REPORTS

SACRAMENTO HEADQUARTERS
1121 L STREET. SEVENTH FLOOR
SACRAMENTO. CA 95814-3974
(916) 322-3991

www.chfa.ca.gov

LOS ANGELES OFFICE
100 CORPORATE POINTE. SUITE 250
CULVER CITY. CA 90230-7641
(310) 342-1250

THIS PAGE INTENTIONALLY LEFT BLANK

State of California

MEMORANDUM

To: Board of Directors **Date:** May 2,2002

Ken Carlson, Director of Financing

From: **CALIFORNIA HOUSING FINANCE AGENCY**

Subject: UPDATE ON VARIABLE RATE BONDS AND INTEREST RATE SWAPS

The following report describes our bond and swap positions as of the May **16** 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. With the exception of a **$1.7** million multifamily drawdown bond issued on April **4,** no new bonds or swaps were contracted for since the previous Board meeting. Thus the status of our variable rate bonds and swaps is essentially unchanged from the previous report. However, the next report (for the June **6** Board meeting) should include new variable rate bonds and swaps we plan to contract for between the two meeting dates.

Variable Rate Debt Exposure

The total amount of CHFA variable rate debt currently outstanding or priced for future delivery is **$3.28** billion, almost **42%** of our **$7.88** billion of total indebtedness. **As** shown in the table below, our "net" variable rate exposure is approximately **$697** million, **8.9%** of our indebtedness. 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**	**$2,003**	**$617**	**$2,840**
Multifamily	18	343	80	441
Total	**$238**	**$2,346**	**$697**	**$3,281**

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, the incidence of single family loan prepayments increased early in 2001 from an average of $30 million per month in 1999 and 2000 to an average of $78 million per month for the last 14 months. This high rate of prepayments has kept our loan portfolio from expanding in spite of our $1 billion per year of new production. However, debt service savings on our unswapped variable rate bonds should help to offset the economic consequences of low investment rates and high prepayments. As an example, the interest rates on our $433 million of unswapped taxable variable rate bonds have dropped to levels in the 1.70% - 2.0% range 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	156	233
TOTALS	$264	$433	$697

Interest Rate Swaps

Currently, we have arranged a total of 47 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 to multifamily 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	$688	$1,315	$2,003
Multifamily	343	0	343
TOTALS	$1,031	$1,315	$2,346

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 Stearns, and Goldman Sachs are with structured 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	S & P	Notional Amounts Swapped ($ in millions)	Number of Swaps
Merrill Lynch Capital Services Inc.	Aa3	AA-	$ 736.7	14
khman 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	459.1	7
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	AA+	10.7	1
			$2,346.6	47

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 to Tax Law

It should be noted that, for an estimated $760 million of the $1,031 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 $1,045 million, less than 14% of our $7.88 billion of bonds 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 our variable rate debt 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	$102	$1,219	$1,519	$2,840
Multifamily	0	2	439	441
Total	$102	$1,221	$1,958	$3,281

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 ten transactions completed to date, the FHLB has purchased over $1 billion of these indexed rate bonds. The FHLB has recently petitioned its regulatory agency (the Federal Housing Finance Board) requesting authorization to purchase additional CHFA bonds.

Liquidi v 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. We have also very recently begun discussions with Freddie Mac asking them to act as a liquidity provider.

LIQUIDITY PROVIDERS
($ in millions)

Financial Institution	$ Amount of Bonds	Type of Bonds
Commerzbank	$ 300.0	SF
CalSTRS	266.6	SFMF
Fannie Mae	209.3	MF
Westdeutsche Landesbank	206.4	SFMF
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	70.0	SF
State Street	36.6	SF
Morgan Guaranty	28.4	SFMF
Total	$1,958.7	

THIS PAGE INTENTIONALLY LEFT BLANK

MEMORANDUM

To: **CHFA Board of Directors** **Date: 25** April **2002**

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

Subject: State Legislative Report

By now you've all heard the big news – the housing bond is headed for the November ballot! This past Monday, the Governor convened a very successful Homeless Summit that featured approximately 200 housing activists, homeless advocates and government officials, including CHFA Board Members Terri Parker, Julie Bornstein and Tal Finney. The Summit ended with the Governor signing SB 1227 (Burton), a $2.1 billion General Obligation Bond that would fund a number of state housing programs, including a housing preservation program and a number of down payment assistance programs that would be administered by CHFA. Additional details on each of those programs are included in new Five Year Business Plan you will likely be adopting at this meeting. .

Below you will find the regular report to update you on the status of those bills in which I think you would be interested. As always, if you have any questions, you can email me at drichardson@chfa.ca.gov or call me at (916) 324-0801.

BONDS

SB 1227 **Burton** **Housing and Emergency Shelter Trust Fund Act of 2002.**
status: **04/22/2002-Chaptered by Secretary of State - Chapter No. 26, Statues of 2002**
This bill would enact the Housing and Emergency Shelter Trust Fund Act of **2002,** which, if adopted would authorize the issuance bonds in the amount of **$2,100,000,000**. CHFA would administer a number of the programs contained in this bond (an outline was provided at the last Board meeting), and some of the programs are contingent upon the passage of additional legislation.

AB 1927 **Kehoe** **Neighborhood Infrastructure Bond Act.**
Status: **04/22/2002-Re-referred to Com. on L. GOV.**
This bill would enact the Neighborhood Infrastructure Bond Act of **2002,** which, if adopted, would authorize the issuance for the purpose of financing a program to address **local** infrastructure needs of bonds in the amount of **$6,000,000,000** pursuant to the State General Obligation Bond Law. The act would be administered by the California Infrastructure and Economic Development Bank, and would include funding for commercial infrasturcture; transit oriented development infrasturcture; mixed-use developments and infill development.

HOMEBUYER ASSISTANCE

AB 1170 **Firebaugh** **Housing: downpayment assistance.**
status: **04/16/2002-Do pass as amended, and re-refer *to* the Committee on Appropriations.**
This bill would create the Building Equity and Growth in Neighborhoods (BEGIN) Fund and would continuously appropriate, without regard to fiscal years, any money in the fund to the department for grants to cities, counties, and cities and counties for assistance in the form of 2nd mortgage loans for downpayment purposes to qualifying new home buyers in those cities, counties, and cities and counties that have taken prescribed actions to remove barriers to affordable housing. Funding for this program is contained in the housing bond that will be on the November ballot.

INSURANCE

AB 1486 **Dutra** **Mortgage guaranty insurance.**
status: **04/10/2002-To inactive file by unanimous consent.**
This bill would increase the allowable total indebtedness on which this insurance may be written from 100% to 103% of the fair market value of the real estate securities.
Comments: Sponsor: Mortgage Insurance Companies of America Note: currently being held on Senate floor because questions raised regarding predatory lending.

MISC

SB 369 **Dunn** **Multifamily rental and affordable housing: financing.**
status: **03/11/2002-Chaptered by Secretary of State - Chapter No. 12, Statues of 2002**
Prior law, which was repealed on January 1,2002, authorized any city or county to issue revenue bonds for the purpose of providing financing for multifamily rental housing, and capital improvements related to that housing. This bill would reenact these provisions.

SB 1521 **Kuehl** **Land use: model land use planning ordinance.**
status: **04/24/2002-Do pass as amended, and re-refer *to* the Committee on Housing and Community Development.**
This bill would require the Office of Planning and Research to develop a state model zoning ordinance that emphasizes land use policies that are economically, socially, and environmentally sustainable that promotes smart growth concepts, and to make the ordinance available to cities, counties, and cities and counties by January 1,2004. Local agencies that adopt an ordinance that conforms with that model would then be granted a preference for certain state grant funds.

SB 1654 **Burton** **Governor's office: homelessness.**
status: **04/24/2002-Set for hearing May 6.**
This bill would establish the Office of Homelessness within the Governor's office , with specified duties and responsibilities, to coordinate the efficient use of state resources to improve the management and oversight of all state homeless programs and to make annual recommendations to the Governor and the Legislature .

PRESERVATION

SB 372 **Dunn** **Preservation interim loan programs.**
Status: **04/10/2002-From committee: Do pass, but first be re-referred to Com. on APPR. (Ayes 6. Noes 2.) Re-referred to Com. on APPR.**
This bill would establish preservation interim loan programs known as the Preservation Opportunity Program and the Interim Repositioning Program, to preserve and maintain the affordability of assisted housing developments pursuant to those programs.
Comments: Sponsor: Housing California and NHDC. The Preservation Opportunity Program would be administered by CHFA. Funding for this bill is included in the housing bond that will be before the voters in November.

PREVAILING WAGES

AB 2590 **Cogdill** **Prevailing wages.**

status: **03/07/2002-Referred to Com. on L. & E.**

This bill would require the Director of Department of Industrial Relations to determine a basic trades general prevailing wage for the central valley region.

SB *972* ***costa*** **Public works: prevailing wages.**

status: **04/22/2002-From committee with author's amendments. Read second time. Amended. Re-referred to committee.**

This bill would exclude from the requirements of public works and prevailing wage laws the construction or rehabilitation of privately owned residential projects if: (1) the project is a self-help housing projects and the homebuyer performs at least ***500*** hours of construction work; ***(2)*** the project is for the rehabilitation or expansion of a temporary or transitional homeless housing project with a total project cost of less than ***$25,000;*** and ***(3)*** the assistance is either mortgage assistance, downpayment assistance, **or** for the rehabilitation of a single-family home..

SB 1355 **Alarcon** **Public works: prevailing wages.**

status: **02/14/2002-To Com. on L. & I.R.**

This is a spot bill that was introduced to carry any cleanup resulting from and agreement between the Administration and sponsors of SB 975 (Alarcon), a prevailing wage bill signed by the Governor last year. Discussions regarding the specifics of that language are continuing .

THIS PAGE
INTENTIONALLY
LEFT BLANK

e

State of California

NDI

TO:	Board of Directors	DATE:	March 16,2002

FROM: Dawn Hulbert
Director of Marketing
California Housing Finance Agency

SUBJECT: LAUNCH OF TEACHERS' LOAN PROGRAMS WEBSITE

In our ongoing efforts to market the Extra Credit Teachers' Program, CHFA has launched a new website geared towards teachers who are looking for home financing. The address is www.TeachersHomeLoanResource.com.

As you'll see from the attached print up, the site contains several links to obtain information regarding home loan programs available to educators. These links were found through internet research. They will be periodically updated.

The site was created as a dot-com, and independent of CHFA, to avoid any perception that this a specific CHFA program in order to provide a level playing field. It is also an attempt to help educators find programs that will assist them in their home buying efforts, in the event they are not qualified for the Extra Credit Teacher Program.

An announcement of the site and the services provided is being prepared. It will be e-mailed from TeachersHomeLoanResource.com to all School District Administrators and Superintendents at the County Offices of Education for distribution to school workers.

THIS PAGE
INTENTIONALLY
LEFT BLANK

1014

TEACHERS' HOME LOAN RESOURCE

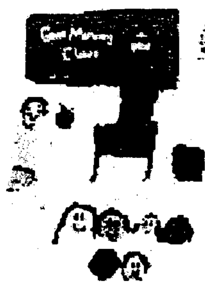
Links to Teacher Loan Programs:

California Housing Finance Agency
The Extra Credit Teacher Program provides a below market interest rate CHFA first loan, together with a forgivable interest CHFA second loan to assist qualified teachers and principals to purchase their first home.

California State Treasurers Office
Under the Extra Credit Teacher Home Purchase Program, teachers and principals who commit to s[illegible]e in designated low [illegible]rming schools for five years will qualify for tax credits or reduced interest rate loans to purchase a home.

CalSTRS Home Loan Program
California State Teachers' Retirement System (CalSTRS) participants can use the CalSTRS Home Loan Program to refinance their existing home loan or to buy a new home.

Housing and Urban Development (HUD)
What are the benefits for the teacher?
If you qualify, you can *get* a 50 percent discount on a HUD-owned. one family home in a designated Revitalization Area.



Affordable housing for educators continues to be a huge hurdle in California where the average teacher salary is $38,635 and the statewide median housing price is $276,590. Despite daunting statistics there is good news in the form of unique programs for educators:

- Low interest rate home loans are available specifically for teachers.
- The California Department of Education has a grant program to help with housing
- Some banking institutions offer loans up to 100% of the home sales price.
- Some local and state government agencies offer down payment assistance grants, gifts or forgivable interest loans to teachers.

Now more than ever, obtaining information on specialty programs is important. The more tools you have to find a home - loan, grant or "layered" funding - the closer you are to making homeownership a reality.

An internet search for teacher home loan programs yields over 26,000 responses - an unwieldy amount of information. As a starting point, this site provides a random sampling of organizations and services that link educators to home buying resources

We hope you can use these links to familiarize yourself with program information, understand the concept of "layering" (combining funds from several sources to help with down payments or closing costs) and identify lenders who are familiar with target programs for educators

**teachershomeloanresource.com does not assume responsibility for the content of links provided*

Your feedback counts!
If there is a program or service you would like to see added or wish to provide personal feedback for this web site, contact us by clicking on the pencil below.

1015

NEXT

notes FROM the teacher

1016

TEACHERS' HOME LOAN RESOURCE

LINKS TO TEACHERS' HOME LOAN PROGRAMS (Continued)

The Los **Angeles** Teachers **Mortgage** Assistance Proaram **(LATMAP)**
LATMAP was created to help current and new teachers, along with other qualified district personnel, take advantage of the various special home mortgage programs currently available.

California Teachers Association **(CTA)**
The real estate market may be red-hot in California, but low salaries have left many teachers out in the cold. With so many educators unable to afford to live in the areas where they teach, housing programs for teachers are being developed by local, state and federal government, as well as communities. Such plans include home loans, subsidized housing and the opportunity to purchase homes at bargain prices.

Santa Clara County **MCC** Proaram (Teacher Mortaaae Credit Cert**ifcates)**
Through the use of an MCC, eligible teachers in Santa Clara County can increase their ability to qualify for a mortgage loan by reducing their federal income tax liability in the form of a tax credit. MCC Recipients can take up to 20% of their annual mortgage interest payments as a dollar-for-follar tax credit, thereby reducing their federal income tax bill.

CalTeach
Allows public agencies such as cities and counties to use CDLAC tax credis or mortgage revenue bonds to support a program to recruit and retain teachers.

Mortaaae Proarams for Teachers from Bank of America
As one of the premier home mortgage lenders in the country, Bank of America is dedicated to investing in the well being and revitalization of the neighborhoods and communities we serve. Because teachers play a critical role in their communities, Bank of America has developed two innovative new home loans with unique features and benefits to help teachers overcome the high cost of homeownership.

Golden Feather Realty Services
Officer/Teacher Next Door Program
Properties offered under this program will be designated as "Good Neighbor" Officer/Teacher listings. At the time of listing under this program, the price of the property will be reduced to 50% of the appraised value, and all eligible parties will receive an additional 50% discount (off of the already reduced price) upon closing the sale.

Southern California Home Financing Authority (SCHFA)
The purpose of the Teachers Home Mortgage Program is to provide homeownership opportunities to qualified teachers purchasing homes in the County of Los Angeles areas or the County of Orange areas.

City **of Los Angeles**
Teachers don't wait! There is a special first come, first served home ownership program **just** for you.

This program offers assistance to credentialed teachers who teach at low performing schools. Teachers who qualify take advantage of a 6.5% fixed rate loan and receive down payment assistance. Once qualified, teachers can purchase homes within the City of Los Angeles.

Housing Authority of the County of **Santa** Cruz
The MCC can help make it possible to afford a home. even in a high-cost area like Santa Cruz county, by reducing the amount of Federal income tax you have to pay, thus giving you more available income to qualify for a mortgage loan

Sacramento Housing and Redevelopment Agency (SHRA)
The Teacher Home Purchase program is designed to assist teachers or principals working in a low performing school by providing homeownership assistance The program offers Mortgage Credit Certificates along with downpayment assistance

1017

NEXT

notes FROM the teacher