Financing Reports

- Recent Bond Sales and Swaps
  - $220M Single Family Bonds
  - $94.4 M Multifamily Bonds
- Variable Rate Bonds and Swaps

Recent Bond Issues

Date of Sale	Bond Series	$ Amount
5/11/05	Home Mortgage Revenue Bonds 2005 Series CD	$220,000,000
6/8/05	Multifamily Housing Revenue Bonds 2005 Series CD	$94,405,000

New Single Family Bonds

- $220 M HMRB 2005 CD
- Proceeds for purchase of 970 new loans
- All tax-exempt
- $44 M issued as fixed-rate serials
- $176 M issued as variable rate demand obligations
  - All VRDOs swapped to fixed rate

New Multifamily Bonds

- $94.4 M MFHRB III, 2005 AB
- All tax-exempt
- Variable rate demand obligations
- $36 M swapped to fixed rate
- Funding for 11 new projects

Report on Variable Rate Bonds and Swaps

Variable Rate Debt as of June 1, 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	$ 3,674	$ 616	$ 4,294
MHRB	45	815	312	1,174
HPB	0	35	15	50
DDB	953	0	0	953
TOTALS	$1,102	$ 4,526	$ 943	$ 6,471

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	$ 2,746	$ 4,293
MHRB	506	0	669	1,175
HPB	0	0	50	50
DDB	0	1,143	0	953
TOTALS	$ 680	$ 2,516	$ 3,465	$ 6,471

Net Variable Rate Debt

($ in Millions)

	Tax-Exempt	Taxable	Totals
Short average life*	$132	$444	$576
Long average life	226	141	367
TOTALS	$358	$585	$943

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

Fixed Payer Interest Rate Swaps

($ in Millions)

	Tax-Exempt	Taxable	Totals
HMRB	$2,604	$1,094	$3,698
MHRB	852	0	852
HPB	35	0	35
TOTALS	$3,491	$1,094	$4,585

CalHFA

Resource Allocation Strategy

Phase II

ORGANIZATION

1. Purpose
2. Approach
3. Rating Agency Analysis Today
4. Impact of New Production
5. Risk Exposure
6. Issues
7. Key Implications and Potential Next Steps

1. PURPOSE OF STRATEGY

- Comprehensively evaluate Agency's current financial risks and resources
- Provide updated annual rating agency cash flow analyses
- Evaluate impacts of next 5 years planned production on:
  - CalHFA financial resources
  - Ability to meet future rating agency requirements
  - Sustainability of programs
- Provide systematic framework for evaluating and making choices:
  - Today and on an ongoing basis

2. APPROACH

Focus on:

- Both rating agency stress cases and more likely "management" scenarios
- Comprehensive quantitative model of Agency overall (other than Insurance Fund)
- Wide range of financial risks (interest rates, tax law, swap basis mismatch, prepayments, real estate)
- How programs and finances affect each other

In order to:

- Provide clear overview for both staff and Board
- Anticipate potential future issues
- Maximize future financial flexibility
- Integrate overall strategy and individual transactions

3. RATING AGENCY ANALYSIS TODAY

- Can meet all rating agency stress scenarios, based on current assets and bonds outstanding
- Both Home Mortgage Revenue Bonds and Multi-Family Housing Revenue Bonds III show stable or growing fund balances under expected cases

	Home Mortgage Revenue Bonds	Multi-Family Housing Revenue Bonds III
Asset Coverage 7/1/05	1.08	1.03
Example Case	Low rate/tax risk/100% PSA	Low rate, no pre-payments
Present Value Residual (at 5%)	$242m	$171m

- Extreme stress scenarios are very tight, however:

	HMRB		Multi-Family
Stress Case	Rising rates, low prepayments (35% PSA)	Declining rates, Very high prepayments (1,000% PSA)	40% of loans prepay in 3 years
PV Residual (at 5%)	$33m	$0.3m	$37m
Reason:	Rate increases on unhedged floaters Prepayments slower than swap schedules	Prepayments much faster than swap schedule; have to recycle at negative spread	Stop earning as much positive spread (including on old Section 8 loans)
To Pass Stress Tests	Theoretically call $220m of unhedged floaters on Aug 1, 2005 Only withdraw $40m one-time for Agency operations		Prepayment stress scenario can only work after 3 years Assume no withdrawals for Agency operations

Implications of Rating Agency Analyses

- Indentures can meet all the risks on current bond issues, interest rate swaps, etc., but little excess available in stress scenarios
- This analysis is before considering:
  - Any real estate risk
  - Any swap counterparty risk
- Consequences:
  - Modest future financial flexibility within each indenture
  - This should be taken into account in designing new issues

Cannot rely on indenture fund balances to meet CalHFA general fund needs

4. IMPACTS OF NEW PRODUCTION

- 5 Year Business Plan
  - Production and program assumptions for next 5 years
- "Modified" Business Plan
  - $25 million of down-payment assistance continuing in 2008 – 2010
- Impact in 2010 on:
  - Fund Balances
  - General Fund (Housing Assistance Trust, Emergency Reserve, Supplemental Bond Security Account, Operating Account)
  - Liquidity in General Fund
  - Assets
  - Liabilities

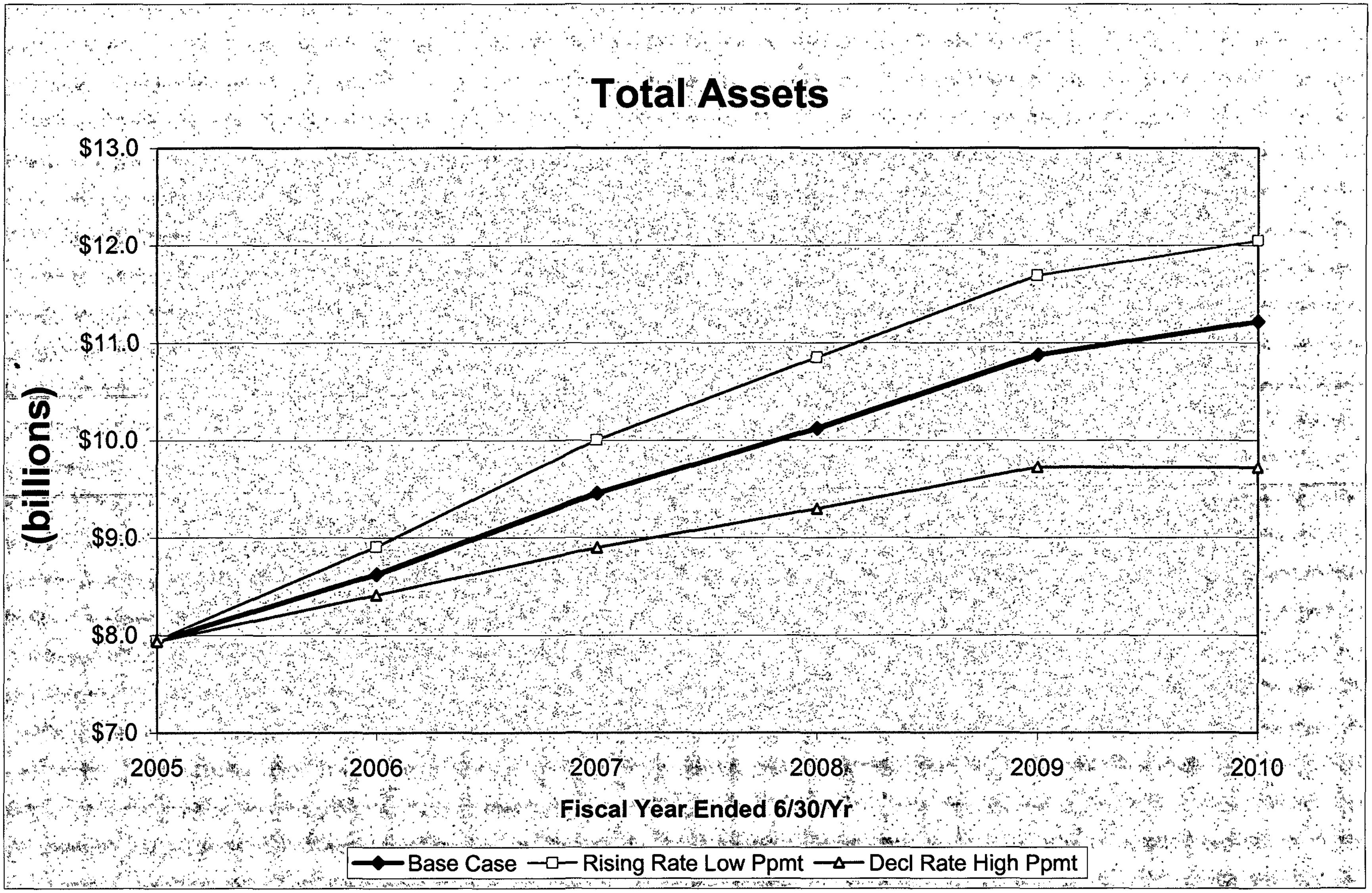
Management Runs

- Range of reasonably expected scenarios on which to make decisions
- Three scenarios with a range of future interest rates and prepayment speeds
- Largest effect is on single-family:

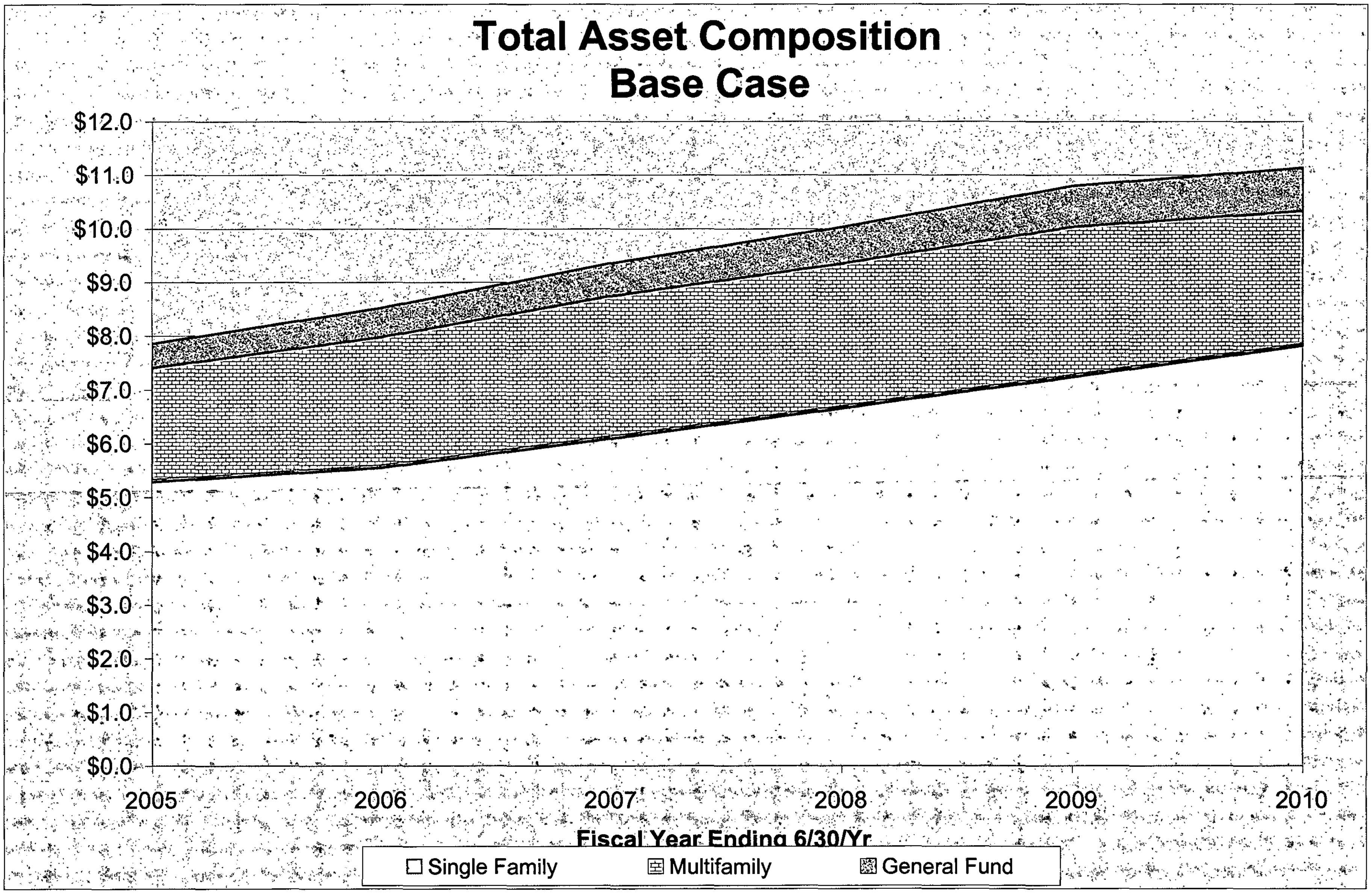
		Declining Rates	Base Case	Rising Rates
Single-Family Mortgage Rate	Regular	4.15%	4.65%	7.2%
	Interest-Only	4.75%	5.25%	7.8%
Prepayment Speed (based on outstanding loan rates)		200% - 1,080%	100% - 540%	50% - 270%

- Within each scenario, evaluated consequences if Agency achieves full spread (above) or a reduced spread:

	Single-Family	Multi-Family
– Full spread (IRS maximum)	1.125%	1.50%
– Limited spread (recent years)	.90%	1.0%



Total Assets
$13.0
$12.0
$11.0
$10.0
$9.0
$8.0
$7.0
(billions)
2005
2006
2007
2008
2009
2010
Fiscal Year Ended 6/30/Yr
Base Case
Rising Rate Low Ppmt
Decl Rate High Ppmt


Total Asset Composition
Base Case
$12.0
$11.0
$10.0
$9.0
$8.0
$7.0
$6.0
$5.0
$4.0
$3.0
$2.0
$1.0
$0.0
2005
2006
2007
2008
2009
2010
Fiscal Year Ending 6/30/Yr
Single Family
Multifamily
General Fund

Impact of New Production on Fund Balances

- Expected outcomes 2005 – 2010 (reduced spread) before any real estate losses
- Positive growth in all scenarios, but slower than in past

	1999	2005	2010 Projected*		
			Declining Rates	Base Case	Rising Rates
Total Fund Balances	$664m	$1,145m	$1,370m	$1,490m	$1,451m
% Change	*n/a*	*72%*	*20%*	*30%*	*27%*
Total Assets	$6,892m	$7,940m	$9,719m	$11,214m	$12,048m
% of Assets	*9.6%*	*14.4%*	*14.1%*	*13.3%*	*12.0%*
Total Liabilities	$6,228m	$6,795m	$8,349m	$9,724m	$10,597m
% of Liabilities	*10.7%*	*16.9%*	*16.4%*	*15.3%*	*13.7%*

*At reduced spread

Impact of New Production on General Fund

- Expected outcomes 2005 – 2010 (reduced spread) before any real estate losses
- Positive growth in all scenarios

	1999	2005	2010 Projected*		
			Declining Rates	Base Case	Rising Rates
General Fund	$240m	$458m	$795m	$810m	$842m
% change	*n/a*	*91%*	*74%*	*77%*	*84%*
% of Total Fund Balances	36%	40.0%	58.0%	54.0%	58.0%
% of Total Assets	3.5%	5.8%	8.2%	7.2%	7.0%
% of Total Liabilities	3.9%	6.7%	9.5%	8.3%	7.9%

*At reduced spread

Impact of New Production on Operating Fund

- Expected outcomes 2005 – 2010 (reduced spread) before any real estate losses
- Positive growth in all scenarios
- Remains between 1 – 2% of total liabilities

	1999	2005	2010 Projected		
			Declining Rates	Base Case	Rising Rates
Operating Account of General Fund	$41m	$81m	$151m	$135m	$126m
% change	*n/a*	*98%*	*86%*	*67%*	*56%*
% of General Fund	17.0%	17.7%	19.0%	16.7%	15.0%
% of Total Fund Balances	6.2%	7.1%	11.0%	9.1%	8.7%
% of Total Assets	0.6%	1.0%	1.6%	1.2%	1.0%
% of Total Liabilities	**0.7%**	**1.2%**	**1.8%**	**1.4%**	**1.2%**

Ability to Meet Future Rating Agency Cash Flow Tests

- Would meet rating agency cash flow tests in 2010, based on:
  - 5 years of new bond issues and production
  - 2005 – 2010 interest rates and prepayments under the most difficult of Management Runs (Declining rates/high pre-payments/reduced spread)
  - being able to start with stronger fund balances in 2010 than today, assuming no real estate losses

5. RISK EXPOSURE

- Rating Agencies have a special approach to CalHFA
- Standard & Poor's has a more clearly defined methodology:
  - Test the indentures without real estate risk
  - Look at Agency's overall fund balances
  - Assign real estate loss exposure for different types of loans (under Depression-era loss assumptions)
  - Subtract real estate exposure from total fund balances to determine "available" capital
  - Compare "available" capital to outstanding liabilities
    - Measure of financial flexibility and ability to deal with unexpected problems

Credit Adjustments and Real Estate Risk

Program	S&P's 07/01/99 Exposure (000s)	S&P's 07/01/04 Exposure (000s)		07/01/05 Balance	07/01/05 Estimated Loss Exposure (000s)	07/01/05 Loss Ratio
Single-Family Program Loss Coverage:						
HMRB			1	3,553,292,531		
FHA				78%	55,431	2.00%
CalHIF				22%	50,812	6.50%
5/35				0%	-	7.50%
Other			1	179,787,997	5,394	3.0%
Total	113,781	102,313	1	3,733,080,529	111,637	3.0%
Supplementary Reserve for Earthquake Self-Insurance	-	7,900			8,620	1%
HMRB GO Pledge	-	49,694			25,000	
Second Mortgage DPA Loans	-	30,000	2	75,000,000	37,500	50%
Residential Development Construction				-	-	100%
Multifamily and Other Programs:						
All Multifamily Loans (Excluding New Construction)	74,787	113,085	2	1,627,425,140	170,880	10.5%
HAT Mortgage Balances	17,334	54,396	2	149,281,640	74,641	50%
Section 8	7,200	-			-	
Asset Management (Operating) Reserve	-	3,000			3,000	
Multifamily Construction Loans	-	222,341	3	245,555,000	245,555	100%
CaHLIF:						
Board Resolution 87-29	7,500	-			-	
Net Worth Maintenance Reserve	57,000	-			-	
CalHFA Line of Credit to CaHLIF	-	100,000			100,000	100%
Agnews			2	-	-	10%
Tax Increment			2	-	-	10%
Other						
Maximum Annual Debt Service on all GO Debt	3,142	26,899	2		64,586	
Total Projected S&P Credit Adjustments	280,744	709,628			841,418	

Impact of New Production on Credit Adjustments and Real Estate Risk

Program	7/1/05 Balance	7/1/05 Estimated Loss Exposure (000s)	7/1/05 Loss Ratio		Base Case 7/1/10 Balance	Base Case 7/1/10 Estimated Loss Exposure (000s)	Base Case 7/1/10 Loss Ratio	Est. Change In Loss Exposure 2005-2010
Single-Family Program Loss Coverage:								
HMRB	3,553,292,531			2	6,846,742,650			
FHA	78%	55,431	2.00%		45%	61,621	2.00%	6,189
CalHiF	22%	50,812	6.50%		40%	178,015	6.50%	127,203
5/35	0%	-	7.50%		15%	77,026	7.50%	77,026
Other	179,787,997	5,394	3.0%	1	125,851,598	3,776	3.0%	(1,618)
Total	3,733,080,529	111,637	3.0%		6,972,594,248	320,437	4.6%	208,800
Supplementary Reserve for Earthquake Self-Insurance		8,620	1%			13,945	1%	5,325
HMRB GO Pledge		25,000				46,695		21,695
Second Mortgage DPA Loans	75,000,000	37,500	50%	2	75,000,000	37,500	50%	-
Residential Development Construction	-	-	100%		120,000,000	120,000	100%	-
Multifamily and Other Programs:								
All Multifamily Loans (Excluding New Construction)	1,627,425,140	170,880	10.5%	2	1,650,433,014	198,052	12.0%	27,172
HAT Mortgage Balances	149,281,640	74,641	50%	2	274,207,058	137,104	50%	62,463
Section 8		-				-		
Asset Management (Operating) Reserve		3,000				3,000		-
Multifamily Construction Loans	245,555,000	245,555	100%	3	180,000,000	180,000	100%	(65,555)
CalHLIF:								
Board Resolution 87-29		-				-		
Net Worth Maintenance Reserve		-				-		
CalHFA Line of Credit to CalHLIF		100,000	100%			100,000	100%	-
Agnews	-	-	10%	2	86,877,617	8,688	10%	8,688
Tax Increment	-	-	10%	2	48,157,367	4,816	10%	4,816
Other								
Maximum Annual Debt Service on all GO Debt		64,586		2		151,573		86,987
Total Projected S&P Credit Adjustments		**841,418**				**1,321,809**		**480,391**

Projected Credit Adjustment/Risk Exposure Using S&P Methodology

(in $000's)

Credit Adjustment	1999	2004	Est. 2005	2010	Base Case Change 2005-2010	% Change
Single Family	$113.8	189.9	182.7	418	235.8	129%
Residential Construction	0	0	0	120	120.0	infinite
MF Permanent	74.8	113.1	170.9	198	27	16%
MF Construction	0	222.3	245.6	180	(65.6)	(27%)
HAT	17.3	54.4	74.6	137	62.4	77%
Other (Sec 8, Tax Increment, Agnew)	7.2	3.0	3.0	16	13	443%
CalHLIF	64.5	100.0	100.0	100	0	0
GO Debt Service	3.1	26.7	64.6	152	87.0	134%
Total	**$280.7**	**709.4**	**841.4**	**1,322**	**480**	**57%**

Key Factors Increasing Risk Exposure

- Increasing single-family loan portfolio
- Fewer FHA-insured single-family loans
- Residential Development Construction loans
- More uninsured multi-family loans
- Multi-family construction loans
- Increasing use of Agency GO pledge

Projected "Available" Capital Using S&P Methodology

At Reduced Spread
(in $000's)

	1999	2004	Est. 2005	2010 Projected: Declining Rate High Prepayment	2010 Projected: Base Case	2010 Projected: Rising Rate Low Prepayment
Total Fund Balances	$679	$1,119	$1,145	$1,370	$1,490	$1,451
Credit Adjustment	($281)	($709)	($841)	($1,239)	($1,322)	($1,382)
"Available" Capital	$398	$410	$304	$131	$168	$69
Change in "Available" Capital	**NA**	**3%**	**(26%)**	**(56%)**	**(45%)**	**(77%)**
"Available Capital as % of Total Fund Balances	**59%**	**37%**	**27%**	**9.6%**	**11%**	**4.8%**
Total Adjusted Debt Outstanding	$5,389	$8,438	$6,795	$8,349	$9,724	$10,597
"Available" Capital as % of Debt	**7.4%**	**4.9%**	**4.5%**	**1.6%**	**1.7%**	**0.7%**

At Full Spread
(in $000's)

	1999	2004	Est. 2005	2010 Projected: Declining Rate High Prepayment	2010 Projected: Base Case	2010 Projected: Rising Rate Low Prepayment
Total Fund Balances	679	1,119*	1,145	1,409	1,551	1,500
Credit Adjustment	(281)	(709)	(841)	(1,239)	(1,322)	(1,382)
"Available" Capital	398	410	304	170	229	118
Change in Available" Capital	**n/a**	**3%**	**(26%)**	**(44%)**	**(25%)**	**(61%)**
"Available" Capital as % of Total Fund Balances	**59%**	**37%**	**27%**	**12.1%**	**15%**	**7.9%**
Total Adjusted Debt Outstanding	5,389	8,438	6,795	8,348	9,727	10,780
"Available" Capital as % of Debt	**7.4%**	**4.9%**	**4.5%**	**2.0%**	**2.4%**	**1.1%**

6. ISSUES

The Agency Today

- **Success**

  CalHFA has been very successful in:

  - Achieving very high production despite interest rate compression
  - Providing HAT and second mortgage loans
  - Adapting to changing lending markets
  - Providing innovative, popular programs

- **Indentures**

  To do this:

  - CalHFA has uUsed interest rate swaps and many other products to provide attractive loans
  - The indentures:
    - Meet all rating agency tests
    - Because of stress scenarios, have limited capacity to provide money to General Fund for liquidity, real estate risk or new programs

- **Fund Balances**

  Fund balances are large and growing:

  - Currently $1.1b
  - From rating agency perspective, fund balances need to cover significant real estate risks

- **Liquidity**

  Liquidity is needed for:

  - Funding Agency operations
  - Funding loan programs
  - Backstop for financial situations

  Agency's primary source of liquid funds are:

  - The Operating Account in General Fund, currently $81M
  - Emergency Reserve in General Fund, currently $52M
  - Total $133M

The Agency Over Next 5 Years

- **New and Expanding Programs**
  - Business Plan includes significant continuing production and new programs
  - Overall balance sheet is likely to grow:
    - In the Base Case, assets and liabilities both increase about 40%
- **Balance Sheet Impacts**
  - Direct financial effects:
    - Fund balances grow, though not as fast as assets and liabilities (25% v. 40% in base case)
    - General Fund grows substantially (75% in base case)
    - Operating Account also grows substantially (about 67% in base case)
    - Indentures become stronger and can pass rating agency tests in 2010
  - This assumes there are no real estate losses

- **Credit Adjustments and Risk Exposure**
  - The Agency is taking on substantially more real estate risk exposure
    - Due to both:
      - Changes in the market (e.g., fewer FHA single-family loans because of their loan limits)
      - New and expanding Agency programs
  - Rating agencies assume very deep, extraordinary losses
  - "Available" capital may drop from 4.5% of liabilities to 1.6% of liabilities (0.7% in rising rate case)
  - "Available" capital as measured by the rating agencies will be the major constraint on what the Agency can do

- **Liquidity**
  - In the future to continue passing extreme rating agency stress scenarios, indentures can only provide limited funds for Agency operations and liquidity
    - May limit ability to continue providing downpayment assistance 2008 to 2010 (e.g., Modified Business Plan)
  - Increases reliance on General Fund for liquidity, including Operating Account and Emergency Reserve
  - Operating Account and Emergency Reserve are:
    - Currently about $133m
    - About 2% of liabilities
    - Harder to maintain 2% level as balance sheet grows
    - Are smaller compared to real estate risk exposure

	As % of Rating Agency Risk Exposure
1999	33%
2005	16%
2010 Base Case	14%

and interest rate risk exposure

7. IMPLICATIONS AND NEXT STEPS

- **PHASE III**

  Identify and analyze options

- **Approaches to Risk Exposure**

  Several approaches are useful, based on our work with other State HFA's, to:

  - Meet programmatic goals, while
  - Maintaining financial flexibility and ratings

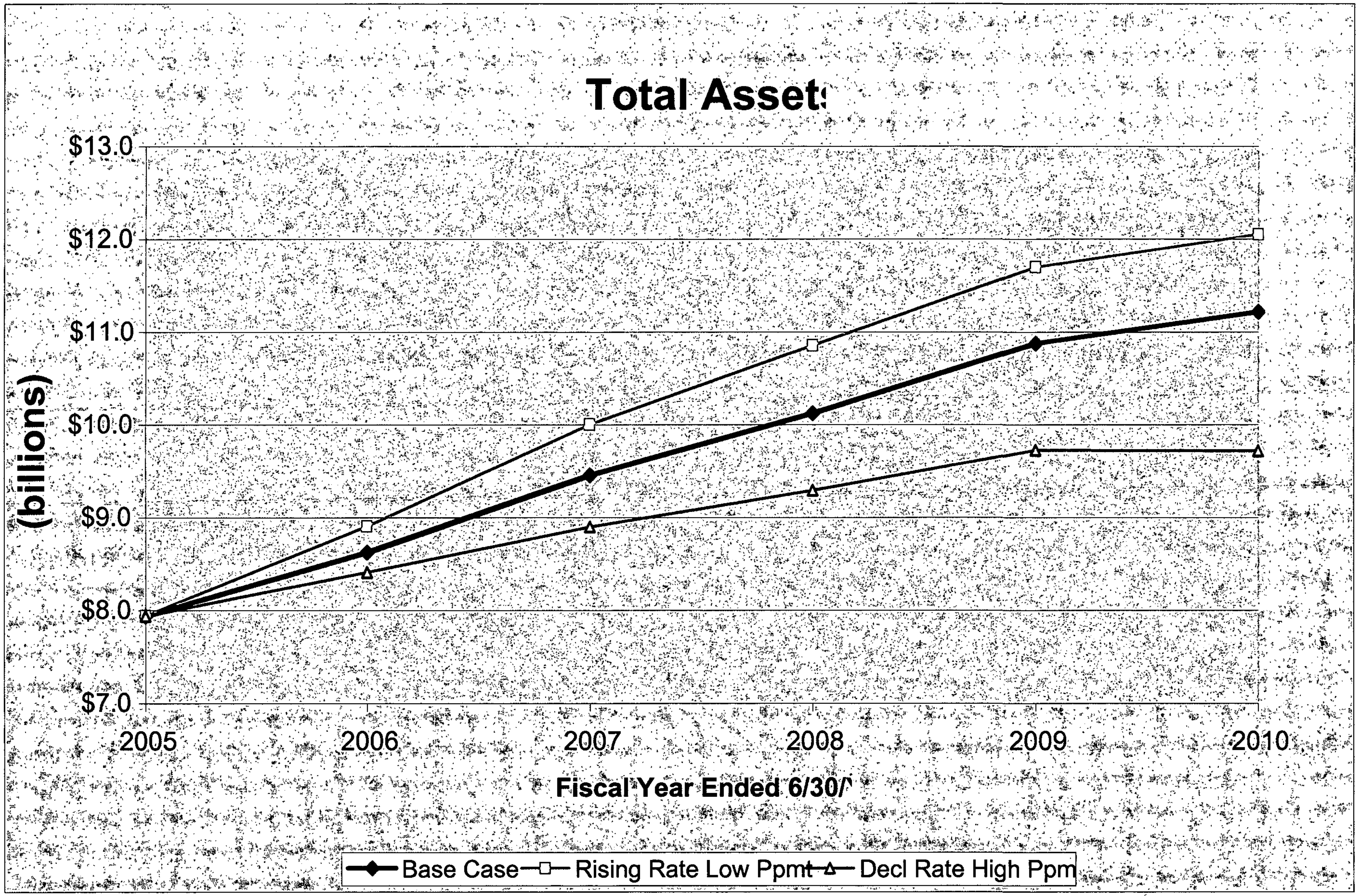
1. Negotiate loss assumption percentages with rating agencies to more reasonable levels. *We have been very successful in this with Virginia, in helping reduce some percentages in half, based on actual experience.*

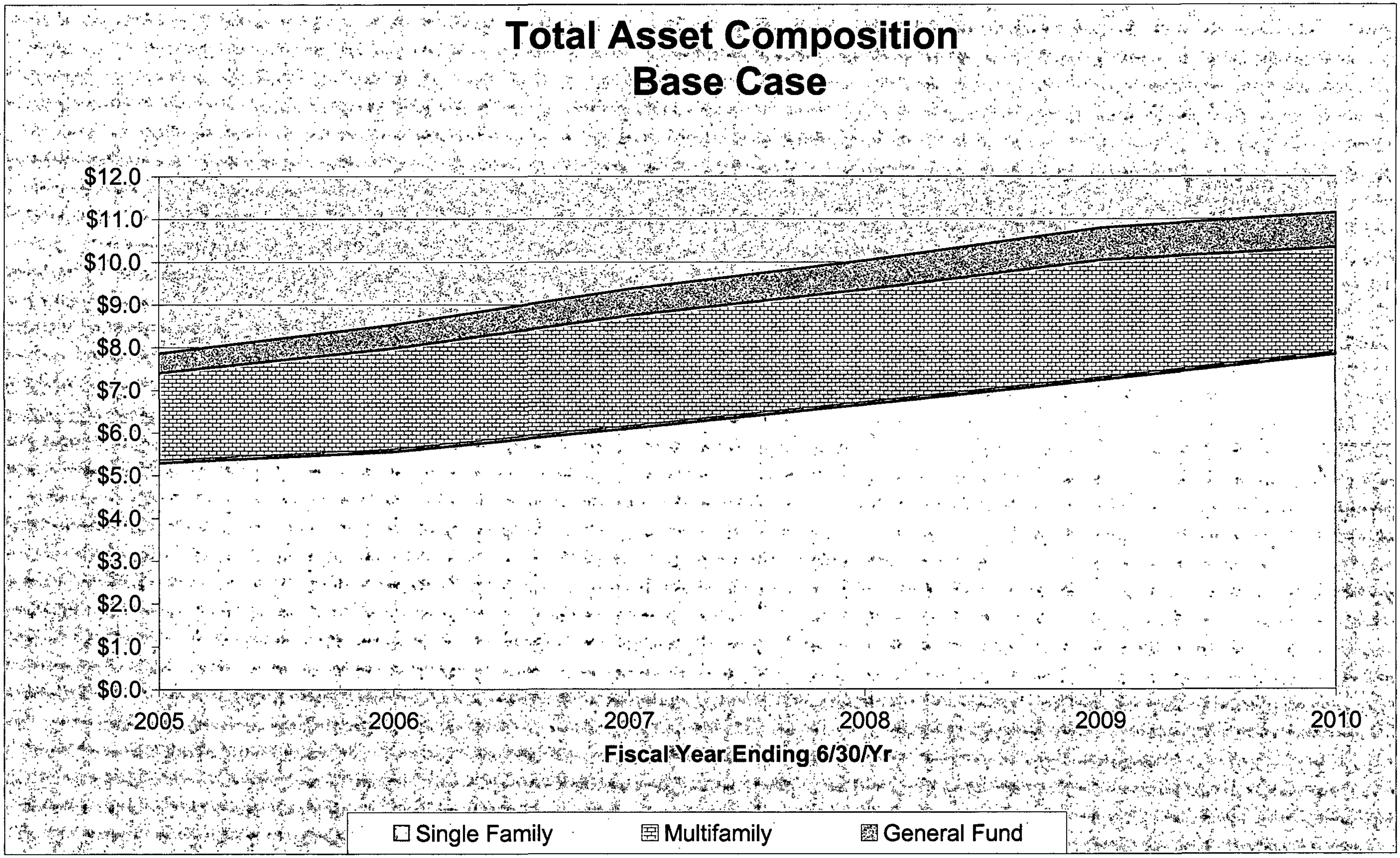
   Key possibilities:

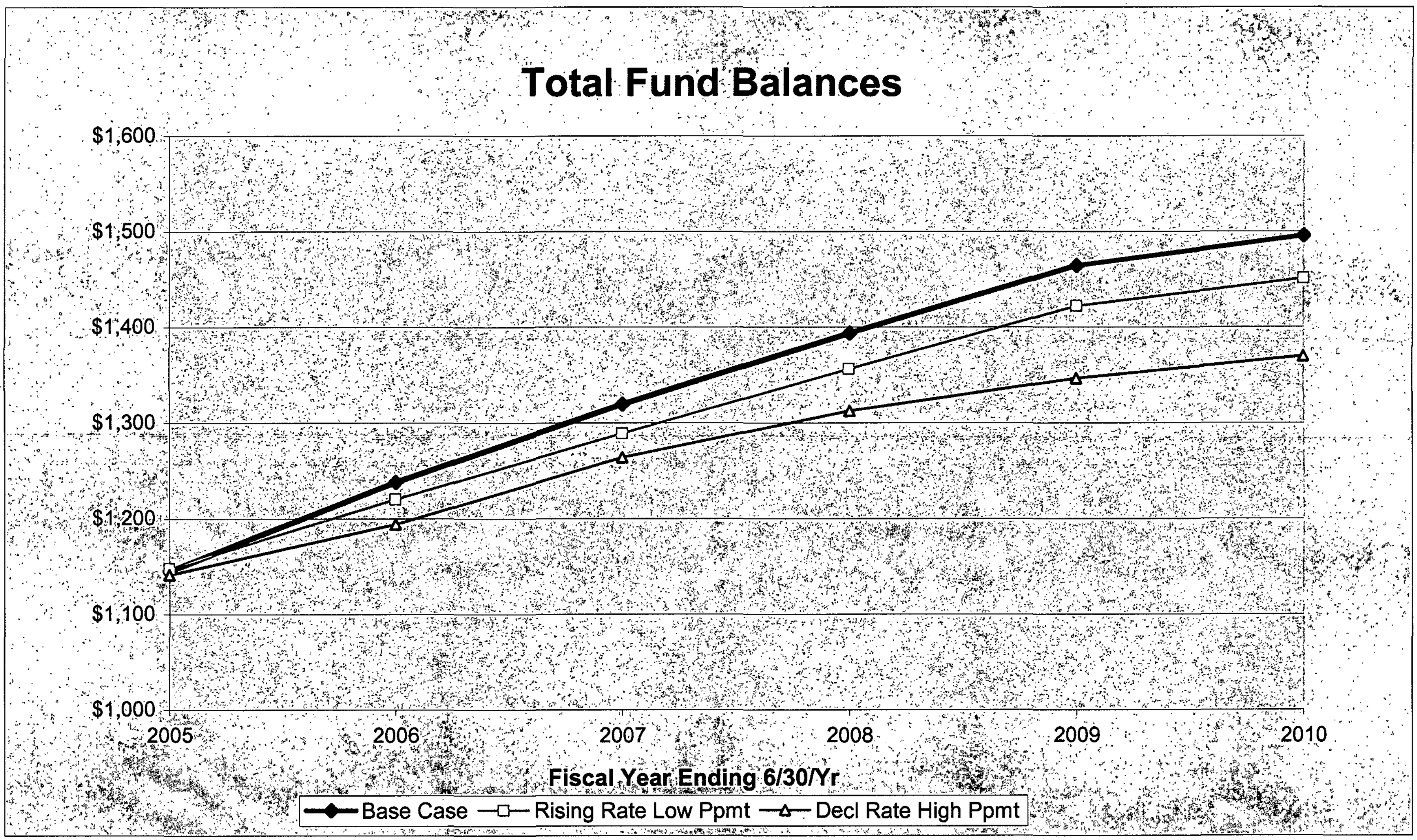
   - Single Family loans insured by the Agency
   - Multi-family construction loans
   - Second mortgages

2. Share risks on certain programs (as the MI Fund now off-loads 75% of its insurance exposure) such as:
   - Greater FHA multi-family risk sharing
   - MF construction loans
   - Second mortgages
3. Evaluate impacts of different product mix and production levels of programs
4. Relate growth in Fund Balances and risk exposure, program-by-program and overall

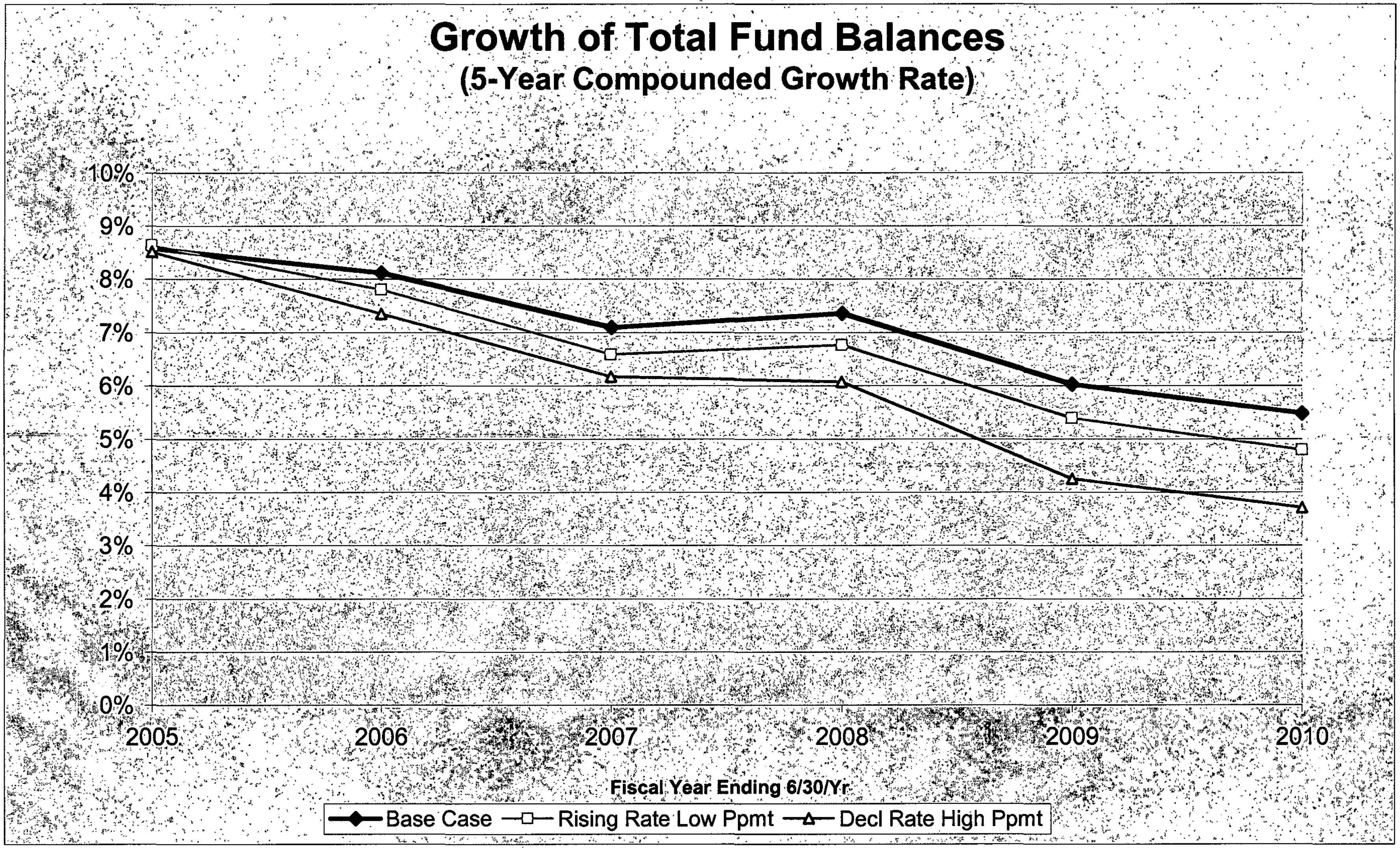
- **Approaches to Liquidity**
  - More detailed analysis
  - Options for increasing liquidity


Total Asset:
$13.0
$12.0
$11.0
$10.0
$9.0
$8.0
$7.0
(billions)
2005
2006
2007
2008
2009
2010
Fiscal Year Ended 6/30/
Base Case
Rising Rate Low Ppmt
Decl Rate High Ppm

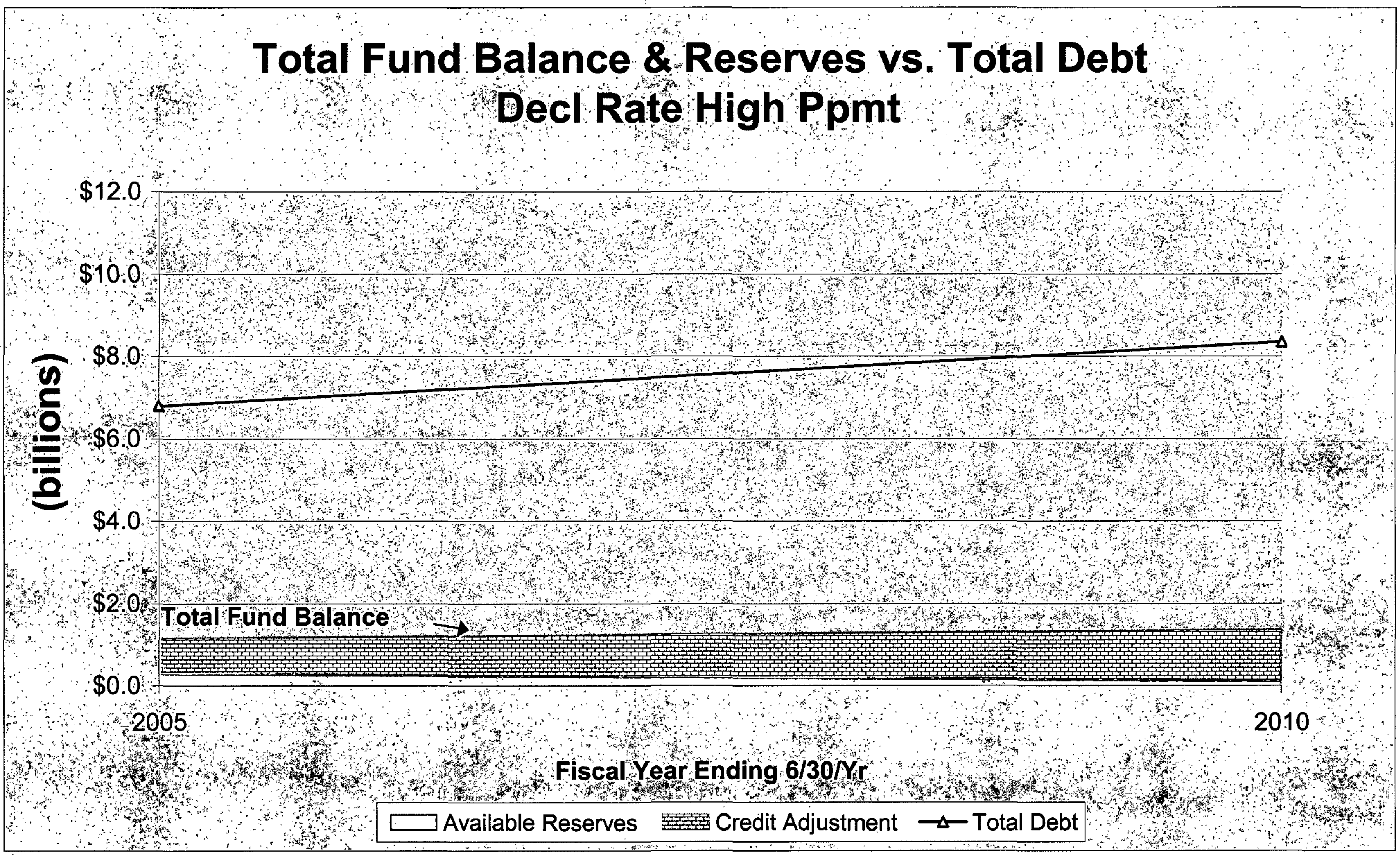

Total Asset Composition
Base Case
$12.0
$11.0
$10.0
$9.0
$8.0
$7.0
$6.0
$5.0
$4.0
$3.0
$2.0
$1.0
$0.0
2005
2006
2007
2008
2009
2010
Fiscal Year Ending 6/30/Yr
Single Family
Multifamily
General Fund



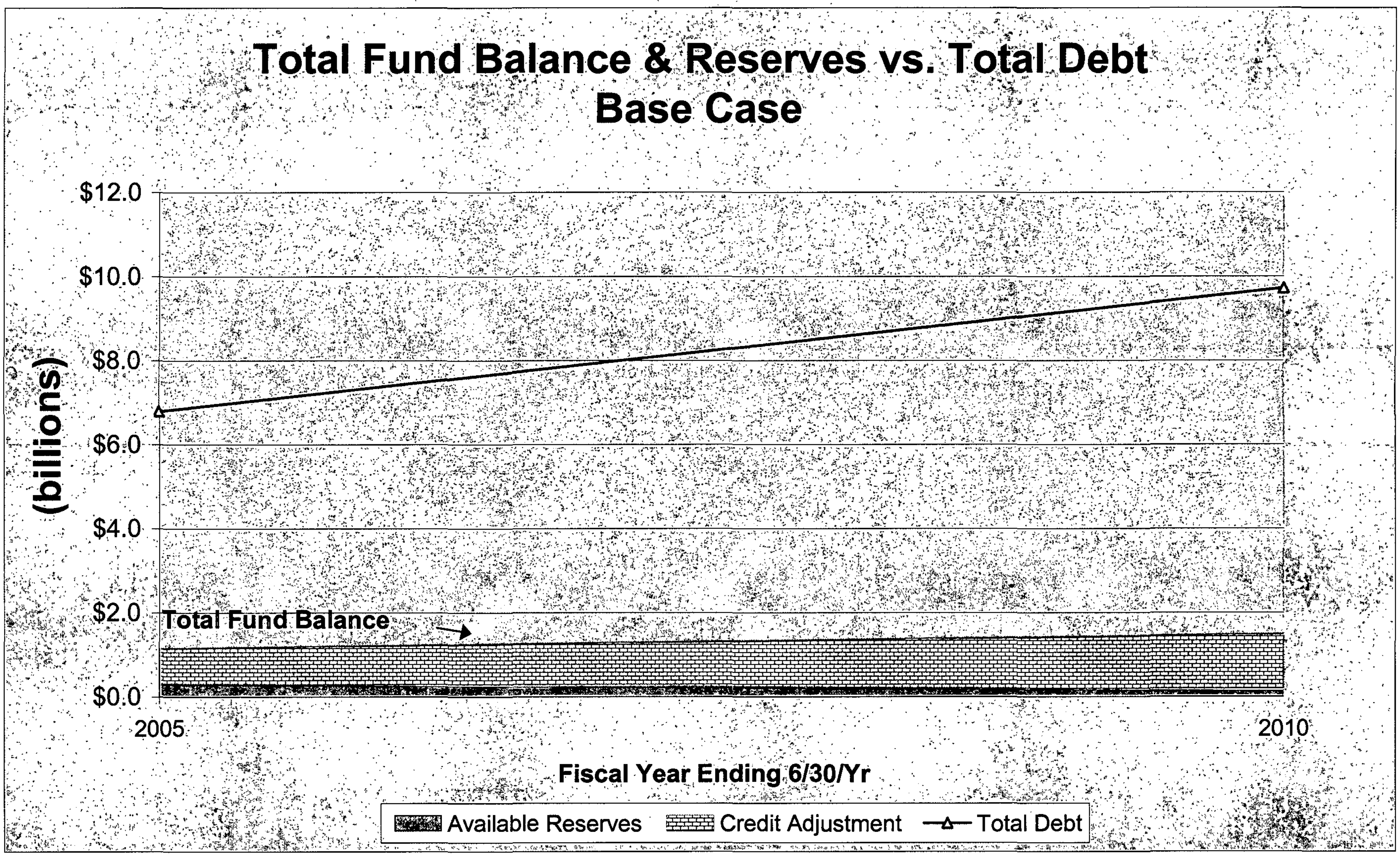
Total Fund Balances
$1,600
$1,500
$1,400
$1,300
$1,200
$1,100
$1,000
2005
2006
2007
2008
2009
2010
Fiscal Year Ending 6/30/Yr
Base Case
Rising Rate Low Ppmt
Decl Rate High Ppmt

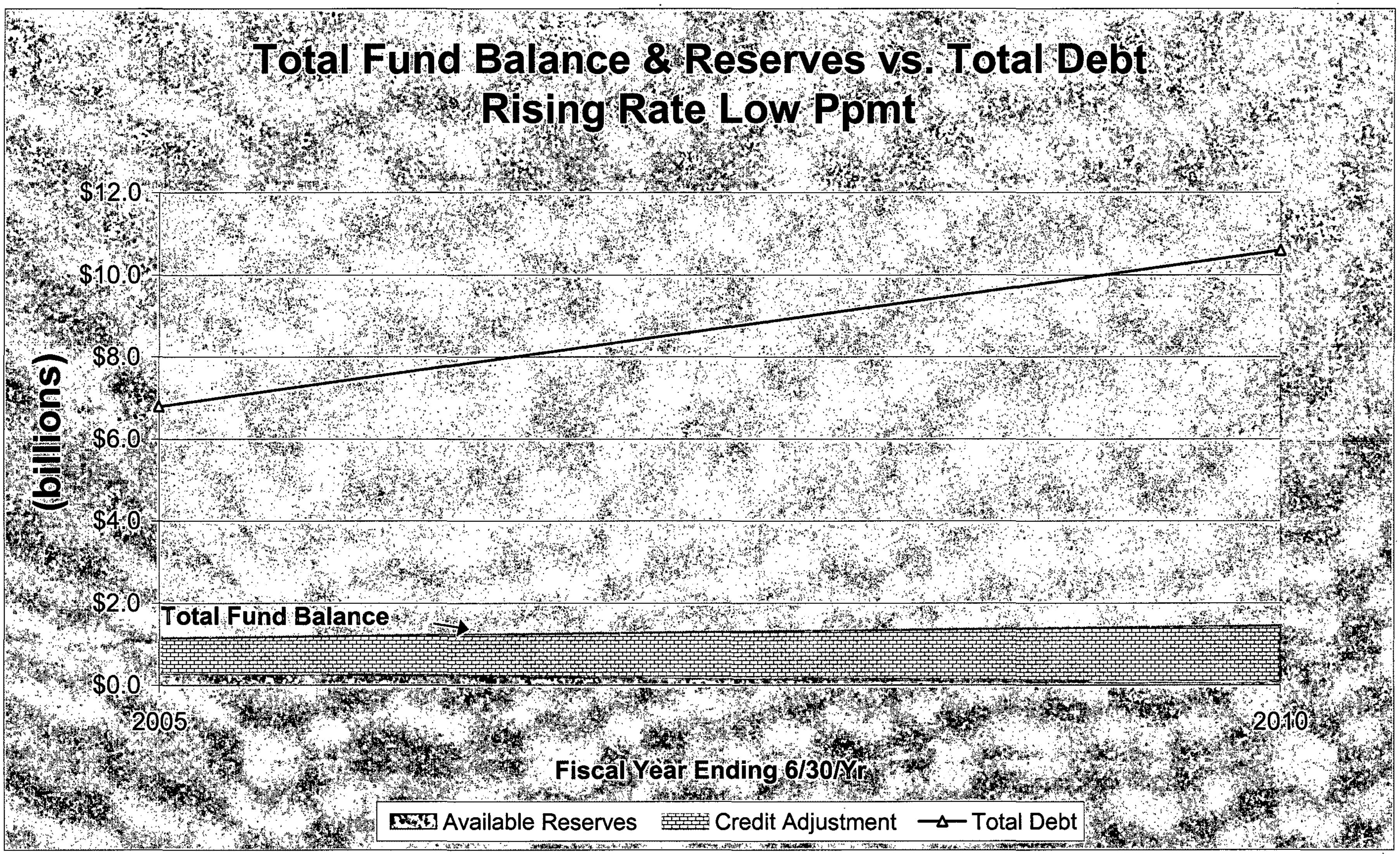


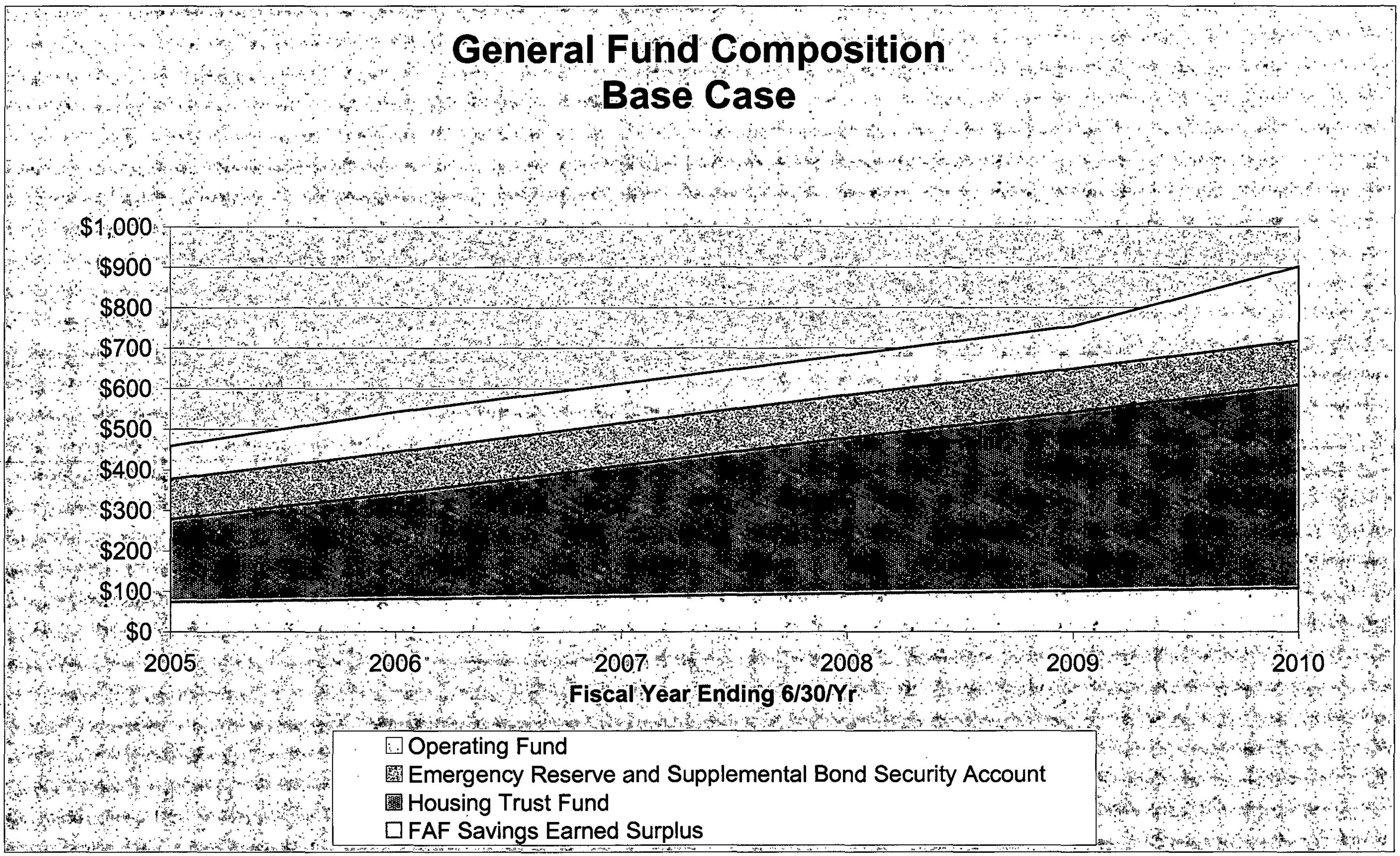
Growth of Total Fund Balances
(5-Year Compounded Growth Rate)
10%
9%
8%
7%
6%
5%
4%
3%
2%
1%
0%
2005
2006
2007
2008
2009
2010
Fiscal Year Ending 6/30/Yr
Base Case
Rising Rate Low Ppmt
Decl Rate High Ppmt



Total Fund Balance & Reserves vs. Total Debt
Decl Rate High Ppmt
$12.0
$10.0
$8.0
$6.0
$4.0
$2.0
$0.0
(billions)
Total Fund Balance
2005
2010
Fiscal Year Ending 6/30/Yr
Available Reserves
Credit Adjustment
Total Debt


Total Fund Balance & Reserves vs. Total Debt
Base Case
$12.0
$10.0
$8.0
$6.0
$4.0
$2.0
$0.0
(billions)
Total Fund Balance
2005
2010
Fiscal Year Ending 6/30/Yr
Available Reserves
Credit Adjustment
Total Debt


Total Fund Balance & Reserves vs. Total Debt
Rising Rate Low Ppmt
$12.0
$10.0
$8.0
$6.0
$4.0
$2.0
$0.0
(billions)
Total Fund Balance
2005
2010
Fiscal Year Ending 6/30/Yr
Available Reserves
Credit Adjustment
Total Debt


General Fund Composition
Base Case
$1,000
$900
$800
$700
$600
$500
$400
$300
$200
$100
$0
2005
2006
2007
2008
2009
2010
Fiscal Year Ending 6/30/Yr
Operating Fund
Emergency Reserve and Supplemental Bond Security Account
Housing Trust Fund
FAF Savings Earned Surplus