

# Project Summary

Date: 22-Jun-04

## Project Profile:

**Project :** The Crossings  
**Location:** Carmel Valley Road  
 San Diego  
**County:** San Diego  
**Borrower:** CIC Crossings, L.P.  
**GP:** SDS Crossings, LLC  
**LP:** James J. Schmid  
**Program:** Tax-Exempt  
**CalHFA #:** 04-006-C/S

**Appraisal:**  
**Cap Rate:** 6.75%  
**Final Value:** \$ 14,225,000  
**Construction:** \$ 17,650,000

**LTC/LTV:**  
**Loan/Value**      **Construction**      **Permanent**  
 Loan/Cost      78%      27%  
 Loan/Value      80%      34%

## Project Description:

**Units** 108  
**Handicap Units** 4  
**Bldge Type** Wood frame & stucco  
**Buildings** 10  
**Stories** 2  
**Gross Sq Ft** 108,810  
**Land Sq Ft** 265,280  
**Units/Acre** 18  
**Total Parking** 228  
**Covered Parking** 90

## Financing Summary:

	Amount	Per Unit	Rate	Term
CalHFA First Mortgage	\$ 4,860,000	\$ 45,000	5.70%	30
HCD - MHP	\$ 6,573,514	\$ 60,866	3.00%	55
Borrower Contribution	\$ -	\$ -		0
Deferred Developer Equity	\$ 342,112	\$ 3,168		0
Tax Credit Equity	\$ 6,728,000	\$ 62,296		
CalHFA Construction Loan	\$ 14,160,000	\$ 131,111	3.00%	18 months
Tax-exempt Portion	\$ 14,160,000	\$ 131,111		
Taxable Portion	\$ 0	\$ 0	0.00%	

## Unit Mix:

Type	25% AMI		30% AMI		35% AMI		50% AMI	
	number	rent	number	rent	number	rent		
1 bedroom	2	292	2	356	2	420	6	613
2 bedroom	6	349	6	426	6	503	18	735
3 bedroom	4	383	4	469	4	555	12	811
4 bedroom								
subtotal	12		12		12		36	

Type	55% AMI		0% AMI		0% AMI		Manager		Total
	number	rent	number	rent	number	rent	number	rent*	
1 bedroom	6	677							18
2 bedroom	18	812							54
3 bedroom	11	897					1	897	36
4 bedroom									
subtotal	35						1		108

## Fees, Escrows, and Reserves:

Permanent		Basis of Requirements	Amount	Security
<b>Fees</b>	CalHFA Permanent Loan	0.50% CalHFA permanent loan amount	\$24,300	Cash
<b>Escrows</b>	Construction Defect	2.50% of Hard Costs	\$262,246	Letter of Credit
<b>Reserves</b>	Operating Expense Reserve	23.48% of Gross Income	\$203,914	Letter of credit
	Initial Replacement Reserve Deposit	0.60% of hard costs	\$62,939	Cash
	Annual Replacement Reserve Deposit	\$350 per unit	\$55,160	Operations
Construction		Basis of Requirements	Amount	Security
<b>Fees</b>	CalHFA Construction Loan	1.00% of loan amount	\$141,600	Cash
	Inspection fee	\$1,500 x months of construction	\$27,000	Cash
	Completion guarantee LOC	1.00% of letter of credit	\$11,983	LOC fee
<b>Guarantees</b>	Completion Guaranty--Borrower	10% of construction contract	\$ 1,198,342	Letter of Credit or Cash
	Performance Bond--Contractor	100% of construction contract	\$11,983,419	Bond
	Payment Bond--Contractor	100% of construction contract	\$11,983,419	Bond



- Torrey Highlands is a 76 unit multifamily affordable housing development offering two and three bedroom units at 50% and 60% of AMI. One unit is vacant and there is a two to three year waiting list.
- Windward Village is a 92 unit affordable housing multifamily development by the Subject's sponsor. This project opened June 2003 and was fully leased in less than two months. It is 100% occupied with a 600 household waiting list.
- Villa Glen is a 26 unit multifamily LIHTC development offering one, two and three bedroom units at 50% and 60% of AMI. The property is 100% occupied with a waiting list of 100 households.
- Villa Andaluia is a 32 unit LIHTC multifamily development offering one, two, three bedrooms at 50% and 60% of AMI. It is 100% occupied with a 100 household waiting list.

## PROJECT FEASIBILITY

### Rent Differentials (Market versus Restricted)

Unit Type	Subject Rents	Market Rate	\$ Difference	% of Market
<b>One Bedroom</b>		\$1,262		
25%	\$292		\$970	23%
30%	\$356		\$906	28%
35%	\$420		\$842	33%
50%	\$613		\$649	49%
55%	\$677		\$585	54%
<b>Two Bedroom</b>		\$1,586		
25%	\$349		\$1,237	22%
30%	\$426		\$1,160	27%
35%	\$503		\$1,080	32%
50%	\$735		\$851	46%
55%	\$812		\$774	51%
<b>Three Bedroom</b>		\$2,080		
25%	\$383		\$1,697	18%
30%	\$469		\$1,611	23%
35%	\$555		\$1,525	27%
50%	\$811		\$1,269	39%
55%	\$897		\$1,183	43%



# **Financing Topics for Board Educational Seminar**

1. Financing Basics
2. Variable Rate Bonds and Interest Rate Swaps
3. The Rating Agencies Perspective
4. Legal and Tax Matters Affecting Our Debt Issuance
5. Board / Auditor Communications & Responsibilities
6. Overview of Recent Financings





# Potential Dates for Board Educational Seminar

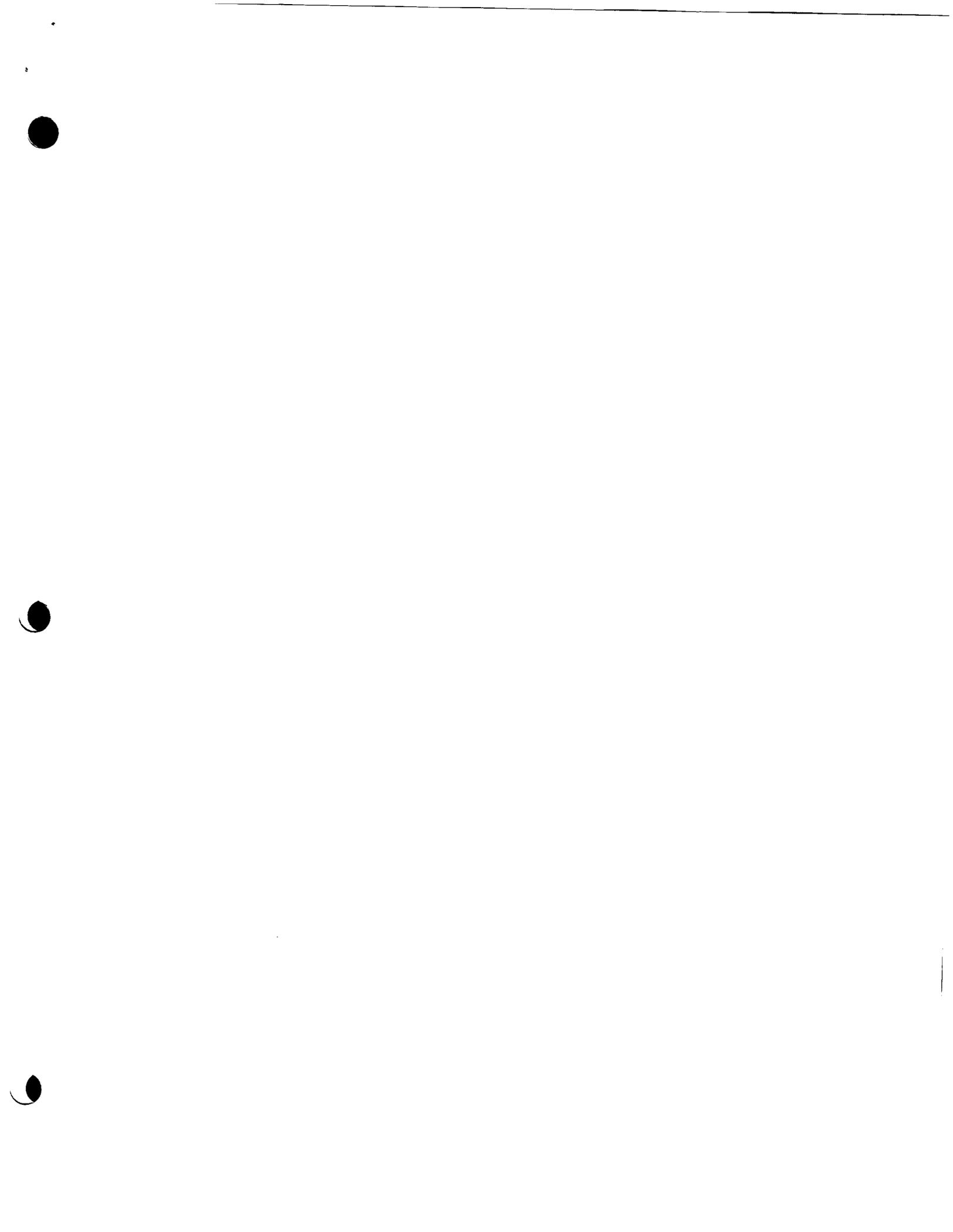
- August: 23<sup>rd</sup>, 24<sup>th</sup>, or 26<sup>th</sup>
- September: 7<sup>th</sup> or 9<sup>th</sup>  
In conjunction with the regularly scheduled meeting on September 8<sup>th</sup>.



# Financing Reports

- **Recent Bond Sales and Swaps**
  - SCHFA Partnership
  - City of LA Partnership
  - Multifamily Bonds
- **Variable Rate Bonds and Swaps**





# **SCHFA Single Family Partnership**

- **\$135 M HMRB 2004 GH**
- **Proceeds for purchase of 710 new loans**
- **74% tax-exempt (SCHFA)**
  - **second collaboration with SCHFA**
  - **VRDO; swapped**
- **26% taxable**
  - **Indexed-rate**
  - **Sold to San Francisco FHLB**
- **Not swapped**



# **CITY Of LA Single Family Partnership**

- **\$40 M HMRB 2004 IJ**
- **Proceeds for purchase of 210 new loans**
- **75% tax-exempt (City of LA)**
  - **fund loans within the city of Los Angeles**
  - **VRDO; swapped**
- **25% taxable**
  - **Indexed-rate**
  - **Sold to San Francisco FHLB**
- **Not swapped**



# **New Multifamily Bonds**

- **\$123 M MEHRB III, 2004 AB**
- **All tax-exempt**
- **Variable rate auction bonds**
- **\$70 M swapped to fixed rate**
  - Utilized \$50 M of prior anticipatory swaps
- **Funding for 13 new projects**



# **Report on Variable Rate Bonds and Swaps**



# Variable Rate Debt as of June 23, 2004

(\$ in Millions)

	Not Swapped or Tied to		Swapped or Tied to		Total
	Tied Directly to Variable Rate Assets	Swapped to Fixed Rate	Swapped or Tied to Variable Rate Loans	Swapped or Tied to Variable Rate Debt	Variable Rate Debt
Single Family	\$ 521	\$ 3,414	\$ 1,021		\$ 4,956
Multifamily	<u>21</u>	<u>718</u>	<u>242</u>		<u>981</u>
<b>TOTALS</b>	<b>\$ 542</b>	<b>\$ 4,132</b>	<b>\$ 1,263</b>		<b>\$ 5,937</b>



# Types of Variable Rate Debt

( \$ in Millions )

	Auction Rate & Similar <u>Securities</u>	Indexed Rate <u>Bonds</u>	Variable Rate Demand <u>Obligations</u>	Total Variable Rate Bonds <u>Rate Bonds</u>
Single Family	\$ 203	\$ 2,415	\$ 2,338	\$ 4,956
Multifamily	<u>353</u>	<u>21</u>	<u>607</u>	<u>981</u>
<b>TOTALS</b>	<b>\$ 556</b>	<b>\$ 2,436</b>	<b>\$ 2,945</b>	<b>\$ 5,937</b>



# Net Variable Rate Debt

(\$ in Millions)

	<u>Tax-Exempt</u>	<u>Taxable</u>	<u>Totals</u>
Short average life	\$156	\$810	\$966
Long average life	<u>120</u>	<u>177</u>	<u>297</u>
<b>TOTALS</b>	<b>\$276</b>	<b>\$987</b>	<b>\$1,263</b>



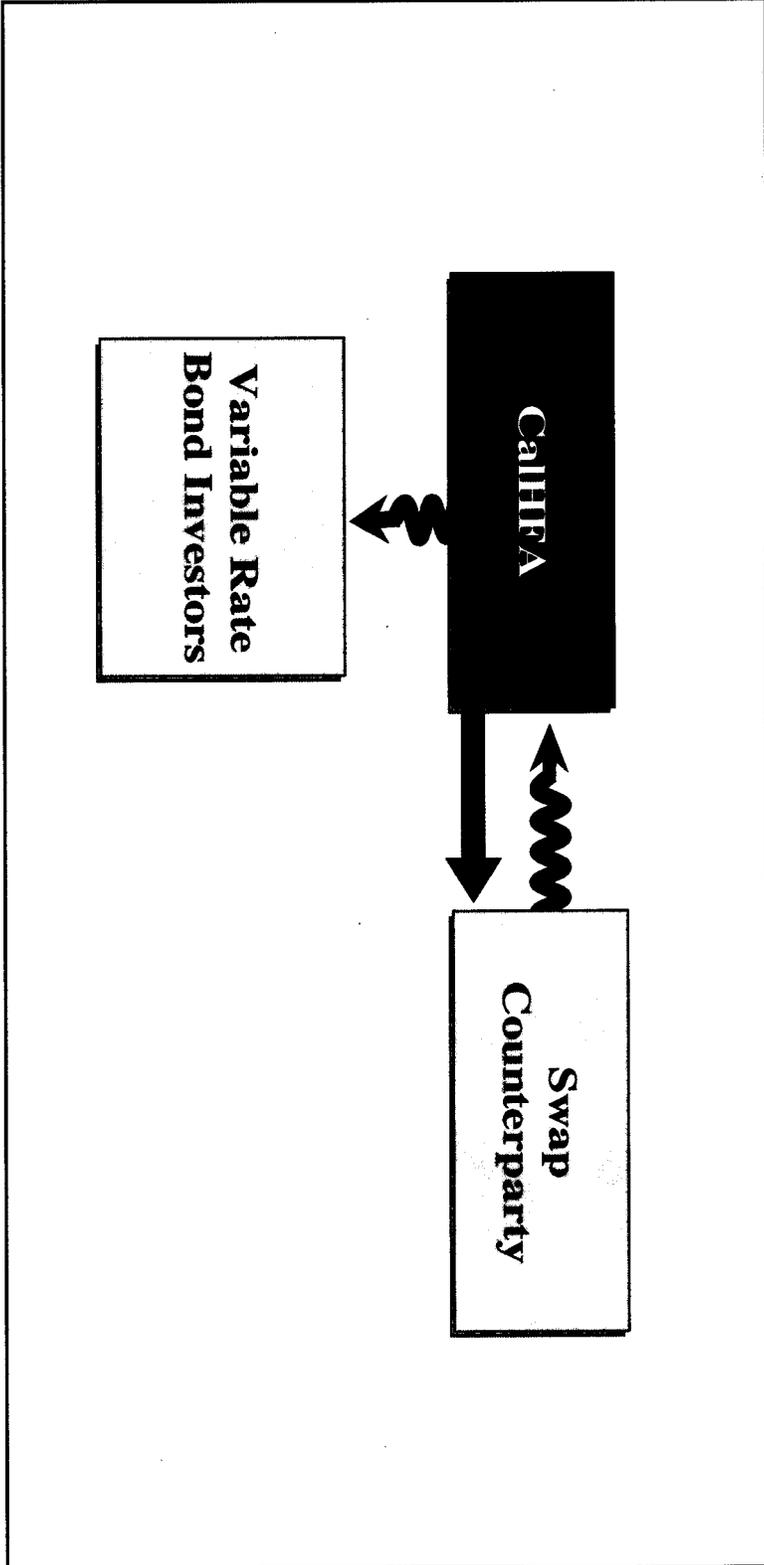
# Fixed Payer Interest Rate Swaps

(\$ in Millions)

	<u>Tax-Exempt</u>	<u>Taxable</u>	<u>Totals</u>
Single family	\$2,135	\$1,291	\$3,426
Multifamily	<u>775</u>	<u>0</u>	<u>775</u>
<b>TOTALS</b>	<b>\$2,910</b>	<b>\$1,291</b>	<b>\$4,201</b>



# Interest Rate Swap Diagram



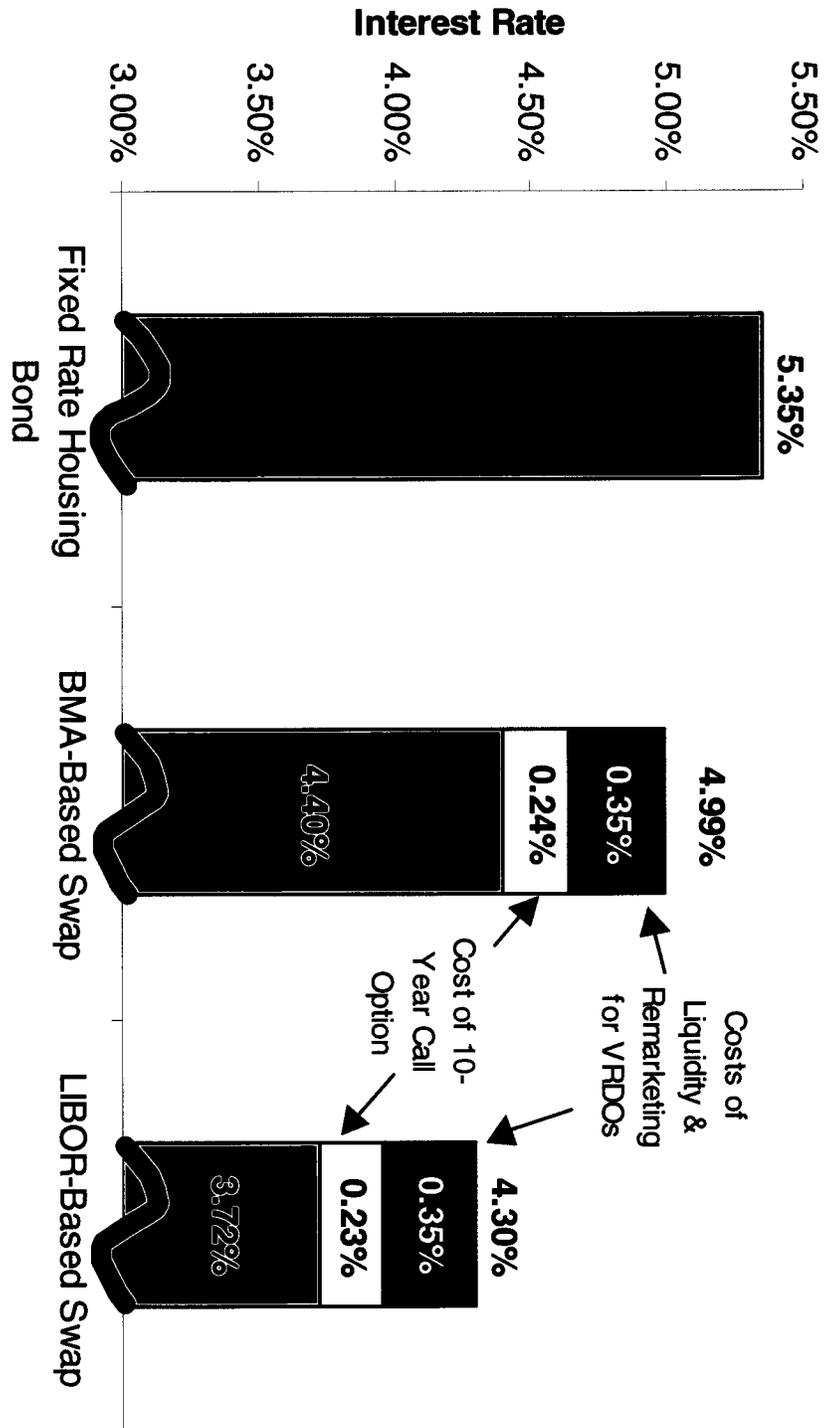


# **Benefits of Swap Strategy**

- **Reduced cost of funds**
- **Reduced issuance costs**
- **Reduced cost of carrying debt before loan origination**
- **Ability to hedge future issues against higher rates**



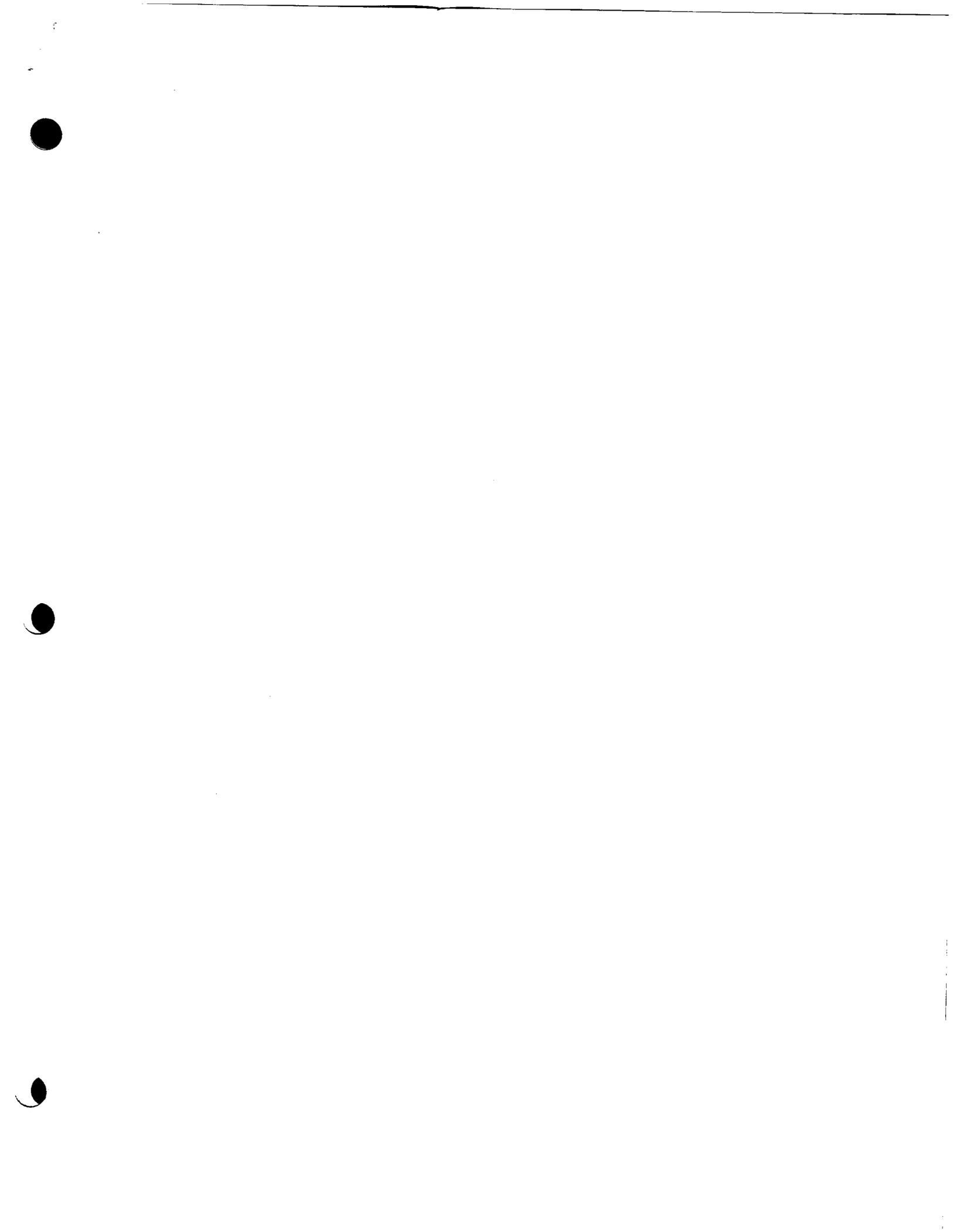
**Comparative Costs of Funds for Fixed-Rate Bonds and Synthetic Fixed-Rate Bonds (Variable Rate Bonds Swapped to Fixed)**  
 (All Rates as of June 18, 2004)





# **Risks of Swap Strategy**

- **Termination Risk**
- **Counterparty Risk**
- **Basis Risk**
- **Tax Law Change Risk**
- **Amortization Risk**
- **Liquidity Risk**



**BASIS FOR VARIABLE RATE PAYMENTS RECEIVED FROM  
SWAP COUNTERPARTIES**  
(\$ in Millions)

	<u>Tax-Exempt</u>	<u>Taxable</u>	<u>Total</u>
60% of LIBOR + 26bps	\$1,337	\$0	\$1,337
3 mo. LIBOR + spread	0	794	794
BMA - 15 bps	512	0	512
1 mo. LIBOR	0	415	415
Enhanced LIBOR	349	0	349
Stepped % of LIBOR	329	0	329
65% of LIBOR	318	0	318
6 mo. LIBOR	0	82	82
64% of LIBOR	41	0	41
65% of LIBOR + 21bps	<u>24</u>	<u>0</u>	<u>24</u>
<b>TOTALS</b>	<b>\$2,910</b>	<b>\$1,291</b>	<b>\$4,201</b>



# Mortgage Insurance Industry Update

Presented to

California Housing Finance Agency Board

July 8, 2004

Presented by Kenneth A. Bjurstrom, Principal

A MILLIMAN GLOBAL FIRM



**Milliman**  
*Consultants and Actuaries*

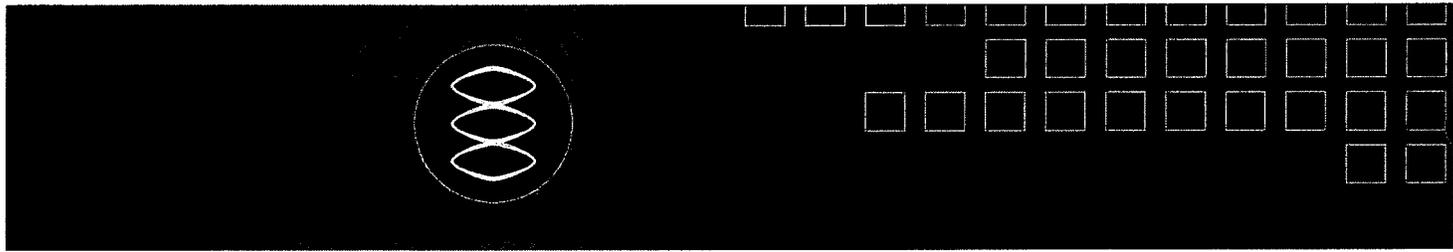


## Presentation Summary

- Mortgage Guaranty Insurance (MI)
- MI History
- MI Industry Today
- California Housing Finance Agency





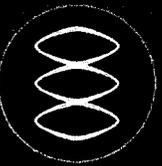


# Mortgage Guaranty Insurance (MI)



## Basics of Mortgage Guaranty Insurance (MI)

- Covers lender for financial loss if borrower defaults on mortgage
- MI required if the borrower does not have sufficient funds for a 20% down-payment (loan > 80% x property value)
- Unique coverage in that the Lender selects MI carrier and receives the claim benefit...but the borrower pays the premium
- Private MI industry is heavily regulated:
  - Statutory/Rating Agency insurance requirements
    - Capital
    - Reserves
    - Premium Rates
  - Truth-in-Lending requirements
  - Real Estate Settlements Procedures Act (RESPA)
    - MI carrier prohibited from paying the lender a commission, policyholder dividend or rebate for placing the business
    - Products and services must be priced equal to the value assuming a reasonable profit commission

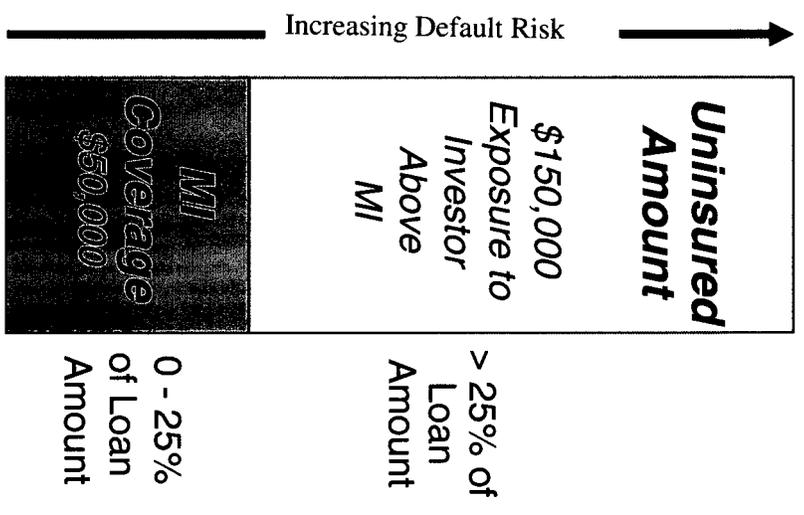




# Mortgage Guaranty Risk

**Loan Amount  
\$200,000**

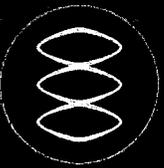
**90% LTV - 25% MI Coverage**



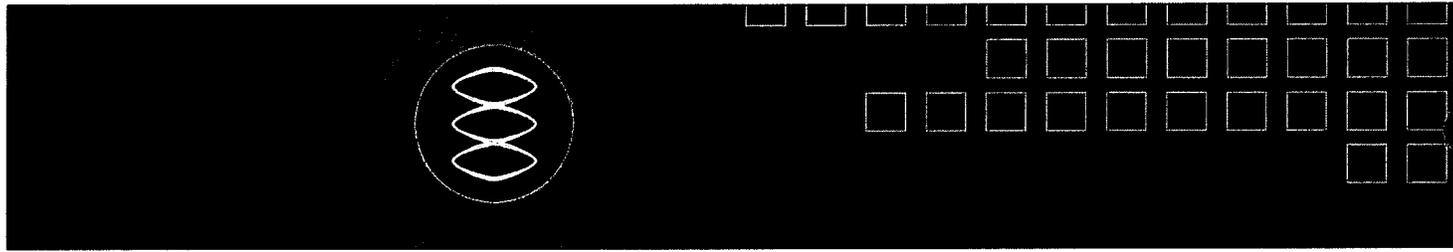


## The Major Risk Factors of Mortgage Insurance

- Loan-to-Value
  - Size of the down-payment
  - Rates and risk vary with LTV
- Coverage required by the investor
  - 95% LTV & above is 35% for private MI's
  - CaHLIF standard coverage is 50%
- Borrower credit history
  - Some rates now vary by FICO Score (A, A-, Alt-A, Sub-Prime)
- Property appreciation potential
- Purpose of loan (Purchase or Refinance)
- Type of mortgage instrument (Fixed or Adjustable)
- Borrower occupancy
- Interest rate
- Documentation (Full, Alternative, None)
- Others





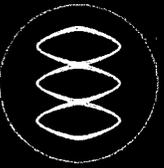


# Mortgage Insurance History



## Development of the MI Industry

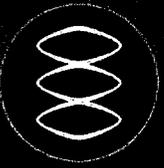
- Developed from title insurance companies
  - Founded in the late 1800s
  - Allowed to buy & resell mortgages in 1911
  - Guaranteed title and payments
- Large expansion of mortgage insurers in 1920s
  - Rising real estate market made sale of foreclosed properties profitable
- Considered relatively risk free business
  - Largely unregulated
  - Over 50 MI companies in New York alone
  - Thinly capitalized





## Development of the MI Industry

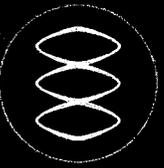
- Great Depression of the 1930s
  - Entire industry folded
  - NY governor commissioned examination of problems - Alger report
  - Study became blue-print for the re-emergence of the industry
- Alger report recommendations
  - Prohibit conflicts of interest
  - Stringent capital and reserve requirements
  - Sound appraisal, investment and accounting procedures





## Private Industry Re-Emerges

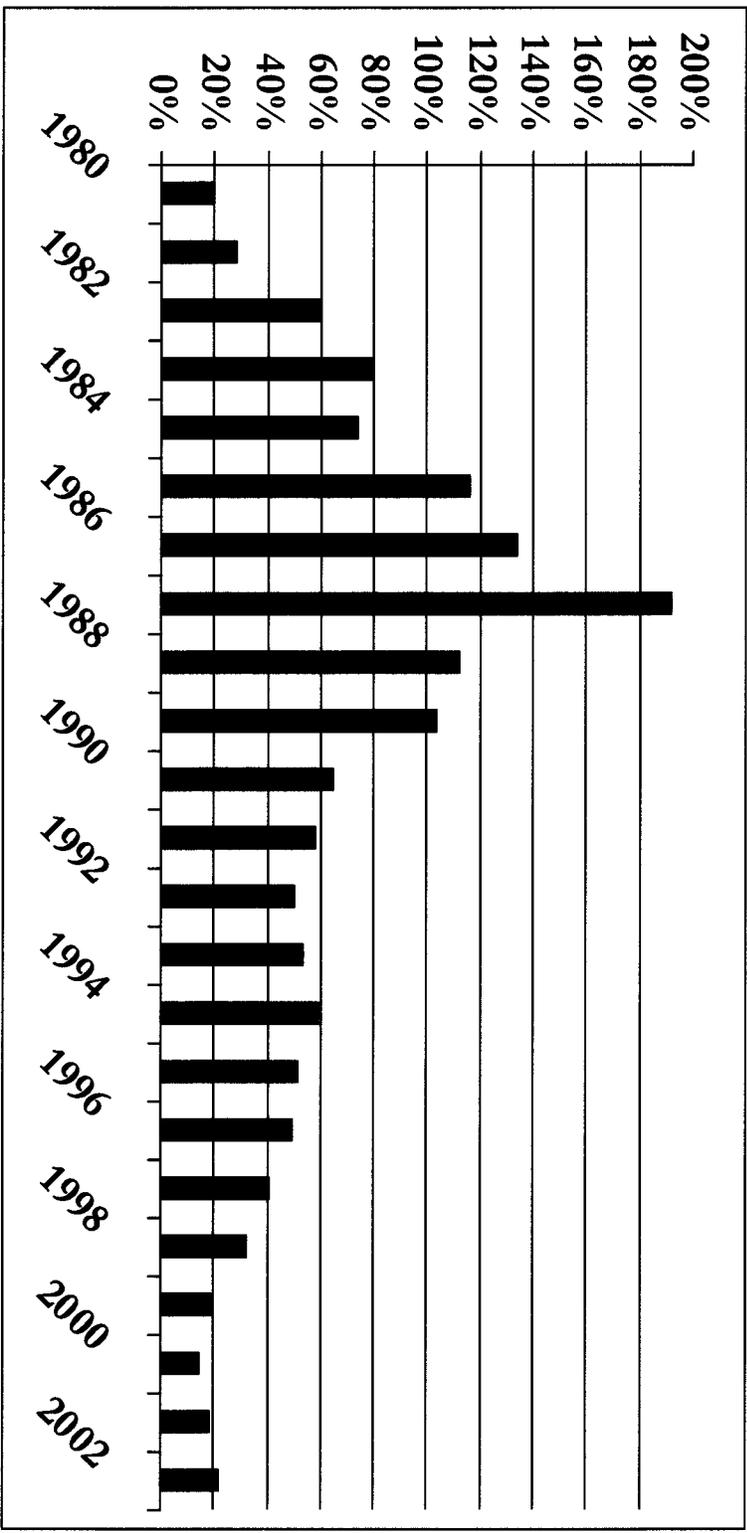
- MGIC founded in 1957
  - Regulatory structure established
  - Strong conflict of interest provisions
  - Mono-line company structure
- Contingency reserve & strong capital requirements
- Emerging dominance of capital markets and rapid expansion of mortgage insurance market in 1970s and 1980s
- Secondary mortgage market facilitates growth for industry
  - Fannie Mae created in 1932 and Freddie Mac chartered in 1970
  - Enhance availability and uniformity of credit
  - Establish direct link between primary mortgage market and capital markets





# Mortgage Insurance Market

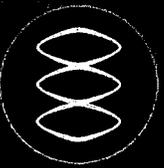
## MI Industry Loss Ratios – Recent History





## 1980s Challenges the Industry

- Double digit interest rates
- Adjustable Rate Mortgages (ARMs) developed
- Economic deterioration – particularly in energy sector
- Heavy MI losses protected capital markets from extensive losses
- At Least two MI companies did not survive! (VEREX & TICOR)
- Despite record losses, MI industry emerged financially strong
  - Well capitalized companies
  - Use of reinsurance
  - Seasoned management teams





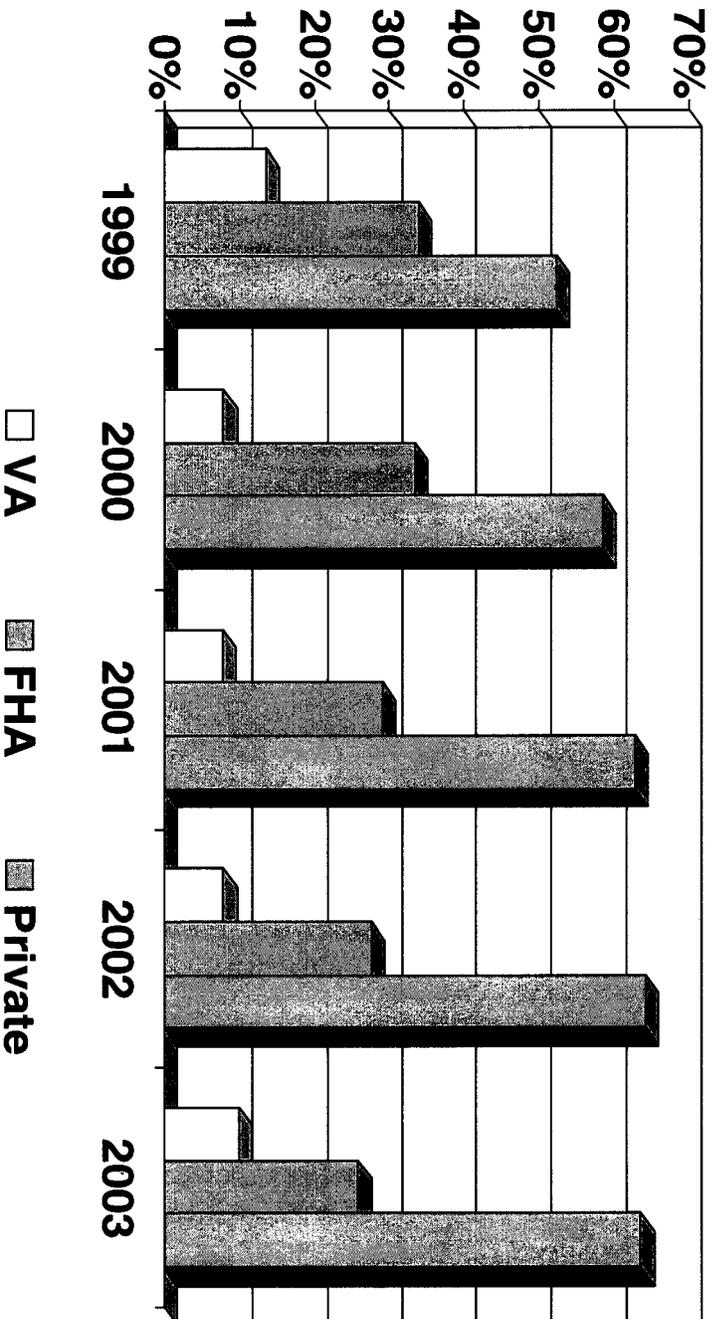


# MI Industry Today



# Mortgage Insurance Market

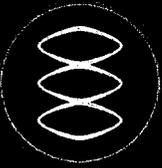
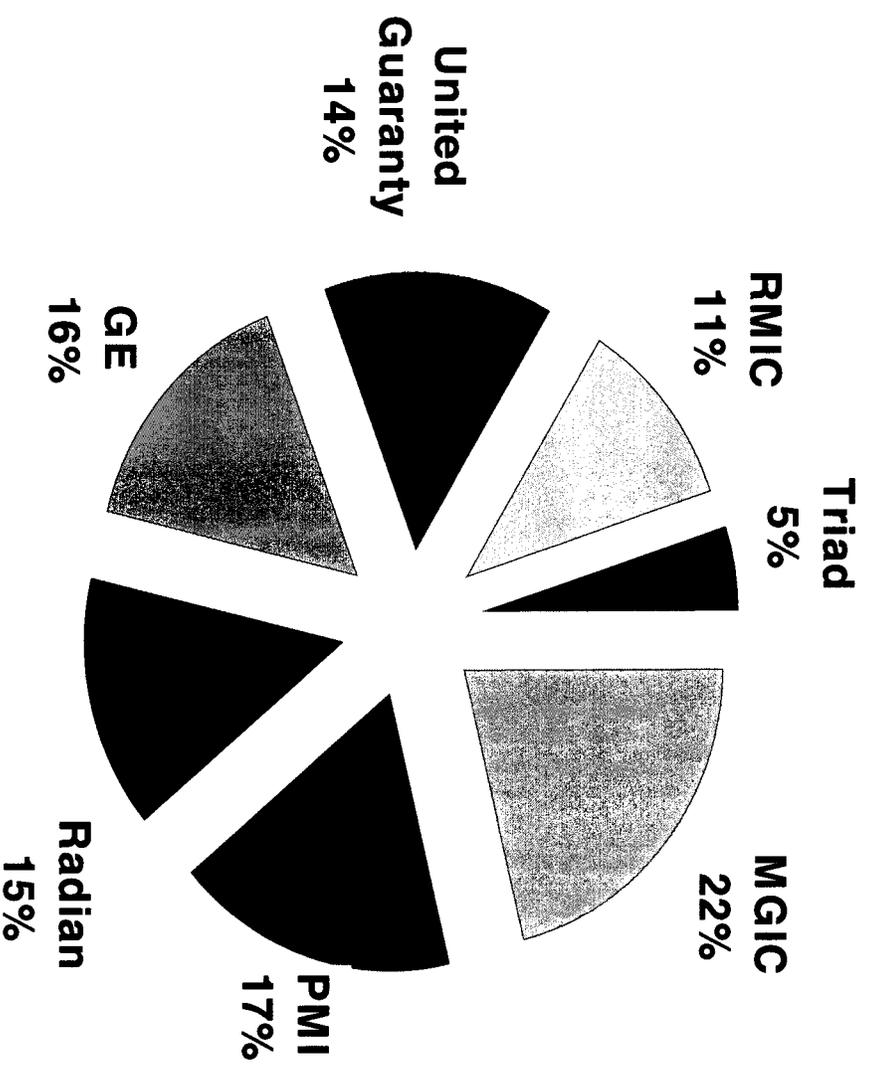
## Distribution by Dollar Volume of Insured Mortgages





# Mortgage Insurance Market Share – Private MI's

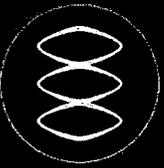
Flow New Insurance Written Market Share 2003





## Industry Under Pressure

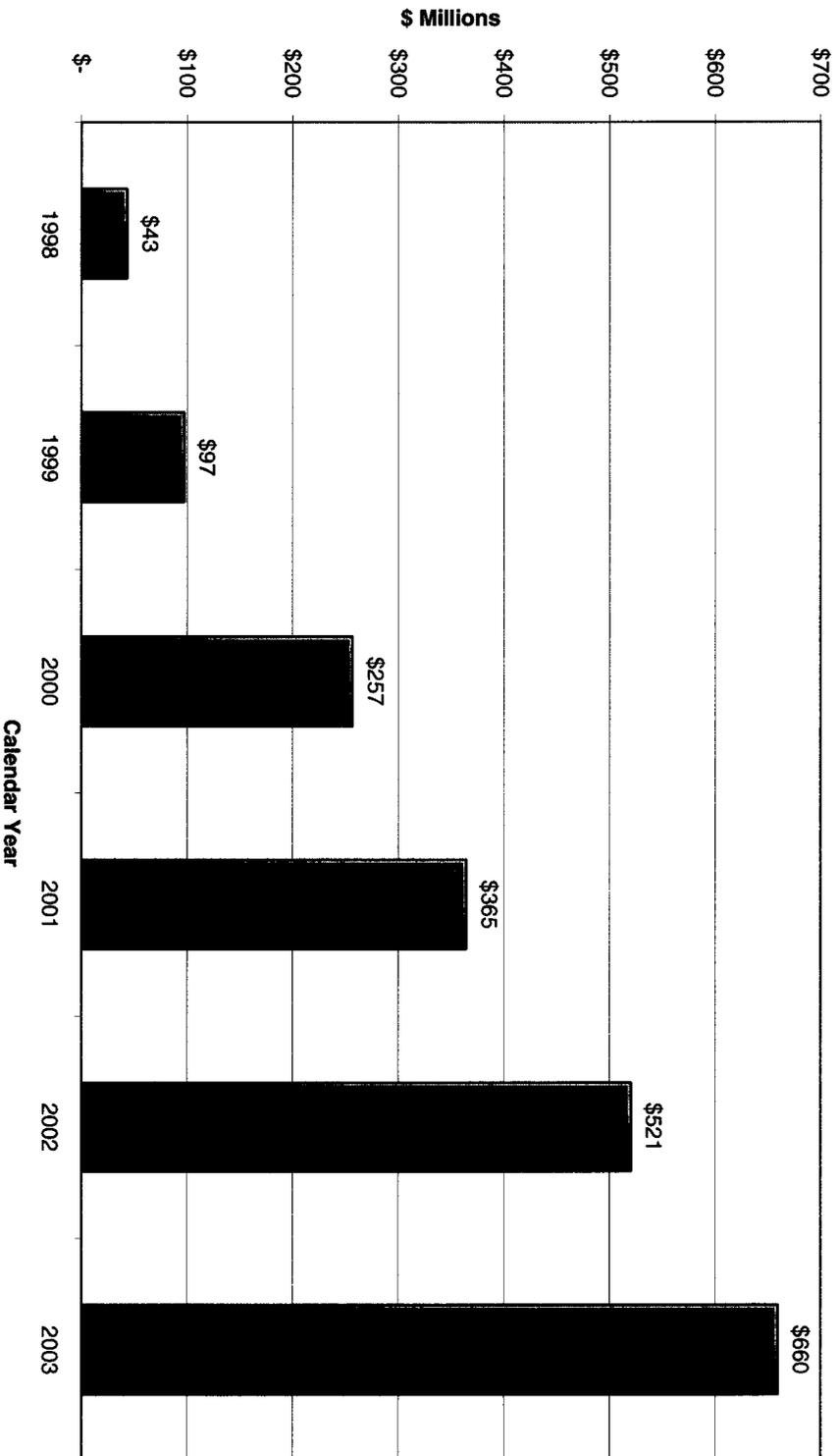
- **Products & Programs:**
  - Emerging Market Products
  - Alternative Products
  - Alternative Credit Documentation
  - Educated consumers
  - GSE's Homeownership initiatives
- **Business Acquisition:**
  - Traditional flow business (loan-by-loan) vs. "bulk" transactions (portfolio)
  - Bank Captive Reinsurance
  - Secondary Market Coverage Programs
- **Corporate Strategy & Oversight**
  - Rating Agency's increasing capital standards
  - Sarbanes-Oxley & Basel II
  - International Diversification



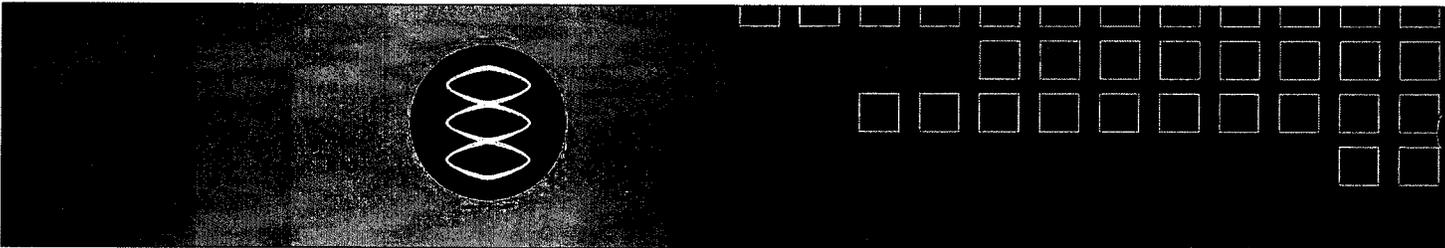


# Captive Reinsurance: A Perspective

**Millions of Dollars of MI Premium Ceded to Bank Reinsurers  
(Excluding PMI, Inc. 1998-2003)**







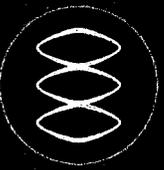
# California Housing Finance Agency



# California Housing Finance Agency

## Mission Statement:

- ...Develop innovative lending programs that promote affordable home ownership throughout California. To insure loans that the private MI companies will not.
- ...Work with participating lenders, government agencies, and the secondary mortgage market.
- ...Issue mortgage insurance to hard-to-qualify borrowers or those with little or no down-payment funds.



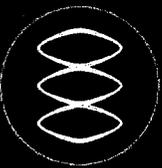


# CalHFA Portfolio

## California Housing Finance Agency Mortgage Insurance Fund - 1988 & Forward Statistics (Data as of 6/25/04)

	Policies		Insurance		Percent Of Book Remaining	Current Delt.	Current Delt. Rate	Ever-to- Date Claims	ETD Claim Rate
	Written	In Force	Written	In Force					
1988	235	1	\$ 19,438,597	\$ 73,150	0.4%	1	100.0%	5	2.1%
1989	296	16	\$ 23,873,533	\$ 941,510	3.9%	-	0.0%	6	2.0%
1990	283	13	\$ 27,522,602	\$ 841,249	3.1%	1	7.7%	22	7.8%
1991	618	38	\$ 65,246,336	\$ 3,110,899	4.8%	-	0.0%	58	9.4%
1992	517	23	\$ 54,987,880	\$ 2,012,063	3.7%	1	4.3%	51	9.9%
1993	117	12	\$ 11,202,897	\$ 1,023,220	9.1%	-	0.0%	9	7.7%
1994	1,918	126	\$ 233,606,954	\$ 13,146,274	5.6%	9	7.1%	160	8.3%
1995	1,310	118	\$ 157,449,839	\$ 13,606,773	8.6%	6	5.1%	64	4.9%
1996	1,164	115	\$ 140,326,885	\$ 10,751,283	7.7%	3	2.6%	15	1.3%
1997	613	71	\$ 75,060,128	\$ 6,952,356	9.3%	-	0.0%	2	0.3%
1998	861	119	\$ 116,764,191	\$ 13,727,445	11.8%	1	0.8%	3	0.3%
1999	1,482	141	\$ 214,281,870	\$ 16,025,019	7.5%	1	0.7%	5	0.3%
2000	2,020	124	\$ 314,530,228	\$ 13,626,174	4.3%	5	4.0%	4	0.2%
2001	3,361	369	\$ 610,745,213	\$ 53,373,313	8.7%	12	3.3%	3	0.1%
2002	3,095	1,005	\$ 644,806,021	\$ 187,397,671	29.1%	7	0.7%	-	0.0%
2003	1,575	1,285	\$ 340,437,008	\$ 275,011,967	80.8%	4	0.3%	-	0.0%
2004 <sup>1</sup>	574	569	\$ 129,883,346	\$ 128,622,693	99.0%	-	0.0%	-	0.0%
<b>Total</b>		<b>4,145</b>		<b>\$ 740,243,059</b>		<b>51</b>	<b>1.2%</b>		

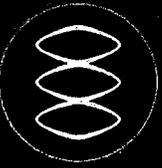
<sup>1</sup> Indicators may not be fully reported for current month





## Competition/Barriers to CalHFA Mortgage Insurance

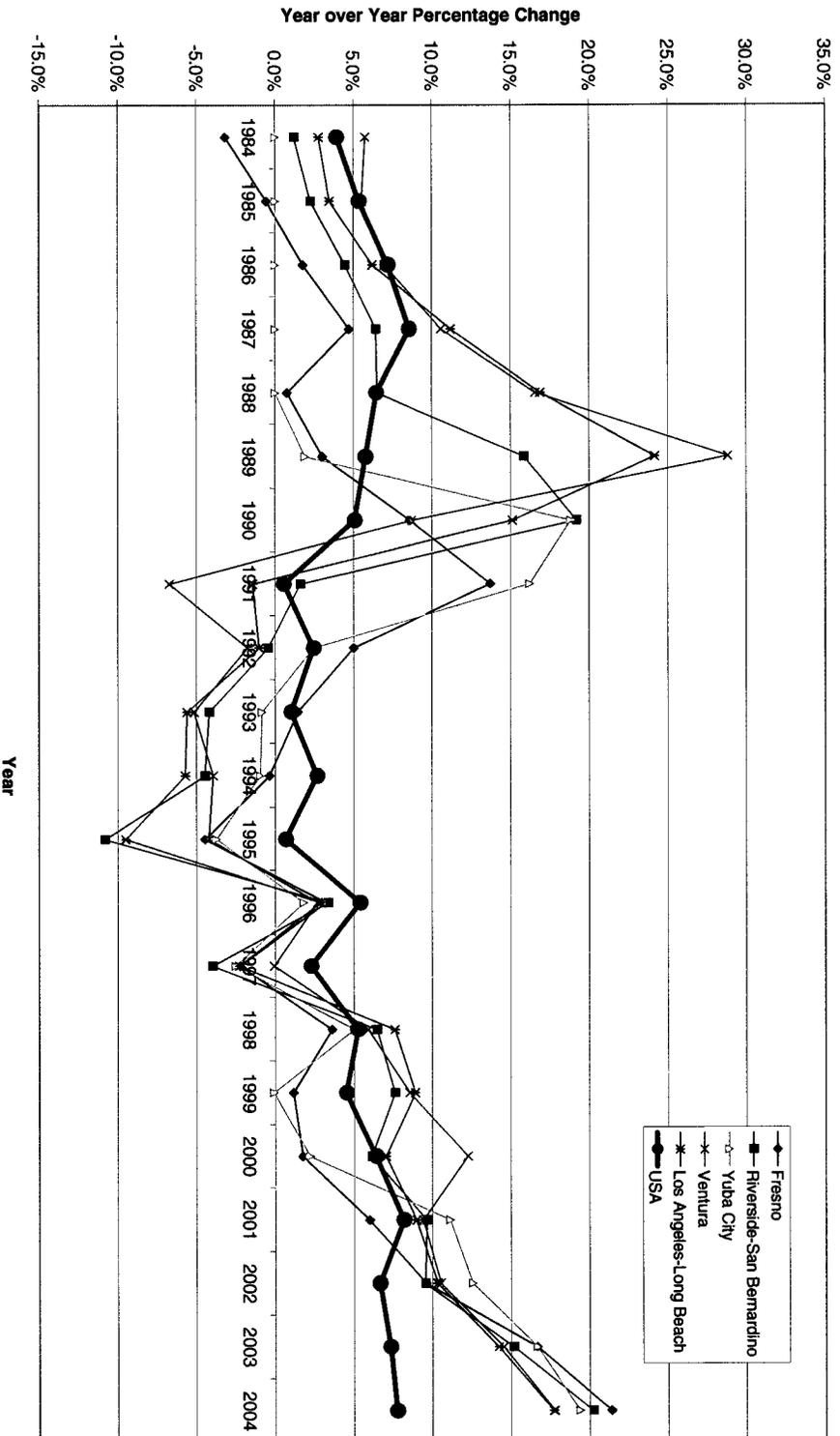
- Private mortgage insurers
- Other government sponsored programs including FHA and VA
- Investors holding mortgages in portfolio and self-insuring
- Investors using other credit enhancements with Government Sponsored Enterprises such as Fannie Mae and Freddie Mac
- Lenders structuring mortgages to avoid mortgage insurance such as 80-10-10- loans (i.e. simultaneous seconds)
- Economic Factors:
  - Home Prices
  - Incomes
  - Employment





# California Economy – Metro Areas

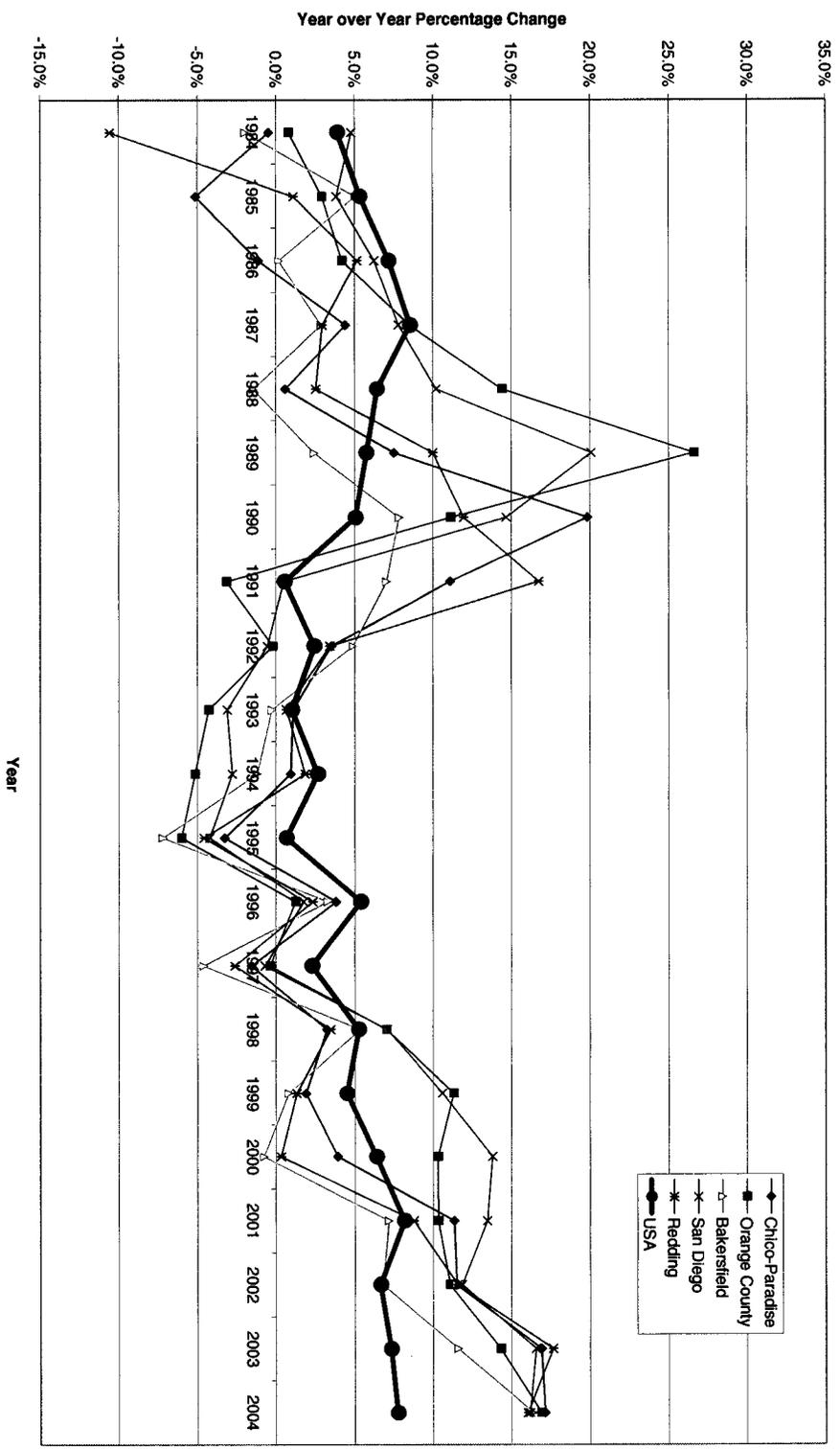
Annual Home Price Appreciation





# California Economy – Metro Areas

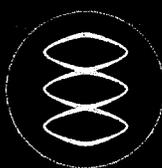
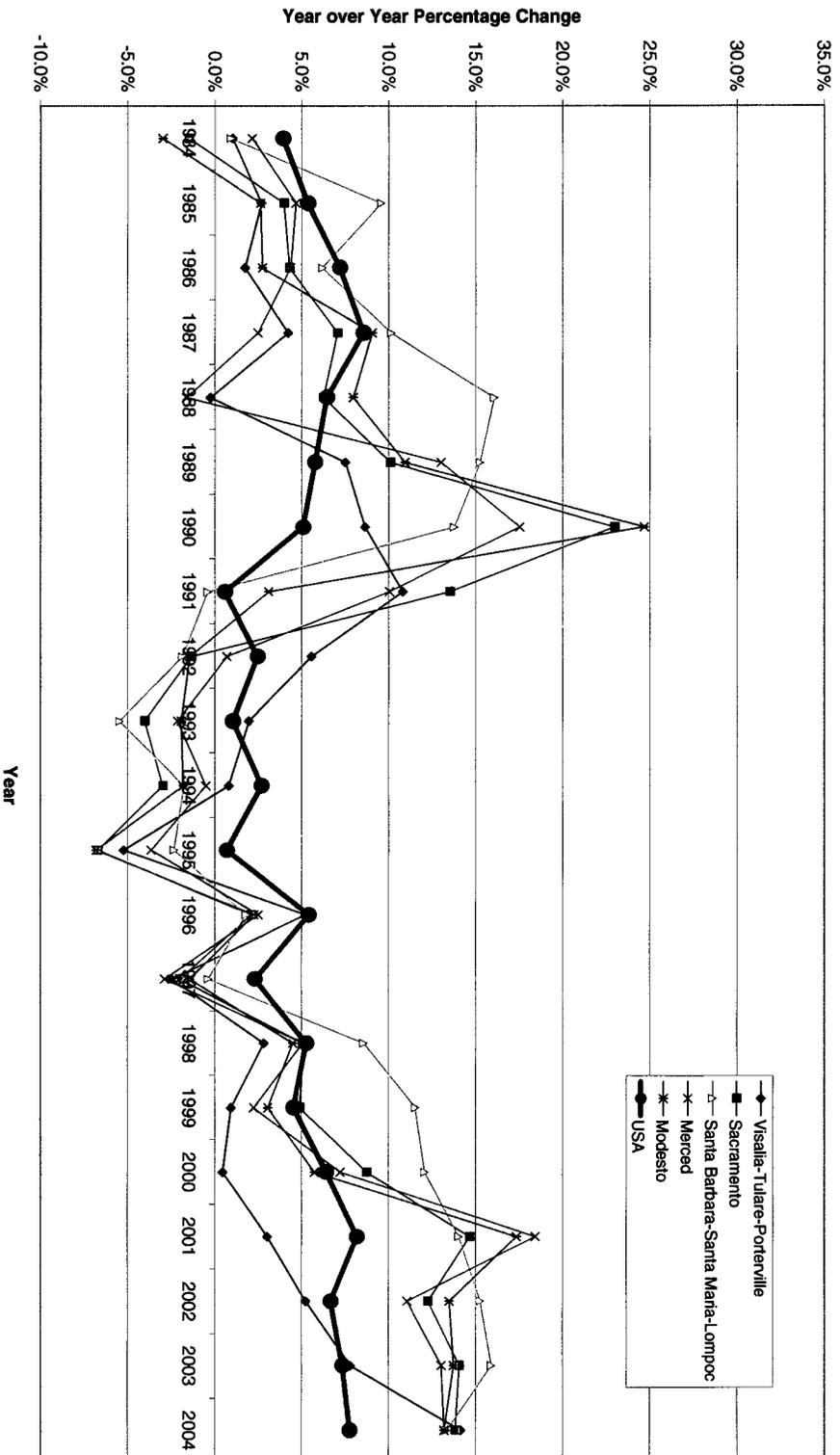
Annual Home Price Appreciation





# California Economy – Metro Areas

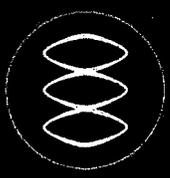
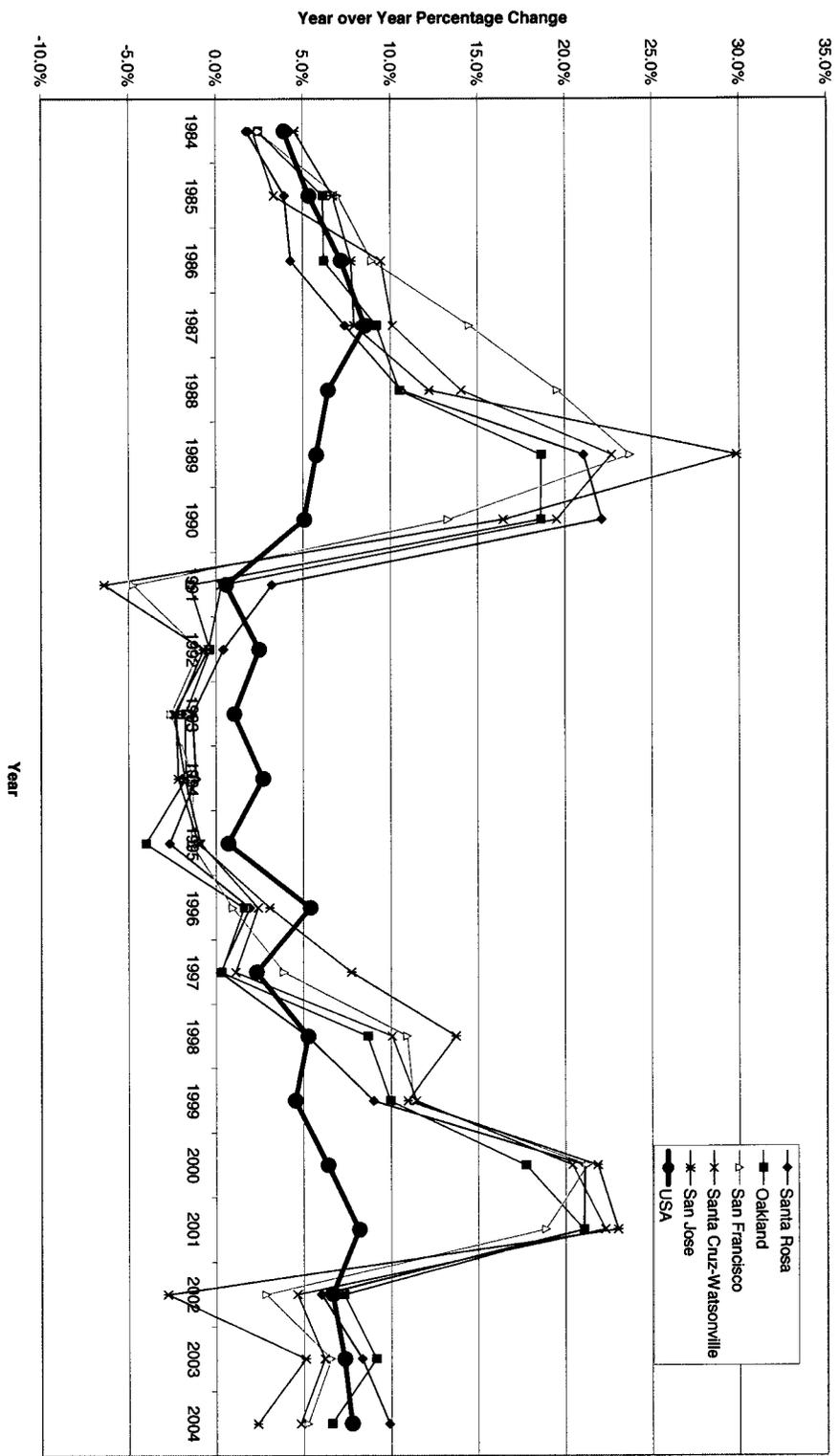
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# California Economy – Metro Areas

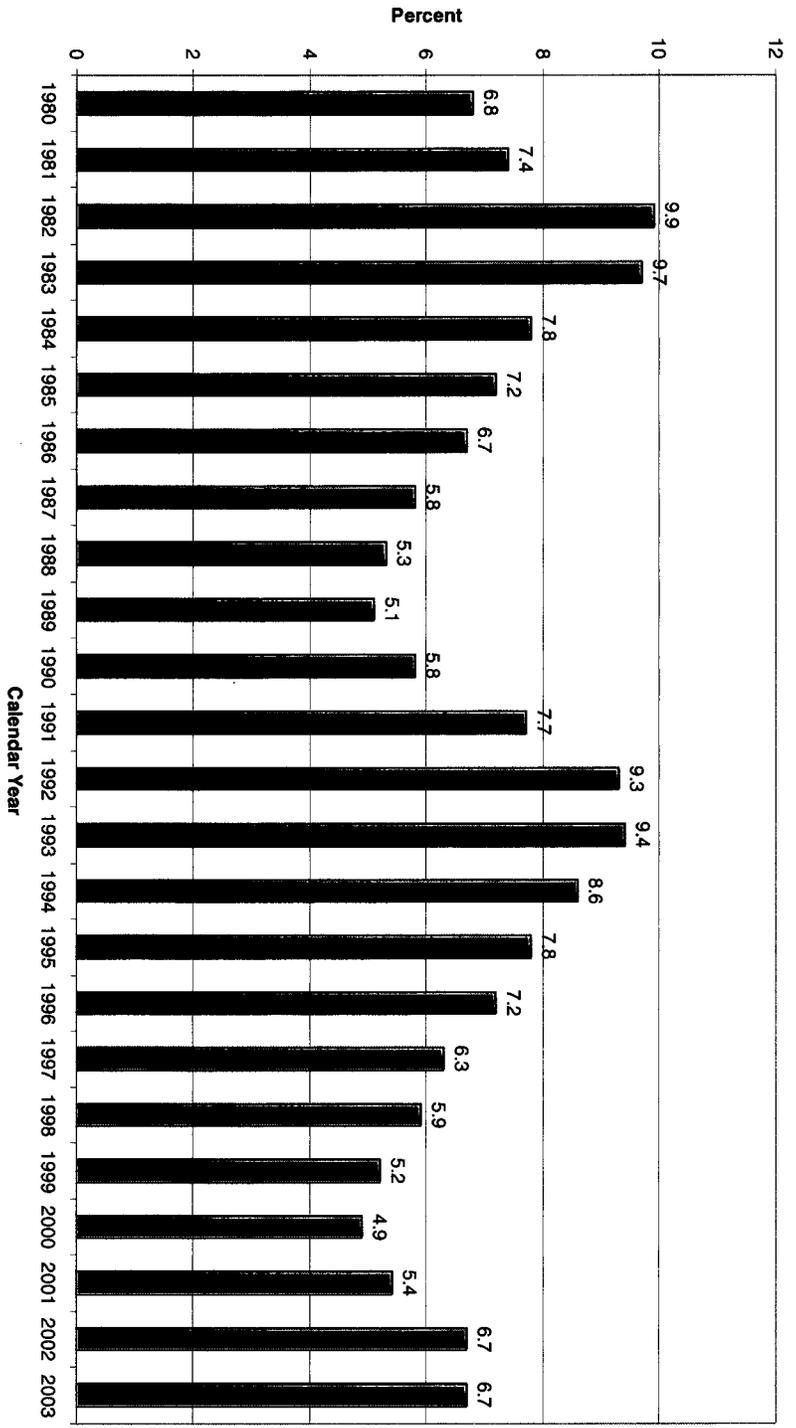
Annual Home Price Appreciation





# California Economy - Unemployment

## State of California Unemployment Rate





## California Housing Finance Agency

### Successful If:

- Concentrate on borrowers with documented/supported credit histories with little or no down-payments:
  - 97%, 100%, 103% LTV's
  - Down-payment assistance programs
  - Forbearance programs
- Work with participating lenders, government agencies, and the secondary mortgage market in developing products and services that assist and protect the borrower's willingness and ability to pay:
  - Employers / Unions / Industries
  - Savings Organizations / Pension Funds
  - Risk sharing structures: Lender's & Investors
- Continue investing in market-place knowledge/resources:
  - Underwriting
  - Borrower education
  - Loan Servicing
  - Technology
  - California Economy





# Questions

