Cal HFA SM

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RESEARCH

California Housing Finance Agency; General Obligation

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Credit Profile		
California Hsg Fin Agy Issuer Credit Rating		
Long Term Rating	AA-/Stable	Affirmed

Rationale

The affirmed 'AA-' issuer credit rating (ICR) on the California Housing Finance Agency (CalHFA) reflects:

- High asset quality and a stabilizing loan portfolio,
- Stable financial performance and reserves,
- Prudent debt management policies,
- Very strong management, and
- A diverse and broad-based California economy.

CalHFA experienced high growth in net income, continued to increase its equity, and saw its loan portfolio surge at its greatest rate since 2001. The growth in all three areas of income, equity, and loans was the result of a slowdown in prepayments combined with a steady financing of new loans. The loans provided greater revenue, leading to more retained earnings.

The agency also began to diversify its debt component, issuing $762 million in fixed rate debt at the end of calendar 2006. While this activity had no effect on the fiscal year ending June 30, 2006, the movement to fixed-rate debt reduces the need for liquidity providers and interest rate hedges associated with variable rate debt.

The agency's net income doubled to more than $40 million in 2006; equity grew to its highest level ever, $1.27 billion, an increase of more than 6.9% over 2005; and loans grew nearly 13% to $6.27 billion. By historical standards the net income and loan numbers lag those from some previous years. Yet the change represents a strong reversal from the period from 2003-2005, when the agency experienced high prepayments. Compared with agencies with the same rating, CalHFA has similar profitability ratios but weaker leverage ratios, but its strong performance in 2006 indicates that it should be well positioned for a more hospitable interest rate environment.

The agency has been able to navigate through difficult economic and interest rate environments and must operate within the high-cost California real estate market and competitive mortgage industry. The agency's ability to do so illustrates the effectiveness of management in achieving its mission, which is a component of the rating.

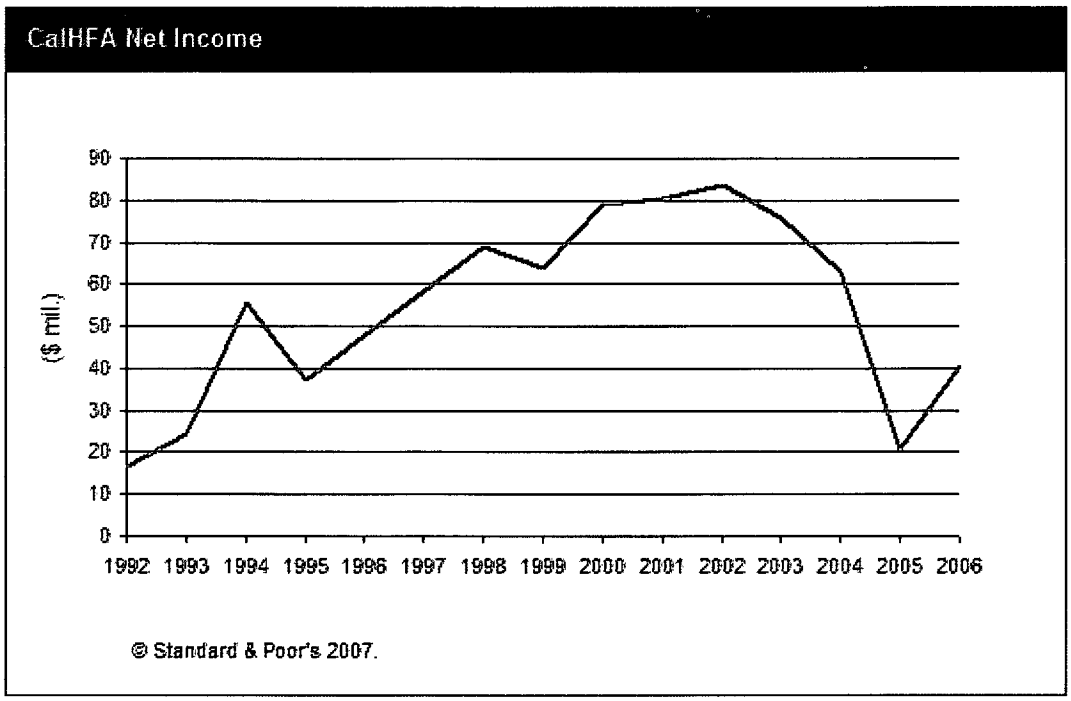
Outlook

The stable outlook reflects CalHFA's continued strong financial performance and future plans for growth in addressing the housing needs of the state. The high quality of CalHFA's assets, which is reflected in low delinquency figures, combined with the strong performance of the agency's interest rate management techniques on debt and a recovering loan portfolio, indicate the agency's ability to perform under difficult circumstances.

Earnings Quality And Financial Strength

CalHFA's profitability ratios remain consistent with other HFAs rated 'AA-' following a doubling of net income in 2006. Net income rose to $40.5 million in 2006, up from $20.5 million in 2005, during which the agency experienced three significant one-time expenses. Excluding 2005, the agency's 2006 net income is still the lowest since 1995. Should prepayments continue to remain steady in a stable interest rate environment, net income should grow, as the agency has added significantly to its loan portfolio.

Chart 1



Equity rose in 2006, as it has on a dollar basis every year since at least 1990 and on a percentage basis every year since 1998. The increase in equity was 6.95%, representing growth over last year's increase, but still low by historical standards. If the agency can take advantage of the current rate environment, profitability could grow, leading to higher equity. The agency reversed two consecutive years of declines in its asset base, resulting in assets of $9.45 billion, up from $9.39 billion in 2005. The increase was small and left the agency with assets of less than $9.59 billion in 2002, before the wave of prepayments reduced the size of its balance sheet. The agency has not had difficulty originating mortgages in calendar 2006 and, if that trend continues along with reduced prepayments, the asset base should grow more quickly than in 2006.

CalHFA continues to have lower equity on a percent basis than most other similarly rated HFAs. Two factors that mitigate concerns about this are the continual increase in equity described above and the fact that adjustments to CalHFA's equity for capital adequacy indicate that the agency is well positioned for potential risks. The agency's unrestricted equity after adjusting for risks is in excess of 6.9% of debt outstanding, with liquid assets more than 8% of loans.

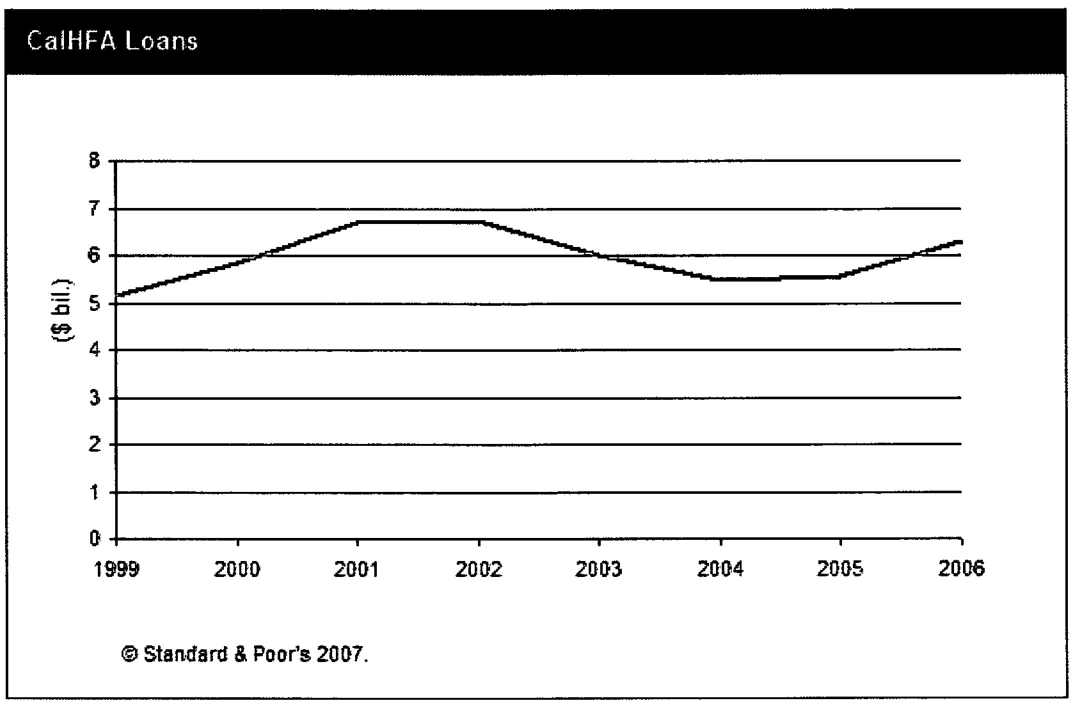
Asset Quality

CalHFA's assets consist mostly of mortgage loans and investments. Most mortgages are single family with Federal Housing Administration (FHA) insurance. Nonperforming assets slightly fell to 1.26% in 2006 from 1.36% in 2005. CalHFA regularly evaluates real estate risk and reserves for potential loan losses. The agency's loan loss reserve is about 1.07% of total loans, most allocated to second mortgages and the multifamily portfolio.

The agency has made an effort to remain competitive in the California lending market by offering new loan products. As a result, the loan portfolio continues to evolve, potentially exposing the agency to greater risk. The growth in equity offsets any additional loss exposure with additional assets if they are needed. Due to high housing prices in California, new single-family loan originations have trended toward those with insurance from the California Housing Loan Insurance Fund and away from the FHA. Furthermore, about 75% of the Home Mortgage Revenue Bond program's new production includes second mortgages for down payment assistance, and continuing in 2006, the agency financed many loans as fixed-rate loans that pay interest only during the first five years of a 35-year term. These trends and products will result in greater reserve requirements, but equity growth has outpaced the additional reserve requirements of the current loan portfolio composition. These developments do not pose any significant risk at this time, as the agency intends to monitor its portfolio with the desire to maintain adequate reserves.

Continuing to reverse the declining trend in loans from 2002-2004, CalHFA's loans surged nearly 13% in 2006 following a slight increase in 2005. Single-family loans led the growth, increasing to $4.5 billion in 2006 from less than $4 billion in 2005. As a percentage of assets, single family loans grew to 48% of assets in 2006, up from 42% in 2005.

Chart 2



Multifamily loans also increased to 18% of all assets in 2006 from 17% in 2005. Most multifamily loans are financed through the agency's only active multifamily resolution, the Multifamily Housing Revenue Bonds III indenture. The agency maintains reserves to cover numerous risks related to rental housing developments such as occupancy, construction, or subsidy of the properties. Standard & Poor's Ratings Services evaluates the loan loss reserve for all loans as part of the capital adequacy process.

CalHFA operates in the multifamily area as a direct lender. CalHFA has made $1.97 billion in multifamily loans, financing 459 projects with a total of 36,290 units. The agency acquired six multifamily developments through foreclosure in the late 1980s and 1990s. One of these developments was sold in June 2006 and the remaining developments had a book balance of $12.3 million as of June 30, 2006. During the current fiscal year the agency has sold four of the five remaining multifamily developments. The agency has realized a gain of $34 million from the sale of these five properties. The agency has been effective in reaching households at the lower end of the income spectrum in high-cost areas, as two-thirds of the units have rents restricted to 50% of area median income or less.

The reduction in prepayments led to a decrease in investments, frequently short-term holdings, following the receipt of a loan refinancing. Investments represented 32% of CalHFA assets in 2006, down from 39% in 2005. CalHFA holds investments for bond resolutions in guaranteed investment contracts with highly rated providers. The agency also invests $925 million in the surplus money investment fund, a short-term investment vehicle managed by the state treasurer that serves as a hedge against interest rate risk for some of the agency's unhedged variable-rate debt.

Debt: Highly Diversified

While CalHFA's assets increased, its debt decreased to $7.4 billion in 2006, its lowest level since 2001. Significantly, the agency began to issue large amounts of fixed-rate debt for the first time since 1999. In the second half of 2006, CalHFA issued $715 million under its home mortgage revenue bond indenture. At the beginning of 2006, 87% of CalHFA's debt was variable rate and 63% of all debt was variable rate swapped to fixed rate. Another 9% of the agency's debt was variable rate, not swapped-to-fixed rate or hedged through a variable-rate asset. By the end of 2006, 76% of CalHFA's debt was variable rate and 64% of all debt was variable rate swapped to fixed rate.

The heavy use of interest rate swaps exposes the agency to a number of risks, including basis risk, which has been prevalent in many of the agency's older swaps. Following a review of CalHFA's 130 swaps, Standard & Poor's has assigned a debt derivative profile (DDP) of '1.5' on a five-point scale, where '1' represents the lowest risk. The overall score of '1.5' reflects:

- Highly rated swap counterparties that are all required to post collateral before a credit event occurs,
- Low basis risk and minimal termination risk, and
- Excellent management oversight.

The agency has high diversification, with 13 counterparties, none of which accounts for more than 18% of the aggregate swapped notional amount. All counterparties are rated at least 'AA-', well above the 'BBB' requirement for swap dependent issuers, and 48% of the notional amount is swapped through 'AAA' rated counterparties. There is negligible involuntary termination risk under the swaps due to a very broad ratings trigger spread.

CalHFA has $1.7 billion in GO debt, slightly higher than in 2005. Almost all of this debt is associated with the agency's Multifamily III indenture. The GO debt represents 22% of CalHFA's total debt, an increase from 17% in 2004 and 10% in 2000. This figure will likely increase as the Multifamily III program grows. While this represents significant growth in the percentage of GO debt, these bonds are backed by multifamily loans that have paid debt service when due. We have analyzed the quality of the loans backing the bonds and their historical performance and are comfortable that the adjustments made to the loan value under a capital adequacy review appropriately accounts for the risk to the agency to pay debt service on the bonds from its fund balance.

Management

The executive director and the agency's senior management team are highly skilled and very experienced in the affordable-housing industry as well as the management of complex financing structures. In addition, the management team must constantly evaluate, design, and create new loan products for first-time homebuyers and developers of affordable multifamily housing. To provide the financial resources to remain competitive in California's high-cost market, CalHFA is unique among its peers, having issued more variable-rate debt than any other HFA in the country, both in terms of volume and percentage.

CalHFA operates under a five-year business plan that it updates annually. The 2006-2007 plan anticipates $14 billion of activity during the relevant five years. Single-family activity will account for $7.9 billion, multifamily activity will represent $1.7 billion, and mortgage insurance is proposed to total $4.2 billion.

Operating within the largest state in the country under a mandate to provide affordable housing in many very expensive housing markets, the agency must employ a team of talented and sophisticated managers with a high level of expertise in many disciplines. Over the past few years the agency has been able to steer through difficult economic times and an extremely competitive lending market in California, illustrating the effectiveness of current management and staff. The agency's sophisticated swap and risk management programs and new and innovative lending programs will continue to require a high level of management capability, diligence, and oversight.

Last year, legislation was enacted to authorize the CalHFA board of directors to set salaries for the executive director and key senior management positions based on salary surveys of comparable state and local housing agencies. While this legislation became effective in January 2007 and the board has duly acted to realign salaries of the key management team, CalHFA has been unable to recruit qualified candidates for its director of multifamily programs and director of single-family programs. The agency is recruiting nationally in an effort to find individuals with a high level of housing, finance, and mortgage banking expertise to manage the complex programs currently in place. CalHFA continues to face challenges in offering compensation commensurate with industry standards. Retaining and replacing highly qualified individuals for the agency's top management positions is a key consideration for this rating and the continued financial success of CalHFA. An aging workforce within the agency, and California state government in general, might exacerbate this situation in the future.

California's Economy Large And Diverse

California has a large and diverse economy with a growing population. The leveling of the housing market has not yet had a significant impact on CalHFA, which faces challenges in high-cost markets and a potential for rising foreclosure. As indicated above, the delinquency rate for single-family and multifamily properties has remained low as the demand for housing remains strong. One negative aspect of high housing demand in relation to supply is that the agency has been effectively shut out of most single-family housing stock in many coastal areas.

The state has recently experienced employment performance similar to the nation's performance, but state personal income growth has lagged the nation's level. California's huge economy remains very broad based. The state estimates its population reached 37 million in 2005 -- the U.S. Census Bureau estimated slightly lower figures -- and that it will continue to grow faster than the nation's population. State population grew by 8.5% from 2000-2005. The federal government estimates that California's per capita income rose slightly to 107% of the nation's level in 2005, although still slightly less than the 109% recorded in 2000, while median household effective buying income was 113% of the nation's level in 2003.

California suffered a mild recession from 1990-1993. The 1990s recession was sparked by military cutbacks, a construction downturn, downsizing of the aerospace industry, and slow economic growth in the state's primary export markets. State employment dropped by 2.8% from 1990-1993, but Southern California suffered most of the decline. The state again experienced a similar mild recession in 2001, but most of the economic weakness was in high-tech-dominated Northern California while Southern California's economy remained strong.

California's employment growth exceeded the nation's growth in the second half of the 1990s. High tech, foreign trade, services, and the entertainment industry were only a few of the many sectors that exhibited strong growth. After the 2001 recession, however, state employment levels roughly mirrored those of the nation. According to the Federal Bureau of Labor Statistics, California's total employment increased by 1.3% in calendar 2001; exhibited a marginal 0.1% decline in 2002; and increased by 1.0% in 2003, 0.8% in 2004, and 1.8% in 2005. State unemployment in 2005 averaged 5.4%, slightly higher than the nation's 5.1% rate. State total personal income growth, however, has exhibited more volatility due, in part, to a downturn in capital gains and stock option income, which is somewhat attributed to weakness in Silicon

Valley. After growing 10.5% in 2000, state personal income increased an estimated 2.9% in 2001, 1.1% in 2002, 3.2% in 2003, 6.6% in 2004, and 6.0% in 2005.

The state's economy demonstrates particular strength in Southern California, where the defense industries have gained from a new defense buildup. Conversely, the northern Silicon Valley economy softened considerably during the past recession, but residential real estate prices remained relatively strong despite the lag in personal income growth and rising commercial vacancies. Currently, almost all sectors of the state economy -- including foreign trade, entertainment, and high-tech -- are seeing strong growth above that of the nation. High home prices, however, could also create impediments. In September 2006, the median single-family home price in the state was $553,050, well above the purchase price limits for CalHFA. Although home construction was down 20% in the first nine months of 2006, home prices remain high.

Table 1

CalHFA Financial Ratio Analysis 2002-2006

	2002	2003	2004	2005	2006	five-year average
Profitability (%)						
Return on average assets	0.90	0.78	0.65	0.21	0.43	0.59
Return on assets before loan loss provision and extraordinary item	0.94	0.84	0.68	0.29	0.51	0.65
Net interest margin	1.44	1.34	1.31	0.98	1.06	1.23
Asset quality (%)						
Non-performing assets/total loans and real estate owned	2.28	2.57	2.46	1.36	1.26	1.98
Loan loss reserves/total loans	0.66	0.84	0.97	1.07	1.07	0.92
Loan loss reserves/non-performing assets	28.86	32.69	39.29	78.80	85.10	52.95
Leverage (%)						
Total equity/total assets	9.76	10.36	11.52	12.61	13.40	11.53
Total equity and reserves/total loans	14.55	17.68	21.38	22.39	21.26	19.45
Liquidity (%)						
Total loans/total assets	70.29	61.55	56.42	59.16	66.35	62.75

Table 2

Five-Year Average Financial Ratios (2001-2005)

	Cal HFA	All 'AA-' HFAs	All 'A+' HFAs	All 'AA' HFAs	All HFAs
Profitability (%)					
Return on average assets	0.70	0.64	0.47	1.07	0.81
Return on assets before loan loss provision and extraordinary item	0.76	0.76	0.52	1.16	0.90
Net interest margin	1.32	1.25	0.73	1.68	1.32
Asset Quality (%)					
Non-performing assets/total loans and real estate owned	2.27	2.40	2.95	2.56	2.43
Loan loss reserves/total loans	0.82	1.35	0.90	2.52	1.67
Loan loss reserves/non-performing assets	40.16	97.90	22.35	102.72	329.71
Leverage (%)					
Total equity/total assets	10 74	14.27	9.54	19.50	15.42
Total equity and reserves/total loans	17.88	24.24	15.52	30.33	24.90
Liquidity (%)					
Total loans/total assets	64.27	64.00	66.94	70.66	67.07

Table 3

CalHFA Trend Analysis (2002-2006)

	2002	2003	2004	2005	2006
Total assets ($000s)	9,585,353	9,763,598	9,676,450	9,388,414	9,450,332
% change	5.98	1.86	(0.89)	(2.98)	0.66
Total debt ($000s)	8,148,211	8,136,870	7,873,007	7,500,766	7,444,363
% change	5.98	(0.14)	(3.24)	(4.73)	(0.75)
Total equity ($000s)	935,914	1,011,635	1,114,323	1,183,634	1,265,938
% change	11.35	8.09	10.15	6.22	6.95
Revenues ($000s)	652,010	618,492	557,569	509,336	553,333
% change	0.97	(5.14)	(9.85)	(8.65)	8.64
Net income ($000s)	83,403	75,721	63,002	20,477	40,547
% change	3.56	(9.21)	(16.80)	(67.50)	98.01
Total loans ($000s)	6,737,368	6,009,317	5,459,868	5,553,940	6,270,742
% change	0.66	(10.81)	(9.14)	1.72	12.91
Non-performing assets ($000s)	154,082	154,750	134,605	75,749	78,971
% change	(13.97)	0.43	(13.02)	(43.72)	4.25
Loan loss reserves ($000s)	44,469	50,583	52,886	59,688	67,201
% change	17.32	13.75	4.55	12.86	12.59

Ratings Detail (As Of 28-Mar-2007)

California Hsg Fin Agy hsg prog bnds ser 2004 A due 08/01/2036		
Long Term Rating	AA-/A-1+/Stable	Affirmed
California Hsg Fin Agy multifam hsg rev bnds		
Long Term Rating	AA-/Stable	Affirmed
California Hsg Fin Agy multifam hsg rev bnds III ser 2002A dtd 06/05/2002 due 02/01/2037		
Long Term Rating	AA-/A-1+/Stable	Affirmed
California Hsg Fin Agy multifam hsg rev bnds III ser 2002 D&E due 08/01/2037		
Long Term Rating	AA-/A-1+/Stable	Affirmed
California Hsg Fin Agy multifam hsg rev bnds III ser 2003B due 08/01/2038		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
California Hsg Fin Agy multifam hsg rev bnds III ser 2003C due 08/01/2038		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
California Hsg Fin Agy multifam hsg rev bnds III ser 2004A&B (FSA)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
California Hsg Fin Agy multifam hsg rev bnds III var rate bnds ser 2001F&G dtd 11/15/2001 due 02/01/2025 2032 08/01/2036		
Long Term Rating	AA-/A-1+/Stable	Affirmed
California Hsg Fin Agy multifam hsg rev bnds III (Amt Variable Rt) ser 2005B (AMBAC)		
Long Term Rating	AAA/A-1+/Stable	Affirmed
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
California Hsg Fin Agy multifam hsg rev bnds III (FSA)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
California Hsg Fin Agy multifam hsg rev bnds III (Select Auction Var Rate Secs (Amt)) ser 2003A dtd 06/04/2003 due 02/01/2038		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
California Hsg Fin Agy multifam hsg rev bnds III (Variable Rate) ser 2001H dtd Date of Delivery due 02/01/2033		
Long Term Rating	AA-/A-1+/Stable	Affirmed
California Hsg Fin Agy multifam hsg var rate rev bnds III ser 2000A&B dtd 07/12/2000 due 02/01/2031 08/01/2037		
Long Term Rating	AA-/A-1+/Stable	Affirmed
California Hsg Fin Agy multifam hsg var rate rev bnds III ser 2000 C D dtd 11/16/2000 due 02/01/2031 2033		

Long Term Rating	AA-/A-1+/Stable	Affirmed
California Hsg Fin Agy multifam hsg var rate rev bnds III ser 2001C dtd 02/22/2001 due 02/01/2041		
Long Term Rating	AA-/A-1+/Stable	Affirmed
California Hsg Fin Agy multifam hsg var rate rev bnds III ser 2001D,E dtd 06/28/2001 due 08/01/2022 02/01/2036		
Long Term Rating	AA-/A-1+/Stable	Affirmed
California Hsg Fin Agy multifam var rate hsg rev bnds III ser 2002B&C due 02/01/2035 2037 08/01/2027 2037		
Long Term Rating	AA-/A-1+/Stable	Affirmed
California Hsg Fin Agy multi fam hsg rev bnds III ser 2001A and B due 02/01/2033		
Long Term Rating	AA-/A-1+/Stable	Affirmed
California Hsg Fin Agy multi fam hsg rev bnds III ser 2005D due 08/01/2038		
Long Term Rating	AA-/A-1+/Stable	Affirmed
California Hsg Fin Agy multi fam hsg rev bnds III (AMBAC)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
California Hsg Fin Agy multi fam hsg rev III ser 1997 A dtd 02/01/1997 due 02/01/2017 2028 2038 08/01/2017 2027 2028 2038		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
California Hsg Fin Agy sin fam mtg bnds II class III ser 1997 B-1 dtd 09/01/1997 due 08/01/2011		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
California Hsg Fin Agy sin fam mtg bnds II class III ser 1997 C-1 dtd 04/03/1997 due 08/01/2011		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
California Hsg Fin Agy sin fam mtg bnds II ser A-1 class III ser 1997 A dtd 03/01/1/997 due 08/01/2011		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
California Hsg Fin Agy sin fam mtg bnds II (Class III) ser 1999A-2 D-2		
Long Term Rating	AA-/Stable	Affirmed
California Hsg Fin Agy sin fam mtg bnds II, class III ser 1997B3, 1998A dtd 03/01/1998 due 08/01/2012		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
California Hsg Fin Agy var rt multifam hsg rev bnds III ser 2005A (AMBAC)		
Long Term Rating	AAA/A-1+/Stable	Affirmed
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Moody's Investors Service

Global Credit Research
Rating Update
25 APR 2007

Rating Update: California Housing Finance Agency

MOODY'S AFFIRMS THE Aa3 ISSUER RATING OF THE CALIFORNIA HOUSING FINANCE AGENCY

OUTLOOK IS STABLE

Housing
CA

Opinion

NEW YORK, Apr 25, 2007 -- Moody's has affirmed the Aa3 issuer rating of the California Housing Finance Agency (CalHFA). The outlook for the rating is stable. The rating is based on the Agency's strong and growing fund balances that provide a solid base of support for supported debt obligations and are sufficient to offset program risks, levels of profitability consistent with sustained growth of fund balances, and depth and quality of management.

Moody's also is affirming the rating on the California Housing Loan Insurance Fund (The Insurance Fund) at Aa3 with a stable outlook.

OVERVIEW

CalHFA was created in 1975 as an instrumentality of the State of California. Its purpose is to meet the housing needs of persons and families of low and moderate income in California. Its primary activities consist of the following:

Single Family Mortgage Finance - The Agency's largest activity by volume is financing of home mortgage loans for persons and families of low to moderate income in California with the proceeds of its taxable and tax-exempt mortgage revenue bonds. Most of the single family activity is concentrated in the Home Mortgage Revenue Bonds (HMRB) indenture, with $4.7 billion bonds outstanding. HMRB is rated Aa2, and the bonds are special obligations secured by mortgages and pledged assets and not backed by the Agency's general obligation.

Multifamily Mortgage Finance - The Agency provides construction and permanent financing for multifamily rental housing developments. The developments are intended for rental by persons and families of low and moderate income in California. The agency makes mortgage loans for acquisition, rehabilitation and development of rental housing with bond proceeds, and also from its own general funds. Multifamily bond financing is concentrated in the Multifamily Housing Revenue Bonds III indenture, with $1.52 billion parity bonds outstanding and rated Aa3 based on Agency's issuer rating.

Single Family Mortgage Insurance. The agency administers The Insurance Fund, a separate Fund that provides primary mortgage insurance, predominantly for homebuyers receiving CalHFA mortgage loans.

Other Programs - The Agency offers downpayment and closing cost assistance and a variety of special purpose lending programs to support single family and multifamily housing. The Housing Program Bonds ($158.2 million outstanding) were issued to finance subordinate loans for closing cost and down payment assistance for home purchasers and to provide financing for multifamily rental projects, and are rated Aa3 based on the Agency's issuer rating.

STRENGTHS

-Combined fund balance of $1.171 billion has shown continued growth and is sufficient to support general obligation debt and offset the risks of program activities; combined fund balance as a % of outstanding debt (15.72%) has increased steadily, further demonstrating coverage of debt obligations.

-General fund balance at 6.1% of bonds outstanding provides liquidity to meet obligations.

-Profitability (net revenue as % of gross revenue ranging from 6.66% to 14.12% over 5 fiscal years) provides a basis for continued fund growth as well as supporting current activities.

-Mortgage loan portfolio, consisting of a diversified mix of single family and multifamily mortgages, grew 12.7% during FY 2006 to $6.239 billion (ending a period of contraction due primarily to very high levels of single family mortgage prepayments); mortgage loans provide a solid core of income-producing assets supporting repayment of debts

-Solid performance of principle bond programs, which provide the major basis for income and fund growth and are reviewed using cash flow projections that test their ability to withstand stressful interest rate environments and a variety of loan prepayment scenarios

-The Insurance Fund provides a separately capitalized base for mortgage insurance activities and management of single family asset risk

-Sophisticated and experienced financial management staff provides a level of oversight commensurate with the complexity of the Agency's debt and program activities

CHALLENGES

-88.85% of bonds outstanding are variable rate, exposing the Agency to interest rate risk; interest rate risk is hedged by interest rate swaps (74% of variable rate debt) and by corresponding variable rate assets (18% of variable rate debt); cash flows demonstrate the ability of the major bond programs to perform in both high and low interest rate environments

-$5.5 billion of interest rate swaps adds to the complexity of risk management, due to factors such as termination risk, counterparty risk, basis risk and amortization mismatch, offset by the Agency's active and sophisticated management of its portfolio

-Active multifamily construction lending program involves a level construction risk, which is offset by legal provisions to minimize losses, careful underwriting and construction management so that losses to date have been minimal

-Single family programs face an evolving environment, including declining % of FHA insured loans, management of less traditional loan products, and flat or declining house prices that could increase exposure on default; offset by over 30 years experience with managing the program through varied economic cycles and augmented by the Agency's Insurance Fund

FINANCIAL PERFORMANCE PROVIDES A HIGH DEGREE OF SUPPORT FOR AGENCY DEBT OBLIGATIONS

In Moody's opinion, CalHFA's financial equity provides strong coverage for the obligations supported by the Agency's general obligation. CalHFA's combined fund balance as of 6/30/06 was $1.171 billion, or 15.72 % of bonds outstanding. The combined fund balance has increased steadily, both in amount and as a percent of bonds outstanding - in 2001, it stood at $756.8 million and 9.82% of bonds outstanding.

The combined fund balance represents assets less liabilities with Moody's adjustments (and excluding the Agency's Contract Administration Account, which consists of programs funded with State appropriations). It includes both the equity in the bond programs, and also the General Fund. CalHFA's adjusted General Fund balance as of 6/30/06 of $457,681,000, or 6.143% of bonds outstanding, which has grown steadily from $245,404,000, and 3.18% of bonds outstanding in fiscal 2001. The General Fund includes a Supplementary

Bonds Security Account ($60.729 million adjusted fund balance), an Emergency Reserve Account ($62.708 million fund balance), and the Agency's Operating Account, which has an additional fund balance of $67.788 million. The largest account in the General Fund is the Housing Assistance Trust which, although it accounts for many of the Agency's special purpose multifamily loans, had an adjusted fund balance of $252 million (including approximately $84 million in cash and investments).

CalHFA's outstanding mortgage loans declined from a high of $6.69 billion at 6/30/01 to $ 5.536 billion at 6/30/05. As with other State housing finance agencies, CalHFA experienced unusually high prepayments that exceeded new originations during that period. However, the Agency's asset- to- debt ratio continued to increase during this period (from 1.13 to 1.23x), as the agency managed to maintain bond redemptions in line with the decrease in mortgages.

Although the Agency's activities remained profitable, profitability (net revenues as a % of total revenues) declined from 14.36% in FY2001 to 6.6% in FY2005, largely because of a decline in profitability of single family lending. In 2006, both mortgage lending and profitability showed a healthy rebound, with mortgages increasing from $5.56 billion to $6.24 billion and profitability increasing form 6.6% to 10.95%. In Moody's opinion, the Agency should be positioned to continue the growth of its fund balances.

The Agency's investments include guaranteed investment contracts with a diversified group of financial institutions meeting minimum rating requirements ($1.86 billion), investment in the State's Pooled Money Investment Fund ($924 million) and other highly rated commercial paper and securities.

CAREFUL RISK MANAGEMENT APPLIED TO VARIABLE RATE DEBT AND INTEREST RATE SWAPS, WHICH HAVE LOWERED BORROWING COSTS BUT ADDED TO PORTFOLIO COMPLEXITY

Of $7.45 billion bonds outstanding at 6/30/06, $6.59 billion (88.6%) were variable rate. The Agency has issued variable rate debt primarily to reduce borrowing costs, thereby achieving lower single family and multifamily mortgage rates in furtherance of the Agency's public purpose. This also enabled the Agency to expand its program volume by issuing higher cost taxable bonds and blending down the rate. Lower rates also contribute to financial performance by enhancing the attractiveness of the Agency's products and thus promoting origination of mortgage loans - which, in addition to being the core of the Agency's mission, also constitute the most advantageous investment available.

Approximately $4.885 billion of the variable rate bonds (74%) were hedged with floating-to-fixed rate swaps; approximately $1.1 billion could be tied to variable rate assets (primarily draw down bonds and variable rate multifamily construction loans) that provide a natural hedge against the variable rate debt, and approximately $700 million constituted unhedged variable rate debt. The Agency has variable rate debt, and variable rate debt combined with swaps, in its HMRB single family bond program, its MFHRB III multifamily program, and its general purpose Housing Program Bonds.

Interest rate swaps hedge interest rate risk but create additional risk management challenges. The Agency's interest rate swaps consist primarily of floating-to-fixed rate swaps designed to hedge particular bond series. Each swap is in an original notional amount equal to the hedged bonds, designed to reduce as the bonds are reduced by maturity or early redemption. The Agency pays a fixed rate and receives a variable rate, generally either BMA, a percentage of one-month LIBOR, or a percentage of one-month LIBOR plus a spread. The variable rate received from the swap counterparty is designed to match the variable rate payments on the related bonds as closely as possible and thus to fix the borrowing cost approximately at the fixed swap rate. The Agency manages its swap portfolio actively; for example, detailed monthly reports, which include market valuation and risk analysis, are prepared for internal review.

The Agency incurs additional expense ("basis risk") to the extent that payments received on the swaps are less than the payments on the corresponding bonds. For LIBOR-based swaps, any future changes in tax law could increase the basis spread. The Agency has added basis swaps - in which the Agency pays a variable rate in exchange for a different variable rate - which have improved basis spread performance; nevertheless the Agency has incurred some negative basis spread. In addition, amortization mismatches can prevent the swap amounts from remaining equal to the related bonds - for example, in periods of high prepayments that could be used to redeem bonds, the Agency must determine whether to retain the prepayments (and incur negative arbitrage) or redeem the bonds and pay for a swap that is "overhedged."

Moody's has reviewed parity cash flow projections for the two main programs where swaps are used - HMRB and MFHRBIII. The cash flows are designed to test the ability of each indenture to perform in both high and low-interest rate environments, and to withstand the effects of tax events. HMRB cash flows also include both high and low mortgage prepayment speeds, and include the effects of amortization mismatches. The cash flows demonstrate the ability of the programs to withstand these stresses.

The swaps are governed by standard ISDA documents that permit the counterparties to terminate the swap at its then market value on certain trigger events, including downgrade of the Agency's issuer rating below investment grade. Many of the swaps also provide for collateral posting if the Agency's issuer rating falls to the A1 or A2 level and the swap has a negative value to the Agency that exceeds certain dollar thresholds.

The Agency's hedging swaps generally decline in value as rates fall because the Agency is the fixed-rate payor. Indeed, as rates remained relatively low during the past four years, the Agency's swap portfolio has had a negative market value, which has shown volatility as interest rate levels changed (as reported in the annual audits, this has ranged from $409 million at 6/30/03 down to $34.5 million at 6/30/06). If an event were to occur that gave rise to a collateral posting requirement or termination, this would impact the Agency's balance sheet by requiring potentially significant collateral set-asides or termination payments. Moody's has reviewed analysis of the Agency's potential exposure to these events. In Moody's view, the Agency's fund balances provide sufficient resources to absorb collateral posting obligations or termination under reasonably stressful scenarios if necessary. Moody's will continue to monitor the Agency's swap portfolio periodically.

Swap Counterparty risk is offset by diversifying the swaps among a group of highly rated counterparties. The Agency has 12 different swap counterparties. The counterparty ratings are as follows (percentages of notional amount as of 6/30/06): Aaa - 53.22%; Aa1 - 18.55%; Aa2 - 13.04%; Aa3 - 15.19%. The five largest providers (by notional amount, basis swaps included) are Bear Stearns Financial Products Inc. (21.03%); Citigroup Financial Products, Inc. (14.54%); Merrill Lynch Capital Services, Inc. (Merrill Lynch & Co, Inc. guarantee) (13.63%); Merrill Lynch Derivative Products Inc. (or MLCS with MLDP guarantee) (10.62%); Goldman Sachs Mitsui Marine Derivative Products, L.P. (11.66%). Counterparties are required to post collateral, above certain thresholds, if their ratings fall below certain levels.

Liquidity for VRDOs is provided by a diversified group of financial institutions. Liquidity support for the $4 billion of variable rate bonds that are variable rate demand obligations - providing the bondholders with tender rights - are provided through liquidity facilities with a group of 18 different financial institutions. Liquidity providers are required to maintain a P-1 short term rating. The largest providers are Dexia Credit Local ($865 million); Lloyds TSB ($469 million); Fannie Mae ($411 million) BNP Paribas ($292 million) and DEPFA Bank ($263 million).

SINGLE FAMILY LENDING PROGRAMS REMAIN THE LARGEST COMPONENT OF THE AGENCY'S ACTIVITIES AND CONTINUE STRONG PERFORMANCE

The Agency's active mortgage revenue bond program is the Home Mortgage Revenue Bonds (HMRB), a parity bond indenture opened in 1982 which accounted for $4.07 billion of a total of $4.16 billion of single family mortgages in bond indentures. Although the HMRB bonds are not backed by the Agency's issuer obligation, Moody's considers HMRB to be an important contributor to revenues and asset growth. CalHFA regularly funds the costs of bond issuance as a budgeted item under its Operating Account and provides general obligation backing for certain obligations to interest rate swap counterparties with an Agency general obligation pledged.

HMRB's program asset to debt ratio (PADR) at 6/30/06 was 1.089, evidencing the program's strong balance sheet position. As with other State housing finance agencies, CalHFA's single family mortgages outstanding declined during the recent period of historically low interest rates, as very high levels of mortgage prepayments exceeded new originations. Mortgages outstanding declined from a high of $4.73 billion at 6/30/02 to $3.55 billion at 6/30/05. However, during the most recent fiscal year, mortgages rebounded to over $4 billion as originations continued to be strong and prepayments subsided. PADR remained relatively stable during this period, having gone from 1.089 in 2002 to 1.067 in 2003 and 2004 but regaining 2002 levels in the most recent two fiscal years.

Profitability also declined to just over 3% in FY 2005, but rebounded to 9.34% in FY 06.

Although the Agency maintained the spread between bond costs and mortgage rates by using variable rate debt and swaps, negative basis spread (variable rate payments received minus variable rate payments made) on some swaps contributed to lower profitability, as did certain one-time events such as litigation expenses and higher-than-anticipated arbitrage rebate payments.

Moody's finds that the performance of the portfolio of more than 26,000 loans provides solid support for the program. The loan portfolio exhibits delinquency statistics that are in line with state averages for similar types of mortgages. Approximately 57% of the loans are FHA-insured and 41% are insured by the Insurance Fund, with the balance covered by VA guarantees. Moody's expects this strong insurance coverage to protect the program from significant losses associated with potential defaults. We also believe that losses not covered by insurance will be covered by the large fund balance and surpluses generated by the program.

CalHFA originated $ 1.409 billion of single family mortgage loans (5,409 loans) during FY 06. Over the past two years the Agency has diversified its mortgage products. In addition to traditional 30-year level amortization loans, the Agency now originates 35-year loans that bear interest only for the first five years and then amortize over the remaining 30 years (IO loans) and 40-year level amortization loans. IO loans now account for approximately 17% of the loans in the portfolio and 40% of new originations. IO loans may be subject to increased prepayments when monthly payments increase at the commencement of amortization, and 40-year amortization may increase the risk of loss slightly because of slower build up of equity. However, the diversity of products helps foster strong origination, an important driver of fund growth and profitability. Moody's reviews cash flow projections that demonstrate the ability of the program to absorb different levels of performance of the mortgage products.

INSURANCE FUND HAS SIGNIFICANT ADDITIONAL ASSETS TO BACK MORTGAGE INSURANCE

CalHFA also administers the California Housing Loan Insurance Fund (The Insurance Fund), which provides single family mortgage insurance. As of 12/31/05 (the most recent audit), The Insurance Fund had assets of $60.78 million and net assets of $59.397 million, which included liquid assets of $58.8 million. (These are separate from, and in addition to, CalHFA's funds described above.) The Insurance Fund had net income of $ 2.5 million, and profitability (net income as a % of gross) of 28.63%, with claims paid of $22,100. The Insurance Fund has a reinsurance agreement with Genworth Mortgage Insurance Corporation (rating Aa2) under which 75% of risk is ceded to Genworth. With the benefit of this policy, The Insurance Fund's net risk in force is 4.8x equity, which provides satisfactory backing for the current level of risk.

Virtually all of CalHFA's single family loans that are not FHA-insured currently receive primary mortgage insurance from The Insurance Fund. As the percentage of FHA insured loans has declined significantly over the last two to three years, the burden on the Insurance Fund has increased, and this trend is expected to continue. In the past three fiscal years, the Fund has been augmented by State contributions to its equity totaling approximately $9 million, but the current cycle of funding is completed. Moody's will continue to monitor the level of risk borne by the Insurance Fund as compared with the level of insurance risk incurred.

MULTIFAMILY PROGRAM ALSO CONTRIBUTES TO FUND STRENGTH; AGENCY MANAGES CONSTRUCTION AND PERMANENT LOANS ACTIVELY

$1.52 billion of a total $1.7 billion of multifamily bonds are outstanding under the Multifamily Housing Revenue Bonds III (MFHRB III) indenture, which has been the Agency's active multifamily program since 1997. The bonds are general obligations of the Agency. In addition, the bonds are secured by a pledge of mortgages and assets under the indenture, which had an asset to debt ratio of 1.046 and profitability of 15.44% as of 6/30/06. The older multifamily indentures also demonstrate high levels of profitability, with a portfolio of relatively seasoned loans and fewer bonds outstanding. Overall, multifamily programs demonstrated a profit margin of 29.38% and thus are a significant contributor to Agency profitability.

The percentage of loans benefiting from FHA insurance has declined over time. Overall, 21% of multifamily loans benefit from FHA insurance (including risk sharing). Approximately 20% of the portfolio receive Section 8 subsidies. Many of the developments receiving financing under MFHRBIII have equity provided through the low income housing tax credit, which lowers loan-to-value ratios and often is the source of an additional level of project oversight to protect the equity investment. The Agency also has made special loans to multifamily projects to increase their financial strength or meet policy objectives. For example, the Agency subsidizes the coupons on certain loans from its own funds, and in some cases provides non-amortizing loans at low interest rates. The Agency has had six defaults over the past twenty years, and has been successful in selling its multifamily REO.

Since 2002, MFHRBIII has included an active construction loan program. The Agency funds construction loans directly, or by making "lender loans" to financial institutions (which are required to have a minimum rating of A3) providing construction financing. The construction loans expose the Agency to construction risk, including the risks of cost overruns and delays, and of failure of permanent financing to close. Although the Agency provides some of the permanent financing, the majority of permanent takeout is provided by other sources, including a program of the State housing department.

The Agency mitigates construction risk through a combination of detailed oversight and legal protections. The Agency underwrites each loan carefully, taking into account the track record and financial capacity of the developer and contractor, and actively monitors construction draws and construction progress. Construction is generally committed under a guaranteed maximum price contract, which commits the contractor to a maximum price apart from certain changes and unforeseen conditions. The developer provides an additional full-recourse guarantee (or, in some cases, a letter of credit for 10%). Full payment and performance bonds are required. The developer is legally obligated to pay Agency costs associated with delays and adjustments to the financing (including costs of modifying interest rate hedges). Although some projects have experienced construction delays, the Agency has successfully managed the portfolio to date with no defaults and no significant financial losses. Moody's believes that the Agency's fund balances are sufficient to offset the risks of default posed by the permanent and construction loan portfolios at the present time.

THE AGENCY'S MANAGEMENT PROVIDES EXPERIENCED AND SOPHISTICATED OVERSIGHT OF FINANCIAL ACTIVITIES

As is apparent from the discussions above, the Agency oversees a broad array of complicated programs. Active and effective management is key to the Agency's continued success in meeting program needs within appropriate risk management parameters. To date, the Agency has demonstrated its ability to meet its housing goals while maintaining profitability and fund ratios through a number of economic and real estate cycles in California. These included the recession of the 1990's, and also the more recent period of very low interest rates and record high mortgage prepayments that posed unique challenges for single family lending with tax-exempt bond proceeds referred to above. The Agency will continue to face significant challenges. These include management of variable rate debt and swaps added over the last five years to address the low-rate environment, as well as new single family products and multifamily construction and permanent lending.

The Agency is governed by a Board consisting of 11 voting members (3 of them ex officio) and 3 non-voting ex-officio members. It is headed by an Executive Director who has managed the agency for almost 10 years. The senior management includes a number of other officers with long tenures at the Agency, maintaining continuity through political cycles. The Agency has a staff of over 200 persons, with expertise in all areas of the Agency's activities. The finance staff brings a high level of experience and sophistication to financial and risk management.

The Agency recently has had turnover in several of their senior positions. They have had success in recruiting experienced executives to fill vacant positions, although it is still in the process of filling certain other key positions. Attracting and retaining staff with the required skills will continue to be important to maintaining the Agency's credit quality.

Key aspects of financial management include the following

Strategic Plan - The Agency has a strategic planning process that includes a comprehensive Five-Year Business Plan that is updated annually. The Business Plan includes a detailed assessment of the Agency's assessment of financial resources needed to support its activities.

Board Oversight - Board oversight of risk management includes approval of the Business Plan and well as review of a monthly report on variable rate debt and interest rate hedging activities.

Technology- The Agency has an active program for updating its technology to add to efficiency.

Portfolio Management - The Agency maintains databases to monitor such functions as multifamily permanent and construction loan positions and interest rate swaps. The risk management staff oversees the production of cash flows to assess bond indentures, and is increasingly developing the ability to perform cash flow analysis in-house.

The Agency's track record suggests that it should be well-positioned to meet future challenges as it continues successful development and operation of these and other related functions.

Outlook

The outlook for the ratings is stable. The Agency's fund balances are sufficient to support its bond and program obligations, and profitability should provide for continuing increases in equity.

What Could Change the Rating - UP

-Continued increases in the level of the combined fund balance and general fund balance, combined with continuing strong profitability

-Continued successful management of program risks, including variable rate debt, single family lending products and multifamily permanent and construction lending

What Could Change the Rating - DOWN

-A severe downturn in the State's economy, or in particular its housing markets, could negatively impact asset quality and contribute to increased defaults, thereby placing pressure on fund balances

-Significant downgrades of swap counterparties could hamper the effectiveness of interest rate swaps, or counterparty defaults could lead to losses

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State of California

MEMORANDUM

To: Board of Directors **Date:** April 23, 2007

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

Subject: REPORT OF BOND SALE
HOME MORTGAGE REVENUE BONDS 2007 SERIES A, B AND C

On March 27, 20007, the Agency entered into purchase contracts for the delivery of $150,000,000 of bonds under the Home Mortgage Revenue Bond indenture (HMRB). The bonds are federally taxable and will be issued in three series. The Series A bonds will have a fixed interest rate which was set on March 27, 2007. The Series B and Series C bonds will be issued as variable rate. Interest rates on these bonds will be set just prior to delivery on May 30th and June 28th. The bonds are not insured and carry the Aa2/AA- ratings of the HMRB indenture. Additional details of the bonds are outlined in the attached summary.

The bonds were privately placed with DePfa Bank. This is the first time that CalHFA has directly placed bonds with an investor without the assistance of an underwriter. A direct placement offers significantly lower costs of issuance as compared to publicly offered bonds and in this case, we also achieved a lower cost of funds. Directly placing these bonds with DePfa Bank has also allowed the Agency to achieve fixed rate pricing for the Series A bonds without experiencing swap and liquidity related risks normally associated with the hedging of variable rate bonds.

The bonds were issued to provide financing for eligible mortgage loans under the Agency's Home Mortgage Purchase Program. The bond proceeds will be used to purchase Interest Only Plus (IOP) loans with interest rates between 5.75% and 6.125%. The Agency expects to be able to provide homes for approximately 990 families with the proceeds.

Board of Directors April 20, 2007

SUMMARY OF THE BONDS

BOND SERIES	2007 A	2007 B	2007 C
Par Amount	$90,000,000	$40,000,000	$20,000,000
Type of Bonds (Tax-exempt)	FIXED (term bonds)	VARIABLE (term bonds)	VARIABLE (term bonds)
Tax Treatment	TAXABLE	TAXABLE	TAXABLE
Maturities	8/1/2032	8/1/2042	8/1/2042
Credit Rating Moody's S&P	 Aa2 AA-	 Aa2 AA-	 Aa2 AA-
Initial Interest Rate	5.72%	TBD*	TBD*
Liquidity Provider	N/A	N/A	N/A
Insurance Provider	N/A	N/A	N/A
Remarketing Agent	N/A	TBD	TBD
Pricing	March 28, 2007	May 31, 2007	June 28, 2007
Closing	April 26, 2007	May 31, 2007	June 28, 2007

- The Series B and Series C bonds are Index Bonds that will reset quarterly and pay interest equal to Three-Month LIBOR plus 18 basis points.

State of California

MEMORANDUM

To: Board of Directors

Date: April 23, 2007

Bruce D. Gilbertson, Director of Financing

From: **CALIFORNIA HOUSING FINANCE AGENCY**

Subject: REPORT OF BOND SALE
MULTIFAMILY HOUSING REVENUE BONDS III, 2007 SERIES A

On March 21, 2007, the Agency delivered $12,165,000 of bonds under the Multifamily Housing Revenue Bonds III indenture to Merrill Lynch. The bonds were issued as tax-exempt fixed rate bonds. This is the first multifamily bond issuance for which all bonds were issued as fixed rate bonds since 1999. The 2007 Series A bonds are backed by our general obligation and rated Aaa/AAA by Moody's and Standard & Poor's respectively because of bond insurance provided by Financial Guaranty Insurance Company.

The bonds have been issued to provide funds to finance the construction of the Fireside Apartments project and to provide take out financing at permanent loan closing. The details of the permanent loan amounts are shown in the following table.

Project to Be Financed with the Proceeds of
Multifamily Housing Revenue Bonds III, 2007 Series A

Project Name	Loan Amount	Loan Term	Interest Rate		Actual/Projected Loan Origination Date
Permanent Loans:					
Fireside Apartments	$1,350,000	25 Years	3.00%	(*)	01-Mar-08
	$250,000	15 Years	3.00%	(*)	01-Mar-08
Bridge Loan:					
	$4,450,000	3 Years	3.00%	(*)	01-Mar-08

(*) The Agency expects to subsidize the interest rate on the permanent and bridge loans to 5.30%. The source of funds for this subsidy is expected to be the Agency's share of McKinney Act savings from certain FAF projects.

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State of California

MEMORANDUM

To: Board of Directors **Date:** April 24, 2007

Bruce D. Gilbertson, Director of Financing

From: **CALIFORNIA HOUSING FINANCE AGENCY**

Subject: UPDATE ON VARIABLE RATE BONDS AND INTEREST RATE SWAPS

Over a number of years the Agency has integrated the use of variable rate debt as a primary issuance strategy in providing capital to support its programmatic goals. Most of our interest rate exposure from variable rate debt is hedged in the swap market. This strategy has enabled us to achieve a significantly lower cost of funds and a better match between assets and liabilities.

The following report describes our variable rate bond and interest rate swap positions as well as the related risks associated with this financing strategy. The report is divided into sections as follows:

- Variable Rate Debt Exposure
- Fixed-Payer Interest Rate Swaps
- Basis Risk and Basis Swaps
- Risk of Changes to Tax Law
- Amortization Risk
- Termination Risk
- Types of Variable Rate Debt
- Liquidity Providers
- Bond and Swap Terminology

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VARIABLE RATE DEBT EXPOSURE

This report describes the variable rate bonds and notes of CalHFA and is organized programmatically by indenture as follows: HMRB (Home Mortgage Revenue Bonds--CalHFA's largest single family indenture), MHRB (Multifamily Housing Revenue Bonds III--CalHFA's largest multifamily indenture), HPB (Housing Program Bonds--CalHFA's multipurpose indenture, used to finance a variety of loans including the Agency's downpayment assistance loans), and DDB (Draw Down Bonds used to preserve tax-exempt authority.) The total amount of CalHFA variable rate debt is $5.5 billion, 76% of our $7.2 billion of total indebtedness as of April 1, 2007.

VARIABLE RATE DEBT
($ in millions)

	Tied Directly to Variable Rate Assets	Swapped to Fixed Rate	Not Swapped or Tied to Variable Rate Assets	Total Variable Rate Debt
HMRB	$2	$3,747	$454	$4,203
MHRB	244	847	71	1,162
HPB	0	35	76	111
DDB	40	0	0	40
Total	$286	$4,629	$601	$5,516

As shown in the table above, our "net" variable rate exposure is $601 million, 8.32% of our indebtedness. The net amount of variable rate bonds is the amount that is neither swapped to fixed rates nor directly backed by complementary variable rate loans or investments The $601 million of net variable rate exposure ($449 million taxable and $152 million tax-exempt) is offset by the Agency's balance sheet and excess swap positions. While our current net exposure is not tied directly to variable rate assets, we have approximately $539 million (six month average balance as of 9/30/06) of other Agency funds invested in the State Treasurer's investment pool (SMIF) earning a variable rate of interest. From a risk management perspective, the $539 million is a balance sheet hedge for the $601 million of net variable rate exposure.

In order to maintain a certain level of confidence that the balance sheet hedge is effective, we have reviewed the historical interest rates earned on investments in the SMIF and LIBOR interest rate resets (most of our unhedged taxable bonds are index floaters that adjust at a spread to LIBOR). Using the data for the last ten years, we determined that there is a high degree of correlation between the two asset classes (SMIF and LIBOR) and that for every $1 invested in SMIF we can potentially hedge $1 of LIBOR-based debt.

The net variable rate exposure is further reduced by two other considerations: 1) as mentioned in the Amortization Risk section of this report, we have $81 million notional amount of interest rate swaps in excess of the original bonds they were to hedge, and 2) a portion of our unhedged exposure is tax-exempt debt which resets at the theoretical ratio of 65% of Libor. These two considerations serve to reduce the net effective variable rate exposure to the equivalent of $495 million of LIBOR-based debt. As a result, the $539 million of other Agency funds invested in SMIF effectively hedges more than 100% of our current net variable rate exposure.

In addition, taking unhedged variable rate exposure mitigates the amortization risk without the added cost of purchasing swap optionality. Our unhedged variable rate bonds are callable on any date and allow for bond redemption or loan recycling without the cost of par termination rights or special bond redemption provisions. In addition, taking unhedged variable rate exposure diversifies our interest rate risks by providing benefits when short-term interest rates rise slower than the market consensus. In a liability portfolio that is predominately hedged using long-dated swaps, the unhedged exposure balances the interest rate profile of the Agency's outstanding debt.

FIXED-PAYER INTEREST RATE SWAPS

Currently, we have a total of 130 "fixed-payer" swaps with twelve different counterparties for a combined notional amount of $4.7 billion. All of these fixed-payer swaps are intended to establish synthetic fixed rate debt by converting our variable rate payment obligations to fixed rates. These interest rate swaps generate significant debt service savings in comparison to our alternative of issuing fixed-rate bonds. This savings allows us to continue to offer loan products with exceptionally low interest rates to multifamily sponsors and to first-time homebuyers. The table below provides a summary of our notional swap amounts.

FIXED PAYER INTEREST RATE SWAPS
(notional amounts)
($ in millions)

	Tax-Exempt	Taxable	Totals
HMRB	$3,057	$771	$3,828
MHRB	847	0	847
HPB	35	0	35
TOTALS	$3,939	$771	$4,710

The following table shows the diversification of our fixed payer swaps among the twelve firms acting as our swap counterparties. Note that our swaps with Lehman Brothers, Bear Stearns, and Goldman Sachs are with highly-rated structured subsidiaries that are special purpose vehicles used only for derivative products. We have chosen to use these subsidiaries because the senior credit of those firms is not as strong as that of the other firms. Note also that our most recent swaps with Merrill Lynch are either with their highly-rated structured subsidiary or we are benefiting from the credit of this triple-A structured subsidiary through a guarantee.

SWAP COUNTERPARTIES

Swap Counterparty	Credit Ratings Moody's	S & P	Fitch	Notional Amounts Swapped ($ in millions)	Number of Swaps
Merrill Lynch Capital Services Inc.					
Guaranteed by:					
Merrill Lynch & Co.	Aa3	A+	AA-	$ 699.5	18
MLDP, AG	Aaa	AAA	AAA	287.7	12
Merrill Lynch Derivative Products, AG	Aaa	AAA	AAA	282.5	12
Bear Stearns Financial Products Inc.	Aaa	AAA	NR	839.4	14
				303.8 *	8 *
Citigroup Financial Products Inc.	Aa1	AA-	AA+	746.4	20
Lehman Brothers Derivative Products Inc.	Aaa	AAA[t]	NR	515.2	21
Goldman Sachs Mitsui Marine Derivative Products, L.P.	Aaa	AAA	NR	352.0	7
				326.7 *	5 *
AIG Financial Products Corp.	Aa1	AA+	NR	320.7	9
JP Morgan Chase Bank	Aa2	AA-	AA-	214.8	7
Bank of America, N.A.	Aa1	AA	AA	210.3	5
BNP Paribas	Aa2	AA	AA	93.6	2
Morgan Stanley Capital Services Inc	Aa3	A+	AA-	86.7	1
UBS AG	Aa2	AA+	AA+	60.7	2
				$4,709.5	130

* *Basis Swaps (not included in totals)*

With interest rate swaps, the "notional amount" (equal to the principal amount of the swapped bonds) itself is not at risk. Instead, the risk is that a counterparty would default and, because of market changes, the terms of the original swap could not be replicated without additional cost.

For all of our fixed-payer swaps, we receive floating rate payments from our counterparties in exchange for a fixed-rate obligation on our part. In today's market, the net periodic payment owed under these swap agreements is from us to our counterparties. As an example, on our February 1, 2007 semiannual debt service payment date we made a total of $9.7 million of net payments to our counterparties. Conversely, if short-term rates were to rise above the fixed rates of our swap agreements, then the net payment would run in the opposite direction, and we would be on the receiving end.

BASIS RISK AND BASIS SWAPS

Almost all of our swaps contain an element of what is referred to as "basis risk" – the risk that the floating rate component of the swap will not match the floating rate of the underlying bonds. This risk arises because our swap floating rates are based on indexes, which consist of market-wide averages, while our bond floating rates are specific to our individual bond issues. The only exception is where our taxable floating rate bonds are index-based, as is the case of the taxable floaters we have sold to the Federal Home Loan Banks.

Periodically, the divergence between the two floating rates widens, as market conditions change. Some periodic divergence was expected when we entered into the swaps. In the past we entered into swaps at a ratio of 65% of LIBOR, the London Inter-Bank Offered Rate which is the index used to benchmark taxable floating rate debt. These percentage-of-LIBOR swaps have afforded us with excellent liquidity and great savings when the average BMA/LIBOR ratio was steady at 65%. As short-term rates fell to historic lows and with an increased market supply of tax-exempt variable rate bonds, the historic relationship between tax-exempt and taxable rates was not maintained. For example, the average BMA/LIBOR ratio was 84.3% in 2003, 81.5% in 2004, and 72.5% in 2005. Now that short-term rates have risen significantly, the ratio has begun to fall. In 2006, it averaged 67.7%, and the average for 2007 to date is 67.7%. The BMA (Bond Market Association) index is the index used to benchmark tax-exempt variable rates.

When the BMA/LIBOR ratio is very high the swap payment we receive falls short of our bond payment, and the all-in rate we experience is somewhat higher. The converse is true when the percentage is low. In response, we and our advisors looked for a better formula than a flat 65% of LIBOR. After considerable study of California tax-exempt variable rate history, we revised the formula in December of 2002 to 60% of LIBOR plus 0.26% which resulted in comparable fixed-rate economics but performed better when short-term rates were low and the BMA/LIBOR percentage was high. We have since amassed approximately $2.1 billion of LIBOR-based swaps using this revised formula. In December 2005 we looked at the formula again and after completing a statistical analysis of CalHFA variable rate bonds as compared to the BMA and LIBOR indexes and taking into consideration the changing market conditions, we've decided to utilize several different swap formulas for our different types of bonds: 64% of LIBOR plus 0.25% for AMT weekly resets; 62% of LIBOR plus 0.25% for AMT daily resets; 64% of LIBOR plus 0.17% for Non-AMT weekly resets; and 62% of LIBOR plus 0.17% for Non-AMT daily resets. We expect to use these new formulas for new swap transactions and we will continue to monitor the BMA/LIBOR relationship and the performance of the new swap formulas.

In addition, we currently have basis swaps for $630 million of the older 65% of LIBOR swaps. The basis swaps provide us with better economics in low-rate environments by exchanging the 65% of LIBOR formula for alternative formulas that alleviate the effects of high BMA/LIBOR ratios. The following table shows the diversification of variable rate formulas used for determining the payments received from our interest rate swap counterparties.

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

	Tax-Exempt	Taxable	Totals
60% of LIBOR + 26bps	$1,913	$0	$1,913
3 mo. LIBOR + spread	0	489	489
62% of LIBOR + 25bps	472	0	472
BMA – 15bps	454	0	454
Enhanced LIBOR [1]	327	0	327
Stepped % of LIBOR [2]	304	0	304
65% of LIBOR	262	0	262
1 mo. LIBOR	0	229	229
97% of BMA	78	0	78
BMA – 20bps	61	0	61
6 mo. LIBOR	0	53	53
60% of LIBOR + 21 bps	36	0	36
64% of LIBOR	32	0	32
TOTALS	$3.939	$771	$4,710

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

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

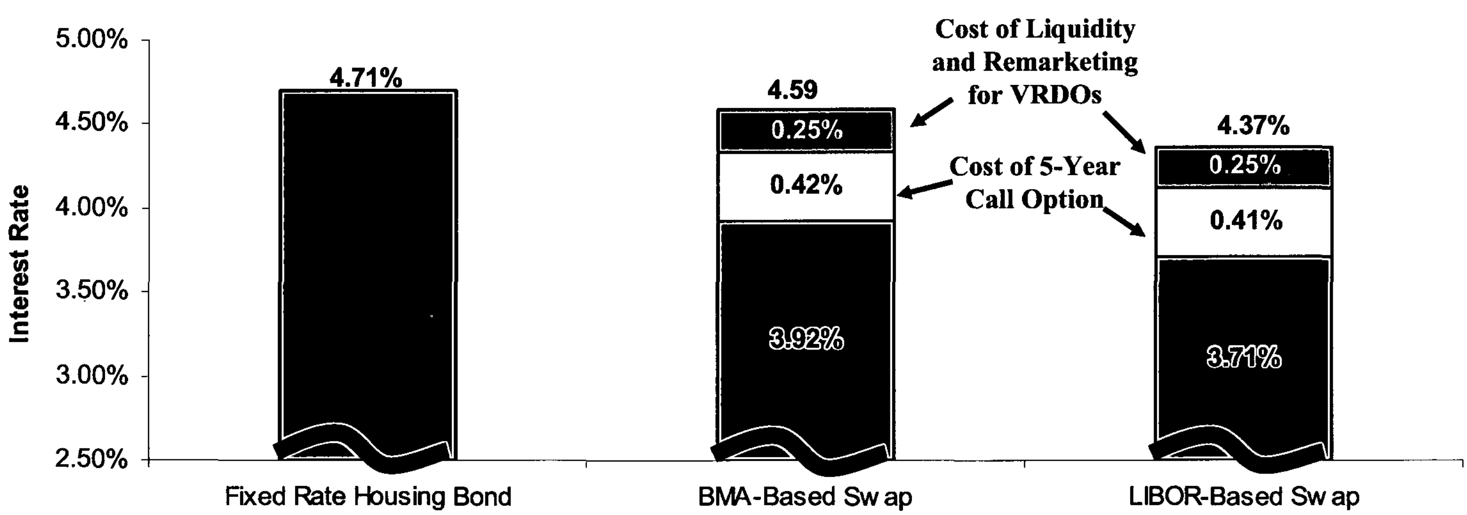
RISK OF CHANGES TO TAX LAW

For an estimated $3.3 billion of the $4 billion of tax-exempt bonds swapped to a fixed rate, we remain exposed to certain tax-related risks, another form of basis risk. In return for significantly higher savings, we have chosen through these interest rate swaps to retain exposure to the risk of changes in tax laws that would lessen the advantage of tax-exempt bonds in comparison to taxable securities. In these cases, if a tax law change were to result in tax-exempt rates being more comparable to taxable rates, the swap provider's payment to us would be less than the rate we would be paying on our bonds, again resulting in our all-in rate being higher.

We bear this same risk for $312 million of our tax-exempt variable rate bonds which we have not swapped to a fixed rate. Together, these two categories of variable rate bonds total $3.6 billion, 50.6% of our $7.2 billion of bonds outstanding. This risk of tax law changes is the same risk that investors take when they purchase our fixed-rate tax-exempt bonds.

The following bar chart shows the current benefit of our ability to assume the risk of changes to tax laws. Over the last several years this benefit (the difference between the cost of fixed rate housing bonds and the cost of a LIBOR based interest rate swap financing) has been as great as 100 basis points, and was the engine that made our interest rate swap strategy effective. In today's market this benefit is only 34 basis points. This reduced benefit has led to recent decisions to issue fixed rate housing bonds for our homeownership programs. As market conditions change we will alter our financing strategies to obtain the lowest cost of borrowing while balancing the associated risks and benefits of alternative structures.

Costs of Funds for Fixed-Rate Bonds and Synthetic Fixed-Rate Bonds
(Variable Rate Bonds Swapped to Fixed)
(All Rates as of April 24, 2007)



BMA-Based Swap: BMA Index x 101%
LIBOR-Based Swap: 64% LIBOR + 25 bps

AMORTIZATION RISK

Our bonds are generally paid down (redeemed or paid at maturity) as our loans are prepaid. Our interest rate swaps amortize over their lives based on assumptions about the receipt of prepayments, and the single family transactions which include swapped bonds have generally been designed to accommodate prepayment rates between two and three times the "normal" rate. In other words, our interest rate swaps generally have had fixed amortization schedules that can be met under what we have believed were sufficiently wide ranges of prepayment speeds. Unfortunately, when market rates fell to unprecedented levels, we started receiving more prepayments than we ever expected.

Since January 1, 2002, we have received over $6 billion of prepayments, including over $1.4 billion in 2004, $1.1 billion in calendar year 2005 and $504 million in 2006. Of this amount, approximately $2.03 billion is "excess" to swapped transactions we entered into. We have since recycled $1.96 billion of the $2.03 billion excess into new loans and have used $166 million to cross-call high interest rate bonds.

While these persistent high levels of prepayments have eased, we have modified the structuring of new swaps by widening the band of expected prepayments. In addition, with the introduction of our interest only loan product we are structuring swap amortization schedules and acquiring swap par termination rights to coincide with the loan characteristics and expectations of borrower prepayment.

Also of interest is a $81 million forced mismatch between the notional amount of certain of our swaps and the outstanding amount of the related bonds. This mismatch has occurred as a result of the interplay between our phenomenally high incidence of prepayments and the "10-year rule" of federal tax law. Under this rule, prepayments received 10 or more years beyond the date of the original issuance of bonds cannot be recycled into new loans and must be used to redeem tax-exempt bonds. In the case of these recent bond issues, a portion of the authority to issue them on a tax-exempt basis was related to older bonds.

While this mismatch has occurred (and will show up in the tables of this report), the small semiannual cost of the mismatch will be more than offset by the large interest cost savings from our "net" variable rate debt. In other words, while some of our bonds are "over-swapped", there are significantly more than enough unswapped variable rate bonds to compensate for the mismatch. In addition, we will monitor the termination value of our "excess swap" position looking for opportunities to unwind these positions when market terminations would be at no cost or a positive value to us.

There are several strategies for dealing with excess prepayments: they may be reinvested, used for the redemption of other (unswapped) bonds, or recycled directly into new loans. Alternatively, we could make termination payments to our counterparties to reduce the notional amounts of the swaps, but this alternative appears to be the least attractive economically.

In consultation with our financial advisors, we have determined that the best long-term strategy is to recycle the excess prepayments into new CalHFA loans. Of course, for some financings this means that we will be bearing the economic consequences of replacing old 7% to 8% loans that have paid off with new loans at rates that will be current at the time we recycle. With our April 1, 2007 transfer of loans from our warehouse line we have recycled a total of $1.96 billion of excess prepayments since March 1999. This practice has resulted in reduced issuance activity over the last few years.

In addition we have begun a widespread strategy of reusing unrestricted loan prepayments to purchase new loans. We currently have more than $3.1 billion of swap notional having a fixed payer rate below the estimated weighted average interest rate of 5.6% for new loans being reserved. In today's market, this tremendous recycling opportunity reduces transaction costs related to new issuance and preserves for future use our swap par termination rights.

TERMINATION RISK

Termination risk is the risk that, for some reason, our interest rate swaps must be terminated prior to their scheduled maturity. Our swaps have a market value that is determined based on current interest rates. When current fixed rates are higher than the fixed rate of the swap, our swaps have a positive value to us (assuming, as is the case on all of our swaps today, that we are the payer of the fixed swap rate), and termination would result in a payment from the provider of the swap (our swap "counterparty") to us. Conversely, when current fixed rates are lower than the fixed rate of the swap, our swaps have a negative value to us, and termination would result in a payment from us to our counterparty.

Our swap documents allow for a number of termination "events", i.e., circumstances under which our swaps may be terminated early, or (to use the industry phrase) "unwound". One circumstance that would cause termination would be a payment default on the part of either counterparty. Another circumstance would be a sharp drop in either counterparty's credit ratings and, with it, an inability (or failure) of the troubled counterparty to post sufficient collateral to offset its credit problem. It should be noted that, if termination is required under the swap documents, the market determines the amount of the termination payment and who owes it to whom. Depending on the market, it may be that the party who has caused the termination is owed the termination payment.

As part of our strategy for protecting the agency when we entered the swap market in late 1999, we determined to choose only highly-creditworthy counterparties and to negotiate "asymmetrical" credit requirements in all of our swaps. These asymmetrical provisions impose higher credit standards on our counterparties than on the agency. For example, our counterparties may be required to collateralize their exposure to us when their credit ratings fall from double-A to the highest single-A category (A1/A+), whereas we need not collateralize until our ratings fall to the mid-single-A category (A2/A).

Monthly we monitor the termination value of our swap portfolio as it grows and as interest rates change. Because termination is an unlikely event, the fact that our swap portfolio has a negative value, while interesting, is not necessarily a matter of direct concern. We have no plans to terminate swaps early (except in cases where the swap notional is excess to the bonds being hedged or we negotiated "par" terminations when we entered into the swaps) and do not expect that credit events triggering termination will occur, either to us or to our counterparties.

Currently, the Government Accounting Standards Board only requires that our balance sheet and income statement be adjusted for the market value of our swaps in excess of the bonds being hedged. However, it does require that the market value be disclosed for all of our swaps in the notes to our financial statements.

The table below shows the history of the fluctuating negative value of our swap portfolio for the past year.

TERMINATION VALUE HISTORY

Date	Termination Value ($ in millions)
4/30/06	($ 62.1)
5/31/06	($ 41.0)
6/30/06	($ 31.7) [1]
7/31/06	($ 68.4)
8/31/06	($112.9)
9/30/06	($130.8)
10/31/06	($141.0)
11/30/06	($174.8)
12/31/06	($132.7)
1/31/07	($113.8)
2/28/07	($155.7)
3/31/07	($137.7)

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

[1] *As reported in our 2005/2006 financial statements.*

TYPES OF VARIABLE RATE DEBT

The table below shows our variable rate debt sorted by type, i.e., whether auction rate, indexed rate, or variable rate demand obligations (VRDOs). Auction and indexed rate securities cannot be "put" back to us by investors; hence they typically bear higher rates of interest than do "put-able" bonds such as VRDOs.

TYPES OF VARIABLE RATE DEBT
($ in millions)

	Auction Rate & Similar Securities	Indexed Rate Bonds	Variable Rate Demand Obligations	Total Variable Rate Debt
HMRB	$159	$954	$3,091	$4,204
MHRB	410	0	751	1,161
HPB	0	0	111	111
DDB	0	40	0	40
Total	$569	$994	$3,953	$5,516

LIQUIDITY PROVIDERS

The table below shows the financial institutions providing liquidity in the form of standby bond purchase agreements for our VRDOs. Under these agreements, if our variable rate bonds are put back to our remarketing agents and cannot be remarketed, these institutions are obligated to buy the bonds.

LIQUIDITY PROVIDERS
($ in millions)

Financial Institution	$ Amount of Bonds	Indenture
Dexia Credit Local	$830.6	HMRB
Lloyds TSB	445.0	HMRB
Fannie Mae	384.6	HMRB/MHRB
BNP Paribas	275.3	HMRB
DEPFA Bank	249.6	MHRB
Bank of Nova Scotia	217.3	HMRB
Calyon	174.8	HMRB
Bank of America	167.9	HMRB
JP Morgan Chase Bank	158.9	HMRB
Bayerische Landesbank	158.0	HMRB
Westdeutsche Landesbank	153.3	HMRB/MHRB
Landesbank Hessen-Thuringen	152.1	MHRB
Fortis	120.0	HMRB
KBC	106.4	HMRB
State Street Bank	92.5	HMRB
Bank of New York	88.2	HMRB
CalSTRS	67.7	HMRB/MHRB
LBBW	61.1	HPB
Citibank N.A.	50.0	HPB
Total	$3.953.3	

Unlike our interest rate swap agreements, our liquidity agreements do not run for the life of the related bonds. Instead, they are seldom offered for terms in excess of five years, and a portion of our agreements require annual renewal. We expect all renewals to take place as a matter of course; however, changes in credit ratings or pricing may result in substitutions of one bank for another from time to time.

BOND AND SWAP TERMINOLOGY

BMA INDEX
Bond Market Association Municipal Swap Index. A weekly index of short-term tax-exempt rates.

COUNTERPARTY
One of the participants in an interest rate swap

DATED DATE
Date from which first interest payment is calculated.

DELAYED START SWAP
A swap which delays the commencement of the exchange of interest rate payments until a later date.

DELIVERY DATE, OR ISSUANCE DATE
Date that bonds are actually delivered to the underwriters in exchange for the bond proceeds.

GENERAL OBLIGATION BOND
A type of security which is evidence of a debt secured by all revenues and assets of an organization.

INDENTURE
The legal instrument that describes the bonds and the pledge of assets and revenues to investors. The indenture often consists of a general indenture plus separate series indentures describing each issuance of bonds.

INTEREST RATE CAP
A financial instrument which pays the holder when market rates exceed the cap rate. The holder is paid the difference in rate between the cap rate and the market rate. Used to limit the interest rate exposure on variable rate debt.

INTEREST RATE SWAP
An exchange between two parties of interest rate exposures from floating to fixed rate or vice versa. A fixed-payer swap converts floating rate exposure to a fixed rate.

LIBOR
London Interbank Offered Rate. The interest rate highly rated international banks charge each other for borrowing U.S. dollars outside of the U.S. Taxable swaps often use LIBOR as a rate reference index. LIBOR swaps associated with tax-exempt bonds will use a percentage of LIBOR as a proxy for tax-exempt rates.

MARK-TO-MARKET
Valuation of securities or swaps to reflect the market values as of a certain date. Represents liquidation or termination value.

MATURITY
Date on which the principal amount of a bond is scheduled to be repaid.

NOTIONAL AMOUNT
The principal amount on which the exchanged swap interest payments are based.

OFFICIAL STATEMENT
The "prospectus" or disclosure document describing the bonds being offered to investors and the assets securing the bonds.

PRICING DATE
Date on which issuer agrees (orally) to sell the bonds to the underwriters at certain rates and terms.

REDEMPTION
Early repayment of the principal amount of the bond. Types of redemption: "special", "optional", and "sinking fund installment".

REFUNDING
Use of the proceeds of one bond issue to pay for the redemption or maturity of principal of another bond issue.

REVENUE BOND (OR SPECIAL OBLIGATION BOND) (OR LIMITED OBLIGATION BOND)
A type of security which is evidence of a debt secured by revenues from certain assets (loans) pledged to the payment of the debt.

SALE DATE
Date on which purchase contract is executed evidencing the oral agreement made on the pricing date.

SERIAL BOND
A bond with its entire principal amount due on a certain date, without scheduled sinking fund installment redemptions. Usually serial bonds are sold for any principal amounts to be repaid in early (10 or 15) years.

SERIES OF BONDS
An issuance of bonds under a general indenture with similar characteristics, such as delivery date or tax treatment. Example: "Name of Bonds", 1993 Series A. Each series of Bonds has its own series indenture.

SWAP CALL OPTION
The right (but not the obligation) to terminate a predetermined amount of swap notional amount, occurring or starting at a specific future date.

SYNTHETIC FIXED RATE DEBT
Converting variable rate debt into a fixed rate obligation through the use of fixed-payer interest rate swaps.

SYNTHETIC FLOATING RATE DEBT
Converting fixed rate debt into a floating rate obligation through the use of fixed-receiver interest rate swaps.

TERM BOND
A bond with a stated maturity, but which may be subject to redemption from sinking fund installments. Usually of longer maturity than serial bonds.

VARIABLE RATE BOND
A bond with periodic resets in its interest rate. Opposite of fixed rate bond.

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State of California

MEMORANDUM

To: **CalHFA Board of Directors** **Date:** 23 April 2007

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

Subject: Legislative Report

Things are really buzzing in the Capital this week, as this week is the deadline for moving fiscal bills (bills that Legislative Counsel has tagged as having a fiscal impact) out of policy committee. Bills with no fiscal impact have until May 11 to pass policy committee. So I type this bill knowing that by the time you read it, the status will have changed for many of the bills listed below.

Once again, I have listed a number of bills that would impact the Housing and Emergency Shelter Trust Fund Act of 2006 (Prop 1C); the $2.85 billion general obligation bond approved this past November. You should know, however, that the Chairperson of the Assembly Housing Committee announced that since there were so many bills introduced potentially impacting the $850 million infrastructure fund and the $100 million innovative housing fund, the Assembly has agreed to hold all bills affecting those two pots of money to allow interested parties additional time to work together to develop consensus. The Senate is not part of that agreement, and is still moving its vehicles. There has also been some discussion recently regarding a vehicle sponsored by the Speaker (AB 1053 below), so there is still a chance that comprehensive legislation will be enacted this year. If that happens, it is very likely that it will involve moving competing bills to a conference committee, where an agreement will be hammered out and adopted, possible along with the Budget.

As always, if you have any questions, please feel free to contact me at 916.324.0801.

CalHFA Sponsored

AB 929 (Runner, Sharon) - California Housing Finance Agency: bonds
Last Amend: 04/09/2007
Status: Passed Assembly Housing and Community Development Committee (6-0) 04/11/2007; set for Assembly Appropriations Consent Calendar 04/25/07

> **Summary:** This bill would increase the amount of debt CalHFA may have outstanding by $2 billion (from $11.15 billion to $13.15 billion).

Bonds

AB 29 (Hancock) - Infill development: incentive grants
Last Amend: 04/19/2007
Status: Passed Assembly Local Government Committee; pending before Assembly Housing and Community Development Committee

> **Summary:** This bill would set up a competitive grant program under the administration of HCD. Under the program, cities and counties would be eligible to apply for grants for infrastructure needed to support infill housing projects. Projects would have to be consistent with the general plan and the city or county would have to have a certified housing element. Projects would have to be consistent with the zoning ordinance and any applicable specific plan, redevelopment plan, regional blueprint plan, capital improvement plan, or regional transportation plan or transportation corridor plan for which CEQA has been completed. The Administration had a separate proposal which was held in committee.

AB 600 (Garcia) - Housing: homebuyer assistance
Last Amend: 04/23/2007
Status: Pending Assembly Committee on Housing and Community Development

> **Summary:** Sponsored by HCD, this bill would change the maximum amount of downpayment assistance under the BEGIN Program from 20% of the sale price of the residence, not to exceed $30,000, to an amount to be determined in the notice of funding availability.

AB 655 (Swanson) - Public contracts: Bond Acts of 2006
Last Amend: Introduced
Status: Passed Assembly Committee on Jobs, Economic Development and the Economy (4-2) 04/18/2007; pending in Assembly Appropriations.

> **Summary:** Existing law establishes procedures for competitive bidding of certain contracts by public entities. This bill would provide that any awarding department soliciting and awarding bids under the Bond Acts of 2006, must consider the employment practices of a bidder with respect to hiring residents from low-income areas, and with respect to small businesses and micro businesses. The bill also would require the Department of General Services, in coordination with every awarding department, to submit a report to the Legislature and the Governor beginning January 1, 2008, and annually thereafter, detailing the awarding departments' efforts in selecting contractors that hire residents from low-income areas. According to the author, this bill is intended to increase participation of small contractors in state infrastructure bond construction work. Furthermore, the bill is intended to increase participation by contractors that are located in economically distressed areas, as well as generate jobs in those areas.

AB 792 (Garcia) - Environmentally Sustainable Affordable Housing Program
Last Amend: 03/29/2007
Status: Pending hearing before Assembly Housing and Community Development

Summary: Sponsored by the Administration, this bill would propose three pilot programs for the affordable housing innovation fund created by Prop 1C, a construction liability insurance reform program, a program to encourage green building, and a program to facilitate the construction of affordable housing for teachers on school district property. This bill was held by the Assembly Housing Committee and is not likely to move this year.

AB 927 (Saldana) - Multifamily Housing Program
Last Amend: 03/26/2007
Status: Passed Assembly Housing and Community Development Committee (4-0) 04/11/2007; set for Assembly Appropriations Committee 04/24/07

Summary: This bill would require a portion of the assistance provided to a project under the Multifamily Housing Program to be expended for senior rental housing developments in the same proportion as the number of lower income elderly renter households in the state bears to the total number of lower income renter households in the state, as reported by the federal Department of Housing and Urban Development on the basis of the most recent decennial census conducted by the United States Census Bureau.

AB 997(Arambula) - Infill capital outlay project and planning grants and loans
Last Amend: Introduced
Status: Pending before Assembly Housing and Community Development Committee

Summary: This bill would require the Department of Housing and Community Development to administer the Regional Planning, Housing, and Infill Incentive Account within Prop 1C ($850 million), and would require specified amounts from the account to be available, upon appropriation, to fund grants to cities, counties, cities and counties, redevelopment agencies, incorporated mutual water companies, special districts, and nonprofit organizations for capital outlay projects that will serve development on land that meets a specified definition in existing law of "infill site." The bill would provide, until December 31, 2012, that the sum of $150,000,000 would be available from the account to cities with a population of 30,000 persons or less. The bill would require the department to give preference in awarding grants under these provisions based on whether the proposed capital outlay project meets any of certain, listed criteria.

AB 1017(Ma) - Affordable housing program
Last Amend: 04/09/2007
Status: Pending before the Assembly Housing and Community Development Committee

Summary: This bill would establish the California Affordable Housing Revolving Development and Acquisition Fund (under the administration of HCD) within the State Treasury and would make moneys in the fund available for the purposes of making loans to preserve and develop affordable housing. The bill would require the department to issue a Notice of Funding Availability to select a private sector entity to manage the fund, including reviewing and approving loan applications, originating loans, and servicing loans. The bill would, upon appropriation by the Legislature, require the sum of $25,000,000 to be transferred to the fund from the Affordable Housing Innovation Fund in the State Treasury. It is not likely this bill will move this year.

AB 1053 (Nunez) - Housing and Emergency Shelter Trust Fund Act of 2006
Last Amend: 03/29/2007
Status: Set for hearing before Assembly Housing and Community Development Committee

> **Summary:** In its current form, this bill would require the Secretary of Business, Transportation and Housing, in consultation with the Department of Housing and Community Development, the California Infrastructure and Economic Development Bank, the Department of Transportation, the California Environmental Protection Agency, the Department of Parks and Recreation, and other stakeholders, to prepare and submit to the Legislature a specified report and a strategic plan, and obtain approval from the Legislature for the plan, prior to expending any funds appropriated pursuant to the act that are not continuously appropriated. However, this bill is likely to be amended and moved as the Assembly Prop 1C clean up vehicle.

AB 1091 (Bass) - Transit-Oriented Development Implementation Program
Last Amend: 04/17/2007
Status: Passed Assembly Housing and Community Development Committee (5-1) 04/11/07; set for hearing before Assembly Local Government Committee 04/25/07

> **Summary:** Transit-Oriented Development Account, which the act establishes in the fund, and makes the money in the account available, upon appropriation, for expenditure under the Transit-Oriented Development Implementation Program, which is established under existing law under the administration of the Department of Housing and Community Development. This bill would require the department to establish guidelines for the distribution of funds made available to the Transit-Oriented Development Implementation Program under Prop 1C, based on certain criteria relating to providing multiple benefits, coordinating funding from sources other than bond funds derived under the act, meeting or exceeding certain affordable housing requirements, and other factors. According to the author's staff, the principals contained in this bill were derived from a working group made up of eight City of Los Angeles agencies. Those eight city departments worked together to identify locations around the city that would present maximum opportunity to leverage investment from existing local programs.

AB 1129 (Arambula) - Rural regional affordable housing trust
Last Amend: Introduced
Status: Pending in Assembly Housing and Community Development Committee

> **Summary:** This bill would establish the San Joaquin Valley Rural Regional Affordable Housing Trust as a joint powers authority. Specifically, this bill would define a rural regional affordable housing trust as an entity of regional government that (1) is established as a joint powers authority; (2) has a voluntary membership consisting of not less than 2 rural counties, and the cities within those counties, and not less than 2 councils of governments serving the area of the 2 counties; (3) is established for the purpose of receiving and administering federal, state, local, and private financial resources made available to the trust to fund the development of affordable housing projects in jurisdictions that are members of the trust; and (4)

has demonstrable, ongoing sources of dedicated revenue, including taxes, fees, loan repayments, and private contributions.

AB 1231 (Garcia) - Infill development: incentive grants
Last Amend: Introduced
Status: Held by Assembly Housing and Community Development Committee

Summary: Sponsored by the Administration, this bill would establish the threshold criteria for the $850 million Infill Incentives a program created by Prop 1C. This bill would provide competitive criteria for a refundable infrastructure grant program for cities and counties that plan for and commit to increasing the supply of infill housing.

AB 1252 (Caballero) - Housing Urban-Suburban-and-Rural Parks Account
Last Amend: 04/10/2007
Status: Passed Assembly Committee on Water, Parks and Wildlife (9-4) 04/18/2007; set for hearing before Assembly Committee on Housing and Community Development 4/25/07

Summary: This bill would create the Housing-Related Parks Program within the Department of Parks and Recreation using funds allocated, upon appropriation by the Legislature, from the Housing Urban-Suburban-and-Rural Parks Account within Prop 1C, to provide grants to cities and counties for the creation or rehabilitation of parks in conjunction with eligible housing projects. The Administration had a competing proposal that would have placed administration of those funds with HCD. That bill was held by the committee.

AB 1460 (Saldana) - Multifamily Housing Program: project prioritization
Last Amend: Introduced
Status: Passed Assembly Housing and Community Development Committee (5-0) 04/11/2007; set for Assembly Appropriations Committee 04/25/07

Summary: This bill would require the Department of Housing and Community Development to, with regard to the Multifamily Housing Program, award reasonable priority points for projects to prioritize sustainable building methods established in accordance with certain criteria listed under state regulations relating to federal and state low-income housing tax credits.

AB 1493 (Saldana) - Affordable Housing Innovation Fund: housing trust fund.
Last Amend: Introduced
Status: Pending in Assembly Housing and Community Development Committee.

Summary: This bill would require the sum of $20,000,000 from the funds in the Affordable Housing Innovation Fund with Prop 1C to be used for the purposes of making matching grants under the Local Housing Trust Fund Matching Grant Program to cities and counties, or a city and county, and existing charitable nonprofit organizations that have created, funded, and operated housing trust funds prior to January 1, 2003.

AB 1536 (Smyth) - Parks: Housing and Emergency Shelter Trust Fund Act of 2006
Last Amend: 03/27/2007
Status: Pending before Assembly Water, Parks and Wildlife Committee

Summary: This bill would require the Department of Parks and Recreation to be the primary agency authorized to administer the housing-related parks grants in urban, suburban, and rural areas, and to administer the grants for park creation, development, or rehabilitation to encourage infill development, pursuant to Prop 1C.

AB 1675 (Nunez) - Transit-Oriented Development Implementation Program
Last Amend: Introduced
Status: Pending Committee referral

Summary: This is a spot bill that could serve as a vehicle to make changes the Transit-Oriented Development Implementation Development Program.

SB 46 (Perata) - Housing and Emergency Shelter Trust Fund Act of 2006: Regional Planning, Housing, and Infill Incentive Account
Last Amend: 04/10/2007
Status: Passed Senate Committee on Transportation and Housing Committee (7-3) 04/18/2007; pending hearing before the Senate Appropriations Committee

Summary: This bill would require the Department of Housing and Community Development, upon appropriation by the Legislature of the funds in the Regional Planning, Housing, and Infill Incentive Account ($850 million), to establish and administer a competitive grant program to allocate those funds to selected qualifying infill projects, as defined, for capital outlay related to infill housing development and related infill infrastructure needs, in amounts of not less than an unspecified amount and not more than an unspecified amount per project per annual funding cycle. Simply put, this bill would establish the process to distribute funds from the $850 million Regional Planning, Housing and Infill Incentive Account contained in Proposition 1C, and is intended to provide incentives for efficient land-use policy that rejects sprawl in favor of urban infill development.

SB 545 (Cox) - Affordable Housing Innovation Fund
Last Amend: Introduced
Status: Pending hearing Senate Transportation and Housing Committee

Summary: This bill would authorize the Legislature, in awarding funds from the Affordable Housing Innovation Fund, to review and adopt policies that alleviate identified obstacles associated with the construction of workforce housing in communities residing within the jurisdiction of a bistate compact.

SB 546 (Ducheny) - Department of Housing and Community Development: bond fund expenditures: report
Last Amend: Introduced
Status: Set for hearing before Senate Transportation and Housing Committee 04/24/07.

Summary: This bill would require that cumulative information on programs funded under the Housing and Emergency Shelter Trust Fund Acts of 2002 and 2006 be included in the Department of Housing and Community Development's annual report.

SB 586 (Dutton) - Affordable Housing Innovation Fund: California Affordable Housing Revolving Development and Acquisition Program
Last Amend: 04/10/2007
Status: Passed Senate Transportation and Housing Committee (9-1) 04/23/2007; pending in Senate Appropriations Committee.

> **Summary:** This bill would establish the California Affordable Housing Revolving Development and Acquisition Program under the administration of the Housing and Community Development Department. The bill would authorize applicants under the program to apply for loans to purchase real property for the development or preservation of housing affordable to low-income households and would require applicants to demonstrate certain qualification factors. The bill would also require the funds in the Affordable Housing Innovation Fund to be allocated in the amount of $50 million for the California Affordable Housing Revolving Development and Acquisition Program; $5 million for the Construction Liability Insurance Reform Pilot Program proposed under AB 792 of the 2007-08 Regular Session (if that program is established); $35 million for a local housing trust fund matching grant program; and $10 million for the Mobilehome Park Resident Ownership Program. The bill would require the department to grant certain preferences and priorities when awarding the $35 million under the local housing trust fund matching grant program.

SCA 6 (McClintock) - General obligation bonds: proceeds of sale
Last Amend: Introduced
Status: Pending Senate Governmental Organization Committee

> **Summary:** This measure would require that the proceeds from the sale of any general obligation bond that, on or after January 1, 2009, is approved by the voters be expended only for the costs of construction or acquisition of tangible physical property that has an expected useful life at least equal to the length of time in which the bonds that are sold to finance that construction or acquisition will reach maturity.

CEQA

AB 1096 (DeVore) - California Environmental Quality Act: housing exemptions
Last Amend: 03/27/2007
Status: Passed Assembly Natural Resources Committee (9-0) 04/16/2007; pending before Assembly Appropriations.

> **Summary:** This bill would exempt from CEQA, until January 1, 2013, the construction of housing for agricultural employees, the construction of housing that is affordable to low-income households, and the construction of housing on an infill site in an urbanized area.

SB 427 (Harman) - California Environmental Quality Act: short form environmental impact reports
Last Amend: Introduced
Status: Pending in Senate Environmental Quality Committee

Summary: This bill would authorize a lead agency to prepare a short form environmental impact report for a project subject to CEQA if the project meets specified criteria, including that the project is a qualified urban use, is within the an area designated in a qualified programmatic plan for the type of proposed development, is consistent with the land use designation for the area and applicable standards of population density and building intensity, provides housing or employment near specified areas, and incorporates specified mitigation measures. The bill would require that a short form environmental impact report include specified information, and comply with specified procedural requirements of CEQA for an environmental impact report.

Downpayment Assistance

AB 1422 (Davis) - Home Downpayment Assistance Agency
Last Amend: Introduced
Status: Pending before Assembly Housing and Community Development Committee.

Summary: This bill would establish the Home Downpayment Assistance Agency in state government for the purpose of administering a program that solicits non-tax-deductible contributions from private interests to fund downpayment assistance grants for grant applicants under the program. The bill would require the agency to develop criteria for approving grant applications that include certain, listed requirements. The bill would require the agency to award the grants on a first-come-first-served basis, subject to a specified set of priorities that give first priority to first responders and school teachers seeking downpayment assistance to purchase a home in the community in which the grant applicant is employed or has been offered employment. The bill would authorize the agency to contract out for consulting services and for the performance of the fund solicitation function and routine administrative tasks.

Insurance

AB 393 (Coto) - Personal income tax: deduction: qualified mortgage insurance.
Last Amend: 03/26/2007
Status: Sent to Assembly Committee on Revenue and Taxation Suspense File; set for vote 05/21/07.

Summary: This bill would, in conformance with federal law, treat premiums paid or accrued for qualified mortgage insurance on or after January 1, 2007, and before January 1, 2008, as qualified residence interest, and eligible for deduction from state tax liability. The California Tax Reform Association opposes the bill because it would open the door for deductibility of a broad range of insurance products financed by taxpayers.

Land Use

AB 641 (Torrico) - Developer fees

Last Amend: Introduced
Status: Set for hearing before Assembly Committee on Housing and Community Development. 05/09/07.

Summary: Prohibits local governments from requirement the payment of local developer fees before the developer has received a certificate of occupancy, for any housing development in which at lest 49% of the units are affordable to low-or very low-income households.

AB 971 (Portantino) - Housing: Community Workforce Housing Innovation Program
Last Amend: 04/23/2007
Status: Pending before Assembly Housing and Community Development Committee.

Summary: This bill would establish the Community Workforce Housing Innovation Program (funded by the Affordable Housing Innovation Fund within Prop 1C) for the purpose of assisting cities, counties, and school districts to recruit and retain public employees by making affordable housing available to those employees. The Department of Housing and Community Development would be required to administer the program, make grants available to cities, counties, and school districts from funds appropriated for this purpose, establish competitive criteria to use in the selection of grant applicants, and establish per-project limits on the amount of grant funding a city, county, or school district may receive.

AB 987 (Jones) - Low and Moderate Income Housing Fund: affordability covenants and restrictions
Last Amend: 04/17/2007
Status: Set for hearing before Assembly Committee on Housing and Community Development 04/25/07

Summary: This bill would require the covenants and restrictions associated with the housing funded by a redevelopment agency using its low- and moderate-income housing funds, to be enforceable by any person or family of low or moderate income. Despite the existence of covenants currently recorded on these properties, the sponsors and other housing advocates contend that subsequent owners do not always abide by those covenants, and violations sometimes go unenforced. As part of an agreement between the sponsor and the California Redevelopment Association, the additional recording requirement required by this bill will only apply prospectively from the date of enactment. In response to the Governor's veto of a similar bill last year (AB 2922), the author's staff stated that this bill no longer grants standing to "any interested party." Instead, it more narrowly extends standing to low to moderate income persons with a direct interest in the housing, as actual or potential tenants or owners.

SB 303 (Ducheny) - Local government: housing.
Last Amend: 04/18/2007
Status: Held in Senate Environmental Quality Committee

Summary: This bill would require cities an counties to update their general plans at least every ten years to accommodate a planning period of at least 20 years, expands the housings element planning period from five to ten years, requires cities and counties to complete any necessary rezonings to meet their housing needs concurrent with adoption of the housing element, and makes other changes to the general plan and housing element law.

Landlord Tenant

AB 725 (Lieber) - Housing: universal rental housing application.
Last Amend: Introduced
Status: Passed Assembly Housing and Community Development (6-0) 04/11/2007; is pending in Assembly Appropriations Committee.

Summary: This bill would require, after December 31, 2008, specified rental housing providers (those that use public subsidies) to use and make available to prospective tenants, not-for-profit agencies, and others upon request, a universal rental housing application, to be developed by the Department of Housing and Community Development in coordination with specified governmental agencies. This bill originated from a staff member's experience in trying to help his sister find available affordable homes and the rental applications. The author's goal is to reduce barriers and simplify the application process for potential residents. Key questions being considered by the author include what information the application needs to include, how this bill can address the burden of credit report fees, the variety of accessibility formats, and how to distribute the application.

Misc

AB 239 (DeSaulnier) - Recording fees: Contra Costa and San Mateo Counties.
Last Amend: 03/29/2007
Status: Set for hearing before Assembly Housing and Community Development Committee 05/09/07

Summary: This bill would authorize the Contra Costa County Board of Supervisors or the San Mateo Board of Supervisors to additionally charge a flat fee of not more than $25, as specified for each document that is recorded, if the document is in excess of one page, for every real estate instrument, as defined, paper, or notice required or permitted by law to be recorded in Contra Costa County or San Mateo County. The bill would require the Contra Costa County Board of Supervisors or the San Mateo County Board of Supervisors, if it charges this fee, to establish a fund for deposit of the moneys raised by the increase, which shall be used to assist in the development of affordable housing for very low income households, lower income households, and moderate-income households.

AB 677 (Nakanishi) - The Firefighters' Home Purchase Act of 2007
Last Amend: 04/16/2007
Status: Set for Assembly Housing and Community Development Committee 04/25/07.

Summary: This bill would enact the Firefighters' Home Purchase Act of 2007, which, if adopted, would authorize the issuance of General Obligation bonds in an unspecified amount for the purpose of providing firefighters with the opportunity to acquire homes in the communities where they provide firefighting services. This is not a first time homebuyer bill.

AB 793 (Strickland) - Property taxation: affordable housing assessments.
Last Amend: 04/10/2007
Status: Set for Assembly Revenue and Taxation Committee 05/14/07

Summary: Existing law rebuttably presumes that the fair market value of real property, other than possessory interests, is the purchase price paid in the transaction for the property. For purposes of this presumption, existing law defines "purchase price" as the total consideration provided by the purchaser or on the purchasers behalf, valued in money, whether paid in money or otherwise. Existing law requires the county assessor to consider, when valuing real property for property taxation purposes, the effect of any enforceable restrictions to which the use of the land may be subjected. This bill would exclude from the meaning of purchase price, for purposes of the rebuttable presumption that the purchase price of real property is the fair market value of the property. This bill would also require the county assessor to consider, when valuing real property for property taxation purposes, restrictions on the resale price of real property in a recorded real property deed or other recorded real property transfer document for real property that was purchased by its occupant through an affordable housing program operated by a city, a county, the state, or a nonprofit organization.

AB 1020 (Runner, Sharon) - Recordation: change of ownership.
Last Amend: Introduced
Status: Passed Assembly Revenue and Taxation Committee (9-0) 04/17/2007; set for hearing before Assembly Local Government Committee 04/25/07.

Summary: Existing property tax law specifies those circumstances in which the transfer of ownership interests results in a change in ownership of the real property, and provides that certain transfers do not result in a change of ownership. This bill would provide that the recordation of a certificate of sale pursuant to specified provisions of law relating to property sold subject to a right of redemption does not constitute a change of ownership, as provided. The author states that this bill is a technical bill that provides County Recorders with the legal tools necessary for effectively carrying out their duties with regard to public agencies, and it clarifies when a change in ownership occurs during a foreclosure proceeding.

AB 1205 (Salas) - Affordable housing.
Last Amend: Introduced
Status: Pending referral to committee.

Summary: Existing law states that the availability of housing is of vital statewide importance and that, among other things, local and state governments have a responsibility to use the powers vested in them to facilitate the improvement and development of housing to make adequate provision for the housing needs of all economic segments of the community. This bill would additionally state that local and state governments have a responsibility to use the powers invested in them to facilitate affordable housing opportunities that create safe, decent, and affordable housing including the availability of affordable housing in high cost areas as defined by the California Housing Finance Authority. This bill is not likely to move this year.

SB 707 (Ducheny) - Housing loan conversions.
Last Amend: 04/16/2007
Status: Set for hearing before Senate Transportation and Housing Committee 04/24/07

Summary: This bill would authorize the Department of Housing and Community Development to extend the term of existing multifamily housing loans made under older loan programs.

Mortgage Lending

AB 1538 (Lieu) - Housing Trust Fund: home loan refinance assistance
Last Amend: 04/17/2007
Status: Passed Assembly Banking and Finance Committee (6-3) 04/23/2007; is pending Assembly Appropriations Committee.

Summary: This bill would allow the California Housing Finance Agency to accept donations into the California Housing Trust Fund from public or private sources for the purpose of assisting homeowners to refinance home loans with variable interest rates into stable, fixed rate loan products.

SB 385 (Machado) - Real estate: mortgages: real estate brokers
Last Amend: 04/23/2007
Status: Passed Senate Committee on Banking, Finance and Insurance (10-0) 04/19/2007; set for Senate Appropriations Committee 04/30/07.

Summary: This bill would require the Commissioner of Financial Institutions to apply federal guidance to all state-regulated financial institutions , including, but not limited to, privately insured, state-chartered credit unions, and would authorize the commissioner to issue emergency and final regulations for clarification purposes . The bill would also require the Commissioner of Real Estate and the Commissioner of Corporations to apply that guidance to real estate brokers and licensees, respectively, and would authorize those commissioners to adopt emergency and final regulations or rules for clarification purposes, as specified. The bill would require the Secretary of Business, Transportation and Housing to ensure that these commissioners coordinate their policymaking and rulemaking efforts.

State of California

MEMORANDUM

To: Terri Parker, Executive Director **Date:** April 26, 2007

Cc: Board of Directors

Margaret Alvarez, Director of Asset Management
From: **CALIFORNIA HOUSING FINANCE AGENCY**

Subject: Update on Boles Creek Apartments – Owner Request for Loan Rate Reduction

As you recall, the owners first attended the November 2006 board of directors meeting to state their concern about the financing at Boles Creek Apartments. The request was that the Agency reduce the interest rate for the last seven years remaining on their loan or allow a prepayment of the loan. The current balance of their Section 8 loan is approximately $950,000 and has an interest rate of 9.15%. The loan matures on March 1, 2013. The owners attended a second board meeting in January to reiterate their request and asked that CalHFA arrange a meeting with HUD to discuss their concerns.

On April 17, 2007 two representatives from CalHFA Asset Management met with two representatives from the Sacramento HUD office and the Boles Creek owners, Mr. Brent Owen and Mr. John Dunlap. The owners requested that HUD require CalHFA to reduce their interest rate for the remaining term of the loan. HUD agreed with CalHFA that without a quid pro quo for additional affordability by way of a longer regulatory term there was no compelling reason to lower the interest rate. It was also pointed out that with only seven years remaining, the reduced interest rate would not significantly lower their operating costs.

Although nothing was resolved there were three items to be further reviewed. First, CalHFA and HUD will review the insurance costs at Boles Creek. If a rent increase is warranted to meet increased insurance expenses, HUD will approve. Mr. Owen made a slight admission that perhaps their reserve funds were over funded and could be reduced if they received an increase to meet insurance costs. The second item involves the owners request to reduce the interest rate. The main point against reducing the interest rate has to do with the Housing Assistance (subsidy) Contract which requires a reduction of rent subsidy paid to the property commensurate to the interest rate reduction. Currently the rents are over HUD's Fair Market Rent levels and therefore no rent increases are possible without HUD's approval. Even so, the owners wish to pursue this action believing it could lead to rent increases in the future. At this meeting CalHFA's calculations and the owners did not match. Both sides will take a second look. Lastly, the owners said they would send HUD a follow up letter asking that they require CalHFA to reduce the interest rate. We subsequently received a copy of their letter to HUD. The letter does not make a specific request for HUD to require the Agency to reduce our rate.

I will keep you advised as this process proceeds.

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Sean and link: Margaret
Terri Parker
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RECEIVED
APR 26 2007
By ________

April 25, 2007

Unetha G. Norman
Supervisory Project Manager
U.S. Department of Housing and Urban Development
Sacramento Field Office
John E. Moss Federal Building
650 Capitol Mall, Suite 4-200
Sacramento, CA 95814

Dear Ms. Norman,

Thank you for meeting with Brent Owen and with me on Tuesday April seventeenth. Since we have been trying return the Boles Creek project to solvency, we have been told by CalHFA that HUD rules prevent us from reaching a solution that would allow our project to generate the revenues needed to pay for project expenses. In spite of these representations, we believe that CalHFA has the ability to provide a solution to our problem if it chooses to do so. We wanted to find out if HUD was actually preventing us from reaching a solution, and we feel the meeting was informative in that regard. It does not appear to us that HUD is unwilling to participate in finding a solution to our problem.

Enclosed you will find CalFHA's response to our request to the CalFHA board for assistance and our reply to Ms. Parker's letter. I think these letters illustrate the present conflict. We built the project that CalFHA wanted built even though this project was more expensive than others with which we had been involved. We have operated the project for more than twenty years attempting to do so in a responsible manner. We feel we have performed as we originally agreed. After many years of good relations, we were refused rental increases. As expenses increased, we were not able to pay the return to owners we were promised. As more time passed, we were unable to pay legitimate project expenses. At present we have past due accounts which threaten project operations. We asked for assistance and were advised that CalFHA is demanding "quid pro quo" as the price of that assistance. Since we have provided the performances we promised, we are not willing to make further substantial concessions to obtain the performances that

CalFHA has already promised.

In our meeting, a substantial amount of time was consumed discussing whether this project would remain in affordable housing after our current contract is completed or terminated. We noted your concern about the potential of these units being removed from the affordable housing inventory. There was also a concern that tenant services will be compromised if the project is not solvent. While we share these concerns, we are of the opinion that the problems exist because of the position CalFHA has taken. We are not willing to continue a relationship where we do not receive the consideration we were promised, do not receive sufficient revenues to pay legitimate expenses, and are met with demands that we make further concessions to obtain CalFHA assistance. The demand that we agree to extend the commitment to affordable housing in return for performances we were originally promised and nothing more is insulting, and we suggest that the owners of other projects will react in a similar fashion if this "policy" is applied to them.

If you can assist us in finding a solution to these issues, we will be grateful. You show a concern and commitment to affordable housing that we respect.

Very truly yours,

JOHN P. DUNLAP

JPD:ted
Enclosure
cc Chris Penny, CalHFA