BOARD OF DIRECTORS

California Housing Finance Agency
Board of Directors

May 13, 2014

California Public Employees' Retirement System ("CalPERS")
CalPERS Auditorium
Lincoln Plaza North
400 Q Street
Sacramento, California
(916) 475-3000

10:00 a.m.

NOTES**

HOTEL PARKING: Parking is available as follows: (1) Lincoln Plaza garage parking is available for $2.50 per hour, with a maximum of $12.00; or (2) metered parking is available on surface streets.

FUUTURE MEETING DATES: Next CalHFA Board of Directors Meeting will be July 8, 2014, teleconferenced from CalSTRS Board Room, West Sacramento, California, and CalHFA Culver City Office, Culver City, California.

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STATE OF CALIFORNIA

CALIFORNIA HOUSING FINANCE AGENCY

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BOARD OF DIRECTORS

PUBLIC MEETING

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Burbank Airport Marriott & Convention Center
2500 Hollywood Way, Pasadena Room
Burbank, California

Monday, March 17, 2014
10:00 a.m. to 12:30 p.m.

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

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A P P E A R A N C E S

Board of Directors Present:

MATTHEW JACOBS, Chairperson
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

THERESA GUNN
Deputy Secretary, Farm and Home Loan Division
CalVet Home Loans
State of California

JONATHAN HUNTER
Managing Director, Region 2
Corporation for Supportive Housing

TIA BOATMAN PATTERSON
General Counsel
Sacramento Housing & Redevelopment Agency

PRESTON PRINCE
CEO & Executive Director
Fresno Housing Authority

DALILA SOTELO
Principal
The Sotelo Group

A P P E A R A N C E S

Participating CalHFA Staff:

SHERYL ANGST
Housing Finance Specialist

KENNETH H. GIEBEL
Director of Marketing

TIM HSU
Director of Financing

VICTOR J. JAMES
General Counsel

JOJO OJIMA
Office of the General Counsel
Legal Division

RICK OKIKAWA
Programs Administrator

JACKLYNNE M. RILEY
Director
Administration Division

ANTHONY SERTICH
Manager
Financing Risk Division

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Public Testimony:

PETE SERBANTES
HomeStrong USA

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Table of Contents

Table of Contents, continued

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BE IT REMEMBERED that on Monday, March 17, 2014, commencing at the hour of 10:00 a.m., at the Burbank Airport Marriott Hotel & Convention Center, 2500 Hollywood Way, Pasadena Room, Burbank, California, before me, YVONNE K. FENNER, CSR #10909, RPR, the following proceedings were held:

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CHAIRPERSON JACOBS: I'm going to call to order -- first of all, welcome, everyone, and I'm going to call to order the March 17th, 2014 meeting of the California Housing Finance Agency Board of Directors. Welcome, everybody. Sorry for the little earthquake. That's L.A.'s way of saying we love you.

I'm going to pass around for people. We've got parking ticket vouchers. I'm going to pass these around going this way.

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Item 1. Roll Call.

CHAIRPERSON JACOBS: All right. Let's, JoJo, start with the roll call.

MS. OJIMA: Thank you.

Ms. Caballero.

MS. CABALLERO: Present.

MS. OJIMA: Mr. Deems.

(No audible response.)

MS. OJIMA: Ms. Falk.

(No audible response.)

MS. OJIMA: Ms. Gunn for Mr. Gravett.

MS. GUNN: Present.

MS. OJIMA: Mr. Gunning.

(No audible response.)

MS. OJIMA: Mr. Hunter.

MR. HUNTER: Present.

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

MS. CARROLL: Here.

MS. OJIMA: Ms. Patterson.

MS. PATTERSON: Here.

MS. OJIMA: Mr. Prince.

MR. PRINCE: Here.

MS. OJIMA: Ms. Sotelo.

MS. SOTELO: Present.

MS. OJIMA: Mr. Alex.

(No audible response.)

MS. OJIMA: Mr. Cohen.

(No audible response.)

MS. OJIMA: Ms. Cappio.

MS. CAPPIO: Here.

MS. OJIMA: Mr. Jacobs.

CHAIRPERSON JACOBS: Here.

MS. OJIMA: We have a quorum.

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

CHAIRPERSON JACOBS: All right. Let's jump into the minutes from the January 14th meeting, the approval of the minutes. Does anyone --

MR. PRINCE: I'll so move.

MR. HUNTER: I'll second.

CHAIRPERSON JACOBS: Great.

MS. OJIMA: Thank you.

CHAIRPERSON JACOBS: And if there are ever corrections on the minutes, just make sure you e-mail back saying I think you got the speaker wrong or real simple.

Let's do it.

MS. OJIMA: Okay. Ms. Caballero.

MS. CABALLERO: Aye.

MS. OJIMA: Ms. Gunn.

MS. GUNN: I abstain.

MS. OJIMA: Thank you.

Mr. Hunter.

MR. HUNTER: Aye.

MS. OJIMA: Ms. Carroll.

MS. CARROLL: Aye.

MS. OJIMA: Ms. Patterson.

MS. PATTERSON: Aye.
MS. OJIMA: Mr. Prince.
MR. PRINCE: Aye.
MS. OJIMA: Ms. Sotelo.
MS. SOTELO: Aye.
MS. OJIMA: Mr. Jacobs.
CHAIRPERSON JACOBS: Aye.
MS. OJIMA: The minutes have been approved.
CHAIRPERSON JACOBS: Great. Thank you, JoJo.

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Item 3. Chairman/Executive Director comments.

CHAIRPERSON JACOBS: I think just before we get into this meeting, I do want to encourage people to ask questions. The main reason we are here is to ask questions, make sure that we are really comfortable with the way that policy is moving forward, make sure we're comfortable with what the Agency is doing and that we're doing the right kinds of policies to promote home ownership and affordable housing in the state of California.

Does anyone have any additions to the agenda or any changes, new items?

If you wouldn't mind just introducing yourself, Theresa Gunn, please. Just tell everyone a little bit about who you are and...

MS. GUNN: All right. Theresa Gunn. I'm the deputy secretary for the Farm and Home Loan Division of CalVet. I have recently taken this assignment, just about a year ago. Before that I spent about 13 years in the Department of Finance, ten of which were in the capital outlay assignment with a majority of the state under my belt, pretty much everything except housing and parks. And before that I was in private industry.

CHAIRPERSON JACOBS: Great, thanks. Welcome and look forward to working with you.

Does the executive director have any comments at this time before we --

MS. CAPPIO: Just a few.

CHAIRPERSON JACOBS: -- jump in?

MS. CAPPIO: Good morning. Happy St. Patrick's Day. I think instead of L.A. welcoming in -- the earthquake welcoming us to L.A., maybe it was a happy St. Patrick's Day earthquake.

So --

MR. PRINCE: The epicenter was in Westwood, and as a Bruin I think it was just UCLA, like --

MS. CAPPIO: That's right.

MR. PRINCE: -- a bunch of fans just kicking off --

MS. CAPPIO: Maybe that's a good omen.

MR. PRINCE: I think so.

MS. CAPPIO: I'll trade --

MR. PRINCE: I'm taking it.

MS. CAPPIO: Could we trade bracket predictions later? I'm after that billion dollars.

MR. PRINCE: I have UCLA winning it all.

MS. CAPPIO: Anyway, in all seriousness, a report on the cost study is -- I know I sound like a broken record -- we continue to work on that study. I -- if it's going to result in my injury or death, it will be out by our March meeting -- I mean by our May meeting. And we just continue to refine and revise it to make sure that we have the most accurate data and analysis in there.

I want to report that there's a new agency deputy secretary for housing at Business and Consumer Services. Her name is Susan Riggs, and she most recently was the executive director of the San Diego Housing Federation. She's got a lot of good experience, and she's a great new addition to the housing issue -- issue area in Sacramento, and we look forward to working with her.

We have news about Moody's ratings. As you may know, at the January meeting they were still working on their analysis, and we have some good news, although not as good as we would have hoped, but, hey, anything is -- is good. In terms of the single-family bond fund, that remained -- the rating remained unchanged, but the outlook went from negative to positive. In terms of the general obligation rating, that remained unchanged but the outlook went from negative to stable. And the multiple-family bond fund was put on watch for an upgrade, and they -- Moody's indicated that they were hopeful that the general obligation and multiple-family fund could be decoupled, which is very strategic for us in unwinding ourselves from the temporary liquidity -- not problem, the temporary liquidity program with the Treasurer.

So I end my remarks there, would be glad to take any questions or comments.

CHAIRPERSON JACOBS: We've got time for members of the public towards the end of the meeting, but if there's any member of the public who's here who has a time pressure and would like to address the Board now, this would be a great time.

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Item 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. (Resolution 14-01)

CHAIRPERSON JACOBS: All right. Seeing none, let's move on to agenda item 4. Is Tim going to be presenting this?

MR. HSU: Good morning, Mr. Chairman. Good morning, Members of the Board. This is a little bit of a different setting from the last time. I kind of feel like this whole setting kind of shrunk, like Alice in Wonderland.

I'd like to continue the comment that Claudia had on our rating actions recently from Moody's. I just thought that this was a good way to illustrate how far we have come. You can see -- what you have in front of you on page 2 is a history of our ratings from Moody's over the last five or six years. You can see that in that 2009-to-2011 era, which coincides with the financial crisis, things were quite difficult for the Agency. And we were able to stabilize our ratings with the 2013 update maintaining the same rating, and this year, we also kept the same rating.

The changes this year are very subtle, but positive nonetheless. Our outlook for HMRB, despite the fact that it stayed the same rating, the outlook would change to positive. We had a negative outlook before. And for our general obligation, the rating stayed the same, just like Claudia mentioned, A3, but the outlook was changed to stable. The Multi-Family III rating is on a watch for upgrade, and we're hopeful that that will conclude sometime this month.

And here's the history. This is a chart I showed you at the January Board meeting. The one thing that we are -- we are very delighted that S&P did for us is this whole idea that I've shown you previously of this decoupling. Decoupling, that is the rating of the general obligation being different from the rating of the Multi-Family III.

And that's important for several reasons, one, that Claudia mentioned, which is that our TCLP program is housed in this Multi-Family III indenture, so having a much better credit rating there will improve our options in exiting the program next year. So I thought that this is something that I sort of find helpful as I think about our ratings over time, and I hope you find it to be helpful as well.

So without further ado, agenda item 4. One of the key actions that the Board takes every year in March is passing or authorizing the financing resolutions for staff. And the resolutions that the Board authorizes are in three parts. There's one for single family, one for multi-family and also one to apply for private activity volume cap from CDLAC.

At the January Board meeting, I had mentioned that we would include the hedging piece in the resolutions. I believe we sent out an e-mail to clarify. This was a question raised by Katie, so thank you, Katie. We sent out an e-mail around to clarify that the resolutions that are in front of you do not include this hedging piece. At the January Board meeting, we felt that there numerous questions raised. Janet had asked a question about maximum loss allowance, and the Secretary had asked about having a more in-depth discussion about risks, and I believe Dalila also asked about having more of a focus on the operational risks.

So we felt that with these questions and concerns still bubbling that it's best that we continue in the dialogue with the Board. And if and when the Board is ready and comfortable, we'll introduce amendments that are resolutions at a later point during the year. We just felt that that way we didn't make you feel as if we are rushing this through, and you had the proper time and also space to consider these questions.

So the resolutions, again, do not include the hedging piece. And after we pass the -- after we ask you to authorize the resolutions, we'll continue the dialogue. And Tony is going to be the person who will have the fun to introduce the hedging policies and also the discussion about risks at a later point.

So first, the resolution on single family. In general, the financing resolutions themselves are broken out in three parts. The first part authorizes the issuance of what we refer to as debt management bonds. So these are refunding bonds that would help us continue to deleverage our balance sheet.

And the reason why this provision -- I highlighted sort of key provisions on the slide. The reason why this provision of giving us the flexibility to deposit another $50 million to facilitate the restructuring is that about two-thirds of our loans inside these single-family bonds are still conventionally insured. And these are the loans that over the last four or five years that we have sustained some losses on.

So, for example, about two years ago, two summers ago, we did a refunding of about $466 million, and for that deal, we had to pledge nearly $50 million to facilitate the refunding getting done. By getting it done we mean achieve a certain rating so that the sale of the bonds is viable.

And the second section of the resolution is authorizing the issuance of new bonds. So at the January Board meeting, we had talked about this idea that, well, at the moment we're delivering all the mortgage-backed securities that we're originating into the mortgage market. But if at a later point we decided to keep some of these mortgage-backed securities and issue our own bonds to purchase those mortgage-backed securities, we can create an annuity so that we can have more clarity about the future of the Agency. So those new bonds that we might potentially issue comes from this section of the resolution.

And the third section of the resolution deals with all the related documents to do one and two. So if we're executing certain financial statements, financial contracts, or let's say offering documents or disclosure documents related to either the debt management bonds or the new bonds, the third section authorizes staff to be able to execute those kind of documents.

If you have any questions, I can answer them.

CHAIRPERSON JACOBS: Ms. Sotelo.

MS. SOTELO: Thank you so much, Tim. I just had a brief question. In your staff report you mentioned 200 million for operating capital. And I wasn't sure where in the resolution that was authorized and what that 200 million is for. Is that -- can you explain a little bit more about that?

MR. HSU: I believe the section you're talking about, is that in section 3?

MS. SOTELO: Section 3, short-term credit facilities and 200 million in operating.

MR. HSU: So under section 3, there's also that $200 million. So at the January Board, I had talked about that. At the moment the loans that we're making are going into these mortgage-backed securities and, again, delivered into the mortgage market. So if we decided to issue bonds against -- issue -- if we decided to issue bonds and purchase these mortgage-backed securities so that we're creating an annuity and then building our balance sheet then, it's quite possible that after the mortgage-backed security is being made or created, that there is a time gap between the securitization of the MBS to the issuance of the bond, and that gap could require us to go out there and get a warehouse line.

So if we get a secured warehouse line, meaning that we say that we'll give you these MBSs and you give us a warehouse line, we know something like that is viable. And that speaks to this ability to go out there and get these warehouse lines so that we could be warehousing our loans over time with like a line of credit for that purpose.

So the $200 million, the way we ask the Board to authorize this is that it's $200 million both single family and multi-family.

MS. SOTELO: Thank you.

CHAIRPERSON JACOBS: Just one question. Given our projections internally for the way the Agency is going to grow, is this size anticipating a growth we might see as the health of the State recovers a little bit?

MR. HSU: I think it's -- it's adequate for now. And to be fair, the warehouse lines that we used to have in the aggregate was much higher than this. I want to say that we had almost half-a-billion-dollar warehouse line at some point. We had two sources, one from the State and one from a private bank. And together, combined at its peak, we probably had close to $450 million.

So at the moment, the originations that we have out of multi-family, I think at some point -- we talked to the Board about this last year -- we're able to warehouse those loans with internal resources. Where this I think really -- where I see this coming into play in sort of a viable fashion is this idea that if we are starting to get a lot of MBSs delivered on a monthly basis. At the January Board meeting I had mentioned that our threshold is roughly about $20 million a month. Once we start seeing that number getting close and we are contemplating issuing bonds, we probably should engage in a serious discussion with -- the people that we have started some conversation with is the Federal Loan Bank of San Francisco. We should probably sort of consummate that transaction of saying, okay, well, we would like to get this warehouse line from you so that we can warehouse these MBSs.

So we like to think that at some point we're going to blow through that number, but at the moment I think that's enough.

MS. CAPPIO: But, Tim, if we did, we'd come back to the Board.

MR. HSU: Oh, yeah. And that would be a very happy day.

MS. CAPPIO: Exactly.

MR. HSU: For everyone.

CHAIRPERSON JACOBS: We're optimistic.

Any other questions?

We've got, what's this, 14-01, I believe.

MR. HUNTER: I move adoption of Resolution 14-01.

CHAIRPERSON JACOBS: Great.
MS. SOTELO: I'll second.
CHAIRPERSON JACOBS: JoJo.
MS. OJIMA: Ms. Sotelo was the second?
MS. SOTELO: Yes.
MS. OJIMA: Thank you.
Ms. Caballero.
MS. CABALLERO: Aye.
MS. OJIMA: Ms. Gunn.
MS. GUNN: Aye.
MS. OJIMA: Mr. Hunter.
MR. HUNTER: Aye.
MS. OJIMA: Ms. Carroll.
MS. CARROLL: Aye.
MS. OJIMA: Ms. Patterson.
MS. PATTERSON: Aye.
MS. OJIMA: Mr. Prince.
MR. PRINCE: Aye.
MS. OJIMA: Ms. Sotelo.
MS. SOTELO: Aye.
MS. OJIMA: Mr. Jacobs.
CHAIRPERSON JACOBS: Aye.
MS. OJIMA: Resolution 14-01 has been approved.
MR. HSU: Thank you.

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Item 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. (Resolution 14-02)

CHAIRPERSON JACOBS: Tim, you're up. Item No. 5.

MR. HSU: Yes. Let's try this again.

So agenda item 5 is the multi-family financing resolution. And the multi-family resolution is structured much the same way as the single-family resolution. It has three sections. Section one deals with the debt management bonds or refunding bonds, again, to continue -- to continue to restructure or deleverage our balance sheet. Section two deals with new money bonds. And section three deals with all the related documents to do one and two.

A couple of things I highlight here is that -- is sort of the differences with the single family. In the multi-family side, there's this sort of whole idea of conduit transactions versus nonconduit transactions. So for the nonconduit transactions, which is the loans that -- for example, that we brought to the Board back in November, those transactions we have in the resolution stipulated that we would at least get the FHA risk share insurance on these loans and that throughout the single- and multi-family resolutions we have stipulations that they ought to be fixed-rate bonds and we're not going to use any more swaps.

On the conduit side of the equation for multi-family where the Agency is not putting our own credit on the transactions, there the structure of the transaction could be more flexible because we're not using our own credit to box up those transactions.

I would also note one more thing, which is that this is a little bit subtle, but we also reintroduced Multi-Family III. As we talked about, Multi-Family III was upgraded by S&P by four notches back in December, and now it's on watch for upgrade with Moody's. Last year when we passed the financing resolution for multi-family, we did not include Multi-Family III as part of the list of indentures that could be issuing new bonds for new deals. With these upgrades that we've gotten recently, we have reintroduced Multi-Family III back into the list of indentures that could fund new deals.

That's for a couple reasons. One is that the indenture is very, very strong and that if we use these legacy indentures, it could be more capital efficient because there's a lot of capital sitting inside these indentures already. We don't have to pluck out money from, let's say, unencumbered sources to put it into this place that we can't really touch for the next 30 years. It's more capitally -- it's more capital efficient to use old, big, large indentures like that. So that's one.

And two is that we are trying to get people to focus on the strength of this credit. And when we sell bonds, the capital markets tend to pay attention because of the disclosure documents and because there's a need to market bonds. Getting people to focus on Multi-Family III will also highlight the strength and then increase -- or let's say improve -- the options that we will have next year as we exit TCLP because some of these credits that we have that have had TCLP on them, they haven't gone into the marketplace for quite some time.

And then sometimes they're sort of sitting there out of sight, out of mind kind of thing. People are not really paying attention to these credits, and we need to start -- although the end of next year is not all that far away, we need to start sort of changing these narratives in the mind of investors so that we can get people perhaps to come to the table to help us replace TCLP next year.

So those are sort of the thinkings that we had in reintroducing Multi-Family III back into the equation of the new money bonds under this resolution.

CHAIRPERSON JACOBS: Does anyone have any questions?

Does anyone --

MS. PATTERSON: I move Resolution 14-02.

CHAIRPERSON JACOBS: Great. Second?

MR. HUNTER: I'll second.

CHAIRPERSON JACOBS: Okay. JoJo, is that the list?

MS. OJIMA: It is.

Ms. Caballero.

MS. CABALLERO: Aye.

MS. OJIMA: Ms. Gunn.

MS. GUNN: Aye.

MS. OJIMA: Mr. Hunter.

MR. HUNTER: Aye.

MS. OJIMA: Ms. Carroll.

MS. CARROLL: Aye.

MS. OJIMA: Ms. Patterson.

MS. PATTERSON: Aye.

MS. OJIMA: Mr. Prince.

MR. PRINCE: Aye.

MS. OJIMA: Ms. Sotelo.

MS. SOTELO: Aye.

MS. OJIMA: Mr. Jacobs.

CHAIRPERSON JACOBS: Aye.

MS. OJIMA: Resolution 14-02 has been approved.

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Item 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. (Resolution 14-03)

CHAIRPERSON JACOBS: Great. Let's move on to CDLAC.

MR. HSU: All right. Two for two. Let's try for the last one here. So the last related resolution is asking the Board to authorize the staff to apply for private activity volume cap at CDLAC.

So on the single-family side, we have requested a $250 million authority, and on the multi-family side we have also requested for a $250 million authority. We currently have -- I believe we currently have $450 million of carryover volume cap for single family. It's not clear at the moment if we'll use that single-family volume cap. My -- as Matt said earlier about being optimistic and hopeful, I'm hopeful that as the origination picks up, that we could transition to this idea of warehousing MBSs, issuing bonds and rebuilding our balance sheet. I'm -- sorry? What happened? There we go. I'm hopeful that we can make that transition sometime later this year, perhaps in the fourth quarter. But it's -- it's -- there's some time between now and then.

On the multi-family side, that's -- that's -- if we can get to that number, that would be fantastic, but I think these are -- for the moment I would venture to say that these, both of these numbers, are a little bit on the higher side. And we tend to ask for the authority for a high number and perhaps at a later point if we deem that is too much, we apply for something less.

CHAIRPERSON JACOBS: Dalila.

MS. SOTELO: If you were finished, Tim, I just had a question about that. On the multi-family side, I think the $250 million is appropriate. I think that if we market it aggressively and we're out there and talking to folks about it, I think that it’s a good product.

I'm a little concerned about the single family and wanted to talk with you about what are the downsides of asking for such a large amount and not being able to utilize it. Does it have expiration, or does it have, you know, any negativity in terms of perception on the CDLAC side if we ask for so much authority and not use it?

MR. HSU: I think that's a real risk. I think that if we ask for volume cap and not use it, it doesn't reflect well on the Agency. The single-family volume cap for the Agency, we do get to carry over for three years, so we do have some time to complete its use, if we don't end up using it all next year.

One of the things that we have been doing with some of the old volume cap that we haven't gotten around to use is that we turn them into MCCs. So there's sort of like a second life, if you will, of these volume cap if we don't use them for MRBs. And I think that -- if I'm not mistaken, that if we request for the volume cap and we don't use it and we don't use 80 percent of what we request for, I believe there is a small penalty. I don't quite remember what it was.

MS. PATTERSON: Would it be more realistic to reduce that number somewhat so that we don't run the risk of having a penalty? Or do you assume that we're going to use at least 80 percent?

MR. HSU: Well, I think that if we don't get some visibility -- we tend to apply -- unlike other agencies, for example, we tend to apply for these volume caps, especially the single-family side, at the very last CDLAC meeting of the year, in the December meeting. So by that time we should have much better visibility on what is going on in terms of our origination on the single-family side. And if we are not getting the kind of traction that we are hoping for, maybe we wouldn't apply for it. It's possible.

CHAIRPERSON JACOBS: I guess one of the questions I've got on the single family is the debt to income gap that we're hopefully closing later on in the meeting maybe. Is that going to shift the needle enough to make this a more realistic number?

MR. HSU: I don't want to steal the thunder because there's a lot of good things they're going to tell you about, but I think that there are many changes that are coming that we're hoping that will really sort of give the program a kick in the butt and get going. And the DTI is going to matter, but I think that one of the things they will talk to you about is the conventional product that we're hoping to launch in May. The marketplace, here in California especially, has really changed to a conventional product versus an FHA product, and what we have right now is just an FHA product.

So that, I think, if it were to -- if it gains traction, coupled with all the stuff that we're offering on our menu already, I think it's -- it's going to be fairly powerful.

MS. CABALLERO: So did I understand that although the resolution is $250 million, that you won't apply for it until December?

MR. HSU: On the single-family side, we don't apply until December; that's correct.

MS. CABALLERO: So that might appropriately be up to 250, but you might come back and advise us that you're going to ask for less during the year?

MR. HSU: We could do that if the Board chooses. Traditionally we -- if we apply for less, we -- traditionally we haven't brought that back to the Board, but if you wish, we could advise you that we're going to apply for less.

MS. CABALLERO: I guess I'm just thinking I'm hearing some hesitation. I'm hearing some optimism from you and that the meeting between the two is just to let us know if it ends up being less than 250. Frankly, I'm happy with the 250. I'm interested in seeing what the market is going to do. And if you're optimistic, I want to be optimistic too, but I'm hearing some concerns, so it might just be good to bring it back, rather than to spend all the agonizing time, you know, is it 250, is it 230, is it 220?

MS. PATTERSON: I'm comfortable with the 250, but just letting us know if you apply for less.

MR. HSU: Okay.

MS. PATTERSON: I don't need you to bring anything, just a disclosure to the Board --

MS. CABALLERO: Yes. That's what I'm thinking.

MS. PATTERSON: -- that that's what you're doing.

MS. SOTELO: I think it's just a correlation between the programs and the amount that we're asking for. I like the MCC product. I think it's really good. I think that it's -- it's not very well-advertised, so if from a programmatic standpoint you can put that into, you know, your programs and get people involved in that, then we'll have a backstop to actually spend it within three years if we don't use the full 80 percent.

MR. HSU: So I think if the timing works out, we can try to give the Board an update at the November Board meeting, if the timing works out. If not, clearly the September Board meeting. Yeah, we can do that. That's not an issue.

CHAIRPERSON JACOBS: Great.

MS. SOTELO: So with that, I move approval of Resolution 14-03.

CHAIRPERSON JACOBS: Do we have a second?

MR. HUNTER: I'll second.

MS. OJIMA: Ms. Caballero.

MS. CABALLERO: Aye.

MS. OJIMA: Ms. Gunn.

MS. GUNN: Aye.

MS. OJIMA: Mr. Hunter.

MR. HUNTER: Aye.

MS. OJIMA: Ms. Carroll.

MS. CARROLL: Aye.

MS. OJIMA: Ms. Patterson.

MS. PATTERSON: Aye.

MS. OJIMA: Thank you.

Mr. Prince.

MR. PRINCE: Aye.

MS. OJIMA: Ms. Sotelo.

MS. SOTELO: Aye.

MS. OJIMA: Mr. Jacobs.

CHAIRPERSON JACOBS: Aye.

MS. OJIMA: Resolution 14-03 has been approved.

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Item 7. Presentation and continuing discussion of new

financing strategies, including hedging loan commitments.

CHAIRPERSON JACOBS: All right. Item 7, the hedging discussion.

MR. HSU: So Matt, I believe the last -- at the January Board meeting, you kicked this off by saying now for the fun stuff, so I'm going to pass the baton to Tony to talk about the fun stuff. It is -- it is interesting stuff.

So as I mentioned earlier, that the Board had expressed concerns and questions at the January Board meeting, so we feel that it's the right thing to do to continue the dialogue. This presentation is a response to the Secretary's request about having a more in-depth discussion about risks. Along the way we have refined the policy to address Janet's concern about a maximum loss allowance and also, I believe, Dalila's concern about certain operational risks. So we have a very in-depth discussion here on risk that Tony's going to present.

The one last thing I would say is that what we've doing here is very different than what we used to do. What we used to do is getting very, very long-dated swaps to hedge variable-rate bonds for a very long period of time, up to 30 and, for the multi-family program, sometimes 40 years. What we're doing here is we are trying to protect our interest-rate risk on our loan commitments, which tends to be a much shorter time, 60 days or so.

So anyway, without further ado, Tony is going to walk you through the risks.

MR. SERTICH: Good morning, Board. As Tim mentioned, my name is Tony Sertich. I'm the financing risk manager at the Agency. I work in the department -- I mean the Division of Financing. And I just wanted to walk you through some of the risks involved of any hedging program that may exist within the Agency.

As Tim mentioned, what we're proposing now is very different than what we did ten years ago or five years ago with our long-dated hedge swaps, hedging our variable-rate bonds. Today we're doing short-dated hedges to reduce the interest-rate risk on our loan commitments.

The master hedge policy draft that was put together was in the Board package, I don't know if you've been able to review it or not. If you have, please feel free to ask any questions as I'm going through this presentation. I want this to be more of a conversation because I know that it can be pretty full of jargon and stuff, so I want to be able to make sure everyone's understanding as we go through this what we're talking about.

So the master hedge policy was developed to establish guidelines for the use of any financial derivatives that we have going forward. The general purpose of all these hedges is to reduce our interest-rate risk to the Agency on the loan commitments, not on variable-rate bonds. We don't plan on doing that, and it's not part of the hedge policy, and so we wouldn't have approval to do that. It's only for short-term loan commitments.

On the single-family side, the hedge policy talks specifically about up to 180 days, hedges set up within 180 days, and on the multi-family side within 36 months. And the hedges, as I said, the hedge policy will help manage many of the risks inherent in using financial derivatives.

And I'll go -- that's what I'm going to go through now, is the different risks that are inherent in the derivatives.

The single-family hedge bond we're proposing would look something like this. I don't know if this is -- so CalHFA sort of sits in the middle here. And traditionally what we've done is we've provided a rate lock to a mortgage borrower. It could be for 30 days.

It could be for 90 days. It just depended on the program we're running. What we then would do was we would then sell bonds to finance that loan.

In the current environment what we're doing instead is we're selling the -- we're securitizing and selling an MBS to an investor at a given rate. However, when we sell the MBS, there's a timing difference between the lock and the -- and the sale. So that could be 30 days. It could be 90 days, something like that.

The hedge, then, would come into play over here where we would lock in a rate when we lock the rate to the borrower. And what we receive from the MBS investor as a sales price would then be passed back through to the hedge provider so that we're taking the interest-rate risk from the time that we lock the rate until the time that we sell the MBS out of the equation and locked a fixed income to the Agency.

The hedge itself, if done perfectly, would eliminate all interest-rate risk. However, it's very difficult to do the perfect hedge, and that's what I'll walk you through, all the risks tied to that.

As I said, if this hedge is not here, we need to take all of the interest-rate risk from the time that we locked the rate to the time we sold the MBS. If rates rose during that time, the MBS prices would decrease, and if rates fell, the MBS prices would increase. So if -- when rates rose, we would lose money, and when rates rise -- when they fall, the Agency would make more money.

However, we're not in the business of taking interest-rate gambles. We're trying to lock in specific income to the Agency up-front and make it as clean as possible.

So as we walk -- the first risk I want to talk about is what's known as counterparty risk. What if the hedge provider does not meet its obligations to us? There's multiple reasons that this could happen, actually. One is that the hedge provider, as Lehman Brothers did, would -- just goes away. We did have interest-rate swaps with Lehman Brothers, but we were able to work that out because -- so they weren't able to continue to pay on the swap, but we had termination provisions and replacement provisions in those documents, and we were able to replace the swap. So we plan on putting those into any hedges we do in the future as well, is termination, replacement provisions upon credit events so if one of our hedge providers gets downgraded to some low rating, we can terminate the swap at market, meaning we settle up -- if they owe us money or we owe them money, we would settle that up and replace it with a new counterparty without any cash actually being exchanged.

The only reason we wouldn't be able to replace is if, A, CalHFA's rating was too low for someone else to accept it, so no one wants to take our credit anymore, or if the market just fell apart completely and no one was doing these hedges anymore. So those are two sort of -- you know, the CalHFA rating was -- could have been a problem in the past. We don't see that as a problem going forward. But the market problem has never really -- that's sort of an outside risk that, being in this business, we think we're willing to accept.

Another way that we'll try to mitigate this risk is by making sure we diversify our hedge portfolio amongst many different hedge providers. We won't throw all of our eggs in one basket, and we will spread it out amongst many different hedge providers.

MS. CABALLERO: Could I ask a question?

CHAIRPERSON JACOBS: Yes.

MS. CABALLERO: Could I ask a question?

MR. SERTICH: Sure.

MS. CABALLERO: So in reality, hedge providers don't fail to meet their obligations very often; am I right about that?

MR. SERTICH: No, we've never -- that's a very rare occurrence, correct.

MS. CABALLERO: Okay. Because I mean it just seems to me that I understood it better before we started this discussion, because I've spent some time talking with staff just because there's money to be made in hedging.

MR. SERTICH: Correct.

MS. CABALLERO: And so because of that opportunity -- right now we're contracting with someone that does the work for us.

MR. SERTICH: Correct.

MS. CABALLERO: But the idea would be to bring that in-house --

MR. SERTICH: Correct.

MS. CABALLERO: -- and potentially make the money that we're paying to someone else.

MR. SERTICH: Correct. You make it and pass it along.

MS. CABALLERO: Okay.

MR. SERTICH: Let me rephrase my answer. The hedge providers that we plan on dealing with, which are highly rated hedge providers, we don't expect to -- them to have failures. And with the contracts that we enter with them, with the termination provisions and such, we would expect to eliminate or to mitigate most of those risks.

MS. CABALLERO: Okay. I just wanted to make sure I understood it correctly.

CHAIRPERSON JACOBS: In this section, please interject if anyone --

MR. SERTICH: Yes, please, at any time if you just get my attention, I'm more than willing to --

CHAIRPERSON JACOBS: I think the long-term capital management did fail on the hedge obligations. This is back many years ago. I think the ratings that we're looking for of counterparties wouldn't -- that wouldn't be --

MR. SERTICH: There was a hedge fund really.

CHAIRPERSON JACOBS: We wouldn't be in that situation, I think.

MS. CABALLERO: Doing that.

MR. SERTICH: We are trying to put as many safeguards in place to prevent that from happening, is the goal here with the hedge policy that we've put in place.

CHAIRPERSON JACOBS: In terms of the sizing of this, and maybe it's covered further in here, but is this adjusting daily, weekly? How often are we in the market?

MR. SERTICH: It would really depend on the volume we have. I mean, if we're talking about the -- you know, the $250 million of single family, you know, or 300 million, it would probably not be daily, but it would be fairly -- it would be often, probably at least weekly. It really depends on the volume that we're getting on the single-family side, but we're sort of truing up our balances on a regular basis.

CHAIRPERSON JACOBS: And is this an additional staff person who's a specialist, former trader, doing this, or is this existing people?

MR. SERTICH: This would be existing staff. We think we have the expertise in-house to do this at this point.

So the next large risk which is a real risk is -- is the risk that what we hedge does not actually -- is not the same amount as the amount of loans that have come through -- come through the pipeline. So a big reason for this would be single-family loan fallout. We may reserve a hundred thousand dollars or, say, a million dollars of loans. We expect 700,000 of those dollars of loans to come through, but only $500,000 comes through or maybe $900,000 comes through. And so we're not completely hedged on that interest rate. The over or under hedge -- hedged amount is -- is -- is -- has interest-rate risk on it.

So let's take an example. Let's say we had -- we had hedged for $700,000 of loans to come through that we can sell, but only $500,000 of loans came through to sell. We would then have $200,000 of extra hedge, and we would have to settle on that amount. We would have to settle with the hedge provider on that extra $200,000 without an offsetting loan. So if rates went down, we would then have to pay the hedge provider on $200,000 of --

CHAIRPERSON JACOBS: Historically how much volatility is there in the rate of dropouts on the single families?

MR. SERTICH: When we ran our own loan program, we would monitor that because we would -- not for hedging purposes, but we would need to know how many bonds to issue, and so we would monitor it for that purpose. The risk on that is in general CalHFA historically has not been very volatile, especially with regard to rates movements, because we've been through the market on rates, so that's a big reason loans would fall out. If -- for example, if you had a -- if you went to a mortgage, got a mortgage locked at 5 percent, but then two weeks later you can go relock a new one at 4 and half percent, you would say, "I don't need that

5-percent loan anymore." Traditionally CalHFA's been through the market, so if the general market rate was 5 percent, we might already be at 4 and a half percent, so we had a lot more room.

In the current market, we're -- we're not as rate sensitive as the general marketplace because a lot of our program is based on the extra downpayment assistance that we give to the borrowers. So we're not exactly sure how volatile, but my guess is, you know, this 20-percent volatility, like I said, is probably on the very high end of the volatility that we would experience.

CHAIRPERSON JACOBS: The concern I've got is with the conventional product, you know, for obvious reasons.

MR. SERTICH: Yes. And it would still be the same thing. The conventional product, we would have more downpayment assistance so that should reduce the people's ability to drop out and go get another loan because they can't get the extra downpayment assistance.

CHAIRPERSON JACOBS: With the current program where there's a third party taking the hedge and someone drops out -- let's say rates drop dramatically and everybody drops out. Under the current scenario, who bears that?

MR. SERTICH: The third party bears all of the risk.

CHAIRPERSON JACOBS: All of that risk.

MR. SERTICH: So we are paying them three-quarters of a point on every loan that comes through to bear that risk plus do the administrative work for the hedges. So it's a large -- it's a large chunk that they're getting. And we -- we would take that in-house, so that would be a risk buffer that we would have to manage some of these risks. And that's one thing that I know Ms. Falk had a question about, how we deal with the -- we factor that into the equation of how much we'd be willing to do.

CHAIRPERSON JACOBS: Okay.

MR. SERTICH: But I do think that is -- this is the one risk that requires the most day-to-day management of the -- of the hedging program, is making sure that we have the proper amount of hedges out there. And it's something that we can roll forward. If we get a little over hedged or under hedged and the loans keep coming in, we just keep balancing that out over time so that it's not -- it's not like all of a sudden we get one loan, and that's the only loan we're going to get for a month. If that was the case, it would be a much more difficult thing to manage.

On the multi-family side, that would be the case. And the -- the one thing that we're going to do on the multi-family side to prevent loans from falling out is we're going to make the borrowers put a lot up-front, a big deposit up-front, so that they make sure they actually come through with the loan when it's -- when the time comes.

CHAIRPERSON JACOBS: Now, I'm personally not really concerned about the multi-family or the traditional CalHFA products. It's the conventional loan I'm kind of a little -- a little nervous on it.

MR. SERTICH: Yeah, and I think that we've -- you know, it's really monitoring on a daily basis. Even if we're not hedging on a daily basis, it's looking at the reservations daily or multiple times per day, following the market rates, because that will affect things. Not as much as I said on a general -- general hedging program, but it will affect our fallout. Watching the fallout regularly, we get reports daily from our data staff.

CHAIRPERSON JACOBS: Sorry to keep --

MR. SERTICH: No, no, please.

CHAIRPERSON JACOBS: Just one thought maybe on the -- I know we don't have a lot of alternatives in the downpayment assistance pools and all of that. On the conventional product, are there more third-party facilitators who are out there in the market or --

MR. SERTICH: There are some third-party facilitators out there. We've talked to multiple -- I mean, there's not -- it's not a huge universe, but there are a few. So your suggestion would be to talk to others?

CHAIRPERSON JACOBS: Yeah, I don't know. Just on the conventional product, we may want to look at how we take it to market. On the other hand, we have to evaluate the risk versus the savings.

MR. SERTICH: Yeah.

CHAIRPERSON JACOBS: And the savings is substantial.

MR. SERTICH: That's sort of what -- you know, that's why we're bringing this to you to have continue to have the conversation, because it is a risk. We think that with the hedge policy we've put in place, we've tried to put parameters around those risks to limit the risk as much as possible, but we know -- but, you know, again, as you just reiterate, and reiterate that it's not the same level of risk that we took --

CHAIRPERSON JACOBS: Not at all.

MR. SERTICH: -- with the interest-rate swaps on the long-term bonds. Those were 30-, 35-year risks.

This would be a much shorter period and much more contained risk, much smaller dollar amount as well.

MR. HUNTER: And so just -- I'm a little bit confused here, but to make sure I understand this, when you're actually doing these hedges, are you doing transaction by transaction, so like individual loan by individual loan, or are you grouping these loans?

MR. SERTICH: It would be grouped, for sure. And it's -- like I said, because of the fallout, you know, we don't expect every loan to come through. We expect some percentage of the loans to come through, which would change, depending on how the loans look.

MR. HUNTER: So that's where your scenario was $700,000 may represent five loans, and one of them falls out.

MR. SERTICH: Correct. Yeah, if there's a million dollars and we have -- expect to say --

MR. HUNTER: Right.

MR. SERTICH: Traditionally we've had between 25 and 35 percent of our single-family reservations fall out. So that's where I get the 70 percent.

MS. SOTELO: I think there's a programmatic control of volume. I mean, there's obviously the marketplace.

MR. SERTICH: Yes, right.

MS. SOTELO: And that's what the hedge is about, understanding the market and hedging against that. But for me, my perception is that from a programmatic standpoint, if you have the right product, you know, the market will do what it's going to do. But if you have the right program where you're, you know -- where you're more user friendly, where you can close quicker, where you can really have a product that people like and there's a competitive advantage, not necessarily just on the interest rate, but the actual program itself, you know, it's kind of something where I think operationally and programmatically we can maintain the volume as opposed to, you know, expecting the 35-percent fall-off rate.

MR. SERTICH: Oh, no, I agree. The fallout rate is going to be there, sort of no matter -- I mean, it's --

MS. SOTELO: It will be --

MR. SERTICH: -- something that will affect --

MS. SOTELO: -- the market, right?

MR. SERTICH: Yeah, I mean, it's just the general single-family marketplace. There's always going to be some fallout. Whether it's 35 percent or 15 percent, I think there could be some controls there. I mean, more efficiencies, closing quicker, things like that, we should reduce that.

MS. SOTELO: And from a paperwork standpoint making it easier for single-family loans to close and go forward. So for me, there's an upside on the profitability of, you know, turning this in-house as opposed to giving it to a third party. Then my hope is that we have more control of it on the staff side and that programmatic control can, you know, incentivize our buyer by the potential upside of it.

MR. SERTICH: Yeah. I mean, we would still be working with outside master servicers to run this program as well, which is -- a lot of the underwriting and stuff runs through them, so that we wouldn't be able to bring all of that in-house additionally, so -- but -- but I think the more control we have over the program, you're right, the more we can tweak and adjust things. But that's -- we'll never have full control over any of that because we're still working with outside lenders. We're still working with different outside parties that -- that will control a large part of the process.

MS. SOTELO: Would we be able to bifurcate -- just addressing Matt's concern about the conventional product, would we be able to bifurcate or treat it separately, the conventional product?

CHAIRPERSON JACOBS: Well, in the conventional part, there are more hedging counterparties, whereas on the -- on the downpayment assistance product, there aren't.

MR. SERTICH: Oh, yeah, we're not hedging anything on the downpayment assistance. We have the conventional. We have the FHA.

CHAIRPERSON JACOBS: Okay. So it's just the FHA that's --

MR. SERTICH: Both of them will have the downpayment assistance benefit versus the marketplace in different ways.

CHAIRPERSON JACOBS: Even on the conventional?

MR. SERTICH: Yes, there's a special --

CHAIRPERSON JACOBS: Oh. That reduces the dropout risk even more.

MR. SERTICH: Yeah. That's what I was going to --

CHAIRPERSON JACOBS: I think it's the blue moon event that where for some reason the federal government does something and rates drop two points.

MR. SERTICH: Yeah, exactly.

CHAIRPERSON JACOBS: And then we have everyone drops out --

MR. SERTICH: Yeah, the --

CHAIRPERSON JACOBS: -- what the total exposure is there.

MR. SERTICH: Yeah, and I think if we're rolling these forward -- if we're rolling these out there every 60 days or so, if our -- our total exposure should be limited to that amount. I mean, that's the good thing about having a shorter duration of --

MS. SOTELO: Because you're adjusting it every 60 days.

MR. SERTICH: Well, because the loans are closing every 60 days, so we're not --

MS. SOTELO: You can adjust.

MR. SERTICH: -- out the total amount of this hedge. You know, if we -- excuse me. If we do -- you know, if we got to the point where we're doing a billion dollars of loans every year and we have this outstanding for 60 days, that's, you know, $150 million of notional amount on the swaps on the market value. I don't know what it would be, but it's not going to be --

CHAIRPERSON JACOBS: It's not going to be --

MR. SERTICH: It's going to be some ratio, some small percentage or some percentage of that.

CHAIRPERSON JACOBS: Continue with the presentation, sorry.

MS. CABALLERO: This is the reason for the agenda item.

MR. SERTICH: Yeah, no doubt. I want this to be as conversational as possible, so please continue to ask questions. This is helpful.

MS. PATTERSON: So we had talked about our various different single-family products and whether we would be hedging on all of those single family or we would cherry pick, basically.

MR. SERTICH: Yeah, I think that was what came up last time, yes.

MS. PATTERSON: Last time we kind of talked about that.

MR. SERTICH: Okay, yeah.

MS. PATTERSON: So that's something you're still looking at like --

MR. SERTICH: I think from what we've thought about is -- from our point of view is if we're going to hedge -- so really there's two products that we'd be looking to hedge. It would be the conventional Fannie Mae program, or it would be the FHA Fannie Mae program.

MS. PATTERSON: And they both have downpayment assistance.

MR. SERTICH: They both have extra downpayment assistance -- or higher LTV ratios than the general marketplace can offer.

MS. PATTERSON: Got it, okay.

MR. SERTICH: Excuse me. So we were thinking that they're very similar. If we're going to bring one in-house, we'll bring both in-house, but by no means do we have to do that, because I think the other thing we were talking about last time is there's a possibility of other small niche programs, like the energy efficient mortgage or things like that, where it might make more sense too to let someone else take that off. So there are other small programs, but the two large programs, which is the --

MS. PATTERSON: Got it, okay.

MR. SERTICH: -- FHA or the conventional --

MS. PATTERSON: Okay.

MR. SERTICH: -- we were thinking of bringing both of those in-house.

The -- the next risk, which is not quite as big as the size risk but it is a significant hurdle to manage, to get exactly right -- this is another thing that we're -- the extra savings would help cover is the timing risk. The duration of the hedge that we enter has to be a fixed rate when we first enter it. And the closing and sale of the MBS may not always exactly meet that duration.

So if we entered into a hedge assuming the sale of the MBS would be 75 days out but it actually took a hundred days to settle the MBS, we have 25 days of rate risk we're taking there. Vice versa, if it only took 50 days to sell the MBS, then we're over hedged extra for the 25 days. Again, we can roll that rate. We can roll that hedge as new loans come on, but that is another risk that we would have to cover.

One of the basic controls on this is that both our single-family and multi-family programs would have very hard deadlines about when the rate locks would expire, so you can only lock it for 60 or 90 days or something like that or two years for a multi-family loan or something like that. So that would be -- the general TBA program has a -- our current TBA program has a 60-day rate lock with one 30-day extension available at a cost, at an extra cost.

CHAIRPERSON JACOBS: How would we be adjusting our financials to reflect the -- again, the blue moon scenario, just as an exposure, just if interest rates nationally fell to zero? What would be our -- I mean, how do we have to reflect that on our books?

MR. SERTICH: GASB has very clear rules about the financial -- how to address hedges in the financials. So it's -- currently we're not addressing it for a sort of risk adjusted. So we're not looking at worst case scenario on our financials; we're looking at actual market values. What we do internally is look at -- and you've seen this on some of the presentations that Tim has given, is what happens if we get downgraded and rates drop by a point, what -- what does our market value look like on our swaps?

CHAIRPERSON JACOBS: Right.

MR. SERTICH: So we do look at that internally, but it's not something that GASB asks for or wants to see on the financial statements.

The last major risk that I wanted to go over is what's known as basis risk. And this is the risk that what we're trading on the hedge -- so if we're trading, you know, prices of MBSs -- doesn't tie to the changes in prices of MBSs in actuality. This shouldn't happen on the TBA program because we're trading very clean. It's a very liquid market. The prices are out there for everyone to see.

This happened a lot on our old interest-rate swaps. It's actually still a part of our -- it was part of our -- the interest-rate swap report that you guys would get on a -- every Board meeting, what we call basis mismatch calculation. If we -- our bonds may be tied to -- they're not really tied to an index, but they follow generally an index of tax-exempt variable-rate bonds. But our swaps may be tied to taxable -- some percentage of a taxable index or something like that. So the -- there was a difference between what we received and what we were paying, just inherent in the calculations. We tried to limit that as much as possible.

The TBA single-family hedging program we're talking about should not have that risk.

The multi-family long-term -- not long-term, but the multi-family forward rate lock would have some of that risk because there's no CalHFA fixed-rate bond index. You know, we issue fixed-rate bonds. Who knows what it's going to be?

We could buy a forward rate lock from a bank probably on our fixed-rate bonds, but that would be outrageously expensive and make us uncompetitive probably, so that's a risk that we would -- if we're going to put a hedge together on the multifamily side, that's a risk we would have to be willing to take, that the hedge does not completely cover the interest-rate risk we're taking.

The other risks that the hedging policy considers and tries to put parameters around are the administrative burden of managing the hedge. So from an accounting perspective, from a financing perspective, from a legal perspective, does the Agency have the means to manage any hedge correctly? We would not enter into a hedge if we thought that it would place some undue burden on some part of the Agency. And I don't think anything that we're considering at this point has met that.

CHAIRPERSON JACOBS: I think the other risk that's not talked about is headline risk, that the Agency doing a different kind of derivatives got into trouble before, which I think maybe part of this is just a communication when you do this, that this is different and here's why we're doing it. It saves money, and there are reasons for it, so just getting in front of that headline.

MR. SERTICH: Yeah, and that's something that we definitely want to, you know, make sure that everyone's comfortable with before we move forward. I guess from a financing point of view we think about the numbers risk, but you're right, there's always headline, reputation risk on that side of the things as well.

MS. CAPPIO: Well, and somewhat editorially, the Governor's Office gives me a wide degree of latitude and only cares if the news is bad. So I mean, we have to -- we have to balance that out, I think, and we will.

MR. SERTICH: Yes, for sure.

MS. CAPPIO: We have to move forward, and we will do so in a balanced way.

MR. SERTICH: One of the basic precepts of the hedging policy -- hedge policy is that we're not going to take any risk that the Agency cannot afford if things go completely wrong. If they go as bad as possible, we wouldn't take that risk. We would still, you know -- if things go as bad as possible and the Agency couldn't handle it, we're not going to take that risk.

MS. SOTELO: And, Claudia, the good news is that we as a Board will acknowledge the good stuff as well as, you know, the horrible wrong things.

MS. CAPPIO: I guess the curious timing issue is it's election year, so I'm going to be doubly careful.

MS. PATTERSON: So one of the reasons why we're looking at this whole thing is for cost savings, being more competitive and potentially passing those savings on in the form of perhaps a lower interest rate to some of our borrowers.

MS. CAPPIO: That's right.

MS. PATTERSON: So -- and it's not part of hedging, but one of the things that costs a lot is that we don't do any direct lending. And so I want to throw that out there for staff to consider, maybe a small direct lending program getting authority that goes in conjunction with on the single-family side. I don't know, but some of these things to explore if you really are trying to do what others aren't doing in the market and you want to limit it to a targeted geographic area and you're really trying to get down to helping homeownership in certain communities, what tools do you have in your toolbox to make that happen?

As I understand, this is one of the tools. I'm getting much more comfortable with where you're going with this. I'd like to offer that staff consider thinking about those things. And I want, don't want to be taboo in an election year, but I do think that if we are a bank and we're lending and we want to lend with a purpose, that we do look at some of the tools in the toolbox and perhaps a direct lending -- small direct lending program.

MS. CABALLERO: To that end, I think it might be really interesting to see if there's a way to do that in conjunction with a program that is focused on an educational -- because part of the reason that people can't afford these loans is because they're not making enough money. But if you can infuse a community through an economic development program where they can get training, it then gets them the better jobs. Then they can afford the loans -- better afford the loans. So, you know, I tend to think of it in terms of what you can do in a community. Very difficult to put the two together, but I just think it would be very interesting to see a pilot project.

MS. SOTELO: And maybe the pilot project happens from an industry base.

MS. CABALLERO: That's exactly what I was thinking. Either industry or from labor, because they've got really good programs, apprenticeship programs, where you come out as a journey -- journeyperson, and you're actually earning pretty good money so you have the ability to do loans in a neighborhood, maybe, that may be very challenging otherwise.

MS. SOTELO: And then you have the wraparound concept of credit counseling plus loan product. That's a great idea.

CHAIRPERSON JACOBS: Certainly in partnership with our sister agency it's something we've got.

MR. SERTICH: Yeah, these all -- a lot of these things have been discussed before. It's just --

CHAIRPERSON JACOBS: I still think the public markets would buy those ventures as well. Maybe those can be pooled and sold the same way anyways.

MR. OKIKAWA: Hi, I don't want to interrupt.

CHAIRPERSON JACOBS: We want to get you through here, but go ahead.

MR. OKIKAWA: I just wanted to make a few comments about the direct lending. One of the things that prohibits us currently from direct lending is we can't do it on a first mortgage, you know. We can on seconds. One of the things we'd love to explore is see how we can actually do these types of programs, but it also involves truth in lending, all those sort of things.

MS. PATTERSON: There's more administrative work --

MR. OKIKAWA: Right.

MS. PATTERSON: -- that goes into a direct lending program.

MR. OKIKAWA: There's a lot more. But we'd love to address some of these things.

MS. SOTELO: Small targeted pilot --

MR. OKIKAWA: Yeah, small.

MS. SOTELO: -- program. Pilot.

MR. OKIKAWA: Pilot.

MS. SOTELO: Yes, small, little authority in conjunction with other things in a particular community.

MR. OKIKAWA: Yeah, we'd like to explore that.

MS. SOTELO: Like NHS or someone that already does lending but you can partner up with.

MR. OKIKAWA: Uh-huh, yes.

MS. SOTELO: Because it costs a lot of money. Someone else is doing the work and then we're buying that, and if you could cut through the middle man, that's savings, actual savings, for the borrowers.

MR. OKIKAWA: Correct.

MS. SOTELO: So, Claudia, would it be appropriate to ask for a report back on maybe some creative ideas from staff about that for our next meeting?

MS. CAPPIO: Sure. If not the next meeting, then the July meeting, but we'll take it to heart and explore it.

CHAIRPERSON JACOBS: And I think we should be moving forward with the hedge discussion, and I would think for the next meeting we would like, you know, with some -- some adjustments based on the discussion today a resolution in there to start looking at to approve it, frankly, just with those tweaks we discussed and establishing clearly in here the limits.

MR. SERTICH: Yes. Okay. There was just one other thing I wanted to cover on the next page, is that we have put sort of a -- in the hedge policy there's discussion of the maximum risk that the Agency is willing to take on these -- on any hedges that we do.

As I said, you know, CalHFA won't enter into anything that we don't have sufficient capacity to terminate at market rates.

Also, the short-term nature of the hedges will limit the risk. We talked about the single family being, you know, 60 to 90 days on average.

And also, there's a formula in here talking about the cumulative losses from the single-family TBA hedging program won't -- we won't let it exceed the savings from running the program in-house. So once that happens, I think it talks about on a six-month basis, then we would -- we would just stop doing the hedging program, stop the TBA program in general.

CHAIRPERSON JACOBS: I know this is a little late for it, but one of the -- if we could put into our agreements with the counterparties we work with fat finger clauses just to eliminate that risk completely.

MR. SERTICH: Yeah, we have -- we could re-do some of that stuff.

CHAIRPERSON JACOBS: Okay.

MR. SERTICH: And then on the multi-family side, an initial hedging program is designed with only up-front costs, so it's really -- where a lot of that is going to be paid for by the borrower, like I said, so that they're sort of -- have a lot of skin in the game and they'll follow through and then without ongoing costs or risk so that we're really buying the option up-front for them as opposed to taking a real hedge.

And then we plan -- as we did with our old interest-rate swaps, probably even in more detail -- reporting on all the hedges on a regular basis to the Board, to the rating agencies, and through our disclosure documents to the general public and investors.

And if there's any more questions now, I'm willing to take them. If not --

MS. CAPPIO: Now or later.

MR. SERTICH: Now or later, yes. And Tim is always available as well.

CHAIRPERSON JACOBS: I just have to say it was a really great effort to answer the Board's questions, just based on our discussion last time. I think it was a really, really helpful presentation.

MR. SERTICH: Thanks.

MS. SOTELO: Thank you very much.

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

CHAIRPERSON JACOBS: All right. Let's call up Ken for moving this little needle, debt to income.

MR. GIEBEL: Good morning. Happy St. Patrick's Day.

We're here to talk to you about one thing today. I know we're going to wind up talking about a lot of things. But when -- and I'm going to talk to you about the recommendation and the benefits, and Sheryl is going to talk to you about background on this. This was -- we're going backwards a little bit. We're going to start how we started at 43 and why we're recommending 45 today on the DTIs, and while you think it's only a couple of points, we'll show you the impact it has.

I just want to make one other comment because there's been a lot of discussion about interest rates. On our FHA products, we have a very, very good interest rate. We were told on Thursday by our hedger that we have the best interest rate on an FHA of any HFA in the country.

So today it's not all about interest rates, because they're so low. It's about the overlays. And we have a lot of overlays. This is one of them, and this a big one. So that's why we brought it to you. We want to try to get it approved with your approval before we introduce in mid-May the conventional and the energy efficient products. We think it will make a big difference, and it will be very helpful to us. In the long run it will make us competitive.

Okay. With that, I'm going to turn this over to Sheryl to give you a little background.

MS. ANGST: In response to the anticipated 2014 qualified mortgage definition by the Consumer Financial Protection Bureau, we presented to the Board in the May meeting to have a flat DTI of 43 across the board on all our lending programs, which was approved.

As a result of this 43 percent, since -- since -- well, it started July 1, we basically reduced the amount of volume on our CHDAPs by 57 percent, and we figure based on our production, 1,772 borrowers did not receive financing on the CHDAP program.

October of 2013, CFPB final ruling exempted FHAs, Fannie Mae, Freddie Mac and housing and nonprofits from the 43 DTI.

MR. GIEBEL: And we'll just give you a little more background on the CHDAPs.

CHAIRPERSON JACOBS: Some of the acronyms --

MS. ANGST: Oh, I'm sorry.

CHAIRPERSON JACOBS: -- it would help if --

MS. CABALLERO: I apologize, but I've got to go back to our staff report to figure out --

MS. ANGST: I can --

(Court reporter interrupts for clarification of the record.)

CHAIRPERSON JACOBS: Sorry. There was just a question about some of the acronyms.

MS. ANGST: Okay.

CHAIRPERSON JACOBS: And so we'll ask staff for a little bit of help with that.

MS. ANGST: QM is qualified mortgage. CFPB is the Consumer Financial Protection Bureau.

MR. GIEBEL: The federal --

MS. ANGST: DTI is debt to income ratio. CHDAP is the California Housing Assistance Homebuyer --

CHAIRPERSON JACOBS: Downpayment Assistance.

MS. ANGST: Exactly.

MR. GIEBEL: That's a bond-funded program, a couple of bonds.

MS. CABALLERO: Thank you.

MR. GIEBEL: Okay.

MS. ANGST: So we did a little bit of research, and in the three months prior to us changing the DTI to 45, our average DTI was actually 44.6 percent. And then we did a sampling of 320 loans. And during that time frame, we had -- that basically under -- less than 43 percent was 40 percent of the value, between 43 and 45 was 10 percent of the value, and then over 45 percent DTI was 50 percent of our total loans. The CHDAP loan since 2009 -- and this is before we actually had a DTI restriction -- was 27 out of 15,785 or 17 percent.

MR. GIEBEL: Point --

MS. ANGST: Excuse me, .17 percent.

MR. GIEBEL: -- 17 --

(Court reporter interrupts for clarification of the record.)

MS. ANGST: .17 percent.

And then we also spoke to Genworth Mortgage Insurance Company. Basically there's been no increase in their default rate between -- with a DTI between 41 and 45 percent. And that was based on their 2010 and '11 book of business.

MR. GIEBEL: So from a benefits standpoint, immediately, at least on the CHDAP side, that's providing that 3 percent downpayment assistance for someone's -- anyone's first. It should go up by 10 percent, easily. And we are expecting with the business we have right now, the FHA loans, we should go up somewhere between 5 and 10.

Here are some of the other guidelines with overlays that we're dealing with people that we will deal with currently on the FHA, but we'll also deal with on the conventional products. U.S. Bank is our master servicer. They have a 45 percent max DTI. Fannie and Genworth, 45 percent manual underwriting. HFAs are pretty much 45 percent across the board on DTIs.

And the other thing that you'll see is this number is a little low based on something I saw the other day, and I know we presented this back on our original presentation, but in the areas we do business, which is about eight counties in the state, on CHDAPs, for example, it's still about 26 percent cheaper in these targeted markets to purchase than to rent. And I just saw a number the other day from Di that that number is escalating quickly, especially in the coastal communities of California. It's like 38 percent.

So anyway, these are some of the immediate benefits we see for moving those two percentage points.

Any questions you might have? Yes.

MS. PATTERSON: So there are no limitations to going higher than 45 percent?

MR. GIEBEL: No, but that seems to be the industry standard. We know -- correct me, help me here. We know some of the HFAs for higher FICOs are going to 50. Over 700, I think Genworth will permit over 720, maybe a little higher DTI.

MS. PATTERSON: And the risk of having a higher

DTI is that you have a higher risk of default?

MR. GIEBEL: Yes. But as -- if we go backwards and look at when we didn't have any DTIs, the seven -- you know, the less than one quarter of one percent doesn't seem to be an issue.

CHAIRPERSON JACOBS: I guess the 50, maybe it's ambitious for right now, but certainly for certain borrower types, seniors on a fixed income where it's known what that's going to be, firefighters, police officers, school teachers, it may be worth looking at that in the future.

MR. GIEBEL: We can look at it, and it's not an issue. Where it would really be effective would be on the CHDAPs, because with our overlays from our master servicer and our MI provider, we're going to be at 45, okay, on the conventional. Fannie would be the same.

MR. HUNTER: When you're talking about this number, debt to income, you're talking about total debt, not just --

MR. GIEBEL: Yes.

MR. HUNTER: -- the percentage --

MR. GIEBEL: Back end.

MR. HUNTER: So when you talk about only having, you know, less than a quarter of a percent default rate, I just wonder if there -- what the variables are in terms of, well, if your maximum -- if your 45 percent consists of 40 percent housing costs and only 5 percent other costs, as compared to, you know, we were using other kinds of limits to say, well, your housing debt could only be 33 percent, and then you don't have a lot of other debt in addition to that. I just -- it seems to me it's kind of a fluid --

MR. GIEBEL: Yes, it's basically the end looking at all the debt. So if it's a student loan or your car loan or your credit card loan, plus your house payment, that's what they're -- that's what everyone's writing to these days.

Now, the market, conventional market, is still at 43 per the rules of the qualified mortgage. These exemptions are only for the people, the organizations, that are listed. So that's why first-time homebuyers are having a tough time in the marketplace. Traditionally that's about a third, a little over a third, 35 percent of mortgages, and it's below 30 now. And besides the supply issue, it's the underwriting requirements for the conventional people. And people like Wells Fargo do have some specialty products they're putting out there where they're giving them downpayment assistance, which is a considerable amount of money, but they're very high FICOs -- I mean very high DTIs.

CHAIRPERSON JACOBS: I think another point just to keep in mind is our buyers are getting homeowner education, and it's a fairly robust process.

MR. GIEBEL: Yes.

CHAIRPERSON JACOBS: I guess going forward, monitor this and keep us apprized.

MR. GIEBEL: We will. We will give you an update, especially when we talk about conventional. We want to come back and talk to you about a couple other things in May.

MR. PRINCE: Last Board meeting, we talked about the 12 percent or 13 percent default rate. I know you said it's .17 on the downpayment assistance. I guess I'm concerned as we keep pushing these ratios upwards and I hear the concerns about not being able to get some people into homeownership, but as a renter provider, maybe that's not so bad, I mean, to put people into housing, into homeownership and then have a high default rate, is pretty harmful to the community as well. So I guess that's what I'd like to know, is when you look at the default rates that you've had over the past few years, have you looked at what percentage of that was due to underwriting, pushing people's ratios to start with? I mean, that's a question.

MR. GIEBEL: Right.

MR. PRINCE: So I do have concerns about pushing ratios. On a personal note, I think my wife and I, our ratio is at 15 percent. And I understand my income might be a little bit higher, but I don't believe in pushing ratios like that. I have to tell you the truth.

MR. GIEBEL: Well, when we started, we just started in August with our FHA project. When we reinstituted the CHDAP program in 2009, we've watched those numbers very closely because we don't like eating the four to six thousand dollars ourselves, so we've kept an eye on it. And again, we didn't have any ratios then because we don't underwrite the first. We just look for the compliance: First-time homebuyers, income limits, sales price limits. And that's what we've seen, was the first thing we looked for, is are these loans, you know, having problems, and we haven't seen that.

And we can tell you on the first we have written so far on the FHA loans, the amounts are up slightly and the FICO scores are up. I think they're 6 -- 686 is our average FICO on our FHA products to date.

MR. HUNTER: I think the thing -- part of what I was trying to get at and it's taken me a little while to muddle it through, but, you know, to me one of the problems with this is that it's so -- it's so fluid as to how much risk that number represents.

So, for instance, if somebody's DTI is 45 percent because of a college loan, well, that's a solid indicator that if they got the degree, that their income potential is going to increase, and so getting them into the housing market is a good risk. On the other hand, if a big chunk of that 45 percent is health care costs and you're having long-term health issues, that's someone whose income is likely to decrease rather than to increase, and so you've got to -- it's maybe more problematic.

So I guess part of my concern is that it's a -- you know, from an underwriting perspective, 45 percent for one household it could be a very, very different risk than 45 percent for another household. It's what is in that 45 percent is the big issue.

MS. SOTELO: Well, I see this recommendation as aligning to the marketplace, so I don't necessarily see it as us reevaluating our own risk and what we will or won't do. It's really aligning to what Fannie and Freddie and other housing nonprofits are already doing, so -- so from that side I guess I'm comfortable. The marketplace is there. And, you know, they're -- they're -- we're using their product anyway. To me I'm comfortable with that.

But I do want to be cautious because the next report -- or I don't know if it's going to be a report, but, you know, we had $75.8 million worth of write-offs for subordinate loans this last year, in December 2013, right? So, we had a real impact, not only on the -- because of the foreclosure stuff, but it was a significant impact. So I don't want to necessarily gloss over the fact that, you know, we have a default rate of -- you know, a low default rate on subordinate loans, but the reality is that the default rate on the senior loans have created a loss of $78.8 million.

MR. GIEBEL: Exactly.

MS. SOTELO: So I mean it's a big deal. So I understand the concern, and I understand wanting to not be too aggressive in terms of that. But if we're aligning to the marketplace and maybe you put some staff on programmatic quality controls, like Jonathan is talking about, in terms of evaluating the types of income or the types of debt that the borrower has, that informs you as to whether it should be 41 or 45 percent.

MR. GIEBEL: We have a process in place that we pull every tenth loan and send it through our quality control department.

MS. SOTELO: Okay.

MR. GIEBEL: And we look at it for our compliance, so that they're 43 now, hopefully 45. So we are looking at every tenth loan.

MS. SOTELO: So that maybe programmatically or statistically we can say it's -- you know, it's up to 45 percent, but from a comfort level, you know, we're still at or underwriting or looking at, at least monitoring, you know, where -- you know, whether we're at 41 or 42.

MS. PATTERSON: So are you asking for approval to have your DTI at 45 for all of your single-family products or --

MR. GIEBEL: Yes.

MS. PATTERSON: And these are all ones in which we are going to use a downpayment assistance program with?

MR. GIEBEL: It would be for the current products, which are the Extra Credit Teachers Program, the Downpayment Assistance Program. It would be for the first mortgage FHA program. It would be for CHDAP.

MS. PATTERSON: So those four single-family programs.

MR. GIEBEL: Yes. And then going forward in May it would be the Energy Efficient and the conventional Fannie Mae product.

CHAIRPERSON JACOBS: Any other questions?

MR. HUNTER: I'll move the adoption of Resolution 14-04.

MS. SOTELO: I'll second it.

MS. OJIMA: Thank you.

Ms. Caballero.

MS. CABALLERO: Aye.

MS. OJIMA: Ms. Gunn.

MS. GUNN: Aye.

MS. OJIMA: Mr. Hunter.

MR. HUNTER: Aye.

MS. OJIMA: Ms. Carroll.

MS. CARROLL: Aye.

MS. OJIMA: Ms. Patterson.

MS. PATTERSON: Aye.

MS. OJIMA: Mr. Prince.

MR. PRINCE: Aye.

MS. OJIMA: Ms. Sotelo.

MS. SOTELO: Aye.

MS. OJIMA: Mr. Jacobs.

CHAIRPERSON JACOBS: Aye.

MS. OJIMA: Resolution 14-04 has been approved.

MR. GIEBEL: Thank you.

MS. ANGST: Thank you.

CHAIRPERSON JACOBS: Thanks, guys.

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Item 9. Review and discuss initial draft of Agency's two-year Strategic Business Plan for Fiscal

Years 2014/2015-2015/2016.

CHAIRPERSON JACOBS: Let's jump to the business plan. And I guess before you start, if people have any particular issues of concern or items that they think should be in this plan that are not addressed as fully in the plan as you think, speak now. Please speak now.

I guess before you jump in I would like to call attention to the fact that MHSA money is running out or has run out, and we should be trying to get more of this money from the Legislature because it's been a great program, created a lot of housing for those in need, and so that would be one comment I'd like to make before we jump in.

Anyone else before Claudia goes to it?

(Court reporter requests break.)

CHAIRPERSON JACOBS: Oh, yes, let's take a five-minute break. That's a great idea.

(Recess taken.)

CHAIRPERSON JACOBS: Sorry for that long five minutes, but let's jump back to the strategic plan.

MS. CAPPIO: Okay. So I just have a little bit of background to begin. At the last meeting, at the January meeting, we reviewed with you the status of the current strategic plan as a basis for moving forward. And before you today is our latest thinking on the draft for the current fiscal year coming up, the '14/15 plan. And we wanted to get early comments and feedback from you because the process moving forward from here is in May you will get the final draft of the plan, and that is -- as we move through the year, you will consider that for action along with the budget for '14 and '15. So we are definitively in the midst of this. This is by no means a finished product. It's a work in progress, and we would appreciate the comments and feedback from you at this time.

I will note that at the last meeting, Tim gave you an old Chinese adage, "Better to be a dog in peaceful times than a man or a woman in chaotic times." And I will safely note that we are not in peaceful times and therefore don't have the ability or choice to be a dog. I think we are men and women in chaotic times, and the exciting part of that is that we are -- we can safely build ourselves on more stable financial ground, thanks to the excellent work of my staff over the last couple years. And with that, it has its own challenges because we're out of survival mode and into oh-oh, how do we need to remake or reform ourselves to be continuing to be relevant and serving the needs of Californians with affordable housing.

So with that, let the discussion begin.

CHAIRPERSON JACOBS: Does anyone want to call attention to a certain part or ask a few questions?

MR. HUNTER: I just would maybe join in asking Tim to go back to sports metaphors. It was really entertaining to go through the minutes and reread all those gems from Tim.

I just would like to note, particularly in the context of this meeting, I'm the only one still here from the years of disaster. We -- there was a time when this Board was really talking very intensively with the staff about focusing all of our energy on number one. And I just wanted to say overall, it's nice that that's now the smallest piece of the work. But I would just encourage staff and the Board to remember that it's still a critical part of the work in the ongoing effort to increase the stability of the capital structure, which is what is enabling us to finally get back into looking at lending and other activities.

So I just wanted to comment, as I looked at the plan overall, that it was really nice to see the number of areas in which we're looking at new initiatives, given the fact we've managed to successfully address many of the financial problems of the organization.

MS. PATTERSON: No. 7 and No. 12, I think are linked, and I know there are ongoing discussions about

12 and the administration and how that works together and 7, dealing with right sizing of the Agency, basically. And I know when you have resources that are diminished, then your workforce is sometimes diminished accordingly or you have a re-shifting because your focus is restricted, so I would like to maybe have some feedback from Jackie on managing through attrition, some of your organizational strategies to kind of right size and reorganize and that your workforce is matching your resources, et cetera.

MS. CAPPIO: Jackie Riley, Director of Administration.

MS. RILEY: Good morning.

We have already been doing some of that, especially in single family. When lending stopped happening, people were reassigned to loan servicing. And as the portfolio went more into runoff mode with REOs and short sales, people have -- from lending and from loan servicing have gone into portfolio management. So we have provided a lot of training for folks, especially of late. We had a big migration to try and do closeout on some things in portfolio management. So people who were used to doing lending are now doing the other side of the operation and vice versa with loan servicing. So we've done some of that.

We've had a few retirements and determined that we're not filling those positions. We're looking now -- because I'm in active budget mode because at the next Board meeting you'll be getting the Agency's budget, looking at establishing some workload standards in the units where we can -- what's the workload; what's the percentage of, you know, employees that are working on certain things -- and trying to come up with kind of a standard and looking at some of it as it relates to also industry. What are the industry standards? What are our standards? How can we improve through work flow or some other things? So we're actively pursuing that.

MS. SOTELO: Is it possible to have a summary of that or an organizational chart or something that shows that when you come back with the budget to marry that up so we can just understand that a little bit better?

MS. RILEY: Okay.

MS. SOTELO: And then I know the budget is such a long process and it's so hard to do, so I commend you for doing it, but maybe we can send the operational stuff, you know, two weeks before the next meeting or maybe three weeks. That way we can have some time to take a look at it. Two weeks would be fine.

MS. RILEY: Okay. Right now we're running still quite a few vacancies, so I don't know because we haven't gone through our internal little budget hearing process with what our divisions are going to be requesting, but I do believe that some of those vacancies are going to be taken off the budget. We just don't need them at this point.

And budget numbers drive a lot of numbers in state government. You get -- you know, you have expenses based on how many employees you have or the size of your budget. It comes out in the wash three years later, but if we don't need them, we don't need to show them. It's kind of like you don't want to be under your budget, but you don't want to be way over your budget, either.

MS. PATTERSON: Right. So I know at the local government level -- and I'm not sure if this happens at the state level -- you may have the position, but you leave the position unfunded. So you have a full-time FTE, but just you don't fund that position so that you --

MS. RILEY: The way the Agency has done its budgeting is that -- and it's kind of based on state government budgeting. You have something called -- it's called a 7A inside of state government. It lists all of your positions. And so for us, we will show -- if we're not going to fill it, it would stay on there for two years. It will be a zero, zero, and then it goes away.

MS. PATTERSON: Okay.

MS. RILEY: So, yeah, you aren't funding it. It's still there. It was filled this year. We're not anticipating, you know, filling it. It was only filled for .5 or something like that.

MS. PATTERSON: Okay.

MS. RILEY: They would be not -- it would essentially be unfunded. But after that time, the Agency also -- because we come to the Board and request additional positions. I mean back when we needed that, we had the ability to come and request from the Board: We have this program, and we need two more positions that aren't showing up in our budget. So we have the ability to create positions also.

MS. PATTERSON: Oh, okay.

MS. RILEY: So if there's -- I mean, you know, if lending took off and was going gangbusters and we didn't have enough positions and we needed more, we could come to the budget anytime -- I mean come to the Board anytime during --

MS. PATTERSON: And ask for position.

MS. RILEY: -- the year and ask for, you know, that much more money to fund those positions.

MS. PATTERSON: Okay. Well, I'm going to parrot what Dalila was saying, kind of some of the strategies that you're using --

MS. RILEY: Okay.

MS. PATTERSON: -- to deal with the workforce operationally and hear some of the strategies that we employ to make sure that our workforce is aligning with our resources.

MS. RILEY: Okay. And you know we are a civil service organization, so some of it, too, is, you know, really getting our heads and minds around some -- how can I say -- lower performing employees and trying to work on that performance.

MS. PATTERSON: Okay.

MS. RILEY: So they're fully performing and if not, then maybe they don't -- you know, there could be some consequences.

MS. PATTERSON: Okay.

MS. RILEY: So it's kind of all fronts, right at this moment.

MS. PATTERSON: Okay. Thank you.

CHAIRPERSON JACOBS: I've got a question on the Agency integration, you know, with HCD. I'm sort of -- can we get a quick update?

MS. CAPPIO: Sure. It's still in process. We are moving ahead, and I've had internal meetings at

Agency to bring them fully up-to-date. We've had an additional meeting of the Governor's Office, and we have a Governor's Office meeting yet to be scheduled to fill them in on our latest thinking. So it's still very much a work in progress, but we'll keep you posted. I would hope that we would have that resolved sometime in the next couple of months because we really need to move forward in strengthening both HCD and CalHFA. There's vacant positions, exempt positions, open simply because we don't know the final organization, and we would like to get those filled or let those go in an effort to have the strongest executive team we can.

MS. RILEY: And the May budget for the Board will not include any HCD positions or any discussion regarding that. It will just strictly be CalHFA.

MS. SOTELO: So, Matt, I had a general question, just stepping back a little bit on the business plan, and I'm not sure whether -- maybe this exercise was done sometime last year, Claudia, but when I look at a business plan, I look at really what are we trying to achieve, what's the big -- what's the big picture, what are the major milestones that we're trying to hit and are those achievable and realistic goals? I see a lot of strategies and action items, and I appreciate that, and I think that's good. But can you step back for a moment and just kind of give us a bigger picture? Obviously the last two years have all been about risk management and stabilization, but what do you see for the next year, and how do we -- how do we articulate that in your business plan?

MS. CAPPIO: Well, I guess the key -- the three keys for me are to be in the best position we can be at the end of 2015 when the U.S. Treasury unwinds its credit, right, so we are currently in a temporary liquidity buttress or strengthening position because of the U.S. Treasury. They're going to end that. They have indicated there's not going to be an extension to that. And there's going to be -- as much as we would aspire to have that be zero, I think there's likely going to be a little bit left over, and we have to be in the strongest position we can to have the private market take over -- take that over, again, so that we can be financially stable.

Second and third are the -- are our ability to reformulate ourselves for the new market, both in single family and multiple family. The interest rate continues to be depressed, and we have to figure out how to be relevant, strategic and get the money out to people who need it the most in order to meet California's affordable housing needs. We've been thwarted in that the last couple years not only because of the interest rates but also because of our financial position. Now we're at that stable point, and we've got to go forth and figure that out. That's a really wild thing to do. I mean, so much is new and unformed, and we have to find our niches and go for it.

I guess related to that is that we're spending 40 million, plus or minus, on keeping ourselves afloat each year, keeping business operating. We've got to figure out a new series of revenue streams in order to sustain ourselves. It's not going to be the way it was in the first 35 years of this Agency's life. It's not going to be strictly from tax-exempt bonds. It's going to be other revenue streams we have to employ in order to keep ourselves in business because we don't rely on any other source of funding from the State.

And then lastly is what we've been dealing with, the reorg of the Governor. How can we build a platform with HCD to be as efficient and effective as possible on delivering programs and services to the people of this state, again to make sure that we serve the people that we're in business to do?

So that, in a nutshell, is what we've been focused on.

MS. SOTELO: I appreciate that.

MS. PATTERSON: That's a really good kind of overview. I really appreciate that. I would like that -- you listed it as No. 4, but it actually kind of runs through what you're doing with No. 2 and 3.

MS. CAPPIO: Yeah. That's right.

MS. PATTERSON: So I don't want those conversations -- we as government have always worked in kind of silence. And so while you're having the conversation over here about reorg, I don't want them not to be considering your -- what our -- what is CalHFA going forward and what -- how do you deal with your operations separately and apart from. I would like to make sure that those conversations kind of run throughout so that you're all talking the same page and going the same direction, because they're all related. And the whole point, I believe, in the Governor wanting to have a reorg was so that you could get some efficiencies.

MS. CAPPIO: Yeah, absolutely.

MS. PATTERSON: That was the whole reason why. And so when you're talking about what are you in this new market, what are you going to become, how do you sustain yourselves with the $40 million, knowing that you can't -- it's no longer business as usual, and you have this reorg plan that's sitting out there, that was the purpose of the reorg plan. So I would like to make sure that at least the conversations are aligned, and I know under your leadership --

MS. CAPPIO: Well, we are -- I mean there's been some fascinating discussions because we, again, have to maintain our sort of independent authority and be managers of our own ship in order to manage the risk appropriately and yet we are -- we are fulfilling the same mission in a lot of ways, and we have to figure out how to do that in the most collaborative. And in some ways if we can get some consolidation, we will. And there are some keys that, as I've explained before, other than stuff that makes immediate sense, like our leg units are already combined. They're operating. We've had tremendous success with that I think because we're looking at it through different lenses, thus giving the Governor and the Secretary the benefit of both of our perspectives with regard to prospective legislation.

Asset management, 90,000 units between the two agencies, how can we get more efficient in how we manage, inspect, look at the financial risk of some of that -- of some of the pieces of that portfolio, that to me is a tremendous opportunity. So we're beginning to figure that out.

And the multiple family programs is the other key.

MR. PRINCE: So based upon this morning's conversation about certain outcomes with our homeownership efforts, I like 11A, and I just want to stress that one, about really looking at those other outcomes and those other partnerships. We do housing for a purpose and really thinking about how do we measure those outcomes and then thinking about some new collaborations.

I was thinking as people are talking this morning about Scholar House, which is run by the Louisville Housing Authority. They are a Move to Work so they are a little special, but they have a program that targets mothers with children and educations for both. If we could do something like that in California and then have homeownership be at the tail end, I think that that would be a great opportunity. So I like the idea of figuring out those partnerships that might create some new outcomes.

MS. CAPPIO: Yes, this --

MR. PRINCE: And I appreciate everyone who's housed in multi-family in the homeownership are important and them being housed by themselves is really important, but I do believe that I think the taxpayers want to see a little bit more, and so if we can demonstrate that people are doing more, it would be great.

MS. CAPPIO: I -- yeah, I echo that, Preston, simply because we -- I keep saying this: Lending with a purpose. We have to figure that out. In an era of fewer resources, we have to figure out how to use them better and most effectively, so.

And it's -- that's a positive influence that HCD has had on us. It's clear that when you have a stable housing platform, your health outcomes are better, your educational outcomes are better. The more hard analysis and evidence we have of that, the more effectively we'll be able to make our pitch for various programs.

MS. SOTELO: And I think it's important from a Board perspective, at least my Board perspective, is that the business plan lays out your objectives and creates deliverables for the team. And I think that the staff -- I mean the role of the administration is to link those goals and those outcomes to people's performance. So as you're looking at how your team performs and holding accountability throughout the organization, really linking the deliverables that as we the policymaking Board can establish, makes it more transparent, makes it easier to say, well, okay, the goal of the Agency is to, you know, remain relevant and strategic and find its niche, what is the niche? What's the real deliverable in that niche? And then how do we get measured, and how do we perform under that?

So if the goal is to use $250 million of our volume cap for single-family homes, how do we get there, and how do we get there quickly, and how do we perform as a team to get there? So I'd like to see that a little bit in the plan, and when you present it again, along with the budget, maybe make those correlations for us.

MS. CAPPIO: Okay.

MR. HUNTER: I have a very different kind of question. I noticed a couple points where it talked about assessing the ability of CalHFA to become a master servicer, and that confused me a little bit because I thought CalHFA is servicing a part of the portfolio. I mean, is this something different?

MS. CAPPIO: Yes. We are -- we have a robust servicing function currently. The master servicer would be a different category or class of servicer. And if someone could come up briefly and explain -- yeah, Tim, that would be great. I don't want to be in error. I want you to have an accurate representation. It's a -- it's a way -- there are very few master servicers, but we are exploring the possibility of becoming one.

MR. HSU: You're correct, Jonathan, that we are definitely a single-family servicer. The servicing function that we have had traditionally comes from the fact that we were purchasing whole loans from the lenders, like as Tia was saying earlier, that we have a program, there's a lending -- a lender network out there. They make the loans; we buy the loans from them. And then we take these whole loans, and we issue bonds to purchase these whole loans.

The role -- there's no role there for a master servicer. The master servicer's function comes in when you are taking these individual loans, which I refer to as whole loans, and you are making it into a mortgage-backed security, because the master servicer has some responsibilities to someone like Fannie Mae and Ginnie Mae that a servicer does not have.

So, for example, these mortgage-backed securities, part of the reason why investors are buying mortgage-backed securities instead of whole loans is that they're expecting their cash flows on a very routine, scheduled basis. So when you are servicing a mortgage-backed security, it’s what's referred to as schedule payments.

So if someone inside a pool -- so as Tony was referring to earlier, so suppose there's $250,000 in a pool, it's four loans, if one of the loans is delinquent, for example, the master servicer actually would come in and make that loan payment on behalf of the delinquent loan and then work with that loan to make the payments current.

It has certainly liquidity risk from that vantage point because it has to front money on a scheduled basis versus actual or actual instead of you're passing through what you actually received. This function has become extremely important as we enter into mortgage-backed securities space because there are not as many players in that space because of all the fallouts from the responsibilities of being a player in that space.

But what we're noticing is that if we were to become a master servicer, it can afford us the kind of flexibilities that Dalila and Tia were talking about in terms of controlling the program, which is something that you guys had asked Tony about as well. Because the master servicers these days, because of their own internal risk controls, are exacting -- exacting and getting their own risk overlays, which makes the programs look like the way they want them to look. We have fewer controls because they are coming in with their risk overlays.

This is a function that's very different. So functionally, this is what it is about, but operationally it's also very different from what we're doing because the master service will get involved with things like delivering loan documents at a very specific deadline on a very specific date. And, frankly, that's not something that we currently are really, really good at doing because when we wire money out, it has to go through the Controller's Office; it has all these things. And then sometimes we can get money out the next day, but that's really kind of not the norm.

Also, there's -- you have to set up a whole department that's -- I think we refer to them as like a delivery department, right, so that kind of delivery function is not one that we have now. But the master servicing could also be a way for us to, if you will, retrofit the servicing functions that we have now into a bigger pipeline, meaning that as our servicing portfolio is sort of declining, if we were to enter into the master servicing space, that would also mean that we would retain the servicing, and then the servicing capacity we built could actually be used in that kind of function.

So it could be good in terms of origination and then be able to control our programs more so that we can do what we want do and also to utilize the capacity we have.

MR. GIEBEL: Jonathan, it would make it what we're doing piecemeal now. So we have a master servicer, U.S. Bank. And then we go to the hedgers, and the hedgers go back. If we did that, it would be seamless from origination through master servicing through hedging and then back, so you have way more control. And master servicers charge you. It's not cheap, but they're doing all the work and taking all the risk, so that's -- ultimately you would look at this as a whole, seamless process on the -- with the TBA model.

CHAIRPERSON JACOBS: I think this is a particularly good idea just because as an Agency, we've been more effective -- when there are troubled loans, we work at getting them stabilized -- than any of the other servicers. So this goes to both the mission of keeping people in their homes, but also ensuring that the bondholders get paid back.

MR. GIEBEL: There is risk involved in it --

CHAIRPERSON JACOBS: Of course there is.

MR. GIEBEL: -- as Tim said, so.

MS. CAPPIO: It's a new notion of labor and delivery, right?

MR. GIEBEL: Yes, it is. It's a whole new ballgame. And typically they are separate units. So the U.S. Bank unit, for example, is in Ohio, and the people we deal with in U.S. Bank are in Chicago. So it's typically a whole separate unit, self-contained unit.

MS. CAPPIO: Dalila, when you were saying what -- how I think what you want is sort of an overlay of how we connect up the business plan with performance measures?

MS. SOTELO: Yes. It's almost the -- the business plan is the articulation of the mission and the vision for the organization, and how does that trickle down to all the departments and how does that trickle down to individuals, right?

MS. CAPPIO: Okay.

MS. SOTELO: And so for me, if you're creating a new market service, right, such as -- such as asset management or, you know, taking all the redevelopment loans or -- you have something in there around that in the business plan. If you're creating a new market, then how does that translate through the department that's going to administer that and then how does that --

MS. CAPPIO: In terms of impact on the

department?

MS. SOTELO: From an operational standpoint --

MS. CAPPIO: Okay.

MS. SOTELO: -- from a cost standpoint, how many new staff people do you need to do that, and then how do you measure whether they're doing their job or not?

MS. CAPPIO: All right.

MS. SOTELO: I think that speaks to Jackie's, you know, comments about the performance and performance standards.

MS. CAPPIO: Okay.

CHAIRPERSON JACOBS: All right, thanks.

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Item 12. Public testimony.

CHAIRPERSON JACOBS: Let's move onto -- actually, before we move onto No. 10, I think we've got a speaker card -- this sort of ties into the next item -- but from Pete Serbantes from HomeStrong USA. And the -- the item he's discussing is how Keep Your Home California has worked from the front lines.

So is Pete -- here he is. Just if you'd come up and just address everyone and sort of explain how things are working on the front lines.

MR. SERBANTES: Just so you know, I'm a Toastmaster, but I'm exerting massive control -- one page.

Good morning, Board of Directors. My name is Pete Serbantes. I am the program director for HomeStrong USA. We are a HUD approved Keep Your Home California program provider as of June 2013. I wanted to let you know that the Keep Your Home California program is working. No, the Keep Your Home California program is not for everyone. Those with true needs that meet the criteria can and have saved their homes.

That being said, I would like to thank you all for the development of this program. How do I know Keep Your Home California is working? Here are some stats that will show how I know. July 1, 2013, through December 31, 2013, HomeStrong USA has completed and -- completed applications and assisted 1,758 families in saving their homes with various Keep Your Home California programs. January 1 through January 31st, HomeStrong USA has completed and assisted 480 families in savings their homes with the various Keep Your Home California programs. I would like to thank those responsible for the management of the program as based on these stats, the program works.

I would further like to state that HomeStrong USA is committed to the Keep Your Home California program and our California homeowners.

And just in, it's so great this modern technology, there's -- the program is such that it can adjust to the needs of California homeowners. There's a new adjustment that just came out this morning that allows for a husband and wife, he's on the title -- let me see. Husband and wife -- it's in essence a reset of the UMA program that allows for more people to save their homes.

I just want to say thank you so much, and I'll give you my number if anybody wants to -- or anybody says it doesn't work. It does work. And I thank you for that. That's all I have to say.

CHAIRPERSON JACOBS: Thank you, Pete.

MR. SERBANTES: Did you have any questions?

Okay, good. Sorry.

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Item 10. Reports: A. Homeownership Loan Portfolio Update

CHAIRPERSON JACOBS: So with that, let's have a discussion of the items 10 through -- Reports 10A and 10B, the homeownership loan portfolio, because we had an update on numbers.

MS. CAPPIO: Yeah, do you -- unless -- these are included as a typical part of the packet, unless you have questions -- unless you want a presentation.

CHAIRPERSON JACOBS: No, I just think based on the last discussion we had on the servicing, I think it is worth a little discussion of just our rates of converting problem loans into stable loans. I think it's very -- I think that's one of the Agency's -- this Agency has done far better than the for-profit banks.

Does anyone have specific numbers for the last -- last period? I mean, it was interesting. We saw a comparison the last time, the last meeting, and we were doing far better.

MS. PATTERSON: Was that during Rhonda's presentation --

CHAIRPERSON JACOBS: Yeah.

MS. PATTERSON: -- where she had taken back a portion of the loans?

MS. CAPPIO: From BofA.

MR. OKIKAWA: So I understand your question to be more about taking back the BofA loans. So I know Tim had worked on this pretty extensively too, but what we did is we boarded -- and I'm trying to remember the actual numbers. We boarded 1500 of those loans, and I think on this report that we have at the back in the homeownership loan portfolio you can see REO, December 31st. That's not exactly current because I looked on those and some of the -- in the page -- on page 206, it talks about Bank of America BAC, where it offers it in two places. It says for CalHFA loan servicing BAC loans -- you're going to make me wear my glasses. So it says here on the CalHFA loan servicing BAC loans, 1,553 loans that were boarded. And then there was another division here, BAC Home Loans Servicing LP for 135.

But since then, those 135 have been taken back in, and boarding being we've taken these 1,500 -- 1,553 loans in our loan servicing, and they're being serviced as all the other loans are being serviced. What's happened now in our portfolio management group, we've developed a system where we have now a single point of contact, SPOCs. And these SPOCs have been dealing with some of these that have been outrageously outstanding, in other words, they haven't been dealt with in three to four years. So we shifted a lot of those into -- straight into foreclosures.

So we're moving these. In terms of dates, in terms of what delinquency dates they are, we're trying to move these through and get the most effective means of processing these. So as it goes into portfolio management and we see these, immediately we have 12 SPOCs, single point of contacts, they make that phone call. And what's really important is that these people have never been talked to before in three or four years.

So the fact that we make this initial contact and try to do some kind of triage as to where these really go, unfortunately the ones that are three to four years, the back payments and everything on those, there's not much you can do on a loan mod.

But when you go through our waterfall, you know, it's -- to how this works, it goes through a waterfall, more or less, and so we're looking at loan modifications and keeping people in their homes.

One of the bigger things that we're proposing here as well, it's in our -- it's in our plan, is about the FHA HAMPs. I think we talked about that last time. And with those FHA HAMPS, currently CalHFA and Guild have been the only two that have been allowed to reduce the interest rates as well as extend the term. We're now offering that out to all our loan servicers, so what that does is it completes their waterfall, because initially right now if they're not qualified under our -- initially if they aren't able to do the interest rate reduction or the extension, then that kind of shuts their waterfall off so they go straight into foreclosure. By adding that and allowing this interest-rate reduction and extension of term, it completes their waterfall so they can go into that as well.

And for us, in terms of the interest rate, interest rates have gone up. We're not looking at that loss that we might have initially looked at, because after six months -- if you do an interest rate reduction, after six months FHA doesn't cover that. And where we're being covered is we're still -- since interest rates are still a little bit higher, we're going to be covered by that sort of protection. So hopefully that's kind of a general -- maybe I'm -- Tia, I'm sorry.

MS. PATTERSON: The foreclosure rate, wasn't that one of the questions you asked, Dalila, last time? Foreclosure rates versus -- it might just be a matter of terminology, but default rate, delinquency rate, foreclosure rate. Of the 1700 loans, or whatever is in our portfolio, what's our foreclosure rate at the, I guess, end of 2013? What percentage of the folks were actually losing their homes? I think that's one of the questions we had.

And then to follow up on that, of these 1700, are these all we're in first position, or is this a mixture of first and either some DPA assistance or we're in something other than first? Our universe is what I'm asking.

MR. HSU: A couple things, Tia. The BofA

transfer, most of the loans transferred on November 1st, and then the second batch transferred on February 1st. In large part, the first batch of the transfers were loans that were not in the middle of some sort of loan modification. And in large part, the second batch were loans that were -- they had kept them back for a couple more months because they were in the middle of working with the borrowers.

The transfer, for now, hasn't helped with the delinquency ratio because as it turns out, after the transfer, despite the notices, many of the payments still went over to BofA so they had to reroute it back to us. So this might not be part of the package, but you can actually -- we do something that we refer to as transition rates analysis. This is something that everybody in the MI industry does. So what it does is it shows new loans that become 30 days delinquent from last month.

If you look at that, and we look at this internally, you'll see that we actually had a couple of spikes after the transfer because these payments went to the wrong directions.

The real benefit from having these loans come in from BofA is that we believe our conversion ratio to tie into KYHC is going to be much higher. We're going to have a greater ability to make sure that all these borrowers are exposed to the benefits of KYHC. So that's one thought -- two thoughts.

So getting to your thought about foreclosure ratio. So what we do is that we -- if there's a lot of interest in this, we can certainly include it in future Board reports. So what we do is that we figure out how many loans have gone into foreclosure in the middle of some year. And then what we do is we take all the loans at the start of the year and all the loans at the end of the year, and we take the average of the two to figure out our foreclosure rate.

So in 2010, our foreclosure rate for conventional loans reached 10 percent. And this past year, in 2013, the conventional loan foreclosure rate was about 2.5 percent. Okay. And for the FHA loans in 2010, similarly we peaked at about 6.4, and now it's about 1.3 or so. So they're significantly lower. And you can certainly see the huge spike around 2010/2011, and it has really fallen off a lot.

Now, to the other question about -- so when we say foreclosure -- so that particular ratio is about foreclosure, okay, only foreclosures. So if they are loans that have gone to short sale, they don't count in our delinquency ratios.

MS. PATTERSON: I'm sorry what?

MR. HSU: Delinquency. So by that we just mean everything that has not gone to foreclosure. It's up. I think I've said this before. So our conventional -- okay, let me start with our -- this is our fixed rate, so our FHA fixed rate only. So we have charts that kind of cut up the loans in different segments, so if you're only looking at FHA fixed rate, that's actually -- right now the total delinquency ratio is 14 percent.

MS. PATTERSON: And that is at the end of 2013?

MR. HSU: That's -- that's right. It's December 2013.

MS. PATTERSON: Okay.

MR. HSU: Okay? And if you were to compare that to the MBA's FHA California fixed rate, we're high. That's only 8 percent. But I think I mentioned previously -- I know I was challenged on this a little bit -- that the MBA ratio, however, does have new vintages. So it includes new loans that were made in 2013, '11, '12, '10, '9, whereas our ratios have the only vintage that we have, which is prior to 2009.

MS. PATTERSON: So comparing those two is like comparing apples to oranges. It's not an apple-to-apple comparison, comparing delinquency rates.

MR. HSU: That's -- yes. I mean, we do have charts that show this, but you're absolutely correct. It's -- it's -- we don't have the benefit of the new originations. So but that vantage point, it doesn't look good.

MS. PATTERSON: So is your FHA -- and I don't -- I'm sorry, I don't have the right chart in front of me -- FHA fixed different than your conventional?

MR. HSU: Yes, so the --

MS. PATTERSON: So the conventional delinquency rate is what?

MR. HSU: It is 1.5 and whereas if you look at the California MBA, that's only 4. But it has -- it suffers from the same issue that the market indices out there. And this is, frankly, an argument we have with the rating agencies too, because if you look at our rating right now, they'll say something like, well, to the degree that your ratios continues to underperform the market ratios, it's hard for us to think about upgrading you.

So we have this argument every year. You are looking at ratios that include these new book years that we don't have. So every year they recognize that issue, and they kind of say, well, that's nice to know, but it's still going to be there.

MS. PATTERSON: Let me see if I can put this in

English so that I can understand it. The market has the ability to continue to make new loans. Because we haven't continued to make new loans at a rate that the market has, our delinquency rate looks higher because they're able to stabilize their delinquency rate because they have the advantage of having new loans coming in?

MR. HSU: That's correct.

MS. PATTERSON: New business.

MR. HSU: So another way to think about it when you relate it to these headlines of Fannie Mae and Freddie Mac now are making noise about breaking away from the federal government because they're making so much money is that they're making money because the new loans they have made in the last three, four years are making oodles of money, right? They're charging higher premiums, and they're not defaulting. That -- that -- that benefit of that book, those book years, which is benefiting the GSEs, for better or worse we have not benefited from that.

MS. PATTERSON: Right. Which is why you're now coming for new strategies to get back lending again.

CHAIRPERSON JACOBS: And beyond that too.

MS. PATTERSON: Tying it all together.

CHAIRPERSON JACOBS: Tia, this goes back to the discussion we had of the private servicers, their motives, and if it goes delinquent and there's insurance, they take the insurance proceeds as quick as you can. Don't worry about keeping the person in the home.

MS. PATTERSON: Exactly. Okay.

MR. HSU: But I mean, if there's a lot of interest, I mean, some of the other things that are worth mentioning sometimes is that probably the reason why we're getting better is some of the things that you guys see in the marketplace, that generally speaking people are seeing a benefit of rising prices in their homes. So as we go into the marketplace and we're dealing with foreclosures and REOs, at the lowest point we were getting -- prior to all the credit enhancements that we have, like the MIs and all these other issues we talked about, prior to all those things coming in, we were getting 45 cents on a dollar back. So if we had a loan that would go into foreclosure and that's a hundred dollar UPB, what we collect back in terms of the principal is 45 cents to the dollar. And now that number is hovering around 70 percent.

MS. PATTERSON: Okay.

MR. HSU: And that's -- that's one segment too. You know, that's conventional foreclosure REOs. It looks a little bit different when you look at FHA. It looks a little bit different when you look at short sales. But that's just one thing too so that you can see that that nadir, that low point, that we reached in about 2011 or so of 45 cents on a dollar, is way behind us.

CHAIRPERSON JACOBS: Any other questions?

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Item 10. Reports: B. Update on Variable Rate Bonds and Interest Rate Swaps.

CHAIRPERSON JACOBS: And we've got one other report. Does anyone have questions about the rate swaps and risk report?

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Item 11. Discussion of other Board matters.

CHAIRPERSON JACOBS: Any other Board matters anyone wants to bring up?

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Item 12. Public testimony.

CHAIRPERSON JACOBS: Any members of the public who wish to speak?

All right. Seeing none, let's adjourn. Thank you, everyone.

(The meeting concluded at 12:30 p.m.)

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REPORTER'S CERTIFICATE

I hereby certify the foregoing proceedings were reported by me at the time and place therein named; that the proceedings were reported by me, a duly certified shorthand reporter and a disinterested person, and was thereafter transcribed into typewriting by computer.

In witness whereof, I have hereunto set my hand this 4th day of April 2014.

____

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

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State of California

M E M O R A N D U M

To: CalHFA Board of Directors **Date:** April 29, 2014

From: Claudia Cappio, Executive Director
CALIFORNIA HOUSING FINANCE AGENCY

Subject: **Item 5:** Discussion, recommendation and possible action regarding the adoption of a resolution approving the Fiscal Year 2014- 2015 Strategic Business Plan

Overview: Early in 2014 CalHFA senior staff worked together to assess the effectiveness and results of the Agency's current business plan. Based on that assessment, staff developed the 2014-2015 Strategic Business Plan for the Agency incorporating elements of the current business plan together with new and reformed strategies. Our work was based on the need to take a close look at Californians' needs for affordable housing, the Agency's continuing fiscal challenges, our loan products, operational efficiencies, the need to diversify revenue sources and greater collaboration with the Department of Housing and Community Development consistent with the Governor's proposed changes to state government via the Governor's Reorganization Plan (GRP).

Attachment A to this staff report is the proposed 2014-2015 CalHFA Strategic Business Plan. This plan is meant to be reviewed in conjunction with the proposed 2014-15 budget (item 6), as our spending plan was developed to fulfill our strategic priorities. Resolution 14-05, adopting the plan, is included for the Board's consideration.

Discussion of Major Strategic Components: Significantly, CalHFA's financial stability and bond ratings have improved over the last year. That said, we still have much work to accomplish to be in a position for strong, sustainable lending activities. Increasing liquidity and stability, along with reducing balance sheet risk is one of the Agency's goals and remains amongst our top tier strategies.

As you know, bond activity over the past five to six years continues at historic lows due to depressed interest rates and the Agency's credit ratings. CalHFA cannot rely solely upon issuing tax exempt bonds for capital. Diversifying and strengthening our revenue sources is a key strategy in the 2014- 2015 Business Plan. Another related strategy is to begin to establish more direct links between revenues in certain key divisions and our revenue streams. In this way, we will be able to more critically evaluate business practices and flows, particularly as lending ramps up in the coming year.

While not a specific element of the proposed business plan, it is anticipated that the joint affordable housing cost study sponsored by CalHFA along with our partners HCD, CDLAC and TCAC will be released by June, 2014. It is anticipated that the results of and information contained in the cost study will serve as yet another tool for assessing how best to meet the demand for and more cost effectively produce affordable housing.

Another key set of issues involves CalHFA's work with HCD to align program functions, move toward joint best practices and complete the structure ensuring coordination of the senior executive teams. Notably, even without formal adoption of the Governor's Reorganization Plan, over the last year CalHFA and HCD have developed collaborative processes and efficiencies (e.g., legislation and marketing) together with documentation of best practices benefiting the management of assets in both entities' portfolios.

Finally, CalHFA's participation in Keep Your Home California (KYHC) program has been successful and remains a priority in the coming fiscal year to help prevent foreclosure and keep families in their homes. The KYHC program has remained nimble, changing the terms of its programs based on the needs of Californians. Over the last year KYHC has been successful and it is on track to distribute the funds prior to the December, 2017 deadline.

Conclusion: The CalHFA team embraces the challenges presented by the complex and urgent work ahead of us during the next year. We are lifted by the good results from last year and our growing ability to focus on what is most important and execute actions to fulfill our objectives. In our work, we identified both transactional and transformational strategies in order to most effectively direct CalHFA resources in fulfilling our affordable housing mission. As in past years we will check in with the Board during the coming months about our progress or any changes that may become necessary.

Your approval of Resolution 14-05 is requested.

CalHFA Strategic Business Plan FY2014-2015

Mission: *To create and finance progressive housing solutions so more Californians have a place to call home.*

Goals of Organization:

		Goal	Strategy
CalHFA:	**1)**	*Stabilize the Agency's balance sheet. Improve operational efficiency.*	1-5
	2)	*Reinvigorate and reform lending activities. Grow the Agency's balance sheet.*	6-9
	3)	*Re-organize State-level housing policy and resources.*	10-11
KYHC:	**4)**	*Help prevent avoidable foreclosures by providing assistance to eligible homeowners who have financial hardship and/or significant negative equity*	12

	Key Strategy		Action Items	Due Dates	Team Leader	Policy Considerations
1	**Increase stability of capital structure and liquidity position.**	A	Reduce VRDO (variable rate bonds supported by US Treasury letter of credit) balance by $450Mn.	02/01/15	Tim	
		B	Reduce swap notional balance by $200Mn.	02/01/15	Tim	
2	**Reduce balance sheet risk by increasing loss mitigation efforts in the single family portfolio.**	A	Aggressively apply: i) CalHFA collections strategies; ii) CalHFA Loss Mitigation options to newly acquired Bank of America serviced loans	ongoing	Nick	
		B	Prepare a list of actionable recommendations for each servicer defining CalHFA's loss mitigation options. Audit to ensure a high level of participation.	ongoing	Nick	
		C	Refine loss mitigation process and identify ways to streamline the process.	04/01/14	Nick	
		D	Develop a unified servicer administration system to ensure compliance and timely reporting.	10/01/14	Nick	
		E	Update CalHFA Servicer Guide.	12/31/14	Nick	
		F	Aggressively mine CalHFA's loan portfolio to increase participation in KYHC's PRP (Principal Reduction Program).	03/10/14	Nick	
		G	Allow outside servicers to use the FHA HAMP Loan Modification Programs (to lower rates and/or extend terms).	03/07/14	Nick	
3	**Reorganize and increase operational efficiencies and infrastructure to better position the Agency for future business opportunities.**	A	Train managers and supervisors to effect succession planning	ongoing	Jackie	
		B	Develop best practices for talent management and strategic hiring	ongoing	Jackie	
		C	Develop a master plan for a flexible workforce (internal CalHFA and possibly in relation to HCD)	ongoing	Jackie	
		D	Establish workload standards to control expenses and support the budget process	05/01/14	Jackie	
		E	All divisions shall assess work flow to increase organizational efficiency with emphasis on cost containment.	05/01/14	Jackie	

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	Key Strategy		Action Items	Due Dates	Team Leader	Policy Considerations
4	**Develop long-term strategies to monitor and mitigate enterprise risks.**	A	Review: i) Quality Assurance; ii) Risk Management; iii) Internal Controls/Compliance and develop a robust plan to address each topic	10/01/14	Tony	
		B	Continue to integrate the enterprise risk management effort into CalHFA's business processes. Formalize strategies for managing Agency risks.	10/01/14	Tony	
5	**Agency-wide IT integration of data collection, flow and reporting**	A	Determine divisional data requirements	08/31/14	Liane	
		B	Prioritize needs and define deliverables and scope	10/31/14	Liane	
		C	Ensure existing and future data is accessible from a common platform and compliant with the already adopted Enterprise Architecture	01/31/15	Liane	
		D	Design the Data Warehouse and Database	06/30/15	Liane	
		E	Extract / Cleanse / Transform / Verify Data in the Data Warehouse	09/30/15	Liane	
		F	Create user interface and reporting systems	06/30/16	Liane	
6	**Generate income via multifamily lending opportunities.**	A	Pursue preservation and recapitalization of portfolio and non-portfolio projects. Target $130Mn (Low: $57Mn; Moderate $130Mn; High: $200Mn) by the end of FY2014-15	06/30/15	Jim	Preservation of affordable housing stock
			i) Seeking approval to implement 35/17 HUD Risk Share program, targeting experienced tax-credit developers.	07/01/14	Jim	Preservation of affordable housing stock
			ii) Implement HUD Risk Share permanent loan program	07/01/14	Jim	Preservation of affordable housing stock
			iii) Determine next phase of the MHSA (Mental Health Services Act) Program. Current draft bill (AB1929) under consideration. Collaborate with Dept of Health Care Services and HCD to provide technical support.	05/01/14	Jim	Permanent Supportive Rental Housing for the mentally ill who are homeless or at risk of homelessness

CalHFA Strategic Business Plan FY2014-2015

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	Key Strategy		Action Items	Due Dates	Team Leader	Policy Considerations
			iv) Determine viability and possible implementation of HUD Risk Share Construction loan program	FY15-FY16	Jim	Development and construction of new affordable multifamily units
			v) Apply to HUD's national office in DC to become a MAP (Multifamily Accelerated Processing) Lender.	09/01/14	Jim	Expand loan product portfolio
			vi) Collaborate with HCD and CalVets to expand multifamily housing opportunities for veterans (AB 639 / Proposition 41).	01/15/15	Jim	Permanent Supportive Housing for veterans
		B	Continue the MF conduit issuer program. Target $48Mn (Low: $24Mn; Moderate $48Mn; High: $80Mn)	06/30/15	Jim	
		C	Create a multiyear plan to identify the use of the Earned Surplus Funds, RHCP (Rental Housing Construction Program) Funds and FAF (Financial Adjustment Factor) Savings Funds. Goal: multifamily lending/asset management usage waterfall.	Ongoing	Rick/Jim/Chris	Coordinate our plan with the State of CA's Statewide Housing Plan
7	**Generate income via single-family lending opportunities.**	**A**	• Revenue targets for 1st mortgage Loans (Low: $2.2Mn; Moderate $3.2Mn; High: $4.9Mn) by the end of FY2014-15 • Revenue targets for DPA loans (Low: $1.1Mn; Moderate $1.3Mn; High: $1.6Mn) by the end of FY2014-15	06/30/15	Ken	Provide qualified borrowers additonal savings realized by owning vs renting
		B	Introduce Conventional mortgage products	05/15/14	Ken	Provide qualified borrowers additonal savings realized by owning vs renting
		C	Introduce EEM (energy efficient mortgage) products	05/15/14	Ken	Reduce greenhouse emissions

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	Key Strategy		Action Items	Due Dates	Team Leader	Policy Considerations
		D	Offer CalHFA mortgage products to non-first time homebuyers	07/01/14	Ken	Provides homeowners the opportunity to improve family housing and take advantage of energy efficient opportunities
		E	Work with CalVET on offering our TBA Mortgage products and DPA loans. Develop a USDA mortgage product.	08/01/14	Ken	Expand homeownership opportunities for Vets and rural area borrowers
		F	Develop a strategy for funding DPA (downpayment assistance) when CHDAP (CA G-O funded DPAs) funding is depleted	9/14 to 7/15	Ken	Assist low to moderate income borrowers with overcoming their #1 hurdle to buying their first home.
		G	Develop framework for switching back to a bond funded mortgages	01/01/15	Ken	Provide 1st time homebuyers with a lower interest rates; and rebuild the Agency's balance sheet
		H	Develop product/program for using the $9M in recycled HPA (Home Purchase Assistance) funds	7/1/14 to 10/1/14	Ken	Provide a targeted population with additional DPA
8	**Generate income via multifamily asset management opportunities.**	**A**	Identify and evaluate possible multifamily housing needs related to the closure of redevelopment agencies.	12/31/14	Chris	Preservation of affordable housing stock
		B	Administer HCD's Tenant Based Rental Assistance (TBRA) for a two year period on a select number of multifamily projects.	07/01/14	Chris	Alignment of State Resources

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	Key Strategy		Action Items	Due Dates	Team Leader	Policy Considerations
		C	Performance Based Contract Administration (PBCA) on pause. Anticipate another bidding process. Court invalidated the NOFA process for procurement.	ongoing FY15-FY16	Chris	Servicing Federal Program
		D	Administer the HUD 811 Subsidy Program in collaboration with HCD, DHCS (Dept of Healthcare Services) and TCAC (Tax Credit Allocation Committee). Five year demonstration program focused on transitioning non-elderly disabled persons form nursing facilities to multifamily developments.	05/01/14	Chris	Servicing Federal Program
9	**Generate savings in single-family loan servicing operations**	**A**	Assess the existing servicing platform (staffing, systems, organizational support) to maximize operational efficiencies	ongoing	Rhonda	
		B	Determined that acquiring more servicing rights through CalHFA as a Master Servicer is not economically feasible	done	Tim/Ken	
10	**Collaboration with HCD on "live" projects (not included in above SF or MF sections)**	**A**	Assess and enhance the social impact of affordable housing (e.g. educational and health outcomes).	Ongoing	Rick	Smart growth; preservation; healthy community; education
		B	Explore opportunities to finance manufactured housing.	07/01/15	Tony	Coordinate our plan with the State of CA's Statewide Housing Plan
		C	Provide support to HCD servicing of single-family loans (1st liens and subordinates)	Ongoing	Rhonda	
		D	Streamline multifamily asset management functions and responsibilities	Ongoing	Rick	preservation of affordable housing stock; alignment of state resources

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	Key Strategy		Action Items	Due Dates	Team Leader	Policy Considerations
		E	GRP (Governor's Reorganization Plan) follow-up	Ongoing	Claudia	Enhance operational efficiencies and provide unified statewide housing policies and solutions
		F	Finalize affordable housing cost study.	07/01/14	Claudia	
11	**Coordinate HCD and CalHFA functions to meet California's affordable housing needs.**	A	Finalize executive organizational chart with roles clearly communicated.	Ongoing	Claudia	Enhance operational efficiencies and provide unified statewide housing policies and solutions
		B	Review organizational set up, staff functions and capabilities, funding sources to facilitate ongoing collaboration.	Ongoing	Claudia	Enhance operational efficiencies
		C	Provide technical assistance to legislature and others regarding dedicated sources for affordable housing.	Ongoing	Claudia	Elevate affordable housing presence in state policy and integrate with other initiatives
12	**Maximize use of KYHC program funds.**	A	Collaborate with other public and private sector entities to maximize and leverage potential benefits of foreclosure prevention resources.	Ongoing	Di	
		B	Measure program outcomes and assess barriers to eligibility.	Ongoing	Di	
		C	Submit program changes as needed to US Treasury to facilitate increased eligibility.	Ongoing	Di	
		D	Aggressively market programs to eligible homeowners, community groups and media to expand awareness.	Ongoing	Di	
		E	Aggressively pursue and on-board additional servicers.	Ongoing	Di	

CalHFA Strategic Business Plan FY2014-2015

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	Key Strategy		Action Items	Due Dates	Team Leader		Policy Considerations
		F	Monitor program recipients to assess level of homeownership sustainability facilitated by program assistance.	Ongoing	Di		

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RESOLUTION 14-05

AGENCY BUSINESS PLAN

FISCAL YEAR 2014/15

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

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

WHEREAS, while the improving California economy and real estate markets continue to present opportunity for the Agency, financial challenges remain within changing credit and capital markets;;

WHEREAS, the Agency must responsibly manage real estate related risk and liquidity for operating expenses and financial obligations;

WHEREAS, the Agency has presented to the Board of Directors a Business Plan, for fiscal year 2014/15, with its goals, key strategies and action items designed to assist the Agency meet its financial obligations, its statutory objectives, support the housing needs of the people of California and to provide the Agency with the necessary road map to continue its reemergence as a leading affordable housing lender providing bond financing and mortgage financing well into the future;

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

1. The 2014/15 Business Plan, as presented by the written presentation attached hereto and made a part hereof, and any additional presentations made at the meeting, is hereby fully endorsed and adopted.

2. In implementing the Business Plan, the Agency shall strive to satisfy all the capital adequacy, liquidity reserve, credit and other reserve and any other requirements necessary to maintain the Agency's general obligation credit ratings and the current credit ratings on its debt obligations, to comply with the requirements of the Agency's providers of credit enhancement, liquidity, and interest rate swaps and to satisfy any other requirements of

the Agency's bond and insurance programs.

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

I hereby certify that this is a true and correct copy of Resolution 14-05 adopted at a duly constituted meeting of the Board of the Agency held on May 13, 2014, in Sacramento, California.

ATTEST: ______________________
Secretary

Attachment

State of California

MEMORANDUM

To: **CalHFA Board of Directors** **Date:** April 29, 2014

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

Subject: Agenda Item 6: Operating Budget for Fiscal Year 2014-2015

Background

The operating budget for Fiscal Year (FY) 2014-15 is provided for your approval. In developing the budget, staff has been directly informed of the proposed 2014-15 Business Plan.

Last year it became clear CalHFA had survived the worst of the housing market crash and could lend again to support the affordable housing needs for California. While the Agency did not accomplish as much lending as planned, we gained invaluable experience of what works and what is not as competitive in today's affordable housing market. This year we will continue to refine and redefine the loan products and services needed in the market. Just as important is a keen awareness of how to create a sustainable platform for CalHFA. We must generate revenue, reduce expenses, and find the niches where we can best serve the needs of affordable housing -- those are our challenges.

For the 2014-2015 Fiscal Year (FY) budget, we anticipate a number of efficiencies and reductions in expenses. However, we begin the budget discussion by stating that the Agency has many legacy issues that will remain for the next several years. Those issues – e.g., short sales, bankruptcies, REO's, etc., while decreasing, continue to require staff time and resources. It is not just the employees in Portfolio Management and Loan Servicing working on those loans that add to the expenses of the Agency; many other support units are also involved. The good news is that the number of these loans will continue to diminish each year. Next year at this time we are anticipating a reduction of 4-6 employees devoted to this undertaking.

Business Plan

A great deal of time has been devoted to developing the Fiscal Year 2014-2015 Strategic Business Plan, consisting of the following four goals for the Agency:

1. Stabilize the Agency's balance sheet. Improve operational efficiency;
2. Reinvigorate and reform lending activities. Grow the Agency's balance sheet;
3. Reorganize State-level housing policy and resources; and
4. Through the Keep Your Home California Program, help prevent avoidable foreclosures by providing assistance to eligible homeowners who have financial hardship and/or significant negative equity.

As the strategic plan developed, there were thoughtful discussions and solutions to streamline Agency processes and procedures. Senior Managers have committed to pursue cost cutting strategies through increased efficiencies for their respective units. As explained in the Strategic Plan item, we have also established revenue projections in an effort to connect our lending activities more closely with Agency expenditures. This practice is fairly new to the agency as our history is one of revenues generally exceeding expenses.

Not resting on our laurels, the Agency has instituted across the board strategies and measures to reduce expenditures, which are reflected in our proposed budget, including:

- Reducing the number of vacant positions
- Attrition – and not refilling positions
- Not filling vacancies unless mission critical
- Subletting extra space in both West Sacramento and Culver City (originally intended for PBCA contractors)
- Continuing critical reviews of all divisions

With the above plan in mind, a baseline budget for FY 2014-15 was developed.

Budget Summary

The proposed budget for FY 2014-15 is $42.9 million -- $1.1 million less than this current year's Board approved budget. We were able to decrease the budget despite an increase of 7% in the benefit factor and also a 3% salary increase for those employees who were at the top of their salary range for a year or more. We have also been able to eliminate an additional 15 positions – a reduction of 25.5 positions in two years.

For each of the past three years we have reduced the budget and expenditures from a high in FY 2011-12 of $50.1 million budgeted and $46.2 million expended to our current FY 2013-14 budgeted amount of $44 million and our proposed expenditure of approximately $37.8 million.

Most of our operating and equipment expenses have stayed the same with the exception of Central Administrative Services (CAS) and Professional Services. The CAS has decreased by nearly $1.5 million and is expected to decrease again next year. Professional Services was also reduced by $117 thousand while still maintaining the $200 thousand for a contracted project (integration/collaboration) manager for CalHFA/HCD. Lastly, the Agency is expected to complete its Strategic Project which is replacing an old and fragile legacy system with a more robust NET/SQL-based solution which meets industry, security and Agency standards. This project was started last year and only part of the budgeted amount was expended. In FY 2014-15, it is projected to cost $1.2 million in order to finish this effort.

During this upcoming year, our efforts will be focused on thoughtfully cutting expenses and increasing revenues through lending activities. We do so within a framework of improving management and business practices and increasing efficiencies where feasible.

Your approval of this budget and Resolution 14-06 is requested.

April 28, 2014

CALIFORNIA HOUSING FINANCE AGENCY
2014-15
CONSOLIDATED CALHFA AND MIS FUNDS OPERATING BUDGET
(DOLLARS IN THOUSANDS)

EXPENDITURE ITEM	Budgeted 2012-13	Actual 2012-13	Budgeted 2013-14	Projected Actual 2013-14	Proposed 2014-15
PERSONAL SERVICES					
Salaries and Wages	$22,686	$22,686	$21,346	$21,346	$21,116
Estimated Savings (Vacancies)	0	($5,251)	0	(3,421)	0
Anticipated Salaries and Wages	22,686	17,435	21,346	17,925	21,116
Temporary Help					
Students/Retired Annuitants	528	389	269	412	344
Contract	631	472	319	329	195
Overtime	200	196	118	105	94
Staff Benefits	7,940	7,410	7,471	7,872	8,868
*OPEB (GASB 45)[1]	2,830	3,592	3,395	4,759	4,758
TOTALS, Personal Services	$34,815	$25,902	$29,523	$26,643	$30,617
OPERATING EXPENSES AND EQUIPMENT					
General Expense	681	649	633	547	677
Communications	569	391	509	411	497
Travel	360	350	381	345	390
Training	112	42	115	50	134
Facilities Operation	3,400	2,978	3,025	2,835	3,084
Consulting & Professional Services	3,350	2,191	3,791	2,309	3,674
**Central Admin. Serv.	3,233	3,368	3,794	4,203	2,312
Information Technology	810	493	600	452	663
Equipment	250	53	150	130	120
TOTALS, Operating Expenses and Equipment	$12,765	$10,515	$12,999	$11,282	$11,551
TOTALS, Baseline Budget	$47,580	$36,417	$42,522	$37,925	$42,168
TOTALS, KYHC (Outside Funding)	($592)	($436)	($580)	($408)	($496)
TOTALS, HCD Reimbursement	$0	$0	$0	($198)	$0
NET, Baseline Budget	$46,988	$35,981	$41,943	$37,319	$41,672
TOTALS, Strategic Project Contracts	$409	$254	$2,053	$500	$1,219
TOTALS, EXPENDITURES	$47,397	$36,235	$43,996	$37,819	$42,891

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

[1] OPEB not included in totals (liability only) except for FY 2012-13 Budgeted column

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

April 28, 2014

CALIFORNIA HOUSING FINANCE AGENCY
2014-15
CalHFA FUND OPERATING BUDGET
(DOLLARS IN THOUSANDS)

EXPENDITURE ITEM	Budgeted 2012-13	Actual 2012-13	Budgeted 2013-14	Projected Actual 2013-14	Proposed 2014-15
PERSONAL SERVICES					
Salaries and Wages	$22,517	$22,517	$21,183	$21,183	$21,025
Estimated Savings (Vacancies)	0	(5,246)	0	(3,406)	0
Anticipated Salaries and Wages	$22,517	$17,271	$21,183	$17,777	$21,025
Temporary Help					
Students/Retired Annuitants	528	389	269	412	344
Contract	631	472	319	329	195
Overtime	200	182	118	105	94
Staff Benefits	7,881	7,340	7,414	7,785	8,830
*OPEB (GASB 45)[1]	2,750	3,297	3,297	4,698	4,698
TOTALS, Personal Services	$34,507	$25,654	$29,303	$26,408	$30,488
OPERATING EXPENSES AND EQUIPMENT					
General Expense	675	646	627	544	675
Communications	563	386	503	406	492
Travel	355	348	376	345	387
Training	110	42	114	50	133
Facilities Operation	3,390	2,969	3,008	2,819	3,075
Consulting & Professional Services	3,209	2,044	3,668	2,189	3,536
**Central Admin. Serv.	3,205	3,339	3,776	4,184	2,308
Information Technology	800	488	590	450	658
Equipment	240	53	140	130	120
TOTALS, Operating Expenses and Equipment	$12,547	$10,315	$12,802	$11,117	$11,384
Distributed Administration	($242)	($159)	($232)	($166)	($137)
TOTALS, Baseline Budget	$46,812	$35,810	$41,873	$37,359	$41,735
TOTALS, KYHC (Outside Funding)	($592)	($436)	($580)	($408)	($496)
TOTALS, HCD Reimbursement	$0	$0	$0	($198)	$0
NET, Baseline Budget	$46,220	$35,374	$41,293	$36,753	$41,239
TOTALS, Strategic Project Contracts	$409	$254	$2,053	$500	$1,219
TOTALS, EXPENDITURES	$46,629	$35,628	$43,346	$37,253	$42,458

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

[1] OPEB not included in totals (liability only) except for FY 2012-13 Budgeted column

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

April 28, 2014

CALIFORNIA HOUSING FINANCE AGENCY
2014-15
MIS FUND OPERATING BUDGET
(DOLLARS IN THOUSANDS)

EXPENDITURE ITEM	Budgeted 2012-13	Actual 2012-13	Budgeted 2013-14	Projected Actual 2013-14	Proposed 2014-15
PERSONAL SERVICES					
Salaries and Wages	$169	$169	$163	$163	$91
Estimated Savings (Vacancies)	0	(5)	0	(15)	0
Anticipated Salaries and Wages	$169	$164	$163	$148	$91
Temporary Help					
Students/Retired Annuitants	0	0	0	0	0
Contract	0	0	0	0	0
Overtime	0	13	0	0	0
Staff Benefits	59	70	57	87	38
*OPEB (GASB 45)[1]	80	295	98	61	60
TOTALS, Personal Services	$308	$247	$220	$235	$129
OPERATING EXPENSES AND EQUIPMENT					
General Expense	6	3	6	3	2
Communications	6	5	6	5	5
Travel	5	2	5	0	3
Training	2	0	1	0	1
Facilities Operation	10	9	17	16	9
Consulting & Professional Services	141	147	124	120	138
**Central Admin. Serv.	28	29	19	19	4
Information Technology	10	5	10	2	5
Equipment	10	0	10	0	0
TOTALS, Operating Expenses and Equipment	$218	$200	$198	$165	$167
Distributed Administration	$242	$159	$232	$166	$137
TOTALS, Baseline Budget	$768	$607	$650	$566	$433
TOTALS, KYHC (Outside Funding)	$0	$0	$0	$0	$0
TOTALS, HCD Reimbursement	$0	$0	$0	$0	$0
NET, Baseline Budget	$768	$607	$650	$566	$433
TOTALS, Strategic Project Contracts	$0	$0	$0	$0	$0
TOTALS, EXPENDITURES	$768	$607	$650	$566	$433

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

[1] OPEB not included in totals (liability only) except for FY 2012-13 Budgeted column

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

April 28, 2014

CALIFORNIA HOUSING FINANCE AGENCY
2014-15

SUMMARY
PERSONNEL YEARS AND SALARIES

DIVISION	PERSONNEL YEARS Actual 2012-13	PERSONNEL YEARS Budgeted 2013-14	PERSONNEL YEARS Proposed 2014-15	AMOUNT Actual 2012-13	AMOUNT Budgeted 2013-14	AMOUNT Proposed 2014-15
EXECUTIVE OFFICE	6.4	8.0	8.0	$584,037	$852,705	$867,003
ADMINISTRATION	20.2	23.0	23.0	$996,827	$1,339,618	$1,400,534
FINANCING	10.5	10.5	11.5	$899,515	$1,016,908	$1,091,832
FISCAL SERVICES	46.3	53.0	50.0	$2,650,733	$3,304,982	$3,217,135
GENERAL COUNSEL	18.7	20.0	20.0	$1,477,689	$1,779,612	$1,829,220
MARKETING	6.7	7.0	8.0	$442,745	$501,252	$612,792
I.T.	17.8	21.0	21.0	$1,311,704	$1,607,966	$1,726,393
SINGLE FAMILY						
ADMINISTRATION	0.4	1.0	1.0	$42,848	$150,000	$168,000
QA & SUPPORT	2.6	3.0	2.0	$184,652	$223,356	$163,956
LENDING	17.4	18.0	21.0	$1,035,933	$1,224,408	$1,493,736
MIS	2.0	2.0	1.0	$164,201	$162,780	$91,356
PORTFOLIO MANAGEMENT	27.0	33.0	35.0	$1,570,935	$2,232,324	$2,411,928
SERVICING	35.1	47.0	30.0	$1,960,352	$2,785,992	$1,709,132
MULTIFAMILY	24.3	25.0	26.0	$1,909,663	$1,937,368	$2,127,119
ASSET MANAGEMENT	27.2	29.0	28.0	$2,049,681	$2,226,240	$2,205,745
TOTAL SALARIES	262.6	300.5	285.5	$17,281,515	$21,345,511	$21,115,881
Temporary Help	24.7	12.1	11.4	$860,659	$588,000	$539,000
Overtime	0.0	0.0	0.0	$195,630	$118,000	$94,000
NET SALARIES	287.3	312.6	296.9	$18,337,804	$22,051,511	$21,748,881

2245 CALIFORNIA HOUSING FINANCE AGENCY

ORGANIZATIONAL UNIT Classification	NUMBER OF POSITIONS Filled 2012-13	Authorized 2013-14	Proposed 2014-15	EXPENDITURES Actual 2012-13 (Salary Range)	Estimated 2013-14	Proposed 2014-15
OPERATIONS						
Executive Office						
Executive Office:						
Board Members	-	-	-	$100/day	$5,000	$5,000
Executive Director	1.0	1.0	1.0	12,500-17,500	175,000	175,000
Chief Deputy Director	-	1.0	1.0	11,522-15,833	175,000	175,000
Spec Asst to Director	0.4	1.0	1.0	7,815-9,025	108,300	111,552
Adm Asst II	1.0	1.0	1.0	4,400-5,348	64,173	66,096
Legislative Office:						
Director of Legislation and CalMAC	1.0	1.0	1.0	11,458-14,167	137,496	137,496
Staff Services Mgr II	-	-	1.0	5,576-6,727	-	80,724
Staff Services Mgr I	1.0	1.0	-	5,079-6,127	73,524	-
Assoc Govtl Prog Analyst	1.0	1.0	1.0	4,400-5,348	64,173	66,096
Adm Asst I	1.0	1.0	1.0	3,658-4,652	50,039	50,039
Totals, Executive Office	6.4	8.0	8.0	$584,037	$852,705	$867,003
Administrative Division						
C.E.A. B	-	1.0	1.0	8,594-10,237	94,056	122,844
Budgets:						
Staff Services Mgr I	1.0	1.0	1.0	5,079-6,127	73,524	75,732
Assoc Govtl Prog Analyst	0.9	2.0	2.0	4,400-5,348	116,800	116,800
Business Services:						
Staff Services Mgr I	1.0	1.0	1.0	5,079-6,127	73,524	75,732
Assoc Govtl Prog Analyst	2.0	2.0	2.0	4,400-5,348	128,352	132,192
Business Service Officer-Spec	2.0	2.0	-	3,658-4,446	98,400	-
Staff Services Analyst	-	-	1.0	2,817-4,446	-	53,352
Office Techn-Typing	-	-	1.0	2,686-3,264	-	39,168
Mailing Machines Operator II	-	1.0	-	2,649-3,216	38,592	-
Business Service Assistant-Spec	-	-	1.0	2,495-3,708	-	44,496
Mailing Machines Operator I	1.0	-	-	2,280-2,998	-	-
Office Asst-Gen	2.0	2.0	-	2,074-2,770	66,480	-
Central Scan Facility:						
Staff Info Systems Analyst-Spec	1.0	1.0	1.0	5,065-6,466	77,592	79,920
Info Systems Tech	-	-	1.0	2,480-3,737	-	38,400
Human Resources:						
Staff Services Mgr II	0.8	1.0	1.0	5,576-6,727	73,818	73,818
Staff Services Mgr I	1.0	1.0	1.0	5,079-6,127	73,524	73,524
Assoc Govtl Prog Analyst	0.8	1.0	1.0	4,400-5,348	64,176	66,096
Assoc Pers Analyst	2.8	3.0	3.0	4,400-5,348	192,528	198,304
Sr Pers Spec	0.1	-	1.0	3,658-4,446	-	53,352
Office Techn-Typing	1.8	2.0	3.0	2,686-3,264	78,336	108,000
Pers Spec	1.0	1.0	1.0	2,602-4,067	48,804	48,804
Mgt Services Techn	1.0	1.0	-	2,495-3,426	41,112	-
Totals, Administrative Division	20.2	23.0	23.0	$996,827	$1,339,618	$1,400,534

Financing Division						
Director	0.9	1.0	1.0	11,524-15,833	189,996	189,996
Adm Asst I	0.5	0.5	0.5	3,658-4,652	27,912	27,912
Operating:						
Acctg Administrator III	1.0	1.0	1.0	6,779-7,474	89,688	92,376
Financing Ofcr	2.0	3.0	2.0	6,114-7,391	266,076	182,712
Financing Assoc	1.0	1.0	1.0	4,400-5,348	64,176	66,096
Risk Management:						
Risk Manager	0.5	1.0	1.0	8,333-11,458	137,500	137,496
Financing Ofcr	2.6	2.0	3.0	6,114-7,391	177,384	271,404
Financing Spec	1.0	-	1.0	4,833-5,874	-	70,488
Financing Assoc	1.0	1.0	-	4,400-5,348	64,176	-
Staff Services Analyst	-	-	1.0	2,817-4,446	-	53,352
Totals, Financing Services	10.5	10.5	11.5	$899,515	$1,016,908	$1,091,832
Fiscal Services						
Comptroller, C.E.A. A	0.6	1.0	1.0	7,815-8,616	103,392	103,392
Deputy Comptroller, C.E.A. A	1.0	1.0	1.0	6,173-7,838	94,056	94,056
Bond Administration:						
Acctg Administrator II	1.0	1.0	1.0	5,576-6,727	80,724	83,148
Acctg Administrator I-Spec	2.0	2.0	2.0	4,833-5,874	140,976	140,976
Sr Acctg Officer-Spec	2.0	2.0	2.0	4,400-5,348	128,352	132,192
Financial Reporting:						
Acctg Administrator II	1.0	1.0	1.0	5,576-6,727	80,724	83,148
Acctg Administrator I-Spec	4.0	4.0	4.0	4,833-5,874	281,952	286,176
Sr Acctg Officer-Spec	1.0	1.0	1.0	4,400-5,348	64,176	66,096
Fiscal Systems:						
Sr Adm Analyst-Acctg Sys	-	1.0	1.0	5,576-6,727	70,466	70,466
Staff Adm Analyst-Acctg Sys	1.0	-	-	5,079-6,127	-	-
Assoc Adm Analyst-Acctg Sys	1.0	2.0	2.0	4,619-5,616	134,784	136,181
Single Family:						
Acctg Administrator II	1.0	1.0	1.0	5,576-6,727	80,724	83,148
Acctg Administrator I-Supvr	1.0	1.0	2.0	5,079-6,127	73,524	147,048
Acctg Administrator I-Spec	1.0	1.0	1.0	4,833-5,874	70,488	72,600
Sr Acctg Officer-Supvr	1.0	1.0	-	4,622-5,576	66,912	-
Sr Acctg Officer-Spec	1.4	3.0	2.0	4,400-5,348	192,528	132,192
Acctg Officer-Spec	3.4	7.0	7.0	3,814-4,670	392,280	397,320
Accountant Trainee	7.1	4.0	4.0	3,240-3,751	180,048	180,048
Accountant I-Spec	1.8	2.0	2.0	2,870-3,488	83,712	84,972
Multifamily:						
Acctg Administrator II	1.0	1.0	1.0	5,576-6,727	80,724	83,148
Acctg Administrator I-Supvr	1.0	1.0	1.0	5,079-6,127	73,524	75,732
Acctg Administrator I-Spec	2.0	2.0	2.0	4,833-5,874	140,976	145,200
Sr Acctg Officer-Spec	1.4	2.0	2.0	4,400-5,348	128,352	128,352
Acctg Officer-Spec	-	2.0	3.0	3,814-4,670	112,080	168,120
Accountant Trainee	3.6	3.0	1.0	3,240-3,751	135,036	45,012
Mgt Services Techn	-	1.0	-	2,495-3,426	41,112	-
Operating:						
Acctg Administrator I-Supvr	1.0	1.0	1.0	5,079-6,127	73,524	73,524
Sr Acctg Officer-Spec	1.0	1.0	1.0	4,400-5,348	64,176	64,176
Acctg Officer-Spec	-	1.0	1.0	3,814-4,670	56,040	56,040
Accountant Trainee	1.0	-	1.0	3,240-3,751	-	45,012
Office Techn-Gen	1.0	1.0	1.0	2,638-3,209	38,508	39,660
Mgt Services Techn	1.0	1.0	-	2,495-3,426	41,112	-
Totals, Fiscal Services	46.3	53.0	50.0	$2,650,733	$3,304,982	$3,217,135

General Counsel Division						
General Counsel	0.9	1.0	1.0	10,833-14,167	170,004	170,004
Asst Chief Counsel	0.1	1.0	1.0	8,930-10,484	125,808	125,808
General Counsel:						
Housing Finance Spec	2.0	2.0	1.0	4,833-5,874	140,976	72,600
Legal Asst	-	1.0	-	3,386-4,116	49,392	-
Sr Typist-Legal	1.8	1.0	1.0	2,589-3,516	42,192	43,452
Mgt Services Techn	0.8	1.0	-	2,495-3,426	41,112	-
Office Asst-Gen	1.0	1.0	1.0	2,074-2,770	29,064	29,064
Records Management:						
Staff Services Mgr I	-	-	1.0	5,079-6,127	-	73,524
Mgt Services Techn	-	-	1.0	2,495-3,426	-	42,348
Asset Management:						
Attorney III	1.4	2.0	2.0	7,682-9,478	216,696	232,020
Attorney	0.6	-	-	4,674-7,828	-	-
Housing Finance Spec	1.0	1.0	1.0	4,833-5,874	70,488	72,600
Single Family:						
Attorney III	2.0	4.0	3.0	7,682-9,478	454,944	350,304
Housing Finance Spec	1.0	1.0	1.0	4,833-5,874	70,488	72,600
Multifamily:						
Attorney III	3.9	2.0	3.0	7,682-9,478	227,472	350,304
Housing Finance Spec	2.0	2.0	2.0	4,833-5,874	140,976	145,200
Legal Asst	0.2	-	1.0	3,386-4,116	-	49,392
Totals, General Counsel	18.7	20.0	20.0	$1,477,689	$1,779,612	$1,829,220
Marketing Division						
C.E.A. A	1.0	1.0	1.0	6,173-7,838	94,056	106,812
Marketing:						
Sr Marketing Spec	1.0	1.0	1.0	5,328-6,477	77,724	80,052
Staff Services Mgr I-Spec	2.0	2.0	2.0	5,079-6,127	147,048	153,864
Staff Services Analyst	-	-	1.0	2,817-4,446	-	48,000
Mgt Services Techn	1.0	1.0	-	2,495-3,426	41,112	-
Web Support:						
Sr Info Systems Analyst-Sup	-	-	1.0	5,850-7,465	-	89,580
Staff Info Systems Analyst-Spec	1.0	1.0	-	5,065-6,466	77,592	-
Assoc Info Systems Analyst-Spec	-	-	1.0	4,619-5,897	-	70,764
Graphic Designer III	0.7	1.0	1.0	4,367-5,310	63,720	63,720
Totals, Marketing Services	6.7	7.0	8.0	$442,745	$501,252	$612,792
Information Technology Division						
Chief Information Officer	0.9	1.0	1.0	8,333-11,458	125,000	137,496
Application Systems Development & Support:						
Data Processing Manager III	-	-	1.0	7,118-8,239	-	98,868
Sr Programmer Analyst-Supvr	1.1	1.0	-	5,850-7,465	91,740	-
Sr Programmer Analyst-Spec	-	-	4.0	5,571-7,109	-	341,232
Staff Programmer Analyst-Spec	4.2	5.0	2.0	5,065-6,466	387,960	157,512
Assoc Programmer Analyst-Spec	-	1.0	-	4,619-5,897	63,096	-
Assoc Info Systems Analyst-Spec	-	-	1.0	4,619-5,897	-	70,764
Security Administration & Workstation Support:						
Data Processing Manager II	0.4	1.0	1.0	5,849-7,464	89,568	89,568
Staff Info Systems Analyst-Spec	1.0	1.0	1.0	5,065-6,466	69,186	69,186
Assoc Info Systems Analyst-Spec	1.0	2.0	2.0	4,619-5,897	141,528	143,652
Asst Info Systems Analyst	1.0	-	-	3,106-4,903	-	-
Info Systems Techn	1.6	2.0	1.0	2,480-3,737	74,604	38,400

Infrastructure & Telecommunication Support:						
Systems Software Spec III-Supvr	1.0	1.0	1.0	6,416-8,187	98,244	101,191
Systems Software Spec II-Tech	2.0	2.0	2.0	5,561-7,097	170,328	177,360
Staff Info Systems Analyst-Spec	1.0	2.0	2.0	5,065-6,466	155,184	157,512
Assoc Info Systems Analyst-Spec	2.6	2.0	2.0	4,619-5,897	141,528	143,652
Totals, Information Technology Division	17.8	21.0	21.0	$1,311,704	$1,607,966	$1,726,393
Temporary Help	9.8	2.8	3.4	317,459	135,000	154,000
Overtime	-	-	-	33,877	44,000	27,000
Totals, Operations	136.4	145.3	144.9	$8,714,586	$10,582,043	$10,925,909
PROGRAMS						
Single Family						
Programs Administrator	-	1.0	1.0	11,667-15,833	150,000	168,000
Special Consultant	0.3	-	-	11,667-15,833	-	-
Adm Asst II	0.1	-	-	4,400-5,348	-	-
Totals, Single Family Administration	0.4	1.0	1.0	$42,848	$150,000	$168,000
QA & Support:						
Housing Finance Ofcr	1.0	1.0	1.0	6,114-7,391	88,692	91,356
Housing Finance Spec	1.0	1.0	1.0	4,833-5,874	70,488	72,600
Housing Finance Assoc	0.6	1.0	-	4,400-5,348	64,176	-
Totals, QA & Support	2.6	3.0	2.0	$184,652	$223,356	$163,956
Lending:						
Leads Program:						
Housing Finance Ofcr	-	-	1.0	6,114-7,391	-	91,356
Lender Admin/Recertification/Training:						
Housing Finance Ofcr	1.0	1.0	1.0	6,114-7,391	88,692	91,356
Housing Finance Spec	1.0	1.0	2.0	4,833-5,874	70,488	145,200
Loan Admin/Special Programs/Leads Program:						
Housing Finance Ofcr	1.0	1.0	1.0	6,114-7,391	88,692	91,356
Housing Finance Spec	0.9	2.0	2.0	4,833-5,874	140,976	145,200
Housing Finance Assoc	0.7	-	-	4,400-5,348	-	-
Housing Finance Trainee	0.3	1.0	1.0	2,817-3,708	44,496	44,496
Office Techn-Typing	0.7	-	-	2,686-3,264	-	-
Office Asst-Gen	1.0	1.0	-	2,074-2,770	33,240	-
Loan Production:						
Housing Finance Ofcr	1.0	1.0	1.0	6,114-7,391	88,692	91,356
Housing Finance Spec	2.0	2.0	2.0	4,833-5,874	140,976	145,200
Housing Finance Assoc	5.8	6.0	5.0	4,400-5,348	385,056	320,880
Housing Finance Trainee	-	1.0	-	2,817-3,708	44,496	-
Office Techn-Gen	-	-	1.0	2,638-3,209	-	39,660
Office Asst-Gen	1.0	-	1.0	2,074-2,770	-	33,240
Secondary Marketing and Loan Purchasing:						
Housing Finance Ofcr	-	-	1.0	6,114-7,391	-	88,692
Housing Finance Assoc	-	-	1.0	4,400-5,348	-	64,176
Special Projects:						
Housing Finance Chief	1.0	1.0	1.0	7,453-8,217	98,604	101,568
Totals, Lending	17.4	18.0	21.0	$1,035,933	$1,224,408	$1,493,736
Mortgage Insurance						
Mortgage Insurance:						
Housing Finance Chief	1.0	1.0	-	7,453-8,217	98,604	-
Housing Finance Ofcr	-	-	1.0	6,114-7,391	-	91,356
Housing Finance Spec	0.4	-	-	4,833-5,874	-	-
Housing Finance Assoc	0.6	1.0	-	4,400-5,348	64,176	-
Totals, Mortgage Insurance	2.0	2.0	1.0	$164,201	$162,780	$91,356

Portfolio Management						
REO Disposition:						
Housing Finance Chief	-	-	1.0	7,453-8,217	-	98,604
Housing Finance Ofcr	1.0	1.0	1.0	6,114-7,391	88,692	88,692
Housing Finance Spec	6.1	5.0	6.0	4,833-5,874	352,440	435,600
Housing Finance Assoc	1.0	1.0	12.0	4,400-5,348	64,176	783,552
Housing Finance Asst	-	1.0	-	3,658-4,446	53,352	-
Office Techn-Typing	-	-	1.0	2,686-3,264	-	39,168
REO Administration:						
Housing Finance Ofcr	1.0	1.0	-	6,114-7,391	88,692	-
Housing Finance Spec	2.0	4.0	3.0	4,833-5,874	281,952	219,000
Housing Finance Assoc	10.9	14.0	6.0	4,400-5,348	898,464	390,816
Housing Finance Asst	1.0	-	-	3,658-4,446	-	-
Office Asst -Typing	-	1.0	-	2,143-2,826	33,912	-
Servicer Administration:						
Housing Finance Ofcr	1.0	1.0	-	6,114-7,391	88,692	-
Housing Finance Spec	1.8	4.0	4.0	4,833-5,874	281,952	290,400
Housing Finance Assoc	1.2	-	1.0	4,400-5,348	-	66,096
Totals, Portfolio Management	27.0	33.0	35.0	$1,570,935	$2,232,324	$2,411,928
Servicing						
Housing Finance Chief	1.0	1.0	1.0	7,453-8,217	98,604	101,568
Customer Service:						
Housing Finance Ofcr	1.0	1.0	-	6,114-7,391	88,692	-
Housing Finance Spec	0.4	1.0	1.0	4,833-5,874	70,488	70,488
Housing Finance Assoc	3.0	3.0	3.0	4,400-5,348	192,528	192,528
Housing Finance Asst	0.6	1.0	-	3,658-4,446	53,352	-
Office Techn-Typing	4.7	6.0	7.0	2,686-3,264	235,008	278,876
Mgt Services Techn	0.2	-	-	2,495-3,426	-	-
Office Asst -Typing	1.0	1.0	-	2,143-2,826	33,912	-
Collections:						
Housing Finance Ofcr	1.0	1.0	1.0	6,114-7,391	88,692	91,356
Housing Finance Spec	1.0	1.0	-	4,833-5,874	70,488	-
Housing Finance Asst	1.0	3.0	3.0	3,658-4,446	160,056	160,056
Housing Finance Trainee	3.2	3.0	2.0	2,817-3,708	133,488	88,992
Default Management:						
Housing Finance Ofcr	1.0	1.0	1.0	6,114-7,391	88,692	88,692
Housing Finance Spec	2.2	3.0	1.0	4,833-5,874	211,464	70,488
Housing Finance Assoc	7.3	13.0	4.0	4,400-5,348	834,288	262,464
Housing Finance Asst	4.1	5.0	3.0	3,658-4,446	266,760	160,056
Housing Finance Trainee	1.0	2.0	-	2,817-3,708	88,992	-
Office Techn-Typing	-	-	1.0	2,686-3,264	-	39,168
Office Asst -Typing	-	-	1.0	2,143-2,826	-	33,912
System Administration:						
Housing Finance Spec	0.4	1.0	1.0	4,833-5,874	70,488	70,488
Housing Finance Assoc	1.0	-	-	4,400-5,348	-	-
Totals, Servicing	35.1	47.0	30.0	$1,960,352	$2,785,992	$1,709,132
Totals, Single Family	84.5	104.0	90.0	$4,958,921	$6,778,860	$6,038,108
Multifamily Programs						
Programs Administrator	-	-	1.0	11,667-17,500	-	168,000
Director	0.4	-	-	11,667-17,500	-	-
Housing Finance Chief	-	1.0	1.0	7,453-8,217	98,604	100,728
Adm Asst I	1.0	1.0	1.0	3,658-4,652	55,824	57,499

Loan Underwriting:						
Housing Finance Ofcr	-	3.0	3.0	6,114-7,391	243,072	243,072
Housing Finance Spec	3.1	-	-	4,833-5,874	-	-
Loan Officers:						
Housing Finance Ofcr	7.0	7.0	7.0	6,114-7,391	620,844	624,780
Construction Services:						
Sr Housing Constrn Insp	1.0	1.0	1.0	7,371-8,955	118,308	121,860
Housing Constrn Insp	1.0	1.0	1.0	6,787-8,249	108,984	108,984
Supvng Design Ofcr	0.8	-	-	6,265-7,616	-	-
Sr Design Ofcr	1.0	1.0	1.0	5,439-6,606	75,808	75,808
Loan Administration & Disbursements:						
Staff Services Mgr I	0.4	1.0	1.0	5,079-6,127	73,524	75,732
Loan Administration:						
Housing Finance Spec	0.6	2.0	2.0	4,833-5,874	140,976	145,200
Housing Finance Assoc	3.0	1.0	1.0	4,400-5,348	64,176	66,096
Housing Finance Asst	3.0	4.0	4.0	3,658-4,446	213,408	213,408
Disbursements:						
Housing Finance Spec	1.0	1.0	1.0	4,833-5,874	70,488	72,600
Housing Finance Asst	1.0	1.0	1.0	3,658-4,446	53,352	53,352
Totals, Multifamily Programs	24.3	25.0	26.0	$1,909,663	$1,937,368	$2,127,119
Asset Management						
C.E.A. B	0.8	1.0	1.0	8,594-9,476	115,644	115,644
Adm Asst I	0.5	1.0	-	3,658-4,652	55,824	-
Asset Management:						
Housing Finance Chief	1.0	1.0	1.0	7,453-8,217	98,604	101,568
Housing Maint Insp	6.0	6.0	6.0	6,271-7,616	603,216	621,288
Housing Finance Ofcr	4.0	5.0	5.0	6,114-7,391	443,460	447,024
Housing Finance Spec	7.9	7.0	6.0	4,833-5,874	493,416	435,600
Housing Finance Assoc	2.0	3.0	4.0	4,400-5,348	192,528	256,704
Housing Finance Asst	2.0	2.0	2.0	3,658-4,446	106,704	106,704
Office Techn-Typing	2.0	2.0	1.0	2,686-3,264	78,336	40,344
Office Techn-Gen	1.0	1.0	1.0	2,638-3,209	38,508	38,508
Mgt Services Techn	-	-	1.0	2,495-3,426	-	42,361
Totals, Asset Management	27.2	29.0	28.0	$2,049,681	$2,226,240	$2,205,745
Temporary Help	14.9	9.3	8.0	543,200	453,000	385,000
Overtime	-	-	-	161,753	74,000	67,000
Totals, Programs	150.9	167.3	152.0	$9,623,218	$11,469,468	$10,822,972
TOTALS, AUTHORIZED POSITIONS	**287.3**	**312.6**	**296.9**	**$18,337,804**	**$22,051,511**	**$21,748,881**
Regular/Ongoing Positions	*262.6*	*300.5*	*285.5*	*17,281,515*	*21,345,511*	*21,115,881*
Temporary Help	*24.7*	*12.1*	*11.4*	*860,659*	*588,000*	*539,000*
Overtime	*-*	*-*	*-*	*195,630*	*118,000*	*94,000*

CalHFA Contracts for FY 2014/15

DIVISION CONTRACTS	Contracts allocated and charged elsewhere Proposed 2014/15	Consulting and Professional Services Proposed 2014/15	Remarks
REGULAR ONGOING CONTRACTS			
AGENCY WIDE			
Cornerstone		600	Security Monitoring
WBE	7,000		Software Housing Service Agreement
Redline Courier Service	42,000		Courier Service
Direct Hit Pest Control	500		West Sacramento Office Pest Control
ABM	35,000		Janitorial Services (West Sac)
Guaranteed Records Management (GRM)	10,000		Records Retention Services for Culver City Office
Paper Cuts	1,200		Recycling and Shredding/Destruction for Culver City Office
Zoom Imaging	130,000		Copier Service
Pacific Storage	150,000		Records Storage
International Mailing Equipment	7,500		Postage Meter Maintenance and Servicing
MTA (Miles Treaster)	14,000		Equipment Storage
Airco Commercial Services	5,000		HVAC Maintenance (West Sac)
Coast to Coast	8,000		Copier Service for Culver City Office
A+ Storage	25,000		Equipment Storage & Moving Services
	435,200	**600**	
EXECUTIVE			
Notre Dame		22,000	Leadership Training
Project Manager		200,000	Project Manager for CalHFA/HCD Integration
Carol Wilkins		20,000	MHSA/Homeless/DHCS
Executive Total:	**0**	**242,000**	
ADMINISTRATION			
State Controller's Office		6,000	Leave Accounting
Cooperative Personnel Services		20,000	HR Consultation Services
CalHR	30,000		HR Systems & Services
CalHR	600		PIE Web Access
CalHR	35,000		State legal counsel for employee action
Administration Total:	**65,600**	**26,000**	
INFORMATION TECHNOLOGY			
QBIX		1,000	GL/General Ledger Report Upgrades
Mortgage Flex (REO)		12,000	REO License & Maintenance
Enterasys		5,000	Technical Expertise - EYEP
MS Exchange Upgrade/Lync Implementation		20,000	Technical Expertise
SAN Infrastrcture Analysis		8,000	Performance Evaluation
RightFax Upgrade Enterprise		6,500	Technical Expertise
Server Management Upgrade		5,000	Technical Expertise
Image Access West, Inc.	6,000		KoFax Maintenance
Airco Commercial Services	9,000		Server Room Heat Pump/HVAC Maintenance
Nortridge Software	12,000		Software License/Maintenance
Iron Mountain	3,500		Backup Tape Storage
Sabah International	2,500		Fire Suppression Maintenance
Enterasys	25,000		Ongoing Switch Maintenance
North American Communications Resource (NACR)	35,000		VOIP Sotware/Hardware Maintenance
	93,000	**57,500**	

CalHFA Contracts for FY 2014/15

DIVISION CONTRACTS	Contracts allocated and charged elsewhere Proposed 2014/15	Consulting and Professional Services Proposed 2014/15	Remarks
FINANCING			
Bloomberg	24,000		Financial services used to monitor interest rate swap markets and fixed income markets
DBC Software (SS & C Technologies)	55,000		Cash Flow Projection Software (2 Licenses)
SWAP Financial Group	25,000		Financial Advisory Consultant
PowerSeller	60,000		SF Pipeline Hedging Software
Financing Total:	**164,000**	**0**	
FISCAL SERVICES			
Audits			
CliftonLarsonAllen		277,800	Housing Finance Fund Financial Audit
CLA Consulting		41,300	Comfort letters for bond closings & other consultant work
Other			
McCracken Financial Solutions		180,000	Multifamily Loan Servicing ASP - Ongoing
Omnicap		40,000	Tax Compliance Calculations
State Controller's Office	10,000		Expedited Claims
Fiscal Services Total:	**10,000**	**539,100**	
LEGAL			
Litigation related			
Felderstein, Fitzgerald		20,000	Bankruptcy
Cal Attorney General		150,000	Homeowner loan and routine litigation
Orrick		200,000	Litigation
Law Offices of James J. Falcone		30,000	Litigation
Non-litigation related			
HUD Counsel (Nixon Peabody)		20,000	Washington DC counsel for federal HUD matters/Risk Share
Orrick		150,000	Hourly bond & finance advice
Other			
Hawkins		25,000	Hourly bond & finance advice
Daniel P. Feldhaus, CSR		25,000	Court reporter for Board meetings
Lexis Nexis	13,000		Online resource for up to date changes in CA law
Legal Total:	**13,000**	**620,000**	
MARKETING			
Alcone		410,000	Agency Promotion and Printing
Fuze Digital Solutions, LLC		12,000	Web Enhancements
Lazzarone Photography		5,000	Photographer for Annual Report
Design Forge - Orysia Riesen		20,000	Consultant for Annual Report
Phase 1 - Unified Housing Website (Various Housing Agencies)		15,000	Interagency Agreement
KP Corp	10,000		Mail House
Avant Page Inc	5,000		Spanish translation of business literature
Robinson Anderson & Associates	25,000		Printing (1st printer source)
Paul Baker Printing	10,000		Printing (2nd printer source)
Marketing Total:	**50,000**	**462,000**	
SINGLE FAMILY			
QA & SUPPORT			
Corelogic Solutions LLC		2,000	Property valuation service / Quality Assurance / REO / Loss Mitigation
Data Quick		1,500	Property valuation/ownership verification service
CBC Innovis, Inc.		2,250	Follow up credit checks for quality assurance
Lexis Nexis/Seisint, Inc. (Accurint)		2,250	Search service used to locate borrowers - SSA Verification
QA Support Total:	**0**	**8,000**	

April 28, 2014

CalHFA Contracts for FY 2014/15

DIVISION CONTRACTS	Contracts allocated and charged elsewhere Proposed 2014/15	Consulting and Professional Services Proposed 2014/15	Remarks
LENDING			
Brooks Systems		2,000	Used to determine APR , as necessary
Citrix Webinars		13,000	Used for lender training presentations
Vernazza Wolfe Associates		7,500	Used to evaluate sales price limits and ad hoc analysis to support lending and product strategies
TBD (Supplemental Software for SF Lending)		230,000	Maintenance fee for software/Host set-up and license fees
The Regents of the University		15,000	Research for Single Family Lending
Lending Total:	**0**	**267,500**	
PORTFOLIO MANAGEMENT			
Merscorp, Inc.		11,000	Electronic registry service
All Regs		9,000	Quarterly enhancements to the CalHFA Servicer Guide
Corelogic Solutions LLC		3,000	Property valuation service / Quality Assurance / REO / Loss Mitigation
Data Quick		1,500	Property valuation/ownership verification service
Goodman Dean	2,649,165		Master service brokers for REOs
LRES	1,648,362		Master service brokers for REOs
Portfolio Management Total:	**4,297,527**	**24,500**	
SERVICING			
LPS Mortgage Processing Solutions (Fidelity)		750,000	Single Family Loan Servicing ASP - ongoing
RR Donnelley Co. (Check Printers, Inc.)		180,000	Loan payment coupons, tax forms, etc
Check Processors, Inc.		25,000	Lock Box Service
DeDe Timmons		82,500	Loss Mitigation
Mary Bolar		82,500	Policies and Procedures/Training
McBride Edwards LLP		50,000	Servicing Auditor
Equifax	20,000		Credit Reports
First American Data Tree	25,000		Appraisals; Propert Data Information System for DIL Process
Clear Capitol.com INC	30,000		Property Valuation Service
Sprint	150,000		Property Inspection Service
Corelogic Tax Services	20,000		Property Inspection Service
National Reconveyance Center	65,000		Research, release, and record reconveyances for PIF 1st Mortgages
Nationwide Title Clearing	100,000		Research, release, and record reconveyances for PIF subordinate loans - online
Servicing Total:	**410,000**	**1,170,000**	
MIS			
CliftonLarsonAllen		61,700	Housing Loan Insurance Fund Financial Audit
Experian		1,000	Credit reporting contract required by Genworth for loss mitigation purposes
Milliman USA		75,000	Insurance and reinsurance performance metrics and reporting and capital adequacy modeling
MIS Total:	**0**	**137,700**	
MULTIFAMILY			
Experian		3,000	Credit reports for Risk-Share deals
Multifamily Total:	**0**	**3,000**	
ASSET MANAGEMENT			
Reaction Inspection Services		7,500	REAC inspections for Section 8 properties per HUD
24/7 Markan Family Mobile Notary		13,000	REAC inspections for Section 8 properties per HUD
Housing Development Software (HDS)		95,000	Maintenance fee for software/Host set-up and license fees
Asset Management Total:	**0**	**115,500**	
CALHFA REGULAR ONGOING CONTRACT TOTALS	**5,538,327**	**3,535,700**	**($3,536K) on CalHFA Consulting and Professional Services Line)**
MIS REGULAR ONGOING CONTRACT TOTALS	**0**	**137,700**	**($138K on MIS Consulting and Professional Services Line)**
TOTAL ONGOING CONTRACTS	**5,538,327**	**3,673,400**	**($3,673K on Combined Consulting and Professional Services Line)**
GRAND TOTAL OF ALL CONTRACTS	**9,211,727**		

CalHFA Contracts for FY 2014/15

DIVISION CONTRACTS	Contracts allocated and charged elsewhere Proposed 2014/15	Consulting and Professional Services Proposed 2014/15	Remarks
STRATEGIC PROJECT CONTRACTS			
I.T.			
Single Family			
Public Consulting Group, Inc		1,053,750	SF Re-Platforming Project
Project Support			
Providence Technology Group		40,000	.Net Expertise/Programmer
Enterprise Content Management			
Macroview, Inc.		5,000	Technical Support
Providence Technology Group		20,000	Technical Support - Sharepoint
Agency-wide Data Integration			
Vendor TBD		100,000	Project Expertise
I.T. Total:		1,218,750	
CALHFA STRATEGIC PROJECT CONTRACT TOTALS		**1,218,750**	
MIS STRATEGIC PROJECT CONTRACT TOTALS		**0**	
TOTAL STRATEGIC PROJECT CONTRACTS		**1,218,750**	**($1,219K on Strategic Project Contracts Line)**
ALL CalHFA Total Contracts		**10,292,777**	
ALL MIS Total Contracts		**137,700**	
Sum:		**10,430,477**	
TOTAL, EXPENDITURES		**10,430,477**	

Items in Red are not included in Consulting Services totals. The budget and expenses for these contracts are allocated and charged elsewhere.

RESOLUTION 14-06

CALHFA OPERATING BUDGET

FISCAL YEAR 2014/2015

WHEREAS, the Board of Directors of the California Housing Finance Agency has reviewed its proposed operating budget for the 2014/2015 fiscal year;

NOW, THEREFORE, BE IT RESOLVED as follows:

1. The operating budget attached hereto is hereby approved for operations of the California Housing Finance Agency Fund for fiscal year 2014/2015.

I hereby certify that this is a true and correct copy of Resolution 14-06 adopted at a duly constituted meeting of the Board of the Agency held on May 13, 2014, in Sacramento, California.

ATTEST: ______________________
Secretary

Attachment

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State of California

M E M O R A N D U M

To: **CalHFA Board of Directors** **Date:** April 28, 2014

Tom Freeburger
Assistant General Counsel
From: **CALIFORNIA HOUSING FINANCE AGENCY**

Subject: **Single Family Direct Lending**

At the last board meeting, the question was asked whether the Agency may make mortgage loans directly to single family homebuyers. I have been asked to discuss this idea with the Board. While there are a number of areas regarding single family direct lending that I could address, I will focus on the highpoints. The general areas are: a) the statutory prohibition against our direct lending; b) the historical basis for that restriction (and it potential for being an issue today); c) the risks associated with the Agency's originating first mortgage loans itself; and, d) other practical issues doing so would create, including staffing, expense and time frames.

A. Statutory Prohibition Against Direct Lending to Single Family Homebuyers

Currently, and since its inception, CalHFA has been prohibited by statute from making direct loans to homebuyers. The prohibition is found in Health & Safety Code Section 51175, which reads:

> Except as provided in this article, the agency shall not make construction loans or first mortgage loans for the purpose of financing owner-occupied residential structures unless those loans are made through a qualified mortgage lender.

There are two statutory exceptions to this rule, neither of which has the Agency found to be viable. The exceptions are:

1. where mortgage lenders will not lend in a particular geographic area; and
2. where the income of the owner-occupant is no greater than 65 percent of the median income for the area in which the home is located.

Notably, we recently obtained legislative authority to make direct subordinate down payment assistance loans behind FHA-insured firsts. We sought and obtained this authority in response to an FHA interpretation of a provision in federal legislation. Fortunately, the FHA, after negotiations with the National Council of State Housing Agencies, our trade group, agreed to an exception for Housing Finance Agencies, so we have not been forced to become a direct lender for second loans.

B. Historical Basis for the Prohibition.

As described in the book *Politics Backstage – Inside the California Legislature* by Michael J. BeVier (Temple University Press, 1979), written about the creation of the California Housing Finance Agency, among others the savings and loans, then the predominant provider of home loans in California, opposed the Agency providing home loans. The compromise was to have Agency loans originated by "qualified mortgage lenders" which loans would then be purchased by the Agency post closing. This way the S&Ls did not give up their client base (and, indeed, expanded it) and they made an origination fee on each loan.

While it is not certain that lenders today would also oppose the Agency's ability to direct lend, the potential is there.

C. Agency Risks Associated with Direct Lending

Were the Agency to become a direct mortgage lender, there are a number of risks that the agency would take on. Chief among these is origination risk.

If CalHFA were to originate loans and then either sell them directly to a secondary market buyer, or securitized them into Mortgage Backed Securities (MBS), the Agency would be susceptible to repurchase demands from the secondary market buyer or MBS issuer for breach of an extensive list of representations and warranties that an originating lender makes to the buyer. If, on the other hand, we hold the loan in our own portfolio, we lose the benefits of the representations and warranties and repurchase demand rights we would otherwise have as a secondary market purchaser. This risk is compounded where we service the loans in house, and do not have an outside servicer which would have assumed originator representations and warranties and thus be liable to us, in addition to the liability of the originating lender.

As a secondary market mortgage loan purchaser, the Agency has great insulation from regulatory liabilities arising from origination issues, such as Real Estate Settlement Procedures Act (RESPA) violations. By getting into the origination business, the Agency risks exposing itself to myriad existing and expanding regulations, most significantly those of the Consumer Financial Protection Board (CFPB), among other state and federal agencies.

B. Other Practical Considerations Associated with Direct Lending

There are a number of significant practical considerations that would have to be addressed if CalHFA were to embark on a direct lending journey. Among these are IT matters, such as hardware and software purchases, upgrades, etc. Staff would have to be hired and/or trained to act as loan officers dealing directly with potential borrowers and their representatives. Others would have to be hired/and or trained to underwrite loans, complete loan documentation, including Truth-in-Lending and other disclosure documents, notes and deeds of trust. All such staff would have to be trained and maintain its knowledge base in how to comply with state and federal laws and regulations associated with lending.

Additionally, the Agency would have to employ experienced compliance staff. This is not something which the Agency can readily develop in house. For example, in conversations with an attorney for one of our smaller lenders, one of our staff lawyers learned that the lender has four full time compliance people. The skills required for those positions are much in demand, and command premium pay.

Many of the issues addressed above are not dependent upon the volume of loans. Considerable infrastructure would be necessary before we begin a program of any magnitude.

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State of California

M E M O R A N D U M

To: Board of Directors **Date:** April 28, 2014

From: Ken Giebel, Acting Director of Single Family Lending
California Housing Finance Agency

Subject: Agenda Item 8: Discussion to expand CalHFA's mortgage products to include low and moderate income, non-first-time homebuyers who are not in targeted areas.

To meet the ever changing demographic and housing needs for California's low and moderate income homebuyers, staff is presenting the above subject to the Board of Directors for discussion.

Agenda Item 8

Single Family Lending wishes to expand CalHFA's mortgage products to include low and moderate income, non-first-time homebuyers in non-targeted areas. This will enable more low and moderate income Californians to become homeowners even if they have previously owned a home in the last three years and allow more flexibility to address life changing circumstances (i.e. increased family size, relocation and divorce, etc.).

In our target markets (8 counties), there are approximately 24,153 available homes that fall within FHA & Fannie Mae loan limits of $417,000. Assuming 25% of these homes will be bought by first-time homebuyers, this leaves about 18,110 homes for non-first-time homebuyers in these markets.

All current CalHFA underwriting requirements, including income and sales price, will be applicable. Additionally, as we have stated previously, this will provide non-first-time homebuyers who want to get back in a home the opportunity to lower their housing costs, given the high rental costs in these markets.

Because CalHFA has the authority to lend to non first time homebuyers, formal action by the Board is not required. Nonetheless staff wants to make sure the Board is fully informed of staff's desire to offer this opportunity.

Absent objection, staff would like to announce this option shortly after May 19, 2014 when we introduce the TBA Conventional and Energy Efficient Mortgage Products.

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State of California

M E M O R A N D U M

To Board of Directors **Date:** April 25, 2014

Timothy Hsu, Director of Financing

From: **CALIFORNIA HOUSING FINANCE AGENCY**

Subject: HEDGE RESOLUTION AND MASTER HEDGE POLICY
RESOLUTION 14-07

At the January 2014 Board meeting, a draft of the Master Hedge Policy was distributed and discussed. Board members' concerns and requests for additional information were addressed at the March 2014 Board meeting. The Master Hedge Policy and Hedge Resolution have been finalized and are ready for Board approval. Resolution 14-07 authorizes staff to conduct certain hedging activities and approves the Master Hedge Policy which establishes guidelines for the use and management of the hedges.

Previously, Agency staff anticipated that the existing Financing Resolutions would be amended to permit hedging activities. After several discussions with Agency staff and counsel, it has been determined that the best way to request approval for hedging activities from the Board is through the creation of an annual authorizing resolution. The annual approval of hedging activities by the Board will provide ease of management of hedging activities and will separate loan commitment and bond related activities.

Attachments

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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 ("Hedges") in conjunction with the California Housing Finance Agency's ("CalHFA" or the "Agency") management of its loan commitment pipeline.

The 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 the Policy is to ensure a pre-defined target profit on loan originations. The long-term goal of the 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 the 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 the 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.

B. Approval

CalHFA may enter into Hedges 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.

The Policy shall govern CalHFA's use and management of all Hedges. While adherence to the 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 any significant departures from previous 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.

CalHFA shall be authorized to enter into Hedges only with qualified Hedge counterparties, as described in Section VII 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.

The Executive Director, the Director of Financing or the Financing Risk Manager may delegate individuals to authorize the execution of trades on CalHFA's behalf. Delegated individuals will have approval to authorize trades below certain trade limitations defined in the Hedging and Strategy Guidelines document. Authorization by the Executive Director, the Director of Financing or the Financing Risk Manager will be required when these trade limitations are exceeded. Trade limitations are set on:

1. The notional amount of any one specific trade;

2. The aggregate notional threshold amount for any one specific business day.

Initially, the trade limitations will be relatively small and, over time, will be increased as the program volume increases.

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 would have insufficient liquidity or financing capacity to terminate the Hedge at then-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. California statutes, Agency resolutions, and indenture and contractual requirements (including those contained in credit agreements), as well as any federal tax considerations;

3. Potential effects that the transaction may have on the credit ratings assigned by the rating agencies to any Agency obligations;

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 anticipated .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., when 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 the 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 are not delivered 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 above) 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. The disclosure shall include 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.

RESOLUTION NO. 14-07

RESOLUTION OF THE CALIFORNIA HOUSING FINANCE AGENCY AUTHORIZING LOAN COMMITMENT HEDGES AND ADOPTING THE CALIFORNIA HOUSING FINANCE AGENCY MASTER HEDGE POLICY

WHEREAS, the California Housing Finance Agency (the "Agency") from time to time enters into agreements for the purpose of mitigating interest rate risk in connection with its single family and multifamily housing programs;

WHEREAS, the Agency has previously authorized entering into such agreements in connection with bonds authorized to be issued by the Agency;

WHEREAS, the Agency wishes to authorize entering into such agreements with respect to its single family and multifamily loan commitments;

WHEREAS, the Agency has determined that there exists a need to formalize its practices by adopting a master hedging policy regarding such agreements;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors (the "Board") of the California Housing Finance Agency as follows:

Section 1. **Authorization of Loan Commitment Hedges.** To the extent authorized by law, including Government Code Section 5922, the Executive Director, Director of Financing and Financing Risk Manager, and other employees of the Agency authorized in writing by the Executive Director, are hereby authorized to enter into, for and on behalf of the Agency, agreements and documents designed to reduce or hedge the amount of interest rate risk related to the Agency's single family and multifamily loan commitments ("Commitment Hedges"), and any related agreements needed to permit the lease or purchase of software designed to assist with data management, secondary marketing and management of the hedging program for the Agency's single family and multifamily loan commitments. The aggregate notional amount of Commitment Hedges entered into with respect to the Agency's single family loan commitments under authorization of this Section shall not exceed $200,000,000. The aggregate notional amount of Commitment Hedges entered into with respect to the Agency's multifamily loan commitments under authorization of this Section shall not exceed $40,000,000. The authorization to enter into Commitment Hedges under this Section shall be in effect until the date on which is held the first meeting of the Board on or after March 1, 2015 at which a quorum is present. The authorization to enter into Commitment Hedges under this Section shall be in addition to any authorization contained in Resolution 14-01 or Resolution 14-02, as amended from time to time, to enter into a Hedging Instrument (as therein defined).

Section 2. **Adoption of Master Hedge Policy.** The Master Hedge Policy presented at this meeting is hereby adopted. The Master Hedge Policy shall remain in effect until the adoption by the Board of a hedge policy amendatory or supplemental thereto. Until the adoption by the Board of such amendatory or supplemental hedge policy, the Master Hedge Policy shall apply to (a) Commitment Hedges authorized under Section 1 hereof or under any similar provision of a future Board resolution, and (b) any Hedging Instrument entered into on and after the date hereof pursuant to the authorization thereof contained in Resolution 14-01 or Resolution 14-02 or under any similar provision of a future Board resolution.

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. 14-07 duly adopted at a regular meeting of the Board of Directors of the California Housing Finance Agency duly called and held on the 13th day of May, 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 13th day of May, 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. 14-07 duly adopted at a regular meeting of the Board of Directors of the California Housing Finance Agency duly called and held on the 13th day of May, 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

State of California

MEMORANDUM

To: Board of Directors
CALIFORNIA HOUSING FINANCE AGENCY

Date: May 13, 2014

From: Claudia Cappio, Executive Director
CALIFORNIA HOUSING FINANCE AGENCY

Subject: Agenda Item 10 – Review and Discussion of Two Proposals for Using Greenhouse Gas Reduction Funds (via the Cap and Trade Program in the California Global Warming Solutions Act of 2006) to Further Sustainable Communities and Affordable Housing

Background: The Cap and Trade Program is an outgrowth of the California Global Solutions Act of 2006 (AB 32). It is one of the tools authorized to reduce greenhouse gas (GHG) emissions. The program works by establishing a statewide limit on GHG sources (the cap). In addition, the state gives companies allowances, which act essentially as permits to emit one ton of carbon dioxide. Through an auction mechanism, companies can buy and sell these allowances on the carbon market (the trade.) From November 2012 to November 2013, the Cap and Trade Program generated approximately $ 532 million in state revenues. Projections for FY 2014-15 put proceeds at approximately $ 850 million.

Proposals for Cap and Trade Funds. The proceeds are to be directed toward activities and programs that in turn will reduce GHG. According to the draft AB 23 Scoping Plan, the programs and projects that will be funded by the cap and trade proceeds will account for approximately 30 percent of the required GHG emissions to 1990 levels. This reduction is scheduled to be completed by 2020.

The Governor's 2014-15 Budget Proposal calls for the funds to go toward rail modernization, energy efficiency measures for state owned properties, a Water Action Plan that includes wetlands and watershed restoration and waste diversion. In addition, $100 million is proposed to be allocated to a Sustainable Communities and Clean Transportation initiative. This effort includes transit oriented development and the required infrastructure and affordable housing near transit. (Please refer to attached excerpt from proposed Trailer Bill.)

The Department of Housing and Community Development (HCD), along with the Strategic Growth Council, CalHFA, California State Transportation Agency (CalSTA), Department of Natural Resources and the Environmental Protection Agency have formed a multi-agency working group to figure out a process for evaluating projects and then distributing the funding.

In mid-April, Pro Tem Steinberg proposed another approach for the cap and trade proceeds. Essentially, rather than a set amount per year, Steinberg proposes a longer-term investment framework that would allocate fixed percentages per year to a variety of activities and programs including affordable housing, high speed rail, transit, and sustainable transportation investments. (Please refer to attached proposal dated April 11, 2014.)

No action is requested on this item; it is for informational purposes only.

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EXCERPT FROM DOF TRAILER BILL LANGUAGE RE: CAP/TRADE EXPENDITURES

1 of 3

(c) Under the authority granted by AB 32, the state board adopted the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms regulation. The regulation includes the distribution of a portion of the allowances by auction and reserve sales, the proceeds of which the Legislature directed be deposited in the Greenhouse Gas Reduction Fund (GGRF).

(d) As enacted by Chapter 807 of the Statutes of 2012, the Department of Finance developed and submitted the first three-year investment plan to the Legislature in 2013. The investment plan identifies the state's greenhouse gas emission reduction goals and priority programs for investment of proceeds deposited into the GGRF to support achievement of those goals.

(e) As required by existing law, moneys are to be appropriated from the GGRF in a manner consistent with the requirements of Chapter 4.1 (commencing with Section 39710) of Part 2 of Division 26 of the Health and Safety Code, including the recommendations of the investment plan, and Article 9.7 (commencing with Section 16428.8) of Chapter 2 of Part 2 of Division 4 of Title 2 of the Government Code. Pursuant to these requirements, the Governor has developed and submitted the Cap-and-Trade Expenditure Plan containing an annual budget proposal for proceeds in the GGRF.

(f) As required by existing law, the use of the moneys appropriated from the GGRF for the Cap-and-Trade Expenditure Plan furthers the regulatory purposes of AB 32 by facilitating the achievement of reductions in the emissions of greenhouse gases in the state. Several of the programs included in the Cap-and-Trade Expenditure Plan require new legislation, such as the following:

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(1) The Rail Modernization Program, which authorizes the California Transportation Commission to provide grants, based on recommendations of the Transportation Agency, to fund capital improvements and operational investments that will modernize California's intercity, commuter, and urban rail systems to reduce emissions of greenhouse gases by reducing vehicle miles traveled throughout California.

(2) The High Speed Rail Program, which authorizes the High Speed Rail Authority to utilize funds to begin the initial operating segment and further environmental and design work on the statewide high speed rail system. The Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century, approved by the voters in 2008, specifies that the high-speed train system, once it is completed and becomes operational, will contribute significantly toward the goal of reducing emissions of greenhouse gases and other air pollutants and will help reduce California's dependence on foreign energy sources. As recognized in the AB 32 Scoping Plan, implementation of a high speed rail system will facilitate the reduction of emissions of greenhouse gases and other air pollutants by providing the foundation for a large-scale transformation of California's transportation infrastructure, displacing millions of vehicle miles traveled on the road, reducing demand for air travel, and increasing train ridership to ensure that the state's greenhouse gas emission reductions are maintained and continued.

(3) The Sustainable Communities Implementation Program, which authorizes the Strategic Growth Council to fund land-use, housing, transportation, and land preservation projects to support infill and compact development that reduces greenhouse gas emissions. These projects, which were described in the AB 32 Scoping Plan,

facilitate the reduction of the emissions of greenhouse gases by improving mobility options and increasing infill development, which decrease vehicle miles traveled and associated greenhouse gas and other emissions, and by reducing land conversion, which would result in emissions of greenhouse gases.

(4) A green state buildings program, which authorizes the Department of General Services to assist with loan financing to reduce the emissions of greenhouse gases by implementing energy efficiency retrofit projects and renewable energy technology at state buildings. These types of green building retrofit and renewable energy projects were specifically encouraged in the AB 32 Scoping Plan.

(5) The CalRecycle Greenhouse Gas Reduction Financial Assistance Program, which authorizes the Department of Resources Recycling and Recovery to implement a loan and grant program to facilitate the reduction of greenhouse gas emissions by assisting public and private entities in California to implement projects that divert waste through reuse, recycling, and other diversion methods. These recycling and waste diversion projects were highlighted in the AB 32 Scoping Plan, and could include composting to use food waste as feedstock, anaerobic digestion to produce biofuels and bioenergy, designing and constructing facilities for processing recyclable materials, and reducing emissions of greenhouse gases by more efficiently avoiding the production of methane emissions associated with land filling materials, while helping to provide low-carbon fuels.

(6) The Clean Vehicle Rebate Project, which authorizes the state board to further promote the production and use of zero-emission vehicles by providing rebates to provide incentives for the purchase or lease of eligible zero-emission or plug-in hybrid

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A Long-Term Investment Strategy for Cap-and-Trade Revenue

INTRODUCTION

California has long been an international leader on clean energy and climate efforts through energy efficiency requirements, renewable energy standards, natural resource conservation, and greenhouse gas emission standards for passenger vehicles.

In 2006, California established the nation's benchmark for greenhouse gas emission reductions with the passage of AB32, the California Global Warming Solutions Act (Pavley). AB32 required the State Air Resources Board to develop a scoping plan, including direct regulations, performance-based standards, and market-based mechanisms to achieve this level of greenhouse gas emission reductions.

The State Air Resources Board has implemented a Cap-and-Trade program under the general authority granted under AB32 to implement market-based mechanisms. But full pollution reductions cannot be achieved without a long-term strategy for investing the program's revenues effectively and affordably.

SB 535 (De Leon 2011) built upon the CA climate program by recognizing the disproportionate impacts of greenhouse gases on disadvantaged and low-income communities in California including, for example, higher rates of respiratory illness, hospitalizations, and premature death from inordinately substandard air quality. It requires that 25 percent of cap and trade revenues be allocated to disadvantaged communities to reduce pollution.

Through SB 375 of 2008 (Steinberg), the legislature recognized that without improved land use and transportation policy, California will not be able to achieve the goals of AB 32 because the transportation sector remained the single largest contributor of greenhouse gases of any sector in the State of California.

This long-term investment strategy of Cap-and-Trade revenue is deliberately designed to achieve the objectives of AB32: a significant reduction in greenhouse gas emissions while mitigating a disproportionate impact of policies' strategy on California's low-income and disadvantaged communities.

Fundamentally, this long-term investment strategy embodies the objectives of Cap-and-Trade by ensuring that all expenditures are used to achieve maximum reductions in greenhouse gases. This long-term investment strategy is designed to curb human-induced global warming by reducing pollution from traffic and vehicle trips through retrofitting our communities with more affordable and efficient transit, housing, and land uses. In doing so, this long term investment strategy will improve public health and help Californians save money with convenient and affordable alternatives to spending more of their family budgets on ever-increasing fuel costs at the pump.

The objectives of this strategy will not be met overnight. It will take time and a long term commitment to witness the environmental dividends of these investments. That is why it is imperative to act now.

###

FRAMEWORK

All investments must:

- Lead to reductions in greenhouse gas emissions, consistent with AB32 (Pavley) of 2006;
- Be subject to a competitive ranking process to ensure those projects providing maximum feasible reductions in greenhouse gases are funded;
- Meet all existing constitutional and statutory requirements for use and allocation of Cap-and-Trade funds, including, but not limited to:
  - California Constitution Article XIII,
  - SB375 (Steinberg) – The Sustainable Communities and Climate Protection Act of 2008, relating to transit-oriented development,
  - SB535 (De Leon) – The California Communities Healthy Air Revitalization Trust of 2011, relating to ensuring disadvantaged communities receive at least 25% of funds,
  - SB1018 (Budget Committee) of 2012, relating to agencies carefully reporting, documenting and justifying expenditures of funds to protect against lawsuits.

INVESTMENT STRATEGY

I. A Permanent Source of Funding for <u>Affordable Housing and Sustainable Communities</u> (40%)

a. ***Purpose:*** Support regional sustainable communities strategies including investments in affordable housing, transit-oriented development, land use planning, , active transportation, high density mixed use development, transportation efficiency and demand management projects.

b. ***Parameters:*** At least half of these funds (equivalent to at least 20% of total allocations) shall be used for affordable housing, centered in transit-oriented development and consistent with GHG reduction strategies.

c. ***Allocation method:*** Distributed through SGC to regions. Projects selected based on competitive GHG performance.

II. A Permanent Source of Funding for <u>Transit</u> (30%)

a. ***Purpose:*** Transit construction and operations.

b. ***Parameters:***

i. At least 5% of the transit amount would have to be used for transit connectivity projects.

ii. At least 5% of the transit amount would have to be used for direct transit assistance to consumers (could be in the form of passes, additional access, etc.).

c. ***Allocation method:*** Distributed based on GHG performance criteria

III. A Permanent Source of Funding for <u>High Speed Rail</u> (20%)

a. ***Purpose:*** Ongoing source for construction of HSR.

b. ***Allocation method***: Continuously appropriated. Could be securitized.

IV. A Permanent Source of Funding for <u>State Highway and Road Rehabilitation and for Complete Streets</u> (10%)

a. ***Purpose:*** Traffic management, repair, deferred maintenance, bikeways, and retrofits of roads and highways.

b. ***Allocation method:*** distributed based on competitive GHG performance criteria.

V. <u>Natural resource, water, and waste</u> ($200 million annually)

a. ***Purpose:*** Water efficiency infrastructure projects, forestry and landscape issues, wetland development, waste diversion and recycling, energy efficiency, clean vehicles, and "black carbon" reduction.

b. ***Allocation method:*** Subject to annual appropriation in the Budget Act.

VI. <u>Climate dividend</u> for transportation fuel consumers ($200 million annually)

a. ***Purpose:*** To use portion of cap-and-trade funds to show consumers that California's climate policies are generating new dollars for them where such use would not create new legal vulnerabilities for the use of those funds.

b. ***Allocation method:*** Several options, for example, a rebate check on monthly fuel bills; once per year rebate with motor vehicle registrations. These options may require a higher legislative vote threshold depending upon how they are drafted.

VII. **"Charge Ahead" Electric Vehicle Deployment Program (\$200 million annually)**

Purpose: Funding a comprehensive vision for cleaning up the state's cars, trucks, buses, and freight movement to meet federally mandated clean air requirements and California's long-term GHG goals.

a. Allocation Method. Appropriated annually in the Budget Act.

VIII. Green Bank Funding (not less than \$10 million annually)

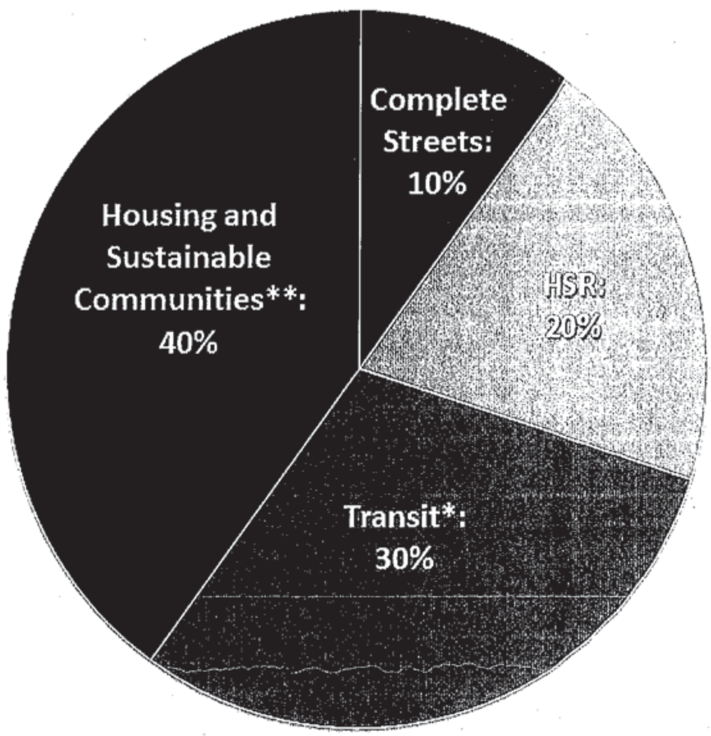
a. Purpose: a state fund to assist the financing of clean energy and other environmentally sustainable projects.

b. ***Allocation method***: appropriated annually in the Budget Act.

VISUAL SUMMARY

- $200 million for natural resource, water, and waste.
- $200 million for climate dividend for consumers.
- $200 million for electric vehicle deployment
- $10 million for green bank funding

Remaining balance distributed as follows:



Of Transit amount, at least 5% shall be used for transit connectivity projects and at least 5% shall be used for direct transit assistance to consumers.

***Of the Housing and Sustainable Communities amount, at least half shall be used for affordable housing.*

FISCAL ILLUSTRATION

Distribution of Cap-and-Trade, assuming revenue of $5 billion annually:

Category	**Amount** (millions)
I. Affordable Housing and Sustainable Communities	$1,756
II. Transit	$1,317
III. High Speed Rail	$878
IV. Complete Streets	$439
V. Natural Resource, Water, Waste	$200
VI. Climate Dividend	$200
VII. Electric Vehicle Deployment	$200
VIII. Green Bank Funding	$10
TOTAL	**$5,000**

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State of California

M E M O R A N D U M

To: Board of Directors Date: April 25, 2014

Timothy Hsu, Director of Financing
From: **CALIFORNIA HOUSING FINANCE AGENCY**

Subject: REPORT OF BOND SALE
MULTIFAMILY HOUSING REVENUE BONDS III, 2014 SERIES A

On April 17, 2014, the Agency issued $38,915,000 of bonds under the Multifamily Housing Revenue Bonds III (MHRB III) indenture. The bonds were issued as tax-exempt fixed rate bonds. This is the first multifamily bond issuance for which all bonds were issued as fixed rate bonds since 2008 under the MHRB III indenture. The 2014 Series A bonds are backed by our general obligation and rated A1/AA by Moody's and Standard & Poor's respectively. This indenture received four-notch upgrade from Standard & Poor's from A- to AA and two-notch upgrade from Moody's from A3 to A1 recently.

The bonds have been issued to provide funds to finance three projects under the Agency's Preservation program for which all loans are insured under the FHA risk share program. The details of the loan amounts are shown in the following table.

Projects to Be Financed with the Proceeds of
Multifamily Housing Revenue Bonds III 2014 Series A

Project Name	Loan Amount	Loan Term	Interest Rate	Actual Loan Origination Date
Mountain Breeze	$12,000,000	40 Years	5.85%	January 30, 2014
Regency Court	$ 6,700,000	40 Years	5.85%	March 28, 2014
Villa San Pedro	$20,215,000	30 Years	5.75%	December 20, 2013

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M E M O R A N D U M

To Board of Directors **Date:** April 23, 2014

Timothy Hsu, Director of Financing

From: **CALIFORNIA HOUSING FINANCE AGENCY**

Subject: CONTINUING DISCLOSURE AGREEMENT

Background:
As part of the April 2014 Multifamily Revenue Bond transaction the underwriter Citigroup Global Markets Inc. hired Digital Assurance Certification, LLC (or "DAC") to perform compliance review on CalHFAs Continuing Disclosure Agreement obligation (SEC Rule 15c2-12) for the last 5 years.

Report Requirements:
The Agency has covenanted for the benefit of the bondholders to provide certain financial information and operating data relating to the Agency and the General Indenture by not later than 180 days following the end of each of the Agency's Fiscal Years (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events.

These reports are posted on Electronic Municipal Market Access (EMMA) website, which is an online platform dedicated to bring greater transparency to the municipal bond market. The Municipal Securities Rulemaking Board (MSRB), the primary regulator of the municipal market, operates the EMMA website in support of its mission to protect investors, state and local governments, and the public interest. EMMA is the official repository for information on virtually all municipal securities and a key way the MSRB promotes a fair and efficient municipal market.

Summary of Findings:
During the past five years, there have been instances when the Agency has been late in filing required annual financial information and operating data with respect to previous continuing disclosure undertakings under the Rule, both related to the Bonds and related to other bonds issued by the Agency. The reports generally ranged in lateness from one to three days. On three occasions the filings were past 13 days, with the latest 17 days. The Agency expects to implement procedures intended to ensure that similar instances do not occur in the future.

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State of California

M E M O R A N D U M

To: Board of Directors **Date:** April 28, 2014

Tim Hsu, Director of Financing

From: **CALIFORNIA HOUSING FINANCE AGENCY**

Subject: Homeownership Loan Portfolio Update as of February 28, 2014

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

- Delinquencies as of February 28, 2014 by insurance type,
- Delinquencies as of February 28, 2014 by product (loan) type,
- Delinquencies as of February 28, 2014 by loan servicer,
- Delinquencies as of February 28, 2014 by county,
- A chart of the number of CalHFA's FHA Delinquent Loan Trend for 30-90 Day and 120 Day (for the period of October 2011 thru February 2014)
- A chart of the number of CalHFA's Conventional Delinquent Loan Trend for 30-90 Day and 120 Day (for the period of October 2011 thru February 2014)
- A graph of CalHFA's 90-day+ ratios for FHA and Conventional loans (for the period of February 2009 through February 2014),
- A graph of 90-day+ ratios for CalHFA's three Conventional loan (products) types, for the period of February 2012 through February 2014,
- Real Estate Owned (REO) at February 28, 2014,
- Accumulated Uninsured Losses from January 1, 2008 through February 28, 2014,
- Disposition of 1st Trust Deed Gain/(Loss) for January 1, 2014 through February 28, 2014, and
- Write-Offs of subordinate loans for January 1, 2014 through February 28, 2014

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Cal HFA California Housing Finance Agency

HOMEOWNERSHIP LOAN PORTFOLIO
DELINQUENCY, REO, SHORT SALE and LOSS REPORT – FEBRUARY 28, 2014

Reconciled Loan Delinquency Summary
All Active Loans By Insurance Type
As of February 28, 2014

				DELINQUENCY RATIOS - % of Loan Count							
	Loan Count	Balance	% of Balance	Loan Count	30-Day	Loan Count	60-Day	Loan Count	90(+) Day	Totals Count	Totals %
Federal Guaranty											
FHA	7,517	$ 806,325,485	30.06%	388	5.16%	114	1.52%	442	5.88%	944	12.56%
VA	172	18,017,237	0.67%	6	3.49%	1	0.58%	11	6.40%	18	10.47%
RHS	76	13,365,512	0.50%	1	1.32%	2	2.63%	8	10.53%	11	14.47%
Conventional loans											
with MI											
CalHFA MI Fund	3,491	874,293,263	32.59%	158	4.53%	59	1.69%	284	8.14%	501	14.35%
without MI											
Orig with no MI	3,912	703,598,353	26.23%	114	2.91%	50	1.28%	166	4.24%	330	8.44%
MI Cancelled*	1,630	266,873,177	9.95%	49	3.01%	8	0.49%	50	3.07%	107	6.56%
Total CalHFA	16,798	$ 2,682,473,027	100.00%	716	4.26%	234	1.39%	961	5.72%	1,911	11.38%

*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 February 28, 2014

				DELINQUENCY RATIOS - % of Loan Count							
	Loan Count	Balance	% of Balance	Loan Count	30-Day	Loan Count	60-Day	Loan Count	90(+) Day	Totals Count	Totals %
30-yr level amort											
FHA	7,517	$ 806,325,485	30.06%	388	5.16%	114	1.52%	442	5.88%	944	12.56%
VA	172	18,017,237	0.67%	6	3.49%	1	0.58%	11	6.40%	18	10.47%
RHS	76	13,365,512	0.50%	1	1.32%	2	2.63%	8	10.53%	11	14.47%
Conventional - with MI	1,719	379,561,504	14.15%	74	4.30%	34	1.98%	103	5.99%	211	12.27%
Conventional - w/o MI	4,935	833,167,718	31.06%	137	2.78%	44	0.89%	161	3.26%	342	6.93%
40-yr level amort											
Conventional - with MI	317	86,285,280	3.22%	8	2.52%	6	1.89%	29	9.15%	43	13.56%
Conventional - w/o MI	166	31,633,903	1.18%	7	4.22%	1	0.60%	9	5.42%	17	10.24%
***5-yr IOP, 30-yr amort**											
Conventional - with MI	1,455	408,446,478	15.23%	76	5.22%	19	1.31%	152	10.45%	247	16.98%
Conventional - w/o MI	441	105,669,910	3.94%	19	4.31%	13	2.95%	46	10.43%	78	17.69%
Total CalHFA	16,798	$ 2,682,473,027	100.00%	716	4.26%	234	1.39%	961	5.72%	1,911	11.38%
	Weighted average of conventional loans:			321	3.55%	117	1.30%	500	5.54%	938	10.38%

*As of December 1, 2013 all IOP loans (except 82 loans which were modified) were converted to fixed (amortizing) loans.

CalHFA California Housing Finance Agency

Reconciled Loan Delinquency Summary
All Active Loans By Servicer
As of February 28, 2014

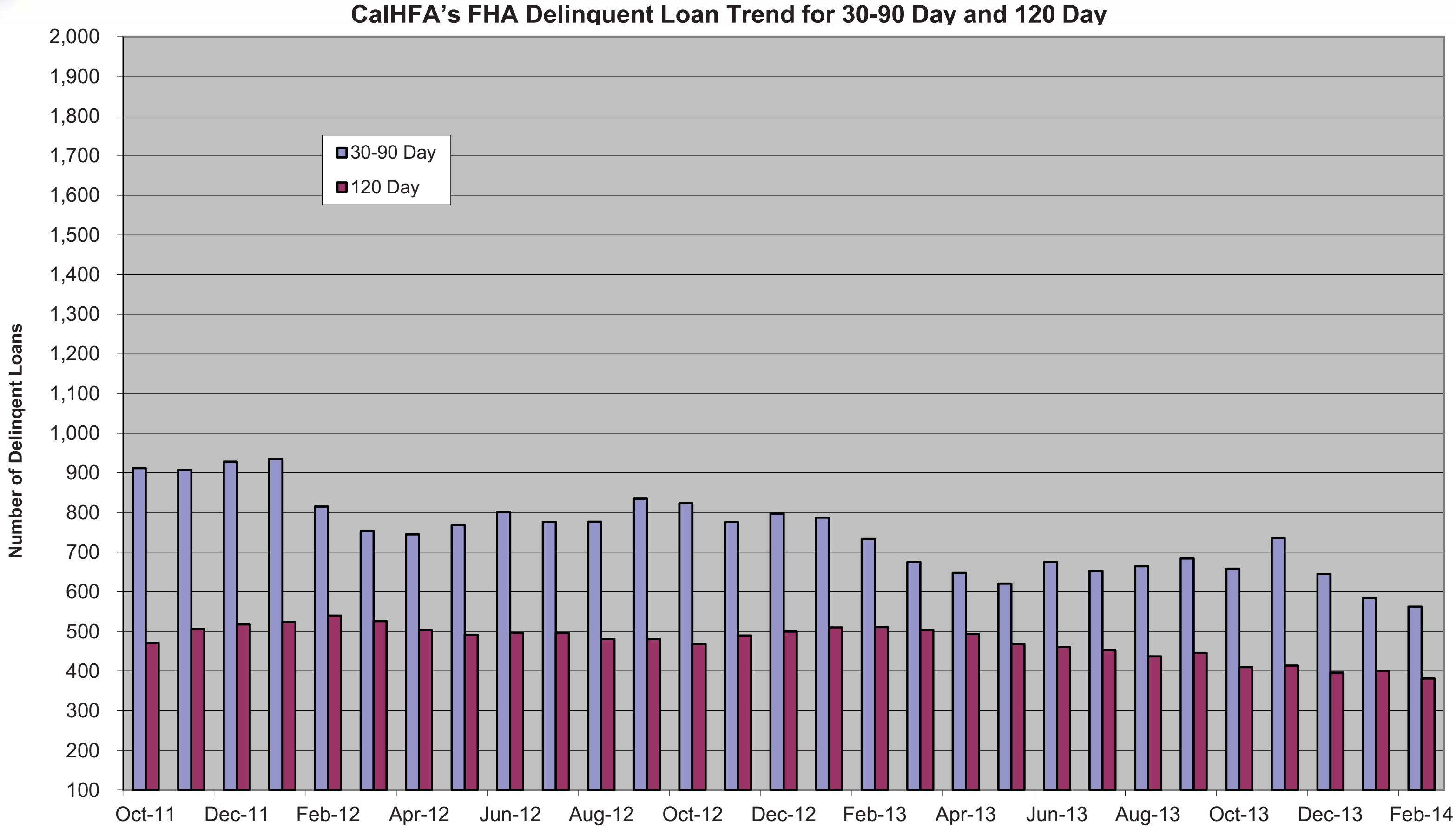
	Loan Count		Balance	% of Balance	DELINQUENCY RATIOS - % of Loan Count							
					Loan Count	30-Day	Loan Count	60-Day	Loan Count	90(+) Day	Totals Count	Totals %
CALHFA - LOAN SERVICING	6,243		$ 1,269,572,519	47.33%	229	3.67%	55	0.88%	353	5.65%	637	10.20%
GUILD MORTGAGE	3,958		595,248,788	22.19%	188	4.75%	68	1.72%	151	3.82%	407	10.28%
WELLS FARGO HOME MORTGAGE	1,774		177,749,221	6.63%	71	4.00%	33	1.86%	89	5.02%	193	10.88%
EVERHOME MORTGAGE COMPANY	1,654		140,657,446	5.24%	96	5.80%	12	0.73%	57	3.45%	165	9.98%
CALHFA - LOAN SERVICING - BAC HOME LOANS	1,525	*	244,981,732	9.13%	73	4.79%	19	1.25%	122	8.00%	214	14.03%
GMAC MORTGAGE CORP	737		88,907,418	3.31%	35	4.75%	27	3.66%	56	7.60%	118	16.01%
FIRST MORTGAGE CORP	588		106,602,944	3.97%	10	1.70%	6	1.02%	35	5.95%	51	8.67%
BAC HOME LOANS SERVICING, LP	129	**	24,279,803	0.91%	14	10.85%	8	6.20%	79	61.24%	101	78.29%
JPMORGAN CHASE BANK, N.A.	115		24,926,736	0.93%	0	0.00%	2	1.74%	13	11.30%	15	13.04%
CITIMORTGAGE, INC.	38		8,133,438	0.30%	0	0.00%	3	7.89%	6	15.79%	9	23.68%
DOVENMUEHLE MORTGAGE, INC.	35		928,813	0.03%	0	0.00%	1	2.86%	0	0.00%	1	2.86%
WESCOM CREDIT UNION	2		484,168	0.02%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Total CalHFA	16,798		$ 2,682,473,027	100.00%	716	4.26%	234	1.39%	961	5.72%	1,911	11.38%

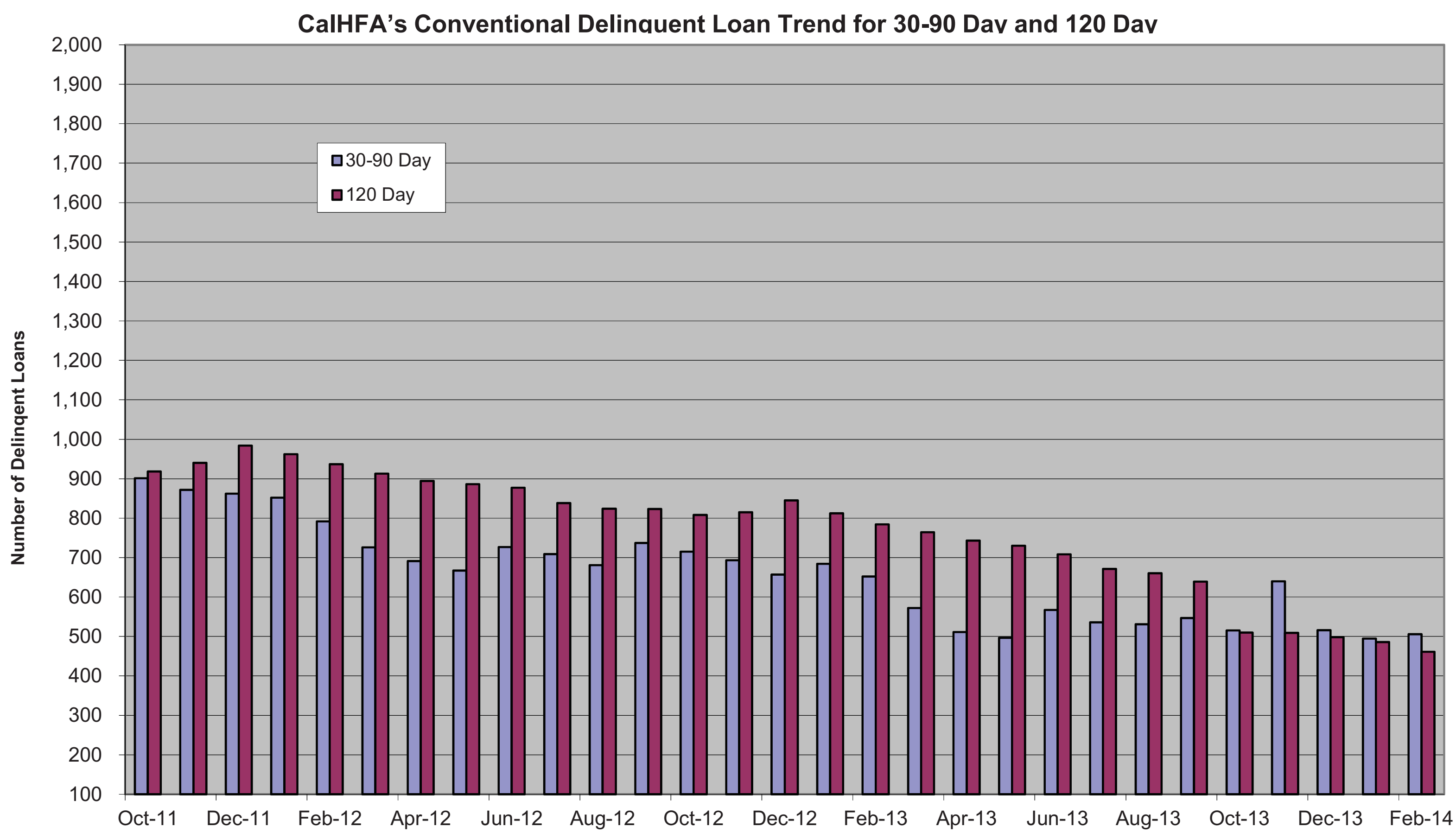
*These BAC Home Loans were transferred to CalHFA Loan Servicing in November 2013.
**These BAC Home Loans will be transferred to CalHFA Loan Servicing in February 2014.

Reconciled Loan Delinquency Summary
All Active Loans By County
As of February 28, 2014

	Loan Count	Balance	% of Balance	DELINQUENCY RATIOS - % of Loan Count							
				Loan Count	30-Day	Loan Count	60-Day	Loan Count	90-Day+	Total Count	Total %
LOS ANGELES	2,785	$ 530,869,455	19.79%	122	4.38%	42	1.51%	154	5.53%	318	11.42%
SAN DIEGO	1,362	266,556,016	9.94%	41	3.01%	16	1.17%	87	6.39%	144	10.57%
KERN	1,119	105,245,832	3.92%	50	4.47%	28	2.50%	77	6.88%	155	13.85%
SANTA CLARA	1,071	254,793,189	9.50%	20	1.87%	9	0.84%	31	2.89%	60	5.60%
FRESNO	935	74,555,005	2.78%	62	6.63%	11	1.18%	39	4.17%	112	11.98%
TULARE	925	74,781,739	2.79%	49	5.30%	12	1.30%	51	5.51%	112	12.11%
SAN BERNARDINO	753	112,034,928	4.18%	42	5.58%	12	1.59%	72	9.56%	126	16.73%
RIVERSIDE	749	106,055,363	3.95%	48	6.41%	28	3.74%	71	9.48%	147	19.63%
SACRAMENTO	748	120,185,518	4.48%	35	4.68%	7	0.94%	67	8.96%	109	14.57%
ORANGE	746	153,808,008	5.73%	23	3.08%	3	0.40%	40	5.36%	66	8.85%
ALAMEDA	722	157,948,988	5.89%	11	1.52%	6	0.83%	28	3.88%	45	6.23%
CONTRA COSTA	594	118,819,275	4.43%	23	3.87%	11	1.85%	35	5.89%	69	11.62%
IMPERIAL	450	41,191,108	1.54%	24	5.33%	5	1.11%	24	5.33%	53	11.78%
VENTURA	404	96,936,596	3.61%	19	4.70%	4	0.99%	13	3.22%	36	8.91%
SONOMA	356	66,736,330	2.49%	15	4.21%	2	0.56%	13	3.65%	30	8.43%
OTHER COUNTIES	3,079	401,955,676	14.98%	132	4.29%	38	1.23%	159	5.16%	329	10.69%
Total CalHFA	16,798	$ 2,682,473,027	100.00%	716	4.26%	234	1.39%	961	5.72%	1,911	11.38%

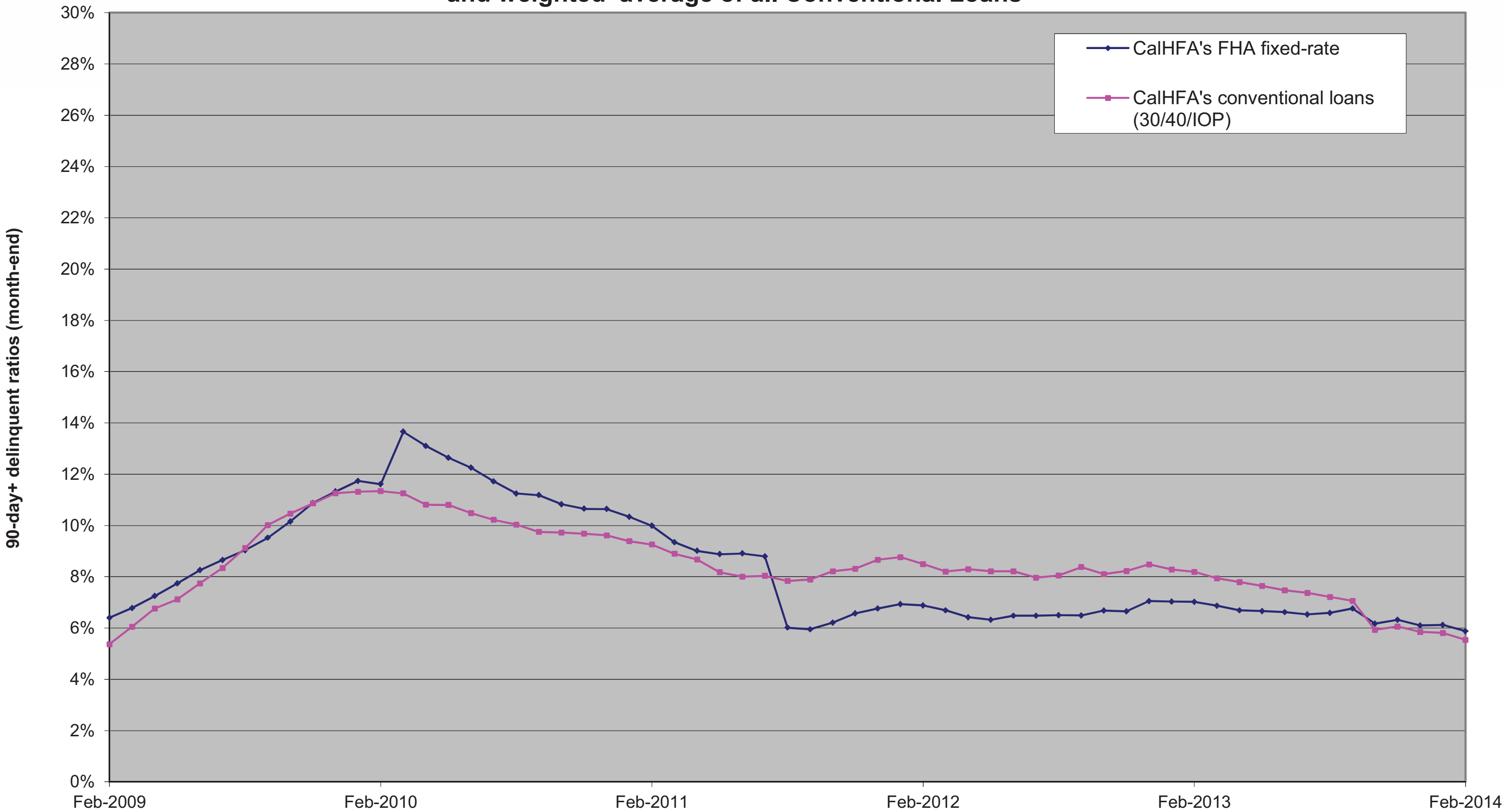
Cal HFA California Housing Finance Agency



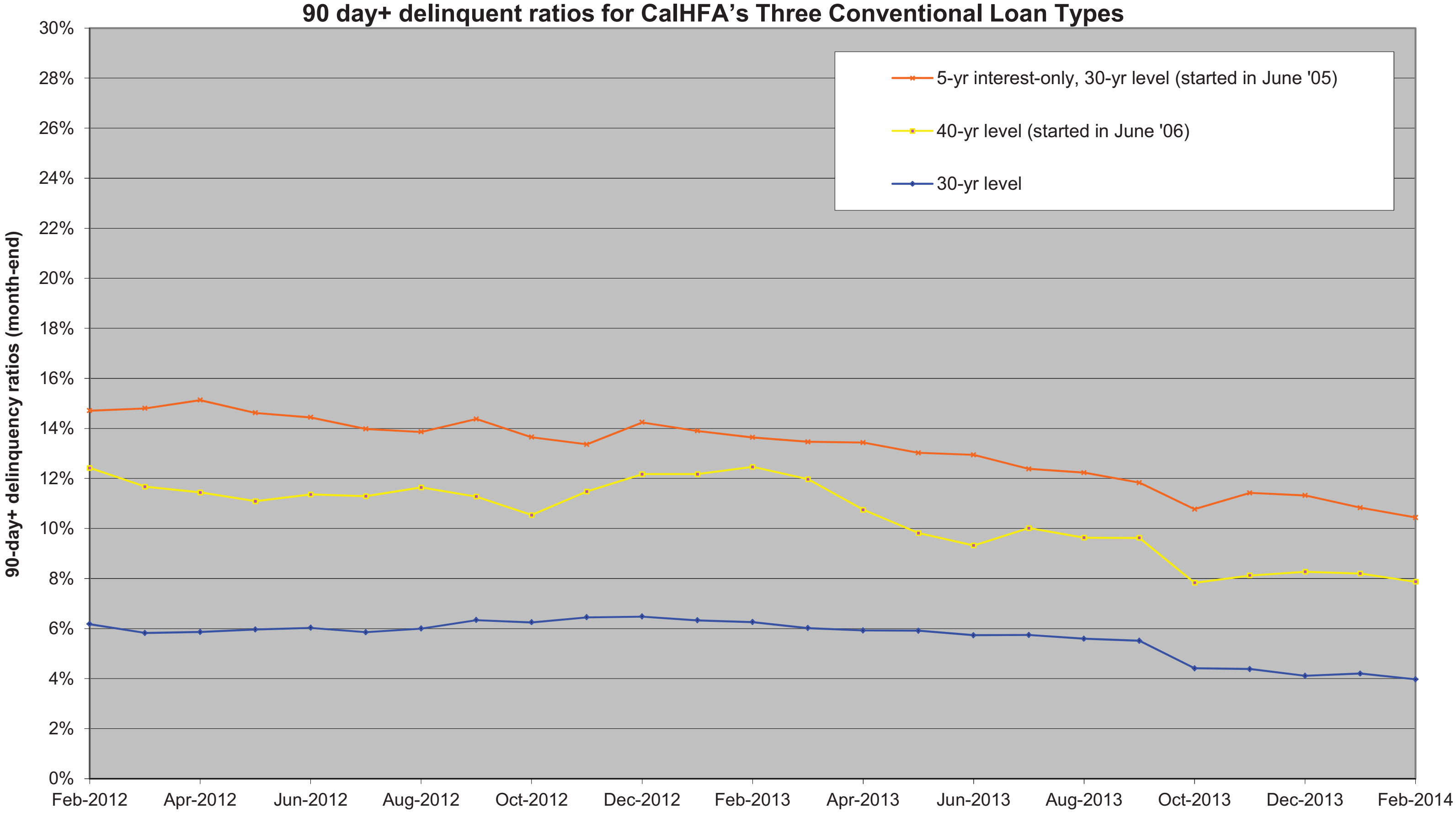


Cal HFA California Housing Finance Agency

90 day+ delinquent ratios for CalHFA's FHA and weighted average of all Conventional Loans



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



Real Estate Owned

Calendar Year 2014 (As of February 28, 2014)												
			**Trustee Sales			Disposition of REO(s)						
Loan Type	Beginning Balance # of Loans	Prior Calendar Adj.	Reverted to CalHFA January	Reverted to CalHFA February	Total Trustee Sales	Repurchased by Lender January	Market Sale(s) January	Repurchased by Lender February	Market Sale(s) February	Total Disposition of REO(s)	Ending Balance # of Loans	UPB of REO's Owned
FHA/RHS/VA	12	0	5	6	11	6		3		9	14	$ 1,904,617
Conventional	91	0	18	9	27		12		16	28	90	18,269,718
Total	103	0	23	15	38	6	12	3	16	37	104	$ 20,174,335

Calendar Year 2013							
			*Trustee Sales	Disposition of REO(s)			
Loan Type	Beginning Balance # of Loans	Prior Calendar Adj.	Reverted to CalHFA 2013	Repurchased by Lender 2013	Market Sale(s) 2013	Ending Balance # of Loans	UPB of REO's Owned
FHA/RHS/VA	45	(1)	111	143		12	$ 1,686,151
Conventional	161	1	249		320	91	19,379,399
Total	206	0	360	143	320	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

**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, fifty nine (59) 3rd party sales in calendar year 2013, and there are eight (8) 3rd party sales to date 2014.*

Accumulated Uninsured Losses as of February 28, 2014						
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	5,046	$ (184,483,647)	2,601	$ (117,367,774)		
Short Sales	1,386	(60,689,904)	395	(17,461,359)	2,128	$ (18,777,703)
3rd Party Sales	85	(196,576)	4	(170,867)	96	(923,113)
Write-offs resulting from foreclosures					8,312	(76,244,341)
Subordinate loan without CalHFA 1st					2,018	(14,454,926)
Total:	6,517	$ (245,370,127)	3,000	$ (135,000,000)	12,554	$ (110,400,082)

(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.

2014 Year to Date Composition of 1st Trust Deed Loss
(As of February 28, 2014)

Loan Type	Disposition				Principal Write-Offs
	Repurchased by Lender	Market Sales	Short Sales	Loan Balance at Sales	
FHA/RHS/VA	9		1	$ 1,504,127	
Conventional		28	31	14,809,648	$ (1,871,906)
	9	28	32	$ 16,313,775	$ (1,871,906)

2014 Year to Date Composition of Subordinate Write-Offs by Loan Type[1]
(As of February 28, 2014)

Loan Type	Active Loans		Write-Offs with CalHFA 1st		Write-Offs w/o CalHFA 1st		Total Write-Offs	
	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)	6,674	$70,554,549	39	$373,477	2	$ 10,000.00	41	$383,477
CHDAP / ECTP (THPA) / HiRAP	27,705	192,380,193	49	382,920	46	316,017	95	698,938
Other [2]	203	2,682,478	1	3,510	0	0	1	3,510
	34,582	$265,617,220	89	$759,907	48	$326,017	137	$1,085,925

(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:** April 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

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 $391 million

BONDS OUTSTANDING
As of May 1, 2014
($ in millions)

	Fixed Rate	Variable Rate	Totals
Single Family	$,1,631	$1,269	$2,900
Multifamily	388	272	660
TOTALS	$2,019	$1,541	$3,560

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 $1.5 billion, 39% of our $3.9 billion of total indebtedness as of May 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)	$522	$747	$1,269
MHRB (MF)	196	76	272
Total	$718	$823	$1,541

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	$507	$762	$1,269
MHRB	102	0	170	272
Total	$102	$507	$932	$1,541

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 5/1/2014
($ in millions)

Financial Institution	$ Amount of Bonds
Freddie Mac	$ 466
Fannie Mae	466
Total	$ 932

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 $823 million, 21% 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 $823 million of net variable rate exposure ($417 million taxable and $406 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 $823 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 $823 million of net variable rate exposure translates to $188 million of net variable rate exposure. This $188 million is further reduced by the $458 million of funds invested in SMIF. Thus the "true" net variable rate debt is -$297 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	29%

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) **AMORTIZATION RISK**

Our bonds are generally paid down (redeemed or paid at maturity) as our loans are prepaid. Our interest rate swaps amortize over their lives based on assumptions about the receipt of prepayments, and the single family transactions which include swapped bonds have generally been designed to accommodate prepayment rates between two and three times the “normal” rate. Our interest rate swaps generally have had fixed amortization schedules that can be met under a sufficiently wide ranges of prepayment speeds. In addition, swaps that were entered into after 2003 had swap termination options which allowed the Agency to terminate all or portions of the swap at par (no cost to terminate). The table below shows the par terminations that the Agency has exercised to date.

	Swap Par Options Exercised ($ in thousands)
2004	$12,145
2005	35,435
2006	20,845
2007	28,120
2008	18,470
2009	370,490
2010	186,465
2011	288,700
2012	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 a $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)
9/30/12	($330)
12/31/12	($294)
3/31/13	($294)
6/30/13	($248)
9/30/13	($203)
12/31/13	($176)
3/31/14	($183)

** 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 4/23/2014
($ in millions)

	JPMorgan	Goldman Sachs	BofA	BofA / Merrill Lynch	Deutsche	Total
Marked-to-Market	41.14	23.52	42.18	24.32	23.9	
Credit Support Amount	23	9.77	6.25	11.89	0	50.91

M E M O R A N D U M

To: CalHFA Board of Directors Date: 25 April 2014

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

Subject: Legislative Report

Attached please find a list of bills currently pending before the Legislature. As always, if you have any questions or comments, please let me know.

Affordable Housing

AB 1765 **(Jones-Sawyer D) Personal income taxes: voluntary contributions: Habitat for Humanity Fund.**
Last Amend: 4/2/2014
Status: 4/24/2014-In Senate. Read first time. To Com. on RLS. for assignment.

Summary: Would allow an individual to designate on his or her tax return that a specified amount in excess of his or her tax liability be transferred to the Habitat for Humanity Fund, which would be created by this bill. The bill would require the Franchise Tax Board, when another voluntary contribution designation is removed, to revise the tax return forms to provide for the designation created by this bill. This bill contains other related provisions.

Notes: According to the author, with bond funding exhausted and redevelopment funds eliminated, California is facing virtually no state investment in affordable housing. At the same time, Habitat for Humanity, a faith-based nonprofit organization dedicated to building affordable homes for families with limited incomes, has built, rehabilitated, repaired or improved more than [800,000] houses worldwide, providing simple, decent and affordable shelter for more than [4] million people. However, redevelopment's [dissolution] in 2011 greatly impacted Habitat's ability to fulfill its mission. Allowing individuals to donate via their income tax […] return can raise hundreds of thousands of dollars for Habitat for Humanity. This money will be used for the sole purpose of building affordable housing throughout California. In Louisiana, the only other state that has a voluntary income tax check off, the affordable housing fund raises an average of $5 million annually.

AB 2135 **(Ting D) Local agencies: surplus land: affordable housing.**
Last Amend: 4/21/2014
Status: 4/22/2014-Re-referred to Com. on L. GOV
.
Summary: Would specify that transportation districts are included within the definition of a district with regard to requirements for the disposal of surplus land by local agencies. The bill would increase the minimum time that an agency disposing of surplus land is required to conduct negotiations from 60 to 90 days. The bill would require, if the disposed land is to be used for residential development, that the sales contract or lease agreement provide that not

less than 25% of the units in the development have rents or sale prices that are affordable for persons and families of low or moderate income.

Notes: According to the author, AB 2135 "would increase the supply of affordable housing in California by strengthening provisions of existing law that guarantees affordable housing projects first priority to obtain surplus land held by local governments." The author believes this 'Right of First Refusal ' is especially critical in light of state and local priorities for transit oriented development – as transportation districts and other local agencies expand public transit, surplus land acquired in the process will provide valuable opportunities to create new affordable housing options within sustainable communities.

SB 908 **(Gaines R) Housing availability.**
Status: 2/6/2014-Referred to Com. on RLS.

Summary: The Planning and Zoning Law requires each city, county, and city and county to prepare and adopt a general plan that contains certain mandatory elements, including a housing element that analyzes current and projected housing needs. Current law includes various legislative findings and declarations related to the statewide importance of housing availability and the responsibility of local governments to address regional housing needs. This bill would make a nonsubstantive change to these legislative findings and declarations.

SB 1260 **(DeSaulnier D) Local government: affordable housing.**
Status: 4/11/2014-Set for hearing April 28.

Summary: Current law authorizes a city or county to establish infrastructure financing districts to finance specified types public facilities. This bill would require a district to dedicate no less than 25% of allocated tax increment revenues for affordable housing purposes.

Notes: According to the author, the pending bills relating to IFDs and Sustainable Communities Investment Authorities morph the redevelopment and IFD laws into something very similar to each other. Both allow a city or county to commit its own share of property tax increment to community development and allow other local governments in the area, except for schools, to voluntarily add their share of the tax increment. One of the only remaining differences between the two approaches relates to the housing provisions the entity would be subject to. If the housing provisions of CRL and IFD laws are not harmonized, many local governments may well pick whichever available tool has the least housing obligations.

CalHFA

AB 1929 **(Chau D) California Housing Finance Agency: MHSA funding: special needs housing for person with mental illness.**
Status: 3/26/2014-In committee: Hearing postponed by committee.

Summary: Would authorize a county mental health department to deposit with the agency funding received by the county under the MHSA for the development of housing to meet the special housing needs of persons with mental illness. The bill would authorize the agency to receive MHSA funding from a county to finance the acquisition, construction, rehabilitation, refinancing, or development of special needs housing for persons with mental illness.

Notes: This bill is intended to encourage the continuation of the MHSA housing program.

SB 1318 **(Calderon D) Housing: homeowner and renter assistance.**
Status: 3/17/2014-Referred to Com. on RLS.

Summary: Current law requires the California Housing Finance Agency to administer the Roberti-Greene Home Purchase Assistance Program, which provides home purchase assistance to first-time homebuyers, and current law also provides for property tax assistance programs for low-income persons who are elderly or disabled. This bill would express the intent of the Legislature to enact legislation that would implement and fund a homeowner and renter assistance program in this state.

Density Bonus

AB 2072 **(Nazarian D) Housing density bonus.**
Status: 2/21/2014-From printer. May be heard in committee March 23.

Summary: The Planning and Zoning Law requires, when a developer of housing proposes a housing development within the jurisdiction of the local government, that the city, county, or city and county provide the developer with a density bonus and other incentives or concessions for the production of lower income housing units or the donation of land within the development if the developer, among other things, agrees to construct a specified percentage of units for very low, low-, or moderate-income households or qualifying residents. This bill would make technical, nonsubstantive changes to these provisions of law.

AB 2222 **(Nazarian D) Housing density bonus.**
Last Amend: 4/22/2014
Status: 4/23/2014-Re-referred to Com. on H. & C.D.

Summary: Current law relating to the development of low income housing units requires continued affordability for 30 years or longer, as specified, of all very low and low-income units that qualified an applicant for a density bonus. This bill would require continued affordability for 55 years or longer, as specified, of all very low and low-income units that qualified an applicant for a density bonus.

Housing Element

AB 1537 **(Levine D) General plan housing element: regional housing need.**
Last Amend: 4/21/2014

Status: 4/24/2014-Assembly Rule 56 suspended. (pending re-referral to the Com. on L. GOV.)

Summary: Would require, until December 31, 2023, a county that is in the San Francisco-Oakland-Fremont, California Metropolitan Statistical Area and that has a population of less than 400,000 to be considered suburban for purposes of determining the densities appropriate to accommodate housing for lower income households. The bill would, for that same purpose, also require a city that has a population of less than 100,000 and is incorporated within that county to be considered suburban.

Notes: This bill is intended to allow Marin County move from an "urban" default density of 30 dwelling units per acre under current law, to a "suburban" default density of 20 dwelling units per acre. Existing law already allows jurisdictions to provide an alternative analysis demonstrating that the existing default density is inappropriate

AB 1690 **(Gordon D) Local planning: housing elements.**
Status: 2/20/2014-Referred to Coms. on H. & C.D. and L. GOV.

Summary: Current law requires that the housing element of a community's general plan contain a program that sets forth a schedule of actions during the planning period that the local government is undertaking, or intends to undertake, to implement the policies and achieve the goals and objectives of the housing element through the utilization of appropriate federal and state financing and subsidy programs, and the utilization of moneys in a low- and moderate-income housing fund, as specified. This bill would require the program to accommodate at least 50% of the very low and low-income housing need on sites designated for residential use or mixed-uses.

Notes: According to the author, this bill would advance the state's goal of reducing driving through improved land-use patterns that allow people to walk, bike, or take transit between common destinations. In early discussions, housing advocates have raised the challenges of financing mixed-use development.

SB 1033 **(Torres D) Land use: local planning: housing elements.**
Status: 4/10/2014-In Assembly. Read first time. Held at Desk.

Summary: Existing law requires the housing element to contain, among other items, an identification and analysis of existing and projected housing needs and a statement of goals, policies, quantified objectives, financial resources, and scheduled programs for the preservation, improvement, and development of housing. This bill would revise references to redevelopment agencies within those housing element provisions to instead refer to successor housing agencies.

Notes: The housing element is meant to describe a city's or county's housing goals, the programs it will administer to achieve those goals and the resources that it has available and will use to implement those programs. With the demise of redevelopment, there are no redevelopment tax increment funds available for housing purposes, but housing successor agencies do receive limited program income from outstanding loans originally made by their communities' redevelopment agencies. This bill updates housing element law to reflect this change in available funding sources for housing.

Landlord/Tenant/Rent Control

AB 2405 **(Ammiano D) Landlord tenant: Ellis Act.**
Last Amend: 4/10/2014
Status: 4/24/2014-From committee: Do pass and re-refer to Com. on JUD. (Ayes 6. Noes 0.) (April 23). Re-referred to Com. on JUD.

Summary: Would require, if an owner seeks to displace a tenant or lessee from accommodations withdrawn pursuant to the Ellis Act, the plaintiff to state in the caption of the complaint that the civil action is described in a specified provision of the Ellis Act.

Notes: This bill allows a county board of supervisors, by the adoption of a resolution or by a majority vote of the electors within the county, to compel the owner of any residential real property to offer, or continue to offer, accommodations in the property for rent or lease, in spite of provisions contained in the Ellis Act, if the public entity finds that prohibition contained in existing law decreases the total number of affordable rental units within a jurisdiction. A February 2014 article in the San Francisco Chronicle stated that this bill would allow local jurisdictions - through the Board of Supervisors or a public vote - to enact a moratorium on Ellis Act evictions when the housing supply can't keep pace with demand. It would also hide no-fault evictions from tenant records or credit checks. "Experience shows you can't build your way out of an affordable housing crisis," Ammiano said. "We have to do what we can to preserve what affordable housing we have. This is one piece of that effort."

SB 1439 **(Leno D) Residential real property: withdrawal of accommodations.**
Last Amend: 4/1/2014
Status: 4/9/2014-From committee: Do pass and re-refer to Com. on JUD. (Ayes 6. Noes 4. Page 3121.) (April 8). Re-referred to Com. on JUD.

Summary: Would authorize the City and County of San Francisco to prohibit an owner of accommodations from filing a notice with a public entity of an intent to withdraw accommodations or prosecuting an action to recover possession of accommodations, or threatening to do so, if not all the owners of the accommodations have been owners of record for 5 continuous years or more or with respect to property that the owner acquired after providing notice of an intent to withdraw accommodations at a different property.

Notes: According to the author and sponsors, this bill closes a loophole in the Ellis Act. The original Ellis Act was intended to allow long-term owners to exit the rental housing business, but now speculators are using the act to buy rent-controlled buildings, empty them of long-term tenants, and resell them at windfall profits. As a result, Ellis Act evictions have tripled to 300 units in San Francisco in the last year. A majority of these tenants are seniors and persons with disabilities, who cannot afford to relocate within San Francisco even with legally required cash payments. Owners with less than one year of ownership initiated fifty percent of these withdrawals. Serial evictors – owners who have used the Ellis Act to evict tenants in other properties – are responsible for 30% of withdrawn units. In addition, an owner's threat of invoking the act leads many tenants to leave without the formality of an Ellis Act notice. This bill will maintain the original intent of the Ellis Act while allowing San Francisco to stop misuse of the act and reduce the impact on renters.

Mortgage Lending

AB 1393 **(Perea D) Taxation: cancellation of indebtedness: mortgage debt forgiveness.**
Last Amend: 4/7/2014
Status: 4/22/2014 Re-referred to Com on GOV. & F.

Summary: The Personal Income Tax Law provides for modified conformity to specified provisions of federal income tax law relating to the exclusion of the discharge of qualified principal residence indebtedness, as defined, from an individual's income if that debt is discharged after January 1, 2007, and before January 1, 2013, as provided. The federal American Taxpayer Relief Act of 2012 extended the operation of those provisions to qualified principal residence indebtedness that is discharged before January 1, 2014. This bill would conform to the federal extension and make legislative findings and declarations regarding the public purpose served by the bill.

Notes: See notes below for AB 2358.

AB 1730 **(Wagner R) Mortgage loan modification.**
Last Amend: 4/23/2014
Status: 4/24/2014-Re-referred to Com. on B. & F.

Summary: Current law, applicable to residential mortgages, prohibits a person who negotiates, arranges, or otherwise offers to perform a mortgage loan modification or other form of mortgage loan forbearance for a fee or other compensation from, among other things, demanding or receiving any compensation until every service that the person contracted to perform or represented that he or she would perform is accomplished. This bill would authorize a violation of these provisions to be punished as a felony.

Notes: According to the author, "Mortgage loan modification fraud is a huge issue, especially amongst unwitting senior citizens. Due to the deflation of real property values, either (1) the liens securing the promissory note(s) for principal residential property exceeds the value of the parcel or (2) the loans which were made have resulted in mortgage payments beyond the ability of the property owners to pay. As a consequence, individuals desperate to save their homes have paid what little money they may still have in advance to individuals who claim to be able to save the home by obtaining a loan modification. These individuals then take the money, abandon the homeowners, and allow the property to be sold at foreclosure." Under this bill, prosecutors would have the discretion to charge mortgage loan modification violations as a felony – rather than simply a misdemeanor, as permitted under existing. In other words, the existing crime would be made a "wobbler." In addition, wrongdoers would be subject to an additional civil penalty in an action by public prosecutors, as well as an enhanced civil penalty in any action involving seniors and persons with disabilities

AB 2358 **(Harkey R) Taxation: cancellation of indebtedness: mortgage debt forgiveness.**
Status: 3/10/2014-Referred to Com. on REV. & TAX.

Summary: The federal Emergency Economic Stabilization Act of 2008 extended the operation of specified provisions of the federal Mortgage Forgiveness Debt Relief Act of 2007, to debt that is discharged before January 1, 2013. This bill would extend the operation of the exclusion of the discharge of qualified principal residence indebtedness to debt that is discharged on or after January 1, 2013, and before January 1, 2014. This bill contains other related provisions.

Notes: Last year, the IRS issued a ruling that debt written off in a short sale does not consitute recourse debt under California law, and therefore does not create so-called "cancellation of debt" income to the home seller for federal income tax purposes. This decision was based on the existence of a California statute that specifically states that if a lender agrees to a short sale transaction, the debt is considered paid in full, and the borrower cannot be held personally responsible for paying the difference between the amount recovered through the short sale and the amount needed to make the lender whole. Shortly after, FTB extended those same findings to California tax liability. Because there is no anti-deficiency statute specific to principal reduction transactions, that provision could not be extened to those transactions. AB 2358 would exent the previously enacted statutue providing tax relief for all of these types of transactions, ensuring that California tax law mirrors the current treatment provided for in federal law.

SB 339 **(Cannella R) Taxation: cancellation of indebtedness: mortgage debt forgiveness.**
Last Amend: 2/18/2014
Status: 2/18/2014-From committee with author's amendments. Read second time and amended. Re-referred to Com. on RLS.

Summary: The Personal Income Tax Law provides for modified conformity to specified provisions of federal income tax law relating to the exclusion of the discharge of qualified principal residence indebtedness, as defined, from an individual's income if that debt is discharged after January 1, 2007, and before January 1, 2013, as provided. The federal American Taxpayer Relief Act of 2012 extended the operation of those provisions to qualified principal residence indebtedness that is discharged before January 1, 2014. This bill would conform to the federal extension and make legislative findings and declarations regarding the public purpose served by the bill.

Notes: See notes above for AB 2358. In addition, this bill creates a continuous appropriation to the General Fund to refund taxpayers who have already included the amount of the discharged principle on their 2013 taxes.

SB 439 **(Evans) Personal income taxes: cancellation of indebtedness: mortgage debt forgiveness.**
Last Amend: 4/21/2014
Status: 4/24/2014- Re-referred to Com. on RLS pursuant to Assembly Rule 96.

Summary: The Personal Income Tax Law provides for modified conformity to specified provisions of federal income tax law relating to the exclusion of the discharge of qualified principal residence indebtedness, as defined, from an individual's income if that debt is discharged after January 1, 2007, and before January 1, 2013, as provided. The federal American Taxpayer Relief Act of 2012 extended the operation of those provisions to qualified principal residence indebtedness that is discharged before January 1, 2014. This bill would conform to the federal extension and make legislative findings and declarations regarding the public purpose served by the bill.

Notes: See notes above for AB 2358.

Perm Source

SB 391 **(DeSaulnier D) California Homes and Jobs Act of 2013.**
Last Amend: 8/8/2013
Status: 8/30/2013-Set, first hearing. Referred to APPR. suspense file. Hearing postponed by committee.

Summary: Would enact the California Homes and Jobs Act of 2013. The bill would make legislative findings and declarations relating to the need for establishing permanent, ongoing sources of funding dedicated to affordable housing development. The bill would impose a fee, except as provided, of $75 to be paid at the time of the recording of every real estate instrument, paper, or notice required or permitted by law to be recorded.

Notes: According to the author, “Everyone in California needs a safe and affordable place to call home. For U.S. military veterans, former foster youth, families with children, people with disabilities, seniors on fixed incomes, and other vulnerable Californians, however, the housing crisis isn’t over. Millions of Californians are caught in the “perfect storm” — mortgages remain out of reach, credit standards have tightened, and the foreclosure crisis has pushed more people into a rental market already suffering from decades of short supply — leading to record-setting rent increases. The most vulnerable risk joining the more than 130,000 Californians who are homeless on any given night. Moreover, rents and mortgages within the reach of working families are critical to maintaining California’s business competitiveness. Numerous business groups say California needs to increase the supply of housing options affordable to workers so companies can compete for the talent that drives California’s economy. At the same time, California’s investment in affordable homes has dried up. State agencies have awarded nearly the entire voter-approved bond funding for affordable housing. Likewise, the elimination of redevelopment agencies has cut off funding from the low- and moderate-income housing set aside. The California Homes and Jobs Act begins to restore California’s historic investments in affordable homes by creating an ongoing, pay-as-you-go source of funding dedicated to affordable housing development.

PILOT

AB 1760 **(Chau D) Property taxation: welfare exemption: rental housing and related facilities: payment in lieu of taxes agreement.**
Last Amend: 4/1/2014
Status: 4/2/2014-Re-referred to Com. on REV. & TAX.

Summary: Would, on or after January 1, 2015, prohibit a local government from entering into a payment in lieu of taxes (PILOT) agreement with a property owner of a low-income housing project, and would make any PILOT agreement entered into in violation of this provision void and unenforceable. This bill would presume that any payments made under any PILOT agreement entered into before January 1, 2015, are used to maintain the affordability of, or reduce the rents otherwise necessary for, the units occupied by lower income households.

SB 1203 **(Jackson D) Property taxation: welfare exemption: rental housing and related facilities: payment-in-lieu-of-taxes agreement.**
Last Amend: 4/21/2014
Status: 4/24/2014-From committee: Do pass. (Ayes 5. Noes 0.) (April 24).

Summary: Would prohibit an assessor from levying any escape or supplemental assessment as a result of the certification requirement, because of a property owner's certification concerning the use of funds that would have been necessary to pay property taxes and a payment-in-lieu-of-taxes agreement with a local government for which the assessor did not, prior to January 1, 2015, levy any assessment.

Notes: According to the author, “As a condition of project approval, some local governments have required affordable housing developers to agree to annual PILOT payments, often equal to the share of the jurisdiction’s share of the property tax. Most recently, some county assessors are threatening certain affordable housing projects that make PILOT payments with the cancellation of their welfare exemption and the imposition of back taxes for past years when PILOT payments were made. Back taxes on PILOT agreements are often in the hundreds of thousands of dollars. These assessments threaten to bankrupt the affordable housing developments, which would result in the loss of precious affordable housing. Affordable housing developments provide critical opportunities for our low-income residents. Often, these units can be their last resort before becoming homeless. As confirmed by Legislative Counsel in 2012, there is no legal authority to charge these PILOT fees. Affordable housing developments should be protected by the welfare exemption, not burdened by local governments requiring PILOT fees.” This bill was amended in committee yesterday to ensure that any fees charged for this purpose are charged on all similar projects, and not solely on the basis of the welfare exemption.

Redevelopment

AB 1582 **(Mullin D) Redevelopment: successor agencies: Recognized Obligation Payment Schedule.**
Last Amend: 4/22/2014
Status: 4/23/2014-Re-referred to Com. on APPR.

Summary: Current law requires a successor agency to, among other things, prepare a Recognized Obligation Payment Schedule for payments on enforceable obligations for each 6-month fiscal period. This bill would revise the timeline for the preparation of the required Recognized Obligation Payment Schedule to provide that the successor agency prepare a schedule for a 12-month fiscal period, and would authorize the Recognized Obligation Payment Schedule to be amended by the oversight board if the amendment is approved at least 90 days before the date of the next property tax distribution.

Notes: This bill revises the timeline for preparation of a ROPS from every six months, to annually, prior to the annual fiscal period, and specifies that the ROPS shall be forward looking to the next fiscal year, for fiscal years beginning on or after January 1, 2015. This bill is author-sponsored. Supporters argue that the bill gives successor agencies additional funding flexibility, and that the current ROPS cycle causes difficulty for long-term funding calculations.

AB 1793 **(Chau D) Community development: affordable housing.**
Status: 3/26/2014-From committee: Do pass and re-refer to Com. on L. GOV. (Ayes 7. Noes 0.) (March 26). Re-referred to Com. on L. GOV.

Summary: Would require the California Housing Finance Agency, on or before July 1, 2015, to conduct a request for proposals to identify up to 6 nonprofit organizations as being eligible to accept responsibility, for enforcing the affordability deed restrictions on homeownership units of a former redevelopment agency, from a city, county, city and county, or housing authority.

Notes: According to the author, housing successor agencies (cities, counties, cities and counties, or housing authorities) to former redevelopment agencies are currently tasked with enforcing the affordability deed restrictions on BMR homeownership units. According to a recent survey of housing successor agencies, a majority of responding agencies lost a significant amount of their designated funding for managing these units, and have laid off over half of their staff responsible for managing or monitoring affordable housing programs. Without sufficient staffing or funding, the affordability of these units could be lost. One-third of responding agencies have seen affordable housing lost to foreclosure since the elimination of redevelopment agencies, and two-thirds expect it to happen.

AB 1963 **(Atkins D)** **Redevelopment.**
Last Amend: 4/21/2014
Status: 4/22/2014-Re-referred to Com. on APPR.

Summary: Would require the property of a former redevelopment agency to be disposed of according to law if the Department of Finance has not approved a long-range property management plan by January 1, 2016.

Notes: According to the author, "during the February 25, 2014 hearing of the Assembly Budget Subcommittee #6, DOF reported to Committee members that there are currently 230 long range property management plans that have been submitted to DOF, 65 of which have been approved. This means that 320 active successor agencies still need DOF approval by the end of 2014. This submission and review process may take longer than originally planned. Given the fact that the approval of the Plans are the key to preventing widespread "fire sale" of properties that Legislators were hoping to avoid through the passage of AB 1484, it is crucial that all successor agencies that are able to receive a finding of completion are able to get an approved plan."

AB 2280 **(Alejo D)** **Community Revitalization and Investment Authorities.**
Last Amend: 4/7/2014
Status: 4/8/2014-Re-referred to Com. on APPR.

Summary: Would authorize certain local agencies, to form a community revitalization authority (authority) within a community revitalization and investment area, to carry out provisions of the Community Redevelopment Law in that area for purposes related to, among other things, infrastructure, affordable housing, and economic revitalization. The bill would provide for the financing of these activities by, among other things, the issuance of bonds serviced by tax increment revenues, and would require the authority to adopt a community revitalization plan for the community revitalization and investment area that includes elements describing and governing revitalization activities.

AB 2493 **(Bloom D)** **Redevelopment dissolution: housing projects: bond proceeds.**
Last Amend: 4/10/2014
Status: 4/24/2014-From committee: Do pass and re-refer to Com. on H. & C.D. (Ayes 8. Noes 0.) (April 23). Re-referred to Com. on H. & C.D.

Summary: Would authorize a successor housing entity to designate the use of, and commit, proceeds from indebtedness that was issued for affordable housing purposes prior to June 28, 2011, and would require the proceeds from bonds issued between January 1, 2011, and June 28, 2011, be used for projects meeting certain criteria established in this bill for projects, to be funded by successor agencies generally, from proceeds of bonds issued during the same period.

Notes: According to the author, "During the first half of 2011, prior to the dissolution of all redevelopment agencies, approximately 50 agencies legally issued bonds. Of those cities, 37 have outstanding bond proceeds that they are not allowed to use. The State has asserted that the vast majority of the 2011 redevelopment bonds must be defeased and their proceeds not spent on projects, however, over 90% of these bonds cannot be defeased for 10 years.

During this ten-year period, nearly $1 billion will be spent on the debt service payments for these bonds, and the bond proceeds will continue to go unused. If the proceeds were used for their intended purposes, the construction of these projects would generate over $1.2 billion in statewide economic activity, more than the debt service payments during the ten-year period. The vast majority of these bonds were issued for public works projects such as infrastructure construction and repair, new public facilities and affordable housing. Bondholders who purchased tax-exempt bonds (approximately 70% of the bonds in question) for specific public works projects were promised tax-free returns. Per federal tax law, tax-exempt bond proceeds must be used for their intended purpose, or the bonds could be subject to losing their tax-exempt status. The author also notes that "various amendments have been added to provide assurance that successor agencies would only be able to use 2011 redevelopment bond proceeds for projects which were actively being planned prior to January 1, 2011, and that the bill would "assure that cities who rushed to issue bonds, in order to "lock up" funds for future projects that there were not currently working on would not be able to use their 2011 bond."

SB 1129 **(Steinberg D)** **Redevelopment: successor agencies to redevelopment agencies.**
Last Amend: 4/22/2014
Status: 4/22/2014-Read second time and amended. Re-referred to Com. on APPR.

Summary: Current law prohibits a successor agency from entering into contracts with, incurring obligations, or making commitments to, any entity, or to amend or modify existing agreements, obligations, or commitments with any entity, for any purpose. This bill would authorize a successor agency, if the successor agency has received a finding of completion, to enter into, or amend existing, contracts and agreements, or otherwise administer projects in connection with enforceable obligations, if the contract, agreement, or project will not commit new property tax funds or otherwise adversely affect the flow of specified tax revenues or payments to the taxing agencies, as specified.

Notes: According to the author, local officials have identified ambiguities and obstacles in current law which prevent them from completing vital economic development projects that began before redevelopment agencies were dissolved. Because state law doesn't provide successor agencies any flexibility to adjust contracts for enforceable obligations in ways that don't affect tax increment, successor agencies may be unable to finance or complete long-term phased development projects that are already underway. State law offers successor agencies no good options for disposing of billions of dollars of unspent RDA bond proceeds. If the interest rates that a successor agency earns on securities it buys to defease bonds are significantly lower than the interest payments on the bonds, the agency will lose money on the transaction. As a result, successor agencies may choose to retain hundreds of millions of dollars of bond proceeds for extended periods of time, while paying debt service, without producing any new infrastructure or economic development. Some local officials see the requirement to enter into compensation agreements with other taxing entities for real property retained by a successor agency as an impediment to their ability to use these publicly owned properties for economic development purposes. By eliminating these types of ambiguities and obstacles, SB 1129 will support the completion of numerous development projects that have already received millions of dollars of public investments, support state policy goals, and benefit residents throughout California.

SB 1393 **(Torres D) Local government: community redevelopment: successor agencies to redevelopment agencies.**
Status: 4/7/2014-From committee with author's amendments. Read second time and amended. Re-referred to Com. on RLS.

Summary: The Community Redevelopment Law authorizes the establishment of redevelopment agencies in communities to address the effects of blight, as defined. Current law dissolved redevelopment agencies as of February 1, 2012, and provides for the designation successor agencies to act as successor entities to the dissolved redevelopment agencies. Current law defines various terms for these purposes. This bill would changes to housing element law to recognize this change.

Supportive/Special Needs Housing

SB 1178 **(Correa D) Developmental disabilities: housing.**
Last Amend: 4/10/2014
Status: 4/23/2014-From committee: Do pass and re-refer to Com. on T. & H. (Ayes 4. Noes 0.) (April 22). Re-referred to Com. on T. & H.

Summary: Would establish the California Developmental Disabilities Community Support Housing Fund, to be administered by the State Department of Housing and Community Development, from moneys saved from transitioning individuals with developmental disabilities from an institution to housing in the community. The bill would require the department to expend moneys in the fund, upon appropriation by the Legislature, to develop housing through the Multifamily Housing Program and the Predevelopment Loan Program for individuals with developmental disabilities.

Notes: The author states that this bill is necessary to address an impending crisis of consumers with developmental disabilities who cannot find affordable housing. When family caregivers are no longer able to support an adult child with a developmental disability at home, alternative living arrangements are difficult to locate, according to the author. The author states that California lacks housing opportunities that are safe, affordable and integrated for persons with developmental disabilities as well as families with children who have developmental disabilities. This bill establishes a new methodology for regional center housing development funds that will be leveraged through existing available resources, according to the author. By redirecting funding from developmental center operational funds as consumers are moved into the community, SB 1178 ensures that the resources will follow the consumers, he states.

Veterans

AB 585 **(Fox D) Department of Veterans Affairs: use of real property.**
Last Amend: 1/21/2014
Status: 4/3/2014-In committee: Set, first hearing. Hearing canceled at the request of author.

Summary: Would require the Department of Veterans Affairs, by July 1, 2016, to develop a master plan for the use of unused or underutilized nonresidential real property owned by the department, for purposes that will benefit California veterans, as specified, and to make a preferred recommendation for use of the property.

AB 1509 **(Fox D) Veterans: transition assistance.**
Last Amend: 3/25/2014
Status: 4/9/2014-From committee: Do pass and re-refer to Com. on APPR. (Ayes 7. Noes 1.) (April 8). Re-referred to Com. on APPR.

Summary: This bill would require, by July 1, 2015, the Department of Veterans Affairs to develop a transition assistance program for veterans who have been discharged from the Armed Forces of the United States or the National Guard of any state.

Notes: According to the author, the curriculum for [TGPS] workshops is entirely maintained by the federal government, leaving little-to-no state-specific employment, education, business and other career choices information. AB 1509 would complement the federal Transition GPS (TGPS) by ensuring that veterans discharging in California or moving to California after discharge have the state specific benefit information and tools they need.