OUR CORE VALUES

All of our relationships are based on the highest ethical standards. We live by the credo, "Always do the right thing" for clients. We believe our clients deserve:

- Advocacy
- Objectivity
- Accountability

OUR GROWING CAPABILITIES

CresaPartners LLC was founded in 1998 with the merger of leading real estate advisory firms in major metropolitan areas. The five founding offices have history back to 1978 and average more than ten years of successful operation in each of their cities. The firm has grown to 43 offices throughout North America, including five in Canada and two dedicated integrated services offices for our Capital Markets and Lease Administration groups.

CresaPartners' North American offices are located in the following markets:

Atlanta, GA	Houston, TX	Phoenix, AZ
Austin, TX	Indianapolis, IN	Pittsburgh, PA
Bellevue, WA	Los Angeles, CA	Portland, OR
Bethesda, MD	Memphis, TN	Princeton, NJ
Birmingham, AL	Miami, FL	Sacramento, CA
Boston, MA	Minneapolis, MN	San Francisco, CA
Calgary, AB	Montreal, QC	San Jose, CA
Charlotte, NC	Nashville, TN	Seattle, WA
Chicago, IL	New York City, NY	St. Louis, MO
Cincinnati, OH	Orange County, CA	Toronto, ON
Dallas, TX	Ottawa, ON	Tysons Corner, VA
Denver, CO	Palo Alto, CA	Vancouver, BC
Detroit, MI	Paramus, NJ	Washington, DC
Fairfield County, CT	Philadelphia, PA	

OUR MULTI-NATIONAL MARKET SCOPE

CresaPartners has established strategic industry relationships to ensure the greatest capacity, consistency and efficiency for clients worldwide. All of our offices specialize exclusively in corporate real estate advisory services.

Through CresaPartners' exclusive partnership with Atisreal, our global coverage encompasses 127 offices and more than 2,000 professionals in 33 countries. This alliance, the most substantial of its kind, is designed to provide international clients with consistently high-quality services using a single point of accountability.

OUR UNIQUE APPROACH

Unlike traditional commercial real estate firms, we exclusively represent corporate clients, we provide Total Process Management and we serve as their long-term real estate advisor.

No Conflicts of Interest

As real estate transactions become more complex and service expectations more demanding, tenants and landlords alike require their own representation. In fact, there is an inherent conflict in representing both tenants and landlords at the same time. Our clients know that they always come first because we represent only their interests. In this way, we maintain objectivity and avoid conflicts.

Total Process Management

We provide Total Process Management, an integrated, single-source method to solving real estate issues. Through this approach, we serve as the single point of contact, ensuring that projects are consistently well conceived and well executed from start to finish. Focusing on critical strategic and tactical planning, we always protect our clients' interests and add value.

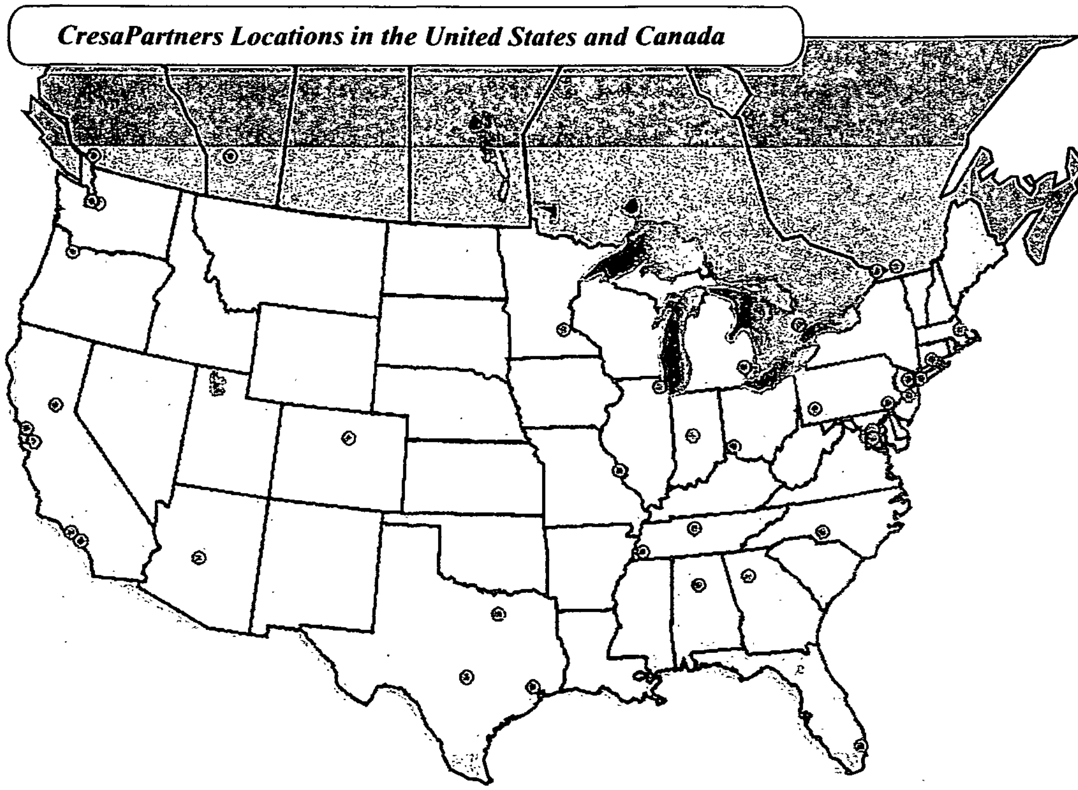
Trusted Long-Term Advisors

Unlike transaction-oriented brokers, we serve as ongoing real estate advisors, with a principal of the firm personally accountable for the success of each project. This builds trust and results in loyal relationships with clients. We operate as an extension of our client's staff and provide the same level of service whatever the scope of the assignment.

OUR FOCUS ON CLIENT NEEDS

We direct all of our resources to meet the unique needs of our corporate clients. In so doing, we approach each project from their point of view, providing due diligence, employing sophisticated management tools and helping make informed decisions to improve their bottom line.

We present all our clients with real-time opportunities in the marketplace. Our computerized databases contain up-to-date reports of all projects as well as valuable information on lease and sale comparables. In addition, all of our principals have extensive industry experience and local market knowledge.



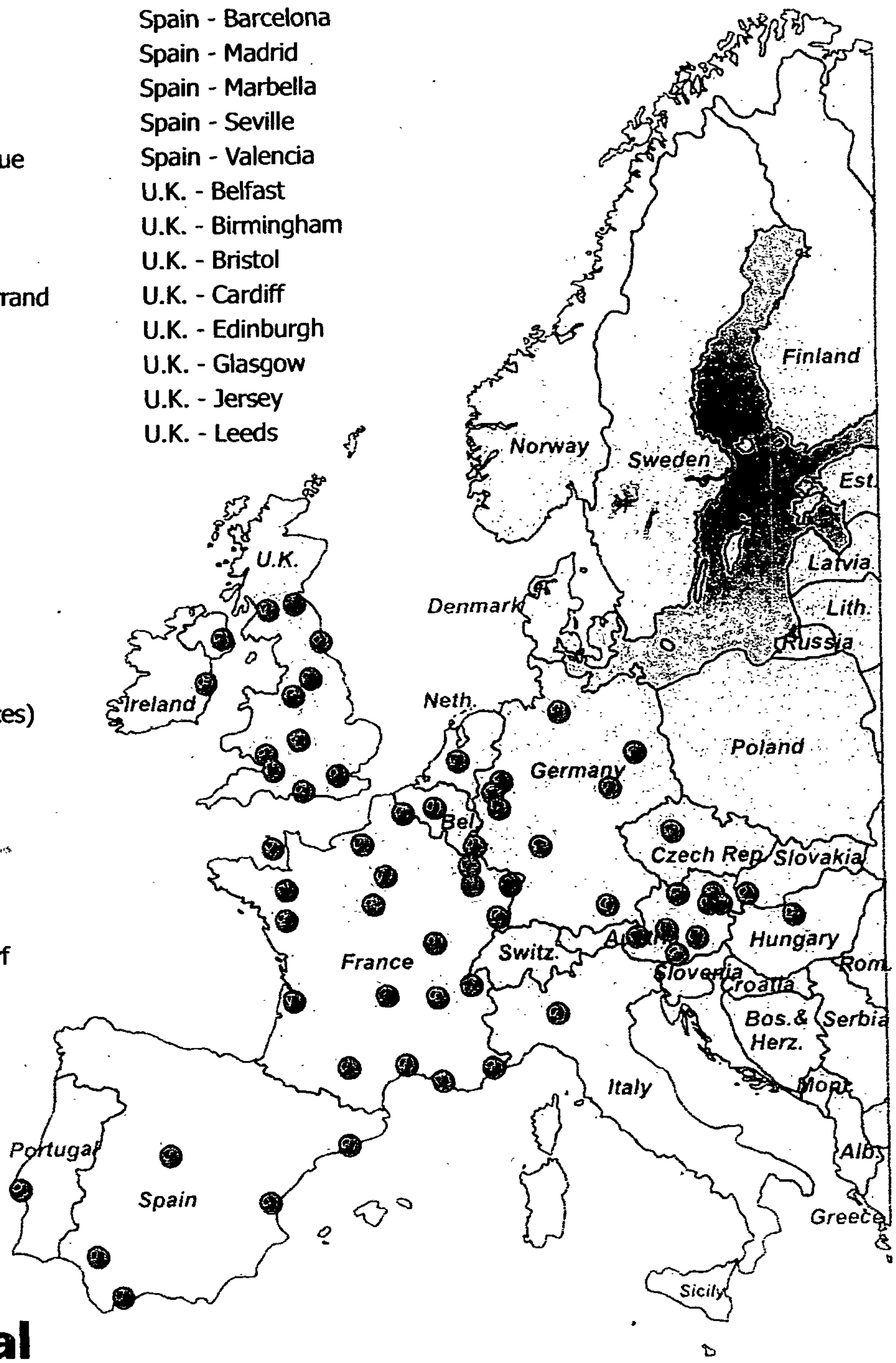
CresaPartners Offices

Atlanta, GA	Houston, TX	Philadelphia, PA
Austin, TX	Indianapolis, IN	Phoenix, AZ
Bellevue, WA	Los Angeles, CA	Pittsburgh, PA
Bethesda, MD	Memphis, TN	Portland, OR
Birmingham, AL	Miami, FL	Princeton, NJ
Boston, MA	Minneapolis, MN	Sacramento, CA
Calgary, AB	Montreal, QC	San Francisco, CA
Charlotte, NC	Nashville, TN	San Jose, CA
Chicago, IL	New York City, NY	Seattle, WA
Cincinnati, OH	Orange County, CA	St. Louis, MO
Dallas, TX	Ottawa, ON	Toronto, ON
Denver, CO	Palo Alto, CA	Tysons Corner, VA
Detroit, MI	Paramus, NJ	Vancouver, BC
Fairfield County, CT		Washington, DC

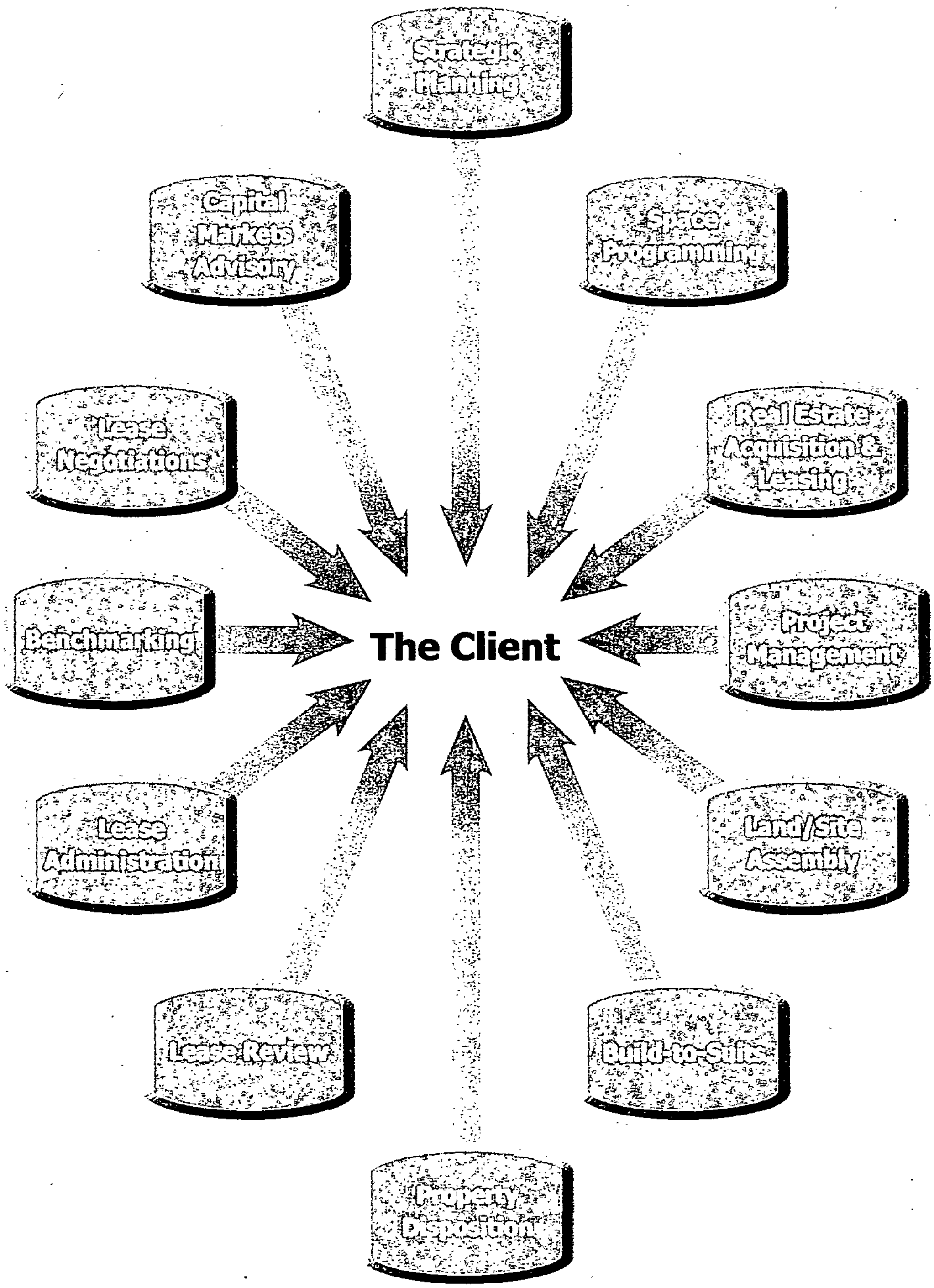
CresaPartners

CORPORATE REAL ESTATE SERVICE ADVISORS

Austria - Doblhofgasse
Austria - Graz
Austria - Heitzing
Austria - Klagenfurt
Austria - Linz
Austria - Modling
Austria - Vienna
Belgium - Brussels
Czech Republic - Prague
Eire - Dublin
France - Annecy
France - Bordeaux
France - Clermont-Ferrand
France - Dijon
France - Lille
France - Lyon
France - Marseille
France - Metz
France - Montpellier
France - Mulhouse
France - Nancy
France - Nantes
France - Nice
France - Orleans
France - Paris (3 offices)
France - Rennes
France - Rouen
France - Strasbourg
France - Toulouse
Germany - Berlin
Germany - Cologne
Germany - Dusseldorf
Germany - Essen
Germany - Frankfurt
Germany - Hamburg
Germany - Leipzig
Germany - Munich
Greece - Athens
Hungary - Budapest
Italy - Milan
Luxembourg - Luxembourg
Netherlands - The Hague
Portugal - Lisbon
Slovakia - Bratislava
Spain - Barcelona
Spain - Madrid
Spain - Marbella
Spain - Seville
Spain - Valencia
U.K. - Belfast
U.K. - Birmingham
U.K. - Bristol
U.K. - Cardiff
U.K. - Edinburgh
U.K. - Glasgow
U.K. - Jersey
U.K. - Leeds
U.K. - London (3 offices)
U.K. - Manchester
U.K. - Newcastle
U.K. - Southampton



AtisReal


Strategic Planning
Capital Markets Advisory
Space Programming
Lease Negotiations
Real Estate Acquisition & Leasing
Benchmarking
The Client
Project Management
Lease Administration
Land/Site Assembly
Lease Review
Build-to-Suits
Property Disposition

CresaPartners

CORPORATE REAL ESTATE SERVICE ADVISORS

GERALD A. PORTER
Chairman
CRESA Partners
11726 San Vicente Boulevard, #500
Los Angeles, California 90049
tel 310.207.1700
fax 310.207.2360
gporter@cresapartners.com

EXPERIENCE
Representing tenants since 1980

Jerry Porter is one of the founding principals of CRESA Partners, which, with over forty-five offices in North America and one hundred twenty-five offices worldwide, has grown to be the sixth largest corporate services company globally. Representing national accounts such as DreamWorks SKG, Vivendi Universal, BAE SYSTEMS, Electronic Arts, Activision and Symantec Corporation, Mr. Porter has distinguished himself as a broker and an entrepreneur over the past twenty-seven years. A frequent speaker and acknowledged expert in the use of technology in commercial real estate, Mr. Porter has been called "the most wired active broker in the nation."

EDUCATION
Stanford University, B.A., Psychology
Anderson School, UCLA, M.B.A., Real Estate Finance

AFFILIATIONS
Chairman, CRESA Partners LLC
Chairman, Los Angeles Business Council (LABC)
Chairman, Los Angeles Commercial Realty Association (LACRA), 1991-2007
Associate Member, Ziman Center for Real Estate, Anderson School, UCLA
Vice President, Los Angeles Region, CoreNet Global
Member, Advisory Board, Real Estate Southern California Magazine
Member, Advisory Board, California Real Estate Journal
Chairman, Kidsave International

ACKNOWLEDGMENTS
1994 & 1998, #3 Top Tenant Representative Broker (Office), Los Angeles Business Journal
1998 Annual Superstar Commercial Broker Survey, Real Estate Forum
1993 - 1998 Commercial Real Estate Who's Who, Los Angeles Business Journal
March 2000 & March 2003, Annual Review of Nation's Hot Brokers, Commercial Property News
2000, 2001, 2002 & 2004, Service Provider of the Year, Site Selection Magazine
2003 Real Estate Industries Humanitarian Award, National Conference for Community and Justice
2004 Service Provider of the Year Award, CoreNet Global, Southern California Chapter

SPEAKING ENGAGEMENTS

March 1999	Commercial Property World, New York City Speaker, "Surviving Industry Consolidation Through Specialization"
April 1999	PikeNet 99, New York City Speaker, "Extranets and Web-based Transaction Management"
September 1999	L.A. Headquarters Association, Los Angeles Speaker, "The Effective Use of Technology In Business"
March 2000	Commercial Property World, New York City Moderator, "The Impact of the Internet on Commercial Real Estate"
April 2000	PikeNet 2000, San Francisco Speaker, Road Warrior 2000, "Virtual Private Networks and Intranets"
April 2000	Real Estate Conference Group, Los Angeles Speaker, "Special Presentation / Brokers' Perspective"
June 2000	ULI / USC Rusk Center Trend 2000, Los Angeles Speaker, "Trends in Brokerage"
June 2000	BOMA International 93rd Annual Convention, San Diego Keynote Panel, "Targeting High-Tech Tenants: What the Future Holds"
October 2000	Southern California Property Opportunities, Beverly Hills Moderator, Keynote Luncheon Panel, "DotCom or DotGone?"
October 2000	NNCREW Convention, Los Angeles Speaker, "Impact of e-Commerce on Real Estate 'Bricks vs Clicks'"
November 2000	Commercial Property News Conference, San Francisco Speaker, "Providing Value to Early Stage Companies"
March 2001	Commercial Property World, New York City Moderator, "How to Hit "Restart" When Your High-Tech Tenants Crash"
September 2001	Commercial Property News Conference, Los Angeles Moderator, "Impact of the Economic Slowdown on the Market"
March 2002	Commercial Property World, New York City Speaker, "Let's Make a Deal: Owner & Tenant Reps Hit the Bargaining Table"
May 2002	CFO Forum, Financial Executives International (FEI), Los Angeles Speaker, "Real Estate Follies 2002 - Tenant Strategies for a Soft Market"
May 2002	International Facility Management Association (IFMA), Los Angeles Speaker, "Southern California Market Forecast for 2002"
October 2002	CoreNet Global, Los Angeles Speaker, "Measuring Performance in Corporate Real Estate"
January 2003	Southern California Development Forum, Los Angeles Speaker, "2003 Real Estate Forecast"
April 2003	International Facility Management Association (IFMA), Los Angeles Speaker, "2nd Annual Corporate Real Estate Strategy Session"
April 2003	California Association for Economic Development (CALED), Monterey Speaker, "Site Selection Trends in California"

SPEAKING ENGAGEMENTS (Cont'd)

June 2003	Realcomm, The Comm'l Real Estate Automation & Business Solutions Conf Speaker, "Changing the Culture from the Top"
June 2003	CoreNet Global, Los Angeles Speaker, "The Best of Times, The Worst of Times"
November 2004	RealShare Orange County, Irvine Moderator, "The Great Debate - Customer Service in 2005"
June 2006	Los Angeles Headquarters Association, Beverly Hills Speaker, "Real Estate Connections 2006"
June 2006	International Facility Management Association (IFMA), Los Angeles Speaker, "Corporate Real Estate Strategy"

ARTICLES

November 1999	Corporate Real Estate Executive, NACORE International "Using Cyberspace for Corporate Space Management"
December 1999	Real Estate Forum, Information Systems Report "Curing TechPhobia-Are we at last turning into an industry of technogeeks?"
September 2000	Real Estate Forum, Executive Forum "Strategizing for a New Breed of Tenant"
February 2002	GlobeSt.com ThinkTank "Corporate Users Want it Their Way"
September 2002	CoreNet Global Southern California Newsletter "Strategic Planning for the Corporate Portfolio"
January 2003	GlobeSt.com ViewPoint "Downside Strategies Can Yield Upside Results"
July 2004	Journal of Corporate Real Estate "Restructuring and renewing existing leases in today's commercial office market: Guidelines for tenants to evaluate options and negotiate terms"
February 2005	Orange County Business Journal "Are You Negotiating a Proper Lease?"
October 2005	Los Angeles Business Journal "Housing's Impact on the Economic Viability of the City"
March 2007	Real Estate Southern California Magazine "The Corporate Tenant Gamble"

GERALD A. PORTER

Symantec (Los Angeles)	550,000 sf
Yahoo!	500,000 sf
DreamWorks SKG	433,000 sf
Avery Dennison (Fontana)	410,000 sf
Vivendi Universal	325,000 sf
Avery Dennison (Memphis)	300,000 sf
E! Entertainment	280,000 sf
Electronic Arts	250,000 sf
Vivendi Universal Games	250,000 sf
Symantec (Santa Monica)	250,000 sf
BAE SYSTEMS (Sale)	200,000 sf
Specialty Laboratories	200,000 sf
Tangram Interiors	200,000 sf
Activision (In Process)	200,000 sf
SeeBeyond Technologies	177,000 sf
Roland Corporation U.S.	175,000 sf
Kirkland & Ellis (In Process)	150,000 sf
AMGEN Europe (10+ Transactions)	150,000 sf
eToys	150,000 sf
BAE SYSTEMS (Lease)	150,000 sf
Rubin Postaer & Associates	150,000 sf
Technicolor	150,000 sf
Blue Shield (Woodland Hills)	140,000 sf
Stravina	138,000 sf
Guardian Products	129,000 sf
Pacific Data Images	120,000 sf
Blue Shield (Redding)	120,000 sf
United Online	110,000 sf
Symantec (Boston)	106,000 sf
Vivendi Universal Games (Restructure)	100,000 sf
Symantec Data Center (Tucson)	100,000 sf
City of Los Angeles	100,000 sf
Red Bull	100,000 sf
HBO	98,000 sf
G&H Technology	98,000 sf
Power-One	97,000 sf
Celera Genomics	85,000 sf
SonyConnect	75,000 sf
Amp'd Mobile	70,000 sf
Helio	70,000 sf
IMAX	65,000 sf

CALIFORNIA HOUSING LOAN INSURANCE FUND

Condensed Balance Sheets

The following table presents condensed balance sheets for the Fund as of December 31, 2006 and December 31, 2005 and the change from year to year (dollars in thousands):

	2006	2005	Change
Assets			
Cash, cash equivalents and investments	$ 64,096	$ 58,842	$ 5,254
Other assets	2,591	1,940	651
TOTAL ASSETS	$ 66,687	$ 60,782	$ 5,905
Liabilities and Fund Equity			
Liabilities:			
Unpaid losses and loss adjustment expenses	$ 534	$ 379	$ 155
Unearned premiums	384	484	(100)
Accounts payable and other liabilities	1,147	522	625
Total liabilities	2,065	1,385	680
Fund Equity:			
Invested in capital assets	4	6	(2)
Restricted by statute	64,618	59,391	5,227
Total fund equity	64,622	59,397	5,225
TOTAL LIABILITIES AND FUND EQUITY	$ 66,687	$ 60,782	$ 5,905

Condensed Statements of Revenues and Expenses

The following table presents condensed statements of revenues and expenses for the Fund as of December 31, 2006 and December 31, 2005 and the change from year to year (dollars in thousands):

	2006	2005	Change
OPERATING REVENUES			
Premiums earned	$ 12,405	$ 7,080	$ 5,325
Investment income	2,858	1,733	1,125
Other revenues	230	0	230
Total operating revenues	15,493	8,813	6,680
OPERATING EXPENSES			
Loss and loss adjustment recoveries	190	76	114
Operating expenses	10,076	6,211	3,865
Other expenses (benefits)	2	3	(1)
Total operating expenses	10,268	6,290	3,978
Operating income	$ 5,225	$ 2,523	$ 2,702

April 20, 2007

Deloitte & Touche LLP
2868 Prospect Park Drive
Rancho Cordova, CA 95670

We are providing this letter in connection with your audits of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the California Housing Loan Insurance Fund (the "Fund"), which is administered by the California Housing Finance Agency (the "Agency") as of December 31, 2006 and 2005, for the purpose of expressing an opinion as to whether the basic financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the Fund in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the following:

a. The fair presentation in the basic financial statements of financial position of the governmental activities and each major fund in conformity with accounting principles generally accepted in the United States of America

b. The fair presentation of the required supplementary information, including Management's Discussion and Analysis, accompanying the basic financial statements that are presented for the purpose of additional analysis of the basic financial statements

c. The design and implementation of programs and controls to prevent and detect fraud, including fraud related to federal awards

d. Establishing and maintaining effective internal control over financial reporting.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audits.

1. The basic financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America. In addition:

   a. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.

b. The financial statements properly classify all funds and activities, including special and extraordinary items.

c. All funds that meet the quantitative criteria in Statement No. 34 and Statement No. 37 of the Governmental Accounting Standards Board (GASB), *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.

d. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.

e. Expenses have been appropriately classified in or allocated to functions and programs in the statement of revenues, expenses and changes in fund equity, and allocations have been made on a reasonable basis.

f. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.

g. Interfund, internal, and intra-Fund activity and balances have been appropriately classified and reported.

h. Deposits and investment securities are properly classified in category of custodial credit risk.

i. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.

j. Required supplementary information is measured and presented within prescribed guidelines.

k. Applicable laws and regulations are followed in adopting, approving and amending budgets.

l. Costs to federal awards have been charged in accordance with applicable cost principles.

2. The Fund has made available to you all:

a. Minutes of the meetings of the board of directors or summaries of actions of recent meetings for which minutes have not yet been prepared.

b. Financial records and related data for all financial transactions of the Fund and for all funds administered by the Fund. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by the Fund and provide the audit trail to be used in a review of accountability. Information presented in financial reports is supported by the books and records from which the financial statements have been prepared.

c. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal agencies.

3. There has been no:

a. Action taken by Fund management that contravenes the provisions of federal laws and California State laws and regulations, or of contracts and grants applicable to the Fund

b. Communication from other regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements.

4. The Fund has made available to you the results of management's risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud.

5. We have no knowledge of any fraud or suspected fraud except for the anonymous written allegations presented to the Board of Directors, affecting the Fund involving:

a. Management.

b. Employees who have significant roles in internal control over financial reporting.

c. Others if the fraud could have a material effect on the financial statements.

6. We have no knowledge of any allegations of fraud or suspected fraud affecting the Fund received in communications from employees, former employees, analysts, regulators, short sellers, or others.

7. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Statement No. 5, *Accounting for Contingencies*.

8. Management has identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.

9. We have adopted the provisions of Statement No. 39 of the Governmental Accounting Standards Board, *Determining Whether Certain Organizations Are Component Units* ("GASB 39"), an amendment of Statement No. 14 of the Governmental Accounting Standards Board, *The Financial Reporting Entity*, as of January 1, 2004. We believe that we have properly identified and reported as a component unit of the Fund each organization that meets the criteria established in GASB 39.

Except where otherwise stated below, matters less than $25,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the financial statements.

10. There are no transactions that have not been properly recorded in the accounting records underlying the financial statements.

11. The Fund has no plans or intentions that may affect the carrying value or classification of assets and liabilities.

12. The following, to the extent applicable, have been appropriately identified, properly recorded, and disclosed in the financial statements:

    a. Related-party transactions and associated amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral)

    b. Guarantees, whether written or oral, under which the Fund is contingently liable.

13. In preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:

    1. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events

    2. The effect of the change would be material to the financial statements.

14. Risks associated with concentrations, based on information known to management, that meet all of the following criteria have been disclosed in the financial statements:

    a. The concentration exists at the date of the financial statements

    b. The concentration makes the enterprise vulnerable to the risk of a near-term severe impact

    c. It is at least reasonably possible that the events that could cause the severe impact will occur in the near term.

15. There are no:

    a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Statement No. 5, *Accounting for Contingencies*.

16. The Fund has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

17. The Fund has complied with all aspects of contractual agreements that may have an effect on the financial statements in the event of noncompliance.

18. No department or agency of the Fund has reported a material instance of noncompliance to us.

19. The Fund has identified all derivative instruments as defined by GASB Technical Bulletin 2003-1, *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets (TB 03-1)*, and appropriately disclosed such derivatives in accordance with TB 03-1.

20. No events have occurred subsequent to December 31, 2006 that requires consideration as adjustments to or disclosures in the financial statements.

21. Management has disclosed whether, subsequent to December 31, 2006, any changes in internal control or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies and material weaknesses have occurred.

22. Management has disclosed all contracts or other agreements with the Fund's service organizations.

23. We have appropriately identified and properly recorded and disclosed in the financial statements all interfunded transactions, including repayments terms.

24. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit, or similar arrangements have been properly disclosed in the financial statements.

25. All off-balance-sheet derivative financial instruments (e.g., futures, options, swaps), including outstanding commitments to purchase or sell securities under forward placement and standby commitments have been properly disclosed in the financial statements.

26. For financial instruments with off-balance-sheet credit risk (e.g., obligations for loans sold with recourse (with or without floating rate provision), fixed-rate and variable-rate loan commitments, financial guarantees, note issuance facilities at floating rates, letters of credit,), except for those instruments within the scope of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, the Fund has disclosed the following:

    a. The face or contract amount

    b. The nature and terms, including, a discussion of the:

- Credit and market risks of those instruments
- Cash requirements of those instruments
- Related accounting policy pursuant to APB Opinion No. 22, *Disclosure of Accounting Policies*

c. The Fund's policy for requiring collateral or other security to support financial instruments subject to credit risk, information about the Fund's access to that collateral or other security, and the nature and brief description of the collateral or other security supporting those financial instruments.

27. The Fund believes that it has properly identified all derivative instruments and any embedded derivative instruments that require bifurcation. The Fund's hedging activities, if any, are in accordance with its documented and approved hedging and risk management policies, and all appropriate hedge documentation was in place at the inception of the hedge in accordance with paragraphs 20(a) and 28(a) of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*. Specifically, we have appropriately designated all hedging instruments as either fair value or cash flow hedges or hedges of the foreign currency exposure of a net investment in a foreign operation. We believe the timing, nature, and amounts of all forecasted transactions are probable of occurring. The fair values of all derivatives, embedded derivatives that have been bifurcated, and hedged items have been determined based on prevailing market prices or by using financial models that we believe are the most appropriate models for valuing such instruments and that incorporate market data and other assumptions that we have determined to be reasonable and appropriate at December 31, 2006.

28. We have no intention of terminating our participation in the Public Employee's Retirement Fund, administered by CalPERS as part of the State of California as the primary government or taking any other action that could result in an effective termination or reportable event for the plan. We are not aware of any occurrences that could result in the termination of our pension plan to which we contribute. The Fund has no liability for pension costs or benefits other than the normal annual required contributions as determined by CalPERS. All such required contributions have been remitted.

29. Agreements to repurchase assets previously sold have been properly disclosed in the financial statements.

30. We believe that all expenditures that have been deferred to future periods are recoverable.

31. Management has disclosed all communications from the Fund's third-party service organizations relating to noncompliance with the Fund's operations at that service organizations.

32. With regard to the fair value measurements and disclosures of certain assets, liabilities, and specific components of equity, we believe that:

    a. The measurement methods, including the related assumptions, used in determining fair value were appropriate and were consistently applied

b. The completeness and adequacy of the disclosures related to fair values are in conformity with accounting principles generally accepted in the United States of America

c. No events have occurred subsequent to December 31, 2006 that require adjustment to the fair value measurements and disclosures included in the financial statements

33. There are no control deficiencies in the design or operation of internal control over financial reporting that could adversely affect the Fund's ability to initiate, record, process, and report financial information.

34. In December 2004, the GASB issued SGAS No. 43, Net Assets restricted by Enabling Legislation. The Agency adopted GASB Statement No. 43 effective for the fiscal year beginning January 1, 2006. GASB statement No. 43 clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government can compel a government to honor. Implementation of the statement did not have a material effect on the Fund's financial statements.

35. Management is responsible for determining and maintaining the adequacy of the allowance for interfund receivables, premiums receivable, as well as estimates used to determine such amounts. Management believes that no allowance is necessary for any of the receivables above at December 31, 2006 and 2005.

36. Certain lawsuits and claims arising in the ordinary course of business have been filed or are pending against the Fund. Based upon information available to the Agency, its review of such lawsuits and claims and consultation with counsel, the Agency believes the liability relating to these actions, if any, would not have a material adverse effect on the Fund's financial statements.

37. There are no known or expected circumstances, as of this date, which would threaten the solvency of the Fund.

38. The Fund has deferred, as acquisition costs, only those expenses that vary with and are primarily related to the acquisition of new and renewal insurance contracts and which are recoverable from the related unearned premiums. Acquisition costs that do not vary with or are not primarily related to the acquisition of new and renewal insurance contracts have been expensed as incurred. Capitalized acquisition costs are being amortized in proportion to premium revenue. Such acquisition costs are being amortized over 4 years based on the average life of the loan insurance policies, on a straight line basis.

39. The reserves for unpaid losses and loss adjustment expenses, including amounts for incurred but not reported claims, net of the quota share arrangement and net of salvage and subrogation recoverable, has been determined using appropriate historical and expected frequency and loss severity, estimated ultimate costs of settling the claims (including the effects of inflation and other societal and economic factors), using past experience adjusted for current trends and any other factors that would modify past experience and are the most appropriate under the circumstances. Management believes this reserve is adequate to absorb the Fund's currently estimated claims resulting from

insured loans as of December 31, 2006 and 2005. The Agency's reinsurance agreement provides for a recovery of a proportionate level of claim expenses from the reinsurer. At December 31, 2006, the Fund has an estimated "risk ceded to Genworth" amount that is netted against reserves for loss and loss adjustment incurred of $1,599,101. The Fund remains liable to its policyholders if the reinsurer is unable to satisfy their obligations under the reinsurance agreement. Management has assessed the financial strength of Genworth and does not believe that the Fund is exposed to any credit or counterparty risk.

40. The Agency entered into a reinsurance treaty and administrative services agreement with Genworth (formally known as General Electric Mortgage Insurance Corporation) effective March 1, 2003. This agreement ceded to Genworth a 75% quota share of the insurance risk for 98% of loans insured by the Fund at December 31, 2006 and 2005. The remaining 2% of loans insured by the Fund do not have reinsurance coverage from Genworth as of December 31, 2006 and 2005. Management believes the reserves provided are adequate to absorb currently estimated insurance claims from these loans as of December 31, 2006 and 2005.

Charles K. McManus

Charles K. McManus, Director of Mortgage Insurance

Dennis Meidinger

Dennis Meidinger, Comptroller

Susan Goodison

Susan Goodison, Accounting Administrator III

April 20, 2007

The Audit Committee
California Housing Finance Agency
Sacramento, California

Dear Members of the Audit Committee:

We have audited the financial statements of the California Housing Loan Insurance Fund (the "Fund"), which is administered by the California Housing Finance Agency (the "Agency"), a component unit of the State of California for the year ended December 31, 2006, and have issued our report thereon dated April 20, 2007.

We have prepared the following comments to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of The Agency is responsible.

OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS

Our responsibility under auditing standards generally accepted in the United States of America has been described to you in our engagement letter dated March 26, 2007. As described in that letter, the objective of a financial statement audit conducted in accordance with auditing standards generally accepted in the United States of America is to express an opinion on the fairness of the presentation of the Company's financial statements for the year ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), in all material respects. We considered the Company's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

MANAGEMENT JUDGMENTS AND ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and on assumptions about future events. The significant accounting estimate reflected in the Fund's 2006 financial statements is the loan insurance fund loss and loss adjustment expense reserve (LAE)

The basis for our conclusions as to the reasonableness of these estimates when considered in the context of the financial statements taken as a whole, as expressed in our auditors' report, is our review and tests of the process used by management to develop the estimates and/or our development of an independent expectation of the estimates to corroborate management's estimates.

During the year ended December 31 2006, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

AUDIT ADJUSTMENTS

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. There were no audit adjustments or uncorrected misstatements identified during our audit.

SIGNIFICANT ACCOUNTING POLICIES

The Fund's significant accounting policies are set forth in Note 2 to the Fund's 2006 financial statements. During the year ended December 31, 2006, there were no significant changes in previously adopted accounting policies or their application.

ALTERNATIVE ACCOUNTING TREATMENTS

We had no discussions with management regarding alternative accounting treatments within accounting principles generally accepted in the United States of America for policies and practices related to material items, including recognition, measurement, and disclosure considerations related to the accounting for specific transactions as well as general accounting policies, related to the year ended December 31, 2006.

OTHER INFORMATION IN THE MANAGEMENT'S DISCUSSION AND ANALYSIS

When audited financial statements are included in documents containing other information such as Management's Discussion and Analysis, we read such other information and consider whether it, or the manner of its presentation, is materially inconsistent with the information, or the manner of its presentation, in the financial statements audited by us. We have read the supplemental information in the Management's Discussion and Analysis and have inquired as to the methods of measurement and presentation of such information. If we had noted a material inconsistency or if we had obtained any knowledge of a material misstatement of fact in the other information, we would have discussed this matter with management and, if appropriate, with the Audit Committee.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to the Fund's 2006 financial statements.

CONSULTATION WITH OTHER ACCOUNTANTS

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2006.

MAJOR ISSUES DISCUSSED WITH MANAGEMENT PRIOR TO RETENTION

Throughout the year, routine discussions regarding the application of accounting principles or auditing standards were held with management in connection with transactions that have occurred, transactions that are contemplated, or reassessment of current circumstances. In our judgment, such discussions were not held in connection with our retention as auditors.

SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

In our judgment, we received the full cooperation of the Agency's management and staff and had unrestricted access to The Agency's senior management in the performance of our audit.

OTHER MATERIAL WRITTEN COMMUNICATIONS

A schedule listing those written communications that we believe constitute other material written communications between management and us related to the audit of the financial statements for the year ended December 31, 2006, has been attached to this letter as Appendix A. For those communications previously provided to you, we have indicated the date you were provided with such communication.

* * * * *

This report is intended solely for the information and use of the Audit Committee of the Board of Directors, management, and others within The Agency and is not intended to be and should not be used by anyone other than these specified parties.

Yours truly,

APPENDIX A

SCHEDULE OF MATERIAL WRITTEN COMMUNICATIONS BETWEEN MANAGEMENT AND DELOITTE & TOUCHE LLP

- Engagement letter, dated March 26, 2007.

- Management Representation Letters, received in conjunction with the audit of financial statements for the year ended December 31, 2006, dated April 20, 2007.

Deloitte

Deloitte & Touche LLP
Suite 400
2868 Prospect Park Dr.
Rancho Cordova, CA 95670-6065
USA

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March 26, 2007

Board of Directors
California Housing Loan Insurance Fund
Administered by the California Housing Finance Agency
1121 L Street, 7th Floor
Sacramento, California 95814

Attention of: Mr. John A. Courson, Chairman of Board of Directors
Ms. Theresa Parker, Agency Director
Mr. Dennis Meidinger, Comptroller
Mr. Jack Shine, Chariman of the Audit Committee

Dear Sirs/Madams:

Deloitte & Touche LLP ("D&T") is pleased to serve as independent accountants and auditors for California Housing Loan Insurance Fund (the "Fund"), which is administered by the California Housing Finance Agency (the "Agency"), for the year ended December 31, 2006. Mr. Tim Stenvick, Director, will be responsible for the services that we perform for the Fund hereunder.

In addition to the audit services we are engaged to provide under this engagement letter, we would also be pleased to assist the Fund on issues as they arise throughout the year. Hence, we hope that you will call Mr. Stenvick whenever you believe D&T can be of assistance.

We will perform this engagement subject to the terms and conditions set forth herein and in the accompanying appendices.

AUDIT OF FINANCIAL STATEMENTS

Our engagement is to perform an audit in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards"). The objective of an audit conducted in accordance with generally accepted auditing standards is to express an opinion on the fairness of the presentation of the Fund's financial statements for the year ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), in all material respects.

Appendix A contains a description of an audit under generally accepted auditing standards.

Our ability to express an opinion and the wording thereof will, of course, be dependent on the facts and circumstances at the date of our report. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or decline to issue a report as a result of this engagement. If we are unable to complete our audit or if the report to be issued by D&T as a result of this engagement requires modification, the reasons therefore will be discussed with the Board of Directors and the Fund's management.

MANAGEMENT'S RESPONSIBILITY

Appendix B describes management's responsibilities for (1) the financial statements, (2) representation letters, (3) independence matters as a result of restrictions on providing certain services, and (4) independence matters relating to hiring.

OTHER COMMUNICATIONS ARISING FROM THE AUDIT

Appendix C describes various matters that we are required by generally accepted auditing standards to communicate with the Board of Directors and management.

FEES

Appendix D includes an estimated timetable for the services included in this engagement letter. We estimate that our fees for the audit of the Fund's financial statements will be $36,000, plus expenses. Based on the anticipated timing of the work, as indicated below, our fees will be billed approximately as follows:

Invoice Date	Amount
April 9, 2007	$30,000
April 20, 2007	$6,000

We anticipate sending invoices according to the schedule above, and payments are due 30 days from the date of the invoice. Engagement-related expenses will be billed in addition to the fees. Expenses will be stated separately on the invoices.

Our continued service on this engagement is dependent upon payment of our invoices in accordance with these terms. To the extent that certain circumstances, as listed in Appendix E, arise during this engagement, our fee estimate also may be significantly affected and additional fees may be necessary. We will notify you promptly of any circumstances we encounter that could significantly affect our estimate and discuss with you any additional fees, as necessary. Additional services provided beyond the described scope of services described herein will be billed separately.

INCLUSION OF D&T REPORTS OR REFERENCES TO D&T IN OTHER DOCUMENTS OR ELECTRONIC SITES

If the Agency intends to publish or otherwise reproduce in any document our report on the Fund's financial statements, or otherwise make reference to D&T in a document that contains other information in addition to the audited financial statements (e.g., in a periodic filing with a regulator, in a debt or equity offering circular, or in a private placement memorandum), thereby associating D&T with such document, the Agency agrees that its management will provide D&T with a draft of the document to read and obtain our approval for the inclusion or incorporation by reference of our report, or the reference to D&T, in such document before the document is printed and distributed. The inclusion or incorporation by reference of our report in any such document would constitute the reissuance of our report. The Fund also agrees that its management will notify us and obtain our approval prior to including our report on an electronic site.

Our engagement to perform the services described herein does not constitute our agreement to be associated with any such documents published or reproduced by or on behalf of the Fund. Any request by the Fund to reissue our report, to consent to its inclusion or incorporation by reference in an offering or other document, or to agree to its inclusion on an electronic site will be considered based on the facts and circumstances existing at the time of such request. The estimated fees outlined herein do not include any services that would need to be performed in connection with any such request; fees for such services (and their scope) would be subject to the mutual agreement of the Fund and D&T at such time as D&T is engaged to perform the services and would be described in a separate engagement letter.

* * * * *

This engagement letter, including the appendices attached hereto and made a part hereof, constitutes the entire agreement between the parties with respect to this engagement and supersedes all other prior and contemporaneous agreements or understandings between the parties, whether written or oral, relating to this engagement.

If the above terms are acceptable and the services outlined are in accordance with your understanding, please sign the copy of this engagement letter in the space provided and return it to us.

Yours truly,

Deloitte + Touche LLP

Accepted and agreed to by California Housing Finance Agency:

By: Dennis Meidinger

Title: Comptroller

Date: March 26, 2007

APPENDIX A

DESCRIPTION OF AN AUDIT UNDER GENERALLY ACCEPTED AUDITING STANDARDS
CALIFORNIA HOUSING LOAN INSURANCE FUND
Year Ended December 31, 2006

COMPONENTS OF AN AUDIT

An audit includes the following:

- Consideration of internal control over financial reporting, as a basis for determining audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting

- Examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements

- Inquiring directly of the Board of Directors regarding its views about the risk of fraud and whether Board of Directors has knowledge of any fraud or suspected fraud affecting the Fund

- Assessing the accounting principles used and significant estimates made by management

- Evaluating the overall financial statement presentation.

REASONABLE ASSURANCE

We will plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. However, because of the characteristics of fraud, a properly planned and performed audit may not detect a material misstatement. Therefore, an audit conducted in accordance with generally accepted auditing standards is designed to obtain reasonable, rather than absolute, assurance that the financial statements are free of material misstatement. An audit is not designed to detect error or fraud that is immaterial to the financial statements, nor is it designed to provide assurance on internal control or to identify reportable conditions.

APPENDIX B

MANAGEMENT'S RESPONSIBILITIES
CALIFORNIA HOUSING LOAN INSURANCE FUND
Year Ended December 31, 2006

FINANCIAL STATEMENTS

The overall accuracy of the financial statements and their conformity with generally accepted accounting principles is the responsibility of the Fund's management. In this regard, management has the responsibility for, among other things:

- Establishing and maintaining effective internal control over financial reporting
- Identifying and ensuring that the Fund complies with the laws and regulations applicable to its activities and informing us of any known material violations of such laws or regulations
- Adjusting the financial statements to correct material misstatements
- Making all financial records and related information available to us.

REPRESENTATION LETTERS

We will make specific inquiries of the Fund's management about the representations embodied in the financial statements. Additionally, we will request that management provide to us the written representations the Fund is required to provide to its independent auditors under generally accepted auditing standards. As part of our audit procedures, we will request that management provide us with a representation letter acknowledging management's responsibility for the preparation of the financial statements and affirming management's belief that the effects of any uncorrected financial statement misstatements aggregated by us during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We will also request that management confirm certain representations made to us during our audit. The responses to those inquiries and related written representations of management required by generally accepted auditing standards are part of the evidential matter that D&T will rely on in forming its opinion on the Fund's financial statements. Because of the importance of management's representations, the Fund agrees to release and indemnify D&T and its personnel from all claims, liabilities, and expenses relating to our services under this engagement letter attributable to any misrepresentation by management.

INDEPENDENCE MATTERS AS A RESULT OF RESTRICTIONS ON PROVIDING CERTAIN SERVICES

In connection with our engagement, D&T, management, and the Board of Directors will assume certain roles and responsibilities in an effort to assist D&T in maintaining independence. Management of the Fund will ensure that the Fund has policies and procedures in place for the purpose of ensuring that the Fund will not act to engage D&T or accept from D&T any service that under American Institute of Certified Public Accountants ("AICPA") or other applicable rules would impair D&T's independence. All potential services are to be discussed with Mr. Stenvick.

INDEPENDENCE MATTERS RELATING TO HIRING

Management will coordinate with D&T to ensure that D&T's independence is not impaired by hiring former or current D&T partners, principals, or professional employees in a key position, as defined in the AICPA *Code of Professional Conduct*, that would cause a violation of the AICPA *Code of Professional Conduct* or other applicable independence rules. Any employment opportunities with the Fund for a former or current D&T partner, principal, or professional employee should be discussed with Mr. Stenvick before entering into substantive employment conversations with the former or current D&T partner, principal, or professional employee.

For purposes of the preceding two paragraphs, "D&T" shall mean Deloitte & Touche LLP and its subsidiaries; Deloitte Touche Tohmatsu, its member firms, the affiliates of Deloitte & Touche LLP, Deloitte Touche Tohmatsu and its member firms; and, in all cases, any successor or assignee.

APPENDIX C

OTHER COMMUNICATIONS ARISING FROM THE AUDIT
CALIFORNIA HOUSING LOAN INSURANCE FUND
Year Ended December 31, 2006

FRAUD AND ILLEGAL ACTS

We will report directly to the Board of Directors any fraud of which we become aware that involves senior management, and any fraud (whether caused by senior management or other employees) of which we become aware that causes a material misstatement of the financial statements. We will report to senior management any fraud perpetrated by lower level employees of which we become aware that does not cause a material misstatement of the financial statements; however, we will not report such matters directly to the Board of Directors, unless otherwise directed by Board of Directors.

We will inform the appropriate level of management of the Fund and determine that the Board of Directors is adequately informed with respect to illegal acts that have been detected or have otherwise come to our attention in the course of our audit, unless the illegal acts are clearly inconsequential.

INTERNAL CONTROL MATTERS

We will report directly to management and the Board of Directors all significant deficiencies and material weaknesses identified during the audit. Our written communication will distinguish clearly between those matters considered by D&T to be significant deficiencies and those considered by D&T to be material weaknesses.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Fund's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Fund's financial statements that is more than inconsequential will not be prevented or detected. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

Other Matters

We will communicate to Board of Directors matters required by AICPA AU Section 380, *Communications with Audit Committees*..

APPENDIX D

COORDINATION OF THE AUDIT
CALIFORNIA HOUSING LOAN INSURANCE FUND
Year Ended December 31, 2006

We will plan the performance of our audit in accordance with the following timetable:

	Begin	Targeted for Completion
Audit Performance Schedule (Fieldwork):	March 26, 2007	April 6, 2007
Board of Directors Communications:		
Draft Report on audit financial statements		April 20, 2007
Final Report on audit financial statements		April 27, 2007
Management Comments, if any		April 27, 2007

APPENDIX E

CIRCUMSTANCES AFFECTING TIMING AND FEE ESTIMATE CALIFORNIA HOUSING LOAN INSURANCE FUND Year Ended December 31, 2006

The fees quoted for the audit are based on certain assumptions. Circumstances may arise during the engagement that may significantly affect the targeted completion dates and our fee estimate. As a result, additional fees may be necessary. Such circumstances include but are not limited to the following:

Audit Facilitation

1. Changes to the timing of the engagement at the Fund's request. Changes to the timing of the engagement usually require reassignment of personnel used by D&T in the performance of services hereunder. However, because it is often difficult to reassign individuals to other engagements, D&T may incur significant unanticipated costs.

2. All audit schedules are not (a) provided by the Fund on the date requested, (b) completed in a format acceptable to D&T, (c) mathematically correct, or (d) in agreement with the appropriate Fund records (e.g., general ledger accounts). D&T will provide the Fund with a separate listing of required schedules, information requests, and the dates such items are needed.

3. Significant delays in responding to our requests for information such as reconciling variances or providing requested supporting documentation (e.g., invoices, contracts, and other documents).

4. Deterioration in the quality of the Fund accounting records during the current-year engagement in comparison with the prior-year engagement.

5. A completed trial balance, referenced to the supporting analyses and schedules and financial statements, is not provided timely by the Fund.

6. Draft financial statements with appropriate supporting documentation are not prepared accurately and timely by the Fund personnel.

7. Electronic files in an appropriate format and containing the information requested are not provided by the Fund on the date requested for our use in performing file interrogation. D&T will provide the Fund with a separate listing of the required files and the dates the files are needed.

8. The engagement team, while performing work on the Fund's premises, is not provided with high-speed access to the Internet via the Fund's existing network or through a T1, DSL, or cable connection for purposes of conducting the engagement.

Significant Issues or Changes

9. Significant deficiencies or material weaknesses in the design or operating effectiveness of the Fund's internal control over financial reporting are identified during our audit that result

in the expansion of our audit procedures.

10. A significant level of proposed audit adjustments is identified during our audit.

11. A significant number of drafts of the financial statements are submitted for our review or we identify a significant level of deficiencies in the draft financial statements.

12. Significant new issues or changes as follows:

    a. Significant new accounting issues.

    b. Significant changes in accounting policies or practices from those used in prior years.

    c. Significant changes or transactions not contemplated in our budgets.

    d. Significant changes in the Fund's financial reporting process or IT systems.

    e. Significant changes in the Fund's accounting personnel, their responsibilities, or their availability.

    f. Significant changes in auditing standards.

    g. Significant changes in the Fund's use of specialists or the specialists or their work product does not meet the qualifications required by generally accepted auditing standards for our reliance upon their work.

13. Changes in audit scope caused by events that are beyond our control.

Payment for Services Rendered

14. Without limiting its rights or remedies, D&T may halt or terminate its services entirely if payment is not received within 30 days of the date of the invoice.

APPENDIX F

GENERAL BUSINESS TERMS
CALIFORNIA HOUSING LOAN INSURANCE FUND
Year Ended December 31, 2006

1. Independent Contractor. It is understood and agreed that D&T is an independent contractor and that D&T is not, and will not be considered to be, an agent, partner, fiduciary, or representative of the Fund.

2. Survival. The agreements and undertakings of the Fund and the Board of Directors contained in the engagement letter to which these terms are attached (the "engagement letter"), together with the appendices to the engagement letter including these terms, will survive the completion or termination of this engagement.

3. Assignment and Subcontracting. Except as provided below, no party may assign, transfer, or delegate any of its rights or obligations relating to this engagement (including, without limitation, interests or claims relating to this engagement) without the prior written consent of the other parties. The Fund and *the Board of Directors* hereby consents to D&T subcontracting a portion of its services under this engagement to any affiliate or related entity, whether located within or outside of the United States. Professional services performed hereunder by any of D&T's affiliates or related entities shall be invoiced as professional fees, and any related expenses shall be invoiced as expenses, unless otherwise agreed.

4. Severability. If any term of the engagement letter, including its appendices, is determined to be invalid or unenforceable, such term shall not affect the other terms hereof or thereof, but such invalid or unenforceable term shall be deemed modified to the extent necessary to render it enforceable, preserving to the fullest extent permissible the intent of the parties set forth herein and therein.

5. Dispute Resolution. Any controversy or claim between the parties arising out of or relating to the engagement letter, including its appendices, or this engagement (a "Dispute") shall be resolved by mediation or binding arbitration as set forth in the Dispute Resolution Provision attached hereto as Appendix *G* and made a part hereof.

APPENDIX G

DISPUTE RESOLUTION PROVISION
CALIFORNIA HOUSING LOAN INSURANCE FUND
Year Ended December 31, 2006

This Dispute Resolution Provision sets forth the dispute resolution process and procedures applicable to the resolution of Disputes and shall apply to the fullest extent of the law, whether in contract, statute, tort (such as *negligence*), or otherwise.

Mediation: All Disputes shall be first submitted to nonbinding confidential mediation by written notice to the parties, and shall be treated as compromise and settlement negotiations under the standards set forth in the Federal Rules of Evidence and all applicable state counterparts, together with any applicable statutes protecting the confidentiality of mediations or settlement discussions. If the parties cannot agree on a mediator, the International Institute for Conflict Prevention and Resolution ("CPR"), at the written request of a party, shall designate a mediator.

Arbitration Procedures: If a Dispute has not been resolved within 90 days after the effective date of the written notice beginning the mediation process (or such longer period, if the parties so agree in writing), the mediation shall terminate and the Dispute shall be settled by binding arbitration to be held in New York, New York. The arbitration shall be solely between the parties and shall be conducted in accordance with the CPR Rules for Non-Administered Arbitration that are in effect at the time of the commencement of the arbitration, except to the extent modified by this Dispute Resolution Provision (the "Rules").

The arbitration shall be conducted before a panel of three arbitrators. Each of the Fund and Deloitte & Touche LLP shall designate one arbitrator in accordance with the "screened" appointment procedure provided in the Rules and the two party-designated arbitrators shall jointly select the third in accordance with the Rules. No arbitrator may serve on the panel unless he or she has agreed in writing to enforce the terms of the engagement letter (including its appendices) to which this Dispute Resolution Provision is attached and to abide by the terms of this Dispute Resolution Provision. Except with respect to the interpretation and enforcement of these arbitration procedures (which shall be governed by the Federal Arbitration Act), the arbitrators shall apply the laws of the State of New York (without giving effect to its choice of law principles) in connection with the Dispute. The arbitrators shall have no power to award punitive, exemplary or other damages not based on a party's actual damages (and the parties expressly waive their right to receive such damages). The arbitrators may render a summary disposition relative to all or some of the issues, provided that the responding party has had an adequate opportunity to respond to any such application for such disposition. No discovery shall be permitted in connection with the arbitration, except to the extent that it is expressly authorized by the arbitrators upon a showing of substantial need by the party seeking discovery. All aspects of the arbitration shall be treated as confidential, as provided in the Rules. Before making any disclosure permitted by the Rules, a party shall give written notice to all other parties and afford such parties a reasonable opportunity to protect their interests. Further, judgment on the arbitrators' award may be entered in any court having jurisdiction.

Costs: Each party shall bear its own costs in both the mediation and the arbitration; however, the parties shall share the fees and expenses of both the mediators and the arbitrators equally.

BAY AREA HOUSING PLAN
SCHEDULE OF PROPERTIES

	Property Address	Board Comm.	Board Comm.	Board Comm	Board Comm	RC		Construction	NPO	Property	Purchase	Rehab	Reserve	Reserve		LTV	LTV minus	LTV minus
		09/01/05	01/06/06	11/09/06	05/10/07	Equity	Approval Date	Status	RC	Type	Price	Estimate	Addl Collateral	1 YR DS	Appraisal		DS Reserve	all reserves
	Board Approval Amounts	$ 20,000,000	$ 25,000,000	$ 25,000,000	$ 35,000,000								5%					
	Agency Commitments																	
1	1529 Eden, San Jose	$ 1,821,000				$ 26,803	06/16/06	in const.	BAHC-SARC	FTM Duplex	$ 875,000	$ 364,624	$ 91,050	$ 207,579	$ 875,000	208%	184%	174%
2	1320 Baywood, San Jose	$ 2,008,000				$ 26,856	06/26/06	in const.	BAHC-SARC	962 Med 5	$ 925,000	$ 415,941	$ 100,400	$ 228,895	$ 925,000	217%	192%	181%
3	227 Prague, San Mateo	$ 1,689,000				$ 175,674	07/03/06		WBHC-GGRC	SRH 3	$ 771,000	$ 367,325	$ 84,450	$ 192,532	$ 790,000	214%	189%	179%
4	5508 Jasmine, Castro Valley	$ 1,694,000				$ 198,425	07/17/06	in const.	HCEB-RCEB	SRH 4	$ 805,000	$ 332,235	$ 84,700	$ 201,549	$ 815,000	208%	183%	173%
5	506 & 508 Northlake Dr.,San Jose	$ 1,837,000				$ 33,774	07/17/06	in const.	BAHC-SARC	FTM Duplex	$ 820,000	$ 425,486	$ 91,850	$ 218,563	$ 820,000	224%	197%	186%
6	625 & 627 Vasona, Los Gatos	$ 1,806,000				$ 26,975	07/26/06	in const.	BAHC-SARC	FTM Duplex	$ 860,000	$ 352,527	$ 90,300	$ 214,875	$ 860,000	210%	185%	175%
7	629 & 631 Vasona, Los Gatos	$ 1,819,000				$ 26,975	07/26/06	in const.	BAHC-SARC	FTM Duplex	$ 860,000	$ 356,456	$ 90,950	$ 216,422	$ 860,000	212%	186%	176%
8	637 & 639 Vasona, Los Gatos	$ 1,803,000				$ 26,975	07/26/06	in const.	BAHC-SARC	FTM Duplex	$ 860,000	$ 349,899	$ 90,150	$ 214,518	$ 860,000	210%	185%	174%
9	**1720 Pierce St., San Mateo	$ 1,743,000				$ 146,674	08/07/06		WBHC-GGRC	SRH 3	$ 775,000	$ 335,701	$ 87,150	$ 197,504	$ 785,000	222%	197%	186%
10	2508 Regent Road, Livermore	$ 1,756,000				$ 27,300	09/15/06	in const.	HCEB-RCEB	962 Med 5	$ 835,000	$ 342,172	$ 87,800	$ 205,153	$ 840,000	209%	185%	174%
11	4865 Wellington Park, San Jose	$ 1,585,000				$ 56,324	09/28/06		BAHC-SARC	SRH3	$ 762,000	$ 298,575	$ 79,250	$ 185,175	$ 775,000	205%	181%	170%
12	21763 Shadysprings Rd, Castro Valle	$ 439,000	$ 1,063,000			$ 120,235	09/28/06		HCEB-RCEB	SRH3	$ 680,000	$ 323,655	$ 75,100	$ 175,478	$ 680,000	221%	195%	184%
13	633 Vanessa, San Mateo		$ 1,692,000			$ 178,674	10/04/06		WBHC-GGRC	SRH3	$ 750,000	$ 389,074	$ 84,600	$ 197,676	$ 780,000	217%	192%	181%
14	32744 Olympiad Court, Union City		$ 1,713,000			$ 27,430	10/18/06		HCEB-RCEB	962 Med 5	$ 880,000	$ 268,554	$ 85,650	$ 200,129	$ 880,000	195%	172%	162%
15	2334 Oak Flat Road, San Jose		$ 1,697,000			$ 168,324	10/18/06		BAHC-SARC	SRH3	$ 770,000	$ 374,234	$ 84,850	$ 198,260	$ 810,000	210%	185%	175%
16	14239 Mulberry, Los Gatos		$ 2,086,000			$ 454,441	10/18/06		BAHC-SARC	962 Med 5	$ 749,950	$ 708,041	$ 104,300	$ 243,706	$ 785,000	266%	235%	221%
17	1446 Flora, San Jose		$ 2,071,000			$ 438,411	10/30/06		BAHC-SARC	962 Med 5	$ 785,000	$ 681,853	$ 103,550	$ 241,216	$ 785,000	264%	233%	220%
18	1112 Sunnyside Drive, S SF		$ 1,646,000			$ 132,674	11/02/06		WBHC-GGRC	SRH3	$ 849,000	$ 256,727	$ 82,300	$ 191,715	$ 849,000	194%	171%	162%
19	740 Palm Ave, S SF		$ 1,720,000			$ 206,674	11/06/06		WBHC-GGRC	SRH3	$ 850,000	$ 309,948	$ 86,000	$ 200,334	$ 850,000	202%	179%	169%
20	680 Edna, San Mateo		$ 1,914,000			$ -	11/08/06		WBHC-GGRC	962 Med 4	$ 788,888	$ 470,550	$ 95,700	$ 222,930	$ 719,000	266%	235%	222%
21	1169 Sand Beach Place, Alameda		$ 1,576,000			$ 194,235	11/14/06		HCEB-RCEB	SRH3	$ 719,000	$ 338,097	$ 78,800	$ 183,562	$ 725,000	217%	192%	181%
22	24615 Patricia Court, Hayward		$ 1,534,000			$ 152,235	11/15/06		HCEB-RCEB	SRH3	$ 705,000	$ 279,308	$ 76,700	$ 178,670	$ 719,000	213%	189%	178%
23	32724 Fairfield Street, Union City		$ 1,499,000			$ 117,235	11/29/06	in const.	HCEB-RCEB	SRH3	$ 750,000	$ 369,203	$ 74,950	$ 174,593	$ 760,000	197%	174%	164%
24	1908 Otis Drive, Alameda		$ 1,446,000			$ 175,000	03/30/07		WBHC-GGRC	SRH3	$ 744,000	$ 362,130	$ 72,300	$ 166,878	$ 744,000	194%	172%	162%
25	2830 Medina, San Bruno		$ 1,792,000			$ -	03/27/07	complete	WBHC-GGRC	962 Med 4	$ 1,250,000	NA	$ 89,600	$ 206,809	$ 1,250,000	143%	127%	120%
26	3508 Martin, San Mateo		$ 1,450,000	$ -		$ 261,000	04/10/07		WBHC-GGRC	SRH3	$ 880,000	$ 335,464	$ 72,500	$ 166,826	$ 880,000	165%	146%	138%
27	826 Calero Avenue, San Jose		$ 101,000	$ 1,834,000		$ 100,000	04/17/07		BAHC-SARC	962 Med 5	$ 987,000	$ 436,485	$ 96,750	$ 222,626	$ 987,000	196%	173%	164%
28	5242 Bristol			$ 1,393,000		$ 180,000	04/17/07		HCEB-RCEB	SRH3	$ 734,000	$ 371,583	$ 69,650	$ 160,268	$ 734,000	190%	168%	158%
29	275 W. Dunne Ave			$ 1,490,000		$ 292,000	04/17/07		BAHC-SARC	SRH 4	$ 855,000	$ 418,252	$ 74,500	$ 171,428	$ 855,000	174%	154%	146%
30	Stonehedge			$ 1,423,000		$ 233,000	05/07/07		HCEB-RCEB	SRH3	$ 729,900	$ 443,241	$ 71,150	$ 160,732	$ 729,900	195%	173%	163%
31	Penitencia Creek			$ 1,490,000		$ 239,000	05/07/07		BAHC-SARC	SRH3	$ 810,000	$ 432,914	$ 74,500	$ 168,300	$ 810,000	184%	163%	154%
32	10506 N. Foothill Cupertino			$ 1,436,000		$ 226,500	05/15/07	complete	BAHC-SARC	FTM Duplex	$ 1,240,000	$ 31,600	$ 71,800	$ 162,201	$ 1,240,000	116%	103%	97%
33	10516 N. Foothill, Cupertino			$ 1,432,000		$ 226,500	05/15/07	complete	BAHC-SARC	FTM Duplex	$ 1,240,000	$ 29,100	$ 71,600	$ 161,749	$ 1,240,000	115%	102%	97%
34	10526 N. Foothill Cupertino			$ 1,436,000		$ 226,500	05/15/07	complete	BAHC-SARC	FTM Duplex	$ 1,240,000	$ 31,600	$ 71,800	$ 162,201	$ 1,240,000	116%	103%	97%
35	10536 N. Foothill, Cupertino			$ 1,417,000		$ 226,500	05/15/07	complete	BAHC-SARC	FTM Duplex	$ 1,240,000	$ 17,100	$ 70,850	$ 160,055	$ 1,240,000	114%	101%	96%
	Subtotal of RC contributions to properties to date					$ 5,349,323												
	Credit Facility Cost Note					$ 1,403,575												
	RC Equity in project to date					$ 6,752,898												
	Total Approvals	$ 20,000,000	$ 25,000,000	$ 13,351,000	$ -													
	Commitment Used - by Bd approval date	$ 20,000,000	$ 25,000,000	$ 13,351,000	$ -													
	Unused Commitment - by BD approval date	$ -	$ -	$ 11,649,000	$ 35,000,000													
	110% Contingency Factor				$ 5,752,100													
	Commitment Available				$ 40,896,900													
	Total approvals to Date				**$ 58,351,000**													
	110% contingency				**$ 64,186,100**													
	Current Board Commitment Authority				$ 105,000,000													

**** Initial estoppel amount increased per LPA**

Available Authority Commitement	$ 40,813,900
Pending Acquisitions	$ 46,825,000
Remaining 110% contingency required to reach $6,000,000 / 10% of B of A credit facility	$ 247,900
Remaining commitment authority	**$ (6,259,000)**
Additional Commitment Authority Required	**$ -**

	Pending Acquisitions	CalHFA Comm	RC Equity											
36	205 Ginger, Morgan Hill	$ 1,490,000		complete	BAHC -SARC	SRH4	$ 939,900	$ 200,000	$ 74,500	$ 171,428	$ 939,000	159%	140%	132%
37	19175 Taylor, Morgan Hill	$ 1,700,000		complete	BAHC -SARC	962 Med 5	$ 949,000	$ 200,000	$ 85,000	$ 195,589	$ 949,000	179%	159%	150%
38	2654 Chablis Way, Livermore	$ 1,810,000			HCEB-RCEB	962 Med 5	$ 870,000	$ 363,436	$ 90,500	$ 208,245	$ 870,000	208%	184%	174%
39	5486 Yale Drive	$ 1,450,000			WBHC-GGRC	SRH3	$ 798,000	$ 407,109	$ 72,500	$ 166,826	$ 798,000	182%	161%	152%
40	15470 La Alameda, Morgan Hill	$ 1,935,000			BAHC -SARC	962 Med 5	$ 887,500	$ 654,931	$ 96,750	$ 222,626	$ 887,500	218%	193%	182%
41	15134 Charmeran Ave, San Jose	$ 1,450,000			BAHC -SARC	SRH3	$ 829,900	$ 359,122	$ 72,500	$ 166,826	$ 829,900	175%	155%	146%
42	649 Empey Way,San Jose	$ 1,935,000			BAHC -SARC	962 Med 5	$ 790,000	TBD	$ 96,750	$ 222,626	$ 790,000	245%	217%	205%
43	1502 Constanso, San Jose	$ 1,450,000			BAHC -SARC	SRH3	$ 869,000	$ 400,000	$ 72,500	$ 166,826	$ 869,000	167%	148%	139%
44	1750 Westmont Ave., Santa Clara	$ 1,935,000			BAHC -SARC	962 Med 5								
45	1219 Sabrina Court, Redwood City	$ 1,450,000			WBHC-GGRC	SRH3								
46	1173 Salerno Drive, Campbell	$ 1,935,000			BAHC -SARC	962-Med 5								
47	173 Westridge Drive, Santa Clara	$ 1,935,000			BAHC -SARC	962 Med 5								
48	711 Jill Avenue, Santa Clara	$ 1,935,000			BAHC -SARC	962 Med 5								
49	8101 Meadowlark, Newark	$ 1,935,000			HCEB-RCEB	962 Med 5								
50	441 N. Milton, Campbell	$ 1,935,000			BAHC -SARC	962 Med 5				$ 222,626				
51	960 Elm Street, San Jose	$ 1,935,000			BAHC -SARC	962 Med 5				$ 222,626				
52	5772 Dichondra Place, Newark	$ 1,450,000			WBHC-GGRC	SRH3								
53	1415 Gordon, Redwood City	$ 1,810,000			WBHC-GGRC	962 Med 5								
54	1616 Corte de Medea, San Jose	$ 1,450,000			BAHC -SARC	SRH3								
55	35649 Carnation Way, Fremont	$ 1,810,000			HCEB-RCEB	962 Med 5								
56	Palmer Avenue,	$ 1,935,000			BAHC -SARC	962 Med 4								
57	445 Sequoia, Redwood City	$ 1,935,000			WBHC-GGRC	962 Med 5								
58	16734 Montecito, Fremont	$ 1,935,000			HCEB-RCEB	962 Med 5								
59	*Placeholder*	*$ 1,935,000*			*RCEB*	*962 Med 5*								
60	*Placeholder*	*$ 1,450,000*			*WBHC-GGRC*	*962 Med 5*								
61	*Placeholder*	*$ 1,450,000*			*BAHC -SARC*	*SRH3*								
62	*Placeholder*	*$ 1,450,000*			*BAHC -SARC*	*962 Med 5*								

All Current Approvals and Pending Acquisitions		
Pending Approvals	$ -	$ 46,825,000
110% contingency		$ 247,900
Total Pending		$ 47,072,900

7.80%	7.25%
7.50%	7.25%
7.40%	7.75%
7.45%	
7.30%	
6.30%	5.90%
6.00%	5.90%
5.90%	6.30%
5.95%	
5.90%	

BAY AREA HOUSING PLAN
SCHEDULE OF PROPERTIES

	Property Address	Board Comm. 09/01/05	Board Comm. 01/06/06	Board Comm 11/09/06	Board Comm 05/10/07	RC Equity	Approval Date	Construction Status	NPO RC	Property Type	Purchase Price	Rehab Estimate	Reserve Addl Collateral	Reserve 1 YR DS	Appraisal	LTV	LTV minus DS Reserve	LTV minus all reserves
	Board Approval Amounts	$ 20,000,000	$ 25,000,000	$ 25,000,000	$ 35,000,000								5%					
	Agency Commitments																	
1	1529 Eden, San Jose	$ 1,821,000				$ 26,803	06/16/06	in const.	BAHC-SARC	FTM Duplex	$ 875,000	$ 364,624	$ 91,050	$ 207,579	$ 875,000	208%	184%	174%
2	1320 Baywood, San Jose	$ 2,008,000				$ 26,856	06/26/06	in const.	BAHC-SARC	962 Med 5	$ 925,000	$ 415,941	$ 100,400	$ 228,895	$ 925,000	217%	192%	181%
3	227 Prague, San Mateo	$ 1,689,000				$ 175,674	07/03/06		WBHC-GGRC	SRH 3	$ 771,000	$ 367,325	$ 84,450	$ 192,532	$ 790,000	214%	189%	179%
4	5508 Jasmine, Castro Valley	$ 1,694,000				$ 198,425	07/17/06	in const.	HCEB-RCEB	SRH 4	$ 805,000	$ 332,235	$ 84,700	$ 201,549	$ 815,000	208%	183%	173%
5	506 & 508 Northlake Dr.,San Jose	$ 1,837,000				$ 33,774	07/17/06	in const.	BAHC-SARC	FTM Duplex	$ 820,000	$ 425,486	$ 91,850	$ 218,563	$ 820,000	224%	197%	186%
6	625 & 627 Vasona, Los Gatos	$ 1,806,000				$ 26,975	07/26/06	in const.	BAHC-SARC	FTM Duplex	$ 860,000	$ 352,527	$ 90,300	$ 214,875	$ 860,000	210%	185%	175%
7	629 & 631 Vasona, Los Gatos	$ 1,819,000				$ 26,975	07/26/06	in const.	BAHC-SARC	FTM Duplex	$ 860,000	$ 356,456	$ 90,950	$ 216,422	$ 860,000	212%	186%	176%
8	637 & 639 Vasona, Los Gatos	$ 1,803,000				$ 26,975	07/26/06	in const.	BAHC-SARC	FTM Duplex	$ 860,000	$ 349,899	$ 90,150	$ 214,518	$ 860,000	210%	185%	174%
9	**1720 Pierce St., San Mateo	$ 1,743,000				$ 146,674	08/07/06		WBHC-GGRC	SRH 3	$ 775,000	$ 335,701	$ 87,150	$ 197,504	$ 785,000	222%	197%	186%
10	2508 Regent Road, Livermore	$ 1,756,000				$ 27,300	09/15/06	in const.	HCEB-RCEB	962 Med 5	$ 835,000	$ 342,172	$ 87,800	$ 205,153	$ 840,000	209%	185%	174%
11	4865 Wellington Park, San Jose	$ 1,585,000				$ 56,324	09/28/06		BAHC-SARC	SRH3	$ 762,000	$ 298,575	$ 79,250	$ 185,175	$ 775,000	205%	181%	170%
12	21763 Shadysprings Rd, Castro Valle	$ 439,000	$ 1,063,000			$ 120,235	09/28/06		HCEB-RCEB	SRH3	$ 680,000	$ 323,655	$ 75,100	$ 175,478	$ 680,000	221%	195%	184%
13	633 Vanessa, San Mateo		$ 1,692,000			$ 178,674	10/04/06		WBHC-GGRC	SRH3	$ 750,000	$ 389,074	$ 84,600	$ 197,676	$ 780,000	217%	192%	181%
14	32744 Olympiad Court, Union City		$ 1,713,000			$ 27,430	10/18/06		HCEB-RCEB	962 Med 5	$ 880,000	$ 268,554	$ 85,650	$ 200,129	$ 880,000	195%	172%	162%
15	2334 Oak Flat Road, San Jose		$ 1,697,000			$ 168,324	10/18/06		BAHC-SARC	SRH3	$ 770,000	$ 374,234	$ 84,850	$ 198,260	$ 810,000	210%	185%	175%
16	14239 Mulberry, Los Gatos		$ 2,086,000			$ 454,441	10/18/06		BAHC-SARC	962 Med 5	$ 749,950	$ 708,041	$ 104,300	$ 243,706	$ 785,000	266%	235%	221%
17	1446 Flora, San Jose		$ 2,071,000			$ 438,411	10/30/06		BAHC-SARC	962 Med 5	$ 785,000	$ 681,853	$ 103,550	$ 241,216	$ 785,000	264%	233%	220%
18	1112 Sunnyside Drive, S SF		$ 1,646,000			$ 132,674	11/02/06		WBHC-GGRC	SRH3	$ 849,000	$ 256,727	$ 82,300	$ 191,715	$ 849,000	194%	171%	162%
19	740 Palm Ave, S SF		$ 1,720,000			$ 206,674	11/06/06		WBHC-GGRC	SRH3	$ 850,000	$ 309,948	$ 86,000	$ 200,334	$ 850,000	202%	179%	169%
20	680 Edna, San Mateo		$ 1,914,000			$ -	11/08/06		WBHC-GGRC	962 Med 4	$ 788,888	$ 470,550	$ 95,700	$ 222,930	$ 719,000	266%	235%	222%
21	1169 Sand Beach Place, Alameda		$ 1,576,000			$ 194,235	11/14/06		HCEB-RCEB	SRH3	$ 719,000	$ 338,097	$ 78,800	$ 183,562	$ 725,000	217%	192%	181%
22	24615 Patricia Court, Hayward		$ 1,534,000			$ 152,235	11/15/06		HCEB-RCEB	SRH3	$ 705,000	$ 279,308	$ 76,700	$ 178,670	$ 719,000	213%	189%	178%
23	32724 Fairfield Street, Union City		$ 1,499,000			$ 117,235	11/29/06	in const.	HCEB-RCEB	SRH3	$ 750,000	$ 369,203	$ 74,950	$ 174,593	$ 760,000	197%	174%	164%
24	1908 Otis Drive, Alameda		$ 1,446,000			$ 175,000	03/30/07		WBHC-GGRC	SRH3	$ 744,000	$ 362,130	$ 72,300	$ 166,878	$ 744,000	194%	172%	162%
25	2830 Medina, San Bruno		$ 1,792,000			$ -	03/27/07	complete	WBHC-GGRC	962 Med 4	$ 1,250,000	NA	$ 89,600	$ 206,809	$ 1,250,000	143%	127%	120%
26	3508 Martin, San Mateo		$ 1,450,000	$ -		$ 261,000	04/10/07		WBHC-GGRC	SRH3	$ 880,000	$ 335,464	$ 72,500	$ 166,826	$ 880,000	165%	146%	138%
27	826 Calero Avenue, San Jose		$ 101,000	$ 1,834,000		$ 100,000	04/17/07		BAHC-SARC	962 Med 5	$ 987,000	$ 436,485	$ 96,750	$ 222,626	$ 987,000	196%	173%	164%
28	5242 Bristol			$ 1,393,000		$ 180,000	04/17/07		HCEB-RCEB	SRH3	$ 734,000	$ 371,583	$ 69,650	$ 160,268	$ 734,000	190%	168%	158%
29	275 W. Dunne Ave			$ 1,490,000		$ 292,000	04/17/07		BAHC-SARC	SRH 4	$ 855,000	$ 418,252	$ 74,500	$ 171,428	$ 855,000	174%	154%	146%
30	Stonehedge			$ 1,423,000		$ 233,000	05/07/07		HCEB-RCEB	SRH3	$ 729,900	$ 443,241	$ 71,150	$ 160,732	$ 729,900	195%	173%	163%
31	Penitencia Creek			$ 1,490,000		$ 239,000	05/07/07		BAHC-SARC	SRH3	$ 810,000	$ 432,914	$ 74,500	$ 168,300	$ 810,000	184%	163%	154%
32	10506 N. Foothill Cupertino			$ 1,436,000		$ 226,500	05/15/07	complete	BAHC-SARC	FTM Duplex	$ 1,240,000	$ 31,600	$ 71,800	$ 162,201	$ 1,240,000	116%	103%	97%
33	10516 N. Foothill, Cupertino			$ 1,432,000		$ 226,500	05/15/07	complete	BAHC-SARC	FTM Duplex	$ 1,240,000	$ 29,100	$ 71,600	$ 161,749	$ 1,240,000	115%	102%	97%
34	10526 N. Foothill Cupertino			$ 1,436,000		$ 226,500	05/15/07	complete	BAHC-SARC	FTM Duplex	$ 1,240,000	$ 31,600	$ 71,800	$ 162,201	$ 1,240,000	116%	103%	97%
35	10536 N. Foothill, Cupertino			$ 1,417,000		$ 226,500	05/15/07	complete	BAHC-SARC	FTM Duplex	$ 1,240,000	$ 17,100	$ 70,850	$ 160,055	$ 1,240,000	114%	101%	96%
	Subtotal of RC contributions to properties to date					$ 5,349,323												
	Credit Facility Cost Note					$ 1,403,575												
	RC Equity in project to date					$ 6,752,898												
	Total Approvals	$ 20,000,000	$ 25,000,000	$ 13,351,000	$ -													
	Commitment Used - by Bd approval date	$ 20,000,000	$ 25,000,000	$ 13,351,000	$ -													
	Unused Commitment - by BD approval date	$ -	$ -	$ 11,649,000	$ 35,000,000													
	110% Contingency Factor				$ 5,752,100													
	Commitment Available				$ 40,896,900													
	Total approvals to Date				**$ 58,351,000**													
	110% contingency				**$ 64,186,100**													
	Current Board Commitment Authority				$ 105,000,000													

**** Initial estoppel amount increased per LPA**

Available Authority Commitement	$ 40,813,900
Pending Acquisitions	$ 46,825,000
Remaining. 110% contingency required to reach $6,000,000 / 10% of B of A credit facility	$ 247,900
Remaining commitment authority	**$ (6,259,000)**
Additional Commitment Authority Required	$ -

	Pending Acquisitions	**CalHFA Comm**	**RC Equity**												
36	205 Ginger, Morgan Hill	$ 1,490,000		complete	BAHC -SARC	SRH4	$ 939,900	$ 200,000	$ 74,500	$ 171,428	$ 939,000	159%	140%	132%
37	19175 Taylor, Morgan Hill	$ 1,700,000		complete	BAHC -SARC	962 Med 5	$ 949,000	$ 200,000	$ 85,000	$ 195,589	$ 949,000	179%	159%	150%
38	2654 Chablis Way, Livermore	$ 1,810,000			HCEB-RCEB	962 Med 5	$ 870,000	$ 363,436	$ 90,500	$ 208,245	$ 870,000	208%	184%	174%
39	5486 Yale Drive	$ 1,450,000			WBHC-GGRC	SRH3	$ 798,000	$ 407,109	$ 72,500	$ 166,826	$ 798,000	182%	161%	152%
40	15470 La Alameda, Morgan Hill	$ 1,935,000			BAHC -SARC	962 Med 5	$ 887,500	$ 654,931	$ 96,750	$ 222,626	$ 887,500	218%	193%	182%
41	15134 Charmeran Ave, San Jose	$ 1,450,000			BAHC -SARC	SRH3	$ 829,900	$ 359,122	$ 72,500	$ 166,826	$ 829,900	175%	155%	146%
42	649 Empey Way,San Jose	$ 1,935,000			BAHC -SARC	962 Med 5	$ 790,000	TBD	$ 96,750	$ 222,626	$ 790,000	245%	217%	205%
43	1502 Constanso, San Jose	$ 1,450,000			BAHC -SARC	SRH3	$ 869,000	$ 400,000	$ 72,500	$ 166,826	$ 869,000	167%	148%	139%
44	1750 Westmont Ave., Santa Clara	$ 1,935,000			BAHC -SARC	962 Med 5								
45	1219 Sabrina Court, Redwood City	$ 1,450,000			WBHC-GGRC	SRH3								
46	1173 Salerno Drive, Campbell	$ 1,935,000			BAHC -SARC	962-Med 5								
47	173 Westridge Drive, Santa Clara	$ 1,935,000			BAHC -SARC	962 Med 5								
48	711 Jill Avenue, Santa Clara	$ 1,935,000			BAHC -SARC	962 Med 5								
49	8101 Meadowlark, Newark	$ 1,935,000			HCEB-RCEB	962 Med 5								
50	441 N. Milton, Campbell	$ 1,935,000			BAHC -SARC	962 Med 5				$ 222,626				
51	960 Elm Street, San Jose	$ 1,935,000			BAHC -SARC	962 Med 5				$ 222,626				
52	5772 Dichondra Place, Newark	$ 1,450,000			WBHC-GGRC	SRH3								
53	1415 Gordon, Redwood City	$ 1,810,000			WBHC-GGRC	962 Med 5								
54	1616 Corte de Medea, San Jose	$ 1,450,000			BAHC -SARC	SRH3								
55	35649 Carnation Way, Fremont	$ 1,810,000			HCEB-RCEB	962 Med 5								
56	Palmer Avenue,	$ 1,935,000			BAHC -SARC	962 Med 4								
57	445 Sequoia, Redwood City	$ 1,935,000			WBHC-GGRC	962 Med 5								
58	16734 Montecito, Fremont	$ 1,935,000			HCEB-RCEB	962 Med 5								
59	*Placeholder*	*$ 1,935,000*			*RCEB*	*962 Med 5*								
60	*Placeholder*	*$ 1,450,000*			*WBHC-GGRC*	*962 Med 5*								
61	*Placeholder*	*$ 1,450,000*			*BAHC -SARC*	*SRH3*								
62	*Placeholder*	*$ 1,450,000*			*BAHC -SARC*	*962 Med 5*								

All Current Approvals and Pending Acquisitions

Pending Approvals	$ -	$ 46,825,000	7.80%	7.25%
110% contingency		$ 247,900	7.50%	7.25%
Total Pending		$ 47,072,900	7.40%	7.75%
			7.45%	
			7.30%	
			6.30%	5.90%
			6.00%	5.90%
			5.90%	6.30%
			5.95%	
			5.90%	

Bay Area Housing Plan

Project Schedule as of 7.5.07

No.	CalHFA Commitments	RC	Home Type	Tax Status	4.2 Estoppel	Close of Escrow	Pre-Hard Cost Submittal	Construction Start	Construction Finish	Stabilization
EXISTING PROPERTIES							**SORTED BY**			
1	1529 Eden, San Jose	SARC	FTH	Tax-Exempt	$ 1,821,000	6/24/06	2/16/07	12/20/07	7/25/07	8/8/07
5	506 & 508 Northlake Dr.,San Jose	SARC	FTH	Tax-Exempt	$ 1,837,000	7/24/06	2/16/07	12/20/07	7/25/07	8/8/07
2	1320 Baywood, San Jose	SARC	9625-R	Tax-Exempt	$ 2,008,000	7/6/06	2/22/07	12/20/07	7/25/07	8/8/07
6	625 & 627 Vasona, Los Gatos	SARC	FTH	Tax-Exempt	$ 1,806,000	7/28/06	4/5/07	5/14/07	7/28/07	8/11/07
7	629 & 631 Vasona, Los Gatos	SARC	FTH	Tax-Exempt	$ 1,819,000	7/28/06	4/5/07	5/14/07	7/28/07	8/11/07
8	637 & 639 Vasona, Los Gatos	SARC	FTH	Tax-Exempt	$ 1,803,000	7/28/06	4/5/07	5/14/07	7/28/07	8/11/07
4	5508 Jasmine, Castro Valley	RCEB	SRH4	Tax-Exempt	$ 1,694,000	7/26/06	5/9/07	7/5/07	9/18/07	10/2/07
10	2508 Regent Road, Livermore	RCEB	9625-R	Taxable	$ 1,756,000	9/25/06	5/13/07	7/3/07	9/16/07	9/30/07
23	32724 Fairfield Street, Union City	RCEB	SRH3	Tax-Exempt	$ 1,499,000	11/22/06	6/8/07	6/28/07	9/11/07	9/25/07
15	2334 Oak Flat Road, San Jose	SARC	SRH3	Taxable	$ 1,697,000	10/24/06	6/13/07	7/9/07	9/22/07	10/6/07
13	633 Vanessa, San Mateo	GGRC	SRH3	Taxable	$ 1,692,000	10/11/06	6/15/07	7/9/07	9/22/07	10/6/07
18	1112 Sunnyside Drive, S SF	GGRC	SRH3	Taxable	$ 1,646,000	11/6/06	6/20/07	7/11/07	9/24/07	10/8/07
19	740 Palm Ave, S SF	GGRC	SRH3	Taxable	$ 1,720,000	10/30/06	6/21/07	7/12/07	9/25/07	10/9/07
9	1720 Pierce St., San Mateo	GGRC	SRH3	Taxable	$ 1,660,000	8/18/06	6/28/07	7/19/07	10/2/07	10/16/07
20	680 Edna, San Mateo	GGRC	9624-R	Taxable	$ 1,914,000	11/6/06	6/28/07	7/19/07	10/2/07	10/16/07
12	21763 Shadysprings Rd, Castro Valley	RCEB	SRH3	Tax-Exempt	$ 1,502,000	10/3/06	7/17/07	8/7/07	10/21/07	11/4/07
3	227 Prague, San Mateo	GGRC	SRH3	Taxable	$ 1,689,000	7/10/06	7/18/07	8/1/07	10/15/07	10/29/07
21	1169 Sand Beach Place, Alameda	RCEB	SRH3	Tax-Exempt	$ 1,576,000	10/17/06	7/18/07	8/8/07	10/22/07	11/5/07
14	32744 Olympiad Court, Union City	RCEB	9625-R	Tax-Exempt	$ 1,713,000	10/22/06	7/18/07	8/8/07	10/22/07	11/5/07
22	24615 Patricia Court, Hayward	RCEB	SRH3	Taxable	$ 1,534,000	11/22/06	7/18/07	8/8/07	10/22/07	11/5/07
11	4865 Wellington Park, San Jose	SARC	SRH3	Taxable	$ 1,585,000	10/2/06	8/1/07	8/22/07	11/5/07	11/19/07
16	14239 Mulberry, Los Gatos	SARC	9625-N	Taxable	$ 2,086,000	10/9/06	8/15/07	9/5/07	11/19/07	12/3/07
17	1446 Flora, San Jose	SARC	9625-N	Taxable	$ 2,071,000	10/21/06	8/15/07	9/5/07	11/19/07	12/3/07
NEW PROPERTIES - STRAIGHT TO STABILIZATION										
24	2830 Medina, San Bruno	GGRC	962-4	Taxable	$ 1,792,000	3/30/07	n/a	n/a	n/a	4/30/07
25	10536 N. Foothill, Cupertino	SARC	FTH	Tax-Exempt	$ 1,417,000	4/30/07	n/a	n/a	n/a	4/15/07
26	10506 N Foothill Cupertino	SARC	FTH	Tax-Exempt	$ 1,436,000	4/30/07	n/a	n/a	n/a	4/15/07
27	10516 N. Foothill, Cupertino	SARC	FTH	Tax-Exempt	$ 1,432,000	4/30/07	n/a	n/a	n/a	4/15/07
28	10526 N Foothill Cupertino	SARC	FTH	Tax-Exempt	$ 1,436,000	4/30/07	n/a	n/a	n/a	4/15/07
29	205 Ginger, Morgan Hill	SARC	SRH4	Tax-Exempt	$ 1,490,000	5/30/07	n/a	n/a	n/a	5/30/07
30	19175 Taylor, Morgan Hill	SARC	962-5	Tax-Exempt	$ 1,700,000	5/30/07	n/a	n/a	n/a	5/30/07
NEW PROPERTIES										
31	2654 Chablis Way, Livermore	RCEB	962-5	Taxable	$ 1,810,000	9/15/06	5/9/07	7/23/07	10/6/07	10/20/07
32	5486 Yale Drive	SARC	SRH3	Tax-Exempt	$ 1,450,000	12/15/06	7/18/07	10/1/07	12/15/07	12/29/07
45	1750 Westmont, Campbell	SARC	9625-N	Tax-Exempt	$ 1,935,000	6/13/07	7/18/07	10/26/07	2/3/08	2/17/08
33	15470 La Alameda, Morgan Hill	SARC	962-5	Tax-Exempt	$ 1,935,000	1/9/07	7/21/07	10/4/07	12/18/07	1/1/08
34	15134 Charmeran Ave.	SARC	SRH3	Tax-Exempt	$ 1,450,000	1/18/07	7/21/07	10/4/07	12/18/07	1/1/08
35	1502 Constanso Way	SARC	SRH3	Taxable	$ 1,450,000	2/15/07	7/27/07	10/10/07	12/24/07	1/7/08
37	1908 Otis Drive, Alameda	RCEB	SRH3	Tax-Exempt	$ 1,446,000	3/20/07	8/1/07	10/15/07	12/29/07	1/12/08
38	3602 Martin, San Mateo	GGRC	SRH3	Taxable	$ 1,446,000	4/16/07	8/15/07	10/29/07	1/12/08	1/26/08
39	275 W. Dunne, Morgan Hill	SARC	SRH4	Taxable	$ 1,490,000	4/16/07	8/15/07	10/29/07	1/12/08	1/26/08
40	5242 Bristol Place, Newark	RCEB	SRH3	Taxable	$ 1,450,000	4/26/07	8/15/07	10/29/07	1/12/08	1/26/08
41	826 Calero, San Jose	SARC	962-5	Tax-Exempt	$ 1,935,000	4/26/07	8/15/07	10/29/07	1/12/08	1/26/08
42	1447 Stonehedge, Pleasant Hill	RCEB	SRH3	Tax-Exempt	$ 1,450,000	5/16/07	8/31/07	11/14/07	1/28/08	2/11/08
43	441 N Milton, Campbell	SARC	9625-N	Tax-Exempt	$ 1,935,000	5/25/07	8/31/07	11/14/07	1/28/08	2/11/08
44	2917 Pentencia Creek, San Jose	SARC	SRH3	Tax-Exempt	$ 1,450,000	5/25/07	8/31/07	11/14/07	1/28/08	2/11/08
36	649 Empey Way,San Jose	SARC	9625-N	Tax-Exempt	$ 1,935,000	2/15/07	9/1/07	11/15/07	1/29/08	2/12/08
46	1219 Sabrina Court, Redwood City	GGRC	SRH-3	Taxable	$ 1,450,000	6/14/07	9/1/07	11/15/07	1/29/08	2/12/08
47	771 Jill Avenue, Santa Clara	SARC	962-N	Tax-Exempt	$ 1,935,000	6/29/07	9/1/07	11/15/07	1/29/08	2/12/08
48	173 Westridge, San Jose	SARC	962-N	Tax-Exempt	$ 1,935,000	6/29/07	9/15/07	11/29/07	2/12/08	2/26/08
49	1173 Salerno, Campbell	SARC	962-N	Tax-Exempt	$ 1,935,000	6/29/07	9/15/07	11/29/07	2/12/08	2/26/08
54	1415 Gordon, Redwood City	GGRC	9625-N	Taxable	$ 1,935,000	7/10/07	9/18/07	12/2/07	2/15/08	2/29/08
50	8101 Meadowlark, Newark	RCEB	962-5	Tax-Exempt	$ 1,810,000	7/5/07	9/23/07	12/7/07	2/20/08	3/5/08
55	35649 Carnation, Fremont	RCEB	962-4	Tax-Exempt	$ 1,810,000	7/10/07	9/18/07	12/2/07	2/15/08	2/29/08
52	960 Elm Street, San Jose	SARC	9625-N	Tax-Exempt	$ 1,935,000	7/12/07	9/30/07	12/14/07	2/27/08	3/12/08
53	5772 Dichonrda Place, Newark	RCEB	SRH-3	Tax-Exempt	$ 1,450,000	7/17/07	10/5/07	12/19/07	3/3/08	3/17/08
51	1616 Corte de Medea, San Jose	SARC	SRH-4	Taxable	$ 1,490,000	7/19/07	10/7/07	12/21/07	3/5/08	3/19/08
57	445 Sequoia, Redwood City	GGRC	SRH-3	Taxable	$ 1,935,000	8/9/07	10/18/07	1/1/08	3/16/08	3/30/08
58	36743 Montecito, Fremont	RCEB	962-5	Tax-Exempt	$ 1,935,000	8/27/07	11/5/07	1/19/08	4/3/08	4/17/08
56	681 Palmer Avenue	SARC	962-N	Tax-Exempt	$ 1,935,000	8/28/07	11/6/07	1/20/08	4/4/08	4/18/08
59	Placeholder	SARC	962-5	TBD	$ 1,935,000	9/2/07	11/11/07	1/25/08	4/9/08	4/23/08
60	Placeholder	GGRC	SRH-3	TBD	$ 1,450,000	9/7/07	11/16/07	1/30/08	4/14/08	4/28/08
61	Placeholder	SARC	SRH-3	TBD	$ 1,450,000	9/12/07	11/21/07	2/4/08	4/19/08	5/3/08
62	Placeholder	SARC	SRH3	TBD	$ 1,450,000	9/17/07	11/26/07	2/9/08	4/24/08	5/8/08
					$ 105,173,000					

SCHEDULE ASSUMPTIONS

Key Durations	Calendar Days
Design/Permitting - Remodel (Slow)	95
Design/Permitting - Remodel (Medium)	80
Design/Permitting - Remodel (Fast)	70
Design - New Construction - New Properties	60
Pre-Hard Cost Review	21
Construction - Remodel	75
Construction - New Construction (pre-fab)	75
Construction - New Construction (site-built)	100
Stabilization	14

Key Dates	
Construction Loan Agreement Maturity	3/30/2008
CLA Maturity with 6 Mo. Extension	9/30/2008
180 Days Prior to LPA Expiration	4/3/2008
Loan Purchase Expiration	9/30/2008
Projected Agnews Closure Date	6/30/2008

PERMANENT FINANCING PROJECTIONS

Projected 4.2 Estoppel Total for 64 Properties	$ 105,173,000
Less Equity Contribution to Existing Properties per CalHFA/HCS/RC MOU	$ 2,189,917
Less Estimated Lender Conservatism (interest rates, tax status, construction term)	$ 2,000,000
	100,983,083

NOTES

1. HCS goal is to move Stabilized properties to a CalHFA Warehouse Line 14 days after Stabilization.
2. Permanent Financing Total expected to be lower than 4.2 Estoppel Total due to Lender Conservatism and $2.189 million Equity Contribution to Existing Properties.

Bay Area Housing Plan

Project Schedule as of 7.5.07

No.	CalHFA Commitments	RC	Home Type	Tax Status	4.2 Estoppel	Close of Escrow	Pre-Hard Cost Submittal	Construction Start	Construction Finish	Stabilization
EXISTING PROPERTIES							**SORTED BY**			
1	1529 Eden, San Jose	SARC	FTH	Tax-Exempt	$ 1,821,000	6/24/06	2/16/07	12/20/07	7/25/07	8/8/07
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2	1320 Baywood, San Jose	SARC	9625-R	Tax-Exempt	$ 2,008,000	7/6/06	2/22/07	12/20/07	7/25/07	8/8/07
6	625 & 627 Vasona, Los Gatos	SARC	FTH	Tax-Exempt	$ 1,806,000	7/28/06	4/5/07	5/14/07	7/28/07	8/11/07
7	629 & 631 Vasona, Los Gatos	SARC	FTH	Tax-Exempt	$ 1,819,000	7/28/06	4/5/07	5/14/07	7/28/07	8/11/07
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23	32724 Fairfield Street, Union City	RCEB	SRH3	Tax-Exempt	$ 1,499,000	11/22/06	6/8/07	6/28/07	9/11/07	9/25/07
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13	633 Vanessa, San Mateo	GGRC	SRH3	Taxable	$ 1,692,000	10/11/06	6/15/07	7/9/07	9/22/07	10/6/07
18	1112 Sunnyside Drive, S SF	GGRC	SRH3	Taxable	$ 1,646,000	11/6/06	6/20/07	7/11/07	9/24/07	10/8/07
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9	1720 Pierce St , San Mateo	GGRC	SRH3	Taxable	$ 1,660,000	8/18/06	6/28/07	7/19/07	10/2/07	10/16/07
20	880 Edna, San Mateo	GGRC	9624-R	Taxable	$ 1,914,000	11/6/06	6/28/07	7/19/07	10/2/07	10/16/07
12	21763 Shadysprings Rd, Castro Valley	RCEB	SRH3	Tax-Exempt	$ 1,502,000	10/3/06	7/17/07	8/7/07	10/21/07	11/4/07
3	227 Prague, San Mateo	GGRC	SRH3	Taxable	$ 1,689,000	7/10/06	7/18/07	8/1/07	10/15/07	10/29/07
21	1169 Sand Beach Place, Alameda	RCEB	SRH3	Tax-Exempt	$ 1,576,000	10/17/06	7/18/07	8/8/07	10/22/07	11/5/07
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11	4865 Wellington Park, San Jose	SARC	SRH3	Taxable	$ 1,585,000	10/2/06	8/1/07	8/22/07	11/5/07	11/19/07
16	14239 Mulberry, Los Gatos	SARC	9625-N	Taxable	$ 2,086,000	10/9/06	8/15/07	9/5/07	11/19/07	12/3/07
17	1446 Flora, San Jose	SARC	9625-N	Taxable	$ 2,071,000	10/21/06	8/15/07	9/5/07	11/19/07	12/3/07
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26	10506 N Foothill Cupertino	SARC	FTH	Tax-Exempt	$ 1,436,000	4/30/07	n/a	n/a	n/a	4/15/07
27	10516 N. Foothill, Cupertino	SARC	FTH	Tax-Exempt	$ 1,432,000	4/30/07	n/a	n/a	n/a	4/15/07
28	10526 N. Foothill Cupertino	SARC	FTH	Tax-Exempt	$ 1,436,000	4/30/07	n/a	n/a	n/a	4/15/07
29	205 Ginger, Morgan Hill	SARC	SRH4	Tax-Exempt	$ 1,490,000	5/30/07	n/a	n/a	n/a	5/30/07
30	19175 Taylor, Morgan Hill	SARC	962-5	Tax-Exempt	$ 1,700,000	5/30/07	n/a	n/a	n/a	5/30/07
NEW PROPERTIES										
31	2654 Chablis Way, Livermore	RCEB	962-5	Taxable	$ 1,810,000	9/15/06	5/9/07	7/23/07	10/6/07	10/20/07
32	5486 Yale Drive	SARC	SRH3	Tax-Exempt	$ 1,450,000	12/15/06	7/18/07	10/1/07	12/15/07	12/29/07
45	1750 Westmont, Campbell	SARC	9625-N	Tax-Exempt	$ 1,935,000	6/13/07	7/18/07	10/26/07	2/3/08	2/17/08
33	15470 La Alameda, Morgan Hill	SARC	962-5	Tax-Exempt	$ 1,935,000	1/9/07	7/21/07	10/4/07	12/18/07	1/1/08
34	15134 Charmeran Ave.	SARC	SRH3	Tax-Exempt	$ 1,450,000	1/18/07	7/21/07	10/4/07	12/18/07	1/1/08
35	1502 Constanso Way	SARC	SRH3	Taxable	$ 1,450,000	2/15/07	7/27/07	10/10/07	12/24/07	1/7/08
37	1908 Otis Drive, Alameda	RCEB	SRH3	Tax-Exempt	$ 1,446,000	3/20/07	8/1/07	10/15/07	12/29/07	1/12/08
38	3602 Martin, San Mateo	GGRC	SRH3	Taxable	$ 1,446,000	4/16/07	8/15/07	10/29/07	1/12/08	1/26/08
39	275 W. Dunne, Morgan Hill	SARC	SRH4	Taxable	$ 1,490,000	4/16/07	8/15/07	10/29/07	1/12/08	1/26/08
40	5242 Bristol Place, Newark	RCEB	SRH3	Taxable	$ 1,450,000	4/26/07	8/15/07	10/29/07	1/12/08	1/26/08
41	826 Calero, San Jose	SARC	962-5	Tax-Exempt	$ 1,935,000	4/26/07	8/15/07	10/29/07	1/12/08	1/26/08
42	1447 Stonehedge, Pleasant Hill	RCEB	SRH3	Tax-Exempt	$ 1,450,000	5/16/07	8/31/07	11/14/07	1/28/08	2/11/08
43	441 N. Milton, Campbell	SARC	9625-N	Tax-Exempt	$ 1,935,000	5/25/07	8/31/07	11/14/07	1/28/08	2/11/08
44	2917 Penitencia Creek, San Jose	SARC	SRH3	Tax-Exempt	$ 1,450,000	5/25/07	8/31/07	11/14/07	1/28/08	2/11/08
36	649 Empey Way,San Jose	SARC	9625-N	Tax-Exempt	$ 1,935,000	2/15/07	9/1/07	11/15/07	1/29/08	2/12/08
46	1219 Sabrina Court, Redwood City	GGRC	SRH-3	Taxable	$ 1,450,000	6/14/07	9/1/07	11/15/07	1/29/08	2/12/08
47	771 Jill Avenue, Santa Clara	SARC	962-N	Tax-Exempt	$ 1,935,000	6/29/07	9/1/07	11/15/07	1/29/08	2/12/08
48	173 Westridge, San Jose	SARC	962-N	Tax-Exempt	$ 1,935,000	6/29/07	9/15/07	11/29/07	2/12/08	2/26/08
49	1173 Salerno, Campbell	SARC	962-N	Tax-Exempt	$ 1,935,000	6/29/07	9/15/07	11/29/07	2/12/08	2/26/08
54	1415 Gordon, Redwood City	GGRC	9625-N	Taxable	$ 1,935,000	7/10/07	9/18/07	12/2/07	2/15/08	2/29/08
50	8101 Meadowlark, Newark	RCEB	962-5	Tax-Exempt	$ 1,810,000	7/5/07	9/23/07	12/7/07	2/20/08	3/5/08
55	35649 Carnation, Fremont	RCEB	962-4	Tax-Exempt	$ 1,810,000	7/10/07	9/18/07	12/2/07	2/15/08	2/29/08
52	960 Elm Street, San Jose	SARC	9625-N	Tax-Exempt	$ 1,935,000	7/12/07	9/30/07	12/14/07	2/27/08	3/12/08
53	5772 Dichonrda Place, Newark	RCEB	SRH-3	Tax-Exempt	$ 1,450,000	7/17/07	10/5/07	12/19/07	3/3/08	3/17/08
51	1616 Corte de Medea, San Jose	SARC	SRH-4	Taxable	$ 1,490,000	7/19/07	10/7/07	12/21/07	3/5/08	3/19/08
57	445 Sequoia, Redwood City	GGRC	SRH-3	Taxable	$ 1,935,000	8/9/07	10/18/07	1/1/08	3/16/08	3/30/08
58	36743 Montecito, Fremont	RCEB	962-5	Tax-Exempt	$ 1,935,000	8/27/07	11/5/07	1/19/08	4/3/08	4/17/08
56	681 Palmer Avenue	SARC	962-N	Tax-Exempt	$ 1,935,000	8/28/07	11/6/07	1/20/08	4/4/08	4/18/08
59	Placeholder	SARC	962-5	TBD	$ 1,935,000	9/2/07	11/11/07	1/25/08	4/9/08	4/23/08
60	Placeholder	GGRC	SRH-3	TBD	$ 1,450,000	9/7/07	11/16/07	1/30/08	4/14/08	4/28/08
61	Placeholder	SARC	SRH-3	TBD	$ 1,450,000	9/12/07	11/21/07	2/4/08	4/19/08	5/3/08
62	Placeholder	SARC	SRH3	TBD	$ 1,450,000	9/17/07	11/26/07	2/9/08	4/24/08	5/8/08
					$ 105,173,000					

SCHEDULE ASSUMPTIONS

Key Durations	Calendar Days
Design/Permitting - Remodel (Slow)	95
Design/Permitting - Remodel (Medium)	80
Design/Permitting - Remodel (Fast)	70
Design - New Construction - New Properties	60
Pre-Hard Cost Review	21
Construction - Remodel	75
Construction - New Construction (pre-fab)	75
Construction - New Construction (site-built)	100
Stabilization	14

Key Dates	
Construction Loan Agreement Maturity	3/30/2008
CLA Maturity with 6 Mo. Extension	9/30/2008
180 Days Prior to LPA Expiration	4/3/2008
Loan Purchase Expiration	9/30/2008
Projected Agnews Closure Date	6/30/2008

PERMANENT FINANCING PROJECTIONS

Projected 4.2 Estoppel Total for 64 Properties	$ 105,173,000
Less Equity Contribution to Existing Properties per CalHFA/HCS/RC MOU	$ 2,189,917
Less Estimated Lender Conservatism (interest rates, tax status, construction term)	$ 2,000,000
	100,983,083

NOTES

1. HCS goal is to move Stabilized properties to a CalHFA Warehouse Line 14 days after Stabilization.
2. Permanent Financing Total expected to be lower than 4.2 Estoppel Total due to Lender Conservatism and $2.189 million Equity Contribution to Existing Properties.

California Housing Finance Agency

Board Review of Multifamily Programs

July 5, 2007

CalHFA
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Objectives

- Situation
  - Increased competition/loss of market share;
  - Is Multifamily "Out of the market"?;
- Conduct a general discussion of Multifamily's programs and loan products:
  - Reach consensus on Multifamily's fundamental role;
  - Discuss barriers for competitiveness;
  - Identify competitiveness issues for further discussion;
- Identify top priorities to increase Multifamily lending volume

Discussion Outline

- General Overview
  - Impact of absence of Multifamily Director;
  - Marketing and business development;
  - CDLAC Allocation for Multifamily financing;
  - Level of Board approval;
- Underwriting Requirements
  - Architectural design guidelines;
  - Earthquake insurance requirements;
  - Deferential treatment of experienced CalHFA borrowers
  - Fees and Costs

Discussion Outline (cont'd)

- Rates/Yield – Financing
  - Tax-exempt financing structures;
  - Taxable financing alternatives.

General Overview

- Multifamily's role in the marketplace
  - Competitive lender, or;
  - Lender of last resort;
- Impact of absence of Multifamily Director
  - Lack of presence in lending community;
  - Someone needed to resolve issues;
- Marketing and business development
  - Are we doing everything we can to market MF loan products?;

General Overview (cont'd)

- CDLAC allocation
  - CalHFA is losing share of CDLAC allocation (see handout);
  - Who are our competitors in this process?
  - Is there a different approach that would make MF more competitive?

Board approval level
  - Comparison of loan approval levels in private industry vs. CalHFA approval rules;
  - Should the Board modify the current approval level?

Underwriting Requirement

- Architectural Design
  - Is the Agency required to conduct architectural design review?
    - What is the industry standard?
  - Recent revision of the Architectural Design Guidelines;
    - Many changes – Objective of the revisions
- Earthquake insurance requirements
  - What is industry standard for earthquake insurance?
  - How does CalHFA compare?

Underwriting Requirements (cont'd)

- Deferential treatment of experienced CalHFA borrowers:
  - Should CalHFA have an expedited process and/or underwriting waivers for experienced long-term CalHFA borrowers?;
- Fees and Costs:
  - Overview of the current schedule of fees and costs;
  - Recently revised fee schedule.

Financing Issues

- Tax-exempt financing alternatives
  - Fixed rate bond financing
  - Interest rate swaps
    - BMA formula
    - LIBOR formula
- Taxable financing alternatives
  - A discussion of the use of taxable bonds to finance multifamily projects in 9% tax credit deals.

California Housing Finance Agency

MULTIFAMILY CASE STUDY

MULTIFAMILY HOUSING REVENUE BONDS III
2007 SERIES B

CalHFA

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Multifamily Housing Revenue Bonds III
2007 Series B
Financed Projects

Project Name	Bond Amount	Construction	Permanent	Term	Rate
Diamond Aisle Apts.	$5,400,000				
• Construction Loan		$5,400,000		2 years	Variable
• Permanent Loan			$ 770,000	10 years	5.20% (1)
Eureka Family Housing	$4,525,000				
• Construction Loan		$3,375,000		1 year	5.30%
• Permanent Loan			$ 940,000	30 years	5.30%
• Permanent Loan			$1,150,000	14 years	5.30%
Parkview Apts.	$6,405,000				
• Construction Loan		$4,295,000		2 years	Variable
• Permanent Loan			$4,520,000	30 years	5.30%
• Permanent Loan			$1,885,000	14 years	5.20%
Las Flores (Loan increase)	$ 300,000				
• Construction Loan		$ 300,000		2 years	3.00%
TOTALS	**$16,630,000**	**$13,370,000**	**$9,265,000**		

(1) Subsidized mortgage rate of 1%, cashflows receive 5.20%

Multifamily Housing Revenue Bonds III
2007 Series B
Structuring Alternatives

Bond Yields assuming permanent loans are financed using:

Structure	Bond Yield
Fixed Rate Bonds	4.92%
BMA SWAP	4.30%
% OF LIBOR SWAP	4.05%
Estimated Mortgage Yield	4.90%

Pricing as of June 7, 2007

Multifamily Housing Revenue Bonds III
2007 Series B
Financial Risks

Financial Risk	Fixed Rate	BMA Index	% LIBOR
▪ Changes in Tax Law	N/A	Small	Yes
▪ Basis Risk	N/A	Smaller	Yes
▪ Increased in Liquidity Costs	N/A	Yes	Yes
▪ Counterparty Failure	N/A	Yes	Yes
▪ Termination of swap at Loss	N/A	Yes	Yes
▪ Amortization mismatch	Yes	Yes	Yes

Next Steps

- What additional information does the Board need?
- Identify issues for further discussion;

California Housing Finance Agency

Sacramento Office Consolidation

Board Review

July 5, 2007

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Overall Goals and Objectives

- Consolidation into a single Sacramento location;
- Improve adjacencies to increase functionality between divisions;
- Thoughtfully design facilities for training, meetings and work areas to foster collaboration and increase productivity;
- Utilization of Green Building Standards for a sustainable facility;
- Positive financial benefit to the Agency.

Objectives for Today

- Brief the Board
  - Current Facilities;
  - Steps Taken to Date to Explore Options for Consolidation;
  - Lease vs. Ownership Analysis;
- Reach Board Consensus on the Following
  - Consolidation of Sacramento Office Space;
  - The Best Financial Alternative – Lease vs. Ownership;
  - Sustainable Goals for the Facility;
  - Timeline;
  - Information Board Needs for Future Decisions.

Current Sacramento Offices

- Sacramento operations for CalHFA are located in two office buildings, three blocks apart;
  - The Senator has lease space of approximately 60,000 sq. ft on seven floors and the Meridan has approximately 30,000 sq. ft. on two floors
  - Both leases expire in August of 2009
    - Flexibility to extend all leases up to one year
- Current law restricts location to the City of Sacramento.
  - Legislative concept to broaden area was not approved by BTH Agency

Current Sacramento Offices (continued)

- Senator Hotel/Meridian office space is not an optimal working environment and lacks functionality
  - Limited room for expansion in both locations;
  - Effective safety and security configurations are not present in either location;

Selection of a Real Estate Consultant

- Real estate consultant selected through a competitive process
  - RFP released in June 2006
  - Five responses; Four firms were interviewed
  - CRESA selected --California based firm
- CRESA will
  - Manage site selection
  - Assist with Interior design,
  - Perform financial analysis,
  - Draft and negotiate development agreements,
  - Oversee construction and act as the Agency's broker

Steps Taken

- Completed an extensive interior design programming analysis that included:
  - Mapping the most effective department adjacencies;
  - Determining the optimal space requirements for offices and workstations;
  - Developing space criteria for training, conferencing, meeting and collaboration areas;
- CRESA studied the Agency's operations and also interviewed Senior Staff.

Steps Taken (Cont'd)

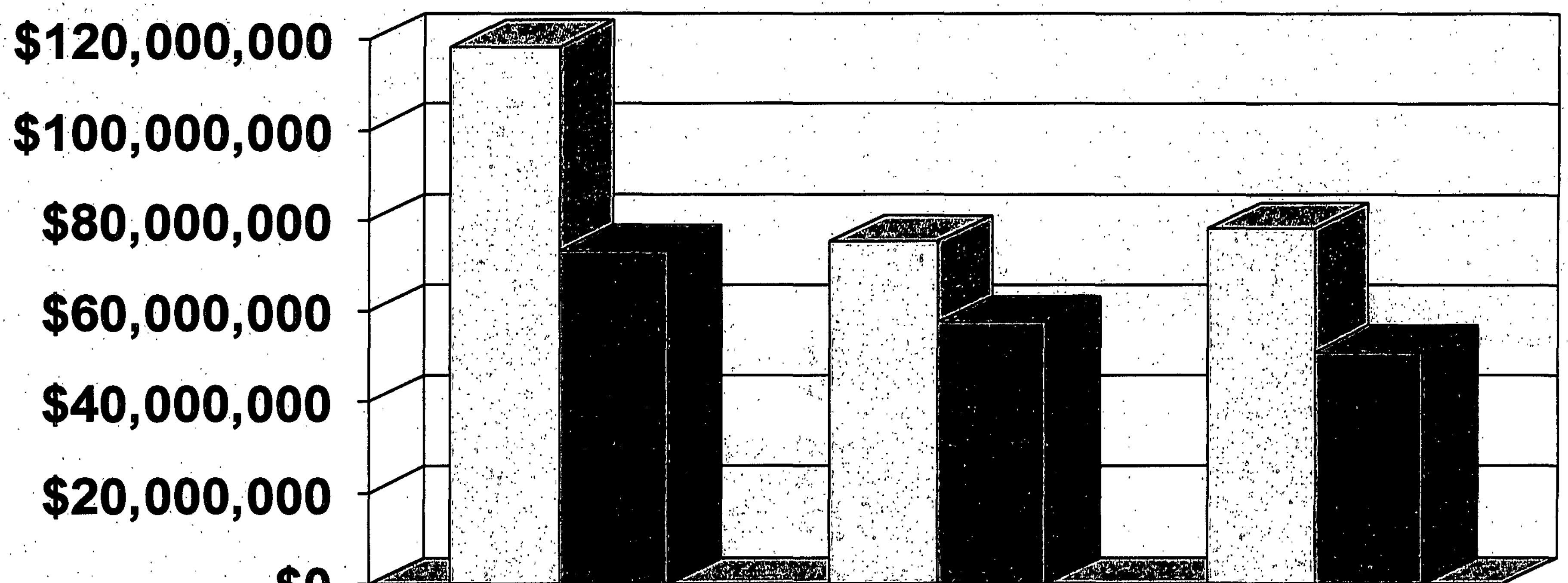
- CRESA has conducted a comprehensive evaluation of approximately 30 sites and viable lease opportunities in Sacramento
- A Request for Information was sent to the development and brokerage community for responses on potential development sites
- A list of 13 development sites and lease opportunities has been developed from the initial survey and responses

Assumptions Underlying Financial Analysis of Ownership vs. Leasing

- Based on information gathered through research and the RFI process;
- Sacramento building costs are approximately $400 sq. ft.;
- Lease rates at time of lease expirations estimated at $3.00 sq.ft.
- Agency can use conventional financing or tax-exempt debt;
- Financial benefit of ownership over leasing has net present value of approximately $20 million over 20 years.

California Housing Finance Agency

Lease vs. Ownership Analysis



	Traditional Lease	Build-to-Suit Conventional Financing	Build-to-Suit Bond Financing
Total Cash Flow	$118,501,112	$75,203,793	$78,185,454
PV of Cash Flow @ 5.0%	73,151,373	57,445,736	50,978,901

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Alternatives to Ownership

- Maintain the current status and renew leases in the Senator and Meridian
- Retain the space at the Meridian and relocate the staff currently in the Senator to another building
- Move all staff and consolidate operations in a different building under a new lease

Project Timeline

- Ownership:
  - Moving to a new building prior to the lease expiration plus extensions (i.e., Fall 2009/Spring 2010) requires an executed development agreement by end of 2007;
  - To meet this timeline, a development agreement may be brought to the Board as early as September 2007 meeting;
- Lease
  - A decision on a leasing alternative not needed in 2007.

Next Steps

- What Does Board Need to Make Decisions Relative to the Proposed Timeline?

- Steps Needed
  - Today – Board Consensus and Staff Guidance (see Next Slide)
  - September Board Meeting – Selection of Site (Assuming Ownership Option) and Closed Session to Discuss and Potentially Approved a Development Contract;
  - November Board Meeting – Approve Negotiated Development Contract.

Consensus Items For Today

- Consolidation of Sacramento Locations;
- The Best Financial Alternative for the Agency;
- Sustainable Building Goals;
- Timeline – Fall 2009 or Later
- Information Needed for September/November Board Meetings – Assuming Ownership Option

Financing Reports

- Recent Bond Sales
  - Single Family Bonds
- Variable Rate Bonds and Swaps

Recent Bond Issues

Date of Sale	Bond Series	$ Amount
4/26/07	Home Mortgage Revenue Bonds 2007 Series D & E	$270,000,000

New Single Family Bonds

- $270 M HMRB 2007 DE
- $76 M Fixed-rate Insured Bonds
- $194 M Fixed-rate Uninsured Bonds
- Proceeds for purchase of 980 new loans
- $98 M to finance Interest Only Plus (IOP) loans
- $11 M to finance 40-year Loans

Report on Variable Rate Bonds and Swaps

Variable Rate Debt as of June 1, 2007

($ in Millions)

	Tied Directly to Variable Rate Assets	Swapped to Fixed Rate	Not Swapped or Tied to Variable Rate Loans	Total Variable Rate Debt
HMRB	$ 2	$ 3,747	$ 494	$ 4,243
MHRB	198	845	62	1,105
HPB	0	35	76	111
DDB	0	0	0	0
TOTALS	$200	$ 4,627	$ 632	$ 5,459

Types of Variable Rate Debt

($ in Millions)

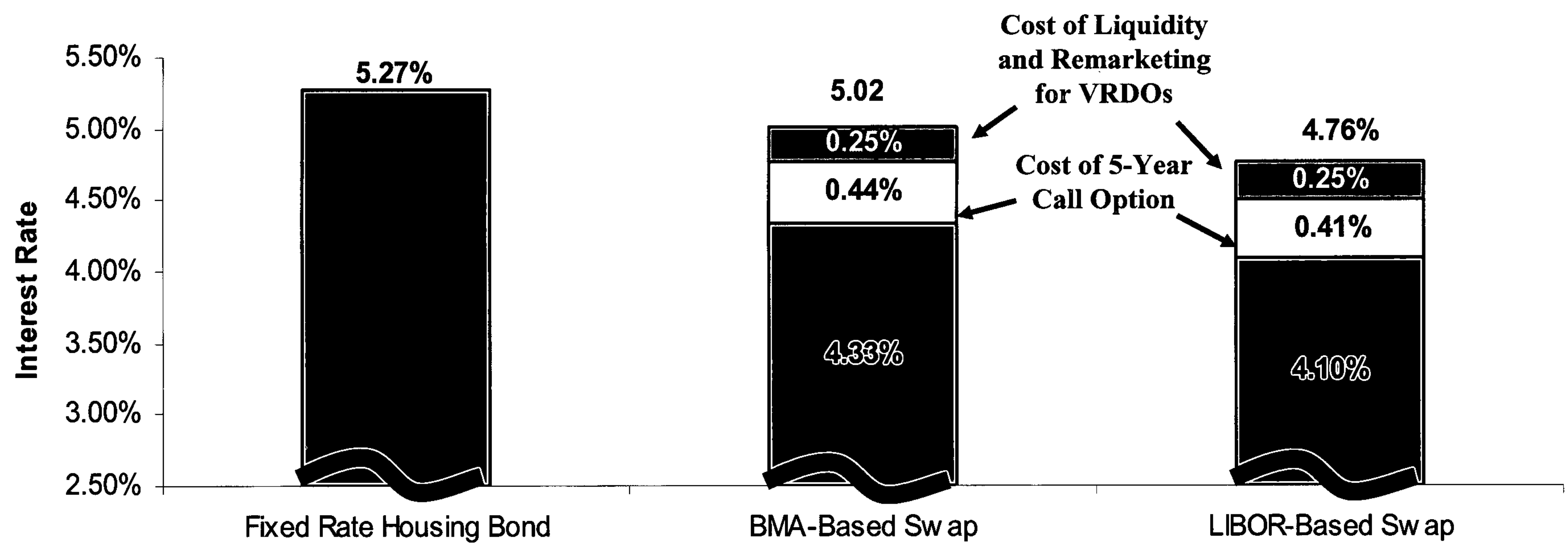
	Auction Rate & Similar Securities	Indexed Rate Bonds	Variable Rate Demand Obligations	Total Variable Rate Bonds
HMRB	$ 159	$ 993	$ 3,091	$ 4,243
MHRB	388	0	717	1,105
HPB	0	0	111	111
DDB	0	0	0	0
TOTALS	$ 547	$ 994	$ 3,919	$ 5,459

Fixed Payer Interest Rate Swaps

($ in Millions)

	Tax-Exempt	Taxable	Totals
HMRB	$3,057	$771	$3,828
MHRB	844	0	844
HPB	35	0	35
TOTALS	$3,936	$771	$4,707

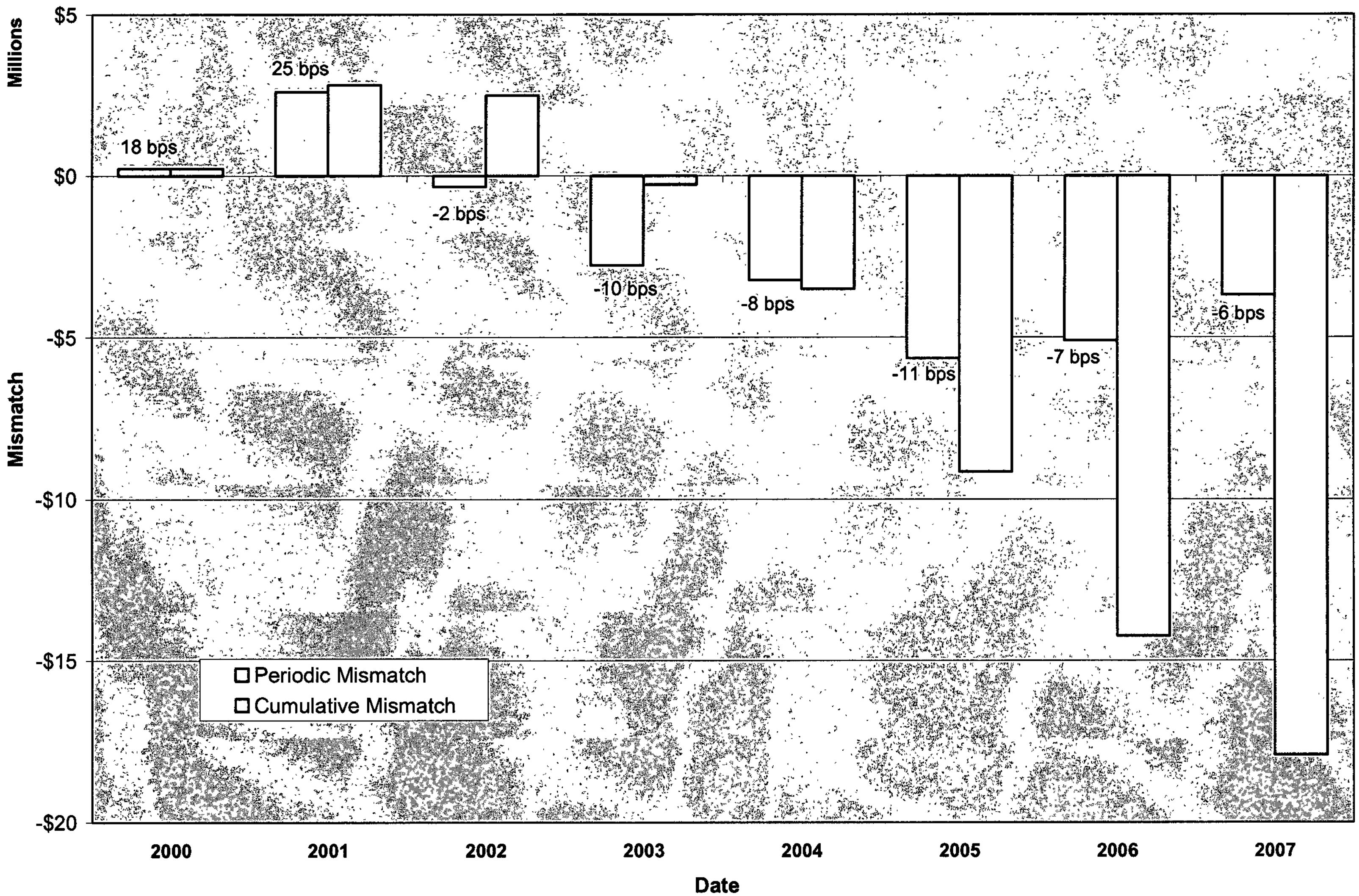
Comparative Costs of Funds for Fixed-Rate Bonds and Synthetic Fixed-Rate Bonds (Variable Rate Bonds Swapped to Fixed) (All Rates as of June 12, 2007)



BMA-Based Swap: BMA Index x 101%

LIBOR-Based Swap: 64% LIBOR + 25 bps

Basis Mismatch through June 1, 2007
All Swaps



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June 28, 2007

Mr. Thomas Hughes
General Counsel
California Housing Finance Agency
1415 L Street, Suite 500
Sacramento, CA 95814

RE: GENWORTH REINSURANCE AGREEMENT

Dear Mr. Hughes:

The Audit Committee of the California Housing Finance Agency Board asked Milliman, Inc. (Milliman) to summarize the treaty economics of the Genworth reinsurance agreement and assist them in their analysis of whether the economic terms of the treaty are reasonable as compared to industry standards. Although we are not lawyers or accountants and our analysis was not intended to provide any legal or accounting assurances that any specific legal or accounting standard was met, Milliman concluded that, from an actuarial and financial point of view, the Genworth reinsurance agreement is reasonable as compared to mortgage insurance industry standards.

This letter has been prepared to recall and comment on the analysis and review that Milliman conducted with CalHFA management and formally reported on in a report dated October 3, 2003 titled "California Housing Finance Agency, Analysis of Solicited Reinsurance Programs for the California Housing Loan Insurance Fund" which was the basis for our conclusion.

Background

The California Housing Finance Agency (CalHFA), a public instrumentality and political subdivision of the State of California, as administrator of the California Housing Loan Insurance Fund (CalHLIF), provides mortgage insurance programs to meet the needs of first-time homebuyers and low to moderate income borrowers who are under-served by the conventional housing market. By providing mortgage insurance, investors which provide the capital for mortgage lending activities, are protected against default by homebuyers who lacked the necessary funds to apply the required 20% down payment.

It is my understanding that in 2002, CalHFA management determined that an existing reinsurance agreement and services contract currently in place was found to be somewhat complex and deficient in providing the necessary benefits required for future mortgage insurance services. In the fall of 2002 a formal process was initiated to conduct a request-for-proposal (RFP) from the private mortgage insurance industry. In March of 2003, after concluding their review of the submitted proposals, CalHFA entered into a reinsurance treaty with General

Electric Mortgage Insurance Corporation (currently organized as Genworth Mortgage Insurance Corporation), a North Carolina domiciled insurer.

Important evaluation criteria considered in the review of the submitted proposals (among other things) was:

- Whether the reinsurance agreement would reasonably off-load a substantial portion of the volatile risk exposure due to the lack of geographic dispersion in originating loans in only one state. The lack of geographic dispersion, compared to the national private mortgage insurers, subjects CalHFA to potentially greater incurred loss ratios (losses incurred divided by premiums earned) and higher capital adequacy requirements which effectively would require higher premium rates to be charged to California homebuyers; and

- Whether the administration services of the reinsurance agreement would serve the identified needs and requirements of CalHFA at a reasonable, competitive and commercially viable cost.

The RFP process was also designed to identify any other market-based product and programs that could further enhance the CalHFA product offerings to homebuyers in the State of California, such as Involuntary Unemployment Insurance.

Genworth Reinsurance Agreement

Under the current quota share reinsurance arrangement effective March 1, 2003 and subsequently amended from time-to-time, CalHIF cedes to Genworth 75% of the risk insured for a given book of business on a quota share basis for 64.5% of the gross written premium. The term of the reinsurance agreement for each book year is 9 years after the end of the book year (i.e. 10 total years of reinsurance) and is renewable for additional calendar years and for additional book years if mutually agreed.

There is no stated ceding commission under the reinsurance structure. A ceding commission normally compensates the primary insurer, in this case CalHIF, for underwriting, loss mitigation and other operational services. Under this particular reinsurance structure the ceding commission may be viewed as part of the reduction in the premium cession that results in a net written premium ceded percentage of 64.5%. In other words, by reducing the 75% quota share premium ceded amount by 10.5% (or 14% of the premium Genworth receives), CalHIF is effectively being compensated by Genworth for performing underwriting and operational services for originating Genworth's 75% share of the originated risk.

Therefore, the net effect of the agreement is that Genworth:

- Agrees to assume 75% of the risk originated on a given book year of mortgage insurance policies originated by CalHFA;
- Performs contractually obligated operational services such as premium billing, collections, loss mitigation and other operational services; and
- Is compensated 64.5% of ceded gross written premium for assuming 75% of all claim loss and providing the above services during the course of the contract term.

As a result of assuming a majority interest in the originated risk, Genworth's terms of reinsurance recognize the importance of timely operational and loss mitigation services.

Reasonableness of Contractual Provisions

By its very design the quota-share reinsurance structure provides a pro rata share of the risks and rewards that ensures a straight forward and uncomplicated transfer of risk. The primary calculation to derive is the appropriateness of the actual or derived ceding commission that is paid to CalHFA for originating, underwriting and operations associated with conducting said services. In reviewing the reinsurance arrangements, Milliman reviewed several measures of projected financial indications for four evaluation criteria which included:

- CalHFA under the then existing Hannover Ruckversicherungs-Aktiengesellschaft reinsurance agreement (Hannover Re);
- CalHFA without a reinsurance provider;
- CalHFA under the proposed Genworth agreement; and
- CalHFA under the proposed MGIC agreement.

By analyzing the expected loss ratio, expense ratio and required capital both gross and net of reinsurance for the above agreements, along with various other considerations identified and reviewed by CalHFA management, CalHFA concluded that Genworth's reinsurance and services agreement best suited their requirements. It is my understanding that subsequent amendments to the Genworth contract including the additional reinsurance of new higher risk mortgage loan products as well as arranging for Virginia Surety Company, Inc. to provide Involuntary Unemployment Insurance for all CalHFA insured borrowers has only further enhanced the underlying agreement, however we have not quantified the additional benefit.

Milliman's evaluation of the reinsurance proposals submitted in 2002 reflected the commercially available costs of reinsurance and mortgage insurance services collected through a proposal process coordinated by CalHFA at that time. The two private mortgage insurance companies, Genworth and Mortgage Guaranty Insurance Corporation (MGIC) which offered proposals are both still competitively active in providing primary and pool mortgage insurance and reinsurance to state housing finance agencies. In addition, there are also other private mortgage insurers soliciting this business, so the terms of the reinsurance treaties are likely to remain competitive to protect against alternative providers.

Sincerely,

Kenneth A. Bjurstrom
Financial Consultant

KAB/sbs

H:\CLIENT\106-CHL\2007\Jun.07\CalHFA Genworth Letter.DOC

STANDARD & POOR'S

RATINGSDIRECT®

June 27, 2007

California Housing Loan Insurance Fund

Primary Credit Analyst:
James Brender, New York (1) 212-438-3128; james_brender@standardandpoors.com

Secondary Credit Analyst:
Rodney A Clark, FSA, New York (1) 212-438-7245; rodney_clark@standardandpoors.com

Table Of Contents

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Table Of Contents (cont.)

California Housing Loan Insurance Fund

Major Rating Factors

Financial Strength Rating
Local Currency
A+/Stable/--

Strengths:
- Strategic partner to California Housing Finance Agency (CalHFA).
- Disciplined underwriting.
- Improved management team.
- Strong operating performance.

Weaknesses:
- High geographic concentration.
- Relatively narrow focus in a moderately high-risk segment (first-time homebuyers).
- Reliance on external support for operational processes and capitalization.

Rationale

The insurer financial strength rating on California Housing Loan Insurance Fund (CaHLIF) reflects its strategic importance to CalHFA and the explicit support provided by CalHFA. On a stand-alone basis, CaHLIF has demonstrated disciplined underwriting, an improved management team, and strong operating performance. The organization's single-state focus, emphasis on first-time homebuyers, and reliance on external support for operational processes and capitalization offset these positive factors.

CaHLIF is critical to CalHFA's mission to improve housing affordability in California. Consequently, CaHLIF receives substantial implicit and explicit support from its parent, and Standard & Poor's Ratings Services considers this support—coupled with the financial strength of CalHFA—to be the most significant rating factor for CaHLIF. CalHFA's charter requires it to obtain mortgage insurance for all loans that it purchases, and CaHLIF helps CalHFA satisfy this requirement. CalHFA has formalized its commitment to CaHLIF through an indemnification agreement and liquidity facility. The indemnification agreement reimburses CaHLIF for net claim payments in excess of the CaHLIF percentage coverage on individual loans, usually 35%. In addition, a liquidity facility allows the organization to borrow up to $100 million from CalHFA to pay claims. CaHLIF has never used this facility.

Standard & Poor's views CaHLIF's competitive position as strong. Its exclusive relationship with CalHFA is a key competitive advantage. This arrangement generates a significant volume of attractive business for CaHLIF. It also shields CaHLIF from direct competition with private mortgage insurers and difficult negotiations with lenders.

The single-state focus—coupled with an emphasis on first-time homebuyers—is a negative rating factor. Insuring loans only originated in California makes CaHLIF much more susceptible to a regional downturn in home prices than a mortgage insurer with a geographically diverse portfolio. According to the Office of Federal Housing Enterprise Oversight's benchmark index on changes in home prices, many states, including California, have registered a decline, but the nation has yet to experience a quarter when the price for a similar home was less than it was at the same time in the previous year. Unemployment is also more volatile for a single state. For example, Michigan's unemployment rate was 7.1% as of April 30, 2007, compared with 4.5% for the U.S. and 5.0% for California. First-time homebuyers tend to have a higher default rate than other borrowers because some fail to budget for all costs associated with homeownership. They are also more likely to opt for an interest-only mortgage or a condominium. Historically, loans with either of these attributes have higher default rates than the overall delinquency rate. Offsetting these higher risk factors is CaHLIF's concentration in mortgage insurance on loans for moderately priced homes, where demand is traditionally strong and recession resistant.

CaHLIF's current management team is a significant improvement from leadership in previous years. The recently hired Director of Mortgage Insurance, a position similar to a CEO's role, has significant experience as a senior executive within the industry. Most employees have a good combination of relevant private-sector experience and an appreciation for CalHFA's goals. CaHLIF benefits from a quota-share agreement (including a services agreement) with Genworth Mortgage Insurance Co. (GMICO), a large private mortgage insurer and subsidiary of Genworth Financial Corp. GMICO provides services like loss mitigation and premium collection. This arrangement enables CaHLIF to deliver good customer service while maintaining modest fixed costs.

CaHLIF's historical operating performance has been good; however, Standard & Poor's does not consider this category to be a key rating factor. Because CaHLIF cedes 75% of its risk to GMICO, it usually records modest underwriting income, supplemented by growing investment income. Very strong home price appreciation in California has also led to defaults and claims well below that of the rest of the country. This trend is unlikely to continue. Standard & Poor's views the quota-share agreement favorably because it partially mitigates the volatility inherent in CaHLIF's single-state focus.

CaHLIF's capitalization is strong, but dependence on external support weakens the quality of capital. The organization's capital adequacy ratio of 159% is considerably greater than the minimum requirement of 100% for a 'AAA' financial strength rating. However, the capital adequacy ratio depends heavily on the quota-share cession to GMICO. CaHLIF has adequate internal resources to support its gross liabilities, but Standard & Poor's considers the organization's utilization of support, primarily the 75% quota-share program, to be greater than the level typically used by similarly rated entities.

Outlook

The outlook is stable. Standard & Poor's does not anticipate any significant changes to CaHLIF's business model over the next three years. Its exclusive relationship with CalHFA will remain the foundation for its competitive position. Operating performance should remain strong, but underwriting profitability will still be modest because of the substantial quota-share cession. Our forecast includes earned premium of at least $5 million after deducting ceded premium. The loss ratio will rise from its extremely low level, but the expense ratio should decline because of greater earned premium. Investment income will continue to grow. Consequently, net income will be $5 million-$6 million. CaHLIF's capital adequacy ratio should remain well above 100%, and gross risk in force to statutory capital should be less than 15x, with net risk in force less than 3.75x.

Competitive Position: Underpinned By Status As Sole Mortgage Insurer For CalHFA

CaHLIF's competitive position is strong. The organization's status as the sole provider of conventional mortgage insurance to CalHFA provides it with several advantages. Most importantly, this relationship generates a significant volume of business for CaHLIF that has historically produced delinquency rates below the national average.

CaHLIF's high geographic concentration and relatively narrow focus on first-time homebuyers offset this important positive factor

Table 1

California Housing Loan Insurance Fund/Selected Statistics

(Mil. $)	2006	2005	2004	2003
Insurance in force	1,988.3	1,141.5	797.2	865.5
Risk in force	769.8	499.0	384.5	390.8
New insurance written	1,051.8	655.3	354.8	341.2
Direct premium written	12.3	6.6	5.6	8.8
Total assets	66.7	60.8	58.2	50.6
Revenue	5.4	2.6	(0.3)	3.1
Net income	6.1	4.3	(30.4)	(34.9)
Statutory capital	64.2	58.9	55.9	46.6
Gross risk to capital	12.0	8.5	6.9	8.4

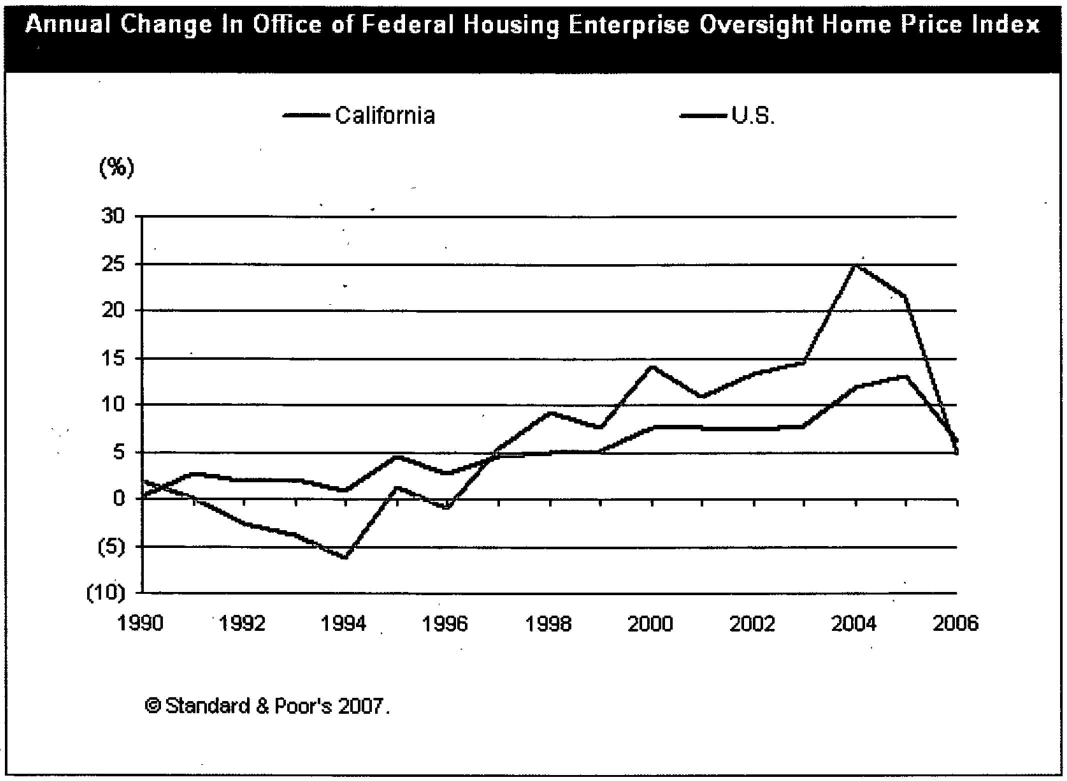
CalHFA and CaHLIF have combined key competitive advantages, with disciplined underwriting to lower the risk of default. The following are some examples.

- CalHFA enjoys a lower cost of funds than traditional mortgage originators because it issues tax-free bonds. Passing this savings on to the borrower creates a more affordable monthly payment.
- CalHFA will often arrange additional loans to assist in the downpayment. These loans, which CaHLIF does not insure, usually feature deferred interest. Therefore, they provide subordinated funds without increasing the borrower's monthly payment.
- CalHFA only originates fixed-rate mortgages. The payment shock from adjustable-rate mortgages (ARMS) was a key catalyst in the subprime meltdown and remains a concern for all entities bearing credit risk to mortgage collateral.
- CaHLIF insures only mortgages to purchase a home that the owner will occupy (purchase-money mortgages). Assuming no material differences in the borrower's credit quality, Standard & Poor's believes loans for investments, cash-out refinancing, and second homes are more likely to default than an owner-occupied, purchase-money mortgage.
- CaHLIF recently stopped providing coverage to borrowers with a Fair Isaac & Co. (FICO) credit score of less than 620 unless there are strong offsetting strengths. CaHLIF will also consider alternative credit histories when underwriting loans.
- The group encourages first-time homebuyers to attend borrower education programs. This process helps borrowers prepare more realistic budgets by identifying all costs of homeownership and understand their options if they encounter problems.

CaHLIF's exclusive arrangement with CalHFA shields it from direct competition with private mortgage insurers and dependence on lenders for business. CaHLIF provides coverage for all conventional loans funded by CalHFA that have a loan-to-value ratio of more than 80%. Consequently, it does not need to actively seek or even defend market share. The implication is less pressure to insure loans with risky attributes or make concessions to mortgage originators. CaHLIF could not exist as a private mortgage insurer that is reluctant to insure ARMs or borrowers with FICOs of less than 620. It would also likely have to cede business to lender captives and perform contract underwriting. Historically, both of these activities have detracted from private mortgage insurers' profitability.

Standard & Poor's considers CaHLIF's geographic concentration as the most negative rating factor. The organization's single-state focus compares unfavorably with private mortgage insurers that derive no more than 14% of their risk in force from one state and less than 40% from five states. The concentration is unavoidable, but it creates substantial volatility. Recently, this volatility has been favorable to CaHLIF. Its delinquency rate of 1.2% is significantly lower than the domestic default rate for any of the seven largest private mortgage insurers. The superior performance stems from stronger home price appreciation; home prices have increased 189% in California in the last five years compared with 149% nationwide. However, the rise in prices has exacerbated the state's housing affordability problems. The most recent results from a leading measure of housing affordability listed eight metropolitan statistical areas in California among the 11 with the highest potential for a decline in home prices. A steep drop in home prices coupled with a rise in unemployment would trigger a high volume of claims for CaHLIF.

Chart 1



California's size partially mitigates CaHLIF's single-state focus. The state's population is more than 36 million, making it home to more than 12% of the U.S.'s citizens. Compared with the U.S. average, California's population is younger and growing faster. These trends bode well for housing demand. The size also gives the state the best diversification by economic sector and housing market. Six of the 30 largest metropolitan statistical areas are in California. Unemployment in California is more stable than most states because the distribution of jobs by industry differs by metropolitan statistical area. Statistics support this assertion. The coefficient of variation in California's unemployment rate is 0.22 compared with 0.25 or higher for the majority of states. The coefficient of variation is the standard measure of volatility and is the standard deviation divided by the mean.

CaHLIF's mission to assist first-time homebuyers results in a moderate degree of risk layering. Risk layering refers to originating a loan with more than one trait that would increase the loan's expected probability of default. First-time homebuyers are more likely to default than seasoned borrowers because some underestimate the total cost of homeownership. First-time homebuyers are also more likely to opt for mortgages and houses with higher risk traits, such as interest-only loans and condominiums. Interest-only loans and condominiums constituted 42% and 44% of insurance in force as of Dec. 31, 2006, respectively. Interest-only loans defer payment of any principal for several years, and Standard & Poor's views this product as more risky than mortgages that begin amortizing at inception because the borrower's unpaid balance does not decline during the interest-only period. Pricing for condominiums is considerably more volatile than single-family detached homes. Overall, Standard & Poor's views CaHLIF's underwriting guidelines as moderately conservative despite the emphasis on first-time homebuyers

Prospective

Standard & Poor's expects CaHLIF to maintain its strong competitive position. We do not expect any material changes in its arrangement with CalHFA, which will continue to be the source for almost all new business. New insurance written should contract significantly in 2007. CalHFA will originate fewer loans due primarily to the limited tax-exempt bond cap available to CalHFA. The percentage of CalHFA loans requiring insurance could also decrease because of an expected increase in 80% LTV loans made possible by downpayment-assistance programs financed by a recently approved bond issue.

Management And Corporate Strategy: Significant Improvements To Management Team In Past Few Years

Operational management

The current management team is a tremendous improvement compared with its predecessors. They have a good combination of experience in the private sector, appreciation of CaHLIF's mission, and understanding of CalHFA's practices. CaHLIF hired Charles McManus in 2006 as its Director of Insurance. Mr. McManus has significant experience as a senior executive at corporations focused on the mortgage sector. He served as COO of MGIC Investment Corp., the largest private mortgage insurer, and he was part of the team that saved the company when it encountered tremendous difficulties in mid 1980s because of the drop in house prices in many oil states. Greg Carter is CaHLIF's Deputy Director of Insurance. He is a good complement to the relatively recently hired Mr. McManus because he has more than a decade of experience at CalHFA. In addition, Mr. Carter spent 16 years in the private sector. Most members of management have experience in the private sector, but many also have been with CalHFA for a long time.

Actions by the 1985–2001 mortgage insurance management team highlighted a lack of effective corporate governance. In October 2004, a jury concluded that John Schienle, a former Director of Insurance for CaHLIF; Robert McWhirk, former outside counsel for CaHLIF; and Hanover California Management and Accounting Center (HC) had a conflict of interest and committed fraud against CaHLIF. The jury voided HC's claims-management contract with CaHLIF and awarded $6.7 million in damages, the entire amount paid for services. The jury awarded an additional $2.5 million for interest plus punitive damages.

CaHLIF's underwriting processes are similar to those of private mortgage insurers. CaHLIF has established underwriting guidelines and a group dedicated to ensuring their compliance. Quality assurance is a separate function than underwriting. Standard & Poor's views this separation as important. The organization audits lenders with delegated underwriting authority. CaHLIF is not required to insure all loans purchased by CalHFA, but CalHFA does not purchase conventional loans that CaHLIF does not approve.

The arrangement between GMICO and CaHLIF improves operational and financial risk. Through a services agreement, CaHLIF gains access to very strong loss-mitigation, premium-collection, and fraud-investigation services. The quota-share agreement enables CaHLIF to maintain extremely strong capitalization and still assume all eligible business from CalHFA. There are some disadvantages to this arrangement. CaHLIF has not established the internal capabilities for the activities that it outsourced. However, executives have experience managing the outsourced activities, and they could build the internal capabilities if needed. Second, the substantial quota-share cession has significantly reduced CaHLIF's net income in recent years, but the organization still produces underwriting profits and earns a commission of 14% on premium ceded. Overall, Standard & Poor's considers the quota-share and service agreements to be a positive rating factor. Like all private mortgage insurers and most well-run organizations, CaHLIF uses respected organizations to audit its financial statements (Deloitte & Touche) and analyze its reserves (Milliman Inc.).

Financial management

Standard & Poor's considers CaHLIF's financial management to be strong. The disciplined product focus that avoids high-risk or unsuitable mortgages, the quota-share arrangement with GMICO, and the strong internal capitalization all demonstrate low financial risk tolerance. CaHLIF has minimal asset or liability risk.

CaHLIF's mission is neutral to the rating. Unlike private mortgage insurers that want to maximize profitability or market capitalization, CaHLIF's goal is to help CalHFA improve homeownership in California. The key is CaHLIF's and CalHFA's commitment to sound financial management. As long as management at both organizations continue to stress appropriate financial risk tolerance, Standard & Poor's will not view the not-for-profit strategy as a negative factor.

The explicit support CalHFA provides is a favorable element of CaHLIF's financial management because it mitigates any concern about the implications of CalHFA's authority over CaHLIF. In addition to being CaHLIF's only meaningful customer, CalHFA employs all of CaHLIF's personnel, and the Executive Director of CalHFA reviews and approves CaHLIF's annual business plan. Because CalHFA must indemnify CaHLIF for claims incurred on CalHFA mortgages in excess of standard levels of coverage, there is no incentive to use CaHLIF to cover high-risk loans. CalHFA has also committed to lend $100 million to CaHLIF as subordinated debt.

Enterprise Risk Management: Adequate, Though ERM Is Not An Important Factor For CaHLIF

Standard & Poor's views CaHLIF's enterprise risk management (ERM) as adequate but improving. We also do not consider ERM to be a key rating factor. The actions of Mr. Schienle and Mr. McWhirk highlighted a lack of oversight. CaHLIF does not have a chief risk officer, but it does have a risk-management committee. This committee consists of Mr. McManus, Mr. Carter, the underwriting manager, and quality assurance manager. The Executive Director and Chief Deputy Director of CalHFA are actively involved in CaHLIF's financial planning and development of long-term strategy. They review CaHLIF's business plans and any changes to credit policy.

CaHLIF's pricing and economic capital models are not as sophisticated as those of private mortgage insurers. This difference is one of the reasons CaHLIF's ERM is classified as adequate instead of strong, the designation of most private mortgage insurers. However, Standard & Poor's does not consider it to be a significant weakness. CaHLIF produces substantial reports on its risk in force as well as sensitivity analysis for projected financials, and the carefully tailored product strategy proves management has a good understanding of the risk. Delegating many activities to GMICO further reduces the importance of ERM.

Accounting

CaHLIF's accounting policies are similar to those of private mortgage insurers, with one important exception. CaHLIF's recognizes ceded premium as an operating expense instead of as a deduction to revenue. Standard & Poor's recalculated earned premium after deducting 64.5% of premium paid for the 75% quota-share cession to GMICO. Then, we deducted the 10.5% (75% minus 64.5%) ceding commission received by CaHLIF from its operating expenses. This method is consistent with results presented by most property/casualty insurers, including mortgage insurers. The table below displays the adjustments Standard & Poor's made. Revenue is lower, but there is no impact on underwriting income because the decrease is matched by a corresponding reduction to underwriting expenses.

Table 2

California Housing Loan Insurance Fund/Reconciliation Of Accounting Adjustments

(Mil. $)	2006	2005	2004	2003
Earned premium				
As reported	12.4	7.1	5.9	9.2
Standard & Poor's adjustment	(9.3)	(5.3)	(4.4)	(6.9)
Adjusted earned premium	3.1	1.8	1.5	2.3
Underwriting expenses				
As reported	10.1	6.2	7.1	7.7
Standard & Poor's adjustment	(9.3)	(5.3)	(4.4)	(7.3)
Adjusted underwriting expenses	0.8	0.9	2.6	0.4

The organization prepares both statutory and GAAP statements, and they are audited annually. The following are two accounting issues that affect all mortgage insurers. They are less important to CaHLIF than to private mortgage insurers because of CaHLIF's substantial quota-share cession and indemnification agreement with CalHFA.

- Reserves for losses and loss-adjustment expenses. Mortgage insurers establish loss reserves for loans as they go into default, not before. Because mortgage loans typically reach their peak defaults between two and five years after origination, there is a tendency for losses to flow through the income statement well after new policies are booked. The large, newer vintages are in their peak loss years, which have increased loss ratios for most mortgage insurers.
- Contingency reserve. Statutory accounting practices require mortgage guaranty insurance companies to maintain contingency loss reserves equal to 50% of premiums earned. Such amounts cannot be withdrawn for a period of 10 years except as permitted by insurance regulations. Changes in contingency loss reserves affect the statutory statement of operations.

Operating Performance: ARM Restrictions Have Helped Reduce Delinquencies

Table 3

California Housing Loan Insurance Fund/Operating Results				
Standard & Poor's adjusted GAAP (Mil. $)	**2006**	**2005**	**2004**	**2003**
Premiums earned	3.1	1.8	1.5	2.3
Loss and loss-adjustment expenses	0.2	0.1	(0.5)	(0.8)
Underwriting expenses	0.8	0.9	2.6	0.4
Underwriting income	2.1	0.8	(0.7)	2.7
Net investment income	2.9	1.7	0.9	0.8
Pretax operating income	5.2	2.5	0.2	3.9
Net income	5.2	2.5	0.2	3.9
Loss ratio (%)	6.1	4.3	(30.4)	(34.9)
Expense ratio (%)	25.0	51.1	178.8	16.0

Historical

CaHLIF's historical operating performance has been good. However, Standard & Poor's does not consider this category to be a key rating factor. The substantial quota-share cession to GMICO significantly reduces CaHLIF's earned premium and net claims expense. The indemnification agreement with CalHFA mitigates CaHLIF's remaining liability. The final result is usually a modest underwriting income supplemented by growing investment income.

A mortgage market shift to fixed-rate products and away from ARMs was the primary driver in CaHLIF's earned premium growth in 2006. Previously, many borrowers opted for ARMs to take advantage of the unusually low short-term rates. Because CalHFA does not purchase ARMs, CaHLIF's new insurance written contracted sharply. The refinancing boom in 2003 coincided with the discovery of Mr. Schienle's conflict of interest, which created a distraction for management and hampered CaHLIF's ability to execute its strategy. Discontinuing some non-CalHFA programs initiated by Mr. Schienle also contributed to the decline in earned premium between 2003 and 2005. Now, CaHLIF has a strong management team and a clear vision of its mission and product focus.

Table 4

California Housing Loan Insurance Fund Production And Key Drivers Of Volume				
	2006	**2005**	**2004**	**2003**
New insurance written (Mil. $)	1,051.8	655.3	354.8	341.2
U.S. originations (Bil. $)	2,816	3,027	2,773	3,812
Refinancing (% of U.S. originations)	39.5	50.0	52.8	66.4

The extremely low and even negative loss ratios reflect the tremendous increase in home prices in California and low unemployment. The typical California dwelling has appreciated at an annual pace of 19% since 2002, and the state's unemployment rate has varied between 4.7% and 6.9%. CaHLIF's restrictions against ARMs insulated it from borrowers facing payment shock because of expiration of artificially low teaser rates. Consequently, very few borrowers insured by CaHLIF became delinquent, and those who did were usually able to avoid foreclosure by selling their homes.

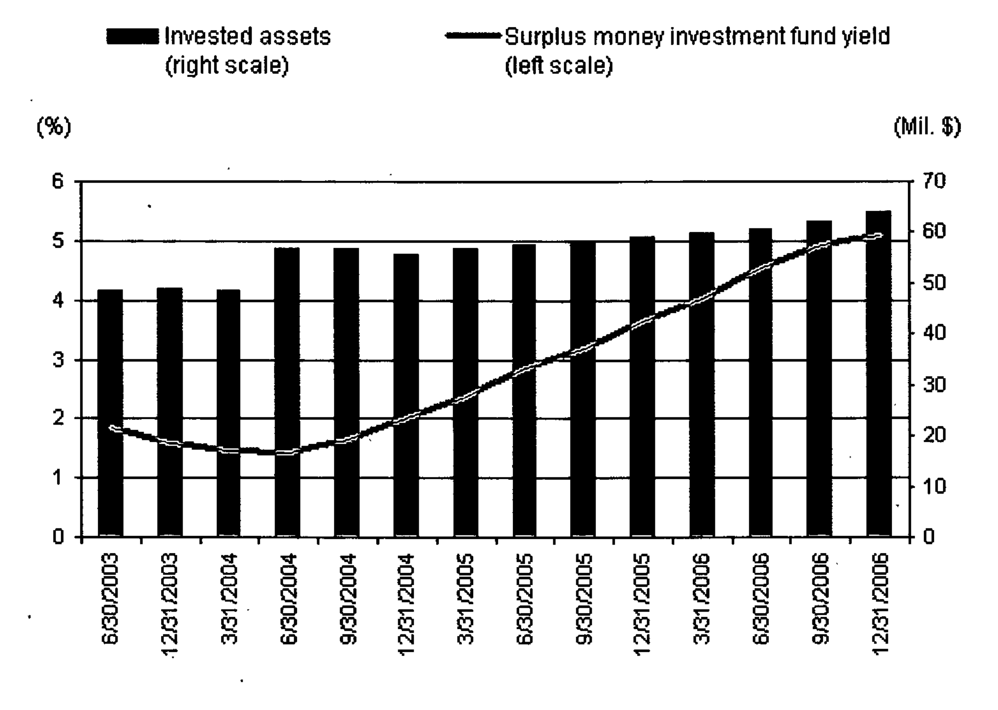
CaHLIF's expense ratio has been volatile, but expenses are modest. Underwriting expenses were unusually high in

2004 because of legal costs of $1.5 million associated with a case against Mr. Schienle, Mr. McWhirk, and HC. The jury awarded CaHLIF more than $9 million, but it has received only $1,455,000 as of June 2007, and the judgment has not been recognized as an asset. Expenses returned to a normal level in 2005, but the expense ratio was still high because earned premium declined for the reasons described above. Outsourcing functions like premium collection and loss mitigation enable CaHLIF to maintain minimal fixed operating costs and still deliver a high level of service.

Investment income has been the most significant driver of profitability in recent years. It has increased because of both higher yields and average invested assets. CaHLIF's investments are short term; therefore, investment income suffered when short-term rates were extremely low in 2003 and 2004. However, the portfolio's rapid turnover enabled it to capitalize quickly on rising rates in the following years. Invested assets increased 41% because of increases in retained earnings of $12 million and the receipt of a $10 million capital contribution from Proposition 46, which allocates funds to finance housing for low- and moderate-income borrowers.

Chart 2

California Housing Loan Insurance Fund/Key Drivers Of Investment Income



Prospective

Standard & Poor's expects results for 2007 to be strong. Earned premium will increase to at least $5 million based on our method for recognizing the quota-share cession and ceding commission. The increase reflects retention of the high volume of business written in 2006 and new insurance written of $600 million-$800 million. The loss ratio will rise significantly, but claim costs will still be negligible. The expense ratio will decline again because of higher earned premium and ceding commission, which reduces underwriting expenses. Net income should be $6 million-$7 million. Results for 2008 will be a continuation of the same trends. However, growth in premium and investment income will be muted. It is also more difficult to predict incurred losses because of the uncertainty in home prices.

Investments And Liquidity: Portfolio Is Conservative, And Liquidity Is Sufficient

CaHLIF has a very conservative investment portfolio with sufficient liquidity. CaHLIF remits all funds in excess of working-capital needs to the Surplus Money Investment Fund (SMIF). The Treasurer's office for the State of California manages the SMIF. Many organizations affiliated with the state—such as CaHLIF, state colleges, and state agencies—contribute to SMIF. The portfolio's composition is short-term securities with minimal credit risk, and the yield is usually within 50 basis points of the Fed Funds rate.

Support agreements augment CaHLIF's liquidity. Under the quota-share treaty, GMICO reimburses CaHLIF for 75% of claims paid on most mortgages, and CalHFA indemnifies CaHLIF for the losses paid in excess of standard coverage (i.e., normally 35%). There is also an interfund credit agreement that enables CaHLIF to borrow up to $100 million to pay claims. The debt would be subordinated to policyholder obligations, and interest would be deferred until maturity. The maturity is 10 years from the request for funds or 2018, whichever is earlier. Standard & Poor's views the collection of external support agreements as an overall positive rating factor to CaHLIF, but we have some concern about the reliance on external support.

Capitalization: Strong, Though Reliance On Reinsurance Weakens Quality Of Capital

Standard & Poor's considers CaHLIF's capitalization to be strong. Its capital adequacy ratio of 159% is well above the threshold required for a 'AAA' financial strength rating. However, reliance on reinsurance weakens the organization's quality of capital. The capital adequacy ratio is the ratio of cumulative sources of funds to cumulative uses of funds during a 10-year forecast period that follows a significant increase in foreclosures because of a sharp decline in home prices coupled with an increase in unemployment. Standard & Poor's uses this hypothetical scenario to test the capitalization of all the mortgage insurers we rate, and the model's nationwide foreclosure is loosely based on the foreclosure rates observed in Southern California during the early to mid 1990s. CaHLIF's geographic concentration makes it more susceptible to Standard & Poor's stress scenario than a mortgage insurer providing coverage across the country.

Reinsurance

Reinsurance is a critical component of CaHLIF's capitalization. The organization's primary source of support is the quota-share treaty with GMICO. CaHLIF cedes 75% of its risk under this agreement, which expires in 2012. GMICO has a very strong ('AA') financial strength rating, but high correlation between borrowers could cause both CaHLIF and GMICO to experience challenging conditions at the same time. CaHLIF also has explicit support from CalHFA through an indemnification agreement that requires CalHFA to reimburse CaHLIF for claim payments in excess of standard coverage. Overall, Standard & Poor's views the reliance on reinsurance as only a modest negative factor, and CaHLIF has adequate internal resources to support its gross liabilities. As of Dec. 31, 2006, gross risk in force to capital was only 12x, and net risk in force was only 3x. This statistic is not significantly higher than the value for most private mortgage insurers.

Financial Flexibility: Adequate Because Of Relationship With CalHFA

CaHLIF has adequate financial flexibility, though less than that of most similarly rated entities. The organization does not have access to the capital markets. Instead, it would rely on its relationship with CalHFA to procure additional funds. The aforementioned indemnity agreement and $100 million credit facility demonstrate CalHFA's support. CalHFA also needs CaHLIF to satisfy a statute that requires the loans it funds to be insured. Standard & Poor's does not consider CaHLIF's limited financial flexibility to be a key rating factor.

Ratings Detail (As Of June 27, 2007)*	
The Insurance Fund	
Financial Strength Rating	
Local Currency	A+/Stable/--
Counterparty Credit Rating	
Local Currency	A+/Stable/--
Holding Company	None
Domicile	California

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.