CHFA REPORTS

2000

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State of California

MEMORANDUM

2002

To: Board of Directors

Date: September 28, 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 TUVW

On September 12* we priced $44.1 million of fixed rate single family bonds and at the same time arranged fixed rates through the swap market for $141.2 million of variable rate bonds. A total of $185.3 million of single family bonds will be delivered on October 5th.

Funding New Loans

A $170 million portion of the transaction (Series T, U, and V) is being issued to fund new loans, with interest rates ranging from 6.508 to 8%. This $170 million includes $28.8 million of fixed-rate bonds (most of which are capital appreciation bonds) and $141.2 million of variable rate bonds swapped to fixed rates. The interest rate swaps for the variable rate series (U and V) are structured with declining notional amounts that match the expected amortization of the corresponding bonds.

By utilizing interest rate swaps, the Agency was able to achieve a 0.53% savings in our overall cost of funds for this $170 million of bonds 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 60% of the bonds issued to fund new loans are taxable. Only $68 million (40%) of this $170 million portion of the transaction is tax-exempt.

New Investor for Taxable Bonds

We have been courting the Federal Home Loan Bank of San Francisco (FHLB) for several years and are very pleased to report that it has agreed to purchase all of our $102 million of Series V taxable variable rate bonds. These variable rate bonds will reset only semiannually and are indexed to semiannual LIBOR (the London Inter-Bank Offered Rate). In turn, our swap counterparty will pay us a semiannual rate that is also similarly indexed. The bonds and corresponding swap both have a 7-year average life.

While other Federal Home Loan Banks have purchased taxable bonds from us in the past, this represents the first investment by the San Francisco FHLB. Recently their board approved an initial $250 million investment in state agency housing bonds, and we hope that this is the start of an ongoing investment partnership.

2003

An ongoing investor relationship with the San Francisco FHLB will be a key factor in the continuance of our successful interest rate swap strategy, because the indexed floaters we are selling to the FHLB do not have a put feature that requires bank liquidity. Of the several varieties of variable rate bonds, variable rate demand obligations (VRDOs) always provide the lowest rates, primarily because VRDO investors have the right to put their bonds back to the issuer. In order for us to be able to cover these puts, we must mange for highly-rated banks to provide the standby liquidity. Unfortunately, banks will not provide us with unlimited amounts of such liquidity, and therefore we cannot hope to sell all our variable rate bonds in the form of VRDOs. Finding an investor with a large appetite for indexed taxable floaters will enable us to target the limited resource of bank liquidity to our tax-exempt variable rate bonds, where the employment of VRDOs gives us the biggest interest rate advantage over other forms of variable rate debt.

Please note the attached news release from the San Francisco FHLB.

Preserving I'ax-Exempt Authority

A $15.3 million portion, Series W, is a 3.90% one-year callable note being issued to preserve tax-exempt authority for later use. We have used a similar technique many times in the past with much success.

Other Matters

Series	Amounts	Interest Rates	Reset Frequency	Maturities	Tax Status
2000 Series T	$ 28,797,899.40	4.00 – 6.15%	--	8/1/02 – 2/1/32	AMT
2000 Series U	39,200,000.00	Variable 4.527%*	Weekly	2/1/17	AMT
2000 Series V	102,000,000.00	Variable 7.096%*	Semi-Annually	2/1/32	Taxable
2000 Series W	15,275,000.00	3.90%	--	10/1/01	AMT
Total	$185,272,899.40				

FEDERAL HOME LOAN BANK
of SAN FRANCISCO

2004

News *Release*

First-time Purchase of California Housing Finance Agency Bonds by Federal Home Loan Bank of San Francisco to Boost Homeownership in California

SAN FRANCISCO, Calif.— September 12,2000—The Federal Home Loan Bank of San Francisco has agreed to purchase $102 million in California Housing Finance Agency mortgage revenue bonds backed by home loans to low- and moderate-income first-time homebuyers in California. "This investment represents a perfect match between the respective housing missions of the Federal Home Loan Bank of San Francisco and the California Housing Finance Agency," said Dean Schultz, president and chief executive officer of the Bank.

The taxable, variable rate bonds will be used to support the California Housing Finance Agency's home purchase program. According to Theresa A. Parker, CHFA's Executive Director, "We are delighted to be doing our first transaction with the Federal Home Loan Bank of San Francisco. The Bank's support will greatly assist our agency in meeting Governor Davis' challenge that we provide $1 billion each year for home loans for low- and moderate-income first-time homebuyers. Because of restrictions on the amount of tax-exempt bonds we are authorized to sell, we need to issue approximately 60 percent of our bonds in taxable form. This kind of transaction makes sense both for CHFA and for the Bank, given our similar missions."

"This investment will directly benefit low- and moderate-income first-time homebuyers in our district, while providing us with a safe and attractive return," said Dean Schultz. "This transaction represents our first direct investment in a state housing finance agency's bonds, and highlights the effectiveness of public-private partnerships in promoting housing accessibility and affordability."

2005

The California Housing Finance Agency is a housing associate of the Federal Home Loan Bank of San Francisco. Under a recently approved regulation on core mission activities, the bonds being purchased today qualify as core mission assets for the Bank.

The California Housing Finance Agency was established under state law in 1975 to act as the state's housing bank. Its mission is to finance below-market-rate loans to create safe, decent, and affordable rental housing and to assist first-time homebuyers in achieving the dream of homeownership. Over its 25-year history, CHFA has issued over $15 billion in revenue bonds, financing more than 25,000 units of affordable rental housing and providing over 100,000 home loans to first-time homebuyers. CHFA's operations are entirely self-supporting, and its debt obligations are separate from those of the State of California.

The Federal Home Loan Bank of San Francisco delivers low-cost funding and other services that help member financial institutions provide home mortgages to consumers of all income levels and make loans that build neighborhoods and communities. The Bank also funds community investment programs that help members create affordable housing and that foster partnerships among lenders, housing developers, community organizations, and government agencies. With over $129 billion in assets, the Bank is the largest of the 12 banks in the nation's Federal Home Loan Bank System. It serves and is owned by commercial banks, savings institutions, credit unions, and thrift & loan companies headquartered in Arizona, California, and Nevada. For more information about the Bank, visit www.fhlbsf.com.

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CONTACTS: Amy Stewart, Federal Home Loan Bank of San Francisco, 415-616-2605
Richard A. LaVergne, California Housing Finance Agency, 916-324-4640

State of California

MEMORANDUM

To: Board of Directors

Date: September 28, 2000

Ken Carlson, Director of Financing

From: CALIFORNIA HOUSING FINANCE AGENCY

Subject: Update on Variable Rate Bonds and Interest Rate Swaps

Current Variable Rate Exposure

As of October 5 (the closing date for our latest single family bond issue), the total amount of CHFA variable rate debt outstanding will be $1.61 billion. As shown in the table below, $504 million continues to be the amount that should be considered as "net" variable rate exposure. 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. This net amount is now only **7.2%** of our **$7.0** billion of indebtedness.

VARIABLE RATE DEBT
($ in millions)

	Tied Directly to Variable Rate Loans	Swapped to Fixed Rate	Not Swapped or Tied to Variable Rate Loans	Total Variable Rate Debt
Single Family	$57	$935	$490	$1,482
Multifamily	17	100	14	131
Total	$74	$1,035	$504	$1,613

As discussed previously, our $504 million of net exposure provides the Agency with a useful internal hedge against a low interest rate scenario such as an economic recession, where we would otherwise suffer financially from low short-term investment rates, fast loan prepayments, failing multifamily projects, and low demand for new loans. *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. As described at previous meetings, much of this balance should be steadily declining as old high-rate single family loans pay off.

The table below summarizes this current risk position.

NET VARIABLE RATE DEBT

	Tax-Exempt	Taxable	Totals
Short average life	$266 million	$104 million	$370 million
Long average life	$ 14 million	$120 million	$134 million
TOTALS	$280 million	$224 million	$504 million

Interest Rate Swaps

Including the two swaps (totaling $141 million) for the single family transaction that will close on October 5, we now have 18 such swaps with four different counterparties for a combined notional amount exceeding $1 billion. 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 homebuyers and multifamily sponsors. The overall rate savings for our single family transactions, with their blend of fixed and variable, tax-exempt and taxable bonds, has been in the range of 0.50% to 0.60%. The rate savings in multifamily is approximately twice as great, given that all the bonds will be tax-exempt and variable rate.

The table below provides a summary of our swap transactions.

INTEREST RATE SWAPS

	Tax-Exempt	Taxable	Totals
Single family	$283 million	$652 million	$935 million
Multifamily	$100 million	$ 0	$100 million
TOTALS	$383 million	$652 million	$1,035 million

It should be noted that, for $350 million of the $383 million of tax-exempt bonds swapped to a fixed rate, CHFA remains exposed to certain tax-related risks. In return for significantly higher savings (approximately 0.75% per year), 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.

Multifamily Plans

Early in November we expect to issue approximately $83 million of tax-exempt variable rate multifamily bonds, all of which will be swapped to fmed rates. These bonds are planned to be issued to provide financing for 11 multifamily projects, including seven for which we recently received a total of $63.3 million of private activity bond allocation from the California Debt Limit Allocation Committee. In addition, we plan to issue another $20 million of bonds for four projects with 501(c)(3) borrowers.

Single Family Plans

In keeping with our bi-monthly single family financing plans, we expect to be issuing approximately $190 million of single family bonds in December and anticipate that most of this financing will consist of variable rate bonds again swapped to fmed rates. The debt service savings resulting from accessing the swap market enables 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.

This issue is expected to include approximately $20 million of tax-exempt variable rate refunding bonds. Our intention would be not to swap these bonds to a fmed rate, given the anticipated short life of the high-rate 10-year-old loan portfolio that would be transferred to the refunding series. Use of this technique for maximizing the economic benefit of refundings accounts for the largest portion of our current balance of $504 million of variable rate bonds not swapped to a fmed rate or tied to variable rate loans.

Board Workshop

As discussed at the previous meeting, we are planning a Board workshop for the meeting of December 7. The purpose of the workshop would be to provide Board members with an opportunity to learn more about variable rate bonds and interest rate swaps and how we are managing the attendant financial risks. A draft agenda and list of proposed speakers is shown below.

DRAFT WORKSHOP AGENDA

Topic	Proposed Speaker
Introductions and Overview	Ken Carlson, CHFA
Interest Rate Swaps	Peter Shapiro, Swaps Financial Group
Interest Rate Risks/Capital Adequacy Criteria	Peter Block, Standard & Poor's
Interest Rate Risk Analysis	Carlos Montoya/David Notkin, Memll Lynch

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MEMORANDUM

To: Board of Directors

Date: September 27, 2000

Ken Carlson, Director of Financing

From: CALIFORNIA HOUSING FINANCE AGENCY

Subject: ANNUAL INVESTMENT REPORT

At the March 1995 meeting, the Board adopted an Investment Policy and asked me to return periodically with an investment report. Attached for your information is the June 30, 2000 investment report for the 1999-2000 fiscal year. This, the sixth such annual investment report, shows that CHFA moneys are invested conservatively and in accordance with the Board-approved Investment Policy.

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CALIFORNIA HOUSING FINANCE AGENCY

INVESTMENT REPORT

June 30, 2000

SUMMARY

As of June 30, 2000, CHFA (including CaHLIF) had $7.9 billion of assets, of which more than $1.8 billion (23%) consisted of investments (not mortgages). For the fiscal year, CHFA/CaHLIF total revenues were $585 million, of which $104 million (18%) was investment interest income.

The following table shows what types of investments we hold for different categories of funds. Note that (as for the previous fiscal years) investment agreements are our most prevalent type of investment and are used exclusively for our bond funds. As before, our next most prevalent investment is the State's investment pool.

$ AMOUNT INVESTED (MILLIONS)

INVESTMENT TYPE	BOND MONEYS	NON-BOND MONEYS	TOTAL
Investment agreements	$1,302.1	-0-	$1,302.1
State investment pool	187.9	145.4	333.3
Securities (fair market value)	77.8	7.6	85.4
Money market and Bank deposits	108.7	0.9	109.6
Totals	$1,676.5	$153.9	$1,830.4

INVESTMENT AGREEMENTS

As stated in the Investment Policy, we normally invest bond moneys in investment agreements. Such agreements give us a high level of security of principal, a fixed rate of return to match the fixed cost of our debt, and complete liquidity so that we can use them like interest-bearing checking accounts and make deposits and withdrawals on short notice.

The following table shows the types of bond moneys that are deposited into investment agreements.

INVESTMENT AGREEMENT BALANCES
(Millions of $)

	Bond proceeds (For Loan Purchases)	Note Proceeds	Reserve Funds	Debt Service Funds	Totals
Single Family	$417.6	$288.5	$146.2	$370.3	$1,222.6
Multifamily	27.7	0.0	15.5	36.3	79.5
Totals	$445.3	$288.5	$161.7	$406.6	$1,302.1

The first two attachments show information about our $1.3 billion of deposits with financial institutions providing us with investment agreements. Note the high credit ratings of the institutions. If these credit ratings were to fall below a threshold level, we have the right to request collateralization or return of principal.

STATE INVESTMENT POOL

As shown by the table on the previous page, we have $333.3 million invested with the State Treasurer in the State investment pool, which, over time, has given us security, a fair return (6.181% as of June 30), complete liquidity, and administrative simplicity.

As stated in the Investment Policy, we invest most non-bond moneys in the pool. The amount, however, fluctuates greatly each month, depending on what amount of loans was being warehoused. On June 30 loans totalling $102.2 million were being warehoused, and this amount was returned to the investment pool early in July as the accumulated loans were transferred to bond issues.

We also invest a significant amount of bond moneys in the pool, including Housing Assistance Payments moneys from HUD for the Section 8 projects, servicing impound account moneys and mortgage revenue for some of the older transactions.

SECURITIES

The third attachment displays information about the $85.4 million (fair market value) of securities we hold. This category includes $50.3 million of Fannie Mae and Ginnie Mae securities backed by loans originated for our single family and multifamily programs. Note that the market value of the securities is lower than the amortized value because the loans backing the Fannie Mae and Ginnie Mae securities have below-market interest rates.

The commercial paper was purchased by our outside trustee (U.S. Bank Trust, National Association) for investment of certain escrow and program account moneys.

MONEY MARKET AND BANK DEPOSITS

Our outside trustee sweeps overnight deposits into a treasury securities money market fund which was paying 5.72% as of June 30. The amount invested in the money market includes some bond program moneys which we expect to use to purchase loans or pay costs of issuance. In addition, this category includes loan servicing revenues held in bank deposit accounts.

Attachments

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CALIFORNIA HOUSING FINANCE AGENCY
FUNDS JNVESTED IN INVESTMENT AGREEMENTS
TOTALS BY FINANCIAL INSTITUTION RATINGS

Moody's Ratings	Amount Invested 6/30/00	Percentage of Total Invested
Aaa	$660,187,336	50.70%
Aal	470,183	0.04%
Aa2	10,420,071	0.80%
Aa3	631,033,289	48.46%
Total	$1,302,110,880	100.00%

S&P Ratings		
AAA	$915,636,045	70.32%
AA+	221,388,825	17.00%
AA-	152,717,575	11.73%
A+	2,130,494	0.16%
not rated	10,237,941	0.79%
Total	$1,302,110,880	100.00%

SUMMARY OF CALIFORNIA HOUSING FINANCE AGENCY FUNDS DEPOSITED IN INVESTMENT AGREEMENTS - JUNE 30, 2000

INVESTMENT AGREEMENT PROVIDER	MOODY'S RATING	STANDARD & POOR'S RATING	AMOUNT INVESTED
AEGON INSTITUTIONAL MARKETS	Aa3	AAA	$255,448,709
CDC FUNDING	Aaa	AAA	240,469,095
PACIFIC LIFE CO.	Aa3	AA+	214,646,910
AMERICAN INTERNATIONAL GROUP MATCHED FUNDING CORP. (AIGMFC)	Aaa	AAA	212,409,861
SOCIETE GENERAL	Aa3	AA-	136,686,122
BAYERISCHE LANDESBANK	Aaa	AAA	93,390,030
FGIC CAP.MARKETS SERVICES	Aaa	AAA	56,002,893
MBIA INV.MANAGEMENT CORP.	Aaa	AAA	31,730,204
BERKSHIRE HATHAWAY	Aaa	AAA	26,185,253
TMG FINANCIAL PRODUCTS	Aa3	Not Rated	10,237,941
CITIBANK	Aa2	AA-	8,289,578
CANADIAN IMPERIAL BANK	Aa3	AA-	7,012,745
MONUMENTAL LIFE CO.	Aa3	AA+	6,376,922
BANKAMERICA CORP	Aa2	A+	2,130,494
CITICORP	Aa3	AA-	623,941
WESTDEUTSCHE LB	Aa1	AA+	364,993
BANK OF AMERICA	Aa1	AA-	105,191
TOTAL FUNDS INVESTED IN INVESTMENT AGREEMENTS			$1,302,110,880

SUMMARY OF CHFA INVESTMENTS IN SECURITIES AS OF JUNE 30, 2000					
TYPE OF INVESTMENT	PAR VALUE	BOOK VALUE	MARKET VALUE	WEIGHTED AVERAGE COUPON	WEIGHTED AVERAGE REMAINING MATURITY
U.S. TREASURY BONDS	$11,903,000	$10,679,312	$13,560,835	9.21%	11.70 Years
U.S. TREASURY BILLS	2,936,000	2,896,604	2,849,613	5.89%	0.23 Years
REFCORP BONDS	3,114,000	3,419,593	3,902,606	8.78%	20.25 Years
GNMA SECURITIES	26,766,268	26,766,268	24,129,328	6.21%	30.71 Years
FNMA SECURITIES	35,802,972	36,281,365	30,523,412	6.46%	26.56 Years
FHLMC SECURITIES	2,115,000	2,084,403	2,327,161	8.25%	15.92 Years
COMMERCIAL PAPER	8,218,000	8,218,000	8,112,585	5.00%	0.20 Years
TOTALS	$90,855,239	$90,345,544	$85,405,540		

State of California 2018

MEMORANDUM

To: CHFA Board of Directors

Date: September 29, 2000

Linn G. Warren
From: CALIFORNIA HOUSING FINANCE AGENCY

Subject: Electric Utility Rates in San Diego County

The CHFA Board of Directors at the August 10. 2000 meeting. requested a status report on utility rates in the San Diego area. The issues and complexity of the entire utility problem are beyond the scope of this report. However, CHFA staff has reviewed the current utility situation in this area as it impacts the origination and asset management of Agency portfolio loans. A broad analysis of the electric utility situation including numerous immediate and long term recommendations. is contained in "California's Electricity Options and Challenges. Report to Governor Gray Davis", published by the Public Utilities Commission. Staff can supply copies of this report to Board members if desired.

Current Situation

Subsequent to the significant electric rate spike this summer. Governor Davis took a number of actions to implement temporary rate payment relief for residents and businesses in the San Diego area. Most notable of these was a direct appeal to President Clinton on August 22 to release emergency funds to aid low-income residents. On August 23. President Clinton released $2.6 million in funds from the Low-Income Home Energy Assistance Program (LIHEAP) to help low-income Southern Californians pay their electricity bills. Two community based service organizations, the Metro Area Advisory Committee (MAC) and Campesinos Unidos Inc. will administer the funds. In order to temporarily restrain utility costs, Governor Davis signed AB 265 (Chapter 328. Statutes 2000) which establishes a cap on the wholesale cost of electricity that can be passed on to consumers at six and five-tenth cents ($.0 65) per kilowatt/hour for residential and small commercial customers. It is estimated that this legislation will result in an average electricity bill for residential consumers of $68 per month. The cap is scheduled to continue through December 31, 2002 and is retroactive to June 1, 2000. There are numerous other provisions in the legislation that relate to rates for medium and large commercial consumers and tracking and accounting mechanisms directed at San Diego Gas & Electric.

CHFA Program issues

Evaluation. When evaluating the utility costs for a prospective project, CHFA staff analyzes the following primary issues:

- Is the project individually or master metered?
- What has been the operating history of the existing and comparable projects?
- Are the tenants assisted by project based Section 8, vouchers or other subsidies?
- What is the utility metering conversion plan for the project.
- What types of appliances predominate in the project (electric heat, air conditioning. gas kitchens. common area requirements. etc).

Existing Projects. In order to examine the utility cost issue. it would be helpful to revisit the payment of utility costs for low-income tenants. Rents charged by sponsors to low-income tenants are derived from the "gross" affordable rent calculated by county income level. bedroom size and the allowed number of per bedroom residents. For example. a one bedroom affordable unit may rent on a gross basis for $500. On an individually metered property the tenant would utilize the "Personal Expense Benefit" (PBE or the utility allowance). The project sponsor can only charge the tenant a rent "net" of this utility allowance, since the tenant must pay the unit's utility cost. In our example, if the PBE is $50. the net rent charged to the tenant is $450. For a master metered project. the gross rent charged is $500 and the sponsor pays the utility costs.

Clearly the PBE is a critical number. CHFA uses the PBE published annually by the local Housing Authority and this value is updated according to changes in utility costs. CHFA loan underwriting examines these PBE's on all proposed loans. In the case of the preservation loans in San Diego, the historical utility costs for the projects matched the County's PBE allowances.

Utility Spikes. The utility spikes of this summer can impact projects in a number of ways:

- These spikes generally occur without warning (a common observation in the PUC report), hence project owners and tenants cannot prepare financially as most people would for an anticipated expense.
- An individual or family may have a utility cost in excess of their allowance, hence they are obligated to pay the difference. In the event a tenant cannot pay this cost, the utility company could terminate service causing a project vacancy. Some project owners have considered paying this utility cost differential in order to retain tenants. however this approach obviously creates numerous unbudgeted cost and management problems.
- For projects that are master metered, the project sponsor cannot pass the cost on to the rent restricted tenant , therefore the owners must pay these costs themselves.

Section 8 Projects. The situation is further complicated by properties subject to Section 8 contracts. Projects that are master metered can rely to a limited degree on increases to the contract associated with budget increases. This would occur annually through the Operating Cost Adjustment Factor (OCAF) process as administered by HUD. However this procedure cannot be relied upon to fully mitigate significant increases. In this situation the project sponsor would be obligated to pay the excess utility costs.

Individually metered Section 8 projects present a unique problem. These tenants are generally not the typical tax credit tenant, in that their portion of paid rent is very low ($100 or $200) or in some cases non-existant. Tenants in these situations cannot pay the excess utility cost and risk eviction or must seek some form of assistance. Sponsors with tenants in this situation may elect to pay the differential, even though there is usually a waiting list of Section 8 tenants that could pay the higher utility costs.

Program Procedures

To address the potential of utility increases impairing the sponsor's ability to maintain debt service on our loans. Programs staff will emphasize the following existing procedures and supplement project reserve requirements as deemed necessary.

1. Continue to require the Program' standard Operating Expense Reserve (OER) for the minimum of two years until stabilized occupancy is obtained. In the event of a significant spike in utility costs. project sponsors would be required to maintain the OER until operating costs stabilize.
2. Completely examine the utility operating costs in the project's geographic area. assessing the local utility's history of costs and delivery of utility products and requiring sponsors to address and mitigate the problems.
3. Continue to request that projects be individually metered for those utilities with a history of price volatility. Sponsors will be required to submit utility conversion plans reflecting the required capital costs and an estimated return on the conversion investment.
4. Continue to monitor state and national initiatives designed to mitigate the utility problem.
5. Establish a portion of the transition operating fund to be set aside for unanticipated utility increases.

Programs staff will continue to monitor and evaluate the utility situation in all markets throughout the state. Staff will also consult with projects sponsors and management companies to follow techniques they may adopt in addressing this situation.

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