





# REPORTS

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**M E M O R A N D U M****To** Board of Directors**Date:** April 25, 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 (HMRB) 2005 SERIES B

On March 30<sup>th</sup>, we delivered HMRB 2005 Series B tax exempt variable rate bonds to Goldman Sachs & Company. The bond financing consisted of one bond series with three term bonds, \$64.8 million that was swapped to fixed, \$95.2 million that was also swapped to fixed and \$40 million that was left unswapped. The bonds will initially bear interest at a fixed rate of 2.375% per annum through and including June 30, 2005, and thereafter will remarket in a weekly mode. BNP Paribas will provide liquidity for the entire \$200 million. The bonds are uninsured.

On March 7, 2005 we entered into two interest rate swap agreements for \$160 million of the bonds. In order to reduce the overall cost and eliminate negative carry during loan origination we chose to employ forward starting swaps, effective July 1, 2005. The swaps are structured with declining notional amounts that match the expected amortization of the corresponding variable rate bonds.

The transaction proceeds will be used to fund approximately 1,050 new loans with rates expected to range from 4.25% to 4.75%.

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

<b>SERIES</b>	<b>B SWAPPED</b>	<b>B SWAPPED</b>	<b>B UNSWAPPED</b>
Par Amount	\$64,780,000	\$95,220,000	\$40,000,000
Type of Bonds	VRDO	VRDO	VRDO
Tax Treatment	AMT	AMT	AMT
Maturities	2016	2035	2035
Average Life	5.956	17.057	3.898
Interest Rates	variable	variable	variable
Reset Frequency	Fixed @ 2.375% until 7/1/05 Weekly reset thereafter	Fixed @ 2.375% until 7/1/05 Weekly reset thereafter	Fixed @ 2.375% until 7/1/05 Weekly reset thereafter
Credit Rating	Aa2/AA-	Aa2/AA-	Aa2/AA-
Liquidity Provider	BNP Paribas	BNP Paribas	BNP Paribas
Bond Insurer	N/A	N/A	N/A
Floating Rate Swap (Counterparty pays)	60% of LIBOR + 26 bps	60% of LIBOR + 26 bps	N/A
Fixed Swap Rate (Agency pays)	3.049%	3.726%	N/A
Swap Start Date	7/01/05	7/01/05	N/A
Swap Counterparty	Goldman Sachs Mitsui Marine Derivative Products, L.P.	Goldman Sachs Mitsui Marine Derivative Products, L.P.	N/A

State of California

**MEMORANDUM**

**To:** Board of Directors

**Date:** April 26, 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 April 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  
(*\$ 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
HMRB	\$4	\$3,498	\$616	\$4,118
MHRB	39	782	259	1,080
HPB	0	35	15	50
DDB	<u>1,143</u>	<u>0</u>	<u>0</u>	<u>1,143</u>
Total	\$1,186	\$4,315	\$890	\$6,391

One year ago our net exposure was \$1.2 billion and 15% of our indebtedness. Two years ago it was \$739 million and 9.5 % of our indebtedness; three years ago it was \$697 million and 8.9%.

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 2.74%. 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 2.85%.

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 *	\$79	\$445	\$524
Long average life	<u>226</u>	<u>140</u>	<u>366</u>
TOTALS	\$305	\$585	\$890

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

#### **FIXED-PAYER INTEREST RATE SWAPS**

Currently, we have a total of 110 “fixed-payer” swaps with ten different counterparties for a combined notional amount of \$4.4 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			
(notional amounts)			
<i>(\$ in millions)</i>			
	<u>Tax-Exempt</u>	<u>Taxable</u>	<u>Totals</u>
HMRB	\$2,428	\$1,094	\$3,522
MHRB	816	0	816
HPB	<u>35</u>	<u>0</u>	<u>35</u>
TOTALS	\$3,279	\$1,094	\$4,373

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 &amp; 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 <sup>†</sup>	NR	582.3	21
Goldman Sachs Mitsui Marine					
Derivative Products, L.P.	Aaa	AA+	NR	320.8	6
				343.7 *	5 *
AIG Financial Products Corp.	Aa1	AA+	NR	246.4	8
JP Morgan Chase Bank	Aa2	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>
				\$4,373.6	110

\* *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 70.53%. 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 \$1.7 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	\$1,748	\$0	\$1,748
3 mo. LIBOR + spread	0	695	695
BMA – 15bps	497	0	497
1 mo. LIBOR	0	328	328
Enhanced LIBOR <sup>1</sup>	344	0	344
Stepped % of LIBOR <sup>2</sup>	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	\$3,279	\$1,094	\$4,373

<sup>1</sup> 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.

<sup>2</sup> 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%.

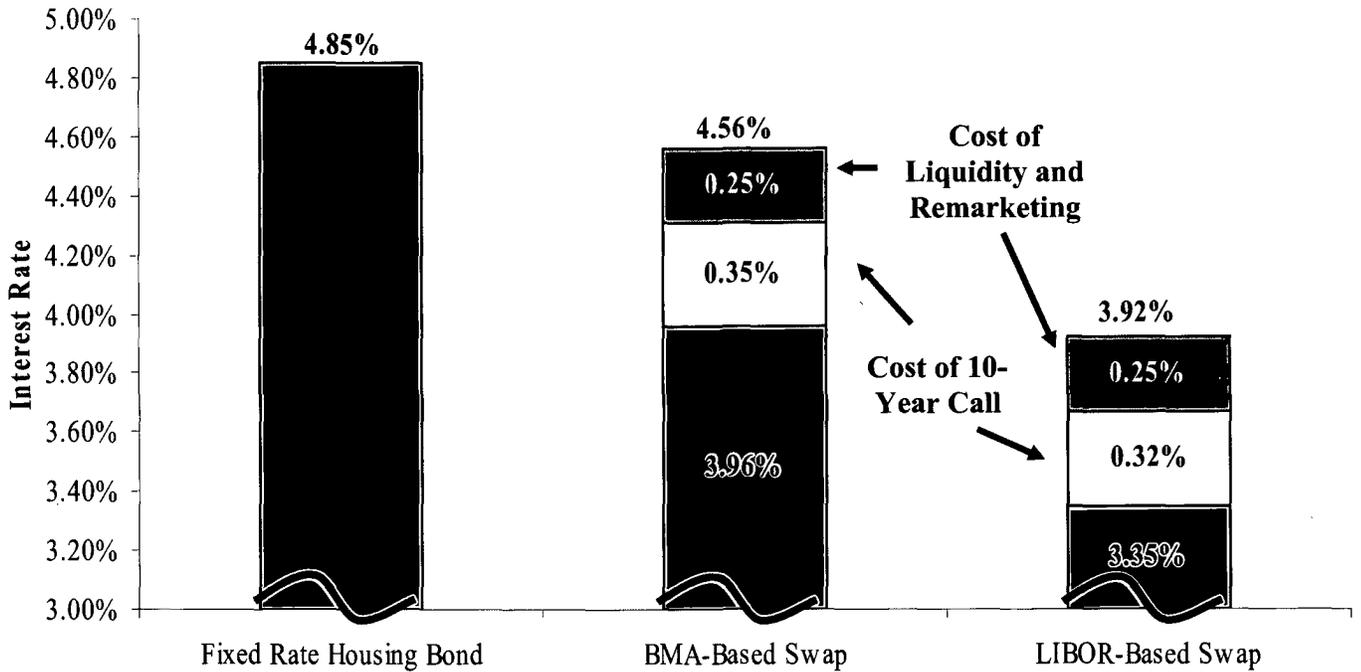
**RISK OF CHANGES TO TAX LAW**

For an estimated \$2.7 billion of the \$3.2 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 \$348 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 \$3.1 billion, 42.3% 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 April 20, 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 \$5 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 \$24.7 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 (\$ in millions)</u>
3/31/04	(\$336.7)
4/30/04	(\$215.6)
5/31/04	(\$178.3)
6/30/04	(\$187.2) <sup>1</sup>
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)
2/28/05	(\$231.0)

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.

<sup>1</sup> *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	\$2,571	\$4,118
MHRB	506	0	574	1,080
HPB	0	0	50	50
DDB	<u>0</u>	<u>1,143</u>	<u>0</u>	<u>1,143</u>
Total	\$680	\$2,516	\$3,195	\$6,391

**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 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.

Likewise, in April 2005, we requested liquidity banks to identify new capacity for our MHRB indenture. We received liquidity bids from nine banks totaling in excess of \$1.7 billion, far exceeding our expectations. The newly identified liquidity capacity will allow financing of our multifamily program with variable rate demand obligations rather than auction rate securities as we had been doing since 2003.

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
BNP Paribas	299.9	HMRB
Bank of Nova Scotia	261.1	HMRB
Bank of America	197.2	HMRB
JPMorgan Chase Bank	171.6	HMRB/MHRB
Landesbank Hessen-Thuringen	167.5	MHRB
KBC	126.9	HMRB
Westdeutsche Landesbank	98.7	HMRB
State Street Bank	98.1	HMRB
Bank of New York	98.0	HMRB
Bayerische Landesbank	93.9	HMRB
CalSTRS	74.0	HMRB/MHRB
Citigroup, N.A.	50.0	HPB
Total	\$3,195.0	

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

## MEMORANDUM

To: CalHFA Board of Directors

Date: 25 April 2005

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

Subject: Legislative Report

It is a very busy time in the Capitol. This is the last week for non-fiscal bills to pass the house of origin in the Assembly. The Senate has extended that deadline for another week, but lots of bills are up and lots of amendments are being discussed.

By the time the Board meets, we will have an update on our two CalHFA sponsored bills (see below) – both of which will be heard in Assembly Housing Committee this week.

As always, if you have any questions or comments, don't hesitate to call me.

### CalHFA Sponsor

**AB 1512** (Garcia) California Housing Finance Agency. (A-04/20/2005)  
Calendar Events: 04/27/05 9 a.m. - Room 126 ASM HOUSING AND  
COMMUNITY DEVELOPMENT

**Summary:**

This bill would authorize CalHFA's general counsel to designate someone else to act in his or her absence. It would also exempt funds for single family developments financed by CalHFA from prevailing wage, and would authorize the Agency to utilize unused funds originally allocated to the mortgage insurance program in Proposition 46 to be used to help finance the acquisition, development and construction of affordable residential housing

**AB 1754** (Committee on Housing and Community Development) Housing. (A-04/20/2005)  
Calendar Events: 04/27/05 9 a.m. - Room 126 ASM HOUSING AND  
COMMUNITY DEVELOPMENT

**Summary:**

Committee Omnibus Bill - contains provisions clarifying CalHFA's ability to issue bonds to make loans to local public entities to provide low and moderate income housing, and clarifies some of CalHFA's conflict of interest laws.

**CEQA****AB 1387****(Jones) CEQA: residential infill projects. (A-04/18/2005)****Calendar Events:** 04/25/05 1:30 p.m. - Room 447 ASM NATURAL RESOURCES**Summary:**

Would authorize local governments to approve residential projects in infill sites in urbanized areas without having to mitigate for traffic impacts.

**SB 326****(Dunn) Land use: housing elements. (A-04/12/2005)****Status:** 04/19/2005 – Passed Senate Transportation and Housing Committee as amended, and re-refer to the Committee on Environmental Quality.**Summary:**

Would extend the exemption currently provided for multifamily housing (exempt from a CUP on any parcel zoned for housing) to any very low, low, and moderate income housing that will be restricted as such for at least 30 years. The project would have to be consistent with local zoning, development standards and affordable housing percentages.

**SB 673****(Denham) CEQA: legislative intent: housing projects. (I-02/22/2005)****Status:** 03/10/2005-To Com. on RLS.**Summary:**

This bill would declare the intent of the Legislature to enact legislation that would revise the requirements of CEQA governing the environmental review of proposed residential housing projects in urban areas that have demonstrated housing shortages.

**SB 832****(Perata) CEQA: infill development. (I-02/22/2005)****Calendar Events:** 04/25/05 Upon adjournment of Budget and Fiscal Review Subcommittee No. 2 SEN ENVIRONMENTAL QUALITY**Summary:**

Would exempt residential developments of up to 300 units on 10 acres or less in urban areas from CEQA.

**Housing Element****AB 712****(Canciamilla) Land use: density. (I-02/17/2005)****Calendar Events:** 05/04/05 9:00 a.m. - Room 126 ASM HOUSING AND COMMUNITY DEVELOPMENT**Summary:**

Existing law requires each city, county, or city and county to ensure that its inventory or programs of adequate sites identified in its housing element can accommodate its share of the regional housing need throughout the planning period. This bill would instead require each city, county, or city and county to ensure that its housing element inventory or its housing element program to make those sites available can accommodate its share of the regional housing need throughout the planning period.

**Insurance****AB 925****(Ridley-Thomas) Insurance: community investments. (A-04/07/2005)****Calendar Events:** 04/27/05 9 a.m. - Room 437 ASM INSURANCE**Summary:**

This bill would make findings and declarations regarding the need to promote investment by insurers in low-income and moderate-income communities. It would define "community development investments" to mean specified investments that have as their primary purpose community development benefiting California low-income or moderate-income individuals or communities and would require each California insurer, as of December 31 of each year, to have community development investments in certain amounts, except as specified. The bill would also provide for the oversight and regulation of these investments by the Insurance Commissioner and would require the commissioner to provide certain information on these investments to the public.

**AB 1583****(Montanez) Mortgage guaranty insurance. (I-02/22/2005)****Calendar Events:** 05/04/05 Anticipated Hearing ASM H. & C.D.**Summary:**

Sponsored by California Association of Mortgage Brokers, would create a program whereby CalHFA guarantees mortgage loans for homes destroyed by natural disasters so the owners of those homes could access enough equity to rebuild their homes to pre-disaster conditions.

### Land Use

**AB 890** (Cogdill) Housing. (I-02/18/2005)  
**Status:** 02/20/2005-From printer. May be heard in committee March 22.

**Summary:**

Administration sponsored bill – potential vehicle for 20-Year Housing supply language.

**SB 365** (Ducheny) Affordable housing. (I-02/17/2005)  
**Status:** Passed the Senate, pending hearing in the Assembly.

**Summary:**

Would specify that charter cities are subject to two laws: (1) that multifamily housing projects are a permitted use not subject to a conditional use permit on any parcel zoned for multifamily housing if it satisfies specified standards, and (2) the requirement that a local government transmit its housing element to the water providers, who must grant a priority for the provision of water to proposed housing developments that help meet the area's regional housing need for lower income households as identified in the housing element.

**SB 968** (Torlakson) Land use planning: general plans. (I-02/22/2005)  
**Calendar Events:** 05/02/05 1:30 p.m. - John L. Burton Hearing Room (4203) SEN APPROPRIATIONS

**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 1205** (Blakeslee) Development project fees: protests. (I-02/22/2005)  
**Calendar Events:** 05/04/05 1:30 p.m. - Room 127 ASM LOCAL GOVERNMENT

**Summary:**

The Mitigation Fee Act authorizes a local agency to charge a variety of fees, dedications, reservations, or other exactions in connection with the approval of a development project, as defined. Existing law provides that in specified actions imposing a fee as a condition of approval of a development project by a local agency, the local agency shall determine how there is a reasonable relationship between the amount of the fee and the cost of the public facility or portion of the public facility attributable to the development on which the fee is imposed. This bill would provide that any party may file a protest regardless of whether the action includes a facial challenge to the ordinance, resolution, or motion authorizing the fee,

dedication, reservation, or other exaction imposed on the development project. This bill contains other existing laws.

**AB 1433** (Emmerson) **Public finance contracts.** (A-04/05/2005)  
**Calendar Events:** 05/02/05 4 p.m. - Room 444 ASM BANKING AND FINANCE

**Summary:**

This bill would specify that failure to comply with any law, ordinance, rule, regulation, guideline, or other requirement of the state or of any local government, pertaining to specified aspects of a project financed in whole or in part with bonds, shall not impair the validity or enforceability of the bonds.

**SB 321** (Morrow) **Development: fees.** (A-04/14/2005)  
**Status:** 04/18/2005-Set in S. L. GOV, second hearing canceled at the request of author.

**Summary:**

Would amend the Mitigation Fee Act by assigning local agencies the burden of producing evidence to establish that a mitigation fee does not exceed the cost of the public facility, service, or regulatory activity before they establish, increase, or impose the fee. This burden does not apply when school districts impose school developer fees.

**SR 8** (Torlakson) **Relative to transportation and housing.** (I-01/11/2005)  
**Status:** 03/17/2005-S T. & H; Hearing postponed by committee. (Refers to 3/8/2005 hearing)

**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 222** (Bogh) **Public works: labor compliance: prevailing wages.** (I-02/03/2005)  
**Status:** 04/06/2005-ASM. L. & E. Vote 2-6 (failed passage)

**Summary:**

Would require bodies awarding public works contracts, instead of contracting with a third party to enforce labor compliance programs, to instead post a notice advising workers that do not receive prevailing wage to contact the Division of Labor Standards Enforcement.

- AB 364** (Cogdill) **Public works: prevailing wages.** (1-02/11/2005)  
**Status:** 04/20/2005-ASM. L. & E. Vote 2-6 (failed passage) -  
Reconsideration granted.
- Summary:**  
Would redefine public works for purposes of requiring the payment of prevailing wage to the pre-SB 975 definition. (2/11/05)
- AB 474** (Cogdill) **Prevailing wages.** (1-02/16/2005)  
**Status:** 04/20/2005- ASM. L. & E. Vote 2-6 (failed passage) -  
Reconsideration granted.
- 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:** 04/20/2005- ASM. L. & E. Vote 2-5 (failed passage) -  
Reconsideration granted
- 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.
- Summary:**  
Spot bill for prevailing wage.
- SB 940** (Torlakson) **Public works.** (1-02/22/2005)  
**Calendar Events:** 05/02/05 1:30 p.m. - John L. Burton Hearing Room (4203) SEN APPROPRIATIONS
- 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.

### Redevelopment

**SB 527** (Alquist) Redevelopment: senior housing. (I-02/18/2005)  
**Calendar Events:** 05/03/05 1:30 p.m. - John L. Burton Hearing Room  
(4203) SEN TRANSPORTATION AND HOUSING

**Summary:**

The Community Redevelopment Law requires not less than 20% of all property tax increment funds that are allocated to a redevelopment agency to be used by the agency for purposes of increasing, improving, and preserving the community's supply of low- and moderate-income housing. These funds are required to be deposited in a separate Low and Moderate Income Housing Fund. This law requires each redevelopment agency to expend over the duration of its redevelopment implementation plan, the moneys in the Low and Moderate Income Housing Fund to assist housing that is available to all persons regardless of age in at least the same proportion as the population under age 65 years bears to the total population of the community as reported in the most recent census of the United States Census Bureau. This bill would specify that the housing assistance be available in at least the same proportion as the population under the age of 65 bears to the total low-income population of the community.

### Surplus Property

**AB 302** (Committee on Business and Professions) State surplus personal property: centralized sale. (I-02/09/2005)  
**Calendar Events:** 04/26/05 9 a.m. - Room 447 ASM BUSINESS AND PROFESSIONS

**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. (A-04/20/2005)  
**Calendar Events:** 04/26/05 9:30 a.m. - Room 3191 SEN GOVERNMENTAL ORGANIZATION

**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, and would require agencies to provide DGS with a list of land suitable for economic development purposes.

**SB 900**      **(Denham) Surplus state property: disposition.** (I-02/22/2005)  
**Calendar Events:** 04/26/05 9:30 a.m. - Room 3191 SEN  
 GOVERNMENTAL ORGANIZATION

**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 permanent, and would clarify that land transferred for parks and recreation purposes could be transferred for less than the fair market value.

**SB 903**      **(Denham) Surplus state property.** (I-02/22/2005)  
**Status:** 03/10/2005-To Com. on RLS.

**Summary:**

Spot bill related to surplus state property.

### Tax Credits

**SB 565**      **(Migden) Low-income housing tax credit allocation program.** (I-02/18/2005)  
**Status:** 04/18/2005-Set S T. & H., second hearing canceled at the request of author.

**Summary:**

Would increase the amount of tax credits CTCAC could set aside to stimulate the production and rehabilitation of shelter for lower income individuals and families from 2% to 5%.

**SB 950**      **(Torlakson) Housing .** (A-03/30/2005)  
**Status:** 04/19/2005-Do pass as amended, and re-refer to the Committee on Appropriations.

**Summary:**

This bill would expand the categories of housing projects 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.