



# REPORTS.

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**M E M O R A N D U M****To:** Board of Directors**Date:** January 6, 2000

Kenneth R. Carlson, Director of Financing

**From:** CALIFORNIA HOUSING FINANCE AGENCY**Subject:** REPORT OF SINGLE FAMILY BOND SALE  
HOME MORTGAGE REVENUE BONDS, 1999 SERIES NOPQ

I am pleased to report that we have done our first interest rate swap in conjunction with \$85 million of variable rate taxable bonds issued as part of a recent \$221.6 million single family transaction. Present value savings from using this technique is conservatively estimated at \$1.3 million, compared to issuing the taxable bonds at a fixed rate. Given how few buyers there are of long-term taxable housing bonds, accessing the much larger floating rate market and swapping to a fixed rate makes good economic sense.

The overall transaction also includes another \$85 million of tax-exempt fixed rate bonds and \$51.6 million of tax-exempt variable rate bonds. The transaction has two purposes: first, to provide approximately \$170 million of funds for new loans, and second, to reduce our debt service costs on \$51.6 million of 10-year-old bonds.

**New Money**

The \$170 million "new money" portion of the financing was structured in a similar way to that of the four previous transactions, with a 50/50 blend of tax-exempts and taxables. The tax-exempts were primarily structured as "zero coupon" bonds so that mortgage interest payments can be used to sink out the higher-interest-rate taxables. As before, even though the taxables were issued in variable rate form and swapped to a fixed rate, the taxables were structured as "planned amortization class" bonds with an amortization schedule and a relatively short (5-1/2 years) average life. The swap amortization matches that of the bonds.

**Economic Refunding**

The \$51.6 million of tax-exempt economic refunding bonds was issued in variable rate form without an interest rate swap. This structure is the same as we used last June for an even larger economic refunding. The wide spread between the old high-rate mortgages being transferred over and today's tax-exempt variable rates generates a significant economic savings that enables us to continue to provide our lowest rates for new mortgages to low-income first-time homebuyers in spite of our 50/50 blend of taxable bonds.

**Other Matters**

**Remarketing Risk:** I am especially pleased to report that the California State Teachers Retirement System has joined with a highly-rated German bank to provide liquidity in the unlikely event that our \$136.6 million of variable rate bonds are "put" back to us by investors and new investors cannot be found.

**Credit Enhancement:** The \$170 million of new money bonds are all insured and carry the triple-A ratings of the insurer. The \$51.6 million of tax-exempt variable rate refunding bonds were not insured and thus carry the Aa2/AA- ratings of the Home Mortgage Revenue Bond indenture.

series	Amounts	Interest Rates	Maturities	Tax Status
1999 Series N	\$ 85,000,240.07	4.10 - 6.30%	8/1/31	AMT
1999 Series O	85,000,000.00	6.655% <sup>(1)</sup>	8/1/12	Taxable
1999 Series P	25,135,000.00	Variable - 2.35% <sup>(2)</sup>	8/1/15	Non-AMT
1999 Series Q	26,485,000.00	Variable - 2.40% <sup>(2)</sup>	8/1/19	AMT
Total	221,620,240.07			

- (1) Swap rate  
(2) Rate for week of 1/5-1/11

## MEMORANDUM

To: Board of Directors

Date: January 6, 2000



Ken Carlson, Director of Financing

From: CALIFORNIA HOUSING FINANCE AGENCY

Subject: Update on Variable Rate Bonds

As shown in the table below, the new net amount of variable rate bonds is \$41 1.6 million, only 6.75% of CHFA's entire estimated February 1, 2000 indebtedness of \$6.1 billion. This is but a small increase from the 6.5% ratio reported at the November Board meeting. By "net amounts" we mean variable rate bonds that are not backed by complementary variable rate loans or not swapped to fixed rates.

Net variable rate bonds outstanding in November  
(excluding bonds backed by variable rate loans)    \$384.1 million

Additional variable rate bonds  
issued in December    \$136.6 million  
expected to be issued in January    \$127.5 million

## Less:

New variable rate bonds swapped to fixed rates  
in November    - \$ 85.0 million  
in January (expected)    - \$127.5 million

Variable rate bonds called for redemption on Feb. 1    - \$ 24.1 million

Net variable rate bonds outstanding in February    \$41 1.6 million  
(excluding bonds backed by variable rate loans  
or swapped to fixed rates)

While we are adding \$264.1 million of variable rate bonds, \$212.5 million is being swapped to fixed rates. These interest rate swaps are generating significant debt service savings in comparison to our alternative of issuing fixed-rate bonds. This savings will help us continue to offer exceptionally low interest rates (in the mid-6% range) to borrowers who meet the income requirements for our lowest rates.

Of the \$212.5 million being swapped, \$170 million is related to taxable bonds, where we have had the most difficulty in finding investors for fixed-rate bonds.

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The remaining \$51.6 million of **new** variable rate **bonds** represents **our** continued strategy of employing variable rate debt (unswapped) for economic **refundings**. These refunding bonds **are** backed by 10-year-old, relatively high-interest-rate loan portfolios that continue **to** pay **down** rapidly. This **strategy** **generates** significant debt **service** savings (that we **are** using to **keep our** loan rates low) without adding **to our** long-term **risks**. The \$51.6 million of **new** **bonds** is offset, in part, **by** a \$24.1 million February 1 redemption of other variable rate bonds, resulting in **a** net addition of only \$27.5 **million**.

**The** table below **summarizes** **our** risk position **as** of February 1. **Since** the November **Board meeting** **our** modest **increase** in net variable rate **risk** **has been** entirely **on the** short-average-life side.

## NET\* VARIABLE RATE DEBT AS OF FEBRUARY 1, 2000

	<u>Tax-Exempt</u>	Taxable	<u>Totals</u>
Short average life	\$170.0 million	\$108.2 million	\$278.2 million
Long average life	<u>\$ 13.6 million</u>	<u>\$119.8 million</u>	<u>\$133.4 million</u>
TOTALS	\$183.6 million	\$228.0 million	\$411.6 million

\* Excluding \$73.9 million of variable rate bonds backed by variable rate loans and \$212.5 million being swapped to fixed rates.

## MEMORANDUM

Board of Directors

Date: January 6, 2000

Ken Carlson, Director of **Financing****From: CALIFORNIA HOUSING FINANCE AGENCY****Subject: 1999 END-OF-YEAR BOND SALE SUMMARY**

Attached **are** tables showing CHFA bonds issued over the last five years and more detailed summaries of **our 1999 bond transactions**. Note that **1999 has proved to be our** busiest year ever in **terms** of dollar volume with **\$1.4 billion** of bonds sold or remarketed, including **\$1.35 billion** for single family and **\$44.5 million** for the multifamily program.

During the year we sold **\$449.1 million** of taxable bonds. **Of this amount, \$402.5 million** was sold to expand our supply of bond proceeds for single family loans through **taxable/tax-exempt** blending. Another **\$35.2 million** was issued to refund old high-interest **rate** single family bonds, **and \$11.4 million was issued** for the California Department of Veterans Affairs.

Of interest **also** is the **\$329.6 million** of new variable **rate** bonds we issued to reduce our overall cost of funds in **three** of **our six** single family transactions. Of **this amount, \$179.3 million** was issued in tax-exempt form, and **\$150.3 million** taxable. A **total of \$115 million** was issued to provide funds for new loans and **\$214.6 million** to refund old high-interest-rate bonds.

Interest rates rose throughout the year, with **rates** for our **30-year** tax-exempt bond ranging **from** a low of **5.25%** last January to a high of **6.30%** in November. In comparison, rates for **our 30-year bond ranged** from **5.25% to 5.55% during 1998**.

Financing Innovations in 1999

There **were** four notable **financing** innovations **this** past year, **as** follows:

- Sale of **CHFA** general obligation **bonds** without credit enhancement. In **the** past, **CHFA has** always **wrapped** its general obligation **bonds** with third-party credit **enhancement** such as **bond insurance**. However, **this** year we sold a **total of \$66.5 million** of **unenhanced CHFA G.O. bonds**, including **all** of our multifamily bonds, solely relying **on our Aa3/AA-** issuer credit ratings. **This** proven acceptance by investors of **our G.O. ratings** demonstrates **our** added financial independence.

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- o **Use** of tax-exempt capital appreciation bonds (**CABs**). This year five of our **six** single family **issuances** included a **total** of **\$244** million of **CABs**, or “zero coupon bonds”. **CABs** enable **us** to defer payment of tax-exempt **bond** interest; **as** a result, we **are** able to use mortgage interest to pay **down** the principal of **higher-cost** taxable **bonds**. The overall effect is a **significant** savings in debt **service costs**.
- o Issuance of tax-exempt variable rate **economic refunding bonds**. **During** the year we issued a **total** of **\$179.3** million of these **bonds** for **our** single family program. The concept here **has been** to **maximize** the savings related to **high-interest-rate** 10-year-old loan portfolios **that are** paying **off** quickly. The savings is being **used to** help us keep **our** new loan **rates as low as** possible, despite the fact that **our** new money transactions **are** comprised of **equal amounts** of taxables and **tax-exempts**.
- o **Use** of an interest rate swap. **As** discussed in more detail in separate **reports**, in November we **arranged** an **\$85** million **fixed-payor** interest rate swap designed to **reduce** our taxable cost of **funds**.

#### Attachments

CALIFORNIA HOUSING FINANCE AGENCY  
 FIVE-YEAR SUMMARY  
 BOND ISSUES FROM 1995 TO 1999

AS OF  
 06-JAN-2000

YEAR	PROGRAM	PRIVATE ACTIVITY BOND ALLOCATION RECEIVED	BONDS SOLD OR MARKETED		END OF YEAR BONDS OUTSTANDING *
			TAX-EXEMPT	TAXABLE	
1995	Single Family	\$478,000,000	\$76,350,000	\$108,310,000	\$3,351,062,895
	Multifamily	0	\$1,400,000	\$25,355,000	\$663,556,292
	SUBTOTAL	\$475,000,000	\$77,750,000	\$133,665,000	\$4,015,319,187
1996	Single Family	\$408,800,000	\$99,040,000	\$148,740,000	\$3,921,244,136
	Multifamily	\$37,200,000	\$5,120,000	0	\$683,680,000
	SUBTOTAL	\$446,000,000	\$104,160,000	\$148,740,000	\$4,504,924,136
1997	Single Family	\$317,512,970	\$784,355,000	\$282,700,000	\$4,424,670,461
	Multifamily	\$147,575,000	\$147,575,000	0	\$815,770,000
	SUBTOTAL	\$465,087,970	\$931,930,000	\$282,700,000	\$5,240,440,461
1998	Single Family	\$200,000,000	\$744,589,271	\$455,790,000	\$4,841,289,500
	Multifamily	\$56,000,000	\$172,425,000	0	\$851,250,000
	Undesignated	\$28,552,000			
SUBTOTAL	\$284,552,000	\$917,014,271	\$455,790,000	\$5,737,539,500	
1999	Single Family	\$266,314,568	\$909,576,435	\$449,165,000	\$5,198,938,820
	Multifamily	\$36,782,000	\$44,535,000	0	\$852,025,000
	SUBTOTAL	\$303,096,568	\$954,111,435	\$449,165,000	\$6,050,963,820
5-YEAR TOTALS		\$1,974,106,500	\$4,702,955,700	\$1,453,890,000	\$100,000,000

\* 0000 outstanding as of December 1, 1999

CALIFORNIA HOUSING FINANCE AGENCY  
1999 BOND SALE SUMMARY.

	SINGLE FAMILY	MULTIFAMILY	TOTAL
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<b>Tax-Exempt Bonds</b>			
Variable Rate	\$179,330,000	\$0	\$179,330,000
Fixed Rate	200,755,000	44,535,000	\$245,290,000
CABS	244,071,435	0	\$244,071,435
Notes	285,420,000	0	\$285,420,000
	-----	-----	-----
SUBTOTALS	\$909,576,435	\$44,535,000	\$954,111,435
<b>Taxable Bonds</b>			
Variable Rate	\$150,265,000	\$0	\$150,265,000
Fixed Rate	287,500,000	0	\$287,500,000
Notes	11,400,000	0	\$11,400,000
	-----	-----	-----
SUBTOTALS	\$449,165,000	\$0	\$449,165,000
<b>TOTAL</b>	\$1,358,741,435 =====	\$44,535,000 =====	\$1,403,276,435 =====

ISSUANCE/ REMARKETING DATE	BOND INDENTURE AND SERIES	TAX-E EXPT BONDS		TAXABLE BONDS		TOTAL \$ AMOUNT
		\$ AMOUNT	RANGE OF RATES OR AVERAGE RATE	\$ AMOUNT	RANGE OF RATES OR AVERAGE RATE	
<b>single family bonds</b>						
1/28/99	Single Family Mortgage Bonds II 1998 Series B (remarketing) 1999 Series A-1 1999 Series A-2 1999 Series A-3 1999 Series A-4 (variable) 1999 Series B 1999 Series C (note)	\$28,440,000.00 8,180,000.00 43,380,000.00 -0- -0- 42,330,000.00 -0-	5.15% - 5.20% 5.00% 4.80 - 5.25% N/A N/A 3.00% N/A	-0- -0- -0- 50,000,000.00 30,000,000.00 -0- 4,800,000.00	N/A N/A N/A 5.88% 5.043% N/A 5.00%	\$28,440,000.00 8,180,000.00 43,380,000.00 50,000,000.00 30,000,000.00 42,330,000.00 4,800,000.00 <u>\$207,130,000.00</u>
4/14/99	Home Mortgage Revenue Bonds 1999 Series A 1999 Series B 1999 Series C 1999 Series D (note)	\$13,738,054.80 48,761,927.88 -0- \$33,860,000.00	5.23% 3.10% - 5.48% N/A 3.02	-0- -0- \$62,500,000.00 -0-	N/A N/A 6.25% N/A	\$13,738,054.80 48,761,927.88 62,500,000.00 33,860,000.00 <u>\$158,859,982.68</u>
6/24/99	Home Mortgage Revenue Bonds 1999 Series E 1999 Series F 1999 Series G 1999 Series H (variable) 1999 Series I (variable) 1999 Series J (variable)	\$5,999,233.68 44,000,542.55 -0- -0- 22,460,000.00 105,250,000.00	5.50% 3.75% - 5.70% N/A N/A 3.023% 3.104%	-0- -0- 50,000,000.00 35,265,000.00 -0- -0-	N/A N/A 6.87% 5.448% N/A N/A	\$5,999,233.68 44,000,542.55 50,000,000.00 35,265,000.00 22,460,000.00 105,250,000.00 <u>\$262,974,776.23</u>
7/29/99	Single Family Mortgage Bonds II 1999 Series D-1 1999 Series D-2 1999 Series D-3 1999 Series E (note) 1999 Series F (note)	\$9,510,000.00 40,488,074.20 -0- 251,560,000.00 -0-	4.25% - 4.95% 3.95% - 5.92% N/A 3.40% N/A	-0- -0- \$50,000,000.00 6,600,000.00	N/A N/A 6.88% N/A 5.70%	\$9,510,000.00 40,488,074.20 50,000,000.00 251,560,000.00 6,600,000.00 <u>\$358,158,074.20</u>
10/7/99	Home Mortgage Revenue Bonds 1999 Series K 1999 Series L 1999 Series M	\$20,204,625.00 54,793,737.00 -0-	6.125% 4.05% - 6.25% N/A	-0- -0- \$75,000,000.00	N/A N/A 7.12%	\$20,204,625.00 54,793,737.00 75,000,000.00 <u>\$149,998,362.00</u>

CALIFORNIA HOUSING FINANCE AGENCY  
BOND ISSUES CALENDAR YEAR 1999

ISSUANCE/ REMARKETING DATE	BOND DESCRIPTION AND SERIES	TAX-EXEMPT BONDS		TAXABLE BONDS		TOTAL \$ AMOUNT
		\$ AMOUNT	RANGE OF RATES OR AVERAGE RATE	\$ AMOUNT	RANGE OF RATES OR AVERAGE RATE	
12/9/99	Home Mortgage Revenue Bonds					
	1999 Series M	\$85,000,240.07	4.10% - 6.30%	-0-	N/A	\$85,000,240.07
	1999 Series O (variable)	-0-	N/A	85,000,000.00	6.65% *	85,000,000.00
	1999 Series P (variable)	25,135,000.00	3.75% **	-0-	N/A	25,135,000.00
	1999 Series Q (variable)	26,485,000.00	3.80% **	-0-	N/A	26,485,000.00
	SUBTOTAL	\$136,620,240.07		\$85,000,000.00		\$221,620,240.07
	SINGLE FAMILY TOTALS	\$909,576,435.18		\$449,165,000.00		\$1,358,741,435.18
Multifamily Bonds						
5/20/99	Multifamily Housing R					
	Bonds III	\$44,535,000.00	3.45% - 5.375%	-0-	N/A	\$44,535,000.00
	1999 Series A	\$954,111,435.18		\$449,165,000.00		\$1,403,276,435.18
	GRAND TOTALS	\$954,111,435.18		\$449,165,000.00		\$1,403,276,435.18

/bonds/board-bond-issuance-99(mf.w20

\* Swap rate  
\*\* Initial rates