CalHFA℠ BOARD OF DIRECTORS

California Housing Finance Agency
Board of Directors

May 17, 2012

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

10:00 a.m.

1. Roll Call.

2. Approval of the minutes of the March 14, 2012 Board of Directors meeting **............................**1

3. Chairman/Executive Director comments.

4. Report of the Chair of the Audit Committee. (Ruben Smith)**..75**

5. Keep Your Home California update. (Di Richardson) **...113**

6. Discussion regarding IT solutions for Board material and video conference settings for Board meetings. (Claudia Cappio/Liane Morgan) **..115**

7. Discussion, recommendation and possible action regarding the adoption of a resolution approving the Agency's Strategic Business Plan for Fiscal Year 2012/2013.
   (Claudia Cappio)
   Resolution 12-07..117

8. Discussion, recommendation and possible action regarding the adoption of a resolution approving the Fiscal Year 2012/2013 CalHFA Operating Budget.
   (Claudia Cappio/Howard Iwata)
   Resolution 12-08..129

9. Reports:

10. Discussion of other Board matters.

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

12. Adjournment

13. Handouts

NOTES**

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

FUTURE MEETING DATES: Next CalHFA Board of Directors Meeting will be May 17, 2012, at the Holiday Inn Capitol Plaza, Sacramento, California.

STATE OF CALIFORNIA

CALIFORNIA HOUSING FINANCE AGENCY

--o0o--

BOARD OF DIRECTORS

PUBLIC MEETING

--o0o--

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

Wednesday, March 14, 2012
9:30 a.m. to 11:41 a.m.

--o0o--

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

Daniel P. Feldhaus, C.S.R., Inc.
Certified Shorthand Reporters
8414 Yermo Way, Sacramento, California 95828
Telephone 916.682.9482 Fax 916.688.0723
FeldhausDepo@aol.com

A P P E A R A N C E S

Board of Directors Present:

GRANT BOYKEN
for Bill Lockyer
State Treasurer
State of California

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

CLAUDIA CAPPIO
Executive Director
California Housing Finance Agency
State of California

JONATHAN HUNTER
Managing Director, Region 2
Corporation for Supportive Housing

JAN LYNN OWEN
for BRIAN KELLY, Undersecretary
Business, Transportation & Housing Agency
State of California

JACK SHINE
Chairman
American Beauty Development Co.

LINN WARREN
Director
Department of Housing and Community Development
State of California

--o0o--

CalHFA Staff Present:

MARGARET ALVAREZ
Director of Asset Management

ROBERT DEANER II
Director of Multifamily

TIM HSU
Financing Risk Manager

VICTOR J. JAMES
Deputy General Counsel

JOJO OJIMA
Office of the General Counsel

DI RICHARDSON
Director of Legislation

--o0o--

Table of Contents

BE IT REMEMBERED that on Wednesday, March 14, 2012, commencing at the hour of 9:30 a.m., at the Burbank Airport Marriott Hotel & Convention Center, 2500 Hollywood Way, Burbank, California, before me, YVONNE K. FENNER, CSR #10909, RPR, the following proceedings were held:

--o0o--

ACTING CHAIRPERSON CAREY: Welcome to the March meeting of the California Housing Finance Agency Board of Directors.

--o0o--

Item 1. Roll Call

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

MS. OJIMA: Thank you.

Mr. Gunning.

(No audible response.)

MS. OJIMA: Mr. Hunter.

MR. HUNTER: Here.

MS. OJIMA: Mr. Boyken for Mr. Lockyer.

MR. BOYKEN: Here.

MS. OJIMA: Mr. Shine.

MR. SHINE: Here.

MS. OJIMA: Mr. Smith.

(No audible response.)

MS. OJIMA: Ms. Owen for Mr. Kelly.
MS. OWEN: Here.
MS. OJIMA: Mr. Warren.
MR. WARREN: Here.
MS. OJIMA: Mr. Alex.
(No audible response.)
MS. OJIMA: Ms. Matosantos.
(No audible response.)
MS. OJIMA: Ms. Cappio.
MS. CAPPIO: Here.
MS. OJIMA: Mr. Carey.
ACTING CHAIRPERSON CAREY: Here.
MS. OJIMA: We have a quorum.
ACTING CHAIRPERSON CAREY: Thank you.

--o0o--

Item 2. Approval of the minutes of the January 19, 2012 Board of Directors meeting

ACTING CHAIRPERSON CAREY: The second item of business is approval of the minutes from the January 19th meeting.
MR. HUNTER: I'll move approval.
MR. BOYKEN: Second.
ACTING CHAIRPERSON CAREY: Roll call, please.
MS. OJIMA: Thank you.
Mr. Hunter.

MR. HUNTER: Yes.
MS. OJIMA: Mr. Boyken.
MR. BOYKEN: Yes.
MS. OJIMA: Mr. Shine.
MR. SHINE: Yes.
MS. OJIMA: Ms. Owen.
MS. OWEN: Yes.
MS. OJIMA: Mr. Warren.
MR. WARREN: Yes.
MS. OJIMA: Mr. Carey.
ACTING CHAIRPERSON CAREY: Yes.
MS. OJIMA: The minutes have been approved.
ACTING CHAIRPERSON CAREY: Thank you.

--o0o--

Item 3. Chairman/Executive Director comments

ACTING CHAIRPERSON CAREY: Lest I forget an important piece of business, if anyone wants parking discount stickers, please, they're up here, so get them after the meeting.

With that, just a couple of items. We've got some -- some new but familiar faces. I'd like to welcome Jan Owen, representing Business, Transportation and Housing.

MS. OWEN: Thank you.

ACTING CHAIRPERSON CAREY: Great to have you here.

And Grant Boyken, today representing the Treasurer's Office.

And a face that's familiar to all of us, Linn Warren, now representing HCD. Congratulations on that.

MR. WARREN: Thank you.

ACTING CHAIRPERSON CAREY: And don't be too hard on the presenters today, okay?

MR. WARREN: No, but I will say I like this view better than my prior iterations. I think this will be a lot more fun.

ACTING CHAIRPERSON CAREY: I'm not sure.

Okay. With that, Director Cappio.

MS. CAPPIO: Hi, greetings. Nice to be here.

I just want to reiterate welcome to the new Board members and to Grant and to -- oh, and just to note that Mr. Warren has been saying that a lot lately to me, that he likes it from his new perch. So much, much success.

MR. WARREN: Thank you.

MS. CAPPIO: I also just wanted to just update everyone on we're rolling along on the affordable housing cost study. The request for proposal went out, and it's due this Friday. The proposal is back to us, so we're continuing to proceed on that.

And now I'm working with Linn on the reorganization efforts with Housing and Community Development. We -- our sense is that we need to get out ahead of what we think we believe will work, and we're working very hard on that. And we should have something at least framed and ready by summer to present to BT&H and the Governor's Office, so I'm looking forward to continuing my work in that way with Linn.

That's it.

ACTING CHAIRPERSON CAREY: Great. Thank you.

--o0o--

Item 4. Closed Session under Government Code Section 11126(e)(2)(B)(i); significant exposure to litigation against the state body (one potential case)

ACTING CHAIRPERSON CAREY: With that, we will adjourn to closed session under Government Code section 11126(e)(2)(B)(i) -- you got that? -- to discuss significant exposure to litigation against the state body. So we'll clear the room.

(Whereupon the Board met in closed session from 9:32 to 9:57 a.m.)

ACTING CHAIRPERSON CAREY: Okay. Welcome back. We're in public session again.

--o0o--

Item 5. Discussion, recommendation and possible action regarding the adoption of a resolution authorizing a new Agency Investment Policy. (Resolution 12-05)

ACTING CHAIRPERSON CAREY: And move on to item 5, which is possible action for resolution regarding the Agency's proposed new investment policy. Tim Hsu.

MR. HSU: Good morning, Mr. Chairman, and good morning, Members of the Board.

In an attempt to provide a little bit of continuity from this Board meeting to the last one and also for the benefit of the new Board members --

MR. SHINE: Could you speak into the mike a little bit.

MR. HSU: Okay. At the last Board meeting, we spent a lot of time talking about the financing resolutions that the Board adopted for staff to engage in financing activities for the remainder of the year, and we also talked a lot about the restructuring plans that we're submitting to U.S. Treasury.

The extension of TCLP, as we had informed the Board, is linked to the Treasury's approval of the restructuring plan that we submitted to Treasury. That plan has not been approved, and -- but various pieces of that restructuring plan are being revealed to the Board. At the last Board meeting you might recall that we spent a lot of time talking about that single-family refunding. And at the -- at this meeting, we're going to talk a little bit about the multi-family preservation program, which is also a part of that restructuring plan that was submitted to Treasury.

Once -- my expectation is that sometime between now and the next Board meeting our plan will be approved, and at the next Board meeting I'll do a quick summary of what that plan is so that we can tie all the pieces together.

The -- I mentioned that later on in the presentation we're going to talk a little bit about the multi-family preservation program. And in some sense this program is the Agency's attempt to begin lending again. And this is really a wonderful thing. I think that it's a way for us to become relevant again. And we're going to talk little bit about that more.

But the main narrative for financing is still one of restructuring. We're still in a mode of restructuring, and that could mean that we're trying to get rid of, eliminating, the variable-rate bonds that we have. We are eliminating the swaps that we have. We could be increasing the swap collateral thresholds that we have. And we are also finding ways to create flexibilities, financial flexibilities, so that we can, in some sense, also engage, sort of, loop around and engage, in more debt restructuring.

And these things could be things such as the $15 million of -- pledged from the G-O to the single-family refunding that the Board approved last go-around, and this could also -- an example of this could also be that the purchasing of the fixed-rate bonds in the secondary market that we engaged in last year. So there's this theme of restructuring and also creating financial flexibility.

Agenda 5, here, is a good example of us trying to create financial flexibility for the Agency, and in so doing, we can advance this narrative of restructuring.

So this new investment policy, you might ask the question of what does a new investment policy have to do with restructuring our debt? This has more to do with creating the financial flexibility so we can keep some of the very valuable investment agreements that we have with a couple of European banks who have provided investment agreements to us. With the existing investment policy, there is a rule that the sovereign debt of the foreign bank must have at least one AAA rating, otherwise we have to liquidate the investment agreement.

So, as you can see on this chart here -- as you can see on this chart here, some 47 percent of our investment agreements are deposited with French banks which currently only has one AAA rating. It was downgraded by S&P some months ago in the midst of the European sovereign debt crisis, and my fear is if it were to lose the second AAA rate with Moody's, then despite the fact that the bank themselves could have a decent rating in the AA range, I'll be forced to liquidate these GICs.

So the last Board meeting I had suggested that this could be a reason why we're bringing the investment policy to the Board, and this is the main driver at this point of creating the financial flexibility to keep these GICs.

Keep in mind, I haven't mentioned why these GICs are so valuable. Some of these GICs are yielding a rate of 5 percent or 6 percent in the portfolio. And if we were to go out into the marketplace today to get the same kind of GICs, investment agreements, we could be only getting 1 percent or 2 percent or 3 percent. So these are extremely valuable investment agreements that we have that, if we can, we would very much like to keep them.

But the other reason of adopting a new

investment policy is that our investment policy currently is simply very dated. It's very old. It was last adopted in 1995. So the secondary reason to adopt a new investment policy is to modernize our investment policy and to -- at a high level to adopt a new framework, a framework to look at investments. And I would argue that this framework has been in practice for some time, and this effort really is simply to codify things that we have been doing.

And at the core of this framework is this principle or this rule of prudent investor standard or prudent investor rule.

And this prudent investor standard or rule is a process of looking at investments based on what you know and what you don't know at the time. And some factors you would consider are the expected risks and rewards that you expect out of that investment and the needs of the beneficiary. So, for example, does it need current income? Does it need capital appreciation? When does it need the money? And also it looks at the benefits of diversification. As Warren Buffett once said, "Diversification is the only free lunch in investment."

So -- so -- but a prudent investment is not always a guarantee to be a good investment, and since we're talking about Warren Buffett, even he has made a few dud investments in the past. So a good fun example -- a good fun example of the rule is to look at -- a good fun example to look at, sort of, the outcome and the limitations of the prudent investor rule is this: Is that if you were to take all your money and then you were to invest it in one lottery draw, regardless of whether or not you win, that's still not considered as a prudent investment.

So if you were to, you know, take all your savings and then plop it down on one lottery draw and win, you might be very rich but then the rule will still say that that's not a prudent investment. Now, if you just invested one dollar at a time, that's a totally different question -- which is what we all do.

So some of the highlights of the investment policy, of the new investment policy, if you would go to page -- I'm sorry, I haven't been advancing as many pages. If you would go to page 4, there is a formation of the Investment Oversight Committee. And the main responsibility of the committee is to approve new credit counterparties and to monitor and review the investment policy. And if there were any recommended changes, we would bring that to the Board.

And the scope of the new investment policy is the nonconduit transactions that we have, along with the G-O proceeds that we have. And the general -- in the general target or the general objectives of the policy is to maintain safety, first and foremost, liquidity and also, to the degree that we can, maximize the return on investments. And you might argue that our attempt to keep these investment agreements that we have with these French foreign banks is an example of trying to, sort of, extend the return on investment by keeping them.

If you would go to page 5, there is a section, investment policy, that discusses the investment risks such as credit risk, interest rate risk and reinvestment risks. And there's also a whole discussion about the different classes of investments.

I think the idea here is that these risks wouldn't change, but the classes of investments could be added and subtracted. And I think that if they were to be added, we would bring that to the Board.

So I'm hoping that the Board would -- I'm hoping that this new investment policy is not going to be highly debatable; it's not going to be very controversial. I think that it's going to allow us the financial flexibility to keep some very valuable agreements that we have. And, plus, really this is an attempt to modernize our investment policy to be on par with many of the investment policies out there.

And as I mentioned, I really do believe that this codifies many of the things we have been doing already, and it gives it a formal framework for the investment policy -- for the investment process.

That concludes my comments.

ACTING CHAIRPERSON CAREY: Thank you, Tim.

Do you have questions? Grant.

MR. BOYKEN: I have a comment. I just wanted to thank you for the presentation. I know that you worked with the Treasurer's investment staff and incorporated some of their input. I like the policy, and I think one thing that I like the best is that it anticipates revisiting the policy annually. And I think one thing we've learned over the past decade is that what we thought we knew about the capital markets changes. And so I think it is a good thing to keep revisiting it.

Thank you.

ACTING CHAIRPERSON CAREY: Thank you.

Other comments? Concerns or questions?

MR. WARREN: Can you -- on your -- you have an oversight group here. Who's -- who's on the committee?

MR. HSU: It's the ED and also the chief deputy, comptroller, the director of financing and the general counsel and the financing risk manager.

MR. WARREN: Okay. So the -- really the primary change here is the opportunity to keep the sovereign investments and to give some latitude to retaining some of the yields, even though some of the ratings may go down for good and valid reasons, but you're comfortable that that's a prudent way to go?

MR. HSU: I am.

MR. WARREN: Okay.

MR. HSU: I am. I mean, I think the sovereign debt rating is usually a cap for the foreign bank's rating. So if the foreign -- if the sovereign debt of France is AA, the foreign bank wouldn't have a rating higher than AA. But what I don't want is that if France were to -- for example, if France were to lose its AA -- AAA rating with Moody's, I may have a solid AA foreign bank that I'll be forced to liquidate.

MR. WARREN: Okay.

ACTING CHAIRPERSON CAREY: This is a proposed action by the Board. And if there's anyone in the audience who would like to address the Board on this particular matter, please indicate so.

Seeing none, what's the pleasure of the Board? We've got a resolution proposed.

MR. WARREN: I'll move approval.

MR. SHINE: Second.

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

MS. OJIMA: Mr. Hunter.

MR. HUNTER: Yes.

MS. OJIMA: Mr. Boyken.

MR. BOYKEN: Yes.

MS. OJIMA: Mr. Shine.

MR. SHINE: Yes.

MS. OJIMA: Ms. Owen.

MS. OWEN: Yes.

MS. OJIMA: Mr. Warren.

MR. WARREN: Yes.

MS. OJIMA: Mr. Carey.

ACTING CHAIRPERSON CAREY: Yes.

MS. OJIMA: Resolution 12-05 has been approved.

ACTING CHAIRPERSON CAREY: Thank you.

--oOo--

Item 6. Discussion, recommendation and possible action regarding the adoption of a resolution authorizing interfund borrowing from the Earned Surplus Account

ACTING CHAIRPERSON CAREY: We'll now move on to item 6, which is discussion of authorizing interfund borrowing from the earned surplus account.

Again, Tim. Mr. Hsu.

MR. HSU: Margaret is going to help me with this one. There's many things about the earned surplus funds that she knows that I do not.

This resolution of authorizing borrowing from the earned surplus account continues this narrative or this theme of creating flexibility, financial flexibility, for the Agency. And as it turns out, this particular one could lead directly to a restructuring opportunity that I'll be discussing in a few minutes.

I would like to say up-front, though, that on this particular resolution at this point in time, staff is not recommending a vote from the Board on this resolution. We're continuing to work with the Treasurer's office on agreeing on the legal basis of proceeding with this resolution. And I think that that's going to take a little bit of time.

But the thought here is that we'd like to present the idea to the Board to make the business case of why we think this could be helpful so that -- so that you can get an idea of some of the things that we're doing, trying to create, again, more flexibility, more financial flexibility, for ourselves so that we can engage in really our mission, which is lending in the affordable housing space.

ACTING CHAIRPERSON CAREY: So we'll have the presentation. We'll ask for public comment, but then we'll continue the item for a future meeting.

MS. CAPPIO: You don't have to take any action.

MR. HSU: Before I dive into the subject, though, I thought I would spend a few minutes to celebrate our success. About two weeks ago we paid off our loan, and I've been told by Margaret that we don't do this enough, that --

MS. ALVAREZ: Not the paying off the loan, the celebrating success.

MR. HSU: I'm sorry.

MS. OWEN: That's very funny.

MR. HSU: We pay off all our loans.

-- that we don't celebrate our success enough, which is true. I'm probably known to be Dr. Doom sometimes.

About two weeks ago we paid off a loan, a longstanding loan, that we've had from the Treasurer's Office. This is a loan that we had from PMIA, which is the Treasurer's Office short-term investment fund. Just a little bit history, to give you a sense of, I think, you know, sort of, the milestone of paying off this loan, this loan was originally originated in 1994, and its initial intent was to warehouse single-family loans before we do a bond issuance.

We started out at $50 million, and at some point in 2006 it reached $350 million. And over the last couple years, I think that we have gotten a request from Treasurer's Office to have a plan to pay off this loan. And about two weeks ago, as I mentioned, we made our final payment of $10 million. And I think that this deserves, sort of, some recognition because it's another obligation that we have paid off.

And on that note, though, we currently do not have any outstanding warehouse loans or any line of credits with any financial institutions or any facilities with the State.

So as Steve -- yes.

MR. SHINE: We've paid off the loans, and we don't have any outstanding warehouse. Do we have lines available to us for warehousing if we want them?

MR. HSU: No.

MS. CAPPIO: That's part of -- this --

MR. SHINE: No?

MS. CAPPIO: No.

MR. SHINE: Oh.

MR. HSU: As Steve often says, enough

celebrating and back to business. So --

MR. SPEARS: Are you just making stuff up?

ACTING CHAIRPERSON CAREY: Tim, you're getting yourself in trouble here today.

MR. SHINE: He should get a cover charge.

MR. HSU: So what are the earned surplus funds? This is a chart that -- I think that Peter berated me at the last Board meeting for not bringing any colorful charts, so I definitely created this one in this spirit. And this is one that I think that we should show more often than not because I think that the -- the Agency is fairly complicated, but at a high level, at a very high level, if you are trying to connect to the financial well-being of the Agency, there are really primarily four buckets that we have.

So the first bucket that we have are these bond indentures that we talk about very often. And this is where all the variable-rate bonds are.

And then the second bucket are these contract administrations. And this is -- for example, like Prop 1C, MHSA money, in which -- where a contract is initiated but the money that sits in there really we can't use it for the Agency's purposes.

And then the third bucket are these green boxes there, the operating account, the unencumbered assets and emergency reserve. And in some sense you can think of these accounts here as the equity of the Agency. Now, though it is equity, it doesn't mean that's not leveraged, so when we talk about when we post swap collaterals, it's being posted out of these three accounts.

And then the final bucket are these two boxes here in -- in orange, I've been told. And it's the Earned Plus Account and the FAF Savings Account. And these accounts, I liken them as accounts that are under our managerial control, but there is a specific mandate or specific statutory use for the money that sits in there so that they don't -- they don't, in some sense, mix with the green boxes.

So at the high level, there's these three -- there are these four buckets. And then the first thing I thought I would do is identify to you where the earned surplus account is and where we -- sort of, where it resides in relation to everything else.

So -- so now that we kind of have a sense of where they are, how do we get this earned surplus funds? The way that we have earned surplus funds is that we take a Section 8 project and the net operating come from that project, and we subtract out two things: Any allowable distributions to the owner of the project and any reserves set aside as required for the project. And what's left over is sometimes referred to as residual receipts, and in our statutes it's referred to as earned surplus.

So once you have that number, then it's further divided between the projects that originated before 1980 and the projects that originated after 1980. So the ones that are before 1980, we get to keep those proceeds, and we get to manage those proceeds. And the ones that are after 1980, HUD takes back those earned surplus.

And as I mentioned, these earned surplus funds have a very specific statutory use. And it's quite simply to be used to reduce rents on either the project that created the earned surplus or some other Section 8 projects that need subsidy to reduce rent.

And over the last couple years, this earned surplus account, the earned surplus funds have accumulated for primarily two reasons. The first is that the use of the earned surplus funds is -- has a higher -- has a more restricted regulatory requirement than where most of our multi-family lending occurs, which is in a different section of our statute. So where the earned surplus accounts -- where the earned surplus funds reside is in what's referred to section 5 of our statute.

And whereas most of our lending activities happen on a section 6 of our statute, the regulatory requirements of chapter 5 and chapter 6 are different. And the perception is that -- and the perception I think is also the reality, that the chapter 5 regulatory requirements are more stringent than chapter 6. So that's one, sort of, high level reason.

And the second reason is that as we paused our multi-family lending activities about three years ago now, the use of the earned plus funds also declined. And it's the confluence of those two reasons that have led to the accumulations of the funds. And as I pointed out here on the slide, in 2010 we only used $2 million, and in 2011 we only used $400,000. So this account has been accumulating, and the current balance is about $57 million.

Margaret, do you want to talk a little bit -- do you want to provide a little more flavor about some of the restrictions in chapter 5?

MS. ALVAREZ: With chapter 5 in our statutes, what comes with that money is what they call a tenant grievance procedure, which gives the current tenants an opportunity when they have a dispute with their landlord, primarily over whether they're going to get evicted or not, to have an informal hearing with a hearing officer that's a third-party nonbinding hearing.

So there's a whole tenant's grievance agreement that gets signed along with the lease agreement on the site, and it does delay an owner's ability to evict someone that they want to evict, oftentimes. So there's sometimes in the chapter 6 world hesitance to use the chapter 5 earned surplus money because owners typically don't want that extra tenant grievance procedure attached to the regulatory grievance of their properties. So that's number one why that money is more restricted.

In recent years, the last ten years or so, we had an earned surplus lending program that we tried to enact as much as possible with our Section 8 world in asset management. Our owners all know about this money, it's just it's up to them whether they want to borrow it or not. But we've been lending it in small amounts, typically under a million dollars, for capital improvement projects at the sites, like to replace roofs or decking, that type of thing, when the owners don't have sufficient operating capital on their own to make those repairs.

We typically have been lending it at basically the same rate that the SMIF funds that we have is, which has been as low as 2 percent, 4 percent, over the years. And we also have some ability to completely postpone the payment, interest only, principal due upon the balloon payment at the end of the loan term. So those are ways we've used the earned surplus, and we have several loans outstanding where that's been the case.

Recently, I think as the portfolio has aged, owners have been hesitant to take on that -- it's viewed as a Band-Aid, I guess, at this point where the Section 8 properties are all close to 30 years old, some of them even older than that. And they're getting so close to the end of their term, they know they're going to recapitalize, so why borrow a million dollars now and put a Band-Aid on if they can just limp along a few years, get to the end, and be able to really recapitalize and do the whole entire project at once?

So that's the push-back we've been getting lately from our borrowers, is they're just going to wait until Bob's presentation next about the risk share program, getting something like that that's more comprehensive back in place or until they can get to the end of their term and just do everything all at once.

But it has been very successful where we have been able to use it. People have been very grateful for it. It has helped the buildings, and we use it as much as we can.

MR. HSU: To be sure, the idea here to borrow from the earned surplus account is not in any way trying to interfere with the statutory use of the funds. We -- we simply are identifying this source as a source that has been accumulating, and it's an opportunity for us to borrow it before the funds could be ultimately deployed for the permanent statutory use of the funds. We're not trying to interfere with the statutory use of the funds.

Why is this interfund account borrowing helpful to us? At this time we do two things that creates a cash or liquidity stress over time, and some of these things we've been talking about with the Board for quite some time. We make swap collateral posting requirements with our counterparties, our swap counterparties, and also once every six months we make a swap net payment to our counterparties.

So the confluence of these two activities sometimes creates -- or every -- twice a year creates this stress on cash. And then on the next slide I'm going to show you how -- how this is happening.

And if we were to have the ability to borrow from the earned surplus account, what we think we can do is that that ability to borrow would help us with these liquidity stresses that we have twice a year, and in so doing we can probably not save as much of own cash for these activities and could be deploying this cash that we have on our own balance sheet, our unencumbered cash, to restructure debt, namely to redeem variable-rate bonds. So that's -- that's the why we're thinking about this.

On page 12 I thought I'd show a microcosm of this cash stress that I was referring to. So on January 25th, we had about $129 million of collateral posted with our counterparties. And on February 1st, the general obligation box makes a swap net payment on behalf of HMRB to the tune of $39 million, but it doesn't get that cash back into the blue box from the orange box until about three days later. So it's our $39 million basically for two or three days, depending on how you count.

And then furthermore, on February 8th, the blue box gets about $26 million of collateral back. So if you go to page 13, you can see this happening over time. So you can see that for most of December and most of January, the sum of the two bars -- so what you have in the dark blue bar is the amount of collateral we're posting to our counterparties, and what you have in the light blue bar is the amount of cash that we have in the green boxes that I talked about earlier under the umbrella.

So you can see that the sum of the two, it's -- it's about -- it's about the same over time, but then you approach on February 1st, then you can also appreciate that -- that the sum of the bar is now missing that $39 million I talked about in the previous slide because the general obligation advanced $39 million for the orange box and does not get that money back until a couple days later.

And then on the 8th, the blue box, the general obligation, gets that $26 million of collateral back in addition to that $39 million from the orange box, so all of a sudden our cash position improves tremendously between the first of -- February 1st and February 8th. And that's -- that's that cash stress that I'm talking about, that it would be -- it would be very helpful if we had the ability to borrow from a source for a very short period of time to help us tie -- to tide us through this cash stress so that we wouldn't have to use our own cash and part with our own cash to survive this stress. And that's -- that's the, sort of, business reason behind the idea of why we are requesting for this borrowing.

So on page 14, this is a summary of the suggested terms of this interaccount borrowing. So the lending party would be the earned surplus account, and the borrowing party would be one of the green boxes I showed you earlier, which is our -- which is the Agency's operating account.

And just some high level terms of the borrowing, we would still recommend that the earned surplus account would maintain at least $10 million at any given time, we would not borrow through $10 million, and that the interest rate that we are suggesting would be the most recent SMIF rate plus 50 basis points.

So just as a way of background is that $57 million of earned surplus funds is currently invested in SMIF, so we believe that if we were to do this borrowing and we offer the terms of the borrowing to be 50 basis points above last quarter's SMIF, that we think it's -- the earned surplus account would earn more than what it would normally earn, but in a rising rate -- in a rising rate environment, perhaps that 50 basis points could be -- could mean that the earned surplus account would earn a little bit less than what it would earn.

The term of the borrowing would be three months.

Did you have a question, Jack?

ACTING CHAIRPERSON CAREY: It's okay. Go ahead.

MR. HSU: Okay. The term of the borrowing would be three months. As I mentioned, I think that the need that we have is fairly short term. We thought it was important to put a very short-term maturity on this.

And then in furtherance to the idea that this is a short-term borrowing, at any given time the earned surplus account as lender could demand the money to be repaid in seven days. And then in all likelihood we would probably repay the loan ahead of maturity anyway, so that with a seven-day notice we could pay back the loan.

So back to the umbrella. So I just wanted to make sure that people see -- that the members of the Board see where this borrowing and this lending is happening. So the operating account in green is the borrower, and the lender, which is the earned plus account, in orange is the lender.

And I show here that the money would be

transferred from the lender, the earned surplus account, to the operating account, which is the borrower. And then a maturity or with a seven-day notice, the operating account in green would repay the loan to the earned surplus account in orange.

The rationale for the interaccount borrowing are some of the reasons I mentioned already. These, in some sense, are the pros of this authorization. If we had the ability to borrow from the earned surplus account, it certainly gives us the financial flexibility so that we can do more debt restructuring, as I mentioned.

Can this borrowing interfere with the statutory use of the funds? As I mentioned, that -- the borrowing is not going to interfere with the statutory use of the funds, which is to reduce rent.

Is this need for the borrowing long term? And I think this is an important point. Suppose we had the authorization to do this. This is something that we want to do for five, ten years. The answer is no. As our swap obligations amortize, there's liquidity demands on the Agency, and need to borrow will decline over time.

If you flip to page 18, on page 18 this is a slide that shows the expected decline of our swap notionals and the swap mark to markets over time. So what you can see here is that between now and 2015, just because we are exercising the options that we have talked to the Board about in the past and also the shortening of the swaps, using a static forward interest rate curve, about a week before February 1st, around January 25th, you can see that all else being equal, even if we don't assume that interest rates were to rise, we expect that the mark to market on the swaps would decline. And again, if the mark to market decline, the collateral demands would decrease, and our need to borrow would also decline.

And last, it's -- it's a very important point and something we've talked to the Board about a lot, too, which is the ratings that we must maintain for the Agency. Will this authority help the Agency's rating? It is our belief that the rating agencies will conclude that this is a credit positive. This will allow us the financial flexibility and will give us a better liquidity profile and also give us the ability to use some of our cash to take out some of our VRDOs, our variable-rate bonds. So we think that all in all this is going to be -- this is going to be a credit positive from the standpoint of the rating agencies.

And it wouldn't be fair for me not to present the cons of the borrowing. Would anybody object to this borrowing? And I think that it's possible that the project owners of these Section 8 projects or other project owners of Section 8 projects and certain affordable housing advocates in the state, they could argue that this is taking away a source of subsidy for affordable housing.

My counter to that would be that, again, this is not meant to -- this is not meant as a use of the funds. This is meant as a short-term borrowing. We're not going to interfere with the statutory use of the funds.

And the last question is that can we fail to repay this loan on a timely basis? And this is a subtle point that we have talked to the Board about at some length in the past as well. If our general obligation rating were to be downgraded out of the A range, the borrowing could become a longer term in terms of time horizon versus a short-term horizon as I've been discussing.

And the reason for that is that if we were to get downgraded, our collateral posting requirement, instead of roughly the hundred million dollars that it is today, it would roughly double to about a $200 million range.

But we believe that if that were to happen, while the horizon could lengthen, we do have some mitigants. We would probably -- we will. I shouldn't say “probably.” We will immediately engage on monetizing some of the assets that I have shown under the umbrella in the green boxes. We do have some unencumbered assets under the green boxes, and we would immediately engage in monetizing them so that we can have cash to repay this loan sooner rather than later.

And the other mitigating factor is, as I mentioned, that -- on page 18, that our swaps are amortizing fairly quickly. And I see that as a mitigant because what you're -- what will probably cause the possibility of us having an issue here is the cross of the lending on the earned surplus account rising rapidly and also the decline of our swap collateral posting requirements.

So at some point if our lending out of the earned surplus account rises real quickly, then it would give us less time for the swap to amortize so that this becomes less of an issue. But if our lending out of the earned surplus account does not -- does not increase quickly over time, then it could give us the time to work off these swaps so that the need to borrow from this fund would also decline.

So that's our presentation. And as I mentioned earlier, we're not requesting for a vote from the Board at this time. This is simply informational. And we're happy to take any questions that you have at this time.

ACTING CHAIRPERSON CAREY: Questions?

MR. WARREN: Margaret, you mentioned that in the past the lending program based on our surpluses had moderate activity, might be a fair assessment. If you could change something within your power, not statutorily, but are there things that you could do to accelerate? Obviously there's original intent, but from a policy standpoint, the first question is what can be done to change now to make it more effective, if possible? So maybe talk a little bit about the eviction issues. Are there other issues that kind of hang onto this that restrict borrower interest in this?

MS. ALVAREZ: Well, I think one is that the Agency has always considered everything that we lend is a loan and it required payment back. With the earned surplus, you probably actually could give a grant and not expect money back, which would then, of course, deplete the money at some point and not make it useful for other people, but that is one way that you could do it.

I think in the past we haven't tied it as well to our first lending programs as we could. And with the amount of preservation needed and rehab needed on the -- on the properties, I think if we used it more in conjunction with our first lending program and actually made like a CalHFA second using the earned surplus money for specific rehab needs, that would probably help too.

The purpose of the money is you have to somehow decrease rents, so that makes it a little difficult to use, too.

At some point maybe we want to consider changing the wording of our statute if we were really brave, but that, you know, opens up a lot of possibilities and could hinder us more, depending on how the Legislature acted when presented with an opportunity to change the wording of the use.

MR. WARREN: And a technical question. If the money is re-lent with these -- lent with these restrictions and repaid, do the requirements under section 5 remain with the property once the loan is repaid?

MS. ALVAREZ: Yes, I believe so. Yes.

MR. WARREN: Okay.

ACTING CHAIRPERSON CAREY: Yes. Mr. Boyken.

MR. BOYKEN: Thank you.

I just wanted to thank you on behalf of -- the Treasurer thanks staff for agreeing to continue to work on the legal issues around the interaccount borrowing. I think you made a very convincing case in your presentation on the need and the usefulness for the interaccount borrowing and the fact that the earned surplus account has the funds available for those needs. But the Treasurer's reservation really has to do with whether the statute gives us the authority to do that borrowing, so I just wanted to say that.

Thank you.

ACTING CHAIRPERSON CAREY: Other questions or --

MR. WARREN: I would just ask, I think in conjunction with the preservation efforts that -- to Ms. Alvarez's comments that it be part of the plan, I think, for the utilization of these funds and to be part of the preservation plan. And I think with that all said, I agree, I think short-term liquidity is a very important thing for the Agency today. And given the nuances of the market, I think it's a good idea to be able to do that, provided it's something that could be done, so.

ACTING CHAIRPERSON CAREY: In essence what we're having to do is keep significant amounts of cash on hand for very short-term uses. It ties it up somewhat unnecessarily, depending on legal issues.

Okay. This is -- the Board will not be acting today specifically, but we will take public input. If there's anyone in the audience who would like to comment on this matter specifically, please feel free to do so at this time.

Seeing none, we will continue this to --

MS. CAPPIO: To whenever. I mean --

ACTING CHAIRPERSON CAREY: -- to a future agenda.

MS. CAPPIO: Whatever it takes.

ACTING CHAIRPERSON CAREY: All right. Thank you.

--oOo--

Item 7a. Update and discussion regarding Multifamily Portfolio Preservation Program using a renewed HUD 50/50 Risk Share Agreement.

ACTING CHAIRPERSON CAREY: Moving on to item 7a, update on the multi-family portfolio preservation program. Mr. Deaner.

MR. HSU: You haven't gotten rid of me yet.

ACTING CHAIRPERSON CAREY: We aren't done with you yet?

MR. DEANER: We try.

MR. HSU: I thought that I'd set the stage of the preservation program by setting the stage of our existing authority of doing risk share.

At the last Board meeting, the Board adopted financing Resolution 12-02. And in 12-02, the resolution adopted Article XIII of the residential mortgage revenue bond general indenture. And that's the -- that's the article of the indenture in which all this new multi-family lending business is going to occur this year. And inside that article it permits risk share as being a permitted mortgage for those bonds.

So I just want to set the stage by saying that we -- we determined that it was not necessary to make this into a resolution because the authority to do risk share and to finance risk share was embedded in the Board resolution that the Board adopted at the last meeting.

And in addition, the lending authorization for risk share is also in current existence, and Victor was going to talk about that a little bit.

MR. JAMES: Oh, but -- yes, by virtue -- do you have a slide?

MR. HSU: Yes.

MR. JAMES: Oh, I'm sorry. I was being chivalrous with putting a jacket on Ms. Owen.

MS. OWEN: I'm freezing.

MR. JAMES: Yes. As you know, some of you know, the risk share program has been in existence here at the Agency since 1994. And we -- we identified the two resolutions that created it and -- the risk share program. And the first, in July of '94, identified it as a pilot, but thereafter under -- pursuant to Resolution 95-19, it was actually adopted and has been adopted in subsequent years when risk share has been actively presented to the Board through the business plan, which, as you know, under our statutes and our regulations, there are effectively two ways to -- to approve a new lending program, and that's either through resolution and/or through adoption by the Board if it is expressly set forth as a line item in the budget.

So the program has never been rescinded. It's remained active. We -- meaning it's consistently been in our financing resolution and always a part of our -- the authorization for the Board to go forward with risk share projects, should they be prudent, if they're practical. And at this point, that has sort of resurfaced, and they make cost-effective sense to -- to renew that program.

MR. HSU: So we have the financing authorization, and then we have the lending authorization. And then the final hurdle is our good friends in D.C.

Treasury, over this past weekend actually, just approved our use of the NIBP proceeds in conjunction with a risk share program, or it could also be said the other way around: They approved the use of risk share loans in conjunction with NIBP proceeds.

At the last meeting, we talked about we have just -- it just so happens that we have about $800 million of single-family allocation that remains unused, and about half of that, 400 million, would be transferred from single family into multi-family. And out of that $400 million, $150 million would be allowed to be used for risk share for our own multi-family preservation programs that can go to NIBP. And then the other half, the other half -- the $400 million that we're not to going transfer, that will be used for the single-family refunding that we talked about last time.

I know that at some point members of the Board have expressed concern that new initiatives or new lending, what they do to our credit ratings and what they do to our capital adequacy. And I think I represented at the last Board meeting that there's a lot of eyes on these kind of approvals. When Treasury approved this program, they looked at many, many things. They looked at the impact on TCLP and that there we made a case that we believed this preservation program would result in prepayments of the existing loans, which would allow us to cull down TCLP-backed VRDOs, which is a good thing from Treasury's point of view, to take out TCLP.

And in addition, the amount of capital set-aside that we think will result from the program is -- it's not going to be overly onerous to result in any impact on our credit ratings. And as I pointed out with this slide, that's to the tune of about $13 million. And that estimate can be reduced depending on the status of the loan that's paying off.

MR. DEANER: Okay. I wanted to give just a quick highlight of the existing program. As we've stated, we have had it since '94. It is a 50/50 risk share program, meaning that we take 50 percent of the risk and HUD takes 50 percent of the risk.

And what Tim was just saying on the capital, I kind of look at it as we have an existing loan we might have a hundred percent of the G-O on and we recapitalize that loan and do it through the risk share program, might actually reduce our risk on that particular deal. It's going to depend on the size of the new loan and the amount of rehab, but that would be a positive.

We do want to, for this year, in 2012, marry this program with the New Issue Bond Program. Part of the approval of 150 million from Treasury was also that we have to do a 17-year term under the program. I have a waiver request in to HUD D.C. because they are fully amortizing loans, 30-year term, 30-year ams, 35, 35. And they -- it's a regulation waiver to them. So what they're -- they're doing is I made it specific to the New Issue Bond Program, and in turn they are drafting a waiver approval letter that will be specific to the New Issue Bond Program.

I spoke to them as of Monday. So that will be in conjunction with the New Issue Bond Program, and I will talk about the timing in a minute on how to do the preservation deal, we do need HUD to sign off to -- before we issue our firm commitment and the timing of that and going to CDLAC and TCAC. And I'll talk about that briefly in a minute.

All these loans will be beyond their 15-year compliance period. They will be subject to yield maintenance and bond costs associated. And Tim and I are working on those types of charges and how we can work on those costs within the deal. And then obviously the projects are within the portfolio, so they are with nonprofits, for-profits, and various folks.

One thing we wanted to highlight was the portfolio in that we have over 500 loans. And you can see in there almost all of them are significantly affordable at the various levels. And by 2020 we are going to have more than a hundred loans maturing, which has 6,000 restricted units. To date we've had requests of 45 to 50 borrowers that have requested to recapitalize their loans. They're beyond their compliance period. They need to do -- some really need to do rehab. We have 10 or 12 projects that have water intrusion, termite, those types of issues, that would love to recapitalize their loan and recast and get new tax credit investor in to provide the rehab.

The goals and objectives is to obviously preserve the housing within the portfolio, to extend the affordability and to provide the rehab. That all benefits not only the developer -- the owner, but also benefits the tenants. We would like to renew the Section 8 contracts, the HAP contracts, and extend them out. So in the end, the program is achieving the goals of the Agency that we've had for many years, which is to extend affordability and to provide needed rehab on a number of projects.

Also, it would give us the opportunity to do maybe some energy efficient retrofits. Now that there's a big push within California to see if we can cut down on energy use and the carbon footprint and such, that this could give us an opportunity to take some of these older projects that are 25 years old or plus and recapitalize with more energy efficiency appliances, windows, roofs, that -- those types of things.

All the projects will come to the Board for approval. Again, that -- that goes to -- that goes to timing, which I don't know if I brought that slide. I had a slide about timing. But in essence, we need to start talking to folks the first part of April, get deals in the door to hit the New Issue Bond Program time lines. The extension does expire at the end of the year, and they only allow a number of release dates, meaning that a lot of these loans have to close at the same time. So there's a number of approvals that need to happen -- Board approval, CDLAC approval, TCAC approval, HUD's approval -- before we issue firm commitment and then preclose these so we can do a release date by the end of the year.

So we're going to be very busy come October, November, December. My guess is we'll start getting deals in sometime in May -- April and May, and we'll just have to time line these out to get through the various approvals.

The next slide is on the previous New Issue Bond Program. I just want to give you an update. So at this point I just want to give you a quick overview of the -- of the risk share program and the things that we're planning on doing. If there's any questions, I'll be happy to answer.

ACTING CHAIRPERSON CAREY: Questions?

MR. WARREN: And I apologize, Bob, I have some passing familiarity with the subject matter, so I --

MR. DEANER: Just a little?

MR. WARREN: And I -- and I was -- just a little bit. I was in the room in May of 1995 when it was passed. I don't remember what I was doing, but I was there.

A couple of questions, though. Are these primarily the Section 8 assisted? Bob and Margaret? Is that really going to be the target here? You mentioned 15-year tax credit period. Are tax credit projects also in the mix for NIBP?

MR. DEANER: We're -- it's going to be both, yeah. We're going to -- we're working on the portfolio right now and trying to identify projects. Because we've had both Section 8 and we have some tax credit projects that are in need of rehab. So in talking to folks, I've talked to a number of developers, and there's a sense that there's projects out there for various reasons could use rehab, so we are going to look at both.

MR. WARREN: And these would be outside of Section 8?

MR. DEANER: Yes.

MR. WARREN: Explain to me again the waiver you're requesting from HUD.

MR. DEANER: The waiver is a 17-year waiver. So currently they're a -- they're a 30-year am with a 30-year term. We could put in a 17-year yield maintenance on that because we determine the yield maintenance, but it's not a hard term that Treasury needs. Treasury requires that year 17, that the deal refinance or they want out of the bonds in year 17. So we had to request their waiver -- to their regulation, I'm sorry, the regulation they have within their program, that they give us a waiver to allow to do a hard 17-year term on deals that will be married with the New Issue Bond Program.

MR. WARREN: So is that a due and payable in year 17?

MR. DEANER: That is correct.

MR. HSU: Could I add a little color to that?

When we were -- when Treasury decided that the unused single-family allocation could be transferred to multi-family, they were trying to keep the OMB scoring of the two programs at rough parity. So the single-family program with some assumed prepayments could have an average life of maybe 11 or 12 years. And with a 30-year nonpayable multi-family loan, the average life is much longer than that.

So the compromise that was struck was that they said that we want -- we want single-family allocation transferred to multi-family to have a balloon payment at year 17 so that the two average lives, the two expected average lives of the two programs could be closer.

So that's why on the NIBP side they said that the loans, underlying loans, need to have a balloon feature at year 17 so that the balloon can be used to redeem out NIBP bond proceeds. And that's filtering to the HUD folks at risk share and making them -- thinking that a waiver to allow the 17-year balloon would allow folks like ourselves to use risk share inside NIBP. Because as you know, the only folks who underwrite to a 17-year balloon are the GSEs and not HUD, traditionally.

MR. WARREN: Well, I would argue that HCD, for example, has a position that bullet loan 17 years is -- is a detriment to some projects, and it's an issue that we're dealing with today in the recasting of the RFCP loans. So traditionally that's not -- the GSEs and the HFAs traditionally diverge on their philosophies about bullet loans and have in the past, notwithstanding the realities of NIBP.

So I put that out there as a concern. I appreciate the need to shoehorn it in. But I can say that it is an issue because there are those advocates that say that bullet loans now put us in a position where projects are at risk, particularly if there's a mismatch between the 20-year contract term that you're going for and a loan that expires prior to the termination of that contract term. So I think there's an issue there for you to work out. I don't think it's a killer, quite honestly, Bob and Margaret, but just be cognizant that that's --

MR. DEANER: Okay.

MR. WARREN: -- that from a risk standpoint you have a bit of a mismatch.

So the last question I have and I promise, Mr. Chairman, I'll be quiet on this issue, but the issue about yield maintenance and greening. Are you going to put requirements in your rehab that are some green requirements that mandate the borrowers to -- the new borrowers to do, or is there a set of guidelines you're going --

MR. DEANER: Well, we're going to work on --

MR. WARREN: -- to adopt for this program?

MR. DEANER: We're working on guidelines right now. We're still working that out, but we're working on guidelines. We'd like to see some green initiative within the projects. We haven't decided if it's going to be required or a guideline, but we are working on those as we speak.

MR. WARREN: Okay. So I think that that's an issue, and obviously there's always -- along with the questions about yield, but I think that certainly encourages staff to put elements in there and figure out a way to pay for it has always been the complaint in the past.

MR. DEANER: Um-hmm.

MR. WARREN: Okay. Thank you.

ACTING CHAIRPERSON CAREY: Other questions or comments?

--o0o--

Item 7b. Update regarding 2011 New Issue Bond Program

MR. DEANER: Okay. Well, I'll go to the New Issue Bond Program from 2010/2011. I'll make this quick. For the folks, the Board members, that haven't been here before when I've made this presentation, just a quick overview.

And at the end of 2009, Treasury came out with the New Issue Bond Program to assist at the time when the bond market was frozen, to get projects off the ground. And so we were allotted $380 million to use for projects, multi-family projects, that would be credit enhanced either by Fannie Mae and Freddie Mac or HUD at the time.

We opted not to use our risk share at that time for various reasons, but we -- so we acted as a conduit issuer only. So our job was to make sure that we could get these dollars out and get a Fannie, Freddie or FHA credit -- or a HUD credit enhancement on the bonds to get a number of deals restarted, which is exactly what happened.

Most of the transactions got dumped through Freddie Mac. The next page will show all the projects we did. Of the 380 million, 287 million or so we did in multi-family for new projects. We did use 90 million or so within the portfolio to refund some bond and -- through Fannie Mae, which Tim and I worked together on.

So the next page just gives the results that all the dollars went out in the program. In 2011 we did 122 million of what was left of the New Issue Bond dollars. The $147 million is -- is -- the way they structured the program, you could do both the New Issue bonds and have a taxable bond piece on top of it, so we had some projects that allotted to do that. But in 2011 it was a total of six projects, about a thousand units, and we made some fee income off of that.

If you combine 2010/2011, we put a total of -- of my 287 million, it was a total of 331 million including the market-rate bonds, and then Tim utilized the 90 million and did put out to refund some bonds. So we put out the full 380 million for a total of 22 projects of 2800 units, 25 -- 2500 of the units were affordable, and we generated a decent amount of fee income, and we did get some prepayments. We had eight projects that were within the portfolio that did utilize it to rehab their projects.

And as I put down there, we already discussed that Treasury extended the New Issue Bond Program and what was left in single family to allocate some funds in multi-family, which we'll use for the preservation program. So I just wanted to highlight, the original use of the New Issue Bond Program went very well.

I do want to state that under this New Issue Bond Program where we acted as a conduit issuer only, the terms were quite different than what the terms are today. When Tim mentioned there's 400 million to come to multi-family and 150 we'll use for preservation, the 250 that's left we could use as an issuer, but those terms for the pricing and such are more on top of market than it was with this program. It was really below market because it was -- it was set up to get projects started again that had stalled.

So the remaining 250 that we have, it will be yet to be seen if it utilized just because the market, one, has -- has significantly come back and, two, the pricing is about where market is. So we'll see what the appetite on just the conduit issuer side will be on that, on that 250 that's remaining.

But it ended up being a very successful program. We put it out in 22 projects and created 29 -- or 2800 affordable units, so very successful.

ACTING CHAIRPERSON CAREY: Great.

MR. DEANER: So any questions?

ACTING CHAIRPERSON CAREY: Questions?

MR. HSU: Can I add one more comment?

The $400 million that were transferred from single to multi, that could be used to -- we could originate that $400 million at our convenience for the remainder of the year. That has been approved. The single-family refunding of $400 million, which is more tied to the extension of TCLP, that element has not been approved.

So Bob can do what he needs to do on his side, but on the debt restructuring side, the single family, that has not been approved with Treasury, with U.S. Treasury.

MR. SHINE: Do we get a break today?

ACTING CHAIRPERSON CAREY: I guess you deserve a break today.

We will take a ten-minute break between items. Thank you.

(Recess taken.)

ACTING CHAIRPERSON CAREY: Okay. We're back in session.

--o0o--

Item 8. Draft CalHFA Business Strategy Framework for 2012-13.

ACTING CHAIRPERSON CAREY: On to item 8, look ahead at the business strategy framework for '12/13. Ms. Cappio.

MS. CAPPIO: Thank you. I'd just like the record to reflect I'm now acting in my executive director capacity.

As the short memo that you have in front of you notes, the senior management team has been working since December on revamping the Agency, given our financial context and status, the reorganization efforts going on with the Administration and obviously our diminishing resources, because we're not doing that much tax-exempt bond work anymore.

We were helped in this effort by the Notre Dame Mendoza School of Management. They do a lot of work with HFAs around the country. We identified five broad policy areas for focus in the next year, and you have heard about two of them this morning, the restructuring of debt and the pursuit of the multiple-family lending with a focus on preservation and recapitalization.

In addition to that, we have to pursue new sources of both capital and income and look at an internal review of our business operations, most specifically now with looking for efficiencies and effectiveness on the REO loan modification and delinquency of the HMRB.

We also have started and will continue vigilantly working with HCD in reorganization efforts. We're looking at this both in terms of transformational actions and transactional actions, knowing that our separations are -- our current operations are just as important as finding those new areas of focus to lead us into the future.

We have a task list. It's evolving. I plan to come back to you in May with that task list and strategy more formulated and obviously linking the budget for the next year to that. I look forward to presenting and discussing those results. I think senior management is both excited and committed to this effort.

And I look -- I will be glad to address any questions you've got.

ACTING CHAIRPERSON CAREY: Questions? Comments?

Yeah, I'd just mention that the emphasis on the -- in the policy on the advocacy role, I think is great. It's an enhancement of the historical role, and I think it's a great move for this Agency to get more engaged in that.

MS. CAPPIO: Okay. Thanks.

MS. OWEN: I'd like to also echo on I'll be excited to look at the permanent and sustainable source of income for the sustainability of the organization. I think that's going to be crucial.

MS. CAPPIO: Well, I'm actually envisioning for the, sort of, sustainability of affordable housing in California, that's how important it is right now with the demise of redevelopment.

MS. OWEN: Agree.

ACTING CHAIRPERSON CAREY: Other thoughts? Comments?

So in May we'll see --

MS. CAPPIO: Yes.

ACTING CHAIRPERSON CAREY: -- the final product. Great.

Changing hats again?

MS. CAPPIO: Yes.

--o0o--

Item 9. Keep Your Home California update.

ACTING CHAIRPERSON CAREY: All right. With that, we'll move on to an update on Keep Your Home California. Di Richardson. Thank you.

MS. RICHARDSON: Good morning, Chair, Members.

I do have a memo that I prepared for you that's in your packet. It's a very brief memo just -- you know, every day is different with this program. And so what I'm going to do is just, sort of, update you a little bit on what's changed since I wrote this a few days ago.

So right now the amount that we currently have committed is 263 million, and that represents over 13,000 unique. And this is homeowners -- it's households, I should have said, households.

We have, you know, in the past several months, as you know, really kicked up our marketing efforts quite significantly. Hopefully you've all heard the ads on the radio. They're playing statewide. We did purchase those ads through 2012. We can cancel them if we find they're not effective, but so far we're finding that that's one of the things that -- that homeowners are saying that they're finding helpful. We were able to purchase those in December so we could lock in the 2011 prices and not get caught up with the increases that are going to come in this fabulous election year.

We also have a new contract with the CBA, the -- to do more television PSAs. You know, we tried that a few months ago, and we were a little surprised that we didn't get a better lift from that. The CBA was actually -- that's the California Broadcasters Association. They were actually rather surprised as well.

And in looking back, they think it was because we sort of hit at the same time the federal government hit with a bunch of HAMP PSAs, and they thought that may have confused the issue. And so they came back and offered us another deal at the same cost, twice as many stations and twice as long, so we jumped all over that.

We've entered into a contract with an organization called Crossings TV. It's a cable station that plays in five different languages all day long, and, you know, there's Russian, Hmong, Vietnamese. They actually took all of our -- our existing -- they took an existing PSA, they recreated it in each of those languages. Those are also available on our Web sites. And they took all of our collateral material and translated it as part of the contract. And it's a really -- we got a really good deal on that contract, so that's going to be playing for -- for quite a while.

We -- I think that is, sort of, the big -- well, first I'll tell you about our outreach efforts. You know, a few months ago -- I have no concept of time. I have to admit that right up-front. I mean, things just sort of run together for me. But we did bring onboard somebody, a community outreach manager, to specifically focus on going to community events and getting those scheduled and getting our brochures out. And in the last few months through I think -- you know, through April, we were counting, and we will have done 150 community outreach events.

We've been working very closely with our counseling agency partners to get them more involved to going to some of these events for us. Again, this is something that we always anticipated would happen. You know, they're in those communities. They have those relationships. And we really want to be able to leverage that. And I think that that's really starting to take off and become more successful.

Speaking of the counseling agencies, we have reopened the RFP. It was -- you know, it was a year. We went back. We sort of took a look at, you know, performance and what was working and what wasn't, and we have a new RFP that's available for other counseling agencies that may want to apply.

That is being managed by RCAC. They manage the current contract. So I -- I actually didn't ask Judy before we left what kind of response she's getting, but I believe that the period for applying runs through the end -- through -- through this month, and we hope to have some more agencies onboard beginning of April to help us do more outreach.

There are two very large events that are going to take place next week, one in Sacramento on the 20th, one in Los Angeles on the 22nd. These are big events that are sponsored by the Making Home Affordable federal program, Hope Now Alliance. You know, this is -- these are those kinds of events -- it's at the Sacramento Convention Center and the L.A. Convention Center, where they bring in a number of lenders and counselors, and homeowners can come and hopefully get some help with their mortgages.

We will have our -- we have some of our counseling partners that are participating in each of those, and we will have Keep Your Home California staff at both of those events. In addition, a number of CalHFA staff have volunteered to help out at those events. I don't know how many of you have ever been to one, but they are, you know, exhausting, just the number of people that come through there and the issues that they're having. They're emotionally draining. So I just want to say again, thank you to the CalHFA staff that have stepped up to volunteer for that.

The -- the big piece of news for us this last week, we've been having conversations with EDD for a while now about trying to get some information about the Keep Your Home unemployment program in mailings that they do directly to unemployed borrowers. It just seemed like a very natural match for us.

And they have a number of constraints, both at the federal level and at the state level, statutorily, that they haven't really been comfortable doing that yet, and we've been trying to work through some of those issues. And we got a call late last week, and they told us that they've got a mailing going out this weekend to one million EDD recipients, and they're willing to put our flyer in there.

So we created a specific flyer for -- yeah, it's good. It's really good. I'm kind of having heart failure because, you know, if a million people call, I'm -- you're never going to see me again, but -- and I think it's a really -- it's -- it's a -- we know that one of the problems in doing outreach is that people don't open their mail. But this is a number 10 envelope with the EDD logo on it, so we think that they're going to be much more likely to open this.

There are going to be three pieces of paper in this envelope. Two are a black -- are black-and-white pieces from EDD talking to them about this new tele cert and Web cert thing that they've got going on, and then there's this really gorgeous color, you know, Uma (phonetic) piece that we think will really stand out.

So we're hoping that that will -- that that will give us a really great lift for the unemployment program.

And with that, I'll just open it up for questions.

MR. HUNTER: I just wanted to comment. I heard the radio ad probably half a dozen times in the last two weeks in San Diego, and I said, "Whoa, there it is." It was the first I'd heard it, so that was good.

I also -- the Times did a big article on this program nationally recently, and it -- as much as we've been struggling to get these funds out, it seems that no other states are having any better success.

MS. RICHARDSON: That -- that's -- that's correct. I mean, we actually have more money out the door than any other state. Percentage-wise -- you know, we did get more money than other states, so percentage-wise we're probably about third.

For us, I think that the biggest reason we don't have more money out -- and I meant to talk about this, actually. You know, we go back and we reevaluate and we look at things and why isn't this working and what can we do differently and how can we make this work? And we do that, you know, every month, every other month. And we're actually getting ready to propose some significant new changes to Treasury in our program that I think will make a very big difference.

The biggest, you know, we had the -- we knew that the cash-out refi was a big reason that people weren't being qualified. That's gone. That's made a huge difference. We knew that the owning a second home was a big issue. That's gone. You know, that's made a very big difference.

We've done some things internally to streamline some of the administration of the program. We think that's made a really big difference. We've been working with lenders. You know, we have the Mortgage Reinstatement Program. That's been -- it hasn't worked as well as we would have liked it to work. We've been working now with other states and with the largest lenders to, sort of, create some symmetry between all of those programs. Again, that makes them easier for the servicers to implement, and I think we're going to -- you know, we're seeing that program starting to take off.

The biggest -- the biggest drag for us is still the lack of lender participation in the principal reduction program and the fact that the GSEs will not do principal write-down.

MR. HUNTER: So then that leads to my other question. Does staff have an opinion as to whether the settlement with the banks is going to lead to -- create a willingness to do principal reduction, and will those affect our portfolio?

MS. RICHARDSON: I always have an opinion, Mr. Hunter. Yes. I do have an -- I actually have had numerous conversations with the banks, and I actually think that it will make them less likely to participate in our program.

The reason is -- I mean, the argument that I tried to make to them is that you can do your write-down under the Attorney General's settlement, and that's your match. And you can bring in additional money, do a -- do a better, you know, modification for the borrower.

Under the Attorney General's settlement, they can go down to a hundred-percent LTV. Ours is at 115. So I think that they're going to try to go a little bit lower, because, you know, they get -- they have very significant penalties if they don't do their write-downs. So -- so that's something that's a little bit of a mitch match -- mitch match -- mismatch that we're going to, sort of, try to address here in the near future.

And the other thing is, I mean, the banks, they get very focused, and they focus on one thing. And right now the thing that they're going to focus on is complying with that settlement.

So we're -- like I said, I -- you know, we have some ideas for some changes that we're going to propose that will make our program more -- more attractive and allow us to perhaps not -- you know, right now we're all kind of fighting over that same little pool of borrowers. And, you know, there's just not enough room in that pool for all of us, so we're going to try to figure out a way to get into one of those other pools.

MR. WARREN: I was going to ask, given the settlement, in a way it's positive because it opens up arguably more marketing opportunities and other borrowers that kind of slid by, so I'm interested that part of your plan is to look at those other areas as well as enhance the program itself.

MS. RICHARDSON: Correct.

MS. OWEN: Di, where's the RFP? Where did --

MS. RICHARDSON: Where can someone find it?

MS. OWEN: Right.

MS. RICHARDSON: It's on the CalHFA Web site, it's on the Keep Your Home California Web site, and it's on the RCAC Web site. And it was sent to every HUD certified counseling agency in the state of California.

MS. OWEN: Thank you.

MS. RICHARDSON: So we did that last time. You know, I don't know what else to do if somebody hasn't seen it, but it's there. And everybody that's asked if -- we tweeted about it, we Facebooked about it, you know.

ACTING CHAIRPERSON CAREY: Has the State in any way added its weight to the GSE question?

MS. RICHARDSON: Well, the Governor did send a letter, let's see, how -- go ahead, thank you.

MS. CAPPIO: They have added their weight, but it wasn't very positive, although it's at their discretion. The Governor did send President Obama a letter about six weeks ago calling for Mr. DeMarco's -- to fire Mr. DeMarco. We were right in the middle of some discussions with the GSEs, so that didn't really help. But that was -- it's his executive privilege to do so, so.

MS. RICHARDSON: Right.

ACTING CHAIRPERSON CAREY: Other questions or comments?

It's exciting to see increased activity, and I think we all -- we all would appreciate the fact that staff is volunteering in addition to those that were going to be able to make this and appreciate those who take their own time to really put that Agency mission out there in, again, what you point out is a really difficult room to be in.

MS. RICHARDSON: Yeah.

ACTING CHAIRPERSON CAREY: It's terrible stuff.

MS. RICHARDSON: It's very eye-opening.

ACTING CHAIRPERSON CAREY: Anger, sadness, all those things. Denial.

So, okay, thank you very much.

--o0o--

Item 10. Reports.

ACTING CHAIRPERSON CAREY: With that, we have our normal reports. Are there any issues in those reports that Board members wish to raise or that staff feel deserve specific attention?

--o0o--

Item 11. Discussion of other Board matters

ACTING CHAIRPERSON CAREY: Seeing none, any other Board matters?

--o0o--

Item 12. Public testimony

ACTING CHAIRPERSON CAREY: Seeing none, this is an opportunity to be afforded at every meeting for any member of the public to address the Board on any other matters that they would care to share with the Board. Is there anyone who wishes to speak to the Board today?

Seeing none, Ms. Cappio.

--o0o--

Item 13. Adjournment

MS. CAPPIO: I would just respectfully request that we adjourn this meeting in a moment of silence for our beloved general counsel, Tom Hughes.

ACTING CHAIRPERSON CAREY: Thank you for that.

(Period of silence.)

ACTING CHAIRPERSON CAREY: With that, we are adjourned. Thank you.

(The meeting concluded at 11:41 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 2nd day of April 2012.

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

THIS PAGE INTENTIONALLY LEFT BLANK

California Housing Loan Insurance Fund

Financial Statements and Supplementary Information for the Years Ended December 31, 2011 and 2010, and Independent Auditor's Report

THIS PAGE INTENTIONALLY LEFT BLANK

CliftonLarsonAllen

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

Independent Auditor's Report

Board of Directors
California Housing Finance Agency
Sacramento, California

We have audited the accompanying balance sheet of the California Housing Loan Insurance Fund (the Fund), which is administered by the California Housing Finance Agency (the Agency), a component unit of the State of California, as of December 31, 2011, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the California Housing Loan Insurance Fund as of December 31, 2010 were audited by other auditors whose report dated May 5, 2011, expressed an unqualified opinion on these financial statements prior to the restatement discussed in Note 10.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only financial information about the Fund and are not intended to present fairly the net assets, revenues, expenses, and cash flows of the Agency in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of December 31, 2011, and changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2012 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

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

CliftonLarsonAllen LLP

Baltimore, Maryland
April 30, 2012

CALIFORNIA HOUSING LOAN INSURANCE FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS YEARS ENDED DECEMBER 31, 2011 AND 2010

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

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

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

Underwriting, acquisition, and issuance expenses are charged directly to the Fund as well as loss and loss adjustment expenses. Certain administrative and operating expenses, including office space, business services and supplies, legal services, accounting services, information technology support, and human resource support services, are provided by the Agency and indirectly charged to the Fund. The basic financial statements of the Fund include the balance sheet, statement of revenue, expenses and changes in net assets and statement of cash flows.

FINANCIAL RESULTS 2011 – 2010

- Insurance in force decreased by $484 million, or 20.8%, to $1.8 billion as of December 31, 2011, compared to $2.3 billion as of December 31, 2010. The Fund ceased committing to insure new loans in September 2009.

- The Fund had an operating income of $1.6 million for 2011. Net operating results of the Fund improved by approximately $26.5 million in 2011 compared to the operating loss of $24.9 million in 2010. This was primarily due to a decrease in losses incurred during 2011 as the rate of growth of delinquencies declined and the reserve for loan losses declined during 2011. The Fund has a net deficit balance of $91.8 million at December 31, 2011, compared to a net deficit balance of $93.4 million at December 31, 2010.

- Home mortgage delinquencies declined during the year, the delinquency ratio for the insured portfolio decreased to 19.3% in December 2011 or $356 million, down from 21.2% or $493 million in

December 2010. Gross insurance claim payments were $149.8 million and $167.3 million in 2011 and 2010, respectively, before reinsurance.

- The Fund's reserve for loan losses decreased by $14.0 million in 2011 to $35.6 million as a result of the Fund's decreased number of delinquencies outstanding. The Agency continues to monitor delinquencies closely and is proactive in its attempts to mitigate losses.

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

- In May 2011, Moody's Investors Service downgraded Genworth to "Ba1" from Baa2" and the outlook is negative because of the continuing uncertainty and downside risk for significantly higher levels of delinquencies and losses over the next few years. In July 2011, Standard and Poor's Ratings Services ("S&P") downgraded the counterparty credit and financial strength ratings on Genworth to "BB-" from "BBB-".

- During 2011, Moody's rating of the Fund remained unchanged at "Caa3".

- During the fourth quarter of 2011, the funds available to pay claims and expenses of the Fund were temporarily depleted. The Fund continues to receive its share of premiums from policies still in force and will use the monthly premiums received along with any other available funds to pay the Fund's claims on a "first-in, first-out" basis in the order in which the claims are received after paying the monthly operating expenses of the Fund (see Note 2) and continues to remain dependent upon the ability of the Fund's reinsurer to pay its share of the claims. (see Note 5).

- The 2010 Financial Statements have been restated to reflect premium reserve deficiency previously not recorded. The result of this adjustment was to decrease net assets by $68.6 million in 2010.

2011 COMPARED TO 2010

CONDENSED BALANCE SHEETS

The following table presents condensed balance sheets for the Fund as of December 31, 2011 and 2010, and the change from year to year (dollars in thousands):

	2011	As Restated 2010	Change
ASSETS			
Cash, cash equivalents, and investments	$ 170	$ 28,081	$ (27,911)
Other assets	1,197	1,019	178
TOTAL	$ 1,367	$ 29,100	$ (27,733)
LIABILITIES AND NET DEFICIT			
LIABILITIES:			
Unpaid losses and loss adjustment expenses	$ 35,591	$ 49,596	$ (14,005)
Premium deficiency reserve	45,643	68,626	(22,983)
Unearned premiums	119	174	(55)
Accounts payable and other liabilities	11,803	4,065	7,738
Total liabilities	93,156	122,461	(29,305)
NET DEFICIT:			
Invested in capital assets	23	28	(5)
Unrestricted	(91,812)	(93,389)	1,577
Total net deficit, as restated	(91,789)	(93,361)	1,572
TOTAL	$ 1,367	$ 29,100	$ (27,733)

Assets — Total assets of the Fund were $1.4 million as of December 31, 2011, a decrease of $27.7 million or 95% from December 31, 2010. Of the Fund's assets, more than 12% are represented by cash and investments. The Fund does not have a significant investment in capital assets.

Cash, cash equivalents, and investments were $170 thousand as of December 31, 2011, a decrease of $27.9 million from December 31, 2010. The decrease is primarily due to an increase in claim payments. The Agency invests the Fund's cash in the State's Surplus Money Investment Fund ("SMIF"). SMIF provides the Fund a variable rate of return and complete liquidity. Cash invested in SMIF is deposited within the State's Centralized Treasury System and managed by the State Treasurer.

Other assets were $1.2 million as of December 31, 2011, an increase of $0.2 million or 17% from December 31, 2010. The increase is the result of changing the claim payment process. Genworth is only paying their share of the claim payments and remitted all the premium thus increasing the accounts receivable from Genworth.

Liabilities — The Fund's liabilities were $93.2 million as of December 31, 2011, a decrease of $29.3 million or 24% from December 31, 2010.

The reserve for unpaid losses and loss adjustment expenses was $35.6 million as of December 31, 2011, a decrease of $14.0 million from December 31, 2010. The decrease in the loss reserve is the result of the Fund's lower loss reserves required to cover potential losses. As of December 31, 2011, 1406 insured loans with balances aggregating $391 million were either reported as delinquent by the lender or assumed delinquent but not reported. As of December 31, 2010, 1927 insured loans with balances aggregating $542 million were either reported as delinquent by the lender or assumed delinquent but not reported.

Unearned premiums were $119,000 as of December 31, 2011, a decrease of $55,000 from December 31, 2010. The decrease was due to policy adjustments between the servicer and reinsurer. The expected trend of this account is to decrease over time due to a change in premium collection practices. Beginning in 1996, management adopted the mortgage insurance industry norm of collecting monthly premium payments in arrears for newly established loan insurance products as compared to past practices of collecting annual premiums in advance. As a result, each year a greater percentage of insured loans require monthly premium payments, which are earned when received, rather than annual payments, which are received in advance and deferred and earned over a one-year period.

Accounts payable and other liabilities were $11.8 million as of December 31, 2011, an increase of $7.7 million from December 31, 2010. This increase is due to the change in claim payments process by Genworth. Genworth is only paying their share of 75% claim payment and the Fund is paying 25% share of the claim payment. Also, the Fund's cash was temporarily depleted during the year so an accounts payable was set up for CaHLIF's share of the claim payment.

Net Assets — The Fund's net assets are classified as restricted, unrestricted or invested in capital assets. Total net assets of the Fund increased by $1.6 million as a result of the current year operating income.

CONDENSED STATEMENTS OF REVENUES AND EXPENSES

The following table presents condensed statements of revenues and expenses for the Fund for the years ended December 31, 2011 and 2010, and the change from year to year (dollars in thousands):

	2011	As Restated 2010	Change
OPERATING REVENUES:			
Premiums earned	$ 12,914	$ 16,502	$ (3,588)
Investment income	37	255	(218)
Other revenues	4	8	(4)
Total operating revenues	12,955	16,765	(3,810)
OPERATING EXPENSES:			
Loss and loss adjustment expenses	2,083	29,727	(27,644)
Operating expenses	9,380	11,958	(2,578)
Other expenses	(80)	10	(90)
Total operating expenses	11,383	41,695	(30,312)
OPERATING INCOME(LOSS)	$ 1,572	$ (24,930)	$ 26,502

Operating Revenues — Operating revenues were $13.0 million during 2011 compared to $16.8 million during 2010, a decrease of $3.8 million or 23%.

Premiums earned in 2011 decreased by $3.6 million or 22% compared to premiums earned in 2010. The decrease in premiums earned corresponds with the decrease in insurance in force. Insurance in force were $1.8 billion and $2.3 billion as of December 31, 2011 and 2010, respectively.

Investment income decreased $218,000 to $37,000 in 2011 from $255,000 in 2010. This decrease was due to the decrease in interest rates and decrease in investment in SMIF. SMIF interest rates for the past two years are shown in the following table:

Periods	Year 2011	Periods	Year 2010
January — March	0.508%	January — March	0.551%
April — June	0.480%	April — June	0.559%
July — September	0.377%	July — September	0.503%
October — December	0.378%	October — December	0.456%

Other revenues decreased by $4,000 to $4,000 in 2011 from $8,000 in 2010. Recoveries made on amounts owed from defendants in certain litigation increased from last year.

Operating Expenses — Total operating expenses were $11.4 million during 2011 compared to $41.7 million during 2010, a decrease of $30.3 million or 73%.

Loss and loss adjustment expenses decreased by $27.6 million in 2011. The decrease is attributable to the decrease in required reserves to cover potential losses and premium deficiency reserve.

The Fund’s operating expenses were $9.4 million during 2011 compared to $12.0 million during 2010, a decrease of $2.6 million or 22%. The decrease is primarily a result of lower ceded premiums to the reinsurer due to lower insurance in force and a decrease in salary expenses.

Operating Loss — Operating income for 2011 was $1.6 million compared to $24.9 million loss in 2010, a decrease of $26.5 million. The decrease in operating loss is a result of the decrease in loss and loss adjustment expenses.

Contact Information - If you would like additional information on the California Housing Loan Insurance Fund, please visit www.calhfa.ca.gov.

2010 COMPARED TO 2009

CONDENSED BALANCE SHEETS

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

	As Restated 2010	2009	Change
ASSETS			
Cash, cash equivalents, and investments	$ 28,081	$ 65,290	$ (37,209)
Other assets	1,019	1,490	(471)
TOTAL	$ 29,100	$ 66,780	$ (37,680)
LIABILITIES AND NET ASSETS (DEFICIT)			
LIABILITIES:			
Unpaid losses and loss adjustment expenses	$ 49,596	$ 62,962	$ (13,366)
Premium deficiency reserve	68,626	-	68,626
Unearned premiums	174	244	(70)
Accounts payable and other liabilities	4,065	3,380	685
Total liabilities	122,461	66,586	55,875
NET ASSETS (DEFICIT):			
Invested in capital assets	28	33	(5)
Restricted	-	161	(161)
Unrestricted	(93,389)	-	(93,389)
Total net assets (deficit), as restated	(93,361)	194	(93,555)
TOTAL	$ 29,100	$ 66,780	$ (37,680)

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

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

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

Liabilities — The Fund's liabilities were $122.5 million as of December 31, 2010, an increase of $55.9 million or 84% from December 31, 2009.

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

Unearned premiums were $174,000 as of December 31, 2010, a decrease of $70,000 from December 31, 2009. The decrease was due to policy adjustments between the servicer and reinsurer. The expected trend of this account is to decrease over time due to a change in premium collection practices. Beginning in 1996, management adopted the mortgage insurance industry norm of collecting monthly premium payments in arrears for newly established loan insurance products as compared to past practices of collecting annual premiums in advance. As a result, each year a greater percentage of insured loans require monthly premium payments, which are earned when received, rather than annual payments, which are received in advance and deferred and earned over a one-year period.

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

Net Assets — The Fund's net assets are classified as restricted, unrestricted or invested in capital assets. Total net assets of the Fund decreased by $93.6 million as a result of the current year operating loss and restatement for premium deficiency reserve.

CONDENSED STATEMENTS OF REVENUES AND EXPENSES

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

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

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

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

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

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

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

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

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

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

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

CALIFORNIA HOUSING LOAN INSURANCE FUND

BALANCE SHEETS
DECEMBER 31, 2011 AND 2010

	2011	As Restated 2010
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 144,185	$ 34,556
Investment in Surplus Money Investment Fund	26,000	28,046,000
Interest receivable	13	39,120
Other current assets	1,179,044	932,340
Total current assets	1,349,242	29,052,016
NONCURRENT ASSETS — Other assets	17,681	47,868
TOTAL	$ 1,366,923	$ 29,099,884
LIABILITIES AND NET DEFICIT		
CURRENT LIABILITIES:		
Reserves for unpaid losses and loss adjustment expenses	$ 35,591,608	$ 49,596,140
Premium deficiency reserve	45,643,000	68,626,000
Unearned premiums	118,659	167,412
Reinsurance payable	471,954	3,400,461
Claims payable	10,771,829	-
Accounts payable and other liabilities	56,042	36,437
Compensated absences	9,252	123,571
Due to other government entities	493,580	504,081
Total current liabilities	93,155,924	122,454,102
NONCURRENT LIABILITIES — Unearned premiums	-	7,250
Total liabilities	93,155,924	122,461,352
CONTINGENCIES (Note 8)		
NET DEFICIT		
Invested in capital assets	22,587	28,017
Unrestricted	(91,811,588)	(93,389,485)
Total net deficit, as restated	(91,789,001)	(93,361,468)
TOTAL	$ 1,366,923	$ 29,099,884

CALIFORNIA HOUSING LOAN INSURANCE FUND

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	As Restated 2010
OPERATING REVENUES		
Premium earned	$ 12,913,859	$ 16,502,060
Investment income	37,582	255,364
Other revenues	3,750	7,950
Total operating revenues	12,955,191	16,765,374
OPERATING EXPENSES		
Loss and loss adjustment expenses - net of recoveries	2,082,603	29,726,646
Operating expenses	9,380,104	11,958,518
Other expenses - net	(79,983)	10,205
Total operating expenses	11,382,724	41,695,369
OPERATING INCOME (LOSS)	1,572,467	(24,929,995)
NET ASSETS (DEFICIT) - Beginning of year as previously reported	-	194,527
Prior period adjustment	-	(68,626,000)
NET DEFICIT - Beginning of year - As restated	(93,361,468)	(68,431,473)
NET DEFICIT - End of year - As restated	$ (91,789,001)	$ (93,361,468)

CALIFORNIA HOUSING LOAN INSURANCE FUND

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	$ 12,520,412	$ 16,621,849
Payments to suppliers	(875,611)	(10,867,526)
Payments to employees	(554,976)	(461,021)
Payment to other government entities	(10,501)	256,078
Other payments	(39,066,384)	(43,076,730)
Net cash used in operating activities	(27,987,060)	(37,527,350)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	65,236,000	88,050,000
Purchase of investments	(37,216,000)	(50,845,000)
Interest on investments	76,689	318,204
Net cash provided by investing activities	28,096,689	37,523,204
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	109,629	(4,146)
CASH AND CASH EQUIVALENTS — Beginning of year	34,556	38,702
CASH AND CASH EQUIVALENTS — End of year	$ 144,185	$ 34,556
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating income (loss)	$ 1,572,467	$ (24,929,995)
Adjustments to reconcile operating income (loss) to net cash used in operating activities:		
Interest on investments	(37,582)	(255,364)
Unpaid loss and loss adjustment expenses	(14,004,532)	(13,366,325)
Premium deficiency reserve expense	(22,983,000)	-
Depreciation expense	5,429	5,429
Deferred policy acquisition expense	115,498	205,775
Effects of changes in certain operating assets and liabilities:		
Other assets	(337,444)	197,072
Unearned premiums	(56,003)	(68,991)
Reinsurance payable	(2,928,507)	473,238
Compensated absences	(114,319)	(39,281)
Claims payable	10,771,829	-
Accounts payable and other liabilities	19,605	(4,986)
Due to other government entities	(10,501)	256,078
NET CASH USED IN OPERATING ACTIVITIES	$ (27,987,060)	$ (37,527,350)

CALIFORNIA HOUSING LOAN INSURANCE FUND

NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

1. AUTHORIZING LEGISLATION AND ORGANIZATION

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

The accompanying financial statements are the statements of the Fund and do not include the financial position or the results of operations of the Agency. As of June 30, 2011, the Agency had total assets of $10.22 billion and fund equity of $1.48 billion (not covered by this independent auditor's report).

The Agency is also authorized to use the Fund to provide mortgage insurance for loans made by the Agency and others which finance the acquisition, new construction, or rehabilitation of residential structures in California. Total risk in-force was $653.9 million and $831.1 million at December 31, 2011 and 2010, respectively. Of the insured first mortgage loans outstanding at December 31, 2011, 85.7% have loan-to-value ratios, measured as of the funding date of the loan, equal to or greater than 90%.

The Fund's reserve for loan losses decreased during 2011 as a result of the slight decrease in the number of insured California home mortgage delinquencies. In 2011, Moody's Investors Service rating of the Fund remained at "Caa3" while the counterparty credit and financial strength ratings of the Fund's reinsurer, Genworth Mortgage Insurance Corporation ("Genworth"), was lowered to "Ba1" in May 2011. In July 2011, Standard and Poor's Ratings Services ("S&P") lowered the counterparty credit and financial strength ratings on Genworth to "BB-".

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

Deferred Policy Acquisition Costs — The Fund defers certain costs related to the acquisition of new insurance policies and amortizes these costs over the expected life of the policies. These costs are associated with the acquisition, underwriting, and processing of new policies. Deferred policy acquisition costs were $25,280 and $140,779 as of December 31, 2011 and 2010, respectively, and are included as part of other assets on the balance sheets.

Other Current Assets — The Fund considers current accounts receivable, equipment, and deferred policy acquisition costs as other current assets. Of the total amount, $1,148,857 was current accounts receivable.

Claims Payable — The Fund establishes claims payable for claims received but not yet paid. As of December 31, 2011, the Fund's claims payable were $10,295,110 and $476,719 for CHFF and other external parties, respectively. There was no claims payable as of December 31, 2010.

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

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

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

Premium Deficiency – The Fund establishes reserves for a premium deficiency wherein future paid losses and expenses on unexpired business exceed the related premium revenue for such business, along with the current loss reserves. A premium deficiency is therefore recognized in the balance sheet as an accrued liability, recorded as a Premium Deficiency Reserve for the excess amount. The liability for the premium deficiency reserve is an estimate based upon the delinquent balance on mortgage loans reported by lenders as of the close of the accounting period, historical claim payment and loss incurred pattern development, future estimated premium, and future estimated losses on currently performing mortgage loans.

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

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

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

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

3. INVESTMENT RISK FACTORS

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

Investments by type at December 31, 2011 and 2010, consist of the following:

	2011	2010
Surplus Money Investment Fund — State of California	$ 26,000	$ 28,046,000
Total investments	$ 26,000	$ 28,046,000

Credit Risk — Fixed income securities are subject to credit risk, which is the chance that an issuer will fail to pay interest or principal in a timely manner or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. Certain fixed income securities, including obligations of the U.S. government or those explicitly guaranteed by the U.S. government, are not considered to have credit risk. At December 31, 2011, the Fund does not have any investments exposed to credit risk.

Custodial Credit Risk — Custodial credit risk is the risk that in the event of the failure of the custodian, the investments may not be returned. At December 31, 2011, the Fund did not have any investments exposed to custodial credit. All investments are held by the State of California.

Concentration of Credit Risk — Concentration of credit risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers, thereby exposing the Fund to greater risks resulting from adverse economic, political, regulatory, geographic, or credit developments. At December 31, 2011, the Fund does not have any investments exposed to concentration of credit risk.

Interest Rate Risk — Interest rate risk is the risk that the value of fixed income securities will decline due to decreasing interest rates. The terms of a debt investment may cause its fair value to be highly sensitive to interest rate changes. At December 31, 2011, the Fund does not have any debt investments that are highly sensitive to changes in interest rates.

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

4. RESERVES FOR UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

The following tables summarize the changes in the reserves for unpaid losses and loss adjustment expenses for the years ended December 31, 2011 and 2010. The first table presents reserves on a gross basis (before reinsurance) and the second table presents the reserve on a net basis (after reinsurance). The total net reserve for loss and loss adjustment is reflected in the financial statements.

Gross	**2011**	**2010**
Gross reserve for loss and loss adjustment — beginning of year balance	$ 187,458,542	$ 241,981,953
Incurred (recovered) related to:		
Provision attributable to the current year	117,987,516	142,838,171
Change in provision attributable to prior years	(22,251,701)	(30,061,583)
Total incurred	95,735,815	112,776,588
Payments related to:		
Current year	(21,682,276)	(13,152,683)
Prior years	(128,122,228)	(154,147,316)
Total payments	(149,804,504)	(167,299,999)
Gross reserve for loss and loss adjustment — end of year balance	$ 133,389,853	$ 187,458,542

Net of Reinsurance	**2011**	**2010**
Net reserve for loss and loss adjustment — beginning of year balance	$ 49,596,140	$ 62,962,464
Incurred (recovered) related to:		
Provision attributable to the current year	30,912,318	37,679,992
Change in provision attributable to prior years	(5,846,715)	(7,953,346)
Total incurred	25,065,603	29,726,646
Payments related to:		
Current year	(5,563,964)	(3,557,738)
Prior years	(33,506,171)	(39,535,232)
Total payments	(39,070,135)	(43,092,970)
Net reserve for loss and loss adjustment — end of year balance	$ 35,591,608	$ 49,596,140

The change in provision attributable to prior year (net of reinsurance) decreased by $5.8 million for the year ended December 31, 2011 due to a decrease in loan delinquencies from the year ended December 31, 2010, while the change in provision attributable to prior year (net of reinsurance) decreased by $7.9 million for the year ended December 31, 2010 from the year ended December 31, 2009 is also due to a decrease in loan delinquencies.

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

5. REINSURANCE

Effective March 1, 2003, the Fund entered into a 75% quota share reinsurance agreement with Genworth to reinsure most (currently, approximately 96%) of the Fund's portfolio. Under the terms of this agreement, the reinsurer will indemnify the Fund for 75% of all losses paid on the insured loans to which the Fund cedes 64.5% of the related premiums. The treaty was amended for loans insured on or after May 1, 2008 to cede 67% of premiums collected and amended again on April 1, 2009 to cede 69% of premiums collected on loans insured on or after that date. However, there are no loans currently ceded at 69%. The Fund's reinsurance agreement typically provides for a recovery of a proportionate level of claim expenses from the reinsurer. The Fund remains liable to its policyholders if the reinsurer is unable to satisfy its obligations under the reinsurance agreement. The amount of earned premiums ceded to Genworth for the years ended 2011 and 2010 was $8.2 million and $10.4 million, respectively.

6. ARRANGEMENTS WITH THE CALIFORNIA HOUSING FINANCE FUND

Certain administrative and operating expenses charged to the Fund are provided by the Agency. These expenses, initially paid from the CHFF, include office space, business services, legal services, accounting services, information systems support, and human resource support services. The Fund is charged monthly for these expenses and a payable is recorded. For the years ended December 31, 2011 and 2010, total expenses allocated to the Fund by the Agency were $733,813 and $1,052,616, respectively.

As part of CalHFA's Loan Modification Program, Genworth remits pre-claim advance payments to the Fund. The payments received are remitted directly to the CHFF. The total pre-claim advance payments due to CHFF were $58,179 and $77,374 at December 31, 2011 and 2010, respectively.

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

Initially, the Agency Executive Director established an interfund credit agreement in the amount of $100,000,000 in which the Fund may borrow from CHFF as needed for the purpose of paying claims arising out of policies of mortgage guarantee insurance and costs and expenses related to the payment of such claims. The amount by which the fund may borrow was reduced to $10,000,000 from $100,000,000 during 2009. Interest rates and repayment terms are determined upon receipt of a request to draw on this credit facility. Pursuant to the terms of the Board Resolution and the interfund credit agreement, the credit line is no longer legally available to the Fund. The credit agreement stipulates that the amount of credit is determined to be an amount necessary to maintain or improve the claims paying rating of the Fund, which at the time was "A+", and such amount shall not impair or adversely affect the Agency credit rating or any CHFF bond credit rating. The claims paying rating of the Fund was "A+" until July 2009 when it was lowered to "BBB" and subsequently fell as low as "CCC-" during 2010. In September 2010, management of the Fund decided to withdraw the rating. Consequently, there is no credit line currently available under the interfund agreement as there is no rating to support and the $10 million would not resurrect the "CCC-" claims paying rating back to "A+".

7. PENSION PLAN AND POST RETIREMENT BENEFITS

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

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

	Jun-11	Dec-10	Jun-10	Jun-09
State Miscellaneous Member First Tier	17.528 %	19.922 %	16.917 %	16.574 %
State Miscellaneous Member Second Tier	16.442	19.622	16.737	16.470

The Fund's contributions to the PERF for the years ended December 31, 2011, 2010, and 2009, were $189,984, $136,045, and $67,463, respectively, equal to the required contributions for each year.

Required contributions are determined by actuarial valuation using the individual entry age normal cost method. The most recent actuarial valuation available is as of June 30, 2010, which actuarial assumptions included (a) 7.75% investment rate of return compounded annually, (b) projected salary increases that vary by duration of service, and (c) overall payroll growth factor of 3.25% annually. Both (a) and (c) included an inflation component of 3% and a 0.25% per annum productivity increase assumption.

The most recent actuarial valuation of the PERF indicated that there was an unfunded actuarial accrued liability. The amount of the underfunded liability applicable to each Agency or department cannot be determined. Trend information, which presents CalPERS progress in accumulating sufficient assets to pay benefits when due, are presented in the June 30, 2011, CalPERS CAFR.

GASB Statement 45 requires states and local governments to publicly disclose the future dollar amount of their obligations to pay for Other Postemployment Benefits (OPEB), like healthcare, that are provided to retired employees, including retired public employees. The OPEB is a cost-sharing multiple-employer defined benefit healthcare plan administered by CalPERS. State Controller's Office sets the employer contribution rate based on the annual required contribution of the employers (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. The Fund's estimated unfunded OPEB cost was $309,440 and $180,440 for the years ended December 31, 2011 and 2010, respectively, and this liability was added to Personal Services in the respective year. CalPERS issues a publicly available CAFR that includes financial statements and required supplementary information for the OPEB.

8. LITIGATION

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

The amounts received from the defendants were $3,750 and $7,950 during the years ended December 31, 2011 and 2010, respectively which is recorded as other revenue in the accompanying Statements of Revenues, Expenses, and Changes in Net Assets. It is highly unlikely that any additional amounts will be received and as such no gain contingency has been recorded.

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

9. SUBSEQUENT EVENTS

In January 2012, Standard and Poor's Ratings Services ("S&P") lowered the counterparty credit and financial strength ratings on Genworth from "BB-" to "B".

In April 2012, Moody's withdrew the ratings on the Fund at the Agency's request.

Management has evaluated subsequent events during the period from December 31, 2011 to April 30, 2012, the date the financial statements were available to be issued.

10. PRIOR PERIOD ADJUSTMENT

The beginning balance of net assets has been restated to reflect an adjustment for a correction of an error. A premium deficiency reserve has been recorded as of December 31, 2010 in the amount of $68,626,000 to correct the financial statements for future paid losses and expenses on unexpired business as of December 31, 2010 that exceed the related premium revenue.

The prior period adjustment results in a change to beginning unrestricted net assets as follows:

Balance, beginning of year as previously reported	$194,527
Prior period adjustment	(68,626,000)
Balance, beginning of year, as restated	$ (68,431,473)

THIS PAGE INTENTIONALLY LEFT BLANK

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Board of Directors
California Housing Finance Agency
Sacramento, California

We have audited the financial statements of the California Housing Loan Insurance Fund (the Fund), which is administered by the California Housing Finance Agency (the Agency) as of and for the year ended December 31, 2011, and have issued our report thereon dated April 30 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Fund is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

CliftonLarsonAllen LLP

Baltimore, Maryland
April 30, 2012

CliftonLarsonAllen

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

April 30, 2012

Audit Committee
California Housing Finance Agency
Sacramento, CA

This letter is to provide you with information about significant matters related to our audit of the financial statements of the California Housing Loan Insurance Fund (the Fund), which is administered by the California Housing Finance Agency (the Agency), for the year ended December 31, 2011. It is intended solely for the Fund and should not be used by anyone other than this specified party.

The following are our observations arising from the audit that are relevant to your responsibilities in overseeing the financial reporting process.

Auditor's Responsibilities Under Generally Accepted Auditing Standards. Our audit was performed for the purpose of forming and expressing an opinion about whether the financial statements, that have been prepared by management with your oversight, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit does not relieve you or management of your responsibilities.

Other Information in Documents Containing Audited Financial Statements. In connection with the Fund's financial statements, we did not perform any procedures or corroborate other information included in the financial statements. However, we read management's discussion and analysis of financial conditions and results of operations and considered whether the information or the manner in which it was presented was materially inconsistent with information or the manner of presentation of the financial statements. Based on our reading, we concluded that the information did not require revision.

Significant Issues Discussed With Management Prior to Retention. We discuss various matters with management each year prior to retention as the Fund's auditors. These discussions occur in the normal course of our professional relationship. There were no significant issues, including the application of accounting principles and auditing standards, which were discussed with management prior to our retention as auditors.

Consultations With Other Accountants. We were informed by management that they made no consultations with other accountants on the application of generally accepted accounting principles and generally accepted auditing standards.

Qualitative Aspects of Accounting Practices.

Accounting Policies
Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Agency are described in Note 1 to the financial

statements. There were no significant accounting policies or their application which were either initially selected or changed during the year.

We noted no transactions in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

There were no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting Estimates
Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The following is management's description of the process utilized in forming estimates for reserves for unpaid losses and loss adjustment expense and premium deficiency reserve.

- Management evaluates the reserves for unpaid losses and loss adjustment expense on an annual basis based on changes in nature and volume of insurance portfolio, historical analysis of delinquent loans and anticipated economic conditions that may effect the borrower's ability to pay. Management of the Fund has provided us with details regarding the process used in formulating these estimates.

- Computations performed by independent outside specialists, including actuarial assumptions of future paid losses, future expenses necessary to run-off existing business and future renewal premium, were relied upon to establish the premium deficiency reserve. The recording of this estimate resulted in a prior period adjustment of $68.6 million.

We evaluated the key factors and assumptions used to develop the reserves for unpaid losses and loss adjustment expense in determining that it is reasonable in relation to the financial statements taken as a whole.

Financial Statement Disclosures
Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive financial statement disclosures.

Difficulties Encountered in Performing the Audit. We encountered no significant difficulties in dealing with management related to the performance of our audit.

Corrected Misstatements. The attached Exhibit A sumarizes corrected misstatements, other than those that are trivial, that were brought to the attention of management as a result of audit procedures. Management has corrected all such misstatemetns.

Representations from Management. We have requested the representations from management that are shown in the attached Exhibit B.

Disagreements With Management. There were no disagreements with management on financial accounting and reporting matters, auditing procedures, or other matters which would be significant to the Fund's financial statements or our report on those financial statements.

The Entity's Ability to Continue as a Going Concern. The following conditions and events, when considered in the aggregate and after consideration of management's plans, caused us to conclude that there is substantial doubt about the entity's ability to continue as a going concern:

The Fund has experienced recurring losses, and Management of the Fund has concluded that there is substantial doubt as to the Fund's ability to continue as a going concern.

These conditions and events and management's plans for addressing them are disclosed in Note 2 to the financial statements. We concluded that the disclosures are adequate. The outcome of these uncertainties could result in the realizability of assets and the settlement of liabilities at amounts materially different than their carrying values in the financial statements which were prepared on a going concern basis.

These conditions and events have the following effects on our auditor's report:

Our auditor's report included a paragraph stating our conclusion that there is substantial doubt about the entity's ability to continue as a going concern.

Other Significant Findings or Issues. The following describes findings or issues arising from the audit that are, in our professional judgment, significant and relevant to you regarding your oversight of the financial reporting process.

The Fund has currently been accruing claims payable for claims received but not yet paid by the Fund because there is no available resources. At the current time, claims are paid based on the order they are received. We would recommend that Management consider prioritizing the payments of claims to outside third parties before paying the Agency to avoid future litigation in the event the Fund fails.

Please contact J. Michael Stephens if you have any questions regarding the matters included in this letter.

CliftonLarsonAllen LLP

5/2/2012
1:28 PM

Client: ***026-32680 - California Housing Finance Agency***
Engagement: ***AUD - California Housing Loan Insurance Fund***
Period Ending: ***12/31/2011***
Trial Balance: ***0900 - TB***
Workpaper: ***0920.1 - Adjusting Journal Entries Report***

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 1 Record a prior period adjustment to reflect the premium deficiency reserve that was determined by Milliman, Inc.. In addition, record the current year change of the premium deficiency reserve in FY 2011.		**3000**		
5530-41XX	Premium deficiency reserve		22,983,000.00	
5540-0000	Fund Balance - CAHLIF		68,626,000.00	
5530-41XX	Premium deficiency reserve			68,626,000.00
9080-4100	Loss reserve expense - all loans			22,983,000.00
Total			**91,609,000.00**	**91,609,000.00**

State of California

CalHFA California Housing Finance Agency

April 30, 2012

CliftonLarsonAllen LLP
9515 Deereco Road, Suite 500
Timonium, MD 21093

We are providing this letter in connection with your audit of the basic financial statements of California Housing Loan Insurance Fund (the "Fund"), which is administered by the California Housing Finance Agency, as of December 31, 2011 and for the year then ended for the purpose of expressing an opinion as to whether the basic financial statements present fairly the financial position and changes in financial position and cash flows of the Fund in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation in the financial statements of financial position, changes in financial position and cash flows, where applicable of the Fund in conformity with accounting principles generally accepted in the United States of America. Although CliftonLarsonAllen LLP may have made suggestions as to the form and content of the financial statements or even prepared them in whole or in part, we acknowledge our responsibility for the review and approval of the financial statement amounts and disclosures, and understand the financial statements remain the representations of our management.

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

We confirm, to the best of our knowledge and belief, as of April 30, 2012 the following representations made to you during your audit.

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

2. We have made available to you all:

   a. Financial records and related data.

   b. Minutes of meetings of the governing board and committees of board members or summaries of actions of recent meetings for which minutes have not yet been prepared.

   c. All communications from grantors, lenders, other funding sources or regulatory agencies concerning noncompliance with:

      (1) Statutory, regulatory or contractual provisions or requirements.

      (2) Financial reporting practices that could have a material effect on the financial statements.

3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices that could have a material effect on the financial statements.

4. We have followed applicable laws and regulations in adopting, approving and amending budgets.

5. With respect to the financial statements we acknowledge the following:

   a. The financial statements properly classify all funds and activities.

   b. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.

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

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

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

   f. We acknowledge our responsibility for the management's discussion and analysis and pension information, which is required supplementary information (RSI). Such information is measured and presented within prescribed guidelines, and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the required supplementary information.

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

7. We have reviewed and approved all adjustments and corrections made to the financial statements and acknowledge that the adjustments are complete and accurate.

8. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.

9. We have no knowledge of any fraud or suspected fraud affecting the entity involving:

   a. Management.

   b. Employees who have significant roles in internal control.

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

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

11. We have no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or fund balances.

12. The following have been properly recorded or disclosed in the financial statements:

    a. Related party transactions and related amounts receivable or payable, including revenues, expenditures, loans, transfers, leasing arrangements, and guarantees.

    b. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit, or similar arrangements.

    c. Guarantees, whether written or oral, under which the entity is contingently liable.

    d. Estimates that might be subject to material change within one year from the date of the financial statements. We have identified all accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates, and we believe the estimates are reasonable in the circumstances.

13. There are no:

    a. Violations or possible violations of budget ordinances, or laws or regulations (including those pertaining to adopting or amending budgets, tax or debt limits, and federal, state or local environmental laws and regulations) whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

    b. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 450, *Contingencies*.

    c. Transfers, reservations or designations of fund equity or interfund borrowings that were not properly authorized and approved, or uncollectible interfund loans that have not been properly reflected in the financial statements or disclosed to you.

14. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with FASB ASC 450.

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

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

17. Receivables recorded in the financial statements represent valid claims against debtors for transactions arising on or before the balance-sheet date and have been appropriately reduced to their estimated net realizable value.

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

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

20. We have no intention of terminating our participation in the Public Employees Retirement Fund, administered by CalPERS as part of the State of California as the primary government or taking any other action that could result in an effective termination or reportable event for the plan. We are not aware of any occurrences that could result in the termination of our pension plan to which we contribute. The Fund has no liability for pension costs or benefits other than the normal annual required contributions as determined by CalPERS. As such required contributions have been remitted.

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

22. The insurance in-force files properly reflect all policies and contracts in force as of and for the year ended December 31, 2011.

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

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

25. The reserves for unpaid losses and loss adjustment expense, including amounts for incurred but not reported claims, net of the quota share arrangement and net of salvage and subrogation recoverable, has been determined using appropriate historical and expected frequency and loss severity, estimated ultimate costs of settling the claims (including the effects of inflation and other societal and economic factors), using past experience and are the most appropriate under the circumstances. The Fund's reinsurance agreement provides for a recovery of a proportionate level of claim expenses from the reinsurer. The Fund remains liable to its policyholders if the reinsurer is unable to satisfy their obligations under the reinsurance agreement.

Management has assessed that financial strength of Genworth and does not believe that the Fund is exposed to any significant credit or counterparty risk.

26. The Fund entered into a reinsurance treaty and administrative services agreement with Genworth (formally known as General Electric Mortgage Insurance Corporation) effective March 1, 2003. This agreement ceded to Genworth 75% quota share of the insurance risk for 96% of loans insured by the Fund at December 31, 2011. The remaining 4% of loans insured by the Fund do not have reinsurance coverage from Genworth as of December 31, 2011.

27. The reinsurer must assume significant insurance risk under the reinsured portions of the underlying contract; and it is reasonably possible that the reinsurer realize a significant loss. Both of these conditions were met as of December 31, 2011. The reinsurance agreement with Genworth provides 75% loss coverage (which represents significant insurance risk) and it is reasonably possible that Genworth will realize a significant loss, as such probability is greater than remote (meeting the FASB ASC 944 standard for reasonable possibility). In addition, the amounts and disclosures used in the financial statements and underlying accounting records related to the reinsurance contract with Genworth are adequate.

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

29. With respect to the Fund's reserves for claim and claim judgment expenses:

   a. For the year ended December 31, 2011, we have processed claims received by the Fund in a manner and timing consistent with prior years.

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

      (1) Anticipated and historical claims experience of the Fund

      (2) Anticipated and historical claims experience of the mortgage insurance industry

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

      (4) Lines and geographical locations of the business written and assumed by the Fund

      (5) The Fund's underwriting and claims policies and procedures

      (6) The timeliness and reliability of reports from reinsures

      (7) Estimates of claim recoveries, exclusive of reinsurance recoveries.

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

d. The reserve for unpaid claims and claim adjustment expenses for the Fund at December 31, 2011 is management's best estimate and makes a reasonable provision for all reported and unreported claims incurred as of December 31, 2011 based upon the consideration of all information available at the date those financial statements were prepared, including actuarial indications and other factors.

30. Unearned premiums are fairly stated at December 31, 2011 and the calculations of such are consistent with those of the preceding year. Business expired and reinsurance ceded has been excluded from premiums in force and unearned.

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

The amounts received from the defendants were $3,750 and $7,950 during the year ended December 31, 2011 and 2010, respectfully, which is recorded as other revenue in the Statement of Revenues, Expenses, and Changes in Fund Equity. It is unknown at the time if additional amounts will be received and as such no gain contingency has been recorded.

32. We are responsible for establishing and maintaining effective internal control over financial reporting.

33. The premium deficiency reserve has been determined using appropriate historical data, estimated future losses and expenses and related premium revenue on unexpired business. Management relies on the reserve calculation which is based on an independent third party actuarial report.

34. We are responsible for the Fund's compliance with laws and regulations applicable to it; and we have identified, and disclosed to you, all laws and regulations that have a direct and material effect on the determination of financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds. We have complied with all aspects of laws, regulations, and contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

35. No events have occurred subsequent to the financial statement date and through the date of this letter that would require adjustment to, or disclosure in, the financial statements.

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

Claudia Cappio
Executive Director

Lori Hamahashi
Deputy Comptroller

THIS PAGE INTENTIONALLY LEFT BLANK

State of California

M E M O R A N D U M

To: **CalHFA Board of Directors** **Date:** 3 May 2012

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

Subject: Keep Your Home California Update

There is a significant amount of information to share with you about the KYHC program, including program changes that were approved by US Treasury today.

General Update:

- We have currently funded or reserved more than $411 million to 19,267 unique homeowners.
  - 14,261 UMA homeowners for $297 million
  - 921 PRP homeowners for $43.8 million
  - 4,004 MRAP homeowners for $70.2 million
  - 81 TAP homeowners for $378,500.
- We recently partnered with EDD to mail flyers to over one million current recipients of unemployment benefits. Those mailers were sent out over a five week period that ended April 13, and during the month of April, our call volume increased approximately 49% over the previous month. That call volume is starting to decline and return to more historic levels.
- In August of 2012, flyers promoting KYHC will be included in all payroll vouchers for more than 200,000 California State and CSU employees.
- One additional servicer was added in April for a total of 65; there are currently five new servicers pending on-boarding. We are also in the process of working with existing servicers to determine whether or not they are willing to participate in more programs (see program changes, below).

Program Changes:
As stated above, today US Treasury signed off on a number of changes intended to (1) qualify more borrowers and (2) eliminate barriers to servicer's participation. In the last few months, there have been significant changes to a number of high profile modification programs, including the federal HAMP program and the announcement of the Attorney's General Settlement. With increased competition for a limited number of eligible borrowers (those with loans owned by their lenders), it became clear that we needed to

find a way to expand our reach to try to include those struggling homeowners that can't be helped by either of those programs. As such, we have adopted the following changes:

- Beginning Monday, May 7, the amount of assistance available under the Mortgage Reinstate Assistance Program will increase from $20,000 to $25,000.
- Effective in June, following the implementation of needed system changes/upgrades, the amount of assistance available under the Principal Reduction Program will increase to $100,000. Servicers will no longer be required to match that amount dollar for dollar, but these funds will only be approved if:
  - The servicer provides a sustainable modification that includes either a rate and/or term adjustment;
  - The LTV after application of the PRP funds and the modification cannot exceed 120%;
  - Funds cannot be used to bring a homeowner below a DTI ratio of 31%, unless additional funds are needed to reach the 120% LTV threshold, in which case the DTI could go as low as 25%.
  - Funds cannot be used to reduce the unpaid principal balance below 105% LTV.
- Once the final changes for PRP are implemented in June, the overall program cap will be raised to $100,000.

State of California

M E M O R A N D U M

To: **CalHFA Board of Directors** **Date:** May 17, 2012

From: Claudia Cappio, Executive Director
CALIFORNIA HOUSING FINANCE AGENCY

Subject: Item 6 -- Discussion regarding IT solutions for Board material and video conference settings for Board meetings

The California Housing Finance Agency (CalHFA) is committed to exploring new technologies to streamline the way we do business, both internally and with stakeholders. Below are two methods we are exploring to achieve this goal.

I. Board Meeting Documents

CalHFA is researching a more efficient and effective method for providing our Board Members with CalHFA information and Board Meeting material/packages.

Currently, Board Meeting materials (paper copies) are sent to Board Members via FedEx or courier. This requires that CalHFA staff copy, collate and send individual packages to each member. This utilizes staff hours, consumes paper, and requires postage or courier services. The current process also requires Board Members to transport "paper" material to the meetings.

One option being evaluated by CalHFA is to replace the paper copies by sending the board materials electronically, via e-mail, which could then be accessed through the use of an Apple iPad. CalHFA would provide an iPad to all Board Members for their use during their Board tenure. Information could be sent and received quickly, in an easy to read format, and would eliminate the need to carry stacks of paper to the Board Meetings. There would continue to be an option to receive paper copies of Board packets.

II. Board Meetings – Remote Access

CalHFA is also exploring "video conferencing" for Board Meetings. This technology could reduce time spent traveling and travel costs, thereby making board meetings more accessible and convenient. Newer conferencing equipment provides enhanced visual and verbal communications.

The open meetings law permits audio or audio and visual teleconference meeting so long as each site from which a member of the board participates is accessible to the public. All proceedings must be audible and votes must be taken by roll call.

There are a number of facilities that offer video conferencing in both Northern and Southern California, including facilities owned by state and local entities.

To specify this idea as we have currently proposed, for those Board Meetings scheduled for Northern California, Board Members, CalHFA staff and members of the public from the south could attend the meeting in CalHFA's Culver City conference room via audio and video conferencing. Similarly, meetings held in Southern California could be attended via CalHFA's conference room in Sacramento.

At this time, we are seeking Board Member comments and suggestions. Both the electronic board packet and video board meetings would start as a pilot program to see how well they worked. For those Board Members who wish to receive electronic packets, we plan to issue iPads sometime during the summer, with the first electronic packet sent for the September, 2012 meeting. As for the meetings by video, we plan to do at least one meeting this year – date to be determined.

State of California

M E M O R A N D U M

To: Board of Directors
CALIFORNIA HOUSING FINANCE AGENCY

Date: May 17, 2012

From: Claudia Cappio, Executive Director
CALIFORNIA HOUSING FINANCE AGENCY

Subject: Agenda Item 7 – Resolution 12-07 -- CalHFA Business Plan for Fiscal Year 2012-13

For your consideration and approval, I offer the 20th annual CalHFA Business Plan for the Fiscal Year 2012-13. The attached resolution is included for your review and approval.

The Business Plan (Plan) provides the Board of Directors and the senior management team of CalHFA with priorities, operational objectives and strategies to implement the Agency's lending activities and operations. In addition, the Plan provides the Board with an update on several important initiatives that are significant to the continued improvement of the Agency's financial condition and long term viability. This Plan will allow the Agency to continue to meet the challenges we still face as we move forward.

As was discussed at the March 2012 Board meeting, the Senior Executive Team worked with the University of Notre Dame's Mendoza College of Business to develop both long term strategic priorities and a business plan for the upcoming fiscal year. Long range strategies and priorities and a basic framework for the Plan were presented at the March 2012 Board meeting.

During the past few weeks, the Senior Executive Team has developed a more detailed Plan and a summary of the Plan priorities, action items and target dates for completion is included as Attachment 1. We have attempted to put this Plan into a format for easy reference, by organization, length and format. Finally, for those Board members who would like a little more background, we have included a narrative discussion of the key priorities in the Plan as Attachment 2. I note that this key priorities document was also submitted to the Business, Transportation and Housing Agency in February, 2012.

Your approval of Resolution 12-07, adopting the 20th CalHFA Business Plan is requested.

THIS PAGE INTENTIONALLY LEFT BLANK

Attachment 1
CalHFA Business Plan FY 2012-13

Item	Key Strategy	Action Item	Due Date(s)	Comments
1	Increase stability of capital structure and liquidity position. (Tim)	• Reduce variable rate bond balance: $800Mn reduction • Reduce swap notional balance: $350Mn reduction	6/30/2013 6/30/2013	• Tied to approval of renewal of TCLP – 9/30/12 • Tied to par terminations throughout the year - ministerial functions
2	Reduce balance sheet risk by increasing loss mitigation efforts in the single family portfolio and multifamily portfolio preservation through risk share. (Rhonda, Greg, Bob)	• Pursue additional activities that augment the disposition of REO properties both pre- and post- foreclosure within acceptable financial objectives. • Allow MF borrowers to participate in the risk share portfolio preservation program. • Revise CalHFA loss mitigation procedures and policies: replace current CMP program with a HAMP-like programs; revise Short Sale process; remove multiple layers of approval for modification and short sales; increase outreach to IOP borrowers; obtain waiver from FHA to utilize PRP; pursue innovation funds (KYHC) to be used to target strategic defaults	Procedures in place by 8/1/12 Program in place by 7/1/12 Program revisions in place by 6/30/12	• By 9/30/12 the dollar amount of reduction in balance sheet MF risk will be identified. • Reduce SF delinquencies below 10% by 12/31/12.
3	Pursue multi-family lending that focuses on preservation and recapitalization of the existing housing stock. (Bob, Margaret, Victor)	• Pursue preservation and recapitalization of existing loan portfolio by finalizing program terms and term sheet; establishing loan documents and obtaining necessary waivers from HUD;	Rolled out on 5/1/12; ongoing thru FY 2012/13	• NIBP used thru 12/31/12; after 1/2013 evaluate whether there is appropriately priced capital.

		• Prepare response to HUD NOFA to perform Performance Based Contract Administration (PBCA); • For those Section 8 projects not going through the FHA Risk-Share program; use $1M or less of Earned Surplus funds for renovation needs at projects.	Contract awarded by 8 /1/12; work begins 1/1/13 9/1/12	
4	Pursue new sources of capital and revenue and investigate sustainable business models. (Claudia)	• Present Administration with viable perm source legislation and proceed with Governor approved legislation; • Modify the current CalHFA business model to better protect the Agency's balance sheet against real estate and credit risks; • Form a senior staff working group to identify and develop three new sources of capital and three new sources of revenue either from existing Agency activities or newly identified business opportunities.	Proposal to Gov by 7/31/12 Senior staff finalizes by 8/31/12 Work is complete by 12/31/12	
5	Reorganize and increase operational efficiencies and infrastructure to better position the Agency for future business opportunities. (Howard, Bob, Lori, Ken, Liane)	• All divisions shall assess and streamline current business practices. • Develop staff with flexible workforce capabilities supported by broad classifications. • Perform a cost/benefit analysis for new proposed program to support the decision-making process. • All divisions shall evaluate and monitor existing programs and policies for effectiveness on a regular basis, and make necessary adjustments as necessary.	9/30/12 Develop priorities by 6/30/13 Decision model completed by 9/1/12 Identify list of programs; establish priority re-	HR has primary responsibility Responsibility of an analysis team to be formed by 7/1/12. Establish a review schedule for ongoing review.

			view schedule by 8/30/12	
6	Maximize use of KYHC program funds. (Di, Victor)	• Continue to collaborate with other public and private sector entities to maximize and leverage potential benefits of foreclosure prevention resources. • Continue to measure program outcomes and assess barriers to eligibility; • Submit program changes as needed to UST to facilitate increased eligibility. • Continue to aggressively market programs to eligible homeowners, community groups and media to expand awareness. • Continue to aggressively pursue and on-board additional servicers. • Participate in on-going monitoring of program recipients to assess level of homeownership sustainability facilitated by program assistance.	Ongoing Quarterly evaluation of all programs	
7	Integrate HCD and CalHFA functions to meet California's affordable housing needs. (Margaret, Liane, Ken)	• EDs: Develop and communicate an Executive Summary and Timeline for Merger Plan (Which box do we live in?). • Consolidation Work Groups – CalHFA & HCD: Assemble Divisional action teams; Review organization set up, staff functions and capabilities , funding sources and program sunsets; Integration recommendations and timelines; Identify efficiencies and cost savings; • Execute recommendations: establish and publish implementation timelines	Completed by 6/1/12 Formed by 6/15/12; Work completed by 7/31/12 Initiate implementation by7/1/13	

THIS PAGE INTENTIONALLY LEFT BLANK

Attachment 2
California Housing Finance Agency's Five Policy Priorities
May 17, 2012

1) Pursue New Sources of Capital and Income:

Background: For most of CalHFA's history, tax exempt (TE) bond financing provided a consistent and plentiful source of capital for lending activities. This financing model was established with independent credit ratings by design (i.e., separate credit ratings from the State of California to manage and respond to risk given market conditions.) The Agency would issue TE bonds and, in turn, charge interest rates on single family mortgages and multiple family projects that covered the cost of the bonds and operating expenses and allowed the Agency to establish reserves for projected loan losses.

Unfortunately, capital from TE bonds is not available to the degree the Agency has relied upon in the past and, as a result, Agency lending volume has declined dramatically. Given the continuing forecast of historic low interest rates, disruptive and volatile bond markets and a the lack of availability of liquidity facilities in the capital markets, the Agency does not believe it will have adequate access to capital for lending activities for the foreseeable future. CalHFA continues to earn income from its existing single family and multiple family loan portfolios, but those portfolios will amortize and dwindle over time, reducing the Agency's revenue base and its ability to "pay its own way."

Finally, other developments generally threaten the pool of funding available for investment in affordable housing around the state. We note that with the recent demise of redevelopment, the historic low-moderate income tax increment share has also been eliminated. Additionally, at the federal level, tax reform discussions and proposals which should come to fruition in 2013 threaten the very existence of tax-exempt bonds and two other important sources of funding, 9% and 4% low income housing tax credits.

Policy Priority: The Agency senior staff team has been working on various ideas for alternative sources of capital for lending activities and new business models for CalHFA that rely more on fee income and reduce reliance on interest rate spread. A proposal for a permanent, sustainable source of income for affordable housing activities is part of this priority. Along with HCD, we have been framing the permanent or sustainable source idea and the Governor's Office (GO) has indicated that they would like us to review and consider ideas and submit a few options by June-July, 2012. In addition to these ideas, the Agency has embarked on an organization wide effort to look at business processes and workload in an effort to improve operations and service and reduce ongoing costs.

2) Restructure Debt:

Background: When the bond market collapsed in 2008-09, along with sustained high unemployment and a huge drop in residential property values, a perfect storm ensued.

CalHFA, partly due to lack of capital market options and credit access and partly due to its reliance on a financing structure called variable rate debt obligations (VRDO's) lost a significant number of liquidity facilities that supported our financing structure. With this liquidity drop came sequential drops in our bond credit ratings. In order to provide temporary liquidity and the ability to keep lending, state finance agencies, with the assistance of the National Council of State Housing Agencies, negotiated with U.S. Treasury (UST). Two critical programs resulted: Temporary Credit and Liquidity Program (TCLP) and the New Issue Bond Program (NIBP.)

Through these programs, UST purchased nearly $1.4 billion in CalHFA bonds. Both of these programs were due to expire at the end of 2012. With a demonstration of our financial management capacity and further negotiation, UST announced last September that the TCLP would be extended until 2015, giving further stability to CalHFA's financial outlook.

Policy Priority: We are currently working out the major components of the extension plan with UST re: NIBP and TCLP. Key strategies outlined in that plan, include monetizing assets, expanding CalHFA's servicing platform and permitting mortgage modifications in order to reduce losses. We note, however, that our credit ratings are riding precipitously close to the edge of those ratings thresholds with both Moody's and Standard and Poor's below which the Agency would be required to meet collateral calls by our major financial partners. At those ratings levels, collateral calls would have fairly dramatic consequences to our operating liquidity. Politically, although our ratings are separate, a downgrade might also affect the broader bond obligations and ratings for CA. During the past two years, we have increased our cash position substantially and stabilized our financial position but we need to be vigilant. We will be re-rated during the Spring-Summer of 2012.

3) <u>Reorganize and increase effectiveness and capacity of REO, loss mitigation, loan modifications and delinquencies</u>:

Background: A great deal of the Agency's financial challenges are related to the value and stability of our home mortgage revenue bond (HMRB) indenture loan portfolio. The HMRB owns approximately 22,000 CalHFA single family loans that finance homes located all over the State. About 40% are serviced by CalHFA's Loan Servicing Division and the remainder are serviced by outside servicers such as Bank of America, Wells Fargo and Citibank, etc. California's continued high unemployment rate has resulted in a substantial increase in loan delinquencies. But, the dramatic decrease in home values throughout the State creates substantial losses to the HMRB bond indenture whenever CalHFA is required to foreclose. Federal foreclosure prevention funds were made available to California borrowers through the U.S. Treasury's Hardest Hit Funds and the Agency is taking full advantage of this source of assistance for borrowers. In addition, the Agency's mortgage insurance partner, Genworth Mortgage Insurance, continues to pay all claims and, through the entire crisis, we have continued to meet our debt service payments and other financial obligations. Although mortgage payment delinquency rates have declined substantially from a peak in December 2009, foreclosures continue and there are still major concerns with the portfolio.

Policy Priority: The Agency presently is reorganizing its loan servicing, loss mitigation and REO (real estate owned: houses that we get back through the foreclosure process) workforce and policies. Speed is important in working with borrowers in trouble and in disposing of REO properties and every policy and procedure is being reviewed and improved. All efforts will be laser focused on loss mitigation and assistance for struggling homeowners. Outside servicers that cannot follow these policies will be replaced or servicing will be transferred to CalHFA's own Loan Servicing Division. This priority includes internal reorganization and consolidation of groups and about how operations have been managed, creating efficiencies and generally reviewing, stabilizing and expanding the loan servicing platform. Our ability to intervene in loan delinquencies earlier, work on successful loan modifications and sell REO's quickly is all part of our work. This priority is tied directly to debt restructuring as the more we successfully mitigate potential losses, the more stable our loan portfolio.

4) Pursue Merger Opportunities with HCD:

Background: With the submittal of the Governor's 2012-13 budget proposal, both CalHFA and HCD have initiated an overall review of operations with the idea of creating efficiencies, streamlining lending operations, asset management and other activities. Our key objective is to improve the overall provision of housing services by looking at what has worked well, what has not been as successful, eliminate redundancies and figure out how to work together more collaboratively.

Another key problem is that both agencies are faced with substantial financial challenges. For CalHFA, it is the loss of TE bond capital, loan losses and dwindling portfolio income; for HCD, it is the completion of programs financed by Prop 46 and 1C and the erosion of General Funds. Other important considerations include CalHFA's $8.5 billion of bond indebtedness which is presently separate from the state and the fact that the agency has statutory independent authority to make business decisions without the fluctuating political pressures of the Governor and Legislature. A big question is whether the Governor and Legislature want the State to continue to incur these risks (i.e., financial, credit and real estate risks) to provide an important, ongoing set of tools for affordable housing.

Policy Priority: The overall objective is to figure out the best and most practical ways to work together to deliver state housing finance services in an effective, coordinated manner. At present, for example, a multiple family developer who is using tax-exempt bond financing must navigate the processes and procedure of no fewer than four state organizations (CalHFA, HCD, CDLAC, CTAC), each with (sometimes slightly and sometime significantly) different policies and procedures and each with different timelines. Asset management, underwriting and lending are key opportunities. A unified policy and program framework would also go a long way in providing more streamlined services and programs. We are working together to figure out an overall framework by July-August, 2012. The initial stages of reviewing each agency's business and operational structure is underway.

5) <u>Make Preservation/Recapitalization a Focus for Multiple Family Lending</u>:

Background: CalHFA has been able to continue lending through the UST NIBP, as previously described. For the remaining multiple family NIBP, the Agency has chosen to focus on preserving and recapitalizing projects in the existing multiple family portfolio. In this way, the affordability of existing multiple family stock is maintained or deepened and the overall stock is improved. For the first time in CalHFA's history, the multifamily portfolio loans are reaching their maturity date, which means our regulatory agreement, including rent and income restrictions could cease and rental units could lose their affordability feature. This poses a threat to the low and very low income tenants residing in these units. Between now and 2020, over 6,000 income restricted units could become unrestricted. In addition, more than 100 loans will mature during this time frame. Most of these properties require substantial rehabilitation to modernize, provide energy efficiencies, and to continue provide safe and decent housing. For existing CalHFA portfolio loans, CalHFA establishes and maintains a Replacement Reserve impound account for project repair and maintenance. However, given the current state of these projects, without access to additional capital for rehabilitation, some if not most of the Replacement Reserve impounds lack sufficient funds to complete the rehabilitation process.

Policy Priority: The goals and objectives of implementing the Portfolio Preservation Loan Program (PPLP) are to preserve and extend the affordability of numerous CalHFA multifamily housing projects by: 1) providing much needed capital for rehabilitation, 2) creating opportunities to upgrade projects with energy efficient appliances and materials, and 3) extending the economic life of CalHFA projects for its tenants and their owners for years to come. The PPLP may access bond funds utilizing CalHFA's New Issue Bond Program (NIBP), which was extended by the United States Treasury through December 31, 2012. Up to $400 million of NIBP dollars may be available for portfolio preservation loans. However, loans will need to be closed and funded by year end 2012 when the NIBP expires. The NIBP allows CalHFA to issue tax exempt and taxable bonds for the financing of multifamily loans, which are sold to the U.S. Treasury at a fixed interest rate. Nevertheless, CalHFA has the option to finance these projects without using the NIBP.

RESOLUTION 12-07

AGENCY BUSINESS PLAN

FISCAL YEAR 2012/13

WHEREAS, pursuant to the Zenovich-Moscone-Chacon Housing and Home Finance Act ("Act"), the California Housing Finance Agency ("Agency") has the authority to engage in activities to reduce the cost of mortgage financing for home purchase and rental housing development, including the issuance of bonds and the insuring of mortgage loans;

WHEREAS, the Agency's statutory objectives include, among others, increasing the range of housing choices for California residents, meeting the housing needs of persons and families of low or moderate income, maximizing the impact of financing activities on employment and local economic activity, and implementing the objectives of the California Statewide Housing Plan;

WHEREAS, the Agency desires to amend Resolution 11-07 adopted May 19, 2011, which committed the Agency to a Business Plan for fiscal years 2011/11 and 2012/13;

WHEREAS, the current global credit crisis and the continuing uncertainty in the California economy and real estate markets continue to present financial challenges for the Agency;

WHEREAS, the Agency must minimize additional real estate related risk and preserve liquidity for operating expenses and financial obligations;

WHEREAS, the Agency has presented to the Board of Directors a Business Plan covering fiscal year 2012/13, with scenarios to adjust to the ever changing economic, fiscal and legal environment, which updated Business Plan is designed to assist the Agency to meet its financial obligations, its statutory objectives, support the housing needs of the people of California and to provide the Agency with the necessary road map to reemerge from this crisis as a leading affordable housing lender providing bond financing and mortgage financing well into the future;

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

1. The updated 2012/13 Business Plan, as presented by the written presentation attached hereto and made a part hereof, and any additional presentations made at the meeting, is hereby fully endorsed and adopted.

2. In implementing the updated Business Plan, the Agency shall strive to

satisfy all the capital adequacy, liquidity reserve, credit and other reserve and any other requirements necessary to maintain the Agency's general obligation credit ratings and the current credit ratings on its debt obligations, to comply with the requirements of the Agency's providers of credit enhancement, liquidity, and interest rate swaps and to satisfy any other requirements of the Agency's bond and insurance programs.

3. Because the updated Business Plan is necessarily based various economic, fiscal and legal assumptions, for the Agency to respond to changing circumstances, and subject to the provisions of Resolution 11-06, the Executive Director shall have the authority to adjust the Agency's day-to-day activities to reflect actual economic, fiscal and legal circumstances to attain goals and objectives consistent with the intent of the updated Business Plan.

I hereby certify that this is a true and correct copy of Resolution 12-07 adopted at a duly constituted meeting of the Board of the Agency held on May 17, 2012, in Sacramento, California.

ATTEST: ______________________
Secretary

Attachment

State of California

M E M O R A N D U M

To: Board of Directors
CALIFORNIA HOUSING FINANCE AGENCY

Date: May 17, 2012

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

Subject: Agenda Item 8 -- Board Resolution 12-08: OPERATING BUDGET FOR FY 2012-13

Assumptions and Overview

Provided for your approval is the proposed operating budget for Fiscal Year 2012-13. The objective is to provide a meaningful and effective budget that takes into account the continued challenges faced by the Agency and the accompanying workload changes in the Single Family Division due to increases in borrower defaults, workouts, loan modifications, foreclosures and short sales. Other activities such as the MHSA program and a new preservation program will continue through FY 2012-13 and provide a steady workload for the Multifamily Division.

In the Agency's proposed One Year Business Plan, the Senior Staff members of CalHFA have identified seven priorities for the Agency for the upcoming fiscal year:

1. Increase stability of capital structure and liquidity position;
2. Reduce balance sheet risk by increasing loss mitigation efforts in the single family portfolio and multifamily portfolio preservation through risk share;
3. Pursue multi-family lending that focuses on preservation and recapitalization of the existing housing stock;
4. Pursue new sources of capital and revenue and investigate sustainable business models;
5. Reorganize and increase operational efficiencies and infrastructure to better position the Agency for future business opportunities;
6. Maximize use of KYHC program funds; and
7. Integrate HCD and CalHFA functions to meet California's affordable housing needs.

With these priorities in mind, we have developed a baseline operating budget for FY 2012-13.

Summary

The proposed operating budget for Fiscal Year 2012-13 is $47.4 million. This amount includes a required estimate of future pension cost based on CalHFA's number of employees. For FY 2012-13 this amount is $2.8 million and should be subtracted before a comparison can be made with the FY 2011-12 budget. Net of the $2.8 million, the FY 2012-13 operating budget is $44.6, an approximate 6% decrease from the FY 2011-12 budget.

We have separated the budget into two parts, the "Baseline Budget" and the "Strategic Projects Contracts." Together these will provide Board members with a better understanding of the day to day costs (baseline operating expenses) versus the one-time Strategic Projects (A summary page is included for your review as Attachment 1 to this memorandum). We have also noted the estimated amount of Agency costs that will be reimbursed by the Hardest Hit Fund for amounts spent on the Keep Your Home California program.

For FY 2011-12, it appears that, once again, the Agency will spend less than the operating budget approved by the Board in May 2011. At this point in the fiscal year, projected actual expenditures for the year are $45.2 million or $4.9 million under budget. Most of the reduction in spending resulted from a $3.6 million reduction in expenditures on strategic projects during the year – mainly attributable to the cancellation of the Homeownership Loan Reservation System (Mortgage Flex). Although the Agency also reduced operating expenses by approximately $2 million, those savings were somewhat offset by the furlough settlement which is expected be approximately $4 million.

THIS PAGE INTENTIONALLY LEFT BLANK

FY 2012/13 Operating Budget

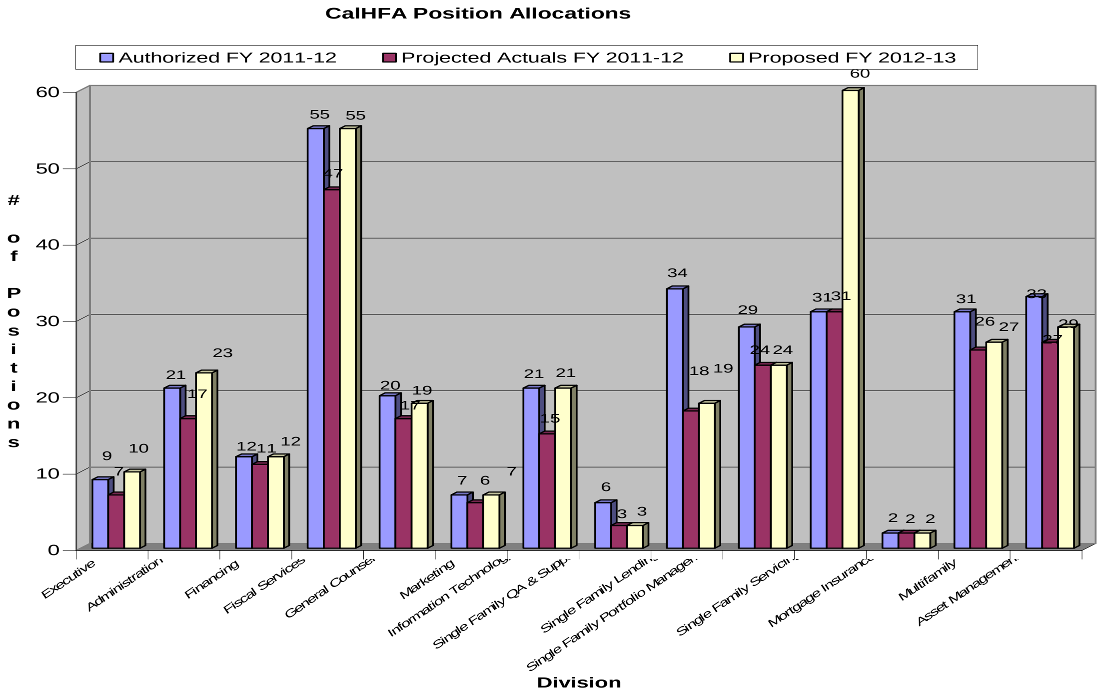
The FY 2012-13 operating budget represents a slight increase in spending over the FY 2011-12 actual expenditures. The proposed budget of $47.4 million represents a $2.2 million or 4.9% increase over projected actual costs for the current year. Again, these proposed increases can be explained by activities that mirror the priorities discussed above.

Proposed staffing:

The Agency has 311 total authorized positions and will begin the fiscal year with 60 vacancies. CalHFA has had a number of retirements and separations in key positions throughout the Agency. CalHFA is no longer hiring contract temporary help to handle our workload. Limited term positions are being used to hire staff needed to manage spikes in workload especially in Single Family Servicing.

- During FY 2012-13, the Agency plans to reduce vacancies and fill a total of 54 positions due to a shift of workload at a cost to the Agency of approximately $4.5 million, including staff benefits.
- Positions filled will replace key staff who have retired and also establish permanent positions where the Agency has used temporary help in the prior two fiscal years. Conversion from temporary help to permanent positions is being used primarily in Single Family Servicing where we are losing temporary employees to other job opportunities as the economy begins to recover.
- There is a $1 million reduction in temporary help due to the replacement of temporary help with permanent staff.
- Overtime is projected to decrease by $67K due to the filling of vacancies.
- Staff benefits will increase by $874K due to new hires.
- Overall, staff costs are increased by a total of $494K over FY 2011-12 actual.

The chart below illustrates the distribution of staff positions after the vacancies are filled. The Agency has streamlined collections, lending, mortgage insurance and portfolio management into a single division under what is now called Single Family. In order to consolidate and work more efficiently as a team, the new Single Family Division has been located in West Sacramento. The chart below represents CalHFA's analysis of workload and staffing changes. Within Single Family, Servicing's responsibilities have increased as Lending's has decreased. As a result, resources have been redirected to meet Servicing's workload demands. If CalHFA is awarded the PBCA contract, additional staff will be hired in Asset Management and Fiscal Services. The School Facility Fee Program has ended and California Homebuyer's Down Payment Assistance Program (CHDAP) is quite active; there has been a steady uptick in activity during the past year.



<u>Operating Expenses</u>

- General Expense ($681,000).

Next year's budget is decreased by $185,000 due to decreased costs in storage of Agency records and consolidation of supplies and equipment. After the move to our new locations, maintenance expenses were reduced because of consolidation of staff. The Agency's plan to eventually go to imaged documents may help to further decrease expenditures in this area.

- Communication ($569,000).

Next year's budget is decreased by $80,000 due to the lack of lending. This has caused a decrease in mailings (i.e. postage, printed material, etc.).

- Travel ($360,000).

Next year's budget is decreased by $50,000 due to the scrutinizing of trade shows, conferences and trainings.

- Training ($112,000).

Next year's budget is reduced by $38,000 based on current year's projected expenditures.

- Facilities Operations ($3,400,000).

We have three sites to budget for (500 Capitol Mall, West Sacramento, and Culver City). The $600,000 increase in budgeted cost is due to base rent increases, last of the "free lease" period at the 500 Capitol Mall site which ended in August 2011, and additional money needed to fix the HVAC system at the West Sacramento site.

- Contracts ($3,350,000)

This includes all of our Interagency and External Agreements. Next year's budget is decreased by $192,000 due to less consulting services provided to the Single Family Division.

- Central Administrative Services ($3,233,000).

These are costs to do business with state "control agencies" such as Department of Finance, State Controller's Office, State Treasurer, Legislature, Department of Personal Administration, etc. Our Administrative Pro Rata costs (i.e., state overhead costs) will increase by another $774,000 in the coming fiscal year. This amount is calculated by the Department of Finance.

- Information Technology ($810,000).

Next year's budget is decreased by $314,000 due to less one time costs that were captured this FY for network infrastructure, server upgrades and additional storage capabilities.

- Equipment ($250,000).

Next year's budget is increased by $100,000 due to equipment needed for the restructuring of the West Sacramento office space.

- Hardest Hit Program (-$592,000).

The Hardest Hit funding is provided by the U.S. Treasury for the Keep Your Home California program. This is the $2 billion federal assistance program that will be provided to CalHFA Mortgage Assistance Corporation, a nonprofit corporation established to receive the federal funding. CalHFA is being reimbursed for out-of-pocket costs associated with developing, implementing, and follow-up.

- Strategic Project Contracts ($409,000)

Next year's budget is decreased significantly by $4,256,000. These costs are associated with Agency Strategic Projects: Enterprise Content Management (ongoing project to improve document management through imaging and enterprise wide storage and retention of documents), and the assessment of the Fiscal Services Project (a project to design and implement a vastly improved financial and management information system for the Agency).

Conclusion

This proposed budget covers the most likely events for the 2012-13 fiscal year. The approval of our operating budget by the Board will provide staff with the flexibility to carry out the Agency's one year business plan. Once again, it is important to point out that the Agency is entirely self supported from operations. The costs associated with the Agency's operations have no impact on the State's general fund budget and do not in any way impact the State of California cash flow.

Your approval of Resolution 12-08 is requested.

May 04, 2012

CALIFORNIA HOUSING FINANCE AGENCY
2012-13
CONSOLIDATED CALHFA AND MIS FUNDS OPERATING BUDGET
(DOLLARS IN THOUSANDS)

EXPENDITURE ITEM	Budgeted 2010-11	Actual 2010-11	Budgeted 2011-12	Projected Actual 2011-12	Proposed 2012-13
PERSONAL SERVICES					
Salaries and Wages	$22,509	$22,509	$22,740	$23,003	$22,686
Estimated Savings (Furlough / Vacancies)	(963)	($3,959)	(1,418)	(1,062)	0
Anticipated Salaries and Wages	21,546	18,550	21,322	21,941	22,686
Temporary Help					
Students/Retired Annuitants	563	509	462	482	528
Contract	662	2,193	1,356	1,721	631
Overtime	179	281	222	267	200
Staff Benefits	7,878	7,242	7,959	7,066	7,940
*OPEB (GASB 45)		2,864	2,745	2,844	2,830
TOTALS, Personal Services	$30,828	$31,639	$34,066	$34,321	$34,815
OPERATING EXPENSES AND EQUIPMENT					
General Expense	712	805	866	576	681
Communications	538	633	649	387	569
Travel	320	412	410	313	360
Training	167	34	150	33	112
Facilities Operation	2,000	1,936	2,800	3,008	3,400
Consulting & Professional Services	3,861	3,028	3,542	2,263	3,350
**Central Admin. Serv.	2,267	2,311	2,459	2,790	3,233
Information Technology	927	696	1,124	720	810
Equipment	320	135	150	88	250
TOTALS, Operating Expenses and Equipment	$11,112	$9,992	$12,150	$10,178	$12,765
TOTALS, Baseline Budget	$41,940	$41,630	$46,216	$44,499	$47,580
TOTALS, Hardest Hit (Outside Funding)	($985)	($431)	($789)	($455)	($592)
NET, Baseline Budget	$40,955	$41,199	$45,427	$44,044	$46,988
TOTALS, Strategic Project Contracts [1](includes move costs)	$7,369 [1]	$3,213 [1]	$4,665	$1,107	$409
TOTALS, EXPENDITURES	$48,324	$44,412	$50,092	$45,151	$47,397

* OPEB (Other Post-Employment Benefits) Under GASB 45, public agencies must account for, and report, the annual required contribution (ARC) for OPEBs in the same way they report pension benefits. As a result, the annual OPEB expense to be reported by most employers will need to be based on actuarially determined amounts rather than on the "pay-as-you-go" method. Governments must use actuarial evaluations to determine the final accounting and reporting amounts expected in the future. OPEB costs also must be reported over the working lifetime of employees, and the information provided in financial statements must include the funding, costs and provisions in an OPEB plan. While GASB 45 does not require that OPEB plans be funded, it requires disclosure of net OPEB obligations (NOO).

** Central Administrative Services: These are service costs (e.g., Finance, Controller, Personnel Board, Treasurer, Legislature, etc.) incurred by the Agency. These charges are calculated by the Department of Finance using a formula that takes three budget years into consideration.

RESOLUTION 12-08

CALHFA OPERATING BUDGET

FISCAL YEAR 2012/2013

WHEREAS, the Board of Directors of the California Housing Finance Agency has reviewed its proposed operating budget for the 2012/2013 fiscal year;

NOW, THEREFORE, BE IT RESOLVED as follows:

1. The operating budget attached hereto is hereby approved for operations of the California Housing Finance Agency Fund for fiscal year 2012/2013.

I hereby certify that this is a true and correct copy of Resolution 12-08 adopted at a duly constituted meeting of the Board of the Agency held on May 17, 2012, in Sacramento, California.

ATTEST: ______________________
Secretary

Attachment

THIS PAGE INTENTIONALLY LEFT BLANK

State of California

M E M O R A N D U M

To: Board of Directors **Date:** May 2, 2012

Tim Hsu, Financing Risk Manager

From: **CALIFORNIA HOUSING FINANCE AGENCY**

Subject: Homeownership Loan Portfolio Update

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

- Delinquencies as of February 29, 2012 by insurance type,
- Delinquencies as of February 29, 2012 by product (loan) type,
- Delinquencies as of February 29, 2012 by loan servicer,
- Delinquencies as of February 29, 2012 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 October 2009 thru February 2012)
- A chart of the number of CalHFA's Conventional Delinquent Loan Trend for 30-90 Day and 120 Day (for the period of October 2009 thru February 2012)
- A graph of CalHFA's 90-day+ ratios for FHA and Conventional loans (for the period of February 2007 through February 2012),
- A graph of 90-day+ ratios for CalHFA's three Conventional loan (products) types, for the period of February 2010 through February 2012,
- Real Estate Owned (REO) at March 31, 2012,
- Accumulated Uninsured Losses from January 1, 2008 through March 31, 2012,
- Disposition of 1st Trust Deed Gain/(Loss) for January 1 through March 31, 2012, and
- Write-Offs of subordinate loans for January 1 through March 31, 2012

THIS PAGE INTENTIONALLY LEFT BLANK

California Housing Finance Agency

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

Reconciled Loan Delinquency Summary
All Active Loans By Insurance Type
As of February 29, 2012

	Loan Count	Balance	% of Balance	DELINQUENCY RATIOS - % of Loan Count							
				Loan Count	30-Day	Loan Count	60-Day	Loan Count	90(+) Day	Totals Count	Totals %
Federal Guaranty											
FHA	9,418	$ 1,150,620,856	29.21%	540	5.73%	167	1.77%	648	6.88%	1,355	14.39%
VA	281	38,550,006	0.98%	10	3.56%	3	1.07%	23	8.19%	36	12.81%
RHS	86	15,824,107	0.40%	4	4.65%	1	1.16%	15	17.44%	20	23.26%
Conventional loans											
with MI											
CalHFA MI Fund	6,010	1,572,926,184	39.94%	250	4.16%	131	2.18%	717	11.93%	1,098	18.27%
without MI											
Orig with no MI	4,983	979,780,867	24.88%	157	3.15%	55	1.10%	284	5.70%	496	9.95%
MI Cancelled*	1,308	180,872,281	4.59%	27	2.06%	9	0.69%	43	3.29%	79	6.04%
Total CalHFA	22,086	$ 3,938,574,301	100.00%	988	4.47%	366	1.66%	1,730	7.83%	3,084	13.96%

*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 February 29, 2012

	Loan Count	Balance	% of Balance	DELINQUENCY RATIOS - % of Loan Count							
				Loan Count	30-Day	Loan Count	60-Day	Loan Count	90(+) Day	Totals Count	Totals %
30-yr level amort											
FHA	9,418	$ 1,150,620,856	29.21%	540	5.73%	167	1.77%	648	6.88%	1,355	14.39%
VA	281	38,550,006	0.98%	10	3.56%	3	1.07%	23	8.19%	36	12.81%
RHS	86	15,824,107	0.40%	4	4.65%	1	1.16%	15	17.44%	20	23.26%
Conventional - with MI	3,264	763,320,496	19.38%	125	3.83%	55	1.69%	293	8.98%	473	14.49%
Conventional - w/o MI	5,528	979,802,331	24.88%	144	2.60%	54	0.98%	250	4.52%	448	8.10%
40-yr level amort											
Conventional - with MI	461	132,022,107	3.35%	18	3.90%	11	2.39%	66	14.32%	95	20.61%
Conventional - w/o MI	199	39,465,984	1.00%	7	3.52%	2	1.01%	16	8.04%	25	12.56%
5-yr IOP, 30-yr amort											
Conventional - with MI	2,285	677,583,581	17.20%	107	4.68%	65	2.84%	358	15.67%	530	23.19%
Conventional - w/o MI	564	141,384,832	3.59%	33	5.85%	8	1.42%	61	10.82%	102	18.09%
Total CalHFA	22,086	$ 3,938,574,301	100.00%	988	4.47%	366	1.66%	1,730	7.83%	3,084	13.96%
	Weighted average of conventional loans:			434	3.53%	195	1.59%	1,044	8.49%	1,673	13.60%

California Housing Finance Agency

CalHFA

Reconciled Loan Delinquency Summary
All Active Loans By Loan Servicer
As of February 29, 2012

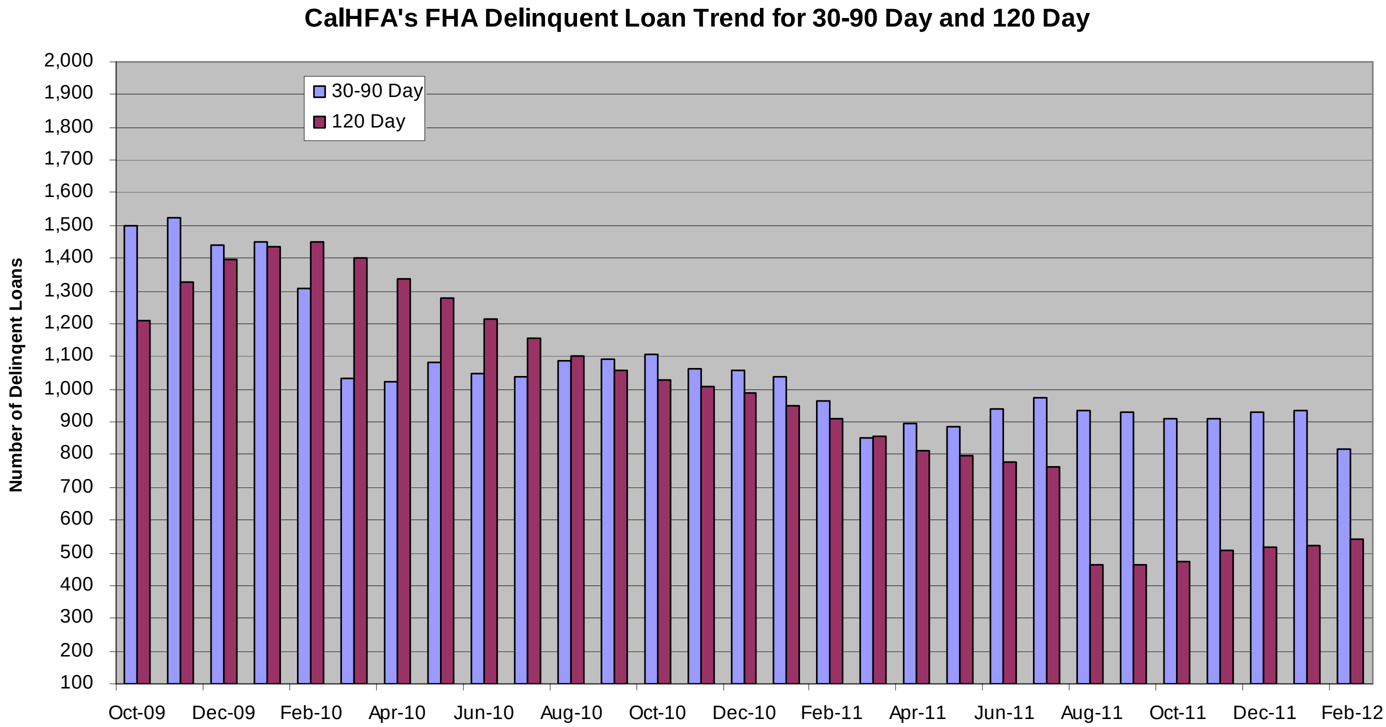
	Loan Count	Balance	% of Balance	Loan Count	30-Day	Loan Count	60-Day	Loan Count	90(+) Day	Totals Count	Totals %
				DELINQUENCY RATIOS - % of Loan Count							
CALHFA - LOAN SERVICING	8,298	$ 1,843,142,177	46.80%	297	3.58%	114	1.37%	591	7.12%	1,002	12.08%
GUILD MORTGAGE	5,146	870,589,419	22.10%	260	5.05%	84	1.63%	328	6.37%	672	13.06%
WELLS FARGO HOME MORTGAGE	2,311	265,277,791	6.74%	88	3.81%	35	1.51%	181	7.83%	304	13.15%
BAC HOME LOANS SERVICING, LP	2,032	385,061,738	9.78%	121	5.95%	59	2.90%	333	16.39%	513	25.25%
EVERHOME MORTGAGE COMPANY	2,013	189,103,615	4.80%	135	6.71%	30	1.49%	73	3.63%	238	11.82%
FIRST MORTGAGE CORP	866	168,564,558	4.28%	27	3.12%	20	2.31%	98	11.32%	145	16.74%
GMAC MORTGAGE CORP	870	114,818,102	2.92%	46	5.29%	11	1.26%	51	5.86%	108	12.41%
BANK OF AMERICA, NA	260	42,845,627	1.09%	7	2.69%	4	1.54%	25	9.62%	36	13.85%
JPMORGAN CHASE BANK, N.A.	190	44,661,783	1.13%	6	3.16%	5	2.63%	37	19.47%	48	25.26%
CITIMORTGAGE, INC.	50	11,353,037	0.29%	1	2.00%	2	4.00%	11	22.00%	14	28.00%
DOVENMUEHLE MORTGAGE, INC.	44	1,344,385	0.03%	0	0.00%	1	2.27%	1	2.27%	2	4.55%
WESCOM CREDIT UNION	5	1,506,744	0.04%	0	0.00%	1	20.00%	1	20.00%	2	40.00%
PROVIDENT CREDIT UNION	1	305,326	0.01%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Total CalHFA	22,086	$ 3,938,574,301	100.00%	988	4.47%	366	1.66%	1,730	7.83%	3,084	13.96%

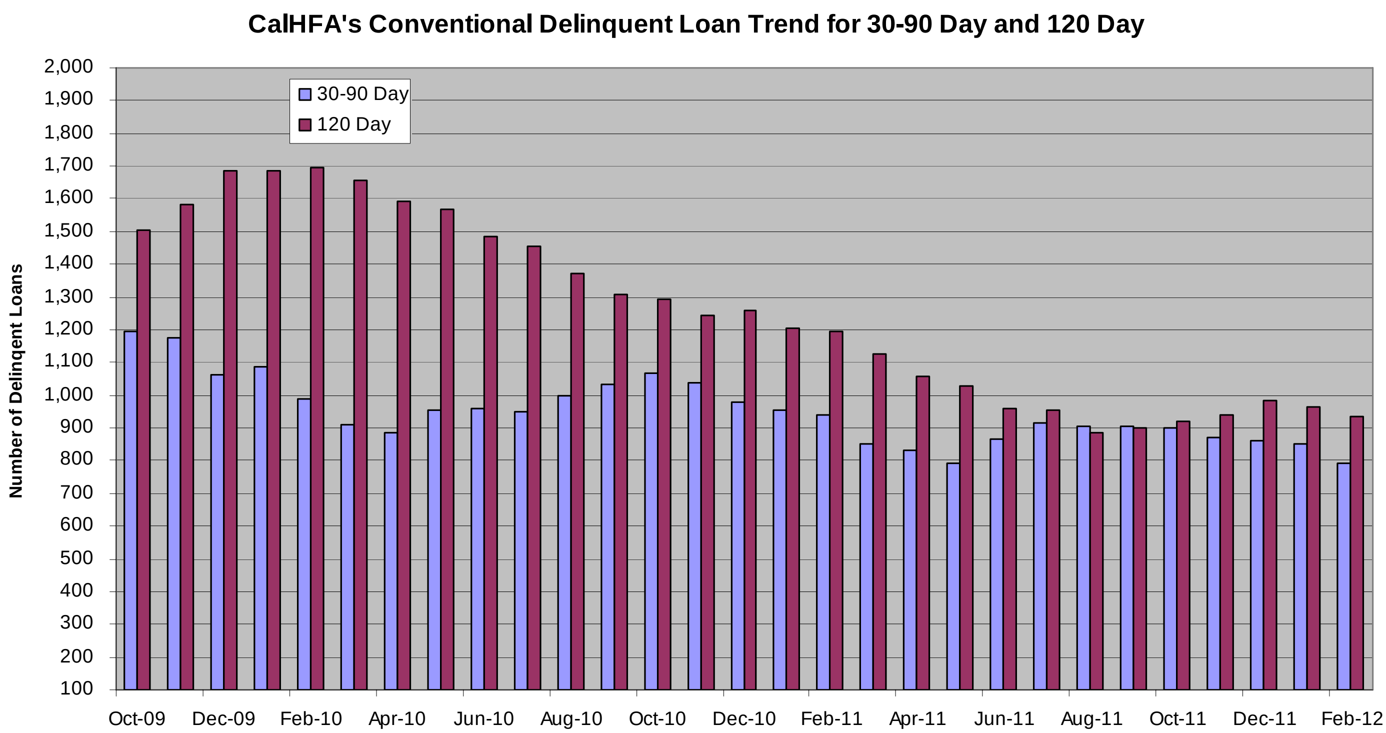
Reconciled Loan Delinquency Summary
All Active Loans By County
As of February 29, 2012

	Loan Count	Balance	% of Balance	Loan Count	30-Day	Loan Count	60-Day	Loan Count	90-Day+	Total Count	Total %
				DELINQUENCY RATIOS - % of Loan Count							
LOS ANGELES	3,659	$ 747,903,992	18.99%	163	4.45%	46	1.26%	273	7.46%	482	13.17%
SAN DIEGO	2,027	431,627,954	10.96%	83	4.09%	32	1.58%	206	10.16%	321	15.84%
SANTA CLARA	1,541	402,275,191	10.21%	30	1.95%	15	0.97%	93	6.04%	138	8.96%
KERN	1,326	136,867,791	3.48%	83	6.26%	24	1.81%	61	4.60%	168	12.67%
SACRAMENTO	1,095	190,693,630	4.84%	53	4.84%	25	2.28%	117	10.68%	195	17.81%
ORANGE	1,103	246,539,242	6.26%	33	2.99%	21	1.90%	80	7.25%	134	12.15%
FRESNO	1,094	99,332,736	2.52%	70	6.40%	19	1.74%	64	5.85%	153	13.99%
TULARE	1,076	97,591,428	2.48%	67	6.23%	18	1.67%	73	6.78%	158	14.68%
SAN BERNARDINO	1,054	173,486,485	4.40%	40	3.80%	15	1.42%	145	13.76%	200	18.98%
RIVERSIDE	1,030	163,249,841	4.14%	61	5.92%	24	2.33%	141	13.69%	226	21.94%
ALAMEDA	966	229,549,127	5.83%	22	2.28%	9	0.93%	57	5.90%	88	9.11%
CONTRA COSTA	773	168,428,782	4.28%	31	4.01%	21	2.72%	74	9.57%	126	16.30%
VENTURA	558	146,543,461	3.72%	19	3.41%	10	1.79%	38	6.81%	67	12.01%
IMPERIAL	510	50,801,655	1.29%	34	6.67%	8	1.57%	38	7.45%	80	15.69%
SONOMA	431	85,903,375	2.18%	16	3.71%	4	0.93%	17	3.94%	37	8.58%
OTHER COUNTIES	3,843	567,779,608	14.42%	183	4.76%	75	1.95%	253	6.58%	511	13.30%
Total CalHFA	22,086	$ 3,938,574,301	100.00%	988	4.47%	366	1.66%	1,730	7.83%	3,084	13.96%

California Housing Finance Agency

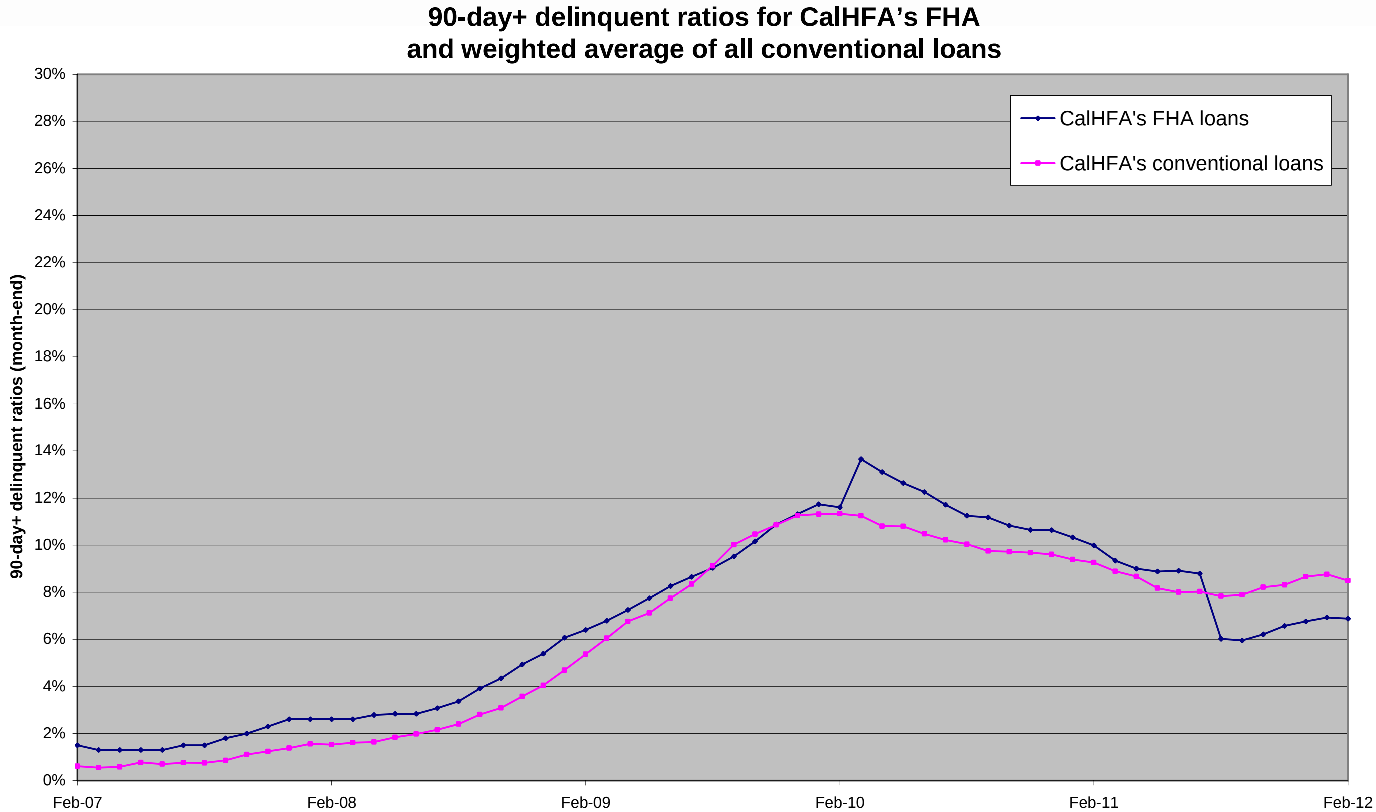
CalHFA

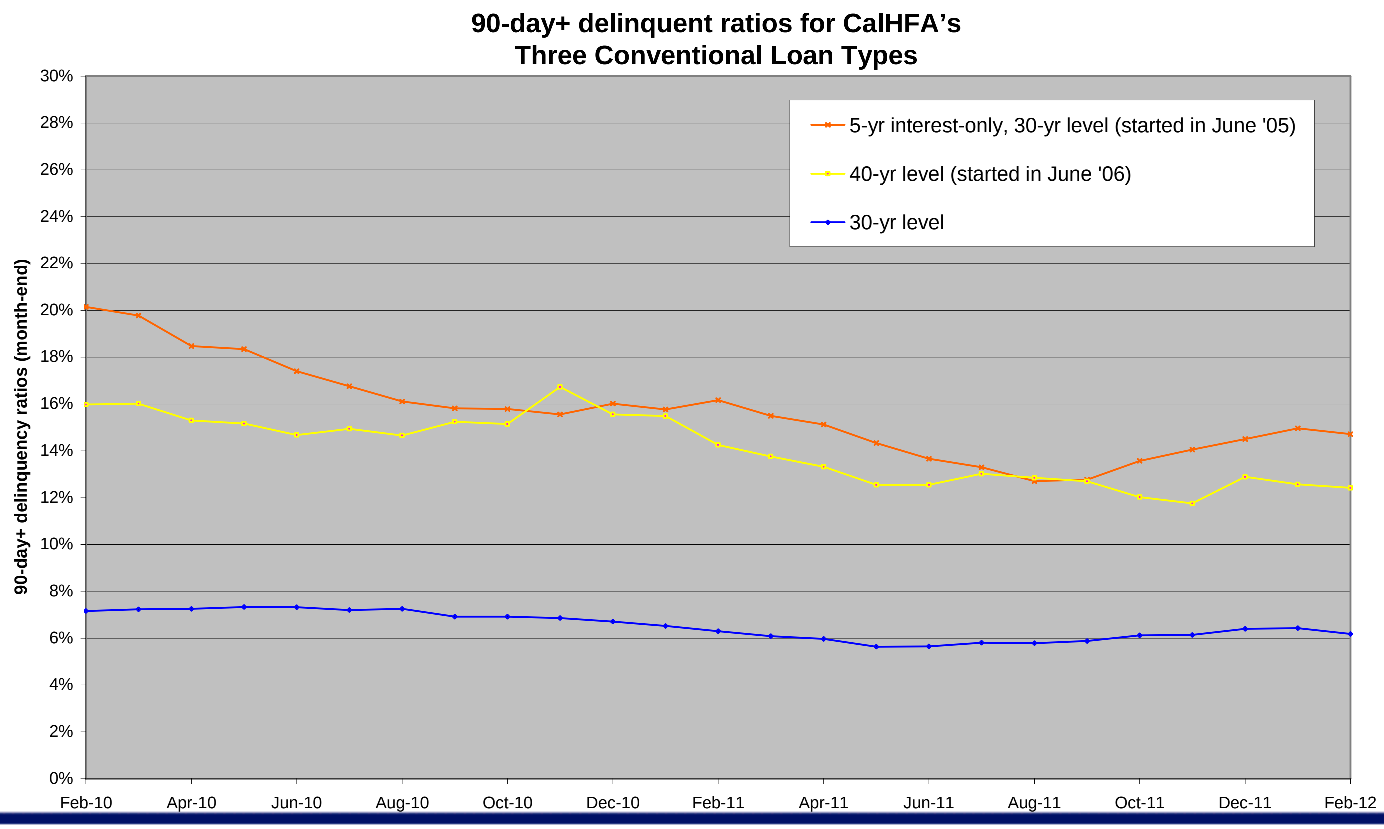




California Housing Finance Agency

CalHFA





Real Estate Owned

Calendar Year 2012 (As of March 31, 2012)												
			**Trustee Sales			Disposition of REO(s)						
Loan Type	Beginning Balance # of Loans	Prior Calendar Adj.	Reverted to CalHFA Jan-Feb	Reverted to CalHFA March	Total Trustee Sales	Repurchased by Lender Jan-Feb	Market Sale(s) Jan-Feb	Repurchased by Lender March	Market Sale(s) March	Total Disposition of REO(s)	Ending Balance # of Loans	UPB of REO's Owned
FHA/RHS/VA	124	(6)	61	25	86	41		34		75	129	$ 23,564,846
Conventional	565	5	240	87	327		234		132	366	531	122,389,671
Total	689	(1)	301	112	413	41	234	34	132	441	660	$ 145,954,517

Calendar Year 2011						
		*Trustee Sales	Disposition of REO(s)			
Loan Type	Beginning Balance # of Loans	Reverted to CalHFA 2011	Repurchased by Lender 2011	Market Sale(s) 2011	Ending Balance # of Loans	UPB of REO's Owned
FHA/RHS/VA	198	496	570		124	$ 22,948,976
Conventional	1084	1311		1830	565	123,482,821
Total	1282	1807	570	1830	689	$ 146,431,797

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

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

**3rd party trustee sales are not shown in the tables (tltle to these loans were never transferred to CalHFA). There were eight (8) 3rd party sales in calendar year 2008, eighteen (18) 3rd party sales year 2009, thirty-nine (39) 3rd party sales year 2010, twenty two (22) 3rd party sales in calendar year 2011, and there are five (5) 3rd party sale to date 2012.*

California Housing Finance Agency

CalHFA

Accumulated Uninsured Losses as of March 31, 2012						
Conventional Loans	**# of Properties Sold**	**Principal Write-Offs [1]**	**# of GAP Claims**	**Actual GAP[2] Claim Payments**	**# of Subordinate Loans**	**Subordinate Write-Offs [3]**
REOs Sold	3,884	$ (125,032,451)	2,594	$ (116,958,687)		
Short Sales	691	(18,244,543)	395	(17,461,359)	2,086	$ (18,802,914)
3rd Party Sales	36	(196,576)	4	(170,867)	90	(781,403)
Active REOs			7	(409,087)		
Write-offs resulting from foreclosures					8,520	(82,274,077)
Total:	4,611	$ (143,473,570)	3,000	$ (135,000,000)	10,696	$ (101,858,394)

(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") provided 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 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, this maximum amount was reached in August 2011. The indemnification is payable solely from available funds held in a sub account within the California Housing Finance Fund.

(3) Includes both FHA/Conventional Loans.

2012 Year to Date Composition of 1st Trust Deed Loss
(As of March 31, 2012)

	Disposition					
Loan Type	**Repurchased by Lender**	**Market Sales**	**Short Sales**	**Loan Balance at Sales**	**Principal Write-Offs**	**Actual GAP Claim Payments**
FHA/RHS/VA	75		7	$ 15,563,148		
Conventional		366	55	114,835,233	$ (27,651,096)	$ (990,369)
	75	366	62	$ 130,398,381	$ (27,651,096)	$ (990,369)

2012 Year to Date Composition of Subordinate Write-Offs by Loan Type[1]
(As of March 31, 2012)

	Active Loans		Write-Offs			
Loan Type	**Active Loans**	**Dollar Amount**	**Number of Write-Offs**	**% (of Portfolio)**	**Dollar Amount**	**% (of Portfolio)**
CHAP/HiCAP	8,936	$95,386,138	316	3.54%	$3,626,697	3.80%
CHDAP/ECTP/HiRAP	21,350	165,542,493	388	1.82%	3,059,111	1.85%
Other [2]	242	3,288,739	2	0.83%	10,500	0.32%
	30,528	$264,217,369	706	2.31%	$6,696,308	2.53%

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

State of California

M E M O R A N D U M

To: Board of Directors **Date:** March 3, 2012

Timothy Hsu, Financing Risk Manager

From: **CALIFORNIA HOUSING FINANCE AGENCY**

Subject: AGENCY BONDS, INTEREST RATE SWAPS, AND FINANCING RISK FACTORS REPORT

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

1) Outstanding Bonds
2) Variable Rate Debt
    a) Variable Rate Debt Exposure
    b) Types of Variable Rate Debt
    c) Liquidity Providers
    d) Interest Rate Swaps
3) Financing Risk Factors
    a) Unhedged Variable Rate Risk
    b) Basis Risk
    c) Amortization Risk
    d) Termination Risk
    a) Collateral Posting Risk

THIS PAGE INTENTIONALLY LEFT BLANK

1) OUTSTANDING BONDS

Below is the Agency's outstanding debt position. This table does not include any pass-thru, conduit or escrow (NIBP) financings which makes up an additional $1.4 billion.

BONDS OUTSTANDING
As of February 1, 2012
($ in millions)

	Fixed Rate	Variable Rate	Totals
Single Family	$1,892	$2,724	$4,616
Multifamily	342	624	966
TOTALS	$2,234	$3,348	$5,482

2) VARIABLE RATE DEBT

a) VARIABLE RATE DEBT EXPOSURE

Over the 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.

This section 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), and HPB (Housing Program Bonds--CalHFA's multipurpose indenture, used to finance a variety of loans including the Agency's downpayment assistance loans).
The total amount of CalHFA variable rate debt is $3.3 billion, 61% of our $5.5 billion of total indebtedness as of May 1, 2012.

VARIABLE RATE DEBT
($ in millions)

	Swapped to Fixed Rate	Not Swapped or Tied to Variable Rate Assets	Total Variable Rate Debt
HMRB (SF)	$1,369	$1,327	$2,696
MHRB (MF)	400	186	586
HPB (SF & MF)	0	66	66
Total	$1,769	$1,579	$3,348

b) TYPES OF VARIABLE RATE DEBT

The following table shows our variable rate debt sorted by type, i.e., whether auction rate, indexed rate, or variable rate demand obligations (VRDOs). Auction and indexed rate securities cannot be "put" back to us or to a third party by investors; hence they typically bear higher rates of interest than do "put-able" bonds such as VRDOs.

TYPES OF VARIABLE RATE DEBT
($ in millions)

	Auction Rate & Similar Securities	Indexed Rate Bonds	Variable Rate Demand Obligations	Total Variable Rate Debt
HMRB	$0	$800	$1,896	$2,696
MHRB	110	0	476	586
HPB	0	0	66	66
Total	$110	$800	$2,438	$3,348

c) 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 5/1/2012
($ in millions)

Financial Institution	$ Amount of Bonds
Freddie Mac	$1,219
Fannie Mae	1,219
Total	$2,438

<u>d) Interest Rate Swaps</u>

Currently, we have a total of 97 "fixed-payer" swaps with thirteen different counterparties for a combined notional amount of $2.3 billion. All of these fixed-payer swaps are intended to establish synthetic fixed rate debt by converting our variable rate payment obligations to fixed rates. The table below provides a summary of our swap notional amounts.

FIXED PAYER INTEREST RATE SWAPS
(notional amounts)
($ in millions)

	Tax-Exempt	Taxable	Totals
HMRB	$1,534	$193	$1,727
MHRB	576	0	576
TOTALS	$2,110	$193	$2,303

SWAPS
($ in millions)

	Hedging Bonds	Not Hedging Bonds	Totals
HMRB	$1,376	$351	$1,727
MHRB	412	164	576
TOTALS	$1,788	$515	$2,303

For all of our fixed-payer swaps, we receive floating rate payments from our counterparties in exchange for a fixed-rate obligation on our part. In today's market, the net periodic payment owed under these swap agreements is from us to our counterparties. As an example, on our February 1, 2012 semiannual debt service payment date we made a total of $49 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.

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

SWAP COUNTERPARTIES

Swap Counterparty	Credit Ratings Moody's	S & P	Notional Amounts Swapped as of 2/1/12 ($ in millions)	Number of Swaps
JPMorgan Chase Bank, N.A.	Aa1	A+	$ 594	19
Bank of America, N.A.	A2	A	593	30
Goldman Sachs Mitsui Marine Derivative Products, , L.P.	Aa1	AAA	232	7
Citigroup Financial Products, Inc.	A3	A-	211	8
AIG Financial Products, Corp. [2]	Baa1	A-	199	7
Deutsche Bank AG	Aa3	A+	195	11
Morgan Stanley Capital Services, Inc.	A2	A-	112	2
Merrill Lynch Derivative Products	Aa3	AAA	62	6
BNP Paribas	Aa3	AA-	54	2
Bank of New York Mellon	Aa1	AA-	25	1
UBS AG	Aa3	A	14	2
Dexia Credit Local New York Agency [2]	Baa2	BBB	10	1
Merrill Lynch Capital Services, Inc. [2]	Baa1	A-	2	1
			$ 2,303 [1]	97

[1] Basis Swaps not included in totals

[2] Swap counterparty's rating has triggered Additional Termination Event (ATE); Agency has right to terminate the associated swaps; additionally, the rating agencies no longer consider these swaps to be effective hedges see "Termination Risk" section of report

3) FINANCING RISK FACTORS

a) Unhedged Variable Rate Risk

As shown in Sec. 2(a), the Variable Rate Debt table, our "net" variable rate exposure is $1.6 billion, 28.8% 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 ($692 million taxable and $887 million tax-exempt) is offset by the Agency's variable rate investments and excess swap positions. The

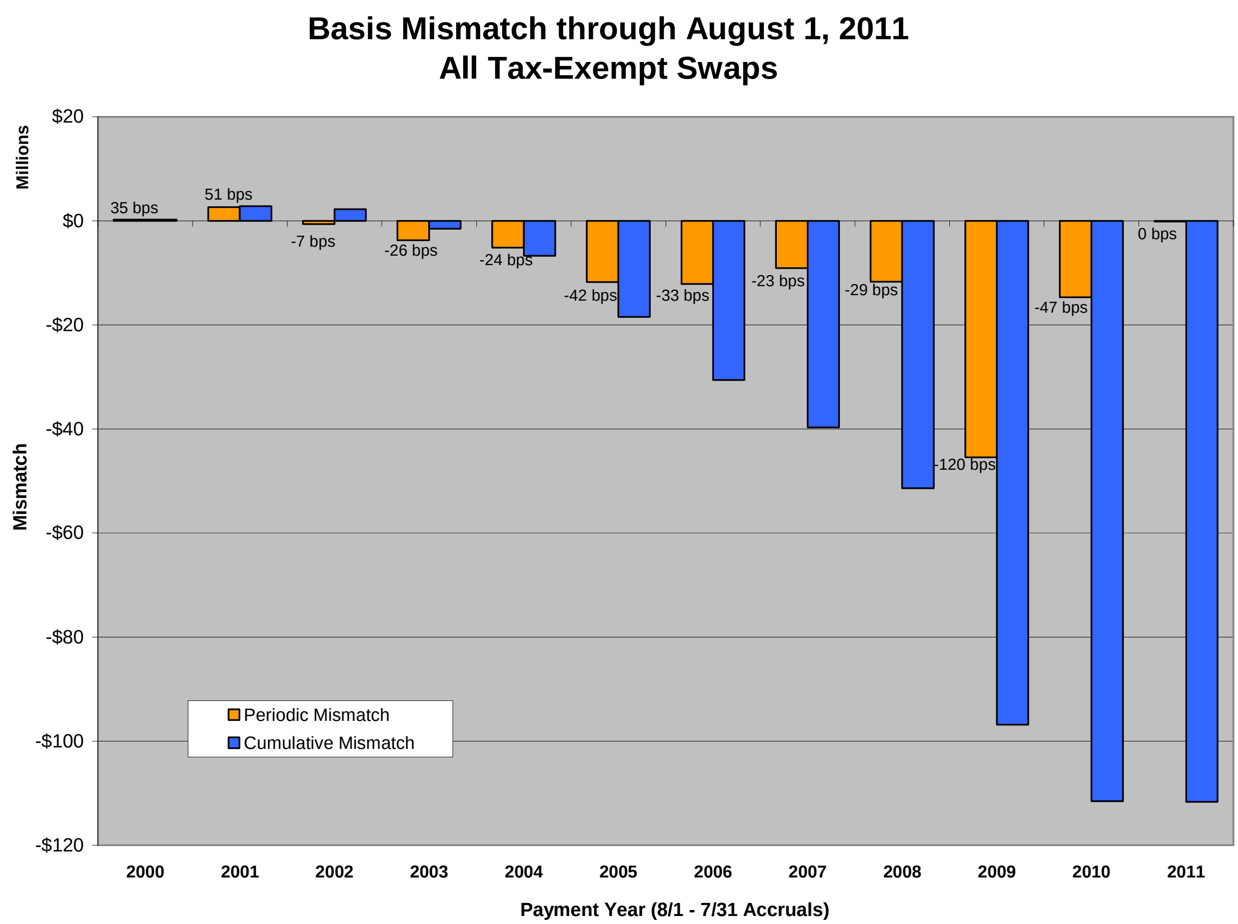
Agency's balance sheet has: i) $557 million (six month average balance) of non-bond indenture related funds invested in the State Treasurer's investment pool (SMIF) earning a variable rate of interest; and, ii) $515 million notional amount of interest rate swaps in excess of the hedged bonds. From a risk management perspective, these two positions serve as a balance sheet hedge for the $1.6 billion of net variable rate exposure.

In order to estimate the "true" unhedged position to the Agency, first, the overhedged swaps were used to offset the unhedged bonds. Then, the remaining tax-exempt unhedged bonds were converted into their equivalent taxable basis. Using this conversion method, the $1.6 billion of net variable rate exposure translates to $1 billion of net variable rate exposure. This $1 billion is further reduced by the $557 million of funds invested in SMIF. Thus the "true" net variable rate debt, from the Agency's balance sheet perspective, is $433 million.

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.

b) BASIS RISK

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



As the chart shows, the relationship between the two floating rates changes as market conditions change. Some of the conditions that contributed to our extreme basis mismatch in 2009 and early 2010 were the collapse of the auction rate securities market, the impact of bond insurer downgrades, the funding of bank bonds at higher rates, and SIFMA/LIBOR ratio at historically high levels over 100% We responded to the market disruption by refunding, converting, or otherwise modifying many of the under performing auction rate securities and insured VRDOs, and we eliminated bank bonds by taking advantage of the Temporary Credit and Liquidity Program offered by the federal government.

The new Temporary Credit and Liquidity Program from the federal government and the GSEs has significantly reduced basis mismatch. As part of this process, all bond insurance was removed from VRDOs and the federal government now provides direct credit support on all CalHFA VRDOs. This has allowed CalHFA VRDOs to reset with little or no spread to SIFMA. Since January 2010, our VRDOs have reset at an average of 1 basis point or 0.01% below SIFMA, whereas in 2009, our VRDOs were resetting at an average of 106 basis points or 1.06% above SIFMA. In the first 24 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			
2005	73%	2009	123%
2006	68%	2010	96%
2007	69%	2011	79%
2008	84%	2012 to date	56%

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

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

	Tax-Exempt	Taxable	Totals
% of LIBOR (+ spread)	$1,478	$0	$1,478
SIFMA (+ spread)	397	0	397
Stepped % of LIBOR [1]	215	0	215
3 mo. LIBOR (+ spread)_	0	116	116
% of SIFMA	20	0	20
1 mo. LIBOR	0	46	46
3 mo. LIBOR	0	18	18
6 mo. LIBOR	0	13	13
TOTALS	$2,110	$193	$2,303

[1] Stepped % of LIBOR – This formula has seven incremental steps where at the low end of the spectrum the swap counterparty would pay us 85% of LIBOR if rates should fall below 1.25% and at the high end it would pay 60% of LIBOR if rates are greater than 6.75%.

c) **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 a sufficiently wide ranges of prepayment speeds. In addition, swaps that were entered into after 2003 had swap termination options which allowed the Agency to terminate all or portions of the swap at par (no cost to terminate). The table below shows the par terminations that the Agency has exercised to date.

	Swap Par Options Exercised ($ in thousands)
2004	$12,145
2005	35,435
2006	20,845
2007	28,120
2008	18,470
2009	370,490
2010	186,465
2011	288,700
2012 to date	275,945
	$1,236,615

The table below shows the speed at which the Agency's single family first mortgage loans have been prepaying for the past five years.

SEMI-ANUAL PREPAYMENT SPEED
FOR PAST FIVE YEARS

6-mo Period Ending:	PSA
Dec-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%
Dec-2011	299%

Of interest is an $515 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.

d) 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.

TERMINATION VALUE HISTORY

Date	Termination Value ($ in millions)
3/31/11	($232)
6/30/11*	($253)
9/30/11	($338)
12/31/11	($330)
3/31/12	($302)

** As reported in the Financial Statements*

e) COLLATERAL POSTING RISK

Some ISDA agreements that we have entered into with the swap counterparties have collateral posting requirements. These postings are a function of the mark-to-market, ratings, threshold amounts, independent amounts and any collateral already posted. Our trades are valued weekly, and our collateral position is adjusted weekly based on those valuations. Failure to post the required collateral can result in a termination event.

The table below shows the required collateral amounts currently posted to swap counterparties. In the past months, falling interest rates have caused the swaps to have a negative value to the Agency thereby increasing the amount of collateral being posted to the counterparties.

Swap Collateral Posting
as of 5/4/2012
($ in millions)

	JPMorgan	Goldman Sachs	BofA	BofA / Merrill Lynch	Deutsche	AIG	Total
Marked-to-Market	74.88	37.66	64.19	38.7	40.23	19.84	
Credit Support Amount	39.88	23.91	6.25	24.7	10.23	0.06	105.03

State of California

M E M O R A N D U M

To: **CalHFA Board of Directors** **Date:** 4 May 2012

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

Subject: Legislative Report

Affordable Housing

SB 1220 **(DeSaulnier D) Housing Opportunity and Market Stabilization (HOMeS) Trust Fund Act of 2012.**

Status: 4/27/2012-Set for hearing May 7.

Location: 4/26/2012-S. APPR.

Calendar: 5/7/2012 11 a.m. - John L. Burton Hearing Room (4203)
SENATE APPROPRIATIONS, KEHOE, Chair

Spot bill for permanent source.

Bonds

SB 633 **(Huff R) Bonds: fine for unauthorized use.**

Status: 4/26/2012-Referred to Com. on B., P. & C.P.

Location: 4/26/2012-A. B.,P. & C.P.

Summary: This bill provides for someone who uses proceeds from State General Obligation bonds to be obligated to repay the bonds in full, and be fined, if the proceeds are used improperly. t.

CalHFA Misc

AB 2447 **(Skinner D) California Neighborhood Revitalization Partnership Act of 2012.**

Status: 5/1/2012-Re-referred to Com. on APPR.

Location: 5/1/2012-A. APPR.

Summary: This bill would establish the California Neighborhood Revitalization Partnership Act of 2012, to be administered by the California Housing Finance Agency in consultation with the Department of Housing and Community Development, to finance affordable housing for low- to moderate-income households. The bill would authorize specified applicants to apply for grant or loan moneys from the agency on a competitive basis for purposes of financing, among other things, the purchase of foreclosed homes, the establishment of land banks for foreclosed homes, the demolition of blighted structures, and the redevelopment of demolished or vacant properties. The bill would transfer $25,000,000 from bond moneys made available to the California Homebuyer's Downpayment Assistance Program, for these purposes.

Economic Development

AB 2144 **(John A. Pérez D) Local government: infrastructure and revitalization financing districts.**

Status: 4/26/2012-From committee: Do pass and re-refer to Com. on APPR. (Ayes 6. Noes 3.) (April 25). Re-referred to Com. on APPR.

Location: 4/26/2012-A. APPR.

Summary: The bill would authorize the creation of an infrastructure financing district (IFD) for up to 40 years and the issuance of debt with a final maturity date of up to 30 years. The bill would delete the prohibition on a district including any portion of a redevelopment project area, and authorize a district to finance projects in redevelopment project areas and former redevelopment project areas and former military bases. The bill would authorize a city to form a district to finance a project or projects on a former military base, if specified conditions are met. The bill would provide that the issuance of debt by such a district on land of a former military base that is publicly owned is not subject to voter approval. This bill contains other related provisions. According to the author's office, "AB 2144 facilitates the formation and broadens the purposes of IFDs (renamed Infrastructure Redevelopment Financing Districts) in order to make them more useful local tools – in light of the end of redevelopment – for economic development, affordable housing, sustainable communities, military base reuse, and brownfields cleanup and mitigation. IRFDs will encourage local cooperation and include appropriate protections for state and local taxpayers."

Energy Efficiency

AB 1124 **(Skinner D) Energy: energy efficiency.**

Status: 2/16/2012-Referred to Com. on E., U. & C.

Location: 2/16/2012-S. E. U., & C.

Summary: This bill would require the PUC, in its review of the energy efficiency programs of electrical corporations and gas corporations, to ensure compliance with specified principles . According to the author, this bill would allow the use of ratepayer energy efficiency funds for heating and hot water systems and common-area energy efficiency measures in low-income multifamily rental apartment buildings.

SB 1130 **(De León D) Energy: energy assessment: commercial buildings: retrofitting.**

Status: 4/27/2012-Set for hearing May 7.

Location: 4/25/2012-S. APPR.

Calendar: 5/7/2012 11 a.m. - John L. Burton Hearing Room (4203) SENATE APPROPRIATIONS, KEHOE, Chair

Summary: Existing law establishes incentives in the form of grants and loans to low-income residents, small businesses, and residential property owners for constructing and retrofitting buildings to be more energy efficient. The bill would require the State Energy Resources Conservation and Development Commission to analyze and evaluate standards for commercial energy building. According to the author, SB 1130 would create the statewide Building Employment Through Energy Retrofitting (BETER) program, providing a market-driven plan that will make energy efficiency upgrades an affordable undertaking for commercial borrowers, while putting our construction labor workforce back to work. SB 1130 would allow CAEATFA to issue revenue bonds and take out short-term lines of credit to fund energy efficiency and renewable power projects, an initiative that has not been previously attempted either in California state government or the private sector.

HCD

AB 1699 **(Torres D) Affordable housing.**

Status: 4/25/2012-In committee: Set, first hearing. Referred to APPR. suspense file.

Location: 4/25/2012-A. APPR. SUSPENSE FILE

Summary: Existing law authorizes the Department of Housing and Community Development to provide technical assistance to groups and persons with various housing needs and to administer various housing loan programs. Existing law authorizes the department to extend the term of existing multifamily housing loans made under specified programs upon the request of any borrower, subject to certain conditions, as provided. This bill would authorize the department to extend the term of an existing department loan, subordinate a department loan to new debt, and authorize an investment of tax credit equity under certain rental housing finance programs, subject to specified conditions. The bill would authorize the department to adopt guidelines that are not subject to the Administrative Procedures Actd. According to the author, AB 1699 would give HCD the authority to extend and modernize the loans in its older portfolio through conversion to MHP. Many of these loans were awarded in the late 1990s and are coming close to their term. Once the loan is paid off, the regulatory agreement which requires the units to remain affordable is extinguished. Many affordable housing providers would like to keep their projects affordable but need to take on additional debt financed with a low interest rate. By extending the loans on those projects this bill could preserve numerous affordable housing units currently in existence.

Insurance

AB 1603 (Feuer D) **Mortgages and deeds of trust: mortgage servicers: force-placed insurance.**

Status: 4/23/2012-Re-referred to Com. on APPR. pursuant to Assembly Rule 96. (Ayes 46. Noes 23. Page 4491.)

Location: 4/23/2012-A. APPR.

Summary: This bill would prohibit a mortgage servicer, as defined, from obtaining a replacement policy of hazard, flood, or homeowner's insurance, collectively defined as "force-placed insurance," with respect to a residential property securing a mortgage loan, unless there is a reasonable basis to believe that the borrower has failed to comply with contract requirements to maintain hazard, flood, or homeowner's insurance . The bill would require, if a borrower's existing hazard, flood, or homeowner's insurance policy is paid through an escrow account, that the mortgage servicer advance payments to continue the borrower's existing policy. According to the author, the increasing practice of mortgage servicers force-placing insurance on homeowners is one of the more troubling practices associated with the still unfolding foreclosure crisis throughout California and our nation. The idea that servicers can purchase insurance coverage for a property at exorbitant prices and pass the burden of the payments on to struggling families with little or no constraints is completely unacceptable. Homeowners who are teetering on the precipice of foreclosure and bankruptcy must not be pushed over the edge simply to satisfy the desire of bigger profits for servicers or insurance companies when alternative approaches exist to protect the servicers' obligations to bond holders and to preserve the homeowners' goal of keeping their home. AB 1603 would ensure that alternative approaches are explored, so that servicers can be confident a mortgaged-property is sufficiently insured without unduly increasing the financial burden on struggling families.

AB 2303 **(Committee on Insurance) Insurance omnibus.**

Status: 4/26/2012-Referred to Com. on INS.

Location: 4/26/2012-S. INS.

Summary: This bill would prohibit mortgage insurance from being an insurance product that may be offered in this state. This bill contains other related provisions and other existing laws. According to the author, existing law establishes a regulatory scheme for the sale of mortgage guaranty insurance, which has superseded "mortgage insurance. This bill would repeal v obsolete statutes relating to mortgage insurance. These statutes are obsolete because these policies are now issued under separate statutory authority for "mortgage guaranty insurance.

SB 1450 **(Calderon D) Mortgage guaranty insurance.**

Status: 5/3/2012-In Assembly. Read first time. Held at Desk.

Location: 5/3/2012-A. DESK

Summary: Existing law requires a mortgage guaranty insurer to limit its coverage, for the class of insurance that insures against financial loss by reason of nonpayment of principal, interest, and other sums under any evidence of indebtedness secured by a mortgage, deed of trust, or other instrument constituting a first lien or charge on a residential building or a condominium unit or buildings designed for occupancy by not more than 4 families, to no more than a net of 30% at risk of the entire indebtedness to the insured, or a mortgage guaranty insurer may elect to pay the entire indebtedness to the insured and acquire title to the authorized real estate security. Existing law authorizes a mortgage guaranty insurer to extend its coverage for this class of insurance beyond the established limits provided the excess is insured by a contract of reinsurance. This bill would, until January 1, 2018, delete those requirements with regard to that class of insurance. According to the sponsor, Mortgage Insurance Companies Association (MICA), SB 1450 will permit insurers to reduce costs, lift burdens from regulators, and bring California on track with a majority of other states.

Land Use

AB 710 **(Skinner D) Local planning: infill and transit-oriented development.**

Status: 9/9/2011-From inactive file. Senate Rule 29 suspended. (Ayes 24. Noes 12. Page 2453.) Ordered to third reading. Read third time. Refused passage. (Ayes 18. Noes 19. Page 2474.).

Location: 9/9/2011-S. THIRD READING

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. This bill contains other related provisions. Supporters argue that AB 710 provides a significant incentive to housing and commercial developers to pursue needed infill and TOD projects. According to the supporters, increases in public transportation options and the development of more walkable and bikeable neighborhoods reduce the demand for parking. Relaxing minimum parking requirements allows developers to be more creative and efficient in supplying housing, especially in inner city areas. Opponents argue that AB 710's one-size-fits-all approach impedes local discretion in land use decision-making and ignores the fact that every community is different and has different needs. Opponents feel that decisions about parking are best left to the discretion of local governments, who are in a much better position to determine how much parking their community requires.

Landlord Tenant

AB 1953 **(Ammiano D) Rental housing: tenant notice.**

Status: 5/1/2012-Do pass as amended.

Location: 5/1/2012-A. JUD.

Summary: Existing law requires an owner of a dwelling structure, as specified, or a party signing a rental agreement or lease on behalf of the owner, or in the case of an oral rental agreement, the owner or a person acting on behalf of the owner, as specified, to provide specified information to a tenant, including, among other things, the name, telephone number, and address of the person or entity to whom rent payments shall be made. Existing law requires a successor owner or manager to comply with these requirements within 15 days of succeeding the previous owner or manager. This bill would provide that a successor owner or manager's failure to provide notice of the name, telephone number, and address of the person or entity to whom rent payments shall be made within 15 days of succeeding the previous owner or manager waives any rent accrued prior to giving that notice.

SB 1191 **(Simitian D) Landlord-tenant relations: disclosure of notice of default.**

Status: 5/1/2012-Do pass as amended.

Location: 4/23/2012-S. JUD.

Summary: Existing law generally regulates the hiring of real property, including, among other things, specifying certain obligations imposed on landlords and obligations imposed on tenants. Existing law, until January 1, 2013, requires a tenant of property upon which a notice of sale has been posted to be provided a specified notice advising the tenant that, among other things, the new property owner may either give the tenant a new lease or rental agreement, or provide the tenant with a 60-day eviction notice, and that other laws may prohibit the eviction or provide the tenant with a longer notice before eviction. This bill would require every landlord who is in default under a mortgage or deed of trust secured by a single-family dwelling, or a multifamily dwelling not exceeding 4 units, and who has received a notice of default from the mortgagee, trustee, or other person authorized to take the foreclosure sale to disclose the notice of default in writing to any prospective tenant prior to executing a lease agreement for the property. The bill would also provide that a violation of those provisions would allow the tenant to void the lease and entitle the tenant to recovery of twice the monthly rent or twice the amount of actual damages from the landlord, and all prepaid rent, in addition to any other remedies that are available. The bill would also provide that if the tenant elects not to void the lease and the foreclosure sale has not yet occurred, the tenant may deduct twice the monthly rent from future rent obligations owed the landlord who received the notice of default. The bill would specify the content of the written disclosure notice.

Mortgage Banking

SB 1069 **(Corbett D) Deficiency judgments.**

Status: 5/3/2012-Read second time. Ordered to third reading.

Location: 5/3/2012-S. THIRD READING

Calendar: 5/7/2012 #54 SENATE SENATE BILLS-THIRD READING FILE

Summary: Existing law provides that no deficiency judgment shall lie following a judicial foreclosure with respect to, among other things, a deed of trust or mortgage given to the vendor to secure payment of the balance of the purchase price of real property, or under a deed of trust or mortgage on a dwelling to secure repayment of a purchase money loan which was in fact used to pay all or part of the purchase price of that dwelling. This bill would additionally provide that no deficiency judgment shall lie in any event on any loan, refinance, or other credit transaction that is used to refinance a purchase money loan, as defined, or subsequent refinances of a purchase money loan, except to the extent that the lender or creditor advances new principal which is not applied to any obligation owed or to be owed under the purchase money loan, or to fees, costs, or related expenses of the refinance. The bill would provide, for purposes of these provisions, that any payment of principal for a refinanced purchase money loan would be deemed to be applied first to the principal balance of the purchase money loan, and then to the remaining principal balance, as specified. The bill's provisions would apply to a loan, refinance, or other credit transaction used to refinance a purchase money loan which is executed on or after January 1, 2013. According to the author: under current case law, protection from deficiency judgment is lost when a loan is refinanced. Borrowers are generally unaware that refinancing results in this change, which puts borrowers at risk of greater exposure. SB 1069 will afford crucial protections for borrowers by providing deficiency protection on refinanced loans.

Mortgage Lending

AB 1557 **(Skinner D) Real property: maintenance of foreclosed property: violations.**

Status: 2/9/2012-Referred to Com. on B. & F.

Location: 2/9/2012-A. B. & F.

Summary: Existing law, until January 1, 2013, requires a legal owner to maintain vacant residential property purchased at a foreclosure sale, or acquired by that owner through foreclosure under a mortgage or deed of trust. Existing law, until January 1, 2013, authorizes a governmental entity to impose civil fines and penalties for failure to maintain that property of up to $1,000 per day for a violation. Existing law, until January 1, 2013, requires a governmental entity that seeks to impose those fines and penalties to give notice of the claimed violation and an opportunity to correct the violation at least 14 days prior to imposing the fines and penalties, and to allow a hearing for contesting those fines and penalties. This bill would extend the operation of these provisions until January 1, 2018.

AB 1599 **(Feuer D) Mortgages and deeds of trust: foreclosure: languages.**

Status: 5/1/2012-Re-referred to Com. on APPR.

Location: 5/1/2012-A. APPR.

Summary: . Existing law requires, under specified circumstances, that a summary of mortgage terms be provided to the borrower in one of 5 specified languages. This bill would require a notice of default to contain a summary of the notice of default in English and 5 specified languages. The bill would also require a notice of sale to contain a summary of the information required to be contained in the notice of sale in English and 5 specified languages. The bill would require a mortgagee, trustee, beneficiary, or authorized agent to provide to the mortgagor or trustor a copy of the notice of default and a copy of the notice of sale containing these summaries . The bill would require the Department of Real Estate, contingent upon sufficient private funding, to provide a standard summary translation of a notice of default and a notice of sale in those languages, and to make those documents available without charge on its Internet Web site. The bill would provide that any mortgagee, trustee, beneficiary, or authorized agent who uses the department summary translation shall not be liable for errors in translation. According to the author, unlike many other similar legal notices, foreclosure documents are issued only in English under existing law. If the foreclosure process took place through the courts, as it does in other states, state and federal law would require language assistance for people who need help with English. Supporters of this bill argue that all homeowners should have equal access to the basic information they need to make an informed decision when they are hit with foreclosure.

AB 1763 **(Davis D) Grand jury proceedings: Attorney General: powers and duties.**

Status: 4/18/2012-From committee: Do pass and re-refer to Com. on APPR. (Ayes 6. Noes 0.) (April 17). Re-referred to Com. on APPR.

Location: 4/18/2012-A. APPR.

Calendar: 5/9/2012 9 a.m. - State Capitol, Room 4202
ASSEMBLY APPROPRIATIONS, FUENTES, Chair

Summary: Existing law authorizes the Attorney General to convene the grand jury to investigate and consider certain criminal matters. The Attorney General is authorized to take full charge of the presentation of the matters to the grand jury, issue subpoenas, prepare indictments, and do all other things incident thereto to the same extent as the district attorney may do. Existing law authorizes the Attorney General to empanel a special grand jury to investigate, consider, or issue indictments for specified activities relating to Medi-Cal fraud. This bill also would authorize the Attorney General to convene a special grand jury, as prescribed, for cases involving fraud or theft that occurs in more than one county and where all potential charges could not otherwise be brought in a single county and were conducted by a single defendant or multiple defendants acting in concert . The bill would establish the Attorney General's Special Grand Jury Fund in the State Treasury and would require each defendant convicted of charges brought by a special grand jury to pay a fine of $500 into that fund to be used upon appropriation of the Legislature. According to the author, “The existing methods of indicting large-scale financial crimes under existing California statues are inadequate. For example, deadlines required by the preliminary hearing process are too short to allow for an adequate presentation of the extensive documentary evidence that typically accompanies a major financial criminal investigation. Additionally under existing law, a grand jury has authority only over crimes occurring within its county of jurisdiction. This is a serious impediment to prosecutions of crimes that occur over multiple jurisdictions. This bill is sponsored by the Attorney General’s Office.

AB 1950 **(Davis D) Prohibited business practices: enforcement.**

Status: 4/26/2012-From committee: Do pass and re-refer to Com. on APPR. (Ayes 7. Noes 2.) (April 25). Re-referred to Com. on APPR.

Location: 4/26/2012-A. APPR.

Calendar: 5/9/2012 9 a.m. - State Capitol, Room 4202
ASSEMBLY APPROPRIATIONS, FUENTES, Chair

Summary: (1) Existing law prohibits any person from engaging in the business, acting in the capacity of, advertising or assuming to act as a real estate broker or a real estate salesman without first obtaining a real estate license, as specified. This bill would additionally prohibit any person from engaging in the business, acting in the capacity of, advertising or assuming to act as a mortgage loan originator without being so licensed or without having obtained a license endorsement, as specified. According to the author, This bill is intended to expand consumer protection related to mortgage fraud by making permanent certain prohibitions on mortgage loan origination, increasing the power of the California Office of the Attorney General to prosecute alleged fraud, and imposing a new $25 recordation fee on notices of default to fund further anti-fraud efforts by the Attorney General. This measure is sponsored by the Attorney General.

AB 2057 **(Carter D) Mortgages and deeds of trust.**

Status: 2/24/2012-From printer. May be heard in committee March 25.

Location: 2/23/2012-A. PRINT

Summary: Existing law specifies the time during which a mortgagor, trustor, or other authorized person may cure a default on an obligation secured by deed of trust or mortgage on real property that has been declared due by reason of default, as specified. Existing law also provides that if the trustor, mortgagor, or other person authorized to cure the default, as specified, does cure the default, the beneficiary or mortgagee or the agent for the beneficiary or mortgagee is required to, within 21 days following the reinstatement, execute and deliver to the trustee a notice of rescission that rescinds the declaration of default and demand for sale and advises the trustee of the date of reinstatement. This bill would make a nonsubstantive change to those provisions.

.

AB 2314 **(Carter D) Real property: blight.**

Status: 5/3/2012-In Senate. Read first time. To Com. on RLS. for assignment.

Location: 5/3/2012-S. RLS.

Summary: Existing law, until January 1, 2013, requires a legal owner to maintain vacant residential property purchased at a foreclosure sale or acquired by that owner through foreclosure under a mortgage or deed of trust. Existing law, until January 1, 2013, authorizes a governmental entity to impose civil fines and penalties for failure to maintain that property of up to $1,000 per day for a violation. Existing law, until January 1, 2013, requires a governmental entity that seeks to impose those fines and penalties to give notice of the claimed violation and an opportunity to correct the violation at least 14 days prior to imposing the fines and penalties, and to allow a hearing for contesting those fines and penalties. This bill would delete the repeal clause for these provisions and thus extend the operation of these provisions indefinitely. According to the author, one consequence of the foreclosure crisis, is that foreclosed properties often remain empty, fall into disrepair, and become a source of blight in many California communities. This bill, therefore, seeks to give local jurisdictions more tools to fight blight. It does so first by removing the sunset on an existing law that requires the legal owner of vacant foreclosed property to maintain that property or potentially face a fine of up to $1000 per day per violation. In addition, this bill seeks to facilitate the existing authority of local enforcement agencies to take various actions against owners of substandard buildings. This bill is sponsored by the Attorney General’s Office.

AB 2425 **(Mitchell D) Mortgages and deeds of trust: foreclosure.**

Status: 4/27/2012-Failed Deadline pursuant to Rule 61(b)(5). (Last location was A. B. & F. on 4/10/2012)

Location: 4/27/2012-A. DEAD
NOTE: THE CONTENTS OF THIS BILL WILL BE CONSIDERED BY A SPECIAL CONFERENCE COMMITTEE

Summary: Sponsored by the Attorney General's Office, this bill would: require creditors to provide a single point of contact to borrowers in the foreclosure process who will be responsible for providing accurate account and other information related to the foreclosure process and loss mitigation efforts; require creditors to provide a dedicated electronic mail address, facsimile number and mailing address for borrowers to submit information requested as part of a loan modification, short sale or other loss mitigation option; authorize borrowers to challenge the unlawful commencement of a foreclosure process in court.; and impose a $10,000 civil penalty on the recordation or filing of "robosigned" documents, defined as documents that contain information that was not verified for accuracy by the person or persons signing or swearing to the accuracy of the document or statement.

AB 2528 **(John A. Pérez D) Mortgages and deeds of trust: foreclosure: military members.**

Status: 4/24/2012-In committee: Set, first hearing. Hearing canceled at the request of author.

Location: 4/9/2012-A. JUD.

Summary: Existing law regulates various aspects of mortgages and deeds of trust, including, among other things, foreclosure procedures applicable when a borrower is in default on one of those instruments. Existing law requires that, upon a breach of the obligation of a mortgage or transfer of an interest in property, the trustee, mortgagee, or beneficiary record a notice of default in the office of the county recorder where the mortgaged or trust property is situated and mail the notice of default to the mortgagor or trustor. This bill would require that in order for a notice of default to be recorded, it include a declaration stating that the mortgagee, trustee, or authorized agent contacted the borrower to determine if the borrower is an active duty servicemember, and if the borrower is an active duty servicemember, or was an active duty servicemember 90 days prior to the date the notice of default is to be recorded, that the mortgagee, trustee, or authorized agent has complied with the federal Servicemembers Civil Relief Act .

AB 2532 **(Wagner R) Mortgages and deeds of trust: foreclosure.**

Status: 2/27/2012-Read first time.

Location: 2/24/2012-A. PRINT

Summary: Existing law regulates the terms and conditions of mortgages and deeds of trust secured by real property. Existing law provides that a mortgagee, trustee, beneficiary, or authorized agent may not file a notice of default until 30 days after initial contact with the borrower is made, as specified, or 30 days after satisfying specified due diligence requirements. This bill would make a nonsubstantive change to these provisions.

AB 2610 **(Skinner D) Tenants: foreclosure and unlawful detainer.**

Status: 4/25/2012-From committee: Do pass and re-refer to Com. on APPR.

(Ayes 5. Noes 2.) (April 25). Re-referred to Com. on APPR.

Location: 4/25/2012-A. APPR.

Summary: (1) Existing law requires a notice of sale to be posted before any power of sale can be exercised under the power of sale contained in any deed of trust or mortgage. Existing law, until January 1, 2013, requires a resident of property upon which a notice of sale has been posted to be provided a specified notice advising the resident that, among other things, if the person is renting the property, the new property owner may either give the tenant a new lease or rental agreement, or provide the tenant with a 60-day eviction notice, and that other laws may prohibit the eviction or provide the tenant with a longer notice before eviction. Existing law makes it an infraction to tear down the notice within 72 hours of posting. Existing law requires a state government entity to make translations of the notice available in 5 specified languages, for use by a mortgagee, trustee, beneficiary, or authorized agent, in order to satisfy the notice requirements. This bill would revise certain portions of the notice to instead require a resident of property upon which a notice of sale has been posted to be advised that if the person is renting the property, the new property owner may either give the tenant a new lease or rental agreement, or provide the tenant with a 90-day eviction notice. The bill would require the notice to advise a tenant who has a lease that the new property owner is required to honor the lease unless the new owner will occupy the property as a primary residence or unless the lease was signed within the last 15 days and that the tenant may have the right to stay in the property for longer than 90 days. The bill would require the Department of Consumer Affairs to make translations of the notice available, as described above. The bill would provide that these changes to the notice would become operative on March 1, 2013, or 60 days following posting of a dated notice incorporating those amendments on the Department of Consumer Affairs Internet Web site, whichever date is later. The bill would extend the operation of these provisions indefinitely. According to the author, "as more and more homes are sold through foreclosure, tenants increasingly face the specter of sudden dislocation of themselves, their families and their belongings. Renters usually are the last to know of foreclosure." The inconsistencies in state and federal law have created confusion for tenants. Additionally the standard for determining whether a tenant's lease is "bona fide" and therefore must be honored by a successor in interest is vague and does not well defined. This bill I sponsored by the Attorney General’s Office.

SB 708 **(Corbett D) Residential mortgage loans: foreclosure procedures.**

Status: 1/23/2012-In Assembly. Read first time. Held at Desk.

Location: 1/23/2012-A. DESK

Summary: Upon a breach of the obligation of a mortgage or transfer of an interest in property, existing law requires the trustee, mortgagee, or beneficiary to comply with certain procedures, including recording a notice of default, and mailing the notice of default to the mortgagor or trustor. Existing law, until January 1, 2013, imposes additional requirements on mortgagees, trustees, beneficiaries, and authorized agents for residential mortgage loans made from January 1, 2003, to December 31, 2007, inclusive, including prohibiting the filing of a notice of default on a mortgage or deed of trust secured by owner-occupied real property until 30 days after the borrower is contacted or 30 days after satisfying due diligence requirements to contact the borrower, as specified. Existing law, until January 1, 2013, gives a tenant or subtenant in possession of a rental housing unit, at the time the property is sold in foreclosure, 60 days to remove himself or herself from the property. Existing law requires a trustee or authorized representative to post a notice on the property to be sold that contains specified information relating to the rights of the resident of the property, and makes it a crime to tear down the notice within 72 hours of the time the notice is posted. This bill would extend the operation of all of the provisions specified above to January 1, 2018. The bill would also revise the notice relating to the rights of the resident. According to the author, this bill would extend the sunset of SB 1137 (Perata, Corbett, Machado, 2008) in order to continue to reduce the number of foreclosures in California, ensure that foreclosed properties do not become a source of blight, and continue to protect vulnerable tenants. Without this law, come January 1, 2013, distressed homeowners will wade through an incredibly difficult situation alone—without initial contact from their lenders and without the resources available to so many homeowners since the passage of SB 1137. Without the extension of the provisions in SB 1137, Californians can expect foreclosed properties in their neighborhoods to threaten the safety of families, decrease surrounding housing values, and undermine the state's economic recovery.

SB 980 **(Vargas D) Mortgage loans.**

Status: 4/30/2012-Re-referred to Com. On APPR. (Received by the Desk on April 27 pursuant to Joint Rule 61(b)(5).)

Location: 4/30/2012-S. APPR.

Calendar: 5/14/2012 11 a.m. - John L. Burton Hearing Room (4203)
SENATE APPROPRIATIONS, KEHOE, Chair

Summary: Existing law prohibits any person who negotiates a loan modification from charging the borrower an upfront fee. This provision sunsets January 1, 2013, and this bill would extend that sunset date another four years to January 1, 2017.

SB 1470 **(Leno D) Mortgages and deeds of trust: foreclosure.**

Status: 4/27/2012-Failed Deadline pursuant to Rule 61(b)(5). (Last location was S. B. & F. I. on 4/10/2012)

Location: 4/27/2012-S. DEAD
NOTE: THE CONTENTS OF THIS BILL WILL BE CONSIDERED BY A SPECIAL CONFERENCE COMMITTEE

Summary: Sponsored by the Attorney General's Office, this bill would require creditors to provide documentation to a borrower that establishes the creditor's right to foreclose on real property prior to recording a notice of default; require creditors to provide documentary evidence of ownership, the chain of title to real property, and the right to foreclose, at the time of the filing of a notice of default; prohibit creditors from recording a notice of default when a timely-filed application for a loan modification or other loss mitigation measure is pending; prohibit creditors from recording a notice of sale when a timely-filed application for a loan modification or other loss mitigation measure is pending; prohibit creditors from recording a notice of sale while a borrower is in compliance with the terms of a trial loan modification or after another loss mitigation measure has been approved; require creditors to disclose why an application for a loan modification or other loss mitigation measure has been denied; and require that notices of foreclosure sales be personally served, including notices of foreclosure sale postponement.

SB 1471 **(DeSaulnier D) Mortgages and deeds of trust: foreclosure.**

Status: 4/27/2012-Failed Deadline pursuant to Rule 61(b)(5). (Last location was S. B. & F. I. on 4/10/2012)

Location: 4/27/2012-S. DEAD
NOTE: THE CONTENTS OF THIS BILL WILL BE CONSIDERED BY A SPECIAL CONFERENCE COMMITTEE

Summary: Sponsored by the Attorney General's Office, this bill would require creditors to provide a single point of contact to borrowers in the foreclosure process who will be responsible for providing accurate account and other information related to the foreclosure process and loss mitigation efforts; require creditors to provide a dedicated electronic mail address, facsimile number and mailing address for borrowers to submit information requested as part of a loan modification, short sale or other loss mitigation option; authorize borrowers to challenge the unlawful commencement of a foreclosure process in court; Impose a $10,000 civil penalty on the recordation or filing of "robosigned" documents, defined as documents that contain information that was not verified for accuracy by the person or persons signing or swearing to the accuracy of the document or statement; require that certain documents be recorded in a county recorder's office.

SB 1472 **(Pavley D) Real property: blight.**

Status: 5/3/2012-In Assembly. Read first time. Held at Desk.

Location: 5/3/2012-A. DESK

Summary: This bill seeks to address blight associated with foreclosures by providing an incentive to potential homebuyers, investors, or developers to purchase blighted properties by preventing code enforcement actions against the new purchaser for 60 days, provided repairs are being made to the property, and by making permanent the Civil Code tools that allow local agencies to combat blight with fines of up to $1,000 per violation per day. Sponsored by the Attorney General's Office.

SB 1473 **(Hancock D) Tenants: foreclosure and unlawful detainer.**

Status: 4/26/2012-Read second time and amended. Re-referred to Com. on APPR.

Location: 4/26/2012-S. APPR.

Calendar: 5/14/2012 11 a.m. - John L. Burton Hearing Room (4203)
SENATE APPROPRIATIONS, KEHOE, Chair

Summary: Sponsored by the Attorney General's Office this bill would require purchasers of foreclosed homes to honor the terms of existing leases and give tenants at least 90 days notice before commencing eviction proceedings.

Redevelopment

AB 1585 **(John A. Pérez D) Redevelopment.**

Status: 4/19/2012-Referred to Coms. on GOV. & F. and T. & H.

Location: 4/19/2012-S. G. & F.

Summary: AB 1585 would ensure that the L&M Funds that have been deposited by former RDAs continue to be used for their originally intended purpose, affordable housing. To strengthen that purpose, the bill requires that 80% of the funds must be spent within two years, which would allow the 10,000-19,000 affordable apartments and single-family homes at various stages of development to be completed, thereby creating a significant number of jobs in those communities. Any remaining funds would be redistributed back into the county in which they were collected, with priority given to affordable housing projects that serve low-, very low-, and extremely low- income families and individuals." Opposition, the County of Santa Clara Board of Supervisors, argues that "this measure undermines the structure of redevelopment reforms contained in the enacted Fiscal Year Budget. And while it seeks to clarify existing law, it would likely result in greater confusion and delay in the implementation of the orderly wind-down of redevelopment agencies throughout California.

SB 654 **(Steinberg D) Redevelopment.**

Status: 4/16/2012-Referred to Coms. on H. & C.D. and L. GOV.

Location: 4/16/2012-A. H. & C.D.

Summary: Existing law requires successor agencies to wind down the affairs of the dissolved redevelopment agencies and to, among other things, repay enforceable obligations, as defined, and to remit unencumbered balances of redevelopment agency funds, including housing funds, to the county auditor-controller for distribution to taxing entities. This bill would revise the definition of the term "enforceable obligation" and modify provisions relating to the transfer of housing funds and responsibilities associated with dissolved redevelopment agencies. The bill would provide that any amounts on deposit in the Low and Moderate Income Housing Fund of a dissolved redevelopment agency be transferred to specified entities. The bill would make conforming changes.

SB 986 **(Dutton R) Redevelopment: bond proceeds.**

Status: 4/27/2012-Set for hearing May 7.

Location: 4/24/2012-S. APPR.

Calendar: 5/7/2012 11 a.m. - John L. Burton Hearing Room (4203)
SENATE APPROPRIATIONS, KEHOE, Chair

Summary: This bill would require that unencumbered balances of funds that are derived from tax exempt bond proceeds be used in accordance with the requirements of this bill. This bill would also require that the proceeds of bonds issued by a former redevelopment agency on or before December 31, 2010, be used by the successor agency for the purposes for which the bonds were sold pursuant to an enforceable obligation, as defined, that was entered into either by the former redevelopment agency prior to its dissolution, or is entered into by the successor agency by December 31, 2014. This bill would also provide that if the bond proceeds are not subject to an enforceable obligation, or if the purpose for which the bonds were sold can no longer be achieved, then the bond proceeds shall be used to defease the bonds or to purchase outstanding bonds on the open market for cancellation. According to the author, by letting successor agencies enter into new enforceable obligations through 2014, SB 986 allows bond proceeds to finance former RDA projects that would not otherwise be completed. By letting successor agencies use bond proceeds to purchase outstanding bonds on the open market, SB 986 offers them a potentially less costly method to retire bonds issued by former RDAs. SB 986 eliminates the cloud of uncertainty that hangs over former RDAs' unspent bond proceeds, avoids costly litigation over reallocated bond proceeds, reduces the cost of retiring former RDA bonds, and provides financing for projects that were stranded by RDAs' dissolution.

SB 1151 **(Steinberg D) Sustainable Economic Development and Housing Trust Fund: long-range asset management plan.**

Status: 4/25/2012-From committee: Do pass and re-refer to Com. on APPR. (Ayes 5. Noes 3. Page 3314.) (April 24). Re-referred to Com. on APPR.

Location: 4/25/2012-S. APPR.

Calendar: 5/14/2012 11 a.m. - John L. Burton Hearing Room (4203) SENATE APPROPRIATIONS, KEHOE, Chair

Summary: This bill establishes Sustainable Economic Development and Housing Trust Funds to serve as repositories for the assets of the former redevelopment agencies, including cash, liquid investments, and real and personal property expected to be valued in the billions of dollars. City and county joint powers authorities would manage these trusts for future economic development and housing activities. According to the author: SB 1151 would authorize the establishment of Sustainable Economic Development and Housing Trust Funds to serve as repositories for the assets of the former redevelopment agencies - cash, liquid investments, real and personal property expected to be valued in the billions of dollars. The trusts would be managed by city and county joint powers authorities for futre economic development and housing activites. The joint powers authorities would be required to develop Long Range Asset Management Plans to maximize the social and economic value of the former redevelopment agency assets for the public sector.

SB 1156 **(Steinberg D) Community Development and Housing Joint Powers Authority.**

Status: 4/30/2012-Read second time and amended. Re-referred to Com. on APPR.

Location: 4/30/2012-S. APPR.

Calendar: 5/14/2012 11 a.m. - John L. Burton Hearing Room (4203) SENATE APPROPRIATIONS, KEHOE, Chair

Summary: This bill would authorize the legislative body of the city and county representing the geographic territory covering the area served by a former redevelopment agency to elect to form a Community Development and Housing Joint Powers Authority (authority) after July 1, 2012, and to carry out the provisions of the Community Redevelopment Law. The bill would authorize the authority to adopt a redevelopment plan for a project area covering specified areas and sites and to include a provision in the plan to provide for tax increment financing, provided that certain mitigation and land use plans have been adopted. The bill would retain the Low and Moderate Income Housing Fund of a former redevelopment agency in another fund and authorize the authority to enter into agreements to facilitate articulated career technical education pathways. The purpose of bringing together the cities and the counties as equal partners in an inclusive governance structure is to correct the old model of redevelopment that pitted cities against counties and schools for limited tax revenues. Both cities and counties have land use authority, and both share responsibility for directing growth toward infill and transit-oriented development consistent with SB 375 of 2008. The author asserts that this bill will encourage cooperation, not competition, between cities and counties in furtherance of sustainable economic development.

THIS PAGE INTENTIONALLY LEFT BLANK