CalHFA Board Meeting

December 12, 2008

Municipal Capital Market Update

- Limited market access for new financings
- Recent short-term interest rates
  - Over the last week:
    - AMT: 0.6% to 7.3% (avg= 2.4%, SIFMA = 1.0%)
  - Over the last month:
    - AMT: 0.5% to 8.5% (avg= 2.5%, SIFMA = 1.3%)
- Continued liquidity and credit concern
- As of Dec 11, CalHFA has $567Mn of bank bonds

Moody's credit rating announcement

- CalHFA GO Rating placed on watch for possible downgrade – September 29, 2008
- "Action based upon the combined effects of
  - California Real Estate Market - increased losses from delinquencies and foreclosures from single family mortgages,
  - Credit Market and Counterparty Challenges - heightened risk related to the Agency's variable rate debt resulting from a volatile market and counterparty risk, and
  - Bay Area Housing Plan - a lending initiative that has placed additional leverage on the Agency's balance sheet."

California Real Estate Market

Actions already taken – single family programs

- Suspension of Lending Programs – 9/22/2008
  - Suspended the following Fixed Rate Homeownership Loan Programs:
    - 35-Year Interest only PLUS
    - 40-Year Fixed Rate Mortgage
    - HomeChoice Program
    - Self-Help Builder Assistance Program (SHBAP)
  - Suspended the following Down Payment Assistance Programs funded with CalHFA equity
    - High Cost Area Home Purchase Assistance (HiCap)
    - CalHFA Housing Assistance Program (CHAP)
  - Suspended all Builder / Developer New construction Forward Commitments

California Real Estate Market

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California Real Estate Market

Actions already taken – single family programs

- REO loan program changes – November 2008
  - Reduced funding commitment for the CSHLP program to $25Mn
  - Modified the SMART loan program and raised the interest rate to 5.5%
- Reallocation of resources to loss mitigation / REO disposition
  - Reorganization
  - Increased staffing
  - Earlier borrower intervention
  - Aggressive marketing of REO properties

California Real Estate Market

Actions already taken – multifamily lending programs

- Multifamily loan commitments contingent on ability to sell bonds – 9/18/2008
- New MF loan commitments suspended until market certainty resolved – 9/22/2008
- Volume cap re-awarded by allocating committee and issuance period extended for rental projects in pipeline – 12/3/2008

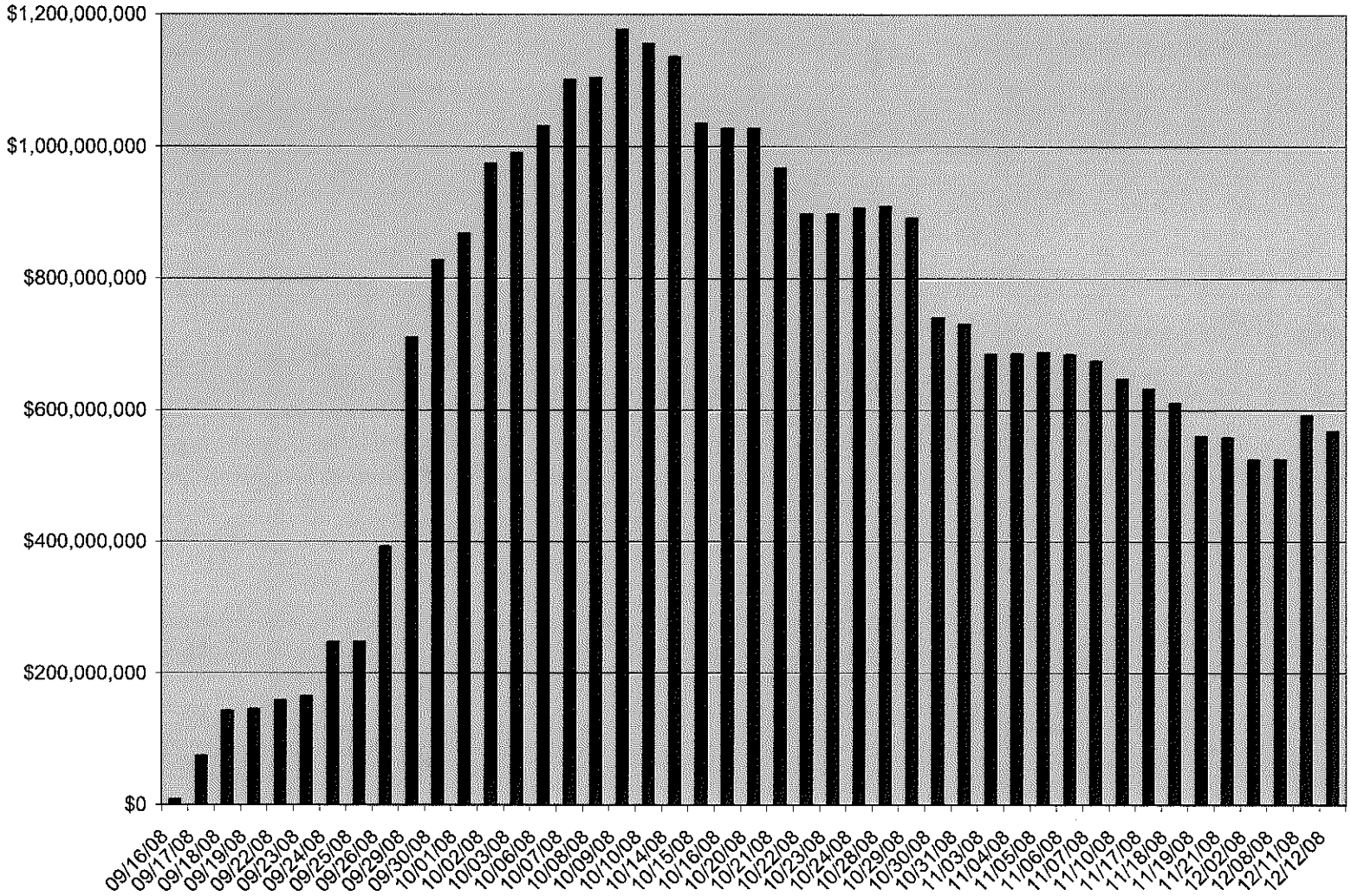
California Real Estate Market

Current Program / Lending Platform

- Single Family Loan Programs
  - Limited to 30-year fixed rate mortgages
    - Offering up to 95% LTV conventionally insured loans
    - Offering 97% LTV FHA insured loans
    - Current interest rate of 7.125%
  - FLOW Program – implementation of whole loan delivery to Fannie Mae window for cash – 12/14/2008
    - Reduced loan volume
    - Expect gain on sale of 50 to 100 basis points
  - Expanded Mortgage Risk Management Division
    - To concentrate on loss mitigation and foreclosure prevention
    - Aggressively market REO properties
- Multifamily Lending
  - Developing program ability to become Fannie Mae approved HFA lender
  - Considering development of conduit issuance program

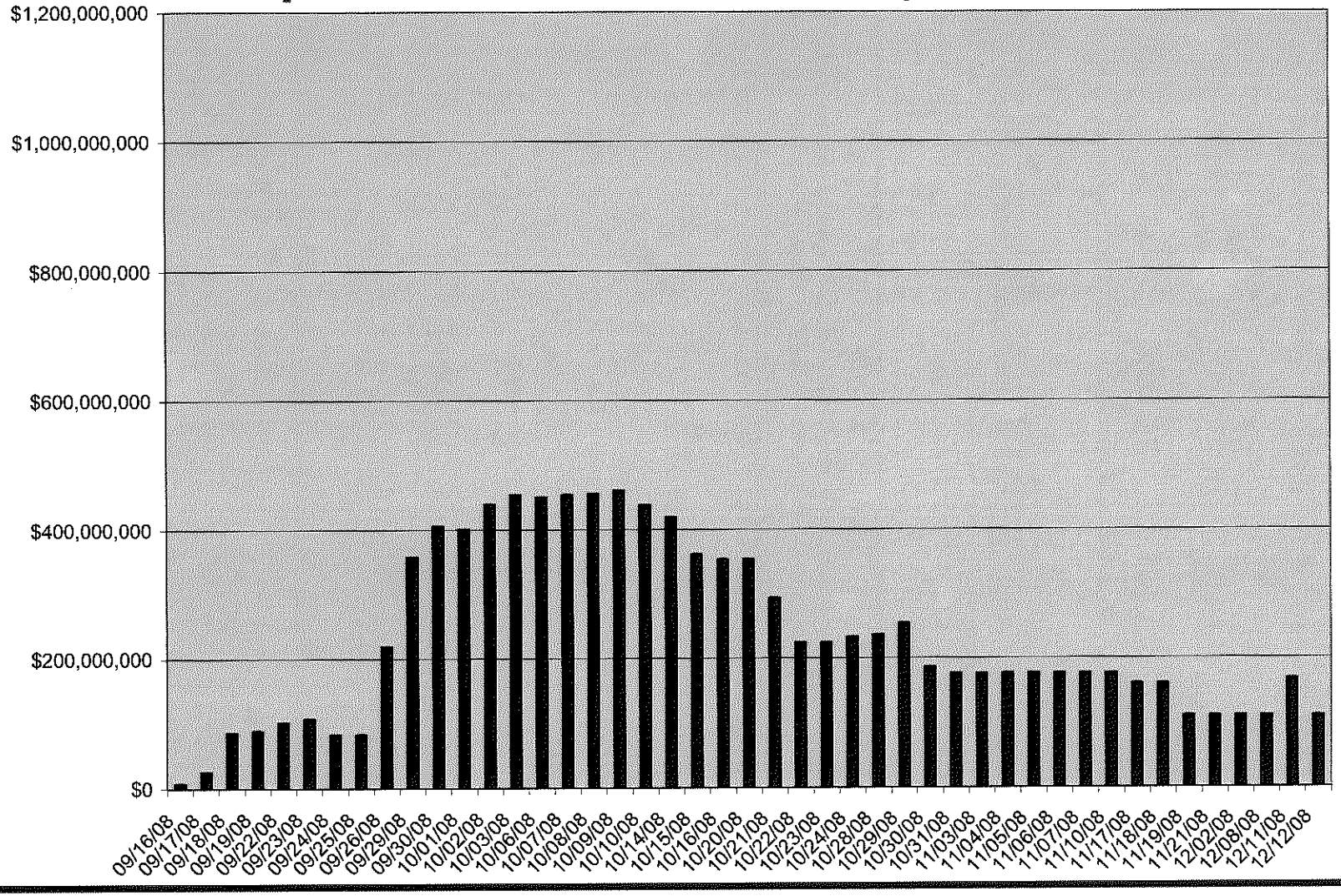
Credit market and Counterparty Challenges

CalHFA's portfolio of bank bonds as of 12/12/08



Credit market and Counterparty Challenges

CalHFA's portfolio of bank bonds (excl Depfa/Dexia)



Credit market and Counterparty Challenges

CalHFA's portfolio of bank bonds as of 12/12/08

Liquidity Bank	HMRB	G-O	Total	Total Liquidity	%
	$ 434,930,000	$ 133,005,000	$ 567,935,000	$ 4,011,210,000	*14%*
Dexia	$ 324,625,000		$ 324,625,000	$ 789,955,000	*41%*
Depfa		$ 133,005,000	$ 133,005,000	$ 134,005,000	*99%*
BLB/JP/WLB	$ 51,285,000		$ 51,285,000	$ 115,160,000	*45%*
Citibank	$ 35,000,000		$ 35,000,000	$ 35,000,000	*100%*
BoNY	$ 23,020,000		$ 23,020,000	$ 161,605,000	*14%*
STRS/Lloyds	$ 1,000,000		$ 1,000,000	$ 5,760,000	*17%*
BoA				$ 405,070,000	
Lloyds				$ 402,410,000	
Fannie Mae				$ 358,375,000	
BNP Paribis				$ 253,350,000	
KBC				$ 215,455,000	
Calyon				$ 174,160,000	
BLB/WLB				$ 170,430,000	
STRS/Helaba				$ 152,660,000	
Scotia				$ 145,555,000	
JPMorgan				$ 124,130,000	
Fortis				$ 120,000,000	
Scotia/State				$ 111,400,000	
LBBW				$ 60,335,000	
STRS/KBC				$ 33,435,000	
State				$ 30,000,000	
Helaba				$ 12,960,000	

Credit Market and Counterparty Challenges

Swap mark-to-market as of 11/30/08

Counterparty	Long Term Moody's rating	Long Term S & P's Rating	Aggregate Fixed Payer Swap Notional Outstanding as of 12/1/2008	Aggregate Basis Swap Notional Outstanding as of 12/1/2008	Aggregated Total Swap Notional Outstanding as of 12/1/2008	Aggregate Total Mark to Market as of 11/30/2008*
Merrill Lynch Capital Services, Inc.	A2	A	$615,060,000	$0	$615,060,000	($94,617,275)
Citigroup Financial Products, Inc.	Aa3	AA-	675,200,000	0	675,200,000	(50,786,650)
Bear Stearns Financial Products Inc.	Aaa	AAA	781,595,000	283,860,000	1,065,455,000	(49,276,160)
Deutsche Bank AG	Aa1	AA-	286,025,000	0	286,025,000	(39,224,941)
Merrill Lynch Derivative Products	Aaa	AAA	625,825,000	0	625,825,000	(36,281,532)
Goldman Sachs Mitsui Marine Derivative Products, , L.P.	Aaa	AAA	381,975,000	308,285,000	690,260,000	(29,606,267)
AIG Financial Products, Corp.	A3	A-	303,145,000	0	303,145,000	(23,934,209)
JPMorgan Chase Bank, N.A.	Aaa	AA	209,125,000	0	209,125,000	(21,505,382)
Morgan Stanley Capital Services, Inc.	A1	A+	136,685,000	0	136,685,000	(9,381,553)
BNP Paribas	Aa1	AA+	86,590,000	0	86,590,000	(7,512,999)
Bank of America, N.A.	Aaa	AA+	205,240,000	0	205,240,000	(7,165,728)
UBS AG	Aa2	AA-	46,085,000	0	46,085,000	(2,795,688)
Bank of New York Mellon	Aaa	AA	25,000,000	0	25,000,000	(2,483,613)
Dexia Credit Local New York Agency	Aa1	AA	27,310,000	0	27,310,000	1,613,453
Total			**$4,404,860,000.00**	**$592,145,000**	**$4,997,005,000**	**($372,958,543)**

***11/30/2008 mark-to-market valuations are based on swap notional as of 11/30/2008.**
Negative mark-to-market denotes a payment is required from the Agency to the counterparty

Credit Market and Counterparty Challenges

Actions already taken

- Management of financing programs
  - January 2008 limited new single family issuance to fixed rate bonds
  - March 2008 began converting Auction Rate Securities
  - May 2008 began reducing exposure to failing bond insurers
    - Modifying Liquidity Agreements
    - Stripping Bond Insurance
  - September 2008 - terminated Investment Contracts with AIG and withdrew all funds
  - October 2008 – terminated Investment Contracts with Depfa and withdrew all funds
  - October 2008 - Issued bond redemption notices for $126Mn of GO bonds
    - From loan prepayments, permanent loan conversions and excess revenues
    - $26.7Mn of auction rate securities
    - $99.3Mn of VRDOs including bank bonds of $48Mn

Credit Market and Counterparty Challenges

Actions already taken

- Management of financing programs
  - October 2008 - Transferred remarketing agent responsibilities for $1Bn of bonds
  - November 2008 – Manage swap counterparties
    - Terminated Lehman Brothers swaps totaling $482.7Mn – termination payment of $42.5Mn
    - Replace Lehman Brothers as counterparty with:
      - Goldman Sachs - $53.8Mn swap notional – received off market payment of $2Mn
      - Deutsche Bank - $286Mn swap notional – received off market payment of $26.7Mn
  - November 2008 - Updated consolidated cashflows for two largest indentures: HMRB and MFHRB III
  - November 2008 – Received Board authorization to purchase Agency bonds using short-term credit facilities or Agency cash

Credit Market and Counterparty Challenges

Actions already taken

- Plans to de-leverage balance sheet
  - Created single family and multifamily loan data tapes for purposes of pricing prior to potential sale
    - More than 13,000 SF loans with outstanding loan balances of $2 Billion
    - Approximately 70 MF properties with outstanding loan balances of $280 Million
  - Tapes have been delivered to Fannie Mae and Freddie Mac – awaiting pricing
  - Plan to share with Bank of America / Countrywide and other commercial banks

What are the main objectives of our plans?

- TACTICAL PLANS: To achieve a cost of funds that is more in-line with our original expectations
  - Stripping bond insurance on insured VRDOs
  - Transfer remarketing agent assignments on VRDOs
  - Switching reset mode (weekly to daily) on VRDOs
  - Converting auction-rate securities into VRDOs
- STRATEGIC PLANS: To de-leverage our balance sheet and to reduce our dependence on external credit support
  - Sale of SF and MF loans
  - Use Agency liquidity to redeem bank bonds
  - Refund variable rate bonds into fixed-rate bonds

CalHFA's debt portfolio today

	AMBAC	FGIC	FSA	MBIA	uninsured	Total	
Variable-rate bonds							
Auction-Rate	$12		$147	$50	$7	$216	
VRDOs (insured)							
- AMBAC/MBIA	$48			$192		$240	
- Dexia liquidity			$407			$407	
- German guaranteed liquidity			$115			$115	
- other bank liquidity			$139			$139	$902
VRDOs (uninsured)							
- Depfa liquidity					$134	$134	
- Dexia liquidity					$383	$383	
- Remaining					$2,591	$2,591	
Index Floaters	$97		$248	$483	$270	$1,098	
Fixed-rate bonds	$110	$927	$146	$217	$1,704	$3,104	
	$267	$927	$1,203	$942	$5,089	$8,429	

	Risk Factors							
		Credit Enhancement		Credit	Rollover			
	Market	Monoline	SBPA	CalHFA	SBPA	*Total*		
Red	Yes	Yes	-	-	-	$216	*3%*	*$216*
Orange	Yes	Yes	Yes	-	Yes	$240	*5%*	*$457*
Blue	Yes	Yes	Yes	-	Yes	$662	*13%*	*$1,119*
Sky Blue	Yes	-	Yes	Yes	Yes	$517	*19%*	*$1,635*
Green	Yes	-	Yes	Yes	Yes	$2,591	*50%*	*$4,227*
Black	-	-	-	-	-	$4,202	*100%*	*$8,429*

CalHFA's ARS and VRDO today

Building blocks of a variable rate financing	*Summary of CalHFA's variable-rate debt portfolio (excluding taxable index floaters)*				
	Underperforming Financings				*Okay*
hedging strategy (interest swaps)					various
broker/dealer or remarketing agent					various
short-term rating (liquidity banks)			Depfa $134	Dexia $383	various $2,591
long-term rating (enhanced or unenhanced)		Insured: $902	uninsured: $3,108		
variable rate mode (ARS or VRDOs)	ARS: $216	VRDOs: $4,011			

What are our short-term objectives?

- By 2/1/09 (HMRB): To execute the tactical and strategic plans such that on 2/1/09 the indenture has no bank bonds
  - Enable swap reimbursements from HMRB to Agency G-O
  - Defer potential bank bond term outs from 8/1/09 to 2/1/10
- By 2/1/09 (G-O): To reduce the bank bond balance by accelerating the redemption of bonds used to finance short-term loans
  - Negotiating with Depfa to "credit" the accelerated redemptions against the bank bond term outs for the remainder of 2009

What are our longer-term objectives?

- By 8/1/09 (HMRB and G-O): To de-leverage our balance sheet by selling SF and MF loans

- By 8/1/09 (HMRB): To reduce our dependence on external credit support by refunding variable rate bonds into fixed-rate bonds

CalHFA's debt portfolio as of 8/1/09 (no sale of SF loans)

	AMBAC	FGIC	FSA	MBIA	uninsured	Total	
Variable-rate bonds							
Auction-Rate							
VRDOs (insured)							
- AMBAC/MBIA							
- Dexia liquidity			$407			$407	
- German guaranteed liquidity			$55			$55	
- other bank liquidity							$463
VRDOs (uninsured)							
- Depfa liquidity							
- Dexia liquidity					$183	$183	
- Remaining					$3,002	$3,002	
Index Floaters	$97		$248	$483	$270	$1,098	
Fixed-rate bonds	$110	$927	$146	$217	$1,870	$3,270	
	$207	$927	$857	$700	$5,325	$8,016	

	Risk Factors							
		Credit Enhancement		Credit	Rollover			
	Market	Monoline	SBPA	CalHFA	SBPA	*Total*		
Red	Yes	Yes	-	-	-	$0	*0%*	*$0*
Orange	Yes	Yes	Yes	-	Yes	$0	*0%*	*$0*
Blue	Yes	Yes	Yes	-	Yes	$463	*6%*	*$463*
Sky Blue	Yes	-	Yes	Yes	Yes	$183	*8%*	*$645*
Green	Yes	-	Yes	Yes	Yes	$3,002	*46%*	*$3,648*
Black	-	-	-	-	-	$4,368	*100%*	*$8,016*

CalHFA's ARS and VRDO as of 8/1/09

Building blocks of a variable rate financing	*Summary of CalHFA's variable-rate debt portfolio (excluding taxable index floaters)*		
	Underperforming Financings		*Okay*
hedging strategy (interest swaps)			various $3,002
broker/dealer or remarketing agent			various $3,002
short-term rating (liquidity banks)		Dexia $183	various $3,002
long-term rating (enhanced or unenhanced)	Insured: $463	uninsured: $3,185	
variable rate mode (ARS or VRDOs)	VRDOs: $3,648		

Bay Area Housing Plan

Actions already taken

- Numerous meetings with state agencies and housing developer to discuss financing options for BAHP loans
  - November 2008 - CalHFA Board authorized issuance of low rated limited obligation bonds (interest rates up to 25%) to finance the Bay Area Housing Program
  - Seek legislative change to credit enhance bonds with moral obligation of state of CA
  - Applied to PMIB for loan from STO to warehouse loans for up to one year
  - Sell Bay Area Housing Program Loans to banks or other investors in lieu of issuing bonds

Bay Area Housing Plan

Actions underway

- Sale of limited obligation bonds is now scheduled for January 2009
- Awaiting action of the PMIB on $100 Million loan request – 12/17/08

Goals and Objectives

- Preserve the franchise
  - Pursue assistance from Treasury, Federal Reserve and FHFA (conservator of the GSEs)
  - Need affirmation of Aa3 / AA- GO ratings
- Continue to restructure debt portfolio
  - Redemption of all ARS
  - Redemption or restructuring of remaining insured VRDO
  - Limit new issuance activity to fixed rate bonds
- Pursue target debt portfolio consisting of
  - Fixed rate bonds, index floaters and no more than 40% VRDO

Goals and Objectives

- Actively pursue loan sales to allow for de-leveraging of the balance sheet
  - Loan sales will provide funding for the redemption of ARS and underperforming VRDO
- Allow multifamily borrowers to prepay loans financed by ARS or underperforming VRDO
- Preserve agency liquidity of $470Mn for highest priorities
  - Agency operations
  - Covered losses on single family lending due to home price depreciation
  - Additional redemption of insured VRDO

Goals and Objectives

- Utilize significant resources on prudent loan programs
  - CalHFA's management team
  - Core competencies of loan underwriting, mortgage insurance, loan servicing and debt management
  - Approximately $1.6 billion of non-AMT private activity volume cap to take advantage of California's new affordability
- Develop alternate loan delivery platforms
  - Sell loans to Fannie Mae / Freddie Mac for cash
  - Develop conduit program for multifamily lending

California Housing Finance Agency

CalHFA Board of Directors

Fiscal Services Re-Platforming Project

December 12, 2008

CalHFA℠

Affordable Housing is our Business

Fiscal Services Project
Review of Budget Approval

- The existing infrastructure supporting the Fiscal Services Division – both the hardware and software – is fragile, at capacity, at risk of failure, and not supportive of the information analysis needs of management
- The Agency has pursued the replacement of the current system
  - Used best practices procurement process described in the March 2008 Strategic Initiative Briefing Book
- Fiscal Services Project budget
  - $1.72 million one-time cost over two (2) fiscal years
  - $1.5 million approved as part of 08/09 budget
- Requesting Board approval of resolution 08-46
  - Negotiate and enter into an agreement with the selected vendor
    - Fixed price for one-time cost of development and implementation

Fiscal Services Project Need

- Business Problem
  - The current system is:
    - Fragile – built in a technical environment that is not easily sustainable
    - At Capacity - restricts the ability of the Agency to quickly adapt to constantly changing business needs
    - Marginally Responsive – the existing technology is not integrated, does not provide timely information, and is not responsive to today's business needs

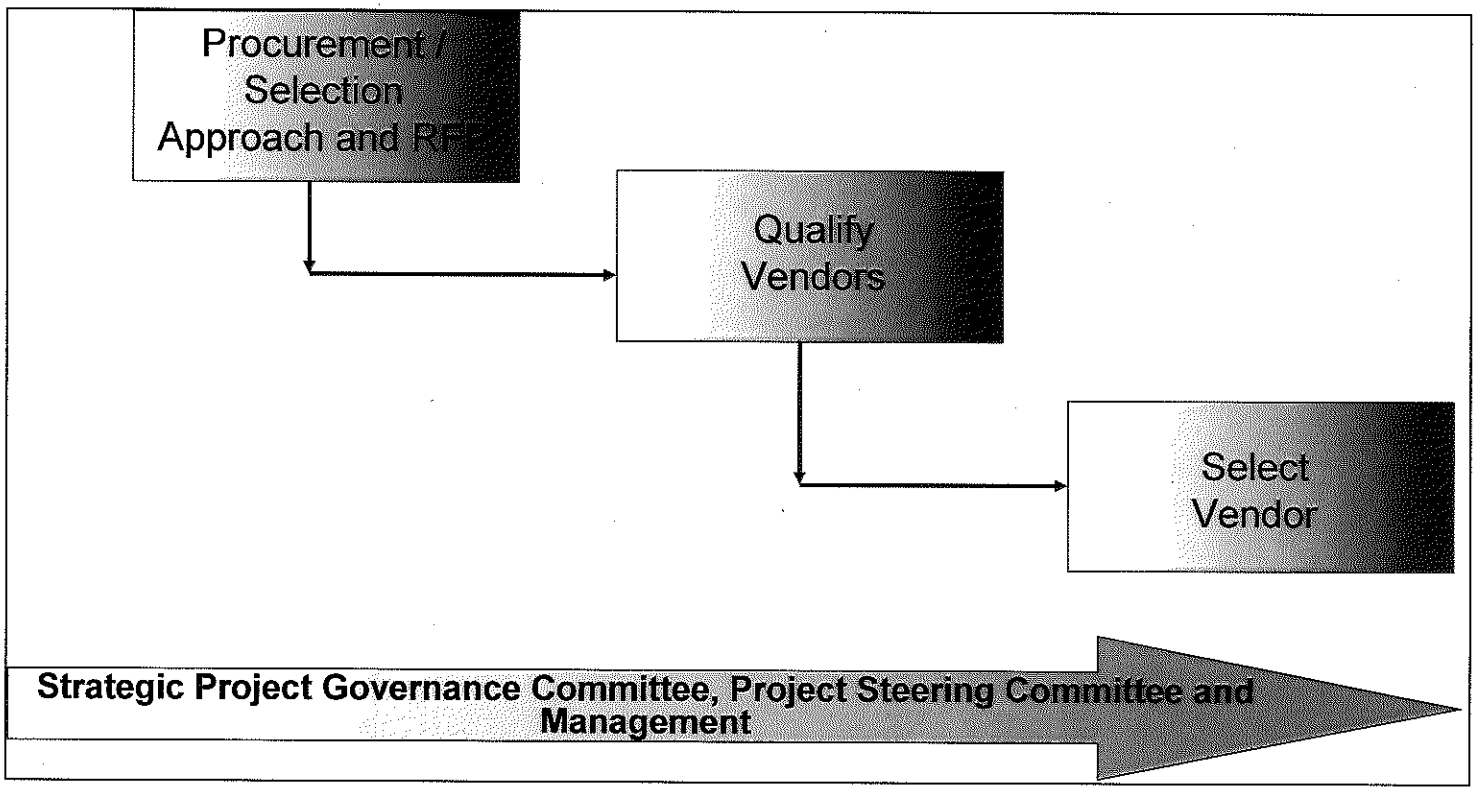
Fiscal Services Project Need

- Objectives of Phase I of the Fiscal Services Project are to:
  - Address the critical risk of existing system failure by providing a technical platform that is stable and current
  - Provide easier access to current financial data to better support Agency financial management
  - Migrate the existing system to a new platform which is both current and consistent with CalHFA's technology standards and operations
  - Provide the flexibility necessary to be responsive to changes in program areas

To meet these objectives, the Project used the Agency's procurement best practices process to identify the best system solution and vendor

Overview of Best Practices Procurement Process

The Agency's best practices procurement process provided to the Board at the March 2008 Board Meeting



Fiscal Services Project
Vendor Selection Process

- First Procurement Effort
  - 17 Vendors received the original RFP
  - One vendor, ExperSolve Inc., submitted a Final Proposal
    - Inadequate response with excessive cost and schedule
  - Surveyed vendors who did not respond
    - Difficult for some without project budget and schedule information
    - Most did not have resources available at the time

Fiscal Services Project
Vendor Selection Process

- Second Procurement Effort
  - Updated the RFP with two (2) changes:
    - Defined a project budget and desired schedule
    - Modified the warranty requirements
  - Released the revised RFP to four (4) vendors
    - One vendor declined to participate
    - 3 vendors submitted proposals
      - Eclipse Solutions, Inc
      - Innovative Government Solutions (IGS)
      - Kiefer Consulting

Fiscal Services Project
Vendor Selection Recommendation

- Summary
  - Based on review, the proposal of one vendor (IGS) was deemed significantly incomplete and not considered further
  - The Agency evaluated the remaining two Final Proposals in detail

Fiscal Services Project
Vendor Selection Recommendation

Comparison of Key Elements of Proposals

Key Element	Eclipse Solutions	Kiefer Consulting
Total Hours	13,568	25,158[1]
Schedule Duration (Months)	11 months + 6 month warranty	No Schedule Provided
Total One-Time Cost[2]	**$ 1,710,640.00**	**$ 3,270,124.00**

1 – Hours for proposed personnel distributed evenly across all resources – not allocated per project role
2 – Includes the costs as proposed by the vendor in their Final Proposal and not negotiated

Fiscal Services Project
Vendor Selection Recommendation

- The Kiefer Consulting proposal was deficient in several areas including their understanding of the scope of the project and skills and experience of resources proposed
- Based on review of its Final Proposal, reference checks, and the vendor interview, it was determined that Eclipse Solutions:
  - Offered the best and most comprehensive solution to meet the needs of the Agency
  - Appears capable of successfully completing all requirements of the Project
  - Appears to be a financially stable company with a strong client list
  - Offered significant value at a competitive price

CalHFA Board Approval of Fiscal Services Vendor Selection

- Recommendation: Per Resolution 08-46, approve the Agency to negotiate and enter into a contractual relationship with Eclipse Solutions to provide services that will result in a new Fiscal Services solution
- Board Decision
  - Approved / Disapproved