REPORTS

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State of California

2002

MEMORANDUM

To: Board of Directors

Date: June **12,2001**

Ken Carlson, Director of Financing

From: CALIFORNIA HOUSING FINANCE AGENCY

Subject: CHFA Home Mortgage Revenue Bonds 2001 Series HIJK

Attached for your convenience is a copy of the report of this issue that was provided to you as **a** handout at the Mag 17 meeting.

Attachment

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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:

Funding New Loans

A $205 million portion of the transaction (parts of Series H and 1. 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.

Preserving Tax-Exempt Authority

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.

Creatine 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 CHFA this opportunity.

Series	Amounts	Interest Rates	Reset Frequency	Maturities	Tax Status
2001 Series H	$43,514,371	2.95 – 5.758		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%

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State of California

MEMORANDUM

To: Board of Directors **Date:** June **12.2001**

Ken Carlson, Director of Financing

From: **CALIFORNIA HOUSING FINANCE AGENCY**

Subject: UPDATE ON VARIABLE RATE BONDS AND INTEREST RATE SWAPS

The following report is based on our estimated bond and swap positions as of August 1, 2001. We have assumed that both a multifamily and a single family transaction, together totaling approximately **$280** million, will have been completed by that date and that approximately $47 million of variable rate bonds will have been redeemed.

Variable Rate Exposure

The total amount of CHFA variable rate debt estimated to be outstanding on August 1 is approximately **$2.51** billion, some 33% of our $7.6 billion of total indebtedness. As shown in the table below, our "net" variable rate exposure is now $646 million, approximately 8.4% of our indebtedness. 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. The report distributed at the previous Board meeting showed **$2.11** billion **(29%)** of total variable rate debt, of which $518 billion **(7%)** was "net".

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	**$33**	**$1,550**	**$592**	**$2,175**
Multifamily	16	264	54	334
Total	$49	$1,814	**$646**	**$2.509**

We have increased our net exposure to **$646** million to add to our internal hedge against today's low interest rate environment, where we are experiencing low short-term investment rates and fast loan prepayments. As examples, we expect that new bond proceeds will have to be invested at an interest rate as low as 4%. and we have seen the monthly incidence of single family loan prepayments increasing from our usual $30 million average to $54 million in March, $63 million in April, and **$78** million in May. At the same time, we are offsetting the economic consequences of these effects with debt service savings on our unswapped variable rate bonds. As an example, the interest rates on our **$367** million of unswapped taxable variable rate bonds have dropped to levels in the 4.0% range as a result of the Federal Reserve's 250 basis points of rate cuts.

The table below summarizes this current risk position.

NET VARIABLE RATE DEBT
($ in millions)

	Tax Exempt	Taxable	Totals
Short average life	5249	$227	S476
Long average life	30	140	170
TOTALS	$279	$367	$646

Interest Rate Swaps

As of August 1, we expect to have 35 swaps with four different counterparties for a combined notional amount exceeding $1.8 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.

The table below provides a summary of our estimated notional swap amounts as of August 1..

INTEREST RATE SWAPS
($ in millions)

	Tax-Exempt	Taxable	Totals
Single family	**$492**	**$1,058**	**$1,550**
Multifamily	264	0	264
TOTALS	$756	$1,058	$1,814

It should be noted that, for an estimated **$684** million of the $756 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 $311 million of our tax-exempt variable rate bonds that 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. We do not believe that the tax law changes in the neu federal law will have any significant effect on the interest rates we pay on these bonds.

Types of Variable Rate Debt

The table below shows the estimated amount of variable rate debt to be outstanding as of August I. sorted by type. i.e., whether auction rate. indexed rate. or variable rate demand obligations (VRDOs). Auction and indexed rate securities cannot be "put" back to us by investors: hence they typically bear higher rates of interest than do "put-able" bonds such as VRDOs.

TYPES OF VARIABLE RATE DEBT
($ in millions)

	Auction Rate Bonds	Indexed Rate Bonds	Variable Rate Demand Obligations	Total Variable Rate Debt
Single Family	$87	$701	$1.387	$2,175
Multifamily	0	0	334	334
Total	$87	$701	**$1,721**	**$2,509**

Since September of 2000 we have been able to sell all of our taxable single family variable rate bonds to the Federal Home Loan Bank of San Francisco. These bonds are designed as indexed rate securities and have no put feature. For the five transactions completed **to** date, the **FHLB** has purchased **$565** million of these indexed rate bonds. We expect them to purchase another $110 million or so in July and to make further purchases in the future.

Liquidity Providers

The following table shows the financial institutions providing CHFA with liquidity in the form of standby bond purchase agreements for our VRDOs. Under these agreements. if our variable rate bonds are put back to us and cannot be remarketed, these institutions are obligated to buy the bonds from our remarketing agents.

LIQUIDITY PROVIDERS
($ in millions)

Financial Institution	$ Amount of Bonds	Type of Bonds
Commerzbank	$316.5	SF
CalSTRS	274.3	SF/MF
Westdeutsche Landesbank	210.2	SF/MF
KBC	156.9	SF
Bayerische Landesbank	145.3	SF
Landesbank Hessen-Thuringen	187.1	MF
Lloyds TSB	140.1	SF
Fannie Mae	85.4*	MF
Morgan Guaranty	45.0	SF/MF
State Street	50.9	SF
Bank of New York	50.0*	SF
Bank of America	44.8	SF
Total	$1.706.5	

* estimated, including transactions in June and July

We are extending the 3-year agreements we entered into in 1998 and 1999 with Bank of America, Westdeutsche Landesbank, Morgan Guaranty, Commerzbank, and CalSTRS.

Fannie Mae has agreed to provide up to $250 million of liquidity for our multifamily program. and we plan to use their liquidity for approximately $85 million of variable rate bonds which we expect to issue on June 28. This would be the first time that Fannie Mae has provided liquidity without also providing credit enhancement, as they do for their normal multifamily conduit programs with local issuers and mortgage companies.

MEMORANDUM

To: CHFA Board of Directors

From: Di Richardson
Director of State Legislation

Date: June 12, 2001

RE: State Legislative Report

The last couple of weeks have been a flurry of activity in the Capitol Building. The Legislature has been working hard to complete its Budget work for the 2001-02 fiscal year, and recent revenue projections have forced them to make some difficult choices in determining which bills would be moved forward. Last week (June 8) was also the deadline for authors that want to present bills to the Governor this year to move them out of their house of origin. As you look through this report, you will notice that a number of bills are still pending in the first house, and an even greater number were "held under submission" in fiscal committee. Since these bills will not be moving this year, our focus over the next several months will be on those bills that are still active and have moved to the second house.

HOUSING BONDS

SB 1227 **Burton** Housing finance
Status: 06/07/2001 In Assembly. Read first time. Held at Desk.
This bill, in its current form, contains intent language to enact a housing bond to fund **a** number of programs. Specific programs and funding levels are not currently identified.

CHFA MISC

AB 999 **Keeley** California Housing Loan Insurance Fund
Status: 05/31/2001 ASM APPROPRIATIONS In committee: Set second hearing. Held under submission.
This bill would move CaHLIF out of CHFA, establishing it as a separate entity governed by a newly created and separate board.
Sponsor: California Association of Realtors.

AB 1044 **Migden** California Housing Finance Agency: bonds
Status: 06/18/2001 SENATE HOUSING AND COMMUNITY DEVELOPMENT
This bill would increase the current limit on the maximum amount of debt CHFA may have outstanding by an additional $2.2 billion.

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.
Comments: The author's staff has recognized that this is not a proper role** for **CHFA. The author is researching what entity may be more appropriate, and** will **amend the bill if it moves.

HOMEBUYER ASSISTANCE

AB 820 **Shelley** California State University Housing Finance Pilot Program
Status: 04/18/2001 ASM HOUSING AND COMMUNITY DEVELOPMENT Re-referred to Com. on H. & C.D. In committee: Set first hearing. Hearing canceled at the request of author.
This bill would enact the California State University Housing Finance Pilot Program, which would be administered by the California Housing Finance Agency to provide home loan assistance through the CSU system to recruit and retain newly hired professors and faculty at CSU campuses where they may be employed.

AB 905 **Cohn** Housing: down payment assistance: public safety officers
Status: **05/31/2001** ASM APPROPRIATIONS In committee: Set second hearing. Held under submission.
This bill would create the Public Safety Downpayment Assistance Program, to be administered by CHFA, to provide downpayment assistance to public safety officers, as defined, employed by a city.
Sponsor: State Controller

AB 1170 **Firebaugh** Housing: downpayment assistance
Status: 05/31/2001 ASM APPROPRIATIONS In committee: Set second hearing. Held under submission.
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 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: CBIA

SB 429 **Soto** Housing: Section 8 assistance
Status: **06/27/2001** ASSEMBLY HOUSING AND COMMUNITY DEVELOPMENT

The Planning and Zoning Law requires an owner of an assisted housing development to give tenants specified notices prior to the anticipated termination date of a subsidy contract, and to give specified entities the opportunity to offer to purchase the development. This bill would provide that the owner shall be deemed to be in compliance with the notice requirement and that the requirement to give the opportunity to purchase shall not apply if specified conditions are contained in a regulatory agreement recorded against the property.

Comments: This bill is intended to clarify an ambiguity in current law by creating a clear exemption for bona fide preservation transactions (current notice requirements are only intended to apply if the development is at risk of converting to market rate – not if the sale would preserve the affordability). The language of this bill represents a consensus that was negotiated by a group that included tenant advocates, property owners and management organizations.

PRESERVATION

SB 372 Dunn Preservation Interim Loan Programs
Status: **05/31/2001** SEN APPROPRIATIONS Set first hearing. Held in committee and under submission.

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 NHDC

TAX CREDITS

SB 73 Dunn Taxation: low-income housing
Status: **05/31/2001** SEN APPROPRIATIONS Set first hearing. Held in committee and under submission.

This bill would, for purposes of existing low-income housing tax credits, provide a $70,000,000 maximum aggregate dollar amount for the **2001** calendar year and each calendar year thereafter. In addition, this bill would for the 2002 calendar year, and, each calendar year thereafter, provide an adjustment for inflation measured by an increase in the Consumer Price Index.

Sponsors: State Treasurer, CRLA and WCLP

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