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MEMORANDUM

1002

To: Board of Directors

Date: December 21.2001

Ken Carlson, Director of Financing

From: **CALIFORNIA HOUSING FINANCE AGENCY**

Subject: REPORT OF BOND SALE
HOME MORTGAGE REVENUE BONDS 2001 SERIES TUV

On December 6th we delivered $165 million of single family bonds and entered into a $63 million interest rate swap. The interest rates were set on November 14* for $36 million of fixed-rate bonds and the $63 million swap. The transaction proceeds will be used to fund approximately 1,280 new loans, with expected interest rates ranging from 5.25% to 6.75%.

Structure

Interest rates fell to historic lows this fall, and, in order to attract borrowers in such a competitive environment we were forced to offer CHFA loans at rates as low as 5.25%. Having to finance loans with rates this low caused us to re-thmk our usual bond structure when we designed this bond issue. To keep its rates low enough to be supported by such low-rate loans, we incorporated the following design changes to our normal structure:

1. The proportion of taxable bonds in the blend was reduced from 70% to 40%, resulting in a doubling of the proportion of tax-exempt bonds – from 30% to 60%. Fortunately, increasing the use of our tax-exempt authority was possible for two reasons: (a) increased receipt this year of private activity bond allocation from CDLAC and (b) increased opportunities to recycle prior authority because of the heavy incidence of prepayment of our loans.

2. The remaining taxable bonds, issued as usual in variable rate form, were not swapped to a fixed rate. Instead, we intend to take the risk that floating rates will stay low over the relatively short five-year average life of these bonds. The initial floating rate is 2.17%, indicating that initially we are being handsomely rewarded for taking this risk. The rate will reset quarterly based on the LIBOR index.

Because interest rates have subsequently rebounded, we do not expect to need to replicate this structure for the next transaction.

hmrb 2001 TUV/dlc

1003

Variable Rate Bonds

The $63 million Series U bonds are tax-exempt variable rate demand obligations swapped to a fixed rate. The low interest rate environment at the time of this financing eliminated much of the pricing benefit to be achieved if we were to swap based on the taxable LIBOR index and incur "tax risk" as we had in most previous single family swap transactions. Consequently, we chose to use a swap linked instead to the higher-rate tax-exempt BMA index. However, we still saved an estimated 90 to **100** basis points of interest versus a conventional AMT term bond.

The $66 million Series V bonds are the eighth series of single family taxable indexed-rate bonds purchased by the San Francisco Federal Home Loan Bank (FHLB).

Liauiditv

A highly-rated New York bank will provide liquidity for the Series U bonds in the unlikely event that the variable rate bonds are "put" back to us by investors and new investors cannot be found. The Series V bonds purchased by the FHLB are not subject to a put.

Investments

Similarto our last three deals virtually the entire proceeds will be invested in the State Treasurer's $50 billion Pooled Money Investment Account. This account continues to pay a significantlyhigher interest rate than alternative short-term investments.

Credit Ratings

All of the bonds will be insured by ***MBIA*** and therefore rated triple-A by both Moody's and Standard & Poor's.

SERIES	AMOUNTS	INTEREST RATES	RESET FREQUENCY	MATURITIES	TAX STATUS
T	**$35,939,119**	**4.80 - 5.70%**	**N/A**	**2/1/15 - 8/1/32**	*AMT*
U	**63,060,000**	**4.13%***	**Daily**	**8/1/32**	*AMT*
V	**66,000,000**	**Variable**	**Quarterly**	**2/1/31**	**Taxable**
Total	**$164,999,119**				

hmrb 2001 TUV/dlc

State of California

MEMORANDUM

1004

Board of Directors

Date: December 21, 2001

Ken Carlson, Director of Financing

From: CALIFORNIA HOUSING FINANCE AGENCY

Subject: SUMMARY OF YEAR 2001 BOND ISSUANCE; SCHEDULED FINANCINGS IN JANUARY 2002

Year 2001 Bond Issuance

Attached are tables summarizing our year 2001 bond transactions and showing bonds issued over the last five years. Note that our 2001 volume of $1.645 billion is somewhat less than the $1.95 billion we issued in 2000. The difference is almost entirely attributable to our one-time opportunity in 2000 to issue bonds to acquire Fannie Mae's $269 million portfolio of HUD Section 236 loans.

The amount of CHFA bonds outstanding as of December 31, 2001 is estimated to be $7.99 billion, up from $7.27 billion as of the end of However, approximately $564 million of bond principal will be retired on February 1.

During the year we sold $672.9 million of taxable bonds. Of this amount, $633.7 million was sold to expand our supply of bond proceeds for single family loans through taxable/tax-exempt blending. Our high for annual taxable issuance was last year, when we sold $942.8 million, including the $269 million for the Section 236 loans.

Our variable rate issuance this year was $1.11 billion, down slightly from last year's $1.29 billion. Of this $1.11 billion, $435.8 million was tax-exempt and $672.9 million was taxable. All of the $435.8 million of tax-exempt variable rate bonds were demand obligations where investors may put the bonds back to our remarketing agents. Of the $672.9 million of taxable variable rate bonds, $39.2 million consisted of demand obligations and $633.7 million was issued as indexed floaters without a put feature and sold to the Federal Home Loan Bank of San Francisco. The $475 million of combined tax-exempt and taxable variable rate demand obligations was sold largely to money market mutual funds.

Interest rates were generally lower in 2001 than in 2000. As an example, the rates we achieved this year on our 30-year tax-exempt capital appreciation bonds ranged from a low of 5.625% to a high of 6.20%, compared to a range of 6.15% to 6.85% in 2000.

January 2002 Financings

We expect to issue approximately $150 million of "drawdown bonds" the week of the January Board meeting. As discussed at the November Board meeting, the purpose of these unrated, privately-placed bonds is to provide an inexpensive means to preserve tax-exempt issuance authority for later use. The January drawdown bonds will preserve authority related to the eligible portion of the total retirements of single family bond principal scheduled for February 1. In addition, $1.7 million of the drawdown bonds will be issued for a small multifamily project for which CDLAC allocation was received on December 19.

We are scheduled to price bonds and interest rate swaps on January 16 for our first regular single family issuance of 2002. This issue is expected to be sized between $150 million and $200 million, depending on the volume of loan reservations received at the time. We anticipate that approximately one half of this issue will be taxable, with the Federal Home Loan Bank of San Francisco the investor.

Attachments

CALIFORNIA HOUSING FINANCEAGENCY
2001 BOND SALE SUMMARY

	SINGLE FAMILY	MULTIFAMILY	TOTALS
TAX-EXEMPT BONDS			
Variable Rate	$231,545,000	$204,230,000	$435,775,000
Fixed Rate	$20,200,000	$0	$20,200,000
CABS	$204,829,441	$0	$204,829,441
Notes	$311,705,000	$0	$311,705,000
SUBTOTALS	$768,279,441	$204,230,000	$972,509,441
TAXABLE BONDS			
Variable Rate			
VRDO	$0	$39,185,000	$39,185,000
Index Floaters	$633,745,000	$0	$633,745,000
Fixed Rate	$0	$0	$0
SUBTOTALS	$633,745,000	$39,185,000	$672,930,000
TOTALS	$1,402,024,441	$243,415,000	$1,645,439,441

Bond Sale-Sum01.xls (lmf)
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CALIFORNIA HOUSING FINANCE AGENCY
FIVE-YEAR SUMMARY
BOND ISSUES FROM 1997 TO 2001

			BONDS SOLD OR REMARKETED			
YEAR	PROGRAM	PRIVATE ACTIVITY BOND ALLOCATION RECEIVED	TAX-EXEMPT	TAXABLE	TOTAL	END OF YEAR BONDS OUTSTANDING
1997	Single Family	$317,512,970	$784,355,000	$282,700,000	$1,067,055,000	$4,424,670,461
	Multifamily	$147,575,000	$147,575,000	**$0**	$147,575,000	$815,770,000
	SUBTOTAL	$465,087,970	$931,930,000	$282,700,000	$1,214,630,000	$5,240,440,461
1998	Single Family	$228,862,068	$744,589,271	$455,720,000	$1,200,309,271	$4,955,380,928
	Multifamily	$56,060,000	$172,425,000	**$0**	$172,425,000	$854,250,000
	SUBTOTAL	$284,922,068		$455,720,000	$1,372,734,271	$5,809,630,928
1999	Single Family	$237,452,500	$909,576,435	$449,165,000	$1,358,741,435	$5,358,987,794
	Multifamily	$36,782,000	$44,535,000	$0	$44,535,000	$852,025,000
	SUBTOTAL	$274,234,500	$954,111,435	$449,165,000	$1,403,276,435	$6,211,012,794
2000	Single Family	$217,128,000	$824,647,265	$673,800,000	$1,498,447,265	$6,014,913,814
	Multifamily	$159,315,000	$183,020,000	$269,038,416	$452,058,416	$1,254,860,972
	SUBTOTAL	$376,443,000	$1,007,667,265	$942,838,416	$1,950,505,681	$7,269,774,786
2001	Single Family	$369,153,970	$768,279,441	$633,745,000	$1,402,024,441	1
	Multifamily	$123,550,000	$204,230,000	$39,185,000	$243,415,000	$1,418,013,974
	SUBTOTAL	$492,703,970	$972,509,441	$672,930,000	$1,645,439,441	$7,994,653,395
	5-YEAR TOTALS	**$1,893,391,508**	**$4,783,232,411**	**$2,803,353,416**	**$7,586,585,827**	

State of California

MEMORANDUM

To: Board of Directors

Date: December 21, 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 February 1, 2002. It takes into account bond issuances planned for January and bond principal retirements scheduled for February 1.

Variable Rate Debt Exposure

The total amount of CHFA variable rate debt estimated to be outstanding on February 1, 2002 is $3.06 billion, almost 40% of our expected $7.75 billion of total indebtedness. As shown in the table below, our "net" variable rate exposure will be approximately $741 million, 9.6% of our indebtedness. The report submitted for the previous Board meeting showed $2.62 billion of variable rate bonds and $643 million of net exposure. The net amount of variable rate bonds is the amount that is neither swapped to fixed rates nor directly backed by complementary variable rate loans or investments.

VARIABLE RATE DEBT
($ in millions)

	Tied Directly to Variable Rate	Swapped to Fixed Rate	Not Swapped or Tied to Variable Rate Assets	Total Variable Rate Debt
Single Family	$170	$1,791	$661	$2,622
Multifamily	18	344	80	442
Total	$188	$2,135	$741	$3,064

As discussed in each previous report, our $741 million of net exposure provides the Agency with a useful internal hedge against today's low interest rate scenario, where we are experiencing low short-term investment rates and fast loan prepayments. For example, we expect that interest rates for the State Treasurer's investment pool, where we invest our single family bond proceeds, will fall below 3%. In addition, we have seen the incidence of single family loan prepayments increase from an average of $30 million per month a year ago to an average of over $70 million per month for the last ten months. At the same time, we hope to offset the economic consequences of these effects with debt service savings on our unswapped variable rate bonds. As an example, the interest rates on our $478 million of unswapped taxable variable rate bonds have dropped to levels as low as 1.90% as a result of the Federal Reserve's many rate cuts this year.

The table below summarizes this current risk position.

NET VARIABLE RATE DEBT
(*$ in millions)*

	Tax-Exempt	Taxable	Totals
Short average life	$187	$322	$509
Long average life	76	156	232
TOTALS	$263	$478	**$741**

Interest Rate Swaps

As of February 1, we expect to have 44 swaps with at least seven different counterparties for a combined notional amount exceeding $2.1 billion. These interest rate swaps generate significant debt service savings in comparison to our alternative of issuing fixed-rate bonds. This savings will help us continue to offer exceptionally low interest rates to multifamily sponsors and to serve a great many additional homebuyers.

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

INTEREST RATE SWAPS
(*$ in millions)*

	Tax-Exempt	Taxable	Totals
Single family	$569	$1,222	$1,791
Multifamily	344	0	344
TOTALS	$913	$1,222	$2,135

The table below shows the diversification of our swaps (as of December 31) among the seven firms acting as our swap counterparties. Note that our swaps with Lehman Brothers, Bear Steams, and Goldman Sachs are with structured triple-A subsidiaries that are special purpose vehicles used only for derivative products. We have chosen to use these subsidiaries because the senior credit of those firms is not as strong as that of the others.

In connection with our January single family transaction, we plan to enter into two swaps totaling $100-$150 million. We plan to select the counterparties for these new swaps through a competitive bid process, and we hope to receive bids from most of the financial institutions listed below as well as an additional two or three with strong credit. Bidding out some of our swaps enables us to obtain further diversification of counterparty risk.

SWAP COUNTERPARTIES

SWAP COUNTERPARTY	CREDIT RATINGS MOODYS	S & P	NOTIONAL AMOUNTS SWAPPED ($ In Millions)	NUMBER OF SWAPS
Merrill Lynch Capital Services Inc.	Aa3		$ 737.0	14
Lehman Brothers Derivative Products Inc.	Aaa	AAA	536.1	13
Salomon Brothers Holding Company Inc.	Aal	AA-	405.4	8
Bear Steams Financial Products Inc.	Aaa	AAA	284.0	4
UBS AG (Union Bank of Switzerland Aktiengesellschaft)	Aa2	AA+	19.0	1
Morgan Guaranty Trust Co of New York	Aa2	AA	47.7	1
Goldman Sachs Mitsui Marine Derivative Products, L.P.	Aaa	AAA	10.7	1
			$2,039.9	42

Note that, with interest rate swaps, the "notional amount" (equal to the principal amount of the swapped bonds) itself is not at risk. Instead, the risk is that a counterparty would default and, because of market changes, the terms of the original swap could not be replicated without additional cost.

Because all of our swaps have been entered into to establish "synthetic" fixed rates for our variable rate bonds, we receive floating rate payments from our counterparties in exchange for a fixed rate obligation on our part. In today's market, with very low short-term rates, the net periodic payment owed under our swap agreements is from us to our counterparties. Conversely, if short-term rates were to rise above the fixed rates of our swap agreements, then the net payment would run in the opposite direction, and we would be on the receiving end.

Risk of Changes in Tax Law

It should be noted that, for an estimated **$641** million of the $913 million of tax-exempt bonds swapped to a fixed rate, CHFA remains exposed to certain tax-related risks. In return for significantly higher savings, 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 $285 million of our tax-exempt variable rate bonds which we have not swapped to a fixed rate. Together, these two categories of variable rate bonds total $926 million, less than 12% of our estimated $7.75 billion of bonds to be outstanding on February 1. This risk of tax law changes is the same risk that investors take every time they purchase our fixed-rate tax-exempt bonds.

Types of Variable Rate Debt

The table below shows the estimated amount of variable rate debt to be outstanding as of February **1,** 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	$85	$1,088	$1,449	$2,622
Multifamily	0	2	440	442
Total	$85	§ 1,090	$1,889	$3,064

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 eight transactions completed to date, the FHLB has purchased $837.7 million of these indexed rate bonds.

As we understand, the FHLB's Board of Directors met on November 29 and approved the staffs recommendation to raise the FHLB's limit on investments in "housing associate" bonds from $1 billion to $2 billion. So far we are the only governmental issuer who has qualified as a "housing associate" and has sold bonds to the FHLB. The new $2 billion ceiling should carry us through 2002 and into 2003 unless other "housing associates" sell a significant amount of bonds to the FHLB. FHLB staff have told us that it is their expectation that the FHLB Board would be willing to consider raising the limit again once the current $2 billion ceiling is approached.

Liquidity Providers

The following table shows the institutions currently 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. Last month we solicited these and other financial institutions to provide liquidity for our single family VRDOs to be issued in 2002, and we were pleased to receive responses indicating sufficient capacity is available not only for 2002 but for future years as well. We expect that Fannie Mae will continue to provide liquidity for next year's multifamily VRDOs.

LIQUIDITY PROVIDERS
($ in millions)

Financial Institution	$ Amount of Bonds	Type of Bonds
Commerzbank	$ 300.0	
	266.7	
Westdeutsche Landesbank	206.4	SF/MF
Landesbank Hessen-Thuringen	185.5	MF
Fannie Mae	190.5	MF
Lloyds TSB	169.7	SF
KBC	155.3	SF
Bayerische Landesbank	142.6	SF
Bank of New York	101.6	SF
Bank of America	87.1	SF
State Street	36.6	SF
Morgan Guaranty	28.4	SF/MF
Total	$1,870.4*	

* **The total amount of CHFA variable rate demand obligations (shown on the previous page) is slightly higher because of a small multifamily variable rate transaction with liquidity provided by a different means.**

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MEMORANDUM

To: Board of Directors

Date: December 27, 2001

John Schienle, Director of CaHLIF

Bruce D. Gilbertson, Comptroller

From: **CALIFORNIA HOUSING FINANCE AGENCY**

Subject: **CaHLIF Financial Audit**

In connection with the December 31, 2000 financial audit of the California Housing Loan Insurance Fund (CaHLIF), PricewaterhouseCoopers (PWC) issued two reports in addition to their unqualified opinion regarding the financial statements. You previously were provided a copy of the CaHLIF financial statements as a part of the Agency's Annual Report. The two additional reports, Report to Management on the Results of the 2000 Audit and their Annual Communications are attached for review.

In their Annual Communications to the Board of Directors, PWC advises that there were no significant changes in accounting policy, no disagreements with management and no audit difficulties. PWC discusses an adjustment related to prior years reported deposit with reinsurer balances that were overstated and related loss and loss adjustment expenses that were understated. Prior year balances have been restated as described in the notes to the financial statements and appropriate accounting procedures have been implemented to insure proper accounting of all reinsurance transactions. Three other potential audit adjustments are noted but deemed immaterial. Each of these potential adjustments is identified in the Report to Management along with PWC's recommendation and our response indicating that we concur and are proceeding with procedural changes.

The Report to Management also makes recommendations regarding our reinsurance contract and redevelopment agency contracts in which the redevelopment agencies have pledged money to cover certain losses on high loan-to-value insurance products. Recommendations related to both observations have been accepted and have been completed or are in the process of being completed.

Attachments

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PRICEWATERHOUSECOOPERS

California Housing Loan Insurance Fund

Annual Communications

December 31,2000

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PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers U P
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Suite 1200
Sacramento CA 95814
Telephone (916) 930 8100
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September 12,2001

Board of Directors
California Housing Loan Insurance Fund

In connection with our audit of the financial statements of California Housing Loan Insurance Fund (the "Fund"), for the year ended December 31,2000, professional auditing standards require that, as a matter of standard procedure, we annually communicate certain matters related to the audit to the Board of Directors. Our annual communications are attached.

The accompanying communications are intended solely for the information and the use of the Board of Directors. This restriction is not intended to limit the distribution of this report, which upon acceptance by the Fund, is a matter of public record.

If you have any questions about the audit or the annual communications, please contact Lee Overstreet at (916) 930-8545.

Very truly yours,

PricewaterhouseCoopers LLP

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REQUIRED COMMUNICATIONS

Matters to be Communicated	Comments
Auditor's Responsibility and Audit Report	Management is responsible for preparing the Fund's financial statements in accordance with accounting principles generally accepted in the United States of America. We are responsible for conducting an audit of the financial statements in accordance with auditing standards generally accepted in the United States of America. Under these standards, it is the objective of an audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement. We have completed our audit in accordance with our plan to provide professional services to the Fund.
Significant Accounting Policies	The significant accounting policies of the Fund are disclosed in the notes to the financial statements. There were no significant changes in accounting policies during 2000.
Management Judgments and Accounting Estimates	Management judgments and accounting estimates are an integral part of the financial statements prepared by management. Those judgments and estimates are based on knowledge and experience about past and current events and assumptions about future events. Significant estimates by management include determination of the loss and loss adjustment expense reserves and the allowance for uncollectable loans. We performed various audit procedures related to these reserves and allowances. The notes to the financial statements disclose the process used by management in determining an estimate for these reserves and allowances.
Significant Audit Adjustments	During the 2000 audit it was determined that prior years reported deposit with reinsurer balances were overstated, and related loss and loss adjustment expenses were understated. As a result, related prior year balances were restated as described in the notes to the financial statements. With regard to 2000 balances, we did not identify any transaction or event for which we proposed a significant adjustment. We did identify three potential adjustments which, by reason of immateriality, were not recorded by management. These adjustments were related to the deposit with reinsurer, deferred acquisition costs, and unpaid loss and loss adjustment expenses.
No Disagreements with **Management**	There were no disagreements with management about accounting, auditing or disclosure matters.

Matters to be Communicated	Comments
No Consultations with Other Accountants	We are not aware of any consultations by management with other independent accountants.
No Major Issues Discussed Prior to Appointment	There were no major issues, including the application of accounting principles, auditing standards or financial reporting, that were discussed with management in connection with our appointment as the Fund's independent accountants.
No Audit Difficulties	There were no significant difficulties encountered in performing our audit. Management and staff were very cooperative and helpful.
Fraud or Illegal Acts	Under the American Institute of Certified Public Accountants (AICPA), auditors are required to address the possibility of fraud and occurrence of fraud that comes to their attention as follows: • Auditors are responsible to design the audit to obtain reasonable, but not absolute, assurance of detecting errors or fraud that would have a material effect on the financial statements as well as other illegal acts having a direct and material effect on financial statement amounts; • Auditors must assess the risk of a material misstatement of the financial statements as a result of fraud and, based upon their conclusions, alter audit approach, staffing, procedures, and scope as required; and • Auditors are required to communicate with management, audit committees and others when fraudulent activity is identified. We are not aware of any fraudulent activity that should be reported to Management or the Board.
Auditor Independence	We confirm that PricewaterhouseCoopers LLP is independent of the Fund and that there are no relationships between PricewaterhouseCoopers LLP and the Fund that would impair our independence.
Status of Auditor-Client Relationship	Upon completion of the 2000 audit, we notified management of the termination of our auditor-client relationship.

PRICEWATERHOUSECOOPERS

California Housing Loan Insurance Fund

Report to Management on the Results of the 2000 Audit

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PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
555 Capitol Mall
Suite 1200
Sacramento 95814
Telephone (916) 930 8100
Facsimile (916) 930 8450

September 12, 2001

To the Board of Directors
California Housing Loan Insurance Fund

In planning and performing our audit of the California Housing Loan Insurance Fund (the "Fund"), for the year ended December 31, 2000, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. Although our audits were not designed to provide assurance on internal control, we noted certain matters involving control and operations, and are submitting for your consideration related recommendations designed to help management make improvements to current operations. Our comments reflect our desire to be of assistance to the Fund.

The accompanying comments and recommendations are intended solely for the information and the use of management. This restriction is not intended to limit the distribution of this report, which upon acceptance by the Fund is a matter of public record.

Very truly yours,

PricewaterhouseCoopers LLP

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A. Contract with Hannover Ruckversicherungs-Aktiengesellschaft (Hannover)

The Mortgage Insurance Quota Share Reinsurance Treaty between Hannover and the Fund as documented does not appear to reflect all dealings between the parties. Changes to the agreement are not always formalized.

Recommendation
We recommend the Fund implement the following related to the agreement with Hannover:

- Document changes to the agreement with Hannover. If the Fund chooses not to follow certain provisions of the agreement, the reasoning for this decision should be documented. All changes to the agreement and the decisions not to follow the agreement should be reviewed for implications in accounting.

- The Fund's understanding of the agreement with Hannover should be documented in terms that those responsible can understand.

- Have the reinsurance agreement evaluated and reviewed by an outside expert to ensure the agreement is providing an appropriate benefit at a reasonable cost to the Fund.

Management's Response
Modification to the agreement with Hannover is currently underway in which endorsements to the original reinsurance treaty will be consolidated into the master contract. Contract changes will be reviewed by legal and accounting prior to treaty signature. Review of the agreement by an independent expert will be determined at a later date.

B. Redevelopment Agency (RDA) Pledges

The Fund has contracts with RDA's in which the RDA's have pledged money to cover losses that may be incurred as a result of high LTV programs offered by the Fund. During our audit, documentation of these contracts was not available, nor were records of amounts pledged. The lack of controls and documentation of the **RDA** pledges could adversely affect the Fund.

Recommendation
The Fund should establish procedures to monitor the pledge accounts to ensure continued access and availability of funds.

Management's Response
Original contracts with RDA's will be forwarded to the California Housing Finance Agency's Legal Office. Contracts will be reviewed and procedures established to monitor pledge accounts and access to funds pledged.

C. Deposit with Reinsurer

Amounts recorded by the Fund as a Deposit with Reinsurer were different than the amount confirmed with the Reinsurer during the audit.

Recommendation
We recommend that the Deposit with Reinsurer be periodically reconciled to the Reinsuer's records. Any differences should be analyzed to determine the proper accounting.

Management's Response
Procedures have been established to reconcile the Deposit with Reinsurer balance to the Reinsurer's records on a quarterly basis. Differences will be analyzed and appropriate adjustments made.

D. Deferred Acquisition Costs

The Fund is not accounting for acquisition costs in accordance with relevant accounting guidance. Although not material to the financial statements of the fund taken as a whole for the year ended December 3 1, 2001, the amount may continue to grow along with the growing of the business of the Fund. The analysis of acquisition costs prepared by the Fund did not appear to be comprehensive to capture all costs.

Recommendation
We recommend the Fund perform an analysis of acquisition costs and calculate and record deferred acquisition costs based on the relevant accounting guidance.

Management's Response
An analysis of acquisition costs is currently underway. Procedures to calculate and record deferred acquisition costs will be established.

E. Premiums on High LTV Loan Programs

The Fund provides coverage on high LTV loan programs. Accounting rules require that a reserve be recognized only for delinquent loans (including any unreported delinquencies).

Recommendation
We recommend the Fund include delinquencies related to high LTV loans in the loss reserve calculation, and record a reserve only when a loan has become delinquent.

Management's Response
Procedures to estimate loss reserves for high LTV insurance programs based on loan delinquencies, historical frequency of claims paid and seventy of loss are being developed.