STATE OF CALIFORNIA

CALIFORNIA HOUSING FINANCE AGENCY

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BOARD OF DIRECTORS

PUBLIC MEETING

ORIGINAL

--o0o--

The Westin San Francisco Airport
One Old Bayshore Highway
Milbrae, California

Thursday, October 2, 2008
10:41 a.m. to 12:50 p.m.

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Minutes approved by the Board of Directors at its meeting held:
November 13, 2008
Attest:

Reported By: YVONNE K. FENNER, CSR #10909, RPR

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APPEARANCES

Directors Present:

PETER N. CAREY, Acting Chairperson
President/CEO
Self-Help Enterprises

BROOKS TAYLOR
For Cynthia Bryant
Director
Office of Planning and Research

CAROL GALANTE
President
BRIDGE Housing Corporation

LORI R. GAY
President/CEO
Los Angeles Neighborhood Housing Services, Inc.

ELLIOTT MANDELL
For Lynn L. Jacobs
Director
Housing and Community Development

CARLA I. JAVITS
President
REDF
(formerly Roberts Enterprise Development Fund)

THERESA A. PARKER
Executive Director
California Housing Finance Agency

WILLIAM J. PAVO
For Bill Lockyer
State Treasurer
State of California

HEATHER PETERS
For Dale E. Bonner
Secretary
Business, Transportation and Housing Agency

JACK SHINE, Chairperson
Chairman
American Beauty Development Co.

--o0o--

CalHFA Staff Present:

GARY BRAUNSTEIN
Special Advisor to the Executive Director
Homeownership Lending

ROBERT L. DEANER, II
Director
Multifamily Programs

BRUCE D. GILBERTSON
Director of Financing
Fiscal Services

THOMAS C. HUGHES
General Counsel

CHARLES K. McMANUS
Director
Mortgage Insurance

JOJO OJIMA
Office of the General Counsel

L. STEVEN SPEARS
Chief Deputy Directory

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BE IT REMEMBERED that on Thursday, October 2, 2008, commencing at the hour of 10:38 a.m., at The Westin San Francisco Airport, One Old Bayshore Highway, Cypress Room, Millbrae, California, before me, YVONNE K. FENNER, CSR #10909, RPR, the following proceedings were held:

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ACTING CHAIRPERSON CAREY: With that we'll call the meeting of California Housing Finance Agency Board of directors to order.

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Item 1. Roll Call

ACTING CHAIRPERSON CAREY: First item of business is the roll call.

JoJo.

MS. OJIMA: Thank you.

Ms. Peters for Mr. Bonner.

MS. PETERS: Here.

MS. OJIMA: Mr. Carey.

ACTING CHAIRPERSON CAREY: Here.

MS. OJIMA: Ms. Galante.

MS. GALANTE: Here.

MS. OJIMA: Ms. Gay.

MS. GAY: Here.

MS. OJIMA: Mr. Mandell for Ms. Jacobs.

MR. MANDELL: Here.

MS. OJIMA: Ms. Javits.

MS. JAVITS: Here.

MS. OJIMA: Mr. Pavao for Mr. Lockyer.

MR. PAVAO: Here.

MS. OJIMA: Thank you.

Mr. Shine.

(No response.)

MS. OJIMA: Ms. Bryant.

(No response.)

MS. OJIMA: Mr. Genest.

(No response.)

MS. OJIMA: Ms. Parker.

MS. PARKER: Here.

MS. OJIMA: We have a quorum.

ACTING CHAIRPERSON CAREY: Thank you.

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Item 2. Chairman comments

ACTING CHAIRPERSON CAREY: Well, I just want to thank you, everybody, for being able to get here on what is remarkably short notice and dealing with the current situation and the opportunity to get an update on the efforts at CalHFA to deal with current market issues.

And with that, I'm going to turn the meeting over to Terry, who will coordinate the presentation from the staff.

MS. PARKER: Thank you, Peter.

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Item 3. Report, discussion and possible action regarding the Agency's financing and program strategies and implementation, in the light of financial marketplace disruptions. Briefing will include presentations on CalHFA's debt management, asset management and lending programs for Homeownership and Multi-Family

MS. PARKER: A couple of newsy notes before I begin our presentation. We are not going to -- today we have no action items on your behalf. We're just going to do a presentation to give you basically information of what has happened since we last met barely two weeks ago. Things have been moving very quickly.

But a couple things that I want to bring to your attention, first of all, I -- JoJo and I received an e-mail on September 24th from Mr. John Morris, and in his e-mail to us -- I'll just read it.

"I am resigning from the California Housing Finance Board immediately. Due to business and personal commitments I cannot devote the time needed to be an active Board member. I have enjoyed working with you, and I wish you well."

This is the only information or resignation or anything one way or the other that I have, but I did want you to all know, since an e-mail is a public document, what I know about Mr. Morris' tenure on the Board.

The Governor's Office is actively working on what we now have as three vacancies to identify qualified candidates to serve on the Board, particularly at this important time in our Agency's history. So we will keep you apprised of that, and I certainly hope there will be news to share with you all very quickly.

We don't have an action item this Board meeting, but we do have at the Board meeting -- if you can note it all for your calendars, we've incorporated the next Board meeting on October 20th at 3:00 p.m. in Sacramento. A number of you will be in Sacramento because that is a time that the recruiting committee is doing work, so we are going to add a Board meeting. Again, given the time horizon of how quickly events are happening, we want to take advantage of many of you being in town to use that opportunity to keep you apprised of -- particularly if there are things that we do need additional action on the Board's part.

One item I will tell you, ahead of time that we are going to need action on. As I told you all, the Treasurer's Office is busy working on the addition to the 2008 allocation of volume bond cap awarded to every state as a result of the Housing Stimulus Bill. California is scheduled to get 1.44 billion of additional cap. This cap has to be allocated before the end of the year.

We have been working with the Treasurer's Office to submit our application. They have given us a number of what they believe we should apply for that might be the outside number that we could possibly receive. We have, by resolution, a cap on the amount that we can apply for. We went back at that time, looked at it yesterday. We're 7 million short.

So we are going to submit the application. The Treasurer's Office won't be making -- taking any action until the 3rd of December, but we'll be coming back to you with an amendment resolution.

We talked about trying to do it very quickly last night. I told Tom that we should -- we have you again within a very reasonable time frame and we could also take care to notice it more properly, but I do want to just bring to your attention that technical item.

So with that, Mr. Chairman, I'm going to tell you what we're going to tell you, then we're going to tell you and then we'll tell you what we told you.

We have put a presentation together, a set of slides. We were working until late last night. It's as up-to-the-minute as it possibly can be. We'll tell you what has occurred for us and what things that we are thinking as next steps and some of the conversations that we have had with our partners and colleagues in state government.

The last thing I bring your attention to at your desk is a one-pager that we're calling "CalHFA Myths and Facts." There has been a lot of rumors swirling around. Some of our colleagues have gone to housing conferences across the state, and people are speaking for us that are saying we're shut down and we've had bonds fail or whatever.

We think it's important that people know what the true facts are, so this is a document that we put together very quickly yesterday, and so we would appreciate to the extent that anybody is saying anything, that all of us are speaking from the same hymnal, basically saying that CalHFA is still in business.

As you note down at the bottom, in the last seven days we've actually taken in $18 million of new loans. It amazes me. And that's with a 6.75-percent interest rate with only the CHDAP downpayment assistance we've had in the past so.

With that, Mr. Chairman, I'm going to step around, and we're going to go through our presentation.

Bruce, if you want to start off.

MR. GILBERTSON: Okay. Thank you, Terri.

So this breaks into about three or four different pieces. We thought what would be important is to go through kind of an update on the capital markets, especially as it relates to the municipal bond market. Of course, that is the market that we go to to raise capital for all of our core lending programs, both multifamily and single family.

At this point, there's still no access to the capital markets. Some of you may --

MS. PARKER: Bruce, you need to speak up. They can't hear you.

MR. GILBERTSON: They can't hear me at all? Okay. I'll just bring it closer.

So there's no access to the capital markets. No -- very, very few issuers are issuing municipal bonds. I think the State Treasurer yesterday issued a press release to that effect. It got a lot of press locally, I know, in Sacramento, both in the news, and I understand it's in The Sacramento Bee this morning as well. And they're, of course, facing an issuance of the Rand sale that's coming up in a couple weeks.

So there no access to short-term variable rate markets, fixed-rate long-term markets. We're not alone. Very important to understand this is broad based. This is all municipalities. It's not California only. It's not the housing sector. It's very, very broad based. In fact, it's extended to corporate debt issuers, you know, big names. General Electric and others have not been able to access the debt markets.

You may have seen some of the stories that Warren Buffet has bought preferred stock in very well-known entities. He's doing that as a huge -- in my mind, it's a very lucrative opportunity for Warren Buffet, but it's because these companies can't raise debt in the normal -- normal fashion.

So we have seen some improvement in short-term interest rates over the last week or week and a half. As Terri said, we did work on this till late last night. Things do change.

Last week, I think when we talked the end of September, we were telling you that we had some short-term interest rates in the 10- to 12-percent range, when we were expecting them to be in the 2.3-percent range to better match the variable interest rate components in our interest rate swap contracts.

During the course of this week, interest rates kind of were in the 5- to 9-percent range, compared to an expectation of about a 7.7. I did see a note today, I don't know if this is relating to any of our bonds, but J.P. Morgan, one of our four or five remarketing agents, was reporting on a -- on a global basis within the United States the daily VRDOs were now below 3 percent.

The other thing that the market is starting to digest is some of the banks are stronger than others. So when you assess which VRDOs to purchase, you want to look at the issuer. That tends to be the long-term rating. And you also want to look at the bank liquidity facility that's attached to them, and that explains the short-term rating. If you want to get out of the position, you want the bank to be there in a position to fund the purchase of the bonds that you want to put back.

So it is changing quickly. Widespread liquidity and credit concerns. Many draws on our standby bond purchase agreements. I looked back at some of the notes from two weeks ago. I think I told you at that time we had 60 million. It is a big number. We're going to get to that in a little bit. It's even higher this morning. I had an update from my staff. So we're approaching a billion dollars of bank bonds at this point.

Prior to this, of course, this was a market that didn't experience this type of thing. We had never had a draw on a facility. We had one during a disruption last spring, earlier this year.

So this slide says as of October 1, yesterday, $898 million of bank bonds. My update was just over like 940 million. I wrote it down the subsequent slide.

This is -- yeah, it's actually 984 as of this morning.

So we thought we would show -- this is yesterday, of course. It shows you the date that the bonds were drawn. The bonds were put back to the liquidity bank, effectively drawing on the standby bond purchase agreement.

It started the week of the last Board meeting. The 16th was Tuesday. We met with you on Thursday, so we were talking about an amount that was 35, 40, I think I looked at the notes from the prior meeting. You can see that they have continued.

Netted out in some of this are some bonds that have been successfully remarketed. They may go to a bank, and some do come back. Another note I received this morning was that Goldman Sachs has successfully remarketed all of the bonds. So the middle column where there were 45 million that they put back to the bank, now they're all in the hands of investors.

But it's just kind of been through a series of events. Late last week and on Monday, huge amounts came back. 142 million came back on Friday. $317 million went to banks on Monday. It's kind of slowed down a little bit as we've gotten closer to the end of this week.

The remarketing agents is important. Those are the people, their job is to find investors. When the original investors want to get out of their investment, their job is to set the rate and find additional investors. Merrill Lynch had never put back a bond to a bank facility until late last week. Lehman Brothers, of course, is another -- it really probably should be Barclays at this point because Barclays now does own that aspect of the Lehman Brothers. 183 million.

Citi, Goldman, J.P. Morgan, Depfa, they're all remarketing agents for the Agency -- and put these bonds back to these banks.

The liquidity bank column is -- can really give you a sense of you've seen the chart and we have it coming up in a while, you'll see a slide that is a chart. It's a pie chart of all the different liquidity banks that we have. And one of our strategies for many years has been to diversify that exposure amongst a lot of banks. And quite honestly, in the housing space, we probably have every bank that has ever wanted to participate in this marketplace.

You may have read some of the news articles about banks in these European markets, Dexia and Depfa, particularly. They have big problems. They have credit issues, no different than banks domestically.

So an investor is -- has a concern that the bank may not be there to provide the liquidity for their investment in our bonds, so they don't want to have the exposure. They'd much rather get out of it sooner rather than later, because there could be issues where we could have not only a failed remarketer, which this slide depicts, but a failed funding on the part of a bank.

MS. GALANTE: Bruce, back to -- go back to Merrill. I don't really understand. Those are -- those first numbers, 487 and 343 are really large numbers. Is that, those failures, because of who those institutions are or is it proportionally related somehow to where we have, you know -- who we have remarketing these?

In other words, why is it 487 for Merrill and, you know, only 45 for Goldman? I'm trying to understand.

MR. GILBERTSON: Merrill Lynch does have many more bonds to remarket than Goldman Sachs. In fact, Merrill Lynch probably has 40 percent of our variable-rate exposure, so that's a $4-billion number approximately. And if they have 40 percent of that, they have one and a half billion or 1.5 billion --

MS. PARKER: Remember the chart that Bruce has done, the one we call the rainbow coalition? So that's -- gives you the numbers of who, you know, the entities are that are carrying our variable-rate debt.

MS. GALANTE: So this is more a reflection of where our resources are, as opposed to the institutions themselves?

MS. PARKER: Bruce, you can answer that, but I would basically say it's -- I think it's as much a reflection of where these institutions are.

MR. GILBERTSON: Yeah, I think -- remember, there's two things going on here. One is the remarketing agent. Their role is not to provide the liquidity, but to find the investors.

MS. GALANTE: Right.

MR. GILBERTSON: Historically the remarketing agents were very willing to own the bonds during a period where they couldn't find an investor. That has all changed. I mean, these banks, be it Merrill Lynch, Goldman Sachs, they're very sensitive to what goes on their balance sheets.

I know in particular Merrill Lynch had a quarter end at the end of September. I heard from the bankers that this might be one of the events that was to occur, that they're trying to dress up their balance sheet for their investors' purposes, and quite honestly they tend to sacrifice some of their relationships, with us and other issuers, as clients. It doesn't -- it doesn't make their balance sheet look as good if they hold all of these VRDOs on their balance sheet at their quarter end.

So I don't know if this is going to be a temporary thing that will get better as we move into October or not, but the one thing we should talk about generally -- we did this two weeks ago -- it's the tax-exempt money-market funds that are the big buyers of these funds. That's the target audience, if you will.

Remember, we talked about the money-market funds in general having a lot of trouble in September. There were big withdrawals of cash out of these funds, so there wasn't as much money to invest. So those money-market fund managers would be making determinations as to if they're having cash pulled out, which bonds do they want to sell or, in essence, put back to a bank facility if there is no other investor.

So we have all of those things going too. In October, there has been some additional cash going back into the money-market funds, but certainly the net withdrawal has been rather substantial at this point.

Bill.

MR. PAVAO: Is Depfa unique in being both a remarketing agent and a liquidity bank?

MR. GILBERTSON: That is a very interesting thing. You picked up on it. That's a very recent event, actually.

Depfa had always provided liquidity to us. We thought it made a lot of sense businesswise that if they were the remarketing agent, they would be less likely to put bonds back to themselves. They have a decision to make. They're asked to market the funds, find an investor. If they can't, they're effectively going to put it back to themselves. So this is one example.

We have a couple other situations like that. Bank of America plays dual roles as well. To their credit, you'll see that B of A has not put back any bonds at this point. A large part of it would be to themselves in that case as well.

That clear?

MR. PAVAO: I'm not quite sure I get the relationship in those two roles, but maybe that's --

MR. GILBERTSON: I could spend some more time. The remarketing agent is asked to establish a rate. Ideally it's a rate that would be sufficient to find an investor to buy the bonds. Historically the remarketing agent has become the investor, many times, when they can't find one. All of the calendar year 2007, that has become a big challenge.

So here the decision that they have to make at the highest levels within the bank is do they want to own the bonds themselves as a bond or do they want to own it as a bank bond, if they're providing liquidity. We've talked about the differences when you own a bank bond, we're going to get paid over an accelerated amortization period, typically four or five years versus 30 years.

MS. PETERS: One quick question. This Merrill remarketing agent division or whatever, is that now B of A?

MR. GILBERTSON: We do have some B of A folks in the audience. They could probably provide an update. They have not merged. The transaction is scheduled to close either at the end of this year or early next year, but ultimately it will become one entity, yeah.

So with all the market disruption, what is the impact on CalHFA? Certainly a higher cost of funds. We call that basis mismatch. That's the mismatch between the variable rate we pay our bondholders and the variable rate that we receive from our interest rate swap counterparty.

We hadn't calculated this number two weeks ago, but we have in the -- in the intervening time period. We had a basis mismatch of $4.6 million for the six weeks from August 1 to the middle of September. And that compares to an $8-million mismatch for the 12 months from August of 2007 through July of 2008.

So if that trend were to continue over 52 weeks, you're looking at --

MS. PARKER: Some 50 million.

MR. GILBERTSON: -- 50, 60 million dollars, as compared to 8 million last year.

The other thing is potential liquidity stress. This is the axis -- the point that we've been talking about, is that while there's a VRDO in the market and an investor, we have a plan to pay that bondholder back over 30 years. The term-out provisions under a bank bond requires us to pay it back typically over a five-year period, or we look at it as about one-tenth every six months, and the first 10 percent would occur on February 1, 2009.

MS. PARKER: Bruce, let me stop you for a minute and just have you reiterate what we talked about in the car, because I think this is the most important issue for everyone to understand. Everybody is talking about the marketplace, those over-leveraged banks.

CalHFA is in a situation where we have hard assets worth, you know, the loans that we've made on them, perhaps some loss in the appraisal value, but more than a dollar on every dollar we loan. It's a cash flow problem.

So, you know, that's really the liquidity issue. It's not that we don't have the means to get these payments back, it's if we have to do it in a shorter period of time than we anticipated, how do we cover that.

MR. GILBERTSON: Thanks, Terri.

So the next thing we should talk about is, of course, the event that occurred on Monday, and that is that we received -- we had phone calls first, and then we received a formal letter from Moody's that effectively announced they were going to put our general obligation issuer credit rating on watch for possible downgrade. Currently that rating is a Aa3, very strong credit.

This is after many, many conversations with them. In fact, we were back in New York just two weeks ago to meet with them. We've listed here the actual bonds, the different indentures that are affected by this potential for a possible downgrade.

Multifamily Housing Revenue Bonds III, we do all of our current lending activity under the multifamily program from this indenture.

Multifamily Housing Revenue Bond II indenture is an indenture that we used in the early 90s. We really haven't been using that since we opened the Multifamily III indenture.

And then the Housing Program Bonds indenture also benefits from the Agency's general obligation credit enhancement. It's been used for a variety of purposes. One of them was to finance some downpayment assistance loans for our homeownership program.

MR. MANDELL: I have a question.

MR. GILBERTSON: Yes.

MR. MANDELL: My concern about the credit rating is, of course, the cost, not only that it will be more costly to go out to the market and get -- and borrow, but that's also a supply and demand kind of thing. And so if CalHFA is seeing possible downgrading, I'm gathering that there will be downgrading basically throughout the market. And so if everyone gets downgraded and the investors are still there -- that's a key assumption -- then it would seem the bottom line is there wouldn't be a cost --

MR. GILBERTSON: Yeah, a couple thoughts, Mr. Mandell, the rating, I think we've got to remember, is very critical. In March, one of the things that we presented to you was that we really need to hang on to our double-A rating. Aa3 by Moody's is the last notch of the double-A category.

The primary reason is our concentration of these variable-rate demand obligations. To be eligible for purchase by a money-market fund, one of the standards is that you have a double-A rating. So if we were to slip to a single-A rating, that would be jeopardized. So that's one issue.

I think as we go through the rest of the letter, you'll perhaps understand what -- what Moody's is concerned about is twofold. One is our exposure to the variable-rate debt markets, and one is being a lender in California. California is under pressure from a home valuation perspective, and that's coming up here in just a moment.

So I wanted to just run through quickly, what do the bonds look like that are affected by this potential rating action. The -- and you've seen similar slides before. I think we looked at a slide that was very similar two weeks ago.

What we've done here is we've isolated the bonds that are under those three indentures that all carry our general obligation credit enhancement. So we have both auction rate securities. We have variable rate demand obligations.

You'll notice that in these credits or these bond indentures, we no longer have any variable rate demand obligations that carry AMBAC, MBIA or FSA insurance. All of the variable rate demand obligations are uninsured, and the bond investor is looking at the credit of CalHFA on a long-term basis and looking at the short-term credit of the liquidity bank that is attached to each of those bonds.

In addition there's $392 million of fixed-rate bonds. The grand total is 1.5 almost 1.6 billion dollars.

And by comparison, our other big indenture is our Home Mortgage Receive Bond indenture -- not impacted in any way. It's a double Aa2 rated credit by Moody's. We have almost $7 million of bonds here. Again, we do have optional securities with VRDOs that have insurance. We've been through this with you several times.

So what did the credit rating announcement really say, and why did they issue the letter? And these, I believe, are actual quotes right out of the letter. But the action was based upon the combined effects of the three following items.

Increased losses. We've been reporting to Moody's and all of our financial partners at least on a monthly basis regarding the delinquencies, losses, foreclosures on our single-family mortgage portfolio. So they're seeing increased losses from delinquencies and foreclosures, from the over $6 billion of first-time homebuyer loans that we have in the portfolio.

The second item was the heightened risk related to the Agency's variable-rate debt resulting from the volatile market. We've been talking about this already this morning. And counterparty risk. Counterparties could be the interest rate swap providers. Counterparties could be the liquidity banks. Counterparties could be the remarketing agent. There's a number of things that I would put into the category of a counterparty.

And the third item was a lending initiative that has been -- that would place -- has placed additional leverage on the Agency's balance sheet. The Board all know the Bay Area Housing Program. It's a hundred million dollar lending program that because of the unique nature of the loans might have needed assistance credit enhancement from the Agency.

Again, we made sure -- if you read the letter, it does say we began this program in 2005. We've been working on this for a number of years. In 2005, 2006, we would have anticipated to use third-party credit enhancement. A bond insurer would have been ideal for that type of financing, and we had made great strides in that direction. Of course, all of that kind of collapsed at the end of last year.

MS. PARKER: This comes under the theory of no good deed goes unpunished.

MS. GALANTE: You took the words out of my mouth.

MR. GILBERTSON: So I thought we'd go through kind of the three points and look at some data that I have that kind of shows where we are in -- in the thoughts that Moody's has at this point. The first one was about delinquencies and foreclosures in the single-family program.

Two weeks ago I think we showed you the June 30th delinquency numbers. Here we have the July 31, 2008 numbers. The overall delinquency of the portfolio of 33,000 loans is 7.24 percent. Again, keep in mind Moody's and Standard & Poor's aren't concerned about the FHA-insured loans in this portfolio, 15,688 loans, even though there's a 9.46-percent delinquency rate because the federal government is behind that insurance, and we, everybody, expects that we're going to be repaid if there are losses as a result of foreclosures.

You know, the VA portfolio is so small it's probably not worth discussing. Same with the Rural Housing portfolio.

Where the concern of Moody's lies is on the loans that fall under the categories of conventionally insured loans, and we have those -- that risk of loss in several different kind of buckets, if you will.

The first bucket is conventionally insured loans that have a primary mortgage insurance policy that is underwritten by our mortgage insurance fund under the direction of Chuck McManus, his team. There's 9700 loans in there, 2.6 billion. Most of those loans have 35-percent protection from the mortgage insurance borrowers paying a monthly premium.

We have other loans that fall into that conventionally insured bucket. Because our bond indenture, the Home Mortgage Revenue Bond indenture, written in 1982, in some respects is not modern, it requires that we provide bondholders 50-percent mortgage insurance coveraged for the life of the loan.

Remember in 1998, there was a big to-do. The federal government passed the federal Homeowner Protection Act of 1998. It allowed borrowers that had private mortgage insurance to cancel their mortgage insurance, discontinue making premium payments, if they had attained certain levels of loan to value. You know, basically 78 percent.

The Agency at that time had to consider that. We elected to follow -- like everybody else did, we elected to allow borrowers, if they could prove with an appraisal that they had attained those loan-to-value relationships, they could cancel it. So we effectively had to meet an indenture requirement that provides for 50-percent coverage for the life of the loan, but we didn't have primary mortgage insurance anymore.

Again, this is the one point -- the MI cancelled is actually the bottom line, 1700 loans, 218 million. But the delinquencies, look at it, 1.76. Not a concern. These people actually have equity in their home. It's unlikely they're going to default and end up in foreclosure.

There's another category that are loans that are originated without mortgage insurance. Those really are loans where borrowers had other forms of downpayment, either themselves or a combination of Agency-provided downpayment assistance, local-government-provided downpayment assistance, so they could get to a loan to value that was 80 percent or less.

So, again, there's equity from some source. It may not be the homeowner that has equity, but there is equity embedded in that promise. Again, 5800 loans, $1.2 billion.

Again, I would point out that the delinquency rate for all of those loans is only 2.59 percent.

MR. SPEARS: Before we leave that chart, the loans that the rating agencies are concerned about are conventional loans, so if you just want to bracket those bottom three, that delinquency rate is 5.21, I think.

MR. GILBERTSON: That -- it's on the sheet.

MR. SPEARS: Yeah, I think so.

So those bottom three --

MS. PARKER: The ones that are really fundamental are the 9700 loans, which is less than a third, basically, of our portfolio.

MR. SPEARS: Right. But all the loans taken together, the conventional loans, 5.21 as opposed to the total of everything all together, 7.24.

MS. PARKER: That's 94 -- 94-point-something percent that are performing loans.

MR. GILBERTSON: Ms. Peters.

MS. PETERS: Is there any reason why we have such a difference in the default rate between the CalHFA MI fund and the two others below it?

MR. GILBERTSON: Well, I think, the one thing that you would -- those all have borrower paid mortgage insurance. They're paying premiums. They don't have equity in the property. They have -- they tend to have much higher loan to values. Many of those can be in the category that was a hundred percent loan to value at the time they originated the loan.

Remember, we ran a program of 100 LTV for a number of years and discontinued it earlier this calendar year.

MS. PETERS: Thank you.

MR. GILBERTSON: So we have some charts that kind of show you a historical perspective over the last ten years of delinquency patterns for CalHFA insured loans versus California loans as reported by the Mortgage Bankers Association. I'll just walk through these.

The top two lines, the red line and the blue line, represent FHA insured loans, fixed rate insured loans. The red line would be California FFA fixed rate loans as reported by the Mortgage Bankers Association. The blue line would be our own portfolio.

The most interesting thing here is that for years, for nine and a half years, the blue line was below the red line, and then sometime around the first of the year, it's crossed over. Again, if we believe that we're not concerned about FHA insured loans because the risk to the Agency lender is not great, it's interesting, but I don't think we should spend a lot of time on it.

I think the bottom two lines are perhaps the most important. We have the CalHFA conventionally insured loans, which I'm going to call that lavender -- you know, Terri wanted me to change these colors last night, and we just ran out of time.

MS. PARKER: Pink and green.

MR. GILBERTSON: Okay. Pink and green.

Ours is the pink line, and the green line would represent the Mortgage Bankers Association California prime loans. And you can see there the opposite has occurred. We were always higher, I think because we deal in only the lowest quartile of the lending markets. We're serving affordable homebuyers in the first-time homebuyer segment of the marketplace.

And so the lines have crossed over in the opposite way, but our performance is actually performing better than the broader market. Remember, if you -- when we have talked with Moody's and the rating agencies over the last year, they have been very concerned about the California marketplace. They want to know about Stockton. And we try to tell them Stockton is a relatively small city in San Joaquin County. We don't have a lot of loans there.

But they read the headlines, the articles that made publications through the country, and so they are worried about loss of value when they read about the foreclosure problems and those things.

The second chart is maybe even more important. A borrower that's only one month behind or two months behind, still might cure. They might come up with capital, find other assistance that could help them in this difficult.

The same lines, we have the FHA loans on top. Kind of the same story here. The blue line, our HFA loan portfolio, crossed over and is at a higher rate than the Mortgage Bankers rates for FHA insured loans. Same kind of situation with the green and the pink lines that represent the conventional loans, but the spread, the gap, between those two points is much greater.

So our seriously delinquent conventionally insured loans is lower than the Mortgage Bankers Association California prime --

MS. PARKER: Let me say we think this is

directly related to, you know, our underwriting, particularly underwriting that Chuck has done. As you are aware, almost two years ago Chuck changed some of our underwriting for us to be more conservative than what Fannie Mae had with respect to back-end ratios. We have never been, you know, as liberal as they were.

And then again, you know, six months ago we changed our underwriting again to increase FICO scores, reduce LTVs. So while we've got problems, you know, I think our story is good.

MR. GILBERTSON: We decided at the last minute to throw this graphic in. This graphic was really defined -- or we created it for a slightly different purpose, but I thought it might be helpful to understand this concept of GAP insurance.

So what this is showing, again -- the headline shows that CalHFA's MI fund insures all non-FHA loans down to 50 percent of the loan balance. Why? Because we have a bond indenture that requires it. Quite honestly, it's a selling point for an investor in the Home Mortgage Revenue Bond. It's perhaps why the rating is slightly higher than our overall credit rating as well.

So if you have -- there's three columns there. You know, and we're assuming for the first two columns that you have a hundred percent loan to value, something that we did for a number of years up until earlier in 2008.

If you have a primary mortgage, a conventionally insured loan, from our mortgage insurance fund and if you had a hundred percent loan to value, the insurance would cover the top 50 percent of the loan. So if you had a hundred thousand dollar loan, it would cover to the $50,000 point.

50 percent, then, would be covered by the indenture. Investors in the bonds would, you know, be -- would incur any losses that pierce through the 50-percent point.

With the Veterans Administration and the Rural Housing insured loans, it's really not a formula. It's a little harder to determine. Let's just say in general that they cover 25 percent of the loans. We're providing a wrap around that or supplemental insurance to meet the indenture requirement of 50 percent. Same situation, the 50 percent -- losses in addition -- above and beyond 50 percent would be losses to the bond investors under the indenture.

The white box below the blue box effectively is the GAP insurance. Okay. So in that example, the GAP insurance is an obligation of the mortgage insurance fund of CalHFA, but we have agreed to indemnify the mortgage insurance fund for any losses they pay as a result of the GAP insurance. That's coming from the big CalHFA. That's coming from the general asset base of CalHFA.

MS. PARKER: And that is against our general obligation.

MR. GILBERTSON: You can see the connection that Moody's is making. They're saying we're concerned about losses in that space. Okay.

Same -- same point holds for loans that might have been originated without the benefit of a borrower paid mortgage insurance policy because they had equity to meet the 50-percent level.

The white box below that effectively is this GAP insurance risk that, again, is processed, administered and initially paid by the mortgage insurance fund, but we have provided full recourse back to the time mortgage insurance fund to the extent they make any payments.

MS. PARKER: Bruce, one other thing to point out. Again, what Moody's is reacting to is our general obligation rating. We have a rate on our HMRB indentures. This is the main indenture that we do all single-family funding. They haven't said anything about that. It is only about our general obligation.

MR. GILBERTSON: So -- go ahead, Mr. Pavao.

MR. PAVAO: You just mentioned the reason why that one line to the far right column is 80 percent loan to value. The reason why that 50 percent is lower than the others is why?

MR. GILBERTSON: So if your first mortgage is 80 percent of the purchase price of the property, you have to cover 50 percent of the loan amount, not the purchase price. So 50 percent of 80 percent is 40 percent. So in that case the investor, the bond investor, the Home Mortgage Revenue Bond investor, has much more coverage. They only have risk for the bottom 40 percent.

MR. PAVAO: Okay, thanks.

MR. GILBERTSON: This is just the numbers, then. This was a slide that we actually used when we went back to New York to talk to the rating agencies. It shows all of the mortgage insurance, primary mortgage insurance and GAP insurance, and the risk-in-force. So bear with me. I'll work through a little bit of this. We may not need to go through all of the lines.

I'm going to skip the top line. At one point we had 50-percent coverage on all of our loans. We discontinued that in the early 2003, 2004 time frame. Nobody else -- that wasn't a market-based product.

Typically 35-percent coverage or even less is what the coverage of the private mortgage insurer would be looking for. We made that change years ago.

So we -- if you go down to the one that's the third line down, the mortgage insurance 35-percent coverage, with a net risk of 25 percent because our mortgage insurance fund is reinsuring 75 percent of the risk with Genworth. We come across, and there's 8,000-almost-300 loans in that total column, loan count, $2.3 billion of insurance in-force. Insurance in-force is simply the loan balance.

The next column shows the mortgage insurance risk in-force, so this would be 25 percent of the 35-percent coverage, to get to the $208 million. That's the bulk of the net risk in-force that our mortgage insurance fund is monitoring.

Quite honestly, my opinion, we have 70, 73 million dollars of capital to support that risk. I think that's a pretty low ratio, quite honestly. It's somewhere in the neighborhood of three or slightly over three to one.

MS. GALANTE: Bruce, are there any industry standards to benchmark that this is a good measure of capital for the risk?

MR. GILBERTSON: I think we should have Chuck maybe come up and address that question. He's much -- come on up, Chuck.

MS. PARKER: Chuck, come sit here.

MR. McMANUS: Currently I would say about a ten to one ratio would be what's looked for. It used to be 25 to one in the old days. That was a requirement when mortgage insurance was set up in 1957, the modern mortgage insurance. And most mortgage insurers were in the high teens on their ratio of risk divided by capital, capital plus reserves. I won't get into the statutory accounting.

So our ratios are very low. In our S&P review, they asked why we had so much excess capital, okay, which I found unusual, and then they're challenging us on everything else. So -- but we're a single state entity, so we need to be conservative on the amount of capital. Three to one is generally very conservative. It's tough times now, so we are going to be under the microscope no matter what our ratio is. Three to one is a good, exceptionally strong risk to capital ratio.

MS. GALANTE: Thank you.

MR. GILBERTSON: So let me just -- I want to flip back to a prior slide real quick.

So we see the mortgage insurance risk in-force, the $208 million, and there's two smaller numbers just above that, 37-million-3 and 700,000.

Let's go back and compare it to the delinquency on those loans. I think I can do this. So those would be -- that's the group of loans that is conventional loans with mortgage insurance, CalHFA mortgage insurance fund. Roughly 9700 loans, 7.3 percent of those are delinquent.

So we have -- from the CalHFA general obligation credit perspective, there's a higher rate of delinquency. We have mortgage insurance on it. Chuck's fund is well capitalized, and we have 75 percent of the risk reinsured.

So I think -- go back to the other slide quickly. So the line just below that shows this GAP coverage, where the Agency's general obligation credit is picking up an additional 15 percent of the risk. So this is beyond the 35. You have to have a loss that's greater than 35 percent. That total is 357 million. And we would encounter a loss of that magnitude if every one of loans went into foreclosure and every property had a loss of 50 percent or more.

I don't think that's very likely. I don't know what it's going to end up being, but some portion of that will probably become a loss to the Agency.

MS. GALANTE: Two more questions. So 75 percent of the risk is covered by Genworth, the solvency of Genworth. If this were AIG and not Genworth, would we have a bigger problem?

MR. McMANUS: I don't know how much capital is in AIG. They used to be triple A. The parent's now the government. So then Genworth is the one strongest mortgage insurance entity right now. They're the only double A left. They're -- however, they also have been in the paper as a potential spin-off from Genworth Financial. They're going to spin off their MI fund to separate it. I think for stock purposes. I think the two together are worth more money and so -- but they're the strongest available. I will say that. And so we're lucky that we have them.

We last extended our -- the brilliant people that signed, the people before I got here.

The one thing we did do, we had a five-year agreement, and that's been extended to ten years. They cannot leave us through 2010. That's another good thing. It's a long-term relationship.

A tough situation with the California market. Our market is down 40 percent in the last 12 months. That's a tough market. It's unlike normal predictable markets. So we need the economy to turn around. We need the housing market to settle down. Until then, we're in uncharted waters and just trying to manage through it.

MR. GILBERTSON: Yeah, I would note I don't know which of the two rating agencies Genworth was put on watch for possible downgrade, just as our GO credit was. Do you remember, Chuck, if that was Standard & Poor's or Moody's?

MR. McMANUS: I don't, but all mortgage insurers by Standard & Poor's are on credit watch. Well, they're a negative outlook. Every mortgage insurer is negative outlook including Genworth. But the rating was the highest, so they're the strongest of a market that is challenged by the mortgage market in the United States. You can't avoid it. Standard & Poor's is not going to change it. Everyone is negative, if you're in the mortgage business or a guarantor of mortgages.

MR. GILBERTSON: Okay. Back to this slide. I was going to look at one more component to it, and that's the way we've rated GAP insured Act originated/canceled, a hundred percent risk, under the GAP insurance policy. 7500 loans, $1.4 billion in total loans or insurance in-force, 50-percent coverage, of course, so it's $734 million of risk in-force.

Hold that thought as we go back to the delinquency chart. And you'll see that the two categories that we have on this chart that are under the without MI category, originated without MI and MI canceled, same numbers of loans. We have 2.59-percent delinquency and 1.76 delinquency.

Again, I think that's very telling. And we've been trying to convince Moody's that this is the way we view it. We've just got to continue to work through with them so that they have kind of the same sense that we have.

Okay. Let's see if I can -- so we talked -- that was kind of the first bullet. So going back to this slide much earlier in the presentation, three things that they were concerned about. One was increased losses from delinquencies and foreclosures. We kind of just went through at least my perspective, our perspective at the Agency, how that all relates.

The next one was heightened risk related to the Agency's variable rate bonds.

MS. PARKER: Bruce, can I jump in?

MR. GILBERTSON: Absolutely.

MS. PARKER: I'm trying to find the quote in the rating analysis. When we were in New York, we just kept hearing from Moody's and folks, you know you're California, you're California.

And we kept saying, "We get that. But, you know, please look specifically --" much as Bruce is saying. We don't have that much lending, if you look through to values of loans. But one of the things that they put into their rating that they noted was that -- let me see if I can find it.

MR. GILBERTSON: May I?

MS. PARKER: Yeah. Oh, here it is. That OFEO reported a one-year decline of 15.8 percent for the quarter ending June 30th, 2008, for California, comparing with a nationwide decline of 4.80. So, you know, their concern in looking at California real estate in totality is that they're seeing this big decline.

But what we would say in response is we get that, but go back and look at what the hard numbers that there are and how much loss there would have to be before we would kick in against the reserves that we have in place.

MR. GILBERTSON: So then we have a couple slides to kind of give you a picture, a walk-through, discuss kind of our counterparty risk, you know. Because we are an issuer of variable rate bonds, we have to enter these counterparty relationships. They come in a lot of different -- several different categories.

The first is there's liquidity banks. We talked a lot about these. Here we've grouped them by rating.

I think we've shown you before, even two weeks ago, all of the different liquidity banks and the percentage of liquidity provided.

So let's look at the Standard & Poor's slide first. If you look at what would be about the 10:00 o'clock or 10:30 on a clock, you see the AAA rated, the blue slice of the pie. You know, from there if you go counterclockwise, you go from better credits to weaker credits, and you end up at that red box, which tells us that we have a liquidity bank that is rated BBB+ long-term rating, A-2 short-term rating, $170 million liquidity. That happens to be Depfa bank. We saw that a lot of investors put back bonds to us, a situation we're going to have to monitor and see how this, you know, all kind of unfolds.

On Moody's scale, same concept. We have nothing rated lower than A1, P-1. P-1 is a very good short-term rating. By the Standard & Poor's scale, a BBB+/A-2 is not so great. So it's understandable that investors want to put some of those bonds back.

The other risk related to the standby bond purchase agreements or the liquidity facilities is that when we enter into those, they don't run through the same term that the bonds do. So we issue 30-year bonds because we're issuing -- we're making 30-year loans.

These standby bond purchase agreements tend to run two, three, four, sometimes five years, and then you're faced with an expiration and you're faced with extending, replacing the liquidity bank at that time.

So we're closely monitoring the rollover risk that we have. We have some coming up in November, December, January. They become much bigger numbers as we get to April.

Because we'll be facing the situation if we don't have a replacement effectively, these will become in large part bank bonds, and we will be facing again, an accelerated repayment period. We'll have to try to repay the bank bond investor over the four years or five years, if we're unable to find a replacement liquidity facility.

We have options. We could redeem bonds. Call the bonds out, the problem goes away. All of that takes liquidity in one form or the other to help us kind of bridge to another time horizon, perhaps when the markets come back. We're going to get to that more specifically in a moment.

The other risk, I showed you this exact same slide two weeks ago. You know, we entered into a lot of interest rate swap contracts, again, a hedging mechanism if you're going to be an issuer of variable-rate bonds.

Again, here's a list of all of those counterparties. We went through in some detail a few weeks ago: Merrill Lynch, Lehman Brothers, Cit, Goldman Sachs, J.P. Morgan, a lot of entities.

If we look at the LBSF, we talked about this two weeks ago, they don't have a rating from S&P and they have a B3 rating from Moody's. This is $482 million of swap notional that we have to replace. We'll have to terminate this at some point. We're not taking credit exposure to that entity today. The red number for the right column shows what the mark to market or the value of this is. Lehman Brothers has value in this. And we would have to make a payment of about 30 or 40 million dollars if we were to terminate those contracts today.

Something we're looking at -- we're looking at alternatives -- restructuring, refundings, converting variable rate to fixed rate, as we go over the next couple weeks.

And then the third bullet, if we go back to page 8, was lending initiative, the Bay Area Housing. You know, we talked about that, a hundred million dollar program. It made their letter. The concern there is that we may have to backstop that. Again, goes into the category of no good deed goes unpunished. We have plans, and maybe we should talk about some of those plans to kind of get those loans off our balance sheet.

MS. PARKER: I would -- I'll start the conversation a little bit, and maybe Bob -- maybe I can have Bob switch out and bring Bob up here. Bob has been obviously working very proactively with Hallmark and the Department of Developmental Services and the regional centers on this loan, and they have presented what might be some possibilities, and I'm going to let Bob discuss that.

I will also tell you that on Monday I sent a note to the director of the Department of Developmental Services and the Agency Secretary Kim Belshé making them aware that Moody's had raised this as a concern on our balance sheet and that we needed to be proactive in addressing this concern because we couldn't be in a situation of having our core -- you know, core mission programs jeopardized by trying to help ameliorate a problem for the state which really, at the end of the day, is a savings to the state's general fund.

So we put them on notice and -- under just the theory of no surprises, just letting people know that this is an issue and we need to be proactive about addressing it.

MR. DEANER: What I've done is worked with Hallmark, which is the developer, I guess, for the Bay

Area Housing. And what we -- well, what they're trying to do is buy the bonds from us -- or the mortgages collectively, not the bonds. So we have a commitment -- well, they have a commitment currently for, I believe, about 40 million of that. They're looking to increase that to a hundred million to potentially buy the mortgages. I'm working with other sources to look at buying the bonds collectively. I think from Tom's perspective there's some legal things we need to work through. I don't know if you want to get into any of those particular issues.

MR. HUGHES: Well, we've been looking for some time at various ways to take these off our balance sheets, and the -- right now there's no bonds outstanding. They're simply loans that are on our credit line or otherwise warehoused within the Agency, so we only have loans to worry about.

The sale of those loans is not impossible, but there are some challenges to it because it's -- as you can imagine, it's an exceedingly complex transaction. It's structured with many, many parties.

And at the time that we started down this path a number of years ago, no one ever contemplated there would be no market for bonds, so the entire deal is structured as if both taxable and tax-exempt bonds would ultimately be issued. So that's one of the challenges.

And another one is various aspects of federal law. We structured this transaction in a very secure way with intercepts of cash and so forth, but the -- we're allowed to do it because we are a government agency, where a private person wouldn't necessarily be able to do that under federal rules.

So bottom line is we've got some legal challenges to figure out, how to position this for those loans to be sold. Having said that, we -- I think, we have some ideas and I think we will find ways to get these taken off the balance sheet.

MS. PARKER: Let me just say one thing: Moody's has not been able to figure out a way from their perspective of analyzing the risk on this. They go back and forth between trying to decide whether there is real estate risk or whether there is appropriation risk. And we've -- as we've talked about when we presented this to you, the Department of Developmental Services and its service for clients that are in their purview has a very strong mandate requirement for those services to be provided. So we have always looked at this as being appropriation risk.

And then on top of that, to have a belt and suspenders, as Tom just suggested, we have an intercept.

So the funds coming in aren't going to be going through several buckets. We can go in and directly reach in and get them. So we have felt, from that standpoint, that we have, you know, done everything possible to really set up a -- you know, an excellent risk situation for us.

But Moody's, you know, it's very complex. We have had a lot of discussions with them, but they keep going back depending on whether or not they're looking at us as real estate risk, and then that falls back into you're California.

MR. DEANER: Right. And I guess to get to the commitment, this is a solid commitment for 40 million of the hundred million. I'm told that as of yesterday, they're moving forward with it. It's really more a legal mechanism, the intercept, how they can make that work. It is a -- it is a bank that Hallmark has done a number of deals with or business with in the past, and they have committed to buy 40 million of the taxable loans. We're going to split the others 40 percent taxable, 60 percent tax exempt. But technically it could be a hundred percent taxable, so I have asked Hallmark to go back to the bank and see if they can up the commitment to a hundred million.

There are two other sources that I am in talks with to potentially -- private sources that would be willing to buy these loans as private placements. I've got conference calls set up tomorrow, I'll be discussing with them two or three avenues. They know at minimum 40 million most likely should come off the books. It's the other 60 that we're trying to push.

And I'm hoping to achieve this in the 90 days or less -- I should say 60 days so we can apply to Moody's and the situation to -- to help with -- mitigate our risk back to the rating agencies.

MR. MANDELL: So I have a question from a layperson's perspective. The way I'm understanding this, there are directly three points that Moody's predominantly has taken into consideration in reaching the change in the rating. If this particular point is addressed, if I understand what you are saying, basically we want to get these loans, this obligation, off of the CalHFA books, then by doing the things like the private placement, does that -- if that's what you're saying, if I'm understanding you correctly, what impact are you envisioning that might have on Moody's rating?

MS. PARKER: Let me -- let me answer that. And -- because I think that really you have to go to all three points.

MR. MANDELL: I understand that. I'm trying to weigh that one piece. That seems fairly simple, relative to the other two.

MS. PARKER: Well, I'm not sure. Here's the point that we have made and have been saying to Moody's for several months: We've said please finish our capital adequacy analysis that we have been assured you are doing. Because we believe that when you go through that and you look at the capital adequacy, that there is a positive picture to demonstrate.

The second thing -- and that's part of what they need to do and have committed that they're going to do in 90 days. The second thing that they need to do and finish is the analysis that they have been doing of our MI. Much as Chuck just went through, if you go back and look through all those numbers and see a three-to-one coverage -- and when I came here, we had always talked about ten to one, that, you know, there is substantial reserves.

And you can look at what that number is if everything -- I mean the land wasn't even worth anything. So we think it's very important that they need to go do and finish those two things.

Then on top of it, you know, we're looking to get Bay Area off our balance sheet. And we're going to walk you through another couple things. I don't think that Bay Area coming off our balance sheet is enough alone to -- but, you know, it is a matter of going back and looking at all of those strings -- three things, we think is, you know, a very good picture to start. And then we will tell you about some of the other things that we have in the works to, you know, try to continue to perfect our -- what we believe is our status that the rating agencies should look at.

MR. SPEARS: If I can comment, Terri and I go back to the early 90s dealing with rating agencies and these questions. They were looking at the state's credit in that case. They won't give you a list, and they won't say if you check these four things off, we're okay. It's always everything is taken together. I mean obviously this will have very positive impact on them, but you can't say would this alone do it. They just won't tell you that.

So I mean from my -- from my standpoint, we issued a statement the day this came out that said we're disappointed with the timing of this. And what we meant by that was we're disappointed they made this announcement before they finished their work. If you go to the -- if you go to the page with all the red numbers and all the bonds that have come back, that's happened since this body met the last time.

So we're disappointed in the timing that they're putting this on us, and we're figuring out what the problem is and reacting and taking steps. The next two or three slides, Bruce is going to take you through some active things that we've been doing for a very long time, months, in a couple cases a couple years we've been working on the underwriting.

MS. PARKER: Our message when we go to New York is, you know, we get it, but how can you do anything until you finish --

MR. SPEARS: Right.

MS. PARKER: -- the analysis?

And I think that, again, we had been looking to do a multifamily deal so they were being responsive to the fact that we needed to go to the market for a deal. And I think for them they did this particularly because of many of -- what was happening with AGI and some of the our remarketing agents and our banks were essentially, you know, having their own problems, so --

MR. SPEARS: Let's be honest. This isn't the first time an issuer has disagreed with the rating agency. Happens all the time.

The only thing here is we just really think that they have a lot of work to do, and when they get done with it -- our experience has been when we go back, they react positively to analysis. They -- they can be convinced. And when they get done with their work, we believe -- or when they stress these out that they'll come to the conclusion that we have, that we have adequate resources. But we're going to work very, very closely with them over the next 90-day period, as you can see, so --

MS. PARKER: That goes back to, again, stressing that we have hard assets behind all of that.

So at the end of the day I think the one thing that we'll come back to is if there's -- this disruption in the marketplace continues, how do we deal with the liquidity of our situation as opposed to, you know, what is the sort of risk of our portfolio.

And, you know, that kind of leads us into the next discussion. I was going to --

MR. GILBERTSON: Do you want me to --

MS. PARKER: I'll start and we'll go back and forth.

MR. GILBERTSON: Okay.

MS. PARKER: We're trying to remind everyone we've never done subprime loans. We don't do subprime loans. We've never done Alt-A loans. We don't have any of that stuff in our portfolio. So we don't feel that we should get a black eye because California used a lot of these loan products.

And, in fact, it's kind of ironic because it wasn't that long ago that -- I think it was Moody's, in fact, had put out an analysis that talked about the housing finance agencies in totality being better off in the larger mortgage lending arena because they hadn't done subprime loans and they hadn't done Alt-A loans.

All of our loans require full documentation. You know, we're looking at credit reports. We're looking at the full appraisal. You know, we don't do loans that don't have these documents. They are suspended. And we do a post review, and if any of these criteria are missing, those loans get put back to the originator. And while we haven't done a lot of that, you can believe me, we do do it.

We put in place when Chuck came here an enhanced quality assurance program. He does a second review. You know, this is directly to Chuck and his expertise.

We increased our FICO scores in 2006. Again, I think I told you that we changed our back-end ratio at that point in time and then in March, six months ago.

So if they're looking at all the loans that have come into our portfolio, the most recent ones, all of those loans are now with 680 FICO and 95-percent LTV for conventional, 97 if they're FHA. So, you know, we do have a pocket, but, you know, we're working our way through that.

The multifamily loan commitments, based on the most recent Board actions, are based on the contingency, the availability to sell bonds. You all took that action. So, again, we believe that we're responsible in this environment.

And we are doing the, you know, loan commitment sort of in a pause situation until we have market certainty resolved. This is not unique to CalHFA. And it doesn't matter whether you're us or a locality, it's access to the marketplace. So there's, you know -- you can't go and find somebody else to issue a bond because they don't have any more access than we do. And this is true of our counterparts in -- whether it's New York, Florida, you know. There's more and more articles about those folks being in situations of suspending programs, pausing programs, not having access to market.

Bruce, talk about the financing stuff.

MR. GILBERTSON: So on the financing side, a lot of this -- we've spent a lot of time this year. We spent a significant amount of time in March, July and then in September as well talking about the disruptions in the municipal bond market.

But in the beginning of the year, basically we made the decision that we would issue fixed-rated bonds for our single-family program. In March 2008 we began converting or getting out of our auction-rate securities. We had $600 million, you may remember. We're now down to $200 million, 240 million.

In May of 2008, we began reducing the exposure to the failing bond insurers, the AMBACs, the MBIAs. We first did this by modifying the standby bond purchase agreements so that the investor wouldn't have credit exposure to them. That worked for a short period of time. At the end of the day, it didn't really work, and so we're going through a process and have done some, we have more to do, where we're effectively stripping the bond insurance altogether.

In September we had planned to go to the marketplace with multifamily bonds and issue them on a fixed-rate basis. Again, part of our stance of trying to move the debt portfolio from being 70 or 75 percent variable rate to a balanced 50/50 or thereabouts.

And then also in the last couple weeks, we've terminated the investment bank contracts that we have with AIG because of all the noise surrounding the company. They were actually providing us an investment vehicle. We gave them money. They gave us a fixed rate. It was going to work for us for the length of the term of the bonds. We just decided with everything going on why risk the $30 or 35 million. Let's terminate the contracts. We have a right to do so because they've been downgraded, pull the money back, and we've invested it at this point in the State Treasurer's investment pool.

MS. PARKER: I'm going to ask Gary to come up, but, Bruce, I had forgotten that you had brought copies for the Board of the Moody's opinion. I'm going to ask JoJo to hand it so you can all have it. And our comments back. So I want to have both these documents available today. And we have some extras.

We want to go through now the actions that we've taken in the last two weeks, again, to be proactive, show good management, good leadership on what we're doing. Because as I said, I believe that at the end of day, we will be judged on how we have managed our assets. You know, the market has happened. We don't have any control over that. What we have control over is how we deal with this.

I -- the first thing that we did, we talked about this at the last Board meeting, is to look at the cost of funds of some of the programs that we were doing. And as I talked with you all about this, we were going to go back and look at whether or not we should in this environment discontinue some of our programs.

And we sent a letter, a bulletin, out to our lenders a week ago on Monday and essentially announced that we were pausing some of our homeownership loan programs, specifically our 35-year interest-only PLUS mortgage program, our 40-year fixed-rate mortgage program, our HomeChoice program, and I'll talk about that in a minute, and our Self-Help Builder Assistance program.

Now, the 35- and 40-year programs, we haven't done much lending on them, so they really haven't been a big part of our portfolio the last, I would say, really six, ten months. And so that -- we didn't think that that was a particular problem.

The other reason why we did this was because our cost of funds are greater because they are beyond what a traditional 30-year mortgage is.

The third reason why we did that is because, and we'll talk a little bit about it more, in an environment where we may or may not have access to sell bonds, we do have the ability to sell our loans directly to Fannie Mae, but they have to be a 30-year loan. So we -- we are in business. We have a 30 rate -- a 30-year rate loan at 6.75-percent interest, and it is based on the criteria that we can sell this to Fannie Mae through their open window.

So, you know, this is the, you know, plan B, and we're operating. As I said earlier on, we have in the last seven business days taken in 14 -- 18 billion dollars worth of loans.

MR. SPEARS: Million.

MS. PARKER: Excuse me, million.

MR. SPEARS: It's just zeros.

MS. PARKER: The interesting thing about that is that we also at the same time temporarily suspended two of our downpayment assistance programs, our HiCap program and our CalHFA CHAP program. Both of these downpayment assistance programs we fund out of our housing trust funds. So we essentially said, given this situation, we need to reserve those funds in case the mismatch continues, grows, whatever.

But we are allowing downpayment assistance programs that are funded out of the Prop 1-C, Prop 46. That's primarily our CHDAP program and some of the smaller programs, extra credit teacher, et cetera.

So it's interesting that even with some of our downpayment assistance programs suspended or paused for the moment, we are doing -- we did $18 million worth of loans, 97 percent or 95 percent with a 3-percent downpayment, as opposed to where the LTVs are probably, you know, in excess of a hundred percent.

We've -- as I mentioned -- this is what I want to talk about for a couple minutes -- we temporarily suspended all builder/developer new construction forward commitments. And that really goes around the self-help builder program. And I have asked Gary to step up so we can talk a little bit about this.

We have gotten a couple of appeals that -- around these actions to date. And they have come from self-help developers and also our major partners in our HomeChoice loan program. I'll speak to that first.

The HomeChoice program is a program that we started five or six years ago, kind of in partnership with Fannie Mae. It is a program where there was a -- and in partnership with a nonprofit. This nonprofit worked with families, individuals, who had some sort of a disability, severe disability, to help them be able to buy a house. And we participated in the program and offered very low or low interest rates.

When we first started several years ago, it was 3 percent. We moved it up a couple years to 4 percent. We intended because of where our interest rates have been growing in the last couple of months to move it to 5.5 percent, but given where we are at right now, we took into consideration two other things.

When we started this program, we were only doing a couple million dollars worth of loans. The last year or so, we are now doing something like $80 million worth of loans, so subsidizing that amount is of significance.

The second thing is this nonprofit that was working on identifying these people no longer is involved. Now, we don't, you know, get in and go into what is the disability criteria that is sent to us. We expect the lender that we work with to do that. But I've asked Gary and his folks, where we refer all this, what's going on, why is this amount of loans so great?

So we've taken the action right now of essentially suspending this program because of the subsidy amount first. Even if we raise it to 5.5 percent, it's a significant impact that we would have to cover in some way. And then just the -- you know, the volume of it and then the question about is -- has for some reason the criteria of disability slipped from what it might have been before when the nonprofit was more actively involved?

We have gotten appeals from primarily Guild Mortgage. They have written us expressing concerns that they have been working with many clients to try to finally find them a house. And they -- what's the dollar amount, Gary?

MR. BRAUNSTEIN: 6.4 million at the rate of five and a half percent. We raised that from before recently, before we suspended the program.

MS. PARKER: Gary, hadn't they asked to have it be -- I thought you granted 4 percent for those loans.

MR. BRAUNSTEIN: We did. Their first request was to keep it in 4 when we were changing the rates to five and a half. Shortly after raising it to five and a half, we conferenced and realized that we needed to possibly suspend the program just because even at five and a half, we were looking at a cost prohibitive cost of money.

MS. PARKER: They basically said they have 27 people who they've been working with that are caught in this situation. We are -- we will look at it, but I would tell you that I presume that there are a number of people who are caught because of one day we offer a loan and the next day we do not offer a loan without certain downpayment assistance and raising rates.

The program that I am more concerned about is really our Self-Help Builder program. And this operates two ways. One, these loans are submitted to us just every day, you know. They don't do a forward commitment. And some Self-Help developers do forward commitment, so they lock in with us a certain amount of dollars for cost of funds. We are honoring all of those forward commitments, but if they are Self-Help builders -- and these are loans that we fund at 3 percent. We have -- even as interest rates have grown over the years, we have had very little change in this. And I can pass these out.

JoJo, where are you?

MR. BRAUNSTEIN: I can pass it out.

MS. PARKER: These are the two -- two of the appeals letters that we've gotten. What is pointed out by the nonprofits that do this work, that many of these people are in a situation where they're in the middle of building their house, and the expectation is when they finish, that loan was going to be available to them.

And so -- and because the interest rates have not changed very much, many of them have not spent the money to get a forward commitment to lock in. So they're very concerned because we've suspended the program, what happens next spring? And that's where a lot of this is, next spring. You know, will our loan be available?

What I have asked Gary to do is work with Bruce to find out what kind of a dollar amount that might be, in particularly in the sense if there's subsidies, what impact could that be to our housing trust funds.

As of this date, we have gotten word from one Self-Help developer that they had a loan that needed to be dealt with, $164,000, and they asked for an exception to our program, that we would take that loan in. And I have, and we have funded that. But that is the only exception that we have taken to date.

So I just want to pause for a minute and ask if there are any questions around, you know, the temporary suspension of these loans and how we are handling them.

MS. GAY: I have a few. On the HomeChoice program, a couple of quick ones. I'm curious why the nonprofit's not involved anymore. I know with all people, you know, sometimes there's reasons why they come and go. And then, secondly, if we can give consideration to open escrows and they're under the 4-percent mark, that people may have been preapproved or prequalified and what's the impact of that. Have they asked the question?

MR. BRAUNSTEIN: Well, the 4 percent is still, you know, referenced against our cost of -- the 4 percent is still part of our cost of money. Of course, the thought process of increasing to five and a half was the capital restrictions that were impacting those decisions.

So keeping an open escrow, I think, just suggesting to consider looking at those that are in existence and consider keeping the 4 percent going forward, then discuss that, you know -- Bruce and Terri would need to have input relative to affordability, and perhaps Board discussion.

In regards to the nonprofit, it was really a situation where they just slowed down their involvement. And it actually went back to the originating lender, which is Guild Mortgage. Ironically in that particular case I think it was primarily because of the interest rate being offered directly by the lender on a direct basis increased the -- increased the volume of that particular program versus the nonprofit's volume prior to that happening. Certainly we're always looking at, you know, a chance to partner with nonprofits in this program, as with some of the other programs that we have over in homeownership.

MS. GAY: And, of course, the questions are unrelated. So as Terri mentioned, the criteria that qualifies as part of the special needs population, I just have to say I think we've got to pay some attention there. And anytime you increase a rate bumps up a point and a half, we all know if it was us, what that does to a particular population that may be vulnerable, so that's why I mentioned open escrows.

MR. BRAUNSTEIN: Some of the discussion points where the changes take place, the discussion is do we make an immediate change or do we allow lag period allowing the pipeline to close out and make it effective at a, you know -- going forward.

I think the decision was made just under the circumstances to make these choices within a 24-hour period of time, just because of the circumstances.

MR. GILBERTSON: I would add to that that I don't think anyone who is in escrow has lost their rate lock. We're very liberal. If we've given a loan reservation --

MS. PARKER: Anybody that had a reservation in to us has been honored. You know, somebody said at a public meeting the other day we were -- people were, you know, in escrow and that, you know, we canceled them. That is not true. Anybody who has a reservation with us at that point in time we are honoring that at the rate of that period of time. So these are people who are saying that they were getting close and --

MS. GAY: They were looking --

MS. PARKER: They were looking --

MS. GAY: -- based on prequalifications.

MS. PARKER: Right. So that's -- that's the concern I have from the standpoint of trying to get in and deal with these unique situations. Because, you know, I'm also aware that there are Self-Help builders that tried to go in at the last minute and get forward commitments and because people were on vacation at their banks didn't get their documents put in in time.

So, you know, I -- I'm trying to take a little bit of a hard line to be reflective of, frankly, how seriously we are taking all of this.

MR. BRAUNSTEIN: I think one consideration, some feedback that I've received from the nonprofits are that interest rates in the past didn't change often, so they weren't rushing to the table to lock in their reservations. So it is interesting in the discussions within a week's period of time, we go from a 4-percent offered interest rate to consideration of changing our rates a week later, you know. The seriousness of our liquidity hones into our need to consider suspending the program, we suspend the program.

So within a short period of time, these changes took place, hence the prior example of them not locking in for a period of time. There was no sense of urgency in the past for them to do that because our rates didn't change rapidly. In this circumstance, in a short period of time, we changed rates and suspended the program, hence they were caught in the lack of reserving and hence previously locking in that rate had they reserved it earlier.

MS. GAY: As I told Terri when we were speaking last week -- which I appreciated, Terri -- I don't think there's anybody in the single-family business who doesn't get that there's shock waves going on. On the other hand, for those of us who are underwriting, we are going to look at it and I'm going to ask questions about credit, MI, you know, all -- I'm going to be looking at all the factors we normally look at, and those are the kinds of things that you got to do what you got to do, and then there's the future.

As I look at your charts, I'm asking questions about your delinquencies relative to was it your credit scores, was it MI, was it cash, you know, the variables. And have we run analysis on that to see how the portfolio reacts?

MR. GILBERTSON: We actually did as part of our own analysis and stressing this, and what we found were two things that aren't surprising. The highest proportion of delinquencies have very high loan to values and very low FICO scores.

MS. PARKER: What was interesting --

MR. GILBERTSON: Pretty classic credit analysis.

MS. PARKER: This is what we presented to Moody's when we were there, and we thought, you know, we were pretty smart because six months ago that's exactly what we changed. So we've got this, you know, basket of loans that everything that we have done since that time are really addressing what appears to be the key criteria that might be more susceptible to default.

MS. GAY: Right. Well, the only other observation that I'd make quickly -- looking at the other side -- is when you ran your MI charts with and without, I was a little curious about the delinquency being higher, the deals with MI versus without, and as you explained equity issues. And all I can say on behalf of all the programs many of us manage is the higher the subsidies, the less problems we have. It's an affordability issue.

So you know, I just think there's a lot that should be looked at. The push-back you're going to feel with the special interest groups. That's just going to be there. And if the process weren't open, it's a little tough. And maybe if there was some time line as we learn more about the marketplace that people know you're watching it and over the next X numbers of days this is how we're going to evaluate, that may help the groups plan.

MS. PARKER: I think, Lori, that the one part about this that has, I think, most perplexed us is seeing the huge increase in the use of this program from, you know, like just in the last year. And certainly that's occurred when there had been that greater disparity of our interest rates.

And so, you know, I -- I can't imagine whether there was really that many people that now -- or whether or not it's a situation because of interest rates rising there was a push in trying to direct people into this because interest rates were lower.

MS. GAY: Absolutely.

MS. PARKER: So as I said, I think, you know, this just goes back to there -- this is a -- this is not what we want to be doing to any of our customers in this environment.

MS. GAY: Right. Thank you.

ACTING CHAIRPERSON CAREY: Just to add a note, I want to be very clear, my own organization does self-help housing. We do have ten families caught in the mix. They expect to be in their homes in February. My understanding from talking to organizations around the state is the volume of loans related to new construction is probably about $5 million. I also know there's one existing forward commitment for about $2.3

million to an organization I don't think can use it, just to give you a perspective on what's out there.

MS. PARKER: That is -- that is exactly what we're planning to do as far as analysis. We're coming to look at what if we did do -- because clearly those are -- those are different loans, and these people started them. It's not that they were out shopping for something on an existing loan. And when Bruce has a minute or two, I've asked him and his folks to -- based on the survey that Gary's folks are doing, if he would look at that, you know, what -- what does that mean to us.

And certainly, you know, I would hope to say to this group that that kind of commitment to this unique group would be one of the things that we would want to -- would want to do even, you know, in what is, I would say our darkest hour, but the -- you know, a dim situation at the moment.

So there's -- Bill.

MR. PAVAO: A quick follow-up. Did you say the grand total aggregate here, we're talking $5 million on the self-help piece?

ACTING CHAIRPERSON CAREY: I think there's $5 million in loans anticipated by homes where families are currently building. The pipeline is much bigger.

But those are folks who are either building their homes or hoping to complete their homes by the spring of '09, and their ability to qualify is totally predicated on the availability of a 3-percent loan.

MS. PARKER: There are two letters I've given you -- one is from Burbank Housing. The other one is from Community Housing Program in Chico -- addressing what their individual concerns are.

I guess what we need to find out is whether that those are forward commitments that want to have an extension on them, because we have that number, and then on top of that would be what are the housing units that are out there that would have just come in on the natural. And those are the two components that we need to find out in order to be able to do a financial analysis.

MR. BRAUNSTEIN: Just to give an example, we have a forward commitment that's expiring in '08 for $1.8 million with a forward commitment with a rate at five and an eighth. Typically in the past, the developers would easily, you know, request a forward commitment. We would provide the forward commitment for an extension of six months at the existing prevailing interest rate.

We find ourselves today in that situation with

$1.8 million expiring in '08 at a five and an eighth rate, that a rate that's, you know, under water to what we're capable of doing with the cost of funds.

So I think that might be part of the analysis that Terri is speaking of that we will perhaps come back to the Board and review that from a recommendation on our side.

MR. PAVAO: Okay. Just a follow-up on the 5 million. Does that include the 2.3 or has that been subtracted out of the five?

ACTING CHAIRPERSON CAREY: What I know of the self-help housing groups, there's $5 million of needs in early '09. There is, I believe, a $2.3-million forward commit letter for one organization which is not going to use that forward commitment.

MR. PAVAO: So that's not included in the 5 million --

ACTING CHAIRPERSON CAREY: No.

MR. PAVAO: -- or --

ACTING CHAIRPERSON CAREY: And it expires next year, I believe.

MR. BRAUNSTEIN: Our immediate attention is going to those that expire in '08, which is one of the reasons we're bringing this to the Board today. And others that expire in '09, we have listed out. We need to have a chance to do an analysis, which is why we didn't bring it to the Board at today's meeting, but perhaps by the next Board meeting.

MS. PARKER: You know, I just wanted to let you know at the same time we're announcing the programs we paused, we are also, you know, continuing to do our analysis and looking at this.

MR. PAVAO: That self-help program, is that taking out conclusion financing or does come in during the construction period?

ACTING CHAIRPERSON CAREY: It's taken out at the conclusion.

MR. PAVAO: Okay.

MS. PARKER: Let's go through -- Bruce, do you want to add something?

MR. GILBERTSON: I have this next.

MS. PARKER: Let's go through this and just what we've done again in the last couple of weeks. As we said, we raised our interest to 6.75 percent on a 30-year mortgage. I don't know that we really have a magic crystal ball to presume whether that's the right number or not.

MR. GILBERTSON: We believe that that rate is sufficiently high so that we could sell the loans to Fannie Mae through --

MS. PARKER: That's what we --

MR. GILBERTSON: We'll monitor that.

MS. PARKER: -- use as the basis to select that number.

We -- again, we're continuing to offer our 95-percent conventionally insured loans through Chuck and 97 loan to value through our -- it would be an FHA insured loan.

I wanted to also announce today that we have expanded the mortgage risk management division, which is really a broader name for what Chuck runs. You know, most of you all think about him being Mr. MI, but obviously he does the risk underwriting for our single-family loan program.

But just given everything that is going on and how much we need to look at what is happening on our first mortgage loan programs, some of the programs that we will be trying to look at and develop in the future, programs around REO, programs around refi and whatnot, at the same time we need to demonstrate to the rating agencies that we are -- in addition to our debt management activities, that we are doing asset management.

And so I moved over to be under Chuck's responsibility, because it really is part of our overall risk -- again, you know, given the rating agencies' discussion -- and to ask him to lead up a unit that will deal with portfolio management and also the disposition of our growing number of real estate that we have that's coming back to us at approximately about 50 a month.

So we will be adding additional staff. Actually we're pursuing it through redirection first. We're looking at all of our internal resources to redirect immediately to get on this. We are, you know, being proactive about selling our property, but from the standpoint of how many that we have coming down the pipeline, we want to be absolutely, you know, as proactive as we possibly can.

The -- do you want to take the next couple ones?

MR. GILBERTSON: Yes.

Some of the other things that we've done because of all of the market disruption, these are more debt-related initiatives, pursuing conversion of liquidity backed variable rate debt obligations to a full letter of credit. A full letter of credit would provide the long-term rating and the short-term rating for the variable rate instruments.

One of the ideas is that if Moody's does go forward with a downgrade, taking the credit to the A level, if we don't have a letter of credit, we would not have a money-market-eligible security. So if we have a full letter of credit provided by Fannie Mae or someone else, then we could continue to -- then the investor base could continue to include the money-market funds.

We know as we go through our 90-day period with Moody's, they certainly have some of their own things to go fulfill. We have many of our own. We have to go through and update all the consolidated cash flows. It's an annual process. We want to get that wrapped up in the next six weeks, if at all possible.

We're also going to be doing our part of updating capital adequacy analysis, and that really relates to interfacing with the rating agencies as they come back with, you know, kind of their suggestions, their alternatives. They really drive here. I mean we're a pawn in their big game. What are the stress runs? What do they want to assess, give capital requirement a haircut on different programs that the Agency is running?

We're also, of course, looking at restructuring alternatives for bonds hedged with Lehman Brothers or AIG interest rate swaps, something that we need to do as soon possible. Both of the rating agencies have expressed concerns about those. Those are weakened entities.

Again, I described earlier that we don't have credit exposure today, but that we simply aren't meeting the rating agency criteria.

And the last one is really maybe, Terri, you had scheduled that now for next Thursday.

MS. PARKER: Right. One of the other things that we did this week was I called our good friends at Fannie Mae and I started to say how can you help, certainly now that they're the government.

And it's interesting because actually last Friday we got kind of a call at the end of the day, so it was very late Friday afternoon, asking us the questions if there were things that Fannie Mae could do to help the housing finance agencies, because they really see them as their partners and being better situated to handle helping people in their individual states.

And so we decided that we were going to take advantage of that, and we have a meeting scheduled with their senior executive team next Thursday now. So Bruce and I will be going back. We're going to put together a letter, you know, a menu of a variety of asks, you know. We certainly don't expect to say -- you know, have them say no to certain things, but we feel we have to ask for anything we can think of.

For example, some of the things that we have thought of and Bob mentioned that we've talked to Fannie, it will be on our list, to see if they are willing to buy any part of the loans for the Bay Area Housing. We've talked with them in the past, but it would be on our list.

So we will go through and talk with them, and it could be everything from that, as an example, certainly as the bond market is available, will Fannie be willing to buy housing finance agency bonds. And while our focus and our discussion will be on how can you help California, they really have asked this question broadly about housing finance agencies, so we are maybe being the first in the door and the most vocal.

So we are proactive in reaching out, you know, to any and every one of our partners. And I will tell you that they have been very willing to meet with us and discuss what our situations are and if they can be helpful.

The other future actions that we will -- have been talking about, you know, doing is that we mentioned early on we've got Gary's folks working night and day on implementing this program that will give us the capacity and capability to deliver single-family loans through the Fannie Mae window. And that includes such things as bulletins that will be going out requiring that all of our loans -- that individuals have to have homebuyers education, because that is a requirement of Fannie in order for them to buy the loans.

And you will remember that the REO program that we have with Fannie Mae, we are requiring homebuyer education on those loans, and now we are expanding because these loans also is our backup to -- to possibly sell any of them, which, again, we think is important. Homebuyer education is certainly a good thing to have and we're working with all of our lenders in a way to implement that in a cost-effective manner.

I did want to also mention that what I don't have down on this list in Bob's area in addition to the direction I have given him in, you know, take the fort and go find a way to get Bay Area off our balance sheet, we've also asked him to make a contribution because he does use the Housing Assistance Trust fund. And so along with the GAP program that he has, we have essentially paused that for our multifamily lending which is essentially preserving our Housing Assistance Trust funds that we have. So we are looking at it's not just single family. It's multifamily. We're looking at anything and everything that we can.

One other thing that is not on here that we've asked Bob to be thinking about, as Gary just mentioned we have in the past tried to work with our borrowers when they've needed extensions. We've been doing that on the multifamily side. And there are a number of loans that we're -- we have construction loans that haven't been paid back, and they have gone to, you know, permanent take-out.

We have gone and asked Bob to look at all those and clean them up to the extent they're past their dates, into second, third extensions. We're essentially saying, you know, we've got to do something about this. And that could take somewhere between 50 and 100 million dollars by repaying those bonds off our general obligation on the multifamily indentures. Another thing we're doing to clean up our act.

We -- as I said, we're looking at places to sell Bay Area. We -- we haven't gotten there, but we're putting it on the list, the sale of single-family and multifamily home loans. I think we need to be -- depending on how the market is, this is -- these are our hard assets.

So we get there, we get into a situation, particularly the next item. We've had some very preliminary discussions with the Treasurer's Office about getting access to what we refer to as a bridge loan. And this deals with what I said we think is fundamentally our problem. We might have a mishmash -- a mismatch of cash flow.

If we have some of these bonds put back to us under the covenant that we have to pay them in five or six years as opposed to based on the monthly mortgage being put back and cover that, then we may have to look at going back to our hard assets. We can't do that right away, so we may need a bridge loan situation to take care of that capacity.

So we're having those discussions. We haven't even written up a proposal yet. We've been working on it. Steven's been doing it, major brain damage, but to see -- we have a $350-million line of credit with the Treasurer's Office right now. We use that to warehouse our loans that are coming in on a daily basis. To see whether or not we could increase that to -- we're just throwing out a number just because it matches what we have against our general obligation GO rating at the moment -- of about a billion dollars.

Whether or not we could use that on a short-term basis over -- beginning next year when some of these bonds are putting back to us, we may have to start repayments. That would only be good for six months, so you would certainly have to have a strategy of take out because that can't be long-term debt, by any stretch of the imagination. And it is a broader purpose than what the use of our warehouse line is today.

And Tom has been looking at that. Tom, I don't know if you want to add anything from a legal standpoint, but.

MR. HUGHES: We discussed this issue briefly with the Treasurer's Office, but basically our existing line of credit is a warehousing line. It references another statute that allows the Treasurer's Office to do this.

There is another state which allows use of the pool money investment funds for actually, in effect, restructuring debt, so we would seek both to make it an expanded use of the available uses of those funds as well as increasing the credit amount.

MS. PARKER: I started off by saying to you that there's no action items for you to consider today. We did talk about trying very quickly a brief -- or very, very, you know, emergency basis to have Tom write two resolutions last night. One of them would be because if we were to go to PMIB, the Board has to increase our authority that we have from you under resolution because our authority right now is capped.

And as I said, I mentioned the other one, to increase our authority for application for volume cap. I told Tom since we're meeting with you on the 20th, I didn't think that we should hurry to do that right now, that one was not particularly time sensitive and certainly could be covered on the 20th, and the other we were not far enough along with.

So those -- depending on how our analysis goes in the next two weeks, we will have more information about whether they're viable proposals or not relative to what is happening in the marketplace at that time.

I think that concludes the presentation that we have put together. Again, I just -- I want to commend the work of Bruce and Steve and all of the folks who have worked on this package, including our risk manager, and being able to put this together for you to try to explain where we were at, and we'll certainly answer any questions you have.

MS. JAVITS: Just a quick -- hopefully quick -- question and comments. So I'd just add my commendation. I mean this was a great packet of information, and I really appreciate the transparency, you know. You've been keeping us informed, and also all the efforts you're making to keep us as solvent as possible.

I had one comment and then two questions. Given kind of what's happening right now, I guess two thoughts. One is kind of maybe building on what Lori said, just trying to look ahead to the future, we also are in a position where we signal our own customers, customer relationships, that we've built up over many years about, you know, what's happening. They can see the general situation.

But I guess just a suggestion would be keep them as informed as possible and assure them that we continue -- you know, we're trying to balance our fiduciary responsibility and our ongoing mission. And we're trying do that in the short run, and we're going to try to do that in the long run. And I just think to the extent -- you know, kind of apropos what you said at the beginning, Terri, putting out this sheet that says, you know, myths and realities. There's lot of myths that can go on out there, but I just think as much information as they can get and see from the Agency where we really stand and what's, you know -- what's happening, the better. So I just wanted to suggest that.

And then kind of also related to that, I can only imagine the amount of pressure now being with all the kind of fiduciary responsibilities involved, meanwhile the marketplace is changing dramatically.

That's going to have an impact on people who are in the affordable housing arena, single-family homebuyers programs, kind of what you said earlier, and I really appreciate what you're doing with the REO, trying to think about that. It's going to be true on the multifamily side, if values do slide. That's also an opportunity for affordable housing development and first-time homebuyers.

I just hope we keep our eye in some way -- you know, recognizing all the pressure that's on you to deal with the short-run issues that we have in front of us -- on what those potential opportunities might be and how we address our own business strategy to help Californians take advantage of that, you know, as the market changes.

MS. PARKER: Can I answer that just quickly, one thing I wanted to say about that? First of all, we really are trying to do everything we can. It's not helpful to have people that like to -- you know, some would just as soon have us out of the market or whatever, and there are those folks going around.

We have actually a meeting this afternoon that we're going to because Bank of America has been doing some -- offering housing agencies an opportunity presentation to investors around the country. They did one in New York. They're doing one in San Francisco this afternoon. We had this discussion among ourselves, should we be going there? And the answer was absolutely, because this gives us one opportunity to tell investors what we are doing, our great story, who we are, and also to hear from them directly what concerns there are so that we can take that back and see how we can address them to provide confidence, greater confidence, for them, and, you know, take this into consideration in our discussions with solutions.

The second thing is that I do want you to know this is a very difficult time for my staff, and I have been sending them notices very frequently, you know, being as frank and candid as I possibly can. At the end of the day, you know, while my staff is very dedicated to the mission we have, they are worried about their jobs, and I have continually told them that they are more important to me and our Agency today than they were two weeks ago, a year ago, whatever. I worry -- I'll worry for them, they just need to help continue to do good work.

The third thing that I wanted to say, and while I have everybody doing all these things on the short-term with the ratings and our debt management and portfolio management, I have said to everybody that we'll get through this. We will be, you know, a housing finance agency, and we have responsibilities going forward. And one of the things that I've been particularly concerned about lately is using this additional bond authority to try to develop a refi program. And I started a working group with my colleagues a couple months ago. We just had our first meeting with some of the banks, Citi, with -- we've had some conversations when we were in New York with Bank of America, some of them, to figure out if we did do a refi program using FHA HOPE, where the guidelines just came out on yesterday, what would that look like, what would they want?

And when I go back to D.C. next week the second of our work group meetings is happening. We're trying, again, to work on perfecting some kind of a model so that when we're through, if everybody gets through all this, there might be a product in the marketplace to help the banks, in addition to what they will be doing with modifying some of their loans, that there may be some loans that they just want to get off their books, and housing finance agencies can step in and help those borrowers be able to stay in their homes.

So we're trying to keep our eye on the ball of what we need to be doing immediately, but the fact that we will be -- there is a tomorrow, and we need to be prepared for helping our customers in that environment.

MS. JAVITS: That's great to hear all of that. And, you know, I think everybody on the Board, we really commend and appreciate the whole staff and what you're doing in terms of your leadership to the Agency.

And just maybe a thought on that also, again, we have a lot of information. There are a lot of people who don't in the state who are engaged in this marketplace. So to whatever extent we're able to communicate the information that we have, as we're learning things about this very dynamic process, to the customers that we have, I think that will be extremely valuable.

So I just had two quick questions. One is if and when Congress acts, is that going to have any impact on any -- you know, kind of, what's the impact on us?

MR. GILBERTSON: Well, we won't know for certain until that happens, but everybody has been really so hopeful that that -- that act by Congress, some form of a bailout for liquidity and financial institutions has to help. This is really just a credit freeze. People are worried about lending to one another, bank to bank, bank to business, and so it has to help.

MS. PARKER: We --

MS. JAVITS: In terms of?

MR. GILBERTSON: Well, access. I think first will be access to the marketplace. I mean secondarily, it will be at what price are we borrowing. I'm a little concerned on what that might be.

MS. PARKER: We -- we were actually, when they first started working on the first bill that was two, three hundred pages, we were given access to that, and my folks looked at that over the weekend to see whether or not the housing finance agencies might be able to have access directly to this. And, you know, it's kind of a good news/bad news story. The access is really for people with bad loans. We just got through saying we didn't do those. So we can't use that.

But to the extent that this provides confidence back in the marketplace and the marketplace begins to function again, that's what we need. We need stability, and anything we've done -- we need stability in the marketplace, that's No. 1.

MS. JAVITS: And just a final question was in terms of our fiduciary responsibility, if you had to characterize the risk both in dollars and in responsibility, how we're managing our affairs at this moment.

MR. GILBERTSON: Well, I think -- I think the best way to measure and watch that is the dollar amount of bonds that go back to liquidity facilities. I really think that is -- you know, we've talked a lot, Terri's mentioned this several times, we have hard assets. We have more assets then we have debt obligations.

But what happens is the characterization, the repayment of the loans, which is 85, 90, 95 percent of our assets is over a 30-year time horizon. And if these bonds go to the banks, it shortens it up.

So what we have to do is find that bridge, something that gets us through, you know, the time period so we can meet those obligations and not be in default, that would not be a good thing, so that we can find a better time in the market that we can reissue the debts on a long-term basis and better match the assets to the debts.

MS. PARKER: Let me -- because this is, you know, a little bit counterintuitive, we're trying to manage two things at the moment. We're trying to manage and work through with Moody's our rating. Because our rating goes to, as Elliott suggested, the bottom line of what our -- the interest in the market would be to buy our bonds and then at what cost.

So what will it -- what will it take from that standpoint to get the rating, to get Moody's to affirm our current rating. That's important because it -- we will -- if we were downgraded, we could still sell bonds. The muni market that requires a double-A rating would not able to buy our bonds, but we can still have people buy them, but, again, it's at a what cost situation.

So we, you know -- for example, this myth and facts, the discussion that we've had very preliminary about going to PMIB and asking for a billion dollars in totality of a line, we think that the reaction of Moody's if we did that would be, you know, very, very positive, even if we never used it, just because we have that as a bridging capability.

And then, you know, to the extent that we had that and we could use it for some of these obligations that are being put back to us, we could better manage them and the cash flow situation.

So I think, Carla, if I would say, you know, our worst-case situation is we have $4 billion of outstanding variable rate debt. Again, fortunately, we used to have -- a couple of years ago our outstanding debt was 90-percent variable rate. Now only half of it is variable rate. These are -- these are standard practices in the market.

CalHFA is not a cowboy. In fact, we looked the other day at some of our colleagues, other housing finance agencies, and some of them have -- we used to have the most. There are ones that now have on a ratio basis higher ratios than we do of variable rate to fixed rate debt for their portfolios. So, again, we think that's another good story.

MS. JAVITS: Thank you.

MS. PETERS: I just wanted to take a minute to echo what everyone, I'm sure, feels about the gratitude we have for all of the staff. I have had an opportunity to meet and work with many of you personally in my role, and when Moody's and Standard & Poor's says that part of our bond rating is strength of management, we know Terri is a rock star, but we know that all of you behind her are working 24 hours a day to put together presentations of this quality to make sure that people understand what we do. So thank you all for your commitment. I know it's a lot to ask of your families and your friends, and it's a difficult time, but we will get through it. The State is absolutely committed to our industry, and we need to look forward so there will be a day when we get through this.

MS. PARKER: I just want to echo, you know, perhaps this will be my epitaph, but the strength of this Agency going forward is really the support and hard work of this Board around legislation that allowed us to have salaries that we could hire a Chuck, a Bob, a Gary, keep a Bruce and a Steve and a Tim Tsu (phonetic). If we didn't have those people, you know, there's no way.

MS. PETERS: And then I just had one quick question. Worst-case scenario, if we do lose the rating, do you -- are you able to characterize for us the pool of investors that buy our debt? I mean, if we lost the rating and we didn't get the letter of credit, we lose the money-market investors, what percentage of that is it? Are there other investors that would no longer be interested in buying us at a single-A rating?

MR. GILBERTSON: I don't know absolutely, Heather. I would characterize it that a significant portion, probably well over 50 percent of the bonds are held by money-market funds.

One other thing, just for full disclosure, is that we have $4 billion in total of variable-rate debt, variable-rate demand obligations, about a billion in the GO credits and a little over 3 billion in the HMRB. I'm not sure if there would be some contagion, you know, it's contagious from the GO to the HMRB. And, again, we have 3 billion over there.

Time will tell. The investors, I think -- our going to the investors conference later this afternoon is going to be very good. We'll have first-hand knowledge. Charles Schwab is going to be there. They were a big buyer of these variable-rate demand obligations.

MS. PETERS: Can we look forward to hearing from you shortly?

MR. GILBERTSON: Absolutely.

MS. PETERS: Or fairly shortly?

MS. PARKER: Absolutely.

ACTING CHAIRPERSON CAREY: Other comments from Board Members?

I echo that. Thank you very much. It was an excellent presentation. I feel very much better informed. And I particularly appreciate the sense of control and effort going into dealing with the situation, but characteristically also talking about the future.

For the record, I want to point out that Jack Shine has joined us at the meeting. And representing Cynthia Bryant from the Office of Planning and Research, is Brooks Taylor, thank you for being here and joining us.

On to more mundane things. Highlight of the day, we do have free parking passes for the parking here.

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Item 4. Public Comment

ACTING CHAIRPERSON CAREY: And we -- with that, I would like to ask if there's any public comment to be made?

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Item 5. Adjournment

ACTING CHAIRPERSON CAREY: Seeing none, I would remind that we have -- announce that we will have a meeting at 3:00 o'clock on October 20th, and with that we stand adjourned.

(The meeting concluded at 12:50 p.m.)

REPORTER'S CERTIFICATE

I hereby certify the foregoing proceedings were reported by me at the time and place therein named; that the proceedings were reported by me, a duly certified shorthand reporter and a disinterested person, and was thereafter transcribed into typewriting by computer.

In witness whereof, I have hereunto set my hand this 5th day of October, 2008.

____

Yvonne K. Fenner

Certified Shorthand Reporter

License No. 10909, RPR

STATE OF CALIFORNIA

CALIFORNIA HOUSING FINANCE AGENCY

--oOo--

SEARCH COMMITTEE

PUBLIC MEETING

ORIGINAL

--oOo--

Hyatt Regency
1209 L Street
Sacramento, California

Monday, October 20, 2008
3:13 p.m. to 5:06 p.m.

--oOo--

Minutes approved by the Board of Directors at its meeting held:
November 13, 2008
Attest:

Reported By: YVONNE K. FENNER, CSR #10909, RPR

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STATE OF CALIFORNIA

CALIFORNIA HOUSING FINANCE AGENCY

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BOARD OF DIRECTORS

PUBLIC MEETING

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A P P E A R A N C E S

Board Members Present:

PETER N. CAREY, Chairperson
President/CEO
Self-Help Enterprises

DALE E. BONNER
Secretary
Business, Transportation and Housing Agency

THERESA A. PARKER
Executive Director
California Housing Finance Agency

CAROL GALANTE
President
BRIDGE Housing Corporation

LYNN L. JACOBS
Director
Housing and Community Development

CARLA I. JAVITS
President
REDF
(formerly Roberts Enterprise Development Fund)

WILLIAM J. PAVAO
For Bill Lockyer
State Treasurer
State of California

JACK SHINE, Chairperson
Chairman
American Beauty Development Co.

BROOKS TAYLOR
For Cynthia Bryant
Director
Office of Planning and Research

--o0o--

CalHFA Staff Present:

BRUCE D. GILBERTSON
Director of Financing

TIM HSU
Director
Risk Management

THOMAS C. HUGHES
General Counsel

JOJO OJIMA
Office of the General Counsel

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BE IT REMEMBERED that on Monday, October 20, 2008, commencing at the hour of 3:16 p.m., at the Hyatt Regency, Golden State Rooms A and B, 1209 L Street, Sacramento, California, before me, YVONNE K. FENNER, CSR #10909, RPR, the following proceedings were held:

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ACTING CHAIRPERSON CAREY: Okay. We'll call to order the special meeting of the California Housing Finance Agency Board of Directors.

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Item 1. Roll Call

ACTING CHAIRPERSON CAREY: The first order of business is the roll call.

MS. OJIMA: Thank you.

Mr. Bonner.

SECRETARY BONNER: Here.

MS. OJIMA: Ms. Galante.

MS. GALANTE: Here.

MS. OJIMA: Ms. Gay.

(No response.)

MS. OJIMA: Ms. Jacobs.

MS. JACOBS: Here.

MS. OJIMA: Ms. Javits.

MS. JAVITS: Here.

MS. OJIMA: Mr. Pavao for Mr. Lockyer.

MR. PAVAO: Here.

MS. OJIMA: Mr. Shine.

MR. SHINE: Here.

MS. OJIMA: Mr. Taylor for Ms. Bryant.

MR. TAYLOR: Here.

MS. OJIMA: Mr. Genest.

(No response.)

MS. OJIMA: Ms. Parker.

MS. PARKER: Here.

MS. OJIMA: Mr. Carey.

ACTING CHAIRPERSON CAREY: Here.

MS. OJIMA: We have a quorum.

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Item 2. Chairman's Comments

ACTING CHAIRPERSON CAREY: Before we begin, I'd like to just reiterate that Brooks Taylor is here representing Cynthia Bryant of the Office of Planning and Research. And we are quite honored to have Secretary Dale Bonner here representing Business, Transportation and Housing.

SECRETARY BONNER: Thank you.

ACTING CHAIRPERSON CAREY: Thank you for taking your time.

And thank you for Board members for taking your time.

I'll follow my wife's advice. When I'm presented with opportunities like this and I ask her what I should say, she says, "As little as possible." And I will -- I will take that advice.

I would like to just say that these are challenging times for the Agency. We -- I think I can speak for the Board very clearly in saying that we have the utmost confidence in the Agency and the leadership of the Agency, and in the future, that the mission of the California Housing Finance Agency is a noble mission, one of statewide importance. And as we deal with these challenges, I think it is important that we all maintain that focus on the importance of the mission. Because it is difficult times, but we will -- we will get where we need to be, and we'll be looking back at this at some point in the future.

With that, I think that the staff has been doing a lot of work in the roughly three weeks since -- two and a half weeks since our last meeting, and our -- I don't know, Terri, do you want --

MS. PARKER: Yes.

ACTING CHAIRPERSON CAREY: -- to make any comments?

MS. PARKER: Thank you. Chiding Tom that he didn't have the usual chairman and executive director comment on here, but I do have something now that I -- I brought two documents that I know some of you are looking through what's at your desk, and we will be talking about this when we go through the presentation.

These are two documents that we put together during the past week. One of them was given to Fannie Mae the week before last when we met with the senior vice president for community lending to talk with him about our problems here at the housing finance agency in California and ways that we might be able to ask for assistance through Fannie Mae.

The other is a document that -- we have had, obviously, a number of people who have asked us questions about what is happening with the housing finance agency and the disruption because of the marketplace. Rather than writing long narratives, we thought the best thing to do was to give people a question and answer kind of document that they could walk through and have a little bit of context for some of what we're going through.

So I wanted to share both of those documents with you for your information. To the extent that we have these kinds of things, as we're working on them, we will share them with you at our meetings that are scheduled.

So with that, Mr. Chairman, I'm going to walk around and we will start our presentation to you today. We have, I think, some good work that's been done in the last three weeks, and we will present that to you all.

ACTING CHAIRPERSON CAREY: Great.

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Item 3. Report, discussion and possible action regarding the Agency's financing and program strategies and implementation, in light of financial marketplace disruptions

MS. PARKER: Let me just introduce Tim Hsu, our director of risk management. You all know Bruce Gilbertson, our director of financing, the brain trust; from the standpoint of the face to Wall Street.

We really are going to walk you through a presentation that takes you from where we were last time and builds on that same sort of thing, what's happening with the marketplace, how does that impact CalHFA, what are our thoughts going -- what actions have we taken and what our thoughts are going forward so that, you know, so there is some measurements each time we meet about what we have talked with you about, and build on those same themes and concerns, hopefully in that sense to give you some sort of a perspective of where we have been, where we are right how, and where we hope to be and, at future meetings, what we have accomplished, given where we were and what left we have to accomplish.

So with that, Bruce, why don't you begin.

I think we have given you all the handout of the presentation so you can walk it through.

MR. GILBERTSON: Okay. Thank you, Terri. The presentation today really is broken down into five components. There's first going to be an update on the municipal bond market, how that market is impacting CalHFA, some of the actions that we have addressed since the last Board meeting on October the 2nd, any potential future plans that we're thinking about, and then we're going to take an attempt at trying to give you a big picture look of the debt restructuring plans that the Agency is considering.

Let's start by looking at the municipal bond market. I think the last time we reported that there was no access to the bond market. I think it's fair to characterize it today as there being limited market access for new debt issuance.

Again, a reminder, we are not alone. Most municipal issuers are impacted in this way. If they do have access, they're paying a much higher bond yield as a result.

All of the new debt issuances is driven by retail participation. Just to make sure that we're on the same page, I thought I would define in my own words what a retail bond investor is from an institutional bond investor.

A retail investor is you and I as individuals through our Charles Schwab account or our E-Trade account or through Vanguard or whoever, buying bonds specifically for our own account. We would take the bonds into our own account in our own name.

Institutional buyers that have supported the municipal bond industry historically would include mutual fund families, investment companies, hedge funds, Wall Street firms. All of those entities would be what are called institutional buyers. They have really disappeared in the last 30 days, 45 days.

So all of the -- all of the new debt that is being issued is supported by retail. California found that out firsthand last week when they issued over $5 billion in revenue anticipation notes.

What has this meant? Well, absolute interest rates are much higher than they had been before. We'll get into a couple of specific examples of other housing finance agencies as we progress through the bullet points on this slide.

So the retail investors are replacing what are -- were formerly the institutional investors in the primary market. If we were to go back just a few months even, typically retail buyers would buy the shorter maturities, you know, bonds that have a maturity date between one and ten to 12 maybe even 15 years. But the institutional buyers would buy the bonds that have 20-year maturities, 25-year maturities, 30-year maturities or longer.

Remember, in our world of structured finance for a lender of real estate loans, that a lot of the debt, a lot of the bonds, are at the back end of that financing structure. A lot of bonds have maturity dates 15 years or later in the overall financing.

Institutional buyers, where have they been? Well, they are busy buying and taking advantage of the secondary marketing trading activity that's going on on Wall Street. They're still buying municipal bonds, but they're not buying them in the primary new issuance market. They're buying them in the secondary markets from sellers that are -- you know, they're leveraged sellers, is what I put on the slide, but these are people that are almost selling bonds on a fire sale.

So they're picking up additional yield by playing in the secondary market versus the primary market. And from the bankers that we utilize for CalHFA, I've been hearing that that's anywhere from 25 to 75 basis points of additional yield that they're able to achieve by buying bonds in the secondary market.

The other thing of note that I was made aware of late last week is that municipal bond mutual fund cash outflows were the largest since 1992. That, again, is not good news for us because many of the large municipal mutual fund families were the buyers of our long bonds, be it Franklin Fund or Vanguard, any of those.

Some of the highlights related to issuance activities during the course of last week. I mentioned earlier California was -- did have a successful $5-billion RAN sale.

Connecticut Housing Finance Agency. Connecticut Housing Finance Agency is a triple-A-rated municipality by both Standard and Poor's and Moody's. They issued a 30-year non-AMT bond, and the price of that bond was 6-and-five-eighths percent, quite high, when you think of things, that this is tax exempt for any buyer. Any holder of that bond would have full tax exemption.

Maine Housing Finance Agency issued bonds as well. It was really characterized to me as being a particle structure with the longest maturity due in 15 years. Remember, everything that we're doing here at

CalHFA is a 30-year fixed-rate loan. Hard to make a financing plan work when your longest bond maturity is only 15 years.

Just a little more specifically to CalHFA then, this is -- some of these bullets you've seen before in the last several Board meetings, but our daily resets that is so important to us, remembering that we have $4.3 billion of variable-rate bonds. Four weeks ago, kind of the range of resets that we were experiencing was between 8.4 percent and 12 percent.

The most recent week, this week, should really probably refer to last week. We experienced 1.4-percent to 8.25-percent interest rates. What we've tried to do is give you the benchmark of where we would have expected those rates to be in a parenthetical alongside that, so somewhere in the 2- to 3-percent range, remembering, as we've discussed before, that the daily interest rates that we're paying to our bondholders is designed to be offset by the variable-rate formula that we receive from the interest rate swap counterparty, and that's based off a formula, typically a percentage of one month's LIBOR.

There are continued liquidity and credit concerns. There's good demand for what is being described as clean issues. Clean issues or clean variable-rate bonds would be those bonds that do not have bond insurance as a credit enhancement.

Over the course of 2008, we've learned all about bond insurance companies, AMBAC, MBIA and others. But if it has credit enhancement from the model line bond insurance community, investors simply don't want to take them.

The other thing that's important is that the standby bond purchase agreement that is provided by a commercial bank is a bank that has a high-quality, short-term rating. Very important to us. We'll talk a little bit more about that later on in the presentation.

Of course, one of the things that we know is that many bonds continue to remain with the liquidity banks on their standby bond purchase agreements. The good news might be that new draws have slowed in the last couple of weeks. And remembering in the context of our overall program, which started with variable-rate debt issuance in 1999, that we had never had a bond put back to a liquidity facility over that period of time.

The other thing that we've noted is some inconsistency between the remarketing agents and their performance, their ability to find new investors for bonds over time as certain investors want to get out of those particular securities.

And then the last bullet shows you that as of Friday, we had $1.024 billion of bank bonds. And here is a kind of a depiction of how we got to that total over time. I won't spend a lot of time on this slide with you, but I'll point out a couple things that I think tend to be highlights here.

It all started that week of November -- or September 15th, pardon me, which is the Monday that Lehman Brothers filed for bankruptcy. The big announcement was that B of A was going to buy Merrill Lynch. You can see that the inflow of bank bonds -- these are bonds that investors had put back. They had become owned by the banks that were providing liquidity facilities.

If you go down that column that is color coded in blue, you can see that the peak was right at the end of the month. We had one day alone where $314 million of bonds were put back to the bank.

I think some more encouraging news would be that the outflow of bank bonds, those bonds that are leaving the bank and successfully being remarketed, has picked up on and after October 10th, with the highest single day being October 15th. So a billion-278 went to the bank, 254 have been successfully remarketed over the last roughly four, four and a half weeks, leaving a balance of $1.024 billion.

Thought we would show one other kind of perspective of what's -- what the makeup of the bonds are that are currently being held by the liquidity banks. As I mentioned earlier, the short-term ratings of these liquidity banks is important to the investors. The top two bank names, Dexia and Depfa, both European banks, are two banks that the marketplace at this point has simply decided they really don't want to have much exposure to.

You can really see that in the Depfa. If you follow that row all the way across, we have $169 million of $170 million of banks that they have provided liquidity facility on where 99 percent of those bonds have been returned to the bank. Depfa's had a rating downgrade. Investors don't want to take the risk that they aren't going to be there when they want out of the security, and so they're simply putting it back, and they're now owned by the bank.

Dexia has a similar situation. Of course, our concern is that we have a lot -- many more bonds with liquidity provided by Dexia than we do Depfa. A total of 789 million or 63 percent of the total have been put back to the bank. And you can go through that.

I would really -- you know, it's fair to say from my perspective that most of the names below that are names that the marketplace should accept. You know, Helaba is a German bank. It has a component with the State Teachers Retirement System, the pension fund here in California. Helaba in this particular investment is a triple-A-rated entity. It should be widely accepted.

Same with -- WLB is West LB, another German bank. That's a quality piece of paper. I got word late this morning that $60 million of the bonds backed by Lloyds will be successfully remarketed tomorrow.

MS. PARKER: Bruce, one thing before -- and I'm going to do the next page, so let me just --

MR. GILBERTSON: Okay.

MS. PARKER: I think what's important for all of you, because of the complexity of this, is to, again, underscore the theme that we are not alone in what has been done here, particularly the use of -- of swaps through Depfa and Dexia. The State of California alone had 2 billion that they purchased from Depfa. And so just from the standpoint of these are not, you know, really unusual, volatile. These were looked at reliable financial institutions to be partnering with for many years.

So we, like many of our colleagues, are now in the situation of having these financial institutions go down and try to figure out what to do with them. But we are, again, unfortunately -- or fortunately -- among many of our colleagues, and it's in that sense whether -- I just want to alleve if there's any concerns about why are we even involved in some of these names that don't even seem to make sense, you've never heard of before, they were entities that was recognized as, you know, common entities to have these financial arrangements with.

I'm going to just speak for a moment about the chart. This a chart that we did, frankly, as part of the handout for the Q and As that we gave you. And I think it is one of those great visuals, and it gives you some sense about how fast this all has occurred.

As Bruce said, prior to the 15th of September, with one exception, we'd never had a bond put back to us in the Agency's history and certainly not since we started the variable-rate program in 1999. And that one was last March, and it had to do Bear Stearns going down. It was immediately taken care of and hadn't been an issue.

Then we start looking at this time line and seeing Fannie and Freddy falling on 9/7, moving across, and, as Bruce said, hearing about Lehman, the next day AGI, the Reserve Fund breaks a buck. I mean, it just kind of went across over the last almost month. And as you can then see down below, this shows cumulative the bank bonds being put back to us.

And Bruce said that on September 29th, we had the large amount of bank bonds put back to us. Was it 313 million? Well, if you look at 9/29, that was the date that Citi agreed to buy Wachovia. It also was the day that Moody's put the housing finance agency on review for downgrade, and it was also the date that the House had rejected the bailout plan, so a tremendous amount of fear in the marketplace.

Obviously, you know, one would have hoped with things like the Dow Jones rallying and the feds doing the bailout, even with that we still saw some increases in these bonds being put back to us. But over the last week, we not only saw the peak, but we actually have come down about a million -- a hundred million dollars.

It's hard to say whether or not this will be -- that will be the top. And we will walk through and we will show you how much volatility that we have still to be working with. But, you know, it is an indication to show you how things have happened in such a short period of time.

And to the extent that the market keeps having this volatility and this chaos, it's really difficult to say how much more of an impact that there will be to the Agency, up to the maximum that we talked with you about last -- a couple weeks ago, saying that we do have a little over $4 billion of outstanding variable-rate debt. So while we're at a billion, you know, things could always be substantially or four times worse.

Bruce, why don't you go through the next part of it.

MR. GILBERTSON: Okay. Thank you, Terri.

Just quickly then on what is the impact of all of this municipal market action and how does it impact CalHFA. As we mentioned earlier, $4.3 million -- or billion of variable-rate debt, so this has produced a higher cost of funds, increased debt service expense, if you will.

And the way we measure this is we -- we refer to this as basis mismatch. So for -- the two numbers here that I think are important is for the last 12 months' period of time, from August 1, 2007, to July 31, 2008, the basis mismatch for all of our variable-rate debt as compared to the variable-rate formulas we received from our swap contracts was $9.7 million. For the two months from August 1st through September 30th, that was $9.5 million. So if we were to take the 9.5 and multiply it by six, we'd get an annual number. Certainly that would be much, much larger than what we experienced this last year.

And I would remind you that the basis mismatch for the 12-month period ending on July 31st was the single largest one-year period of basis mismatch we had ever experienced, because this last year has not been good in the municipal markets at all.

So what really happens then? Okay. Increased debt service expenses go up, and we're going to pay those, aren't we? Well, increased debt service, you know, due to these elevated interest rates, we have to multiply that by the $4.3 billion of bonds outstanding. And that's one component of the stress that we will encounter.

The other is really related to what -- what happens when these bonds become bank bonds. And there's a provision that bank bonds become termed out or repaid on an accelerated basis. So we may have issued bonds for a 30-year maturity, and we would amortize the principal of those bonds over time. Once they become owned by the bank, they amortize on a much more accelerated basis. Typically it's a five-year period.

So you can think about the term-out payments occurring semi-annually and there being ten of those over the next five years, or 10 percent of the amount of the bank bonds might be amortizing on an every-six-month basis.

So we would -- what we know today and the bank bonds that are currently outstanding today, the first term-out payment date would be February 1, 2009, and we're projecting that to be approximately $35 million.

MS. PARKER: Okay. So what have we done since the last time you saw us? We tried to be very busy and be as creative as possible. We figure that at this point in time there's no shame in asking, and so we've been out there doing that internally and externally.

We have had a great deal of -- my staff, my senior managers and I are meeting almost every day for at least an hour or two to discuss this, what we've accomplished on any given day. And I've told my staff that because of the -- where we are at right now, that we need to have everything on the table. There are no sacred whatever, programs. We need to be able to look at anything and everything to see what flexibility we might have for the broader good of the franchise.

But as I mentioned and left at your desk, I did have a meeting with -- staff and I met with the senior vice president for community programs in Fannie Mae in Washington about ten days ago. And we shared our lists of asks with them. We've obviously asked for some short-term or long-term credit facilities to restructure our debt. And this is primarily try to see if we can take some of those bonds that are the most toxic off our variable-rate balance sheet.

We have talked with them about purchasing multifamily or single-family loans. To the extent that we can sell these loans, either pay off the bonds that are behind them at a variable rate or to use the capital to somehow buy or pay off bonds that are tainted, these will all help the creditworthiness of the Agency.

We've talked about converting an existing standby purchase agreement to a letter of credit -- and we'll talk a little bit more about that -- and to also purchase the housing finance agency's bonds. As we've mentioned, many of our colleagues -- we not only have the problem with trying to deal with our existing debt portfolio, but the fact that because the market is for all intents and purposes pretty much closed, there are no bonds that are being sold very much at any interest rates that are of the kind of interest rates we would want to be offering to first-time home buyers in our state.

So the discussion has been perhaps in this environment, the GSEs, Fannie and Freddy, might be -- use their wherewithal to actually buy housing finance agencies' bonds.

Part of the dilemma about that is that, you know, the best thing that we can do is sell a tax-exempt bond in the marketplace and hope to get lower interest rates. Fannie obviously has no need of tax-exempt bonds, so to the extent that they want to help the finance agencies in this regard, it is really something that I think would have to be an overall approach by the federal government of looking at ways to help through the housing finance agencies stimulate the mortgage market for low and moderate income first-time homebuyers.

We -- I finally got a contact. We have long -- a pretty long relationship with Fannie, Fannie Mae, very little relationship with Freddie Mac. But I did locate a senior VP Friday, who we have submitted some of the same asks that we have made of Fannie, and they have committed that they will share that within the company and get back to us. And we plan to be setting a meeting up with them shortly to go back and make a presentation.

Again, I think both of these entities are in a different world under the conservator. The conservator is looking at what they are doing. They do have some resources, but those resources mostly are dedicated for commercial banks to look at the purchase of -- of subprime loans or damaged assets. That's not what we have in the housing finance agency's portfolio.

There was a meeting with the Governor's Office, the Treasurer and legislative staff to ask for a briefing on, you know, where we were and what was happening, what we were doing about it. We gave that briefing last Thursday to try to make sure that we are as transparent as we can to everyone about the kinds of dilemma that we're in, but also the actions and steps we're taking.

My staff and I had a meeting with the director of the Department of Developmental Services and a point person within the Health and Human Services Agency to discuss the sale of Bay Area Housing Plan loans. As you will recall from our last discussion, this is one of the items on Moody's list of concerns. This is the $100 million of loans we have our general obligation bond -- our general obligation rating backing.

And the -- Moody's has always been concerned about the complications of this particular program, and in that sense the hundred million dollars that we have as a back for these loans, Moody's has been counting it against our general obligation dollar for dollar.

So we are trying to work with the Department of Developmental Services and the Agency to identify a way for those loans to be sold. They are probably going to be at a much higher interest rate than would have been anticipated, but what we need to do is to come back and find what might be a financial institution that would buy them.

And when we look at what that cost will be in interest rates, the developmental -- the Department of Developmental Services will need to look at that as how it will flow through in the reimbursement for these clients in these facilities, half of which of any increase will be covered by the federal government so it will not be -- all the increase, if there is one, will not just be solely to the general fund.

We've also been compiling single-family and multifamily loan tapes in that sense to give to Fannie based on our discussions with them. They're starting to scrub all that information, and we'll be hopefully coming back over the next several weeks with some kind of information on what they might be willing to purchase those loans for.

We have, as you will recall, a couple years ago did a loan sale to Fannie Mae. I think it was at the end of 2006. It was a bunch of second loans. It was almost $60 million. We were able to sell those loans for above par. I don't expect in this environment that we will be able to be that lucky, but we -- again, we need to see what they will buy and what price they will offer. And again, this will all be measured against what are our cash flow obligations to some of these standby and liquidity instruments that we have outstanding.

We did also last week raise our single-family interest rate to 7 and an eighth for a 30-year fixed-rate loan. We've been trying to track that relative to what Fannie is charging, because these right now are loans that we expect to not be able to be taken out by selling bonds, but by being able to sell them to Fannie through the window.

And then last, as -- this is following up to one of the comments that Bruce made where he said some of our remarketing agents aren't doing a particularly good job. That's -- without saying names, it's Lehman, it's to some extent -- and, you know, I mean it's kind of you can imagine why. So we are in the process of transferring some of these responsibilities to other remarketing agencies and hoping in that sense that they'll be more successful in bringing these bonds back to investors and in that sense take them off our balance sheet.

MR. GILBERTSON: Can I just go back? I think you skipped over one, unless I was asleep at the wheel, on the bond redemption, the $126 million of bonds. We did redeem them. We notice --

MS. PARKER: I did skip that.

MR. GILBERTSON: Yeah.

And I just want to point it out for a couple of quick reasons. All of these bonds are either auction-rate securities or variable-rate demand obligations. They're bonds that aren't particularly performing well. So we solved part of the problem by noticing $125 million of bonds for redemption.

MS. PARKER: You know, in following up on that, we'll switch to the next page, we had, we thought -- before the 19th of September we still had about $285 million worth of option-rate bonds that we needed to sort of cure from our portfolio. We thought when we came back from New York that we had two sources of liquidity to help us take that out, about 200 million from J.P. Morgan and about $85 million from Bank of America.

Bank of America is sticking with us on that, and we will talk with you about how we plan to use that. J.P. Morgan essentially said that they needed to back off for now on that particular obligation. So we are continuing to look at bits and pieces of ways that we can internally take care of some of our problems.

We -- as I mentioned going through our future actions, we are continuing to offer a loan, a 30-year fixed-rate loan. It amazes me that we continue to do business. I think last Friday we had, what was it, 3 billion?

MR. GILBERTSON: Three million.

MS. PARKER: I meant 3 million. And if I remember correctly, since -- we have about 50 million in loans since we changed over.

And so we continue to do business. The majority of these loans continue to be conventional loans. Those are loans that Mr. McManus is insuring through our MI program. But it has looked like in the last week or so that the number of FHA loans we're doing has increased. We're going to have to figure out how to manage that because although we can sell our conventional loans through the window to Fannie, they don't have a mechanism to buy loans -- FHA loans. So that's -- continues to be a little -- a little side problem that we are having to deal with.

But the good news is that there are people that are qualifying, given the higher interest rates and lower loan to values and higher credit scores to need the housing finance agency.

We are continuing to work to develop a program -- Bob Deaner's working on it -- to become a desk lender. He had a prior career doing this so is well-acquainted with the activities associated with that and is working directly with folks in Fannie Mae for their multifamily programs.

As I mentioned, we are -- we hope to come back in the next three or four weeks with a proposal to deal with selling these loans on Bay Area to other investors in lieu of selling bonds, or perhaps it might be a -- if we can get a rated bond, but maybe something that would be in the B instead of the A category.

We are looking at our single-family, multifamily loans to sell. And as I've told you, we -- this is something that we had talked about when we met last time, that we had gone to the Treasurer's Office to talk with him a little bit more about considering giving CalHFA a larger line of credit, an expanded purpose under PMIB.

Bruce and Tim had met with the Treasurer's Office a couple different times. Clearly what they will want to see and will need is a very specific structured plan of what we will be doing with any of those funds and how that would essentially underline and deal directly with some of the problems that we have given to all of you.

But we are at the moment -- although that is an action item for the Board today, the action item that we're talking to you about really reflects us going to Fannie, Freddie, the Treasurer's Office, maybe the Federal Home Loan Bank, maybe others to see if there are some kinds of lines of credit that we could get to use in a bridge situation to take care of over the next, we think, 18 months of this volatility in the marketplace.

I'll turn it back over to you.

MR. GILBERTSON: Okay. Thanks, Terri.

So just a few other additional items that we're continuing to pursue. The conversion of liquidity-backed variable-rate demand obligations into full letters of credit. That's simply a strategy that if Moody's were to take action and downgrade our GO rating, we would no longer have a rating that would allow the bonds to be eligible for money market funds to buy. So a letter of credit, we would now use the letter of credit provider and their rating for eligibility for money market funds.

We're also very busy. We're starting to do some consolidated cash flow runs of our large single-family indenture. This is a process -- I'll just give you a little flavor for this. You load every loan that we have in portfolio, every bond swap, liquidity agreement, put it into a big automated system, and it produces cash flows under different assumptions prospectively. So you model this based off an assumed interest rate going forward. Where if it's a variable rate, you model the change in variable rates and all of those things. This is an ongoing effort that we need to do with the rating agencies regardless so that they will continue to affirm the ratings that we have.

We're also looking at capital adequacy. This is a part of the Moody's analysis that we need to complete here as we move forward into November.

We're looking at the bonds that we still have that continue to have bond insurance. We're looking to strip the bond insurance away from the bonds and reissue those to the marketplace. The bonds that we have done this on before are trading much, much better, if the MBIA insurance and the AMBAC insurance is no longer attached. Because, remember, the bond insurers have a lower, much lower rating in some respects, today than they did when we insured the bonds to begin with. They were all triple-A rated.

Additional remarketing agent reassignments, we're still looking at that. We want to get the right mix, get people that have capital, support the remarketing effort to actually be remarketing our bonds.

In a moment we're going to go through the process of looking at what we call an overall big picture bond redemption, bond restructuring plan that includes dealing with the remaining auction-rate securities we have, variable-rate demand obligations that are bank bonds, and bonds hedged with Lehman Brothers swaps or AIG interest rate swaps.

Part of this discussion -- and Tim is going to lead this part of it -- is going to be looking at using liquidity commitment from Fannie Mae for debt restructuring in lieu of using it for the Community Stabilization Home Loan Program. That's the REO program that we began in late July. If we were to do that, we would be required to retool or redesign the CHSLP program, something that we need to keep in the back of our minds.

With that, I think I'm going to turn it over to Tim, and he's going to walk you through some very kind of complicated yet all-encompassing strategies --

MS. PARKER: Before --

MR. GILBERTSON: -- that we have.

MS. PARKER: Before we do that, why don't we just take a breath, see if the Members have any questions. Because I can guarantee you, I thought that maybe we should pass around a bottle of Tylenol when you see Tim's chart. But why don't we just stop here for a minute before we take you through that, see if there's any questions.

ACTING CHAIRPERSON CAREY: Questions or comments?

SECRETARY BONNER: I had a question about one of the final points that we talked about, the Community Stabilization program. If you make the adjustment that you're contemplating now, where does that leave us, say, when conditions change? Is that program just on a shelf that you can breathe life back into when and if conditions change, or does that cause us to have to go back to CDLAC? If I remember, that program was the beneficiary of some other programs where the bond cap was not fully utilized in other areas and some of those were made available here. So does that go away, or is it still viable?

MS. PARKER: We -- we have the allocation from CDLAC. And we have up to three years -- how is it -- how is it dealt with?

MR. GILBERTSON: It will be carried forward. We don't actually -- CDLAC has not met to award that volume cap; however, it's been applied for. It will be part of the December 3rd meeting.

MS. PARKER: So we expect to receive that as part of -- the Treasurer's Office is doing an allocation on December 3rd, and that allocation will be done for this bond cap, and the Agency would have three years to essentially sell bonds with that debt.

So two things: One, I don't think that the Treasurer's Office has any intention of taking it back, and I think that the Agency would certainly -- once the environment improves -- look to see the viability of the program.

The other thing we'll have to -- the Agency at that point in time will have to look at is to see whether or not some of the components that were in the program are viable; i.e., the liquidity agreement that Fannie Mae offered us of $200 million allowed all of that bond cap to be sold as tax exempt, in that sense the best rate that possibly could be achieved for our borrowers. That's where we came up with 5.5 percent.

If liquidity is not available or there is not a variable-rate market that, you know, bonds could be sold in that could produce good rates, then those bonds could be sold, but the interest rate would be dependent upon what the market had to bear. So it may be a situation that if the market comes back and if there is the ability to get liquidity, that variable-rate debt could be sold. If not, the bonds could be sold, but they would be for higher interest rates in the program.

The other side of that will be will the banks that we participated with in partnership on this program, Wells, Fannie Mae, Home Mac, Citi, will they -- because they offered to be part of this program where there was going to be these lower interest rates, will they continue to be willing to offer the properties as part of this program at a 12-percent cut relative to what the current market value is of those properties? That's a question we have to go back and ask them.

So, you know, that's certainly something that we'll be doing if we take this action going forward, at least in the interim, and I think the longer term discussion will be, depending on what happens in the market -- but at least the bond cap, the volume cap, is going to be available. And if the Treasurer's Office does allocate to the Agency some part of the excess volume cap that came in part of the stimulus bill, the 1.1 billion that California got, some part of it is allocated to CalHFA, that too could be used over the next two years for this kind of a program.

SECRETARY BONNER: Thank you.

ACTING CHAIRPERSON CAREY: This is one of those questions I'm not sure I want to ask, but, Bruce, you mentioned $35 million in term-out payments in February. Take us farther down the path. What comes next?

MS. PARKER: One thing before we also talk about this, you know, we're kind of in a mode of trying to stay a day ahead of what we need to give you, not be too far behind what's happening in the market. Our next Board meeting is on the 13th of November, and one of the things that we want to have to give you at that point in time is a better handle, a time line, of sort of how these facilities will impact us, particularly if there's an accelerated payment requirement on them so that we can essentially show you the analysis.

That's -- all of that analysis is part of the work that Tim is doing on looking at our capital adequacies and our cash flows. But we hope to by then be in a position next time we meet of showing you sort of a longer time horizon.

ACTING CHAIRPERSON CAREY: That's fine, if that's appropriate to -- you'll have the information more predictably then.

MR. GILBERTSON: Well, exactly. And I think there's a couple things we should all remember, is that the number of bank bonds could change on a daily basis, as often as a daily basis. It could go up. It could go down.

I think the 35 million is based off the billion dollars of bank bonds that we show in the presentation today. You know, hopefully the bank bond total will reduce over time and so that will become a lesser and lesser amount that we have to concern ourselves with.

Tim, I think, has looked at this a little bit. He has some numbers. I think he will share that with you as he shares this other presentation. There's a lot to consider as we go through all of this.

But if there aren't any other questions, maybe we should go on to some of the --

ACTING CHAIRPERSON CAREY: Actually, I do have one more.

Terri, I'm struck with the federal perspective. I'm just wondering what sense you have of where and whether there is a recognition at the federal level of the issue for some of the nation's largest housing finance agencies. We're not alone, and it is an issue of import around the country. It's sort of inescapable to me that we are making great efforts to solve the problems for some of the less stellar players in this current crisis, and yet here we have a housing finance agency that has been meeting a very public purpose, and I'm wondering is there a sense at the federal level that this is an issue of importance?

MS. PARKER: You know, I think it's just starting a little bit. When I was back in Washington, having conversations with my colleagues in New York, some of the other states that are obviously as challenged as we are -- Massachusetts, Ohio, Wisconsin, Colorado -- some of them have as much variable rate debt as a percentage to their portfolio or more even than we do. Having some discussions about what we can do, they were part of a meeting that we had with Fannie.

And it was interesting, on the next day Bruce and Tom and I went in and met with Fannie just by ourselves. California is in the front of the line. So we have sort of started raising this other. I think the others are sort of coming to it more gradually.

But when we were meeting with the senior vice president of Fannie -- this is no secret to anybody, but it's interesting now because of the conservatorship. Any senior vice president in the GSEs has what is referred to as a shadow, and that is a person who is from the conservator's office that is in any meeting or briefing, phone conversation, e-mails.

And this particular person when we were doing our briefing asked a lot of questions, took a lot of notes, was very interested in what our problems were. And I understand from talking to folks at Fannie, that he has -- this person has come back and asked more questions. In fact, the Q and A that we did was information that we sent off to him that we thought might be helpful in explaining this.

I was also asked in that meeting if we had been to see Freddie, and I said I hadn't been but that's another reason why we are doing it, because obviously both Freddie and Fannie sit underneath the conservator who sits under Secretary Paulson and, you know, the Treasury.

So, you know, I think it is a matter of this sort of percolating up and as more states realize that the bailout for the banks is not something that will help the housing finance agencies at all and whether or not there should be some of those resources put aside for the GSEs or whatever, it is kind of a -- I think it is something that needs to be building.

This next Saturday my colleagues and I are going to Denver for our fall meeting with other housing finance agencies, our bankers, and I expect there to be more discussion about this particular issue. And, you know, certainly as these issues are raised and, you know, keeping Dale apprised of them and I will keep you apprised of -- of, you know, what opportunities or what people are talking about. And we could certainly, for anyone that wants to know, be able to articulate and demonstrate what's -- what our story is.

ACTING CHAIRPERSON CAREY: Thank you.

MS. PARKER: Tim.

MR. GILBERTSON: Okay, Tim.

MR. HSU: Hopefully this won't be too painful, I'm sorry. I kind of think that in order to understand the big picture, you kind of have to understand the little parts first. So I want to look at the DNA, if you will, of the variable-rate financing first.

And if you could just start with the bottom here. We talk about variable-rate bonds all the time, and there are really primarily two types of variable-rate bonds. There are auction-rate securities and there are VRDOs or VRDBs, which are variable-rate debt obligations. These are the kind of bonds that the money markets are buying. So if you have money on deposit with Vanguard, they will be buying some of these VRDOs.

But each of these layers are important to the marketabilities of the securities. So the next layer that you put on top of -- after having chosen, you consider -- think of this: You chose a path and you said, "Okay, I'm going to do VRDOs." And after that you choose -- your next decision is, well, how are you going to credit enhance the long-term ratings?

So sometimes we credit enhance them. So we will put one in a model line. That's sort of the headlines these days, like AMBAC and MBIA and FSA on -- on the transaction so that the bonds would carry their rating, their long-term rating and not our long-term rating. So what it does carry is their long-term rating. That's referred to as enhanced. And when it's looking at our naked rating, if you will, it's unenhanced.

So that layer is important because if that layer goes out of whack, the bonds won't trade well, and that's what's happening when all these model lines are downgraded.

The next layer is the liquidity banks or the short-term rating on the bonds. So these VRDOs, since they've sold to the money market funds, the money market funds, as you know, the reason why you put money there is that you think that you can get your money back tomorrow if you needed it. Since they have that option for you, they, in turn, need to have that option from the bonds and investments.

So the short-term rating is derived from the bank's ability to return that principal back to the funds if you are taking money away from the funds themselves. So this layer is the layer in which we're talking about people like Depfa and Dexia, and as they get downgraded, this is also causing a lot of noise. So now we're at the third layer of the tiramisu, if you will.

And then on top of that, we have the people who are actually resetting these variable-rate bonds. So the Merrills and the Lehmans of the world, as their balance sheet become very challenged and as they get -- as their, sort of, risk management department asked them to not support these transactions, their resetting capability of being aggressive is massively impaired. So as the Barclays and the Merrills of the world become challenged, their efforts in helping us achieving a lower cost of funds is also challenged.

And lastly is our hedging strategy, and this is the part which we'll talk about. We issue variable-rate bonds, but it is not as if we had actually $4 billion of bonds in which we're taking interest-rate risk on. We enter into certain kinds of interest-rate hedges, and those hedges help us, as I say, manage our affairs, if you will, if interest rates -- short-term interest rates were to rise by 10 percent like it did in the early 1980s.

So these are all the -- you know, all the layers of this kind of variable-rate financing. And any one of these layers, if you will, if it were to be impaired or, let's say, if there's any noise around those layers, it could cause what we refer to generally as basis risk. So something happening here could sort of contribute to basis risk. Something happening here, here, any of these layers, it could become impacted, could be a problem.

So one of the things that we know, for example, is that the auction-rate securities market is sort of, like we say, sort down for the count because all the investors sort of fled from that market. So that, you know -- it's something that's -- it doesn't matter what's happening up here. These things, these securities, are not working anymore.

And so this is in general sort of the DNA, if you will. And you sort of have to -- it's sort of looking at a painting, like one of these chalk colored paintings. If you get really, really close, you see that the little thing is actually the big thing. And this is sort of the DNA of one specific transaction.

If you go to the next chart, Bruce.

And this is sort of the big picture, and unfortunately, you can't see it very well so you might have to look at your handouts.

MS. PARKER: You can't read it here either.

MS. GALANTE: Some of us are age challenged.

MR. HSU: Part of the reason why I did this is that I color coordinated them. I color coded them. I hope I did a good job because I'm actually color-blind.

So what you can see here is that, for example, this entire spectrum here is supposed to represent all of our bonds. Okay. And then if you just focus in the middle here -- and this is representing those layers that I talked about on the previous slide. Okay.

So then this red color here, these are all the auction-rate securities that we have.

MS. PARKER: Red is bad.

MR. HSU: Red is basically bad. And this entire --

MS. JACOBS: What's the good color?

MS. PARKER: Pardon me?

MS. JACOBS: What's the good color?

MS. PARKER: Blue. Blue is the better or --

MS. JACOBS: Green.

MS. PARKER: No.

MR. GILBERTSON: In this example, the ones that don't have color.

MS. PARKER: Yeah.

MR. HSU: No color is good.

MS. PARKER: White. White hat.

MR. HSU: So I just wanted to give you a little general lay of the land before I progress into talking about each of the specific things that are happening.

So as I mentioned, this -- this area here, this red here, is the auction-rate securities, which are basically dysfunctional. The investors, they didn't realize that they didn't have, let's say, guaranteeability to get their money back in the short term.

And that's why if you look up here, you'll notice that some of our auction-rate securities are insured by FSA. Some of them are insured by MBIA. And on top of that you'll notice that it has no short-term rating. Because, again, auction-rate securities, it was functioning for a while because there was always another investor in line to take the securities from the previous investor. But as the market fell away from that marketplace and people realized they can't sell their securities because there's no short-term rating, the whole market sort of just fell apart.

So these are the auction-rate securities that we have. And if you look at the right of that, this entire white bar running across here, these are all the variable-rate demand obligations we have or VRDOs.

I'll come back to -- to -- to talking about that side of it for a second, but let's just focus on this side here. So what we're seeing is that these auction-rate securities, it doesn't really matter what's happening on top of this foundation, if you will. If the foundation -- if the lower layer is sort of rotten, it doesn't matter what's going on above so.

So our hedging strategy could be working really well, you know. These are -- the remarketing agents could be doing their job, but because the marketplace is nonexistent anymore, that -- that whole set of bonds has just become dysfunctional.

So that's the -- that's the intent of me layering this way, is that if the bottom layer doesn't work, it doesn't matter what's happening above it.

So now if you migrate over to the VRDO world, the VRDO world is still -- still somewhat of a functioning marketplace, but you'll notice that on top over here, we started what we've been talking about for a long time, these model lines getting downgraded is having an impact on our variable-rate bounds.

So you see these two greens here, the AMBAC and MBIA. The AMBAC and MBIA, they don't have their triple-A rating anymore. And FSA, which is another name in the headlines these days, they have managed to hang onto their triple A, but there's a lot of fear in the marketplace about where they're going to go.

So all -- these two greens and this FSA, these are all troubled, but for these greens that we have in place here, there are tactical strategies that Bruce and Terri referred to earlier, where we can embark on a strategy of stripping that insurance. And so once we strip it, then you can look on top of that.

Because if we can get rid of the greens in terms of their being problematic and you look on top of that, you say, oh -- oh, the credit enhancements on top of that are folks like J.P. -- Bank of New York, maybe look at this, Bank of New York, Lloyds and Scotia, and they're quote/unquote clean, so then those paper will continue -- once we strip the insurance, they will be able to continue to exist in sort of a successful way.

So this is sort of meant to say that, you know, if we get rid of these -- delete or eliminate these greens, they will revert to functioning variable-rate bonds.

MS. PARKER: We hope.

MR. HSU: We hope, that's true.

And then if we move to the right of that, you'll notice that these are the Dexia and Depfa bonds that we're talking about. And unfortunately, given the marketplace, what -- the only solution to getting rid of the Dexia and Depfa problem is if you find someone else, another liquidity bank, to replace them, meaning that they provide short-term rating.

Sort of going go back to the DNA, they provide short-term rating on the bonds, and we have to find somebody else to provide short-term rating on the bonds in order for the bonds to function. Because you'll notice that some of these bonds are actually uninsured, so we're not tainted by these model lines getting downgraded, but they're not working either because the underlying short-term rating is troubled.

So I mentioned that these four greens here, there are two of them in which we are stripping insurance. These two here.

And this one here, because -- because some of these liquidity banks are from facilities that grandfather from German state guarantees -- it's kind of exotic, but it just means that at some point these banks had gotten state guarantees so they're triple A, so we cannot actually go and change those agreements. So the solution for these set of bonds here is to give some of the burdens to J.P. Morgan, because J.P. Morgan is part of a consortium providing short-term rating, and they're going to be incentivized to remarket these bonds.

And these over here, the last green over here, these are FSA insured and other non-German banks, and we're asking FSA right now to see if we can strip the insurance on those.

I'll pause. Any questions so far? Okay.

So the last thing to mention here is that -- so so far all I've talked about are the bonds. So then on the very top of this is our hedging strategy, which is the interest rate swaps that we put in place.

So as the underlying bonds are impaired, like, for example, the auction-rate securities, these hedges obviously aren't really hedging anything anymore. So if the bonds -- if the bonds are resetting at, let's say, 5 or 6 percent every week and our interest rate are receiving -- interest rate swap are receiving at 250 or 260 or 270, there's a tremendous amount of disparity because they're not really resetting like variable-rate bonds anymore. So if the underlying foundation is rotten, if you will, all the stuff above it really needs to basically be replaced.

So what we're seeing here is that all the -- all the yellow that you see here, which are the hedges, they are on top of reds, they're swaps that we have to terminate because they're not really acting as an effective hedge anymore and whereas if we have hedges that are top of areas that are white, we basically can replace these hedges, despite the fact that the current counterparty, which is Lehman is not -- is not rated high enough for an indenture to consider it an effective hedge, we could replace these hedges.

So far so good?

MS. GALANTE: I'm sorry, does that mean where you don't have -- if you go across the swap line -- I see. So you have a qualified swap and nonqualified swap. So you have a swap agreement on -- well, not all of these. Most of them?

MR. HSU: The hedges are -- I would say that there are hedges on most of these. The reason why I put -- some of these, you might think that there would be swaps here.

MS. GALANTE: Yeah.

MR. HSU: There are probably indeed swaps there, but the reason why I didn't put them there is that one of the things that we're dealing with right now is that Lehman Brothers, after they became bankrupt, is no longer -- when I say qualified hedge, I just mean that it's no longer rated high enough so that a rating agency is going to consider it be a good hedge, because there's no guarantee they'll actually pay us if they need to pay us.

So then on some of these bonds up here, there are actually hedges with, let's say, other higher rated counterparties. I just didn't show them here because we don't really have to do anything. I'm only showing the ones which we might have to do something because the underlying bonds are impaired.

MS. PARKER: Tim, I'm going to show them a couple things. This is obviously very intense, but two things. One of them is I think I told you earlier that we thought we had this -- this auction-rate number, this line used to be, if we went back to February, substantially longer. We were able to essentially between now and then take care of everything but $285 million worth of auction rate.

This is the little block right here that we thought between J.P. Morgan and Bank of America we were going to be able to take care of it in the next month or two. Obviously, while we'll talk a little bit more and there's still the 85 million, but J.P. Morgan, the $200 million, has falling out of our ability to help this particular block.

So what I want -- we're going to walk through this, but what I want you to understand is that, again, things are moving so quickly that if somebody is asking for what's your long term or what's your plan or whatever, that presumes it's going to stay the same on any given day for you in the set of assumptions you've made to work through.

Two important things too here. We talked about we have for all intents and purposes two indentures: Our general obligation, which is what Moody's has us on possible downgrade watch for, and our major indenture that we pretty much do all of our general obligation bonds or our -- our bonds -- our single-family bonds for our single-family program.

This little line here that says GO, it's here and down there, these are bonds that are against our general obligation. So these bonds that are in here are not. They're ones that are against our single-family indenture. So whatever is happening in this space and the space over there going up is what Moody's is particularly looking at relative to this letter for possible downgrade.

So if we're trying to do things to help cure the Moody's letter, then trying to do things in this arena and this arena is more helpful for that particular exercise, even though you can see where a lot of the tainted bonds we have are here. But they are against a different indenture that we could all talk about those resources and reserves in a different discussion about taking care of that problem.

Tim, do you want to tell them about your numbers there up in the corner?

MR. GILBERTSON: That's the summary.

MR. HSU: Yeah. But before I go there, there are more swaps here, I just didn't put them in because it gets overwhelming even for me.

One of the numbers that people have periodically asked me about is that if we had -- could just wave a magic wand and say we will get this much money and take care of the existing problems, what would that dollar amount be? And I was quite reluctant to actually solve for that number at one point, but here it is.

If you add up all of the reds that we're showing on this chart and then you consider the termination costs for the associated swaps -- so, for example, what I'm talking about here is that if you add up all the dollar amounts that are reds and you take into consideration that if you were to call these bonds, you would have to get rid of all these swaps. Okay.

In total for everything under the upper left-hand corner there, you can see that, that would be $1.1 billion. But if you only look at the GO credit, which is the credit that is currently being put on credit watch by Moody's, that number shrinks down to $348 million. So that's the -- if someone were really generous and decided to give us money to help us to solve all our problems today, that would be the dollar amount.

I mean, there's some subtleties in that, which I'll just get into just a little bit, but some of these multifamily bonds here, for example, in this arena here and this arena here, they technically some of them can't really be redeemed because some of the projects haven't been placed in service yet. So then it's possible we may to have to wait for like another 30 days or 45 days before we can redeem them. But if we were -- if we look beyond -- put that aside for a moment, that would be the dollar amount.

MS. PARKER: Let me -- let me just clarify this for a minute, though, because I don't want anybody to be sitting there thinking that we're a billion-one under water. And I think when Tim takes you to the next slide, you know, he can show you some of the options that we have.

I think all we're trying to do at this particular point in time without going back and looking what the Agency's reserves are or other resources, this is an indication of what we have out there that maybe, for better -- lack of a better word we're kind of using the word "tainted" -- probably won't be able to cure itself, given the marketplace. Because irrespective of the market becoming rational, we don't think a Depfa, a Dexia is going to, you know, live another day.

So I just want to make sure that for anybody that's in this room, you know, there's no headlines here that the Agency is falling off a cliff, but just to clarify that, you know, what we are looking at that we can kind of quantify at this moment as our most -- our largest challenges for us then to be working through some plans of action to address them.

And again, I think we can tell you different -- the things on my list are things, plans of action, that would try to address this. If we get liquidity, where we might apply it. If we get some of these bonds, loans sold, how that reduces the amounts in certain of these building blocks, those kinds of things.

ACTING CHAIRPERSON CAREY: Bill.

MR. PAVAO: I have just a quick question. So on that small chart in the upper left hand.

MR. HSU: Yeah.

MR. PAVAO: So the spot termination figures, I can tie the bond principal figures to your -- to your red boxes above the GO columns, but what does those numbers tie to, the swap termination numbers?

MR. HSU: They -- these -- these blue and green box -- I mean blue and yellow boxes and the gray boxes, the number within them represent the notional amount of the swaps.

MR. PAVAO: Okay.

MR. HSU: So, for example, if you look at this one here.

MR. PAVAO: Yes.

MR. HSU: This one here. This is an AIG swap in which I -- obviously these are all millions. It says $48 in there. And then it's ostensibly -- well, I shouldn't say ostensibly. It is hedging this bond here, this MBIA-insured auction-rate security of $50 million. And that last $2 million just represents a bridge loan, which we didn't hedge.

So these are notionals, but what I'm showing up here is the actual termination value of those swaps. So they're not connected to these because we could terminate, let's say, a billion dollars of swaps and it could be -- depending on what interest rates are, it could be, let's say, a million or ten million.

MR. GILBERTSON: Just to add to that, Tim, at the last Board meeting we showed you a slide -- we didn't include it in the package today. But we have $5 billion of swap notional. And the mark to market as of an earlier date this year was $196-million negative mark to market against us. So that means as we terminate these swaps, we have to make a payment to get ourselves out of the contractual obligation.

MR. HSU: I would -- I would emphasize what -- I totally agree with what Terri is saying, is that that dollar amount there is not meant to illustrate that we need that money in order to survive. It's sort of like a number that represents that if we had this money, basically all our troubles would go away, not that we couldn't deal with our troubles. And on the next slide, we can show you how we're going to deal with some of these troubles, if you will, but it shouldn't be thought of as if we didn't have this money, we're going to go nowhere good.

Okay. Onto the next slide. Whereas on the first slide I showed that -- where we are today and some of the things that we are already doing today, on this slide we're proposing certain things to be done as our next steps, if you will.

One of the things that Terri mentioned is that B of A is still -- still has a commitment for helping us convert some of our auction-rate securities into VRDOs, and their commitment is $85 million. So some of those action-rate securities have been called down, so now I'm showing only as $73 million. But before we convert the auction-rate securities into VRDOs, we are going to ask them to change the nature of their liquidity from just a simple standby purchase agreement to a letter of credit.

And the reason why that's important is that we're thinking slightly just in terms of prophylactic, if you will. Because if we change it to a letter of credit and at the same time some time after that if we were to get downgraded by Moody's, which is sort of an outside chance we might, these bonds will continue to be placed in the marketplace because a letter of credit would inherit -- going back to our DNA thinking, a letter of credit would inherit both B of A's short-term rating and long-term rating, whereas a standby purchase agreement would only inherit B of A's short-term rating.

MS. JACOBS: So B of A would issue the letters of credit; is that what you're saying?

MR. HSU: We're currently asking if they -- their pledge of $85 million to us in terms of liquidity is a standby purchase agreement. We're asking that -- if they would convert that into a letter of credit.

So we think that instead of -- let's say instead of converting the auction-rate securities into a VRDO that has B of A standby purchase agreement, it's probably -- again, just thinking ahead, for us to change it to a letter of credit and then once we covert it into

VRDO, if you were to get downgraded, you know, the paper would continue to be placed in the marketplace and there would be no turmoil regarding that.

MS. PARKER: So we're in discussions with them right now. I mean clearly the value of a standby purchase agreement and a letter of credit are different. And so we don't have numbers from them yet of what that would be, but, you know, we -- again, we're trying to solve here for multiple things and also do things that should Moody's continue, from our perspective, to be irrational, that we have some kind of access to the market to what have been in the past our traditional investors.

MR. HSU: And -- and some of the other things that we're proposing here, the next steps are orange so there are four boxes of orange. So this is the B of A, one of the B of A tactical -- we refer to as tactical solutions.

And then the $200 million of liquidity that Fannie Mae has given us, originally for the REO program, is now going to replace some of the Dexia liquidity in the single-family arena, so it will take away some of this red that you see right here in the middle there as well.

And then --

MS. PARKER: Tim, I just want to make -- this is an important thing. Although clearly, you know, it might be better to be able to use that, if we could, on the multifamily side, because that's against our GO, because Fannie gave it to us for single family and it's for them, it is tacked against their single-family support, we have to use it for single family.

So, you know, if we were looking at the highest, best use and we had the flexibility, we would have put it on the multifamily side to get the double benefit of taking down the Dexia and helping our GO, but we don't. But we're still at least having the advantage of reducing the tainted red bonds.

MR. HSU: And then the last two orange boxes that you see on the right-hand side here, this is, again, in the thinking of thinking prophylactic, that we are asking Fannie Mae and B of A, who currently provide standby purchase agreements, to -- these bonds under the GO, we're asking them if they would change their commitment from a standby purchase agreement to a letter of credit. So, again, if something bad happens and we were to get downgraded, these bonds will continue to trade in the marketplace because they will trade with B of A's short-term rating and long-term rating.

The one thing I should emphasis, which I probably took for granted, is that currently our short-term -- our long-term rating on the GO is on the -- on the bottom of the double-A spectrum, if you will. And if we were to then get downgraded, we would go to the top end of the single-A spectrum. Within each spectrum there are three gradations.

As I mentioned, the investors in these VRDOs are money markets run by mostly mutual funds. One of the requirements they have is that the long-term rating on the paper needs to be at least double A. So if we move from the bottom of a double A to a single A, basically those bonds will be very, very impacted, and they would all become what we, you know, refer to as bank bonds, and that's just not very a pretty picture.

Actually, if you go to the next slide, Bruce.

MR. GILBERTSON: Did you want to summarize this slide, Tim, the upper left corner?

MR. HSU: Yeah, okay. Let's do that before we go to the next slide. Well, actually, let's go to the next slide.

MR. GILBERTSON: Sure.

MR. HSU: And this is what I'm talking about, that if we were to get downgraded -- this slide sort of contemplates the unthinkable, that if we were to get downgraded, all these bonds here, which were previously white on the previous slide would also become red because they will become money market ineligible, meaning that they can't hold the paper anymore.

Even -- even though, as I sort of talked about, the analogy of this cake, if you will, even -- even though the stuff that's on top here, some of these credits up here, the Citis and the CalSTRS and Helaba and Fannie Mae and B of A, even though these top layers are still good credit, but because our long-term rating is impaired, it simply would not be able to hold them.

But if we go back to the previous slide, before I do the summary, I know there's some desire for us to be very specific about what we would do if we were to get a PMIB loan, and I thought that this is a good place to also -- I'll try to squeeze a lot of information on here, I'm sorry -- to also illustrate what we might do with a loan from PMIB.

So, for example, this Depfa bond here of $134 million -- and this is mostly right now all bank bonds, because Depfa has lost their top tier short-term rating, so the investors have put most of the bonds back to the bank. So these are all bank bonds right now.

So what we would do is that if we had a loan from PMIB, we would take the money from PMIB of, let's say, exactly $134 million, and take that money and buy these bank bonds from Depfa. And what that would do is that that would presumably help us save some interest costs between what we pay Depfa, which is nowadays time plus a spread, and what we will pay PMIB.

And furthermore, it will also preclude, if you will, the term-outs that Peter had asked about earlier. Because if we bought the bonds, you know, we don't have to follow the term-outs of the accelerated getting this back to the bank.

So we would do that so that we sort of own the bonds in a slightly different area. And these five little boxes here are sort of a listing of the different choices or different, if you will, exit strategies, how do we pay back the PMIB loan.

The first thing that we would do is that we would continue under a difficult environment for sure, to find someone else, another liquidity provider, to replace Depfa. And once we do, the bonds will continue to trade and we can return the cash back to PMIB. And that's choice No. -- I wouldn't say choice No. 1. I don't know if these are actually in the order of preference.

Two is that if we were to sell refunding bonds, converting these bonds to a different loan, let's say fixed-rate bonds, we would also raise cash to return to

PMIB.

And third is something that Bruce and Terri talked about, where undergoing the possibility of selling the underlying assets to these bonds so it would create cash, again, that would be a source of return money to PMIB.

And we do have some excess revenue in our Housing Assistance Trust, and some of them have been used to redeem bonds on certain occasions. And we could use some of this too, although this amount -- the moneys that's in this pot here certainly wouldn't be able to address all of issues that we have that color red.

Last but not least is that when we do buy the bonds from Depfa, we can -- we could retain a right to put the bank bonds back to them as well, and that could be thought of as sort of like a last resort. If all these strategies, the top four, were to fail, our last resort would be that, well, Depfa is glad that we took the bank bonds off their books, if we bought them for, let's say, three to six months, if we came back to them and say, look, you know, we want to have our money back, contractually we could retain that right, to put the bonds back to them. And again, that would give us cash to return to PMIB.

So I wanted to lay that out as detailed as possible, because there could be a question about what is that loan going to be used for, and this would be a very specific example of that.

MS. PARKER: One other thing, Tim.

The orange box that's Fannie that Tim explained that we're hoping to get a letter of credit on, again, this is -- this is, you know, our letter that you have at your desk, one of the asks that we've made to Fannie.

If you look across all these boxes, there are no Freddie boxes. So if we did go to ask things of Freddie, this would not be an option to ask of them because we don't have any of the -- they don't have any of our bonds in the first place.

MR. HSU: Okay. And then going to that upper left-hand corner again, because on this slide incrementally these orange boxes that we're proposing here would also take care of some of the reds that we have seen on previous slides, the total has now decreased. Instead of $1.1 billion, the total is only $864 million, and that attributable to the GO is only 264. Again, this is not a dollar amount that is what we must have in order to survive. It's just for illustration.

Any questions?

MS. GALANTE: I have a ton of questions, but I want to try to make sure I get the big picture before I ask questions. Have you sized, for example, the amount that B of A is, you know -- you're going to ask B of A to take, so to speak, of the auction-rate securities for this pooled money fund for this Depfa replacement? Have you sized these requests to what you think you can get?

And I'd like to get some understanding of the likelihood of these things versus -- because you're still leaving some big red boxes.

MS. PARKER: Let me answer that. You know, the Bank of America request, that goes -- that started out with us having -- requesting help from them in February -- wasn't it, Bruce, when we were sitting --

MR. GILBERTSON: Or March.

MS. PARKER: February or March.

And we actually got $200 million previously that we took out.

MR. GILBERTSON: 300.

MS. PARKER: 300 million. So we have been asking all along everybody and any -- you know, anybody and everybody that we could.

So it just happened that, you know, before everything fell, we had this $285 million for the last two chunks that we could take out.

So, you know, when the situations change -- we had been certainly been talking to folks about liquidity for us, less so than what we had in the past years because we have not been wanting to sell variable-rate debt. We needed a lot of liquidity in the past because of how much variable-rate debt we were selling, and for all intents and purposes since last year, we stopped doing that. We were selling fixed-rate debt.

The only variable-rate debt, in fact, that we planned to sell was the $200 million for CSHLP program and some variable-rate debt for multifamily. And we talked a little bit about that in some of the last couple of deals that we have had the Board approve.

So what Tim has been working with on this Bank of America money is, you know, frankly just on a relationship issue, they could have taken that back much like J.P. Morgan did, so it's kind of like you have 85. They're not going to give us more or they're certainly not going to give us more in this environment.

So we are -- some of what we are doing is if you look at the letter from Fannie, we asked for help somewhere between one and a half and 3 billion. That number merely kind of looks at how much variable rate we have in totality, not that we think we are at a 3-billion problem, just, you know, essentially -- part of it is we can point to real, you know, problems associated with it, but certainly some of it we'll be able to manage ourselves and also knowing we're not going to get as much as we would ask for.

We asked or talked to the Treasurer's Office about a line of credit for PMIB as much as maybe a billion dollars because that's how much we had in bonds that have been put back to us. And, you know, it's no secret that the Treasurer's Office, that number is almost an unfathomable number to them. We will certainly be asking about, you know, some numbers like that if we go to talk to Freddie.

The reality will be that maybe we get some small numbers, as we have, and that's why I think at the end of the day some of the things that we've talked about doing, we, as your staff, are trying to look at this as if -- and -- and be giving you some plans in the future what do we do if we don't get anything more than what we have right now?

But we -- we are asking for these amounts. Whoever we have asked for them want very specific plans of action. And then the most critical question needs to be answered is how would you repay this? What is your exit strategy to repay?

MR. HSU: What I would add to that is it is true that there's quite a few areas of red still left. One of the things that we're hoping for is that as we have talked about before, this marketplace has traditionally priced with the assumption that they never really have to fund it. There's never been a draw on bank bonds on the liquidity facilities prior to this year. So it's recuperating from this hangover, if you will, of, wow, we wrote these commitments. I never knew that it was actually going to be used.

Having said that, I think that the pricing going forward along with how much appetite people have for this is going to be very different, but we do know that this line of business, just like any other line of banking business, perhaps with the exception of underwriting -- underwriting, the more you do, the merrier -- but when you are actually putting the balance sheet of the bank to work, you get allocated a certain amount of capital at the start of the year. And we're hoping that as the new year starts, there will be a fresh endowment of capital allocation in the business, and that would help us replace some of these reds.

That's one of the things that we're hoping for, but that's one of the things that I think Terri alluded to earlier, that time could change some of the plans that we have here, and this is simply a picture, if you will, of what we're dealing with today knowing what we know today.

MR. GILBERTSON: Just a couple of additional comments, I guess. One is I was cheating a little bit here using the technology of today and looking at my BlackBerry. We do have actually have a commitment now from B of A to provide letters of credit totaling $287 million. So that just came through today.

I think the other way that I would characterize some of this, you know, we've talked a lot about having to sell other assets to provide liquidity. Perhaps the numbers in the upper left-hand corner tell you the amount of assets that we might have to sell in order to execute any one of these plans minus liquidity that we have on hand today.

And that's kind of how I'm thinking through this. Certainly the marketplace is going to continue to change, and there may be some pleasant surprises that come our way. Certainly as we've felt all of this year, there's been a lot negative surprises that have come our way.

MR. HSU: I was going to say that I was hoping one of these would act first, B of A or Fannie Mae, and then the other could follow, so maybe now that Fannie Mae --

MR. GILBERTSON: That was the other part of the e-mail that actually said has Fannie Mae told us what they're doing.

MR. HSU: Yeah.

MR. GILBERTSON: So we'll have to respond to B of A regarding that.

MR. HSU: Well, the last slide I think I already jumped to. This was just simply to give people sort of a picture of what might happen if we were to get downgraded, which is unthinkable today but I guess that's what my job is as a risk manager, is to think of the unthinkable.

This whole pie here, this whole area here, would also be impacted, but as Bruce said, the -- one picture that I didn't draw here is that if -- if B of A and Fannie Mae were to convert their letter of credit -- I mean convert their standby purchase agreement to a letter of credit, you could say that the red would only be this much and not including the Fannie Mae and B of A pieces.

And I think that we have -- we are thinking about that if Fannie Mae is amenable to changing what they have right now into a letter of credit, to ask Fannie Mae if they're willing to do a letter of credit for these pieces. So again, just maybe prophylactic, if something bad happens the paper will continue to trade.

MS. PARKER: You know, one other thing too. I mean we -- as we've said all along, Moody's said that there was 90 days that they were going to, you know, do this watch. And we don't really -- if we can, we would want to try to reduce those 90 days and get a positive reaction from them.

You know, we are hoping that if we get some more of these kind of individual things that we've done here, we can go back. If we can get a specific plan for doing the loans for Bay Area -- I think that is a key that has to be taken care of -- and that we can get -- have them finish their analysis of our capital adequacy and finish our analysis on the -- our mortgage insurance program and from that standpoint how much of our general obligation really is at risk if the MI fund needs to -- to cover that and that we can go back.

I would actually hope -- we talked about this today. I'm hoping before I leave to have one further conversation with them to see if we can essentially get them to remove that letter and leave us at our regular rating going forward, at least, you know, continuing -- there have been no other housing finances agencies given a possible watch, and so if we get rid of the Bay Area and we get -- take some of our red area taken care of, I'm hoping that maybe we can be put back into more in line with our other colleagues and while obviously housing finance agencies need to be looked at in totality, that we don't have to be carrying around this black eye on top of whatever else we're trying to do for -- to address investors' concerns.

SECRETARY BONNER: I had a question on that last point. Actually I held it for so long and you brought the topic up. This is -- you mentioned earlier at the beginning of your presentation the comparison to some of your other HFAs as well. Does the comparison begin and end with the fact that you're all dealing with a tough liquidity market, or if we were sitting in a room in another state hearing a similar presentation, would there be any particular comparisons of balance sheet, portfolio, other issues that we're dealing with or is it just, you know, a case of a basket of fruit versus apples and oranges?

MS. PARKER: You know, it's -- there's a housing finance agency in every state and including the Virgin Islands and the District of Columbia, and so there's a little bit different story for every one of them.

Some -- some of the housing finance agencies don't have any variable-rate debt so there's -- they don't have this issue. However, they have no access to the marketplace. They can't sell bonds, so they have shut down. They are not doing anything in their states at this point in time.

We are sitting with states like New York, Colorado, Michigan, Utah, Massachusetts. They all have variable-rate debt. And as I mentioned, we -- as a percentage of how much outstanding debt, we have -- we don't have the highest percentage of variable-rate debt to our portfolio. Actually Colorado has the big winner of that right now. I think they are where we used to be, almost 90 percent.

MR. GILBERTSON: I don't know if it's that high, but it's certainly --

MS. PARKER: So they clearly, you know, have -- they probably are having these same kinds of conversations of trying to figure out to deal with it.

SECRETARY BONNER: What's the -- what's common to that string or that collection of states? Is it just that -- investment strategy or is it size of their portfolio or what's the comparison that puts us -- puts them -- puts us in that particular group of states?

MS. PARKER: Well, part of it is just the sophistication of the state. You know, larger states that have more complex financing tools put together use of variable-rate debt to bring down the cost of funds in their states.

Other states, you know, a Washington state, some of the states in the Midwest, they -- most of their loans have been -- you know, they do them in connection with Fannie or Freddie. They don't -- they don't have these more sophisticated debt. It's typically done by states who are more challenged with the cost of housing, the East Coast and the -- you know, and the West Coast, in that sense, particularly California.

So, you know, some states decided to do it and have -- and, again, this has been in practice, for us, 1999, and we weren't the first housing finance agency to start doing variable-rate debt.

So, you know, it's -- everyone has a little bit different of a story, but those who have done it have done it particularly to try to reduce the cost of borrowing for either single-family or multifamily developments in their states.

MR. GILBERTSON: Just a couple of things that maybe distinguish us, Mr. Secretary, would be that we are operating in California and California real estate markets, where there have been significant home price devaluation this year.

I think the other thing that would distinguish CalHFA from some of our peers is the size of our balance sheet. You know, we have $10 billion of assets on the balance sheet. Some of the other states mentioned have half or less than half of that.

SECRETARY BONNER: And just one last question or a couple questions at this point. So in your discussions with -- with Fannie, for example, or even some of the things we might talk to the federal government about doing, is there uniformity, you know, at least among the HFAs in terms of the nature of some of the things that might be helpful, or would we expect a range of views and perspectives about the type of support that's appropriate and necessary?

MS. PARKER: I think I might be able to better answer that question after I get together with my peers next weekend. But when I was in Washington and -- and we've been doing this under the auspice of our national association of state housing finance agencies. And they were the ones that essentially facilitated the meeting with Fannie Mae.

And in that case, again, the states that participated were New York, Massachusetts, Ohio, California, Pennsylvania, and I think Colorado. And -- and we narrowed down the asks to Fannie in two -- two distinct areas, one to help those states that have this variable-rate debt problem and have, you know, this mismatch between the timing of being able to sell short-term specific -- short-term bond facilities in the market and in that sense be able to deal with the interest rates rising and in that sense given that we have a revenue stream that's 30 years and the mismatch of having to pay off these bonds in a shorter period of time. That's part of the group.

The other part of it is all of us, but more housing finance agencies, have the problem where there's no access to the market. And so everybody is pretty much on the ask list of someone that would buy housing finance agency bonds so that housing finance agencies could keep in the business of making loans going forward to first-time homebuyers.

I think the other part, we've said, one more thing, is it is a little ironic that with the relief that the federal government has given in the form of the housing stimulus package that is $11 billion of additional bond authority for state housing finance agencies to use, and with that the authority that for the first time housing finance agencies could do loan modifications, that we find ourselves in a situation where we can't sell that kind of debt in the marketplace and in that sense offer those kinds of loans as part of, you know, trying to get help with the problems that obviously were fundamental and wanted to be addressed in the housing stimulus bill.

SECRETARY BONNER: Thank you.

MS. PARKER: Unless we haven't just totally destroyed your brain cells, I think what we want to do is just get you back to there's two resolutions that we have for your consideration at today's meeting. Again, I think what we're trying to do is give you a sense right up to the minute. Many of the things that we have in this presentation today were things that came for our consideration on Friday. And if this meeting had been on Friday early, this presentation would have been different than it is today.

So we are actually kind of excited about some things that we're able to do we believe to sort of help ourselves, although at some cost. It personally is for me very disappointing to have to perhaps suspend for a period of time our REO program, but, again, I think it does show the discipline that we are trying to exercise of using any possible means that we have, because it may be all we get to avoid the kinds of problems that Tim's laid out.

So we're going to -- we will keep you posted. We will come back to you at our next Board meeting. We really are -- at this point in time our recommendation is not to try to do an interim. This has been an interim. We did a previous interim. Unless something very volatile happens, we'd like to be on a course that we come back to you on the 13th. We give you an update on where we are on our time line, give you an update on where we are perhaps with our discussions with Fannie, our discussions, if we get further with Freddie, and the activities around Bay Area.

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Item 4. Discussion, recommendation and possible action regarding Agency's borrowing authority

MS. PARKER: Okay. You want to walk them through the two resolutions?

ACTING CHAIRPERSON CAREY: Yes.

MR. GILBERTSON: Yes, I'll do that.

Two Board resolutions are in your binder material today. The first is resolution 08-36. It's authorization for the executive director to enter into additional short-term or long-term credit facilities.

Just by the way of background, every January the Board does authorize -- part of the continuing authorization resolutions allows the executive director to enter into short-term credit facilities for the purposes of providing a warehouse line of credit for loan warehousing. That's $500 million. We have those loans secured, and they're in full effect for purposes of warehousing mortgage loans.

This resolution is a supplemental resolution expanding the existing authority and authorizing the executive director to enter into one or more short-term or long-term credit facilities in an amount not to exceed $2 billion.

The idea behind this authorization is that it would allow the Agency to redeem existing auction-rate securities, VRDOs that have been put to the liquidity banks or otherwise are not performing as intended. It would also allow the -- the proceeds of such credit facility could be used for purposes of acquiring bonds outright or otherwise simply redeeming the bonds. We have added a provision in the resolution that would require the executive director to report to the Board after securing such lines and providing ongoing reports.

I'll open it up to respond to any questions, if there are any.

ACTING CHAIRPERSON CAREY: Bill.

MR. PAVAO: The Treasurer's Office has an additional provision that we would ask be added to Resolution 08-36. I think folks might have received a copy.

MS. JACOBS: I was wondering where this fit in.

MR. PAVAO: That's from us.

In essence, as you can see, it's a third provision that would come after the two that follow the "Now, therefore, be it resolved" portion of the resolution. It, in essence, asks that the executive director prepare and present to the Board a plan, similar to what we saw today, and periodically update that plan just demonstrating how additional facilities would be used and understanding that some of this would have to be contingent, that is, there are lots of variables that are unknown going forward, but in essence keep the Board apprised of plans going forward.

We've provided some specific language. We actually have a minor edit to the specific language that we've presented to you there, and that is in that -- you know, I was going to say the first sentence, the first of two sentences.

In that first sentence where it reads, "Prior to the use of any other additional credit facilities, the executive director shall prepare and present to the Board and," and then if you would insert the word "thereafter periodically update," and then it reads as you see the copy before you.

Again, the idea here being that the Treasurer's Office is supportive of the resolution and acknowledges that the $2-billion figure is quite substantial, and in the interest of the Board doing its due diligence would recommend inserting that one additional provision.

MS. PARKER: Just for the Board's benefit, Bill did call me before this meeting and showed me this language and asked me if I had any problems with it, which I very much appreciated. I think I told him that certainly the gist of it I have absolutely no problems with. And I think primarily with asking for 2 billion, that's a huge number. To have, you know -- the Board have some context to this is absolutely appropriate.

I'm not wildly enthusiastic that that's going to happen. I think it might -- may be more like just what we just walked you through today happening, and we would be bringing those things to you. The only thing I just would say as a caveat that much as the example that we've given you today of things that Fannie offered to us on Friday and as part of our ongoing discussions with them, if there was a situation that we were offered something and we had to make a decision about that and it was complicated by this language, we would -- we would be certainly contacting the Board for an emergency meeting as quickly as possible.

So I can't necessarily see that happening, because more than anything else is we talked about before we used it. And again, I think this is a good example what we brought to the Board today as our planning and the actual implementation of some of these things ought to be able to be covered within a time frame, but if we get back into -- you all get back into the first of the year a situation where your meetings become more, you know, every other month, and I think that there will have to be consideration and -- and, you know -- but I think that this is a very reasonable, appropriate thing that staff would want to tell you.

MR. HUGHES: Mr. Chair, there's one other minor change that's been suggested. That would be in the final whereas. If you look at the last line where it says, "including but not limited to the redemption of existing bonds," just to make it a little more clear, we'd like to say "the purchase or redemption of bonds." Bond counsel suggested that because technically if we purchase the bonds, it's not technically redemption. So that's just --

MS. JACOBS: Say that again so I can find which whereas.

MR. HUGHES: It's the last whereas.

MS. JACOBS: Right.

MR. HUGHES: And if you go down to the last two lines, it says -- it talks about the purpose of this credit line, for debt restructuring and related purposes including but not limited to the purchase, add in "the purchase" or redemption of existing bonds. In one case we'd be redeeming bonds, paying them off, in the other we'd be purchasing bonds and hold for our account, but there's a technical difference and it was suggested that we --

MS. PARKER: Purchase or?

MR. HUGHES: Purchase. We just add the word "purchase."

MS. PARKER: Or the redemption.

MR. HUGHES: Right. So it just requires the addition of "purchase or."

MS. PARKER: Okay. Actually, it needs "purchase or the" in there. The purpose or the redemption.

MR. HUGHES: You can do it that way too.

MR. PAVAO: I am prepared to move the resolution with those amendments.

MR. SHINE: Second.

ACTING CHAIRPERSON CAREY: We have a motion and a second, second from Mr. Shine.

Are there any comments from the public on this action?

Seeing none, we'll call the roll.

MS. OJIMA: Thank you.

Senator Bonner.

SECRETARY BONNER: Yes.

MS. PARKER: He's secretary.

MS. OJIMA: I'm sorry. I just elected you.

SECRETARY BONNER: I got the gist of it.

MS. OJIMA: Ms. Galante.

MS. GALANTE: Yes.

MS. OJIMA: Thank you.

Ms. Jacobs.

MS. JACOBS: Yes.

MS. OJIMA: Ms. Javits.

MS. JAVITS: Yes.

MS. OJIMA: Mr. Pavao.

MR. PAVAO: Yes.

MS. OJIMA: Mr. Shine.

MR. SHINE: Yes.

MS. OJIMA: Mr. Carey.

ACTING CHAIRPERSON CAREY: Yes.

MS. OJIMA: Resolution 08-36 has been approved.

MS. PARKER: This is the simplest thing of the whole meeting.

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Item 5. Discussion, recommendation and possible action regarding modifications to Agency's authority to apply to CDLAC for tax-exempt volume cap

MR. GILBERTSON: One more simple resolution for the Board to consider. Resolution No. 08-37 is simply a resolution amending a prior authorization for Agency management to make application to the California Debt Limit Allocation Committee.

Each January the Board authorizes an amount not to exceed for the Agency to submit applications for private activity bond volume cap. We found ourselves in an unusual situation in 2008, because of the enactment of HR3221, which had supplemental authority, that we did apply for its single family. This authorization is really ratifying the action that we've already applied to CDLAC for a total amount for the single-family program of 400 and -- I'm sorry, $907,000,825. The January resolution had a limit of $900 million.

So with that, I'd be willing to ask any questions -- answer any questions.

ACTING CHAIRPERSON CAREY: Questions?

MR. PAVAO: I move the resolution.

MS. GALANTE: Second.

ACTING CHAIRPERSON CAREY: Ms. Galante seconds. We've got a motion and a second.

Are there any comments from the public on this action?

Seeing none, call the roll.

MS. OJIMA: Thank you.

Secretary Bonner.

SECRETARY BONNER: Aye.

MS. OJIMA: Ms. Galante.

MS. GALANTE: Yes.

MS. OJIMA: Ms. Jacobs.

MS. JACOBS: Yes.

MS. OJIMA: Ms. Javits.

MS. JAVITS: Yes.

MS. OJIMA: Mr. Pavao.

MR. PAVAO: Yes.

MS. OJIMA: Mr. Shine.

MR. SHINE: Yes.

MS. OJIMA: Mr. Carey.

ACTING CHAIRPERSON CAREY: Yes.

MS. OJIMA: Resolution 08-37 has been approved.

ACTING CHAIRPERSON CAREY: Thank you, JoJo.

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Item 6. Public testimony

ACTING CHAIRPERSON CAREY: With that, there's an opportunity for any public testimony, if there's anyone from the public who wishes to comment.

MS. GALANTE: May I just make one?

ACTING CHAIRPERSON CAREY: Yes.

MS. GALANTE: You know, I just feel like we can't pass this meeting with all these resolutions without thanking the staff. The presentation with the little stacked colored charts was incredibly helpful, and this has been probably the third or fourth presentation we've had, so I would say just in terms of keeping the Board educated and informed as well as actually managing the actual problems, I just think we'd remiss not to mention what a difficult job this is in trying times, and I think the staff is doing a great job with that.

My other comment would be I don't know when it's appropriate, but Secretary Bonner, when you brought up some of the, you know, how are the other HFAs doing, I really think there somehow needs to be a conversation with, you know, our Congressional delegation, about what else the government might be able to do to help HFAs in this situation. And just the more I'm understanding this, the more I'm learning, it seems to me there should be some opportunities there to get some relief, some help, other than our own incredible creativity here. So I'd just like to say that for the record.

ACTING CHAIRPERSON CAREY: Thank you.

Anything else?

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Item 7. Adjournment

ACTING CHAIRPERSON CAREY: With that, we stand adjourned.

(The meeting concluded at 5:06 p.m.)

REPORTER'S CERTIFICATE

I hereby certify the foregoing proceedings were reported by me at the time and place therein named; that the proceedings were reported by me, a duly certified shorthand reporter and a disinterested person, and was thereafter transcribed into typewriting by computer.

In witness whereof, I have hereunto set my hand this 27th day of October, 2008.

Yvonne K. Fenner

Certified Shorthand Reporter

License No. 10909, RPR

State of California

MEMORANDUM

To: **Board of Directors** **Date:** October 31, 2008

Bruce Gilbertson, Director of Financing

From: **CALIFORNIA HOUSING FINANCE AGENCY**

Subject: Purchase of Agency Bonds (Resolution 08-42)

At the October 20, 2008 meeting of the Board of Directors, the Board adopted Resolution 08-36, which permitted the Agency to obtain a line of credit to restructure existing bonds. That resolution further granted the Agency the authority to use such a line of credit to purchase its own bonds. The proposed Resolution 08-42 would allow the Agency to use its own funds to purchase existing bonds in addition to using the credit facility authorized by Resolution 08-36. The intent of the proposed Resolution is to permit the Agency to use available CalHFA funds for such purchases in lieu of or in addition to borrowed funds.

This resolution would also authorize that any purchase of CalHFA bonds is to be considered an authorized investment for purposes of Health and Safety Code Section 51003 and authorize officers of the Agency to establish all necessary accounts with financial institutions to facilitate the purchase of these securities.

Resolution 08-42 requires the Agency to report such purchases to the Board at subsequent meetings.

Attachment

RESOLUTION 08-42

RESOLUTION CONCERNING THE PURCHASE OF AGENCY BONDS BY THE AGENCY

WHEREAS, as a result of recent disruptions in the bond and capital markets the California Housing Finance Agency (the "Agency") needs to retire and restructure its existing variable rate bond indebtedness that has reset at high rates of interest, as well as its bonds that have been put to liquidity providers as bank bonds; and

WHEREAS, the Board of Directors has previously enacted Resolution 08-36, which, authorizes the Agency to enter into short-term or long term credit facilities for the purpose of enabling the Agency to restructure its existing debt and related purposes; and

WHEREAS, the Agency may also need to use its existing available moneys to purchase and/or retire Agency bonds to enable the Agency to accomplish the needed restructuring; and

WHEREAS, California Health and Safety Code Section 51003 authorizes the Agency, subject to any agreement with holders of particular bonds, to invest moneys in the California Housing Finance Fund in obligations as are permitted by resolution of this Board; and

WHEREAS, the Board of Directors wishes to specifically authorize the Executive Director and other officers to use available Agency moneys to purchase Agency bonds for the purpose of restructuring Agency debt and related purposes;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors as follows:

1. The Executive Director and the other officers of the Agency are hereby authorized to use available Agency moneys to purchase Agency bonds to enable the Agency to restructure its debt and for related purposes. Any Agency bonds so purchased shall remain outstanding for all purposes except to the extent that the Executive Director or the other officers of the Agency expressly provide for the retirement or redemption, and cancellation, of such bonds. Any Agency bonds so purchased may be purchased and resold, in each case on such terms as may be determined by the Executive Director and the other officers of the Agency in the best interests of the Agency. The Agency may establish any account or accounts as may be necessary or desirable in connection with the purchase such bonds.

2. The Executive Director shall report to the Board at subsequent meetings regarding the purchase and sale of Agency bonds pursuant to this Resolution.

I hereby certify that this is a true and correct copy of Resolution 08-42 adopted at a duly constituted meeting of the Board of Directors of the Agency held on November 13, 2008, at Sacramento, California.

ATTEST: ______________________

Secretary

State of California

MEMORANDUM

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ATTEST: ______________________________

Secretary

State of California M E M O R A N D U M

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

From: CALIFORNIA HOUSING FINANCE AGENCY

Subject: RESOLUTION AMENDING BOND AUTHORIZATION FOR THE PURPOSE OF FINANCING LOANS IN CONNECTION WITH THE BAY AREA HOUSING PLAN RESOLUTION 08-44

On January 12, 2006 the Board of Directors adopted Resolution 06-06 authorizing, among other things, the sale and issuance of CalHFA bonds for the purpose of financing loans in connection with the Bay Area Housing Plan.

On September 12, 2007 the Board of Directors adopted Resolution 07-28 authorizing a one year extension for the issuance of bonds and also authorized the Bay Area Housing Program Bonds Indenture as an approved form of indenture for purposes of financing loans in connection with the Bay Area Housing Plan.

Resolution 08-44 would authorize a one year extension for the issuance of bonds in connection with the Bay Area Housing Plan and would not expire until 30 days after the first Board meeting in the year 2010 at which there is a quorum. This resolution would also authorize interest rates on bonds issued for this program to bear interest at a stated fixed rate of up to twenty-five percent (25%) per annum. The previously adopted resolution limits interest rates on fixed rate bonds issued under this authorization to no more than 15% per annum.

Attachments

RESOLUTION NO. 08-44

RESOLUTION AMENDING RESOLUTION NO. 06-06, AS PREVIOUSLY AMENDED, OF THE CALIFORNIA HOUSING FINANCE AGENCY AUTHORIZING THE ISSUANCE OF THE AGENCY'S BONDS, SHORT- AND LONG TERM CREDIT FACILITIES, AND RELATED FINANCIAL AGREEMENTS AND CONTRACTS OF SERVICES FOR THE PURPOSE OF FINANCING LOANS IN CONNECTION WITH THE BAY AREA HOUSING PLAN

WHEREAS, the Agnews Developmental Center is a residential medical facility in Santa Clara County, California, and houses a large population of severely developmentally disabled persons in need of care ranging from intermediate to skilled to acute care;

WHEREAS, the California Department of Developmental Services ("DDS") has adopted a plan to close the Agnews Developmental Center, pursuant to which plan (the "Bay Area Housing Plan") approximately half of its residents are to be relocated to other existing residential facilities, and the remainder are to be relocated to residential facilities to be acquired, constructed and/or rehabilitated (the "New Facilities");

WHEREAS, under the Bay Area Housing Plan, each New Facility is to be permanently financed by a loan (each, a "Loan") made or purchased by the California Housing Finance Agency (the "Agency");

WHEREAS, on January 12, 2006, this Board of Directors (the "Board") of the Agency adopted Resolution No. 06-06 (as amended as described below, the "BAHP Bond Resolution"), authorizing, among other things, the issuance of bonds (the "Bonds") and the execution and delivery of related financial agreements (including certain forms of the indentures to provide for the issuance of and securing the Bonds) for the purpose of financing Loans in connection with the Bay Area Housing Plan;

WHEREAS, on September 12, 2007, the Board adopted Resolution No. 07-28 amending Resolution No. 06-06 to extend the period during which Bonds may be issued and to authorize the issuance of limited obligation Bonds, if appropriate;

WHEREAS, the Agency has determined to amend the BAHP Bond Resolution to extend further the period during which Bonds may be issued and to increase the maximum interest rate that the Bonds may bear;

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

Section 1. **Extension of the Period for the Issuance of the Bonds.** Section 2 of the BAHP Bond Resolution is hereby amended and restated to read in its entirety as follows:

"Section 2. **Authorization and Timing.** The Bonds are hereby authorized to be issued at such time or times on or before the day 30 days after the date on which is held the first meeting in the year 2010 of the Board of Directors of the Agency at which a quorum is present, as the Executive Director deems appropriate, upon consultation with the Treasurer of the State of California (the "Treasurer") as to the timing of each such issuance; provided, however, that if the Bonds are sold at a time on or before the day 30 days after the date on which is held such meeting, pursuant to a forward purchase or drawdown agreement providing for the issuance of such Bonds on a later date on or before August 1, 2011, upon specified terms and conditions, such Bonds may be issued on such later date."

Section 2. **Addition of Alternative Form of Indenture.** Section 4 of the BAHP Bond Resolution is hereby amended and restated to read in its entirety as follows:

"Section 4. **Approval of Forms and Terms of Bonds.** The Bonds shall be in such denominations, have such registration provisions, be executed in such manner, be payable in such medium of payment at such place or places within or without California, be subject to such terms of redemption (including from such sinking fund installments as may be provided for) and contain such terms and conditions as each Indenture as finally approved shall provide. The Bonds shall have the maturity or maturities and shall bear interest at the fixed, adjustable or variable rate or rates deemed appropriate by the Executive Director in furtherance of the objectives of the Program; provided that no Bond shall have a term in excess of fifty years or bear interest at a stated rate in excess of twenty-five percent (25%) per annum. Any of the Bonds and the Supplemental Indenture(s) may contain such provisions as may be necessary to accommodate an option to put such Bonds prior to maturity for purchase by or on behalf of the Agency or a person other than the Agency, to accommodate the requirements of any provider of bond insurance or other credit or liquidity enhancement or to accommodate the requirements of purchasers of Dutch auction bonds or indexed floaters."

Section 3. **Ratification of BAHP Bond Resolution.** As amended hereby, the BAHP Bond Resolution is in all respects confirmed; and Resolution No. 06-06, Resolution No. 07-28 and this resolution shall be read, taken and considered as one instrument.

Section 4. **Resolution to Constitute Authorization For Purposes of Validation Statutes.** This resolution shall constitute the authorization of Bonds for purposes of California Government Code Section 17700 and California Code of Civil Procedure Title 10, Chapter 9 (Section 860 et seq.) with respect to any Bonds issued under with interest rates in excess of the interest rates originally authorized by Section 4 of the Resolution No. 06-06. As a result, under California Code of Civil Procedure Section 863, any action by any interested person to challenge the validity of any such Bonds must be brought within 60 days of the adoption hereof.

SECRETARY'S CERTIFICATE

I, Thomas C. Hughes, Secretary of the Board of Directors of the California Housing Finance Agency, hereby certify that the foregoing is a full, true, and correct copy of Resolution No. 08-44 duly adopted at a regular meeting of the Board of Directors of the California Housing Finance Agency duly called and held on the 13th day of November, 2008, of which meeting all said directors had due notice; and that at said meeting said resolution was adopted by the following vote:

AYES: Peters (for Bonner); Galante; Gay; Mandell (for Jacobs); Javits; Redway (for Lockyer); Carey

NOES: none

ABSTENTIONS: none

ABSENT: Shine

IN WITNESS WHEREOF, I have executed this certificate and affixed the seal of the Board of Directors of the California Housing Finance Agency hereto this 13th day of November, 2008.

[SEAL] Thomas C. Hughes

Secretary of the Board of Directors of the
California Housing Finance Agency

SECRETARY'S CERTIFICATE

I, Thomas C. Hughes, Secretary of the Board of Directors of the California Housing Finance Agency, hereby certify that the foregoing is a full, true, and correct copy of the Resolution No. 08-44 duly adopted at a regular meeting of the Board of Directors of the California Housing Finance Agency duly called and held on the 13th day of November, 2008, of which meeting all said directors had due notice; and that at said meeting said resolution was adopted by the following vote:

AYES: Peters (for Bonner); Galante; Gay; Mandell (for Jacobs); Javits; Redway (for Lockyer); Carey

NOES: none

ABSTENTIONS: none

ABSENT: Shine

I further certify that I have carefully compared the foregoing copy with the original minutes of said meeting on file and of record in my office; that said copy is a full, true, and correct copy of the original resolution adopted at said meeting and entered in said minutes; and that said resolution has not been amended, modified, or rescinded in any manner since the date of its adoption, and the same is now in full force and effect.

IN WITNESS WHEREOF, I have executed this certificate and affixed the seal of the Board of Directors of the California Housing Finance Agency hereto this 13th day of November, 2008.

[SEAL] Thomas C. Hughes

Secretary of the Board of Directors of the California Housing Finance Agency

State of California

MEMORANDUM

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

Bruce D. Gilbertson, Director of Financing

From: **CALIFORNIA HOUSING FINANCE AGENCY**

Subject: RESOLUTION AMENDING BOND AUTHORIZATION FOR THE PURPOSE OF FINANCING LOANS IN CONNECTION WITH THE BAY AREA HOUSING PLAN RESOLUTION 08-44

On January 12, 2006 the Board of Directors adopted Resolution 06-06 authorizing, among other things, the sale and issuance of CalHFA bonds for the purpose of financing loans in connection with the Bay Area Housing Plan.

On September 12, 2007 the Board of Directors adopted Resolution 07-28 authorizing a one year extension for the issuance of bonds and also authorized the Bay Area Housing Program Bonds Indenture as an approved form of indenture for purposes of financing loans in connection with the Bay Area Housing Plan.

Resolution 08-44 would authorize a one year extension for the issuance of bonds in connection with the Bay Area Housing Plan and would not expire until 30 days after the first Board meeting in the year 2010 at which there is a quorum. This resolution would also authorize interest rates on bonds issued for this program to bear interest at a stated fixed rate of up to twenty-five percent (25%) per annum. The previously adopted resolution limits interest rates on fixed rate bonds issued under this authorization to no more than 15% per annum.

Attachments

RESOLUTION NO. 08-44

RESOLUTION AMENDING RESOLUTION NO. 06-06, AS PREVIOUSLY AMENDED, OF THE CALIFORNIA HOUSING FINANCE AGENCY AUTHORIZING THE ISSUANCE OF THE AGENCY'S BONDS, SHORT- AND LONG-TERM CREDIT FACILITIES, AND RELATED FINANCIAL AGREEMENTS AND CONTRACTS OF SERVICES FOR THE PURPOSE OF FINANCING LOANS IN CONNECTION WITH THE BAY AREA HOUSING PLAN

WHEREAS, the Agnews Developmental Center is a residential medical facility in Santa Clara County, California, and houses a large population of severely developmentally disabled persons in need of care ranging from intermediate to skilled to acute care;

WHEREAS, the California Department of Developmental Services ("DDS") has adopted a plan to close the Agnews Developmental Center, pursuant to which plan (the "Bay Area Housing Plan") approximately half of its residents are to be relocated to other existing residential facilities, and the remainder are to be relocated to residential facilities to be acquired, constructed and/or rehabilitated (the "New Facilities");

WHEREAS, under the Bay Area Housing Plan, each New Facility is to be permanently financed by a loan (each, a "Loan") made or purchased by the California Housing Finance Agency (the "Agency");

WHEREAS, on January 12, 2006, this Board of Directors (the "Board") of the Agency adopted Resolution No. 06-06 (as amended as described below, the "BAHP Bond Resolution"), authorizing, among other things, the issuance of bonds (the "Bonds") and the execution and delivery of related financial agreements (including certain forms of the indentures to provide for the issuance of and securing the Bonds) for the purpose of financing Loans in connection with the Bay Area Housing Plan;

WHEREAS, on September 12, 2007, the Board adopted Resolution No. 07-28 amending Resolution No. 06-06 to extend the period during which Bonds may be issued and to authorize the issuance of limited obligation Bonds, if appropriate;

WHEREAS, the Agency has determined to amend the BAHP Bond Resolution to extend further the period during which Bonds may be issued and to increase the maximum interest rate that the Bonds may bear;

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

<u>Section 1</u>. **<u>Extension of the Period for the Issuance of the Bonds.</u>** Section 2 of the BAHP Bond Resolution is hereby amended and restated to read in its entirety as follows:

SECRETARY'S CERTIFICATE

I, Thomas C. Hughes, Secretary of the Board of Directors of the California Housing Finance Agency, hereby certify that the foregoing is a full, true, and correct copy of Resolution No. 08-44 duly adopted at a regular meeting of the Board of Directors of the California Housing Finance Agency duly called and held on the 13th day of November, 2008, of which meeting all said directors had due notice; and that at said meeting said resolution was adopted by the following vote:

AYES:

NOES:

ABSTENTIONS:

ABSENT:

IN WITNESS WHEREOF, I have executed this certificate and affixed the seal of the Board of Directors of the California Housing Finance Agency hereto this 13th day of November, 2008.

[SEAL]

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

SECRETARY'S CERTIFICATE

I, Thomas C. Hughes, Secretary of the Board of Directors of the California Housing Finance Agency, hereby certify that the foregoing is a full, true, and correct copy of the Resolution No. 08-44 duly adopted at a regular meeting of the Board of Directors of the California Housing Finance Agency duly called and held on the 13th day of November, 2008, of which meeting all said directors had due notice; and that at said meeting said resolution was adopted by the following vote:

AYES:

NOES:

ABSTENTIONS:

ABSENT:

I further certify that I have carefully compared the foregoing copy with the original minutes of said meeting on file and of record in my office; that said copy is a full, true, and correct copy of the original resolution adopted at said meeting and entered in said minutes; and that said resolution has not been amended, modified, or rescinded in any manner since the date of its adoption, and the same is now in full force and effect.

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

__________________, ______.

[SEAL]

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

Cal HFA SM

REPORTS