REPORTS

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State of California

MEMORANDUM

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To Board of Directors Date: March 5, 2002

Ken Carlson

Ken Carlson, Director of Financing

From: CALIFORNIA HOUSING FINANCE AGENCY

Subject: REPORT OF BOND SALE
HOME MORTGAGE REVENUE BONDS 2002 SERIES ABC

On January 24th we set interest rates for $33 million of fixed rate bonds and set swap rates for $132 million of variable rate bonds for a total of $165 million. The transaction proceeds will be used to fund approximately 1,280 new loans.

We were able to structure the bonds for this transaction using a 50150 tax-exempt/taxable blend versus 60140 for the previous transaction. The 50150 mix provides an overall bond rate that will be supported by our anticipated loan portfolio, with loan rates expected to range from 5.75% to 7%.

While the challenge of the previous transaction was how to deal with very low mortgage rates, the challenge this time (and for the immediate future) is how to deal with very low short-term reinvestment rates. As we wait for our lenders to send us loans for purchase, our bond proceeds are invested at rates significantly below our cost of funds. For example, today's rate for the State investment pool, where we are investing our proceeds, is below 3% while our overall cost of funds is in excess of 5%, giving us more than 200 basis points of negative-carry. We therefore decided to delay the delivery of a portion of the bonds and delay the commencement of both the swaps until a time when most of the loans would be originated.

The bonds were structured into three series as shown on the table on page 2. The $33 million Series A bonds are tax-exempt capital appreciation term bonds. The $49.5 million Series B bonds are tax-exempt variable rate demand obligations. The $82.5 million Series C bonds are taxable variable rate LIBOR index bonds that have been purchased by the Federal Home Loan Bank (FHLB). These bonds were the ninth series of single family taxable indexed-rate bonds purchased by FHLB, and the amount they have purchased now totals over $920 million. For both the Series B and Series C bonds we have arranged interest rate swaps to provide a fixed rate cost of funds. The interest rate swaps are structured with declining notional amounts that match the expected amortization of the corresponding variable rate bonds.

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SERIES	A	B	C
$ Amount	**$32,999,946**	**$49,500,000**	**$82,500,000**
Type of **Bonds**	**CAB**	VRDO	Indexed Floaters
Tax Treatment	AMT	AMT	Taxable
Maturities	**2022 & 2033**	**2033**	**2033**
Average Life	N/A	**15** yrs.	**5.4 yrs.**
Interest Rates	**5.9%& 6%**	Variable	Variable
Reset Frequency	N/A	Daily	Quarterly
Swap Rates	NIA	**3.888%**	**5.6%**
Bond Delivery Date	**4/18/02**	**4/18/02**	**2/7/02**
Swap Commencement Date	N/A	**411 8102**	**5/1/02**
Credit Rating	Aa2/AA-	Aaa/AAA	Aaa/AAA
Bond Insurer	N/A	FSA	FSA

The next single family bond sale is scheduled for the week of March 11th ,and a report of that sale will be distributed at the Board meeting.

State of California

MEMORANDUM

To: Board of Directors **Date:** March 6,2002

Ken Carlson

Ken Carlson, Director of Financing

From: **CALIFORNIA HOUSING FINANCE AGENCY**

Subject: UPDATE ON VARIABLE RATE BONDS AND INTERESTRATE SWAPS

The following report is based on our estimated bond and swap positions as of the March **20, 2002** Board meeting. It takes into account bond pricings and interest rate swap agreements arranged prior to the Board meeting even if actual issuance or swap commencement takes place on a later date.

Variable Rate Debt Exposure

The total amount of CHFA variable rate debt estimated to be outstanding or priced for future delivery is **$3.26** billion, almost **41%** of our expected **$7.91** billion of total indebtedness. As shown in the table below, our "net" variable rate exposure will be approximately **$697** million, **9.2%** of our indebtedness. (The report submitted for the previous Board meeting showed $3.06 billion of variable rate bonds and **$741** 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 Assets	Swapped to Fixed Rate	Not Swapped or Tied to Variable Rate Assets	Total Variable Rate Debt
Single Family	**$220**	**$1,978**	**$617**	**$2,8 15**
Multifamily	18	343	80	441
Total	**$238**	**$2,321**	**$697**	**$3,256**

As discussed in each previous report, our $697 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, interest rates for the State Treasurer's investment pool, where we invest our single family bond proceeds, have now fallen 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 $76 million per month for the last 12 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 $433 million of unswapped taxable variable rate bonds have dropped to levels as low as 1.70% as a result of the Federal Reserve's many rate cuts.

The table below summarizes this current risk position.

NET VARIABLE RATE DEBT
(\$ *in millions)*

	Tax-Exempt	Taxable	Totals
Short average life	$187	$277	$464
Long average life	77		233
TOTALS	$264	$433	$697

Interest Rate Swaps

As of March 20, we expect to have arranged a total of 46 swaps with seven different counterparties for a combined notional amount exceeding $2.3 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 tomultifamily sponsors and to serve a great many additional homebuyers.

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

INTEREST RATE SWAPS
(\$ *in millions)*

	Tax-Exempt	Taxable	Totals
Single family	$668	$1,310	$1,978
Multifamily	343	0	343
TOTALS	$1,011	$1,310	$2,321

The table below shows the diversification of our swaps 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.

SWAP COUNTERPARTIES

Swap Counterparty	Credit Ratings Moodys	Credit Ratings S & P	Notional Amounts Swapped ($ In Millions)	Number of Swaps
Merrill Lynch Capital Services Inc.	Aa3	AA-	$ 736.7	14
Lehman Brothers Derivative Products Inc.	Aaa	AAA	536.1	13
Salomon Brothers Holding Company Inc.	Aa1	AA-	405.4	8
Bear Stearns Financial Products Inc.	Aaa	AAA	434.0	6
UBS AG (Union Bank of Switzerland Aktiengesellschaft)	Aa2	AA+	101.5	2
JPMorgan Chase Bank - New York	Aa2	AA	97.1	2
Goldman Sachs Mitsui Marine Derivative Products, L.P.	Aaa	AAA	10.7	1
			$2,321.6	46

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. As an example, on our February 1,2002 semiannual debt service payment date, we made a total of $28.1 million of net payments to our seven 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 $740 million of the $1,011 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 $1,025 million, less than 13% of our estimated $7.91 billion of bonds to be outstanding. 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, 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	$105	$1,211	$1,498	$2,814
Multifamily	0	2	440	442
Total	$105	$1,213	$1,938	$3,256

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 nine transactions completed to date, the FHLB has purchased **$920.2** million of these indexed rate bonds (of which **$909.7** million remain), and, prior to our March 20 Board meeting, the FHLB is expected to agree to purchase another ***$80*** - $100 million.

Liquidity Providers

The following table shows the financial 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. As a result of our solicitation last fall, we have selected Lloyds TSB and Bank of Nova Scotia to provide liquidity for our single family VRDOs to be issued in 2002. Fannie Mae has indicated that it will continue to provide liquidity for this year's multifamily VRDOs and for any single family VRDOs we may issue to finance down payment assistance loans.

LIQUIDITY PROVIDERS
($ *in millions)*

Financial Institution	$ Amount of Bonds	Type of Bonds
Commerzbank	$ **300.0**	**SF**
CalSTRS	**266.6**	SF/MF
Fannie Mae	**209.3**	MF
Westdeutsche Landesbank	**206.4**	SF/MF
Landesbank Hessen-Thuringen	**185.1**	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
Bank of Nova Scotia	**50.0**	**SF**
State Street	**36.6**	**SF**
Morgan Guaranty	28.4	SF/MF
Total	**$1,938.7**	

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MEMORANDUM

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D: **CHFA Board of Directors**

Date: March 1,2002

Margaret Alvarez, Director of Asset Management

:om: CALIFORNIA HOUSING FINANCE AGENCY

ıbject: CHFA Multifamily Asset Management Portfolio Briefing, January 10,2002

At the January Board meeting I gave a presentation about the Multifamily Asset Management Portfolio. During the presentation it was apparent that the number of CHFA controlled non-Section 8 units was understated. Attached is a revised Portfolio Summary which correctly indicates 19,990 non-section 8 units in CHFA's portfolio, of which 5.311 units, or 26.6%. are controlled by CHFA.

Portfolio Summary

358 Projects as of 12/1/01 - <u>Revised</u>

Section 8 Portfolio:

- *164 Projects*
- *9,180 Units – all CHFA controlled.*
- *56 Units average size*

Non-Section 8 Portfolio:

- *194 Projects*
- *19,990 Units – <u>5,311</u> CHFA controlled units*
- *103 Units average size*

State of California

MEMORANDUM

To: CHFA Board of Directors **Date: 5 March 2002**

From: Di Richardson, Director of State Legislation
CALIFORNIA HOUSING FINANCE AGENCY Di

Subject: State Legislative Report

The deadline for introducing bills for this legislative session has finally passed. It's a good thing they limit the number of bills each member can introduce...2,091 bills have been introduced in the Senate this session (two years) and 3,021 in the Assembly. And that's not counting various resolutions or bills introduced in the two special sessions that are also in session.

There are a number of bills that I think you will be interested in, most notably the proposal Senator Burton has introduced to place a $2.1 billion General Obligation Bond on the ballot this November to fund a number of state housing programs. I've enclosed a matrix at the end of this report that outlines the programs that would receive funding if the bill, as currently written, is adopted and approved by the voters.

BONDS

AB 1927 **Kehoe** **Neighborhood Infrastructure Bond Act.**
Status: **02/13/2002-From printer. May be heard in committee March 15.**
This bill would authorize a $6 billion General Obligation bond to fund infrastructure related to housing.

SB 1227 **Burton** **Housing and Emergency Shelter Trust Fund Act of 2002.**
status: **02/27/2002-Read second time. To third reading.**
This bill would enact the Housing and Emergency Shelter Trust Fund Act of 2002, which, if adopted, would authorize a $2.1 billion General Obligation Bond be placed on the November ballot. The specifics of the programs that would be funded by that bond are included in an attachment at the end of this report.

CHFA MISC

SB 1564 **Polanco** **Manufactured housing.**
status: **02/28/2002-To Com. on H.&C.D.**
This bill would require any manufactured home that is not affixed to a permanent foundation to be deemed to be real property for the purposes of obtaining financing, would require the Department of Housing and Community Development, in collaboration with the California Housing Finance Agency, to recommend strategies to buy down the mortgage cost for manufactured homes to make financing more attractive and affordable for low-income buyers.

HOMEBUYER ASSISTANCE

AB 930 **Keeley** **CalHome Program.**
status: **06/21/2001-In committee: Set, first hearing. Hearing canceled at the request of author.**
This bill would exempt home rehabititation 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 1170 **Firebaugh** **Housing: downpayment assistance.**
status: **02/07/2002-Referred to Com. on H. &C. D.**
This bill would create the Building Equity and Growth in Neighborhoods (BEGIN) Fund within HCD to be used to provide 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.

INSURANCE

AB 1486 **Dutra** **Mortgage guaranty insurance.**
Status: **01/31/2002-Referred to Com. on INS.**
This bill would increase the allowable total indebtedness on which this insurance may be written in this circumstance to 103% of the fair market value of the real estate securities.
Sponsor: Mortgage Insurance Companies of America.

MISC

SB 369 **Dunn** **Multifamily rental and affordable housing: financing.**
Status: **03/04/2002-Senate concurs in Assembly amendments. (Ayes 34. Noes 1.) To enrollment.**
This bill would reenact the authority for local agencies to issue revenue bonds for the purpose of providing financing for multifamily rental housing, and capital improvements related to that housing.

SB 1521 **Kuehl** **Land use: smart growth model ordinance.**
status: **02/28/2002-To Coms. on L.GOV. and H. & C.D.**
This bill would require the Office of Planning and Research to develop a state model zoning ordinance that emphasizes "smart growth" concepts and to make the ordinance available to local planning agencies, and would give local agencies that adopt such an ordinance priority for certain state funds.

SB 1654 **Burton** **Governor's office: homelessness.**
status: **02/22/2002-From print. May be acted upon on or after March 24.**
This bill would declare the Legislature's intent to enact legislation to create the Office of Homelessness within the Governor's office to coordinate the efficient use of state resources to improve the management and oversight of all state homeless programs and to report directly to the Governor.

PRESERVATION

SB 372 **Dunn** **Preservation interim loan programs.**
status: **02/21/2002-To Com. on H. & C.D.**
This bill would establish preservation interim loan programs known as the Preservation Opportunity Program and the Interim Repositioning Program, and require the department to make loans on prescribed terms, including requiring a borrower under the Preservation Opportunity Program to also receive a loan from the agency's Preservation Acquisition Program, to preserve and maintain the affordability of assisted housing developments pursuant to those programs. The bulk of this program would be administered by CHFA.
Comments: Sponsor: Housing California and NHDC.

PREVAILING WAGES

AB 2590 **Cogdill** **Prevailing wages.**
status: **02/22/2002-From printer. May be heard in committee March 24.**
This bill would require the Director of Industrial Relations director to determine a basic trades general prevailing wage for the central valley region.

SB 1355 **Alarcon** **Public works: prevailing wages.**
status: **02/14/2002-To Com. on L. & I.R.**
This bill is suppose to serve as the vehicle for language to cleanup SB 975. Specific language is still being negotigated.

SB 1227 (Burton) - $2.1 billion "Housing and Emergency Shelter Trust Fund" bond
As amended 2/26/02

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Program	Sponsor	SB 1227	Amount Available Minus Carve outs	Notes
Multifamily Housing Program (MHP)		**$910**		
Preservation of at-risk projects	Hsg CA/ NHDC	**$50**		**Pending enactment of SB 372 (Dunn);** Housing Collaborative has asked for amount to be lowered to $25m, but Dunn not amending his request. If the enabling legislation fails, the funds would revert to general MHP. Administered by CHFA.
Non-residential space for specified supportive services	LISC Corp	**$20**		
Matching Funds for Local Housing Trusts	Diaz	*$25*		Pending enactment of AB 1891 (Diaz) If the enabling legislation fails. the funds would revert to general MHP.
Matching Funds to UC/CSU for Student Housing	Aroner	**$15**		Priority 1 – projects on land owned by UC/CSU; priority 2 – projects within one mile campuses suffering severe housing shortage: income eligibility based on combined income of student/family; funds not used within 24 months revert to Downtown Rebound program.
Amount available to general program			**$800**	
Emergency Housing Assistance Program (EHAP)		**$195**	**$195**	**Recent amends require HCD to consider local input and exempt this funding from existing statutory limit of $1 million grant to any single organization within each region per funding round.**
MHP/Supportive Services		**$195**	**$195**	**No reversion language**
Joe Serna Jr. Farmworker Housing Grant Fund		**$200**		
Migratory Agriculture Workers	**CRLA**	**$25**		
Developments that also provide Health Services	RCAC	$20		Recent amends require recipients to provide ongoing monitoring for compliance and clarifies that projects that receive these funds not eligible to double dip from HGF.
Amount available to general program			**$155**	Any funds not encumbered within 30 months revert to general FHG Fund.
Code Enforcement	**Lowenthal**	**$5**	**$5**	**Recent amends clarify these funds can only be used for qualified capital expenditures.**
CalHOME		**$205**		
BEGIN	**CBIA**	**$75**		**Pending enactment of AB 1170 (Firebaugh)**
Grants for Ramps	**Lowenthal**	**$5**		**2/6 – This was original of AB 1008; any funds not encumbered within 30 months revert to general use in CalHOME**
Self-Help		**$10**		
Amount Available for general program			**$115**	**If the enabling legislation fails, those funds would revert to general CalHOME. Other funds set aside but not encumbered within**

				30 months revert to general CalHOME.
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CHDAP		$290		These sections all administered by CHFA
School Facility Fees	CBIA	$50		Implementing language in 1227; $25 million CHDAP.
CaHLIF	CAR	$85		Not currently tied to enabling legislation or a specific program - $ simply deposited into CaHLIF. $ not encumbered within 30 months reverts to CHDAP.
Neighborworks Homeownership Program	NHS/CBIA	$12.5		Implementing language contained within 1227. $ not encumbered within 30 months reverts to CHDAP.
Extra Credit Teachers Program	Treasurer	**$25**		Implementing language contained within 1227; primarily available for CHFA operated program – CHFA would have discretion of making available to local issuers; CHFA would have discretion wither to make principle and/or interest forgivable; assistance would be the greater of either 3% of purchase price or $7500, whichever is greater. Recent amends allow CHFA discretion to move $$ not used within 18 months back to CHDAP, where it can be made available for regular CHDAP or Teacher program
Amount available to general program			$117.5	
Jobs Housing Balance Fund	**Torlakson**	**$100**		**SB 423; If the enabling legislation fails, the funds would revert to general MHP.**

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