MEMORANDUM

To: CHFA Board of Directors

From: Di Richardson
Director of State Legislation

Date: May 15,2001

RE: State Legislative Report

Below you will find a number of bills that may be of interest to you. It is clear that some of them will not move forward this year, and now that the Governor has released his May Revise, many more may be held in fiscal committee. But housing continues to be a priority for a number of Members, so we anticipate continued interest in many of these proposals. Of particular significance, Senator Burton recently introduced a housing bond bill, SB 1227, which will certainly generate a great deal of interest and discussion as the months progress. As always, if you have any questions or comments, please don't hesitate to call me at (916) 324-0801 or email me at drichardson@chfa.ca.gov.

AB 404 **Diaz** New neighborhoods program
status: ***0510912001*** ASM HOUSING AND COMMUNITY DEVELOPMENT Do pass as amended and be re-referred to the Committee on Appropriations.
This bill would enact provisions to be known as the New Neighborhoods Program that would provide at least 7 planning grants of not more than $250,000each to counties, cities, or cities and counties to study the availability of multifamily affordable housing sites defined as 'new neighborhoods.' The bill would require that the studies be completed by January 1, 2003. The bill would create the New Neighborhoods Multifamily Affordable Housing Fund.

AB 406 **Diaz** Redevelopment
Status: **03/05/2001** ASM HOUSING AND COMMUNITY DEVELOPMENT Referred to Com. on H. & C.D.
This bill would require redevelopment agencies to use not less than 25% of all tax revenue allocated to the agency for low- and moderate-income housing.

AB 490 **Diaz** Housing trust funds
status: **05/09/2001** ASM APPROPRIATIONS In committee: Set first hearing. Referred to APPR. suspense file.
This bill would require the Department of Housing and Community Development to establish a program to make matching grants, from money appropriated by the Legislature for that purpose from the California Housing Trust Fund, to local agencies that establish housing trust funds, to provide financing for affordable housing to be occupied primarily by low-income persons and families.

AB 905 **Cohn** Housing: down payment assistance: public safety officers
status: 04/25/2001 ASM APPROPRIATIONS In committee: Set first hearing. Referred to APPR. suspense file.
This bill would create the Public Safety Downpayment Assistance Program, require the CHFA to administer the program, and prescribe conditions for the provision of downpayment assistance to public safety officers, as defined, employed by specified cities.
Sponsor - State Controller

AB 928 **Daucher** Live Near Your Work Program
status: 03/27/2001 ASM HOUSING AND COMMUNITY DEVELOPMENT In committee: Set first hearing. Hearing canceled at the request of author.
This bill would enact the Live Near Your Work Program administered by the Department of Housing and Community Development that would provide grants through local jurisdictions to assist individuals to buy or rent housing near their work. The bill would create the Live Near Your Work Fund and continuously appropriate any money deposited in the fund to the department for the purposes of the program.

AB 930 **Keeley** CalHome Program
status: 05/23/2001 9:30 a.m. - Room 4202 ASSEMBLY APPROPRIATIONS
This bill, which applies to HCD's CalHOME program, would exempt home rehabilitation funds from home price limits and would require the department to use its best efforts to ensure a reasonable geographic distribution of these funds .

AB 999 **Keeley** California Housing Loan Insurance Fund
Status: 05/09/2001 ASM APPROPRIATIONS In committee: Set first hearing. Referred to APPR. suspense file.
This bill would remove CaHLIF from the administrative autoriity of CHFA, establishing it as a stand-alone separate entity governed by a new and separate board of directors. It would also pledge $65 million in alr4eady committed CHFA funds in support of the new CaHLIF, and would exempt it from current statutes governing labor relations, personnel practices and compensation.
Sponsor - California Association of Realtors.

AB 1044 **Migden** California Housing Finance Agency: bonds
status: 05/17/2001 #112 ASSEMBLY FLOOR ASSEMBLY THIRD READING FILE
This bill would increase the amount of bond debt CHFA could have outstanding by $2,200,000,000
Sponsor: CHFA

AB 1170 **Firebaugh** Housing: downpayment assistance
stahls: 05/23/2001 9:30 a.m. - Room 4202 ASSEMBLY APPROPRIATIONS
This bill would create the Building Equity and Growth in Neighborhoods Fund and would continuously appropriate any money in the fund to the department for grants to cities, counties, and cities and counties for assistance for downpayment to qualifying new home buyers in those cities, counties, and cities and counties in specified areas that have taken prescribed actions to remove barriers to affordable housing.
Sponsor - California Building Industry Association

SB 372 **Dunn** Preservation Interim Loan Programs
status: 04/30/2001 SEN APPROPRIATIONS Placed on APPR. suspense file.
This bill would establish preservation interim loan programs known as the Preservation Opportunity Program and the Interim Repositioning Program , and require the department to contract with the agency to make loans on prescribed terms to preserve and maintain the affordability of assisted housing developments pursuant to those programs.
Sponsors: Housing California and NHCD

SB 401 **Soto** Tax credits: second mortgages

status: 04/25/2001 SEN REVENUE AND TAXATION Set first hearing. Testimony taken. Further hearing to be set.

This bill would authorize a homeownership tax credit, as specified, against those taxes for each taxable year beginning on or after January 1,2002, 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.
Sponsor: California Building Industry Association

SB 519 **Vincent** Military base conversion: housing

status: 04/11/2001 SEN HOUSING AND COMMUNITY DEVELOPMENT Set first hearing. Hearing canceled at the request of author.

This bill would establish the California Temporary Military Affordable Housing Authority within the California Housing and Finance Agency to, among other things, examine and select housing units on a decommissioned military base for renovation and leasing as affordable senior housing.
Sponsor - Commission on Aging.

SB 1227 **Burton** Housing Bond Act of 2002

status: 04/24/2001 SEN HOUSING AND COMMUNITY DEVELOPMENT To Com. on H. & C.D.

This bill would enact the Housing Bond Act of 2002 which, if adopted, would authorize, for purposes of financing those existing housing and code enforcement programs, the issuance of bonds in an amount up to $980,000,000 pursuant to the State General Obligation Bond Law.

MEMORANDUM

To: CHFA Board of Directors

From: Di Richardson
Director of State Legislation

Date: May 15,2001

RE: AB **999** (Keeley)

At the last board meeting, there was some discussion regarding AB **999** (Keeley), a bill that would remove the California Housing Loan Insurance Fund (CaHLIF) from the administrative authority of CHFA, establishing it as a stand-alone separate entity governed by a new and separate board of directors. Since our initial discussions, the bill has been amended to delete the $110 million appropriation, but the bill would continue to pledge $65 million in already committed CHFA funds in support of the new CaHLIF, and would exempt it from current government codes covering labor relations, personnel practices and compensation.

Per that discussion, I have attached an "Executive Summary" that outlines the content of bill, the intent of the sponsor, potential impacts of the bill, as well as outstanding questions and issues. Chairman Wallace has also requested that I include a more detailed analysis, for those of you interested in a more extensive discussion.

AB **999** recently passed the Assembly Housing Committee, and is currently pending on the Assembly Appropriations Suspense File.

It is likely that there will be additional discussion at the board meeting later this week. Please note that the bill is not on the agenda as an action item. This memo is for information and discussion purposes only.

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EXECUTIVE SUMMARY
AB **999** (Keeley)

AB **999** would remove CaHLIF from the administrative authority of CHFA, establish it as a stand-alone separate entity, create a new Board, pledge ***$65*** million in already committed CHFA funds, and would exempt it from current government codes covering labor relations, personnel practices and compensation. As introduced, AB **999** also contained an additional $110 million appropriation from an unspecified source to capitalize the fund. However, the bill was amended on May **2,** and that appropriation was deleted.

The sponsor and the author's premise is that CaHLIF is an under performing mortgage insurance fund, and that AB **999** would enable CaHLIF to do more business.

A. When the bill was heard in Assembly H&CD Committee, the author stated that as long as CaHLIF is part of CHFA, it will never be granted the AAA rating it deserves, because it will never be rated higher than its parent (CHFA);

   1. There is no guarantee that moving CaHLIF out of CHFA will result in a higher credit rating. Such a thing cannot be determined without a rating analysis by S&P, which would take into account a number of issues, including but not limited to: a detailed business plan and explanation of strategy; a comparison and contrast of the role of CaHLIF in relation to private MIs; proposed risk-to-capital levels; credit quality of the business to be written; parameters on income levels of borrowers; loan-to-value (LTV) ratios; insuring of second mortgages; limitation on the size of mortgages insured, geographical distribution of writings; destination of insured mortgages; competition with other MIs; staffing levels; and level of capitalization.

   2. Based on conversations we have had with rating agencies, it is our understanding that CaHLIF could never attain such a rating, whether inside or outside of CHFA - because its portfolio is not as diversified as the bigger national MIs that have that rating (i.e., its business is limited to California, it serves mainly high cost areas, and the bulk of its business is high LTV).

B. The sponsor and author also argue that despite its glowing financial reviews and stellar delinquency rates, CaHLIF is required to provide deeper coverage on the loans it insures (50% v. 20-30%) because of that lower credit rating. Thus, he contends if you move CaHLIF out of CHFA, it will automatically qualify for a higher credit rating, not be required to insure loans as deeply, and thus its money will be able to go farther (i.e., insure more loans).

   1. These two issues are totally unrelated. CaHLIF's deeper coverage has nothing to do with any rating requirement. CaHLIF has to provide deeper coverage because of the risk associated with its loans. The bulk of loans CaHLIF insures are 97% LTV and above, have more flexible underwriting, and are located in high cost areas of the state. In order to make those loans attractive to the

secondary market, they are required to have deeper coverage. Without this coverage, no one would buy the loans. This is true even with private mortgage insurance companies. The riskier the loan, the deeper the insurance. A larger portion of CaHLIF loans have that deep coverage because such a large portion of them are 97% LTV or higher and that many of it's borrowers have credit scores below the industry norms.

2. In addition, while CaHLIF currently has the statutory authority to insure loans to individuals with incomes up to 120% of the median level for most MSAs, or up to 140% of median if the property is located in a high cost county, most of its loans (approximately 55%) are to borrowers with incomes below 80% of median.

C. This year, the mortgage insurance that will be written for loans at 97% LTV and higher is estimated to be $1 billion. Therefore, CaHLIF's $400 million production volume is currently serving 40% of this high-risk market. Since no insurance fund would ever be expected to cover all of a market niche, this proposal leaves a number of questions unanswered

- Rather than talking about doing more business, the real question is who isn't being served?
- What population is proposed to be served? Would it be limited to first time homebuyers? Low to moderate income buyers? Would there be sales price limits above FHA, Fannie Mae, Freddie Mac limits? Buyers with lower credit scores? Lower LTV ratios than CaHLIF is currently serving?
- If CaHLIF is currently serving 40% of the 97% LTV and above market, do the proponents want CaHLIF to assume greater risk and do a larger share of that market? Or do they want CaHLIF to move into the lower LTV market and compete more directly with the private MIs? What if any savings would this be to the homebuyer? What would be the public benefit?
- Are there houses that aren't being sold because people can't get MI? Isn't California's problem that we need to increase the housing stock?
- Isn't the credit rating directly linked to the amount of capitalization available? At what level would the fund be capitalized if it were moved outside of CHFA? How was that number derived? How do we know if that number is sufficient to maintain the current credit rating, let alone get a higher rating?
- Has a rating agency done a rating analysis? Don't we need to have that information so we know what level of capitalization will be required – and how much capital it will take to get something more than we have leaving CaHLIF at CHFA?
- Given the fact that the $110 appropriation has been deleted from the bill, how does the author/sponsor plan to capitalize the fund?
- Could movement of this bill in its present form, without adequate capitalization, have an adverse effect on CaHLIF's current portfolio? Will current investors view this as a signal from the State that it plans to separate CaHLIF from CHFA without proper capitalization, placing CaHLIF's current portfolio at risk?

D. The bill proposes to require that ***$65*** million of housing bond reserves be pledged to an independent CaHLIF. This is not financially feasible for the following reasons:

1. These restricted bond security reserves are already, and foremost, pledged to the Agency's housing bondholders.
2. With the funds used to secure bondholders interests it would not be possible to allow them to be pledged to another independent entity outside of the administrative control and responsibility of the Agency.

E. It should also be noted that the bill would exempt CaHLIF from the Government code (Section **22)** covering public employee fair labor laws, open meetings, Department of Personnel Administration and State Personnel Board rules, civil service procedures, standard of health and safety and public employee representation rights.

F. Section 16 of the bill also exempts the new entity from investing funds under current State Treasurer guidelines and, instead authorizes the investment of public funds under the much more liberal private insurance carrier guidelines (which includes investments in **junk** bonds, etc. Another reason why CHFA bondholder securities cannot be pledged.)

AB 999 (Keeley)

SUMMARY

This bill would remove the California Housing Loan Insurance Fund (CaHLIF) from the administrative authority of CHFA, establishing it as an independent authority governed by a separately appointed board of directors.

PURPOSE OF THE BILL

According to the sponsor, separating CaHLIF from CHFA will allow it to compete effectively with more flexible mortgage insurance products because it will be governed by its own board of directors, knowledgeable in the insurance area and not beholden to CHFA.

ANALYSIS

- A primary mission and goal of the California Housing Finance Agency (CHFA) is providing affordable housing opportunities to first time homebuyers. An integral part of this is accomplished with our California Housing Loan Insurance Fund (CaHLIF), which insures first-time homebuyer mortgage loans in the California market to stimulate housing opportunities for the benefit of homeowners. CaHLIF, as a part of CHFA, reports directly to an appointed Board of Directors and an appointed Executive Director. A Director of Insurance, who serves at the pleasure of the Executive Director of CHFA, administers CaHLIF. Although the Executive Director has the responsibility for administering the day-to-day affairs of both CHFA and CaHLIF, the Director of Insurance manages (subject also to the review and approval of the Insurance Committee of the CHFA Board) the business and affairs of the insurance fund, determines the amount of premium to be charged for its insurance programs as authorized by law and the Board, determines the liability of CaHLIF for the payment of any insurance claim, and establishes the underwriting criteria for the programs.

- AB 999 would remove CaHLIF from the administrative authority of CHFA, establish it as a stand-alone separate entity, create a new Board, pledge $65 million in already committed housing funds, appropriate an additional $110 million from an unspecified source for its support, and would exempt it from current government codes covering labor relations, personnel practices and compensation.

- CHFA is governed by a 14 member Board of Directors (11 voting members), six appointed by the Governor, one each appointed by the Speaker of the Assembly and the Senate Pro Tempore; and six ex officio members specified by statute (State Treasurer, Secretary of Business, Transportation and Housing, Director of Housing and Community Development, Director of Finance, Director of Office of Planning and Research, and Executive Director of CHFA). Members serve six-year terms, except for the Executive Director, who serves five. The Governor is required to make his appointees from a list of categories, including local elected official, residential real estate banking, residential builder, organized labor, low income rental housing management, manufactured housing financing and development, and the general public. The appointees of the Speaker and Senate Pro Tempore are considered representatives of the general public. This bill would place CaHLIF under the governance of its own five member Board of Directors, including the Secretary of the Business, Transportation and Housing Agency (or his/her designee) and the Director of Insurance, who would serve as ex officio members. The remaining three members would be appointed by the Governor, subject to Senate confirmation, and would serve terms of eight, six, and four years respectively. The Director of Insurance would be required to have demonstrable knowledge of the insurance industry; the other three members would be required to have experience and expertise in mortgage finance and mortgage guarantee insurance.

- Although CHFA is governed by an independent Board of Directors and granted a great deal of autonomy by statute, it is designated as part of the Business Transportation and Housing Agency (Health and Safety Code 50900). While this bill would require CaHLIF to submit certain reports, including its annual budget, to the Secretary of the Business, Transportation and Housing Agency, for review, it contains no language placing CaHLIF under the administrative/oversight umbrella of any current state entity, and in fact provides in at least four different places that neither CaHLIF nor the administration of its Fund would be subject to the supervision or approval of any division or officer of state government other than its board of directors.

- Under current law, the Governor appoints the Chairperson of the CHFA Board of Directors. This bill would allow the CaHLIF Board to choose its own chairperson each year.

- Under current law, CHFA Board members are authorized to receive per diem of up to $100 per day for each day's attendance at a board meeting, up to $300 per month, plus travel and other necessary expenses. AB 999 would provide that except for the Director, CaHLIF board members would be entitled to per diem set at $100 per day for each day's attendance at a board meeting (no cap is included), plus travel and other necessary expenses.

- Under current law, the salary for the Director of Insurance is subject to the review and approval of the Department of Personnel Administration (DPA). The salary for the Executive Director of CHFA is established by the Board in an amount reasonably necessary to attract and hold a person of superior qualification. That salary, however, cannot exceed that of the Secretary of the Business, Transportation and Housing Agency, and is also subject to the review and approval of the Department of Personnel Administration. AB 999 would similarly authorize the CaHLIF Board to establish the salary for the

Director of Insurance, but does not appear to contain a cap or require DPA approval.

- Under current law, CaHLIF is authorized to have up to five positions designated as managerial, subject to designation by the Department of Personnel Administration. All other positions are required to be represented employees subject to state civil service. This bill would eliminate the cap on the number of employees that can be designated managerial, authorizing all employees other than clerical, ministerial, and nonspecialized positions in the private mortgage guaranty industry to be designated managerial.

- Under current law, the Director of Insurance is required to establish procedures for approved lending institutions to follow in the event of a default on a loan insured by the Insurance Fund. AB 999 would further require those procedures to require the lending institution to provide notice of a delinquency, giving CaHLIF the opportunity to counsel the borrower, cure the default, reinstate a delinquent housing loan prior to foreclosure, exercise a power of sale, or otherwise acquire the title and possession of the property. If that notice were not provided, CaHLIF would be authorized to deny payment of the claim. This is already currently practice something required by CaHLIF of its current lenders, and as such, adds no real value.

- Under current law, moneys in the Insurance Fund can be used to create reserves for loan loss guarantees and for the initial administrative expenses of the program that are not offset by premium income. AB 999 would specifically include energy efficient mortgages as products that can be guaranteed by the fund. CaHLIF staff explained these programs are rare not because of a lack of availability of insurance, but because overall loan limits from the conventional marketplace (i.e., Freddie and Fannie) that make it difficult to include these costs in a loan without exceeding those limits.

- CaHLIF currently has been awarded a claims-paying ability rating of "A+" by Standard and Poor's and "Aa3" by Moody's. These ratings are required by CaHLIF to offer any mortgage insurance product in the primary or secondary home loan markets. AB 999 would capitalize CaHLIF as a separate entity by requiring CHFA to leave in force its current $65 million pledge; utilize $25 million in existing CaHLIF reserves; and provide an additional $110 million from an unnamed source. The $65 million pledge from CHFA would be required to be secured by unrestricted reserves, and would begin to decrease incrementally once the earnings on the Insurance Fund exceed $150,000,000. However, CHFA has no "unrestricted" reserves. If such a pledge were made to CaHLIF from other State funds and based on historical CaHLIF earnings, CHFA believes it would take CaHLIF approximately 15 years to release the pledge.

- This bill would only become effective if the Secretary of the Business, Transportation and Housing Agency receives written certification from the insurance Department of Standard and Poor's that (1) the current rating and claims paying ability of CaHLIF will be retained or improved under this act, with existing reserves and currently available support in place; and (2) the current rating of CHFA will be retained or improved. (It is not clear from the bill who would be required to pay for that rating study.) Given the significant risk associated with an insurance fund, rather than provide for the determination of the viability of it as an independent entity after the enactment of legislation, more appropriately, this information and determination should be developed and considered prior to such legislative action.

LEGISLATIVE HISTORY

The California Association of Realtors has sponsored similar legislation several times in the past. Former Assembly Member Dan Hauser introduced three bills to transfer CaHLIF from CHFA (AB 3566 in 1990; AB 114 and AB 457 in 1990) but none of these bills proposed an appropriation to augment the CaHLIF reserve fund as currently proposed. Former Assembly Speaker Willie Brown re-introduced the bill in 1993 as a companion measure to a statewide housing bond proposal (AB 214), but that bill was subsequently amended to remove the CaHLIF transfer provisions before it passed the Legislature.

What is mortgage insurance?

The role of primary mortgage insurance is to provide mortgage lenders with an added layer of credit protection should the property owner/borrower default on his or her mortgage loan. Borrowers with at least a 20% down payment on a house purchase are not required to maintain mortgage insurance. Because this down payment represents the equity the lender has protecting its loan should a default occur, higher loan to value rations (LTV) mortgage loans (i.e., 81% and above) are considered riskier, and therefore are required to carry mortgage insurance.

Since many would-be homeowners, however, cannot come up with a 20% down payment, the mortgage insurance effectively provides the lender with the "missing" borrower equity in order to bring the effective LTV down to 80% - or even lower for very high (e.g., 95%) LTV loans. For example, a lender may require that a borrower receiving a loan with a LTV of 95% purchase primary mortgage insurance covering 25% of losses. Should the borrower default, the lender would look to the mortgage insurer to cover losses on the property in addition to other related expenses that mortgage insurers (MI's) are responsible for paying including; unpaid interest accumulated between the default and the foreclosure, legal fees, broker fees, physical maintenance of the property and closing costs.

When a claim is made, the MI generally has the choice of paying the actual amount of the claim and taking title to the property (and mitigate its loss by selling the property), or paying the maximum claim amount payable under the policy (in this example, 25% of the loan), and granting title of the property to the lender. The avenue that is chosen by the MI is a function of the relative costs and benefits; managing and marketing foreclosed properties is typically expensive and generally factor heavily in such a decision.

CHFA's MI History

The predecessor to the California Housing Loan Insurance Fund was statutorily established in 1977 and was recodified in 1993. CaHLIF's mission is to facilitate home buying in California by insuring mortgages of individuals whom it considers good credit risks but who would not normally qualify for private mortgage insurance. Examples of such individuals would be first-time homebuyers, individuals whose income levels are relatively low but who have good payment records, young teachers and persons who own small businesses.

CaHLIF's historic mission, as directed by the Board of Directors, in addition to expanding homeownership opportunities to homebuyers without competing with private mortgage insurance industry, is to demonstrate that certain types of loans, if made under prudent underwriting guidelines, can represent good commercial risks. CaHLIF originally insured primarily CHFA originated mortgages, but since 1993 CaHLIF has been substantially expanding its affordable housing outreach to conventional mortgages. As of today, CaHLIF's current new business is made up of 90% conventional loans and only 10% CHFA originated loans.

CaHLIF's insurance programs focus on those areas of California of greatest affordable housing need, which are generally defined as high cost areas, such as coastal areas of the state and the area around Los Angeles. Mortgage insurance is readily available in other lower cost areas of the state (such as the Central Valley) from other providers, including the Federal Housing Administration (FHA).

CaHLIF currently has the statutory authority to insure loans to individuals with incomes up to 120% of the median level for a metropolitan statistical area (MSA), or up to 140% of the median if the property is located in a high cost county. However, most of its loans (approximately 55%) are to people with incomes lower than 80% of median. The average loan size is $130,546 for existing book of business.

In contrast to the private industry, which generally insures 10% - 30% of the mortgage amount, CaHLIF insures 50%. This higher insurance coverage has nothing to do with CaHLIF maintaining its ratings, but is the quid pro quo with Fannie Mae and Freddy Mac accepting targeted loans that CaHLIF insures which have higher LTV's, more flexible underwriting and a concentration in high cost areas. Although this high level of coverage exposes it to higher loss risks, particularly in recessionary times, CaHLIF mitigates this risk with a "hands on" mitigation philosophy that promotes working with its borrowers to reduce losses and some cases forestall losses altogether. CaHLIF relies heavily on counseling borrowers; both at the time a loan is made and at such time as the loan may become delinquent, to avoid default.

CHFA continues to work at expanding CaHLIF's business and has partnered with the secondary market for conventional mortgages, Fannie Mae and Freddie Mac. This is, in turn, beneficial to Fannie and Freddie in that the Department of Housing and Urban Development (HUD) has directed them to purchase or guarantee more loans to lower-income borrowers. Currently, HUD proposes a guideline that 50% of the risk taken by Fannie and Freddie should represent income levels at or below the median, up from about 40% five years ago. CaHLIF currently has programs in place with both Fannie Mae and Freddie Mac that incorporate coverages of at least the standard 50% coverage and, in one program 55%.

While CaHLIF's establishing legislation allows for a broad range of insurance products including multifamily loans and bonds, due to the substantial reserves required, CaHLIF does not participate in these areas and currently has no plans to enter those markets.

CaHLIF Today

Currently, CaHLIF has total risk in force of $1 billion covering more than 8,000 loans. CaHLIF is currently meeting its business plan goals, its products have growing acceptance in the private marketplace, and it has steadily converted from insuring primarily CHFA loans to now insuring primarily conventional loans. To illustrate this, in 1997 (and in prior years), CaHLIF insured primarily CHFA loans (87% of its production) with the balance (13%) being insured conventional loans. This trend has been steadily reversed from 1997 to 2000. In calendar year 2000, CaHLIF continued to prove that its products have gained acceptance in the marketplace by insuring primarily conventional loans (80%) with the balance being CHFA loans. For the month of December 2000, this trend continued with the insurance production ratio at 92% conventional and 8% CHFA. This is due to CaHLIF meeting its business plan goals, expanding the number of borrowers who otherwise would not be in the affordable housing market, introducing viable affordable housing insurance products, and demonstrating that, like the 97% loan, such products can be adopted by private sector insurers and result in new affordable housing opportunities for first-time homebuyers.

CaHLIF is continuing to offer more affordable products and reach more potential homebuyers. Its fiscal plan for the 2001-2002 year is projecting a volume of $715 million or $3.575 billion over the 5-year plan. CaHLIF is directly staffed by 11 authorized positions, including the Insurance Director and other mortgage insurance related staff, and by 5 indirect support staff (accounting, legal, etc.) for a total of 16 positions. The operating budget for CaHLIF for FY 1999-2000 was $1.5 million and for FY 2000-01, as of December 31,2000, expenditures are $700,000. It is anticipated that total budget expenditures for the insurance program will again approximate $1.5 million for the current fiscal year.

CaHLIF is currently approved for "steady growth" by the rating agencies. The "steady growth" mantra of the rating agencies is important. The rating agencies place a great deal of importance on steady growth and would look negatively upon any large jumps in production rates. The reason for this is their concern of concentrating risk in any one mortgage pool that may, down the road, present an unmanageable risk to this or any other insurance fund. Large jumps in production may be met by one or more of the following rating agency actions; (1) a downgrade of the insurance fund rating, thereby not meeting minimum rating agency standards to do business or to maintain the current insurance portfolio and/or (2) a requirement of significant pledges of capital beyond the current levels to meet rating agency worst case scenarios. Consequently, any proposed program increases beyond current levels would require rating agency review and concurrence within reasonable risk parameters in order to avoid adverse rating reactions or large pledges of new capital.

In prior years, CaHLIF has had difficulty reaching its annual production goals due primarily to limitations in the secondary market (acceptance of programs by Fannie Mae and Freddie Mac) and the timely implementation of programs by its partners (redevelopment agencies, local housing agencies, and lenders, etc.). With the growing acceptance of its programs in the conventional market, CaHLIF is currently on track to meet its goals for this fiscal year. It is particularly important to note that any insurance product or innovation offered by CaHLIF must be accepted by the secondary purchasers (Fannie Mae and Freddie Mac) of the loans from the lenders.

In addition to its overall production goal, CaHLIF has as a part of its long-term strategy intentionally changed its business from insuring primarily CHFA loans to insuring primarily conventional loans. This strategy, which is based on direction from the Board of Directors, allows more borrowers to benefit from CHFA programs, rather than just those obtaining CHFA loans. This goal is intended to demonstrate the marketability of its insurance products to the general marketplace, rather than compete with private insurers, and to meet one of its primary public purpose goals; to promote the ultimate adoption of its products by the private mortgage insurance industry as opposed to just continuing a "state run" insurance fund.

As stated above, the success of this strategy can be illustrated by the growing acceptance of the 97% loan in the private marketplace. This affordable home loan financing tool requires only a 3% downpayment from the borrower or from other sources. In 1993, CaHLIF became the first mortgage insurer in the country to offer this product that has, over the intervening years, been growing in acceptance in the private mortgage insurance and lending markets.

OTHER STATES' INFORMATION

CHFA is unaware of any other State Housing Finance Agency that insures conventional loans. Many states do not even have a MI function, utilizing instead only FHA, VA and private mortgage insurance.

FISCAL IMPACT

AB 999 would capitalize CaHLIF as a separate entity by requiring CHFA to leave in force its current $65 million pledge; utilize $25 million in existing CaHLIF reserves; and provide an additional $110 million from an unnamed source.

Obviously, the $110 appropriation would be new cost to the State. Since the source of those funds has not been identified, CHFA cannot comment on any potential impact associated with that particular piece. As such, our comments will be limited to the CHFA pledge and CaHLIF reserves.

CaHLIF has been awarded a claims-paying ability rating of "A+" by Standard's and Poor's and "Aa3" by Moody's. These ratings are required for CaHLIF to offer any mortgage insurance product in the primary or secondary home loan markets. The ratings are based not only on risk management practices, but also more importantly on the fact that CHFA's Housing Finance Fund provides its general obligation backing to CaHLIF. This is because CaHLIF's risk of over $1 billion is NOT backed by the full faith and credit of the State of California. CaHLIF has approximately $25 million in equity reserves, and these funds, on their own, are insufficient to support any rating level from the rating agencies. Should CaHLIF move from CHFA, these are the only funds that could be transferred with it. CHFA does not have any "unrestricted reserves as referenced in the bill. All funds are obligated for the security of its bondholders.

By way of explanation, in order to keep and maintain its ratings, the Insurance Fund is dependent upon the financial pledges and support of the primary financing fund of the Agency, the Housing Finance Fund. The $8 billion in assets in the Housing Finance Fund (loans and reserves) have the primary fiduciary responsibility as the repository for the Agency's affordable housing loan portfolio and is the security ultimately backing the Agency's investor-held bonds. The Housing Finance Fund contains the Agency's loan assets, required reserves backing its bond issuances, and monies scheduled to be converted into loans. The reserves are required by the rating agencies to protect the bondholders in the event of mortgage shortfalls and defaults. So as to maximize the public benefit of CHFA's resources, in restricted cases these reserves may also do "double duty" by acting as a pledge for other related housing activities of the Agency, such as the guarantee behind CaHLIF. It is this "double duty" which allows the Housing Finance Fund to back its bonds, while at the same time backing CaHLIF's mortgage insurance risks and thereby maintaining CaHLIF's ratings and ability to act as the primary insurer of affordable mortgage loans.

As such, moneys in the Housing Finance Fund are restricted as security for its bondholders and cannot be released from their housing bond pledges. Their pledged use for CaHLIF is with the concurrence of the rating agencies and CHFA cannot under its contractual agreement with its bondholders extend the pledge if the Insurance Fund were to be transferred from the management of CHFA.

The Housing Fund pledges and reserves are used in support of the CaHLIF Fund as follows:

A. $64.5 million from the Housing Finance Fund does "double duty" by backing both the Agency's bonds and the CaHLIF mortgage insurance risks as a credit pool required by the rating agencies and by reinsurance agreement.

B. General obligation of the Agency. Because the Housing Loan Insurance Fund has inadequate capital to obtain claims- paying ratings or mortgage reinsurance, the CHFA Board has pledged capital behind the Housing Loan Insurance Fund. This pledge does not have a monetary limit, but was initially made in 1993 based on Standard and Poor's determination at that time that its value was to be maintained at an equivalent level of $200 million. The $64.5 million in A. above is a part of this minimum $200 million pledge. The same restrictions described previously for the Housing Finance Fund continue to apply here in that the primary purpose of these "general obligation" pledged funds is to back the Agency's bond issuances and are not available for transfer for any other purpose outside of the management of the Agency.

CHFA also supports CaHLIF insured mortgages and partnerships with $20 million from its Housing Assistance Trust and Emergency Reserve Account. These accounts are maintained within the Housing Finance Fund and have the same restrictions and requirements as previously described. The purpose of the Housing Assistance Trust is to allow bondholder security reserves to be invested to a limited extent in Agency housing programs rather than conventional securities and investment agreements. In this way, CHFA is able to maximize the use of its security funds by creating further housing opportunities while at the same time meeting bondholder security reserve requirements. This is done with the concurrence of the rating agencies, and the Trust's assets are restricted to Agency-backed programs. Neither the Trust nor accounts in the emergency reserve Account are available for transfer to non-CHFA managed programs or for any purpose that may place the funds at an unreasonable risk to the bondholders.

The Trust provides $20 million in support to CaHLIF as follows:

- $2.5 million is loaned from the Housing Assistance Trust for 3% second loans behind conventional loans insured by CaHLIF. CHFA offers 3% downpayment programs in support of the Fund's 97% and 100% loan programs. Also participating in this second loan program is $7.5 million from the California Organized Investment Network (COIN - Department of Insurance).

- $7.5 million from the Trust finances other 3% second loans in partnership with redevelopment agencies and other housing entities behind first mortgage loans insured by CaHLIF. CHFA's $7.5 million acts as an incentive for RDA's to participate in CaHLIF's insured mortgage programs.

- $10 million in Trust funds acts as a claims loss reserve backing the first mortgages originated in partnership with the RDA's and other housing agencies. The reserves assume 3% of the risks involved in the generation of

$200 million in production in high costs areas and 1% for $400 million in insurance production in other non-high cost areas. Pledges above these amounts will come from banks, RDA's and other participants.

Because these funds are first obligated as security to CHFAs bondholders, if the bill were enacted, CaHLIF would also have to find a source of funds to replace these $20 million in funds in addition to the $200 million contained in the bill.

ECONOMIC IMPACT

It is important to note that the bill does not contain any new CaHLIF insurance program improvements; does not contain any further benefit for the secondary market (Fannie Mae and Freddy Mac) who would be extremely cautious in purchasing significantly more specialized mortgages from CaHLIF, recognizing that CaHLIF is a "higher risk" insurer since its mortgages are undiversified (come from a single state), have higher LTV's, and they are originated from high cost areas of the state; would not improve CaHLIF's ratings; and would cost the State another $175 million, in excess of CaHLIF's current $25 million in reserves, for the same benefits that are being currently achieved using CHFA's Housing funds that are doing "double duty" to meet the rating agencies' $200 million in reserve requirements.

In addition, the bill's attempt to create an independent CaHLIF by partially meeting its new rating agency requirements with the commitment of $65 million of already obligated CHFA reserves would create a number of significant problems. While the bill attempts to mitigate some concerns by providing for the status quo in ratings; such a drastic change in CHFAs bondholder reserves would have a chilling effect on CHFA's ability to sell future bonds in support of its affordable housing programs. The bill attempts to mitigate this somewhat by calling the commitment of funds a "pledge" to separately create an insurance entity, but this type of transaction would be transparent to the financial markets and would have the same negative impact as if the security housing funds were transferred to another entity outside of CHFA's financial responsibility. In addition, there is not a source of liquidity outside of the bondholder reserves to capitalize the pledge. CHFA would be forced to withdraw a number of its highly successful current Housing Assistance Trust affordable loan programs, and significantly curtail its current $8.8 billion affordable housing five year business plan. All of this would occur with no known net benefit from this bill.

LEGAL IMPACT

As discussed in detail above, this bill could subject CHFA to litigation from its existing bondholders if its current pledge of $65 million is transferred or pledged to an entity over which the CHFA Board has no authority.

SUPPORT/OPPOSITION

Support: California Association of Realtors (Sponsor)

Opposition: Mortgage Insurance Companies of America

ARGUMENTS

Pro:

- The bill would purport to improve CaHLIF's ability to do more business by expanding both the amount and type of business CaHLIF could underwrite. It would allow CHFA to focus their resources in the areas of their expertise thereby also making them more productive.
  *(Rebuttal: This bill does not contain any new CaHLIF insurance program improvements; does not contain any further benefit for the secondary market (Fannie Mae and Freddy Mac) who would be extremely cautious in purchasing significantly more specialized mortgages from CaHLIF, recognizing that CaHLIF is a "**higher** risk" insurer since its mortgages are undiversified (come from a single state), have higher LTV's, and they are originated from high cost areas of the state; would not improve CaHLIF's ratings; and would cost the State another $175 million, in excess of CaHLIF's current $25 million in reserves, for the same benefits that are being currently achieved using CHFA's Housing funds that are doing "double duty" to meet the rating agencies' $200 million in reserve requirements.)*

Con:

- CHFA's much-larger Housing Finance Fund currently supports CaHLIF, but an independent CaHLIF would need financial support from the State. CHFA currently has the statutory power to loan money from the Housing Finance Fund to the Housing Loan Insurance Fund. While CHFA shows $64.5 million in the Housing Finance Fund earmarked for this purpose, the amount that could be loaned is not limited by statute. It is this ability of CHFA to loan carefully monitored amounts to CaHLIF that gives the rating agencies the confidence to assign claims-paying ratings of Aa3 (Moody's) and A+ (S&P) to CaHLIF. Without the general pledge of CHFA to back CaHLIF, it is very likely that additional capital would have to be appropriated to satisfy the rating agencies.

- The bill would require CHFA to provide $64.5 million of security to an entity over which it would have no control.

- Recognizing that the $65 million proposed in this bill is first pledged to CHFA's bondholders and is not available for transfer, up to $175 million in other state funds (general funds?) would have to appropriated (in addition to CaHLIF's $25 million fund) to meet the rating agencies $200 million threshold for an insurance entity.

- While requiring up to $175 million in new funding to be effective, this bill does not contain any new program, insurance mission, or benefit that is not and cannot be achieved under the current program structure.

- CHFA does not have a conflict of interest as both a lender and an insurer. While there never has been a conflict of interest, it should be noted that each year a greater percentage of CaHLIF's new business is mortgage insurance for non-CHFA loans, and a smaller percentage of new CHFA loans are CaHLIF-insured, as explained above.

- CaHLIF has been directed, by Board policy, to serve niche markets for which mortgage insurance is not currently available. This policy is based on a fundamental belief that there is no need for the State to provide a general mortgage insurance program to compete with the private mortgage insurance industry.

- Within existing law in the Government Code, there are numerous sections that pertain to State personnel, labor relations, and compensation practices. This bill would exempt CaHLIF from these provisions that are applicable to other State agencies, while also circumventing DPA's statutory authority to administer personnel practices.

- This bill would give the CaHLIF Board the sole discretion over the salary of the Director of Insurance. Since DPA has the authority to approve salaries for exempt State employees, this provision would appear to remove DPA's current statutory authority.

- The current CaHLIF program and structure have received **no** complaints from the housing industry, mortgage insurance industry, non-profits or for-profit developers, or local housing entities. In fact, CaHLIF is being praised for its innovative housing efforts and partnerships with Fannie Mae, Freddy Mac, STRS, a dozen local Redevelopment Agencies, other local housing programs, such as Sacramento, San Jose, San Francisco, Los Angeles, etc., and partnerships with the Department of Insurance's COIN program which matches private insurance company reserves with CaHLIF's affordable housing programs.

State of California

MEMORANDUM

To: Board of Directors

Date: May 15,2001

Ken Carlson, Director of Financing

From: **CALIFORNIA HOUSING FINANCE AGENCY**

Subject: REPORT OF BOND SALE AND RELATED INTEREST RATE SWAPS HOME MORTGAGE REVENUE BONDS 2001 SERIES HIJK

Interest rates have been determined for the fixed-rate portions of CHFA's largest-ever bond issue, a $519.1 million four-series issue for our home loan program. On May 15th we priced $288.8 million of Series H and I tax-exempt fixed-rate bonds, arranged fixed rates through the swap market for $86.3 million of tax-exempt variable rate bonds, and set the interest rate spread over the LIBOR index on $144 million of taxable variable rate bonds. All of the bonds will be delivered on May 31st.

The issue is *so* large because it has three separate purposes as follows:

<u>Funding; New Loans</u>

A $205 million portion of the transaction (parts of Series H and I, and all of K) is being issued to fund approximately 1,400 new loans, most of which are expected to have interest rates ranging from 6% to 7.25%. This $205 million includes $61 million of both variable and fixed-rate bonds (a portion of which are capital appreciation bonds) and $144 million of taxable bonds that will be purchased by the San Francisco Federal Home Loan Bank.

<u>Preserving; Tax-Exemut Authority</u>

A $213.8 million portion of Series I is a one-year callable note being issued to preserve tax-exempt authority for later use. Over the next 12 months, we will use the refunding process to convert increments of the note into long-term tax-exempt bonds. In the meantime, the proceeds of the note will remain invested at a higher rate, resulting in valuable net investment earnings. We have used a similar technique several times in the past with much success.

Creating Subsidy

A **$100.3** million portion of Series H, I, and J is being issued to refund certain **1991** CHFA issues that will be redeemed this summer. The wide spread between the old high-rate mortgages being transferred over, and the new fixed bond and swap rates will generate a significant economic savings that will enable us to continue to utilize a high percentage of taxable bonds in future transactions.

Other Matters

The tax-exempt Series J bonds are variable rate demand obligations swapped to a fixed rate. Lloyds Bank (a highly-rated British bank) will provide liquidity in the unlikely event that the bonds are put back to us by investors and new investors cannot be found. The interest rate swap is structured with declining notional amounts that match the expected amortization of the corresponding Series J variable rate bonds. By utilizing an interest rate swap, we achieved a significant savings in our cost of funds for this **$86.3** million of bonds when compared to issuing fixed-rate bonds.

The Series K bonds being sold to the FHLB will bear interest at a variable rate based on the quarterly LIBOR index. Because this bond has a relatively short average life, at this time we are contemplating not swapping it to a fixed rate. A preliminary analysis of the interest rate sensitivity of the entire **$5** billion Home Mortgage Revenue Bond indenture leads to the conclusion that this additional variable rate debt is appropriate.

The **$230.3** million of variable rate bonds and the $5**1.4** million of capital appreciation bonds are insured by FSA and therefore rated triple-A by both Moody's and Standard **&** Poor's. The **$23.6** million of serial bonds and the **$213.8** million note were not insured and thus carry the Aa2/AA- ratings of the HMRB indenture.

This issue is notable not only for its record-breaking size but also because of how the proceeds will be invested. Virtually the entire proceeds will be invested by the State Treasurer in the $50 billion Pooled Money Investment Account. This account is paying a significantly higher interest rate than alternative short-term investments, and we appreciate the Treasurer's cooperation in providing CI-IFA this opportunity.

Series	Amounts	Interest Rates	Reset Frequency	Maturities	Tax Status
2001 Series H	$43,514,371	2.95 – 5.75%		2/1/02 – 2/1/15	Non-AMT
2001 Series I	245,279,309	2.95 – 6.20%		6/14/02–2/1/32	AMT
2001 Series J	86,300,000	4.143%*	Daily	2/1/32	AMT
2001 Series K	144,000,000	3 mo. LIBOR + 0.24%**	Quarterly	8/1/32	Taxable
Total	**$519,093,680**				

*swap rate

Initial rate will be set based on index as of May 29. If set today, initial rate would be 4.36%

Bond Sale Reports

(millions of $)

Date of Sale	Bond Series	$ Amount
3/13	HMRB 2001 EFG	$150,000,000
5/15	HMRB 2001 HIJK	$519,093,680

CALIFORNIA HOUSING FINANCE AGENCY
$519,093,680.04
Home Mortgage Revenue Bonds
2001 Series H/I/J/K
($ Millions)

Tax Status	Bond Type	Series	New Money	Economic Refunding	Escrowed Proceeds	Total
Tax-Exempt	Variable Rate	J	$49.84	$36.47	$0.00	$86.30
	Fixed Rate	H	0.00	23.59	0.00	23.59
		I	0.00	0.00	213.78	213.78
	CABS	H	0.00	19.92	0.00	19.92
		I	11.16	20.34	0.00	31.50
Taxable	LIBOR Index Floater	K	144.00	0.00	0.00	144.00
Total			**$205.00**	**$100.32**	**$213.78**	**$519.09**

CALIFORNIA HOUSING FINANCE AGENCY

Variable Rate Debt as of June 1,2001

(Millions of $)

	Tied Directly to Variable Rate Loans	Swapped to Fixed Rate	Not Swapped or Tied to Variable Rate Loans	Total Variable Rate Debt
Single Family	$33	$1,425	$624	$2,082
Multifamily	16	209	37	262
Total	$49	$1,634	$661	$2,344

Net Variable Rate Debt

(millions of $)

	Tax-Exempt	Taxable	Totals
Short average life	$248	$233	$481
Long average life	37	143	180
TOTALS	$285	$376	$661

Interest Rate Swaps

(millions of $)

	Tax-Exempt	Taxable	Totals
Single family	$464	$961	$1,425
Multifamily	209	0	209
TOTALS	$673	$961	$1,634

TYPES OF VARIABLE RATE DEBT

(Millions of $)

	Auction Rate	Indexed Rate	Variable Rate Demand Obligations	Total Variable Rate Bonds
Single Family	$87	$593	$1,402	$2,082
Multifamily	0	0	262	262
Total	$87	$593	$1,664	$2,344

TYPES OF VARIABLE RATE DEBT

(Millions of $)

	Auction Rate	Indexed Rate	Variable Rate Demand Obligations	Total Variable Rate Bonds
Tax-Exempt	$57	$ 0	$ 950	$ 1,007
Taxable	30	593	714	1,337
Total	$87	$593	$1,664	$2,344

CHFA
Single Family
Homeownership Programs

FIVE-YEAR BUSINESS PLAN

2001/02 – 2005/06

SINGLE FAMILY HOMEOWNERSHIP MISSION

To provide homeownership opportunities to very low, low and moderate income first-time homebuyers.

SINGLE FAMILY HOMEOWNERSHIP OBJECTIVES

- Provide first-time homebuyers with below-market-rate mortgage financing,
- Targeting low-income homebuyers,
- Managing resources – funds available statewide throughout the year, and
- Promoting loan products to expand supply of affordable new construction housing.

SINGLE FAMILY HOMEOWNERSHIP STRATEGIES

- Provide long-term, fixed rate first mortgages below conventional market interest rates,
- Providing our lowest rate for low-income borrowers,
- Supporting very-low and low-income home ownership to include:
  - Affordable Housing Partnership Program (AHPP)
  - 100% Loan Program (CHAP)
  - Self-Help Builder Assistance Program (SHBAP)

SINGLE FAMILY HOMEOWNERSHIP STRATEGIES (CONTINUED)

- Providing downpayment assistance such as:
  - California Homebuyer's Downpayment Assistance Program (CHDAP)
  - 100% Loan Program (CHAP)
  - School Facility Fee Downpayment Assistance
  - Home Purchase Assistance (HPA)

SINGLE FAMILY HOMEOWNERSHIP STRATEGIES (CONTINUED)

- Offering interest rate differentials and program incentives to assist homebuyers in extreme high cost areas, or teachers and principals in low performing schools,
- Statewide network of lending institutions to provide consumer access to CHFA loan products, and
- Update sales price limits consistent with federal law.

SINGLE FAMILY HOMEOWNERSHIP ACCOMPLISHMENTS

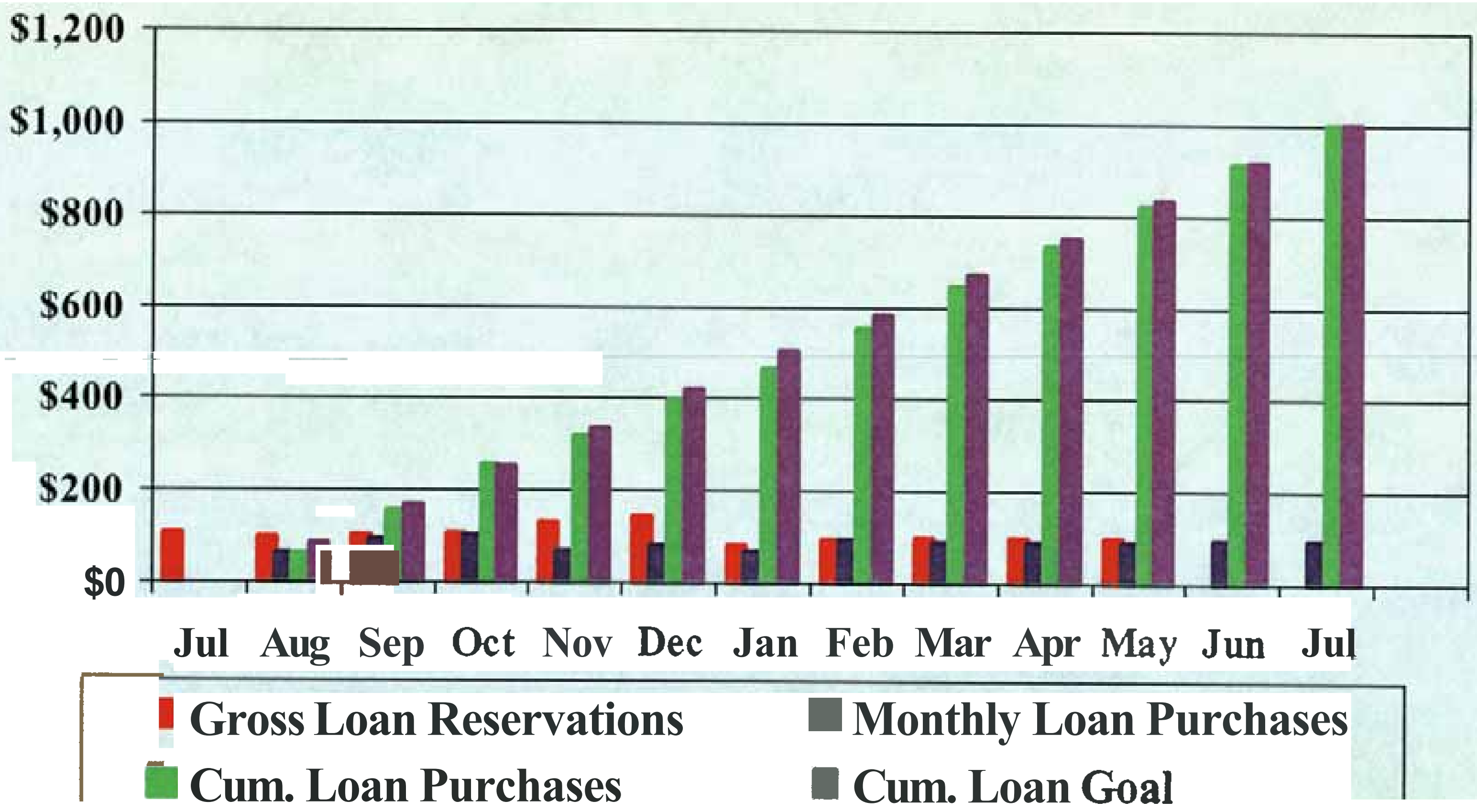
- California Homebuyer Downpayment Assistance Program (CHDAP) $50 million from Governor,
- $1 billion in first-time homebuyer mortgages,
- Increased percentage of mortgages to low-income borrowers,
- Expanded minority borrowers from 68% to 72%,
- Achieved $15 million goal for CHFA's 100% loan program (CHAP),

SINGLE FAMILY HOMEOWNERSHIP ACCOMPLISHMENTS (continued)

- Sustained annual production level for Self-Help Builder Assistance Program (SHBAP),
- Increased number of participating localities with the Affordable Housing Partnership Program (AHPP),
- Focusing downpayment assistance for high housing cost areas, and
- As of May 14, 2001 processed 2,284 School Facility Fee Downpayment Assistance grants for $5,898,788.

2000/01 SF Business Plan

(in Millions)



PROPOSED 5-YEAR BUDGET

(in Millions)

	2001/02	2002/03	2003/04	2004/05	2005/06	**TOTAL**
SF Loans	$1,000	$1,000	$1,000	$1,000	$1,000	*$5,000*
HAT (Housing Assistance Trust)						
Self-Help	$2.5	$2.5	$2.5	$2.5	$2.5	$12.5
Mortgage Assistance	$15	$15	$15	$15	$15	$75
Special Pilot Programs						
Extreme High Cost Area HPA	$9.5	$0	$0	$0	$0	$9.5
Extra Credit Teachers HPA	$2.5	$0	$0	$0	$0	$2.5
TOTAL	$1,029.5	$1,017.5	$1,017.5	$1,017.5	$1,017.5	$5,099.5

CHFA
Interest Rate Schedule (Current)

		CHFA	AHPP
Statewide	Moderate	7.25%	N/A
	Low	6.50%	6.25%
Hi Cost	Moderate	7.00%	N/A
	Low	6.25%	6.00%

Rates Effective 4/10/2001

Contract Administered Homeownership Programs

- **School Facility Fee Downpayment Assistance Program**
  - $67.5 million allocated through FY 2000-2001
  - As of May 14, 2001, 2,284 homebuyers of newly constructed homes received assistance in the amount of $5.9 million.

- **California Homebuyer's Downpayment Assistance Program**
  - $50 million allocation
  - As of May 14, 2001, 4,563 loans are in the pipeline for $18.4 million and 1,369 loans hav funded for $5.4 million.

Proposed Pilot Programs for FY 2001/2002

- Extra Credit Teachers Home Purchase Program
  - $15M special CDLAC allocation/Leveraged to $30M
  - $1.9M downpayment assistance (HPA)
  - $7,500 second
  - Credentialed teachers/principals in low performing schools
- Extreme High Cost Area Downpayment Assistance
  - Santa Clara, San Mateo, and San Francisco
  - $9.5M downpayment assistance **(HPA)**

Extra Credit Teachers Home Purchase Program

- CHFA First loan at AHPP Rates
- CHFA HPA $7,500 Second
  - Forgivable interest rate from 5% to 0% after 5 years
- Eligible Teachers
  - Low Performing School
  - Agree to 5 years employment
  - First-time Homebuyer, MRB Income Limits
- Combine with other DAP's

Extra Credit Teachers Home Purchase Program

CHFA First Loan 6.00%	$246,333
CHFA HPA 2nd Loan	$7,500
CHAP 3rd Loan	$7,850
Purchase Price	$261,683

Example for new home in Los Angeles County

Extreme High Cost Area Loan Program

- CHFA First Loan
  - First-time Homebuyer
  - MRB Income Limits
  - CHFA Sales Price Limits
  - CHFA High Cost Area Interest Rate
- CHFA HPA Second Loan
  - $25,000 Down Payment Assistance
- Extreme High Cost Counties
  - Santa Clara, San Mateo, and San Francisco
- Combine with other DAP’s

Extreme High Cost Area Loan Program

	Resale Home	Newly Constructed Home
CHFA First Loan 7%	$304,204	$304,204
CHFA HPA 2nd Loan	$25,000	$25,000
CHAP 3rd Loan	$10,182	$10,182
Purchase Price	$339,386	$339,386
Area Sales Price Limit*	$544,527	$487,927
Downpayment or Gap Financing by Locality to Reach Maximum Sales Price	$215,753	$159,153

Examplefor homes in San Francisco County

CHFA MULTIFAMILY BUSINESS PLAN

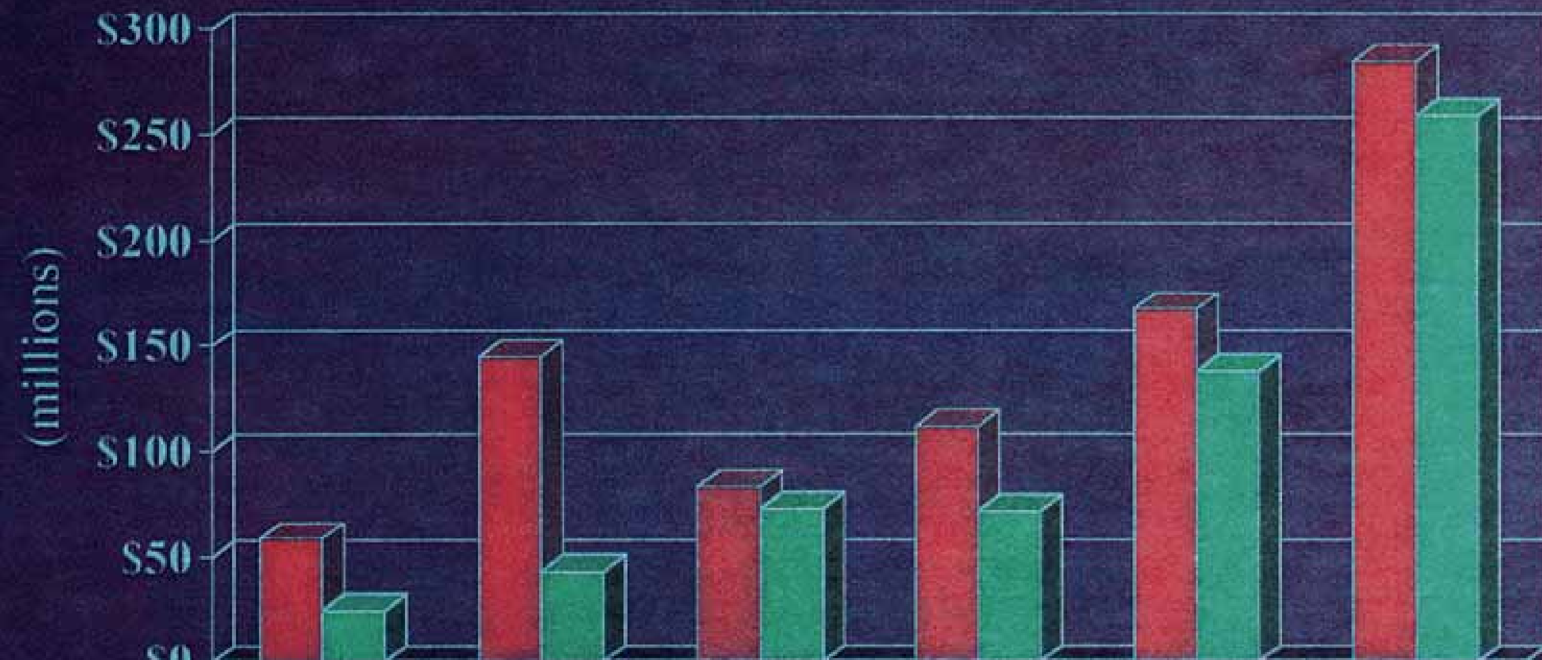
FISCAL YEAR

2001/2002

Program Focus

- *Long Term Permanent Loans*
  - New Construction
  - Preservation
- *New Program Development*
- *Special Needs*
  - Supportive Housing Initiative
  - Short Term Debt Structures Preservation
- *236 Portfolio*

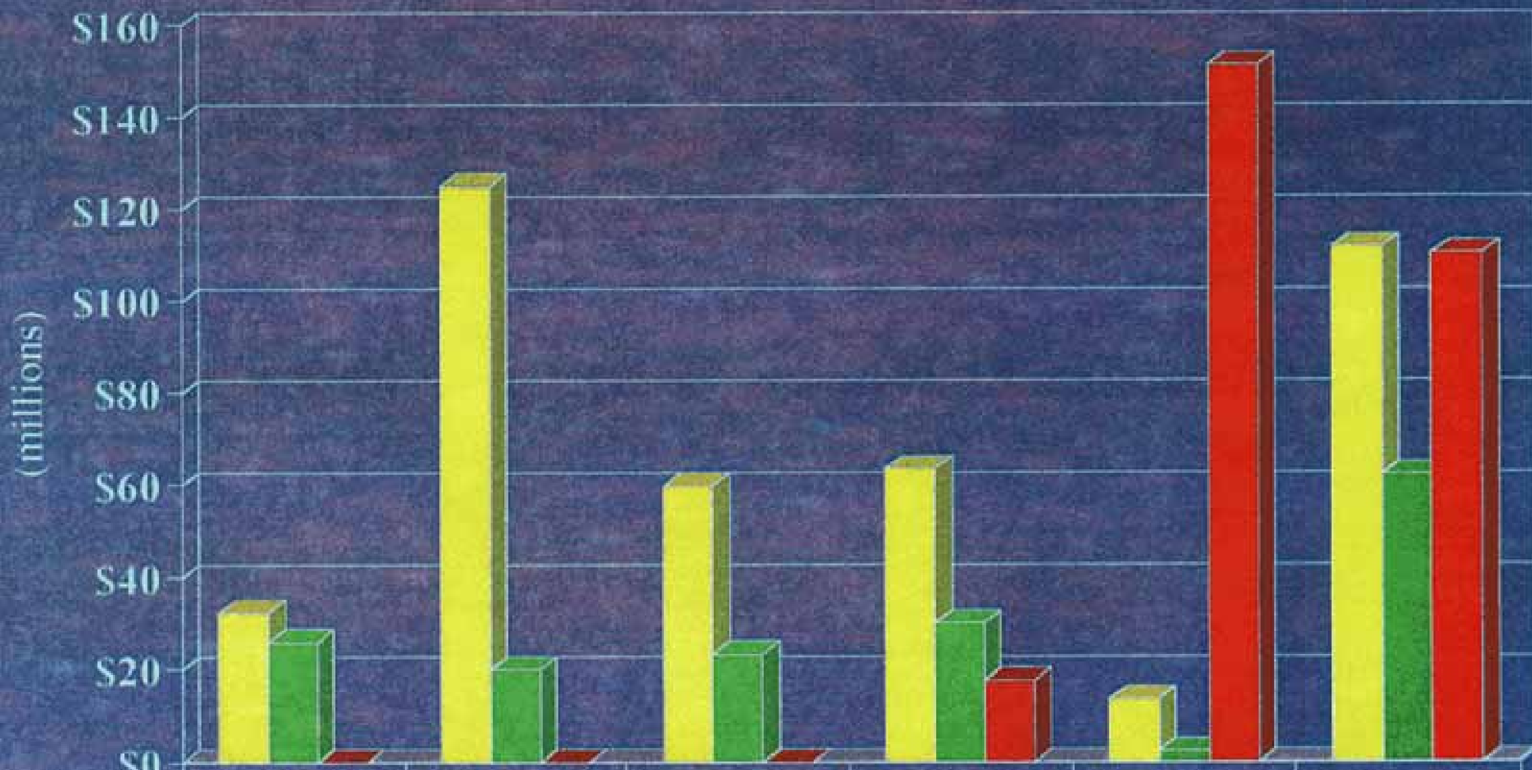
Multifamily Program Activity
FY's 1995 to 2000



	1995	1996	1997	1998	1999	2000(est)
Commitments	$58.4	$145.0	$83.2	$111.3	$167.1	$284.5
Closings	$24.5	$42.9	$72.6	$71.9	$138.4	$258.9

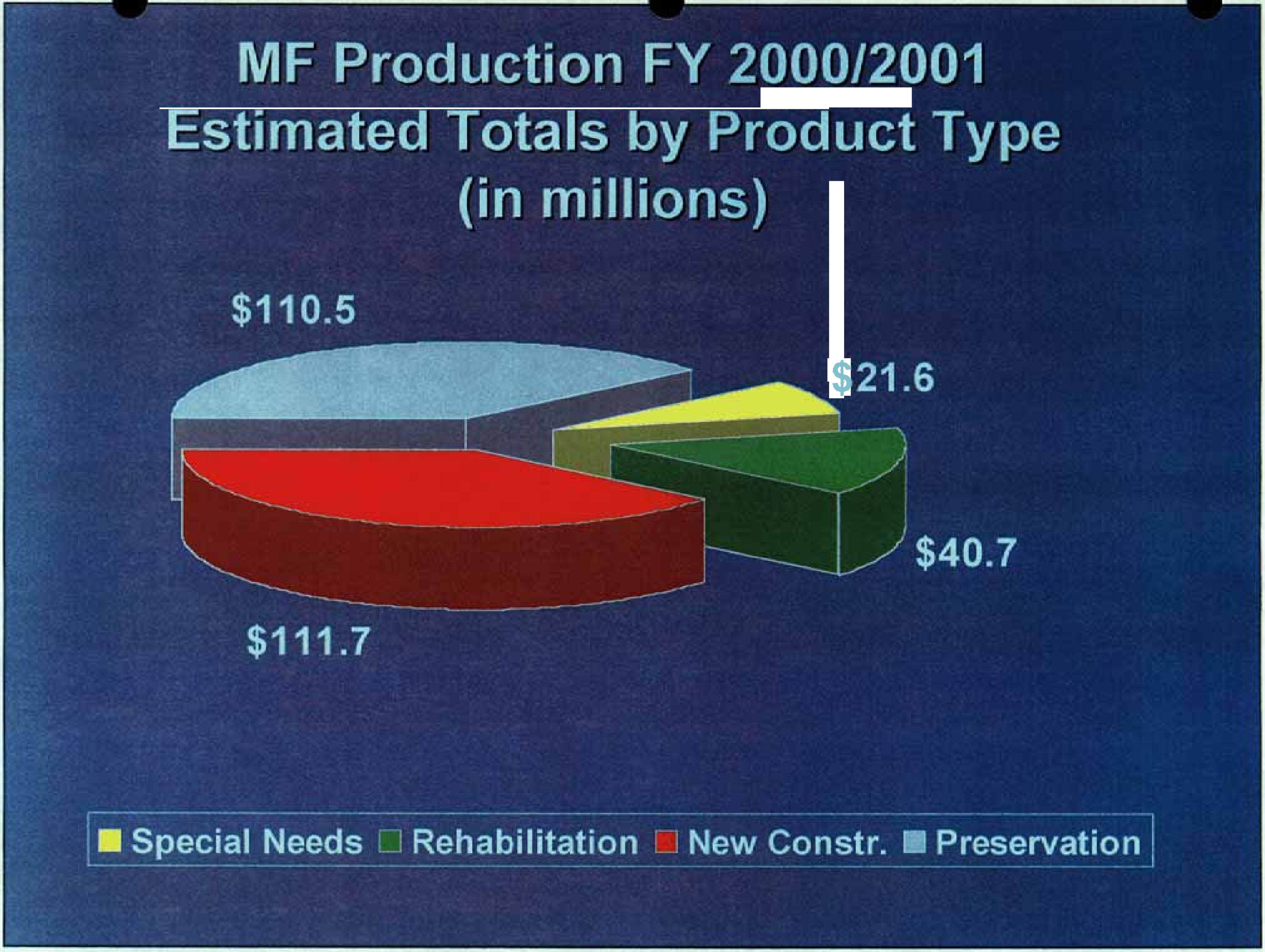
Cumulative Multifamily Production
FY 2000/2001
(in millions)

Multifamily Project Types
Commitments FY's 1995 to 2000



	1995	1996	1997	1998	1999	2000(est)
New Const	$32.5	$124.9	$59.8	$63.4	$13.5	$111.7
Acq/Rehab	$25.9	$20.1	$23.4	$30.2	$2.3	$62.3
Preservation	$0.0	$0.0	$0.0	$17.7	$151.3	$110.5

New Const Acq/Rehab Preservation


MF Production FY 2000/2001
Estimated Totals by Product Type
(in millions)
$110.5
$21.6
$40.7
$111.7
Special Needs
Rehabilitation
New Constr.
Preservation

Multifamily Business Plan
FY 2001/02

Core Business Production Volumes

- ***Preservation***
  - $110 million (includes 236 & Portfolio Loans)
- ***New Construction***
  - $120 million
- ***Special Needs***
  - $20 million
- ***$250 million Production Goal***
- ***80% Tax-Exempt, 20% Taxable***

Multifamily Programs
Goals and Objectives

- ■ *Long Term Permanent Lender*
- □ *Increase Loans for New Construction*
  - Portfolio Balance
  - Evaluate Brownfield Opportunities
- ■ *Maintain Preservation Program Levels*
- □ *Leverage Financial Capacity*
  - Loan to Lender, Bond Refunding
- □ *New Loan Products*
  - Locality Related
  - Leverage Federal and State Funds'
  - Adapt Programs to Changing Economic and Credit Conditions

New Programs

- *Loan to Lender*
  - Below Market Rate Construction Interest
  - Participating Lenders, Rated "A" or Better
  - Lower Rated Banks LOC Required
  - Mirror Existing Take-Out Process
- *Local Bond Refunding*
  - Standard Underwriting Guidelines
  - Two Year Forward Commitment
  - Reduced Loan Fees, Permit Local Fees

Program Development

- *Assisted Living*
  - Medi-Cal Program Underwriting Models
  - Reduced Interest Rate During Stabilization Period, 2 to 4 years
  - Develop Program in Conjunction with DHS, CAHSA, Long Term Care Council
- *Moderate Income*
  - Income Target 60% – 100% AMI
  - Taxable Financing & Shorter Term Debt
  - Increased Hedging of Real Estate Risk
  - Investor Re-Syndication
  - Link with Redevelopment and "New Markets" Activity

Program Development
Preservation

- *Section 8 Preservation*
  - Develop Mezzanine Financing
  - Continue with Acquisition Financing
  - Quantify Transition Reserve Guidelines
  - Develop 501c3 Model with MU2M
- *Expiring Tax Credit Projects*
  - Taxable or 501c3 Financing
  - Avoid Utilizing Credits or Bond Allocation
  - Pursue Single Sponsor Portfolios

Program Defelopment

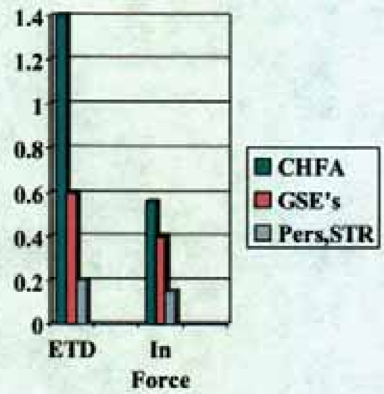
Preservation

- *HUD 202 Refinancing*
  - Partial Conversion to Assisted Living
  - Develop Guidelines in Conjunction with Medi-Cal Demo Program
  - Outsource Program Design and Underwriting - Federal Regulations

236 Portfolio Objectives and Loan Process

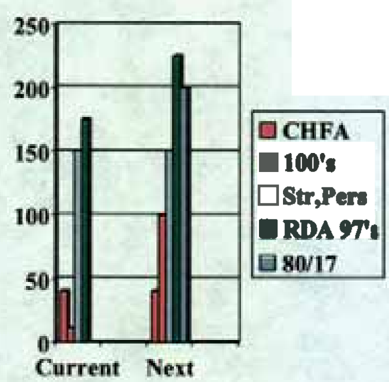
- ***Objectives***
  - Focus on projects most at-risk, react to opportunities
  - Develop Long Term Strategies
- ***Non-Profit Owners***
  - Develop Refinancing Models
  - Mezzanine Source of Construction Funds
- ***Title II and Title VI***
  - Previously Preserved
  - Establish New Financing Models
- ***Loan Processing***
  - In-House Loan Originations
  - Continue to Evaluate Outside Originator and Board Delegation

Insurance By Mortgage Investor



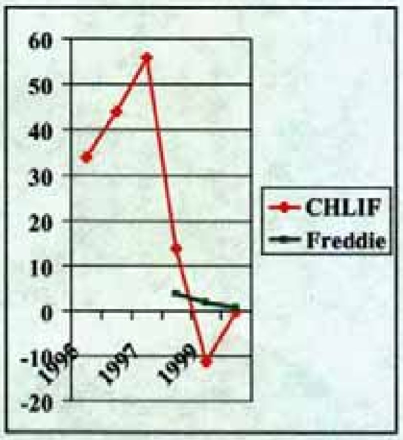
- All applications, Ever to date, $2.2 billion
- Currently insurance in force, $1.1 billion

2001 Actual vs. Planned Production



- Currently, $400 million production
- Next year, $700 million production
- High cost deferred payment 80/17,projected for $200 million

Annual Claims Losses



- 6 years of volatility from CaHLIF's claims losses
- GSE losses in excess of mortgage insurance coverage
- Losses are expressed in basis points