BOARD OF DIRECTORS

California Housing Finance Agency
Board of Directors

March 17, 2014

Burbank Airport Marriott Hotel
& Convention Center
2500 Hollywood Way
Burbank, California
(818) 843-6000

10:00 a.m.

1. Roll Call.

2. Approval of the minutes of the January 14, 2014 Board of Directors meeting.

3. Chairman/Executive Director comments.

4. Discussion, recommendation and possible action regarding the adoption of a resolution authorizing the Agency's single family bond indentures, the issuance of single family bonds, short term credit facilities for homeownership purposes, and related financial agreements and contracts for services. (Tim Hsu)

5. Discussion, recommendation and possible action regarding the adoption of a resolution authorizing the Agency's multifamily bond indentures, the issuance of multifamily bonds, short term credit facilities for multifamily purposes, and related financial agreements and contracts for services. (Tim Hsu)

6. Discussion, recommendation and possible action regarding the adoption of a resolution authorizing applications to the California Debt Limit Allocation Committee for private activity bond allocations for the Agency's homeownership and multifamily programs. (Tim Hsu)

7. Presentation and continuing discussion of new financing strategies, including hedging loan commitments. (Tony Sertich) 207

8. Discussion, recommendation and possible action to increase the Debt To Income Ratio on Single Family Loan Products from 43% to 45%. (Ken Giebel)
Resolution 14-04 219

9. Review and discuss initial draft of Agency's two-year Strategic Business Plan for Fiscal Years 2014/2015-2015/2016. (Claudia Cappio/Senior Staff) ....Handout

10. Reports:

    A. Homeownership Loan Portfolio Update 223

    B. Update on Variable Rate Bonds and Interest Rate Swaps 231

11. Discussion of other Board matters.

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

13. Adjournment

14. Handouts

NOTES**

HOTEL PARKING: Cash @ $13.00 per car, per entry, pay at gate with no in and out.

FUTURE MEETING DATES: Next CalHFA Board of Directors Meeting will be May 13, 2014, at the CalPERS Headquarters, Sacramento, California.

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STATE OF CALIFORNIA

CALIFORNIA HOUSING FINANCE AGENCY

BOARD OF DIRECTORS

PUBLIC MEETING

CalPERS Auditorium
Lincoln Plaza North
400 Q Street
Sacramento, California

Tuesday, January 14, 2014
10:00 a.m.

Reported by: DANIEL P. FELDHAUS
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A P P E A R A N C E S

Board of Directors Present

MATTHEW JACOBS
(Board Chair)
Co-Managing Partner
Bulldog Partners, LLC

ANNA CABALLERO
Secretary
Business, Consumer Services & Housing Agency
State of California

CLAUDIA CAPPIO
Executive Director
California Housing Finance Agency
State of California

KATIE CARROLL
for Bill Lockyer
State Treasurer
State of California

JANET FALK
formerly Vice President, Real Estate Development
Mercy Housing

PETER J. GRAVETT
Secretary
California Department of Veterans Affairs

MICHAEL A. GUNNING
Vice President
Personal Insurance Federation of California

JONATHAN HUNTER
Managing Director, Region 2
Corporation for Supportive Housing

ERAINA ORTEGA
for MICHAEL J. COHEN, Director
Department of Finance

TIA BOATMAN PATTERSON
General Counsel
Sacramento Housing and Redevelopment Agency

A P P E A R A N C E S

Board of Directors Present

continued

PRESTON PRINCE
CEO/Executive Director
Fresno Housing Authority

DALILA SOTELO
Principal
The Sotelo Group

LAURA WHITTALL-SCHERFEE
for Randall Deems, Acting Director
Department of Housing and Community Development
State of California

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Participating CalHFA Staff

RHONDA BARROW
Chief
Loan Servicing Unit

TIMOTHY HSU
Director
Financing Division

VICTOR J. JAMES II
General Counsel
Legal Division

NICK KUFASIMES
Chief
Portfolio Management Unit

JAMES S.L. MORGAN
Chief
Multifamily Programs

TOM NANN
Manager
Lender Services

A P P E A R A N C E S

Participating CalHFA Staff

continued

JOJO OJIMA
Office of the General Counsel
Legal Division

RICK OKIKAWA
Programs Administrator

CHRIS PENNY
Chief
Asset Management Division

DIANE RICHARDSON
Director
State Legislation Division
and California Mortgage Assistance Corporation

JACKLYNNE RILEY
Director
Administration Division

ANTHONY SERTICH
Manager
Financing Risk Division

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BE IT REMEMBERED that on Tuesday, January 14, 2014, commencing at the hour of 9:59 a.m., at Tuesday, January 14, 2014, commencing at the hour of 9:59 a.m., at California Public Employees' Retirement System, Lincoln Plaza North, 400 Q Street, Sacramento, California, before me, DANIEL P. FELDHAUS, CSR #6949, RDR and CRR, the following proceedings were held:

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CHAIR JACOBS: I'm going to call to order the January 14th Board of Directors of the California Housing Finance Agency Board.

Welcome to everybody present. I am the new chairman. I'm going to learn some Robert's Rules, I guess. It's been a while since I've conducted a meeting like this. Anyway, so I'm very pleased to be serving in this capacity.

We've got a few new faces in the room.

I guess one right here.

If you're new to this Board -- Eraina, do you want to start by introducing yourself?

MS. ORTEGA: Eraina Ortega.

CHAIR JACOBS: Oh, wait. These microphones -- there's a button to press to activate your mike on your left-hand side, I think.

MS. ORTEGA: Thank you.

Eraina Ortega, Deputy Director at the Department of Finance.

CHAIR JACOBS: And Dalila?

MS. SOTELO: Dalila Sotelo. I'm with The Sotelo Group; and I'm new to this organization.

So thank you.

MR. PRINCE: Preston Prince. I'm the CEO with the Fresno Housing Authority.

CHAIR JACOBS: Good to have everybody here.

I wonder if -- I guess we're waiting on a few others. It may make sense, since it's a new year, for all of the Board members sort of to tell a little bit about their interest in affordable housing. Just a couple sentences about why you're here.

Janet, do you want to begin?

MS. FALK: Hi, I'm Janet Falk. I've been in affordable housing for about 40 years, working for nonprofits and building affordable developments all through the state.

MR. GUNNING: Mr. Chairman, Michael Gunning. And everything I know, I learned from Janet. And I just hope I can be of good tutelage to all the learning she provided.

(Ms. Whittall-Scherfee entered the meeting room.)

CHAIR JACOBS: I'm Matt Jacobs. I'm a developer in the private sector; and hoping that we, as an agency, can innovate in producing a supply of better, more sustainable housing here in California.

MS. CABALLERO: Good morning, Mr. Chairman. My name is Anna Caballero. I'm the Secretary of Business, Consumer Services & Housing Agency. And in a former life, I was a City Council member in the City of Salinas for 15 years; and one of our major efforts and success stories is building affordable housing.

MR. HUNTER: I'm Jonathan Hunter. I'm currently with the Corporation for Supportive Housing, although I'm in the process of transitioning into work as a private consultant. I've spent about 30 years trying to solve the problems of homelessness in California, particularly for those folks who have disabilities related to mental-health issues and substance-use issues. And certainly affordable housing and the Mental Health Services Act Housing Program have been really critical tools to try to address those needs in California. So that's what brought me here.

MS. SOTELO: Again, my name is Dalila Sotelo; and I've been in the housing industry for about 22 years. I started when I was in fifth grade.

I've been in the private sector. I've worked for nonprofits. I've worked for for-profits; I've worked in city government. So I have a nice array of perspective in terms of the development of affordable housing and the challenges that we face here in California.

And I look forward to working with you all as my fellow Board members and with the Agency executive team to see where we can lead California in housing.

So thank you.

MR. PRINCE: Again, Preston Prince, CEO of the Fresno Housing Authority. I have about 25 years in the affordable housing world. About 8,000 units of housing over a billion dollars' worth of financing.

In Fresno, the last five years, we've closed on 17 tax credit deals, 1,500 housing units. About $300 million of investment just in Fresno. So I come from that development side but on the Housing Authority perspective.

And if I was to describe myself, I would really say that my goal is to go into bureaucratic organizations that are compliant-driven, and to figure out how they can be much more responsive to outcomes in the communities, such as educational achievement of children, ending homeless, helping parents become wage earners, and have wage progression, and really focus on quality of life for seniors and people with disabilities.

CHAIR JACOBS: And we have -- actually, Laura came in.

MS. WHITTALL-SCHERFEE: My name is Laura Whittall-Scherfee. I'm the deputy director of the Division of Financial Assistance at HCD. I've been involved with affordable housing at the state level for 18 years.

(Mr. Gravett entered the meeting room.)

CHAIR JACOBS: And we also have, he's joined the Board, he is -- oh, he just walked in right now -- as an Angeleno, I'm very proud to have Peter Gravett here.

He is a distinguished LAPD retiree and also a veteran; and I guess he's the Cal Vet secretary as well.

So we are honored to have you here.

MR. GRAVETT: Thank you. I apologize for being late.

CHAIR JACOBS: No, no worries.

We're all just giving a brief introduction and just explaining goals for affordable housing that you might have.

So if you wouldn't mind.

Please introduce yourself and tell a little bit about you.

MR. GRAVETT: Well, good morning, everyone. I apologize for my tardiness. I'm nursing a knee here.

I'm Peter Gravett. I serve as Secretary of Veterans Affairs. You probably know that we have a housing element in our agency, financing housing. And I'm looking forward to working on this commission and being a part of it.

And he mentioned that I'm retired military also, a retired major general; and I spent over 35 years in the military, both active and reserve.

So glad to be here.

Thank you.

CHAIR JACOBS: All right, at some point in this meeting, I would also, just because we have new Board members, I would like to have staff -- the key staff -- come up and introduce themselves.

We can do that now, if people think that's appropriate, or later on in the meeting.

MS. CAPPIO: We can do it now.

CHAIR JACOBS: Yes, let's do it as they present.

Do we have any changes to the proposed agenda?

MS. CAPPIO: I don't, but…

CHAIR JACOBS: Does anybody have new agenda items to put on here?

(No response)

CHAIR JACOBS: Seeing none, let's go ahead with the roll call.

JoJo?

--oOo--

Item 1. Roll Call

MS. OJIMA: Ms. Caballero?

MS. CABALLERO: Here.

MS. OJIMA: Ms. Whittall-Scherfee for Randall Deems?

MS. WHITTALL-SCHERFEE: Here.

MS. OJIMA: Ms. Falk?

MS. FALK: Here.

MS. OJIMA: Mr. Gravett?

MR. GRAVETT: Here.

MS. OJIMA: Mr. Gunning?

MR. GUNNING: Here.

MS. OJIMA: Mr. Hunter?

MR. HUNTER: Here.

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

(No response)

MS. OJIMA: Ms. Patterson?

(No response)

MS. OJIMA: Mr. Prince?

MR. PRINCE: Here.

MS. OJIMA: Ms. Sotelo?

MS. SOTELO: Here.

MS. OJIMA: Mr. Alex?

(No response)

MS. OJIMA: Mr. Cohen?

MS. ORTEGA: Eraina Ortega for Michael Cohen.

MS. OJIMA: I'm sorry, Ms. Ortega.

MS. ORTEGA: No problem.

MS. OJIMA: Thank you.

Ms. Cappio?

MS. CAPPIO: Here.

MS. OJIMA: Mr. Jacobs?

CHAIR JACOBS: Here.

MS. OJIMA: We have a quorum.

CHAIR JACOBS: Great.

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Item 2. Approval of Minutes of November 12, 2013, Board of Directors Meeting

CHAIR JACOBS: All right, let's move on to the minutes from the last meeting.

Are there any corrections to the minutes or clarifications?

(No response)

CHAIR JACOBS: Do we have a motion to approve the minutes?

MR. HUNTER: I'll move to approve the minutes

CHAIR JACOBS: So moved.

MS. CABALLERO: Second.

CHAIR JACOBS: We've got a second.

JoJo, roll call.

MS. OJIMA: Is that Ms. Caballero?

CHAIR JACOBS: Yes.

MS. OJIMA: Thank you.

MS. OJIMA: Ms. Caballero?

MS. CABALLERO: Aye.

MS. OJIMA: Ms. Whittall-Scherfee?

MS. WHITTALL-SCHERFEE: Aye.

MS. OJIMA: Ms. Falk?

MS. FALK: Abstain. I wasn't present.

MS. OJIMA: Thank you.

Mr. Gravett?

MR. GRAVETT: Abstain.

MS. OJIMA: Thank you.

Mr. Gunning?

MR. GUNNING: Aye.

MS. OJIMA: Mr. Hunter?

MR. HUNTER: Aye.

MS. OJIMA: Ms. Patterson?

(No response)

MS. OJIMA: Mr. Prince?

MR. PRINCE: I believe I must abstain.

MS. OJIMA: Thank you.

Ms. Sotelo?

MS. SOTELO: Abstain.

MS. OJIMA: Thank you.

Mr. Jacobs?

CHAIR JACOBS: Aye.

MS. OJIMA: It does not pass.

MS. CAPPIO: We'll continue.

MS. OJIMA: Thank you.

CHAIR JACOBS: We're going to run into the same thing again, aren't we?

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Item 3. Chairman/Executive Director Comments

CHAIR JACOBS: Let's turn to you, Claudia, for the Executive Director report.

MS. CAPPIO: Good morning. I welcome the new board members as well.

And may we have a productive and wildly successful 2014. I'm feeling good about it.

Before I begin my remarks, I'd like to introduce a student that is interning with me this week, Yikai Wang. He is with Swarthmore College, and he is getting a boatload of information about housing finance, and just development and other American experiences here.

So please welcome him.

As I look forward, I want to give you an update on a couple of things going on.

First, the infamous Affordable Housing Cost Study. It is nearly done. We have been editing and doing a little bit more research on some factors that we wanted to make clearer in the report. That has been completed, and publication should be within the next couple of weeks.

I will schedule it if the Board concurs for discussion and review at the March meeting.

With regard to the progress and working group for implementation of AB 639, which was a bill passed by the Legislature last year which will hopefully recommit up to $600 million of veterans-focused single-family mortgage money to multiple-family veterans-focused housing, we have formed a good working group with HCD, CalHFA, and Vets Affairs.

And I will say that progress is really impressive, and we want to be as ready as we can to implement that program after the June vote, which, of course, we all hope is affirmative.

The reorganization between CalHFA and HCD has resurfaced. It was on pause for a little bit last year as other priorities were taking place in the Governor's office; but we have reconvened a working group for that.

And we should be having clarity and certainty within the first quarter of 2014. At least that is my aspiration.

And finally, the Governor’s budget that was released last week had two items of note:

First, his emphasis on retooling local government for infrastructure projects, and I would include affordable housing in that, with his notion about infrastructure financing districts.

You may want to review that. And I will certainly be forwarding more information on that as we look toward the budget process in the next few months. But this would essentially be giving local government an easier tool with which to finance major infrastructure. And housing is included in that, should the local government believe that’s appropriate.

(Ms. Carroll entered the meeting room.)

MS. CAPPIO: And in addition to that, up to a hundred million dollars has been designated for community development of the cap-and-trade money. You may recall that a few years ago, California began this system of the ability for businesses to buy pollution credits, essentially, in an effort to reduce greenhouse gas. And the revenue for that will come and hopefully be applied to projects that would eliminate or reduce greenhouse gas.

We've been given a chunk of that between HCD, CalHFA, the Strategic Growth Council, CalSTA -- which is the new transportation agency -- and EPA.

So we will be all in a new process to discern and distribute that money for specific projects among them -- among the appropriate projects would be affordable housing and infrastructure projects for transportation-related or transit-related areas. So it looks like we are beginning to have a few more financial tools as we enter 2014.

I would be glad to answer any questions or comments that Board members have.

(No response)

CHAIR JACOBS: Seeing none, I'd like to invite Tim to come on up.

We've had some very good news about an upgrade in our rating from Standard & Poor's and the Agency's credit. And I'd like to sort of walk everybody through the ramifications of that.

Oh, yes, Katie Carroll from Bill Lockyer's office has come in and joined the meeting.

MS. CAPPIO: Welcome.

CHAIR JACOBS: Actually, if you wouldn't mind just walking the new Board members through who you are and your interest in affordable housing.

MS. CARROLL: Sorry I'm late. I'm Katie Carroll, and I am the --

CHAIR JACOBS: There's a button to turn on the microphone.

MS. CARROLL: I'm Katie Carroll with the Treasurer's Office, representing the Treasurer on the Board. And I'm primarily a finance person, actually.

CHAIR JACOBS: Thank you.

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Item 4. Update and discussion of Standard & Poor's recent annual review of Agency's credit ratings

CHAIR JACOBS: All right, Tim?

MR. HSU: Good morning, Mr. Chairman, and good morning.

CHAIR JACOBS: That one over there.

MR. HSU: Can you hear me now? Can you hear me now?

Good morning, Mr. Chairman, and good morning, Members of the Board, and welcome to the new members of our Board. My name is Timothy Hsu. I'm the director of Financing for the California Housing Finance Agency.

Just a little bit about me. By this time, I've spent about half of my career in the public sector, all that working for CalHFA. And the rest of the time, the other half, the evil half, you might say, I have had some stints in banking, and also I've worked for a consulting company in a prior life.

One of the mandates from Claudia is to elevate our level of engagement with our Board. So for better or worse, you'll be hearing quite a bit from me or members of our Financing Division, including Tony, who is also here today.

Over the last couple years, as the economy struggled and as the financial market is in disarray, I often heard in the press and people quoting a supposed Chinese curse that "May you live in interesting times."

So last night, I went on to Wikipedia, the source of all things of authority, and I looked up this phrase in Wikipedia. And this supposed phrase is actually loosely related from an old Chinese idiom that roughly translates into: "It's better to be a dog in peaceful times, than to be a man or woman in chaotic times."

And I don't think that any of us want to actually say that, when we say that, "May you live in interesting times."

But this supposed curse is also -- Claudia is thinking "Where is this going?" -- this supposed curse is also loosely related to another saying, which is that, "May you come to the attention of powerful people." And

I thought about what the Agency has experienced over the last couple years, and I checked it out, yes. And it's also loosely related to another saying, that "May your wishes be granted," which brings us to this agenda item: The update on the S & P's recent annual review of the Agency's credit ratings.

The holiday, right before -- I have wonderful news to tell the Board. Right before the holiday season, S & P concluded their annual review of the three main credit ratings of California Housing Finance Agency.

The first one is what we refer to as HMRB, which is Home Mortgage Revenue Bonds, which is our single-family flagship indenture. This indenture still has about $3 billion of assets in there. It is a special obligation of Agency. And this is a bond indenture.

So HMRB and Multifamily III are both bond indentures. And Multifamily III is where we house all -- most of our multifamily lending in this bond indenture; and it is a general obligation of Agency.

And the last but not least, it's our General Obligation.

They concluded their reviews of these three credit ratings, and the following are the actions that it took on these credits ratings.

So for the bond indenture, HMRB, they gave us a two-notch upgrade from BBB flat to A-minus, and they kept the outlook as "stable," which is important because sometimes the outlook could be a precursor to their actions.

And for the Multifamily III indenture, they gave us a four-notch upgrade from A-minus to AA flat. And as I mentioned, the outlook could be very important, so they changed the outlook in that indenture from "negative" to "stable," which is also a very good thing.

And for our General Obligation, they didn't change our rating. They kept us at A-minus, but they did change the outlook from "negative" to "stable."

And as I mentioned, the outlook is very important because sometimes it foreshadows what they might do next.

And as I've said to Claudia and to people I talked to about this, this really took the entire might of the entire Agency to do this.

I am fortunate because I am the messenger carrying this fabulous news to the Board. But this really -- there is plenty of kudos to go around. I think that a lot of people worked very hard on this, various aspects.

The one good thing where I sit, perhaps, is that I can -- I'm sort of at a privileged position to be able to see how a lot of these different pieces around the Agency come together to make things like this happen.

Some time ago, I think about one or two Board meetings ago, as an aside, I mentioned to Mike that something really good is going to come to the Agency in the next couple months. So he actually wagered that he would buy me a beer if something, indeed, good were to come to the Agency.

And, of course, I didn't know this a couple months ago; but in the spirit of suggesting that this is not just Tim, I think that Mike perhaps needs to buy the entire Agency a drink at Ella's.

But all jokes aside, I think this is really, really great news. I know some of the new Board members are joining at exactly the right time as the Agency switches the momentum of where we're headed.

And on page 3, just some samples of the quotes from their write-ups in their rating review.

The reduction of variable-rate debt and also swaps, and seasoned and proactive financial management. Let me pause there.

An improvement in delinquency and foreclosure rates, and also a significant decline in losses in fiscal year 2013.

You'll notice that these strengths, if you look below, they also twisted these strengths to also become weaknesses for many of these, because these are real risk factors that the Agency has faced over the last couple years. And the fact that they're strengths means that we have been managing these risk factors to their satisfaction. But the fact that they're also weaknesses means that if we don't continue to manage these risks, they could become factors -- risk factors for them to downgrade us or take negative actions.

Speaking of switching of the momentum, on page 4 is a history of CalHFA's rating history from Standard & Poor's. You can see that in 2010 -- you can see that with respect to the rating actions that they take, they're quite synchronized. So you can see that in 2010, they downgraded our HMRB Single-Family indenture, but they also took action on our General Obligation. So they downgraded our HMRB indenture, and they also downgraded our general obligation indenture. And then again in 2011, they did the same thing: They downgraded both the HMRB indenture in orange and also the General Obligation in blue.

And in around 2012 or so, I guess that you might say that we have -- we reached a plateau, and we retained our rating from where we were in the prior year. So 2012 we remain unchanged versus 2011.

And 2013, which is this past year, is the upgrades that we just described.

A couple things to know here which are of importance is that you'll notice that in the General Obligation, in the blue, I noticed the word "decoupling." What this is, is that historically, our General Obligation and our Multifamily III indenture have shared the same rating. And the primary reason for that is that the General Obligation is guaranteeing the real-estate risk of the uninsured multifamily loans that we have in Multifamily III. So traditionally, it had the same rating.

One of the things that we tried really hard on over the last couple of years, is to suggest that there needs to be a decoupling. And the fact that S & P agreed with us and actually split the rating of the General Obligation and also Multifamily III, to us, is a huge success. And the reason why this is important is that we talked earlier about, there is a great need to reduce our variable-rate bonds, to get rid of these variable-rate bonds.

At the moment, our variable-rate bonds are backed by a letter of credit from the U.S. Treasury, and that letter of credit expires at the end of next year, at the end of 2015. So one of the key mandates that we have is to eliminate all of our variable-rate bonds by the end of next year.

Having a higher credit rating -- and to be sure, these variable-rate bonds are housed in the HMRB indenture, which is in orange, and also in Multifamily III. They're not housed directly under our General Obligations.

So having a bond indenture, which is housing these variable-rate bonds which is backed by this letter of credit from the U.S. Treasury, having a high rating inside these bond indentures would mean that we would have more options, different tools that will come into play for us to get out of these variable-rate bonds, and having more tools generally means a higher probability that we can succeed in our goal of getting rid of all of these variable-rate bonds. So that was a huge thing.

We never imagined, although this is fantastic, that they would decouple the two ratings and have the separation be as much as four notches. But why would you ever question something as good as that? But we never thought we would get that much.

As an aside, what you can see here is that this is a great momentum switch from S & P's point of view. But one of the other things I also have come to really appreciate as I age, is that timing in life is everything. You will notice here that Claudia, as it turns out, joined the Agency about the first quarter of 2011. So she was with us when we experienced that 2011 downgrade. But you can see that she, I think, is also instrumental in helping us switching this around.

The second year she was here, we were able to manage sort of a carrying forward of our rating from the prior year. And now, we are experiencing some really good news in our ratings. And we feel that this is much like the message I have been telling the Board last year, that we feel that CalHFA is like a phoenix rising from the ashes. This is definitely a momentum change. We realized that last year, but that sometimes it takes a while for the rating agencies to come around themselves.

I will pause to see if there are any questions.

CHAIR JACOBS: Just on the general ratings, Moody's is how far away, do you think, from looking at us again?

MR. HSU: So we're actually undergoing the process with Moody's right now; and we expect that they will conclude their analysis probably in this first quarter.

There are some factors there that could complicate things and delay their action, perhaps. But on balance, we expect them to conclude their analysis this quarter as well. So it's quite possible that by the next Board meeting in March, that we would also have something to report on that front. And we are hopeful there as well.

CHAIR JACOBS: Okay, and I guess later on we'll hear reports on the residential portfolio.

I saw in one of the comments, Genworth remains one of their agency's concerns, just the health of Genworth, which is our insurer, ultimately.

MR. HSU: Yes. So Genworth Mortgage Insurance Corporation, or GEMICO, provides reinsurance for the Agency's single-family mortgage loans.

It is, by far, the most significant credit enhancer for the Agency. The largest is the U.S. Treasury because the U.S. Treasury is providing us that letter of credit. But normally, people don't think there is any credit risk to Uncle Sam. Whereas Genworth is a private corporation, and as a big credit enhancer to the Agency. As their credit sort of experiences volatility in the marketplace, if you will, it has that knock-on effect on our creditworthiness.

And -- sorry. I just wanted to give some context on Genworth.

And back in December of last year, Moody's put Genworth on CreditWatch for upgrade. And to the degree that they conclude to upgrade Genworth, it would have positive, knock-on effects on our credit as well; because right now, where they are and where we are, they don't give us a hundred cents on the dollar credit on their guarantee.

Said a different way: Their risk in force might be $100; but because of their credit rating, they're haircutted down to, roughly, I believe about 45 cents on the dollar.

So if they were to get upgraded, depending on where we are and where they are, it's quite possible that that amount of credit we'd get for their guarantee would actually go up, which means that more of our losses would be covered, which means that we could potentially have positive credit actions.

CHAIR JACOBS: Any questions?

MS. SOTELO: Mr. Chairman, just going back to the review by S & P, congratulations on the increase in rating. And I know it's a very difficult thing to do, so congratulations to everyone for having gone through that process.

I just wanted to focus for a moment on the "non-performing asset" comment that was made relative to their report.

Is it possible to get a report back or maybe just cover that, the purview of that a little bit? I just want to understand how the S & P report commented on the non-performing assets and whether that could be changed or improved or we see the Agency focusing on that in the next quarter and what that will do to our rating overall?

(*Ms. Boatman Patterson entered the meeting room.)*

CHAIR JACOBS: I think that's coming in one of our subsequent reports. But if you want to sort of touch on that.

MR. HSU: Let me first create some context for that comment.

When S & P compares CalHFA's delinquency ratios to what they say is the market ratio for the state of California, they are -- this is not one of my favorite things -- but they are comparing apples to oranges. And I'll mention -- and this is not an excuse.

One of the things that the Agency has been working on -- and this is one of the reasons why this is really an agency-wide effort to get to where we are today -- is to try to work on these delinquency ratios, non-performing loans.

Rhonda and Nick are here, who work in servicing and Portfolio Management. They will talk more about their efforts. But one of the things that they do, when they do this comparison, is that -- a couple of things.

One is that when they look at, for example, the Mortgage Banker Association's ratios, the MBA's ratios, they are looking at ratios that have the benefits of new origination. But one of the problems that we had in the last couple years, is that the financial crisis hit us hard enough that we basically stopped lending. So we don't have the benefits of the new originations improving our ratios.

And, as you know, one of the reasons why Fannie Mae and Freddie Mac are, you know, just minting money these days, is that they are making new originations that are performing with higher G-fees.

So we don't have that benefit. And that's a big, big -- that's a big factor. Because as you also know, there's been tremendous refinancing activities prior to this summer. So that changes the ratio a lot.

And the other thing that's a factor is that they tend to, for better or worse, compare us to prime. They compare us to this MBA number prime.

And the short of that is that we are not prime. We are first-time homebuyers with very high LTV. And I know that sometimes that population could be risky from sort of a risk-management point of view. But for better or worse, that has been the traditional population that state HFAs have served.

So those two sort of variations alone makes that comparison very difficult.

But having said that, there will be more discussions later on about some of our efforts there. And that is one of the key things that we have been focused on. We might argue that some of the folks that were working in lending, that, when we stop the lending programs, they're -- that human resources, that sort of capacity all got shifted to servicing and Portfolio Management and Loss Mitigation so that we can improve those ratios.

MS. SOTELO: Thank you. That was really helpful.

MR. PRINCE: I think it's really interesting that two of my three questions, Dalila covered.

So first was, congratulations on the movement. I totally agree.

I had a lot of questions about the delinquency. And so I'm looking forward to more information about that.

The variable-rate bonds, you said, backed by the letter of credit. The letter of credit ends 2015. So I guess this is more of a question of the analysis of what's going to happen if there's still variable-rate bonds and there's no letter of credit, and what's the exposure after that point.

But I assume that will come later as well.

MR. HSU: No, now is good.

MR. PRINCE: Okay.

MR. HSU: Now or never.

You should always have dessert first, right?

Dessert and a beer first, then the main entrée.

We got the letter of credit from the U.S. Treasury at the end of 2009. And at the time, we probably thought that it needed to be quite a long-term commitment from the U.S. Treasury. I venture to say, we were probably asking for this facility to be as long as ten years. They gave us three.

So at the end of 2011, they were going to extend the facility because they knew that we were still in the facility and we probably couldn't get out on time. They extended the facility three years, and we're asking for five.

So having given you that context, recently I had a call -- with the Financing Division, I had a call with the GSEs who are sort of intermediaries for the U.S. Treasury for this program. And they asked us if we expect there to be a balance of this TCLP support by the end of next year. And we are more confident than ever that we are going to be able to get rid of all of the support from the U.S. Treasury by the end of the next year.

And these credit-rating upgrades that you're looking at here, as I mentioned, will give us more tools in our toolbox to use different ways to get rid of these VRDOs. And with more tools, it usually means that you can do more things and increase your probability of success.

So while I can't tell you exactly all the things we'll do in the next couple years, we do have a chart from Tony which will show you that we've had tremendous success in reducing these balances. We actually started this program at $3.5 billion at the end of 2009, and now we have $1 billion. So that's a decline of $2.5 billion. And on an annualized basis, we've been getting -- reducing them by about 26 percent a year.

So if you assume that we are under that sort of rough same clip, that billion dollars can go easily, just from the things that we've been doing, could easily get to that $400 million to $500 million. And that's a number that we think that, if there's some end game to be played in sort of the middle or the end of 2015, we think that we can manage that.

CHAIR JACOBS: Seeing no more questions, anyone?

(No response)

CHAIR JACOBS: All right, thank you, Tim. That's been a great explanation of that.

Our next item on the agenda is --

MR. HSU: I'm not done.

CHAIR JACOBS: Oh, you're not done?

MR. HSU: Yes. As I mentioned, you'll be hearing a lot from me, for better or worse.

CHAIR JACOBS: Two more slides in there.

MR. HSU: But it's just really one slide because the last slide I already covered.

So I don't want to belabor this too much, but I thought that we provide to the Board one of the things -- one of the slides we provide to rating agencies to try to help them cross that bridge of this decoupling that I was talking about.

So what you're looking at here is a chart that shows, in green, columns -- in green columns. This is the amount of fund equity that we have in this Multifamily III indenture.

So you can see, for example, right, as of 6/30/13, which is the most recent audited financials, we have, roughly, $140 million of fund equity. What this is, is that this is saying that there's $140 million more in assets than there are in bonds inside this indenture.

At the same time, what this is saying is that if you take all the assets and divide by all the liabilities, you will get to 123 percent. So this is what's referred to as "coverage ratio" or "over-collateralization level," if you're fancy.

So what you're seeing here is that, you can see that the Agency has been very conscious and deliberate about increasing the fund equity in this bond indenture, both in absolute levels and also as a percentage. And this kind of effort was part of what focused their minds about decoupling their rating for Multifamily III and the General Obligation.

Roughly speaking, the real-estate risk of our Multifamily portfolio, using their sort of doomsday scenario, it amounts to about ten points, meaning, that if there's $100 of loans, Multifamily III loans that are uninsured in the portfolio, they take about a 10-point haircut.

So what you can see here is that we're now well above that. And this kind of, again, is what allowed them to focus their minds about this thought of decoupling the two ratings.

So as promised, I think we already covered this. We think that they will finish -- Moody's will finish their efforts in this first quarter. And we're hopeful something good can come out of this, too.

And that concludes my remarks.

CHAIR JACOBS: No questions?

(No response)

CHAIR JACOBS: Before -- I think the next one is the real fun one, the hedging one.

But before we jump to that, let's try these minutes, because I see we have Tia here.

Actually, would you mind introducing yourself to the new Board members?

MS. BOATMAN PATTERSON: Tia Boatman Patterson. I'm the general counsel with Sacramento Housing and Redevelopment Agency.

And I think -- I already know one new Board member. And I'm glad to be here. And we have a full house. This is wonderful.

CHAIR JACOBS: Thank you, Tia.

Let's discuss these November 12th minutes.

Does anyone want to move the minutes for approval?

MS. BOATMAN PATTERSON: Move for approval.

CHAIR JACOBS: So moved.

Oh, it was already moved. That's right.

And we have a second, right?

Could we try the vote again?

MS. OJIMA: Ms. Caballero?

MS. CABALLERO: Aye.

MS. OJIMA: Ms. Whittall-Scherfee?

MS. WHITTALL-SCHERFEE: Aye.

MS. OJIMA: Ms. Falk?

MS. FALK: Abstain.

MS. OJIMA: Mr. Gravett?

MR. GRAVETT: Abstain.

MS. OJIMA: Mr. Gunning?

MR. GUNNING: Aye.

MS. OJIMA: Mr. Hunter?

MR. HUNTER: Aye.

MS. OJIMA: Ms. Carroll?

MS. CARROLL: Aye.

MS. OJIMA: Ms. Patterson?

MS. BOATMAN PATTERSON: Aye.

MS. OJIMA: Mr. Prince?

MR. PRINCE: Abstain.

MS. OJIMA: Ms. Sotelo?

MS. SOTELO: Abstain.

MS. OJIMA: Mr. Jacobs?

CHAIR JACOBS: Aye.

MS. OJIMA: We have a quorum. The minutes have passed.

CHAIR JACOBS: Great. Thanks.

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Item 5. Presentation and discussing of new financing strategies for hedging loan commitments

CHAIR JACOBS: All right, so now back to the agenda, the really fun item, heading going forward.

MR. HSU: Let's stick with fun, because a couple of people who reviewed this text said that it was dense. And it is a little bit dense.

And as I mentioned, that one of the key mandates from Claudia is to elevate our engagement with the Board. And in the spirit of engagement and also transparency, for better or worse, CalHFA is a financial institution. And some people refer to CalHFA as the affordable housing banquet of the state of California. And some of these things that we do, for better or worse, are a little bit dense. They are not -- they are a little bit different, in trying to figure out the pitch of a ramp for a special-needs unit.

But having said that, this whole presentation here is about a thought that we have, of how do we go into the next stage of what we're doing.

Back in May of last year, one of the things I said to the Board is that it is my greatest aspiration that the Board hears less from me and more from our program people. And I say that because CalHFA really is about lending. It's not necessarily about the engine behind the lending, although the engine sometimes can drive the lending; and that's why I'm here to make this presentation.

But if these engines are put in place with the Board's approval, it should hum along, and we wouldn't have to revisit this all the time.

Some of the common themes I did emphasize the last year, is that we can. Because at some point, as I mentioned, that we stopped our lending program. But one of the things I kept pounding on last year is that we can -- indeed, we must get back into lending because CalHFA is a lending institution. Without that as part of our portfolio, CalHFA for a while did have a lot of existential issues. And we need to get back into lending.

And one of the key things to support the thought that we can and, indeed, must go back into lending, is that instead of the director of Financing hoarding the liquidity of the Agency to deal with some of the risk factors that the Agency faces, we started to suggest that we can release some of this liquidity to support lending from the standpoint of providing a warehouse line for the lending efforts. So that is something that we talked about a lot last year.

But as we get back into lending, as we get back into lending and ignoring, you know, Shakespeare's advice about borrowing and lending -- because he did warn us about that at some point -- we realize that we need more tools. We need more tools to really make him turn in his grave. And what we need is that we need this ability to hedge. And we talked -- I think we talked about this last year. I think it's one of the questions that came up a lot last year and the year before, is that as I slowly tell the Board that "Well, we lost that warehouse line, and we lost that warehouse line, and we lost that warehouse line," one of the things which some Board members wondered about, which is right, is that: "Well, how can you be a lender if you don't even have a warehouse line?" Which is true. And which is why it was really important for us to create this internal capacity to warehouse last year.

But one of the things that a lender needs who is not a bank depository institution, there's also this idea of being able to hedge.

So what we're talking about here is having the Board consider -- this presentation is informational only. Having the Board consider giving the staff the ability to do hedging as part of the financing resolution in March.

So if you'll flip into the presentation, I thought, although I kind of sort of jumped into this page, first create a context of why this presentation is necessary.

The existing financing resolutions do not allow staff to enter into new hedges. And this was one of the things that the Board consciously implemented about three years ago as we were dealing with a lot of legacy risks.

Just a little bit about financing resolutions for the new Board members.

Every March, the Board passes two financing resolutions which authorizes and delegates and also defines what staff can do for the next 12 months. And as I mentioned, this presentation, in some sense, is a prelude to what we are asking the Board for in March. And if there are any questions, if you could direct them at me, or any comments, they'll be wonderful.

But those financing resolutions that we expect to bring to the Board in March will contain this, and of allowing staff to do hedging.

Hedging, this go-around, is very different than what we used to do perhaps five or six years ago. What we're talking about here is hedging loan commitments, which is hedging the interest-rate risk from locking in the rates to closing the loans. What we used to do, is that we used to hedge varied long-dated variable-rate bonds. So these swaps that we used to enter into were sometimes 40 years because we're doing multifamily projects.

But here, we're really talking about hedging movements that are much shorter in duration, and they're also meant to be -- I'll cover this in a second -- cash settled when the loan closes.

So that's sort of the context of the presentation.

And if there's no more questions, let the fun begin.

(No response)

MR. HSU: Okay, one of the things I must apologize about, is that I was hoping that we have our traditional projectors, and I could actually stand up to walk you through some of these boxes. But the setup is a little bit different than I expected, so I apologize about that.

So first, that's -- let me sort of go over, what are we talking about, when we talk about a "hedge"? So what you have on page 3, is an idealized example of a hedge that's hedging a loan commitment. So there are sort of roughly four quadrants here, upper left-hand corner, upper right.

And this is working from the upper left-hand corner, and it's working clockwise to the box in the upper -- I mean, the lower left-hand corner.

So in the upper left-hand corner, what you'll see is that the market rate on the day that, let's say, CalHFA is working with the borrower. Suppose that the market rate on that day is 4 percent. And by that, if you're thinking about a mortgage, I mean that it's a mortgage with no points paid down, meaning, that that's par.

So on that day, CalHFA offers a 4 percent rate to a borrower. And then the borrower on that same day, they committed to locking in this rate on that day. But it takes 60 days for a single-family loan. And 60 days is -- somewhere around, I would say, 45 days to 60 days is very customary as their amount of time for a loan to close.

And another aside is that this particular example here, it's really more apropos to a single-family lending loan, not multifamily. But it sort of covers what we're talking about, when we're talking about hedge for a loan commitment.

So it takes 60 days to close this loan. But as it turns out, on the day of the closing, on the day of the loan closing, the market rate for that same kind of loan, for that same size, for example, it is no longer 4. The rates have gone up. It has now gone to 4.50. And the amount of money that someone is willing now to pay for a lower rate mortgage loan, that 4 percent loan, is no longer $100. It's actually $97, okay.

But because CalHFA committed to that borrower that it would fund a 4 percent loan in 60 days, CalHFA will send over to the borrower -- now, I'm in the upper right-hand corner -- CalHFA will send over to the borrower $100 so that they can buy their home; and then -- this is all a little bit like Monopoly money -- so send over $100 to the borrower so they can close their loan, and then the borrower will start paying a loan that carries a 4 percent interest.

On that same day that CalHFA closes that loan, suppose that CalHFA were to then say, "Okay, in order to fund that loan, I will now sell that mortgage to the capital markets." If it turns around and sells that loan to the capital markets, the capital markets, because it could buy a new loan at 4.50, it looks at that 4 percent loan as a discount. It is now only willing to pay $97 for that loan. CalHFA sends over the loan, and gets $97 back.

So these quadrants on the top, in the upper half here, the net economics or the net cash flow, if you will, to the Agency, is that it's out $100 and it only got $97 back. So it lost $3 from this transaction.

And this is the kind of stuff you don't want to do in volume; right? This is the stuff you want to say: I want to avoid this.

But on the same day that CalHFA offers a rate lock to the homeowner -- now, I'm working on the bottom left-hand quadrant -- CalHFA enters into a contract. So this is where the hedge piece comes in. CalHFA enters into a contract. And this contract says -- with the hedge provider. This contract says, "CalHFA will deliver a 4 percent mortgage to that hedge provider in 60 days," and the hedge provider says that "While I will take that 4 percent loan, I will commit to taking that loan no matter where rates move in 60 days."

So likewise, this hedge contract lasts for 60 days. And then on that same day in which we close that mortgage loan, in which we lost $3, this contract doesn't necessarily contemplate an actual delivery of the loan. This is an issue that's oftentimes cash-settled. But the hedge provider owes CalHFA $3 because the hedge provider committed to taking that loan from CalHFA for $100. You can think of it this way: The hedge provider committed to taking that loan for CalHFA for $100. So if CalHFA were to send the loan over, the hedge provider will send $100 to CalHFA.

The hedge -- the hedge provider will -- the hedge provider would send $100 to CalHFA, but the loan that CalHFA is sending over is only worth over $97. So the hedge provider will pay CalHFA $3, okay.

I was seeing a lot of nods and then it kind of stopped.

CHAIR JACOBS: Tim, is the thought to have just a -- I guess not a revolving line, but some kind of constant amount of hedging capacity out there, so when the pools of loans get bundled together up to a limit? Or how were you seeking to work this through?

MR. HSU: So -- can I address that in a little bit? Can I defer to that a little bit?

So, again, this contract -- this contract doesn't actually contemplate an actual delivery of the loans. Well, all it's trying to do, is that it's trying to suggest that you're going to exchange the market value of that loan that you committed to each other 60 days ago. And the market value of that loan, because of the direction it's going, is that the contract -- the hedge provider now owes CalHFA $3.

So then if you look on the very top, we lost

$3. And then this contract is going to give CalHFA $3. So in this idealized example, the hedge perfectly neutralizes the loss on the loan piece. And then we have a net loss or gain of zero.

And now, with this tool in place, you will say that, well, if I have the ability to neutralize this risk, then I might think about how to ramp up these lending activities.

Looking at this chart, though, you're starting to see some inklings or some signs of some of the risk factors.

Like, for one thing is that what if this loan does not deliver in 60 days? This is very common, right? What if this loan actually delivers in 75 days? But your hedge is for 60 days. So there is a risk factor that if the loan is delayed, the loan closing is delayed, then your hedge now is only for 60 days, and you might be subject to interest-rate risk from day 61, all the way to 75. So that's one problem.

And then another problem could be, what if the loan actually fails to deliver, a fall-out risk -- which I'm working my way there -- a fall-out risk because the loan doesn't deliver?

So in this example here, as it turns out, if the loan does not deliver, it actually nets in a $3 gain to CalHFA because a loan falls out, CalHFA didn't have to come $3 out-of-pocket to fund the loan, and it actually resulted in a positive gain to CalHFA because of that fall-out.

But when we talk about avoiding interest-rate risk, we're not just talking about the potential of that upside, we're also talking about the potential of the downside. Because if rates, instead of having gone up, it had gone down, when that loan fails to close also on that hedge piece, instead of positive $3, we could be out $3.

And we want to -- the thought of running this program is that we're trying to neutralize this risk. We're trying to -- or the fancy word is "immunetize" this risk.

But we don't think that this is our business. Our business is not to take interest-rate risk. Our business is to make loans and make money from making more loans, not from taking these interest-rate risks.

As it turns out, how you deal with these risks, as it turns out -- this is a little bit of a circular logic -- how you deal with these risks is that you need to have volume. Because when you have volume, you don't deal with the specific loan risks or the specific borrower risks.

So suppose you only have one loan that you're trying to hedge, then you have to get various -- this is no different than if you were choosing stocks in a stock market. When you choose one stock, you have to deal with very company-specific risks. And if you're dealing with one loan you're hedging, you have to deal with borrower-specific risks: Who that borrower is, what he is or she is buying, where this person is. Very specific risks.

When you're building up in volume -- analogy, when you buy an index fund. When you're building up in volume, you start to smooth away these borrower-specific loan-specific risks. You're now dealing with, let's say, more higher-market level risks. You're dealing with, "Well, when I took in, let's say, a hundred loan reservations 60 days ago, has interest rates gone down in that 60 days?" Because if it has, I should expect higher level of fall-out because people are thinking that, assuming they don't need to look close within that window again, they say, "I'm going to relock with some other lender."

When we are dealing with volume, we can now start to smooth away some of these very borrower-specific risks, which are really difficult to hedge just because it's so deep. And we can deal with some of these higher-level risks.

So with that as the context, what we're thinking is that we like to be, at any given time, be immunetized of this interest-rate risk. But we also think that we need to have real volume for us to be able to hedge this risk well.

So while this presentation is sort of precipitating, or sort of resulting in an ask from the Board as part of our financing resolution in March for this ability to do this, there is no specific time-line right now of when we would do this. Because what we are waiting for still is for our pipeline to build up. And as it builds up and as we reach, at the moment, sort of we have some thought here that once we reach, roughly, about $20 million of loans being delivered every month, then we can -- that that number is -- we're not committed to that. As I mentioned, there is no specific time-line yet. We can then really think about doing this ourselves.

CHAIR JACOBS: This might be a "Rick" question.

But when we pool together a bunch of single-family loans and the markets buy them in a pool, are we committing to any sort of minimum duration? I know a lot of prepayment activity, you know, whenever the rates dip, are we exposed to that at all?

MR. HSU: No. The fancy word is that convexity risk is not being borne by us; and it's built into pricing.

So the other way to look at this is that if the park -- this is a little bit inside baseball -- but if the par coupon is 4 percent and somehow you're lending at 4.50, the premium that someone pays between 4 to 4.50 is higher than the premium that someone pays between 4.50 to a 5. And the reason is that the premium between 4.50 to 5 would suggest that that borrower has much higher incentives to refinance than someone who got something between 4 and 4.50.

Does that make sense?

Meaning, that the higher the nominal coupon, the higher the incentives to refinance, and the higher the incentives to refinance, the shorter the duration. So the shorter that an actual investor is willing to pay for how long that premium will last. So he or she would actually pay less up-front because they do expect that loan to go away faster.

So that risk is priced into how much we get from the loan.

CHAIR JACOBS: Janet?

MS. FALK: I have two questions.

The first is, from past experience,

approximately what percentage of loans fail to close within 60 days?

MR. HSU: Our single-family portfolio historically has experienced about one-third fall-out over time. So one out of three loans were to fall out.

MS. FALK: Okay. And the second is, what is the cost of the hedge?

MR. HSU: The cost of the hedge?

MS. FALK: Yes.

MR. HSU: Well, you mean right now --

MS. FALK: We're paying something to get somebody to hedge it, I assume? No?

MR. HSU: Yes. So at the moment, while we talked about that -- well, I've said that while in order to lend, we need to have this hedging function. But the lending program has started, so you might wonder, well, who is hedging? We're not hedging right now. We have outsourced that hedging function to someone else, which is a part of what this presentation is about, is the consideration of having the ability to in-source that function so that we can do this ourselves.

At the moment, our hedging provider is charging us 75 cents per a hundred. So three-quarter dollar per $100 activity.

So I'll walk through an example of that in a little bit, so you can see the economics of that and how the alternative execution will result in a slightly different economics.

Is this fun yet?

Okay, so with that as a backdrop, I'm going to cover single-family first; and after single-family, I'll cover multifamily.

So on page 3 -- I'm sorry, on page 5. So on page 5 as I mentioned, we're going to start in the upper left-hand corner, and we're going to work our way clockwise to the bottom left-hand corner.

So as I mentioned that this is a schematics of our existing single-family TBA lending program. And as I mentioned, that there is a need for that hedging function. And at the moment, that hedging function is being provided by a broker/dealer called FirstSouthwest.

So let me carefully walk through this one so that you get sort of some sense of how the existing infrastructure is set up. And we might spend a little bit more time on this chart. And then -- but this will -- if the Board sort of gets sort of comfortable with this chart, then it's easier to then think about sort of the alternate executions on the next couple slides.

So the first thing that happens -- again, in the upper left-hand corner -- is that the hedge provider publishes sort of an array of interest rates at different prices, at different premium levels. They send these rates and premium levels to CalHFA every morning. And then CalHFA in turn will select certain rates to achieve a certain premium level, so that there's enough profits in that lending so that it can fund down-payment assistance loans up to 3 and a half points.

So CalHFA, in turn, takes those rates from the hedge provider, publish them to the lenders. And now, the lenders, to the degree that they're signed up on our program, then can work with the potential first-time home buyer to see if they're interested in that program.

Suppose there is a hit that they actually want to use our program. Then the lender would actually come onto CalHFA's system and then make a reservation on a loan.

At the end of every day -- I think actually we might do this twice a day -- we do it once at the beginning of the day and once at the end of the day, we actually send all the loan reservation to our hedge provider. And then the hedge provider, in turn, will decide on the rates and also the volume they want to hedge. Because as we talked about earlier, suppose we send them ten reservations and, you know, to Janet's point, not every single one of those loans are going to close. People expect that some number of those loans will fall out for various reasons because the paperwork is not right, interest-rate movements, et cetera.

At some point, they have to decide on how many of these loans they're going to suggest we actually deliver.

So the hedge provider here, as I mentioned, they are getting paid 75 cents per every hundred, but they are taking some real risks here as well.

So working over to the right-hand -- upper right-hand corner, the lender then will work with the borrower and actually close the loan. So at the loan closing, the lender would actually send over -- provide a hundred dollars for the borrower to close the mortgage loan. And CalHFA would also come out-of-pocket to the tune of $3.50 to fund this down-payment assistance loan.

The lender will warehouse that loan for a week until he is taken out by the master servicer, and CalHFA will warehouse that down-payment assistance loan, so DPA, until the sale of the MBS.

Every week, the master servicer would buy all these loans from our lending network, so that the lender is only warehousing for a week. And then the master servicer will buy it.

And ideally, the master servicer doesn't really want to hold onto these loans for longer than 30 days. So let's just suppose that every 30 days they would actually create an MBS, securitize all the mortgages, and create an MBS, and send it over to our hedge provider.

Just for ease of illustration, for example, this pool that the master servicer sends over to a hedge provider, this particular pool, as they say, is actually worth $104.75.

As I mentioned, FirstSouthwest, as our hedge provider, would keep 75 cents, so there is actually $104 left. Of that $104, $100 will get remitted back to the master servicer.

One of the key things is that the master servicer here is not doing this just to get repaid back. I'm kind of ignoring, for this illustration purposes, just not to make it any more complicated, the economics that goes into master servicer. But the master servicer will get paid back their hundred dollars, which they have fronted to buy the loans from the lenders, and then CalHFA will get $4.

So the net profit to CalHFA is not $4 because we had actually, you might recall, warehoused, where we sort of advance that $3.50 for DPA. So the net economics to CalHFA, upfront, is 50 cents per $100. And if that

DPA loan were to repay in the future, it’s quite possible that our profit margin would increase over time. But upfront margin is 50 cents per $100.

Let me pause there.

Any questions?

(No response)

MR. HSU: Great.

So inside the hedge provider box, I’ve put in here, just for illustration purposes, this will come into play when we contemplate the alternatives. I’m just guesstimating that their actual costs of doing the hedges, meaning, making the trades and perhaps there are going to be a couple loans in which they didn’t project the right fall-out ratios, their hedging costs perhaps could be 50 cents per hundred over time, which may suggest that they’re actually making a net hedging profit out of this of 60 cents per hundred.

So what you can see here is that their upfront profit is actually potentially higher than what CalHFA would get out of all this.

Which leads into sort of the thought of, like, well, if this is -- Matt?

CHAIR JACOBS: Have we found a competitor who might be priced a little cheaper?

MR. HSU: As it turns out, our market is

still -- CalHFA is in this sort of niche market of state housing finance agencies. As it turns out, the people who play in our space and provide this service, there's really two or two and a half. So when we bid out that contract, we did have two providers. And you would not be surprised that they actually bid the same fee.

So at the moment, as far as we know, there's not a lower-cost provider.

MS. BOATMAN PATTERSON: Tim, I have a question.

MR. HSU: Sure.

MS. BOATMAN PATTERSON: What percentage of our portfolio do we actually hedge for the single-family? Is it all of the single-family or just a portion of it, for the loans?

MR. HSU: So at the moment, all of the originations -- because perhaps what you're referring to, is that over last year, the Board has been informed of the various different single-family programs that we're launching. All of them are being rate locked with FirstSouthwest, the hedge provider. So you might say that all of them are being hedged right now.

MS. BOATMAN PATTERSON: Because you mentioned volume, when Janet asked her question. So if we were to bring this in-house, is your thought that all of them would be hedged or just a portion thereof?

MR. HSU: That's a very good question.

So one of the things that we are more or less focused on -- and it's not clear how this will evolve -- again, there is no specific time-line in which we will make this change or make this transformation. And it's just that since we only come to the Board once a year for this kind of authority, that's why you might say we're swinging a little bit early, if you will.

It's quite possible -- what Tia is referring to, is that if you look at the array of our single-family offering right now, we do have quite a few products. I mean, there is the FHA-plus, there is the normal FHA product, there's now the energy efficiency. You know, you look at -- you could look at the offerings, and it's -- you know, it's quite a menu.

And it's quite possible that some of the offerings in a menu will never really quite pick up in volume. And if they don't pick up in volume, it's probably a better idea for us to continue to outsource those hedging functions. But if we have some segments of the program, or some offerings on the menu that do pick up in volume, then we think that it might make sense for us to come in and somehow in-source those programs for hedging purposes internally.

But we don't know how this will evolve, but it's quite possible that we don't get rid of this provider at all completely. We'll keep them around to do some hedging functions. And then we also start hedging ourselves.

And one of the key things I haven't mentioned, is that by having this function outsourced for the moment, it is also helping us to get reacclimated with the point that Janet was making about fall-out ratio. Because certainly fall-outs from 2005 and 2006 or earlier are different than fall-outs now. The borrower population is slightly different. The entire -- you know, one can argue that the whole world has changed over the last couple years.

So we want to get reacclimated with the fall-out ratio that we expect on the new lending, not just what we thought five or six years ago.

CHAIR JACOBS: Any other questions, anyone?

(No response)

CHAIR JACOBS: Okay.

MR. HSU: So as I mentioned, that one of the reasons why we're suggesting a change is that the 75 cents per a hundred that we're paying to the hedge provider is good compensation for that function. And if we were to in-source this hedging function, it's quite possible that we can use some of the savings from, let's say, eliminating this middle person; we could take some of the savings there to offer a low rate, for example. Or we could increase our profit margins.

So certainly at some point, there would be a healthy discussion about wanting to keep more profits versus offering a lower rate to the borrower. Because if we offer a lower rate, potentially we can ramp up production. So if we ramp up production, perhaps we're making less per loan, but we're making more money overall because we have greater production.

So that's, you know, another discussion that can be had at some point. But if we internalize this, we can lower our cost structure for the entire schematics.

And I'm not going to go over all this again.

On the top here, the only change is that instead of FirstSouthwest continues to do this hedging, all we are suggesting is that CalHFA is now doing the hedging.

As I mentioned, if CalHFA is doing the hedging, it's quite possible then that we will offer slightly lower rates because we can pass some of that savings on to the borrower in terms of offering a lower rate.

So if you focus on the bottom half here, in the middle, instead of that mortgage being sent over to the hedge provider at $104.75, now it's being sent over at a quarter less -- 25 cents less, at $104.50. Again, that 25 cents savings is, in theory, passed on to the borrower and since this particular loan now carries a lower coupon.

So the $104.50 gets sent over to the hedge provider. In this case, that's CalHFA. CalHFA did enter into a hedge contract to be able to sell that loan at $104. We send $100 back to the master servicer. And $4 goes down to CalHFA. But the net profit to CalHFA, instead of 50 cents, it's actually 70 cents because we kept 50 cents, after having funded DPA, like we did in the previous example, and we kept an additional 20 cents because we rewarded ourselves, if you will, for 20 cents for doing the hedging function.

So one of the things that I also want to talk about is that in the hedging provider box here, which shows CalHFA, despite the fact that we have a lower gross margin than the hedge provider -- we now have 50 cents versus 75 cents for the hedge provider -- even if we double our hedging costs because, I must confess, we're probably not as good at doing this as well as these professionalized servicers. Even if we double our cost of doing the hedging, we can still retain a little bit of profit for that particular function.

One of the things that Claudia had mentioned that I should emphasize is that the Agency has actually had a very long history of doing hedges. But as I mentioned earlier, a hedging of a different sort of nature. We used to do a lot of hedging for our long-dated variable-rated bonds.

These hedgings are different in the sense that you're really hedging loan commitments; but there is an existing infrastructure in place that has very deep experience in doing hedging.

CHAIR JACOBS: When FirstSouthwest does this, are they trading then with another counterparty? You know, Wall Street Bank to buy in bulk or something like that?

MR. HSU: Most probably. They're probably -- they're a broker/dealer. So I don't think that they're buying for their own balance sheet.

But to be sure, the way that our contract is structured, we're not really privy to what they do behind the scenes; in part, because we don't share any of that risk.

So to conclude, that if we lower our cost structure for the overall schematics here, it could be quite possible that we end up offering lower rates than the existing framework; or end up keeping a little bit more profits from the existing framework.

MS. CABALLERO: This has been a very good presentation. I appreciate the time that you've taken to explain this to us.

I think for future reference, if we're going to vote on this, that it would be helpful to have an identification of the assumptions that you're making in regards to if we went in this direction, here are the assumptions that we feel fairly confident are going to come true, but also the risks. I think you started talking about them a little bit. They may bundle these and market them.

What would be the risk to CalHFA if we did it in-house? And what are the things we'd need to look at as you ask us to vote on this that would give us a better sense of whether we're really in a good position to be able to take on this function that someone else is doing right now?

MR. HSU: As for risks, I appreciate very much the focus on risks, which is something that we talk about internally.

Also attached to this presentation is a draft of a hedging policy that we would ask the Board to adopt in March if we were to have your permission to do this. And inside that document, you can see a very detailed discussion about risks.

As I mentioned a little bit earlier, that there's these risks -- when we talked about that example of one hedge, there is the risk of the loan taking longer to close, sort of a delay risk, there's a non-delivery of risk. The loan just fails to close. And that's a huge risk when we are talking about multifamily, because these tend to be multi-million projects, right? Not just -- I don't mean to belittle each of our own dwellings, but not a small single-family mortgage loan.

So there are these risks have sort of been peppering throughout, but that particular document there, those are a much more detailed job of sort of delineating all the risks that are involved. And there is a fall-out risk, as Janet was mentioning earlier.

So suppose we go into thinking that 3 out of 10 loans will fall out. What if we end up having more loans that fall out? This is sort of in the same ilk as the loan not delivering. Well, what if you have less loans that fall out? That means we will be underhedged.

So over time, those risks are real, which is why I mentioned earlier, that this hedge provider is not just minting money, they are really -- they are providing a service. They are hedging this risk.

MS. SOTELO: I think the question that I would have is, what is our operational risk? Not the risk inherent to hedging, because that is -- you know, that's a business model. And I think for me, it would be, what is our risk of getting into this new business in terms of what it does operationally for our staff, what it does operationally for our credit rating?

You know, it is entering into a new business for us. I guess we've done it in the past, but this is doing it at a shorter term.

And the other thing I'd like to know, and, you know, maybe it's something that you guys can provide prior to us voting on this in March, is what do other housing finance agencies do? And, you know, how does that performance enable them to become more profitable or make better loans or cheaper loans?

And just kind of for me putting it into the context of operationally, what does this do to the team and to the staff, and what would we be doing if we weren't doing this?

By farming this out to a third party, there is obviously a lot of headache that we save. But what is the upside for us, and how to quantify that?

MS. BOATMAN PATTERSON: I was going to ask along those lines. But one of the things that caught my attention was that you said you did have the capacity before, that you had done similar work before, but that you didn't really know what the hedgers do now because we don't share in any of the risk. So there's not much of an opportunity to learn or cherry-pick, I guess, those that would do best for us to keep.

And so while we're kind of figuring out which direction we want to go in, is there an opportunity to share in the risk so that you can get more information; so, therefore, you do have the capacity internally? Because that's one of the issues, operationally, how well are you going to be able to do this? And are you able to learn from those that are doing it now because you've contracted it out? By bringing it in-house, it's a good idea, as long as you're learning what it is that they do and you're maximizing it under certain efficiencies within your operations that you can do. So I don't know if that's an opportunity. Because right now, you said they don't give us any information because we don't share in the risk.

MR. HSU: Let me clarify that.

MS. BOATMAN PATTERSON: Okay.

MR. HSU: One of the key things that we have to really get our arms around is this fall-out risk. Meaning that if we have ten loans that come in and are reserved today, how many loans ultimately delivers in

60 days?

Not that you need to be right every time, but you need to statistically be right over the year. What I said earlier, was that -- I thought it was a comment about what FirstSouthwest might do with these loans -- I thought it was Matt -- what FirstSouthwest might do with these loans after we deliver them? Do they keep them on the balance sheet or are they entering into offsetting hedges on the other side and laying it off? And that's the piece which we don't know because we're not really sharing that piece of the risk.

But in terms of the key thing that we need to understand, which is the fall-out risk, which is that if we get ten loans, how many loans deliver in 60 days, that we can track; and that is information that we can learn from which is, again, a key thing that we need to get our arms around before we even go into hedging.

Which is why having them around gives us that sort of a head start in terms of understanding what that risk is so we cap it off.

MS. BOATMAN PATTERSON: You have enough information that you can work over the next couple of months, or that you've been working on to be able to analyze what that risk is so that you would be able to come back?

MR. HSU: Yes.

MS. BOATMAN PATTERSON: Okay.

CHAIR JACOBS: But also beyond just the fall-out risk, there's the risks that originations fall off one month or far exceed the next month. And if we're able to make a deal with a counterparty to hedge, they may not be willing to sell in exactly the size of a hedge that we want each month, or if we're doing it weekly. So that's worth considering.

MR. HSU: That's correct.

MS. FALK: Yes, is it possible -- were we to do this and decide that it wasn't working, I assume it's possible to go back to the hedger again in the future?

MR. HSU: As we talked about in a different context earlier, that it's quite possible that it's not as bullion, sort of black and white. Meaning, that we could continue to retain them to do some hedging functions for some of the offerings on our menu. We won't just say, "Go away" completely and then come back.

MS. FALK: No, but if we started doing a portion of it and we decided after some point that we didn't want to do it, what I'm kind of getting at is, can we set some kind of cap of maybe loss, so that if we experience a loss up to a certain point, we say, "Okay, that's it. We're going back to the hedger"?

MR. HSU: Oh, that we can do --

MS. FALK: And, you know, you might want to think about what that might be for the March presentation.

MR. HSU: That, we could potentially do, yes.

MS. FALK: So then we know, we're not risking more than a certain amount.

MR. HSU: That, we could potentially do, yes.

So you're suggesting setting in place some kind of risk-management parameters. So that if we exhaust some of our reserves with that function, that we flip the switch and then go back to having a hedge. Yes, we could think about that.

MS. FALK: And it's also so -- and to kind of follow up on Tia's point, then the Board knows exactly how much we're risking if we get into this, so that we would not -- I mean, let's just say whatever -- however -- that things just went against you and you did it for six months and we lost, you know, a hundred thousand dollars or whatever the number is. We can say, "Well, that's going to be our cap." And we don't want to -- if we get to that point, we're going to go back to not hedging -- we're going to go back to using a third party and not do it ourselves.

Now, I don't know what that number might be or how long it might take or whatever. But it would give us some sense of that we had a limit.

CHAIR JACOBS: And also, just before we jump into this, if we're going to cut their business down, say, 75 percent, are they going to raise the 75 cents on the remaining hedging activities to 80 cents.

We should just make sure before -- and, listen, maybe there is a conversation to have with them to say, "Listen, if you guys can cut this to 60 cents, we will keep going, as we are now," just if maybe there's a deal to make with them.

MR. HSU: Let me get back to the point about operations.

That's something that we've been thinking a lot about. As part of the hedging policy, we have also included -- on this particular, included the thought, we're in the middle of developing of having a hedging procedure in place.

One of the key things that is very different about this, versus what we used to do -- well, first of all, we haven't lost any sort of the capacity in terms of staffing from the past.

One of the key things that's very different in this kind of hedging versus what we used to do is that when we used to hedge, let's say, these long-dated variable-rate bonds, it's true that at the peak of our issuance, we used to do maybe 10 to 12 bond issuances a year, so that we would go into that marketplace to do these hedging, let's say, 10 or 12 times a year.

These loan reservations, they're alive. So we're taking loan reservations in every day. And we need to be able to get our arms around to these intakes every day, so that we can hedge them every day. So the hedging function becomes much more, almost continuous than what we used to do.

What we used to do, if we're just using semantics, you might argue that it was continual, and now it's almost continuous. Because these are things you have to do every day.

To the degree that, for example, there's an agency party and that we might not have people sitting around to do the hedging because the loans are coming in, and then the people are all at the party, you really -- this is a little bit flip -- but you really have to consider whether or not you actually want to have a program that day.

So we do realize that, you know, there are certain -- there are real operational issues here in which what we used to do is very different than what this would suggest. And those are things that we're definitely working through.

But in terms of capacity, we have them; but in terms of needing to be there all the time, having someone to be able to -- not just me, for example -- you know, having someone there all the time, so that if we are out there on the street in terms of offering rates, we've got to be here to hedge them at the end of the day. So it's very different from that point of view.

MS. WHITTALL-SCHERFEE: Tim, how does the single-family volume that we have right now enter into this whole discussion of hedges, and when we might want to take it over, versus when we might want to keep with the hedge provider we're using right now?

MR. HSU: So I believe that -- correct me if I'm wrong, but I believe that our reservation now is slated to be about $10 million?

MR. NANN: Eight.

MR. HSU: Okay, it's about $8 million a month or so.

So one of the rough yardsticks that we have set in place for now, is that when we cross that -- I think what Tom is referring to, is about $8 million of reservation a month. But what we're talking about, is delivering about $20 million a month, then we might consider doing something like this. So we probably still have a number of months away from that yardstick.

Again, and there is no specific time frame to put this all in place. This is just thinking ahead.

I would like to also address the other point that Dalilia made about other HFAs. I'll go into this a little bit in the next couple slides.

It is true that other HFAs, in large part, right now are either hiring someone like FirstSouthwest to do all the hedging for them or some are actually doing the hedging themselves. There are a few in which they are, I dare say, they're just hedging with things that they enter into a spreadsheet. And it's not extraordinarily complicated or sophisticated what they are doing.

There are -- there is a rumbling, however. And some of it from the rating agencies, which I think is some of the points that Matt is making, is that this particular business model results in an up-front premium to CalHFA. It doesn't create annuities for CalHFA over time. And that business model is no different than, let's say, your corresponding lenders of the world, meaning, that they -- one year, there's huge bonuses being sent out to all the originators because they had a cropper year in terms of refinances, and a big origination year, a big bonus, everybody's happy at the party, the holiday party.

And the next year, rates go up, much like what happened over the summertime, right? Rates go up, and now they're refinancing until it falls off of -- again, we're not sort of in the refinancing business, as such, but I'm just using this as an example. The refinancing activity falls off the cliff. Wells, for example, announced over the summertime they're going to lay off 40 percent of their origination staff.

And so then we go from one year in which people are getting big bonuses, into the next year, in which people are losing their jobs.

That sort of up-front premium model generates a set of cash flows that's very different from what a less flexible cost structure, like CalHFA, needs. Meaning, that CalHFA is really not necessarily trying to, let's say, have one year in which we're making bundles of money and next year, having no money.

Generally speaking, we tend to be of the framework of creating an annuity to guarantee that we have future cash flow to pay for our -- again, I hope I'm not being too mean by saying a less flexible cost structure.

So that discussion is happening right now, and out there, in HFA space. And it's also becoming an issue with the rating agencies because they realize -- that's why I'm telling you, that most governmental entities don't have a very flexible -- they don't just wave their wand and say "40 percent of my staff is going to go." They don't have that ability.

So having that inflexible cost structure probably means that you want to be generating more of an annuity over time versus these ups and downs of being susceptible to the cycles of mortgage origination.

Which is a great segue into the next thought, is that if we were to hedge in-house or internalize this hedging function, we could also have this -- potentially this flexibility of delivering some of our originations into our traditional tax-exempt mortgage revenue bonds versus continuing to sell them into the mortgage market.

Having said that, having sort of mentioned that -- again, this is all sort of thinking ahead, there is no specific time-line that is in place of doing this -- having said that, in order to not sell some of these pipeline origination -- you know, some of these production to the mortgage market, we need to convince ourselves that: One, we can hedge it -- sort of the hedging thought is that we need to ramp up, at the moment, the yardstick is about $20 million in delivery every month, we need to do that.

And, two, is that we need to be convinced that getting paid from the mortgage market up-front is actually not as good as somehow the present value of this annuity that we're generating.

So that's also another sort of test that we had to pass. Otherwise, if we continue to get paid very well from the mortgage market, we might want to just stake that, which is what a lot of HFAs have been doing out there. They're saying, "Well, since I'm getting paid so well from the mortgage capital market, I'm not bothering to go into the bond market," which could well be the case for the foreseeable future. But, again, there is rumbling out there of, "Well, you know, at some point you need to get into multi-pronged," because you cannot get too wedded to the thought that you're funding all your operations from revenues that have been generated this year. That can lead down to unexpected results, let's say.

So in this chart here -- I won't dwell on this too much -- what we're suggesting here is that in the yellow here, we, as I mentioned, we passed these two bars we talked about, having the production ramp up to more than $20 million a month, and also convinced ourselves that the present-value economics of the annuity is actually better off than taking the premium from the mortgage market.

What we then do is that as the hedge on the -- as we hedge to the loan closing, we would then send that to an internal warehouse line that we have. And we would have a healthy debate about whether or not we'll continue to hedge as these mortgages sit in our warehouse line. And then as we accumulate them, we think that if we are reaching that $20 million threshold, maybe we'll accumulate two or three months of mortgages, and then we'll go into our old tax-exempt Mortgage Revenue Bond market to have a bond financing to take out mortgages.

And on the bottom, in the middle there, what you're seeing is that, instead of us getting a premium up-front, we're now kind of generating a small annuity over time.

Again, that 10 -- what I'm showing here is about 10 cents per a hundred dollars. That is much lower than the 70 cents that I was showing two slides ago. But what you're hoping is that you're collecting that 10 cents for maybe ten years in such ways that the present value of that 10 cents plus, in present-value terms, is greater than that 70 cents that you were collecting two slides ago.

So this is, you know -- just to roughly recap.

So that we think that if we internalize the hedging function, we can sort of have these branches as possibilities. And, again, not that these are things that we would do today, but these are just branches that can help us deal with some of the risk factors that we have, too. Because we can't get too far along in terms of relying on these up-front premiums to pay for our operations over some intermediate term.

Maybe it's okay for a couple years, but not over some intermediate terms.

CHAIR JACOBS: So let's talk about the multifamily, if you want to.

MR. HSU: Yes.

Multifamily, luckily, is a little bit simpler.

As I mentioned earlier, in our existing financing resolutions, we don't have the capacity to do hedges. And then coupled with that is that we don't also -- we also do not have the ability to issue variable-rate bonds.

So if we are using only fixed-rate bonds to finance our multifamily lending, it does provide certain limitations of what we can provide. And so what I'm showing you here is an example of what those limitations are.

So in the upper, sort of half -- on the top of this chart, what you're seeing is a typical multifamily transaction in which there was an acq/rehab. I know there is a few construction loans out there, but let's just assume that this is an acq/rehab loan; and that this is most of what we do, anyway.

So there's a hundred dollars of an acq/rehab loan due to an acquisition, let's just say for 18 months or so. And then once the project is done, it's leased up, it's placed in service. Around that time is when you kind of expect the tax credits to come in, to pay down the loan.

So in this example here, we show that the tax rate is $60. So you are left with the $40 loan that amortizes for 30 or 40 years during the rate stabilization period.

So how we would finance that kind of borrowing at the moment, if we're only using fixed-rate bonds, is that we would sell $60 of short-term bonds.

So in this example here, I'm showing that $60 of short-term bonds is going to cost -- the borrowing cost is a dollar -- 1.5 percent. And we would go ahead on day one, sell $40 of long-term bonds.

We do that because we don't have the ability to, let's say, float into variable-rate bonds during acq/rehab or construction, and then use, as I say, a swap to fix our costs beyond the acq/rehab period, right.

So then if you combine the cost structure of that $60 and the $40, and you look at what we can offer during the acq/rehab period, our borrowing cost is actually the 3.1 percent. Because if you look at this box here under the short-term borrowing costs, you will see that 3.1 percent is this average of 60 percent of 1.5 percent and 40 percent of the 5.5 percent.

So that borrowing cost of 3.1 percent, to be kind, it's not extremely competitive in the marketplace.

Our long-term borrowing, however, it's not bad. But the short-term piece is where we kind of get a lot of discussions about how they can get better rates from the private market place. And it's fair. But it's some -- that's why I'm showing you this. This is sort of some of the inherent limitations that we have, given the tools that we have.

So on page 12, what we're suggesting is that if we combine the public and the private cost structures, we could potentially end up with a more attractive product. We don't know this for a fact, but potentially -- and I'll show you why this is the case.

So it's quite possible that we could say to someone who has a project, that "Well, why don't you go ahead and get your short-term loan from a bank who is in your region who wants the CRA credits, who likes the fact that they're getting a fee on a hundred dollars and not on $40?" You know, there's just a lot of nice -- and it's a shorter loan, they like the short loans better than the longer loans.

And, you know, some of them have sort of construction lending, sort of monitoring compliance. You know, there are a lot of reasons why they want that short-term piece, and less favorable on the long-term piece.

So what we could suggest is that, well, go ahead and get that short-term loan from your CRA bank; and what we would do is that we would enter into, at the moment, the illustration here is a forward-rate option. I won't go into too much. This is actually described in the hedge policy that is also attached.

And in so doing, we can commit to offering them a rate, let's say, 18 months from now or 24 months from now, without having to -- because we would actually issue the bonds later on, without having them to sort of tie them to using us as both the short-term piece and the long-term piece.

But one of the things I have mentioned here is that "can result" and not "will result," is that it's quite possible, though, if we do that, that that long-term borrowing piece would actually have a slightly higher cost of borrowing than if we were to borrow right away. And that's -- this is inside baseball. That's, in large, part because your curve is generally positively sloped, so that a forward-rate tends to be higher.

So, you know, what this amounts to, is that this -- we're creating a possibility of possibly letting the borrowers not be sort of wedded to the thought that "I need to get all of my borrowing needs from CalHFA," because we do hear that out there. "What we really want from CalHFA is a perm piece and not necessarily a short piece," because they can get a short piece from the banks at a cheaper rate. So this is creating that possibility as well.

CHAIR JACOBS: But for the developer, there is real value to the certainty of the perm rate? I mean, I think anybody would love that.

MS. BOATMAN PATTERSON: Why is it that you can't hedge in multifamily? Is it because of the fixed-rate bonds? Is it because of the money -- the actual money that you're using, the funding source?

MR. HSU: So right now, in the financing resolutions, we just don't have authority from the Board to enter into sort of synthetic hedges, where -- like, you know, interest-rate swaps and whatnot.

MS. BOATMAN PATTERSON: Right.

MR. HSU: So in order to, let's say, lock in a perm rate for someone that is going to transition into a perm loan in 18 months, we would sell those victory bonds today.

So we sort of lost that ability to do that because we were managing the legacy risks that we have from our swap portfolio.

So one of the things about this forward-rate option that we are talking about here -- again, this is described more in detail in the hedging policy -- is that we think that this particular option may actually, on balance, be slightly costly, but it would probably not continue to add on to some of our legacy swap-related collateral posting risks on balance.

And we can talk a little bit more about that at the next board meeting.

But it's described in detail in the hedging policy that's attached; and that hedging policy, we have draft over it, it is a work-in-progress, and we are trying to put much more details in that policy.

MS. WHITTALL-SCHERFEE: Tim, does this impact the Agency's ability to allow prepayment in Year 17 because we're going with this long-term bond? And also, how does this work towards making the Agency more competitive compared to other banks?

MR. HSU: Well, I think that in reverse -- how it will make us more competitive, I think, is that we are suggesting to them that if you use us in combination with some other bank, you might end up with an overall lower cost of funds than if you have to come to us for everything.

MS. WHITTALL-SCHERFEE: You're talking about here, a higher interest rate on the perm loan?

MR. HSU: Right. But that's because potentially they're saving between 3.1 percent from the previous slide, versus paying 1.5 in the short-term, if they get the short-term borrowing from a bank.

So that's why I said if this -- I'm not certain this will definitely work. I think this could be a little bit situational. Because the borrower may decide that 3.1 percent up-front versus a 5.5 borrowing on a perm, I actually like that better than the -- again, these are just examples -- that I may actually like that better than the 1.5 during the acq/rehab period and at a slightly higher rate on a perm piece.

MS. WHITTALL-SCHERFEE: But CalHFA could still allow prepayment in Year 17, and it wouldn't impact your scenario that you've laid out? Or would CalHFA be going back to more of the 30 due in 30, 15 due in 15, 40 due in 40?

MR. HSU: We can still offer the 17 prepay.

MS. BOATMAN PATTERSON: So the cost on this product is the cost on the front end, on the short-term financing? That's what makes it so expensive?

MR. HSU: I'm sorry?

MS. BOATMAN PATTERSON: The construction loan -- our construction loan piece isn't as competitive in the market because you can go out and get a construction loan for sometimes cheaper than what you can get it through us. And so the idea is to offer potentially just permanent financing as opposed to the whole enchilada because then it could be more competitive?

MR. HSU: That's right.

MS. BOATMAN PATTERSON: And so why are our construction loans so costly, I guess, is what I'm asking? Is it a capacity issue? Is it because we historically didn't do construction loans and then we started doing them?

I mean, what's the rationale as to why our construction piece is not as competitive?

MR. HSU: So if you go back to page 11. So what I'm showing, is that the reason why -- so there's what I think of is sort of -- in your mind, sort of matching durations. So someone may think that, well, if

I'm borrowing for an acq/rehab for 18 months, my cost of funds should be short-term cost of funds, right? That's what a lot of people would think.

But because, if you look at the middle of this chart here, because we need to -- we don't have this ability to transform our long-term cost of funds into short-term cost of funds -- and I'll tell you how we used to do that in a second -- we are actually borrowing long-term already. We're already borrowing 30 years -- actually, 32 years, because we're doing a 30-year perm plus two years as an acq/rehab. So we're already borrowing 32 years on $40 of the loan from day one. And that averaging is making our short-term borrowing go up.

So how we used to do this -- and I'm not pitching this -- how we used to do this is that we used to sell variable-rate bonds.

MS. BOATMAN PATTERSON: For the construction piece?

MR. HSU: During the construction period.

So we say, we will sell variable-rate bonds, and the variable-rate bonds would last for 32 years. And then we'll do a forward-starting swap that starts in 24 months. So that when it gets placed in service, our cost of fund is synthetically locked.

So that's how we transformed during that acquisition and construction period, transformed something that looked like long-term into short-term, because we had this variable-rate bonds that gets reset every week.

But I think you would agree that that's not something we ought to do now.

MS. BOATMAN PATTERSON: Got it.

CHAIR JACOBS: So our homework, I guess, is to read this, understand it, and then we come back to you with a bunch of questions.

MR. HSU: Now, that doesn't sound like fun anymore, Matt.

But as I mentioned, that this is informational. I hope you would agree -- we talked about this -- I hope you would agree that having this presentation is useful as we go into the consideration in March, so that you're not sort of jammed into one piece.

So what we are hoping is that at the March financing resolution, we would ask for this authority to do that. And with many of your comments noted are things that we'll work on. Like Janet's thought about creating some sort of capped exposure. We'll think about that, and maybe memorializing that in our procedures, and also the thought about operations.

So we'll -- I think, as I mentioned earlier, we are making a conscious effort to elevate our engagement. And these comments are invaluable to the staff.

CHAIR JACOBS: Do we have any other questions from the Board?

(No response)

CHAIR JACOBS: Any members of the public, questions on any of these informational items?

(No response)

CHAIR JACOBS: Thank you, Tim.

MR. HSU: I'm sorry I took so much time.

CHAIR JACOBS: It's important stuff.

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Item 6. Update on CalHFA's Strategic Business Plan

CHAIR JACOBS: And I guess we're moving to Item Number 6, which is Claudia's update on the Business Plan.

MS. CAPPIO: Thank you.

Each year, CalHFA has been doing a Strategic Business Plan that is developed and then reviewed by the Board. And we thought a good first step as we begin the year, would be to provide the Board with an overview of where we are, given last year's plan, in terms of our objectives and the actions we have taken.

I think we have acknowledged the huge progress we have made. But as the leader here, I also have to pound on people about what initiatives have been left by the wayside or left partially done, and what we're going to do about them, and whether they should be carried over to our Business Plan in the coming year.

As we enter into a new cycle, I thought I would take the opportunity to review these priorities with the Board, and also to provide a sequence of what we will do between now and May. So this meeting is about reviewing the Business Plan from last year and giving you a status report. And we also thought it would be a great opportunity for the new Board members to hear just a little bit from senior staff about the programs, the operations of the Agency.

And then in March, we will be putting forth a draft Business Plan for your review and consideration, but not action, in anticipation of May, being both the final action on the Business Plan and the budget for '14-15. You all have that authority as we are a continuously appropriated agency.

So for the first time in my tenure, the exciting piece is that we have the ability to look out more than a year, because as Tim said, I took over in 2011. And, frankly, I thought, "Am I going to wind this agency up, or am I going to wind it down?"

So we're rolling. And it is really great to be able to look out into a time horizon longer than a year.

And then the directors and division heads will be designated during this presentation to run through a summary of our status. And I believe that probably the most appropriate sequencing is that as questions come up or comments come up, we will deal with them directly at the time that you have them.

So with that, Tony Sertich from Financing will begin.

Thank you.

MR. SERTICH: Thank you, Claudia.

My name is Tony Sertich. I'm the Financing risk manager for the Agency. I work under Tim. I'm just giving him a little break since he has been talking for the last hour.

I will go quickly through the first couple slides, and then we'll pass it off to the next group. So the first key strategy that we had in the strategic Business Plan for this fiscal year, was to increase the stability of the capital structure and the liquidity position of the Agency.

We believe that we have actually accomplished this, for the most part.

The first goal was to reduce our variable-rate debt obligation balance by $450 million by February 1st of 2014. We have actually reduced it by over $490 million. So this sort of gets back into the question of, how are we going to get out of the obligation we have to the federal government under the Temporary Credit and Liquidity facility.

We have, as Tim had mentioned earlier, about just over $1 billion remaining in this obligation. And so we have two years left to get out. If we were to continue at our around a $500-million-a-year pace, we will get out of it. It’s probably unlikely to continue at that pace, but we think we have other tools in our toolbox now to get out of this.

The other strategy was to reduce our swap notional amounts. And this is our legacy swaps. Not as Tim talked about earlier, any future swaps we’re doing. But the goal here was to reduce our swap notional balance by $400 million. We reduced it by $418 million over the last year. So, again, we accomplished that.

This, the notional balance is decreased through two measures. One is a natural amortization of our swaps over time. The other larger factor is, when we entered into the swaps initially, we bought par termination options; and over the last three or four years, we’ve exercised every possible par termination option available to us to reduce this balance. And we plan on continuing to do that going forward.

So that -- the swap notional balance is currently at just over $1.5 billion. And we hope to continue reducing that in the future as well.

And I will pass this on if there are no questions.

CHAIR JACOBS: Just in terms of overhedging and underhedging, are we pretty appropriately hedged right now?

MR. SERTICH: If you look at this chart right here, we are right about fully hedged at this point.

In the past, we've always been slightly underhedged, and that's been the strategy.

Part of reducing the TCLP balance so dramatically has gotten us to a level hedging position, which actually has worked out okay because we have also been much more aggressive about using cash, which is often invested in variable-rate investments. So we don't have much of that, either. But it's something that we're tracking pretty closely, now that we've reduced that ratio significantly.

CHAIR JACOBS: In terms of getting rid of the TCLP, what do the sensitivities look like if the rates move up -- I don't know, a hundred points -- or down in the next 12 months?

MR. SERTICH: You know, in terms of -- I mean, since we are fully hedged from a risk exposure --

CHAIR JACOBS: It doesn't matter at all?

MR. SERTICH: -- we're not there, we're not really at risk there; but it does affect sort of the -- if we're going to refund out of it, or something like that, it may affect the strategies we use to get out of TCLP.

CHAIR JACOBS: Anything else?

(No response)

CHAIR JACOBS: All right, thank you.

A few more informational items here.

MR. OKIKAWA: Good morning, Mr. Chairman, Members of the Board. My name is Rick Okikawa. I'm the program administrator for CalHFA. I oversee the multifamily lending, single-family lending, single-family portfolio, and single-family loan servicing, as well as the multifamily asset management.

A little bit about my background. I have worked in private practice as an attorney, and then started with CalHFA in approximately 1991, and worked there since, and have subsequently retired.

And after this financial crisis and things we've seen late, you know, having been dedicated to this Agency and putting a lot of time and effort into this

Agency, we wanted to see this Agency come back. And under Claudia's leadership, we saw some good signs. And I definitely wanted to come back.

As of last September Board, I was given the opportunity to become the program administrator. And I guess the good news about that is, it's no longer subject to the bad attorney jokes, and I'm now an administrator.

Anyway, moving forward, we'd like to proceed, as Claudia was saying, in that there's a lot of new Board members here. So we greatly appreciate questions.

What we're at is, we're working at the basic ground level, when we're going through the strategic plan. And, obviously, business 101, with the strategic plan, that is the core of the business. And oftentimes, we're given here a unique opportunity because oftentimes, our chief of our divisions don't present -- not that they don't contribute, because they contribute very fully, it's just that you never see what they do unless you see it in terms of what the charts like Tim was showing and in terms of our ratings, in terms of how we're saving money.

And so beginning with our first department, we're talking about portfolio management, single-family portfolio management. And oftentimes, this is overlooked.

But I may steal some of Nick's thunder here. But part of, you know, portfolio management over the years, with the single-family, we used to sell bonds -- billions of dollars' worth of bonds. And with those billions of dollars' worth of bonds, what we did is we purchased single-family loans from, say, about 75 of our approved lenders.

So looking on the slides, on the PowerPoint, starting on page -- I believe it's page 4, we have presented, forward, some PowerPoints. And in that, it shows that over the period of time we have bought, like, $2.8 billion of single-family loans.

And considering there is approximately about a 12 percent delinquency ratio, we're looking at about $340 million at risk.

So we do pay very strong attention to our single-family portfolio.

And, you know, we want to give you a little picture about where we've been, where we are now, and where we're going. And Nick has gladly stepped up, and he is now our acting chief of Portfolio Management.

And these people, like I say, are on the ground level. They can answer any questions you may have. But they can give you also a good picture of where we're at and where we're going.

So in terms of following this, and for the Board's convenience, we have organizational charts, which all of you have. And Nick is on the organizational chart, he is on page 12, if you want to…

This is for your own reference.

And as well as we have this -- we will call it, the terms and acronyms. And, as you know, CalHFA seems to have its own language. And I still refer to a lot of the acronyms myself.

But without further ado, I'd like to go forward with Nick.

And we can start with some of the PowerPoint presentations, I believe on page 4.

Nick?

MR. KUFASIMES: Super.

Good morning, Chairman of the Board and Board Members.

As Rick mentioned, my name is Nick Kufasimes; and I'm the acting chief on the Portfolio Management.

A little background on myself: I have been in the real estate business for over 24 years now. Approximately over 10 years in the private sector and 13 years with the Agency in various departments, but four years with Portfolio Management. My job previously with Portfolio Management was the REO sales and Loss

Mitigation.

To start the first slide, Portfolio Management is divided into three units. The first is Loss Mitigation Unit. We have a team of SPOCs, which are "single points of contacts," that deal with people that are in pretty tough situations and are applying for a loan mod or a short-sale. Now, these single point of contacts deal primarily with the CalHFA servicing portfolio.

The other part of my team is a team of underwriters that deal with the loan mods and short sales. So every servicer out there that processes a short sale or loan mod submits it to the investment side. We review it, we approve it, suspend it, or deny that loan mod or short sale.

The second part is the REO Disposition Unit. So when the home is foreclosed on, we take over that property, and we improve it, pay the expenses on it, all the way to the sale of the property.

And the third part is the Servicer Administration Unit, which is a team of auditors that we have that audit daily through reports of all of our servicers monthly and every year travel on-site to every servicer's location and audit the files in person.

The next slide, as Rick mentioned, currently our portfolio has 17,440 single-family loans which equates to $2,826,986,000.

9,442 of those are conventional loans, which is sixty- --- almost 69 percent of our portfolio. 7,998 are government-insured.

Approximate overall delinquency is at 12 percent. So we have $339 million-plus that is delinquent at this time.

Portfolio Management. The real estate and lending market is always changing, so what we're always trying to do is keep our process and our policies up to date, and change with the market all the time.

So in 10 of 2009, we converted everything from paper to electronics. So we have master servicers -- I'm sorry, master brokers that we deal with out there that hire all the listing agents that put together marketing packages for us, which consists of appraisals, inspection, and broker price opinions and other items.

But we found it easier to deal with electronically the intake of that and be able to process everything internally electronically.

In January 2013, we did the same with the short sale. We converted everything to electronics, so every servicer is able to submit a short-sale package electronically through our secure site to us. And internally, everything is done electronically.

In February of 2013, we did the same with the Loan Modification Unit. Again, we created secure sites, and everything was done electronically.

CHAIR JACOBS: *Keep Your Home California*, how do you interact with them, and sort of organizationally, how does that work?

MR. KUFASIMES: With *Keep Your Home California*, we primarily deal with them on loan modifications. So -- I'll go into another slide as far as how we utilize them in the outreach on that.

And if you have any questions after any slides, please let me know.

MS. CABALLERO: I have a question in regards to the delinquency ratio that you mentioned of 12 percent on page 6.

MR. KUFASIMES: Yes.

MS. CABALLERO: How does that compare to historical delinquency rates?

It seems really high to me, and I'm just trying to get my head around the 12 percent. And I get that we've come through the worst economic -- all that kind of stuff.

MR. KUFASIMES: Exactly.

MS. CABALLERO: It just seems high, and I'm thinking.

MR. KUFASIMES: I don't have the numbers as far as past history at this time, but…

MR. OKIKAWA: That is about the rate for our servicers, all servicers combined. So that's not an uncommon rate.

We can get other rates, if you -- we can get that sort of information if you wish, and we can bring that to the next board.

MS. CABALLERO: *(Nodding head.)*

MS. BOATMAN PATTERSON: I think she wants to know historically what our default rate has been, too.

MS. CABALLERO: Yes.

MR. OKIKAWA: Oh, I'm sorry.

MS. BOATMAN PATTERSON: And if I remember correctly, pre-2008, you guys were down around 3 percent, 5 percent.

MR. OKIKAWA: Yes.

MS. CABALLERO: And I guess the thing that I'm thinking about is just that, you know, if you see the investment in a single-family home as one of the biggest investments you'll make --

MR. OKIKAWA: True.

MS. CABALLERO: -- and how hard it is to get into homeownership, it would be good to know a little bit more about -- at least right now, if our historical is 3 percent, what's driven this, if it's unemployment, then that's understandable. I'm just wondering if part of the challenge is that it's a lot harder to own and keep up a home than one would think. And so that's a different issue.

And I'm wondering if we have partners that could come along and help homeowners that are new. Because we service the riskiest -- or the most risky homeowners.

I mean, I'm just thinking this through.

12 seems really high to me, and I'm just -- I'm concerned about it because we are unlikely to get these individuals into a home again. And so once they're there, we just -- it seems to me, we ought to be working really hard to make sure that they can stay there. So that was just my thought.

MR. PRINCE: And Mr. Hsu, is that right. Hsu?

MR. OKIKAWA: No, Rick Okikawa.

MR. PRINCE: But Tim earlier talked about the portfolio is a different demographic. And I didn't -- I don't want to say I didn't buy it, but I didn't buy it.

That it seems to me if you have good underwriting, you can service first-time home buyers or low-income and not have that 12 percent loan default rate. And so it did bounce around my head.

I thought the default rate has dropped down to, like, 10 and a half percent. I thought I read that in the financial report leading -- okay, so I would love to understand the default rate, the history, why is it there.

I agree with the Secretary that maybe there are other programs that could come in and help stabilize families. But it seems to me, it's also about underwriting within this population, so…

MS. BOATMAN PATTERSON: Which is I think is why the Chair wanted to know what the interaction was with *Keep Your Home California.* Because if that *Keep Your Home California* can be working to reduce our default rate, we -- and I'm sure Di is already working on that, but I think that should be working in connection with one another.

MR. OKIKAWA: And, yes, we are. And future slides, we'll show how that applies.

CHAIR JACOBS: And I just think it's clear, when you look at the geographic distribution on the following exhibits, I mean, it relates to the counties where there's job troubles.

MR. OKIKAWA: Definitely.

MR. KUFASIMES: So with electronic, it means quicker turnaround times, which is less loss in expenses to the Agency.

The next slide. The next slide after that.

So with REO, as I mentioned, we converted everything to electronic. We created an internal approval process. We implemented electronic signatures for residential contracts. And with the electronic information that we were receiving, we were able to track the statistics, trends, and report on the sales of the REOs, and better utilization with staff.

So, as an example, where we were dealing with paper, it was X-amount of REOs per manager. When we went to electronic, we were able to increase that amount per manager.

The next slide?

So in the last quarter of 2012, we were seeing the market increasing. So what we decided to do, was put a pricing strategy together for the REOs.

So what I do is, every three months, I track the sales of the REOs in the past and determine what we're getting over the appraised value and was priced. So by implementing those per county, which goes to the next slide, we were able, in 2013, to average 120 percent of the appraised value. So what that means is less loss to the Agency.

The total we had, REOs received were 277. We sold 306. And currently, we have 91 REOs in inventory.

Now, with the REO pricing strategy that we put in place, we applied that to the short sales. So with short sales, we average 108 percent of the appraised value on the short sales that we sold, and 109 percent of counter.

So from the offers that came in, we were able to get 9 percent more by this pricing counter strategy that we have.

Regarding the loan mods. So what we did is, we converted everything to electronic to be able to track the information that's coming in.

What we're doing is more outreach to our servicers.

Regarding CalHFA's loan servicing, when anybody comes through the door, we immediately refer them to *Keep Your Home California.* So we're trying to utilize those dollars. So we hold them accountable to either get a "yes" or a "no" from *Keep Your Home.*

If they do get denied, we move them on to an alternative loan-modification program. If that doesn't work, then we do have the short sale or the rental option for that borrower.

But, again, we do a lot of outreach right now with the outside servicers to get them on board with *Keep Your Home*, and utilize those dollars.

MS. SOTELO: Excuse me, Nick?

MR. KUFASIMES: Yes.

MS. SOTELO: Do you have a correlation between your delinquency rate and your actual foreclosure rate? Like, how many of those 12 percent of delinquencies actually go to foreclosure? Or will go to foreclosure based on historical data?

MR. KUFASIMES: I understand what you're saying. Of the 12 percent, how many of those actually truly -- what percentage were we able to put in some kind of program?

MS. SOTELO: Yes, how many default? I mean, how many do you cure -- or are cured?

MR. KUFASIMES: Yes, I don't have that information at this time.

MS. SOTELO: To me, it would just be -- you know, just in the context of understanding delinquencies and how we support the families that we --

MR. KUFASIMES: Exactly, yes.

MS. SOTELO: -- loan to, just understanding how many get successfully through this program.

MR. KUFASIMES: Agreed.

CHAIR JACOBS: Are we testing when a house is marketed for short sale, if the listing broker actually returns phone calls of people that are interested?

Because I know the private banks, there is endemic fraud where a house is, you know, put up for a short sale, the broker is not returning any phone calls because the cousin or the friend has been preselected.

MR. KUFASIMES: Exactly. We don't own that home when it's a short sale, so it's the responsibility of the borrower to hire the listing agent.

All we know is by the offer received and our data that we have on those markets, is that we're getting a fair price. I wish there was something in place to know exactly if that agent was doing their job.

The next slide, Trustee Sale Bid. We're always looking at ways to sell the properties before they do become an REO.

We looked at being able to sell the property at the trustee sale at the court steps.

Part of being able to bid at the court steps is, we would need the information immediately on the foreclosure process.

So prior to 2012, we were receiving everything by paper. So what we did is come out with Bulletin 2012-9, and we created secure sites to where our servicers can send the information to us, to where we can get that information in a time frame in order to get those bidding instructions out to the servicers when they put the bid in for the trustee sale.

So it’s just a way to be able to sell that property at value at the steps before it did become an REO. So ways to save the Agency money.

REO Rental Program. Back four years ago, on the homes we foreclosed on, we saw a lot of people had vacated the property. Three years ago, we saw -- we were foreclosing on homes where the borrowers stayed in the property. And two years ago, we saw a lot of homes that we were foreclosing had tenants on the properties. Now, with a tenant, you can’t evict them from the property if they have a valid lease. So we didn’t have a process in place to deal with occupants that did have valid leases. So what we did is negotiated with our master servicers, who are the ones in charge of hiring the listing agents to the properties. So what they would do is property-manage that property the term of the lease. And we would let the borrower -- or the tenant know that, you know, we wouldn’t continue the lease, but we would abide by that lease during that time period that they could stay in that home.

In 2013, we came -- Bulletin 2013, we changed the guidelines on the policy as far as an individual or borrower renting their home. Prior to 2013, a borrower had to have a financial hardship in order to rent their home, and they had to qualify with that mortgage payment if they did move out.

In 2013, we did change the policy. So as an example, the numbers I have, we approved 52 prior to that. Forty-four were denied prior to 4/13.

When the new program bulletin came out, we had approved 327, and 18 were denied. And the reason they were denied is that the borrower was not current on their mortgage.

HARP Refinance --

MS. BOATMAN PATTERSON: I have a question.

MR. KUFASIMES: Yes.

MS. BOATMAN PATTERSON: So if they want to rent the home, it's because they can't afford the mortgage. So how could they ever be current on their mortgage if they're in the rental program? I don't get that.

MR. KUFASIMES: Well, you have to be current first in order to rent your property out.

MS. BOATMAN PATTERSON: Oh, you mean rent it to someone else? So you're --

MR. KUFASIMES: Exactly.

MS. BOATMAN PATTERSON: So I'm the homeowner, and I want to rent my home to someone else.

So this rental policy doesn't really apply to the homeowner who is foreclosed upon? This is applying to people who are in their home --

MR. KUFASIMES: Exactly.

MS. BOATMAN PATTERSON: -- and want to rent it to someone else?

MR. KUFASIMES: Exactly.

MS. CAPPIO: And through the Chair, we used to have a very strict definition, because the loan that we give homeowners basically assumes owner occupancy.

MS. BOATMAN PATTERSON: Okay.

MS. CAPPIO: But given the state of the real estate market, we had to deal with reality. And part of that is, that homeowner would quite often be able to sell their house in a healthier real estate market but can't. So due to life circumstances, a change that in the job location, education, whatever, this is an interpretation that we believe still is consistent with the indenture.

MS. BOATMAN PATTERSON: So this allows a homeowner to rent their property out?

MS. CAPPIO: Yes.

MS. BOATMAN PATTERSON: Okay, I was getting confused with REO rental programs and this rental policy.

MR. KUFASIMES: Exactly.

MS. BOATMAN PATTERSON: I'm like that doesn't even make any sense.

MR. KUFASIMES: You can get mixed up with those two.

MS. BOATMAN PATTERSON: Okay.

MR. KUFASIMES: Exactly.

The majority of what we saw with people wanting to rent their homes is, a lot of the individuals bought at the height of the market. So they might have bought a single one-bedroom home. They got married and now they have a family, so they would need to move on to a bigger space.

But a person that is delinquent can bring their loan current, and we would approve them to rent their home out.

HARP Refinance. That is not part of the portfolio. But what this does, is helps our insurance in CalHIF.

There were 500 loans that came in the door as CALHFA loans. They were sold to Fannie Mae. They are being serviced by Bank of America.

So Bank of America did not want to participate in the program, so we did find one of our approved lenders -- Guild is the one -- that was able to refinance 47 of those 500 loans that are owned by Fannie Mae but insured by CalHIF. So these were 47 loans that could have potentially became foreclosures that we were able to keep them in at a lower rate.

FHA HAMP. The HAMP program came out in about 2009. We were able to get a variance from HUD to not lower the rate or extend the term on the program. Again, with the HUD HAMP program, the rate is lowered and -- if you want to --

MR. OKIKAWA: Yes, with the HAMP program, you can basically lower the rates and extend the term.

So how does that work if our servicers are out there able to lower the rates, they extend the term? That affects us, obviously, because it now becomes a permanent loss. So then if your interest rate goes down, that affects us. It's related -- if the length of the time goes on, it affects us.

So how this works is, because we got this exemption from HUD, we're able to require our outside servicers, our servicers so that they cannot do that. They cannot do the lowering of the interest rate, they cannot extend the term. However, we have the exception, that ability to do so with CalHFA.

How do we do that? We usually do that with KYHC. Because if you're able to reduce the principal under the PRP program -- I'm not saying this is exclusive, I'm just saying that this is a good example --

if you're able to reduce that principal, and we're thinking "Oh, well, now it's gone from $200,000, down to $100,000, maybe an interest reduction or an extension of the term isn't a bad thing, because now the principal is much lower."

So we have that flexibility to do so, as well as Guild, who is one of our -- this is the next slide -- who has also been very, very active in KYHC.

So Mr. Chairman asked, in response to earlier questions, how we deal with KYHC. This is part of that, a part of that package.

MS. SOTELO: So from a policy perspective, we're still able to maintain our target market in their homes but not necessarily -- I mean, do it directly with them as opposed to working through our servicers to do that?

How does that work?

I mean, from a policy perspective, we're still able to keep the individuals housed as opposed to -- and we're able to restructure their debt so that they're not, you know, foreclosed upon?

MR. OKIKAWA: Correct. And as well, not only that they are able to maintain and stay in their homes, we made modifications, et cetera, it also prevents, obviously, foreclosure and potential --

MS. BOATMAN PATTERSON: Through our servicers?

MR. OKIKAWA: Yes, through our servicers.

MS. BOATMAN PATTERSON: Okay. And do you have policy guidelines or something that -- circumstances of when it dictates when we will basically do an in-house modification, I guess it's what it would be, to extend the term? So our servicers can't do that, but we can do it internally?

MR. OKIKAWA: Right.

MS. BOATMAN PATTERSON: And so you have a set of guidelines or something that you've adopted to say that under these circumstances is when we will do that? I'm asking.

MR. KUFASIMES: Well, the in-house and also with an outside servicer, you're allowed to do it. But it was done on a pilot program where they are allowed to do.

MS. BOATMAN PATTERSON: I thought you just said the loan servicers couldn't do it, that we could only do it in-house, that we had the ability to do it in-house?

MR. KUFASIMES: We had the ability -- on the HAMP program, we have the ability to do it in-house. And we have one other servicer that is allowed to do that, which is Guild, on that program.

MS. BOATMAN PATTERSON: Okay, and so then my question was, have you adopted a set of circumstances or guidelines or policies as to when it would be appropriate for you to extend the terms or reduce the rate for those individuals -- for that small population under the HAMP?

MR. KUFASIMES: With the FHA HAMP model, it's done through a model, so there's a series of stages that you go through in order to get to the point where you lower the rate.

There is a principal-reduction component of it, too. But you get down to the model of the lower the rate in order to get them into a DTI that's acceptable to the model.

So they do run a model to where they get to the lower rate.

So as an example, they don't come through the door and automatically get that lower rate. There's a model they have to run through in order to get to that lower rate.

MS. BOATMAN PATTERSON: Okay.

MR. KUFASIMES: Our servicer administration unit, we're working with I.T. currently to create an electronic data servicer administration system.

As I mentioned before, there's a lot of information we get from our outside servicers. So we need to have a system to have everything be inputted to and able to dissect in order to come out.

And what we're looking at is coming out with a score card to where we could start rating these servicers that are servicing our portfolio.

Another part of the service administration that I mentioned before is that every servicer we're looking carefully at right now, that they utilize those *Keep Your Home* dollars, we're putting a lot of pressure on them right now.

We do see every loan mod; and a lot of them we don't see, we question why are you utilizing those dollars. So going forward, there's going to be more accountability on them utilizing those dollars.

The CalHFA Loan Servicing audit started at 1/13. So it began yesterday. And our servicer guide is currently at 50 percent. So we hopefully will be able to get that done by the end of the year.

Previously, it was looked at Wells Fargo, we were going to make every attempt to take back the servicing on the loans. In the last year, we were able to get them on board with *Keep Your Home*, and start utilizing our loss-mitigation program. So we're seeing more loan mods from them and more short sales. So it was determined at this time to keep them as a servicer.

MR. OKIKAWA: And I'm going to back up in a broader picture, just to make sure that new members, everybody understands that we have a loan servicing in-house; but we also have, over the past, when we first started, we didn't have the expertise for loan servicing, so we contracted out.

So we have loan servicing in-house; we have loan servicing also that we have contracted out. So Wells Fargo is one of those loan servicing companies that we did contracted out; and at first, we were having issues. And now, we seemed to have ironed those issues, so it's no longer a part of the strategic plan as far as taking that back -- taking it back, as you will see, is when Tim and Rhonda talk about our Bank of America servicing. That's kind of like the direction we were headed. Because of compliance and other things, we've been able to work it out.

Ocwen is the title. Ocwen is also another loan servicer. However, it's not one of our approved loan servicers yet. And what happened in May of 2012 is GMAC filed for Chapter 11 bankruptcy, and Ocwen took over their subservice on GMAC's behalf. And so because of the bankruptcy, there has to be a consent to the transfer -- it doesn't have to be consent, but we did consent to the transfer from GMAC to Ocwen, subject to Ocwen curing all defaults. Those are approximately about 754 loans.

In terms of the Strategic Plan Business Plan, we skipped over DA and DB with Bank of America, as I referred to earlier. And here's what we're now presenting, because we wanted to keep the flow going.

So what we'd like to do is have Rhonda Barrow, who is our chief of Loan Servicing, give a little bit of introduction about herself. And then Tim and Rhonda, who are intimately involved in the BofA transfer, make a presentation on that.

MS. BARROW: Good afternoon. My name is Rhonda Barrow. I am the housing finance chief and Loan Servicing manager for our in-house loan servicing.

Pardon me. I'm a little muffled because I have a cold.

My background stems from about 24-plus years in the industry. I started out with the First Nationwide Bank as a nighttime, part-time collector, and moved to HomeEq Servicing, where I was the supervisor in APB cash management. And then here to the Agency, around 2006 is when I started with the Agency as the housing finance officer of Loan Servicing. And in 2010, I became the housing finance chief of Loan Servicing.

Currently, to date -- this is as of October 31st -- we service in-house 6,474 -- excuse me, 6,479 first-mortgage loans.

The delinquency rate as of October 31st was 10.08. We have seen this delinquency number trending down over the last six or seven months significantly. We also service 37,687 subordinate loans currently in our portfolio.

MR. HSU: Last year, I think that we talked to the Board a lot about this transaction with BofA, in which we are buying back the servicing from BofA.

This particular project, with this particular issue, actually has been under negotiation with BofA I think right before Claudia started back in 2011. So it's been a long time coming for us to consummate this transaction.

What I'm showing you on this chart, is just a quick way to show how -- I think that over time we've shown charts like this. But what this is showing is that it's showing the percentages of the loans that a particular service services in blue; and in orange it's showing the amount of the delinquent loans that are of the entire population, how much of the -- how many of the delinquent loans belong to that particular servicer.

So, for example, if you look at BofA, these are the FHA loans. What this is saying is that they service about 6 percent of our FHA loan population, but they represent nearly 13 or 14 percent of our delinquent population.

So if you look at this across, what you're hoping to see is that the blue bar and the orange bar are fairly close to each other because it just means that their delinquent population is fairly representative of their entire servicing population.

So you can notice a couple of things here. You notice that BofA sort of underperforms significantly; and you can see that everybody else is somewhat on par. And you can also see that at CalHFA, we're doing a little bit better than where we should be at. So the blue bar being a higher than the orange bar means that you're doing slightly better.

So what this shows is that BofA has been a laggard over time.

And the next chart, on page 25, this is the conventional portfolio, looking at the same type of idea but on the conventional side. And what you can see here, again, is that the BofA, on the conventional side, their blue again is lower than the orange, meaning, that they disproportionately represent the delinquent population. And then if you look at CalHFA, you can see that our blue again is higher than the orange.

So this is just one way that we kind of look at sort of how the servicer are performing on a relative basis. So these were all sort of behind the scenes, so that if we restructured operational issues in thinking about do we take a poor servicer -- servicing portfolio in-house?

And I'm here sort of as a launching pad for Rhonda, in the sense that Linn and I, we're kind of spearheading the business negotiation of the transaction; and then behind the scenes, Rhonda, the Accounting folks that are headed up by Lori, and also the Loss Mitigation folks headed up by Nick, they did sort of the yeomen's work of making this transaction happen.

The bulk of the transfers happened in November, which they have a small portion that's going to transfer sometime this month or next month.

But, you know, I wanted to make sure that the glory is not here, but it's with Rhonda and Nick and also the Accounting folks.

MS. BARROW: And Nick -- Tim covered a little bit of this, but part of the reasons for bringing the loans in-house was the lack of or underutilization of the *Keep Your Home California* programs and loan mods being submitted.

The portfolio totals were -- there was 1,192 conventional loans and 700 government loans with a delinquency rate of 18.49 percent.

As of November 1st, the Loan Servicing department acquired 1,571 loans from the BofA transfer. That equals out to 1,132 conventional loans and 439 government loans.

Upon immediate transfer, 109 of those loans were appointed to single points of contact for Loss Mitigation efforts. Twenty-seven of those loans are currently receiving assistance from *Keep Your Home California*.

We created and sent special inserts with *Keep Your Home California* contact information and program descriptions. We established a task force of collectors that targeted the severely delinquent Bank of America customers.

And we also developed a job aid to assist the collectors in speaking with the borrowers that may or may not have had contact with the representative in a very long time.

Any questions?

CHAIR JACOBS: I've got one question that may be sort of more of a mission question. But we go from single-family to multifamily, and there's no discussion of duplexes or triplexes.

I know in other states it's been a big part of the housing finance agency's mission, just as ways for families to create some wealth long-term.

Are we looking at more duplex or even programs for granny flats -- houses with granny flats? It could be an opportunity for us to really dig into that more.

MS. CAPPIO: Through the Chair, we have looked at them, and I think it's an excellent suggestion.

As habitation patterns change and economics change, it is, I know from my experience as a local planner, that quite often banks are unwilling to lend in a granny flat, even if you can demonstrate the income. So it would be great, and we will add that to the list of stuff to explore next year.

MS. BOATMAN PATTERSON: So single-family doesn't include one to four units? Right now, it's really just one unit? Or, for our programs, how does that work?

MS. CAPPIO: Rick, do you know that?

MS. BOATMAN PATTERSON: It's one to four, right?

MR. OKIKAWA: We are doing one to four.

MS. CAPPIO: One to four, single family. Right.

MS. BOATMAN PATTERSON: One to four? Great.

MS. SOTELO: Rhonda, do you have any sense of where, geographically, these loans are located? Are they throughout the state? Are they concentrated more in Southern California and Northern California?

MS. BARROW: They're throughout the state. Mostly Southern California, I believe.

MS. SOTELO: Are they mostly urban environments or non-urban?

MS. BARROW: Mostly urban.

MS. SOTELO: Okay.

MR. OKIKAWA: So moving along, next, we'll present on the multifamily part of the strategic plan. And if you would look at page 13 on the org. chart -- I believe we're on page 28 of the PowerPoint.

MR. MORGAN: Good afternoon. I am James Morgan. I'm the housing finance chief for the Multifamily Programs Division at CalHFA.

I thought for the benefit of the new Board members, we inserted just a brief overview of what Multifamily Programs does. And I say brief. Just three PowerPoint slides.

The Agency provides acquisition/rehab, permanent loan, and predevelopment loan financing for multifamily affordable housing developments.

Currently, we have in place a Preservation Loan Program, an MHSA -- or Mental Health Services Act Housing loan program, and then also we have a Predevelopment Loan

Program in place.

And indirectly, we have what we call our Conduit Issuer Program, where the Agency acts as a bond issuer via our Prepayment Loan Program.

Our Preservation Loan Program is administered with CalHFA's existing HUD Risk-Share Agreement with HUD. That agreement's been in place since 1994. And that provides capital for the rehabilitation of existing affordable housing projects, and also preserves and extends affordability for those existing tenants.

Under the MHSA loan program, it is jointly administered by CalHFA and the Department of Health Care Services, which was formerly Department of Mental Health, on behalf of the counties. And this is a derivative of Prop. 63, a one-time allocation of $400 million set aside for a permanent financing and capitalized operating subsidy reserves for developments of permanent supportive housing projects to serve people with serious mental illness and families who are at risk of homelessness.

This program has almost allocated most of its $400 million, and will most likely be sunsetting it this year, at the end of this year.

And then, of course, we brought to our Board members last year --

MS. BOATMAN PATTERSON: James?

MR. MORGAN: Yes.

MS. BOATMAN PATTERSON: Was that a one-time allocation?

MR. MORGAN: Yes.

MS. BOATMAN PATTERSON: And so it's not an ongoing?

MR. MORGAN: No.

MS. BOATMAN PATTERSON: Was that part of the 1C bond?

MR. MORGAN: It was -- yes, it was Prop. 63 bonds.

MS. BOATMAN PATTERSON: Prop. 63 bonds?

MR. MORGAN: Yes.

MS. BOATMAN PATTERSON: And so it was just a one-time allocation?

MR. MORGAN: One-time for housing allocation, yes.

And then as we brought to you, to the Board last year, we had our Predevelopment Loan Program to cover predevelopment costs associated with affordable housing rental projects that will have CalHFA permanent financing.

Next. Next.

For those here in the room, we actually have two locations: Sacramento and Culver City.

Our Multifamily programs, as you can see on one of the org. charts comprised of Loan Underwriting, Loan Administration, Disbursements, and Construction Services. We have 25 employees here in Multifamily Programs, with 15 in Sacramento and 10 in Culver City.

So there's your two-minute rundown on Multifamily.

With regards to 3-A, we had an aggressive goal of $125 million -- this is on your Strategic Business Plan -- for our fiscal year in 2013-2014.

For the benefit of the new Board members, we were temporarily out of business for about five years on the Multifamily lending side.

We were able to have a jump-start back in the Multifamily Preservation Loan business, vis-à-vis the New Issue Bond Program for 2012, and then going into 2013, establishing our own Preservation Loan Program -- or resurrecting our own Preservation Loan Program after five years.

So for us, we spent the first three, four months of the year crafting that, coming to you, coming to the Board, the Board members approving that, and getting the word out. And we started with that process at Housing California in April of last year, announcing not only our Preservation Loan Program, but also the

Prepayment Program in conjunction with our Preservation Loan Program. And basically a roadshow from April to July or August, sharing -- going to and attending housing conferences, localities, showing the -- spreading the word that CalHFA is back in business.

So for us, it's -- you know, with our existing Preservation Loan Program and trying to develop a pipeline, we have been aggressively pursuing projects. And as we move forward, we will still be able to close -- well, we will be closing approximately $41 million in deals.

We've got another $19 million, $20 million in the pipeline, hopefully, to bring to you in May. But where we're at is, we're in this process from now to the -- from the fall until the end of the year.

Taxable pricing, map lending, there are all different types of projects out there, really going for -- it looks like sharks in the water going for business. And so as we grow our program, you know, Claudia and Tim have explained to me "patience, patience." And so I'm really excited. Pipeline. I want to get out there.

But, you know, after five years of silence, and then really -- it's like myself, I have put on 45 pounds in two years, I'm not going to take it off in two days.

So it's going to take some time. And that's where we're at.

We'll get a good idea where we'll be as far as bond pricing. We have an upcoming bond sale coming up in February. And we'll have a really good idea where we're at structure- and pricing-wise.

Plus, we're revisiting, you know -- you know, looking at our existing product and trying to develop new products, as Tim mentioned, possibly a "permanent loan only" program, because there is a need for that. There are the construction lenders, the banks that come to us and say, "Wow, we would really like to use you as a permanent lender." So we're looking at de minimis loans -- what works best for the Agency.

And we're also looking at other products that might benefit us, like maybe a 35-year, due in 17, which is an attractive product given pricing for our friends in Finance where that product can take us. So we're exploring.

So, you know, did we get our $125 million? No.

But the cogs are starting to turn and we're now starting to produce a lot of interest.

MS. SOTELO: Excuse me, Jim.

MR. MORGAN: Yes.

MS. SOTELO: How are you outreaching to the developer community? Are you having conversations with them?

MR. MORGAN: Yes. We're on -- MPH Housing Conference, SCANPH --

MS. SOTELO: So you're doing it at the conferences --

MR. MORGAN: -- California Council for Affordable Housing.

We're attending as many conferences as possible.

We've also had e-mail blasts to some of our -- you know, we have an e-mail database that -- e-mail blasts with regards to announcement of our programs, our own newsletter, constantly marketing our program.

MS. SOTELO: Okay.

MR. MORGAN: With regards to our prepayment policy, that was in conjunction with the Preservation Loan Program, we announced that at Housing California. Prior to this year, and actually prior to the fall of '08, our documents disallowed prepayment.

You were in -- if you had a 30-year loan, you were in for 30 years, which tended to maybe rattle a few people. We had deals that were tax-credit projects that we were looking at to recapitalize. We had projects where grandma and grandpa passed away, and the grandchildren or the trustees don’t know what an apartment -- an affordable housing unit is. And so what we decided to do is just open up our portfolio for prepayment. And we established that prepayment policy.

It’s actually been successful. We’ve probably received -- and Chris will touch upon this in his Asset Management presentation -- but we have received 60, 70 inquiries.

And so we’re working on the public purpose of that policy, because there are yield maintenance and other costs associated with that. And the cost of that yield maintenance, doing a recapitalization versus our public purpose, we’re constantly tweaking it.

Currently, that prepayment policy that we have, the portion that is for projects that have seasoned 15 years out or longer will sunset at the end of December 31, 2014. So the end of this calendar year.

It doesn’t mean we can’t look at and examine, it may be extending it. It’s been quite successful. We’ll reexamine that.

There is another component to that Prepayment Program for a select few that if they’re eligible to prepay that have only seasoned from Years 10 to 15, that that process sunsets at the end of June.

So then that will go away. We’re not going to resurrect that one at the moment. It seems like we've pretty much put that to bed.

With regards to our conduit-issuing activity, as part of the prepayment program, if you select not to use CalHFA as your lender, you will pay a premium in your yield maintenance, and you're also required to utilize CalHFA as your conduit issuer or your bond issuer. So you can't go to CSCDA or CMFA. You have to utilize CalHFA as your bond issuer.

So we've been able to recently, just from the existing portfolio, do at least -- we've done one deal and we've got two more in the pipeline.

I think with folks just now starting to gather traction about our prepayment program, they're just starting to weigh options: What works best and what can I do?

We also, as a part of our business strategy, is that if we're going to have CalHFA as a conduit issuer -- you know, if you have to use CalHFA as a conduit issuer as a requirement of the Preservation Loan Program if you don't use CalHFA as your lender, let's have that conduit issuer program out there for projects that just want to use us for issuance, conduit issuance, bond issuance.

So we've had that out there. We know that is not our core business model. We're not looking at that to generate a lot of income. We haven't. It doesn't mean we can't look at that.

Our core strength is lending, and that's what we're good at. There are plenty of issuers out there that do that business. But if we're the lender, we're the issuer. But as far as just doing conduit issuance on the side, that really hasn't been our focus.

So we've closed three of those to date and we have three forthcoming. So come May, we'll give you a projection of where we're at with regards to closings and conduit issuances, and just kind of a recap of where we're at, trending.

And with that, any questions?

MS. FALK: James, I have a question.

MR. MORGAN: Yes.

MS. FALK: In terms of the prepayment, what kind of restrictions are you putting on the developers about rents, if any?

MR. MORGAN: Yes. So there are -- and Rick can help me out with this, too -- our existing regulatory agreement will stay in place for the time, for the duration of the allocation period, or…

MR. OKIKAWA: If there's a prepayment, there's a refunding refinance, whatever we call that, it would go for the extended term. So it's whatever the -- it's extended affordability. So if there were, like, Year 16, and now we're going to recapitalize for another 30 years, they have a regulatory agreement for that period. The income restrictions would be -- that would be negotiated. But either it would be the same or deeper affordability or extended affordability.

MR. MORGAN: That's all criteria of allowing prepayment, Ms. Falk.

MS. FALK: I'm particularly --

MR. MORGAN: That's one of many of extended affordability, rehab.

What's the scope, what it is you're doing to the project. There's different criteria just than saying, "Yes, you're allowed to prepay."

MS. FALK: Okay, so you're looking at what the current rents are, even if they're not restricted, to make sure that they're not being raised appropriately?

MR. MORGAN: Yes.

MR. OKIKAWA: Yes. Part of the criteria for prepayment, in this whole prepayment policy, one of the biggest criteria is public purpose in terms of extended or deeper affordability.

The other factor, of course, is, we have fiscal responsibility. And the expectations of our -- what profits, et cetera, we're supposed to make on the loan, what bond issuance it's in, if we need to make changes in terms of bond issuance, those costs. So that there's kind of two aspects to our prepayment policy, and it's fiscal and public purpose.

MS. CAPPIO: Right. We didn't want to -- I mean, I chide the staff. It needs to be capitalism with a purpose. There's a win-win here because quite often the terms are better right now. But we have to make sure to be sure that we deepen or extend affordability.

MS. FALK: Right, because there's often huge windfalls to the developers to be able to finance something.

MS. CAPPIO: Exactly, exactly. And I don't mind that --

MS. FALK: And none of it goes to benefit the tenants, that's the problem.

MS. CAPPIO: Exactly, yes.

MS. FALK: Thank you.

MR. MORGAN: Thank you.

MR. OKIKAWA: Moving forward, we are going to skip 3-F right now until the end, when Chris Penny can present along with 3-K.

But we'll move on to Earned Surplus, RHCP and FAF.

What is "Earned Surplus"? Remember, I was saying earlier that there are many funds somewhat unique to CalHFA and many acronyms unique to CalHFA. And Earned Surplus is one of those, in the sense that it was -- I guess the best way to describe it is, you know, what is left over when there was a HUD HAP contract in a housing development.

After you've done your rental incomes, and now you have this HAP contract which is up to the contract rents, and certain borrowers can only pay up to so much on those contract rents, usually it's, like, 30 percent of their rents. So that HAP contract covers the difference in terms of what the borrower is actually paying and what the contract rents are.

And then what happens is from the rental income that comes from these projects, you've got your operating expenses, which includes, of course, our debt service. Out of that comes the remainder, which is what we call "surplus cash."

Okay, now, the borrowers originally, when we did these Section 8's -- of course, there's got to be some incentive for developers. And so what we would do is allow for a distribution. And generally back then, it was a 6 percent distribution.

So after the distribution from the profits, that comes what we call residual receipts, or what we call "earned surplus." Is that kind of -- I know it's kind of an accounting thing that we've been doing, but that is what we have, and that's what we call "earned surplus."

Now, earned surplus for us at CalHFA, what we call a pre '80 and post '80. Now, pre '80 being any contracts before 1980, that earned surplus came to CalHFA, okay. So any of the post obviously went to HUD.

Now, a lot of those contracts were 30-year contracts, 40-year contracts. Well, so the 30-year contracts in the early eighties, we're done. And so some of this income stream has stopped, but we still have 40-year contracts, which are less. However, there's still some income stream coming in.

At the end of that period, the 40-year period, that's going to be it.

Right now, we have approximately $72 million of this earned surplus.

What is it with earned surplus that it's difficult in the sense to use, and I won't say difficult to use, but it's more the restriction, which goes along with earned surplus.

And if you notice, this is one of our statutes. This is our statutory restriction on earned surplus. But the key is lowering rents, lowering rents for persons of families with low and moderate income.

Okay, what is "lowering rents"? So some examples what we have done in the past, is lowering rents is more what is the effect on the project, the use of the dollars and the effect on the project. Not necessarily dollar-for-dollar of lowering rents.

And so, for example, if there are capital improvements necessary on a project, which, say, in Chris' department, for Asset Management, the HVACs are out, et cetera, we have made loans at zero percent or lower interest rates so that we can do these improvements, which, in essence, keeps the rents low.

So there are many different ideas on how we would use this earned surplus. And this is what this is all about: We're trying to come up with different waterfalls and creative ideas.

Another idea that we have been discussing is potentially on interest-rate reductions and for, say, highly public purpose types of projects. And so what would the interest-rate reduction do? Interest-rate reduction would basically lower the interest, which lowers the payment, which it means it's more affordable, and which, in essence, lowers the rents.

Okay, that is the concept. This is where we're going with each of these different types of funds.

And any questions on the earned surplus?

(No response)

MR. OKIKAWA: The next type of fund is the Rental Housing Construction Programs funds, RHCP. I believe these were from AB 333 many, many years ago, early eighties, late seventies. That was the first affordable housing bond I think the State of California issued. They're General Obligation bonds. Originally, this money went through the Housing Community Development, and about a third of that came to CalHFA.

Okay, so fast-forward to today. That money that has been coming back from the original RHCP funds through statute -- and part of it was a part of AB 1699. And so through the statutes, what we were able to do, that all funds that are received by the Agency for Agency projects were used to provide assistance to existing or future projects.

So the key here is "to provide assistance to existing or future projects financed through the Agency, pursuant to the Agency's affordable multifamily lending programs." Now, that's very broad. And there have been many interpretations of the use of this. And one use, potential use of this is, for example, on warehousing. And, for example, even though the last projects that we have done -- say, the last three projects came through CalHFA. Say, for example, if one of the projects needs to close by the end of the last year, but then the rest of the projects are going to close maybe to January, February, March of this year, we don't sell the bonds last year and hold that carrying cost for the projects that are going to close this year, right? So we do something. In the past what we had, was something, a warehouse line. We don't have that anymore. And so what we can use is this money to warehouse to the time we actually sell the bonds.

And these are ideas, like I say, that, you know -- you know, we can use this money. And I think at the RHCP, we're looking around, oh, $8.7 million, currently. Okay.

So finally, FAF. And this is in that whole glossary. I believe we put all these acronyms in there. But it's called the Financing Adjustment Factor, okay. And what FAF is about is, as you remember -- or maybe not some of you, you may be too young -- but in the late eighties -- I'm sorry, I mean late seventies, early eighties, almost up to '90, there were double-digit interest rates. Okay, and so for our Section 8 projects, when we had these double-digit interest rates, HUD comes to us and says "Well, you know what?" -- this is like in the nineties sometime. Interest rates are a little lower. And they say, "Hey, CalHFA, why don't we look at this together? And if you can refund those bonds on these existing projects, you know, from 13 percent, down to 9 percent, you know, why don't we share in that 4 percent?" And that's kind of like what we did. And so we refunded the bonds in the late nineties on some of these; and then we shared in actual interest savings on this.

So FAF money is a little more restricted, but we're probably around $16 million, somewhere in that range. I think that was what we had, the last figures. And so the restrictions on FAF is for very low-income housing. And it also requires a ten-year regulatory agreement for very low-income housing. And so what is interesting also about FAF is it can be used for a single-family. It's not just restricted for housing developments or multifamily.

Anyway, you know, some of the same -- the past uses, real quickly, are we've used this for interest-rate reduction on special-needs projects, which are very low-income projects. In proportion to the number of units, if there are 20 units out of 100 units, that's 20 percent. That's the amount of money we would use.

I don't know if there are any other questions or anything else you may want to contribute.

Thank you.

CHAIR JACOBS: Thanks for that.

MR. OKIKAWA: And moving on -- should we at least finish this portion?

CHAIR JACOBS: Yes.

MR. OKIKAWA: Okay, so moving on real quickly, next to me is Chris Penny. He is the chief of our Asset Management, Multifamily Asset Management.

If you looked at page 37 of the PowerPoint, I think this is next. And then page 14 of the org. chart shows where Chris is.

MR. PENNY: Hello. My name is Chris Penny. And I'm the chief of Asset Management here at CalHFA. I've been with the Agency since about 1990; and prior to that, I was at the Colorado Housing Finance Authority for a few years.

And today, I just wanted to give you a real brief overview of Asset Management, how it fits into the Agency, and a little bit about what we do.

So in general, after the Board approves a final commitment for a multifamily loan and that loan closes, our job, Asset Management's job of monitoring that project begins.

And you can put the next slide.

And we review operating budgets and annual audited financial statements to monitor the financial condition of each project. We hold and process requests for replacement reserves, insurance impounds, and taxes. We also get involved with a wide variety of activities with the project, including transfers of physical assets. We work with our Legal Department to process those.

As Jim mentioned, we worked through prepayment issues, insurance issues, workouts. And on the Section 8 portfolio, we process Section 8 rent adjustments.

We conduct annual physical inspections to monitor the condition of our properties. And for our Section 8 portfolio, we perform annual tenant file audits in accordance with HUD rules and regulations. And we're basically a traditional contract administrator for HUD on the Section 8 portfolio.

And on our non-Section 8 portfolio, we have a Web-based data collection system that gives us information on our regulated units, our income and rent-restricted units.

The portfolio today consists of about 500 projects, and, roughly, 35,000 units. Twenty percent of the portfolio is project-based Section 8, for which we act as an administrator for HUD. And we're paid approximately a million dollars a year in administrative fees for that, for that work.

I do want to back up real quick and just mention that we do work -- in Asset Management, we work very closely with our sister agencies, the Tax Credit Committee and HCD, to try to coordinate our monitoring activities as much as possible.

Since we do annual physical inspections, we share those with HCD and TCAC on an ongoing basis. And with TCAC, particularly, we help them out by doing the physical inspections of properties at the same time they're doing their file audits, so they can focus on the file audits and not the physical inspection that they seem to find that helpful.

As I was mentioning, we're the traditional contract administrator for HUD on, roughly, 100 projects. And since we're on that topic, I wanted to direct your attention to Item F -- 3-F on the Business Plan that mentions an application to HUD for the PBCA. And the PBCA stands for "performance-based contract administration.

And HUD issued a NOFA for the administration of project-based Section 8 contracts for every state in the country. And we applied to be the statewide contract administrator here.

And to make a long story short, last August we were awarded the contract by HUD. But subsequent litigation has kind of taken that whole process to a halt; and we're just waiting for a resolution of that.

The other item on the Business Plan I wanted to mention is Item K, and that relates to our administration of HUD 811, Project Rental Assistance Demonstration Subsidy Program with other State of California partners.

HCD asked us to participate in making an application to HUD for subsidy funds available through the 811 Demonstration Program. And HCD, CalHFA, we had participation from Tax Credit Committee. And the other key player was the Department of Health Care Services, DHCS. We worked together, submitted our application, and were awarded, roughly, $12 million for the five-year demonstration program. We were one of 12 states that were selected in this first round.

The goal of the program is to successfully transition non-elderly disabled persons from institutional settings, such as nursing homes, into apartments, fully, with all the services and supports that they would get from Medi-Cal and the rent subsidy coming through HUD.

MS. BOATMAN PATTERSON: I was too busy talking, so I missed the first part of that.

Where did that funding come from?

MR. PENNY: It came from HUD.

MS. BOATMAN PATTERSON: And it's for like permanent supportive housing or transitional?

MR. PENNY: It's for permanent -- it's a contract-based subsidy so the projects will get a contract for however many units they want to offer this housing for non-elderly disabled people that are coming through institutions.

So DHCS and some of the local transition organizations will play a big role in this project.

MS. BOATMAN PATTERSON: So is this going to be brand-new? Is this like a pilot program?

MR. PENNY: This is a pilot -- yes, definitely very brand-new.

This was an initiative at the federal level between HUD and HHS, with the ultimate goal, I think, of trying to see if moving people out of nursing homes can save some money on the Medi-Cal side and Medicaid side; and to see if, you know, net-net of the subsidy and the savings, if this is a good model to go forward with.

So CalHFA's role is primarily going to be administering the project-based subsidy. That's what we've done for 30 years as a traditional contract administrator, so that will be our main role.

And we anticipate entering into some agreements with HUD shortly, and after which HCD will issue a NOFA, and will begin to accept applications.

And that concludes my remarks.

CHAIR JACOBS: Anything else on the Multifamily programs?

MR. OKIKAWA: No.

Moving on, should we move on to --

MS. BOATMAN PATTERSON: Can I ask a question about Multifamily programs before you move over to Single-Family?

So if, like, there was magical, mystical elves that came up with just a big pot of money in your existing Multifamily programs, which program would you think would be the most efficient and best use of the magical, mystical elf money?

Am I putting you on the spot?

MR. OKIKAWA: I'm not quite -- I'm not quite sure that --

MS. BOATMAN PATTERSON: If there's one-time funds that were available.

MR. OKIKAWA: Right.

MS. BOATMAN PATTERSON: There's a million dollars that's available.

MR. OKIKAWA: Right.

MS. BOATMAN PATTERSON: And the Legislature is going to give you a million dollars.

MR. OKIKAWA: Right.

MS. BOATMAN PATTERSON: Of your existing programs, which program would be most helped in receiving the funds?

MR. MORGAN: I would take that. In our exiting, we have projects that we've identified in our portfolio that have been languishing. I would take that million dollars and help them out.

We have some projects that have -- that need extreme rehab and recapitalization that haven't been able to put anything together.

We've worked with them. We may be -- as Rick went through the subsidies, maybe utilizing some of those funds to help these folks out in Farmersville, California, or other --

MS. BOATMAN PATTERSON: So it would be targeted rehab of your existing portfolio?

MR. MORGAN: Yes, yes. Because these are projects that we've identified over the last -- in conjunction with Asset Management, over the last four or five years that need serious help.

MR. OKIKAWA: For example, we -- recently, we have had some RHCP projects that are 100 percent RHCP funded, which over the years are low, very low. I mean, we're low, below 30 percent. And over the years, none of the incomes have been increased. The buildings are starting to dilapidate.

Obviously, tax credit doesn't work in this kind of situation. We're stuck in a certain way on how to recapitalize these, at the same time, maintain the affordability. Those types of needy projects.

CHAIR JACOBS: A tough question there.

MR. OKIKAWA: So should we keep moving?

CHAIR JACOBS: Yes, let's keep moving through the Plan.

I think Diane?

MR. OKIKAWA: I think Claudia is up for 4-A, right?

MS. CAPPIO: Yes. This will be brief.

We had, and still have a big job to look at diversifying income sources, revenue sources, and find new ones. We are constantly looking at that. And there are some legislative proposals, most particularly SB 391. I don't know what will happen to that. Have been giving technical assistance in that regard. But we were just figuring that out because the New World Order is upon us. And how we've traditionally or historically gained revenue is not how we're going to keep doing it, at least exclusively.

MR. OKIKAWA: Continuing with 4-B, where we pursue a single-family TBA model and associated products where we are.

Without going back through the entire TBA model, et cetera, which Tim has presented on the Financing end, and we've gone through here at the Board over the last year, but giving you a little bit about a time-line, if you would follow the slide -- I believe it's on page 42.

In October, we started researching these new loan products. And as you recall, we had stopped lending. And the importance of lending again, we can't overemphasize that.

Originally, when we were lending, we were selling bonds and obviously purchasing loans. But because of the way things have changed in risk management and fiscal responsibilities, we now have developed that TBA model as a vehicle where there's a lot less risk in terms of selling securities and using our down-payment assistance products along with that.

So in May of 2013, the Board approved Phase I, which was called our CalPLUS, CalHFA, and FHA, and just following down the time-line. In July, we announced programs to the public.

August of 2013, we started accepting these reservations for these new FHA programs. And then in August of 2013, at the same time, we were researching the Phase II, which was a conventional first-time home buyer's loan mod, and the Energy-Efficient Mortgage projects. Followed by a review of that Phase II program to the Board; and then the Board approved Phase II in November of 2013. And then spring is the anticipated release date for that.

This has been big for us, that we're lending. Obviously, that's what we need to do, as Tim said earlier. That we need to be lending, because that's what we do. And we're building that machine as we go. And thanks for the cooperation of the Board.

However, we've also stated that we will monitor this very closely, given the certain parameters that were given by the Board. And we'll make consistent reports. And that's what we would like to do, is take the quick time now to say where we are with the -- where we are now.

And, I'm sorry, this is Tom Nann. He is our lender -- he is a loan officer.

I'm sorry, he's not on the bio. But he is our loan officer for the lender outreach. And Tom is really the person that has the feel of what's going on out there because they're out there, educating the lenders and doing surveys, et cetera. So I'd like to introduce Tom Nann, and go forth.

MR. NANN: Good afternoon Board, Mr. Chairman, Board Members. I am Tom Nann. Like Rick said, I am a housing finance officer. I've been with the Agency for coming up on 24 years prior to being in single-family lending, which started in March of 2012.

Prior to that, I was in Portfolio Management. Prior to that, I was in Multifamily Special Programs. And prior to that, I was in Mortgage Insurance.

I'm sitting in here for Ken Giebel. He is traveling to Washington, D.C., as we speak.

But on updates, we have excitingly gotten back into the first loan business. It is -- not only -- but it is an FHA-based product. We don't have a conventional product yet. That's one of the things we want to talk about in the springtime. FHA is a very competitive market.

We have been lending now after our announcement for a little over 120 days.

And by your slide, you'll see that we have 67 eligible lenders for this program, which that is defined as CalHFA and US Bank approved -- US Bank being our master servicer.

The numbers in parentheses are the numbers you received in November Board.

We now have 45 lenders that are verbally committed. It doesn't mean they're doing it. They have verbally committed to do the program, meaning, that they are starting to get their corporate communication out to their lenders. That was 38 back in November.

We have 12 active lenders, which those 12 have actually reserved loans. That was only four back in November.

We have received 35 reservations, totaling $8 million.

I just want to clarify, when Tim turned and said "$10 million" to me and I said "$8 million," and then he said "a month," we're not doing a month yet. This is $8 million since over the last 120 days. We only had 16 reservations back in November.

A couple background items here.

The average lender turnaround time that we've heard from our lenders, to set up a program, not just ours, any program that is announced, is usually two to four months. And the average HFA production start-up on loans like this were three to six months. Those are feedback we have received from other HFAs that have a very similar product out on the marketplace right now.

If you turn to the next slide -- by the way, I am the manager of the Lender Services, which all new lender applications and all lender recertifications come through my unit, as well as the training and the outreach. So part of that communication is talking to the lenders and asking them, "Hey, I know we're not the only fish in the sea out there; but can you give us some idea of what you think some of the barriers are?"

The lender feedback has been the following:

One of the biggest challenges really has nothing to do with us. It had to do with the QM rule that has recently come out. And a lot of lenders said that they are -- they're tasked with all their resources getting ready for this Qualified Mortgage rule, which went into effect actually Friday, January 10th.

That's a rule that, in essence, is -- it's basically a new law that the Consumer Financial Protection Bureau has adopted back in January of 2013, last year; in essence, ensuring that lenders provide the due diligence, known as the ability to repay loans that extended -- credits extended to the borrowers.

This has been a very vibrating issue because there was interpretations of this law in the whole lender community that eventually there was amendments in May, July, and October; right about the time when we were launching CalPLUS and the FHA products. So a lot of lenders were saying -- 50 percent of our lenders said, in a survey about a barrier, saying, “It’s not you guys. It’s Qualified Mortgage rule.” It has to do with operations and I.T. internally for them.

Also similar to that were some I.T. and system issues themselves. They couldn’t do three liens. And it was, again, related somewhat to the QM rule.

25 percent of our polled lenders said our pricing wasn’t competitive.

And then 25 percent, there was some specific program requirement, underwriting guidelines that they thought was prohibitive, one being the 43 DTI, another one being the no manual underwriting, and the last one being, there was no electronic submission capability.

We’re actually in the process of addressing all of these as we speak.

Any questions?

(No response)

CHAIR JACOBS: Thanks.

MR. NANN: Great. Thank you.

Mr. NANN: Moving on quickly to 4-C. This is regarding AB 637, which was passed in October of 2013, which allows some of the single-family down-payment assistance money to be used for housing developments. And we originally had thought about this in terms of using it for predevelopment loans.

We're still working on the best plan for the use of this money. But in the Business Plan, it did pass. And so we have that authority, even though single-family lending has first priority on that money.

CHAIR JACOBS: And Section 5 here.

MS. RILEY: We're just coming up together at the same time.

Good afternoon, Mr. Chairman and Board Members. I'm Jackie Riley. I'm the director of Administration for the organization.

I've been affiliated with CalHFA, that used to be CHFA a long time ago, when I started. So I have been there -- I've been affiliated with the organization for a long time, and have come back to help restructure a little bit, help get personnel up and running again, and doing some things like that.

So I'm here to talk about, last year at budget time, we assessed all of our units, which we do every year at budget time, to make sure that the positions that they have are needed. And we do that on an ongoing basis. Anytime anybody, any unit, any hiring manager requests a new position, Personnel goes through it, talks with them about the necessity for it, and do they need the position, and trying to keep our overhead and our costs down.

I can tell you, last year our budget came in about $7 million under what it was budgeted for, for 2012-13. And that number was $36,300,000.

This year, at midway, we've expended about $19 million. So it looks like we're going to go over that a little bit this year. And that's because employees had a 3 percent increase. Most employees had that. And also, we have the one strategic project that had a million dollars contract.

So we're working very diligently to keep our costs down. And we do that on an ongoing basis.

The other thing, that is B, and that's the flexible workforce capabilities with HCD classifications, CalHFA classifications. Some of those things have been looked into. We understand similarities, differences, and all that. But things are kind of progressing slowly. And we'll know more about that when the reorg. is finalized.

The other thing I'm speaking for, Tony Sertich, right now, the Enterprise Risk Management Project is his. Tony started that project this year, looking at the whole enterprise and each division: What are the risks inherent in each division. And he has assembled a team. They have started working on it. They're about halfway through. And at some point in time, it's anticipated that by the end of this fiscal year, they'll be done and ready to -- when we're done and have come up with some strategies and all that, we'll be presenting that to the Board. And Tony will be doing that.

And lastly, I'm switching over to the next page, to E, evaluating staffing levels for scalability and succession planning. This year, we're really going to launch talent management and succession planning, looking at each division to see where we're weak. You know, we need to build our bench in a lot of areas. We've got a couple that are really well staffed for going forward and for continuing leadership; but we are weak in many areas, so we're really looking at some strategic hiring.

Thank you.

CHAIR JACOBS: Thank you.

MS. CAPPIO: And the other items here, we've covered?

CHAIR JACOBS: Cost study.

MS. CAPPIO: So we'll move on to --

CHAIR JACOBS: *Keep Your Home California.*

MS. RICHARDSON: Sure. I'm Di Richardson. I'm the legislative director for CalHFA and HCD. And I also oversee the *Keep Your Home California* program.

You do have a report, I think, in your packet somewhere. I'm not exactly sure where it is in your packet --

CHAIR JACOBS: In the appendices.

MS. RICHARDSON: -- because I turned it in a little late.

And this sort of is an overview of the growth that we made in 2013. And there are just a couple things that I want to bring to your attention for those of you that are new to the Board. I will just give you a brief overview.

The *Keep Your Home California* program is a federally funded program. We received just short of $2 billion to help prevent foreclosures throughout the state of California. We created four programs that we administer ourselves.

The first is the Unemployment Assistance Program. This is a program that -- for homeowners that are unemployed, obviously. They're collecting benefits from EDD. They can apply for assistance from *Keep Your Home California*. And we will help them out, by making their payment for up to $3,000 a month for up to 12 months.

The second program is a Mortgage Reinstatement Program. This is a program that was created for homeowners that have had some kind of a temporary hardship, they fell behind on their mortgage, their hardship has ended, they're in a position now where they can make their payments going forward, but they can't get caught up on those arrearages. We will help make those, and bring them current, up to $25,000.

The third program is a Principal Reduction Program. This is a program where a homeowner that's got an ongoing hardship, we know in -- we've seen a lot of folks that were unemployed, and now they're reemployed, but they are not reemployed at the same level they were before. They've, you know, had a death in the family, they've become divorced, the typical sorts of hardships that you can imagine, we'll pay up to $100,000 to bring their principal down, to get them again to a sustainable payment.

The final program that we administer is the Transition Assistance Program. And this is foreclosure avoidance, in that if a homeowner is able to do a short sale or a deed in lieu, they're avoiding foreclosure. And we know there are costs that are associated with that, so we can pay them up to $5,000 to help them get resituated in a new living situation.

The slides that I've given you, basically demonstrate the growth in the program. You can see that we've made a lot of changes. You know we've made a lot of changes. We've reported on them.

And I think that in 2013, we had some pretty phenomenal growth.

This program, for me, is kind of like peeling an onion because we think we've nailed it, and then we're constantly looking at why people don't qualify, to figure out what we can do to turn that around. And it makes me cry a lot, I'll just tell you, because I -- it's never quite right.

So the fifth page, I think, of your handout is the program highlights for 2013. And these are the things that I really wanted to sort of bring to your attention. And the first bullet talks about the increase in our HAP ratio, from counseling to HAP. And the HAP is the Homeowner Action Plan. Once a homeowner comes through our process and completes counseling, if it looks like they're eligible, they get a Homeowner Action Plan, which details the documents that they need to submit to us, so that we could move forward and process their application.

And our counseling-to-HAP ratio increased 12 percent in 2013. So that's just an indication that we were making those changes that needed to be made.

And just to sort of put that number into a little bit more perspective, our counseling to HAP ratio for 2012 was 59 percent; and for 2013, it was 71 percent. So definitely, I think we're moving in the right direction there.

The second bullet, I left off a really important number, but it should say for 2013, the total HAPs represented 45 percent of the HAPs we've had since program inception. So, again, I think that that's definitely showing that we're getting more homeowners successfully through counseling and getting them through funding.

We've also, as you know, made numerous changes to the Principal Reduction Program, and 71 percent of the total HAPs for PRP were generated in 2013. So, you know, prior to 2013, we were having to tell a lot of people that they couldn't participate. And one big reason for that was that their servicers weren't participating.

We've seen the servicer participation go up from 47 in 2012, to 113 by the end of 2013. So, again, things are definitely trending in the right direction.

I think I'll just leave it there to answer whatever questions.

CHAIR JACOBS: Yes, any questions?

MS. CABALLERO: Yes. Why wouldn't a servicer want their customer to participate in this program? I mean, it's ludicrous. I mean, it just --

MS. RICHARDSON: That's the part of the onion that makes me cry.

MS. CAPPIO: Will you come with us to the banks?

MS. CABALLERO: Yes, I'll go with you to the banks. I just -- it's unbelievable to me.

MS. RICHARDSON: Again, I think that as it started out, when the program started, we required a servicer match. That wasn't very successful. So we eliminated that, thinking, "Oh, my gosh, you know, okay, it's $100,000. How can you say no?" Well, they were still saying no.

And so we added this -- we added a recast provision, which basically said, you know, take the money and then recast the loan at that point.

And we were able to pick up a significant number of more lenders. They didn't have to adjust the term, they didn't have to adjust the interest rate; they just had to, you know, lower the payment.

And that's the -- and then we were still getting an awful lot of noes. And it was like, "What the heck is going on here?" And we figured out that there were a lot of people that had HAMP loans, and those could not be recast. So now, we have a curtailment arm that we use, where there's -- you know, we can't go in and mess with that loan while it's in a HAMP mod. because those servicers are earning an incentive payment for that.

And so we've had to come up with a way to allow that HAMP mod., to continue to allow those FHA loans and the VA loans to continue, but still, to lop off, you know, some of that principal, especially for homeowners that are severely underwater, so that they have an incentive to continue to stay in that loan after that trial payment ends.

CHAIR JACOBS: Any other questions?

(No response)

CHAIR JACOBS: All right, thank you, Diane.

Let's see. Any members of the public have any questions on this Business Plan?

(No response)

CHAIR JACOBS: I know Item 7, we've covered on the integration.

(No response)

CHAIR JACOBS: Seeing none, let's move on.

--o0o--

Item 7. Reports

CHAIR JACOBS: I guess we've got reports -- everyone, in your appendices, just the reports, a lot of the background data and what was discussed.

Any questions about that?

(No response)

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Item 8. Discussion of other Board matters

CHAIR JACOBS: All right, let's see, any other Board matters, anyone?

MS. SOTELO: I just have a quick question about the Business Plan.

When do we get the update on the next -- I'm sorry, you had mentioned it before, Claudia.

MS. CAPPIO: Right. We will be working on the new Business Plan at the end of the month, through February; and we'll be presenting you a draft at the March meeting.

MS. SOTELO: Okay, and, again, you'll give a report --

MS. CAPPIO: Yes.

MS. SOTELO: -- as to the status of all of these items?

MS. CAPPIO: Yes, with what we're thinking about in terms of priorities, asking new input, and your sort of sense of priorities. And then that will be finalized for Board action in May.

MS. SOTELO: And before then, do you go out to the public, to the development community, to the users, to the servicers, to ask for input on any of those items?

MS. CAPPIO: In an informal way. We don't have public hearings. But, obviously, there is a great network here. So that's what we do.

CHAIR JACOBS: And thanks to everyone.

That was a lot of hard work. I know everyone's probably hungry here, but it was important to get through all of that in detail.

All right, let's move on.

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Item 9. Public testimony

CHAIR JACOBS: Any members of the public have any matters to be brought to the Board's attention?

(No response)

--o0o--

Item 10. Adjournment

CHAIR JACOBS: Okay, seeing none, we can move on to adjourn this meeting.

All right, thank you, everyone.

(The gavel sounded.)

(The meeting of the Board of Directors concluded at 1:30 p.m.)

--o0o--

REPORTER'S CERTIFICATE

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

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

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

IN WITNESS WHEREOF, I have hereunto set my hand on the 20th day of January 2014.

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

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State of California

M E M O R A N D U M

To: Board of Directors **Date:** February 28, 2014

Tim Hsu, Director of Financing

From: **CALIFORNIA HOUSING FINANCE AGENCY**

Subject: ANNUAL SINGLE FAMILY BOND FINANCING AUTHORIZATION RESOLUTION 14-01

Resolution 14-01 would give the Agency the authority necessary to finance the business plan and manage outstanding single family debt obligations. Resolution 14-01 is comprised of three articles providing appropriate levels of authorization for each of the following: issuance of refunding bonds for debt management purposes, issuance of MBS Bonds and provisions applicable to all bonds issued under the resolution.

The following paragraphs summarize the main authorizations contained in each of the three articles.

ARTICLE I - AUTHORIZATION AND TERMS OF REFUNDING BONDS

Article I authorizes the sale and issuance of refunding bonds to be issued in one or more forms similar to Article I through XII of the Residential Mortgage Revenue (RMR) bond indenture in an amount equal to the amount of bonds being redeemed in connection with such issuance. This authorization specifically prohibits the purchase of loans or mortgage-backed securities with bonds issued for debt-management purposes. It also prohibits issuing floating rate bonds to refund fixed rate bonds.

Under Article I, the Executive Director shall determine with each issuance of refunding bonds, that the Agency and its General Fund are not expected to bear greater financial risk than prior to the issuance of the refunding bonds. Notwithstanding the immediately preceding sentence, any Debt-Management Supplemental Indenture may provide for the deposit and/or pledge of unpledged moneys or assets of the Agency, provided that the Executive director shall have determined that any such deposit and/or pledge is expected to result in a net economic benefit to the Agency. The pledge may not exceed 10% of the principal amount of the bonds thereby refunded and $50,000,000 in aggregate.

This resolution also authorizes staff to amend, modify or replace existing financial agreements originally entered into to hedge interest rate risks, to provide liquidity support or to provide credit enhancement. The resolution prohibits an increase in either the aggregate notional amount of interest rate swaps, the absolute amount of liquidity support or credit enhancement.

ARTICLE II – AUTHORIZATION AND TERMS OF MBS BONDS

Article II authorizes single family bonds to be issued to provide sufficient funds to finance the purchase of new single family mortgage-backed securities in an aggregate amount not to exceed the sum of the amount of private activity bond volume cap made available for the single family program by the California Debt Limit Allocation Committee (CDLAC) and up to $250 million for the combined amount of tax-exempt and federally-taxable single family bonds.

Bonds are authorized to be issued as MBS Bonds (the "New MBS Indentures"), in one or more forms similar to Articles I through XII of the RMR Indenture. MBS Bonds shall be issued only as fixed rate bonds, and no hedging Instrument shall be entered into with respect to MBS Bonds.

ARTICLE III – PROVISIONS APPLICABLE TO ALL BONDS ISSUED UNDER THIS RESOLUTION

Article III authorizes staff to circulate preliminary official statements and official statements relating to refunding bonds and MBS Bonds as necessary to prospective and actual bond investors. Bonds are authorized to be sold at negotiated or competitive sale as public offerings or as private placements depending on market conditions at the time of sale. The resolution also authorizes all documents and agreements required in connection with our homeownership lending programs.

The resolution further authorizes the Agency to conduct foreclosures of mortgages owned or serviced by the Agency and to enter into contracts necessary or convenient for the rehabilitation, listing and sale of foreclosed properties.

The resolution also authorizes the Agency to take further action related to prior bonds and related financial agreements that were authorized by prior resolutions of the Board and to amend, modify and replace those financial agreements deemed necessary in furtherance of the objectives of the single family lending program.

The resolution authorizes staff to enter into financial agreements that are related to the issuance of bonds as well as consulting services or information services related to the financial management of the Agency. This resolution also authorizes the payment of costs of issuance associated with the sale of all bonds and authorizes capital contributions from the Agency as necessary to issue such bonds.

In addition, the resolution reauthorizes short-term credit facilities in an aggregate amount not to exceed $200 million for operating capital and for the Homeownership Programs and Multifamily Programs.

Attachments

RESOLUTION NO. 14-01

RESOLUTION OF THE CALIFORNIA HOUSING FINANCE AGENCY AUTHORIZING THE AGENCY'S SINGLE FAMILY BOND INDENTURES, THE ISSUANCE OF SINGLE FAMILY BONDS, CREDIT FACILITIES FOR HOMEOWNERSHIP PURPOSES, AND RELATED FINANCIAL AGREEMENTS AND CONTRACTS FOR SERVICES

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

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

WHEREAS, pursuant to Parts 1 through 4 of Division 31 of the Health and Safety Code of the State of California (the "Act"), the Agency has the authority to issue bonds to provide sufficient funds to finance the Program, including the purchase of mortgage-backed securities ("MBSs") underlain by Loans, the payment of capitalized interest on the bonds, the establishment of reserves to secure the bonds, and the payment of other costs of the Agency incident to, and necessary or convenient to, the issuance of the bonds;

WHEREAS, the Agency, pursuant to the Act, has from time to time issued various series of its Home Mortgage Revenue Bonds (the "HMP Bonds"), its Housing Program Bonds (the "HP Bonds"), and its Residential Mortgage Revenue Bonds (the "RMR Bonds"), and is authorized pursuant to the Act to issue additional HMP Bonds, HP Bonds, and RMR Bonds (collectively with bonds authorized under this resolution to be issued under new indentures, the "Bonds") to provide funds to finance the Program;

WHEREAS, the Bonds may be issued for the primary purpose of purchasing MBSs ("MBS Bonds") or for debt management purposes of the Agency ("Debt-Management Bonds"); and

WHEREAS, pursuant to the Act, the Agency has the authority to enter into credit facilities for the purpose of financing the Program, including the making of Loans and the payment of other costs of the Agency incident to, and necessary or convenient to, the issuance of the bonds;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors (the "Board") of the California Housing Finance Agency as follows:

ARTICLE I
AUTHORIZATION AND TERMS OF DEBT-MANAGEMENT BONDS

Section 1. **Determination of Need and Amount of Debt-Management Bonds.** The Agency is of the opinion and hereby determines that the issuance of one or more series of Debt-Management Bonds in an aggregate amount not to exceed the aggregate amount of Bonds and/or other qualified mortgage bonds (including bonds of issuers other than the Agency) to be redeemed in connection with such issuance is necessary to provide sufficient funds for the management of the Agency's existing debt related to the Program. In no event may proceeds of or allocable to Debt-Management Bonds be used to purchase Loans or MBSs.

Section 2. **Authorization and Timing of Debt-Management Bonds.** The Debt-Management Bonds are hereby authorized to be issued in such aggregate amount at such time or times on or before the day 60 days after the date on which is held the first meeting of the Board on or after March 1, 2015 at which a quorum is present, as the Executive Director of the Agency (the "Executive Director") deems appropriate, upon consultation with the Treasurer of the State of California (the "Treasurer") as to the timing of each such issuance; provided, however, that if the bonds are sold at a time on or before the day 60 days after the date on which is held such meeting, pursuant to a forward purchase or drawdown agreement providing for the issuance of such Debt-Management Bonds on or before October 1, 2016 upon specified terms and conditions, such Debt-Management Bonds may be issued on such later date.

Section 3. **Approval of Forms of Indentures Related to Debt-Management Bonds.** The Executive Director and the Secretary of the Board of Directors of the Agency (the "Secretary") are hereby authorized and directed, for and on behalf and in the name of the Agency in connection with the issuance of Debt-Management Bonds, to execute and acknowledge and to deliver to the Treasurer as trustee and/or, if appropriate, to a duly qualified bank or trust company selected by the Executive Director to act, with the approval of the Treasurer, as trustee or co-trustee, fiscal agent or paying agent of the Agency (collectively, the "Trustees"), one or more new indentures, trust agreements or similar documents providing for the issuance of Debt-Management Bonds (the "New Debt-Management Indentures"), in one or more forms similar to one or more of the following (collectively, the "Prior Indentures"):

(a) those certain indentures pertaining to the HMP Bonds (the "HMP Indentures");

(b) that certain indenture pertaining to the HP Bonds (the "HP Indenture"); and/or

(c) that certain indenture relating to the RMR Bonds, as amended and supplemented (the "RMR Indenture"), other than Article XIII thereof.

Each such New Debt-Management Indenture may be executed, acknowledged and delivered with such changes therein as the officers executing the same approve upon consultation with the Agency's legal counsel, such approval to be conclusively evidenced by the execution and delivery thereof. Changes reflected in any New Debt-Management Indenture may include provision for a supplemental pledge of Agency moneys or assets (including but not limited to, a deposit from the Supplementary Bond Security Account created under Section 51368 of the Act) and provision for the Agency's general obligation to additionally secure the Debt-Management Bonds if appropriate in furtherance of the objectives of the Program; *provided* that such provisions may be therein included with respect to such Debt-Management Bonds *only* if and to the extent any such provision was made with respect to the bonds thereby refunded, and *provided further* that in each such case the Executive Director shall have determined that the inclusion of such provisions with respect to the Debt-Management Bonds is not expected to result in greater financial risk to the Agency or its General Fund than existed with respect to the bonds thereby refunded. *Notwithstanding* the immediately preceding sentence, any New Debt-Management Indenture may provide for the deposit and/or pledge of unpledged moneys or assets of the Agency (which may include mortgage loans and/or mortgage-backed securities) to additionally secure Debt-Management Bonds if appropriate in furtherance of the objectives of the Program, in an amount not to exceed 10% of the principal amount of the bonds thereby refunded; *provided* that the Executive Director shall have determined that any such deposit and/or pledge is expected to result in a net economic benefit to the Agency; and *provided further* that the aggregate amount of all such deposits and/or pledges authorized pursuant to this sentence and the last sentence of Section 4 of this resolution shall not exceed $50,000,000.

Section 4. **Approval of Forms of Series and Supplemental Indentures Related to Debt-Management Bonds.** The Executive Director and the Secretary are hereby authorized and directed, for and on behalf and in the name of the Agency, to execute and acknowledge and to deliver with respect to each series of Debt-Management Bonds, if and to the extent appropriate, series and/or supplemental indentures (each a "Debt-Management Supplemental Indenture") under one of the Prior Indentures or a New Debt-Management Indenture and in substantially the form of the respective supplemental indentures previously executed and delivered or approved, each with such changes therein as the officers executing the same approve upon consultation with the Agency's legal counsel, such approval to be conclusively evidenced by the execution and delivery thereof. Changes reflected in any Debt-Management Supplemental Indenture may include provision for a supplemental pledge of Agency moneys or assets (including but not limited to, a deposit from the Supplementary Bond Security Account created under Section 51368 of the Act) and provision for the Agency's general obligation to additionally secure the Bonds if appropriate in furtherance of the objectives of the Program; *provided* that such provisions may be therein included with respect to such Debt-Management Bonds *only* if and to the extent any such provision was made with respect to the bonds thereby refunded, and *provided further* that in each such case the Executive Director shall have determined that the inclusion of such provisions with respect to the Debt-Management Bonds is not expected to result in greater financial risk to the Agency or its General Fund than existed with respect to the bonds thereby refunded. *Notwithstanding* the immediately preceding sentence, any Debt-Management Supplemental Indenture may provide for the deposit and/or pledge of unpledged moneys or assets of the Agency (which may include mortgage loans and/or mortgage-backed securities) to additionally secure Debt-Management Bonds if appropriate in furtherance of the objectives of the Program, in an amount not to exceed 10% of the principal amount of the bonds thereby refunded; *provided* that the Executive Director shall have determined that any such deposit and/or pledge is expected to result in a net economic benefit to the Agency; and *provided further* that the aggregate amount of all such deposits and/or pledges authorized pursuant to this sentence and the last sentence of Section 3 of this resolution shall not exceed $50,000,000.

The Executive Director is hereby expressly authorized and directed, for and on behalf and in the name of the Agency, to determine in furtherance of the objectives of the Program those matters required to be determined under the applicable Prior Indenture or any New Debt-Management Indenture, as appropriate, in connection with the issuance of each such series, including, without limitation, any reserve account requirement or requirements for such series.

Section 5. **Approval of Forms and Terms of Debt-Management Bonds.** The Debt-Management Bonds shall be in such denominations, have such registration provisions, be executed in such manner, be payable in such medium of payment at such place or places within or without California, be subject to such terms of redemption (including from such sinking fund installments as may be provided for) and contain such terms and conditions as each Debt-Management Supplemental Indenture as finally approved shall provide. The Debt-Management Bonds shall have the maturity or maturities and shall bear interest at the fixed, adjustable or variable rate or rates deemed appropriate by the Executive Director in furtherance of the objectives of the Program; provided, however, that no Debt-Management Bond shall have a term in excess of the maturity of the bonds thereby refunded or bear interest at a stated rate in excess of fifteen percent (15%) per annum, or in the case of variable rate bonds a maximum floating interest rate of twenty-five percent (25%) per annum. Any of the Debt-Management Bonds and the Debt-Management Supplemental Indenture(s) may contain such provisions as may be necessary to accommodate an option to put such Bonds prior to maturity for purchase by or on behalf of the Agency or a person other than the Agency, to accommodate the requirements of any provider of bond insurance or other credit enhancement or liquidity support or to accommodate the requirements of purchasers of indexed floaters, *provided* that variable-rate Debt-Management Bonds may not be issued to refund fixed-rate bonds.

Section 6. **Authorization of Financial Agreements Related to Debt-Management Bonds.** Subject to the limitation set forth in the last sentence of this Section, the Executive Director and the other officers of the Agency are hereby authorized to enter into, for and in the name and on behalf of the Agency, any and all agreements and documents designed (i) to reduce or hedge the amount or duration of any payment, interest rate, spread or similar risk, (ii) to result in a lower cost of borrowing when used in combination with the issuance or carrying of bonds or investments, or (iii) to enhance the relationship between risk and return with respect to the Program or any portion thereof (each of the foregoing a "Hedging Instrument"). To the extent authorized by law, including Government Code Section 5922, such agreements or other documents may include (a) interest rate swap agreements; (b) forward payment conversion agreements; (c) futures or other contracts providing for payments based on levels of, or changes in, interest rates or other indices; (d) contracts to exchange cash flows for a series of payments; (e) contracts, including, without limitation, interest rate floors or caps, options, puts or calls to hedge payment, interest rate, spread or similar exposure; (f) contracts to obtain guarantees, including guarantees of mortgage-backed securities or their underlying loans; or (g) letters of credit, standby bond purchase agreements, or other similar arrangements; and in each such case may be entered into in anticipation of the issuance of bonds at such times as may be determined by such officers. Such agreements and other documents are authorized to be entered into with parties selected by the Executive Director, after giving due consideration for the creditworthiness of the counterparties, where applicable, or any other criteria in furtherance of the objectives of the Program. *Notwithstanding* anything herein to the contrary, a Hedging Instrument may be entered into only for the purposes of amending, modifying or replacing a then-existing Hedging Instrument and may in no event increase the notional amount outstanding under the Hedging Instrument so amended, modified or replaced.

ARTICLE II
AUTHORIZATION AND TERMS OF MBS BONDS

Section 7. **Determination of Need and Amount of MBS Bonds.** The Agency is of the opinion and hereby determines that the issuance of one or more series of MBS Bonds, in an aggregate amount not to exceed the sum of the following amounts, is necessary to provide sufficient funds for the Program:

(a) the aggregate amount available for the retirement of Bonds and/or other qualified mortgage bonds and deemed replaced for federal tax law purposes with proceeds of such issuance,

(b) the aggregate amount of private activity bond allocations under federal tax law heretofore or hereafter made available to the Agency for such purpose, and

(c) if and to the extent interest on one or more of such series of Bonds is determined by the Executive Director to be intended not to be excludable from gross income for federal income tax purposes, $100,000,000.

Section 8. **Authorization and Timing of MBS Bonds.** The MBS Bonds are hereby authorized to be issued in such aggregate amount at such time or times on or before the day 60 days after the date on which is held the first meeting of the Board on or after March 1, 2015 at which a quorum is present, as the Executive Director of the Agency (the "Executive Director") deems appropriate, upon consultation with the Treasurer of the State of California (the "Treasurer") as to the timing of each such issuance; provided, however, that if the bonds are sold at a time on or before the day 60 days after the date on which is held such meeting, pursuant to a forward purchase or drawdown agreement providing for the issuance of such Bonds on or before October 1, 2016 upon specified terms and conditions, such Bonds may be issued on such later date.

Section 9. **Approval of Forms of Indentures Related to MBS Bonds.** The Executive Director and the Secretary of the Board of Directors of the Agency (the "Secretary") are hereby authorized and directed, for and on behalf and in the name of the Agency in connection with the issuance of MBS Bonds, to execute and acknowledge and to deliver to the Trustees one or more new indentures, trust agreements or similar documents providing for the issuance of MBS Bonds (the "New MBS Indentures"), in one or more forms similar to Articles I through XII of the RMR Indenture.

Each such New MBS Indenture may be executed, acknowledged and delivered with such changes therein as the officers executing the same approve upon consultation with the Agency's legal counsel, such approval to be conclusively evidenced by the execution and delivery thereof. Changes reflected in any New MBS Indenture may include provision for a supplemental pledge of Agency moneys or assets (including but not limited to a deposit from the Supplementary Bond Security Account created under Section 51368 of the Act) to additionally secure the MBS Bonds if appropriate in furtherance of the objectives of the Program.

Section 10. **Fixed-Rate Bonds Only; No Hedging Instruments.** MBS Bonds shall be issued only as fixed-rate bonds, and no Hedging Instrument shall be entered into with respect to MBS Bonds.

Section 11. **Approval of Forms of Series and Supplemental Indentures Related to MBS Bonds.** The Executive Director and the Secretary are hereby authorized and directed, for and on behalf and in the name of the Agency, to execute and acknowledge and to deliver with respect to each series of MBS Bonds, if and to the extent appropriate, series and/or supplemental indentures (each an "MBS Supplemental Indenture"; together with the Debt-Management Supplemental Indenture, the "Supplemental Indenture") under either Articles I through XII of the RMR Indenture or a new MBS Indenture and in substantially the form of the respective supplemental indentures previously executed and delivered or approved, each with such changes therein as the officers executing the same approve upon consultation with the Agency's legal counsel, such approval to be conclusively evidenced by the execution and delivery thereof. Changes reflected in any MBS Supplemental Indenture may include provision for a supplemental pledge of Agency moneys or assets (including but not limited to, a deposit from the Supplementary Bond Security Account created under Section 51368 of the Act) to additionally secure the Bonds if appropriate in furtherance of the objectives of the Program.

The Executive Director is hereby expressly authorized and directed, for and on behalf and in the name of the Agency, to determine in furtherance of the objectives of the Program those matters required to be determined under Articles I through XII of the RMR Indenture or any New MBS Indenture, as appropriate, in connection with the issuance of each such series, including, without limitation, any reserve account requirement or requirements for such series.

Section 12. **Approval of Forms and Terms of MBS Bonds.** The MBS Bonds shall be in such denominations, have such registration provisions, be executed in such manner, be payable in such medium of payment at such place or places within or without California, be subject to such terms of redemption (including from such sinking fund installments as may be provided for) and contain such terms and conditions as each MBS Supplemental Indenture as finally approved shall provide. The MBS Bonds shall have the maturity or maturities and shall bear interest at the fixed rate or rates deemed appropriate by the Executive Director in furtherance of the objectives of the Program; provided, however, that no MBS Bond shall have a term in excess of thirty-five (35) years or bear interest at a stated rate in excess of fifteen percent (15%) per annum.

ARTICLE III
PROVISIONS APPLICABLE TO ALL BONDS ISSUED UNDER THIS RESOLUTION

Section 13. **Authorization of Disclosure.** The Executive Director is hereby authorized to circulate one or more Preliminary Official Statements relating to the Bonds and, after the sale of the Bonds, to execute and circulate one or more Official Statements relating to the Bonds, and the circulation of such Preliminary Official Statements and such Official Statements to prospective and actual purchasers of the Bonds is hereby approved. The Executive Director is further authorized to hold information meetings concerning the Bonds and to distribute other information and material relating to the Bonds. Circulation of Preliminary Official Statements and Official Statements and distribution of information and material as provided above in this Section may be accomplished through electronic means or by any other means approved therefor by the Executive Director, such approval to be conclusively evidenced by such circulation or distribution.

Section 14. **Authorization of Sale of Bonds.** The Bonds are hereby authorized to be sold at negotiated or competitive sale or sales, including but not limited to private placements and public offerings. The Executive Director is hereby authorized and directed, for and in the name and on behalf of the Agency, to execute and deliver one or more purchase contracts (including one or more forward purchase agreements) relating to the Bonds, by and among the Agency, the Treasurer and such underwriters or other purchasers as the Executive Director may select (the "Purchasers"), in the form or forms approved by the Executive Director upon consultation with the Agency's legal counsel, such approval to be evidenced conclusively by the execution and delivery of said purchase contract by the Executive Director.

The Treasurer is hereby authorized and requested, without further action of the Board and unless instructed otherwise by the Board, to sell each series of Bonds at the time and place and pursuant to the terms and conditions set forth in each such purchase contract as finally executed. The Treasurer is hereby further authorized and requested to deposit the proceeds of any good faith deposit to be received by the Treasurer under the terms of a purchase contract in a special trust account for the benefit of the Agency, and the amount of said deposit shall be retained by the Agency, applied at the time of delivery of the applicable Bonds as part of the purchase price thereof, or returned to the Purchasers, as provided in such purchase contract.

Section 15. **Authorization of Execution of Bonds.** The Executive Director is hereby authorized and directed to execute, and the Secretary is hereby authorized to attest, for and on behalf and in the name of the Agency and under its seal, the Bonds, in an aggregate amount not to exceed the amount authorized hereby, in accordance with the Prior Indenture(s), the Supplemental Indenture(s), the New Debt-Management Indenture(s) or the New MBS Indenture(s) and in one or more of the forms set forth in the Prior Indenture(s), the

Supplemental Indenture(s), the New Debt-Management Indenture(s) or the New MBS Indenture(s), as appropriate.

Section 16. **Authorization of Delivery of Bonds.** The Bonds, when so executed, shall be delivered to the Trustees to be authenticated by, or caused to be authenticated by, the Trustees. The Trustees are hereby requested and directed to authenticate, or cause to be authenticated, the Bonds by executing the certificate of authentication and registration appearing thereon, and to deliver the Bonds when duly executed and authenticated to the Purchasers in accordance with written instructions executed on behalf of the Agency by the Executive Director, which instructions said officer is hereby authorized and directed, for and on behalf and in the name of the Agency, to execute and deliver. Such instructions shall provide for the delivery of the Bonds to the Purchasers upon payment of the purchase price or prices thereof.

Section 17. **Authorization of Program Documents.** The Executive Director and other employees of the Agency authorized in writing by the Executive Director are hereby authorized to enter into, for and in the name and on behalf of the Agency, all documents they deem necessary or appropriate in connection with the Program, including, but not limited to, one or more mortgage purchase and servicing agreements (including mortgage-backed security pooling agreements) and one or more loan servicing agreements with such lender or lenders or such servicer or servicers as the Executive Director may select in accordance with the purposes of the Program, and any such selection of a lender or lenders or a servicer or servicers is to be deemed approved by this Board as if it had been made by this Board. The proceeds of MBS Bonds to be issued under the authority of this Resolution shall be used to purchase MBSs guaranteed by Fannie Mae, Freddie Mac, Ginnie Mae, or other appropriate guarantor and shall not be used to purchase whole loans. The MBSs to be purchased may be underlain by loans that have terms of 30 years or less.

The Executive Director and other employees of the Agency authorized in writing by the Executive Director are hereby authorized to enter into, for and in the name and on behalf of the Agency, one or more mortgage sale agreements with such purchasers as the Executive Director may select in accordance with the objectives of the Program, including but not limited to such agreements with Fannie Mae, Freddie Mac or other government-sponsored enterprise or similar entity for such sales in bulk or otherwise. Any such sale of Loans may be on either a current or a forward purchase basis.

The Executive Director and other employees of the Agency authorized in writing by the Executive Director are hereby authorized to enter into, for and in the name and on behalf of the Agency, contracts to conduct foreclosures of mortgages owned or serviced by the Agency with such attorneys or foreclosure companies as the Executive Director may select in accordance with the objectives of the Program.

The Executive Director and other employees of the Agency authorized in writing by the Executive Director are hereby authorized to enter into, for and in the name and on behalf of the Agency, contracts for the sale of foreclosed properties with such purchasers as the Executive Director may select in accordance with the objectives of the Program. Any such sale of foreclosed properties may be on either an all cash basis or may include financing by the

Agency. The Executive Director and other employees of the Agency authorized in writing by the Executive Director are also authorized to enter into any other agreements, including but not limited to real estate brokerage agreements and construction contracts necessary or convenient for the rehabilitation, listing and sale of such foreclosed properties.

The Executive Director and other employees of the Agency authorized in writing by the Executive Director are hereby authorized to enter into, for and in the name and on behalf of the Agency, (i) contracts or agreements for the purchase or sale of mortgage-backed securities; (ii) servicing agreements, including master servicing agreements, in connection with the operation of a program of mortgage-backed securities; (iii) agreements with government-sponsored enterprises, or other secondary market issuers or guarantors of mortgage-backed securities; and (iv) such other program documents as are necessary or appropriate for the operation of a program of mortgage-backed securities.

Section 18. **Authorization of Credit Facilities.** The Executive Director and the other officers of the Agency are hereby authorized to enter into, for and in the name and on behalf of the Agency, one or more short-term or long-term credit facilities, including but not limited to repurchase agreements, for the purposes of (i) financing the purchase of Loans and/or mortgage-backed securities on an interim basis, prior to the financing thereof with Bonds, whether issued or to be issued; (ii) financing expenditures of the Agency incident to, and necessary or convenient to, the issuance of Bonds, including, but not limited to, Agency expenditures to pay costs of issuance, capitalized interest, redemption price of prior bonds of the Agency, costs relating to credit enhancement or liquidity support, costs relating to investment products, or net payments and expenses relating to interest rate hedges and other financial products; and (iii) enabling the Agency to restructure existing debt and related purposes, including, but not limited to, the redemption of existing bonds and the acquisition of bonds that have been put to liquidity providers as bank bonds. Any such credit facility may be from any appropriate source, including, but not limited to, the Pooled Money Investment Account pursuant to Government Code Section 16312; provided, however, that the aggregate outstanding principal amount of credit facilities authorized under this resolution or Resolution No. 14-02 (the multifamily financing resolution adopted at the same meeting), as amended from time to time, may not at any time exceed $200,000,000 (separate and apart from the amount of Bonds authorized by Sections 1 and 7 of this resolution).

The Executive Director and the other officers of the Agency are hereby authorized to use available Agency moneys (other than and in addition to the proceeds of bonds) (i) to make or purchase Loans and/or mortgage-backed securities to be financed by bonds (including bonds authorized by prior resolutions of this Board) in anticipation of draws on a credit facility, the issuance of Bonds or the availability of Bond proceeds for such purposes and (ii) to purchase Agency bonds to enable the Agency to restructure its debt and for related purposes as authorized under Resolution No. 08-42 and any future Board resolutions thereto amendatory or supplemental.

Section 19. **Ratification of Prior Actions; Not a Repeal of Prior Resolutions.** All actions previously taken by the Agency relating to the implementation of the Program, the issuance of the Bonds, the issuance of any prior bonds (the "Prior Bonds"), the execution and delivery of related financial agreements and related program agreements and the implementation of any credit facilities as described above, including, but not limited to, such actions as the distribution of the Agency's Lender Program Manual, Mortgage Purchase and Servicing Agreement, Servicing Agreement, Developer Agreement, Servicer's Guide, Program Bulletins and applications to originate and service loans, and the sale of any foreclosed property, are hereby ratified.

This resolution is not intended to repeal in whole or in part any prior resolution of the Agency with respect to the authority granted to the Executive Director and the other officers of the Agency in relation to Prior Bonds and related agreements, including but not limited to (i) the authority to determine in furtherance of the objectives of the Program those matters required to be determined in relation to Prior Bonds, whether under indentures or other related agreements, and (ii) the authority to amend, modify or replace financial agreements of the types described in Section 6 of this resolution.

Section 20. **Authorization of Related Actions and Agreements.** The Treasurer and any duly authorized deputy thereof and the Executive Director and the officers of the Agency and any other persons authorized in writing by the Executive Director are hereby authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all agreements and documents which they deem necessary or advisable in order to consummate the issuance, sale, delivery, remarketing, conversion and administration of Bonds and Prior Bonds and otherwise to effectuate the purposes of this resolution, including declaring the official intent of the Agency for purposes of U.S. Treasury Regulations Section 1.150-2, and including executing and delivering any amendment or supplement to any agreement or document relating to Bonds or Prior Bonds in any manner that would be authorized under this resolution if such agreement or document related to Bonds is authorized by this resolution. Such agreements may include, but are not limited to, remarketing agreements, tender agreements or similar agreements regarding any put option for the Bonds or Prior Bonds, broker-dealer agreements, market agent agreements, auction agent agreements or other agreements necessary or desirable in connection with the issuance of Bonds in, or the conversion of Bonds or Prior Bonds to, an indexed rate mode, agreements for the investment of moneys relating to the Bonds or Prior Bonds, reimbursement agreements, letters of credit, intercreditor agreements or other arrangements relating to any credit enhancement or liquidity support or put option provided for the Bonds or Prior Bonds, continuing disclosure agreements and agreements for necessary services provided in the course of the issuance of the bonds, including but not limited to, agreements with bond underwriters and placement agents, private placement purchasers, bond trustees, bond counsel and financial advisors and contracts for consulting services or information services relating to the financial management of the Agency, including advisors or consultants on interest rate swaps, cash flow management, and similar matters, and contracts for financial printing and similar services.

This resolution shall constitute full, separate, complete and additional authority for the execution and delivery of all agreements and instruments described in this resolution, without regard to any limitation in the Agency's regulations and without regard to any other resolution of the Board that does not expressly amend and limit this resolution.

The Executive Director and the officers of the Agency and any other persons authorized in writing by the Executive Director are hereby authorized and directed, jointly and severally, in connection with the issuance of bonds authorized under this resolution, to use funds of the Agency to purchase MBSs, make a capital contribution with respect to such bonds, establish reserves to secure such bonds, and pay other costs of the Agency incident to, and necessary or convenient to, the issuance of such bonds.

Section 21. **Additional Delegation.** All actions by the Executive Director approved or authorized by this resolution may be taken by the Chief Deputy Director of the Agency, the Director of Financing of the Agency, the Financing Risk Manager of the Agency or any other person specifically authorized in writing by the Executive Director, and except to the extent otherwise taken by another person shall be taken by the Chief Deputy Director during any period in which the office of the Executive Director is vacant.

SECRETARY'S CERTIFICATE

I, Victor James, Secretary of the Board of Directors of the California Housing Finance Agency, do hereby certify that the foregoing is a full, true, and correct copy of Resolution No. 14-01 duly adopted at a regular meeting of the Board of Directors of the California Housing Finance Agency duly called and held on the 17th day of March, 2014, of which meeting all said directors had due notice; and that at said meeting said Resolution was adopted by the following vote:

AYES:

NOES:

ABSTENTIONS:

ABSENT:

IN WITNESS WHEREOF, I have executed this certificate and affixed the seal of the Board of Directors of the California Housing Finance Agency hereto this 17th day of March, 2014.

[SEAL]

Victor James
Secretary of the Board of Directors of the
California Housing Finance Agency

SECRETARY'S CERTIFICATE

I, Victor James, Secretary of the Board of Directors of the California Housing Finance Agency, hereby certify that the foregoing is a full, true, and correct copy of Resolution No. 14-01 duly adopted at a regular meeting of the Board of Directors of the California Housing Finance Agency duly called and held on the 17th day of March, 2014, of which meeting all said directors had due notice; and that at said meeting said Resolution was adopted by the following vote:

AYES:

NOES:

ABSTENTIONS:

ABSENT:

I further certify that I have carefully compared the foregoing copy with the original minutes of said meeting on file and of record in my office; that said copy is a full, true, and correct copy of the original Resolution adopted at said meeting and entered in said minutes; and that said Resolution has not been amended, modified or rescinded in any manner since the date of its adoption, and the same is now in full force and effect.

IN WITNESS WHEREOF, I have executed this certificate and affixed the seal of the Board of Directors of the California Housing Finance Agency hereto this ___ day of _______________, 2014.

[SEAL]

____
Secretary of the Board of Directors of the
California Housing Finance Agency

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State of California

M E M O R A N D U M

To: Board of Directors **Date:** February 28, 2014

Tim Hsu, Director of Financing

From: **CALIFORNIA HOUSING FINANCE AGENCY**

Subject: ANNUAL MULTIFAMILY BOND FINANCING AUTHORIZATION RESOLUTION 14-02

This year the multifamily bond financing resolution focuses on financing the business plan and managing outstanding multifamily debt obligations. This year Resolution 14-02 is comprised of three articles providing appropriate levels of authorization for each of the following: issuance of refunding bonds and conduit bonds for debt management purposes, issuance of new money bonds and conduit bonds for new lending under the multifamily program, and provisions applicable to all bonds issued under the resolution.

The following paragraphs summarize the authorization contained in each of the three articles.

ARTICLE I - AUTHORIZATION AND TERMS OF REFUNDING BONDS

Article I authorizes the sale and issuance of refunding bonds and conduit bonds in an amount equal to the amount of bonds being redeemed or maturing in connection with such issuance. This authority provides staff with tools to manage multifamily bonds previously issued and outstanding. This authorization specifically prohibits issuing floating rate bonds to refund fixed rate bonds except for conduit bonds.

Such refunding bonds and conduit bonds are authorized to be issued until sixty days after the first date after March 1, 2016 on which is held a Board meeting at which there is a quorum. These bonds are authorized to be issued under forms of indentures that currently have bonds outstanding or under stand-alone conduit indenture.

In any event, the resolution prohibits an increase in either the aggregate notional amount of interest rate swaps, the absolute amount of liquidity support (in the form of standby bond purchase agreements) or credit enhancement (from bond insurance, TCLP and letters of credit).

ARTICLE II – AUTHORIZATION AND TERMS OF NEW MONEY BONDS

Article II authorizes multifamily bonds to be issued in the aggregate amount not to exceed the sum of the amount of private activity bond volume cap made available for the multifamily program by the California Debt Limit Allocation Committee

(CDLAC) and up to $250 million for the combined amount of 501(c)(3) bonds, "governmental purpose" bonds, and federally-taxable multifamily bonds. Bonds are authorized to be issued under any of the previously-approved forms of indenture that require the loans to be insured. Also, the bonds are authorized to be issued under the stand-alone conduit indenture.

Other than conduit bonds, all bonds authorized to be issued would be subject to the following conditions:

1. New money bonds would bear interest at fixed or convertible rates deemed appropriate.
2. No new money bonds shall be issued bearing a variable rate of interest.
3. The Agency shall not enter into any swaps or other hedging agreements with respect to any new money bonds.
4. All mortgage loans securing new money bonds shall carry FHA risk sharing insurance or other comparable credit enhancement.

The authorization to issue bonds for new lending under the resolution does not expire until 60 days after the first date after March 1, 2016 on which is held a Board meeting at which there is a quorum.

ARTICLE III – PROVISIONS APPLICABLE TO ALL BONDS ISSUED UNDER THIS RESOLUTION

Article III authorizes staff to circulate official statements relating to refunding bonds, conduit bonds and/or new money bonds as necessary to prospective and actual bond investors. Bonds are authorized to be sold at negotiated or competitive sale as public offerings or as private placements depending on market conditions at the time of sale. The resolution also authorizes the Agency to enter into documents and agreements in connection with the Agency’s multifamily lending programs. The resolution further authorizes the Agency to conduct foreclosures of mortgages owned or serviced by the Agency and to enter into contracts for the sale of foreclosed properties.

Consulting services or information services related to the financial management of the Agency, including advisors or consultants on interest rate swaps, cash flow management, contracts for financial printing and other financial services are also authorized by Article III. In addition, the resolution reauthorizes short-term credit facilities in an aggregate amount not to exceed $200 million for operating capital, Homeownership Programs and Multifamily Programs. Finally, this authorization allows the Agency to continue to utilize our warehouse line from the State's Pooled Money Investment Board and other such facilities that may become available to the Agency.

Attachments

RESOLUTION NO. 14-02

RESOLUTION OF THE CALIFORNIA HOUSING FINANCE AGENCY AUTHORIZING THE FINANCING OF THE AGENCY'S MULTIFAMILY HOUSING PROGRAM, THE ISSUANCE OF MULTIFAMILY BONDS, THE AGENCY'S MULTIFAMILY BOND INDENTURES, CREDIT FACILITIES FOR MULTIFAMILY PURPOSES, AND RELATED FINANCIAL AGREEMENTS AND CONTRACTS FOR SERVICES

WHEREAS, the California Housing Finance Agency (the "Agency") has determined that there exists a need in California for the financing of mortgage loans for the acquisition, construction, rehabilitation, refinancing or development of multi-unit rental housing developments for the purpose of providing housing for persons and families of low or moderate income (the "Developments");

WHEREAS, the Agency has determined that it is in the public interest for the Agency to assist in providing such financing by means of an ongoing program (the "Program") to make or acquire, or to make loans to lenders to make or acquire, mortgage loans, or to act as a conduit bond issuer, for the purpose of financing such Developments (the "Loans");

WHEREAS, pursuant to Parts 1 through 4 of Division 31 of the Health and Safety Code of the State of California (the "Act"), the Agency has the authority to issue bonds to provide sufficient funds to finance the Program, including the making of Loans, the payment of capitalized interest on the bonds, the establishment of reserves to secure the bonds, and the payment of other costs of the Agency incident to, and necessary or convenient to, the issuance of the bonds; and

WHEREAS, pursuant to the Act, the Agency has the authority to enter into credit facilities and certain other agreements for the purpose of financing the Program, including the making of Loans and the payment of other costs of the Agency incident to, and necessary or convenient to, the issuance of the bonds;

NOW, THEREFORE, BE IT RESOLVED, by the California Housing Finance Agency as follows:

ARTICLE I
AUTHORIZATION AND TERMS OF REFUNDING BONDS

Section 1. **Determination of Need and Amount of Refunding Bonds.** The Agency is of the opinion and hereby determines that the offer, sale and issuance of one or more series of multifamily housing revenue bonds ("Refunding Bonds") in an aggregate amount not to exceed the aggregate amount of prior multifamily bonds of the Agency to be redeemed or maturing in connection with such issuance (the related "Refunded Bonds") is necessary to provide sufficient funds for the management of the Agency's existing debt related to the Program.

Section 2. **Authorization and Timing of Refunding Bonds.** The Refunding Bonds described in Section 1 are hereby authorized to be issued for the purpose of financing, refinancing or carrying existing Loans. Refunding Bonds may be issued at such time or times on or before the day 60 days after the first date after March 1, 2015 on which is held a meeting of the Board of Directors of the Agency (the "Board") at which a quorum is present, as the Executive Director of the Agency (the "Executive Director") deems appropriate, upon consultation with the Treasurer of the State of California (the "Treasurer") as to the timing of each such issuance; *provided, however*, that if the Refunding Bonds are sold at a time on or before the day 60 days after the date on which is held such meeting, pursuant to a forward purchase agreement providing for the issuance of such Refunding Bonds on a later date on or before October 1, 2016, upon specified terms and conditions, such Refunding Bonds may be issued on such later date.

Section 3. **Approval of Refunding Bond Indentures and Certain Other Financing Documents Related to Refunding Bonds.** (a) Refunding Bonds may be issued under and pursuant to any one or more of the following (collectively, the "Refunding Bond Prior Indentures"):

(1) the Affordable Multifamily Housing Revenue Bonds Indenture, dated as of December 1, 2009;

(2) the Multifamily Housing Revenue Bond III Indenture, dated as of March 1, 1997;

(3) Article XIII of the Residential Mortgage Revenue Bonds Indenture, dated as of December 1, 2009, or any successor provision; or

(4) any stand-alone conduit indenture or comparable document authorized pursuant to Section 10.

(b) The Executive Director and the Secretary of the Board (the "Secretary") are hereby authorized and directed, for and on behalf and in the name of the Agency, if appropriate, to execute and acknowledge and to deliver with respect to each series of Refunding Bonds, either a stand-alone conduit indenture (which may include a supplemental indenture) specified in subsection (a)(4) of this Section 3 (a "Refunding Bond Conduit Indenture") or a supplemental indenture (a "Refunding Bond Supplemental Indenture" and, collectively with the Refunding Bond Conduit Indentures, "Refunding Bond Indentures") under any other Refunding Bond Prior Indenture specified in this Section 3 in substantially the form of any supplemental indenture or series indenture executed or approved in connection with any of the Refunding Bond Prior Indentures, in each case with such changes therein as the officers executing the same approve upon consultation with the Agency's legal counsel, such approval to be conclusively evidenced by the execution and delivery thereof.

The Executive Director is hereby expressly authorized and directed, for and on behalf and in the name of the Agency, to determine in furtherance of the objectives of the Program those matters required to be determined under the applicable Refunding Bond Indenture in connection with the issuance of each such series of Refunding Bonds.

(c) For each series of Refunding Bonds, the Executive Director is hereby authorized and directed to execute, and the Secretary is hereby authorized to attest, for and in the name and on behalf of the Agency and under its seal, if and to the extent appropriate, a reimbursement agreement, letter of credit agreement, standby bond purchase agreement, or other arrangement with respect to credit enhancement or liquidity support, and any intercreditor agreement related thereto, in substantially the forms of the reimbursement agreements, letter of credit agreements, standby bond purchase agreements, other such arrangements and intercreditor agreements contemplated under the Refunding Bond Indentures or used in connection with the Refunded Bonds.

(d) Any Refunding Bond Indenture, reimbursement agreement, letter of credit agreement, standby bond purchase agreement, or other arrangement with respect to credit enhancement or liquidity support, and any intercreditor agreement related thereto, executed in connection with the issuance of Refunding Bonds may include such modifications as the Executive Director may deem necessary or desirable in furtherance of the objectives of the Program, including, but not limited to, one or more of the following purposes:

(1) for the Agency's general obligation to pay any debt secured thereby, or

(2) for risk sharing provisions dividing between the Agency and any credit provider, mortgage lender, commercial bank or other financial institution and/or FHA, in such manner as the Executive Director may deem necessary or desirable in furtherance of the objectives of the Program, the credit and financing risks relating to Refunding Bonds and the Developments financed by such Refunding Bonds;

provided, however, that in each such case the Executive Director shall have determined that the inclusion of such provisions with respect to the Refunding Bonds is not expected to result in greater financial risk to the Agency or its General Fund than existed with respect to the related Refunded Bonds.

Section 4. **Approval of Forms and Terms of Refunding Bonds.** Refunding Bonds shall be in such denominations, have such registration provisions, be executed in such manner, be payable in such medium of payment at such place or places within or without California, be subject to such terms of redemption (including from such sinking fund installments as may be provided for) and contain such terms and conditions as each Refunding Bond Indenture as finally approved shall provide. Refunding Bonds shall have the maturity or maturities and shall bear interest at the fixed, adjustable or variable rate or rates deemed appropriate by the Executive Director in furtherance of the objectives of the Program; *provided, however*, that no Refunding Bond other than a Conduit Bond (as defined in Section 10, as to which the terms of such Section 10 shall apply) shall bear interest at a stated rate in excess of fifteen percent (15%) per annum or have a final maturity later than forty-five years from the earlier of the date of issuance of the Refunded Bonds or, if the Refunded Bonds were refunding bonds, the original bonds in the series of refunding.

Refunding Bonds and the related Refunding Bond Indenture(s) may contain such provisions as may be necessary to accommodate an option to put such Refunding Bonds prior to maturity for purchase by or on behalf of the Agency or a person other than the Agency, to accommodate the requirements of any provider of bond insurance or other credit enhancement or liquidity support or to accommodate the requirements of purchasers of indexed floating-rate bonds.

No Variable Rate Refunding of Fixed Rate Bonds. Other than Conduit Bonds, as to which the terms of Section 10 shall apply, variable rate Refunding Bonds may not be issued to refund fixed rate bonds.

Section 5. **Authorization of Other Financial Agreements Related to Refunding Bonds.** The Executive Director and the other employees of the Agency authorized pursuant to Section 19 (the "Authorized Employees") are hereby authorized to enter into, for and in the name and on behalf of the Agency, any and all agreements and documents designed to amend, modify or replace existing agreements and documents that related to Refunded Bonds to (i) reduce or hedge the amount or duration of any payment, interest rate, spread or similar risk with respect to Refunding Bonds or related investments, (ii) result in a lower cost of borrowing when used in combination with the issuance or carrying of Refunding Bonds or related investments, or (iii) enhance the relationship between risk and return with respect to the existing debt of the Program or any portion thereof; *provided, however*, that the aggregate notional amount of such agreements related to the Program may not be increased. Such agreements and other documents are authorized to be entered into with parties selected by the Executive Director, after giving due consideration for the creditworthiness of the counterparties, when applicable, or any other criteria in furtherance of the objectives of the management of the debt of the Program.

ARTICLE II
AUTHORIZATION AND TERMS OF NEW MONEY BONDS

Section 6. **Determination of Need and Amount of New Money Bonds.** The Agency is of the opinion and hereby determines that the offer, sale and issuance of one or more series of multifamily housing revenue bonds ("New Money Bonds") in an aggregate amount not to exceed the sum of the following amounts is necessary to provide sufficient funds for new lending under the Program:

(a) the aggregate amount of private activity bond allocations under federal tax law heretofore or hereafter made available to the Agency for such purpose; and

(b) if and to the extent the Bonds are "qualified 501(c)(3) bonds" under federal tax law, are not "private activity bonds" under federal tax law, or are determined by the Executive Director to be intended not to be tax-exempt for federal income tax purposes, $150,000,000.

<u>Section 7</u>. **<u>Authorization and Timing.</u>** The New Money Bonds described in Section 6 are hereby authorized to be issued for the purpose of financing, carrying or "warehousing" new Loans for the acquisition, construction, rehabilitation, refinancing or development of Developments. New Money Bonds may be issued at such time or times on or before the day 60 days after the first date after March 1, 2015 on which is held a meeting of the Board at which a quorum is present, as the Executive Director deems appropriate, upon consultation with the Treasurer as to the timing of each such issuance; *provided, however*, that if the New Money Bonds are sold at a time on or before the day 60 days after the date on which is held such meeting, pursuant to a forward purchase agreement providing for the issuance of such New Money Bonds on a later date on or before October 1, 2016, upon specified terms and conditions, such New Money Bonds may be issued on such later date.

<u>Section 8</u>. **<u>Approval of New Money Bond Indentures and Certain Other Financing Documents.</u>** (a) New Money Bonds may be issued under and pursuant to any one or more of the following (collectively, the "New Money Bond Prior Indentures"):

(1) the Affordable Multifamily Housing Revenue Bonds Indenture, dated as of December 1, 2009;

(2) the Multifamily Housing Revenue Bond III Indenture, dated as of March 1, 1997; or

(3) any stand-alone conduit indenture or comparable document authorized pursuant to Section 10.

(b) The Executive Director and the Secretary are hereby authorized and directed, for and on behalf and in the name of the Agency, if appropriate, to execute and acknowledge and to deliver with respect to each series of New Money Bonds, either a stand-alone conduit indenture (which may include a supplemental indenture) specified in subsection (a)(3) of this Section 8 (a "New Money Bond Conduit Indenture" and, collectively with the Refunding Bond Conduit Indentures, "Conduit Indentures") or a supplemental indenture (a "New Money Bond Supplemental Indenture," and, collectively with the New Money Bond Conduit Indentures, "New Money Bond Indentures") under any other New Money Bond Prior Indentures specified in this Section 8 in substantially the form of any supplemental indenture or series indenture executed or approved in connection with such New Money Bond Prior Indentures, in each case with such changes therein as the officers executing the same approve upon consultation with the Agency's legal counsel, such approval to be conclusively evidenced by the execution and delivery thereof.

The Executive Director is hereby expressly authorized and directed, for and on behalf and in the name of the Agency, to determine in furtherance of the objectives of the

Program those matters required to be determined under the applicable New Money Bond Indenture in connection with the issuance of each such series of New Money Bonds.

Section 9. **Approval of Forms and Terms of New Money Bonds.** New Money Bonds shall be in such denominations, have such registration provisions, be executed in such manner, be payable in such medium of payment at such place or places within or without California, be subject to such terms of redemption (including from such sinking fund installments as may be provided for) and contain such terms and conditions as each New Money Bond Indenture as finally approved shall provide. New Money Bonds shall have the maturity or maturities and shall bear interest at fixed or convertible rates deemed appropriate by the Executive Director in furtherance of the objectives of the Program.

New Money Bonds and the related New Money Bond Indenture(s) may contain such provisions as may be necessary to accommodate an option to put such New Money Bonds prior to maturity for purchase by or on behalf of the Agency or a person other than the Agency, and/or to accommodate the requirements of any provider of bond insurance or other credit enhancement.

No Variable Rate Bonds or Hedges; Insurance or Credit Enhancement Required. Other than a Conduit Bond, as to which the terms of Section 10 shall apply, (a) no New Money Bond shall be issued bearing a variable rate of interest or have a term in excess of fifty years or bear interest at a stated rate in excess of fifteen percent (15%) per annum; (b) the Agency shall not enter into any swaps or other hedging agreements with respect to any New Money Bonds; and (c) all mortgage loans securing New Money Bonds shall carry FHA risk sharing insurance or other mortgage insurance or comparable credit enhancement.

Section 10. **Conduit Issuances.** The following provisions shall apply to limited obligation bonds (as described herein, "Conduit Bonds") issued on behalf of Development sponsors for which, by the terms of the documents providing for the issuance of such Conduit Bonds, (a) the Agency is not liable for payment of the principal of, premium or interest on such Conduit Bonds, except from revenues received from loans made with the proceeds of such Conduit Bonds ("Conduit Loans"), (b) the Agency has not contributed or pledged any funds or assets to such Conduit Bonds other than revenues derived from or related to such Conduit Loans, and (c) there is otherwise no obligation of or material financial risk to the General Fund of the Agency under the terms of such Conduit Bonds:

(1) Conduit Bonds may be issued under and pursuant to any Indenture or comparable document meeting the requirements for Conduit Bonds described in the first paragraph of this Section 10, including but not limited to the following:

(a) the form of Fannie Mae stand-alone conduit Indenture approved by Resolution No. 09-02;

(b) the form of Freddie Mac stand-alone conduit Indenture approved by Resolution No. 09-02;

(c) the form of stand-alone conduit Master Pledge and Assignment approved by Resolution No. 09-02; and

(d) the form of FHA/GNMA stand-alone conduit Indenture approved by Resolution No. 10-08.

(2) Conduit Bonds may be issued as drawdown bonds for which the bond purchaser purchases Bonds in installments as funds are needed by the Development sponsor. For purposes of Sections 2 and 7, the date of the initial draw for any issue of drawdown Conduit Bonds shall be considered the issue date of such issue.

(3) Conduit Bonds may be issued with variable rates of interest and have such maturity dates and other terms as set forth in the applicable Conduit Indenture.

(4) Conduit Bonds may otherwise have such commercially reasonable terms as may be approved by the Executive Director, such approval to be evidenced by the execution and delivery of the documents relating to such Conduit Bonds in accordance with this Resolution.

(5) For each series of Conduit Bonds, the Executive Director is hereby authorized and directed to execute, and the Secretary is hereby authorized to attest, for and in the name and on behalf of the Agency and under its seal, if and to the extent appropriate, any and all necessary documents, including but not limited to reimbursement agreements, letter of credit agreements or other arrangements with respect to liquidity or credit enhancement, and any intercreditor or subordination agreements related thereto.

ARTICLE III
PROVISIONS APPLICABLE TO ALL BONDS ISSUED UNDER THIS RESOLUTION

<u>Section 11</u>. **<u>Authorization of Disclosure.</u>** The Executive Director is hereby authorized to circulate one or more preliminary official statements relating to Refunding Bonds and/or New Money Bonds (collectively, "Bonds") and to execute and circulate one or more official statements relating to Bonds, and the circulation of such preliminary official statement and such official statement to prospective and actual purchasers of Bonds is hereby approved. The Executive Director is further authorized to hold information meetings concerning Bonds and to distribute other information and material relating to Bonds, including by posting of such information on one or more websites maintained by or at the direction of the Agency.

<u>Section 12</u>. **<u>Authorization of Sale of Bonds.</u>** Bonds are hereby authorized to be sold at negotiated or competitive sale or sales, including but not limited to private placements and public offerings. The Executive Director is hereby authorized and directed, for and in the name and on behalf of the Agency, to execute and deliver one or more agreements, by and among the Agency, the Treasurer, if applicable, and such purchasers or underwriters as the Executive Director may select (the "Purchasers"), relating to the sale of the Bonds, in such form as the Executive Director may approve upon consultation with the Agency's legal counsel, such approval to be evidenced conclusively by the execution and delivery of said agreements by the Executive Director.

The Treasurer is hereby authorized and requested, without further action of this Board and unless instructed otherwise by this Board, to sell the Bonds pursuant to the terms and conditions set forth in each such agreement as finally executed on behalf of the Agency. The Treasurer is hereby further authorized and requested to deposit the proceeds of any good faith deposit to be received by the Treasurer under the terms of such agreement in a special trust account for the benefit of the Agency, and the amount of such deposit shall be retained by the Agency, applied at the time of delivery of the applicable Bonds as part of the purchase price thereof, or returned to the Purchasers, as provided in such agreement.

Section 13. **Authorization of Execution of Bonds.** The Executive Director is hereby authorized and directed to execute, and the Secretary is hereby authorized and directed to attest, for and on behalf and in the name of the Agency and under its seal, the Bonds, in an aggregate amount not to exceed the amount authorized hereby, in accordance with each Refunding Bond Indenture or New Money Bond Indenture in one or more of the forms set forth in such indenture.

Section 14. **Authorization of Delivery of Bonds.** The Bonds when so executed shall be delivered to the trustee or other authenticating agent ("Trustee") to be authenticated or caused to be duly and properly authenticated. The Trustee is hereby requested and directed to authenticate, or cause to be authenticated, the Bonds by the execution of the certificate of authentication and registration appearing thereon, and to deliver or cause to be delivered the Bonds when duly executed and authenticated to the Purchasers in accordance with written instructions executed on behalf of the Agency by the Executive Director, which instructions said officer is hereby authorized and directed, for and on behalf and in the name of the Agency, to execute and deliver to the Trustee.

Section 15. **Authorization of Program Documents.** The Executive Director and the other Authorized Employees are hereby authorized and directed to execute all documents they deem necessary or appropriate in connection with the Program, including, but not limited to, regulatory agreements, loan agreements, origination and servicing agreements (or other loan-to-lender documents), servicing agreements, developer agreements, financing agreements, investment agreements, intercreditor agreements, subordination agreements, agreements to enter into escrow and forward purchase agreements, escrow and forward purchase agreements, refunding agreements and continuing disclosure agreements, in each case with such other parties as the Executive Director may select in furtherance of the objectives of the Program.

The Executive Director and the other Authorized Employees are hereby authorized to enter into, for and in the name and on behalf of the Agency, one or more mortgage sale agreements with such purchasers as the Executive Director may select in accordance with the objectives of the Program. Any such sale of Loans may be on either a current or a forward purchase basis.

The Executive Director and the Authorized Employees are hereby authorized to enter into, for and in the name and on behalf of the Agency, contracts to conduct foreclosures of mortgages owned or serviced by the Agency with such attorneys or foreclosure companies as the Executive Director may select in accordance with the objectives of the Program.

The Executive Director and the other Authorized Employees are hereby authorized to enter into, for and in the name and on behalf of the Agency, contracts for the sale of foreclosed properties with such purchasers as the Executive Director may select in accordance with the objectives of the Program. Any such sale of foreclosed properties may be on an all cash basis or may include financing by the Agency. The Executive Director and the other Authorized Employees are also authorized to enter into any other agreements, including but not limited to real estate brokerage agreements and construction contracts, necessary or convenient for the rehabilitation, listing and sale of such foreclosed properties.

Section 16. **Authorization of Credit Facilities.** In addition, the Executive Director and the other Authorized Employees are hereby authorized to enter into, for and in the name and on behalf of the Agency, one or more short-term or long-term credit facilities, including but not limited to repurchase agreements, for the purposes of (i) financing the purchase of Loans on an interim basis, prior to the financing of such Loans with Bonds, whether issued or to be issued; (ii) financing expenditures of the Agency incident to, and necessary or convenient to, the issuance of Bonds, including, but not limited to, Agency expenditures to pay costs of issuance, capitalized interest, redemption price of prior bonds of the Agency, costs relating to credit enhancement or liquidity support, costs relating to investment products, or net payments and expenses relating to interest rate hedges and other financial products; and (iii) enabling the Agency to restructure existing debt and related purposes, including, but not limited to, the redemption of existing bonds and the acquisition of bonds that have been put to liquidity providers as bank bonds. Any credit facility entered into pursuant to this Section 16 may be from any appropriate source, including, but not limited to, the Pooled Money Investment Account pursuant to Government Code Section 16312; *provided, however,* that the aggregate outstanding principal amount of credit facilities authorized under this Section 16 or the comparable sections of Resolution No. 14-01 (the single family financing resolution adopted at the same meeting) may not at any time exceed $200,000,000 (separate and apart from the amount of bonds authorized by Sections 1 and 6 of this resolution and such other resolutions).

The Executive Director and the other Authorized Employees are hereby authorized to use available Agency moneys (other than and in addition to the proceeds of bonds) (i) to make or purchase loans to be financed by bonds (including bonds authorized by prior resolutions of this Board) in anticipation of draws on a credit facility, the issuance of Bonds or the availability of Bond proceeds for such purposes and (ii) to purchase Agency bonds to enable the Agency to restructure its debt and for related purposes as authorized under Resolution No. 08-42 and any future Board resolutions thereto amendatory or supplemental.

The Executive Director and the other Authorized Employees are hereby authorized to use available Agency moneys to purchase Agency bonds to enable the Agency to restructure its debt and for related purposes. Any Agency bonds so purchased shall remain outstanding for all purposes except to the extent that the Executive Director or the other Authorized Employees expressly provide for the retirement or redemption, and cancellation, of such bonds. Any Agency bonds so purchased may be purchased and resold, in each case on such terms as may be determined by the Executive Director and the other Authorized Employees in the best interests of the Agency. The Agency may establish any account or accounts as may be necessary or desirable in connection with the purchase of such bonds.

Section 17. **Ratification of Prior Actions; Not a Repeal of Prior Resolutions.** (a) All actions previously taken by the officers of the Agency in connection with the implementation of the Program, the issuance of the Bonds, the issuance of any prior bonds (the "Prior Bonds"), the execution and delivery of related financial agreements and related program agreements and the implementation of any credit facilities as described above are hereby approved and ratified.

(b) This resolution is not intended to repeal in whole or in part any prior resolution of the Agency with respect to the authority granted to the Executive Director and the other Authorized Employees in relation to Prior Bonds and related agreements, including but not limited to (i) the authority to determine in furtherance of the objectives of the Program those matters required to be determined in relation to Prior Bonds, whether under indentures or other related agreements, and (ii) the authority to amend, modify or replace financial agreements of the types described in Section 5 of this Resolution.

<u>Section 18</u>. **<u>Authorization of Related Actions and Agreements</u>.** The Treasurer and any duly authorized deputy thereof, the Executive Director, any other persons authorized in writing by the Executive Director and the other Authorized Employees are hereby authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all agreements and documents which they deem necessary or advisable in order to consummate the issuance, sale, delivery, remarketing, conversion and administration of Bonds and Prior Bonds and otherwise to effectuate the purposes of this resolution, including declaring the official intent of the Agency for purposes of U.S. Treasury Regulations Section 1.150-2, and including executing and delivering any amendment or supplement to any agreement or document relating to Bonds or Prior Bonds in any manner that would be authorized under this resolution if such agreement or document related to Bonds authorized by this resolution. Subject in all cases to the express limitations set forth above in this resolution, such agreements may include, but are not limited to, remarketing agreements, tender agreements or similar agreements regarding any put option for Bonds or Prior Bonds, broker-dealer agreements, market agent agreements, auction agent agreements or other agreements necessary or desirable in connection with the issuance of Bonds in, or the conversion of Bonds or Prior Bonds to, an auction rate mode or an indexed rate mode, agreements for the investment of moneys relating to the Bonds or Prior Bonds, reimbursement agreements, letter of credit agreements, intercreditor agreements or other arrangements relating to any credit enhancement or liquidity support or put option provided for the Bonds or the Prior Bonds, continuing disclosure agreements and agreements for necessary services provided in the course of the issuance of the bonds, including but not limited to, agreements with bond underwriters, remarketing agents, placement agents, private placement purchasers, bond trustees, bond counsel and financial advisors and contracts for consulting services or information services relating to the financial management of the Agency, including advisors or consultants on interest rate swaps, cash flow management, and similar matters, and contracts for financial printing and similar services. The Executive Director, any persons authorized in writing by the Executive Director and the other Authorized Employees are hereby authorized and directed, jointly and severally, to provide as necessary for payment of costs of issuance related to Bonds and to provide for the Agency to contribute capital as necessary to facilitate the issuance of Bonds.

This resolution shall constitute full, separate, complete and additional authority for the execution and delivery of all agreements and instruments described in this resolution, without regard to any limitation in the Agency’s regulations and without regard to any other resolution of the Board that does not expressly amend and limit this resolution.

Section 19. **Additional Delegation.** All actions by the Executive Director approved or authorized by this resolution may be taken by the Chief Deputy Director of the Agency, the Director of Financing of the Agency, the Financing Risk Manager of the Agency, the Director of Multifamily Programs of the Agency or, if the office of Director of Multifamily Programs of the Agency is vacant, the Housing Finance Chief for Multifamily Programs (but only with respect to Conduit Bonds issued in accordance with Section 10 hereof), or any other person specifically authorized in writing by the Executive Director, and except to the extent otherwise taken by another person shall be taken by the Chief Deputy Director during any period in which the office of the Executive Director is vacant.

SECRETARY'S CERTIFICATE

I, Victor James, the undersigned, do hereby certify that I am the duly authorized Secretary of the Board of Directors of the California Housing Finance Agency, and hereby further certify that the foregoing is a full, true, and correct copy of Resolution No. 14-02 duly adopted at a regular meeting of the Board of Directors of the California Housing Finance Agency duly called and held on the 17th day of March 2014, of which meeting all said directors had due notice; and that at said meeting said resolution was adopted by the following vote:

AYES:

NOES:

ABSTENTIONS:

ABSENT:

IN WITNESS WHEREOF, I have executed this certificate and affixed the seal of the Board of Directors of the California Housing Finance Agency hereto this 17th day of March 2014.

[SEAL]

VICTOR JAMES
Secretary of the Board of Directors of the
California Housing Finance Agency

SECRETARY'S CERTIFICATE

I, Victor James, the undersigned, do hereby certify that I am the duly authorized Secretary of the Board of Directors of the California Housing Finance Agency, and hereby further certify that the foregoing is a full, true, and correct copy of the Resolution No. 14-02 duly adopted at a regular meeting of the Board of Directors of the California Housing Finance Agency duly called and held on the 17th day of March 2014, of which meeting all said directors had due notice; and that at said meeting said resolution was adopted by the following vote:

AYES:

NOES:

ABSTENTIONS:

ABSENT:

I further certify that I have carefully compared the foregoing copy with the original minutes of said meeting on file and of record in my office; that said copy is a full, true, and correct copy of the original resolution adopted at said meeting and entered in said minutes; and that said resolution has not been amended, modified, or rescinded in any manner since the date of its adoption, and the same is now in full force and effect.

IN WITNESS WHEREOF, I have executed this certificate and affixed the seal of the Board of Directors of the California Housing Finance Agency hereto this ____ day of __________________, 2014.

[SEAL]

VICTOR JAMES
Secretary of the Board of Directors of the
California Housing Finance Agency

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State of California

M E M O R A N D U M

To: Board of Directors **Date:** February 26, 2014

Timothy Hsu, Director of Financing

From: **CALIFORNIA HOUSING FINANCE AGENCY**

Subject: AUTHORIZATION TO MAKE APPLICATION TO THE CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE
RESOLUTION 14-03

The California Debt Limit Allocation Committee ("CDLAC") is the State entity which, under California law, allocates the federal volume cap for "private activity bonds" to be issued each year by State and local bond issuers. Private activity bonds are federally tax-exempt bonds which are issued to benefit non-governmental borrowers such as first-time homebuyers or owners of affordable rental housing developments.

Resolution 14-03 would authorize application to CDLAC for a maximum of $250 million of single family allocation and $250 million of multifamily allocation. Such authorization would be in effect during the period of time in which Resolutions 14-01 and 14-02, which authorize the issuance of bonds for the Homeownership Program and Multifamily Program, are themselves in effect.

Attachment

RESOLUTION NO. 14-03

RESOLUTION OF THE CALIFORNIA HOUSING FINANCE AGENCY
APPROVING APPLICATIONS TO THE CALIFORNIA DEBT LIMIT ALLOCATION
COMMITTEE FOR PRIVATE ACTIVITY BOND ALLOCATIONS
FOR THE AGENCY'S HOMEOWNERSHIP AND MULTIFAMILY PROGRAMS

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

WHEREAS, the Agency has determined that it is in the public interest for the Agency to provide such financial assistance by means of ongoing programs (collectively, the "Homeownership Program") to make lower-than-market rate loans, and to issue Mortgage Credit Certificates for the permanent financing of Residences;

WHEREAS, pursuant to Parts 1 through 4 of Division 31 of the Health and Safety Code of the State of California (the "Act"), the Agency has the authority to issue bonds to provide sufficient funds to finance the Homeownership Program, and to issue Mortgage Credit Certificates for the permanent financing of Residences;

WHEREAS, the Agency has by its Resolution No.14-01 authorized the issuance of bonds for the Homeownership Program and desires to authorize application to the California Debt Limit Allocation Committee for private activity bond allocations to be used in connection with the issuance of all or a portion of such bonds in order for interest on such bonds to be excludable from gross income for federal income tax purposes;

WHEREAS, the Agency has also determined that there exists a need in California for the financing of mortgage loans for the acquisition, construction, rehabilitation, refinancing or development of multifamily rental housing developments (the "Developments") for the purpose of providing housing for persons and families of low or moderate income;

WHEREAS, the Agency has determined that it is in the public interest for the Agency to assist in providing such financing by means of an ongoing program (the "Multifamily Program") to make or acquire, or to make loans to lenders to make or acquire, mortgage loans, for the purpose of financing such Developments;

WHEREAS, pursuant to the Act, the Agency has the authority to issue bonds to provide sufficient funds to finance the Multifamily Program; and

WHEREAS, the Agency has by its Resolution No. 14-02 authorized the issuance of bonds for the Multifamily Program and desires to authorize application to the California Debt Limit Allocation Committee for private activity bond allocations to be used in connection with the issuance of all or a portion of such bonds in order for interest on such bonds to be excludable from gross income for federal income tax purposes, or for the issuance of Mortgage Credit Certificates;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors (the "Board") of the California Housing Finance Agency as follows:

Section 1. **Authorization to Apply to CDLAC for the Homeownership Program.** The officers of the Agency are hereby authorized to apply from time to time to the California Debt Limit Allocation Committee ("CDLAC") for private activity bond allocations in an aggregate amount of up to $250,000,000 per year to be used in connection with bonds issued under Resolution No. 14-01, or resolutions heretofore or hereafter adopted by the Agency for the Homeownership Program. In the alternative, subject to the approval of CDLAC and under such terms and conditions as may be established by CDLAC, any such allocation received is authorized by this Board to be used in connection with a mortgage credit certificate program.

Section 2. **Authorization to Apply to CDLAC for the Multifamily Program.** The officers of the Agency are hereby authorized to apply from time to time to CDLAC for private activity bond allocations in an aggregate amount of up to $250,000,000 per year, to be used in connection with bonds issued under Resolution No. 14-02 or other resolutions heretofore or hereafter adopted by the Agency for the Multifamily Program.

Section 3. **Authorization of Related Actions and Agreements.** The officers of the Agency, or the duly authorized deputies thereof, are hereby authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all agreements and documents which they may deem necessary or advisable in order to effectuate the purposes of this resolution, including but not limited to satisfying in the best interests of the Agency such conditions as CDLAC may establish for private activity bond allocation applications, paying any fees required by CDLAC, and posting and certifying the posting of any required performance deposit. Such officers and deputies are also hereby expressly authorized to accept on behalf and in the best interests of the Agency any private activity bond allocations offered by CDLAC, including but not limited to carryforward allocations, over and above those which may be granted pursuant to any application authorized hereinabove or in any prior resolution of the Board.

SECRETARY'S CERTIFICATE

I, Victor James, the undersigned, Secretary of the Board of Directors of the California Housing Finance Agency, hereby certify that the foregoing is a full, true, and correct copy of Resolution No. 14-03 duly adopted at a regular meeting of the Board of Directors of the California Housing Finance Agency duly called and held on the 17th day of March, 2014, of which meeting all said directors had due notice; and that at said meeting said Resolution was adopted by the following vote:

AYES:

NOES:

ABSTENTIONS:

ABSENT:

IN WITNESS WHEREOF, I have executed this certificate and affixed the seal of the Board of Directors of the California Housing Finance Agency hereto this 17th day of March, 2014.

[SEAL]

Victor J. James
Secretary of the Board of Directors of the
California Housing Finance Agency

State of California

M E M O R A N D U M

To Board of Directors **Date:** February 28, 2014

Timothy Hsu, Director of Financing

From: **CALIFORNIA HOUSING FINANCE AGENCY**

Subject: HEDGE POLICY – DRAFT

At the January Board meeting, a draft of the Hedge Policy was distributed and Board members expressed certain concerns during the presentation. The attached draft version of the Hedge Policy contains numerous changes including additions to address the following concerns expressed by the Board:

1. Exposure Limitations (Section VI.B.)
2. Hedging Limitations (Section VI.A.)
3. Hedging Costs (Section VI.C.)

At the January meeting, there was also a request to have a more in-depth discussion about risks related to hedging. Agenda item # 7 will fulfill this request.

As was the case at the January meeting, the attached document is in draft form and we are not requesting approval of the policy at this time. A final Hedge Policy will be presented to the Board once staff has addressed the Board's questions and concerns.

Attachment

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California Housing Finance Agency
MASTER HEDGE POLICY

I. Purpose

The purpose of this Master Hedge Policy ("the Policy") is to establish guidelines for the use and management of various derivative financial products (referred to herein as "Hedges") in conjunction with the California Housing Finance Agency's ("CalHFA" or the "Agency") management of its loan commitment pipeline.

This policy and its contemplated Hedges are intended to cover only future hedging activities of the Agency's loan commitments. This policy is not intended to encompass the Agency's existing portfolio of interest rate swaps. This policy is not intended to completely eliminate the Agency's interest rate risk. For example, the Agency will continue to bear some interest rate risk in situations where the closing of loans and/or delivery of mortgage-backed securities precede the issuance of bonds.

The use of Hedges allows CalHFA to mitigate the risk of its exposure to movements in interest rates as part of managing the Agency's single family and multifamily loan commitment pipelines. The short-term goal of this policy is to ensure a pre-defined target profit on loan originations. The long-term goal of this policy is to generate a stable profit margin range for the Agency's lending activities.

The Policy sets forth a framework for the utilization of Hedges with particular emphasis on their content and execution. As a framework, the intent of this Policy is to set forth guidance while maintaining the flexibility needed to effectively use and manage Hedges under changing market conditions.

II. Scope

The Policy describes the circumstances where Hedges may be used, the methods and guidelines to be employed when Hedges are used and the management and reporting responsibilities of staff and others necessary in carrying out this Policy.

III. Legal Authority

A. Authority

CalHFA may enter into Hedges, in order to reduce the amount of interest rate risk. CalHFA has statutory authority to enter into hedge contracts.

B. Approval

CalHFA may enter into Hedge contracts in connection with management of the Agency's loan commitments. The Agency's Executive Director, Director of Financing and Financing Risk Manager are authorized to enter into hedges consistent with the Agency's normal management process.

This Policy shall govern CalHFA's use and management of all Hedges. While adherence to this Policy is required in applicable circumstances, the Agency recognizes that changes in the capital markets, Agency programs, and other unforeseen circumstances may from time to time produce situations that are not covered by the Policy and will require modifications or exceptions to achieve policy goals. In these cases, management flexibility is appropriate, provided the Board is informed of significant departures from normal practice.

The Policy shall be reviewed and updated periodically and presented to the Board for approval. The Director of Financing is the designated administrator of the Policy, and shall have the day-to-day responsibility and authority for structuring, implementing, and managing Hedges.

The Director of Financing shall approve any transaction involving a Hedge. CalHFA shall be authorized to enter into Hedge transactions only with qualified Hedge counterparties, as described in Section VI below. The Director of Financing shall have the authority to select the counterparties, so long as the criteria set forth in the Policy are met.

IV. Use of Hedges

A. Appropriate Usage

CalHFA will use Hedges solely to mitigate the interest risk associated with running a lending program. As part of the hedging program, CalHFA may amend, terminate or enter into offsetting transactions in order to manage market, counterparty and credit risk associated with its Hedges.

B. Prohibited Strategies

CalHFA shall not enter into Hedges where one or more of the following conditions exist:

1. The Hedge serves a purely speculative purpose, such as entering into a hedge for the sole purpose of trading gains;

2. The Agency will have insufficient liquidity or financing capacity to terminate the Hedge at current market rates;

3. There is insufficient pricing data available to allow the Agency and its advisors to adequately value the hedge instrument.

C. Procedure

Recommendations to enter into Hedges will be made based on CalHFA's analysis of the loan commitment pipeline. Recommendations will consider the following elements:

1. The appropriateness of the transaction for the Agency based on the balance of risks and rewards presented by the proposed transaction, including a description of the transactional structure, a description of the risks it presents, and risk mitigation measures;

2. The legal framework for the transaction within the context of California statutes, Agency resolutions, and relevant indenture and contractual requirements (including those contained in credit agreements), as well as any implications of the transaction under federal tax regulations;

3. Potential effects that the transaction may have on the credit ratings of any Agency obligations assigned by the rating agencies;

4. The potential impact of the transaction on any areas where the Agency's capacity is limited, now or in the future, including the use of variable-rate debt, bank liquidity facilities or letters of credit, and bond insurance;

5. The ability of the Agency to handle any administrative burden that may be imposed by the transaction, including accounting and financial reporting requirements; and,

6. Other implications of the proposed transaction as warranted.

V. Permitted Hedges

A. Permitted Hedges for Single Family

1. All permitted Hedges for single family are intended to be cash settled and are not contemplated to remain in place over a long term period (e.g. swaps associated with long-dated variable-rate bonds). Hedges will be used to protect against adverse movements in interest rates that may occur over short term periods. Such period may be as long as six months.

2. TBA (To Be Announced)

A TBA would be used to hedge interest rates on single family loan commitments. A TBA is a forward mortgage-backed securities trade. Pass-through securities issued by Freddie Mac, Fannie Mae and Ginnie Mae trade in the TBA market. The term TBA is derived from the fact that the actual mortgage-backed security that will be delivered to fulfill a TBA trade is not designated at the time the trade is made. The securities are "to be announced" 48 hours prior to the established trade settlement date. A TBA used to hedge single family commitments would be in effect for less than 90 days. The nominal term of the underlying mortgage-backed security (MBS) for a TBA trade for single family commitments shall not exceed 30 years.

On the TBA settlement date, if the TBA is "in-the-money", CalHFA will receive a payment, but if the TBA is "out-of-the-money", CalHFA will make a payment. Because CalHFA may owe the counterparty a payment, the counterparty bears additional credit risk to the Agency. That is, these transactions could result in additional collateral posting requirements to the counterparties.

B. Permitted Hedges for Multifamily

1. All permitted Hedges for multifamily are intended to be cash settled and are not contemplated to remain in place over a long term period (e.g. swaps associated with long-dated variable-rate bonds). Hedges will be used to protect against adverse movements in interest rates that may occur over short term periods. Such period may be as long as 36 months.

2. Forward Rate Option

Forward rate options would be used to hedge multifamily permanent-only loan commitments. A forward rate option is an option on a forward swap, whereby the issuer has the right, but not the obligation, to enter into a cash-settled swap similar to that described in the rate lock description above. The rate on the swap is decided when the option is purchased. The rate is typically set at a level above the current market rate and serves as insurance against rates rising above the designated rate. A forward rate option used to hedge multifamily commitments would have a forward starting date less than 36 months. The nominal term of the underlying swap shall not exceed 40 years. An upfront payment by CalHFA is required with a forward rate option, but upon termination, CalHFA would not face the risk of having to make a payment. The hedge can only result in CalHFA receiving a payment or, at worst, expiring worthless.

On the forward starting date (the "Exercise Date"), if the option is "in-the-money", CalHFA will exercise the option and receive a payment, but if the option is “out-of-the-money”, CalHFA will not exercise the option and allow the option to expire. Because CalHFA cannot owe the counterparty any payment on the Exercise Date, the counterparty does not bear any additional credit risk to CalHFA. That is, these transactions will not result in additional collateral posting requirements by CalHFA to the counterparties.

VI. Hedging Limitations, Exposure Limitations and Costs

A. Hedging Limitations: Single Family Reservation Pipeline

The Reservation Pipeline is defined as loans previously purchased plus those loans for which a reservation has been received and is in an “active” (not cancelled, denied or other inactive status) status and not yet sold. The Reservation Pipeline must be hedged at a minimum of 80% and a maximum of 120% of the loans expected to be purchased after adjusting for fallout, and no more than 100% of the total Reservation Pipeline.

B. Exposure Limitations: Single Family Hedging Activities

The single family hedging program shall not reduce the predefined target profit on lending activities. CalHFA has determined that savings from the in-house hedging program will be between 0.25% and 0.75% of the hedged Reservation Pipeline. We expect the savings will be 0.50% of the hedged Reservation Pipeline.

For management purposes, CalHFA will track the cumulative savings resulting from the .50% savings of running the hedging program in-house over time, and after the initial 6-month program ramp up period, the realized financial losses, if any, shall not exceed these cumulative savings. In the event that the realized losses do exceed the cumulative savings, CalHFA will discontinue the in-house hedging program and outsource the hedging function.

C. Hedging Costs: Multifamily Hedging Activities

An upfront payment by CalHFA is required with the Forward Rate Option. CalHFA shall not contribute more than 1.50% of the expected loan balance to purchase the hedge. It is expected that CalHFA will collect a rate lock fee from the borrower which will be applied to purchasing the hedge.

VII. Counterparties

Hedge products may create, for the Agency, exposure to the creditworthiness of financial institutions (when the mark-to-market of the Hedges are “in-the-money” to the Agency, i.e. CalHFA is due a payment upon immediate termination) that serve as the Agency’s counterparties on Hedge transactions. In general, the Agency will utilize the following standards in selecting counterparties:

A. Credit Standards

Standards of creditworthiness, as measured by credit ratings, will determine eligible counterparties. Differing standards may be employed depending on the term, size and interest-rate sensitivity of a transaction, type of counterparty, and potential for impact on the Agency's or a specific enterprise-fund's credit rating. As a general rule, the Agency will enter into transactions only with counterparties whose obligations are rated in the A category or better from at least two nationally recognized rating agencies. In cases where the counterparty's obligations are rated based on a guarantee or specialized structure to achieve the required credit rating, the Agency shall thoroughly investigate the nature and legal structure of the guarantee or structure in order to determine that it meets the Agency's requirements in full.

B. Diversification of Exposure

The Agency will seek to avoid excessive exposure to a specific counterparty by diversifying its counterparties and monitoring the potential termination value of each counterparty both in absolute dollar values and in percentages of the entire portfolio.

C. Termination

When a counterparty fails to maintain its ratings above a certain specified threshold, the Agency may exercise a right to terminate the transaction prior to its scheduled termination date. The Agency will seek to require, whenever possible, that terminations triggered by a counterparty credit downgrade will occur in financial terms that are favorable to the Agency, and which would allow the Agency to go back into the market to replace the downgraded party with another suitable counterparty at no out-of-pocket cost to the Agency.

VIII. Internal Management of Obligations and Exposure

Achieving the Agency's goals to meet state housing needs while protecting interest rates committed to borrowers requires the Agency to address several risks. The provisions of this policy are designed to create a framework for evaluating and addressing these risks with hedging and ongoing management. The following paragraphs describe pertinent risks and the means through which the Agency may mitigate them.

Counterparty Risk is the risk that a counterparty will fail to make required payments. In order to limit the Agency's counterparty risk, the Agency will seek to avoid excessive concentration of exposure to a single counterparty or guarantor by diversifying its counterparty exposure over time. Exposure to any counterparty will be measured based on the termination value of all Hedge contracts entered into with the counterparty. In addition, the Agency will determine and monitor the Maximum Potential Exposure, which is a reasonable worst case value of a mark-to-market calculation of the cost of terminating the Hedge contracts, on a quarterly basis. Aggregate Hedge termination value for each counterparty should take into account netting of offsetting transactions (i.e. fixed-to-floating vs. floating-to-fixed). As a matter of general principle, the Agency may require counterparties to provide regular mark-to-market valuations of Hedges they have entered into with the Agency, and may also seek independent valuations from third party professionals.

Hedge Mismatch Risk is the risk that the settlement payment on the hedge fails to offset the change in the actual cost of the deferred debt financing. This risk arises because debt instruments are issuer and market-specific while the market for hedges is generally limited to generic market indexes whose price movement may vary from that of any individual instrument.

Interest Rate Risk is the risk that unhedged rates committed to through the single family loan reservation process or the multifamily loan commitment process may rise, producing either losses in income or absolute losses. The Agency may enter into Hedges to mitigate this interest rate risk. The Agency may also choose to incur an acceptable level of interest rate exposure. In defining the desired amount of rate exposure, the Agency will consider its ability to withstand losses in a rising rate environment.

Market Risk is the risk that under a termination event, the Agency will not be able to obtain a replacement Hedge. Market risk can be divided into general market risk and market access risk. General market risk may occur because the Hedge market has suffered a loss of liquidity or collapsed, making it difficult or impossible to obtain a replacement hedge. Market access risk is the risk that following an early termination, the Agency will not be able to obtain a replacement hedge because its credit has deteriorated or it is shut out of the market for other Agency-specific reasons. To mitigate this risk, the Agency will carefully monitor its credit and act to maintain its rating.

Non-Delivery Risk/Fallout Risk is the risk that the committed loans do not deliver thus the hedges effectively become an investment, which exposes the Agency to the mark-to-market of the hedges. Typically, fallout moves in an inverse relationship to mortgage rates, that is, if mortgage rates decrease after rate lock then fallout will increase but if mortgage rates increase after rate lock then fallout will decrease.

Size Risk is the risk that the amount of loan commitments that deliver is significantly above or below the anticipated size leaving the loan commitment over-hedged or under-hedged and the issuer is left with a potentially costly settlement upon termination.

Termination Risk is the risk that due to some event or exercise of a right the Hedge may terminate or be terminated prior to its scheduled expiration which could result in a termination payment becoming payable by the Agency. To mitigate this risk, the Agency will enter Hedges with appropriate termination provisions. If a Hedge terminates, the Agency must decide whether to replace the Hedge. The Agency would evaluate the nature and scope of its interest rate risk without the terminated hedges and its ability to make any termination payments without entering a replacement. Since any termination payment owed by the Agency will generally be funded by payment from the replacement counterparty, the Agency considers its exposure to be market risk (as defined below) and the aggregate value of the bid-ask spread or the difference between the payments it would receive and make on each Hedge.

Timing Risk is the risk that loan extensions or early closings leave the loan commitment under-hedged or over-hedged and the issuer is left with a potentially costly settlement upon termination.

As a general rule, the Agency will manage the risks of its Hedge exposure on an enterprise-wide or “macro” basis, and will evaluate individual transactions within the larger context of their impact across the relevant enterprise. In each case, the degree of risk should be evaluated in comparison with degree of benefit provided.

IX. Disclosures and Financial Reporting Requirements

The Agency will track the financial implications of the Hedges it enters into, taking steps to ensure that there is full and complete monitoring and disclosure of all Hedges to the Board, to rating agencies, and in disclosure documents. Disclosure shall provide a clear summary of the special risks involved with Hedges and any potential exposure to interest rate volatility or unusually large and rapid changes in market value. With respect to its financial statements, the Agency will adhere to the guidelines for the financial reporting of Hedges, as set forth by the Government Accounting Standards Board.

Internal disclosures: A regular report will be prepared for the Board including:

A. A summary of outstanding Hedges and their counterparties;

B. The mark-to-market value (termination value) of its Hedges, as measured by the economic cost or benefit of terminating outstanding contracts as of a designated valuation date;

C. The mark-to-market value (termination value) that the Agency has to each specific counterparty, as measured by aggregate mark-to-market value, netted for offsetting transactions;

D. The Maximum Potential Exposure that the Agency has to each specific counterparty, as measured by aggregate mark-to-market value, netted for offsetting transactions;

E. The credit ratings of each counterparty (or guarantor, if applicable) and any changes in the credit rating since the last reporting period; and,

F. Any collateral posting as a result of Hedge agreement requirements.

X. Selecting and Procuring Interest Rate Hedges

The Agency will choose counterparties for entering into Hedge contracts on either a negotiated or competitive basis. As a general rule, a competitive selection process will be used if the product is relatively standard, if it can be broken down into standard components, if two or more providers have proposed a similar product to the Agency, or if competition will not create market pricing effects that would be detrimental to the Agency's interests. Negotiated procurement may be used for original or proprietary products, for original ideas of applying a specified product to an Agency need, to avoid market pricing effects that would be detrimental to the Agency's interests, or on a discretionary basis in conjunction with other business purposes. The Agency will strive to use standard hedge products wherever possible in order to increase price transparency and liquidity.

Consideration may be given in negotiated transactions to those counterparties who have demonstrated their willingness to participate in competitive transactions and have performed well. If it is determined that a Hedge should be competitively bid, the Agency may employ a hybrid structure to reward unique ideas or special effort by reserving a specified percentage of the Hedge to the firm presenting the ideas on the condition that the firm match or better the best bid. To provide safeguards on negotiated transactions, the Agency should generally secure outside professional advice to assist in the process of structuring, documenting and pricing the transaction, and to verify that a fair price was obtained. In any negotiated transactions, the counterparty shall be required to disclose all payments to third parties (including lobbyists, consultants and attorneys) who had any involvement in assisting the counterparty in securing business with the Agency.

XI. Strategies and Guidelines

Hedging strategies and guidelines will be implemented and changed, from time to time, to reflect current market conditions and operational practices. This document will be shared with the Board when it is available in final form and also when material changes are made to the document.

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State of California

M E M O R A N D U M

To: Board of Directors **Date:** February 28, 2014

From: Ken Giebel, Acting Director of Single Family Lending
California Housing Finance Agency

Subject: Agenda Item 8: Request for Revision to Debt to Income Ratio for Single Family Lending

On May 19, 2011, the Board of Directors passed Resolution 11-06 which states in part "it is the policy of the Board to require staff to present new financing strategies and new loan products for full discussion and approval by majority vote of the Board prior to implementation by the Agency." In compliance with Resolution 11-06, the Board of Directors adopted Resolution 13-09 on May 9, 2013, which set parameters on Agency Single Family Lending products in lieu of requiring staff to return to the Board of Directors seeking approval of Single Family Lending "new loan products".

To meet the ever changing legislative and housing demands for low to moderate income homebuyers in the state of California, staff is requesting the Board of Directors to review for discussion, recommendation and action on the following:

Agenda Item 8

Increasing the Agency Debt-to-Income ("DTI") ratio from 43% to 45%

In response to the anticipated 2014 "Qualified Mortgage" ("QM") definition by the Consumer Financial Protection Bureau ("CFPB") and Agency's goal to help ensure stable homeownership, Agency placed a 43% DTI parameter on all its programs pursuant to Resolution 13-09. In October 2014, CFPB's final ruling exempted many entities from the 43% DTI ceiling of the QM rule; including housing finance agencies ("HFAs"), FHA and Fannie Mae and Freddie Mac for a 7 year transition period.

Staff of the Agency wish to align Agency's DTI parameter with industry partners in part to eliminate lender confusion due to conflicting guidelines and industry standards. Agency's Master Servicer (US Bank) has a 45% DTI maximum. Mortgage Insurance Companies, Fannie Mae and FHA do not have a flat 45% DTI maximum requirement; instead their loan DTI ceilings are tiered and can be above or below 45%.

By increasing Agency DTI to 45%, approximately 5%-10% additional qualified low to moderate income borrowers will have the opportunity to own their first home.

With regards to additional risks resulting from the proposed increase of the Agency DTI to 45%, statistics from the reinstatement of the CHDAP program in 2009 (when the Agency had no DTI requirement), show that less than 1/2% of the loans went into foreclosure. In a sampling of Agency loans closed within the year prior to implementing the 43% DTI parameter, the average DTI ratio for Agency borrowers was 44.6%.

For the reasons stated above, staff of the Agency is requesting the Board of Directors to modify the DTI parameter ceiling from 43% to 45% to meet the needs of the low to moderate income housing market while maintaining responsible lending practices.

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RESOLUTION 14-04

RESOLUTION AUTHORIZING THE MODIFICATION OF THE DEBT TO INCOME RATIO TO 45% UNDER THE SINGLE FAMILY LENDING PROGRAM PRODUCT PARAMETERS

WHEREAS, on May 19, 2011, the Board of Directors adopted Resolution 11-06 which states that “it is the policy of the Board to require staff to present new financing strategies and new loan products for full discussion and approval by majority vote of the Board prior to implementation by the Agency;”

WHEREAS, on May 9, 2013, the Board of Directors adopted Resolution 13-09 which set parameters on Agency Single Family Lending products in lieu of requiring staff to return to the Board of Directors seeking approval of Single Family Lending “new loan products” as set forth in Resolution 11-06;

WHEREAS, in anticipation of the 2014 “Qualified Mortgage” (“QM”) definition by the Consumer Financial Protection Bureau (“CFPB”), Agency staff requested and the Board of Directors approved parameter 1.E. of Resolution 13-09 which restricts Agency Single Family Lending products to: “No greater than a total 43% debt-to-income ratio;”

WHEREAS, in October, 2014, CFPB’s final ruling exempted housing finance agencies (“HFAs”), including the Agency, from the 43% debt-to-income ceiling of the QM rule;

WHEREAS, the value of modifying product parameters is to allow the Agency flexibility to adjust its parameters to meet the needs of the low to moderate income housing market while maintaining responsible lending practices; and

WHEREAS, the Board of Directors has considered the recommendations of the Agency staff to modify the parameter of the debt-to-income ratio from 43% to 45%;

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

1. The Agency hereby modifies parameter 1.E. of Resolution 13-09 to read as follows: “No greater than a total 45% debt-to-income ratio.”

I hereby certify that this is a true and correct copy of Resolution 14-04 adopted at a duly constituted meeting of the Board of Directors of the Agency held on March 17, 2014, at Burbank, California.

ATTEST:______________________
Secretary

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State of California

M E M O R A N D U M

To: Board of Directors **Date:** February 28, 2014

Tim Hsu, Director of Financing

From: **CALIFORNIA HOUSING FINANCE AGENCY**

Subject: Homeownership Loan Portfolio Update as of December 31, 2013

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

- Delinquencies as of December 31, 2013 by insurance type,
- Delinquencies as of December 31, 2013 by product (loan) type,
- Delinquencies as of December 31, 2013 by loan servicer,
- Delinquencies as of December 31, 2013 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 June 2011 thru December 2013)
- A chart of the number of CalHFA's Conventional Delinquent Loan Trend for 30-90 Day and 120 Day (for the period of June 2011 thru December 2013)
- A graph of CalHFA's 90-day+ ratios for FHA and Conventional loans (for the period of December 2008 through December 2013),
- A graph of 90-day+ ratios for CalHFA's three Conventional loan (products) types, for the period of December 2011 through December 2013,
- Real Estate Owned (REO) at December 31, 2013,
- Accumulated Uninsured Losses from January 1, 2008 through December 31, 2013,
- Disposition of 1st Trust Deed Gain/(Loss) for January 1, 2013 through December 31, 2013, and
- Write-Offs of subordinate loans for January 1, 2013 through December 31, 2013

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CalHFA California Housing Finance Agency

HOMEOWNERSHIP LOAN PORTFOLIO

DELINQUENCY, REO, SHORT SALE and LOSS REPORT – DECEMBER 31, 2013

Reconciled Loan Delinquency Summary
All Active Loans By Insurance Type
As of December 31, 2013

	Loan Count	Balance	% of Balance	Loan Count	30-Day	Loan Count	60-Day	Loan Count	90(+) Day	Totals Count	Totals %
				DELINQUENCY RATIOS - % of Loan Count							
Federal Guaranty											
FHA	7,612	$ 822,179,913	29.94%	432	5.68%	145	1.90%	464	6.10%	1,041	13.68%
VA	176	18,323,348	0.67%	5	2.84%	0	0.00%	12	6.82%	17	9.66%
RHS	76	13,401,750	0.49%	1	1.32%	0	0.00%	9	11.84%	10	13.16%
Conventional loans											
with MI											
CalHFA MI Fund	3,630	910,041,698	33.14%	154	4.24%	69	1.90%	320	8.82%	543	14.96%
without MI											
Orig with no MI	3,972	720,011,696	26.22%	121	3.05%	47	1.18%	173	4.36%	341	8.59%
MI Cancelled*	1,624	262,030,950	9.54%	44	2.71%	12	0.74%	47	2.89%	103	6.34%
Total CalHFA	17,090	$ 2,745,989,355	100.00%	757	4.43%	273	1.60%	1,025	6.00%	2,055	12.02%

*Cancelled per Federal Homeowner Protection Act of 1998, which grants the option to cancel the MI with 20% equity.

Note: In accordance with CalHFA's policy, *no trustee sale is permitted between December 15 and January 5 of any year without CalHFA's prior written approval.*

Reconciled Loan Delinquency Summary
All Active Loans By Loan Type
As of December 31, 2013

	Loan Count	Balance	% of Balance	Loan Count	30-Day	Loan Count	60-Day	Loan Count	90(+) Day	Totals Count	Totals %
				DELINQUENCY RATIOS - % of Loan Count							
30-yr level amort											
FHA	7,612	$ 822,179,913	29.94%	432	5.68%	145	1.90%	464	6.10%	1,041	13.68%
VA	176	18,323,348	0.67%	5	2.84%	0	0.00%	12	6.82%	17	9.66%
RHS	76	13,401,750	0.49%	1	1.32%	0	0.00%	9	11.84%	10	13.16%
Conventional - with MI	1,801	398,445,615	14.51%	72	4.00%	42	2.33%	110	6.11%	224	12.44%
Conventional - w/o MI	4,985	843,441,122	30.72%	142	2.85%	50	1.00%	169	3.39%	361	7.24%
40-yr level amort											
Conventional - with MI	327	88,677,838	3.23%	12	3.67%	7	2.14%	32	9.79%	51	15.60%
Conventional - w/o MI	169	32,623,509	1.19%	6	3.55%	3	1.78%	9	5.33%	18	10.65%
5-yr IOP, 30-yr amort											
Conventional - with MI	1,502	422,918,245	15.40%	70	4.66%	20	1.33%	178	11.85%	268	17.84%
Conventional - w/o MI	442	105,978,015	3.86%	17	3.85%	6	1.36%	42	9.50%	65	14.71%
Total CalHFA	17,090	$ 2,745,989,355	100.00%	757	4.43%	273	1.60%	1,025	6.00%	2,055	12.02%
	Weighted average of conventional loans:			319	3.46%	128	1.39%	540	5.85%	987	10.70%

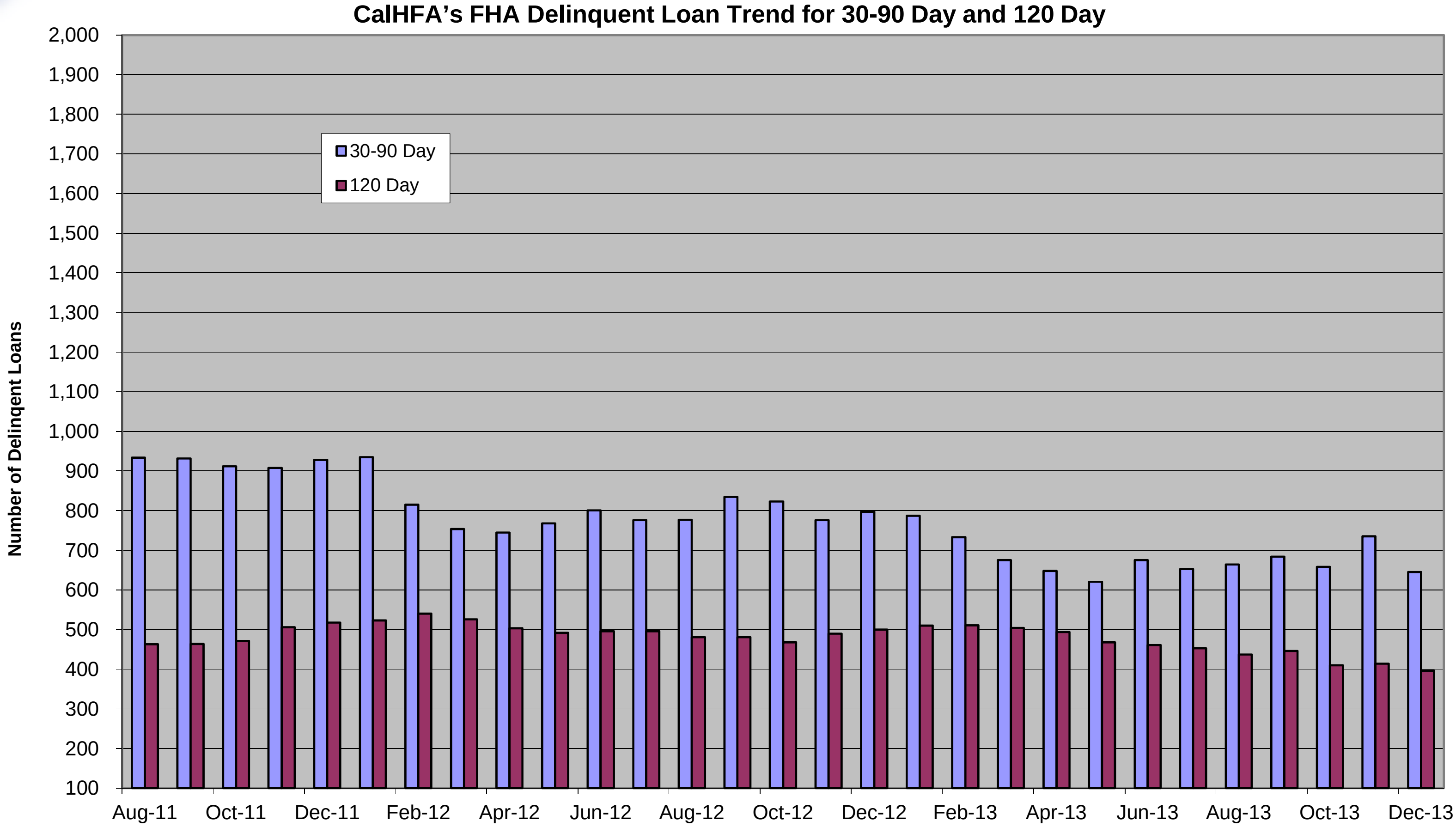
Reconciled Loan Delinquency Summary
All Active Loans By Servicer
As of December 31, 2013

	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	6,354		$ 1,297,131,184	47.24%	221	3.48%	73	1.15%	381	6.00%	675	10.62%
GUILD MORTGAGE	4,027		611,182,298	22.26%	217	5.39%	71	1.76%	165	4.10%	453	11.25%
WELLS FARGO HOME MORTGAGE	1,790		180,467,759	6.57%	80	4.47%	35	1.96%	86	4.80%	201	11.23%
EVERHOME MORTGAGE COMPANY	1,681		142,826,311	5.20%	99	5.89%	19	1.13%	64	3.81%	182	10.83%
CALHFA - LOAN SERVICING - BAC HOME LOANS	1,553	*	251,648,387	9.16%	71	4.57%	25	1.61%	132	8.50%	228	14.68%
GMAC MORTGAGE CORP	743		89,755,032	3.27%	33	4.44%	23	3.10%	60	8.08%	116	15.61%
FIRST MORTGAGE CORP	615		111,971,764	4.08%	19	3.09%	9	1.46%	40	6.50%	68	11.06%
BAC HOME LOANS SERVICING, LP	135	**	25,699,246	0.94%	17	12.59%	11	8.15%	77	57.04%	105	77.78%
JPMORGAN CHASE BANK, N.A.	117		25,707,194	0.94%	0	0.00%	4	3.42%	14	11.97%	18	15.38%
CITIMORTGAGE, INC.	38		8,166,037	0.30%	0	0.00%	3	7.89%	6	15.79%	9	23.68%
DOVENMUEHLE MORTGAGE, INC.	35		949,000	0.03%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
WESCOM CREDIT UNION	2		485,142	0.02%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Total CalHFA	17,090		$ 2,745,989,355	100.00%	757	4.43%	273	1.60%	1,025	6.00%	2,055	12.02%

*These BAC Home Loans were transferred to CalHFA Loan Servicing in November 2013.
**These BAC Home Loans will be transferred to CalHFA Loan Servicing in February 2014.

Reconciled Loan Delinquency Summary
All Active Loans By County
As of December 31, 2013

	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	2,831	$ 542,756,083	19.77%	128	4.52%	52	1.84%	171	6.04%	351	12.40%
SAN DIEGO	1,406	275,774,576	10.04%	47	3.34%	16	1.14%	90	6.40%	153	10.88%
KERN	1,129	106,690,333	3.89%	58	5.14%	23	2.04%	83	7.35%	164	14.53%
SANTA CLARA	1,092	261,618,934	9.53%	13	1.19%	8	0.73%	39	3.57%	60	5.49%
FRESNO	943	75,265,531	2.74%	58	6.15%	15	1.59%	42	4.45%	115	12.20%
TULARE	937	75,926,044	2.76%	50	5.34%	16	1.71%	54	5.76%	120	12.81%
SAN BERNARDINO	770	115,039,985	4.19%	42	5.45%	19	2.47%	81	10.52%	142	18.44%
SACRAMENTO	769	123,755,482	4.51%	41	5.33%	12	1.56%	62	8.06%	115	14.95%
ORANGE	762	158,242,238	5.76%	21	2.76%	12	1.57%	42	5.51%	75	9.84%
RIVERSIDE	760	108,416,760	3.95%	58	7.63%	25	3.29%	74	9.74%	157	20.66%
ALAMEDA	738	161,974,848	5.90%	18	2.44%	5	0.68%	28	3.79%	51	6.91%
CONTRA COSTA	600	120,148,594	4.38%	31	5.17%	11	1.83%	34	5.67%	76	12.67%
IMPERIAL	452	41,565,384	1.51%	31	6.86%	11	2.43%	25	5.53%	67	14.82%
VENTURA	412	99,749,472	3.63%	18	4.37%	5	1.21%	11	2.67%	34	8.25%
SONOMA	362	67,848,084	2.47%	9	2.49%	3	0.83%	14	3.87%	26	7.18%
OTHER COUNTIES	3,127	411,217,008	14.98%	134	4.29%	40	1.28%	175	5.60%	349	11.16%
Total CalHFA	17,090	$ 2,745,989,355	100.00%	757	4.43%	273	1.60%	1,025	6.00%	2,055	12.02%


CalHFA's FHA Delinquent Loan Trend for 30-90 Day and 120 Day
Number of Delinquent Loans
30-90 Day
120 Day
2,000
1,900
1,800
1,700
1,600
1,500
1,400
1,300
1,200
1,100
1,000
900
800
700
600
500
400
300
200
100
Aug-11
Oct-11
Dec-11
Feb-12
Apr-12
Jun-12
Aug-12
Oct-12
Dec-12
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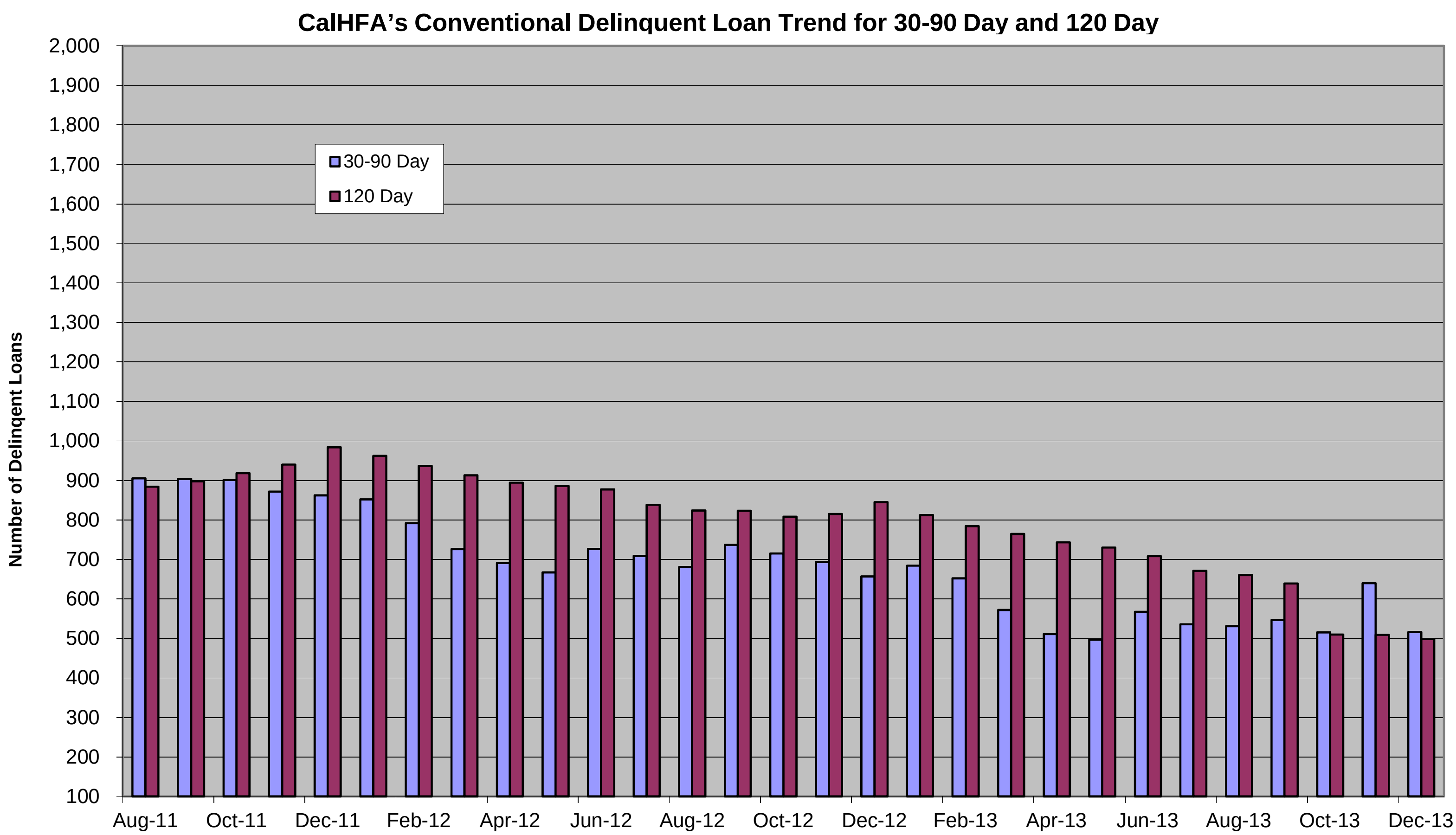
Jun-13
Aug-13
Oct-13
Dec-13


CalHFA's Conventional Delinquent Loan Trend for 30-90 Day and 120 Day
Number of Delinquent Loans
30-90 Day
120 Day
2,000
1,900
1,800
1,700
1,600
1,500
1,400
1,300
1,200
1,100
1,000
900
800
700
600
500
400
300
200
100
Aug-11
Oct-11
Dec-11
Feb-12
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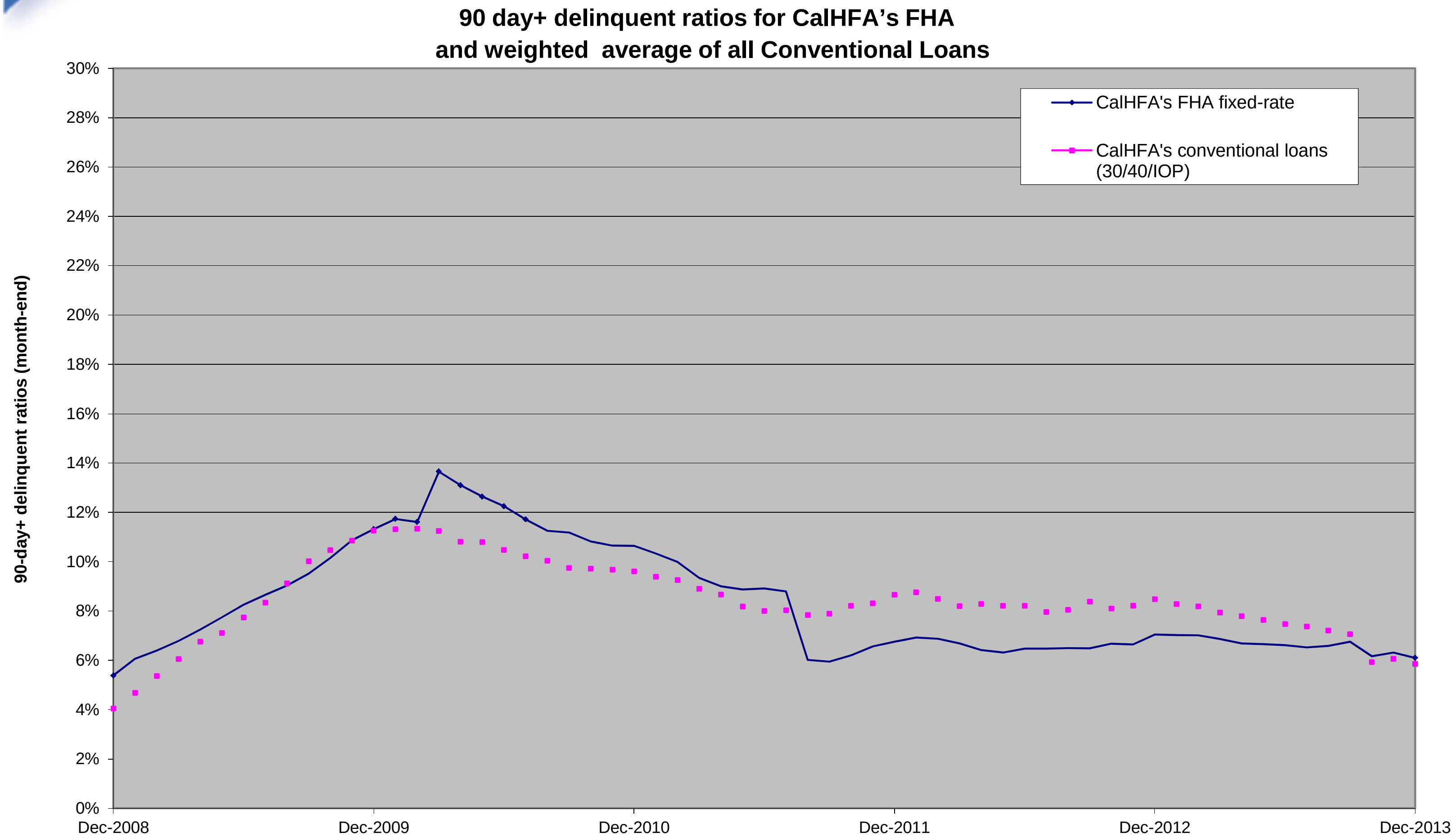
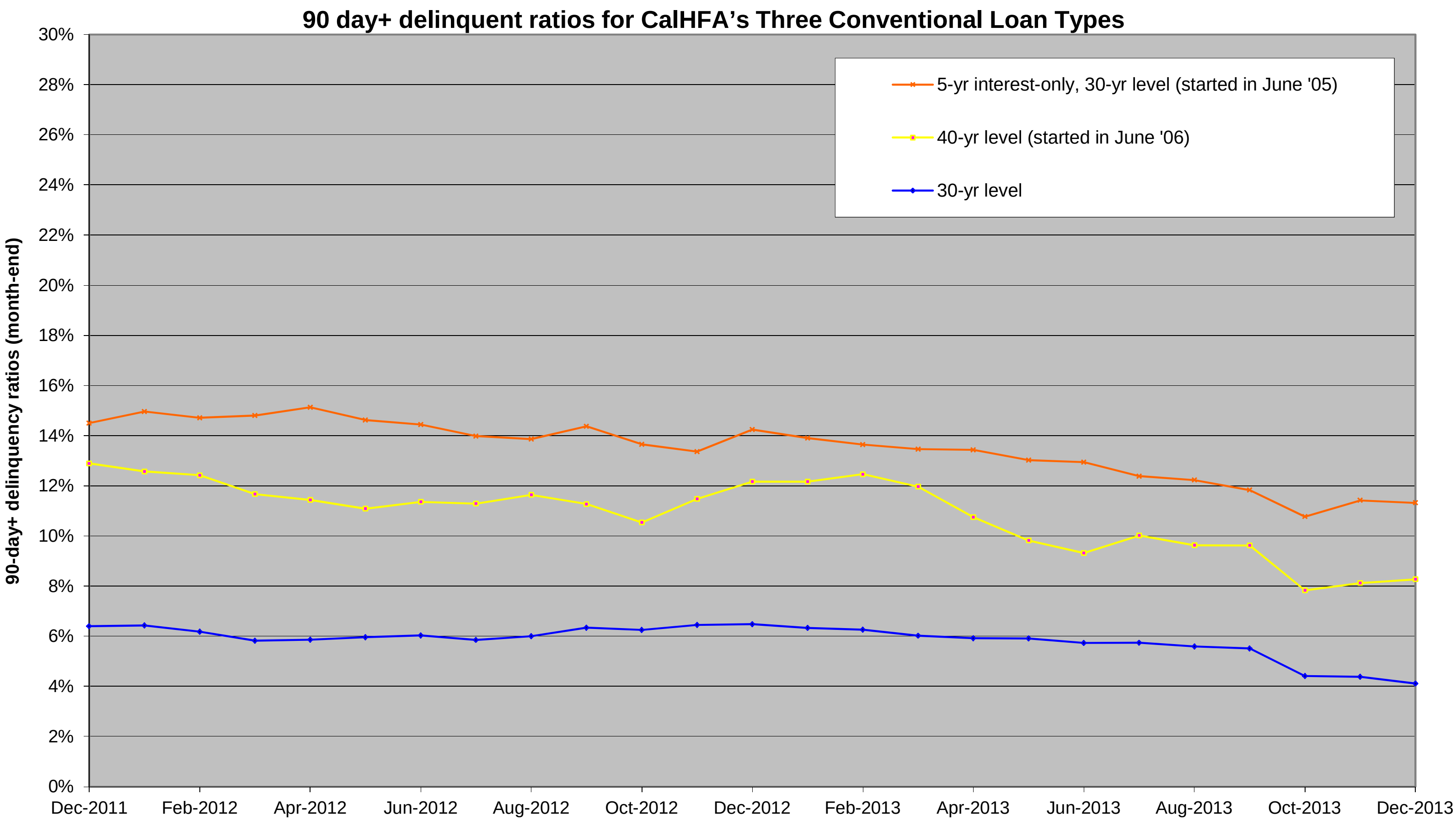
Jun-13
Aug-13
Oct-13
Dec-13


90 day+ delinquent ratios for CalHFA's FHA
and weighted average of all Conventional Loans
CalHFA's FHA fixed-rate
CalHFA's conventional loans (30/40/IOP)
90-day+ delinquent ratios (month-end)
30%
28%
26%
24%
22%
20%
18%
16%
14%
12%
10%
8%
6%
4%
2%
0%
Dec-2008
Dec-2009
Dec-2010
Dec-2011
Dec-2012
Dec-2013


90 day+ delinquent ratios for CalHFA's Three Conventional Loan Types
5-yr interest-only, 30-yr level (started in June '05)
40-yr level (started in June '06)
30-yr level
90-day+ delinquency ratios (month-end)
30%
28%
26%
24%
22%
20%
18%
16%
14%
12%
10%
8%
6%
4%
2%
0%
Dec-2011
Feb-2012
Apr-2012
Jun-2012
Aug-2012
Oct-2012
Dec-2012
Feb-2013
Apr-2013
Jun-2013
Aug-2013
Oct-2013
Dec-2013

Cal HFA California Housing Finance Agency

Real Estate Owned

Calendar Year 2013 (As of December 31, 2013)												
			**Trustee Sales			Disposition of REO(s)						
Loan Type	Beginning Balance # of Loans	Prior Calendar Adj.	Reverted to CalHFA Jan-Nov	Reverted to CalHFA December	Total Trustee Sales	Repurchased by Lender Jan-Nov	Market Sale(s) Jan-Nov	Repurchased by Lender December	Market Sale(s) December	Total Disposition of REO(s)	Ending Balance # of Loans	UPB of REO's Owned
FHA/RHS/VA	45	(1)	105	6	111	134		9		143	12	$ 1,686,151
Conventional	161	1	239	10	249		298		22	320	91	19,379,399
Total	206	0	344	16	360	134	298	9	22	463	103	$ 21,065,550

Calendar Year 2012							
			*Trustee Sales	Disposition of REO(s)			
Loan Type	Beginning Balance # of Loans	Prior Calendar Adj.	Reverted to CalHFA 2012	Repurchased by Lender 2012	Market Sale(s) 2012	Ending Balance # of Loans	UPB of REO's Owned
FHA/RHS/VA	124	(18)	312	373		45	$ 7,884,581
Conventional	565	3	786		1,193	161	40,029,375
Total	689	(15)	1,098	373	1,193	206	$ 47,913,957

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

**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, forty one (41) 3rd party sales in calendar year 2012, and there are fifty nine (59) 3rd party sales to date 2013.*

Accumulated Uninsured Losses as of December 31, 2013						
Conventional Loans	# of Properties Sold	Principal Write-Offs (1)	# of GAP Claims	Actual GAP(2) Claim Payments	# of Subordinate Loans	Subordinate Write-Offs (3) & (4)
REOs Sold	5,018	$ (184,083,402)	2,601	$ (117,367,774)		
Short Sales	1,355	(59,966,339)	395	(17,461,359)	2,090	$ (18,478,196)
3rd Party Sales	80	(196,576)	4	(170,867)	83	(807,826)
Write-offs resulting from foreclosures					8,274	(75,899,227)
Subordinate loan without CalHFA 1st					1,970	(14,128,908)
Total:	6,453	$ (244,246,317)	3,000	$ (135,000,000)	12,417	$ (109,314,158)

(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.
(4) Prior to May 1, 2013 this chart included losses on non-CalHFA FNMA subordinate loans serviced by CalHFA loan servicing.

2013 Year to Date Composition of 1st Trust Deed Loss
(As of December 31, 2013)

	Disposition				
Loan Type	Repurchased by Lender	Market Sales	Short Sales	Loan Balance at Sales	Principal Write-Offs
FHA/RHS/VA	143		60	$ 37,357,721	
Conventional		320	368	181,394,129	$ (30,651,523)
	143	320	428	$ 218,751,850	$ (30,651,523)

2013 Year to Date Composition of Subordinate Write-Offs by Loan Type(1)
(As of December 31, 2013)

	Active Loans		Write-Offs with CalHFA 1st		Write-Offs w/o CalHFA 1st		Total	
Loan Type	Active Loans	Dollar Amount	Number of Write-Offs	Dollar Amount	Number of Write-Offs	Dollar Amount	Number of Write-Offs	Dollar Amount
CHAP/HHPA (HiCAP)	6,791	$71,701,342	452	$4,323,512	12	$ 85,741.99	464	$4,409,254
CHDAP / ECTP (THPA) / HiRAP	27,443	191,318,163	519	4,088,704	329	2,156,263	848	6,244,967
Other (2)	207	2,731,011	1	9,900	1	5,910	2	15,810
	34,441	$265,750,515	972	$8,422,117	342	$2,247,915	1,314	$10,670,032

(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:** February 28, 2014

Timothy Hsu, Director of Financing

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

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1) OUTSTANDING BONDS

Below is the Agency's outstanding debt position. This table does not include any pass-thru or conduit financings which makes up an additional $367 million

BONDS OUTSTANDING
As of February 1, 2014
($ in millions)

	Fixed Rate	Variable Rate	Totals
Single Family	$,1,686	$1,304	$2,990
Multifamily	353	343	696
TOTALS	$2,039	$1,647	$3,686

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 $1.6 billion, 40% of our $4 billion of total indebtedness as of February 1, 2014.

VARIABLE RATE DEBT
($ in millions)

	Swapped to Fixed Rate	Not Swapped or Tied to Variable Rate Assets	Total Variable Rate Debt
HMRB (SF)	$529	$775	$1,304
MHRB (MF)	267	76	343
Total	$796	$851	$1,647

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	$516	$788	$1,304
MHRB	102	0	241	343
Total	$102	$516	$1,029	$1,647

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 with an initial expiration date of December 23, 2012. However, the Agency successfully negotiated with Treasury to extend the deadline for the TCLP to December 23, 2015.

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 2/1/2014
($ in millions)

Financial Institution	$ Amount of Bonds
Freddie Mac	$ 515
Fannie Mae	515
Total	$1,030

d) INTEREST RATE SWAP

Currently, we have a total of 79 “fixed-payer” swaps with eleven different counterparties for a combined notional amount of $1.5 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	$907	$117	$1,024
MHRB	492	0	492
TOTALS	$1,399	$117	$1,516

SWAPS
($ in millions)

	Hedging Bonds	Not Hedging Bonds	Totals
HMRB	$529	$495	$1,024
MHRB	272	220	492
TOTALS	$801	$715	$1,516

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, 2014 semiannual debt service payment date we made a total of $33 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 Guarantor	Credit Ratings Moody's	S & P	Notional Amounts Swapped as of 2/1/2014 ($ in millions)	Number of Swaps
Merrill Lynch Derivative Products	Aa3	A+	$ 499	33
JPMorgan Chase Bank, N.A.	Aa3	A+	335	15
Goldman Sachs Mitsui Marine Derivative Products, , L.P.	Aa2	AAA	192	7
Deutsche Bank AG	A2	A	149	10
AIG Financial Products, Corp. [2]	Baa1	A-	91	3
Citigroup Financial Products, Inc.	Baa2	A-	83	4
Morgan Stanley Capital Services, Inc.	Baa2	A-	82	2
BNP Paribas	A2	A+	40	2
Bank of New York Mellon	Aa2	AA-	25	1
UBS AG	A2	A	12	1
Dexia Credit Local New York Agency [2]	Baa2	BBB	10	1
			$ 1,517 [1]	79

[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 $851 million, 23% 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 $851 million of net variable rate exposure ($426 million taxable and $425 million tax-exempt) is offset by the Agency's variable rate investments and excess swap positions. The Agency's balance sheet has: i) $458 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) $687 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 $851 million 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 $851 million of net variable rate exposure translates to $213 million of net variable rate exposure. This $213 million is further reduced by the $458 million of funds invested in SMIF. Thus the "true" net variable rate debt is -$272 million which, from the Agency's balance sheet perspective, means there is no net unhedged position.

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 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 10 basis points or 0.10% below SIFMA, whereas in 2009, our VRDOs were resetting at an average of 106 basis points or 1.06% above SIFMA. 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.

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			
2007	69%	2011	79%
2008	84%	2012	69%
2009	123%	2013	49%
2010	96%	2014 to date	24%

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)	$857	$0	$857
SIFMA (+ spread)	364	0	364
Stepped % of LIBOR [1]	168	0	168
3 mo. LIBOR (+ spread)	0	72	72
% of SIFMA	18	0	18
1 mo. LIBOR	0	27	27
3 mo. LIBOR	0	8	8
6 mo. LIBOR	0	2	2
TOTALS	$1, 407	$109	$1,516

[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) **<u>AMORTIZATION RISK</u>**

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	361,975
2013	243,855
2014	142,110
	$1,708,610

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-2008	58%
Jun-2009	89%
Dec-2009	128%
Jun-2010	165%
Dec-2010	236%
Jun-2011	255%
Dec-2011	299%
Jun-2012	278%
Dec-2012	257%
Jun-2013	308%
Dec-2013	335%

Of interest is an $715 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)
6/30/12 *	($324)
9/30/12	($330)
12/31/12	($294)
3/31/13	($294)
6/30/13	($248)
9/30/13	($203)
12/31/13	($176)

** As reported in the Financial Statements*

e) <u>COLLATERAL POSTING RISK</u>

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 2/12/2014
($ in millions)

	JPMorgan	Goldman Sachs	BofA	BofA / Merrill Lynch	Deutsche	Total
Marked-to-Market	38.88	21.08	38.71	22.9	21.95	
Credit Support Amount	23	7.33	6.25	11.03	0	47.61

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