Cal HFA
California Housing Finance Agency

REPORTS

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State of California

MEMORANDUM

To Board of Directors **Date:** June 15, 2005

Bruce D. Gilbertson, Director of Financing

From: **CALIFORNIA HOUSING FINANCE AGENCY**

Subject: REPORT OF BOND SALE AND INTEREST RATE SWAP AGREEMENTS HOME MORTGAGE REVENUE BONDS 2005 SERIES CD

On May 19th, we delivered the Agency's 2005 Series C and D bonds to Merrill Lynch. The bonds totaled $220 million and were issued both tax-exempt fixed rate and tax-exempt variable rate form. The variable rate bonds were swapped to a fixed-rate. The transaction proceeds will be used to fund approximately 970 new loans with rates expected to range from 4.50% to 5.25%.

The bonds have been structured in two series as shown on the table on page 2. The Series C bonds are non-AMT serial bonds which were priced on May 10th and are insured by FGIC. The Series D Bonds are tax-exempt variable rate demand obligations with liquidity provided by West LB and Bayerische Landesbank.

On April 28,2005 we arranged for two interest rate swaps to provide a fixed rate cost of funds for the Series D Bonds that were effective May 19, 2005. The swaps are structured with declining notional amounts that match the expected amortization of the corresponding variable rate bonds. This transaction will be the first to fund loans under the new interest only PLUS program.

SERIES	C	D
$ Amount	$44,000,000	$176,000,000
Type of Bonds	Fixed Rate	VRDO
Tax Treatment	Non-AMT	AMT
Maturities	2006 – 2013	2038 / 2040
Average Life	N/A	9.4 yrs / 20.4 yrs.
Interest Rates	2.6% - 3.7%	variable
Reset Frequency	N/A	Weekly
Floating Rate Swap Formula	N/A	60% of LIBOR + 26 bps
Swap Amounts	N/A	$69,870,000 / $106,130,000
Swap Rates	N/A	3.158% / 3.604%
Swap Start Date	N/A	5/19/2005
Credit Rating	Aaa/AAA	Aa2/AA-
Swap Counterparty	N/A	Merrill Lynch Derivative Products / Bank of America
Bond Insurer	FGIC	N/A

State of California

MEMORANDUM

To: Board of Directors | Date: June 22, 2005

Bruce D. Gilbertson, Director of Financing

From: **CALIFORNIA HOUSING FINANCE AGENCY**

Subject: REPORT OF BOND SALE AND INTEREST RATE SWAP AGREEMENTS MULTIFAMILY HOUSING REVENUE BONDS III, 2005 SERIES AB

On April 28, 2005 we executed two swaps for a total notional amount of $29,470,000 and on June 1st we executed two additional swaps for a total notional amount of $6,540,000. In total, we set swap rates for $36,010,000 of the $94,405,000 of multifamily variable rate bonds issued on June 15th. The Series A and B bonds were being issued as variable rate securities that are remarketed weekly with interest paid semiannually. The Series A and B bonds are backed by our Aa3/AA- general obligation but are rated Aaa/AAA because of bond insurance provided by Ambac Assurance Corporation.

The Series A and B bonds have been issued to provide funds to finance new loans to ten multifamily projects and to refund a multifamily project initially funded by local agency bonds. Attached is a listing of the projects to be financed by the Series A and B bonds.

As shown in the table below, we have negotiated four interest rate swaps, together in an amount related to the new permanent loans. Consistent with our strategy for previous multifamily transactions, amounts related to bridge loans, construction loans and lender loans are not being swapped due to the short term of these loans. As with previous transactions, we have chosen to delay the starting dates for three swaps. Delayed starts enable us to minimize negative investment arbitrage during the period between the issuance of the bonds and the date new loans are funded.

Amount of Swap	Start Dates	End Dates	Fixed Rates Paid to Counterparties	Floating Rate Index
$2,480,000	7/1/2005	8/1/2035	3.564%	BMA – 0.20%
$2,825,000	6/15/2005	8/1/2035	3.954%	BMA – 0.15%
$26,645,000	2/1/2007	2/1/2037	4.079%	BMA – 0.15%
$4,060,000	8/1/2007	2/1/2038	3.957%	BMA – 0.15%

Projects To Be Financed with The Proceeds of Multifamily Housing Revenue Bonds III 2005 Series AB

	Project Name	Loan Amount	Interest Rate		Actual/Projected Loan Origination Date
New Loans					
	Eleanor Roosevelt Circle	$7,045,000	5.90%		22-Jul-05
	Emerson Arms	2,480,000	5.25%		15-Jun-05
	Flower Park Plaza	14,725,000	5.80%		29-Jun-05
	Golden West Towers	14,100,000	5.70%		8-Mar-05
	Grizzly Hollow	9,900,000	5.70%		15-Jun-05
	Larkfield Oaks	9,460,000	5.90%		15-Aug-05
	Martin Luther King Village	9,335,000	1.00%	(1)	1-Aug-05
	Salinas Road	11,835,000	5.90%		1-Jul-05
	Seacliff Highlands	7,510,000	5.70%		15-Jul-05
	The Surf	2,815,000	5.60%	(2)	4-Mar-05
	Vista Sunrise Apartments	5,200,000	1.00%	(3)	1-Jul-05
	Total	$ 94,405,000			

(1) The Agency expects to subsidize the interest rate on the bridge loan to 4.50%. The source of funds for this subsidy is expected to be the Agency's share of McKinney Act savings from certain FAF projects.
(2) This is a local agency refunding.
(3) The Agency expects to subsidize the interest rate on the permanent loan to 5.90%. The source of funds for this subsidy is expected to be the Agency's share of McKinney Act savings from certain FAF projects.

State of California

MEMORANDUM

To: Board of Directors **Date:** June 21, 2005

Bruce D. Gilbertson, Director of Financing

From: **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 $6.5 billion, 86% of our $7.5 billion of total indebtedness as of June 1, 2005. As shown in the table below, our "net" variable rate exposure is $943 million, 12.5% 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 Assets	Swapped to Fixed Rate	Not Swapped or Tied to Variable Rate Assets	Total Variable Rate Debt
HMRB	$4	$3,674	$616	$4,294
MHRB	45	817	312	1,174
HPB	0	35	15	50
DDB	953	0	0	953
Total	$1,002	$4,526	$943	$6,471

One year ago our net exposure was $1.3 billion and 16% of our indebtedness. Two years ago it was $721 million and 9.4 % of our indebtedness; three years ago it was $713 million and 8.8%.

As discussed in each previous report, our $943 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 2.96%. 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 3.08%.

The table below summarizes this risk position.

NET VARIABLE RATE DEBT
($ in millions)

	Tax-Exempt	Taxable	Totals
Short average life *	$73	$444	$517
Long average life	285	141	426
TOTALS	$358	$585	$943

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

FIXED-PAYER INTEREST RATE SWAPS

Currently, we have a total of 116 "fixed-payer" swaps with ten different counterparties for a combined notional amount of $4.6 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)
($ 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

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 our most recent swaps with Merrill Lynch are either with their highly-rated structural subsidiary or we are benefiting from the credit of this triple-A structured subsidiary through a guarantee.

SWAP COUNTERPARTIES

Swap Counterparty	Credit Ratings Moody's	S & P	Fitch	Notional Amounts Swapped ($ in millions)	Number of Swaps
Merrill Lynch Capital Services Inc.					
Guaranteed by:					
Merrill Lynch & Co.	Aa3	A+	AA-	$ 808.6	18
MLDP, AG	Aaa	AAA	AAA	330.8	12
Merrill Lynch Derivative Products Inc.	Aaa	AAA	AAA	105.9	5
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[t]	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
Bank of America, N.A.	Aa1	AA	AA	233.9	5
JP Morgan Chase Bank	Aa2	AA-	AA-	144.8	6
BNP Paribas	Aa2	AA	AA	99.9	2
UBS AG (Union Bank of Switzerland AG)	Aa2	AA+	AA+	81.2	2
				$4,585.6	116

* *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 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 77.6%. 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 $1.9 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)

	Tax-Exempt	Taxable	Totals
60% of LIBOR + 26bps	$1,924	$0	$1,924
3 mo. LIBOR + spread	0	695	695
BMA – 15bps	497	0	497
Enhanced LIBOR [1]	344	0	344
1 mo. LIBOR	0	328	328
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
BMA – 15bps	36	0	36
60% of LIBOR + 21bps	24	0	24
TOTALS	$3,491	$1,094	$4,585

[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%.

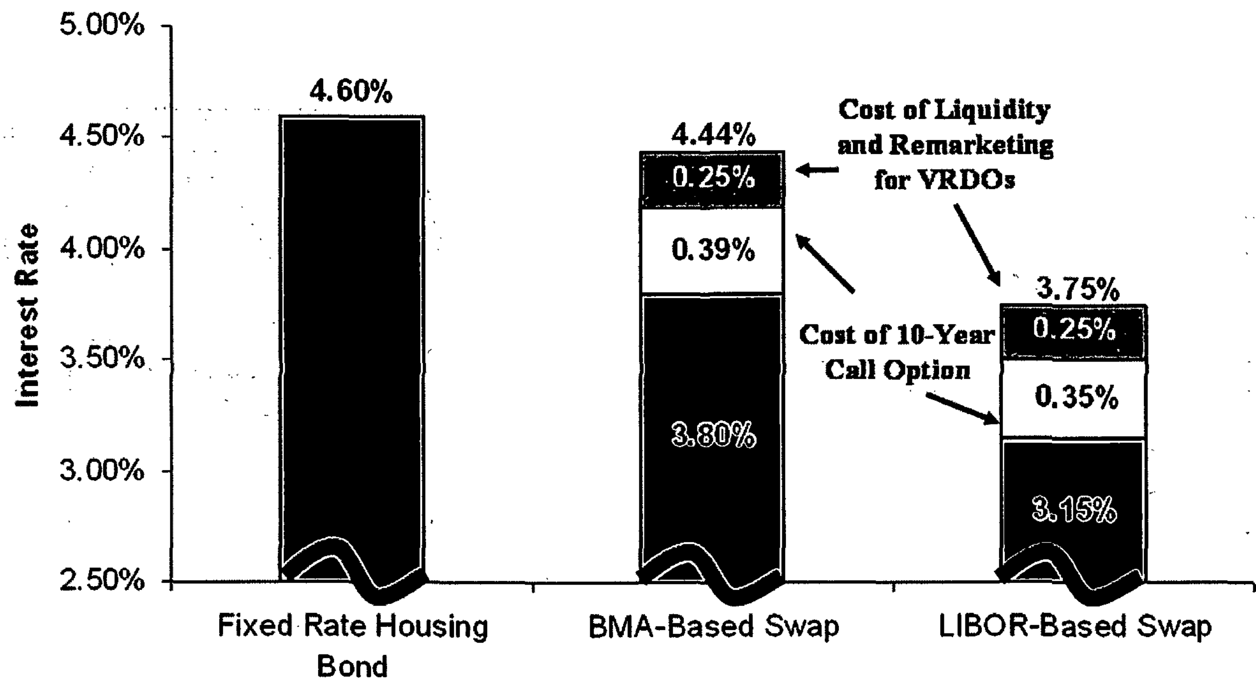
RISK OF CHANGES TO TAX LAW

For an estimated $2.9 billion of the $3.4 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 $406 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 $3.3 billion, 44.8% of our $7.5 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 June 17, 2005)



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

<u>AMORTIZATION RISK</u>

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 and $515 million to date in calendar year 2005. Of this amount, approximately $1.5 billion is "excess" to swapped transactions we entered into between 2000 and 2004. We have since recycled $848 million of the $1.5 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 $943 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 June 1, 2005 transfer of loans from our warehouse line we have recycled a total of $848 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

Date	Termination Value ($ in millions)
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)
2/28/05	($231.0)
3/31/05	($199.1)
4/30/05	($252.8)
5/31/05	($296.7)

It should be noted that during this period, the notional amount of our fixed-payer swaps has been increasing. 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 "put-able" bonds such as VRDOs.

TYPES OF VARIABLE RATE DEBT
($ in millions)

	Auction Rate & Similar Securities	Indexed Rate Bonds	Variable Rate Demand Obligations	Total Variable Rate Debt
HMRB	$174	$1,373	$2,746	$4,293
MHRB	506	0	669	1,175
HPB	0	0	50	50
DDB	0	953	0	953
Total	$680	$2,326	$3,465	$6,471

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)

Financial Institution	$ Amount of Bonds	Indenture
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
Westdeutsche Landesbank	186.7	HMRB
Bayerische Landesbank	182.0	HMRB
JPMorgan Chase Bank	171.6	HMRB/MHRB
Landesbank Hessen-Thuringen	167.5	MHRB
KBC	126.9	HMRB
State Street Bank	98.1	HMRB
Bank of New York	98.0	HMRB
DEPFA Bank	94.4	MHRB
CalSTRS	74.0	HMRB/MHRB
Citigroup, N.A.	50.0	HPB
Total	$3,465.5	

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:** 22 June 2005

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

Subject: Legislative Report

Attached is a list of bills I think you will be interested in. If you have any questions, as always, please give me a call.

CalHFA Sponsor

AB 1512 **(Garcia) California Housing Finance Agency.** (A-05/31/2005)
Status: Scheduled for Senate Transportation and Housing Committee July 1, 2005.

Summary:
This bill would authorize CalHFA's general counsel to designate someone else to act in his or her absence. It would also authorize CalHFA 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-06/13/2005)
Status: Passed Senate Transportation and Housing Committee June 21 (12-0); to Senate Appropriations.

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 conflict of interest statues affecting CalHFA Board members.

CEQA

AB 1387 **(Jones) CEQA: residential infill projects.** (A-04/18/2005)
Status: 2 Year Bill – will not move this year

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-06/21/2005)
Status: Scheduled for Assembly Local Government Committee 6/29/05

Summary:
Would extend the exemption currently provided for multifamily housing (exempt from a CUP on any parcel zoned for housing) to any attached (two-to-four unit) housing development

SB 673 **(Denham) CEQA: legislative intent: housing projects.** (I-02/22/2005)
Status: 2 Year bill – will not move this year

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.** (A-05/04/2005)
Status: Assembly Natural Resources Committee.

Summary:
Would exempt residential developments of between 200 - 300 units on 10 acres or less in urban areas from CEQA, if the site is located in a city with a population of more than 200,000 persons and the city council determines the acreage and units by council resolution. Senator Perata recently sent a memo to a number of stakeholders inviting them to join him, along with Senators Torlakson and Lowenthal and Assembly members Laird and Jones to develop language to be inserted in this bill to: 1) improve local and regional land use planning to provide greater certainty for construction of higher density affordable housing, transit-oriented development, and urban infill development as well as for protection of natural resources, habitat, flood prone areas, and agricultural lands; 2) create new financial and regulatory incentives for housing construction in urbanized areas and disincentives for the continued development outside urbanized areas along with the traffic, air pollution, and other problems; 3) improve state policies for protection of natural resources habitat, flood-prone areas, and agricultural lands; 4) provide local governments with sufficient fiscal resources to plan for, and manage growth. As such, we expect the content to change dramatically.

Housing Element

AB 712 **(Canciamilla) Land use: density.** (A-06/08/2005)
Status: Senate Transportation and Housing Committee

Summary:
This bill would redefine the base residential densities from which local governments may not downzone without upzoning other properties or making specific findings. The bill would also delete the sunset on the requirement that a court award attorney fees and costs to a successful plaintiff, except under extraordinary circumstances.

Insurance

AB 925 **(Ridley-Thomas) Insurance: community investments.** (A-04/07/2005)
Status: 2 Year bill – will not move this year

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 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)
Status: 2 Year bill – will not move this year

Summary:
Sponsored by California Association of Mortgage Brokers, intended to 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: 2 Year bill – will not move this year

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

SB 365 **(Ducheny) Affordable housing.** (I-02/17/2005)
Status: Scheduled before Assembly Local Government 6/22/05

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 435 **(Hollingsworth) Housing: density bonuses.** (A-06/21/2005)
Status: Scheduled for Assembly Local Government 6/29/05

Summary:
Would clarify provisions of the state density bonus law to This bill makes a number of technical, clarifying, and substantive amendments to density bonus law.

SB 968 **(Torlakson) Land use planning: general plans.** (A-05/05/2005)
Status: Assembly Local Government Committee.

Summary:
This bill would rename the "circulation" element of the general plan the "transportation" element.

Misc

AB 1205 **(Blakeslee) Development project fees: protests.** (I-02/22/2005)
Status: 2 Year bill – will not move this year

Summary:
Would expand the circumstances under which a mitigation fee may be challenged.

AB 1433 **(Emmerson) Public finance contracts.** (A-05/23/2005)
Status: Assembly Governmental Organization 6/28/05

Summary:
This bill would provide that the approval, sale or issuance of bonds by a state or local government or the approval of a bond-financed project for federal tax purposes or for other unrelated purposes does not constitute an approval for the purposes of CEQA. It would further specify that a project funded in whole, or in part by bonds must comply with any low or regulation otherwise pertaining to the approval, authorization, design, or construction of the project.

SB 321 **(Morrow) Development: fees.** (A-04/14/2005)
Status: 2 Year bill – will not move this year.

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: 2 Year bill – will not move this year

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: 2 Year bill – will not move this year

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.** (I-02/11/2005)
Status: 2 Year bill – will not move this year

Summary:
Would redefine public works for purposes of requiring the payment of prevailing wage to the pre-SB 975 definition.

AB 474 **(Cogdill) Prevailing wages.** (I-02/16/2005)
Status: 2 Year bill – will not move this year

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.** (I-02/22/2005)
Status: 2 Year bill – will not move this year

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.** (I-02/22/2005)
Status: 2 Year bill – will not move this year

Summary:
Spot bill for prevailing wage.

SB 940 **(Torlakson) Public works.** (I-02/22/2005)
Status: Assembly Labor and Employment 6/22/05

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.** (A-05/09/2005)
Status: 06/16/2005-Read second time. To third reading.
Current Location: 06/16/2005-A THIRD READING
Calendar Events: 06/23/05 32 ASM THIRD READING FILE

Summary:
Would permit redevelopment agencies to expend funds for low and moderate income housing on housing for seniors up to the proportion of the population made up by low-income seniors in that community. (2/18/05)

Surplus Property

AB 54 **(Negrete McLeod) Surplus state property.** (A-05/17/2005)
Status: 06/02/2005-Referred to Com. on G.O.
Current Location: 06/02/2005-S G.O.
Calendar Events: 06/28/05 9:30 a.m. - Room 3191 SEN GOVERNMENTAL ORGANIZATION

Summary:
Would authorize DGS to sell, exchange, lease, or transfer, various state owned real properties that are deemed surplus to the operational needs of the state. (5/17/05)

AB 302 **(Committee on Business and Professions) State surplus personal property: centralized sale.** (A-05/16/2005)
Status: Senate Governmental Modernization, Efficiency and Accountability

Summary:
Would require DGS 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.

SB 472 **(Alquist) Disposition of state property: Bay Area Research Extension Center.** (A-06/01/2005)
Status: Assembly Business and Professions 6/28/05

Summary:
Existing law generally authorizes the Director of General Services to sell, lease, or exchange surplus state property, after it has first been offered to local government agencies or for specified purposes, subject to specified conditions. This bill would authorize the director to sell, lease, or exchange the remaining approximate 6 acres in the City of Santa Clara known as the Bay Area Research Extension Center, subject to the specified conditions.

SB 625 **(Battin) State and local surplus property: written offer to sell or lease: economic development purposes.** (A-05/27/2005)
Status: 06/21/2005-Set, first hearing. Failed passage in committee. Reconsideration granted.

Summary:
Would require the Department of General Services and local government agencies to make a written offer to sell surplus property to a local government or nonprofit organization engaged in economic development.

SB 900 **(Denham) Surplus state property: disposition.** (A-05/03/2005)
Status: 2 Year bill – will not move this year

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 qualified low-income housing or 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: 2 Year bill – will not move this year

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

Tax Credits

SB 950 **(Torlakson) Housing.** (A-06/16/2005)
Status: Assembly Housing and Community Development 6/29/05.

Summary:
This bill would expand the categories of housing projects with respect to which a credit is allowed, 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. The bill would also clarify when and how rents may be increased on assisted and unassisted units and still qualify for the exemption.

State of California

MEMORANDUM

To: **CalHFA Board Members** **Date:** 6-22-05

Tom Hughes, General Counsel
From: **CALIFORNIA HOUSING FINANCE AGENCY**

Subject: Board Meeting Materials

CalHFA has been working on improving Board access to the packages of Board materials for meetings. The Agency recognizes that the materials can be lengthy and complex, and that the Board should have the maximum time feasible to review those materials prior to Board meetings. Although many deals tend to come together right before scheduled meetings, the Agency has nonetheless identified a number of areas in which the dissemination of these materials can be made more efficient. Our goal is to get the package to the Board several days earlier than we have done in the past. The basic changes that we have made are as follows:

- Transitioning many users to electronic versions of the documents
  The Board packages typically run several hundred pages, and the Agency was making over 80 copies for each meeting, many in color. The assembly and copying process is lengthy. While Board members and senior staff will still get hard copies, the Agency has asked that many persons, including members of the public, receive electronic versions by e-mail. Most users have agreed to accept the electronic versions. The new procedures substantially cut down on preparation time.
- Streamlining internal procedures
  We have identified internal procedures which can be made more efficient. As we continue to identify and remove bottlenecks in the process, our goal is to deliver the package several days earlier than we have been able to do in the past.
- Web access
  As soon as the Board package is finalized, it will be posted to a password protected page on the CalHFA website. Board members will be sent an e-mail when the file has been posted. Board members can thus access the materials from any location with internet access.
- Simplification of documents
  After review of the process, the Agency identified a number of inefficiencies. One of the bottlenecks to the efficient distribution of the materials was the form of the Board resolution for loans. Some of the borrower and project information

typically included in the resolutions was not strictly necessary. Since the resolutions were typically the last step in the process, late changes to deal terms tended to hold up the entire process. While the borrower name, project name, project city and other basic information has been retained, the form of resolution has been simplified to eliminate other variables that are not necessary (such as the date of the staff report).

In addition, the Agency took the opportunity to modernize and clarify the format. The primary change has been to combine former paragraphs 2 (relating to modifications exceeding 7%) and 3 (relating to other material modifications) into a single paragraph. The 7% limit has been retained, but has been clarified so that the limit is calculated on the total amount loaned, rather than on amounts of individual loans in a multi-loan project, consistent with the Agency's historical interpretation of this provision. In addition, the former form of resolution required staff to return to the Board in the event of material changes. Occasionally, such changes substantially improve the Agency's financial position or public purpose. The modified provision requires the staff to return to the Board only if the changes are substantially adverse to the Agency's financial position or public purpose.