



REPORTS

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2001

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MEMORANDUM

To: Board of Directors

Date: November 21, 2000



Ken Carlson, Director of Financing

From: CALIFORNIA HOUSING FINANCE AGENCY

Subject: REPORT OF MULTIFAMILY BOND SALE
MULTIFAMILY HOUSING REVENUE BONDS III, 2000 SERIES C & D

On November 16, 2000, the Agency issued \$82,820,000 of variable rate tax-exempt multifamily bonds. Of this amount, \$63,300,000 represents new private activity bond allocation received from CDLAC at its September meeting and will be used to finance a like amount of loans to seven multifamily projects. The remaining \$19,520,000 will be used to finance loans for four 501(c)(3) projects. Please see the tables on the following page for a description of the expected terms for the new loans.

The bonds were issued under the Multifamily Housing Revenue Bonds III indenture, which is secured by CHFA's general obligation. The rating on the bonds is the same as the long-term rating on CHFA's general obligation: AA- by Standard and Poor's and Aa3 by Moody's. The bonds are not insured.

The 2000 Series C and D bonds (as well as our 2000 Series A and B bonds, issued in June) have interest rates that are reset daily by our remarketing agent. We selected daily rather than weekly rates in order to determine whether there are any interest cost savings from using the daily mode. For all of our variable rate demand obligations, we have retained the right to change the initial reset period in the event that we determine that a different mode will result in savings. The California State Teachers' Retirement System has partnered with a highly-rated German bank (Landesbank Hessen-Thüringen Girozentrale) to provide liquidity in the unlikely event that investors put our bonds back to us and they cannot be remarketed to new investors.

In connection with the bonds, we entered into three swap agreements, which will result in a synthetic fixed rate liability for the bonds. Two of the swaps are based on a percentage of the taxable LIBOR index. The third swap, which has the longest average life, is based on a tax-exempt index. As a result, this longest swap does not carry the risk of changes to federal tax laws, thus reducing our long-term exposure to this risk. The swaps are structured with declining notional amounts that match the expected amortization of the corresponding bonds.

The Series C bonds and the corresponding Series C interest rate swaps were structured so that amortization does not begin until 2011. In the meantime, scheduled payments of loan principal will not be needed to pay down the bonds. They will instead be used incrementally to "purchase" like portions of \$16.6 million of taxable tail loan participations we anticipate warehousing with other CHFA funds. This technique enables us to provide taxable tails to borrowers at a reduced interest cost, thus maximizing the use of the valuable private activity bond resource.

Swap Agreement Terms:

Bond Series	Notional Amount	Maturity Date	Average Life	Interest Rate
Series C	\$50,400,000	2/1/2033	22.2 years	4.430%
Series C	\$12,900,000	2/1/2033	29.7 years	5.290%
Series D	\$19,520,000	2/1/2031	16.4 years	4.395%

Loans to Be Financed with 2000 Series C Bonds:

Project Name	Loan Amount	Interest Rate	Loan Terms
Cascade Apts	\$ 2,095,000	6.20%	30 yrs
Homestead Park	11,912,035	6.50%	30 yrs
Plaza Manor	15,999,770	6.30%	31 yrs
Runnymede Gardens	5,290,000	6.45%	30 yrs
Saratoga Senior Apts	5,730,000	6.20%	30 yrs
Thomas Paine Apts	5,959,744	6.35%	30 yrs
Vista Terrace Hills	17,695,527	6.30%	31 yrs
Total	\$63,302,076 (1)		

Loans to Be Financed with 2000 Series D Bonds:

Project Name	Loan Amount	Interest Rate	Loan Terms
Hillside Terrace	\$ 1,075,000	5.90%	30 yrs
Northside Flat (2)	1,484,439	5.90%	30 yrs
O'Farrell Towers (2)	7,559,623	6.20%	30 yrs
Ocean View Apts (2)	9,405,273	5.00%	30 yrs
Total	\$19,524,335 (1)		

MEMORANDUM

To: Board of Directors

Date: November 21, 2000

From: Ken Carlson, Director of Financing
CALIFORNIA HOUSING FINANCE AGENCYSubject: REPORT OF BOND SALE AND RELATED INTEREST RATE SWAPS
HOME MORTGAGE REVENUE BONDS 2000 SERIES XYZ

I am pleased to report that we have arranged fixed rates for **our** final bond issue of the 2000 calendar year, Home Mortgage Revenue Bonds, 2000 Series XYZ. Issuance this year under **our** single family program has been **so** prolific that we have gone through the entire alphabet for **our** series designations. **On** November 15th we priced \$315 million of fixed rate bonds and at the same time arranged fixed rates through the swap market for \$159.5 million of variable rate bonds. A total of \$191.1 million of single family bonds will **be** delivered **on** December 13th.

Funding New Loans

A \$170 million portion of the transaction (Series X-2, Y, and Z) is being issued to fund new loans, with interest rates ranging from 6.25% to 7.5%. **This** \$170 million includes \$315 million of fixed-rate capital appreciation bonds and \$138.4 million of variable rate bonds swapped to fixed rates. The interest rate swaps for the variable rate series (X-2 and Z) are structured with declining notional amounts that match the expected amortization of the corresponding bonds.

By utilizing interest rate swaps, we were able to achieve a **0.60%** 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.

Economic Refunding

The ~~transaction~~ includes \$21.1 million of variable rate bonds (Series X-1) that **are** being issued **to** refund a like amount of bonds issued in 1991. **The** old corresponding loan portfolio, consisting of 8.0% loans, will be transferred over and mixed with the larger pool of newly-purchased loans. These variable rate refunding bonds are being swapped to a fixed rate.

2005Federal Home Loan Bank

The Federal Home Loan Bank of San Francisco **has** again purchased all \$102 million of our taxable bonds (Series Z). Just **as** in the transaction reported at the previous Board meeting, **the** bonds sold to the FHLB will bear a variable rate **linked** to an index (in **this** case quarterly LIBOR), and the corresponding interest **rate** swap is similarly indexed. **As** before, the FHLB will not have the right to "put" these bonds back to us.

The **board** of directors of the San Francisco FHLB recently met **and** approved a new overall investment plan for 2001 that includes continued investments in **state** housing agency bonds. **As a** result, we now anticipate a longer-term partnership with the FHLB that may include their participation in **each** of next year's single family bond issues.

As discussed at the previous meeting, it is essential to the continuance of our variable rate bond **strategy** that we **find** cost-effective ways to issue variable rate bonds without the need for bank liquidity agreements to cover "puts" by investors. The few highly-rated commercial banks in the liquidity business cannot **be** expected to provide us with a billion dollars of liquidity each year. Taking our annual issuance of **\$600** or **so** million of taxable bonds out of this equation will enable us to target the scarce resource of bank liquidity to our tax-exempt variable rate bonds, where the economic advantage of issuing put bonds is the greatest.

Liauidity and Insurance

For **this** issue the California State Teachers' Retirement System has partnered with KBC Bank (a highly-rated Belgian bank) to provide liquidity in the unlikely event that the **\$57.5** million of Series X-1 and X-2 variable rate tax exempt bonds **are** put back to us by investors and new investors cannot be found. **All** bonds **are** insured by FSA and therefore rated triple-A by both Moody's and Standard & Poor's.

Series	Amounts	Interest Rates	Reset Frequency	Maturities	Tax Status
X-1	\$21,085,000.00	4.358%*	weekly	2015	Non-AMT
x-2	36,445,000.00	4.510%*	weekly	2031	AMT
Y	31,555,595.70	6.15-6.25%	--	2020-2031	AMT
Z	102,000,000.00	6.843%*	Quarterly	2031	Taxable

*swap rates

MEMORANDUM

To: Board of Directors

Date: November 21, 2000



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

Subject: Update on Variable Rate Bonds and Interest Rate Swaps

Current Variable Rate Exposure

As of December 13 (the closing date for our latest single family bond issue), the total amount of CHFA variable rate debt outstanding will be \$1.85 billion, some 25.3% of our \$7.3 billion of total indebtedness. As shown in the table below, we now estimate our "net" variable rate exposure to be \$519 million. 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 7.1% of our indebtedness.

VARIABLE RATE DEBT
(\$ in millions)

	Tied Directly to Variable Rate <u>Loans</u>	Swapped to <u>Fixed Rate</u>	Not Swapped or Tied to Variable Rate <u>Loans</u>	Total Variable <u>Rate Debt</u>
Single Family	\$35	\$1,095	\$505	\$1,635
Multifamily	<u>17</u>	<u>183</u>	<u>14</u>	<u>214</u>
Total	\$52	\$1,278	\$519	\$1,849

As discussed previously, our \$519 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.

2007

The table below summarizes this current risk position.

	NET VARIABLE RATE DEBT		
	<u>Tax-Exempt</u>	<u>Taxable</u>	<i>Totals</i>
Short average life	\$266 million	\$97 million	\$363 million
Long average life	<u>\$ 36 million</u>	<u>\$120 million</u>	<u>\$156 million</u>
TOTALS	\$302 million	\$217 million	\$519 million

Interest Rate Swaps

Including ~~the~~ three swaps (totaling **\$159.5** million) for ~~the~~ single family transaction ~~that~~ will close on ~~December~~ 13, ~~we~~ now have **24** such swaps with ~~four~~ different counterparties for a combined notional amount of \$1.278 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~~ multifamily sponsors and to serve a great many additional homebuyers.

In recognition of these savings, we have reduced ~~our~~ offered interest rate for new multifamily loans to **5.9%**. In ~~our~~ single family program, we ~~estimate~~ that the swap savings is sufficient ~~to~~ offset the added interest cost of approximately \$400 million of taxable bonds. In other words, our cost of funds for a \$1-billion-per-year home loan program ~~financed~~ primarily through ~~the~~ swap market is roughly ~~equal~~ to that of a \$600 million program financed entirely with fixed-rate ~~bonds~~. ~~The~~ swap market savings allows ~~the~~ amount of taxable ~~bonds~~ to be tripled, from approximately \$200 million to ~~\$600~~ million.

The table below provides a *summary* of ~~our~~ swap ~~transactions~~.

	INTEREST RATE SWAPS		
	<u>Tax-Exempt</u>	<u>Taxable</u>	<i>Totals</i>
Single family	\$341 million	\$754 million	\$1,095 million
Multifamily	<u>\$183 million</u>	<u>\$ 0</u>	<u>\$183 million</u>
TOTALS	\$524 million	\$754 million	\$1,278 million

2008

It should be noted that, for \$477 million of the \$524 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), we have 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. In addition, we bear this same risk for \$337 million of our tax-exempt variable rate bonds which we have not swapped to a fixed rate. This risk of tax law changes is the same risk that investors take every time they purchase our fixed-rate tax-exempt bonds.

Liquidity for Variable Rate Bonds

We obtained good results from last month's solicitation for liquidity providers for variable rate bonds for our single family program (and anticipate soliciting for our multifamily program at some point next year). We received bids totaling \$750 million from six commercial banks, including two new ones. The winners of this solicitation, together with the State Teachers Retirement System, should be able to meet our needs for more than half of 2001. In addition, as discussed in a separate report, the willingness of the Federal Home Loan Bank of San Francisco to purchase taxable indexed "floaters" from us will greatly reduce the amount of bank liquidity we need each year.

Single Family Plans

In keeping with our bi-monthly single family financing plans, we expect to be issuing up to \$200 million of single family bonds in January and again anticipate that most of this financing will consist of variable rate bonds swapped to fixed rates.

Multifamily Plans

The schedule for applications to the California Debt Limit Allocation Committee for private activity bond allocation next year makes it likely that our first multifamily bond issue in calendar year 2001 will be scheduled for April or May. Our current intention is again to issue all our multifamily bonds in variable rate mode and swap to a fixed rate. In addition to issuing new bonds for projects to be approved by CDLAC, we anticipate issuing approximately \$17.7 million of refunding bonds to refinance loans for six projects financed in the early 1990's.

Board Workshops

There will be a Board workshop at the meeting of December 7 on the subject of interest rate swaps. The guest speaker is Mr. Peter Shapiro of Swap Financial Group, CHFA's advisor for interest rate swaps. Mr. Shapiro's professional biography and a copy of the materials he will be presenting are included elsewhere in the Board's package.

Additional workshops are contemplated, featuring (1) a representative of Standard & Poor's to discuss risk analysis and capital adequacy and (2) bankers from Merrill Lynch who have been providing the financial modeling for the analysis of our interest rate risks.

2009

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