CHFA REPORTS

THIS PAGE
INTENTIONALLY
LEFT BLANK

State of California

MEMORANDUM

To: Board of Directors **Date:** May 12, 1999

Kenneth R. Carlson, Director of Financing
Kenneth R. Carlson. Direc

From: CALIFORNIA HOUSING FINANCE AGENCY

Subject: REPORT OF MULTIFAMILY BOND SALE

On May *5* the Agency priced **$44,535,000** of tax-exempt multifamily bonds *to* be delivered on May **20.** Issued under the Multifamily Housing Revenue Bonds III indenture, these bonds are backed by the Agency's general obligation. Designated as **1999** Series A, these *are* the Agency's first multifamily general obligation bonds to be sold without any outside credit enhancement such as bond insurance. The bonds carry our "issuer credit ratings" of AA- by Standard and Poor's and Aa3 by Moody's. These high ratings made credit enhancement uneconomic, as the bond issuance premium would have exceeded the debt service savings expected to result from the higher ratings of insured bonds. The issuance authority for **$36,780,000** of the **1999** Series A bonds was granted by the California Debt Limit Allocation Committee at its March meeting.

$ Amount	Interest Rates	Maturity	Tax Status
$44,535,000	3.45% - 5.375%	February 1,2036	AMT

Proceeds from the sale of these bonds will be used to finance loans to eight new projects as described in the attached table and to refund **$7,755,000** of our Housing Revenue Bonds **(Insured), 1989** Series A. Loans financed under the Multifamily Housing Revenue Bonds 111 indenture *are* permitted, but not required, to be insured or to be in the form of a mortgage backed security. A portion of the loans expected to be financed with the **1999** Series A bond proceeds *are* expected to be insured under the FHA Risk Share program. In addition, as described in the table below, two loans *are* expected to be in the form of mortgage backed securities of the Federal National Mortgage Association ("Fannie Mae").

The 1989 bonds, which currently bear interest at a rate of 7.6556, will be redeemed in their entirety on August 1, 1999. In Connection with this refunding, the only loan financed by the 1989 bonds will be transferred to the 1999 Series A bonds on August 1. The effect of this refunding is to reduce our cost of funds by almost 250 basis points. The Agency previously negotiated a reduced interest rate for this loan as part of a workout arrangement.

SAON2REU: mna

Proceeds from the bonds are expected to be used to finance permanent fixed-rate loans as described in the table below:

Project Name	Expected Loan Amount	Expected Interest Rate	Expected Loan Term
NEW LOANS:			
Breezewood Senior Apts.	$7,550,000	6.05%	35 yrs
Chelsea Gardens I&II (1)	1,373,534	5.90%	30 yrs
Citrus Tree Apts. (2)	3,450,000	6.55%	30 yrs
Detroit Street Apts.	950,000	5.90%	30 yrs
Light Tree Apts. (3)	5,801,466	5.90%	30 yrs
North Hills Apts. (2)	9,850,000	6.55%	30 yrs
Parkland Farms	4,070,000	6.05%	35 yrs
Riverview Homes	3,735,000	6.05%	35 yrs
Sub Total	$36,780,000		
OLD LOAN:			
Sierra Meadows	$7,514,977 (4)	7.00% (5)	22 yrs (6)
TOTAL	$44,294,977		

(1) The total amount of this loan is expected to be $4,455,000. Of this mount, $2,473,400 is expected to be financed by the 1998 Series D Bonds and $608,066 is expected to be financed by recycling repayments from bridge loans.

(2) The Agency will purchase a FNMA MBS collateralized by first Deeds of Trust on Citrus Tree Apartments and North Hills Apartments.

(3) The total amount of this loan is expected to be $6,475,000. Of this amount, $673,534 is expected to be financed by recycling repayments from bridge loans.

(4) Unpaid principal balance.

(5) Current rate of stepped rate loan.

(6) Remaining term.

State of California

MEMORANDUM

To: Board of Directors   Date: May 10, 1999

Ken Carlson, Director of Financing

From: CALIFORNIA HOUSING FINANCE AGENCY

Subject: Variable Rate Bonds

In January I reported, as part of our year-end bond sale summary, on the amount of variable rate debt issued in 1998 in order to lower the cost of the Agency's debt. The following is a status report on the total amount of CHFA variable rate bonds and our plans for managing the interest rate risk associated with this form of debt.

As of April 1, 1999, CHFA has a total of $314.2 million in variable rate debt outstanding, which represents approximately 5.6% of our entire $5.6 billion of indebtedness. Of this mount, $74 million is directly backed by complementary variable rate loan assets. This leaves only $240.2 million, or approximately 4.3% of our indebtedness, in the form of variable rate debt supporting fixed rate loans.

Although a higher interest rate environment would subject the Agency to the risk of rising debt costs associated with the variable rate debt, the Agency already has several internal hedges to mitigate this risk

1. For the large Home Mortgage Revenue Bond (HMRB) indenture (with 70% of our entire indebtedness), current levels of variable rate debt ($196.6 million funding fixed rate loans) are helping to make the program revenue neutral whether rates rise or fall. An increase in debt costs due to rising rates is essentially offset by increased earnings from the mortgage assets remaining outstanding longer in a higher interest rate environment due to slower prepayments. Conversely, in a falling interest rate environment, savings from decreased costs of the variable rate debt seem to be offset by decreased earnings on the mortgage assets that are reduced due to higher prepayments.

2. If desired, or in the event of large magnitude increases in interest rates, the HMRB program could produce sufficient liquidity to retire or extinguish the variable rate debt in an accelerated fashion by directing prepayments and excess revenues to call variable rate debt rather than fixed rate. Our advisors estimate that we could reduce the variable rate debt by as much as 70% in two years solely from sources within the HMRB indenture.

3. In addition, the Agency has variable rate investment assets that may be viewed as a largely untapped internal hedge that could offset variable rate debt liabilities. For example, as discussed in the annual investment report sent to the Board in September 1998, the Agency has over $300 million invested in the State's Surplus Money Investment Fund. Some portion of these variable rate investment assets serve as a hedge against variable rate debt. In an extreme situation, a portion of these moneys could also be used simply to retire the variable rate debt.

I had also reported to you in January that, in order to better manage the risks attendant to our use of variable rate debt, we were about to interview a number of qualified advisory firms who responded to our Request for Qualifications to assist us in procuring financial products such as interest rate swaps or caps. Several of our bond underwriters as well as other financial institutions offer these products, and we believed that we could benefit from some disinterested and expert assistance in taking advantage of this market and protecting our interests. I am pleased to report that we have contracted with Swap Financial Group to provide us with independent advice in this area. They are highly recommended by a number of their existing clients and are well regarded in this specialized field.

We will be working with Swap Financial over the next few months to further analyze additional internal hedges and external hedging alternatives through swapping to a fixed rate or the procurement of interest rate caps. As discussed in our February 1998 report to the Board on bond refundings, we will also be exploring opportunities to lock in today's rates via the interest rate swap market in order to potentially "synthetically advance refund" some portion of our older high-rate single family or multifamily bonds that are not otherwise eligible for refunding until 2001 or 2002.

With the adoption of the annual financing resolutions at the January meeting, the Board authorized staff to enter into interest rate swap and related agreements. Consistent with the procedure for bond financings, the Director of Financing will provide the Board with timely reports regarding the procurement of financial products.

State of California

MEMORANDUM

To: Board of Directors
California Housing Finance Agency

Date: 13 May 1999

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

Subject: STATE LEGISLATIVE REPORT

The 1999 Legislative Session is in full swing, with a number of deadlines either past or fast approaching. The Legislature returned from Spring Recess April 5, with just over one month for policy committees to hear bills that had a fiscal impact (April 23 deadline). The last day for policy committees to pass bills going straight to the Floor (no fiscal impact) is May 14. The last day for fiscal committees to send bills to the Floor is May 28, and any bill intended to be submitted to the Governor this year must be off the Floor of the house of origin by June 4. Of course, the Constitutional deadline for adopting a State Budget is June 15, and at this point, it is not known whether that will happen or not. There are approximately $4 billion revenues more than anticipated in January when the Governor's original budget was proposed, giving him (and the Legislature) discretion over a substantial amount of additional resources, and both Houses are working hard to meet that goal.

I. Budget Issues

senate

With regard to housing, the Senate has approved the Governor's budget as proposed, with three exceptions. The $2.5 million proposed for HCD to use for a variety of housing programs in conjunction with the Housing Task Force was approved with some restrictions. $200,000 for the operation of the Task Force was approved, but expenditure of the balance is based on the approval of a spending plan by the Legislature. The $1 million proposed for the Department of Mental Health to create a new program for supportive housing which focuses on CalWORKs special needs' populations was augmented by $1 million, with an agreement to consider an additional $2 million upon review of the May revise numbers. And the $1 million included in the Governor's Budget to allow the National Guard to continue the shelter programs at California

1007

armories during winter months was moved from the Department of the Military to HCD for its Emergency Housing Assistance Program, which is distributed to all counties on a per capita basis.

The Senate has not generally considered requests from members for additional augmentations, which currently total approximately $30 million. These discussions are expected to begin next week, after the release of the May Revise.

Assembly

The Assembly subcommittees are still meeting, but to date they have approved virtually all of the Governor's Budget as proposed, and have included a number of member augmentations including $12.5 million for Code Enforcement and Rehabilitation for multifamily housing; and additional $3 million for Farmworker Housing Grants; and an additional $1 million for the Emergency Housing Assistance Fund. Which items will ultimately go to Conference Committee will depend in large part on the amount of augmentations approved by the Senate.

II. CHFA Sponsored Legislation

AB 1404 (Dutra) - would increase by $2.2 billion (to $8.95 billion) the limit on the maximum amount of debt CHFA may have outstanding. STATUS: Passed Assembly Housing and Community Development Committee 4/14/99 (9-2); passed Assembly Appropriations Committee 4/28/99 (21-0); passed the Assembly Floor 5/13/99 (56-13); pending committee assignment within the Senate.

III. Housing Bonds

AB 398 (Migden) - would create the Housing and Homeless Bond Act of 2000. This measure, which is still in spot bill form, would authorize an unspecified dollar General Obligation Bond to be placed on the ballot to fund a number of programs within HCD. Programs currently contained in the bill include the construction and rehabilitation of low-income rental housing, migrant farm labor centers and other farmworker housing, emergency housing and assistance to homeless persons, and predevelopment and land purchase loans for lower-income housing m rural areas. STATUS: Passed Assembly Committee on Housing and Community Development 4/15/99 (7-4); currently pending on Assembly Appropriations Suspense File.

SB 510 (Alarcón) - currently a spot bill stating the Legislature's intent to enact a Housing Bond Act. The author is currently having amendments prepared to split the bonds over four election cycles (November 7, 2000, November 5,2002, November 2, 2004, and November 7, 2006) at $245 million each. The total amount of the four bond acts, if approved by the voters, would be $980 million. While the distribution of funds is still being discussed, the initial break down will be as follows:

- $65 million for first-time homebuyers programs, with 20% setaside for public safety (CHFA)
- $35 million for rental housing (HCD)
- $12.5 million for welfare to work housing (HCD)
- $50 million for senior and disabled housing (HCD)
- $5 million for self-help housing (HCD)
- $50 million for rehabilitation/ code enforcement of single and multi family housing (HCD)
- $25 million for farmworker housing programs (HCD)

STATUS: Passed Senate Housing and Community Development Committee 4/19/99 (5-2); currently pending Senate Appropriations Suspense File.

IV. Miscellaneous

AB 97 (Torlakson) - would make permanent a two-year $15 million increase (from $35 million to $50 million) in the State Low Income Housing Tax Credit. STATUS: Passed Assembly Revenue and Taxation Committee 4/5/99 (7-0); passed Assembly Housing and Community Development Committee 4/14/99 (11-0); currently pending on the Assembly Appropriations Suspense File.

AB 431 (Dutra) - would clarify that a trustee can invalidate a sale and refuse to issue a trustees deed if the deed is invalidated by a pending bankruptcy or otherwise. STATUS: Referred to Assembly Judiciary Committee, no hearing set.

AB 499 (Aroner) - sponsored by the California Association of Homes and Services for the Aging - would require the Department of Health Services to develop a demonstration project to test the efficacy of providing an assisted living benefit to low-income beneficiaries under the Medi-Cal program. STATUS: Passed Assembly Health Committee 3/23/99 (5-0); currently pending on Assembly Appropriations Suspense File.

AB 601 (Cedillo) - would create the Urban Initiatives Act to encourage the reuse of underutilized buildings through the designation of urban incentive zones by the Trade and Commerce Agency and designation of qualified buildings by the affected local agency. Incentives included in the bill include property tax relief and income tax credits for qualified buildings. STATUS: Passed Assembly Committee on Consumer Protection, Governmental Efficiency and Economic Development 4/6/99; currently pending Assembly Appropriations Committee.

AB 869 (Keeley) - would create the Community Reinvestment Act establishing a continuing and affirmative obligation for insurers to make economically targeted investments in low income and very low income communities. STATUS: Passed Assembly Insurance Committee 4/14/99 (7-5); currently pending Assembly

. 1009

Appropriations Committee.

AB 942 (Dutra) - Previously a spot bill dealing with the importance of all levels of government and the private sector cooperating to ensure an adequate supply of housing is available to meet the needs of all Californians, recent amendments change focus and now *require* local enforcement agencies to post copies of repair notices in a conspicuous place on the property, and would further require the notice to identify the issuing agency, include information related to any related public hearing or proceeding, and *state* that the lessee cannot retaliate against the lessor. STATUS: Pending before Assembly Housing and Community Development Committee.

AB 943 (Dutra) - currently a spot bill dealing with the California Debt Limitation Allocation Committee and the state ceiling on private activity bonds. STATUS: Pending referral to committee.

AB 1396 (Lowenthal) - would establishes criteria for HCD to consider when making loans from the Housing Rehabilitation Loan Fund to assisting help preserve affordability of multifamily housing units previously subsidized by the federal government. STATUS: Passed Assembly Committee on Housing and Community Development 4/14/99 (7-3); passed Assembly Appropriations 4/28/99 (14-7); currently pending on the Assembly Floor.

SB 73 (Murray) - would establish a statewide participation goal of not less than 30% for small business enterprises with respect to professional bond services and state contracts in general. STATUS: Passed Senate Governmental Organization Committee 3/23/99(8-0); passed Assembly Local Government 4/21/99 (4-1); currently pending Assembly Appropriations Committee.

SB 109 (Knight) - would allow first time homebuyers to deduct the costs of their private mortgage insurance from their personal income tax for the first five years they own the dwelling. STATUS: Failed passage before Senate Revenue and Taxation committee 4/7/99(4-3).

SB 1106 (Hayden) - would allow local jurisdictions to impose rent control restrictions on low or moderate income units created specifically to preserve and *sustain* affordable housing through inclusionary programs and other *unspecified* means, and would require local jurisdictions to include a provision regarding the preservation of affordable housing within their housing elements. STATUS: Heard before Senate Housing and Community Development 4/5/99; testimony taken but no vote.

SB 1121 (Alarcón) - sponsored by HCD, currently a spot bill that could be used for a variety of purposes, including housing task force recommendations, restructuring of HCD's multifamily housing program, or other Administration sponsored housing related issues. STATUS: Passed Senate Committee on Housing and Community

Development 4/19/99 (7-0); passed Senate Floor 5/6/99 (23-6); currently pending committee assignment in the Assembly.

THIS PAGE
INTENTIONALLY
LEFT BLANK