



# REPORTS

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## MEMORANDUM

To: Board of Directors

Date: April 27, 2000



Ken Carlson, Director of Financing

From: CALIFORNIA HOUSING FINANCE AGENCY

**Subject: REPORT OF BOND SALE AND RELATED INTEREST RATE SWAPS  
HOME MORTGAGE REVENUE BONDS 2000 SERIES FGH**

On April 6, 2000, we delivered \$240 million of single family bonds which included three interest rate swaps totaling \$190 million. The interest rates were set on March 15 for the \$50 million of fixed-rate bonds and the \$190 million of swaps. Of the \$190 million of variable rate bonds swapped to fixed rates, \$70 million was tax-exempt and the remaining \$120 million was taxable. The proceeds of the bonds will be used entirely to purchase approximately 2000 new loans most of which will have rates ranging from 6.75% to 7.759.

This issue is the fifth in a row with a **50-50** split between tax-exempts and taxables. The fixed-rate tax-exempt bonds were structured as serial bonds and capital appreciation bonds. **All** of the taxables and \$70 million of the tax-exempts were issued in variable rate form and swapped to fixed rates. These swapped bonds were structured as "planned amortization class" bonds, and the swap amortizations match that of the corresponding bonds.

By utilizing interest rate swaps, the Agency was able to achieve a 0.65% savings in our overall cost of funds when compared to issuing all fixed-rate bonds. This reduced cost of funds allows **us** to continue to offer low rates for new mortgages to low-income first-time homebuyers in spite of the fact that half of **this** issue is taxable.

**This** is our third issuance in which Commerzbank (a highly-rated German **bank**) has partnered with the California State Teachers' Retirement System to provide liquidity in the unlikely event that the variable rate bonds **are** "put" back to **us** by investors and new investors cannot be found. All the bonds **are** insured by **FSA** and therefore rated triple-A by both Moody's and Standard & Poor's.

Series	Amounts	Interest Rates	Maturities	Tax Status
2000 Series <b>F</b>	\$ 49,999,940.40	4.15 - 6.625%	8/1/01 - 8/1/31	AMT
2000 Series <b>G</b>	70,000,000	4.80 - 5.27%*	2/1/17 & 8/1/31	AMT
2000 Series <b>H</b>	120,000,000	7.26%*	2/1/17	Taxable
Total	\$239,999,940.40			

\*swap rates

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# MEMORANDUM

Board of Directors

Date: April 27, 2000

From: Carlson, Director of Financing  
**CALIFORNIA HOUSING FINANCE AGENCY**

Subject: Update on Variable Rate Bonds and Interest Rate Swaps

## Variable Rate Exposure

As of the end of May, we expect that the total amount of **CHFA** variable rate debt outstanding will be **\$1.2** billion, of which approximately **\$518** million should be considered as "net" variable rate exposure. This net amount is less than **8%** of our anticipated **\$6.73** billion of indebtedness as of June 1, an increase from the **6.5%** reported at the previous two Board meetings. The net amount of variable rate bonds is that amount that is not backed by complementary variable rate loans or not swapped to fixed rates.

Our **\$518** million of net exposure provides the Agency with a **useful** internal hedge against a low interest rate scenario, where we would otherwise suffer financially from **low** short-term investment rates and fast loan prepayments. On the other hand, if interest rates rise, high short-term investment rates and slow prepayments will provide a hedge against our higher variable rate bond costs. However, **to** provide a better hedge against especially high interest rates, we are currently considering the purchase of interest rate caps for our longer-term exposures.

The table below **summarizes** our anticipated June 1 **risk** position.

	<b>NET VARIABLE RATE DEBT</b>		
	<u>Tax-Exempt</u>	<u>Taxable</u>	Totals
Short average life	<b>\$276</b> million	<b>\$108</b> million	\$384 million
Long average life	<u><b>\$ 14</b> million</u>	<u><b>\$120</b> million</u>	<u><b>\$134</b> million</u>
<b>TOTALS</b>	<b>\$290</b> million	<b>\$228</b> million	<b>\$518</b> million

## 2005

### Interest Rate Swaps

As described in our separate bond sale report, since the previous Board meeting we have issued another \$190 million of variable rate bonds and swapped them to a fixed rate. In addition, on May 3 we expect to be arranging another \$200 million of interest rate swaps related to a like amount of bonds that we plan to issue on May 25. As a result, we expect to have a total of nine fused-payor interest rate swaps, totaling approximately \$610 million of "notional amount". These interest rate swaps generate 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 to borrowers who do not exceed the income requirements for our lowest rates.

The table below provides a summary of our swap transactions, including those expected to be arranged early in May.

	INTEREST RATE SWAPS		
	<u>Tax-Exempt</u>	<u>Taxable</u>	Totals
Short average life	\$ 10 million	\$410 million	<b>\$420 million</b>
Long average life	<u>\$190 million</u>	<u>\$ 0</u>	<u>\$190 million</u>
TOTALS	\$200 million	\$410 million	\$610 million

It should be noted that, for the \$200 million of tax-exempt bonds swapped to a fixed rate, CHFA remains exposed to certain tax-related risks. In return for significantly higher savings, CHFA has chosen through these interest rate swaps to retain exposure to the risk of changes in tax laws that would lessen the advantage of tax-exempt bonds in comparison to taxable securities. This is the same risk that investors take every time they purchase our fixed-rate tax-exempt bonds.

### Single Family Plans

As mentioned above, we expect to be issuing more single family bonds in May, to include an estimated \$200 million of variable rate bonds to be swapped to fixed rates. Another \$100 million of tax-exempt variable rate bonds would also be issued to refund certain 1990 bonds that can be optionally redeemed on August 1. These unswapped bonds would then be backed by relatively high-rate 10-year-old loans that should pay off fairly quickly. Taking variable rate risk against these seasoned, high-rate loan portfolios is the same strategy we have been effectively employing for the last several years. The resulting debt service savings is one of the factors that enable us to continue to offer low mortgage rates to new borrowers in spite of our aggressive use of taxable bonds to increase our lending resources.

A report of this bond transaction will be furnished at the May 11 meeting.

### Multifamily Plans

In June we expect to be issuing approximately **\$120** million of tax-exempt multifamily bonds, most of which will provide funding for new projects already in the CHFA "pipeline" and being approved by ~~the~~ Board. **An** essential additional approval was received on April **26**, when ~~the~~ California Debt Limit Allocation Committee **granted** just under **\$100** million of new private activity **bond** allocation to seven **CHFA** projects. We also expect to include in this issue approximately **\$10** million of **bonds** for loans to 501(c)(3) borrowers ~~as~~ well as **\$10.6** million of refunding **bonds**. These refunding **bonds** would replace high-interest-rate bonds issued in **1985** ~~and~~ finally available for optional redemption.

Given the low loan ~~rates~~ we have continued to offer in spite of the general **rise** in interest rates, we **are** considering a number of alternative strategies for structuring bond debt to finance these multifamily loans. These strategies include the sale of variable rate bonds in conjunction with interest rate caps or swaps as well as the alternative of selling fixed rate bonds swapped to floating rates. **As** stated in a previous report, we are unique among California housing bond issuers in having the financial strength and staff ~~resources~~ to consider employing these types of strategies for the benefit of fixed-rate ~~borrowers~~.

In addition, we expect to be taking on a significant amount of added variable rate exposure with the proposed purchase of Fannie Mae's **\$567** million Section **236** California loan portfolio. As discussed separately, the full range of interim financing techniques is being considered, including a borrowing from the State investment pool and the issuance of commercial paper. In any event, we would initially be taking on additional interest rate risk, all presumably on the taxable side. However, ~~this risk~~ will be relatively short-lived for a number of reasons. First, we hope to **be** successful in preserving the affordability of ~~some~~ of these projects by **refinancing** some loans prior to their maturity. Second, once we determine which projects can **be** "preserved" and refinanced, we can **fix** or hedge the rate on our financing for the remaining loans. Lastly, because the entire portfolio of Section **236** loans have only **7** to **12** years remaining until maturity, our ~~risk~~ is limited in any case.

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MEMORANDUM

TO: Board of Directors

Date: 26 April 2000

FROM: Di Richardson, **Director of State Legislation**  
California **Housing Finance Agency**

SUBJECT: State Legislative Report

The Legislature has just returned ~~from~~ its Spring Break, and committee calendar's are getting fuller and fuller. Although things haven't hit a frantic pace (yet), hearings have started in earnest, bills have been moving, and the Governor has already signed two of the bills I've included on your informational list. Below is a run down of where things currently stand.

**AB 398 Migden: Housing Bond Act of 2000 (Amended: 05/28/99)**  
Status: Pending before the Senate Housing and **Community** Development **Committee**.

Under existing law, there are programs providing assistance for the rehabilitation of existing housing, ~~the~~ development of, ~~and~~ assistance for, low-income rental housing, the construction or rehabilitation of farmworker housing, and assistance for first-time homebuyers. This bill would enact the Housing Bond Act of 2000 which, if adopted, would authorize, for purposes of financing those existing housing programs and for additional specified housing purposes, the issuance of bonds in an amount up to **\$750,000,000** pursuant to the State General Obligation Bond Law.

**AB 905 Dutra: Mortgage guaranty insurance (Chaptered: 04/06/2000)**  
Status: **SIGNED BY THE GOVERNOR** . Chaptered: **04/06/2000 #10**

The Mortgage **Guaranty** Insurance **Act** provides for the regulation of mortgage guaranty insurance, ~~as~~ defined. Under these provisions, mortgage **guaranty** insurance may be written **only** to insure loans **secured** by first or junior liens **on** authorized real estate securities in an amount not to **exceed 97** percent of the fair market value of ~~the~~ securities. This bill would increase the allowable total indebtedness **on** which **this** insurance may be written in this circumstance to **100%** of the fair market value of the real estate securities.

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AB 1626 Torlakson: Taxation: low-income housing (Chaptered: 02/23/2000)  
Status: **SIGNED BY THE GOVERNOR.** Chaptered: 02/23/2000 #3

Existing insurance tax law and the Personal Income Tax Law **and the** Bank and Corporation Tax Law authorize, for **so long as** corresponding provisions of federal law are in effect, a credit against the taxes **imposed** by those state laws for certain amounts with respect to the provision **of** specified low-income housing. Those laws generally provide, subject to **the** addition of certain other amounts, that the **maximum** aggregate dollar amount of the credits allowed in each calendar year may not exceed **\$35,000,000**, but increase **this** limit to **\$50,000,000** for the **1998** and **1999** calendar years only. This bill would, for purposes of existing low-income housing tax credits, provide a **\$50,000,000** maximum aggregate dollar amount for the **1999** calendar year and each calendar year thereafter.

**AB 1720** Soto: Teacher Home Loan Program (Introduced: 01/04/2000)  
**Status:** Referred to Assembly Committees on Housing & Community Development and Education.

**NOTE:** *The author of this bill was recently elected to the Senate, and this bill has been reintroduced in the Senate. As such, this bill is unlikely to move in its present form.*

Existing law establishes **an** assumption program of loans for education under which an applicant enrolled in a participating institution of postsecondary education, or an applicant who agrees to participate in a teacher trainee or teacher internship program, **and** who **further** agrees to obtain a teaching credential in subject areas that **are** designated as **current** or **projected shortage** areas or to provide classroom instruction in schools **that** serve large populations of pupils from low-income families, is eligible to receive a conditional **warrant** for loan assumption, to **be** redeemed pursuant to a prescribed procedure upon becoming employed **as** a teacher. **This** bill would establish a Teacher **Home** Loan Program, **administered** by the California **Housing** Finance Agency, for the purpose of assisting school districts with a shortage of qualified or credentialed teachers in their efforts to recruit and retain qualified teachers by providing home loan assistance to teachers employed by **those** school districts.

AB 1903 Lowenthal: Taxation: low-income housing (Amended: 03/16/2000)  
**Status:** Pending before the Assembly Revenue **and** Taxation Committee.

Existing **insurance tax** law **and** the Personal Income Tax Law **and** the **Bank and** Corporation Tax Law authorize, for **so long as** corresponding provisions of federal law **are** in effect, **a** credit against the taxes **imposed** by those state laws for **certain** amounts **with** respect to the provision of specified low-income housing. Those laws generally provide, subject to **the** addition of certain other amounts, that **the maximum** aggregate dollar amount of the credits allowed in each calendar year may not exceed **\$35,000,000**, but increase **this** limit to **\$50,000,000** for the **1998** and **1999** calendar years and each calendar year thereafter . **This** bill would provide that the state low-income housing **tax** credits may **be** transferred, sold, or assigned separately from specified federal low-income tax credits.

AB **2008** Committee on Housing and Community Development: California Housing Finance Agency (Introduced: **02/18/2000**)  
 Status: Passed Assembly Housing and Community Development Committee **4/26/00**.  
*NOTE: Certain provisions sponsored by CHFA.*

This bill, which will serve as the committee's omnibus bill, contains a number of technical clarifications to the statutes governing CHFA. Additional noncontroversial changes sponsored by the California Building Association, California Redevelopment Agency Association, and the Department of Housing and Community Development are also included.

AB **2048** Torlakson: Job-Center Community Infill Housing Development Incentive Act of **2000** (Introduced: **02/18/2000**)  
 Status: Pending before the Assembly Housing and Community Development Committee.

The Community Redevelopment Law requires redevelopment agencies to increase, improve, and preserve the community's supply of low- and moderate-income housing that is available at affordable cost and provides that this housing shall be entitled to priority consideration for assistance in housing programs administered by the California Housing Finance Agency, the Department of Housing and Community Development, and other state agencies and departments. This bill would enact the 'Job Center, Community Infill Housing Development Incentive Act of 2000' to promote, encourage, and facilitate adequate housing development to provide affordable housing to California's growing work force.

AB **2054** Torlakson: Inter-Regional Partnership State Pilot Project to Improve the Balance of Jobs and Housing (Introduced: **02/22/2000**)  
 Status: Passed Assembly Housing and Community Development Committee **4/26/00**.

Existing law requires the Department of Housing and Community Development to prepare a guidebook for use by governmental agencies in planning and developing a housing supply to meet the need created by employment growth. This bill would create the Inter-Regional Partnership (IRP) State Pilot Project to Improve the Balance of Jobs and Housing, which would be monitored by the Office of Planning and Research, to test and evaluate policies and incentives, as specified, to mitigate current and future imbalances of jobs and housing in specified counties. The bill would make these provisions inoperative on July 31, 2004, and would repeal them as of January 1, 2005.

AB **2060** Steinberg: Federal tax credits: housing: teachers (Amended: **04/12/2000**)  
 Status: ~~Passed~~ the Assembly Housing and Community Development Committee **4/26/00**

Existing law sets forth various findings and declarations of the Legislature in respect to the substantial public benefit served by assistance for housing for lower income families and individuals. Existing law also establishes the California Debt Limit Allocation Committee for the purpose of implementing the unified volume limit for the state on

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private activity **bonds** established pursuant to federal law. This bill would further declare that a substantial public benefit is served by providing federal tax credits or reduced interest rate mortgages to assist teachers who are willing to serve in low performing schools **to** purchase a home. The bill would require the California Debt Limit Allocation Committee to establish the Extra Credit Teacher Home Purchase Program to provide federal mortgage credit **certificates** and reduced interest **rate** loans funded by mortgage revenue **bonds to** eligible teachers, principals, **and** assistant principals who agree to teach or provide administration in a low performing school.

AB **2070** Shelley: Teachers Homebuyer Assistance Program (Amended: 04/13/2000)  
Status: Passed ~~the~~ Assembly Housing **and** **Community** Development Committee 4/26/00.

Existing law creates the California Housing Finance Agency with specified powers and duties relating to meeting the housing **needs** of **persons and** families of low or moderate income. Existing law also contains provisions for assisting members of the State Teachers' Retirement System **to** obtain home loans. This bill would enact the Teachers Homebuyer Assistance Program, which would **be** administered by the California Housing Finance Agency to provide home loan assistance for teachers employed in low performing challenged schools.

AB **2157** Lowenthal: Housing: loans (Amended: 03/28/2000)  
Status: Pending on the Assembly Floor Consent Calendar.  
**NOTE:** Sponsored **by** CHFA

Existing law authorizes the California Housing Finance Agency to issue revenue bonds and make construction and mortgage loans **to** meet the multifamily rental housing needs of persons and families of low or moderate income. This bill would clarify that a 'mortgage loan' is defined as a long-term loan **secured** by a mortgage made for permanent financing of a housing development or residential structure, and clarify CHFA's authority to bridge loans and gap financing.

AB **2340** Ducheny: California Environmental Quality Act: affordable housing (Introduced: 02/24/2000)  
Status: Pending referral **to** committee.

The **existing** California Environmental Quality Act (CEQA) contains legislative findings **and** declarations regarding the **need** to develop **and** maintain a high-quality environment now **and** in the future. This bill would additionally provide that it is the policy of the state **and** ~~the~~ intent of the **Legislature that** environmental laws recognize the importance of affordable housing in **protecting** the **natural** environment.

AB **2343** Ducheny: California Environmental Quality Act: exemption (Introduced: 02/24/2000)  
Status: Pending before the Assembly Natural Resources Committee.

The existing California Environmental Quality Act (CEQA) generally requires a lead

agency, as defined, to prepare, or **cause** to be prepared, and certify the completion of, an environmental impact **report** on a project that it proposes to carry out or approve that may have a significant effect on the environment, as defined, or to adopt a negative declaration if it finds **that** the project will not have that effect. **This** bill would exempt from the act a development project in **an** urbanized **area** that, among other things, consists of the construction, conversion, or **use** of residential housing that contains not more than 200 housing **units**, is located within a community or neighborhood revitalization area, as defined in the bill, and is subject to an assessment prepared by a California registered environmental assessor.

**AB 2359** Keeley: Community Investment Act (Introduced: 02/24/2000)  
Status: Pending before Assembly Appropriations Committee

Existing law prescribes the powers and duties of the Treasurer, and contains various provisions relating to housing and community development. **This** bill would enact the Community Investment Act, which would establish the Community Development Investment Guarantee Corporation.

**AB 2532** Soto: Tax credits: second mortgages (Introduced: 02/24/2000)  
Status: Introduced. Pending referral to committee.

**NOTE: The author of this bill was recently elected to the Senate, and this bill has been reintroduced in the Senate. As such, this bill is unlikely to move in its present form.**

Existing law designates the California Tax Credit Allocation Committee as the state's housing credit agency for purposes of allocating federal housing **tax** credits. **This** bill would authorize the committee to distribute housing **tax** credits to lenders that make qualified 2nd mortgage loans to qualified low-income homebuyers.

**AB 2747** Alquist: Housing demand areas (Introduced: 02/25/2000)  
Status: Pending before the Assembly Housing and Community Development Committee

Existing law prescribes the duties of the Department of Housing and Community Development, the California Housing Finance Agency, **and** the California Debt Limit Allocation Committee relative to housing development. **This** bill would **impose** duties on **those** agencies relating **to** increasing funding, **as** specified, for housing in "housing demand **areas**," **as defined**.

**SB 510** Alarcon: Housing: bonds (Amended: 07/12/99)  
Status: Pending before **the** Assembly Housing **and** Community Development Committee

Under existing law, there **are** programs providing assistance **to** housing for the construction **and** rehabilitation of housing for first-time homebuyers, self-help housing, senior and disabled housing, **rental** housing, the family housing demonstration program, farmworker housing, and other housing programs. **This** bill would enact the Housing Bond Acts of 2000, 2002, 2004, and 2006 which, if adopted by the voters, would authorize, for purposes of financing those existing housing programs, the issuance,

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pursuant to the State General Obligation **Bond** Law, of **bonds** in the aggregate amount of **\$980,000,000**.

**SB 1505** Alarcon: Teachers: recruitment and incentives (Amended: **04/13/2000**)

**Status:** Pending before the Senate Education Committee.

**This** bill, **sponsored** by the Administration, contains language for a Teacher Homebuyer Assistance Program, which would **be** administered by CHFA, **to** assist low performing school districts recruit and retain qualified teachers.

**SB 1572** Alarcon: Housing assistance: **termination**: notice (Introduced: **02/18/2000**)

**Status:** **Passed** the Senate. Pending referral in the Assembly.

Existing law, known as Section **8** of the United States Housing Act of **1937**, and other provisions of federal law, provide for housing assistance payments pursuant to contract to aid low-income families, and authorize loans, insurance, and interest reduction payments **to** assist in the provision of housing. Section **8** requires the owner of **an** assisted dwelling Unit to notify the tenant not less than **90** days prior to the **termination** of the assistance contract. Existing law also generally prescribes the notice to **be** given by a landlord or tenant to terminate a tenancy. Existing law requires, until January **1, 2002**, at least **9** months advance notice, as specified, to tenants, to the city or county and public housing authority, and to the Department of Housing and Community Development when the **above-described** forms of federal financial assistance are to **be terminated** or prepaid with respect to a multifamily rental housing development. **This** bill, instead of the 9-month notice **period**, would require specified notices at least **12** months and at least **6** months in advance of **the** termination to be sent **to the** tenant and affected public entities, bringing State law into conformance with current federal regulations.

**SB 1621** Alarcon: Planning **and** zoning: housing (Amended: **03/27/2000**)

**Status:** **Passed** the Senate. Pending referral in the Assembly.

Existing law authorizes public entities **to** require in rent control statutes or ordinances that the owner **notify** the entity of an intention to withdraw the accommodation from rent or lease, **as** specified, **and** prescribes related legislative intent. **This** bill would declare additional legislative intent with respect **to** providing **a** statutory form for that notice and with respect **to** addressing **the** problem of retaliatory or **discriminatory** evictions.

**SB 2187** Soto: Teacher Home Loan Program (Amended: **04/11/2000**)

**Status:** Pending before the **Senate Housing and Community** Development Committee

Existing law establishes **an** assumption program of loans for education under which an applicant enrolled in a participating institution of postsecondary education, or **an** applicant who agrees to participate in a teacher trainee or teacher internship program, and who further agrees to obtain **a** teaching credential in subject areas that are designated as current or projected shortage areas or to provide classroom instruction in schools that **serve** large populations of families, is eligible to receive a conditional warrant for loan

assumption, to ~~be~~ redeemed pursuant to a prescribed procedure upon becoming employed as a teacher. This bill would establish the Teacher Home ~~Loan~~ Program, administered by the California Housing Finance Agency, for the purpose of assisting school districts in recruiting and retaining qualified teachers by providing home loan assistance to teachers employed by those school districts.

**SB 2198** Soto: **Tax** credits: second mortgages (Amended: 04/06/2000)

Status: Pending before the Senate Housing **and** Community Development Committee.

Existing law designates the California **Tax** Credit Allocation Committee as the state's housing credit agency for **purposes** of allocating federal housing **tax** credits. The **Bank** and Corporation **Tax** Law **authorizes** various credits against the taxes **imposed** by **that** law. This bill would authorize a homeownership tax credit, as specified, against those taxes for each income year beginning on or after January **1, 2000**, for qualified lenders, as defined. The bill would also authorize the committee to allocate housing **tax** credits **to** lenders that make qualified 2nd mortgage loans to qualified low-income homebuyers.

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