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2001

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MEMORANDUM

To Board of Directors

Date: December 19, 2003



Ken Carlson, Director of Financing

From: CALIFORNIA HOUSING FINANCE AGENCY

Subject: REPORT OF BOND SALE AND INTEREST RATE SWAP AGREEMENTS
HOME MORTGAGE REVENUE BONDS 2003 SERIES MN

On November 20th we issued bonds in the amount of \$200 million consisting of \$150 million of tax-exempt variable rate bonds and \$50 million of taxable variable rate bonds. On September 24th we obtained interest rate swaps for the tax-exempt portion and left the taxable portion unswapped. The transaction proceeds are being used to fund approximately 1,200 new loans with rates expected to range from 4.75% to 5.75%.

The bonds were structured in two series as shown on the table on page 2. The Series M Bonds are tax-exempt variable rate demand obligations with liquidity provided by Bank of America. The Series N Bonds are taxable variable rate LIBOR-indexed bonds that are insured by MBIA and were purchased by the Federal Home Loan Bank of San Francisco. If interest rates stay low we plan to leave these bonds outstanding and directly recycle prepayments into new mortgages.

In order to reduce the overall cost and eliminate negative carry during loan origination we were able to arrange for two forward starting swaps that will start in February, 2004. The Series M bonds were sold with a low fixed interest rate through February 4th, when we will remarket the bonds in a daily or weekly mode, coinciding with the start of the swaps. The swaps are structured with declining notional amounts that match the expected amortization of the corresponding variable rate bonds. Both swaps have call options built into the structure. These call options will allow the Agency to keep the swap and bond balances in sync when prepayments exceed forecasted levels.

2003

SERIES	M	N
\$ Amount	\$150,000,000	\$50,000,000
Type of Bonds	VRDO	Indexed Floaters
Tax Treatment	AMT	Taxable
Maturities	2024 & 2034	2034
Average Life	2024: 10 yrs 2034: 26 yrs	4.4 yrs.
Interest Rates	Variable	Variable
Reset Frequency	Fixed until 2/4/04	Quarterly
Floating Rate Swap Formula	60% of LIBOR + 26 bps	N/A
Swap Rates	3.225 % & 3.89 %	N/A
Swap Start Date	2/4/04	N/A
Credit Rating	Aa2/AA- VMIG-1/A-1	Aaa/AAA
Swap Counterparty	Bear Stearns Financial Products Inc.	N/A
Bond Insurer	N/A	MBIA

MEMORANDUM**To:** Board of Directors

Date: December 30, 2003



Ken Carlson, Director of Financing

From: CALIFORNIA HOUSING FINANCE AGENCY**Subject:** REPORT OF BOND SALE AND INTEREST RATE SWAP AGREEMENTS
MULTIFAMILY HOUSING REVENUE BONDS III, 2003 SERIES C

On November 13th we set swap rates for \$53,330,000 out of \$97,295,000 of multifamily variable rate bonds issued on December 10th. This is our third multifamily issue of 2003, and again we issued multifamily auction rate bonds, for which interest rates will reset with a Thirty-Five Day Auction Mode period and interest paid semiannually. The Series C bonds are backed by our Aa3/AA- general obligation but are rated Aaa/AAA because of bond insurance provided by MBIA Insurance Corporation.

The Series C bonds have been issued to provide funds to finance new loans to eleven multifamily projects and to refund \$20,020,000 of a prior CalHFA bond issue. A total of four prior loans will be transferred as a result of the refunding. Attached is a listing of the projects to be financed by the Series C bonds.

As shown in the table below, we have obtained three interest rate swaps, together in an amount related to the new and transferred permanent loans. Consistent with our strategy for previous multifamily transactions, amounts related to bridge loans, construction loans and lender loans are not being swapped due to the short term of these loans. As with previous transactions, we have chosen to delay the starting dates for the three swaps. Delayed starts enable us to minimize negative investment arbitrage during the period between the issuance of the bonds and the date new loans are funded or (in the case of the refunding component) the prior bonds are retired.

Amount of Swap	Start Dates	End Dates	Interest Rates	Floating Rate Index
\$16,850,000	02/1/2004	8/1/2035	3.556%	60% of LIBOR + 0.26%
\$17,470,000	08/1/2005	8/1/2035	4.026%	60% of LIBOR + 0.26%
\$19,010,000	02/1/2006	8/1/2038	4.177%	60% of LIBOR + 0.26%

Attachment

Board Letter-MF III 2003 C/dlc

Project Name	Loan Amount	Interest Rate	Actual/Projected Loan Origination Date
New Loans			
Bayport Apts.	\$ 6,700,000	5.25%	01-Jun-05
Copper Creek	14,125,000	5.25%	05-Dec-05
Coyote Run II	6,450,000	5.25%	01-Aug-05
Housing Alliance	5,600,000	1.00%	(1) 01-Nov-05
Moulton Plaza	8,865,000	5.25%	01-Jul-05
Northwood Family	8,000,000	5.25%	08-Sep-05
Ocean View Gardens	3,160,000	5.75%	30-Dec-03
Timothy Commons	3,625,000	5.25%	01-Jun-05
Villa Amador	13,000,000	5.25%	01-Sep-05
Villa Cesar Chavez	6,980,000	5.25%	01-Sep-05
Villa Victoria	7,100,000	5.25%	01-Dec-05
Total	<u>\$ 83,605,000</u>		

Old Loans Transferred from Prior Bond Issue

Conant Place Seniors	\$ 905,921	6.80%	23-Dec-94
Manhattan Village	5,870,965	6.85%	01-Aug-97
Palos Verdes Villas	4,699,532	4.50%	(2) 30-Mar-95
Regency Court	4,031,824	6.85%	27-Oct-95
Total	<u>\$ 15,508,241</u>		

- (1) The Agency intends to subsidize the interest rate on this loan to 5.25%. The source of funds for this subsidy is expected to be the Agency's share of McKinney Act savings from certain Section 8 projects which benefited from prior bond refundings.
- (2) Indicates range of interest rates for existing stepped-rate loan (4.50% - 8.50%). As a result of the refunding, the Agency staff intend to renegotiate the workout agreement with the borrower and reduce or eliminate the stepped-rate feature of the loan.

MEMORANDUM

To: Board of Directors

Date: January 7, 2004



Ken Carlson, Director of Financing

From: CALIFORNIA HOUSING FINANCE AGENCY

Subject: Locking in Today's Low Interest Rates for Future Multifamily Refundings - Update

In May 2003, I provided a report to you regarding our intention to obtain interest rate swap agreements for future refundings of multifamily bonds, thus locking in our new cost of funds in today's interest rate market. The purpose of this report is to update you about three such interest rate swap agreements that we executed in November, 2003. We expect to refund the related bonds on February 1, 2005 and February 1, 2006, which are the first dates on which we have an opportunity to redeem the respective bonds through optional redemptions.

The total notional amount of the swap agreements is \$57,190,000. The notional amount of each swap agreement is related to the amount of loans which are expected to be financed by the refunding bonds. These amounts generally represent the pool of loans currently financed by the bonds to be refunded, but have been adjusted to remove those projects that we (based on discussions with our Asset Management and Multifamily Programs staff) do not expect to continue to amortize as currently structured.

The effective date of each swap agreement that we entered into corresponds to the expected refunding dates for the associated bonds. Even though we entered into these swap agreements in November, there will be no exchange of payments until after the effective date of each swap. The notional amount of each swap will amortize as the bonds related to the swap amortize. In each case, CalHFA is paying the fixed interest rate and is to receive the floating rate payment. The table below describes the terms of each swap agreement.

Amount of Swap	Start Dates	End Dates	Interest Rates	Floating Rate Index
\$13,600,000	02/1/2005	2/1/2035	3.59%	60% of LIBOR +0.26%
\$ 9,720,000	02/1/2005	8/1/2025	3.435%	60% of LIBOR +0.21%
\$33,870,000	02/1/2006	2/1/2038	3.701%	60% of LIBOR +0.26%

2007

Currently, the interest rates on the bonds that are to be refunded range from 5.25% to 6.90%. By locking in our cost of funds today, we gained the certainty that we can offer new lower rates to the associated borrowers based on the cost of these swap agreements. Lower rates will improve project cashflows, reduce our risks as lender and, in many cases, also place us in a position to negotiate greater affordability for tenants. Please see the attached table for a list of projects whose loan rates may be reduced as a result of these cost savings.

Project Name	Projected Loan Amount (1)	Current Interest Rate	Current Loan Maturity Date
2/1/05 Swap of \$13.6 MM			
Manhattan Place	\$ 2,339,272	4.50% (4.00-7.75%) (2)	01-Oct-34
Villa San Ramon	11,854,934	5.00% (3.00 -11.00%) (2)	01-Oct-34
2/1/05 Swap of \$9.72 MM			
Cambridge Glen	\$ 3,926,353	7.75%	01-Oct-24
Laurel Court	466,894	3.75% (2.75 - 7.75%) (2)	01-Oct-34
Sheffield Greens	4,493,725	7.75%	01-Oct-24
2/1/06 Swap of \$33.87MM			
Kalmia Courtyards	\$ 849,524	7.25%	01-Oct-27
Plaza Del Sol	4,318,347	7.25%	01-Aug-37
Promenade I	3,238,869	7.25%	01-Dec-37
Promenade II	6,192,678	7.25%	01-Dec-37
Regency Court	4,350,510	7.25%	01-Jun-27
Vista Valle	1,919,707	7.50%	01-May-26
Warwick Square	16,638,428	7.25%	01-Mar-27

(1) Unpaid principal balances as of the expected refunding date of the bonds
(i.e., February 1, 2005 or February 1, 2006, as applicable)

(2) Indicates range of interest rates for existing stepped-rate loans.

2009

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MEMORANDUM

To: Board of Directors

Date: January 7, 2004



Ken Carlson, Director of Financing

From: CALIFORNIA HOUSING FINANCE AGENCY

Subject: Habitat for Humanity Investment

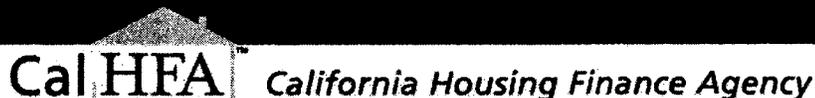
Since 1997, Habitat for Humanity International ("Habitat") has been raising money via annual note issuances, secured by existing mortgages on homes previously built by Habitat for Humanity affiliates ("Habitat affiliates"). On December 11, 2003, we purchased \$490,000 of such notes. The par amount of our investment corresponds to the total amount of funding requested by Habitat's California affiliates. Investing in these notes provides us with a convenient opportunity to support Habitat's programs in California without having to work with each affiliate separately. We look forward to continuing to support Habitat's programs in California by annually investing in future Habitat note issuances.

The attached press release describes more of the benefits achieved by our investment.

Attachment

2011

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**IMMEDIATE RELEASE**

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www.calhfa.ca.gov

**CALHFA AND HABITAT FOR HUMANITY
ESTABLISH NEW \$490,000 PARTNERSHIP**

SACRAMENTO, California, December 19, 2003 – Habitat for Humanity® and the California Housing Finance Agency (CalHFA) are teaming up to provide new housing opportunities for California families in need.

This partnership enables California Habitat for Humanity affiliates to stretch their existing resources, generate more funds, and build more affordable homes that are urgently needed in our State. CalHFA has invested in \$490,000 of mortgage-backed securities issued by Habitat for Humanity.

CalHFA's investment of nearly a half-million dollars will help provide funding to four Habitat for Humanity affiliates in California, including Habitat for Humanity Golden Empire, Mt. Diablo Habitat for Humanity, Habitat for Humanity San Bernardino, and Habitat for Humanity South Bay/Long Beach. These affiliates benefit by having immediate access to money they normally would collect over the life of the mortgages.

"CalHFA is constantly looking for innovative ways to help families who need an affordable place to live on terms they can manage," according to CalHFA's Executive Director, Theresa Parker. "We're pleased to partner on this effort with a global, grass-roots organization like Habitat for Humanity."

Habitat for Humanity is dedicated to eliminating poverty housing. Founded in 1976 by Millard Fuller, along with his wife, Linda, Habitat for Humanity International and its affiliates in more

- more -

2013

than 3,000 communities in 92 nations have built more than 150,000 homes to partner families with no-profit, zero-interest mortgages. For more information, visit www.habitat.org.

CalHFA, the State's affordable housing bank, was chartered in 1975 to meet the housing needs of low to moderate income Californians and has helped more than 120,000 families purchase their first home. More information on the CalHFA/Habitat for Humanity Partnership and the full complement of CalHFA programs are available at 1.800.789.2432 or www.calhfa.ca.gov.

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2014

MEMORANDUM**To:** Board of Directors**Date:** January 6, 2004

Ken Carlson, Director of Financing

From: CALIFORNIA HOUSING FINANCE AGENCY**Subject:** STATUS REPORT: PARTNERSHIP WITH THE SOUTHERN CALIFORNIA HOME FINANCING AUTHORITY

On October 8th, the Board of Directors of the Southern California Home Financing Authority (SCHFA) approved a cooperation agreement between SCHFA and CalHFA. In addition, the SCHFA Board adopted the bond resolution related to this joint program on November 19th. These approvals have allowed the Agency to move forward in implementing the joint home loan financing program reported to the Board in September.

As Board members may recall, SCHFA is a joint powers authority comprised of Los Angeles County and Orange County. Under the joint program, SCHFA will be the issuer of \$100 million of tax-exempt bonds that will be backed by CalHFA's giant Home Mortgage Revenue Bond program, and CalHFA will hold SCHFA's bond proceeds separately. CalHFA's lenders will originate the joint program loans, and CalHFA will allocate them to the SCHFA bond issue.

The joint program commenced on December 1, 2003, on which day our Homeownership staff began accepting loan reservations from our lenders. As of January 3, 2004, we have received approximately \$30 million of reservations (excluding expected non-delivery) for this program. Because of the high volume of CalHFA lending in these two counties already, we anticipate that SCHFA's initial \$100 million of proceeds (when combined with \$35 million of CalHFA taxable bond proceeds) would last three to four months. If the joint program is a success we may expect SCHFA to ask us to work with them on subsequent bond issues.

The SCHFA's programs do not include properties within the City of Los Angeles; however the City of LA, which has its own mortgage revenue bond program, has expressed interest in a similar joint program with CalHFA.

We expect to execute the swaps for the tax-exempt portion of this issuance on January 15th and to close all of the bonds on February 19th.

Because of this partnership and our need to recycle excess loan prepayments related to various prior CalHFA bond issues, we have determined that we may not need to resume our normal financing schedule for some months.

2015

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MEMORANDUM

2016

To: Board of Directors

Date: January 7, 2004



Ken Carlson, Director of Financing

From: CALIFORNIA HOUSING FINANCE AGENCY

Subject: SUMMARY OF YEAR 2003 BOND FINANCINGS;
SCHEDULED FINANCINGS IN EARLY 2004

Year 2003 Bonds

Attached are tables and pie charts summarizing our year 2003 bond transactions and showing bonds issued over the last five years. Note that our 2003 volume of \$2.15 billion has proven to be our "busiest" year ever, slightly exceeding our 2002 volume of \$2.10 billion. A large portion (42%) of the volume is related to the \$965.7 million of the bonds and notes that were issued to preserve tax-exempt authority, including both new authority from CDLAC and "grandfathered" authority related to bond redemptions from prepayments.

The amount of Agency bonds outstanding as of December 31, 2003 is \$7.996 billion, down from \$8.158 billion as of the end of 2002. Approximately \$828.8 million of bond principal will be retired on February 1st.

As shown in the table and accompanying pie chart, all but \$10 million of our \$2.15 billion of 2003 bonds and notes was variable rate. During the year, \$852.7 million of these variable rate bonds were swapped to fixed rates.

New Financings in Early 2004

We expect to issue approximately \$270 million of drawdown bonds or notes in January to preserve authority related to the eligible portion of single family bond principal scheduled for retirement on February 1.

We are also scheduled to arrange interest rate swaps in mid-January and issue bonds in late February for the joint home loan financing program with the Southern California Home Financing Authority. This issue will be for \$135 million, of which we expect \$35 million to be taxable, with the Federal Home Loan Bank of San Francisco the investor.

In addition, prior to the March Board meeting we expect to arrange the issuance of \$100-\$150 million of CalHFA bonds for the Homeownership Program and \$21 million of multifamily drawdown bonds (related to carryforward allocations received from CDLAC on December 17 for three multifamily projects).

Attachments

**CALIFORNIA HOUSING FINANCE AGENCY
FIVE-YEAR SUMMARY
BOND ISSUES FROM 1999 TO 2003**

YEAR	PROGRAM	PRIVATE ACTIVITY BOND ALLOCATION RECEIVED	BONDS SOLD		
			TAX-EXEMPT	TAXABLE	
1999	Single Family	\$237,452,500	\$909,576,435	\$449,165,000	\$1,35
	Multifamily	\$36,782,000	\$44,535,000	\$0	\$4
	SUBTOTAL	\$274,234,500	\$954,111,435	\$449,165,000	\$1,40
2000	Single Family	\$217,128,000	\$824,647,265	\$673,800,000	\$1,49
	Multifamily	\$159,315,000	\$183,020,000	\$269,038,416	\$45
	SUBTOTAL	\$376,443,000	\$1,007,667,265	\$942,838,416	\$1,95
2001	Single Family	\$369,775,798 *	\$768,279,441	\$633,745,000	\$1,40
	Multifamily	\$123,550,000	\$204,230,000	\$39,185,000	\$24
	SUBTOTAL	\$493,325,798	\$972,509,441	\$672,930,000	\$1,64
2002	Single Family	\$500,655,188 **	\$1,485,434,138	\$418,000,000	\$1,90
	Multifamily	\$119,445,000	\$205,890,000	\$0	\$20
	SUBTOTAL	\$620,100,188	\$1,691,324,138	\$418,000,000	\$2,10
2003	Single Family	\$403,972,405 ***	\$1,073,750,000	\$846,995,000	\$1,92
	Multifamily	\$227,370,000	\$231,035,000	\$0	\$23
	SUBTOTAL	\$631,342,405	\$1,304,785,000	\$846,995,000	\$2,15
5-YEAR TOTALS		<u>\$2,395,445,891</u>	<u>\$5,930,397,278</u>	<u>\$3,329,928,416</u>	<u>\$9,26</u>

* Includes \$73,775,798 of carryforward.
 ** Includes \$139,755,188 of carryforward.
 *** Includes an estimated \$74,100,000 of carryforward.

2018

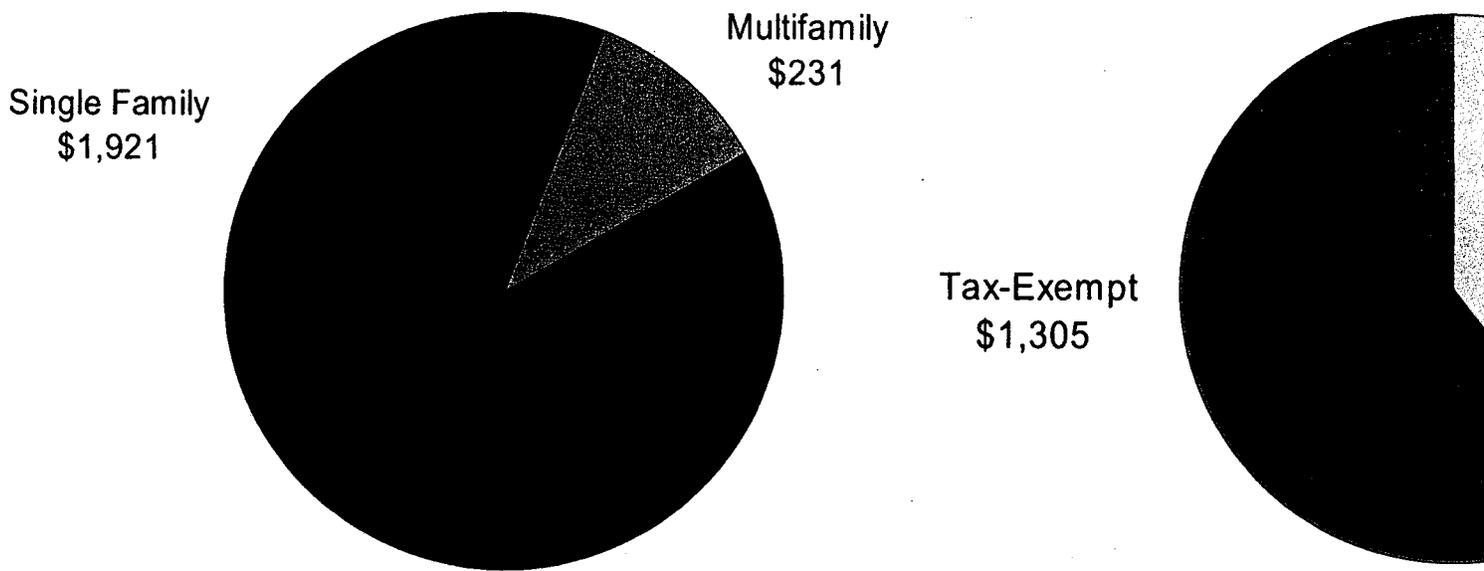
CALIFORNIA HOUSING FINANCE AGENCY

2003 BOND SALE SUMMARY
CALENDAR YEAR JANUARY-DECEMBER

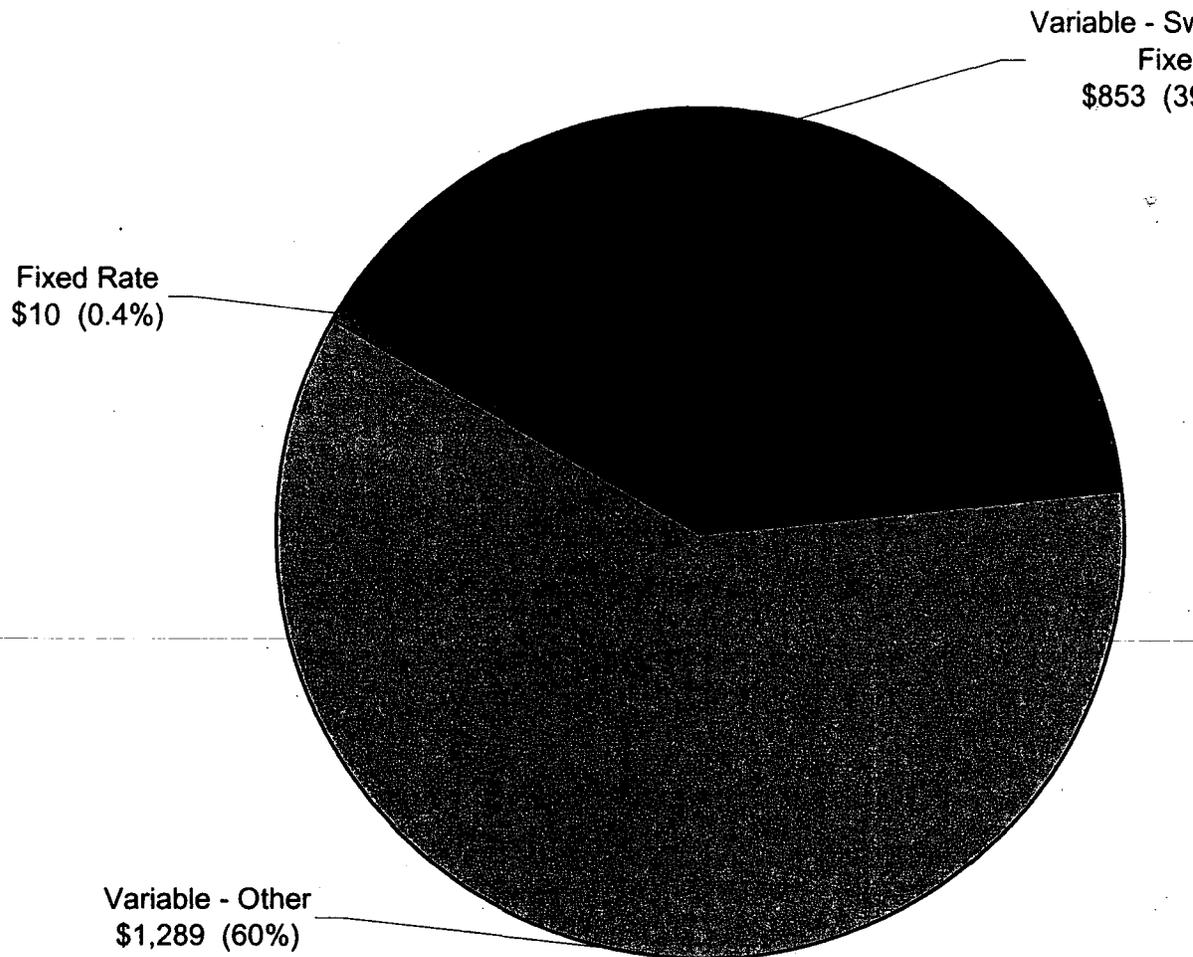
	<u>SINGLE FAMILY</u>	<u>MULTIFAMILY</u>	<u>TOTALS</u>
TAX-EXEMPT BONDS			
Variable Rate			
VRDO's	\$706,085,000	\$0	\$706,085,000
Auction Bonds	\$0	\$231,035,000	\$231,035,000
Indexed-Floaters	\$357,500,000	\$0	\$357,500,000
Fixed Rate	\$10,165,000	\$0	\$10,165,000
TAX-EXEMPT TOTALS	\$1,073,750,000	\$231,035,000	\$1,304,785,000
TAXABLE BONDS			
Variable Rate			
Indexed-Floaters	\$833,245,000	\$0	\$833,245,000
Auction Bonds	\$13,750,000	\$0	\$13,750,000
TAXABLE TOTALS	\$846,995,000	\$0	\$846,995,000
GRAND TOTALS	<u>\$1,920,745,000</u>	<u>\$231,035,000</u>	<u>\$2,151,780,000</u>

CalHFA Bonds 2003 Calendar Year

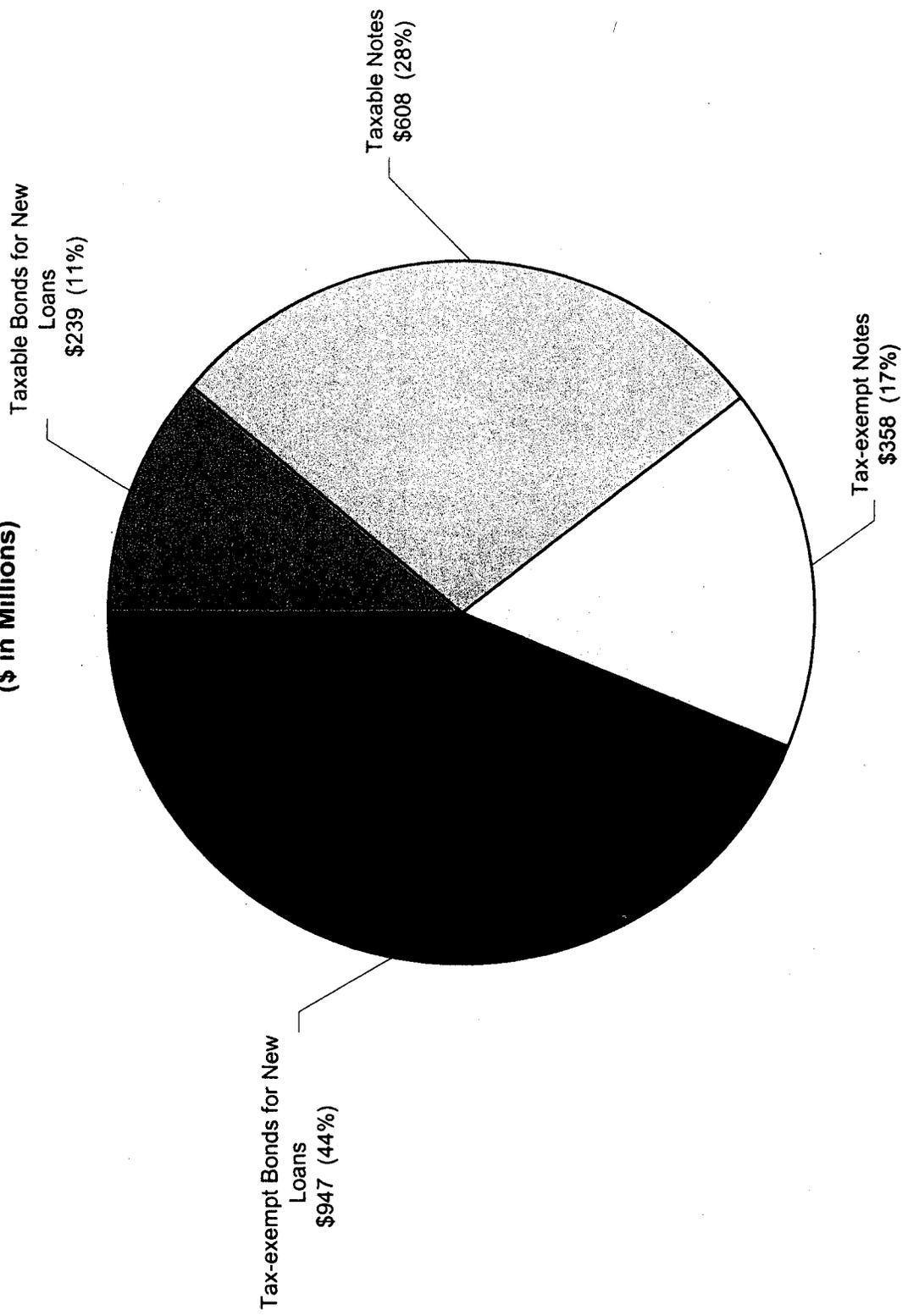
(in millions)



**CalHFA Fixed Rate and Variable Rate Bonds
Issued in Calendar Year 2003
(\$ in Millions)**



**CalHFA Tax-exempt and Taxable Bonds
Issued in Calendar Year 2003
(\$ in Millions)**



MEMORANDUM

2022

To: Board of Directors

Date: January 7, 2004



Ken Carlson, Director of Financing

From: CALIFORNIA HOUSING FINANCE AGENCY

Subject: UPDATE ON VARIABLE RATE BONDS AND INTEREST RATE SWAPS

Although we began issuing some variable rate bonds in 1995, it was not until 2000 that we began using variable rate debt as our primary issuance strategy. This strategy has enabled us to achieve a significantly lower cost of funds and a better match between assets and liabilities, all as described in detail in this report. These benefits are especially important in today's interest rate market, where short-term rates are extremely low and the usual rate advantage of tax-exempt financing is greatly reduced.

The following report describes our variable rate bond and swap positions. The report is divided into sections as follows:

- Variable Rate Debt Exposure
- Fixed-Payer Interest Rate Swaps
- Basis Risk and Basis Swaps
- Risk of Changes to Tax Law
- Amortization Risk
- Termination Risk
- Types of Variable Rate Debt
- Liquidity Providers
- Bond and Swap Terminology

Unless otherwise indicated, all figures have been adjusted for our next semiannual payments of bond principal, to occur on February 1, 2004. In addition, we are assuming the following:

- (1) January issuance of approximately \$270 million of variable rate single family notes or drawdown bonds to preserve issuance authority related to the February 1 bond principal payments.
- (2) January execution of \$100 million of interest rate swaps to fix the interest rate on a like amount of variable rate bonds to be issued in February for the joint program with the Southern California Home Financing Authority.

2023

VARIABLE RATE DEBT EXPOSURE

The total amount of CalHFA variable rate debt (not including our warehouse lines) is \$5.4 billion, 73% of our estimated \$7.4 billion of total indebtedness as of February 1, 2004. As shown in the table below, our "net" variable rate exposure is \$850 million, 11% 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 <u>Assets</u>	Swapped to <u>Fixed Rate</u>	Not Swapped or Tied to Variable Rate <u>Assets</u>	Total Variable Rate Debt
Single Family	\$791	\$3,155	\$660	\$4,606
Multifamily	<u>0</u>	<u>648</u>	<u>190</u>	<u>838</u>
Total	\$791	\$3,803	\$850	\$5,444

Our net exposure has increased somewhat since one year ago when it was \$692 million and 8.3% of our indebtedness. Two years ago it was \$741 million and 9.6 % of our indebtedness; three years ago it was \$492 million and 7.0%.

As discussed in each previous report, our \$850 million of net exposure provides a useful internal hedge against today's low interest rate environment, 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 much of our bond proceeds, have now fallen to 1.53%. In addition, the high incidence of single family loan prepayments since early in 2001 has caused our loan portfolio to contract in spite of our \$1.3 billion pace of annual new single family and multifamily production. However, debt service savings on our unswapped variable rate bonds helps to offset the economic consequences of low investment rates and high prepayments. As an example, the interest rates on our unswapped taxable variable rate bonds have been running at just over one percent since the last time the Federal Reserve lowered overnight rates.

The table below summarizes this risk position.

	NET VARIABLE RATE DEBT (\$ in millions)		
	<u>Tax-Exempt</u>	<u>Taxable</u>	<u>Totals</u>
Short average life	\$104	\$449	\$553
Long average life	<u>120</u>	<u>177</u>	<u>297</u>
TOTALS	\$224	\$626	\$850

FIXED-PAYER INTEREST RATE SWAPS**2024**

Currently, we have arranged (or expect to arrange this month) a total of 87 "fixed-payer" swaps with nine different counterparties for a combined notional amount of \$3.81 billion. All of these fixed-payer swaps are intended to establish synthetic fixed rate debt by converting our variable rate payment obligations to fixed rates. 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 first-time homebuyers. The table below provides a summary of our notional swap amounts.

FIXED PAYER INTEREST RATE SWAPS

(notional amounts)

(\$ in millions)

	<u>Tax-Exempt</u>	<u>Taxable</u>	<u>Totals</u>
Single family	\$1,876	\$1,291	\$3,167
Multifamily	<u>648</u>	<u>0</u>	<u>648</u>
TOTALS	\$2,524	\$1,291	\$3,815

The following table shows the diversification of our fixed payer swaps among the nine firms acting as our swap counterparties. Note that our swaps with Lehman Brothers, Bear Stearns, and Goldman Sachs are with highly-rated 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. Note also that with our most recent swaps with Merrill Lynch we are benefiting from the credit of their triple-A structured subsidiary.

2025

SWAP COUNTERPARTIES

<u>Swap Counterparty</u>	<u>Credit Ratings</u>			<u>Notional Amounts Swapped (\$ in millions)</u>	<u>Number of Swaps</u>
	<u>Moody's</u>	<u>S & P</u>	<u>Fitch</u>		
Merrill Lynch Capital Services Inc.					
Guaranteed by:					
Merrill Lynch & Co.	Aa3	A+	AA-	\$ 862.7	18
MLDP, AG	Aaa	AAA	AAA	303.6	8
Citigroup Financial Products Inc.	Aa1	AA-	AA+	683.9	15
Bear Stearns Financial Products Inc.	Aaa	AAA	NR	678.6	11
Lehman Brothers Derivative Products Inc.	Aaa	AAA	NR	599.4	18
AIG Financial Products Corp.	Aaa	AAA	AAA	203.3	5
Goldman Sachs Mitsui Marine Derivative Products, L.P.	Aaa	AA+	NR	167.1	4
Bank of America, N.A.	Aa1	AA-	AA	129.0*	4*
JPMorgan Chase Bank	Aa3	AA-	AA-	96.1	2
UBS AG (Union Bank of Switzerland AG)	Aa2	AA+	AAA	<u>91.6</u>	<u>2</u>
				\$3,815.3	87

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.

For all of our fixed-payer swaps, 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 these swap agreements is from us to our counterparties. As an example, on our August 1, 2003 semiannual debt service payment date we made a total of \$57.6 million of net payments 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.

* Includes an estimated \$100 million of swaps expected to be executed later this month.

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BASIS RISK AND BASIS SWAPS

All of our swaps contain an element of what is referred to as "basis risk" – the risk that the floating rate component of the swap will not match the floating rate of the underlying bonds. This risk arises because our swap floating rates are based on indexes, which consist of market-wide averages, while our bond floating rates are specific to our individual bond issues.

Periodically, the divergence between the two floating rates widens, as market conditions change. Some periodic divergence was expected when we entered into the swaps. However, in today's very-low-rate market, we have encountered one such divergence that is worth noting as it pertains to our LIBOR-based swaps used in conjunction with the Agency's tax-exempt variable rate bonds. Based on a conservative reading of historic relationships between short-term tax-exempt and taxable rates, we chose to enter into many swaps at a ratio of 65% of LIBOR. LIBOR, the London Inter-Bank Offered Rate, is the market benchmark taxable floating rate index. These percentage-of-LIBOR swaps have afforded us with excellent liquidity and great savings compared with other alternatives.

With short-term rates at historic lows and with an increased market supply of tax-exempt variable rate bonds, the historic relationship between tax-exempt and taxable rates has not been maintained. For example, the average BMA/LIBOR ratio was 77% in 2002 and 84.3% in 2003. The BMA (Bond Market Association) index is the market benchmark index for tax-exempt variable rates.

When the BMA/LIBOR ratio is very high the swap payment we receive falls short of our bond payment, and the all-in rate we experience is somewhat higher. The converse is true when the percentage is low. In response, we and our advisors looked for a better formula than a flat 65% of LIBOR. After considerable study of California tax-exempt variable rate history, we settled on a new formula (60% of LIBOR plus 0.26%) that results in comparable fixed-rate economics but performs better when short-term rates are low and the BMA/LIBOR percentage is high. Since December of 2002 we have amassed approximately \$1,015 million of new LIBOR-based swaps using this new formula, and we expect to continue to use this formula for new swaps in 2004.

While we have dealt with this problem for new swaps, we still have approximately \$1 billion of older swaps for which we receive a flat percentage (64% or 65%) of LIBOR. For these older swaps we are considering two proposals for increasing the amount we receive when interest rates are very low and the BMA/LIBOR ratio is very high.

We have identified approximately \$678 million of "flat" 65% of LIBOR swaps for which we expect to enter into basis swaps this month with two of our counterparties. Under the terms of these basis swaps, we will exchange our 65% of LIBOR floating rate obligation for a different one. In one case, covering eight older swaps, our new payment obligation will be calculated based on a stepped-rate formula. In the other case, for five older swaps, our new payment obligation will be a lower percentage of LIBOR plus a "spread". In both cases we expect to greatly alleviate the effects of the current high BMA/LIBOR ratio. Together these proposed basis swaps are expected to save us in excess of \$1 million per year if short-term interest rates stay low.

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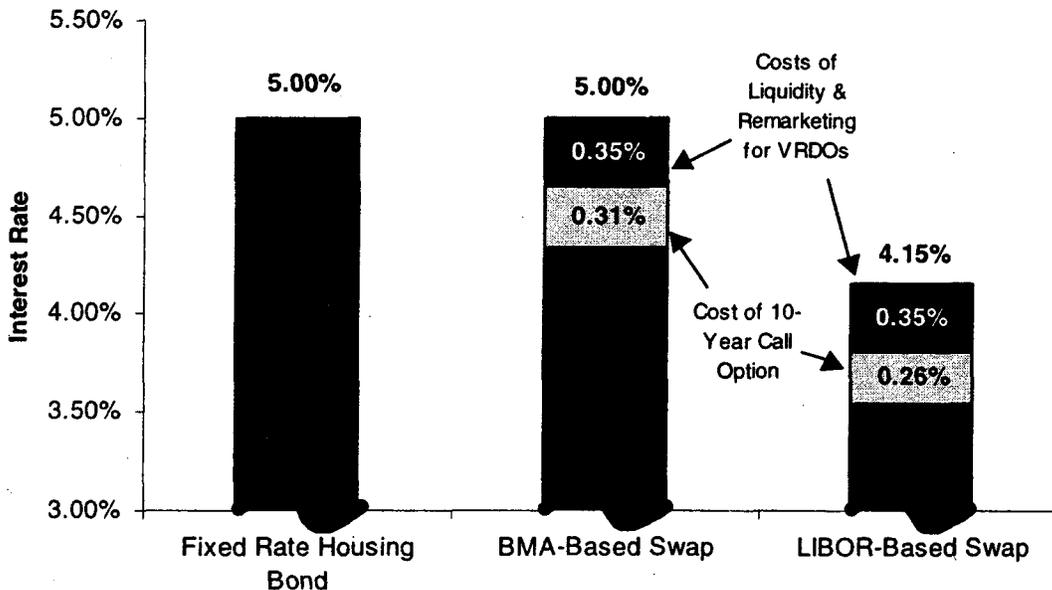
RISK OF CHANGES TO TAX LAW

For an estimated \$2.0 billion of the \$2.5 billion of tax-exempt bonds swapped to a fixed rate, we remain exposed to certain tax-related risks, another form of basis risk. 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 these cases, if a tax law change were to result in tax-exempt rates being more comparable to taxable rates, the swap provider's payment to us would be less than the rate we would be paying on our bonds, again resulting in our all-in rate being higher.

We bear this same risk for \$329 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 \$2.3 billion, 31.7% of our \$7.4 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.

The bar chart shows clearly that our ability to assume the risk of changes to tax laws is the "engine" that makes our interest rate swap strategy effective in today's market. If the Agency was unable or unwilling to take this risk, our cost of funds would be significantly higher. In fact, the chart shows that a BMA-based swap strategy, where we would avoid taking tax risk, would not produce an all-in cost of funds any different than that of a fixed-rate bond strategy.

Comparative Costs of Funds for Fixed-Rate Bonds and Synthetic Fixed-Rate Bonds (Variable Rate Bonds Swapped to Fixed)



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AMORTIZATION RISK

Our bonds are generally paid down (redeemed or paid at maturity) as our loans are prepaid. Our interest rate swaps amortize over their lives based on assumptions about the receipt of prepayments, and the single family transactions which include swapped bonds have been designed to accommodate prepayment rates between two and three times the "normal" rate. In other words, our interest rate swaps generally have had fixed amortization schedules that can be met under what we have believed were sufficiently wide ranges of prepayment speeds. Unfortunately, when market rates fell to unprecedented levels, we started receiving more prepayments than we ever expected.

Since January 1, 2002, we have received over \$3 billion of prepayments, including over \$2 billion in 2003. Of this amount, approximately \$600 million is "excess" to swapped transactions we entered into between 2000 and 2002. In other words, our current loan portfolios for these 2000 through 2002 bond transactions have shrunk to amounts that are \$600 million less than the current "notional" amounts of the interest rate swaps.

Also of interest is our first instance (as of February 1, 2004) of a small \$11.8 million forced mismatch between the notional amount of certain of our swaps and the outstanding amount of the related bonds. These five small mismatches have occurred as a result of the interplay between our phenomenally high incidence of prepayments and the "10-year rule" of federal tax law. Under this rule, prepayments received 10 or more years beyond the date of the original issuance of bonds cannot be recycled into new loans and must be used to redeem bonds. In the case of these recent bond issues, a portion of the authority to issue them on a tax-exempt basis was related to older bonds.

While this small mismatch has occurred (and will show up in the tables of this report), the small semiannual cost of the mismatch will be more than offset by the large interest cost savings from our \$850 million of "net" variable rate debt. In other words, while some of our bonds are "over-swapped", there are significantly more than enough unswapped variable rate bonds to compensate for the mismatch.

There are several strategies for dealing with these excess prepayments: they may be reinvested, used for the redemption of other (unswapped) bonds, or recycled directly into new loans. Alternatively, we could make termination payments to our counterparties to reduce the notional amounts of the swaps, but this alternative appears to be the least attractive economically.

Currently we are investing the bulk of the excess prepayments with the financial institutions that originally provided us, for each transaction, with fixed-rate "float" agreements at what seem like high rates today. Many of these agreements, however, were written to limit the amount of time that we could leave moneys on deposit; in these cases the investment of the excess is an interim step until we implement longer-term strategies.

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We believe that the best long-term strategy will be to recycle the excess prepayments into new CalHFA loans. Of course, this means that we will be bearing the economic consequences of replacing old 7% to 8% loans that have paid off with new loans at the rates that will be current at the time we recycle. With our January 1 transfer of loans from our warehouse line we have recycled a total of \$264 million of excess prepayment moneys. Each month going forward we expect to continue high levels of recycling. This practice will likely result in reduced issuance activity in 2004.

TERMINATION RISK

Termination risk is the risk that, for some reason, our interest rate swaps must be terminated prior to their scheduled maturity. Our swaps have a market value from time to time that depends on then current interest rates. When current fixed rates are higher than the fixed rate of the swap, our swaps have a positive value to us (assuming, as is the case on all of our swaps, that we are the payer of the fixed swap rate), and termination would result in a payment from the provider of the swap (our swap "counterparty") to us. Conversely, when current fixed rates are lower than the fixed rate of the swap, our swaps have a negative value to us, and termination would result in a payment from us to our counterparty.

Our swap documents allow for a number of termination "events", i.e., circumstances under which our swaps may be terminated early, or (to use the industry phrase) "unwound". One circumstance that would cause termination would be a payment default on the part of either counterparty. Another circumstance would be a sharp drop in either counterparty's credit ratings and, with it, an inability (or failure) of the troubled counterparty to post sufficient collateral to offset its credit problem. It should be noted that, if termination is required under the swap documents, the market determines the amount of the termination payment and who owes it to whom. Depending on the market, it may be that the party who has caused the termination is owed the termination payment.

As part of our strategy for protecting the agency when we entered the swap market in late 1999, we determined to choose only highly-creditworthy counterparties and to negotiate "asymmetrical" credit requirements in all of our swaps. These asymmetrical provisions impose higher credit standards on our counterparties than on the agency. For example, our counterparties may be required to collateralize their exposure to us when their credit ratings fall from double-A to the highest single-A category (A1/A+), whereas we need not collateralize until our ratings fall to the mid-single-A category (A2/A).

At least quarterly we monitor the termination value of our swap portfolio as it grows and as interest rates change. Over time, since we entered the swap market, interest rates largely fell, with a "bottom" in June of 2003. Growth in the portfolio combined with this steady downward trend in interest rates made our swap portfolio have a large negative value (to us), as shown in the table on the next page. This negative value was greatly reduced by the July rise in rates. However, falling rates this fall caused the negative value to increase again, but not to the levels seen in May and June.

Because termination is an unlikely event, the fact that our swap portfolio has a large negative value, while interesting, is not necessarily a matter of direct concern. We have no plans to terminate swaps early (except in cases where we negotiated "par" terminations when we entered into the swaps) and do not expect that credit events triggering termination will occur, either to us or to our counterparties.

The Government Accounting Standards Board does not require that our balance sheet be adjusted for the market value of our swaps, but, beginning last fiscal year, it does require that this value be disclosed in the notes to our financial statements.

The table below shows the history of the fluctuating negative value of our swap portfolio over the last two years.

TERMINATION VALUE HISTORY

<u>Date</u>	<u>Termination Value (\$ in millions)</u>
6/30/01	(\$81.6)
9/30/01	(\$178.6)
12/31/01	(\$133.4)
3/31/02	(\$ 86.2)
6/30/02	(\$200.8)
9/30/02	(\$344.6)
12/31/02	(\$345.2)
3/31/03	(\$345.1)
5/31/03	(\$450.4)
6/30/03	(\$409.9)*
7/31/03	(\$208.4)
8/31/03	(\$212.9)
9/30/03	(\$322.9)
10/31/03	(\$255.4)
11/30/03	(\$254.3)

It should be noted that during this period, the notional amount of our fixed-payer swaps has been increasing to our current total of \$3.8 billion. When viewing the termination value, one should consider both the change in market conditions and the increasing notional amount.

** As reported in our 2002/03 financial statements.*

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 "puttable" bonds such as VRDOs.

TYPES OF VARIABLE RATE DEBT
(\$ in millions)

	<u>Auction Rate & Similar Securities</u>	<u>Indexed Rate Bonds</u>	<u>Variable Rate Demand Obligations</u>	<u>Total Variable Rate Debt</u>
Single Family	\$140	\$2,159	\$2,307	\$4,606
Multifamily	<u>231</u>	<u>0</u>	<u>607</u>	<u>838</u>
Total	\$371	\$2,159	\$2,914	\$5,144

Since September of 2000 we have been able to sell \$2.1 billion of taxable single family variable rate bonds to the Federal Home Loan Banks, and we expect to sell another \$35 million to the San Francisco FHLB in February. We also expect in February to convert an additional \$87 million of existing taxable VRDOs to indexed-rate securities for purchase by the San Francisco FHLB. In addition, our \$100 million of currently outstanding drawdown bonds are indexed-rate securities.

LIQUIDITY PROVIDERS

The table below shows the financial institutions providing liquidity in the form of standby bond purchase agreements for our VRDOs. Under these agreements, if our variable rate bonds are put back to our remarketing agents and cannot be remarketed, these institutions are obligated to buy the bonds. Dexia Credit Local, a highly-rated Belgian bank, is the largest provider of liquidity, followed closely by Fannie Mae

In 2003 we began financing our multifamily program with auction rate securities, for which no liquidity support is required. Use of auction rate securities for multifamily will enable us to target Fannie Mae's remaining liquidity capacity to single family deals.

Last fall we solicited banks to provide standby bond purchase agreements for our single family bonds. While, in general, the results were disappointing, the Bank of America agreed to provide \$150 million of liquidity for a transaction in November, and two financial institutions not currently providing us with liquidity are very interested in working with us in 2004. With these arrangements and the prospect of Fannie Mae, Freddie Mac, and (possibly) the Federal Home Loan Bank of San Francisco providing this service, we should have sufficient liquidity for 2004 and possibly 2005. Reduced issuance because of prepayment recycling will also be a help.

Bank liquidity is more scarce today than in previous years for a couple of reasons. First, more and more issuers want to issue variable rate debt, and second, many banks apparently feel that, because of the State's budget crisis, this is not the time to increase exposure to California issuers.

LIQUIDITY PROVIDERS
(*\$ in millions*)

<u>Financial Institution</u>	<u>\$ Amount of Bonds</u>	<u>Type of Bonds</u>
Dexia Credit Local	\$504.0	SF
Fannie Mae	484.1*	SF/MF
Lloyds TSB	327.1	SF
Bank of Nova Scotia	278.7	SF
Bank of America	220.8	SF
Landesbank Hessen-Thuringen	178.7	MF
CalSTRS	146.5	SF/MF
KBC	143.1	SF
Westdeutsche Landesbank	142.2	SF
Commerzbank	141.8	SF
Bayerische Landesbank	120.7	SF
Bank of New York	99.8	SF
State Street Bank	75.0	SF
Morgan Guaranty	51.4	SF/MF
Total	\$2,913.9	

* Includes \$100 million for the SCHFA transaction.

Unlike our interest rate swap agreements, our liquidity agreements do not run for the life of the related bonds. Instead, they are seldom offered for terms in excess of five years, and a portion of our agreements require annual renewal. We expect all renewals to take place as a matter of course; however, changes in credit ratings or pricing may result in substitutions of one bank for another from time to time. In addition, we have begun to switch some of our VRDOs to auction rate in order to free up liquidity capacity of some current providers.

As a further matter, we expect early this year to entirely eliminate our bondholders' exposure to Commerzbank, whose credit ratings were lowered in 2002. VRDOs backed by Commerzbank are being converted either to indexed rates (for purchase by the San Francisco FHLB) or to auction rates.

2033**BOND AND SWAP TERMINOLOGY****REVENUE BOND (OR SPECIAL OBLIGATION BOND) (OR LIMITED OBLIGATION BOND)**

A type of security which is evidence of a debt secured by revenues from certain assets (loans) pledged to the payment of the debt.

GENERAL OBLIGATION BOND

A type of security which is evidence of a debt secured by all revenues and assets of an organization.

INDENTURE

The legal instrument that describes the bonds and the pledge of assets and revenues to investors. The indenture often consists of a general indenture plus separate series indentures describing each issuance of bonds.

OFFICIAL STATEMENT

The "prospectus" or disclosure document describing the bonds being offered to investors and the assets securing the bonds.

SERIES OF BONDS

An issuance of bonds under a general indenture with similar characteristics, such as delivery date or tax treatment. Example: "Name of Bonds", 1993 Series A. Each series of Bonds has its own series indenture.

MATURITY

Date on which the principal amount of a bond is scheduled to be repaid.

REDEMPTION

Early repayment of the principal amount of the bond. Types of redemption: "special", "optional", and "sinking fund installment".

SERIAL BOND

A bond with its entire principal amount due on a certain date, without scheduled sinking fund installment redemptions. Usually serial bonds are sold for any principal amounts to be repaid in early (10 or 15) years.

TERM BOND

A bond with a stated maturity, but which may be subject to redemption from sinking fund installments. Usually of longer maturity than serial bonds.

DATED DATE

Date from which first interest payment is calculated.

PRICING DATE

Date on which issuer agrees (orally) to sell the bonds to the underwriters at certain rates and terms.

SALE DATE

Date on which purchase contract is executed evidencing the oral agreement made on the pricing date.

DELIVERY DATE, OR ISSUANCE DATE

Date that bonds are actually delivered to the underwriters in exchange for the bond proceeds.

REFUNDING

Use of the proceeds of one bond issue to pay for the redemption or maturity of principal of another bond issue.

VARIABLE RATE BOND

A bond with periodic resets in its interest rate. Opposite of fixed rate bond.

INTEREST RATE SWAP

An exchange between two parties of interest rate exposures from floating to fixed rate or vice versa. A fixed-payer swap converts floating rate exposure to a fixed rate.

NOTIONAL AMOUNT

The principal amount on which the exchanged swap interest payments are based.

COUNTERPARTY

One of the participants in an interest rate swap.

LIBOR

London Interbank Offered Rate. The interest rate highly rated international banks charge each other for borrowing U.S. dollars outside of the U.S. Taxable swaps often use LIBOR as a rate reference index. LIBOR swaps associated with tax-exempt bonds will use a percentage of LIBOR as a proxy for tax-exempt rates.

BMA

Bond Market Association. A weekly index of short-term tax-exempt rates.

MARK-TO-MARKET

Valuation of securities or swaps to reflect the market values as of a certain date. Represents liquidation or termination value.

DELAYED START SWAP

A swap which delays the commencement of the exchange of interest rate payments until a later date.

SWAP CALL OPTION

The right (but not the obligation) to terminate a predetermined amount of swap notional amount, occurring or starting at a specific future date.

INTEREST RATE CAP

A financial instrument which pays the holder when market rates exceed the cap rate. The holder is paid the difference in rate between the cap rate and the market rate. Used to limit the interest rate exposure on variable rate debt.

SYNTHETIC FIXED RATE DEBT

Converting variable rate debt into a fixed rate obligation through the use of fixed-payer interest rate swaps.

SYNTHETIC FLOATING RATE DEBT

Converting fixed rate debt into a floating rate obligation through the use of fixed-receiver interest rate swaps.

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MEMORANDUM

To: Board of Directors

Date: January 21, 2004



Ken Carlson, Director of Financing

From: CALIFORNIA HOUSING FINANCE AGENCY

Subject: REPORT OF BOND SALE AND INTEREST RATE SWAP AGREEMENTS
SOUTHERN CALIFORNIA HOME FINANCING AUTHORITY
SINGLE FAMILY MORTGAGE REVENUE BONDS 2004 SERIES A
HOME MORTGAGE REVENUE BONDS 2004 SERIES B

On January 16th we executed \$100 million of swaps linked to bonds associated with the joint CalHFA/Southern California Home Financing Authority (SCHFA) financing. The Agency will issue an additional \$35 million of taxable index-rate bonds. The combined transaction proceeds of \$135 million will be used to fund approximately 810 new loans with rates expected to range from 4.25% to 5.25%. All bonds will be delivered on February 19th.

The bonds are structured as shown on the table on page 2. The SCHFA 2004 Series A bonds are tax-exempt variable rate demand obligations with liquidity provided by Fannie Mae. The CalHFA 2004 Series B Bonds are taxable variable rate LIBOR-indexed bonds that will be purchased by the Federal Home Loan Bank of San Francisco. If interest rates stay low we plan to leave these bonds outstanding and directly recycle prepayments into new mortgages.

In order to reduce the overall cost and eliminate negative carry during loan origination we have arranged for two forward starting swaps that will start in August, 2004. The associated bonds (SCHFA Series 2004 A) will be sold with a low fixed interest rate through August, 2004, when we will remarket the bonds in a weekly mode, coinciding with the start of the swaps. The swaps are structured with declining notional amounts that match the expected amortization of the corresponding variable rate bonds. One of the two swaps has call options that will allow the Agency to keep the swap and bond balances in sync when prepayments exceed forecasted levels.

SERIES	SCHFA 2004 A	CALHFA 2004 B
\$ Amount	\$100,000,000	\$35,000,000
Type of Bonds	VRDO	Indexed Floaters
Tax Treatment	AMT	Taxable
Maturities	2033 & 2034	2034
Average Life	2033: 9.8 yrs 2034: 21 yrs*	5 yrs.
Interest Rates	Variable	Variable
Reset Frequency	Fixed until 8/1/04	Quarterly
Floating Rate Swap Formula	60% of LIBOR + 26 bps	N/A
Swap Rates	3.0875 % & 4.045 %	N/A
Swap Start Date	8/1/04	N/A
Credit Rating	Aa2/AA- VMIG-1/A-1+	Aaa/AAA
Swap Counterparty	Bank of America N.A.	N/A
Bond Insurer	N/A	MBIA

* Par call options may be exercised beginning in 2005.

MEMORANDUM

To Board of Directors

Date: January 16, 2004



Ken Carlson, Director of Financing

From: CALIFORNIA HOUSING FINANCE AGENCY

Subject: REPORT OF BOND SALE
HOME MORTGAGE REVENUE BONDS 2004 SERIES C

On January 29th we will issue \$266 million of taxable short-term LIBOR indexed bonds under the Home Mortgage Revenue Bond indenture. We issued this same type of bond last January and July with the 2003 Series A and J transactions. The similarities of all three series are as follows:

- Issued to preserve tax-exempt authority resulting from bond principal retirements.
- Issued in variable rate form with a rate that is reset quarterly based on an index.
- Issued in taxable form to avoid arbitrage rebate requirements of federal tax law for tax-exempt investments¹.
- Insured by triple-A-rated bond insurance companies.
- Purchased by the Federal Home Loan Bank of San Francisco.

Unlike Series 2003 A and J, Series 2004 C will have a longer (two and one-half year) maturity and instead of investing the proceeds in the State's Surplus Money Investment Fund we will invest the proceeds in a higher yielding investment agreement with a triple-A-rated German bank at 1.76%. We expect our costs of issuance for the Series C transaction to be paid for in about 5 to 6 months, after which time any investment profits may be retained.

The initial rate for the Series C bonds will be set on January 27th. The Agency has the right to redeem the Series C bonds on August 1, 2004 and quarterly thereafter and the FHLB has the right to tender the bonds on February 1, 2005 and quarterly thereafter.

Future issues of tax-exempt single family bonds will act as a refunding of a like portion of these bonds.

¹ Federal tax law requires that all profits on nonmortgage (nonpurpose) investments of tax-exempt housing bond proceeds be rebated to the federal government. Taxable bond proceeds are not subject to these rules.



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MEMORANDUM

To: CalHFA Board of Directors

Date: 16 January 2004

From: ^{Di} Di Richardson, Director of Legislation
CALIFORNIA HOUSING FINANCE AGENCY

Subject: Legislative Report

Federal Activity

We have continued our efforts to increase cosponsors for HR 284 and S 595, bills that would repeal the 10 Year Rule. Since Congress has been on break, no new cosponsors will appear before next week. As always, we continue to viable tax bills to use as possible vehicles to carry our language. There may be some opportunities as early as February, and increasing the number of sponsors increases our changes for inclusion.

State Activity

Budget

As you know, Governor Schwarzenegger recently released his first budget. Although CalHFA is not a part of or directly affected by the State Budget, there are always items of interest that could have an indirect affect on our ability to meet our goals. The Governor's budget proposes total state spending in 2004-05 of \$97.2 billion (excluding expenditures of federal funds and bond funds), representing a decrease in General fund spending from \$78 billion to \$76.1 billion. Special Fund spending would increase from \$19.4 billion to \$21.1 billion. The proposed budget assumes that the voters will pass the \$15 billion Economic Recovery Bond Act in March, which will retire a large chunk of the current \$22.1 billion debt. It relies on substantial spending cuts, deferrals and funds shifts, and continues and increases the current ERAF (property tax) shift from local governments. At this time, it is not clear what impact, if any, those shifts will have on local agencies low- and moderate-income housing funds.

Legislation

It is very interesting starting the second year of a two-year session with a new Governor. So far, there have not been a lot of new bills introduced. The Legislature has been focused on moving bills left over from last year. This week was the deadline for policy committees to pass bills introduced in 2003 that need to be heard by a fiscal committee. January 23 is the last day for any committee, policy or fiscal, to pass a bill introduced in 2003 out of the house of origin. The deadline for introducing new bills this year is February 20, and as is the norm, I don't expect most of those bills to be introduced until the last week. Attached is a list of some of the bills reported on last year that are either continuing to move or have the potential to move.

As always, if you have any questions, please give me a call at (916) 324-0801 or email me at drichardson@calhfa.ca.gov.

Downpayment Assistance

AB 672 (Montanez) Housing: smart growth: downpayment assistance and mortgages.
Status: Passed Assembly Housing and Community Development Committee;



pending before Assembly Appropriations Committee.

Summary: This bill would authorize a borrower eligible for downpayment assistance from the California Homebuyer's Downpayment Assistance Program (CHDAP), which was funded by Proposition 46, to apply for 5% of the purchase price or the appraised value, whichever is less, instead of 3%, if they provide certification that the home they are purchasing is within a designated infill of opportunity zone.

Prevailing Wage

SB 730 (Burton) Prevailing rate of per diem wages: determinations.

Status: Placed on Senate Inactive File.

Summary: This bill would require the Director of the Department of Industrial Relations to provide wage rates to an awarding body within 120 days of a request for the rates, and would require that any appeal of a wage rate determination be decided within 30 days of the appeal. This bill would also require the director to maintain a log, as a public record, of these determination requests and appeals, as provided. This bill would also be a potential vehicle for other possible legislative changes to prevailing wage statutes.

Regional Governance

AB 1426 (Steinberg) Affordable housing: greater Sacramento region.

Status: Senate Inactive File.

Summary: This bill, until January 1, 2011, would require, every city and every county within the greater Sacramento region, as defined, that issues building permits for residential units to require or otherwise cause at least 5% of the aggregate amount of these new residential units to be affordable to, and occupied by, very low income households, and at least 5% of the aggregate amount of these new residential units to be affordable to, and occupied by, low-income households.

