



# BOARD OF DIRECTORS

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**(AMENDED)**

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

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

September 22, 2011

10:00 a.m.

1. Roll Call.
2. Approval of the minutes of the July 21, 2011 Board of Directors meeting ..... 1
3. Chairman/Executive Director comments.
4. Closed session under Government Code §§ 11126 (e) (1) to confer with and receive advice from counsel regarding litigation in connection with In re Lehman Brothers Holdings, Inc, et al, United States Bankruptcy Court, Southern District of New York, Case No. 08-13555 (JMP).
5. Report of the Audit Committee Chairman. (Ruben Smith)
6. Discussion, recommendation and possible action regarding the adoption of a Request for Proposal and/or direction to staff to select an auditor to perform the yearly financial audit of both the California Housing Finance Fund and the California Housing Loan Insurance Fund. (Steve Spears/Lori Hamahashi) .....[handout]
7. Update and discussion regarding the financial condition of the Agency, including an update regarding the status of the U.S. Treasury’s New Issue Bond Program and the Temporary Credit and Liquidity Program. (Steve Spears/Bruce Gilbertson) ..... 91

8.	Update and discussion regarding the Keep Your Home California Program. (Di Richardson).....	95
9.	Update and discussion regarding the status of the Mental Health Services Act Program. (Bob Deaner).....	97
10.	Discussion of proposed new energy efficiency lending program and funding through the sale of carbon credits. (Steve Spears) .....	99
11.	Reports:	
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12.	Discussion of other Board matters.	
13.	Public testimony: Discussion only of other matters to be brought to the Board's attention.	
14.	Adjournment.	
15.	Handouts	
16.	<b><i>BOARD PICTURES FOR 2010/2011 ANNUAL REPORT</i></b>	

**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 November 17, 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 & Convention Center**  
**2500 Hollywood Way**  
**Burbank, California**

**Thursday, July 21, 2011**  
**10:02 a.m. to 11:53 a.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 SBoard of Directors Present:

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

CLAUDIA CAPPIO  
Executive Director  
California Housing Finance Agency  
State of California

KATIE CARROLL  
for BILL LOCKYER  
State Treasurer  
State of California

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

MICHAEL A. GUNNING  
Vice President  
Personal Insurance Federation of California

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

HEATHER PETERS (arrival after roll call)  
for TRACI STEVENS, Acting Undersecretary  
Business, Transportation & Housing Agency  
State of California

JACK SHINE  
Chairman  
American Beauty Development Co.

RUBEN A. SMITH  
Partner  
Adorno Yoss Alvarado & Smith

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**CalHFA Staff Present:**

GARY M. BRAUNSTEIN  
Special Advisor to Executive Director

KENNETH H. GIEBEL  
Director of Marketing

BRUCE D. GILBERTSON  
Director of Financing

VICTOR J. JAMES, II  
Deputy General Counsel

JOJO OJIMA  
Office of the General Counsel

DIANE RICHARDSON  
Director of Legislation

L. STEVEN SPEARS  
Chief Deputy Director

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BE IT REMEMBERED that on Thursday, July 21, 2011, commencing at the hour of 10:02 a.m., at the Burbank Airport Marriott Hotel and Convention Center, Producers A and B, 2500 Hollywood Way, Burbank, California, before me, YVONNE K. FENNER, CSR #10909, RPR, the following proceedings were held:

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2

ACTING CHAIRPERSON CAREY: I'd like to welcome everyone to the Board of Directors of the California Housing Finance Agency, July 21st.

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6

**Item 1. Roll Call**

7

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

8

9

MS. OJIMA: Thank you.

10

Ms. Creswell.

11

MS. CRESWELL: Present.

12

MS. OJIMA: Mr. Gunning.

13

MR. GUNNING: Here.

14

MS. OJIMA: Mr. Hunter.

15

MR. HUNTER: Here.

16

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

17

MS. CARROLL: Here.

18

MS. OJIMA: Mr. Shine.

19

MR. SHINE: Here.

20

MS. OJIMA: Mr. Smith.

21

MR. SMITH: Here.

22

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

1 (No audible response.)

2 MS. OJIMA: Mr. Alex.

3 (No audible response.)

4 MS. OJIMA: Ms. Matosantos.

5 (No audible response.)

6 MS. OJIMA: Ms. Cappio.

7 MS. CAPPPIO: Here.

8 MS. OJIMA: Mr. Carey.

9 ACTING CHAIRPERSON CAREY: Here.

10 MS. OJIMA: We have a quorum.

11 ACTING CHAIRPERSON CAREY: Thank you, JoJo.

12 --o0o--

13 **Item 2. Approval of the minutes of the May 19, 2011**

14 **Board of Directors Meetings**

15 ACTING CHAIRPERSON CAREY: Next item of business  
16 is approval of the minutes of the May 19th Board of  
17 Directors meeting.

18 MS. CRESWELL: So moved.

19 ACTING CHAIRPERSON CAREY: It's been moved.

20 MR. GUNNING: Second.

21 ACTING CHAIRPERSON CAREY: And seconded.

22 Roll call.

23 MS. OJIMA: Thank you.

24 Ms. Creswell.

25 MS. CRESWELL: Yes.



1 MS. OJIMA: Mr. Gunning.

2 MR. GUNNING: Yes.

3 MS. OJIMA: Mr. Hunter.

4 MR. HUNTER: Yes.

5 MS. OJIMA: Ms. Carroll.

6 MS. CARROLL: Yes.

7 MS. OJIMA: Mr. Shine.

8 MR. SHINE: Yes.

9 MS. OJIMA: Mr. Smith.

10 MR. SMITH: Yes.

11 MS. OJIMA: Mr. Carey.

12 ACTING CHAIRPERSON CAREY: Yes.

13 MS. OJIMA: The minutes have been approved.

14 --o0o--

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

16 ACTING CHAIRPERSON CAREY: Next item of business  
17 is chairman/executive director comments. In keeping  
18 with my recently ended vacation, I'm simply going to  
19 turn it over to Executive Director Ms. Cappio.

20 MS. CAPPIO: Thank you. Good morning.

21 I have a couple of items to update the Board on.

22 First, there has been a recent Court of Appeals  
23 decision regarding furlough pay. You may remember that  
24 the Legislature and Governor created the furlough system  
25 to save General Fund money, and this has been navigating

1 its way through the courts. And there's been a recent  
2 decision that distinguished CalHFA and about five or six  
3 other agencies as not being subject to General Fund  
4 or -- general funding, and therefore we've been asked  
5 for more information. And the furloughs may or may not  
6 apply.

7 We've looked at this, the senior staff, and  
8 believe that we could accommodate any back pay, should  
9 that occur in the next budget year. We'll keep you  
10 posted on that, but this would have a budget implication  
11 because of the furlough dates that have to be now  
12 compensated.

13 Secondly, Chairman Carey asked me to comment  
14 briefly on the notion that the Governor is very intent  
15 upon consolidation and reorganization of the state  
16 bureaucracy. We have been looking at this as a housing  
17 function team in the last couple of months, meeting with  
18 HCD, CalHFA, CDLAC, TCAC, in an effort to look at where  
19 we -- there are opportunities to work better together.  
20 And our aims have been efficiency, coordination and  
21 better collaboration together, looking at such issues as  
22 a common database, streamlining application procedures  
23 and time lines, what we could do to consolidate  
24 functions that make sense. We have this notion that  
25 underwriting may be one of those that we do well and

1 could make sure that we offer that to other agencies.  
2 And then the big -- the big dilemma about how to asset  
3 manage effectively.

4 We'll continue to update you. Again, this is a  
5 priority of the Governor, and I think now that the  
6 budget is completed, thank goodness, we can get on to  
7 that, that other work.

8 And lastly, there was a recent decision by HUD  
9 regarding the PCBA program. We had spent lots of staff  
10 resources and time and energy on submitting an  
11 application and it -- staff worked exceedingly hard. We  
12 think we had a very competitive application, and we lost  
13 by two hundredths of a point. It was extremely  
14 disappointing to us. And I figured -- I never knew it  
15 was, like, failed by two hundredths of a point, but it  
16 was.

17 There has been some -- some fallout from that.  
18 We will be continuing to monitor that. Many state HFAs  
19 were involved, and there has been some very surprising  
20 decisions, to say the least. We will be continuing to  
21 follow that, but I wanted to make sure that you all knew  
22 that.

23 And that ends my report.

24 ACTING CHAIRPERSON CAREY: Could I ask, the Tax  
25 Credit Allocation Committee's sponsoring meetings on

1 cost containment. Are we actively participating in  
2 those also?

3 MS. CAPPIO: Yes. We have a representative to  
4 that, and that's been one of my big ones, really big. I  
5 think we have to look at those subsidies per unit very  
6 hard, not only in an effort to look at how we can spread  
7 those resources more effectively -- because dime or  
8 dollar, there's going to be less resources to go around,  
9 at least in the next few years -- but also looking at  
10 how we can work together to provide that kind of  
11 efficacy as well.

12 So, yes, we are in that. And there's a lot of  
13 pressure on us as the subsidies we get continue to  
14 decrease.

15 ACTING CHAIRPERSON CAREY: Okay. Thank you.

16 --o0o--

17 **Item 4. Discussion, recommendation and possible**  
18 **amendment of Resolution 11-07 regarding the Agency's**  
19 **Two-Year Business Plan for Fiscal Years 2011/2012 and**  
20 **2012/2013 (Resolution 11-09)**

21 ACTING CHAIRPERSON CAREY: Next item of business  
22 is -- relates to the possible amendment of the two-year  
23 business plan which was approved at the last meeting.

24 Is Steve going to handle that?

25 MS. CAPPIO: Yes. Steve and Gary.

1           ACTING CHAIRPERSON CAREY: Steve and Gary.

2           MR. SPEARS: Thank you, Mr. Chairman, Members.

3           Good morning.

4           At the last Board meeting where we discussed the  
5           business plan, there was -- there were several  
6           homeownership products that were discussed. A couple of  
7           them were approved. There were questions about two  
8           others, the MCC program, a tax-credit program, and a  
9           conventional loan product that was discussed where we  
10          would have 97-percent first mortgage, fixed rate. That  
11          would be insured by Genworth, and they were going to  
12          offer us a mortgage insurance product with job loss  
13          protection that was exclusive to us, terms that were  
14          exclusive to us. So there were questions asked about  
15          that.

16          We've brought that back. I'm going to let Gary  
17          go through the questions, the slides, follow the memo  
18          that -- that was presented to you in your binders. So  
19          just stop us anytime you want to ask questions as we're  
20          rolling through this, but I'd just ask Gary to kind of  
21          go through both of these two products.

22          MR. BRAUNSTEIN: Thanks, Steve.

23          Good morning, Board members.

24          What I thought I'd do before we just jump into  
25          the products themselves is to just give you a reminder

1 on what's common to all of our loan programs and our  
2 current business model and how we're operating the  
3 homeownership loan programs.

4 And what I did was I broke it down initially on  
5 Agency risk, delinquency risk and Agency impact, and  
6 then borrower risk and mission to the borrower. I just  
7 wanted to highlight how these are all common to the  
8 products that we're currently doing across the board,  
9 and the new products that we're proposing will adhere to  
10 this model as well.

11 So from an Agency risk, I just want to remind  
12 the Board that we are using a master servicer, Bank of  
13 America. So the loans are purchased and serviced by  
14 them, and therefore the reps and warrants are  
15 transferred to them from CalHFA because the lenders are  
16 submitting their loans directly for purchase to Bank of  
17 America.

18 There's no real estate risk on our balance  
19 sheet. Bank of America pulls the loans, securitizes  
20 them. We're buying the Ginnie Mae security or the MBS  
21 security from Bank of America and putting them on our  
22 balance sheet as assets. CalHFA only purchases the MBS  
23 securities, and they're guaranteed by the federal  
24 government.

25 From delinquency risk standpoint and any impact

1 to the Agency, just a reminder that we don't have any  
2 delinquency risk in this business model. Again, we're  
3 not holding whole loans. Bank of America has taken  
4 those whole loans purchased by our lenders and then  
5 converted those to securities, as I mentioned.

6 The borrower's pay history is -- is -- is  
7 transparent to us because we still receive scheduled  
8 payment and principal interest to the Agency, regardless  
9 of a borrower not making payments on time. Again, we're  
10 not holding the whole loan; it's a security that we  
11 purchased, and Bank of America is servicing those loans  
12 and guarantying those principal and interest payments to  
13 us.

14 From a borrower risk standpoint and mission to  
15 the borrower, I'd just remind that -- remind you that  
16 our borrower profile is low and moderate income  
17 borrowers who typically have a need for a higher --  
18 higher loan to value purchase, and therefore at the time  
19 of purchase there's limited equity, but it's within our  
20 business model. It's our mission to -- to the low and  
21 moderate income family. And, again, our borrower  
22 profile is the high loan to value borrower.

23 Some -- some recent trends that are happening in  
24 California are actually showing evidence of improving,  
25 and I believe there's a chart that we received from

1 Genworth that shows what their risk managers went  
2 through in determining, offering us the 97-percent  
3 mortgage insurance in California statewide. And, in  
4 fact, they now are, in turn, offering that lender scheme  
5 to other outside lenders as well. So, again, their  
6 comfort level with California's economic improvement is  
7 moving in the right direction. It's beginning to  
8 stabilize, as with any other mortgage insurer, because  
9 there's about five other mortgage insurers that are now  
10 offering 97-percent loan to value in California. I'll  
11 go over that in just a minute.

12 I just wanted to point out that some of the  
13 evidence of the first-time homebuyer activity in  
14 California is evidenced by FHA's increased market share  
15 is now 35 percent of the market. And 85 percent of  
16 FHA's loan volume is to the first-time homebuyer. Why?

17 Because they're at a 96.5-percent loan to value. And  
18 I'll go over later in the slides to show that they allow  
19 for government assistance downpayment and closing costs  
20 on a conventional product that we're talking about, as a  
21 reminder to the Board that the borrower's going to have  
22 3 percent of their own cash into the transaction.

23 Additionally, we are imposing homebuyer  
24 education on all of our borrowers on all of our loan  
25 products. We initiated that last year, and we're



1 currently doing that today, and we'll be going forward  
2 on the same -- same model.

3 So just a quick recap of what we presented to  
4 you last Board meeting, the conventional product is a  
5 30-year, fixed-rate, fully amortized, fully documented  
6 loan. The insurer of this product will be Genworth.  
7 The maximum loan to value is 97 percent. We do need to  
8 take away the exclusive to CalHFA because, as I  
9 mentioned, they are offering 97 percent to all lenders  
10 throughout the state, but there are some concessions and  
11 incentives to CalHFA within this relationship, and I'll  
12 go over that in just a minute.

13 The maximum combined loan to value is 103  
14 percent that's being offered through us as an HFA. They  
15 offer this to other HFAs across the country. Obviously  
16 HFAs have the opportunity of providing government  
17 assistance for downpayment and closing costs. On a  
18 conventional loan of a loan to value up to 97 percent as  
19 an HFA, as other HFAs across the country, we're able to  
20 do 103 percent, giving the benefit of the borrower to  
21 have access to downpayment and closing cost assistance.

22 The minimum FICO when we presented it to you  
23 last time was 720. I think in Steve's executive memo to  
24 the Board members, we were having discussions with  
25 Genworth, again, since they were offering this to

1 lenders throughout California and across the country.  
2 They did come back and looked at California again. They  
3 looked at our delinquency percentages, and they were  
4 offering us a FICO to our borrowers of 680 as a minimum.

5 Our minimum FICO for FHA is currently 640, so there's a  
6 nice risk balance between the FHA product that we offer  
7 today with a minimum FICO of 640 to this conventional  
8 product on the same loan to value of -- or approximately  
9 the same loan to value of 97 versus 96.5 with a minimum  
10 FICO of 680.

11 Again, the difference between FHA is this  
12 product, if the loan is 95-percent to 97-percent loan to  
13 value, the borrower will need to come in with 3 percent  
14 of their own funds. They can't receive government  
15 assistance for that downpayment, nor the same for  
16 closing costs. It has to have their own funds of 3  
17 percent. So there's an inherent equity spread of 3  
18 percent on this product compared to the FHA that will  
19 have government assistance.

20 The borrower on this product needs two months'  
21 reserves. On an FHA product, they don't. So you can  
22 see how the risk balance of the two products are  
23 developing out. This will have a job loss protection,  
24 which is offered by Genworth through the relationship of  
25 offering the mortgage insurance, and we'll have that as

1 an opportunity for our borrowers.

2 And this particular product, we have agreed with  
3 Genworth that it won't be open to wholesale mortgage  
4 brokers. It will just be to our lenders who have a  
5 retail channel. Those channels deal directly with the  
6 lender whereas the wholesale brokerage community is a  
7 third-party originated product.

8 Some specifics to this program: The borrower's  
9 risk and the mission to the borrower, again, I pointed  
10 out earlier about the comparison of FHA at 96.5 and this  
11 product being 97. FHA, again, having government  
12 assistance for downpayment and closing costs. This  
13 product will have 3 percent of the borrower's funds.

14 Some unique components on conventional products  
15 today versus FHA, you may be asking why we're offering  
16 this product to -- to the borrowers, FHA is tightening  
17 up a little bit on some property restrictions. For our  
18 first-time homebuyers, oftentimes they're moving into  
19 communities or condominiums where there's a large  
20 percentage of -- there's -- excuse me, there's a smaller  
21 percentage of FHA loans in them, in the condominium, and  
22 therefore FHA has a maximum of how much of FHA exposure  
23 they'll have to a condominium, so it segments out our  
24 borrowers going into low and moderate income condos if  
25 we don't have a conventional product to allow them to do

1 that. This conventional product allows them to go into  
2 a property where the majority might be FHA. If we only  
3 had an FHA product, we wouldn't be able to, you know,  
4 help and assist those borrowers that were seeking that  
5 low and moderate and -- excuse me, their opportunity of  
6 purchasing that property.

7 The demographics, we talked about this last  
8 time, this is being offered to us statewide. Here's a  
9 reference to the quote the Genworth risk managers, you  
10 know, provided me and in support of their decision to go  
11 97 percent. They were saying that in California,  
12 there's some positive changes in the home price indexes.

13 Those indexes include home inventory, price income,  
14 multipliers, price rent, multiple affordable index. And  
15 most of these indicators, other than the home -- home  
16 inventory, is all in a stabilizing and maintaining or  
17 improving mode that they're seeing in California.

18 An example of that is, as I mentioned before,  
19 there's about five other mortgage insurers that are  
20 offering 97-percent loan to value in California.  
21 They're UGI, PMI, MGIC, and RMIC. Again, just an  
22 example that they're seeing some stabilization in  
23 California.

24 Again, specific to this product there were some  
25 questions as to why Genworth. As you know, Genworth has

1 been a partner of CalHFA for eight years as the  
2 reinsurer for the California Housing Loan Insurance  
3 Fund. Genworth currently is paying CalHFA approximately  
4 \$10 million in mortgage insurance claims.

5 MR. SPEARS: Per month.

6 MR. BRAUNSTEIN: Per month. And Genworth has  
7 agreed to offer this at 97 percent statewide with no  
8 county restrictions. Again, over the last 30 days when  
9 we last met, they are now offering that same opportunity  
10 statewide, so that's a piece that we're not having  
11 exclusivity with them.

12 From a rating agency impact, these will be  
13 fixed -- fixed bonds, insured. The finance is  
14 conventional MBS and expected to be AAA when they're  
15 financed by our bond portfolio. And, of course,  
16 profitable loans will increase the Agency's capital  
17 base.

18 The financing sources on this product is going  
19 to be bonds to the end of the year because we have the  
20 opportunity of the NIBP locked-in rate till the end of  
21 the year. Going forward we all are not sure if the NIBP  
22 will be extended, but this conventional product can be  
23 converted to and transparent to our lenders and  
24 borrowers by converting it to a capital market  
25 execution, which is a business model that I referenced

1 last Board meeting.

2 In that non-bond structure, just as a reminder,  
3 Bank of America and Merrill Lynch will be hedging and  
4 taking on the interest-rate risk if we're moving in a  
5 capital market execution, so there's no impact to the  
6 Agency's expected revenue. And, again, when we work in  
7 the capital market, we can offer our loans to first-time  
8 homebuyers as well as not first-time homebuyers, so more  
9 opportunities for Californians to purchase homes through  
10 a CalHFA loan program.

11 Any questions on the conventional product?

12 Yes, Jack.

13 MR. SHINE: Stop me where I'm misinformed.

14 MR. BRAUNSTEIN: Okay.

15 MR. SHINE: Our program, the 97, lets a person  
16 come in and get a 97-percent loan, and they have to come  
17 up with 3 percent in cash.

18 MR. BRAUNSTEIN: Right.

19 MR. SHINE: The current program from FHA that  
20 Genworth is insuring lets them come up with a 97-percent  
21 loan and borrow the 3 percent.

22 MR. BRAUNSTEIN: No, the current program is  
23 insured by FHA. So it's not a Genworth --

24 MR. SHINE: I know that. The buyer can come in  
25 and get a 97-percent loan and borrow 3 percent under the

1       FHA program.

2               MR. BRAUNSTEIN: Let me make a little  
3 clarification. On an FHA product insured by the federal  
4 government through FHA, the loan to value is 96.5  
5 percent. So the 3 and a half for the downpayment can be  
6 borrowed or financed through a government agency for the  
7 downpayment and the closing costs. And we do that today  
8 on our FHA --

9               MR. SHINE: So he moves in --

10              MR. BRAUNSTEIN: -- product.

11              MR. SHINE: He moves in with no money.

12              MR. BRAUNSTEIN: Excuse me?

13              MR. SHINE: The buyer moves in under that  
14 program with no money.

15              MR. BRAUNSTEIN: On an FHA loan, they -- they --  
16 they could borrow for the downpayment and for the  
17 closing costs. If they borrow -- excuse me, if they use  
18 our downpayment or our closing costs assistance program,  
19 our CHDAP, they do require -- it's a thousand dollars of  
20 the borrower's funds in that case.

21              MR. SHINE: Why would a borrower use our  
22 program?

23              MR. BRAUNSTEIN: The conventional product? The  
24 conventional loan that's insured by --

25              MR. SHINE: The buyer comes in under Cal97 where

1 they can't -- when they have to put up 3 percent versus  
2 an FHA where they put up zero, why would a borrower  
3 charge -- why would a borrower choose our program versus  
4 the FHA program?

5 MR. BRAUNSTEIN: Well, an example, the mortgage  
6 insurers in California, Genworth for example, 15 percent  
7 of their business in California is their conventional  
8 product, so there's an example that there's a  
9 marketplace for borrowers seeking a conventional loan  
10 versus an FHA loan. In our case, our borrower who is  
11 seeking, as I mentioned the example of a condominium  
12 that may restrict them out of being able to purchase in  
13 this condominium because FHA has a -- has a majority of  
14 loans issued to borrowers in that condominium, they  
15 would close out future borrowers getting an FHA loan for  
16 that condominium project. So a borrower going to a  
17 lender who is seeking that particular property for  
18 purchase would be seeking out a conventional product,  
19 either through us or anyone else.

20 MR. SHINE: Let me turn it around into my overly  
21 simplistic way of saying it. You're saying that the  
22 borrower would rather take an FHA loan, can't get one,  
23 so to the extent that it's unavailable to him, he'll use  
24 our product, and to the extent that it is available to  
25 him, he will not use our product. Is that what you



1 think would happen?

2 MR. BRAUNSTEIN: Well, there's a time and place  
3 for a conventional loan to be the right loan for the  
4 borrower based off of either qualifications, eligibility  
5 or the property they're purchasing. I just gave you one  
6 example. There's many.

7 MR. SHINE: So if FHA wouldn't qualify him and a  
8 conventional would, then he'd go get with our product.

9 MR. SPEARS: Probably.

10 MR. BRAUNSTEIN: Right. I mean, this is a  
11 product --

12 MR. SHINE: So this is a backup program.

13 MR. BRAUNSTEIN: Well, right now 99 percent of  
14 our current business is FHA because our current  
15 conventional product is not structured the way we've  
16 just designed. I'm projecting around 150 million to  
17 close to 200 million in conventional business in the  
18 next fiscal year as a balance, an adjunct, to our FHA  
19 product. And so --

20 MR. SHINE: You could --

21 MR. BRAUNSTEIN: -- it's an opportunity of  
22 offering this product for those borrowers that either,  
23 A, don't qualify for FHA, the property they're  
24 purchasing doesn't meet FHA guidelines, and because of  
25 FHA's current monthly insurance renewals that have

1 recently increased, a borrower's monthly payment on a  
2 conventional product is somewhat close to what their  
3 monthly payment will be on an FHA product.

4 MR. SHINE: So we are then somewhat, you might  
5 say, like a safety net for people who can't get the  
6 loans, the FHA loans, under whatever other circumstances  
7 there are, would be able to use our loans because we can  
8 give them something that FHA can't.

9 MR. SPEARS: You could describe it as a backup  
10 program. We prefer to think of it as that we have more  
11 flexibility.

12 MR. BRAUNSTEIN: And a wider product.

13 MR. SHINE: That would work well. That's a  
14 terrific thing you're doing. I just want to -- in my  
15 own mind, I'm looking at the programs trying to figure  
16 out why would anybody use our program if they could get  
17 an FHA loan?

18 MR. BRAUNSTEIN: Well --

19 MR. SHINE: The answer, it seems to me, is --

20 MR. SPEARS: Over the years --

21 MR. SHINE: -- here we are.

22 MR. SPEARS: Right. Over the years, Jack, we've  
23 offered both for that reason, for the same reason. You  
24 may come in for whatever reason, people come from  
25 different parts of the state, they may want to buy a

1 condominium in the inner city, they may want to buy  
2 something rural, it just provides us with more products  
3 for somebody to qualify for.

4 MR. BRAUNSTEIN: An example --

5 MR. SHINE: We should let everybody know what  
6 we're doing here. I think that's a terrific opportunity  
7 for someone who needs to have a --

8 MR. SPEARS: We're going to turn that part over  
9 to Mr. Giebel in the marketing department.

10 MR. SHINE: Thank you.

11 MR. BRAUNSTEIN: A perfect example would be,  
12 Jack, if you go to Wells Fargo and you go online and you  
13 just look at the mortgage products that they offer,  
14 you'll see that they don't just offer a conventional  
15 product and nothing else or an FHA product and nothing  
16 else. You'll see they offer a handful of conventional  
17 products, a handful of different FHA products, and a few  
18 different, you know, loan terms as well for each of  
19 those that I described earlier.

20 MR. SHINE: I think it's terrific.

21 MR. BRAUNSTEIN: Thank you.

22 MS. CRESWELL: I just had a question, then. So  
23 can you clarify for me the circumstances in which  
24 somebody -- so who won't qualify for under the FHA  
25 program that might be interested in this, and then also

1 is it accurate, then, that the FICO score that you're  
2 going to be requiring on this is going to end up  
3 significantly higher than what the FHA is?

4 MR. SPEARS: 40 points, yeah.

5 MR. BRAUNSTEIN: 680 instead of 640.

6 MS. CRESWELL: Now it's 720?

7 MR. BRAUNSTEIN: No. It was able to be dropped,  
8 actually, for our -- to provide a little piece of  
9 exclusivity for CalHFA because, as I mentioned, they are  
10 offering that same product, this 97-percent conventional  
11 product, to the lending community at 720 based off of  
12 their review of our portfolio, our delinquencies, our  
13 quality of the paper that we -- that we bring in, the  
14 type of borrowers that we help for homeownership,  
15 they're comfortable in offering our program to be at a  
16 580 -- excuse me, a FICO of 680 compared to the other  
17 lenders, so, again, a wider opportunity for our lenders  
18 to use our product. If they have a borrower that is 720  
19 to 680, they'll seek our product because they won't be  
20 able to do it themselves, so we'll be able to help more  
21 borrowers.

22 For the qualifications, again, the marketplace,  
23 what's happening is some sellers who are selling their  
24 homes are actually in some cases not taking sales offers  
25 from borrowers who are considering using an FHA

1 financing. Sometimes the FHA insurability aspect of  
2 what our lenders need to go through becomes timely, and  
3 sellers are tending to push that away. In certain cases  
4 sellers oftentimes on an FHA loan are being asked to  
5 provide seller concessions. And there's cases where  
6 sellers are not wanting to offer a -- take a buyer who's  
7 seeking an FHA loan, so they'll push that -- they'll  
8 push that back, and they'll seek only borrowers that are  
9 prequalified or proceeding with a conventional product.  
10 Again, it's another place for the conventional product  
11 to be an augmentation to our FHA product.

12 MS. CRESWELL: Thank you.

13 ACTING CHAIRPERSON CAREY: Other questions?

14 MR. SPEARS: It is an action item, Mr. Chairman,  
15 just because it's an amendment to the business plan that  
16 was adopted in May, so there is a resolution in the  
17 binder.

18 ACTING CHAIRPERSON CAREY: Were you going to  
19 discuss the MCC at all?

20 MR. BRAUNSTEIN: Yes.

21 MR. SPEARS: Oh, yes, I'm sorry.

22 MR. BRAUNSTEIN: And then we'll just combine the  
23 two in the resolution.

24 If you -- as you recall at the last Board  
25 meeting we presented the MCC product, there were some

1 questions as it related to results of a survey that my  
2 group in conjunction with Ken Giebel's group in  
3 marketing seeking answers from localities and  
4 municipalities. Just as a reminder, the MCC program  
5 gives a borrower a 20-percent tax credit based on their  
6 mortgage insurance paid. That MCC won't be exclusive to  
7 CalHFA. We have to offer it statewide if we do offer an  
8 MCC program, and it must be used without a bond -- bond  
9 funding.

10 The thought process of the product would be that  
11 the MCC would be a great additional value-add to our  
12 borrowers and to our lenders to attach to our FHA  
13 product. On this particular FHA product, it will be  
14 non-bond funded. It will be a capital market funded  
15 loan, as we mentioned at the last Board meeting, and the  
16 combination would be a valuable product to the borrower  
17 and the lender.

18 If the MCC is attached to our first mortgage FHA  
19 product, we are considering to waive the processing fee  
20 of \$500 for the MCC, hence another value benefit to the  
21 lender and borrowers using our product because of the  
22 way we're waiving the \$500.

23 Again, because we have to offer it to all of our  
24 lenders and to statewide, if we receive other MCC  
25 requests, and I certainly anticipate us doing so, that

1 will be 500 per MCC that we issue. So we're not going  
2 into this product as a revenue generator just for the  
3 MCCs because this is going to take a lot of my staff's  
4 operation time in reviewing the MCC for its credit  
5 availability, but the idea would be to combine it into  
6 the benefit of having a CalHFA FHA first mortgage along  
7 with the MCC. Another way for our lenders to think  
8 twice about or think first of CalHFA for a mortgage loan  
9 for their borrowers that are low and moderate income  
10 because of our now wider product menu of FHA, FHA with  
11 an MCC, the \$500 being waived on that MCC, and the  
12 conventional product as well, so that they can make a  
13 very nice comparison of what's the best product and  
14 what's the best way that's suitable for the borrower's  
15 eligibility.

16 ACTING CHAIRPERSON CAREY: Jack.

17 MR. SHINE: Did I hear you that you get a tax  
18 credit in an amount equal to 1 percent?

19 MR. BRAUNSTEIN: No. 20 percent of the mortgage  
20 insurance -- the mortgage interest that's paid.

21 MR. SHINE: 20 percent.

22 MR. SPEARS: 20 percent.

23 MR. BRAUNSTEIN: It's an income tax --

24 MR. SPEARS: It's an income tax credit --

25 MR. BRAUNSTEIN: -- credit to the borrower.

1 MR. SPEARS: -- to the borrower.

2 MR. SHINE: Is it a tax credit or a write-off?  
3 Is it a deduction or --

4 MR. BRAUNSTEIN: No, it's just a tax credit to  
5 the borrower.

6 MR. SHINE: And how much is the tax credit for,  
7 please?

8 MR. BRAUNSTEIN: 20 percent.

9 MR. SHINE: Of what?

10 MR. BRAUNSTEIN: Of the insurance paid -- the  
11 mortgage interest. I'm saying insurance, I'm sorry.  
12 The mortgage interest paid on an annual basis.

13 MR. SHINE: So you get 20 percent of the  
14 mortgage interest you pay --

15 MR. BRAUNSTEIN: Interest.

16 MR. SHINE: -- on your tax return as a credit of  
17 the taxes due.

18 MR. BRAUNSTEIN: Right.

19 MR. SHINE: Tax credit.

20 MR. BRAUNSTEIN: Right. And what lenders do  
21 when they're --

22 MR. SHINE: That's a terrific -- why didn't you  
23 say that before? That's a terrific reason for people to  
24 use this product.

25 MR. BRAUNSTEIN: Well, I'm sorry, I thought I



1 did. We presented it that way at the last Board  
2 meeting, and I didn't want to be redundant.

3 MR. SHINE: I missed the last two meetings.

4 MR. BRAUNSTEIN: But you're absolutely right.  
5 And what lenders do -- I'm not sure if I added it. In  
6 fact I did. It's the third bullet. What lenders will  
7 do is they'll -- they know that there's a tax credit  
8 available to the borrower for having an MCC. And what  
9 they'll do is they'll -- they'll sometimes add that  
10 credit savings to the borrower's income. That  
11 enables -- to help them have a slightly more increased  
12 income to -- to be more eligible for potentially a  
13 higher priced house. They still have the debt service  
14 for the loan at the -- at the -- at the lender's, you  
15 know, qualifications or our qualifications, but it  
16 gives -- it gives a borrower just greater buying power  
17 for a home purchase because of the tax credit a lender  
18 is adding to their income.

19 MR. SHINE: That's about 3,000 a year.

20 MR. SPEARS: It's -- it is a good program. It  
21 is offered around the state in, you know, localities.  
22 It's not offered on a statewide basis, so when we  
23 brought this up at the May Board meeting, Jack, there  
24 were some questions about, well, are we going to, you  
25 know -- we have a lot of partners that are local

1 government entities that provide downpayment assistance  
2 through our AHPP program, and, you know, are we going  
3 crossways with anyone?

4 So I wanted Gary to let you know about the --  
5 about the survey that went out and the results of that  
6 so that you can get comfort level about, you know, our  
7 relationships with our local government partners.

8 MR. BRAUNSTEIN: Thanks, Steve.

9 If you recall last Board meeting, we were -- we  
10 hadn't yet -- we sent the survey out. We hadn't yet  
11 gotten the respondents back, and so we did. We sent out  
12 a survey of four questions asking the localities and  
13 nonprofits that are part of our affordable housing  
14 partnership program, about 350 programs, 150 localities,  
15 the question that if CalHFA offered an MCC product,  
16 would you have, you know, an issue with that on a  
17 statewide, what restrictions, if any, were of concern to  
18 you.

19 We had received 60 respondents from the survey  
20 that we sent out. The majority of the respondents gave  
21 no significant resistance, us offering the MCC product.

22 The further details of some -- some quotes and some  
23 information that we got is they felt it was a very  
24 positive incentive to be offered with our first mortgage  
25 product and other first mortgage products. They also

1 felt that how we were providing a waiver of the -- of  
2 the fee was another nice incentive for the borrower. I  
3 think it was only less than 25 percent of the  
4 respondents made any type of mention of resistance or  
5 hesitation to us offering it on a statewide basis.

6 ACTING CHAIRPERSON CAREY: Claudia.

7 MS. CAPPPIO: Of that 25 percent, what were some  
8 of the specific concerns?

9 MR. BRAUNSTEIN: I'm trying to recall.

10 MR. SPEARS: I think --

11 MR. BRAUNSTEIN: I'll have to come back with  
12 some comments on that. I don't have the -- I don't have  
13 the responses here, but if I recall in my initial review  
14 there wasn't a -- it wasn't a significant poignant  
15 concern.

16 MR. SPEARS: The main concern is that it would  
17 have a negative impact on their program. They would  
18 have fewer applications.

19 MS. CAPPPIO: For MCC.

20 MR. SPEARS: For MCC in their localities.

21 MS. CAPPPIO: So if that's the case, in those  
22 localities, can we work with them not to be at  
23 cross-purposes?

24 MR. SPEARS: Absolutely.

25 MS. CAPPPIO: Just to be mindful of that, given

1 it's the same program.

2 MS. CRESWELL: Yeah, and that was my question is  
3 just are there ways to mitigate the impacts of doing the  
4 program in the communities that are already doing it?  
5 Because I do think it's -- 25 percent is not a small  
6 amount when you're talking about something that they  
7 might take very seriously. And so are there ways to  
8 address those concerns and limit --

9 MR. SPEARS: There could be.

10 MR. BRAUNSTEIN: We could actually reach out to  
11 all of our affordable housing partner localities and  
12 nonprofits and ask them the specific question, "Are you  
13 offering an MCC product?" And if not, then we'll be  
14 able to capture either that MSA or those counties that  
15 they service perhaps --

16 MS. CRESWELL: Can you limit --

17 MR. BRAUNSTEIN: -- restrict --

18 MS. CRESWELL: -- the market? I mean does it  
19 have to be statewide? Could you do it all places that  
20 it's not currently being offered?

21 MR. SPEARS: That's what we've talked about  
22 before, is that we would -- we would offer this on a  
23 statewide basis where it's not already offered, and then  
24 that would -- that would eliminate this sort of -- this  
25 sort of thing. We haven't had any objection from legal

1 counsel yet, but it would make it effectively MCC is  
2 offered in California on a statewide basis, some by  
3 locals, the rest by the State.

4 MS. CAPPPIO: We'll be coordinating.

5 MR. SPEARS: Right. Right.

6 ACTING CHAIRPERSON CAREY: Other questions?

7 This -- then before we take action, I'm going to  
8 ask if there's anyone in the audience who'd like to  
9 comment on this matter.

10 Seeing none, is there a motion from the Board?

11 MR. SHINE: I'll move --

12 MR. HUNTER: I move adoption of Resolution  
13 11-09.

14 ACTING CHAIRPERSON CAREY: Can we take that as a  
15 second, then?

16 MR. SHINE: Yes.

17 ACTING CHAIRPERSON CAREY: Okay. Roll call,  
18 please.

19 MS. OJIMA: Ms. Creswell.

20 MS. CRESWELL: Yes.

21 MS. OJIMA: Mr. Gunning.

22 MR. GUNNING: Yes.

23 MS. OJIMA: Mr. Hunter.

24 MR. HUNTER: Yes.

25 MS. OJIMA: Ms. Carroll.

1 MS. CARROLL: Yes.

2 MS. OJIMA: Mr. Shine.

3 MR. SHINE: Yes.

4 MS. OJIMA: Mr. Smith.

5 MR. SMITH: Yes.

6 MS. OJIMA: Ms. Peters.

7 MS. PETERS: Yes.

8 MS. OJIMA: Mr. Carey.

9 ACTING CHAIRPERSON CAREY: Yes.

10 MS. OJIMA: Resolution 11-09 has been approved.

11 ACTING CHAIRPERSON CAREY: Thank you, Gary.

12 MR. SPEARS: Thank you, Board members.

13 MR. BRAUNSTEIN: Thank you.

14 --o0o--

15 **Item 5. Discussion, recommendation and possible action**  
16 **regarding the approval of compensation of certain exempt**  
17 **management in accordance with Health and Safety Code**  
18 **section 50909(a) (Resolution 11-10)**

19 ACTING CHAIRPERSON CAREY: Okay. Item 5.

20 MR. SPEARS: Item 5, Board members, is being  
21 brought to you because we have two vacancies at the  
22 senior level that Claudia's been working with the  
23 Governor's Appointment Office to fill. There is a  
24 handout, and copies been made for the public that  
25 describes what we believe is, you know, a consolidation

1 of all the resolutions that have been passed on senior  
2 executive compensation, I believe it was in early 2007.

3  
4 Originally, there was a survey that was  
5 conducted. A compensation committee was established.  
6 They brought recommendations with regard to the survey,  
7 and the survey contained salary ranges. Once the ranges  
8 were adopted at the January Board meeting, then specific  
9 compensation levels were adopted.

10 For a variety of reasons, at the March Board  
11 meeting, the ranges were done away with and salary caps  
12 were established. There's one exception, and that is  
13 the salary cap originally for the director of  
14 multifamily was 190, and when the current director was  
15 brought onboard, that was raised to accommodate the  
16 salary that's at that level.

17 So -- so I believe that what you have here is  
18 what the Board has decided to do in the past. So the  
19 question, of course, is why are we bringing this up  
20 again? We're doing this just to clarify that for the  
21 two positions that are being filled -- the director of  
22 homeownership and the chief information officer, the  
23 director of IT -- that the Board reaffirm these salary  
24 levels so that we can inform through Claudia to the  
25 Appointments Office what the salary levels would be for

1 those people that are being considered.

2 And that's the reason for the action. It is an  
3 action item. There is a resolution there.

4 MR. GUNNING: I'm sorry, Steve, why do we need  
5 to do this again?

6 MR. SPEARS: Considering the current --

7 MR. GUNNING: The shift by the State from cap --  
8 to a cap from a range?

9 ACTING CHAIRPERSON CAREY: We are simply  
10 reaffirming actions taken in the past, right?

11 MR. SPEARS: That is correct.

12 MR. GUNNING: Transparency.

13 MR. SPEARS: Transparency. Mr. Gunning, there  
14 were a number of members who were not here at the time.  
15 This offers the opportunity for people to ask questions  
16 about the process and the levels. I don't have all the  
17 answers to those questions because I was not privy to  
18 some of that conversation, but it's an opportunity.

19 MR. SHINE: I move to approve.

20 MR. GUNNING: Second.

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

23 MS. PETERS: Public comment.

24 ACTING CHAIRPERSON CAREY: If there's anybody in  
25 the public who'd like to comment on this matter, please



1 indicate.

2 Seeing none, roll call, please.

3 MS. OJIMA: Thank you.

4 Ms. Creswell.

5 MS. CRESWELL: Yes.

6 MS. OJIMA: Mr. Gunning.

7 MR. GUNNING: Yes.

8 MS. OJIMA: Mr. Hunter.

9 MR. HUNTER: Yes.

10 MS. OJIMA: Ms. Carroll.

11 MS. CARROLL: Yes.

12 MS. OJIMA: Mr. Shine.

13 MR. SHINE: Yes.

14 MS. OJIMA: Mr. Smith.

15 MR. SMITH: Yes.

16 MS. OJIMA: Ms. Peters.

17 MS. PETERS: Yes.

18 MS. OJIMA: Mr. Carey.

19 ACTING CHAIRPERSON CAREY: Yes.

20 MS. OJIMA: Resolution 11-10 has been approved.

21 --o0o--

22 **Item 6. Discussion, recommendation and possible action**  
23 **regarding the establishment of an employee recognition**  
24 **program for non-exempt employees to recognize superior**  
25 **performance and outstanding contribution to the Agency**

1       **(Resolution 11-11)**

2               ACTING CHAIRPERSON CAREY: Okay. On to the next  
3 item.

4               MR. SPEARS: Item No. 6, I'll need some  
5 technical assistance, and I'll need Mr. Giebel.

6               For some time senior staff has discussed having  
7 an employee recognition program that is specific to  
8 CalHFA. There is a statewide program that's offered by  
9 Department of Personnel Administration. They do have  
10 regulation that permits state departments to adopt an  
11 augmentation, if you will, to the program that's  
12 offered. And we have been contemplating this for a long  
13 time. We've established a committee. We've established  
14 standards for the committee to consider. And we believe  
15 that it meets all the requirements that DPA has  
16 established to set one of these programs up.

17               I'll let Ken go through the goals and the  
18 proposal itself. And just stop us anytime you have a  
19 question about that. It is an action item. There is a  
20 resolution for your consideration.

21               And just so we get this out of the way to begin  
22 with, the -- it was felt by senior staff that this  
23 contains monetary rewards, particularly for an annual  
24 reward. Not large dollar amounts, but it does contain  
25 awards that would be paid to recipients and that a Board

1 resolution is needed to adopt this so that we have the  
2 correct amount of authorization when we send the warrant  
3 over to the Controller's Office to ask that the warrant  
4 be honored. So that's the reason for the resolution.

5 ACTING CHAIRPERSON CAREY: The proposed amount  
6 is a total of \$3,000?

7 MR. SPEARS: Yes.

8 MS. CRESWELL: Annually?

9 MR. SPEARS: Yes.

10 MR. GIEBEL: And I can take you through how that  
11 breaks down.

12 MS. CRESWELL: Can I just -- can I just ask is  
13 it -- are you going to use the state system so would it  
14 be in addition where you can do a \$500 award? So it's  
15 in addition to the State's sustained superior  
16 accomplishment? You would supplement that with this  
17 amount?

18 MR. GIEBEL: That part needs to be clarified  
19 because the level of our Tier III award, achievement  
20 award, is at the state DPA level of \$500, so I don't  
21 know if you would refer to that as double-dipping  
22 because then we would submit it over to DPA for their  
23 consideration and we would have already in our program  
24 rewarded them. So I don't -- we would have to clarify  
25 that. But our level is exactly the same for that award

1 level as the DPA level, so.

2 MR. SPEARS: Our concept is this is in addition  
3 to whatever is offered otherwise by the State.

4 MR. SHINE: What is offered otherwise by the  
5 State?

6 MR. SPEARS: They have a superior --

7 MS. CRESWELL: Sustained superior accomplishment  
8 award that you can get annually, either \$250 or a \$500  
9 award for meeting certain requirements.

10 MR. GIEBEL: And they have another program --

11 MS. CRESWELL: Yes.

12 MR. GIEBEL: -- where if there's -- I don't know  
13 the exact name of it, but if you demonstrate that you've  
14 made a significant savings, that you can get a portion  
15 of that savings. And they have a name for that.

16 MS. CRESWELL: But that's --

17 MR. DIEBLE: That's separate from this.

18 ACTING CHAIRPERSON CAREY: Is the state program  
19 widespread?

20 MS. CRESWELL: Um-hmm.

21 ACTING CHAIRPERSON CAREY: Used extensively?

22 MS. CRESWELL: Yes.

23 MR. SPEARS: It's available to any state  
24 employee from any department. It's statewide. They're  
25 not specific to, you know, any particular department.

1           ACTING CHAIRPERSON CAREY: Okay.

2           MR. SHINE: Do we use it a lot here in this  
3 Agency?

4           MR. GIEBEL: Pardon me?

5           MR. SHINE: Have you used it a lot here in this  
6 Agency?

7           MR. GIEBEL: No. This is just a proposal to  
8 start a formal recognition program, and I'll take you  
9 through a little bit of the background.

10          MR. SPEARS: But to answer your question, Jack,  
11 to my knowledge, the statewide program has not been used  
12 by very many departments.

13          MR. SHINE: Do we need a motion to be discussing  
14 it?

15          ACTING CHAIRPERSON CAREY: Not yet.

16          MR. SHINE: Pardon me?

17          ACTING CHAIRPERSON CAREY: We have a staff  
18 report on it.

19          MR. GIEBEL: Well, good morning.

20                 We've been working on this -- we've been working  
21 on this for about eight weeks now. We thought -- just a  
22 little background. From time to time in the Agency's  
23 history, there have been some recognition. We have  
24 teams, oh, when we did the Fannie sale of the seconds,  
25 that was done in four or five weeks. That team received

1     plaques at the annual State of the Agency. We  
2     recognized those people who have milestones of service,  
3     and there was kind of an informal thank you note program  
4     with what's -- with the expansion of the Agency, the  
5     staff being inundated with project after project over  
6     the last four years and actually being stretched because  
7     of the hiring freeze, we thought it was time that we  
8     actually said thank you to people at different levels.  
9     So this is really intended to provide staff with a  
10    flexible yet meaningful method of acknowledging to their  
11    colleagues and staff for superior and outstanding  
12    contributions to the Agency and the end result being  
13    quality and productivity and recognizing that.

14            What we're proposing is a three-tier program.  
15    The first is what we're calling colleague to colleague.  
16    It's simple. It's providing staff with a way of saying  
17    thank you to their colleagues, promoting feedback, and  
18    it's employee to employee at any level. It's simple,  
19    and it's direct.

20            Then Tier II is either an employee or a team,  
21    and it's a formal written recognition presented to the  
22    employee or the team from the director, supervisor, or  
23    manager. In addition to the written recognition, it  
24    will -- there will be a letter that goes in their  
25    personnel file, and it will be accompanied by a small

1 gift card, so in other words, a small Visa card or a  
2 Starbucks card or something like that, a couple of  
3 lattes, I think. So that's Tier II.

4 Tier II kind of rolls into Tier III in that this  
5 is the annual achievement award. And the directors will  
6 present their nominees, and we have to set up a  
7 committee to run this. That's one of the things from  
8 DPA. And they will review the documentation and select  
9 the winning individuals, and Claudia will get to see all  
10 those and confirm those.

11 In addition to an award, a certificate will be  
12 sent to their personnel file, and either the individual  
13 or the team as a whole will qualify for the \$500 award.

14 So if there's five team members, they get a hundred  
15 dollars a piece. The highest recognition level will be  
16 presented at the State of the Agency for the previous  
17 fiscal year. We would take those and pass them on to  
18 DPA to see if they would qualify for their awards.

19 We have set up criteria and procedural  
20 guidelines on how this works at every level. And what  
21 we've tried to build in is enough flexibility so the  
22 division managers have enough flexibility to customize  
23 this or work with it to meet their individual needs.  
24 The financing department, our accounting department,  
25 financial services, has a lot of people and they work in

1 teams, so it has to be flexible enough to work on that  
2 level as well.

3 Exempt employees, those are the Governor's  
4 appointees, are exempt from Tiers II and III. And right  
5 now we're in the process of branding the program and  
6 doing the creative for this, and we'll have ready it  
7 next week.

8 Tier I is 15 -- Tier II is \$1500. Those are the  
9 small rewards. We worked to the formula and how many we  
10 thought that would be and broke it down by division, and  
11 needless to say we're going to have a pool of money,  
12 \$1500, you know, see how that works. And then we have  
13 budgeted for obviously three \$500 prizes.

14 So what we're asking for is approval to proceed  
15 with this so we can get this in the system and that  
16 Claudia can announce this at the State of the Agency in  
17 mid-August and kick it off for this fiscal year.

18 ACTING CHAIRPERSON CAREY: Any questions?

19 Jack.

20 MR. SHINE: Is it enough?

21 MR. GIEBEL: We think it is enough, yes. It's a  
22 starting point.

23 MR. SHINE: Are you satisfied that it should not  
24 be increased?

25 MR. GIEBEL: Well, the level is -- you can't go



1 above \$5,000, so that's just -- that's the -- that's the  
2 ceiling, so we're --

3 MR. SHINE: You can't --

4 MR. GIEBEL: -- three-fifths of the way there.

5 MR. SHINE: -- go over \$5,000 for what?

6 MR. GIEBEL: For your recognition program.

7 MR. SHINE: In its entirety?

8 MR. GIEBEL: Yes.

9 MR. SHINE: Do you think we need to make it  
10 5,000 instead of 3,000?

11 MR. SPEARS: To answer your question, Mr. Shine,  
12 no. Given the efforts of the employees of this Agency  
13 in the last three years to deal with everything they've  
14 dealt with, you know, they get huge kudos, and they  
15 should get performance bonuses for keeping us afloat.

16 But given the -- given the requirements of the  
17 State, we thought that modest but specific recognition  
18 was a good idea, and we're trying to keep it within our  
19 budget constraints.

20 MR. SHINE: Fine. Thank you.

21 MR. GUNNING: Does -- does the Agency fall under  
22 the State's whistle-blower program? Is there a way for  
23 employees to --

24 MR. SPEARS: Yes. I believe we just sent a  
25 memo, the annual notification from the director. This

1 is available to anybody, if you see anything you want to  
2 blow a whistle about, you know, about three weeks ago.

3 ACTING CHAIRPERSON CAREY: This is a moment  
4 we'll ask for public input, if anyone would like to  
5 comment on this proposal.

6 Seeing none --

7 MS. CRESWELL: So moved.

8 ACTING CHAIRPERSON CAREY: -- is there a motion?

9 MS. CRESWELL: So moved to approve the program.

10 MR. HUNTER: Second.

11 ACTING CHAIRPERSON CAREY: Moved and seconded.

12 Roll call, please.

13 MS. OJIMA: Thank you.

14 Ms. Creswell.

15 MS. CRESWELL: Yes.

16 MS. OJIMA: Mr. Gunning.

17 MR. GUNNING: Yes.

18 MS. OJIMA: Mr. Hunter.

19 MR. HUNTER: Yes.

20 MS. OJIMA: Ms. Carroll.

21 MS. CARROLL: Yes.

22 MS. OJIMA: Mr. Shine.

23 MR. SHINE: Yes.

24 MS. OJIMA: Mr. Smith.

25 MR. SMITH: Yes.

1 MS. OJIMA: Ms. Peters.

2 MS. PETERS: Yes.

3 MS. OJIMA: Mr. Carey.

4 ACTING CHAIRPERSON CAREY: Yes.

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

6 ACTING CHAIRPERSON CAREY: Thank you, gentlemen.

7 MR. GIEBEL: Thank you.

8 --o0o--

9 **Item 7. Update and discussion regarding the status of**  
10 **the U.S. Treasury's New Issue Bond Program and the**  
11 **Temporary Credit and Liquidity Program**

12 ACTING CHAIRPERSON CAREY: Item 7, an update on  
13 the New Issue Bond Program and the Temporary Credit and  
14 Liquidity Program.

15 MR. SPEARS: To be perfectly honest,  
16 Mr. Chairman, I thought we would have some news on this  
17 at this point, which is the reason we agendized it. It  
18 is -- it being the extension, particularly, of the TCLP  
19 program is of particular concern to the rating agencies,  
20 particularly Moody's. We have applied specifically for  
21 an extension of TCLP, and we have not heard word back on  
22 that. We know that it's being discussed at a very high  
23 level at Treasury, and the discussions are ongoing. And  
24 we are having discussions between Bruce and Claudia is  
25 in discussions with folks at Treasury, so we're actively

1 pursuing this. I just thought I would give Bruce an  
2 opportunity to give you a little more detailed update.

3 MR. GILBERTSON: Thanks. Good morning, Members  
4 of the Board.

5 I just want to make one correction I noticed as  
6 I was reviewing the report this morning. The first  
7 paragraph under status of the program, so I think that's  
8 page 141 in your Board binder, about six lines down  
9 where it has a number \$96 million, that number actually  
10 should be \$144 million of single-family proceeds used to  
11 finance the next lines.

12 So I thought I'd just give kind of a  
13 comprehensive overview of the programs. Remember, these  
14 initiatives were sponsored by the federal government,  
15 specifically the U.S. Treasury Department, both Fannie  
16 Mae and Freddie Mac, in the fall of 2009. We had been  
17 instrumental in having conversations with those parties  
18 during the course of 2009.

19 Ultimately, CalHFA received an allocation of  
20 approximately \$5 billion. \$1.4 billion of that  
21 allocation fell under the program that they called the  
22 New Issue Bond Program. We received \$380 million for a  
23 multifamily program and just over \$1 billion for a  
24 single-family program. All of this was available to get  
25 both state and local HFAs back into the lending

1 business. Because of the market disruptions, we just  
2 didn't have a capital source to finance any lending.

3 Currently the NIBP program is scheduled to  
4 expire at the end of this calendar year, on  
5 December 31st. And you might remember that we updated  
6 you about a year ago this time that it was extended by a  
7 year because the original expiration date was at the end  
8 of 2010.

9 TCLP, we received an allocation of \$3.5 billion.

10 Okay. TCLP, again, is the Temporary Credit and  
11 Liquidity Program. It's an enhancement to variable-rate  
12 bonds that existed at the time, back in October 2009.  
13 We had \$3.5 billion outstanding. We elected to replace  
14 all of the liquidity that we had supporting those VRDOs  
15 in 2009.

16 That program is scheduled to expire in December  
17 of 2012, so, you know, not quite a year and a half from  
18 now. And as Steve pointed out, Moody's asks every time  
19 we have a conversation, "What are your plans to mitigate  
20 that expiration date?"

21 And I said, "Shouldn't you focus on the United  
22 States government and their credit ceiling or their debt  
23 ceiling that's coming?"

24 And they have, by the way. They have put 7,000  
25 municipal credits on credit watch because they have

1 support from the federal government in one way, shape,  
2 or form.

3 So anyway, so the status of where are we. Now  
4 we're a little more than a year and a half into this,  
5 you know, both programs. I thought I'd run through both  
6 programs, tell you how much we've used and how it has  
7 benefited the Agency.

8 So as of June 30, 2011, in our multifamily New  
9 Issue Bond Program, 193 million of the 380 has been  
10 used. We've provided financing for 20 affordable rental  
11 projects. We have plans to use the balance during the  
12 course of the calendar year, and it's going to be used  
13 in two forms, some additional new lending for a handful  
14 of projects. One of them is a very large -- I think  
15 it's 75 or \$80 million financing, and \$90 million is  
16 going to be used to assist us in restructuring our debt  
17 again.

18 One of the program parameters for NIBP is that  
19 we could use it to do a fixed-rate bond re-funding of  
20 the variable-rate bonds that existed back in 2009. This  
21 has been part of our strategy all along. So we're  
22 actively working on improving the asset quality so that  
23 certain multifamily loan assets would be eligible for  
24 this fixed-rate re-funding. We hope to, you know,  
25 probably give you another update on that program at the

1 September Board meeting and closing in late November or  
2 December.

3 On the single-family program then, we've used  
4 144 million of our \$1 billion under the New Issue Bond  
5 Program. That's been in two transactions. We closed  
6 one bond financing last December. We closed another one  
7 in May of this year. There's a report in the back of  
8 the binder describing that financing.

9 Unfortunately, we aren't going to be able to use  
10 the remaining whatever that is, 850 million. It's more  
11 likely between now and the end of the calendar year we  
12 will use 50 to \$75 million. We probably will have one  
13 or two more financings before the end of 2011. So  
14 approximately 800 million we'll go and use, if there  
15 isn't an extension of the program or some other  
16 modification of that program.

17 Let's jump back over to TCLP, and I'll give you  
18 a quick status on how we've been able to use those  
19 moneys.

20 MS. PETERS: Before you jump ahead --

21 MR. GILBERTSON: Sure.

22 MS. PETERS: -- what was the problem getting it  
23 out? Lack of demand or --

24 MR. GILBERTSON: Well, initially a lot of  
25 this -- one of the problems that HFAs have been facing

1 for several years now is that the federal government  
2 support of the mortgage market in general. So as they  
3 buy mortgage securities, they lower rates, and then we  
4 don't have a rate to compete against the private sector.  
5 And the value of tax exemption just doesn't really  
6 present itself. The original NIPB program, they gave us  
7 a rate lock, if you will, but then rates dropped, so the  
8 rate lock was out of the money. It didn't help. They  
9 reset that last October, which allowed us the  
10 opportunity to really make some traction.

11 So on TCLP, again, by January of 2010, we had  
12 put all of that money in place. We had replaced all of  
13 the liquidity facilities that we had from private sector  
14 banks, and I think we reported that back to you in  
15 January of 2010.

16 As of August 1, a little more than a week from  
17 now, our utilization of TCLP will have fallen from 3.5  
18 billion to 2.8 billion, so we reduced our support level  
19 by some \$700 million. The most impressive thing,  
20 though, is the performance of the underlying bonds  
21 supported by the TCLP over the last 16 months.

22 So these are bonds that have a weekly interest  
23 rate reset. Every -- every week we're getting a new  
24 interest rate reset. The most recent resets have  
25 averaged .04 percent, four basis points. Over 16 months



1 of the program, they have averaged 24 basis points.

2 Pardon me.

3 The way we measure the success of that program  
4 is we compare it to basis mismatch, and I know a number  
5 of the Board members have heard lengthy presentations by  
6 Tim Tsu and myself about some of the financial  
7 challenges that we faced over the last couple of years,  
8 and basis mismatch was a big component of that. As an  
9 example, during calendar year 2009, our basis mismatch  
10 amounted to \$30 million on our hedged variable-rate  
11 demand obligations. So we paid an additional \$30  
12 million in interest expense in one calendar year.

13 In the 16 months since TCLP has been in place,  
14 the basis mismatch has turned positive to the Agency,  
15 and we have benefited to the tune of two or three  
16 million dollars over that time frame. So those are  
17 numbers that you need to add together. So the  
18 cumulative benefit will -- for CalHFA is approximately  
19 \$35 million. So it's extremely valuable to us, and one  
20 of the reasons we're pushing so hard for an extension.

21 There's a number of proposals underway, and I'm  
22 just going to wrap up by summarizing what I know today.

23 And as Steve pointed out, there is no news or an  
24 official announcement to report. You know, my sense --  
25 and Claudia, I haven't had a chance to catch up with her

1 today -- is now it may seem like it's a September thing  
2 or maybe an October thing. And I'll let Claudia comment  
3 as I just run through the proposals.

4 But for NIBP, one of the proposals from both  
5 state and local housing agencies and their lobbyist  
6 groups is to extend the program beyond 2011, you know,  
7 add another year. Clearly we're going to have at least  
8 \$800 million available. Why not just tack another year  
9 on it and let it run to 2012?

10 The other option is to modify the program and  
11 perhaps extend it and allow some of that single-family  
12 money to be used for multifamily purposes. And we've  
13 been an advocate in California of trying to do some of  
14 those things here.

15 And then a third proposal that has some  
16 traction, it's very hard to gauge how Treasury and the  
17 federal government feels about this, is that there may  
18 be a second round of NIBP, a new funding source, derived  
19 somehow, and there's several different ideas on that,  
20 that could be available to, again, assist HFAs, both the  
21 state and local level, over time.

22 And then the big one on TCLP, there was a much  
23 smaller group of HFAs that participated in that. I  
24 think the report says 11, if I'm not mistaken.

25 MR. SPEARS: Right.

1 MR. GILBERTSON: It's simply an extension, you  
2 know, and we have pushed hard for a five-year extension.  
3 That means the TCLP would be in place through 2017. By  
4 2017 we're going to know an awful lot about that  
5 single-family loan portfolio that is causing the pain.  
6 Because the last loan finance of that indenture was done  
7 in 2008, so there will almost be ten-year seasoned. The  
8 borrowers that are going to pay are going to continue to  
9 pay. Those that have gone to foreclosure will have been  
10 settled by then, claims will have been paid, and we will  
11 know where we sit.

12 So -- so we end up with that request. There's a  
13 lot of conversation. Tim Tsu and my staff and several  
14 others in the financing division have provided some  
15 detailed analysis for them to compare options. We're  
16 working with both Treasury and their advisor, State  
17 Street, in trying to get them, you know, all the  
18 information they think is necessary. We're hopeful. We  
19 think they really want to make this work for CalHFA and  
20 have this benefit to our balance sheet and our financing  
21 programs.

22 So with that, I think we're a month or two off.  
23 I'm not sure if Claudia has any further update from some  
24 of her sources on that.

25 MS. CAPPIO: I was at the NCHSA conference

1 earlier in the week, and that is consistent with what  
2 you're saying. Unfortunately, timing is everything, but  
3 I would have much rather had this announcement behind  
4 us, but it's not, and I understand the distraction at  
5 the moment. But it would be great if it was September,  
6 not October. The sooner the better for us, but they all  
7 know that. And I think the -- I just want to reiterate  
8 that our staff has been working very closely and very  
9 positively with Treasury, and we are expecting good  
10 news, but I also know the political landscape out there.

11 MR. SPEARS: I would be a little more nervous if  
12 we were not hearing anything from Treasury, if they were  
13 just not -- but they seem to be actively discussing it  
14 within the halls of Treasury, so I'm encouraged by that,  
15 but I'm not ready to make an announcement for that.

16 But remember when we put this together back in  
17 2009, it went from July to August to September to  
18 October, and, you know, it just seemed to go on and on.

19 And it just takes a long time for those kinds of  
20 decisions to be made.

21 ACTING CHAIRPERSON CAREY: It takes patience.  
22 Thank you.

23 --o0o--

24 **Item 8. Update and discussion regarding the Keep Your**  
25 **Home California program**

1           ACTING CHAIRPERSON CAREY: Okay. Next is the  
2 report on Keep Your Home California.

3           MR. SPEARS: So, Mr. Chairman, Members, if you  
4 recall, the last time you were discussing that we were  
5 about to go out with a marketing plan. That's been  
6 implemented. Di and I and Claudia thought it would be a  
7 good time for a pause, how are we doing with this.  
8 There's been other developments that I'll let Di  
9 discuss, but just an update for you at this time.

10          MS. RICHARDSON: I'll give Steve the buttons. I  
11 always mess that up.

12          Good morning, Members. Just a fairly brief  
13 update, although I can't possibly tell you everything  
14 that's an update because this seems to be all I do,  
15 live, breathe, sleep, eat.

16          You know, we have our four core programs. Those  
17 are out. They're performing very well. I'll give you a  
18 little bit of an update on those as we move into the  
19 program. The big -- one of the big news items from my  
20 perspective is that Treasury has finally signed off on  
21 our three proposals for the Innovation Fund. There's  
22 the one proposal by the Los Angeles Housing Department,  
23 which most of you are very well aware of as they have  
24 been here several times. That is a first mortgage  
25 modification program.

1           The second program is from the Sacramento  
2 NeighborWorks Organization, and it's a short sale  
3 gateway program. We had several -- several proposals  
4 offering lease-to-own scenarios. I'll talk about that a  
5 little bit more in a moment. But the Sacramento  
6 NeighborWorks proposal was the most cooked of all of  
7 them that we had. They had several of the key  
8 relationships already in place, and so we felt that that  
9 one would have -- is the best one that -- for us to take  
10 a look at and take a look and see how it works.

11           The third program is the Community HousingWorks,  
12 which is in San Diego. And this is a program that will  
13 help get rid of second or subordinate mortgages that  
14 don't qualify under the federal Making Home Affordable  
15 Program.

16           So we have -- we have finalized our contract  
17 with -- with CHW, and we're working with the other two  
18 to get those finalized. And I'm working with Treasury  
19 to finalize -- this will require a new contract with  
20 Treasury because it's an amendment of our existing  
21 contract. And I have the draft of that back from them,  
22 so that -- they usually -- they're shooting for the end  
23 of the month to get that done.

24           So you may recall that when we originally set  
25 out our allocations for the program, even though we knew

1 we were going to be funding the local innovative  
2 programs, we had to include all of the funding within  
3 our four core programs to start out because we needed to  
4 have that money allocated to us by October 1st. And  
5 then our plan was always that once we have the  
6 innovative programs approved, we could go back in and  
7 sort of redistribute the funds and take a look at what's  
8 going on.

9 So those funds -- this is -- this slide  
10 demonstrates how those funds have been redistributed  
11 based on our -- what we've worked out with Treasury.  
12 And you can see that basically, you know, we took that  
13 money out of the Principal Reduction Program. That was  
14 always our intent.

15 And there -- you know, the San Diego Community  
16 HousingWorks Program is going to be about 10 million.  
17 The other two are going to start with 5 million. Again,  
18 if they're wildly successful, we're more than happy to  
19 take a look at, you know, giving them more funding in  
20 the future, but we think that that's a good place to  
21 start. And this also talks about the number of units  
22 that we think will benefit from these funds.

23 So just to give you a little more information,  
24 the Los Angeles Housing Department Mortgage Modification  
25 Program, again, this is something that they came in and

1 talked to us about several times early on. The program  
2 has morphed a little bit. You know, each time we talk,  
3 it sort of morphs. But what we have agreed to with  
4 them, this is a program that they're going to pilot  
5 within the city of Los Angeles within existing NSP  
6 neighborhoods. And they believe that they can do, you  
7 know, principal reduction between 6 and 21 cents on the  
8 dollar, and I hope they're wildly successful. I'm  
9 looking forward to seeing those results.

10 You know, we've talked in the past about they  
11 have a pilot program with Bank of America, which Bank of  
12 America had given them a million -- committed a million  
13 dollars. And to my knowledge they haven't done any  
14 loans under that program yet. That would be separate  
15 than this.

16 The -- again, these -- because we want to judge  
17 the efficacy of these programs compared to those that we  
18 proposed, homeowners that qualify for those programs  
19 will not also be using the Keep Your Home dollars. They  
20 will be completely separate so that we can, you know,  
21 keep track of who's getting what.

22 The second program, the Sacramento NeighborWorks  
23 program, so this will -- these funds are going to be  
24 used as an incentive to lenders to get them to do a  
25 short sale. Sacramento NeighborWorks will buy the



1 property and lease it back to the existing homeowner, so  
2 the homeowner won't be -- have the disruption of being  
3 moved. The community, the neighborhood, won't have that  
4 much -- have that -- have that disruption of having an  
5 empty home.

6 And the homeowners have to qualify for the  
7 program at the time the short sale is approved, and they  
8 have to qualify again for the program. They have to  
9 qualify to repurchase the home at the end of the period.  
10 And there are several educational steps and things that  
11 they have to do and go through to earn the -- the  
12 privilege of buying back the home.

13 So the compensation to the lender is going to be  
14 they're targeting 20 percent of the negative equity, and  
15 it cannot -- under the contract it won't be able to  
16 exceed 80 percent of the unpaid balance, but it also  
17 won't exceed \$45,000 per home.

18 So we're -- this is one -- like I said, we had  
19 several lease-to-own proposals, and this one seemed the  
20 best cooked, and they had an existing relationship with  
21 the credit unions, and so it looks like it's ready to  
22 go.

23 The third program, the Community HousingWorks  
24 Second Mortgage Program, they're going to provide  
25 capital, 35/65 percent match, to participating community

1 lenders. Again, these are lenders that are not  
2 participating in the federal program, so they can't take  
3 advantage of the -- the HAFA program to otherwise  
4 extinguish these seconds.

5 We signed this contract. I think I just signed  
6 it last week, and they've already got nine servicers --  
7 eight servicers signed up. We asked that they have nine  
8 servicers signed up within three months, and they've  
9 already got eight onboard, so they're rocking and  
10 rolling and really ready to go on this one.

11 So the next slide talks about -- I'm sorry, I  
12 have a bunch of pages stuck in between all mine -- the  
13 servicers currently participating. We're actually up to  
14 29 this morning that are currently participating. The  
15 newest onboard, Central Mortgage, Colonial Savings,  
16 Capital Mortgage. I also have four that have sent me  
17 partial documents. I'm trying to get those last few  
18 signatures that I need to get them onboard. Those  
19 include PHH First Mortgage, IBM, LBPS and Midland. And  
20 those -- we get a lot of calls for IBM, so I think those  
21 are -- and PHH. Those are pretty big for us.

22 We also have four that are currently in what we  
23 call the onboarding process, meaning they've -- I've got  
24 all their documents. We've got everything signed.  
25 They're going through the final training. They'll be

1 live on the Web site within the next week or two. That  
2 includes I-Serve, Specialized Loan Servicing, HSBC, and  
3 Cenlar. And we're really excited about Cenlar because  
4 Cenlar is a really big subservicer for a lot of the  
5 credit unions, and so we see a lot of those guys just  
6 now are going to start coming onboard.

7 The final bullet here that I want to highlight  
8 is the Bank of America PRP participation. I think we  
9 talked about at the last meeting the fact that we --  
10 that Bank of America is signed on for the Principal  
11 Reduction Program. We started with them in a pilot mode  
12 where they were controlling the process. They --  
13 instead of borrowers calling our central processing  
14 center and getting referred through, you know, and then  
15 going to Bank of America, Bank of America wanted to sort  
16 of get a handle on the flow and how it worked, so they  
17 were referring them up.

18 Bank of America is only doing the Principal  
19 Reduction with HAMP modifications. So every borrower  
20 that comes in that's -- that's qualified for a HAMP  
21 modification is supposed to be also looked at for their  
22 compatibility with the Principal Reduction Program. We  
23 did that with -- we did the model, the pilot, with them  
24 in that fashion for about six weeks, and they sent us  
25 six files.

1           We have now opened what we call the retail end  
2 of it where we can now refer borrowers to them. We do  
3 some of the front-end work. It still works a little  
4 different than a lot of the other programs because what  
5 we're telling those borrowers is, okay, we're going to  
6 let Bank of America know that we think you're qualified  
7 for this program. They're going to be sending you a  
8 modification packet. Open it. Fill it out. Send it  
9 back. And so we've sent them between 40 and 50 files  
10 just in the last week and a half. So we think,  
11 obviously, that -- we're hoping to see some bigger  
12 numbers starting to come out of that.

13           We've got a press release that we're -- I'm  
14 waiting for Bank of America to finish commenting on so  
15 that we can make a really big announcement, but they are  
16 live on our Web page. And, you know, we're excited  
17 about that.

18           We are also starting to have some conversations  
19 with Wells Fargo and Chase. I wouldn't say we're  
20 exactly close, but we're having some conversations.

21           My conversations with Treasury, you know,  
22 there's this whole big settlement that's sort of being  
23 discussed and up in the air, and that might be pushing  
24 them to start looking at participating in our programs a  
25 little bit more. I'm fine with that. I'll take them

1       however I can get them, I just want them in the door.

2               The next page is our -- some of our production  
3       statistics. And the second quarter ended June 30th, and  
4       at that time we had funded over 1,000 homeowners,  
5       assistance to over a thousand homeowners, which we were  
6       really excited about. That was a big milestone for us.  
7       We're one of only four states that have hit that  
8       thousand-homeowner mark. You'll remember that some of  
9       the other states had existing unemployment programs that  
10      they just added these funds to, so they were -- they  
11      were sort of up and rocking and rolling a little bit  
12      sooner than us.

13              So just to sort of explain what this -- what  
14      these numbers mean, obviously the funded dollars, those  
15      are funds that have actually gone out the door,  
16      committed, you know. Some of the -- especially under  
17      the unemployment program, those are funded over six  
18      months, those payments. So you can see the total  
19      dollars committed, scheduled for disbursement for the  
20      total there.

21              I would also like to just verbally give you  
22      another set of numbers. When a borrower, a homeowner,  
23      calls in and -- if you remember, they go through triage,  
24      then they go through the counseling program. And once  
25      they successfully complete that counseling, we reserve

1 funds for them until we find out that either they don't  
2 really qualify or they withdraw.

3 So just going by the actual reserved numbers, we  
4 have funds reserved for over 1100 additional UMA  
5 households for 20 million; 352 additional PRP households  
6 for 17 million; over 2400 mortgage reinstatement  
7 households for 36 million; and TAP, which we haven't  
8 really focused on a whole lot, quite frankly, and, you  
9 know, everybody is trying to -- the banks and us are  
10 working on trying to keep people in their homes rather  
11 than pay them to move out -- we have 25 of those  
12 reserved for \$125,000.

13 So what we've seen, quite interestingly in the  
14 last month is that -- and it's -- you can see by the  
15 HAP, the numbers here, we're getting a lot more people  
16 calling and participating in the mortgage reinstatement  
17 than the unemployment program. The mortgage  
18 reinstatement has sort of taken -- taken the lead. That  
19 horse is out in front at the moment.

20 This -- this chart just demonstrates those where  
21 we have completed the homeowner action plans. Again,  
22 this is where counseling has been complete. This --  
23 these are the top ten counties where -- you know, we're  
24 monitoring not only where the calls come from, but where  
25 things are successful. These are -- these are the

1 completed homeowner action plans.

2 And the next one actually shows you where we've  
3 actually provided assistance. And so you can see  
4 there's a lot of the same counties. They're -- you  
5 know, there's a little moving around in there, but we  
6 still think that these are sort of the top ten at the  
7 moment.

8 So marketing has been a very large focus the  
9 last couple months. I'm beginning to feel like the Keep  
10 Your Home California madam. We have hired a community  
11 outreach manager. His job is specifically to go to  
12 events -- big, small, medium, I don't care, churches,  
13 fairs, foreclosure prevention events -- and just talk to  
14 people and get the word out about the Keep Your Home  
15 program. You know, we're finding that people need to  
16 hear about these in their own communities from somebody  
17 that they trust, and so that's really what we're  
18 focusing on.

19 We did produce two PSAs, two 30-second PSAs.  
20 They're playing on the radio statewide and on television  
21 in Sacramento, Los Angeles, and San Diego. They're on  
22 our Web site, if you haven't seen them. They're  
23 fabulous. They're on the resources section of our Web  
24 site. And, you know, we've spread the word about those.  
25 I'll talk about that a little bit more.

1           We have -- in addition to those PSAs, we've  
2 purchased traffic sponsorships throughout the state.  
3 You know, this traffic report is brought to you by Keep  
4 Your Home California. And, actually, that's the thing  
5 people seem to hear the most, you know, so we're --  
6 we're -- we're -- I think sometimes -- somebody told me  
7 they heard one introducing a sports report the other  
8 day. That was just sort of a bonus for us.

9           We are really trying to -- we're trying  
10 different things in different areas and trying to  
11 measure the success so we can figure out what works the  
12 best so we know where to put our money. We've got  
13 billboards going up next week in Stockton and Merced, in  
14 English and in Spanish. We did a mass mailing to every  
15 city manager, county CEO, and legislator, again, telling  
16 them about the program, asking them to put the button  
17 on -- you know, the Keep Your Home California button on  
18 their page. Several of them have linked the PSAs on  
19 their page.

20           Several of them have called me back and told me  
21 that they have community access channels, and they want  
22 to play them on their community access channels, so  
23 that's actually something we're going to continue to  
24 pursue. I'm going to try to see if I can get a list of  
25 all those community channels and hit them up directly.



1           We also have a new video that I think just went  
2 up yesterday, and it's sort of a How to Keep Your Home  
3 California. It's a -- it's somebody that -- it's about  
4 a five-minute video that walks a borrower through the  
5 entire process -- this is what happens when you call.  
6 You know, these are the documents that you'll be asked  
7 to provide. This is how long it takes. These are all  
8 the steps -- just to sort of make it a little bit more  
9 friendly, a little less scary. That was filmed at the  
10 CalHFA loan servicing center in -- in West Sacramento.

11           We have -- we started a -- an SEM campaign,  
12 which is, you know, like if you go on Google and type in  
13 certain key words, so that we can -- we can pop up.  
14 That's already proving to be pretty successful. In the  
15 last couple of weeks, that's been sort of the number  
16 three. You know, we track marketing efforts to see what  
17 works, and that's the number three way people are saying  
18 they're getting to our Web site right now.

19           We do have a Twitter account, which is very,  
20 very active. We've got somebody tweeting three or four  
21 times a day. We have a new Facebook page that went up  
22 this week because we know, you know, that's how a lot of  
23 people are finding information these days, is on  
24 Facebook.

25           We're working with Experian. We're going to

1 take our -- our loans that have successfully completed  
2 the HAPs. We're doing some modeling with Experian.  
3 They're going to look for, you know, all the  
4 characteristics why these people were successful, and  
5 then, you know, we can look for people that were -- you  
6 know, that are 30-days delinquent and do very targeted  
7 mailings.

8 We're going to do that in one or two counties in  
9 the next month to see how that works. We're going to  
10 try two different things. We're going to try a  
11 postcard, and we're going to try a letter. We're going  
12 to see if one of those has a better pull-through rate  
13 than the other.

14 We're continuing to work with EDD. You know,  
15 I've been trying to get the UMA information in the  
16 packet that goes out to unemployed folks. They have  
17 been hesitant to do that because it's something that's  
18 paid with federal funds, and I need the approval of the  
19 federal government. I've talked to be federal  
20 government, and they keep saying, "We're thinking about  
21 it. We're not sure that's the best way to do it."

22 And I keep saying, "I don't care if it's the  
23 best way, let's just do it while you're thinking. Come  
24 on."

25 This week they're -- you know, we heard about

1 Cisco having some layoffs, Borders closing their doors,  
2 so I've got people calling Cisco and Borders to make  
3 sure that they have this information put in those  
4 severance packages, which led to the discovery that EDD  
5 actually has on their -- they have a database of the --  
6 every company that's laying off more the 50 people, so  
7 I'll be getting my grubby little hands on that in the  
8 very near future. We're going to go after that.

9 I think that's pretty much everything.

10 Are there any questions?

11 MR. GUNNING: No, Madame.

12 MS. RICHARDSON: Thank you.

13 MS. PETERS: Not a question, just a comment.

14 Great job. Incredibly creative outreach. Keep up the  
15 good work.

16 One comment, the Governor's Office has been  
17 stressing to the Cabinet to increase collaboration  
18 within state agencies, and a couple of things in your  
19 comments sort of brought that to the forefront of my  
20 mind, to make sure that you are communicating with  
21 Commissioner Haraf over the Department of Financial  
22 Institutions. He oversees the community banks and the  
23 credit unions. So on your Innovation Fund that is  
24 relying on them, he's a great contact.

25 Also, he has contact with the person from the

1 Attorney General's Office who is flying to Washington to  
2 negotiate those settlements, so it's worth making a  
3 phone call there to make sure --

4 MS. RICHARDSON: Right. Right. We actually  
5 talked about that last week.

6 MS. CAPPPIO: That's, you know, in lieu of cash.

7 MS. PETERS: Cash is good. We'll take cash.

8 And, you know, while you're getting people to  
9 agree to -- servicers to agree to be a part of this, we  
10 know they're not necessarily always following though,  
11 from what they say in the press they're doing and what  
12 they're actually doing. It would be great if you could  
13 follow through with the Department of Corporations on  
14 state regulated services that you're dealing with in the  
15 event that they're not being as cooperative as we would  
16 hope they would be in living up with their agreements  
17 with staff. Please engage the Department of  
18 Corporations just to make sure that their enforcement  
19 programs are working.

20 MS. RICHARDSON: Yeah, I will say, though, once  
21 we have the servicers onboard, they're pretty good.  
22 They're -- they're -- it's -- you know, we're seeing  
23 very few problems.

24 One of the -- you know, in talking about the  
25 Mortgage Reinstatement Program, that's really taken off,

1 but it's only taken off as what we call MRAP pure,  
2 meaning pure reinstatement without a modification  
3 involved with it. So if there's any kind of a  
4 modification, which would actually -- you know, like the  
5 pure PRP or the MRAP with a mod that requires them to go  
6 in and do something to the loan, you know, they're a  
7 little bit more reluctant to take our money because that  
8 adds one more level of bureaucracy. So we're really  
9 pushing hard, and we're seeing more of them coming  
10 onboard for the -- for the MRAP mod, and we continue to  
11 push that very hard, along with PRP.

12 But, you know, those are good points, thank you.

13 MS. PETERS: Maybe if Commissioner DuFauchard  
14 can facilitate communication, that would be helpful.

15 MS. RICHARDSON: Great. Thank you.

16 ACTING CHAIRPERSON CAREY: Other questions or  
17 comments?

18 That is a huge undertaking. And I guess what --  
19 the only thing that sobers me is that out of \$2 billion,  
20 we've got 14 million out so far. We've got a huge  
21 distance to go, and it's a resource for the State in  
22 stabilizing the housing market. So I just -- I don't  
23 know what -- what more stops we need to pull out, but it  
24 would be great to see it really ratcheting up. And I  
25 don't know what the goals are for the next six months

1 through December, but --

2 MS. RICHARDSON: I would also just point out too  
3 that, you know, the bigger dollars will be on the  
4 principal reduction, and those funds generally don't go  
5 out the first day. They generally go out after -- the  
6 first funding would be after a year, so there's always  
7 going to be that lag.

8 ACTING CHAIRPERSON CAREY: Right. Great. All  
9 right, thanks.

10 No other questions? We'll move on.

11 Let me see. It's 11:30. I think we'll just --  
12 Yvonne, okay with you if we press on?

13 COURT REPORTER: Yes.

14 ACTING CHAIRPERSON CAREY: Great.

15 --o0o--

16 **Item 9. Reports**

17 ACTING CHAIRPERSON CAREY: We'll just press on.

18 Item No. 9, reports. Steve.

19 MR. SPEARS: There are four in your -- in your  
20 binders. We usually just provide opportunity for Board  
21 members to ask staff any questions about what they have  
22 read. And the folks are here in the audience that  
23 helped prepare these reports, so if you have questions  
24 on them, now is the best time to ask.

25 ACTING CHAIRPERSON CAREY: I guess I'd like to

1 ask what -- what the delinquency trends are telling you.

2 MR. SPEARS: After I left the office to come  
3 down yesterday, I received the next month of reconciled  
4 data, and I haven't had a chance to review that. On an  
5 unreconciled basis, we've seen a slight uptick in the  
6 summertime, not in the over-90 but in the 30- and 60-day  
7 categories.

8 So I went back and looked, and in the last two  
9 summers we've seen the same thing. And when you talk to  
10 the loan servicing folks and the portfolio management  
11 folks, they'll tell you that those 60- and 30-day  
12 categories go up in the summertime, and generally it's  
13 I'm on vacation, you know, I thought I set this up with  
14 Golden 1 to pay it automatically, it didn't. So you see  
15 a lot of curing that goes on later on.

16 On the older loans, in the 90-plus and the REO  
17 that we do have in inventory, we continue to make good  
18 progress, and we've seen declines in those categories.

19 ACTING CHAIRPERSON CAREY: It seems like we're  
20 moving more sales.

21 MR. SPEARS: Yes, we are talking to Bank of  
22 America about the sale of delinquent -- seriously  
23 delinquent FHA loans to them. We haven't finalized  
24 that, but there are about 280 loans that are in that  
25 category that would go to them. And as soon as you take

1 those out of the equation, delinquencies will improve.

2 And then we're going to be talking about taking  
3 back some loans from some recalcitrant servicers, and  
4 we're doing that too.

5 ACTING CHAIRPERSON CAREY: Yes.

6 MS. CAPPPIO: Steve, would you go through quickly  
7 the Mortgage Insurance Fund, what we anticipate in the  
8 next --

9 MR. SPEARS: Right.

10 MS. CAPPPIO: -- few weeks and how we're getting  
11 prepared.

12 MR. SPEARS: Right.

13 The Mortgage Insurance Fund, as we discussed  
14 before, is inadequately capitalized to deal with the  
15 losses that we've faced. We have a partner. It's  
16 Genworth. And we divide this risk 75-percent Genworth,  
17 25 percent to us on the mortgage insurance policies.  
18 We, number one, have made sure -- and we've confirmed  
19 this with Genworth on a number of occasions -- if the  
20 Mortgage Insurance Fund is unable to pay claims,  
21 Genworth is legally obligated and will continue and has  
22 committed to pay claims no matter what happens to the MI  
23 Fund.

24 So a couple things we need to do just  
25 operationally. Our own loan servicing department knows



1 what to do. Our non-CalHFA servicers of CalHFA loans  
2 file claims with our MI Fund and with Genworth, so  
3 they're going to have to know that. So what they do,  
4 they file the claims. They get paid. They submit it to  
5 us. And it goes to the HMRB indenture. Cash. Cash  
6 from the GAP Fund, cash from the MI Fund and cash from  
7 Genworth flow into the HMRB Fund.

8 Stop me if I say anything wrong here, Bruce.

9 When we -- when we lose a loan and we file  
10 claims and settle up, that's where this happened up to  
11 this point. So two funds are going to run out shortly,  
12 the GAP Fund that was established and the MI Fund. So  
13 the question is what happens at that point?

14 What happens at that point is that Genworth  
15 keeps making payments and that money keeps flowing  
16 through the HMRB. Since payments will not be coming  
17 from the MI Fund and the GAP Fund, the HMRB equity will  
18 start to go down by the amount that they would have  
19 otherwise received in cash.

20 This is what we've been talking about for some  
21 time now. It's upon us. So we are going to send a  
22 letter to servicers shortly. We're going to -- there's  
23 only one thing ongoing with the MI plan and that is we  
24 still have policies on the books. We still will be  
25 receiving premium revenue in the MI Fund, and so the

1 question is what happens when that comes in the door,  
2 how do you pay claims? And so we're going to establish  
3 a first come first serve queue, and as claims are  
4 listed, they'll be paid in the order listed as we go  
5 down.

6 So that's the plan, and I think it's -- you  
7 know, borrowing additional capital from some source to  
8 put into the MI Fund and recapitalize it, this is what  
9 the plan needs to be going forward.

10 MR. SHINE: Explain -- I don't understand -- the  
11 HMRB Fund. What is that?

12 MR. SPEARS: The HMRB indenture is the indenture  
13 with most but not all of the single-family bonds used to  
14 finance the single-family program over the past year.

15 MR. SHINE: So when and if the time comes that  
16 our mortgage fund runs out of its share of the payment  
17 of the losses of Genworth, Genworth is funding a hundred  
18 percent.

19 MR. SPEARS: No, they'll keep paying their  
20 75-percent share.

21 MR. SHINE: So they're not paying all of it.  
22 They're -- they'll pay their 75-percent share and --

23 MR. SPEARS: Right.

24 MR. SHINE: -- and where do we get the -- and we  
25 go to this fund here to get the other 25 percent?

1 MR. SPEARS: In essence, the equity of that fund  
2 absorbs the loss, rather than get reimbursed in cash  
3 from the MI Fund.

4 MR. SHINE: Somebody makes out a check to  
5 somebody to pay. If they're going to pay three  
6 quarters, where do we get the money to pay our quarter  
7 of the claim?

8 MR. SPEARS: We're no longer going to receive  
9 cash payments on insurance claims for those losses for  
10 the 25 percent because there won't be cash in the MI  
11 Fund to do that. It will come in as premiums come in  
12 and will be paid in this queue as premiums come in over  
13 the years, but in the meantime, borrowing those cash  
14 payments and if eventually, you know, the losses exceed  
15 any future ability to pay a few claims, the HMRB Fund  
16 equity that's built up over the years -- Bruce, I'm not  
17 sure what the amount is.

18 MR. GILBERTSON: Roughly 300 million.

19 MR. SPEARS: -- will absorb these losses as we  
20 go down the road.

21 MR. SHINE: So at the end of the day, the  
22 economics, we're still paying our quarter and they're  
23 still paying their three quarters.

24 MR. SPEARS: Yes, sir.

25 MR. GILBERTSON: We're not getting the --

1 MR. SHINE: Until we run out of --

2 MR. SPEARS: Until we run out of the 25 percent,  
3 yes. And that's going to happen in August.

4 MR. SHINE: In August, the HMRB Fund runs out of  
5 money?

6 MR. SPEARS: No, in August the MI Fund runs out  
7 of money.

8 MR. SHINE: The Mortgage Insurance Fund. I  
9 wasn't here. After then -- excuse me -- after that  
10 happens, then what? And for how long can we live with  
11 what's left in the HMRB Fund until -- and if it ever  
12 happens --

13 MR. SPEARS: Right.

14 MR. SHINE: -- that we have no longer the  
15 ability to make good?

16 MR. SPEARS: That's the 64,000 dollar question.  
17 It depends not only on Genworth's ability to keep paying  
18 their 75 percent. That's a very big number. And as  
19 we've said before, you know, in briefings to the Board,  
20 if that stops happening, the HMRB equity declines very  
21 rapidly, and, you know, serious -- that has serious  
22 consequences.

23 So it depends, one, on Genworth's continued  
24 paying of the claims to us, which they've done without  
25 interruption. Very few claims have been turned down.

1 When I did a review of the 20 claims that have been  
2 turned down in the last two years, they were all because  
3 we mistakenly thought that there was a policy -- it  
4 wasn't that they had been turned down because of some  
5 gotcha, you forgot to check a box. They've been very,  
6 very good partners about this.

7 So if they continue to meet their obligation,  
8 then it's a question of how long the losses continue in  
9 the portfolio and how quickly the home price market  
10 comes back. Because if we were to -- you know, if  
11 losses were to be extended into the future but suddenly,  
12 by some miracle, home prices rebound within the next  
13 year, you know, we would not be suffering the depth of  
14 loss on each loan. It's not only the frequency of loss,  
15 it's the depth of loss. It's the 50-percent loss in  
16 value. If that were to increase over the coming years,  
17 then those losses would increase accordingly.

18 MR. SHINE: Is it your assessment that the  
19 volume of foreclosed properties is somewhat getting  
20 better, or is it staying the same, or are the forecloses  
21 increasing?

22 MR. SPEARS: Bruce and I have a joint answer to  
23 that. There is no doubt -- and you can see the  
24 graphics. It's page 163 in the binder -- that both FHA  
25 and conventional delinquent loans continue to decline.

1 That's the trend. But they're still high. So we've got  
2 more work to do.

3 MR. SHINE: I know you got a handle on that.  
4 I'm just curious.

5 MR. SPEARS: Right.

6 MR. GILBERTSON: Another way to think of this  
7 is -- I've been doing some work on this because we want  
8 to present this to Moody's from an accounting  
9 perspective. Okay. So I've been doing the accounting  
10 records. It appears to me that the peak loss period for  
11 the single-family portfolio was the two fiscal years  
12 that are totally behind us, the 2008/9 and 9/10. And  
13 what we're seeing in the fiscal year that just ended,  
14 the 2010/2011, is a significant drop in losses on that  
15 portfolio.

16 By numbers, if I remember these correctly --  
17 because I went back to the 2007/8 fiscal year, kind of  
18 just as things were starting to unwind. We had losses  
19 recorded by the accountants of about \$20 million. The  
20 next two fiscal years, we had losses in excess of \$150  
21 million for each of those years, so a total of 300. And  
22 I -- the projection -- we don't have June 30th numbers  
23 as of 2011, but the projection for the last fiscal year  
24 is losses around a hundred million.

25 MR. SHINE: Of which we pay a quarter.

1 MR. GILBERTSON: These are -- this is a -- no,  
2 these are losses, not just principal balance of loans.  
3 These are losses that consist of several different  
4 types. So it's a loss based off that GAP insurance  
5 policy. So if we -- we set aside \$135 million about 15  
6 or 16 months ago for that purpose. There's losses that  
7 are from our Mortgage Insurance Fund, okay, that we've  
8 talked about. And there are losses that that bond  
9 indenture, HMRB, inherits because they are the investor  
10 in the mortgage.

11 So at the end of day, when the foreclosure  
12 happens and the property is sold to an investor or a  
13 homeowner, the net proceeds produce a loss to them.  
14 They don't get all their principal back. And so it's a  
15 total of all of those things on an annual basis.

16 So we think the trend is improving. It's still  
17 large. A hundred million is a lot. But I think if you  
18 look at the three quarters that we have, I'm anxious to  
19 see the fourth quarter, the trend is improving, you  
20 know, ever so slowly.

21 So I do -- my own personal opinion, and this is  
22 just from looking at numbers and feeling this over the  
23 last few years, it feels to me like we're about two  
24 thirds of way through this. There's a huge problem, I  
25 think, and that is that any borrower that has income

1 disruption is sitting in a home that is underwater. So  
2 they've made the decision to try to meet their mortgage  
3 obligations, but if they lose their job or have a  
4 medical situation or there's a divorce in the family or  
5 something else, then they're going to be faced with this  
6 tough challenge that they don't have equity to be the  
7 cushion for them because they're underwater.

8 MR. SHINE: I'm glad to hear you thinking that  
9 way.

10 MR. GILBERTSON: Yeah. I'm a fairly optimistic  
11 individual, both here and personally, so.

12 MR. SPEARS: Well, the real unknown is what  
13 happens to the economy. And if unemployment were to go  
14 back up again, that's the income disruption that Bruce  
15 is talking about. And so there -- there are a number of  
16 things that are critically important still. You're  
17 certainly not out of the woods. Genworth is absolutely  
18 number one. The economy is number two. Love to see the  
19 housing market come back, but it's not going to. It's  
20 just not.

21 There was -- in The Bee on Saturday or Sunday  
22 there was a small article about, you know, property  
23 values in Placer County have gone down by another 3  
24 percent. And the -- you know, El Dorado Hills and  
25 Placer and -- what's the other county up in the El



1 Dorado Hills? -- anyway. Those have been sort of, you  
2 know, stable price communities up there, a lot of them,  
3 and they continue to slide. So I don't think we can  
4 look for relief from that -- that sector.

5 So I'm not playing good cop/bad cop with Bruce  
6 here, but -- but I just think that I like the trends. I  
7 like the trends. We keep making progress. But my worry  
8 is that many of the folks in the 25 or 6 or 7 thousand  
9 loans that we have on the books, I can't remember the  
10 exact number, most of them are current. 85 percent of  
11 them are current, not even a payment late. 80 percent  
12 of those people are underwater. What would it take for  
13 them to walk at this point?

14 But as Bruce keeps saying when we have these  
15 conversations, why do they keep paying? You know, now  
16 they have paid through these two tough years, really  
17 tough years. And they're still current, not one payment  
18 late.

19 So someone is probably going to write a white  
20 paper for a thesis someday about the psychology of all  
21 this. I don't have the answer. But we continue just to  
22 really look closely at what's going on with Genworth and  
23 the economy.

24 ACTING CHAIRPERSON CAREY: Okay. Other  
25 questions or comments on the reports?

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**Item 10. Discussion of other Board matters**

ACTING CHAIRPERSON CAREY: Any other Board matters to bring up?

--o0o--

**Item 10. Public testimony**

ACTING CHAIRPERSON CAREY: This is an opportunity for the public to address the Board on any item that was not on the agenda. If anyone wishes to address us, please indicate.

--o0o--

**Item 12. Adjournment**

ACTING CHAIRPERSON CAREY: Seeing none, we are adjourned.

(The meeting concluded at 11:53 a.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 11th day of July 2011.

---

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

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State of California

## MEMORANDUM

**To:** Board of Directors

**Date:** September 12, 2011



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

**Subject:** UPDATE ON AGENCY'S FINANCIAL CONDITION AND CREDIT RISKS

Since the economic downturn began in 2007, the Agency has been presented with unprecedented financial challenges. The dual failings of the housing and bond markets forced the Agency to reassess its financial strategies and business plans. The Agency has worked with both the federal government and private financial partners to navigate the financial turmoil. After four years of restructuring bond and loan portfolios and after having overcome many challenges, three primary credit questions remain:

- Will the Agency be able to absorb remaining loan losses attributable to the single family loan portfolio financed with the Home Mortgage Revenue Bond (HMRB) Indenture?
- Will the Agency be able to meet future collateral posting requirements to interest rate swap counterparties that may be required due to further interest rate declines or rating downgrades of the Agency's general obligation credit rating?
- Will the Agency be able to manage the expiration of the Temporary Credit and Liquidity Program (TCLP) scheduled for December 2012 without an extension or modification from US Treasury?

Last week Executive Director Cappio and key financial managers met with US Treasury officials and staff of State Street Global Advisors, financial advisor to the US Treasury, and separately with Moody's Investors Service (Moody's).

The meeting with US Treasury and their advisor was to provide updates on the financial condition of CalHFA, the Agency's remaining credit risks and to ascertain the status of an extension and / or modification of the TCLP currently being considered within Treasury.

Moody's housing bond analysts requested a financial update from the Agency and a meeting to review and discuss financial and credit concerns related to CalHFA's general obligation and HMRB Indenture ratings. Moody's is expected to take rating action on these two credits the week of September 12, 2011 and requested an update prior to credit committee meetings. In June 2011, Moody's placed both of these ratings on credit watch

for possible downgrade due to concerns over single family loan losses, the TCLP expiration and the Agency's obligations to interest rate swap counterparties.

The following summaries provide highlights of the topics discussed in our recent meetings with US Treasury and Moody's.

### **Credit Ratings / Rating Triggers**

The Agency maintains credit ratings from Moody's and Standard & Poor's (S&P). Each rating agency provides ratings for CalHFA bond indentures as well as providing an issuer credit rating (ICR) or general obligation rating. The Agency's most critical ratings are the ICR and the rating of the HMRB indenture. Currently, the ICR of the Agency is rated A2 by Moody's and A- by S&P. The Moody's rating is on watch for possible downgrade, while the S&P rating carries a negative outlook.

Bonds outstanding under the Agency's HMRB indenture are currently rated Baa1 by Moody's and BBB by S&P. The Moody's rating is on watch for possible downgrade.

Key strategies of the Agency's management have been to maintain the ICR rating in the single-A rating category, in other words no lower than A3/A-, and to maintain the HMRB indenture rating as investment grade, no lower than Baa3/BBB-. Management's focus has been ratings based with a framework to avoid rating triggers that can cause liquidity pressures by interrupting the flow of cash as originally structured and precipitating additional collateral demands from swap counterparties.

HMRB ratings below investment grade will prevent the reimbursement of periodic swap settlement payments from the HMRB indenture. These payments are paid initially from the Agency's general reserves; part of the ICR capital base. A modification of TCLP program covenants would need to be approved by Fannie Mae, Freddie Mac and the US Treasury to allow the HMRB indenture to reimburse swap payments with excess revenue at credit rating levels below investment grade.

Collateral posting obligations to interest rate swap counterparties are determined based on the Agency's general obligation credit rating. Lower Agency ICR ratings allow swap counterparties to demand increasing amounts of collateral to be posted by the Agency. CalHFA likely has sufficient liquidity to honor posting obligations at the Baa1/BBB+ rating level but would not have sufficient resources to post at lower credit rating levels.

### **Single Family Loan Delinquencies & Losses**

The HMRB indenture is collateralized, in part, with a \$4.4 billion single family loan portfolio that has a delinquency ratio of 14.74% (see Homeownership Loan Portfolio Report in the report section of this binder). While this ratio is very high by historical standards it has fallen from the peak delinquency ratio of almost 18% in January 2010. Even though delinquencies remain high, incurred loan losses seem to have peaked in fiscal year 2009-2010. Accountants assess loan losses based on delinquency status,

expected frequency of foreclosure, expected severity of loss (net of mortgage insurance claim payments), recovery from the sale of real estate owned and costs to dispose of properties owned as a result of foreclosure.

While incurred loan losses may have peaked over a year ago, we expect paid loan losses and foreclosures to peak in calendar year 2011. In addition, every indication is that Genworth Mortgage Insurance Corporation will continue to pay primary mortgage insurance claims and that the Agency can rely on those payments (even if the rating agencies limit the credit received from Genworth for these obligations). Management believes that the HMRB indenture has sufficient fund equity and loan loss reserves, currently totaling more than \$390 million, to absorb additional stress loan losses.

### **Available Liquidity / Swap Collateral Posting**

Available liquidity is primarily used to pay operating expenses and to meet financial obligations to swap counterparties. In early August the Agency had available liquidity of \$198 million and had posted collateral of \$85 million to counterparties; a total general fund reserve of \$283 million of cash and short-term liquid investments.

Financial obligations to swap counterparties consist of periodic net settlement payments and payments made as collateral to offset credit exposure based on swap market values. Swaps have a market value that is determined based on current interest rates. When current fixed rates are lower than the fixed rate of the swaps, as is the case on all of the Agency's swaps today, the swap counterparty is exposed to the Agency's credit and requires increasing amounts of collateral to offset the risk of the Agency not making payments due under the contract.

The need to post additional collateral to swap counterparties has been mitigated by two rounds of restructuring efforts. These negotiations (in 2009 and again this summer) have allowed the Agency to increase threshold amounts used to reduce the need to post additional collateral if the Agency's ICR rating were to be downgraded to low single-A or high triple-B rating levels.

The Agency appears to have sufficient liquidity to support its operations and to meet its financial obligations unless the Agency's ICR rating falls below Baa1/BBB+ rating level.

### **Temporary Credit and Liquidity Program**

Earlier this year Agency management requested the GSEs and US Treasury to consider an extension and modification of TCLP for up to five additional years. Agency financial staff was instrumental in providing analysis for Treasury and their financial advisor as the terms of extension and modification were being developed. We understand that an announcement to extend TCLP is pending final legal and policy approval within Treasury.

Moody's is carefully observing the Agency's ability to manage the scheduled expiration of TCLP through extension or modification of existing facilities, replacement of the facilities or redemption of the VRDOs. We are hopeful that Treasury will announce the extension of TCLP this week prior to Moody's credit committee meeting.

**Further Updates**

More detailed information regarding the Agency's financial condition and credit risks will be provided at the board meeting on September 22, 2011. Further updates of any rating action taken by Moody's and the details of any announcement made by Treasury regarding an extension and / or modification of TCLP will also be provided at the September board meeting.



State of California

## MEMORANDUM

To: CalHFA Board of Directors

Date: 8 September 2011

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

Subject: Keep Your Home California Update

Activity for the month of August 2011 encompassed a number of milestones for the program. U.S. Treasury conducted a compliance review the week of August 15<sup>th</sup> that involved all major aspects of the KYHC program. While there were no findings of significance, there were a few observations and recommendations for us to tighten policies and procedures (i.e., we have no processes in place to document and investigate fraudulent activities other than potential borrower fraud or identity theft. While they acknowledged these were the two biggest areas of fraud, they suggested we also include issues such as misdirection of funds and servicer kick-backs). The final compliance finding letter is due to CalHFA MAC in mid-September, and our response will be due 30 days after that..

Marketing efforts were significantly increased to reach a broader base of potential borrowers. These efforts included the increased use of radio traffic sponsorships, social media (Twitter, Facebook and blogs), billboards and KYHC program links on a wide range of websites. A "Welcome to Keep Your Home California" video was also produced and posted on both English and Spanish versions of the KYHC websites to show visitors how to apply for the program. Outreach efforts included participation in 12 lender and community based borrower events which included the use of processing center and external counseling staff. An analysis of existing program participants by our marketing consultant revealed a large percentage of Hispanic households participating in the program. Future direct mail and other marketing efforts will target this demographic. The effective use of media was demonstrated in the month when a highly visible television show strongly promoted the program that resulted in the doubling of call volume for several days.

Servicer on-boarding continued at a steady pace for the month. Ten new servicers became active in the system including PNC, U.S. Bank, American Home Mortgage Services and Residential Credit Solutions. All of the new servicers are participating in the unemployment and mortgage reinstatement programs, with two signed up for principal reduction. As of August 31<sup>st</sup>, there were 42 servicers participating in the program.

Program funding as of August 31 totals \$12,223,170.38, which includes approximately \$8.1 million for unemployment and \$2.3 million for reinstatement. These two programs have assisted 1,507 and 207 households respectively. Including homeowners that have successfully completed a Homeowner Action Plan (preliminary qualified, pending confirmation of information), more than \$112,000,000 has been reserved for more than 6,000 homeowners.

## **Mental Health Services Act (MHSA)**

### **BACKGROUND**

The MHSA Housing Program (“the Program”) is a unique partnership between the California Housing Finance Agency (CalHFA), the California Department of Mental Health (DMH) and 51 of the 58 California County Mental Health Departments. The Program provides funding for the capital costs and operating subsidies to develop permanent supportive housing for persons with serious mental illness who are homeless, or at risk of homelessness. It is a unique collaboration among government agencies at the local and state level, targeting, transition age youth, adults, older adults and families where a child is often the qualifying member.

The Program embodies both the individual and systemic transformational goals of the Mental Health Services Act by acknowledging that housing is an essential service component for mental health clients.

The partners in this collaboration include CalHFA with our housing and financial expertise; DMH, with responsibility for overseeing the mental health system and ensuring that consumers have access to an appropriate array of services and support; and county mental health departments, which have ultimate responsibility for the design and delivery of mental health services and support at the local level throughout the State of California. Through this collaboration, the Program offers safe, decent and affordable housing and the critical supportive services that will enable individuals to live more healthy and independently in their communities.

### **HOW IT WORKS**

The California counties transferred approximately \$400 million (funded through the MHSA's 1% tax on incomes in excess of \$1 million) to CalHFA to provide residual receipts capital loans and operating subsidies to projects in each of the participating counties. The counties choose which projects will receive the funding allocated to them and act as a co-applicant with the project developer. The counties agree to direct clients to their developer partner and also to provide support services to the MHSA residents in the housing for the duration of the regulatory agreement.

CalHFA then underwrites requests for capital funds and capitalized operating subsidies. DMH evaluates each applicant's proposed target population and supportive services plan. Flexibility has been designed into the program to allow for exceptions to program guidelines when necessary.

Capital funds (currently \$112,486 per MSHA unit) may be used for either Rental Housing Developments or Shared Housing Developments. Rental Housing refers to an apartment building with five or more units where a designated number of units are restricted to occupancy by at least one MHSA eligible resident. For Rental Housing Developments, applicants are required to obtain capital funds from a range of programs administered by other agencies. However, for Shared Housing Developments—defined as one to four unit developments where all of the bedrooms are leased to MHSA eligible residents—funds may be used to cover all capital costs up to the funding limits specified in this

application. Operating Subsidy funds are available to subsidize MHSA tenant rents for 15 to 20 years.

Once funding is awarded, CalHFA issues the final commitments, closes both MHSA predevelopment and permanent loans, and executes and administers subsidy contracts. CalHFA is the note holder until the loan matures and provides asset management services for the term of the MHSA loan. DMH oversees the provision of services, including an ongoing assessment of whether the population served continues to meet the Program requirements.

## RESULTS

While it may seem daunting to orchestrate collaboration between so many government agencies, CalHFA has put its administrative expertise to good use: In the first three years, the MHSA Housing Program has achieved the following milestones:

- As of June 30, 2011,
  - Over \$1,500,000,000 has been \*\*leveraged with only \$222,000,000 in MHSA Housing Program funds
  - 116 project applications have been submitted
    - 100 projects are Rental Housing, 16 projects are Shared Housing
  - 90 of 116 projects have received MHSA commitment, 60 of the 90 projects are funded
  - 1,648 of the 5,938 total units are MHSA eligible units (28% of total units)
    - 1,506 units are rental housing, 132 units are shared housing units
  - 32 of the 46 counties with allocated fund have submitted applications
  -

\*\* Leveraged refers to the total development cost of all the projects as it relates to the total 5,938 affordable units created.

## Future

As of September 12, 2011 CalHFA has received applications on 17 projects with a total of 837 units (of which 164 are MHSA units) totaling \$20.4 million that have not yet received an MHSA commitment. In addition, there are 27 projects with a total of 1,065 total units (including 429 MHSA units) seeking MHSA funds totaling \$42.7 million that are being reviewed at the county level. CalHFA has received direct inquiries on 13 potential projects with a total of 698 units (including 419 MHSA units) who are interested in an addition \$78.0 million in MHSA funds.

Given the remaining MHSA funds available, the limited sources of new financing available and the volume of projects that have been submitted or will be submitted soon, we believe that MF Programs has an estimated 18 months of work remaining on MHSA production.

State of California

## MEMORANDUM

**To:** Board of Directors  
RESOURCES AGENCY

**Date:** September 13, 2011

**From:** Claudia Cappio, Director  
CALIFORNIA HOUSING FINANCE AGENCY

**Cc:** Steven Spears, Chief Deputy Director  
CALIFORNIA HOUSING FINANCE AGENCY

**Subject:** CalHFA Participation in Energy Efficiency Financing in California

The purpose of this memo is to brief the Board on new direction that we are exploring for CalHFA; energy efficiency lending funded by the sale of carbon offsets. Obviously, energy efficiency is an emphasis in the Governor's new administration, and we also believe this opportunity for a new business focus has potential. This item is for information purposes only; the Board is not being asked to take any action at this time.

Recently, the consulting firm of Harcourt, Brown & Carey provided a report - *Energy Efficiency Financing in California: Needs and Gaps* (the report) to the California Public Utilities Commission (CPUC).<sup>1</sup> After reviewing this report, we believe that CalHFA can and should play an important role in helping the State of California meet its energy efficiency goals. Many of the recommendations outlined in the report call for "banks" to step forward and play a role. As the State's affordable housing bank, CalHFA is in a unique position to participate in a leadership role in this effort. This memo outlines our preliminary comments on the report and offers some recommendations for action and collaboration.

Energy efficiency lending and carbon finance is a developing field in California. We will keep the Board apprised as we develop a framework and vet the feasibility of such an effort.

The Harcourt, Brown & Carey Report had several key findings:

**Scale of Investment Required.** First, the report makes it clear that a significant amount of additional investment will be required to achieve the State's goals. CalHFA has the historic and current experience and access to private sector partners to help bring additional capital to this effort.

**Institutional Capacity.** Second, the Agency has the expertise to design and administer financing products and programs that will provide homeowners and residential rental property owners with the ability to finance energy improvements that will provide significant energy savings in the short and long run. The report highlights the importance of confirming energy savings based on real data and monitoring as a means of reducing risks for lenders. CalHFA's business model is based on risk management and consequently incorporates many forms of data management as well as monitoring a large number of properties and servicing approximately 60,000 first and second mortgage loans.

1. The report can be downloaded at: <http://www.cpuc.ca.gov/PUC/energy/Energy+Efficiency/Programs/>.

**Pilot Project.** In reviewing the report, we focused primarily on Chapter 2 (Single Family Residential) and Chapter 4 (Commercial Sector – including Multifamily Residential and Industrial). As on approach, we propose that CalHFA offer products on a pilot basis in the primary housing sectors that we service and then expand the products and services statewide as the programs mature. For example, CalHFA acts as asset manager on approximately 500 affordable rental housing properties and services around 25,000 first mortgages on single family homes statewide. The Agency is in a unique position to offer energy efficiency lending products on those properties as a pilot to test acceptance of the loans products, the installation process and to demonstrate actual energy savings.

The pilot program would be designed to provide energy savings to households with low and moderate income which, of course, are the borrowers that CalHFA is chartered to serve. As part of its ongoing business model, CalHFA develops financial products for these types of individuals, many of whom have lower credit scores and less credit experience. CalHFA has partnered with FHA, Fannie Mae and Freddie Mac (Government Sponsored Entities or GSEs) in the development of loan insurance and loan guarantees. Additionally, the Agency has, on occasion, sold loans in the secondary market and created GSE guaranteed mortgage backed securities. Staff is familiar with the features that would be essential in the development of loan products that would attract secondary market investors. Finally, the establishment of loss reserves is essential to the Agency's operations; the secret here, of course, will be a source of capital for the establishment of the reserves.

**Use of the Voluntary Carbon Offset Market as a Capital Source.** As mentioned above, many of the recommendations in the report will require an investment of a substantial amount of capital. This can only be achieved through new, creative approaches and products that leverage existing monies and attract private sector capital. One possible source of new revenue which is not mentioned in the report is the use of carbon finance ... that is, the use of revenue generated from the sale of carbon emission reductions (offsets). These emission reductions can be created by installing energy efficiency measures in residential dwellings. The emission reductions can be sold into the U.S. Voluntary Carbon Market. With CalHFA's experience in the capital markets, contacts with investment banking partners, understanding of the housing market and interest in developing such new approaches, the Agency is again uniquely positioned to assist the State of California in the development of lending programs that may produce a significant amount of revenue by monetizing the carbon savings generated from energy efficiency measures.

We have for some time followed the development of similar initiatives within the low-income housing sector. For example, the Maine housing finance agency recently developed a valuation model for carbon offsets generated by the state's weatherization assistance program and sold \$1 million in carbon credits to a major U.S. corporation. The world of carbon finance is complicated and the Maine experience may not be translated to work exactly the same in California but we feel it is worthwhile to explore this area as a possible source of ongoing financing for the energy efficiency lending programs.

We think this revenue source can be accessed through a carbon program which CalHFA can develop and administer, working with partners within the state. A successful carbon finance effort will require intensive data gathering and monitoring which the Agency could do on a statewide basis. Again, data collection and monitoring are part of our core business. Once we have collected the necessary data, we can then aggregate the credits for sale to interested private sector buyers, among others. The revenues generated can be poured back into expanding efficiency measures to help meet the state goals.

**Multi-Family Retrofit Potential.** Chapter 4 of the report contains a number of recommendations for the commercial sector and CalHFA would be able to provide assistance to the State in the establishment of energy savings lending programs for the multifamily residential corner of this sector. First, since inception in 1975, CalHFA has acted as a lending institution providing a variety of financing products to non-profit and for-profit developers of affordable housing properties. The Agency is already statutorily authorized to make these loans and has, in the past, used the issuance of bonds to finance its lending programs. CalHFA has established relationships with many key participants in the bond finance world, including investment and commercial banks, bond counsel and investors. CalHFA could assist by developing loan products that would be offered directly to owners of multifamily rental properties and/or assist in the expansion of EE financing through the issuance of bonds – as recommended in Chapter 4.

As discussed above, CalHFA currently has a portfolio of loans and borrowers that could provide a ready-made venue to test products and implement pilot programs before going statewide. With over 25,000 active first mortgages to homeowners and over 500 loans to multifamily rental property owners, the Agency already has regular contact with these borrowers and data gathering, loan processing and servicing systems in place. Loan products could be developed and test marketed with these groups. We believe that this sector, while not emphasized in the HB&C report as much as the single family sector, represents one of those opportunities for creating greater scale and providing long-term operations and maintenance efficiencies, thereby helping to maintain affordability over time.

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State of California

## MEMORANDUM

**To:** Board of Directors

**Date:** September 12, 2011



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

**Subject:** Homeownership Loan Portfolio Update

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

- Delinquencies as of June 30, 2011 by insurance type,
- Delinquencies as of June 30, 2011 by product (loan) type,
- Delinquencies as of June 30, 2011 by loan servicer,
- Delinquencies as of June 30, 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 February 2009 thru June 2011)
- A chart of the number of CalHFA's Conventional Delinquent Loan Trend for 30-90 Day and 120 Day (for the period of February 2009 thru June 2011)
- A graph of CalHFA's 90-day+ ratios for FHA and Conventional loans (for the period of June 2006 through June 2011),
- A graph of 90-day+ ratios for CalHFA's three Conventional loan (products) types, for the period of June 2009 through June 2011,
- Real Estate Owned (REO) at July 31, 2011,
- Accumulated Uninsured Losses from January 1, 2008 through July 31, 2011,
- Disposition of 1<sup>st</sup> Trust Deed Gain/(Loss) for January 1 through July 31, 2011, and
- Write-Offs of subordinate loans for January 1 through July 31, 2011

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## HOMEOWNERSHIP LOAN PORTFOLIO DELINQUENCY, REO, SHORT SALE and LOSS REPORT

### Reconciled Loan Delinquency Summary All Active Loans By Insurance Type As of June 30, 2011

	Loan Count	Balance	% of Balance	DELINQUENCY RATIOS - % of Loan Count						Totals	
				Loan Count	30-Day	Loan Count	60-Day	Loan Count	90(+) Day	Count	%
<b>Federal Guaranty</b>											
FHA	10,180	\$ 1,301,177,099	29.40%	591	5.81%	219	2.15%	907	8.91%	1,717	16.87%
VA	317	45,134,645	1.02%	9	2.84%	4	1.26%	29	9.15%	42	13.25%
RHS	90	16,859,199	0.38%	5	5.56%	1	1.11%	16	17.78%	22	24.44%
<b>Conventional loans</b>											
<b>with MI</b>											
CalHFA MI Fund	6,775	1,801,752,800	40.71%	285	4.21%	145	2.14%	780	11.51%	1,210	17.86%
<b>without MI</b>											
Orig with no MI	5,300	1,064,050,492	24.04%	138	2.60%	74	1.40%	251	4.74%	463	8.74%
MI Cancelled*	1,401	196,791,435	4.45%	34	2.43%	11	0.79%	47	3.35%	92	6.57%
<b>Total CalHFA</b>	<b>24,063</b>	<b>\$ 4,425,765,670</b>	<b>100.00%</b>	<b>1,062</b>	<b>4.41%</b>	<b>454</b>	<b>1.89%</b>	<b>2,030</b>	<b>8.44%</b>	<b>3,546</b>	<b>14.74%</b>

\*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 June 30, 2011

	Loan Count	Balance	% of Balance	DELINQUENCY RATIOS - % of Loan Count						Totals	
				Loan Count	30-Day	Loan Count	60-Day	Loan Count	90(+) Day	Count	%
<b>30-yr level amort</b>											
FHA	10,180	\$ 1,301,177,099	29.40%	591	5.81%	219	2.15%	907	8.91%	1,717	16.87%
VA	317	45,134,645	1.02%	9	2.84%	4	1.26%	29	9.15%	42	13.25%
RHS	90	16,859,199	0.38%	5	5.56%	1	1.11%	16	17.78%	22	24.44%
Conventional - with MI	3,554	846,209,339	19.12%	127	3.57%	61	1.72%	297	8.36%	485	13.65%
Conventional - w/o MI	5,872	1,063,122,812	24.02%	144	2.45%	64	1.09%	236	4.02%	444	7.56%
<b>40-yr level amort</b>											
Conventional - with MI	522	150,088,820	3.39%	22	4.21%	16	3.07%	81	15.52%	119	22.80%
Conventional - w/o MI	211	42,050,865	0.95%	4	1.90%	5	2.37%	11	5.21%	20	9.48%
<b>5-yr IOP, 30-yr amort</b>											
Conventional - with MI	2,699	805,454,640	18.20%	136	5.04%	68	2.52%	402	14.89%	606	22.45%
Conventional - w/o MI	618	155,668,251	3.52%	24	3.88%	16	2.59%	51	8.25%	91	14.72%
<b>Total CalHFA</b>	<b>24,063</b>	<b>\$ 4,425,765,670</b>	<b>100.00%</b>	<b>1,062</b>	<b>4.41%</b>	<b>454</b>	<b>1.89%</b>	<b>2,030</b>	<b>8.44%</b>	<b>3,546</b>	<b>14.74%</b>
<i>Weighted average of conventional loans:</i>				457	3.39%	230	1.71%	1,078	8.00%	1,765	13.10%



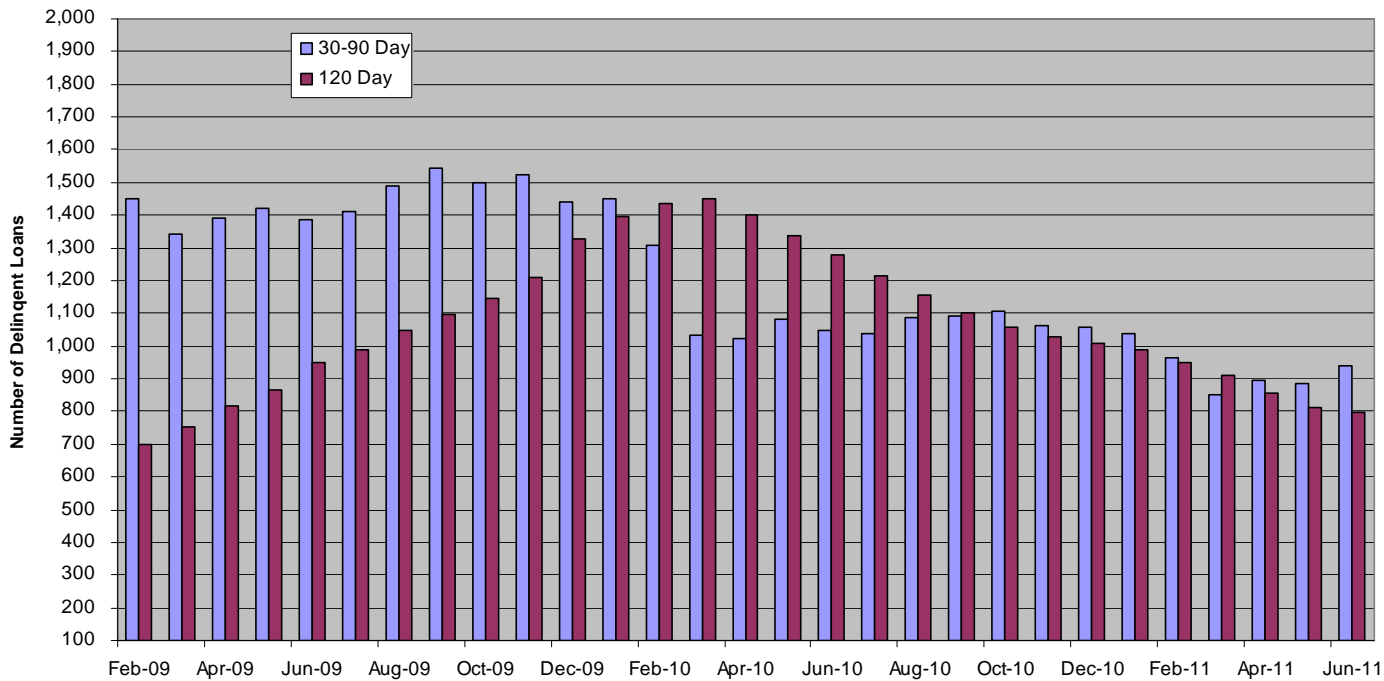
**Reconciled Loan Delinquency Summary  
All Active Loans By Loan Servicer  
As of June 30, 2011**

	Loan Count	Balance	% of Balance	DELINQUENCY RATIOS - % of Loan Count						Totals	
				Loan Count	30-Day	Loan Count	60-Day	Loan Count	90(+)-Day	Count	%
CALHFA - LOAN SERVICING	8,982	\$ 2,037,698,038	46.04%	327	3.64%	158	1.76%	513	5.71%	998	11.11%
GUILD MORTGAGE	5,569	978,003,922	22.10%	287	5.15%	113	2.03%	404	7.25%	804	14.44%
BAC HOME LOANS SERVICING, LP	2,471	483,836,064	10.93%	132	5.34%	80	3.24%	586	23.72%	798	32.29%
WELLS FARGO HOME MORTGAGE	2,416	283,000,218	6.39%	94	3.89%	33	1.37%	146	6.04%	273	11.30%
EVERHOME MORTGAGE COMPANY	2,117	205,596,316	4.65%	128	6.05%	27	1.28%	83	3.92%	238	11.24%
FIRST MORTGAGE CORP	990	198,807,788	4.49%	30	3.03%	21	2.12%	154	15.56%	205	20.71%
GMAC MORTGAGE CORP	917	124,072,217	2.80%	45	4.91%	16	1.74%	56	6.11%	117	12.76%
BANK OF AMERICA, NA	282	47,522,841	1.07%	12	4.26%	2	0.71%	37	13.12%	51	18.09%
WASHINGTON MUTUAL BANK	212	50,945,711	1.15%	2	0.94%	3	1.42%	41	19.34%	46	21.70%
CITIMORTGAGE, INC.	55	12,624,609	0.29%	3	5.45%	1	1.82%	9	16.36%	13	23.64%
DOVENMUEHLE MORTGAGE, INC.	45	1,445,897	0.03%	2	4.44%	0	0.00%	0	0.00%	2	4.44%
WESCOM CREDIT UNION	6	1,902,517	0.04%	0	0.00%	0	0.00%	1	16.67%	1	16.67%
PROVIDENT CREDIT UNION	1	309,532	0.01%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Total CalHFA	24,063	\$ 4,425,765,670	100.00%	1,062	4.41%	454	1.89%	2,030	8.44%	3,546	14.74%

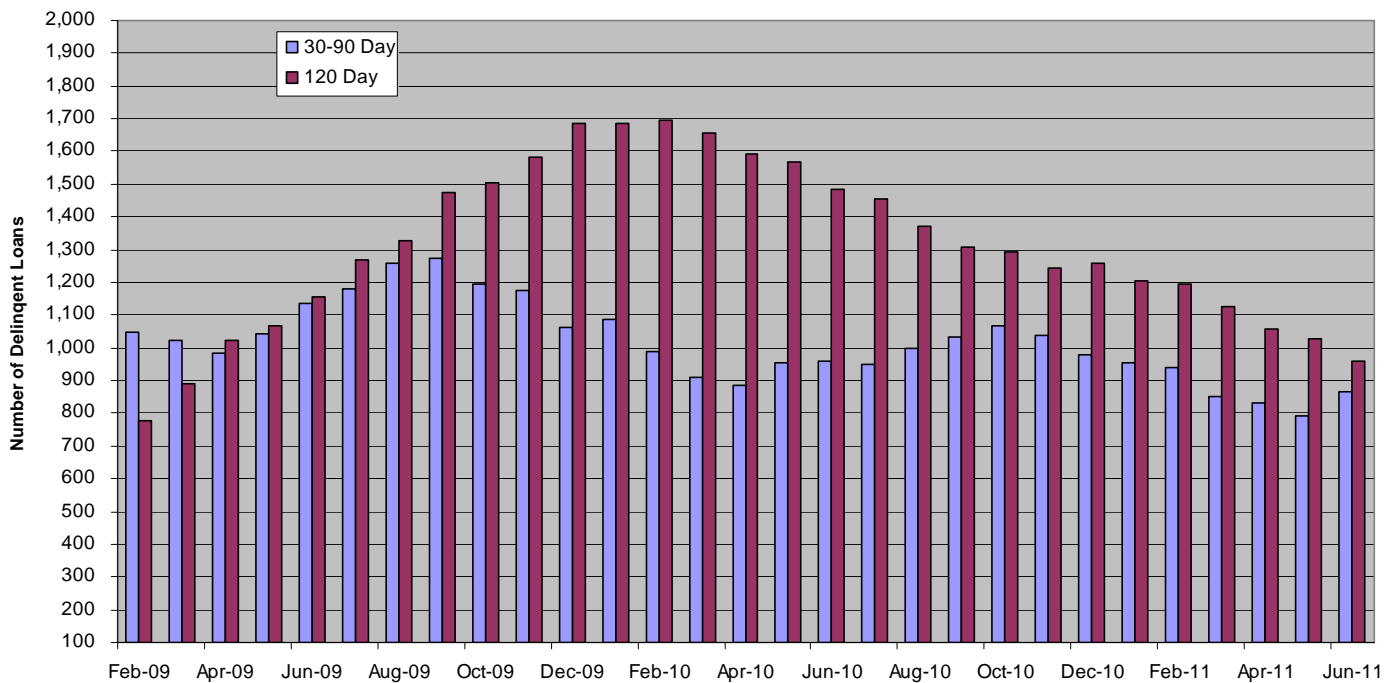
**Reconciled Loan Delinquency Summary  
All Active Loans By County  
As of June 30, 2011**

	Loan Count	Balance	% of Balance	DELINQUENCY RATIOS - % of Loan Count						Total	
				Loan Count	30-Day	Loan Count	60-Day	Loan Count	90-Day+	Count	%
LOS ANGELES	3,914	\$ 818,737,822	18.50%	160	4.09%	72	1.84%	287	7.33%	519	13.26%
SAN DIEGO	2,302	500,827,739	11.32%	81	3.52%	37	1.61%	244	10.60%	362	15.73%
SANTA CLARA	1,676	448,553,040	10.14%	45	2.68%	16	0.95%	98	5.85%	159	9.49%
KERN	1,448	158,558,038	3.58%	91	6.28%	35	2.42%	141	9.74%	267	18.44%
SACRAMENTO	1,233	224,929,652	5.08%	57	4.62%	32	2.60%	128	10.38%	217	17.60%
SAN BERNARDINO	1,204	206,683,836	4.67%	66	5.48%	27	2.24%	189	15.70%	282	23.42%
ORANGE	1,199	274,243,598	6.20%	48	4.00%	19	1.58%	71	5.92%	138	11.51%
RIVERSIDE	1,175	195,700,878	4.42%	66	5.62%	25	2.13%	182	15.49%	273	23.23%
FRESNO	1,155	108,299,804	2.45%	81	7.01%	27	2.34%	60	5.19%	168	14.55%
TULARE	1,143	108,581,169	2.45%	75	6.56%	21	1.84%	93	8.14%	189	16.54%
ALAMEDA	1,052	255,560,221	5.77%	22	2.09%	9	0.86%	71	6.75%	102	9.70%
CONTRA COSTA	846	188,209,750	4.25%	28	3.31%	21	2.48%	86	10.17%	135	15.96%
VENTURA	604	161,502,265	3.65%	13	2.15%	13	2.15%	38	6.29%	64	10.60%
IMPERIAL	525	53,589,219	1.21%	45	8.57%	9	1.71%	34	6.48%	88	16.76%
SONOMA	455	92,650,895	2.09%	12	2.64%	10	2.20%	20	4.40%	42	9.23%
OTHER COUNTIES	4,132	629,137,744	14.22%	172	4.16%	81	1.96%	288	6.97%	541	13.09%
Total CalHFA	24,063	\$ 4,425,765,670	100.00%	1,062	4.41%	454	1.89%	2,030	8.44%	3,546	14.74%

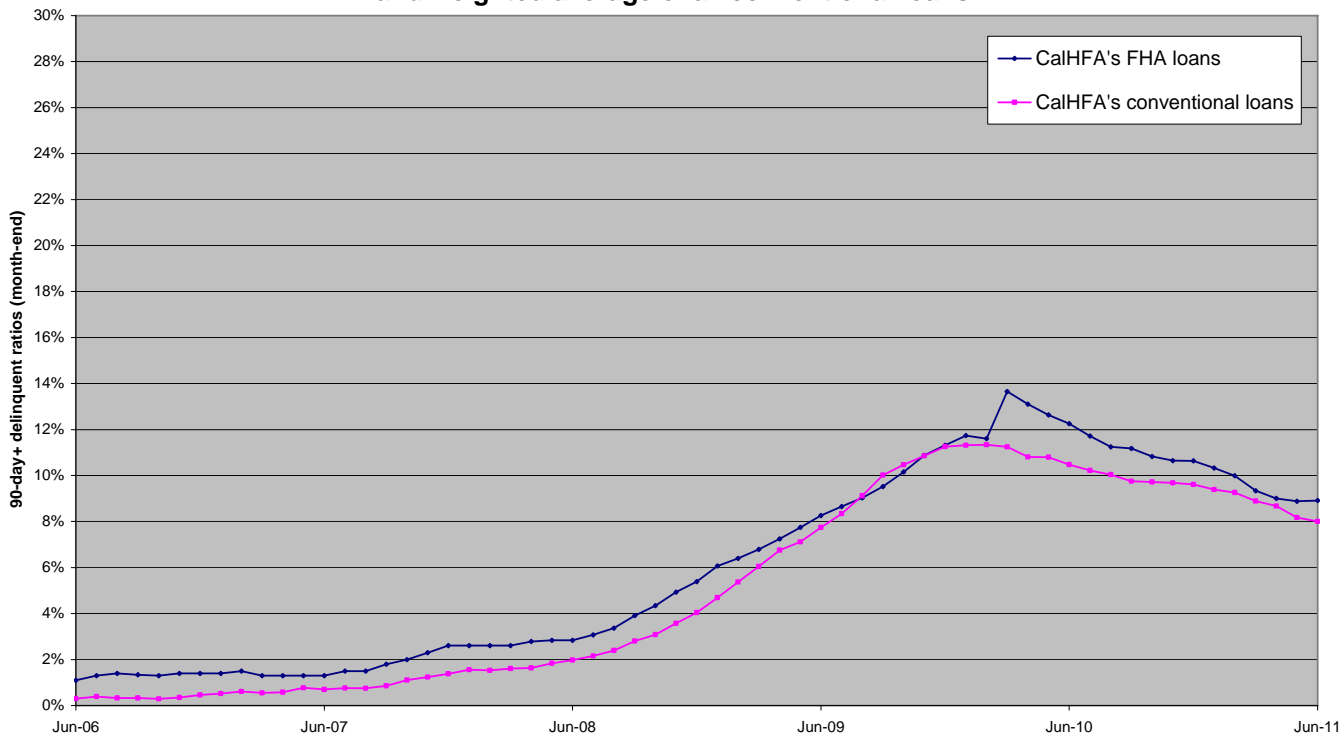
CalHFA's FHA Delinquent Loan Trend for 30-90 Day and 120 Day



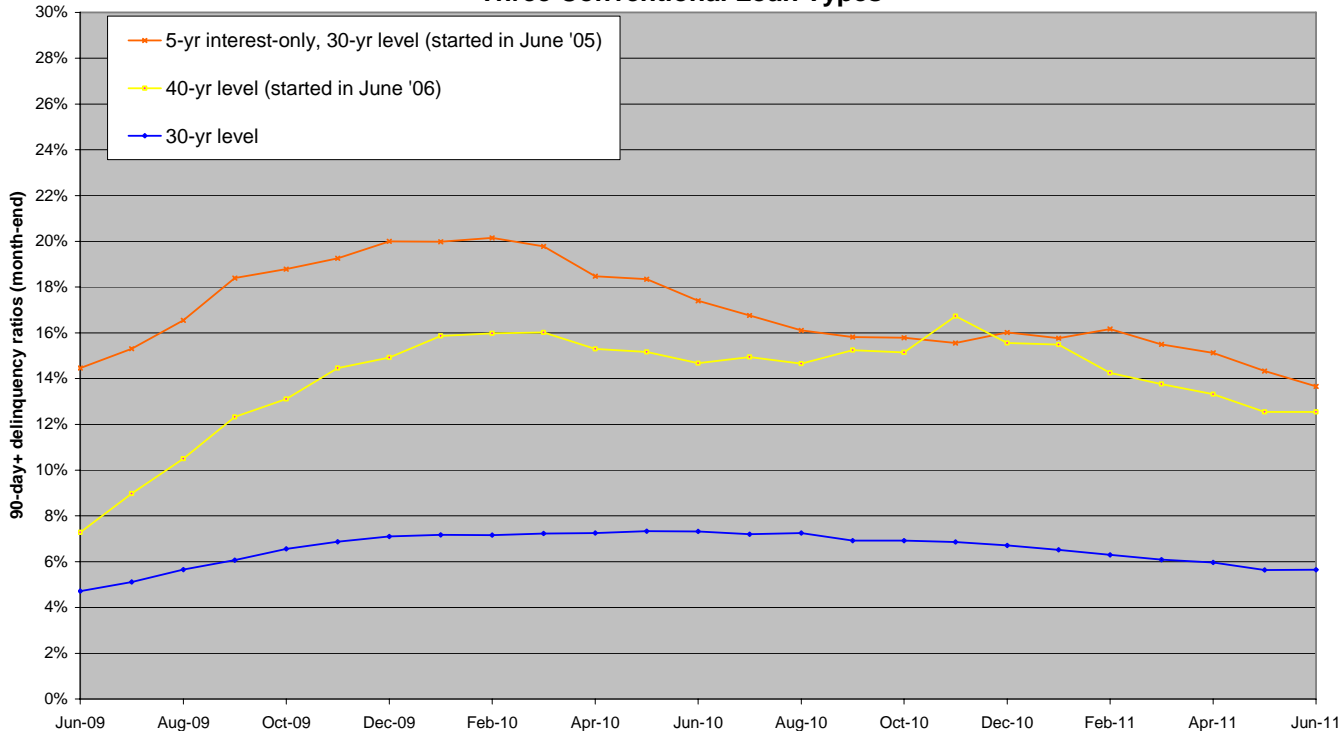
CalHFA's Conventional Delinquent Loan Trend for 30-90 Day and 120 Day



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



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



### Real Estate Owned

Calendar Year 2011 (As of July 31, 2011)											
Loan Type	Beginning Balance # of Loans	*Trustee Sales			Disposition of REO(s)					Ending Balance # of Loans	UPB of REO's Owned
		Reverted to CalHFA Jan-June	Reverted to CalHFA July	Total Trustee Sales	Repurchased by Lender Jan-June	Market Sale(s) Jan-June	Repurchased by Lender July	Market Sale(s) July	Total Disposition of REO(s)		
FHA/RHS/VA	198	327	30	357	321		68		389	166	\$ 29,503,452
Conventional	1084	763	100	863		962		130	1,092	855	194,024,432
<b>Total</b>	<b>1282</b>	<b>1,090</b>	<b>130</b>	<b>1,220</b>	<b>321</b>	<b>962</b>	<b>68</b>	<b>130</b>	<b>1,481</b>	<b>1,021</b>	<b>\$ 223,527,884</b>

Calendar Year 2010						
Loan Type	Beginning Balance # of Loans	*Trustee Sales	Disposition of REO(s)		Ending Balance # of Loans	UPB of REO's Owned
		Reverted to CalHFA 2010	Repurchased by Lender 2010	Market Sale(s) 2010		
FHA/RHS/VA	187	816	805		198	\$ 41,905,865
Conventional	619	1551		1086	1084	226,793,920
<b>Total</b>	<b>806</b>	<b>2367</b>	<b>805</b>	<b>1086</b>	<b>1282</b>	<b>\$ 268,699,784</b>

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

\*3rd party trustee sales are not shown in the tables (title to these loans were never transferred to CalHFA). There were eight (8) 3rd party sales in calendar year 2008, eighteen (18) 3rd party sales year 2009, thirty-nine (39) 3rd party sales year 2010, and there are thirteen (13) 3rd party sales to date for 2011.

Accumulated Uninsured Losses as of July 31, 2011						
Conventional Loans	# of Properties Sold	Principal Write-Offs <sup>(1)</sup>	# of GAP Claims	Actual GAP <sup>(2)</sup> Claim Payments	# of Subordinate Loans	Subordinate Write-Offs <sup>(3)</sup>
REOs Sold	2,789	\$ (55,004,963)	2,377	\$ (106,204,494)		
Short Sales	594	(6,910,179)	385	(16,959,757)	1,556	\$ (14,574,930)
3rd Party Sales	28	(192,550)	4	(170,867)	50	(436,095)
Active REOs			195	(9,977,155)		
Write-offs resulting from foreclosures					7,220	(69,359,799)
Total:	3,411	\$ (62,107,692)	2,961	\$ (133,312,272)	8,826	\$ (84,370,823)

(1) Principal loan write-offs from January 1, 2008. Does not include allowance for loan losses or loan loss reserves.

(2) The California Housing Loan Insurance Fund (the MI Fund<sup>TM</sup>) 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.

(3) Includes both FHA/Conventional Loans.

#### 2011 Year to Date Composition of 1st Trust Deed Gain/(Loss) (As of July 31, 2011)

Loan Type	Disposition				Principal Write Offs	Actual GAP Claim Payments
	Repurchased by Lender	Market Sales	Short Sales	Loan Balance at Sales		
FHA/RHS/VA	389		7	\$ 81,232,611		
Conventional		1,092	127	326,264,147	\$ (22,359,655)	\$ (45,610,274)
	389	1,092	134	\$ 407,496,758	\$ (22,359,655)	\$ (45,610,274)

#### 2011 Year to Date Composition of Subordinate Write-Offs by Loan Type<sup>(1)</sup> (As of July 31, 2011)

Loan Type	Active Loans		Write-Offs			
	Active Loans	Dollar Amount	Number of Write-Offs	% (of Portfolio)	Dollar Amount	% (of Portfolio)
CHAP/HiCAP	9,692	\$103,509,795	984	10.15%	\$11,186,733	10.81%
CHDAP/ECTP/HiRAP	20,392	164,765,142	1,055	5.17%	8,511,464	5.17%
Other <sup>(2)</sup>	266	3,487,873	0	0.00%	0	0.00%
	30,350	\$271,762,810	2,039	6.72%	\$19,698,197	7.25%

(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

## MEMORANDUM

**To:** Board of Directors

**Date:** September 15, 2011



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

**Subject:** VARIABLE RATE BONDS AND INTEREST RATE SWAPS REPORT

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

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

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

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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 \$4.88 billion, 65.2% of our \$7.48 billion of total indebtedness as of September 1, 2011.

VARIABLE RATE DEBT  
(\$ in millions)

	Tied Directly to Variable Rate <u>Assets</u>	Swapped to Fixed Rate <u>Fixed Rate</u>	Not Swapped or Tied to Variable Rate <u>Assets</u>	Total Variable Rate Debt <u>Rate Debt</u>
HMRB	\$0	\$1,737	\$1,296	\$3,033
MHRB	0	501	216	717
HPB	0	0	69	69
RMRB *	872	0	0	872
AMHRB *	<u>188</u>	<u>0</u>	<u>0</u>	<u>188</u>
Total	\$1,060	\$2,238	\$1,581	\$4,879

\* *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 \$1.6 billion, 21.1% of our indebtedness. The net amount of variable rate bonds is the amount that is neither swapped to fixed rates nor directly backed by complementary variable rate loans or investments. The \$1.6 billion of net variable rate exposure (\$759 million taxable and \$822 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 \$732 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 \$732 million is a balance sheet hedge for the \$1.6 billion of net variable rate exposure.

The net variable rate exposure is further reduced by two other considerations: 1) as mentioned in the Amortization Risk section of this report, we have \$437.3 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 \$1.1 billion of LIBOR-based debt. As a result, the \$732 million of other Agency funds invested in SMIF effectively hedges approximately 64.9% 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 103 "fixed-payer" swaps with thirteen different counterparties for a combined notional amount of \$2.7 billion. All of these fixed-payer swaps are intended to establish synthetic fixed rate debt by converting our variable rate payment obligations to fixed rates. The table below provides a summary of our swap notional amounts.

#### FIXED PAYER INTEREST RATE SWAPS

(notional amounts)

*(\$ in millions)*

	<u>Tax-Exempt</u>	<u>Taxable</u>	<u>Totals</u>
HMRB	\$1,867	\$223	\$2,090
MHRB	585	0	585
HPB	<u>0</u>	<u>0</u>	<u>0</u>
TOTALS	\$2,452	\$223	\$2,675

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

## SWAP COUNTERPARTIES

<u>Swap Counterparty</u>	<u>Credit Ratings</u>		<u>Notional Amounts Swapped as of 9/1/11 (\$ in millions)</u>	<u>Number of Swaps</u>
	<u>Moody's</u>	<u>S &amp; P</u>		
JPMorgan Chase Bank, N.A.	Aa1	AA-	\$ 750.6	21
Bank of America, N.A.	Aa3	A+	627.2	31
Citigroup Financial Products, Inc.	A3	A	341.3	10
Goldman Sachs Mitsui Marine Derivative Products, , L.P.	Aa1	AAA	237.3	8
Deutsche Bank AG	Aa3	A+	207.3	11
AIG Financial Products, Corp.	Baa1	A-	205.0	7
Morgan Stanley Capital Services, Inc.	A2	A	127.9	2
Merrill Lynch Derivative Products	Aa3	AAA	63.4	6
BNP Paribas	Aa2	AA	58.7	2
Bank of New York Mellon	Aaa	AA	25.0	1
UBS AG	Aa3	A+	18.6	2
Dexia Credit Local New York Agency	A1	A	10.6	1
Merrill Lynch Capital Services, Inc.	A2	A	2.5	1
			\$ 2,675.4 *	103

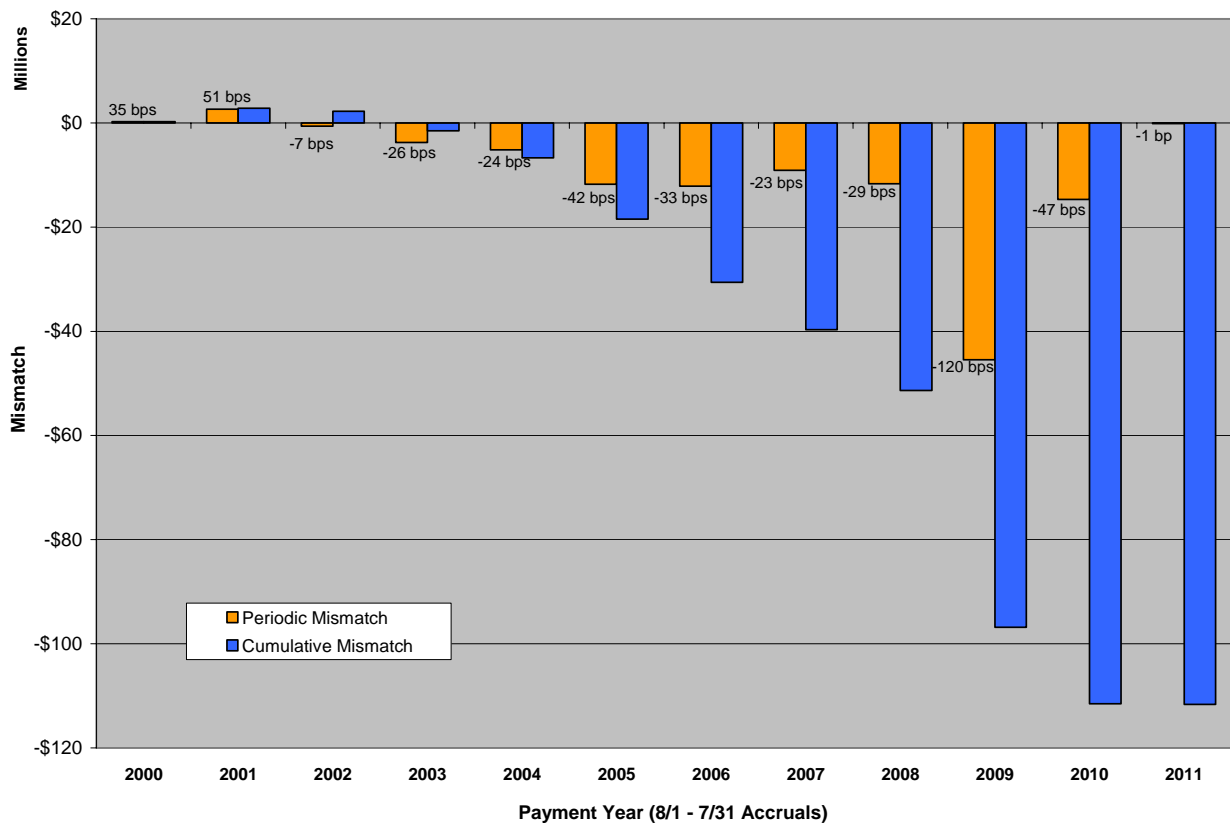
\* Basis Swaps not included in totals

For all of our fixed-payer swaps, we receive floating rate payments from our counterparties in exchange for a fixed-rate obligation on our part. In today's market, the net periodic payment owed under these swap agreements is from us to our counterparties. As an example, on our August 1, 2011 semiannual debt service payment date we made a total of \$52.7 million of net payments to our counterparties. Conversely, if short-term rates were to rise above the fixed rates of our swap agreements, then the net payment would run in the opposite direction, and we would be on the receiving end.

### BASIS RISK

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

**Basis Mismatch through June 1, 2011  
All Tax-Exempt Swaps**



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 16 months under the TCLF, the basis mismatch is negative 1 basis points or -0.01%, as compared to 111 basis points or 1.11% for the twelve months preceeding the TCLF. The reduced basis mismatch has resulted in debt service savings of approximately \$49 million in the first 16 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	91.3%

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

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

	<u>Tax-Exempt</u>	<u>Taxable</u>	<u>Totals</u>
% of LIBOR (+ spread)	\$1,800	\$0	\$1,800
SIFMA (+ spread)	405	0	405
Stepped % of LIBOR <sup>1</sup>	228	0	228
3 mo. LIBOR (+ spread)_	0	133	133
% of SIFMA	20	0	20
1 mo. LIBOR	0	53	53
3 mo. LIBOR	0	21	21
6 mo. LIBOR	<u>0</u>	<u>15</u>	<u>15</u>
<b>TOTALS</b>	<b>\$2,453</b>	<b>\$222</b>	<b>\$2,675</b>

<sup>1</sup> 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

<u>6-mo Period Ending:</u>	<u>PSA</u>
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%
Jun-2011	255%

Of interest is an \$437.3 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.

	JPMorgan	Goldman Sachs	BofA / Merrill Lynch	Deutsche	AIG	Total
Marked-to-Market	80.3	35.8	36.8	40	20.8	
Collateral Threshold	40	15	12	30	20	
Posting Requirement	40.3	20.8	24.8	10	0.8	96.7
Agency MBS Posted	24.5	0	0	0	0	24.5
Independent Amount (cash) Posted	23	1.3	6.3	0	0	30.6
Agency Cash Posted	-4.6	20.8	24.8	10	0.8	51.8
Posted Collateral	42.9	22.1	31.1	10	0.8	106.9

The Government Accounting Standards Board (GASB) statement No. 53 requires that the market value of all of our swaps be disclosed in the notes to our financial statements. In addition, this accounting standard requires that the Agency's balance sheets and income statements recognize the market value of certain interest rate swaps that are deemed not to be "effective hedges" using the measurement tests provided in GASB 53. The Agency has adopted GASB statement No. 53 for financial statements as of June 30, 2010 and for the fiscal year ended June 30, 2010.

Monthly we monitor the termination value of our swap portfolio as it grows and as interest rates change. The table below shows a quarterly history of the fluctuating negative value of our swap portfolio for the past year.

#### TERMINATION VALUE HISTORY

<u>Date</u>	<u>Termination Value</u> <u>(\$ in millions)</u>
6/30/10 *	(\$329.6)
9/30/10	(\$353.7)
12/31/10	(\$257.5)
3/31/11	(\$232.0)
6/30/11	(\$252.3)

\* 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*)

	<u>Auction Rate &amp; Similar Securities</u>	<u>Indexed Rate Bonds</u>	<u>Variable Rate Demand Obligations</u>	<u>Total Variable Rate Debt</u>
HMRB	\$0	\$894	\$2,138	\$3,032
MHRB	135	0	582	720
HPB	0	0	69	69
RMRB	0	872	0	872
AMHRB	<u>0</u>	<u>188</u>	<u>0</u>	<u>216</u>
Total	\$135	\$1,954	\$2,789	\$4,878

**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 9/1/2011  
(*\$ in millions*)

<u>Financial Institution</u>	<u>\$ Amount of Bonds</u>
Freddie Mac	\$1,394.6
Fannie Mae	<u>1,394.6</u>
Total	\$2,789.2

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State of California

## MEMORANDUM

To: CalHFA Board of Directors

Date: 13 September 2011

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

Subject: Legislative Report

It was an interesting last week in the Legislature. Lots of last minute "gut and amend" bills. Two big topics included CEQA reform and Redevelopment. Everything has been sent to the Governor that will be sent this year, and now its up to him. Below is a recap of the bills I think you may be most interested in. As always, if you have any bills you would like me to add to the list or have any questions, give me a call.

### CalHFA Misc

**AB 1222 (Gatto) California Housing Finance Agency.** (E-09/10/2011)  
**Status:** To Enrollment

**Summary:**

This bill would clarify that the statutes governing CalHFA relating to conflicts of interests take precedent over the more general language of the Government Code. This bill would also require the Calhfa Board, as opposed to agency staff, to contract directly with an independent outside advisory when commissioning a salary survey for key exempt management positions at CalHFA.

### CEQA

**AB 931 (Dickinson) Environment: CEQA exemption: housing projects.** (A-09/07/2011)  
**Status:** 09/08/2011- Failed passage Senate Environmental Quality Committee. Reconsideration granted.

**Summary:**

The California Environmental Quality Act (CEQA) requires a lead agency to prepare, or cause to be prepared, and certify the completion of, an environmental impact report (EIR) on a project that it proposes to carry out or approve that may have a significant effect on the environment or to adopt a negative declaration if it finds that the project will not have that effect. CEQA also requires a lead agency to prepare a mitigated negative declaration for a project that may have a significant effect on the environment if revisions in the project would avoid or

mitigate that effect and there is no substantial evidence that the project, as revised, would have a significant effect on the environment. This bill would instead exempt a project that may be used for neighborhood-serving goods, services, or retail uses to a level that does not exceed 25% of the total building square footage of the project.

**SB 226**      **(Simitian) Environmental quality.** (E-09/09/2011)  
**Status:** To Enrollment.

**Summary:**

This bill would exempt from the requirements of CEQA the installation of a solar energy system, including associated equipment, on the roof of an existing building or an existing parking lot meeting specified conditions. Because a lead agency would be required to determine whether a project would be exempt under this provision, this bill would impose a state-mandated local program.

### Homeless

**AB 1167**      **(Fong) Homelessness: Interagency Council on Homelessness.** (A-06/21/2011)  
**Status:** Held in Appropriations on Suspense.

**Summary:**

This bill would create the California Interagency Council on Homelessness. This bill would provide that the council be composed of specified members and would require the council to hold public meetings at least once every quarter. This bill would authorize the council 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.

### Land Use

**SB 310**      **(Hancock) Local development.** (E-09/13/2011)  
**Status:** To Enrollment

**Summary:**

This bill would authorize an infrastructure financing district to reimburse a developer that meets specified requirements for permit expenses or expenses related to the construction of affordable housing units pursuant to the Transit Priority Project Program. This bill would also require that an infrastructure financing plan also include a plan to finance any potential costs for reimbursing a developer that meets specified requirements for permit and affordable housing expenses related to a project of the Transit Priority Project Program. This bill contains other related provisions and other existing laws.

**AB 710 (Skinner) Local planning: infill and transit-oriented development.** (A-08/18/2011)

**Status:** Failed passage on the Senate Floor (Ayes 18. Noes 19.).

**Summary:**

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. This bill would also express a legislative finding and declaration that its provisions shall apply to all cities, including charter cities.

**AB 1220 (Alejo) Land use and planning: cause of actions: time limitations.** (E-09/08/2011)

**Status:** To Enrollment.

**Summary:**

The Planning and Zoning Law 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, if it meets certain requirements. 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 authorize the notice to be filed any time within 3 years after a specified action pursuant to existing law. The bill would declare the intent of the Legislature that its provisions modify a specified court opinion. The bill would also provide that in that specified action or proceeding, no remedy pursuant to specified provisions of law abrogate, impair, or otherwise interfere with the full exercise of the rights and protections granted to a tentative map application or a developer, as prescribed.

### **Landlord Tenant**

**AB 1216 (Fuentes) Land use: notice of proposed change: assisted housing developments.** (V-09/07/2011)

**Status:** VETOED

**Summary:**

The Planning and Zoning Law requires an owner of an assisted housing development to provide specified entities notice of an opportunity to submit an offer to purchase the development, containing specified information, prior to the termination of a subsidy contract applicable to, the prepayment of a mortgage on, the expiration of rental restrictions applicable to, or, under specified circumstances, the sale or disposition of, the development. That law authorizes these requirements to be enforced

either in law or in equity by specified entities. This bill would additionally authorize any affected public entity, as defined, or any affected tenant, as defined, to enforce these requirements either in law or in equity. In his veto message, the Governor stated, "I strongly support preserving assisted housing units. Unfortunately, the bill fails to specify clearly the remedies available. This could lead to unnecessary litigation and delays."

### **Misc**

**AB 129 (Beall) Local government: fines and penalties: assessments. (E-09/13/2011)**  
**Status:** To Enrollment

**Summary:**

This bill would, until January 1, 2020, authorize a city, county, or city and county to, after notice and public hearing, specially assess any fines or penalties not paid after demand by the city, county, or city and county against real property owned by the person owing those fines or penalties where the fines or penalties are related to ordinance violations on the real property upon which the fines or penalties would be specially assessed, and the ordinance violations constitute a threat to public health and safety. This bill would require a city, county, or city and county to comply with certain notice requirements. The bill would provide that the assessment may be collected at the same time and in the same manner as ordinary county taxes are collected, and shall be subject to the same penalties and the same procedure and sale in case of delinquency as are provided for ordinary county taxes, and would authorize the city, county, or city and county to record a lien against the property. This bill would authorize a local agency to appoint a hearing officer to hear and decide issues regarding ordinance violations and the imposition of administrative fines and penalties.

**AB 221 (Carter) The Housing and Emergency Shelter Trust Fund Acts of 2002 and 2006: supportive housing. (E-09/09/2011)**  
**Status:** To Enrollment.

**Summary:**

This bill would require that Proposition 46 and Proposition 1C funds transferred to the Emergency Housing and Assistance Fund also be made available for supportive housing purposes.

**SB 226 (Simitian) Environmental quality. (E-09/09/2011)**  
**Status:** To Enrollment

**Summary:**

This bill would exempt from the requirements of CEQA the installation of a solar energy system, including associated equipment, on the roof of an existing building or an existing parking lot meeting specified conditions. The bill would also establish abbreviated CEQA review procedures for



specified "infill projects," where only specific or more significant effects on the environment which were not addressed in a prior EIR need be addressed. An EIR for such a project need not consider alternative locations, densities, and building intensities or growth-inducing impacts. Infill projects may include residential, retail, commercial, transit station, school or public office building projects located within an urban area. The bill would require the adoption of CEQA guidelines to implement the infill provisions

### **Mortgage Lending**

**AB 597** (Eng) California Financial Literacy Fund. (E-09/13/2011)  
**Status:** To Enrollment

**Summary:**

This bill 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. The bill would require those moneys to be made available upon appropriation in the annual Budget Act and would require donations to be returned to contributors if not appropriated within 18 months. The bill would authorize the Controller to convene an advisory committee to provide additional oversight of the fund and develop strategies to improve financial literacy. The bill would prohibit use of donations to promote or market the financial products of any contributor. The bill would require the Controller, beginning in 2013, to provide an annual summary to specified committees of the Legislature on the use of those moneys appropriated from the fund.

**SB 4** (Calderon) Mortgages. (C-09/06/2011)  
**Status:** 09/06/2011-Chaptered by the Secretary of State, Chapter Number 229, Statutes of 2011

**Summary:**

This bill would require, beginning April 1, 2012, that the notice of sale, given pursuant to a deed of trust or mortgage secured by real property containing from one to 4 single-family residences, 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. The bill would require a good faith effort to be made to provide current information regarding sale dates and postponements and that the information be available free of charge. The bill would permit the information to be provided by any means that provides continuous access, as specified.

**SB 62** (Liu) Local government: Los Angeles County: notice of recordation.

(C-08/01/2011)

**Status:** 08/01/2011-Chaptered by the Secretary of State, Chapter Number 141, Statutes of 2011

**Summary:**

This bill authorizes the Los Angeles County Recorder, until January 1, 2015, to collect up to seven additional dollars for every notice of default or notice of sale filed within that jurisdiction. These funds must be used to: 1) mail an additional notice to the subjects of the notice and the occupants of the property; 2) provide information, counseling or assistance to the person receiving that notice; and 3) recover the administrative costs incurred by the Los Angeles County Recorder's Office. Notices of default or sale filed by a government entity are exempt from this additional fee.

### **Redevelopment**

**AB 1275 (Torres) Redevelopment: agency contracts. (A-09/01/2011)**

**Status:** 09/08/2011-Ordered to inactive file

**Summary:**

This bill would provide that a contract entered into by a redevelopment agency that is subject to validating proceedings , or a particular severable provision of the contract , may be declared by a court to be null and void if the court determines that the contract or severable portion of the contract violates the law or public policy .

**AB 1338 (Hernández, Roger) Redevelopment. (E-09/01/2011)**

**Status:** To Enrollment

**Summary:**

This bill would require a redevelopment agency, on and after January 1, 2012, to obtain an appraisal by a qualified independent appraiser to determine the fair market value of property before an agency acquires or purchases real property.

**ABX1 26 (Blumenfield) Community redevelopment. (C-06/29/2011)**

**Status:** 06/29/2011-Chaptered by the Secretary of State, Chapter Number 5, Statutes of 2011-12 First Extraordinary Session.

**Summary:**

Existing law provides that an action may be brought to review the validity of the adoption or amendment of a redevelopment plan by an agency, to review the validity of agency findings or determinations, and other agency actions. This bill would revise the provisions of law authorizing an action to be brought against the agency to determine or review the validity of specified agency actions.

**ABX1 27 (Blumenfield) Voluntary Alternative Redevelopment Program.** (C-06/29/2011)

**Status:** 06/29/2011-Chaptered by the Secretary of State, Chapter Number 6, Statutes of 2011-12 First Extraordinary Session.

**Summary:**

This bill would establish a voluntary alternative redevelopment program whereby a redevelopment agency would be authorized to continue to exist upon the enactment of an ordinance by the community to comply with the bill's provisions. The bill would require the city or county that created a redevelopment agency to notify the county auditor-controller, the Controller, and the Department of Finance on or before November 1, 2011, that the community will comply with the bill's provisions. The bill would require a participating city or county to make specified remittances to the county auditor-controller, who shall allocate the remittances for deposit into a Special District Allocation Fund, for specified allocation to certain special districts, and into the county Educational Revenue Augmentation Fund, as prescribed. The bill would authorize the city or county to enter into an agreement with the redevelopment agency in that jurisdiction, whereby the redevelopment agency would transfer a portion of its tax increment to the city or county for the purpose of financing certain activities within the redevelopment area, as specified. The bill would impose specified sanctions on a city or county that fails to make the required remittances, as determined by the Director of Finance. This bill would authorize the county auditor-controller to charge a fee that does not exceed the reasonable costs to the county auditor-controller to implement the provisions of this bill.

**SB 450 (Lowenthal) Redevelopment.** (E-09/12/2011)

**Status:** To Enrollment.

**Summary:**

This bill would significantly change how redevelopment agencies spend their Low and Moderate Income Housing Funds. It significantly increases reporting requirements and requires HCD to audit these agencies.

**SBX1 8 (Committee on Budget and Fiscal Review) Redevelopment.** (E-09/12/2011)

**Status:** To Enrollment

**Summary:**

This bill would make various changes to implement the redevelopment packaged adopted in AB 26X and AB 27X as part of the 2011-12 Budget. Generally, these changes grant additional flexibility to redevelopment agencies and cities and counties make annual payment, but also maintain the anticipated General Fund budget solution in 2011-12. This bill also adds protection for low- and moderate-income housing funds by specifying in the case of an eliminated RDA, that existing balances are retained for low- and moderate-income housing purposes and affordability

covenants are retained.

### **Veterans**

**[AB 697](#)**

**(V. Manuel Pérez) Veteran: acquisition of home: interest of record.**

(E-09/07/2011)

**Status:** To Enrollment.

**Summary:**

This bill would authorize the Department of Veterans Affairs to acquire a home for the purpose of refinancing an existing mortgage loan that is not an existing loan acquired under the Veterans' Farm and Home Purchase Act of 1974.