CalHFA BOARD OF DIRECTORS

Thursday, November 9, 2006

Hilton Burbank Airport & Convention Center
2500 Hollywood Way
Burbank, California
(818) 843-6000

10:00 a.m.

1. Roll Call.

2. Approval of the minutes of the September 7, 2006 Board of Directors meeting.

3. Chairman/Executive Director comments.

4. Discussion, recommendation and possible action relative to final loan commitment modification for the following project: (Kathy Weremiuk)

NUMBER	DEVELOPMENT	LOCALITY	UNITS
05-016-C/N	Fireside Apartments	Mill Valley/ Marin	50

Resolution 06-17.....113

5. Discussion, recommendation and possible action relative to an additional final loan commitment for the following project: (Kathy Weremiuk)

NUMBER	DEVELOPMENT	LOCALITY	UNITS
TBD	Bay Area Housing Plan	Bay Area Counties	71

Resolution 06-18.....161

Bd.binder#145893
Bd.Mtg.:11-9-06

6. Discussion, recommendation and possible action relative to the adoption of a resolution amending Resolution 06-03 for purposes of broadening the homeownership program to expressly include the purchase of mortgage-backed securities, and approving the form of a new indenture to be used to finance the purchase of such mortgage-backed securities. (Bruce Gilbertson)
Resolution 06-19 249

7. Report of the Audit Committee Chairman regarding the meeting of CalHFA's Board of Directors' Audit Committee. (Jack Shine)

8. Report of the Compensation Committee Chairman regarding the meeting of CalHFA's Board of Directors' Compensation Committee. (John Courson)

9. Reports 359

10. Discussion of other Board matters.

11. Public testimony: Discussion only of other matters to be brought to the Board's attention.

NOTES

HOTEL PARKING: Day Guest Parking Rate: Guests not registered with the hotel will receive discounted parking at $7.00 inclusive of tax, per car, with no in and out privileges.

FUTURE MEETING DATE: Next CalHFA Board of Directors Meeting will be January 18, 2007, at The Westin Hotel, San Francisco Airport, Millbrae, California.

STATE OF CALIFORNIA

CALIFORNIA HOUSING FINANCE AGENCY

BOARD OF DIRECTORS

PUBLIC MEETING

Hilton Burbank Airport & Convention Center
2500 Hollywood Way
Burbank, California

Thursday, September 7, 2006
10:03 a.m. to 12:16 p.m.

Minutes approved by the Board of
Directors at its meeting held:

11/09/2006

Attest: _____

ORIGINAL

Reported by: DANIEL P. FELDHAUS, CSR #6949, RDR, CRR

Daniel P. Feldhaus, C.S.R., Inc.
Certified Shorthand Reporters
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ORIGINAL

STATE OF CALIFORNIA

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A P P E A R A N C E S

Board of Directors Present

JOHN A. COURSON
(Board Chair)
President/CEO
Central Pacific Mortgage

DENNIS BEDDARD
for Lynn L. Jacobs
Director
Department of Housing and Community Development

PETER N. CAREY
President/CEO
Self-Help Enterprises

EDWARD M. CZUKER
President
E.M.C. Financial Corporation

JEFF DAVI
for Sunne Wright McPeak
Secretary
Business, Transportation and Housing Agency

CAROL GALANTE
President
BRIDGE Housing Corporation

JOHN G. MORRIS
President
John Morris, Inc.

THERESA A. PARKER
Executive Director
California Housing Finance Agency

WILLIAM J. PAVAO
for Phil Angelides
State Treasurer
State of California

A P P E A R A N C E S
Continued

Board of Directors Present
Continued

JACK SHINE
Chairman
American Beauty Development Co.

--o0o--

CalHFA Staff Present:

MARGARET ALVAREZ
Director of Asset Management

KENNETH H. GIEBEL
Director of Marketing

BRUCE D. GILBERTSON
Director of Financing

EDWIN C. GIPSON II
Chief of MultiFamily Programs

MICHAEL S. HOWLAND
Chief Information Officer

THOMAS C. HUGHES
General Counsel

CHARLES K. McMANUS
Acting Director of Mortgage Insurance

PAT MEEHAN

DENNIS MEIDINGER
Comptroller

JOJO OJIMA
Office of the General Counsel

A P P E A R A N C E S
Continued

CalHFA Staff Present:
Continued

DIANE RICHARDSON
Director of Legislation

JACKLYNNE RILEY
Director of Administration

KATHY WEREMIUK
Multifamily Loan Officer

--o0o--

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1 BE IT REMEMBERED that on Thursday, September 7,
2 2006, commencing at the hour of 10:03 a.m., at Hilton
3 Burbank Airport and Convention Center, 2500 Hollywood
4 Way, Burbank, California, before me, DANIEL P. FELDHAUS,
5 CSR #6949, RDR and CRR, the following proceedings were
6 held:
7 --oOo--
8 **Item 1: Roll Call**
9 CHAIR COURSON: Call the meeting to order.
10 All right, call the meeting to order. And the
11 first order of business is to call the roll.
12 MS. OJIMA: Thank you.
13 Mr. Pavao for Mr. Angelides?
14 MR. PAVAO: Here.
15 MS. OJIMA: Mr. Carey?
16 MR. CAREY: Here.
17 MS. OJIMA: Mr. Czuker?
18 MR. CZUKER: Here.
19 MS. OJIMA: Ms. Galante?
20 MS. GALANTE: Here.
21 MS. OJIMA: Thank you.
22 Mr. Beddard for Ms. Jacobs?
23 MR. BEDDARD: Here.
24 MS. OJIMA: Mr. Davi for Ms. McPeak?
25 MR. DAVI: Here.

1 MS. OJIMA: Mr. Morris?
2 MR. MORRIS: Here.
3 MS. OJIMA: Mr. Shine?
4 MR. SHINE: Here.
5 MS. OJIMA: Mr. Walsh?
6 *(No audible response)*
7 MS. OJIMA: Mr. Genest?
8 *(No audible response)*
9 MS. OJIMA: Ms. Parker?
10 MS. PARKER: Here.
11 MS. OJIMA: Mr. Courson?
12 CHAIR COURSON: Here.
13 MS. OJIMA: We have a quorum.
14 CHAIR COURSON: Before we go to the minutes, I
15 want to welcome Jeff Davi. Jeff is the director -- or
16 the commissioner of the Department of Real Estate. Sorry
17 about that.
18 MR. DAVI: That's okay.
19 CHAIR COURSON: -- the commissioner of the
20 Department of Real Estate and is representing the
21 Department of Business, Transportation & Housing on the
22 board.
23 Jeff and I have had the opportunity to work
24 together for a couple years, along with Terri and folks
25 at HCD. And he is joined at the hips, and all of us

1 together on some of the issues that we're doing. So his
2 addition to the board is well received, and we are really
3 pleased for you to be able to join us and continue to
4 work with us.
5 MR. DAVI: Thank you, John. It's a pleasure to
6 be here.
7 --o0o--
8 **Item 2. Approval of the minutes of July 6, 2006,**
9 **Board of Directors Meeting**
10 CHAIR COURSON: And with that, you have at your
11 desk some pages that are corrections to the minutes that
12 are included in the board book that were sent out.
13 Counsel, I don't know if these are -- if there
14 are just substantive changes to the pages that were
15 included or if there are more typographical --
16 MR. HUGHES: I think they're more in the order
17 of housekeeping.
18 CHAIR COURSON: Housekeeping?
19 So is there a motion to approve the minutes of
20 the July 6th meeting?
21 MR. SHINE: So moved.
22 CHAIR COURSON: Okay, Mr. Shine.
23 And a second?
24 MR. PAVAO: Second.
25 CHAIR COURSON: And Mr. Pavao.

1 Any discussion on the minutes?
2 *(No audible response)*
3 CHAIR COURSON: Let's call the roll.
4 MS. OJIMA: Mr. Pavao?
5 MR. PAVAO: Yes.
6 MS. OJIMA: Mr. Carey?
7 MR. CAREY: Yes.
8 MS. OJIMA: Mr. Czuker?
9 MR. CZUKER: Yes.
10 MS. OJIMA: Ms. Galante?
11 MS. GALANTE: Here -- yes.
12 MS. OJIMA: Mr. Beddard?
13 MR. BEDDARD: Abstain.
14 MS. OJIMA: Thank you.
15 Mr. Davi?
16 MR. DAVI: Abstain.
17 MS. OJIMA: Thank you.
18 Mr. Morris?
19 MR. MORRIS: Yes.
20 MS. OJIMA: Mr. Shine?
21 MR. SHINE: Yes.
22 MS. OJIMA: Mr. Courson?
23 CHAIR COURSON: Yes.
24 MS. OJIMA: The minutes have been approved.
25 CHAIR COURSON: Okay, thank you.

1 **Item 3: Chairman/Executive Director Comments**

2 The next order of business are, as normal, some
3 comments from myself and Terri. And I'll start.
4 I want to just share, briefly, an event I went
5 to, the National Conference of State Housing Boards,
6 which was held in New York. And this is a group that is
7 comprised of directors, primarily chairs of other state
8 housing finance agencies. And they meet twice a year:
9 They meet once at the annual conference and then they
10 have a summer meeting. And some are accompanied by their
11 executive directors and others that are allowed to go
12 without adult supervision. I went without adult
13 supervision.
14 But it was a fascinating meeting. I really
15 enjoyed talking to others. And really, from a two-day
16 period, there was probably a solid 15 hours of meetings.
17 And it was a meeting that in the mortgage business I'm
18 not used to attending, a meeting that doesn't have an
19 agenda item called "golf." And there was no golf; there
20 was just work.
21 But I did find a lot of commonality of things
22 we're doing, but also I picked up a lot of discussions of
23 what other boards are doing. They certainly are
24 interested in some of the things we're doing.
25 And I'll put those in a form and share them

1 with you; but there was a lot of time spent on things
2 that has other boards being some of their fiduciary
3 responsibilities, talking about disaster recovery plans,
4 talking about whistleblower issues that they've faced,
5 talking about ethics issues, talking about the kind of
6 reporting they do, talking about D&O insurance and
7 indemnifications. A lot of real meaty topics that I
8 found interesting, a very diverse view different boards
9 take in dealing with those issues.
10 It was ironic that through most of the meetings
11 people would talk about how they do it; and then they'd
12 look around and say, "Of course, except California, who
13 is just on a different planet," because we are so larger
14 and more complex than some of the other HFAs that I
15 talked to.
16 But I found it was a fascinating experience,
17 and one that I'll share with Terri and the staff, some of
18 the ideas, and at the next meeting also with the board,
19 when I get my thoughts -- I haven't been home since then,
20 so I've got to get my thoughts put together. But a very
21 good experience, and I'm very glad I went. And I look
22 forward to meeting with that group again in September.
23 Having said that, I'll turn the microphone over
24 to Terri.
25 MS. PARKER: Thank you, Mr. Chairman.

1 Between the last board meeting and this
2 meeting, most of you, or all of you should have received
3 a couple of communications from me, really around the
4 activities that we were involved in with SB 257. As I
5 reported to you at the last meeting, this was a piece of
6 legislation that we were working on to try to address
7 both the authority for the Agency to do special-needs
8 lending for the Governor's Homeless Initiative, Phase II,
9 but also to deal with the salaries compensation issues
10 that we have chatted about as a board specifically, at
11 our May, and then again at our July meetings.
12 I've sent you copies of the editorial -- not an
13 editorial, but an article written in The Bee about this
14 legislation.
15 I'm happy to announce that the legislation was
16 passed by both houses of the Legislature on the night
17 before their last day of session.
18 You have at your desk a report of the
19 legislative process with SB 257 as the first bill
20 included. And there's also a copy of the bill itself.
21 It's not in its final format yet, if you don't have that.
22 It is to the Governor for his signature. And it's our
23 understanding that there will be no problem with the
24 Governor signing that.
25 So I want to thank and really acknowledge the

1 good work of Di Richardson. I don't think this bill
2 would have happened if it hadn't been for her hard work.
3 And to thank all the Board members for the support of it.
4 I wanted to add to that, at our last meeting,
5 many remember that we had Dr. Mayberg and Darrell
6 Steinberg, the author of Prop. 63, come and talk about
7 this initiative.
8 We had our first phone call yesterday morning
9 with the working group that's going to be helping to
10 design the process, to carry out that initiative. And
11 the group has been tasked with coming up with, in the
12 next six to eight weeks, a description of the program,
13 the term sheet, and the application process, so that this
14 will be available for public, if any, vetting and can be
15 available for when the legislation is effective the first
16 of January.
17 A couple of other housekeeping things. We are
18 continuing to work with our recruiter based on the
19 legislation being passed and the certainty that based on
20 a compensation survey. We'll talk about that some more.
21 We'll talk about the compensation committee, that there
22 will be a salary level to be able to recruit some of the
23 vacant positions that we have, especially the director of
24 Multifamily, which this particular body is the appointing
25 authority for. So we hope that we will be able to bring

1 you a name shortly.
2 We are going back and leaving Sunday -- Bruce,
3 Steve, and I -- in regards to do our annual rating agency
4 meeting. We're looking forward to the meeting this year.
5 We have many good things to talk about; but we also,
6 because of the passage of the legislation, have a
7 response to the rating agencies to address their concern
8 at our last rating, to make sure we have the caliber of
9 staff that meets the management criteria for our rating.
10 The last item, Mr. Chairman, just to note that
11 you should have all received an invitation to the
12 reception that NCSHA is holding -- the National Council
13 of State Housing Agencies -- annual meeting in
14 San Francisco. The reception will be at the ATT ballpark
15 on Saturday, September 16. You all are invited to bring
16 a guest.
17 If any of you need any further information on
18 it, I'm available, Ken is available to assist you. And
19 we welcome you all to come and have a good time.
20 With that, Mr. Chairman, I'm happy to answer
21 any questions.
22 CHAIR COURSON: Any questions for Terri or
23 myself?
24 *(No audible response)*
25 //

1 **Item 4. Update on Bay Area Housing Plan**
2 CHAIR COURSON: All right, well, then let's
3 move into the rest of the agenda. And as we are doing at
4 every board meeting, we see familiar faces -- Kathy and
5 Ed are back with us.
6 Can you give us an update on the Bay Area
7 housing project?
8 MR. GIPSON: Good morning. We have some
9 further advancement, along with the Bay Area Housing Plan
10 and our continuation of the purchase of those homes.
11 Kathy has --
12 CHAIR COURSON: Let me just interrupt.
13 MR. GIPSON: Yes.
14 CHAIR COURSON: I believe everybody has at
15 their place a status report.
16 MR. GIPSON: Yes, Kathy has handed out two
17 pieces of paper that should be stapled together.
18 Basically, the chart you see before you and a new one, a
19 new tracking chart which she'll go over here in a moment,
20 which basically just lays out how we're following the
21 expenditures between us and the developer due to our more
22 conservative watching of the numbers.
23 I would just like to start off to say that a
24 lot of work is still continuing to go along with this.
25 And Kathy Weremiuk and Liz Hogan from the office are

1 doing an outstanding job of keeping track of all these
2 things and are getting good support from Sabrina Saxton
3 and Kathryn Dolf in our office as well, because these
4 deals come in, and each of them is a mini deal, and they
5 come fast and furious, and they must be reviewed and
6 crunched and accepted or denied and moved on. So as we
7 move forward, we've been watching and tracking the
8 numbers.
9 It appears that we will be back in November for
10 approximately 30 million more in approval based on the
11 current progress that's going on.
12 And with that, I'll let Kathy go into the
13 details of how things are going.
14 MS. WEREMIUK: Chairman Courson, members of the
15 Board: I'm really pleased to be here today with a solid
16 progress report of the Bay Area Housing Plan.
17 In the last two months, the Hallmark Group has
18 been moving at a very fast clip. They have currently
19 nine properties that have been acquired. The Board has
20 approved ten, for a total of almost $20 million. And
21 they have an additional 11 under contract. Their goal is
22 to acquire five properties per month, which is
23 approximately $10 million in commitment from the Agency.
24 And they are meeting those goals. They're staffed up to
25 do it, and they're doing a terrific job.

1 **Item 4. Update on Bay Area Housing Plan**

2 CHAIR COURSON: All right, well, then let's
3 move into the rest of the agenda. And as we are doing at
4 every board meeting, we see familiar faces -- Kathy and
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3 and Catherine Dolph in our office as well, because these
4 deals come in, and each of them is a mini deal, and they
5 come fast and furious, and they must be reviewed and
6 crunched and accepted or denied and moved on. So as we
7 move forward, we've been watching and tracking the
8 numbers.
9 It appears that we will be back in November for
10 approximately 30 million more in approval based on the
11 current progress that's going on.
12 And with that, I'll let Kathy go into the
13 details of how things are going.
14 MS. WEREMIUK: Chairman Courson, members of the
15 Board: I'm really pleased to be here today with a solid
16 progress report of the Bay Area Housing Plan.
17 In the last two months, the Hallmark Group has
18 been moving at a very fast clip. They have currently
19 nine properties that have been acquired. The Board has
20 approved ten, for a total of almost $20 million. And
21 they have an additional 11 under contract. Their goal is
22 to acquire five properties per month, which is
23 approximately $10 million in commitment from the Agency.
24 And they are meeting those goals. They're staffed up to
25 do it, and they're doing a terrific job.

1 They have also executed, within the last few
2 days, a construction contract that's design-build with
3 the Fine Line Group, a reputable contractor, who is going
4 to be handling all of the construction. And the first
5 nine properties have been handed over to the architects
6 to begin the design process.
7 Additionally, they are planning to do prefabs
8 for some of the medical model homes, the homes that have
9 five bedrooms, and require more medical facilities. And
10 they're in the process, I think -- I can't report on it
11 yet, but I think they've chosen a prefab developer and
12 they've also chosen a contractor to do the button-up on
13 the sites.
14 For those properties, they'll be able to move
15 quickly and complete them probably within a month to six
16 weeks of acquisition, once they get going.
17 We, as yet, because none of the contracts have
18 been let on these properties in terms of dollar amounts,
19 we don't yet have a solid dollar amount for the rehab.
20 We do believe that we have more than adequate budgets and
21 conservative underwriting on those; but we'll see as the
22 numbers start to come in.
23 In the first chart, what you would see are the
24 ten properties that the agency has approved. We've given
25 approvals for roughly $18 million, with the 10 percent

1 contingency factor that Bank of America wanted on these
2 deals, our commitment is at 19.8 million, roughly using
3 up the first 20 million of commitments allocated by the
4 Board back last September.
5 There are another ten projects that are in
6 various stages of purchase. And they will also be
7 roughly $18 million.
8 Some of the numbers in those are club numbers.
9 We're estimating an average of 1.8 million for the
10 property right now.
11 Taking us up to a 36 and a half million-dollar
12 commitment by the time we come back to you in November,
13 and with the override of 40 million, we'll have about
14 five million left over of the commitment that the Board
15 gave.
16 With the rate of purchase on these properties,
17 we will need an additional commitment. Edwin mentioned
18 30 million. We think that's the number; but we'll still
19 be looking at that.
20 There are, in addition to these, there are four
21 Cupertino properties which have already been rehabbed and
22 are owned by Hallmark. And we're starting the process of
23 putting those online as well.
24 So we anticipate that we'll have those ready
25 and for approval by the time we come back to the board in

1 November.

2 The second chart is a tracking chart. And what

3 it shows -- what I wanted to do was take the developer's

4 numbers and take a look at our numbers, and see what the

5 differences are.

6 The regional centers are using the developer's

7 numbers in their own tracking. And the reason that

8 there's a difference -- there's roughly a 5 percent

9 discrepancy, which is really an interest-carry number.

10 It has a lot to do with what the interest rate

11 environment will be over the next 24 months.

12 Bank of America had required a fairly

13 substantial cushion on both their construction loan in

14 terms of carry numbers, as well as a cushion on all of

15 our reserves, assuming the higher taxable number;

16 although roughly 90 percent of the properties right now

17 are coming in as tax-exempt and we anticipate that we'll

18 have lower interest-carry numbers when we finance in

19 24 months. But, again, we don't know what's going to

20 happen over the next 24 months in the interest

21 environment; and, therefore, there's cushion. I would

22 anticipate that the numbers will come in some place

23 between ours and theirs.

24 If we use our numbers and we take all

25 71 properties, we would be at $128 million at the

1 completion of the project. With the contingency factor
2 for Bank of America, we'd be at 141 million. The
3 regional centers right now are carrying, roughly, about
4 $120- to 122-million number.
5 Both of those numbers would require a
6 commitment higher than the Board originally gave, in
7 terms of our conditional -- our preliminary commitment.
8 Therefore, we anticipate coming back to you for also a
9 higher preliminary commitment number.
10 However, it will not be as high as 140 million
11 because of the very positive development that actually
12 we got final notice on yesterday, which is that we have
13 been meeting with -- since the last Board meeting -- with
14 the regional centers and DDS, asking and talking with
15 them about bringing more cash into the deal because of
16 the high loan-to-value numbers, and to see if that was
17 possible for them to do that.
18 They have found a way to bring the
19 $11.1 million that we originally discussed as a
20 collateral into the deal as equity. It will be about a
21 9 percent equity number. And we will also continue to
22 carry a cash collateral, which they'll find other
23 regional center funds to cover the 5 percent additional
24 collateral.
25 So we anticipate that when we come back to

1 you -- this has to be formalized into the loan purchase
2 agreement and the various agreements between the
3 entities; but we anticipate that when we come back in
4 November, those numbers will be incorporated into our
5 numbers. It equates to roughly $155,000 per home. That
6 money will come in on the front end as a purchase
7 deposit, paying for all the predevelopment fees. But the
8 money would not be taken back out by the regional centers
9 and would stay in the deal.
10 So that's where we are right now.
11 CHAIR COURSON: Kathy, looking at this form,
12 the Hallmark tracking, that's -- that figure is
13 acquisition, rehab, interest-carries. Everything except
14 contingency; is that what's in there?
15 MS. WEREMIUK: It's everything except the
16 10 percent additional contingency.
17 MR. GIPSON: There is a contingency in those
18 numbers. The 10 percent contingency at the bottom is an
19 additional contingency on top of a contingency number
20 that sits in there.
21 MS. WEREMIUK: There is a 10 percent
22 contingency in the numbers for the construction.
23 CHAIR COURSON: Construction? Right.
24 MS. WEREMIUK: And the budgets have been very
25 conservative to date. So the difference in the numbers

1 really reflects interest-carry and some costs that may
2 not show up on every property, but that Bank of America
3 and their underwriting wanted to see in every deal.
4 CHAIR COURSON: Okay. Mr. Czuker?
5 MR. CZUKER: Yes, two comments. First, when
6 you discuss the manufactured housing, where is the
7 manufactured housing coming from? Because in many cases
8 it's out of state, in which case there are all sorts of
9 complications in terms of, first, the actual production,
10 then the actual shipping, then the condition of its
11 arrival, and who's accepting it, and whether it hasn't
12 been damaged along the way, or whether it's going to fit
13 together like a jigsaw puzzle upon its arrival, and who's
14 taking responsibility; and will the manufacturer have a
15 representative on-site to help ensure that the pieces
16 come together, and that there is no defect, and that the
17 coordination with the contractor occurs because, often,
18 that's where problems surface because of the lack of
19 coordination between the manufacturer and the on-site
20 contractor being able to execute and putting the pieces
21 together and still having it function correctly. That's
22 question one.
23 Question two, you may have difficulty in
24 answering, which relates to interest rates, which is it
25 still appears that the interest rates in the model are

1 probably 1 percent or higher above what they should be.
2 And I'm not quite sure why the cost of what we're
3 projecting for -- and this may not be appropriately
4 addressed to you, it may need to be addressed to someone
5 else -- but why we are showing both taxable and tax
6 exempt rates that are significantly above comparable
7 competitive market rates for equivalent debt.
8 MS. WEREMIUK: Let me answer the first
9 question, which is an excellent question.
10 We have been in discussions on exactly these
11 issues with Hallmark Group, with our construction
12 inspector, and with Bank of America. We haven't received
13 the first proposal yet. And so until we receive that,
14 they will not all be addressed.
15 We know that manufacturers differ in terms
16 of -- we have required that homes be built to a
17 building-code standard as opposed to a HUD standard. The
18 manufacturer will be local. Transportation costs are
19 being figured in. The contractor, who has been chosen to
20 do this, is someone who does only the assembly of
21 manufactured homes.
22 Our inspector has a very significant track
23 record working with Bank of America, inspecting
24 manufactured homes in the Bay Area.
25 The site coordination issue isn't something

1 that we had gotten to yet in terms of having a
2 manufacturer's rep on-site, but your comments will
3 certainly inform our requirements.
4 MR. GIPSON: It's been a long discussion. You
5 hit a lot of points right on the money -- you really
6 did -- the discussions that went forth when they looked
7 at the different parties.
8 On the interest rate --
9 MS. WEREMIUK: On the interest-rate questions,
10 I'm going to defer some of this to Bruce. But I would
11 mention that the way this is being structured is as a
12 fixed-rate debt for the 15-year term. It's not going to
13 be variable and there will be no swaps underneath it. So
14 that does impact what our projections are, and rates.
15 But I don't think I can answer the questions in terms of
16 exactly what the rates would be myself.
17 MR. GIPSON: Yes, the rates themselves we get
18 from finance. But we've been using very conservative
19 rates; and there's tax-exempt and taxable. And
20 everything has been sized at the taxable debt. And it
21 comes down to the structure of who is going to own it,
22 whether it will be tax-exempt or taxable. The default
23 will always be taxable because we'll always know it is at
24 least that, which means it will be running at a higher
25 rate.

1 If it comes in tax-exempt, then the number will
2 be much lower. And the numbers, the actual interest
3 rates will be adjusted when we go to closing price,
4 anyway. So it will be sized appropriately at that time.
5 But for conservative numbers, for everything we
6 have to budget, including the debt-service reserve
7 portion and those things, we had to have a number that we
8 could all be comfortable with; and knowing that we got
9 six months down, we weren't going to be short, plain and
10 simple. We did not want to be short.
11 Bruce?
12 MR. GILBERTSON: Yes, just to add to that a
13 little bit. I think these are conservative interest
14 rates. We'd rather err on the high side.
15 Periodically, Kathy asked my staff if we could
16 get an approximate interest rate if we were in the
17 marketplace as of that point in time, and we simply
18 coordinate with our underwriter.
19 We have appointed Merrill Lynch to do all of
20 the financing, to work with us as a senior manager and
21 underwriter for all of the issuance of debt for the
22 Bay Area Housing Plan. David Notkin from Merrill Lynch
23 was in our office in August to get an update on this.
24 And we're exploring a number of different structuring
25 alternatives that will, in fact, impact the final rate;

1 but the timing of these projects and the financing is
2 very uncertain at this point. So I think it's very
3 safe to say that these are approximations and
4 conservative approximations of the lending rates that
5 we will offer.
6 MR. CZUKER: Thank you.
7 CHAIR COURSON: Other questions?
8 MR. MORRIS: I just want to understand the
9 schedule that you give us, on the first page, where we
10 have down what's basically been committed. Then you've
11 got your purchase price, your estimated cost for rehab,
12 your reserve, your reserve for one-year debt service.
13 And can you explain the spreads between the
14 amount that we've committed and -- at least on the ones
15 that have been approved already, not the ones that are
16 pending?
17 MS. WEREMIUK: The spread, taking perhaps the
18 first project, which would be Eden, was approximately
19 1.8 million. We had approximately 365 in rehab. There
20 is 875 for the purchase price. We add to that the
21 $207,000 debt service reserve. And the additional costs
22 in this are predevelopment and interest-carry and
23 developer fee.
24 It is running, absent this new equity that will
25 come into the deal when we include our reserves, our

1 loan-to-values are very high on this, and we're doing
2 100 percent financing.
3 But there was -- at the last board meeting, I
4 gave a breakdown, and I think I handed out the
5 spreadsheets for specific projects.
6 MR. MORRIS: I wasn't here for the last one.
7 MS. WEREMIUK: If you would like me to do that
8 in the future, I will. I thought it would be maybe too
9 much material to present at this meeting.
10 MR. MORRIS: Yes, I missed the last one.
11 MR. SHINE: Is there a difference between
12 appraised value and total costs?
13 MR. MORRIS: Yes. Well, the amount that was
14 approved. The amount that's approved is the total for
15 the purchase price, the rehab, and the reserve.
16 MS. WEREMIUK: What I will do, if it's all
17 right with you, is next meeting I will specifically go
18 over that in terms of what we're seeing as costs.
19 CHAIR COURSON: I think that's important,
20 particularly if we are going to be asked for additional
21 commitment.
22 MR. GIPSON: We'll add the columns.
23 CHAIR COURSON: And, Mr. Morris, I'm sure we
24 could get a copy for you of what was handed out at the
25 last meeting, although it does give you --

1 MR. SHINE: You're looking for an add column,
2 that adds up all the actual expenses to compare
3 against --
4 MR. MORRIS: Yes.
5 MR. SHINE: That's a good column to put in.
6 CHAIR COURSON: Okay, any other questions or
7 comments on the Bay Area Housing Plan?
8 Mr. Shine?
9 MR. SHINE: I would just like to pick up on a
10 comment that was made at the last meeting about the
11 amortization of the payments that are going to pay off
12 the full amount of our commitment. And if I recall
13 correctly, it was a 15-year, fully amortized debt --
14 MS. WEREMIUK: Right.
15 MR. SHINE: -- which meant that 1.5 or
16 1.6 million that Eden is going to cost, notwithstanding a
17 1.8 million commitment, it will be paid off with a zero
18 balance, would be fully paid off in fifteen years.
19 Do we have any kind of schedule that you made
20 to show how that works or --
21 MS. WEREMIUK: Yes. What I do, I do that for
22 every project; and, again, I'll bring that in next time.
23 MR. SHINE: When you come back in at the next
24 meeting, when you add the column here that says how much
25 the actual is going to be versus the commitment, maybe

1 you could show us just a little sample of the
2 amortization, how it works versus how much we're going to
3 get and how long it takes for that to amortize, that it
4 works out to the 15 years that we talked about last time.
5 MR. GIPSON: We have.
6 CHAIR COURSON: Would it be appropriate,
7 Mr. Shine, if they took a project or a couple projects
8 and just demonstrated?
9 MR. SHINE: That's what I was saying.
10 MR. GIPSON: Just pick it on every single
11 project.
12 MS. WEREMIUK: If we do one for each type,
13 there are three different housing types.
14 MR. SHINE: Just take Eden alone, with the
15 understanding that Eden represents the way it's already
16 done on everything else.
17 MR. GIPSON: Okay, got it.
18 MS. WEREMIUK: We'd be glad to.
19 CHAIR COURSON: Other questions or comments?
20 *(No audible response)*
21 CHAIR COURSON: Kathy, thank you very much. We
22 appreciate it.
23 MR. GIPSON: Thank you very much.
24 CHAIR COURSON: Let me make one other comment,
25 too. I trust that if we are going to be asked for

1 additional commitment authority, to compare additional
2 commitment authority at the next meeting, that any of the
3 materials we've talked about should be in the Board
4 package before we get here. Because obviously it's a
5 huge project. And I'd like to make sure the Board has
6 the numbers, too.
7 MR. GIPSON: Absolutely. For a professional,
8 you'll have it all beforehand.
9 --o0o--
10 **Item 5. Status Report on Mortgage Insurance Program**
11 CHAIR COURSON: Okay, the next item on our
12 agenda is Chuck McManus. We've all met Chuck at the last
13 couple of meetings, working in our Mortgage Insurance
14 operation and program.
15 And Terri has asked Chuck, and we've talked,
16 and from time to time we'd like to dig down a little bit
17 into various areas of our operation. And clearly our
18 Mortgage Insurance loan fund is a program we are
19 responsible for, a fiduciary responsibility. And Chuck
20 has taken his expertise, as we've seen on the board, and
21 will walk us through where we are on our Mortgage
22 Insurance Fund and where he sees us going.
23 Thank you.
24 MR. MCMANUS: Thank you, John.
25 John didn't repeat that I'm older than dirt and

1 have been in the mortgage insurance business for most of
2 the 25 past years. So when I came here, I had a lot of
3 history. And so, like an internist, I tried to apply
4 everything I learned, and all the mistakes I found and
5 mistakes I've made in the past and I tried to reevaluate
6 where we are today.
7 There's some special importance to the Agency,
8 however, because there have been changes in the
9 marketplace.
10 The share of CalHFA loans that were FHA in 2004
11 were 64 percent. In 2006, it's down to 18 percent. So a
12 53 percent drop in FHA share.
13 The 80 percent loan-to-value and under have
14 risen from 15 percent to 27 percent. So they picked up
15 12 percent.
16 The insured by CalHFA insurance, the 81 percent
17 to 100 percent loan-to-value have increased from
18 21 percent to 54 percent. And that's a continuing upward
19 trend to those that are insured.
20 For that reason, I hope to take you through the
21 risk factors we are evaluating of the mortgages coming
22 in, because we retain the credit risk, the default and
23 foreclosure risk in the Mortgage Insurance Fund. We are
24 75 percent reinsured with Genworth, so we do lay off a
25 significant portion, but we still do retain it. And I

1 want to share with you the trend since, as the Board, you
2 want to know that our assets are there and that we can
3 afford to pay our claims.
4 As a result of the increase in the share in
5 private mortgage insurance or in our mortgage insurance,
6 in 2005 we underwrote 654 million. And year-to-date,
7 through September 5th, we've already passed that and done
8 710 million in new insurance written.
9 Our risk on the $1.7 billion of mortgages we
10 own is currently $683 million of risk by the Mortgage
11 Insurance Fund, 75 percent of which is laid off to
12 Genworth.
13 There are very few delinquent loans.
14 Sixty-three delinquent loans as of September 5th. That's
15 .95 percent, less than 1 percent delinquent. And we have
16 five loans where the monthly payments are being made by
17 our mortgage protection plan, where there's involuntary
18 unemployment. We have an aspect of our lending where we
19 guarantee six months of payments up to $2,500 per month.
20 The percentage of loans with 3 percent cash or
21 less down payment is over 85 percent of our loans. We
22 have -- the major impediment of affordable housing is the
23 down payment. And we have worked very hard to reduce the
24 down payment requirements so people can afford to buy
25 homes. And as a result, we have, if you will, very low

1 The percentage of borrowers who have picked
2 interest-only, which was introduced about a year and a
3 half ago, is over 60 percent of our loans. The reason
4 being, that's the lowest monthly payment they can get.
5 And the loans secured on condominiums now
6 exceed 50 percent of our business. And that's a change
7 which we'll review on the slides.
8 Approximately 4 percent of our loans are to
9 individuals with FICO scores -- that's a credit score --
10 of less than 619.
11 And these borrowers are four to five times more
12 likely to have trouble and be foreclosed on than are
13 those at a FICO score of 695, which is about our average
14 FICO score of our book of business.
15 So it's a risk factor, and we've considered to
16 change some policies.
17 And due to some changes in automated
18 underwriting, which Freddie Mac and Fannie Mae support,
19 they changed it, I think, to meet their goals, their CRA
20 goals and so forth. And as a result, they changed the
21 parameters so the mortgage insurance company loses first,
22 then Freddie Mac, then Fannie Mae.
23 And as a result of those changes, the people
24 being approved by those automated underwriting with debt
25 ratios -- total debt ratios over 55 percent -- that's

1 your housing payments, your taxes, your insurance, your
2 credit card, your auto loan, et cetera -- over 55 percent
3 has risen from less than a half percent in 2004, to
4 7.7 percent in 2005, and 10.9 percent year-to-date in
5 2006. Those are very high total debt ratios. And it was
6 done to facilitate, we believe, some of the investment
7 goals of the GSE's; and we have taken some action so that
8 we now have kept our total debt.
9 We can go to the slides, if I can figure out
10 how to do this one.
11 This is simply your table of contents, so you
12 can get back to any topic you want to.
13 This first one -- and I'm not going to try and
14 turn you all into actuaries, but I want to review risk
15 factors -- if you look at the first column, that's
16 loan-to-value and that's the amount of the mortgage loan
17 divided by the purchase price of the home. We charge
18 85 basis points, .85 percent per year for our 35 percent
19 coverage.
20 And there's expected loss ratios; and out of
21 100, if they're single-family detached, called "no condo"
22 here, about 6.8 are expected to go to foreclosure, if
23 they're a no-money-down borrower.
24 If it's a condo, it's 40 percent higher than
25 that. So it's 8.2 out of 100 are expected to go to

1 equity, high loan-to-value book of business.
2 The percentage of borrowers who have picked
3 interest-only, which was introduced about a year and a
4 half ago, is over 60 percent of our loans. The reason
5 being, that's the lowest monthly payment they can get.
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24 they're a no-money-down borrower.
25 If it's a condo, it's 40 percent higher than

1 that. So it's 8.2 out of 100 are expected to go to
2 foreclosure.
3 Based on the premiums we expect to collect and
4 the claims we expect to pay, if it's a non-condo, we
5 expect to pay out $58 out of 100 in claims, or 58 percent
6 claim ratio. If they're 50 percent condos -- half are
7 condos and half are not, because that's what our book of
8 business is -- we have a 71 percent loss ratio.
9 Our pricing and our goal is, we need to be at
10 60 percent or under. So if you look, it's pretty much
11 the 97 percent loan-to-value. That would get us to where
12 we can have enough premium to pay our expenses and pay
13 our claims.
14 Right now, we've got a mix that would indicate
15 we're a little bit high to attain that.
16 I'm sorry, I'm going backwards here.
17 These are the risk factors. Now, I'll do this
18 quickly, but I think it's important you understand what
19 types of loans have more risks.
20 MR. PAVAO: Question.
21 MR. MCMANUS: Yes?
22 MS. GALANTE: I just had a question. Is there
23 a reason why you think the condos are higher risk than
24 single-family detached, for the same priced house?
25 MR. MCMANUS: The reason -- I'd be speculating.

1 The fact is, that's the experience of the mortgage
2 insurance companies in the United States of America.
3 Any particular -- even in California, the
4 reason we have the higher percentages -- that is now
5 affordable housing in many markets. People cannot afford
6 single-family detached homes. Condos can have a lower
7 price point, and, therefore, are lower-priced. But there
8 is a project risk.
9 MS. GALANTE: If you cut this by price point as
10 opposed to condo versus single-family detached, do you
11 think it's the same kind of --
12 MR. MCMANUS: No, because this would be
13 comparing the insured book, which would be similar in
14 total price.
15 There is a project risk in condominiums that
16 the whole condominium project may have difficulties.
17 There's condo fees, they may have been budgeted properly,
18 they may not. So there's an extra risk of -- the
19 neighborhood is the single project; and it could have
20 difficulties.
21 And the identification of homeownership, we
22 think, is a little less in condos than it is in
23 single-family detached.
24 But I'd be too much of a speculator -- I'm an
25 old condo developer and a condo converter. So I'd be

1 And in the right markets where condo is a
2 normal recognized primary form of housing, I don't think
3 you have as much of this higher claims rate. But where
4 it is the only house you can afford and you have a lot of
5 first-time home buyers that aren't used to being
6 homeowners, you can have people get into more difficulty
7 because of unanticipated costs and so forth.
8 But as an insurer, we just look at the facts,
9 and the history says 40 percent higher claims rate on
10 condos.
11 So I think we can't turn a blind eye to the
12 fact that we've increased our condo concentration
13 dramatically. And I will show you the chart that shows
14 the increase.
15 CHAIR COURSON: This could be -- and we're
16 seeing -- in the surfacing portfolios of lenders, they
17 recognize obviously the same thing, because we're the
18 ones filing the claims with the mortgage insurance
19 companies. But what we are seeing also is, as obviously
20 land prices and so on, is a growing percentage of our
21 single-family business becoming condo just because of
22 land issues and the affordability issues. So these
23 numbers could well get exacerbated as we go through
24 another three- or four-, five-year period.
25 MR. MCMANUS: In California, with the housing

1 prices where they are and the affordability as it is,
2 there's no question, the condominium will be the first
3 affordable home form in most markets, certainly the
4 high-priced markets.
5 This shows a mix of our business. If you read
6 down the right-hand column of the numbers, you'll see
7 we're going from about 25 percent share in 2000 through
8 2003, and then jumping up to 38 percent, and finally
9 53 percent last year, and we're running at 50 percent
10 this year. So it's a reality.
11 On page 99 of your book, if you're having
12 difficulty seeing the screen.
13 So this is just to show the mix of our
14 business.
15 If you go to the next chart -- and this will
16 address changes in our underwriting guidelines, I'd like
17 to make you aware of, "FICO" is Fair Isaacs and Company.
18 This is a credit score. It's a predictor of payment
19 patterns, historic management of your funds. And it is
20 predicting what percentage may not maintain their payment
21 pattern.
22 Under 620, we are currently doing about
23 2.7 percent of our business. And I will get to a change
24 in underwriting criteria, where we are going to try and
25 change that.

1 glad to talk condominiums all day.
2 And in the right markets where condo is a
3 normal recognized primary form of housing, I don't think
4 you have as much of this higher claims rate. But where
5 it is the only house you can afford and you have a lot of
6 first-time home buyers that aren't used to being
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25 another three- or four-, five-year period just as a mix

1 of our portfolio.

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25 2.7 percent of our business. And I will get to a change

1 And there's a good reason. This next chart
2 shows that under 620 -- look at the 620 and the 580 on
3 the left, that is the likelihood of default and
4 foreclosure compared, if you look at the 700, because our
5 median, our average score is about 695 to 700. It's
6 almost five times as likely that someone with a 580 will
7 be foreclosed on. We don't want people to be foreclosed
8 on. We want them to buy houses and stay in them.
9 The same thing at 600, it's four times as
10 likely. So those are the kinds of multiples.
11 Our current standard now is 620, which is still
12 three times as likely as our median borrower.
13 This shows in numbers what the frequency of
14 foreclosure is. And, again, if you look on the left
15 hand, all the way down to the bottom at 100 percent,
16 32 percent of the 580's with the 100 percent LTD are
17 expected to go to foreclosure.
18 One in three is too many people to get into
19 homes and then foreclose on them and damage their credit
20 and everything else. So our line has been drawn at 620,
21 where you see it at 21 percent, which is still one in
22 five.
23 We hope to do better than that through credit
24 counseling and other things.
25 CHAIR COURSON: Chuck, let me ask a question.

1 You say this is expected frequency.

2 These numbers are based on historical

3 performance of the book of business?

4 MR. MCMANUS: Yes, they are. And they're from

5 a group of mortgage insurers; and I tried to get as much

6 California as I could do it. There's no pure number of

7 California-only.

8 CHAIR COURSON: Was there enough data in our

9 old book of business relative to say that we mirror the

10 industry, or we're better or worse?

11 MR. MCMANUS: Historically, we have been better

12 than the industry.

13 A rising price market -- which, of course,

14 California has enjoyed for the past five years, seems to

15 solve all problems. Even if you made a bad loan, they

16 could sell their homes at more money and get out, and you

17 have no claims.

18 I have to take you back to 1993, 1994. If you

19 look at the book of business of the Agency, we are in the

20 seven to nine per hundred foreclosures in those books.

21 So California can have the foreclosure experience in the

22 seven to nine, and that's how it's been historically.

23 CHAIR COURSON: Mr. Czuker?

24 MR. CZUKER: Yes. Thank you, Mr. Chairman.

25 Is it realistic or possible to try to shift the

1 in underwriting criteria, where we are going to try and
2 change that.
3 And there's a good reason. This next chart
4 shows that under 620 -- look at the 600 and the 580 on
5 the left, that is the likelihood of default and
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22 seven to nine per hundred foreclosures in those books.

23 So California can have the foreclosure experience in the

24 seven to nine, and has had it historically.

25 CHAIR COURSON: Mr. Czuker?

1 philosophy towards the 680, 700, or would that curtail
2 the ability to do business?
3 MR. MCMANUS: Well, we're enjoying a 695, which
4 is a really relatively high FICO score for zero down
5 payment loans.
6 MR. CZUKER: You said median?
7 MR. MCMANUS: That's our median. And I will
8 again show you that on another chart. But that's our
9 median.
10 And the thing is, we're in the agency business,
11 we're trying to help people get into homes who can't
12 afford them.
13 The default rate at 640 is 16 percent, so it's
14 one in six. And is that reasonable, if you can get five
15 people that still are in their homes and so forth? I
16 don't know where the break-even is here. But you're
17 going to have foreclosures at any FICO score. There's
18 going to be loss of jobs, divorce, and other factors. So
19 that's a quality judgment.
20 We're trying to judge it that one in three is
21 too high, and we're going to try it at one in five and be
22 able to afford it, and all have the premiums in order to
23 afford that, in order to stretch to help people get into
24 houses. But the Board can certainly speak to it, if
25 they'd like to tighten underwriting guidelines; okay?

1 MR. CAREY: Just a question. Do you have a
2 sense of when the foreclosures take place? I mean, are
3 they early, which is sort of the result of bad
4 underwriting, or later?
5 MR. MCMANUS: I'm going to show you a chart on
6 that. And it depends on what the marketplace is doing.
7 But there is an average. And I'll get to that, if that's
8 okay.
9 CHAIR COURSON: Okay. Other questions right
10 now?
11 *(No audible response)*
12 CHAIR COURSON: Okay.
13 MR. MCMANUS: Here is development loss, in
14 responding to your question, Peter.
15 If you look at the -- that is the actual
16 experience of the Agency by year, what percent of their
17 foreclosures occur in what year after. It doesn't deal
18 with how many out of 100, but just when they occur.
19 If you look at the dark line, that is, if you
20 will, the average, the median. We've put it together as
21 a predictive curve.
22 Look at five years and go up, and you'll get
23 about 42 percent. So about 42 percent of the
24 foreclosures and claims occur in the first five years.
25 The next five years -- I won't make you

1 MR. CZUKER: Yes. Thank you, Mr. Chairman.

2 Is it realistic or possible to try to shift the

3 philosophy towards the 680, 700, or would that curtail

4 the ability to do business?

5 MR. MCMANUS: Well, we're enjoying a 695, which

6 is a really relatively high FICO score for zero down

7 payment loans.

8 MR. CZUKER: You said median?

9 MR. MCMANUS: That's our median. And I will

10 again show you that on another chart. But that's our

11 median.

12 And the thing is, we're in the agency business,

13 we're trying to help people get into homes who can't

14 afford them.

15 The default rate at 640 is 16 percent, so it's

16 one in six. And is that reasonable, if you can get five

17 people that still are in their homes and so forth? I

18 don't know where the break-even is here. But you're

19 going to have foreclosures at any FICO score. There's

20 going to be loss of jobs, divorce, and other factors. So

21 that's a quality judgment.

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25 about 42 percent. So about 42 percent of the

1 foreclosures and claims occur in the first five years.
2 The next five years -- I won't make you
3 calculate it -- it's 53 percent. So more claims occur in
4 the second five years than in the first five years.
5 For that reason, we renegotiated our
6 reinsurance contract in July, effective in August,
7 retroactive. We now have a ten-year reinsurance treaty
8 rather than a five because of that -- why would we let
9 them have their share of the premiums for the first five
10 years, which is probably 75 percent of the premiums, and
11 not enjoy being able to participate in the claims for the
12 second half? So we gave them that opportunity, and they
13 accepted.
14 CHAIR COURSON: And are those figures,
15 forty-something to fifty-something, the first five,
16 second five, unique to the book of business at CalHFA, or
17 is that noted in the private mortgage insurance business?
18 MR. MCMANUS: That incidence of claim pattern
19 is common in the entire mortgage insurance industry.
20 I got these from Milliman. And I would
21 speculate here, John, that it follows the housing
22 markets, where you have, you know, high interest rates,
23 low interest rates, so the value of homes go up and down
24 and so forth. And because of that, when the markets get
25 bad, that's when you have your claims. Because when the

1 markets are good, you don't have claims because they sell
2 it for more money.
3 And with the interest-rate cycles -- it's
4 countercyclical here -- higher interest rates lead to
5 more claims in the mortgage insurance industry. Because
6 the prices have gone down, you can't recover if you're a
7 high LTV loan. And if you disagree with that, please
8 tell me.
9 CHAIR COURSON: If you look at mortgage
10 servicing statistics, they're going at a much higher
11 incidence in the first two to five years than after they
12 get past five years. So somehow or other they've got to
13 reconcile the two, because obviously the delinquencies
14 did -- if the claims are occurring, there's somebody out
15 there delinquent that's filing a claim.
16 And again, look at different books of business,
17 different markets, I suppose.
18 MR. MCMANUS: Yes, I would agree -- because of
19 the high ratio, you don't have the recovery of value that
20 you might, in your book later, so you can still have
21 those claims.
22 CHAIR COURSON: Right.
23 MR. MCMANUS: And the incidence of claim is
24 driven by unemployment, number one. I think divorce is
25 number two. Illness is number three. Those factors can

1 answer my own question, I think, too, is also there's now
2 the ability in the private marketplace for a borrower to
3 drop their mortgage insurance and after the property
4 value increased to a certain level that gives them an
5 LTV, so the insurer could be out of the picture, too. In
6 our case, that wouldn't happen.
7 MR. MCMANUS: The good business runs away in
8 refinances, where the values have gone up --
9 CHAIR COURSON: Right.
10 MR. MCMANUS: -- they refinance, drop the
11 mortgage insurance, and save 85 basis points a year.
12 Only where the values haven't gone up do they
13 stay in the mortgage insurance.
14 CHAIR COURSON: Right.
15 MR. MCMANUS: So there's a self-selection
16 process here.
17 This is in percentages. You can look in the
18 cumulative column, it's a little easier. In Year 5, you
19 see 42 percent of the claims cumulatively have been paid.
20 At ten years, 95 percent. So there is risk in the book
21 after Year 5.
22 This beautiful chart is the actual CalHFA
23 experience in payoffs of mortgages, which relates to how
24 fast does the book run off.
25 MS. GALANTE: It looks like abstract art.

1 MR. CAREY: I appreciate you simplifying this
2 for us.
3 MR. MCMANUS: The dark line is for the
4 slow-learner class -- that's the one I follow. And
5 that's our average expectation. And it's really percent
6 of book of business paying off in a year.
7 If you look at the 12 to 24, you see about
8 15 percent. It rises to about 22 percent per year.
9 So if in the Year 3 you had 100 loans, we
10 expect about 22 of them to pay off during Year 4. So
11 it's down to 88. Then we expect about 16 of them to pay
12 off. So it's down to 62.
13 So it's about 20 percent to 22 percent per year
14 thereafter. But as you see, there's no consistent year
15 that follows that line. When interest rates are
16 dropping, you get refinances, the book burns out, John
17 loses all his servicing, very miserable.
18 When interest rates tick up, the loans stay
19 there for a long time. The values of the houses aren't
20 going up so fast because monthly payments are higher in
21 higher-interest-rate environments, and the loans stay
22 there. So the low-interest-rate loans stay, the high
23 interest rate loans burn off quickly.
24 But this is a prepayment pattern, so you know
25 that we do -- in the current market, because rates have

1 occur anytime.

2 CHAIR COURSON: And the other, which I'll just

3 answer my own question, I think, too, is also there's now

4 the ability in the private marketplace for a borrower to

5 drop their mortgage insurance and after the property

6 value increased to a certain level that gives them an

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25 interest rate loans burn off quickly.

1 gone up, we should have our book of business longer, we
2 should collect more premiums on them; but we probably
3 won't have the price appreciation to protect us, should
4 there be difficulty.
5 I'm bringing you back because I'm going to
6 cover some changes we made.
7 This is the default rate based on FICO scores.
8 You can see the highlighted ones. We've put down a
9 pretty bright line in the sand here that we do not want
10 loans with FICO scores under 620. We will look at
11 individual loans, certain factors that happen in
12 emergencies to overcome; and we can manually override
13 this. But our line is at 620.
14 And a total debt ratio, which I covered before,
15 that's payments for everything, you can see growing on
16 our book of business the percentage that's over
17 55 percent total debt has grown to 10.87. In August, we
18 announced underwriting guidelines, 55 percent maximum
19 total debt ratio. And, again, it was the automated
20 underwriting, Freddie Mac and Fannie Mae, that had
21 loosened to allow this to occur. And we have decided
22 we have got to not accept their decision if it exceeds
23 55 percent.
24 And finally, we've strengthened our quality
25 control. With such a high percentage of the Agency's

1 business going into our privately-insured book, we have a
2 very formal quality-COLA review, going over our own
3 underwriter's work, redoing it, redoing the automated
4 underwriting, and underwriting the 80 and under book of
5 business. We're going to go check those files because so
6 many of them have second mortgages, that their total
7 combined loan-to-value is probably 97 to 100.
8 There's a lot of second-mortgage programs that
9 make them high-ratio loans to the borrower, even though
10 their payments on the first are at the 80 percent LTV
11 level. So we're going to be checking a lot more.
12 I have hired a senior underwriter, switched
13 resources over to quality control; and we'll just
14 continue to make sure that we're underwriting people that
15 can afford to keep making their payments going forward.
16 Any questions?
17 CHAIR COURSON: Let me just make a comment, a
18 personal comment.
19 I have some apprehension over drawing what
20 seems to be a pretty firm line at a 620 or 619 FICO score
21 and a 55 percent back-end ratio when many others who have
22 a very similar public purpose that we have are not doing
23 that. And I think our challenge as a board, obviously we
24 have a fiduciary responsibility to make sure the
25 soundness of our fund and so on.

1 But this is a prepayment pattern, so you know
2 that we do -- in the current market, because rates have
3 gone up, we should have our book of business longer, we
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24 a very similar public purpose that we have are not doing
25 that. And I think our challenge as a board, obviously we

1 The other question is, we do have a public
2 purpose to serve borrowers. And my concern is that as
3 you start to draw these lines, if, in fact -- whatever it
4 is -- and we see a lot of loans in our shop that are less
5 than 620. And the question is, are you pushing them into
6 the arms of the sub prime market? Where, in fact, as our
7 public purpose, they won't be as well served. They'll
8 get the loan at a substantially higher cost, with
9 substantially more draconian terms. And I think that's
10 the balance we have to look at, is our public purpose and
11 our fiduciary responsibility -- well, I don't have the
12 answer, but I would be remiss if I didn't make the
13 comment, because I think that's the balance we have to
14 look at.
15 And I don't know if it's 55 or 60 or 64 or 620
16 or 610. I don't know what it is, but I just think we
17 have to be very careful about putting out a pretty
18 hard -- putting out the underwriting guidelines. There's
19 no question we don't have to have standards.
20 A lot of this, too, underwriting is not --
21 people are trying to make it an exact science; and I will
22 tell you, it's not an exact science. And there are other
23 compensating factors, other than back-in ratios or FICOs
24 that make loans makable. That's why we still have a
25 substantial number of our staff called "underwriters."

1 Otherwise, they just have things called machines. So I
2 just caution us and urge us to continue to look at that.
3 I have some discomfort, I have to say.
4 MR. MCMANUS: Okay, we do have -- and it's in
5 our underwriting guidelines -- that we will manually
6 underwrite any loans outside those parameters and look
7 for those strengths. It was just not accepting automated
8 underwriting without looking at them and looking for
9 those strengths.
10 I surveyed other housing finance agencies,
11 having the same concern you do. Most had 660 as their
12 minimum guidelines, and they looked to their lenders to
13 enforce that.
14 I had some that would go to 640. I had no one
15 else at 620. We were stretching, but we do have --
16 California does have a history of being able to do that;
17 okay.
18 Yes?
19 CHAIR COURSON: Ms. Galante?
20 MS. GALANTE: You know, I had the same question
21 more than concern, because I'm not as deep into the
22 business as you are. But I was going to ask, you know,
23 what was the score before -- you actually changed the
24 guideline from 580 to 620. I'm just trying to understand
25 where the change is here.

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25 what was the score before -- you actually changed the

1 guideline from 580 to 620. I'm just trying to understand
2 where the change is here.
3 MR. MCMANUS: Yes, the guideline was 620
4 before.
5 MS. GALANTE: Okay.
6 MR. MCMANUS: But we were accepting automated
7 underwriting. And the automated underwriting was
8 allowing these under-620 scores to be approved.
9 We've reviewed the files manually. We found
10 that Fannie Mae changed their underwriting guidelines to
11 allow an exception category to go into their "accept"
12 category.
13 MS. GALANTE: Okay.
14 MR. MCMANUS: They deteriorated their
15 underwriting guidelines, and we didn't change to force us
16 to manually review those.
17 We've now changed to --
18 MS. GALANTE: So we're not changing our
19 guidelines. We're just trying to be more rigorous in
20 enforcing our existing guidelines?
21 CHAIR COURSON: Well, I think it's fair to say,
22 we're just not accepting automated underwriting decisions
23 on the face of the automated underwriting decision.
24 MR. MCMANUS: Exactly. That's the only thing:
25 We're going to force a manual review.

1 MS. GALANTE: Okay. And a follow-up question.
2 If you compare our underwriting guidelines to some of
3 the other affordable CRA-motivated mortgage product out
4 there -- the BofA, Acorn Products, how does our
5 underwriting on FICO scores and ratios compare to those?
6 MR. MCMANUS: We were lower than the other
7 HFAs.
8 There are some programs that don't use credit
9 scores as part of their underwriting. So to that extent,
10 we would be possibly tighter, since we do look at history
11 of credit payments and do you pay your bills. We look at
12 that. And some do not look at FICO scores.
13 FHA, for one, I believe, is not going to use a
14 credit score in their new underwriting.
15 MS. GALANTE: I think there are a number of
16 bank products out there that do use FICO scores. I just
17 don't know what they are.
18 CHAIR COURSON: Correct.
19 MS. GALANTE: I'm just trying to understand,
20 are we going to lose the --
21 MR. MCMANUS: We're lower than any bank.
22 MS. PARKER: Mr. Chairman, let me make one
23 other comment about kind of where we are in our business
24 plan. I think Chuck alluded to it when he gave you some
25 numbers of how much mortgage insurance has been written

1 a calendar-year number.
2 But just as a little preview to what you'll be
3 seeing when we come in and do our midyear update in
4 January. We are -- our program is just going
5 gangbusters. As you all recall, we anticipated to have a
6 business plan go for this year of somewhere around
7 1.5 billion. We are at 1.6 billion, pushing 1.7 billion.
8 So we're having some internal discussions
9 because, obviously, we have resource constraints. So
10 part of what we have done at the moment is something to,
11 you know, perhaps deal with the resource constraints that
12 we will have on us, and taking advantage of, at this
13 point in time, having insured those loans that are on
14 portfolio are, you know, a good mix, because we may not
15 be able to serve everybody, anyway.
16 Having said that, we are also challenging
17 ourselves to figure out ways that we can get more
18 resources. We've certainly had the discussion with the
19 Treasurer's office about any use of allocated amounts of
20 bond credits. We've got 500 million last year. But if
21 we don't get those kinds of things, we could be
22 substantially more aggressive in our lending, given the
23 demand that we're seeing out there.
24 MS. GALANTE: Okay.
25 CHAIR COURSON: But are you suggesting that the

1 credit decisions we've made are to allocate capital as
2 opposed to safety and soundness?
3 MS. PARKER: I think what I'm saying is that
4 we -- because we had some issues with respect -- first of
5 all, we had issues with credit soundness.
6 Secondly, we also knew that we were at a point
7 in time where we were going to have to figure out we
8 might have some constraints on our program. And we
9 thought before we go to some of our traditional
10 constraints -- rates, whatever -- that by instituting
11 this, that that was a good step for us to do, and then
12 step back and see what we want to do from a
13 broader-planning standpoint on the program totality.
14 CHAIR COURSON: To respond to part of what
15 Carol said, and I think what's happening in the
16 marketplace -- and I just happened to be in New York in
17 some of the larger investment banking houses that issue
18 mortgage bank securities and so on, and sell substantial
19 amounts to them, and talking about 64 percent back-end
20 ratios and 600 FICOs. So we had that and got engaged in
21 it. And the issue there, or the answer is that the
22 marketplace has moved to risk-based pricing.
23 And FHA, in fact, in the legislation that's
24 pending before Congress right now is going to take their
25 mortgage insurance premium, which has been fixed, and

1 relative to a year ago at this time.
2 Chuck runs on a calendar-year basis, so that is
3 a calendar-year number.
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3 they're going to risk-base price it.
4 So some -- your 680's and 690's and so on will
5 get a much lower MIP -- mortgage insurance premium -- and
6 your 600's and 580's are even going to be higher.
7 And there's been a lot of discussion over that,
8 particularly with the consumer groups, saying you're
9 raising the premium on those that can least afford it.
10 But the other answer is, if you don't, they're going to
11 get into a marketplace where you don't want them to go,
12 which is into some of the subprime two-year high
13 pre-payment issues and so on.
14 So part of getting into the marketplace has
15 been risk-based pricing, which raises a question, not
16 having our rates regulated by the Department of
17 Insurance -- which we don't -- is there a concept of
18 risk-based pricing that, as we look at a long-term
19 strategy for our insurance fund, saying we can make
20 different tranches of loans; we just have to price for
21 the risk and still give pricing total all-in pricing
22 because of our tax-exempt capabilities on the interest-
23 rate side that would be less than if they had to go into
24 that subprime market.
25 MR. MCMANUS: Yes, we could risk-base price.

1 And that is a philosophical decision that the Board has
2 to give direction on because I would not want to do it
3 because I would like to help the lower ones and pay for
4 them with the high -- you know, just because people don't
5 make a lot of money and they come here and they have a
6 750 credit score, but they need our financing still to
7 get in a house, they're going to help pay for the ones
8 with the 620's. And that's the balance of the good news
9 and the bad news, because you saw the ratio of
10 foreclosures. It follows that FICO score. I mean, that
11 is not an illusion. That is fact set up all over the
12 country.
13 So we can do the 620's, we can do the 600's; we
14 just have to pay for it somehow. And we need the 700's
15 and the 750's to pay for the 600's at a level price that
16 will work.
17 If we risk-base price, there will be a
18 self-selection, and I think we'll get fewer, fewer will
19 qualify.
20 CHAIR COURSON: What if you price for the risk
21 on the lower end of the tranche and yet their total costs
22 are still lower than going out to the private market?
23 MR. MCMANUS: The differential in our pricing
24 right now is, say, 85 basis points against 96 for a
25 standard risk. We've got 11 basis points lower price

1 right now; and we have looser underwriting guidelines on
2 that slightly.
3 So we've tried to accommodate through the
4 looser underwriting guidelines and balancing the good
5 news with the bad news, and coming out okay.
6 But we can set any philosophy you want. If you
7 want to price to risk, we can do that. We have the best
8 actuary in the business.
9 CHAIR COURSON: Other questions? Comments?
10 MR. DAVI: Mr. Chairman, I just have a
11 question. I'm trying to understand, I understand the
12 national marketplace, the California marketplace in terms
13 of how it follows a FICO score.
14 Which graph represents our portfolio? Or do
15 you have that?
16 MR. MCMANUS: On FICO?
17 MR. DAVI: Yes, on our loans basically and what
18 our foreclosure rates are, or loss rates.
19 MR. MCMANUS: I don't have our loss rates by
20 FICO.
21 MR. DAVI: Okay.
22 MR. MCMANUS: I don't think I have it
23 historically.
24 Back to the years where we had losses -- I
25 mean, we had no losses. We have to go back to the '93,

1 '94 books of business -- and I don't have them by FICO
2 score in our portfolio, but I can track that.
3 Also, you know, they were at least three and
4 probably 5 percent down payment loans. They're not
5 100 percent LTV. And now I'm over 50 percent,
6 100 percent LTV, it's a little bit different risk there,
7 too.
8 MS. PARKER: I'm not sure that looking that far
9 back in our history --
10 MR. DAVI: Just the last five years. We have
11 nothing, basically, that's the thing.
12 MS. PARKER: Yes, and even with that, the loans
13 that we're doing -- the majority of the loans we're doing
14 are not what we were doing five years ago.
15 So we don't have a lot of history. But
16 60 percent of our loans today are 5/35, and we've been
17 doing them for just a little over a year. So we talk
18 about no history for a loan product.
19 MR. DAVI: Okay.
20 MS. PARKER: But we are collecting all of that.
21 And certainly with our partners, with Genworth.
22 CHAIR COURSON: Other questions or comments?
23 *(No audible response)*
24 CHAIR COURSON: A very good presentation,
25 Chuck. That was very good discussion. We appreciate it.

1 MR. MCMANUS: Thank you.

2 //

3 **Item 5. Status on REO Sales**

4 CHAIR COURSON: The next item on our agenda is

5 REO Sales.

6 And Margaret is with us. Margaret Alvarez.

7 MS. PARKER: Margaret has a great news story to

8 tell us.

9 CHAIR COURSON: A great new story?

10 MS. PARKER: A news story.

11 CHAIR COURSON: Oh, news story.

12 MS. ALVAREZ: I just really have one slide,

13 which is an update of our six REOs talking about all

14 these foreclosures. The Agency has over 500 multifamily

15 loans in our history, and these are the only six that

16 have ever foreclosed. They all foreclosed between 1995

17 and 1997. Five of them primarily because, really, of

18 leveraging and then hitting the skids on the real estate

19 market. Rents didn't increase, but everything else did.

20 People gave back the buildings.

21 One building was due to a messy divorce, and we

22 got the building back.

23 So, anyway, where we stand today, as you can

24 see up there, is we had six REOs. Three have been sold.

25 We have one sale pending that should close later this

1 month, and one that we hope to do agency financing,
2 including tax credits that we expect to close in
3 January 2007.
4 And Evergreen is a small building in Compton
5 which, about a year ago, right as we were listing all the
6 buildings, had a fire. A tenant smoking on the sofa and
7 fell asleep, and basically crispy-crittered four of the
8 25 units.
9 So now we took that off the market, the
10 insurance proceeds have all been settled. The building
11 has been reconstructed. And we're just in the process of
12 relisting that with the brokerage firm and going out for
13 sale. There's been no sales price set for that one.
14 But I wanted to go back just to give a little
15 history of what our progress was on this because it is a
16 long time in coming. Most places don't keep REOs for ten
17 years, as we did. And I thought a lot about why that
18 happened, and I really think it goes back to resources.
19 I started with the Agency about ten years ago,
20 just after these foreclosed. And since then, we've been
21 busy with the Agency, with new loans and so forth. But
22 there came a point in time where the market rates have
23 been really good. Sales interest has been very high.
24 Inventory is low, so it seemed like it was a good time
25 that way to sell the properties. And also the buildings

1 are old enough now that they started needing some work,
2 which meant that either we pay that money or we resell it
3 to someone else and let them do that.
4 So two of our staff people -- Richard Dewey who
5 works for Asset Management and Ralph Palmer who works for
6 Multifamily Programs -- really spent a lot of their time
7 in 2005 coming up with an REO disposition policy and
8 procedure that the Agency adopted at the beginning of
9 2005.
10 And the issued request for proposals to the
11 brokerage community early in 2005 selected Hendrickson
12 Partners in March of that year to be our representatives
13 and to sell those buildings.
14 At their advice, we marketed them initially in
15 2005 as a portfolio package, all six, to buyers.
16 We got 12 offers by the end of July, which we
17 evaluated. And we really weren't happy with any of them,
18 to be honest.
19 At that time the Agency had decided that we
20 would be the financier of those buildings, on the new
21 loans, and that we would require new 30-year regulatory
22 agreements on all those properties.
23 And just given all those things, there wasn't
24 really a lot of interest. Even the 12 purchasers didn't
25 really want all six. Really, they wanted one or two, and

1 would take the others. And we just kind of regrouped,
2 decided to wash our hands of the whole process and start
3 over.
4 By that time, it was the fall of 2005, and we
5 decided we'd skip the holidays and the end-of-the-year
6 crash, cramming for exams at the Agency that we have, and
7 really remarket them at the beginning of this year, 2006.
8 We had a much more successful plan. Marketed them
9 individually. Decided to accept cash offers and not
10 necessarily have to finance through the Agency. And we
11 also made a pretty big decision for the Agency to stick
12 with just the original regulatory period on the original
13 loan, and not to require any 30-year term.
14 And part of that, quite frankly, was to get the
15 best price for the buildings, because these funds then go
16 into the Agency pot and allow us to do more affordable
17 housing elsewhere. So we felt we weren't giving up
18 anything, but we were also gaining something for the
19 Agency.
20 And we've had very good success, as you can see
21 between the foreclosed value and the sale value. And
22 it's worked very well.
23 If anyone has any questions, I'd be happy to
24 answer them.
25 CHAIR COURSON: Mr. Czuker?

1 MR. CZUKER: Once you stopped requiring the
2 renewal of the regulatory agreement, what period was left
3 on the old existing loans and what style or type of buyer
4 did you have? Were they going to maintain the level of
5 affordability, running as an affordable housing project?
6 Or were they looking to market or convert to market rate
7 the buildings as part of the business plan, and that's
8 the basis under which the Agency was able to achieve the
9 higher price?
10 MS. ALVAREZ: To start at the beginning, I
11 think, of all your questions, the regulated periods are
12 up there, the original regulated periods. They go from
13 2016 to 2021. And --
14 MR. CZUKER: But often, if you pay off bonds
15 early, the regulatory agreement will also expire with the
16 retirement of the bond proceeds and could, in some cases,
17 eliminate the regulatory restriction.
18 MS. ALVAREZ: As part of the sale, the
19 regulatory agreements are on the buildings, and the
20 Agency continues to monitor the occupancy of those
21 buildings until through the regulated period. So we'll
22 be monitoring that. But that's a very good question. So
23 we'll be keeping track of that. It's an annual -- as we
24 have on all our 80/20 properties, it's an annual
25 self-certification. And then if we feel the need to go

1 back and investigate further, we're able to do that.
2 So those will be regulated through those time
3 periods.
4 MS. GALANTE: Were these 80/20's?
5 MS. ALVAREZ: Yes.
6 MR. CZUKER: And were these financed
7 Market-rate financing, or were these new bond financings,
8 perhaps not through the Agency?
9 MS. ALVAREZ: They all three had been sold.
10 And the ones currently being sold are outside financing.
11 MR. CZUKER: Conventional?
12 MS. ALVAREZ: Conventional financing.
13 The only one the Agency is currently
14 considering financing is Olive Tree and Livingston.
15 MR. CZUKER: And what price has that been
16 considered at? Sale price?
17 MS. ALVAREZ: I believe our new loan is about
18 the same as the foreclosed value on Olive Tree.
19 I would mention, too, that one of the
20 reasons -- Olive Tree is actually what started the whole
21 sales conversation. It had some siding issues, T-111
22 siding and clapboard siding, there were some flashing
23 problems on the windows. It's about 1.7 million PMA.
24 So, really, that's how it started, was me
25 coming to the senior staff agency and saying, "You have

1 this $2 million value property that we need almost
2 2 million in a fix. So let's try to do something." And
3 at that point we decided we should just sell it and let
4 somebody else do that.
5 We really don't have the staff time and
6 resources and expertise to take that on. And that little
7 project kind of led to the whole thing being the right
8 time and place to do it, to do the sales.
9 Now, you asked the question about the buyers on
10 those buildings. They all have some affordable housing
11 experience. But our expectation is that at the end of
12 the regulatory period, those folks will be converting it
13 to fully market-rate properties.
14 MR. CZUKER: And the cash proceeds of the sale,
15 do those go to our General Fund or into our Trust Fund?
16 MS. ALVAREZ: They go to our Housing Assistance
17 Trust fund, our HAT money, that you see on our reports
18 fairly regularly.
19 CHAIR COURSON: Other questions?
20 MR. CZUKER: I'm sorry, just a comment.
21 I think it was a brilliant move to switch
22 policy and change from selling it as a portfolio to
23 selling them individually, which clearly helped maximize
24 price. Equally, I think it was brilliant to not require
25 the group financing through CalHFA and allow the

1 marketplace to dictate the highest price possible. And I
2 think we're seeing the net benefit of cash proceeds,
3 which the Trust funds and the equity will certainly
4 benefit the greater public good.
5 And I want to commend you and your staff for
6 executing and changing philosophy to maximizing these
7 proceeds. So thank you.
8 MS. ALVAREZ: Thank you.
9 MS. PARKER: I think Margaret, in that sense,
10 your staff did an outstanding job. And clearly, our goal
11 at the end of the day was to make sure that we followed a
12 process so that if there was any questions about the
13 ethics of our process, that we could handle this from a
14 complete transparent standpoint.
15 We really -- Margaret went about it in a very
16 thoughtful way, and we talked about this continually,
17 from the standpoint if anybody questioned how we went
18 about this through the Agency, it would hold up with no
19 questions.
20 MR. CZUKER: You commented that you had twelve
21 bidders as a portfolio. On an individual basis, just
22 roughly, how many bidders did you have per property?
23 Roughly.
24 MS. ALVAREZ: Well, we had -- it was a mixed
25 bag, to be honest with you. Nobody really wanted all of

1 them. I think there were two that would take all of
2 them. When it came down to it, there were a couple
3 buildings that, in that round -- there were only 12
4 bidders in that process -- nobody wanted. So it really
5 was a mixed bag.
6 When we went back, because we weren't that
7 happy with the prices, and from what we were hearing from
8 the brokers about the buyers' thoughts about the
9 building, it just didn't seem like the right buyers for
10 the portfolio. It just didn't seem right. And so when
11 we started calling people and they're saying, "Well, I
12 really want Kingsley but I really didn't want Olive Tree,
13 it's too far away," then you just start feeling like
14 you're going to have borrowers who aren't really going to
15 take care of something that you're selling them. And our
16 name is still attached to it; and at that point, we were
17 going to be making the loans. And who needs all that;
18 right?
19 So, really, the better decision was to start
20 from scratch and make the decision that we ultimately
21 did. And in that case, Kingsley and North Hollywood, and
22 to my surprise, really, Sunrise Lancaster, were the three
23 most valuable in the marketplace, if you will. We had
24 the most bidders for those. Olive Tree, we are selling
25 it to the one person who wanted it. Evergreen, as I

1 said, we took off the market, so we don't have anything
2 there. So it was a very good process in the end.
3 MR. CZUKER: Do you happen to know, on an
4 individual basis, were there a lot of people that came to
5 bid on an individual asset, or were you down to just one
6 or two per asset?
7 MS. ALVAREZ: Oh, no. On Kingsley, North
8 Hollywood, and Sunrise, we had ten or more purchasers on
9 each one. And we've, quite frankly, just started at the
10 top. It's purely by price. Because they were all very
11 qualified buyers, they all had experience in affordable
12 housing and conventional housing. They were all capable
13 of performing. So we just started at the top with the
14 price and went down the line.
15 MR. CZUKER: Roughly, 10 to 12 per building?
16 MS. ALVAREZ: Yes.
17 MR. CZUKER: And on Sunrise, you don't have a
18 price indicated.
19 MS. ALVAREZ: Well, I didn't feel it was
20 appropriate because it's still pending. We got word this
21 morning that the buyer wants to close in the next ten
22 days. We'll see if that happens.
23 But we're on our third buyer for Sunrise
24 Lancaster. So I'm being careful.
25 MS. GALANTE: Don't want to jinx it.

1 CHAIR COURSON: Other questions?

2 *(No audible response)*

3 CHAIR COURSON: Margaret, not to look at -- are

4 there other properties currently in the process of

5 foreclosure?

6 MS. ALVAREZ: No.

7 MS. PARKER: I think I would say to the Board

8 members that, you know, we're not bringing to you at this

9 Board meeting any new projects for underwriting by the

10 Board. However, I don't think that many people have been

11 very busy because of all of the projects that you have

12 approved over the last several years. So they're very,

13 very busy doing closings at a rate that they are

14 exceeding even prior years. But we are also using this

15 as an opportunity to spend some time working on looking

16 at our portfolio and having some discussions about the

17 aging of the portfolio. Margaret has brought you some

18 reports on this in the past. But it has provided us a

19 point in time for us to be looking at that and having

20 some discussions from an asset standpoint and also from a

21 financial standpoint.

22 So we just want to give you a little more of a

23 sense of what is coming, things to be looking at. But we

24 are using the time from that standpoint.

25 CHAIR COURSON: Anything else?

1 Margaret, thank you very much.
2 MS. ALVAREZ: Thank you.
3 CHAIR COURSON: Unless there's an objection
4 from the Board, my plan is just to keep moving through
5 the agenda. If you need to excuse yourself, feel free.
6 But don't everybody get up and leave now because the next
7 item agenda is, I'm going to turn the meeting over to
8 Mr. Shine, who is the chair of our Audit Committee. Our
9 Audit Committee, as you know, has been formed and had
10 their first official meeting today prior to the Board
11 meeting.
12 And Mr. Shine?
13 --o0o--
14 **Item 7. Report from the Audit Committee Chairman**
15 MR. SHINE: Thank you, Mr. Chairman.
16 We did meet for the first time this morning,
17 Peter and Carol and I and the staff. And basically what
18 we did is we reviewed what we're supposed to be doing,
19 called our charter. And we talked about our mission,
20 meeting times and basically defined the role that we as
21 an audit committee seem to be headed toward, and making
22 sure that the auditors do their job, and that we have an
23 opportunity to question them and see if we feel
24 comfortable with what they're doing, and can be of help
25 to this board in getting the information to the board

1 about the audit in a way that will be understandable,
2 concise, and to make sure that we're getting the best
3 deal from our auditors we can and that they are really
4 taking a good look at our operations and helping us with
5 their recommendations.
6 Beyond that, we discussed the status of what is
7 going on now, which the auditors have started their audit
8 and should be done by October. They should be
9 negotiating -- strike that. We will be putting out
10 requests for proposals to the four remaining national
11 firms. And they're all going to be there by that time,
12 and possibly looking at considering some major regional
13 auditors, provided that they're qualified and acceptable
14 to the bond underwriters and other people with whom we do
15 business, for whom we give these audited statements to in
16 the first place.
17 So that process will take 90 days, or maybe a
18 day or two longer, we don't know. And we will be there
19 as part of that process to ask the questions that
20 hopefully will make everybody cover all the bases and do
21 the job that we were looking for. And that was our
22 meeting. And there was no public testimony.
23 And, Mr. Chairman, thank you very much.
24 CHAIR COURSON: Are there any other comments
25 from the Audit Committee?

1 *(No audible response)*
2 CHAIR COURSON: They're off and running on
3 their task and will report again at the November meeting.
4 --o0o--
5 **Item 8. Discussion, recommendation and possible action**
6 **relative to the organizational document and**
7 **procedures of CalHFA's Board of Director's**
8 **Compensation Committee (Resolution 06-16)**
9 CHAIR COURSON: The next item on our agenda is
10 the Compensation Committee. As you know, and as we've
11 discussed, the legislation has now been passed.
12 Actually, I was going to ask Terri, one of the
13 questions I have is, is it appropriate -- the bill now
14 is -- Di Richardson is here -- the bill now is on the
15 Governor's desk in the Governor's office. Once it gets
16 enrolled for signature, that's sort of the last step.
17 And I guess the question would be, would it be helpful,
18 in your opinion, if, in fact, the Board -- and I can sign
19 as chair of the Board -- submitted a letter. I know lots
20 of times when things get in the Governor's office, people
21 submit letters, just reinforcing and urging a signature
22 and the importance of the bill that's before him, or have
23 we done enough work in the Governor's office that that
24 would not be necessary?
25 MS. RICHARDSON: I'm not sure that I think it's

1 necessary. The Agency is on record as being supportive
2 of the bill and, in fact, is the sponsor of the bill.
3 And when we were running into a couple of little hiccups
4 during the process there, you know, we had five weeks to
5 make quite a bit of progress, the Governor's office was
6 very helpful in helping us get through a couple of those.
7 To my knowledge, the Board has never submitted
8 a letter to the Governor's office asking for action on a
9 piece of legislation. But certainly anybody that wants
10 to individually submit a letter, you know, the more, the
11 merrier. Those all do go into the file, and the Governor
12 looks at everything before he takes action on a bill. So
13 if anyone is interested in doing that, I could help you
14 facilitate that.
15 CHAIR COURSON: And I think now that we're in
16 this process and awaiting, actually, the Governor to sign
17 that, as we talked about at our last meeting, based on
18 the time frames and timelines and so on, Terri and I and
19 Steve have worked, and have just sort of been head into
20 the wind to move ahead, because we are looking at timing,
21 and proceeding on assuming that we will get the
22 Governor's signature and it will become effective, and so
23 we are moving down that road.
24 So we have a couple of things today. I'll turn
25 it over to Terri. But one you have. And we talked about

1 this at our last Board meeting. And since the last Board
2 meeting, we have worked on a draft of a charter, much as
3 we did for our Audit Committee, for a charter of the
4 responsibilities of the Compensation Committee, which
5 this Board has supported forming.
6 And I think, Terri, we should look at that
7 charter as our first order of business, if we may, if
8 there are any comments on that. And then we're going to
9 move into process after that, and talk about what we need
10 to do from where we are today. But hopefully the
11 formation of the Compensation Committee into what the
12 tasks of that committee are.
13 MS. PARKER: Thank you, Mr. Chairman.
14 As I had mentioned earlier in my opening
15 comments, at our desk is a copy of the legislation that
16 was passed by the Legislature. And we have used some of
17 the specifics in the legislation as the basis for the
18 charter for the Compensation Committee.
19 If you just go through it and note it, we put
20 some fairly specific language in the legislation,
21 directing the Agency and the Board about how it could act
22 upon compensation.
23 I would say that there's far more direction in
24 that legislation than there exists for other entities
25 that have this authority. And it's also -- I just would

1 add this as kind of some insight, many of you who have
2 been on the Board for a while will remember that three or
3 four years ago there was legislation that the realtors
4 had proposed, which would have moved the insurance
5 program outside of CalHFA, would have established a
6 separate board and that board would have authority to set
7 salaries.
8 And the way the legislation was written, there
9 was no transparency. That there are really no criteria.
10 They could do pretty much whatever they wanted.
11 So we felt in this day and age, particularly
12 with a lot of the controversy that's happened around the
13 stem cell committee, around UC, that we wanted to write
14 something in there that would assure people confidence
15 about how we were going about this process to be as
16 transparent and above-board as possible.
17 So we have reflected those in the charter.
18 They're consistent with the legislation that requires the
19 conducting of a survey, the survey methodology to be sent
20 to discuss with the Department of Personnel
21 Administration, that the Board has the survey to use as a
22 guide to set compensation for the various positions which
23 are limited to only those exempt positions in the Agency.
24 But there is an absolute cap in the legislation of the
25 Board's ability to not set compensation any greater than

1 the range that is in a survey.

2 Clearly, the Board has the authority to do

3 surveys as often as it wants to. But as far as mechanism

4 of concern, it's also a discussion that the survey would

5 be done by an outside entity that's not -- it was never

6 intended that we would do this from a staff perspective.

7 So I wanted to just tell you that we have proposed, what

8 Tom has drafted in here as a charter has really tried to

9 take away the specificity in the legislation, and then

10 further elaborate on it for your consideration.

11 CHAIR COURSON: Everybody has seen this in

12 their Board package. We've had a little discussion at

13 the last meeting.

14 Are there questions, comments on any of the

15 content of the charter, the Compensation Committee

16 charter?

17 If there's not -- yes, Mr. Morris?

18 MR. MORRIS: What I want to do, is to ask,

19 really Tom, all the meetings will be open meetings. The

20 process obviously is all open. But when there are

21 specific reviews here as relates to the executive

22 director and other positions, when you review under the

23 Brown Act, I imagine we're talking about general policy

24 and general process, that's all open. But when you

25 actually start to talk about specific individuals, then

1 you probably go into closed?
2 MR. HUGHES: Yes, that's exactly right. The
3 Bagley-Keene Act, that the Agency is subject to, provides
4 for a closed-session meeting, if there are personnel
5 evaluations, disciplinary actions, things like that, that
6 affect an individual.
7 However, it does not cover compensation and
8 salary-setting. And both our bill, our statutes, and the
9 general Open Meeting law requires something like that to
10 be done in an open public session. So there's a
11 distinction between the general compensation salary
12 setting exercise and a particular person's review and/or
13 other personnel issues.
14 MR. MORRIS: So here, where you have language,
15 where you're talking specifically about a review of the
16 executive director, that would be in closed?
17 MR. HUGHES: That is something that can be done
18 in closed session, yes.
19 MR. MORRIS: I think what we need to do is just
20 make the language a little bit -- or put specific
21 language as it relates to clarify when it is open, when
22 it is closed.
23 Typically, when I've been on other state
24 boards, we always had general counsel there, because at
25 times we'll say should it be open or should it be closed.

1 MR. HUGHES: Right.
2 MR. MORRIS: And we're going to have a couple
3 meetings a year, and there might be questions to the
4 general counsel, you know, are we just -- initially, is
5 it open or closed. You might want to have language in
6 there as relates to being open and closed.
7 MR. HUGHES: I think that's a good idea.
8 I would point out -- and I'm trying to remember
9 the precise language as I search for the statute -- but I
10 think the issue of whether there's an open or closed
11 meeting for personnel evaluation is at the option of the
12 person being reviewed. So that is largely a function
13 of the --
14 MR. MORRIS: Whatever the language is, we
15 should have that there. I don't know what it is.
16 MR. HUGHES: Right. I think that's an
17 excellent point, and we can put that in there.
18 CHAIR COURSON: Other questions or comments?
19 *(No audible response)*
20 CHAIR COURSON: There is a resolution included
21 in your Board package, page 117, that does, in fact,
22 approve the charter.
23 I would suggest that this resolution now is to
24 approve the charter, with the insertion of those portions
25 of the activities of the committee that would be closed.

1 Rather than say everything is open, I guess the ones
2 closed or could be closed, would be a differentiation.
3 MR. CZUKER: So moved.
4 CHAIR COURSON: Mr. Czuker moves.
5 Is there a second?
6 MR. MORRIS: Second.
7 CHAIR COURSON: Mr. Morris seconds.
8 Is there any further discussion?
9 *(No audible response)*
10 CHAIR COURSON: If not, we'll call the roll.
11 MS. OJIMA: Thank you, Mr. Chair.
12 Mr. Pavao?
13 MR. PAVAO: Yes.
14 MS. OJIMA: Mr. Carey?
15 MR. CAREY: Yes.
16 MS. OJIMA: Mr. Czuker?
17 MR. CZUKER: Yes.
18 MS. OJIMA: Ms. Galante?
19 MS. GALANTE: Yes.
20 MS. OJIMA: Mr. Beddard?
21 MR. BEDDARD: Yes.
22 MS. OJIMA: Mr. Davi?
23 MR. DAVI: Yes.
24 MS. OJIMA: Mr. Morris?
25 MR. MORRIS: Yes.

1 MS. OJIMA: Mr. Shine?

2 MR. SHINE: Yes.

3 MS. OJIMA: Mr. Courson?

4 CHAIR COURSON: Yes.

5 MS. OJIMA: Resolution 06-16 has been approved.

6 CHAIR COURSON: And in accordance with that, as

7 we've talked about at the last meeting -- of I did

8 mention also at the last meeting, in thinking about

9 appointing a compensation committee, I have asked, and

10 they have accepted, Mr. Czuker will serve on the

11 committee and serve a one-year term; Mr. Morris will

12 serve on the committee, serve a two-year term; and I will

13 serve on the committee as chair and serve a three-year

14 term. So as we had with the Audit Committee, we have, in

15 looking at -- and all those terms were in accordance with

16 our term on the board, and so we will have circulation of

17 somebody new coming on, somebody going off each year. So

18 I make those appointments. And I appreciate Mr. Morris's

19 and Mr. Czuker's acceptance and going to work on this

20 most important task we've got.

21 Now that we have the structure and the charter

22 in place, we need to move towards the process because,

23 clearly, we have a timeline that is marching on every

24 day. And I'll let Terri introduce Pat, and we'll really

25 spend -- I want to spend the time talking about what our

1 process is going to be. We need input from the Board now
2 because we've got to make sure we know the process we're
3 going to use and be satisfied with the standards that
4 we're putting out there, and then look at the timeline to
5 meet the schedule that we hope to achieve.
6 So, Terri?
7 MS. PARKER: Again, Mr. Chairman, I want to
8 introduce Pat Meehan and ask her to come up.
9 Based on our conversation at our last meeting,
10 where the chair sort of outlined a timeline that he would
11 like to see with respect to this process, I hired -- or I
12 talked to Pat about coming and doing this work for us.
13 I've known Pat for a long time. I can't sing
14 her praises high enough. She is a former state official.
15 Her last tenure position was as chief deputy director of
16 the Department of Conservation. But Pat's career history
17 has really been in the HR and personnel areas. So she is
18 really an expert in this.
19 We thought -- I thought that in order to be
20 best keeping with the intent of SB 257, to try to have
21 this be as arm's length as we possibly could, that we
22 would hire Pat as a consultant to us, to hire an outside
23 consultant to perform the survey. That way, we're in a
24 situation where I think we can really demonstrate the
25 transparency of this to anyone who asks.

1 Pat has been working on developing a process.
2 And you all have at your desks a two-pager which Pat put
3 together to really start the discussion with firms about
4 what the agency is about and how we might contract with
5 them to do this work.
6 So I'm going to introduce Pat, and tell you
7 that we couldn't be in better hands to have her do this.
8 And I want you all to feel comfortable about having her
9 complete this for you.
10 But let Pat walk you through what she has
11 talked to them about and what she sort of envisions as a
12 process.
13 MS. MEEHAN: Thank you, Terri.
14 Good morning, Mr. Chairman, members of the
15 Board.
16 As Terri has outlined for you, what I have been
17 looking at most recently is a process that will get you a
18 product that is usable in as short a period of time as
19 possible.
20 What I see as the key components: Obviously
21 getting the legislation signed, which is well on its way;
22 the establishment of the Compensation Committee, which
23 you've taken care of this morning.
24 In addition to that, the selection of a
25 consultant that has a background and history and

1 expertise in the mortgage banking area and those areas
2 that you're going to find comparable data sets and salary
3 survey information that will be usable to them.
4 Another key component is vetting the
5 methodology. As is mentioned in the legislation, the
6 methodology needs to be sent to the Department of
7 Personnel Administration. It doesn't require that they
8 approve it or even comment on it; but we do want to
9 co-opt them in this process, so that we don't run into
10 unforeseen snags or problems down the road.
11 I think also identifying possible comparable
12 positions to the ten exempt positions that we're asking
13 them to look at is a key component, and finally, the
14 analysis and findings being submitted to the compensation
15 committee and the agency.
16 What we've been doing most recently to try to
17 prepare and expedite this process is refining duty
18 statements of these key positions. And, again,
19 researching the possible comparable positions that we can
20 suggest to our consultant might be helpful to them.
21 We have got the consultant groups narrowed
22 down, and I am expecting proposals to be submitted
23 tomorrow. So with that in mind, we have sort of targeted
24 the beginning of the year, the calendar year, as having
25 everything completed and having everyone's review and

1 approvals in place. Whether or not that's possible
2 remains to be seen when I get these proposals tomorrow.
3 But that is sort of the benchmark that I put out there
4 for them, as is outlined in this two-pager that you have.
5 CHAIR COURSON: When you say "proposals," you
6 mean a response to our request for proposal, or we're
7 going to put our request for proposals out?
8 MS. MEEHAN: It's a response to a request for
9 proposal, which is basically this document.
10 CHAIR COURSON: Okay.
11 MS. MEEHAN: What I have asked them to do is
12 give me an idea of who they would devote to this project
13 and what their expertise is, the background of the
14 organization, a price, and a time frame and key
15 components of their process, including methodology
16 development.
17 MS. PARKER: Maybe I would just add a couple
18 comments in here.
19 What we wanted to try to do, again, to help
20 assist with any concerns that might be around the
21 process, is to -- Pat took some time -- and I did and
22 Steve did -- to make some calls to some of our sister
23 state agencies -- PERS, STRS, some of the other ones --
24 that do rely on salary compensation surveys. We also
25 talked to our colleagues. I sent e-mails out to my

1 colleagues across the country, many of whom do salary
2 surveys for compensation for their employees, to gather
3 information on firms that might be available for us to
4 consider. So we are at a point of having two that Pat
5 has had a couple of interviews and conversations with.
6 But before we got there, we had, you know, a broad sort
7 of call for who might be the kinds of firms that do this
8 kind of work, and particularly firms that have been used
9 by entities that DPA would look at for some
10 comfortability of developing methodology.
11 CHAIR COURSON: Yes, I have a couple comments.
12 One is, it was interesting at this meeting of
13 other board chairs I went to, I did not come across one
14 that surveyed as deep into the senior staff positions as
15 we do. Many of them had done -- and the association
16 itself does a salary survey on executive directors; but
17 when you start talking about the depth of positions, many
18 of them are so small, they don't have those depths of
19 positions; and many of them have the ability, the board
20 sets the executive director's compensation and the
21 executive director has free rein to set the others.
22 So to find out -- the funny thing is -- and as
23 we get further into this, once we got to talking about
24 it, there was an intense interest in pursuing that. So
25 as we move forward, down the road -- not now, because I

1 don't think we have the time, but down the road, you
2 might find other -- a broader base out there of
3 participants.
4 The question I have is, Pat, too, that when I
5 look at the scope of work which was part of what you sent
6 out for the RFP, are you looking also for those who would
7 submit proposals to sort of validate that this is
8 the marketplace they should look at?
9 Here's my concern: We've probably all been
10 through a lot of market surveys, salary surveys, and so
11 on. And some of the large national firms are very quick
12 to give you a proposal, charge you a fee, reach into a
13 database, plunk it into a formula, put it on some pretty
14 PowerPoints and send it to you.
15 And my concern is that we're different enough
16 here that -- and as we saw, in fact, in some work that --
17 Terri, was that a couple years old, where we saw some
18 work that was done? It was really so generic, that it
19 just didn't touch deep enough into what I think the
20 competitive market is.
21 So I guess my point is that I trust that part
22 of the proposal is that they are going to look at these
23 different areas, at least we're asking them for. Or if
24 not, the reason why they wouldn't go to the breadth that
25 we've looked at here.

1 MS. MEEHAN: They have certainly been asked to
2 include that in their proposal. And in the discussions
3 that I have had with each of them, tried to point out to
4 them the uniqueness of the situation in California, that
5 just looking at housing finance agencies nationally may
6 not be sufficient.
7 Again, we're going to have to wait and see their
8 proposals to see whether or not they took that to heart,
9 or if they have some other suggestions or means by which
10 they would gather the appropriate information.
11 MS. PARKER: One thing, though, that we have
12 done, Mr. Chairman, you're correct, we have in the past
13 done a survey. But I guess in the trade of doing surveys
14 by compensation firms, there are sort of two different
15 kinds of surveys. One of them is to do a survey using
16 readily-available data. The other survey -- and this is
17 what we are proposing here -- is to do a tailored survey.
18 So the expectation of the firm that is going to do this,
19 is that they are going to identify and find like
20 positions, and specifically go and get that data that
21 might not be published and just laying out there, so that
22 there is, you know, more credibility in developing what
23 is the, quote, labor pool that we have to draw from.
24 CHAIR COURSON: Are there -- oh, I'm sorry,
25 Mr. Carey?

1 MR. CAREY: I just had a question,
2 Mr. Chairman. You've got me thinking about it.
3 Our ultimate decision-making as a board, and
4 ultimately we will make a decision about the compensation
5 for the executive director. And there is one position
6 that is appointed by the Board, which I would assume --
7 is the goal for the other senior positions to establish a
8 range within which the executive director will make
9 decisions? Or will we be involved in those other senior
10 positions at all?
11 CHAIR COURSON: If you look at the charter,
12 really what I think the way, if you read that, that Terri
13 will evaluate -- do performance evaluations on the senior
14 staff, reporting to her; and then we'll meet with the
15 Compensation Committee because we'll have these ranges,
16 we'll have that, and make a determination as to what that
17 compensation is. And that compensation is going to come
18 to the Board.
19 MS. PARKER: I think that --
20 MR. CAREY: For every one of those positions?
21 MS. PARKER: Yes, let's start out with -- let's
22 begin with, first of all, we need to get a benchmark, and
23 that's the process, is to set a benchmark for all
24 positions.
25 We have four vacant positions. Other positions

1 are filled. So, you know, we need to request that the
2 Board deal with the salaries from the standpoint of
3 enabling us to go out and recruit and fill those four
4 positions.
5 But I would also point out, because we've just
6 been notified by the Department of Personnel
7 Administration, that it's usually this time before they
8 complete the negotiation of contracts, the MOUs for state
9 employee compensation, and the state has decided, and the
10 Legislature has blessed, that there will be certain
11 raises by negotiated bargaining units for the state
12 employees that are impacted by the rank and file.
13 The Governor's office has also proposed to add
14 a similar salary increase for what are called
15 "career-exempt positions." We only have four of them.
16 But for exempt positions that are listed by this bill,
17 the decision on the administration's part is to make no
18 increases in compensation.
19 So I bring that up from the standpoint of
20 having the Board need to think about this from the
21 establishment of the salaries that we will use to be able
22 to recruit, but also from the standpoint of retention
23 issues.
24 But also, we would want to make it a situation
25 that the salaries have to be based on performance. And

1 so since the Agency does conduct performance evaluations
2 every year on all its employees, if there are decisions
3 about a salary and then increases in that salary relative
4 to ranges, that they be based on performance. So we need
5 to work through that process.
6 CHAIR COURSON: Okay, let me -- if you look at
7 number 6 on -- specifically, to answer your question, if
8 you look at Number 6 on the charter, it talks about that
9 the committee -- and the Board looks at the -- there's a
10 budget every year that has compensation. And part of
11 that compensation are these exempt positions. And as you
12 can see, it's up to us then to recommend approval to the
13 Board of those compensation levels.
14 So by definition -- and then it says the Board
15 can adjust those. So, in effect, what you're doing is, I
16 think you -- it's sort of a shorthand way of saying that
17 there is compensation of the senior staff that's included
18 in the compensation part of the budget. And working with
19 Terri, the compensation would make a recommendation that
20 we approve that part of the budget.
21 Well, that, by definition, has in it the
22 specific compensation for the next fiscal year of that
23 group.
24 So I think it's back -- you can get there two
25 ways: You can either say this person -- here they are,

1 and here's the recommendation; or you approve the budget,
2 which embedded inside that budget is going to have that
3 same amount.
4 I mean, here's our chance to talk about that,
5 because as we move this train down the road, I don't want
6 to get ourselves wound around the process.
7 MR. CAREY: Right. And my perspective is that
8 our connection is to the executive director.
9 CHAIR COURSON: Right.
10 MR. CAREY: And I'm perfectly comfortable as
11 establishing that salary.
12 And I think our goal of raising the salaries to
13 make them competitive in the marketplace is what we're
14 all about.
15 From that point, my sense is the executive
16 director needs to make decisions about the specific
17 compensation for those remaining senior-level positions
18 and -- because that's what the executive director is
19 hired to do. And I don't particularly want, personally,
20 to be trying to make decisions about individuals in that
21 range, in those positions, I guess is my perspective.
22 CHAIR COURSON: Carol?
23 MS. GALANTE: Maybe I'm misreading this, but
24 what I'm reading into this is that the legislation
25 requires that the Board set these compensation ranges.

1 But the charter suggests, the way it's written, that
2 obviously those are going to be set based on the
3 performance evaluations that we're getting from these.
4 We're technically doing it, is the way I'm reading it,
5 but not --
6 MS. PARKER: I guess what we're envisioning
7 is -- and forgive us, but, you know, as being state
8 bureaucrats, positions in state government typically have
9 salary ranges. And usually, within those salary ranges,
10 the authorizing environment has the authority to increase
11 the steps. Rarely is someone hired at a top step, but
12 that can occur.
13 But I think what we envisioned was at least --
14 you know, sort of talking about what are we going to do,
15 our first step, and then what are we going to do on a
16 going-forward basis?
17 So I think what we envision on a going-forward
18 basis, you would establish what this range would be, and
19 that you would be comfortable about that. But for those
20 people who once you set their salary within it, their
21 increases within that range would be based on performance
22 evaluations at the executive director's discretion.
23 CHAIR COURSON: That's a really good point. It
24 really is --
25 MS. PARKER: Except for the executive director.

1 CHAIR COURSON: The first year is sort of the
2 cornerstone year, because we're sort of working without a
3 net. And we're going to put a net under it, and then
4 we're going to have to have a starting point. And then
5 from there until such time as a position or positions are
6 challenged because of the range, it really becomes Terri
7 doing the performance.
8 And frankly, what we're doing, as it says here,
9 approving of the compensation budget, you're approving
10 her recommendation. We can drill into what the average
11 increases are and so on. But I think to the starting
12 point -- and we've certainly spent some time talking
13 about this -- is we're challenged by the legislation to
14 get that range and that goal point. But also, again, the
15 goal point, whatever that number is, according to -- if
16 you read this, if we don't want to have a public meeting,
17 it's a budget that's approved that has inside that budget
18 the senior person and the other individuals.
19 MS. PARKER: That, we really saw -- and again,
20 this is for you -- but I don't think we really saw you as
21 having to be in a situation where you individually made
22 the decision on what is the dollar amount for positions,
23 other than the executive director.
24 CHAIR COURSON: Right. But the first year is
25 going to be the hard one.

1 Well, and the executive director is rightfully
2 so.
3 MS. PARKER: Somebody has to determine that.
4 MR. DAVI: Just to clarify, I understand that,
5 the way you said it in the first setting it up, if you
6 will. But it's my understanding that there be a
7 compensation committee that will continue and annually,
8 or from time to time, it may look at the salary ranges of
9 these positions pursuant to the legislation.
10 CHAIR COURSON: This is an ongoing committee.
11 MR. DAVI: And they adjust it, and at that
12 point, make recommendations to the Board to adjust it.
13 CHAIR COURSON: Absolutely. It's an ongoing
14 committee that I think meets as need be, at least twice a
15 year. Every year it has to look and see if the ranges
16 are sufficient. If they judge it on its own, they're
17 not, if you go out and do a new survey for one position
18 or more than one position.
19 I think it's our job to meet with Terri and to
20 talk to her about her -- as it says here, her evaluation
21 of her staff, and clearly do an evaluation of the
22 executive director and his or her compensation.
23 And the other as you see in here, which is
24 important, is the Board's succession plan. I mean, you
25 have -- that's part of the just -- so it's a normal --

1 it's an ongoing position with this Board, and that will
2 continue on. It's just going to be a little heavier
3 lifting this first three months.
4 Having said that, can we talk about timelines?
5 If we get the proposals back today, they will
6 have obviously, I assume, embedded within their time
7 frame to complete the job to the specifications that we
8 anticipate.
9 MS. MEEHAN: Hopefully.
10 As I mentioned before, I have, in my
11 discussions with them, mentioned the desire to have
12 something in place by the first of the calendar year.
13 Whether or not they're going to have the capacity to do
14 that, I don't know.
15 MS. PARKER: When you say the first of the
16 year, do they know when the Board meets?
17 MS. MEEHAN: Yes, I did mention to them that
18 we're looking at the first part of November for
19 recommendations.
20 CHAIR COURSON: Let me work backwards a little
21 bit. Here's the challenge. And we talked about this, I
22 talked about this with some of the senior staff and Terri
23 this morning. The challenge is the timing. This goes
24 into effect January 1. Our last Board meeting of the
25 year is November 9th. And so if we're going to, in fact,

1 get all the approvals and so on in place, and a regular
2 Board meeting will have to be by November the 9th. The
3 challenge is going to be to -- if, in fact, they do the
4 tailored to the extent we want, I think that's going to
5 take some time. I don't know that, but my suspicion is.
6 And we may or may not have an opportunity to get that
7 work done. But the Compensation Committee and Terri, who
8 have all got a lot of things to do, to frankly meet in a
9 major way -- I don't want to be in a position as chair to
10 come down to the last week and have to get all this done.
11 It's just too important to get it right to let that
12 happen.
13 So I think we're going to have to let the
14 timeline sort of play itself out. But the Board needs to
15 know, depending on what Terri and the Compensation
16 Committee end up with -- and as we get into this task,
17 none of us have been here before -- what the time frames
18 are going to be. It may, in fact, require a special
19 meeting in November to approve this.
20 I suppose the alternative is, we have a
21 January meeting, and you could approve them retroactive
22 to January 1. My clear preference would be to get them
23 done before the end of the year.
24 So I think we'll just have to keep everybody
25 informed, clearly the committee will be informed.

1 Our next will be -- I assume when the request
2 for proposals come back, we'll get a look at those and a
3 copy of them.
4 MS. PARKER: One other thing to make mention,
5 too, that Pat is including in her activities, as she said
6 when she walked me through the process, we have a
7 requirement to give our methodology to the Department of
8 Personnel Administration.
9 Pat's intent is to -- when she hears back from
10 the firms and we make a decision, shortly thereafter, to
11 be talking to DPA about the methodology and giving them
12 the methodology, instead of waiting and having the survey
13 done and giving them the survey.
14 Really, the requirement is on the methodology.
15 And so we feel it's important to do that right from the
16 very beginning, find out from them if there's something
17 in particular that they feel strongly about.
18 Pat has looked at the methodology that DPA used
19 for a salary survey that was done at the beginning of the
20 year. And so I think that she will be using that as a
21 discussion point.
22 If that is what, you know, their benchmark
23 is -- and I think, frankly, we could say that benchmark
24 is really easy to hit, I think we are looking for
25 something that is, frankly, more detailed --

1 CHAIR COURSON: Right.
2 MS. PARKER: -- and more data-driven, more
3 justification-based than that.
4 But we're going to be doing that as part of --
5 you know, right up-front. So that is not in any way a
6 time constraint later on, back in the process.
7 CHAIR COURSON: And Terri has -- I mentioned to
8 Terri this morning, and obviously in working as part of
9 the request for proposal, is that we have to have the job
10 descriptions, so that they can -- whoever is doing this
11 job can go out and know what job is like-to-like. And
12 Terri can provide copies to the Compensation Committee of
13 those job descriptions. And if anybody else would like
14 one, they're certainly available.
15 MS. PARKER: Mr. Chairman, one other thing to
16 share with the Committee or the Board today. John and I
17 have an appointment set up with the appointment secretary
18 later this month. The purpose of that meeting is to,
19 with the legislation, hopefully being signed by then, go
20 in and have hopefully what would be a frank and candid
21 discussion.
22 I think I've reported to you in the past that
23 there is paperwork in the appointments unit. For
24 Mr. Spears, it's been there since last November. For
25 Mr. McManus, it's been there since May, with no action

1 taken on it.

2 Clearly, the request, though, have been both of
3 those appointment documents was for the salary to be
4 considerably greater than what the salary range is that
5 is currently allowed for. And I think it's fair to say
6 that that's really why it hasn't been dealt with.

7 With the legislation being signed, though, John
8 and I plan to go meet with the appointment secretary and
9 say there are four vacancies, we're doing the survey, we
10 have paperwork in. We want to get some sense from the
11 Governor's office that when these salaries are set, that
12 the appointment documents and the work that the
13 Governor's office does will happen, you know, as
14 seamlessly as possible. So, you know -- because clearly,
15 that is -- even if we have the salaries and we have it,
16 with the exception of the director of Multifamily, we
17 have to wait for the Governor to do that.

18 It also says the situation, depending on how
19 far along we are with our recruiter, if there was a
20 requirement to have another Board meeting outside,
21 maybe -- I might have all my body parts crossed, we could
22 bring a candidate so we could have you confirm at the
23 same time.

24 CHAIR COURSON: Questions? Very important.
25 We've come a long ways from our discussions earlier this

1 year. It's really a light-year leap forward for us to
2 compete to fill some key staff positions, to fill a
3 contract or not filled at all. And it's a big job for
4 the Board.
5 Okay, Terri, thank you.
6 Pat, thank you very much.
7 MS. MEEHAN: You're welcome.
8 --o0o--
9 **Item 9. Reports**
10 CHAIR COURSON: The next item on our agenda
11 is -- Bruce, you will talk about some financing reports.
12 MR. GILBERTSON: Good morning, Mr. Chairman,
13 members of the Board.
14 I have three financing reports that I'd like to
15 go through with you this morning. Two of them are
16 regarding our bond programs, and then the third report as
17 an update on our variable rate bonds and interest rate
18 swap program.
19 The first report is regarding the issuance of
20 the Home Mortgage Revenue Bonds 2006, Series D, E, and F
21 bonds.
22 We delivered on July 27th $240 million of bonds
23 in the aggregate to Goldman Sachs. The bonds were issued
24 as both tax-exempt fixed-rate bonds and tax-exempt
25 variable-rate command obligation, equally split

1 $120 million of fixed-rate bonds and $120 million of
2 variable-rate bonds.
3 I want to stop there for a moment to make sure
4 that the Board has a full appreciation that it has been
5 six full years, I believe, since we have issued that
6 percentage of fixed-rate debt in conjunction with
7 financing our single-family or homeownership program. So
8 we think that's a great opportunity for us to get back
9 into the fixed-rate mode. As we'll discuss in the
10 variable-rate debt report, we were approaching 90 percent
11 of all outstanding debt in variable-rate mode.
12 And a lot of things go into this. And we'll
13 talk through that a little bit, primarily, it's the
14 increase in interest rates overall and certainly the tax
15 exempt bonds have rallied more significantly, especially
16 at the short end of the yield curve than the taxable
17 bonds have.
18 The variable-rate bonds were issued as
19 variable-rate demand obligations that requires liquidity.
20 The liquidity in this case was provided to us by Fortis
21 Bank. That was actually a new liquidity provider this
22 Agency has never used.
23 For the fixed-rate bonds, at the advice of
24 Goldman Sachs, we agreed to ensure the bonds with FGIC.
25 The notion there is that the insurance premium we'd pay,

1 which is just over three basis points, was more than
2 fully offset by the five basis points or greater savings
3 in bonds yield that we received.
4 With the bond proceeds, we expect to provide
5 homes for approximately 900 families. The notion is that
6 about $150 million of the proceeds would be used to
7 purchase our *interest only* PLUS℠ program loans, and the
8 balance would be used to purchase 30-year fixed-rate
9 loans.
10 On the variable-rate side of the transaction,
11 we entered into two interest-rate swap transactions.
12 Continuing our past practice, we did one of those swap
13 transactions on a competitive basis. In this instance,
14 Bear Stearns was awarded that contract. And, again, we
15 do this for a couple of reasons. One is, we get broader
16 diversification of swap counterparty disbursement, as
17 well as better pricing. In this instance, I think the
18 report says that we believe we saved in excess of
19 $160,000.
20 The second report really is a program update.
21 We operate a program that we refer to as our Draw Down
22 Bond Program. This really is a program -- there's
23 several different available mechanisms in the
24 marketplace. But it's a means for us to preserve
25 tax-exempt issuance authority for subsequent use in a

1 permanent financing for either Multifamily or
2 Homeownership loan programs.
3 This report shows that during the last seven
4 months we have actually drawn on the Draw Down Program
5 for a total of $63 million, where we have redeemed or
6 utilized the tax-exempt authority that we had been
7 preserving to the total amount of $305 million. I think
8 that points out a couple of things. We certainly aren't
9 preserving more than we're utilizing today. We're
10 starting to utilize it, especially in the Homeownership
11 program primarily due to prepayments slowing down. So we
12 don't have the opportunities that we had over the last
13 couple years to recycle prepaid principal into new loans
14 and then, secondly, the demand for our program.
15 Terri mentioned earlier in the meeting that we
16 have had tremendous volumes of loan reservations in our
17 Homeownership program since April. It's in excess of
18 $200 million in reservations per month.
19 So with this, at the beginning of August we had
20 an ending balance in our Draw Down Program of
21 $625 million.
22 And lastly, you know, this is a report that we
23 present to the Board at every Board meeting, it's kind of
24 an update of our variable-rate debt and interest-rate
25 swap position. As of August 1st, the Agency's total

1 bonded indebtedness was $7.3 billion. $6.3 billion, or
2 80 percent of all outstanding debt, was variable-interest
3 rate. And the report is designed to discuss our
4 variable-rate and interest-rate swap strategies,
5 positions in variable-rate bonds and swaps. And, again,
6 we knew going into this there were risks, and so that's
7 brought out through the report as well.
8 Just a couple things I want to point out.
9 You've seen on these slides many times before. The
10 numbers change slightly. But I think one thing I want to
11 make certain that everybody is clear, if, in fact, we're
12 able to continue issuing fixed-rate bonds for our
13 Homeownership program, I would expect that the percentage
14 of variable-rate bonds, as a percent of the total bonds
15 outstanding, will actually fall relatively quickly. You
16 know, we only have $900 million of fixed-rate bonds
17 outstanding as of August 1st, we have plans in place
18 today to issue nearly $600 million in fixed-rate bonds in
19 the next several months, all for the Homeownership
20 program.
21 This first chart shows that all but
22 $736 million of our variable-rate debt is tied directly
23 to variable-rate assets or swapped to a fixed rate with
24 interest-rate swap contracts. And then of those
25 $736 million of net variable-rate exposure, we believe we

1 have an effective balance sheet hedge for the vast
2 majority of that exposure. I think it's all but
3 $100 million of that exposure.
4 This next slide really is just showing us the
5 types of variable-rate debt that we have chosen. You can
6 see that variable-rate demand obligations seems to be the
7 type of choice for the Agency. There's many reasons for
8 that. It has worked very well for us over a number of
9 years. And we would, I think were it necessary, continue
10 to use variable-rate demand obligations as our
11 variable-rate debt instrument.
12 Related to that, I'm pleased to report that
13 recently we identified through an RFP process an
14 additional $3.3 billion of liquidity from banks that
15 provides standby bond purchase contracts to the Agency
16 that are actually a backstop to these variable-rate
17 demand obligations, a necessary part of that financing
18 structure.
19 We don't believe at this point that we will use
20 anywhere near the $3.3 billion that was identified in the
21 near term over six to nine months. Our plans at this
22 point were to probably only do a relatively small
23 issuance of Multifamily bonds using variable-rate bonds.
24 This slide shows kind of the distribution of
25 tax-exempt and taxable fixed-payer interest-rate swaps.

1 Again, I think it demonstrates that the vast majority of
2 our interest-rate swaps are in our HMRB, our Home
3 Mortgage Revenue Bond indenture. That's our vehicle to
4 finance Homeownership loans. And that you can also see
5 that all of the taxable swaps related to that program, we
6 were leveraging that program with very limited volume cap
7 four or five years ago.
8 I want to spend a little bit of time on this
9 chart. I don't normally show this to you, but I think it
10 helps illustrate for the Board why we are beginning to
11 issue fixed-rate bonds rather than using these other
12 alternatives. We prepared this chart with the assistance
13 of our underwriters. We get market updates to show the
14 cost of fixed-rate housing bonds as opposed to the cost
15 of issuing variable-rate bonds backed by a BMA base swap,
16 whether there be no tax risk or backed by a LIBOR-based
17 swap.
18 Historically, if we look back two years ago,
19 there was a full 100 basis point differential, or
20 savings, in this case, if we issued a LIBOR-based swap
21 compared to a fixed-rate housing bond.
22 This slide shows that there's 28 basis points
23 of savings if we were to select a LIBOR-based swap. But
24 it comes with a whole range of additional things that we
25 have to deal with on an ongoing basis, the risks related

1 with swap counterparty exposure, amortization, mismatch,
2 termination, and some things of that nature.
3 So at this point, I think the market has
4 changed in a wonderful direction for us. It's going to
5 allow us to do some fixed-rate bonds, perhaps better
6 balance our debt portfolio.
7 With that, I'd be willing to respond to any
8 questions.
9 CHAIR COURSON: Questions?
10 Mr. Czuker?
11 MR. CZUKER: Assuming you have the benefit of
12 continuing to shift our portfolio to fixed-rate bonds,
13 which I think is obviously a great hedge, and certainly
14 an easier balance of putting capital against fixed-rate
15 loan exposure, what do you perceive a 4.83 cost would be
16 the load for profit, servicing, and cushion and reserve
17 that we would need to add to our cost of funds to deliver
18 interest rates for both Single-Family and Multifamily
19 above those numbers? What type of spread?
20 MR. GILBERTSON: Well, again, just a quick
21 review of our federal tax law, in our Homeownership
22 program, we're only allowed to earn one and an eighth
23 above bond yield. So using the 4.83 as our benchmark or
24 our bond yield, that really equates to something just shy
25 of 6 percent on our all-in mortgagee.

1 MR. CZUKER: Regardless of costs, have you had
2 costs included?
3 MR. GILBERTSON: No, on the Homeownership
4 program, nearly all of the costs come out of our
5 allowable spread, including the servicing fee that is
6 passed on to the servicing agency.
7 MR. CZUKER: And the Homeownership rate is
8 about 6 percent?
9 MR. GILBERTSON: That's about 6 percent. I
10 don't have the rate schedule here today, but we have a
11 number of different interest rates for homeownership
12 program, the highest being the rate we charge for the
13 *interest only* PLUS℠ program, which is currently
14 6.25 percent. But on our 30-year fixed-rate product, I
15 believe those rates range from 5.50 to 6 percent, based
16 off of high-cost area and the status of the borrower's
17 income.
18 MR. CZUKER: And on Multifamily?
19 MR. GILBERTSON: Multifamily, we just reset our
20 rates two weeks ago, I believe, for a 30-year fixed rate
21 loan, with the right for the borrower to prepay at the
22 end of 15 years to 5.55 percent.
23 CHAIR COURSON: Other questions of Bruce?
24 *(No audible response)*
25 CHAIR COURSON: Bruce, thank you very much. We

appreciate having you.

We hope you, Terri, and Steve have a successful trip to New York City.

MR. GILBERTSON: Yes.

--o0o--

Item 10. Discussion of other Board matters

CHAIR COURSON: Are there any other matters to come before the Board?

You have in front of you a schedule of our '07 Board meetings and locations.

MR. CZUKER: Every location that is starred, which would imply the location is not secured?

MS. OJIMA: We have Fresno down --

MR. CAREY: We're still thinking about Fresno.

MS. OJIMA: We're working on it.

CHAIR COURSON: A considerable amount of debate took place between the chair and others. And there were three votes, and it was 2 to 1. You know, I'm trying all the time.

Yes, we have contracts out for these locations for 2007. They're sort of our standard spots.

I'll also mention, we do have parking tickets here for credit against your parking.

--o0o--

Item 11. Public Testimony

1 And the last order of business is to ask if
2 there is any public testimony. None has been brought to
3 my attention.
4 *(No audible response)*
5 CHAIR COURSON: Seeing none, we've got a lot to
6 do: The Audit Committee, the Compensation Committee, the
7 Board. And our next meeting is, in fact, November the
8 9th, right back here.
9 So we'll stand adjourned.
10 *(Proceedings concluded at 12:16 p.m.)*
11 --oOo--
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REPORTER'S CERTIFICATE

I hereby certify that the foregoing proceedings were duly reported by me at the time and place herein specified;

That the testimony of said witnesses was reported by me, a duly certified shorthand reporter and a disinterested person, and was thereafter transcribed into typewriting.

I further certify that I am not of counsel or attorney for either or any of the parties to said deposition, nor in any way interested in the outcome of the cause named in said caption.

In witness whereof, I have hereunto set my hand on September 12, 2006.

DANIEL P. FELDHAUS
California CSR #6949
Registered Diplomate Reporter
Certified Realtime Reporter

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CALIFORNIA HOUSING FINANCE AGENCY
Final Commitment Modification
Fireside Apartments
Unincorporated Marin County, CA
CalHFA # 05-016C/N

This is a Final Commitment Modification request for a third permanent loan of $1,050,000 to be repaid from residual receipts. In November 2005, the Board approved two permanent loans, a bridge loan and a construction loan for this project. Security for the loans will be both the fee interest on a 4.3 acre site and the residential improvements located at 115 Shoreline Highway in the unincorporated area of Marin County, located approximately ½ of a mile south of Mill Valley. Fireside Affordable Housing Associates, a California Limited Partnership, owns the property. The general partner is Fireside Housing, LLC, a limited liability company, whose sole member is Stevenson Housing Corporation, a California nonprofit public benefit corporation, wholly controlled by Citizens Housing Corporation.

The 50 unit project will consist of four buildings; a 3,513 square foot rehabilitated historic inn, a new two-story residential building with 17 two-bedroom family units, two new three-story residential buildings with 32 studio and one-bedroom units set aside for seniors and a manager's unit in the rehabilitated Inn. There will be approximately 2,700 square feet of community and service space, and 53 parking spaces. Eighteen of the units will be designated for households in which an adult member has a disability, and is homeless or at risk of homelessness. It is expected that the majority of these families will have an adult with a mental illness and/or substance abuse problem, but the disabilities can also include HIV/AIDS, chronic health problems, and physical disabilities.

LOAN TERMS	**Original**	**Modified**
Construction		
First Mortgage	$12,165,000	$12,165,000
Interest Rate	Variable (1 month LIBOR plus 125 bps)	Variable (1 month LIBOR, plus 125 bps)
Term	21 months, interest only	**18 Months, interest only**
Financing	Tax-exempt	Tax-Exempt
Permanent		
First Mortgage	$1,350,000	$1,350,000
Interest Rate	3.00 %	3.00%
Term	25 year fixed, fully amortized	25 year fixed, fully amortized
Financing	Tax-exempt	Tax-exempt
Risk Share Insurance	No	No

Second Mortgage	$250,000	$250,000
Interest Rate	3.00%	3.00%
Term	15 year fixed, fully amortized	15 year fixed, fully amortized
Financing	Tax-Exempt	Tax-Exempt
Third Mortgage	NA	**$1,050,000**
Interest Rate	NA	**3.00%**
Term	NA	**25 years, residual receipts, due on maturity or repayment of 1st Mortgage**
Financing	NA	**HAT**
Bridge Loan	$4,450,000	$4,450,000
Interest Rate	3.00%	3.00%
Term	3 year, fully amortized, annual payments of $1,573,210	3 year, fully amortized annual payments of $1,573,210
Financing	Tax-Exempt	Tax-Exempt

NEW BOND CAP AUTHORITY REQUIRED

As noted in more detail below, the tax credit syndicator and first tier investor (as defined below) raised an issue regarding the Escrow Bonds and Permanent Bonds (defined below) issued by the Agency for this project and questioned whether the Permanent Bonds have the proper volume cap authority to qualify the project for tax credits. As a result, the Enterprise Social Investment Corporation ("tax credit syndicator") and Bank of America ("first tier investor") have elected to not go forward with the project unless the issue is resolved with the IRS to the tax credit syndicator's satisfaction, or the project receives new CDLAC authority. This has delayed the construction loan closing.

Due to timing restraints, the borrower and the Agency have elected to apply to CDLAC for a new bond cap allocation in the last round of this year while also pursuing this issue with the IRS. The project is also applying to CTCAC for new State and Federal credits. CDLAC and CTCAC awards are anticipated on or about December 13, 2006.

FUNDING GAP

By applying to CDLAC for a new allocation, the project will lose the 130% tax credit basis boost it received in 2005, creating a gap of approximately in $1,500,000 in the project financing. If State tax credits are awarded they will provide $1,916,690 in additional equity to the project and the construction loan will close.

ALTERNATE FINANCING SCENARIO

To enable the project to close by the end of the year, the Agency has been asked by the borrower and the tax credit syndicator to provide a back up commitment of $1,050,000 for the project if the project is not awarded State tax credits. In the back-up financing scenario, Citizens Housing Corporation has agreed to supply the remaining $253,000 in equity required for feasibility, as well as defer most of its developer fee to fill the $1,500,000 financing gap.

In the event the project does not receive an allocation of State credits, the Agency will close its construction loan on this modified commitment. However the Agency will require as a condition to loan these additional funds that the project apply for funding under the new Mental Health Services Act (Proposition 63) program in 2007. If the Proposition 63 funds are awarded they will be applied to pay off the Agency's third permanent loan.

BACKGROUND INFORMATION

In December of 2005, the project received a carry forward allocation of private activity bond volume cap from CDLAC in the amount of $12,165,000. As is true with most multifamily projects, the Fireside project needed to qualify for low-income housing tax credits under Internal Revenue Code section 42 in order to fully fund to the project. The project applied for and received an allocation of Federal tax credits in December 2005 along with a 130% basis boost for being in a difficult to develop area (Marin County). Marin County lost the difficult to develop area designation in 2006 so this basis boost is no longer available if the project is funded with bonds using a 2006 volume cap allocation.

In order to meet the CDLAC issuance deadline, short-term tax-exempt bonds (the "Escrow Bonds") were issued by the Agency in February 2006 in the amount of $12,165,000 to finance the project. The volume cap used for the Escrow Bonds was a carry forward allocation from 2005. The Escrow Bonds were issued to preserve the volume cap, with all of the proceeds held in an escrow awaiting the issuance of more efficient permanent financing. In June of 2006, long-term tax-exempt bonds (the "Permanent Bonds") were issued by the Agency to refund the Escrow Bonds.

In July of 2006, the Agency staff was preparing to close the construction. By September 2006, the borrower had obtained most other required funding commitments for the project, closed most of its subordinate financing, and finalized its construction contract. A construction closing date was set for September 2006. The major items outstanding were execution of the partnership agreement with the tax credit syndicator, receipt of the tri-party agreement from HCD, and finalizing documents to account for last minute changes in the subordinate financing. The tax credit partnership was scheduled to close at the same time as the Agency construction loan.

In anticipation of closing, the borrower requested and received permission to execute its construction contract, and at its own risk, to commence construction. It wanted to lock in its construction costs, and begin site work in advance of the rainy season. The Agency agreed to this only after it received assurances from the title company that it would issue the Agency a clear title policy as of the close of the Agency's construction loan. The borrower gave its contractor a notice to proceed in July of 2006.

In early September 2006, the tax credit syndicator notified the Agency that, based on comments from the IRS, the attorney for the first tier investor questioned whether the Agency Permanent Bonds had proper volume cap authority to qualify the project for tax credits. Because of this, the first tier investor was unwilling to execute the partnership agreement, and the Agency was not able to close the construction loan. The tax credit syndicator and first tier investor requested that the Agency return to CDLAC to obtain new private activity bond volume cap and to issue new Permanent Bonds for the project. There are no published IRS rulings on this issue, and the Agency has been working to resolve this issue with the IRS. However, because resolution of this issue may take some time, and because the borrower needs to proceed with the project, the Agency is submitting an application for this project to CDLAC on October 20, 2006.

The Agency's Escrow Bond Program

The Agency's Escrow Bond program (also known as the draw down bond program, although the bonds are entirely issued at the closing and therefore are not true draw down bonds) is designed to permit the Agency to preserve private activity bond volume cap allocations until the projects to be financed can be placed into an efficient pooled financing. The program was necessitated in large part by the need to comply with CDLAC deadlines for bond issuance. The Agency obtains volume cap for the temporary Escrow Bonds, which are later refunded by the Permanent Bonds. The loan for each such project is funded with proceeds directly traceable to the original volume cap authority. The Agency has had an Escrow Bond program since 2002. The Agency has operated its Escrow Bond program based upon clean bond opinions on the program issued by the Agency's bond counsel and according to existing law and regulations.

The issue with the Agency's Escrow Bonds arose in this project because a prominent IRS attorney in the Tax Credit Section of the IRS, in a personal appearance at an investors' conference and again on a telephone call with the first tier investor's attorney, questioned whether bonds like the Permanent Bonds had proper volume cap authority to qualify the project for tax credits.

The Agency attorneys including the Agency's bond counsel believe that, under existing law and regulation, the project has proper authority for tax credits, and that there should be no impediment to the project receiving low income housing tax credits. Agency bond counsel reported that in their experience a number of tax credit counsel previously have been comfortable with this issue. However, the first tier investor's attorney, while indicating that he was in complete analytical agreement with the Agency's position, determined that he could not write the opinion letter required by his client until the issue was resolved by the IRS.

The Agency has been attempting to resolve this issue directly with the IRS. Together with its bond counsel, the Agency has been working through its trade organization, the National Council of State Housing Agencies, and their contacts at the IRS and the Department of the Treasury, to educate the IRS tax credit branch about the issue. Agency bond counsel has been in contact with the tax-exempt bond personnel at the IRS and the Department of the Treasury, who have in turn been discussing the issue with the IRS tax credit branch. We understand that progress is being made, but we have no assurance that an official position will be achieved.

POTENTIAL ALTERNATE USE FOR THE 2005 CARRY FORWARD ALLOCATION

The Agency also has been exploring ways that the 2005 carry forward allocation could be used for another project. The first hurdle, of course, is a favorable resolution with the IRS tax credit

branch, because any use of the 2005 carry forward allocation for a different project would have the same problem as the Fireside project. If the IRS resolves this issue after the project receives a new volume cap allocation and new Permanent Bonds are issued, the Agency may be able to use the 2005 carry forward allocation for a different project approved by CDLAC.

FINANCIAL FEASIBILITY OF THE FIRESIDE PROJECT WITH NEW BOND CAP AUTHORITY

The Fireside project will be financially feasible, provided that the CDLAC board approves a new award of $12,165,000 of bond cap for this project. However, the 2005 bond cap of $12,165,000 already allocated to this project in December 2005 most likely will be lost.

DETAILED DISCUSSION OF THE ISSUES RAISED FOR THE FIRESIDE PROJECT AND THE MANNER IN WHICH THEY ARE BEING RESOLVED

Pricing of the Credits

The market for tax credits is weaker in 2006 than it was in 2005. The first tier investor agreed to pay $1.20 per dollar of credit in 2005. That pricing is no longer available, and will not be matched by another investor. Bank of America has agreed to keep its offer to purchase credits at $1.20 open until the end of the year, provided that: the bond issue is either resolved with the IRS to the satisfaction of their tax credit attorney; or the project receives a new CDLAC allocation, and new bonds are issued and new State and Federal tax credits are allocated for this project, or in lieu of State tax credits, the Agency makes a residual receipts loan to the project of $1,050,000 and the borrower fills the remaining gap of $450,000. It will need to place the credit in 2006 for Community Reinvestment Act purposes.

Loss of the Basis Boost

Receiving a new CDLAC allocation will result in the project losing the 130% tax credit basis boost because Marin County lost its difficult to develop designation in 2006. The financial impact to the project is $1,500,000. The borrower plans to fill that gap by applying for State tax credits in the third and last round for State tax credits this year. The project is eligible for State tax credits, and their application will be competitive.

However, because the project needs to close this year, the borrower and the tax credit syndicator have asked the Agency to provide a back up commitment of $1,050,000 in gap funding in the event that the State credits are not awarded.

Extension of Acquisition Loan and Predevelopment Terms

Acquisition loans for the project, totaling $2,775,000, have come due. To avoid default the following steps have been taken by the Borrower.

- The Low Income Investment Fund ("LIIF") agreed to extend the due date on their $1,100,000 acquisition loan until February 2007, but will increase their interest rate.
- Corporation for Supportive Housing ("CSH") has agreed to extend $175,000 acquisition loan until construction loan closing.

- The third acquisition lender, Marin Community Foundation ("MCF"), was not able to extend the term of their loan of $1,100,000 due to other commitments for the funds. MCF will be taken out partially by LIIF. LIIF has agreed to increase their acquisition loan by $550,000 in reliance on Agency's agreement to take this project back to CDLAC and to the Agency Board, but at a higher interest rate. The Borrower agreed to repay MCF the remaining $550,000 with the proceeds of a $950,000 HELP Loan from County of Marin.

Predevelopment Loans

- The borrower had a $350,000 predevelopment loan with the Bank of Marin that came due in September 2006. The borrower paid down $150,000 of this loan, and extended the term of the remaining $200,000 to be due at construction loan closing.
- There is also an Agency predevelopment loan of $300,000, which is due at construction loan closing.

Available Construction Funds will be depleted in December.

Construction has already started on the Project, and is currently 10% complete. It has gone well with no substantial draws against the contingency. The borrower has funds available to pay the anticipated December 2006 draw but not the anticipated January 2007 draw. While the borrower can issue a stop order, the costs of demobilization will make the project financially unfeasible. This problem can be avoided if the project receives a new allocation of bond cap from CDLAC, new State and Federal credits (or alternately a gap loan from Agency), and closes its construction loan by the end of 2006.

Status of Other Financing

The subordinate funding for the project has been secured. All subordinate construction sources have closed with the exception of some of the county sources, and a few of the grants. Documents for the remaining county sources are in circulation and should close soon.

Construction Lender	**Committed**	**Closed**	**Funded**	**Delayed Funding**	**Pending Commitments**
Marin Help	$ 950,000	$ 950,000	$ 950,000		
Permanent Lender	**Committed**	**Closed**	**Funded**	**Delayed Funding**	**Pending Commitments**
County Help	$ 100,000	$ 100,000	$ 100,000		
County Trust Fund	$1,400,000	$1,400,000	$1,400,000		
County HOME	$1,535,400	$1,225,000 Documents for $310,400 in draft	$1,225,000	$ 310,400	
County CDBG	$ 269,078	$ 65,800 Documents for $203,278 in draft	$ 65,800	$ 203,278	
GP LOAN (MCF)	$1,600,000	$1,600,000		$1,600,000 available 7/07	
AHP	$ 500,000	$ 500,000	$ 500,000		
HUD SHP Grant	$ 610,000	$ 610,000	$ 549,000	$ 61,000 held for retention	
Grants	$ 345,000		$ 345,000		

GP contribution	$ 75,000		$ 75,000		
Non-Partnership Preparation Costs	**Committed**	**Closed**	**Funded**	**Delayed Funding**	**Pending Commitments**
County of Marin Trust Fund	$ 700,000	Documents for $700,000 in draft		$ 700,000	
County of Marin Relocation Payment	$ 500,000	$ 500,000	$ 500,000		
Fee Waiver	$ 373,750	$ 373,750	$ 373,750		
Clean Air Grant	$ 200,000	$ 375,750		$ 200,000	
Livable Communities Grant	$ 198,906	$ 375,000		$ 198,906	

ENVIRONMENTAL

A Phase I Environmental Assessment report was completed on December 19, 2000 and updated in August 29, 2005 and July 2006 by Treadwell and Rollo. The report concludes that there are no adverse environmental conditions that warrant further investigation or remedial action.

DEVELOPMENT TEAM

Borrower

Fireside Affordable Housing Associates

- Fireside Affordable Housing Associates, a California Limited Partnership, will own the property. The initial general partner was Citizens Housing Corporation (CHC), but CHC has since been replaced by Fireside Housing, LLC, a California limited liability company whose sole member is Stevenson Housing Corporation, a California nonprofit public benefit corporation wholly controlled by CHC. The initial limited partner is Fireside Housing, Inc., a California nonprofit public benefit corporation wholly controlled by CHC. The initial limited partner will withdraw and be replaced by Wincopin Circle, LLLP, an affiliate of the tax credit syndicator, Enterprise Social Investment Corporation, as described above.
- CHC is the developer of the property.
- Formed in 1992, CHC has developed or has under development 2,800 units of transitional housing, senior housing, family housing and housing for persons with special needs. CHC developments are all in California, primarily in the Bay Area.

Management Agent

CHC Property Management Corporation

CHC Property Management Corporation was established by the developer in 2001 to manage CHC's portfolio of properties. They currently manage 1,014 units in eleven properties.

Architect

Treffinge, Walz, and MaCleod/Architects, a professional corporation ("TWM")

TWM was formed in 1965 as a full service design firm. There are three principals. They are licensed in California, Nevada, Washington, Arizona and Utah. The project architect is Derek Dutton. He has recently designed six multifamily residential projects with a combined total of 707 units in the Bay Area. He specializes in sustainable design and is LEED accredited by the U.S. Green Building Council.

Contractor

Cahill Contractors, Inc.

Cahill Contractors, Inc. is based in San Francisco. They were formed in 1921. They have completed at least 44 residential projects in the Bay Area. Their bonding capacity is over $250 million dollars. They have bonding capacity available to post a bond for the project's improvements. Cahill is currently the contractor on the Coliseum I project which the Agency is financing and the developer has worked them successfully on four projects.

EXHIBIT A

DISCUSSION OF THE LEGAL ISSUE AND PRACTICAL IMPLICATIONS

All of the direct legal authority for analyzing the issue is found directly in the Internal Revenue Code (IRC) of 1986. There are no regulations or rulings on point. the relevant IRC provisions are attached hereto as Exhibit B. The legal concern is that IRC Section 42 requires the project to be financed by bonds taken into account under IRC Section 146, and the Section 146 refunding rule allows refunding bonds to avoid getting another volume cap allocation by defining refunding bonds as not being private activity bonds for purposes of IRC Section 146. In other words, since the IRC says that refunding bonds are not subject directly to the volume cap requirement, some tax credit investors recently have become concerned that using refunding bond proceeds to construct a project will not satisfy the tax credit requirement that the project be financed by bonds taken into account under IRC Section 146.

There are at least two technical flaws to this concern and one larger policy flaw. On the policy front, there is nothing about a short-term escrow tax-exempt bond transaction that uses an allocation of private activity bond volume cap and is refunded by permanent financing bonds that is contrary to the purpose of IRC Section 42(h)(4). There is in fact a used volume cap allocation that directly relates to and is required for the bonds and the project, and that volume cap allocation is not being used by or for any other project or purpose.

On the technical front, IRC Section 146(i)(1) can not be read literally and make any sense. Given the definition in IRC Section 150(a) (1) that a "bond" is "any obligation," IRC Section 146(i) (1) would literally allow an issuer to issue short-term taxable private activity bonds (or even to allow a conduit borrower initially to obtain conventional financing) and then refund the taxable bonds (or the conventional financing) with tax-exempt bonds, thereby completely avoiding the need for ever obtaining a volume cap allocation. The refunded "bond" clearly must have received a volume cap allocation (or be a refunding of a bond that received an allocation) or it must have been issued before the volume cap requirement was enacted. This point does not directly argue against the literal interpretation under IRC Section 42(h) (4) that concerns tax credit investors, but it shows that an overly literal interpretation of IRC Section 146(i)(1), taken out of context, is very dangerous.

The other and most direct technical argument is that the reference in IRC Section 42(h)(4) to obligations "taken into account under section 146" can refer to either or both the Escrow Bonds or the Permanent Bonds. Clearly the Escrow Bonds were taken into account under IRC Section 146. The only question seems to be whether the Escrow Bonds can be thought of as financing the Fireside project. As a matter of tracing dollars, the proceeds of the Escrow Bonds were invested and actually will be used to make a loan to the Fireside project. The proceeds of the Permanent Bonds were used to actually redeem the Escrow Bonds and will not be used to make any loan for the Fireside project. Solely for tax-exempt bond purposes, the Escrow Bond proceeds cease to be proceeds of the Escrow Bonds and become "transferred proceeds" of the Permanent Bonds on the date the Escrow Bonds are redeemed (which will occur before the loan is made). The Escrow Bonds, however, continue to be treated as financing the Fireside project in that a failure to satisfy the tax-exempt bond tax requirements will taint both the Escrow Bonds and the Permanent Bonds. For example, if the transferred proceeds are not spent correctly, or if the project does not have enough low-income tenants, both the Escrow Bonds and the Permanent Bonds would be taxable retroactive to their original issue dates even if such bonds were previously redeemed. Just because the Escrow Bonds are redeemed, it does not follow that those bonds no longer finance the project.

EXHIBIT B

IRC Section 42(h)(4) (relating to tax credits):

(4) Credit for buildings financed by tax-exempt bonds subject to volume cap not taken into account

(A) In general. Paragraph (1) shall not apply to the portion of any credit allowable under subsection (a) which is attributable to eligible basis **financed by any obligation** the interest on which is exempt from tax under section 103 if--

(i) such obligation **is taken into account under section 146**, and

(ii) principal payments on such financing are applied within a reasonable period to redeem obligations the proceeds of which were used to provide such financing.

(B) Special rule where 50 percent or more of building is financed with tax-exempt bonds subject to volume cap

For purposes of subparagraph (A), if 50 percent or more of the aggregate basis of any building and the land on which the building is located is financed by any obligation described in subparagraph (A), paragraph (1) shall not apply to any portion of the credit allowable under subsection (a) with respect to such building.

IRC Section 146(a) (relating to tax-exempt bonds):

(a) General rule. A private activity bond issued as part of an issue meets the requirements of this section if the aggregate face amount of the private activity bonds issued pursuant to such issue, when added to the aggregate face amount of tax-exempt private activity bonds previously issued by the issuing authority during the calendar year, does not exceed such authority's volume cap for such calendar year.

IRC Section 146(i)(1):

(i) Treatment of refunding issues.

For purposes of the volume cap imposed by this section--

(1) In general

The term "private activity bond" **shall not include any bond which is issued to refund another bond** to the extent that the amount of such bond does not exceed the outstanding amount of the refunded bond.

PROJECT SUMMARY

PROJECT NUMBER: 05-016

Plan B 1 - CalHFA Soft Loan

Project:	**Fireside Apartments**			
Location:	115 Shoreline Highway	***Developer:***	**Citizens Housing Corporation**	
City:	Unincorporated Marin County	***Partner:***	Same	
County:	Marin	***Investor:***	Enterprise	
Zip Code:	94941			
		No. of Buildings:	4	
Project Type:	New Construction & rehab	*No. of Stories:*	2 & 3	
Occupancy:	Family/Senior/Special Needs	*Residential Space*	28,378	sq. ft.
Total Units:	50	*Community Space*	2,700	sq. ft.
Style Units:	Flats	*Commercial Space*	0	sq. ft.
Elevators:	none	*Gross Area*	30,700	sq. ft.
Total Parking	53	*Land Area*	196,000	sq. ft.
Covered	39	*Units per acre*	11	

CalHFA Construction Financing	Amount	Rate	Term (Mths)
CalHFA Construction Financing	$12,165,000	Variable	18
Other Construction Financing			
Marin County Help/Construction	$950,000	3.00%	24 months

Permanent Sources of Funds	Amount	Rate	Years
CalHFA First Mortgage	**$1,350,000**	**3.00%**	**25**
CalHFA Bridge Loan	**$4,450,000**	**3.00%**	**3**
CalHFA Second Mortgage	**$250,000**	**3.00%**	**15**
CalHFA Third Mortgage - Residual Gap	**$1,050,000**	**3.00%**	**25**
County of Marin Trust Fund	$1,400,000	0.00%	55
County of Marin Home Loan	$1,535,400	0.00%	55
County of Marin CDBG Loan	$269,078	3.00%	55
County of Marin Help	$100,000	3.00%	25
GP Loan (Marin Community Foundation)	$1,600,000	0.00%	55
Grant: McKinney SHP	$610,000		
Other Grants	$345,000		
HCD MHP	$4,882,222	3.00%	55
AHP	$500,000	0.00%	10
GP Contribution	$75,000		
Developer Contribution	$253,000		
Deferred Dev. Fee	$890,057		
Tax Credit Equity	$6,504,577		

Construction Valuation		Appraisal		Value Upon Completion	
Investment Value	$13,600,000	**Appraisal Date:**	**Sept 30, 2005**	**Restricted Value**	$4,000,000
Loan / Cost	60%	**Cap Rate:**	**5.50%**	**Perm. Loan / Cost**	7%
Loan / Value	89%			**Perm. Loan / Value**	40%

CalHFA Fees and Reserve Requirements

CalHFA Loan Fees	**Amount**	**Required Reserves**	**Amount**
CalHFA Construction Loan Fee	$91,238	Other Reserve	$0
CalHFA Permanent Loan Fees	$13,250	Replacement Resv. Initial Deposit	$0
Bridge Loan Fee	$0	Repl. Reserve - Per Unit/ Per Yr	$336
CALHFA Legal Fee	$3,000		
CalHFA Inspection Fee	$27,000	CalHFA Operating Expense Reserve	$45,869
Construction Loan - Guarantees and Fees		TOR	$75,000
Completion Guarantee	$11,976,779	HCD Reserves	$61,892
Contractors Payment Bond	$11,976,779		
Contractors Performance Bond	$11,976,779		

Date: 10/25/2006

UNIT MIX AND RENT SUMMARY — Fireside Apartments

05-016

Total Unit Mix

# of Units	Unit Type	# of Baths	Average Sq. Ft.
22	0 Bedroom Flat	1	396
10	1 Bedroom Flat	1	567
9	2 Bedroom Flat	1	819
9	2 Bedroom Townhome	2	819
	3 Bedroom Townhome	2	
	4 Bedroom Townhome	2.5	
50			

Number of Regulated Units By Agency

Agency	15%	30%	50%	60%	80%	Unrestricted	Total
CalHFA			17				17
Tax Credits				49			49
HOME				24			24
Marin County HTF				24			24
Marin Comm. Foundation							TBD
Grants							0
HELP				24			24
CDBG						25 low/mod	25
HCD	18		6				24
AHP			42	7			49
Section 8 Vouchers			10				10
HUD McKinney	18						18

Restricted Rents Compared to Average Market Rents

Median Income Rent Levels	Units Restricted	Restricted Rents	Avg. Market Rate Rents	Dollars Difference	% of Market
STUDIO			$1,009		
15%	8	$297		$729	28%
45%	0	$0		$0	0%
50%	14	$917		$109	89%
60%	0	$0		$0	0%
80%	0	$0		$0	0%
One Bedroom			$1,467		
15%	0	$0		$0	0%
45%	0	$0		$0	0%
50%	10	$1,038		$429	71%
60%	0	$0		$0	0%
80%	0	$0		$0	0%
Two Bedroom			$1,703		
15%	10	$352		$1,351	21%
45%	0	$0		$0	0%
50%	0	$0		$0	0%
60%	7	$1,444		$259	85%
80%	0	$0		$0	0%

Sources and Uses of Funds — Fireside Apartments

05-016

Plan B 1 - CalHFA Soft Loan

SOURCES OF FUNDS:	Funds in during Construction ($)	Funds in at Permanent ($)	Total Development Sources: Total Sources of Funds ($)	Sources per Unit	Percent of Sources
CalHFA Construction Financing	12,165,000				
Marin County Help/Construction	950,000				
CalHFA First Mortgage		1,350,000	1,350,000	27,000	6%
CalHFA Second Mortgage		250,000	250,000	5,000	1%
CalHFA Third Mortgage - Residual Gap		1,050,000	1,050,000	21,000	5%
County of Marin Trust Fund	1,400,000		1,400,000	28,000	6%
County of Marin Home Loan	1,535,400	-	1,535,400	30,708	7%
County of Marin CDBG Loan	269,078		269,078	5,382	1%
County of Marin Help	100,000		100,000	2,000	0%
GP Loan (MCF)	1,600,000	-	1,600,000	32,000	7%
Grant: McMinney SHP	610,000		610,000	12,200	3%
Other Grants	345,000	-	345,000	6,900	2%
HCD MHP	-	4,882,222	4,882,222	97,644	23%
AHP	500,000	-	500,000	10,000	2%
Income from Operations		-	-	-	0%
GP Contribution	75,000		75,000	1,500	0%
Developer Contribution	253,000		253,000	5,060	1%
Deferred Developer Fee	-	890,057	890,057	17,801	4%
Tax Credit Equity	315,176	6,189,401	6,504,577	130,092	30%
Total Sources	***20,117,654***	***14,611,680***	***21,614,334***	***432,287***	100%
(Gap)/Surplus	(0)	1	0	0	

USES OF FUNDS:	Construction ($)	Permanent ($)	Total Development Costs: Total Uses of Funds ($)	Cost per Unit	%
LOAN PAYOFFS & ROLLOVERS					
Construction Loan payoffs		$13,115,000			
ACQUISITION					
Lesser of Land Cost or Value	4,030,632	-	4,030,632	80,613	19%
Demolition	-	-		-	0%
Title & Recording	9,000	-	9,000	180	0%
Subtotal - Land Cost / Value	4,039,632	-	4,039,632	80,793	
Existing Improvements Value	-	-	-	-	0%
Off-Site Improvements	-	-	-	-	0%
Holding Costs	-	-		-	0%
Total Acquisition	**4,039,632**	-	**4,039,632**	**80,793**	**19%**
REHABILITATION					
Site Work	-	-	-	-	0%
Rehab to Structures	-	-	-	-	0%
General Requirements	-	-		-	0%
Contractors Overhead	-	-	-	-	0%
Contractors Profit	-	-	-	-	0%
Contractor's Bond	-	-	-	-	0%
General Liability Insurance	-	-	-	-	0%
Environmental Mitigation Expense	-	-	-	-	0%
Other	-	-	-	-	0%
Other	-	-	-	-	0%
Total Rehabilitation	-	-	-	-	**0%**
RELOCATION EXPENSES					
Relocation Expense	-	-		-	0%
Relocation Compliance Monitoring	-	-	-	-	0%
Total Relocation	-	-	-	-	**0%**

(Continued on Next 2 Pages)

USES OF FUNDS (Cont'd):	Construction ($)	Permanent ($)	Total Development Costs		
			Total Uses of Funds ($)	Cost per Unit	%
NEW CONSTRUCTION					
Site Work	1,336,064	-	1,336,064	26,721	6%
Structures (Hard Costs)	9,571,434	-	9,571,434	191,429	44%
General Requirements	-			-	0%
Contractors Overhead	1,069,281		1,069,281	21,386	5%
Contractors Profit	-			-	0%
Contractor's Perf. & Pymt Bond	71,718	-	71,718	1,434	0%
Plan Repoduction	30,000		30,000	600	0%
Other	-	-	-	-	0%
Other	-	-	-	-	0%
Total New Construction	**12,078,497**	**-**	**12,078,497**	**241,570**	**56%**
ARCHITECTURAL & ENGINEERING					
Architectural Design	879,600	-	879,600	17,592	4%
Architect's Supv during Construction	-	-		-	0%
Total Architectural	**879,600**	**-**	**879,600**	**17,592**	**4%**
Engineering Expense				-	0%
Engineers Supv. during Construction	-	-	-	-	0%
ALTA Survey	20,000		20,000	400	0%
Total Engineering & Survey	**20,000**	**-**	**20,000**	**400**	**0%**
					0%
CONSTRUCTION LOAN COSTS					
Construction Loan Interest	***907,999***		***907,999***	18,160	4%
CalHFA Construction Loan Fee	91,238		91,238	1,825	0%
Bridge Loan Interest		169,630	169,630	3,393	1%
CalHFA Counsel	3,000		3,000	60	0%
Other Required Lender fees				-	0%
Title and Recording fees	8,000		8,000	160	0%
CalHFA Req'd Inspection Fees	27,000		27,000	540	0%
HCD Predevelopment Loan Interest	-			-	0%
Prevailing Wage Monitoring Expense	-		-	-	0%
Taxes & Insurance during construction	142,460		142,460	2,849	1%
Predevelopment Interest	73,782		73,782	1,476	0%
Help Loan Interest	60,638		60,638	1,213	0%
Acquisition Period Interest	387,294		387,294	7,746	2%
Total Construction Loan Expense	**1,701,411**	**169,630**	**1,871,042**	**37,421**	**9%**
PERMANENT LOAN COSTS					
CalHFA Perm Loan Fees	13,250	-	13,250	265	0%
CalHFA Bridge Loan Fees	-	-	-	-	0%
CalHFA Loan Application Fee	500	-	500	10	0%
Other Lender Perm. Loan Fees	-	-	-	-	0%
Title and Recording	5,000	-	5,000	100	0%
Other					
Bond Origination Guarantee Fee	-	-	-	-	0%
Tax Exempt Bond Allocation Fee	1,200	-	1,200	24	0%
LEGAL FEES				-	0%
Total Permanent Loan Expense	**19,950**	**-**	**19,950**	**399**	**0%**
LEGAL FEES					
Borrower Legal Fee	85,570	-	85,570	1,711	0%
Syndication	30,000	-	30,000	600	0%
Total Attorney Expense	**115,570**	**-**	**115,570**	**2,311**	**1%**

USES OF FUNDS (Cont'd):	Construction ($)	Permanent ($)	Total Development Costs		
			Total Uses of Funds ($)	Cost per Unit	%
CONTRACT / REPORT COSTS					
Appraisal	8,100	-	8,100	162	0%
Market Study	10,432	-	10,432	209	0%
Archeologist	45,000		45,000	900	0%
HUD Risk Share Environ. Review	-	-	-	-	0%
CalHFA EQ Waiver Seismic Review Fee	12,000	-	12,000	240	0%
Environmental Phase I / II Reports	26,532		26,532	531	0%
Soils / Geotech Reports	81,000		81,000	1,620	0%
Native American Monitor	35,000	-	35,000	700	0%
Noise/Acoustical/Traffic Study Report	-	-	-	-	0%
Asbestos/Lead	-	-		-	0%
Traffic Consultant	-	-		-	0%
Total Contract Costs	**218,064**	**-**	**218,064**	**4,361**	**1%**
CONTINGENCY					
Hard Cost Contingency	621,628	-	621,628	12,433	3%
Soft Cost Contingency	-	-		-	0%
Total Contingency	**621,628**	**-**	**621,628**	**12,433**	**3%**
RESERVES					
CalHFA Operating Expense Reserve	-	45,869	45,869	917	0%
Construction Defects Reserve	-	-	-	-	0%
Rent-Up Reserve	-	-	-	-	0%
Capitalized Investor Req'd Reserve	-	61,892	61,892	1,238	0%
TOR	-	75,000	75,000	1,500	0%
Total Reserves	**-**	**182,761**	**182,761**	**3,655**	**1%**
OTHER					
CTCAC App/Alloc/Monitor Fees	20,009	8,000	28,009	560	0%
Local Permit Fees	-			-	0%
Local Development Impact Fees	162,581	-	162,581	3,252	1%
Other Local Fees	-	-	-	-	0%
Advertising & Marketing Expenses	50,000	-	50,000	1,000	0%
1st Year Taxes & Insurance				-	0%
Furnishings	25,000	-	25,000	500	0%
Final Cost Audit Expense	-	12,000	12,000	240	0%
Miscellaneous Admin Fees	-	-	-	-	0%
Construction Testing	30,000	-	30,000	600	0%
Prevailing Wage Monitor	15,000	-	15,000	300	0%
Other	-	-	-	-	0%
Total Other Expenses	**302,590**	**20,000**	**322,590**	**6,452**	**1%**
SUBTOTAL PROJECT COSTS	**19,996,942**	**13,487,391**	**20,369,334**	**407,387**	**94%**
DEVELOPER COSTS					
Developer Overhead/Profit (5% Acq.)	-	-	-	-	0%
Developer Overhead/Profit (NC/Rehab)	75,712	1,124,288	1,200,000	24,000	6%
Consultant / Processing Agent	-	-	-	-	0%
Project Administration	-	-	-	-	0%
Broker Fees to a related party	-	-	-	-	0%
Construction Mgmt. Oversight	-	-	-	-	0%
Syndication Consultant	45,000	-	45,000	900	0%
Total Developer Fee / Costs	**120,712**	**1,124,288**	**1,245,000**	**24,900**	**6%**
Total Costs	**20,117,654**	**14,611,679**	**21,614,334**	**432,287**	**100%**

Annual Operating Budget **Fireside Apartments**

Plan B 1 - CalHFA Soft Loan

INCOME:	$ Amount	Per Unit	% of Total
Total Rental Income	$466,176	$9,324	96.88%
Laundry	$6,006	$120	1.25%
Other Income	$9,000	$180	1.87%
Gross Potential Income (GPI)	**$481,182**	**$9,624**	100.00%
Less:			
Vacancy Loss	$22,496	$450	4.90%
Effective Gross Income	**$458,686**	**$9,174**	

EXPENSES:	Total Cost	Per Unit	% of Total
Payroll	$142,500	$2,850	45.53%
Administrative	$15,200	$304	4.86%
Management fee	$30,000	$600	9.58%
Utilities	$37,000	$740	11.82%
Operating and Maintenance	$26,500	$530	8.47%
Insurance and Business Taxes	$30,000	$600	9.58%
Locality Compliance Monitoring Fee	$0	$0	0.00%
Other	$0	$0	0.00%
Subtotal Expenses	**$281,200**	$5,624	89.84%
Replacement Reserves	$16,800	$336	5.37%
Taxes & Assessments	$15,000	$300	4.79%
Total Expenses	$313,000	$6,260	100.00%
Financial Expenses			
CalHFA First Mortgage	$76,822	$1,536	
CalHFA Second Mortgage	$20,717	$414	
Other Required Debt Service	$20,505	$410	
NET OPERATING INCOME	**$27,641**	**$553**	

Cash Flow	Plan B 1 - CalHFA Soft Loan			CalHFA Project Number:	05-016				Fireside Apartments	
RENTAL INCOME	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**	**Year 9**	**Year 10**
Affordable Rents	**466,176**	**475,500**	**485,010**	**494,710**	**504,604**	**514,696**	**524,990**	**535,490**	**546,199**	**557,123**
Affordable Rent Increase	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*
Rental Subsidies	**9,000**	**9,180**	**9,364**	**9,551**	**9,742**	**9,937**	**10,135**	**10,338**	**10,545**	**10,756**
Rental Subsidy Increases	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*
Unrestricted Units	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Unrestricted Unit Increases	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
TOTAL RENTAL INCOME	**475,176**	**484,680**	**494,373**	**504,261**	**514,346**	**524,633**	**535,125**	**545,828**	**556,744**	**567,879**
OTHER INCOME										
Laundry	**6,000**	**6,120**	**6,242**	**6,367**	**6,495**	**6,624**	**6,757**	**6,892**	**7,030**	**7,171**
Other Income	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Other Income Increase	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*
TOTAL OTHER INCOME	**6,000**	**6,120**	**6,242**	**6,367**	**6,495**	**6,624**	**6,757**	**6,892**	**7,030**	**7,171**
GROSS POTENTIAL INCOME	**481,176**	**490,800**	**500,616**	**510,628**	**520,840**	**531,257**	**541,882**	**552,720**	**563,774**	**575,050**
VACANCY ASSUMPTIONS										
Affordable (Blended Average)	*4.70%*	*4.70%*	*4.70%*	*4.70%*	*4.70%*	*4.70%*	*4.70%*	*4.70%*	*4.70%*	*4.70%*
Rental Subsidy Income	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*
Unrestricted Units	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Laundry & Other Income	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*
LESS: VACANCY LOSS	**22,496**	**22,946**	**23,405**	**23,873**	**24,351**	**24,838**	**25,335**	**25,841**	**26,358**	**26,885**
EFFECTIVE GROSS INCOME	**458,680**	**467,853**	**477,210**	**486,754**	**496,490**	**506,419**	**516,548**	**526,879**	**537,416**	**548,165**
OPERATING EXPENSES										
Expenses	281,200	289,636	298,325	307,275	316,493	325,988	335,768	345,841	356,216	366,902
Annual Expense Increase	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*
Taxes and Assessments	15,000	15,300	15,606	15,918	16,236	16,561	16,892	17,230	17,575	17,926
Annual Tax Increase	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*
Replacement Reserve	16,800	16,800	16,800	16,800	16,800	16,800	17,640	17,640	17,640	17,640
Percentage Increase Yearly	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*5.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*
TOTAL EXPENSES	**313,000**	**321,736**	**330,731**	**339,993**	**349,530**	**359,349**	**370,300**	**380,711**	**391,431**	**402,469**
NET OPERATING INCOME	**145,680**	**146,117**	**146,479**	**146,762**	**146,960**	**147,070**	**146,248**	**146,168**	**145,986**	**145,696**
DEBT SERVICE										
CalHFA - 1st Mortgage	76,822	76,822	76,822	76,822	76,822	76,822	76,822	76,822	76,822	76,822
CalHFA - Bridge Loan	1,573,210	1,573,210	1,573,210	0	0					
CalHFA - 2nd Mortgage	20,717	20,717	20,717	20,717	20,717	20,717	20,717	20,717	20,717	20,717
CalHFA -3rd Loan Residual										
HCD MHP	20,505	20,505	20,505	20,505	20,505	20,505	20,505	20,505	20,505	20,505
County of Marin HELP	16,051	16,051	16,051	16,051	16,051	16,051	16,051			
Sum of all req'd debt service	134,095	134,095	134,095	134,095	134,095	134,095	134,095	118,045	118,045	118,045
Cash flow after CalHFA debt service	**48,140**	**48,578**	**48,939**	**49,222**	**49,420**	**49,531**	**48,708**	**48,628**	**48,446**	**48,156**
CASH FLOW after all debt service	**11,584**	**12,022**	**12,384**	**12,666**	**12,865**	**12,975**	**12,152**	**28,123**	**27,941**	**27,651**
DCR for just CalHFA loans	**1.49**	**1.50**	**1.50**	**1.50**	**1.51**	**1.51**	**1.50**	**1.50**	**1.50**	**1.49**
DEBT COVERAGE RATIO	**1.09**	**1.09**	**1.09**	**1.09**	**1.10**	**1.10**	**1.09**	**1.24**	**1.24**	**1.23**

Cash Flow

CalHFA Project Number: 05-016

Fireside Apartments

	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16	Year 17	Year 18	Year 19	Year 20
RENTAL INCOME										
Affordable Rents	568,266	579,631	591,224	603,048	615,109	627,412	639,960	652,759	665,814	679,130
Affordable Rent Increase	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Rental Subsidies		0	0	0	0	0	0	0	0	0
Rental Subsidy Increases	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Unrestricted Units	0	0	0	0	0	0	0	0	0	0
Unrestricted Unit Increases	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
TOTAL RENTAL INCOME	568,266	579,631	591,224	603,048	615,109	627,412	639,960	652,759	665,814	679,130
OTHER INCOME										
Laundry	7,314	7,460	7,609	7,762	7,917	8,075	8,237	8,401	8,569	8,741
Other Income	0	0	0	0	0	0	0	0	0	0
Other Income Increase	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
TOTAL OTHER INCOME	7,314	7,460	7,609	7,762	7,917	8,075	8,237	8,401	8,569	8,741
GROSS POTENTIAL INCOME	575,580	587,092	598,833	610,810	623,026	635,487	648,196	661,160	674,384	687,871
VACANCY ASSUMPTIONS										
Affordable (Blended Average)	4.70%	4.70%	4.70%	4.70%	4.70%	4.70%	4.70%	4.70%	4.70%	4.70%
Rental Subsidy Income	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Unrestricted Units	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Laundry & Other Income	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
LESS: VACANCY LOSS	27,094	27,636	28,188	28,752	29,327	29,914	30,512	31,122	31,745	32,380
EFFECTIVE GROSS INCOME	548,486	559,456	570,645	582,058	593,699	605,573	617,684	630,038	642,639	655,492
OPERATING EXPENSES										
Expenses	377,909	389,247	400,924	412,952	425,340	438,100	451,243	464,781	478,724	493,086
Annual Expense Increase	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Taxes and Assessments	18,285	18,651	19,024	19,404	19,792	20,188	20,592	21,004	21,424	21,852
Annual Tax Increase	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Replacement Reserve	17,640	18,522	18,522	18,522	18,522	18,522	19,448	19,448	19,448	19,448
Percentage Increase Yearly	5.00%	0.00%	0.00%	0.00%	0.00%	5.00%	0.00%	0.00%	0.00%	0.00%
TOTAL EXPENSES	413,834	426,419	438,470	450,878	463,654	476,810	491,283	505,232	519,596	534,386
NET OPERATING INCOME	134,652	133,037	132,175	131,180	130,045	128,762	126,401	124,806	123,043	121,105
DEBT SERVICE										
CalHFA - 1st Mortgage	76,822	76,822	76,822	76,822	76,822	76,822	76,822	76,822	76,822	76,822
CalHFA - Bridge Loan										
CalHFA - 2nd Mortgage	20,717	20,717	20,717	20,717	20,717	0	0	0	0	0
CalHFA -3rd Loan Residual										
HCD MHP	20,505	20,505	20,505	20,505	20,505	20,505	20,505	20,505	20,505	20,505
County of Marin HELP		0	0	0	0	0	0	0	0	0
Sum of all req'd debt service	118,045	118,045	118,045	118,045	118,045	97,327	97,327	97,327	97,327	97,327
Cash flow after CalHFA debt service	37,112	35,497	34,636	33,640	32,505	51,940	49,579	47,983	46,221	44,283
CASH FLOW after all debt service	16,607	14,992	14,131	13,135	12,000	31,435	29,074	27,478	25,716	23,778
DCR for just CalHFA loans	1.38	1.36	1.36	1.34	1.33	1.68	1.65	1.62	1.60	1.58
DEBT COVERAGE RATIO	1.14	1.13	1.12	1.11	1.10	1.32	1.30	1.28	1.26	1.24

Cash Flow

CalHFA Project Number: 05-016

	Year 21	Year 22	Year 23	Year 24	Year 25
RENTAL INCOME					
Affordable Rents	692,713	706,567	720,699	735,113	749,815
Affordable Rent Increase	2.00%	2.00%	2.00%	2.00%	2.00%
Rental Subsidies	0	0	0	0	0
Rental Subsidy Increases	2.00%	2.00%	2.00%	2.00%	2.00%
Unrestricted Units	0	0	0	0	0
Unrestricted Unit Increases	0%	0%	0%	0%	0%
TOTAL RENTAL INCOME	692,713	706,567	720,699	735,113	749,815
OTHER INCOME					
Laundry	8,916	9,094	9,276	9,461	9,651
Other Income	0	0	0	0	0
Other Income Increase	2.00%	2.00%	2.00%	2.00%	2.00%
TOTAL OTHER INCOME	8,916	9,094	9,276	9,461	9,651
GROSS POTENTIAL INCOME	701,629	715,661	729,974	744,574	759,465
VACANCY ASSUMPTIONS					
Affordable (Blended Average)	4.70%	4.70%	4.70%	4.70%	4.70%
Rental Subsidy Income	3.00%	3.00%	3.00%	3.00%	3.00%
Unrestricted Units	0%	0%	0%	0%	0%
Laundry & Other Income	5.00%	5.00%	5.00%	5.00%	5.00%
LESS: VACANCY LOSS	33,027	33,688	34,362	35,049	35,750
EFFECTIVE GROSS INCOME	668,601	681,973	695,613	709,525	723,716
OPERATING EXPENSES					
Expenses	507,878	523,115	538,808	554,973	571,622
Annual Expense Increase	3.00%	3.00%	3.00%	3.00%	3.00%
Taxes and Assessments	22,289	22,735	23,190	23,653	24,127
Annual Tax Increase	2.00%	2.00%	2.00%	2.00%	2.00%
Replacement Reserve	19,448	20,421	20,421	20,421	20,421
Percentage Increase Yearly	5.00%	0.00%	0.00%	0.00%	0.00%
TOTAL EXPENSES	549,616	566,270	582,418	599,047	616,169
NET OPERATING INCOME	118,986	115,703	113,194	110,479	107,547
DEBT SERVICE					
CalHFA - 1st Mortgage	76,822	76,822	76,822	76,822	76,822
CalHFA - Bridge Loan	0	0	0	0	0
CalHFA - 2nd Mortgage	20,505	20,505	20,505	20,505	20,505
CalHFA -3rd Loan Residual	0	0	0	0	0
HCD MHP	97,327	97,327	97,327	97,327	97,327
County of Marin HELP					
Sum of all req'd debt service	42,163	38,881	36,372	33,656	30,725
Cash flow after CalHFA debt service	21,658	18,376	15,867	13,151	10,220
CASH FLOW after all debt service	1.55	1.51	1.47	1.44	1.40
DCR for just CalHFA loans	1.22	1.19	1.16	1.14	1.11
DEBT COVERAGE RATIO					

CALIFORNIA HOUSING FINANCE AGENCY
Final Commitment
Fireside Apartments
Unincorporated Marin County, CA
CalHFA # 05-016C/N

This is a Final Commitment request for two permanent loans, a bridge loan and a construction loan. Security for the loans will be both the fee interest and a leasehold interest on a 4.3 acre site and the residential improvements located at 115 Shoreline Highway in the unincorporated area of Marin County, located approximately ½ of a mile south of Mill Valley. Fireside Affordable Housing Associates, a California Limited Partnership, will own the property or will be the ground lessee. The general partner will be Fireside Housing, LLC, a limited liability company, whose sole member is Stevenson Housing Corporation, a California nonprofit public benefit corporation wholly controlled by Citizens Housing Corporation.

The 50 unit project will consist of four buildings; a 3,513 square foot rehabilitated historic inn, a new two-story residential building with 17 two-bedroom family units, two new three-story residential buildings with 32 studio and one-bedroom units set aside for seniors and a manager's unit. There will be approximately 2,700 square feet of community and service space, and 53 parking spaces. Eighteen of the units will be designated for households in which an adult member has a disability, and is at risk of homelessness. It is expected that the majority of these families will have an adult with a mental illness and/or substance abuse problem, but the disabilities could also include HIV/AIDS, chronic health problems, and physical disabilities.

LOAN TERMS

Construction

First Mortgage	$12,165,000
Interest Rate	Variable (1 month LIBOR plus 125 basis points)
Term	21 months, interest only
Financing	Tax-exempt

Permanent

First Mortgage	$1,350,000
Interest Rate	3.00 %
Term	25 year fixed, fully amortized
Financing	Tax-exempt
Risk Share Insurance	No
Second Mortgage	$250,000
Interest Rate	3.00%
Term	15 year fixed, fully amortized
Financing	Tax-Exempt

Bridge Loan	$4,450,000
Interest Rate	3.00%
Term	3 year, fully amortized, annual payments of $1,573,210
Financing	Tax-Exempt

CalHFA construction financing is subject to the assignment by the borrower of tax credit equity and all rights under non-CalHFA financing commitments.

SPECIAL NEEDS LOAN TERMS

The interest rate on the permanent and bridge loans will be reduced from 5.30% and 5.00% to 3.00% using available federal funds.

OTHER FINANCING

Source	Type	Loan Amount	Term	Interest Rate	Repayment
MHP	Loan	$4,882,222	55	3.00%	Residual Receipts
County of Marin Trust Fund	Loan	$2,000,000	55	3.00%	Residual Receipts
County of Marin HOME	Loan	$1,775,000	55	3.00%	Residual Receipts
County of Marin CDBG	Loan	$65,800	55	3.00%	Residual Receipts
County of Marin/HELP	Loan	$100,000	10	3.30%	Monthly Debt Service
Marin Community Foundation	Loan	$1,600,000	55	0.00%	Residual Receipts
AHP	Loan	$400,000	10	0.00%	Deferred/forgivable
McKinney Supportive Housing Funds	Grant	$610,000			
Grants	Grant	$595,000			
Marin County Fee Waiver	Grant	$373,750			

Citizens Housing Corporation entered into a purchase contract for the land in June 2001. The land was purchased in September of 2003 with acquisition loan funding of $1,645,000 from the County of Marin, $2,200,000 from the Low Income Investment Fund (LIHF) and $175,000 from the Corporation for Supportive Housing (CSH). The County funds will stay in transaction during construction but the LIHF and CSH funds are acquisition loans and will be taken out at construction loan closing.

HCD's staff recommended funding of the project but HCD's Loan and Grant Committee recommended against funding the property because of the development's high per unit cost. The matter is currently before HCD senior management for reconsideration.

HCD is in discussions with the County and the developer in an effort to restructure the project to reduce development costs, including exploring a ground least structure. HCD has agreed to schedule a second presentation of the project to the Loan and Grant Committee and to convene a special meeting, if necessary. In the event that the parties agree on leasehold, the Agency

commitment will be conditioned upon the Agency receiving a security interest in both the land and the ground lease.

A loan commitment from HCD will be required before CalHFA accepts a reservation of tax exempt bond authority from CDLAC.

HOUSING ASSISTANCE PAYMENT ("HAP") CONTRACT

The project has been awarded 10 Project-Based Section 8 Vouchers from the Housing Authority of the County of Marin. The Housing Authority received approval from HUD to make this award. The project will use these vouchers for the ten 1-bedroom 50% AMI units to increase the affordability of the units. The Agency will require a transition reserve of $75,000 to allow the project to transition to non-subsidized rents in the event that the contract is canceled or not renewed by HUD.

The borrower will be required to seek and accept any renewals of the project based Section 8 contract.

PROJECT DESCRIPTION

Project Location

- The project is located in an unincorporated area of Marin County a 1/2 mile south of the Mill Valley City limits approximately 6 miles north of San Francisco.
- The site is located on Shoreline Highway a ¼ mile from Interstate 101. Interstate 101 provides direct access to San Francisco. The site is a ¼ mile from the Golden Gate Transit Park and Ride Parking Lot and 2 miles from the Sausalito ferry terminal.
- Richardson Bay, which connects to the San Francisco Bay, is approximately 1,000 feet from the site.
- To the north is a small business park with a few two-story office buildings. They are in good condition. To the south is a 100-foot near vertical bluff that contains residential uses. To the east are the Manzanita Park and Ride Parking lot and the Interstate 101 freeway on and off ramps. To the west is the Fountain Motel, an older two-story motel that is in moderate condition.
- There are two parks within a ¼ mile, the Bothin Open Space Preserve, and the Shoreline Trail System. The Bothin Preserve offers open space and walking trails. The Shoreline Trail system provides safe pedestrian, bicycle and equestrian paths to Tam Junction to the west and Sausalito to the south.
- The nearest pharmacy is a ¼ mile from the site. The nearest grocery store within 1/3 mile. A senior center and an elementary school are within ½ mile. There is an elementary school, middle school, high school and library within 1 mile of the site. The nearest hospital is 4 miles away.

Site

- The site is 4.3 acres; only one acre is buildable. In 2003, the site was rezoned RMPC-12.7 which allows 12.7 units per acre. However, the entitlements allow for building on

only one acre of the site, and for preserving the remaining 3.3 acres as open space. The entitlements include a parking reduction permit.

- The site is adjacent to a 100-foot near-vertical bluff and the site development will require rockslide and debris flow mitigation measures, which include both catchment fences and a deflection wall.
- The site was previously occupied by a 22-room, 10,942 square foot, 1950's era motel that was demolished in November 2004. Also on the site is the Fireside Inn, a locally treasured 4,017 square foot historic restaurant structure. While not eligible for State or Federal historic registration status, the project entitlements require that a 504 square foot 1950 era addition be removed and that the unique features of the Fireside Inn be preserved. The Inn is currently a non-conforming use. The remainder of the property, approximately two-thirds of the site, is undeveloped. It is reported that the southern portion of the site was quarried for bedrock, but no information concerning that activity has been identified in regulatory agency files.
- The site includes a known prehistoric cultural resource site. The new construction portion of the project has been designed on the footprint of the demolished motel to avoid disturbing any of the cultural resources.

Improvements

- The project will consist of 3 new buildings, and the renovated Fireside Inn. The buildings will be tucked into the hillside in two clusters, one for families and one for seniors. The borrower will be required to comply with fair housing requirements.
- The family cluster will consist of seventeen 2-bedroom units in a newly constructed two-story building.
- The senior cluster will consist of two three-story buildings with twenty-two studio units and ten 1-bedroom units. Both buildings will consist of two stories of housing over a one-story podium with parking underneath the podium. The buildings will share an elevator.
- The project entitlements require that the project strive to be a model of sustainable design and incorporate green elements, which include photovoltaic systems and recycled-content materials.
- The structure will be wood frame over podium (senior buildings), and wood frame over slab on grade (family building). The roofs will be asphalt composition shingles. The siding will be stucco and hardiplank. The heating will be hydronic baseboard, individually controlled.
- There will be 53 parking spaces, 36 podium, 14 on grade uncovered, and 3 on grade covered spaces.
- Nine of the 2-bedroom family units will be townhouse units. The remainder of the units will be flats.
- The site will be landscaped using local indigenous species to minimize water use. The existing Fireside Lodge chimney will be retained and used as an outdoor hearth. The site's Native American shell mound will be incorporated into the landscape by adding layers of shell and rock inlay in the walls and through paving details. There will be a wildflower rainwater garden of native and riparian plants that will capture and infiltrate rainwater onto the site.

PHYSICAL NEEDS ASSESSMENT / SCOPE OF WORK

- The Fireside Inn was constructed in the 1850's out of wood and brick and used as a stagecoach stop. In recent years, it has been used as restaurant and bar, with an apartment on the second floor.
- All of the internal space in the Fireside Inn will be reconfigured. It will be adapted from its current use as a restaurant into a center for supportive services, community space, computer room and management offices. It will also include a 2-bedroom unit for the manager.
- All new systems will be installed, as well as seismic reinforcements necessary to bring the structure up to current seismic codes. Specific attention will be given to refurbishing the historic design details (wall detail and fixtures). Recent additions to the Inn and materials that are not in keeping with its historic character will be removed.
- The cost of the rehabilitation is estimated to be $800,000. It will be included in the construction contract and will be completed along with the new construction.

Off-site improvements

The off-site improvements are estimated to cost $200,000. Many of these improvements are subject to a CalTrans encroachment permit that is pending approval. The improvements include:

- Installing a pedestrian crosswalk and signal phase system to allow pedestrian access from the property, across the 101 Interstate on and off ramps, to the Manzanita Park and Ride Lot.
- Installing approximately 150 feet of sidewalk and curb ramps along the south side of Route 1 from Route 101 SB Ramp intersection to Manzanita Transit Center entrance intersection.
- Upgrading a water main that runs underneath the Interstate 101 on-ramp.
- Closing the present driveway into the Fireside site from Shoreline Highway for general use but retaining the road for emergency access. Bollards will be installed to prevent general access and the area will be landscaped.
- Installing a new driveway on an easement across the adjacent Fountain Motel site to create a new entrance to the property.
- Installing a new two-way left turn lane in the center of Shoreline Highway for a distance of approximately 300 feet to allow staged left turns onto the highway from the Fireside property.

Relocation

- A relocation plan was developed for the project in February 2004 by Overland, Pacific and Cutler, Inc. That study estimated relocation costs at $550,000.
- There were 15 households with 22 adults and 1 child occupying the motel on the site. Of these, 14 households were eligible for relocation benefits. The cost of the benefits to the residents is approximately $480,000, of which $300,000 has been incurred to date.
- The cost of the study and associated legal costs are $70,000.
- The developer is in discussions with the County about them absorbing the cost of the relocation and removing it as a project expense.

COSTS

The project cost is approximately $421,000 per unit. If we exclude the $450,000 developer contribution, the $270,000 bridge loan interest and the $75,000 transitional operating reserve the cost is approximately $405,000. While the per unit cost is relatively high compared to other affordable housing developments, the cost of the project on a per bedroom basis and a per residential square foot is comparable to other similar projects. The site, entitlement constraints and relocation costs add approximately $100,000 per unit. These are detailed below.

- Entitlement Constraints - $3,740,000 or $78,000/unit
  - Preservation of 3.3 acres of open space of the 4.3 acre site which lowered the density and necessitated podium construction for two of the three residential buildings. This added approximately $3,000,000 in costs.
  - Adaptive reuse of the Fireside Inn, which includes seismic upgrades, elimination of recent additions and preservation of historical features. At most, this adds $200,000 to the cost of the project.
  - Creation of the pedestrian access to the Manzanita Transit center, abandoning of three driveways, creation of the new two way turn lane, and creation of a new expanded driveway. These projects required that the project retain a traffic engineer and required additional landscape, civil engineering and design costs, as well as increasing the capital costs for the offsite work. This added $200,000 in costs.
  - Green and sustainable development requirements will add an additional $340,000 to project costs.
  - Lead Paint and Asbestos removal in the demolition of the existing structure and construction mitigation measures for lead paint remaining in the Fireside Inn
  - Noise mitigation requirements due to the proximity of the site to the highway and the Interstate on and off ramps including building a sound wall buffer, double paned windows and additional insulation.

- Soil and Hillside Conditions – these costs have not been quantified to date.
  - Rockslide and debris mitigation measures including catchment fences and deflection walls
  - A temporary and permanent slope cut which requires a new concrete retaining wall spanning the entire length of the development to provide additional level area for the development
  - Soil conditions, which require spread footings for the senior buildings and pile foundations for the family building.

- Cultural Resources Preservation - $80,000 or $1,600 per unit
  - The archeologist will cost $45,000
  - The native American monitor will cost $35,000
  - Additional architectural and landscape design costs necessary to preserve the cultural resources in the site
  - Additional interest reserve to allow for time delays in the event that resources are disturbed.

- Tenant Relocation costs of $550,000 of $11,000 per unit

SPECIAL NEEDS SERVICES

- Eighteen of the units will serve households where an adult member is disabled with mental illness, HIV/AIDS, a history of chronic substance abuse or a chronic disabling health condition. A household member will also be required to be homeless, formerly homeless or at risk of homelessness. Ten of the supportive housing units will be reserved for families, and eight for seniors.
- The project has received a one year renewable grant from HUD of approximately $80,000 to fund the first year of services.
- Supportive services will be provided Homeward Bound of Marin and by Power Up.
- Homeward Bound will provide a case-manager, and a Mental Health Counselor. Part of the cost of the case-manager will be funded through the projects operating budget.
- Homeward Bound of Marin is the chief provider of transitional and long-term housing and support services for homeless people in Marin County. They currently serve 2,000 persons including 200 children.
- Power Up was created by Citizens Housing Corporation to develop and coordinate resident services at CHC properties. They will provide an initial orientation for all residents, and general information and referral services for the non-supportive housing residents. They will provide recreational, social and community building activities and create ongoing educational opportunities for all residents.
- Homeless families will receive intensive case management with an emphasis on assisting families in addressing behavioral health and physical health issues of both adults and children. Adults will be assisted with independent living skills and parenting skills and on meeting employment and educational goals. Childcare, supplemental educational programs and after-school programs will be available for the children.
- Homeless seniors will receive intensive case management with an emphasis on addressing behavioral health and physical health issues, assistance in accessing entitlement programs, and building life skills.
- Mental Health Services will be available on-site including crisis intervention services, clinical assessments, individual counseling and family therapy. Residents will also have off-site access to ongoing counseling, treatment for substance abuse and mental health problems, and support groups for disabilities at off-site locations.

MARKET

Market Overview

- The Primary Market Area is defined as the southeastern tip of Marin County and includes the cities of Mill Valley, Corte Madera, Ross, Tiburon, Marin City, Sausalito, Larkspur and the southern portion of San Rafael. The Secondary Market Area includes the whole of Marin County.
- The population of the PMA is 111,092 and is expected to decrease by .01% by 2010. There are 45,359 households in the PMA of which 58% are owners and 42% are renters. There are 16,223 seniors in the PMA in 8,438 households of which 42% are owners and 58% are renters. The number of senior households is expected to grow 7.5% by 2010.
- There are 25,897 disabled households in Marin County.
- There are 2,943 households in the PMA living "below poverty" levels defined as $15,000 per year.

- No information is available on local employers. The unemployment rate in the PMA is 2.6%.

Housing Supply and Demand

- The local market offers very limited rental housing. The majority of the local land uses are owner-occupied detached single-family homes and condominiums.
- Only four market rate properties were identified within a mile of the site. All were built in the 1960's and 1970's. The closest market rate senior property is 4 miles from the site. The Fireside will offer a superior product to all of the market rate general occupancy and senior projects in the area. The market rate properties are 97.6% occupied.
- There are 9 LIHTC family properties in Marin County, of which 3 are located in the PMA. These 3 properties are 100% occupied and two of the properties report waiting lists. One is a 28 unit property that has 5 people on its waiting list but which it closed several years ago, and the other, a 60 unit property, reports a waiting list of 80 people.
- There are 3 senior LIHTC properties in Marin County and none in the PMA. All are 100% occupied and have waiting lists of 80 people, 10 people and 40 people.
- There are 1,218 persons on the Section 8 waiting list for Marin County. The list was closed several years ago, and given the shortage of available vouchers, the county does not anticipate reopening the list for several years.
- There are no planned or proposed market rate or LIHTC properties in the PMA. There is one planned 41 unit transitional family project proposed in the SMA in Novato approximately 8.5 miles north of the site. There is also a proposed general occupancy LIHTC project in Novato.

PROJECT FEASIBILITY

Estimated Lease-up Period

The estimated lease-up period is 2.2 months based on an absorption rate of 21 units per month.

ARTICLE XXXIV:

A satisfactory opinion letter will be required prior to construction loan closing.

ENVIRONMENTAL

A Phase I Environmental Assessment report was completed on December 19, 2000 and updated July 29, 2005, by Treadwell and Rollo. The report concludes that there are no adverse environmental conditions that warrant further investigation or remedial action.

Treadwell and Rollo completed a Geotechnical Investigation on December 19, 2002, which recommended mitigation measures including a concrete retaining wall, excavation, and refill of the soil, deep foundations, spread footings, and debris flow prevention measures. A Hydrology study was completed on April 14, 2002, which made mitigation recommendations similar to the Treadwell and Rollo Geotechnical investigation.

A Hazardous Materials survey prepared by North Tower Environmental on March 2, 2004 identified lead based paint and asbestos containing materials in the Fireside Inn and in the former motel. The hazardous materials were removed or abated prior to the demolition of the motel in 2004. The project received a Clearance Notification dated December 27, 2004 which cleared the buildings for motel for demolition and the Fireside Inn for preoccupancy. There is lead based paint remaining on building components in Fireside Inn which will require lead-related construction mitigation measures if it is disturbed during the rehabilitation of the Inn.

Archaeological Resource Service conducted a Cultural Resources Evaluation on April 3, 2000 and determined that the Fireside Inn was constructed on top of a Native American habitation site, known to contain prehistoric cultural deposits and significant features including human skeletal remains. They also performed archeological testing and prepared a Treatment Plan dated March 3, 2003, which plan outlines the requirements for completing the developments with required archeological finding preservation and monitoring procedures. During the testing it was determined that no evidence of any culturally modified soil deposits were seen in the artificially cut hillside area where the new buildings will be built. The recommendations in the Treatment Plan were incorporated into the project entitlements.

On December 17, 2004, Archeological Resources Services issued the results of monitoring and testing during the demolition of the old motel. The findings did not change the March 3, 2003 Treatment Plan recommendations

A Noise Assessment was conducted by Wilson IHRIG & Associates, Inc. dated April 17, 2003, which identified unacceptable noise levels from the street traffic and made design recommendations to mitigate the noise. These include using special building materials, building a sound wall to buffer the noise from the on-ramp, locating the new buildings at the back of the property, and orienting the balconies away from the highway.

A seismic evaluation is in process. The Borrower has requested an earthquake insurance waiver and a review of this request is underway. If the waiver is denied, the loan amount may decrease so that the earthquake insurance premium can be paid.

DEVELOPMENT TEAM

Borrower

Fireside Affordable Housing Associates

- Fireside Affordable Housing Associates, a California Limited Partnership, will own the property. The initial general partner is Citizens Housing Corporation (CHC) but they will be replaced by Fireside Housing, LLC a limited liability company whose sole member is Stevenson Housing Corporation, a California nonprofit public benefit corporation wholly controlled by CHC.
- CHC is the developer of the property.
- Formed in 1992, CHC has developed or has under development 2,800 units of transitional housing, senior housing, family housing and housing for persons with special needs. CHC developments are all in California, primarily in the Bay Area.

Management Agent

CHC Property Management Corporation

CHC Property Management Corporation was established by the developer in 2001 to manage CHC's portfolio of properties. They currently manage 1,014 units in eleven properties.

Architect

TWM architects and planners

TWM was formed in 1965 as a full service design firm. There are three principals. They are licensed in California, Nevada, Washington, Arizona and Utah. The project architect is Derek Dutton. He has recently designed six multifamily residential projects with a combined total of 707 units in the Bay Area. He specializes in sustainable design and is LEED accredited by the U.S. Green Building Council.

Contractor

Cahill Contractors, Inc.

Cahill Contractors, Inc. is based in San Francisco. They were formed in 1921. They have completed at least 44 residential projects in the Bay Area. Their bonding capacity is over $250 million dollars. They have bonding capacity available to post a bond for the project's improvements. Cahill is currently the contractor on the Coliseum I project which the Agency is financing and the developer has worked them successfully on four projects.

PROJECT SUMMARY

PROJECT NUMBER: 05-016

Final Commitment

Project:	**Fireside Apartments**		
Location:	115 Shoreline Highway	***Developer:***	**Citizens Housing Corporation**
City:	Unincorporated Marin County	***Partner:***	Same
County:	Marin	***Investor:***	To be determined
Zip Code:	94941		

		No. of Buildings:	4	
Project Type:	New Construction & rehab	*No. of Stories:*	2 & 3	
Occupancy:	Family/Senior/Special Needs	*Residential Space*	28,378	sq. ft.
Total Units:	50	*Community Space*	2,700	sq. ft.
Style Units:	Flats	*Commercial Space*	0	sq. ft.
Elevators:	none	*Gross Area*	30,700	sq. ft.
Total Parking	53	*Land Area*	196,000	sq. ft.
Covered	39	*Units per acre*	11	

CalHFA Construction Financing	Amount	Rate	Term (Mths)
CalHFA Construction Financing	$12,165,000	Variable	21 Months

Permanent Sources of Funds	Amount	Rate	Years
CalHFA First Mortgage	**$1,350,000**	**3.00%**	**25**
CalHFA Bridge Loan	**$4,450,000**	**3.00%**	**3**
CalHFA Second Mortgage	**$250,000**	**3.00%**	**15**
County of Marin Trust Fund	$2,000,000	3.00%	55
County of Marin HTF/Help Loan	$100,000	3.30%	10
HOME Loan	$1,775,000	3.00%	55
CDBG Loan	$65,800	3.00%	55
Marin Community Foundation Loan	$1,600,000	0.00%	55
McKinney Supportive Housing Funds	$610,000		
Grants	$595,000		
HCD MHP	$4,882,222	3.00%	55
Marin County Fee Waiver	$373,750		
AHP	$400,000	0.00%	10
Income from Operations	$5,044		
Developer Contribution	$450,000		
Deferred Dev. Fee	$38,034		
Tax Credit Equity	$6,579,086		

Construction Valuation		Appraisal		Value Upon Completion	
Investment Value	$13,600,000	**Appraisal Date:**	**Sept 30, 2005**	**Restricted Value**	$4,000,000
Loan / Cost	62%	**Cap Rate:**	**5.50%**	**Perm. Loan / Cost**	8%
Loan / Value	89%			**Perm. Loan / Value**	40%

CalHFA Fees and Reserve Requirements

CalHFA Loan Fees	**Amount**	**Required Reserves**	**Amount**
CalHFA Construction Loan Fee	$91,238	Other Reserve	$0
CalHFA Permanent Loan Fees	$8,000	Replacement Resv. Initial Deposit	$0
Bridge Loan Fee	$0	Repl. Reserve - Per Unit/ Per Yr	$336
CALHFA Legal Fee	$10,000		
CalHFA Inspection Fee	$27,000	CalHFA Operating Expense Reserve	$46,083
Construction Loan - Guarantees and Fees		TOR	$75,000
Completion Guarantee	$8,985,238	Other Reserve	$54,678
Contractors Payment Bond	$8,985,238		
Contractors Performance Bond	$8,985,238		

Date: 10/26/2005

Senior Staff Date: 10/24/2005

UNIT MIX AND RENT SUMMARY

Fireside Apartments

05-016

Total Unit Mix

# of Units	Unit Type	# of Baths	Average Sq. Ft.
22	0 Bedroom Flat	1	396
10	1 Bedroom Flat	1	567
9	2 Bedroom Flat	1	819
9	2 Bedroom Townhome	2	819
	3 Bedroom Townhome	2	
	4 Bedroom Townhome	2.5	
50			

Number of Regulated Units By Agency

Agency	15%	30%	50%	60%	80%	Unrestricted	Total
CalHFA			17				17
Tax Credits				49			49
HOME				24			24
Marin County HTF				24			24
Marin Comm. Foundation							TBD
Grants							0
HELP				24			24
CDBG						25 low/mod	25
HCD	18		6				24
AHP			42	7			49
Section 8 Vouchers			10				10
HUD McKinney	18						18

Restricted Rents Compared to Average Market Rents

Median Income Rent Levels	Units Restricted	Restricted Rents	Avg. Market Rate Rents	Dollars Difference	% of Market
STUDIO			$1,009		
15%	8	$297		$729	28%
45%	0	$0		$0	0%
50%	14	$917		$109	89%
60%	0	$0		$0	0%
80%	0	$0		$0	0%
One Bedroom			$1,467		
15%	0	$0		$0	0%
45%	0	$0		$0	0%
50%	10	$1,038		$429	71%
60%	0	$0		$0	0%
80%	0	$0		$0	0%
Two Bedroom			$1,703		
15%	10	$352		$1,351	21%
45%	0	$0		$0	0%
50%	0	$0		$0	0%
60%	7	$1,444		$259	85%
80%	0	$0		$0	0%

Sources and Uses of Funds — Fireside Apartments

05-016

Final Commitment

SOURCES OF FUNDS:	Funds in during Construction ($)	Funds in at Permanent ($)	Total Development Sources: Total Sources of Funds ($)	Sources per Unit	%
CalHFA Construction Financing	12,165,000				
Construction Only Source 2	-				
Construction Only Source 3	-				
CalHFA First Mortgage		1,350,000	1,350,000	27,000	6%
CalHFA Second Mortgage		250,000	250,000	5,000	1%
County of Marin Trust Fund	2,000,000		2,000,000	40,000	9%
County of Marin HTF/Help Loan	100,000	-	100,000	2,000	0%
Accrued Interest - Marin HTF/HELP Loan					0%
HOME Loan	1,775,000	-	1,775,000	35,500	8%
CDBG Loan	65,800	-	65,800	1,316	0%
Marin Community Foundation Loan		1,600,000	1,600,000	32,000	8%
McKinney Supportive Housing Funds	610,000		610,000	12,200	3%
Grants	595,000	-	595,000	11,900	3%
HCD MHP	-	4,882,222	4,882,222	97,644	23%
Marin County Fee Waiver	373,750	-	373,750	7,475	2%
AHP	400,000	-	400,000	8,000	2%
0	-	-	-	-	0%
Income from Operations	5,044	-	5,044	101	0%
Developer Contribution		450,000	450,000	9,000	2%
Deferred Developer Fee		38,034	38,034	761	0%
Tax Credit Equity	1,681,957	4,897,129	6,579,086	131,582	31%
Total Sources	19,771,551	13,467,385	21,073,936	421,479	100%
(Gap)/Surplus	(0)	(0)	(1)	(0)	

USES OF FUNDS:	Construction ($)	Permanent ($)	Total Development Costs: Total Uses of Funds ($)	Cost per Unit	%
LOAN PAYOFFS & ROLLOVERS					
Construction Loan payoffs		**$12,165,000**			
ACQUISITION					
Lesser of Land Cost or Value	4,020,000	-	4,020,000	80,400	19%
Demolition	106,207	-	106,207	2,124	1%
Title & Recording	9,000	-	9,000	180	0%
Subtotal - Land Cost / Value	4,135,207	-	4,135,207	82,704	
Existing Improvements Value	-	-	-	-	0%
Off-Site Improvements	150,000	-	150,000	3,000	1%
Holding Costs	300,000	-	300,000	6,000	1%
Total Acquisition	**4,585,207**	**-**	**4,585,207**	**91,704**	**22%**
REHABILITATION					
Site Work	-	-	-	-	0%
Rehab to Structures	800,000	-	800,000	16,000	4%
General Requirements	-	-		-	0%
Contractors Overhead	-	-	-	-	0%
Contractors Profit	-	-	-	-	0%
Contractor's Bond	-	-	-	-	0%
General Liability Insurance	-	-	-	-	0%
Environmental Mitigation Expense	-	-	-	-	0%
Other	-	-	-	-	0%
Other	-	-	-	-	0%
Total Rehabilitation	**800,000**	**-**	**800,000**	**16,000**	**4%**
RELOCATION EXPENSES					
Relocation Expense	550,000	-	550,000	11,000	3%
Relocation Compliance Monitoring	-	-	-	-	0%
Total Relocation	**550,000**	**-**	**550,000**	**11,000**	**3%**

(Continued on Next 2 Pages)

USES OF FUNDS (Cont'd):	Construction ($)	Permanent ($)	Total Development Costs		
			Total Uses of Funds ($)	Cost per Unit	%
NEW CONSTRUCTION					
Site Work	1,336,064	-	1,336,064	26,721	6%
Structures (Hard Costs)	6,666,729	-	6,666,729	133,335	32%
General Requirements	471,536	-	471,536	9,431	2%
Contractors Overhead	141,200	-	141,200	2,824	1%
Contractors Profit	369,709	-	369,709	7,394	2%
Contractor's Perf. & Pymt Bond	60,000	-	60,000	1,200	0%
Other				-	0%
Other	-	-	-	-	0%
Other	-	-	-	-	0%
Total New Construction	**9,045,238**	**-**	**9,045,238**	**180,905**	**43%**
ARCHITECTURAL & ENGINEERING					
Architectural Design	413,456	-	413,456	8,269	2%
Architect's Supv during Construction	63,000	-	63,000	1,260	0%
Total Architectural	**476,456**	**-**	**476,456**	**9,529**	**2%**
Engineering Expense	373,544	-	373,544	7,471	2%
Engineers Supv. during Construction	-	-	-	-	0%
ALTA Survey	20,000	-	20,000	400	0%
Total Engineering & Survey	**393,544**	**-**	**393,544**	**7,871**	**2%**
CONSTRUCTION LOAN COSTS					
Construction Loan Interest	906,870		906,870	18,137	4%
CalHFA Construction Loan Fee	91,238		91,238	1,825	0%
Other Construction Loan Fees	-		-	-	0%
CalHFA Outside Legal Counsel Fees	10,000		10,000	200	0%
Other Lender Req'd Legal Fees	-		-	-	0%
Title and Recording fees	8,000		8,000	160	0%
CalHFA Req'd Inspection Fees	27,000		27,000	540	0%
Other Req'd Inspection Fees	-		-	-	0%
Prevailing Wage Monitoring Expense	-		-	-	0%
Taxes & Insurance during construction	142,460		142,460	2,849	1%
Predevelopment Interest	40,000		40,000	800	0%
Cost for Completion Guarantee	-		-	-	0%
Acquisition Period Interest	362,750		362,750	7,255	2%
Total Construction Loan Expense	**1,588,317**	**-**	**1,588,317**	**31,766**	**8%**
PERMANENT LOAN COSTS					
CalHFA Perm Loan Fees	8,000	-	8,000	160	0%
CalHFA Bridge Loan Fees	-	-	-	-	0%
CalHFA Loan Application Fee	500	-	500	10	0%
Other Lender Perm. Loan Fees	-	-	-	-	0%
Title and Recording	5,000	-	5,000	100	0%
Perm. Bridge Loan Interest Expense		269,630	269,630	5,393	1%
Bond Origination Guarantee Fee	-	-	-	-	0%
Tax Exempt Bond Allocation Fee	600	-	600	12	0%
Other	-	-	-	-	0%
Total Permanent Loan Expense	**14,100**	**269,630**	**283,730**	**5,675**	**1%**
LEGAL FEES					
Borrower Legal Fee	80,000	-	80,000	1,600	0%
Syndication	20,000	-	20,000	400	0%
Total Attorney Expense	**100,000**	**-**	**100,000**	**2,000**	**0%**

USES OF FUNDS (Cont'd):	Construction ($)	Permanent ($)	Total Development Costs		
			Total Uses of Funds ($)	Cost per Unit	%
CONTRACT / REPORT COSTS					
Appraisal	8,000	-	8,000	160	0%
Market Study	7,500	-	7,500	150	0%
Archeologist	45,000	-	45,000	900	0%
HUD Risk Share Environ. Review	-	-	-	-	0%
CalHFA EQ Waiver Seismic Review Fee	12,000	-	12,000	240	0%
Environmental Phase I / II Reports	7,500	-	7,500	150	0%
Soils / Geotech Reports	28,000	-	28,000	560	0%
Native American Monitor	35,000	-	35,000	700	0%
Noise/Acoustical/Traffic Study Report	-	-	-	-	0%
Asbestos/Lead	7,500	-	7,500	150	0%
Traffic Consultant	18,000	-	18,000	360	0%
Total Contract Costs	**168,500**	**-**	**168,500**	**3,370**	**1%**
CONTINGENCY					
Hard Cost Contingency	904,524	-	904,524	18,090	4%
Soft Cost Contingency	152,833	-	152,833	3,057	1%
Total Contingency	**1,057,357**	**-**	**1,057,357**	**21,147**	**5%**
RESERVES					
CalHFA Operating Expense Reserve	-	46,083	46,083	922	0%
Construction Defects Reserve	-	-	-	-	0%
Rent-Up Reserve	-	-	-	-	0%
Capitalized Investor Req'd Reserve	-	54,678	54,678	1,094	0%
TOR	-	75,000	75,000	1,500	0%
Total Reserves	**-**	**175,761**	**175,761**	**3,515**	**1%**
OTHER					
CTCAC App/Alloc/Monitor Fees	20,006	8,000	28,006	560	0%
Local Permit Fees	46,070	-	46,070	921	0%
Local Development Impact Fees	373,750	-	373,750	7,475	2%
Other Local Fees	-	-	-	-	0%
Advertising & Marketing Expenses	50,000	-	50,000	1,000	0%
1st Year Taxes & Insurance				-	0%
Furnishings	70,000	-	70,000	1,400	0%
Final Cost Audit Expense	-	12,000	12,000	240	0%
Miscellaneous Admin Fees	-	-	-	-	0%
Construction Testing	25,000	-	25,000	500	0%
Other	-	-	-	-	0%
Other	-	-	-	-	0%
Total Other Expenses	**584,826**	**20,000**	**604,826**	**12,097**	**3%**
SUBTOTAL PROJECT COSTS	**19,363,545**	**12,630,391**	**19,828,937**	**396,579**	**94%**
DEVELOPER COSTS					
Developer Overhead/Profit (5% Acq.)	-	-	-	-	0%
Developer Overhead/Profit (NC/Rehab)	363,006	836,994	1,200,000	24,000	6%
Consultant / Processing Agent	-	-	-	-	0%
Project Administration	-	-	-	-	0%
Broker Fees to a related party	-	-	-	-	0%
Construction Mgmt. Oversight	-	-	-	-	0%
Syndication Consultant	45,000	-	45,000	900	0%
Total Developer Fee / Costs	**408,006**	**836,994**	**1,245,000**	**24,900**	**6%**
Total Costs	**19,771,551**	**13,467,385**	**21,073,937**	**421,479**	**100%**

Annual Operating Budget — Fireside Apartments

Final Commitment

INCOME:	$ Amount	Per Unit	% of Total
Total Rental Income	$471,696	$9,434	97.61%
Laundry	$6,006	$120	1.24%
Other Income	$5,520	$110	1.14%
Gross Potential Income (GPI)	**$483,222**	**$9,664**	100.00%
Less:			
Vacancy Loss	$22,392	$448	4.86%
Effective Gross Income	**$460,830**	**$9,217**	

EXPENSES:	Total Cost	Per Unit	% of Total
Payroll	$142,500	$2,850	44.85%
Administrative	$19,900	$398	6.26%
Management fee	$30,000	$600	9.44%
Utilities	$37,000	$740	11.65%
Operating and Maintenance	$26,500	$530	8.34%
Insurance and Business Taxes	$30,000	$600	9.44%
Locality Compliance Monitoring Fee	$0	$0	0.00%
Other	$0	$0	0.00%
Subtotal Expenses	**$285,900**	$5,718	89.99%
Replacement Reserves	$16,800	$336	5.29%
Taxes & Assessments	$15,000	$300	4.72%
Total Expenses	$317,700	$6,354	100.00%
Financial Expenses			
CalHFA First Mortgage	$76,822	$1,536	
CalHFA Second Mortgage	$20,717	$414	
Other Required Debt Service	$23,805	$476	
NET OPERATING INCOME	**$21,785**	**$436**	

Cash Flow	Final Commitment				CalHFA Project Number: 05-016					Fireside Apartments
RENTAL INCOME	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**	**Year 9**	**Year 10**
Affordable Rents	466,176	475,500	485,010	494,710	504,604	514,696	524,990	535,490	546,199	557,123
Affordable Rent Increase	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Rental Subsidies	5,520	5,630	5,743	5,858	5,975	6,095	6,216	6,341	6,468	6,597
Rental Subsidy Increases	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Unrestricted Units	0	0	0	0	0	0	0	0	0	0
Unrestricted Unit Increases	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
TOTAL RENTAL INCOME	471,696	481,130	490,753	500,568	510,579	520,790	531,206	541,830	552,667	563,720
OTHER INCOME										
Laundry	6,000	6,120	6,242	6,367	6,495	6,624	6,757	6,892	7,030	7,171
Other Income	0	0	0	0	0	0	0	0	0	0
Other Income Increase	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
TOTAL OTHER INCOME	6,000	6,120	6,242	6,367	6,495	6,624	6,757	6,892	7,030	7,171
GROSS POTENTIAL INCOME	477,696	487,250	496,995	506,935	517,074	527,415	537,963	548,723	559,697	570,891
VACANCY ASSUMPTIONS										
Affordable (Blended Average)	4.70%	4.70%	4.70%	4.70%	4.70%	4.70%	4.70%	4.70%	4.70%	4.70%
Rental Subsidy Income	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Unrestricted Units	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Laundry & Other Income	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
LESS: VACANCY LOSS	22,392	22,840	23,297	23,763	24,238	24,723	25,217	25,721	26,236	26,761
EFFECTIVE GROSS INCOME	455,304	464,410	473,698	483,172	492,836	502,692	512,746	523,001	533,461	544,130
OPERATING EXPENSES										
Expenses	285,900	294,477	303,311	312,411	321,783	331,436	341,380	351,621	362,170	373,035
Annual Expense Increase	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Taxes and Assessments	15,000	15,300	15,606	15,918	16,236	16,561	16,892	17,230	17,575	17,926
Annual Tax Increase	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Replacement Reserve	16,800	16,800	16,800	16,800	16,800	16,800	17,640	17,640	17,640	17,640
Percentage Increase Yearly	0.00%	0.00%	0.00%	0.00%	0.00%	5.00%	0.00%	0.00%	0.00%	0.00%
TOTAL EXPENSES	317,700	326,577	335,717	345,129	354,819	364,798	375,912	386,491	397,384	408,601
NET OPERATING INCOME	137,604	137,833	137,981	138,043	138,016	137,895	136,834	136,510	136,077	135,529
DEBT SERVICE										
CalHFA - 1st Mortgage	76,822	76,822	76,822	76,822	76,822	76,822	76,822	76,822	76,822	76,822
CalHFA - Bridge Loan	1,573,210	1,573,210	1,573,210	0	0					
CalHFA - 2nd Mortgage	20,717	20,717	20,717	20,717	20,717	20,717	20,717	20,717	20,717	20,717
HCD MHP	20,505	20,505	20,505	20,505	20,505	20,505	20,505	20,505	20,505	20,505
HELP Loan/County of Marin	3,300	3,300	3,300	3,300	3,300	3,300	3,300	3,300	3,300	3,300
Sum of all req'd debt service	121,345	121,345	121,345	121,345	121,345	121,345	121,345	121,345	121,345	121,345
Cash flow after CalHFA debt service	40,064	40,293	40,441	40,504	40,477	40,355	39,295	38,970	38,537	37,990
CASH FLOW after all debt service	16,259	16,488	16,636	16,699	16,672	16,550	15,490	15,165	14,732	14,185
DCR for just CalHFA loans	1.41	1.41	1.41	1.42	1.41	1.41	1.40	1.40	1.40	1.39
DEBT COVERAGE RATIO	1.13	1.14	1.14	1.14	1.14	1.14	1.13	1.12	1.12	1.12

Cash Flow — CalHFA Project Number: 05-016 — Fireside Apartments

	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16	Year 17	Year 18	Year 19	Year 20
RENTAL INCOME										
Affordable Rents	568,266	579,631	591,224	603,048	615,109	627,412	639,960	652,759	665,814	679,130
Affordable Rent Increase	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Rental Subsidies	0	0	0	0	0	0	0	0	0	0
Rental Subsidy Increases	0	0	0	0	0	0	0	0	0	0
Unrestricted Units	0	0	0	0	0	0	0	0	0	0
Unrestricted Unit Increases	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
TOTAL RENTAL INCOME	568,266	579,631	591,224	603,048	615,109	627,412	639,960	652,759	665,814	679,130
OTHER INCOME										
Laundry	7,314	7,460	7,609	7,762	7,917	8,075	8,237	8,401	8,569	8,741
Other Income	0	0	0	0	0	0	0	0	0	0
Other Income Increase	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
TOTAL OTHER INCOME	7,314	7,460	7,609	7,762	7,917	8,075	8,237	8,401	8,569	8,741
GROSS POTENTIAL INCOME	575,580	587,092	598,833	610,810	623,026	635,487	648,196	661,160	674,384	687,871
VACANCY ASSUMPTIONS										
Affordable (Blended Average)	4.70%	4.70%	4.70%	4.70%	4.70%	4.70%	4.70%	4.70%	4.70%	4.70%
Rental Subsidy Income	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Unrestricted Units	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Laundry & Other Income	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
LESS: VACANCY LOSS	27,094	27,636	28,188	28,752	29,327	29,914	30,512	31,122	31,745	32,38[illegible]
EFFECTIVE GROSS INCOME	548,486	559,456	570,645	582,058	593,699	605,573	617,684	630,038	642,639	655,4[illegible]
OPERATING EXPENSES										
Expenses	384,226	395,752	407,625	419,854	432,449	445,423	458,786	472,549	486,726	501[illegible]
Annual Expense Increase	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3[illegible]
Taxes and Assessments	18,285	18,651	19,024	19,404	19,792	20,188	20,592	21,004	21,424	2[illegible]
Annual Tax Increase	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	
Replacement Reserve	17,640	18,522	18,522	18,522	18,522	18,522	19,448	19,448	19,448	19,448
Percentage Increase Yearly	5.00%	0.00%	0.00%	0.00%	0.00%	5.00%	0.00%	0.00%	0.00%	0.00%
TOTAL EXPENSES	420,151	432,925	445,171	457,780	470,764	484,133	498,825	513,001	527,597	
NET OPERATING INCOME	128,335	126,531	125,474	124,278	122,935	121,440	118,859	117,037	115,041	
DEBT SERVICE										
CalHFA - 1st Mortgage	76,822	76,822	76,822	76,822	76,822	76,822	76,822	76,822	76,822	76,822
CalHFA - Bridge Loan	20,717	20,717	20,717	20,717	20,717	0	0	0	0	0
CalHFA - 2nd Mortgage	20,505	20,505	20,505	20,505	20,505	20,505	20,505	20,505	20,505	20,505
HCD MHP		0	0	0	0	0	0	0	0	0
HELP Loan/County of Marin										
Sum of all req'd debt service	118,045	118,045	118,045	118,045	118,045	97,327	97,327	97,327	97,327	97,32[illegible]
Cash flow after CalHFA debt service	30,796	28,991	27,935	26,738	25,396	44,618	42,037	40,215	19,710	38,[illegible]
CASH FLOW after all debt service	10,291	8,486	7,430	6,233	4,891	24,113	21,532	19,710	17,[illegible]	
DCR for just CalHFA loans	1.32	1.30	1.29	1.27	1.26	1.58	1.55	1.52		
DEBT COVERAGE RATIO	1.09	1.07	1.06	1.05	1.04	1.25	1.22	1.20		

Cash Flow	CalHFA Project Number: 05-016				
RENTAL INCOME	**Year 21**	**Year 22**	**Year 23**	**Year 24**	**Year 25**
Affordable Rents	**692,713**	**706,567**	**720,699**	**735,113**	**749,815**
Affordable Rent Increase	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*
Rental Subsidies	**0**	**0**	**0**	**0**	**0**
Rental Subsidy Increases	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*
Unrestricted Units	**0**	**0**	**0**	**0**	**0**
Unrestricted Unit Increases	*0%*	*0%*	*0%*	*0%*	*0%*
TOTAL RENTAL INCOME	**692,713**	**706,567**	**720,699**	**735,113**	**749,815**
OTHER INCOME					
Laundry	**8,916**	**9,094**	**9,276**	**9,461**	**9,651**
Other Income	**0**	**0**	**0**	**0**	**0**
Other Income Increase	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*
TOTAL OTHER INCOME	**8,916**	**9,094**	**9,276**	**9,461**	**9,651**
GROSS POTENTIAL INCOME	**701,629**	**715,661**	**729,974**	**744,574**	**759,465**
VACANCY ASSUMPTIONS					
Affordable (Blended Average)	*4.70%*	*4.70%*	*4.70%*	*4.70%*	*4.70%*
Rental Subsidy Income	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*
Unrestricted Units	*0%*	*0%*	*0%*	*0%*	*0%*
Laundry & Other Income	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*
LESS: VACANCY LOSS	**33,027**	**33,688**	**34,362**	**35,049**	**35,750**
EFFECTIVE GROSS INCOME	**668,601**	**681,973**	**695,613**	**709,525**	**723,716**
OPERATING EXPENSES					
Expenses	516,367	531,858	547,814	564,248	581,176
Annual Expense Increase	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*
Taxes and Assessments	22,289	22,735	23,190	23,653	24,127
Annual Tax Increase	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*
Replacement Reserve	19,448	20,421	20,421	20,421	20,421
Percentage Increase Yearly	*5.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*
TOTAL EXPENSES	**558,105**	**575,014**	**591,424**	**608,322**	**625,723**
NET OPERATING INCOME	**110,497**	**106,960**	**104,189**	**101,203**	**97,993**
DEBT SERVICE					
CalHFA - 1st Mortgage	76,822	76,822	76,822	76,822	76,822
CalHFA - Bridge Loan					
CalHFA - 2nd Mortgage	0	0	0	0	0
HCD MHP	20,505	20,505	20,505	20,505	20,505
HELP Loan/County of Marin	0	0	0	0	0
Sum of all req'd debt service	97,327	97,327	97,327	97,327	97,327
Cash flow after CalHFA debt service	**33,675**	**30,138**	**27,367**	**24,381**	**21,171**
CASH FLOW after all debt service	**13,170**	**9,633**	**6,862**	**3,876**	**666**
DCR for just CalHFA loans	**1.44**	**1.39**	**1.36**	**1.32**	**1.28**
DEBT COVERAGE RATIO	**1.14**	**1.10**	**1.07**	**1.04**	**1.01**

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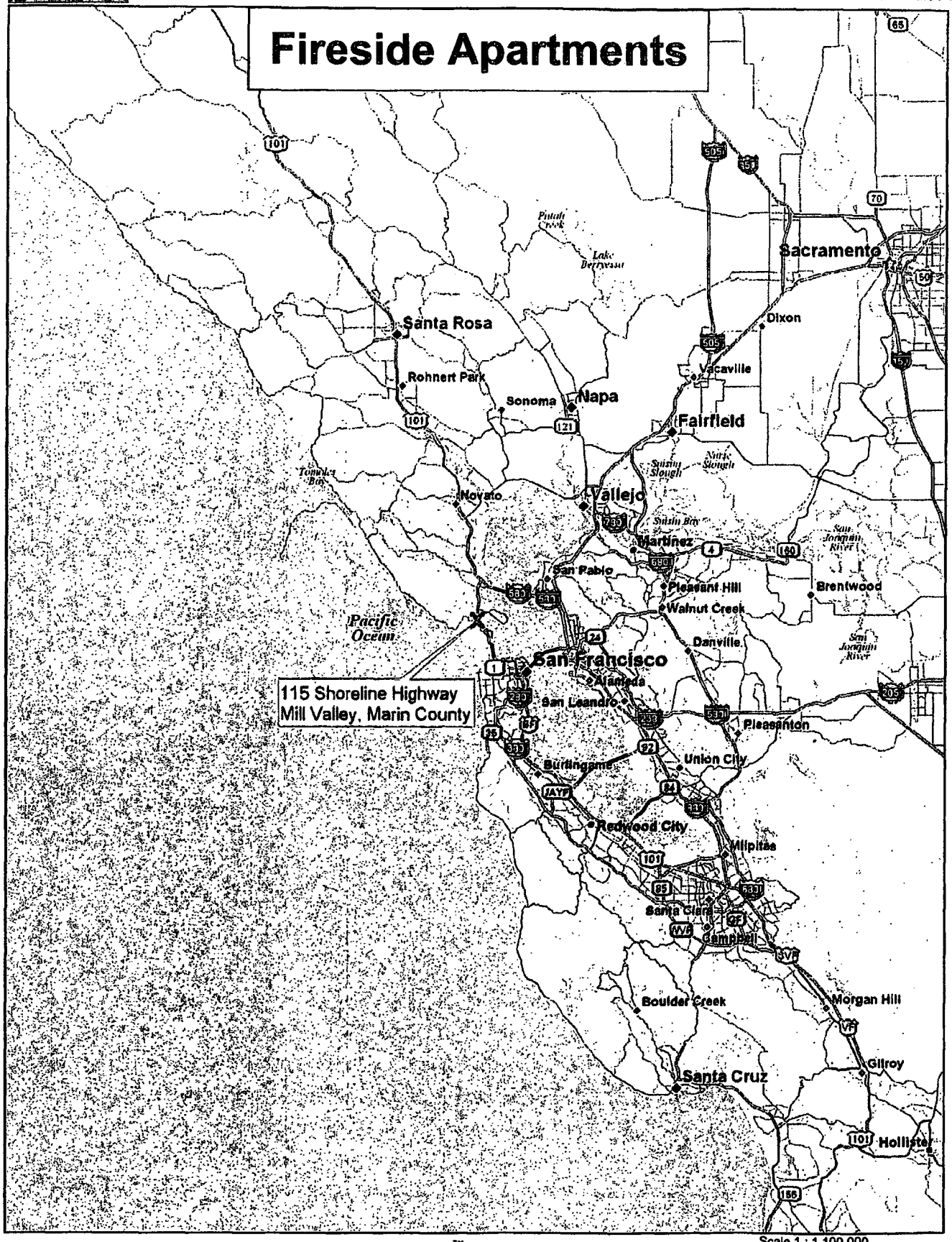
Fireside Apartments



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TN

MN (14.6°E)

Scale 1 : 1,100,000

1" = 17.36 mi

Data Zoom 7-5

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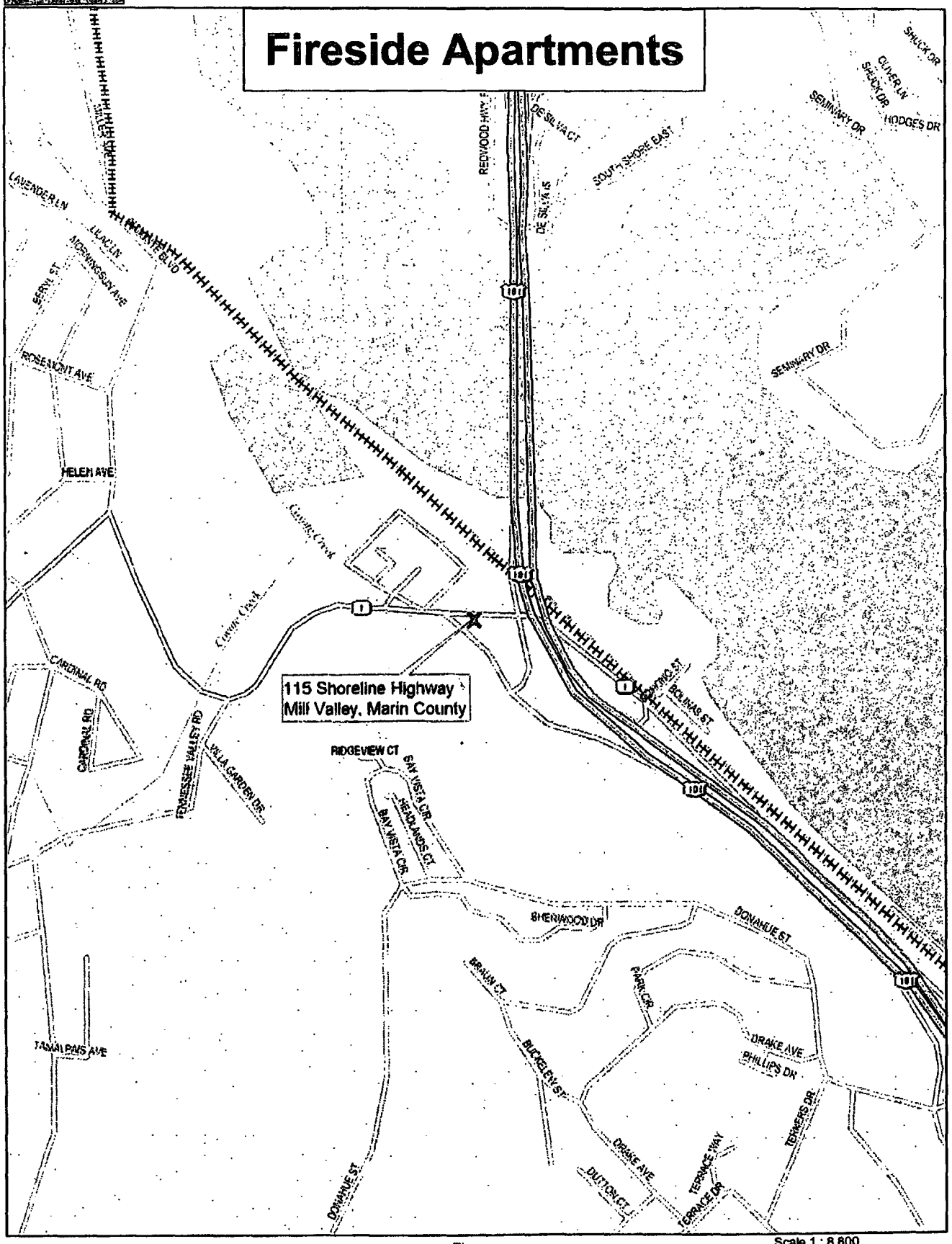
Fireside Apartments



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TN
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Scale 1 : 8,800
1" = 733.3 ft
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RESOLUTION 05-38

RESOLUTION AUTHORIZING A FINAL LOAN COMMITMENT

WHEREAS, the California Housing Finance Agency (the "Agency") has received a loan application on behalf of Fireside Affordable Housing Associates, a California Limited Partnership, (the "Borrower"), seeking a loan commitment, the proceeds of which are to be used to provide financing for a multifamily housing development located in Marin County, California, to be known as Fireside Apartments (the "Development"); and

WHEREAS, the loan application has been reviewed by Agency staff which prepared a report presented to the Board on the meeting date recited below (the "Staff Report"), recommending Board approval subject to certain recommended terms and conditions; and

WHEREAS, Section 1.150-2 of the Treasury Regulations requires the Agency, as the issuer of tax-exempt bonds, to declare its reasonable official intent to reimburse prior expenditures for the Development with proceeds of a subsequent borrowing; and

WHEREAS, on October 11, 2005, the Executive Director exercised the authority delegated to her under Resolution 94-10 to declare the official intent of the Agency to reimburse such prior expenditures for the Development; and

WHEREAS, based upon the recommendation of staff and due deliberation by the Board, the Board has determined that a final loan commitment be made for the Development;

1. The Executive Director, or in his/her absence, either the Chief Deputy Director or the Director of Multifamily Programs of the Agency is hereby authorized to execute and deliver a final commitment letter, subject to his/her recommended terms and conditions set forth in the Staff Report, in relation to the Development described above and as follows:

PROJECT NUMBER	DEVELOPMENT NAME/ LOCALITY	NUMBER OF UNITS	MORTGAGE AMOUNT
05-016-C/N	FIRESIDE APARTMENTS	50	$12,165,000 Construction Loan
			$ 1,350,000 Permanent 1st Loan
			$ 250,000 Permanent 2nd Loan
			$ 4,450,000 Bridge Loan

2. The Executive Director may modify the terms and conditions of the loans or loans as described in the Staff Report, provided that major modifications, as defined below, must be submitted to this Board for approval. "Major modifications" as used herein means modifications which either (i) increase the total amount of any loans made pursuant to the Resolution by more than 7%; or (ii) modifications which in the judgment of the Executive Director, or in his/her absence, either the Chief Deputy Director or the Director of Multifamily Programs of the Agency, adversely change the financial or public purpose aspects of the final commitment in a substantial way.

I hereby certify that this is a true and correct copy of Resolution 05-38 adopted at a duly constituted meeting of the Board of the Agency held on November 9, 2005, at Millbrae, California.

ATTEST: _____
Secretary

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RESOLUTION 06-17

RESOLUTION AUTHORIZING A FINAL LOAN COMMITMENT MODIFICATION

WHEREAS, the California Housing Finance Agency (the "Agency") has received a loan modification request on behalf of Fireside Affordable Housing Associates, a California Limited Partnership (the "Borrower"), seeking a third permanent loan commitment in the amount of $1,050,000, the proceeds of which are to be used to provide financing for a multifamily housing development located in Marin County, California, to be known as Fireside Apartments (the "Development"); and

WHEREAS, the loan application has been reviewed by Agency staff which prepared a report presented to the Board on the meeting date recited below (the "Staff Report"), recommending Board approval subject to certain recommended terms and conditions; and

WHEREAS, Section 1.150-2 of the Treasury Regulations requires the Agency, as the issuer of tax-exempt bonds, to declare its reasonable official intent to reimburse prior expenditures for the Development with proceeds of a subsequent borrowing; and

WHEREAS, on October 11, 2005, the Executive Director exercised the authority delegated to her under Resolution 94-10 to declare the official intent of the Agency to reimburse such prior expenditures for the Development; and

WHEREAS, on November 9, 2005, the Board approved the original final commitment in Resolution 05-38, and based upon the recommendation of staff and due deliberation by the Board, the Board has determined that a loan modification to the previously approved final loan commitment be made for the Development;

1. The Executive Director, or in his/her absence, either the Chief Deputy Director or the Director of Multifamily Programs of the Agency is hereby authorized to execute and deliver a final commitment letter, subject to his/her recommended terms and conditions set forth in the Staff Report, in relation to the Development described above and as follows:

Resolution 06-17
Page 2

PROJECT NUMBER	DEVELOPMENT NAME/ LOCALITY	NUMBER OF UNITS	ORIGINAL MORTGAGE AMOUNT
05-016-C/N	FIRESIDE APARTMENTS	50	$12,165,000 Construction Loan $ 1,350,000 Permanent 1st Loan $ 250,000 Permanent 2nd Loan $ 4,450,000 Bridge Loan MODIFIED MORTGAGE AMOUNT $ 1,050,000 Permanent 3rd Loan

2. The Executive Director may modify the terms and conditions of the loans or loans as described in the Staff Report, provided that major modifications, as defined below, must be submitted to this Board for approval. "Major modifications" as used herein means modifications which either (i) increase the total amount of any loans made pursuant to the Resolution by more than 7%; or (ii) modifications which in the judgment of the Executive Director, or in his/her absence, either the Chief Deputy Director or the Director of Multifamily Programs of the Agency, adversely change the financial or public purpose aspects of the final commitment in a substantial way.

I hereby certify that this is a true and correct copy of Resolution 06-17 adopted at a duly constituted meeting of the Board of the Agency held on November 9, 2006, at Burbank, California.

ATTEST:_____
Secretary

CALIFORNIA HOUSING FINANCE AGENCY
Final Commitment
Bay Area Housing Plan

SUMMARY

This is a final commitment request for $25,000,000. This request will increase the aggregate amount of the Agency's final commitment for the Bay Area Housing Plan ("BAHP") from $45,000,000 to $70,000,000. Total financing for the BAHP is still anticipated to be $120,000,000.

The Board, at its September 8, 2005 meeting provided final commitment approval for $20,000,000 and preliminary approval of an additional $80,000,000 for total anticipated financing of $100,000,000. On January 12, 2006, the Board approved an additional final commitment of $25,000,000 increasing the total aggregate final commitment approved to $45,000,000. The Board also increased the remaining initial commitment to $75,000,000 for a total project cost for the BAHP of $120,000,000.

Security for the loans will be deeds of trust on approximately 71 single family homes modified for use by 254 developmentally disabled adults exiting the Agnews Developmental Center. Agency debt will be paid through monthly lease payments authorized by the Regional Centers via annual contracts with the California Department of Developmental Services ("DDS"). DDS receives funds for these contracts through annual appropriations from the State Legislature. The lease payments will be guaranteed through "Lease Assurance Agreements" executed by the Regional Centers. There will also be additional collateral in the form of cash totaling 5% of the loan commitment amount.

FINANCING STRUCTURE

The basic financial structure of the BAHP is a lease/purchase/conveyance model. The Master Developer, Hallmark Community Services, a California a nonprofit corporation, and (the Master Developer"), will initially own the properties. Ownership will be transferred at permanent financing to one of three limited liability companies, who in turn will lease the property to a selected service provider. A portion of the lease payment will be sent directly to the Agency by the Regional Center as a debt service payment.

Each Regional Center has designated a nonprofit organization for its service area, each of which has formed a limited liability company to hold the properties. The Bay Area Housing Corporation is the designated nonprofit organization ("NPO") for the San Andreas Regional Center. The Housing Consortium of the East Bay is the designated NPO for the Regional Center of the East Bay. The West Bay Housing Corporation is the designated NPO for the Golden Gate Regional Center.

The Regional Centers receive all of their funds from DDS. The Regional Centers are responsible for funding all necessary housing and service costs under the lease, which cost is a fundable obligation in the Regional Center's contracts with DDS. DDS funds its obligations from the annual appropriations, and receives up to a 50% reimbursement from Medicaid under a well-established community placement Medicaid Waiver.

LOAN TERMS

Permanent Commitment	Previous Approvals	New Aggregate Request Including this approval of $25,000,000
Total First Mortgages	**$45,000,000**	**$70,000,000**
Interest Rate	150 basis points above the Agency's cost of funds	150 basis points above Agency's cost of funds
Term	15 - year fixed, fully amortized	15 - year fixed, fully amortized
Financing	Tax-exempt and Taxable fixed rate bonds	Tax-exempt and Taxable fixed rate bonds
Initial Commitment		
Total First Mortgages	**$75,000,000**	**$50,000,000**
Interest Rate	150 basis points above the Agency's cost of funds	150 basis points above Agency's cost of funds
Term	15 - year fixed, fully amortized	15 - year fixed, fully amortized
Financing	Tax-exempt and Taxable fixed rate bonds	Tax-exempt and Taxable fixed rate bonds

This final commitment gives staff authority to enter into a series of loan commitments on properties up to an aggregate amount of $70,000,000. The requested commitment amount will be used to finance approximately 15 homes. This amount will allow Bank of America, N.A. as loan administrator for a syndicate of lenders ("Construction Lender") to utilize its entire credit facility of $60,000,000, which requires an Agency permanent commitment of $66,000,000. Staff anticipates returning to the Board of Directors for an additional commitment of funds in either March or May of 2007 following the Agency's first bond sale for the BAHP.

ADDITIONAL COMMITMENT AUTHORITY

It is anticipated that $49,500,000 in Permanent Commitment authority will be needed by the end of November, 2006 and the total authority needed by the end of 2006 is approximately $67,250,000. This additional commitment authority will take BAHP to the half-way point, and will allow the Master Developer to acquire 34 of the 71 homes needed to house the current residents of the Agnews Developmental Facility.

Properties Purchased to Date with Agency Permanent Loan Commitments

The Agency has issued Permanent Commitments under the Loan Purchase Agreement on seventeen properties as of October 23, 2006. Sixteen of these properties have been purchased utilizing the BAHP financing mechanism, and one property fell out of escrow. The Agency Permanent Commitments issued for the sixteen properties purchased totals $28,168,000.

Properties in the Pipeline

The Master Developer has a pipeline of an additional eighteen homes. The anticipated Agency Permanent Commitment requirement for these eighteen homes is $32,858,000.

- Ten homes are under contract and the Agency expects to issue Final Commitments for them between now and the end of December 2006. We estimate that these ten homes will require $18,700,000 in Permanent Agency Commitments.

- One home, Chablis Way in Livermore, was purchased using an acquisition loan from Mechanics Bank and not the BAHP financing. It is anticipated that it will be transferred to BAHP financing in December and will require a permanent commitment of $1,858,000 in November of 2006.

- Three properties are in negotiation and will require approximately $6,000,000 in additional Permanent Loan Commitment if the Master Developer succeeds in getting them under contract. Purchase is anticipated to be in December 2006

- Four properties are already rehabilitated properties in Cupertino that were acquired and rehabilitated by Hallmark Corporation in 2005 as test properties for the BAHP. Ownership will be transferred to Hallmark Community Services in December 2006 for inclusion in the BAHP. The anticipated commitment needed for these properties is approximately $12,600,000.

The combined commitment requirement for the properties that have been purchased and the pipeline properties is $61,126,000. When the Construction Lender required contingency is factored in the total Agency Permanent Commitment required is $67,238,600.

CONSTRUCTION LENDER CAP

The Construction Lender has imposed a $60,000,000 cap on outstanding loan commitments on their $125,000,000 credit authority. The practical implication of the cap is that BAHP acquisition activity should pause in early January and not resume until the late spring when the Agency purchases of loans from the Construction Lender under the terms of the Loan Purchase Agreement ("LPA"). The focus of BAHP activity will instead shift to the new construction and rehabilitation of the purchased homes.

CONSTRUCTION

Design and Building Methodology

The Master Developer selected Design Build as the construction delivery method for the BAHP. This method was selected over other delivery methods due to the compressed schedule, reduced potential for change orders, and the functional design program (as opposed to high design) of the BAHP. Schedule compression is an essential component of the BAHP because of the legislative mandate to close the Agnews Developmental Center by July 1, 2008.

A master contract has been executed between the Master Developer and a Design Builder. Each home will be added to the master contract as a discrete scope of work. Additionally, each home will have a separate contract schedule and contract value. The design builder will be required to competitively bid each project with subcontractors. After subcontractor bids are approved by the Master Developer, and awarded, a stipulated sum will be set for each project with a contingency for unforeseen conditions.

Contractor/Design Builder Selection

The Master Developer has contracted with Fine Line Group ("FLG") to as the Contractor/Design Builder for BAHP.

FLG was founded in 1979, and began as a General Building Contractor specializing in tenant improvement construction. FLG has over 20 years of experience in the construction industry. Their early work was constructing museum interiors which gave them a great deal of expertise in millwork. This allowed them to expand into work for high-end retail and restaurant interiors to hotels and up-scale offices. They later branched out into structural and seismic work. FLG enjoys an excellent reputation for quality coupled with efficiency and timely completion of projects. FLG is typically brought onto the construction team early in the planning phase so that it can lend its Design Build capabilities to the project. The two principals of the organization are John Santori, who is the Chief Operating Officer, and Robert Helmers, who is the President. FLG has a full-time staff that includes project managers, estimators and experienced carpenters, among others. They have in-house capacity in project estimating, project scheduling, and project management. They subcontract for design services. FLG will be involved in all aspects of the BAHP including architectural design, preconstruction services including estimating and bidding, and construction services.

FLG is currently working with the Master Developer on schematic design and bid packages for ten properties.

Construction Schedule

The fifteen properties acquired to date are scheduled to commence construction in the next three months, six on November 15, 2006, six on December 1, 2006, and three on January 31, 2006. Design and construction is anticipated to take four months for each home that is being rehabilitated, and longer if the home is being stick-built.

The sixteenth property, Mulberry, will either be a new pre-fabricated home or alternatively a stick-built home, depending on the cost. Construction on that property will be delayed until the property receives planning approval from the locality.

Cost Information

No final construction bid information is available at this time. Staff has been promised bids on the first three properties in late November 2006.

Loan Purchase Requirements

The LPA conditions for Agency loan purchase include, among other items, completion of construction, Agency acceptance of the construction ("Stabilization"), preparation of loan documents, and transfer of the homes to the NPO by the Master Developer.

The Agency has agreed to purchase individual loans within 180 days (six months) of the Stabilization date. The Agency plans to sell bonds during that 180 day period. We anticipate that the first bond sale will be sized at approximately $40,000,000 and that it will be use to acquire approximately twenty-two properties to have reached Stabilization.

Staff currently estimates that that we will sell bonds in the spring of 2007. Loan purchases are anticipated to follow the bond sale by approximately one month.

NEGOTIATED CHANGES IN THE FINAL COMMITMENT

Loan Fees and Other Costs

The Agency will collect a 1% loan fee of $250,000 for this additional commitment which will be paid by the Regional Centers from their own funds. It will not be financed from Agency loan proceeds. The loan fee will be due at the November Board meeting.

Other Terms

All other terms of the BAHP are set forth in the loan documents which were executed on March 30, 2006, including the LPA executed by and among the Construction Lender, the Master Developer and the Agency. The LPA was amended of June 16, 2006. Staff anticipates that additional amendments will be required to the Loan Purchase Agreement in the next two months.

Additional Equity

To lower the costs associated with the BAHP, the Regional Centers have agreed to contribute $11,100,000 in equity into the BAHP from funds available to them under the Expenditure Plan as part of the BAHP. They had previously committed these funds to be held as Collateral by the Construction Lender as security for their loan. Their plan is to replace the collateral account with other Regional Center funds. This plan has received all required approvals. The only remaining requirement prior to release of the funds is a modification of the Regional Center – DDS contract language pertaining to the BAHP. The DDS -CalHFA MOU provides for CalHFA approval of all language modifications. Modified approval language acceptable to the Agency will be a condition of this Permanent Loan Commitment.

Allowable uses for additional $11,100,000 in equity include escrow deposits, due diligence, EIR's and other studies, surveys, soils reports, architecture and engineering costs, appraisals, developer fees, legal fees, accounting fees and management fees. One of the early uses for these funds will be paying down the B of A "Facilities Cost Note" of approximately $1,700,000 which is being allocated to the first 56 projects at approximately $35,000 per project. It will also be used to offset the higher costs associated with the new construction of 962 Medical Model homes.

Sample Property

Attached to this package are materials for 1320 Baywood in San Jose. At the last board meeting, board members requested that staff provide financials and other materials for one of the properties in advance of the Board Meeting, to facilitate an in-depth discussion of the financing of the BAHP.

BAY AREA HOUSING PLAN
SCHEDULE OF PROPERTIES

	Property Address	Board Comm. 09/01/05	Board Comm. 01/06/06	Board Comm 11/09/06	Agency Status	Approval Date	Estimated Purchase	Est. Const. Start	NPO RC	CC&R's	Tax Status	Property Type	Purchase Price	Rehab Estimate	Reserve Addl Collateral	Reserve 1 YR DS	Appraisal	LTV	LTV minus DS Reserve	LTV minus all reserves
	Board Approval Amounts	$ 20,000,000	$ 25,000,000												5%					
	Agency Commitments																			
1	1529 Eden, San Jose	$ 1,821,000			4.2 Approval	06/16/06	06/24/06	11/15/06	BAHC -SARC		EXP	FTM Duplex	$ 875,000	$ 364,624	$ 91,050	$ 207,579	$ 875,000	208%	184%	174%
2	1320 Baywood, San Jose	$ 2,008,000			4.2 Approval	06/26/06	07/06/06	11/15/06	BAHC -SARC		EXP	962 Med 5	$ 925,000	$ 415,941	$ 100,400	$ 228,895	$ 925,000	217%	192%	181%
3	227 Prague, San Mateo	$ 1,689,000			4.2 Approval	07/03/06	07/10/06	11/15/06	WBHC-GGRC		Tax	SRH 3	$ 771,000	$ 367,325	$ 84,450	$ 192,532	$ 790,000	214%	189%	179%
4	5508 Jasmine, Castro Valley	$ 1,694,000			4.2 Approval	07/17/06	07/26/06	11/15/06	HCEB-RCEB	xx	?EXP	SRH 4	$ 805,000	$ 332,235	$ 84,700	$ 201,549	$ 815,000	208%	183%	173%
5	506 & 508 Northlake Dr.,San Jo	$ 1,837,000			4.2 Approval	07/17/06	07/24/06	11/15/06	BAHC -SARC		EXP	FTM Duplex	$ 820,000	$ 425,486	$ 91,850	$ 218,563	$ 820,000	224%	197%	186%
6	625 & 627 Vasona, Los Gatos	$ 1,806,000			4.2 Approval	07/26/06	07/28/06	01/31/07	BAHC -SARC		EXP	FTM Duplex	$ 860,000	$ 352,527	$ 90,300	$ 214,875	$ 860,000	210%	185%	175%
7	629 & 631 Vasona, Los Gatos	$ 1,819,000			4.2 Approval	07/26/06	07/28/06	01/31/07	BAHC -SARC		EXP	FTM Duplex	$ 860,000	$ 356,456	$ 90,950	$ 216,422	$ 860,000	212%	186%	176%
8	637 & 639 Vasona, Los Gatos	$ 1,803,000			4.2 Approval	07/26/06	07/28/06	01/31/07	BAHC -SARC		EXP	FTM Duplex	$ 860,000	$ 349,899	$ 90,150	$ 214,518	$ 860,000	210%	185%	174%
9	1720 Pierce St., San Mateo	$ 1,660,000			4.2 Approval	08/07/06	08/17/06	11/15/06	WBHC-GGRC		Tax	SRH 3	$ 775,000	$ 335,701	$ 83,000	$ 197,504	$ 785,000	211%	186%	176%
~~10~~	~~5402 Club Drive, San Mateo~~	~~$ 1,020,000~~			~~Senior Staff~~	~~08/28/06~~	~~09/19/06~~		~~BAHC -SARC~~		~~EXP~~	~~962 Med 5~~	~~$ 860,000~~	~~432,874~~	~~$ 96,000~~	~~$ 133,180~~	~~$ 860,000~~	~~223%~~	~~208%~~	~~187%~~
11	2508 Regent Road, Livermore	$ 1,756,000	$ -		4.2 Approval	09/15/06	09/25/06	12/01/06	HCEB-RCEB		Exp	962 Med 5	$ 835,000	$ 342,172	$ 87,800	$ 205,153	$ 840,000	209%	185%	174%
12	4865 Wellington Park, San Jose	$ 1,585,000			4.2 Approval	09/28/06	10/02/06	12/01/06	BAHC -SARC	x	Tax	SRH3	$ 762,000	$ 298,575	$ 79,250	$ 185,175	$ 775,000	205%	181%	170%
13	21763 Shadysprings Rd, Castro	$ 522,000	$ 980,000		4.2 Approval	09/28/06	10/03/06	12/01/06	HCEB-RCEB	x	EXP	SRH3	$ 680,000	$ 323,655	$ 75,100	$ 175,478	$ 680,000	221%	195%	184%
14	633 Vanessa, San Mateo		$ 1,692,000		4.2 Approval	10/04/06	10/11/08	12/01/06	WBHC-GGRC	x	EXP	SRH3	$ 750,000	$ 389,074	$ 84,600	$ 197,676	$ 780,000	217%	192%	181%
15	32744 Olympiad Court, Union City		$ 1,713,000		4.2 Approval	10/18/06	10/21/06	12/01/06	HCEB-RCEB		EXP	962 Med 5	$ 880,000	$268,554	$ 85,650	$ 200,129	$ 880,000	195%	172%	162%
16	2334 Oak Flat Road, San Jose		$ 1,697,000		4.2 Approval	10/18/06	10/24/06	12/01/06	BAHC -SARC	x	EXP	SRH3	$ 770,000	$374,234	$ 84,850	$ 198,260	$ 810,000	210%	185%	175%
17	14239 Mulberry, Los Gatos		$ 2,086,000		4.2 Approval	10/18/06	10/24/06	TBD	BAHC -SARC	x	EXP	962 Med 5	$ 749,950	$708,041	$ 104,300	$ 243,706	$ 785,000	266%	235%	221%
Total Approvals		$ 20,000,000	$ 8,168,000	$ -																
Commitment Used - by Bd approval date		$ 20,000,000	$ 8,168,000	$ -																
Unused Commitment - by BD approval da		$ -	$ 16,832,000	$ -																
110% Contingency Factor		$ -	$ 2,816,800	$ -																
Commitment Available			$ 14,015,200	$ -																
	Pending Acquisitions																			
18	2654 Chablis Way, Livermore		$ 1,858,000		Prel. Approval		09/25/06		HCEB-RCEB	xx	Tax	962 Med 5	$ 870,000	$ 363,436	$ 92,900	$ 201,429	$ 870,000	214%	190%	180%
19	1112 Sunnyside Drive, S SF		$ 1,800,000				11/06/06		WBHC-GGRC		Tax	SRH3	$ 849,000		$ 90,000	$ 209,011	$ 849,000	212%	187%	177%
20	1446 Flora, San Jose		$ 2,000,000				10/31/06		BAHC -SARC		EXP	962 Med 5	$ 785,000		$ 100,000	$ 233,659	$ 785,000	255%	225%	212%
21	1169 Sand Beach Place, Alameda		$ 2,000,000				11/10/06		BAHC -SARC		EXP	962 Med 5	$ 719,000		$ 100,000	$ 233,659	$ 725,000	276%	244%	230%
22	24615 Patricia Court, Hayward		$ 2,000,000				11/16/06		HCEB-RCEB		EXP	962 Med 5	$ 705,000		$ 100,000	$ 233,659	$ 719,000	278%	246%	232%
23	740 Palm Ave, S SF		$ 1,700,000				10/30/06		WBHC-GGRC		Tax	SRH3	$ 850,000		$ 85,000	$ 198,610	$ 850,000	200%	177%	167%
24	680 Edna, San Mateo		$ 1,383,091	$ 316,909			11/06/06		WBHC-GGRC		Tax	962 Med 4	$ 788,888		$ 85,000	$ 198,610	$ 780,000	218%	192%	182%
25	908 Ocean View,San Mateo			$ 2,000,000			11/06/06		WBHC-GGRC		Tax	SRH3	$ 818,000		$ 100,000	$ 233,659	$ 825,000	242%	214%	202%
26	32724 Fairfield Street, Union City			$ 1,700,000			11/23/06		HCEB-RCEB		EXP	SRH3	$ 759,950		$ 85,000	$ 198,610	$ 760,000	224%	198%	186%
27	649 Empey Way,San Jose			$ 2,000,000			12/15/06		BAHC -SARC		EXP	962 Med 5	$ 790,000		$ 100,000	$ 233,659	TBD	TBD	TBD	TBD
28	4192 White Oak Ave, San Jose			$ 2,000,000			TBD		BAHC -SARC		EXP	962 Med 5	TBD		$ 100,000	$ 233,659	TBD	TBD	TBD	TBD
29	5486 Yale Drive			$ 2,000,000			12/15/06		WBHC-GGRC		EXP	962 Med 5	$ 798,000		$ 100,000	$ 233,659	TBD	TBD	TBD	TBD
30	Medina, San Bruno			$ 2,000,000			TBD		WBHC-GGRC		TBD	962 Med 4	$ 1,250,000		$ 100,000	$ 233,659	TBD	TBD	TBD	TBD
31	Carmen Way, Union City			$ 1,800,000			TBD		HCEB-RCEB		TBD	SRH3	TBD		$ 90,000	$ 210,293	TBD	TBD	TBD	TBD
32	10536 N. Foothill, Cupertino			$ 1,600,000			12/01/06		BAHC -SARC		EXP	FTM Duplex	$ 1,229,814	$ 75,000	$ 80,000	$ 186,927	$ 1,220,000	131%	116%	109%
33	10506 N. Foothill Cupertino			$ 1,600,000			12/01/06		BAHC -SARC		EXP	FTM Duplex	$ 1,303,645	$ 75,000	$ 80,000	$ 186,927	$ 1,220,000	131%	116%	109%
34	10516 N. Foothill, Cupertino			$ 1,600,000			12/01/06		BAHC -SARC		EXP	FTM Duplex	$ 1,298,816	$ 75,000	$ 80,000	$ 186,927	$ 1,220,000	131%	116%	109%
35	10526 N. Foothill Cupertino			$ 1,600,000			12/01/06		BAHC -SARC		EXP	FTM Duplex	$ 1,297,412	$ 75,000	$ 80,000	$ 186,927	$ 1,220,000	131%	116%	109%

All Current Approvals and Pending Acquisitions		
Pending Approvals	$ 12,741,091	$ 20,216,909
110% Contingency Factor	$ 14,015,200	$ 22,238,600
Total of Commitments and Pending Acquisitions		
Total approvals	$ 28,168,000	$ 28,168,000
Total Approvals & Pending Acquisitions	$ 40,909,091	$ 61,126,000
110% Contingency Factor	$ 45,000,000	$ 67,238,600
Commitment Currently Needed in Nov 06	$ 0	$ 22,238,600

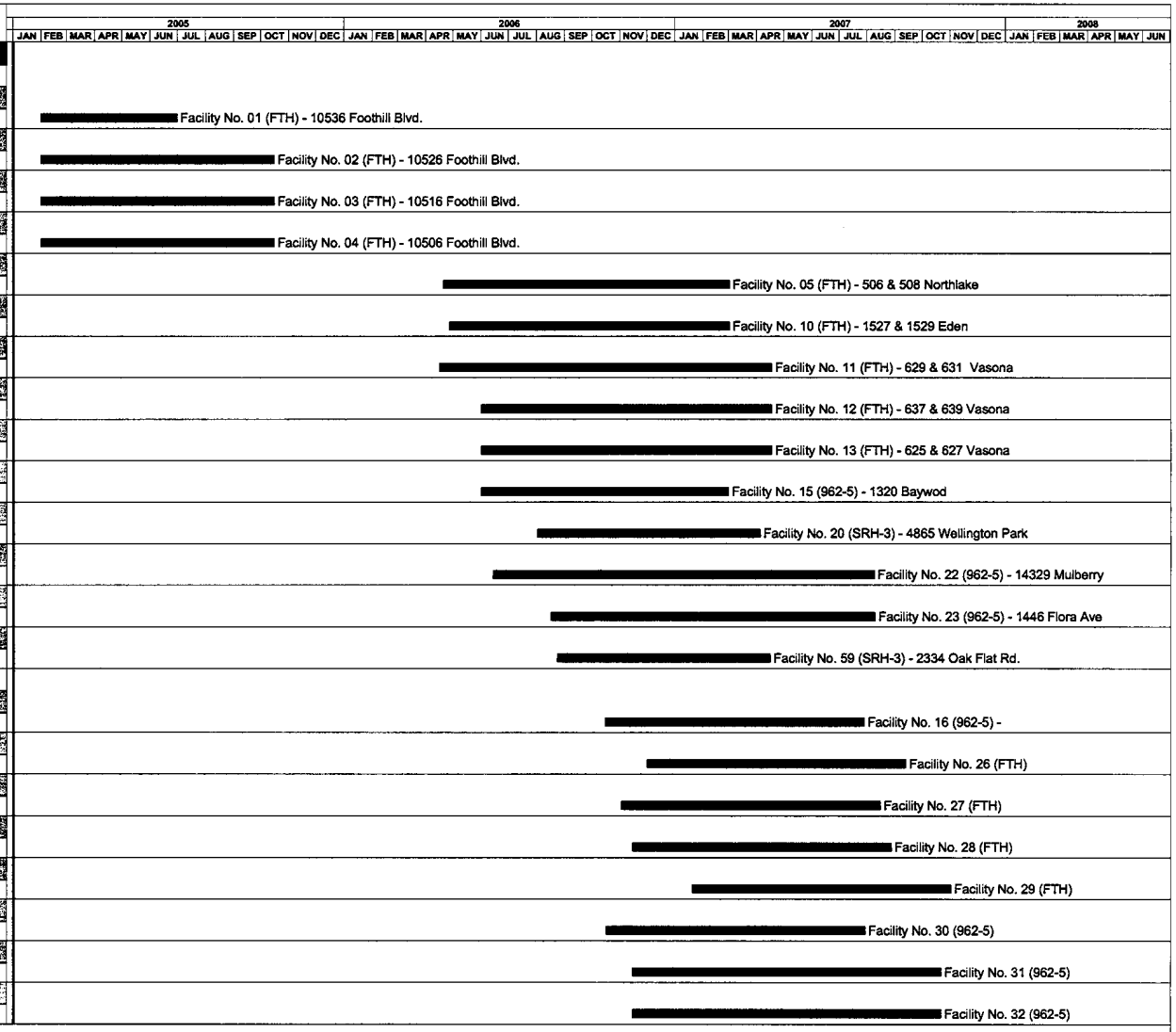
CalHFA Taxable Rate

Aug-06	7.80%
Sep-06	7.50%
Oct-06	7.40%

CalHFA Tax -Exempt Rate

Aug-06	6.30%
Sep-06	6.00%
Oct-06	5.90%

Act ID	RC	Description	Orig Dur	Early Start	Early Finish
San Andreas Regional Center (South Bay)					
Pipeline					
Facility No. 01					
01000	SARC	Facility No. 01 (FTH) - 10536 Foothill Blvd.	150 *	02/01/05	06/30/05
Facility No. 02					
02000	SARC	Facility No. 02 (FTH) - 10526 Foothill Blvd.	256 *	02/01/05	10/15/05
Facility No. 03					
03000	SARC	Facility No. 03 (FTH) - 10516 Foothill Blvd.	256 *	02/01/05	10/15/05
Facility No. 04					
04000	SARC	Facility No. 04 (FTH) - 10506 Foothill Blvd.	256 *	02/01/05	10/15/05
Facility No. 05					
05000	SARC	Facility No. 05 (FTH) - 506 & 508 Northlake	313 *	04/20/06	03/01/07
Facility No. 10					
10000	SARC	Facility No. 10 (FTH) - 1527 & 1529 Eden	306 *	04/27/06	03/01/07
Facility No. 11					
11000	SARC	Facility No. 11 (FTH) - 629 & 631 Vasona	364 *	04/16/06	04/17/07
Facility No. 12					
12000	SARC	Facility No. 12 (FTH) - 637 & 639 Vasona	318 *	06/01/06	04/17/07
Facility No. 13					
13000	SARC	Facility No. 13 (FTH) - 625 & 627 Vasona	318 *	06/01/06	04/17/07
Facility No. 15					
15000	SARC	Facility No. 15 (962-5) - 1320 Baywod	270 *	06/01/06	02/28/07
Facility No. 20					
20000	SARC	Facility No. 20 (SRH-3) - 4865 Wellington Park	244 *	08/02/06	04/04/07
Facility No. 22					
22000	SARC	Facility No. 22 (962-5) - 14329 Mulberry	417 *	06/14/06	08/08/07
Facility No. 23					
23000	SARC	Facility No. 23 (962-5) - 1446 Flora Ave	355 *	08/17/06	08/09/07
Facility No. 59					
59000	SARC	Facility No. 59 (SRH-3) - 2334 Oak Flat Rd.	233 *	08/24/06	04/15/07
Second Phase					
Facility No. 16					
16000	SARC	Facility No. 16 (962-5) -	283 *	10/16/06	07/28/07
Facility No. 26					
26000	SARC	Facility No. 26 (FTH)	283 *	12/01/06	09/12/07
Facility No. 27					
27000	SARC	Facility No. 27 (FTH)	283 *	11/03/06	08/15/07
Facility No. 28					
28000	SARC	Facility No. 28 (FTH)	283 *	11/15/06	08/27/07
Facility No. 29					
29000	SARC	Facility No. 29 (FTH)	285 *	01/20/07	11/01/07
Facility No. 30					
30000	SARC	Facility No. 30 (962-5)	283 *	10/17/06	07/29/07
Facility No. 31					
31000	SARC	Facility No. 31 (962-5)	338 *	11/15/06	10/21/07
Facility No. 32					
32000	SARC	Facility No. 32 (962-5)	338 *	11/15/06	10/21/07



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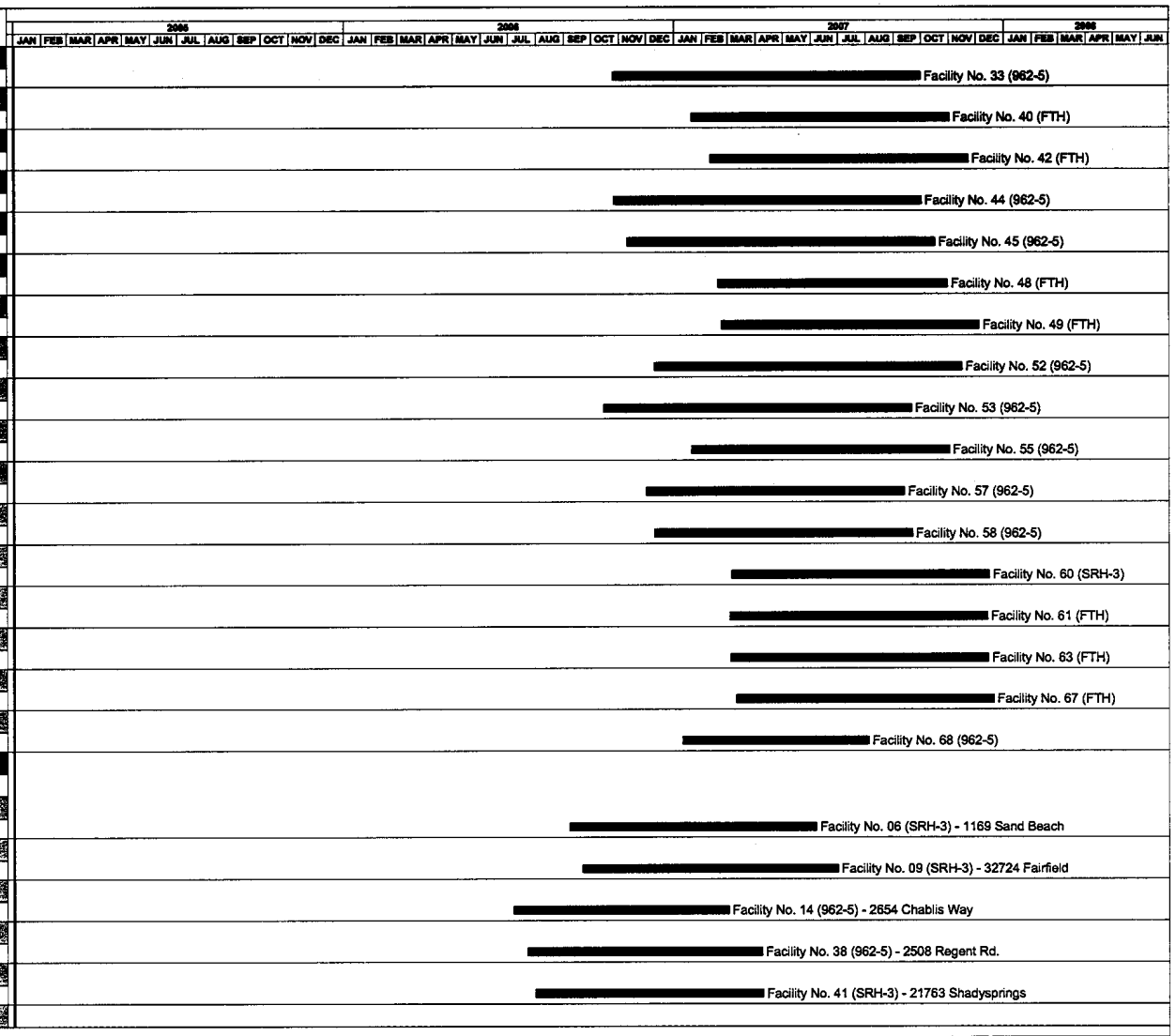
BAHP Schedule Projection
Summary Bars

Last Updated: October 23, 2006

- Early bar
- Progress bar
- Critical bar
- Summary bar
- Start milestone point
- Finish milestone point

Act ID	RC	Description	Orig Dur	Early Start	Early Finish
Facility No. 33					
33000	SARC	Facility No. 33 (962-5)	338 *	10/25/06	09/30/07
Facility No. 40					
40000	SARC	Facility No. 40 (FTH)	285 *	01/20/07	11/01/07
Facility No. 42					
42000	SARC	Facility No. 42 (FTH)	285 *	02/10/07	11/22/07
Facility No. 44					
44000	SARC	Facility No. 44 (962-5)	338 *	10/26/06	10/01/07
Facility No. 45					
45000	SARC	Facility No. 45 (962-5)	338 *	11/10/06	10/16/07
Facility No. 48					
48000	SARC	Facility No. 48 (FTH)	254 *	02/18/07	10/30/07
Facility No. 49					
49000	SARC	Facility No. 49 (FTH)	285 *	02/22/07	12/04/07
Facility No. 52					
52000	SARC	Facility No. 52 (962-5)	338 *	12/10/06	11/15/07
Facility No. 53					
53000	SARC	Facility No. 53 (962-5)	338 *	10/15/06	09/20/07
Facility No. 55					
55000	SARC	Facility No. 55 (962-5)	285 *	01/20/07	11/01/07
Facility No. 57					
57000	SARC	Facility No. 57 (962-5)	283 *	12/01/06	09/12/07
Facility No. 58					
58000	SARC	Facility No. 58 (962-5)	283 *	12/10/06	09/21/07
Facility No. 60					
60000	SARC	Facility No. 60 (SRH-3)	285 *	03/05/07	12/15/07
Facility No. 61					
61000	SARC	Facility No. 61 (FTH)	285 *	03/03/07	12/13/07
Facility No. 63					
63000	SARC	Facility No. 63 (FTH)	285 *	03/04/07	12/14/07
Facility No. 67					
67000	SARC	Facility No. 67 (FTH)	285 *	03/10/07	12/20/07
Facility No. 68					
68000	SARC	Facility No. 68 (962-5)	205 *	01/10/07	08/03/07
Regional Center of the East Bay					
Pipeline					
Facility No. 06					
06000	RCEB	Facility No. 06 (SRH-3) - 1169 Sand Beach	271 *	09/07/06	06/06/07
Facility No. 09					
09000	RCEB	Facility No. 09 (SRH-3) - 32724 Fairfield	281 *	09/21/06	06/30/07
Facility No. 14					
14000	RCEB	Facility No. 14 (962-5) - 2654 Chablis Way	236 *	07/07/06	03/01/07
Facility No. 38					
38000	RCEB	Facility No. 38 (962-5) - 2508 Regent Rd.	258 *	07/22/06	04/07/07
Facility No. 41					
41000	RCEB	Facility No. 41 (SRH-3) - 21763 Shadysprings	250 *	07/31/06	04/08/07
Facility No. 43					



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BAHP Schedule Projection
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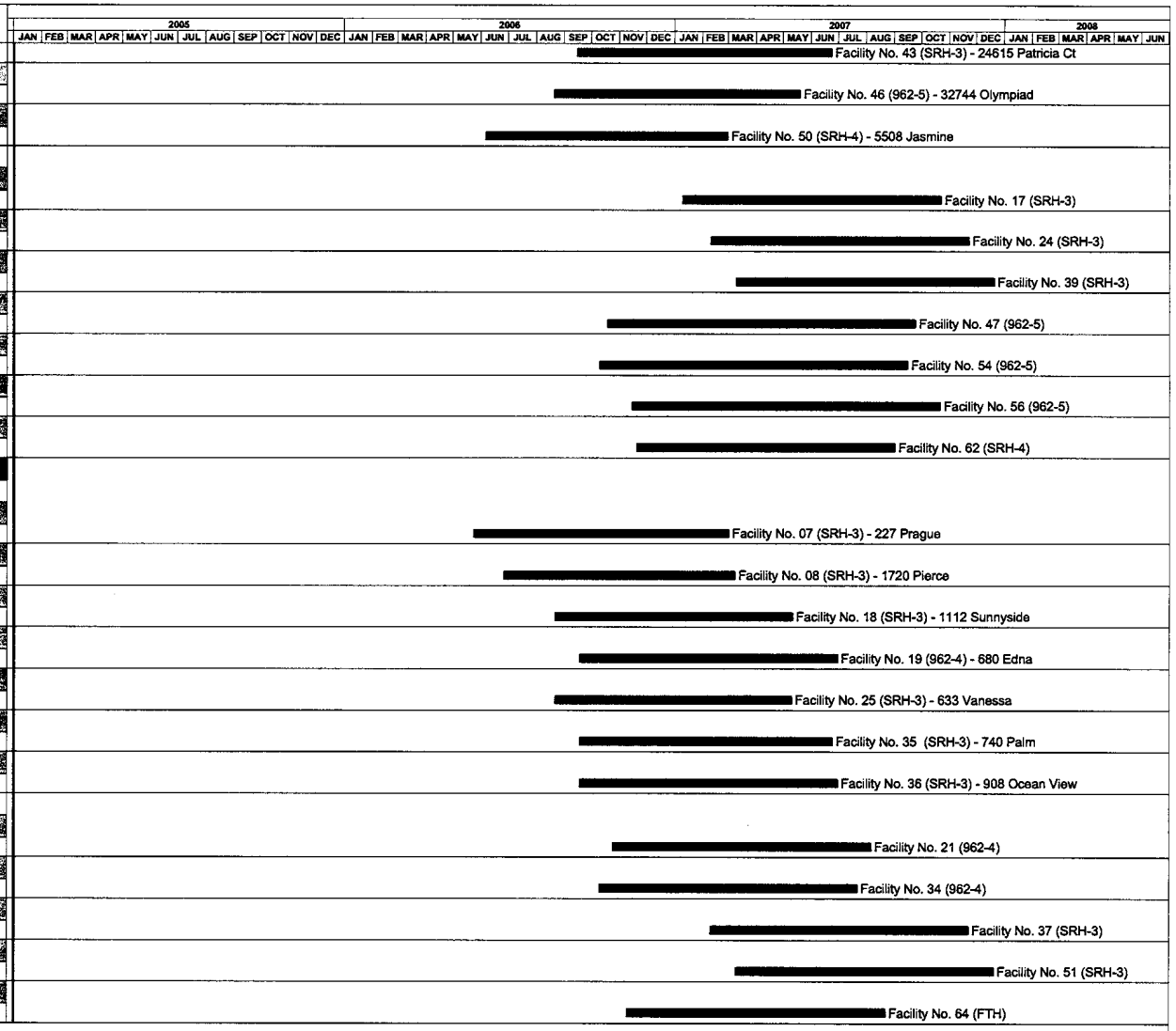
Act ID	RC	Description	Orig Dur	Early Start	Early Finish
43000	RCEB	Facility No. 43 (SRH-3) - 24615 Patricia Ct	280 *	09/15/06	06/23/07
Facility No. 46					
46000	RCEB	Facility No. 46 (962-5) - 32744 Olympiad	270 *	08/21/06	05/19/07
Facility No. 50					
50000	RCEB	Facility No. 50 (SRH-4) - 5508 Jasmine	265 *	06/06/06	02/28/07
Second Phase					
Facility No. 17					
17000	RCEB	Facility No. 17 (SRH-3)	285 *	01/10/07	10/22/07
Facility No. 24					
24000	RCEB	Facility No. 24 (SRH-3)	285 *	02/10/07	11/22/07
Facility No. 39					
39000	RCEB	Facility No. 39 (SRH-3)	285 *	03/10/07	12/20/07
Facility No. 47					
47000	RCEB	Facility No. 47 (962-5)	338 *	10/19/06	09/24/07
Facility No. 54					
54000	RCEB	Facility No. 54 (962-5)	338 *	10/10/06	09/15/07
Facility No. 56					
56000	RCEB	Facility No. 56 (962-5)	338 *	11/15/06	10/21/07
Facility No. 62					
62000	RCEB	Facility No. 62 (SRH-4)	283 *	11/20/06	09/01/07
Golden Gate Regional Center (West Bay)					
Pipeline					
Facility No. 07					
07000	GGRC	Facility No. 07 (SRH-3) - 227 Prague	279 *	05/24/06	03/01/07
Facility No. 08					
08000	GGRC	Facility No. 08 (SRH-3) - 1720 Pierce	253 *	06/26/06	03/08/07
Facility No. 18					
18000	GGRC	Facility No. 18 (SRH-3) - 1112 Sunnyside	261 *	08/22/06	05/11/07
Facility No. 19					
19000	GGRC	Facility No. 19 (962-4) - 680 Edna	284 *	09/18/06	06/30/07
Facility No. 25					
25000	GGRC	Facility No. 25 (SRH-3) - 633 Vanessa	260 *	08/22/06	05/10/07
Facility No. 35					
35000	GGRC	Facility No. 35 (SRH-3) - 740 Palm	278 *	09/18/06	06/24/07
Facility No. 36					
36000	GGRC	Facility No. 36 (SRH-3) - 908 Ocean View	284 *	09/18/06	06/30/07
Second Phase					
Facility No. 21					
21000	GGRC	Facility No. 21 (962-4)	283 *	10/25/06	08/06/07
Facility No. 34					
34000	GGRC	Facility No. 34 (962-4)	283 *	10/10/06	07/22/07
Facility No. 37					
37000	GGRC	Facility No. 37 (SRH-3)	285 *	02/10/07	11/22/07
Facility No. 51					
51000	GGRC	Facility No. 51 (SRH-3)	285 *	03/10/07	12/20/07
Facility No. 64					
64000	GGRC	Facility No. 64 (FTH)	283 *	11/10/06	08/22/07



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- Early bar
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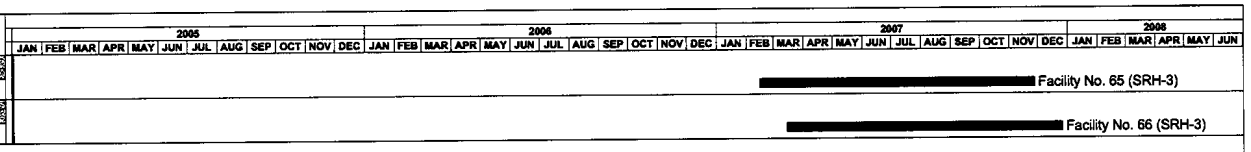
- Finish milestone point

Act ID	RC	Description	Orig Dur	Early Start	Early Finish
Facility No. 65					
65000	GGRC	Facility No. 65 (SRH-3)	285 *	02/15/07	11/27/07
Facility No. 66					
66000	GGRC	Facility No. 66 (SRH-3)	284 *	03/15/07	12/26/07



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BAHP Schedule Projection
Summary Bars

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- Progress bar
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- Summary bar
- Start milestone point
- Finish milestone point

SAMPLE PROPERTY

CALIFORNIA HOUSING FINANCE AGENCY
Addition of Collateral under Bay Area Housing Plan Final Board Resolutions #05-35 and #06-02 dated September 8, 2005 And January 12, 2006

1320 S. Baywood Avenue
San Jose, Santa Clara County, 95128
CalHFA # 06-008N

SUMMARY

This is a request to add the property as collateral under the Bay Area Housing Plan Final Commitment #05-35 dated September 8, 2005. Security for the loan will be a single family home, located at 1320 S. Baywood Avenue, in the City of San Jose, and the County of Santa Clara, modified for use by developmentally disabled adults exiting the Agnews Developmental Center. The property will be initially owned by the Master Developer, Hallmark Community Services, a California nonprofit corporation. Ownership will be assigned to Casa Milagro, LLC, a Limited Liability Company whose sole owner is Bay Area Housing Corporation ("BAHC") a California nonprofit public benefit corporation. The property will be in the catchment area of the San Andreas Regional Center. The property will be leased to a service provider who will be Life Services Alternatives, Inc., a California nonprofit public benefit corporation.

We are drawing against the September 8, 2005 final commitment of $25,000,000 (balance remaining $23,179,000) for loan purchases from Bank of America, N.A., as Administrative Agent for the Lenders ("Bank"). After this approval for purchase of the 1320 Baywood loan from the Bank, there will be $21,171,000 remaining on the September 8, 2005 final commitment for additional loan purchases and $41,171,000 remaining of the outstanding $45,000,000 in two final commitments (September 8, 2005 and January 12, 2006) for additional loan purchases.

LOAN PURCHASE

Permanent

First Mortgage Loan Purchase	$2,008,000
Interest Rate	150 basis points above the Agency's Cost of Funds
Term	15 year fixed, fully amortized
Financing	501(c)(3) bonds (or taxable funds)
RC Monthly Lease Payment	$22,512

CalHFA loan purchase will be subject to the Master Developer and the Bank meeting all of the conditions in the Loan Purchase Agreement dated March 30, 2006 ("LPA"). The Regional Centers have approved a lease payment sufficient to support the loan purchase.

CONDITIONS TO APPROVAL

The addition of loan as collateral will be subject to the attached conditions in the Agency "Preliminary Conditional Approval of Final Proposal" dated June 23, 2006 which was sent to the Master Developer and the Bank per the requirements of the LPA (attached).

PROPERTY INFORMATION

- APN-279-13-047
- Purchase Price $925,150
- Appraised Value $925,000
- CalHFA Additional Collateral Requirement $100,400
- CalHFA Debt Service Reserve $228,888
- 217% LTV
- 192% LTV without Debt Service Reserve Reserves
- 181% LTV assuming all reserves
- There are no title issues

PROJECT DESCRIPTION

The project includes the purchase and proposed remodeling of the existing one story wood framed single family home. The purpose of the remodeling is to allow the residence to be used as a 962 Medical Model within the Bay Area Housing Plan ("BAHP"), to be used to accommodate residents with significant medical needs. The property will be upgraded to meet Community Care licensing standards. The Room Design Criteria Checklist ("RDCC") indicates that up to five of the residents may require the use of a wheelchair. The planned remodeling will include the changes to accommodate the requirements indicated in the RDCC and to also to correct any significant deferred maintenance items indicated in the various due diligence reports prepared for the subject property.

Project Location and Site

- The project is located in the city of Campbell, near southwestern San Jose (with a San Jose mailing address) in a residential area mixed with single family detached homes.
- It is adjacent to parks, local shopping, and services.
- The lot is 8,276 square feet and zoned R-1-6. Single family residences and residential care homes are permitted.
- There are no unusual site conditions.
- The property is currently vacant.

Improvements

- The one-story single family residence was built in 1960. It is 2,373 square feet, with five bedrooms and three baths.
- The property has a poured concrete slab foundation. It is wood frame and with stucco construction with wood siding and wood trim. The roof is heavy shake shingles. It has one fireplace. The plumbing is copper. The heating is central forced air. It is not air conditioned.
- It is in good/updated marketable condition.

SCOPE OF WORK

The remodeling of the residences includes the following:

- Exterior – Handicapped ramps and decks required for access into the front and rear entrances and the secondary exits out of each of the bedrooms will be installed. The landscaping and irrigation will be upgraded and the sidewalks will be replaced. The gates will be widened to the required width and the sliding glass doors will be replaced with French doors with the required 42 inch opening. The existing shake roofing, which is approximately 16 years old, has approximately 10 years of life remaining and is not to be replaced. In general, the exterior of the residence is in good condition, but the wood and other exposed non-stucco surfaces will be painted. All items indicated in the termite report that require repair and replacement, should be completed, but the contractor's estimate does not appear to include funds for this work. The plaster will need to be repaired and painted following the installation of the doorways and repairs for any termite damage. A new water service and meter will need to be installed to the residence from the current meter connection and a new service may need to be installed from the street to provide sufficient flow and pressure for the required fire sprinkler system. The requirements for the fire sprinkler system have not been provided.

- Interior. The existing kitchen cabinets and tile countertops are to be retained, as they both appear to be in good condition and are able to provide the service for the required 15 year period with some minor repairs and upgrading of the hardware. The flooring will be removed throughout and replaced with hardwood floors; the light and plumbing fixtures will be replaced; a new 50 gallon water heater is to be installed. All new appliances, including washers and dryers in the attached garage, will be replaced and the electrical system will be upgraded to include GFCI outlets at all wet conditions and upgraded panel necessary to accommodate the new air conditioner and other equipment required by the intended use. The existing forced air heating unit will be replaced and air conditioning added. The floor material that contains asbestos is to be removed. Fire sprinklers are to be added throughout the residence and additional electrical outlets will be added as needed. The hallways are to be widened to 48 inches, and all doorways, interior and exterior, will be revised to 42 inches wide. Secured storage cabinets in the bedrooms and the kitchen will be installed and two of the existing bathrooms will be combined into an ADA compliant bathroom, with a roll-in shower, wall mounted toilet and an interior wall mounted tank. All new electrical fixtures will be installed and the entire interior will be painted.

- Cost. The planned remodeling will cost $409,910 which includes a contingency of $37,174. While the budget is preliminary and the final pricing on each of the items will not be available until the plans and specifications are prepared and the project is bid out, the total amount of appears sufficient to complete the proposed scope of work. It is our understanding that any remaining contingency will be used for alternate items requested by the Regional Center, but not included in the original scope of work.

ENVIRONMENTAL

- Lead Paint - None identified but insufficient sampling. Further sampling to be completed.
- Asbestos – Identified In linoleum materials. Removal to ASTM standards is required.

- Mold – No samples obtained but high levels of moisture detected in bathrooms. Windows contain varied degree of mild surface mold growth. Remodeling will address the underlying causes.
- Bolting –No additional action required. The improvements are bolted to the foundation.
- Flood Area – The property is in an area of potential flooding as shown on an inundation map pursuant to section 8589.5 of the Government Code.

DEVELOPMENT TEAM

Master Developer:	Hallmark Community Services Inc.
Borrower:	Casa Milagro, LLC, a Limited Liability Company whose sole owner is Bay Area Housing Corporation ("BAHC") a California nonprofit public benefit corporation
Guarantor:	BAHP Regional Centers
Regional Center Catchment Area:	San Andreas Regional Center
Services Provider:	Life Services Alternatives, Inc.
Management Agent:	BAHC
Architect:	Hallmark Community Services Inc.
Contractor:	Fine Line Group
Acquisition & Construction Lender:	Bank of America as Administrative Agent for the Lenders
Attachments (2):	California Housing Finance Agency Bay Area Housing Plan Preliminary Conditional Approval of Final Proposal for 1320 S. Baywood dated June 23, 2006
	1320 S. Baywood - BAHP Final Proposal Proforma dated June 14, 2006, approved by Bank of America as Administrative Agent for the Lenders.

CALIFORNIA HOUSING FINANCE AGENCY
BAY AREA HOUSING PLAN

PRELIMINARY APPROVAL OF FINAL PROPOSAL

RE: Residence Address: 1320 South Baywood Avenue, San Jose, CA 95128 (the "Residence")

Reference is made to the Loan Purchase Agreement dated March 30, 2006, by and among Bank of America, N.A, as Administrative Agent, California Housing Finance Agency ("CalHFA") and Hallmark Community Services (the "Loan Purchase Agreement"). Capitalized terms not defined herein, shall have the meanings ascribed to them in the Loan Purchase Agreement.

In accordance with Section 4.2.3(d) of the Loan Purchase Agreement, CalHFA has reviewed the items included within scope of the Final Proposal, with the exception of the Preliminary Approval Items. CalHFA has taken the following action with respect to the Residence:

☐ Approved
☐ Rejected
☒ Conditionally Approved

The following actions must be taken in order for CalHFA to approve the Residence:

I. DUE DILIGENCE ITEMS

A. Structural Pest Control Report by Thrasher Termite and Pest Control, Incorporated dated May 26, 2006

1. Add an allowance to the project budget for the work listed within the Structural Pest Control Report but were listed as NIC.
2. If correction of dryrot is specified at areas such that plumbing finish will have to be removed, then we recommend that replacement of the affected fixtures is included in the budget.
3. All work listed within the Structural Pest Control Report should be incorporated into the scope of work and a clearance report should be issued by Thrasher Termite and Pest Incorporated verifying that this work has been completed at the end of rehabilitation.
4. To a reasonable extent, any destructive testing required to further clarify issues raised in the Structural Pest Control Report should be undertaken prior to the start of rehabilitation and the more comprehensive scope should be described in the Construction Documents.

5. When repairs are completed, funds should be allocated for patching and repair of adjacent finishes.

B. Seller's Disclosure Report dated May 25, 2006

1. The Seller's disclosure report lists areas of potential flooding, but it is not clear what the specific problem is, what due diligence was conducted to further identify the issue and whether the rehabilitation will correct the potential issue, if possible. This should be clarified and resolved.
2. Per Roy Buis' report, please verify whether this property is located within the city limits of San Jose or Campbell for the purpose of determining which city will have jurisdiction over the rehabilitation work.

C. Home Inspection Report by Dave Kaufmann dated May 29, 2006

1. All items listed as requiring correction in Part 2 should be incorporated into the rehabilitation scope. In addition, any issues listed that need further evaluation should be undertaken prior to the start of rehabilitation and added to the scope of rehabilitation if required.
2. Regrading should be done to correct negative slope at the rear of the master bedroom, also, downspouts should terminate away from the building perimeters to aid in site drainage control.
3. When repairs are completed, funds should be allocated for patching and repair of adjacent finishes.
4. Any required corrections to the electrical system grounding should be included as part of the rehabilitation scope.
5. If the fireplace is to be utilized, a hearth constructed of non combustible material should be constructed for safety reasons. In addition, a chimney inspection should be engaged to evaluate the condition of the fireplace.

D. Environmental Remediation Technologies Report dated June 1, 2006

1. Lead testing should comply with HUD standards. The testing only included three samples total and did not test each component determined by substrate and color as required by these guidelines. In particular, it did not appear that the amount of testing was adequate, and samples were not taken at the substrates most likely to yield a positive result (no trim samples were taken even though paint used at these substrates generally have a much higher lead content).
2. All asbestos containing material should be abated or encapsulated. An Operations and Maintenance Manual should be provided to lend guidance to residents and management for proper care/maintenance of any areas in which ACMs are encapsulated.
3. Any areas in which ERT detected high concentrations of water/moisture should be investigated further prior to start of rehabilitation. A bathroom

exhaust fan should be added to the scope of work pursuant to the recommendations of this report.

4. The report should be issued to CalHFA/Bank of America and include reliance language.

E. Roof Inspection Report

1. The roof inspection report was conducted as part of Dave Kaufmann's Home Inspection Report dated May 29, 2006. The evaluator assessed that the roofing system has an expected useful life of 10 more years, as long as it is maintained properly. The replacement of this system is shown in Roy Buis' replacement reserve analysis.

F. Sewer Inspection Report by JMB Plumbing dated May 24, 2006

1. The report should be signed by the Inspector.

G. Other Items

1. Develop a maintenance plan for the property which incorporates any recommendations from the Home Inspection Report, the Structural Pest Control Report and the replacement reserve analysis.
2. The property is in an area potential flooding as shown on an inundation map pursuant to section 8589.5 of the Government Code. Property should have flood insurance, if applicable.

II. SCOPE OF WORK

A. Detailed Scope of Work

1. Provide a detailed scope of work in a narrative format so that the scope of planned rehabilitation is easy to comprehend.
2. Provide sketches of changes to partition walls and preliminary specifications as part of the Final Proposal Submittals in order to clarify the intended scope of work.
3. Provide plans (or at minimum sketches of changes to partition walls), shop drawings and specifications as part of the Pre-Hard Cost Submittals in order to further define/clarify the intended scope of work.
4. The replacement reserve analysis has not yet been completed. All items that are required in order to show a balanced reserve should be added to the rehabilitation scope, pursuant to the analysis.

B. Line Item Budget

1. The estimated detailed scope/budget should be further refined as the documents are developed.
2. Grounding of the electrical service should be added to the project scope, or else further clarified.
3. All items that are required by the Regional Center should be included in the line item budget; please clarify whether oxygen is required at this property or not.
4. Confirm whether adequate pressure for fire suppression system is available at street; this may affect line item budget.
5. Clarify if new anchor bolts are required for this project since the building is already reported to have bolting.
6. One of the qualifications to the line item budget is that no asphalt paving or ramps are included. Please clarify as this is listed as part of the work in other sections of the budget.

C. Room Design/Site Selection Criteria

1. Indicate that all items required by the Regional Centers are included in the scope of work; list which recommended items are included in scope and list all others as alternates within the scope of work.

D. Construction Inspector's Report

1. Provide photographs of the site.
2. A replacement reserve analysis was completed, but once the contributions were inserted annually, it proves that necessary expenditures at Year 10 will overdraw the reserve budget by $11,850. The reserve contribution should be increased to cover future requirements.

CALIFORNIA HOUSING FINANCE AGENCY,
a public instrumentality and political subdivision of the State of California

By: Edwin C Gipson II
Name: Edwin C. Gipson II
Title: Chief, Multifamily Programs
Date: June 23, 2006

PROJECT SUMMARY

PROJECT NUMBER: 06-008N

Final Commitment

Project:	**1302 S Baywood Avenue**		
Location:	1302 S Baywood Avenue	***Developer:***	**Hallmark Community Services**
City:	San Jose	***Regional Center:***	San Andreas Regional Center
County:	Santa Clara	***Borrower:***	Casa Milagro, LLC
Zip Code:	####	***NPO:***	Bay Area Housing Corporation
		Service Provider:	Life Services Alternatives (non-profit)
Project Type:	964 Medical Model House		
Occupancy:	Developmentally Disabled	*No. of Buildings:*	1
Bedrooms:	5	*No. of Stories:*	1
Baths:	3	*Residential Space:*	2,373 sq. ft.
Parking:	2 car attached	*Land Area:*	8,276 sq. ft.

Construction Financing	Amount	Rate	Term (Mths)
Bank of America as Administrative Agent	$2,008,000	Daily Libor +2.3%	11
Conservative underwriting assumptions		*8.93% (Plus Interest Reserve 1.5%)*	

Permanent Sources of Funds	Amount	Rate	Years
CalHFA First Mortgage	**$2,008,000**	**Cost of Funds +1.5%**	**15**
		Tax Exempt, fixed rate,	
Conservative underwriting assumptions		*7.6% (Taxable rate +.5%)*	

Construction Valuation		Appraisal		Value Upon Completion	
As Is Appraisal	$925,000	Date	**Jun-06**	**Completed Value**	TBD
Loan / Cost	100%			**Perm. Loan / Cost**	100%
Loan / Value	217%			**Perm. Loan / Value**	TBD

CalHFA Fees and Reserve Requirements

CalHFA Loan Fees	Amount
1% of Loan Amount	$20,080
Agency Fee can not be financed	

Required Reserves	Amount
CalHFA Debt Service Reserve	$228,888
Replacement Resv. Initial Deposit	$0
Repl. Reserve - House/ Per Yr	$2,400
CalHFA Operating Expense Reserve	$0
Rent Up Reserve	$0
Additional Collaterol Reserve	$100,400

Date: 10/25/2006

Senior Staff Date: 6/26/2006

UNIT MIX AND RENT SUMMARY — 1302 S Baywood Avenue

06-008N

Total Unit Mix

# of Units	Unit Type	# of Baths	Average Sq. Ft.
5	1 Bedroom		
5			

Number of Residents Regulated By Agency

Agency	35%	45%	50%	60%	80%	Disability	Total
CalHFA			1				1
Regional Center						5	5

RENTS

NA - The residents do not pay rent

Sources and Uses of Funds — 1302 S Baywood Avenue

06-008N

0

SOURCES OF FUNDS:	Funds in during Construction ($)	Funds in at Permanent ($)	Total Development Sources: Total Sources of Funds ($)	Sources per Unit	%
Bank of America Construction Financing	2,008,000				
Construction Only Source 2	-				
Construction Only Source 3	-				
CalHFA First Mortgage		2,008,000	2,008,000	401,600	100%
CalHFA Second Mortgage		-	-	-	0%
Source 2	-	-	-	-	0%
Source 3	-	-	-	-	0%
Source 4	-	-	-	-	0%
Source 5	-	-	-	-	0%
Source 6	-	-	-	-	0%
Source 7	-	-	-	-	0%
Source 8	-	-	-	-	0%
Source 9	-	-	-	-	0%
Source 10	-	-	-	-	0%
Source 11	-	-	-	-	0%
Source 12	-	-	-	-	0%
Income from Operations	-	-	-	-	0%
Developer Contribution	-	-	-	-	0%
Deferred Developer Fee	-	-	-	-	0%
Tax Credit Equity	-	-	-	-	0%
Total Sources	2,008,000	2,008,000	2,008,000	401,600	100%
(Gap)/Surplus	(0)	-	(0)		

USES OF FUNDS:	Construction ($)	Permanent ($)	Total Development Costs: Total Uses of Funds ($)	Cost per Unit	%
LOAN PAYOFFS & ROLLOVERS					
Construction Loan payoffs		**$2,008,000**			
ACQUISITION					
Lesser of Land Cost or Value	925,000	-	925,000	185,000	46%
Demolition	-	-		-	0%
Cost Facility Note	30,357	-	30,357	6,071	2%
Subtotal - Land Cost / Value	955,357	-	955,357		
Existing Improvements Value	-	-	-	-	0%
Off-Site Improvements	-	-	-	-	0%
Other	150	-	150	30	0%
Total Acquisition	**955,507**	**-**	**955,507**	**191,101**	**48%**
REHABILITATION					
Site Work	64,575	-	64,575	12,915	3%
Rehab to Structures	274,862	-	274,862	54,972	14%
General Requirements	-	-	-	-	0%
Contractors Overhead	21,222	-	21,222	4,244	1%
Contractors Profit	17,469	-	17,469	3,494	1%
Contractor's Bond	-	-	-	-	0%
General Liability Insurance	-	-	-	-	0%
Environmental Mitigation Expense	-	-	-	-	0%
Other	-	-	-	-	0%
Other	-	-	-	-	0%
Total Rehabilitation	**378,128**	**-**	**378,128**	**75,626**	**19%**
RELOCATION EXPENSES					
Relocation Expense	-	-	-	-	0%
Relocation Compliance Monitoring	-	-	-	-	0%
Total Relocation	**-**	**-**	**-**	**-**	**0%**

(Continued on Next 2 Pages)

USES OF FUNDS (Cont'd):	Construction ($)	Permanent ($)	Total Development Costs		
			Total Uses of Funds ($)	Cost per Unit per Unit	%
NEW CONSTRUCTION					
Site Work	-	-	-	-	0%
Structures (Hard Costs)	-	-	-	-	0%
General Requirements	-	-	-	-	0%
Contractors Overhead	-	-	-	-	0%
Contractors Profit	-	-	-	-	0%
Contractor's Perf. & Pymt Bond	-	-	-	-	0%
General Liability Insurance	-	-	-	-	0%
Other	-	-	-	-	0%
Other	-	-	-	-	0%
Total New Construction	**-**	**-**	**-**	**-**	**0%**
ARCHITECTURAL & ENGINEERING					
Architectural Design	-	-		-	0%
Architect's Supv during Construction	-	-	-	-	0%
Total Architectural	**-**	**-**	**-**	**-**	**0%**
Engineering Expense	-	-	-	-	0%
Engineers Supv. during Construction	-	-	-	-	0%
ALTA Survey	-	-	-	-	0%
Total Engineering & Survey	**-**	**-**	**-**	**-**	**0%**
CONSTRUCTION LOAN COSTS					
Construction Loan Interest	140,319		140,319	28,064	7%
Construction Loan Fee	-		-	-	0%
	-		-	-	0%
	-			-	0%
Other Lender Req'd Legal Fees	-		-	-	0%
Title and Recording fees	7,800		7,800	1,560	0%
	-			-	0%
Other Req'd Inspection Fees	-		-	-	0%
Insurance	2,117		2,117	423	0%
Taxes & Insurance during construction	10,600		10,600	2,120	1%
	-		-	-	0%
	-		-	-	0%
other	-		-	-	0%
Total Construction Loan Expense	**160,836**	**-**	**160,836**	**32,167**	**8%**
PERMANENT LOAN COSTS					
CalHFA Perm Loan Fees	-	-	-	-	0%
	-	-	-	-	0%
	-	-		-	0%
	-	-		-	0%
Title and Recording	600		600	120	0%
Tax Service Contract	200	-	200	40	0%
	-	-	-	-	0%
	-	-		-	0%
Other	-	-	-	-	0%
Total Permanent Loan Expense	**800**	**-**	**800**	**160**	**0%**
LEGAL FEES					
Borrower Legal Fee	-	-	-	-	0%
Loan Purchase	2,000	-	2,000	400	0%
Total Attorney Expense	**2,000**	**-**	**2,000**	**400**	**0%**

USES OF FUNDS (Cont'd):	Construction ($)	Permanent ($)	Total Development Costs		
			Permanent of Funds ($)	Per Unit per Unit	%
CONTRACT / REPORT COSTS					
Appraisal	675		675	135	0%
Appraisal at Stabalization	1,500	-	1,500	300	0%
Due Diligence Studies	4,125	-	4,125	825	0%
Construction Inspector/ Shared	1,500	-	1,500	300	0%
Miscellaneous	64	-	64	13	0%
	-	-	-	-	0%
	-	-	-	-	0%
	-	-	-	-	0%
	-	-	-	-	0%
Other	-	-	-	-	0%
Other	-	-	-	-	0%
Total Contract Costs	**7,864**	**-**	**7,864**	**1,573**	**0%**
CONTINGENCY					
Hard Cost Contingency	37,813	-	37,813	7,563	2%
Soft Cost Contingency	24,741	-	24,741	4,948	1%
	62,553	**-**	**62,553**	**12,511**	**3%**
RESERVES					
CalHFA Debt Service Reserve	228,888		228,888	45,778	11%
	-	-	-	-	0%
	-	-	-	-	0%
	-	-	-	-	0%
Other	-	-	-	-	0%
Total Reserves	**228,888**	**-**	**228,888**	**45,778**	**11%**
OTHER					
CTCAC App/Alloc/Monitor Fees	-	-	-	-	0%
Local Permit Fees	4,746	-	4,746	949	0%
Local Development Impact Fees	-	-	-	-	0%
Other Local Fees	-	-	-	-	0%
Advertising & Marketing Expenses	-	-	-	-	0%
1st Year Taxes & Insurance	-	-	-	-	0%
Furnishings	-	-		-	0%
Final Cost Audit Expense	-	-	-	-	0%
Miscellaneous Admin Fees	-	-	-	-	0%
Professional Fees	53,500	-	53,500	10,700	3%
Other	-	-	-	-	0%
Other	-	-	-	-	0%
Total Other Expenses	**58,246**	**-**	**58,246**	**11,649**	**3%**
SUBTOTAL PROJECT COSTS	**1,854,823**	**2,008,000**	**1,854,823**	**370,965**	**92%**
DEVELOPER COSTS					
Developer Overhead/Profit (50% Acq.)	76,589	-	76,589	15,318	4%
Developer Profit -45% Stabalization	68,930	-	68,930	13,786	3%
Developer Profit -5% LoanSale	7,658	-	7,658	1,532	0%
Project Administration	-	-		-	0%
Broker Fees to a related party	-	-	-	-	0%
Construction Mgmt. Oversight	-	-	-	-	0%
Consulting	-	-		-	0%
Total Developer Fee / Costs	**153,178**	**-**	**153,178**	**30,636**	**8%**
Total Costs	**2,008,000**	**2,008,000**	**2,008,000**	**401600.066**	**100%**

Annual Operating Budget			1302 S Baywood Avenue
INCOME:	**$ Amount**	**Per Unit**	**% of Total**
Base Lease Payment	$224,744	$44,949	83.21%
Operations	$45,343	$9,069	16.79%
Services Component	TBD	TBD	TBD
Gross Potential Income (GPI)	**$270,087**	**$54,017**	100.00%
Less:			
Vacancy Loss	$0	$0	0.00%
Effective Gross Income	**$270,087**	**$54,017**	

EXPENSES:	**Total Cost**	**Per Unit**	**% of Total**
Payroll	$0	$0	0.00%
Administrative	$0	$0	0.00%
Management fee	$11,179	$2,236	24.65%
Utilities	$10,800	$2,160	23.82%
Operating and Maintenance	$2,400	$480	5.29%
Insurance and Business Taxes	$6,996	$1,399	15.43%
Locality Compliance Monitoring Fee	$0	$0	0.00%
Other	$0	$0	0.00%
Subtotal Expenses	**$31,375**	$6,275	69.19%
Replacement Reserves	$2,400	$480	5.29%
Taxes & Assessments	$11,568	$2,314	25.51%
Total Expenses	$45,343	$9,069	100.00%
Financial Expenses			
CalHFA First Mortgage	$224,744	$44,949	
CalHFA Second Mortgage	$0	$0	
Other Required Debt Service	$0	$0	
NET OPERATING INCOME	**$0**	**$0**	

Cash Flow	Permanent Commitment				CalHFA Project Number:	06-008N			1302 S Baywood Avenue	
RENTAL INCOME	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Affordable Rents	0	0	0	0	0	0	0	0	0	0
Affordable Rent Increase	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Rental Subsidies	0	0	0	0	0	0	0	0	0	0
Rental Subsidy Increases	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Unrestricted Units	0	0	0	0	0	0	0	0	0	0
Unrestricted Unit Increases	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
TOTAL RENTAL INCOME	0	0	0	0	0	0	0	0	0	0
OTHER INCOME										
Base Lease Payment	224,744	224,744	224,744	224,744	224,744	224,744	224,744	224,744	224,744	224,744
Operations	45,343	45,343	45,343	45,343	45,343	45,343	45,343	45,343	45,343	45,343
Other Income Increase	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
TOTAL OTHER INCOME	270,087	270,087	270,087	270,087	270,087	270,087	270,087	270,087	270,087	270,087
GROSS POTENTIAL INCOME	270,087	270,087	270,087	270,087	270,087	270,087	270,087	270,087	270,087	270,087
VACANCY ASSUMPTIONS										
Affordable (Blended Average)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Rental Subsidy Income	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Unrestricted Units	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Laundry & Other Income	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
LESS: VACANCY LOSS	0	0	0	0	0	0	0	0	0	0
EFFECTIVE GROSS INCOME	270,087	270,087	270,087	270,087	270,087	270,087	270,087	270,087	270,087	270,087
OPERATING EXPENSES										
Expenses	31,375	31,375	31,375	31,375	31,375	31,375	31,375	31,375	31,375	31,375
Annual Expense Increase	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Taxes and Assessments	11,568	11,568	11,568	11,568	11,568	11,568	11,568	11,568	11,568	11,568
Annual Tax Increase	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Replacement Reserve	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400
Percentage Increase Yearly	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
TOTAL EXPENSES	45,343	45,343	45,343	45,343	45,343	45,343	45,343	45,343	45,343	45,343
NET OPERATING INCOME	224,744	224,744	224,744	224,744	224,744	224,744	224,744	224,744	224,744	224,744
DEBT SERVICE										
CalHFA - 1st Mortgage	224,744	224,744	224,744	224,744	224,744	224,744	224,744	224,744	224,744	224,744
CalHFA - Bridge Loan	0	0	0	0	0					
CalHFA - 2nd Mortgage	0	0	0	0	0	0	0	0	0	0
None	0	0	0	0	0	0	0	0	0	0
None	0	0	0	0	0	0	0	0	0	0
CASH FLOW after all debt service	0	0	0	0	0	0	0	0	0	0
DEBT COVERAGE RATIO	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

Cash Flow

CalHFA Project Number: 06-008N

	Year 11	Year 12	Year 13	Year 14	Year 15
RENTAL INCOME					
Affordable Rents	0	0	0	0	0
Affordable Rent Increase	2.00%	2.00%	2.00%	2.00%	2.00%
Rental Subsidies	0	0	0	0	0
Rental Subsidy Increases	0%	0%	0%	0%	0%
Unrestricted Units	0	0	0	0	0
Unrestricted Unit Increases	0%	0%	0%	0%	0%
TOTAL RENTAL INCOME	0	0	0	0	0
OTHER INCOME					
Base Lease Payment	224,744	224,744	224,744	224,744	224,744
Operations	45,343	45,343	45,343	45,343	45,343
Other Income Increase	0.00%	0.00%	0.00%	0.00%	0.00%
TOTAL OTHER INCOME	270,087	270,087	270,087	270,087	270,087
GROSS POTENTIAL INCOME	270,087	270,087	270,087	270,087	270,087
VACANCY ASSUMPTIONS					
Affordable (Blended Average)	0.00%	0.00%	0.00%	0.00%	0.00%
Rental Subsidy Income	0%	0%	0%	0%	0%
Unrestricted Units	0%	0%	0%	0%	0%
Laundry & Other Income	0.00%	0.00%	0.00%	0.00%	0.00%
LESS: VACANCY LOSS	0	0	0	0	0
EFFECTIVE GROSS INCOME	270,087	270,087	270,087	270,087	270,087
OPERATING EXPENSES					
Expenses	31,375	31,375	31,375	31,375	31,375
Annual Expense Increase	0.00%	0.00%	0.00%	0.00%	0.00%
Taxes and Assessments	11,568	11,568	11,568	11,568	11,568
Annual Tax Increase	0.00%	0.00%	0.00%	0.00%	0.00%
Replacement Reserve	2,400	2,400	2,400	2,400	2,400
Percentage Increase Yearly	0.00%	0.00%	0.00%	0.00%	0.00%
TOTAL EXPENSES	45,343	45,343	45,343	45,343	45,343
NET OPERATING INCOME	224,744	224,744	224,744	224,744	224,744
DEBT SERVICE					
CalHFA - 1st Mortgage	224,744	224,744	224,744	224,744	224,744
CalHFA - Bridge Loan	0	0	0	0	0
CalHFA - 2nd Mortgage	0	0	0	0	0
None	0	0	0	0	0
None	0	0	0	0	0
CASH FLOW after all debt service	0	0	0	0	0
DEBT COVERAGE RATIO	1.00	1.00	1.00	1.00	1.00

AMORTIZATION TABLE **Sample Property - 1302 S. Baywood**

CalHFA 1st Mortgage (Fully Amortizing)

Beginning Principal Bal	$ 2,008,000
Interest Rate	7.60%
Term (Years)	15
Amortization (Monthly)	($18,729)
Amortization (Annual)	$224,744

Year	Month	1	2	3	4	5	6	7	8	9	10	11	12
1	Beginning Balance	2,008,000	2,001,989	1,995,939	1,989,851	1,983,725	1,977,560	1,971,356	1,965,112	1,958,829	1,952,507	1,946,144	1,939,741
	Monthly Payment	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)
	Interest Expense	(12,717)	(12,679)	(12,641)	(12,602)	(12,564)	(12,525)	(12,485)	(12,446)	(12,406)	(12,366)	(12,326)	(12,285)
	Principal Payment	(6,011)	(6,049)	(6,088)	(6,126)	(6,165)	(6,204)	(6,243)	(6,283)	(6,323)	(6,363)	(6,403)	(6,444)
	Ending Balance	2,001,989	1,995,939	1,989,851	1,983,725	1,977,560	1,971,356	1,965,112	1,958,829	1,952,507	1,946,144	1,939,741	1,933,297
2	Beginning Balance	1,933,297	1,926,813	1,920,287	1,913,720	1,907,112	1,900,461	1,893,769	1,887,034	1,880,257	1,873,436	1,866,573	1,859,666
	Monthly Payment	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)
	Interest Expense	(12,244)	(12,203)	(12,162)	(12,120)	(12,078)	(12,036)	(11,994)	(11,951)	(11,908)	(11,865)	(11,822)	(11,778)
	Principal Payment	(6,484)	(6,526)	(6,567)	(6,608)	(6,650)	(6,692)	(6,735)	(6,777)	(6,820)	(6,864)	(6,907)	(6,951)
	Ending Balance	1,926,813	1,920,287	1,913,720	1,907,112	1,900,461	1,893,769	1,887,034	1,880,257	1,873,436	1,866,573	1,859,666	1,852,715
3	Beginning Balance	1,852,715	1,845,720	1,838,681	1,831,597	1,824,468	1,817,295	1,810,076	1,802,811	1,795,500	1,788,143	1,780,739	1,773,288
	Monthly Payment	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)
	Interest Expense	(11,734)	(11,690)	(11,645)	(11,600)	(11,555)	(11,510)	(11,464)	(11,418)	(11,371)	(11,325)	(11,278)	(11,231)
	Principal Payment	(6,995)	(7,039)	(7,084)	(7,129)	(7,174)	(7,219)	(7,265)	(7,311)	(7,357)	(7,404)	(7,451)	(7,498)
	Ending Balance	1,845,720	1,838,681	1,831,597	1,824,468	1,817,295	1,810,076	1,802,811	1,795,500	1,788,143	1,780,739	1,773,288	1,765,790
4	Beginning Balance	1,765,790	1,758,245	1,750,652	1,743,010	1,735,321	1,727,582	1,719,795	1,711,958	1,704,072	1,696,136	1,688,149	1,680,112
	Monthly Payment	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)
	Interest Expense	(11,183)	(11,136)	(11,087)	(11,039)	(10,990)	(10,941)	(10,892)	(10,842)	(10,792)	(10,742)	(10,692)	(10,641)
	Principal Payment	(7,545)	(7,593)	(7,641)	(7,690)	(7,738)	(7,787)	(7,837)	(7,886)	(7,936)	(7,987)	(8,037)	(8,088)
	Ending Balance	1,758,245	1,750,652	1,743,010	1,735,321	1,727,582	1,719,795	1,711,958	1,704,072	1,696,136	1,688,149	1,680,112	1,672,024
		48	48	48	49	49	49	50	50	50	51	51	51
5	Beginning Balance	1,672,024	1,663,885	1,655,694	1,647,452	1,639,157	1,630,810	1,622,409	1,613,956	1,605,449	1,596,888	1,588,273	1,579,603
	Monthly Payment	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)
	Interest Expense	(10,589)	(10,538)	(10,486)	(10,434)	(10,381)	(10,328)	(10,275)	(10,222)	(10,168)	(10,114)	(10,059)	(10,004)
	Principal Payment	(8,139)	(8,191)	(8,243)	(8,295)	(8,347)	(8,400)	(8,453)	(8,507)	(8,561)	(8,615)	(8,670)	(8,725)
	Ending Balance	1,663,885	1,655,694	1,647,452	1,639,157	1,630,810	1,622,409	1,613,956	1,605,449	1,596,888	1,588,273	1,579,603	1,570,879
6	Beginning Balance	1,570,879	1,562,099	1,553,264	1,544,372	1,535,425	1,526,420	1,517,359	1,508,240	1,499,064	1,489,829	1,480,536	1,471,184
	Monthly Payment	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)
	Interest Expense	(9,949)	(9,893)	(9,837)	(9,781)	(9,724)	(9,667)	(9,610)	(9,552)	(9,494)	(9,436)	(9,377)	(9,317)
	Principal Payment	(8,780)	(8,835)	(8,891)	(8,948)	(9,004)	(9,061)	(9,119)	(9,177)	(9,235)	(9,293)	(9,352)	(9,411)
	Ending Balance	1,562,099	1,553,264	1,544,372	1,535,425	1,526,420	1,517,359	1,508,240	1,499,064	1,489,829	1,480,536	1,471,184	1,461,773
7	Beginning Balance	1,461,773	1,452,302	1,442,771	1,433,180	1,423,528	1,413,815	1,404,040	1,394,204	1,384,305	1,374,344	1,364,319	1,354,231
	Monthly Payment	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)
	Interest Expense	(9,258)	(9,198)	(9,138)	(9,077)	(9,016)	(8,954)	(8,892)	(8,830)	(8,767)	(8,704)	(8,641)	(8,577)
	Principal Payment	(9,471)	(9,531)	(9,591)	(9,652)	(9,713)	(9,775)	(9,836)	(9,899)	(9,961)	(10,025)	(10,088)	(10,152)
	Ending Balance	1,452,302	1,442,771	1,433,180	1,423,528	1,413,815	1,404,040	1,394,204	1,384,305	1,374,344	1,364,319	1,354,231	1,344,079
8	Beginning Balance	1,344,079	1,333,863	1,323,582	1,313,236	1,302,825	1,292,347	1,281,803	1,271,193	1,260,515	1,249,770	1,238,956	1,228,074
	Monthly Payment	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)
	Interest Expense	(8,513)	(8,448)	(8,383)	(8,317)	(8,251)	(8,185)	(8,118)	(8,051)	(7,983)	(7,915)	(7,847)	(7,778)
	Principal Payment	(10,216)	(10,281)	(10,346)	(10,412)	(10,477)	(10,544)	(10,611)	(10,678)	(10,745)	(10,813)	(10,882)	(10,951)
	Ending Balance	1,333,863	1,323,582	1,313,236	1,302,825	1,292,347	1,281,803	1,271,193	1,260,515	1,249,770	1,238,956	1,228,074	1,217,123
9	Beginning Balance	1,217,123	1,206,103	1,195,013	1,183,853	1,172,622	1,161,320	1,149,946	1,138,500	1,126,982	1,115,391	1,103,726	1,091,988
	Monthly Payment	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)
	Interest Expense	(7,708)	(7,639)	(7,568)	(7,498)	(7,427)	(7,355)	(7,283)	(7,211)	(7,138)	(7,064)	(6,990)	(6,916)
	Principal Payment	(11,020)	(11,090)	(11,160)	(11,231)	(11,302)	(11,374)	(11,446)	(11,518)	(11,591)	(11,665)	(11,738)	(11,813)
	Ending Balance	1,206,103	1,195,013	1,183,853	1,172,622	1,161,320	1,149,946	1,138,500	1,126,982	1,115,391	1,103,726	1,091,988	1,080,175
10	Beginning Balance	1,080,175	1,068,288	1,056,325	1,044,286	1,032,171	1,019,979	1,007,711	995,364	982,939	970,436	957,853	945,191
	Monthly Payment	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)
	Interest Expense	(6,841)	(6,766)	(6,690)	(6,614)	(6,537)	(6,460)	(6,382)	(6,304)	(6,225)	(6,146)	(6,066)	(5,986)
	Principal Payment	(11,888)	(11,963)	(12,039)	(12,115)	(12,192)	(12,269)	(12,347)	(12,425)	(12,503)	(12,583)	(12,662)	(12,742)
	Ending Balance	1,068,288	1,056,325	1,044,286	1,032,171	1,019,979	1,007,711	995,364	982,939	970,436	957,853	945,191	932,449
11	Beginning Balance	932,449	919,625	906,721	893,735	880,666	867,515	854,281	840,963	827,560	814,073	800,500	786,841
	Monthly Payment	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)
	Interest Expense	(5,906)	(5,824)	(5,743)	(5,660)	(5,578)	(5,494)	(5,410)	(5,326)	(5,241)	(5,156)	(5,070)	(4,983)
	Principal Payment	(12,823)	(12,904)	(12,986)	(13,068)	(13,151)	(13,234)	(13,318)	(13,403)	(13,487)	(13,573)	(13,659)	(13,745)
	Ending Balance	919,625	906,721	893,735	880,666	867,515	854,281	840,963	827,560	814,073	800,500	786,841	773,095
12	Beginning Balance	773,095	759,263	745,343	731,335	717,238	703,052	688,776	674,409	659,952	645,403	630,762	616,028
	Monthly Payment	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)
	Interest Expense	(4,896)	(4,809)	(4,721)	(4,632)	(4,543)	(4,453)	(4,362)	(4,271)	(4,180)	(4,088)	(3,995)	(3,902)
	Principal Payment	(13,832)	(13,920)	(14,008)	(14,097)	(14,186)	(14,276)	(14,366)	(14,457)	(14,549)	(14,641)	(14,734)	(14,827)
	Ending Balance	759,263	745,343	731,335	717,238	703,052	688,776	674,409	659,952	645,403	630,762	616,028	601,201
13	Beginning Balance	601,201	586,279	571,264	556,153	540,947	525,644	510,244	494,747	479,152	463,458	447,664	431,771
	Monthly Payment	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)
	Interest Expense	(3,808)	(3,713)	(3,618)	(3,522)	(3,426)	(3,329)	(3,232)	(3,133)	(3,035)	(2,935)	(2,835)	(2,735)
	Principal Payment	(14,921)	(15,016)	(15,111)	(15,206)	(15,303)	(15,400)	(15,497)	(15,595)	(15,694)	(15,793)	(15,893)	(15,994)
	Ending Balance	586,279	571,264	556,153	540,947	525,644	510,244	494,747	479,152	463,458	447,664	431,771	415,777
14	Beginning Balance	415,777	399,681	383,484	367,184	350,781	334,274	317,662	300,945	284,123	267,193	250,157	233,012
	Monthly Payment	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)
	Interest Expense	(2,633)	(2,531)	(2,429)	(2,325)	(2,222)	(2,117)	(2,012)	(1,906)	(1,799)	(1,692)	(1,584)	(1,476)
	Principal Payment	(16,095)	(16,197)	(16,300)	(16,403)	(16,507)	(16,612)	(16,717)	(16,823)	(16,929)	(17,036)	(17,144)	(17,253)
	Ending Balance	399,681	383,484	367,184	350,781	334,274	317,662	300,945	284,123	267,193	250,157	233,012	215,759
15	Beginning Balance	215,759	198,397	180,925	163,342	145,648	127,842	109,923	91,890	73,744	55,482	37,105	18,611
	Monthly Payment	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)	(18,729)
	Interest Expense	(1,366)	(1,257)	(1,146)	(1,035)	(922)	(810)	(696)	(582)	(467)	(351)	(235)	(118)
	Principal Payment	(17,362)	(17,472)	(17,583)	(17,694)	(17,806)	(17,919)	(18,033)	(18,147)	(18,262)	(18,377)	(18,494)	(18,611)
	Ending Balance	198,397	180,925	163,342	145,648	127,842	109,923	91,890	73,744	55,482	37,105	18,611	(0)

BAHP Pro Forma

6.22.06 **962 Remodel**

PR-1

Note: Enable Circular References Before Use

[redacted]

Home Type: [redacted]

Project Location :

SARC	[redacted]
RCEB	
GGRC	

HCS Term: (1)	[redacted]
BofA Cushion: (2)	3 months
BofA Term	11 months
Bldg SF	[redacted]
Site SF	
Color Key:	Tan = BofA Cushion
	Clear = Locked

RESERVE CALCULATIONS

Construction Interest Reserve Assumptions

Current Daily LIBOR Rate (3)	[redacted]	<<get from HCS
Bank of America Spread	2.30%	
HCS Construction Rate Cushion	1.00%	
HCS Construction Interest Rate Assumption (4)	**8.43%**	
Bank of America Spread	2.30%	
Bank of America Interest Reserve Cushion	1.50%	
Bank of America Interest Rate Assumption (5)	**8.93%**	

CalHFA Permanent Debt Service Reserve Assumptions

Taxable Base Rate (For-Profit Provider)	get from HCS>>	[redacted]
CalHFA Spread		1.50%
CalHFA Cushion		0.50%
Estimated Permanent Taxable Interest Rate		**7.60%**
Tax-Exempt Base Rate (Nonprofit Provider)	get from HCS>>	[redacted]
CalHFA Spread		1.50%
CalHFA Cushion		0.50%
Estimated Permanent Tax-Exempt Rate		**7.10%**
Amortization Period		**15 years**

MASTER BUDGET LINE ITEM		Pro Forma Budget	Site Proposal	HCS Proposal	FINAL PROPOSAL (Lender Conservatism)		Variance
1 Land Cost		$ 960,000	[redacted]		$ 925,150		$ -
2 Legal/Brokers Fees		$ -			$ -		$ -
3 Demolition		$ -			$ -		$ -
4 Off-site Improvements		$ -			$ -		$ -
TOTAL LAND COSTS		**$ 960,000**	**$ 925,000**	**$ 925,150**	**$ 925,150**		**$ -**
1 Improvements - Master Developer		$ 296,675	$ 318,675	$ 339,437	$ 339,437		$ -
General Constuction (from FLG Estimate)		$ 275,000	[redacted]		$ 268,162		$ -
Site Work (Bid Divisions 1, 2 & 3 from FLG Estimate)		$ 15,000			$ 64,575		$ -
Haz Mat/ Termite Abatement Sub		$ 6,675			$ 6,700		$ -
2 Contractor's Overhead	6.25%	$ 18,125	$ 19,500	$ 21,222	$ 21,222		$ -
Straight Overhead	5%	$ 14,500	$ 15,600	$ 16,637	$ 16,637		$ -
Contractor Insurance	1.25%	$ 3,625	$ 3,900	$ 4,586	$ 4,586		$ -
3 Contractor's Profit	5%	$ 15,225	$ 16,380	$ 17,469	$ 17,469		$ -
Sub-Total, Hard Costs		**$ 330,025**	**$ 354,555**	**$ 378,128**	**$ 378,128**		**$ -**
4 Hard Cost Contingency	10%	$ 33,003	$ 35,456	$ 37,813	$ 37,813		$ -
TOTAL HARD COSTS		**$ 363,028**	**$ 390,011**	**$ 415,941**	**$ 415,941**		**$ -**
1 Interest During Loan (6)		$ 87,643	$ 87,169	$ 89,134	$ 140,319	a	$ 51,185
2 Title (Ins. and Recording) Fees at Site Purchase		$ 4,800	$ 4,800	$ 4,800	$ 7,800		$ 3,000
3 Property Taxes (7) Property Tax Rate	[redacted]	$ 7,500	$ 7,708	$ 7,710	$ 10,601	b	$ 2,891
4 Insurance		$ 2,117	$ 2,117	$ 2,117	$ 2,117		$ -
5 Tenant Relocation Costs		$ -	$ -	$ -	$ -		$ -
6 Appraisal (as-is) at Site Purchase		$ 675	$ 675	$ 675	$ 675		$ -
Sub-Total, Construction Loan Costs		**$ 102,735**	**$ 102,470**	**$ 104,436**	**$ 161,511**		**$ 57,076**

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1	App[illegible] as stab'd			$ 1,500	$ 1,500	$ 1,500	$ 1,500		$ [illegible]
2	Legal Fees at Loan Purchase			$ 250	$ 250	$ 250	$ 2,000		$ 1,750
3	Title (Ins.and Recording) Fees at Loan Purchase			$ 600	$ 600	$ 600	$ 600		$ -
4	Tax Service Contrac			$ 100	$ 100	$ 200	$ 200		$ -
5	CalHFA Debt Reserve - paid at Ln. Purch[8]	Tax-Exempt or Taxable Rate		$ 215,421	$ 214,257	$ 219,086	$ 228,888	c	$ 9,802
Sub-Total, Perm Loan Costs				$ 217,871	$ 216,707	$ 221,636	$ 233,188		$ 11,552
1	Construction Consultant			$ 1,500	$ 1,500	$ 1,500	$ 1,500		$ -
2	Other Inspections/Certifications			$ 3,750	$ 4,075	$ 4,125	$ 4,125		$ -
	Cost Estimator			$ 600			$ 600		$ -
	Water Pressure Test (licensed homes only)			$ -			$ 100		$ -
	Termite & Dry Rot Inspection			$ 250			$ 300		$ -
	Roof Inpsection (if required)			$ 250			$ -		$ -
	Property Condition Report (Home Inpsection)			$ 750			$ 525		$ -
	Lead Inspection (if built before 1978)			$ 500			$ 1,800		$ -
	Asbestos Inspection (if built before 1981)			$ 500			$ -		$ -
	Mold & Mildew Inspection			$ 250			$ -		$ -
	Sewer Cam Inpsection			$ 650			$ 650		$ -
	Fire Pre-Inspection (licensed homes only)			$ -			$ 100		$ -
3	Permits & Municipal Fees			$ 5,000	$ 4,746	$ 4,746	$ 4,746		$ -
4	Furnishings			$ -	$ -	$ -	$ -		$ -
5	Other Professional Fees			$ 53,500	$ 53,500	$ 53,500	$ 53,500		$ -
	Architecture & Engineering			$ 50,000			$ 50,000		$ -
	Consulting			$ 3,500	$ 3,500	$ 3,500	$ 3,500		$ -
6	Environmental Studies			$ -	$ -	$ -	$ -		$ -
7	Gen. Overhead (paid to HCS) - 5% of adj. costs		5%	$ 75,146	$ 74,734	$ 76,161	$ 76,589	d	$ 428
8	Developer Profit (paid to HCS) - 5% of adj. costs		5%	$ 75,146	$ 74,734	$ 76,161	$ 76,589	e	$ 428
	Dev. Profit (90% of ttl) - paid at Stablization		90%	$ 67,631	$ 67,261	$ 68,545	$ 68,930		$ -
	Dev. Profit (10% of ttl) - paid at Ln. Purchase		10%	$ 7,515	$ 7,473	$ 7,616	$ 7,659		$ -
9	Share of Credit Facility Costs Note			$ 20,423	$ 20,423	$ 26,295	$ 30,357	f	$ 4,062
Sub-Total, Other Soft Costs				$ 234,464	$ 233,212	$ 242,488	$ 247,406		$ 4,918
1	Soft Cost Contingency		10%	$ 23,446	$ 23,371	$ 24,249	$ 24,741	g	$ 492
TOTAL SOFT COSTS				**$ 578,515**	**$ 576,260**	**$ 592,809**	**$ 666,847**		**$ 74,038**
TOTAL COSTS				**$ 1,901,543**	**$ 1,891,270**	**$ 1,933,900**	**$ 2,007,938**		**$ 74,038**
SOURCE: BANK LOAN				**$ 1,901,543**	**$ 1,891,270**	**$ 1,933,900**	**$ 2,007,938**		**$ 74,038**
BANK LOAN LESS CALHFA DEBT RESERVE				**$ 1,686,122**	**$ 1,677,014**	**$ 1,714,814**	**$ 1,779,049**		**$ 64,236**
Base Rent									
1	Monthly Debt Service/Base Rent	Tax-Exempt or Taxable Rate		$ 17,628	$ 17,532	$ 17,927	$ 18,728		$ 801
2	Annual Debt Service/Base Rent			$ 211,530	$ 210,388	$ 215,130	$ 224,737		$ 9,608
OPERATIONS (MONTHLY)									
1	Property Management Fee	5% of base rent	5%	$ 881	$ 877	$ 896	$ 936	h	$ 40
2	PG&E	by tenant		$ 900	$ 900	$ 900	$ 900		
4	Water & Sewer	by tenant		$ -	$ -	$ -	$ -		
4	Trash	by tenant		$ -	$ -	$ -	$ -		
5	Landscape Maintenance	by tenant		$ 100	$ 100	$ 100	$ 100		
6	Maintenance & Repairs	by tenant		$ 100	$ 100	$ 100	$ 100		
7	Property Taxes[9]	by tenant	Enter "0" if Exempt >>	1.25%	$ 1,019		$ 964	i	$ -
8	Property Insurance	by tenant			$ 583	$ 583	$ 583	$ 583	
9	Replacement/Repair Reserve	by owner			$ 200	$ 200	$ 200	$ 200	
	Total Monthly Operating Expenses				$ 3,783	$ 3,723	$ 3,743	$ 3,783	$ 40
	Total Annual Operating Expenses				$ 45,401	$ 44,678	$ 44,917	$ 45,397	$ 480

Monthly Debt Service and Operating Total Rent	$	21,411	$	21,255	$	21,671	$	22,511 j	$ 841
Annual Debt Service and Operating Total Rent	$	256,931	$	255,066	$	260,047	$	270,135	$ 10,088
Sources of Funds									
Predevelopment Loan Fund	$	32,550	$	31,825	$	31,880	$	31,880	
Land + Hard Costs	$	1,323,028	$	1,315,011	$	1,341,091	$	1,341,091	
Permanent Financing	$	1,901,543	$	1,891,270	$	1,933,900	$	2,007,938	
Area/Cost Summary									
Gross Square Footage (GSF)		2373		2373		2373 #		2373	
Beds Per Building		5		5		5		5	
Lease Per GSF (annual)	$	108	$	107	$	110	$	114	
Lease Cost Per Bed	$	51,386	$	51,013	$	52,009 #	$	54,027	

General Notes:

(1) Equal to the number of months from Acquisition to Schedule 3 Acceptance by the Steering Committtee.
(2) Bank of America is requiring an additional 3 month cushion to the projected HCS term.
(3) Rate provided to HCS by Bank of America.
(4) HCS is using a 1% interest rate cushion to account for increases in LIBOR.
(5) Bank of America is requiring a 1.5% interest rate cushion in the event of additional increases in LIBOR.
(6) HCS Construction Interest Reserve Calculation:

(HCS Monthly Rate X (80% X Bank Loan less CalHFA Reserve) X HCS Term) + (HCS Monthly Rate X (20% X Bank Loan less CalHFA Reserve) X (HCS Term - 3 months)

Bank of America Construction Interest Reserve Calculation:

(BofA Monthly Rate X (80% X Bank Loan less CalHFA Reserve) X BofA Term) + (BofA Monthly Rate X (20% X Bank Loan less CalHFA Reserve) X (BofA Term - 2 months)

(7) Property Tax Rate to be customized to the location of each property.
(8) HCS Assumption: Use Tax-Exempt Rate for Nonprofit Service Providers and Taxable Rate for For Profit Service Providers.
Lender Assumption: Always use Taxable Rate.
(9) HCS Assumption: For Nonprofit Service Providers who qualify for Property Tax Exemption, use zero.
Lender Assumption: Always include Property Taxes.
(10) CalHFA Construction Consultant to complete a Replacement Reserve Analysis based on Scope of Work and Useful Life Analysis. Minimum reserve is $2400/year.

Lender Cushion Notes:

a Increased allowance for Interest Reserve due to 3 month cushion and 1.5% rate cushion required by Bank of America.
b Increased allowance for Property Tax due to 3 month cushion required by Bank of America.
c Bank of America & CalHFA requires that the CalHFA Debt Service Reserve always Taxable Rates in the event a Non-Profit Provider falls through.
d Overhead is calculated based on the Total Costs (less select expenses outlined in the HDA) which are increased because of Lender cushions.
e Developer Profit is calculated based on the Total Costs (less select expenses outlined in the HDA) which are increased due to Lender cushions.
f Credit Facility Costs Note includes Legal Fees and Construction Loan Fees. Lender requires the costs be allocated across 56 homes, rather than the 71 projected.
g Soft Cost Contingency is a percentage basis of Soft Costs, which are increased due to Lender cushions.
h Base Rent required by Bank of America to be used in the Long Term Residency Lease at acquisition. Rate will be reduced at permanent financing.
i Until Property Tax Exemption is granted, Lenders require that Property Taxes be included in the Lease Amount.
j The Long Term Residency Lease needs to reflect this conservative amount prior to Acquisition of the property. The lease amount will be modified at Permanent Closing.

MASTER BUDGET LINE ITEM	ORIGINAL BUDGET	TOTAL PRIOR REVISIONS	CURRENT REVISIONS	REVISED BUDGET	TOTAL DRAWN	ULP REMAINING
Land Cost	925,150	0	0.00	925,150.00	-	925,150.00
Legal/Brokers Fees	0	0	0.00	0.00	-	-
Demolition	0	0	0.00	0.00	-	-
Off-site Improvements	0	0	0.00	0.00	-	-
TOTAL LAND COSTS	**925,150**	**0**	**0.00**	**925,150.00**	**-**	**925,150.00**
Site Work	64,575	0	0.00	64,575.00	-	64,575.00
Improvements - Master Developer	274,862	0	0.00	274,862.00	-	274,862.00
Contractor's Overhead	21,222	0	0.00	21,222.38	-	21,222.38
Contractor's Profit	17,469	0	0.00	17,468.69	-	17,468.69
Sub-Total, Hard Costs	**378,128**	**0**	**0.00**	**378,128.07**	**-**	**378,128.07**
Hard Cost Contingency	37,813	0	0.00	37,812.81	-	37,812.81
TOTAL HARD COSTS	**415,941**	**0**	**0.00**	**415,940.88**	**-**	**415,940.88**
Interest During Loan*	140,319	0	0.00	140,318.66	-	140,318.66
Title (Ins. and Recording) Fees at Site Purchase	7,800	0	0.00	7,800.00	-	7,800.00
Property Taxes	10,601	0	0.00	10,600.68	-	10,600.68
Insurance	2,117	0	0.00	2,117.00	-	2,117.00
Tenant Relocation Costs	0	0	0.00	0.00	-	-
Appraisal (as-is) at Site Purchase	675	0	0.00	675.00	-	675.00
Sub-Total, Construction Loan Costs	**161,511**	**0**	**0.00**	**161,511.34**	**-**	**161,511.34**
Appraisal (as stab'd)	1,500	0	0.00	1,500.00	-	1,500.00
Legal Fees at Loan Purchase	2,000	0	0.00	2,000.00		
Title (Ins.and Recording) Fees at Loan Purchase	600	0	0.00	600.00	-	600.00
Tax Service Contract	200	0	0.00	200.00	-	200.00
CALHFA Debt Service Reserve - paid at Ln. Purch	228,888	0	0.00	228,888.34	-	228,888.34
Sub-Total, Perm Loan Costs	**233,188**	**0**	**0.00**	**233,188.34**	**-**	**233,188.34**
Construction Consultant	1,500	0	0.00	1,500.00	-	1,500.00
Other Inspections/Certifications	4,125	0	0.00	4,125.00	-	4,125.00
Permits & Municipal Fees	4,746	0	0.00	4,746.00	-	4,746.00
Furnishings	0	0	0.00	0.00	-	-
Other Professional Fees	53,500	0	0.00	53,500.00	-	53,500.00
Environmental Studies	0	0	0.00	0.00	-	-
Gen. Overhead (paid to HCS) - 5% of adj. costs*	76,589	0	0.00	76,589.22		
Developer Profit (paid to HCS) - 5% of adj. costs*						
Dev. Profit (90% of ttl) - paid at stablization	68,930	0	0.00	68,930.30		
Dev. Profit (10% of ttl) - paid at Ln. Purchase	7,659	0	0.00	7,658.92		
Share of Credit Facility Costs Note	30,357	0	0.00	30,357.00	-	30,357.00
Sub-Total, Other Soft Costs	**247,406**	**0**	**0.00**	**247,406.44**	**-**	**247,406.44**
Soft Cost Contingency	24,741	0	0.00	24,740.64	-	24,740.64
TOTAL SOFT COSTS	666,847	0	0.00	666,846.76	-	**666,846.76**
TOTAL COSTS	**2,007,938**	0	0.00	2,007,937.64	-	**2,007,937.64**
SOURCE: BANK LOAN	**2,007,938**	**0**	**0.00**	**2,007,937.64**	**-**	**2,007,937.64**

* General Overhead is calculated as 5% of all costs, excluding Interest During Loan, CalHFA Debt Service Reserve, Share of Credit Facility Costs Note and Developer Fee
* Developer Fee is calculated as 5% of all costs, excluding Interest During Loan, CalHFA Debt Service Reserve, Share of Credit Facility Costs Note and General Overhead.
* Interest During Loan is calculated against total costs exluding the CalHFA Debt Service Reserve

Percentage Hard Cost Contingency used
Percentage Soft Cost Contingency used

Hallmark Group

Capital Program Management

BAY AREA HOUSING PLAN
962 PRELIMINARY ESTIMATE
PROPERTY ADDRESS: 1320 BAYWOOD AVE, SAN JOSE

	ITEM	TAG		QUANTITY	UNIT	UNIT COST	SUBTOTAL
ADA BATHROOM							**25,008**
x	**R-1**	H	Door openings shall be a minimum of 42" wide	1	EA	1,411.00	1,411
x	**R-2**	H	Roll-in shower complete	1	EA	6,119.00	6,119
x	**R-3**	H	Towel bars: must be installed to withstand heavy use	1	EA	220.00	220
x	**R-4**	H	Second source of heat (VP Lamp)	1	EA	747.00	747
x	**R-5**	H	Accessible cleanouts for sewer maintenance (to help unclog toilets when objects are flushed)	1	EA	583.00	583
x	**R-7**	H	Utility shelves on walls for towels	1	EA	644.00	644
x	**R-8**	H	Scald prevention -new mixing valves located at water heater shall regulate water temperature	1	EA	342.00	342
x	**R-9**	H	One floor drain minimal per ADA bathroom (located in roll in shower acceptable)	1	EA	575.00	575
x	**R-10**	H	Wall-hung toilets with in-wall tanks, carriers and flushometers	1	EA	1,871.00	1,871
x	**R-11**	H	Pedestal Type Lav w/ Paddle Handle Faucet	1	EA	1,033.00	1,033
x	**R-12**	H	GFI Installed per current code in (E) receptacle	1	EA	64.00	64
x		H	Additional GFI Outlet new location	1	EA	259.00	259
		H	Arjo bathtub with sufficient space for client lift and staff access	1	EA	6,251.00	0
x		H	Dedicated & accessible water supply spigot for cleaning of bathroom & equipment	1	EA	211.00	211
		H	Install Operable window in (N) opening	1	EA	630.00	0
		H	Lockable storage for aerosol cans and cleaning supplies (ie. Bathroom drawer or cupboard)	1	EA	67.00	0
x		H	Install Exhaust Fan with Light Combo	1	EA	817.00	817
		H	Mirror with Medicine Cabinet, recessed	1	EA	330.00	0
x		H	Stainless Steel Grab Bars, with backing	1	LS	1,461.00	1,461
x		H	Light Fixtures	2	EA	314.00	628
x		H	Miscellaneous Toilet Accessories, with backing	1	EA	349.00	349
		H	Tall Storage Cabinet	1	EA	557.00	0
x			Ceramic Tile Flooring	[redacted]	SF	52.00	4,004
x		H	Ceramic Tile Wainscot (4' High)	[redacted]	LF	76.00	2,736
x		H	Full Bathroom Demo	1	EA	934.00	934
NON ADA BATHROOM NO.1							**4,812**
x		H	Replace Toilet	1	EA	537.00	537
		H	Replace Toilet Seat	1	EA	80.00	0
x		H	Replace Tub/Shower Unit including Fixtures	1	EA	1,628.00	1,628

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	ITEM	TAG		QUANTITY	UNIT	UNIT COST	SUBTOTAL
		H	Replace Shower Fixtures	1	EA	388.00	0
		H	Replace Shower Glass Door	1	EA	715.00	0
		H	Re-Caulk Tub/Shower Unit	1	EA	130.00	0
	x	H	Replace Sink & Fixture	1	EA	340.00	340
		H	Reface Base Cabinet, single lav 36" wide	1	EA	361.00	0
	x	H	Replace Base Cabinet, single lav 36" wide	1	EA	616.00	616
		H	Replace Countertop, use same lav & fixture	1	EA	356.00	0
	x	H	Replace Flooring	[redacted]	SF	18.00	720
		H	Demo Wall Paper	1	SF	274.00	0
		H	Skim Coat Walls & Retexture	[redacted]	SF	6.00	0
		H	Replace Exhaust Fan with Light Combo	1	EA	245.00	0
	x	H	Install Exhaust Fan with Light Combo, new w/o existing	1	EA	600.00	600
		H	Replace Large wall Mirror, 3' X 4'	1	EA	231.00	0
	x	H	Mirror with Medicine Cabinet, in existing recessed opening	1	EA	217.00	217
		H	Install Operable window in (N) opening	1	EA	1,043.00	0
		H	Replace Operable Window, in (E) opening	1	EA	630.00	0
	x	H	Miscellaneous Toilet Accessories	1	EA	50.00	50
	x	H	Replace Base Board	[redacted]	LF	4.00	104
NON ADA BATHROOM NO.2							**0**
		H	Replace Toilet	1	EA	537.00	0
		H	Replace Toilet Seat	1	EA	80.00	0
		H	Replace Tub/Shower Unit including Fixtures	1	EA	1,628.00	0
		H	Replace Shower Fixtures	1	EA	388.00	0
		H	Replace Shower Glass Door	1	EA	715.00	0
		H	Re-Caulk Tub/Shower Unit	1	EA	130.00	0
		H	Replace Sink & Fixture	1	EA	340.00	0
		H	Reface Base Cabinet, single lav 36" wide	1	EA	361.00	0
		H	Replace Base Cabinet, single lav 36" wide	1	EA	616.00	0
		H	Replace Countertop, use same lav & fixture	1	EA	356.00	0
		H	Replace Flooring	[redacted]	SF	18.00	0
		H	Demo Wall Paper	1	SF	274.00	0
		H	Skim Coat Walls & Retexture	[redacted]	LF	32.00	0
		H	Replace Exhaust Fan with Light Combo	1	EA	245.00	0
		H	Install Exhaust Fan with Light Combo, new w/o existing	1	EA	600.00	0
		H	Replace Large wall Mirror, 3' X 4'	1	EA	231.00	0

ITEM	TAG			QUANTITY	UNIT	UNIT COST	SUBTOTAL
		H	Mirror with Medicine Cabinet, in existing recessed opening	1	EA	217.00	0
		H	Install Operable window in (N) opening	1	EA	1,043.00	0
		H	Replace Operable Window, in (E) opening	1	EA	630.00	0
		H	Miscellaneous Toilet Accessories	1	EA	50.00	0
		H	Replace Base Board	[redacted]	LF	4.00	0
KITCHEN							**30,614**
x	R-13	H	Self-defrosting/cleaning, energy efficient appliances	1	LS	3,161.00	3,161
x	R-14	H	Hardwired smoke detector and BC fire extinguisher	1	EA	225.00	225
x	R-15	H	GFI Installed per current code in (E) receptacle	1	EA	64.00	64
x	R-16	H	Easily cleaned, durable finishes	0	NA	0.00	0
x		H	Install Ductwork to Exterior from Exhaust Fan, raised floor construction	1	EA	363.00	363
x		H	Adequate space for movement and turning of largest conveyance equipment Per ADA residential guidelines	0	NA	0.00	0
x		H	Locked medicine cabinet (central location required by licensing)	1	EA	361.00	361
		H	Pedal activated sink near medicine cabinet for sanitation and infection contro	1	EA	1,251.00	0
		H	Visual access to other living areas 5'x4'	1	LS	1,628.00	0
		H	Cork on inside of cupboards for posting special menus for residents	1	EA	40.00	0
		H	Install Bulletin Board	1	EA	45.00	0
		H	Counter tops - one at standard height for staff and one lowered for wheelchair access	1	EA	3,462.00	0
x		H	Replace Counter Top with Granite	[redacted]	LF	314.00	8,792
		H	Replace Upper & Lower Cabinets	[redacted]	LF	616.00	0
x		H	Reface Upper & Lower Cabinets	[redacted]	LF	415.00	11,620
x		H	Add Cabinet Hardware	1	EA	210.00	210
		H	Run Gas to Range (50FT)	1	EA	825.00	0
		H	Run 220 Outlet to Range (50 FT)	1	EA	720.00	0
x		H	Replace Sink & Fixture	1	EA	900.00	900
		H	Replace Sink Fixture	1	EA	375.00	0
x		H	Replace Flooring	150	SF	12.00	1,800
x		H	Replace Light Fixtures	1	EA	157.00	157
x		H	Add Can Lights	4	EA	184.00	736
x		H	Replace Windows	[redacted]	EA	630.00	1,260
		H	Install Tall Storage Cabinet	1	EA	780.00	0
		H	Accessible electric socket near the areas customized for wheelchair users	1	EA	259.00	0
x		H	Lockable storage for kitchen knives (ie drawer with lock)	1	EA	65.00	65

x		H	Rounded corners (countertop)	1	EA	340.00	340
x		H	Keyed Garbage Disposal	1	EA	560.00	560
UTILITY ROOM							**4,470**
x	R-17	H	Commercial grade washer and dryer	1	SET	2,460.00	2,460
x	R-18	H	Locked storage space adequate for janitorial equipment and with shelves for cleaning supplies	1	EA	110.00	110
x	R-19	H	Commercial grade gas hot water heater - 100 gallon capacity	1	EA	1,280.00	1,280
x	R-20	H	Anchored or strapped water heater as required by CalHFA	1	EA	130.00	130
		H	Two utility sinks that are partitioned (e.g. fiberglass partition) for clean and dirty area work space as required by licensing	1	EA	950.00	0
		H	Room for storing, sorting, and handling laundry				0
x		H	Washer pan or floor drain	1	EA	410.00	410
		H	Second set of commercial grade washer and dryer located inside the home	1	SET	2,460.00	0
		H	Storage for medical supplies	1	EA	400.00	0
		H	Run Gas Line to Dryer Capped (50FT)	1	EA	825.00	0
		H	Run 220V Outlet to Dryer (50FT)	1	EA	720.00	0
x		H	Install Washer & Dryer Base Unit	1	EA	80.00	80
		H	Install Upper Wall Cabinets	1	EA	450.00	0
		H	Replace Flooring		SF	12.00	0
		H	Reface Upper Wall Cabinets	1	EA	300.00	0
		H	Install Exhaust Fan with Light Combo	1	EA	600.00	0
		H	Replace Exhaust Fan with Light Combo	1	EA	245.00	0
		H	Install 42" Door	1	EA	1,411.00	0
		H	Install Bi-Fold Door	1	EA	634.00	0
		H	Install Base Cabinet with Counter Top	1	EA	716.00	0
		H	Install Laundry Sorting Hamper	1	EA	50.00	0
		H	Install Additional Outlet	1	EA	240.00	0
LIVING AREA							**17,403**
x	R-21	H	Adequate room for movement and turning of largest piece of equipment Per ADA residential guidelines	0	NA	0.00	0
x	R-22	H	Pergo or commercial-grade carpet, tile, cork, linoleum, or wood floors should be used		SF	8.50	4,284
x	R-23	H	Extra electrical outlets	3	EA	240.00	720
x		H	Hardwired smoke detector	1	EA	194.00	194

	ITEM	TAG		QUANTITY	UNIT	UNIT COST	SUBTOTAL
		H	Two separate communal room spaces	1	EA	1,760.00	0
		H	Create space saving storage areas	0	NA	0.00	0
		H	Built-in entertainment center	1	EA	4,200.00	0
		H	Use natural wood trims	0	NA	0.00	0
x		H	Install Ceiling Fan w/ Light Combo	1	EA	345.00	345
x		H	Install Corner Guards	1	EA	30.00	30
		H	Replace Sliding Glass Door	1	EA	1,832.00	0
x		H	Replace Sliding Glass Door w/ French Door	1	EA	2,080.00	2,080
x		H	Replace Flooring	[redacted]	SF	12.00	6,048
x		H	Replace Base Board	[redacted]	LF	3.50	350
x		H	Replace Windows	[redacted]	EA	630.00	1,890
		H	Install Sun Tube Skylight	1	EA	1,767.00	0
x		H	Replace Entry Door	1	EA	1,462.00	1,462
DINING ROOM							**3,146**
x		H	Extra electrical outlets	2	EA	240.00	480
x		H	Hardwired smoke detector	1	EA	194.00	194
		H	Create space saving storage areas	0	NA	0.00	0
x		H	Install Ceiling Fan w/ Light Combo	1	EA	345.00	345
x		H	Install Corner Guards	1	EA	30.00	30
		H	Replace Sliding Glass Door	1	EA	1,832.00	0
		H	Replace Sliding Glass Door w/ French Door	1	EA	2,080.00	0
x		H	Replace Flooring	[redacted]	SF	12.00	1,320
x		H	Replace Base Board	[redacted]	LF	3.50	147
x		H	Replace Windows	[redacted]	EA	630.00	630
BEDROOM NO. 1							**10,402**
x	**R-24**	H	Large enough to address the specific needs of the individua	0	NA	0.00	0
x	**R-25**	H	Sufficient shelving or space for display or storage of personal belongings	1	EA	320.00	320
x	**R-26**	H	Commercial quality floor covering	[redacted]	SF	12.00	1,680
x	**R-27**	H	Extra electrical outlets	4	EA	240.00	960
x	**R-28**	H	Provide at minimum one door leading directly to the exterior from either the main corridor or at least one bedroom (in compliance with Group R 2.1.1 Occupancy), inclusive of exterior ramping as required along the path of egress.	1	EA	3,475.00	3,475
x	**R-29**	H	42" minimum clear width doorway	1	EA	925.00	925

	ITEM	TAG		QUANTITY	UNIT	UNIT COST	SUBTOTAL
x		H	Hardwired smoke detector	1	EA	194.00	194
		H	Climate control and individualized heating and cooling system for each bedroom	1	EA	1,680.00	0
x		H	Closet system with storage space	1	EA	760.00	760
x		H	Cable in each bedroom	1	EA	112.00	112
x		H	Soundproof quiet room	1	EA	34.38	34
		H	Oxygen outlets built into the wall	NEED ADDL SCOPE INFO			0
x		H	Install Fan Junction Box in Ceiling with Switch	1	EA	326.00	326
x		H	Replace Operable Window	[redacted]	EA	630.00	630
x		H	Install Window Covering	[redacted]	EA	200.00	200
		H	Install Locking Hardware at Floor Access Door	1	EA	84.00	0
x		H	Install Base Board	[redacted]	LF	3.50	168
x		H	Replace Closet Doors	1	EA	386.00	386
x		H	Install Cable TV Jack	1	EA	112.00	112
x		H	Install new Window Sill	[redacted]	EA	120.00	120
BEDROOM NO. 2							**10,073**
x	**R-24**	H	Large enough to address the specific needs of the individua	0	NA	0.00	0
x	**R-25**	H	Sufficient shelving or space for display or storage of personal belongings	1	EA	320.00	320
x	**R-26**	H	Commercial quality floor covering	[redacted]	SF	12.00	1,368
x	**R-27**	H	Extra electrical outlets	4	EA	240.00	960
x	**R-28**	H	Provide at minimum one door leading directly to the exterior from either the main corridor or at least one bedroom (in compliance with Group R 2.1.1 Occupancy), inclusive of exterior ramping as required along the path of egress.	1	EA	3,475.00	3,475
x	**R-29**	H	42" minimum clear width doorway	1	EA	925.00	925
x		H	Hardwired smoke detector	1	EA	194.00	194
		H	Climate control and individualized heating and cooling system for each bedroom	1	EA	1,680.00	0
x		H	Closet system with storage space	1	EA	760.00	760
x		H	Cable in each bedroom	1	EA	112.00	112
x		H	Soundproof quiet room	1	EA	34.38	34
		H	Oxygen outlets built into the wall	NEED ADDL SCOPE INFO			0
x		H	Install Fan Junction Box in Ceiling with Switch	1	EA	326.00	326
x		H	Replace Operable Window	[redacted]	EA	630.00	630
x		H	Install Window Covering	[redacted]	EA	200.00	200

	ITEM	TAG		QUANTITY	UNIT	UNIT COST	SUBTOTAL
		H	Install Locking Hardware at Floor Access Door	1	EA	84.00	0
x		H	Install Base Board	[redacted]	LF	3.50	151
x		H	Replace Closet Doors	1	EA	386.00	386
x		H	Install Cable TV Jack	1	EA	112.00	112
x		H	Install new Window Sill	[redacted]	EA	120.00	120
BEDROOM NO. 3							**12,414**
x	**R-24**	H	Large enough to address the specific needs of the individua	0	NA	0.00	0
x	**R-25**	H	Sufficient shelving or space for display or storage of personal belongings	1	EA	320.00	320
x	**R-26**	H	Commercial quality floor covering	[redacted]	SF	12.00	2,700
x	**R-27**	H	Extra electrical outlets	4	EA	240.00	960
x	**R-28**	H	Provide at minimum one door leading directly to the exterior from either the main corridor or at least one bedroom (in compliance with Group R 2.1.1 Occupancy), inclusive of exterior ramping as required along the path of egress.	1	EA	3,475.00	3,475
x	**R-29**	H	42" minimum clear width doorway	1	EA	925.00	925
x		H	Hardwired smoke detector	1	EA	194.00	194
		H	Climate control and individualized heating and cooling system for each bedroom	1	EA	1,680.00	0
x		H	Closet system with storage space	1	EA	760.00	760
x		H	Cable in each bedroom	1	EA	112.00	112
x		H	Soundproof quiet room	1	EA	34.38	34
		H	Oxygen outlets built into the wall	NEED ADDL SCOPE INFO			0
x		H	Install Fan Junction Box in Ceiling with Switch	1	EA	326.00	326
x		H	Replace Operable Window	[redacted]	EA	630.00	1,260
x		H	Install Window Covering	[redacted]	EA	200.00	400
		H	Install Locking Hardware at Floor Access Door	1	EA	84.00	0
x		H	Install Base Board	[redacted]	LF	3.50	210
x		H	Replace Closet Doors	1	EA	386.00	386
x		H	Install Cable TV Jack	1	EA	112.00	112
x		H	Install new Window Sill	[redacted]	EA	120.00	240
BEDROOM NO. 4							**10,855**
x	**R-24**	H	Large enough to address the specific needs of the individua	0	NA	0.00	0
x	**R-25**	H	Sufficient shelving or space for display or storage of personal belongings	1	EA	320.00	320
x	**R-26**	H	Commercial quality floor covering	[redacted]	SF	12.00	2,112

	ITEM	TAG		QUANTITY	UNIT	UNIT COST	SUBTOTAL
x	R-27	H	Extra electrical outlets	4	EA	240.00	960
x	R-28	H	Provide at minimum one door leading directly to the exterior from either the main corridor or at least one bedroom (in compliance with Group R 2.1.1 Occupancy), inclusive of exterior ramping as required along the path of egress.	1	EA	3,475.00	3,475
x	R-29	H	42" minimum clear width doorway	1	EA	925.00	925
x		H	Hardwired smoke detector	1	EA	194.00	194
		H	Climate control and individualized heating and cooling system for each bedroom	1	EA	1,680.00	0
x		H	Closet system with storage space	1	EA	760.00	760
x		H	Cable in each bedroom	1	EA	112.00	112
x		H	Soundproof quiet room	1	EA	34.38	34
		H	Oxygen outlets built into the wall	NEED ADDL SCOPE INFO			0
x		H	Install Fan Junction Box in Ceiling with Switch	1	EA	326.00	326
x		H	Replace Operable Window	[redacted]	EA	630.00	630
x		H	Install Window Covering	[redacted]	EA	200.00	200
		H	Install Locking Hardware at Floor Access Door	1	EA	84.00	0
x		H	Install Base Board	[redacted]	LF	3.50	189
x		H	Replace Closet Doors	1	EA	386.00	386
x		H	Install Cable TV Jack	1	EA	112.00	112
x		H	Install new Window Sill	[redacted]	EA	120.00	120
BEDROOM NO. 5							**10,148**
x	R-24	H	Large enough to address the specific needs of the individua	0	NA	0.00	0
x	R-25	H	Sufficient shelving or space for display or storage of personal belongings	1	EA	320.00	320
x	R-26	H	Commercial quality floor covering	[redacted]	SF	12.00	1,440
x	R-27	H	Extra electrical outlets	4	EA	240.00	960
x	R-28	H	Provide at minimum one door leading directly to the exterior from either the main corridor or at least one bedroom (in compliance with Group R 2.1.1 Occupancy), inclusive of exterior ramping as required along the path of egress.	1	EA	3,475.00	3,475
x	R-29	H	42" minimum clear width doorway	1	EA	925.00	925
x		H	Hardwired smoke detector	1	EA	194.00	194
		H	Climate control and individualized heating and cooling system for each bedroom	1	EA	1,680.00	0
x		H	Closet system with storage space	1	EA	760.00	760

	ITEM	TAG		QUANTITY	UNIT	UNIT COST	SUBTOTAL
x		H	Cable in each bedroom	1	EA	112.00	112
x		H	Soundproof quiet room	1	EA	34.38	34
		H	Oxygen outlets built into the wall	NEED ADDL SCOPE INFO			0
x		H	Install Fan Junction Box in Ceiling with Switch	1	EA	326.00	326
x		H	Replace Operable Window	[redacted]	EA	630.00	630
x		H	Install Window Covering	[redacted]	EA	200.00	200
		H	Install Locking Hardware at Floor Access Door	1	EA	84.00	0
x		H	Install Base Board	[redacted]	LF	3.50	154
x		H	Replace Closet Doors	1	EA	386.00	386
x		H	Install Cable TV Jack	[redacted]	EA	112.00	112
x		H	Install new Window Sill	1	EA	120.00	120
HALLWAY & DOORS							**22,250**
x	**R-30**	H	Hallway Width 42" minimum clear width (gurneys can be 40" wide)	1	EA	4,653.00	4,653
x	**R-31**	H	42" minimum clear width door openings, with lever handles	1	EA	925.00	925
x	**R-32**	H	Doors meet fire code	[redacted]	EA	240.00	480
x	**R-33**	H	Door, wall and corner protection	1	EA	1,470.00	1,470
x		H	Reinforce walls with protective material - (ie. Wainscot, wall panel, etc...)	[redacted]	SF	7.35	3,881
		H	Pocket doors with an extruded aluminum I-beam for heavy duty use	1	EA	892.00	0
x		H	Hallway Width 48" minimum clear width	1	EA	4,886.00	4,886
x		H	Replace Flooring	[redacted]	SF	12.00	3,326
x		H	Install Sun Tube Skylight	1	EA	1,767.00	1,767
x		H	Install T-Stat Protective Cover Box	1	EA	40.00	40
x		H	Install Corner Guards	4	EA	30.00	120
x		H	Install Base Board	[redacted]	LF	3.50	462
x		H	Relocate Return Air	1	EA	240.00	240
STORAGE							**1,479**
x	**R-34**	H	Lockable storage must be provided for medicines, medical supplies, knives, cleaning products and private records (in kitchen utility room, bathroom, office) (This storage can occur in a locked central closet or locked cabinets in key locations)	1	EA	250.00	250
x		H	Storage (in bedroom and utility room) for equipment such as lifts, gurneys, hampers scales petitioners etc, Note: Wheelchairs will need space for battery charging/cleaning	1	EA	980.00	980
		H	Organized, accessible storage systems	NEED SCOPE DEFINED			0

	ITEM	TAG		QUANTITY	UNIT	UNIT COST	SUBTOTAL
		H	Space to store emergency/disaster preparedness kit, food and water	0	NA	0.00	0
		H	Install Can Lights	1	EA	184.00	0
		H	Replace Window	1	EA	630.00	0
x		H	Install Bulletin Board	1	EA	45.00	45
x		H	Replace Flooring	[redacted]	SF	8.50	204
GARAGE							**4,597**
x		H	Sheetrock Walls & Ceiling	1	EA	2,637.00	2,637
		H	Replace Garage Door with Sectional Overhead Door (Single)	1	EA	600.00	0
x		H	Replace Garage Door with Sectional Overhead Door (Double)	1	EA	1,500.00	1,500
x		H	Install Automatic Garage Door Opener	1	EA	320.00	320
x		H	Install Florescent Lighting in the Garage	1	EA	140.00	140
TRASH							**0**
		S	Provision for recycling	0	NA	0.00	0
		S	Outside Trash is protected and enclosed	1	EA	736.00	0
WALKWAY FENCING & YARD							**21,879**
x	R-35	S	Install ramps -accessibility to egress and recreational activity (ramp as required)	[redacted]	EA	5,000.00	5,000
x	R-36	S	Fencing to address privacy and security needs	[redacted]	LF	25.00	2,500
x	R-37	S	Landscape is attractive & low maintenance, containing no poisonous or dangerous plants	1	LS	4,500.00	4,500
x	R-38	S	All transitions must be level and at grade or protected by a handrail or a curb, avoid steps	1	LS	500.00	500
x	R-39	S	walkways 5' wide to accommodate wheelchair use, minimum 42 inches	[redacted]	SF	6.00	600
		S	Adequate turning radius for gurneys at egress points	1	LS	500.00	0
		S	Screened porch	1	LS	1,000.00	0
		S	Large back yard	0	NA	0.00	0
		S	Ramping Switch Backs	[redacted]	LS	1,925.00	0
		S	Install 8'x8' Deck using Trex	1	LS	1,180.00	0
		S	Install 10'x10' Deck using Trex	1	LS	1,843.00	0
x		S	Install 12'x12' Deck using Trex	1	LS	2,655.00	8,754
x		S	Replace Irrigation Sprinkler Head with Pop-Up	1	EA	25.00	25
		S	Tree Removal Service	1	EA	250.00	0

ITEM	TAG			QUANTITY	UNIT	UNIT COST	SUBTOTAL
WORK AREA							**1,614**
x	R-40	H	Space for two 4 drawer locked storage file cabinets for client records/files	1	EA	350.00	350
x		H	Shelves for document storage	1	EA	164.00	164
x		H	Space for desk or writing table	1	EA	600.00	600
x		H	Storage for staff's coats and belongings	1	EA	500.00	500
		H	Document posting area as required by licensing	1	EA	120.00	0
SPECIAL FEATURES & REQUIREMENTS							**69,793**
x	R-41	H	Back-up Power supply (ie. Generator) in compliance with 517-50 of the California Electric Code	1	EA	18,569.00	18,569
x	R-42	H	Fire extinguishers				0
x	R-43	H	Automatic Sprinkler System meeting NFPA 13D standard for installation.	1	EA	4,816.00	4,816
x	R-44	H	Exit Signs depicting a means of egress out of the building -must illuminate at night	[redacted]	EA	25.00	100
x	R-45	H	Fire Alarm Manual Pull Station				0
x	R-46	H	Central heating and cooling system	1	EA	24,240.00	24,240
x	R-47	H	Asbestos abatement (as applicable for properties build prior to 1981)	0	LS	Included Below	0
x	R-48	H	"Lead Paint Encapsulation" (as applicable for properties built prior to 1978)	1	LS	7,500.00	7,500
x	R-49	H	Presence of Anchor bolts	1	LS	2,000.00	2,000
x	R-50	H	Hardwired smoke detectors with battery back-ups in all sleeping rooms and at the corridor or area giving access to each separate sleeping area.	1	EA	200.00	200
x	R-51	H	Central air filter system (such as Heppa filter)	1	EA	4,368.00	4,368
		H	Containment of medical gas (oxygen) and airway suction capabilities in the walls	NEED SCOPE CLARIFICATION			0
x		H	Ceiling Track system with sling seats for transfer from bedroom to bathroom.	1	LS	8,000.00	8,000
GENERAL INTERIOR							**14,994**
		H	Replace Crown Molding	[redacted]	LF	4.10	0
x		H	Replace Door Bell Chime	1	EA	56.00	56
x		H	Install Surveillance Camera System Infrastructure	1	LS	3,000.00	3,000
x		H	Install Fire Alarm System integrated with Smoke Detector	1	LS	5,250.00	5,250
x		H	Install Protective Film on Glass for Shatter Proofing	50	SF	5.60	280
x		H	Attic Blown In Insulation R-30	[redacted]	SF	0.75	2,008
x		H	Replace Galvanized Piping with Copper	1	LS	4,400.00	4,400

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	ITEM	TAG		QUANTITY	UNIT	UNIT COST	SUBTOTAL
		H	Termite Remediation	1	LS	[redacted]	0
GENERAL EXTERIOR							**23,860**
x		H	Roof Replacement	[redacted]	SQ	400.00	14,000
x		S	Upgrade Electrical Panel with 200 Amp Service	1	EA	3,030.00	3,030
x		H	Install Flood Lamp with Motion Sensor	2	EA	140.00	280
x		H	Remove Shake Roof	[redacted]	SQ	50.00	1,750
		S	Replace Driveway	1	LS	9,600.00	0
		H	Replace Wood Siding	1	LF	68.25	0
		H	Patch Stucco Work	[redacted]	LF	36.80	0
x		S	Upsize Water Meter & Supply Line to 2"	1	LS	4,800.00	4,800

Hallmark Group
Capital Program Management

BAY AREA HOUSING PLAN
962 PRELIMINARY ESTIMATE
PROPERTY ADDRESS: 1320 BAYWOOD AVE, SAN JOSE

ITEM	TAG		QUANTITY	UNIT	UNIT COST	SUBTOTAL
GENERAL CONSTRUCTION IMPROVEMENTS						**295,808**
	S	Site Improvements				29,709
	H	Home Improvements				266,099
OVERHEAD & PROFIT						**57,511**
		General Conditions	%		7.00	20,707
		Overhead	%		5.00	15,826
		Profit	%		5.00	16,617
		Insurance	%		1.25	4,362
DUE DILIGENCE BY OWNER						**6,700**
x		Asbestos Abatement	LS	1	6,700.00	6,700
		Lead Abatement	LS	1	10,000.00	0
TOTAL WITHOUT CONTINGENCY						**360,020**
CONTINGENCY						**36,002**
			%		10.00	36,002
CONSTRUCTION GRAND TOTAL						**396,022**

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CALIFORNIA HOUSING FINANCE AGENCY
Final Commitment
Bay Area Housing Plan
CalHFA #'s TBD

SUMMARY

This is a final commitment request for $25,000,000 and a request to increase the preliminary approval by $20,000,000. This request will increase the Agency's final commitment on the Bay Area Housing Plan ("BAHP") from $20,000,000 to $45,000,000 and increase the total financing to $120,000,000.

The Board, at its September 9, 2005 meeting provided final commitment approval for $20,000,000, and a preliminary approval of an additional $80,000,000 for a total financing of $100 million for BAHP. Staff currently estimates that at completion, the 71 BAHP units will cost between $110,000,000 and $120,000,000, and that our final commitment requests will ultimately total more than the $100,000,000 originally anticipated. We will be returning to the Board for additional final approval authority as needed.

Security for the loans will be deeds of trust on approximately 71 single family homes modified for use by 254 developmentally disabled adults exiting the Agnews Developmental Center and annual lease payments authorized by the Regional Centers via annual contracts with the Department of Developmental Services ("DDS"). DDS receives funds for these contracts through annual appropriations from the State Legislature. There will also be additional collateral in the form of cash totaling 5% of the loan commitment amount.

The basic financial structure of the BAHP is a lease/purchase/conveyance model. Hallmark Community Services, a not-for-profit corporation, (the "Developer"), will own the properties initially. Ownership will be transferred at permanent financing to one of three non-profit housing organizations (the "NPOs") who in turn will lease the property to a selected service provider. Each Regional Center has designated a NPO for its service area. The Bay Area Housing Corporation is the designated NPO for the San Andreas Regional Center. The Housing Consortium of the East Bay is the designated NPO for the Regional Center of the East Bay. The West Bay Housing Corporation is the designated NPO for the Golden Gate Regional Center. The Regional Centers will be responsible for funding all necessary housing and service costs under the lease, which cost is included in its annual appropriations.

LOAN TERMS

Permanent

Total First Mortgages	**$25,000,000**
Interest Rate	150 basis points above the Agency's cost of funds
Term	15 - year fixed, fully amortized
Financing	Tax-exempt and Taxable fixed rate bonds

This final commitment gives staff authority to enter into a series of loan commitments on properties up to an aggregate amount of $45,000,000. The requested commitment amount will be used to finance 20 plus homes. Staff anticipates returning to the Board of Directors for an additional commitment of funds in March 2006 to complete an additional 15 homes and the 4 completed Cupertino homes.

PROGRESS SINCE THE SEPTEMBER 2005 BOARD APPROVAL

Completion of the Four Cupertino Homes

The four Cupertino Family Teaching Model homes have been completed. A service provider was chosen, the lease executed, and the lease payments have commenced. Staff has been hired and the homes are fully occupied with former Agnews Developmental Center Residents. The projects were brought in under budget. At permanent financing, the Agency loans on the family teaching model homes will be between 113% and 119% of appraised value. The Regional Centers paid for interest costs during construction. If the interest costs were financed during construction period interest, the LTV's would be 118% to 125%.

Address	10536 N. Foothill	10506 N. Foothill	10516 N. Foothill	10526 N. Foothill
Original Budget	1,283,973	1,312,424	1,312,424	1,312,424
Final Budget	1,229,814	1,303,645	1,298,816	1,297,412
Debt Service Reserve	135,984	144,147	143,613	143,458
Incidental Costs	15,000	15,000	15,000	15,000
Perm. Loan Amt	1,380,798	1,462,792	1,457,429	1,455,869
Appraised Value	1,220,000	1,220,000	1,220,000	1,220,000
Loan to Value	113%	119%	119%	119%

The Remaining 67 BAHP Homes

Even though no homes have been purchased since the Agency made a permanent loan commitment in September 2005, substantial progress has been made. Staff expects that the Developer and the Regional Centers will sign the BAHP documents in early January 2006 and the construction loan will close in late January 2006. The developer anticipates being able to close on the acquisition of 5 homes in January and 15 homes in February 2006.

Legislative Authority

All required legislation was enacted in the fall of 2005; SB 643, which amended AB 2100 (the Bay Area Housing Plan); SB 962, which created the licensure category for the medical model homes; AB 1378, which allowed State developmental center staff to be employed in the AB 2100 homes; and in November 2005 the Joint Legislative Budget Committee approved an expenditure plan for the Bay Area Housing Plan.

Required Approvals

On November 7, 2005, DDS provided notice pursuant to California Welfare and Institutions Code Section 4688.5(C) that the California Health and Human Service Agency had consented to the BAHP. Because of a 45-day statutory notice provision, the Regional Centers were required to wait until December 21, 2005, to enter into legally binding agreements with the

Developer for the implementation of the BAHP; long-term leases with the Service Providers, lease assurance agreements with the Developer, the service providers, Bank of America ("Bank"), the construction lender, and the Agency; contract modifications that incorporate the BAHP into the Regional Center's funding agreements with DDS; and the various other documents required for the closing. The Agency's commitment will be contingent upon these documents being approved by the Agency and fully executed. DDS has extended the completion date for all BAHP properties to December 31, 2007.

Predevelopment Financing

Predevelopment costs and earnest money deposits will be paid for by the Regional Centers who have made $3,000,000 available for this purpose. These funds will be held and administered by the Bay Area Housing Corporation ("BAHC"). These funds will be repaid to BAHC from the Bank of America credit facility at acquisition of the property.

Construction/Acquisition Financing

Bank of America is currently underwriting the financing of the acquisition, rehabilitation or construction of the homes, and all associated costs of the properties, with the maximum amount outstanding at any one time of $60,000,000 (the "Bank Credit Facility"). The size of the facility will depend upon the availability of an Agency permanent loan commitment of 110% of all anticipated costs. The additional 10% is a cost-overrun reserve. The Bank Credit Facility will be collateralized by deeds of trust on each property (Bank Property Loans). In addition to notes and deeds of trust on each property, the Bank will also require security agreements, completion agreements and lease assurance agreements as well as $11,110,000 of cash collateral (of which 5% will be transferred to the Agency at permanent loan for additional collateral). Bank credit approval is anticipated prior to the January 2006 Board meeting. The Bank Credit Facility will be a revolving credit facility, repaid as the Agency purchases loans from the Bank. The Bank is in the process of drafting and circulating loan documents in anticipation of credit approval. The Agency's final commitment is contingent upon the Bank's credit approval.

NEGOTIATED CHANGES IN THE FINAL COMMITMENT

Loan Fees and Other Costs

The Regional Centers will pay the Agency loan fee of 1% from their own funds and it will not be financed from Agency loan proceeds. Fifty percent of the fees are due at commitment and fifty percent of the fee will be due prior to the first construction draw on the Agency Commitment for those funds. The Developer will be responsible for third party fees including but not limited to legal fees, inspection fees, and tax service fees. The third party costs will be financiable.

Additional Collateral

To help mitigate the risk of making loans to 100% of cost, the Agency has required that the Regional Centers provide $5,000,000 or 5% of the permanent loan amounts, which ever is greater, as additional collateral. These funds will be aggregated into a single reserve, together

with the interest they earn, and will be held by the bond trustee or the Agency at the Agency's discretion and released to the Regional Centers when the properties are at 100% loan to value based upon then-current appraisals of the properties. The appraisals will be at the Regional Centers' expense, and will be done by an appraiser to standards acceptable to the Agency. In the event of a default, the Agency will draw down on the cash collateral first. When it is exhausted, the Agency will draw down on the debt service reserve.

Debt Service Reserve

The debt service reserve shall equal one year of debt service on each loan. It shall be aggregated and held, together with the interest earned, by the bond trustee or the Agency at the Agency's discretion until the permanent mortgages have been retired, at which time it shall be returned to the NPOs, or at their instruction, to the Regional Centers. The borrower may request periodic payments of interest, which interest shall be released after required IRS yield restriction analysis has been performed, and payments due to the IRS, if any, have been paid.

Bond Financing

The Agency will not assume interest rate risk on the bonds. The interest rate for the loans will be set at the time of permanent financing, subject to existing bond market conditions. The bonds will be fixed-rate for a 15-year term, and will be backed by the Agency's general obligation. The loan may be prepaid by the borrower after year ten and the bonds will be structured with a 10-year optional call provision which can be exercised by the Agency at its discretion. It is anticipated that the Agency will finance the permanent loans in three or more bond financings of $20 to $40 million in size. The bond financings will include both taxable and tax-exempt bonds.

Regulatory Provisions

Replacement reserves will be held by the NPOs. The Agency will not impound for taxes and insurance, nor will it collect and hold replacement reserves. In the event that taxes are not paid, insurance lapses, or the replacement reserves are not properly held, the Agency will retain the right to collect impounds and reserves.

Loan Purchase Agreement

Upon completion of the improvements of the individual properties, the Agency has agreed to purchase the Bank Property Loans from the Bank under the terms of a loan purchase agreement. The Bank Property Loans, by their terms, will convert into loans with a term of 15 years. The Agency has agreed to purchase each of the individual loans from the Bank within 180 days of completion and acceptance of the completed project by the Agency. By purchasing the loans, the Agency will be able to maintain the lien priority of the bank and simplify the loan closing process.

The conditions for acceptance of the properties include the following:

- A final close-out report from an inspector, who will be jointly engaged by the Bank and the Agency, that concludes that the improvements are fully completed, built to previously approved plans and specifications (if new construction) or scope of work (if rehabilitation), that all required locality permit approvals have been obtained, and that all environmental

requirements are met (including all required removal or remediation of lead based paint and asbestos containing materials), and certified by the Developer.
- A certificate of completion or occupancy has been recorded for the property.
- The Regional Center has issued a Certificate of Acceptance.
- As applicable, the property has received all required licensing approvals, or the Agency has determined to its satisfaction that the property is "licensable" and the Regional Centers have accepted the licensing risk.

The Agency will have the following additional conditions at loan purchase.

- The property has been conveyed by the Developer to the NPO; the initial service provider has assigned the lease to the end service provider; the applicable Regional Center has approved the end service provider and the residence has been placed in service for the intended use. The lease is in full force and effect, the monthly lease payments have been sized to service the loan and neither party is in default under the lease
- The title policy has been reissued naming the Agency as the insured in the form of the Bank's title policy, but showing fee title as being vested in the applicable NPO and the Agency's Regulatory Agreement is shown as an exception. The interest rate on the note has been modified to reflect the permanent interest rate.
- The Agency has received evidence of required insurance naming Agency as additional insured.
- The Agency receives, through escrow, a pro rata portion equal to 5% of loan amount of the Regional Centers' pledged additional collateral funds from the Bank, as well as the Debt Service Reserve, and any other funds due to the Agency.
- All required documents are executed including all assignment agreements and required subordination agreements.
- There is no material damage to the property and no condemnation proceedings have been threatened or commenced with respect to any of the applicable properties
- As applicable, the Agency's bond counsel has approved (A) the NPO and the end service provider for purposes of 501(c) (3) bond issuance and (B) the project costs certification.
- The costs have been certified.
- As applicable, the Service Provider has received licensing approval for the property.
- The Bank has paid the Developer their full fee for the property.

Execution of Core Agreements and Loan Documents

The parties are currently circulating and reviewing the core agreements and loan documents that are required for the transaction. The Agency has drafted Memoranda of Understanding between the Agency and DDS and between the Agency and the Regional Centers. We have also circulated draft legal opinions, a lease assurance agreement and a Permanent Financing Funding Agreement, which will be executed by the Agency and the NPOs. The Agency's final commitment is conditioned upon all core agreements being accepted by the Agency and executed by the parties, and all loan documents having been approved by the Agency.

Phase One of the Construction Program

The BAHP is divided into two phases based on identified residents who are prepared to move. Phase One will consist of 35 properties. Eight of the properties will be in Alameda County, eighteen in Santa Clara County, and nine in San Mateo County. Twelve of the homes will be specialized residential facilities ("SR Homes"), and thirteen of the homes will be SB 962 medical

model homes, both of which require licensure. The remaining ten homes will be family teaching model homes, which are not licensed. Service providers have either been chosen for the homes or request for proposals have been issued. The borrower is in the process of identifying properties. Staff anticipates that most of the SB962 model homes will be new construction, and that the rest will involve rehabilitation.
The Developer anticipates purchasing 5 homes in January, 15 in February and 15 in March of 2006. Phase One will require approximately $60,000,000 in commitments from the Agency for $55,000,000 in costs and $5,000,000 for a Bank required cost over run reserve. The Developer anticipates that the Family Teaching homes and the SR Homes to be financed by the Agency in November of 2006 and the SB 962 homes to be financed in May of 2007.

Phase Two of the Construction Program

Phase Two of the development will be comprised of 36 properties, 32 newly acquired properties and the 4 Cupertino homes. It will require an additional $60,000,000 in permanent commitments from the Agency for $55,000,000 in costs and $5,000,000 for a Bank required cost over-run reserve. The Regional Centers are still working with the residents and their families regarding location. The exact number of Family Teaching homes, SR Homes and SB 962 homes is still to be determined. The Developer intends to begin acquiring homes for Phase Two in May of 2006. The completion date for both phases is December 31, 2007. Permanent financing of the all of the Phase Two homes is anticipated to be completed by March of 2008.

Regional Center of the East Bay						
	Homes	***Client Beds***	***Total Beds***	***Type of Housing***	***Location***	***RFP or Identified Service Provider***
	2	3	6	SRHome-Behavior	Southern Alameda County	Alegria
	1	3	3	SRHome-Behavior	Northern Alameda County	Alegria
	1	4	4	SRHome-Behavior	Northern Alameda County	Alegria
	1	3	3	SRHome-Behavior	Southern Alameda County	Alegria
	1	4	4	SRHome-Senior	Southern Alameda County	Alegria
	2	5	10	SB 962 (Medical Model) Homes	Southern Alameda County	Request for Proposal
Totals	**8**		**30**			
San Andreas Regional Center						
	Homes	***Client Bed***	***Total Beds***	***Type of Housing***	***Location***	***RFP or Identified Service Provider***
	10	3	30	Family Teaching Model Homes	Cupertino and surrounding communities within a 30 minute travel radius of the original FTM properties.	CCO
	8	5	40	SB 962 (Medical Model) Homes	Santa Clara and greater San Jose area.	Request for Proposal
Totals	**18**		**70**			
Golden Gate Regional Center						
	Homes	***Client Beds***	***Total Beds***	***Type of Housing***	***Location***	***RFP or Identified Service Provider***
	3	3-5	9-15	SB 962 Homes	San Mateo County	1 identified; 2 Request for Proposal
	6	3	18	SRHomes	San Mateo County	All identified
Totals	**9**		**33-39**			
Phase I Total	**35**		**133-139**			

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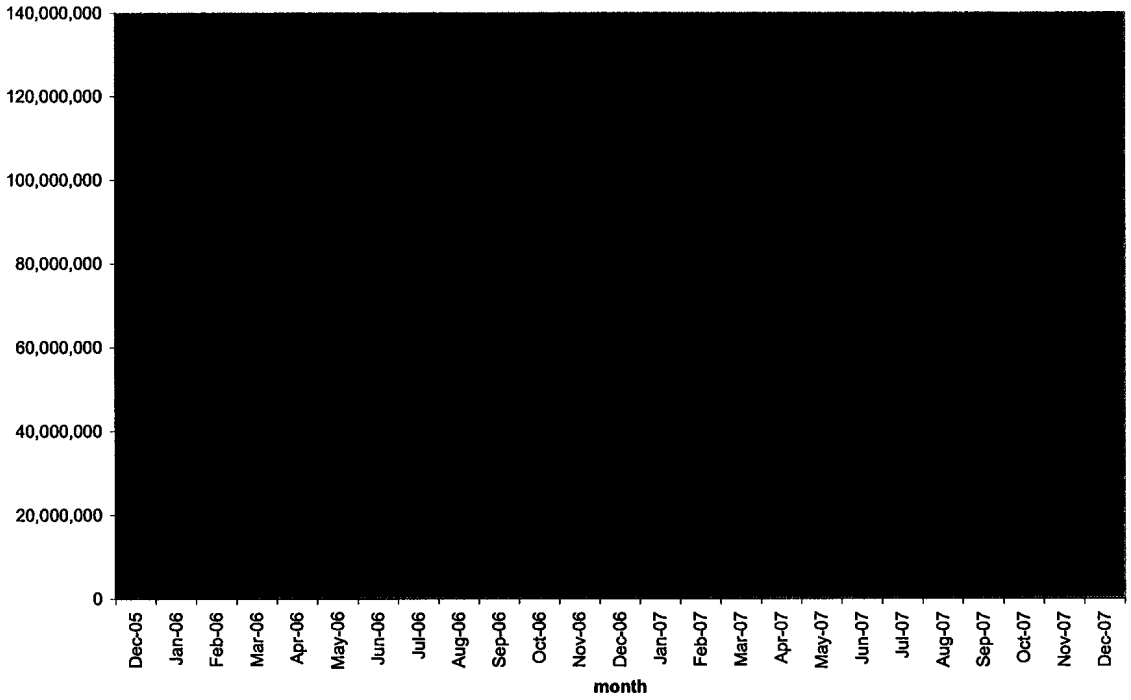
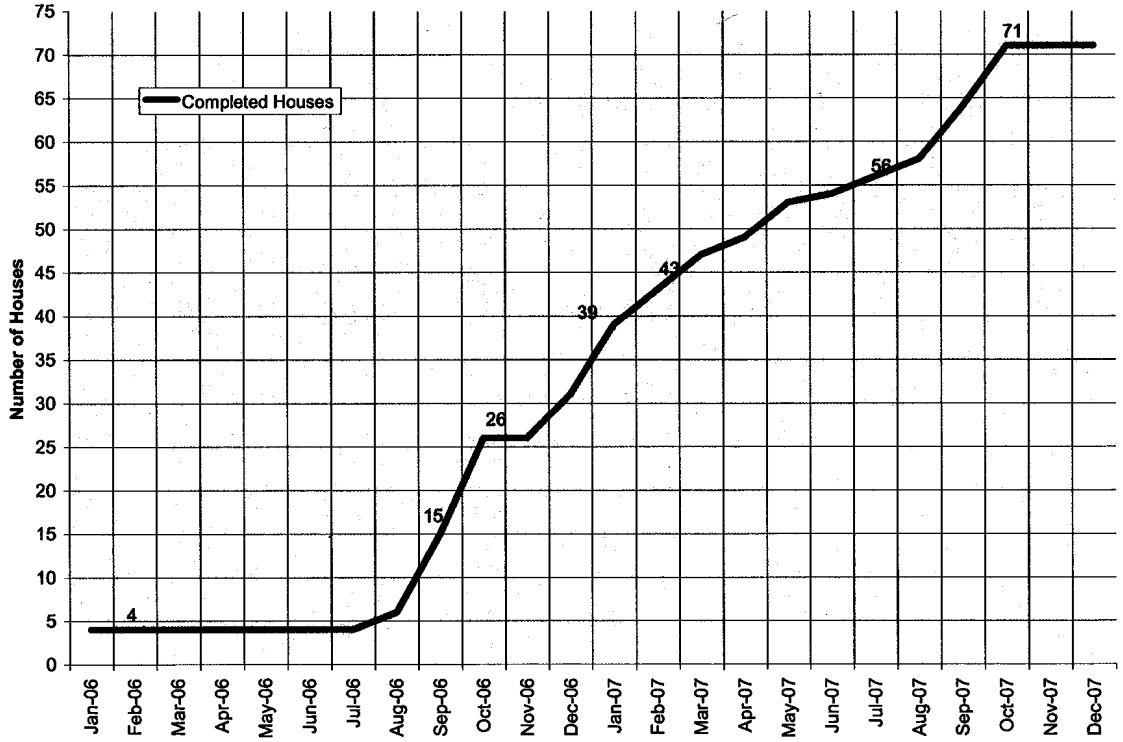
Projected LOC and Perm Funding Commitments



Completed Houses



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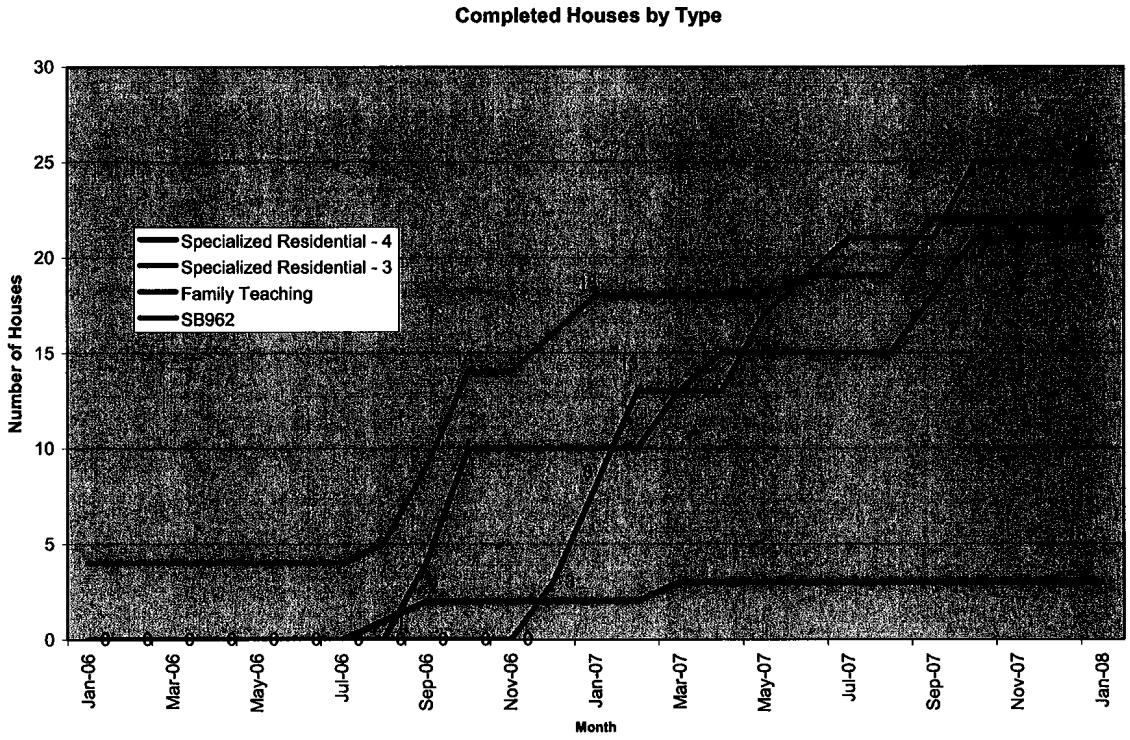
Completed Houses by Type
Specialized Residential - 4
Specialized Residential - 3
Family Teaching
SB962
Number of Houses
30
25
20
15
10
5
0
Jan-06
Mar-06
May-06
Jul-06
Sep-06
Nov-06
Jan-07
Mar-07
May-07
Jul-07
Sep-07
Nov-07
Jan-08
Month

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Acquisition and Construction by Housing Type

	Specialized Residential - 4		Specialized Residential - 3		Family Teaching Home		SB962 Home - 5		SB962 Home - 4		SB962 Home - 3	
Interest Rate 6.50%	Bldg. SF:	2,225 SF	Bldg. SF:	2,000 SF	Bldg. SF:	3,000 SF	Bldg. SF:	3,500 SF	Bldg. SF:	3,275 SF	Bldg. SF:	3,050 SF
	Site Area:	0.15 A	Site Area:	0 A	Site Area:	0.15 A	Site Area:	0 A	Site Area:	0.18 A	Site Area:	0.16 A
		6,534 SF		6,534 SF		6,534 SF		8,712 SF		7,841 SF		6,970 SF
	# of Beds:	4 EA	# of Beds:	3 EA	# of Beds:	5 EA	# of Beds:	5 EA	# of Beds:	4 EA	# of Beds:	3 EA
	# of Clients:	4 EA	# of Clients:	3 EA	# of Clients:	3 EA	# of Clients:	5 EA	# of Clients:	4 EA	# of Clients:	3 EA
	Cost/SF	Cost	Cost/SF	Cost	Cost/SF	Cost	Cost/SF	Cost	Cost/SF	Cost	Cost/SF	Cost
Construction [1] [1a]	$80.00	$178,000	$80.00	$160,000	$80.00	$240,000	$179.00	$626,500	$181.00	$592,775	$184.00	$561,200
Sitework [2]	$0.00	$0	$0.00	$0	$0.00	$0	$4.25	$37,026	$4.25	$33,323	$4.25	$29,621
Sub-Total		$178,000		$160,000		$240,000		$663,526		$626,098		$590,821
Equipment & Furnishings [3] [3a]		$0		$0		$0		$0		$0		$0
Sub-Total		$0		$0		$0		$0		$0		$0
Building Permits & Fees [4]	$2	$4,450	$2	$4,000	$2	$6,000	$9	$31,500	$9	$29,475	$9	$27,450
Other Soft Cost [5]	$7	$15,575	$7	$14,000	$7	$21,000	$25	$87,500	$25	$81,875	$25	$76,250
Land Cost/Home Purchase Price [6], [6a]		$845,347		$749,040		$936,000		$542,496		$488,247		$433,997
Property Tax [7] [7a]	8 mo.	$6,594	8 mo.	$5,843	8 mo.	$7,301	12 mo.	$6,347	12 mo.	$5,712	12 mo.	$5,078
Construction Contingency	10%	$17,800	10%	$16,000	10%	$24,000	10%	$66,353	10%	$62,610	10%	$59,082
Sub-Total		$889,766		$788,883		$994,301		$734,196		$667,919		$601,857
Loan Fee	1.25%	$13,347	1.25%	$11,861	1.25%	$15,429	1.25%	$17,472	1.25%	$16,175	1.25%	$14,908
Escrow and Title	0.3%	$2,536	0.3%	$2,247	0.3%	$2,808	0.3%	$1,627	0.3%	$1,465	0.3%	$1,302
Legal/Acct fees [8]	0.2%	$2,136	0.2%	$1,898	0.2%	$2,469	0.2%	$2,795	0.2%	$2,588	0.2%	$2,385
Interest Reserve [9]	8 mo.	$51,180	8 mo.	$45,454	8 mo.	$58,642	12 mo.	$87,095	12 mo.	$80,323	12 mo.	$73,679
Overhead & General Requirements	5.0%	$53,388	5.0%	$47,444	5.0%	$61,715	5.0%	$69,886	5.0%	$64,701	5.0%	$59,634
Development Fee	5.0%	$53,388	5.0%	$47,444	5.0%	$61,715	5.0%	$69,886	5.0%	$64,701	5.0%	$59,634
Sub-Total		$175,976		$156,349		$202,777		$248,762		$229,953		$211,542
Grand Total of Acquisition and Construction:		$1,243,741		$1,105,231		$1,437,078		$1,646,484		$1,523,970		$1,404,220
Year One Perm Debt Service Reserve [11]	11.00%	$136,812	11.00%	$121,575	11.00%	$158,079	11.00%	$181,113	11.00%	$167,637	11.00%	$154,464
	Cost/Bed:	$345,138	Cost/Bed:	$408,935	Cost/Bed:	$319,031	Cost/Bed:	$365,519	Cost/Bed:	$380,993	Cost/Bed:	$519,561
	Cost/Client	$345,138	Cost/Client	$408,935	Cost/Client:	$531,719	Cost/Client:	$365,519	Cost/Client:	$380,993	Cost/Client:	$519,561

NOTES

1 Hallmark estimate based on residential estimating data from The Building Journal for June 2005 for San Francisco, Oakland and Santa Clara areas.
2 SB962 cost of construction on SB962-3 and SB962-4 increased due to decrease in economy of scale of high cost common areas relative to square footage
3 Hallmark estimate - cost associated with SB962 model. Includes costs for building pad and utilities hookup for 3000-3500 SQ FT residence.
4 Cost approximated using current permit fee schedules from Oakland, San Francisco and San Jose. Based on approximate square footage of living space and unconditioned space.
5 Hallmark estimate includes allowance of a) Due Diligence items such as inspections and environmental assessment, and b) Architectural/Engineering fees and reimbursables. See SRH detailed construction costs listings in appendix.
6 Based on current market data reported from DataQuick Information Systems, Old Republic Title Company and Century 21. DataQuick reporting includes Alameda, Contra Costa, Marin, San Francisco, San Mateo, Monterey, San Benito, Santa Clara and Santa Cruz counties.
7 Land Cost applies to SB962 homes. Home purchase price applies to SRH and FTH
8 Calculated by taking average property tax rates of Alameda (1.20), San Mateo (1.19) and Santa Clara (1.13) counties.
9 Property tax for SRH and FTH based on 8 months construction. Property tax for SB962 based on 12 months construction.
10 Includes allowance of fees for legal representation and project management/accounting software.
11 Calculation based on payments, (8 months on SRH and FTH, 12 months for SB962) on the purchase price loan amount added to monthly cost of construction, factoring in construction ramp-up.
12 Interest rate of 6.70% estimate based on CalHFA estimates as of 12/2005; average assumes 50% taxable and 50% tax exempt bonds. 11% of TDC serves as a proxy number.

Acquisition and Construction Rollup by Housing Type

	Specialized Residential - 4		Specialized Residential - 3		Family Teaching Home		SB962 Home - 5		TOTAL		Cupertino
	Bldg. SF:	2,225 SF	Bldg. SF:	2,000 SF	Bldg. SF:	3,000 SF	Bldg. SF:	3,500 SF			
	Site Area:	0.15 A	Site Area:	0.15 A	Site Area:	0.15 A	Site Area:	0.2 A			
		6,534 SF		6,534 SF		6,534 SF		8,712 SF			
	# of Homes:	3	# of Homes:	21	# of Homes:	18	# of Homes:	25	# of Homes:	67	# of Homes: 4
	# of Beds:	4 EA	# of Beds:	3 EA	# of Beds:	5 EA	# of Beds:	5 EA	# of Beds:	290	
	# of Clients:	4 EA	# of Clients:	3 EA	# of Clients:	3 EA	# of Clients:	5 EA	# of Clients:	254	
	Cost/SF	Cost	Cost/SF	Cost	Cost/SF	Cost	Cost/SF	Cost	Total Cost	% of Total	
Construction	$80.00	$534,000	$80.00	$3,360,000	$80.00	$4,320,000	$179.00	$15,662,500	$23,876,500	25.4%	
Sitework	$0.00	$0	$0.00	$0	$0.00	$0	$4.25	$925,650	$925,650	1.0%	
Sub-Total		$534,000		$3,360,000		$4,320,000		$16,588,150	$24,802,150		
Equipment & Furnishings		$0		$0		$0		$0	$0	0.0%	
Sub-Total		$0		$0		$0		$0	$0	0.0%	
Building Permits & Fees	$2	$13,350	$2	$84,000	$2	$108,000	$9	$787,500	$992,850	1.1%	
Other Soft Cost	$7	$46,725	$7	$294,000	$7	$378,000	$25	$2,187,500	$2,906,225	3.1%	
Land Cost/Home Purchase Price		$2,536,041		$15,729,840		$16,848,000		$13,562,406	$48,676,287	51.8%	
Property Tax	8 mo.	$19,781	8 mo.	$122,693	8 mo.	$131,414	12 mo.	$158,680	$432,568	0.5%	
Construction Contingency	10%	$53,400	10%	$336,000	10%	$432,000	10%	$1,658,815	$2,480,215	2.6%	
Sub-Total		$2,669,297		$16,566,533		$17,897,414		$18,354,901	$55,488,145		
Loan Fee	1.25%	$40,041	1.25%	$249,082	1.25%	$277,718	1.25%	$436,788	$1,003,629	1.1%	
Escrow and Title	0.3%	$7,608	0.3%	$47,190	0.3%	$50,544	0.3%	$40,687	$146,029	0.2%	
Legal/Acct fees	0.2%	$6,407	0.2%	$39,853	0.2%	$44,435	0.2%	$69,886	$160,581	0.2%	
Interest Reserve	8 mo.	$153,541	8 mo.	$954,542	8 mo.	$1,055,557	12 mo.	$2,177,375	$4,341,015	4.6%	
Overhead and Gen. Requirements	5.0%	$160,165	5.0%	$996,327	5.0%	$1,110,871	5.0%	$1,747,153	$4,014,515	4.3%	
Development Fee	5.0%	$160,165	5.0%	$996,327	5.0%	$1,110,871	5.0%	$1,747,153	$4,014,515	4.3%	
Sub-Total		$527,927		$3,283,320		$3,649,995		$6,219,042	$13,680,283		
Total of A&C by model:		**$3,731,224**		**$23,209,852**		**$25,867,409**		**$41,162,093**	**$93,970,578**	**100%**	0
****Grand Total of A & C for all models:**		**$93,970,578**									
****Year One Perm Debt Reserve**	11%	**$10,336,764**									
Cost Overrun Cushion	10%	**$9,397,058**									
*****Cupertino Duplexes**		**$5,124,598**									
Additional Year One Debt Reserve	11%	**$563,706**									
Permanent Financing Total		**$119,392,704**									

**Debt reserve to be funded at perm loan conversion, and shall not count against the Bank of America Line of Credit
*** 4 FTH previously remodeled in Cupertino financed by LCD and Heritage Bank. CalHFA permanent financing of $5,124,598

Acquisition and Construction Rollup by Housing Model - PHASE I ONLY

	Specialized Residential - 4		Specialized Residential - 3		Family Teaching Home		SB962 Home - 5		TOTAL	
	Bldg. SF:	2,225 SF	Bldg. SF:	2,000 SF	Bldg. SF:	3,000 SF	Bldg. SF:	3,500 SF		
	Site Area:	0.15 A	Site Area:	0.15 A	Site Area:	0.15 A	Site Area:	0.2 A		
		6,534 SF		6,534 SF		6,534 SF		8,712 SF		
	# of Homes:	2	# of Homes:	10	# of Homes:	10	# of Homes:	13	# of Homes:	35
	# of Beds:	4 EA	# of Beds:	3 EA	# of Beds:	5 EA	# of Beds:	5 EA	# of Beds:	153
	# of Clients:	4 EA	# of Clients:	3 EA	# of Clients:	3 EA	# of Clients:	5 EA	# of Clients:	133
	Cost/SF	Cost	Cost/SF	Cost	Cost/SF	Cost	Cost/SF	Cost	Total Cost	% of Total
Construction	$80.00	$356,000	$80.00	$1,600,000	$80.00	$4,320,000	$179.00	$15,662,500	$21,938,500	36.5%
Sitework	$0.00	$0	$0.00	$0	$0.00	$0	$4.25	$925,650	$925,650	1.5%
Sub-Total		$356,000		$1,600,000		$4,320,000		$16,588,150	$22,864,150	
Equipment & Furnishings		$0		$0		$0		$0	$0	0.0%
Sub-Total		$0		$0		$0		$0	$0	0.0%
Building Permits & Fees	$2	$8,900	$2	$40,000	$2	$60,000	$9	$409,500	$518,400	0.9%
Other Soft Cost	$7	$31,150	$7	$140,000	$7	$210,000	$25	$1,137,500	$1,518,650	2.5%
Land Cost/Home Purchase Price		$1,690,694		$7,490,400		$9,360,000		$7,052,451	$25,593,545	42.5%
Property Tax	8 mo.	$13,187	8 mo.	$58,425	8 mo.	$73,008	12 mo.	$82,514	$227,134	0.4%
Construction Contingency	10%	$35,600	10%	$160,000	10%	$432,000	10%	$1,658,815	$2,286,415	3.8%
Sub-Total		$1,779,531		$7,888,825		$10,135,008		$10,340,780	$30,144,144	
Loan Fee	1.25%	$26,694	1.25%	$118,610	1.25%	$154,288	1.25%	$227,130	$526,722	0.9%
Escrow and Title	0.3%	$5,072	0.3%	$22,471	0.3%	$28,080	0.3%	$21,157	$76,781	0.1%
Legal/Acct fees	0.2%	$4,271	0.2%	$18,978	0.2%	$24,686	0.2%	$36,341	$84,276	0.1%
Interest Reserve	8 mo.	$102,361	8 mo.	$454,544	8 mo.	$586,420	12 mo.	$1,132,235	$2,275,560	3.8%
Overhead and Gen. Requirements	5.0%	$106,777	5.0%	$474,441	5.0%	$617,150	5.0%	$908,519	$2,106,888	3.5%
Development Fee	5.0%	$106,777	5.0%	$474,441	5.0%	$617,150	5.0%	$908,519	$2,106,888	3.5%
Sub-Total		$351,951		$1,563,485		$2,027,775		$3,233,902	$7,177,113	
A&C by model:		**$2,487,483**		**$11,052,311**		**$16,482,783**		**$30,162,832**	**$60,185,408**	**100%**
Total of A & C for Phase I		**$60,185,408**								
***Year One Perm Debt Reserve for Phase I**	11%	**$6,620,395**								
Cost Overrun Cushion for Phase I	10%	**$6,018,541**								
Cupertino Duplexes		**$5,124,598**								
****Year One Perm Debt Reserve**	11%	**$563,706**								
Permanent Financing Total for Phase I		**$78,512,647**								

*Debt reserve to be funded at perm loan conversion, and shall not count against the Bank of America Line of Credit. 11% of A&C Costs is used as a proxy.
**No cost overrun cushion required for Cupertino Duplexes since they are completed projects.

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CALIFORNIA HOUSING FINANCE AGENCY
Final Commitment
Bay Area Housing Plan
CalHFA #'s TBD

SUMMARY

This is a final commitment request for $20,000,000, and a preliminary request for approval of an additional $80,000,000 in permanent financing under the Bay Area Housing Plan (BAHP). Security for the loans will be annual lease payments authorized by the Regional Centers. The lease payments will be funded by the State Legislature through annual appropriations. Approximately 65 to 78 single family homes will be modified for use by developmentally disabled adults.

The BAHP is part of the closure plan for the Agnews Developmental Center. It involves acquiring and rehabilitating, or new construction of, between 65 and 78 individual homes in the San Francisco Bay Area to house an estimated 264 individuals with severe developmental disabilities who currently reside in Agnews. Each home will house between three and five individuals plus full-time service staff.

The properties will be owned initially by the Hallmark Community Services Group, a not-for-profit corporation. Ownership will be transferred at permanent financing to one of three non-profit housing organizations (referenced as an NPO). Each Regional Center has designated and approved an NPO to be the ultimate owner of the homes that are located in its catchment area.

The basic financial structure of the BAHP is a lease/purchase/conveyance model where the ultimate property owner is one of the three NPOs, which in turn, leases the property to a selected Service Provider. The Regional Centers are responsible for funding all necessary housing and service costs under the lease, the funding of which is included in an annual legislative appropriation.

LOAN TERMS

Permanent

Total First Mortgages	$ 20,000,000
Interest Rate	150 basis points above the Agency's cost of funds
Term	15 year fixed, fully amortized
Financing	Tax-exempt and Taxable fixed rate bonds

Total Preliminary Commitments

First Mortgage	$ 80,000,000
Interest Rate	150 basis points above the Agency's cost of funds
Term	15 year fixed, fully amortized
Financing	Tax-exempt and Taxable fixed rate bonds

This final commitment gives staff authority to enter into a series of loan commitments on properties up to an aggregate amount of $20,000,000.

STRUCUTURE OF THE BAY AREA HOUSING PLAN

Under the Bay Area Housing Plan, Hallmark Community Services will be retained by the San Andreas Regional Center, the Regional Center of the East Bay, and the Golden Gate Regional Center (the Regional Centers) to develop approximately 65 to 78 houses. The Regional Centers are private non-profit corporations which are 100 percent funded through State appropriations. Operating under a development agreement, Hallmark will arrange the financing, complete the due diligence, acquire the properties, hire the contractors, oversee the rehabilitation or new construction process, and arrange the permanent financing.

The Regional Centers, operating through a steering committee composed of the directors of the three Regional Centers, will approve the purchase of a property and a development budget. Immediately upon Hallmark obtaining short-term financing, Hallmark will purchase the property and sign a Long-Term Residency Lease Agreement (Lease Agreement) with individual service providers for each housing unit. The initial Service Provider may be a place-holder non-profit organization that will stay in the project until permanent financing, at which time the lease will be assigned to the active Service Provider.

The Service Providers will be individuals or organizations with the capabilities of providing 24-hour care for individuals with developmental disabilities. The Service Providers will be the named Tenants in the Lease Agreements, which are intended to be effective for 18 months past the term of the Agency's permanent financing. Service Providers will pay rent through contracts between the Service Provider and the applicable Regional Center. The Regional Center, in turn, obtains its funding through an annual contract with the Department of Developmental Services (DDS), subject to appropriation by the Legislature in the annual Budget Act.

DDS will provide $11.11 million for predevelopment financing and a commercial lender will provide acquisition and construction financing. Once the housing is available for occupancy, Hallmark will obtain permanent financing from the California Housing Finance Agency. It is expected that one-half of the permanent financing will be tax-exempt bond financing, and the remainder will be taxable. The type of financing will be dependent upon the non-profit status of the Service Provider.

At the time the permanent financing is placed on the property, Hallmark will transfer title to the housing and responsibilities as Landlord under the Lease Agreement, and the obligations as borrower for the long-term financing, to one of three NPOs. The NPO for the Regional Center of the East Bay is the Housing Consortium of the East Bay; the NPO for the Golden Gate Regional Center is West Bay Housing Corporation; and the NPO for the San Andreas Regional Center is the Bay Area Housing Corporation.

The housing portion of the lease payment will be assigned by the Lessee and the Landlord to the Agency but the Agency will receive its payment directly from the appropriate Regional Center until the maturity of the Agency loan. The rental portion of the lease payment will be adjusted to finance 100% of the cost of the property. Taxes and insurance will be escrowed by the Agency, but the replacement reserves will be held by the NPO subject to a control-agreement with the Agency. The Service Providers, as Tenant, will receive the remainder of the

lease payment to pay for the maintenance of the property, staffing, and the services required by the residents.

The Regional Centers will be a third-party beneficiary to the Lease Agreements, as will the Agency. The Regional Centers will sign a separate Lease Assurance Agreement for the benefit of the Landlord (NPO) and Tenant (Service Provider), which provides that the Regional Centers will be "jointly and severally liable with the Tenant for the performance of each and every provision of the Lease." This Lease Assurance Agreement will be assigned to the Agency. The Agency will enter into additional guarantee agreements with the Regional Centers, as well as a Memorandum of Understanding (MOU) with DDS, which agreements will detail the understandings between the parties and their respective obligations.

BAHP FUNDING SOURCES

Predevelopment Funding

DDS has requested appropriation of $11.11 million dollars in predevelopment funding for the project. These funds will be available for costs associated with due diligence involved in the purchase of the properties and for earnest money deposits. These funds will be controlled by a steering committee made up of the directors of the three Regional Centers, and may be assigned to the Construction lender. These funds are not available as a permanent source.

Construction Funding

Bank of America has tentatively agreed to act as the lender for the acquisition and construction phase of the BAHP and is structuring a revolving line of credit of sufficient size to accommodate the plan. Bank of America would make loans on the individual houses, contingent upon a take out commitment from the Agency subject to the following;

The construction loan and predevelopment funds will be retired by the permanent financing.

Start Up Lease Payments and Other Regional Center Funding

The Regional Centers will make lease payments available to pay certain expenses during the acquisition period under the lease. Up to 10% of the cost of the project may be covered by the lease payments during start-up. The Regional Centers will utilize other available funds to provide construction guarantees and project equity if required by the construction lender and the Agency.

Permanent Financing

The Agency will make the permanent loans, which will be secured by a deed of trust on the individual properties with debt service paid from the lease payments from the Regional Centers. The Regional Center "Use restrictions" will be subordinate to the Agency deed of trust, and will require a concurrence from DDS which has statutory rights under AB 2100 to approve all transfers of the property (Welfare and Institutions Code Sec. 4688.6).

The interest rate for the loans will be set at the time of permanent financing, and subject to existing market conditions. The Agency is currently contemplating a 15-year fixed rate plan of finance to fund the permanent loans.

The financing plan contemplates Lease Assurance Agreements which will be executed by the Regional Centers for the benefit of the Agency. The Regional Centers are funded by annual appropriations by the Legislature to DDS for the Regional Centers' budget, which will include the lease costs. The financing plan also contemplates that the homes would receive interim permanent funding by the Agency on a monthly or bi-monthly basis. Interim permanent funding by the Agency would be through its warehouse credit facilities. Final funding would be accomplished through two or three large bond financings of $30 to $50 million in size.

Security for the Permanent Loans / Exit Strategy

The Agency has consented to the State's requirement that the State and DDS have no liability for any funding of the BAHP obligations beyond annual appropriations, as articulated in Section 1.5 of the Housing Development Agreement and elsewhere in the Bay Area Housing Plan documents. One result of the State's requirement that it have no liability for funding is that in the event of a failure of the State to make annual appropriations for the project, the only remedy available to the Agency will be foreclosing its loans against the real estate. In the event of a foreclosure, the State, DDS, the Regional Centers and all other parties have recognized that while displacing developmentally disabled persons from community housing will be unpleasant and unpopular, the Agency's fiduciary and contractual obligations require that it take such action.

In addition to taking the annual appropriation risk, the Agency will also be making loans which may exceed the 100% of the value of the property for some period of time after permanent funding.

If the lease payments cease, the Agency has designed an exit strategy to retire its underlying bonds.

The following will be required:

- A deed of trust and a regulatory agreement recorded on each property.
- A subordination agreement recorded on each property subordinating the Regional Center's regulatory agreement and use restrictions, which agreement will be assented to by DDS.
- Cross default provisions in the deeds of trust.
- Control of the escrowed taxes and insurance.
- A reserve equal to one year's debt service. This reserve is intended to provide a financial cushion to allow the Agency to continue to service our bonds in the event of a default and subsequent foreclosure.
- An agreement with DDS and the Regional Centers that in the event of a default the Agency will provide a one month cure period, after which it will file a pre-notice of Default.
- An agreement with the Regional Centers that they provide alternate placements for the residents within three months of a pre-notice of default to allow the Agency time to acquire/foreclose on the properties and arrange for the sale of the properties.
- An agreement with the Regional Centers that in the event of a default and foreclosure, they are financially responsible for the cost of converting the properties

from specialized facilities to homes appropriate for sale to the general public. This includes but is not limited removing specialized medical equipment, specially designed bathrooms, ramps, and special hardening features, and making required repairs.

- An assignment of the Regional Center Lease Guarantees, and other guarantees as required by the Agency.
- An agreement with the Regional Centers that payment of this obligation will be first priority of legally available funds.
- An agreement with DDS that they will place this obligation in their budget request to the Legislature every year for the term of the Agency loans.

LEGISLATIVE BACKGROUND

Agnews Developmental Center (Agnews) is a medical facility which was built to handle a large population of severely developmentally disabled people who need acute, skilled and intermediate levels of care. The facility is subject to codes and standards typical for California medical facilities. Agnews has serious fire, accessibility and life safety deficiencies. It is also seismically unsafe. Code deficiency waivers for the building ended in 1998. The estimated cost of replacement of the facility was $196,900,000 in 1998. The average cost of housing a resident in the facility is $311,188 per year, of which approximately $44,000 can be attributed to the cost of maintaining the facility. Between forty and sixty percent of the costs are paid by Medicare and /or Medicaid in any given year, depending on the number of persons who are Medicaid and Medicare eligible (currently 85%).

It is anticipated that 100% of the total cost of housing and services for the Bay Area Housing Program will be covered under an existing Center for Medicare and Medicaid Services (CMS) waiver, "Home and Community-Based Services Waiver for the Developmentally Disabled", (Waiver). Under the Waiver, 50% of the costs are borne by the State (DDS) with the federal government (CMS) providing reimbursement for the remaining 50% of costs. While the reimbursement is important to the BAHP, the Agency will rely ultimately on the annual appropriated lease payments to debt service our loans.

There have been significant changes in care delivery for the developmentally disabled since Agnews was constructed with the result that an institutional setting like Agnews is no longer viewed as an adequate care delivery model for most individuals. Over the years, few residents have been placed at Agnews, and it currently houses only 314 residents.

In 1999, the United States Supreme Court in the Olmstead decision mandated to the extent possible that persons living in institutionalized settings be moved to community placements. The Olmstead decision was followed by a federal district court decision (Sanchez) which identified the DDS community placement plan (which is the model for the BAHP) as an effectively working Olmstead plan.

In 2003-04, the California's Department of Developmental Services (DDS) developed a plan to close Agnews, located in Santa Clara County, by June of 2007. Approximately 50 of the current residents can be moved to other facilities funded by the Regional Centers but new facilities are needed for 264 residents. Current best practice replacement facilities are small homes for 3 to 5 residents in community settings.

To facilitate the closure of Agnews, the California Legislature, through the passage of Assembly Bill 2100, on September 28, 2004, allowed DDS to approve one or more proposals from three Regional Centers (Golden Gate Regional Center, Regional Center of the East Bay, and San Andreas Regional Center) to "provide for, secure and assure the payment of a lease or leases on housing" for a multiyear basis. The service rate would pay for both the housing and the service costs (daily rate) for individuals with developmental disabilities eligible for services from the Regional Centers.

On January 10, 2005, DDS submitted "The Plan for the Closure of Agnews Developmental Center" to the Legislature for approval (Agnews Closure Plan) as part of the State budget. The Agnews Closure Plan was approved through the budget process, and included the concept for the Bay Area housing process. As part of the budget process the Legislature appropriated to DDS $11,115,000.00 for the purpose of facilitating the development of community based living options for current residents of Agnew. The release of these funds required review of the Plan by the Department of Finance, a positive opinion letter from the Attorney General's Office, and approval by the Governor's office, all of which have been received. Still required is review and approval of the housing plan and the expenditure plan by the Joint Legislative Budget Committee (JLBC). Both of these will be submitted to the JLBC in August 2005. Approval on both of these items is expected to take 60 days.

DESCRIPTION OF THE ENTITLEMENT

Under the Lanterman Developmental Disabilities Services Act, the State has a responsibility for persons with developmental disabilities and an obligation to them to provide "an array of services and supports....which is sufficiently complete to meet the needs and choices of each person with developmental disabilities, regardless of age or degree of disability, at each stage of life and to support their integration into the mainstream of life in the community". The Lanterman Act has been interpreted in a series of court decisions as an entitlement service, the most important decision of which was a California Supreme Court ruling on March 21, 1985 in the case of ARC vs. DDS. The State implements many of its responsibilities under the Lanterman Act through contracts with a network of 21 Regional Centers, all of which are private non-profit corporations. DDS's budget and the contracts with the Regional Centers are subject to appropriations. DDS's current budget is $3.7 billion dollars of which $2.93 billion is distributed to the Regional Centers, $708.5 million to the developmental centers, and $38.5 million for headquarters support. The Regional Centers budget has steadily grown over the years from $600,000 at passage to their current budget of $2.93 billion dollars.

HOME AND COMMUNITY-BASED SERVICES WAIVER

DDS anticipates receiving federal reimbursement for up to 50% of the cost of community placement and services for Medicaid-eligible residents by the under an existing Home and Community-Based and Services Waiver.

The current five-year Waiver, which expires in 2007, has an enrollment cap that increases by 5,000 slots each federal fiscal year to a maximum of 70,000 enrollees in year five. DDS manages the cap by allocating slots to the Regional Centers each fiscal year using an algorithm that identifies the number of potentially Waiver-eligible consumers at each regional center.

All service types anticipated in the BAHP are included in the current Waiver and as such are "allowable" Waiver services. The State is effectively billing for the costs of similar services for Regional Center consumers currently residing in the community. The DDS does not anticipate that Medicaid will require an amendment to the current Waiver.

Should the Centers for Medicaid and Medicare Services determine that the residential (Agency debt) component of the service fee is ineligible, the State would not receive federal reimbursement for the lease component under the BAHP. In the past, at least two instances occurred where the DDS was no longer able to bill for previously approved waiver services: 1) when a Regional Center was decertified, and 2) when a federal audit of California's Developmental Services Waiver program resulted in the reduction of federal reimbursements. In both instances, the Legislature approved the continuation of those services through the use of State General Funds.

To participate in the Waiver, Federal law requires states to demonstrate that, in the aggregate, the cost of providing services in the community is less than or equal to the cost of providing services in an institution. California fulfills this requirement in its annual filing of form CMS 372 with CMS. Cost neutrality for the CMS 372 is calculated as follows: Information is pulled from DDS and Department of Health Services (DHS) databases. The data includes costs for all services provided to consumers under the Waiver in accordance with their individual plans of care. Data for determining the average per capita cost of institutionalization and the number of persons living in such facilities is drawn from the DDS and DHS databases on institutional living, including costs of intermediate care facilities and the State Developmental Centers.

It is important to note that, on an individual basis, CMS allows the State to enroll persons whose annual cost of services exceeds the average cost of institutionalization as long as the *aggregate average* costs of living in the community do not exceed the *aggregate average* costs of living in an institution. In the most recent CMS 372 report for the federal fiscal year ended September 30, 2004, the State of California demonstrated the cost neutrality of its HCBS Waiver showing the average cost of maintaining a person in the community was approximately $30,901 per year, substantially less than the average cost of maintaining persons in an institutional setting, thereby ensuring the State's compliance with the cost neutrality requirement.

Only 23% of California's total spending for the developmentally disabled is funded by the Waiver. This compares favorably to other states which fund as much as 80% of their total developmentally disabled budget from similar waivers California's aggregate average cost per recipient was only 50% of the national aggregate average cost in 2002, the last year for which data is available. Because of this lower utilization, California ranks 41st out of 51 states and the District of Columbia in terms of waiver spending per disabled resident. California has the lowest utilization of any of the high population states.

The cost of maintaining current Agnews residents in the developmental center is $311,188 per person. While two of the three service models in the Bay Area Plan are new and actual costs are not available, it is anticipated that the cost of maintaining someone in the most service intensive of the three service models, the SB 962 home for people with enduring medical needs, will be only $250,000. A very preliminary estimate for the Family Teaching Model is $160,000, and the preliminary estimate for the Specialized Residential Facilities is $110,000 Similarly, the housing portion of the Agnews cost is currently at $44,000, without debt service. The anticipated housing cost in the BAHP is anticipated to be $49,810/year including debt service.

LICENSING

The DSS has statutory authority for the licensing of two of the three housing types. The Family Teaching Model received statutory approval in 2004 as part of the passage of AB 2100. By statute, these will not be licensed facilities. Instead the Regional Centers are authorized to contract with operators who have the ability to meet statutory and regulatory requirements. The Specialized Residential Facilities will be licensed as community care facilities through DSS under an existing licensing category. There is pending legislation to allow the SB 962 homes, to be licensed by DSS as Adult Residential Facilities for persons with Special Health Care Needs for to up to five adults with developmental disabilities who have special health care and intensive support needs. SB 962 will be heard in the Assembly Finance Committee during this legislative session, action on the bill is expected within 60 days. The bill is sponsored by the Administration, has broad support, no opponents, and is expected to be enacted in this legislative session.

HOUSING TYPES

SB 962 Homes. There will be 24 to 30 homes for a total of 120 residents with stable but chronic medical challenges or personal care needs. The homes will house three to five residents each and have space for round-the-clock nursing staff. Typically there will be one person per bedroom and a minimum of two baths per house. The houses will be between 2,000 and 3,500 square feet. All of the homes will require specialized medical features. Typically these homes will involve new construction but in some instances will be acquisition with substantial rehabilitation. They will be licensed through the DSS and will require 24-hour skilled nursing care. The licensing category is not new (it is currently a DHS licensure category) but the rules around staffing are new and are currently before the Legislature.

The Family Teaching Model There will be 20 homes built to accommodate 60 moderately to severely developmentally disabled residents who may have moderate behavioral challenges. These homes will be duplexes to accommodate an apartment for a teaching couple who will live on the premises. Each resident will have his or her own bedroom, and there will be two bedrooms for staff. The homes will be universally designed and will be hardened to withstand behavioral challenges. These facilities will not be licensed but will be regulated by DDS.

The Specialized Residential Facilities. There will be 21 to 28 homes acquired and rehabilitated for individuals with serious behavioral challenges. These homes will have three to four residents. They will be operated by staff but staff will not live in the home. They will have a minimum of one bedroom per person and two baths per home. These facilities will require special hardening. Hardening includes installing Plexiglas instead of glass in windows; strengthening doors and door hardware, strengthening walls, and providing more secure installation of bathroom and kitchen fixtures. The Specialized Residential Facilities will be licensed through the DSS under an existing license category.

Improvements

- All of the buildings will be single family homes, which will be modified for the developmentally disabled. All houses will have universal design features. Some will require special medical features, and some will require special hardening for the developmentally disabled.

- All will have normal single family home amenities in terms of furnishing, landscaping and parking.
- Twenty of the homes will be duplexes. All of the homes will have one bedroom per resident and at least two baths.

Project Location

- The 65-78 residential homes will be located in the catchment areas of the Golden Gate Regional Center, The Regional Center of the East Bay, and the San Andreas Regional Center
- They will be located in safe, residential communities with proximity to parks, schools, shopping, hospitals, grocery stores, transportation and community centers.

OCCUPANCY RESTRICTIONS

CalHFA	20% of the units will be restricted at 50% or less of AMI.
Regional Centers	100% of the units will be restricted to persons with developmental disabilities.
	100% of the units will be restricted to persons with incomes of 80% of AMI (or less as required for the welfare tax exemption).

DEVELOPMENT TEAM

Developer: Hallmark Group/Hallmark Community Services

Formed in 2001, the Hallmark Group is part of a family of professional businesses that provide organizational leadership, strategic planning, and capital program management for owners. The principals of Hallmark have considerable prior experience in residential building and development, including land acquisition, permitting, agency approvals, and the management of large multi-facility programs. The staff of 20 includes design and construction management professionals. In addition to providing services to clients for quality assurance, managed cost and on-time delivery of their projects, Hallmark is known for its creative approach to solving complex problems. The company specializes in public-private partnerships.

The Hallmark Group was awarded the project management contract for the entitlement process on the 1,100-acre campus by the KT Company. The Hallmark Group is currently the project management/owner's representative for the University of California Merced campus. Hallmark's duties include management of the $400,000,000 program budget, maintaining the master schedule, oversight and selection of contractors and consultants, and bidding of all projects. The projects include construction of a 600-student housing complex, the central plant, the library building, the science and engineering building, a classroom and office building, a dining facility, and all related infrastructure required to support the campus. Hallmark has developed a move-in plan and schedule to sequence the tasks and services required for the successful opening of the campus. Included in that plan is coordination for the furniture and equipment installation necessary to house and educate 1000 students on opening day.

The co-founders of the Hallmark Group are heavily involved in local and national efforts to address the issues of autism. Hallmark constructed the nation's first school designed to respond to the unique learning needs of children with autism, the A.B.C. School. They have been instrumental in establishing education and treatment programs relating to autism including the Land Park Academy, Capital Autism Services and the Listening Clinic.

Charles Gardner, Executive Officer: Chuck Gardner is Chief Executive Officer of Gardner Contractors, Inc. Founded in 1992, Gardner Contractors handled both residential and commercial construction projects. In 2001 Mr. Gardner co-founded The Hallmark Group. In 2003, he founded Hallmark Community Services, a non-profit corporation to provide education, community services, and housing opportunities for people with developmental disabilities. Mr. Gardner serves on the Board of Directors for Hallmark Community Services.

Mr. Gardner has a child with autism and has a personal interest in helping the developmentally disabled. In 1998 Mr. Gardner assembled a team of university administrators and scientists who wrote the business plan for The MIND Institute, to help the State deal with the current autism epidemic in young children. The result was a $28 million one-time appropriation from the State of California and over $9 million in annual on going funds to develop The MIND Institute on the UC Davis Campus. To date, The MIND Institute has raised approximately $100 million.

NON – PROFIT OWNERS (NPO)

Bay Area Housing Corporation (BAHC)
BAHC is a nonprofit organization that was created by the San Andreas Regional Center, the Regional Center of the East Bay, and Golden Gate Regional Center, to facilitate the development of a housing plan to transition residents of Agnews Developmental Center into the community. In the summer of 2003, BAHC signed a contract with the Regional Center Directors to coordinate the development of a housing plan for the Bay Area Project. Together with the Hallmark Group, they have developed 4 duplexes which are the prototype for the Family Teaching Model in the Bay Area Housing Plan

Kris McCann, who serves as the Executive Director of BAHC, has worked in creating homes for people with developmental disabilities for the past eight years. Kris facilitated the Housing Work Group that gave input to the 2005 Agnews' Closure Plan. She was also a principal of Housing Choices Coalition, which helped developed the 15-unit Life Services Alternatives housing development that was financed by the Agency in 2004. That project serves adults with developmental disabilities who have enduring medical needs.

West Bay Housing Corporation (WBHC)
WBHC was established in March, 2004 by combining three distinct housing organizations that served the Golden Gate Regional Center clients. They have a staff of four full-time employees. The Executive Director, Vera Ciammetti, has eight years experience in affordable housing management, financing, new construction and rehabilitation and twenty years experience in management of disabled housing programs.

Housing Consortium of the East Bay (HCEB)
HCEB was established in 1996. They have managed 70 plus set-aside units for owners which house 100 persons with developmental disabilities. They provide a housing clearing house for persons with developmental disabilities, and have assisted 300 developmentally disabled

persons obtained Section 8 vouchers. They assist developmentally disabled persons and their families to purchase homes through the Home Choice mortgage loan program offered by Fannie Mae and CalHFA.

They are developing an 11-unit apartment building in Fremont through the HUD 811 program, with the assistance of a CalHFA construction loan. They are also under contract with the RCEB to assist in planning for optimal housing solutions for residents leaving Agnews Developmental Center.

Management Agent

- Hallmark Community Services will manage the properties from acquisition to permanent financing for which they will receive a management fee.

- The three NPOs will manage the properties in their respective target areas from permanent financing until the maturity of the Agency's loans. Their management will be limited to oversight of the asset, and handling major repairs. The day-to-day management of the properties will be the responsibility of the lessees. All operating costs and replacement costs will be ultimately paid for by the Regional Centers.

Contractor

- Hallmark will be responsible for hiring contractors to construct the residences and/or rehabilitate the homes.

PROJECT SUMMARY PROJECT NUMBER: TBD

Final Commitment

Project:	**Bay Area Housing Project**		
Location:	65 to 78 Locations	***Developer:***	**Hallmark Community Services**
Cities:	Various	***Borrowers:***	Hallmark Community Services
Counties:	Alameda		Bay Area Housing Corporation
	Contra Costa		West Bay Housing Corporation
	Marin		Housing Consortium of the East Bay
	Monterey	**Regional Centers:**	San Andreas Regional Center
	San Benito		Golden Gate Regional Center
	Santa Clara		Regional Center of the East Bay
	Santa Cruz		
	San Mateo		
	San Francisco		

Project Type:	New Construction & Acquisition/Rehab	*No. of Buildings:*	65-78	
Occupancy:	Family/Special Needs/Developmentally Disabled	*No. of Stories:*	1	
Total Units:	264	*Residential Space:*	2000 to 3500	sq. ft.
Style Units:	Rooms in single family homes	*Office Space*	NA	sq. ft.
Elevators:	NA	*Commercial Space*	NA	sq. ft.
Total Parking	NA	*Gross Area*	NA	sq. ft.
Covered	NA	*Land Area*	NA	sq. ft.
		Units per acre	NA	

Permanent Commitment - Sources of Funds	Amount	Rate	Years
CalHFA First Mortgage	**$20,000,000**	**TBD**	**15**
Regional Center Initial Lease Payments & Start Up Funds	TBD		

Initial Commitment - Sources of Funds	Amount	Rate	Years
CalHFA First Mortgage	**$80,000,000**	**TBD**	**15**
Regional Center Initial Lease Payments & Start Up Funds	TBD		

CalHFA Fees and Reserve Requirements

Required Fees and Reserves	Amount
CalHFA Permanent Loan Fee 1%	$ 200,000
Estimated Debt Service Reserve	$ 2,039,461
One year Debt Service on $20,000,000 Loan	
50% taxable and 50% tax-exempt rates	

Required Reserves	Amount
Replacement Reserve	$960-cash at perm
	RR will be held by owner
CalHFA Operating Expense Reserve	NA
Rent Up Reserve	NA
Other Reserve	NA

Date: 8/23/2005 **Senior Staff Date:** 8/23/2005

Acquisition and Construction Summary

Projected Acquisition & Construction Totals By Housing Type											
	Number of clients	Number of Homes	Cost Per Home	FY 2005-2006	Number of clients	Number of Homes	Cost Per Home	FY 2006-2007	Total Clients	Total Homes	Total Cost
SB962 Home - 5 clients per home	14	3	$1,661,008	$4,650,821	106	21	$1,661,008	$34,881,160	120	24	$39,531,981
Family Teaching Home - 3 clients per home	18	6	$1,440,285	$8,641,708	42	14	$1,440,285	$20,163,986	60	20	$28,805,695
Specialized Residential 3 clients per home	37	12	$1,107,620	$13,291,446	47	16	$1,107,620	$17,721,928	84	28	$31,013,374
Totals by Fiscal Year	69	21		$21,933,154	195	51		$72,767,074	264	72	$99,351,050

Acquisition and Construction

	Specialized Residential - 4		Specialized Residential - 3		Family Teaching Home		SB962 Home - 5		SB962 Home - 4	
Building/Sq Ft	Bldg. SF:	2,225 SF	Bldg. SF:	2,000 SF	Bldg. SF:	3,000 SF	Bldg. SF:	3,500 SF	Bldg. SF:	3,275 SF
Site Area/Acres	Site Area:	0.15 A	Site Area:	0.15 A	Site Area:	0.15 A	Site Area:	0.2 A	Site Area:	0.18 A
Site Area/Sq Ft		6,534 SF		6,534 SF		6,534 SF		8,712 SF		7,841 SF
Number of Beds	# of Beds:	4 EA	# of Beds:	3 EA	# of Beds:	5 EA	# of Beds:	5 EA	# of Beds:	4 EA
Number of Clients	# of Clients:	4 EA	# of Clients:	3 EA	# of Clients:	3 EA	# of Clients:	5 EA	# of Clients:	4 EA
	Cost/SF	Cost	Cost/SF	Cost	Cost/SF	Cost	Cost/SF	Cost	Cost/SF	Cost
Construction	$80.00	$178,000	$80.00	$160,000	$80.00	$240,000	$179.00	$626,500	$181.00	$592,775
Sitework	$0.00	$0	$0.00	$0	$0.00	$0	$4.25	$37,026	$4.25	$33,323
Sub-Total		$178,000		$160,000		$240,000		$663,526		$626,098
Equipment & Furnishings		$0		$0		$0		$0		$0
Sub-Total		$0		$0		$0		$0		$0
Building Permits & Fees	$2	$4,450	$2	$4,000	$2	$6,000	$9	$31,500	$9	$29,475
Other Soft Cost	$7	$15,575	$7	$14,000	$7	$21,000	$25	$87,500	$25	$81,875
Land Cost/Home Purchase Price		$845,347		$749,040		$936,000		$542,496		$488,247
Property Tax	9 mo.	$7,418	9 mo.	$6,573	9 mo.	$8,213	15 mo.	$7,934	15 mo.	$7,141
Construction Contingency	10%	$17,800	10%	$16,000	10%	$24,000	10%	$66,353	10%	$62,610
Sub-Total		$890,590		$789,613		$995,213		$735,783		$669,347
Loan Fee	1.0%	$10,686	1.0%	$9,496	1.0%	$12,352	1.0%	$13,993	1.0%	$12,954
Escrow and Title	0.3%	$2,536	0.3%	$2,247	0.3%	$2,808	0.3%	$1,627	0.3%	$1,465
Legal/Acct fees	0.2%	$2,137	0.2%	$1,899	0.2%	$2,470	0.2%	$2,799	0.2%	$2,591
Interest Reserve	9 mo.	$55,616	9 mo.	$49,404	9 mo.	$63,919	15 mo.	$103,349	15mo.	$95,311
Development Fee	10.0%	$106,859	10.0%	$94,961	10.0%	$123,521	10.0%	$139,931	10.0%	$129,545
Sub-Total		$177,834		$158,008		$205,071		$261,699		$241,866
Real Estate Commission	3%	$25,360	3%	$22,471	3%	$28,080	3%	$16,275	3%	$14,647
Grand Total of Acquisition and Construction:		$1,246,424		$1,107,620		$1,440,285		$1,661,008		$1,537,312
	Cost/Bed:	$311,606	Cost/Bed:	$369,207	Cost/Bed:	$288,057	Cost/Bed:	$332,202	Cost/Bed:	$384,328
	Cost/Client	$311,606	Cost/Client	$369,207	Cost/Client:	$480,095	Cost/Client:	$332,202	Cost/Client:	$384,328

Total Residential Cost Projections - 15 years at 6.25% (taxable) and 5.45% (tax-exempt)

Projected Monthly Totals for Residential Costs (Debt Service and Operating Costs)								
	Number of clients	Monthly Cost per Client	FY 2005-2006	Number of clients	Monthly Cost per Client	FY 2006-2007	Total Clients	Total Cost
SB962 Home - 5 clients per home	14	50% - $3,874, 50% - $3,460	$51,952	106	50% - $3,874, 50% - $3,460	$393,348	120	$445,300
Family Teaching Home 3 clients per home	18	$5,140	$92,514	42	$5,140	$215,865	60	$308,378
Specialized Residential 3 clients per home	37	50% - $4,350, 50% - $3,908	$155,069	47	50% - $4,350, 50% - $3,908	$196,980	84	$352,049
Totals by Fiscal Year	69		$299,534	195		$806,193	264	$1,105,728

Projected Annual Totals for Residential Costs (Debt service and Operating Costs)								
	Number of clients	Annual Cost Per Client	FY 2005-2006	Number of clients	Annual Cost per Client	FY 2006-2007	Total Clients	Total Cost
SB962 Home - 5 clients per home	14	50% - $46,491, 50% - $41,516	$623,420	106	50% - $46,491, 50% - $41,516	$4,720,181	120	$5,343,601
Family Teaching Home 3 clients per home	18	$61,676	$1,110,162	42	$61,676	$2,590,379	60	$3,700,542
Specialized Residential 3 clients per home	37	50% - $52,206, 50% - $46,901	$1,860,830	47	50% - $52,206, 50% - $46,901	$2,363,757	84	$4,224,587
Totals by Fiscal Year	69		$3,594,413	195		$9,674,317	264	$13,268,730

Plan Totals Based on:

1: Client requirements provided by GGRC, SARC, RCEB. Based on RC Resource Development Plan
2: SRH Models 50% Tax-Exempt, 50% Taxable
3: FTH Models 100% Tax Exempt
4: SB962 Models 50% Tax-Exempt, 50% Taxable
5: Family Teaching Home model assumes 5 beds/3 consumers
6: Includes monthly based rent plus operations costs

Specialized Residential, Habilitation
3 Clients per Facility

			TAXABLE RATES	TAX-EXEMPT RATES
Residential Cost Component Projections			15 years @ 6.25%	15 years @ 5.45%
Permanent Loan Amount				
Construction Loan Take Out Amount			$ 1,107,620	$ 1,107,620
Loan Fees			$ 11,076	$ 11,076
Estimated Debt Service Reserve			$ 115,104	$ 109,332
Total Projected Permanent Loan Amount			**$1,233,800**	**$1,228,029**
Monthly Debt Service/Home			**$10,579**	**$10,001**
Monthly Debt Service/Client			**$3,526**	**$3,334**
Operations Costs				
Property Management Fee	5.0%		$ 529	$ 500
Utilities	6,480	per/year	$ 540	$ 540
Landscape Maintenance	1,200	per/year	$ 100	$ 100
Minor Maintenance	1,200	per/year	$ 100	$ 100
Property Taxes	8,764	per/year	$ 730	$ -
Property Insurance	7,000	per/year	$ 583	$ 583
Major Maintenance Reserve	960	per/year	$ 80	$ 80
Total Monthly Operating Expenses			**$ 2,663**	**$ 1,903**
Total of Debt Service and Operating Costs				
Projected Annual Cost Per Facility			**$158,898**	**$142,859**
Projected Annual Cost Per Client			**$52,966**	**$47,620**
Projected Monthly Cost Per Facility			**$13,241**	**$11,905**
Projected Monthly Cost Per Client			**$4,414**	**$3,968**

Specialized Residential, Habilitation
4 Clients per Facility

Residential Cost Component Projections			TAXABLE RATES 15 years @ 6.25%	TAX-EXEMPT RATES 15 years @ 5.45%
Perr Permanent Loan Amount				
Take-out amount			$ 1,246,424	$ 1,246,424
Loan Fees			$ 12,464	$ 12,464
Estimated Debt service Reserve			$ 129,528	$ 123,034
Subtotal				
Total Projected Permanent Loan Amount			**$1,388,416**	**$1,381,922**
Monthly Debt Service/Home			**$11,905**	**$11,255**
Monthly Debt Service/Client			**$2,976**	**$2,814**
Operations Costs				
Property Management Fee	5.0%		$ 595	$ 563
Utilities	8,640	per/year	$ 720	$ 720
Landscape Maintonance	1,200	per/year	$ 100	$ 100
Minor Maintenance	1,200	per/year	$ 100	$ 100
Property Taxes	9,891	per/year	$ 824	$ -
Property Insurance	7,000	per/year	$ 583	$ 583
Major Maintenance Reserve	960	per/year	$ 80	$ 80
Total Monthly Operating Expenses			**$ 3,003**	**$ 2,146**
Total Debt Service and Operating Costs				
Projected Annual Cost Per Facility			**$178,888**	**$160,811**
Projected Annual Cost Per Client			**$44,722**	**$40,203**
Projected Monthly Cost Per Facility			**$14,907**	**$13,401**
Projected Monthly Cost Per Client			**$3,727**	**$3,350**

Family Teaching Home
5 Beds/3 Clients per Facility

			TAXABLE RATES	TAX-EXEMPT RATES
Residential Cost Component Projections			15 years @ 6.25%	15 years @ 5.45%
Permanent Loan Amount				
Construction Loan Take-out amount			$ 1,440,285	$ 1,440,285
Loan Fees			$ 14,403	$ 14,403
Estimated Debt Service Reserve			$ 149,674	$ 142,169
Total Projected Permanent Loan Amount			**$1,604,361**	**$1,596,857**
Monthly Debt Service/Home			**$13,756**	**$13,005**
Monthly Debt Service/Client			**$4,585**	**$4,335**
Operations Costs				
Property Management Fee	5.0%		$ 688	$ 650
Utilities	10,800	per/year	$ 900	$ 900
Landscape Maintenance	1,200	per/year	$ 100	$ 100
Minor Maintenance	1,200	per/year	$ 100	$ 100
Property Taxes	10,951	per/year	$ 913	$ -
Property Insurance	7,000	per/year	$ 583	$ 583
Major Maintenance Reserve	960	per/year	$ 80	$ 80
Total Monthly Operating Expenses			**$ 3,364**	**$ 2,414**
Total of Debt Service and Operating Costs				
Projected Annual Cost Per Facility			**$205,439**	**$185,027**
Projected Annual Cost Per Client			**$68,480**	**$61,676**
Projected Monthly Cost Per Facility			**$17,120**	**$15,419**
Projected Monthly Cost Per Client			**$5,707**	**$5,140**
Projected Monthly Cost Per Bed			**$3,424**	**$3,084**

SB962 Home
5 Clients per Facility

Residential Cost Component Projections			TAXABLE RATES 15 years @ 6.25%	TAX-EXEMPT RATES 15 years @ 5.45%
Permanent Loan Amount				
Take-out amount			$ 1,661,008	$ 1,661,008
Loan Fees			$ 16,610	$ 16,610
Estimated Payment Reserve			$ 172,611	$ 163,957
Total Projected Permanent Loan Amount			**$1,850,229**	**$1,841,574**
Monthly Debt Service/Home			**$15,864**	**$14,998**
Monthly Debt Service/Client			**$3,173**	**$3,000**
Operations Costs				
Property Management Fee	5.0%		$ 793	$ 750
Utilities	10,800	per/year	$ 900	$ 900
Landscape Maintenance	1,200	per/year	$ 100	$ 100
Minor Maintenance	1,200	per/year	$ 100	$ 100
Property Taxes	14,110	per/year	$ 1,176	$ -
Property Insurance	7,000	per/year	$ 583	$ 583
Major Maintenance Reserve	960	per/year	$ 80	$ 80
Total Monthly Operating Expenses			**$ 3,732**	**$ 2,513**
Total of Debt Service and Operating Costs				
Projected Annual Cost Per Facility			**$235,160**	**$210,140**
Projected Annual Cost Per Client			**$47,032**	**$42,028**
Projected Monthly Cost Per Facility			**$19,597**	**$17,512**
Projected Monthly Cost Per Client			**$3,919**	**$3,502**

SB962 Home
4 Clients per Facility

Residential Cost Component Projections			TAXABLE RATES 15 years @ 6.25%	TAX-EXEMPT RATES 15 years @ 5.45%
Permanent Loan Amount				
Take-out amount			$ 1,537,312	$ 1,537,312
Loan Fees			$ 15,373	$ 15,373
Estimated Payment Reserve			$ 159,757	$ 151,747
Total Projected Permanent Loan Amount			**$1,712,442**	**$1,704,432**
Monthly Debt Service/Home			**$14,683**	**$13,881**
Monthly Debt Service/Client			**$3,671**	**$3,470**
Operations Costs				
Property Management Fee	5.0%		$ 734	$ 694
Utilities	8,640	per/year	$ 720	$ 720
Landscape Maintenance	1,200	per/year	$ 100	$ 100
Minor Maintenance	1,200	per/year	$ 100	$ 100
Property Taxes	14,110	per/year	$ 1,176	$ -
Property Insurance	7,000	per/year	$ 583	$ 583
Major Maintenance Reserve	960	per/year	$ 80	$ 80
Total Monthly Operating Expenses			**$ 3,493**	**$ 2,277**
Total of Debt Service and Operating Costs				
Projected Annual Cost Per Facility			**$218,115**	**$193,906**
Projected Annual Cost Per Client			**$54,529**	**$48,477**
Projected Monthly Cost Per Facility			**$18,176**	**$16,159**
Projected Monthly Cost Per Client			**$4,544**	**$4,040**

RESOLUTION 05-35

RESOLUTION AUTHORIZING A SERIES OF FINAL LOAN COMMITMENTS AND ONE OR MORE PRELIMINARY LOAN COMMITMENTS

WHEREAS, the California Department of Developmental Services ("DDS") has developed a plan to close the Agnews Developmental Center, and move its developmentally disabled residents into community housing settings located in three Bay Area counties, and

WHEREAS, the State of California has enacted AB 2100, providing that DDS may approve a plan whereby, among other things, regional centers may provide for the development of community housing for the residents of the Agnews Developmental Center; and

WHEREAS, the Golden Gate Regional Center, the Regional Center of the East Bay, and the San Andreas Regional Center (collectively, the "Regional Centers") and DDS, have developed such a plan, known as the Bay Area Housing Plan ("BAHP"); and

WHEREAS, the BAHP contemplates that the Hallmark Group ("Hallmark") will be the initial developer of the housing provided for in such plan; and

WHEREAS, the California Housing Finance Agency ("Agency") has worked with the State of California, including DDS and the Department of Health Services, the Regional Centers, and Hallmark to develop a financing plan for the BAHP (the Financing Plan"), and

WHEREAS, the Financing Plan contemplates that a series of permanent loan commitments will be made to the initial developer of the housing contemplated by the BAHP, to permit the developer to obtain acquisition and construction financing for each of the individual homes being acquired by that developer; and

WHEREAS, the BAHP and the Financing Plan have been reviewed by Agency staff, which has prepared a report presented to the Board on the meeting date recited below (the "Staff Report"), recommending Board approval of a series of final loan commitments for a portion of the Financing Plan up to an aggregate amount of $20,000,000.00; together with preliminary commitments for later portions of the Financing Plan up to an additional aggregate amount of $80,000,000.00, subject to certain recommended terms and conditions; and

WHEREAS, Section 1.150-2 of the Treasury Regulations requires the Agency, as the issuer of tax-exempt bonds, to declare its reasonable official intent to reimburse prior expenditures for housing developed under the BAHP with proceeds of a subsequent borrowing; and

WHEREAS, the Board confirms that the Executive Director is delegated the authority to declare the official intent of the Agency to reimburse such prior expenditures for housing developed under the BAHP; and

WHEREAS, based upon the recommendation of staff and due deliberation by the Board, the Board has determined that a series of final loan commitments be made to the developer to implement the initial portion of the BAHP up to an aggregate amount of $20,000.000.00; and that one or more preliminary loan commitments be made to finance later portions of the BAHP up to an additional aggregate amount of $80,000,000.00, with such preliminary commitments being subject to further Board approval;

1. The Executive Director, or in his/her absence, either the Chief Deputy Director or the Director of Multifamily Programs of the Agency is hereby authorized to execute and deliver a series of final commitment letters, in a form acceptable to the Agency, and subject to recommended terms and conditions set forth in the Staff Report, up to an aggregate amount of $20,000,000.00 in relation to the BAHP described above.

2. The Executive Director, or in his/her absence, either the Chief Deputy Director or the Director of Multifamily Programs of the Agency is hereby authorized to execute and deliver one or more preliminary commitment letters, in a form acceptable to the Agency, subject to recommended terms and conditions set forth in the Staff Report, and additionally subject to the further approval of the Board of Directors, up to an additional aggregate amount of $80,000,000.00, in relation to the BAHP described above.

3. The Executive Director may modify the terms and conditions of the final loan commitments provided for above, provided that major modifications, as defined below, must be submitted to this Board for approval. "Major modifications" as used herein means modifications which either (i) increase the total aggregate amount of any final loan commitments made pursuant to the Resolution by more than 7%; or (ii) modifications which in the judgment of the Executive Director, or in his/her absence, either the Chief Deputy Director or the Director of Multifamily Programs of the Agency, adversely change the financial or public purpose aspects of the final commitment in a substantial way.

I hereby certify that this is a true and correct copy of Resolution 05-35 adopted at a duly constituted meeting of the Board of the Agency held on September 8, 2005, at Burbank, California.

ATTEST:_____
Secretary

RESOLUTION 06-18

RESOLUTION AUTHORIZING A SERIES OF FINAL LOAN COMMITMENTS AND ONE OR MORE PRELIMINARY LOAN COMMITMENTS

WHEREAS, the California Department of Developmental Services ("DDS") has developed a plan to close the Agnews Developmental Center, and move its developmentally disabled residents into community housing settings located in nine Bay Area counties, and

WHEREAS, the State of California has enacted AB 2100, providing that DDS may approve a plan whereby, among other things, regional centers may provide for the development of community housing for the residents of the Agnews Developmental Center; and

WHEREAS, the Golden Gate Regional Center, the Regional Center of the East Bay, and the San Andreas Regional Center (collectively, the "Regional Centers") and DDS, have developed such a plan, known as the Bay Area Housing Plan ("BAHP"); and

WHEREAS, the BAHP contemplates that the Hallmark Group ("Hallmark") will be the initial developer of the housing provided for in such plan; and

WHEREAS, the California Housing Finance Agency ("Agency") has worked with the State of California, including DDS and the Department of Health Services, the Regional Centers, and Hallmark to develop a financing plan for the BAHP (the Financing Plan"), and

WHEREAS, the Financing Plan contemplates that a series of permanent loan commitments will be made to the initial developer of the housing contemplated by the BAHP, to permit the developer to obtain acquisition and construction financing for each of the individual homes being acquired by that developer; and

WHEREAS, on September 8, 2005, the Board approved a series of final loan commitments for a portion of the Financing Plan up to an aggregate amount of $20,000,000 together with preliminary commitments for later portions of the Financing Plan up to an additional aggregate amount of $80,000,000, subject to certain recommended terms and conditions; and

WHEREAS, on January 12, 2006 the Board has determined that (i) the original amount of $80,000,000 of preliminary loan commitments approved by the Board on September 8, 2005 be increased to a total of $100,000,000; and (ii) up to $25,000,000 of such preliminary commitments be converted to final commitments up to an aggregate amount of $45,000,000, subject to certain recommended terms and conditions; and

WHEREAS, the Agency entered into the BAHP loan documents on April 1, 2006 to implement the Financing Plan.

WHEREAS, Section 1.150-2 of the Treasury Regulations requires the Agency, as the issuer of tax-exempt bonds, to declare its reasonable official intent to reimburse prior expenditures for housing developed under the BAHP with proceeds of a subsequent borrowing; and

WHEREAS, the Board confirms that the Executive Director is delegated the authority to declare the official intent of the Agency to reimburse such prior expenditures for housing developed under the BAHP; and

WHEREAS, based upon the recommendation of staff and due deliberation by the Board, the Board has determined that (i) up to $25,000,000 of the $120,000,000 of preliminary loan commitments approved by the Board on September 8, 2005 and January 12, 2006 be converted to Final commitments up to an aggregate amount of $70,000,000 to implement of the Financing Plan, subject to recommended terms and conditions; and

WHEREAS, pursuant to this resolution, there will be a total of $120,000,000 of BAHP loan commitments either finally and preliminarily approved, consisting of (i) $45,000,000 of final commitments approved by the Board at both the September 8, 2005 and January 12, 2006 meetings; (ii) $25,000,000 of final commitments approved by this resolution and (iii) an additional amount of $50,000,000 of preliminary commitments remaining subject to further Board approval;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the California Housing Finance Agency as follows:

1. The Executive Director, or in his/her absence, either the Chief Deputy Director or the Director of Multifamily Programs of the Agency is hereby authorized, (i) to execute and deliver an additional series of final commitment letters in relation to the BAHP described above, in a form acceptable to the Agency, and subject to recommended terms and conditions set forth in the Staff Report, up to an aggregate amount of $70,000,000.00 above and beyond the $45,000,000 of final commitments approved by the Board on September 8, 2005 and on January 12, 2006.

2. The Executive Director may modify the terms and conditions of the final loan commitments provided for above, provided that major modifications, as defined below, must be submitted to this Board for approval. "Major modifications" as used herein means modifications which either (i) increase the total aggregate amount of any final loan commitments made pursuant to the Resolution by more than 7%; or (ii) modifications which in the judgment of the Executive Director, or in his/her absence, either the Chief Deputy Director or the Director of Multifamily Programs of the Agency, adversely change the financial or public purpose aspects of the final commitment in a substantial way.

I hereby certify that this is a true and correct copy of Resolution 06-02 adopted at a duly constituted meeting of the Board of the Agency held on January 12, 2006, at Millbrae, California.

ATTEST: _____
Secretary

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State of California

MEMORANDUM

To: Board of Directors **Date:** October 25, 2006

Bruce D. Gilbertson, Director of Financing
From: **CALIFORNIA HOUSING FINANCE AGENCY**

Subject: AUTHORIZATION TO BROADEN THE SINGLE FAMILY HOUSING PROGRAM AND FOR APPROVAL OF A NEW FORM OF BOND INDENTURE
Resolution 06-19

Attached for the Board's consideration are Resolution 06-19, amending the January homeownership financing resolution 06-03, and the form of a new bond indenture (comprised of a general indenture and a series indenture) intended to be used for purposes of purchasing mortgage backed securities.

Resolution 06-19 amends and restates several provisions of Resolution 06-03, which was adopted by the Board at the January 12, 2006 Board meeting. The material changes are as follows:

- Approves the new form of Residential Mortgage Revenue Bond Indenture ("RMRB Indenture")
- Authorizes series indentures for the new RMRB Indenture
- Adds a new subsection (f) to Section 10 of Resolution 06-03, expressly authorizing the Agency to obtain guarantees of mortgage backed securities
- Adds a new paragraph to the end of Section 11 of Resolution 06-03, authorizing the Agency to enter into agreements for the purchase and sale of mortgage backed securities, a master servicing agreement for an MBS structure, agreements with government sponsored enterprises and other secondary market issuers or guarantors of mortgage backed securities, and such other program documents as may be needed to operate an MBS program.

Today the Agency meets its business plan objectives to finance loans to first-time homebuyers by purchasing first mortgage loans from Agency approved originating lenders. These lenders fund loans directly to borrowers after making loan reservations and receiving conditional loan approval from CalHFA. Upon close of escrow, the lenders submit individual whole loan files for purchase by the Agency and the loans are funded by one or more bond series. Resolution 06-19 would authorize the Agency to purchase mortgage backed securities (in addition to the purchase of whole loans directly from lenders) guaranteed by government sponsored enterprises

or other secondary market guarantors that are created by pooling underlying first mortgage loans originated by Agency approved lenders.

To facilitate a mortgage backed securities (MBS) program the Agency is planning to enter into a master servicing agreement, contracts for the purchase of mortgage backed securities and agreements with guarantors of mortgage backed securities.

In an MBS model, the master servicer will be required to directly purchase first mortgage loans originated by Agency approved lenders after the lender receives a loan reservation and conditional approval from the Agency. At the Agency's direction the master servicer will pool similar mortgages into securities that will be purchased with bond proceeds and used as collateral for one or more bond series.

In addition, the Agency is considering entering into agreements with guarantors of securities created under the MBS program. Such agreements will guarantee the full payment of principal and interest on all underlying loans within each MBS and specify the terms of eligible mortgage loans, the guarantee fee, repricing conditions and the term of the agreement.

In establishing our MBS program we are initially planning to securitize only those eligible Interest Only *Plus* loans in which borrowers make interest only payments for the first five years of the 35 year loan term before level amortization commences. By securitizing the Interest Only *Plus* loans we will eliminate the need to pledge capital to bond rating agencies for purposes of credit enhancing the higher risk of borrower default and potential financial loss stemming from the loan payment adjustment after the interest only period. We also expect to realize additional economic benefit from an MBS program due to higher bond ratings and lower loan servicing premiums while our borrowers will benefit from a lower mortgage payment largely due to reduced mortgage insurance premiums.

The new form of indenture is drafted to be very flexible and allows for the following:

- financing of whole loans as well as mortgage backed securities
- financing of a variety of loan types (including first mortgages and subordinate liens)
- allows issuance of fixed rate and variable rate bonds
- contemplates entering into qualified hedges, and
- provides for other forms of credit enhancement and liquidity.

The high credit quality of an MBS program (due to the GSE or other guarantee) will allow the Agency to issue triple-A rated bonds under the new indenture as a special obligation secured solely by the assets pledged to bondholders.

Our current thoughts are to finance loans securitized as part of our MBS program with the new indenture while we expect to (at least initially) continue to use the Home Mortgage Revenue Bond Indenture to finance government insured and other conventionally insured whole loans.

Attachments

RESOLUTION NO. 06-19

RESOLUTION OF THE CALIFORNIA HOUSING FINANCE AGENCY TO FACILITATE THE SINGLE FAMILY HOUSING PROGRAM OF THE AGENCY BY AMENDING RESOLUTION NO. 06-03 TO AUTHORIZE THE ISSUANCE OF BONDS UNDER A NEW FORM OF INDENTURE

WHEREAS, the California Housing Finance Agency (the "Agency") has determined that there exists a need in California for providing financial assistance to persons and families of low or moderate income to enable them to purchase moderately priced single family residences;

WHEREAS, the Agency has determined that it is in the public interest for the Agency to provide such financial assistance by means of various programs including whole loan and mortgage backed securities programs, to provide permanent financing of such residences (collectively, the "Program");

WHEREAS, pursuant to Parts 1 through 4 of Division 31 of the California Health and Safety Code, the Agency has the authority to issue bonds (including notes and other evidences of indebtedness) to provide sufficient funds to finance the Program;

WHEREAS, on January 12, 2006 the Agency adopted its Resolution No. 06-03 authorizing the issuance of bonds to provide funds to finance the Program;

WHEREAS, the Agency has determined that in order to provide additional funds to finance the Program it is in the public interest to authorize additional bonds to be issued pursuant to a proposed form of indenture not previously approved by the Agency;

WHEREAS, funds under such indenture may be used to finance mortgage loans or mortgage-backed securities or any combination thereof;

WHEREAS, the bonds proposed to be issued by the Agency under an indenture or indentures in such form may be limited obligations of the Agency payable solely from certain amounts on deposit under the indenture relating thereto or may be general obligations of the Agency;

WHEREAS, the Agency now desires to amend Resolution No. 06-03 to authorize the issuance of the bonds and to approve a new form of indenture under which the Agency may issue such bonds; and

WHEREAS, the Agency wishes to further amend Resolution No. 06-03 to authorize the Agency to execute such financial agreements and program documents as are necessary or appropriate to permit the Agency to operate the programs financed by the new form of indenture, including programs of financing residences through the purchase of mortgage backed securities;

NOW, THEREFORE, BE IT RESOLVED, by the California Housing Finance Agency as follows:

Section 1. Approval of Form of Indenture. In order to authorize the execution and delivery of one or more indentures providing for the issuance of and securing bonds, Section 3 of Resolution No. 06-03 is hereby amended to move the words "and/or" from immediately before subsection (k) thereof to immediately after such subsection (k) and to add thereafter a new subsection (l) to read as follows:

"(l) the form of indenture entitled "Residential Mortgage Revenue Bond Indenture presented to the November 9, 2006 meeting of the Agency" (the" RMRB Indenture"); and

Section 2. Approval of Form of Supplemental Indenture. In order to authorize the execution and delivery of one or more supplemental indentures providing for the issuance of and securing bonds, the first sentence of Section 4 of Resolution No. 06-03 is hereby amended and restated to read as follows:

"Section 4 **Approval of Forms of Series and Supplemental Indentures.** The Executive Director and the Secretary are hereby authorized and directed, for and on behalf and in the name of the Agency, to execute and acknowledge and to deliver with respect to each series of Bonds, if and to the extent appropriate, series and supplemental indentures (collectively "Supplemental Indentures") under either one of the Prior Indentures or the RMRB Indenture, and in substantially the form of the respective supplemental indentures previously executed and delivered or approved or in the form presented to the November 9, 2006 meeting of the Agency, each with such changes therein as the officers executing the same approve upon consultation with the Agency's legal counsel, such approval to be conclusively evidenced by the execution and delivery thereof."

Section 3. In order to authorize the Agency to execute financial agreements necessary or appropriate to operate the programs financed by the RMRB Indenture approved herein, Section 10 of Resolution No. 06-03 is hereby amended and restated to read as follows:

" Section 10. **Authorization of Related Financial Agreements.** The Executive Director and the other officers of the Agency are hereby authorized to enter into, for and in the name and on behalf of the Agency, any and all agreements and documents designed (i) to reduce or hedge the amount or duration of any payment, interest rate, change in interest rate, spread or similar risk, (ii) to result in a lower cost of borrowing when used in combination with the issuance or carrying of bonds or investments, or (iii) to enhance the relationship between risk and return with respect to the Program or any portion thereof. To the extent authorized by law, including Government Code Section 5922, such agreements or other documents may include (a) interest rate swap agreements, (b) forward payment conversion agreements, (c) futures or other contracts providing for payments based on levels of, or changes in, interest rates

or other indices, (d) contracts to exchange cash flows for a series of payments, (e) contracts, including, without limitation, interest rate floors or caps, options, puts or calls to hedge payment, interest rate, spread or similar exposure, or (f) to obtain guarantees, including guarantees of mortgage backed securities or their underlying loans, and in each such case may be entered into in anticipation of the issuance of bonds at such times as may be determined by such officers. Such agreements and other documents are authorized to be entered into with parties selected by the Executive Director, after giving due consideration for the creditworthiness of the counterparties, where applicable, or any other criteria in furtherance of the objectives of the Program."

Section 4. In order to authorize the Agency to execute program documents necessary or appropriate to operate the programs financed by the RMRB Indenture approved herein, Section 11 of Resolution No. 06-03 is hereby amended and restated to read as follows:

"Section 11. **Authorization of Program Documents.** The Executive Director and the other officers of the Agency are hereby authorized to enter into, for and in the name and on behalf of the Agency, all documents they deem necessary or appropriate in connection with the Program, including, but not limited to, one or more mortgage purchase and servicing agreements (including mortgage-backed security pooling agreements) and one or more loan servicing agreements with such lender or lenders or such servicer or servicers as the Executive Director may select in accordance with the purposes of the Program, and any such selection of a lender or lenders or a servicer or servicers is to be deemed approved by this Board as if it had been made by this Board. The mortgages to be purchased may be fixed rate, step rate, adjustable rate, graduated payment, deferred payment or any combination of the foregoing may have terms of 40 years or less and may be insured by such mortgage insurers as are selected by the Executive Director in furtherance of the objectives of the Program.

The Executive Director and the other officers of the Agency are hereby authorized to enter into, for and in the name and on behalf of the Agency, one or more mortgage sale agreements with such purchasers as the Executive Director may select in accordance with the objectives of the Program. Any such sale of Loans may be on either a current or a forward purchase basis.

The Executive Director and the other officers of the Agency are hereby authorized to enter into, for and in the name and on behalf of the Agency, contracts to conduct foreclosures of mortgages owned or serviced by the Agency with such attorneys or foreclosure companies as the Executive Director may select in accordance with the objectives of the Program.

The Executive Director and the other officers of the Agency are hereby authorized to enter into, for and in the name and on behalf of the Agency, contracts for the sale of foreclosed properties with such purchasers as

the Executive Director may select in accordance with the objectives of the Program. Any such sale of foreclosed properties may be on either an all cash basis or may include financing by the Agency. The Executive Director and the other officers of the Agency are also authorized to enter into any other agreements, including but not limited to real estate brokerage agreements and construction contracts necessary or convenient for the rehabilitation, listing and sale of such foreclosed properties.

The Executive Director and the other officers of the Agency are hereby authorized to enter into, for and in the name and on behalf of the Agency, (i) contracts or agreements for the purchase or sale of mortgage backed securities; (ii) servicing agreements, including master servicing agreements, in connection with the operation of a program of mortgage backed securities; (iii) agreements with government sponsored enterprises, or other secondary market issuers or guarantors of mortgage backed securities; and (iv) such other program documents as are necessary or appropriate for the operation of a program of mortgage backed securities."

Section 5. Ratification of Prior Actions. All actions previously taken by the officers of the Agency in connection with the issuance of the Bonds are hereby approved and ratified.

SECRETARY'S CERTIFICATE

I, Thomas C. Hughes, Secretary of the Board of Directors of the California Housing Finance Agency, hereby certify that the foregoing is a full, true, and correct copy of Resolution 06-19 duly adopted at a regular meeting of the Board of Directors of the California Housing Finance Agency duly called and held on the 9th day of November, 2006, of which meeting all said directors had due notice; and that at said meeting said resolution was adopted by the following vote:

AYES:

NOES:

ABSTENTIONS:

ABSENT:

IN WITNESS WHEREOF, I have executed this certificate and affixed the seal of the Board of Directors of the California Housing Finance Agency hereto this ____ day of October, 2006.

[SEAL]

_____

Thomas C. Hughes
Secretary of the Board of Directors
of the California Housing Finance Agency

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Hawkins Draft #3
10/23/06

CALIFORNIA HOUSING FINANCE AGENCY

Residential Mortgage Revenue Bonds General Indenture

Dated as of _____ 1, 2007

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This GENERAL INDENTURE, dated as of _____ 1, 2007, by and between the CALIFORNIA HOUSING FINANCE AGENCY, a public instrumentality and political subdivision of the State of California (herein called the "Agency"), and _____, a _____ [banking association] duly organized and existing under the laws of _____ and being qualified to accept and administer the trusts hereby created, as trustee (herein called the "Trustee");

W I T N E S S E T H:

WHEREAS, the Agency has been created by the Zenovich-Moscone-Chacon Housing and Home Finance Act (constituting Division 31 of the Health and Safety Code of the State of California), as amended (herein called the "Act"), primarily for the purpose of assisting in meeting the housing needs of persons and families of low or moderate income;

WHEREAS, the Agency has determined to borrow money for its lawful purposes and to that end has duly authorized the issuance of its bonds hereunder, and to secure the payment of the principal thereof and of the interest and premium, if any, thereon, and the observance of the covenants and conditions herein contained, has authorized the execution and delivery of this General Indenture;

WHEREAS, said bonds are to be issued hereunder and designated as the "California Housing Finance Agency Residential Mortgage Revenue Bonds" (herein called the "Bonds"), from time to time, in an aggregate principal amount not limited except as hereinafter provided;

WHEREAS, all acts and proceedings required by law and by the Act, including all actions requisite on the part of the Agency, its Board of Directors, its members and its officers necessary to make the Bonds, when executed by the Agency, authenticated and delivered by or on behalf of the Trustee and duly issued, the valid, binding and legal obligations of the Agency, and to constitute this Indenture a valid and binding agreement for the uses and purposes herein set forth, in accordance with its terms, have been done and taken; and the execution and delivery of this Indenture have been in all respects duly authorized; and

WHEREAS, the Bonds and the forms of the certificate of authentication and registration and the assignment to appear thereon, shall be prescribed in indentures supplemental hereto;

NOW, THEREFORE, THIS GENERAL INDENTURE WITNESSETH for the purpose of fixing and declaring the terms and conditions upon which the Bonds are to be issued, executed, delivered and accepted by the owners of the Bonds, and in order to secure the payment of Parity Obligation Instruments, including the payment of all the Bonds at any time issued and Outstanding hereunder and the interest thereon according to their tenor, purport and effect, and in order to secure the performance and observance of all the covenants, agreements and conditions therein and herein contained, the Agency has executed this Indenture, has pledged, conveyed and

assigned, and does hereby pledge, convey and assign the Pledged Property (i) as security for the payment of Parity Obligation Instruments, including the payment of the principal of the Bonds and the interest and redemption premium, if any, thereon, (ii) as security for the fulfillment of the obligations of the Agency hereunder, (iii) for the equal and proportionate security, from time to time, of the owners of the Bonds and the Parties, and (iv) for the equal and proportionate benefit, from time to time, of the owners of the Bonds, all without preference, priority or distinction as to lien or otherwise, except as otherwise hereinafter provided, of any Parity Obligation Instruments over any other Parity Obligation Instruments or as provided in an applicable Series Indenture, of any one Bond over any other Bond, by reason of priority in the issue, effective date, sale or negotiation thereof or otherwise, all in accordance with the terms hereof.

TO HAVE AND TO HOLD all of the same, whether now owned or hereafter acquired, unto the Trustee and its respective successors in said trusts and assigns forever.

Provided, however, that if the Agency, its successors or assigns, shall pay, or cause to be paid, (i) the principal of the Bonds, redemption premium, if any, and the interest due or to become due upon the Bonds at the times and in the manner mentioned in the Bonds according to the true intent and meaning thereof, and (ii) Parity Principal and Parity Interest due or to become due under the other Parity Obligation Instruments, or shall provide, as permitted hereby, for the payment thereof by depositing with the Trustee the entire such amount due or to become due thereon (or such amount as provided in Section 1101), and shall keep, perform and observe all the covenants and conditions pursuant to the terms of this Indenture to be kept, performed and observed by it, and shall pay or cause to be paid to the Trustee all sums of money due or to become due to it in accordance with the terms and provisions hereof, then upon such final payment this General Indenture and the rights hereby granted shall cease, terminate and be void; otherwise this General Indenture is to be and remain in full force and effect.

THIS GENERAL INDENTURE FURTHER WITNESSETH, that the Agency has agreed and covenanted, and does hereby agree and covenant, with the Trustee and with the respective Owners from time to time of the Bonds and the other Parties, as follows:

ARTICLE I

DETERMINATIONS AND DEFINITIONS

Section 101. *Indenture to Constitute Contract.* In consideration of the (i) purchase and acceptance of any and all of the Bonds issued hereunder by those who shall own the same from time to time and (ii) entering into of other Parity Obligation Instruments, this Indenture shall be deemed to be and shall constitute a contract among the Agency and the owners of the Bonds and the Parties. The pledges made in this Indenture and the covenants and agreements herein set forth to be performed by the Agency shall be for the equal benefit, protection and security of the owners of any and all of the Bonds, all of which, without regard to the time or times of their issue or maturity, shall be of equal rank without preference, priority or distinction of any of the Bonds over any other thereof, except as expressly provided in or permitted by this Indenture or by the applicable Series Indenture. Furthermore, the pledges made

in this Indenture, and the covenants and agreements herein set forth to be performed by the Agency with respect to such pledges and security for Parity Obligation Instruments other than Bonds, shall be for the equal security of the Parties to any and all of the Parity Obligation Instruments, all of which, without regard to the time or times of their effective date, shall be of equal rank without preference, priority or distinction of any of the Parity Obligation Instruments over any other thereof, except as expressly provided in or permitted by this Indenture or by the applicable Series Indenture.

Section 102. *Limited Obligation; Pledge of the Indenture.* The Bonds are special limited obligations of the Agency payable solely from and secured by the Pledged Property under this Indenture. The Parity Obligation Instruments, other than the Bonds, are special limited obligations of the Agency payable solely from and secured by the Pledged Property under the Indenture, *unless* and to the extent otherwise provided with respect to any Parity Obligation in the terms of such Parity Obligation Instrument. The Agency has no taxing power. The Bonds and the other Parity Obligation Instruments shall not be deemed to constitute a debt or liability of the State or of any political subdivision of the State, other than the Agency, or a pledge of the faith and credit of the State, but shall be payable solely from the Pledged Property. Neither the faith and credit nor the taxing power of the State is pledged to the payment of the principal of or interest on the Bonds and the other Parity Obligation Instruments. The issuance of the Bonds shall not directly or indirectly or contingently obligate the State or any political subdivision of the State to levy or to pledge any form of taxation whatever therefor or to make any appropriation for their payment.

Any Mortgage Loans, Mortgage-Backed Securities, property, earnings, revenues or other moneys pledged hereunder or under a Series Indenture by the Agency and which is received hereafter from time to time by the Agency (except that a Series Indenture may limit the time period of or the purpose of a pledge of a Fund or Account or any asset or property established in the same Series Indenture) shall immediately be subject to the lien of such pledge without any physical delivery thereof or further act, and the lien of any such pledge shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Agency, irrespective of whether such parties have notice thereof, and neither this Indenture nor any instruments by which a pledge is created need be recorded.

Section 103. *Definitions.* In this Indenture and any indenture supplemental hereto the following terms shall have the following meanings:

"Accountant" means an independent certified public accountant or firm of independent certified public accountants selected by the Agency, who may be the accountant or firm of accountants who regularly audit the books of the Agency.

"Acquisition Fund" means the Acquisition Fund consisting of Series Acquisition Accounts established pursuant to Section 401 of this Indenture and Series Indentures.

"Act" means the Zenovitch-Moscone-Chacon Housing and Home Finance Act, constituting Division 31 of the Health and Safety Code of the State of California, as heretofore and hereafter amended.

"Additional Bonds" means any additional Bonds issued pursuant to Section 209 of this Indenture.

"Agency" means the California Housing Finance Agency, a public instrumentality and a political subdivision of the State established under the Act or its successor.

"Agency Request" means a written request or direction of the Agency signed by an Authorized Officer.

"Amortized Value" means for securities purchased at (i) par; and (ii) a premium above or a discount below par, the value as of any given date obtained by dividing the total amount of the premium or the discount at which such securities were purchased by the number of days remaining to maturity on such securities at the time of such purchase and by multiplying the amount so calculated by the number of days having passed from the date of such purchase; and (a) in the case of securities purchased at a premium, by deducting the product thus obtained from the purchase price, and (b) in the case of securities purchased at a discount, by adding the product thus obtained to the purchase price.

"Appreciated Amount" shall mean with respect to a Deferred Interest Bond, (i) as of any date of computation with respect to any Deferred Interest Bond up to the date, *if any*, set forth in the Series Indenture authorizing such Deferred Interest Bond as the date on which such Deferred Interest Bond shall commence to bear interest payable thereafter on applicable interest payment dates, an amount equal to the initial principal amount of such Deferred Interest Bond plus the interest accrued on such Deferred Interest Bond from the date of original issuance of such Deferred Interest Bond to the applicable interest payment date next preceding the date of computation or the date of computation if an applicable interest payment date, such increased amount to accrue at the rate per annum set forth in the Series Indenture authorizing such Deferred Interest Bonds, compounded on each applicable interest payment date, plus, if such date of computation shall not be an applicable interest payment date, a portion of the difference between the Appreciated Amount as of the immediately preceding applicable interest payment date (or the date of original issuance if the date of computation is prior to the first applicable interest payment date succeeding the date of original issuance) and the Appreciated Amount as of the immediately succeeding applicable interest payment date, calculated based upon an assumption that the Appreciated Amount accrues in equal daily amounts on the basis set forth in the Series Indenture authorizing such Deferred Interest Bonds; and (ii) as of any date of computation on and after the date, if any, set forth in the Series Indenture authorizing such Deferred Interest Bond as the date on which such Deferred Interest Bond shall commence to bear interest payable thereafter on applicable interest payment dates, the Appreciated Amount as of such current interest payment commencement date.

For the purposes of actions, requests, notifications, consents or directions of Bondowners under the Indenture, the calculation of the Appreciated Amount shall be as of the

applicable interest payment dates preceding such date of calculation (*unless* such date of calculation shall be an applicable interest payment date, in which case, as of the date of calculation).

"Authorized Officer" means the Chairperson, Executive Director, a Deputy Director or the Director of Financing of the Agency, any person designated in writing by the Chairperson, the Executive Director, a Deputy Director or the Director of Financing as an Authorized Officer and any other authorized officer as from time to time may be designated by resolution or by-law to act hereunder on behalf of the Agency.

"Authorized Officer's Determination" means the formal written action of an Authorized Officer, delivered to the Trustee and each of the Rating Agencies, reflecting modifications to this Indenture with respect to one or more Series of Bonds, as permitted or required by the express terms of this Indenture, the Series Indenture related to such Series, or a Supplemental Indenture.

"Bond" or *"Bonds"* means any Bond or all of the Bonds issued under and at any time Outstanding pursuant to this Indenture.

"Bond Counsel's Opinion" means an opinion signed by any attorney or firm of attorneys of nationally recognized standing in the field of state and local debt issuance.

"Bondowner" or *"owner of Bonds"* means the registered owner of any registered Bond.

"Bond Proceeds Fund" means the Bond Proceeds Fund and accounts established therein pursuant to this Indenture and Series Indentures.

"Bond Registrar" means, collectively, such person(s), agency(s) or office(s) as determined by the Agency pursuant to Series Indentures or, if not otherwise designated in a Series Indenture, the Trustee, to act as bond registrar with respect to a Series pursuant to the Indenture.

"Cash Flow Certificate" means a certificate of the Agency signed by an Authorized Officer to the effect that the action proposed to be taken is consistent with the assumptions set forth in the Cash Flow Statement last filed with the Trustee.

"Cash Flow Requirements" means the requirements, if any, set forth in a Series Indenture or Supplemental Indenture, applicable to all or any of the Parity Obligations.

"Cash Flow Statement" means a Cash Flow Statement conforming to the requirements of Section 607 of this Indenture.

"Code" means applicable provisions of the Internal Revenue Code of 1954, as amended, and the Internal Revenue Code of 1986, as amended, and the applicable regulations thereunder.

"Costs of Issuance" means all items of expense payable or reimbursable directly or indirectly by the Agency and related to the authorization, sale, issuance and remarketing of the Bonds and entering into of other Parity Obligation Instruments, as certified by an Authorized Officer.

"Costs of Issuance Fund" means the Costs of Issuance Fund and accounts therein established pursuant to Section 401 of this Indenture and Series Indentures.

"Debt Reserve Fund" means the Debt Reserve Fund established pursuant to Section 401 of this Indenture.

"Debt Reserve Requirement" means, as of any particular date of calculation, an amount equal to the aggregate of all amounts established for all Series of Bonds Outstanding in the Series Indentures authorizing the issuance of such Bonds, or a lesser amount if each Rating Agency has confirmed that such lesser amount will not adversely affect the then-existing rating of the Bonds by such Rating Agency. The Trustee may rely upon a certificate from an Authorized Officer of the Agency which states the Debt Reserve Requirement as of the date of said certificate.

"Debt Service Fund" means the Debt Service Fund established pursuant to Section 401 of this Indenture.

"Deferred Interest Bond" means any Bond designated as such by the Series Indenture authorizing the issuance of such Bond.

"Event of Default" means any of the events of default described in Section 702 of this Indenture.

"Expense Fund" means the Expense Fund established pursuant to Section 401 of this Indenture.

"Expenses" means any moneys required by the Agency to pay the expenses of the Trustee and any expenses which the Agency may lawfully pay, *except* as limited with respect to any Series of Bonds by the applicable Series Indenture. Expenses deposited in any Fiscal Year to the credit of the Expense Fund shall not exceed the aggregate of all the maximum Expenses designated in a Series Indenture. The Trustee may rely upon a certificate from an Authorized Officer of the Agency which states the outstanding principal balance of Mortgage Loans and Mortgage-Backed Securities .

"Fiscal Year" means the year beginning on the first day of July and ending on the last day of June in the next succeeding year.

"Fund" or *"Account"* means a Fund or Account created by or pursuant to this Indenture or a Series Indenture.

"General Fund" means the General Fund established pursuant to Section 401 of this Indenture.

"Government Obligations" means obligations of the United States of America (including obligations issued or held in book-entry form on the books of the U.S. Department of the Treasury) or obligations the principal of and interest on which are guaranteed by the United States of America.

"Hedge Receipt" means, if and to the extent designated as such pursuant to the Series Indenture or Supplemental Indenture authorizing the related Qualified Hedge or an Authorized Officer's Determination, the periodic regular net amount, if any required to be paid to the Agency under a Qualified Hedge.

"Indenture" means this Indenture, as amended or supplemented by Supplemental Indentures and Series Indentures.

"Insurance Proceeds" means payments received with respect to the Mortgage Loans, Underlying Mortgage Loans or Mortgage-Backed Securities under any insurance policy or guarantee or under any fidelity bond.

"interest" means, with respect to Bonds, Parity Interest.

"Interest Account" means the Interest Account established in the Debt Service Fund pursuant to Section 401 of this Indenture.

"Investment Obligations" means, to the extent authorized by law for investment of moneys of the Agency at the time of such investment,

(i) (A) Government Obligations, or (B) obligations rated in the two highest ratings category of each Rating Agency of any state of the United States of America or any political subdivision of such a state, payment of which is secured by an irrevocable pledge of such Government Obligations;

(ii) (A) bonds, debentures or other obligations issued by Student Loan Marketing Association, Federal Land Banks, Federal Intermediate Credit Banks, Banks for Cooperatives, Federal Home Loan Banks, Tennessee Valley Authority, the United States Postal Service, Federal Farm Credit System Obligations, Federal Home Loan Mortgage Corporation, Export Import Bank, World Bank, International Bank for Reconstruction and Development and Inter-American Development Bank; or (B) bonds, debentures or other obligations issued by Federal National Mortgage Association (excluding mortgage securities which are valued greater than par on the portion of unpaid principal or mortgage securities which represent payments of principal only or interest only with respect to the underlying mortgage loans);

(iii) any obligations of an agency controlled or supervised by or acting as an instrumentality of the United States Government pursuant to authority granted by the Congress of the United States;

(iv) obligations issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States of America, or temporary notes, preliminary loan notes or project notes issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America;

(v) time deposits, certificates of deposit or any other deposit with a bank, trust company, national banking association, savings bank, federal mutual savings bank, savings and loan association, federal savings and loan association or any other institution chartered or licensed by any state or the U.S. Comptroller of the Currency to accept deposits in such state (as used herein, "deposits" shall mean obligations evidencing deposit liability which rank at least on a parity with the claims of general creditors in liquidation), which are (a) fully secured, to the extent not insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, by any of the obligations described in (i) above having a market value (exclusive of accrued interest) not less than the uninsured amount of such deposit or (b) (1) unsecured or (2) secured to the extent, if any, required by the Agency and made with an institution whose unsecured debt securities are rated at least the then existing rating on the Bonds (or the highest rating of short-term obligations if the investment is a short-term obligation) by each Rating Agency;

(vi) repurchase agreements (A) backed by or related to obligations described in (i), (ii) or (iii) above with any institution whose unsecured debt securities are rated no lower than one category lower than the then-existing rating on the Bonds (or the highest rating of short-term obligations if the investment is a short-term obligation) by each Rating Agency or (B) with members of the Association of Primary Dealers which do not qualify under (A);

(vii) investment agreements, (A) secured or unsecured as required by the Agency, with any institution whose debt securities are rated no lower than one category lower than the then-existing rating on the Bonds (or the highest rating of short-term obligations if the investment is a short-term obligation) by each Rating Agency or (B) fully secured by obligations described in (i) with members of the Association of Primary Dealers who do not qualify under (A);

(viii) direct and general obligations of or obligations unconditionally guaranteed by the State, the payment of the principal of and interest on which the full faith and credit of the State is pledged, and certificates of participation in obligations of the State which obligation may be subject to annual appropriations, which obligations are rated at least the then existing rating on the Bonds by each Rating Agency;

(ix) direct and general obligations of or obligations of any state, municipality or political subdivision or agency thereof, which obligations are rated in either of the two highest rating categories of each Rating Agency;

(x) bonds, debentures, or other obligations issued by any bank, trust company, national banking association, insurance company, corporation, government or governmental entity (foreign or domestic), provided, that such bonds, debentures or other obligations are (a) payable in any coin or currency of the United States of America which at the time of payment will be legal tender for the payment of public and private debts, and (b) rated in either of the two highest rating categories of each Rating Agency;

(xi) commercial paper (having original maturities of not more than 365 days) rated in the highest category of each Rating Agency;

(xii) money market funds which invest in Government Obligations and which funds have been rated in either of the two highest rating categories by each Rating Agency;

(xiii) deposits in the Surplus Money Investment Fund referred to in Section 51003 of the Act or any successor fund thereto; or

(xiv) any investments authorized in a Series Indenture authorizing Bonds, which Bonds rated by each Rating Agency.

Provided, that it is expressly understood that the definition of Investment Obligations shall be, and be deemed to be, expanded, or new definitions and related provisions shall be added to this Indenture by a Supplemental Indenture or an Authorized Officer's Determination, thus permitting investments with different characteristics from those permitted which the Board of Directors or the Executive Director of the Agency deems from time to time to be in the interests of the Agency to include as Investment Obligations if at the time of inclusion such inclusion will not, in and of itself, impair, or cause the Bonds to fail to retain, the then-existing rating assigned to them by each Rating Agency.

For purposes of this definition, "institution" means an individual, partnership, corporation, trust or unincorporated organization, or a government or agency, instrumentality, program, account, fund, political subdivision or corporation thereof.

"Liquidation Proceeds" means amounts (*except* Insurance Proceeds) received in connection with the liquidation of a defaulted Mortgage Loan, whether through foreclosure, trustee's sale, repurchase by a Mortgage Lender, or otherwise.

"Loan Loss Fund" means the Loan Loss Fund established pursuant to Section 401 of this Indenture.

"Loan Loss Requirement" means, as of any particular date of calculation, an amount equal to the aggregate of all amounts established for the Series of Bonds Outstanding in

the Series Indentures authorizing the issuance of such Bonds, or a lesser amount if each of the Rating Agencies has confirmed that such lesser amount will not adversely affect the then-existing rating of the Bonds by such Rating Agency. The Trustee may rely upon a certificate from an Authorized Officer of the Agency which states the Loan Loss Requirement as of the date of said certificate.

"Mortgage-Backed Securities" means obligations representing undivided beneficial ownership interests (unless any other interest therein is allowed by the Act) in mortgage loans, which obligations are issued by or guaranteed by the Government National Mortgage Association, Fannie Mae, Federal Home Loan Mortgage Corporation or, to the extent set forth in a Series Indenture, a Supplemental Indenture, or an Authorized Officer's Determination, (i) any other agency or instrumentality of or chartered by the United States to which the powers of any of them have been transferred or which have similar powers to purchase mortgage loans, and (ii) any lending institution provided each of the Rating Agencies has confirmed that such acquisition of mortgage-backed securities will not adversely affect its then existing rating of the Bonds. Unless otherwise provided in a Series Indenture, a Supplemental Indenture, or an Authorized Officer's Determination, "Mortgage-Backed Securities" does not include any mortgage-backed securities that are not financed from moneys on deposit in the Acquisition Fund.

"Mortgage Lender" means any person (including the Agency) approved by the Agency for participation in the Program who shall participate in financing Mortgage Loans or Underlying Mortgage Loans and/or sell Mortgage Loans or Mortgage-Backed Securities to the Agency.

"Mortgage Loan" means (i) any loan (not including an Underlying Mortgage Loan) financed with amounts deposited in the Funds and Accounts (other than Funds and Accounts so specified in a Series Indenture) and pledged hereunder by the Agency in accordance with the Act, evidenced by a mortgage note and secured by a mortgage (or, with respect to loans related to cooperative dwelling units, evidenced by a promissory note and secured by a lien upon the related shares of stock in the cooperative housing corporation and the proprietary lease related to the financed premises), and (ii) any instrument evidencing an ownership interest in such loans.

"Outstanding Bonds" means, as of any date, all Bonds theretofore authenticated and delivered by the Trustee under this Indenture, *except:*

(a) any Bond deemed paid in accordance with Section 415(b) hereof;

(b) any Bond cancelled by, or delivered for cancellation to, the Trustee because of payment at maturity or redemption or purchase prior to maturity;

(c) any Bond deemed paid in accordance with the provisions of Section 303 hereof;

(d) any Bond deemed paid in accordance with the provisions of Section 1101 hereof; and

(e) any Bond in lieu of or in substitution for which another Bond shall have been authenticated and delivered pursuant to Section 211 of this Indenture, unless proof satisfactory to the Trustee is presented that any Bond for which a Bond in lieu thereof or in substitution therefor shall have been authenticated and delivered is held by a bona fide purchaser, as that term is defined in the Uniform Commercial Code-Investment Securities of the State (Sections 8101-8116 of the California Commercial Code), as amended, in which case both the Bond so substituted and replaced and the Bond or Bonds authenticated and delivered in lieu thereof or in substitution therefor shall be deemed Outstanding.

"Parity Hedge Obligation" has the meaning provided in Section 213(d) hereof.

"Parity Interest" means interest on Bonds, those portions of Parity Reimbursement Obligations that are related to interest payments on Parity Principal, and Parity Hedge Obligations.

"Parity Obligation" means Parity Interest and Parity Principal.

"Parity Obligation Instrument" means an instrument or other contractual arrangement, including Bonds, evidencing the Agency's obligation to pay the Parity Obligation.

"Parity Principal" means principal of Bonds and those portions of Parity Reimbursement Obligations that are related to principal.

"Parity Reimbursement Obligation" has the meaning provided in Section 213(b) hereof.

"Parties" or *"Party"* means any person(s), other than the Agency, that is a/are party(ies) to a Parity Obligation Instrument other than Bonds.

"Pledged Property" means the proceeds of the sale of the Bonds, Revenues and all other moneys in all Funds (except the Rebate Fund) and Accounts established under this Indenture, including the investments, if any, thereof, and the earnings, if any, thereon until applied in accordance with the terms of this Indenture; all Hedge Receipts; all right, title and interest of the Agency in and to the Mortgage Loans and the Mortgaged-Backed Securities, and related notes, *but excluding* (i) amounts paid or payable under the Mortgage Loans or Underlying Mortgage Loans as to which the obligor is required to be given a credit under the provisions of the Code and (ii) Mortgage Loan accrued interest not purchased by the Agency, and *except* that the pledge of Funds or Accounts established in a Series Indenture or and assets or property may be limited in purpose and time, as set forth in the Series Indenture.

"principal" means (a) as such term references the principal amount of a Deferred Interest Bond or Deferred Interest Bonds, the Appreciated Amount thereof, and (b) as such term references the principal amount of any other Bond or Bonds, the principal amount at

maturity of such Bond or Bonds. References herein to "principal" with respect to Bonds means Parity Principal.

"Principal Account" means the Principal Account established in the Debt Service Fund pursuant to Section 401 of this Indenture.

"Principal Prepayment" means any payment by a mortgagor or other recovery of principal on a Mortgage Loan which is not applied to a scheduled installment of principal and interest on a Mortgage Loan (including any deficiency in the payment of any scheduled installments of principal and interest then due and payable or interest paid in connection with a voluntary prepayment of a Mortgage Loan) and the portion of any Insurance Proceeds (to the extent not applied to the repair or restoration of any mortgaged premises), Liquidation Proceeds or other payments representing such principal amounts, including from the sale of a Mortgage Loan, and any amounts received in connection with a Mortgage-Backed Security that reflects a receipt described in this definition that is received in connection with Underlying Mortgage Loans.

"Principal Prepayment Fund" means the Principal Prepayment Fund established pursuant to Section 401 of this Indenture.

"Program" means the mortgage finance program of the Agency pursuant to which the Agency will issue the Bonds and apply the proceeds thereof to finance Mortgage Loans or Mortgage-Backed Securities hereunder.

"Qualified Hedge" means, to the extent from time to time permitted by law, any financial arrangement (i) which is entered into by the Agency with an entity that is a Qualified Hedge Provider at the time the arrangement is entered into; (ii) which is a cap, floor or collar; forward rate; future rate; swap; asset, index, price or market-linked transaction or agreement; other exchange or rate protection transaction agreement; other similar transaction (however designated); or any combination thereof; or any option with respect thereto; or any similar arrangement; (iii) which is executed by the Agency for any purpose authorized by law, including for the purpose of debt management, including managing interest rate fluctuations on Bonds and/or assets held hereunder, but not for purposes of speculation; (iv) which has been designated in writing to the Trustee by an Authorized Officer as a Qualified Hedge; and (v) which is entered into in accordance with Section 213 hereof.

"Qualified Hedge Provider" means an entity which, at the time of execution of the Qualified Hedge, will not, in and of itself, impair, or cause the Bonds to fail to retain, the then-existing rating assigned to them by any Rating Agency.

"Rating Agency" means each nationally recognized securities rating agency that is maintaining the rating on the Bonds at the request of the Agency.

"Rebate Fund" means the Rebate Fund created pursuant to Section 401 of this Indenture.

"Redemption Fund" means the Redemption Fund consisting of the Special Redemption Account and the Optional Redemption Account established pursuant to Section 401 of this Indenture.

"Redemption Price" means, with respect to a Bond or portion thereof, the portion of the principal amount of such Bond or portion plus the applicable premium, if any, payable upon redemption thereof in the manner contemplated in accordance with its terms pursuant to the provisions of this Indenture and any Series Indenture.

"Reimbursement Obligation" has the meaning provided in Section 213(b) hereof.

"Revenue Fund" means the Revenue Fund established pursuant to Section 401 of this Indenture.

"Revenues" means all moneys received by or on behalf of the Agency or Trustee representing (i) principal and interest payments on the Mortgage Loans or Mortgage-Backed Securities including all Principal Prepayments representing the same and all prepayment premiums or penalties received by or on behalf of the Agency in respect to the Mortgage Loans or Mortgage-Backed Securities, (ii) interest earnings, amortization of discount, and gain, all as received as cash on the investment of amounts in any Account or Fund, (iii) amounts transferred to the Revenue Fund in accordance with Article IV hereof, (iv) amounts transferred to the Special Redemption Account from the Debt Reserve Fund or the Loan Loss Fund, (v) amounts deposited in the Revenue Fund pursuant to the fifth paragraph of Section 502 hereof, and (vi) Hedge Receipts and Termination Receipts received pursuant to a Qualified Hedge unless otherwise provided in a Series Indenture, Supplemental Indenture, or Authorized Officer's Determination.

"Security Arrangement" means a Letter of Credit, Insurance Policy, Surety, Guarantee or other Security Arrangement (as defined and provided for in a Series Indenture providing for the issuance of Bonds rated by each Rating Agency or in a Supplemental Indenture), provided by an institution which at the time of execution of the Security Agreement such Security Agreement will not, in and of itself, impair or cause the Bonds to fail to maintain, the then-existing rating assigned them by each Rating Agency.

"Serial Bonds" means the Bonds which are not Term Bonds.

"Series" means one of the series or, as the context requires, subseries of Bonds issued under this Indenture pursuant to a Series Indenture.

"Series Indenture" means an indenture of the Agency authorizing the issuance of a Series of Bonds.

"Series Program Determinations" means determinations by the Agency relating to Mortgage Loans, Underlying Mortgage Loans, and Mortgage-Backed Securities and certain other matters acquired in connection with a Series of Bonds under the Program to be set forth (or provision to be determined at certain specified times in the future) in a Series Indenture and shall

include the following: (i) whether Mortgage Loans or Mortgage-Backed Securities are to be financed by such Bonds and the types of Mortgage-Backed Securities, if any, (ii) whether each Mortgage Loan and each Underlying Mortgage Loan shall be secured by a first lien mortgage, a second lien mortgage or a combination; (iii) whether each Mortgage Loan and each Underlying Mortgage Loan shall have approximately equal monthly payments or shall be a graduated payment mortgage loan or have a fixed or variable rate of interest; (iv) the maximum term to maturity of each Mortgage Loan and each Underlying Mortgage Loan; (v) whether each residence to which each Mortgage Loan and each Underlying Mortgage Loan relates shall be a principal residence; (vi) required primary mortgage insurance, if any, and the levels of coverage thereof; (vii) limitations, if any, applicable to purchases of Mortgage Loans and each Underlying Mortgage Loan relating to planned unit developments, and/or cooperatives, geographic concentration, and type of principal and interest characteristics; (viii) Supplemental Mortgage Coverage, if any; (ix) provisions, relating to Principal Prepayments, including application thereof for redemption or financing new Mortgage Loans or Mortgage-Backed Securities; (x) maximum Expenses for such Series; (xi) restrictions, if any, on the applications of the proceeds of the voluntary sale of Mortgage Loans and Mortgage-Backed Securities, if any; and (xii) any other provision deemed advisable by the Agency not in conflict with this Indenture.

"Sinking Fund Requirement" means, as of any particular date of calculation, with respect to the Term Bonds of any Series and maturity, the amount of money required to be applied on any applicable date to the redemption prior to maturity or the purchase of the Term Bonds, *except* as such Requirement shall have been previously reduced by the principal amount of any Term Bonds of such Series and maturity with respect to which such Sinking Fund Requirement is payable which are to be purchased or redeemed (*except* out of Sinking Fund Requirements). Sinking Fund Requirements may be established as fixed dollar amounts or as method(s) of calculation thereof.

"State" means the State of California.

"Subordinated Contract Obligation" means any payment obligation of the Agency (other than a payment obligation constituting a Parity Obligation) arising under (a) any Security Arrangement which has been designated as constituting a "Subordinated Contract Obligation" pursuant to the Series Indenture, Supplemental Indenture or Authorized Officer's Determination authorizing such Security Arrangement, (b) any Qualified Hedge, or portion of a Qualified Hedge, which has been designated as constituting a "Subordinated Contract Obligation" pursuant to the Series Indenture, Supplemental Indenture, or Authorized Officer's Determination authorizing such Qualified Hedge, and (c) any other contract, agreement or other obligation authorized by a Series Indenture, Supplemental Indenture, or Authorized Officer's Determination and designated as constituting a "Subordinated Contract Obligation" in such authorizing Series Indenture, Supplemental Indenture, or Authorized Officer's Determination. Each Subordinated Contract Obligation shall be payable from the Pledged Property subject and subordinate to the payments to be made with respect to the Parity Obligation, and shall be secured by a lien on and pledge of the Pledged Property, all as set forth herein or in the related Series Indenture, Supplemental Indenture, or Authorized Officer's Determination.

"Supplemental Indenture" means any indenture of the Agency supplementing or amending this Indenture.

"Supplemental Mortgage Coverage" means the coverage, if any, of loss from Mortgage Loan or Underlying Mortgage Loan defaults provided in a Series Indenture which supplements any primary mortgage insurance.

"Term Bonds" means the Bonds with respect to which Sinking Fund Requirements have been established.

"Termination Payment" means, with respect to a Qualified Hedge, an amount required to be paid by the Agency to a Qualified Hedge Provider as a result of the termination of the related Qualified Hedge or required to be paid by the Agency into a collateral account as a source of payment of any termination payments, provided that Termination Payments shall always be Subordinated Contract Obligations.

"Termination Receipt" means an amount required to be paid to the Agency under a Qualified Hedge by the Qualified Hedge Provider as a result of the termination of such a Qualified Hedge.

"Trustee" means any institution named in the Series Indenture related to the initial Series of Bonds issued hereunder and designated to act as trustee hereunder with respect to the Bonds and its successors and any consolidation or merger to which it or its successors may be a party.

"Underlying Mortgage Loan" means a mortgage loan represented by Mortgage-Backed Securities.

Section 104. *Miscellaneous Definitions.* Words of the masculine gender shall be deemed and construed to include correlative words of the feminine and neuter genders. Unless the context shall otherwise indicate, words which import the singular shall include the plural, and words which import the plural shall include the singular. The word "person" shall mean any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof. The words "hereof", "herein", "hereto", "hereby" and "hereunder" refer to this entire Indenture. The words "interest payment date" and "payment date" mean any date on which principal or redemption price of or interest on Parity Obligation Instruments is due and, with respect to any Series of Bonds, the interest payment date(s) established in the applicable Series Indenture, regardless of whether the referenced Bonds are interest-bearing or not. The word "mortgage" shall mean a mortgage, deed of trust or any similar term relating to the conveyance of an interest in real property as security for the repayment of money borrowed. Any reference to the then-existing long-term rating assigned to the Bonds by each Rating Agency means the lowest rating assigned to the Bonds by such Rating Agency.

Section 105. *Requirement of Signed Writing.* Every "request", "order", "demand", "application", "appointment", "notice", "statement", "certificate", "consent" or

similar action hereunder by the Agency or the Trustee, unless the form thereof is specifically provided, shall, in the case of the Agency, be in writing signed by an Authorized Officer and in the case of the Trustee, be in writing signed by an authorized officer of the Trustee.

ARTICLE II

FORM, EXECUTION, AUTHENTICATION AND DELIVERY OF BONDS

Section 201. *Issuance of Bonds for Program.* For the purposes set forth in the Act, Bonds of the Agency may be issued under and secured by this Indenture, subject to the provisions of this Article. The principal of, the interest on and the redemption premium, if any, on such Bonds shall be payable solely from the moneys and assets pledged by this Indenture for the payment of Parity Obligation, and all of the covenants, agreements and conditions of this Indenture shall be for the benefit and security of each and all of the present and future owners of the Bonds issued and to be issued under this Indenture, without preference, priority or distinction as to lien or otherwise, except as otherwise hereinafter provided, of any one Bond over any other Bond by reason of priority in the issuance, sale, effective date or negotiation thereof or otherwise, or of any one Parity Obligation Instrument over any other Parity Obligation Instrument by reason of priority in the effective date, sale or negotiation thereof or otherwise, all in accordance with the terms hereof.

Section 202. *Limitation on Issuance of Bonds.* No Bonds may be issued under the provisions of this Indenture except in accordance with the provisions of this Article.

Section 203. *Form of Bonds.* Bonds are issuable in definitive form. Definitive Bonds are issuable as registered Bonds. The principal denomination at maturity of any Series of Bonds shall be specified in the Series Indenture authorizing the issuance of such Series of Bonds. The definitive Bonds of any Series shall be in the form specified in the Series Indenture authorizing the issuance of such Series of Bonds, with such appropriate variations, omissions and insertions as are permitted or required by this Indenture, and with such additional changes as may be necessary or appropriate to conform to the provisions of the indenture or indentures providing for the issuance of the Bonds. Each Bond shall contain on the face thereof a statement to the following effect: "Neither the faith and credit nor the taxing power of the State of California is pledged to the payment of the principal of or interest on this bond." All such Bonds may have endorsed thereon such additional legends or text as may be necessary or appropriate to conform to any applicable rules and regulations of any governmental authority or any usage or requirement of law with respect thereto, or as may be authorized by the Agency and approved by the Trustee.

Section 204. *Details of Bonds.* The Bonds shall be dated, shall bear interest, if any, until their payment, such interest to the maturity thereof being payable on such dates, and stated to mature (subject to the right of prior redemption), all as provided in the applicable Series Indenture.

Each interest-bearing Bond shall bear interest from the interest payment date next preceding the date on which it is authenticated, *unless* authenticated on an interest payment date, in which case it shall bear interest from such interest payment date, or *unless* authenticated prior to the first interest payment date, in which case it shall bear interest from its date; *provided, however*, that if at the time of authentication of any Bond, interest is in default, such Bond shall bear interest from the date to which interest shall have been paid.

Unless otherwise required by law, definitive Bonds shall be executed in the name of the Agency by the manual or facsimile signature of its Executive Director and its corporate seal (or a facsimile thereof) shall be impressed, imprinted, engraved or otherwise reproduced thereon and attested by the manual or facsimile signature of any Authorized Officer of the Agency, other than the officer executing the Bonds.

In case any officer whose signature or a facsimile of whose signature shall appear on any Bonds shall cease to be such officer before the delivery of such Bonds, such signature or such facsimile shall nevertheless be valid and sufficient for all purposes the same as if he had remained in office until such delivery, and also any Bond may bear the facsimile signature of or may be signed by such persons as at the actual time of the execution of such Bond shall be the proper officers to sign such Bond although at the date of such Bond such persons may not have been such officers.

Except as may be otherwise provided in a Series Indenture (if then permitted by applicable law), both the principal of and the interest on the Bonds shall be payable in any coin or currency of the United States of America which on the respective dates of payment thereof is legal tender for the payment of public and private debts. *Subject to* alternate provisions established in any Series Indenture with respect to the applicable Series of Bonds, the principal of all Bonds shall be payable only to the registered owner or his legal representative at a corporate trust office of the Trustee *except* with respect to Bonds which are in book-entry form, and payment of the interest on each Bond shall be made by the Trustee on each interest payment date to the person appearing on the registration books of the Agency hereinafter provided for as the registered owner thereof or to the designee of such registered owner, by check mailed to the registered owner at his address as it appears on such registration books or to any designee, to the address of such designee. If so provided in the applicable Series Indenture the Trustee, in connection with a letter of credit, a tender option feature, a standby bond purchase agreement, other similar liquidity arrangements, or a Security Arrangement, may pay, in whole or in part, the principal or Redemption Price of and/or interest on a Bond to a person other than the registered owner (or his designee). The Trustee may enter into an agreement or agreements with or for the benefit of any registered owner for the payment of principal of or interest on Bonds in a manner or in a place different from that set forth in this paragraph. *Except* with respect to Bonds which are in book-entry form, payment of the principal of all Bonds shall be made upon the presentation and surrender of such Bonds as the same shall become due and payable. Payment of principal on Bonds in book-entry form shall be made pursuant to procedures established or referred to in the applicable Series Indenture.

Section 205. *Authentication of Bonds.* Only such of the definitive Bonds as shall have endorsed thereon a certificate of authentication substantially in the form set forth in the

applicable Series Indenture, duly executed by the Trustee, shall be entitled to any benefit or security under this Indenture. No definitive Bond shall be valid or obligatory for any purpose unless and until such certificate of authentication shall have been duly executed by the Trustee, and such certificate of the Trustee upon any such Bond shall be conclusive evidence that such Bond has been duly authenticated and delivered under this Indenture. The Trustee's certificate of authentication on any definitive Bond shall be deemed to have been duly executed if signed by an authorized officer of the Trustee, but it shall not be necessary that the same officer sign the certificate of authentication on all of the Bonds that may be issued hereunder at any one time.

Section 206. *Exchange of Bonds.* Subject to, and in accordance with, Section 207 hereof, Bonds, upon surrender thereof at a corporate trust office of the Bond Registrar, together with an assignment duly executed by the registered owner or his attorney or legal representative in such form as shall be satisfactory to the Trustee, may, at the option of the registered owner thereof, be exchanged for an equal aggregate principal amount of Bonds of like tenor and of the same Series (and subseries, if applicable) and maturity, bearing interest at the same rate, of any denomination or denominations authorized by this Indenture.

The Agency shall make provisions for the exchange of Bonds at a corporate trust office of the applicable Bond Registrar.

Section 207. *Negotiability, Registration and Registration of Transfer of Bonds.* The transfer of any Bond may be registered only upon the books kept for the registration of, and registration of transfers of, Bonds upon surrender thereof to the Bond Registrar together with an assignment duly executed by the registered owner or his attorney or legal representative in such form as shall be satisfactory to the Bond Registrar. Upon any such registration of transfer of a Bond, the Agency shall execute and the Trustee shall authenticate and deliver in exchange for such Bond a new Bond or Bonds, registered in the name of the transferee, in any denomination or denominations authorized by this Indenture, in an aggregate principal amount equal to the principal amount of such Bond of like tenor and of the same Series (and subseries, if applicable) and maturity and bearing interest at the same rate.

In all cases in which Bonds shall be exchanged or Bonds shall be transferred hereunder by registration as aforesaid, the Agency shall execute and the Trustee shall authenticate and deliver at the earliest practicable time Bonds in accordance with the provisions of this Indenture. All Bonds surrendered in any exchange or registration of transfer shall forthwith be canceled by the Trustee. The Agency or, at the direction of the Agency, the Trustee may make a charge for the expense incurred in every such exchange or registration of transfer of Bonds, including a charge sufficient to reimburse it for any tax or other governmental charge required to be paid with respect to such exchange or registration of transfer. Neither the Agency nor the Trustee shall be required to make any such exchange or registration of transfer of Bonds during the fifteen (15) days immediately preceding an interest payment date on the Bonds, or, in the case of any proposed redemption of Bonds, immediately preceding the date of notice of such redemption, or after such Bonds or any portion thereof shall have been selected for redemption.

Pursuant to a Series Indenture, the Bond Registrar may record different registered owners with respect to the principal or Redemption Price of, and/or interest on a Bond.

Section 208. *Ownership of Bonds.* As to any Bond, the person in whose name the same shall be registered shall be deemed and regarded as the absolute owner thereof for all purposes. Payment of or on account of the principal of and interest on any Bond of a Series shall be made only to the registered owner(s) thereof with respect to such payment or his legal representative. All such payments shall be valid and effectual to satisfy and discharge the liability upon such Bond, including interest thereon, to the extent of the sum or sums so paid.

Any registered owner of any Bond is hereby granted power to transfer absolute title thereto by assignment thereof to a bona fide purchaser for value (present or antecedent) without notice of prior defenses or equities or claims of ownership enforceable against his assignor or any person on the chain of title and before the maturity of such Bond. Every prior owner of any Bond shall be deemed to have waived and renounced all of his equities or rights therein in favor of every such bona fide purchaser, and every such bona fide purchaser shall acquire absolute title thereto and to all rights represented thereby.

Section 209. *Issuance of Bonds.* Each Series of Bonds shall be authorized and issued under and secured by this Indenture pursuant to the authorization contained in a Series Indenture. The Bonds of each Series shall be designated "California Housing Finance Agency Residential Mortgage Revenue Bonds, with such ordinal number and/or letter(s) as will identify the particular Series (except that Bonds of a Series issued pursuant to Section 210 hereof may be designated "California Housing Finance Agency Residential Mortgage Revenue Refunding Bonds, Series ____" with such ordinal numbers and/or letter(s) as will identify the particular Series of refunding Bonds), shall be in such subseries (if any), shall be in such denominations, shall be dated, shall bear interest at a rate or rates not exceeding the maximum rate then permitted by law payable beginning on such date, shall be stated to mature on such dates in such year or years, shall be made redeemable at such times and prices (subject to the provisions of Article III of this Indenture), shall have such interest payment dates, shall be numbered and the Term Bonds of such Series shall have such Sinking Fund Requirements, all as may be provided by the Series Indenture for such Bonds. Except as may otherwise be provided in the Series Indenture and except as to any differences in the maturities thereof or the interest payment dates or the rate or rates of interest or the provisions for redemption, such Bonds shall be on a parity with and shall be entitled to the same benefits and security under this Indenture as all other Bonds issued under this Indenture.

Each Series Indenture authorizing the issuance of a Series of Bonds shall specify and determine:

(a) The authorized principal amount of such Series of Bonds;

(b) The purposes for which such Series of Bonds are being issued which shall be any lawful authorized purpose, including but not limited to the following purposes: (i) the purchase of Mortgage Loans or Mortgage-Backed Securities, (ii) the making of such deposits in amounts, if any, required by this Indenture or the Series Indenture to be paid into various Funds, or (iii) the refunding of bonds or other obligations issued by the Agency or another issuer;

(c) The maturity date or dates, the amounts of each maturity, and the interest payment dates of the Bonds of such Series;

(d) The interest rate or rates of the Bonds of such Series or method of determining the same;

(e) The denomination or denominations of, and the manner of dating, numbering and lettering the Bonds of each Series;

(f) In the case of Term Bonds, if any, provision for Sinking Fund Requirements;

(g) The Redemption Price or Redemption Prices, if any, the time or times and the terms and conditions upon which the Bonds of such Series may be redeemed prior to their maturities, including without limitation the method of selection for redemption as among maturities;

(h) The amounts to be deposited from the proceeds of such Series of Bonds in the Funds and Accounts created and established by this Indenture and the Series Indenture;

(i) That notwithstanding any other provision of the Series Indenture, upon issuance, sale and delivery of such Series of Bonds, so much of such proceeds of the Bonds of such Series credited to the Bond Proceeds Fund shall be transferred to the Debt Reserve Fund so that the amount in such fund shall be at least equal to the Debt Reserve Requirement calculated immediately after the delivery of such Series of Bonds (after giving effect to the last paragraphs of Sections 409 and 410);

(j) That notwithstanding any other provision of the Series Indenture, upon sale and delivery of such Series of Bonds, so much of such proceeds of the Bonds of such Series credited to the Bond Proceeds Fund shall be transferred to the Loan Loss Fund so that the amount in such fund shall be at least equal to the Loan Loss Requirement calculated immediately after the delivery of such Series of Bonds;

(k) The manner in which Bonds of such Series are to be sold and provisions for the sale thereof;

(l) The Series Program Determinations;

(m) Whether Security Arrangements are to be provided in lieu of cash deposits to either or both of the Debt Reserve Fund and Loan Loss Fund and any provisions relating to receipt and repayment of moneys drawn under such Security Arrangements;

(n) Provisions with respect to Security Arrangements and Qualified Hedges pursuant to Section 213 hereof;

(o) The Cash Flow Requirements, if any; and

(p) Any other provisions deemed advisable by the Agency not in conflict with the provisions of this Indenture.

Said Bonds shall be executed substantially in the form and manner hereinabove set forth and shall be deposited with the Trustee for authentication, but before said Bonds shall be authenticated and delivered by the Trustee, there shall be on file with the Trustee the following:

(a) A copy, duly certified by an Authorized Officer, of this Indenture and the Series Indenture for such Series of Bonds;

(b) A Bond Counsel's Opinion stating in the opinion of such counsel that this Indenture and the applicable Series Indenture have been duly authorized, executed, and delivered by, and are valid and binding obligations of, the Agency;

(c) A Cash Flow Statement, if required by Section 607, conforming to the requirements of Section 607 hereof;

(d) A request and authorization to the Trustee on behalf of the Agency, signed by an Authorized Officer, to authenticate and deliver the Bonds to the purchaser or purchasers therein identified upon payment to the Trustee for the account of the Agency of the purchase price therefor; and

(e) Evidence that the issuance of said Bonds will not adversely affect the then-existing ratings of any of the Bonds by any Rating Agency.

When the documents mentioned in clauses (a) to (e), inclusive, of this Section shall have been filed with the Trustee and when the Bonds described in the Series Indenture mentioned in clause (a) above shall have been executed and authenticated as required by this Indenture, the Trustee shall deliver such Bonds at one time to or upon the order of the purchaser or purchasers named in the request and authorization mentioned in clause (d) of this Section, but only upon payment to the Trustee of the purchase price of said Bonds. The Trustee shall be entitled to rely upon such request and authorization as to the amount of such purchase price.

Simultaneously with the delivery of such Bonds the Trustee shall deposit or credit the proceeds of said Bonds into the applicable Series Bond Proceeds Account of the Bond Proceeds Fund. Unless otherwise provided in the applicable Series Indenture, the Trustee shall apply such proceeds together with any other available funds, as follows:

(i) an amount shall be transferred to and deposited to the credit of the Debt Reserve Fund such that the amount on deposit in such Fund will at least equal the Debt Reserve Requirement (after giving effect to the last paragraphs of Sections 409 and 410);

(ii) an amount shall be transferred to and deposited to the credit of the Loan Loss Fund such that the amount on deposit in such Fund will at least equal

the Loan Loss Requirement (after giving effect to the last paragraphs of Sections 409 and 410);

(iii) the total amount of such proceeds designated by the Agency as accrued interest and capitalized interest shall be transferred to and deposited to the credit of the Revenue Fund;

(iv) an amount equal to the Costs of Issuance for such Bonds shall be transferred to and deposited to the credit of the Series Account in the Costs of Issuance Fund established for such Series;

(v) an amount to the extent set forth in the applicable Series Indenture, shall be transferred to and deposited in the Expense Fund;

(vi) an amount to be transferred to and deposited into any Fund or Account not referred to in clauses (i) - (v) above or (vii) below as provided in the applicable Series Indenture; and

(vii) the balance of such moneys shall be transferred to and deposited to the credit of the Acquisition Account in the Acquisition Fund established for such Series.

Section 210. *Refunding Bonds.* Refunding Bonds of the Agency may be issued under and secured by this Indenture, subject to the conditions hereinafter provided in this Section, from time to time, for the purpose of providing funds, with any other available funds, for (i) redeeming (or purchasing in lieu of redemption) prior to their maturity or maturities, or retiring at their maturity or maturities, all or any part of the Outstanding Bonds of any Series, including the payment of any redemption premium thereon (or premium, to the extent permitted by law, included in the purchase price if purchased in lieu of redemption), (ii) making any required deposits to the Debt Reserve Fund and the Loan Loss Fund, (iii) if deemed necessary by the Agency, for paying the interest to accrue on the refunding Bonds or refunded Bonds to the date fixed for their redemption (or purchase) and (iv) any expenses in connection with such refunding. Before any Bonds shall be issued under the provisions of this paragraph, the Agency shall execute a Series Indenture authorizing the issuance of such Bonds, fixing the amount and the details thereof, describing the Bonds to be redeemed and setting forth determinations with respect to the same matters as are set forth in the second paragraph of Section 209 hereof.

Refunding Bonds shall be designated, shall be in such denominations, shall be dated, shall bear interest, if any, at a rate or rates not exceeding the maximum rate then permitted by law payable beginning on such date, shall be stated to mature on such date or dates and in such year or years, shall have such interest payment dates, and shall be made redeemable at such times and prices (subject to the provisions of Article III of this Indenture), shall be numbered, and any Term Bonds of such Series shall have such Sinking Fund Requirements, all as may be provided by the Series Indenture for such Bonds. *Except* as may otherwise be provided in the applicable Series Indenture and *except* as to any differences in the maturities thereof or the interest payment dates or the rate or rates of interest or the provisions for redemption, such

refunding Bonds shall be on a parity with and shall be entitled to the same benefit and security of this Indenture as all other Bonds issued under this Indenture (*except* as otherwise provided in a Series Indenture).

Refunding Bonds issued under the provisions of this Section shall be executed substantially in the form and manner hereinabove set forth and shall be deposited with the Trustee for authentication, but prior to or simultaneously with the authentication and delivery of such Bonds by the Trustee to or upon the order of the purchasers thereof there shall be filed with the Trustee the following:

(a) a copy, duly certified by an Authorized Officer, of this Indenture and the Series Indenture for such Series of refunding Bonds;

(b) A Bond Counsel's Opinion stating in the opinion of such counsel that this Indenture and the applicable Series Indenture have been duly authorized, executed, and delivered by, and are valid and binding obligations of, the Agency;

(c) a Cash Flow Statement, if required by Section 607, conforming to the requirements of Section 607 hereof;

(d) a certificate of an Authorized Officer stating that the proceeds (excluding accrued interest but including any premium) of such refunding Bonds, together with any moneys to be withdrawn from the Debt Service Fund by the Trustee, and any other moneys which have been made available to the Trustee for such purposes, or the principal of and the interest on the investment of such proceeds or any such moneys, will be not less than an amount sufficient to pay the principal of and the redemption premium, if any, on the Bonds to be refunded and the interest which will become due and payable on or prior to the date of their payment or redemption, the expenses in connection with such refunding and to make any required deposits to the Debt Reserve Fund and the Loan Loss Fund and specifying transfers, if any, from the Series Acquisition Accounts applicable to the Series of Bonds to be refunded and the refunding Bonds;

(e) if all or part of the refunded Bonds are to be redeemed prior to maturity, irrevocable instructions from an Authorized Officer of the Agency to the Trustee to redeem the applicable Bonds;

(f) a request and authorization to the Trustee on behalf of the Agency, signed by an Authorized Officer, to authenticate and deliver Bonds to the purchaser or purchasers therein identified upon payment to the Trustee for the account of the Agency of the purchase price therefor; and

(g) evidence that the issuance of said Bonds will not adversely affect the then-existing rating of any of the Bonds by any Rating Agency.

When the documents mentioned in clauses (a) to (f), inclusive, of this Section shall have been filed with the Trustee and when the Bonds described in the Series Indenture mentioned in clause (a) above shall have been executed and authenticated as required by this

Indenture, the Trustee shall deliver such Bonds at one time to or upon the order of the purchaser or purchasers named in the request and authorization mentioned in clause (f) of this Section, but only upon payment to the Trustee of this purchase price of said Bonds. The Trustee shall be entitled to rely upon such request and authorization as to the amount of such purchase price.

The proceeds of such refunding Bonds shall, to the extent practicable, be invested and reinvested by the Trustee, with the approval of the Agency, in Investment Obligations, and the moneys so invested shall be available for use when required. The income derived from such investments may, as determined by the Agency, be added to such proceeds and applied in accordance with the provisions of this Section 210.

Section 211. *Temporary Bonds.* Until definitive Bonds required by the applicable Series Indenture are ready for delivery, there may be executed, and upon request of an Authorized Officer the Trustee shall authenticate and deliver, in lieu of definitive Bonds and subject to the same limitations and conditions, temporary printed, typewritten, engraved or lithographed Bonds, substantially of the tenor of the Bonds hereinabove set forth and with such appropriate additions, omissions, insertions and variations as may be required. Notwithstanding anything provided in this Section 211, typewritten Bonds can be definitive Bonds.

Until definitive Bonds are ready for delivery, any temporary Bond may, if so provided by an Authorized Officer in a certificate filed with the Trustee, be exchanged at a corporate trust office of the Bond Registrar, without charge to the owner thereof, for an equal aggregate principal amount of temporary Bond of like tenor, of the same Series (and subseries, if applicable) and maturity and bearing interest at the same rate.

If temporary Bonds shall be issued, the Agency shall cause the definitive Bonds to be prepared and to be executed and delivered to the Trustee, and the Trustee, upon presentation to a corporate trust office of the Bond Registrar of any temporary Bond, if any, shall cancel the same and authenticate and deliver in exchange therefor at the place designated by the owner, without charge to the owner thereof, a definitive Bond or Bonds of an equal aggregate principal amount, of the same series (and subseries, if applicable) and maturity and bearing interest at the same rate as the temporary Bonds surrendered. Until so exchanged the temporary Bonds shall in all respects be entitled to the same benefit and security of this Indenture as the definitive Bonds to be issued and authenticated hereunder. No charge for taxes or governmental charges shall be made against the owner upon an exchange of a temporary Bond for definitive Bond.

Section 212. *Mutilated, Destroyed or Lost Bonds.* In case any Bond secured hereby shall become mutilated or be destroyed or lost, the Agency shall cause to be executed, and the Trustee shall authenticate and deliver, a new Bond of like date and tenor in exchange and substitution for and upon cancellation of such mutilated Bond or in lieu of and in substitution for such Bond destroyed or lost, upon the owner's paying the reasonable expenses and charges of the Agency and the Trustee in connection therewith and, in the case of a Bond destroyed or lost, his filing with the Trustee evidence satisfactory to it and to the Agency that such Bond was destroyed or lost, of his ownership thereof, and furnishing the Agency and the Trustee indemnity satisfactory to them.

Section 213. *Security Arrangements; Qualified Hedges; and Other Similar Arrangements.* (a) The Agency may include such provisions in a Series Indenture authorizing the issuance of a Series of Bonds secured by a Security Arrangement or a Supplemental Indenture as the Agency deems appropriate, and no such provisions shall be deemed to constitute an amendment to this Indenture, including:

(1) So long as a Security Arrangement providing security (but not liquidity) is in full force and effect, and payment on the Security Arrangement is not in default and the issuer of the Security Arrangement is qualified to do business, then, in all such events, the issuer of the Security Arrangement shall be deemed to be the sole Owner of the Outstanding Bonds the payment of which such Security Arrangement secures when the approval, consent or action of the Owners for such Bonds is required or may be exercised under this Indenture, or, in the alternative (if so provided in the Series Indenture or Supplemental Indenture authorizing such Security Arrangement), that the approval, consent or action of the issuer of the Security Arrangement shall be required in addition to the approval, consent or action of the applicable percentage of the Owners of the Outstanding Bonds.

(2) In the event that the principal, Sinking Fund Requirements, if any, and Redemption Price, if applicable, of and interest due on any Outstanding Bonds shall be paid under the provisions of a Security Arrangement all covenants, agreements and other obligations of the Agency to the Owners of such Bonds shall continue to exist and such issuer of the Security Arrangement shall be subrogated to the rights of such Owners in accordance with the terms of such Security Arrangement and this Indenture.

(b) The Agency may secure such Security Arrangement by an agreement providing for the purchase of the Bonds secured thereby with such adjustments to the rate of interest, method of determining interest, maturity, or redemption provisions as specified by the Agency pursuant to the applicable Series Indenture or Supplemental Indenture, except that no Security Arrangement can include any adjustments to maturity or redemption provisions unless (i) a Cash Flow Statement is delivered at the time of execution of such Security Arrangement which states that it reflects such adjustments and changes in redemption provisions, (ii) such adjustments and changes in redemption provisions are conditioned upon delivery of a Cash Flow Statement at the time of each such adjustment or change which states that it reflects such adjustment or change, or (iii) each payment of such adjusted maturity or redemption amount, satisfies the requirements, if any, for delivery of a Cash Flow Statement or such payment was reflected in the most recent Cash Flow Statement. The Agency may also in an agreement with the issuer of such Security Arrangement agree to directly reimburse such issuer for amounts paid under the terms of such Security Arrangement (together with interest thereon, the *"Reimbursement Obligation"*); *provided, however,* that no Reimbursement Obligation shall be created, for purposes of this Indenture, until amounts are paid under such Security Arrangement. Any such Reimbursement Obligation, which may include interest calculated at a rate higher than the interest rate on the related Bond, may be secured by a pledge of, and a lien on, the Pledged Property on a parity with the lien securing the Parity Obligation (a *"Parity Reimbursement*

Obligation"), but only to the extent principal amortization requirements with respect to such reimbursement are equal to the amortization requirements for such related Bonds, without acceleration (unless either a Cash Flow Statement is delivered at the time of execution of the Security Arrangement incorporating a different principal amortization schedule with respect to such Parity Reimbursement Obligation or the payment pursuant to such different amortization schedule is conditioned upon satisfying any applicable Cash Flow Requirements as reflected by the delivery of a Cash Flow Statement), or may constitute a Subordinated Contract Obligation, as determined by the Agency in the applicable Series Indenture or Supplemental Indenture. Parity Reimbursement Obligations shall not include any payments of any fees, expenses, indemnification, or other obligations (other than Parity Reimbursement Obligations) to any such issuer, or any payments pursuant to term-loan or other principal amortization requirements in reimbursement of any such advance that are more accelerated than the amortization requirements on such related Bonds, which payments shall be Subordinated Contract Obligations.

(c) Any such Security Arrangement shall be for the benefit of and secure such Bonds or portion thereof as specified in the applicable Series Indenture or Supplemental Indenture.

(d) The Agency may, to the extent from time to time permitted pursuant to law, enter into Qualified Hedges. If Cash Flow Requirements are applicable, then the terms of such Qualified Hedge must be reflected in a Cash Flow Statement or the Agency must have delivered a Cash Flow Certificate that takes into account the terms of the applicable Qualified Hedge. The Agency's obligation to pay any amount under any Qualified Hedge may be secured by a pledge of, and a lien on, the Pledged Property, subject to the last sentence of this Section 213(d), on a parity with the lien securing the Parity Obligation (a *"Parity Hedge Obligation"*), or may constitute a Subordinated Contract Obligation, as determined by the Agency in the Series Indenture authorizing the related issue of Bonds, in a Supplemental Indenture or in an Authorized Officer's Determination. Parity Hedge Obligations shall not include any payments of any termination (including Termination Payments) or other fees, expenses, indemnification or other obligations (other than Parity Interest) to a Party to a Qualified Hedge, which payments shall be Subordinated Contract Obligations, unless otherwise provided in a Series Indenture, a Supplemental Indenture, or an Authorized Officer's Determination and each Rating Agency has confirmed that such alternate provisions will not adversely affect its then-existing rating of the Bonds.

Section 214. *Book-Entry System.* Bonds may be issued as certificated Bonds or as book-entry bonds under a book-entry system as specified in the related Series Indenture.

ARTICLE III

REDEMPTION OF BONDS

Section 301. *Redemption of Bonds.* The Bonds issued under the provisions of this Indenture shall be made subject to redemption, both in whole and in part and at such times and Redemption Prices, as may be provided in the applicable Series Indenture; *provided,*

however, that Term Bonds shall be made subject to redemption to the extent of any Sinking Fund Requirements therefor on the dates and during the period during which such Sinking Fund Requirements are in effect as established in the applicable Series Indenture.

The Trustee shall select the Bonds or portions of Bonds to be redeemed or purchased in accordance with this Indenture and the applicable Series Indenture. *Except* as otherwise stated in the Series Indenture authorizing a Series of Bonds hereunder with respect to all or any part of the Series of Bonds authorized thereunder, moneys shall upon direction by the Agency Request to the Trustee be applied by the Trustee to the purchase or the redemption of Bonds selected from among the Series (and subseries, if applicable), maturities and interest rates on the basis specified by the Agency in such Agency Request accompanied by a Cash Flow Certificate or Cash Flow Statement. Except as otherwise provided in a Series Indenture, the Agency Request relating to each redemption of Bonds shall be filed with the Trustee at least thirty (30) days prior to the date fixed for redemption or such lesser number of days as shall be acceptable to the Trustee.

Except as otherwise provided in a Series Indenture, if less than all of the Bonds of one Series (and subseries, if applicable) and one maturity bearing the same interest rate (and otherwise of like tenor) shall be called for redemption, the particular Bonds of such Series (and subseries if applicable) and maturity bearing the same rate of interest (and otherwise of like tenor) to be redeemed shall be selected not later than twenty (20) days prior to the date fixed for redemption in such manner as directed by the Agency or, if no such direction is received by the Trustee, by lot or in such manner as the Trustee in its discretion may determine; *provided, however,* that the portion of Bonds of any Series (and subseries, if applicable) to be redeemed shall be in the minimum principal amount or some integral multiple thereof established for such Bonds in the applicable Series Indenture, and that in selecting Bonds for redemption, the Trustee shall treat each Bond as representing that number of Bonds which is obtained by dividing the principal amount of such Bond by said minimum principal amount.

If less than all of the Term Bonds Outstanding of any one maturity of a Series (or subseries, if applicable) shall be purchased or called for redemption (other than in satisfaction of Sinking Fund Requirements), the principal amount of such Term Bonds that are so purchased or redeemed shall be credited, to the extent practicable, except as otherwise provided in an Agency Request, against all remaining Sinking Fund Requirements for the Term Bonds of such Series (and subseries, if applicable) and maturity in the proportion which the then remaining balance of each such Sinking Fund Requirement bears to the total of all Bonds of such Series (and subseries, if applicable) and maturity then Outstanding.

Section 302. *Redemption Notice.* This Section shall apply unless otherwise provided in a Series Indenture. At least fifteen (15) days but not more than ninety (90) days before the redemption date of any Bonds, the Trustee shall cause a notice of any such redemption, either in whole or in part, signed by the Trustee to be mailed, first class postage prepaid, to all registered owners of Bonds to be redeemed at their addresses as they appear on the registration books kept by the Bond Registrar. Each such notice shall set forth the date fixed for redemption, the Redemption Price to be paid, the place or places where amounts due upon such redemption will be payable and, if less than all of the Bonds then Outstanding shall be called for

redemption, the Series (or subseries), the maturities and the distinctive numbers, if any, of such Bonds to be redeemed and, in the case of Bonds to be redeemed in part only, the portion of the principal amount thereof to be redeemed. In addition, if the notice of redemption is conditional, the notice shall set forth in summary terms, the conditions precedent to such redemption and that if such conditions shall not have been satisfied on or prior to the redemption date, said notice shall be of no force and effect and such Bonds shall not be redeemed. If the conditions are not satisfied, the redemption shall not be made and the Trustee shall within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such conditions were not satisfied. An affidavit of the Trustee of mailing shall be conclusive and binding upon the Agency and Bondowners. Once sent in accordance with the provisions of this Indenture, any such notice shall be effective whether or not received by a Bondowner. In case any Bond is to be redeemed in part only, the notice of redemption which relates to such Bond shall state also that on or after the redemption date, upon surrender of such Bond, a new Bond of the same maturity and Series (and subseries, if applicable), bearing interest at the same rate and in principal amount equal to the unredeemed portion of such Bond, will be issued. A Bondowner may waive its right to receive notice pursuant to this Section.

Section 303. *Effect of Calling for Redemption.* On the date so designated for redemption if the conditions precedent, if any, to such redemption have been satisfied, any required notice which has not been waived having been given in the manner and under the conditions hereinabove provided, the Bonds or portions of Bonds so called for redemption shall become and be due and payable at the Redemption Price provided for redemption of such Bonds or portions thereof on such date, and, if sufficient money or Government Obligations (the principal of and interest on which will provide sufficient money for payment of the Redemption Price and the accrued interest) are held by the Trustee in trust for the owners of the Bonds or portions thereof to be redeemed, as provided in this Indenture, such Bonds or portions thereof shall cease to be Outstanding under the provisions of this Indenture, interest on the Bonds or portions of Bonds so called for redemption shall cease to accrue, such Bonds or portions of Bonds shall cease to be entitled to any benefit or security under this Indenture and the owners of such Bonds or portions of Bonds shall have no rights in respect thereof, except to receive payment of the Redemption Price thereof and the accrued interest thereon to the date of redemption and, to the extent provided in Section 304 of this Article, to receive Bonds for any unredeemed portion of Bonds.

Section 304. *Redemption of Portion of Bond.* In case part but not all of an Outstanding Bond shall be selected for redemption, the owner thereof or his attorney or legal representative shall present and surrender such Bond (with, if the Agency or the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Agency and the Trustee duly executed by the owner thereof or his attorney or legal representative) to the Trustee for payment of the principal amount thereof so called for redemption, and the Agency shall execute and the Trustee shall authenticate and deliver to or upon the order of such owner or his legal representative, without charge therefor, for the unredeemed portion of the principal amount of the Bond so surrendered, a new Bond, at the option of such owner or his attorney or legal representative, of any denomination or denominations authorized by this Indenture, of the same maturity and Series (and subseries, if applicable) and bearing interest at the same rate and otherwise of like tenor.

Section 305. *Cancellation.* Bonds so presented and surrendered shall be canceled upon the surrender thereof.

ARTICLE IV

APPLICATION OF REVENUES AND OTHER MONEYS

Section 401. *Establishment of Funds and Accounts.* (a) The following Funds and Accounts are hereby created and designated as set forth below:

Bond Proceeds Fund
  Series Bond Proceeds Accounts

Acquisition Fund
  Series Acquisition Accounts

Costs of Issuance Fund
  Series Costs of Issuance Accounts

Revenue Fund

Debt Service Fund
  Interest Account
  Principal Account

Redemption Fund
  Special Redemption Account
  Optional Redemption Account

Expense Fund

Debt Reserve Fund

Loan Loss Fund

General Fund

Principal Prepayment Fund
  Series Principal Prepayment Account

Rebate Fund

Additional Funds and Accounts (including for the purpose of depositing amounts required to be rebated to the United States, *i.e.*, a Rebate Account within the Rebate Fund) may be created and designated in Series Indentures. The designation of each such Fund and Account shall include the term "California Housing Finance Agency, Residential Mortgage Revenue

Bonds" which term shall precede the designation as set forth above. Each such Fund and Account is, *however,* sometimes referred to herein as set forth above. Each such Fund and Account shall be held by the Trustee, in trust, separate and apart from all other funds of the Agency, for the purposes provided in this Indenture. In Series Indentures, the Agency may provide for the deposit of amounts in Funds and Accounts, which amounts shall be subject to the lien of this Indenture for the purposes and period of time set forth in the applicable Series Indenture.

(b) Upon the issuance of a Series of Bonds, the Trustee shall establish a Series Account within the Bond Proceeds Fund applicable to such Series of Bonds and may deposit amounts received in connection with the issuance of such Bonds into such Account and thereupon apply such proceeds at the times and in the amounts set forth in the Series Indenture authorizing the issuance thereof.

Section 402. *Acquisition Fund.* Upon the issuance of a Series of Bonds, unless otherwise provided in the applicable Series Indenture, the Trustee shall establish a Series Acquisition Account (which may relate to more than one Series) within the Acquisition Fund applicable to such Series of Bonds and shall either (i) transfer amounts from the Bond Proceeds Fund received in connection with the issuance of such Bonds into such Account or (ii) deposit such amounts directly into the applicable Acquisition Account, in the amount(s) and at the time(s) set forth in the Series Indenture authorizing the issuance thereof. Moneys in the Acquisition Fund shall be applied by the Trustee to finance the acquisition of Mortgage Loans and/or Mortgage-Backed Securities (the characteristics of which conform to the applicable Series Program Determinations) upon Agency Request or as otherwise provided in the Series Indenture.

The Trustee shall transfer from any Series Acquisition Account to the Special Redemption Account any amount specified by the Agency from time to time in an Agency Request for the purpose of redeeming or purchasing Bonds of the Series for which such Series Acquisition Account was established, *unless* otherwise provided in the applicable Series Indenture.

The Trustee shall transfer any amount representing Principal Prepayments deposited in a Series Acquisition Account to the Principal Prepayment Fund, upon an Agency Request in the amount and at the time(s) stated in such Agency Request.

Moneys held for the credit of the Acquisition Fund shall be transferred to the Interest or Principal Account, in that order, pursuant to Section 413 hereof.

Section 403. *Costs of Issuance Fund.* Upon the issuance of a Series of Bonds, unless otherwise provided in the applicable Series Indenture, the Trustee shall establish a Series Account within the Costs of Issuance Fund applicable to such Series of Bonds and shall transfer amounts from the Bond Proceeds Fund received in connection with the issuance of such Bonds into such Account in the amount set forth in the Series Indenture authorizing the issuance thereof. In addition, the Agency may deposit other amounts available therefor in such Account. Moneys held in a Series Account in the Costs of Issuance Fund shall be disbursed to pay the Costs of Issuance related to the applicable Series of Bonds upon a requisition, signed by an

Authorized Officer of the Agency, identifying generally the nature and amount of such Costs of Issuance. Upon Agency Request any amount remaining in a Series Account shall be transferred to the Revenue Fund and treated as Revenues, to the Acquisition Fund or to the Special Redemption Account of the Redemption Fund.

Section 404. *Revenue Fund; Application of Revenues.* (a) The Agency shall transfer all Revenues to the Trustee within three business days following the date of the Agency's receipt thereof. Upon transfer, the Agency shall identify the amount of Principal Prepayments included in such Revenues. All Revenues shall be deposited in the Revenue Fund as received by the Trustee.

(b) No later than one month following the deposit of Principal Prepayments into the Revenue Fund, the Trustee shall transfer Revenues in an amount equal to and representing such Principal Prepayments received to the Principal Prepayment Fund.

(c) At any time, upon Agency Request, the Trustee shall apply amounts in the Revenue Fund to pay for accrued interest in connection with the Trustee's purchase of Investment Obligations for deposit in any Fund or Account maintained hereunder and to pay accrued interest with respect to the financing of Mortgage Loans and Mortgage-Backed Securities.

(d) Upon deposit in the Revenue Fund, the Trustee shall transfer to the credit of the applicable Series Acquisition Account amounts equal to the amounts expended from such Account to pay accrued interest with respect to the financings of Mortgage Loans and Mortgage-Backed Securities funded from amounts on deposit in such Account.

(e) The Trustee shall (x) transfer Revenues in the Revenue Fund in the amounts specified in an Agency Request, on the dates therein specified, to the credit of the Funds and Accounts in and in the priority of clauses (1) - (5) below, and (y) transfer all Revenues in the Revenue Fund, one business day prior to each February 1 and August 1, to the credit of the Funds and Accounts in and in the priority of clauses (1) - (11) below:

(1) To any Account in the Rebate Fund, the amount(s), if any specified by the Agency;

(2) Principal payments, including Principal Prepayments, of Mortgage Loans and Mortgage-Backed Securities in an amount equal to the amounts required by the Code to be applied to pay principal of Bonds shall be transferred to the Principal Account or the Special Redemption Account, as directed by the Agency;

(3) To the Interest Account, to pay interest due on the next succeeding debt service payment date on the Bonds, plus any Parity Interest not already included under this clause (3);

(4) To the Principal Account, to pay principal due on the next succeeding debt service payment date on the Bonds, plus the amount related to Parity Principal that is not already included in this clause (4);

(5) To the Interest Account, to pay any fees in connection with tender option features, letters of credit, standby bond purchase agreements and other forms of liquidity related to such Bonds as set forth in a Series Indenture or Supplemental Indenture;

(6) To the credit of the Expense Fund, the amount of Expenses specified in the Agency Request which shall not exceed (in the aggregate) the amount determined by multiplying the maximum amount of Expenses which may be deposited in the Expense Fund in a Fiscal Year by the fraction where the numerator is the number of days since the last debt service payment dates and the denominator is 365 or 366, whichever represents the number of days in the current Fiscal Year. In no event in any Fiscal Year can the amount deposited on any date, when aggregated with amounts already deposited during such Fiscal Year, cause the aggregate amount deposited in any Fiscal Year to exceed the maximum amount of Expenses which may be deposited in the Expense Fund in a Fiscal Year;

(7) To the credit of the Interest Account, to pay any fees in connection with any Security Arrangements credited to either or both of the Debt Reserve Fund and the Loan Loss Fund;

(8) To the credit of the Debt Reserve Fund, an amount sufficient to cause the amount on deposit in and credited to said Fund to equal the Debt Reserve Requirement (after giving effect to the last paragraphs of Section 409);

(9) To the credit of the Loan Loss Fund, an amount sufficient to cause the amount on deposit in and credited to said Fund to equal the Loan Loss Requirement (after giving effect to the last paragraphs of Section 410);

(10) To the credit of the Expense Fund, the amount of Expenses specified in an Agency Request accompanied by a Cash Flow Certificate but only to the maximum allowable pursuant to the Series Indentures; and

(11) To the General Fund, the balance.

(f) Revenues in the Revenue Fund shall be applied to the purchase of Bonds at the times, in the manner and for the purposes set forth in Section 406(b) hereof.

(g) At any time, upon Agency Request, to the Expense Fund an amount that would otherwise be permitted to be transferred to the Expense Fund on the business day immediately preceding the next succeeding debt service payment date. Any such amount may be so transferred only to the extent the amounts on deposit in the Revenue Fund, plus amounts on

deposit in the Principal Account and Interest Account, exceed the sum of (i) and (ii) where (i) equals the product of (A) a fraction, the numerator of which is the number of days since the last interest payment date to and including the date of calculation, and the denominator of which is the number of days from the last interest payment date, to and including the next interest payment date, and (B) the interest to become due on the Bonds on the next interest payment date; and (ii) equals the product of (A) a fraction the numerator of which is the number of days since the last principal payment date to and including the date of calculation, and the denominator of which is the number of days from the last principal payment date, and (B) the principal and sinking fund requirements to become due on the next principal payment date. Any amount so transferred shall be deducted from the next transfer pursuant to Section 404(e)(5) and during the period between debt service payments dates, shall not exceed (in the aggregate) the amount determined by multiplying the maximum amount of Expenses which may be deposited in the Expense Fund in a Fiscal Year by the fraction where the numerator is the number of days since the last debt service payment dates and the denominator is 365 or 366, whichever represents the number of days in the current Fiscal Year.

Section 405. *Interest Account.* The Trustee shall on each interest payment date, withdraw from the Interest Account, and remit by mail (or other method of transfer acceptable to the Agency) to (i) each owner of Bonds the amounts required for paying the Parity Interest on such Bonds as such Parity Interest becomes due and payable, to each Qualified Hedge Provider the amount due which is Parity Interest, and to each issuer of a Security Arrangement, the amount due which is Parity Interest and which is not already included in this Section 405, and (ii) any liquidity fees relating to such Bonds as described in Section 404(e)(5). An Authorized Officer of the Agency shall advise the Trustee regarding the amount of any such liquidity fees and when payment is due.

Section 406. *Principal Account.* (a) Principal Payments. The Trustee shall on each principal payment date, set aside in the Principal Account the amounts required for paying the principal of all Bonds as such principal becomes due and payable and the amount due under such Parity Obligation Instrument which is Parity Principal and which is not already included in subsection (a).

(b) Sinking Fund Redemption. Amounts on deposit in the Revenue Fund prior to being deposited to the credit of the Principal Account in satisfaction of Sinking Fund Requirements shall be applied as applicable to the purchase of Term Bonds of each Series then Outstanding subject to Sinking Fund Requirements on the next date such payments are scheduled as provided in this paragraph. The Trustee, upon direction of an Authorized Officer, shall endeavor to purchase the Term Bonds or portions of Term Bonds of each Series stated to mature on the next maturity date or to be redeemed pursuant to Sinking Fund Requirements for Term Bonds of such Series then Outstanding at a price not to exceed the Redemption Price (plus accrued interest to the date of redemption) which would be payable on the next redemption date to the Owners of such Term Bonds under the provisions of the applicable Series Indenture if such Term Bonds or portions of Term Bonds should be called for redemption on such date. *Provided, however,* that, subject to applicable law, notwithstanding the maximum purchase price set forth in the preceding sentence, if at any time the investment earnings on the moneys in the Revenue Fund equal to the Sinking Fund Requirements for the next date such payments are

scheduled shall be less than the interest accruing on the Bonds to be redeemed on such date from such Sinking Fund Requirement, then the Trustee may pay a purchase price for any such Bond in excess of the Redemption Price which would be payable on the next redemption date to the owner of such Bond under the provisions of the applicable Series Indenture, if an Authorized Officer certifies to the Trustee that the amount paid in excess of said Redemption Price is expected to be less than the interest which is expected to accrue on said Bond less any investment earnings on such available moneys during the period from the settlement date of the proposed purchase to the redemption date. The Trustee shall pay the interest accrued on such Term Bonds or portions of Term Bonds to the date of settlement therefor from the Interest Account of the Debt Service Fund. Notwithstanding the foregoing, no such purchase shall be made by the Trustee after the giving of notice of redemption by the Trustee.

(c) Any purchase or redemption of Bonds shall be made pursuant to the provisions of Article III of this Indenture. Upon the retirement of any Term Bonds by purchase or redemption pursuant to the provisions of this Section 406, the Trustee shall file with the Agency a statement identifying such Bonds and setting forth the date of their purchase or redemption, the amount of the purchase price or the Redemption Price of such Bonds and the amount paid as interest thereon. The expenses in connection with the purchase or redemption of any such Bonds shall be paid by the Trustee from the Expense Fund or from any other moneys available therefor.

(d) Moneys held for the credit of the Principal Account shall be transferred to the Interest Account pursuant to Section 413 hereof.

Section 407. *Redemption Fund.* (a) The Trustee shall apply all moneys deposited to the credit of the Special Redemption Account and the Optional Redemption Account in the Redemption Fund to the purchase or redemption of Bonds issued under the provisions of this Indenture, as follows:

(1) The Trustee, upon direction of an Authorized Officer, shall endeavor to purchase Bonds or portions of Bonds then Outstanding, whether or not such Bonds or portions of Bonds shall then be subject to redemption, at a price not to exceed the Redemption Price (plus accrued interest, if any, to the date of redemption) which would be payable on the next redemption date to the owners of such Bonds if such Bonds or portions of Bonds should be called for redemption on such date from the moneys in the respective Account. Such maximum purchase price may be exceeded in accordance with the proviso in Section 406(b) above. The Trustee shall pay the interest accrued on such Bonds to the date of settlement therefor from the Interest Account of the Debt Service Fund (except with respect to redemptions due to Principal Prepayments, which amounts shall be payable for accrued interest from the Special Redemption Account), and the balance of the purchase price from the Special Redemption Account or Optional Redemption Account, as applicable, but no such purchase shall be contracted for by the Trustee after the giving of notice by the Trustee that such Bonds have been called for redemption except from moneys other than the

moneys set aside in the Special Redemption Account or Optional Redemption Account, as applicable, for the redemption of such Bonds.

(2) The Trustee, having endeavored to purchase Bonds pursuant to sub-subsection (1) of this subsection (a), shall call for redemption on the earliest practicable date on which Bonds are subject to redemption from moneys in the Special Redemption Account or Optional Redemption Account, as applicable, and, with respect to accrued interest on such Bonds payable upon redemption, the Interest Account of the Debt Service Fund, such amount (computed on the basis of Redemption Prices) of Bonds as will exhaust the moneys held for the credit of such Special Redemption Account or Optional Redemption Account, as applicable, as nearly as may be practicable.

Any purchase or redemption of Bonds shall be made pursuant to the provisions of Article III of this Indenture. Prior to calling Bonds or portions of Bonds for redemption, the Trustee shall set aside in the Interest Account of the Debt Service Fund, as applicable, the respective amounts required for paying the interest on and the Redemption Price of the Bonds or portions of Bonds so called for redemption. Upon the retirement of any Bonds under this Section 407 by purchase or redemption, the Trustee shall file with the Agency a statement briefly describing such Bonds and setting forth the date of their purchase or redemption, the amount of the purchase price or the Redemption Price of such Bonds and the amount paid as interest thereon. The expenses in connection with the purchase or redemption of any such Bonds shall be paid by the Trustee from the Expense Fund or from any other moneys available therefor.

(b) Moneys held for the credit of the Redemption Fund shall be transferred to the Interest or Principal Account, in that order, pursuant to Section 413 hereof.

(c) Any amounts deposited in the Redemption Fund for the redemption of Bonds which remain on deposit after the payment in full of the Redemption Price of the applicable Bonds shall be transferred to the Revenue Fund at the times and in the amounts set forth in an Agency Request and shall continue to be treated as Revenues.

Section 408. *Expense Fund.* Moneys held for the credit of the Expense Fund shall be applied by the Trustee for the following purposes in any order of priority:

(a) the payment of the fees and expenses of the Trustee, and the providers of credit enhancement on Bonds, Funds and Mortgage Loans and remarketing fees; and

(b) for transfer to the Interest or Principal Accounts pursuant to Section 413 hereof; and

(c) upon requisition by Agency Request, the payment or reimbursement of any Expenses; and

(d) upon Agency Request, for transfer to the Revenue Fund and thereafter to be treated as Revenues.

Section 409. *Debt Reserve Fund.* Moneys and Security Arrangements held for the credit of the Debt Reserve Fund shall be transferred or drawn upon for transfer, as applicable, by the Trustee to the Interest or Principal Account, in that order, pursuant to Section 413 hereof.

Moneys held for the credit of the Debt Reserve Fund as of any date in excess of the Debt Reserve Requirement upon Agency Request shall be transferred to the Revenue Fund or the Special Redemption Account.

A Series Indenture may provide that an amount of the Debt Reserve Requirement may be funded through Security Arrangements. In connection with any discussion in this Indenture of "moneys" on deposit in or held for the credit of the Debt Reserve Fund, "moneys" shall be deemed to include said Security Arrangements.

Section 410. *Loan Loss Fund.* Moneys and Security Arrangements held for the credit of the Loan Loss Fund shall be transferred or drawn upon for transfer, as applicable, by the Trustee to the Interest or Principal Account, in that order, pursuant to Section 413 hereof.

Moneys held for the credit of the Loan Loss Fund as of any date in excess of the Loan Loss Requirement upon Agency Request shall be transferred to the Revenue Fund or the Special Redemption Account.

A Series Indenture may provide that an amount of the Loan Loss Requirement may be funded through Security Arrangements. In connection with any discussion in this Indenture of "moneys" on deposit in or held for the credit of the Loan Loss Fund, "moneys" shall be deemed to include said Security Arrangements.

Section 411. *General Fund.* Except as otherwise provided in a Series Indenture, moneys held for the credit of the General Fund shall be transferred by the Trustee in the following order of priority listed in subsections (i) through (vi) and thereafter at any time upon Agency Request to any of the following Funds and Accounts:

(i) To the credit of the Interest Account, an amount sufficient to cause the amount on deposit in said Account to equal any Parity Interest previously due and unpaid on Parity Obligations;

(ii) To the credit of the Principal Account, an amount sufficient to make the amount then on deposit in said Account equal to any regularly scheduled principal of the Bonds previously due and unpaid;

(iii) To the credit of the Debt Reserve Fund, an amount sufficient to cause the amount on deposit in said Fund to equal the Debt Reserve Requirement;

(iv) To the credit of the Loan Loss Fund, an amount sufficient to cause the amount on deposit in said Fund to equal the Loan Loss Requirement;

(v) Subject to Section 413, and unless a lower priority of payment is provided in the Series Indenture or Supplemental Indenture authorizing such

Security Arrangement, pursuant to the terms of any Security Arrangement, to pay to issuers of Security Arrangements the amount of Reimbursement Obligations then due and not included in clause (ii) that are reimbursement of advances under such Security Arrangement or that are pursuant to term-loan or other principal amortization requirements in reimbursement of any advance under such Security Arrangement that are more accelerated than the amortization requirements of the related Bonds, but if available amounts shall be insufficient for such purposes, the amounts payable pursuant to each Security Arrangement will be pro rata based upon the respective amounts due thereunder; *provided, however,* that such amounts shall be payable only if and to the extent payment of such amounts will be consistent with the Cash Flow Requirements, if any, and will allow the Cash Flow Statement to be filed with the Trustee in accordance with Section 607;

(vi) Subject to Section 413, and unless a lower priority of payment is provided in the Series Indenture or Supplemental Indenture authorizing such Qualified Hedge, pursuant to the terms of any Qualified Hedge, to pay to Qualified Hedge Providers the amount of Subordinated Contract Obligations then due, but if available amounts shall be insufficient for such purposes, the amounts payable pursuant to each Qualified Hedge will be pro rata based upon the respective amounts due thereunder; *provided, however,* that such amounts shall be payable only if and to the extent that payment of such amounts will be consistent with the Cash Flow Requirements, if any, and will allow a Cash Flow Statement to be filed with the Trustee in accordance with Section 607 hereof;

(vii) To the credit of the Expense Fund;

(viii) To the credit of the Optional Redemption Account for the redemption or purchase of Bonds;

(ix) To the credit of the Special Redemption Account for redemption or purchase of Bonds;

(x) To any specified Series Acquisition Account in the Acquisition Fund;

(xi) To the credit of any Series Account in the Costs of Issuance Fund; or

(xii) To the Agency, for any other purpose authorized or required under the Act free and clear of the pledge and lien of this Indenture[, *provided, however,* that no such payment shall be made under this clause (xii) unless permitted pursuant to a Cash Flow Statement filed with the Trustee pursuant to Section 607 hereof.

Section 412. *Principal Prepayment Fund.* Upon the issuance of a Series of Bonds, the Trustee shall establish a Series Principal Prepayment Account within the Principal

Prepayment Fund applicable to such Series of Bonds. Unless limited in a Series Indenture, the Trustee shall transfer amounts in the Principal Prepayment Fund at any time upon Agency Request to the Special Redemption Account, the Optional Redemption Account or the applicable Acquisition Account(s) of the Acquisition Fund. Moneys held for the credit of the Principal Prepayment Fund shall be transferred by the Trustee to the Interest or Principal Account, in that order, pursuant to Section 413 hereof. If the Trustee does not receive an Agency Request with respect to a mandatory redemption from Principal Prepayments set forth in a Series Indenture, the Trustee shall transfer Principal Prepayments in an amount sufficient to accomplish such mandatory redemption from the applicable Series Principal Prepayment Account of the Principal Prepayment Fund to the Special Redemption Account and shall call Bonds for redemption (subject to any other priority set forth in the applicable Series Indenture) on a pro rata basis, as nearly as practicable, from among each maturity of the Series (and subseries, if applicable) of Bonds which financed the Mortgage Loan which has prepaid.

Section 413. *Deficiencies in Debt Service Fund.* In the event that amounts in the Debt Service Fund shall be insufficient on any Parity Obligation payment date to pay the principal of and interest on the Bonds due and unpaid on such date, whether at the stated payment or maturity date or by the retirement of Bonds in satisfaction of the Sinking Fund Requirements therefor, or to pay amounts due under Qualified Hedges or Security Arrangements that are Parity Interest or Parity Principal, the Trustee shall withdraw amounts from the following Funds and Accounts in the following order of priority to the extent necessary to eliminate such deficiency; *provided, however,* that no amounts on deposit in the Special Redemption Account, the Optional Redemption Account, the Principal Prepayment Fund or the Principal Account shall be used for such purpose to the extent that such amounts have been set aside for the payment of Bonds which have been identified for purchase or called for redemption, and no amounts on deposit in any Series Acquisition Account shall be used for such purpose to the extent that the Agency is contractually obligated to finance or originate identified Mortgage Loans acceptable for financing with amounts on deposit in such Series Acquisition Account:

(i) Revenue Fund;

(ii) General Fund;

(iii) Optional Redemption Account;

(iv) Principal Prepayment Fund;

(v) Special Redemption Account;

(vi) Loan Loss Fund;

(vii) Expense Fund;

(viii) Acquisition Fund (but only if the Agency has received a Bond Counsel's Opinion that such use will not adversely affect the exclusion (if excluded) of interest on the Bonds from gross income of the Owners thereof for Federal income tax purposes);

(ix) Bond Proceeds Fund (but only if the Agency has received a Bond Counsel's Opinion that such use will not adversely affect the exclusion (if excluded) of interest on the Bonds from gross income of the Owners thereof for Federal income tax purposes;

(x) Costs of Issuance Fund;

(xi) Debt Reserve Fund;

(xii) Principal Account;

(xiii) Acquisition Account (if the Bond Counsel's Opinion referred to in (viii) above has not been received); and

(xiv) Bond Proceeds Fund (if the Bond Counsel's Opinion referred to in (ix) above has not been received).

Section 414. *Exchange of Moneys and Securities.* Upon Agency Request, the Trustee shall exchange money and/or Investment Obligations on deposit in any Fund or Account for an equal amount of money and/or Investment Obligations on deposit in any other Fund or Account or in any fund or account held under another bond indenture of the Agency.

Section 415. *Moneys Held in Trust.* (a) All moneys which the Trustee shall have withdrawn or set aside for the purpose of payment of any of the Parity Obligation Instruments hereby secured, either at the maturity thereof or upon call for redemption, shall be held in trust for the respective owners or counterparties of such Parity Obligation Instruments and such moneys shall not be subject to lien or attachment by any creditor of the Agency or the Trustee. Any moneys which shall be so set aside by the Trustee and which shall remain unclaimed by the owners or Parties of such Parity Obligation Instruments for the period of two (2) years after the date on which such Parity Obligation Instruments shall have become due and payable shall be paid to the Agency or to such officer, board or body as may then be entitled by law to receive the same, and thereafter the owners or the Parties of such Parity Obligation Instruments shall look only to the Agency or to such officer, board or body, as the case may be, for payment and then only to the extent of the amounts so received without any interest thereon, and the Trustee shall have no responsibility with respect to such moneys.

(b) If sufficient money or Government Obligations (the principal of or interest on which will provide sufficient money for payment of the principal amount or accrued interest on the Bonds which have matured, on their maturity date or each date thereafter) are held by the Trustee in trust for the Owners of Bonds on the maturity date of such Bonds, such Bonds shall cease to be Outstanding under the provisions of this Indenture, interest on the Bonds which have matured shall cease to accrue, such Bonds shall cease to be entitled to any benefit or security under this Indenture, and the owners of such Bonds shall have no rights in respect thereof, except to receive payment of the principal amount thereof and accrued interest thereon to the maturity date.

Section 416. *Cancellation of Bonds.* All Bonds paid, redeemed or purchased, either at or before maturity, shall be cancelled upon the payment, redemption or purchase of such Bonds and shall be delivered to the Trustee when such payment, redemption or purchase is made. All Bonds cancelled under any of the provisions of this Indenture shall be destroyed by the Trustee, which shall execute a certificate in duplicate describing the Bonds so destroyed, and one executed certificate shall be filed with the Agency and the other executed certificate shall be retained by the Trustee.

Section 417. *Use of Available Funds.* Nothing in this Indenture shall be construed to prevent the Agency from paying all or any part of the operating expenses of the Agency from any moneys available to the Agency for such purpose which are not pledged to secure the payment of the Parity Obligation Instruments, or from depositing in any Fund or Account created under the provisions of this Indenture any moneys available to the Agency for such deposit.

ARTICLE V

DEPOSITARIES OF MONEY, SECURITY FOR DEPOSITS AND INVESTMENT OF FUNDS

Section 501. *Security for Deposits.* Any and all money held by the Trustee in any Account or Fund created under this Indenture, except as otherwise expressly provided in this Indenture, shall be held in trust, shall be applied only in accordance with provisions of this Indenture and shall not be subject to any lien, charge or attachment by any creditor of the Agency.

All money deposited with the Trustee in any Account or Fund created under this Indenture shall if invested in Investment Obligations in accordance with Section 502 (except, to the extent applicable, the last paragraph of Section 502) hereof with the Trustee, to the extent such deposits are in excess of the amount guaranteed by the Federal Deposit Insurance Corporation or other Federal agency, be continuously secured (if permitted by law), for the benefit of the Agency and the owners of the Bonds and the Parties either (a) by lodging with a bank or trust company selected by the Agency as custodian, or, if then permitted by law, by setting aside under control of the trust department of the bank holding such deposit as collateral security, Government Obligations or, with the approval of the Trustee, other marketable securities eligible as security for the deposit of trust funds under regulations of the Comptroller of the Currency of the United States of America, having a market value at all times (exclusive of accrued interest) not less than the amount of such deposit, or (b) if the furnishing of security as provided in clause (a) of this Section is not permitted by applicable law, then in such other manner as may then be required or permitted by applicable State or Federal laws and regulations regarding the security for, or granting a preference in the case of, the deposit of trust funds; *provided, however,* that it shall not be necessary, *except* as otherwise expressly provided, for the Trustee to give security for any money which shall be represented by obligations purchased under the provisions of this Article as an investment of such money.

All money deposited with the Trustee pursuant to this Indenture shall be credited to the particular Account or Fund to which such money belongs.

Section 502. *Investment of Moneys.* Moneys deposited hereunder shall, as nearly as is practicable, be fully and continuously invested or reinvested by the Trustee upon the direction of an Authorized Officer (promptly confirmed by delivery of an Agency Request) in Investment Obligations which shall be in such amounts and bear interest at such rates with the objective that sufficient money will be available to pay Parity Interest when due and shall mature, or which shall be subject to redemption by the holder at the option of the holder, with the objective that sufficient money will be available for the purposes intended in accordance herewith.

Any Investment Obligations so purchased in any Account or Fund shall be deemed at all times to be part of such Account or Fund. Any interest paid as cash, amortization of discount received as cash, or gain received as cash on the investment in any Account or Fund (*except* the Rebate Fund) shall be credited to the Revenue Fund when received and thereafter treated as Revenues. Any interest paid on the investment of the Rebate Fund shall be credited to the Rebate Fund. The Trustee shall sell or present for redemption any obligations so purchased whenever it shall be necessary so to do in order to provide money to meet any payment or transfer from any such Account or Fund. Neither the Trustee nor the Agency shall be liable or responsible for any loss resulting from any such investment.

For the purposes of making any investment hereunder, the Trustee may consolidate moneys in any Fund or Account with moneys in any other Fund or Account and may transfer an interest in an investment from one Fund or Account to another without liquidating the investment.

In computing the amount on deposit to the credit of any Account or Fund, obligations in which money in such Account or Fund shall have been invested shall be valued at Amortized Value plus the amount of interest on such obligations purchased with moneys in such Account or Fund.

The Trustee shall pay interest to the Agency, calculated at its then current passbook rate per annum, on the moneys it holds for the payment of the principal or Redemption Price of, or interest on, Bonds after the due date for such payment. Earnings on such moneys shall be deposited in the Revenue Fund.

ARTICLE VI

PARTICULAR COVENANTS AND PROVISIONS

Section 601. *Payment of Principal, Interest and Premium.* The Agency covenants that it will promptly pay, but solely from the Funds and Accounts established hereunder, as herein provided, the principal of and interest, if any, on each and every Bond issued under the provisions of this Indenture at the places, on the dates and in the manner

specified herein and in said Bonds and any premium required for the retirement of said Bonds by purchase or redemption according to the true intent and meaning thereof. The State is not liable on the Bonds and the Bonds are not a debt of the State.

Section 602. *Covenant to Perform Obligations Under this Indenture.* The Agency covenants that it will faithfully perform at all times all covenants, undertakings, stipulations, provisions and agreements contained in this Indenture, in any and every Bond executed, authenticated and delivered hereunder and in all proceedings of the Agency pertaining thereto. The Agency covenants that it is duly authorized to issue the Bonds authorized hereby and to enter into this Indenture and grant the security granted hereunder and that all action on its part for the issuance of the Bonds issued hereunder and the execution and delivery of this Indenture has been duly and effectively taken; and that such Bonds in the hands of the owners thereof are and will be valid and enforceable special limited obligations of the Agency according to the tenor and import thereof.

Section 603. *No Extension of Maturities or Claims for Interest.* The Agency will not directly or indirectly extend or assent to the extension of the time for the payment of any principal of or claim for interest on any Bond and will not directly or indirectly be a party to any arrangement therefor without the consent of any Bondowner materially adversely affected thereby.

Section 604. *Further Instruments and Actions.* The Agency covenants that it will do, execute, acknowledge and deliver or cause to be done, executed, acknowledged and delivered, such indentures supplemental hereto and such further acts, instruments and transfers as may be necessary or desirable for the better pledging all and singular of the Pledged Property pledged hereby to the payment of the principal of, premium, if any, and the interest on the Bonds.

Section 605. *Covenant Against Encumbrances.* The Agency covenants that, except as expressly permitted herein, it will not sell, convey, mortgage, encumber or otherwise dispose of the money held for the credit of any Fund or Account created under this Indenture or take any other action which would adversely affect the security of the Bondowners and the Parties.

Section 606. *State Pledge.* In accordance with the Act, the following pledge is included herein:

> The State pledges and agrees with the Holders of any Bonds issued under the Indenture that the State will not limit or alter the rights vested by the Act in the Agency to fulfill the terms of any agreements made with the Holders or in any way impair the rights and remedies of such Holders until the Bonds, together with the interest thereon, with interest on any unpaid installments of interest, and all costs and expenses in connection with any action or proceeding by or on behalf of such Holders, are fully met and discharged.

Section 607. *Cash Flow Statements.* The Agency shall file with the Trustee a current Cash Flow Statement (i) whenever any Series of Bonds is issued or remarketed (i.e., in connection with the adjustment of the interest rate thereon) if the most recently filed Cash Flow Statement was filed more than six months prior to the date of issuance or remarketing; (ii) at least once during each Fiscal Year; (iii) upon purchase or redemption of Bonds in a manner materially inconsistent with the last Cash Flow Statement filed by the Agency with the Trustee; (iv) prior to applying amounts in the General Fund pursuant to clauses (v), (vi) or (xii) of Section 411 hereof; and (v) pursuant to Section 213(b).

A Cash Flow Statement shall consist of a certificate of an Authorized Officer of the Agency giving effect to the action proposed to be taken and demonstrating in the current and each succeeding Fiscal Year in which the Parity Obligation is scheduled to be Outstanding that amounts then expected to be on deposit in the Funds and Accounts maintained hereunder in each such Fiscal Year will be at least equal to all amounts required by this Indenture to be on deposit in such Funds and Accounts for the payment of the Parity Obligation and for the funding of the Debt Reserve Fund and Loan Loss Fund to their respective Requirements, *except* that, to the extent specified in a Series Indenture or Supplemental Indenture, a Fund or Account, or assets or property shall not be taken into account when preparing such Cash Flow Statement. The Cash Flow Statement shall set forth the assumptions upon which the estimates therein are based. Such assumptions shall include an assumption that all amounts held under this Indenture, to which an investment arrangement which guarantees a certain rate or rates is not in effect, are invested at a rate which does not exceed the applicable assumed interest rates determined by the then-current requirements of the Rating Agencies for Bonds which bear the same rating as the then-current rating on the Bonds. Upon filing a Cash Flow Statement with the Trustee, the Agency shall thereafter administer the Program and perform its obligations hereunder in accordance in all material respects with the assumptions set forth in such Cash Flow Statement until such time as a new or amended Cash Flow Statement shall be issued. *Except* with respect to the annual Cash Flow Statement and actions being taken contemporaneously with the delivery of a Cash Flow Statement, facts reflected in a Cash Flow Statement may be as of a date or reasonably adjusted to a date of the most recently available data as determined by the Agency. In preparing a Cash Flow Statement, the Agency shall utilize with respect to Parity Obligation Instruments the cash flow assumptions and tests required by the Rating Agencies in order to obtain a rating on the applicable Bonds. With respect to any Bonds which do not bear interest at a fixed interest rate and are not the subject of a Qualified Hedge, the Agency shall assign to such Bonds the applicable assumed interest rates determined pursuant to the then-current requirements of the Rating Agencies for Bonds which bear the same rating as the then-current rating on the Bonds.

If any Cash Flow Statement shall show a deficiency in any Fiscal Year in the amount of funds expected to be available for the purposes described in this Indenture during such Fiscal Year, the Agency shall not be in default under this Indenture but shall take all reasonable actions to eliminate such deficiency.

Section 608. *Tax Covenants.* (i) The Agency shall at all times perform the applicable tax covenants contained in any applicable Series Indenture.

(ii) The Agency covenants and agrees that it will not make or permit any use of the proceeds of the Parity Obligation Instruments which, if such use had been reasonably expected on the day of the issuance of Bonds, the interest on which is excluded from gross income under the Code, would have caused such Bonds to be "arbitrage bonds" within the meaning of the Code and further covenants that it will observe and not violate the arbitrage provisions of the Code.

(iii) If applicable and unless otherwise provided in the applicable Series Indenture, the Agency shall pay moneys in any account in the Rebate Fund to the United States of America as required by the Code.

Section 609. *Enforcement of Rights Under Mortgage Loans and Mortgage-Backed Securities.* (a) The Agency hereby covenants to enforce all its rights and obligations under and pursuant to the Mortgage Loans and the Mortgage-Backed Securities and agrees that the Trustee, in the name of the Agency, may enforce all rights of the Agency under and pursuant to the Mortgage Loans and the Mortgage Backed-Securities for and on behalf of the Bondowners and other Parties pursuant to Section 704 hereof, whether or not an Event of Default exists hereunder. Notwithstanding the foregoing, the Trustee shall be under no obligation to service the Mortgage Loans or Underlying Mortgage Loans.

(b) The Trustee shall enforce all terms, covenants and conditions of the Mortgage-Backed Securities, including making any demands for payment required thereunder, on a timely basis. The Trustee shall duly and punctually exercise the rights and remedies of a beneficiary under any applicable guarantees, and shall in a timely manner give all notices and take any actions necessary to preserve and protect each guarantee of a Mortgage-Backed Security.

Section 610. *Maintenance of Corporate Existence of Agency.* The Agency will at all times use its best efforts to maintain its corporate existence and to maintain, preserve and renew all its rights, powers, privileges and franchises, and it will comply with all valid acts, rules, regulations, orders and directions of any legislative, administrative or judicial body applicable to this Indenture.

Section 611. *Books and Records.* (i) The Trustee shall keep proper books of record and account in which complete and correct entries shall be made of all transactions relating to the receipts, disbursements, allocations and applications of all moneys received by the Trustee hereunder, and such books shall be available for inspection by the Agency, any Bondowner, and any Party during business hours, upon reasonable notice and under reasonable conditions.

(ii) On or before the tenth business day of each month the Trustee shall furnish to the Agency in accordance with Section 806 hereof a statement of the Agency's revenues and expenditures and of the changes in its fund balances during the previous month.

(iii) The Agency shall keep proper books of records and account for all its transactions, other than those recorded in the books maintained by the Trustee pursuant to

subsection (a) hereof, and such books shall be available for inspection by the Trustee and any Bondowner during business hours and upon reasonable notice.

Section 612. *Annual Audit, Report and No-Default Certificate.* Within one hundred and twenty (120) days of each June 30, the Agency shall furnish to the Trustee (i) a statement of its revenues and expenses and of the changes in its fund balances during the previous period commencing on July 1 and ending in each case on such June 30, certified to by an Accountant, (ii) a report of its activities during the previous period commencing on July 1 and ending in each case on such June 30, and (iii) a certificate from an Authorized Officer stating that there is no current Event of Default and that no Event of Default occurred during the preceding period commencing on July 1, and ending in each case on such June 30 (or if there has been an Event of Default, providing the details thereof and describing the steps the Agency took, or is taking, to cure such Event of Default).

Section 613. *Recordation of This Indenture and Filing of Security Instruments.* The Agency shall cause this Indenture and all supplements hereto and thereto, together with all other security instruments and financing statements, to be recorded and filed, as the case may be, if required by law for perfection of the security interests created therein, in such manner and in such places as may be required by law in order to perfect the lien of, and the security interests created by, this Indenture.

Section 614. *Program Covenants.* The Agency warrants and covenants (a) that no Mortgage Loan or Underlying Mortgage Loan shall be financed by the Agency under the Program unless the Mortgage Loan or Underlying Mortgage Loan complies in all respects with the Act in effect on the date of financing and (b) to comply with any additional program covenants contained in any Series Indenture.

Section 615. *Issuance of Additional Obligations.* The Agency, so long as any Parity Obligation shall be Outstanding hereunder, shall not issue any bonds, notes or other evidences of indebtedness, other than Parity Obligation Instruments secured by any pledge of or other lien or charge on the Pledged Property nor shall the Agency create or cause to be created any lien or charge on the Pledged Property, other than the lien and pledge created hereunder. Nothing contained in this Section shall prevent the Agency from issuing any bonds, notes or other evidences of indebtedness, or agree to pay Subordinated Contract Obligations, which are payable from or secured by a lien and pledge on the Pledged Property provided that payment of such evidences of indebtedness and such lien and pledge shall be in all respects subordinate to the provisions of this Indenture and the lien and pledge created by this Indenture and any such evidences of indebtedness shall contain an appropriate recital with respect to such subordination.

Section 616. *Notice of an Event of Default.* The Agency shall promptly notify the Trustee of the occurrence of an Event of Default under this Indenture.

ARTICLE VII

EVENTS OF DEFAULT AND REMEDIES

Section 701. *Extended Interest Payment.* Neither the Trustee nor the Agency shall consent or agree directly or indirectly to extend the time for payment of the interest on any Bond. In case the time for the payment of the interest on any Bond shall be extended, whether or not such extension be by or with the consent of the Agency, such interest so extended shall not be entitled in case of default hereunder to the benefit or security of this Indenture except subject to the prior payment in full of the principal of all Bonds then Outstanding and of the interest the time for the payment of which shall not have been extended.

Section 702. *Events of Default Defined.* Each of the following events is hereby declared an "Event of Default", that is to say: If

(i) payment of the principal or Redemption Price of any of the Bonds shall not be made when the same shall become due and payable, either at maturity or by proceedings for redemption or otherwise; or

(ii) payment of any installment of interest on any Bonds shall not be made when the same shall become due and payable; or

(iii) the entry of a decree or order for relief by a court having jurisdiction in the premises in respect of the Agency in an involuntary case under the Federal bankruptcy laws, as now or hereafter constituted, or any other applicable Federal or State bankruptcy, insolvency or other similar law, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of the Agency or for any substantial part of its property, or ordering the winding-up or liquidation of its affairs and the continuance of any such decree or order unstayed and in effect for the period of 60 consecutive days; or

(iv) the commencement by the Agency of a voluntary case under the Federal bankruptcy laws, as now constituted or hereafter amended, or any other applicable Federal or State bankruptcy, insolvency or other similar law, or the consent by it to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator (or other similar official) of the Agency or for any substantial part of its property, or the making by it of any assignment for the benefit of creditors, or the taking of action by the Agency in furtherance of any of the foregoing; or

(v) failure by the Agency to pay, when due or within any applicable grace period, any amount owing on account of indebtedness for money borrowed, or the failure by the Agency to observe or perform any covenant or undertaking on its part to be observed or performed in any agreement evidencing, securing or relating to such indebtedness, resulting, in any such case, in an event of default or

acceleration by the holder of such indebtedness of the date on which such indebtedness would otherwise be due and payable; or

(vi) the Agency defaults in the due and punctual performance of any other covenants or agreements contained in the Bonds or in this Indenture and such default continues for 90 days after written notice requiring the same to be remedied shall have been given to the Agency by the Trustee, which may give such notice in its discretion and shall give such notice at the written request of the owners of not less than twenty-five per centum (25%) in aggregate principal amount of Bonds then Outstanding; *provided, however,* that so long as following such notice the Agency is diligently taking actions to remedy such default, such default shall not be an Event of Default.

Under no circumstances shall the Agency's failure to pay (i) Parity Obligation with respect to any Parity Obligation Instruments other than Bonds, (ii) Termination Payments or (iii) Subordinated Contract Obligations constitute an Event of Default under this Indenture.

Section 703. *Acceleration of Maturity.* Upon the happening and continuance of any Event of Default (except as may be limited in a Series Indenture, as set forth in the last paragraph of Section 704 hereof), then and in every such case the Trustee may and, subject to Section 802 hereof, upon the written direction of the owners of not less than fifty-one per centum (51%) in aggregate principal amount of the Bonds then Outstanding shall, by notice in writing to the Agency, declare the Parity Principal then Outstanding (if not then due and payable) to be due and payable immediately; and upon such declaration the same shall become immediately due and payable, anything contained in the Bonds, in other Parity Obligation Instruments, or in this Indenture to the contrary notwithstanding; *provided, however,* that if at any time after the Parity Principal shall have been so declared to be due and payable, and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, or before the completion of the enforcement of any other remedy under this Indenture, money shall have accumulated in the Debt Service Fund sufficient to pay all arrears of Parity Principal and Parity Interest, if any, upon all the Parity Obligation Instruments then Outstanding (except the principal and interest of any Parity Obligation Instruments which have become due and payable by reason of such declaration and except Parity Principal not then due and payable and Parity Interest accrued since the last interest payment date), and the charges, compensation, expenses, disbursements, advances and liabilities of the Trustee and the Agency and all other amounts then payable by the Agency hereunder shall have been paid or a sum sufficient to pay the same shall have been deposited with the Trustee, and every other default known to the Trustee in the observance or performance of any covenant, condition or agreement or provision contained in the Bonds or in this Indenture (except a default in the payment of the Parity Principal then due and payable only because of a declaration under this Section) shall have been remedied to the satisfaction of the Trustee, then and in every such case the Trustee may, and upon the written request of the owners of not less than fifty-one per centum (51%) in aggregate principal amount of the Bonds not then due and payable by their terms and then Outstanding shall, by written notice to the Agency, rescind and annul such declaration and its consequences, but no such rescission or annulment shall extend to or affect any subsequent default or impair any right consequent thereon.

Section 704. *Enforcement of Remedies.* Upon the happening and continuance of any Event of Default specified in Section 702 of this Article, then and in every such case the Trustee may, and upon the written direction of the owners of not less than twenty-five per centum (25%) in aggregate principal amount of the Bonds then Outstanding hereunder shall, proceed, subject to the provisions of Section 802 hereof, to protect and enforce its rights and the rights of the Bondowners under applicable laws or under this Indenture by such suits, actions or special proceedings in equity or at law, or by proceedings in the office of any board or officer having jurisdiction, either for the specific performance of any covenant or agreement contained herein or in aid or execution of any power herein granted or for the enforcement of any proper legal or equitable remedy, as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights.

In the enforcement of any remedy under this Indenture the Trustee shall be entitled to sue for, enforce payment of and recover judgment for, in its own name as Trustee of an express trust, any and all amounts then or after any default becoming, and at any time remaining, due from the Agency for Principal of the Bonds, premium, if any, on the Bonds, interest on the Bonds or otherwise under any of the provisions of this Indenture or the Bonds and unpaid, with, to the extent permitted by the applicable law, interest on overdue payments of principal of the Bonds and of interest on the Bonds at the rate or rates of interest specified in the Bonds, together with any and all costs and expenses of collection and of all proceedings hereunder and under the Bonds, without prejudice to any other right or remedy of the Trustee or of the Bondowners, and to recover and enforce any judgment or decree against the Agency, but solely as provided herein and in the Bonds, for any portion of such amounts remaining unpaid and interest, costs and expenses as above provided, and to collect, in any manner provided by law, the money adjudged or decreed to be payable.

Regardless of the happening of an Event of Default, the Trustee may, and, subject to Section 802 hereof, if requested in writing by the owners of not less than twenty-five per centum (25%) in aggregate principal amount of the Bonds then Outstanding shall, institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient (i) to prevent any impairment of the Pledged Property by any acts which may be unlawful or in violation of this Indenture or of any resolution authorizing the Bonds or Series Indenture, or (ii) to preserve or protect the interest of the Bondowners, *provided* that such request is in accordance with law and the provisions of this Indenture and, in the sole judgment of the Trustee, is not unduly prejudicial to the interests of the owners of the Bonds not making such request.

If a covenant is set forth in a Series Indenture, limitations on the remedies available upon an Event of Default related to such covenant may be set forth in said Series Indenture.

Section 705. *Trustee May File Claim in Bankruptcy.* In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other similar judicial proceeding relative to the Agency or to property of the Agency or the creditors of the Agency, the Trustee (irrespective of whether the principal of any Bonds shall then be due and payable as therein expressed or by declaration or otherwise and

irrespective of whether the Trustee shall have made any demand on the Agency for the payments equal to overdue principal or of interest on the Bonds) shall be entitled and empowered, by intervention in such proceeding or otherwise,

(a) to file and prove a claim for the whole amount of the principal, and premium, if any, and interest owing and unpaid in respect of the Bonds and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel) and of the Bondowners allowed in such judicial proceeding; and

(b) to collect and receive any money or other property payable or deliverable on any such claims and to distribute the same;

and any receiver, assignee, trustee, liquidator, sequestrator (or other similar official) in any such judicial proceeding is hereby authorized by each Bondowner to make such payments to the Trustee, and in the event that the Trustee shall consent to the making of such payments directly to the Bondowners, to pay to the Trustee any amount due to them for the reasonable compensation, expenses, disbursements and advances of the Trustee, their agents and counsel, and any other amounts due the Trustee under Sections 802 and 805 hereof.

Section 706. *Pro Rata Application of Funds.* Anything in this Indenture to the contrary notwithstanding, if at any time the money in the Funds and Accounts maintained hereunder shall not be sufficient to pay the principal of or interest on the Bonds as the same shall become due and payable (either by their terms or by acceleration of maturities under the provisions of Section 703 of this Article) such money, together with any money then available, or thereafter becoming available for such purpose whether through the exercise of the remedies provided for in this Article or otherwise, shall be applied, following the satisfaction of any payments due to the Trustee under the provisions of Sections 802 and 805 of this Indenture, as follows:

(i) If the principal on the Bonds shall not have become or shall not have been declared due and payable, all such money shall be applied:

first: to the payment to the persons entitled thereto of all installments of interest on Bonds other than subordinated Bonds (*except* interest on overdue principal) then accrued and unpaid in the chronological order in which such installments of interest accrued and, if the amount available shall not be sufficient to pay in full any particular daily installment, then to the payment, ratably, according to the amounts due on such daily installment, to the persons entitled thereto as owners of Bonds other than subordinated Bonds, without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds other than subordinated Bonds;

second: to the payment to the persons entitled thereto of the unpaid principal of any of the Bonds other than subordinated Bonds which shall have

become due and payable (*except* Bonds other than subordinated Bonds called for redemption for the payment of which, money is held pursuant to the provisions of this Indenture) in the order of their stated payment dates, with interest on the principal amount of such Bonds other than subordinated Bonds at the respective rates specified therein from the respective dates upon which such Bonds other than subordinated Bonds became due and payable, and, if the amount available shall not be sufficient to pay in full the principal of the Bonds other than subordinated Bonds by their stated terms due and payable on any particular date, together with such interest, then to the payment first of such interest, ratably, according to the amount of such interest due on such date, with such payment being made to owners of Bonds other than subordinated Bonds, and then to the payment of such principal, ratably, according to the amount of such principal due on such date, to the persons entitled thereto as owners of Bonds other than subordinated Bonds, without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds other than subordinated Bonds;

third: to the payment of the interest on and the principal of the Bonds other than subordinated Bonds, to the purchase and retirement of Bonds other than subordinated Bonds and to the redemption of the Bonds other than subordinated Bonds, all in accordance with the provisions of Article III of this Indenture;

fourth: to the payment to the persons entitled thereto of all installments of any unpaid Parity Interest (*other than* interest on overdue principal) then due and payable in the order in which such installments become due and payable and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment, ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference except as to any difference in the respective rates of interest specified in the Parity Obligation Instruments;

fifth: to the extent not paid pursuant to clauses first through fourth, to the payment to the persons entitled thereto of the unpaid Parity Principal which shall have become due and payable in the order of their stated payment dates, with interest on the principal amount of such Parity Obligation at the respective rates specified therein from the respective dates upon which such Parity Obligation became due and payable, and, if the amount available shall not be sufficient to pay in full the Parity Principal by its stated terms due and payable on any particular date, together with Parity Interest, then to the payment first of Parity Interest, ratably, according to the amount of such Parity Interest due on such date, and then to the payment of such Parity Principal, ratably, according to the amount of such Parity Principal due on such date, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in the Parity Obligation Instruments;

sixth: to the payment of any Reimbursement Obligations and Subordinated Contract Obligation payable pursuant to Section 411 hereof with respect to the Bonds other than subordinated Bonds;

seventh: to the payment to the persons entitled thereto of interest on subordinated Bonds (*except* interest on overdue principal) then accrued and unpaid in the chronological order in which such installments of interest accrued and, if the amount available shall not be sufficient to pay in full any particular daily installment, then to the payment, ratably, according to the amounts due on such daily installment, to the persons entitled thereto as owners of subordinated Bonds, without any discrimination or preference except as to any difference in the respective rates of interest specified in the subordinated Bonds;

eighth: to the payment to the persons entitled thereto of the unpaid principal of any of the subordinated Bonds which shall have become due and payable (*except* subordinated Bonds called for redemption for the payment of which, money is held pursuant to the provisions of this Indenture) in the order of their stated payment dates, with interest on the principal amount of such subordinated Bonds at the respective rates specified therein from the respective dates upon which such subordinated Bonds became due and payable, and, if the amount available shall not be sufficient to pay in full the principal of the subordinated Bonds by their stated terms due and payable on any particular date, together with such interest, then to the payment first of such interest, ratably, according to the amount of such interest due on such date, with such payment being made to owners of subordinated Bonds, and then to the payment of such principal, ratably, according to the amount of such principal due on such date, to the persons entitled thereto as owners of subordinated Bonds, without any discrimination or preference except as to any difference in the respective rates of interest specified in the subordinated Bonds;

ninth: to the payment of the interest on and the principal of the subordinated Bonds, to the purchase and retirement of subordinated Bonds and to the redemption of subordinated Bonds; and

tenth: to the payment of any Reimbursement Obligations and Subordinated Contract Obligation payable pursuant to Section 411 hereof with respect to subordinated Bonds.

(ii) If the principal of all the Bonds shall have become or shall have been declared due and payable, all such money shall be applied

first: to the payment of the principal and premium, if any, and interest then accrued and unpaid upon the Bonds which are not subordinated Bonds, without preference or priority of principal over interest or of interest over principal, or of any daily accrual of interest over any other daily accrual of interest, or of any Bond which is not a subordinated Bond over any other Bond

which is not a subordinated Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference except as to the respective rates of interest specified in the Bonds which are not subordinated Bonds;

second: to the payment of the all remaining Parity Interest and Parity Principal, without preference or priority of such Parity Principal over such Parity Interest or of such Parity Interest over such Parity Principal, or of any installment of such Parity Interest over any other installment of such Parity Interest, or of any Parity Obligation Instrument over any other Parity Obligation Instruments, ratably, according to the amounts due respectively for Parity Principal and Parity Interest, to the persons entitled thereto without any discrimination or preference except as to the respective rates of interest specified in the Parity Obligation Instrument;

third: to the payment of any Reimbursement Obligations and Subordinated Contract Obligations payable pursuant to Section 411 hereof with respect to the Bonds other than subordinated Bonds, ratably, according to the amounts due respectively for Reimbursement Obligations and Subordinated Contract Obligations, to the persons entitled thereto without any discrimination or preference;

fourth: to the payment of the principal and premium, if any, and interest then accrued and unpaid upon the subordinated Bonds, without preference or priority of principal over interest or of interest over principal, or of any daily accrual of interest over any other daily accrual of interest, or of any subordinated Bond over any other subordinated Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference except as to the respective rates of interest specified in the subordinated Bonds; and

fifth: to the payment of any Reimbursement Obligations and Subordinated Contract Obligations payable pursuant to Section 411 hereof with respect to the subordinated Bonds, ratably, according to the amounts due respectively for Reimbursement Obligations and Subordinated Contract Obligations, to the persons entitled thereto without any discrimination or preference.

(iii) If all Parity Principal shall have been declared due and payable and if such declaration shall thereafter have been rescinded and annulled under the provisions of Section 703 hereof, then, subject to the provisions of subsection (b) of this Section 706 in the event that the Parity Principal shall later become or be declared due and payable, the money remaining in and thereafter accruing to the Debt Service Fund and the Debt Reserve Fund, together with any other money held by the Trustee hereunder, shall be applied in accordance with the provisions of subsection (a) of this Section 706.

The provisions of subsections (a), (b) and (c) of this Section 706 are in all respects subject to the provisions of Section 701 hereof.

Whenever money is to be applied by the Trustee pursuant to the provisions of this Section 706, such money shall be applied by the Trustee at such times, and from time to time, as the Trustee in its sole discretion shall determine, having due regard to the amount of such money available for application and the likelihood of additional money becoming available for such application in the future; the deposit of such money with any paying agent, or otherwise setting aside such money, in trust for the proper purpose shall constitute proper application by the Trustee; and the Trustee shall incur no liability whatsoever to the Agency, to any Bondowner, to any Party, or to any other person for any delay in applying any such money, so long as the Trustee acts with reasonable diligence, having due regard to the circumstances, and ultimately applies the same in accordance with such provisions of this Indenture as may be applicable at the time of application by the Trustee. Whenever the Trustee shall exercise such discretion in applying such money, it shall fix the date (which shall be an interest payment date unless the Trustee shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue. The Trustee shall give such notice as it may deem appropriate of the fixing of any such date, and shall not be required to make payment to the owner of any Bond or any Party until the Parity Obligation Instrument shall be surrendered to the Trustee for appropriate endorsement, or for cancellation if fully paid.

Section 707. *Effect of Discontinuance of Proceedings.* In case any proceeding taken by the Trustee or Bondowners on account of any default shall have been discontinued or abandoned for any reason, then and in every such case the Agency, the Trustee and the Bondowners shall be restored to their former positions and rights hereunder, respectively, and all rights, remedies, powers and duties of the Trustee shall continue as though no proceeding had been taken.

Section 708. *Owners of Majority in Principal Amount of Bonds May Control Proceedings.* Anything in this Indenture to the contrary notwithstanding, including notwithstanding provisions granting such rights to providers of Security Arrangements pursuant to Section 213(a), the owners of a majority in principal amount of the Bonds then Outstanding hereunder shall have the right, subject to the provisions of Section 802 hereof, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting all remedial proceedings to be taken by the Trustee hereunder or exercising any trust or power conferred upon the Trustee, provided that such direction shall not be otherwise than in accordance with law and the provisions of this Indenture, and the Act and, in the sole judgment of the Trustee, is not unduly prejudicial to the interests of Bondowners not joining in such direction and provided, further, that nothing in this Section 708 shall impair the right of the Trustee in its discretion to take any other action under this Indenture which it may deem proper and which is not inconsistent with such direction by Bondowners.

Section 709. *Restrictions Upon Actions by Individual Bondowner.* No owner of any of the Bonds shall have any right to institute any suit, action or proceeding in equity or at law on any Bond or for the execution of any trust hereunder or for the enforcement of any

remedy hereunder unless such owner previously shall have given to the Trustee written notice of the Event of Default on account of which such suit, action or proceeding is to be instituted, and unless also the owners of not less than twenty-five per centum (25%) in aggregate principal amount of the Bonds then Outstanding shall have made written request of the Trustee after the right to exercise such powers or right of action, as the case may be, shall have accrued, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers hereinabove granted or to institute such action, suit or proceeding in its or their name, and unless, also, there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time; and such notification, request and offer of indemnity are hereby declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers and trusts of this Indenture or to any other remedy hereunder; *provided, however,* that notwithstanding the foregoing provisions of this Section 709 and without complying therewith, the owners of not less than twenty-five per centum (25%) in aggregate principal amount of the Bonds then Outstanding may institute any such suit, action or proceeding in their own names for the benefit of all owners of Bonds hereunder. It is understood and intended that, except as otherwise above provided, no one or more owners of the Bonds hereby secured shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of this Indenture, or to enforce any right hereunder except in the manner herein provided, if any, that all suits, actions and proceedings at law or in equity shall be instituted, had and maintained in the manner herein provided, if any, and for the benefit of all owners of such Outstanding Bonds, and that any individual right of action or other right given to one or more of such owners and counterparties by law is restricted by this Indenture to the rights and remedies herein provided.

Section 710. *Actions by Trustee.* All rights of action under this Indenture or under any of the Bonds secured hereby, enforceable by the Trustee, may be enforced by it without the possession of any of the Bonds or the production thereof in the trial or other proceeding relative thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in its name for the benefit of all of the owners of such Bonds, subject to the provisions of this Indenture.

Upon the occurrence of an Event of Default, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and of the Bondowners under this Indenture, the Trustee shall be entitled as a matter of right to the appointment of a receiver or receivers of the Pledged Property, pending such proceedings with such powers as the court making such appointment shall confer whether or not any such amounts payable shall be deemed sufficient ultimately to satisfy the Bonds Outstanding hereunder (and other Parity Obligation Instruments).

Section 711. *No Remedy Exclusive.* No remedy herein conferred upon or reserved to the Trustee or to the owners of the Bonds is intended to be exclusive of any other remedy or remedies herein provided, and each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or by law.

Section 712. *No Delay or Omission Construed to be a Waiver.* No delay or omission of the Trustee or of any owner of the Bonds to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or any acquiescence therein; and every power and remedy given by this Indenture to the Trustee and to the owners of the Bonds, respectively, may be exercised from time to time and as often as may be deemed expedient.

Section 713. *Waiver of Defaults.* The Trustee, upon written direction of the owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding shall, waive any default, which in their opinion shall have been remedied before the entry of final judgment or decree in any suit, action or proceeding instituted by them under the provisions of this Indenture or before the completion of the enforcement of any other remedy under this Indenture, but no such waiver shall extend to or affect any other existing or any subsequent default or defaults or impair any rights or remedies consequent thereon.

Section 714. *Notice of an Event of Default.* The Trustee shall mail to the Agency and to all Bondowners written notice of the occurrence of any Event of Default set forth in Section 702 of this Article within thirty (30) days after the Trustee shall have received written notice thereof from the Agency, subject to the provisions of Section 708 of this Indenture, that any such Event of Default shall have occurred. The Trustee shall not, however, be subject to any liability to any Bondowner by reason of a failure to mail any such notice.

Section 715. *Right to Enforce Payment of Bonds Unimpaired.* Except as otherwise limited by the provisions of Section 1211, nothing in this Article VII shall affect or impair the right of any Bondowner to enforce the payment of the principal of and interest on his Bond, or the obligation of the Agency to pay the principal of and interest on each Bond to the owner thereof at the time and place in said Bond expressed.

Section 716. *Restrictions on Rights of Parties.* The Parties shall have no rights to request or direct the Trustee to act, to institute actions, or to control proceedings under Sections 702, 703, 704, 705, 706, 707, 708, 709, or 710 hereof.

ARTICLE VIII

CONCERNING THE TRUSTEE

Section 801. *Acceptance of Trusts.* The Trustee shall signify its acceptance of the duties and obligations and agrees to execute the trusts imposed upon it by this General Indenture by executing this General Indenture.

Section 802. *Trustee Entitled to Indemnity.* The Trustee shall be under no obligation to institute any suit, or to take any remedial proceeding under this Indenture, or to enter any appearance or in any way defend in any suit in which it may be named as a defendant, or to take any steps in the execution of the trusts hereby created or in the enforcement of any rights and powers hereunder, until it shall be indemnified to its satisfaction against any and all

costs and expenses, outlays and counsel fees and other reasonable disbursements, and against all liability; the Trustee may, nevertheless, begin suit, or appear in and defend suit, or do anything else in its judgment proper to be done by it as such Trustee, without indemnity, and in such case the Agency shall reimburse the Trustee for all costs and expenses, outlays and counsel fees and other reasonable disbursements properly incurred in connection therewith.

Section 803. *Limitation on Obligations and Responsibilities of Trustee.* The Trustee shall be under no obligation (a) to effect or maintain insurance or to renew any policies of insurance or to inquire as to the sufficiency of any policies of insurance carried by the Agency, (b) to report, or make or file claims or proof of loss for, any loss or damage insured against or which may occur, or (c) to keep itself informed or advised as to the payment of any taxes or assessments, or to require any such payment to be made. The Trustee shall be under no obligation to record or file this Indenture, or any other security instruments and financing statements, or continuation statements with respect thereto, except pursuant to directions from the Agency, in form and substance satisfactory to the Trustee, set forth in an Agency Request. The Trustee shall have no responsibility in respect of the validity, sufficiency, due execution or acknowledgment by the Agency of this Indenture, or, except as to the authentication thereof, in respect of the validity of the Bonds or the due execution or issuance thereof. The Trustee shall be under no obligation to see that any duties herein imposed upon the Agency or any party other than itself, or any covenants herein contained on the part of any party other than itself to be performed, shall be done or performed, and the Trustee shall be under no obligation for failure to see that any such duties or covenants are so done or performed.

Section 804. *Trustee Not Liable for Failure of Agency to Act.* The Trustee shall not be liable or responsible because of the failure of the Agency or of any of its employees or agents to make any collections or deposits or to perform any act herein required of the Agency or, except as provided in the fifth paragraph of Section 502, because of the loss of any moneys arising through the insolvency or the act or default or omission of any other depositary in which such moneys shall have been deposited under the provisions of this Indenture. The Trustee shall not be responsible for the application of any of the proceeds of the Bonds or any other moneys deposited with it and paid out, withdrawn or transferred hereunder if such application, payment, withdrawal or transfer shall be made in accordance with the provisions of this Indenture. The immunities and exemptions from liability of the Trustee hereunder shall extend to its directors, officers, employees and agents.

Section 805. *Compensation and Indemnification of Trustee.* Subject to the provisions of any contract between the Agency and the Trustee relating to the compensation of the Trustee, the Agency shall pay, from the Pledged Property, to the Trustee reasonable compensation for all services performed by it hereunder and also all its reasonable expenses, charges and other disbursements and those of its attorneys, agents and employees incurred in and about the administration and execution of the trusts hereby created and the performance of its powers and duties hereunder, and from such source only, shall indemnify and save the Trustee harmless against any liabilities which it may incur in the exercise and performance of its powers and duties hereunder.

Section 806. *Monthly Statements from Trustee.* It shall be the duty of the Trustee, on or before the 10th day of each month, to file with the Agency a statement setting forth in respect of the preceding calendar month

(i) the amount withdrawn or transferred by it and the amount deposited within or to the account of each Fund and Account held by it under the provisions of this Indenture,

(ii) the amount on deposit with it at the end of such month to the credit of each such Fund and Account,

(iii) a brief description of all obligations held by it as an investment of moneys in each such Fund and Account,

(iv) the amount applied to the purchase or redemption of Bonds and a description of the Bonds or portions of Bonds so purchased or redeemed, and

(v) any other information which the Agency may reasonably request.

All records and files pertaining to the trusts hereunder in the custody of the Trustee shall be open at all reasonable times to the inspection of the Agency and its agents and representatives.

Section 807. *Trustee May Rely on Certificates.* In case at any time it shall be necessary or desirable for the Trustee to make any investigation respecting any fact preparatory to taking or not taking any action or doing or not doing anything as such Trustee, and in any case in which this Indenture provides for permitting or taking any action, the Trustee may rely conclusively upon any certificate, requisition, opinion or other instrument required or permitted to be filed with it under the provisions of this Indenture, and any such instrument shall be conclusive evidence of such fact to protect the Trustee in any action that it may or may not take or in respect of anything it may or may not do, in good faith, by reason of the supposed existence of such fact. Except as otherwise provided in this Indenture, any request, notice, certificate or other instrument from the Agency to the Trustee shall be deemed to have been signed by the proper party or parties if signed by an Authorized Officer, and the Trustee may accept and rely upon a certificate signed by an Authorized Officer as to any action taken by the Agency.

Section 808. *Notice of Default.* Except upon the happening of any Event of Default specified in clauses (a) and (b) of Section 702 of this Indenture, the Trustee shall not be obliged to take notice or be deemed to have notice of any Event of Default, unless specifically notified in writing of such Event of Default by the Agency or by the owners of not less than twenty-five per centum (25%) in aggregate principal amount of the Bonds hereby secured and then Outstanding.

Section 809. *Trustee May Deal in Parity Obligation Instruments.* The bank or trust company acting as Trustee under this Indenture, and its directors, officers, employees or agents, may in good faith buy, sell, own, hold and deal in any Parity Obligation Instruments secured by this Indenture, may join in any action which any Bondowner or Party may be entitled

to take with like effect as if such bank or trust company were not the Trustee under this Indenture, may engage or be interested in any financial or other transaction with the Agency, and may maintain any and all other general banking and business relations with the Agency with like effect and in the same manner as if the Trustee were not a party to this Indenture; and no implied covenant shall be read into this Indenture against the Trustee in respect of such matters.

Section 810. *Trustee Not Responsible for Recitals.* The recitals, statements and representations contained herein and in Parity Obligation Instruments (excluding the Trustee's certificate of authentication on the Bonds) shall be taken and construed as made by and on the part of the Agency and not by the Trustee, and the Trustee assumes and shall be under no responsibility for the correctness of the same.

Section 811. *Trustee Protected in Relying on Certain Documents.* The Trustee shall be protected and shall incur no liabilities in acting or proceeding, or in not acting or not proceeding, in good faith, reasonably and in accordance with the terms of this Indenture, upon any resolution, order, notice, request, consent, waiver, certificate, statement, affidavit, requisition, bond or other paper or document which it shall in good faith reasonably believe to be genuine and to have been executed or signed by the proper board or person or to have been prepared and furnished pursuant to any of the provisions of this Indenture, or upon the written opinion of any attorney, engineer or accountant believed by the Trustee to be qualified in relation to the subject matter, and the Trustee shall be under no duty to make any investigation or inquiry as to any statement contained or matters referred to in such instrument. The Trustee shall not be under any obligation to see to the recording or filing of this Indenture.

Section 812. *Resignation and Removal of Trustee Subject to Appointment of Successor.* No resignation or removal of the Trustee and no appointment of a successor Trustee pursuant to this Article shall become effective until the acceptance of appointment by the successor Trustee under Section 816.

Section 813. *Resignation of Trustee.* Subject to Section 812 hereof, the Trustee may resign and thereby become discharged from the trusts hereby created, by notice in writing to be given to the Agency and mailed, first class postage-prepaid, to all registered owners of Bonds at their addresses as they appear on the registration books kept by the Bond Registrar(s), not less than sixty (60) days before such resignation is to take effect, but such resignation shall take effect immediately upon the appointment of a new Trustee hereunder, if such new Trustee shall be appointed before the time limited by such notice and shall then accept the trusts hereof.

Section 814. *Removal of Trustee.* Subject to Section 812 hereof, the Trustee may be removed upon thirty (30) days' written notice (i) at any time by an instrument or concurrent instruments in writing executed by the owners of not less than a majority in principal amount of the Bonds hereby secured and then Outstanding and filed with the Agency or (ii) by the Agency in its sole and absolute discretion at any time except during the continuance of an Event of Default by filing with the Trustee notice of removal in the form of an Agency Request. A facsimile copy of each such instrument shall be delivered promptly by the Agency to the Trustee. The Trustee may also be removed at any time for reasonable cause by any court of competent jurisdiction upon the application of the Agency pursuant to resolution or of the owners of not less

than ten per centum (10%) in aggregate principal amount of the Bonds then Outstanding under this Indenture.

Section 815. *Appointment of Successor Trustee.* If at any time hereafter the Trustee shall resign, be removed, be dissolved or otherwise become incapable of acting, or the bank or trust company acting as Trustee shall be taken over by any governmental official, agency, department or board, the position of Trustee shall thereupon become vacant. If the position of Trustee shall become vacant for any of the foregoing reasons or for any other reason, the Agency shall appoint a Trustee to fill such vacancy and shall cause notice of such appointment to be mailed, first class postage-prepaid, to all registered owners of Bonds at their addresses as they appear on the registration books kept by the Bond Registrar(s).

At any time within one year after any such vacancy shall have occurred, the owners of a majority in principal amount of the Bonds hereby secured and then Outstanding, by an instrument or concurrent instruments in writing, executed by such Bondowners and filed with the Agency, may appoint a successor Trustee, which shall supersede any Trustee theretofore appointed by the Agency. Facsimile copies of each such instrument shall be delivered promptly by the Agency to the predecessor Trustee and to the Trustee so appointed by the Bondowners.

If no appointment of a successor Trustee shall be made pursuant to the foregoing provisions of this Section within ten (10) days after the vacancy shall have occurred, the owner of any Bond Outstanding hereunder or any retiring Trustee may apply to any court of competent jurisdiction to appoint a successor Trustee. Such court may thereupon, after such notice, if any, as such court may deem proper and prescribed, appoint a successor Trustee.

Any Trustee hereafter appointed shall be a bank or trust company having a corporate trust office in the State, duly authorized to exercise corporate trust powers and subject to examination by Federal or State authority, of good standing, and having at the time of its appointment a combined capital and surplus aggregate not less than Fifty Million Dollars ($50,000,000) as shown on its most recently published report of its financial condition.

Section 816. *Vesting of Trusts in Successor Trustee.* Every successor Trustee appointed hereunder shall execute, acknowledge and deliver to its predecessor and also to the Agency, an instrument in writing accepting such appointment hereunder, and thereupon such successor Trustee, without any further act, shall become fully vested with all the rights, immunities, powers and trusts, and subject to all the duties and obligations, of its predecessor; but such predecessor shall, nevertheless, on the written request of its successor or of the Agency, and upon payment of the expenses, charges and other disbursements of such predecessor which are payable pursuant to the provision of Section 805 of this Article, execute and deliver an instrument transferring to such successor Trustee all the rights, immunities, powers and trusts of such predecessor hereunder; and every predecessor Trustee shall deliver all property and moneys held by it hereunder to its successor. Should any instrument in writing from the Agency be required by any successor Trustee for more fully and certainly vesting in such Trustee the rights, immunities, powers and trusts hereby vested or intended to be vested in the predecessor Trustee, any such instrument in writing shall and will, on request, be executed, acknowledged and delivered by the Agency.

Notwithstanding any of the foregoing provisions of this Article, any bank or trust company having power to perform the duties and execute the trusts of this Indenture and otherwise qualified to act as Trustee hereunder with or into which the bank or trust company acting as Trustee may be merged, converted or consolidated, or to which the assets and business of such bank or trust company may be sold, shall be deemed the successor of the Trustee.

Section 817. *Right of Bondholders to Appoint Trustee Pursuant to the Act Abrogated.* The Trustee shall be and is hereby vested with all of the rights, powers and duties set forth in the Indenture, and, pursuant to the Act, the right of the Bondholders to appoint a trustee under the Act is hereby abrogated.

Section 818. *No Implied Duty; Standard of Care.* The Trustee shall have no duty or obligation except as expressly provided herein and no implied duties or obligations shall be read into this Indenture against the Trustee. The Trustee shall not incur any liability for any act or omission in performing its duties hereunder, except in the case of its own negligence or willful misconduct.

ARTICLE IX

EXECUTION OF INSTRUMENTS BY BONDOWNERS, PROOF OF OWNERSHIP OF BONDS AND DETERMINATION OF CONCURRENCE OF BONDOWNERS

Section 901. *Execution of Instruments by Bondowners, Proof of Ownership of Bonds and Determination of Concurrence of Bondowners.* Any request, direction, consent or other instrument in writing required or permitted by this Indenture to be signed or executed by Bondowners may be in any number of concurrent instruments of similar tenor and may be signed or executed by such Bondowners or their attorneys or legal representatives. Proof of the execution of any such instrument and of the ownership of Bonds shall be sufficient for any purpose of this Indenture and shall be conclusive in favor of the Trustee with regard to any action taken by it under such instrument if made in the following manner:

(i) The fact and date of the execution by any person of any such instrument may be proved by the verification of any officer in any jurisdiction who, by the laws thereof, has power to take affidavits within such jurisdiction, to the effect that such instrument was subscribed and sworn to before him, or by an affidavit of a witness to such execution. Where such execution is on behalf of a person other than an individual such verification or affidavit shall also constitute sufficient proof of the authority of the signor thereof.

(ii) The ownership of Bonds shall be proved by the registration books kept under the provisions of Section 207 of this Indenture.

Nothing contained in this Section 901 shall be construed as limiting the Trustee to such proof, it being intended that the Trustee may accept any other evidence of the matters

herein stated which it may deem sufficient. Any request or consent of the owner of any Bond shall bind every future holder of the same Bond in respect of anything done by the Trustee in pursuance of such request or consent.

Notwithstanding any of the foregoing provisions of this Section 901, the Trustee shall not be required to recognize any person as a holder of any Bond or to take any action at his request unless such Bond shall be deposited with it.

ARTICLE X

SUPPLEMENTAL INDENTURES

Section 1001. *Bondowners' and Parties' Consent Not Required.* The Agency may, from time to time and at any time, execute such indentures supplemental hereto (which shall thereafter form a part hereof):

(a) to make provisions to cure any ambiguity or correct, cure or supplement any defect or omission in this Indenture or in any supplemental indenture or in regard to questions arising under this Indenture which the Agency may deem desirable or necessary and not inconsistent with this Indenture; or

(b) to grant to or confer upon the Trustee for the benefit of the Bondowners any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Bondowners or the Trustee; or

(c) to include as pledged revenues or money under, and subject to the provisions of, this Indenture any additional revenues or money legally available therefor; or

(d) to cure any ambiguity, to correct or supplement any provision herein which may be inconsistent with any other provision herein, or to make any other provisions with respect to matters or questions arising under this Indenture which shall not be inconsistent with the provisions of this Indenture, provided such action shall not materially adversely affect the interest of the Bondowners; or

(e) to add to the covenants and agreements of the Agency in this Indenture other covenants and agreements thereafter to be observed by the Agency or to surrender any right or power herein reserved to or conferred upon the Agency; or

(f) to add provisions relating to Bonds with coupons appertaining thereto or Bonds issued with full book-entry delivery, if necessary, if the Agency shall determine to so issue Bonds in such form under this Indenture; or

(g) to modify any of the provisions of the Indenture in any respect whatever not otherwise set forth in this Section 1001; *provided, however,* that either (i) such modification shall apply only to Series of Bonds issued after the effective date of the Supplemental Indenture

and shall not materially adversely affect the interests of the owners of Bonds of any Series Outstanding on the effective date of the Supplemental Indenture or (ii) (a) such modification shall be, and be expressed to be, effective only after all Bonds of any Series Outstanding at the date of the execution of such Supplemental Indenture shall cease to be Outstanding, and (b) such Supplemental Indenture shall be specifically referred to in the text of all Bonds of any Series authenticated and delivered after the date of the execution of such Supplemental Indenture and of Bonds issued in exchange therefor or in place thereof; or

(h) to modify, amend or supplement this Indenture or any Supplemental Indenture in such manner as to permit, if presented, the qualification hereof and thereof under the Trust Indenture Act of 1939 or any similar Federal statute hereafter in effect or under any state Blue Sky Law; or

(i) to surrender any right, power or privilege reserved to or conferred upon the Agency by the terms of this Indenture, provided that the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of the Agency contained in this Indenture; or

(j) to add to the definition of Investment Obligations, Parity Hedge Provider, Qualified Hedge Provider or Security Arrangement pursuant to the respective last proviso of the definition thereof; or

(k) to modify, amend or supplement this Indenture or any Supplemental Indenture in such manner as to permit a trustee (other than the Trustee) with respect to any subordinated Bonds issued hereunder; or

(l) to authorize Qualified Hedges and Security Arrangements and establish their terms pursuant to Section 213; or

(m) to modify, amend or add to the provisions in this Indenture or in any Supplemental Indenture pertaining to the terms or operations of variable rate Bonds, as the Agency may deem necessary or desirable in order to conform to common market practices for such Bonds, provided that no such amendment shall extend the maturity of or change the principal amount, interest payment dates or redemption terms of or reduce the interest rate on any Outstanding Bonds; or

(n) to modify, amend or add to the provisions in this Indenture or in any Supplemental Indenture pertaining to the terms of any variable rate Bonds, provided that the effective date of any such amendment shall be either (I) a date on which such Bonds are subject to mandatory tender for purchase or (II) any business day following at least thirty days after notice of the proposed amendment has been sent to the Bondowners of the affected Bonds, for any Bonds subject to optional tender by the Bondowners thereof upon not more than seven days' notice; or

(o) to modify, amend or supplement this Indenture in order to maintain the tax-exempt status of any Bonds; or

(p) to make any other change that does not materially adversely affect the interest of the Bondowners (as to any change relating to security for the Bonds, evidence that such change, at the time of such change, will not, in and of itself, impair, or cause the Bonds to fail to retain, the then-existing rating(s) assigned to them by the Rating Agencies, shall constitute sufficient evidence that such change does not materially adversely affect the interest of the Bondowners).

Section 1002. *Supplements and Amendments Requiring Consent of Owners of a Majority in Principal Amount of Bonds.* Subject to the terms and provisions contained in this Section, and not otherwise, (i) the Owners of not less than fifty-one per centum (51%) in aggregate principal amount of the Bonds then Outstanding; (ii) if less than all of the Bonds then Outstanding are affected, of the Owners of greater than fifty per centum (50%) in principal amount of Bonds so affected then Outstanding; and (iii) in case the terms of any Sinking Fund Requirements are changed, of the Owners of greater than fifty per centum (50%) in principal amount of the Bonds of the particular Series and maturity entitled to such Sinking Fund Requirements and then Outstanding shall have the right, from time to time, anything contained in this Indenture to the contrary notwithstanding, to consent to and approve the execution by the Agency and the Trustee of such indenture or indentures supplemental hereto as shall be deemed necessary or desirable by the Agency for the purpose of modifying, altering, amending, adding to, repealing or rescinding, in any particular, any of the terms or provisions contained in this Indenture or in any Supplemental Indenture. Notwithstanding the foregoing, nothing herein contained shall permit, or be construed as permitting, without the consent of all adversely affected Bondowners, (a) change in the terms of redemption or of the maturity of the principal of or the interest on any Bond issued hereunder, or (b) a reduction in the principal amount of any Bond or the redemption premium or the rate of interest thereon, or (c) the creation of a lien upon or a pledge of the Revenues, or any part thereof, other than the lien and pledge created or permitted by this Indenture, or (d) a preference or priority of any Parity Obligation Instrument over any Bond except as may be permitted by the applicable Series Indenture(s), or (e) a reduction in the aggregate principal amount or classes of the Bonds required for consent to such Supplemental Indenture. Nothing herein contained, however, shall be construed as making necessary the approval by Bondowners of the execution of any Supplemental Indenture as authorized in Section 1001 of this Article. If any such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified like Series and maturity remain Outstanding, the consent of the owners of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this Section. For the purpose of this Section, a Series shall be deemed to be affected by a modification or amendment of this Indenture or a Supplemental Indenture if the same adversely affects or diminishes the rights of the Owner of Bonds of such Series. The Trustee may in its discretion determine whether or not in accordance with the foregoing powers of amendment, Bonds of any particular Series and maturity would be affected by any modification or amendment of this Indenture or a Supplemental Indenture and any such determination shall be binding and conclusive on the Agency and all Owners of Bonds.

The Trustee shall, at the expense of the Agency, cause notice of the proposed execution of such Supplemental Indenture to be mailed, first class postage prepaid, to all affected Bondowners at their addresses as they appear on the registration books. Such notices shall

briefly set forth the proposed Supplemental Indenture and shall state that copies thereof are on file at the principal office of the Trustee for inspection by all Bondowners. The Trustee shall not, however, be subject to any liability to any Bondowners by reason of its failure to mail the notice required by this Section 1002, and any such failure shall not affect the validity of such Supplemental Indenture when consented to and approved as provided in this Section 1002.

Whenever, at any time within one year after the date of the first giving of such notice, the Agency shall deliver to the Trustee an instrument or instruments in writing purporting to be executed by the owners of not less than fifty-one per centum (51%) in aggregate principal amount of the affected Bonds then Outstanding, which instrument or instruments shall refer to the proposed Supplemental Indenture described in such notice and shall specifically consent to and approve the execution thereof in substantially the form of the copy thereof referred to in such notice, thereupon, but not otherwise, the Trustee may perform its duties under such Supplemental Indenture in substantially such form, without liability or responsibility to any Bondowner, whether or not such Bondowner shall have consented thereto.

If the required number of owners at the time of the execution of such Supplemental Indenture shall have consented to and approved the execution thereof as herein provided, no Bondowner shall have any right to object to the execution of such Supplemental Indenture, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee or the Agency from executing the same or from taking any action pursuant to the provisions thereof.

Upon the execution of any Supplemental Indenture pursuant to the provisions of this Section, this Indenture shall be and be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under this Indenture of the Agency, the Trustee and all Bondowners and the Parties shall thereafter be determined, exercised and enforced in all respects under the provisions of this Indenture as so modified and amended.

Consent from the Parties is not required for the supplements and amendments to the Indenture authorized in Sections 1001 and 1002 hereof.

Section 1003. *Supplements and Amendments Deemed Part of Indenture.* Any Supplemental Indenture executed in accordance with the provisions of this Article shall thereafter form a part of this Indenture, and all of the terms and conditions contained in any such Supplemental Indenture as to any provision authorized to be contained therein shall be and shall be deemed to be part of the terms and conditions of this Indenture for any and all purposes. In case of the execution of any Supplemental Indenture, express reference may be made thereto in the text of any Bonds issued thereafter, if deemed necessary or desirable by the Trustee.

Section 1004. *Discretion of Trustee in Performing Under Supplemental Indentures.* In each and every case provided for in this Article, the Trustee shall be entitled to exercise its discretion in determining whether or not to perform under any proposed Supplemental Indenture, or any term or provision therein contained, if the rights, obligations and interests of the Trustee would be affected, having in view the purposes of such instrument, the

rights and interests of the Bondowners and the Parties, the respective rights and interests of the Agency and the rights, obligations and interests of the Trustee, and the Trustee shall not be under any responsibility or liability to the Agency, any Bondowner, Party or to anyone whomsoever for its refusal in good faith to perform under any such Supplemental Indenture, if such Supplemental Indenture is deemed by it to be contrary to the provisions of this Article. The Trustee shall be entitled to receive, and shall be fully protected in relying upon, the opinion of any counsel approved by it, who may be counsel for the Agency, as conclusive evidence that any such proposed Supplemental Indenture does or does not comply with the provisions of this Indenture, and that it is or is not proper for it, under the provisions of this Article, to perform under such Supplemental Indenture.

Section 1005. *Notation on Bonds.* Bonds authenticated and delivered after the effective date of any action taken as in Article X provided may, and, if the Trustee or the Agency so determines, shall bear a notation by endorsement or otherwise in form approved by the Agency and the Trustee as to such action, and in that case upon demand of the Owner of any Bond Outstanding at such effective date and presentation of his Bond for the purpose at a corporate trust office of the Trustee or upon any transfer of any Bond Outstanding at such effective date, suitable notation shall be made on such Bond or upon any such transfer by the Trustee as to any such action. If the Agency or the Trustee shall so determine, new Bonds so modified as in the opinion of the Trustee and the Agency to conform to such action shall be prepared, authenticated and delivered, and upon demand of the Owner of any Bond then Outstanding, shall be exchanged, without cost to such Bondowner, for Bonds then Outstanding, upon surrender of such Bonds for Bonds of the same maturity then Outstanding.

ARTICLE XI

DEFEASANCE

Section 1101. *Defeasance.* (a) If, when Parity Obligation Instruments secured hereby shall have become due and payable in accordance with their terms or otherwise as provided in this Indenture, and all Bonds not described in the prior clause shall have been duly called for redemption or irrevocable instructions to call such Bonds for redemption shall have been given by the Agency to the Trustee and (a) the whole amount of the principal of, Redemption Price, and the interest on all of such Parity Obligation Instruments shall be paid, or (b) the Trustee shall hold money or Government Obligations or shall hold money and Government Obligations, sufficient to pay the principal of, Redemption Price, and interest on all Parity Obligation Instruments on their respective interest payment, stated maturity or prescribed redemption dates, provided that such Government Obligations shall be in such amount that the principal of and the interest on such Government Obligations so held by the Trustee, when due and payable, will provide sufficient money which, with any and all other money held by the Trustee for such purpose under the provisions of this Indenture, shall be sufficient to pay such principal of, Redemption Price, and the interest on such Parity Obligation Instruments and, if sufficient funds shall also have been provided for paying all other obligations (including amounts due under Qualified Hedges and Security Arrangements) payable under this Indenture by the Agency, then and in that case the right, title and interest of the Trustee under this Indenture shall

thereupon cease, terminate and become void, and the Trustee in such case, on demand of the Agency, shall release this Indenture and shall release the security, and shall execute such documents to evidence such release as may be reasonably required by the Agency, and shall turn over to the Agency or to such officer, board, or body as may then be entitled to receive the same, all the remaining property held by the Trustee under this Indenture. Otherwise, this Indenture shall be, continue and remain in full force and effect; *provided, however,* that in the event money or Government Obligations shall be deposited with and held by the Trustee as provided in this subsection (a), applicable provisions of this Indenture, particularly Articles II, III, VIII and XI, pertaining to the payment of the principal and Redemption Price of, or interest on the Bonds issued under this Indenture, Parity Obligation Instruments, and other obligations (including amounts due under Qualified Hedges and Security Arrangements) payable hereunder by the Agency, shall be continued in force until such Bonds, Parity Obligation Instruments, and other obligations have been fully paid.

(b) If, when any Parity Obligation Instruments secured hereby shall have become due and payable in accordance with their terms or otherwise as provided in this Indenture, or Bonds shall have been duly called for redemption or irrevocable instructions to call such Bonds for redemption shall have been given by the Agency to the Trustee and (a) the whole amount of the principal of, Redemption Price, and the interest on such Parity Obligation Instruments shall be paid, or (b) the Trustee shall hold money or Government Obligations or shall hold money and Government Obligations, sufficient to pay the principal of, Redemption Price, and interest on such Parity Obligation Instruments on their respective interest payment, stated maturity or prescribed redemption dates, provided that such Government Obligations shall be in such amount that the principal of and the interest on such Government Obligations so held by the Trustee, when due and payable, will provide sufficient money which, with any and all other money held by the Trustee for such purpose under the provisions of this Indenture, shall be sufficient to pay such principal of, Redemption Price, and the interest on such Parity Obligation Instruments, then and in that case the right, title and interest of the Trustee under this Indenture with respect to such Parity Obligations shall thereupon cease, terminate and become void. *However,* in the event money or Government Obligations shall be deposited with and held by the Trustee as provided in this subsection (b) , applicable provisions of this Indenture, particularly Articles II, III, VIII and XI, pertaining to the payment of the principal and Redemption Price of, or interest on the Bonds issued under this Indenture, and Parity Obligation Instruments shall be continued in force until such Bonds and Parity Obligation Instruments have been fully paid.

(c) All money and Government Obligations held by the Trustee pursuant to this Section shall be held in trust exclusively for and applied to the payment, when due, of the obligations payable therewith.

ARTICLE XII

MISCELLANEOUS PROVISIONS

Section 1201. *Successorship of Agency; Effect of Covenants; Construction of Indenture.* All covenants, stipulations, obligations and agreements of the Agency contained in

this Indenture shall be deemed to be covenants, stipulations, obligations and agreements of the Agency to the full extent authorized or permitted by law, and all such covenants, stipulations, obligations and agreements shall be binding upon the successor or successors thereof from time to time, and upon any officer, board, body, commission, authority, agency or instrumentality to whom or to which any power or duty affecting such covenants, stipulations, obligations and agreements shall be transferred by or in accordance with law.

No covenant, stipulation, obligation or agreement herein contained shall be deemed to be a covenant, stipulation, obligation or agreement of any present or future directors, agent or employee of the Agency in his or her individual capacity, and neither the Agency nor any officer thereof, present or future, executing the Parity Obligation Instruments shall be liable personally on the Parity Obligation Instruments or be subject to any personal liability or responsibility by reason of the issuance thereof.

The laws of the State shall govern the construction of this Indenture.

Section 1202. *Manner of Giving Notice.* Any notice, demand, direction, request or other instrument authorized or required by this Indenture to be given to or filed with the Agency or the Trustee shall be deemed to have been sufficiently given or filed for all purposes of this Indenture if made, given, furnished or filed in writing as follows and if and when delivered by hand or sent by registered mail, first-class, postage prepaid, return receipt requested, or sent by any delivery service which provides receipt for delivery, addressed as follows (unless changed by notice as hereinafter provided):

(a) to the Agency, if addressed to Executive Director, California Housing Finance Agency, 1415 L Street, Suite 500, Sacramento, CA 95814, with a second copy addressed to the Director of Financing, at the same address;

(b) to the Trustee, if addressed to it at a corporate trust office, or to any successor Trustee, if addressed to it at a corporate trust office.

All documents received by the Trustee under the provisions of this Indenture or photographic copies thereof, shall be retained in its possession until this Indenture shall be released under the provisions of Section 1101 of this Indenture, subject at all reasonable times to the inspection of the Agency, any agency or officer of the State, any Bondowner, and the agents and representatives thereof.

Section 1203. *Parties and Bondowners Alone Have Rights Under Indenture.* Except as herein otherwise expressly provided, nothing in this Indenture expressed or implied is intended or shall be construed to confer upon any person, firm or corporation other than the parties hereto and the owners of the Bonds issued under the provisions of this Indenture any right, remedy or claim, legal or equitable, under or by reason of this Indenture or any provisions hereof, this Indenture and all its provisions being intended to be and being for the sole and exclusive benefit of the parties hereto and the owners from time to time of the Bonds issued hereunder.

Section 1204. *Effect of Partial Invalidity.* In case any one or more of the provisions of this Indenture or of the Bonds shall for any reason be held to be illegal or invalid, such illegality or invalidity shall not affect any other provision of this Indenture or of the Bonds, but this Indenture and the Bonds shall be construed and enforced as if such illegal or invalid provision had not been contained therein. In case any covenant, stipulation, obligation or agreement contained in the Bonds or in this Indenture shall for any reason be held to be in violation of law, then such covenant, stipulation, obligation or agreement shall be deemed to be the covenant, stipulation, obligation or agreement of the Agency to the full extent permitted by law.

Section 1205. *Substitute for Mailing.* In case, by reason of the suspension of regular mail service as a result of a strike, work stoppage or similar activity, it shall be impractical to mail notice of any event to Bondowners or Parties when such notice is required to be given pursuant to any provision of this Indenture, any manner of giving notice as shall be satisfactory to the Trustee and the Agency shall be deemed to be a sufficient giving of such notice.

Section 1206. *Headings, Table of Contents and Notes for Convenience Only.* Any heading preceding the text of the several articles hereof and any table of contents or marginal notes appended to copies hereof shall be solely for convenience of reference and shall not constitute a part of this Indenture, nor shall they affect its meaning, construction or effect.

Section 1207. *Payment Due or Acts to be Performed on Weekends and Holidays.* If the date for making any payment of Parity Principal or premium, if any, or Parity Interest or the last date for performance of any act or the exercising of any right, as provided in this Indenture, shall be a legal holiday or a day on which banking institutions in the city where the Trustee is located, are authorized by law to remain closed, such payment may be made or act performed or right exercised (i) with respect to the Bonds, on the next succeeding day not a legal holiday or not a day on which such banking institutions are authorized by law to remain closed, unless otherwise provided in a Series Indenture, and (ii) with respect to other Parity Obligation Instruments, as set forth in each agreement between the applicable Parties and the Agency, in either case with the same force and effect as if done on the nominal date provided in this Indenture.

Section 1208. *Agency Request or Direction of Authorized Officer.* In connection with any Agency Request or direction of an Authorized Officer delivered hereunder, if such Agency Request or direction involves a calculation in which the outstanding principal balance of Mortgage Loans or Mortgage-Backed Securities is relevant, then such Agency Request shall include the amount of the outstanding principal balance of Mortgage Loans and Mortgage-Backed Securities , as of the relevant date.

Section 1209. *Notice to Rating Agencies.* The Agency shall give notice to each Rating Agency prior to the occurrence of any of the following thirty days prior to the occurrence thereof (or such lesser period of time as may be acceptable to each Rating Agency), with a copy of the relevant documentation:

(a) the issuance of Additional Bonds; and

(b) the effective date of a Supplemental Indenture or a Series Indenture.

Section 1210. *Counterparts*. This General Indenture may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 1211. *Effective Date*; *Execution and Delivery*. This General Indenture shall become effective upon its execution and delivery by the Agency and the Trustee.

IN WITNESS WHEREOF, the California Housing Finance Agency has caused this General Indenture to be signed in its name by its [Director of Financing] and its corporate seal to be affixed hereto and attested by an Authorized Officer and _____, in token of its acceptance of the trusts created hereunder and has caused this General Indenture to be executed in its name by an authorized signatory thereof, all as of the day and year first above written.

CALIFORNIA HOUSING FINANCE AGENCY

By: _____
[Director of Financing]

_____, as Trustee

By: _____
[Authorized Signatory]

HDW Draft
10/24/06

CALIFORNIA HOUSING FINANCE AGENCY

and

TREASURER OF THE STATE OF CALIFORNIA,
as Trustee

and

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

SERIES INDENTURE

Dated as of _____ 1, 2007

relating to

$_____
California Housing Finance Agency
Residential Mortgage Revenue Bonds,
2007 Series A

and

$_____
California Housing Finance Agency
Residential Mortgage Revenue Bonds,
2007 Series B

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THIS SERIES INDENTURE, dated as of _____ 1, 2007, by and between the California Housing Finance Agency, a public instrumentality and a political subdivision of the State of California (the "Agency"), and U.S. Bank National Association, as Trustee (the "Trustee"), said Trustee being qualified to accept and administer the trusts hereby created;

WITNESSETH:

WHEREAS, the Agency has been created by Parts 1 through 4 of Division 31 of the California Health and Safety Code, as amended (the "Act"), primarily for the purpose of assisting in meeting the housing needs of persons and families of low or moderate income and, incidental thereto, for the purpose of improving the quality of housing and of the housing market in the State of California;

WHEREAS, the Agency has determined to borrow money for its corporate purposes and to that end has duly authorized the issuance of its bonds under an Indenture dated as of _____ 1, 2007 (the "General Indenture"; together with this Series Indenture, the "Indenture"), between the Agency and the Trustee, and to secure the payment of the principal thereof and of the interest and premium (if any) thereon, and the observance of the covenants and conditions herein contained, has authorized the execution and delivery of the Indenture;

WHEREAS, said bonds are designated the "California Housing Finance Agency Residential Mortgage Revenue Bonds" (the "Bonds") and are to be issued pursuant to the Indenture from time to time in an aggregate principal amount not limited except as therein may be provided;

WHEREAS, the Agency has further determined to issue hereunder two series of Bonds, additionally designated "2007 Series A," in the aggregate principal amount of $_____ (the "2007 Series A Bonds") and "2007 Series B," in the aggregate principal amount of $_____ (the "2007 Series B Bonds"; together with the 2007 Series A Bonds, the "Offered Bonds") for the purpose of providing funds for deposits of amounts to be paid into one or more of the Funds and Accounts established pursuant to the Indenture;

WHEREAS, the fully registered Offered Bonds, the Trustee's Certificate of Authentication and Registration and the Assignment to appear thereon are to be in substantially the form set forth in Exhibit A hereto, with necessary or appropriate variations, omissions and insertions, as permitted or required hereby; and

WHEREAS, all acts and proceedings required by law and by the Act, and by the Indenture, including all action requisite on the part of its members and officers, necessary to make the Offered Bonds, when executed by the Agency, caused to be authenticated and delivered by the Trustee and duly issued the valid, binding and legal special obligations of the Agency, and to constitute this Series Indenture a valid and binding agreement for the uses and purposes herein set forth, in accordance with its terms, have been done and taken and the execution and delivery of this Series Indenture have been in all respects duly authorized;

NOW, THEREFORE, IN CONSIDERATION OF THE COVENANTS AND PREMISES HEREIN CONTAINED, THIS SERIES INDENTURE WITNESSETH, that the Agency and the Trustee agree as follows:

ARTICLE I

DEFINITIONS AND MISCELLANEOUS

Section 1.01. Definitions. Unless amended by this Series Indenture or the context otherwise requires, the terms defined in the General Indenture shall, for all purposes of this Series Indenture, have the meanings specified in the General Indenture. In addition, the following terms shall, for all purposes of this Series Indenture, have the following meanings:

"Beneficial Owner" means, whenever used with respect to an Offered Bond, the person in whose name such Offered Bond is recorded as the beneficial owner of such Offered Bond by a Participant on the records of such Participant or such person's subrogee.

"Book-Entry Bonds" means the Bonds held by DTC (or its nominee) as the registered owner thereof pursuant to the terms and provisions of Section 2.01 hereof.

"Cede & Co." means Cede & Co., the nominee of DTC, and any successor nominee of DTC.

"Code" means the Internal Revenue Code of 1986, as amended.

"Continuing Disclosure Agreement" means that certain Master Continuing Disclosure Agreement, dated as of _____ 1, 2007, between the Agency and the Trustee, as supplemented by the Supplemental Continuing Disclosure Agreement, dated as of _____ 1, 2007, relating to the Offered Bonds (as set forth therein), as it may be amended from time to time in accordance with the terms thereof.

"DTC" means The Depository Trust Company, New York, New York, and its successors and assigns.

"Homeowners Protection Act of 1998" means the Act of July 29, 1998, P.L. 105-216, 112 Stat. 897, which appears generally as 12 USCS Sections 4901 et seq. (Law. Co-op 1997 & Supp. 2003).

"Offered Bonds" means, collectively, the 2007 Series A Bonds and the 2007 Series B Bonds.

"Offered New Money Bonds" means the Offered Bonds that are not Offered Refunding Bonds.

"Offered Refunding Bonds" means Offered Bonds that are considered to be refunding bonds under the Code, as described in the Tax Certificate.

"Participants" means those broker-dealers, banks, and other financial institutions for which DTC holds Offered Bonds as securities depository.

"Participating Underwriter" shall have the meaning ascribed thereto in the Continuing Disclosure Agreement.

"Prior Bonds" has the meaning set forth in the Tax Certificate.

"Record Date" means the fifteenth day of the month preceding each Interest Payment Date.

"Representation Letter" means any letters of representations to and agreements with DTC with respect to the Offered Bonds.

"Series Indenture" means this Series Indenture, dated as of _____ 1, 2007, by and between the Agency and the Trustee, relating to the Offered Bonds.

"Targeted Area Period" means the period ending on the earlier of (i) 365 days from the date on which proceeds of or attributable to the Offered Bonds first became available to finance Mortgage Loans and (ii) the date on which the original principal amount of Mortgage Loans financed with proceeds of or attributable to the Offered Bonds on deposit in the 2007 Series A/B Program Account in Targeted Areas and mortgage loans underlying Series J/K Qualified Fannie Mae Investment Securities financed in Targeted Areas is equal to or greater than the Targeted Area requirement.

"Targeted Area requirement" has the meaning set forth in the Tax Certificate.

"Tax Certificate" means the Agency's Tax Certificate, to be dated the date of issuance of the Offered Bonds, with respect to the Offered Bonds, including any appendices, schedules, exhibits, or memoranda thereto.

"2007 Series A Bonds" means the Agency's Residential Mortgage Revenue Bonds, 2007 Series A, issued pursuant to the General Indenture and this Series Indenture.

["2007 Series A/B General Obligation Portion" means, for any period, a portion of the principal and interest payable on the Offered Bonds for such period in an amount equal to the amount by which (i) the aggregate amount of principal and interest payable on such Bonds for such period exceeds (ii) the aggregate amount of Revenues attributable to such Bonds for such period on deposit in the Revenue Fund.]

"2007 Series A/B Mortgage-Backed Securities" means the Mortgage-Backed Securities, portions of Mortgage-Backed Securities, or portions (each a Mortgage-Backed Security) of mortgage-backed securities financed with amounts attributable to the Offered Bonds on deposit in the 2007 Series A/B Acquisition Account of the Acquisition Fund or otherwise allocated to the Offered Bonds.

"2007 Series A/B Mortgage Loans" means the Mortgage Loans, portions of Mortgage Loans, or portions (each a Mortgage Loan) of mortgage loans financed with amounts attributable to the Offered Bonds on deposit in the 2007 Series A/B Acquisition Account of the Acquisition Fund or otherwise allocated to the Offered Bonds.

"2007 Series A/B Mortgage Loans and Mortgage-Backed Securities" means, collectively, 2007 Series A/B Mortgage Loans and 2007 Series A/B Mortgage-Backed Securities.

"2007 Series A/B Term Bonds" means the 2007 Series A Bonds maturing _____, the 2007 Series A Bonds maturing _____, the 2007 Series B Bonds maturing _____, and the 2007 Series B Bonds maturing _____.

"2007 Series A/B Underlying Mortgage Loans" means Underlying Mortgage Loans with respect to 2007 Series A/B Mortgage-Backed Securities.

"2007 Series B Bonds" means the Agency's Residential Mortgage Revenue Bonds, 2007 Series B, issued pursuant to the General Indenture and this Series Indenture.

Section 1.02. Captions and Index. Any captions, titles or headings preceding the text of any Article or Section herein and any table of contents or index attached to this Series Indenture or any copy hereof are solely for convenience of reference and shall not constitute part of this Series Indenture or affect its meaning, construction or effect.

Section 1.03. Execution of Several Counterparts. This Series Indenture may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original, and any and all such counterparts shall together constitute but one and the same instrument.

Section 1.04. Ratification of Indenture. As heretofore amended and supplemented and as amended and supplemented hereby, the General Indenture and the trusts conferred thereby are in all respects confirmed, and the General Indenture, all indentures supplemental thereto and this Series Indenture shall be read, taken and considered as one instrument.

Section 1.05. Invalidity of Certain Provisions. In case any one or more of the provisions contained in this Series Indenture should be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions contained in this Series Indenture, and, to the extent and only to the extent that any such provision is invalid, illegal or unenforceable, this Series Indenture shall be construed as if such provision had never been contained herein.

ARTICLE II

AUTHORIZATION AND TERMS OF OFFERED BONDS[; 2007 SERIES A/B GENERAL OBLIGATION PORTION]

Section 2.01. Authorization and Delivery. In order to provide funds necessary for the Program, in accordance with and subject to the terms, conditions and limitations established herein, two Series of Bonds are hereby authorized to be issued in the aggregate principal amount of $_____. The Agency is of the opinion and hereby ratifies its previous determination that the issuance of Bonds in said amount of $_____ is necessary to provide sufficient funds at this time to be used and expended for the Program.

Such Series of Bonds shall bear the designation of "2007 Series A" and "2007 Series B," respectively, and as so designated shall be entitled "Residential Mortgage Revenue

Bonds, 2007 Series A" and "Residential Mortgage Revenue Bonds, 2007 Series B." Such Series of Bonds are referred to herein respectively as the "2007 Series A Bonds" and the "2007 Series B Bonds," and collectively as the "Offered Bonds."

Upon their initial issuance, the Offered Bonds, upon their execution in the form and manner set forth in the General Indenture and as provided herein, shall be deposited with U.S. Bank National Association, as Trustee and Bond Registrar, for authentication, and the Trustee is hereby authorized and directed to authenticate and deliver the Offered Bonds to DTC upon the order of the purchasers thereof upon payment therefor in accordance with and subject to the provisions of Section 209 of the General Indenture. The Trustee is hereby authorized and directed to authenticate and deliver Offered Bond certificates in connection with the purchase and cancellation of Offered Bonds. The Offered Bonds are being issued to provide funds for the purchase of Mortgage Loans and/or Mortgage-Backed Securities and for the making of deposits into one or more Funds and Accounts established pursuant to the General Indenture and this Series Indenture, all as provided by or pursuant to Article III of this Series Indenture.

Section 2.02. Interest Rates; Dated Date; Maturity Dates. The Offered Bonds shall mature on the dates and in the principal amounts and shall bear interest at the respective rates of interest per annum, all as set forth in Exhibit B hereto.

The Offered Bonds shall consist of Serial Bonds and Term Bonds.

The Offered Bonds shall be dated their date of delivery.

Interest on the Offered Bonds shall be payable on _____ 1, 2007, and thereafter semiannually on February 1 and August 1 in each year and shall be calculated on the basis of a 360-day year of twelve 30-day months.

Section 2.03. Registered Form and Denominations; Numbering. The Offered Bonds shall be issued only in fully-registered form without coupons, in denominations of $5,000 principal amount or any integral multiple thereof.

Each 2007 Series A Bond and 2007 Series B Bond shall be identified by a legend consisting of the capital letters AR or BR, respectively, and shall be numbered consecutively from 1 upwards.

"CUSIP" identification numbers will be imprinted on the Offered Bonds, but such numbers shall not constitute a part of the contract evidenced by the Offered Bonds, and any error or omission with respect thereto shall not constitute cause for refusal by any purchaser to accept delivery of and pay for the Offered Bonds. Failure on the part of the Agency to use such CUSIP numbers in any notice to Owners of the Offered Bonds shall not constitute an event of default or any similar violation of the Agency's contract with such Owners.

Section 2.04. Book Entry Bonds. (A) With respect to matters relating to book-entry bonds, as requested by the original Beneficial Owners of the Offered Bonds, except as provided in paragraph (C) of this Section, the registered Owner of all of the Offered Bonds shall be DTC and the Offered Bonds shall be registered in the name of Cede & Co., as nominee of DTC. Payment of interest, if any, for any Offered Bond registered in the name of Cede & Co.

shall be made to the account of Cede & Co. on the interest payment date for the Offered Bonds at the address indicated for Cede & Co. in the registration books kept by the Bond Registrar.

(B) The Offered Bonds shall be initially issued only in the form of separate, single, authenticated, fully-registered Offered Bonds in the amount of each separately stated Series, maturity and interest rate of the Offered Bonds. Upon initial issuance, the ownership of each such Offered Bond shall be registered in the registration books kept by the Bond Registrar in the name of Cede & Co., as nominee of DTC. The Trustee and the Agency may treat DTC (or its nominee) as the sole and exclusive owner of the Offered Bonds registered in its name for the purposes of (i) payment of the principal, Redemption Price or purchase price of or interest, if any, on the Offered Bonds, (ii) selecting the Offered Bonds or portions thereof to be redeemed, (iii) giving any notice permitted or required to be given to Owners under the General Indenture, (iv) registering the transfer of Offered Bonds, and (v) obtaining any consent or other action to be taken by Owners and for all other purposes whatsoever; and neither the Trustee nor the Agency shall be affected by any notice to the contrary (except as provided in paragraph (C) of this Section). Neither the Trustee nor the Agency shall have any responsibility or obligation to any Participant, any Beneficial Owner or any other person claiming a beneficial ownership interest in the Offered Bonds under or through DTC or any Participant, or any other person which is not shown on the registration books of the Trustee as being an Owner, with respect to the accuracy of any records maintained by DTC or any Participant; the payment of DTC or any Participant of any amount in respect of the principal or Redemption Price or purchase price of or interest, if any, on the Offered Bonds; any notice that is permitted or required to be given to Owners under the General Indenture; the selection by DTC or any Participant of any person to receive payment in the event of a partial redemption of the Offered Bonds; or any consent given or other action taken by DTC as Owner. The Trustee shall pay all principal and purchase price of and premium, if any, and interest, if any, on the Offered Bonds only to or "upon the order of" Cede & Co. as nominee of DTC (as that term is used in the Uniform Commercial Code as adopted in the State), and all such payments shall be valid and effective to satisfy fully and discharge the Agency's obligations with respect to the principal and purchase price of and premium, if any, and interest, if any, on the Offered Bonds to the extent of the sum or sums so paid. Except as provided in paragraph (C) of this Section, no person other than DTC shall receive an authenticated Offered Bond for each separately stated Series, maturity and interest rate evidencing the obligation of the Agency to make payments of principal, purchase price, premium, if any, and interest, if any, pursuant to the General Indenture. Upon delivery by DTC to the Trustee of written notice to the effect that DTC has determined to substitute a new nominee in place of Cede & Co., the Offered Bonds will be transferable to such new nominee in accordance with paragraph (F) of this Section.

(C) In the event the Agency determines that it is in the best interest of the Agency not to continue the book-entry system of transfer or that the interests of the Owners of the Offered Bonds might be adversely affected if the book-entry system of transfer is continued, the Agency may notify DTC and the Trustee, whereupon DTC will notify the Participants of the availability through DTC of Offered Bond certificates. In such event, the Trustee shall issue, transfer and exchange Offered Bond certificates as requested by DTC and any Participant or Beneficial Owner in appropriate amounts in accordance with paragraph (F) of this Section. DTC may determine to discontinue providing its services with respect to the Offered Bonds at any time by giving notice to the Agency and the Trustee and discharging its responsibilities with

respect thereto under applicable law or the Agency may determine that DTC is incapable of discharging its duties and may so advise DTC. In either such event, the Agency shall either establish its own book-entry system or use reasonable efforts to locate another securities depository. Under such circumstances (if the Agency does not establish its own book-entry system and there is no successor securities depository), the Agency and Trustee shall be obligated to deliver Offered Bond certificates as described in the General Indenture and in accordance with paragraph (F) of this Section. In the event Offered Bond certificates are issued, the provisions of the General Indenture shall apply to, among other things, the transfer and exchange of such certificates and the method of payment of principal or purchase price of and premium, if any, and interest, if any, on such certificates. Whenever DTC requests the Agency and the Trustee to do so, the Trustee and the Agency will cooperate with DTC in taking appropriate action after reasonable notice (i) to make available one or more separate certificates evidencing the Offered Bonds to any Participant having Offered Bonds credited to its DTC account or (ii) to arrange for another securities depository to maintain custody of certificates evidencing the Offered Bonds.

(D) Notwithstanding any other provision of the Indenture to the contrary, so long as any Offered Bond is registered in the name of Cede & Co., as nominee of DTC, all payments with respect to the principal and purchase price of and premium, if any, and interest, if any, on such Offered Bond and all notices with respect to such Offered Bond shall be made and given, respectively, to DTC as provided in the Representation Letter.

(E) In connection with any notice or other communication to be provided to Offered Bond Owners pursuant to the Indenture by the Agency or the Trustee with respect to any consent or other action to be taken by Offered Bond Owners, the Agency or the Trustee, as the case may be, shall establish a record date for such consent or other action and give DTC notice of such record date not less than fifteen (15) calendar days in advance of such record date to the extent possible. Such notice to DTC shall be given only when DTC is the sole Owner of the Offered Bonds.

(F) In the event that any transfer or exchange of Offered Bonds is permitted under paragraphs (B) or (C) of this Section, such transfer or exchange shall be accomplished upon receipt by the Trustee from the registered owner thereof of the Offered Bonds to be transferred or exchanged and appropriate instruments of transfer to the permitted transferee(s), all in accordance with the applicable provisions of the General Indenture. In the event Offered Bond certificates are issued to holders other than Cede & Co., its successor as nominee for DTC as holder of all the Offered Bonds, or another securities depository as Owner of all the Offered Bonds, the provisions of the General Indenture shall also apply to, among other things, the printing of such certificates and the method of payment of principal and purchase price of and premium, if any, and interest, if any, on such certificates.

(G) The Agency may choose to terminate the services of DTC and either establish its own book-entry system or retain another securities depository. In such event, references in this Section 2.04 to DTC or Cede & Co. shall refer to such securities depository and its nominee, as appropriate.

(H) In connection with any redemption of Offered Bonds while DTC is the sole Owner of the applicable Offered Bonds, the Agency shall give notice of such redemption to the Trustee at least forty-five (45) days prior to the date fixed for redemption or such lesser number of days as shall be acceptable to the Trustee. The Trustee shall select the Offered Bonds to be redeemed as set forth in the third paragraph of Section 301 of the General Indenture, except that the Trustee shall make such selection no later than forty (40) days prior to the date fixed for redemption or such lesser number of days as shall be acceptable to the Trustee.

Section 2.05. Redemption. (A) Optional Redemption. The Offered Bonds maturing on or after _____ 1, 20__ may be called for redemption, at the option of the Agency, on or after _____ 1, 20__, in whole or in part at any time, from any moneys made available for such purpose. The Redemption Price with respect to Offered Bonds is the principal amount thereof to be redeemed, without premium, plus interest, if any, accrued to the redemption date.

(B) Special Redemption. The Offered Bonds shall be subject to redemption in whole or in part, from amounts deposited in the Special Redemption Account, at the option of the Agency, upon notice as provided in the General Indenture, at a Redemption Price equal to the principal amount of the Offered Bonds or portion thereof to be redeemed, together with accrued interest to the date fixed for redemption, without premium,

(1) at any time in an amount not exceeding moneys in the 2007 Series A/B Acquisition Account representing unexpended amounts allocable to the Offered Bonds, and fees, if any, paid by developers, servicers, Mortgage Lenders or mortgagors. The Agency shall redeem the Offered Bonds within 42 months from the date of issuance thereof with any applicable unexpended moneys attributable to proceeds of the Offered New Money Bonds as required by Section 143 of the Code (provided that applicable aggregate amounts with respect to the Offered Bonds less than $250,000 shall not be required to be so applied to so redeem the Offered Bonds), unless the Agency receives an opinion from Hawkins Delafield & Wood LLP (or another nationally recognized bond counsel) to the effect that failure to do so will not adversely affect the exclusion of interest on the Offered Bonds from gross income for Federal income tax purposes. Applicable amounts referred to in this clause (1) may be applied to redeem any maturity of any series of the Offered Bonds;

(2) at any time in an amount not exceeding the amount of Principal Prepayments of Mortgage Loans or Mortgage-Backed Securities purchased with amounts in any Series Acquisition Account available therefor, except as described below. Principal Prepayments that can be applied by the Agency to the redemption of Offered Bonds as described in this clause (2) do not include proceeds of the voluntary sale of Mortgage Loans or Mortgage-Backed Securities unless such Mortgage Loans or Mortgage-Backed Securities are (i) in default, (ii) not in compliance with the Agency's Program requirements, or (iii) sold in order to meet the Agency's covenant to maintain the exclusion of interest on the Offered Bonds from gross income for Federal income tax purposes. Amounts referred to in this clause (2) may be applied by the Agency to redeem any Offered Bonds of any series, maturity or interest rate in any amount, unless otherwise required for compliance with Agency tax covenants; and

(3) at any time in an amount not exceeding Revenues available therefor (other than Principal Prepayments) including investment earnings transferred from other Funds held under the General Indenture. Amounts referred to in this clause (3) may be applied by the Agency to redeem any series, maturity or interest rate of the Offered Bonds in any amount, unless otherwise required for compliance with Agency tax covenants.

(C) Sinking Fund Redemption.

The 2007 Series A/B Term Bonds shall be subject to mandatory redemption in part on each February 1 and August 1, at a Redemption Price equal to the principal amount thereof plus accrued interest to the date of redemption, in principal amounts equal to the applicable Sinking Fund Requirements for the preceding semiannual period, as set forth in Exhibit C attached hereto (subject to adjustment as provided in the General Indenture).

Section 2.06. [2007 Series A/B General Obligation Portion.] The Agency shall deposit on or prior to each interest payment date with respect to the Offered Bonds in the Revenue Fund an amount equal to the 2007 Series A/B General Obligation Portion, if any, payable on such interest payment date; provided that the aggregate amount of all such deposits shall not exceed $0. Notwithstanding any other provision of the Indenture, the obligation to make such deposits shall be a general obligation of the Agency payable from any revenues or moneys of the Agency legally available therefor other than Revenues, subject to agreements made or to be made with holders of notes or bonds pledging particular revenues or moneys for the payment thereof and subject to the Agency's right at any time to apply such revenues and moneys to any other lawful purpose of the Agency. The Agency's obligation to make such deposits is subject to termination upon receipt by the Trustee of a statement from each Rating Agency that such termination will not cause its rating of such Bonds to be reduced or withdrawn.]

ARTICLE III

ESTABLISHMENT OF ACCOUNTS AND APPLICATION OF PROCEEDS; RESERVE REQUIREMENTS AND EXPENSES; COVENANTS AND SUPPLEMENTAL INDENTURES

Section 3.01. Establishment of Accounts; Application of Offered Bond Proceeds; Certain Account Transfers and Deposits.

(A) Establishment of 2007 Series A/B Bond Proceeds Account, 2007 Series A/B Acquisition Account and 2007 Series A/B Costs of Issuance Account. There are hereby established separate accounts to be designated as follows:

"2007 Series A/B Bond Proceeds Account";

"2007 Series A/B Acquisition Account"; and

"2007 Series A/B Costs of Issuance Account."

Moneys in said Accounts shall be used for the purposes and as authorized by the General Indenture and as provided in this Series Indenture.

(B) There is hereby created and established a Residential Mortgage Revenue Bond 2007 Series A/B Rebate Account (the "2007 Series A/B Rebate Account"), which shall be held by the Trustee. The 2007 Series A/B Rebate Account shall not be Pledged Property and shall not secure the payment of principal, Redemption Price, or purchase price of or any interest on any of the Bonds.

Amounts on deposit in the 2007 Series A/B Rebate Account shall not be included in any calculation made in connection with any Cash Flow Statement pursuant to Section 607 of the General Indenture.

The Agency shall make deposits and withdrawals of moneys with respect to the 2007 Series A/B Rebate Account at the times and in the amounts, and shall pay to the United States, as required to maintain the exclusion of interest on the Offered Bonds from gross income for Federal income tax purposes, as provided in the Tax Certificate.

(C) Application of Offered Bond Proceeds. Upon the issuance of the Offered Bonds, proceeds of the Offered Bonds in an amount equal to the principal amount of Offered Refunding Bonds shall be treated as replacing an equal amount set aside for the redemption of the Prior Bonds, all as set forth in the Tax Certificate, following which the Trustee shall deposit proceeds of or attributable to the Offered Bonds as follows:

(1) in the Debt Reserve Fund, the amount of $_____;

(2) in the 2007 Series A/B Acquisition Account, the amount of $_____; and

(3) in the 2007 Series A/B Costs of Issuance Account, the amount of $_____.

(D) Agency Contribution. The Trustee shall deposit on or prior to the delivery of the Offered Bonds a contribution of the Agency in the amount of $_____ in the 2007 Series A/B Costs of Issuance Account, which amount may be reimbursed to the Agency in accordance with the Code.

Section 3.02. Debt Reserve Requirement. The Debt Reserve Requirement with respect to the Offered Bonds is hereby determined to be an amount equal to _____ per centum (___%) of the sum of (i) the outstanding principal balance of 2007 Series A/B Mortgage Loans and Mortgage-Backed Securities and (ii) the amount allocable to the Offered Bonds on deposit in the 2007 Series A/B Acquisition Account of the Acquisition Fund.

Section 3.03. Loan Loss Requirement. The Loan Loss Requirement with respect to the Offered Bonds is hereby determined to be an amount equal to _____ per centum (___%) of the sum of (i) the outstanding principal balance of 2007 Series A/B Mortgage Loans and Mortgage-Backed Securities and (ii) the amount allocable to the Offered Bonds on deposit in the 2007 Series A/B Acquisition Account of the Acquisition Fund.

Section 3.04. Expenses. The Agency's maximum Expenses with respect to the Offered Bonds for a Fiscal Year shall not exceed _____.

Section 3.05. Series Program Covenants. The Agency makes the following Series Program Determinations with respect to 2007 Series A/B Mortgage Loans and Mortgage-Backed Securities to be purchased from amounts on deposit in the 2007 Series A/B Acquisition Account in the Acquisition Fund:

(A) each 2007 Series A/B Mortgage Loan and 2007 Series A/B Underlying Mortgage Loan shall relate to a one-to-four unit residential structure, a condominium, or a cooperative unit, and shall have approximately level monthly payments at the interest rate it then bears, shall bear a fixed interest rate or stepped rates established at the time of loan origination, and shall have a maximum term of thirty (30) years;

(B) each 2007 Series A/B Mortgage Loan may be (a) (1) a conventional mortgage loan with primary mortgage insurance provided by private insurers, (2) insured by the Federal Housing Administration ("FHA"), (3) guaranteed by the Department of Veterans' Affairs (the Veterans' Administration) ("VA"), (4) a mortgage loan with private mortgage insurance provided by the California Housing Loan Insurance Fund, or (5) a mortgage loan insured or guaranteed by any other entity, if insuring or guaranteeing 2007 Series A/B Mortgage Loans by such entity will not, in and of itself, adversely affect the then-existing rating assigned by each Rating Agency to the Bonds or (b) a loan with respect to which no private mortgage insurance, FHA insurance, VA guaranty, or other guaranty or insurance will be required, collectively, "Primary Insurance.";

(C) each residence to which each 2007 Series A/B Mortgage Loan and 2007 Series A/B Underlying Mortgage Loan relates shall be a principal residence;

(D) the promissory note(s) for each 2007 Series A/B Mortgage Loan must be endorsed to the Agency, and the 2007 Series A/B Mortgage Loan must be assigned to the Agency and must constitute a valid first lien mortgage or, with respect to a cooperative unit, the loan must be secured by a lien upon the related shares of stock in the cooperative housing corporation and the proprietary lease related to the financed premises;

(E) the Agency shall only acquire 2007 Series A/B Mortgage Loans and Mortgage-Backed Securities with the amounts on deposit in the 2007 Series A/B Acquisition Account in the Acquisition Fund if the mortgage and/or promissory note with respect to each such 2007 Series A/B Mortgage Loan and each related 2007 Series A/B Underlying Mortgage Loan contains a provision to the effect that the remaining payments or a portion thereof due under such 2007 Series A/B Mortgage Loan or 2007 Series A/B Underlying Mortgage Loan may be reduced or eliminated so as to enable the Agency to comply with the tax covenants set forth herein;

(F) each 2007 Series A/B Mortgage Loan and 2007 Series A/B Underlying Mortgage Loan shall be originated in accordance with the provisions of the program documents of the Agency in effect on the date of issuance of the Offered Bonds;

(G) (1) The Agency may elect not to provide Supplemental Mortgage Coverage ("SMC"), or to eliminate any existing SMC, with respect to all or any portion of the 2007 Series A/B Mortgage Loan s if such election, in and of itself, does not adversely affect the then-existing rating by each Rating Agency on the Bonds. SMC with respect to the 2007 Series A/B Mortgage Loans initially shall be in the form of a mortgage pool insurance policy (the "Policy"). The Policy may insure other mortgage loans, including Mortgage Loans financed with proceeds of other Series of Bonds. The aggregate loss coverage available under the Policy will be equal to the aggregate of the SMC coverage requirements established for the mortgage loans that are insured thereunder. To the extent that SMC is maintained with respect thereto, the SMC coverage requirement for the 2007 Series A/B Mortgage Loans (other than mortgage loans insured by FHA or guaranteed by VA (each, a "Federally Insured Loan")) is an aggregate amount equal to 4% of the initial outstanding principal balance of each such 2007 Series A/B Mortgage Loan. There is no SMC coverage requirement for 2007 Series A/B Mortgage Loans which are Federally Insured Loans. Any Mortgagor whose conventional 2007 Series A/B Mortgage Loan is to be covered by the Policy or substitute SMC and which 2007 Series A/B Mortgage Loan has an initial loan-to-value ratio greater than 80% must obtain primary mortgage insurance ("PMI") on such 2007 Series A/B Mortgage Loan, which PMI (x) must be in an amount sufficient to reduce the uninsured portion of such 2007 Series A/B Mortgage Loan to 71-72% and (y) must remain in force until the earlier of the date on which the loan-to-value ratio of such 2007 Series A/B Mortgage Loan decreases to 80% of the original value of the mortgaged property or when the 2007 Series A/B Mortgage Loan reaches the midpoint of its amortization schedule, whichever occurs first, or the date on which the mortgagor thereunder exercises his or her right to cancel such PMI pursuant to the Homeowners Protection Act of 1998, as it may from time to time be amended;

(2) If the Agency elects to provide SMC with respect to 2007 Series A/B Mortgage Loans, such SMC is to be provided at the time such 2007 Series A/B Mortgage Loan is purchased, and is to be in the form of (a) cash or Investment Obligations, (b) Cash Equivalents or a qualified mortgage pool insurance policy, or (c) any other form if it will not, in and of itself, adversely affect the rating by each Rating Agency on the Bonds existing at the time such form of SMC is provided; and

(3) PMI on 2007 Series A/B Mortgage Loans (including PMI that is provided as SMC) must be provided by (i) the California Housing Loan Insurance Fund, (ii) entities qualified to insure mortgages purchased by the Federal Home Loan Mortgage Corporation, or (iii) entities whose financial conditions, in and of themselves, would not adversely affect the then-existing rating assigned to the Bonds by each Rating Agency;

(H) (1) Principal Prepayments received with respect to the 2007 Series A/B Mortgage Loans and Mortgage-Backed Securities shall be applied, subject to Section 3.10 hereof, first, _____, and second, _____; and

(2) Subject to subsection (1) of this paragraph (H), amounts representing Principal Prepayments of 2007 Series A/B Mortgage Loans and Mortgage-Backed Securities may be held on deposit in a Fund or Account for a period longer than one (1) year from the date of deposit of such Principal Prepayments only if (i) such amounts are invested at or above the

bond yield of the Offered Bonds, (ii) pursuant to the Cash Flow Statement most recently filed by the Agency with the Trustee, such amounts were assumed to be invested for a period in excess of one (1) year and such amounts are actually invested at or above the rate and for the time period contemplated for such amounts in such Cash Flow Statement, or (iii) such amount does not exceed $250,000. The Trustee shall notify the Agency of the fact that any such Principal Prepayments have been on deposit for eleven (11) months and the Agency by Agency Request shall proceed to direct the transfer of such Principal Prepayments to the Special Redemption Account to be applied to the redemption of Bonds. If the Trustee has not received an Agency Request by the end of the one (1) year period, the Agency shall be deemed to have delivered an Agency Request to the Trustee directing the transfer of the applicable Principal Prepayments to the Special Redemption Account to be applied to the redemption of Offered Bonds on the earliest date for which notice may be given, on a reasonably pro rata basis among all maturities of Offered Bonds. If any Principal Prepayments received with respect to 2007 Series A/B Mortgage Loans and Mortgage-Backed Securities are to be applied to finance Mortgage Loans, such application and the characteristics of the Mortgage Loans to be financed must be substantially the same as those shown in the most recently filed Cash Flow Statement;

(I) the Agency shall not amend the program documents in effect on the date of issuance of the Offered Bonds unless it has received an opinion from Hawkins Delafield & Wood LLP (or another nationally recognized bond counsel) to the effect that such program documents as amended establish procedures under which, if followed, the requirements of the Code with respect to the origination and servicing of 2007 Series A/B Mortgage Loans can be met; and

(J) amounts in the 2007 Series A/B Acquisition Account may be advanced to purchase mortgage loans or portions thereof and thereafter reimbursed.

Section 3.06. Tax Covenants. (A) If, during the Targeted Area Period, the amount of proceeds of or attributable to the Offered Bonds available to finance mortgage loans is less than the Targeted Area requirement, the Agency shall purchase with any available money of the Agency every qualified Mortgage Loan for each borrower purchasing a home in a Targeted Area.

(B) The Agency shall apply an amount at least equal to the principal amount of the Offered Refunding Bonds to the payment at maturity or prior redemption of the Prior Bonds within 90 days of the date of issuance of the Offered Refunding Bonds.

(C) The Agency shall comply with the provisions of the Tax Certificate, *except* to the extent provided in an opinion of Hawkins Delafield & Wood LLP (or other nationally recognized bond counsel) to the effect that such action (or inaction) will not cause interest on the Offered Bonds to be included in gross income for Federal income tax purposes.

Section 3.07. Legal Opinions. Should any of the legal opinions referred to herein be delivered by an attorney or firm of attorneys other than Hawkins Delafield & Wood LLP (and if Hawkins Delafield & Wood LLP is not concurrently delivering an opinion to the same effect pursuant to such Sections), the Trustee, promptly after such opinion is delivered, will mail, first-class, postage prepaid, a copy of each said opinion to each Owner of Offered Bonds at

his address as it appears in the registration book kept by the Bond Registrar. When DTC is the sole Owner, the Trustee shall send a copy of each said opinion to all of the Participants and, to the extent possible, the Beneficial Owners of the Offered Bonds. The Agency shall cooperate with the Trustee in order to effectuate the provisions of this Section 3.07.

Section 3.08. Redemption Tax Covenant. Unless the Agency shall receive an opinion of Hawkins Delafield & Wood LLP (or another nationally recognized bond counsel) to the effect that failure to follow the redemption provisions set forth in this Section will not adversely affect the exclusion of interest on the Offered Bonds from gross income for Federal income tax purposes, from the date of issuance of the Offered Bonds, the Agency shall apply to the redemption of Offered Bonds that percentage of the aggregate of all Principal Prepayments and regularly scheduled principal repayments received with respect to 2007 Series A/B Mortgage Loans and Mortgage-Backed Securities (not otherwise applied to scheduled maturities) required to be so applied pursuant to and in accordance with Section 2.05(B) hereof which percentages as of the date hereof shall be as set forth in the Tax Certificate, provided that applicable Principal Prepayments and scheduled principal repayments received with respect to 2007 Series A/B Mortgage Loans and Mortgage-Backed Securities in an aggregate amount less than $250,000 shall not be required to be applied to redeem Offered Bonds pursuant to this covenant.

Section 3.09. Supplemental Indentures. An Authorized Officer may, from time to time and at any time, execute such indentures supplemental hereto (which supplemental series indentures shall thereafter form a part hereof)

(A) to cure any ambiguity or defect or omission in this Series Indenture or in any supplemental series indenture;

(B) to cure any ambiguity, to correct or supplement any provision herein which may be inconsistent with any other provision herein, or to make or amend any other provisions with respect to matters or questions arising under this Series Indenture; provided that such action shall not adversely affect the interests of the Owners;

(C) to make any changes to Section 2.04 necessary in connection with the Agency's retention of a new securities depository; or

(D) to establish the SMC or to amend any provisions regarding SMC or to amend any of the Series Program Determinations set forth in Section 3.05 hereof if such amendment will not adversely affect the then-existing rating assigned to the Bonds by each Rating Agency and if the Agency receives an opinion of Hawkins Delafield & Wood LLP (or another nationally recognized bond counsel) that such amendment, in and of itself, will not cause interest on the Offered Bonds to be included in gross income for Federal income tax purposes.

Section 3.10. Continuing Disclosure. The Agency and the Trustee hereby covenant and agree that they will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of the Indenture, failure of the Agency or the Trustee to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default; *however,* the Trustee shall at the request of the Participating Underwriter or the Holders of at least 25% of the aggregate principal amount of Outstanding

Offered Bonds (upon receipt of satisfactory indemnification) or any Bondholder or Beneficial Owner (as defined in the Continuing Disclosure Agreement) may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Agency or the Trustee, as the case may be, to comply with its obligations under this Section.

Section 3.11. Brokerage Confirmations. The Agency acknowledges that regulations of the Comptroller of the Currency grant the Agency the right to receive brokerage confirmations of security transactions to be effected by the Trustee hereunder as they occur. The Agency specifically waives the right to receive such notification to the extent permitted by applicable law and agrees that it will instead receive periodic cash transaction statements which include detail for the investment transactions effected by the Trustee hereunder; *provided, however,* that the Agency retains its right to receive brokerage confirmation on any investment transaction requested by the Agency.

IN WITNESS WHEREOF, the California Housing Finance Agency has caused this Series Indenture to be signed in its name by its Director of Financing and its corporate seal to be affixed hereto and attested by the Secretary of its Board of Directors, and the Treasurer of the State of California, in token of his acceptance of the trusts created hereunder, has caused this Series Indenture to be executed by one of his duly appointed Deputies, and U.S. Bank National Association, in token of its acceptance of the trusts created hereunder, has caused this Series Indenture to be executed in its name by an authorized representative thereof, all as of the day and year first above written.

CALIFORNIA HOUSING FINANCE AGENCY

By _____
Director of Financing

[SEAL]

Attest: _____
Secretary of the Board of Directors

TREASURER OF THE STATE OF CALIFORNIA

By _____
Deputy Treasurer
for State Treasurer, Philip Angelides

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

By _____
Authorized Signatory

EXHIBIT A

[Form of Bond]

No. R_-___ $_____

CALIFORNIA HOUSING FINANCE AGENCY
RESIDENTIAL MORTGAGE REVENUE BOND
2007 SERIES _

INTEREST RATE	MATURITY DATE	ISSUE DATE	CUSIP

REGISTERED OWNER:

PRINCIPAL SUM: DOLLARS

California Housing Finance Agency (the "Agency"), a public instrumentality and political subdivision of the State of California (the "State"), for value received, hereby promises to pay, to the Registered Owner named above or to its registered assigns or legal representatives, on the Maturity Date set forth above (or earlier as hereinafter provided), upon the presentation and surrender hereof at the principal corporate trust office of U.S. Bank National Association, in St. Paul, Minnesota, or its successor as agent for U.S. Bank National Association, San Francisco, California (said bank and any bank or trust company becoming a successor trustee under the Indenture, the "Trustee"), the Principal Sum set forth above and to pay to the Registered Owner by check mailed to such Registered Owner at the address as it appears on the registration books of the Agency, interest on said Principal Sum from the date hereof or, if the date of authentication hereof is on or after the first interest payment date hereon, from the interest payment date to which interest shall have been paid, such interest to the maturity hereof being payable on _____ 1, 2007, and thereafter on each February 1 and August 1, at the Interest Rate per annum set forth above (calculated on the basis of a 360-day year of 12 thirty-day months), until payment of said Principal Sum upon the earlier of maturity or redemption. Principal of and interest on this bond are payable in any coin or currency of the United States of America that on the date of payment thereof is legal tender for the payment of public and private debts.

This bond and the issue of which it is a part are special obligations of the Agency payable out of and secured by a pledge of the Pledged Property (as defined in the General Indenture hereinafter described). The Agency has no taxing power. The Bonds are not a debt of the State or any municipality, and neither the State nor any municipality is liable on the Bonds, nor are the Bonds payable out of any funds other than the Pledged Property.

This bond is one of the duly authorized issue of revenue bonds of the Agency designated "California Housing Finance Agency Residential Mortgage Revenue Bonds, 2007 Series _" (the "2007 Series _ Bonds"), issued in a principal amount at issuance of _____ Dollars ($_____), all of like tenor and effect except as to principal amount, number, interest rate, stated maturity, and redemption, issued

under and pursuant to the Residential Mortgage Revenue Bonds General Indenture, dated as of _____ 1, 2007, by and between the Agency and the Trustee (the "General Indenture"), and a Series Indenture, dated as of _____ 1, 2007 (the "Series Indenture"; together with the General Indenture and any supplemental indentures related thereto, the "Indenture"). A copy of the Indenture is on file at the principal corporate trust office of the Trustee. The 2007 Series _ Bonds are issued for the purposes provided in the Indenture. Capitalized terms used herein that are not otherwise defined shall have the respective meanings ascribed thereto in the Indenture. This bond is one of said 2007 Series _ Bonds.

The General Indenture provides for the issuance, from time to time, under the conditions, limitations, and restrictions set forth therein, of additional bonds, which additional bonds may be on parity with, or subordinate to, any other Series of bonds issued or to be issued under the General Indenture (said additional bonds, together with the 2007 Series _ Bonds, the bonds being issued simultaneously with the 2007 Series _ Bonds, and the bonds previously issued under the General Indenture, the "Bonds"). The 2007 Series _ Bonds are secured on a parity with all Bonds issued simultaneously with or prior to the issuance of the 2007 Series _ Bonds.

Reference is hereby made to the Indenture for the provisions, among others, with respect to the custody and application of proceeds of Bonds, the nature and the extent of the liens and security of the General Indenture, the Pledged Property, the terms and conditions under which additional Bonds may be issued, the rights, duties, and immunities of the Trustee, the rights of the registered owners of the Bonds, and the rights and obligations of the Agency. By the acceptance of this bond, the Registered Owner hereof assents and is subject to all of the provisions of the Indenture.

The 2007 Series _ Bonds are issuable as registered Bonds without coupons, in denominations of $5,000 principal amount or any integral multiple thereof. At the principal corporate trust office of the Trustee, as Bond Registrar, in the manner and subject to the limitations and conditions provided in the Indenture, and upon payment of any taxes, fees, or charges provided in the Indenture, 2007 Series _ Bonds may be exchanged for an equal aggregate principal amount of Bonds of the same Series, maturity and interest rate and in other authorized denominations.

This bond is subject to redemption, including redemption at par, prior to maturity as set forth in the Indenture.

The owner of this bond shall have no right to enforce the provisions of the Indenture, to institute action to enforce the covenants therein, or to take any action with respect to any event of default under the Indenture, or to institute, appear in, or defend any suit or other proceeding with respect thereto, except as provided in the General Indenture.

In certain events, on the conditions, in the manner, and with the effect set forth in the General Indenture, the principal of all the Bonds then Outstanding under the General Indenture may become or may be declared due and payable before the stated maturities thereof, together with the interest accrued thereon. Modifications or alterations of the Indenture or of any resolution supplemental thereto may be made only to the extent and in the circumstances

permitted by the Indenture. The lien of the General Indenture may be defeased and the Bonds deemed paid and no longer Outstanding under the General Indenture at any time in accordance with the conditions set forth in the General Indenture.

This bond shall at all times be, and shall be understood to be, an investment security within the meaning of and for all the purposes of Article 8 of the Uniform Commercial Code of the State.

The transfer of this bond may be registered only upon surrender hereof to the Bond Registrar together with an assignment duly executed by the registered owner or its attorney or legal representative in such form as shall be satisfactory to the Bond Registrar. Upon any such registration of transfer of this bond and subject to the payment of any fees and charges as provided by the General Indenture, the Agency shall execute and the Trustee shall authenticate and deliver in exchange for this bond a new bond or bonds registered in the name of the transferee, in any denomination or denominations authorized by the Indenture, of the same Series and maturity and in an aggregate principal amount equal to the unredeemed principal amount of this bond, and bearing the same interest rate as this bond.

This bond is issued with the intent that the laws of the State shall govern its construction.

It is hereby certified and recited that all conditions, acts and things required by the Constitution and statutes of the State or by the Indenture to exist, to have happened or to have been performed precedent to or in the issuance of the 2007 Series _ Bonds exist, have happened and have been performed and that the issuance of the 2007 Series _ Bonds, together with all other indebtedness of the Agency, is within every debt limitation and other limit prescribed by said Constitution or statutes.

Neither the members of the Board of Directors of the Agency nor any officer or employee of the Agency nor any person executing this bond shall be subject to any personal liability or accountability by reason of the issuance hereof.

This bond shall not be entitled to any benefit under the Indenture, or become valid or obligatory for any purpose, until the certificate of authentication and registration hereon endorsed shall have been executed by the Trustee.

This bond shall not be deemed to constitute a debt or liability of the State or of any political subdivision thereof, other than the Agency, or a pledge of the faith and credit of the State or of any such political subdivision, other than the Agency to the extent herein provided, but shall be payable solely from funds provided therefor pursuant to the Indenture. Neither the faith and credit nor the taxing power of the State is pledged to the payment of the principal of or interest on this bond.

IN WITNESS WHEREOF, the California Housing Finance Agency has caused this bond to be executed by facsimile signature on its behalf by its Executive Director, and its corporate seal to be reproduced hereon and attested by the Secretary of its Board of Directors, all as of the Issue Date.

CALIFORNIA HOUSING FINANCE AGENCY

By _____
Theresa A. Parker
Executive Director

[SEAL]

Attest:

_____
Secretary of the Board of Directors

[FORM OF]
CERTIFICATE OF AUTHENTICATION AND REGISTRATION

This is one of the Bonds described in the within-mentioned Indenture and authenticated and registered on _____.

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

By _____
Authorized Signatory

[FORM OF]
ASSIGNMENT

FOR VALUE RECEIVED the undersigned hereby sells, assigns and transfers unto: _____ (please print or typewrite name and address including postal zip code of transferee), _____ (please insert social security or other identifying number of assignee), the within bond and all rights thereunder, and hereby irrevocably constitutes and appoints _____ attorney to transfer the within bond on the books kept for registration thereof, with full power of substitution in the premises.

Dated _____

(Signature(s) guarantee)

NOTICE: Signature(s) must be guaranteed by a member firm of the medallion signature program	NOTICE: The signature(s) to this assignment must correspond with the name(s) as written upon the face of the bond in every particular, without alteration or enlargement or any change whatever.

EXHIBIT B

MATURITY SCHEDULE

2007 SERIES A BONDS

Due	Amount	Interest Rate
	$	%

2007 SERIES B BONDS

Due	Amount	Interest Rate
	$	%

EXHIBIT C

SINKING FUND REQUIREMENTS

Date	2007 Series A 20__ Term Bonds	2007 Series A 20__ Term Bonds	2007 Series B 20__ Term Bonds	2007 Series B 20__ Term Bonds

†Final maturity.