CalHFA SM

REPORTS

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State of California

MEMORANDUM

To: Board of Directors **Date:** January 3, 2008

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

Subject: SUMMARY OF CALENDAR YEAR 2007 BOND FINANCINGS

Attached are tables and pie charts summarizing calendar year 2007 bond issuance activity and showing bonds issued over the last five years. During 2007 we issued bonds totaling $1.5 billion, compared to last year's issuance volume of $1.3 billion. All but $13 million was issued as permanent debt to purchase loans.

During the year we issued $350 million of taxable bonds, all of which were sold to expand available proceeds to finance the purchase of single family loans and leverage tax-exempt issuance authority available for this purpose. These bonds were privately placed with banks without the assistance of an underwriter. These direct placements offered significantly lower costs of issuance compared to publicly offered bonds and also allowed us to achieve a lower cost of funds. This is our largest annual total of taxable activity since 2004 when more than $396 million were issued.

Agency indebtedness (bonds and notes) totaled $8 billion as of December 31, 2007, an increase from $7.5 billion as of the end of 2006.

As shown in the table and accompanying pie charts, of the $1.5 billion of debt issued during 2007 more than $1.1 billion (78% of total issuance) was issued as fixed rate bonds.

The $328 million of variable rate bonds were issued as demand bonds, index bonds and auction rate securities. All but $120 million of those variable rate bonds were swapped to fixed rates

Attachments

CALIFORNIA HOUSING FINANCE AGENCY
FIVE-YEAR BOND ISSUANCE SUMMARY
BOND ISSUED FROM 2003 TO 2007

YEAR	PROGRAM	PRIVATE ACTIVITY BOND ALLOCATION RECEIVED	BONDS SOLD			END OF YEAR BONDS OUTSTANDING
			TAX-EXEMPT	TAXABLE	TOTAL	
2003	Single Family	$416,332,732 (1)	$1,073,750,000	$846,995,000	$1,920,745,000	$6,452,560,638
	Multifamily	$236,656,000 (2)	$231,035,000	$0	$231,035,000	$1,543,554,435
	SUBTOTAL	$652,988,732	$1,304,785,000	$846,995,000	$2,151,780,000	$7,996,115,073
2004	Single Family	$695,804,851 (3)	$1,389,370,000	$396,305,000	$1,785,675,000	$6,267,979,857
	Multifamily	$214,187,800 (4)	$296,980,000	$0	$296,980,000	$1,688,118,265
	Other Programs *	$0	$50,000,000	$0	$50,000,000	$50,000,000
	SUBTOTAL	$909,992,651	$1,736,350,000	$396,305,000	$2,132,655,000	$8,006,098,122
2005	Single Family	$1,015,521,544 (5)	$1,566,506,000	$0	$1,566,506,000	$5,932,309,379
	Multifamily	$168,155,000 (6)	$239,200,000	$0	$239,200,000	$1,754,767,470
	Other Programs *	$0	$0	$0	$0	$50,000,000
	SUBTOTAL	$1,183,676,544	$1,805,706,000	$0	$1,805,706,000	$7,737,076,849
2006	Single Family	$594,000,000 (7)	$1,087,524,500	$0	$1,087,524,500	$5,647,483,156
	Multifamily	$56,550,000 (8)	$97,280,000	$0	$97,280,000	$1,663,196,486
	Other Programs *	$0	$47,090,000	$61,110,000	$108,200,000	$158,200,000
	SUBTOTAL	$650,550,000	$1,231,894,500	$61,110,000	$1,293,004,500	$7,468,879,642
2007	Single Family	$442,800,000 (9)	$1,062,960,000	$350,000,000	$1,412,960,000	$6,363,942,007
	Multifamily	$39,940,000	$56,765,000	$0	$56,765,000	$1,517,697,488
	Other Programs *	$0	$0	$0	$0	$158,200,000
	SUBTOTAL	$482,740,000	$1,119,725,000	$350,000,000	$1,469,725,000	$8,039,839,495
	5-YEAR TOTALS	$3,879,947,927	$7,198,460,500	$1,654,410,000	$8,852,870,500	

* Includes bonds issued under the Housing Program Bond Indenture to finance single family down payment assistance loans, and to securitize Multifamily loans held in the Housing Assistance Trust.

(1) Includes $84,460,327 of single family carryforward.
(2) Includes $21,555,000 of multifamily carryforward.
(3) Includes $307,804,851 of single family carryforward.
(4) Includes $21,610,000 of multifamily carryforward.
(5) Includes $756,521,544 of single family carryforward.
(6) Includes $20,365,000 of multifamily carryforward.
(7) Includes $258,625,729 of single family carryforward.
(8) Includes $12,165,000 of multifamily carryforward.
(9) Includes an estimate of $132,800,000 carryforward.

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CALIFORNIA HOUSING FINANCE AGENCY

2007 CALENDAR YEAR
BOND ISSUANCE SUMMARY

	HMRB Single Family	HMRB Private Placement	SINGLE FAMILY TOTALS	MHRBIII MULTIFAMILY	TOTALS	Variable Rate	Fixed Rate
TAX-EXEMPT BONDS							
Variable Rate							
VRDO's	$150,000,000		$150,000,000		**$150,000,000**		
Auction	$0	$0	$0	$44,600,000	**$44,600,000**		
Notes	$12,960,000	$0	$12,960,000	$0	**$12,960,000**	$207,560,000	
Fixed Rate	$900,000,000	$0	$900,000,000	$12,165,000	**$912,165,000**		$912,165,000
Subtotals	*$1,062,960,000*	*$0*	*$1,062,960,000*	*$56,765,000*	***$1,119,725,000***		
TAXABLE BONDS							
Variable Rate							
Index-Floaters	$0	$120,000,000	$120,000,000	$0	**$120,000,000**	$120,000,000	
Fixed Rate	$0	$230,000,000	$230,000,000	$0	**$230,000,000**		$230,000,000
Subtotals	*$0*	*$350,000,000*	*$350,000,000*	*$0*	***$350,000,000***		
TOTALS	**$1,062,960,000**	**$350,000,000**	**$1,412,960,000**	**$56,765,000**	**$1,469,725,000**		
Variable Rate Totals						***$327,560,000***	
Fixed Rate Totals							***$1,142,165,000***

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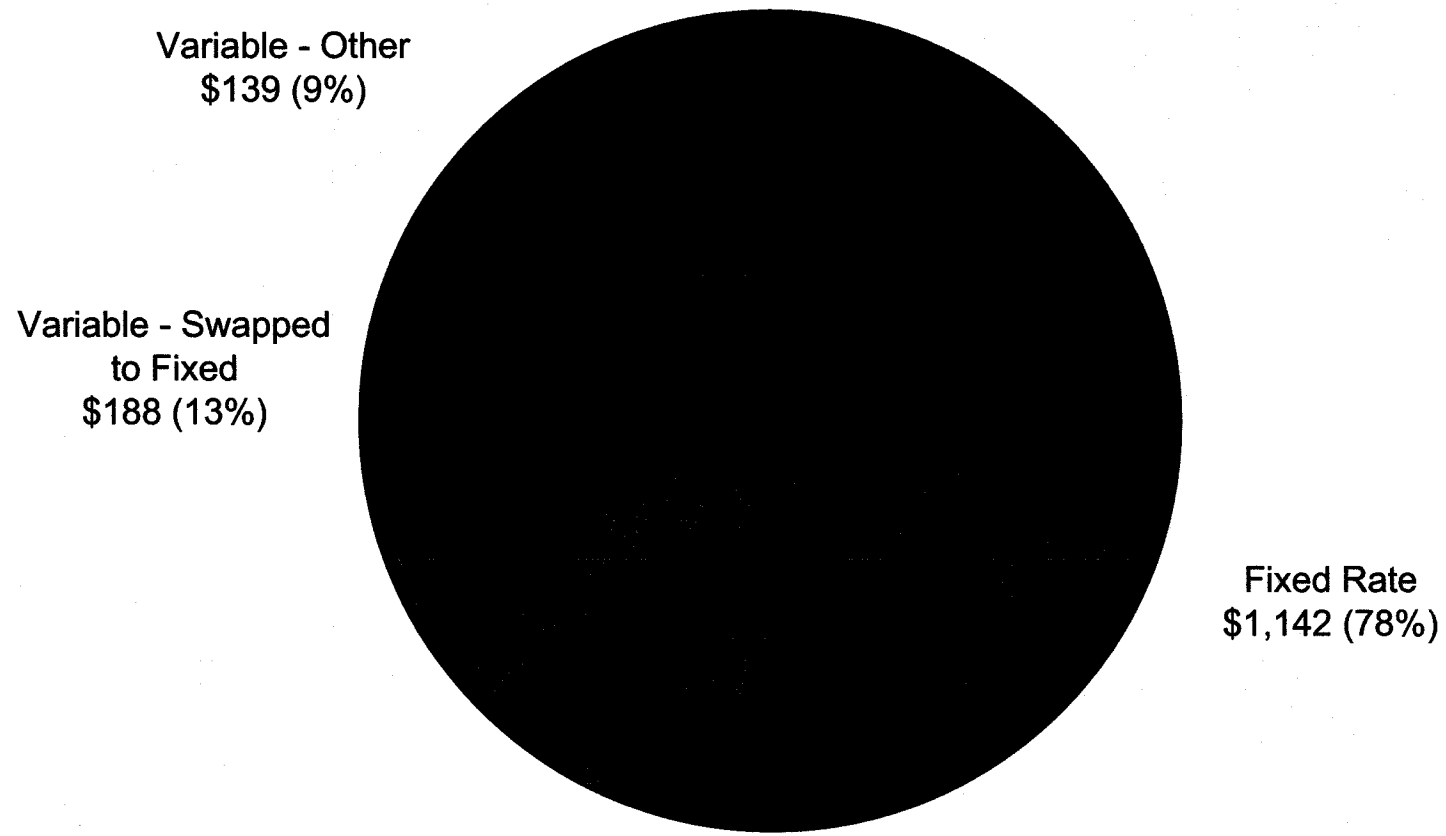
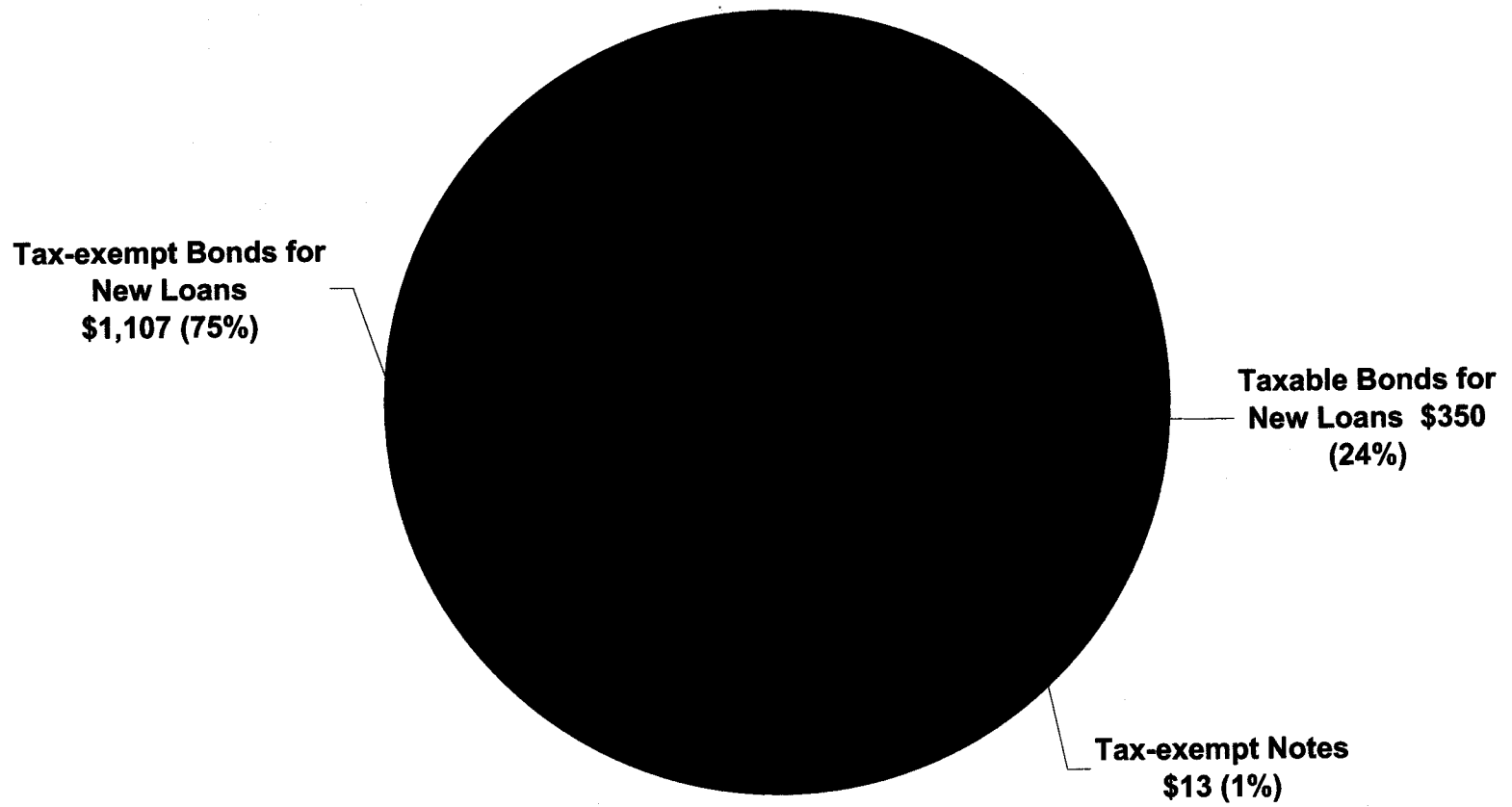
CalHFA Fixed Rate and Variable Rate Bonds
Issued in Calendar Year 2007
($ in Millions)

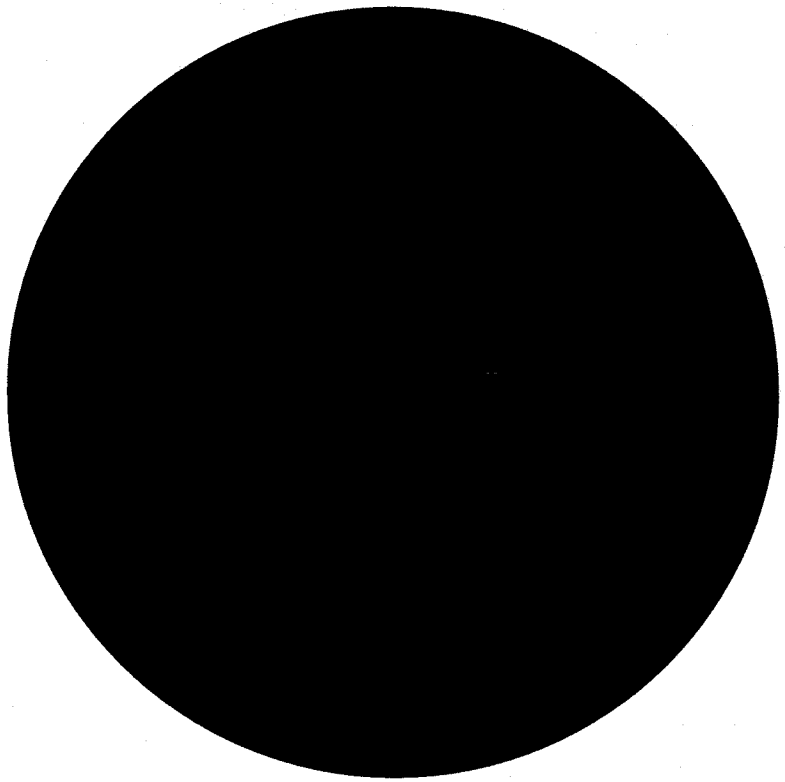


CalHFA Tax-exempt and Taxable Bonds Issued in Calendar Year 2007 ($ in Millions)



CalHFA Bonds
2007 Calendar Year

(in millions)



Single Family
$1,413 (96%)

Multifamily
$57 (4%)

State of California

MEMORANDUM

To: Board of Directors **Date:** January 3, 2008

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

Subject: UPDATE ON VARIABLE RATE BONDS AND INTEREST RATE SWAPS

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

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

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

VARIABLE RATE DEBT EXPOSURE

This report describes the variable rate bonds and notes of CalHFA and is organized programmatically by indenture as follows: HMRB (Home Mortgage Revenue Bonds--CalHFA's largest single family indenture), MHRB (Multifamily Housing Revenue Bonds III--CalHFA's largest multifamily indenture), HPB (Housing Program Bonds--CalHFA's multipurpose indenture, used to finance a variety of loans including the Agency's downpayment assistance loans), and DDB (Draw Down Bonds used to preserve tax-exempt authority.) The total amount of CalHFA variable rate debt is $5.5 billion, 69% of our $8 billion of total indebtedness as of January 1, 2008.

VARIABLE RATE DEBT
($ in millions)

	Tied Directly to Variable Rate Assets	Swapped to Fixed Rate	Not Swapped or Tied to Variable Rate Assets	Total Variable Rate Debt
HMRB	$2	$3,763	$549	$4,314
MHRB	172	875	64	1,111
HPB	0	35	76	111
DDB	0	0	0	0
Total	$174	$4,673	$689	$5,536

As shown in the table above, our "net" variable rate exposure is $689 million, 8.58% of our indebtedness. The net amount of variable rate bonds is the amount that is neither swapped to fixed rates nor directly backed by complementary variable rate loans or investments The $689 million of net variable rate exposure ($518 million taxable and $171 million tax-exempt) is offset by the Agency's balance sheet and excess swap positions. While our current net exposure is not tied directly to variable rate assets, we have approximately $597 million (six month average balance as of 9/30/07) of other Agency funds invested in the State Treasurer's investment pool (SMIF) earning a variable rate of interest. From a risk management perspective, the $597 million is a balance sheet hedge for the $689 million of net variable rate exposure.

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

The net variable rate exposure is further reduced by two other considerations: 1) as mentioned in the Amortization Risk section of this report, we have $86 million notional amount of interest rate

swaps in excess of the original bonds they were to hedge, and 2) a portion of our unhedged exposure is tax-exempt debt which resets at the theoretical ratio of 65% of Libor. These two considerations serve to reduce the net effective variable rate exposure to the equivalent of $573 million of LIBOR-based debt. As a result, the $597 million of other Agency funds invested in SMIF effectively hedges approximately 108% of our current net variable rate exposure.

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

FIXED-PAYER INTEREST RATE SWAPS

Currently, we have a total of 138 "fixed-payer" swaps with thirteen different counterparties for a combined notional amount of $4.7 billion. All of these fixed-payer swaps are intended to establish synthetic fixed rate debt by converting our variable rate payment obligations to fixed rates. These interest rate swaps generate significant debt service savings in comparison to our alternative of issuing fixed-rate bonds. This savings allows us to continue to offer loan products with exceptionally low interest rates to multifamily sponsors and to first-time homebuyers. The table below provides a summary of our notional swap amounts.

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

	Tax-Exempt	Taxable	Totals
HMRB	$3,150	$697	$3,847
MHRB	875	0	875
HPB	35	0	35
TOTALS	$4,060	$697	$4,757

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

SWAP COUNTERPARTIES

Swap Counterparty	Credit Ratings Moody's	S & P	Fitch	Notional Amounts Swapped *($ in millions)*	Number of Swaps
Merrill Lynch Capital Services Inc.					
Guaranteed by:					
Merrill Lynch & Co.	A1	A+	A+	$ 665.9	18
MLDP, AG	Aaa	AAA	AAA	283.3	12
Merrill Lynch Derivative Products, AG	Aaa	AAA	AAA	366.2	17
Bear Stearns Financial Products Inc.	Aaa	AAA	NR	830.3	15
				295.5 *	8 *
Citigroup Financial Products Inc.	Aa3	AA	AA	721.0	20
Lehman Brothers Derivative Products Inc.	Aaa	AAA[t]	NR	500.4	21
Goldman Sachs Mitsui Marine Derivative Products, L.P.	Aaa	AAA	NR	344.2	7
				318.7 *	5 *
AIG Financial Products Corp.	Aa2	AA	AA	317.3	9
JP Morgan Chase Bank	Aaa	AA	AA	213.0	7
Bank of America, N.A.	Aaa	AA+	AA+	208.8	5
Morgan Stanley Capital Services Inc	Aa3	AA-	AA-	136.7	2
BNP Paribas	Aa1	AA+	AA	89.1	2
UBS AG	Aaa	AA	AA	55.8	2
The Bank of New York	Aaa	AA-	AA	25.0	1
				$4,757.0	138

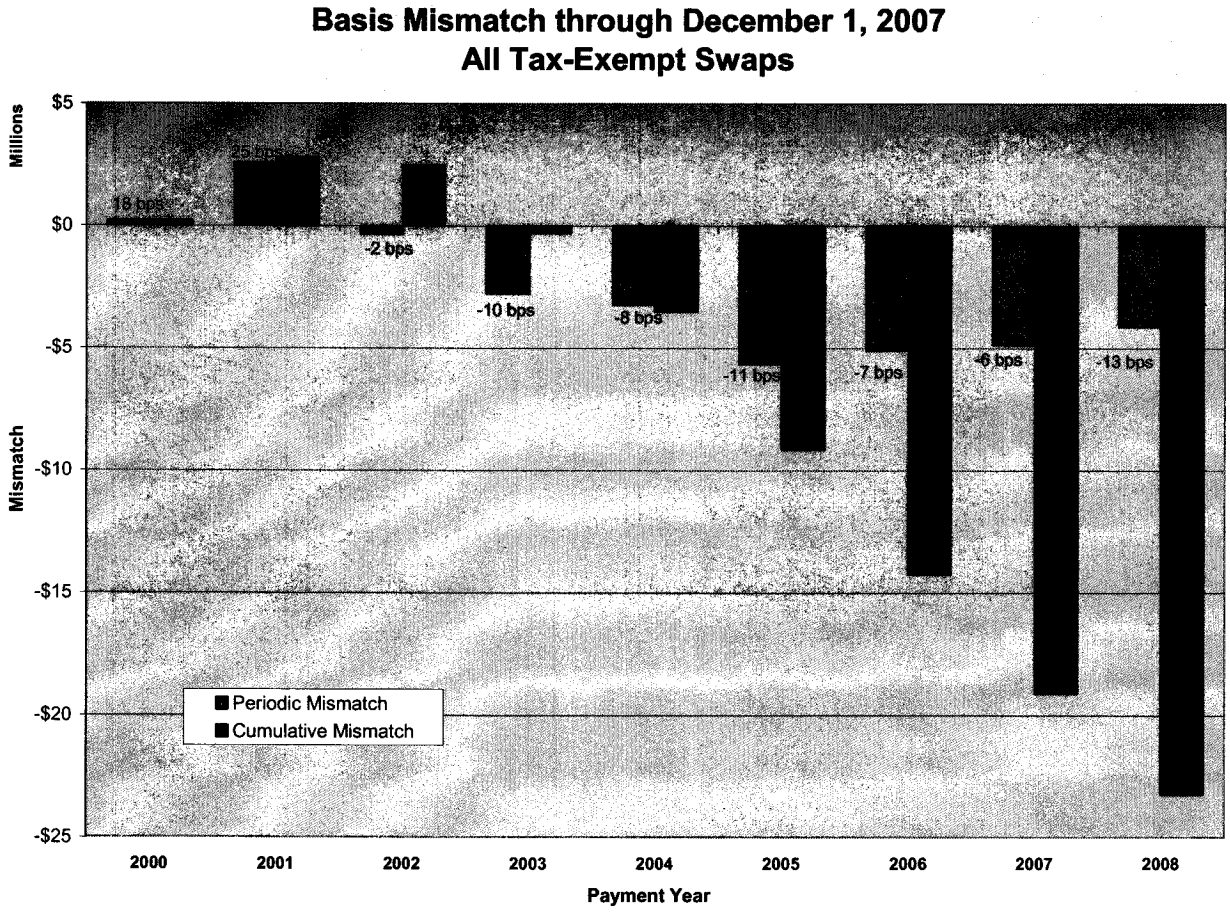
* *Basis Swaps (not included in totals)*

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

For all of our fixed-payer swaps, we receive floating rate payments from our counterparties in exchange for a fixed-rate obligation on our part. In today's market, the net periodic payment owed under these swap agreements is from us to our counterparties. As an example, on our August 1, 2007 semiannual debt service payment date we made a total of $10.7 million of net payments to our counterparties. Conversely, if short-term rates were to rise above the fixed rates of our swap agreements, then the net payment would run in the opposite direction, and we would be on the receiving end.

BASIS RISK AND BASIS SWAPS

Almost all of our swaps contain an element of what is referred to as "basis risk" – the risk that the floating rate component of the swap will not match the floating rate of the underlying bonds. This risk arises because our swap floating rates are based on indexes, which consist of market-wide averages, while our bond floating rates are specific to our individual bond issues. The only exception is where our taxable floating rate bonds are index-based, as is the case of the taxable floaters we have sold to the Federal Home Loan Banks. The chart below is a depiction of the basis mismatch that we have encountered since 2000 when we entered the swap market.



As the chart shows, the relationship between the two floating rates changes as market conditions change. Some periodic divergence was expected when we entered into the swaps. Over the lifetime of our swaps we have experienced more than $20 million of additional interest expense due to this basis mismatch. However, we have since mitigated much of this risk by changing our swap formula in 2005, as explained below. The result of these changes has decreased the periodic mismatch from 11 basis points in 2005 to 6 basis points in 2007.

In the past we entered into swaps at a ratio of 65% of LIBOR, the London Inter-Bank Offered Rate which is the index used to benchmark taxable floating rate debt. These percentage-of-LIBOR swaps have afforded us with excellent liquidity and great savings when the average SIFMA/LIBOR ratio was steady at 65%. As short-term rates fell to historic lows and with an increased market supply of tax-exempt variable rate bonds, the historic relationship between tax-exempt and taxable rates was not maintained. For example, the average SIFMA/LIBOR ratio was 84.3% in 2003, 81.5% in 2004, and 72.5% in 2005. Now that short-term rates have risen significantly, the ratio has begun to fall. In 2006, it averaged 67.7%, and the average for 2007 to date is 69%. The SIFMA (Securities Industry and Financial Markets Association) index is the index used to benchmark tax-exempt variable rates.

When the SIFMA/LIBOR ratio is very high the swap payment we receive falls short of our bond payment, and the all-in rate we experience is somewhat higher. The converse is true when the percentage is low. In response, we and our advisors looked for a better formula than a flat 65% of LIBOR. After considerable study of California tax-exempt variable rate history, we revised the formula in December of 2002 to 60% of LIBOR plus 0.26% which resulted in comparable fixed-rate economics but performed better when short-term rates were low and the SIFMA/LIBOR percentage was high. In December 2005 we looked at the formula again and after completing a statistical analysis of CalHFA variable rate bonds as compared to the SIFMA and LIBOR indexes and taking into consideration the changing market conditions, we've decided to utilize several different swap formulas for our different types of bonds. After careful monitoring of the new swap formulas and adjusting for changing market conditions, we modified the swap formulas again in September 2007. The new swap formulas for AMT bonds are: 63% of LIBOR plus 0.30% for weekly resets and 63% of LIBOR plus 0.24% for daily resets. We expect to use these new formulas for new swap transactions and we will continue to monitor the SIFMA/LIBOR relationship and the performance of the new swap formulas and make adjustments as necessary.

In addition, we currently have basis swaps for $614 million of the older 65% of LIBOR swaps. The basis swaps provide us with better economics in low-rate environments by exchanging the 65% of LIBOR formula for alternative formulas that alleviate the effects of high SIFMA/LIBOR ratios. The table on the next page shows the diversification of variable rate formulas used for determining the payments received from our interest rate swap counterparties.

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

	Tax-Exempt	Taxable	Totals
60% of LIBOR + 26bps	$1,879	$0	$1,879
62% of LIBOR + 25bps	570	0	570
3 mo. LIBOR + spread	0	442	442
SIFMA – 15bps	435	0	435
Enhanced LIBOR [1]	319	0	319
Stepped % of LIBOR [2]	295	0	295
65% of LIBOR	275	0	275
1 mo. LIBOR	0	206	206
97% of SIFMA	77	0	77
SIFMA – 20bps	60	0	60
63% of LIBOR + 24bps	50	0	50
6 mo. LIBOR	0	48	48
60% of LIBOR + 21bps	35	0	35
64% of LIBOR	27	0	27
63% of LIBOR + 30bps	26	0	26
64% of LIBOR + 25bps	13	0	13
TOTALS	$4,061	$696	$4,757

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

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

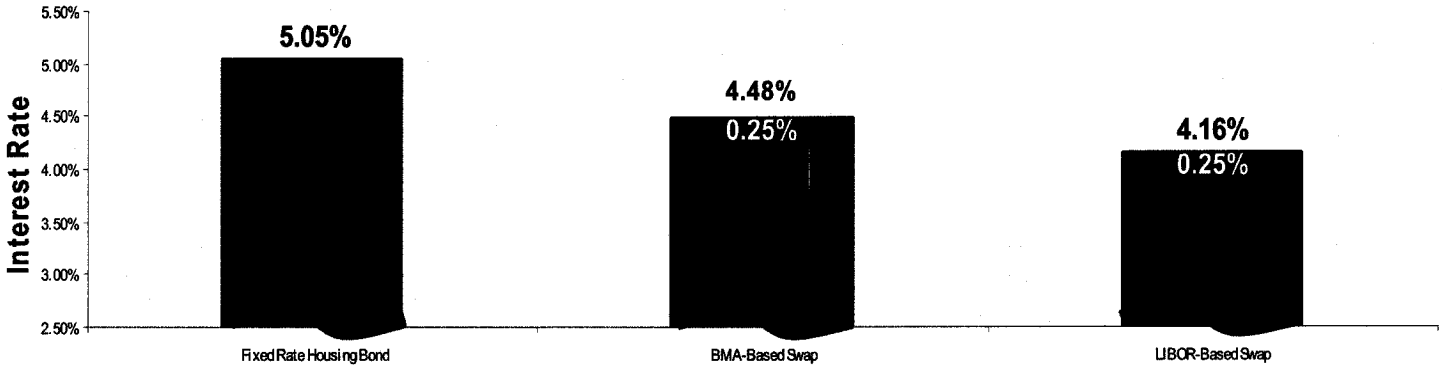
RISK OF CHANGES TO TAX LAW

For an estimated $3.4 billion of the $4 billion of tax-exempt bonds swapped to a fixed rate, we remain exposed to certain tax-related risks, another form of basis risk. In return for significantly higher savings, we have chosen through these interest rate swaps to retain exposure to the risk of changes in tax laws that would lessen the advantage of tax-exempt bonds in comparison to taxable securities. In these cases, if a tax law change were to result in tax-exempt rates being more comparable to taxable rates, the swap provider's payment to us would be less than the rate we would be paying on our bonds, again resulting in our all-in rate being higher.

We bear this same risk for $270 million of our tax-exempt variable rate bonds which we have not swapped to a fixed rate. Together, these two categories of variable rate bonds total $3.7 billion, 46.6% of our $8 billion of bonds outstanding. This risk of tax law changes is the same risk that investors take when they purchase our fixed-rate tax-exempt bonds.

The following bar chart shows the current benefit of our ability to assume the risk of changes to tax laws. Over the last several years this benefit (the difference between the cost of fixed rate housing bonds and the cost of a LIBOR based interest rate swap financing) has been as great as 100 basis points, and was the engine that made our interest rate swap strategy effective. In today's market this benefit is 38 basis points. The reduced economic benefit of assuming tax risk has led to recent decisions to issue some or all of our bonds as fixed rate housing bonds, especially for our homeownership programs. As market conditions change we will alter our financing strategies to obtain the lowest cost of borrowing while balancing the associated risks and benefits of alternative structures.

Costs of Funds for Fixed-Rate Bonds and Synthetic Fixed-Rate Bonds
(Variable Rate Bonds Swapped to Fixed)
(All Rates as of December 28, 2007)



SIFMA-Based Swap: SIFMA Index x 101%
LIBOR-Based Swap: 63% LIBOR + 24 bps

AMORTIZATION RISK

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

Since January 1, 2002, we have received over $6.6 billion of prepayments, including over $1.4 billion in 2004, $1.1 billion in calendar year 2005 and $504 million in 2006. Of this amount, approximately $2.03 billion is "excess" to swapped transactions we entered into. We have since recycled $1.94 billion of the $2.03 billion excess into new loans and have used $166 million to cross-call high interest rate bonds.

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

Also of interest is a $86 million forced overswap mismatch between the notional amount of certain of our swaps and the outstanding amount of the related bonds. This mismatch has occurred as a result of the interplay between our phenomenally high incidence of prepayments and the "10-year rule" of federal tax law. Under this rule, prepayments received 10 or more years beyond the date of the original issuance of bonds cannot be recycled into new loans and must be used to redeem tax-exempt bonds. In the case of these recent bond issues, a portion of the authority to issue them on a tax-exempt basis was related to older bonds.

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

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

In consultation with our financial advisors, we have determined that the best long-term strategy is to recycle the excess prepayments into new CalHFA loans. Of course, for some financings this means that we will be bearing the economic consequences of replacing old 7% to 8% loans that have paid off with new loans at rates that will be current at the time we recycle. With our May 1, 2007 transfer of loans from our warehouse line we have recycled a total of $1.94 billion of excess prepayments since March 1999. This practice has resulted in reduced issuance activity over the last few years.

In addition we have begun a widespread strategy of reusing unrestricted loan prepayments to purchase new loans. We currently have more than $3.2 billion (87%) of swap notional having a fixed payer rate below the estimated net weighted average interest rate of 5.87% for new loans being reserved. In today's market, this tremendous recycling opportunity reduces transaction costs related to new issuance and preserves for future use our swap par termination rights.

TERMINATION RISK

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

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

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

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

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

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

TERMINATION VALUE HISTORY

Date	Termination Value ($ in millions)
11/30/06	($174.8)
12/31/06	($132.7)
1/31/07	($113.8)
2/28/07	($155.7)
3/31/07	($137.7)
4/30/07	($129.3)
5/31/07	($83.2)
6/30/07	($40.4)
7/31/07	($64.4)
8/31/07	($101.8)
9/30/07	($110.1)
10/31/07	($120.5)

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

TYPES OF VARIABLE RATE DEBT

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

TYPES OF VARIABLE RATE DEBT
($ in millions)

	Auction Rate & Similar Securities	Indexed Rate Bonds	Variable Rate Demand Obligations	Total Variable Rate Debt
HMRB	$156	$1,015	$3,143	$4,314
MHRB	417	0	694	1,111
HPB	0	0	111	111
DDB	0	0	0	0
Total	$573	$1,015	$3,948	$5,536

LIQUIDITY PROVIDERS

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

LIQUIDITY PROVIDERS
($ in millions)

Financial Institution	$ Amount of Bonds	Indenture
Dexia Credit Local	$812.6	HMRB
Lloyds TSB	436.7	HMRB
Fannie Mae	376.2	HMRB/MHRB
BNP Paribas	264.6	HMRB
Bank of Nova Scotia	211.9	HMRB
KBC	254.0	HMRB
DEPFA Bank	199.6	MHRB
Calyon	174.5	HMRB
JP Morgan Chase Bank	156.5	HMRB
Bayerische Landesbank	153.9	HMRB
Landesbank Hessen-Thuringen	151.0	MHRB
Westdeutsche Landesbank	149.4	HMRB/MHRB
Bank of America	131.4	HMRB
Fortis	120.0	HMRB
State Street Bank	91.4	HMRB
Bank of New York	86.9	HMRB
CalSTRS	66.8	HMRB/MHRB
LBBW	61.1	HPB
Citibank N.A.	50.0	HPB
Total	$3,948.5	

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

BOND AND SWAP TERMINOLOGY

COUNTERPARTY
One of the participants in an interest rate swap

DATED DATE
Date from which first interest payment is calculated.

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

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

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

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

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

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

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

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

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

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

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

PRICING DATE

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

REDEMPTION

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

REFUNDING

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

REVENUE BOND (OR SPECIAL OBLIGATION BOND) (OR LIMITED OBLIGATION BOND)

A type of security which is evidence of a debt secured by revenues from certain assets (loans) pledged to the payment of the debt.

SIFMA INDEX

Securities Industry and Financial Markets Association Municipal Swap Index. A weekly index of short-term tax-exempt rates.

SALE DATE

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

SERIAL BOND

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

SERIES OF BONDS

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

SWAP CALL OPTION

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

SYNTHETIC FIXED RATE DEBT

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

SYNTHETIC FLOATING RATE DEBT

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

TERM BOND

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

VARIABLE RATE BOND

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

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State of California

MEMORANDUM

To: **CalHFA Board of Directors** **Date:** 2 January 2008

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

Subject: Legislative Report

It is the second day of the New Year, and the Legislature will not be back in session until next week. As such, there have been very few bills amended (and no introductions) at the state level since I reported last November. However, both Assembly and Senate Democrats have recently held separate press conferences announcing plans to introduce legislation dealing with subprime mortgage foreclosures, and information on those plans is included below.

I have started with some information about activity at the federal level I think will be of interest to you. As always, if you have any questions, please feel free to contact me at 916.324.0801.

At the Federal Level

On December 18, 2007, Senate Finance Committee members John Kerry and Gordon Smith introduced **S. 2517**, authorizing states and localities to use MRBs for refinancing subprime loans and providing states $15 billion in additional single-family Housing Bond authority in 2008. As introduced, S. 2517 would allow the additional bond cap authority to be used for all qualified first-time homebuyer mortgages, not just mortgage refinancings. The refinancing authority would apply to bonds issued after December 31, 2007 and before January 1, 2011. It would be allocated according to the regular per capita formula, and would expire December 31, 2010.

The next day, Senator Charles Schumer announced his intention to introduce MRB refinancing and cap increase legislation providing a permanent Housing Bond cap increase available for both single and multifamily housing. That bill is expected to be introduced after the Senate returns in January.

On December 20, 2007, the President signed **HR 3648** (Charles Rangel), the Mortgage Forgiveness Debt Relief Act of 2007, which, until January 1, 2010, eliminate the current income tax on homeowners when a portion or all of their mortgage debt on their principal residence is forgiven. This only applies to discharges directly related to a decline in the value of the residence or the financial condition of the taxpayer. This bill also extends the federal tax deduction for mortgage insurance premiums through 2010.

On December 26, 2007, the President signed **HR 3996** (Charles Rangel) which creates the Tax Increase Prevention Act of 2007, which extended through 2007 for individual taxpayers (1) the increased alternative minimum tax (AMT) exemption amounts and (2) the offset of nonrefundable personal tax credits against regular AMT liability.

At the State Level

On November 29, 2007, several Assembly Democratic Legislators, including Speaker Fabian Núñez and Assembly Banking and Finance Committee Chair Ted Lieu, held a press conference in which they called for a special session to "address the state's subprime mortgage foreclosures" and promised to introduce a legislative package "that will help minimize the financial crisis caused by the foreclosures."

The press package for the event states that we can expect to see a number of bills introduced to address this issue, including:

- Identifying at-risk borrowers and determining what lenders have done to assist them;
- Adding consumer real estate mortgage loans to the list of consumer contracts subject to California civic code translation requirements, protecting potential homeowners for whom English is a second language;
- Banning prepayment penalties that essentially prevent borrowers from refinancing;
- Ending incentives and kickbacks that spur lenders to push subprime loans onto prime-qualified buyers;
- Increasing counseling that can protect consumers from bad loans and help them find potential avenues for keeping their homes; and
- Toughening income verification regulations and requiring lenders to consider an applicants ability to repay over the life of a loan.

So far, we have seen one existing bill that has been amended to address this issue – **AB 529 (Torrico)** – was amended on 12/13/07 to require a lender who provides a loan secured by property improved by four or fewer residential units, and the interest rate on the loan is initially fixed and then becomes adjustable, to notify the borrower of specified items of information 180 days prior to an interest rate adjustment. The bill would further require the notification to be provided at least twice, once by telephone call and once by mail. This bill is currently pending in the Assembly Banking and Finance Committee, but has not yet been set for hearing.

The Senate Democrats also held a press conference on December 20, 2007 to "immediately help people affected by the subprime mortgage crisis stay in their homes and prevent neighborhoods afflicted with foreclosures from becoming areas of blight." The Senate Democrats announced their intention to introduce urgency legislation backed by Senators Don Perata, Michael Machado and Ellen Corbett that would "require lenders to meet in person with borrowers to discuss restructuring options." Although no bill has been introduced yet (introduction is expected next week when the Legislature returns), the press packet says that this bill will also "step up notice requirements, giving homeowners more

advanced warning that foreclosure may be coming," and would help limit the impact of a foreclosure on the surrounding neighborhood by "mandating that lenders maintain foreclosed properties or face a $1,000 per day fine." An outline of the proposed bill on Senator Perata's website lists the following "key provisions" of the proposed bill:

1) Notice to consumers regarding resets
   - Loan agents must provide borrowers a notice 120, 90 and 45 days prior to a reset of mortgage interest rate.
   - Notices must meet certain criteria; including being in the language the loan was originally negotiated.

2) Lender requirements to help borrowers avoid foreclosure
   - Lender must contact the borrower to provide restructuring options at an in-person meeting. The lender must also provide the borrower a list of HUD certified credit counselors available to assist the borrower. The lender must wait 30 days after that meeting to file a notice of default.
   - Notice of default must include a sworn statement that the lender met with the borrower or tried with due diligence to contact the borrower for an in-person meeting. The notice must also include the terms of the existing loan, including the reset amount and the restructuring options that were offered.

3) Notice to property residents that the foreclosure process has begun
   - Require a party filing a notice of default to also mail a notice addressed to "resident" in order to alert tenants that the property owner is delinquent in the mortgage payments.
   - A warning message about the foreclosure must be printed on the outside of the envelope in English and Spanish.

4) Give tenants additional time to move from a foreclosed property
   - Increase the current notice required to be given to residential tenants of foreclosed properties to 90 days prior to eviction.

5) Require maintenance of foreclosed properties to diminish the impact on the value of the neighboring homes.
   - Failure to maintain a foreclosed property is a nuisance and violators shall be subject to civil fines and penalties of up to $1,000 per day.
   - "Failure to maintain" includes failure to adequately care for the property including but not limited to, permitting excessive foliage growth that diminishes the value of surrounding properties, allowing incursions by trespassers, or permitting mosquito larva to grow in swimming pools.
   - Fines and penalties collected pursuant to this section shall be directed to local nuisance abatement programs.
   - These provisions shall not preempt stronger local ordinances.

6) This is an urgency measure

7) All provisions will sunset on December 31, 201

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