

MEMORANDUM

To: Board of Directors

Date: May 14, 2009



From: Steve Spears, Acting Executive Director
CALIFORNIA HOUSING FINANCE AGENCY

Subject: APPROVAL AUTHORIZING THE EXECUTIVE DIRECTOR TO ENTER INTO A LETTER OF INTENT

Resolution 09-07 would authorize the Executive Director to enter into a letter of intent for the purpose of selling and refinancing all or a portion of the Agency's multifamily loan portfolio through Freddie Mac and Citi.

Summary

Under the proposed transaction, the Agency would effectively sell some or all of the multifamily mortgage loans that it currently holds under various indentures or on its balance sheet as equity. As a result of the transaction, the Agency would partially relinquish control over the subject mortgage loans while also limiting its exposure to losses realized within the loan portfolio.

The transaction would be executed through Freddie Mac's Tax-Exempt Bond Securitization (TEBS) program. Under this structure, the Agency would refinance all or a portion of its general obligation multifamily housing bonds by selling limited obligation refunding bonds secured only by the subject mortgages. The Agency could also include in the transaction unencumbered mortgage loans not currently held under any bond indenture. Because the transaction would substantively transfer all or a portion of the credit risk associated with the subject mortgages away from the Agency and to Freddie Mac or other parties, each loan will be re-underwritten and analyzed by Citi, acting as Freddie Mac's seller servicer. Citi would also serve as arranger of the transaction and underwriter of the refunding bonds. The transaction size could be up to \$932 million, involving as many as 287 multifamily projects

Benefits

- Provides CalHFA capital to be used for the redemption of underperforming bonds and increases available liquidity.
- Takes projects off of CalHFA's balance sheet reducing the credit exposure for rating agencies analysis.
- Moody's considers TEBS as a positive step in their review of how the Agency is reducing the financial risk to its portfolio.
- Agency receives servicing fees and residual mortgage cash flow going forward.

Other Considerations

- Freddie will have ultimate authority in determining remedies or taking other actions with respect to the loans.
- Changes Agency's relationship to borrowers.

1 **RESOLUTION 09-07**

2 **RESOLUTION AUTHORIZING THE EXECUTIVE DIRECTOR TO ENTER INTO A**
3 **LETTER OF INTENT FOR THE SALE AND REFINANCING**
4 **OF ALL OR A PORTION OF THE AGENCY'S MULTIFAMILY LOAN PORTFOLIO**

5
6 WHEREAS, as a result of recent disruptions in the bond, capital and real estate markets,
7 the California Housing Finance Agency (the "Agency") has experienced pressure on its balance
8 sheet and on its long-term unsecured credit rating, and may expect under certain circumstances
9 in the future to experience significant capital and liquidity constraints; and

10 WHEREAS, Section 10 of Resolution 09-02, approved by the Board of Directors of the
11 Agency on January 22, 2009, authorizes the Executive Director to enter into one or more
12 agreements for the sale of loans; and

13 WHEREAS, Resolution 09-05, approved by the Board of Directors of the Agency on
14 January 22, 2009, authorizes the Executive Director to enter into one or more agreements for the
15 sale of loans or other assets, as necessary to meet the debt restructuring objectives of the Agency,
16 including such actions as may be needed to mitigate the adverse effects of the current real estate,
17 bond and credit market disruptions; and

18 WHEREAS, the Agency holds a portfolio of multifamily rental property loans located
19 throughout the State (the "Portfolio"), which Portfolio is currently financed with a combination
20 of Agency equity and debt issued under the Agency's various multifamily bond indentures; and

21 WHEREAS, the Agency may be offered an opportunity to transfer, directly or indirectly,
22 all or a portion of the Portfolio (the "Affected Portion of the Portfolio") to (i) Freddie Mac; (ii)
23 one or more trusts or other entities sponsored by Freddie Mac; or (iii) another entity, including
24 another government sponsored enterprise (collectively, the "Purchaser"), thereby potentially (1)
25 reducing the Agency's exposure to losses realized in the Affected Portion of the Portfolio, (2)
26 raising cash, (3) increasing the Agency's net cash flow from the Affected Portion of the
27 Portfolio, and (4) reducing the Agency's exposure to unpredictable costs associated with variable
28 rate bonds and swaps currently used to finance some or all of the Affected Portion of the
29 Portfolio;

30 WHEREAS, under the proposed transaction described in this resolution (the
31 "Transaction"), the Purchaser would finance up to 95% of the unpaid principal balance of the
32 Affected Portion of the Portfolio (the "Senior Portion") while the Agency would retain a
33 subordinate interest in the Affected Portion of the Portfolio (the "Residual") consisting of (i) a
34 contingent payment obligation limited to the aggregate unpaid principal balance of the portion of
35 the Affected Portion of the Portfolio not included in the Senior Portion, and (ii) the right to
36 receive residual cash flow from the Affected Portion of the Portfolio following payment of
37 financing costs associated with the Senior Portion;

38 WHEREAS, the Transaction may be structured as a bulk sale of whole loans, a sale of
39 bonds (the "Refunding Bonds") issued to refund Agency bonds to which certain loans are
40 allocated, or a combination of the these approaches; and

1 WHEREAS, pursuant to Parts 1 through 4 of Division 31 of the Health and Safety Code
2 of the State of California (the "Act"), the Agency has the authority to sell loans from the
3 Portfolio, to issue refunding bonds, to hold investments and to enter into related agreements
4 necessary or convenient to effect the purposes of the Transaction;

5 WHEREAS, because (i) the terms and conditions of the Transaction and the scope of the
6 Transaction have not yet been fully determined or agreed to; (ii) in order to determine the scope
7 and terms of the Transaction, substantial due diligence and review will need to be performed by
8 parties to the transaction; and (iii) there will be significant cost and dedication of resources in
9 order to support such review and the ultimate determination of the scope and terms of the
10 Transaction, the Agency wishes to obtain the approval of the Board of Directors to enter into a
11 letter of intent to proceed with the Transaction; and

12 WHEREAS, the anticipated letter of intent would not bind the Agency to consummate
13 the Transaction; and

14 WHEREAS, the Agency would be required to seek the further approval of the Board of
15 Directors to enter into such binding agreements as may be necessary to consummate the
16 Transaction;

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

18
19 1. The Executive Director and other officers of the Agency may enter into a letter of
20 intent to proceed with the due diligence, review and negotiation of the terms of the Transaction;
21 provided that such letter of intent shall not bind the Agency to consummate the transaction, and
22 that the approval of the Board of Directors shall be necessary to enter into such binding
23 agreements as may be necessary to consummate the Transaction. The Executive Director may
24 cause the Agency to pay for such due diligence and other fees and costs as he may determine
25 necessary and appropriate to support the review of the Transaction.

1 SECRETARY'S CERTIFICATE

2
3 I, Thomas C. Hughes, Secretary of the Board of Directors of the California
4 Housing Finance Agency, hereby certify that the foregoing is a full, true, and correct copy of
5 Resolution No. 09-__ duly adopted at a regular meeting of the Board of Directors of the
6 California Housing Finance Agency duly called and held on the 21st day of May, 2009, of
7 which meeting all said directors had due notice; and that at said meeting said resolution was
8 adopted by the following vote:
9

10 AYES:

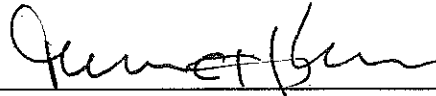
11
12 NOES:

13
14 ABSTENTIONS:

15
16 ABSENT:
17

18 IN WITNESS WHEREOF, I have executed this certificate and affixed the seal
19 of the Board of Directors of the California Housing Finance Agency hereto this 21st day of
20 May, 2009.
21

22
23
24
25 [SEAL]



Thomas C. Hughes
Secretary of the Board of Directors of the
California Housing Finance Agency