



1.	SUMMARY OF YEAR 2000 BOND ISSUANCE; UPDATE ON	
	VARIABLE RATE BONDS AND INTEREST RATE SWAPS	100

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MEMORANDUM

1002

Board of Directors Date: December 28, 2000

Ken Carlson, Director of Financing

mom: CALIFORNIAHOUSING FINANCE AGENCY

Subject: SUMMARY OF YEAR 2000 BOND ISSUANCE;

UPDATE ON VARIABLE RATE BONDS AND INTEREST RATE SWAPS

Year 2000 Bond Issuance

Attached are tables summarizing our year **2000** bond transactions and showing bonds issued over the last five years. Note that **2000** has proved to be our busiest **year** ever in terms of dollar volume with **\$1.95** billion of bonds sold or remarketed, including almost **\$1.5** billion for single family and **\$452** million for the multifamily program. Both of these amounts are themselves CHFA records.

During the year we sold a record \$942.8 million of taxable bonds. Of this amount, \$669 million was sold to expand our supply of bond proceeds for single family loans through taxable/tax-exempt blending. Another \$269 million was issued to acquire Fannie Mae's portfolio of Section 236 loans. A small taxable note (\$4.8 million) was issued for the California Department of Veterans Affairs. Our previous high for annual taxable issuance was 1999, when we sold \$449.2 million.

Because this has been the first full year of our new variable rate debt and interest rate swap strategy, our variable rate issuance was up markedly, from \$329.6 million in 1999 to \$1.29 billion in 2000. Of this \$1.29 billion, \$624.7 million was tax-exempt and \$669 million was taxable. All of the \$624.7 million of tax-exempt variable rate bonds were demand obligations where investors may put the bonds back to our remarketing agents. Of the \$669 million of taxable variable rate bonds, \$465 million were demand obligations and \$204 million were issued as indexed floaters without a put feature and sold to the Federal Home Loan Bank of San Francisco. The \$1.09 billion of combined tax-exempt and taxable variable rate demand obligations was sold largely to money market mutual funds.

Interest rates generally fell throughout the year, with rates for our 30-year tax-exempt capital appreciation bond ranging from a high of 6.85% last January to a low of 6.15% in September. In comparison, rates for the same kind of bond ranged from 5.48% to 6.30% during 1999 and rose throughout the year.

1003

January 2001 Financing

Interest rate swaps and fixed rate bonds for the first transaction of **2001** are scheduled to be priced on January **10**, and I hope to distribute a report at the Board meeting. The transaction will be a single family issue of about **\$200** million, with approximately **\$150** million of variable rate bonds. We are currently working with the San Francisco FHLB to again purchase all the taxable variable rate bonds. In a meeting in our offices earlier this month, officials of the FHLB said that they expected to be able to buy all of our taxable variable rate bonds for the entire year.

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After adding the **January** transaction and subtracting February **1** redemptions, the total amount of **CHFA** variable rate debt outstanding will **be** approximately **\$1.96** billion, some **27%** of our **\$7.2** billion of total indebtedness. **As** shown in the table below, we now estimate our "net" variable rate exposure to **be \$492** 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%** of our indebtedness.

VARIABLE RATE DEBT (\$ in millions)

	Tied Directly to Variable Rate Loans	Swapped to <u>Fixed Rate</u>	Not Swapped or Tied to Variable Rate Loans	Total Variable Rate Debt
Single Family	\$35	\$1,234	\$478	\$1,747
Multifamily	—16	<u> 183</u>	14	213
Total	\$5 1	\$1,417	\$492	\$1,960

As discussed previously, our \$492 million of net exposure provides the Agency with a useful internal hedge against a low interest rate scenario, where we would suffer financially from low short-tern investment rates, fast loan prepayments, reduced demand for new loans, and (conceivably) stagnant or falling apartment rents. In the event that the Federal Reserve, now concerned about the possibility of economic recession, begins to cut short-term rates early in 2001, savings in debt service for these unswapped variable rate bonds could be substantial and should help to offset any of the expected negative economic effects on our programs.

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 ,riskposition.

1004

NET VARIABLE RATE DEBT

(\$ in millions)

	Tax-Exempt	<u>Taxable</u>	<u>Totals</u>
Short average life	\$248	\$89	\$337
Long average life	<u>\$ 36</u>	\$119	<u>\$155</u>
TOTALS	\$284	\$208	\$492

Interest Rate Swaps

Including the expected three swaps (totaling \$150 million) for the January single family transaction, we will have 27 such swaps with four different counterparties for a combined notional amount exceeding \$1.4 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.

As previously discussed, 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 expected February 1 notional swap amounts.

INTEREST RATE SWAPS

(\$ in millions)

	Tax-Exempt	<u>Taxable</u>	<u>Totals</u>
Single family	\$357	\$877	\$1,234
Multifamily	<u>\$183</u>	<u>\$ 0</u>	<u>\$183</u>
TOTALS	\$ 540	\$877	\$1,417

1005

It should be noted that, for \$494 million of the \$540 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 \$318 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.

Board Workshop

As a follow-up to the workshop on interest rate swaps provided at the December meeting, on January 11 there will be a workshop on the subject of interest rate risk and capital adequacy. The guest speaker is Mr. Peter Block, an Associate Director at Standard & Poor's Corporation. Mr. Block is CHFA's lead analyst at Standard & Poor's, having replaced Ms. Pamela Berkowitz, who has taken on other responsibilities at S&P.

An atline of Mr. Block's proposed presentation is included elsewhere among the Board materials.

Attachments

CALIFORNIA HOUSING FINANCE AGENCY 2000 BOND SALE SUMMARY

	SINGLE FAMILY	<u>MULTIFAMILY</u> .	<u>TOTALS</u>
TAX-EXEMPT BONDS			
Variable Rate	\$441,640,000	\$183,020,000	\$624,660,000
Fixed Rate	\$48,350,000	\$0	\$48,350,000
CABS	\$163,042,265	\$0	\$163,042,265
Notes	<u>\$171,615,000</u>	\$0 \$0	<u>\$171.615.000</u>
SUBTOTALS	\$824,647,265	\$183,020,000	\$1,007,667,265
TAXABLE BONDS -			
Variable Rate			
VRDO	\$465,000,000	\$0	\$465,000,000
Index Floaters	\$204,000,000	\$O	\$204,000,000
Fixed Rate	\$0	\$ O	\$0
Note/COB	\$4,800,0 00	\$0	\$4,800,000
Pass Thru - Fannie Mae	<u>\$0</u>	\$269.038.416	<u>\$269.038.416</u>
SUBTOTALS	\$673,800,000	\$269,038,416	\$ 942;838,416
TOTALS	\$1,498,447,265	\$452.058.416	\$1,950,505,681

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CALIFORNIA HOUSING FINANCE AGENCY FIVE-YEAR SUMMARY BOND ISSUES FROM 1996TO 2000

	ACTIVIT BON ALLOCATIO	PRIVATE ACTIVITY BOND	BONDS SOLD OR REMARKETED			
YEAR		ALLOCATION RECEIVED	TAX-EXEMPT	TAXABLE	TOTAL	BONDS OUTSTANDING
1996	Single Family Multifamily	\$408,800,000 \$37,200,000	\$998,040,000 \$54,120,000	\$142,740,000 \$0	\$1,140,780,000 \$54,120,000	\$3,921,244,136 \$683,680,000
	SUBTOTAL	\$446,000,000	\$1,052,160,000	\$142,740,000	\$1,194,900,000	\$4,604,924,136
1997	Single Family Multifamily	\$317,512,970 \$147,575,000	\$784,355,000 \$147,575,000	\$282,700,000 \$0	\$1,067,055,000 \$147,575,000	\$4,424,670,461 \$815,770,000
	SUBTOTAL	\$465,087,970	\$931,930,000	\$282,700,000	\$1,214,630,000	\$5,240,440,461
1998	Single Family Multifamily	\$228,862,068 \$56,060,000	\$744,589,271 \$172,425,000	\$455,720,000 \$0	\$1,200,309,271 \$172,425,000	\$4,955,380,928 \$854,250,000
	SUBTOTAL	\$284,922,068	\$917,014,271	\$455,720,000	\$1,372,734,271	\$5,809,630,928
1999	Single Family Multifamily	\$237,452,500 \$36,782,000	\$909,576,435 \$44,535,000	\$449,165,000 \$0	\$1,358,741,435 \$44,535,000	\$5,358,987,794 \$852,025,000
	SUBTOTAL	\$274,234,500	\$954,111,435	\$449,165,000	\$1,403,276,435	\$6,211,012,794
2000	Single Family Multifamily	\$217,128,000 \$154,482,104	\$824,647,265 \$183,020,000	\$673,800,000 \$269,038,416	\$1,498,447,265 \$452,058,416	\$6,014,816,955 \$1,271,714,856
	SUBTOTAL	\$371,610,104	\$1,007,667,265	\$942,838,416	\$1,950,505,681	\$7,286,531,811
	5-YEAR TOTALS	<u>\$1.841.854.642</u>	<u>\$4.862.882.971</u>	\$2.273.163.416	\$7,136,046,387	

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