



REPORTS

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State of California

MEMORANDUM**To** Board of Directors**Date:** March 8, 2005**From:** Bruce D. Gilbertson, Director of Financing
CALIFORNIA HOUSING FINANCE AGENCY**Subject:** REPORT OF BOND SALE AND INTEREST RATE SWAP AGREEMENTS
HOME MORTGAGE REVENUE BONDS 2005 SERIES A

On January 20th, we delivered the Agency's 2005 Series A bonds to Bear Stearns & Company. The bonds totaled \$200 million and were issued entirely in tax-exempt variable rate form with liquidity provided by Dexia Credit Local. All of the bonds were swapped to a fixed-rate. The transaction proceeds will be used to fund approximately 1,050 new loans with rates expected to range from 4.25% to 4.75%.

On December 2, 2004 we determined the rates for the interest rate swap. In order to reduce the overall cost and eliminate negative carry during loan origination we chose to employ a forward starting swap effective April 5, 2005. The transaction has been structured so that the bonds outstanding and the swap notional amount remain equal under all mortgage prepayment scenarios. Therefore, all prepayments will be used to call bonds and recycling is not permitted within this bond issuance.

A table summarizing the terms of the bonds and swap appears on page 2.

SERIES	A
\$ Amount	\$200,000,000
Type of Bonds	VRDO
Tax Treatment	AMT
Maturities	2035
Average Life	10.93 yrs
Interest Rates	variable
Reset Frequency	Fixed @ 1.95% until 4/5/05 Weekly reset thereafter
Floating Rate Swap Formula	60% of LIBOR + 26 bps
Swap Rates	3.804%
Swap Start Date	4/5/05
Credit Rating	Aa2/AA-
Swap Counterparty	Bear Stearns Financial Products, Inc.
Bond Insurer	N/A

State of California

MEMORANDUM**To:** Board of Directors**Date:** February 28, 2005**From:** Bruce D. Gilbertson, Director of Financing
CALIFORNIA HOUSING FINANCE AGENCY**Subject:** UPDATE ON DRAW DOWN BOND PROGRAM

On January 31st the Agency issued two new series of single family draw down bonds. This new issuance, which will allow drawings up to \$625 million, will be used to preserve CDLAC allocation expected to be received in 2005, to refund the HMRB 2004 C taxable note, and to preserve tax-exempt refunding authority related to bond redemptions scheduled for August 1, 2005. The first draw, in the amount of \$130.95 million, took place on the January 31st closing date and included \$94.2 million of authority preserved from February 1st redemptions and \$36.75 million from the refunding of the HMRB 2004 taxable C note.

Also on January 31st, the Agency established a multifamily draw down bond vehicle, sized at \$100 million. CDLAC awarded CalHFA \$21.6 million of multifamily bond authority in December, 2004. This authority will be placed into the multifamily draw down bonds in April, where it will remain until combined with other authority in June in a long-term multifamily financing.

The draw down bond program is one of several available mechanisms for preserving tax-exempt bond authority for future use. Draw down bonds are issued in variable rate form and have interest rate resets based on an index. The bonds are privately placed with an investment subsidiary of one of our underwriters. Private placement greatly reduces transaction costs and provides useful flexibility, allowing us to easily add additional amounts and to redeem on short notice.

The bonds pay interest at the Bond Market Association's (BMA) weekly Municipal Swap Index plus a spread. The interest rate on the bonds is capped at the investment contract rate, calculated at one month LIBOR plus 0.46%. The proceeds from this most recent issuance were invested in an investment contract with Trinity Funding Company, LLC.

The table on the following page reflects draw down bond program balances.

Draw Down Bond Program Balances

Single Family Draw Down Bonds	Tax Status	Bonds Outstanding at 2/01/05
2004 A	Non-AMT	\$ 62,585,000
2004 B1	AMT	\$ 475,000,000
2004 B2	AMT	\$ 631,750,000
2005 A	Non-AMT	\$ 61,870,000
2005 B	AMT	\$ 69,080,000
Totals		\$1,300,285,000

State of California

MEMORANDUM**To:** Board of Directors**Date:** March 8, 2005**From:** Bruce D. Gilbertson, Director of Financing
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 with most of our interest rate exposure hedged in the swap market, as further described in this report. 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

VARIABLE RATE DEBT EXPOSURE

This report describes the variable rate bonds and notes of CalHFA and is organized programmatically by indenture as follows: HMRB (Home Mortgage Revenue Bonds--CalHFA's largest single family indenture), MHRB (Multifamily Housing Revenue Bonds III--CalHFA's largest multifamily indenture), HPB (Housing Program Bonds--CalHFA's newest indenture, used to finance the Agency's downpayment assistance loans), and DDB (Draw Down Bonds used to preserve tax-exempt authority.) The total amount of CalHFA variable rate debt is \$6.4 billion, 86% of our \$7.4 billion of total indebtedness as of February 1, 2005. As shown in the table below, our "net" variable rate exposure is \$890 million, 12% 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 (<i>\$ in millions</i>)				
	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 <u>Rate Debt</u>
HMRB	\$4	\$3,368	\$577	\$3,949
MHRB	0	782	298	1,080
HPB	0	35	15	50
DDB	<u>1,300</u>	<u>0</u>	<u>0</u>	<u>1,300</u>
Total	\$1,304	\$4,185	\$890	\$6,379

One year ago our net exposure was \$1.1 billion and 15% of our indebtedness. Two years ago it was \$688 million and 8.9 % of our indebtedness; three years ago it was \$517 million and 7%.

As discussed in each previous report, our \$890 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, the interest earnings rate for the State Treasurer's investment pool, where we invest much of our bond proceeds, is currently at 2.39%. 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 resetting at approximately 2.55%.

The table below summarizes this risk position.

NET VARIABLE RATE DEBT			
<i>(\$ in millions)</i>			
	<u>Tax-Exempt</u>	<u>Taxable</u>	<u>Totals</u>
Short average life *	\$117	\$445	\$562
Long average life	<u>186</u>	<u>142</u>	<u>328</u>
TOTALS	\$303	\$587	\$890

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

FIXED-PAYER INTEREST RATE SWAPS

Currently, we have arranged a total of 109 “fixed-payer” swaps with ten different counterparties for a combined notional amount of \$4.2 billion. Included in this total is \$34 million of anticipatory swaps for multifamily bonds that are expected to be issued later this year. 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			
<i>(notional amounts)</i>			
<i>(\$ in millions)</i>			
	<u>Tax-Exempt</u>	<u>Taxable</u>	<u>Totals</u>
HMRB	\$2,268	\$1,124	\$3,392
MHRB	816	0	816
HPB	<u>35</u>	<u>0</u>	<u>35</u>
TOTALS	\$3,119	\$1,124	\$4,243

The following table shows the diversification of our fixed payer swaps among the ten 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 other firms. Note also that with our most recent swaps with Merrill Lynch we are benefiting from the credit of their triple-A structured subsidiary.

SWAP COUNTERPARTIES

<u>Swap Counterparty</u>	<u>Credit Ratings</u>			<u>Notional Amounts Swapped</u> <i>(\$ in millions)</i>	<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-	\$ 808.6	18
MLDP, AG	Aaa	AAA	AAA	330.8	12
Bear Stearns					
Financial Products Inc.	Aaa	AAA	NR	836.1	11
				323.6 *	8 *
Citigroup Financial					
Products Inc.	Aa1	AA-	AA+	795.9	20
Lehman Brothers					
Derivative Products Inc.	Aaa	AAA [†]	NR	612.3	22
AIG Financial Products Corp.	Aaa	AAA	AAA	246.4	8
Goldman Sachs Mitsui Marine					
Derivative Products, L.P.	Aaa	AA+	NR	160.8	4
				343.7 *	5 *
JP Morgan Chase Bank	Aa3	AA-	AA-	144.8	6
Bank of America, N.A.	Aa1	AA-	AA-	126.8	4
BNP Paribas	Aa2	AA-	AA	99.9	2
UBS AG (Union Bank of					
Switzerland AG)	Aa2	AA+	AA+	<u>81.2</u>	<u>2</u>
				\$4,243.6	109

* *Basis Swaps (not included in totals)*

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 February 1, 2005 semiannual debt service payment date we made a total of \$48.9 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.

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. In the past we entered into swaps at a ratio of 65% of LIBOR, the London Inter-Bank Offered Rate which is the index used to benchmark taxable floating rate debt. These percentage-of-LIBOR swaps have afforded us with excellent liquidity and great savings when the average BMA/LIBOR ratio was steady at 65%. But 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, 84.3% in 2003, 81.5% in 2004, and is currently at 69.8%. The BMA (Bond Market Association) index is the index used to benchmark 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 \$1.6 billion of new LIBOR-based swaps using this new formula, and we expect to continue to use this formula.

In addition, we currently have basis swaps for \$667 million of the older 65% of LIBOR swaps. The basis swaps provide us with better economics in low-rate environments by exchanging the 65% of LIBOR formula for alternative formulas that would alleviate the effects of the current high BMA/LIBOR ratio. As an example, we saved \$1.3 million on our swap payments for the last year by entering into the basis swaps. The following table shows the diversification of variable rate formulas used for determining the payments received from our interest rate swap counterparties.

**BASIS FOR VARIABLE RATE PAYMENTS
RECEIVED FROM SWAP COUNTERPARTIES**
(notional amounts)
(\$ in millions)

	<u>Tax-Exempt</u>	<u>Taxable</u>	<u>Totals</u>
60% of LIBOR + 26bps	\$1,588	\$0	\$1,588
3 mo. LIBOR + spread	0	695	695
BMA – 15bps	497	0	497
1 mo. LIBOR	0	358	358
Enhanced LIBOR ¹	344	0	344
Stepped % of LIBOR ²	324	0	324
65% of LIBOR	304	0	304
6 mo. LIBOR	0	71	71
64% of LIBOR	38	0	38
60% of LIBOR + 21bps	<u>24</u>	<u>0</u>	<u>24</u>
TOTALS	\$3,119	\$1,124	\$4,243

¹ Enhanced LIBOR – This formula is 50.6% of LIBOR plus 0.494% with the proviso that the end result can never be lower than 61.5% of LIBOR nor greater than 100% of LIBOR.

² Stepped % of LIBOR – This formula has seven incremental steps where at the low end of the spectrum the swap counterparty would pay us 85% of LIBOR if rates should fall below 1.25% and at the high end, they would pay 60% of LIBOR if rates are greater than 6.75%.

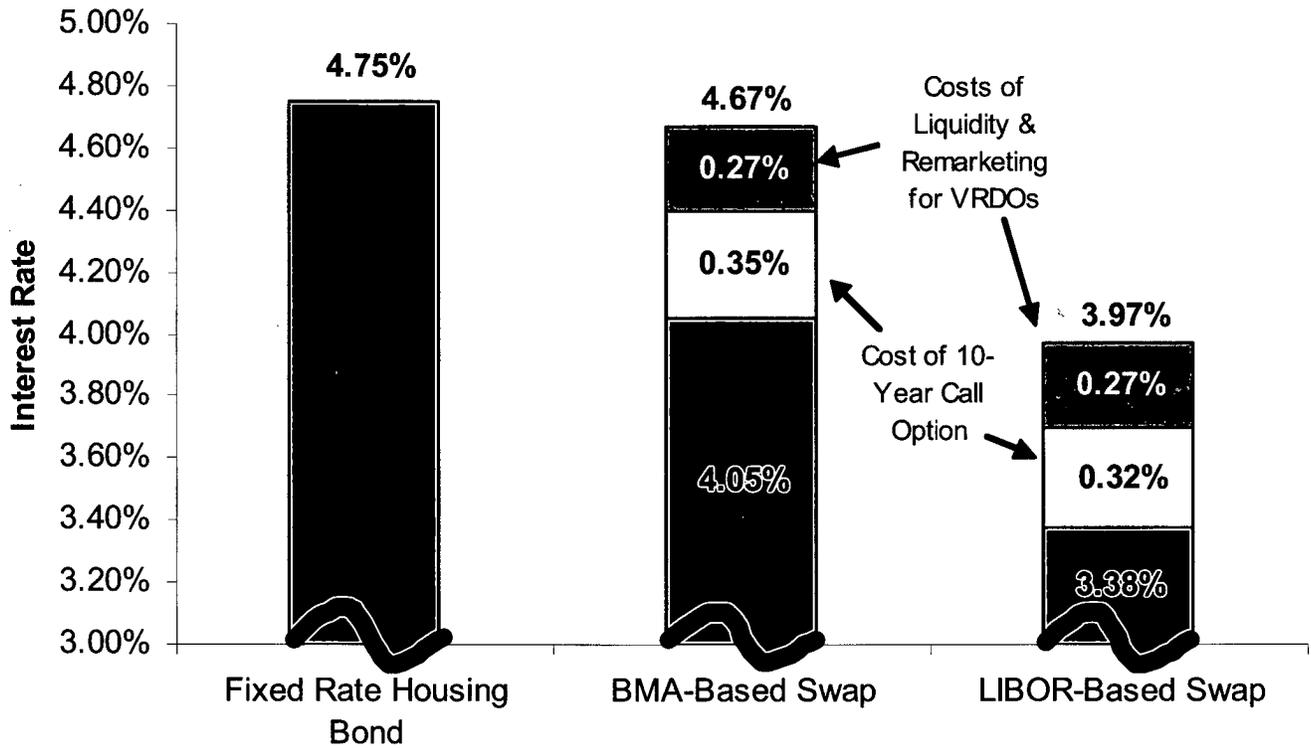
RISK OF CHANGES TO TAX LAW

For an estimated \$2.6 billion of the \$3.1 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 \$308 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 \$2.9 billion, 39.6% 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 following 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.

**Costs of Funds for Fixed-Rate Bonds and Synthetic Fixed-Rate Bonds
(Variable Rate Bonds Swapped to Fixed)
(All Rates as of March 2, 2005)**



BMA-Based Swap: BMA Index – 15 bps
LIBOR-Based Swap: 60% LIBOR + 26 bps

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 generally 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 \$4.6 billion of prepayments, including over \$1.4 billion in 2004. Of this amount, approximately \$1.2 billion is “excess” to swapped transactions we entered into between 2000 and 2003. We have since recycled \$811 million of the \$1.2 billion excess into new loans and have used \$166 million to cross-call high interest rate bonds.

With persistent high levels of prepayments, we are planning to modify the structuring of our swaps by widening the band of expected prepayments speeds. The swap structure for the HMRB 2005 Series A bonds utilized a matched amortization swap so that the bonds outstanding and the swap notional amount remain equal under all mortgage prepayment scenarios. In other words, all prepayments will be used to call bonds, recycling is not permitted, and our bonds and swaps will amortize together.

Also of interest is a \$24.6 million forced mismatch between the notional amount of certain of our swaps and the outstanding amount of the related bonds. This mismatch has 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 tax-exempt 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 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 \$890 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 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 initially invest most 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.

In consultation with our financial advisors, we have determined that the best long-term strategy is 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 February 28, 2005 transfer of loans from our warehouse line we have recycled a total of \$811 million of excess prepayment moneys over the past year and a half. This practice has resulted 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 that depends on 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).

Monthly 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 have generally been falling. Growth in the portfolio combined with this 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.

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 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 for the last year.

TERMINATION VALUE HISTORY

<u>Date</u>	<u>Termination Value</u> <u>(\$ in millions)</u>
1/31/04	(\$295.7)
2/29/04	(\$315.0)
3/31/04	(\$336.7)
4/30/04	(\$215.6)
5/31/04	(\$178.3)
6/30/04	(\$187.2) ¹
7/31/04	(\$230.4)
8/31/04	(\$272.8)
9/30/04	(\$279.3)
10/31/04	(\$296.2)
11/30/04	(\$237.9)
12/31/04	(\$279.0)
1/31/05	(\$292.2)

It should be noted that during this period, the notional amount of our fixed-payer swaps has been increasing to our current total of \$4.2 billion. When viewing the termination value, one should consider both the change in market conditions and the increasing notional amount.

¹ *As reported in our 2003/04 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)

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

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/French 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.

In November 2004 we requested proposals from our existing liquidity banks to provide standby bond purchase agreements for our VRDOs issued under the HMRB indenture during calendar year 2005. We received liquidity bids from nine banks or syndicates of banks totaling in excess of \$2.8 billion. We have selected four banks to provide liquidity for HMRB VRDOs with whom we plan to rotate throughout the coming year. Each of the four banks selected offered very attractive pricing for terms up to 12 years.

LIQUIDITY PROVIDERS
(*\$ in millions*)

<u>Financial Institution</u>	<u>\$ Amount of Bonds</u>	<u>Indenture</u>
Dexia Credit Local	\$675.8	HMRB
Fannie Mae	461.4	HMRB/MHRB
Lloyds TSB	320.9	HMRB
Bank of Nova Scotia	261.1	HMRB
Bank of America	197.2	HMRB
JPMorgan Chase Bank	173.0	HMRB/MHRB
Landesbank Hessen-Thuringen	167.5	MHRB
KBC	135.5	HMRB
Westdeutsche Landesbank	108.2	HMRB
Bayerische Landesbank	105.8	HMRB
BNP Paribas	99.9	HMRB
State Street Bank	98.1	HMRB
Bank of New York	98.0	HMRB
CalSTRS	74.0	HMRB/MHRB
Citigroup, N.A.	<u>50.0</u>	HPB
Total	<u>\$3,026.4</u>	

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.

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.

State of California

M E M O R A N D U M**To:** CalHFA Board of Directors**Date:** 2 March 2005

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

*Di***Subject:** Legislative Report

Congratulations to John Courson, John Morris, and Peter Carey! Confirmed by the Senate on February 28 by a vote of 38-0!

Lots of bills were introduced in the last two weeks – many of them in “spot bill” form, and it will be interesting to see what shape they take. As I continue my review, I will likely be adding more bills to this list before you see it again.

CalHFA Sponsor

AB 1512 (Garcia) California Housing and Infrastructure Finance Agency. (1-02/22/2005)
Status: 02/25/2005-From printer. May be heard in committee March 27.
Current Location: Assembly Desk

Summary:

This bill would authorize CalHFA's general counsel, in his or her absence, to designate someone else to act on his or her behalf. This bill is also the likely vehicle for any legislative changes needed for the Residential Construction Program.

CEQA

AB 1387 (Jones) CEQA: residential infill projects. (1-02/22/2005)
Status: 02/25/2005-From printer. May be heard in committee March 27.
Current Location: Assembly Desk

Summary:

This bill would provide that, if a residential project on an infill site in an urbanized area is in compliance with the traffic and transportation policies in the general plan or zoning ordinance of the local government, a public agency is not required to make those two findings for the impacts of that project on traffic at intersections, or on streets, highways, or freeways.

Land Use

SB 968 (Torlakson) Land use planning: general plans. (1-02/22/2005)
Status: 02/24/2005-From print. May be acted upon on or after March 26.
Current Location: Senate Desk

Summary:

This bill would require the land use element to identify sufficient land for housing at appropriate densities to accommodate the jurisdiction's housing needs through the end of the general plan's planning period.

Misc**AB 1433****(Emmerson) Housing: affordability and availability. (1-02/22/2005)****Status:** 02/25/2005-From printer. May be heard in committee March 27.**Current Location:** Assembly Desk**Summary:**

Existing law encourages local and state governments to use their powers to facilitate the improvement and development of affordable housing for all economic segments of the community in an effort to expand housing opportunities and accommodate the housing needs of Californians at all economic levels. This bill would make a nonsubstantive change to these provisions.

SR 8**(Torlakson) Relative to transportation and housing. (1-01/11/2005)****Status:** 03/01/2005-Set for hearing March 15.**Current Location:** Senate Transportation and Housing Committee**Summary:**

Resolution stating it is a high priority for the Senate to improve access to housing and reduce traffic congestion by promoting affordable housing, infill development and other policies that allow people to live close to their workplace.

Prevailing Wage**AB 474****(Cogdill) Prevailing wages. (1-02/16/2005)****Status:** 02/24/2005-Referred to Com. on Labor & Employment.**Current Location:** Assembly Labor & Employment Committee.**Summary:**

This bill would require DIR, in making prevailing wage determinations, to factor in studies regarding wages paid in rural areas.

AB 1192**(Villines) Public works: prevailing wages: affordable housing. (1-02/22/2005)****Status:** 02/23/2005-From printer. May be heard in committee March 25.**Current Location:** Assembly Desk**Summary:**

This bill would exempt from the definition of "public work" and the prevailing wage requirements the construction, expansion, or rehabilitation of affordable housing units for low- and moderate-income persons performed by a nonprofit organization.

AB 1371**(Runner, Sharon) Public works. (1-02/22/2005)****Status:** 02/25/2005-From printer. May be heard in committee March 27.**Current Location:** Assembly Desk

Summary:
Spot bill for prevailing wage.

SB 940 (Torlakson) **Public works.** (1-02/22/2005)
Status: 02/25/2005-From print. May be acted upon on or after March 27.
Current Location: Senate Desk

Summary:
Co-sponsored by Housing California and the Building Trades, this bill would require DIR to publish existing residential prevailing wage rates on the department's web site.

Surplus Property

AB 302 (Committee on Business and Professions) **State surplus personal property: centralized sale.** (1-02/09/2005)
Status: 02/22/2005-Referred to Assembly Business and Professions Committee
Current Location: Assembly Business and Professions Committee.

Summary:
This bill would require the Department of General Services to establish a program to centralize the sale of state surplus personal property using the best available technology, including, but not limited to, the Internet. This bill would also require the department to impose an additional charge on each item of state surplus personal property that is sold to recover its costs in establishing the program.

SB 625 (Battin) **State and local surplus property: written offer to sell or lease: economic development purposes.** (1-02/22/2005)
Status: 02/25/2005-From print. May be acted upon on or after March 27.
Current Location: Senate Desk

Summary:
Existing law requires any state or local agency disposing of surplus land to first make it available for use for low and moderate income housing, park and recreation purposes, or high density mixed use development near major transit stations. This bill would add economic development purposes (projects designed to attract, retain, and expand business that promote economic growth and stability) to that list.

SB 900 (Denham) **Surplus state property: disposition.** (1-02/22/2005)
Status: 02/24/2005-From print. May be acted upon on or after March 26.
Current Location: Senate Desk

Summary:
Last year as part of Budget negotiations, a new procedure was established for the Department of General Services to dispose of surplus property. As part of that agreement, those provisions were enacted on a temporary basis, and are scheduled to end July 1, 2005. This bill would make those provisions, and would clarify that land transferred for parks and recreation purposes could be transferred for less than the fair market value.

SB 901 (Denham) State property. (1-02/22/2005)
Status: 02/23/2005-From print. May be acted upon on or after March 25.
Current Location: Senate Desk

Summary:

This bill would declare the intent of the Legislature to enact legislation that requires the Department of General Services to prepare a report on the economic impact of the sale of state property.

SB 903 (Denham) Surplus state property. (1-02/22/2005)
Status: 02/24/2005-From print. May be acted upon on or after March 26.
Current Location: Senate Desk

Summary:

Spot bill related to surplus state property. (2/22/05)

Tax Credits

SB 950 (Torlakson) Housing: tax credits: tenants. (1-02/22/2005)
Status: 02/24/2005-From print. May be acted upon on or after March 26.
Current Location: Senate Desk

Summary:

This bill would expand the categories of housing projects with eligible for tax credits, by broadening the category of at-risk of conversion housing, extending the eligible time period in which expirations of specified subsidies may occur, and by allowing buildings held by certain tax-exempt entities to be eligible. It would also modify notice requirements regarding rent increases on assisted and unassisted units.