.6% | 8.9% | 6.8% | 6.7% | 6.5% | 6.5% | 5.6% | 5.2% |

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# Moving Forward

- Feb 7, 2011 - full Program roll out
- 5 major servicers on board, participating in UMA/MRAP
- Servicer outreach/onboarding continues – currently working with 53 additional servicers
- CalHFA, CalVET, GMAC, Guild on board for all 4 programs
- Innovation Fund
  - Three finalists under consideration
  - Working to satisfy Treasury requirements before finalizing

For more information,

please visit

www.KeepYourHomeCalifornia.org

1-888-954-KEEP (5337)

or contact

Di Richardson - drichardson@calhfa.ca.gov (916)326.8082

**State of California**

# M E M O R A N D U M

**To** Board of Directors **Date:** March 10, 2011

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

**Subject:** Item 9 – Discussion Regarding Audit Recommendations

On February 24, 2011, the Bureau of State Audits (BSA) released their final report resulting from their audit of the fiscal condition of CalHFA. The audit contained three recommendations:

- "To ensure that CalHFA's business plans and strategies are thoroughly vetted by an experienced and knowledgeable board, the Legislature should consider amending the statute that specifies the composition of CalHFA's board to include appointees with specific knowledge of housing finance agencies, single-family mortgage lending, bonds and related financial instruments, interest-rate swaps, and risk management."

- "To provide better oversight of CalHFA, its board should issue a policy stating that it must approve any new debt-issuance strategy or mortgage product prior to its implementation, either directly or by inclusion in CalHFA's annual business plan. The board should, where appropriate, prescribe limits on how much of the debt portfolio can be fixed- or variable rate bonds, and what proportion of the loans it purchases can consist of mortgage products it identifies as riskier than other mortgage products."

- "Within its annual resolutions delegating authority to CalHFA staff, the CalHFA board should include language restricting staff's actions regarding debt strategies and mortgage products to those specified in the annual delegations themselves, the approved business plans, or subsequent board resolutions."

The Board has indicated a desire to discuss all three recommendations. With regard to the first recommendation, I have attached material regarding the makeup of the board of directors of several state housing finance agencies from around the country. With regard to the second and third recommendations, I have not provided draft language for a policy. Rather, given the recommendations of the BSA, I feel it would be more prudent for the board members to either draft specific language or provide the staff with specific guidance related to a general policy statement.

By law, the BSA is required to follow up with the audited entity (i.e., CalHFA) periodically to determine whether the entity is implementing the recommendations. The first such time for follow up is 60 days after release of the audit.

Please let me know if you have questions.

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# Board Composition from Other States

CalHFA Board of Directors Meeting

March 16, 2011

# How information was obtained

- Utilized NCSHA List-serve to solicit information from every state
- 11 States have responded to that request to date
- Additional information obtained from Hawkins Delafield & Wood LLP

# State HFA's included in presentation

- Pennsylvania
- South Carolina
- Florida
- Kansas
- Mississippi
- Rhode Island
- New Hampshire
- Nebraska
- Connecticut
- Tennessee
- Arkansas
- Texas
- Washington
- Michigan
- Illinois
- New York State HFA
- State of New York Mortgage Agency

# Size of Boards

- One Board has Five Members
- Five Boards have Seven Members
- One Board has Eight members
- Six Boards have Nine Members
- One Board has Eleven members
- One Board has Fourteen Members
- One Boards has Fifteen Members
- One Board has Nineteen Members

# State Officials Represented on Boards

- Governor (or his or her designee)
- Secretary of State
- Comptroller
- Secretary (or Commissioner) of Banking
- Secretary of Public Welfare
- Secretary (or Director) of Community and Economic Development
- State Commissioner of Health and Environmental Control
- Secretary of Community Affairs
- Director of Administration
- General (or State) Treasurer
- Comptroller of the Treasury
- Director Department of Agriculture
- Secretary of Policy and Management
- Commissioner of Revenue
- Commissioner of Health and Public Services

# Categories of Specific Expertise

- Representatives of “low income community”
- Mortgage Finance
- Banking (or more specifically Mortgage Banking or Investment Banking)
- Real Estate
- Home Building (or Housing Development or Housing Design or Construction of Single Family)
- Commercial Building
- Former Local Government Elected Official (or local government representative)
- Finance
- Management
- State and Municipal Finance
- Selling or Renting Real Estate
- Industrial Mortgage Credit
- Commercial Credit

# Categories of Specific Expertise – cont’d

- Agricultural Credit
- Agriculture Production
- Savings and Loan Association Profession
- Retail Building Material Supply
- Manufactured Housing
- Executive Director of a Local Public Housing Authority
- Qualifying not-for-profit corporation
- Persons “with knowledge about problems of inadequate housing conditions in state”
- Regional Housing Authority
- Residential energy efficient home-building or weatherization
- Senior Low-income housing
- Resident of federally-assisted public housing or recipient of Section 8 tenant-based assistance

# Pennsylvania

- 14 Members
- Secretary of Banking (Chair) – ex officio
- Secretary of Public Welfare – ex officio
- Secretary of Community and Economic Development – ex officio
- State Treasurer
- 6 Governor’s appointees representing the “low income community”
- 4 Legislative appointees (majority/minority leaders of both Houses)

# South Carolina

- 7 members
- Governor or his/her designee (ex officio)
- State Commissioner of Health and Environmental Control or his/her designee (ex officio)
- Remaining members appointed by Governor – must have experience in fields of:
  - Mortgage finance
  - Banking
  - Real Estate
  - Home Building

# Florida

- 9 members
- Secretary of Community Affairs (ex officio/voting)
- One citizen actively engaged in residential home building
- One citizen actively engaged in banking or mortgage banking
- One citizen with experience in housing development who is an advocate for low-income persons
- One citizen actively engaged in commercial building
- One who is a representative of those areas of labor engaged in home building
- One citizen that is a former local government elected official
- Two citizens who are not principally employed as members or representatives of any of the above groups

# Texas

- 7 Members appointed by the Governor
- Demonstrated interest in issues related to housing and community support services
- Registered voters
- Do not hold another public office
- Appointments must be made in a manner that produces representation of the geographic, econcomic, cultural and social diversity of the state, including ethnic minorities, persons with disabilities and women.

# Washington State

- 11 members
- State Treasurer
- Director of Commerce
- An elected local government official with experience in local housing programs
- A representative of housing consumer interests
- A representative of labor interests
- A representative of low-income persons
- 5 members of the public, appointed on the basis of geographic distribution and their expertise in housing, real estate, finance, energy efficienty or construction

# Kansas

- 5 Members
- All appointed by Governor
- No specific areas of expertise required
- Cannot be more than three members from the same political party

# Mississippi

- 9 Members
- No specific areas of expertise
- Six Governor appointees – two from each Supreme Court District
- Three Lt. Governor appointees – one from each Supreme Court District

# Rhode Island

- 7 Members
- Director of Adminstration (or designee)
- General Treasurer (or designee)
- Director of Business Regulations, or designee
- Four members appointed by Governor and approved by Senate with experience in:
    - Housing Design
    - Finance
    - Management
    - State and Municipal Finance

# New Hampshire

- 9 Members
- One Member with experience in construction of Single Family
- One member with experience in business of selling or renting real estate
- One person with experience in residential mortgage banking
- At least two members representing the general public in none of the above fields
- No more than 5 members from the same political party
- Members cannot serve on any other board, commission or state agency during term

# Nebraska

- 9 Members
- Director of Department of Economic Development
- Chair of Nebraska Investment Council
- Director of Department of Agriculture
- Six public members appointed by Governor (two from each Congressional District) from following categories:
  - Real Estate Industry
  - Industrial mortgage credit, commercial credit, agricultural credit or housing mortgage credit
  - Banking or investment banking
  - Home building or licenses real estate broker
  - Agricultural production
  - Public at large

# Connecticut

- 15 Members
- Four ex-officio
  - Secretary of Policy and Management
  - Commissioner of Banking
  - Commissioner of Department of Economic and Community Development
  - State Treasury
- Seven members appointed by Governor (no areas of expertise specified)
- Four members appointed by Assembly (no areas of expertise specified)

# Tennessee

- 19 Members
- State Treasurer or designee
- Comptroller of Treasury or designee
- Commissioner of Finance and Administration or designee
- Secretary of State
- One staff-assistant designee of Governor
- One licensed real estate broker
- One person engaged in Savings and Loan Association profession
- One person engaged in mortgage banking
- One person engaged in retail building material supply
- One person engaged in manufactured housing profession
- One person engaged in homebuilding industry
- One Executive Director of local public housing authority
- One person representing local government
- One person from qualifying not-for-profit corporation
- 3 people from public at large with knowledge about problems of inadequate housing conditions in state

# Tennessee cont'd

- Other considerations:
  - Geographic distribution
  - Strive to have one person over 60 and at least one racial minority
  - One appointed by each Senate and House

# Alaska

- 7 Members
- Commissioner of Revenue
- Commissioner of Commerce, Communituy and Economic Development
- Commissioner of Health and Social Services
- Four public members (must have recognized competence and wide experience in housing, finance, or other business management related fields)
  - One with expertise or experience in finances or real estate
  - One who is a rural resident of the state who has expertixe with a regional housing authority
  - One who has expertise or experience in residential energy efficient home-building or weatherization
  - One who has expertise or experience in provision of senior or low-income housing

# Illinois

- 9 members appointed by the Governor (with advice and consent of Senate)
- One must be age 60 or older
- Not more than three can be from any one county in the state
- Note more than 5 may be of any one political party

# Michigan

- 8 members
- Three heads of principal executive branch departments selected by the Governor
- Four members appointed by the governor with the advice and consent of the Senate, of which not more than two can be of the same political party
- One member appointed by the Governor with the advice and consent of the Senate, who must reside in federally-assisted public housing or receive Section 8 tenant-based assistance

## New York State Housing Finance Agency

- 7 members
- Commissioner of Housing and Community Renewal
- Director of the Budget
- Commissioner of Taxation and Finance
- Four members appointed by the Governor with the advice and consent of the Senate

# State of New York Mortgage Agency

- 9 members
- Comptroller
- Director of the Budget
- Commissioner of Housing and Community Renewal
- One director appointed by the Temporary President of the Senate
- One director appointed by the Speaker of the Assembly
- Four directors to be appointed by the Governor with the advice and consent of the Senate

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**State of California**

# M E M O R A N D U M

**To** Board of Directors **Date:** March 10, 2011

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

**Subject:** Item 10 – Proposed Update to the CalHFA Business Plan

Traditionally, the March Board meeting is the time when Staff presents to the Board a proposed updated business plan for the Agency. The Board discusses the proposal with Staff and provides comments and suggestions. Using these suggestions and comments, Staff finalizes the proposal and presents a completed business plan at the May Board meeting. In addition, based on the finalized business plan, Staff prepares and presents an Operating Budget for the next fiscal year at the May Board meeting.

In past years, a five year business plan has been adopted. However, for two years now, with disruption and uncertainties in the bond, credit and real estate markets, the challenges presented by the Agency's own financial condition and the pending Federal HFA initiative, the Staff presented and the Board adopted a two year business plan. Given the continued uncertainties and challenges, Senior staff will present and recommend an update of the two year business plan at the March 16 Board meeting.

The slide presentation that follows this memo will provide the basis for a discussion of the two-year business plan. One of the basic assumptions in the business plan adopted at last year's May Board Meeting was an expectation that we would see some improvement in the credit markets, the real estate markets and the economy. Those improvements have not materialized as hoped and you will see in the current proposal the same priorities and emphasis as was present in the May 2010 business plan.

Please let me know if you have questions.

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# Proposed Update to Business Plan

Presentation to CalHFA Board of Directors

March 16, 2011

# Assumptions

- Economy
  - Flat through 2012, then very modest recovery
- Unemployment
  - Lagging economic recovery
  - Improving slightly but not until 4Q 2011 or 1Q 2012
- Interest rates
  - General level "drifting upwards" through 2011
  - Mortgage rates generally increasing
- Home Sales
  - Demand increasing 3Q and 4Q 2011 and into 2012
- Home Prices
  - Another 5-10% decline
  - Very modest increases by 4Q 2011

# Assumptions – Cont’d

- Agency Fund Balances
  - Adequate to fund capital reserve requirements
  - Sufficient to meet expected real estate losses, credit adjustments and general obligations of the Agency
- Capital structure
  - Dependant on Credit ratings
  - Management of Counterparty risk – Swap Providers and Genworth
- Agency liquidity
  - Tied to continued credit ratings stability
    - G-O at or above A3/A-
    - HMRB at or above Baa3/BBB-
  - Sufficient to fund Agency operations and other financial obligations
  - MI Fund becomes insolvent in 3rd quarter 2011
  - Reserve account to pay gap claims exhausted by September / October 2011

# Assumptions – Cont'd

- No HAT funds available for DPA, Special Lending or Multifamily or Asset Management programs
  - State GO Bond funds available for DPA
- Tax-exempt municipal bond market
  - Suffering from Supply / Demand Dynamic
    - Majority of municipal investor demand is in shorter maturities
    - Preponderance of municipal issuer supply is for longer term bonds
  - Cost of capital may not allow competitive loan rates

# Lending and Portfolio Assumptions

- Homeownership Lending
  - MBS business model for bond funded programs
  - New lending has been subsidized with available excess yield that will be exhausted in April 2011
  - New Issue Bond Program
    - U.S. Treasury purchase of Agency bonds ends 12/31/11
    - Lending rate achieved with NIBP may not be competitive
    - Changes to NIBP being discussed with Treasury
  - G.O. Bond funds for Downpayment Assistance
  - Consider developing business models that don’t rely on bonds
- Multifamily Lending
  - New Issue Bond Program
    - Plan to use remaining NIBP allocation in 2011
  - Conduit financing being considered
  - Very limited capital to support uninsured lending

# Lending and Portfolio Assumptions

- Loss Mitigation and Claims Management
  - Keep Your Home California -- $2 billion
    - All CalHFA borrowers are eligible, many have qualifying hardship
  - Loan servicing
    - Established in new operations call center
    - Acquire some loans from underperforming servicers
    - Foreclosure prevention through loan modifications
  - Aggressive REO management
  - Working with Genworth on effective claims management
    - Monitor Genworth financial strength and manage relationship

# Business Plan Priorities

# Overview of Long Range Plans

| 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|

**Survive** (2010–2012)
- Maintain credit ratings
  - Manage and improve liquidity
  - Improve capital structure
- Mitigate loan losses
- Renewed lending at modest levels
- Renew and strengthen old partnerships

**Revive** (2012–2014)
- Lending in moderate volume
- Return to profitability
- New business opportunities
- Improved business systems and management information

**Thrive** (2014–2016)
- Lending in substantial volume
- Improving profitability structure
- Recharging reserves
- Funding Agency programs

# Five Major Priorities for the Business Plan Period

- Maintaining Credit Ratings
  - Have already taken some steps
- Loss Mitigation
  - Multifaceted: loan modifications, short sales, foreclosures, REO management
- Renew Lending Activities
  - Single family and Multifamily lending using the NIBP
- Renew and Strengthen Old Partnerships
  - Local governments and non-profits
  - Genworth Mortgage Insurance
- Explore New Business Models
  - Probably needed for reviving and thriving
  - May need new business partners and/or new roles

# Divisional Business Activity Plans
# Homeownership

# New Business Models
# Non- Bond Capital Market Opportunities

- Sell Whole loans and MBS in the Secondary market
  - Alternative when municipal bond market does not provide interest rate advantage
- Develop FHA loan product with CalHFA-exclusive DPA
  - Use above-market FHA rate to finance down payment assistance
  - Layer with CHDAP for closing costs, AHPP for additional assistance
  - Buyer still needs 1% or $1,000
- Provide Mortgage Credit Certificates
  - Funded with unused bond volume cap
  - Federal tax credit equal to a percentage of mortgage interest paid
  - Maximum credit of $2,000

# Divisional Business Activity Plans
# Multifamily

# Multifamily

- **Continue lending on MSHA program:**
  - Close 40 + deals. Another 50 + in pipeline
  - $180 million left for new funding
- **Continue New Issuance Bond Program (NIBP):**
  - Close remaining $27.5 million (includes $11 million private placement)
  - Restructure $92.4 million of auction rate securities with new GSE credit enhancement
  - If Restructure does not happen the $92.4 million will be used for new projects
- **Become a Conduit Issuer:**
  - Conduit Issuer Only– Loans would be Credit Enhanced by GSEs, insured by FHA or financed with another lender
  - CalHFA acts only as conduit issuer and receives up-front and ongoing fees
  - Simplify administration and coordination with State Treasurer as Agent for Sale

# Multifamily, continued

- **Freddie Mac Seller Servicer Agreement:**
  - Continue to discuss a potential agreement with Freddie Mac to obtain a seller servicer agreement.
  - This would allow CalHFA to obtain Freddie Mac's Triple A credit enhancement and have no risk in a transaction to CalHFA
- **FHA Risk Share Agreement:**
  - Re-start CalHFA risk share agreement with HUD. This will allow CalHFA to provide permanent loans with shared risk to FHA
  - This can only be achieved if the Agency determines that it has sufficient capital to off set the rating agencies capital requirements
- **Fannie Mae Third Party Correspondent with an Already Approved DUS Lender:**
  - Partner with an already approved Delegated Underwriter Servicer (DUS) on permanent loans to utilize its triple A credit enhancement
- **Refinance Existing Variable Rate bonds with GSE Credit Enhancement:**
  - Potential to re-underwrite a portion of the uninsured multifamily portfolio currently enhanced with CalHFA's GO
  - CalHFA GO support would be replaced with GSE triple A credit enhancement

# Divisional Business Activity Plans
# Asset Management

# Asset Management Business Activity

- Over 500 multi-family loans
  - Over $6B in asset value
  - Over $2B in portfolio loan balances
  - $2.5M per year Earned Surplus fees collected
  - $1.3M per year Administration Fee - Section 8
  - Only 6 foreclosures – none since 1995
- Administer
  - $67M/year Section 8 Housing Assistant Payment Subsidy
  - $6.3M MHSA Capital Operating Subsidy
  - $1.8M RHCP Annuity Lending

# Divisional Business Activity Plans
# Strategic Projects

# Strategic Initiatives

- **New Homeownership Loan Origination System**
  - **Scheduled to launch in 2nd Quarter 2011**
- **Enterprise Content Management**

**State of California**

# M E M O R A N D U M

**To:** Board of Directors **Date:** March 3, 2011

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 December 31, 2010 by insurance type,
- Delinquencies as of December 31, 2010 by product (loan) type,
- Delinquencies as of December 31, 2010 by loan servicer,
- Delinquencies as of December 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 January 2009 thru December 2010)
- A chart of the number of CalHFA's Conventional Delinquent Loan Trend for 30-90 Day and 120 Day (for the period of January 2009 thru December 2010)
- A graph of CalHFA's 90-day+ ratios for FHA and Conventional loans (for the period of December 2005 through December 2010),
- A graph of 90-day+ ratios for CalHFA's three Conventional loan (products) types, for the period of December 2008 through December 2010,
- Real Estate Owned (REO) at January 31, 2011,
- Uninsured Losses on Indenture, GAP and Subordinate loans for Calendar Years 2008-2010,
- Gains/(Losses) on the Disposition of 1st Trust Deeds, for January 1 through January 31, 2011, and
- Write-Offs of subordinate loans for January 1 through January 31, 2011

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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 December 31, 2010

| | | | | DELINQUENCY RATIOS - % of Loan Count | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Loan Count | Balance | % of Balance | Loan Count | 30-Day | Loan Count | 60-Day | Loan Count | 90(+) Day | Totals Count | Totals % |
| **Federal Guaranty** | | | | | | | | | | | |
| FHA ** | 10,723 | $ 1,409,699,657 | 29.14% | 658 | 6.14% | 248 | 2.31% | 1141 | 10.64% | 2,047 | 19.09% |
| VA | 347 | 51,119,909 | 1.06% | 11 | 3.17% | 7 | 2.02% | 38 | 10.95% | 56 | 16.14% |
| RHS | 93 | 17,844,114 | 0.37% | 2 | 2.15% | 2 | 2.15% | 16 | 17.20% | 20 | 21.51% |
| **Conventional loans** | | | | | | | | | | | |
| **with MI** | | | | | | | | | | | |
| CalHFA MI Fund | 7,520 | 2,024,220,163 | 41.84% | 341 | 4.53% | 165 | 2.19% | 1067 | 14.19% | 1,573 | 20.92% |
| **without MI** | | | | | | | | | | | |
| Orig with no MI | 5,535 | 1,126,953,457 | 23.30% | 143 | 2.58% | 69 | 1.25% | 280 | 5.06% | 492 | 8.89% |
| MI Cancelled* | 1,455 | 207,687,504 | 4.29% | 33 | 2.27% | 15 | 1.03% | 48 | 3.30% | 96 | 6.60% |
| **Total CalHFA** | 25,673 | $ 4,837,524,805 | 100.00% | 1,188 | 4.63% | 506 | 1.97% | 2,590 | 10.09% | 4,284 | 16.69% |

*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 December 31, 2010

| | | | | DELINQUENCY RATIOS - % of Loan Count | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Loan Count | Balance | % of Balance | Loan Count | 30-Day | Loan Count | 60-Day | Loan Count | 90(+) Day | Totals Count | Totals % |
| **30-yr level amort** | | | | | | | | | | | |
| FHA | 10,723 | $ 1,409,699,657 | 29.14% | 658 | 6.14% | 248 | 2.31% | 1,141 | 10.64% | 2,047 | 19.09% |
| VA | 347 | 51,119,909 | 1.06% | 11 | 3.17% | 7 | 2.02% | 38 | 10.95% | 56 | 16.14% |
| RHS | 93 | 17,844,114 | 0.37% | 2 | 2.15% | 2 | 2.15% | 16 | 17.20% | 20 | 21.51% |
| Conventional - with MI | 3,831 | 926,447,698 | 19.15% | 143 | 3.73% | 61 | 1.59% | 407 | 10.62% | 611 | 15.95% |
| Conventional - w/o MI | 6,117 | 1,125,109,839 | 23.26% | 140 | 2.29% | 67 | 1.10% | 261 | 4.27% | 468 | 7.65% |
| **40-yr level amort** | | | | | | | | | | | |
| Conventional - with MI | 592 | 171,955,498 | 3.55% | 35 | 5.91% | 19 | 3.21% | 116 | 19.59% | 170 | 28.72% |
| Conventional - w/o MI | 218 | 43,796,931 | 0.91% | 5 | 2.29% | 4 | 1.83% | 10 | 4.59% | 19 | 8.72% |
| **5-yr IOP, 30-yr amort** | | | | | | | | | | | |
| Conventional - with MI | 3,097 | 925,816,966 | 19.14% | 163 | 5.26% | 85 | 2.74% | 544 | 17.57% | 792 | 25.57% |
| Conventional - w/o MI | 655 | 165,734,191 | 3.43% | 31 | 4.73% | 13 | 1.98% | 57 | 8.70% | 101 | 15.42% |
| **Total CalHFA** | 25,673 | $ 4,837,524,805 | 100.00% | 1,188 | 4.63% | 506 | 1.97% | 2,590 | 10.09% | 4,284 | 16.69% |
| | *Weighted average of conventional loans:* | | | 517 | 3.56% | 249 | 1.72% | 1,395 | 9.61% | 2,161 | 14.89% |

California Housing Finance Agency

CalHFA

## Reconciled Loan Delinquency Summary
## All Active Loans By Loan Servicer
## As of December 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 | 9,625 | $ 2,222,347,028 | 45.94% | 362 | 3.76% | 127 | 1.32% | 712 | 7.40% | 1,201 | 12.48% |
| GUILD MORTGAGE | 6,018 | 1,086,408,938 | 22.46% | 347 | 5.77% | 135 | 2.24% | 607 | 10.09% | 1,089 | 18.10% |
| BAC HOME LOANS SERVICING, LP* | 2,635 | 526,886,209 | 10.89% | 145 | 5.50% | 97 | 3.68% | 663 | 25.16% | 905 | 34.35% |
| WELLS FARGO HOME MORTGAGE | 2,534 | 305,918,948 | 6.32% | 85 | 3.35% | 37 | 1.46% | 181 | 7.14% | 303 | 11.96% |
| EVERHOME MORTGAGE COMPANY | 2,191 | 216,633,844 | 4.48% | 136 | 6.21% | 38 | 1.73% | 74 | 3.38% | 248 | 11.32% |
| FIRST MORTGAGE CORP | 1,068 | 219,771,949 | 4.54% | 36 | 3.37% | 37 | 3.46% | 183 | 17.13% | 256 | 23.97% |
| GMAC MORTGAGE CORP | 970 | 135,842,920 | 2.81% | 53 | 5.46% | 24 | 2.47% | 79 | 8.14% | 156 | 16.08% |
| BANK OF AMERICA, NA | 294 | 50,459,462 | 1.04% | 11 | 3.74% | 7 | 2.38% | 38 | 12.93% | 56 | 19.05% |
| WASHINGTON MUTUAL BANK | 224 | 55,435,943 | 1.15% | 6 | 2.68% | 2 | 0.89% | 41 | 18.30% | 49 | 21.88% |
| CITIMORTGAGE, INC. | 60 | 13,962,232 | 0.29% | 4 | 6.67% | 2 | 3.33% | 11 | 18.33% | 17 | 28.33% |
| DOVENMUEHLE MORTGAGE, INC. | 47 | 1,639,416 | 0.03% | 2 | 4.26% | 0 | 0.00% | 0 | 0.00% | 2 | 4.26% |
| WESCOM CREDIT UNION | 6 | 1,905,329 | 0.04% | 1 | 16.67% | 0 | 0.00% | 1 | 16.67% | 2 | 33.33% |
| PROVIDENT CREDIT UNION | 1 | 312,588 | 0.01% | 0 | 0.00% | 0 | 0.00% | 0 | 0.00% | 0 | 0.00% |
| Total CalHFA | 25,673 | $ 4,837,524,805 | 100.00% | 1,188 | 4.63% | 506 | 1.97% | 2,590 | 10.09% | 4,284 | 16.69% |

*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.

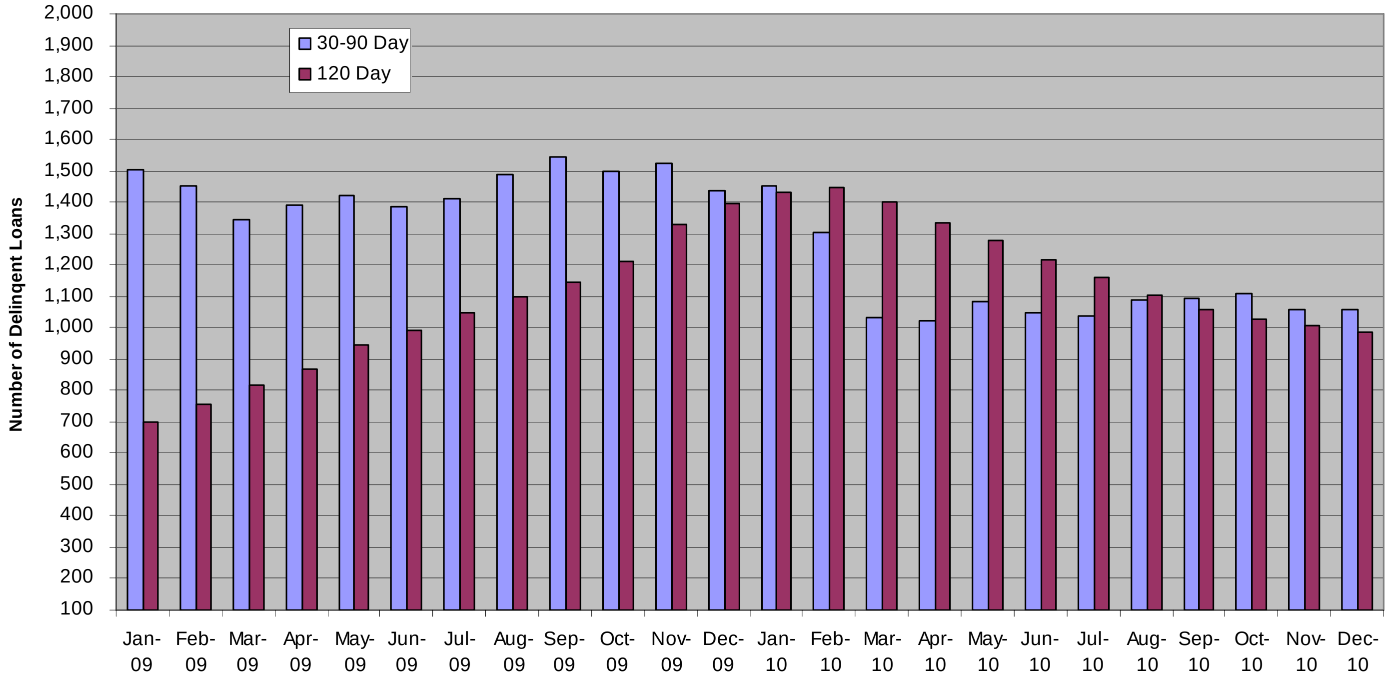
## Reconciled Loan Delinquency Summary
## All Active Loans By County
## As of December 31, 2010

| | 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 | 4,118 | $ 874,637,553 | 18.08% | 171 | 4.15% | 93 | 2.26% | 372 | 9.03% | 636 | 15.44% |
| SAN DIEGO | 2,539 | 561,363,044 | 11.60% | 102 | 4.02% | 47 | 1.85% | 313 | 12.33% | 462 | 18.20% |
| SANTA CLARA | 1,769 | 485,958,047 | 10.05% | 44 | 2.49% | 20 | 1.13% | 102 | 5.77% | 166 | 9.38% |
| KERN | 1,522 | 171,156,891 | 3.54% | 97 | 6.37% | 42 | 2.76% | 162 | 10.64% | 301 | 19.78% |
| SACRAMENTO | 1,360 | 255,668,225 | 5.29% | 74 | 5.44% | 28 | 2.06% | 175 | 12.87% | 277 | 20.37% |
| SAN BERNARDINO | 1,325 | 231,717,674 | 4.79% | 83 | 6.26% | 38 | 2.87% | 240 | 18.11% | 361 | 27.25% |
| ORANGE | 1,292 | 300,528,040 | 6.21% | 45 | 3.48% | 10 | 0.77% | 109 | 8.44% | 164 | 12.69% |
| RIVERSIDE | 1,290 | 222,424,799 | 4.60% | 82 | 6.36% | 33 | 2.56% | 264 | 20.47% | 379 | 29.38% |
| TULARE | 1,196 | 117,673,628 | 2.43% | 89 | 7.44% | 27 | 2.26% | 118 | 9.87% | 234 | 19.57% |
| FRESNO | 1,196 | 114,973,658 | 2.38% | 71 | 5.94% | 25 | 2.09% | 73 | 6.10% | 169 | 14.13% |
| ALAMEDA | 1,110 | 273,495,554 | 5.65% | 28 | 2.52% | 14 | 1.26% | 67 | 6.04% | 109 | 9.82% |
| CONTRA COSTA | 915 | 209,568,272 | 4.33% | 28 | 3.06% | 19 | 2.08% | 105 | 11.48% | 152 | 16.61% |
| VENTURA | 641 | 174,351,751 | 3.60% | 20 | 3.12% | 5 | 0.78% | 52 | 8.11% | 77 | 12.01% |
| IMPERIAL | 544 | 56,538,494 | 1.17% | 38 | 6.99% | 14 | 2.57% | 42 | 7.72% | 94 | 17.28% |
| SONOMA | 491 | 103,426,380 | 2.14% | 13 | 2.65% | 6 | 1.22% | 44 | 8.96% | 63 | 12.83% |
| OTHER COUNTIES | 4,365 | 684,042,796 | 14.14% | 203 | 4.65% | 85 | 1.95% | 352 | 8.06% | 640 | 14.66% |
| Total CalHFA | 25,673 | $ 4,837,524,805 | 100.00% | 1,188 | 4.63% | 506 | 1.97% | 2,590 | 10.09% | 4,284 | 16.69% |

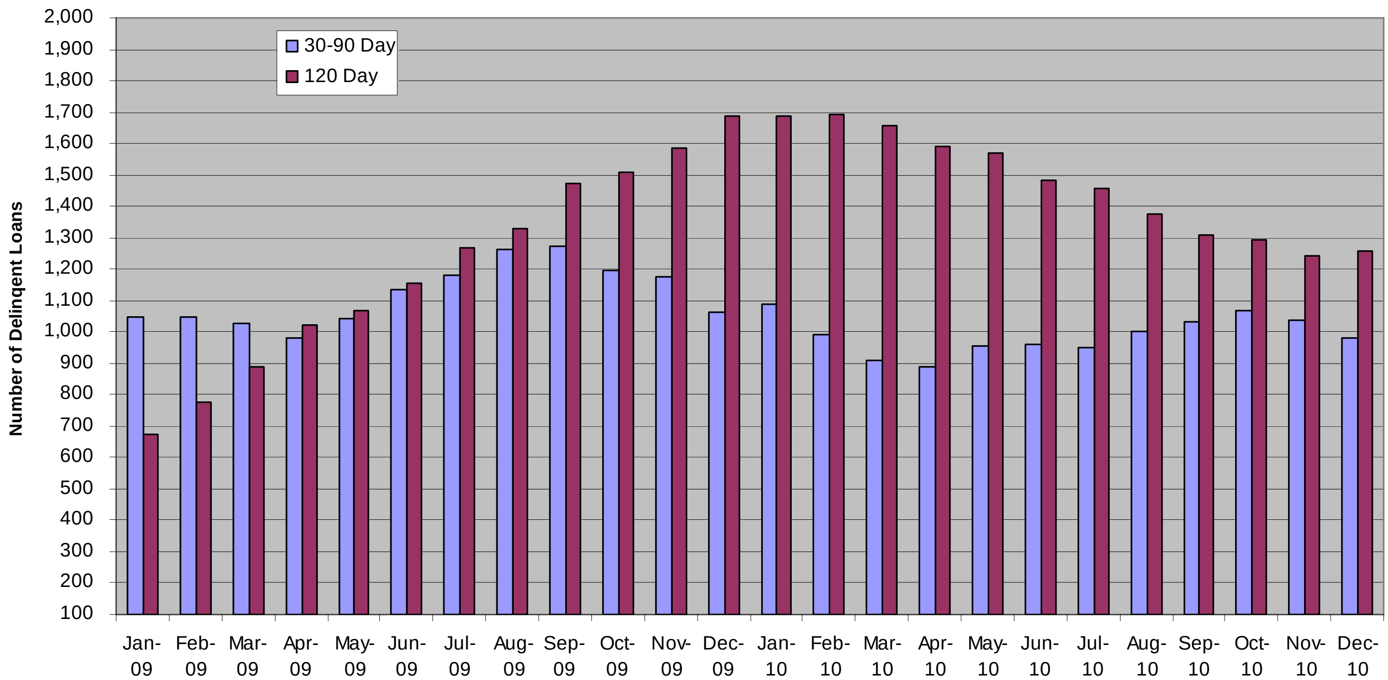
California Housing Finance Agency

CalHFA

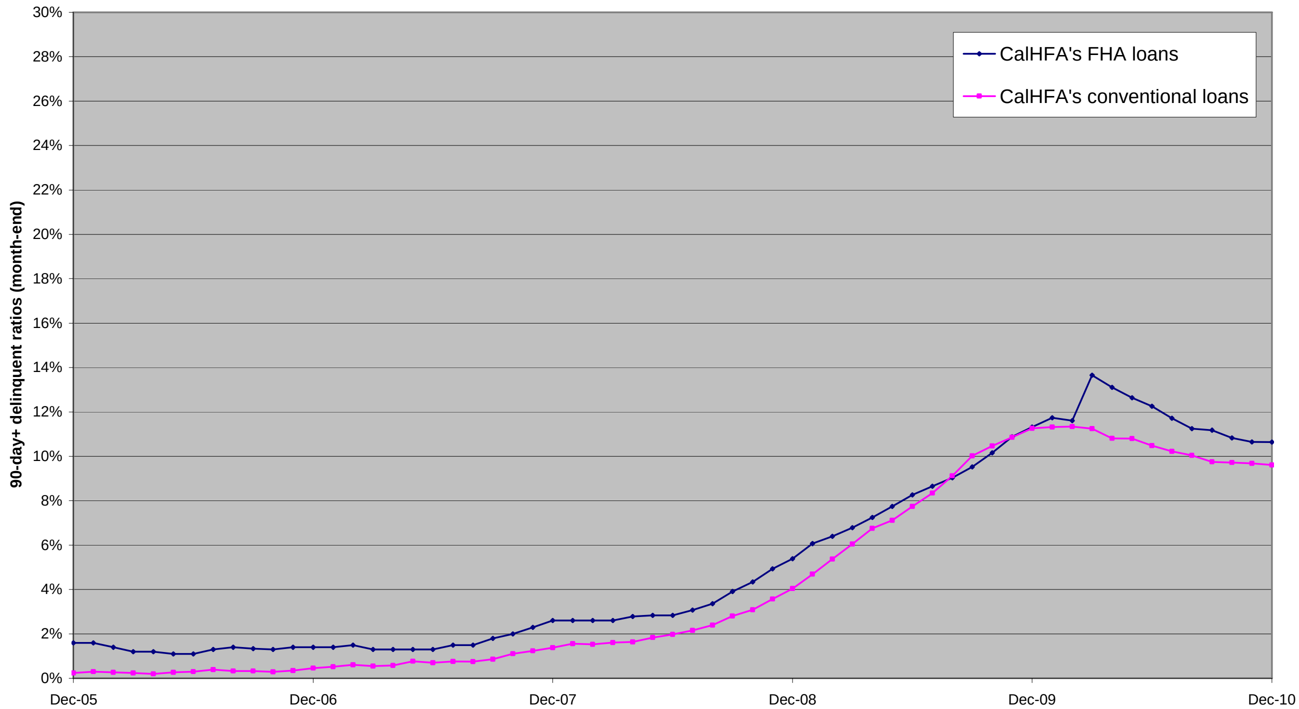
CalHFA's FHA Delinquent Loan Trend for 30-90 Day and 120 Day



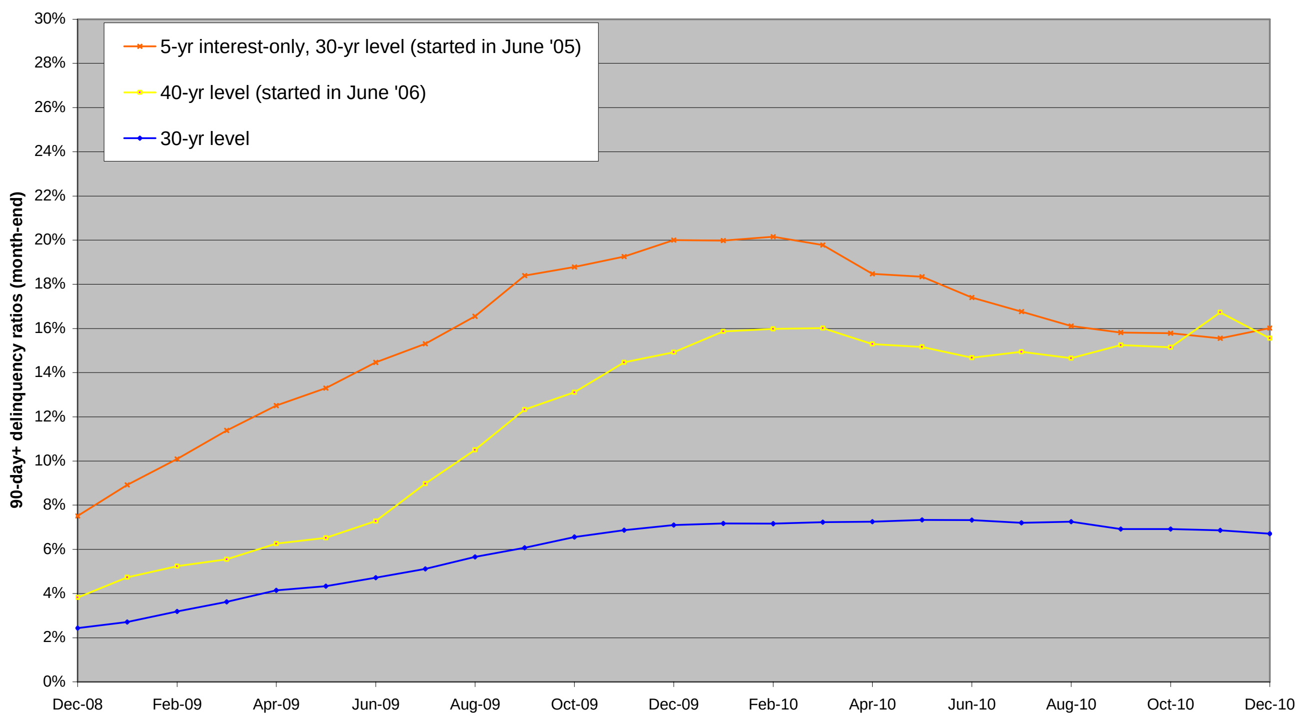

CalHFA's Conventional Delinquent Loan Trend for 30-90 Day and 120 Day



## 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 2011 (As of January 31, 2011) | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | *Trustee Sales | | | Disposition of REO(s) | | | | | | |
| Loan Type | Beginning Balance # of Loans | Reverted to CalHFA Jan | Reverted to CalHFA | Total Trustee Sales | Repurchased by Lender Jan | Market Sale(s) Jan | Repurchased by Lender | Market Sale(s) | Total Disposition of REO(s) | Ending Balance # of Loans | UPB of REO's Owned |
| FHA/RHS/VA | 198 | 72 | | 72 | 48 | | | | 48 | 222 | $ 46,477,693 |
| Conventional | 1084 | 146 | | 146 | | 99 | | | 99 | 1,131 | 240,364,411 |
| Total | 1282 | 218 | 0 | 218 | 48 | 99 | 0 | 0 | 147 | 1,353 | $ 286,842,104 |

| Calendar Year 2010 | | | | | | |
|---|---|---|---|---|---|---|
| | | *Trustee Sales | Disposition of REO(s) | | | |
| Loan Type | Beginning Balance # of Loans | Reverted to CalHFA 2010 | Repurchased by Lender 2010 | Market Sale(s) 2010 | Ending Balance # of Loans | UPB of REO's Owned |
| FHA/RHS/VA | 187 | 816 | 805 | | 198 | $ 41,905,865 |
| Conventional | 619 | 1551 | | 1086 | 1084 | 226,793,920 |
| Total | 806 | 2367 | 805 | 1086 | 1282 | $ 268,699,784 |

| 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 |

**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, thirty-eight (38) 3rd party sales year 2010, and there is one (1) sale to date for 2011.*

California Housing Finance Agency

CalHFA

| Uninsured Losses (1) for Calendar Years 2008 - 2010 | | | |
|---|---|---|---|
| | **Estimated Indenture Losses** | **GAP Losses (2)** | **Subordinate Write-Offs** |
| 1st TD Sales (REOs, Short Sales & Foreclosures) | $ (42,503,336) | $ (75,966,480) | |
| Active REOs | | (14,410,867) | |
| Subordinate Write-Offs | | | $ (64,655,647) |
| Total Gain(Loss)/Write-Offs | $ (42,503,336) | $ (90,377,347) | $ (64,655,647) |

(1) Includes both reconciled and estimated unreconciled gains/losses.
(2) Total GAP Claims paid thru January 31, 2011.

**2011 Year to Date Composition of 1st Trust Deed Gain/(Loss)**
**(As of January 31, 2011)**

| | Disposition | | | | | |
|---|---|---|---|---|---|---|
| Loan Type | Repurchased by Lender | Market Sales | Short Sales | Loan Balance at Sales | Estimated Indenture Gain/(Loss) | (1)Estimated GAP Loss |
| FHA/RHS/VA | 48 | | | $ 10,099,581 | | |
| Conventional | | 99 | 19 | 30,921,089 | $ (2,051,266) | $ (4,489,013) |
| | 48 | 99 | 19 | $ 41,020,670 | $ (2,051,266) | $ (4,489,013) |

(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.

**2011 Year to Date Composition of Subordinate Write-Offs by Loan Type(1)**
**(As of January 31, 2011)**

| | Active Loans | | Write-Offs | | | |
|---|---|---|---|---|---|---|
| **Loan Type** | **Active Loans** | **Dollar Amount** | **Number of Write-Offs** | **% (of Portfolio)** | **Dollar Amount** | **% (of Portfolio)** |
| **CHAP/HiCAP** | 10,363 | $110,818,761 | 188 | 1.81% | $2,076,823 | 1.87% |
| **CHDAP/ECTP/HiRAP** | 19,583 | 163,135,746 | 159 | 0.81% | 1,347,233 | 0.83% |
| **Other (2)** | 272 | 3,557,266 | 0 | 0.00% | 0 | 0.00% |
| | 30,218 | $277,511,773 | 347 | 1.15% | $3,424,055 | 1.23% |

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

**State of California**

# M E M O R A N D U M

**To:** Board of Directors **Date:** March 9, 2011

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

## 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 $5.3 billion, 66.9% of our $8.0 billion of total indebtedness as of March 1, 2011.

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 | $1,916 | $1,400 | $3,316 |
| MHRB | 0 | 528 | 218 | 746 |
| HPB | 0 | 0 | 79 | 79 |
| RMRB * | 980 | 0 | 0 | 980 |
| AMHRB * | 216 | 0 | 0 | 216 |
| Total | $1,196 | $2,444 | $1,697 | $5,337 |

* *The RMRB and AMHRB bonds are variable rate index bonds during the initial escrow period. After each public offering (up to six times before the end of 2011), 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 $1.7 billion, 21.3% 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 $1.7 billion of net variable rate exposure ($810 million taxable and $887 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 $865 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 $865 million is a balance sheet hedge for the $1.7 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 $362.9 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 average 2010 ratio of 96% of Libor. These two considerations serve to reduce the net effective variable rate exposure to the equivalent of $1.3 billion of LIBOR-based debt. As a result, the $865 million of other Agency funds invested in SMIF effectively hedges approximately 65.8% 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 106 "fixed-payer" swaps with thirteen different counterparties for a combined notional amount of $2.8 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 | $1,9561 | $256 | $2,212 |
| MHRB | 594 | 0 | 594 |
| HPB | 0 | 0 | 0 |
| TOTALS | $2,550 | $256 | $2,806 |

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

SWAP COUNTERPARTIES

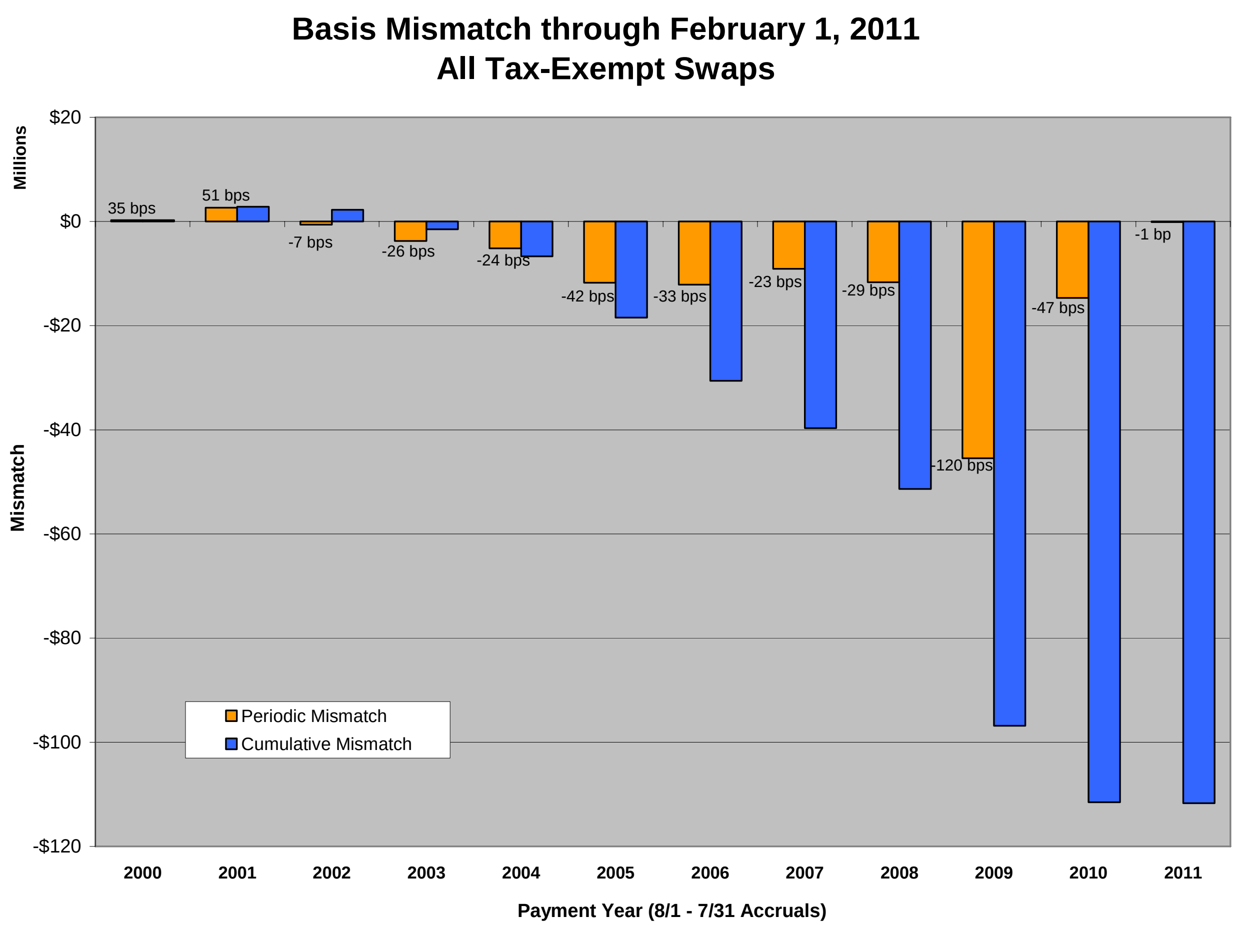
| Swap Counterparty | Credit Ratings Moody's | S & P | Notional Amounts Swapped as of 3/1/11 ($ in millions) | Number of Swaps |
|---|---|---|---|---|
| JPMorgan Chase Bank, N.A. | Aa1 | AA- | $ 782.2 | 21 |
| Merrill Lynch Capital Services, Inc. | A2 | A | 602.6 | 29 |
| Citigroup Financial Products, Inc. | A3 | A | 355.2 | 10 |
| Goldman Sachs Mitsui Marine Derivative Products, , L.P. | Aa1 | AAA | 244.7 | 8 |
| Deutsche Bank AG | Aa3 | A+ | 219.4 | 11 |
| AIG Financial Products, Corp. | Baa1 | A- | 208.5 | 7 |
| Morgan Stanley Capital Services, Inc. | A2 | A | 127.9 | 2 |
| Bank of America, N.A. | Aa3 | A+ | 76.8 | 5 |
| Merrill Lynch Derivative Products | Aa3 | AAA | 67.3 | 7 |
| BNP Paribas | Aa2 | AA | 63.3 | 2 |
| Bank of New York Mellon | Aaa | AA | 25.0 | 1 |
| UBS AG | Aa3 | A+ | 23.0 | 2 |
| Dexia Credit Local New York Agency | A1 | A | 10.8 | 1 |
| | | | $ 2,806.6 * | 106 |

** Basis Swaps not included in totals*

For all of our fixed-payer swaps, we receive floating rate payments from our counterparties in exchange for a fixed-rate obligation on our part. In today's market, the net periodic payment owed under these swap agreements is from us to our counterparties. As an example, on our February 1, 2011 semiannual debt service payment date we made a total of $57.8 million of net payments to our counterparties. Conversely, if short-term rates were to rise above the fixed rates of our swap agreements, then the net payment would run in the opposite direction, and we would be on the receiving end.

**<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. Some of the conditions that contributed to our extreme basis mismatch in 2009 and early 2010 were the collapse of the auction rate securities market, the impact of bond insurer downgrades, the funding of bank bonds at higher rates, and SIFMA/LIBOR ratio at historically high levels over 100% We responded to the market disruption by refunding, converting, or otherwise modifying many of the under performing auction rate securities and insured VRDOs, and we eliminated bank bonds by taking advantage of the Temporary Credit and Liquidity Program offered by the federal government.

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. In the first ten months under the TCLF, the basis mismatch is only 4 basis points or 0.04%, as compared to 121 basis points or 1.21% for the ten months preceeding the TCLF. The reduced basis mismatch has resulted in debt service savings of approximately $26.5 million in the first ten 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 $124 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 | | | |
|---|---|---|---|
| 2004 | 81.7% | 2008 | 83.7% |
| 2005 | 72.5% | 2009 | 122.9% |
| 2006 | 67.6% | 2010 | 96.4% |
| 2007 | 69.1% | 2011 to date | 102.1% |

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) | $1,877 | $0 | $1,877 |
| SIFMA (+ spread) | 412 | 0 | 412 |
| Stepped % of LIBOR [1] | 240 | 0 | 240 |
| 3 mo. LIBOR (+ spread)_ | 0 | 154 | 154 |
| % of SIFMA | 20 | 0 | 20 |
| 1 mo. LIBOR | 0 | 60 | 60 |
| 3 mo. LIBOR | 0 | 24 | 24 |
| 6 mo. LIBOR | 0 | 19 | 19 |
| TOTALS | $2,549 | $257 | $2,806 |

[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 $362.9 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 3/3/2011
*($ in millions)*

| | JPMorgan | BofA / Merrill Lynch | Total |
|---|---|---|---|
| Marked-to-Market | 63.6 | 14.8 | |
| Collateral Threshold | 50 | 0 | |
| Posting Requirment * | 18 | 14.8 | 32.8 |
| | | | |
| Agency MBS Posted | 17.7 | 0 | 17.7 |
| Agency Cash Posted | 0.3 | 15.5 | 15.8 |

** JP - minimum posting is $18M*

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) |
|---|---|
| 3/31/10 | ($242.9) |
| 6/30/10 * | ($329.6) |
| 9/30/10 | ($353.7) |
| 12/31/10 | ($257.5) |

** 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 | $966 | $2,350 | $3,316 |
| MHRB | 156 | 0 | 590 | 746 |
| HPB | 0 | 0 | 79 | 79 |
| RMRB | 0 | 980 | 0 | 980 |
| AMHRB | 0 | 216 | 0 | 216 |
| Total | $156 | $2,162 | $3,019 | $5,337 |

**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 3/1/2011
*($ in millions)*

| Financial Institution | $ Amount of Bonds |
|---|---|
| Freddie Mac | $1,509.5 |
| Fannie Mae | 1,509.5 |
| Total | $3,019.0 |