Cash Flow	Final Commitment	CalHFA Project Number:	04-007-A/S	Flower Park Plaza						
RENTAL INCOME	Rehab-1 Yr.	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9
Affordable Rents	1,678,610	1,712,868	1,747,125	1,782,068	1,817,709	1,854,063	1,891,145	1,928,968	1,967,547	2,006,898
Affordable Rent Increase		2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Rental Subsidies	548,262	559,452	570,641	582,054	593,695	605,569	617,680	630,034	642,634	655,487
Rental Subsidy Increases		2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Unrestricted Units		0	0	0	0	0	0	0	0	0
Unrestricted Unit Increases		0%	0%	0%	0%	0%	0%	0%	0%	0%
TOTAL RENTAL INCOME	2,226,872	2,272,320	2,317,766	2,364,122	2,411,404	2,459,632	2,508,825	2,559,001	2,610,181	2,662,385
OTHER INCOME										
Laundry	14,197	14,487	14,777	15,072	15,374	15,681	15,995	16,315	16,641	16,974
Other Income		0	0	0	0	0	0	0	0	0
Other Income Increase		2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
TOTAL OTHER INCOME	14,197	14,487	14,777	15,072	15,374	15,681	15,995	16,315	16,641	16,974
GROSS POTENTIAL INCOME	2,241,069	2,286,807	2,332,543	2,379,194	2,426,778	2,475,314	2,524,820	2,575,316	2,626,823	2,679,359
VACANCY ASSUMPTIONS										
Affordable (Blended Average)	10%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Rental Subsidy Income	10%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Unrestricted Units		0%	0%	0%	0%	0%	0%	0%	0%	0%
Laundry & Other Income	10%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
LESS: VACANCY LOSS	224,107	103,151	105,214	107,319	109,465	111,654	113,887	116,165	118,488	120,858
EFFECTIVE GROSS INCOME	2,016,962	2,183,656	2,227,329	2,271,876	2,317,313	2,363,659	2,410,933	2,459,151	2,508,334	2,558,501
OPERATING EXPENSES										
Expenses	955,314	974,811	1,008,929	1,054,242	1,091,140	1,129,330	1,168,857	1,209,767	1,252,109	1,295,932
Annual Expense Increase		3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
Taxes and Assessments	39,200	14,000	14,280	14,566	14,857	15,154	15,457	15,766	16,082	16,403
Annual Tax Increase		2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Replacement Reserve	0	108,057	108,057	108,057	108,057	108,057	108,057	113,460	113,460	113,460
Percentage Increase Yearly		0.00%	0.00%	0.00%	0.00%	0.00%	5.00%	0.00%	0.00%	0.00%
TOTAL EXPENSES	994,514	1,096,868	1,131,266	1,176,865	1,214,054	1,252,541	1,292,371	1,338,993	1,381,650	1,425,796
NET OPERATING INCOME	1,022,448	1,086,788	1,096,063	1,095,011	1,103,259	1,111,118	1,118,562	1,120,158	1,126,684	1,132,705
DEBT SERVICE										
CalHFA - 1st Mortgage	684,713	876,383	876,383	876,383	876,383	876,383	876,383	876,383	876,383	876,383
CalHFA - Bridge Loan		0	0	0	0	0				
CalHFA - 2nd Mortgage		0	0	0	0	0	0	0	0	0
None		0	0	0	0	0	0	0	0	0
None		0	0	0	0	0	0	0	0	0
Cash flow after CalHFA debt service	337,735	210,405	219,680	218,628	226,876	234,735	242,179	243,776	250,301	256,323
DEBT COVERAGE RATIO	1.49	1.24	1.25	1.25	1.26	1.27	1.28	1.28	1.29	1.29
Cash Available for distribution	0.00	210,405	219,680	218,628	226,876	234,735	242,179	243,776	250,301	256,323
Transition Operating Reserve		100,000	100,000	100,000	100,000	100,000	100,000	100,000	12,500	

California Housing Finance Agency

Residential Development Loan Program
(AB 1512 – Garcia)

Summary of Issue

Infill housing developments that target affordable families often suffer from a lack of low cost development financing and limited options for affordable homeownership mortgages. In addition, local governments and developers must use numerous sources to obtain the types of financing needed to develop a successful infill project, which in turn, increases development time and cost. The impact of this delay in affordable housing and its additional costs result in higher housing costs which are passed on to the homebuyer.

Proposal: To Increase The Stock of Affordable Housing

To help address the overwhelming need to increase the stock of affordable housing available for purchase, CalHFA is proposing the Residential Development Loan Program (RDLP) to finance the development and construction of affordable residential structures located within infill, redevelopment and other urban areas where additional ownership housing is a goal and a need.

The housing construction loans made by this Program will be to developers (non-profit and for profit) who, in turn, will sell the dwellings to homeowners, primarily first-time purchasers at below market affordable prices.

This Program will reduce the cost of construction lending by charging lower construction loan fees and interest rates to facilitate reduced sales prices. The RDLP will be administered by CalHFA in conjunction with its first-time homebuyer loans, downpayment assistance, and mortgage insurance from CalHFA's Homeownership and Mortgage Insurance Programs. The packaging of the Agency's resources in this manner will promote and facilitate more affordable homeownership in California.

The benefits of this program are twofold: (1) approximately 300 units of affordable housing can be produced annually by the Program, and (2) the income necessary to buy these units could be reduced by as much as 15%. In addition, these funds will revolve for further leveraging in subsequent years.

Source of Funding

Proposition 46 (SB 1227, Chapter 26, Statutes of 2002) allocated $85 million to CalHFA's Mortgage Insurance Services Program which primarily insures first-time homebuyer mortgage loans in the California market, stimulating housing opportunities for the benefit of first-time homeowners. Funds set aside for this program, but not utilized within 30 months, revert to the general California Housing Downpayment Assistance Program (CHDAP) Fund for CalHFA's use in that program. (CHDAP, also funded by Proposition 46, is a downpayment assistance program for first-time homebuyers who meet specified income requirements.)

CalHFA has determined that, given current market conditions, the $85 million originally provided under the Proposition has limited uses for mortgage insurance programs. As of March 2005, approximately $76 million has not been utilized and under the terms of SB 1227, will revert to CHDAP. Per Proposition 46, these funds can only be used for affordable homeownership housing and the Agency has determined that they would be more effectively used in a high priority program intended to finance the construction of new, infill single family developments which will **directly increase the stock of affordable housing**. Therefore, the Agency proposes that, in addition to providing downpayment assistance, these funds also be used for providing subordinate construction loans in the Residential Development Loan Program. All of these down payment and development funds will also revolve their repayments for the program's continued benefit.

No State General Funds or other new Special Funds will be required to implement this Program.

Further Considerations

A significant impediment exists to the successful implementation of the Residential Construction Loan Program. Under CalHFA's statutes, construction funds loaned by the Agency for residential developments will trigger the payment of prevailing wage on the development project. Depending on the location of the development, this requirement can increase costs to the California homebuyer from between 10% to 25%. Affordable multifamily rental developments routinely require prevailing wage due to the large subsidy of public funds necessary to achieve deep affordability. Residential homeownership developments generally do not pay prevailing wage. Affordable housing sponsors who wish to develop infill ownership housing have indicated a reluctance to participate in this program if prevailing wage is required. The increased labor costs, monitoring and reporting costs directly impact a project's ability to provide more affordable ownership units.

Therefore, this proposal would exempt CalHFA funding for single family development from prevailing wage requirements. Note: nothing in this proposal would preclude developers from choosing to pay prevailing wage, thus this proposal would maintain the status quo.

The Financing Package

This proposal would offer a comprehensive innovative approach to developers and localities in order to streamline and simplify the development of infill projects, to the ultimate benefit of future homebuyers.

Construction Loans: Through its construction lending unit, the Agency's Multifamily Division will provide low cost fixed or variable rate construction funds on a taxable basis to project developers. Lending terms generally match those of private lenders; however the Agency routinely delivers loan rates below prevailing market pricing in order to increase a project's affordability. The construction loans will be offered in conjunction with participating private lenders with the Agency's maximum loan amount set at $25 million.

Subordinate Financing: In order to pay for the high land and development costs of infill developments, developers are increasingly looking to equity partners or providers of subordinate debt. This secondary debt by its nature carries more risk than first lien development loans and consequently is more expensive. These loans often have a priority repayment position over developers, forcing the sponsors to increase their expected returns to compensate for their risk.

To help mitigate this financing problem, the Prop. 46 monies will be loaned at rates as low as 3%. These funds will be flexible, ideally filling the gap of development costs and be repaid along with the main construction loan when the individual units are sold. In the event these funds need to remain in the development for a longer period, they could be rolled over and take the form of downpayment assistance for individual sales, and will be repaid when units are resold.

It is important to note that as with CalHFA's construction funds, this money should not trigger prevailing wage, otherwise the problems noted above would also be encountered.

CalHFA Homeownership Loans: The CalHFA Homeownership Loan Program will provide a wide range of financial products to purchasers of a development's units. Originating lenders, who are a part of the Agency's homeownership network, will target individual affordable housing developments with a full range of affordable loan programs. These products include the Agency's first time home buyer mortgage programs with rates set below other conventional lending programs. The loan products could offer fixed and variable rate loans, including the new *interest only Plus*, which will give borrowers a fixed rate loan for 35 years, with the first five years requiring payment of interest only. To further increase affordability, the Agency will offer a range of downpayment assistance and second loan programs. Included among these are:

- California Housing Assistance Program (CHAP)
- High Cost Area Home Purchase Assistance Program (HiCAP)
- California Homebuyer's Downpayment Assistance (CHDAP)
- Extra Credit Teachers Program (ETCP)

The Agency is also partnering with local lending programs that will provide their own downpayment assistance.

Another important component of the Homeownership program is the Agency's ability to provide forward funding commitments to a developer for individual takeout financing. Depending on market conditions and the interest rate environment, developers may need to rely on takeout commitments that provide set interest rates and fees for unit sales. With its Block Forward Program, CalHFA is able to offer takeout loan commitments for a percentage of project units.

CalHFA Mortgage Insurance: This Program will provide mortgage insurance coverage for not only loans made by the Agency, but also for other takeout lenders involved in these projects. The greater flexibility of the mortgage insurance products allows for higher income borrowers and those loans with resale restrictions. For this development program, CalHFA Insurance will offer:

- Up to 50% loan coverage, exposure to be determined on an individual project basis
- Insurance for other lenders including, Fannie Mae, Freddie Mac and other conventional lenders
- Income limits up to 140% of median income and 160% in certain counties for non-agency loans (non Prop 46 funds)
- No first time homebuyer restriction
- Mortgage protection (up to six months) for borrowers that lose their jobs

Benefit to Homebuyers

120% AMI 3 Bedroom Unit			
Comparison Factors	**Market**	**CalHFA**	**Difference**
Sales price	$420,000	$420,000	$0
Interest rate	6.00%	4.75%	1.25%
Adjusted sales price	$420,000	$400,912	$19,088
Down payment	$21,000	$12,027	$8,973
Total monthly housing cost	$2,930	$2,546	$383
Minimum annual household income	$97,657	$84,874	$12,783
Reduction in monthly income requirement	N/A	$1,147	$1,065
Adjusted minimum AMI rate to qualify	120%	103%	17%

Benefit to Homebuyers: As the above chart shows, a unit with a sales price of $420,000 could be purchased by a family earning 120% of Area Median Income. With construction interest savings as proposed here, the sales price is reduced by approximately $19,000. Significant savings are also achieved by including CalHFA homeownership financing and down payment assistance. The combined savings means that instead of a family needing to earn 120% of Area Median Income, they could earn as little as 103% and afford the same home.

Fiscal/Economic Impact

There are no State General Fund or other Special Fund costs associated with this proposal to any state entity, and implementation of the Program will result in funding allocated for affordable housing development to be better leveraged.

Once the Program is established and marketed to sponsors and local governments, it is estimated that 10 projects per year could be funded, resulting in approximately 300 units. (Assumes Agency resources will be leveraged at a $3 to $1 ratio.)

CalHFA Profile:
The California Housing Finance Agency is the State's self-supporting affordable housing bank, having financed the creation of over 135,000 units of affordable housing for California families during its 30 year history. It derives its funding by raising capital from investors who purchase the Agency's bonds. The proceeds are invested in California affordable homeownership and rental housing and the mortgage payments repay the investors. The Agency does not use any State General or Special Funds, nor do its bonds rely upon the State's credit or ratings.

3/18/05

Objectives for Homeownership

FY 2005/06 to 2009/10 Business Plan

Ken Williams, Deputy Director
Homeownership

FY 2005/06 to 2009/10 Business Plan Objectives

- $1.2 billion level of first mortgage production
- Target low and moderate income homebuyers
- Target high cost underserved areas
- Distribute loans equitably throughout the State
- Implement ***interest only* PLUS, *HomeOpeners*[SM], *Cal-Combo*,** and other product changes
- Evaluate new loan products for introduction to stimulate production

Objectives Cont.

- Loan product to assist low-income disabled homebuyers
- Assist teachers, administrators, other eligible credentialed staff, and classified employees who are working in high priority schools and districts with purchase of their first home
- Streamline as appropriate Homeownership Programs process and documentation (Lender Access System, etc.)
- Continue outreach and training efforts
- Maintain and seek to expand locality participation

Homeownership Business Development and Mortgage Insurance

Business Plan Overview
FY 2005/2006 to 2009/10

Strategies
FY 2005/2006 to 2009/10

- Continue to insure all CalHFA conventional loans; this is targeted to be approximately $ 450 million of new insurance written.
- Partner with Homeownership in developing a hybrid ARM with either a 5 or 7 year fixed period.
- Work with lending partners to expand availability of private sector down payment assistance.
- Work with Homeownership to develop and implement a better means for brokers to access CalHFA products
- Working in partnership with cities, localities, lenders, developers, GSE's etc. to create vertical financial partnerships to build affordable housing in the state.

MULTIFAMILY PROGRAMS
and
ASSET MANAGEMENT

Business Plan Overview
FY 2005/06 to 2009/10

Linn Warren
Margaret Alvarez

Multifamily Program Areas

- New Construction
  - Tax-Exempt bond financed projects containing 100% affordable units
  - Taxable loan program for 9% tax credit transactions
  - New loan products with floating rate and reset components
- Preservation
  - Public/Private partnership to refinance HUD 202 projects
  - Complete funding for the Prop 46 acquisition program
  - Agency portfolio loans – sales and transfers
- Special Needs and Supportive Housing
  - Develop financing structures using short term construction, bridge and Section 8 based loans
  - Greater service coordination role with state and local participants

Multifamily Program Areas

❑ Special Lending

- Continuation of the HELP Program
- Tax Increment lending targeted to the housing set-aside
- Loan purchase programs in conjunction with Habitat for Humanity and intermediary lenders

Multifamily
Pending Initiatives

❑ Homeownership Development Lending

- Low cost construction loans to increase affordability
- Flexible use of subordinate financing by the Agency
- Linkage to the Agency's homeownership programs

❑ Agnews Replacement Housing

- Bond issuer and credit provider for scattered group homes in San Jose area
- Approximately $100 million in bonds secured by lease payments from the State Department of Mental Health

❑ Loan Origination System

- Fully integrated system to manage the Multifamily loan process

Asset Management
Existing Section 8 Portfolio

- 120 Section 8 loans terminate by 2024. Average age of 20+ years.
  - 2005-2010 2 loans
  - 2011-2015 49 loans
  - 2016-2024 69 loans
- Owners are seeking to refinance. Agency's goal is to preserve affordability for tenants and rehabilitate physical structures.
- Create an Agency work group to examine refinancing and recapitalization alternatives. Considerations:
  - Existing owners goals and objectives
  - Impact to low income tenants
  - HUD regulations and future availability of HUD subsidies
  - Rehabilitation needs of properties
  - Financial viability of existing and new Agency loans

Financing Reports

- **Recent Bond Sales and Swaps**
  - **$200M Single Family Bonds**
  - **Single Family Draw Down Bonds**
- **Variable Rate Bonds and Swaps**

Recent Bond Issues

Date of Sale	Bond Series	$ Amount
1/12/05	Home Mortgage Revenue Bonds 2005 Series A	$200,000,000
1/31/05	Single Family Draw Down Bonds 2005 Series AB	$130,950,000

New Single Family Bonds

- $200 M HMRB 2005 A
- Proceeds for purchase of 1,050 new loans
- All tax-exempt
- Issued as variable rate debt obligations
- All swapped to fixed rate

Single Family Draw Down Bonds

- Up to $625 M capacity
- First draw $130.9 M
- Proceeds invested in a guaranteed investment contract
- Preserve CDLAC allocation & tax-exempt refunding authority
- Bonds backed by CalHFA G.O.

Report on Variable Rate Bonds and Swaps

Variable Rate Debt as of Feb. 2, 2005

($ in Millions)

	Tied Directly to Variable Rate Assets	Swapped to Fixed Rate	Not Swapped or Tied to Variable Rate Loans	Total Variable Rate Debt
HMRB	$ 4	$ 3,368	$ 577	$ 3,949
MHRB	0	782	298	1,080
HPB	0	35	15	50
DDB	1,300	0	0	1,300
TOTALS	$1,304	$ 4,185	$ 890	$ 6,379

Types of Variable Rate Debt

($ in Millions)

	Auction Rate & Similar Securities	Indexed Rate Bonds	Variable Rate Demand Obligations	Total Variable Rate Bonds
HMRB	$ 174	$ 1,373	$ 2,402	$ 3,949
MHRB	506	0	574	1,080
HPB	0	0	50	50
DDB	0	1,300	0	1,300
TOTALS	$ 680	$ 2,673	$ 3,026	$ 6,379

Net Variable Rate Debt

($ in Millions)

	Tax-Exempt	Taxable	Totals
Short average life*	$117	$445	$562
Long average life	186	142	328
TOTALS	$303	$587	$890

***Bonds with an expected average life of 10 years or less.**

Fixed Payer Interest Rate Swaps

($ in Millions)

	Tax-Exempt	Taxable	Totals
HMRB	$2,268	$1,124	$3,392
MHRB	816	0	816
HPB	35	0	35
TOTALS	$3,119	$1,124	$4,243