CalHFA℠

BOARD OF DIRECTORS

California Housing Finance Agency
Board of Directors

Holiday Inn Capitol Plaza
300 "J" Street
Sacramento, California
(916) 446-0100

May 19, 2011

Table:#208815v1
BdMtg:05-19-11

9. Reports:

10. Discussion of other Board matters.

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

12. Adjournment.

13. Handouts.

NOTES**

HOTEL PARKING: Parking is available as follows: (1) Limited valet parking is available at the hotel for $17.00; and (2) parking validation available at front desk for $12.00; or (3) city parking lot is next door at rates of $2.00 per hour for the first two hours, $1.25 per every ½ hour, thereafter, with a maximum of $16.00.

FUTURE MEETING DATES: Next CalHFA Board of Directors Meeting will be July 21, 2011, at the Burbank Airport Marriott, Burbank, California.

STATE OF CALIFORNIA

CALIFORNIA HOUSING FINANCE AGENCY

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BOARD OF DIRECTORS

PUBLIC MEETING

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

Wednesday, March 16, 2011
9:37 a.m. to 1:15 p.m.

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

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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

PAUL C. HUDSON
Chairman/CEO
Broadway Federal Bank

JONATHAN HUNTER
Managing Director, Region II
Corporation for Supportive Housing

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

RUBEN A. SMITH
Partner
Adorno Yoss Alvarado & Smith

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

<u>CalHFA Staff Present:</u>

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

THOMAS C. HUGHES
General Counsel

JOJO OJIMA
Office of the General Counsel

DIANE RICHARDSON
Director of Legislation

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BE IT REMEMBERED that on Wednesday, March 16, 2011, commencing at the hour of 9:37 a.m., at the Burbank Airport Marriott Hotel and Convention Center, Pasadena Room, 2500 Hollywood Way, Burbank, California, before me, YVONNE K. FENNER, CSR #10909, RPR, the following proceedings were held:

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ACTING CHAIRPERSON CAREY: Okay. I would like to welcome everybody to the March 16th meeting of the California Housing Finance Agency Board of Directors.

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Item 1. Roll Call

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

MS. OJIMA: Thank you.

Ms. Creswell.

MS. CRESWELL: Present.

MS. OJIMA: Mr. Gunning.

MR. GUNNING: Present.

MS. OJIMA: Mr. Hudson.

MR. HUDSON: Here.

MS. OJIMA: Mr. Hunter.

MR. HUNTER: Here.

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

MS. CARROLL: Here.

MS. OJIMA: Mr. Shine.

(No audible response.)

MS. OJIMA: Mr. Smith.

(No audible response.)

MS. OJIMA: Ms. Peters for Ms. Stevens.

MS. PETERS: Here.

MS. OJIMA: Mr. Alex.

MR. ALEX: Here.

MS. OJIMA: Ms. Matosantos.

(No audible response.)

MS. OJIMA: Mr. Spears.

MR. SPEARS: Here.

MS. OJIMA: Mr. Carey.

ACTING CHAIRPERSON CAREY: Here.

MS. OJIMA: We have a quorum.

ACTING CHAIRPERSON CAREY: Thank you.

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Item 3. Chairman/Executive Director comments

ACTING CHAIRPERSON CAREY: Just a couple of comments. We will try to move ourselves along, recognizing schedules, and see if we can't wrap up before lunchtime today, before the Board turns against me.

And we may rearrange the agenda slightly and move the discussion of the business plan forward a little bit since Mr. Hudson has to leave by 11:00. I'd really appreciate his involvement in that conversation.

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

MR. SPEARS: Thank you, Mr. Chairman, and welcome to Members.

And we have a very ambitious agenda today. I think we can move right through some of these update items, but of course the main objective today is to discuss the business plan for the next year. For the newer members, the procedure is we have this discussion today. The staff takes input from the Board members, goes back, puts together a full-blown business plan, brings it back to the Board in May with an accompanying operating budget. That's -- that's the standard procedure.

So I think what you'll see today, though, is a -- more of a discussion about where we are in the process. And I think, you know, there have been several developments since the last Board meeting. The audit report was released. We are still having discussions with various parties about that.

All of the KYHC programs are now operational, and we are working to get servicers on board. You're going to hear an update about that.

But I'd like to just spend a couple minutes on two other developments. Di and I had the opportunity to attend NCSHA's annual legislative conference always held in March in D.C. And we -- we had a very interesting time there. It was -- we heard from a lot of administration officials, a lot of folks from Congress.

But I'd like to blend in one other final development that's happened since we last met, and that's the white paper, the long-awaited white paper, from the Administration on the -- reforming the housing market in the nation.

Clearly there was one thing that was absent from that white paper, and that is how the Administration wants to deal with affordable housing going forward. There's a lot about -- in there about the housing market nationally, conventional, requirements, things that Secretary Geitner and Secretary Donovan want to see done.

Yesterday Secretary Geitner testified before Senate Banking, I believe, Mr. Chairman, and -- talking about the white paper and what they want to do. But I think we're at a crossroads here. We're at a crossroads for affordable housing. We're at a crossroads for HFAs. And unless you're Yogi Bear and just takes the fork when he comes to the road, I think most people stop at a crossroads, pause, think about what direction you want to go and how you want to proceed and what your role is going to be.

And I'm not sure we know all that right now, but here's what I know and believe in my heart, and that is we need to continue to get this Agency in the sort of financial shape that we need to be in to take advantage of whatever opportunities are presented going forward.

Fannie Mae is going to go away. Freddie Mac is going to go away. The Secretary talked about that again yesterday. And the question is then what's going to be the role for HFAs going forward?

There are some people who think that the federal affordable housing programs will be delivered through the state housing finance agencies, so on a local level. And that's very possible. We need to be ready to do that if that's what it winds up to be.

Secretary Geitner said that they intend to introduce legislation and move forward in this in the next two years, for obvious reasons. And I think we need to be engaged in that debate. I think the Administration needs to be engaged in that debate. But this Agency still has a ways to go, as we can tell from the audit report, to be in a position to really take those opportunities and really run with them when they come up. We just have to be ready to go in -- flexible enough to go in different directions.

So it would be a -- I keep saying this to my wife, the next couple of years is going to be really interesting. And she said, "That's what you said two years ago." So I --

ACTING CHAIRPERSON CAREY: You were right.

MR. SPEARS: I was right. I was right. And I've reminded her of that once in a while.

So -- so as we move forward today and with the business plan discussion, we don't have a lot of projections about business model. We don't have a lot of projections about -- just yet about where -- where we're going to head. I think we're going to find out is -- with regard to the economy, the real estate market, unemployment rate, it has stopped sliding but we haven't made a lot of progress.

So everything we talked about last year gets moved down a year, and I think that's the direction you're -- you're going to hear. We'll have -- have a good time today, I think, talking about those issues.

And those are my comments, Mr. Chairman.

ACTING CHAIRPERSON CAREY: Great. Thank you.

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Item 2. Approval of the minutes of the January 20, 2011

and February 8, 2011 Board of Directors meetings

ACTING CHAIRPERSON CAREY: And I want to assure JoJo that the way we're going to keep ourselves moving is not by skipping every other item on the agenda, so we'll go back to item 2, which is approval of the minutes of January 20th and February 8th.

MS. PETERS: I move approval.

MR. HUNTER: Second.

ACTING CHAIRPERSON CAREY: We have a motion. Roll call, please.

MS. OJIMA: Thank you.

Ms. Creswell.

MS. CRESWELL: Approve.

MS. OJIMA: Mr. Gunning.

MR. GUNNING: Yes.

MS. OJIMA: Mr. Hudson.

MR. HUDSON: Yes.

MS. OJIMA: Mr. Hunter.

MR. HUNTER: Yes.

MS. OJIMA: Ms. Carroll.

MS. CARROLL: Yes.

MS. OJIMA: Mr. Smith.

MR. SMITH: Yes.

MS. OJIMA: Ms. Peters.

MS. PETERS: Yes.

MS. OJIMA: Mr. Carey.

ACTING CHAIRPERSON CAREY: Yes.

MS. OJIMA: The minutes have been approved.

ACTING CHAIRPERSON CAREY: Thank you.

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

ACTING CHAIRPERSON CAREY: We're now going to go into closed session under Government Code section 11126(a)(1) to consider the evaluation of performance of a public employee.

(The Board met in closed session from 9:45 a.m. to 10:40 a.m.)

(Break taken from 10:40 a.m. to 10:48 a.m.)

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Item 5. Report of the Chairman of the Compensation Committee

ACTING CHAIRPERSON CAREY: We're going to shift the agenda just a little bit and -- I'm sorry. First -- well, no, we can't, can we? We need to wait for the chair of the Compensation Committee.

MR. HUGHES: There's -- just as an aside, there's no requirement that there be a report.

ACTING CHAIRPERSON CAREY: I think he wants to.

MR. HUGHES: Right. I just -- it's -- it's optional.

ACTING CHAIRPERSON CAREY: Maybe I could -- let's just -- we're still on. I think we've gotten ahold of him out in the hallway.

We are -- the Compensation Committee met, and we have a brief report from the chair of the Compensation Committee, Mr. Gunning.

MR. GUNNING: Thank you, Mr. Chairman. As you said, the Committee has met, and we performed an evaluation of the executive director, Steve Spears. No decisions were made on compensation. We think that's a reflection of the current economic times. It was strictly an evaluation.

ACTING CHAIRPERSON CAREY: Great. Thank you. And I think that we did talk about the need to revise the charter for the Compensation Committee, and the Committee will meet and make -- subsequently and make recommendations to the full Board about changes, including the name of the subcommittee and some of the responsibilities.

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Item 10. Update and discussion regarding the Agency's Business Plan

ACTING CHAIRPERSON CAREY: With that, now we'll move forward, and we're going to move the update on the -- on discussion of the Agency's business plan up to this point. Steve.

MR. SPEARS: Thank you, Mr. Chairman.

I've asked Bruce to help guide us through the assumptions part.

So this is in two sections -- three, really, if you count kind of the middle section about priorities. But I thought you should see what we're assuming going forward about the economy and our environment and then get back to our -- Heather, our survive, revive and thrive and where we are with that and the priorities. And I'll tell you the priorities are what we worked out last year. They haven't -- they haven't changed.

So assumptions, the economy is flat through 2012 and then a very modest recovery. Unemployment will lag that. We'll see some slight improvement. This is unless there are other developments, one way or the other. But not until the last quarter of the calendar year 2011, the first quarter of 2012. So basically we're not seeing improvement until then.

Interest rates, the general level will drift upwards through 2011. And mortgage rates generally increasing, but, again, that's going to depend on how quickly the Obama Administration moves ahead with the dates about what the new real estate market is going to look like.

If Fannie -- the general feeling is if Fannie and Freddie are withdrawn from this market and the risk is placed on financial institutions and the private sector for the conventional market, that you'll see some dramatic increases in mortgage rates. There was some debate at this annual conference about the relevance of the 30-year mortgage going forward and the amount of downpayment required, risk retention and all of those very big issues going forward.

Home sales, demand increasing in the third and fourth quarters of calendar year 2011 and into 2012. But on home prices -- and this is significant from our standpoint of our REO inventory, that we expect that statewide -- now, in some parts of the state, this will not be as bad as others, but that we would see another 5-to-10-percent decline in home prices during 2011. Very modest increases by towards the end of -- of this year.

Agency fund balances, I think we've seen this before, that we -- we have adequate funds for capital reserve requirements against loan losses for the business plan period. It's sufficient to meet expected real estate losses, credit adjustments, general obligations of the Agency.

But on the capital structure side, that depends on credit ratings, and it depends on our friends there and their rules, they have been known to change. It's a bit of a moving target. They could change the calculations, and we don't find out until after the fact what their capital adequacy calculations were and what our capital is. So we could have a hundred million dollars in their eyes and, say, great, Bob Deaner, you have, you know, a hundred million dollars to work with. The line has moved, and suddenly they think 75 million is all we have, and now we're over the line and risk a downgrade. So we have to be careful about that.

MR. GILBERTSON: Just one additional -- I'm sorry.

MR. HUDSON: Don't you have to make an assumption anyway?

MR. SPEARS: Our assumption is zero.

MR. HUDSON: Zero means no change.

MR. SPEARS: No, no -- no additional capital for risking, you know, an uninsured multifamily program or single-family program.

MR. GILBERTSON: And you'll see that later in the presentation, Paul.

Just one other thing I -- make sure the Board is aware, we are on credit watch again by both S&P and Moody's. We had a meeting with S&P yesterday in our offices before flying down. Fully expect that they will go to committee by the end of April and make a determination again on the credit ratings for the general obligation rating of the Agency as well as the large single-family bond indenture, the Home Mortgage Revenue Bond indenture.

And I would expect that Moody's would follow that with their rating committee action in May of this year.

So we're working hard providing them with information and waiting for them to do some analysis that we can react to one way or the other.

MR. SPEARS: On Agency liquidity, the third bullet, again, that's tied to credit ratings. They're -- they have certain rules about where you need to be liquidity-wise.

I will say this: At the present time, and of course this varies over time, we're at probably the highest amount of liquidity that we've been at in some time. After the Bay Area Housing Plan, bonds were sold, and the Bank of America line of credit was paid, and that was all settled. We were at, I believe, $207 million, and we've been in the hundred and 20 to 30 to 40 million dollar range. So it's improved and -- and that's a good thing. Again, definitely not out of the woods.

So the other issues are the MI fund. As we've been discussing, the MI fund will become insolvent sometime during the third quarter of 2011, calendar year 2011. And the reserve account to pay gap claims is somewhere in the same neighborhood.

So what happens after that, since there is no longer cash in the MI fund or cash in the gap reserve account, then those losses will go to the HMRB indenture, the single-family indenture. And that's where I take you back to the top bullet, Agency fund balances, that they're sufficient to meet expected real estate losses, credit adjustments and general obligations of the Agency. That includes the assumption of the last two bullets down at the bottom of the page.

MR. GILBERTSON: Just -- just one more thing on the real estate losses, a reminder to the Board. We have engaged Milliman and Associates again to do an update on the loss projection for the single-family portfolio. We were hoping that it might be available for today. It's not. But it will clearly be available for the May Board meeting. We'll give you a summary of some kind at that update.

MR. SPEARS: Stop and see if you have any questions, by the way.

So HAT funds, and, again, for the newer members, that's Housing Assistance Trust. That's sort of our general -- generally available unrestricted funds. In the past we have funded downpayment assistance, special lending to local governments, multifamily asset management programs. If Margaret has some problem-children properties, we can devote some of those funds.

And here again, with sort of a conservative approach, we're just not going to have internal funds to fund downpayment assistance and that special lending. And this is consistent with last year's business plan as well.

And finally, Bruce, I'll leave this last bullet to you to put in the crystal ball and to tell us how the bond market is going to perform.

MR. GILBERTSON: This is another way of just saying that, you know, tax-exempt municipal bond market for our purposes of realizing a competitive interest rate we can offer to a lender -- or to our borrowers is going to be challenged, potentially.

And I use some of the analyses of -- one of our bankers recently wrote a two-page kind of presentation on this. And he characterized it as a problem with supply and demand. Okay. There's a lot of demand for municipal bonds, but they want to be at the short end of the yield curve. Okay. So to finance loans, you have to have 30-year bonds as well, and so there's -- there's a challenge, and that's going to cause friction until some clarity on where the direction of the economy is going.

We know at the end of time to have both state and federal tax exemption on our securities, there's an advantage to the investor, but we've got to get beyond this crisis. And certainly it's very hard for us to predict when that's going to be.

In the meantime, we'll be monitoring that situation. You're going to hear later in the presentation as we roll through the NIBP where we have a -- a defined benefit in bond costs that we'll have to watch this even more closely to see if we have a rate that we can offer for single-family or multifamily loans.

MS. PETERS: And on the money we need to get out the door by the calendar end of this year, are we going to have any problem that you foresee -- I know you don't have a crystal ball -- in getting our private fund matched to get all that money out? Might there be a situation where we don't get it all out?

MR. GILBERTSON: Yeah, I think it's pretty clear that we won't use all of the NIBP.

MR. SPEARS: On the single-family side.

MR. GILBERTSON: Yeah, on the single family. The multifamily, we will fully utilize that.

Yeah, we received over a billion dollars for single family. Our projection is we'll probably use three to five hundred million of that. And it's not because we still can't find the private match, it's simply that we can't stir up enough loan volume to use it because of the interest rate that we're offering.

MS. PETERS: What's Treasury's position on possibly extending that now?

MR. SPEARS: There was a long conversation with executive directors in the room from all the states that are participating, which is almost everyone, on the New Issue Bond Program. And Treasury listened politely.

They -- there's been an issue. Sean Spear from the Treasurer's Office from CDLAC has been -- has a working group that I'm participating in on ideas to -- and we need more multifamily allocation, but we're not going to use up all our single family, is there a way to transfer that around? No. They did the original allocation and appropriation. For federal appropriation purposes you can't do that.

So they did say that if we could find a state that has the opposite situation, we might be able to trade. The only problem is every single state is in the same boat.

There are a few people. Pennsylvania has used up all their single-family New Issue Bond Program. They have a big FHA program. They're one of the only FHA lenders in the state, I believe. Is that correct? Some of the folks may be more familiar. But -- but they made no promises about extending.

So there are two issues. One is just extending the current program, allowing us to keep drawing and, you know, add it on, like they did last fall. The other is to go after money and just say this expired, and then you just put new money in place. Given the current situation in Washington, D.C., and the Congress, that's just not going to happen.

So I don't hold out a lot of hope for that. I think as we move along, we're going to talk about some non-bond-funded executions that are possible. But it's -- but I think that program will end.

We're going to continue to work with Treasury and this working group and other EDs in our national association to try to find some way, if we can. We're not giving up. It just -- the way the Treasury Department puts it is the folks on the second floor -- and I found out that those are the attorneys at Treasury -- are the ones that have to pass on this, and they have -- they have stretched the limits, I think, on legal authority.

So I wish I had better news, but we're not giving up. We're going to keep talking about it. We have a -- you know, we have the rest of 2011 to try to find a way.

Okay. Next --

MS. CARROLL: How much have we --

MR. GILBERTSON: Katie had a question.

MR. SPEARS: Sorry, Katie.

MS. CARROLL: How much have we used so far? You said an estimate of three to five hundred million that we --

MR. GILBERTSON: So we -- we did our first release for single family last December. It was a $60-million piece. We have plans to do a bond financing in May that is somewhere between 200 and 250 million. So we've accumulated quite a few reservations. So that will be a big piece.

And now our thoughts would be we probably go to the market again in the fall and then once right at the end of the year to use whatever else we think we could reasonably use.

MS. CARROLL: Thank you.

MR. SPEARS: To give you an idea, this morning Gary and I -- I'll always get a pipeline announcement every morning when we come in. So we have $280 million of loans that we've made -- loan reservations we've made so far.

In the past, we've had about a 40-percent fallout rate. We're still trying to figure out what the current fallout rate is. But, you know, if you -- if you work that and plus continued lending over the next few months I think this number is pretty reasonable.

Okay. The next slide. So here's our lending and portfolio assumptions. We're still using an MBA business model in this business plan. We're not going to invest in whole loans.

But here's an important thing: New issue -- new lending, this FHA program that we're doing, the 280 million in loan reservations we have have been subsidized with available excess yield that will be exhausted this month. Tim and Bruce have a really long explanation of this, but what it means is we've been able to offer a lower rate because of this. That's going to get exhausted, and we're going to have to drift higher.

And the truth of the matter is -- and, again, polling my colleagues in other HFA states are using NIBP, the NIBP rate just doesn't give you a rate that's much lower than market, if you just use that. So I think we're going to have to get that rate closer to the market, and that means probably our pipeline will dwindle a bit coming in.

And so I can see on the arrangement we have right now lending dwindling the rest of this fiscal year, ending very light the beginning of the new fiscal year in July, unless we have another execution, which we --

MR. GILBERTSON: Yeah, and markets are constantly changing.

MR. SPEARS: Right.

MR. GILBERTSON: The one thing, we've been ratcheting up the rates every week now by an eighth of a percent, and so we're going to -- I think rates went up again today. We're still getting -- like yesterday's demand, new reservations, a little over 4 million, if I remember right.

MR. SPEARS: Um-hmm.

MR. GILBERTSON: So we're still getting

reservations, but it's just a matter when we get to something closer to 4-75 as far as an interest rate, 4.75 percent, you know, how much demand there will be for that at that interest rate and that loan program.

MR. SPEARS: And when we get to the -- and I want to kind of move this because I think it's going to be an important discussion to talk about this non-bond-funded execution alternative that -- that's out there. Other states use it. There are some developments in the state that may make this more relevant at this point.

So we do have GO bond funds for downpayment. The CHDAP program is still out there, and there's plenty of funding for the next two fiscal years, the business plan period. But as we said, we're considering developing some business models that don't rely on bonds.

The multifamily lending side, we have committed all of the multifamily funds through conduit financing. And many of these projects are projects that were not going to go forward, but we were able to offer the better rate because of the New Issue Bond Program. And so they jumped over with their current lender in their current situation, and so they're getting conduit bond financing from us with a better rate and the -- either the project moves forward that wasn't moving forward before or it works better than it did before with financing because of the better rate.

So that's -- that's a good thing. The only thing is I wish we had more of this to work with. We just -- we just have run out of that.

MS. PETERS: Steve, that sounds like a really good story to tell. Is there any formal summary where you highlight programs that wouldn't have happened but for this or jobs created or other economic development things that we can use as a sort of success story to point to Treasury --

MR. SPEARS: Right. That's --

MS. PETERS: -- and encourage them to continue this program as --

MR. SPEARS: Right.

MS. PETERS: -- long as they can?

MR. SPEARS: That's actually what Treasury's asked for from all the states, and we're going to pull that information together as best we can. You always have the, you know, temporary construction job versus permanent jobs issue, but we're going to pull that together for Treasury because that's the story they want to be able to tell to their policymakers.

MS. PETERS: Are any of these supportive housing that would have permanent jobs associated with them?

MR. SPEARS: I believe they are. With a lot -- some of these conduit programs -- Bob, are they not -- supportive housing where you've got -- you've got --

MR. DEANER: Well, they were --

MR. SPEARS: -- caregivers and providers?

MR. DEANER: Yeah. Yeah. We had -- we had a number where we might have various levels of supportive housing. We may have even used some of our -- I know in two or three we used our MHSA dollars in there so we'd have -- so they'd be fully supportive housing.

MS. PETERS: Yeah, I think that --

MR. DEANER: The percentage of the units were --

MS. PETERS: -- we should definitely highlight --

MR. SPEARS: It's a good story.

(Court reporter interruption.)

MS. PETERS: We should highlight that.

MR. SPEARS: It's a good story to tell.

MS. CRESWELL: And I just wanted to ask and I can't remember if you talked about it before, but do you need to change anything in your assumptions if redevelopment goes away? And we won't know that for a while, but I don't know what portion of what you do is dependent on it. And should it at least -- if we know sooner or later, do you have to rethink or does it have to factor into this?

MR. SPEARS: At present, I think there are nine or ten projects that are in a pause mode because of RDA.

Now, going forward --

MS. CRESWELL: And I guess that's kind of more what I need, meaning --

MR. SPEARS: Right.

MS. CRESWELL: -- in terms of just, you know, if it's not there -- even if it doesn't affect, you know, the viability of your deals, which I would guess some of it would, is there still something that -- that the housing agency should be looking at moving forward if -- if there's no replacement of that in terms of how we finance affordable housing?

MR. SPEARS: Definitely, yes. And -- and we need to find out, you know --

MS. CRESWELL: Right.

MR. SPEARS: -- what's going to happen in the next few weeks and months.

MS. CRESWELL: Right.

MR. SPEARS: But --

MS. CRESWELL: But just at some point since it's not there, you know, I wonder if -- just how you factor it in as you move forward. You're right, everything is so uncertain, but.

MR. SPEARS: Well, but we have to deal with it because, you know --

MS. CRESWELL: Right.

MR. SPEARS: -- we have -- we've got to come back to the Board in May with a plan and assumptions and we -- we've done this before, come with plan A, plan B and various assumptions. That's probably what the May work product is going to look like.

MS. CRESWELL: Thank you.

ACTING CHAIRPERSON CAREY: And that's sort of the question. Would the loss of RDA precipitate a plan B?

MS. CRESWELL: Right.

ACTING CHAIRPERSON CAREY: Is it that significant?

(Court reporter interruption.)

MS. CRESWELL: I just said I don't -- I don't know. You would -- you all would know that better. But I even suggested even if it doesn't from a business plan perspective of how you operate, might it otherwise from a public policy perspective as your role as --

MR. SPEARS: We'll have to address that. It will impact us one way or the other. We're going to have to address that somehow. And I don't know the answer to the question today.

MS. CRESWELL: And I wasn't really looking for an answer, just other than that we should be thinking about it.

MR. SPEARS: Yes. Absolutely.

MS. CRESWELL: Okay.

MR. SPEARS: Then moving on, on the portfolio side of assumptions, we -- we do have the Keep Your Home California, and you're going to hear an update about that, that those programs are all up and running now. We've been utilizing those funds on a pilot basis for the loans that we service at CalHFA. That's about 35 to 40 percent of our loans.

What we're working -- and this is in Chuck's shop, is to bring on other servicers that service our loans, whether they're, you know -- whether they're utilizing Keep Your Home California for their own loans. That's a different issue. We want those servicers who are working for us to put this in place for our loans that they're servicing.

And then the call center, where we -- we've expanded hours into evening. We're now going to expand these hours into the weekend more. We've been open Saturday mornings. Now we're going to be open all weekend. We've been open till 7:00 in the evening. Now we're going to be open till 9:00. Whatever's permitted by law, we're going to -- we're going to open it up. It's been successful so far and -- this sort of pilot limited expansion and now we're just going to open it up completely.

Obviously we're going to keep working on loan modifications, that sort of thing.

And REO management, we are aggressively marketing our REO inventory. We've hired additional help in this area. We may have to hire another master real estate agent to work on these.

But the key item, though, is the last bullet, and that's Genworth. We have to maintain a really great working relationship with them, and so far we have, whereas when Moody's downgraded Genworth -- or I'm sorry. Moody's made a rating decision I believe it was last summer, and they commented positively on the fact that Genworth was rescinding coverage on about 20 percent of the claims that were coming in. And that was a good thing because that was saving Genworth money. And we have not seen that, and we want that to continue.

Chuck's done a very good job of maintaining this relationship, and we want it to continue on in the future.

Okay. So here's our -- this is the next slide here. Here's our chart. And I put the old chart up so that we can tell what we decided before.

But I think, you know, we have -- the beginning of 2012 is the end of the survive and the beginning of the revive mode. And I would extend that out to, you know, mid-2012 to the end of 2012. But I think that needs to be --

MS. CRESWELL: For the survive?

MR. SPEARS: For the survive.

Because if you go to revive, some of those things we're doing. You know, we're working on new business opportunities. We're working on improved business systems. A lot of those are in place.

We've made good investments there. But returning to profitability, we've made a lot of progress. Now, progress in the form of smaller losses, not profitability quite yet. But it may be another fiscal year before we can get to that point, and that's the middle of 2012 and maybe even into 2013.

MS. CARROLL: I know you've been talking at the federal level. What about the TCLP program? Are you getting any indications there as to whether they'll extend?

MR. SPEARS: Glad you brought that up. That expires, for the Board members' review, December 31,

2012. And, yes, there was a -- as soon as the New Issue Bond Program meeting was ended, they kicked all of the HFAs that are not participating in the temporary credit liquidity facility program, kicked those out, and we're just left with a few of us.

And, again, Treasury was very polite, and they took a lot of comments and -- but, no, no promises. We have the same issue of what can they do legally to extend the program.

Yes, we've having ongoing serious conversations with them. Treasury is talking directly to the rating agencies. I know that. They're having conversations about that, so --

MS. CARROLL: And we are the largest user, California?

MR. SPEARS: By far. By far. I think we have three and a half billion. I think Florida has a billion. They're the next largest.

So the problem that we have is that some states are in better shape. There's no question about it. And they're -- they're sending out RFPs for liquidity bids, and they're getting some bids back that are better than TCLP pricing, according to reports. I have not seen them myself, but -- and Treasury is a little concerned that these are being turned down, and they would like to see this continue on.

So my little speech with the group was the way this program is designed, that on December 31, 2012, there's a cliff, and you are just dropped into the market. And everybody assumed that the market would be ready for you to do that, that there would be a net to catch you, and it hasn't developed that way.

So what we either need to talk about is an extension of the program or a transition period where Treasury stays in the game and helps us get to that point. Because for states with size, like us, that need a lot of liquidity, we're not finding -- we're not -- we're not hearing from -- from folks. You could find it if you needed 200 or 300 million dollars.

MS. CARROLL: Right. And so those are the folks that Treasury is talking about that -- the ones who need 200 to 300 million that are getting liquidity bids back --

MR. SPEARS: Right.

MS. CARROLL: -- I take it, right? And so are they -- maybe I misunderstood. So are they concerned that we're not out there looking for liquidity, that --

MR. SPEARS: I don't think so. I -- I think they understand our situation --

MS. CARROLL: Okay. Good.

MR. SPEARS: -- very well, that -- we have one deputy assistant secretary that's sort of over this program. We also have an assistant secretary who is in charge of financial markets, and she's involved in the conversation as well. And I met with both -- both people separately in D.C., and they understand our situation. They understand that if we go out for everything on December 31, 2012, it, you know -- we're just not going to find that money. So -- so we need to find some way to transition.

MS. CARROLL: Okay.

MR. SPEARS: And from a policy standpoint, when they put those -- when they designed those programs -- now it would be the summer and fall of 2009, right --

MR. GILBERTSON: Correct.

MR. SPEARS: -- everybody assumed that three years was plenty of time. The markets would be healed magically. It just hasn't happened.

So you could just argue that, okay, look, those assumptions -- if those were your policy reasons for doing this program, they will still exist and you should move this out a year or two years to fit the current facts.

Okay. So -- I'm sorry.

MS. PETERS: Before you leave this slide, I'm reading all the bullets in the context of your comments of maybe moving the top box out through fiscal year '11/12 or '12/13? I'm not sure what you were saying. I don't think that necessarily needs to be done. I think in the middle purple box, I think if you took out return to profitability in the purple box -- and 'cause it is really in the bottom box, improving profitability structure.

In the revive stage, I don't know that return to profitability necessarily fits in the revive. I think you're -- we are thriving when you return to profitability. I think you're reviving when you're minimizing losses. So I think if you just change that bullet in the purple, the time lines pretty much stay where they are. You just redefine what that purple box says.

MR. SPEARS: I have a concern about the first bullet in the purple box because if the bond market doesn't fix itself and this non-bond execution we find isn't the best thing for us, then I think we could be doing not very much lending.

And if we're not doing very much lending, I don't know if we're reviving. Those two top bullets is -- that's what gives me the most concern. And, you know, things could turn around. That's the --

MS. PETERS: For better or for worse.

MS. CRESWELL: Do you -- and even if you do move the yellow over in terms of revive, does that mean you extend the period for which you're going to need to revive, just there's a longer overlap? So I'm assuming if -- if -- otherwise it's like at some point in 2014 is when you hope to have accomplished sort of all the revive things. But if you think that it's going to be slower, do you move them all?

MR. SPEARS: I would. That would be my opinion at this point.

So with that, I think you will be familiar with this slide because I borrowed it from last year's presentation in May. But this is what the Board discussed, and I believe, if I remember correctly, these are in order of priority.

So maintain credit ratings, obviously very important because of the liquidity implications. A downgrade triggers liquidity requirements. And although our liquidity has improved, not enough.

Loss mitigation, obviously very, very high on the scale. Keep Your Home California works into that. Extended hours works into that. Load modifications, short sales, all that taken together, it's just -- it's an enormous workload going forward, and we're staffing appropriately for that.

Renew lending activities, here again I want to get to this non-bond-funded execution as soon as possible, but I am worried that we're looking at conduit financing as a prime deliverer of multifamily lending activities and, you know, a not-quite-recovered bond market on the single-family side.

Then renewing and strengthening our partnerships, including I would say old and new partnerships because we're working with both Fannie Mae and Freddie Mac on some ideas on the multifamily side. And, again, with Genworth insurance, we have to maintain that relationship.

And then exploring new business model, that's what I'd like to get to fairly quickly.

So let me bring Bob and Margaret and Gary up. And --

MR. DEANER: I'll push the button.

MR. SPEARS: Thank you.

So on the single-family side, if the bond market is not working -- I want to get right to a discussion here -- one execution that we can do -- and again, other states do this. Mass Housing does this. Pennsylvania does this. Iowa does this. They simply sell whole loans, or you package whole loans into a security and sell the security out in the secondary market as -- in this case since we probably would be doing FHA loans, it would be a Ginnie Mae security, and it would just be marketed that way.

MR. GUNNING: Who buys that?

MR. SPEARS: I'll have -- I'll have Gary answer that. Who buys that Ginnie Mae security?

MR. BRAUNSTEIN: Yeah, it's just a -- it's sold in the secondary market for a premium. It's passed along as a security. It's insured by -- by FHA. So as a mortgage --

MR. GUNNING: Normal channels? Normal --

MR. BRAUNSTEIN: Yeah. Normal secondary capital --

MR. GUNNING: State investors?

MR. BRAUNSTEIN: -- marketplace, yeah.

MR. SPEARS: And we can do this two ways. We could develop this expertise in every group in-house that does this, or we can get a master servicer, as we have now, to do this for us.

MR. GUNNING: Insurance companies buy any of that paper? Are they --

MR. BRAUNSTEIN: No. I mean, the insurance is the, you know --

MR. GUNNING: Are they the purchasers?

MR. BRAUNSTEIN: Oh, no. No. No.

MR. HUDSON: What makes this a novel idea or an innovative --

MR. SPEARS: It's the second --

MR. HUDSON: -- idea?

MR. SPEARS: It's the second bullet. I just want to make sure everybody understands this idea that -- so what we do is we do -- we still need a pipeline line of credit to -- to fund these, to hold them until we get enough of a package together to form a security and --

MR. HUDSON: So you're just talking about selling new. You're not selling any of our portfolio. You're just talking about selling new --

MR. SPEARS: Right. This is new origination going forward.

MR. HUDSON: Why not -- why can't you sell your portfolio?

MR. SPEARS: We've done that. This -- the -- the novel thing for us is that by going forward, rather than issue bonds, we're going to just go forward and -- and use this secondary market alternative.

MR. HUDSON: Okay.

MR. SPEARS: But it's the second bullet that makes it unique. Only government entities can provide downpayment assistance on FHA loans. What other states have done, and the idea here, is that we charge an above market rate on the first. When you package those together with those higher rates, that's more attractive in the investment community, and you'll get a premium for that security. You then take that cash premium that we get and use that to fund downpayment assistance for the borrower, and that's the unique part about this.

Go ahead.

MR. BRAUNSTEIN: The additional value add to that is keep in mind that we also have CHDAP, which is our downpayment and closing cost program that we currently offer.

So when you use the source of the secondary market to now source another downpayment assistance program without using internal HAT funds, a borrower now has the opportunity to have government assistance downpayment and government assistance for the closing costs. FHA allows only government assistance programs for both of those, downpayment and closing costs.

So the private sector can't do what I've just described because they're not a government agency. So we're basically taking advantage of what, you know, the mortgage banking community does every day for their own lending program and tapping into that secondary market and sourcing those funds to provide either downpayment or closing cost assistance that only we as a government agency can do, allowed by FHA.

Our current FHA product follows all of FHA's current guidelines from a loan to value standpoint and to a combined multivalue standpoint.

MR. SPEARS: A couple of thoughts before we -- just so you know where FHA is headed. And again, Secretary Geitner testified about this yesterday. They want to -- they want FHA to get back to their roots. They're going to charge more for FHA loans. They've already increased premiums twice, and they're going to go up another quarter -- another 25 basis points very soon. And they're going to let the 729, 750 loan level drop back to, you know, a more traditional approach. I think it was 429, I think. So that's going to -- that's going to drop back.

And the other thing is in a white paper and was mentioned by Secretary Geitner yesterday is that this would be used for qualifying first-time homebuyers and those of, you know, low and moderate income. So what it's sounding like is that FHA will be the path for first-time homebuyers going forward.

The only problem we have in California is that, you know, as housing prices begin to go back up again, we will be in the same boat that we were in before, so whether they'll make some special allowance for high cost states. So we have that.

And then -- oh. And then last night Ms. Creswell and I were talking. We do have local government partners for downpayment assistance now. Some of that downpayment is funded with redevelopment funds, so over time you could see some of that going away, and this could be a timely downpayment assistance program that would replace some downpayment assistance you might see going away with the -- with the redevelopment funds getting redirected.

MR. BRAUNSTEIN: So one other point for the Board is that when we say at a slightly above FHA rate, the borrower is still qualifying for a higher rate, still through FHA's debt ratio, their housing expense and their total obligation. So this is for a borrower that has some limited cash or downpayment or limited cash for closing costs, still qualifying for an FHA rate, fully government insured, but has the opportunity to qualify because of their income at a slightly above-market rate for an FHA fund. So it's suitable for a borrower that can debt service the loan, but just is limited in cash or closing costs, which is basically the profile of our current low and moderate homeowners.

MS. PETERS: I just want to confirm my understanding of something, I think it's right. I know as a policy matter when we were looking at loan losses and particular products and issues we are having as a Board, we were talking about revisiting the issue of the wisdom of minimal downpayments in the marketplace. It's my understanding that that analysis doesn't necessarily apply to this product because whatever losses may occur would be FHA's problem not ours, now they're taking the risk.

MR. SPEARS: Well, and we would not only not have the whole loan, we would not have the security either. We'd sell that security out. And we would get -- it would change our profitability structure. We would get a fee.

Servicing's another issue. You could retain servicing and have that annuity. But we would not have these loans on our balance sheet in any form, either whole loan or security. It would be gone. And that would be -- that would be an important point going forward on our business model.

MS. PETERS: Yeah. And it's -- it's wonderful to see you being so creative in pushing the housing mission and minimizing risk and coming up with non-bond alternatives and all these other things as we move forward, and it's premature to discuss it now, but to discuss that profitability piece when the market shakes out and we know how much bond stuff we're doing and how much non-bond, you know, how our minimized profitability on the products where we're not taking a risk is going to affect the overall financial picture for the Agency long term would be helpful, but, you know, not today or next week or maybe even next year, so we know what -- what shakes out and what our portfolio is really going to look like. But when it does shake out, it would be helpful to revisit profitability.

MR. SPEARS: We've discussed this in senior staff meeting. It is a critical discussion to have going forward. If we are going to be a fee-base, both multifamily and single family, agency going forward, we need to do some restructuring.

MR. BRAUNSTEIN: This business model is not structured to replace our advantage when we have the bond market to our advantage. It's just an alternate way of sourcing capital and dealing with a market execution and still be able to have a solid FHA product.

And I could see down the road, you know, giving our financing department the option of executing either way, tax exempt or taxable or -- you know, because of the secondary market execution. Secondary market execution, you're selling the loan as a one-time gain on the sale so you're receiving income today. The annuity we'd gain on the bond side is certainly down the road, and we have further advantages by going that route, but I could see us being in a position to be able to have an alternate way to be able to use the best execution on how we handle or deliver our loan or source our loan and still have a product that's suitable for our borrower profile.

MS. PETERS: It's great to see that staff is so nimble.

MS. CRESWELL: Can I just ask a question on -- so you -- you guys previously had discussions about relooking at, you know, the downpayment that you should be requiring. And how does this relate to that? I assume --

MR. SPEARS: That's --

MS. CRESWELL: -- it's lower than what you were?

MR. SPEARS: -- that last bullet.

MS. CRESWELL: Yeah.

MR. SPEARS: We require 1 percent, minimum a thousand dollars. That would apply to this program as well. The --

MS. CRESWELL: Oh, so that -- so you -- so that's the same as what you've been --

MR. SPEARS: Right.

MS. CRESWELL: -- doing. Okay.

MR. SPEARS: The -- Gary sent me some statistics this morning. Hold on, I think I can do it from memory. But so far in that $280 million lending that we've done since last September, the average loan to value on the first is 98-something. Combined it's slightly over a hundred-percent LTV, including closing costs and everything and -- and downpayment assistance they use. And you put all that together, and it's just a tad over a hundred percent.

And we had that conversation last spring and -- and so this would continue that. The average FICO score is around 698.

MR. BRAUNSTEIN: 694.

MR. SPEARS: Or, I'm sorry, in the 690s. So these are qualified borrowers, and they qualify by FHA underwriting standards, you know, which have been -- they're doing things a little differently at FHA these days. And as you mentioned, they would be a hundred-percent FHA guaranteed.

And again, yesterday when the secretary was testifying, their goal is to make FHA more financially sound going forward. They're not there yet, but they have a goal, and that's why they're increasing the premiums.

MR. BRAUNSTEIN: One quick caveat on that, our FHA product has a minimum FICO score of 580. We've placed an overlay of a FICO score of 620, just to add a risk management component to that. The rest of our FHA product mirrors FHA's guidelines of requirements from a loan to value into a combined loan to value. We don't exceed either one of them. We -- our product is within FHA's guidelines because it's an insured product.

MS. CRESWELL: And which products do you do the higher FICO score?

MR. BRAUNSTEIN: On the FHA product.

MS. CRESWELL: On this? This is what --

MR. BRAUNSTEIN: Right.

We have an overlay of a FICO of 620 even though FHA as a government-insured product allows the FICO to be 580. Our minimum FICO is 620.

MR. SPEARS: An actual is in the 690s.

MR. BRAUNSTEIN: Yeah.

MS. CARROLL: So I just have to ask a question. I do agree that it's great to see creative ways of continuing to revive. Just a question of what -- what would the risks to the Agency be? There's rarely anything that's without risk.

MR. SPEARS: Well, I mean, you still have the originating lender. I mean if -- we may be in a situation where we have to put a loan back to someone. The only thing is if we don't own the product anymore, they are going to be --

MR. BRAUNSTEIN: Sold off in the secondary market. We've received our -- our cash. The loan, if we have a master servicer that's servicing the loan such as we do today with Bank of America, those wraps and warrants move off to our master servicer.

MS. CARROLL: Okay.

MR. SPEARS: All right. So what I think I'm hearing from the Board is that we should continue to explore this and develop it as a possibility. There are lots of questions that I still have from an operational standpoint. Should we have a master servicer? Should we develop this inside? Do we have the ability to, you know, attract staff into, you know, that area?

But the last bullet here, here's the thing: If we're not using tax-exempt bonds to do this, then there's allocation from CDLAC that's going unused. And we either say no thank you, we don't need it, give it to somebody else, or we can begin something that we've not done before, is a mortgage credit certificate program. We've talked about this before, use bond volume cap. So you -- instead of using it to issue bonds, we use it to issue the certificates. Home buyers use these certificates to purchase a home. And they get a maximum credit of $2,000.

The only -- well, the big difference is that in a bond-funded program, you issue bonds and somebody sells their house, you know, the funds come back to us, and we can churn those proceeds for ten years, over and over again. Once you issue a certificate, you're done. You've used up your allocation of bonds. And so you use it, and then it's gone.

Now, there are a lot of local MCC programs around the state. There is no statewide MCC program. And so, you know, you could either do this and compete with these other programs in local or you could just simply work in coordination with them and say wherever in the state there's not an MCC program, this is available. We just have to work out a lot of details on this, but it's something we haven't done in the past just because -- you know, we just haven't done it, so anyway.

MR. BRAUNSTEIN: One quick thing. The thinking behind that is as our rate creeps up to market rate, as I mentioned in the past, we're dealing with a network of approved lenders so we always need to look at what products we're offering as an investor versus them doing their products on their own lending programs. And it's either we have a rate advantage, an eligibility advantage, or a price of the product advantage.

So our thinking was as the rates get closer to the market rates, what additional value add can we provide to our borrowers and to our lenders to use our FHA product, for example, versus using their own? If we offer an MCC program available throughout the state, we can process MCCs as a standalone or with or behind our current FHA product as a value add to our lenders to use our FHA product, you know, if they have a single source, to be able to provide that borrower an MCC credit.

MR. SPEARS: Right. Just another thing that we have.

Okay. Unless there are other questions about single family, let's move quickly to the multifamily lending ideas that we've got for the Board.

And I think some of these we have talked about. We have talked about continuing MSHA. We still have quite a bit of -- of funding available to use for MHSA. There are discussions about going down the road is more funding going to be allocated into CalHFA. We're not sure how that is going to go.

We have New Issue Bond Program completely completed at this point, so a lot of the activity this year is going to be closing those deals, getting them done, moving them on and, back to Ms. Peters' point, collecting information about those and forwarding them on to Treasury to tell the story.

MR. DEANER: Yeah, and that number just got bumped up yesterday. I had a meeting. We have a $70 million New Issue Bond Program deal that's going down here in L.A. We met with them. We felt we were going to close it this fiscal year, and it's going to be pushed to next fiscal year, so that number is really 77 and a half million that will close in the next fiscal year with the New Issue Bond dollars with a little bit of private placement. And then you'll have the remaining 92 where we'll work on the restructure of our portfolio. So a little larger -- it will be a little larger in the next fiscal year.

MR. SPEARS: Right.

And the third bullet is going forward. As we said before, we don't have a lot of capital to work on an uninsured basis, either on the single-family side or the multifamily. So -- so moving forward, conduit issuing is for now our -- you know, our execution, where the loans are credit enhanced by either Fannie or Freddie, insured by FHA or financed with another lender, but all we do is issue bonds, act as a conduit issuer.

We have up-front fees. Again, it's back to Ms. Peters' point, you know. We're going to get a fee out of this, not an annuity, so we need to make sure that we are set up that way, you know, along that basis so --

MR. DEANER: We do get a little annuity. We'll get an eighth or a quarter point as an administrative issuer. If you do a billion dollars in volume, you can generate, you know a million dollars annuity going forward as you build that up.

MR. SPEARS: Right.

Let's go to the next slide, though, and talk about some other executions that we have talked about. We've been talking to both Freddie Mac and Fannie Mae, and I think we've reported to the Board on this before.

MR. DEANER: We have.

MR. SPEARS: And the FHA risk share is something that's standard. I mean it's -- it's in law. It's nothing -- nothing new. We -- in the past I think we have had an FHA risk share program on a 50-50 basis.

MR. DEANER: We do. It's currently the same. It's a 50-50 basis. It's just capital is still needed on that 50 percent.

MR. SPEARS: Right. And that would be the problem, is that, you know -- that they take 50 percent of the risk, we take 50 percent of the risk. We're just not in a position to do that. We're talking about upping their risk, which I think they can go to as much as 90 percent to them, 10 percent to us, I believe is --

MR. DEANER: 90-10, yeah. The question becomes do you need to go back to Washington, D.C., to HUD to get approval for that via versus the local two hubs, which is L.A. and San Francisco, if you're going that high, because you get close to what they call their map on our status, which is different than a risk share status. So that's something that we still need to clarify with them, if we go that high. They -- they -- you can go different levels: 50-50, 75-25, 90-10. It's just a question of what Bruce ultimately tells me and Steve, if we have capital, then we do back into what risk we can take.

MR. SPEARS: And again, that all gets back to rating agencies. When they do that cap test, how much do we have to work with, and we want to be very conservative about that.

Okay. So if there are not questions about the first three, the last bullet is -- is a bullet not on an ongoing basis, but for this year. We've been exploring the idea of taking some of the multifamily portfolio that we already have that's enhanced with our own general obligation credit and transferring that over and having a credit enhanced with triple-A rated GSA Fannie credit enhancement. If we can do that, it takes a lot of pressure off our GO, and the multifamily ventures are under our GO rating.

And it would require a lot of work in Margaret's shop and Bob's shop, but it's an idea that might provide us a little relief on the capital structure side. So it's something kind of in Bruce's shop. It's going to -- but the work is going to have to be done in the asset management area. And what it involves is going back and going through their underwriting, you know, as if they had done it to begin with.

Questions?

If not, let's go to the next slide, and this would be Margaret's area.

On -- I mean the biggest thing here is -- that's new that we hope -- and Margaret, if you want to talk about the PBCA process at this point. We talked about this for a very long time.

MS. ALVAREZ: HUD finally did release their invitation to bid for the PBCA, and we're in the process of buttoning up our bid package with our third-party contractor, who will be doing the actual work. And the bids have to be submitted to HUD by April 25th. And the selection takes place hopefully by July 1st. We'll know one way or the other.

MR. SPEARS: Former Board member Carol Galante spoke about this in the absolute briefest of terms you could possibly imagine at the meeting in Washington, D.C., and simply said that they would like to get decisions made towards the middle of the year so they could transition, and so by the end of the year, you know, we're all ready to go.

And in California, again, Margaret, how many properties are we talking about?

MS. ALVAREZ: It goes by contract. It's 1,357 contracts that would be administered in -- the fiscal year for HUD starts October 1st, so that's when the contract would start.

MR. SPEARS: Now, in Margaret's area again, we've said this over and over again, all the MHSA and -- and -- and financing that multifamily does transfers right to Margaret's workload. And then if we do get PBCA, that requires more asset management staff. It's a good feed every year. It's, you know, not as much as we originally thought, but it's still good feed. And we need to staff it up and do it properly because we'd like to turn that into a really good relationship with Washington, D.C., and have that become an annuity that we can count on on an ongoing basis.

Questions?

MR. GUNNING: Who are the contracts with? There are not that many multiple agencies that are doing this type of lending. Who are the contracts with? You said 1300 something.

MS. ALVAREZ: Well, they're -- they're HUD Housing Assistance Payment contracts, and right now they're administered by two different entities, one that has Northern California and one that has Southern California.

MR. GUNNING: Not by each county?

MS. ALVAREZ: Not by each -- well, there's all different kinds of --

MR. GUNNING: Yeah, that's --

MS. ALVAREZ: -- like, housing authorities administer HAP contracts. We administer our HAP contracts for our loans. But there's a pool that goes directly from HUD. That's the 1,357. And the whole goal was by Congress to try to standardize how things are done and reduce expenses to the federal government. So each state will have a PBCA, and one person administering all the contracts for the state.

MR. GUNNING: All right.

MS. ALVAREZ: As our loans come to an end, as many of them do over the next few years, if those owners get their housing assistance contracts extended, the HAP contract administer would move from CalHFA to the PBCA.

MR. SPEARS: Any other questions?

If not, there's one last slide. Here again, this is something that we've talked about before. We're still making investments in -- in our business systems. The loan origination system is scheduled to come up very quickly here.

The enterprise content management, again, is a -- we're trying to centralize, save money with computer systems, paper printers, the whole thing by -- by -- with -- with a standardized way of storing and searching documents. A lot of businesses are doing it this -- this way. And we're moving ahead. It's one thing, though, I've kind of put on the back burner with everything else.

But the one thing we've kind of moved to the front burner and long before the tragedy in Japan was when we moved to new locations in West Sac and the new location in Sacramento, we started putting things in place to update our business continuity plan, which is bringing our business back up, which comes first, where are we going to do business if we have a big emergency, emergency response and also our operational recovery, our IT systems, how we bring those back. Those pieces of that puzzle have moved around.

And then the other thing we found out we need to update what we've got in Culver City too and standardize it across the board. And it just -- with what's happened in Japan, it just makes it all the more important and brings it more to light.

So with that, that's our presentation.

MS. PETERS: Just a closing thought, great job. It's been wonderful to see the progression of the things you have told us about staff over the years I've sat on the Board. I know the Board has given direction, and the staff has clearly heard it and clearly been responsive on the issues of minimizing risk and also being creative in defining what our value as a housing agency is to the marketplace separate and apart from what we've already placed, so it's really encouraging to see that. Great work. Big difference from how it looked when we started this crisis.

And also, just as we put this together for May and as we move forward, the Board had been talking about focusing on our mission and really critically thinking about everything we do and how it fits into that mission and making sure that we're doing something that, you know, is appropriate for a government agency separate and apart from competing with the private sector. So

I'm really looking forward to seeing the focus come in on -- however things shake out on what our role is going to be in meeting that mission.

ACTING CHAIRPERSON CAREY: Any other comments?

MR. HUNTER: I recognize that, you know, the multifamily activity is a relatively small subset of the total portfolio of CalHFA and that CalHFA has -- has really largely been focused on homeownership. I guess going back to, you know, the concern about the disappearance of redevelopment authorities, that specifically puts at risk roughly a billion dollars a year of funding for affordable housing and particularly is about the only local source of multifamily housing with HCD's few remaining bond funds on hold and all the various challenges.

I just think it's -- you know, this goes a little bit back to some of what we were talking about in the performance review. It's a really critical time for CalHFA, HCD, and the Taxpayer Allocation Committee to really be thinking about what are the -- what resources can we bring to bear and try to continue the development of multifamily housing, which is the housing that's -- the only housing that's really affordable to very low income people.

And while CalHFA's mission continues to be homeownership, which is really kind of low to moderate income, there's a tremendous number of people in California who desperately need access to affordable housing. And I just think it's a very challenging time and it would be -- I don't know if it can be addressed in the business plan at this point because there's too much uncertainty about where -- what's going to be happening between now and May, but, you know, I would really appreciate the opportunity to kind of hear from all of the housing organizations together, sometime in the summer or fall, you know, all -- all you folks working together.

What -- now -- once we know what happens or doesn't happen in June, what are we going to do going forward? What resources do we have and how can we best leverage federal investments, and just, you know, what -- and then for this organization in particular, what will -- what tools, if any, can CalHFA bring to bear on that? It's very complex.

MR. GUNNING: It's funny because in the President's report, they just said not everyone is going to be a homeowner. We have to think about multifamily, and that could be the next growth area.

MS. CRESWELL: I just wanted to add I agree. I also just want to mention with regard to the pause and some of the things we are funding, we did ask CalHFA, CDLAC, and TCAC to meet with us to talk about a specific set of projects that were being addressed by the pause, but it might be an opportunity for us to at least start some conversations about moving forward with the new environment, and I think we're doing that meeting next week.

ACTING CHAIRPERSON CAREY: Great.

MR. HUNTER: That's great to hear. And, you know, I just think we kind of skipped over it real quickly, but one of the places where the redevelopment issue particularly impacts CalHFA's portfolio, every MHSA deal in the pipeline in San Diego has redevelopment money in it. Almost all of the L.A. deals, which is, you know -- MHSA is well over a hundred million dollars, the deals in L.A. Almost all of those have some form of redevelopment money in them.

So, you know, if that resource disappears, MHSA may continue to be able to produce units, but only if they dramatically change the underwriting and produce far fewer units.

MS. CRESWELL: And the impact even just on targeting as well is going to be a big one.

ACTING CHAIRPERSON CAREY: Other comments?

MR. SPEARS: One last comment and that is on this issue of homeownership and the percentage of homeownership, and I appreciate your comments, but there was an interesting exchange at the executive directors meeting when Assistant Secretary Raphael Bostic from HUD spoke. And there was a specific question from one of the EDs, what percentage of homeownership is acceptable to this administration, and he just couldn't answer the question. He really wanted to, but they just -- you know, given -- given the things that they're proposing, I think it's going to be lower, unless everything else changes. So it makes Mr. Hunter's comments more on target.

All right. So we have our comments. I took a lot of notes. And we'll be back in May with either an absolute clear crystal ball in one plan or a plan A, B, C, D and E and F. But we'll -- we'll have a good discussion in May.

ACTING CHAIRPERSON CAREY: I think we choose the hundred-percent accurate picture.

MS. PETERS: And a winning lottery ticket.

ACTING CHAIRPERSON CAREY: Really.

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Item 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 (Resolution 11-04)

ACTING CHAIRPERSON CAREY: Okay. We will move on to item 6.

Bruce, you handling that?

MR. GILBERTSON: Yes.

ACTING CHAIRPERSON CAREY: These are the -- the next two items are the amendment to the resolutions adopted at the previous Board meeting.

MR. GILBERTSON: Thank you, Mr. Chairman, Members of the Board. I'll try to run through this fairly quickly.

Resolution 11-04 is an amendment to the single-family financing resolution adopted at the January meeting. That was Resolution No. 11-01. The -- the discussion at the January meeting centered around the changes that we had made to the financing resolution and the desire by the Board to have new bond indentures come back to the Board for approval prior to the Agency using those. Unfortunately, to make a simple amendment like that took a number of pages and -- because of the integration of the new indenture into that resolution.

But what you have in front of you is 11-04 that effectively is going to require that the Agency before using a new indenture for either debt refunding, debt restructuring purposes or to finance new lending initiatives in the future, that we would present the indenture to the Board for approval, take a vote on it before we ever go to market and use the resolution.

I think we've captured the intent of the Board. We looked at the minutes very carefully as we drafted this, working with bond counsel.

And with that, I'd just open it up and see if there's any questions regarding the amendment that is in front of you.

ACTING CHAIRPERSON CAREY: Any questions or -- Katie, can I ask, does it --

MS. CARROLL: I have no questions. Thank you very much.

ACTING CHAIRPERSON CAREY: I rely on your expertise personally.

With that, we have Resolution 11-04 in front of us.

MR. HUNTER: I'll move the resolution.

MS. PETERS: I'll second.

ACTING CHAIRPERSON CAREY: A motion and a second. Roll call, please.

MS. OJIMA: Thank you.

Ms. Creswell.

MS. CRESWELL: Yes.

MR. HUNTER: Do we need to do public comment?

ACTING CHAIRPERSON CAREY: Oh, thank you.

MS. PETERS: Thank you.

ACTING CHAIRPERSON CAREY: This an opportunity for public comment. If there's anyone in the public who would like to address this particular issue, please indicate.

Seeing none, proceed with the roll call. Thank you.

MS. OJIMA: Thank you.

Mr. Gunning.

MR. GUNNING: Yes.

MS. OJIMA: Mr. Hudson.

(No audible response.)

MS. OJIMA: Mr. Hunter.

MR. HUNTER: Yes.

MS. OJIMA: Ms. Carroll.

MS. CARROLL: Yes.

MS. OJIMA: Mr. Smith.

MR. SMITH: Yes.

MS. OJIMA: Ms. Peters.

MS. PETERS: Yes.

MS. OJIMA: Mr. Carey.

ACTING CHAIRPERSON CAREY: Yes.

MS. OJIMA: Resolution 11-04 has been approved.

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

ACTING CHAIRPERSON CAREY: Okay. Item 7, Resolution 11-05.

Bruce.

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

Resolution 11-05 is an amendment to the Resolution 11-02, which was the multifamily financing resolution approved by the Board in January. Again, the intent is the same, to restrict the use of new indentures to only those indentures previously approved by the Board, with -- with one fairly significant change, and that's -- that's related to the multifamily conduit financings and the bonds that are used for a conduit financing program. We discussed this at length at the last Board meeting.

So this resolution, the amended Resolution 11-02, would allow us to use new forms of indentures for conduit bond purposes. And again, conduit bonds do not present any additional risk to the Agency. It's simply a passthrough to the developer of multifamily rental housing apartments.

And so this would allow us to do that in that very unique situation. Other than that, if we were to do bonds of the Agency that were balance sheet type lending activities, we would come back to the Board. We'd vote on the form of indenture used for that purpose before we'd ever go to market for either new money or debt restructuring purposes.

Are there any questions regarding Resolution 11-05?

ACTING CHAIRPERSON CAREY: Any questions or concerns?

Seeing none, do we have a motion -- we will have public comment. Well, actually --

MS. PETERS: Do we have to have a motion first?

ACTING CHAIRPERSON CAREY: We need a motion.

MS. PETERS: I'll move.

MR. GUNNING: Second.

ACTING CHAIRPERSON CAREY: Moved and a second.

Okay. We have a motion on the floor. It's been moved and seconded. This is the point where we would accept public comment on this matter. Anyone care to speak to the Board, please indicate.

Seeing none, roll call.

MS. OJIMA: Thank you.

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. Smith.

MR. SMITH: Yes.

MS. OJIMA: Ms. Peters.

MS. PETERS: Yes.

MS. OJIMA: Mr. Carey.

ACTING CHAIRPERSON CAREY: Yes.

MS. OJIMA: Resolution 11-05 has been approved.

ACTING CHAIRPERSON CAREY: Thank you.

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Item 8. Update and discussion regarding the status of the Keep Your Home California Program

ACTING CHAIRPERSON CAREY: Now move on to item 8, update discussion of the Keep Your Home California.

Di Richardson, welcome.

MS. RICHARDSON: Thank you. I have the slides on the projector but I -- do you need me to do that as well? You have them in your book.

ACTING CHAIRPERSON CAREY: Folks? What would you like, folks?

Sounds like the book's fine.

MS. RICHARDSON: Okay, good. Thanks.

I'm going to go through the beginning of this fairly quickly. I think, you know, that's a lot of information that you already know. I will tell you that Mr. Spears and I appeared before the Assembly Banking and Housing and Community Development Committees this last Monday to give them an update on the program. This is basically the same presentation that we gave them.

The first slide basically, again, just talks about the objectives of the program, which you're very well aware of. There are four programs, as you know, an unemployment program, a mortgage reinstatement assistance program, principal reduction program, and a transition assistance program. And there you have a sheet that has the current allocations among the various programs and the number of households that we expect to be able to assist.

There's just information in here on the general eligibility requirements, which I think we've talked about a million times, and the property eligibility requirements. And I would say if you haven't gone to our Web page for this program, I think it's pretty good. We've worked really hard on it. I think it's very intuitive and very user friendly, and a lot of times I get questions from people and walk them through that Web page, which is www.keepyourhomecalifornia.org. And I think we really have everything covered there.

Moving on to page 7, which talks about the general property exclusions, you know, we have a requirement that the homeowner cannot -- that they have to own the property. It has to be their primary residence. We currently also have as an overarching criteria that the loan was originated before January 1st, 2009, and that the homeowner had not taken any cash out.

The January 1, 2009 date, just so that you know where that came from, that mirrors the requirements of HAMP. And when we were creating these programs, we were trying to create a continuum of programs where a borrower could get unemployment assistance and get resolved there and get reinstatement assistance, if that's what they needed, and then move on to the PRP, which would be coupled with a modification, which was most likely HAMP. And that January 2009 date mirrors HAMP. So that's where that came from.

We now -- all the programs are up and running.

The unemployment program has been up and running since the beginning -- beginning of January, January 10th, I think, and the other three programs came out in February. We have -- so we've got a little bit of experience, and based on what we're seeing, we are going to make some changes to the unemployment program, the reinstatement program, and the transition assistance program.

Specifically, we're going to eliminate that January 1, 2009 date because we're finding that actually there were several borrowers that are applying for unemployment that refinanced after January 1, 2009, didn't take any cash out, but they're being restricted from this program because of that.

We're also going to eliminate the cash-out refinance provision for those three programs. The unemployment rate in California continues to be above 12 percent. You know, whether you're employed or not has very little to do with whether or not you took cash out, and quite frankly, we think that the people that are unemployed are in a different situation. For the reinstatement program, they've resolved their hardship, and they should be able to move on. And clearly on the transition assistance program, they just need help getting out.

We're going to retain those requirements for the time being for the principal reduction program. That one is obviously a little slower getting going. I think we don't have enough experience to say whether or not we think those same changes need to be made, but, you know, $50,000 is a lot of money for principal reduction, so maybe we'll continue to be a little bit more restrictive there.

The next couple of slides, I'm going to just really skip, just talk about the programs in a little bit more detail.

Servicer participation. You know, we have the five big servicers signed up for all -- for unemployment. That's one that everybody's very focused on making successful. Guild, which is one of CalHFA's big lenders, have signed on all four programs. We're actually starting to see a lot more activity from what we call internally the second tier, which are like the credit unions. I expect to have the Navy Federal Credit Union on very shortly. Midland is, you know -- sent me incomplete paperwork, but I will have that resolved very soon. And IBM, I think, is going to be coming on. So there's a page, page -- mine doesn't have a number, but tells you which programs the banks are participating in.

I will also tell you that we are -- I have probably three conference calls a day with different lenders, some of them several times a week, to get them onboard for the other programs. We're this close to getting Bank of America onto the principal reduction program. We've got one outstanding issue that we need to get resolved. I'm confident that we're going to get there. We tried to do it by the end of last week and just didn't quite make it. And then once we get them onboard for the principal reduction program, they'll come on for MRAP. It's just a matter of limited resources on both teams and concentrating on one step at a time.

There is a page that talked about the servicers that are actively in the onboarding stage with us.

Our centralized processing center is working very well. It's very impressive. Any of you that are going to be in the Riverside area, I would love to set up a time for you to visit them, see them. You could sit in on borrower calls, you know, actually hear the kinds of calls that are coming in.

We had a visit from the Department of Treasury earlier this month. I have no sense of time, I'm the first to admit. But they sent a team out to do a pre-audit sort of a meeting with us, and they were very impressed, had nothing but great things to say about what -- what they saw.

And they did sit in on calls in each stage. They listened to calls coming in at the triage. They listened to calls in the counseling session. And then they sat with our processors that were finishing the eligibility. So it was a very complete visit for them.

And it's quite, quite interesting. I would really, if you're going to be down there, ask you to give me a call and let me set that up for you.

The -- the recent developments, obviously, the changes that we're proposing to make to those three programs, we plan to roll those out. My -- my goal is April 4th. We're in the process of changing all of our systems internally and working on new scripts, and we'll be training staff on that.

And I also have to get new term sheets approved by Treasury because, remember, all this is a contract. I have discussed these changes with Treasury, and they are fine with them. It's just the mechanics of getting them approved and getting them off to the lawyer and getting the new contract signed. But I'm not really anticipating a -- a problem there.

We do have three candidates for the Innovation Fund that we've talked about a little bit before. I'll tell you who they are. Two of them are -- one of them's really close to being approved. One's a little closer, and one we have a little bit more work left with. The first one is Community Housing Works in San Diego. They proposed a program to help eliminate seconds on mortgages that are not qualified for the HAMP 2MP program. So this is a program that they'll work with smaller community banks. Great program. We're really very excited about it, and I think that one’s a done deal.

The second program, which is sort of the next closest, is with the L.A. Housing Department, and they're partnering with One LA. You'll remember One LA came and spoke to us a couple of times. And Treasury has some outstanding questions about that program that we're trying to get resolved.

The third program would be a partnership with Sacramento NeighborWorks. It's a rent-to-own model. We received several applications for rent-to-own models, and we thought this one was the easiest, best, you know, least complicated. I'll tell you that when we were originally talking about these programs with Treasury, they were really -- they said, "Have you thought about -- have you looked at any rent-to-own programs? Those are really intriguing."

So then they came back and kind of -- what's the nicest way to say it -- weren't as enthusiastic once we really submitted it. But we at CalHFA and the CalHFA MAC team are very committed to that program. We think it's a great program, and we're going to continue to fight for it.

So hopefully we'll get -- I think the first two might get up and running first, but our goal is to get those up and running and under contract pretty soon so we can see how they're working.

There is a slide, I believe it's No. 18. This is a slide that shows you the number of homeowner action plans that have been completed by program from September through March 8th. Remember -- so this would include the CalHFA pilot program and our current -- our current participants.

And the homeowner action plan means that they've gone through triage and they've completed counseling. At the end of counseling they have a plan, and we're waiting for their paperwork to come in, everything, you know, that they need to give us to verify the things that they've told us. And then, you know, we can fund it. And so you can see the loans that have been funded to date and the number of loans.

The next slide I thought was important to share with you just because this demonstrates -- this is after the borrower's gotten their homeowner action plan, so it's after counseling. And this is the dropout rate, the ineligibility, so we're still not able to really verify some of the information that they gave us.

They may -- you know, some people don't really know what their income, their real income, is. A lot of people -- I think we actually have people that try to game us a little bit. They'll call once, and they'll be told that they're ineligible because they own a second property, and so they'll call back and say, "No, I don't own another property." We run credit checks, and we run CoreLogic reports, and it's amazing how often that stuff pops up, and they didn't think we'd find out. You know, this just shows you that once we get to the verification stage, there still is a dropout.

ACTING CHAIRPERSON CAREY: Di, this is the ineligibility of people who called CalHFA directly?

MS. RICHARDSON: Mostly, because -- yeah, or they could have come in through a counselor.

ACTING CHAIRPERSON CAREY: But it doesn't -- but it doesn't count the people who were screened out by the counseling agencies.

MS. RICHARDSON: Correct. It does not count the people that were screened out by the counseling agencies or that failed at triage or that failed at counseling.

I mean, you know, they could drop -- they could be caught any -- at any of those places. This is where they've finished counseling, and we think they're perfect candidates, and then something doesn't quite fit.

The next slide, which shows the top ten counties, this just sort of shows you -- these are calls -- these are the calls that have passed triage, so they could be at any stage. They could be in counseling or in eligibility or funded, but you could see that most of the calls have been from the Los Angeles area. And so we're -- you know, we're tracking that to find out if there are other things we need to do.

I will tell you that we have met with our advertising agency. We -- we've actually got a fabulous amount of free press on this to date, and I could pass this around if you want to look at it. This just shows every story. Steve and I have lost our voice a couple of times talking about this program. But despite all of the free publicity, there's still a lot of people that don't know about the program.

We're averaging about four or five hundred calls a day, and we thought we would get more. So we're working with an advertising agency to come up with a strategic campaign to help us get the word out, and we hope to have that in place and going in May.

MS. CRESWELL: So do you -- would you operate like in Fresno and some of the other Central Valley and you just aren't getting any?

MS. RICHARDSON: Fresno was 12th, I happen to know.

MS. CRESWELL: Okay.

MS. RICHARDSON: Yeah. I -- and -- I can show you. I have a list of all -- we're statewide.

MS. CRESWELL: Okay.

MS. RICHARDSON: It's just that --

MS. CRESWELL: Is that in --

MS. RICHARDSON: -- those are the top ten.

MS. CRESWELL: I mean, that would be pretty striking in Stanislaus and --

MS. RICHARDSON: And I think that -- I mean I think that maybe -- after I ran this report, we've done a couple of radio interviews.

MS. CRESWELL: And have you worked like with the League of Cities or CSAC to get them through some of their local, you know --

MS. RICHARDSON: I've talked to them very briefly and asked for meetings, but we haven't done that yet.

MS. CRESWELL: I would just think that would be a really good way to get out information, especially -- and there's like the rural counties and things --

MS. RICHARDSON: Right. I agree.

MS. CRESWELL: -- and groups like that that would be good to get the word out to --

MS. RICHARDSON: And we do -- we are trying to get everybody and their mother to put our link on their Web page, so if any of you have a Web page and haven't done that.

ACTING CHAIRPERSON CAREY: And, Di, this is the calls into the CalHFA number? Do you have --

MS. RICHARDSON: It's the 800 number, right.

ACTING CHAIRPERSON CAREY: Do you have statistics on -- on what's going into the 37 counseling organizations?

MS. RICHARDSON: You know what I do, Peter -- Mr. Carey, sorry -- I -- I know the counseling -- the local counseling agencies have been up and running for about a month now, and it's been a little slower than we expected. I think the changing of the criteria will make a big difference there. I also think -- I mean, I shouldn't have been surprised that it was a little slow, based on what we learned from the NFMC. You know, there is an adjustment period.

We were finding that a lot of -- you know, they -- they have direct access to the Cal MAC system through a portal. And we were getting a lot of incomplete information. They weren't completing the screens, and we were having to go back and ask them to do it -- you know, complete them and do them again.

So we've got a call with them on the 22nd, and we'll be talking about the changes that are coming up. And, you know, these are monthly calls that we'll have with them, you know, what's working for them, what we need them to do differently, sort of do some troubleshooting. So I think that those numbers will start picking up.

ACTING CHAIRPERSON CAREY: Great.

Yes.

MR. GUNNING: A couple thoughts. If you do Google alerts, I've been getting a ton of these things, so it seems like, you're right, press-wise it's every day something comes in from some local agency. So compliments on --

MS. RICHARDSON: Thank you. Our marketing staff, I think, has been doing a really great job.

MR. GUNNING: And then secondly, the Mortgage Assistance Corporation, what entity is that? Is this a new entity we created?

MS. RICHARDSON: Yeah, that's our nonprofit entity that we had to create to accept the funds and disburse the funds.

MR. GUNNING: Is this the JPA?

MS. RICHARDSON: It's not -- it's not a JPA. It's a 501(c)(3) nonprofit entity that was specifically created for the purpose of administering these funds.

MR. GUNNING: And then on the counties, you always hear how San Joaquin, Central Valley, is hardest hit, the Stockton Tracy area. Why would they be No. 10? Just sheer numbers?

MS. RICHARDSON: Just where the calls are coming from. You know, we did -- I'm trying to look for my list now. I know I have it here. I think it's been a little bit about where the press, the -- I think that the press in Los Angeles has been more aggressive. You know, we've had great write-ups in the L.A. Times. We've appeared on a couple of newscasts down in the L.A. area. We've been in several Bay Area papers. There's Kathleen Pendering, I think her name is, with the San Francisco Chronicle that's written on it a few times. Steve, Mr. Spears, has sent out letters to editorial boards across the state. You know, we've sent letters to every legislator with sample constituent letters, hoping that they'll help us get the word out. The office -- I believe it's called the Speaker's Office of

Majority Services is putting together a news blast for all of their members to send out to constituents.

So, you know, we're trying to hit it every way we can. Anytime we get an invitation from a group, somebody's there. We've done a couple of -- you know, Chase actually does their own event where they send notices out to their borrowers, and their borrowers come into their centers and see if they qualify for loan modification, and we have counselors attend those events. We try to utilize not only counselors from the processing center, but we contact the local counseling groups to find out if they're willing to participate and send people.

MS. CRESWELL: So if we have ideas of folks that might -- that you may not have thought of, can we just send them to you, Di?

MS. RICHARDSON: Yes, please. Please.

MR. GUNNING: And then finally, Di, the Legislature, are they still concerned with speed? Have you quieted that down now? I know I was getting a couple inquiries, when the program was going to be running.

MS. RICHARDSON: The questions, I think, that came up on Monday were from -- Mr. Fuentes expressed concern that the Legislature really didn't have a hand in creating these programs, and, you know, he was a little concerned about that, but, you know, it sort of is what it is. And he's -- he's known about them, clearly. He participated in the press conference with One LA last spring, so it's not been a secret that this has been going on.

And I think that most of the -- the other questions had a lot to do with marketing and how are you getting the word out, how are we going to let people know? I will tell you that I don't know that they've actually ever come to speak to this Board, but there is a group, formerly Maguhi (phonetic) and now it's the National Asian American Association or something like that. I can't quite remember the name. They have been very vocal in going to Congress, including Congressman Filner and Congressman Issa, and arguing that we were wasting $800 million by having that money set aside for principal reduction and that those funds would be better used to fund local counseling programs.

And we have said repeatedly that -- and I've shared with them the language from Treasury that says that these -- counseling is not an authorized use of these funds. HUD provides money for counseling. You know, NFMC's funds are available for counseling. And that is not an appropriate use unless it was specifically incidental to a transaction, which we've included funds.

But I'm continuing to get letters. We're continuing to get letters from that group and those two Congressmen specifically.

MR. SPEARS: There were questions, Mr. Gunning, from Chairman Eng about how fast we think the money would be going out the door, did we have a time line. And we did originally with Treasury on some of it. He wanted us to put together -- and we promised to get it to him -- a model based on current servicer performance, increasing our anticipated servicer performance, and the way the program is designed today. So we had promised to give that to him as soon as we can get it.

ACTING CHAIRPERSON CAREY: Ms. Peters.

MS. PETERS: A couple quick questions. On this grid of the allocation of the different programs --

MS. RICHARDSON: Um-hmm.

MS. PETERS: -- is that flexible at our discretion, or is that something if we decided one program is working great and one is not, that's something we can change, or do we need Treasury to sign off?

MS. RICHARDSON: We need Treasury to approve it. They actually approved the budget. So anytime we make a change, they have to approve it. But they're very open to that.

MS. PETERS: At this early stage do you have any comments on what needs to be approved, or is it too soon?

MS. RICHARDSON: No, I think it's a little soon. Obviously when we get the three Innovative Fund programs, that will require a change to those allocations. But I -- I think -- I think it's a little soon right now to change. I don't think -- you know, it's -- we're a month in. Nothing's so -- so great or so hideous that we're ready to recommend a change.

MS. PETERS: And then my last question was on the Innovation Fund, the One LA program that we all heard here did not seem apparently to be viable and yet it's still in the Innovation Fund. Is there a different program they're working on there?

MS. RICHARDSON: Well, they've made some changes to it. They don't always tell you about the changes that they make. Their biggest -- sort of their biggest obstacle right now from -- that I would think or I would characterize it is, you know, Treasury read it and said, "If this looks exactly like HAMP, why would somebody participate in your program rather than in HAMP," which is a question we've asked several times. And they need to get -- give us a good answer to that.

But, you know, the way we anticipate is -- you know, we've said all along if they've got a great program and they think it works better than ours, we're willing to give them a chance, but they will have a limited amount of time to prove that it's going to work. I do not believe they have done any modifications yet with their current funding, but, you know, if they could do it successfully, then more power to them.

MS. PETERS: And I presume there hasn't been any word of anyone in the lending community beyond their initial one million dollar pilot stepping up to participate or has there?

MS. RICHARDSON: I don't want to speak for them, but I know that the last I heard, they were having intense discussions with Chase and one other lender that I can't think of right now.

MS. PETERS: Could you keep us updated as you get --

MS. RICHARDSON: Yes.

MS. PETERS: -- more information?

ACTING CHAIRPERSON CAREY: Speaking of lenders, Di, can you talk a little bit about the partial payment problem?

MS. RICHARDSON: The partial payment problem.

ACTING CHAIRPERSON CAREY: Because it's one of those that sort of defies reason, and I've had people from outside --

MS. RICHARDSON: Well, and they're --

ACTING CHAIRPERSON CAREY: -- roll their eyes and --

MS. RICHARDSON: Right. Under our unemployment program, we will pay up to $3,000 a month. No, I'm not reading that right. I guess I could look at -- up to $3,000 a month per house.

And when, you know, the program was created, it was our belief that -- you know, this is a program for low and moderate income homebuyers, that $3,000 a month was a generous contribution from us and that the payment -- you know, although the unpaid balance, principal balance, can't exceed 729, 750, it's really going to be governed by the income weekly.

So we have -- we met back in Washington last September, I believe, with the five major servicers and the Department of Treasury, and we talked about this issue. And they wanted full payment. They wanted the whole payment. And the agreement among those five was that they would only accept full payment. And Fannie and Freddie also said that.

We made it very clear at that time that we are going to pay up to $3,000 and they would have the choice, then, if they wanted to -- you know, there are things that they could do. They could accept partial payment. They could forebear the difference. I'm not saying it's easy things for them to do. They're -- I'm sure they're, you know, accounting nightmares.

But we have had some lenders that have signed up that have agreed to take partial payment, so I know it's possible. None of the big five are taking a partial payment.

And they have -- we -- we are the only state, I will tell you, that has a monthly cap, but we are the only state that has home prices like we have. And their -- the preference of the big five would be for us not to have any monthly payment cap. If we wanted to keep our $18,000 program cap, keep that, but just let them use it as they wish.

Our -- again, our goal when we created the program and we did our research, unemployment, typical unemployment, in California is eight months. So we created our program. If we could get you through six months and if the servicers could, you know, add on an additional three to six months on the back end, that should get you through your unemployment period.

You know, allowing somebody to have four or five thousand dollar payments or only getting help for four months, I think that, you know -- we were asked quite often, "Aren't you just kicking the can down the road?" And our thought at this time is that if we do that, we are kicking the can down road because what happens at the end of three or four months?

We are continuing to talk to them about that, but at this -- at this point -- I mean we -- we've talked about, you know, just having the program cap. We've talked about increasing the $3,000 to 35. Whatever we increase it to, it's a cap, and somebody is going to complain that they were left out.

ACTING CHAIRPERSON CAREY: I mean, the difficulty is not the $5,000 but where it's -- where the payment is 3,030, and -- and the bank won't take the 3,000.

MS. RICHARDSON: Um-hmm.

ACTING CHAIRPERSON CAREY: But -- but we used to say in Africa, “When the elephants fight, it's the grass that suffers,” and somehow or another you've got homeowners caught in that --

MS. RICHARDSON: That's correct.

ACTING CHAIRPERSON CAREY: -- that crazy bind there, and I'd sure like to see what options there are for that. And it seems incredibly shortsighted for the banks, the servicers, to be unable or unwilling to --

MS. RICHARDSON: They would like us to collect the payment from the borrower and put it together with our payment and send in a single payment.

MR. SPEARS: I'm sure they would.

MS. RICHARDSON: Right. And we -- you know, our just -- our -- our central processing center is set up to disburse funds. They are in no way set up to collect funds. That would be a whole nother project, which I might have to kill myself if we have to do that.

And there are some -- some other states that have contracted with U.S. Bank to do it. And I've -- you know, I've asked staff to take a look at that and find out what it would cost. You know, California is a huge state. It could cost us a lot, and then we'd have to pay the benefit of the cost versus the benefit.

ACTING CHAIRPERSON CAREY: Right.

MS. PETERS: Do we have any statistics on whether it's a thirty-dollar miss or a thousand-dollar miss?

MS. RICHARDSON: Yeah, I've actually -- I don't have it with me, but I have asked the central processing center to give me that data and so I -- they're getting it. I don't have it with me.

MS. PETERS: It would seem that given the fact that they're income-limited in the first place to get into the program, that it seems to be a sweet spot where there's always going to be someone who's got a payment that they're going to complain about.

MS. RICHARDSON: Um-hmm.

MS. PETERS: But there would seem to be a sweet spot and if we need to bump it up to 35 or whatever it is.

MS. RICHARDSON: Right. And we're looking at that.

ACTING CHAIRPERSON CAREY: It's in the, certainly, public eye. It just looks like people are caught between two bureaucracies.

MS. RICHARDSON: Right. Right. And I will tell you that I know of at least one instance where the servicer went back and there was forced placed insurance, and they removed that, and that brought the payment under $3,000, and it's all good. But they don't want to do that for -- you know, they don't want to hand touch each of these.

MS. CRESWELL: What's the time frame for sort of relooking at this?

MS. RICHARDSON: Well, we're looking at it every day. You know, I mean I don't know when we'll have a recommendation. I -- I think that we'll want to get --

because, again, we're going to have to go back to Treasury and have our term sheets amended again, so it won't be in the next couple of weeks. I think what we'll want to do is take a look at what these new changes have done to volume and, you know, where that gets us, but we're continuing to look at it and talk about it --

MS. CRESWELL: But --

MS. RICHARDSON: -- virtually every day.

MS. CRESWELL: -- relative to this issue, if you're looking at it with the idea that there may be changes that you can make, it just seems like timeliness in that would be helpful. Yes, in two months we'll do something or, no, we'll hear about it whenever. So I recommend you figure out a time that you can kind of come up with a recommendation back to the Board.

MS. RICHARDSON: Well --

MS. PETERS: Or fix it before --

MS. RICHARDSON: Right. I mean the recommendations don't have to come back to this Board, but, you know, I would also say -- and I mean it's not that I'm completely set in cement, but, you know, we're pretty much spoon feeding these banks this money. And it seems to me that they could sit up a little bit and open their mouths.

ACTING CHAIRPERSON CAREY: There is no one in their right mind --

MS. RICHARDSON: I'm going to get in trouble for that, sorry.

ACTING CHAIRPERSON CAREY: Well, but there's no one in this room who owed a payment of $3500 who wouldn't be happy getting -- happier getting the 3,000 and deferring the 500, but it's a system and it just defies -- for the public, the average person, it defies logic.

MS. CRESWELL: That's right.

ACTING CHAIRPERSON CAREY: But we look like the bureaucrats.

MS. CRESWELL: That's right. And it's -- and it's the potential borrowers are -- you know, who are going to get the resources who are hurt while we're waiting for the banks to step up or whatever. So it just seems like if, you know, all right, either we're not going to make any changes 'cause this is the way we think it should go and sorry that a few of you could get caught on that gap, but it seems like it's enough of an issue that we ought to try to bring some sort of resolution.

MS. RICHARDSON: Well, when you say it's enough of an issue, I don't -- well, again, until I actually see the numbers of the people that are being -- you know, I know there are a couple of people that were very vocal about it, but I don't -- I don't yet know what that world looks like.

ACTING CHAIRPERSON CAREY: That would be good to know.

MS. CRESWELL: And the folks in the ineligibility, wouldn't some of these folks would be that? That's other issues?

MS. RICHARDSON: No, they're -- that would -- the ones that are -- that were ineligible, I mean I'm not sure I'm going to answer your question correctly. The ones that have been determined to be ineligible, the things that we're proposing to change, we're going to go back in our system and look for those people.

MS. CRESWELL: Okay.

MS. RICHARDSON: We've captured all their information so we can recontact them and say, "You know what? You might now qualify." But people that didn't qualify because their payment exceeded $3,000, they're not -- they don't qualify today.

MS. CRESWELL: Right. I was just wondering if -- if you knew of the folks -- if this statistic, just to get, again, sort of an order of magnitude --

MS. RICHARDSON: Right.

MS. CRESWELL: -- included some who were ineligible because their payment exceeded the --

MS. RICHARDSON: Right.

MS. PETERS: I may be asking the same question in a different way. The program is only designed to low and moderate income people, right?

MS. RICHARDSON: Right.

MS. PETERS: And what is the upper end of that scale, as far as you know, roughly?

MS. RICHARDSON: Well, it would probably -- I always carry that with me, and I don't have it today. It's probably -- in the Bay Area it's probably about 115, 120.

MS. PETERS: Okay. So if we go to 120, can someone making 120 afford a payment more than $3,000?

ACTING CHAIRPERSON CAREY: No.

MS. PETERS: Then maybe it's not a partial payment question, it's really a program issue, that they shouldn't be in the unemployment insurance program, they should be in the graceful exit program.

MR. SPEARS: Well, although if they haven't had their loan modified yet, it could be someone who had a teaser rate that, you know, the rate jumped up and now their payment's a big payment, and they're unemployed so they can't get in to see -- talk to anyone about a loan, so you're helping to bridge them with this huge payment that they can't afford.

ACTING CHAIRPERSON CAREY: But they -- and Heather's point I think is well-taken that -- that we need to keep in mind what the goal is and what the context of it is. And if there's reasons for the program design that are within sort of mission-based and social parameters, that's a little bit more defensible than -- in the public eye, than the, well, the lenders need to budge or, you know, we have these rules. It's just in that context of what's appropriate use of the money, I think, is one of the issues.

MS. PETERS: I was just surprised that 3,000 wasn't enough to service --

ACTING CHAIRPERSON CAREY: Yes.

MS. PETERS: -- the people we're trying to service.

ACTING CHAIRPERSON CAREY: Absolutely.

MS. PETERS: And I suspect that once we look into the data, it may bear that out.

ACTING CHAIRPERSON CAREY: Yes.

MR. HUNTER: I would just note that actually in the Bay Area, 3,000 a month is our target population. 30 percent of 115,000 is more than 3,000 a month. But in -- certainly in San Joaquin County, that's not -- the median income is nowhere near 115,000.

MS. RICHARDSON: Right. And if any changes that -- if we change -- if we raise the in- -- if we raise the monthly cap, that's fewer borrowers we'll be able to serve with that program.

(Court reporter interruption.)

ACTING CHAIRPERSON CAREY: Okay. Are there any comments or questions about the Keep Your Home California?

Thank you. It's a massive undertaking, and I know that Di really -- and Linn -- have gone all out to make it work.

MS. RICHARDSON: Thank you.

MS. CRESWELL: Congratulations.

MS. PETERS: It's an amazing rollout. I -- I love to hear that you guys have the call center up and it's being audited and they love what they see, and it makes me wonder why can't BofA or Chase or any of these other banks do what you do, answer the phone and be responsible?

MR. SPEARS: I would just say that I think currently this is the biggest program up statewide in the nation, Hardest Hit Program. I think -- I'm not sure that there are more than one or two other states that are up and running statewide.

ACTING CHAIRPERSON CAREY: Really.

MR. SPEARS: Michigan started to, crashed all their state systems, came back, but what we were told they -- the big banks would not come along, shall we say, so they decided to go with neighborhood banks. And then when the big banks started talking to them and they started getting to the place where we are now, they had to go back, stop the program, start all over again.

So, Di's done a fabulous job. The whole team has done a fabulous job. And we are, you know, one of the only states that's up and running statewide with -- all the data that you see is coming out of the system that was designed. It's great.

MS. CRESWELL: Can I just ask one other question on that in terms of -- so don't a lot of the big banks, and I don't know the answer, still have Community Investment Act responsibilities and shouldn't we be able to get -- use some of that to sort of leverage their participation, or has that been thoroughly --

MR. GUNNING: I guess 'cause it's all voluntary and they just take --

MS. CRESWELL: So you can still -- I mean I remember years ago when I was doing work in that area that -- that you still used it as a -- because you can write -- you know, they -- they have to collect comments on their participation, and so that may be where, again, community activists kind of organizations can help. Because, you're right, it's a voluntary thing, but if the bank can't otherwise show what they're doing to support low and moderate income households and communities, that could be a ding against them in their Community Reinvestment Act obligations.

MS. RICHARDSON: I -- I will say I don't -- I will look into that. I don’t know exactly how this works because these are not new loans that they're making in these areas, but they're being asked to modify --

MS. CRESWELL: But isn't that again -- and it may not be an appropriate role for -- for the state agency, but it would be something that I would -- I know you had a number of advocacy groups who were interested in this. It would be an appropriate role for them to use that as -- which can be a very powerful tool.

MR. GUNNING: At least they have a collection of letters there about the unwillingness --

MS. CRESWELL: Why aren't you participating in this program?

ACTING CHAIRPERSON CAREY: Right.

MR. GUNNING: -- to try and crack them.

ACTING CHAIRPERSON CAREY: Thank you.

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Item 9. Discussion and possible action regarding the audit recommendations of the Bureau of State Audits

ACTING CHAIRPERSON CAREY: Okay. We are on to the last significant issue, which is discussion and possible action regarding the audit recommendations from the Bureau of State Audits report. Steve.

MR. SPEARS: We'll jump right into this very quickly, Mr. Chairman.

In the memo that was provided, it's on Board package page No. 209, I've put the audit recommendations here.

The first recommendation is to the Legislature; the last two are to the Board. The third bullet, the third recommendation, I believe was taken care of with the action on the resolutions. And when we draft the business plan this year, we will put this language in the business plan. So recommendation No. 3 I believe is completed or is being completed.

The Board expressed an interest in discussing all of these. We were able to -- with Di's help, Howard Zucker provided some additional information about what other boards look like on bullet No. 1, the first recommendation.

I've also given you too many pieces of paper here and I apologize, but you have in front of you also the statute 50902 which spells out everything -- all the members except the ex officio members. These are all the appointed members. So you'd have to add on six members on top of the statute that you see there, the ex officio members, three voting, three nonvoting. The State Treasurer voting. BTH Secretary voting. HCD voting. And then the OPR Director, the Department of Finance Director, and the ED on the Board but nonvoting, so in addition to what you see on this piece of paper.

Then we also put in who the -- who is serving what category right now. There's a list for that. The only mistake on there is that we've not taken off Barbara Macri-Ortiz's name yet, which we should probably do.

MS. OJIMA: On mine it's current and you have this little form to indicate --

MR. SPEARS: Ok, okay. We thought that might help with everybody understanding what role all the Board members are playing.

But you can see then in this data that we've collected from other states quite a variety. We are not the largest by a margin. There is the state of Tennessee which has 19 Board members, and their director still has quite a bit of his hair, surprisingly.

And so I'm not sure how you want to proceed, Mr. Chairman, but we've got a lot of data in front of us on the Board makeup.

Now, on the second bullet, the staff felt it probably wasn't appropriate for us to recommend language since -- given the tone of the report and everything, but I did attempt to scribble down a sentence or two and hand to the Chairman as a simple statement of the Board's intent that we comply with this, as just a starting.

So with that, I will turn the mic over to you.

ACTING CHAIRPERSON CAREY: Well, we've got two issues and -- and let's deal with the second one first, the policy statement. I don't know how formal we feel we need to be in that action or reflecting that. From my point of view, I think the resolutions as adopted and then amended reflect the principle. And from that point, you know, my feeling is that -- that what we need in place is an understanding of policy for future boards so that -- and -- and staff so that it's set, but I don't know how form-wise that needs to be. From my point of view, it would be a pretty straightforward statement in the minutes that says the Board's policy is such and such.

And -- and the -- the language that was -- that I have here that to me covers it is to say: "To provide for clarity, accountable and transparency, it's the policy of this Board to require staff to present new financing strategies and new loan products for full discussion and approval by a simple majority vote of the Board prior to implementation by the Agency."

And that sort of covers, I think, the -- the issues that were raised in the audit regarding the rollout of the Interest Only product, for instance, or the 40 Year product. I think those are the specific products that were mentioned in the report -- that while they were in the business plan, they weren't specifically discussed as -- as -- as lending programs and -- and probably should have been.

MR. GUNNING: I'm sorry, where would you put that?

ACTING CHAIRPERSON CAREY: I -- if it was up to me, we'd state it for the minutes. And I don't know that I'd do anything more formally than that.

MR. GUNNING: But this meeting or every subsequent --

ACTING CHAIRPERSON CAREY: No. No, no, no, no. At this meeting as part of the formal record of the meeting. It could be a resolution. It could be whatever we want.

MS. CRESWELL: But does it have more weight if it's a resolution or something? And do you need to do anything -- I'm just thinking in terms of responding, then, to the audit committee. It might -- if you've got a formal resolution you've adopted, it might -- it might look more responsive, but I agree with the words you said.

ACTING CHAIRPERSON CAREY: Is the language reasonable language?

MS. PETERS: Could you just read it once more slowly?

ACTING CHAIRPERSON CAREY: Sure.

To provide for clarity, accountability and transparency, it is the policy of this Board to require staff to present new financing strategies and new loan products for full discussion and approval by a simple majority vote of the Board prior to implementation of the -- implementation by the Agency.

MS. PETERS: So "financing strategies" would be broad enough to catch the end of this finding regarding how much of the debt portfolio can be fixed or variable, what portion of the loans it purchases can consistent of mortgage products it identifies as riskier than -- do you feel that we've captured that, or are we making a conscious decision that that's getting too far down in the weeds?

ACTING CHAIRPERSON CAREY: Well, if I recall, and I'd open up the conversation, maybe the three key points raised in the audit were the decision to use variable-rate bonds, the decision to implement an interest-only program and the decision to go to a 40-year mortgage, not so much the issue of percentages.

MS. CARROLL: I agree with you. I think there was on -- I don't remember how specific, but there was some discussion about the extent to which the Agency used variable rate. And it is common in debt policies to establish a limitation on the amount of variable-rate debt that can be issued.

Now, I don't know if that's the case for HFAs, Steve. I know in other governmental types of settings it's a common limitation. And you know our state law says we only have 20 percent.

MR. SPEARS: Right. I don't know what the practice is in other agencies. I know that this Board discussed that as a goal going forward, to reduce the amount of variable-rate debt, one, and, two, to -- going forward for new issuance -- no loan origination, issue fixed-rate debt. And that was some time ago. Quite a while ago. Three, four years ago, I think. Bruce, maybe not quite that long?

MR. GILBERTSON: 2009 or maybe 2008, would be my recollection.

MR. SPEARS: It was before Terri -- or it was still while Terri Parker was director, I believe.

MR. GILBERTSON: Okay.

MR. SPEARS: But I don't know. I know that it is -- Ms. Carroll is right. It is common to have a policy that you're not to exceed a certain amount. I -- I don't know.

Bruce, do you know of any other states that have a formal policy that state the particular percentage?

The question I have while Bruce is coming up is -- and here again, this is for the Board to decide, but there are two sentences here in this recommendation. One is that you have a policy stating, and then the second sentence says the Board should where appropriate prescribe one that's -- and is that a separate policy, is it annually in the business plan? I just question whether it's part of this overall --

MR. GUNNING: Or on a case by case.

ACTING CHAIRPERSON CAREY: Would it be reasonable to add to this statement that in the annual financing resolutions, the Board will -- in approving the annual finance resolution, the Board would establish limits for various financing mechanisms?

MR. HUNTER: I don't think that's where it belongs. I have the same observation as Steve, just add that this second bullet point is actually a couple of different issues rolled into one.

And to me the issue of, you know, policy, talking about new debt issuance and new products, that that's a matter of policy that we're going to fully discuss as a Board before they're created by the staff.

The second half of this is a complicated -- is actually two different issues that to me are business plan issues, and where they belong is not in the annual resolution but in the annual business plan. When we're looking at the budget and weighing the business strategies, we're looking at the strategy, we're looking at that in the context of the economy and what's happening in the federal government, what's happening in the state, that those are business planning decisions and they ought to be addressed intentionally as part of the business plan.

I can't imagine creating a policy for here or for the next five years, even, on either of those issues that would not be subject to change depending on what's happening in the economy. You know, it has to do with risk management, risk assessment. And to me that's --

that's what the business plan is about. That's what our budget is about. And that's where that activity ought to happen.

ACTING CHAIRPERSON CAREY: Heather.

MS. PETERS: I agree.

ACTING CHAIRPERSON CAREY: Yeah.

MS. PETERS: I had a practical question. As we stand now based on prior direction of the Board, is it a true statement that we're not issuing any new variable-rate debt and haven't for many years, other than to swap out?

MR. GILBERTSON: Yeah, other than refunding activity, and that's clearly what the resolutions provide for this year.

And that was my comment. I think if you try to prescribe limits, okay, we might refund or redeem bonds in such a manner that we would exceed the limit that is established by the Board. But I think the Board knows that we are not going to use variable-rate bonds for any purpose for new lending initiatives. So we're not trying to grow the percentage of variable-rate bonds. We’re actively trying to diminish that, but we can't control some of these things. We have to redeem certain bonds in certain cases when prepayments come into the portfolio --

MS. PETERS: I would --

MR. GILBERTSON: -- because it's a requirement of the indenture.

MS. PETERS: -- prefer not to issue a statement on that for exactly that reason.

MR. GILBERTSON: It's complicated to do something like that.

The other comment, I'm sure there are HFAs that have policy guidelines in this area. I think there are some boards that have policy guidelines that require every financing to come for approval of the board before they go to market as well. That really does -- that does impact some things.

You know, Justin has pointed out the other thing is that some of our conduit financing for multifamily is, of course, in the form of variable-rate bonds, and we discussed that. I think for purposes of the policy statement, we might not consider those in the policy statement. I'm not sure how the Board would want to proceed.

MS. CARROLL: It strikes me when, for instance, the state, other state entities, come up with a debt policy that has variable-rate limits, for instance, it's a very comprehensive policy and takes into account, you know, all the different variables that might affect the

Agency. So I think it's not something -- if we wanted to put that hard limit in a policy, it's not something we could craft, I think, in a day. And I think honestly we'd have to ask the staff to come back with a recommendation on how such policy would be crafted. I don't think it's something we'd do.

ACTING CHAIRPERSON CAREY: So would we be comfortable separating those two out and -- and -- with -- and following with Ms. Creswell's suggestion asking that this statement come back to us as a resolution at the next Board meeting so that we can move one piece along with this statement? Do we all seem to be comfortable with it?

MS. PETERS: And state the Board's intention to have staff address the second half of this --

ACTING CHAIRPERSON CAREY: Yes.

MS. PETERS: -- in the business plan to the extent applicable.

ACTING CHAIRPERSON CAREY: Yes.

MS. PETERS: I mean, it may be a simple statement that for the next five years we don't anticipate using this beyond redeeming out what we're already doing, but at least it's a topic of discussion in the context of the business plan, which is where I believe it belongs to be flexible, especially in this market.

ACTING CHAIRPERSON CAREY: Is that reasonable?

MR. SPEARS: It is.

ACTING CHAIRPERSON CAREY: So that doesn't take action. You'll -- that will come back.

MR. SPEARS: I just need that piece of paper back.

ACTING CHAIRPERSON CAREY: Yes.

MS. CRESWELL: So on this -- they're going to come back and check in 60 days, which will be in April, so -- so you'll have basically what we've talked about today to be able to report back to them in terms of what we've done.

MR. SPEARS: Right.

MS. CRESWELL: Because we want to be able to show some action.

ACTING CHAIRPERSON CAREY: Good point.

MS. PETERS: We have verbatim minutes.

ACTING CHAIRPERSON CAREY: We have language, and, that's right, it's verbatim for the record.

MS. CRESWELL: And it sounds like -- or we haven't started talking about the Board's composition --

ACTING CHAIRPERSON CAREY: No.

MS. CRESWELL: -- yet.

ACTING CHAIRPERSON CAREY: No. Unless I stepped out of the room.

MS. PETERS: Speaking of stepping out of the room.

ACTING CHAIRPERSON CAREY: Okay.

MR. GUNNING: Mr. Twelve O'clock.

ACTING CHAIRPERSON CAREY: Well --

MR. SPEARS: I've already offered to get Ms. Peters a muffin.

MS. PETERS: That's what the giggle was. He was making sure I was fed because I get cranky.

ACTING CHAIRPERSON CAREY: Okay. We have one -- one piece of discussion left, and that's the Board composition. Do we want to -- are we asking to take a break?

MS. PETERS: Well, I --

ACTING CHAIRPERSON CAREY: Do we want to do that?

MS. PETERS: -- I feel that it's a fairly significant discussion, so I would either request a short break with perhaps everybody's schedule being discussed and does anyone have a flight they need to leave that's going to impede a thorough discussion of this now, in which case maybe we want to put that off for the next Board meeting, or if everyone is here and able to hash through it, then maybe a half-hour break to get something to eat and then hash through it today.

ACTING CHAIRPERSON CAREY: Schedules, I think folks have some --

MS. CRESWELL: My flight's at 2:15, and I sort of need to make it.

ACTING CHAIRPERSON CAREY: Yeah. And we're -- we're running down here a little bit. So if -- if that's a suggestion that we continue it to the next meeting?

MS. PETERS: Either continue it to the next meeting or just have a very --

ACTING CHAIRPERSON CAREY: Brief discussion.

MS. PETERS: -- cursory discussion that would be food for thought for all of us to process on our own until the next meeting, because I -- I think it's very important, and I think the Board definitely wants to take action on this. And I think it requires more than a cursory discussion.

MR. GUNNING: Mr. Chairman.

ACTING CHAIRPERSON CAREY: Yes.

MR. GUNNING: If they're back in 60 days and the next meeting is in May, we won't have an opportunity to.

MR. HUNTER: Well, but I -- you need to be clear. This is a matter for the Legislature ultimately, and, trust me, they're not going to get to this in the next 60 days.

MS. CRESWELL: And I think it --

MR. HUNTER: When the auditors come back, we just need to tell them we're starting to gathering information. We're starting to think about this, and we're going to try to provide our suggestions to the Legislature, but ultimately the timing of this is up to the Legislature.

MS. CRESWELL: And I think it's reasonable that if you are going to take time to do research and to consider -- so I don't even think they wouldn't expect in 60 days, but they just want to know your progress. And if we started the research, we've done this, I think that could be appropriate.

MS. PETERS: Yeah, as a normal course, I think the BSA would probably be thrilled that we've already taken action on as much as we did. There's a 60 days and then there's another reporting period of several months and then a year, so their anticipation in issuing an audit report of this magnitude is that there will be several reporting stages.

So I don't think there's any anticipation that we're going to resolve everything today, but I think just as a matter of statement of policy, it might be nice to have in the minutes that we -- accept this as we said in our response letter and here's our plan for how we're going to address it.

MR. SPEARS: Well, I would just say that the BSA just recently issued a report on audit recommendations, and the remarkable finding was how many folks are not following their recommendations, so they would be ecstatic.

ACTING CHAIRPERSON CAREY: They were surprised.

MR. SPEARS: We're making substantial progress on two thirds of these and doing a lot of research on the third.

MS. PETERS: So perhaps just to summarize, that we make a -- enter in the minutes that it's the concurrence of the Board that we agree with the policy behind the recommendation, that we have gathered a good deal of information that was just put in our book today, and we'll continue to research it, direct staff to provide us with their research as they develop it, with the intention that we will revisit this if not in May, very shortly thereafter, to adopt a formal position on what we would suggest to the Legislature in this regard.

MR. SPEARS: Just one question from staff. Do the Board members need any other additional information? You may be surprised by this, but Mr. Hughes has an opinion or two about how this statute works, and he could provide some of those thoughts in a memo form next time around. But if there's anything else Board members need, just -- just let us know.

ACTING CHAIRPERSON CAREY: Ms. Creswell.

MS. CRESWELL: Well, I just think it is -- would be helpful, you know, I don't know necessarily that it does require a statutory change. You know, when you look at -- when you look at -- you know, there wasn't supposed to be funding to do residential. So I mean, it seems to me that it's not a foregone conclusion that we're either going to expand the Board or -- or necessarily, you know, change these people here.

So it does seem like we just need -- we do need some sort of initial additional work on, you know, sort of what kind of people have filled these positions before and is there a way to, without legislative change, get at the interest that they -- they have.

ACTING CHAIRPERSON CAREY: Given that --

MS. CRESWELL: I mean, it may be, all right, do you really need a manufactured housing finance person on here? I mean, certainly it might be a good time to review it, but -- but it just seems like we don't know yet what trying to meet the intent of this is. And so I guess I just want to make sure we've sort of fully explored all of what that might be, including some of your thoughts about what some of the requirements or -- or just the history or whatever. That would be appropriate.

MR. HUGHES: I do think that the threshold question here really is whether the Bureau of State Audits is recommending that there be a finance specialist on the Board at all times. If you read the statute, the laundry list, are four gubernatorial appointees from a laundry list of more than four categories. There's no requirement that the appointing power choose a finance authority, for example.

The ultimate question is, I think, on an 11-member voting board, would the recommendation be to expand the Board, No. 1, or, two, take away from some of these categories?

And then the next question is you can see in subsection C the -- those two positions are mandatory, not from a laundry list. Those are mandatory. Do we want to make a finance position a mandatory position? So I think those are kind of the threshold questions.

And if -- if there's a -- if the finance person would be put in the subsection B laundry list, you either expand it or take some of those off. Some of them are probably fairly obsolete. So there's -- there's several aspects to this that probably are the seminal questions.

ACTING CHAIRPERSON CAREY: And my reading of the statute is this: It's overly prescriptive. It's just -- by the time you get through it, you have to go back and read it again to see if you can really figure it out. And it just seems -- seems limiting. In fact, I know, different conversations by now, which seat are you filling? I just think it -- to me it's overly prescriptive. And I think maybe there's room to simplify it and give the Governor and the Legislature room to appoint as they see appropriate.

MS. CRESWELL: Which would likely then not be responsive to this finding, which seems to imply you need to be more explicit about these particular expertises.

But certainly when you look through the list of how other agencies, some of them just say, yeah, six Governor's appointees, doesn't matter from what. They could just do whatever they want, so -- but that, I think, would be the good -- kind of if staff could flesh out all of those various kinds of issues for us, it would be easier to kind of make a decision or think through this discussion.

ACTING CHAIRPERSON CAREY: And I don't think --

MS. PETERS: It would help to frame the issues, so have Tom frame the issues just like he did here. Are you going to expand? Are you going to prescribe or loosen or -- frame the issues for us would be very helpful.

And you asked if staff could do any more research, this was a great packet of stuff, and I would just ask that if it's not already in here, if you could call out and make sure that we get whichever states are most comparable to California in size and in other factors that you find relevant so that we're not just looking at a laundry list of every state, but, you know, something --

ACTING CHAIRPERSON CAREY: Relevant.

MS. PETERS: -- similar.

ACTING CHAIRPERSON CAREY: Yes.

MR. GUNNING: When was the term amended to five years? It says six.

MR. HUGHES: The Board terms are six years. Five years is for the chair.

MR. GUNNING: And me?

ACTING CHAIRPERSON CAREY: Six years.

MR. GUNNING: All? I thought it was five.

MR. HUGHES: The executive director has a five-year term. The chairman has a five-year term, as chair, not as a Board member, and Board members have six-year terms.

ACTING CHAIRPERSON CAREY: It's a little bit longer sentence than you thought.

MR. SPEARS: And -- and I believe the statute's explicit that if you're doing a great job, you can be reappointed.

ACTING CHAIRPERSON CAREY: I thought it was remedial last year.

Mr. Hunter.

MR. HUNTER: I also -- you know, one of the other things that I think would be helpful to get in the background information in terms of other states is I'm aware of the fact that California has structured its housing activities, state housing activities, different from many of these other states. So, for instance, in many states, HCD and CalHFA are the same thing.

MR. SPEARS: And CDLAC and TCAC are in the same agency.

MR. HUNTER: So it would be helpful, you know, in the states that you've included with -- so they have this Board, what function is that board overseeing in that state.

The other thing that I found really interesting is I really would like to know what this doubting to drafting is from. Is this just here at CalHFA or --

MR. HUGHES: There is -- there was a book published in the late 70s called Politics Backstage by one of the two drafters of CalHFA's statutes, which is basically a legislative history of a bill from conception to enactment as a political exercise, but it details in elaborate depth the creation of CalHFA and how the statutes evolved. So as you can see from that excerpt, many of these laundry list positions were in there simply because they needed the support of those organizations to get the bill passed.

MS. PETERS: Not a surprise.

ACTING CHAIRPERSON CAREY: Okay. With that, that will be on a future agenda.

--o0o--

Item 11. Reports

ACTING CHAIRPERSON CAREY: Are there any items in the reports that need attention?

MR. SPEARS: I would just say this not an accident but there's not a legislative report. We put that as a placeholder because there was a deadline between the time we were planning the meeting and today. And Di looked through the bills. There's not one at this point, anyway, that we're concerned about, so we have no report on that.

Mr. Gunning.

MR. GUNNING: We will agendize for the next time the Compensation Committee, the charter?

(Court reporter interruption.)

ACTING CHAIRPERSON CAREY: Yes. Review and possible amendment to the charter of the Compensation Committee.

MS. PETERS: And discussion of scope of their work?

ACTING CHAIRPERSON CAREY: Yes. Yeah.

--o0o--

Item 12. Discussion of other Board matters

ACTING CHAIRPERSON CAREY: Other Board matters?

--o0o--

Item 13. Public testimony

ACTING CHAIRPERSON CAREY: Okay. This is an opportunity for the public to address the Board on matters not on the agenda. Is there anyone here that wishes to address the Board?

--o0o--

Item 14. Adjournment

ACTING CHAIRPERSON CAREY: Seeing none, we are adjourned.

(The meeting concluded at 1:15 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 5th day of April 2011.

____

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

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RESOLUTION 11-06

RESOLUTION REGARDING RECOMMENDATIONS
OF BUREAU OF STATE AUDITS

WHEREAS, on February 24, 2011, the Bureau of State Audits ("BSA") issued an audit report (the "Report") regarding the California Housing Finance Agency (the "Agency"); and

WHEREAS, the Report made two recommendations to the Agency Board of Directors; and

WHEREAS, those recommendations deal with the Board's approval of debt issuance strategies and new mortgage products, as well as Board policies regarding such debt issuance and mortgage products; and

WHEREAS, the Board has discussed the recommendations made by BSA in the Report, and desires to enacts certain policies regarding such recommendations;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors as follows:

1. To provide for clarity, accountability and transparency, it is the policy of the Board to require staff to present new financing strategies and new loan products for full discussion and approval by majority vote of the Board prior to implementation by the Agency.

2. The proposed business plans submitted to the Board by staff shall address the following issues: (i) limitations on the use of variable rate debt; and (ii) identification of loan products that the Agency identifies as involving higher levels of risk than traditional Agency loan products.

I hereby certify that this is a true and correct copy of Resolution 11-06 adopted at a duly constituted meeting of the Board of Directors of the Agency held on May 19, 2011, at Sacramento, California.

ATTEST: ________________________

Secretary

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May 5, 2011

The Audit Committee
California Housing Finance Agency
Sacramento, CA

Dear Members of the Audit Committee:

We have performed an audit of the financial statements of the California Housing Loan Insurance Fund, (the "Fund"), which is administered by the California Housing Finance Agency (the "Agency"), as of and for the year ended December 31, 2010, in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards") and have issued our report thereon dated May 5, 2011.

We have prepared the following comments to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of the Fund is responsible.

OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS

Our responsibility under generally accepted auditing standards has been described in our engagement letter dated March 25, 2011, a copy of which has been provided to you. As described in that letter, the objective of a financial statement audit conducted in accordance with generally accepted auditing standards is to express an opinion on the fairness of the presentation of the Fund's financial statements for the year ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), in all material respects. Our responsibilities under generally accepted auditing standards include forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the Agency's Audit Committee of the Board of Directors (the "Audit Committee") are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audit of the financial statements does not relieve management or the Audit Committee of their responsibilities.

We considered the Fund's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting. Our consideration of internal control over financial reporting was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are ordinarily based on knowledge and experience about past and current events and on assumptions about future events. A significant accounting estimate reflected in the Fund's 2010 financial statements is the reserves for unpaid losses and loss adjustment expense.

These estimates are based on valuations made by management with the assistance of third party actuaries. Management of the Fund has provided us with details regarding the process used in formulating these estimates.

The basis for our conclusions as to the reasonableness of these estimates when considered in the context of the financial statements taken as a whole, as expressed in our auditors' report on the basic financial statements, is our development of an independent expectation of the estimates to corroborate management's estimates or our understanding and testing of the process used by management to develop the estimates.

During the year ended December 31, 2010, we are not aware of any changes in accounting estimates or in management's judgments relating to such estimates.

UNCORRECTED MISSTATEMENTS

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. There were no uncorrected misstatements or disclosure items passed identified during our audit.

MATERIAL CORRECTED MISSTATEMENTS

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. There were no material misstatements that were brought to the attention of management as a result of our audit procedures.

SIGNIFICANT ACCOUNTING POLICIES

The Fund's significant accounting policies are set forth in Note 2 to the Fund's 2010 financial statements. During the year ended December 31, 2010, there were no significant changes in previously adopted accounting policies or their application

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to the Fund's 2010 financial statements.

CONSULTATION WITH OTHER ACCOUNTANTS

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2010.

SIGNIFICANT ISSUES DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT PRIOR TO OUR INTITIAL ENGAGEMENT OR RETENTION

Throughout the year, routine discussions were held, or were the subject of correspondence, with management regarding the application of accounting principles or auditing standards in connection with transactions that have occurred, transactions that are contemplated, or reassessment of current circumstances. In our judgment, such discussions or correspondence were not held in connection with our retention as auditors.

OTHER SIGNIFICANT ISSUES DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT

Throughout the year, discussions of the Fund's ability to continue as a going concern were held, or were the subject of correspondence, with management. As discussed in Note 2 to the financial statements, the Fund has experienced reoccurring losses, and Management of the Fund has concluded that there is substantial doubt as to the Fund's ability to continue as a going concern. As such, our report has been modified to reflect this. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

In our judgment, we received the full cooperation of the Fund's management and staff and had unrestricted access to the Fund's senior management in the performance of our audit.

MANAGEMENT'S REPRESENTATIONS

We have made specific inquiries of the Fund's management about the representations embodied in the financial statements. Additionally, we have requested that management provide to us the written representations the Fund is required to provide to its independent auditors under generally accepted auditing standards. We have attached to this letter, as Appendix A, those representations we requested from management.

* * * * * *

This report is intended solely for the information and use of management, the Audit Committee of the Board of Directors, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Yours truly,

Tim Stenvick
Audit Director

cc: The Management of California Housing Loan Insurance Fund

- *Appendix A: Representations from Management.*

APPENDIX A

MANAGEMENT'S REPRESENTATIONS

State of California

CalHFA California Housing Finance Agency

May 5, 2011

Deloitte & Touche LLP
2868 Prospect Park Drive
Rancho Cordova, CA 95670

We are providing this letter in connection with your audits of California Housing Loan Insurance Fund (the "Fund"), which is administered by the California Housing Finance Agency (the "Agency") as of and for the years ended December 31, 2010 and 2009, for the purpose of expressing an opinion as to whether the basic financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the Fund in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the following:

a. The fair presentation in the basic financial statements of financial position, results of operations, and cash flows, in conformity with accounting principles generally accepted in the United States of America.

b. The fair presentation of the required supplementary information, including Management's Discussion and Analysis, presented for the purpose of additional analysis of the basic financial statements.

c. The design and implementation of programs and controls to prevent and detect fraud, including fraud related to federal awards.

d. Establishing and maintaining effective internal control over financial reporting.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audits.

1. The basic financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America. In addition:

    a. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.

    b. The financial statements properly classify all funds and activities, including special and extraordinary items.

c. All funds that meet the quantitative criteria in Statement No. 34 and Statement No. 37 of the Governmental Accounting Standards Board (GASB), *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments*, for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.

d. Fund equity components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserved and designations are properly classified and, if applicable, approved.

e. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.

f. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.

g. Interfund, internal, and intra-Fund activity and balances have been appropriately classified and reported.

h. Deposits and investment securities are properly classified in the category of custodial credit risk.

i. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.

j. Required supplementary information is measured and presented within prescribed guidelines.

k. Applicable laws and regulations are followed in adopting, approving and amending budgets.

2. The Fund and the Agency has made available to you all:

a. Minutes of meetings and summaries of actions of the Board of Directors and committees of the Board of Directors.

b. Financial records and related data for all financial transactions of the Fund and for all funds administered by the Fund. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by the Fund and provide the audit trail to be used in a review of accountability. Information presented in financial reports is supported by the books and records from which the financial statements have been prepared.

c. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal agencies.

3. There has been no:

   a. Action taken by Fund management that contravenes the provisions of federal laws and California state laws and regulations, or of contracts and grants applicable to the Fund.

   b. Communication from other regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements.

4. The Fund has made available to you the results of management's risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud.

5. We have no knowledge of any fraud or suspected fraud affecting the Fund involving:

   a. Management.

   b. Employees who have significant roles in internal control over financial reporting.

   c. Others if the fraud could have a material effect on the financial statements.

6. We have no knowledge of any allegations of fraud or suspected fraud affecting the Fund received in communications from employees, former employees, analysts, regulators, short sellers, or others.

7. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 450, *Contingencies* (formerly FASB Statement No. 5, *Accounting for Contingencies*).

8. Management has identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.

9. We have adopted the provisions of GASB Statement No. 39 of the Governmental Accounting Standards Board, *Determining Whether Certain Organizations Are Component Units*, an amendment of Statement No. 14 of the Governmental Accounting Standards Board, The Financial Reporting Fund, as of January 1, 2004. We believe that we have properly identified and reported as a component unit of the Fund each organization that meets the criteria established in GASB Statement No. 39.

10. Note 2 to the financial statements discloses all of the facts (i.e., significant conditions and events and management plans) of which we are aware that are relevant to the Fund's ability to continue as a going concern.

11. The in-force files properly reflect all policies and contracts in force as of and for the year ended December 31, 2010 and 2009.

Except where otherwise stated below, matters less than $200,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the financial statements.

12. There are no transactions that have not been properly recorded in the accounting records underlying the financial statements.

13. The Fund has no plans or intentions that may affect the carrying value or classification of assets and liabilities.

14. The following, to the extent applicable, have been appropriately identified, properly recorded, and disclosed in the financial statements:

    a. Related-party transactions and associated amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral).

    b. Guarantees, whether written or oral, under which the Fund is contingently liable.

15. In preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:

    a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.

    b. The effect of the change would be material to the financial statements.

16. Risks associated with concentrations, based on information known to management, that meet all of the following criteria have been disclosed in the financial statements:

    a. The concentration exists at the date of the financial statements

    b. The concentration makes the enterprise vulnerable to the risk of a near-term severe impact.

    c. It is at least reasonably possible that the events that could cause the severe impact will occur in the near term.

17. There are no:

    a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

    b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB ASC 450, *Contingencies* (formerly FASB Statement No. 5, *Accounting for Contingencies*).

18. The Fund has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

19. The Fund has complied with all aspects of contractual agreements that may have an effect on the financial statements in the event of noncompliance.

20. No department or agency of the Fund has reported a material instance of noncompliance to us.

21. Other than those described in Note 9 to the financial statements, no events have occurred after December 31, 2010 but before May 5, 2011, the date the financial statements were available to be issued that require consideration as adjustments to or disclosures in the financial statements.

22. Management has disclosed whether, subsequent to December 31, 2010, any changes in internal control or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies and material weaknesses, have occurred.

23. Management has disclosed all contracts or other agreements with the Fund's service organizations.

24. We have appropriately identified and properly recorded and disclosed in the financial statements all interfund transactions, including repayment terms.

25. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit, or similar arrangements have been properly disclosed in the financial statements.

26. We believe that the actuarial assumptions and methods used to measure pension costs for financial accounting purposes are appropriate in the circumstances.

27. We have no intention of terminating our participation in the Public Employees Retirement Fund, administered by CalPERS as part of the State of California as the primary government or taking any other action that could result in an effective termination or reportable event for the plan. We are not aware of any occurrences that could result in the

termination of our pension plan to which we contribute. The Fund has no liability for pension costs or benefits other than the normal annual required contributions as determined by CalPERS. As such required contributions have been remitted.

28. We believe that the actuarial assumptions and methods used to measure postretirement liabilities and costs for financial accounting purposes are appropriate in the circumstances. These amounts have been appropriately recognized and displayed as assets, liabilities and, where applicable, net assets and changes in net assets in the financial statements in accordance with GASB Statement No. 43, *Financial Reporting for Post Employment Benefit Plans Other Than Pension Plans* and GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*

29. Agreements to repurchase assets previously sold have been properly disclosed in the financial statements.

30. We believe that all expenditures that have been deferred to future periods are recoverable.

31. Management has disclosed all communications from the Fund's third-party service organization (Genworth) relating to any noncompliance with the Fund's operations at that service organization.

32. We agree with the findings of the specialist in evaluating the unpaid claim liabilities and analysis of reinsurance program 75% quota share, and have adequately considered the qualifications of the specialist in determining amounts and disclosures used in the financial statements and underlying accounting records. We did not give any instructions, nor cause any instructions to be given, to the specialist with respect to values or amounts derived in an attempt to bias their work, and we are not aware of any matters that have affected the independence or objectivity of the specialist.

33. The reserves for unpaid losses and loss adjustment expenses, including amounts for incurred but not reported claims, net of the quota share arrangement and net of salvage and subrogation recoverable, has been determined using appropriate historical and expected frequency and loss severity, estimated ultimate costs of settling the claims (including the effects of inflation and other societal and economic factors), using past experience adjusted for current trends and any other factors that would modify past experience and are the most appropriate under the circumstances. Management believe this reserve is adequate to absorb the Fund's currently estimated claims resulting from insured loans as of December 31, 2010 and 2009. The Fund's reinsurance agreement provides for a recovery of a proportionate level of claim expenses from the reinsurer. The Fund remains liable to its policyholders if the reinsurer is unable to satisfy their obligations under the reinsurance agreement. Management has assessed that financial strength of Genworth and does not believe that the Fund is exposed to any significant credit or counterparty risk.

34. The Fund entered into a reinsurance treaty and administrative services agreement with Genworth (formally known as General Electric Mortgage Insurance Corporation) effective

March 1, 2003. This agreement ceded to Genworth a 75% quota share of the insurance risk for 96% of loans insured by the Fund at December 31, 2010 and 2009. The remaining 4% of loans insured by the Fund do not have reinsurance coverage from Genworth as of December 31, 2010 and 2009. Management believes the reserves provided are adequate to absorb currently estimated insurance claims from these loans as of December 31, 2010 and 2009.

35. The reinsurer must assume significant insurance risk under the reinsured portions of the underlying contract; and it is reasonably possible that the reinsurer realize a significant loss. Both of these conditions were met as of December 31, 2010 and 2009. The reinsurance agreement with Genworth provides 75% loss coverage (which represents significant insurance risk) and it is reasonably possible that Genworth will realize a significant loss, as such probability is greater than remote (meeting the FASB ASC 944 standard for reasonable possibility). In addition, the amounts and disclosures used in the financial statements and underlying accounting records related to the reinsurance contract with Genworth are adequate.

36. Amounts receivable or recoverable from the reinsurer (Genworth) represent valid reinsurance claims and realization is probable.

37. With respect to the Fund's reserves for claim and claim adjustment expenses:

   a. For the year ended December 31, 2010, we have processed claims received by the Fund in a manner and timing consistent with prior years.

   b. We have considered all information that, in our judgment, is necessary to adequately estimate the claim and claim adjustment expense reserves at the balance-sheet date, including, among other things:

      i. Anticipated and historical claims experience of the Fund

      ii. Anticipated and historical claims experience of the mortgage insurance industry

      iii. Expected impact of inflation and other economic or social factors on future payments of losses incurred at the balance-sheet date

      iv. Lines and geographical locations of the business written and assumed by the Fund

      v. The Fund's underwriting and claims policies and procedures

      vi. The timeliness and reliability of reports from reinsurers

      vii. Estimates of claim recoveries, exclusive of reinsurance recoveries.

   c. The Fund has considered and properly disclosed in the financial statements all the information with respect to claim and claim adjustment expense reserves and related claim recoveries, which in our judgment, is necessary to adequately identify and understand the nature of reserving estimates and underlying coverage issues, including the potential volatility, complexity, and uncertainty of such estimates and the possibility that the ultimate liability may vary significantly from the recorded reserve and related recovery amounts.

d. The reserve for unpaid claims and claim adjustment expenses for the Fund at December 31, 2010 is management's best estimate and makes a reasonable provision for all reported and unreported claims incurred as of December 31, 2010 based upon the consideration of all information available at the date those financial statements were prepared, including actuarial indications and other factors.

38. Unearned premiums are fairly stated at December 31, 2010 and the calculations of such are consistent with those of the preceding year. Business written from all sources, including reinsurance assumed, has been included in premiums in force and unearned. Business expired and reinsurance ceded has been excluded from premiums in force and unearned.

39. Deferred Acquisition Costs (DAC), as of December 31, 2010 and 2009 are fairly stated, in all material respects. Costs that vary with and are primarily related to writing new or renewal insurance and reinsurance contracts are deferred and charged to expense in proportion to premiums earned (for short duration contracts) or using assumptions and methods that are consistent with the estimating of future policy benefits for long duration contracts. All assumptions underlying the projection of future gross profits or margins, including lapses, expenses and separate account returns, reversion timeframe, and caps on future return assumptions represent the Fund's current best estimate assumptions. The Fund appropriately utilized these estimated future gross profits in determining amortization of DAC and sales inducements, unearned revenue reserves and guaranteed minimum reserves, as of and for the year ended December 31, 2010 and 2009. DAC is recoverable based on appropriate assumptions, and no loss recognition is required as of December 31, 2010 and 2009.

40. We believe that all expenditures that have been deferred to future periods are recoverable. DAC is composed of costs that vary with and are primarily related to issuance of new and renewal business and have been determined and amortized on a consistent basis.

41. On June 14, 2002, the Agency filed a complaint in the case of California Housing Finance Agency (CalHFA) v. Hanover California Management and Accounting Center Inc. (HC) et al, Orange County Superior Court # 02CC10634 (Action). The trial in this matter has concluded and the Agency prevailed on all causes of action. The jury awarded \$6.7 million in damages, prejudgment interest of \$1 million, and finally the jury found that the defendants acted with malice, and awarded total punitive damages of \$1.5 million. The defendants appealed the judgment and the Court of Appeal issued a decision affirming the judgment in full. The decision is now final.

The amounts received from the defendants were \$7,950 and \$1,895 during the years ended

December 31, 2010 and 2009, respectively which is recorded as other revenue in the Statement of Revenues, Expenses and Changes in Fund Equity. It is unknown at the time if additional amounts will be received and as such no gain contingency has been recorded.

Certain other lawsuits and claims arising in the ordinary course of business have been filed or are pending against the Fund. Based upon information available to the Agency, its review of such lawsuits and claims and consultation with counsel, the Agency believes the liability relating to these actions, if any, would not have a material adverse effect on the Fund's financial statements.

L. Steven Spears, Chief Deputy Director

Charles K. McManus

Charles K. McManus, Director of Mortgage Insurance

Lori Hamahashi, Deputy Comptroller

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California Housing Loan Insurance Fund

Financial Statements and Supplementary Information for the Years Ended December 31, 2010 and 2009, and Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
California Housing Finance Agency
Sacramento, California

We have audited the accompanying balance sheets of the California Housing Loan Insurance Fund (the "Fund"), which is administered by the California Housing Finance Agency (the "Agency"), a component unit of the State of California, as of December 31, 2010 and 2009, and the related statements of revenues, expenses, and changes in fund equity, and cash flows for the years then ended. The accompanying financial statements are the statements of the Fund and do not include the financial position or the results of the operations of the Agency. These financial statements are the responsibility of the management of the Agency. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Fund as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements for the year ended December 31, 2010 have been prepared assuming that the Fund will continue as a going concern. As discussed in Note 2 to the financial statements, the Fund is experiencing difficulty in generating sufficient cash flow to meet its obligations and sustain its operations, which raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also discussed in Note 2 to the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Agency's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

May 5, 2011

Deloitte + Touche LLP

CALIFORNIA HOUSING LOAN INSURANCE FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS YEARS ENDED DECEMBER 31, 2010 AND 2009

The California Housing Finance Agency (the "Agency") was created in 1975 by an act of the California Legislature and commenced operations in 1976. The Agency is a component unit of the State of California (the "State") and is included in the State's Comprehensive Annual Financial Report. The Agency is authorized to administer the activities of the California Housing Loan Insurance Fund (the "Fund"), the California Housing Finance Fund (the "CHFF"), and two State general obligation bond funds. The following Management Discussion and Analysis applies only to the activities of the California Housing Loan Insurance Fund and should be read in conjunction with the Fund's financial statements and the notes to the financial statements. The Agency is entirely self-funded and does not draw upon the general taxing authority of the State.

The Agency is authorized to use the Fund's assets as at-risk capital in support of mortgage insurance programs which finance the acquisition, new construction, or rehabilitation of residential structures in California. The Fund insures loans made by the Agency; loans made by lenders for securitization by the Federal National Mortgage Association (the "FNMA"), and Federal Home Loan Mortgage Corporation (the "FHLMC"); and loans made by localities, nonprofit agencies, and the California State Teachers' Retirement System. In conducting business the Agency is authorized to reinsure any risk undertaken by the Fund.

While the Fund is subject to the same statutory requirements as private mortgage insurance companies with respect to the maintenance of policyholders' surplus, the Fund is exempt from regulatory control by the State Department of Insurance. The claims-paying ability of the Fund has been assigned a rating of Caa3 by Moody's Investors Service.

Underwriting, acquisition, and issuance expenses are charged directly to the Fund as well as loss and loss adjustment expenses. Certain administrative and operating expenses, including office space, business services and supplies, legal services, accounting services, information technology support, and human resource support services, are provided by the Agency and indirectly charged to the Fund.

FINANCIAL RESULTS 2010 – 2009

- Insurance in force decreased by $518 million, or 22%, to $2.3 billion as of December 31, 2010, compared to $2.8 billion as of December 31, 2009. The Fund ceased committing to insure new loans in September 2009.

- The Fund had an operating loss of $24.9 million for 2010. Net operating results of the Fund improved by approximately $29 million in 2010 compared to the operating loss of $54 million in 2009. This was primarily due to a decrease in losses incurred during 2010 as the rate of growth of delinquencies declined and the reserve for loan losses declined during 2010. The Fund has negative fund equity balance of $24.7 million at December 31, 2010, compared to a positive fund equity balance of $194 thousand at December 31, 2009.

- Home mortgage delinquencies declined during the year, the delinquency ratio for the insured portfolio decreased to 20.6% in December 2010 or $493 million, down from 22% or $638 million in December 2009. Gross insurance claim payments were $167.3 million and $94.3 million in 2010 and 2009, respectively, before reinsurance.

- The Fund's reserve for loan losses decreased by $13.4 million in 2010 to $49.6 million as a result of the Fund's decreased number of delinquencies outstanding. The Agency continues to monitor delinquencies closely and is proactive in its attempts to mitigate losses.

- The Fund continued the reinsurance treaty and administrative services agreement with Genworth Financial ("Genworth"), previously known as GE Mortgage Insurance Corporation ("GEMICO"). This insurance treaty cedes to Genworth a 75% quota share of the insurance risk and 64.5% of the premium collected for most loans insured by the Fund. The treaty was amended for loans insured on or after May 1, 2008 to 67% of premium collected and amended again on April 1, 2009 to 69% of premium collected on loans insured on or after that date.

- In February 2010, Moody's Investors Service reaffirmed the current rating of Baa2 for Genworth and changed the outlook to negative. In September 2010, Standard and Poor's Ratings Services ("S&P") affirmed the counterparty credit and financial strength ratings on Genworth at "BBB-".

- In September 2010, S&P lowered the Fund's rating to "CC" from "CCC-" and withdrew the ratings on the Fund at the Agency's request. The rating was lowered due to continued elevated level of notices of default and erosion of capital.

- In December 2010, Moody's lowered the Fund's rating to "Caa3" from "B2". The rating was lowered based on a sharp decline in performance of the insured portfolio, a decline in the fund capital position due to an increase in insurance claims paid, and projections that future claims may lead to shortfalls in funds available for claim payments in the future.

- Based on its projections, management of the Fund believes that the Fund will not be able to meet all of its obligations as they become due in 2011. The Agency has forecasted it may intermittently deplete its available funds for paying claims and expenses during the third quarter of 2011 (see Note 2) and continues to remain dependent upon the ability of the Fund's reinsurer to pay its share of the claims (see Note 5).

2010 COMPARED TO 2009

CONDENSED BALANCE SHEETS

The following table presents condensed balance sheets for the Fund as of December 31, 2010 and 2009, and the change from year to year (dollars in thousands):

	2010	2009	Change
ASSETS			
Cash, cash equivalents, and investments	$28,081	$65,290	$(37,209)
Other assets	1,019	1,490	(471)
TOTAL	$29,100	$66,780	$(37,680)
LIABILITIES AND FUND EQUITY (DEFICIT)			
LIABILITIES:			
Unpaid losses and loss adjustment expenses	$49,596	$62,962	$(13,366)
Unearned premiums	175	244	(69)
Accounts payable and other liabilities	4,065	3,380	685
Total liabilities	53,836	66,586	(12,750)
FUND EQUITY (DEFICIT):			
Invested in capital assets	28	33	(5)
Restricted		161	(161)
Unrestricted	(24,764)		(24,764)
Total fund equity (deficit)	(24,736)	194	(24,930)
TOTAL	$29,100	$66,780	$(37,680)

Assets — Total assets of the Fund were $29.1 million as of December 31, 2010, a decrease of $37.7 million or 56% from December 31, 2009. Of the Fund's assets, more than 96% are represented by cash and investments. The Fund does not have a significant investment in capital assets.

Cash, cash equivalents, and investments were $28.1 million as of December 31, 2010, a decrease of $37.2 million from December 31, 2009. The decrease is primarily due to an increase in claim payments. The Agency invests the Fund's cash in the State's Surplus Money Investment Fund ("SMIF"). SMIF provides the Fund a variable rate of return and complete liquidity. Cash invested in SMIF is deposited within the State's Centralized Treasury System and managed by the State Treasurer.

Other assets were $1.0 million as of December 31, 2010, a decrease of $0.5 million or 32% from December 31, 2009. The decrease is the result of a decline in interest receivable from decreased earning rates in the State's SMIF and decrease in reinsurance receivable as a result of higher number of claims being paid.

Liabilities — The Fund's liabilities were $53.8 million as of December 31, 2010, a decrease of $12.8 million or 19% from December 31, 2009.

The reserve for unpaid losses and loss adjustment expenses was $49.6 million as of December 31, 2010, a decrease of $13.4 million from December 31, 2009. The decrease in the loss reserve is the result of the Fund's lower loss reserves required to cover potential losses. As of December 31, 2010, 1927 insured loans with balances aggregating $542 million were either reported as delinquent by the lender or assumed delinquent but not reported. As of December 31, 2009, 2505 insured loans with balances aggregating $661 million were either reported as delinquent by the lender or assumed delinquent but not reported.

Unearned premiums were $175,000 as of December 31, 2010, a decrease of $69,000 from December 31, 2009. The decrease was due to policy adjustments between the servicer and reinsurer. The expected trend of this account is to decrease over time due to a change in premium collection practices. Beginning in 1996, management adopted the mortgage insurance industry norm of collecting monthly premium payments in arrears for newly established loan insurance products as compared to past practices of collecting annual premiums in advance. As a result, each year a greater percentage of insured loans require monthly premium payments, which are earned when received, rather than annual payments, which are received in advance and deferred and earned over a one-year period.

Accounts payable and other liabilities were $4.1 million as of December 31, 2010, an increase of $0.7 million from December 31, 2009. This increase is largely attributable to amounts owed to the reinsurer for claim payments.

Fund Equity — The Fund's equity is classified as restricted, unrestricted or invested in capital assets. Total equity of the Fund decreased by $24.9 million as a result of the current year operating loss.

CONDENSED STATEMENTS OF REVENUES AND EXPENSES

The following table presents condensed statements of revenues and expenses for the Fund for the years ended December 31, 2010 and 2009, and the change from year to year (dollars in thousands):

	2010	2009	Change
OPERATING REVENUES:			
Premiums earned	$ 16,502	$ 20,894	$ (4,392)
Investment income	255	924	(669)
Other revenues	8	2	6
Total operating revenues	16,765	21,820	(5,055)
OPERATING EXPENSES:			
Loss and loss adjustment expenses	29,727	60,632	(30,905)
Operating expenses	11,958	14,940	(2,982)
Other expenses	10	207	(197)
Total operating expenses	41,695	75,779	(34,084)
OPERATING LOSS	$(24,930)	$(53,959)	$ 29,029

Operating Revenues — Operating revenues were $16.8 million during 2010 compared to $21.8 million during 2009, a decrease of $5.0 million or 23%.

Premiums earned in 2010 decreased by $4.4 million or 21% compared to premiums earned in 2009. The decrease in premiums earned corresponds with the decrease in insurance in force. Insurance in force were $2.3 billion and $2.8 billion as of December 31, 2010 and 2009, respectively.

Investment income decreased $669,000 to $255,000 in 2010 from $924,000 in 2009. This decrease was due to the decrease in interest rates and decrease in investment in SMIF. SMIF interest rates for the past two years are shown in the following table:

Periods	Year 2010	Periods	Year 2009
January — March	0.551%	January — March	1.903%
April — June	0.559%	April — June	1.512%
July — September	0.503%	July — September	0.889%
October — December	0.456%	October — December	0.594%

Other revenues increased by $6,000 to $8,000 in 2010 from $2,000 in 2009. Recoveries made on amounts owed from defendants in certain litigation increased from last year

Operating Expenses — Total operating expenses were $41.7 million during 2010 compared to $75.8 million during 2009, a decrease of $34.1 million or 45%.

Loss and loss adjustment expenses decreased by $30.9 million in 2010. The decrease is attributable to the decrease in required reserves to cover potential losses.

The Fund's operating expenses were $11.9 million during 2010 compared to $14.9 million during 2009, a decrease of $3.0 million or 20%. The decrease is primarily a result of lower ceded premiums to the reinsurer due to lower insurance in force and a decrease in salary expenses.

Operating Loss — Operating loss for 2010 was $24.9 million compared to $53.9 million loss in 2009, a decrease of $29 million. The decrease in operating loss is a result of the decrease in loss and loss adjustment expenses.

2009 COMPARED TO 2008

CONDENSED BALANCE SHEETS

The following table presents condensed balance sheets for the Fund as of December 31, 2009 and 2008, and the change from year to year (dollars in thousands):

	2009	2008	Change
ASSETS			
Cash, cash equivalents, and investments	$ 65,290	$ 78,552	$ (13,262)
Other assets	1,490	3,227	(1,737)
TOTAL	$ 66,780	$ 81,779	$ (14,999)
LIABILITIES AND FUND EQUITY			
LIABILITIES:			
Unpaid losses and loss adjustment expenses	$ 62,962	$ 25,995	$ 36,967
Unearned premiums	244	316	(72)
Accounts payable and other liabilities	3,380	1,315	2,065
Total liabilities	66,586	27,626	38,960
FUND EQUITY:			
Invested in capital assets	33	39	(6)
Restricted by statute	161	54,114	(53,953)
Total fund equity	194	54,153	(53,959)
TOTAL	$ 66,780	$ 81,779	$ (14,999)

Assets — Total assets of the Fund were $66.8 million as of December 31, 2009, a decrease of $15 million or 18% from December 31, 2008. Of the Fund's assets, more than 98% are represented by cash and investments. The Fund does not have a significant investment in capital assets.

Cash, cash equivalents, and investments were $65.3 million as of December 31, 2009, a decrease of $13.3 million from December 31, 2008. The decrease is primarily due to an increase in claim payments. The Agency invests the Fund's cash in the State's Surplus Money Investment Fund ("SMIF"). SMIF provides the Fund a variable rate of return and complete liquidity. Cash invested in SMIF is deposited within the State's Centralized Treasury System and managed by the State Treasurer.

Other assets were $1.5 million as of December 31, 2009, a decrease of $1.7 million or 54% from December 31, 2008. The decrease is the result of a decline in interest receivable from decreased earning rates in the State's SMIF and decrease in reinsurance receivable as a result of higher number of claims being paid.

Liabilities — The Fund's liabilities were $66.6 million as of December 31, 2009, an increase of $39 million or 141% from December 31, 2008.

The reserve for unpaid losses and loss adjustment expenses was $63 million as of December 31, 2009, an increase of $37 million from December 31, 2008. The increase in the loss reserve is the result of the Fund's higher loss reserves required to cover potential losses. As of December 31, 2009, 2505 insured loans with balances aggregating $661 million were either reported as delinquent by the lender or delinquent but not reported. As of December 31, 2008, 1076 insured loans with balances aggregating $292.6 million were either reported as delinquent by the lender or delinquent but not reported.

Unearned premiums were $244,000 as of December 31, 2009, a decrease of $72,000 from December 31, 2008. The decrease was due to policy adjustments between the servicer and reinsurer. The expected trend of this account is to decrease over time due to a change in premium collection practices. Beginning in 1996, management adopted the mortgage insurance industry norm of collecting monthly premium payments in arrears for newly established loan insurance products as compared to past practices of collecting annual premiums in advance. As a result, each year a greater percentage of insured loans require monthly premium payments, which are earned when received, rather than annual payments, which are received in advance and deferred and earned over a one-year period.

Accounts payable and other liabilities were $3.4 million as of December 31, 2009, an increase of $2.1 million from December 31, 2008. This increase is largely attributable to amounts owed to the reinsurer for claim payments.

Fund Equity — All of the Fund's equity is restricted or invested in capital assets. The Fund's equity is restricted pursuant to the Agency's enabling legislation. Total equity of the Fund decreased by $54 million as a result of increased reserves for unpaid losses and loss adjustment expenses.

CONDENSED STATEMENTS OF REVENUES AND EXPENSES

The following table presents condensed statements of revenues and expenses for the Fund for the years ended December 31, 2009 and 2008, and the change from year to year (dollars in thousands):

	2009	2008	Change
OPERATING REVENUES:			
Premiums earned	$ 20,894	$ 22,062	$ (1,168)
Investment income	924	2,406	(1,482)
Other revenues	2	935	(933)
Total operating revenues	21,820	25,403	(3,583)
OPERATING EXPENSES:			
Loss and loss adjustment expenses	60,632	26,068	34,564
Operating expenses	14,940	16,171	(1,231)
Other expenses	207	34	173
Total operating expenses	75,779	42,273	33,506
OPERATING LOSS	$ (53,959)	$ (16,870)	$ (37,089)

Operating Revenues — Operating revenues were $21.8 million during 2009 compared to $25.4 million during 2008, a decrease of $3.6 million or 14%.

Premiums earned in 2009 decreased by $1.2 million or 5% compared to premiums earned in 2008. The decrease in premiums earned corresponds with the decrease in insurance in force. Insurance in force was $2.8 billion and $3.1 billion as of December 31, 2009 and 2008, respectively.

Investment income decreased $1.5 million to $924,000 in 2009 from $2.4 million in 2008. This decrease was due to the decrease in interest rates. SMIF interest rates for the past two years are shown in the following table:

Periods	Year 2009	Periods	Year 2008
January — March	1.903%	January — March	4.174%
April — June	1.512%	April — June	3.108%
July — September	0.889%	July — September	2.769%
October — December	0.594%	October — December	2.533%

Other revenues decreased by $933,000 to $2,000 in 2009 from $935,000 in 2008. Recoveries made on amounts owed from defendants in certain litigation declined from last year

Operating Expenses — Total operating expenses were $75.8 million during 2009 compared to $42.3 million during 2008, an increase of $33.5 million or 79%.

Loss and loss adjustment expenses increased by $34.6 million in 2009. The increase is attributable to the increase in required reserves to cover potential losses.

The Fund's operating expenses were $14.9 million during 2009 compared to $16.2 million during 2008, a decrease of $1.3 million or 7.6%. The decrease is primarily a result of lower ceded premiums to the reinsurer due to lower insurance in force and a decrease in salary expenses.

Operating Loss — Operating loss for 2009 was $53.9 million compared to $16.9 million loss in 2008, a decrease of $37 million. The decrease in operating income is a result of the increase in loss and loss adjustment expenses.

CALIFORNIA HOUSING LOAN INSURANCE FUND

BALANCE SHEETS
DECEMBER 31, 2010 AND 2009

	2010	2009
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 34,556	$ 38,702
Investment in Surplus Money Investment Fund	28,046,000	65,251,000
Interest receivable	39,120	101,960
Other current assets	932,340	1,219,689
Total current assets	29,052,016	66,611,351
NONCURRENT ASSETS — Other assets	47,868	168,795
TOTAL	$29,099,884	$66,780,146
LIABILITIES AND FUND EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Reserves for unpaid losses and loss adjustment expenses	$49,596,140	$62,962,465
Unearned premiums	167,412	210,244
Reinsurance payable	3,400,461	2,927,223
Accounts payable and other liabilities	36,437	41,423
Compensated absences	123,571	162,852
Due to other government entities	504,081	248,003
Total current liabilities	53,828,102	66,552,210
NONCURRENT LIABILITIES — Unearned premiums	7,250	33,409
Total liabilities	53,835,352	66,585,619
CONTINGENCIES (Note 8)		
FUND EQUITY (DEFICIT)		
Invested in capital assets	28,017	33,446
Restricted		161,081
Unrestricted	(24,763,485)	
Total fund equity (deficit)	(24,735,468)	194,527
TOTAL	$29,099,884	$66,780,146

See notes to financial statements.

CALIFORNIA HOUSING LOAN INSURANCE FUND

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY
YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
OPERATING REVENUES:		
Premiums earned	$ 16,502,060	$ 20,894,083
Investment income	255,364	924,475
Other revenues	7,950	1,708
Total operating revenues	16,765,374	21,820,266
OPERATING EXPENSES:		
Loss and loss adjustment expenses — net of recoveries	29,726,646	60,632,179
Operating expenses	11,958,518	14,939,801
Other expenses	10,205	207,062
Total operating expenses	41,695,369	75,779,042
OPERATING LOSS	(24,929,995)	(53,958,776)
FUND EQUITY — Beginning of year	194,527	54,153,303
FUND EQUITY (DEFICIT) — End of year	$(24,735,468)	$ 194,527

See notes to financial statements.

CALIFORNIA HOUSING LOAN INSURANCE FUND

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	$ 16,621,849	$ 21,256,237
Payments to suppliers	(10,867,526)	(12,363,168)
Payments to employees	(461,021)	(322,490)
Due to California Housing Finance Fund	256,078	(224,144)
Other payments	(43,076,730)	(22,931,801)
Net cash used in operating activities	(37,527,350)	(14,585,366)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	88,050,000	35,089,000
Purchase of investments	(50,845,000)	(21,800,000)
Interest on investments	318,204	1,322,720
Net cash provided by investing activities	37,523,204	14,611,720
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(4,146)	26,354
CASH AND CASH EQUIVALENTS — Beginning of year	38,702	12,348
CASH AND CASH EQUIVALENTS — End of year	$ 34,556	$ 38,702
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (24,929,995)	$ (53,958,776)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Interest on investments	(255,364)	(924,475)
Unpaid loss and loss adjustment expenses	(13,366,325)	36,967,898
Depreciation expense	5,429	5,429
Deferred policy acquisition expense	205,775	268,589
Changes in certain operating assets and liabilities:		
Other assets	197,072	1,064,057
Unearned premiums	(68,991)	(72,253)
Reinsurance payable	473,238	2,118,299
Compensated absences	(39,281)	162,852
Accounts payable and other liabilities	(4,986)	7,158
Due to California Housing Finance Fund	256,078	(224,144)
NET CASH USED IN OPERATING ACTIVITIES	$ (37,527,350)	$ (14,585,366)

CALIFORNIA HOUSING LOAN INSURANCE FUND

NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

1. AUTHORIZING LEGISLATION AND ORGANIZATION

The California Housing Loan Insurance Fund (the "Fund") is one of two continuously appropriated funds administered by the California Housing Finance Agency (the "Agency"). The Agency was created by the Zenovich-Moscone-Chacon Housing and Home Finance Act , as amended, as a public instrumentality, a political subdivision, and a component unit of the state of California (the "State"), and is in the State's Annual Financial Report and administers the activities of the Fund and the California Housing Finance Fund (the "CHFF"). These funds allow the Agency to carry out its purpose of meeting the housing needs of persons and families of low and moderate income within the State. The Agency is authorized to insure mortgage loans and to issue bonds, notes, and other obligations to fund loans to qualified borrowers for single-family houses and multifamily developments. The Agency has no taxing power and is exempt from federal income taxes and state franchise taxes.

The accompanying financial statements are the statements of the Fund and do not include the financial position or the results of operations of the Agency. As of June 30, 2010, the Agency had total assets of $11.56 billion and fund equity of $1.55 billion (not covered by this independent auditors' report).

The Agency is also authorized to use the Fund to provide mortgage insurance for loans made by the Agency and others which finance the acquisition, new construction, or rehabilitation of residential structures in California. Total risk in-force was $831.1 million and $1.02 billion at December 31, 2010 and 2009, respectively. Of the insured first mortgage loans outstanding at December 31, 2010, 85.7% have loan-to-value ratios, measured as of the funding date of the loan, equal to or greater than 90%.

The Fund's reserve for loan losses decreased during 2010 as a result of the slight decrease in the number of insured California home mortgage delinquencies. In December 2010, Moody's Investors Service lowered the Fund's rating to "Caa3" from "B2" primarily due to the continued level of home mortgage delinquencies which leads to uncertainty over the levels of potential claims to be experienced. In September 2010, S&P lowered the Fund's rating to "CC" from "CCC-" and withdrew the ratings on the Fund at the Agency's request. The counterparty credit and financial strength ratings of the Fund's reinsurer, Genworth Mortgage Insurance Corporation ("Genworth"), remained at Moody's rating of "Baa2". In September 2010, Standard and Poor's Ratings Services ("S&P") affirmed the counterparty credit and financial strength ratings on Genworth at "BBB-".

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Accounting — The Fund is accounted for as an enterprise fund. Accordingly, the accompanying financial statements have been prepared using the accrual method of accounting and on the basis of accounting principles generally accepted in the United States of America (hereinafter referred to as "Generally Accepted Accounting Principles"), which differ from statutory accounting practices followed by insurance companies in reporting to insurance regulatory authorities.

The financial statements of the Fund were prepared using generally accepted accounting principles that are applicable to a going concern. Management of the Fund, however, has concluded that there is substantial doubt as to the Fund's ability to continue to meet its designated purpose of paying claims and expenses. The financial statements of the Fund do not include any adjustments that might result from the outcome of this uncertainty. As of December 31, 2010, the Fund's cash and cash equivalents are not sufficient to meet the Fund's total anticipated cash requirements to pay its obligations over the next twelve months. Management believes that attempts to raise any additional capital will be unsuccessful and does not believe that, under the terms of the agreement with the CHFF, the Fund will be able to draw on the interfund credit agreement (see note 6). It is anticipated that the Fund will first deplete its available funds to pay claims and expenses sometime during the third quarter of 2011. Subsequent to that event, the Fund will continue to receive its share of premiums from policies still in force and will use the premiums received along with any other available funds to pay the Fund's obligations on a "first-in, first-out" basis in the order in which the claims and expenses are received.

Accounting and Reporting Standards — The Fund follows the Standards of Governmental Accounting and Financial Reporting, as promulgated by the Governmental Accounting Standards Board (GASB). The Fund has adopted the option under GASB Statement No. 20, which allows the Fund to apply all GASB pronouncements and only Financial Accounting Standards Board (FASB) pronouncements which date prior to November 30, 1989.

Use of Estimates — The preparation of financial statements in conformity with Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates.

Cash and Cash Equivalents — The Fund considers cash on hand and cash on deposit with the State Controller's office other than the investment in the State's Surplus Money Investment Fund (SMIF) to be cash and cash equivalents.

Investments — The Agency invests the Fund's excess cash in SMIF, which represents a portion of the State's Pooled Money Investment Account (PMIA). These PMIA funds are on deposit within the State's Centralized Treasury System and are managed in compliance with the California Government Code, according to a statement of investment policy which sets forth permitted investment vehicles, liquidity parameters, and maximum maturity of investments. Investments in SMIF are recorded at fair value. The Office of the State Treasurer of California issues a Pooled Money Investment Board Report with information on the PMIA's portfolio composition. A copy of that report may be obtained from the Office of the State Treasurer, 915 Capitol Mall, Room 106, Sacramento, CA 95814 or via the internet at www.treasurer.ca.gov.

Deferred Policy Acquisition Costs — The Fund defers certain costs related to the acquisition of new insurance policies and amortizes these costs over the expected life of the policies. These costs are associated with the acquisition, underwriting, and processing of new policies. Deferred policy acquisition costs were $140,779 and $346,554 as of December 31, 2010 and 2009, respectively, and are included as part of other assets on the balance sheets.

Reserves for Unpaid Losses and Loss Adjustment Expenses — The Fund establishes reserves for losses and loss adjustment expenses, to recognize the estimated liability for potential losses and related loss expenses in connection with borrower default on mortgage payments. The liability for unpaid losses and loss adjustment expenses resulting from mortgage insurance is an estimate based upon the unpaid delinquent balance on mortgage loans reported by lenders as of the close of the accounting period, estimates of incurred but not reported (IBNR) claims, and historical and expected frequency and loss severity information.

There is a high level of uncertainty inherent in the evaluation of the required loss and loss adjustment expense reserves. Management has selected frequency of claims paid and severity loss ratios that it believes are reasonable and reflective of anticipated ultimate experience. The ultimate costs of claims are dependent upon future events, the outcomes of which are affected by many factors. The Fund's claim reserving procedures and settlement practices, economic inflation, court rulings, real estate market conditions, and many other economic, scientific, legal, political, and social factors all can have significant effects on the ultimate cost of claims.

Changes in operations and management practices may also cause actual developments to vary from past experience. Since the emergence and disposition of claims are subject to uncertainties, the net amounts that will ultimately be paid to settle the liability may vary significantly from the estimated amounts provided for in the accompanying financial statements. Any adjustments that may be material to reserves are reflected in the operating results of the periods in which they are made.

Fund Equity — Fund equity is classified as invested in capital assets, restricted equity or unrestricted equity. Invested in capital assets represents investments in office equipment and furniture net of depreciation. Restricted equity represents equity that is restricted pursuant to the Agency's enabling legislation. Unrestricted equity represents equity not restricted for any purpose.

Operating Revenues and Expenses — The Fund's primary operating revenue is derived from premiums earned on private mortgage insurance written. The primary expenses are the expenses associated with the underwriting, acquisition, issuance, administration, and the reinsurance of private mortgage insurance products and policies, as well as the losses associated with these products and policies.

Recognition of Premium Income — Primary mortgage insurance policies are contracts that are generally non-cancelable by the insurer and provide payment of premiums on a monthly, annual, or single basis. Premiums written on a monthly basis are earned as coverage is provided. Premiums written on an annual basis are deferred as unearned premiums and amortized on a monthly pro rata basis over the year of coverage. Primary mortgage insurance premiums written on policies covering more than one year are referred to as single premiums. A portion of single premiums is recognized immediately in earnings, and the remaining portion is deferred as unearned premiums and amortized over the expected life of the policy.

Reinsurance — Effective March 1, 2003, the Fund entered into a reinsurance treaty and administrative services agreement with Genworth. This agreement cedes to Genworth a 75% quota share of the insurance risk for most loans insured by the Fund and provides for certain administrative services to be performed by Genworth. The Fund uses reinsurance to reduce net risk in force and optimize capital allocation.

3. INVESTMENT RISK FACTORS

There are many factors that can affect the value of investments. Some, such as credit risk, custodial credit risk, concentration of credit risk, and interest rate risk, may affect both equity and fixed-income securities. Equity and debt securities respond to such factors as economic conditions, individual company earning performance, and market liquidity, while fixed income securities are particularly sensitive to credit risks and changes in interest rates. It is the investment policy of the Fund to invest substantially all of its funds in fixed income securities, which limit the Fund's exposure to most types of risk.

Investments by type at December 31, 2010 and 2009, consist of the following:

	2010	2009
Surplus Money Investment Fund — State of California	$28,046,000	$65,251,000
Total investments	$28,046,000	$65,251,000

Credit Risk — Fixed income securities are subject to credit risk, which is the chance that an issuer will fail to pay interest or principal in a timely manner or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. Certain fixed income securities, including obligations of the U.S. government or those explicitly guaranteed by the U.S. government, are not considered to have credit risk. At December 31, 2010, the Fund does not have any investments exposed to credit risk.

Custodial Credit Risk — Custodial credit risk is the risk that in the event of the failure of the custodian, the investments may not be returned. At December 31, 2010, the Fund did not have any investments exposed to custodial credit. All investments are held by the State of California.

Concentration of Credit Risk — Concentration of credit risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers, thereby exposing the Fund to greater risks resulting from adverse economic, political, regulatory, geographic, or credit developments. At December 31, 2010, the Fund does not have any investments exposed to concentration of credit risk.

Interest Rate Risk — Interest rate risk is the risk that the value of fixed income securities will decline due to decreasing interest rates. The terms of a debt investment may cause its fair value to be highly sensitive to interest rate changes. At December 31, 2010, the Fund does not have any debt investments that are highly sensitive to changes in interest rates.

Effective Duration — The effective duration is the approximate change in price of a security resulting from a 100 basis points (one percentage point) change in the level of interest rates. It is not a measure of time. The Fund's investments are not affected by effective duration.

4. RESERVES FOR UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

The following tables summarize the changes in the reserves for unpaid losses and loss adjustment expenses for the years ended December 31, 2010 and 2009. The first table presents reserves on a gross basis (before reinsurance) and the second table presents the reserve on a net basis (after reinsurance). The total net reserve for loss and loss adjustment is reflected in the financial statements.

Gross	**2010**	**2009**
Gross reserve for loss and loss adjustment — beginning of year balance	$ 241,981,953	$ 102,625,159
Incurred (recovered) related to:		
Provision attributable to the current year	142,838,171	225,315,250
Change in provision attributable to prior years	(30,061,583)	8,363,936
Total incurred	112,776,588	233,679,186
Payments related to:		
Current year	(13,152,683)	(11,507,215)
Prior years	(154,147,316)	(82,815,177)
Total payments	(167,299,999)	(94,322,392)
Gross reserve for loss and loss adjustment — end of year balance	$ 187,458,542	$ 241,981,953

Net of Reinsurance	**2010**	**2009**
Net reserve for loss and loss adjustment — beginning of year balance	$ 62,962,464	$ 25,994,567
Incurred (recovered) related to:		
Provision attributable to the current year	37,679,992	58,695,589
Change in provision attributable to prior years	(7,953,346)	1,936,589
Total incurred	29,726,646	60,632,178
Payments related to:		
Current year	(3,557,738)	(2,962,534)
Prior years	(39,535,232)	(20,701,747)
Total payments	(43,092,970)	(23,664,281)
Net reserve for loss and loss adjustment — end of year balance	$ 49,596,140	$ 62,962,464

The change in provision attributable to prior year (net of reinsurance) decreased by $7.9 million for the year ended December 31, 2010 due to a decrease in loan delinquencies from the year ended December 31, 2009, while the change in provision attributable to prior year (net of reinsurance) increased by $1.9 million for the year ended December 31, 2009 from the year ended December 31, 2008 due to an increase in loan delinquencies.

Reserves for loss and loss adjustment expenses relate to delinquent loans, net of reinsurance. Such estimates were based on historical experience, which management believes is representative of expected future losses at the time of estimation. As a result of the extended period of time that may exist between the report of a delinquency and claim payment thereon, significant uncertainty and variation exist with respect to the ultimate amount to be paid because economic conditions and real estate markets will change.

5. REINSURANCE

Effective March 1, 2003, the Fund entered into a 75% quota share reinsurance agreement with Genworth to reinsure most (currently, approximately 96%) of the Fund's portfolio. Under the terms of this agreement, the reinsurer will indemnify the Fund for 75% of all losses paid on the insured loans to which the Fund cedes 64.5% of the related premiums. The treaty was amended for loans insured on or after May 1, 2008 to cede 67% of premiums collected and amended again on April 1, 2009 to cede 69% of premiums collected on loans insured on or after that date. However, there are no loans currently ceded at 69%. The Fund's reinsurance agreement typically provides for a recovery of a proportionate level of claim expenses from the reinsurer. The Fund remains liable to its policyholders if the reinsurer is unable to satisfy its obligations under the reinsurance agreement. The amount of earned premiums ceded to Genworth for the years ended 2010 and 2009 was $10.4 million and $13.2 million, respectively.

6. ARRANGEMENTS WITH THE CALIFORNIA HOUSING FINANCE FUND

Certain of the administrative and operating expenses charged to the Fund are provided by the Agency. These expenses, initially paid from the CHFF, include office space, business services, legal services, accounting services, information systems support, and human resource support services. The Fund is charged quarterly for these expenses. Amounts payable to the CHFF were $323,640 and $132,693 at December 31, 2010 and 2009, respectively. For the years ended December 31, 2010 and 2009, total expenses allocated to the Fund by the Agency were $1,349,755 and $1,052,616, respectively.

The Agency Board of Directors approved Resolution 03-19 on March 20, 2003, authorizing the Agency to utilize the resources of CHFF to support the mortgage guaranty insurance programs of the Agency in the following two ways: (1) the Executive Director of the Agency is authorized to create one or more supplementary reserve accounts within the Supplementary Bond Security Account of CHFF to indemnify the Mortgage Insurance Fund for losses incurred or to pay claims against the Mortgage Insurance Fund in connection with loans financed by the Agency and (2) the Executive Director of the Agency may establish an interfund credit agreement by which the Fund may borrow such sums from CHFF as may be required to maintain the claims paying rating of any credit rating service.

Initially, the Agency Executive Director established an interfund credit agreement in the amount of $100,000,000 in which the Fund may borrow from CHFF as needed for the purpose of paying claims arising out of policies of mortgage guarantee insurance and costs and expenses related to the payment of such claims. The amount by which the fund may borrow was reduced to $10,000,000 from $100,000,000 during 2009. Interest rates and repayment terms are determined upon receipt of a request to draw on this credit facility.

Pursuant to the terms of the Board Resolution and the interfund credit agreement, the credit line is no longer legally available to the Fund. The credit agreement stipulates that the amount of credit is determined to be an amount necessary to maintain or improve the claims paying rating of the Fund, which at the time was "A+", and such amount shall not impair or adversely affect the Agency credit rating or any CHFF bond credit rating. The claims paying rating of the Fund was "A+" until July 2009 when it was lowered to "BBB" and subsequently fell as low as "CCC-" during 2010. In September 2010, management of the Fund decided to withdraw the rating. Consequently, there is no credit line currently available under the interfund agreement as there is no rating to support and the $10 million would not resurrect the "CCC-" claims paying rating back to "A+".

7. .PENSION PLAN AND POST RETIREMENT BENEFITS

The Fund contributes to the Public Employees' Retirement Fund (PERF) as part of the State of California, the primary government. The PERF is a cost-sharing multiple-employer defined benefit pension plan administered by the California Public Employment Retirement System (CalPERS). CalPERS provides retirement, death, disability, and postretirement health care benefits to members as established by state statute. CalPERS issues a publicly available Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information for the Public Employees' Retirement Fund. A copy of that report may be obtained from CalPERS, Central Supply, and P.O. Box 942175, Sacramento, CA 95229-2715 or via the internet at www.calpers.ca.gov.

For the CalPERS fiscal years ended June 30, 2011, 2010, and 2009, the employer contribution rates were as follows:

	June 30		
	2011	2010	2009
State Miscellaneous Member First Tier	19.922 %	16.917 %	16.574 %
State Miscellaneous Member Second Tier	19.622	16.737	16.470

The Fund's contributions to the PERF for the years ended December 31, 2010, 2009, and 2008, were $136,045, $67,463, and $95,849, respectively, equal to the required contributions for each year.

Required contributions are determined by actuarial valuation using the individual entry age normal cost method. The most recent actuarial valuation available is as of June 30, 2009, which actuarial assumptions included (a) 7.75% investment rate of return compounded annually, (b) projected salary increases that vary by duration of service, and (c) overall payroll growth factor of 3.25% annually. Both (a) and (c) included an inflation component of 3% and a 0.25% per annum productivity increase assumption.

The most recent actuarial valuation of the PERF indicated that there was an unfunded actuarial accrued liability. The amount of the underfunded liability applicable to each Agency or department cannot be determined. Trend information, which presents CalPERS progress in accumulating sufficient assets to pay benefits when due, are presented in the June 30, 2010, CalPERS CAFR.

GASB Statement 45 requires states and local governments to publicly disclose the future dollar amount of their obligations to pay for Other Postemployment Benefits (OPEB), like healthcare, that are provided to retired employees, including retired public employees. The OPEB is a cost-sharing multiple-employer defined benefit healthcare plan administered by CalPERS. State Controller's Office sets the employer contribution rate based on the annual required contribution of the employers (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. The Fund's estimated unfunded OPEB cost was $180,440 and $115,310 for the years ended December 31, 2010 and 2009 respectively, and this liability was added to Personal Services in the respective year. CalPERS issues a publicly available CAFR that includes financial statements and required supplementary information for the OPEB.

8. LITIGATION

On June 14, 2002, the Agency filed a complaint in the case of California Housing Finance Agency (CalHFA) v. Hanover California Management and Accounting Center Inc., (HC) et al, Orange County Superior court #02CC10634 (Action). The trial in this matter has concluded and the Agency prevailed on all causes of action. The jury awarded $6.7 million in damages, prejudgment interest of $1 million, and finally the jury found that the defendants acted with malice, and awarded total punitive damages of $1.5 million. The defendants appealed the judgment and the Court of Appeal issued a decision affirming the judgment in full. The decision is now final.

The amounts received from the defendants were $7,950 and $1,895 during the years ended December 31, 2010 and 2009, respectively which is recorded as other revenue in the accompanying Statements of Revenues, Expenses, and Changes in Fund Equity. It is highly unlikely that any additional amounts will be received and as such no gain contingency has been recorded.

Certain other lawsuits and claims arising in the ordinary course of business have been filed or are pending against the Fund. Based upon information available to the Agency, its review of such lawsuits and claims and consultation with counsel, the Agency believes the liability relating to these actions, if any, would not have a material adverse effect on the Fund's financial statements.

9. SUBSEQUENT EVENTS

Prior to February 2011, Genworth was paying the full amount of the loss (100%) to the insured and was billing CaHLIF for its portion of the loss (approximately 25%) each month. Effective February 1, 2011, Genworth is paying for their portion of the loss (generally 75%) directly to the insured and the Fund is paying for its portion of the loss (generally 25%) directly to the insured.

On February 2, 2011, Standard and Poor's lowered the rating of Genworth to "BB+" from "BBB-". The rating was lowered due to reported fourth quarter and full-year losses that significantly exceeded expectations.

On February 3, 2011, Moody's placed the current rating of "Baa2" for Genworth on review for possible downgrade.

Management has evaluated subsequent events during the period from December 31, 2010 to May 5, 2011, the date the financial statements were available to be issued.

* * * * * *

State of California

M E M O R A N D U M

To: Board of Directors
CALIFORNIA HOUSING FINANCE AGENCY

Date: May 19, 2011

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

Subject: Agenda Item 7 – Resolution 11-07 -- CalHFA Two-Year Business Plan

For your consideration and approval, I offer the 19th annual CalHFA Business Plan for Fiscal Years 2011-12 and 2012-13. The attached resolution and presentation are included for your review. The presentation is in Powerpoint format that will be condensed into a summarized Powerpoint presentation at the Board meeting.

The Two Year Business Plan (Plan) provides the Board of Directors and the senior management team of CalHFA with priorities, operational objectives and strategies to implement the Agency's lending activities and operations. In addition, the Plan provides the Board with an update on several important initiatives and loan products that fundamentally change the Agency's business environment. These strategies and initiatives will allow the Agency to meet head-on the continuing challenges presented by the current housing and financial markets.

The Plan continues to emphasize the five priorities discussed at the Board's March 2010 meeting – 1) Maintain credit ratings; 2) Mitigate loan losses; 3) Renew lending; 4) Reestablish business partnerships and 5) Explore new business opportunities. During the next fiscal year, the State HFA Initiative New Issue Bond Purchase (NIBP) program will expire. Therefore, you will see in this business plan several lending program proposals for Homeownership and for Multifamily that are designed to enable the Agency to continue lending after the expiration of the NIBP. Also, Multifamily lending activities will continue to include the Mental Health Services Act Housing Program, however, staff estimates funding for MHSA will be exhausted by early in calendar year 2013. The Asset Management Division will continue to manage a growing inventory of multifamily properties which includes an increasing number of properties that are reaching the end of their loan term and are in need of rehab. In addition, if HUD approves the Agency's response to the Performance Based Contract Administration (PBCA) RFP, we will see a dramatic increase in the Asset Management Division's workload.

The Agency will continue with the operation of the $2 billion federally funded Keep Your Home Program and also hire additional permanent staff to effectively manage the CalHFA single family loan portfolio and manage the inventory of CalHFA "real estate owned" (REO) properties.

During this past year, Agency staff have worked very hard to manage our challenges and return to lending. Please join me in recognizing the fantastic job that the staff of Homeownership, Mortgage Insurance, Multifamily, Financing, Marketing, Legal, Asset Management, Administration, Information Technology, Fiscal Services, Special Lending and Loan Servicing has accomplished this past year.

Your approval of Resolution 11-07, adopting the 19th CalHFA Business Plan is requested.

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Update to Business Plan for FY 2011-12 and FY 2012-13

Presentation to CalHFA Board of Directors

May 19, 2011

Business Plan Outline

- Basic Economic Assumptions
  - Economic environment, interest rates, employment, and real estate markets.
- CalHFA Assumptions
  - Financial strength, credit ratings, liquidity, internal funding for programs, and housing bond market;
  - Homeownership and Multifamily New Lending;
  - SF and MF Portfolio Management
- Business Plan Priorities
  - Previously adopted by the Board
- Divisional Business Plans
  - Including projected business volume

Assumptions

- California Economy
  - Flat through 2012, then very modest recovery
- Unemployment
  - Improving slightly but not until 4Q 2011 or 1Q 2012
- Interest rates
  - General level remaining low through 2013
  - Mortgage rates generally flat
- Home Sales
  - Demand increasing slightly in late 2011 and into 2012
- Home Prices
  - Another 5-10% decline in 2011

Economic Forecast

	2011/12				2012/13			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Interest Rate Forecast								
10 year maturity – US Gov't bond yields+	3.73%	3.91%	4.05%	4.15%	4.24%	4.37%	4.50%	4.61%
Fed Funds rate+	0.28%	0.37%	0.61%	0.95%	1.39%	1.75%	2.00%	2.25%
Domestic Municipal Bonds*	5.35%	5.71%	5.70%	5.69%	5.68%	5.67%	5.67%	5.67%
Housing Bond Cost**	3.87%	3.93%	5.79%	5.89%	5.98%	6.11%	6.24%	6.35%
Conventional Mortgage Rate*	5.22%	5.39%	5.52%	5.64%	5.77%	5.89%	5.80%	5.71%
California Forecast								
California Unemployment*	11.5%	11.2%	10.9%	10.7%	10.4%	10.0%	9.7%	9.4%
Residential Building Permits (thousands)*	14.5	14.83	17.68	23.13	32.83	41.76	42.38	41.73

+ From Bloomberg – CBT – Chicago Board of Trade
* From the UCLA Anderson Forecast, March 2010
** These rates were projected internally using recently issued national HFA fixed-rate bonds. The rates have been compared to U.S. Treasury rates and are projected forward to remain consistent with 10-year Treasury projections.

CalHFA

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
  - HMRB equity sufficient to absorb insured and uninsured loan losses
    - Relies on Genworth's ability to continue paying claims
- Agency liquidity
  - Tied to Agency Bond and G-O credit ratings
    - G-O at or above A3/A-
    - HMRB at or above Baa3/BBB-
  - Sufficient to fund Agency operations and other financial obligations
  - Sufficient to meet swap collateral postings thru A3/A- rating levels
  - MI Fund becomes insolvent in 3rd quarter 2011
  - Reserve account to pay gap claims exhausted by September / October 2011

Assumptions – Cont'd

- HAT funds unavailable for downpayment assistance, Special Lending (RDLP/HELP loans), Multifamily or Asset Management programs
- State GO Bond funds available for Single family 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 bond-funded loan rates
  - CDLAC continues to allocate volume cap to housing programs based on historical allocations
- Use of Variable Rate Bonds limited to the following:
  - Refunding existing variable rate bonds
  - New MF conduit bonds

Agency Projected Liquidity 2011 – 2015

	1-Mar-11 through 31-Dec-11	1-Jan-12 through 31-Dec-12	1-Jan-13 through 31-Dec-13	1-Jan-14 through 31-Dec-14	1-Jan-15 through 31-Dec-15
Beginning Balance	238,292,629	222,056,586	229,199,573	252,851,809	267,953,027
Sources Of Liquidity					
P&I Payments from Unencumbered Loan Portfolio	28,843,099	39,654,259	42,751,055	36,333,911	38,319,435
Admin Fees, Loan Servicing and Investment Income	9,643,693	15,297,863	13,949,181	12,700,117	11,525,623
Reimbursement of Swap Net Payments from HMRB	41,005,554	64,518,269	41,076,367	23,924,617	14,349,464
Excess Revenues from Multifamily Loan Programs	5,000,000	10,000,000	10,000,000	10,000,000	10,000,000
Total Estimated Liquidity	84,492,346	129,470,391	107,776,603	82,958,645	74,194,523
Uses of Liquidity					
Operating Expenses	34,327,247	40,309,134	38,048,000	38,932,810	40,879,470
Fund Existing Loan Commitments	1,495,588	-	-	-	-
Financing and Debt Service Related	13,900,000	5,000,000	5,000,000	5,000,000	5,000,000
Advance Swap net payments for HMRB	41,005,554	64,518,269	41,076,367	23,924,617	14,349,464
Repayment of PMIA Loan	10,000,000	12,500,000	-	-	-
Total Uses of Liquidity	100,728,389	122,327,403	84,124,367	67,857,427	60,228,934
Ending Balance	222,056,586	229,199,573	252,851,809	267,953,027	281,918,616

Lending and Portfolio Assumptions

- Homeownership Lending
  - MBS business model for bond funded programs
  - 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 down payment assistance
  - Develop business model concepts 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
- Any new lending products or initiatives
  - Discussed and approved before implementation by staff

Lending and Portfolio Assumptions

- Keep Your Home California -- $2 billion
  - Positive effect on CalHFA portfolio
- Loan servicing
  - Expand call center capacity
  - Acquire loans from underperforming servicers
  - Foreclosure prevention through loan modifications
- Increase REO sales rate
- Working with Genworth on effective claims management
  - Continue to foster the cooperative and collaborative relationship between Genworth and CalHFA
  - Monitor Genworth financial strength

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
- Foster new partnership internal and external
- Generate efficiencies and collaborative relationships in the delivery of state affordable housing services

Thrive (2014–2015)
- Lending in substantial volume
- Improving profitability structure
- Recharging reserves
- Funding Agency programs

CalHFA

Five Major Priorities for the Business Plan Period

- Maintaining Credit Ratings
  - S&P downgraded G.O. one step to A-
- Loss Mitigation
  - Multifaceted: loan modifications, short sales, foreclosures, REO management
- Renew Lending Activities
  - Single family and Multifamily lending using the remaining NIBP funds and introducing new loan products that include non-bond funded executions.
- Renew and Strengthen Old Partnerships
  - Local governments and non-profits
  - Genworth Mortgage Insurance
- Explore New Business Opportunities
  - Necessary for reviving and thriving
  - May need new business partners and/or new roles

CalHFA

Divisional Business Activity Plans
Homeownership

Cal HFA

Single Family Scenarios For Fiscal Year 2011-12

- **Case A (Non-Bond Funded)**
  - CalHFA single-family mortgage bond spread less than 75 bps
  - CalHFA single-family mortgage rates at par with market
  - CA economy continues to lag
  - Limited warehouse line of $100 million

- **Case B (Mix of Bond and non-Bond)**
  - CalHFA single-family mortgage bond spread at 100 bps
  - CalHFA single-family mortgage rates .25% below market
  - CA economy recovering
  - Warehouse line of credit of $150 million

- **Case C (Bond funding)**
  - CalHFA single-family bond spread at full spread, 112.5 bps
  - CalHFA single-family mortgage rates .50% below market
  - CA economy recovered
  - Warehouse line of credit of $200 million

CalHFA

Conventional Loan Program

- Fixed interest rate, 30-year term, fully amortized
- Genworth Mortgage Insurance will insure
  - Maximum Loan-to-Value (LTV) of 97% (exclusive to CalHFA)
  - Maximum Total Combined-Loan-to-Value of 103%
  - Minimum FICO 720
  - 3% borrower’s own funds for LTV > 95%
  - 2 months’ reserves required
  - Includes job loss protection
  - Not available to brokers
- Can be used either with bond or non-bond execution

MCC Loan Program

- Mortgage Credit Certificates
  - MCC gives borrower 20% tax credit on mortgage interest paid
  - Not exclusive to CalHFA
  - Must be used with non-bond-funded first loan
- $500 processing fee waived when used with CalHFA FHA loan product
  - Lower loan costs brings more loans to CalHFA
- Loans are sold in the secondary market to investors
  - i.e., this is a non-bond execution

CalHFA

FHA with Exclusive CalHFA Down Payment Assistance

- Fixed interest rate, 30-year fully amortized term
- Uses exclusive CalHFA down payment assistance loan
  - Funded through half-point increase in first mortgage rate
  - Silent second for 3% of purchase price
  - Only available through CalHFA
  - When used with CHDAP, requires $1,000 or 1% from borrowers' funds
  - Minimum FICO 620
- Loans are sold in the secondary market to investors
  - i.e., this is a non-bond execution.

CalHFA

Single Family Volume Projections

	Case A	Case B	Case C
CalHFA FHA	$ 76.5	$590	$760
MCC	$178.5		
FHA plus Down Payment	$150		
Conventional	$102	$177	$304
TOTALS	**$507**	**$767**	**$1,016**

All amounts in $Millions
Projections for Fiscal Year 2011/12

Bonds: Loan Volume is full spread earnings. More volume available if spread reduced to subsidize lower rate for Case A

Down Payment Assistance Projections

	Case A	Case B	Case C
CHDAP	$27	$28	$36
SFF (School Facility Fees)	$10	$10	$10
TOTALS	**$37**	**$38**	**$46**

All amounts in $Millions
Projections for Fiscal Year 2011/12

CalHFA

Divisional Business Activity Plans

Portfolio Management
and
Mortgage Insurance

Single Family Portfolio Management

- Loss Mitigation
  - Approve 750 Loan Modifications During Fiscal Years 2011 & 2012
    - Since July 2009 – 924 Approved
  - Increase Sustainability of Modifications from 60% to 75%
  - Incorporate U.S. Treasury Hardest Hit Funds into CalHFA Loan Modification Program (CMP) with Keep Your Home California Programs
  - Follow-up on and Train all CalHFA Loan Servicers to use KYHC/CMP

- Loan Servicing Administration
  - Review 500 and Approve 360 Short sales
  - Ensure Loan Servicer Compliance to CalHFA Servicing Requirements
  - Conduct on-site Audits of CalHFA Loan Servicers
  - Collect $400, 000 in Fees from Outside Servicers
  - Acquire loans from non-CalHFA servicers to improve loan performance

Cal HFA

REO Management

- Sell 140 REO Properties Per Month
- Reduce REO Holding Times:
  - Reduce eviction times (TAP)
  - Reduce time From foreclose to For Sale to 45 days
  - Reduce time from listing to closing from 105 to 80 days
  - Optimize pricing strategy (i.e. highest net proceeds within 12 Months)

CalHFA

Mortgage Insurance Services

- Maintain Premium Revenue Stream From Insurance In force
  - $2.2 Billion Insurance in force
  - Gross Premiums $11.6 Million for Fiscal Years 2011 & 2012
- Manage Payment of CaHLIF share of Claims
- Promote Claims Loss Mitigation Strategies
- Manage and Grow Business Relationship with Genworth
  - Premium Collection
  - Claim Payment Administration
  - Loss Reserves
  - Job Loss Insurance
  - Reinsurance Contract
- Evaluate and Recommend Primary and Gap Loss Reserves

Operations & Quality Assurance

- **Operations**
  - Maintain the CalHFA Loan Modification System
  - Maintain Payment of CaHLIF share of Claims
  - Coordinate Systems with Genworth Mortgage Insurance

- **Quality Assurance**
  - Continue Meeting GSE Standards for QA
    - Conduct Credit Underwriting Audits
    - Conduct Program Compliance Audits
    - Conduct Investor Requirements Audits
  - Recommend GAP Claim Payments & GAP Loss Reserves
  - Review Indenture Loan Losses and Indenture Loan Loss Reserves

CalHFA

Divisional Business Activity Plans
Multifamily

Mental Health Services Act

- MHSA funds used for development, acquisition, construction and/or rehabilitation of permanent supportive housing for individuals with mental illness and their families, including homeless individuals and their families
- To date CalHFA has closed 55 deals for $147 million and 2,355 units
- Another 50 + deals are in some stage of either application or committed process
- Remaining funds of $253 million includes deals in process and dollars for future deals that will be used over the next 24 months to fund 2,000-3,000 units
- This will wrap up MHSA unless new funds are approved
  - Funds exhausted – early 2013

CalHFA

New Issue Bond Program

- Created by U.S. Department of Treasury with the assistance of FHFA, Fannie Mae and Freddie Mac
  - Expires 12/31/2011
- CalHFA multifamily has committed approximately $287 million of the $380 million in bonds. The remaining $93 million may be used for refunding/credit enhancement of existing CalHFA bonds in 2011
- Multifamily will close $105 million of the committed NIBP dollars which includes $11 million in private placement
- If restructure of CalHFA bonds does not occur, the $93 million will be used for new projects in 2011
- This will finish NIBP projects unless new funds approved, for a total of 1,000-2,000 units
- Discussions continue with U.S. Treasury regarding reallocation of NIBP from single family to multifamily lending.

CalHFA

New Multifamily Lending: Conduit Issuance

- CalHFA can act as an issuer of tax exempt bonds on multifamily transactions to be sold to investors or privately placed with other lenders that can provide a credit enhancement on those bonds
- 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 on going fees. Estimated volume $100 to $400 million depends on demand and financing for tax-exempt bonds
- Need to discuss role of CA Treasurer's office as Agent for Sale; these are done as individual bond deals
- Anticipated roll-out July 1st of the new fiscal year

Other Multifamily Business

- **Freddie Mac Seller Servicer Agreement**
  - Potential agreement with Freddie Mac to obtain seller servicer agreement.
  - CalHFA could obtain Freddie Mac's AAA credit enhancement with no risk
- **FHA Risk Share Agreement**
  - Would allow CalHFA to provide permanent loans with shared risk to FHA
  - Agency must have sufficient capital to offset 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 use AAA credit enhancement

CalHFA

Multifamily Loan Financing Executions

				FHA RISK SHARE	GSE-SUPPORTED PERM LOAN
Functions	**MFIII**	**CONDUIT**	**FHLB**	**PRESERVATION**	**ACQUISITION**
Underwriting	x		x	x	x
Loan Servicing	x		x	x	GSE
Asset Mgt	x		x	x	GSE
Issuer of Bonds	x	x	x	x	x
Guaranty/ Credit Enhancement	CalHFA Balance Sheet	Anybody but CalHFA	FHLB (25-50bps charge by FHLB)	CalHFA/FHA Pilot Prepayment (exp. 2018)	GSE
Revenue to CalHFA	Spread Annuity (max 150bps)	NIBP: 25 bps; No NIBP: 12.5 bps Ongoing fee under both NIBP and Post-NIBP	One Time Fee (25 bps) Ongoing Fee (25 bps)	Continued Spread Annuity (max 150 bps)	Fee - One-time Conduit Fee - Orig.
Indenture	Parity	Stand Alone	Stand Alone	Parity	Parity

Divisional Business Activity Plans
Multifamily Asset Management

Asset Management Business Activity

- More than 500 multi-family loans
  - $2.5M per year Earned Surplus fees collected
  - $1.3M per year Administration Fee - Section 8
  - No foreclosures expected
- Administer
  - $67M/year Section 8 Housing Assistant Payment Subsidy
  - $6.3M MHSA Capital Operating Subsidy
  - $1.8M RHCP Annuity Lending
  - PBCA decision July 1, 2011

Divisional Business Activity Plans
Strategic Projects

Cal HFA

Strategic Initiatives

- New Homeownership Loan Origination System
  - Scheduled to launch in 3rd Quarter 2011
- Enterprise Content Management
  - Document imaging will improve customer service, save storage costs and create other efficiencies;
  - Agencywide document management and retention policy will improve overall Agency productivity, save costs and create opportunities for collaboration.
- Business Continuity/Emergency Response
  - Update for moves to 500 Capitol Mall and West Sacramento
  - Needed for PBCA and GSE servicing
- Fiscal Services Phase II
  - Will generate more timely and more useful information for management
- Coordination and collaboration with other affordable housing funding functions in state and local government.

RESOLUTION 11-07

TWO-YEAR BUSINESS PLAN

FISCAL YEARS 2011/2012 AND 2012/13

WHEREAS, pursuant to the Zenovich-Moscone-Chacon Housing and Home Finance Act ("Act"), the California Housing Finance Agency ("Agency") has the authority to engage in activities to reduce the cost of mortgage financing for home purchase and rental housing development, including the issuance of bonds and the insuring of mortgage loans;

WHEREAS, the Agency's statutory objectives include, among others, increasing the range of housing choices for California residents, meeting the housing needs of persons and families of low or moderate income, maximizing the impact of financing activities on employment and local economic activity, and implementing the objectives of the California Statewide Housing Plan;

WHEREAS, the Agency desires to amend Resolution 10-06 adopted May 12, 2010, which committed the Agency to a Business Plan for fiscal years 2010/11 and 2011/12;

WHEREAS, the current global credit crisis and the continuing uncertainty in the California economy and real estate markets continue to present financial challenges for the Agency;

WHEREAS, the Agency must minimize additional real estate related risk and preserve liquidity for operating expenses and financial obligations;

WHEREAS, the Agency has presented to the Board of Directors a Two-Year Business Plan covering fiscal years 2011/12 and 2012/13, with case based scenarios to adjust to the ever changing economic, fiscal and legal environment, which updated Business Plan is designed to assist the Agency to meet its financial obligations, its statutory objectives, support the housing needs of the people of California and to provide the Agency with the necessary road map to reemerge from this crisis as a leading affordable housing lender providing bond financing and mortgage financing well into the future;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Agency as follows:

1. The updated 2011/12 and 2012/13 Business Plan, as presented by the written presentation attached hereto and made a part hereof, and any additional presentations made at the meeting, is hereby fully endorsed and adopted.

2. In implementing the updated Business Plan, the Agency shall strive to satisfy all the capital adequacy, liquidity reserve, credit and other reserve and any other requirements necessary to maintain the Agency's general obligation credit ratings and the current credit ratings on its debt obligations, to comply with the requirements of the Agency's providers of credit enhancement, liquidity, and interest rate swaps and to satisfy any other requirements of the Agency's bond and insurance programs.

3. Because the updated Business Plan is necessarily based various economic, fiscal and legal assumptions, for the Agency to respond to changing circumstances, the Executive Director shall have the authority to adjust the Agency's day-to-day activities to reflect actual economic, fiscal and legal circumstances to attain goals and objectives consistent with the intent of the updated Business Plan.

I hereby certify that this is a true and correct copy of Resolution 11-07 adopted at a duly constituted meeting of the Board of the Agency held on May 19, 2011, in Sacramento, California.

ATTEST: ______________________
Secretary

Attachment

State of California

M E M O R A N D U M

To: Board of Directors
CALIFORNIA HOUSING FINANCE AGENCY

Date: May 19, 2011

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

Subject: Agenda Item 8 -- Board Resolution 11-08: OPERATING BUDGET FOR FY 2011-12

Assumptions and Overview

Provided for your approval is the proposed operating budget for Fiscal Year 2011-12. Staff's objective is to provide a meaningful and effective budget that takes into account the continued challenges faced by the Agency and the accompanying workload in Loan Servicing and Single Family Portfolio Management due to increases in borrower defaults, workouts, loan modifications, foreclosures and short sales. In addition, with new federal funding provided by the HFA Initiative, the Agency will continue lending in both the Homeownership and Multifamily Divisions. Other activities such as the MHSA program through FY 2011-12 providing an even greater workload for the Multifamily Asset Management Division.

With much uncertainty still surrounding the California real estate markets, the Congressional debate over U.S. mortgage finance and the global credit markets, we cannot be certain of the level of lending activity. As a result, our budget must be flexible to meet any unexpected changes and yet met CalHFA goals and priorities.

As discussed in the update to the Two Year Business Plan, the CalHFA Board has identified five Strategic Priorities for the Agency:

1. Maintain ratings and manage capital structure and liquidity;
2. Aggressively engage in loss mitigation activities and manage our single family and multifamily loan portfolios;
3. Initiate new lending programs;
4. Renew and strengthen old business partnerships; and
5. Explore new business partnerships and new revenue-generating business opportunities.

With these priorities in mind, we have developed a baseline operating budget for FY 2011-12.

Summary

The proposed operating budget for Fiscal Year 2011-12 is $50.1 million. This amount includes a required estimate of future pension costs, an item that has never been included in the Agency's budget. For FY 2011-12 this amount is $2.6 million and should be subtracted before a comparison can be made with the FY 2010-11 budget. Net of the $2.6 million, the FY 2011-12 operating budget is $47.5, a 1.5% decrease from the FY 2010-11 budget.

We have again broken the budget into two parts, the “Baseline Budget” and the “Strategic Projects Contracts.” Together this will provide Board members with a better understanding of the day to day costs (baseline operating expenses) versus the one-time Strategic Projects. (A summary page is included for your review as Attachment 1 to this memorandum.) We have also noted the amount of Agency costs that will be reimbursed by the Hardest Hit Fund for amounts spent on the Keep Your Home California program.

For FY 2010-11, it appears that, once again, the Agency will spend less than the operating budget approved by the Board in May 2010. At this point in the fiscal year, projected actual expenditures for the year are $44.5 million or $3.8 million under budget. Most of the reduction in spending resulted from a $3.3 million reduction in expenditures on strategic projects during the year – mainly attributable to delays in the development of the Homeownership Loan Reservation System. Although the Agency also reduced operating expenses by $2.1 million, those savings were somewhat offset by a greater than expected use of overtime and temp help.

FY 2011/12 Operating Budget

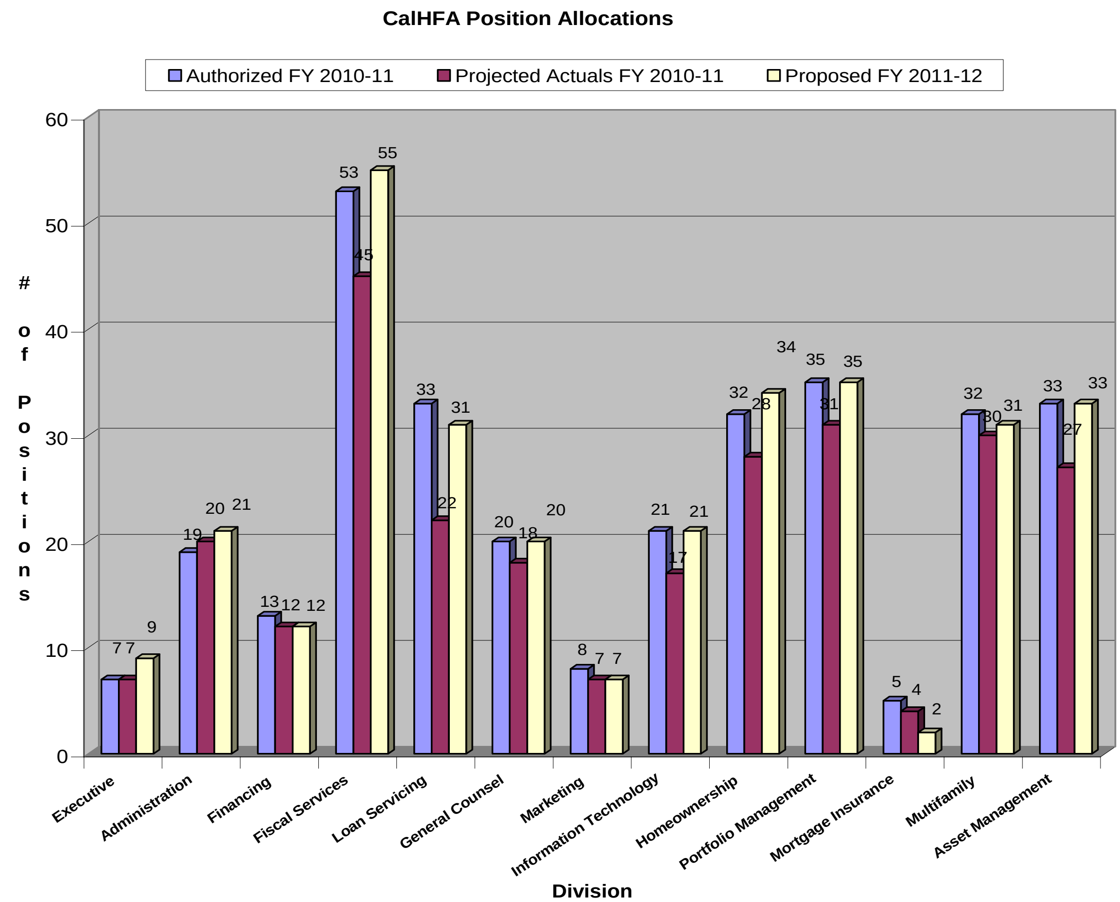
The FY 2011-12 operating budget represents a substantial increase in spending over FY 2010-11 actual spending. The proposed budget of $50.2 million represents a $5.7 million or 12.8% increase over projected actual costs for the current year. Again, these proposed increases can be explained by activities that mirror the priorities discussed above.

Proposed staffing:

The Agency has 311 total authorized positions and will begin the fiscal year with 42 vacancies. As staff has discussed previously with the Board, CalHFA has had a number of retirements in key positions throughout the Agency and we have also used temporary positions and overtime rather than permanent positions to deal with workload especially in Loan Servicing, REO management and Fiscal Services Divisions. The combination has resulted in an increase in vacancies.

- During FY 2011-12, the Agency plans to reduce vacancies and fill a total of 27 positions at a cost to the Agency of approximately $2.3 million, including staff benefits.
- Position filled will replace key staff who have retired and also establish permanent positions where the Agency has used temp help in the prior two fiscal years. Conversion from temp help to permanent positions is being used primarily in Loan Servicing where we are losing temporary employees to other job opportunities as the economy begins to recover.
- An increase in overtime pay, staff promotions and increased future pension costs account for an additional $440,000.
- These increased costs are offset by a reduction in the use of temp help for a savings of $647,000.
- Overall, staff costs are increased by a total of $2.1 million over FY 2010-11 actual.

The chart below illustrates the distribution of staff positions after these vacancies are filled. The Agency continues to have a very high number of staff allocated to Loan Servicing, REO management and also Fiscal Services, where much of the back office work is done for single family loan servicing and REO management.



Operating Expenses

- General Expense ($866,000).

Next year's budget is increased to account for additional costs in storage of Agency records. During the move to our new locations, we made the decision to reduce office space and use more offsite storage at less expense. This decision is also part of the Agency's plan to eventually go to imaged documents.

- Communication ($649,000).

Next year's budget is increased by approximately $110,000 to account for additional marketing expenses for the Agency's new lending products and return to the marketplace.

- Travel ($410,000).

Next year's budget is increased to account for anticipated increased travel in connection with the Lehman Brothers bankruptcy litigation. In addition, Agency senior staff will continue to participate in key negotiations with U.S. Treasury on the HFA initiative.

- Training ($150,000).

Next year's budget is reduced by $17,000 based on current year's projected expenditures.

- Facilities Operations ($2,800,000).

We have four sites to budget (Meridian, Senator, Culver City, and 500 Capitol Mall). The $800,000 increase in budgeted cost is due to the expiration of the "free lease" period at the 500 Capitol Mall site in August 2011.

- Contracts ($3,542,000)

This includes all of our Interagency and External Agreements. This line item is budgeted for substantially more than actual FY 2010-11 expenditures due to anticipated legal costs associated with the Lehman Brothers bankruptcy litigation.

- Central Administrative Services ($2,459,000).

These are costs to do business with state “control agencies” such as Department of Finance, State Controller’s Office, State Treasurer, Legislature, Department of Personal Administration, etc. Our Administrative Pro Rata costs (i.e., state overhead costs) will increase by another $200,000 in the coming fiscal year. This amount is calculated by the Department of Finance.

- Information Technology ($1,124,000).

We are budgeting additional costs of approximately $200,000 for network infrastructure, service upgrades and additional storage capabilities associated with the Agency’s imaging plans. Obviously, CalHFA’s investment in technology is a vital part of providing excellent lending services to our homeownership originating lending banks, borrowers and our other business partners.

- Equipment ($150,000).

This area has been reduced by $170,000 based on current year actual expenditures.

- Hardest Hit Program (-$789,000).

The Hardest Hit funding is provided by the U.S. Treasury for the Keep Your Home California program. This is the $2 billion federal assistance program that will be provided to CalHFA Mortgage Assistance Corporation, a nonprofit corporation established to receive the federal funding. CalHFA is being reimbursed for out-of-pocket costs associated with developing, implementing, and follow-up.

- Strategic Project Contracts ($4,665,000)

These costs are associated with Agency Strategic Projects: Homeownership Project (expected to be completed in FY 2011-12, Enterprise Content Management (ongoing project to improve document management through imaging and enterprise wide storage and retention of documents), and the next phase of the Fiscal Services Project (a project to design and implement a vastly improved financial and management information system for the Agency).

Conclusion

This proposed budget covers the most likely events for the 2011-12 fiscal year. The approval of our operating budget by the Board will provide staff with the flexibility to carry out the Agency’s two year business plan. Once again, it is important to point out that the Agency is entirely self supported from operations. The costs associated with the Agency’s operations have no impact on the State’s general fund budget and do not in any way create a cash flow drain to the State.

Your approval of Resolution 11-08 is requested.

May 12, 2011

CALIFORNIA HOUSING FINANCE AGENCY
2011-12
CONSOLIDATED CALHFA AND MIS FUNDS OPERATING BUDGET
(DOLLARS IN THOUSANDS)

EXPENDITURE ITEM	Budgeted 2009-10	Actual 2009-10	Budgeted 2010-11	Projected Actual 2010-11	Proposed 2011-12
PERSONAL SERVICES					
Salaries and Wages	$22,189	$22,189	$22,509	$22,509	$22,740
Estimated Savings (Furlough / Vacancies)	(2,186)	($6,271)	(963)	(3,191)	(1,418)
Anticipated Salaries and Wages	20,003	15,918	21,546	19,318	21,322
Temporary Help					
Students/Retired Annuitants	458	622	563	432	462
Contract	864	1,182	662	2,033	1,356
Overtime	144	165	179	217	222
Staff Benefits	7,046	9,019	7,878	7,325	7,959
*OPEB (GASB 45)				2,648	2,745
TOTALS, Personal Services	$28,515	$26,906	$30,828	$31,973	$34,066
OPERATING EXPENSES AND EQUIPMENT					
General Expense	803	835	712	704	866
Communications	609	557	538	516	649
Travel	425	277	320	357	410
Training	175	97	167	55	150
Facilities Operation	3,260	3,597	2,000	1,966	2,800
Consulting & Professional Services	4,513	5,816	3,861	2,177	3,542
**Central Admin. Serv.	1,679	1,741	2,267	2,267	2,459
Information Technology	946	622	927	750	1,124
Equipment	405	367	320	225	150
TOTALS, Operating Expenses and Equipment	$12,815	$13,910	$11,112	$9,017	$12,150
TOTALS, Baseline Budget	$41,330	$40,816	$41,940	$40,990	$46,216
TOTALS, Hardest Hit (Outside Funding)			($985)	($584)	($789)
NET, Baseline Budget	$41,330	$40,816	$40,955	$40,406	$45,427
TOTALS, Strategic Project Contracts (Includes move costs)	$6,613	$3,352	$7,369	$4,123	$4,665
TOTALS, EXPENDITURES	$47,943	$44,168	$48,324	$44,529	$50,092

* OPEB (Other Post-Employment Benefits) Under GASB 45, public agencies must account for, and report, the annual required contribution (ARC) for OPEBs in the same way they report pension benefits. As a result, the annual OPEB expense to be reported by most employers will need to be based on actuarially determined amounts rather than on the "pay-as-you-go" method. Governments must use actuarial evaluations to determine the final accounting and reporting amounts expected in the future. OPEB costs also must be reported over the working lifetime of employees, and the information provided in financial statements must include the funding, costs and provisions in an OPEB plan. While GASB 45 does not require that OPEB plans be funded, it requires disclosure of net OPEB obligations (NOO).

** Central Administrative Services: These are service costs (e.g., Finance, Controller, Personnel Board, Treasurer, Legislature, etc.) incurred by the Agency. These charges are calculated by the Department of Finance using a formula that takes three budget years into consideration.

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RESOLUTION 11-08

CALHFA OPERATING BUDGET

FISCAL YEAR 2011/2012

WHEREAS, the Board of Directors of the California Housing Finance Agency has reviewed its proposed operating budget for the 2011/2012 fiscal year;

NOW, THEREFORE, BE IT RESOLVED as follows:

1. The operating budget attached hereto is hereby approved for operations of the California Housing Finance Agency Fund for fiscal year 2011/2012.

I hereby certify that this is a true and correct copy of Resolution 11-08 adopted at a duly constituted meeting of the Board of the Agency held on May 19, 2011, in Sacramento, California.

ATTEST: ______________________
Secretary

Attachment

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State of California

M E M O R A N D U M

To: Board of Directors **Date:** May 12, 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 March 31, 2011 by insurance type,
- Delinquencies as of March 31, 2011 by product (loan) type,
- Delinquencies as of March 31, 2011 by loan servicer,
- Delinquencies as of March 31, 2011 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 March 2011)
- 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 March 2011)
- A graph of CalHFA's 90-day+ ratios for FHA and Conventional loans (for the period of March 2006 through March 2011),
- A graph of 90-day+ ratios for CalHFA's three Conventional loan (products) types, for the period of March 2009 through March 2011,
- Real Estate Owned (REO) at April 30, 2011,
- Accumulated Uninsured Losses from January 1, 2008 through April 30, 2011,
- Disposition of 1st Trust Deed Gain/(Loss) for January 1 through April 30, 2011, and
- Write-Offs of subordinate loans for January 1 through April 30, 2011

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California Housing Finance Agency

CalHFA

HOMEOWNERSHIP LOAN PORTFOLIO
DELINQUENCY, REO, SHORT SALE and LOSS REPORT

Reconciled Loan Delinquency Summary
All Active Loans By Insurance Type
As of March 31, 2011

	Loan Count	Balance	% of Balance	DELINQUENCY RATIOS - % of Loan Count: Loan Count	30-Day	Loan Count	60-Day	Loan Count	90(+) Day	Totals: Count	%
Federal Guaranty											
FHA	10,436	$ 1,350,863,610	29.20%	541	5.18%	189	1.81%	975	9.34%	1,705	16.34%
VA	329	47,675,399	1.03%	4	1.22%	5	1.52%	36	10.94%	45	13.68%
RHS	90	16,937,750	0.37%	2	2.22%	0	0.00%	15	16.67%	17	18.89%
Conventional loans with MI											
CalHFA MI Fund	7,159	1,916,346,924	41.42%	268	3.74%	160	2.23%	951	13.28%	1,379	19.26%
without MI											
Orig with no MI	5,409	1,093,444,295	23.63%	120	2.22%	73	1.35%	250	4.62%	443	8.19%
MI Cancelled*	1,427	201,395,911	4.35%	35	2.45%	12	0.84%	44	3.08%	91	6.38%
Total CalHFA	24,850	$ 4,626,663,889	100.00%	970	3.90%	439	1.77%	2,271	9.14%	3,680	14.81%

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

Reconciled Loan Delinquency Summary
All Active Loans By Loan Type
As of March 31, 2011

	Loan Count	Balance	% of Balance	DELINQUENCY RATIOS - % of Loan Count: Loan Count	30-Day	Loan Count	60-Day	Loan Count	90(+) Day	Totals: Count	%
30-yr level amort											
FHA	10,436	$ 1,350,863,610	29.20%	541	5.18%	189	1.81%	975	9.34%	1,705	16.34%
VA	329	47,675,399	1.03%	4	1.22%	5	1.52%	36	10.94%	45	13.68%
RHS	90	16,937,750	0.37%	2	2.22%	0	0.00%	15	16.67%	17	18.89%
Conventional - with MI	3,698	886,966,917	19.17%	119	3.22%	63	1.70%	362	9.79%	544	14.71%
Conventional - w/o MI	5,985	1,091,849,902	23.60%	118	1.97%	69	1.15%	228	3.81%	415	6.93%
40-yr level amort											
Conventional - with MI	551	159,302,129	3.44%	18	3.27%	18	3.27%	96	17.42%	132	23.96%
Conventional - w/o MI	212	42,327,688	0.91%	5	2.36%	4	1.89%	9	4.25%	18	8.49%
5-yr IOP, 30-yr amort											
Conventional - with MI	2,910	870,077,877	18.81%	131	4.50%	79	2.71%	493	16.94%	703	24.16%
Conventional - w/o MI	639	160,662,617	3.47%	32	5.01%	12	1.88%	57	8.92%	101	15.81%
Total CalHFA	24,850	$ 4,626,663,889	100.00%	970	3.90%	439	1.77%	2,271	9.14%	3,680	14.81%
	Weighted average of conventional loans:			423	3.02%	245	1.75%	1,245	8.90%	1,913	13.67%

California Housing Finance Agency

CalHFA

Reconciled Loan Delinquency Summary
All Active Loans By Loan Servicer
As of March 31, 2011

				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 %
CALHFA - LOAN SERVICING	9,289	$ 2,126,450,632	45.96%	295	3.18%	157	1.69%	589	6.34%	1,041	11.21%
GUILD MORTGAGE	5,789	1,032,328,379	22.31%	276	4.77%	99	1.71%	495	8.55%	870	15.03%
BAC HOME LOANS SERVICING, LP	2,558	506,188,094	10.94%	136	5.32%	68	2.66%	625	24.43%	829	32.41%
WELLS FARGO HOME MORTGAGE	2,478	294,709,496	6.37%	71	2.87%	30	1.21%	159	6.42%	260	10.49%
EVERHOME MORTGAGE COMPANY	2,156	211,212,893	4.57%	114	5.29%	21	0.97%	85	3.94%	220	10.20%
FIRST MORTGAGE CORP	1,023	206,814,119	4.47%	28	2.74%	38	3.71%	160	15.64%	226	22.09%
GMAC MORTGAGE CORP	941	129,969,111	2.81%	36	3.83%	15	1.59%	66	7.01%	117	12.43%
BANK OF AMERICA, NA	289	49,107,542	1.06%	7	2.42%	6	2.08%	39	13.49%	52	17.99%
WASHINGTON MUTUAL BANK	217	52,934,353	1.14%	4	1.84%	2	0.92%	42	19.35%	48	22.12%
CITIMORTGAGE, INC.	57	13,214,621	0.29%	2	3.51%	3	5.26%	9	15.79%	14	24.56%
DOVENMUEHLE MORTGAGE, INC.	46	1,519,381	0.03%	1	2.17%	0	0.00%	1	2.17%	2	4.35%
WESCOM CREDIT UNION	6	1,904,197	0.04%	0	0.00%	0	0.00%	1	16.67%	1	16.67%
PROVIDENT CREDIT UNION	1	311,071	0.01%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Total CalHFA	24,850	$ 4,626,663,889	100.00%	970	3.90%	439	1.77%	2,271	9.14%	3,680	14.81%

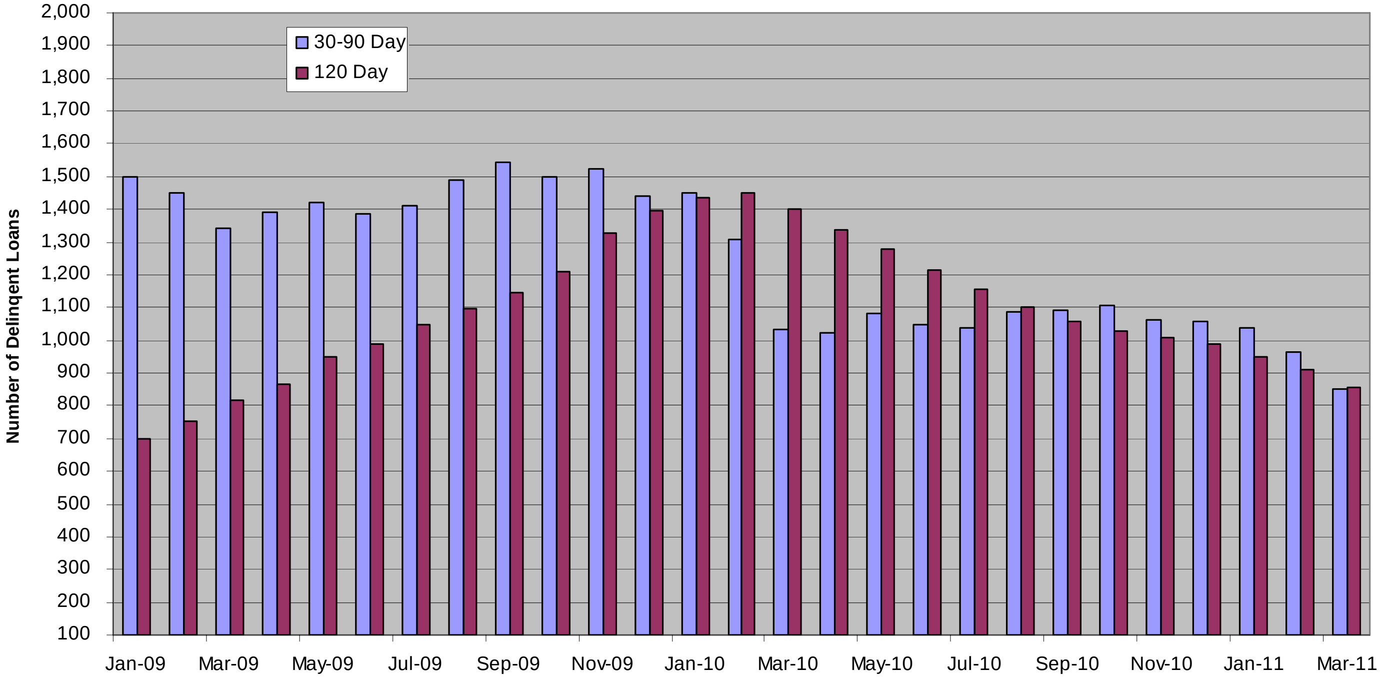
Reconciled Loan Delinquency Summary
All Active Loans By County
As of March 31, 2011

				DELINQUENCY RATIOS - % of Loan Count							
	Loan Count	Balance	% of Balance	Loan Count	30-Day	Loan Count	60-Day	Loan Count	90-Day+	Total Count	Total %
LOS ANGELES	4,002	$ 842,580,292	18.21%	166	4.15%	62	1.55%	314	7.85%	542	13.54%
SAN DIEGO	2,417	530,065,204	11.46%	75	3.10%	53	2.19%	264	10.92%	392	16.22%
SANTA CLARA	1,728	468,688,892	10.13%	34	1.97%	21	1.22%	108	6.25%	163	9.43%
KERN	1,483	164,558,695	3.56%	77	5.19%	35	2.36%	142	9.58%	254	17.13%
SACRAMENTO	1,298	240,543,063	5.20%	51	3.93%	34	2.62%	155	11.94%	240	18.49%
SAN BERNARDINO	1,260	218,293,277	4.72%	53	4.21%	38	3.02%	207	16.43%	298	23.65%
ORANGE	1,237	286,119,025	6.18%	44	3.56%	12	0.97%	83	6.71%	139	11.24%
RIVERSIDE	1,234	208,961,625	4.52%	55	4.46%	27	2.19%	223	18.07%	305	24.72%
FRESNO	1,180	111,947,682	2.42%	70	5.93%	17	1.44%	66	5.59%	153	12.97%
TULARE	1,174	113,982,045	2.46%	61	5.20%	22	1.87%	105	8.94%	188	16.01%
ALAMEDA	1,076	263,291,941	5.69%	22	2.04%	14	1.30%	62	5.76%	98	9.11%
CONTRA COSTA	885	200,525,604	4.33%	40	4.52%	17	1.92%	97	10.96%	154	17.40%
VENTURA	624	167,935,876	3.63%	17	2.72%	6	0.96%	47	7.53%	70	11.22%
IMPERIAL	537	55,076,991	1.19%	31	5.77%	9	1.68%	33	6.15%	73	13.59%
SONOMA	471	97,294,809	2.10%	12	2.55%	6	1.27%	31	6.58%	49	10.40%
OTHER COUNTIES	4,244	656,798,865	14.20%	162	3.82%	66	1.56%	334	7.87%	562	13.24%
Total CalHFA	24,850	$ 4,626,663,889	100.00%	970	3.90%	439	1.77%	2,271	9.14%	3,680	14.81%

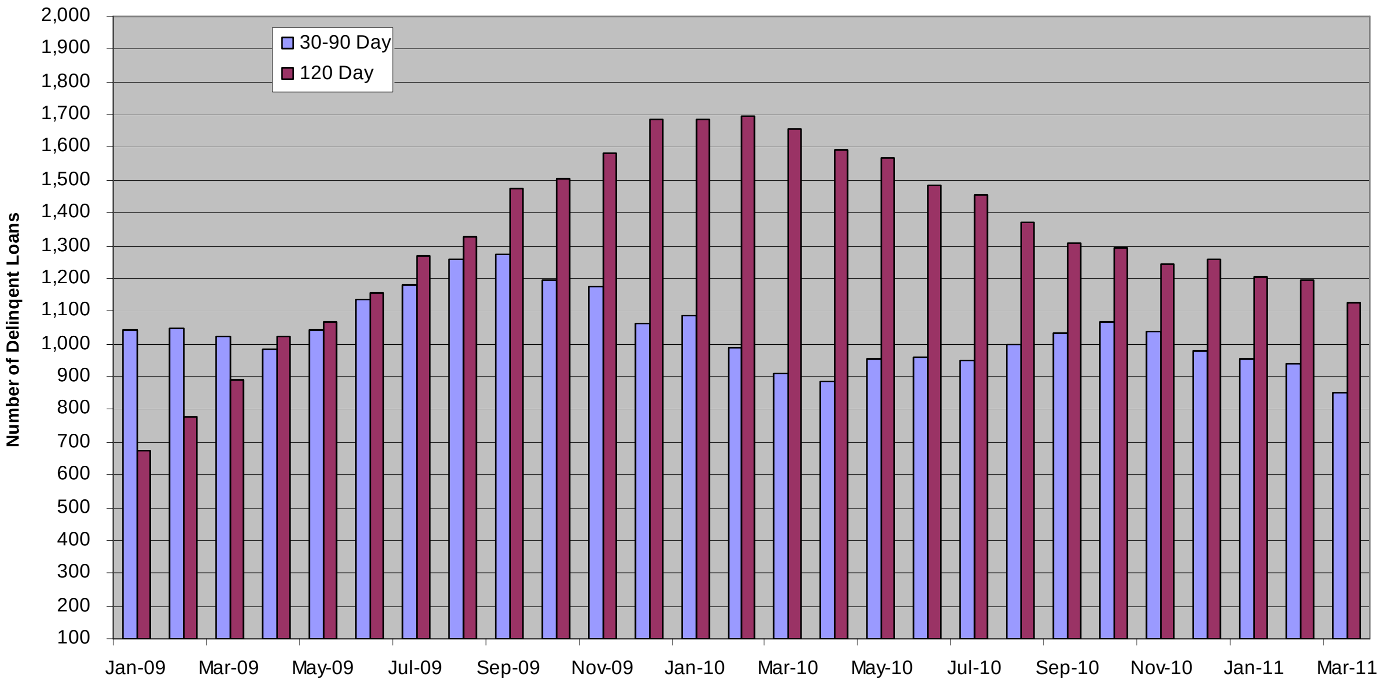
California Housing Finance Agency

CalHFA

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



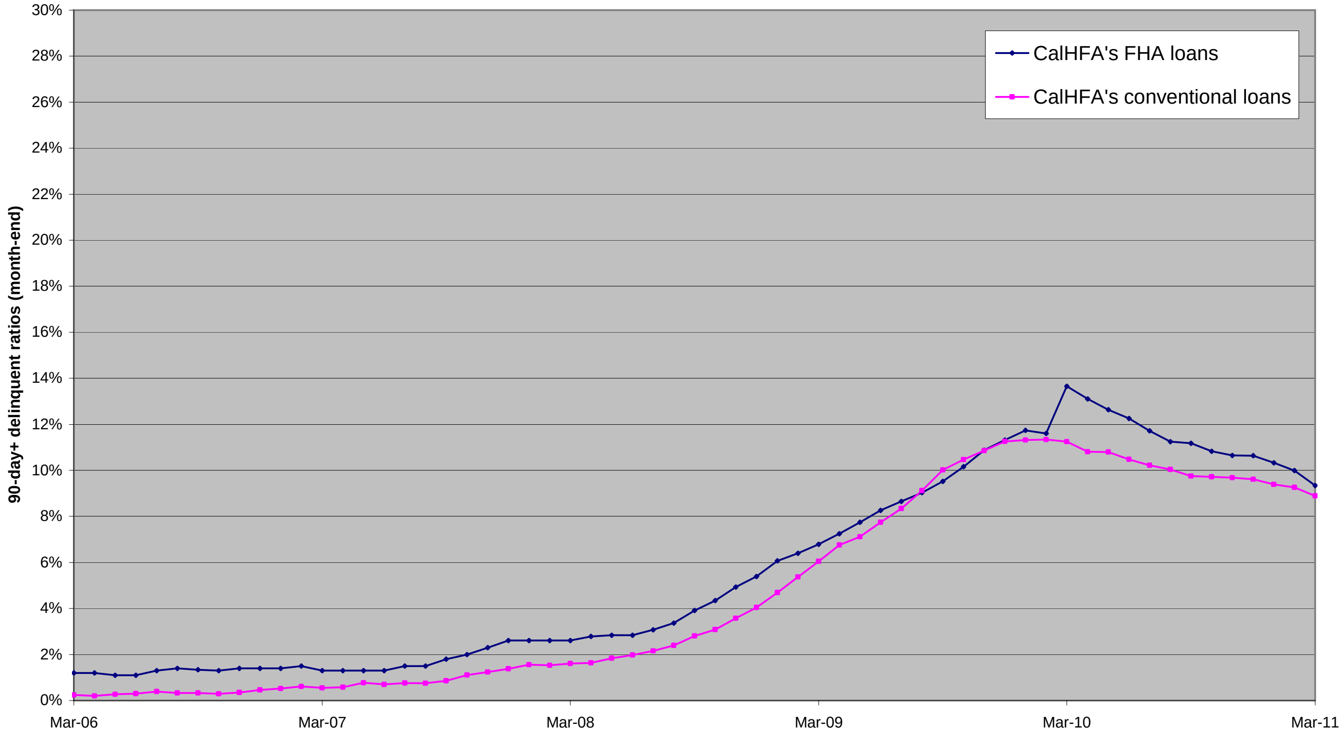
CalHFA's Conventional Delinquent Loan Trend for 30-90 Day and 120 Day



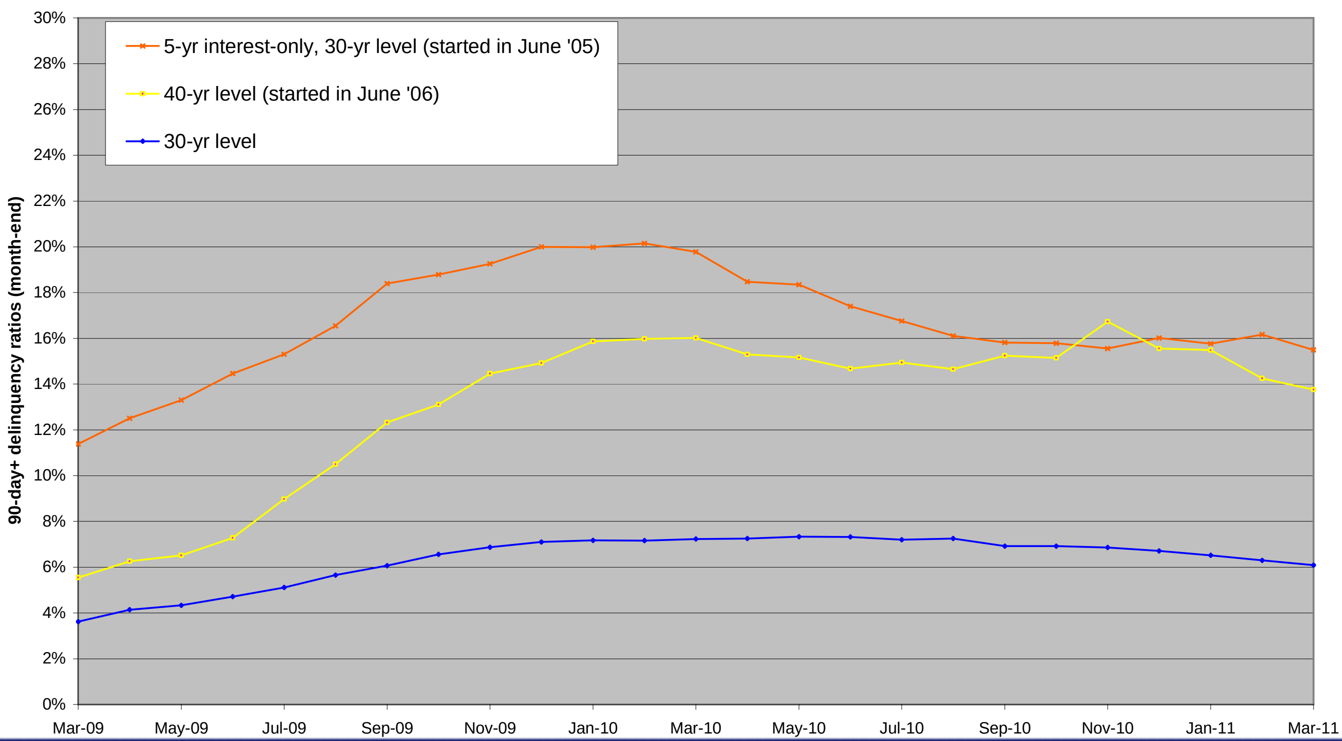
California Housing Finance Agency

CalHFA

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



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



Real Estate Owned

Calendar Year 2011 (As of April 30, 2011)											
		*Trustee Sales			Disposition of REO(s)						
Loan Type	Beginning Balance # of Loans	Reverted to CalHFA Jan-Mar	Reverted to CalHFA April	Total Trustee Sales	Repurchased by Lender Jan-Mar	Market Sale(s) Jan-Mar	Repurchased by Lender April	Market Sale(s) April	Total Disposition of REO(s)	Ending Balance # of Loans	UPB of REO's Owned
FHA/RHS/VA	198	189	63	252	191		45		236	214	$ 41,562,402
Conventional	1084	383	140	523		399		174	573	1,034	212,692,900
Total	1282	572	203	775	191	399	45	174	809	1,248	$ 254,255,302

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-nine (39) 3rd party sales year 2010, and there are five (5) 3rd party sales to date for 2011.*

California Housing Finance Agency

Accumulated Uninsured Losses [1] as of April 30, 2011				
Conventional Loans	# of Properties	Estimated Indenture Losses	Estimated GAP[2] Losses	Subordinate Write-Offs
REOs Sold	2,269	$ (47,848,744)	$ (87,320,004)	$ (64,132,483)
Short Sales	523	(5,930,137)	(16,964,227)	(13,003,246)
3rd Party Sales (FHA/Conv)	71		(170,867)	(307,912)
Active REOs	274		(13,070,337)	
Total Gain(Loss)/Write-Offs	3,137	$ (53,778,881)	$ (117,525,435)	$ (77,443,642)

(1) Includes both reconciled and estimated unreconciled gains/losses from January 1, 2008.

(2) 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 1st Trust Deed Gain/(Loss)
(As of April 30, 2011)

	Disposition					
Loan Type	Repurchased by Lender	Market Sales	Short Sales	Loan Balance at Sales	Estimated Indenture Gain/(Loss)	Estimated GAP Loss
FHA/RHS/VA	236		2	$ 49,955,449		
Conventional		573	69	172,651,642	$ (11,562,535)	$ (25,676,971)
	236	573	71	$ 222,607,092	$ (11,562,535)	$ (25,676,971)

2011 Year to Date Composition of Subordinate Write-Offs by Loan Type[1]
(As of April 30, 2011)

	Active Loans		Write-Offs			
Loan Type	Active Loans	Dollar Amount	Number of Write-Offs	% (of Portfolio)	Dollar Amount	% (of Portfolio)
CHAP/HiCAP	10,020	$107,123,860	643	6.42%	$7,389,932	6.90%
CHDAP/ECTP/HiRAP	19,719	162,440,988	661	3.35%	5,409,582	3.33%
Other [2]	268	3,507,237	0	0.00%	0	0.00%
	30,007	$273,072,085	1,304	4.35%	$12,799,515	4.69%

(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:** May 11, 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

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VARIABLE RATE DEBT EXPOSURE

This report describes the variable rate bonds of CalHFA and is organized programmatically by indenture as follows: HMRB (Home Mortgage Revenue Bonds--CalHFA's largest single family indenture), MHRB (Multifamily Housing Revenue Bonds III--CalHFA's largest multifamily indenture), HPB (Housing Program Bonds--CalHFA's multipurpose indenture, used to finance a variety of loans including the Agency's downpayment assistance loans) and the Agency's newest indentures which were established to take advantage of the federal government's New Issue Bond Program: RMRB (Residential Mortgage Revenue Bonds—for single family loans), and AMHRB (Affordable Multifamily Housing Revenue Bonds—for multifamily loans.) The total amount of CalHFA variable rate debt is $5.3 billion, 67.1% of our $7.9 billion of total indebtedness as of May 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 $842 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 $842 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 $842 million of other Agency funds invested in SMIF effectively hedges approximately 64.1% 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	$1,956	$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

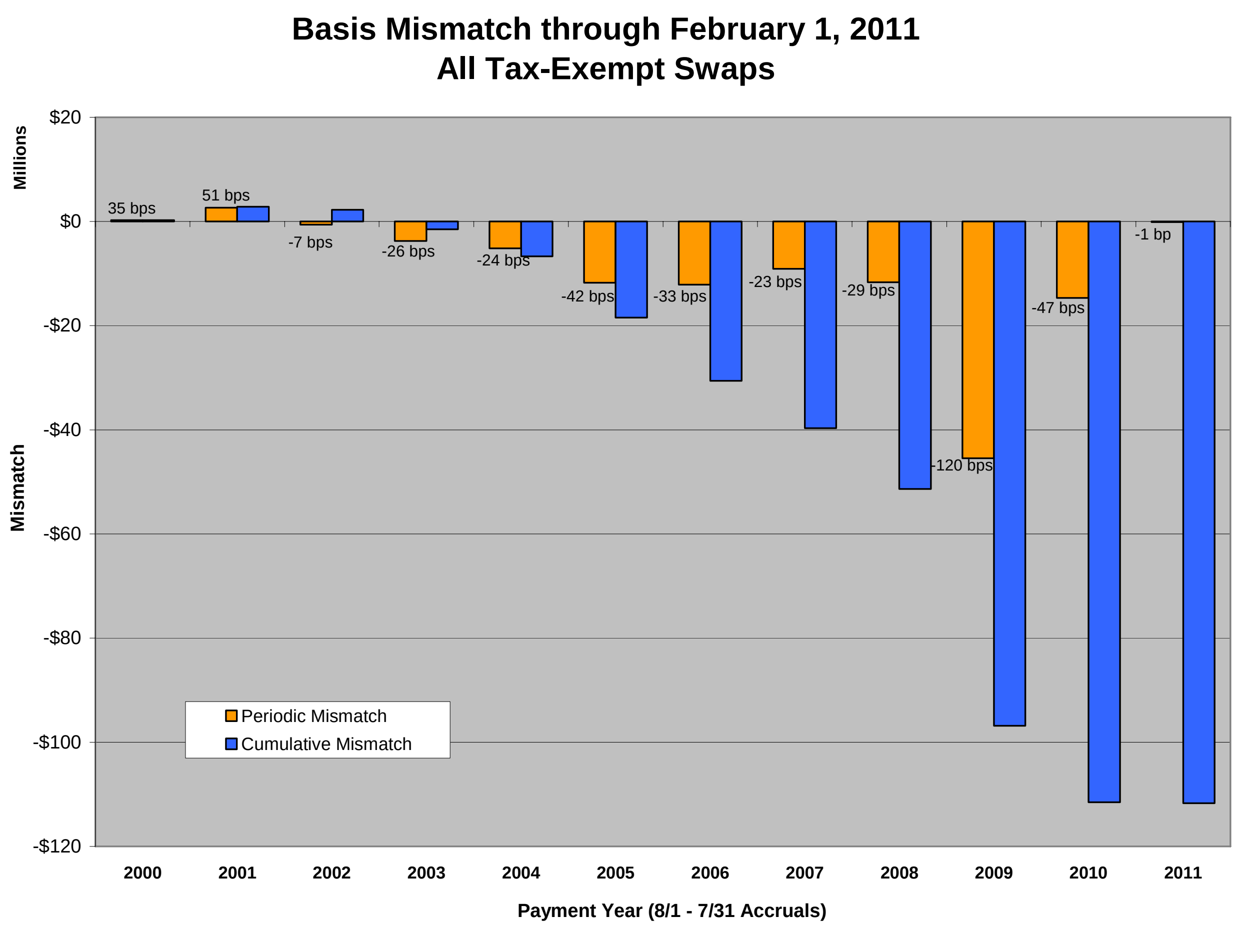
Swap Counterparty	Credit Ratings: Moody's	Credit Ratings: S & P	Notional Amounts Swapped as of 3/1/11 ($ in millions)	Number of Swaps
JPMorgan Chase Bank, N.A.	Aa1	AA-	$ 782.2	21
Merrill Lynch Capital Services, Inc.	A2	A	602.6	29
Citigroup Financial Products, Inc.	A3	A	355.2	10
Goldman Sachs Mitsui Marine 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.

BASIS RISK

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



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	103.7%

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
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%
Dec-2010	236%

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 5/6/2011
($ in millions)

	JPMorgan	Goldman Sachs	BofA / Merrill Lynch	Total
Marked-to-Market	73.1	27.4	18.3	
Collateral Threshold	50	25	0	
Posting Requirment *	23.1	2.4	18.3	43.8
Agency MBS Posted	22.9	0	0	22.9
Agency Cash Posted	0.2	2.5	18.3	21.0

** 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)
6/30/10 *	($329.6)
9/30/10	($353.7)
12/31/10	($257.5)
3/31/10	($232.0)

** 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

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State of California

M E M O R A N D U M

To: **CalHFA Board of Directors** **Date:** 9 May 2011

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

Subject: Legislative Report

May 6 was technically the last day for policy committees to hear fiscal bills, but as always, there is always a chance those rules will be waived or provisions will be amended into a different bill. There are a number of bills that have already failed passage – most notably in the mortgage lending area, where there was some concern expressed about getting ahead of the numerous regulations pending at the federal level. The summary below provides the status of the bills I think you may be most interested in at this time. As always, if you have any bills you would like me to add to the list or have any questions, give me a call.

Bonds

AB 505 (Harkey) Housing programs: audits.
Last Amend: 04/25/2011
Status: Assembly Appropriations Committee – Suspense File

Summary: This bill would require the Bureau of State Audits, on or before January 1, 2013, and every 2 years thereafter, to conduct a performance audit of all programs funded through special or General Fund sources and administered by the Department of Housing and Community Development.

Building Standards

AB 19 (Fong) Building standards: water meters: multiunit structures.
Last Amend: 04/15/2011
Status: Failed Passage, Assembly Housing and Community Development Committee

Summary: This bill would require the installation water submeters in all newly constructed multi-residential dwellings, for which an application for a water connection is received, after 2014. Supporters argued this bill represented an important step towards ensuring that water conservation measures are universally applied. Opponents expressed concerned that since this bill states it applies to new water service and not specifically new construction, it could be interpreted in some circumstances to require expensive retrofits of submeters onto existing properties. This bill would have exempted low income housing from its provisions as well as student dormitories, long-term health care facilities and time-share properties.

Homeless

AB 683 (Ammiano) Homelessness.
Last Amend: 04/12/2011
Status: Pending on the Assembly Floor

Summary: Under existing law, various agencies administer programs for the support of homeless persons. This bill would require the Department of Housing and Community Development to create a state deidentified homeless integrated data warehouse to compile data from collaborative agencies' Homeless Management Information Systems for the purpose of developing a composite portrayal of the homeless population in the state, as well as the services currently provided to people who are homeless. The bill would also require the department to cooperate and collaborate with other specified agencies, as necessary, to create a deidentified integrated data warehouse comprised of specified information on the homeless population, the services provided to them, and the annual costs of those services. Implementation of the bill would be contingent upon sufficient federal and private funds being received to create the homeless integrated data warehouse. According to the author's office, a statewide data warehouse on homelessness would improve collaboration among state agencies, allow efficient assessment of the costs of homelessness to the state, provide greater transparency in state agency and grantees' operations, help determine what interventions work to prevent or end homelessness, identify gaps in services, discover how patterns of service use relate to patterns of homelessness, analyze trends in homelessness, allow use of mainstream systems among people experiencing homelessness, and enhance planning and policy efforts to reduce homelessness.

AB 1167 (Fong) Homelessness: Interagency Council on Homelessness.
Last Amend: 04/04/2011
Status: Assembly Appropriations Suspense file.

Summary: Under existing law, several agencies have prescribed responsibilities relating to homeless persons including, among others, administering emergency shelter programs and ensuring the provision of community mental health services for homeless persons. This bill would create the California Interagency Council on Homelessness, to perform various activities, including acting as the lead for coordinating and planning the state's response to homelessness and would require the council to seek all available federal funding for purposes of funding the council and its activities.

Housing Element

AB 910 (Torres) Infrastructure financing districts: facilities and projects.
Last Amend: 04/25/2011
Status: Assembly Floor

Summary: Existing law authorizes counties and cities to form infrastructure financing districts, in accordance with a prescribed procedure, and requires that a district finance only public capital facilities of communitywide significance. This bill would, in addition to public capital facilities, require a district to finance affordable housing facilities and economic development projects. The bill would provide that with respect to a district proposing to implement a specified plan, an election would not be required to form a district, adopt an infrastructure financing plan, or issue bonds pursuant to existing law. According to the author, the purpose of AB 910 is to allow IFDs to be used to finance affordable housing and economic development. IFD's have been used to finance public capitol facilities, and by adding affordable housing and economic development activities, communities will have the benefit of an additional tool to finance these important functions. Opponents argue that removing the voter approval requirements for the creation of an IFD and the issuance of tax allocation bonds will remove any input or direct voter oversight. Moreover, opponents contend the removal of the voting requirement the measure is creating more of a redevelopment type agency without the requirement of making a finding of blight

Land Use

AB 710 (Skinner) Local planning: infill and transit-oriented development.
Last Amend: 04/25/2011
Status: Pending Assembly Appropriations Committee

Summary: The Planning and Zoning Law requires specified regional transportation planning agencies to prepare and adopt a regional transportation plan directed at achieving a coordinated and balanced regional transportation system, and requires the regional transportation plan to include, among other things, a sustainable communities strategy, for the purpose of using local planning to reduce greenhouse gas emissions. This bill would state the findings and declarations of the Legislature with respect to parking requirements and infill and transit-oriented development, and would state the intent of the Legislature to reduce unnecessary government regulation and to reduce the cost of development by eliminating excessive minimum parking requirements for infill and transit-oriented development. Supporters argue that AB 710 provides a significant incentive to housing and commercial developers to pursue needed infill and TOD projects. According to supporters, increases in public transportation options and the development of more walkable and bikeable neighborhoods reduce the demand for parking. Relaxing minimum parking requirements allows developers to be more creative and efficient in supplying housing, especially in inner city areas. Opponents argue that AB 710's one-size-fits-all approach impedes local discretion in land use decision-making and ignores the fact that every community is different and has different needs. Opponents feel that decisions about parking are best left to the discretion of local governments, who are in a much better position to determine how much parking their community requires.

AB 1220 (Alejo) Land use and planning: cause of actions: time limitations.
Last Amend: 04/25/2011
Status: Assembly Floor

Summary: The Planning and Zoning Law generally requires an action or proceeding against local zoning and planning decisions of a legislative body to be commenced and the legislative body to be served within a year of accrual of the cause of action. Where the action or proceeding is brought in support of or to encourage or facilitate the development of housing that would increase the community's supply of affordable housing, a cause of action accrues 60 days after notice is filed or the legislative body takes a final action in response to the notice, whichever occurs first. This bill would allow an entity challenging an action in support of affordable housing to serve the deficiency notice up to five years after the city's or county's action. The bill provides that after 60 days or the date on which the city or county takes final action in response to the notice (whichever occurs first), the challenging party has one year to file an action in court, except that the lawsuit may not be filed more than five years after the city's or county's action Opponents to this bill, the League of California Cities, the California State Association of Counties, the American Planning Association, and the Regional Council of Rural Counties note that in the Urban Habitat decision, the decision this bill is intended to overturn, the housing advocates were successful in reaching a settlement that overturned the City's growth limit. Additionally, the opponents believe the bill's provisions "do not contain a balanced approach and that under this bill, a small misstep on the part of the local agency can shut down development in a jurisdiction until a lawsuit is completed, even though more targeted remedies are available that can require a local agency to make a fix without imposing a full building moratorium until a court makes a final determination."

Misc

AB 129 (Beall) Local government: fines and penalties: assessments.
Last Amend: As Introduced
Status: Pending Committee Assignment in the Senate

Summary: This bill is intended to allow local governments to make their code enforcement processes more efficient and effective by authorizing them to make unpaid fine and penalties for property-related code violations a special assessment against the property. The author contends this will allow cities and counties to streamline their code enforcement processes by combining their fine and penalties and nuisance abatement processes.

AB 1222 (Gatto) California Housing Finance Agency: executive compensation.
Last Amend: As Introduced
Status: Pending Assembly Housing and Community Development Committee

Summary: Existing law requires that the CalHFA Board of directors to establish the compensation of the Executive Director of the agency and other key exempt management. Existing law further requires the agency conduct salary surveys to determine the compensation. This bill would instead require the Board to conduct the surveys.

SB 447 (DeSaulnier) Financial institutions: disclosures.
Last Amend: 04/28/2011
Status: 2 Year bill

Summary: This bill would require a financial institution, as defined, to provide to the California Research Bureau specified information relating to, among other things, the location of branches of the financial institution in California, the lending and investment practices of the financial institution, including community reinvestment activities (CRA), and participation of the financial institution in certain mortgage assistance programs. The California Bankers Association believes that the bill is unnecessary. Banks are already required to comply with the federal CRA, which requires banks to meet the credit needs of the communities in which they operate, including low- and moderate-income neighborhoods, consistent with safe and sound banking operations.

Mortgage Lending

AB 597 (Eng) California Financial Literacy Fund.
Last Amend: As Introduced
Status: Assembly Floor

Summary: This bill (sponsored by the State Controller) would establish the California Financial Literacy Fund in the State Treasury for the purpose of enabling partnerships with the financial services community and governmental and nongovernmental stakeholders to improve Californians' financial literacy. The bill would require the fund to be administered by the Controller and would authorize the Controller to deposit private donations into the fund from entities with no direct financial interest in any financial products. The bill would require those moneys to be made available upon appropriation in the annual Budget Act.

AB 643 (Davis) Mortgages: counseling
Last Amend: 04/15/2011
Status: Failed passage – 2 year bill

Summary: This bill would provide that the fiduciary duty owed to a borrower includes a requirement that a mortgage broker provide a borrower prepurchase debt counseling that explains what a prudent debt-to-income ratio would be for the borrower, taking into account the borrower's income and credit rating. The bill would also require the Department of Corporations, the Department of Financial Institutions, and the Department of Real Estate to collaborate to establish a standard for determining a prudent debt-to-income ratio for borrowers.

AB 935 (Blumenfield) Foreclosures: foreclosure mitigation charges
Last Amend: 04/28/2011
Status: Assembly Committee on Banking and Finance

Summary: This bill would, until January 1, 2015, for loans already originated as of the date that this bill becomes effective, prohibit a notice of trustee's sale from being accepted for filing with the county recorder until the mortgage servicer pays a foreclosure mitigation charge of $20,000. The author argues that the housing/foreclosure crisis not only affects those who lose their homes, but our communities as a whole. Neighbors suffer from reduced property values; local governments lose property tax income; school enrollment declines and law enforcement sees increased calls and violent crimes. AB 935 addresses this problem by requiring mortgage servicers to pay a $20,000 community reimbursement charge before foreclosing on a home. This charge goes entirely to local communities in order to offset the costs borne by our neighborhoods because of foreclosures.

SB 4 (Calderon) Mortgages.
Last Amend: 04/07/2011
Status: Pending Committee Assignment in the Assembly

Summary: Existing law requires a lender to file a notice of default in the case of nonjudicial foreclosure prior to enforcing a power of sale as a result of a default on an obligation secured by real property. Existing law also requires that a notice of sale be given before the power of sale may be exercised. This bill would additionally require, beginning April 1, 2012, that the notice of sale contain language notifying potential bidders of specified risks involved in bidding on property at a trustee's sale, and a notice to the property owner informing the owner about how to obtain information regarding any postponement of the sale.

SB 729 (Leno) Mortgages and deeds of trust: foreclosure.
Last Amend: 04/14/2011
Status: This bill failed passage, but the author has expressed a desire to have that action reconsidered

Summary: This bill would prohibit a mortgagee, trustee, beneficiary, or authorized agent from recording a notice of default unless that party makes reasonable and good faith efforts to evaluate the borrower for all available loss mitigation options to avoid foreclosure. The bill would prohibit a mortgagee, trustee, beneficiary, or authorized agent from recording a notice of default on residential mortgages and deeds of trust, until various notice requirements and other requirements regarding loan modifications are fulfilled. The bill would include among these requirements informing the borrower of the deadline for applying for a loan modification, which would be prohibited from being earlier than a specified date. The bill would prohibit a mortgagee, trustee, or beneficiary from recording a notice of default on a residential mortgage or deed of trust if a borrower who is eligible for a loan modification submits an application, unless the mortgagee, trustee, or beneficiary has, in good faith, reviewed the application, rendered a decision on the application, and sent the borrower a denial explanation letter. The bill would provide a process for reviewing a mortgage loan modification application, which would depend, in part, on whether the mortgage servicer is participating in the federal Making Home Affordable Modification Program.