# BOARD OF DIRECTORS

***California Housing Finance Agency***
***Board of Directors***

November 10, 2015

Department of Consumer Affairs
1747 North Market Blvd.
Hearing Room (HQ-2-#186)
Sacramento, CA
(916) 574-7307

10:00 a.m.

**NOTES****

**PARKING: Public parking at Department of Consumer Affairs is free.**

**FUTURE MEETING DATE: Next CalHFA Board of Directors Meeting will be January 13, 2016, at the Department of Consumer Affairs, 1625 North Market Street (1st Floor South, #102), Sacramento, California.**

# STATE OF CALIFORNIA

# CALIFORNIA HOUSING FINANCE AGENCY

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## BOARD OF DIRECTORS

## PUBLIC MEETING

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Burbank Airport Marriott & Convention Center
2500 Hollywood Way, Burbank Room
Burbank, California

Thursday, September 10, 2015
10:00 a.m. to 12:57 p.m.

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

**A P P E A R A N C E S**

**Board of Directors Present:**

MATTHEW JACOBS, Chairperson
Co-Managing Partner Bulldog
Partners, LLC

ANAMARIE AVILA FARIAS
Martinez City Council and
Housing Authority of Contra Costa County

TIA BOATMAN PATTERSON
Executive Director
California Housing Finance Agency
State of California

ANNA CABALLERO
Secretary
Business, Consumer Services & Housing Agency
State of California

JANET FALK
Formerly Vice President, Real Estate Development
Mercy Housing

THERESA GUNN
Deputy Secretary, Farm and Home Loan Division
CalVet Home Loans
State of California

MICHAEL GUNNING
Vice President
Personal Insurance Federation of California

JONATHAN HUNTER Managing
Director, Region 2
Corporation for Supportive Housing

TIENA JOHNSON-HALL
SVP, Community Development Finance Manager
BBVA Compass

PRESTON PRINCE
CEO & Executive Director
Fresno Housing Authority

*(continued)*

**A P P E A R A N C E S**

**Board of Directors Present (continued):**

TIM SCHAEFER
For John Chiang, State Treasurer
Office of the State Treasurer
State of California

DALILA SOTELO
Principal
The Sotelo Group

LAURA WHITTALL-SCHERFEE
Deputy Director, Division of Financial Assistance
Housing & Community Development
State of California

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**Participating CalHFA Staff:**

KENNETH H. GIEBEL
Director of Single
Family Lending

TIM HSU Director of
Financing

VICTOR J. JAMES
General Counsel

JAMES MORGAN Housing
Finance Chief

JOJO OJIMA
Office of the General Counsel
Legal Division

DI RICHARDSON
Director of State Legislation

ANTHONY SERTICH
Director of
Multifamily
Programs

*(continued)*

**A P P E A R A N C E S**

**Participating CalHFA Staff (continued):**

CLAIRE TAURIAINEN
Attorney III

RUTH VAKILI Housing
Finance Officer

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**Public Testimony:**

PETE SERBANTES
HomeStrong USA

HUGH MARTINEZ
Jamboree Housing

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## Table of Contents

**Table of Contents, continued**



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BE IT REMEMBERED that on Thursday, September 10, 2015, commencing at the hour of 10:00 a.m., at the Burbank Airport Marriott Hotel & Convention Center, 2500 Hollywood Way, Burbank Room, Burbank, California, before me, YVONNE K. FENNER, CSR #10909, RPR, the following proceedings were held:

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CHAIRMAN JACOBS: All right. It's 10:00 o'clock. Let's get started, calling to order this meeting of the California Housing Finance Agency Board of Directors.

JoJo is passing around parking validations and other such things. But -- is it working?

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**Item 1. Roll Call**

CHAIRMAN JACOBS: All right, let's do a roll call. JoJo, I can help you call roll, if need be.

Tim Schaefer.

MR. SCHAEFER: Present.

CHAIRMAN JACOBS: AnaMarie Avila Farias.

MS. AVILA FARIAS: Present.

CHAIRMAN JACOBS: Tiena Johnson-Hall is not here but will be joining us later.

Jonathan Hunter.

MR. HUNTER: Here.

CHAIRMAN JACOBS: Dalila.

MS. SOTELO: Here.
CHAIRMAN JACOBS: Secretary Caballero.
MS. CABALLERO: Here.
CHAIRMAN JACOBS: Matthew Jacobs, here.
Tia Boatman Patterson.
MS. BOATMAN PATTERSON: Here.
CHAIRMAN JACOBS: Michael Gunning.
MR. GUNNING: Here.
CHAIRMAN JACOBS: Janet Falk.
MS. FALK: Here.
CHAIRMAN JACOBS: Preston Prince.
MR. PRINCE: Here.
CHAIRMAN JACOBS: Theresa Gunn.
MS. GUNN: Here.
CHAIRMAN JACOBS: Laura Whittall-Scherfee.
MS. WHITTALL-SCHERFEE: Here.
CHAIRMAN JACOBS: Great. We got everybody -- we've got a quorum.

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**Item 2. Approval of the minutes of the July 14, 2015 Board of Directors meeting**

CHAIRMAN JACOBS: Let's go through to the minutes from July 14th. Did anyone have any edits on the minutes? Any items?
Do we have a motion to approve the minutes?

MR. PRINCE: I'll move.

CHAIRMAN JACOBS: So moved.

MS. CABALLERO: Second.

CHAIRMAN JACOBS: Second, okay.

(Reporter interrupted for clarification.)

CHAIRMAN JACOBS: All right. Let's do a roll call.

MS. OJIMA: Ms. Caballero.

MS. CABALLERO: Aye.

MS. OJIMA: Mr. Schaefer.

MR. SCHAEFER: Aye.

MS. OJIMA: Ms. Gunn.

MS. GUNN: Aye.

MS. OJIMA: Ms. Falk.

MS. FALK: Aye.

MS. OJIMA: Ms. Avila Farias.

MS. AVILA FARIAS: Aye.

MS. OJIMA: Mr. Gunning.

MR. GUNNING: Aye.

MS. OJIMA: Ms. Johnson-Hall is not here.

CHAIRMAN JACOBS: Right.

MS. OJIMA: Thank you.

Mr. Hunter.

MR. HUNTER: Aye.

MS. OJIMA: Mr. Prince.

MR. PRINCE: Yes.

MS. OJIMA: Ms. Whittall-Scherfee.

MS. WHITTALL-SCHERFEE: Abstain.

MS. OJIMA: Thank you.

Ms. Sotelo.

MS. SOTELO: Aye.

MS. OJIMA: Mr. Jacobs.

CHAIRMAN JACOBS: Aye.

MS. OJIMA: The minutes have been approved.

CHAIRMAN JACOBS: Great. Thanks, JoJo.

**--o0o--**

**Item 9. Discussion of CalHFA financing in support of the Department of Transportation's Affordable Sales Program (postponed)**

CHAIRMAN JACOBS: Before I jump into comments and executive director comments, just there was an item on the agenda that is going to be pushed off to the next meeting, just so we can have further chance for discussion, so if there are any members of the public here for the discussion of the 710 freeway and the housing in the -- the Caltrans housing and the right-of-way for the freeway, it's going to be discussed at our next meeting. If anyone wants to speak on that item now, please give us a speaker card. If not, we'll move on to the agenda.

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**Item 16. Public testimony: Discussion only of other matters to be brought to the Board's attention**

CHAIRMAN JACOBS: We actually do have a speaker card. Pete Serbantes. Are you here, Pete?

MR. SERBANTES: Yes.

CHAIRMAN JACOBS: Do you want to speak now or later on in the meeting?

MR. SERBANTES: At your will.

CHAIRMAN JACOBS: Come on up. Let's hear about how Keep Your Home California has been doing in the trenches.

MR. SERBANTES: You may have to share. I only brought ten of these. I'm going to do this old school because I don't know if you noticed, but I'm old.

My name is Pete Serbantes. I'm the program director for HomeStrong USA. We are a staunch supporter of not only Tia Boatman and -- oh, my God, I just had a senior moment -- Di Richardson and the entire program, but I'm here to share a little bit with you about who we really are.

Over and above being a, again, major supporter of the Keep Your Home California program, I wanted to first -- I have notes. I have notes, being English is my second language and sometimes I'll divert and not know to

Spanish, so to be safe: Good morning, CalHFA Board Members, Executive Director Boatman. I would like to thank you for this opportunity to give you a boots on the ground update on HomeStrong USA's efforts with the Keep Your Home California program, which is and continues to be a great program. I was going to say it was as good as sliced bread, but I didn't look up to see who would have associated with that, but the point is it's a great program, and thank you for that.

I was given an opportunity to attend a Keep Your Home California board meeting in January, and I was informed by Steve Gallagher -- he is the person in charge of marketing and external affairs -- some information that he shared at the board meeting that I'd like to share with you. In 2014, HomeStrong USA did 3,894 counseling sessions resulting in a 97 percent success rate of, in essence, people saying this is my situation and being able to prove it. The 3 percent that didn't weren't true to the program and didn't supply sufficient information based on their situation, which is a good thing.

To the chase, the total funding for Keep Your Home California program agencies was 44 -- I'm not seeing that number -- 44,000 -- no, $44,290,439. In essence, Keep Your Home California through HomeStrong USA has supplied 51 percent of the business to date and assistance to families -- not to date, but as of 2014. Year to date today, we have supplied 1,374 families with assistance to the program.

So am I tooting my own horn? Maybe. But in reality, I passed out the folders, I passed out the information because I want you to know that HomeStrong USA is here for the next thing. Whatever you guys want to do that involves housing, HUD-approved counseling agencies, you can confirm with Di Richardson and Ms. Boatman that we're serious about what we do, and that's helping people and doing the right things for the right reasons.

How's that for not being ready?

CHAIRMAN JACOBS: Pretty good.

MR. SERBANTES: Any questions?

Did I have enough folders? Because if not, I can send more out. I apologize for that.

CHAIRMAN JACOBS: And we can always ask Di.

MR. SERBANTES: Absolutely. Thank you again.

CHAIRMAN JACOBS: Great to hear and keep up the collaboration and keep up the good work.

MR. SERBANTES: Thank you, sir.

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**Item 3. Chairman/Executive Director comments**

CHAIRMAN JACOBS: All right. Before jumping into the meeting, I just want to thank everybody. This is my last meeting. My term is ending in a few weeks. And I really -- it's been an honor to serve this Agency and the see this Agency get back to health and back in the business of lending. And you're a great Board. It's been great getting to know all of you, and I hope to keep up the work on my end.

Tia, comments.

MS. BOATMAN PATTERSON: Matt, as the chair of the Board, has been with us over the last three years. And he and I both started together on the Board. And I told him even though he may be leaving the particular -- the Board, that he's still going to be an adviser and that we'll still be keeping in touch with him because I think he's added a lot of value to our Board.

And so we will miss you, but we will still be in touch.

CHAIRMAN JACOBS: Thank you.

MR. PRINCE: I would like to at least acknowledge you and thank you, so thank you very much.

(Applause.)

MR. PRINCE: We're about to move on; I wanted to jump in.

MS. BOATMAN PATTERSON: He's really going to take care of that beautiful little boy.

CHAIRMAN JACOBS: And I got to say the staff at CalHFA has really come through in a pinch and just done financing and just getting the house in order and just the lending programs. It's really good to see. And just the whole analysis top to bottom I think was essential to establish the future of what this Agency is going to be, and it's really good work. It's important work and keep it going.

On our agenda we've got a closed session item, and we've also got -- I think we've got the Woodglen Vista Apartments loan and then some other various policy matters. Do we have -- I'm just wondering, would people be okay if we jumped into the loans early? Would staff be ready to present now?

MS. BOATMAN PATTERSON: If you don't mind, let me do a quick this, and then we could jump to that, and we can take that at 11:30. That way it will be a time certain.

CHAIRMAN JACOBS: Perfect, okay. So we're going to hold the closed session until 11:30 and just keep going with the public agenda.

Director comments, please.

MS. BOATMAN PATTERSON: I just wanted to provide you with an update and take a few minutes to tell you about the Mental Health Services Act Housing Program.

The program, as you all know, was created in 2008 and implemented with a memorandum of understanding between the California Housing Finance Agency and the former Department of Mental Health and an original allocation of the Prop 63 funds in the amount of $400 million. I know this has been a program that has been near and dear to Board Member Hunter's heart, and so we wanted to take an opportunity to give you this update.

That particular MOU, which we used to implement that program, expires in May of 2016. And the original allocation of 400 million is almost completely obligated. We've got a lot of positive feedback, and so CalHFA began stakeholder meetings last May to prepare for the expiration of that MOU and to determine if Mental Health Services Act partnership with counties could result in a new program or the continuation of Mental Health Services Act financing for permanent supportive housing for those who were at risk of homelessness or homeless with mental health issues.

We anticipate a new MHSA funding from three counties -- Los Angeles, San Diego and Orange County -- and in the first year, they have come given us a soft commitment or a commitment of $32 million. Additional funding from at least nine other counties will come from transferring or recycling MHSA funds, and we've determined that the proposed fees generated from the proposed counties' MHSA housing loan program, that's what we would be calling MHSA 2.0, would be the county MHSA housing loan program because it would be a partnership with the counties as opposed to a partnership with the State of California because those Prop 63 dollars are being allocated directly to the counties now.

We have restructured some of our fee proposals so that we could actually pay for that program. As some of you will recall when we initially took on that program, it was a loss. We lost money. It was not a -- it was not adequate enough funding to pay for the staff to run that program. And so we restructured that, and we've determined that the proposed fees generated under the new program would be adequate to cover the agency administrative costs.

We have commenced internal working groups and are meeting between divisions to continue to work out some of the implementation of that. The multi-family program and legal staff are working with the counties to update a term sheet and have drafted a county participation agreement.

We have initiated discussions with the state Department of Healthcare Services to determine the process for returning the unencumbered county MHSA funds or rolling them over into a new program once the current MHSA program ends in May of 2016.

We anticipate circulating the term sheet and participation agreement to the 12 interested counties in late October and with a request that the counties respond with a commitment of new MHSA dollars and agreements to participate by mid-December.

And so I believe we're on track. It looks like we will be able to continue that program, although a smaller size, that we'll still be able to offer that service and those financing options for those counties that agree to partner with us.

So I just wanted to provide you with that update.

CHAIRMAN JACOBS: Fantastic. Thank you.

Jonathan.

MR. HUNTER: Thank you for that report. As you said, I was actually involved in the development of that program from the start, and I shared a little bit with some of the staff last night that it was actually a really interesting exercise in public policy, when you have a commitment of funding and you try to put together a program that will work equally well in Los Angeles County with 11 million people and Alpine County that only had 2500 people at the time. And it was an exercise in some frustration.

And I think to its credit -- one of the things I would say is that, to its credit, California Housing Finance Agency lost money on the deal partly because they were willing to be so flexible in changing the design to meet the needs of some of the smaller counties. So we ended up doing a lot higher percentage of shared housing deals than typical affordable housing, supportive housing deals, and that required a lot more time and staff time and energy. And I just really appreciate the fact that California Housing Finance Agency was willing to work actively with the counties going along to try to make it work as best as possible.

I think part of what we learned in that exercise is that to design a program that works equally well in Alpine and Los Angeles is an exercise in futility. It's not going to be that way. And -- but I also know that they're -- the counties that you've mentioned, part of what they've learned is this is such an incredible tool in addressing the needs of some of the most vulnerable Californians who have been on the street for years and years and years. And I've had the privilege of meeting many of the tenants of the MHSA units that are now in safe and secure homes and getting the services that they need. And I'm just really glad that we're able to continue the program with counties for whom the instrument works well.

Thank you.

MS. BOATMAN PATTERSON: And just as a quick summary, I think the goal of the original program was to create at least 2500 Mental Health Services Act units and leverage it to create an additional 10,000 affordable housing units, and I can say that we've pretty much met that goal.

CHAIRMAN JACOBS: Fantastic. And the most important work.

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**Item 6. Report and discussion on CalHFA's policy using Agency-controlled subsidy funds for Multifamily Programs**

CHAIRMAN JACOBS: Okay. Let's go to agenda item number 6 because we're putting 4 and 5 off till 11:30.

Tony?

MR. SERTICH: Good morning, Mr. Chairman. Good morning, Board. Thank you for having us here today. We wanted to give a quick update on our multi-family subsidy funds policy, which we presented at the last meeting for comment. And we've finalized it, and we're ready to roll it out. We just wanted to bring it by the Board and show you what we have done and the small changes we have made.

As we presented last time, we have about $105 million of subsidy funds waiting to be used. We have used them on some projects, but we really want to make this more of a formal policy, and so that is what we have done. We've tried to take -- we have solicited comments not only from the Board, but we have gone to our sister state agencies TCAC and HCD, run it by them. We've also solicited comments from external stakeholders including developers and some financial consultant partners that they work with.

So the policy changes that we've made from the one that you saw in July, we increased the per unit and total loan -- or total subsidy limits in high cost areas. Before, it was $25,000 per unit across the state. We realized that the needs in the high cost coastal areas are much different than they would be in some more rural areas for gap funding.

We revised how we've -- the requirement that we've based on the developers in terms of deferring their fees to utilize this money. Before we were requiring just a 50 percent deferral of developer fees. Now we're requiring a dollar for dollar match up to 50 percent.

And we've also added some language on the required repayment of residual receipt loans into the policy.

Quickly, the -- just a recap of how we're allocating funds. We're expecting these funds to last at least three to five years prior to the use of recycled money coming back into the funds. The -- as I said before, we actually reduced the limit up to $20,000 per unit from $25,000 per unit in non-high-cost areas, but we increased them from $25,000 to $40,000 a unit in high-cost areas.

How we arrived at these numbers, we did a lot of analysis, and this is sort of foreshadowing a report that we'll present to you in November that we had a Ph.D. student do for us this summer, who worked with us on taking TCAC data and really analyzing it and seeing what the gaps needs were across the state on multi-family projects.

So we found that around the state the average gap needs is about 85-, $86,000 a unit, but that varies tremendously by county and region. So in the Bay Area it was well over a hundred thousand dollars in most counties. In some more rural areas, foothills outside of Sacramento and down in the Valley, it's, you know, $30,000 a unit.

Our money, we don't expect to fill that whole gap. We expect the locals to come in with some money. And so we were targeting about -- our money to cover a third to half of the gap needs across the state with the resources that we have.

We also noted that across the state different counties were providing different levels of support -- I'm sorry, did you have a question?

CHAIRMAN JACOBS: Just walk us through sort of the gaps and how much is based on incomes and how much is based on just cost of executing the project.

MR. SERTICH: So what we looked at, you know -- since we took TCAC data, this is all affordable housing, rental housing, stock. Looking at -- so there's three main places of funding for affordable housing projects. We have the first lien loans. You know, CalHFA provides those. There are plenty of other banks that provide first lien loans. Those are based on the amount the project can sustain in debt service. So that is based on the rent restrictions that TCAC or others place on the projects and the interest rates at the time. So we're able to sort of control for that variable based on the rent levels of different projects.

MS. BOATMAN PATTERSON: Let me interrupt. I think what he's getting at is if you identify the gap at what income level. So if you had market rate and then this gap was coming in, it would get you down to what income level?

MR. SERTICH: I think that's very dependent on the area, and that's what we're seeing here, because the other piece that comes in is tax credits. So the income level -- and that’s what we're seeing here, if you go back a slide, Carr. In San Francisco, the median income or the market rents are based on, you know, 150 percent of median income, whereas in some of these other counties, Kings and Tulare County, the market rents may be based off of 60 to 70 percent of income. So the difference, the gap, to get from 70 percent of income to the tax credit limits of 50 or 60 percent of average median -- area median income is much less than it would be in San Francisco where you have to bridge between 50 percent area median income and 150 percent of area median income.

CHAIRMAN JACOBS: Enough variables that we understand why the Ph.D. was useful.

MR. SERTICH: Yeah, that's why we had the Ph.D., because it's not quite that simple. But, no, he was very helpful to us in doing the research, and he did -- there was a lot of statistical analysis, and he's putting together a more formal report that we'll present at least as a report in November that has a lot more detailed information about the methodology and how this was all come up with.

MS. SOTELO: Well, the analysis of the gap is also around costs, right, and the cost --

MR. SERTICH: Correct.

MS. SOTELO: -- of a project in, you know, San Francisco is very different from El Dorado.

MR. SERTICH: Correct. I mean, there's many variables.

So when we present -- so one other thing that we noted was that these gaps that are present in affordable housing financing are picked up by counties in very different ways. There are certain counties, surprisingly Sacramento -- I shouldn't say surprisingly, but surprising to us, I guess, was that Sacramento County actually was funding more of these gaps, a higher percentage of these gaps, out of local funding than any other counties statewide. We know that there's certain counties in the Bay Area that put a lot of money in, but with the higher costs, it's not as high a percentage.

And there's some counties that put no money in, have put no money into the affordable housing over the last -- I think this is based on five years of data, TCAC data. So we were cognizant of that, and we don't necessarily want to -- we don't want to reward the counties who don't put money in by coming in and filling their gaps for that. We want to make sure that this is a collaborative effort, that the locals are involved as well.

Some of the other restrictions that are going to be placed on the gap, the subsidy money that we put in, is that we're still requiring it to be tied to a CalHFA first loan. We've had some pushback on that, but for cost purposes and for asset management purposes, it's much cleaner for us if it's tied to a first loan. As this program moves forward, we may decide to change that, but for now that's where we're keeping it.

The subsidies aren't just going to be publicly available. They're going to have to come to us, and as part of the underwriting process we'll determine if the subsidies are needed for the project.

And I know this is a question that we had last time, but for now we're sticking to the construction of substantial rehabilitation of projects getting the subsidies because it's the whole tax credit process and how that works, it really streamlines the process for us to make that happen.

There are some financial restrictions that we're placing on the subsidy funds. We're making it so that equity can't be taken out of the projects prior to providing the subsidy. We don't want to just be replacing money that was just taken out of the project.

We're going to, as I said before, limit or make developers defer a portion of their fees equal to the amount of subsidy that's being provided so that they have an equal stake in the project as well.

And we've added, as I said before, some documentation of how we want these loans to be repaid as part of the residual receipts process and cost savings process.

If there's any more questions, I'm more than available.

CHAIRMAN JACOBS: Ms. Sotelo.

MS. SOTELO: I apologize I wasn't here for your presentation in July. I just had a couple of questions.

First, I think it's an excellent plan to tie the subsidy to a first lien from CalHFA. I think that while it's a nice program and a good amount, the reality is that it's not enough, and so we might as well prioritize the use of our product with the subsidy that we make available, so I think that's very good.

I had a few other questions, two other questions, but on the underwriting process, do you tie that to the TCAC underwriting process and the HCD guidelines or --

MR. SERTICH: No, we --

MS. SOTELO: -- are these CalHFA --

MR. SERTICH: It's CalHFA's underwriting

guidelines, which at this point with our risk share program is -- is our risk share underwriting guidelines that we have agreed to with HUD.

MS. SOTELO: Okay. And have you done just a quick analysis of how it compares to HCD or TCAC?

MR. SERTICH: Yeah, I know that we're in -- both HCD and TCAC are in the process of redoing their regs, and we've been in discussions with them and are working closely with them to make sure that our program is not out of line with what they have.

MS. SOTELO: Yeah, I would just recommend that we continue to kind of align some fundamentals because the subsidy that's being provided here is likely not enough, and they'll have to seek other kinds of funding.

And then with regard to the developer fee, I guess I have two questions. Is there an exception for nonprofit-owned properties versus for-profit-owned properties? And then can you tell me a little bit about why the dollar for dollar match of the 2.5 and the 3.5 million dollars?

MR. SERTICH: Sure.

MS. SOTELO: What was the logic of doing that?

MR. SERTICH: Sure. The answer to your first question is no, there's not -- we're treating for profits and nonprofits the same currently.

The idea between the dollar for dollar match is we thought if there was a -- let's just say there was a $2 million gap in funding. After the locals came in, everything, we have $2 million left. We would want the developer to put -- we've talked on the single-family side of having skin in the game. It's not -- they always have skin in the game, but we thought if we would require them to put a million dollars in and we would come in with a million dollars, that that was reasonable. On the waterfall that we have put together, we do put the deferred developer fee on top of the residual receipts waterfall above us for the most part, so we fully expect them to get paid back.

As part of the underwriting process if there was a place where they may not get paid back, we would have to look at that much more closely and see how that would work. And we would have the ability to make exceptions if necessary, but that was the thinking behind it.

MS. SOTELO: So this may be a little bit too in the weeds, and I'm happy to talk to staff afterwards, but, you know, there's a very real correlation between the amount of basis you can generate from putting in a developer fee and what's real versus not real.

MR. SERTICH: We understand.

MS. SOTELO: And so, you know, what you don't want to do is you don't want to encourage people to do the not-real calculation. You want to --

MR. SERTICH: No, of course.

MS. SOTELO: -- do a real analysis of how much developer fee can and should be earned on a transaction like this. And I would just argue that with nonprofits, it's important to sustain nonprofits. And oftentimes nonprofits are only -- they're only able to sustain and grow as an organization if they use their assets to, you know, recapitalize their assets and kind of move forward. So I would like to -- it's too late to do this right now because this program is final, but I would ask that staff take a look at maybe making an exception for nonprofits who actually need to pay staff and to survive as an organization, and these projects are really one of the only vehicles for them to actually be able to do that.

MR. SERTICH: No, thank you. You're not the only member who has --

CHAIRMAN JACOBS: MS. Falk.

MS. FALK: Yeah, thank you, Dalila, for bringing that up. We had a -- I raised that at the last meeting, and I was very concerned about the 50 percent fee, particularly for nonprofits. And I think that by -- you know, you've tried to change it. I don't think you've really changed it. Because, you know, if we look at, as an example, the two projects that are before us today, their developer fee was in one case two million, in the other case two and a half million. So that means that if they take more than a million dollars from this program, they're 50 percent of their fee. And we were talking at the last time trying to make it if they have -- if we are going to require that, which I'm not totally comfortable that, it should be something less than 50 percent.

So I'm still really -- so it wouldn't take very much of a subsidy from CalHFA to require the 50 percent of the developer fee. And as Dalila said, the developers, particularly the nonprofits, really depend on that money to sustain themselves. They have no other source of funding. So I'm not comfortable with this.

CHAIRMAN JACOBS: Ms. Johnson-Hall. By the way, let the minutes reflect that Ms. Johnson-Hall has joined the meeting.

MS. OJIMA: Thank you.

MS. JOHNSON-HALL: I have to underline and highlight this particular element, which is the developer fee. Coming from the nonprofit world, I know how critical these developer fees are, and I agree with both of the Board members who have spoken up that this is a critical -- I think we need to revisit this. I just absolutely cannot support this without us really taking a look at this and understanding the realities of what developers -- nonprofit developers have to deal with versus other types of developers. That is a real reality.

And as I think about it, most of the transactions that I have reviewed since I've been on the Board have come from nonprofit developers, with maybe one or two exceptions. So we just need to understand who our customer is a little better and recognize that this is important to them; therefore, it's important to us.

I also want to -- I know you had mentioned that this program is focused on substantial rehab and new construction. Can you just -- are there other programs available to address more moderate rehab?

MR. SERTICH: Yeah, we've actually just in the last couple months released a new program that will deal with non-substantial rehab that's going to be -- it's our program that we have in conjunction with HUD and the U.S. Treasury that is going to provide low interest rate loans on non-substantial rehab projects.

In general, part of the reason -- I should get in a little deeper -- that we're not providing -- this subsidy is not available to them currently, not only it's a limited pot for sure, but in general most of the gap needs come from the rehab itself or the new construction, the costs, if the project's already been built and doesn't need substantial rehab, either has some subsidy in place or it doesn't have the added costs of the rehab usually. Now, the exception for that in here would be is if we have a portfolio project that needs some help on a workout, something happened, it ran through its replacement reserves or something, then we could -- we would be able to subsidize it with these subsidy funds.

But for outside deals that don't need substantial rehab, we're not going to bring them into the portfolio with -- the plan is not to bring them into the portfolio and use subsidy funds to work through that, but we do have a program that will be -- we think -- we're very excited about that will provide low cost funding for non-substantial rehab, non-tax-credit deals.

MS. JOHNSON-HALL: Thank you.

CHAIRMAN JACOBS: Tia?

Oh, go ahead.

MR. HUNTER: Yeah, I have a question about the developer fees. My understanding is that they're not -- they don't go away. They're deferred. So how is it that they're captured over time, and do they have priority in the residual receipts?

MR. SERTICH: Yes.

MR. HUNTER: So I guess a couple of things. One is that it seems to me that softens somewhat the impact on any organization because if they -- it requires them to carefully underwrite the deal to make sure that they have sufficient cash flow, operating income, to recapture that fee that's deferred.

MS. JOHNSON-HALL: I'm sorry, I'm not sure if they always have priority. This is Tiena Johnson-Hall again. If you bring on a conventional lender, they're going to automatically drop in the waterfall. And a lot of these deals will need conventional debt in order to have sufficient dollars to get through.

MR. SERTICH: Well, it will be our debt and maybe other local debt, is the goal here. In general, most of our deals don't have conventional debt if we're the first lender on them.

MR. PRINCE: We're the first lender.

MS. JOHNSON-HALL: We're the first lender.

MR. PRINCE: Yeah.

MS. JOHNSON-HALL: Okay. So I guess this gives them some level of protection.

MS. FALK: But if there are substantial other sources of money in there like city, county, they're going to want to be --

MS. JOHNSON-HALL: Priority.

MS. FALK: -- paid back, at least pro rata. And it's a dribble what comes back as the developer fee, or it's 10, 12 years out before they get it.

MS. JOHNSON-HALL: And you have to demonstrate that --

MS. FALK: Yeah.

MS. JOHNSON-HALL: -- you can actually get it paid from cash flow --

MS. FALK: But it's still over a fairly long period of time when, you know, the nonprofit has put up all their costs of developing the -- doing the rehab and everything, you know, right at the time that it occurs.

MS. BOATMAN PATTERSON: We have been sitting on these funds for a long time. And to come up with a program that is going to work well with our money in first position and to roll out and to do the data to show what are the gaps in California, it's a demonstration. And I think we as staff will be open to continuing to look at those, but I think what we wanted to do is we wanted to get the program up and running. We wanted to have some demonstration, some measures as to is this working, is this not working. We want to be able to have the flexibility to go back and look at that. But I think what staff has done by moving the deferred fee in front and so that the developer would get paid, I think it's kind of a moderate step.

And so I believe what we want to do is we want to see how this is working. And we do commit to coming back to you all, because we understand. We've heard you very loud and clear that the developer fee is important to certain organizations, to make sure that they are able to continue to stay in business and sustain themselves. And we're not in any way -- we view the developers as our partners. We're not in any way trying to limit their ability to sustain themselves, but we do want to make sure that we're keeping as much money as we can into affordable housing and that we're stretching these dollars and being as efficient as we can with these dollars.

So we commit to come back and continue to report on that. And if some modifications need to be made, we're willing to look at that.

MS. SOTELO: I would be happy to support the program with a modification and a motion that would read that for nonprofit partners and developers, the deferred fee not be 50 percent, that it be, rather, 25 percent and then have you look at that and test that and figure out whether that creates an issue.

MR. SERTICH: Yeah, just to be clear, it's not a 50 percent --

CHAIRMAN JACOBS: We don't have an item.

MR. SERTICH: -- dollar solution. It's up to 50 percent.

(Reporter interrupts for clarification.)

CHAIRMAN JACOBS: We don't have a resolution before us today, but --

MR. SERTICH: I just -- it's up to 50 percent, so we expect for the most part a lot of gap loans to be less, less than a million dollars, so it would be under 50 percent deferred, but in some cases it could be up to 50 percent --

MS. SOTELO: So then --

MR. SERTICH: -- if the gap loan's pretty large.

MS. SOTELO: Then the mechanism that you would modify is not the 50 percent; then you say it’s a dollar for dollar match. What you would do is -- again, there's no resolution so I can't make a motion, but what I would recommend in the program is that you look at eliminating the dollar for dollar match requirement for nonprofit organizations, and that way you have a little bit more discretion in terms of how much fee is deferred versus how much loan is provided.

CHAIRMAN JACOBS: Let's maybe have an offline discussion with the working group of the nonprofit developers and bring this back.

MR. SERTICH: We can definitely do that. We'll continue this discussion.

CHAIRMAN JACOBS: One final comment.

MR. HUNTER: And I would just -- yeah, the final comment was just going to be it would be really helpful to see a deal, to see the numbers in a deal --

MS. SOTELO: Get the money out.

MR. HUNTER: -- and really look at how they work.

MR. SERTICH: And we've been doing that internally, but we can definitely bring that to the larger group as well.

CHAIRMAN JACOBS: All right. Gentlemen, thank you.

MR. SERTICH: Thank you. Thank you for all your comments.

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**Item 7. Discussion, recommendation and possible action adopting a resolution to amend and restate Resolution 94-10 modifying multifamily loan processing procedures (Resolution 15-16)**

CHAIRMAN JACOBS: All right. The next item we've got, this is a streamlining item, I think. Item No. 7 is a resolution. Who is -- oh, you're staying up here.

MR. SERTICH: Yeah.

CHAIRMAN JACOBS: Okay.

MR. SERTICH: So as the chairman said, this is more of a streamlining resolution. A little background, in the past -- we have two resolutions that we work with in terms of providing commitments to borrowers, one -- they were both passed out to you I think separately outside of the Board package. One is Resolution 94-10, which provided constraints on the Agency's initial commitments, which would be well before we come to the Board. It's really when we take the loan to CDLAC, what restraints -- what constraints we had on those loans.

One of the major constraints that we were -- that Resolution 94-10 called for was a maximum loan amount of 25 million for the loan not being -- having to come to the Board prior to initial commitment.

The other resolution that we are constrained by is -- I shouldn't say "constrained," but that we live under is Resolution 01-37, which gives authority for staff to -- or for the executive director to approve loans under $4 million. Any loan over $4 million has to come to the Board for approval, as we will see under the next Board item with two loans coming to you for approval.

The issue before us is really about Resolution 94-10 on the initial commitment, this $25 million limit for initial commitment. We thought -- well, two reasons. One, we think that that is very -- it slows up -- if we had to come to you for every loan over $25 million, it would really slow down the process. We'd have to come to you before CDLAC and then for final approval as well. And, honestly, we have done -- this resolution got lost in everyone's minds. I'm not sure what happened, but we have not been coming to you for approval for loans over $25 million before initial commitment.

MS. BOATMAN PATTERSON: This is cleanup.

MR. SERTICH: So we wanted to present a new resolution to you replacing 94-10, saying that for initial commitment the executive director has authority to approve loans as long as the loan terms and requirements are those of a prudent lender. Any loan over $4 million will continue to be brought to the Board for final approval before final commitment. This really just streamlines the CDLAC approval, the CDLAC process, the initial commitment process and lets us move forward with loans without bringing them to Board.

CHAIRMAN JACOBS: Any thoughts or questions?

MS. SOTELO: So -- this is Dalila -- the Board would still have final approval rights.

MR. SERTICH: Correct.

MS. SOTELO: But just not before it goes in for CDLAC application.

MS. BOATMAN PATTERSON: This is really cleanup.

Pattern and practice is I've been approving initial loans, initial commitments, going to CDLAC and then coming to you for final approval. This is just cleanup of pattern and practice and making sure that we're doing what we're supposed to do. So it would allow me to do initial commitments and then still come to you for final approval. And so this is just literally legitimizing our pattern and practice that we've already been doing.

CHAIRMAN JACOBS: Would it be helpful if you had a two-person or a three-person committee of the Board to review initial loan applications quickly? No?

MS. BOATMAN PATTERSON: No.

CHAIRMAN JACOBS: Okay.

MS. SOTELO: It would slow it down.

CHAIRMAN JACOBS: Slow it down too much?

Mr. Hunter.

MR. HUNTER: I would move adoption of Resolution 15-16.

CHAIRMAN JACOBS: Do we have a second?

MS. SOTELO: I'll second it.

CHAIRMAN JACOBS: JoJo.

MS. OJIMA: Thank you.

Ms. Caballero.

MS. CABALLERO: Aye.

MS. OJIMA: Mr. Schaefer.

MR. SCHAEFER: Aye.
MS. OJIMA: Ms. Gunn.
MS. GUNN: Aye.
MS. OJIMA: Ms. Falk.
MS. FALK: Aye.
MS. OJIMA: Ms. Avila Farias.
MS. AVILA FARIAS: Aye.
MS. OJIMA: Mr. Gunning.
MR. GUNNING: Aye.
MS. OJIMA: Ms. Johnson-Hall.
MS. JOHNSON-HALL: Aye.
MS. OJIMA: Mr. Hunter.
MR. HUNTER: Aye.
MS. OJIMA: Mr. Prince.
MR. PRINCE: Yes.
MS. OJIMA: Ms. Whittall-Scherfee.
MS. WHITTALL-SCHERFEE: Aye.
MS. OJIMA: Ms. Sotelo.
MS. SOTELO: Aye.
MS. OJIMA: Mr. Jacobs.
CHAIRMAN JACOBS: Aye.
MS. OJIMA: Resolution 15-16 has been approved.
CHAIRMAN JACOBS: Great. Thank you.
MR. SERTICH: Thank you.
CHAIRMAN JACOBS: Thanks, Toni.

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**Item 8. Discussion, recommendation and possible action regarding final loan commitment for the following projects: A. Woodglen Vista Apartments (Resolution 15-17)**

CHAIRMAN JACOBS: Jim and Ruth, let's look at these two projects.

MR. MORGAN: Good morning, Mr. Chairman, Board Members. I'm Jim Morgan, the housing finance chief of multi-family loan programs at CalHFA. Along with me is Ruth Vakili, who is our loan officer for multi-family programs.

We're thrilled to present to you two projects seeking loan approval: Woodglen Vista Apartments and Maplewood Apartments. These two projects represent our first Board reports with a revised layout and design, which we've received many comments from Board members, so we've still seeking input or comments, but I think it's a new and improved product.

In addition, the Maplewood project -- will be the second one that we present -- is our first multi-family project underwritten via our 35-17 balloon loan programs, so we're excited about that.

There is one correction for the record for the resolution for Woodglen Vista on page 122 of your Board report. The dollar amount for the permanent financing is listed as $25,265,000. That should be read $25,940,000. That is what's in your Board report, and that's what should be on the resolution.

Thank you, Ms. Scherfee.

And so that said, Ruth will begin her presentation commencing with Woodglen Vista.

MS. VAKILI: Good morning.

Woodglen Vista is a project that is a hundred percent affordable family project, and it was built in 1978. It's located in Santee, which is a bedroom community in San Diego County.

Can everybody hear me well enough? No? Okay.

The project is 188 units, family housing with mixes of one-, two- and three-bedroom units, so you have a mix of large family, some seniors, just a general mix of population in this project.

You can see from the slides and the previous one that it's a rather large site and fairly well spread out. It's a lot of grass. It's got a nice pool, community room, a gazebo, play area, a laundry room.

The project was built in '78, and it was acquired by an affiliate of Jamboree Housing in 2004. So at this point the project requires some upgrades. And as you can see from the typical kitchen, it's a little bit outdated.

The interior upgrades will include new paint, window blinds, replacement of appliances, countertops, cabinets and replacement of the bath elements, new HVAC systems and community room upgrades.

The exteriors will include replacing roofs, stucco repair, duct repairs as necessary and exterior paint.

In addition, there's a great deal of improvement to be done to the landscaping, which will take out all of this beautiful golf course lawn and replace it with the drought tolerant landscaping plan, water efficient irrigation. And with the efforts that they're putting in, it will lead to 65 percent savings in the water usage.

The rehab budget for the project is nearly $8 million, which is just over 42,000 per unit, which is substantial. The budget has contingency for hard cost changes of 18 percent. So going into the project, we have good coverage and a decent budget to cover any potential unknowns.

While the work is being done, most tenants will be temporarily relocated for a period of five to six days. There are currently nine tenants who are over income, and they have been offered permanent relocation benefits. The budget for relocation total is 574,000, and that's sufficient to cover the temporary relocation needs and permanent relocation benefits.

The rents for this project are low. They're at -- averaging 52 to 65 percent of average for the market area.

Today we're requesting approval of a rehab loan of $31 million. The term is for 18 months. We're currently underwriting the interest rate for the rehab period at 4.9 percent, which gives us about a 25-basis-point cushion in our underwriting. And the permanent loan request is for 25,940,000 for a 35-year fully amortized loan, underwriting at 5.35 percent, which is also about a 25-basis-point cushion.

We acknowledge that the interest rate will adjust potentially until we lock 30 days prior to closing. We're anticipating a closing for this project mid-December.

The project will be restricted to -- CalHFA restrictions, I'm sorry, will be 20 percent of the units at 50 percent AMI, and the balance of the units will be at 60 percent AMI. This project is a hundred percent Section 8, and the rents will be supported by a new mark up to market contract.

Presently we are underwriting and approaching the project with incomes assumed at current HAP rents, assuming no increases and assuming the current operating budget. So we do anticipate a rehab period rent increase, and then prior to conversion we anticipate the HAP approval, which is already in hand, a HAP contract at conversion for the new rents.

Jamboree is the sponsor for the project, and they have a vast experience in affordable housing, and their housing includes a great deal of service-enriched programs. They have developed an array of high quality affordable housing projects. And in CalHFA's portfolio, there are seven Jamboree projects.

This project -- when I went out to the site, I noticed that there are a lot of families. There are a lot of seniors. The community room was very well-used with senior lunch programs, learning programs for the children. So Jamboree is very active in serving their communities.

With that, I'll take questions.

CHAIRMAN JACOBS: Janet.

MS. FALK: Yeah, I have two questions. The first is you said there would be a rent increase during rehab, and then they'll get the Section 8 so the rent will go up and then go on down. How is that going to be managed for tenants who can't afford the rent increase, if they're all Section 8?

MS. VAKILI: The rent increase is to the HAP contract. The developer is in the process -- they've already received approval for new HAP rents at conversion.

MS. FALK: So the HAP contract would be in place at the start of construction?

MS. VAKILI: Yes. We have an existing HAP contract. They've requested an interim increase in the rents during rehab for Section 8, and then at conversion they'd get the final increase, which is all impacting the HAP contract.

MS. FALK: Okay.

CHAIRMAN JACOBS: So 20-year contract?

MS. VAKILI: Yes.

MS. FALK: My other question just is sort of informational since there were two projects that were very close together and easy to kind of compare them, it seemed like this one, the equity that's being raised from the investor is a substantially lower rate than the other project, and I was just wondering whether you looked at that or are they getting really top market for what --

MS. VAKILI: We went in with a fairly conservative estimate, and I'm anticipating that as we get closer to closing, we will finalize the numbers. But at this point, the approach is to be conservative. There is a differential between the two projects. The Maplewood project already has all of their negotiations firmed up, so we feel validly expecting a higher rate. For Woodglen, I expect that the LP actually will increase before we close.

MS. FALK: And where will that -- what would be the decrease? What else -- what will decrease if the equity goes up? Will the loan amount go down?

MS. VAKILI: It potentially will go down. I think the developer has a wish list of a few things that they would like to add if they could. And so these are negotiations that we work through as we get closer to closing. The scope of work is comprehensive, but there are some things that they have intentions, if they can, to do.

MS. FALK: Okay, thank you.

CHAIRMAN JACOBS: Any other questions on this item?

Dalila.

MS. SOTELO: So we can speak offline about the format of the report, but vast improvements. I really appreciate it. Love it, like it, you know, it's a vast improvement, so I appreciate it.

It does point out a couple of discrepancies in the project itself, so that's what staff reports are really supposed to call out. And I just have a question with regard to section 39, about the net cash-out to seller. It's showing net cash-out of $9.9 million to the seller, which I assume is the limited partnership. And it's going to be put into a new limited partnership. Can you just tell me about that cash-out number and what that represents?

MS. VAKILI: Well, the cash-out represents when -- we just finished a conversation about sustaining nonprofits. This is one of the ways that Jamboree is able to utilize cash-out proceeds in order to provide services on an ongoing basis for their additional projects, services that they provide in the community, predevelopment acquisition funds, funds to shore up reserves on other projects that are all a part of Jamboree's mission. And the intention for the cash-out is to utilize it solely for these purposes.

MS. SOTELO: So I just -- from a Board perspective, the $9.9 million is a rich number, and so how that correlates to our loan amount and to, you know, what the project needs are and the level of rehab, to me it's critical. So has staff looked at the scope of work that's being done on the project, and do you feel satisfied that 42,000 per unit will really get you there rather than like the 50,000 number or something higher?

MS. VAKILI: We have gone through the P and A. It's been completed. We've also inspected the property twice, and it has been in our portfolio for some time, so we have ongoing inspections and feel that between what our senior inspector reviewed, what our asset manager inspector reviewed, that the scope is comprehensive.

Again, there are always elements that you could add that would benefit the tenants and benefit the project, so if -- as the bidding process is finalized, if there's cost savings, that would be utilized.

And also we have a 20-percent hard cost contingency, so the budget is still being firmed up as we get closer to closing.

MR. PRINCE: I think the dilemma is that they could sell the property, right, and the financing could happen, and they could realize $10 million of net sale proceeds, right? So -- and then someone else could provide the financing. So if the deal was just done on its own, you know, to a for-profit buyer or to another nonprofit, they would realize that. So -- but it still shocked me, you know.

And I thought back to Santa Barbara Housing Authority did a development under the Rental Assistance Demonstration, and I think that they realized something like 10 million on the sale proceeds. They did come up with a plan that they shared with the community about how that money was going to be spent. So I don't know if we could ask for that. Because, again, if it was a different environment, they would just be able to sell the property and realize the proceeds, so I'm kind of curious how far we can go. So I think at some level there's a transparency issue here, right, that I think somehow we need to talk about how someone's getting 10 million plus the developer fee.

MS. SOTELO: Yeah, and I think that for me it all lays within the project and the strength of the project. So when I look at section 12 that only has, you know, a seven-month transition reserve in case the HAP contract goes away, what I'd like to see is maybe an 18-month reserve so that there's a real protection on the tenants' side that if the HAP contract disappears or there's a freeze on Section 8, that the proceeds from the project can actually be invested into that operating transitional reserve and that if you don't need it in 10 years, that then that gets released back to the developer, you know, and burns off.

So I just want to be mindful. Again, I do not -- I'm a big proponent of nonprofits taking stock in their assets and using those assets to leverage, you know, dollars for their organization and the well-being of their organization, but that cannot be at the sacrifice of the tenants living in the development or in the project itself. So the three mechanisms that I would say when we look at strong proceeds like this, not necessarily community benefits package, but really are we doing all that we can from a rehab standpoint and in the physical asset itself.

Second is on the operating side, do we have enough of an operating reserve to make it comfortable so that tenants are not penalized if, you know, HUD doesn't renew their contract.

And for me third is from a social service standpoint. If this is a nonprofit and Jamboree is an excellent nonprofit and commits to social services, can we set up social service programs with their proceeds for this project specifically. And, you know, can we -- as a lender can we help partner and encourage that. We can't mandate it, but we can certainly encourage.

CHAIRMAN JACOBS: Jonathan.

MR. HUNTER: So I had some similar questions or concerns, well, a couple of things. First of all, it's really delightful to see a couple projects in San Diego County.

Secondly, I really admire both of the developers involved in these projects. They do excellent stuff.

But now to some of the details: One of the things that was striking to me, so what are they using the $9 million for. And when I look at the operating costs, it's striking to me that they only budget $31,000 out of their operating costs for social services on-site. I recognize this is not a supportive housing project, but 188 units and you've got -- you don't even have a staff position. So it's really interesting what that is.

The other thing that's really striking to me is that this project throws off a lot of cash flow to the Section 8 subsidies. And I would much rather have seen some of that cash flow invested in additional services for families and children, particularly children, on-site and particularly in that neighborhood, which, you know, has some, you know, infrastructure around it, but for those children to thrive, for Jamboree to be investing some of that money in additional services.

Now, my guess is, knowing Jamboree, that indeed out of that $9 million, they're probably going to be providing a lot more services on-site than are valued in that $31,000, but it would be nice to see that somewhere so that we really know that kind of investment was being made. I don't know that -- again, if they were a for-profit developer, certainly we would be limited in what we could require to be done, but it would just be nice to see that investment. And I would certainly -- rather than having all this cash flow coming out of the project in years 15 through 20, would like to see additional investment in services to the families on-site.

MS. BOATMAN PATTERSON: When we look at these projects, we're looking at the property manager, and we're having an understanding of the experience of the property manager -- this is me asking staff -- that's correct?

MS. VAKILI: Yes, that's correct.

MS. BOATMAN PATTERSON: Are we asking for a resident services plan or any community -- what the developer or the property manager, what services they intend to provide the tenants? Are we asking for that at all?

MS. VAKILI: Yes, we do.

MS. BOATMAN PATTERSON: Okay. And is that -- do we have any of the information about the resident services plan or the cost of the services that they're going to provide? Do we include any of that in our write-up?

MS. VAKILI: No, not in this write-up format we didn't. In the concept meeting, that's something that we talk about. And when we were there at the site, it's obvious how much of services are provided. In fact, Hugh Martinez just gave me what he gave me at the concept meeting, which is the plan for their services.

MS. BOATMAN PATTERSON: I think that's the missing piece that we might, as staff, need to go back and take a look at. All the Board members are seeing is that $9 million is coming out of the project, but there's a lot of back-end work that's going on that isn't getting presented in the staff report, and so that's one of the things that we as staff will commit to making sure.

And you might -- if the developer is here, if you want to take a few minutes to come up and talk about some of the services that you intend to provide on-site, might be helpful.

MR. MARTINEZ: Hi, my name is Hugh Martinez. I'm the project manager for Woodglen Vista, would like to add to some -- or would like to clarify some of the concerns that I believe it was Mr. Hunter had regarding the amount of social services. Our budget is up to about a hundred thousand now, and that's sort of what we've committed to.

We're looking to do more than that. And what I handed to Ruth was preliminary findings. We hired Dr. Rivas to do a community needs assessment to actually profile the community, because what we found on the supportive services side, at least when it comes to development, is that a lot of programs are pushed through without really having any connection to the actual needs of the residents. And typically it's check a box. What does TCAC want? What's the minimum that you need? How much does it cost? How do we do a dog and pony show?

So with this survey, we actually looked at the needs of the residents. And being in Santee, at first glance you would think, well, being a family development that there would be a need for ESL and that -- maybe ESL and expect a high Spanish-speaking population, but what we found is that the population tends to be primarily Coptic, Coptic and Chaldean, so a lot of Iraqi refugees. We found a need for employment training, and we found that the community's fairly cognizant of their healthcare and fairly health conscious, so we're tailoring the programs and our supportive services around that.

We have lunch programs and breakfast programs for the children that are school aged during the summer, so we provide -- we have a collaborative, and we provide meals free of charge on-site.

We have senior meetings. The community doesn't have a senior center, so we allow the community to utilize our community center for social events for the senior community in Santee.

We have a collaborative with United Way, and this is our -- this is one of the projects we will start to benchmark progress, so we're going to have annual surveys to really measure the outcomes and measure the benefit and effect of the supportive services. So we're looking at doing a family, deploying it portfolio-wide to track the progress of well-being, economic, and educational attainment of the residents. So there's a lot more to this that's being rolled out. And we do want this to be a landmark development.

CHAIRMAN JACOBS: Ms. Johnson-Hall.

MS. JOHNSON-HALL: Thank you, Mr. Martinez. I really do like this project, and I'm glad that the staff is bringing this forward.

My question actually centers around sort of going back to the net cash-out. I actually in concept do not have a problem with that at all, but I think that it could be a very gray area that we might want to revisit in the form of maybe putting some policies around that. The reason being is as you bring in -- I mean Janet talked about bringing in a higher equity, for example. There may be some additional cost savings, too, as they do this. And so what you don't want to do is have the Agency look like we're over-enriching the project so that these folks will have more money for a net cash-out.

It's a very slippery slope.

And so that's just my thoughts around it's sort of a bigger question that I'd like the staff to think about going forward.

CHAIRMAN JACOBS: Any other comments?

Mr. Gunning.

MR. GUNNING: Ruth, I noticed you list the congressional and legislative districts as part of the format here. Is there any outreach to the local Congress, Assembly or Senators, about the project to sort of let them know the good work we're doing in their district?

MS. VAKILI: No, we don't as a part of our underwriting and processing reach out, but I believe as a part of the Board and -- I'm kind of reaching on this one.

MR. GUNNING: Okay.

MR. PRINCE: I bet Jamboree has done that.

MR. GUNNING: Are you talking to Senator Anderson about this good project?

MS. RICHARDSON: I'm sorry, this is Di Richardson, and I'm the legislative director, and generally -- we haven't done one of these in a while, so I think Ruth may not be aware, but generally when the Board does approve a loan packet, we do send a letter to the members letting them know that the Board has approved a project in their district.

MR. GUNNING: I guess to show that we're a living, breathing, thriving organization, I think more than a letter should be done. I think we should let them know and maybe do something when the final deal is closed to let them know the work we're doing.

MS. RICHARDSON: We've talked about that in the past, and, you know, I'm certainly in favor of that. When there's been -- when there are openings, you know, when the project's opened or whatever, I think that normally that's been the responsibility of the sponsors, and we have not insisted on, you know, inviting people, but the sponsors generally do a very good job of inviting the elected officials in the area and letting them know.

Happy to talk to you, Mr. Gunning, about other ideas. We try to -- our letters aren't exactly form letters. They are -- I try to make sure that they understand the project and what it looks like and who it's serving so they have a little bit more information, but I do think that that outreach is really important.

MR. GUNNING: I would certainly be glad to help.

MS. RICHARDSON: I will accept your offer.

CHAIRMAN JACOBS: Just one thought for Jim and Ruth, just on future loans it might be good -- I mean, it's great having Mr. Martinez here to explain and we know Jamboree, but just to have a quick statement or a letter from the borrower explaining what we're going to do here and why we're doing this. It would probably help just the Board in general.

Janet.

MS. FALK: Yeah, I have just one comment on a consistency question. In the second project that we're going to see, you had a condition of approval that they get TCAC and CDLAC approval, and I was curious as to why that wasn't a condition of approval on this one.

MS. VAKILI: We already have TCAC approval on this one. CDLAC is the 16th, so for consistency purposes, you're right. But it's the case for both projects, CDLAC.

MS. FALK: Thank you.

CHAIRMAN JACOBS: Dalila.

MS. SOTELO: So, Mr. Chairman, I just have a point of clarification. The resolution we would be adopting for this project allows that the executive director can modify the terms and conditions of the loan. I strongly believe that we should require additional transitional reserves on the project to, you know, meet a longer period of transition in case the HAP contract does not get renewed, even though factually it has been renewed in the past. Just a point of order, is that something that I would introduce as a motion?

CHAIRMAN JACOBS: Yes.

MS. SOTELO: Or is that something that could be added at the discretion of the executive director?

CHAIRMAN JACOBS: We could do it either way. It would probably make sense to include it in the motion.

MS. SOTELO: I do trust staff, and I trust staff that they are looking at these issues, and the input that I have is, you know, more around the underwriting. I don't want to set policy at the Board level around the underwriting, so if, you know, it's easier to have Ms. Boatman have the discretion to do it, then we don't have to direct her to do it.

MS. BOATMAN PATTERSON: Right. I think that would be preference, to be able to go back and work with the lender and to go back and see, but understanding and taking into account what the Board has said that they'd like to see a higher transitional reserve to protect those tenants in case the HAP contract -- we're pretty confident about the HAP contract, but we all know with the federal government that there are contingencies, so we make that commitment, that we will go back and take a look at that.

MR. MORGAN: So Ms. Sotelo, is this a transition operating reserve over and above the operating expense reserve as a separate transition, or is it just an increase in the existing operating expense reserve?

MS. SOTELO: You have a 683,000 what I assume is a transitional reserve that was stated. I'm just saying instead of looking at only seven months, take a look at it for 12 months or 18 months, something a little bit more robust.

MR. MORGAN: Okay.

MS. SOTELO: And that would come from proceeds or from additional tax credit or another source.

And then I think the social service component is also a critical one that Board Member Hunter pointed out, so.

CHAIRMAN JACOBS: With that -- oh, Ms. Avila Farias.

MS. AVILA FARIAS: I just wanted to piggy-back on Tia's comment as well on item number 12 in regard to the project that you have on there. There was no real detail on there, but what is the financial stability? Because it does -- although it states it's a 20-year term, but then it's based on the annual renewal, which is pretty traditional, but what is the background? I mean there's some stuff that wasn't shared with us. You know, it is dependent on the federal funding, and what's the risk factor there? Is it pretty protected for the 20 years or not? What's the relationship, and what's the financial stability of the Agency to be able to sustain that 20-year?

MS. VAKILI: The risk factor, as you already mentioned, would be the annual appropriations by the federal government and the purpose of an operating reserve that Dalila is talking about beefing up to offset that kind of a potential.

The project, since its operation, has of course had a HAP contract. That doesn't mean that something couldn't happen in the future. But to bolster the reserves would give the project a year or so in order to respond to any measures that they would have to take to adjust. And typically that would be the offset, and that would be the way to mitigate the risk.

MS. AVILA FARIAS: Right. I understand the risk and the offsetting of it, but I guess the more -- even more in-depth on the kind of things you can kind of project on the housing agency of how they're spending or allocating other project base that's going to get credit. And what makes me nervous is that annual renewal which is obviously the annual compliance of, you know, basic HQS that you're adhering to the regulatory rules of those projects. That's one factor, but also funding availability, so -- I mean, you may not know that. I mean it's more the housing agency that's providing to project base, but I'm curious if you had any back discussion on that or more detail or -- other than this is just where we're at and we're just mitigating with the reserve there.

MS. BOATMAN PATTERSON: Let me -- is this a traditional -- is this a HAP contract like the old HAP contracts, or is this project based Section 8 like the new?

MR. MORGAN: This is project based Section 8.

MS. BOATMAN PATTERSON: And there's been projects --

MR. MORGAN: It has an existing HAP that is being -- and existing HAP exists --

MS. BOATMAN PATTERSON: A HAP --

MR. MORGAN: -- and currently getting renewed, a project based Section 8 HAP contract getting renewed for another 20 years.

MS. BOATMAN PATTERSON: And who's administering the HAP contract? Is that the Agency administered HAP contract, or is that the local housing authority administered?

MR. PRINCE: It's a multi-family program, so it would be the ones that have a COLA through their nonprofit does the administration, right?

MS. BOATMAN PATTERSON: That's what I'm asking staff.

MR. MORGAN: Yeah, I know that CalHFA administers certain HAP contracts.

MS. BOATMAN PATTERSON: Is that this, or is this the one that's administered by the locals?

MS. VAKILI: This contract is administered by the locals.

MS. BOATMAN PATTERSON: Okay. And it's a 20-year contract now. And so that's what Ms. Avila Farias -- I want to make sure that I'm saying this right. Say it again.

MS. AVILA FARIAS: Avila Farias.

MS. BOATMAN PATTERSON: -- Avila Farias is asking, the history of the housing authority that is administering --

MS. AVILA FARIAS: Right.

MS. BOATMAN PATTERSON: -- this HAP contract. They have for 20 years administered it.

MR. PRINCE: This isn't Section 8 new construction, so this is through the multi-family, not the public and Indian housing --

MS. BOATMAN PATTERSON: Okay.

MR. PRINCE: -- HUD, so it is a direct contract with the property.

MS. BOATMAN PATTERSON: And they're pretty stable.

MR. PRINCE: They are.

MS. FALK: They're pretty stable in the 20 years and then --

MS. AVILA FARIAS: No, it's not in the document. I wouldn't know that --

MS. BOATMAN PATTERSON: Exactly.

MS. AVILA FARIAS: -- who the entity is if it's not in the report.

MR. PRINCE: I'm making that assumption, so you're totally right that that should be clear rather than --

MS. AVILA FARIAS: Right.

MR. MORGAN: Because of the --

MS. AVILA FARIAS: It defines the risk factor, you know, where it's come from. I couldn't tell from the --

MR. PRINCE: The multi-family program has historically received better funding than the public and Indian housing program, so, Dalila, I totally agree with your questions and concerns about the transition. You also threw out that idea of that it gets released after a period of time.

So going back into the 1990s, the investors and lenders used to require a separate Section 8 transition fund, right? We, particularly us on the housing authority side, fought to get rid of that. The 2008 crash brought it back. We're starting to see it being relieved, but I would imagine the investor is going to require some kind of transition plan as well.

So I would hate for us to add more burden to it, but at the same time I totally agree with you there has to be something of concern. And with a development like this that appears to be healthy, that if there's clauses that allows the money to be released back to the sponsor within a certain period of time, it seems reasonable to me. Those are the kind of things that we've been agreeing to to release the funds.

MS. BOATMAN PATTERSON: So I think I mentioned this to staff before, but there's a difference of project based Section 8 that administered by a local housing authority and project based Section 8 that is administered by multi-family. And when we don't explain that, folks from the local housing authority are trying to figure out, well, what does this mean and how is this administered. So we need to be a little more clear as to where that additional financing or rental subsidy is coming from.

MR. MORGAN: We'll include that on future reports, who's administering the Section 8 contract, because there are cases where CalHFA is administering that Section 8 contract, so we will delineate.

MS. AVILA FARIAS: Thank you.

CHAIRMAN JACOBS: Do we have a motion to put this up with guidance to staff to tighten it and --

MS. SOTELO: I move to approve this project pursuant to our discussion.

MR. PRINCE: Second.

CHAIRMAN JACOBS: All right, JoJo, do a vote.

MR. JAMES: Point of information, the resolution is to move as amended at page 2, item 15, correcting the dollar amount to 25 million?

CHAIRMAN JACOBS: Correct the dollar amount and --

MS. SOTELO: I'll amend to reflect the 24 -- 25,940,000.

MR. JAMES: Thank you.

MS. SOTELO: I thought you meant the other one.

CHAIRMAN JACOBS: JoJo.

MS. OJIMA: Ms. Caballero.

MS. CABALLERO: Aye.

MS. OJIMA: Thank you.

Mr. Schaefer.

MR. SCHAEFER: Aye.

MS. OJIMA: Ms. Gunn.

MS. GUNN: Aye.

MS. OJIMA: Ms. Falk.

MS. FALK: Aye.

MS. OJIMA: Ms. Avila Farias.

MS. AVILA FARIAS: Aye.

MS. OJIMA: Mr. Gunning.

MR. GUNNING: Aye.

MS. OJIMA: Ms. Johnson-Hall.

MS. JOHNSON-HALL: Aye.

MS. OJIMA: Mr. Hunter.

MR. HUNTER: Aye.

MS. OJIMA: Mr. Prince.

MR. PRINCE: Yes.

MS. OJIMA: Ms. Whittall-Scherfee.

MS. WHITTALL-SCHERFEE: Yes.

MS. OJIMA: Ms. Sotelo.

MS. SOTELO: Yes.

MS. OJIMA: Mr. Jacobs.

CHAIRMAN JACOBS: Yes.

MS. OJIMA: Resolution 15-17 has been approved with the changes.

**--o0o--**

**Item 8. Discussion, recommendation and possible action**

**regarding final loan commitment for the following projects: B. Maplewood Apartments (Resolution 15-18)**

CHAIRMAN JACOBS: We're going to just go down the road a little bit and --

MS. SOTELO: May I suggest that -- do we need a staff presentation of this item, or do folks feel comfortable that they understand the second project because we have kind of --

CHAIRMAN JACOBS: Pretty similar, yeah. Does anyone have any specific question on the Maplewood project?

MR. PRINCE: If you make a motion, I'll second it.

MS. SOTELO: I'd like to make a motion to adopt Resolution 15-18 approving the Maplewood Apartments.

MR. PRINCE: Second.

CHAIRMAN JACOBS: There we go. JoJo.

MS. OJIMA: Thank you, Mr. Prince.

Ms. Caballero.

MS. CABALLERO: Aye.

CHAIRMAN JACOBS: Saved you guys a presentation.

MS. OJIMA: Mr. Schaefer.

MR. SCHAEFER: Aye.

MS. OJIMA: Ms. Gunn.

MS. GUNN: Yes.

MS. OJIMA: Ms. Falk.

MS. FALK: Aye.

MS. OJIMA: Ms. Avila Farias.

MS. AVILA FARIAS: Aye.

MS. OJIMA: Mr. Gunning.

MR. GUNNING: Aye.

MS. OJIMA: Ms. Johnson-Hall.

MS. JOHNSON-HALL: Aye.

MS. OJIMA: Mr. Hunter.

MR. HUNTER: Aye.

MS. OJIMA: Mr. Prince.

MR. PRINCE: Yes.

MS. OJIMA: Thank you.

Ms. Whittall-Scherfee.

MS. WHITTALL-SCHERFEE: Yes.

MS. OJIMA: Ms. Sotelo.

MS. SOTELO: Aye.

MS. OJIMA: Mr. Jacobs.

CHAIRMAN JACOBS: And an aye.

MS. OJIMA: Thank you.

MR. PRINCE: And I want to be clear, it wasn't just to save time. I mean, I think that the staff report was fantastic. I think it is getting better, so I think we were prepared -- and the questions and conversation before.

CHAIRMAN JACOBS: The format is a lot easier to follow.

MS. OJIMA: Resolution 15-18 has been approved.

MS. VAKILI: Thank you.

CHAIRMAN JACOBS: Thank you.

Item 9 is continued to our next Board meeting.

**--o0o--**

**Item 10. Discussion, recommendation and possible action adopting a resolution to revise CalHFA's downpayment assistance programs**

CHAIRMAN JACOBS: Item 10, about the downpayment, who is presenting?

MS. BOATMAN PATTERSON: Ken.

CHAIRMAN JACOBS: Ken is presenting. Here we go.

To save time, I think we're not going to do a break, if some people need to excuse themselves and run out -- raise your hand if -- do we need a five-minute break?

MS. BOATMAN PATTERSON: Let's get through this last one, and then we'll take five.

CHAIRMAN JACOBS: Let's get through this, and then we'll take one.

MS. TAURIAINEN: Good morning. I'm Claire Tauriainen, staff attorney at CalHFA.

MR. GIEBEL: And I'm Ken Giebel, the director of single-family lending.

So in the Board package staff put a proposal together. It includes a recommendation that now that our CHDAP and HPA money, bond moneys, have been exhausted and we are operating off of recycled funds, we are suggesting that we take those recycled funds and that we combine them together and put a new DPA product together called My Home Assistance Program. It will be a 5-percent DPA subordinate loan, 30 year. Most of all of the CHDAP underwriting requirements stay in place with the exception of this loan will now only be able to go with a CalHFA first mortgage. Now, I know we outlined the rationale for that. I'll run it through it very quickly for you because I think there's some things that we need to explain.

The first is and this is probably the most important is that on what we call standalones, when the CHDAPs were not with our first mortgage, we had absolutely no ability to look at those first mortgage loans. And since we've reinstated the CHDAP program in 2009, 90 percent of our loans are CHDAP standalones. That percent had probably dropped a little in the last four months.

So let's just say we had a market turn or some of these loans went delinquent and started moving towards foreclosure. We didn't find out about that until the loan was gone and we lost the DPA money. In the 80s -- I mean in 2008, a lot of it went away. Okay. That's -- and we will have the ability to step in with a modification, offer a modification, either with Keep Your Home or our own modification product, because we will have access to that first and see how it's performing.

The second issue is the CFPB, which is the new consumer protection operation out of D.C., has got -- instituted Dodd-Frank laws, and the last one they're instituting that takes effect October 3rd is called TRID. We do not have the staff right now to do what TRID requires at the closing table. So what we're going to do effective the 5th -- because this goes in -- the 3rd is a Saturday, we are going to insist with -- now that they have to use our DPA with the first, that they close those loans in their name. So when they do the first, they will put the DPA loan in their name, and we will reimburse them. That's streamlining everyone's -- all the HFAs are going in that direction.

Needless to say, it will extend the use of these downpayment funds for about 12 to 14 months. Additionally, it will give us a little bit more control to make sure that the borrower's needs are being met and this somehow isn't being used to really benefit the lender more than the borrower. Because in our loans, we look at that, how those moneys are being used either for downpayment assistance, closing costs, or even to pay for the MI up-front or to get them to 95 on the conventional, gives them a lower MI payment.

Also, it will permit us to streamline. Some documents will go away. One of the issues lenders all have is the documentation CalHFA requires, so that will permit us to streamline.

So that's basically the rationale, and we would be happy to answer any questions.

CHAIRMAN JACOBS: Thanks, Ken.

Any questions?

All right. We have a resolution, I believe. Anyone want to put the resolution up?

MS. FALK: I'll move.

CHAIRMAN JACOBS: So moved. Do we have a second?

MR. HUNTER: Second.

CHAIRMAN JACOBS: Great. JoJo.

MS. OJIMA: Thank you.

Ms. Caballero.

MS. CABALLERO: Aye.

MS. OJIMA: Mr. Schaefer.

MR. SCHAEFER: Aye.

MS. OJIMA: Ms. Gunn.
MS. GUNN: Yes.
MS. OJIMA: Ms. Falk.
MS. FALK: Yes.
MS. OJIMA: Ms. Avila Farias.
MS. AVILA FARIAS: Aye.
MS. OJIMA: Mr. Gunning.
MR. GUNNING: Aye.
MS. OJIMA: Ms. Johnson-Hall.
MS. JOHNSON-HALL: Aye.
MS. OJIMA: Mr. Hunter.
MR. HUNTER: Aye.
MS. OJIMA: Mr. Prince.
MR. PRINCE: Yes.
MS. OJIMA: Ms. Whittall-Scherfee.
MS. WHITTALL-SCHERFEE: Yes.
MS. OJIMA: Ms. Sotelo.
MS. SOTELO: Abstain.
MS. OJIMA: Thank you.
MR. GIEBEL: I have one last thing that has nothing to do with the resolution when you're finished there.
MS. OJIMA: Mr. Jacobs.
CHAIRMAN JACOBS: Aye.
MR. GIEBEL: Sorry.

MS. OJIMA: Resolution 15-19 has been approved.

CHAIRMAN JACOBS: Ken.

MR. GIEBEL: Last thing, this month U.S. Bank has finally relented, and we will start accepting mortgage broker business.

MS. BOATMAN PATTERSON: That's a big deal.

MR. GIEBEL: So we'll be serving that -- we'll be serving that HUD FHA market with this new downpayment assistance program.

Thank you.

CHAIRMAN JACOBS: The next item, I think there was a memo from Tim Hsu about letter of credit or line of credit. Is there anything you need to tell us?

MS. BOATMAN PATTERSON: I think she wants to take a break.

CHAIRMAN JACOBS: Let's take a break. Okay. So let's take a break before jumping into this next item. Five-minute break and then, Tim, you're up.

(Recess taken from 11:27 to 11:36 a.m.)

**--o0o--**

**Item 4. Closed session under Government Code Section 11126(a)(1) to evaluate the performance of a public employee**

CHAIRMAN JACOBS: Actually we're going to go into closed session because the lunches are here, so I think just the Board and I guess because of the subject matter, let's -- the Board secretary. The lunches are here so we're just going to go into closed session now.

Tim, we'll get back to you as soon as we're done with this discussion, sorry.

(Board met in closed session from 11:37 a.m. to 12:20 p.m.)

CHAIRMAN JACOBS: We're back on in open session. Some people have got to catch a plane.

**--o0o--**

**Item 5. Discussion and possible action to adjust the salary of the Executive Director**

CHAIRMAN JACOBS: We've had a closed session discussion of the executive director. The Executive Evaluation Committee will be compiling a report just based on the discussion that we've had. Individual members will write up their own thoughts.

And the salary discussion, if you don't mind, based on our talk, does anyone have a motion?

MR. GUNNING: Yeah, Mr. Chairman, I move that we increase the executive director salary 10 percent.

MS. FALK: I'll second that.

CHAIRMAN JACOBS: All right. Let's do a roll call. While JoJo gets back, I'll call the roll.

MS. BOATMAN PATTERSON: Did you announce the item number that we're on?

CHAIRMAN JACOBS: It was item number 5, Resolution --

UNIDENTIFIED SPEAKER: Sorry, can we wait for our cameraman to come back?

CHAIRMAN JACOBS: People will miss the flight. The Secretary will miss the flight.

JoJo, let's call the roll.

MR. PRINCE: Secretary.

MS. CABALLERO: Aye.

CHAIRMAN JACOBS: So run for the plane.

MS. CABALLERO: Thank you.

MS. OJIMA: Where are we?

CHAIRMAN JACOBS: 15-15.

MS. OJIMA: Was there a motion?

CHAIRMAN JACOBS: Motion and a second.

MR. GUNNING: Motion and a second by Falk.

MS. OJIMA: You made the motion.

MR. GUNNING: Yes.

MS. OJIMA: And second by Falk.

Secretary Caballero.

CHAIRMAN JACOBS: She voted aye on the way out.

MS. OJIMA: Mr. Schaefer.

MR. SCHAEFER: I will abstain.

(Reporter interrupts for clarification.)

MR. SCHAEFER: I will abstain, but that shouldn't signal any lack of support for the executive director's competencies.

MS. OJIMA: Thank you.

Ms. Gunn.

MS. GUNN: Aye.

MS. OJIMA: Ms. Falk.

MS. FALK: Aye.

MS. OJIMA: Ms. Avila Farias.

MS. AVILA FARIAS: I will be abstaining and also not because of a lack of support for the executive director.

MS. OJIMA: Thank you.

Mr. Gunning.

MR. GUNNING: Aye.

MS. OJIMA: Ms. Johnson-Hall.

MS. JOHNSON-HALL: Aye.

MS. OJIMA: Mr. Hunter.

MR. HUNTER: Aye.

MS. OJIMA: Mr. Prince.

MR. PRINCE: Aye.

MS. OJIMA: Thank you.

MR. PRINCE: I made you turn your head.

MS. OJIMA: Ms. Whittall-Scherfee.

MS. WHITTALL-SCHERFEE: Aye.

MS. OJIMA: Ms. Sotelo.
CHAIRMAN JACOBS: She had to run for the plane.
MS. OJIMA: Mr. Jacobs.
CHAIRMAN JACOBS: Aye.
MS. OJIMA: Resolution 15-15 has been approved.
MR. JAMES: Point of information, Mr. Chair. The resolution reads the Board of Directors hereby adjusts the salary of the executive director to increase her present salary by 10 percent?
CHAIRMAN JACOBS: Yes.
And the Executive Evaluation Committee will be meeting with the executive director to discuss some of our discussion and goals for the coming year, specific points.
MR. GUNNING: Can I just ask who is on the Executive Evaluation Committee? Do you have that handy?
MS. OJIMA: I looked for that.
MR. GUNNING: We couldn't figure out the third one.
MS. OJIMA: Mr. Gunning.
CHAIRMAN JACOBS: Mr. Gunning, Secretary Caballero --
MS. OJIMA: Ms. Caballero.
MR. GUNNING: Make it Falk.
MR. JAMES: It was Ms. Falk.

CHAIRMAN JACOBS: Yeah.

MR. JAMES: It is Ms. Falk.

MR. PRINCE: Do you -- are you comfortable with the 10 percent, or do you want the number that we think it is? I'm --

MR. JAMES: Well, staff can compute the 10 percent.

MR. PRINCE: Okay.

MR. JAMES: And that's consistent with -- we can do that.

MR. PRINCE: Okay. I just want to make sure.

CHAIRMAN JACOBS: Great, thank you.

**--o0o--**

**Item 11. Report and discussion on CalHFA's efforts to secure a Letter of Credit**

CHAIRMAN JACOBS: Let's go on to Tim Hsu, item number 11. There was a brief report --

MR. PRINCE: I pass for the adoption -- I'm sorry.

CHAIRMAN JACOBS: We'd like some understanding of the line of credit. Just walk us through the importance of this.

MR. HSU: I think this is a great Board meeting that suggests that the Agency really has turned the corner, from talking about many of the things that we talked about five or six years ago to talking about mostly lending at this Board meeting.

We have a couple of multi-family projects, and this particular item is -- it has to do with supporting single-family lending. As we -- as you saw from the earlier discussion regarding the use of the subsidy funds, those subsidy funds could actually be used to warehouse multi-family loans. So there's not a particular pressing need to get a warehouse line for multi-family, but for single-family there is.

So why do we need a warehouse line? First of all, part of what we do in lending is that we need to borrow to lend. It's something that is not for everyone to do for their personal finance, but something that we have to do.

What would this allow us to do if we had a warehouse line? It could allow us to hedge internally, and this is something we talked about last year. About -- I think about the first quarter of last year, we actually got the Board to approve our ability to hedge internally. And this -- this -- if we were to transition to hedging internally, this would definitely lower our costs of our transactions, which it could also potentially increase our profit margin up-front.

And lastly, we had emphasized in those previous discussions that in hedging internally we could also create an annuity going forward, which is an important component of a governmental entity like ourselves to ensure a future feasibility of income to support the Agency, because, as you know, the Agency is a self-funded agency. And that piece is really important, and that's a piece that we're not doing right now when we're delivering our production into this TBA market.

And the second thing, which is also very important, is that having a warehouse line could also help us transition into issuing tax-exempt bonds again for the single-family production, which, again, we're not using -- we're not using single-family volume cap right now to fund our single-family lending, and that's sort of an important piece, that that could potentially lower our cost of funds as well.

And, again, by issuing bonds, it could also allow us to create a residual future that the Agency has traditionally relied on.

CHAIRMAN JACOBS: So, Tim, this is an outcropping of the reorg plan and just trying to assess the business model? I mean, this is a tool that you need?

MR. HSU: Yes. Although I did go back to look at the business plan. It was specifically in there. Because this is almost like a stepping stone to some of the things that are in the business plan.

CHAIRMAN JACOBS: Right.

MR. HSU: So moving along, historically we have had warehouse lines from a couple institutions. We've had one from the State, from their Pooled Money Investment Account. And at some point it had actually reached quite a large number. I put down 300 here, but I think at some point it went up as high as $350 million -- oh. I appreciate the correction -- and we paid this off in March of 2012 in the midst of many of the things that was happening.

And then we had also had a line of credit from Bank of America for a hundred million dollars. And for those of you who have been with us, that was sort of a line that we used to warehouse some of our Bay Area housing loans. Anyway, we paid that off in February of 2011.

So that's sort of just the brief history of what we've done.

And lastly is that there are three ongoing discussions right now for a warehouse line for single-family. The first one is that we have requested for a warehouse line with the Pooled Money Investment Account again, otherwise known as PMIA, and we have submitted that request to the Treasurer's Office. And I think that -- I sequence this in one, two and three, and this is our most sort of prized and -- this is the line of credit or the warehouse line that we like the most. It's the most cost-effective, and it's operationally the easiest one to use.

And we also currently have an offer from a private bank that helped us replace HMRB's TCLP for a warehouse line of credit. And this one, the way it was offered to us actually is backed by our general obligation, so it's not a strict warehouse line as such because a strict warehouse line sometimes could be sort of -- sort of involve the line -- involve the loans and the collaterals and whatnot. So this one is backed by our GO, and we have a term sheet from them, but that's sort of our plan B.

And then lastly we have been working with Federal Home Loan Bank for quite some time for getting a warehouse line from them. And this discussion has been going for quite some time. And they have some credit exposure to us. They do have some bonds they have purchased from us in our single-family indenture that has dwindled quite a bit and recently have reached out to us on ways that it can partner with us on affordable housing. And -- but for a number of years now, I would say for two years now, they have been a little bit bogged down by a couple issues. They are still going through some credit approval. And also they have expressed some concerns -- they did this last year, and they also did this recently -- about, you know, this noise, if you will, regarding the consolidation with HCD.

I want to emphasize, too, though, the Federal Home loan Bank line of credit, it's not as preferred by us because while they have this line of business with many of their members, the way they go about this line of business, they need to perfect a security in the line, and that process could be a little bit more operationally than we desire.

So anyway, I kind of sequenced this in the order we prefer, but the Federal Home Loan Bank is definitely one that has been sort of pressing us a little bit on some of these issues that we have talked to the Board about, and I think that Tia is going to talk to the Board about that in a little bit as well.

So I'll take any questions if you have them.

MR. GUNNING: So that is the order of preference. So the Federal Home Loan Bank, because of the security requirement, is not as attractive?

MR. HSU: Yeah, so they -- they want to perfect their security -- we are trying to -- we have a couple hurdles with them. One is that we have to clear their credit to give us some allowance of how much credit exposure they can have to ask. And then after that, we'll work with them on whether or not they need to perfect their security like they would with any other lines that they offer. And that process, I heard through someone that they actually want you to send all the notes to them while their warehouse line is being drawn upon, and that -- that's the kind of stuff that we want to try to avoid in order to facilitate the number of days that these loans are out there for before funding, so.

MR. GUNNING: Okay.

MS. JOHNSON-HALL: I can confirm that that is true.

MR. GUNNING: They were looking for a statutory change to make it easier for insurance companies to access this. I know what you're talking about.

MR. SCHAEFER: One of the things that I would just caution the Board to think about without signaling a decision here, because there's still a lot of ground that we have to cover to get there with a rational decision about the use of the pooled money account, but there are more actors in play in the pooled money account today then there were the last time the HFA went to there. Principal among them is the statewide implementation of FI$Cal, the financial management system for the State, which is generally expected will likely result in a speeding up of certain payables in order to take advantage of dynamic discounting from vendors.

The second part of that is that following the horrible financial challenges that the State faced in 2009, there was a very exhaustive scrubbing of the 1100 or so special funds, the majority of which are invested in the pooled money account, to determine which were vulnerable and which were not. The result now is that as the State's budgetary situation has gotten better, A, its liquidity has returned -- that's a good thing -- but, B, some of the mechanics between the special funds and the pooled money account have become more complicated as a result of the actions that were taken between 2009 and 2011. That's why this is not an easy discussion to have.

And then the last thing I would say -- and this is not to throw a wet blanket on anything, but the State Treasurer's responsibility as custodian of those funds is in order safety, liquidity and yield a very distant third. Liquidity is a challenge with any warehouse line. We'll work through that, and we'll come to some kind of a rational understanding, but just to make sure that the Board understands that that's a process, not an event, that we'll have to go through.

MR. GUNNING: Well said.

CHAIRMAN JACOBS: I think we know who to ask if we have questions.

MS. HSU: More than we ever wanted to know, probably. I appreciate your comments very much, Tim.

When I put in the request -- maybe this is a bit too much. When I put in a request, I thought it was a kamikaze. I really thought it was, because I know that back in 2012 when we paid it off, the signal to us was that this is not something that will come up again in the future. So I thought I was going for the kill, but I didn't, so I really appreciate the Treasurer's Office’s willingness to look at this again.

Thank you.

CHAIRMAN JACOBS: Thanks, Tim.

**--o0o--**

**Item 12. Update on Governor's Reorganization Plan II related to Housing**

CHAIRMAN JACOBS: All right, Tia. So tell us, now that Tim has introduced us again to this notion of why we -- where is the reorg headed; what's the future looking like for us?

MS. BOATMAN PATTERSON: So in March I met with Mel Watt, who is the federal -- director of the federal home finance administration. And he was discussing how he would really like to see the HFAs nationwide and their federal home loan banks play more of an active role and that those partnerships be increased. And as a result of that, we started engaging in the Federal Home Loan Bank on some of those issues. And the issue of the reorganization came up, and then it occurred to me that you all – *I know that's kind of disturbing.*

*CHAIRMAN JACOBS: It's a light show. [referring to blinking lights from equipment)*

MS. BOATMAN PATTERSON: -- that it had been a while since you all had been updated on the Governor's reorganization, so I did want to take an opportunity this afternoon to provide you with an update on the Governor's Reorganization Plan.

First, by way of background, the Governor's Reorganization Plan, or GRP, was to give you -- take you through the steps that we have taken to try to implement that. It was first announced in May of 2012. The Governor's Reorganization Plan No. 2's primary purpose and focus was on an increased efficiency and effectiveness in state government. The GRP transferred CalHFA and HCD, the Housing and Community Development department, up from the former Business, Transportation and Housing Agency and put them together within the newly established Business, Consumer Services and Housing Agency.

Within the Business, Consumer Services, Housing organizational structure, HCD reports directly to Business, Consumer Services, Housing Agency while CalHFA is reported and displayed as a program within HCD. This restructuring was intended to improve the housing program policy development and enable a higher level of programmatic coordination and collaboration between CalHFA and HCD.

During the 2012/2013 fiscal years, both agencies conducted a joint assessment of their organization. The assessment included an analysis of workload and functions, business processes and risks, and included numerous meetings with our stakeholders and business partners. Once the assessment was complete, the agencies outlined the level of effort, time, funding and risk of various collaboration scenarios.

Over the next several months, CalHFA and HCD worked with the Administration to implement the reorganization, which took effect on July 1st, 2013.

The Board was last updated on the reorganization on April 23rd, 2013. There were a number of challenges with the reorganization, but the primary challenge was ensuring the ability of CalHFA to meet its obligations to its financial partners, including both bondholders, and understanding that our creditors are sensitive to any structural changes to CalHFA that would impact CalHFA's independence as a banking institution. Tim just articulated some of these sensitivities during his previous discussion on obtaining the line of credit. Creditors need a complete understanding of the relationship between Business, Consumer Services, Housing Agency; HCD; and California Housing Finance Agency to alleviate concerns related to the organizational structure that could present a credit risk.

The current status is that as of June of 2014 it was determined that the two departments would remain separate, and CalHFA would establish a more formal collaborative relationship with HCD. CalHFA updated its MOU with HCD. It meets regularly with HCD and TCAC and CDLAC, our two other housing entities on joint housing policy sessions. Although CalHFA is displayed in the state budget as a program within HCD, this is for budgetary reporting purposes only.

To ensure CalHFA's continued financial independence, Department of Finance created a suborganization code in the state budget. The collaborative model allows CalHFA independence while ensuring a more deliberate and focused collaboration will be pursued to increase the effectiveness and efficiencies of affordable housing services.

To date HCD and CalHFA collaborative activities include completion of a new interagency operating agreement between CalHFA and HCD, emphasizing an expanded approach to collaboration; consolidation of the legislative analysis units under one manager and joint approaches to legislative analysis and research; a formal collaboration between CalHFA marketing division and HCD communication division, resulting in a robust marketing and communication effort; and formation of an interagency working group between CalHFA, HCD and CalVet to implement the California Veterans and Homeless Act, Prop 41. While CalHFA is grouped together with HCD, it remains administratively and operationally independent.

Looking ahead, we know that there are ongoing challenges and the process of working to implement -- but the process to implement reorganization has assisted the two organizations to grow a healthy, collaborative relationship as long -- as well as with other state partners and the two housing entities, TCAC and CDLAC. All four housing organizations -- HCD, CalHFA, TCAC and CDLAC, tax credit allocation committee and the -- help me here, Tim -- California Debt Limit Allocation Committee -- meet regularly for joint policy meetings. Both HCD and CalHFA both sit on both of those boards as ex officio members as well.

We look forward to working with HCD as a strong partner to ensure our respective missions are carried out and to provide effective housing solutions for all Californians.

So that is the presentation I wanted to provide you with and give you guys a complete understanding of the reorganization efforts. So if you have any questions, I'm available.

CHAIRMAN JACOBS: Thank you.

Any questions?

Great. All right, thanks.

--o0o--

**Item 13. Discussion and possible action to select a member of the governing board to preside at meetings of the Board in the absence of a chairperson (Resolution 15-19)**

CHAIRMAN JACOBS: Let's move on to item 13, which is a pretty simple resolution. This board has had trouble sometimes having a chairperson. It's a process, so in the absence of having a chairperson appointed --

MR. PRINCE: I move for the adoption of that resolution.

MR. HUNTER: I'll second.

CHAIRMAN JACOBS: Perfect. Done.

(Reporter interrupts for clarification.)

MS. FALK: I just want to correct the record in terms of what was handed out and when people's board terms are. The one for me is incorrect in terms of the date. I didn't start until 2013, so -- I think the amount of time I've served is correct, but the date is completely incorrect.

MS. BOATMAN PATTERSON: It says 2009 instead of 2013. I think it's typo.

MR. PRINCE: The amount of time served is one day shorter -- one day longer than Dalila and me, so I think the time served isn't right either. Because I think it's seven or eight months longer. But my motion is still the same.

MS. FALK: It's still the correct order.

MR. JAMES: Mr. Chair, I'll review this and correct the dates and circulate it to the members.

CHAIRMAN JACOBS: Fantastic.

Okay, let's do a roll call.

MS. OJIMA: Ms. Caballero.

CHAIRMAN JACOBS: In the air.

MS. OJIMA: In the air.

Mr. Schaefer.

MR. SCHAEFER: Aye.

MS. OJIMA: Ms. Gunn.

MS. GUNN: Yes.

MS. OJIMA: Ms. Falk.

MS. FALK: Yes.

MS. OJIMA: Ms. Avila Farias.

MS. AVILA FARIAS: Aye.

MS. OJIMA: Mr. Gunning.

MR. GUNNING: Aye.

MS. OJIMA: Ms. Johnson-Hall.

MS. JOHNSON-HALL: Aye.

I'm happy to be here. It's my first year anniversary today on the Board.

MS. OJIMA: Mr. Hunter.

MR. HUNTER: Aye.

MS. OJIMA: Mr. Prince?

MR. PRINCE: Yes.

MS. OJIMA: Ms. Whittall-Scherfee.

MS. WHITTALL-SCHERFEE: Yes.

MS. OJIMA: Ms. Sotelo is not here.

Mr. Jacobs.

CHAIRMAN JACOBS: Aye.

MS. OJIMA: Resolution 15-20 has been approved.

CHAIRMAN JACOBS: Great.

MS. BOATMAN PATTERSON: Just -- this resolution is really a backup in case we don't have a new chair appointed by the next Board meeting. And we didn't have a process in place to have a chair, and so this really is kind of a backup.

CHAIRMAN JACOBS: There were several years --

MS. BOATMAN PATTERSON: Yes.

CHAIRMAN JACOBS: -- in which we did not have a chair.

MS. BOATMAN PATTERSON: Yes.

**--o0o--**

**Item 14. Reports**

CHAIRMAN JACOBS: We have various reports. Did anyone have any questions on any of these items for staff?

No? Okay, great.

**--o0o--**

**Item 15. Discussion of other Board matters**

CHAIRMAN JACOBS: Any other matters people wish to bring up for the whole Board?

Mr. Hunter.

MR. HUNTER: I just think we ought to say in open session, our conversation with our executive director was very positive. And we're going to present you with major challenges going forward because we think you're up to this. And thank you very much for your service.

MS. BOATMAN PATTERSON: Thank you.

CHAIRMAN JACOBS: Absolutely.

MR. PRINCE: Yeah, I want to second that. One of the things I heard was a really strong desire for that challenge to happen, and so whether that's through a retreat process or something, and then really making the Board meetings an opportunity for that to happen as well, so we could talk about policy at this level, and so trying to look at either consent agenda items or something that allows us then to have the deeper conversations that we want to have with you and your staff.

MS. BOATMAN PATTERSON: Okay. And one of the things that Dalila and I had talked about kind of briefly was perhaps calling a special meeting on policy considerations where we just -- I know there are a couple of things going on in the state of California that are of critical importance to housing policy and the way we are going forward. One of those are Laura's taking the lead with HCD on the UMRs. Mark Stivers, the executive director of the Tax Credit Allocation Committee, is taking lead on modifying the regulations for TCAC. And then with our policies, we want to make sure that those -- that really is what we're talking about, aligning programs and policies going forward. So I think it would be appropriate that we perhaps have a policy discussion and so perhaps a special meeting in October.

MR. PRINCE: Or a retreat, whatever you want to call it.

MS. BOATMAN PATTERSON: Okay. So that is something that we -- I want to look at with engaging with the Board on.

CHAIRMAN JACOBS: And in fact, one of the items discussed was take advantage of this Board. You've got some very successful people sitting --

MS. BOATMAN PATTERSON: Very good.

CHAIRMAN JACOBS: -- to my left and to my right --

MS. BOATMAN PATTERSON: Yes.

CHAIRMAN JACOBS: -- who know what they're doing, and they'd love to serve.

MS. BOATMAN PATTERSON: Okay.

CHAIRMAN JACOBS: Great.

MS. FALK: I want to thank Matt again for his term as chair and doing a great job.

(Applause.)

**--o0o--**

**Item 16. Public testimony: Discussion only of other matters to be brought to the Board's attention**

CHAIRMAN JACOBS: Any members of the public wish to speak?

**--o0o--**

**Item 17. Adjournment**

CHAIRMAN JACOBS: Seeing none, we're going to adjourn. Thank you.

(The meeting concluded at 12:57 p.m.)

--o0o--

**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 28th day of September 2015.

Yvonne K. Fenner
Certified Shorthand Reporter
License No. 10909, RPR

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**State of California**

# M E M O R A N D U M

**To:** **CalHFA Board Members** **Date:** November 10, 2015

Lori Hamahashi
**From:** **CALIFORNIA HOUSING FINANCE AGENCY**

**Subject:** Report of the Chair of the Audit Committee on the Annual Audit of the Housing Finance Fund and Agreed Upon Procedures

Based on the annual audit of CalHFA's Housing Finance Fund and its operations, please find a copy of the following documents:

A. Auditor's Letter to CalHFA Board of Directors
B. Housing Finance Fund Audited Financial Statements
C. Single Audit Report – Housing Finance Fund
D. Auditor's Report on Prop 1 C Agreed-Upon Procedures
E. Auditor's Report on FAF Agreed-Upon Procedures
F. Auditor's Report on Fannie Mae Document Custodian Agreed-Upon Procedures

Encl.

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CliftonLarsonAllen

CliftonLarsonAllen LLP
CLAconnect.com

Board of Directors
California Housing Finance Fund
Sacramento, California

We have audited the financial statements of the California Housing Finance Fund (the Fund), which is administered by the California Housing Finance Agency (the Agency), a component unit of the State of California as of and for the year ended June 30, 2015, and have issued our report thereon dated October 12, 2015. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

***Qualitative aspects of accounting practices***

*Accounting policies*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Fund are described in Note 2 to the financial statements.

As described in Note 2, the Fund changed accounting policies related to the accounting and financial reporting for pensions by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 68 , *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment to GASB Statement No. 68* in the year ended June 30, 2015 by recognizing its net pension liability related to its pension plan.

We noted no transactions entered into by the Fund during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

*Accounting estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the allowance for loan losses based on management's knowledge and experience about past and current events, assumptions about future events, and analysis of the collectability. We evaluated the key factors and assumptions used to develop the the accounting for loan losses in determining that it is reasonable in relation to the financial statements taken as a whole.

- Management's estimate of the fair market value of investments and other assets is based on management's knowledge and experience about past and current events, assumptions about future events and outside third parties. We evaluated the key factors and assumptions used to develop the fair market value of investments and other assets in determining that it is reasonable in relation to the financial statements taken as a whole.

- Management's estimate of the fair market value of derivative instrument and evaluation of derivative instrument effectiveness is based on management's knowledge and experience about past and current events, assumptions about future events and outside third parties. We evaluated the key factors and assumptions used to develop the fair market value of derivative instrument and evaluation of derivative instrument effectiveness in determining that it is reasonable in relation to the financial statements taken as a whole.

*Financial statement disclosures*

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive financial statement disclosures.

The financial statement disclosures are neutral, consistent, and clear.

***Difficulties encountered in performing the audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

***Uncorrected misstatements***

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management did not identify and we did not notify them of any uncorrected financial statement misstatements.

***Corrected misstatements***

Management did not identify and we did not notify them of any financial statements detected as a result of audit procedures.

***Disagreements with management***

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. No such disagreements arose during our audit.

***Management representations***

We have requested certain representations from management that are included in the attached management representation letter dated October 12, 2015.

***Management consultations with other independent accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the entity's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

***Significant issues discussed with management prior to engagement***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to engagement as the Fund's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our engagement.

**Other information in documents containing audited financial statements**

With respect to the required supplementary information (RSI) accompanying the financial statements, we made certain inquiries of management about the methods of preparing the RSI, including whether the RSI has been measured and presented in accordance with prescribed guidelines, whether the methods of measurement and preparation have been changed from the prior period and the reasons for any such changes, and whether there were any significant assumptions or interpretations underlying the measurement or presentation of the RSI. We compared the RSI for consistency with management's responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements. Because these limited procedures do not provide sufficient evidence, we did not express an opinion or provide any assurance on the RSI.

With respect to the supplementary information accompanying the financial statements, on which we were engaged to report in relation to the financial statements as a whole, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period or the reasons for such changes, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves. We have issued our report thereon dated October 12, 2015.

Our auditors' opinion, the audited financial statements, and the notes to financial statements should only be used in their entirety. Inclusion of the audited financial statements in a document you prepare, such as an annual report, should be done only with our prior approval and review of the document.

* * *

This communication is intended solely for the information and use of the Board of Directors and management of California Housing Finance Fund and is not intended to be, and should not be, used by anyone other than these specified parties.

CliftonLarsonAllen LLP

**CliftonLarsonAllen LLP**

Bellevue, Washington
October 12, 2015

State of California

Cal HFA California Housing Finance Agency

Save Our Water

October 12, 2015

CliftonLarsonAllen LLP
3000 Northup Way, Suite 200
Bellevue, WA 98004-1446

This representation letter is provided in connection with your audit of the financial statements of California Housing Finance Fund (the Fund), which is administered by the California Housing Finance Agency (the Agency), a component unit of the State of California which comprise the statement of net position as of June 30, 2015, and the related statement of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, for the purpose of expressing opinions on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

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

We confirm, to the best of our knowledge and belief, as of October 12, 2015, the following representations made to you during your audit of the financial statements as of and for the year ended June 30, 2015.

**Financial Statements**

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated April 1, 2015, for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP. The financial statements include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.

- We acknowledge and have fulfilled our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

- We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

- Significant estimates have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP. Significant estimates are estimates at the financial statement date that could change materially within the next year.

- Related party relationships and transactions, including, but not limited to, revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.

- All events occurring subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.

- We have not identified or been notified of any uncorrected financial statement misstatements.

- The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.

- Guarantees, whether written or oral, under which the entity is contingently liable, if any, have been properly recorded or disclosed in accordance with U.S. GAAP.

- Arrangements with financial institutions involving repurchase, reverse repurchase, or securities lending agreements, compensating balances, or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements, have been properly recorded or disclosed in the financial statements.

- Receivables recorded in the financial statements represent valid claims against debtors for transactions arising on or before the financial statement date and have been reduced to their estimated net realizable value.

- We have no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.

- We believe that all material expenditures that have been deferred to future periods will be recoverable.

- We believe that the actuarial assumptions and methods used to measure pension and other postemployment benefits (OPEB) liabilities and costs for financial accounting purposes are appropriate in the circumstances.

- We are not aware of the State making any plans to make frequent amendments to our pension or other postretirement benefit plans.

- We believe that the effects of the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27,* and 71, *Pension Transition for Contributions made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68,* have been properly reflected in the financial statements.

**Information Provided**

- We have provided you with:

    - Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters.

  - Additional information that you have requested from us for the purpose of the audit.
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
  - Complete minutes of the meetings of the governing board and related committees, or summaries of actions of recent meetings for which minutes have not yet been prepared.
  - Access to all audit or relevant monitoring reports, if any, received from funding sources.

- All transactions have been recorded in the accounting records and are reflected in the financial statements and the schedule of expenditures of federal awards.

- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

- We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
  - Management;
  - Employees who have significant roles in internal control; or
  - Others when the fraud could have a material effect on the financial statements.

- We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, grantors, regulators, or others.

- We have no knowledge of any instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, and grant agreements, or abuse whose effects should be considered when preparing financial statements.

- We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.

- There are no other material liabilities or gain or loss contingencies that are required to be accrued or disclosed in accordance with U.S. GAAP.

- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

- The entity has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets, nor has any asset been pledged as collateral, except as made known to you and disclosed in the financial statements.

- We have taken timely and appropriate steps to remedy any findings that you have reported to us.

- We have a process to track the status of audit findings and recommendations.

- We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.

- We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.

- We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to California Housing Finance Fund, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations, and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.

- There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.

- The entity has complied with all aspects of contractual or grant agreements that would have a material effect on the financial statements in the event of noncompliance.

- We have followed all applicable laws and regulations in adopting, approving, and amending budgets.

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

- The financial statements properly classify all funds and activities.

- All funds that meet the quantitative criteria in GASB Statement Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.

- Components of net position (net investment in capital assets; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.

- Investments, derivative instruments, and land and other real estate held by endowments are properly valued.

- Provisions for uncollectible receivables have been properly identified and recorded.

- Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.

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

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

- Deposits and investment securities and derivative instruments are properly classified as to risk and are properly valued and disclosed.

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

- We have appropriately disclosed the entity's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.

- We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

- We acknowledge our responsibility for presenting the Combining Program Information (the supplementary information) in accordance with U.S. GAAP, and we believe the supplementary information, including its form and content, is fairly presented in accordance with U.S. GAAP. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information. If the supplementary information is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditors' report thereon.

- With respect to federal award programs:

    - We are responsible for understanding and complying with, and have complied with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, including requirements relating to preparation of the schedule of expenditures of federal awards.

    - We acknowledge our responsibility for presenting the schedule of expenditures of federal awards (SEFA) in accordance with the requirements of OMB Circular A-133 §310.b, and we believe the SEFA, including its form and content, is fairly presented in accordance with OMB Circular A-133 §310.b. The methods of measurement and presentation of the SEFA have not changed from those used in the prior period and we have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the SEFA.

- If the SEFA is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the SEFA no later than the date we issued the SEFA and the auditors' report thereon.

- We have identified and disclosed to you all of our government programs and related activities subject to OMB Circular A-133, and included in the SEFA expenditures made during the audit period for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other direct assistance.

- We are responsible for understanding and complying with, and have complied with, the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major program.

- We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance requirements applicable to federal programs that provides reasonable assurance that we are managing our federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended.

- We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relevant to federal programs and related activities.

- We have received no requests from a federal agency to audit one or more specific programs as a major program.

- We have complied with the direct and material compliance requirements including when applicable, those set forth in the *OMB Circular A-133 Compliance Supplement*, relating to federal awards and have identified and disclosed to you all amounts questioned and all known noncompliance with the direct and material compliance requirements of federal awards.

- We have disclosed to you any communications from grantors and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditors' report.

- We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditors' report.

- Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB Circular A-87, *Cost Principles State, Local, and Tribal Governments*, and OMB's *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*.

- We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.

- We have made available to you all documentation related to compliance with the direct and material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.

- We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.

- There are no known instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditors' report.

- We have disclosed to you whether any changes in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies and/or material weaknesses in internal control over compliance, have occurred subsequent to the date as of which compliance was audited.

- Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the basic financial statements have been prepared.

- The copies of federal program financial reports provided to you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.

- We have monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of OMB Circular A-133.

- We have taken appropriate action, including issuing management decisions, on a timely basis after receipt of subrecipients' auditors' reports that identified noncompliance with laws, regulations, or the provisions of contracts or grant agreements, and have ensured that subrecipients have taken the appropriate and timely corrective action on findings.

- We have considered the results of subrecipient audits and have made any necessary adjustments to our books and records.
- We have charged costs to federal awards in accordance with applicable cost principles.
- We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by OMB Circular A-133, and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
- We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by OMB Circular A-133.
- We are responsible for preparing a corrective action plan and taking corrective action on each audit finding.
- We have disclosed to you all contracts or other agreements with service organizations, and we have disclosed to you all communications from the service organizations relating to noncompliance at the service organizations.

Signature: ______________________ Title: Executive Director

Signature: ______________________ Title: Comptroller

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# Table of Contents

**CALIFORNIA HOUSING FINANCE AGENCY**
**(A Component Unit of the State of California)**

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CliftonLarsonAllen

CliftonLarsonAllen LLP
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**INDEPENDENT AUDITORS' REPORT**

Board of Directors
California Housing Finance Fund
Sacramento, California

**Report on the Financial Statements**

We have audited the accompanying financial statements of the California Housing Finance Fund (the Fund), which is administered by the California Housing Finance Agency (the Agency), a component unit of the State of California which comprise the statements of net position as of June 30, 2015 and 2014, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of June 30, 2015 and 2014, and the changes in financial position and cash flows for the period then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 1, the financial statements present only the Fund and do not purport to, and do not, present fairly the financial position of the Agency as of June 30, 2015, the changes in its financial position, or its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

***Emphasis of a Matter***

During fiscal year ended June 30, 2015, the Fund adopted GASB Statement No. 68, Accounting and Financial Reporting for Pensions and the related GASB Statement No. 71 Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68. As a result of the implementation of these standards, the Fund reported a restatement for the change in accounting principle (see Note 3). Our auditors' opinion was not modified with respect to the restatement.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-16, Schedule of the Fund's Proportionate Share of the Net Pension Liability on page 47, and the Schedule of Fund Contribution on page 48 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Fund's basic financial statements. The combining program information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The combining program information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining program information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2014, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

**CliftonLarsonAllen LLP**

Bellevue, Washington
October 12, 2015

**CALIFORNIA HOUSING FINANCE FUND**
**Management Discussion and Analysis**
**of Financial Position and Results of Operations**
**As of and for the fiscal years ended June 2015 and 2014**

**Introduction – The California Housing Finance Agency**

The California Housing Finance Agency ("Agency") was created in 1975 by an act of the California Legislature and commenced operations in 1976. The Agency is a component unit of the State of California ("State") and is included in the State's Comprehensive Annual Financial Report. The Agency is authorized to administer the activities of the California Housing Finance Fund ("Fund"), the California Housing Loan Insurance Fund ("Mortgage Insurance Fund") and one state general obligation bond fund. The Agency is governed by a Board of Directors which consists of 13 voting members and three non-voting members. Of the 13 voting members, seven are appointed by the Governor, four are ex-officio and two are appointed by the Legislature. The statutory role of the Board is to: 1) enact the annual financing resolutions that permit the issuance of bonds and 2) enact the Agency's operating budget and business plan. Subject to the supervision of the Board, the Agency's day-to-day operational authority statutorily resides with the Agency's Executive Director. The annual audited financial statements of both the Fund and the Mortgage Insurance Fund are available on the Agency's website - www.calhfa.ca.gov.

Effective July 1, 2013, pursuant to the Governor's Reorganization Plan 2, the Agency was moved from being within the Business, Transportation and Housing Agency to being within the Department of Housing and Community Development. The Department does not have any administrative authority over the California Housing Finance Fund. Pursuant to Health and Safety Code section 51000, expenditures from the California Housing Finance Fund are administered by the Agency and are not subject to the supervision or approval of any other officer or division of state government. Further, pursuant to the Health and Safety Code section 51000.1, no officer or division of state government has the authority to transfer any sums of money from any fund or account of the Agency, except as authorized by the executive director of the Agency or designated trustee pertaining to bonds issued by the Agency.

The CalHFA Mortgage Assistance Corporation ("CalHFA MAC") is a nonprofit public benefit corporation organized under the laws and rules of the state of California and within the meaning of Section 501(c)(3) of the Internal Revenue Code. CalHFA MAC is organized as an entity separate from CalHFA and its purposes, amongst other things are 1) to "develop and administer programs permitted under the Emergency Economic Stabilization Relief Act of 2008 (EESA) and to act as an institution eligible to receive funds under EESA's Troubled Asset Relief Program," and 2) to "lessen the burdens of government by assisting CalHFA to prevent or mitigate the impact of foreclosures on low and moderate income persons within the State of California." Although CalHFA grants CalHFA MAC a license to use "CalHFA" in its name, both acknowledge they are separate entities. Both are created under different provisions of law; the sources of funding for each are different; the funds are maintained separately; each maintains its own set of books and records separately; operational decisions of CalHFA MAC are not under the direction or control of the Agency's Executive Director or the Agency's Governing Board. CalHFA MAC is solely responsible for its contractual and other obligations incident to running the Keep Your Home California ("KYHC") program. The annual audited financial statements of CalHFA MAC are available on the Keep Your Home California website - www.keepyourhomecalifornia.org.

The following Management Discussion and Analysis ("MD&A") applies only to the activities of the California Housing Finance Fund and should be read in conjunction with the Fund's financial statements and the notes to the financial statements. Operations of the Fund include the issuance of Agency bonds and notes to fund loans to qualified borrowers for single family houses and multifamily developments. The Agency is entirely self-funded and does not draw upon the general taxing authority of the State.

The financial statements present the totals of the programs and accounts of the Fund. The supplemental combining information of the Fund is organized by the following major categories: Homeownership Programs, Multifamily Rental Housing Programs, and Other Programs and Accounts. This supplemental information and additional information for specific programs and accounts is reported after the notes to the financial statements.

The Homeownership Programs provide low cost mortgage capital to a network of approved lenders from whom the Fund purchases previously funded and closed loans secured by single family homes purchased by individual borrowers. However, there has been no new loan activity in Homeownership Programs since FY 2010. The Multifamily Rental Housing Programs are typically used to directly fund loans to developers and housing sponsors for the construction or acquisition of multifamily rental housing developments. Within the Multifamily Rental Housing Programs, the Multifamily Housing Revenue Bonds III indenture continues to participate in the FHA-HFA Multifamily Risk-Sharing Program with the U.S. Department of Housing and Urban Development (HUD). Interest rates on the Fund loans are generally below market rate; however, the programs are operated to be self-supporting. The Agency issues its own bonds and uses other available monies to provide the funding for these loan programs. Interest paid to bondholders is generally exempt from both state and federal tax; however, the Agency also issues federally-taxable bonds.

The Other Programs and Accounts category includes the Agency's Housing Assistance Trust ("HAT"), funded periodically from a portion of the Fund's operating income before transfers. The HAT provides a source of funding for low or very low income multifamily developments and other special purpose loans. Loans for these purposes generally would not produce sufficient revenues to support payments to bondholders. These loans typically accrue simple interest with repayment of principal and interest deferred for the term of the loan or until certain events occur, such as a sale of the property. Also included in this category are certain State-funded programs (i.e. Proposition 46 and Proposition 1C Programs and Mental Health Services Act Housing Program), which the Agency has been asked to administer for the State on a contract basis, and certain Federal Programs (i.e. Section 8 Housing Assistance Program and National Foreclosure Mitigation Counseling Program). The Agency also issues Mortgage Credit Certificates for first-time homebuyers. Operating expenses of the Agency's loan and bond programs are paid from an Operating Account. Other accounts maintained by the Agency provide security for the issuance of bonds, emergency contingencies and loan servicing operations.

**Summary of Financial Results 2015-2014**

- Operating income before transfers was $88.3 million for fiscal year 2015 compared to an operating loss of $33 million for fiscal year 2014. The operating results for fiscal year 2015 improved by $121.3 million, when compared to fiscal year 2014.

- Other revenues were $37.7 million for fiscal year 2015 compared to negative $47.4 million in fiscal year 2014. The increase was primarily due to the increase in the fair value of the investment swaps for fiscal year 2015.

- The Fund's mortgage loan delinquencies declined as the California housing market continued to improve over the last fiscal year. The Fund's single family loan portfolio consists of 47.9% federally guaranteed loans and 52.1% conventional loans. The overall delinquency ratio of the Fund's single family loan portfolio improved to 7.3% or 1,037 delinquent loans as of June 30, 2015. By comparison, the delinquency ratio for the Agency's single family portfolio was 9.7% or 1,564 loans as of June 30, 2014. Overall, the total number of delinquent loans declined by 33.7% or 527 loans.

- Under the HMRB indenture, there was a total of $3.8 million in loans written-off during fiscal year 2015 due to the sale of foreclosed properties (net of insurance payment received) and on short sales (net of insurance payment received), of $1.6 million and $2.2 million, respectively. The remaining HMRB foreclosed properties were written down by $1.1 million to reflect anticipated losses, net of anticipated insurance payment, upon sale of the foreclosed properties.

- The net total allowance for loan loss reserve under the HMRB indenture decreased by $13.5 million changing from $39.4 million in fiscal year 2014 to $25.9 million in fiscal year 2015.

- In April 2015, the Agency issued bonds totaling $174.2 million under the Multifamily Housing Revenue Bonds III indenture. The Agency continued to actively manage and reduce the Fund's interest expense and exposures within the debt portfolio and redeemed $736.1 million of bonds during fiscal year 2015. There were no economic refundings made during the year.

- The Fund had $84.8 million in new loans receivable during fiscal year 2015. Of the $84.8 million, $57.7 million of new loans receivable were in Contract Administration Programs. Total program loans receivable decreased by $483.2 million. Decreases in program loans receivable for the homeownership loan portfolio were primarily due to the loan prepayments. Loan prepayments include all unscheduled principal payments applied to the unpaid principal balance of a loan such as principal received in loan payoff transactions, short sale and foreclosure transactions, and mortgage insurance claims, etc.

- During fiscal year 2015, $496 thousand was transferred into the Fund by the Department of Housing and Community Development (HCD) and $928 thousand of unused Mental Health Services Act (MHSA) funds was transferred out to various counties.

- Conduit debt obligations previously reported in the Agency's financial statements were removed since FY 2014 -see Note 7 - Bonds and Notes Payable and Associated Interest Rate Swaps.

- During the year, the Agency implemented Government Accounting Standards Board ("GASB") Statement No. 68, *Accounting and Financial Reporting for Pensions,* and GASB 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. As a result of the implementation, the Fund's beginning net position for the year was reduced by $48.8 million - see Note 3 and Note 10 - Pension Plan.

**Condensed Financial Information:**

**Condensed Schedule of Assets, Liabilities, and Net Position**

The following table presents a condensed Schedule of Assets, Liabilities, and Net Position for the Fund as of June 30, 2015 and 2014 and the change from the prior year (dollars in thousands):

**Condensed Statement of Net Position**

| | 2015 | 2014 | Change |
|---|---|---|---|
| Assets | | | |
| Cash and investments | $ 1,468,746 | $ 1,585,117 | $ (116,371) |
| Program loans receivable-net | 3,423,104 | 3,906,285 | (483,181) |
| Other | 96,106 | 79,108 | 16,998 |
| Total Assets | 4,987,956 | 5,570,510 | (582,554) |
| Deferred Outflows of Resources | 28,302 | 25,710 | 2,592 |
| Liabilities | | | |
| Bonds payable-net | 2,914,626 | 3,532,752 | (618,126) |
| Notes payable | 54,580 | 63,595 | (9,015) |
| Other | 521,195 | 521,279 | (84) |
| Total Liabilities | 3,490,401 | 4,117,626 | (627,225) |
| Deferred Inflows of Resources | 8,230 | - | 8,230 |
| Net Position | | | |
| Net investment in capital assets | 754 | 842 | (88) |
| Restricted net position | 1,516,873 | 1,477,752 | 39,121 |
| Total Net Position | $ 1,517,627 | $ 1,478,594 | $ 39,033 |

**Assets**

Of the Fund's assets, 98.1% is represented by cash and investments and program loans receivable. The Fund does not have a significant investment in capital assets, holding $0.8 million in furniture and equipment.

Total assets decreased by $582.6 million during fiscal year 2015. The Fund's cash and investments were $1.47 billion as of June 30, 2015, a decrease of $116.4 million from June 30, 2014. The cash and investments balance decrease is primarily due to the bond redemption activity in Homeownership and Multifamily Programs.

Of the Fund's assets, 29.4% is in the form of cash and investments at fiscal year end. Of the Fund's investment balance, 3.1% is in investment agreements. The amount of funds invested in investment agreements during the 2015 fiscal year decreased by $22.6 million. Additionally, $1.08 billion of the Fund's investments are held in the State's Surplus Money Investment Fund ("SMIF") and earn a variable rate of interest. The amount of funds invested in SMIF during fiscal year 2015 increased by $37.1 million.

The composition of cash and investments as of June 30, 2015 and 2014 and the changes from the prior year are shown in the table below (dollars in thousands):

**Cash and Investments**

| | 2015 | 2014 | Change |
|---|---|---|---|
| Investment agreements | $ 43,599 | $ 66,225 | $ (22,626) |
| SMIF | 1,077,656 | 1,040,555 | 37,101 |
| Open Commercial Paper | 18,163 | 34,718 | (16,555) |
| Securities | 288,083 | 403,112 | (115,029) |
| Cash | 41,245 | 40,507 | 738 |
| Total Cash and Investments | $ 1,468,746 | $ 1,585,117 | $ (116,371) |

Program loans receivable decreased by $483.2 million during fiscal year 2015 compared to fiscal year 2014. This decrease is primarily due to loan prepayments along with loan write-offs of $7.6 million and REO loan write-downs of $1.8 million in fiscal year 2015. Loan prepayments decreased to $390.9 million during fiscal year 2015 compared to 490.9 million received in fiscal year 2014. REO properties decreased by $1.1 million to $12.3 million during fiscal year 2015 compared to $13.4 million in fiscal year 2014.

As of June 30, 2015 and June 30, 2014, the fair values of interest rate swaps were in the negative position of $162.6 million and $186.4 million, respectively.

Other Assets increased by $17 million during fiscal year 2015 when compared to fiscal year 2014. The increase is primarily due to the increase in cash collateral held by counterparties.

**Liabilities**

The Fund's liabilities were $3.49 billion as of June 30, 2015, a decrease of $627.2 million from June 30, 2014. Of the Fund's liabilities, 83.5% is in the form of bond indebtedness. The Fund's net bonds payable at June 30, 2015 decreased by $618.1 million from the prior year mainly due to the $64.1 million of scheduled principal payments, $736.1 million in bond redemptions, and offset by the $174.2 million of bonds issued. The Agency's governing statutes impose a cap of $13.15 billion for bonds and notes issued and outstanding within the Fund for the year ended June 30, 2015 and 2014.

All of the bonds issued by the Agency are reported within the Fund and the bonds reported no longer include the reporting of conduit bond obligations as liabilities in the accompanying financial statements along with the related assets. The conduit bonds are limited obligations of the Agency, payable solely from the revenues and other funds and money pledged and assigned under the applicable indenture, series indenture, or master pledge and assignment (see Note 7 – Bonds and Notes Payable and Associated Interest Rate Swaps).

The Agency issues both tax-exempt and federally taxable bonds. During the 2015 fiscal year, federally taxable bonds outstanding increased by $51.3 million and as of June 30, 2015 represent 32.3% of all bonds outstanding, while tax-exempt bonds outstanding decreased by $668.3 million and as of June 30, 2015 represent 67.7% of all bonds outstanding. The use of federally taxable bonds allows the Agency to leverage its allocation of the Private Activity Bond volume cap for the Homeownership Programs. This limitation is imposed by the federal government to regulate the issuance of tax-exempt bonds for private purposes. During fiscal year 2015, the Agency issued $174.2 million in taxable fixed rate bonds.

Shown below are the amounts of variable and fixed rate indebtedness, by tax status, as of June 30, 2015 and 2014 and the changes from the prior year (dollars in thousands):

**Bonds Payable**

| | 2015 | 2014 | Change |
|---|---|---|---|
| Tax-Exempt Bonds | | | |
| *Variable Rate | $ 756,060 | $ 1,001,880 | $ (245,820) |
| Fixed Rate | 1,214,305 | 1,636,740 | (422,435) |
| Total Tax-Exempt Bonds | 1,970,365 | 2,638,620 | (668,255) |
| Federally Taxable Bonds | | | |
| *Variable Rate | 430,926 | 510,189 | (79,263) |
| Fixed Rate | 508,675 | 378,122 | 130,553 |
| Total Federally Taxable Bonds | 939,601 | 888,311 | 51,290 |
| Total Bonds Outstanding | $ 2,909,966 | $ 3,526,931 | $ (616,965) |

* Certain variable rate bonds have been swapped to a fixed rate (see Note 7 – Bonds and Notes Payable and Associated Interest Rate Swaps).

Although all other liabilities decreased by $84 thousand during fiscal year 2015, pension liability increased by $43.7 million due to the adoption of GASB 68, offset by the decrease in interest payable, derivative swap liability, and deposits and other liabilities by $10 million, $23.8 million, and $8 million, respectively.

**Net Position**

All of the Fund's net position is restricted pursuant to trust agreements with bondholders and the Agency's enabling legislation or net investment in capital assets. The total net position of the Fund increased by $39.0 million primarily as a result of operating income of $88.3 million for fiscal year 2015 offset by the negative $48.8 million cumulative effect adjustment to the beginning net position from the adoption of GASB 68.

**Revenues, Expenses, and Changes in Net Position**

The following table presents condensed schedules of revenues, expenses, and changes in net position for the Fund for the fiscal years ended June 30, 2015 and June 30, 2014 and the changes from the prior year (dollars in thousands):

**Condensed Schedules of Revenues, Expenses, and Changes in Net Position**

| | 2015 | 2014 | Change |
|---|---|---|---|
| Operating Revenues: | | | |
| Interest income program loans – net | $ 194,987 | $ 218,715 | $ (23,728) |
| Interest income investments – net | 17,302 | 22,519 | (5,217) |
| Increase (Decrease) in fair value of investments | 4,114 | (308) | 4,422 |
| Other loan fees | 44,552 | 29,984 | 14,568 |
| Other revenues | 37,699 | (47,401) | 85,100 |
| Total Operating Revenues | 298,654 | 223,509 | 75,145 |
| Operating Expenses: | | | |
| Interest | 89,960 | 122,277 | (32,317) |
| Mortgage servicing fees | 7,312 | 8,444 | (1,132) |
| Salaries & general expenses | 39,546 | 41,053 | (1,507) |
| Other expenses | 73,543 | 84,742 | (11,199) |
| Total Operating Expenses | 210,361 | 256,516 | (46,155) |
| Operating Loss before transfers | 88,293 | (33,007) | 121,300 |
| Transfers (out) in | (432) | 53,462 | (53,894) |
| Increase(decrease) in net position | $ 87,861 | $ 20,455 | $ 67,406 |

**Operating Revenues**

Total operating revenues of the Fund were $298.7 million during fiscal year 2015 compared to $223.5 million during fiscal year 2014, an increase of $75.2 million or 33.6%.

Interest income on program loans was $195.0 million during fiscal year 2015 compared to $218.7 million during fiscal year 2014, a decrease of $23.7 million. The decrease in interest income on program loans - net is primarily the result of a decrease in interest income on program loans and an increase in the yield reduction liability for the Fund's homeownership and multifamily loan portfolios. Overall, program loans receivable decreased $483.2 million or 12.4% at June 30, 2015 compared to June 30, 2014.

Interest income from investments decreased 23.2% to $17.3 million in fiscal year 2015 from $22.5 million in fiscal year 2014. The decrease is primarily due to the decrease in interest income from Investment Agreements. Investment Agreements decreased $22.6 million from $66.2 million at June 30, 2014 to $43.6 million as of June 30, 2015, while SMIF increased $37.1 million from $1.04 billion to $1.08 billion.

The total changes in fair value of investments was $4.1 million in fiscal year 2015, a net increase of $4.4 million from fiscal year 2014, which had a negative fair value of investments of $0.3 million. The slight increase in the Treasury rates during fiscal year 2015 caused the value of the Fund's mortgage-backed securities to decline slightly. The gain or loss on the sale of securities in the fiscal year 2015 was $9.5 million compared to $0.4 million for the fiscal year ended 2014.

Other loan fees increased $14.6 million to $44.6 million in fiscal year 2015 compared to $30.0 million for fiscal year 2014.

Other revenues increased by $85.1 million to $37.7 million during fiscal year 2015 compared to negative $47.4 million in fiscal year 2014. The increase was primarily due to results of the effectiveness testing for derivative instruments for FY 2014. A large amount of ineffective swap fair values were recognized as other revenues which caused a large variance between FY 2015 and FY 2014. The change in fair value of the derivatives for FY 2015 was positive $22.4 million compared to negative $70.3 million for FY 2014.

**Operating Expenses**

Total operating expenses of the Fund were $210.4 million during fiscal year 2015 compared to $256.5 million during fiscal year 2014, a decrease of $46.1 million or 18.0%. The decrease is a combination of the decrease in bond interest expenses, allowance for loan loss, REO expenses, administrative fees expense, and swap expenses.

Bonds payable at June 30, 2015 decreased by $617.0 million from June 30, 2014 and bond interest and swap expense, which represents 42.8% of the Fund's total operating expenses, decreased by $32.3 million or 26.4% compared to fiscal year 2014. The decrease in bond interest and swap expense is attributed to continued bond redemption activity.

Salaries and general expenses slightly decreased from $41.1 million during fiscal year 2014 to $39.5 million during fiscal year 2015 (as shown in the condensed statements of revenues, expenses and changes in net position).

**Operating Loss before Transfers**

Operating income before transfers for fiscal year 2015 was $88.3 million compared to an operating loss of $33 million for fiscal year 2014. The $121.3 million increase in operating income before transfers is reflective of the activities mentioned above.

**Summary of Financial Results 2014-2013**

- During the last quarter of FY 2014, the Agency discovered an error related to the allowance for loan loss. In the process of revising the allowance for loan loss methodology from an allowance by delinquency category to an allowance on a loan-by-loan basis, it was discovered that an overstatement of the allowance had been recorded as of FY 2013 in the amount of $39.5 million under the Home Mortgage Revenue Bonds ("HMRB") indenture. In order to correct this error, the financial results for FY 2013 and FY 2012 have been restated and the changes are reflected in the MD&A.

- Conduit debt obligations previously reported in the Agency's financial statements were removed in FY 2014.

- Operating loss before transfers was $33 million for fiscal year 2014 compared to an operating loss of $53.4 million for fiscal year 2013. The operating results for fiscal year 2014 improved by $20.4 million, or 38.2%, when compared to fiscal year 2013.

- Other revenues were negative $47.4 million for fiscal year 2014 compared to $39.3 million in fiscal year 2013. The decrease was primarily due to the decrease in the fair value of the investment swaps for fiscal year 2014.

- The Fund's mortgage loan delinquencies declined as the California housing market continued to improve over the last fiscal year. The Fund's single family loan portfolio consists of 46.5% federally guaranteed loans and 53.5% conventional loans. The overall delinquency ratio of the Fund's single family loan portfolio improved to 9.7% or 1,564 delinquent loans as of June 30, 2014. By comparison, the delinquency ratio for the Agency's single family portfolio was 13% or 2,411 loans as of June 30, 2013. Overall, the total number of delinquent loans declined by 35.1% or 847 loans.

- Under the HMRB indenture, there was a total of $11.8 million in loans written-off during fiscal year 2014 due to the sale of foreclosed properties (net of insurance payment received) and on short sales (net of insurance payment received), of $0.9 million and $10.9 million, respectively. The remaining HMRB foreclosed properties were written down by $4.2 million to reflect anticipated losses, net of anticipated insurance payment, upon sale of the foreclosed properties.

- The net total allowance for loan loss reserve under the HMRB indenture decreased by $30.2 million changing from $69.6 million in fiscal year 2013 to $39.4 million in fiscal year 2014.

- In April 2014, the Agency issued bonds totaling $38.9 million under the Multifamily Housing Revenue Bonds III indenture. The Agency continued to actively manage and reduce the Fund's interest expense and exposures within the debt portfolio and redeemed $944 million of bonds during fiscal year 2014. There were no economic refundings made during the year.

- The Fund had $89.2 million in new loans receivable during fiscal year 2014. Of the $89.2 million, $49.4 million of new loans receivable were in Contract Administration Programs. Total program loans receivable decreased by $599.7 million. Decreases in program loans receivable for the homeownership loan portfolio were primarily due to the loan prepayments. Loan prepayments include all unscheduled principal payments applied to the unpaid principal balance of a loan such as principal received in loan payoff transactions, short sale and foreclosure transactions, and mortgage insurance claims, etc.

- During fiscal year 2014, $53.4 million was transferred into the Fund by the State pursuant to the Housing and Emergency Shelter Trust Fund Acts of 2002 and 2006. The funds were used to make loans and grants to borrowers and homeowners through programs administered by the Agency on a contract basis.

**Condensed Financial Information:**

**Condensed Schedule of Assets, Liabilities, and Net Position**

The following table presents a condensed Schedule of Assets, Liabilities, and Net Position for the Fund as of June 30, 2014 and 2013 and the change from the prior year (dollars in thousands):

**Condensed Statement of Net Position**

| | 2014 | Restated 2013 | Change |
|---|---|---|---|
| Assets | | | |
| Cash and investments | $ 1,585,117 | $ 1,900,480 | $ (315,363) |
| Program loans receivable-net | 3,906,285 | 4,505,952 | (599,667) |
| Other | 79,108 | 97,129 | (18,021) |
| Total Assets | 5,570,510 | 6,503,561 | (933,051) |
| Deferred Outflows of Resources | 25,710 | 126,717 | (101,007) |
| Liabilities | | | |
| Bonds payable-net | 3,532,752 | 4,498,536 | (965,784) |
| Notes payable | 63,595 | 81,058 | (17,463) |
| Other | 521,279 | 592,545 | (71,266) |
| Total Liabilities | 4,117,626 | 5,172,139 | (1,054,513) |
| Deferred Inflows of Resources | - | - | - |
| Net Position | | | |
| Invested in capital assets | 842 | 962 | - |
| Restricted net position | 1,477,752 | 1,457,177 | 20,575 |
| Total Net Position | $ 1,478,594 | $ 1,458,139 | $ 20,575 |

**Assets**

Of the Fund's assets, 98.6% is represented by cash and investments and program loans receivable. The Fund does not have a significant investment in capital assets, holding $0.8 million in furniture and equipment.

Total assets decreased by $933.1 million during fiscal year 2014. The Fund's cash and investments were $1.59 billion as of June 30, 2014, a decrease of $315.4 million from June 30, 2013. The cash and investments balance decrease is primarily due to the increase in bond redemption activity in Homeownership and Multifamily Programs.

Of the Fund's assets, 28.5% is in the form of cash and investments at fiscal year end. Of the Fund's investment balance, 4.3% is in investment agreements. The amount of funds invested in investment agreements during the 2014 fiscal year decreased by $39.4 million. Additionally, $1.04 billion of the Fund's investments are held in the State's Surplus Money Investment Fund ("SMIF") and earn a variable rate of interest. The amount of funds invested in SMIF during fiscal year 2014 decreased by $197.6 million.

The composition of cash and investments as of June 30, 2014 and 2013 and the changes from the prior year are shown in the table below (dollars in thousands):

**Cash and Investments**

| | 2014 | Restated 2013 | Change |
|---|---|---|---|
| Investment agreements | $ 66,225 | $ 105,614 | $ (39,389) |
| SMIF | 1,040,555 | 1,238,133 | (197,578) |
| Open Commercial Paper | 34,718 | 32,011 | 2,707 |
| Securities | 403,112 | 489,991 | (86,879) |
| Cash | 40,507 | 34,731 | 5,776 |
| Total Cash and Investments | $ 1,585,117 | $ 1,900,480 | $ (315,363) |

Program loans receivable decreased by $599.7 million during fiscal year 2014 compared to fiscal year 2013. This decrease is primarily due to loan prepayments along with loan write-offs of $18.9 million and REO loan write-downs of negative $4.4 million in fiscal year 2014. Loan prepayments decreased to $490.9 million during fiscal year 2014 compared to $575.5 million received in fiscal year 2013. REO properties decreased by $6.7 million to $13.4 million during fiscal year 2014 compared to $20.1 million in fiscal year 2013.

As of June 30, 2014 and June 30, 2013, the fair values of interest rate swaps were in the negative position of $186.4 million and $217.7 million, respectively.

Other Assets decreased by $18.0 million during fiscal year 2014 when compared to fiscal year 2013. The decrease is primarily due to the decrease in the number of REO properties and decrease in accounts receivables.

**Liabilities**

The Fund's liabilities were $4.12 billion as of June 30, 2014, a decrease of $1.05 billion from June 30, 2013. Of the Fund's liabilities, 85.8% is in the form of bond indebtedness. The Fund's bonds payable at June 30, 2014 decreased by $969 million from the prior year mainly due to the scheduled principal payments, $944.0 million in bond redemptions offset by the $38.9 million of bonds issued. The Agency's governing statutes impose a cap of $13.15 billion for bonds and notes issued and outstanding within the Fund for the year ended June 30, 2014 and 2013.

All of the bonds issued by the Agency are reported within the Fund and the bonds reported no longer include the reporting of conduit bond obligations as liabilities in the accompanying financial statements along with the related assets. The conduit bonds are limited obligations of the Agency, payable solely from the revenues and other funds and money pledged and assigned under the applicable indenture, series indenture, or master pledge and assignment.

The Agency issues both tax-exempt and federally taxable bonds. During the 2014 fiscal year, federally taxable bonds outstanding decreased by $187.7 million and as of June 30, 2014 represent 25.2% of all bonds outstanding, while tax-exempt bonds outstanding decreased by $781.2 million and as of June 30, 2014 represent 74.8% of all bonds outstanding. The use of federally taxable bonds allows the Agency to leverage its allocation of the Private Activity Bond volume cap for the Homeownership Programs. This limitation is imposed by the federal government to regulate the issuance of tax-exempt bonds for private purposes. During fiscal year 2014, the Agency issued $38.9 million in tax-exempt bonds.

Shown below are the amounts of variable and fixed rate indebtedness, by tax status, as of June 30, 2014 and 2013 and the changes from the prior year (dollars in thousands):

**Bonds Payable**

| | 2014 | Restated 2013 | Change |
|---|---|---|---|
| Tax-Exempt Bonds | | | |
| *Variable Rate | $ 1,001,880 | $ 1,512,605 | $ (510,725) |
| Fixed Rate | 1,636,740 | 1,907,225 | (270,485) |
| Total Tax-Exempt Bonds | 2,638,620 | 3,419,830 | (781,210) |
| Federally Taxable Bonds | | | |
| *Variable Rate | 510,189 | 659,702 | (149,513) |
| Fixed Rate | 378,122 | 416,349 | (38,227) |
| Total Federally Taxable Bonds | 888,311 | 1,076,051 | (187,740) |
| Total Bonds Outstanding | $ 3,526,931 | $ 4,495,881 | $ (968,950) |

* Certain variable rate bonds have been swapped to a fixed.

All other liabilities decreased by $71.3 million during fiscal year 2014. The decrease was mainly due to the decrease in Derivative SWAP liability and decrease in deposits and other liabilities.

**Net Position**

All of the Fund's net position is restricted pursuant to trust agreements with bondholders and the Agency's enabling legislation or net investment in capital assets. The total net position of the Fund increased by $20.4 million primarily as a result of transfers to the Fund in the amount of $53.4 million offset by the $33 million of operating losses for fiscal year 2014.

**Revenues, Expenses, and Changes in Net Position**

The following table presents condensed schedules of revenues, expenses, and changes in net position for the Fund for the fiscal years ended June 30, 2014 and June 30, 2013 and the changes from the prior year (dollars in thousands):

**Condensed Schedules of Revenues, Expenses, and Changes in Net Position**

| | 2014 | Restated 2013 | Change |
|---|---|---|---|
| Operating Revenues: | | | |
| Interest income program loans – net | $ 218,715 | $ 256,268 | $ (37,553) |
| Interest income investments – net | 22,519 | 31,302 | (8,783) |
| Increase (Decrease) in fair value of investments | (308) | (25,492) | 25,184 |
| Other loan fees | 29,984 | 31,382 | (1,398) |
| Other revenues | (47,401) | 39,275 | (86,676) |
| Total Operating Revenues | 223,509 | 332,735 | (109,226) |
| Operating Expenses: | | | |
| Interest | 122,277 | 171,835 | (49,558) |
| Mortgage servicing fees | 8,444 | 9,942 | (1,498) |
| Salaries & general expenses | 41,053 | 40,199 | 854 |
| Other expenses | 84,742 | 164,132 | (79,390) |
| Total Operating Expenses | 256,516 | 386,108 | (129,592) |
| Operating Loss before transfers | (33,007) | (53,373) | 20,366 |
| Transfers in | 53,462 | 38,624 | 14,838 |
| Increase(decrease) in net position | $ 20,455 | $ (14,749) | $ 35,204 |

**Operating Revenues**

Total operating revenues of the Fund were $223.5 million during fiscal year 2014 compared to $332.7 million during fiscal year 2013, a decrease of $109.2 million or 32.8%.

Interest income on program loans was $218.7 million during fiscal year 2014 compared to $256.3 million during fiscal year 2013, a decrease of $37.6 million. The decrease in interest income on program loans is primarily the result of a decrease in interest income on program loans and an increase in the yield reduction liability for the Fund's homeownership and multifamily loan portfolios. Overall, program loans receivable decreased $599.7 million or 13.3% at June 30, 2014 compared to June 30, 2013.

Interest income from investments decreased 28.1% to $22.5 million in fiscal year 2014 from $31.3 million in fiscal year 2013. The decrease is primarily due to the decrease in interest income from Investment Agreements. Investment Agreements decreased $39.4 million from $105.6 million at June 30, 2013 to $66.2 million as of June 30, 2014, while SMIF decreased $197.5 million from $1.24 billion to $1.04 billion.

The total changes in fair value of investments was negative $0.3 million in fiscal year 2014, a net increase of $25.2 million from fiscal year 2013, which had a negative fair value of investments of $25.5 million. The slight increase in the Treasury rates during fiscal year 2014 caused the value of the Fund's mortgage-backed securities to decline slightly. The gain or loss on the sale of securities in the fiscal year 2014 was $0.4 million compared to no activity for the fiscal year ended 2013.

Other loan fees decreased $1.4 million to $30.0 million in fiscal year 2014 compared to $31.4 million for fiscal year 2013.

Other revenues decreased by $86.7 million to negative $47.4 million during fiscal year 2014 compared to positive $39.3 million in fiscal year 2013. The decrease was primarily due to negative results of the effectiveness testing for derivative instruments. The change in fair value of the derivatives for FY 2014 was negative $70.3 million compared to negative $6.1 million for FY 2013.

**Operating Expenses**

Total operating expenses of the Fund were $256.5 million during fiscal year 2014 compared to $386.1 million during fiscal year 2013, a decrease of $129.6 million or 33.6%. The decrease is a combination of the decrease in bond interest expenses, allowance for loan loss, REO expenses, administrative fees expense, and swap expenses.

Bonds payable at June 30, 2014 decreased by $969 million from June 30, 2013 and bond interest and swap expense, which represents 47.7% of the Fund's total operating expenses, decreased by $49.6 million or 28.8% compared to fiscal year 2013. The decrease in bond interest and swap expense is attributed to the increased bond redemption activity and the Agency's participation in the Temporary Credit and Liquidity Program ("TCLP") which provides replacement credit and facilities for existing variable rate debt for State and local Housing Finance Agencies.

Salaries and general expenses slightly increased from $40.2 million during fiscal year 2013 to $41.1 million during fiscal year 2014 (as shown in the condensed statements of revenues, expenses and changes in net position).

**Operating Loss before Transfers**

Operating loss before transfers for fiscal year 2014 was $33 million compared to an operating loss of $53.4 million for fiscal year 2013. The $20.4 million decrease in operating loss before transfers is reflective of the activities mentioned above.

**Economic Factors**

Since the Agency is self-supporting, it does not draw upon the general taxing authority of the State. As the State of California's affordable housing lender, however, the Agency's operations can be directly impacted by several market/economic factors as follows:

- Trends in single family home prices – Beginning in FY 2010, the Agency sustained significant losses from the disposition of non-performing single family loans. Over the past three years, however, the losses were significantly lower due to a more stable and improving years for California home sale prices and an upward trend in single family home prices that have had a positive impact on the Agency's profitability.

- Success of the lending programs - The Agency's Single Family Lending program gained momentum in late 2014 with the introduction of its CalPLUS 97% Conventional loan product with an additional $6,500 in down payment assistance. The Agency exceeded its FY 2015 business plan goals by approximately 12.5%. Successful lending programs will improve the Agency's short-term and potentially long-term profitability.

- Trends in interest rates – The Agency has a significant interest-rate swap portfolio and fluctuations in interest rates impact the Agency's collateral posting requirements. In general, higher interest rates will reduce the collateral posting requirements and improve the Agency's liquidity profile, and lower interest rates will increase the collateral posting requirements and limit the Agency's liquidity profile.

- Trends in the Agency's credit ratings - The Agency has primarily three credit ratings that materially impact its financial results: i) CalHFA's issuer credit rating (S&P A-/Moody's A3); ii) Home Mortgage Revenue Bonds (S&P A-/Moody's A3): and iii) Multifamily Housing Revenue Bonds III (S&P AA+/Moody's A1) . FY 2014 was the first time since 2009 in which the rating agency's annual credit reviews resulted in a rating upgrade. During FY 2015, the Home Mortgage Revenue Bonds improved Moody's and CalHFA's issuer credit rating remained the same. The Multifamily Housing Revenue Bonds III rating improved with S&P. A continued positive trend in these three ratings would improve the Agency's prospects in its continued efforts to restructure the Agency's legacy capital structure.

**Request for Information**

Questions concerning any of the information presented in this financial report or requests for additional information should be addressed to:

CalHFA Financing Division
500 Capitol Mall, Suite 1400
Sacramento, CA 95814
Phone: 916.326.8650
Fax: 916.322.1464
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**CALIFORNIA HOUSING FINANCE FUND**
**STATEMENTS OF NET POSITION**
**June 30, 2015 and June 30, 2014**
(Dollars in Thousands)

| | 2015 Totals | 2014 Totals |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 41,245 | $ 40,507 |
| Investments | 1,139,418 | 1,141,498 |
| Current portion - program loans receivable, net of allowance | 131,059 | 124,730 |
| Interest receivable: | | |
| Program loans, net | 34,005 | 32,228 |
| Investments | 2,446 | 3,059 |
| Accounts receivable | 9,641 | 12,443 |
| Other assets | 34,316 | 13,869 |
| Total current assets | 1,392,130 | 1,368,334 |
| Noncurrent assets: | | |
| Investments | 288,083 | 403,112 |
| Program loans receivable, net of allowance | 3,292,045 | 3,781,555 |
| Other assets | 15,698 | 17,509 |
| Total noncurrent assets | 3,595,826 | 4,202,176 |
| Total assets | 4,987,956 | 5,570,510 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Accumulated decrease in fair value of hedging derivatives | 23,544 | 25,042 |
| Deferred loss on refunding | 447 | 668 |
| Employer contribution | 4,311 | - |
| Total Deferred outflows of resources | 28,302 | 25,710 |
| LIABILITIES | | |
| Current liabilities: | | |
| Bonds payable | 53,733 | 67,904 |
| Notes payable | 2,048 | 2,253 |
| Interest payable | 48,180 | 58,170 |
| Due to other government entities, net | 510 | 908 |
| Compensated absences | 3,811 | 4,034 |
| Deposits and other liabilities | 227,251 | 235,253 |
| Total current liabilities | 335,533 | 368,522 |
| Noncurrent liabilities: | | |
| Bonds payable | 2,860,893 | 3,464,848 |
| Notes payable | 52,532 | 61,342 |
| Due to other government entities, net | 77,947 | 35,621 |
| Other liabilities | 162,591 | 186,402 |
| Unearned revenues | 905 | 891 |
| Total noncurrent liabilities | 3,154,868 | 3,749,104 |
| Total liabilities | 3,490,401 | 4,117,626 |
| Commitments and contingencies (see notes 11 and 13) | | |
| DEFERRED INFLOWS OF RESOURCES | | |
| Unamortized pension net difference | 8,230 | - |
| Total deferred inflows of resources | 8,230 | - |
| NET POSITION | | |
| Net investment in capital assets | 754 | 842 |
| Restricted by indenture | 531,976 | 491,187 |
| Restricted by statute | 984,897 | 986,565 |
| Total net position | $ 1,517,627 | $ 1,478,594 |

See notes to financial statements.

**CALIFORNIA HOUSING FINANCE FUND**
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**
**Years Ended June 30, 2015 and June 30, 2014**
(Dollars in Thousands)

| | 2015 Totals | 2014 Totals |
|---|---|---|
| OPERATING REVENUES | | |
| Interest income: | | |
| Program loans, net | $ 194,987 | $ 218,715 |
| Investments, net | 17,302 | 22,519 |
| Increase (decrease) in fair value of investments | 4,114 | (308) |
| Loan commitment fees | 459 | 668 |
| Other loan fees | 44,093 | 29,316 |
| Other revenues | 37,699 | (47,401) |
| Total operating revenues | 298,654 | 223,509 |
| SALARIES AND GENERAL EXPENSES | | |
| Interest | 89,960 | 122,277 |
| Amortization of bond discount and bond premium | (941) | (1,369) |
| Mortgage servicing expenses | 7,312 | 8,444 |
| (Reversal) provision for program loan losses | (22,113) | (13,022) |
| Salaries and general expenses | 39,546 | 41,053 |
| Other expenses | 96,597 | 99,133 |
| Total salaries and general expenses | 210,361 | 256,516 |
| Operating income (loss) before transfers | 88,293 | (33,007) |
| Transfers (out) in | (432) | 53,462 |
| Increase in net position | 87,861 | 20,455 |
| Net position at beginning of year | 1,478,594 | 1,458,139 |
| Cumulative effect of adoption of GASB 68 & 71 | (48,828) | - |
| Net position at beginning of year, as restated | 1,429,766 | 1,458,139 |
| Net position at end of year | $ 1,517,627 | $ 1,478,594 |

See Note 3 at notes to financial statements.

**CALIFORNIA HOUSING FINANCE FUND**
**STATEMENTS OF CASH FLOWS**
**Years Ended June 30, 2015 and June 30, 2014**
(Dollars in Thousands)

| | 2015 Totals | 2014 Totals |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from customers | $ 193,211 | $ 217,437 |
| Payments to suppliers | (18,581) | (20,290) |
| Payments to employees | (21,247) | (29,935) |
| Other receipts | 440,394 | 540,347 |
| Net cash provided by operating activities | 593,777 | 707,559 |
| | | |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Due from other government entities | (5,812) | 3,560 |
| Net cash (used for) provided by noncapital financing activities | (5,812) | 3,560 |
| | | |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Proceeds from sales of bonds | 174,180 | 38,814 |
| Payment of bond & note principal | (64,077) | (81,358) |
| Early bond redemptions | (736,083) | (943,972) |
| Interest paid on debt | (99,950) | (134,771) |
| Interfund transfers | (432) | 53,462 |
| Increase in deferred financing costs | - | 17,728 |
| Net cash used for capital and related financing activities | (726,362) | (1,050,097) |
| | | |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from maturity and sale of investments | 2,213,254 | 2,809,526 |
| Purchase of investments | (2,092,033) | (2,488,694) |
| Interest on investments, net | 17,914 | 23,921 |
| Net cash provided by investing activities | 139,135 | 344,753 |
| | | |
| Net increase (decrease) in cash and cash equivalents | 738 | 5,775 |
| Cash and cash equivalents at beginning of year | 40,507 | 34,732 |
| Cash and cash equivalents at end of year | $ 41,245 | $ 40,507 |
| | | |
| Reconciliation of operating loss to net cash provided by operating activities: | | |
| Operating income (loss) | $ 88,293 | $ (33,007) |
| Adjustments to reconcile operating loss to net cash provided by operating activities: | | |
| Interest expense on debt | 89,960 | 122,277 |
| Interest on investments | (17,302) | (22,519) |
| Changes in fair value of investments | (4,114) | 308 |
| Amortization of bond discount | 27 | 27 |
| Amortization of deferred losses on refundings of debt | 221 | 4,229 |
| Amortization of bond premium | (1,189) | (1,658) |
| Loan commitment fees | (459) | (668) |
| Depreciation | 243 | 264 |
| (Reversal) provision for program loan losses | (22,113) | (13,022) |
| (Reversal) provision for yield reduction payments | (4,024) | 3,240 |
| (Reversal) provision for nonmortgage investment excess | (782) | (58) |
| Effects of changes in operating assets and liabilities: | | |
| Purchase of program loans, net | (79,258) | (77,584) |
| Collection of principal from program loans, net | 585,701 | 696,966 |
| Interest receivable | (1,777) | (1,278) |
| Accounts receivable | 3,376 | 3,651 |
| Other assets | (19,635) | 91,234 |
| Compensated absences | (223) | (229) |
| Increase (decrease) in pension liablity | 8,172 | - |
| Deposits and other liabilities | (8,002) | (12,942) |
| Unearned revenue | (23,338) | (51,672) |
| Net cash provided by operating activities | $ 593,777 | $ 707,559 |
| | | |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Noncash transfer of program loan to REO | $ 2,237 | $ 11,073 |

See notes to financial statements.

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**CALIFORNIA HOUSING FINANCE FUND**
**NOTES TO FINANCIAL STATEMENTS**
**Fiscal Years Ended June 30, 2015 and 2014**

**Note 1 – AUTHORIZING LEGISLATION AND ORGANIZATION**

The California Housing Finance Fund ("Fund") is one of two continuously appropriated funds administered by the California Housing Finance Agency ("Agency"). The Agency was created by the Zenovich-Moscone-Chacon Housing and Home Finance Act ("Act"), as amended, as a public instrumentality, a political subdivision and a component unit of the State of California ("State"), and administers the activities of the Fund and the California Housing Loan Insurance Fund ("Mortgage Insurance Fund"). These funds allow the Agency to carry out its purpose of financing the housing needs of persons and families of low and moderate income within the State. The Agency is authorized to issue its bonds, notes and other obligations to fund loans to qualified borrowers for single family houses and multifamily developments. The Agency has no taxing power and is exempt from federal income taxes and state franchise taxes. Funding of loan programs on an on-going basis is derived principally from bond proceeds and interest earned on loans and investments.

The Agency is governed by a Board of Directors which consists of 13 voting members and three non-voting members. Of the 13 voting members, seven are appointed by the Governor, four are ex-officio and two are appointed by the Legislature. The statutory role of the Board is to: 1) enact the annual financing resolutions that permit the issuance of bonds and 2) enact the Agency's operating budget and business plan. Subject to the supervision of the Board, the Agency's day-to-day operational authority statutorily resides with the Agency's Executive Director.

Effective July 1, 2013, pursuant to the Governor's Reorganization Plan 2, the Agency was moved from being within the Business, Transportation and Housing Agency to being within the Department of Housing and Community Development for State budgetary purposes only. The Department does not have any administrative authority over the California Housing Finance Fund. Pursuant to Health and Safety Code section 51000, expenditures from the California Housing Finance Fund are administered by the Agency and are not subject to the supervision or approval of any other officer or division of state government. Further, pursuant to the Health and Safety Code section 51000.1, no officer or division of state government has the authority to transfer any sums of money from any fund or account of the Agency, except as authorized by the executive director of the Agency or designated trustee pertaining to bonds issued by the Agency.

The Agency may also provide administrative, consulting and technical services in connection with the financing of housing developments; act as a State representative in receiving and allocating federal housing subsidies; and make grants, under certain circumstances, to housing sponsors (providing that grants may not be made with proceeds from the sale of bonds or notes).

The Agency is the administrator of the Home Purchase Assistance Fund, established by Section 51341 of the Health and Safety Code *et seq*. which is a state general obligation bond program, the funds of which are neither generated nor held within the Fund, and therefore, not included in the accompanying financial statements.

The accompanying financial statements are the financial statements of the Fund and do not include the financial position or the results of operations of the Housing Loan Insurance Fund which insures loans owned by the Agency and others to finance the acquisition, new construction or rehabilitation of residential structures in California. As of December 31, 2014, the Housing Loan Insurance Fund had total assets of $742 thousand and deficit of $68.2 million (not covered by this Independent Auditors' Report).

The accompanying financial statements are the financial statements of the Fund and do not include the financial position or the results of operations of CalHFA Mortgage Assistance Corporation ("CalHFA MAC") which is a nonprofit public benefit corporation and organized as an entity separate from CalHFA. As of September 30, 2014, CalHFA MAC had total assets of $88.1 million and zero balance of net position (not covered by this Independent Auditors' Report).

As a fund of a component unit of the State, the financial information of the Fund is included in the State's Comprehensive Annual Financial Report.

Programs and accounts are as follows:

*Home Mortgage Revenue Bonds*: The Home Mortgage Revenue Bonds provide financing for the Agency's Home Mortgage Program which purchases eligible mortgage loans, secured by trust deeds on newly constructed or existing single family homes, condominiums, planned unit developments and manufactured housing permanently attached to the land and originated and serviced by qualified lending institutions. All mortgage loans purchased under this program will be insured either by the Federal Housing Administration ("FHA"), the Mortgage Insurance Fund, the Department of Veterans Affairs ("VA"), a private mortgage guaranty insurance policy, or a combination thereof, covering a loss of up to fifty percent (50%), one hundred percent (100%) in the case of a FHA insured loan, of the outstanding principal amount of the mortgage loans.

*Housing Program Bonds:* The Housing Program Bonds Indenture was created to provide a vehicle for issuing debt to finance either multifamily or single family programs of the Agency. Bonds issued under this indenture are the general obligation of the Agency. As of June 30, 2015, the Agency has one series of bonds remaining under this indenture. These bonds were issued to finance deferred payment, simple interest loans originated under certain of the Agency's down payment assistance programs, as well as to finance certain multifamily loans.

*Residential Mortgage Revenue Bonds:* The Residential Mortgage Revenue Bonds are issued by the Agency pursuant to a national initiative of the United States Treasury to assist state and local housing finance authorities by the Federal Program. The Bonds, issued as escrow bonds pursuant to the Indenture, are to be converted to long-term fixed-rate bonds. The Treasury has agreed, through government-sponsored agencies, to purchase certain mortgage revenue bonds at rates lower than the prevailing market intended to reduce the costs of funds to issuers to the making or financing of mortgage loans.

*Multifamily Loan Purchase Bonds*: On July 26, 2000, the Agency purchased 278 Department of Housing and Urban Development ("HUD") Section 236 loans with an aggregate unpaid principal balance of approximately $270 million. The purpose of this transaction was to enhance the ability of the Agency to assist affordable housing sponsors to refinance their projects and extend the period during which the units are offered at affordable rents to very-low-income and lower-income tenants. The Agency expects to provide the financing for many of these transactions.

*Multifamily Housing Revenue Bonds III*: The Multifamily Housing Revenue Bonds III are fixed or variable rate bonds collateralized by GNMA mortgage-backed securities and/or FHA insured loans and/or uninsured loans. The bonds provide financing for multi-unit rental housing developments which are utilized for occupancy by persons and families of low and moderate income. The loans may provide acquisition, construction (both for new construction and rehabilitation), and permanent financing for developments.

*Affordable Multifamily Housing Revenue Bonds:* The Affordable Multifamily Housing Revenue Bonds are issued under the Indenture in connection with the New Issue Bond Program of the HFA Initiative pursuant to the Memorandum of Understanding dated October 19, 2009 among Treasury, the Federal Housing Finance Agency, Fannie Mae and Freddie Mac to facilitate financing for various state and local housing finance agencies to serve homebuyers and low and moderate income renter.

*Housing Assistance Trust*: The Housing Assistance Trust ("HAT") is comprised of Agency investments in special purpose mortgage loans promoting both rental housing and homeownership, remaining investments in mortgage loans from fully redeemed bond indentures, and funds to assist in the development of single and multifamily projects through various low-interest loan and technical assistance programs. Also, included within HAT are funds held in trust representing Earned Surplus and Financial Adjustment Factor ("FAF") Savings from HUD Section 8 projects. Earned Surplus is to be used in lowering the rents for persons and families of low or moderate income in accordance with state law. FAF Savings are to be used in providing decent, safe, and sanitary housing, which is available for very-low income families and persons qualifying in accordance with federal law.

*Contract Administration Programs*: The Agency administers loan and grant programs for the Rental Housing Construction Program, the School Facilities Fee Assistance Program, the California Homebuyer's Down payment Assistance Program, National Foreclosure Mitigation Counseling Program, Mental Health Services Act Housing Program, and programs offered pursuant to the Housing and Emergency Shelter Trust Fund Act of 2002 and 2006. Funding of these programs was appropriated by the legislature or provided by voter authorized State bond programs to other departments and agencies within the State that have contracted with the Agency for this purpose. All monies transferred in accordance with the agreements and for the purposes of the program are considered assets of the Fund. The Fund had net cash transfers out of $432 thousand for fiscal year 2015 and net transfers in of $53.5 million for fiscal year 2014.

*Supplementary Bond Security Account*: This account was established exclusively to secure issuances of bonds. This security may be accomplished by creating supplementary reserve accounts to provide for payment of the principal, interest, redemption premiums or sinking fund payments on bonds, or by insuring mortgage loans made with the proceeds of bond issues or to indemnify the Mortgage Insurance Fund for losses.

*Emergency Reserve Account:* This account was established by the Agency to meet its obligations and liabilities incurred in connection with its housing loan programs. This reserve is maintained at approximately one percent (1%) of the aggregate amount of the Agency's net program loans receivable.

*Loan Servicing:* The Agency services nearly all multifamily program loans, approximately 47.2% of the Agency's homeownership program loans in first lien position (as of June 30, 2015), and all junior or subordinate lien homeownership program loans and certain other loans for the California State Teachers' Retirement System and Fannie Mae. Loan servicing agreements require that the Agency hold and maintain escrow and reserve accounts, on behalf of borrowers, that are reported as "Deposits and Other Liabilities."

*Citigroup Global Markets:* The Loan Agreements were made and entered into by and between the Agency and Citibank, N.A., as lender, under the Zenovich-Moscone-Chacon Housing and Home Finance Act. Pursuant to the Loan Agreements, the proceeds of the Agency Loans will be used to retire certain indebtedness of the Agency including to refund and redeem all or a portion of certain Multifamily Rental Housing Bonds of the Agency that were originally issued to finance the Projects, and for other valid purposes of the Agency under the Act.

*Operating Account:* The Operating Account was established for purposes of depositing funds available to the Agency for payment of operating and administrative expenses of the Agency and financing expenditures not associated with specific bond funds.

**Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Basis of Presentation and Accounting:* The Fund is accounted for as an enterprise fund. Accordingly, the accompanying financial statements have been prepared using the economic resources measurement focus and accrual basis of accounting as required by accounting principles generally accepted in the United States of America (hereinafter referred to as "Generally Accepted Accounting Principles", GAAP).

*Recently Adopted Accounting Pronouncements:* In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, effective for fiscal years beginning after June 15, 2014. The objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions, and to improve information provided by state and local governmental employers about financial support for pensions that is provided by other entities. In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. The Agency adopted GASB 68 and 71 for the fiscal year ended June 30, 2015.

*New Accounting Pronouncements:* In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application,* effective for financial statements for periods beginning after June 15, 2015. The requirements of GASB 72 will enhance comparability of financials statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement 67 and 68*, was issued in June 2015 with effective date for financial statements for fiscal years beginning after June 15, 2015. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local government for making decisions and assessing accountability. In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, effective for financial statements for fiscal years beginning after June 15, 2016. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pension (other postemployment benefits or OPEB). This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* and GASB No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans.* In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for fiscal years beginning after June 15, 2017. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pension (OPEB). In June 2015, GASB also issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,* effective for the financial statements for periods beginning after June 15, 2015, and should be applied retroactively. The objective of this Statement is to identify, in the context of the current governmental financial reporting environment, the hierarchy of GAAP. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified wihthin a source of authoritative GAAP. This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

*Use of Estimates*: The preparation of financial statements in conformity with Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates are used in determining the fair values of the interest rate swaps. The fair values of the swaps are based on factors such as future interest rates and a discount rate. Actual results could differ materially from those estimates.

*Cash and Cash Equivalents*: The Agency considers cash on hand, cash on deposit with financial institutions and cash held in money market funds to be cash and cash equivalents.

*Investments*: All investments are reported at fair value as determined by financial services providers or financial publications, except for certain non-participating fixed interest investment contracts which are valued using cost based measures. The net increase (decrease) in the fair value of investments includes both realized and unrealized gains and losses.

*Interest Rate Swap Agreements*: The Agency enters into interest rate swap agreements with swap counterparties to manage variable interest rate risk exposure resulting from the issuance of variable rate bonds. The interest rate swap agreements provide synthetic fixed rates of interest on the underlying bonds and are accounted for as matched swaps in accordance with settlement accounting. An interest rate swap is considered to be a matched swap if it is linked through designation with an asset or liability that is on the statements of net position, provided that it has the opposite interest characteristics of such Statements of net position item. Under settlement accounting, periodic net cash settlements under the swap agreements are treated as an increase or decrease in interest expense of the related bond liability over the lives of the agreements. While these swap contracts hedge floating rate bonds issued within the HMRB indenture, hedging expenses are a general obligation of the Agency that is often reimbursed with excess revenue transfers from the HMRB indenture. The interest rate swap agreements allow the Agency to manage the interest rate risk associated with variable rate debt.

*Program Loans Receivable, net*: Loans receivable are carried at their outstanding principal balances, less an allowance for loan losses.

*Allowance for Program Loan Losses*: The Agency's policy is to charge expenses for estimated probable losses which are established as an allowance for loan losses. The allowance is an amount that management believes will be adequate to absorb losses inherent in existing loans based on evaluations of collectability and prior loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the portfolio, overall portfolio quality, loan concentrations, specific problem loans, delinquencies, and anticipated economic and other conditions that may affect the borrowers' ability to repay the loans. While management uses the best information available to evaluate the adequacy of its allowance, future adjustments to the allowance may be necessary if actual experience differs from the factors used in making the evaluations.

*Other Real Estate Owned ("REO")*: Property acquired by the Agency through foreclosure is recorded at the lower of estimated fair value less estimated selling costs (fair value) or the carrying value of the related loan at the date of foreclosure and is included in "Other Assets" on the accompanying financial statements. At the time the property is acquired, if the fair value is less than the loan amounts outstanding, any difference is charged against the allowance for loan losses. After acquisition, valuations are periodically performed and, if the carrying value of the property exceeds the current fair value, a valuation allowance is established by a charge to operations. Subsequent increases in the fair value may reduce or eliminate the allowance. Operating costs on foreclosed real estate are expensed as incurred. Costs incurred for physical improvements to foreclosed real estate are capitalized if the value is recoverable through future sale.

*Bonds Payable and Notes Payable, net*: Bonds Payable and Notes Payable are carried at their outstanding principal balances plus unamortized bond premiums and less unamortized bond discounts and deferred losses on refundings.

*Bond Premium and Discount:* Premium and discount on bonds are deferred and amortized over the life of the related bond issue using the straight line method of amortization.

*Compensated Absences*: Agency employees accrue vacation or annual leave in varying amounts for each monthly period worked. Employees may accumulate leave time, subject to certain limitations, and upon retirement, termination, or death may be compensated for certain accumulated amounts at their then current rates of pay. The Agency records an expense for all accumulated leave that the Agency would be required to pay if all employees terminated their employment.

*Unearned Revenue*: Unearned revenue represents the receipt of certain loan fees from lenders and borrowers, which is generally recognized as revenue over the life of the associated loans. Also included in unearned revenue is the cumulative amount by which pass-through revenues exceed expenses and allowable costs of issuance of certain programs.

*Deferred Outflow and Deferred Inflow of Resources*: Deferred outflow of resources is a consumption of net assets by the government that is applicable to a future reporting period, and deferred inflow of resources is an acquisition of net assets by the government that is applicable to future reporting period. The Fund's deferred outflow of resources include accumulated decrease in fair value of hedging derivatives, deferred loss on refunding, and employer contribution for pensions. Accumulated increase in fair value of hedging derivatives and unamortized net difference between projected and actual earnings on investments for pensions are reported under the Fund's deferred inflow of resources.

*Net Position:* Net Position is equal to assets plus deferred outflows of resources less the sum of liabilities plus deferred inflows of resources. Net position is classified as net investment in capital assets or restricted net position. Net investment in capital assets represents investments in office equipment and furniture net of depreciation. Restricted net position represents net position balances under the lien of bond indentures that are therefore pledged to bondholders. State statutes further restrict other net position of the Fund solely for purposes of the Agency and provide for a continuing appropriation of such assets for the benefit of bondholders.

*Extinguishment of Debt*: The Agency accounts for gains and losses associated with debt refundings by deferring such gains or losses and recognizing them as revenues or expenses over the shorter of the term of the bonds extinguished or the term of the refunding bonds. Gains or losses associated with debt redemptions and maturing principal, other than refundings, are recognized as income or expense at the date of the extinguishment.

*Operating Revenues and Expenses*: The Fund's primary operating revenue is derived from the investment of bond proceeds in the loan programs and investment securities. The primary expense is interest expense on bonds outstanding. Net interest income is an important measure of performance for the Fund. "Interest income program loans" and "interest income investments-net" are shown as operating revenues in the statements of Revenue, Expenses and Changes in Net Position.

*Other Operating Revenues and Expenses:* The Agency administers certain Section 8 contracts under the HUD guidelines of New Construction and Substantial Rehabilitation. Included in most contracts is an administrative fee earned by the Agency which totaled $1.3 million and $1.4 million for years ended June 30, 2015 and 2014, respectively. The Agency also administers National Foreclosure Mitigation Counseling Program ("FMC"). The HUD and FMC pass-through payments aggregated $59.6 million and $61.1 million for the years ended June 30, 2015 and 2014, respectively, and are reported as other operating revenues and expenses within Other Programs and Accounts.

*Pensions:* As part of the State, the primary government, the Fund contributes to the Miscellaneous Plan (the "Plan") and it is administered by the California Public Employees' Retirement System ("CalPERS"). The Plan is included in the Public Employees' Retirement Fund A ("PERF A"). PERF is comprised of and reported as PERF A, PERF B, and PERF C for accounting purposes. PERF A is comprised of agent multiple-employer plans, which include State and most public agencies rate plans. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the CalPERS Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Note 3 – CHANGE IN ACCOUNTING PRINCIPLES**

The Agency adopted GASB 68 and 71 for the year ended June 30, 2015. The cumulative effect of adoption of GASB 68 and 71 decreases the Fund's net position by $48.8 million. The Agency has restated net position as of July 1, 2014 by $48.8 million.

| | | |
|---|---|---|
| Net position, July 1, 2014 as previously stated | $ | 1,478,594 |
| Cumulative effect of adoption of GASB 68 | | (48,717) |
| Cumulative effect of adoption of GASB 71 | | (111) |
| Net position, July 1, 2014, as restated | $ | 1,429,766 |

**Note 4 – CASH, CASH EQUIVALENTS AND INVESTMENTS**

**a. Cash and Cash Equivalents**

The Fund utilizes a cash and investment pool maintained by the State Treasurer's office. Each program and account's portion of this pool is included in investments on the statements of net position. In addition, other types of investments are separately held by most of the programs and accounts.

*Cash and Cash Equivalents*: At June 30, 2015 and 2014, all cash and cash equivalents, totaling $41.2 million and $40.5 million, respectively, were covered by federal depository insurance or by collateral held by the Agency's agent in the Agency's name.

*Investments*: Investment of funds is restricted by the Act and the various bond resolutions and indentures of the Agency, generally, to certain types of investment securities, including direct obligations of the U.S. Government and its agencies, the State Treasurer's Pooled Money Investment Account, long term investment agreements which are issued by institutions rated within the top two ratings of a nationally recognized rating service, and other financial instruments. Investments of funds are also made in accordance with the Agency's Investment Policy.

The Agency entered into an U.S. Bank National Association Daily Liquid (open-ended) Commercial Paper (Open CP) agreement with U.S. Bank in March, 2013. The Open CP agreements are unsecured promissory notes issued by U.S. Bank National Association. The Open CP is not insured by Federal Deposit Insurance Corporation ("FDIC") or guaranteed by any governmental agency or authority, or by U.S. Bank. As of June 30, 2015 and 2014 the par value and market value of Open CP agreements were $18.2 million and $34.7 million, respectively.

The Agency is required to post collateral based on the Agency's current Long Term Debt Ratings assigned by either Standard and Poor's Rating Group or Moody's Investor Service, Inc., as set forth in each International Swap Dealers Association, Inc. ("ISDA") Master Agreement (see Note 8 - Bonds and Notes Payable and Associated Interest Rate Swaps). The total cash and fair market value of investment securities posted as collateral at June 30, 2015 and 2014 was $51.1 million and $56 million, respectively.

**b. Investments**

Investments at June 30, 2015 and 2014 are as follows (dollars in thousands):

| | Fair Value June, 30 2015 | Fair Value June, 30 2014 |
|---|---|---|
| U.S. Agency Securities --- GNMA's | $ 153,382 | $ 206,050 |
| Federal Agency Securities | 134,701 | 197,062 |
| Investment Agreements --- Financial Institutions (at cost) | 27,192 | 41,936 |
| Other Investments: | | |
| Surplus Money Investment Fund --- State of California | 1,077,656 | 1,040,555 |
| US Bank NA Open CP | 18,163 | 34,718 |
| Other Investment Agreements (at cost) | 16,407 | 24,289 |
| Total Investments | $ 1,427,501 | $ 1,544,610 |
| | | |
| Current portion | | |
| Noncurrent portion | 1,139,418 | 1,141,498 |
| | 288,083 | 403,112 |
| Total | $ 1,427,501 | $ 1,544,610 |

There are many factors that can affect the value of investments. Some, such as credit risk, custodial credit risk, and concentration of credit risk and interest rate risk, may affect both equity and fixed income securities. Equity and debt securities respond to such factors as economic conditions, individual company earnings performance and market liquidity, while fixed income securities are particularly sensitive to credit risks and changes in interest rates. It is the investment policy of the Agency to invest substantially all of its funds in fixed income securities, which limits the Agency's exposure to most types of risk.

*Credit Risk*: Fixed income securities are subject to credit risk, which is the chance that an issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. Certain fixed income securities, including obligations of the U.S. government or those explicitly guaranteed by the U.S. government are not considered to have credit risk.

The credit risk profile for fixed income securities at June 30, 2015 and 2014 are as follows (dollars in thousands):

| | 2015 Totals | 2014 Totals |
|---|---|---|
| Fixed income securities: | | |
| U.S. government guaranteed | $ 288,083 | $ 403,112 |
| Guaranteed interest contracts: | | |
| Rated Aaa/NR | - | - |
| Rated Aa1/AA+ | - | - |
| Rated Aa2/A+ | 2,996 | 5,051 |
| Rated A1+/P1 | 18,163 | 34,718 |
| Rated A1/AA+ | 2,461 | 3,324 |
| Rated A1/AA- | 13,946 | 18,495 |
| Rated A2/A | 22,168 | 33,305 |
| Rated A3/NR | 2,028 | 6,050 |
| Total fixed income securities | $ 349,845 | $ 504,055 |

*Custodial Credit Risk*: Custodial credit risk is the risk that in the event of the failure of the custodian, the investments may not be returned. At June 30, 2015, the Agency did not have any investments exposed to custodial credit. All investments are held by the State of California or by pledging financial institutions in the name of the Agency.

*Concentration of Credit Risk*: Concentration of credit risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers, thereby exposing the Agency to greater risks resulting from adverse economic, political, regulatory, geographic, or credit developments. Investments issued or guaranteed by the U.S. government and investments in external investment pools, such as the commingled funds managed by the Agency are not considered subject to concentration of credit risk. At

June 30, 2015, no investments in any one issuer exceed 5% of the net position, except for securities issued by the U.S. government or its agencies.

*Interest Rate Risk*: Interest rate risk is the risk that the value of fixed income securities will decline due to decreasing interest rates. The terms of a debt investment may cause its fair value to be highly sensitive to interest rate changes. At June 30, 2015, the Agency does not have any debt investments that are highly sensitive to changes in interest rates.

Effective duration is the approximate change in price of a security resulting from a 100 basis points (1 percentage point) change in the level of interest rates. It is not a measure of time. The guaranteed interest contracts are valued at par and therefore not subject to interest rate risk. The effective duration for U.S. government guaranteed fixed income securities at June 30, 2015 and 2014 are as follows:

| | 2015 | 2014 |
|---|---|---|
| Fixed income securities: | | |
| U.S. government guaranteed | 15.82 | 15.70 |

**Note 5 – PROGRAM LOANS RECEIVABLE**

Changes in program loans receivable for the years ended June 30, 2015 and 2014 are as follows (dollars in thousands):

| | 2015 Totals | 2014 Totals |
|---|---|---|
| Beginning of year balance | $ 3,906,285 | $ 4,505,952 |
| Loans purchased/funded | 84,796 | 89,158 |
| Noncash transfers - REO | (2,237) | (11,073) |
| Amortized principal repayments | (192,526) | (195,023) |
| Prepayments | (390,939) | (490,870) |
| Principal Reduction Program | (5,670) | (11,719) |
| Chargeoffs | (6,603) | (14,568) |
| Unamortized Mortgage Discount | 132 | 146 |
| Transfer to REO- net of write-down | 1,150 | 6,691 |
| Allowance for loan loss | 28,716 | 27,591 |
| | $ 3,423,104 | $ 3,906,285 |
| Current portion | $ 131,059 | $ 124,730 |
| Noncurrent portion | 3,292,045 | 3,781,555 |
| Total | $ 3,423,104 | $ 3,906,285 |

**Note 6 – ALLOWANCE FOR PROGRAM LOAN LOSSES**

Changes in the allowance for program loan losses for the year ended June 30, 2015 and 2014 are as follows (dollars in thousands):

| | 2015 Totals | 2014 Totals |
|---|---|---|
| Beginning of year balance | $ 145,938 | $ 173,528 |
| Provisions for program loan losses | (22,113) | (13,022) |
| Chargeoffs | (6,603) | (14,568) |
| End of year balance | $ 117,222 | $ 145,938 |

**Note 7 – BONDS AND NOTES PAYABLE AND ASSOCIATED INTEREST RATE SWAPS**

The Act empowers the Agency, on behalf of the Fund, to issue both federally taxable and tax exempt bonds and notes. Bonds and notes issued by the Agency are not debts of the State but are special and general obligations of the Agency payable solely from and collateralized by the revenues and other assets pledged under the respective indentures. The Act provides the Agency with the authority to have outstanding bonds or notes, at any one time, in the aggregate principal amount of $13.15 billion excluding refunding issues and certain taxable securities.

The Agency, on behalf of the Fund, as part of its interest rate risk management program, has entered into interest rate swap agreements with various counterparties wherein the Agency has agreed to pay fixed or variable rates of interest and receive floating rate payments.

Bonds payable and the terms, outstanding notional amounts and fair value of associated interest rate swaps as of June 30, 2015 are as follows (dollars in thousands):

| | Bonds | | | | | |
|---|---|---|---|---|---|---|
| Bond Issue | Type of Bond | Interest Rate Range | Final Maturity Date | Outstanding Fixed | Outstanding Variable | Total |
| Home Mortgage Revenue Bonds: | | | | | | |
| 2000 Series J | Tax-Exempt | | N/A | | $ - | $ - |
| 2000 Series N | Tax-Exempt | 0.060% | 2031 | | 10,400 | 10,400 |
| 2000 Series V | Taxable | 0.560% | 2032 | | 10,120 | 10,120 |
| 2000 Series V | Taxable | 0.560% | 2032 | | 20 | 20 |
| 2000 Series X-2 | Tax-Exempt | | N/A | | - | - |
| 2000 Series Z | Taxable | 0.450% | 2031 | | 29,715 | 29,715 |
| 2001 Series D | Taxable | 0.530% | 2022 | | 35,505 | 35,505 |
| 2001 Series G | Taxable | 0.470% | 2029 | | 28,290 | 28,290 |
| 2001 Series J | Tax-Exempt | | N/A | | - | - |
| 2001 Series K | Taxable | 0.510% | 2032 | | 37,610 | 37,610 |
| 2001 Series N | Tax-Exempt | | N/A | | - | - |
| 2001 Series O | Taxable | 0.540% | 2032 | | 35,420 | 35,420 |
| 2001 Series S | Taxable | 0.560% | 2023 | | 25,070 | 25,070 |
| 2001 Series U | Tax-Exempt | | N/A | | - | - |
| 2001 Series V | Taxable | 0.400% | 2031 | | 13,210 | 13,210 |
| 2002 Series B | Tax-Exempt | | N/A | | - | - |
| 2002 Series F | Tax-Exempt | | N/A | | - | - |
| 2002 Series H | Taxable | 0.520% | 2022 | | 13,195 | 13,195 |
| 2002 Series J | Tax-Exempt | 0.060% | 2033 | | 25,605 | 25,605 |
| 2002 Series M | Tax-Exempt | | N/A | | - | - |
| 2002 Series P | Tax-Exempt | | N/A | | - | - |
| 2003 Series H | Tax-Exempt | 0.060% | 2032 | | 8,730 | 8,730 |
| 2003 Series I | Taxable | 0.450% | 2033 | | 27,415 | 27,415 |
| 2003 Series M | Tax-Exempt | 0.060% | 2034 | | 38,580 | 38,580 |
| 2003 Series N | Taxable | 0.480% | 2034 | | 20,660 | 20,660 |
| 2004 Series A | Tax-Exempt | | N/A | | - | - |
| 2004 Series E | Tax-Exempt | 0.050% | 2035 | | 40,690 | 40,690 |
| 2004 Series F | Taxable | 0.460% | 2035 | | 33,675 | 33,675 |
| 2004 Series G | Tax-Exempt | | N/A | | - | - |
| 2004 Series I | Tax-Exempt | | N/A | | - | - |
| 2005 Series A | Tax-Exempt | 0.050% | 2035 | | 61,380 | 61,380 |
| 2005 Series B | Tax-Exempt | | N/A | | - | - |
| 2005 Series B | Tax-Exempt | 0.060% | 2035 | | 59,490 | 59,490 |

**Swaps**

| Type | Fixed Rate Paid By Agency | Floating Rate Received By Agency | Effective Date | Termination Date | Outstanding Notional/Applicable Amount | Fair Value |
|---|---|---|---|---|---|---|
| Fixed payer | 4.9000% | LIBOR @ 65% | 5/25/00 | 8/1/30 | $ 17,765 | $ (3,414) |
| Fixed payer | 4.5275% | LIBOR @ 65% | 10/5/00 | 8/1/15 | 2,320 | (9) |
| Fixed payer | 4.5100% | LIBOR @ 65% | 12/13/00 | 8/1/31 | 20,025 | (3,555) |
| Fixed payer | 6.8430% | 3 mo LIBOR | 12/13/00 | 8/1/16 | 4,385 | (123) |
| Fixed payer | 6.2150% | 3 mo LIBOR+.26% | 1/25/01 | 8/1/19 | 17,145 | (1,599) |
| Fixed payer | 6.0100% | 3 mo LIBOR+.20% | 4/5/01 | 2/1/16 | 5,155 | (148) |
| Fixed payer | 4.1430% | LIBOR @ 65% | 5/31/01 | 8/1/24 | 20,320 | (1,316) |
| Fixed payer | 3.9910% | LIBOR @ 65% | 7/26/01 | 8/1/18 | 2,895 | (194) |
| Fixed payer | 6.3600% | 3 mo LIBOR+.27% | 7/26/01 | 8/1/20 | 20,990 | (2,269) |
| Fixed payer | 5.5300% | 3 mo LIBOR+.31% | 10/10/01 | 8/1/18 | 10,115 | (513) |
| Fixed payer | 4.1300% | SIFMA less .15% | 12/6/01 | 8/1/32 | 27,025 | (3,586) |
| Fixed payer | 3.8880% | LIBOR @ 65% | 4/18/02 | 8/1/27 | 30,100 | (4,627) |
| Fixed payer | 3.9940% | LIBOR @ 65% | 6/6/02 | 2/1/24 | 23,590 | (2,589) |
| Fixed payer | 3.8630% | LIBOR @ 65% | 8/8/02 | 8/1/32 | 34,425 | (3,258) |
| Fixed payer | 3.7280% | LIBOR @ 65% | 10/17/02 | 8/1/22 | 30,120 | (2,326) |
| Fixed payer | 3.1480% | LIBOR @ 65% | 12/12/02 | 8/1/22 | 40,955 | (2,829) |
| Fixed payer | 3.0875% | LIBOR @ 60%+.26% | 8/1/04 | 8/1/30 | 15,865 | (1,050) |
| Fixed payer | 3.6100% | LIBOR @ 60%+.26% | 2/1/05 | 2/1/34 | 33,475 | (3,505) |
| Fixed payer | 3.5600% | LIBOR @ 60%+.26% | 8/4/04 | 2/1/33 | 10,400 | (1,053) |
| Fixed payer | 3.8040% | LIBOR @ 60%+.26% | 4/5/05 | 8/1/35 | 61,380 | (9,868) |
| Fixed payer | 3.0490% | LIBOR @ 60%+.26% | 7/1/05 | 2/1/16 | 5,945 | (52) |
| Fixed payer | 3.7260% | LIBOR @ 60%+.26% | 7/1/05 | 2/1/35 | 2,430 | (47) |

| Bond Issue | Type of Bond | Interest Rate Range | Final Maturity Date | Outstanding Fixed | Outstanding Variable | Total |
|---|---|---|---|---|---|---|
| | Bonds | | | | | |
| 2005 Series F | Tax-Exempt | 0.050% | 2038 | | 73,980 | 73,980 |
| 2005 Series H | Tax-Exempt | | N/A | | - | - |
| 2006 Series C | Tax-Exempt | 0.050% | 2037 | | 68,100 | 68,100 |
| 2006 Series D | Tax-Exempt | 4.350% - 4.400% | 2017 | 10,920 | | 10,920 |
| 2006 Series E | Tax-Exempt | 4.875% - 5.050% | 2026 | 34,600 | | 34,600 |
| 2006 Series F | Tax-Exempt | | N/A | | - | - |
| 2006 Series F | Tax-Exempt | 0.060% | 2041 | | 26,090 | 26,090 |
| 2006 Series H | Tax-Exempt | 5.750% | 2030 | 6,030 | | 6,030 |
| 2006 Series I | Tax-Exempt | 4.700% - 4.875% | 2041 | 53,105 | | 53,105 |
| 2006 Series K | Tax-Exempt | 4.625% - 5.500% | 2042 | 97,070 | | 97,070 |
| 2006 Series L | Tax-Exempt | 4.150% | 2016 | 1,450 | | 1,450 |
| 2006 Series M | Tax-Exempt | 4.625% - 4.750% | 2042 | 80,570 | | 80,570 |
| 2007 Series A | Taxable | 5.720% | 2032 | 79,840 | | 79,840 |
| 2007 Series B | Taxable | 0.450% | 2042 | | 40,000 | 40,000 |
| 2007 Series C | Taxable | 0.450% | 2042 | | 20,000 | 20,000 |
| 2007 Series D | Tax-Exempt | 4.300% - 4.400% | 2018 | 16,050 | | 16,050 |
| 2007 Series E | Tax-Exempt | 4.700% - 5.000% | 2042 | 84,645 | | 84,645 |
| 2007 Series F | Tax-Exempt | 4.630% - 4.700% | 2017 | 13,420 | | 13,420 |
| 2007 Series G | Tax-Exempt | 4.950% - 5.500% | 2042 | 80,670 | | 80,670 |
| 2007 Series H | Tax-Exempt | | N/A | | - | - |
| 2007 Series H | Tax-Exempt | 0.060% | 2042 | | 34,975 | 34,975 |
| 2007 Series I | Tax-Exempt | 4.250% - 4.350% | 2017 | 5,205 | | 5,205 |
| 2007 Series J | Tax-Exempt | 5.750% | 2047 | 4,580 | | 4,580 |
| 2007 Series K | Tax-Exempt | 0.060% | 2037 | | 2,555 | 2,555 |
| 2007 Series K | Tax-Exempt | 0.060% | 2038 | | 25,000 | 25,000 |
| 2007 Series M | Taxable | 5.835% | 2032 | 71,560 | | 71,560 |
| 2007 Series N | Taxable | 0.450% | 2043 | | 60,000 | 60,000 |
| 2008 Series A | Tax-Exempt | 4.000% - 4.500% | 2020 | 20,450 | | 20,450 |
| 2008 Series B | Tax-Exempt | 4.800% - 5.000% | 2028 | 11,710 | | 11,710 |
| 2008 Series C | Tax-Exempt | | N/A | | - | - |
| 2008 Series C | Tax-Exempt | | N/A | | - | - |
| 2008 Series C | Tax-Exempt | | N/A | | - | - |
| 2008 Series C | Tax-Exempt | | N/A | | - | - |
| 2008 Series D | Tax-Exempt | 0.060% | 2043 | | 1,680 | 1,680 |
| 2008 Series D | Tax-Exempt | 0.060% | 2043 | | 2,595 | 2,595 |
| 2008 Series D | Tax-Exempt | 0.060% | 2043 | | 1,355 | 1,355 |
| 2008 Series D | Tax-Exempt | 0.060% | 2043 | | 3,865 | 3,865 |
| 2008 Series D | Tax-Exempt | 0.060% | 2031 | | 3,645 | 3,645 |
| 2008 Series D | Tax-Exempt | 0.060% | 2031 | | 5,850 | 5,850 |
| 2008 Series D | Tax-Exempt | 0.060% | 2043 | | 4,210 | 4,210 |
| 2008 Series E | Tax-Exempt | | N/A | | - | - |
| 2008 Series F | Tax-Exempt | 0.060% | 2032 | | 11,925 | 11,925 |
| 2008 Series G | Taxable | 6.000% | 2025 | 50,000 | | 50,000 |
| 2008 Series H | Taxable | 4.950% | 2020 | 50,695 | | 50,695 |
| 2008 Series I | Taxable | | N/A | | - | - |
| 2008 Series K | Tax-Exempt | 5.300% - 5.550% | 2033 | 79,700 | | 79,700 |
| 2008 Series L | Tax-Exempt | 5.200% - 5.550% | 2038 | 74,040 | | 74,040 |
| Housing Program Bonds: | | | | | | |
| 2006 Series A | Tax-Exempt | 4.850% - 4.950% | 2036 | 34,900 | | 34,900 |
| Residential Mortgage Revenue Bonds: | | | | | | |
| 2009 Series A-5 | Tax-Exempt | 3.160% | 2041 | 260,535 | | 260,535 |
| 2009 Series A-6 (MF) | Tax-Exempt | 3.270% | 2030 | 49,410 | | 49,410 |

**Swaps**

| Type | Fixed Rate Paid By Agency | Floating Rate Received By Agency | Effective Date | Termination Date | Outstanding Notional/Applicable Amount | Fair Value |
|---|---|---|---|---|---|---|
| Fixed payer | 3.8570% | LIBOR @ 62%+.25% | 12/15/05 | 2/1/36 | 12,430 | (250) |
| Fixed payer | 4.0590% | LIBOR @ 62%+.25% | 4/19/06 | 2/1/37 | 51,970 | (1,135) |
| Fixed payer | 4.2550% | LIBOR @ 62%+.25% | 7/27/06 | 8/1/40 | 24,000 | (675) |
| Fixed payer | 4.1360% | LIBOR @ 62%+.25% | 7/27/06 | 2/1/41 | 60,000 | (2,342) |
| Fixed payer | 4.0480% | LIBOR @ 62%+.25% | 8/8/07 | 2/1/31 | 50,000 | (2,323) |
| Fixed payer | 4.2360% | LIBOR @ 62%+.25% | 8/8/07 | 2/1/38 | 50,000 | (3,557) |
| Fixed payer | 3.9870% | LIBOR @ 63%+.24% | 11/7/07 | 8/1/32 | 25,000 | (1,277) |
| Fixed payer | 4.0400% | LIBOR @ 63%+.24% | 11/7/07 | 2/1/38 | 25,000 | (530) |
| Fixed payer | 4.8000% | LIBOR @ 65% | 4/6/00 | 2/1/23 | 2,225 | (508) |
| Fixed payer | 4.1430% | LIBOR @ 65% | 5/31/01 | 8/1/24 | 9,710 | (1,775) |
| Fixed payer | 3.9940% | LIBOR @ 65% | 6/6/02 | 2/1/24 | 7,005 | (1,293) |
| Fixed payer | 3.8630% | LIBOR @ 65% | 8/8/02 | 8/1/32 | 7,760 | (1,877) |
| Fixed payer | 4.9000% | LIBOR @ 65% | 5/25/00 | 8/1/30 | 1,680 | (628) |
| Fixed payer | 4.1430% | LIBOR @ 65% | 5/31/01 | 8/1/24 | 2,595 | (375) |
| Fixed payer | 3.9910% | LIBOR @ 65% | 7/26/01 | 8/1/18 | 1,355 | (129) |
| Fixed payer | 4.1300% | SIFMA less .15% | 12/6/01 | 8/1/32 | 3,865 | (1,016) |
| Fixed payer | 4.8500% | LIBOR @ 65% | 11/18/08 | 2/1/17 | 5,660 | (97) |
| Fixed payer | 4.8000% | LIBOR @ 65% | 4/6/00 | 2/1/23 | 6,560 | (647) |
| Fixed payer | 4.8500% | LIBOR @ 65% | 11/18/00 | 2/1/17 | 4,210 | (289) |
| Fixed payer | 4.6600% | LIBOR @ 65% | 11/18/08 | 2/1/16 | 2,030 | (30) |
| Fixed payer | 3.8700% | LIBOR @ 65% | 11/18/08 | 8/1/17 | 8,150 | (253) |
| Fixed payer | 7.1100% | LIBOR | 11/18/08 | 8/1/22 | 23,815 | (4,677) |

| Bond Issue | Type of Bond | Interest Rate Range | Final Maturity Date | Outstanding Fixed | Outstanding Variable | Total |
|---|---|---|---|---|---|---|
| | Bonds | | | | | |
| 2010 Series A | Tax-Exempt | 2.350% - 4.625% | 2027 | 13,645 | | 13,645 |
| 2011 Series A | Tax-Exempt | 2.050% - 4.750% | 2028 | 33,370 | | 33,370 |
| 2013 Series A | Taxable | 2.900% | 2042 | 57,593 | | 57,593 |
| 2013 Series B | Taxable | 2.900% | 2042 | 24,807 | | 24,807 |
| Multifamily Loan Purchase Bonds: | | | | | | |
| 2000 Series A | Taxable | Variable | 2017 | | 1,021 | 1,021 |
| Multifamily Housing Revenue Bonds III: | | | | | | |
| 2000 Series B | Tax-Exempt | | N/A | | - | - |
| 2000 Series D | Tax-Exempt | | N/A | | - | - |
| 2001 Series D | Tax-Exempt | 0.124% | 2021 | | 465 | 465 |
| 2001 Series E | Tax-Exempt | 0.052% | 2036 | | 29,265 | 29,265 |
| 2001 Series F | Tax-Exempt | 0.054% | 2032 | | 10,025 | 10,025 |
| 2001 Series G | Tax-Exempt | 0.061% | 2025 | | 2,695 | 2,695 |
| 2001 Series G | Tax-Exempt | 0.061% | 2036 | | 9,500 | 9,500 |
| 2001 Series G | Tax-Exempt | 0.061% | 2036 | | 7,480 | 7,480 |
| 2002 Series A | Tax-Exempt | | N/A | | - | - |
| 2002 Series A | Tax-Exempt | | N/A | | - | - |
| 2002 Series B | Tax-Exempt | | N/A | | - | - |
| 2002 Series C | Tax-Exempt | | N/A | | - | - |
| 2002 Series C | Tax-Exempt | | N/A | | - | - |
| 2002 Series D | Tax-Exempt | 0.054% | 2033 | | 3,655 | 3,655 |
| 2002 Series E | Tax-Exempt | 0.057% | 2037 | | 2,885 | 2,885 |
| 2002 Series E | Tax-Exempt | 0.057% | 2037 | | 11,580 | 11,580 |
| 2003 Series C | Tax-Exempt | 0.442% | 2038 | | 24,765 | 24,765 |
| 2004 Series A | Tax-Exempt | | N/A | | - | - |
| 2004 Series B | Tax-Exempt | 0.850% | 2036 | | 1,570 | 1,570 |
| 2004 Series B | Tax-Exempt | 0.850% | 2036 | | 3,375 | 3,375 |
| 2004 Series B | Tax-Exempt | 0.850% | 2036 | | 4,760 | 4,760 |
| 2004 Series B | Tax-Exempt | 0.850% | 2036 | | 10,805 | 10,805 |
| 2004 Series B | Tax-Exempt | 0.850% | 2036 | | 1,505 | 1,505 |
| 2004 Series C | Tax-Exempt | 0.356% | 2025 | | 6,190 | 6,190 |
| 2004 Series D | Tax-Exempt | 0.356% | 2039 | | 40,240 | 40,240 |
| 2005 Series A | Tax-Exempt | | N/A | | - | - |
| 2005 Series B | Tax-Exempt | | N/A | | - | - |
| 2005 Series B | Tax-Exempt | | N/A | | - | - |
| 2005 Series B | Tax-Exempt | | N/A | | - | - |
| 2005 Series C | Tax-Exempt | 4.100% - 4.900% | 2036 | 7,640 | | 7,640 |
| 2005 Series D | Tax-Exempt | 0.054% | 2038 | | 15,355 | 15,355 |
| 2005 Series E | Tax-Exempt | 4.550% - 5.125% | 2038 | 17,985 | | 17,985 |
| 2006 Series A | Tax-Exempt | | N/A | | - | - |
| 2006 Series A | Tax-Exempt | | N/A | | - | - |
| 2006 Series A | Tax-Exempt | | N/A | | - | - |
| 2007 Series B | Tax-Exempt | | N/A | | - | - |
| 2007 Series B | Tax-Exempt | | N/A | | - | - |
| 2007 Series C | Tax-Exempt | 0.089% | 2042 | | 4,840 | 4,840 |
| 2007 Series C | Tax-Exempt | 0.089% | 2040 | | 4,435 | 4,435 |
| 2008 Series A | Tax-Exempt | 0.048% | 2040 | | 7,265 | 7,265 |
| 2008 Series B | Tax-Exempt | 0.052% | 2036 | | 15,735 | 15,735 |
| 2008 Series B | Tax-Exempt | 0.052% | 2038 | | 8,870 | 8,870 |
| 2008 Series C | Tax-Exempt | 0.052% | 2038 | | 5,210 | 5,210 |
| 2008 Series C | Tax-Exempt | 0.052% | 2036 | | 12,150 | 12,150 |
| 2008 Series C | Tax-Exempt | 0.708% | 2038 | | 740 | 740 |
| 2014 Series A | Tax-Exempt | 0.850% - 4.800% | 2049 | 38,915 | | 38,915 |
| 2015 Series A | Taxable | 2.379% - 4.050% | 2030 | 174,180 | | 174,180 |

**Swaps**

| **Type** | **Fixed Rate Paid By Agency** | **Floating Rate Received By Agency** | **Effective Date** | **Termination Date** | **Outstanding Notional/Applicable Amount** | **Fair Value** |
|---|---|---|---|---|---|---|
| Fixed payer | 4.5850% | LIBOR @ 64% | 7/12/00 | 2/1/31 | 895 | (133) |
| Fixed payer | 4.3950% | LIBOR @ 64% | 11/16/00 | 2/1/31 | 11,205 | (2,488) |
| Fixed payer | 4.4520% | SIFMA less .20% | 6/28/01 | 8/1/22 | 1,720 | (225) |
| Fixed payer | 4.7120% | SIFMA less .15% | 6/28/01 | 2/1/36 | 41,420 | (10,692) |
| Fixed payer | 4.0290% | SIFMA less .20% | 2/1/02 | 2/1/32 | 11,370 | (1,731) |
| Fixed payer | 4.2050% | SIFMA less .15% | 2/1/02 | 8/1/36 | 2,710 | (421) |
| Fixed payer | 4.2050% | SIFMA less .15% | 2/1/02 | 8/1/36 | 33,875 | (7,092) |
| Fixed payer | 4.5950% | SIFMA less .15% | 2/1/04 | 2/1/34 | 8,150 | (2,030) |
| Fixed payer | 4.5000% | SIFMA less .15% | 8/1/02 | 8/1/32 | 14,095 | (2,936) |
| Fixed payer | 4.8900% | SIFMA less .15% | 2/2/04 | 2/1/37 | 10,105 | (3,077) |
| Fixed payer | 4.0370% | SIFMA less .20% | 2/1/03 | 2/1/35 | 20,080 | (3,736) |
| Fixed payer | 4.4050% | SIFMA less .15% | 2/1/04 | 2/1/37 | 12,150 | (3,154) |
| Fixed payer | 4.6380% | SIFMA less .15% | 8/1/05 | 8/1/37 | 14,210 | (3,901) |
| Fixed payer | 4.0850% | SIFMA less .20% | 2/3/03 | 2/1/35 | 10,155 | (2,183) |
| Fixed payer | 4.1510% | SIFMA less .15% | 2/3/03 | 2/1/35 | 13,495 | (2,982) |
| Fixed payer | 4.5710% | SIFMA less .15% | 11/1/04 | 8/1/37 | 36,415 | (10,780) |
| Fixed payer | 3.0590% | LIBOR @ 60%+.21% | 8/1/04 | 8/1/34 | 16,270 | (1,638) |
| Fixed payer | 3.6920% | LIBOR @ 60%+.26% | 8/1/06 | 8/1/36 | 11,070 | (1,257) |
| Fixed payer | 3.3300% | LIBOR @ 60%+.26% | 8/1/04 | 8/1/34 | 4,610 | (333) |
| Fixed payer | 4.9783% | SIFMA less .15% | 8/1/06 | 2/1/39 | 11,095 | (1,614) |
| Fixed payer | 4.5390% | SIFMA less .15% | 8/1/04 | 8/1/34 | 2,195 | (226) |
| Fixed payer | 3.4350% | LIBOR @ 60%+.21% | 2/1/05 | 8/1/25 | 6,310 | (666) |
| Fixed payer | 3.5640% | SIFMA less .20% | 7/1/05 | 8/1/35 | 2,050 | (352) |
| Fixed payer | 3.9540% | SIFMA less .15% | 6/15/05 | 8/1/35 | 2,350 | (214) |
| Fixed payer | 4.0790% | SIFMA less .15% | 2/1/07 | 2/1/37 | 21,425 | (2,319) |
| Fixed payer | 3.9570% | SIFMA less .15% | 8/1/07 | 2/1/38 | 3,540 | (360) |
| Fixed payer | 3.7010% | LIBOR @ 60%+.26% | 2/1/06 | 2/1/38 | 26,360 | (4,417) |
| Fixed payer | 4.042% * HR | 97% SIFMA & HR | 6/15/06 | 8/1/27 | 5,205 | (639) |
| Fixed payer | 4.381% * HR | 97% SIFMA & HR | 6/15/06 | 8/1/39 | 8,405 | (908) |
| Fixed payer | 4.492% * HR | 97% SIFMA & HR | 6/15/06 | 2/1/41 | 3,845 | (469) |
| Fixed payer | 3.9370% | LIBOR @ 64%+.25% | 7/12/07 | 2/1/22 | 1,700 | (146) |
| Fixed payer | 4.2220% | LIBOR @ 64%+.25% | 8/1/09 | 2/1/40 | 5,410 | (982) |
| Fixed payer | 3.7280% | LIBOR @ 63%+.30% | 2/1/08 | 8/1/42 | 5,210 | (596) |
| Fixed payer | 3.9190% | LIBOR @ 63%+.30% | 11/1/09 | 8/1/40 | 13,020 | (2,131) |
| Fixed payer | 3.2950% | LIBOR @ 61%+.24% | 11/1/09 | 8/1/40 | 9,570 | (1,756) |
| Fixed payer | 3.3850% | SIFMA less .15% | 8/1/03 | 8/1/36 | 19,045 | (2,311) |
| Fixed payer | 4.2950% | SIFMA less .15% | 8/1/05 | 2/1/38 | 25,195 | (1,783) |
| Fixed payer | 3.8830% | LIBOR @ 60%+.26% | 12/1/04 | 8/1/38 | 7,895 | (1,758) |
| Fixed payer | 3.9680% | LIBOR @ 60%+.26% | 7/1/05 | 2/1/36 | 12,150 | (2,578) |
| Fixed payer | 4.0600% | LIBOR @ 60%+.26% | 2/1/06 | 8/1/38 | 8,200 | (1,964) |

| Bond Issue | Type of Bond | Interest Rate Range | Final Maturity Date | Bonds: Outstanding Fixed | Outstanding Variable | Total |
|---|---|---|---|---|---|---|
| Affordable Multifamily Housing Revenue Bonds: | | | | | | |
| 2009 Series A-21 | Tax-Exempt | 2.320% | 2046 | 49,250 | | 49,250 |
| 2009 Series A-22 | Tax-Exempt | 2.320% | 2039 | 34,440 | | 34,440 |
| | | | | 1,722,980 | 1,186,986 | 2,909,966 |
| Unamortized discount | | | | | | (187) |
| Unamortized premium | | | | | | 4,847 |
| | | | | | | $ 2,914,626 |

**Swaps**

| **Type** | **Fixed Rate Paid By Agency** | **Floating Rate Received By Agency** | **Effective Date** | **Termination Date** | **Outstanding Notional/Applicable Amount** | **Fair Value** |
|---|---|---|---|---|---|---|
| | | | | | $ 1,296,020 | $ (162,591) |

*Notes Payable*: The Agency entered into loan agreements with Citibank N.A. on March 1, 2010. The Agency received funds for special bond redemptions in exchange for a total notes payable of $95.1 million. The notes are collateralized by multifamily loan receivables. The outstanding maturity dates for the loan receivables range from September 1, 2015 to January 1, 2046 and the interest rates range from 5.25% to 9.00%. The Agency collects and remits the mortgage payments less servicing fees to Citibank on 24 multifamily loans. Changes in notes payable for the years ended June 30, 2015 and 2014 are as follows (dollars in thousands):

| | 2015 Totals | 2014 Totals |
|---|---|---|
| Beginning of year balance | $ 63,595 | $ 81,058 |
| Principal payments | (9,015) | (17,463) |
| End of year balance | $ 54,580 | $ 63,595 |
| | | |
| Current portion | $ 2,048 | $ 2,253 |
| Noncurrent portion | 52,532 | 61,342 |
| Total | $ 54,580 | $ 63,595 |

The table below provides a summary of note payment requirements for the next five years and in five year increments thereafter (dollars in thousands).

| Fiscal Year Ending June 30 | Principal | Interest | Total |
|---|---|---|---|
| 2016 | $ 2,048 | $ 2,804 | $ 4,852 |
| 2017 | 2,077 | 2,704 | 4,781 |
| 2018 | 2,197 | 2,592 | 4,789 |
| 2019 | 2,331 | 2,474 | 4,805 |
| 2020 | 2,475 | 2,355 | 4,830 |
| 2021-2025 | 13,489 | 9,702 | 23,191 |
| 2026-2030 | 13,657 | 6,180 | 19,837 |
| 2031-2035 | 11,049 | 2,692 | 13,741 |
| 2036-2040 | 2,843 | 912 | 3,755 |
| 2041-2045 | 2,127 | 362 | 2,489 |
| 2046 | 287 | 5 | 292 |
| Total | $ 54,580 | $ 32,782 | $ 87,362 |

*Conduit Debt Obligations*: Beginning in 2009, the Agency issued conduit housing revenue debt obligations to provide financial assistance for the acquisition, construction and development of multifamily rental housing. They are limited obligations of the Agency, payable solely from the revenues and other funds and money pledged and assigned under the applicable indenture, series indenture, master pledge and assignment, or funding loan agreement.

The Agency had 35 series of conduit debt obligations aggregating $372.4 million as of June 30, 2015 and 31 series of conduit debt obligations aggregating $341.0 million as of June 30, 2014. For the years ended June 30, 2015 and 2014, all the authorized conduit debt obligations were issued. For the years ended June 30, 2015 and 2014, the Agency issued $30.1 million and $39.2 million in conduit debt obligations, respectively.

The Agency may collect amounts from borrowers for application processing, issuance fees, administration fees, special issuer fees, unearned revenue-prepaid administration fees and California Debt Limit Allocation Committee (CDLAC) performance fees. If the conduit debt obligations are issued, the CDLAC performance fees are returned. For the year ended June 30, 2015, the Agency collected $2.3 million in administration fees, $220 thousand in special issuer fees and $406 thousand in unearned revenue-prepaid administration fees. For the year ended June 30, 2014, the Agency collected $13 thousand in issuance fees, $2.6 million in administration fees, $207 thousand in special issuer fees and $424 thousand in unearned revenue-prepaid administration fees. The collected amounts are used to pay the Agency’s operating expenses.

*Reconciliation of Bonds Payable*: Changes in bonds payable for the years ended June 30, 2015 and 2014 are as follows (dollars in thousands):

| | 2015 Totals | 2014 Totals |
|---|---|---|
| Beginning of year balance | $ 3,532,752 | $ 4,498,536 |
| New bonds issued | 174,180 | 38,915 |
| Scheduled maturities | (55,061) | (63,893) |
| Redemptions | (736,083) | (943,972) |
| Amortized discount | 27 | 27 |
| Amortized premium | (1,189) | (1,657) |
| Reclassified deferred loss to deferred outflow | | 4,898 |
| Additions to discount | | (102) |
| End of year balance | $ 2,914,626 | $ 3,532,752 |
| | | |
| Current portion | $ 53,733 | $ 67,904 |
| Noncurrent portion | 2,860,893 | 3,464,848 |
| Total | $ 2,914,626 | $ 3,532,752 |

*Variable Rate Debt and Debt Service Requirements*: The Agency's variable rate debt is typically related to remarketed rates or common indices such as the Securities Industry and Financial Markets Association ("SIFMA") or the London Inter-Bank Offered Rate ("LIBOR") and resets periodically. The interest calculations shown in the table below are based on the variable rate in effect at June 30, 2015, and may not be indicative of the actual interest expense that will be incurred by the Fund. As rates vary, variable rate bond interest payments and net swap payments will vary. The table below provides a summary of debt service requirements and net swap payments for the next five years and in five year increments thereafter (dollars in thousands).

| Fiscal Year | Fixed/Variable Unswapped | | Variable Swapped | | Interest Rate | |
|---|---|---|---|---|---|---|
| Ending June 30 | Principal | Interest | Principal | Interest | Swaps, Net | Total |
| 2016 | $ 53,730 | $76,788 | | $ 826 | $ 50,890 | $ 182,234 |
| 2017 | 75,710 | 73,590 | $ 7,800 | 855 | 46,576 | 204,531 |
| 2018 | 65,357 | 70,907 | 11,495 | 836 | 42,874 | 191,469 |
| 2019 | 61,215 | 68,532 | 12,985 | 799 | 39,366 | 182,897 |
| 2020 | 61,000 | 66,369 | 13,700 | 758 | 36,133 | 177,960 |
| 2021-2025 | 477,310 | 284,887 | 64,180 | 3,141 | 143,484 | 973,002 |
| 2026-2030 | 586,010 | 182,969 | 95,370 | 2,266 | 101,578 | 968,193 |
| 2031-2035 | 572,765 | 95,231 | 158,830 | 1,107 | 52,478 | 880,411 |
| 2036-2040 | 266,020 | 48,961 | 105,335 | 321 | 11,362 | 431,999 |
| 2041-2045 | 185,329 | 12,575 | 24,675 | 59 | 483 | 223,121 |
| 2046-2050 | 11,150 | 1,079 | | | | 12,229 |
| Total | $ 2,415,596 | $ 981,888 | $ 494,370 | $ 10,968 | $ 525,224 | $ 4,428,046 |

As of June 30, 2015, the difference between the gross bonds payable and the net bonds payable was $4.7 million. This represented the aggregate of the unamortized bond premium and bond discount.

*Objective of the Interest Rate Swaps*: In order to protect against rising rates, the Agency primarily entered into swaps to establish synthetic fixed rates for a like amount of the Agency's variable rate bond obligations. The majority of the Agency's interest rate swap transactions are structured for the Agency to pay a fixed interest rate while receiving a variable interest rate (fixed payer swaps) and exceptions are listed under Basis Risk Associated with Interest Rate Swaps. Synthetic fixed rates provide the Agency with a significantly lower fixed cost of funds compared to issuing fixed-rate bonds; however, the increased risks related to the synthetic fixed rates have the effect of increasing costs to the Agency.

*Terms, Fair Value and Credit Risk*: The terms and fair values of the outstanding fixed payer swaps as of June 30, 2015 are summarized in the table at the beginning of Note 7. The terms and fair values of the outstanding basis swaps are summarized in the table under Basis Risk.

The fair value of the swaps is reported as "Derivative swap asset" within "Other assets" or as "Derivative swap liability" within "Other liabilities" in the statements of net position. The accumulated decrease or increase in the fair value of the effective swaps is reported as "Accumulated decrease in fair value of hedging derivatives" within "Deferred outflow of resources" or "Accumulated increase in fair value of hedging derivatives" within "Deferred inflow of resources" in the statements of net position. Alternatively, the gain or loss on the fair value of the ineffective swaps is reported as "Investment swap revenue" within "Other revenues" in the statements of revenues, expenses and changes in net position.

The Agency did not pay or receive any cash when swap transactions were initiated except for in-substance assignments. For the year ended June 30, 2015, no additional swaps were considered investment derivatives because they no longer met the criteria for effectiveness. For the year ended June 30, 2014, 29 swaps with associated outstanding bonds were considered investment derivatives because they no longer met the criteria for effectiveness. Accordingly, the accumulated changes in fair value that were reported as deferred outflow of resources of $52.5 million as of June 30, 2013, along with the decrease in the fair value of the swaps for the year ended June 30, 2014 of $2.9 million are reported as "Investment swap revenue" within "Other revenues" for the year ended June 30, 2014. The following table summarizes the swap fair value activity in the statements of net position as of June 30, 2015 and 2014 and the statements of revenues, expenses and changes in net position for the years ended June 30, 2015 and 2014 (dollars in thousands):

| | 2015 | 2014 |
|---|---|---|
| Statements of Net Position: | | |
| Derivative swap asset | $ 299 | $ 215 |
| Accumulated decrease in fair value of hedging derivatives | 23,544 | 25,042 |
| Derivative swap liability | 162,591 | 186,402 |
| Statements of Revenues, Expenses and Changes in Net Position: | | |
| Investment swap revenue | $ 22,397 | $ (70,280) |

Except as discussed under rollover risk, the Agency's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated "bonds payable" category.

As of June 30, 2015, the Agency executed interest rate swap transactions with 11 swap counterparties. All of the Agency's interest rate swap agreements require the Agency to post collateral if its general obligation credit ratings, as issued by Moody's and Standard and Poor's fall below a certain level and if the fair value of the swaps breach a certain threshold. The collateral can be posted in several forms: cash, mortgage-backed securities, or treasury securities. If the Agency does not post collateral, the interest rate swap can be terminated by the counterparty. The cash collateral and securities collateral are reported as "Current assets: Other Assets" and "Noncurrent assets: Investments," respectively, in the statements of net position. As of June 30, 2015, the Agency posted cash and fair value of mortgage-backed securities as collateral with swap counterparties in the amounts of $33.9 million and $17.2 million, respectively. As of June 30, 2014, the Agency posted cash and fair value of mortgage-backed securities as collateral in the amounts of $13.3 million and $42.7 million, respectively.

Because interest rates are generally lower than the rates in effect at inception of the swap agreements, the Agency's fixed payer swap agreements had an aggregate negative fair value of $162.6 million as of June 30, 2015 and $186.4 million as of June 30, 2014. Fair values are as reported by the Agency's dealer counterparties and are estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

As of June 30, 2015, the Agency's swap portfolio had an aggregate asset position of $299 thousand. This represents the maximum loss that would be reported at the reporting date if all counterparties failed to perform as contracted. However, this maximum exposure is eliminated by the applicable counterparty swap liabilities included in the $162.6 million total. Therefore, the Agency has no net exposure to credit risk.

The following table shows the number of fixed payer swaps and outstanding notional amounts by the counterparties' respective credit ratings as of June 30, 2015 (dollars in thousands).

| Moody's | Standard & Poors | Outstanding Notional Amount | Number of Swap Transactions |
|---|---|---|---|
| Aa2 | AA- | $ 25,000 | 1 |
| Aa2 | AAA | 179,090 | 7 |
| Aa3 | A+ | 711,000 | 45 |
| A1 | A+ | 33,475 | 1 |
| A2 | A | 11,370 | 1 |
| A3 | A- | 50,000 | 1 |
| A3 | BBB+ | 125,710 | 10 |
| Baa1 | A- | 150,805 | 7 |
| Baa3 | BBB | 9,570 | 1 |
| | | $ 1,296,020 | 74 |

*Interest Rate Risk*: The Agency is exposed to interest rate risk on its fixed payer swaps. As the LIBOR or the SIFMA swap index decreases, the Agency's net payments on the swaps increase.

*Basis Risk*: All of the Agency's interest rate swaps contain an element of basis risk, the risk that the floating rate component of the swap will not match the floating rate of the underlying bonds. This risk arises because floating rates paid by swap counterparties are based on indices, which consist of market-wide averages, while interest paid on the Agency's variable rate bonds is specific to individual bond issues.

Historically, the Agency's variable rate tax-exempt bonds trade at a slight discount to the SIFMA index. For those swaps associated with tax-exempt bonds for which the Agency receives a variable rate payment based on a percentage of LIBOR, the Agency is exposed to basis risk should the relationship between SIFMA and LIBOR converge.

Multiple swap formulas have been used by the Agency. As of June 30, 2015, the formulas for the swap portfolio utilized the SIFMA, the 1 month LIBOR and the 3 month LIBOR rates. As of June 30, 2015, rates for the SIFMA, the 1 month LIBOR and the 3 month LIBOR were 0.07%, 0.19% and 0.28%, respectively. The swap formulas will continue to be monitored for its effectiveness in case the Agency chooses to enter into any future interest rate swaps. In addition, the Agency holds 8 basis swaps as a means to change the variable rate formula received for $146.7 million of swap notional amount. These basis swaps changed the variable rate formula received from counterparties from 65% of LIBOR to those described in the following table as of June 30, 2015 (dollars in thousands):

| Bond Issue | Variable Rate Paid By Agency | Floating Rate Received By Agency */** | Effective Date | Termination Date | Outstanding Notional/Applicable Amount | Fair Value |
|---|---|---|---|---|---|---|
| Home Mortgage Revenue Bonds: | | | | | | |
| 2000 Series C | LIBOR @ 65% | LIBOR @ 85%-0.019% | 2/1/04 | 2/1/17 | $ 9,870 | $ 4 |
| 2000 Series J | LIBOR @ 65% | LIBOR @ 85%-0.019% | 2/1/04 | 8/1/30 | 19,445 | 45 |
| 2000 Series U | LIBOR @ 65% | LIBOR @ 85%-0.019% | 2/1/04 | 8/1/15 | 2,320 | 1 |
| 2000 Series X-2 | LIBOR @ 65% | LIBOR @ 85%-0.019% | 2/1/04 | 8/1/31 | 20,025 | 42 |
| 2001 Series N | LIBOR @ 65% | LIBOR @ 85%-0.019% | 2/1/04 | 8/1/18 | 4,250 | 8 |
| 2002 Series B | LIBOR @ 65% | LIBOR @ 85%-0.019% | 2/1/04 | 8/1/27 | 30,100 | 64 |
| 2002 Series F | LIBOR @ 65% | LIBOR @ 85%-0.019% | 2/1/04 | 2/1/24 | 30,595 | 78 |
| 2002 Series M | LIBOR @ 65% | LIBOR @ 85%-0.019% | 2/1/04 | 8/1/22 | 30,120 | 57 |
| | | | | | $ 146,725 | $ 299 |

* The notional amount and the amortization of these swaps mirror the initial 65% of LIBOR swaps, basically overlaying the swaps so that the effective rate received from the counterparties are the rates shown in the table above.

**The variable interest rate received by the counterparties is dependent on the LIBOR interest rate at the time of settlement. The rate shown in the table is the effective rate at June 30, 2015.

*Termination Risk*: Counterparties to the Agency's interest rate swap agreements have ordinary termination rights that require settlement payments by the Agency or the counterparty based on the fair value of the swap at the date of termination.

*Rollover Risk*: The Agency is exposed to rollover risk on interest rate swaps that are hedges of debt that mature or may be terminated prior to the maturity of the hedged debt. When these swaps terminate, the Agency will be re-exposed to the risks being hedged by the swaps. The fixed payer interest rate swaps' termination dates and associated debts' maturities are listed in the previous bonds payable and interest rate swap table.

*Over Hedged Bonds*: All notional amounts (or "applicable amounts") of the fixed payer swaps match the principal amounts of the associated debt with the following exceptions as of June 30, 2015 (dollars in thousands):

| Bond Issue | Bonds Outstanding | Swap Notional Amount | Unmatched Swap | Fair Value |
|---|---|---|---|---|
| Home Mortgage Revenue Bonds | | | | |
| 2000 Series J * | | $ 17,765 | $ 17,765 | $ (3,369) |
| 2000 Series X2 * | | 20,025 | 20,025 | (3,513) |
| 2001 Series J | | 20,320 | 20,320 | (1,316) |
| 2001 Series N * | | 2,895 | 2,895 | (186) |
| 2001 Series U | | 27,025 | 27,025 | (3,586) |
| 2002 Series B * | | 30,100 | 30,100 | (4,563) |
| 2002 Series F * | | 23,590 | 23,590 | (2,512) |
| 2002 Series J | $ 25,605 | 34,425 | 8,820 | (835) |
| 2002 Series M * | | 30,120 | 30,120 | (2,269) |
| 2002 Series P | | 40,955 | 40,955 | (2,829) |
| 2004 Series A | | 15,865 | 15,865 | (1,050) |
| 2004 Series G | | 33,475 | 33,475 | (3,504) |
| 2004 Series I | | 10,400 | 10,400 | (1,053) |
| 2005 Series B | | 5,945 | 5,945 | (52) |
| 2005 Series H | | 12,430 | 12,430 | (250) |
| 2006 Series F | | 24,000 | 24,000 | (675) |
| 2006 Series F | 26,090 | 60,000 | 33,910 | (1,324) |
| 2007 Series H | 34,975 | 50,000 | 15,025 | (1,069) |
| 2007 Series H | | 50,000 | 50,000 | (2,323) |
| 2007 Series K | 2,555 | 25,000 | 22,445 | (1,147) |
| 2008 Series C | | 2,225 | 2,225 | (508) |
| 2008 Series C | | 9,710 | 9,710 | (1,774) |
| 2008 Series C | | 7,005 | 7,005 | (1,293) |
| 2008 Series C | | 7,760 | 7,760 | (1,877) |
| 2008 Series D | 5,850 | 6,560 | 710 | (70) |
| 2008 Series D | 3,645 | 5,660 | 2,015 | (34) |
| 2008 Series E | | 2,030 | 2,030 | (30) |
| 2008 Series I | | 23,815 | 23,815 | (4,677) |
| Multifamily Housing Revenue Bonds III | | | | |
| 2000 Series B | | 895 | 895 | (133) |
| 2000 Series D | | 11,205 | 11,205 | (2,488) |
| 2001 Series D | | 1,255 | 1,255 | (164) |
| 2001 Series E | | 12,135 | 12,135 | (3,132) |
| 2001 Series E | 29,265 | 29,285 | 20 | (5) |
| 2001 Series F | 10,025 | 11,370 | 1,345 | (205) |
| 2001 Series G | 2,695 | 2,710 | 15 | (2) |
| 2001 Series G | 9,500 | 33,875 | 24,375 | (5,103) |
| 2001 Series G | 7,480 | 8,150 | 670 | (167) |
| 2002 Series A | | 14,095 | 14,095 | (2,936) |
| 2002 Series A | | 10,105 | 10,105 | (3,078) |
| 2002 Series B | | 20,080 | 20,080 | (3,736) |
| 2002 Series C | | 12,150 | 12,150 | (3,154) |
| 2002 Series C | | 14,210 | 14,210 | (3,901) |
| 2002 Series D | 3,655 | 10,155 | 6,500 | (1,397) |
| 2002 Series E | 2,885 | 13,495 | 10,610 | (2,345) |
| 2002 Series E | 11,580 | 36,415 | 24,835 | (7,352) |
| 2004 Series A | | 16,270 | 16,270 | (1,638) |
| 2004 Series B | 1,570 | 11,070 | 9,500 | (1,078) |
| 2004 Series B | 1,505 | 2,195 | 690 | (71) |
| 2004 Series B | 10,805 | 11,095 | 290 | (42) |
| 2004 Series C | 6,190 | 6,310 | 120 | (13) |
| 2005 Series A | | 2,050 | 2,050 | (352) |
| 2005 Series B | | 2,350 | 2,350 | (214) |
| 2005 Series B | | 21,425 | 21,425 | (2,319) |
| 2005 Series B | | 3,540 | 3,540 | (360) |
| 2005 Series D | 15,355 | 26,360 | 11,005 | (1,844) |
| 2006 Series A | | 5,205 | 5,205 | (639) |
| 2006 Series A | | 8,405 | 8,405 | (908) |
| 2006 Series A | | 3,845 | 3,845 | (469) |
| 2007 Series B | | 5,410 | 5,410 | (982) |
| 2007 Series B | | 1,700 | 1,700 | (146) |

| Bond Issue | Bonds Outstanding | Swap Notional Amount | Unmatched Swap | Fair Value |
|---|---|---|---|---|
| Multifamily Housing Revenue Bonds III (continued) | | | | |
| 2007 Series C | 4,435 | 13,020 | 8,585 | (1,405) |
| 2007 Series C | 4,840 | 5,210 | 370 | (42) |
| 2008 Series A | | 2,300 | 2,300 | (422) |
| 2008 Series A | 7,265 | 7,270 | 5 | (1) |
| 2008 Series B | | 3,250 | 3,250 | (394) |
| 2008 Series B | | 16,255 | 16,255 | (1,150) |
| 2008 Series B | 15,735 | 15,795 | 60 | (7) |
| 2008 Series B | 8,870 | 8,940 | 70 | (5) |
| 2008 Series C | | 2,715 | 2,715 | (605) |
| 2008 Series C | | 7,470 | 7,470 | (1,789) |
| Total | $ 252,375 | $ 1,050,140 | $ 797,765 | $ (103,881) |

*Includes Basis Swap.

**Note 8 – NONMORTGAGE INVESTMENT AND MORTGAGE YIELD**

In accordance with Federal law, the Agency is required to rebate to the Internal Revenue Service ("IRS") the excess of the amount actually earned on all nonmortgage investments (derived from investing the bond proceeds) over the amount that would have been earned had those investments borne a rate equal to the yield on the bond issue, plus any income attributable to such excess. As of June 30, 2015 and 2014, the Fund had liabilities to the IRS totaling $353 thousand and $1.1 million, respectively and reported in the statements of net position as "Due to IRS" within "Due to other government entities." For the years ended June 30, 2015 and 2014, the net effects of changes in the liability have been recorded as decreases in "Interest income: Investments" in the statements of revenues, expenses and changes in net position.

Additionally, the Agency has identified all the bond series that were issued as variable rate plans of finance and subject to review and monitoring of mortgage yield excess. As of June 30, 2015 and 2014, the Fund had liabilities to the IRS totaling $9.0 million and $13.0 million, respectively and reported in the statements of net position as "Due to IRS" within "Due to other government entities." For the years ended June 30, 2015 and 2014, the net effects of changes in the liability have been recorded as a decreases in "Interest income: Program loans" in the statements of revenues, expenses and changes in net position. The Agency will continue to monitor the status of mortgage yield compliance to mitigate further liability.

**Note 9 – EXTINGUISHMENT OF DEBT**

On April 14, 2015, the Agency issued Multifamily Housing Revenue Bonds 2015 Series A and the proceeds were used to refund prior Multifamily Housing Revenue Bonds III series on April 24, 2015 and in a subsequent period as described in Note 17. No losses were incurred from the debt refundings.

The refundings will decrease the debt service cash flow for Multifamily Rental Housing Programs by $38.3 million. The refundings will also provide an estimated economic gain of $25.5 million.

**Note 10 – PENSION PLAN**

*Plan Description, Benefits Provided and Employees Covered*: As part of the State, the primary government, the Fund contributes to the Miscellaneous Plan (the "Plan") and it is administered by the California Public Employees' Retirement System ("CalPERS"). The Plan is included in the Public Employees' Retirement Fund A ("PERF A"). PERF is comprised of and reported as PERF A, PERF B and PERF C for accounting purposes. PERF A is comprised of agent multiple-employer plans, which include State and most public agencies rate plans. The Plan is a defined benefit pension plan. A full description of the pension plan regarding number of employees covered, benefit provisions, assumptions and membership information are listed in the June 30, 2013 Annual Actuarial Valuation Report. Details of the benefits provided can be obtained in Appendix B of the actuarial valuation report. This report and CalPERS' audited financial statements are publicly available reports that can be obtained via the internet at www.calpers.ca.gov under Forms and Publications.

*Prior to GASB 68 Implementation*: GASB 68 is effective for reporting periods beginning after June 15, 2014. Prior to the implementation of GASB 68 in the year ended June 30, 2015, the net pension liability was not reported. For the prior period ended June 30, 2014, the employer contribution rates were 21.20% - 21.36% for the period from July 2013 to June 2014. Additionally for the period ended June 30, 2014, the Fund contributed $3.6 million for pensions.

*GASB 68 Accounting Valuation Report*: The State requested a CalPERS GASB 68 Accounting Valuation Report for the Plan. A copy of this report may be obtained from the State Controller's Office, Division of Accounting and Reporting.

*Contributions*: Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ended June 30, 2014 (the measurement date), the average active employee contribution rate was 6.53% of annual payroll and the employer's contribution rate was 21.14% of annual payroll. These rates reflect Section 20683.2, which mandates that certain employees must contribute more as of July 1, 2013. Furthermore, any reduction in employer contributions due to the increase in the employee contributions must be paid by the employer towards the unfunded liability. It is the responsibility of the employer to make necessary accounting adjustments to reflect the impact due to any Employer Paid Member Contributions or situations where members are paying a portion of the employer contribution. Contributions to the Plan were $4.3 million for the year ended June 30, 2015.

*Pension Liabilities, Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions*: As of June 30, 2015, the Fund reported a liability of $43.7 million for its proportionate share of the State's net pension liability. The net pension liability was measured as of June 30, 2014 and was based on the Fund's pensionable compensation as a percentage of the State's total pensionable compensation. As of June 30, 2014, the Fund's proportionate share was 0.17%.

For the year ended June 30, 2015, the Fund recognized pension expense of $3.1 million. As of June 30, 2015, the Fund reported deferred outflows of resources and deferred inflows of resources related to pensions for the following sources (dollars in thousands):

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Net difference between projected and actual earnings on pension plan investments | | $ 8,148 |
| Fund contributions and proportionate share of contributions | | 82 |
| Fund contributions subject to the measurement date | $ 4,311 | |
| | $ 4,311 | $ 8,230 |

The $4.3 million reported as deferred outflows of resources related to pensions resulting from Fund contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows (dollars in thousands):

| Fiscal year ending June 30: | |
|---|---|
| 2016 | $ (2,066) |
| 2017 | (2,066) |
| 2018 | (2,061) |
| 2019 | (2,037) |

*Actuarial Assumptions*: For the measurement period ended June 30, 2014, the total pension liability was determined by rolling forward the June 30, 2013 total pension liability. The June 30, 2013 and the June 30, 2014 total pension liabilities were based on the following actuarial assumptions:

| | |
|---|---|
| Inflation | 2.75% |
| Salary increases | Varies by entry age and service |
| Investment rate of return | 7.50%, net of pension plan investment and administrative expenses; includes inflation |
| Post retirement benefit increase | Contract COLA up to 2.75% until purchasing power protection allowance floor on purchasing power applies |

Post-retirement mortality tables were based on CalPERS specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study that can be obtained via the internet at www.calpers.ca.gov under Forms and Publications.

All other actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increases, mortality and retirement rates. The Experience Study report can be obtained via the internet at www.calpers.ca.gov under Forms and Publications.

The long term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all of the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

| Asset Class | Target Allocation | Real Return Years 1-10[1] | Real Return Years 11+[2] |
|---|---|---|---|
| Global Equity | 47% | 5.25% | 5.71% |
| Global Fixed Income | 19 | 0.99 | 2.43 |
| Private Equity | 12 | 6.83 | 6.95 |
| Real Estate | 11 | 4.50 | 5.13 |
| Inflation Sensitive | 6 | 0.45 | 3.36 |
| Infrastructure and Forestland | 3 | 4.50 | 5.09 |
| Liquidity | 2 | (0.55) | (1.05) |
| | 100% | | |

[1]An expected inflation of 2.5% used for this period
[2]An expected inflation of 3.0% used for this period

*Discount Rate*: The discount rate used to measure the total pension liability was 7.50%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.5% is applied to all plans in the Public Employees' Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at via the internet at www.calpers.ca.gov under the GASB 68 section.

According to paragraph 68 of GASB 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50% investment return assumption used is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65%. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability.

CalPERS is scheduled to review all actuarial assumptions as part of the regular Asset Liability Management review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least fiscal year 2017-18. CalPERS will continue to check the materiality of the difference in calculation until such time that the methodology changes.

*Sensitivity of the Fund's Proportionate Share of the Net Pension Liability to Changes in Discount Rate*: The following presents the Fund's proportionate share of the net pension liability as of the measurement date, calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.50%) or 1 percentage-point higher (8.50%) than the current rate (dollars in thousands):

| | Discount Rate – 1% (6.50%) | Current Discount Rate (7.50%) | Discount Rate + 1% (8.50%) |
|---|---|---|---|
| Fund's net pension liability | $ 63,546 | $ 43,722 | $ 27,043 |

*Pension Plan Fiduciary Net Position*: As of June 30, 2014, the Plan's fiduciary net position was $68.4 billion. Detailed information about PERF A's fiduciary net position is available via the internet at www.calpers.ca.gov under Forms and Publications.

*Payable to the Pension Plan*: As of June 30, 2015, the Fund did not report a payable related to pension contributions.

**Note 11 – OTHER POSTEMPLOYEMENT BENEFITS**

The Other Postemployment Benefits ("OPEB") is a single-employer defined benefit healthcare plan administered by CalPERS. The State of California is required to include the information in its financial reports. State Controller's Office sets the employer contribution rate based on the annual required contribution ("ARC") of the employers, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. The Agency's estimated unfunded OPEB liabilities were $24.9 million and $21.5 million for the year ended June 30, 2015 and June 30, 2014, respectively. As of June 30, 2015, the allocated contribution of OPEB from the Fund was $2.1 million, compared to $1.9 million for the year ended June 30, 2014. CalPERS issues a publicly available Comprehensive Annual Financial Report ("CAFR") that includes financial statements and required supplementary information for the OPEB.

**Note 12 – COMMITMENTS**

As of June 30, 2015, the Agency had no outstanding commitments and conditionally approved loan reservation to fund Homeownership Program loans and had outstanding commitments to fund Multifamily Program loans totaling $14 million. As of June 30, 2015, the Agency had proceeds available from bonds issued to fund $877 thousand of Homeownership Program loans and $25 million of Multifamily Program loans.

**Note 13 – LEASES**

The Agency has three office locations in California and has entered into three separate lease agreements for office space. The Base Rent Schedules are as follows (dollar in thousands):

| Fiscal years ended June 30 | 500 Capitol Mall Tower, LLC (Sacramento Office) Lease ends 7/31/23 | Harsch Investment Properties, LLC (West Sacramento Office) Lease ends 5/31/16 | Slauson Investors, LLC (Culver City Office Lease ends 2/28/19 | Total |
|---|---|---|---|---|
| 2015 | 2,325 | 302 | 235 | 2,862 |
| 2016 | 2,372 | 268 | 242 | 2,882 |
| 2017 | 2,419 | | 249 | 2,668 |
| 2018 | 2,468 | | 257 | 2,725 |
| 2019 | 2,517 | | 154 | 2,671 |
| 2020-24 | 10,810 | | | 10,810 |
| Total | $ 22,911 | $ 570 | $ 1,137 | $ 24,618 |

**Note 14 – ARRANGEMENTS WITH THE MORTGAGE INSURANCE FUND**

All operating and administrative expenses of the Agency are initially paid from the Fund including certain operating and administrative expenses in support of mortgage guarantee insurance programs which are reported in the Mortgage Insurance Fund. Monthly, the Fund charges the Mortgage Insurance Fund for these expenses and is reimbursed from the share of premiums from policies still in force and the remaining amount is used to pay outstanding claims of the Mortgage Insurance Fund.

Effective March 1, 2003, the Mortgage Insurance Fund entered into a reinsurance treaty and administrative services agreement with Genworth Mortgage Insurance Corporation ("Genworth"). This agreement cedes to Genworth a 75% quota share of the insurance risk for most loans insured by the Mortgage Insurance Fund and provides for certain administrative services to be performed by Genworth. Prior to February 2011, Genworth was paying the full amount of the loss (100%) to the insured and was billing the Mortgage Insurance Fund for its portion of the loss (25%) each month. Effective February 1, 2011, Genworth is paying for their portion of the loss (75%) directly to the insured and the Mortgage Insurance Fund is paying for its portion of the loss (25%) directly to the insured. As of June 30, 2015, there was no cash or investments remaining in the Mortgage Insurance Fund to pay outstanding claims. The California Housing Finance Fund has written off foreclosed loans insured by the Housing Loan Insurance Fund. As of June 30, 2015, the reserve amount established under the HMRB indenture was $25.9 million.

**Note 15 – LITIGATION**

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

**Note 16 – RELATED PARTY TRANSACTIONS**

CalHFA MAC entered into an administrative agreement with CalHFA for support services, which include an allocation of CalHFA staff to provide program oversight, administrative and legal support and direct reimbursement for goods and services of outside vendors. Due to its status as a state governmental agency, CalHFA enjoys the benefit of discounts for goods and services with strategic business partners. The administrative agreement enables CalHFA MAC to leverage these discounts by providing for CalHFA to purchase goods and services during program implementation and ongoing operations. CalHFA MAC reimburses CalHFA for these items at the actual cost expended. CalHFA MAC had liabilities to CalHFA of $112 thousand and $177 thousand for the fiscal year ended June 30, 2015 and June 30, 2014, respectively. These amounts were comprised of accounts payable and accrued expenses resulting from unbilled vendor invoices for materials and services. Additionally, actual cash reimbursements paid to CalHFA totaled were $580 thousand and $604 thousand for fiscal years ended June 30, 2015 and June 30, 2014, respectively.

CalHFA MAC also leases office space from the CalHFA under an operation lease with a term of four years and five months that expires December 31, 2017.

**Note 17 – SUBSEQUENT EVENTS**

On July 2, 2015, S&P raised the Agency's HMRB rating from "A-" to "A".

On July 22, 2015, the Agency exited the Temporary Credit and Liquidity Program ("TCLP") under the HFA initiative program which was providing replacement credit and facilities for existing variable rate demand bond debt for the Agency. The standby credit and liquidity facilities were replaced with letters of credit from four banks. This action will save money as lower costs are associated with the letters of credit.

On August 1, 2015, the Agency used $24.9 million of the Multifamily Housing Revenue Bonds III 2015 Series A ("MHRB III 2015A") bond proceeds to refund $24.9 million in prior MHRB III series. For the MHRB III 2015A April 24, 2015 and August 1, 2015 refundings, the combined decrease in debt service cash flow and estimated economic gain may be found in Note 9 – Extinguishment of Debt.

On August 1, 2015, the Agency redeemed $34.9 million of the Housing Program Bonds 2006 Series A. As of this date, there are no longer any bonds outstanding under the Housing Program Bonds indenture.

* * * * * * *

**CALIFORNIA HOUSING FINANCE AGENCY**
**SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION**

SCHEDULE OF THE FUND'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Miscellaneous Plan
Last Fiscal Year
(Dollar amounts in thousands)

| | 2014 |
|---|---|
| Fund's proportion of the net pension liability | 0.17% |
| Fund's proportionate share of the net pension liability | $ 43,722 |
| Fund's covered-employee payroll | $ 17,256 |
| Fund's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 253.38% |
| Plan fiduciary net position as a percentage of the total pension liability | 73.05% |

SCHEDULE OF FUND CONTRIBUTIONS
Miscellaneous Plan
Last Fiscal Year
(Dollar amounts in thousands)

| | 2014 |
|---|---|
| Contractually required contribution | $ 3,627 |
| Contribution in relation to the contractually required contribution | (3,627) |
| Contribution deficiency (excess) | - |
| Fund's covered-employee payroll | $ 17,256 |
| Contributions as a percentage of covered-employee payroll | 21.02% |

**CALIFORNIA HOUSING FINANCE FUND**
**STATEMENTS OF NET POSITION**
**WITH ADDITIONAL COMBINING INFORMATION**
**June 30, 2015**
(Dollars in Thousands)

| | HOMEOWNERSHIP PROGRAMS | MULTIFAMILY RENTAL HOUSING PROGRAMS | OTHER PROGRAMS AND ACCOUNTS | COMBINED TOTALS |
|---|---|---|---|---|
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | $ 8,224 | $ 8 | $ 33,013 | $ 41,245 |
| Investments | 287,913 | 85,623 | 765,882 | 1,139,418 |
| Current portion - program loans receivable, net allowance | 63,210 | 49,500 | 18,349 | 131,059 |
| Interest receivable - program loans, net | 9,982 | 5,226 | 18,797 | 34,005 |
| Interest receivable - investments | 1,556 | 289 | 601 | 2,446 |
| Accounts receivable | 5,609 | - | 4,032 | 9,641 |
| Due (to) from other funds | (7,752) | - | 7,752 | - |
| Other assets | 43 | 366 | 33,907 | 34,316 |
| Total current assets | 368,785 | 141,012 | 882,333 | 1,392,130 |
| Noncurrent assets: | | | | |
| Investments | 210,472 | 58,822 | 18,789 | 288,083 |
| Program loans receivable, net of allowance | 2,054,784 | 709,490 | 527,771 | 3,292,045 |
| Other assets | 14,879 | - | 819 | 15,698 |
| Total noncurrent assets | 2,280,135 | 768,312 | 547,379 | 3,595,826 |
| Total assets | 2,648,920 | 909,324 | 1,429,712 | 4,987,956 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Accumulated decrease in fair value of hedging derivatives | - | 22,528 | 1,016 | 23,544 |
| Deferred loss on refunding | - | 447 | - | 447 |
| Employer contribution | - | - | 4,311 | 4,311 |
| Total deferred outflows of resources | - | 22,975 | 5,327 | 28,302 |
| LIABILITIES | | | | |
| Current liabilities: | | | | |
| Bonds payable | 42,168 | 11,565 | - | 53,733 |
| Notes payable | - | - | 2,048 | 2,048 |
| Interest payable | 23,876 | 10,465 | 13,839 | 48,180 |
| Due (from) to other government entities | (121) | - | 631 | 510 |
| Compensated absences | - | - | 3,811 | 3,811 |
| Deposits and other liabilities | 1,703 | 386 | 225,162 | 227,251 |
| Total current liabilities | 67,626 | 22,416 | 245,491 | 335,533 |
| Noncurrent liabilities: | | | | |
| Bonds payable | 2,254,351 | 606,542 | - | 2,860,893 |
| Notes payable | - | - | 52,532 | 52,532 |
| Due to other government entities, net | 1,906 | 7,424 | 68,617 | 77,947 |
| Other liablities | - | 88,978 | 73,613 | 162,591 |
| Unearned revenues | - | - | 905 | 905 |
| Total noncurrent liabilities | 2,256,257 | 702,944 | 195,667 | 3,154,868 |
| Total liabilities | 2,323,883 | 725,360 | 441,158 | 3,490,401 |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Unamortized pension net difference | - | - | 8,230 | 8,230 |
| Total deferred inflows of Resources | - | - | 8,230 | 8,230 |
| NET POSITION | | | | |
| Net investment in capital assets | - | - | 754 | 754 |
| Restricted by indenture | 325,037 | 206,939 | - | 531,976 |
| Restricted by statute | - | - | 984,897 | 984,897 |
| Total net position | $ 325,037 | $ 206,939 | $ 985,651 | $ 1,517,627 |

# CALIFORNIA HOUSING FINANCE FUND
## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION WITH ADDITIONAL COMBINING INFORMATION
### Year Ended June 30, 2015
(Dollars in Thousands)

| | HOMEOWNERSHIP PROGRAMS | MULTIFAMILY RENTAL HOUSING PROGRAMS | OTHER PROGRAMS AND ACCOUNTS | COMBINED TOTALS |
|---|---|---|---|---|
| OPERATING REVENUES | | | | |
| Interest income: | | | | |
| Program loans, net | $ 134,380 | $ 40,388 | $ 20,219 | $ 194,987 |
| Interest income, net | 11,042 | 2,823 | 3,437 | 17,302 |
| (Decrease) increase in fair value of investments | (2,227) | 701 | 5,640 | 4,114 |
| Loan commitment fees | - | - | 459 | 459 |
| Other loan fees | 15 | 6,662 | 37,416 | 44,093 |
| Other revenues | 315 | (16,120) | 53,504 | 37,699 |
| Total operating revenues | 143,525 | 34,454 | 120,675 | 298,654 |
| SALARIES AND GENERAL EXPENSES | | | | |
| Interest | 69,090 | 20,405 | 465 | 89,960 |
| Amortization of bond discount and bond premium | (1,168) | 227 | - | (941) |
| Mortgage servicing fees | 7,311 | - | 1 | 7,312 |
| (Reversal) provision for program loan losses | (13,238) | (3,593) | (5,282) | (22,113) |
| Salaries and general expenses | - | - | 39,546 | 39,546 |
| Other expenses | 15,224 | 5,821 | 75,552 | 96,597 |
| Total salaries and general expenses | 77,219 | 22,860 | 110,282 | 210,361 |
| Operating income (loss) income before transfers | 66,306 | 11,594 | 10,393 | 88,293 |
| Transfers out | - | - | (432) | (432) |
| Transfers intrafund | (35,706) | (1,405) | 37,111 | - |
| Increase (decrease) in net position | 30,600 | 10,189 | 47,072 | 87,861 |
| Net position at beginning of year | 294,437 | 196,750 | 987,407 | 1,478,594 |
| Cumulative effect of adoption of GASB 68 & 71 | - | - | (48,828) | (48,828) |
| Net position at beginning of year, as restated | 294,437 | 196,750 | 938,579 | 1,429,766 |
| Net position at end of year | $ 325,037 | $ 206,939 | $ 985,651 | $ 1,517,627 |

**CALIFORNIA HOUSING FINANCE FUND**
**STATEMENTS OF CASH FLOWS**
**WITH ADDITIONAL COMBINING INFORMATION**
**Year Ended June 30, 2015**
(Dollars in Thousands)

| | HOMEOWNERSHIP PROGRAMS | MULTIFAMILY RENTAL HOUSING PROGRAMS | OTHER PROGRAMS AND ACCOUNTS | COMBINED TOTALS |
|---|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Receipts from customers | $ 135,749 | $ 40,571 | $ 16,891 | $ 193,211 |
| Payments to suppliers | (7,760) | (117) | (10,704) | (18,581) |
| Payments to employees | - | - | (21,247) | (21,247) |
| Other receipts (payments) | 425,060 | 24,379 | (9,045) | 440,394 |
| Net cash provided by (used for) operating activities | 553,049 | 64,833 | (24,105) | 593,777 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | |
| Intrafund transfers | (35,706) | (1,405) | 37,111 | - |
| Changes in due (to) from other government entities | (9) | - | (5,803) | (5,812) |
| Net cash (used for) provided by noncapital financing activities | (35,715) | (1,405) | 31,308 | (5,812) |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | |
| Proceeds from sales of bonds | - | 174,180 | - | 174,180 |
| Payment of bond & note principal | (35,370) | (19,692) | (9,015) | (64,077) |
| Early bond redemptions | (550,228) | (185,855) | - | (736,083) |
| Interest paid on debt | (73,225) | (23,074) | (3,651) | (99,950) |
| Interfund transfers | - | - | (432) | (432) |
| Net cash (used for) provided by capital and related financing activities | (658,823) | (54,441) | (13,098) | (726,362) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Proceeds from maturity and sale of investments | 1,311,211 | 241,331 | 660,712 | 2,213,254 |
| Purchase of investments | (1,179,281) | (253,315) | (659,437) | (2,092,033) |
| Interest on investments, net | 11,467 | 2,983 | 3,464 | 17,914 |
| Net cash provided by (used for) investing activities | 143,397 | (9,001) | 4,739 | 139,135 |
| Net increase (decrease)in cash and cash equivalents | 1,908 | (14) | (1,156) | 738 |
| Cash and cash equivalents at beginning of year | 6,316 | 22 | 34,169 | 40,507 |
| Cash and cash equivalents at end of year | $ 8,224 | $ 8 | $ 33,013 | $ 41,245 |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES: | | | | |
| Operating income (loss) | $ 66,306 | $ 11,594 | $ 10,393 | $ 88,293 |
| Adjustments to reconcile operating (loss) income to net cash provided by (used for) operating activities: | | | | |
| Interest expense on debt | 69,090 | 20,405 | 465 | 89,960 |
| Interest on investments | (11,042) | (2,823) | (3,437) | (17,302) |
| Changes in fair value of investments | 2,227 | (701) | (5,640) | (4,114) |
| Amortization of bond discount | 21 | 6 | - | 27 |
| Amortization of deferred losses on refundings of debt | - | 221 | - | 221 |
| Amortization of bond premium | (1,189) | - | - | (1,189) |
| Loan commitment fees | - | - | (459) | (459) |
| Depreciation | - | - | 243 | 243 |
| (Reversal) provision for estimated loan losses | (13,238) | (3,593) | (5,282) | (22,113) |
| (Reversal) provision for yield reduction payments | (324) | (3,700) | - | (4,024) |
| (Reversal) provision for nonmortgage investment excess | (783) | 1 | - | (782) |
| Effect of changes in operating assets and liabilities: | | | | |
| Sale (purchase) of program loans, net | 961 | (14,138) | (66,081) | (79,258) |
| Collection of principal from program loans, net | 437,726 | 55,693 | 92,282 | 585,701 |
| Interest receivable | 1,368 | 182 | (3,327) | (1,777) |
| Accounts receivable | 2,912 | - | 464 | 3,376 |
| Due to (from) other funds | 753 | - | (753) | - |
| Other assets | 8 | (467) | (19,176) | (19,635) |
| Compensated absences | - | - | (223) | (223) |
| Increase (decrease) in pension liability | - | - | 8,172 | 8,172 |
| Deposits and other liabilities | (1,747) | 98 | (6,353) | (8,002) |
| Unearned revenue | - | 2,055 | (25,393) | (23,338) |
| Net cash provided by (used for) operating activities | $ 553,049 | $ 64,833 | $ ( 24,105 ) | $ 593,777 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | | | |
| Noncash transfer of program loan to REO | $ 2,237 | $ - | $ - | $ 2,237 |

**CALIFORNIA HOUSING FINANCE FUND**
**STATEMENTS OF NET POSITION**
**HOMEOWNERSHIP PROGRAMS**
**June 30, 2015**
(Dollars in Thousands)

| | HOME MORTGAGE REVENUE BONDS | SINGLE FAMILY HOUSING PROGRAM BONDS | RESIDENTIAL MORTGAGE REVENUE BONDS |
|---|---|---|---|
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | $ 7,182 | $ 9 | $ 1,033 |
| Investments | 253,408 | 3,521 | 28,069 |
| Current portion - program loans receivable, net of allowance | 53,388 | - | 7,745 |
| Interest receivable - program loans, net | 8,602 | 261 | 948 |
| Interest receivable - investments | 1,104 | 2 | 430 |
| Accounts receivable | 4,959 | - | 617 |
| Due (to) from other funds | (8,544) | 575 | 216 |
| Other assets | 26 | - | 17 |
| Total current assets | 320,125 | 4,368 | 39,075 |
| Noncurrent assets: | | | |
| Investments | 63,666 | - | 140,417 |
| Program loans receivable, net of allowance | 1,760,379 | 31,341 | 237,061 |
| Other assets | 13,405 | - | 1,474 |
| Total noncurrent assets | 1,837,450 | 31,341 | 378,952 |
| Total assets | 2,157,575 | 35,709 | 418,027 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Accumulated decrease in fair value of hedging derivatives | - | - | - |
| Deferred loss on refunding | - | - | - |
| Total deferred outflows of resources | - | - | - |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Bonds payable | 31,963 | - | 10,205 |
| Notess payable | - | - | - |
| Interest payable | 20,785 | 716 | 2,375 |
| Due from other government entities | (121) | - | - |
| Compensated absences | - | - | - |
| Deposits and other liabilities | 1,604 | - | 93 |
| Total current liabilities | 54,231 | 716 | 12,673 |
| Noncurrent liabilities: | | | |
| Bonds payable | 1,839,707 | 34,900 | 379,744 |
| Notes payable | - | - | - |
| Due to other government entities, net | 1,906 | - | - |
| Other liablities | - | - | - |
| Unearned revenues | - | - | - |
| Total noncurrent liabilities | 1,841,613 | 34,900 | 379,744 |
| Total liabilities | 1,895,844 | 35,616 | 392,417 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Unamortized pension net difference | - | - | - |
| Total deferred inflows of Resources | - | - | - |
| NET POSITION | | | |
| Net investment in capital assets | - | - | - |
| Restricted by indenture | 261,731 | 93 | 25,610 |
| Restricted by statute | - | - | - |
| Total net position | $ 261,731 | $ 93 | $ 25,610 |

| RESIDENTIAL MORTGAGE REVENUE BONDS OVERCOLLATERALIZATION | TOTAL HOMEOWNERSHIP PROGRAMS |
|---|---|
| $ - | $ 8,224 |
| 2,915 | 287,913 |
| 2,077 | 63,210 |
| 171 | 9,982 |
| 20 | 1,556 |
| 33 | 5,609 |
| 1 | (7,752) |
| - | 43 |
| 5,217 | 368,785 |
| 6,389 | 210,472 |
| 26,003 | 2,054,784 |
| - | 14,879 |
| 32,392 | 2,280,135 |
| 37,609 | 2,648,920 |
| - | - |
| - | - |
| - | - |
| - | 42,168 |
| - | - |
| - | 23,876 |
| - | (121) |
| - | - |
| 6 | 1,703 |
| 6 | 67,626 |
| - | 2,254,351 |
| - | - |
| - | 1,906 |
| - | - |
| - | - |
| - | 2,256,257 |
| 6 | 2,323,883 |
| - | - |
| - | - |
| - | - |
| 37,603 | 325,037 |
| - | - |
| $ 37,603 | $ 325,037 |

**CALIFORNIA HOUSING FINANCE FUND**
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**
**HOMEOWNERSHIP PROGRAM**
**Year Ended June 30, 2015**
(Dollars in Thousands)

| | HOME MORTGAGE REVENUE BONDS | SINGLE FAMILY HOUSING PROGRAM BONDS | RESIDENTIAL MORTGAGE REVENUE BONDS |
|---|---|---|---|
| OPERATING REVENUES | | | |
| Interest income: | | | |
| Program loans, net | $ 117,422 | $ 2,082 | $ 12,743 |
| Interest income, net | 4,443 | 7 | 6,355 |
| (Decrease) increase in fair value of investments | (964) | - | (1,332) |
| Loan commitment fees | - | - | - |
| Other loan fees | 13 | - | 2 |
| Other revenues | 280 | - | 35 |
| Total operating revenues | 121,194 | 2,089 | 17,803 |
| SALARIES AND GENERAL EXPENSES | | | |
| Interest | 53,129 | 1,891 | 14,070 |
| Amortization of bond discount and bond premium | (1,168) | - | - |
| Mortgage servicing fees | 6,438 | - | 811 |
| (Reversal) provision for program loan losses | (10,540) | (1,570) | (1,122) |
| Salaries and general expenses | - | - | - |
| Other expenses | 12,780 | 5 | 2,440 |
| Total salaries and general expenses | 60,639 | 326 | 16,199 |
| Operating income (loss) before transfers | 60,555 | 1,763 | 1,604 |
| Transfers intrafund | (38,979) | 3,020 | 7,247 |
| Increase (decrease) in net position | 21,576 | 4,783 | 8,851 |
| Net position at beginning of year | 240,155 | (4,690) | 16,759 |
| Net position at end of year | $ 261,731 | $ 93 | $ 25,610 |

| RESIDENTIAL MORTGAGE REVENUE BONDS OVERCOLLATERALIZATION | TOTAL HOMEOWNERSHIP PROGRAMS |
|---|---|
| $ 2,133 | $ 134,380 |
| 237 | 11,042 |
| 69 | (2,227) |
| - | - |
| - | 15 |
| - | 315 |
| 2,439 | 143,525 |
| - | 69,090 |
| - | (1,168) |
| 62 | 7,311 |
| (6) | (13,238) |
| - | - |
| (1) | 15,224 |
| 55 | 77,219 |
| 2,384 | 66,306 |
| (6,994) | (35,706) |
| (4,610) | 30,600 |
| 42,213 | 294,437 |
| $ 37,603 | $ 325,037 |

**CALIFORNIA HOUSING FINANCE FUND**
**SUPPLEMENTAL STATEMENTS OF CASH FLOWS -**
**HOMEOWNERSHIP PROGRAMS**
**Year Ended June 30, 2015**
(Dollars in Thousands)

| | HOME MORTGAGE REVENUE BONDS | SINGLE FAMILY HOUSING PROGRAM BONDS | RESIDENTIAL MORTGAGE REVENUE BONDS |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from customers | $ 118,763 | $ 1,937 | $ 12,906 |
| Payments to suppliers | (6,859) | (6) | (832) |
| Payments to employees | - | - | - |
| Other receipts (payments) | 372,444 | 4,106 | 44,650 |
| Net cash provided by operating activities | 484,348 | 6,037 | 56,724 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | |
| Intrafund transfers | (38,979) | 3,020 | 7,247 |
| Changes in due from other government entities | (9) | - | - |
| Net cash (used for) provided by provided by noncapital financing activities | (38,988) | 3,020 | 7,247 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | |
| Proceeds from sales of bonds | - | - | - |
| Payment of bond & note principal | (24,190) | - | (11,180) |
| Early bond redemptions | (444,265) | (5,490) | (100,473) |
| Interest paid on debt | (56,459) | (2,000) | (14,766) |
| Interfund transfers | - | - | - |
| Net cash (used for) provided by capital and related financing activities | (524,914) | (7,490) | (126,419) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Proceeds from maturity and sale of investments | 1,010,254 | 9,559 | 284,047 |
| Purchase of investments | (934,260) | (11,133) | (227,350) |
| Interest on investments, net | 4,715 | 6 | 6,507 |
| Net cash provided by (used for) investing activities | 80,709 | (1,568) | 63,204 |
| Net increase (decrease) in cash and cash equivalents | 1,155 | (1) | 756 |
| Cash and cash equivalents at beginning of year | 6,027 | 10 | 277 |
| Cash and cash equivalents at end of year | $ 7,182 | $ 9 | $ 1,033 |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES: | | | |
| Operating income (loss) | $ 60,555 | $ 1,763 | $ 1,604 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities: | | | |
| Interest expense on debt | 53,129 | 1,891 | 14,070 |
| Interest on investments | (4,443) | (7) | (6,355) |
| Changes in fair value of investments | 964 | - | 1,332 |
| Amortization of bond discount | 21 | - | - |
| Amortization of deferred losses on refundings of debt | - | - | - |
| Amortization of bond premium | (1,189) | - | - |
| Loan commitment fees | - | - | - |
| (Reversal) provision for estimated loan losses | (10,540) | (1,570) | (1,122) |
| (Reversal) provision for yield reduction payments | (324) | - | - |
| (Reversal) provision for nonmortgage investment excess | (783) | - | - |
| Effect of changes in operating assets and liabilities: | | | |
| Sale (purchase) of program loans, net | 889 | (2) | 74 |
| Collection of principal from program loans, net | 382,982 | 4,020 | 47,817 |
| Interest receivable | 1,341 | (145) | 162 |
| Accounts receivable | 2,599 | - | 248 |
| Due to (from) other funds | 878 | 88 | (1,099) |
| Other assets | 7 | - | 1 |
| Compensated absences | - | - | - |
| Deposits and other liabilities | (1,738) | (1) | (8) |
| Unearned revenue | - | - | - |
| Net cash provided by (used for) operating activities | $ 484,348 | $ 6,037 | $ 56,724 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | | |
| Noncash transfer of program loan to REO | $ 1,985 | $ - | $ 252 |

| RESIDENTIAL MORTGAGE REVENUE BONDS OVERCOLLATERALIZATION | TOTAL HOMEOWNERSHIP PROGRAMS |
|---|---|
| $ 2,143 | $ 135,749 |
| (63) | (7,760) |
| - | - |
| 3,860 | 425,060 |
| 5,940 | 553,049 |
| (6,994) | (35,706) |
| - | (9) |
| (6,994) | (35,715) |
| - | - |
| - | (35,370) |
| - | (550,228) |
| - | (73,225) |
| - | - |
| - | (658,823) |
| 7,351 | 1,311,211 |
| (6,538) | (1,179,281) |
| 239 | 11,467 |
| 1,052 | 143,397 |
| (2) | 1,908 |
| 2 | 6,316 |
| $ - | $ 8,224 |
| $ 2,384 | $ 66,306 |
| - | 69,090 |
| (237) | (11,042) |
| (69) | 2,227 |
| - | 21 |
| - | - |
| - | (1,189) |
| - | - |
| (6) | (13,238) |
| - | (324) |
| - | (783) |
| - | 961 |
| 2,907 | 437,726 |
| 10 | 1,368 |
| 65 | 2,912 |
| 886 | 753 |
| - | 8 |
| - | - |
| - | (1,747) |
| - | - |
| $ 5,940 | $ 553,049 |
| $ - | $ 2,237 |

**CALIFORNIA HOUSING FINANCE FUND**
**STATEMENTS OF NET POSITION**
**MULTIFAMILY RENTAL HOUSING PROGRAMS**
**June 30, 2015**
(Dollars in Thousands)

| | MULTIFAMILY LOAN PURCHASE BONDS | MULTIFAMILY HOUSING REVENUE BONDS III | MULTIFAMILY HOUSING PROGRAM BONDS | AFFORDABLE MULTIFAMILY HOUSING REVENUE BONDS |
|---|---|---|---|---|
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | $ - | $ 8 | $ - | $ - |
| Investments | 108 | 76,627 | 2,053 | 4,398 |
| Current portion - program loans receivable, net of allowance | 722 | 45,922 | 1,213 | 1,069 |
| Interest receivable - program loans, net | - | 3,135 | 1,654 | 226 |
| Interest receivable - investments | - | 168 | 1 | 119 |
| Accounts receivable | - | - | - | - |
| Due from other funds | - | - | - | - |
| Other assets | - | 308 | - | 47 |
| Total current assets | 830 | 126,168 | 4,921 | 5,859 |
| Noncurrent assets: | | | | |
| Investments | - | 21,846 | - | 36,976 |
| Program loans receivable, net of allowance | 197 | 589,283 | 18,527 | 51,599 |
| Other assets | - | - | - | - |
| Total noncurrent assets | 197 | 611,129 | 18,527 | 88,575 |
| Total assets | 1,027 | 737,297 | 23,448 | 94,434 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Accumulated decrease in fair value of hedging derivatives | - | 22,528 | - | - |
| Deferred loss on refunding | - | 447 | - | - |
| Total deferred outflows of resources | - | 22,975 | - | - |
| LIABILITIES | | | | |
| Current liabilities: | | | | |
| Bonds payable | - | 10,795 | - | 770 |
| Notes payable | - | - | - | - |
| Interest payable | 9 | 9,863 | - | 324 |
| Due to (from) other government entities, net | - | - | - | - |
| Compensated absences | - | - | - | - |
| Deposits and other liabilities | - | 386 | - | - |
| Total current liabilities | 9 | 21,044 | - | 1,094 |
| Noncurrent liabilities: | | | | |
| Bonds payable | 1,021 | 473,191 | - | 82,920 |
| Notes payable | - | - | - | - |
| Due to other government entities, net | - | 7,424 | - | - |
| Other liablities | - | 88,978 | - | - |
| Unearned revenues | - | - | - | - |
| Total noncurrent liabilities | 1,021 | 569,593 | - | 82,920 |
| Total liabilities | 1,030 | 590,637 | - | 84,014 |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Unamortized pension net difference | - | - | - | - |
| Total deferred inflows of resources | - | - | - | - |
| NET POSITION | | | | |
| Net investment in capital assets | - | - | - | - |
| Restricted by indenture | (3) | 169,635 | 23,448 | 10,420 |
| Restricted by statute | - | - | - | - |
| Total net position | $ (3) | $ 169,635 | $ 23,448 | $ 10,420 |

| | MULTIFAMILY RESIDENTIAL MORTGAGE REVENUE BONDS | TOTAL MULTIFAMILY RENTAL HOUSING PROGRAMS |
|---|---|---|
| | $ - | $ 8 |
| | 2,437 | 85,623 |
| | 574 | 49,500 |
| | 211 | 5,226 |
| | 1 | 289 |
| | - | - |
| | - | - |
| | 11 | 366 |
| | 3,234 | 141,012 |
| | - | 58,822 |
| | 49,884 | 709,490 |
| | - | - |
| | 49,884 | 768,312 |
| | 53,118 | 909,324 |
| | - | 22,528 |
| | - | 447 |
| | - | 22,975 |
| | - | 11,565 |
| | - | - |
| | 269 | 10,465 |
| | - | - |
| | - | - |
| | - | 386 |
| | 269 | 22,416 |
| | 49,410 | 606,542 |
| | - | - |
| | - | 7,424 |
| | - | 88,978 |
| | - | - |
| | 49,410 | 702,944 |
| | 49,679 | 725,360 |
| | - | - |
| | - | - |
| | - | - |
| | 3,439 | 206,939 |
| | - | - |
| | $ 3,439 | $ 206,939 |

**CALIFORNIA HOUSING FINANCE FUND**
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**
**MULTIFAMILY PROGRAM**
**Year Ended June 30, 2015**
(Dollars in Thousands)

| | MULTIFAMILY LOAN PURCHASE BONDS | MULTIFAMILY HOUSING REVENUE BONDS III | MULTIFAMILY HOUSING PROGRAM BONDS | AFFORDABLE MULTIFAMILY HOUSING REVENUE BONDS |
|---|---|---|---|---|
| OPERATING REVENUES | | | | |
| Interest income: | | | | |
| Program loans, net | $ 121 | $ 33,346 | $ 1,358 | $ 2,914 |
| Interest income, net | - | 1,375 | 4 | 1,437 |
| Increase in fair value of investments | - | 690 | - | 11 |
| Loan commitment fees | - | - | - | - |
| Other loan fees | - | 6,531 | 131 | - |
| Other revenues | - | (16,120) | - | - |
| Total operating revenues | 121 | 25,822 | 1,493 | 4,362 |
| SALARIES AND GENERAL EXPENSES | | | | |
| Interest | 120 | 16,498 | - | 2,001 |
| Amortization of bond discount and bond premium | - | 227 | - | - |
| Mortgage servicing fees | - | - | - | - |
| (Reversal) provision for program loan losses | - | (536) | 112 | (59) |
| Salaries and general expenses | - | - | - | - |
| Other expenses | 1 | 4,048 | - | 1,039 |
| Total salaries and general expenses | 121 | 20,237 | 112 | 2,981 |
| Operating income (loss) before transfers | - | 5,585 | 1,381 | 1,381 |
| Transfers intrafund | - | 1,615 | (3,020) | - |
| Increase (decrease) in net position | - | 7,200 | (1,639) | 1,381 |
| Net position at beginning of year | (3) | 162,435 | 25,087 | 9,039 |
| Net position at end of year | $ (3) | $ 169,635 | $ 23,448 | $ 10,420 |

| MULITIFAMILY RESIDENTIAL MORTGAGE REVENUE BONDS | TOTAL MULTIFAMILY RENTAL HOUSING PROGRAMS |
|---|---|
| $ 2,649 | $ 40,388 |
| 7 | 2,823 |
| - | 701 |
| - | - |
| - | 6,662 |
| - | (16,120) |
| 2,656 | 34,454 |
| | |
| 1,786 | 20,405 |
| - | 227 |
| - | - |
| (3,110) | (3,593) |
| - | - |
| 733 | 5,821 |
| (591) | 22,860 |
| | |
| 3,247 | 11,594 |
| - | (1,405) |
| 3,247 | 10,189 |
| 192 | 196,750 |
| $ 3,439 | $ 206,939 |

**CALIFORNIA HOUSING FINANCE FUND**
**SUPPLEMENTAL STATEMENTS OF CASH FLOWS -**
**MULTIFAMILY RENTAL HOUSING PROGRAMS**
**Year Ended June 30, 2015**
(Dollars in Thousands)

| | MULTIFAMILY LOAN PURCHASE BONDS | MULTIFAMILY HOUSING REVENUE BONDS III | MULTIFAMILY HOUSING PROGRAM BONDS | AFFORDABLE MULTIFAMILY HOUSING REVENUE BONDS |
|---|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Receipts from customers | $ 121 | $ 33,488 | $ 1,372 | $ 2,918 |
| Payments to suppliers | - | (107) | - | (5) |
| Other receipts (payments) | 2,514 | 13,176 | 2,341 | (15) |
| Net cash provided by (used for) operating activities | 2,635 | 46,557 | 3,713 | 2,898 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | |
| Intrafund transfers | - | 1,615 | (3,020) | - |
| Net cash provided by (used for) provided by noncapital financing activities | - | 1,615 | (3,020) | - |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | |
| Proceeds from sales of bonds | - | 174,180 | - | - |
| Payment of bond & note principal | (2,737) | (15,725) | - | (1,230) |
| Early bond redemptions | - | (161,135) | - | (4,180) |
| Interbond transfers | - | - | - | - |
| Interest paid on debt | (133) | (19,022) | - | (2,021) |
| Interfund transfers | - | - | - | - |
| Net cash (used for) provided by capital and related financing activities | (2,870) | (21,702) | - | (7,431) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Proceeds from maturity and sale of investments | 3,396 | 171,335 | 3,019 | 18,151 |
| Purchase of investments | (3,161) | (199,352) | (3,716) | (15,057) |
| Interest on investments, net | - | 1,533 | 4 | 1,439 |
| Net cash provided by (used for) investing activities | 235 | (26,484) | (693) | 4,533 |
| Net (decrease) increase in cash and cash equivalents | - | (14) | - | - |
| Cash and cash equivalents at beginning of year | - | 22 | - | - |
| Cash and cash equivalents at end of year | $ - | $ 8 | $ - | $ - |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH (USED FOR) PROVIDED BY OPERATING ACTIVITIES: | | | | |
| Operating income (loss) | $ - | $ 5,585 | $ 1,381 | $ 1,381 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities: | | | | |
| Interest expense on debt | 121 | 16,498 | - | 2,000 |
| Interest on investments | - | (1,375) | (4) | (1,437) |
| Changes in fair value of investments | - | (690) | - | (11) |
| Amortization of bond discount | - | 6 | - | - |
| Amortization of deferred losses on refundings of debt | - | 221 | - | - |
| Amortization of bond premium | - | - | - | - |
| Loan commitment fees | - | - | - | - |
| Depreciation | - | - | - | - |
| (Reversal) provision for estimated loan losses | - | (536) | 112 | (59) |
| (Reversal) provision for yield reduction payments | - | (3,700) | - | - |
| Provision for nonmortgage investment excess | - | 1 | - | - |
| Effect of changes in operating assets and liabilities: | | | | |
| (Purchase) sale of program loans, net | - | (14,138) | - | - |
| Collection of principal from program loans, net | 2,514 | 42,968 | 2,211 | 1,019 |
| Interest receivable | - | 142 | 13 | 4 |
| Other assets | - | (578) | - | 1 |
| Deposits and other liabilities | - | 98 | - | - |
| Unearned revenue | - | 2,055 | - | - |
| Net cash provided by (used for) operating activities | $ 2,635 | $ 46,557 | $ 3,713 | $ 2,898 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | | | |
| Noncash transfer of program loan to REO | $ - | $ - | $ - | $ - |

| MULITIFAMILY RESIDENTIAL MORTGAGE REVENUE BONDS | TOTAL MULTIFAMILY RENTAL HOUSING PROGRAMS |
|---|---|
| $ 2,672 | $ 40,571 |
| (5) | (117) |
| 6,363 | 24,379 |
| 9,030 | 64,833 |
| - | (1,405) |
| - | (1,405) |
| - | 174,180 |
| - | (19,692) |
| (20,540) | (185,855) |
| - | - |
| (1,898) | (23,074) |
| - | - |
| (22,438) | (54,441) |
| 45,430 | 241,331 |
| (32,029) | (253,315) |
| 7 | 2,983 |
| 13,408 | (9,001) |
| - | (14) |
| - | 22 |
| $ - | $ 8 |
| $ 3,247 | $ 11,594 |
| 1,786 | 20,405 |
| (7) | (2,823) |
| - | (701) |
| - | 6 |
| - | 221 |
| - | - |
| - | - |
| - | - |
| (3,110) | (3,593) |
| - | (3,700) |
| - | 1 |
| - | (14,138) |
| 6,981 | 55,693 |
| 23 | 182 |
| 110 | (467) |
| - | 98 |
| - | 2,055 |
| $ 9,030 | $ 64,833 |
| $ - | $ - |

**CALIFORNIA HOUSING FINANCE FUND**
**STATEMENTS OF NET POSITION**
**OTHER PROGRAMS AND ACCOUNTS**
**June 30, 2015**
(Dollars in Thousands)

| | HOUSING ASSISTANCE TRUST | CONTRACT ADMINISTRATION PROGRAMS | SUPPLEMENTAL BOND SECURITY ACCOUNT | EMERGENCY RESERVE ACCOUNT |
|---|---|---|---|---|
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | $ 7,597 | $ 2,109 | $ 1 | $ 1 |
| Investments | 203,906 | 291,668 | 17,473 | 32,242 |
| Current portion - program loans receivable, net of allowance | 14,317 | 2,043 | - | - |
| Interest receivable - program loans, net | 1,427 | 17,118 | - | - |
| Interest receivable - investments | 202 | 206 | 12 | 23 |
| Accounts receivable | 252 | 190 | - | 97 |
| Due from (to) other funds | 304 | 2,337 | 8,647 | - |
| Other assets | 33,878 | - | - | - |
| Total current assets | 261,883 | 315,671 | 26,133 | 32,363 |
| Noncurrent assets: | | | | |
| Investments | 18,789 | - | - | - |
| Program loans receivable, net of allowance | 108,913 | 366,590 | - | - |
| Other assets | 65 | - | - | - |
| Total noncurrent assets | 127,767 | 366,590 | - | - |
| Total assets | 389,650 | 682,261 | 26,133 | 32,363 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Accumulated decrease in fair value of hedging derivatives | 1,016 | - | - | - |
| Deferred loss on refunding | - | - | - | - |
| Employer contribution | - | - | - | - |
| Total Deferred outflows of resources | 1,016 | - | - | - |
| LIABILITIES | | | | |
| Current liabilities: | | | | |
| Bonds payable | - | - | - | - |
| Notes payable | - | - | - | - |
| Interest payable | 13,541 | - | - | - |
| Due to other government entities, net | - | 330 | - | - |
| Compensated absences | - | - | - | - |
| Deposits and other liabilities | 3,195 | 2,074 | - | - |
| Total current liabilities | 16,736 | 2,404 | - | - |
| Noncurrent liabilities: | | | | |
| Bonds payable | - | - | - | - |
| Notes payable | - | - | - | - |
| Due to other government entities, net | - | - | - | - |
| Other liablities | 73,613 | - | - | - |
| Unearned revenues | - | - | - | - |
| Total noncurrent liabilities | 73,613 | - | - | - |
| Total liabilities | 90,349 | 2,404 | - | - |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Unamortized pension net difference | - | - | - | - |
| Total deferred inflows of resources | - | - | - | - |
| NET POSITION | | | | |
| Net investment in capital assets | - | - | - | - |
| Restricted by indenture | - | - | - | - |
| Restricted by statute | 300,317 | 679,857 | 26,133 | 32,363 |
| Total net position | $ 300,317 | $ 679,857 | $ 26,133 | $ 32,363 |

| LOAN SERVICING | CITIGROUP GLOBAL MARKETS | OPERATING ACCOUNT | TOTAL OTHER PROGRAMS AND ACCOUNTS |
|---|---|---|---|
| | | | |
| $ 22,935 | $ 98 | $ 272 | $ 33,013 |
| 206,075 | - | 14,518 | 765,882 |
| - | 1,989 | - | 18,349 |
| - | 252 | - | 18,797 |
| 146 | - | 12 | 601 |
| 3,088 | - | 405 | 4,032 |
| (6,994) | - | 3,458 | 7,752 |
| - | - | 29 | 33,907 |
| 225,250 | 2,339 | 18,694 | 882,333 |
| | | | |
| - | - | - | 18,789 |
| - | 52,268 | - | 527,771 |
| - | - | 754 | 819 |
| - | 52,268 | 754 | 547,379 |
| 225,250 | 54,607 | 19,448 | 1,429,712 |
| | | | |
| - | - | - | 1,016 |
| - | - | - | - |
| - | - | 4,311 | 4,311 |
| - | - | 4,311 | 5,327 |
| | | | |
| - | - | - | - |
| - | 2,048 | - | 2,048 |
| - | 298 | - | 13,839 |
| - | - | 301 | 631 |
| - | - | 3,811 | 3,811 |
| 218,717 | - | 1,176 | 225,162 |
| 218,717 | 2,346 | 5,288 | 245,491 |
| | | | |
| - | - | - | - |
| - | 52,532 | - | 52,532 |
| - | - | 68,617 | 68,617 |
| - | - | - | 73,613 |
| - | - | 905 | 905 |
| - | 52,532 | 69,522 | 195,667 |
| 218,717 | 54,878 | 74,810 | 441,158 |
| | | | |
| - | - | 8,230 | 8,230 |
| - | - | 8,230 | 8,230 |
| | | | |
| - | - | 754 | 754 |
| - | - | - | - |
| 6,533 | (271) | (60,035) | 984,897 |
| $ 6,533 | $ (271) | $ (59,281) | $ 985,651 |

**CALIFORNIA HOUSING FINANCE FUND**
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**
**OTHER PROGRAMS AND ACCOUNTS**
**Year Ended June 30, 2015**
(Dollars in Thousands)

| | HOUSING ASSISTANCE TRUST | CONTRACT ADMINISTRATION PROGRAMS | SUPPLEMENTAL BOND SECURITY ACCOUNT | EMERGENCY RESERVE ACCOUNT |
|---|---|---|---|---|
| OPERATING REVENUES | | | | |
| Interest income: | | | | |
| Program loans, net | $ 11,184 | $ 9,035 | $ - | $ - |
| Interest income, net | 2,472 | 773 | 67 | 82 |
| Increase in fair value of investments | 5,640 | - | - | - |
| Loan commitment fees | - | - | - | - |
| Other loan fees | 20,624 | 12 | - | - |
| Other revenues | (7,341) | 744 | - | - |
| Total operating revenues | 32,579 | 10,564 | 67 | 82 |
| SALARIES AND GENERAL EXPENSES | | | | |
| Interest | 465 | - | - | - |
| Mortgage servicing fees | 1 | - | - | - |
| (Reversal) provision for program loan losses | (205) | (5,288) | - | - |
| Salaries and general expenses | - | - | - | - |
| Other expenses | 5,591 | 7,345 | - | - |
| Total salaries and general expenses | 5,852 | 2,057 | - | - |
| Operating income (loss) before transfers | 26,727 | 8,507 | 67 | 82 |
| Transfers in (out) | 496 | (928) | - | - |
| Transfers intrafund | 13,932 | - | - | - |
| Increase (decrease) in net assets | 41,155 | 7,579 | 67 | 82 |
| Net position at beginning of year | 259,162 | 672,278 | 26,066 | 32,281 |
| Cumulative effect of adoption of GASB 68 & 71 | - | - | - | - |
| Net position at beginning of year, as restated | 259,162 | 672,278 | 26,066 | 32,281 |
| Net position at end of year | $ 300,317 | $ 679,857 | $ 26,133 | $ 32,363 |

| LOAN SERVICING | CITIGROUP GLOBAL MARKETS | OPERATING ACCOUNT | TOTAL OTHER PROGRAMS AND ACCOUNTS |
|---|---|---|---|
| $ - | $ - | $ - | $ 20,219 |
| 1 | - | 42 | 3,437 |
| - | - | - | 5,640 |
| - | - | 459 | 459 |
| 4,193 | - | 12,587 | 37,416 |
| 59,414 | - | 687 | 53,504 |
| 63,608 | - | 13,775 | 120,675 |
| - | - | - | 465 |
| - | - | - | 1 |
| - | 211 | - | (5,282) |
| - | - | 39,546 | 39,546 |
| 61,010 | - | 1,606 | 75,552 |
| 61,010 | 211 | 41,152 | 110,282 |
| 2,598 | (211) | (27,377) | 10,393 |
| - | - | - | (432) |
| (2,000) | - | 25,179 | 37,111 |
| 598 | (211) | (2,198) | 47,072 |
| 5,935 | (60) | (8,255) | 987,407 |
| - | - | (48,828) | (48,828) |
| 5,935 | (60) | (57,083) | 938,579 |
| $ 6,533 | $ (271) | $ (59,281) | $ 985,651 |

**CALIFORNIA HOUSING FINANCE FUND**
**SUPPLEMENTAL STATEMENTS OF CASH FLOWS -**
**OTHER PROGRAMS AND ACCOUNTS**
**Year Ended June 30, 2015**
(Dollars in Thousands)

| | HOUSING ASSISTANCE TRUST | CONTRACT ADMINISTRATION PROGRAMS | SUPPLEMENTAL BOND SECURITY ACCOUNT | EMERGENCY RESERVE ACCOUNT |
|---|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Receipts from customers | $ 11,328 | $ 5,481 | $ - | $ - |
| Payments to suppliers | 74 | - | - | - |
| Payments to employees | - | - | - | - |
| Other receipts (payments) | 13,975 | (37,347) | 1,729 | 1 |
| Net cash provided by (used for) operating activities | 25,377 | (31,866) | 1,729 | 1 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | |
| Intrafund transfers | 13,932 | - | - | - |
| Due (to) from other government entities | - | (355) | - | - |
| Net cash (used for) provided by noncapital financing activities | 13,932 | (355) | - | - |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | |
| Payment of bond & note principal | - | - | - | - |
| Early bond redemptions | - | - | - | - |
| Interest paid on debt | (3,604) | - | - | - |
| Interfund transfers | 496 | (928) | - | - |
| Net cash (used for) provided bycapital and related financing activities | (3,108) | (928) | - | - |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Proceeds from maturity and sale of investments | 459,772 | 71,988 | - | 3,490 |
| Purchase of investments | (496,312) | (38,597) | (1,792) | (3,567) |
| Interest on investments, net | 2,565 | 741 | 64 | 77 |
| Net cash (used for) provided by investing activities | (33,975) | 34,132 | (1,728) | - |
| Net increase (decrease) in cash and cash equivalents | 2,226 | 983 | 1 | 1 |
| Cash and cash equivalents at beginning of year | 5,371 | 1,126 | - | - |
| Cash and cash equivalents at end of year | $ 7,597 | $ 2,109 | $ 1 | $ 1 |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH (USED FOR) PROVIDED BY OPERATING ACTIVITIES: | | | | |
| Operating income (loss) | $ 26,727 | $ 8,507 | $ 67 | $ 82 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities: | | | | |
| Interest expense on debt | 465 | - | - | - |
| Interest on investments | (2,472) | (774) | (67) | (82) |
| Changes in fair value of investments | (5,640) | - | - | - |
| Amortization of bond discount | - | - | - | - |
| Amortization of deferred losses on refunding of debt | - | - | - | - |
| Amortization of bond premium | - | - | - | - |
| Loan commitment fees | - | - | - | - |
| Depreciation | - | - | - | - |
| (Reversal) provision for estimated loan losses | (205) | (5,288) | - | - |
| Provision for yield reduction payments | - | - | - | - |
| Provision for nonmortgage investment excess | - | - | - | - |
| Effect of changes in operating assets and liabilities: | | | | |
| (Purchase) sale of program loans, net | (12,004) | (57,727) | - | - |
| Collection of principal from program loans, net | 58,971 | 27,909 | - | - |
| Interest receivable | 143 | (3,552) | - | - |
| Accounts receivable | 540 | (190) | - | 1 |
| Due to (from) ther funds | 12 | (462) | 1,729 | - |
| Other assets | (18,487) | - | - | - |
| Compensated absences | - | - | - | - |
| Increase (decrease) in pension liability | - | - | - | - |
| Deposits and other liabilities | 3,192 | (289) | - | - |
| Unearned revenue | (25,865) | - | - | - |
| Net cash provided by (used for) operating activities | $ 25,377 | $ (31,866) | $ 1,729 | $ 1 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | | | |
| Noncash transfer of program loan to REO | $ - | $ - | $ - | $ - |

| LOAN SERVICING | CITIGROUP GLOBAL MARKETS | OPERATING ACCOUNT | TOTAL OTHER PROGRAMS AND ACCOUNTS |
|---|---|---|---|
| $ - | $ 82 | $ - | $ 16,891 |
| - | - | (10,778) | (10,704) |
| - | - | (21,247) | (21,247) |
| (917) | 9,052 | 4,462 | (9,045) |
| (917) | 9,134 | (27,563) | (24,105) |
| (2,000) | - | 25,179 | 37,111 |
| - | - | (5,448) | (5,803) |
| (2,000) | - | 19,731 | 31,308 |
| - | (9,015) | - | (9,015) |
| - | - | - | - |
| - | (47) | - | (3,651) |
| - | - | - | (432) |
| - | (9,062) | - | (13,098) |
| 85,703 | - | 39,759 | 660,712 |
| (82,972) | - | (36,197) | (659,437) |
| (25) | - | 42 | 3,464 |
| 2,706 | - | 3,604 | 4,739 |
| (211) | 72 | (4,228) | (1,156) |
| 23,146 | 26 | 4,500 | 34,169 |
| $ 22,935 | $ 98 | $ 272 | $ 33,013 |
| $ 2,598 | $ (211) | $ (27,377) | $ 10,393 |
| - | - | - | 465 |
| (1) | - | (41) | (3,437) |
| - | - | - | (5,640) |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| - | - | (459) | (459) |
| - | - | 243 | 243 |
| - | 211 | - | (5,282) |
| - | - | - | - |
| - | - | - | - |
| - | 3,650 | - | (66,081) |
| - | 5,402 | - | 92,282 |
| - | 82 | - | (3,327) |
| 45 | - | 68 | 464 |
| 487 | - | (2,519) | (753) |
| - | - | (689) | (19,176) |
| - | - | (223) | (223) |
| - | - | 8,172 | 8,172 |
| (4,046) | - | (5,210) | (6,353) |
| - | - | 472 | (25,393) |
| $ (917) | $ 9,134 | $ (27,563) | $ (24,105) |
| $ - | $ - | $ - | $ - |

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# CALIFORNIA HOUSING FINANCE FUND
(A Component Unit of the State of California)

## SINGLE AUDIT REPORT
June 30, 2015

# TABLE OF CONTENTS

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors
California Housing Finance Fund
Sacramento, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the California Housing Finance Fund (the Fund), which is administered by the California Housing Finance Agency (the Agency), a component unit of the State of California, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated October 12, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

A *deficiency in internal* control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

**CliftonLarsonAllen LLP**

Bellevue, Washington
October 12, 2015

CliftonLarsonAllen

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# INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR FEDERAL PROGRAM, ON INTERNAL CONTROL OVER COMPLIANCE, AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
California Housing Finance Fund
Sacramento, California

## Report on Compliance for Major Federal Program

We have audited California Housing Finance Fund's (the Fund) compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the Fund's major federal programs for the year ended June 30, 2015. The Fund's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

### *Management's Responsibility*

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on compliance for each of the Fund's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Fund's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Fund's compliance.

***Opinion on Major Federal Program***

In our opinion, the Fund complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2015.

***Other Matters***

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2015-001. Our opinion on each major federal program is not modified with respect to this matter.

The Fund's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Fund's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

**Report on Internal Control Over Compliance**

Management of the Fund is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Fund's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2015-001, that we consider to be a significant deficiency.

The Fund's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Fund's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the result of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

**Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of the Fund as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements. We issued our report thereon dated October 12, 2015, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

CliftonLarsonAllen LLP

**CliftonLarsonAllen LLP**

Bellevue, Washington
October 12, 2015

## CALIFORNIA HOUSING FINANCE FUND
## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
## Year Ended June 30, 2015

| Federal Grantor/Pass-Through Grantor/Program Title | Federal CFDA # | Federal Expenditures |
|---|---|---|
| **U.S. Department of Housing and Urban Development** | | |
| Section 8 Housing Assistance Payment Program | 14.195 | $ 59,009,277 |
| **U.S. Department of Treasury** | | |
| National Foreclosure Mitigation Counseling | 21.000 | 565,673 |
| **Total Federal Expenditures** | | $ 59,574,950 |

See accompanying note to the schedule.

## CALIFORNIA HOUSING FINANCE FUND
## NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
## June 30, 2015

### NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the California Housing Finance Fund (the Fund), and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*. Therefore, some of the amounts presented in the schedule may differ from amounts presented in, or used in the preparation of, the financial statements. All federal awards received directly from federal agencies as well as federal awards passed through other government agencies or other entities, if any, are included in the schedule.

CALIFORNIA HOUSING FINANCE FUND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2015

## I. Summary of Independent Auditors' Results

### Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

| | | | | |
|---|---|---|---|---|
| • Material weakness(es) identified? | ____ | Yes | X | No |
| • Significant deficiency(ies) identified that are not considered to be material weaknesses? | ____ | Yes | X | None reported |
| • Noncompliance material to financial statements noted? | ____ | Yes | X | No |

### Federal Awards

Internal control over major programs:

| | | | | |
|---|---|---|---|---|
| • Material weakness(es) identified? | ____ | Yes | X | No |
| • Significant deficiency(ies) identified that are not considered to be material weaknesses? | X | Yes | ____ | None reported |

Type of auditors' report issued on compliance for major programs: Unmodified

| | | | | |
|---|---|---|---|---|
| Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? | X | Yes | ____ | No |

### Identification of Major Programs

| Name of Federal Program | CFDA Number | Expenditures |
|---|---|---|
| Section 8 Project-Based Cluster | 14.195 | $ 59,009,277 |

Dollar threshold used to distinguish type A programs $ $1,787,249

| | | | | |
|---|---|---|---|---|
| Auditee qualified as low-risk auditee? | ____ | Yes | X | No |

**CALIFORNIA HOUSING FINANCE FUND**
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**
**Year Ended June 30, 2015**

## II. Financial Statement Findings

**None**

## III. Federal Award Findings and Questioned Costs

**Finding 2015-001: U.S. Department of Housing and Urban Development, Section 8 Project-Based Cluster, CFDA # 14.195, Subrecipient Monitoring, Other Noncompliance, Significant Deficiency**

***Condition/Context***
2 out of 15 project files tested did not have the Management and Occupancy Review (MOR) results sent within 30 days of the completed onsite visit.

***Criteria***
U.S. Department of Housing and Urban Development's (HUD) Management and Occupancy Review Handbook, 4350.1 REV-1, Section 6-9 states that findings noted in the Management and Occupancy Review Report must be followed up by the officer assigned to the Project within 30 calendar days.

***Cause***
The individuals responsible for sending MOR results encountered unforeseen circumstances during the 30 day timeframe, such as being sick and travel issues, which contributed to the delay of MOR results.

***Effect***
The Fund has not complied with subrecipient monitoring procedures established by the U.S. Department of Housing and Urban Development.

***Questioned Costs***
None

***Recommendation***
We recommend that Management ensure MOR results are communicated in a timely fashion to the projects, as required by their internal controls and HUD requirements.

***Management's Response***
Although modifications to the MOR processing were implemented in 2014 to help meet HUD's 30 calendar day reporting requirement, the staffing level in the Compliance Unit must be increased to ensure compliance going forward. The Agency plans to fill the MOR specialist position for the Compliance Unit as soon as possible.

# CALIFORNIA HOUSING FINANCE FUND
## SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
## Year Ended June 30, 2015

**Finding 2014-001 – Material Adjustments**

***Condition/Context***

During FY 2014, management revised their methodology for allowance for loan loss of the single family mortgage receivables and determined that the allowance account was overstated by $39,494,450 which is the estimated amount of claims payable owed to the Housing Finance Fund from the Housing Loan Insurance Fund. The Agency's staff discovered the error during the process of switching the allowance for loan loss methodology to a loan-by-loan analysis of the single family mortgage receivables and identifying the variance between the old and new allowance calculation.

***Status***

This finding was corrected in FY 2014.

**Finding 2014-002: U.S. Department of Housing and Urban Development, Section 8 Project-Based Cluster, CFDA # 14.195, Subrecipient Monitoring, Other Noncompliance, Significant Deficiency**

***Condition/Context***

6 out of 18 project files tested did not have the Management and Occupancy Review (MOR) results sent within 30 days of the completed onsite visit.

***Status***

This finding was corrected in October 2014, however, our current year testing noted exceptions that occurred prior to the correction. A similar finding was noted in the current year.

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**INDEPENDENT ACCOUNTANTS' REPORT**
**ON APPLYING AGREED-UPON PROCEDURES**

To the Board of Directors
California Housing Finance Agency
Sacramento, California

We have performed the procedures enumerated below, which were agreed to by the California Housing Finance Agency (the Agency) solely to assist you with respect to the administration of Proposition 1C Funds by the Agency in accordance with the requirements of the California Homebuyer's Down Payment Assistance Program for the year ended June 30, 2015. The Agency's management is responsible for the administration of the Proposition 1C Funds. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

**Procedures**
Our procedures were as follows:

1. Obtain and read the California Homebuyer's Down Payment Assistance Program (CHDAP) guidelines.
2. Obtain the CHDAP Commitment/Disbursement schedules for the fiscal year ending June 30, 2015. Haphazardly select a sample of 25 loans for testing.
3. Read the eligibility requirements for CHDAP loans, program announcements and commitments.
4. For each selected CHDAP loan, determine if the amount of funds committed/disbursed was used for the specified purpose, as specified in the approved loan application. Determine if the borrower qualifies based on income level and sales price, or other criteria that may be established by CHDAP as provided in the eligibility requirements obtained in Step 3.
5. For each selected CHDAP loan, determine that the proper loan agreement/lien was recorded against the property by agreeing the recorded loan/lien with the amount listed in the disbursement schedule.

**Results**
We did not identify any exceptions with respect to the administration of Proposition 1C Funds in accordance with the California Homebuyer's Down Payment Assistance Program.

***

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the administration of the Proposition 1C Funds in accordance with the California Homebuyer's Down Payment Assistance Program. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the California Housing Finance Agency and is not intended to be and should not be used by anyone other than these specified party.

CliftonLarsonAllen LLP

**CliftonLarsonAllen LLP**

Bellevue, Washington
August 13, 2015

CliftonLarsonAllen

CliftonLarsonAllen LLP
CLAconnect.com

**Independent Accountant's Report on**
**Applying Agreed-Upon Procedures**

To the Board of Directors and Management
California Housing Finance Agency
Sacramento, California

We have performed the procedures enumerated below, which were agreed to by California Housing Finance Agency (the Agency), solely to assist you in evaluating the Agency's compliance with requirements of the Financing Adjustment Factor (FAF) Refunding Agreements provided by the United States Department of Treasury as it relates to the real estate developments as set forth in the Financing Adjustment Factor Savings Disbursements Schedule for the period from July 1, 2012 to June 30, 2015 attached hereto. Agency management is responsible for maintaining internal controls to provide reasonable assurance that the Agency complies with specified requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.

The sufficiency of these procedures is solely the responsibility of the Agency. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are as follows:

1. Obtain the general ledger for the FAF program and report whether it contains only accounts related to the FAF program.

   ***Results***
   We obtained the general ledger for the FAF program and determined through observation that the accounts are specifically related to the FAF program.

2. Obtain the FAF Savings Disbursement Schedule (the Schedule) for the period of July 1, 2012 through June 30, 2015 and the FAF Refunding Agreements and Regulatory Agreements for all projects with disbursements included on the Schedule and perform the following procedures:

   a. Compare the amount of each disbursement on the Schedule to the amount recorded in the FAF General Ledger and report any discrepancies.

      ***Results***
      We compared the amount of each disbursement on the Schedule to the amount recorded in the FAF General Ledger. There were no discrepancies noted.

b. Obtain the Sources and Uses Report for each project with a disbursement on the Schedule and report whether the disbursement was approved by the Board of Directors as noted in the board minutes or documented by other specific written board approval.

   ***Results***
   We obtained documentation for the Source and Use Report, and the related Board of Directors approval for each project with disbursements listed on the Schedule and did not note any discrepancies or missing documentation.

c. Obtain support (e.g. invoices) for each disbursement on the Schedule and determine through observation whether it was for an activity covered by the Refunding Agreement.

   ***Results***
   We obtained supporting documentation (e.g. approved Memorandums for Transfer, Transaction Requests, claim schedules, and journal entries) for all disbursements on the Schedule and determined through observation that all the disbursements were for expenditures covered by the Refunding Agreement.

d. Obtain a listing of the very low income (as defined by the U.S. Housing Act of 1937) units and a listing of all other units for each project with a disbursement on the Schedule and perform the following procedures:

   i. Recompute the ratio of very low income units to total units.

      ***Results***
      We obtained the listing of all units for each project showing the family income and recomputed the ratio of very low income units to total units without exception.

   ii. Compare the ratios computed above and report whether they are equal to or greater than the ratios required by each project's respective Regulatory Agreement.

      ***Results***
      The Regulatory Agreements were obtained and read for the ratios required for each project and compared it to the recomputed ratio noted above. Each project's recomputed ratio met the required ratio per regulatory agreement.

e. Select ten percent of the very low income units from the listings for each project as obtained in Step 2(d) and perform the following procedures:

   i. Obtain the tenant file for each unit selected and determine through observation that the file contains an annual review of tenant income for each year between July 1, 2012 and June 30, 2015 for which the tenant lived in the unit.

      ***Results***
      We obtained and tested ten percent of the tenant files of occupied units. For all tenant files selected we observed annual reviews documenting the verification of tenant income were performed for all years the tenant occupied the unit without exception.

ii. Determine through observation whether the income listed in the annual review is equal to or less than the very low income (as defined by the U.S. Housing Act of 1937).

***Results***
Through observation we noted that the income for each tenant tested in Step 2(e)(i) was equal to or less than the very low income amount based on the family size.

f. Obtain the most recent physical inspection report for each project with a disbursement on the Schedule and report whether the assessment of the physical condition listed in the inspection report is at least satisfactory.

***Results***
We obtained the most recent physical inspection report for each project with a disbursement on the Schedule and noted the inspection reports indicated either the physical condition was satisfactory or those noted as "Action Required" documented the resolution of the deficiency within the required 15 days.

g. Read the Regulatory Agreement for each project with a disbursement on the Schedule and perform the following procedures:

i. Report the number of years the owner is required to maintain housing units assisted with FAF payments according to the Regulatory Agreement.

***Results***
We obtained and read the Regulatory Agreement for each project with a disbursement on the Schedule and documented the number of years required to maintain housing units assisted with FAF Payments by the owner.

ii. Report whether the number of years identified in step 2(g)(i) is equal to or greater than the minimum number of years indicated in the project's respective FAF Refunding Agreement.

***Results***
The Refunding Agreement states, "The State Agency shall require owners of housing units assisted with FAF Payments provided hereunder to limit the occupancy of such units to families and persons of very low income within the meaning of the United States Housing Act of 1937, as amended, and regulations thereunder relating thereto, for a period of at least 10 years." We compared the various number of years required by each project's respective Regulatory Agreement in Step2(g)(i) to the ten year requirement by the FAF Refunding Agreement. Each project met the minimum 10 year requirement without exception.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the controls over compliance for the Financing Adjustment Factor Funds. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board of Directors and management of the Agency, U.S. Department of Treasury and the U.S. Department of Housing and Urban Development, and is not intended to be and should not be used by anyone other than these specified parties.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Bellevue, Washington
October 14, 2015

# CALIFORNIA HOUSING FINANCE AGENCY
## FINANCING ADJUSTMENT FACTOR SAVINGS DISBURSEMENT SCHEDULE
## For the Period July 1, 2012 to June 30, 2015

| Name | Commitment Date | Commitment Amount | Disbursements To-Date | Remaining Commitments | Disbursements from July 1, 2012 to June 30, 2015 |
|---|---|---|---|---|---|
| **Special Needs Program Loans** | | | | | |
| San Pascual | 02/01/95 | $ 75,646 | $ 75,646 | $ - | $ - |
| Parke Los Robles | 03/01/95 | $ 135,417 | $ 135,417 | $ - | $ - |
| Walter House | 03/29/99 | $ 350,000 | $ 350,000 | $ - | $ - |
| Michele Circle | 03/05/02 | $ 425,000 | $ 425,000 | $ - | $ - |
| Life Services Alternatives | 09/19/01 | $ 2,500,000 | $ 2,456,632 | $ - | $ - |
| Life Services Alternatives | 01/29/04 | $ 900,000 | $ 900,000 | $ - | $ - |
| Mandela Gateway | 10/01/05 | $ 900,000 | $ 900,000 | $ - | $ - |
| Dana Strand | 03/01/06 | $ 580,000 | $ 580,000 | $ - | $ - |
| Lion Creek Crossing I | 02/01/07 | $ 575,000 | $ 575,000 | $ - | $ - |
| Lion Creek Crossing II | 09/21/07 | $ 730,000 | $ 730,000 | $ - | $ - |
| Nuevo Sol | 04/01/08 | $ 405,464 | $ 405,464 | $ - | $ - |
| Le Beaulieu | 09/01/08 | $ 2,310,000 | $ 2,310,000 | $ - | $ - |
| Lion Creek Crossing III | 02/01/09 | $ 530,000 | $ 530,000 | $ - | $ - |
| Fireside Apts | 02/01/11 | $ 900,000 | $ 900,000 | $ - | $ - |
| | | $ 11,316,527 | $ 11,273,159 | $ - | $ - |
| **Subsidy Interest Rate** | | | | | |
| Village Place | 09/01/97 | $ 162,172 | $ 122,001 | $ 40,171 | $ 17,544 |
| Duchow Way/Mercy Village | 01/08/98 | $ 1,129,349 | $ 802,728 | $ 326,621 | $ 130,023 |
| The ARC Apartments | 11/19/98 | $ 980,541 | $ 674,762 | $ 305,780 | $ 113,056 |
| Longfellow Apts | 1/3/2000 | $ 360,449 | $ 230,278 | $ 130,170 | $ 45,017 |
| Stanley Ave | 3/28/2001 | $ 170,257 | $ 124,565 | $ 45,691 | $ 19,770 |
| Far East | 7/26/2004 | $ 19,047 | $ 19,047 | $ - | $ 1,870 |
| Fremont Oaks | 12/20/2005 | $ 1,281,494 | $ 586,404 | $ 695,090 | $ 183,826 |
| Lorenzo Creek | 6/28/2006 | $ 666,748 | $ 492,521 | $ 174,227 | $ 123,623 |
| Gish Apts. | 9/10/2007 | $ 1,112,184 | $ 416,646 | $ 695,538 | $ 169,690 |
| Encore Hall | 5/8/2008 | $ 973,748 | $ 398,576 | $ 575,172 | $ 178,576 |
| Vista Sunrise | 4/8/2008 | $ 113,007 | $ 97,967 | $ 15,040 | $ 34,703 |
| Cesar Chavez | 4/11/2008 | $ 341,723 | $ 196,499 | $ 145,224 | $ 45,322 |
| Woodland Terrace | 3/31/2008 | $ 255,890 | $ 255,890 | $ - | $ 7,301 |
| Camino de las Flores | 12/11/2007 | $ 133,255 | $ 122,277 | $ 10,978 | $ 10,987 |
| Diamond Aisle | 12/23/2009 | $ 165,741 | $ 120,440 | $ 45,301 | $ 66,112 |
| | | $ 7,865,605 | $ 4,660,602 | $ 3,205,003 | $ 1,147,420 |
| | | $ 19,182,132 | $ 15,933,761 | $ 3,205,003 | $ 1,147,420 |

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**FANNIE MAE**
**Herndon, Virginia**

**REPORT OF AGREED-UPON PROCEDURES**

## TABLE OF CONTENTS

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**Independent Accountants' Report on**
**Applying Agreed Upon Procedures**

Fannie Mae
Herndon, Virginia

We have performed the procedures enumerated below, which were agreed to by Fannie Mae and the California Housing Finance Agency (CalHFA), solely to assist Fannie Mae in determining compliance and the propriety of financial reporting of CalHFA. CalHFA management is responsible for the propriety of accounting and compliance with Fannie Mae requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.

The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

**Quality of Certification Practices and Procedures**

**Procedures**

1. Obtain a list of loans on hand and haphazardly select a loan sample that:
   a. Contains 150 loans certified since the previous review.
      i. If less than 150 loans were delivered to Fannie Mae since the previous review, sample all of the loans delivered.
   b. Represents all loan products certified since the last review (performed by Fannie Mae or the independent auditor), with an emphasis on ARMs, or loan types that the Document Custodian has previously demonstrated difficulty in certifying.
2. Complete a re-certification of all loans in the sample following the certification guidelines established in Fannie Mae's Requirements for Document Custodians, while taking into account previously granted waivers that are documented in existing Letters of Instruction or Exhibit A to the Custodial Agreement.
   a. Document any issues discovered for inclusion in the Findings Report.
   b. Obtain copies of all loan documents containing issues for submission with the Findings Report.
   c. Communicate issues to the document custodian for remediation upon discovery. Do not withhold the issues identified until the findings report is published.
3. Based on the procedures performed above, document the identified errors in the final report. The report should:
   a) Identify each error discovered
   b) Establish error rates for:
      i. Data errors;
      ii. Document errors; and,
      iii. Combined errors

c) Include copies of documents as attachments containing evidence of all issues discovered during testing of the loan sample.

**Results**
We did not identify any errors in our review of the Document Custodian's activities. CalHFA did not have any new loans delivered to Fannie Mae during the period and was previously granted a waiver since no more loans have been issued.

The summary of procedures and associated findings are as set forth below:

| | Total | Adjustable | Fixed | MBS | Cash |
|---|---|---|---|---|---|
| Loans Requested | 150 | 0 | 150 | 0 | 0 |
| Loans Released/Transferred Out | 0 | 0 | 0 | 0 | 0 |
| Loans Reviewed | 150 | 0 | 150 | 0 | 0 |
| Standard Document Errors | 0 | 0 | 0 | 0 | 0 |
| *Standard Document Error Rate* | *0%* | *0%* | *0%* | *0%* | *0%* |
| Standard Data Errors | 0 | 0 | 0 | 0 | 0 |
| *Standard Data Error Rates* | *0%* | *0%* | *0%* | *0%* | *0%* |
| ***Combined Document + Data Errors*** | **0** | **0** | **0** | **0** | **0** |
| ***Combined Error Rate*** | ***0%*** | ***0%*** | ***0%*** | ***0%*** | ***0%*** |

**General Custodian Data**

**Procedures**
1. Obtain a list of Fannie Mae loans on hand as of December 31, 2014 and document the number of Fannie Mae loans on-hand.
2. Request and review executed Form 2001 (Annual Statement of Eligibility for Document Custodians) for any existing waivers granted to the:
   a. Document Custodian
   b. Lender (related to certification)
3. Review data regarding previous audits and verify if there are any:
   a. Previous findings
      i. If previous findings exist, validate that they have been resolved and include a status update in the report to Fannie Mae.
   b. Outstanding issues
      i. If outstanding issues exist, validate that they have been resolved and include a status update in the report to Fannie Mae.

**Results**
CalHFA currently has 2,803 loans on hand. We obtained 150 loan files and reviewed the executed Form 2001 for any existing waivers granted to the document custodian without exception. There were no previous findings or outstanding issues noted.

## General Compliance

**Procedures**

1. Request copies of executed Custodial Agreement (Form 2003) between the custodian and each of its Fannie Mae Lender customers as listed in the executed Form 2001.
2. If variances are noted, determine that all variances are documented in the form of a Letter of Instruction (which represents a variance granted to lender) or Exhibit A (which represents a variance granted to the Custodian) to the Custodial Agreement.
3. Determine through staff interviews and observations that the document custodian employs well-trained and knowledgeable staff that is familiar with pool certification procedures and Fannie Mae document control methods.

**Results**

We obtained and reviewed the executed Custodial Agreement (Form 2003) between CalHFA and Fannie Mae without exception. There were no variances noted. Based on staff interviews and observations, staff appears trained and knowledgeable and is familiar with pool certification procedures and Fannie Mae document control methods.

## Regulation

**Procedures**

If the custodian is a regulated entity, perform the following:

1. Ask the Custodian to provide evidence of their regulator(s); a custodian must be regulated by:
   a. Federal Deposit Insurance Corp. (FDIC)
   b. Board of Governors of the Federal Reserve System
   c. Office of the Comptroller of the Currency (OCC)
   d. Office of Thrift Supervision (OTS)
   e. National Credit Union Administration (NCUA)
2. Identify/name the regulated institution (i.e. name of parent, subsidiary, etc.).
3. Identify the regulated institution's relationship to the Custodian.
4. Determine and document if the custodian is subject to periodic review by the primary regulator.
   a. If yes, request the frequency and date of the last review.

**Results**

CalHFA is not a regulated custodian, under the terms of the waiver, granted by Fannie Mae.

## Reporting and Organizational Structure

**Procedures**

1. Obtain an organization chart. Based on the organizational chart and interviews with management:
   a. Determine that the document custodian operates as a physically separate department from departments that perform mortgage origination, selling and servicing functions.
   b. Determine that duties are completely segregated between lending and custodian activities.
   c. Determine that the document custodian maintains separate personnel, files and operations.
2. Determine if this is a lender, or an affiliate of a lender, acting as custodian for Fannie Mae documents.

**Results**

We obtained the most recent organizational chart from CalHFA. Employees responsible for Fannie Mae documents are part of the MRS department, which does not perform mortgage origination, selling, or servicing. The lending activities and custodian activities are completely segregated. CalHFA maintains separate personnel, files, and operations relating to Fannie Mae documents. CalHFA is a lender acting as a document custodian for Fannie Mae documents.

**Financial Ratings**

**Procedures**

If the custodian is a regulated entity, perform the following:

1. Request evidence of the regulated institution's most recent:
   a. IDC Ranking and date;
   b. KROLL Rating and date; and/or,
   c. Alternate financial rating and date
2. Determine through observation that the document custodian was able to produce rating evidence upon request.
3. Determine that the rating provided by the Custodian meets Fannie Mae's requirements as specified in the Requirements for Document Custodians.
4. Determine that the Custodian has a procedure in place to monitor their financial ratings for compliance.

**Results**

CalHFA is not a regulated custodian and does not have a ranking or rating under the terms of the waiver granted by Fannie Mae.

**Trust Powers**

**Procedures**

If the custodian is a regulated entity, perform the following:

1. If the Custodian is self-affiliated, obtain evidence of their Trust Powers.
2. Determine if there are custodial officers who are authorized to act for the institution in a trust capacity.

**Results**

CalHFA has obtained a waiver for the requirements related to Trust powers and has adhered to the terms and conditions of the Trust Power waiver imposed by Fannie Mae.

**Insurance Coverage**

**Procedures**

1. Read the Custodian's E&O policy to assure that it meets Fannie Mae's requirements, as specified in the Requirements for Document Custodians, and notate:
   a. Amount of Policy
   b. Amount of Deductible
   c. Deductible as percentage of face
   d. Policy expiration date

2. Read the Custodian's Financial Institution Bond coverage to assure that it meets Fannie Mae's requirements, as specified in the Requirements for Document Custodians, and notate:
   a. Amount of Bond Coverage
   b. Amount of Deductible
   c. Deductible as percentage of face
   d. Policy expiration date
3. Read the Custodian's documentation that demonstrates that the Custodian verified that the insurance carrier is rated by one of the following:
   a. A.M. Best Company, with a rating of 'B' or better
   b. Standard and Poor's Inc., with a rating of 'BBB' or better

**Results**
CalHFA obtained a waiver for the requirements related to insurance coverage.

**Physical Facilities**

**Procedures**
1. Obtain, observe and review the documentation that indicates that the facilities for storage of the custodial documents and files are fire-resistant storage facilities that provide at least two hours of fire protection.
2. Observe that the location and layout of the vault facility effectively limits access to the area.
3. Determine through observation that the custodian is able to account for the control of the keys, or have access to, all external vault exits.
4. Read the procedures for granting access to vault facilities to assure that access is granted to personnel on an as-needed basis to determine that personnel not working directly in custodian functions should not have access to the vault.
5. Observe the location in which documents are stored, while awaiting filing, to assure that it is secure.
6. Read and observe the vault's primary access control.
7. Read and observe that the vault has secondary access control.
8. Read and observe that there are controls in place to prevent unauthorized access by non-custodial employees to custodial facilities and systems.

**Results**
We observed the storage facilities for the custodial documents and noted that they are fire-resistant. The cabinets are FireKing, equipped with two hour fire protection.

We observed the location and layout of the vault facility. The facility is located on the 4$^{th}$ floor, which requires an access badge to enter. Within the 4$^{th}$ floor, the file room requires a special access badge maintained by only two authorized employees.

The document custodian is able to account for the control of keys. The primary key is kept by the Accounting Manager in a locked desk drawer on the 9$^{th}$ floor. The secondary key is kept with Business Services on the 4$^{th}$ floor. There are only two employees who have access to the vault facilities. The primary access person is an accountant. If he is unavailable, the backup person, a seasonal clerk, is responsible.

In order to obtain the vault key, they must sign the log-out sheet kept by the primary key holder. Once they are finished with the key, they return it and report the time returned key holder in the log.

We observed the location in which the documents are stored and determined it is secure.

The vault's primary access controls include the primary key holder keeping a locked key in her office, with only two staff having access to the Fannie Mae cabinets.

The secondary access controls include a second key held by the Business Services Manager. This key is also only available to two staff members. Based on our observations, controls appear to be in place to prevent unauthorized access by non-custodial employees to custodial facilities and systems.

We watched as an unauthorized staff person attempted to access the custodial facilities. The unauthorized key card was unable to open the storage facility area. There are only two individuals with access to the Custodial facilities and systems.

**Written Procedures for Certification and Custody**

**Procedures**

1. Read the following written procedures to assure that they meet Fannie Mae's requirements, as specified in the Requirements for Document Custodians:
   a. Receipt of documents
   b. Registration into the document tracking system
   c. Certification of all required data elements
   d. Verification of all required documents
   e. Process for certification and custody of Fannie Mae cash loans, if applicable
   f. Process for certification and custody of Fannie Mae LTSC Class I and/or Class IV loans, if applicable
   g. Bailee letter processing, if applicable
   h. Satisfaction of prior creditor interests in Fannie Mae loans, if applicable
   i. Process for handling missing/incorrect documents and/or data errors found during the document-to-data review (including communication, tracking, and follow-up until certification or removal)
   j. Document release practices (including execution of Form 2009)
   k. Document reinstatement
   l. Servicing transfers (in and out)
   m. Details regarding how vault access is controlled and secured
   n. Process for moving documents within vault/file room as loans are sold to investors
   o. Process for granting/removing/periodic review (at least annually) of unauthorized access to the document tracking system
   p. Notification to Fannie Mae when users of the Doc Cert application cease to be authorized users.
   q. Certification that Fannie Mae is the controller (eNote custodians only)
   r. Follow-up and receipt of original Form 3269 Balloon Loan Modifications and verification that the document is endorsed in blank (RDC Section 8.5)
   s. Process for monthly quality controls
2. Interview and observe, through staff, to verify that employees have access to and follow written procedures

**Results**

We obtained the Fannie Mae manual and reviewed written procedures for the items identified in the procedures and determined that they meet Fannie Mae requirements. Based on staff interviews and observations, employees are knowledgeable of the written procedures and follow them accordingly.

## Practices – Certification

**Procedures**

Determine if there are any new loans during the year. If so, perform the following:

1. Sit with certification staff to review certification practices. Assure that these practices meet Fannie Mae's requirements and the custodian's documented procedures.
2. Verify and document the certification method used by the document custodian.
   a. If certification is performed on an "As Submitted" basis:
      i. Request evidence to show that certification is performed against Form 2005 data obtained from the DocCert application.
      ii. Request evidence to show that all Fannie Mae-required fixed and adjustable rate certification fields are included in the data comparison.
   b. If pre-submission certification (meaning that certification is performed prior to submission of loan data to Fannie Mae) is performed using lender data:
      i. Request evidence to show that data used in pre-submission certification is compared to Form 2005 data obtained from the DocCert application prior to pool certification. This comparison may be an automated comparison (for cash loans, pre-submission data from Loan Delivery should be used). Any exceptions should have been noted and communicated to the lender for resolution prior to transmission of a certification status to Fannie Mae.
      ii. Request evidence to show that all the Fannie Mae-required data fields are included in the data certification process and in the data comparison, if applicable.
      iii. Request evidence that demonstrates how the document custodian ensures that all pre-certified loans are in their possession at the time of pool certification.
      iv. Request evidence that demonstrates how the document custodian ensures that all loans identified as Fannie Mae deliveries are not allocated to any other investor.
3. Request evidence to show that the document custodian validates MBS Corrections in the DocCert application.
4. Request evidence to show that the document custodian has ongoing feedback and communication regarding outstanding items with its lender customers.
5. Verify that all notes are endorsed in blank from the lender. If the document custodian executes, verify presence of a power of attorney allowing them to perform this function.
6. If facsimile signatures are used on blank endorsements:
   a. Obtain and review the Corporate Resolution recognizing the use of such signatures.
7. If the document custodian certifies and holds Fannie Mae cash loans, review the documentation that supports that:
   a. The Custodian sends a cash certification status to the lender; and,
   b. The Custodian maintains records of these notifications.
8. If the Custodian certifies and holds loans delivered as Long Term Standby Commitment (LTSC) Class I and/or Class IV, review the documentation that supports that:
   a. Communicates certification status to the lender; and,
   b. Identifies LTSC Class I and/or Class IV loans in their tracking system with Fannie Mae as the investor after loans are funded.
9. Read the Custodian's practices and policies to assure that all practices and procedures comply with Fannie Mae requirements and any updates are promptly incorporated.
10. If the document custodian certified eNotes, verify that the document custodian's certification practice includes validation that Fannie Mae is the controller for all eNotes.

11. Read the Custodian's procedure and tracking process to assure that the document custodian has a process in place to ensure receipt of the original Form 3269 (Balloon Loan Modification Agreement, endorsed to blank) when certification was based on a certified true copy of this document.

**Results**

These procedures were not applicable as there were no new loans certified.

<u>**Practices – Custody**</u>

**Procedures**

1. Ask the custodian to provide an overview and walk-through of the system they use to track the physical location of all Fannie Mae documents and files. Determine if the system has sufficient controls in place or document any gaps.
2. Determine if the document custodian is able to indentify Fannie Mae loans by a physical location and/or through use of a document tracking system.
3. Determine that appropriate access controls are in place to protect the document tracking system from unauthorized viewing and updating.
4. Haphazardly select 10 loans and request that the document custodian locate and retrieve the loans successfully and timely. This is in addition to the loan sample.

**Results**

CalHFA maintains physical copies of all Fannie Mae documents and files in file cabinets on the 4th floor. This location does not change and files are not moved. The system has sufficient controls in place in accordance with the guidelines.

CalHFA is able to identify Fannie Mae loans by a specific physical location on the 4th floor, as well as through the use of their document tracking system. There are appropriate access controls in place to prevent unauthorized personnel from accessing the document tracking system.

There are only 2 employees who have access to the document tracking system, and the same two employees are the only ones who have access to the room the Fannie Mae loans are physically held.

We selected 10 loans from the Active Loan listing and observed as the Accountant located each note from the file cabinets successfully and timely. No exceptions noted.

<u>**Practices – Funding**</u>

**Procedures**

1. If indicated in the executed Form 2001 that bailee letters are delivered to the document custodian, request evidence that shows that the custodian has a process in place to withhold certification until Fannie Mae has validated and approved the wiring instructions.
2. Inquire if the document custodian issues trust receipts. If yes, obtain evidence that loans are removed from the trust receipts prior to certification.
3. Inquire if loans are self-funded prior to sale to Fannie Mae. If yes, obtain evidence that shows release of interest prior to certification.
4. Inquire if loans are funded through a warehouse line prior to sale to Fannie Mae. If yes, obtain evidence that either bailee letters are submitted to Fannie Mae or release of interest prior to certification.

5. Inquire if loans are funded through a FHLB prior to sale to Fannie Mae. If yes, obtain evidence of release of interest prior to certification.
6. Inquire if loans are funded through a funding facility prior to sale to Fannie Mae.
    a. If yes, determine the name of the facility and verify that funding agreements between the facility and document custodian are on file.
7. Determine if the lender has entered into any inter-creditor (tri-party) agreements.
    a. If yes, determine with whom and verify that copies of the agreements are on file.
8. Inquire if the document custodian has knowledge of, or operational involvement in, satisfying prior creditor interest of Fannie Mae loans. If yes, verify that:
    a. The document custodian has a process in place to ensure that the loans are released prior to funding.
    b. The process is documented in a procedure.
    c. The procedure is testable.

**Results**
These procedures were not applicable as there were no new loans funded.

**Practices – Releases**

**Procedures**
1. Observe the custody staff to conduct a review of document release practices.
2. Determine that the document custodian receives a Form 2009 (Request for Release of Documents) or equivalent prior to document release. Further verify that the form:
    a. Contains all the required data elements.
    b. Is maintained in either hard copy or electronic format.
        i. If electronic, verify that the Form can be printed in a suitable format upon request.
3. Haphazardly select one loan and request evidence to show that releases are processed only when the Form is signed and dated by authorized personnel.
4. Haphazardly select one loan and request evidence to show that the document custodian includes either Form 2009 or a loan manifest with the release package.

**Results**
We observed the document custodian staff review of the document release practices and noted that they follow the written procedures provided by Fannie Mae.

The document custodian receives a Request for Release of Documents from the Loan Servicing department prior to the release of documents. The electronic listing contains all necessary elements to accurately release the requested notes. The electronic form is available to be printed in a suitable format upon request.

We observed the FNMA Release Forms folder, which includes all necessary information that is completed and approved before the requested notes are released.

The document custodian maintains a loan manifest that is completed, reviewed, and approved each time documents are released.

**Practices – Transfers**

**Procedures**

Determine if there were any loan transfers during the year. If so, perform the following:

1. Inquire if the document custodian processes incoming servicing transfers. If yes, document the following:
   a. Evidence of the recertification completion date(s).
   b. Evidence of a reconciliation of documents to a loan trial balance.
   c. Evidence that the custodian completes the recertification of loans within the 6-month period required by Fannie Mae.
   d. Evidence of tracking system's ability to indicate whether pools have been recertified following an incoming transfer.

**Results**

These procedures were not applicable as there were no incoming loan servicing transfers during the period.

**Practices – Monthly Quality Control**

**Procedures**

1. Verify through observation that the document custodian has a monthly quality control (QC) process in place.
2. Request evidence that for each monthly QC over the past 12 months, the following documents have been retained:
   a. Loan sample list (including product type and certifier)
   b. Findings Report
   c. Evidence that the Findings Report was reviewed by document custody management staff
   d. Remediation evidence for all issues identified
3. Verify that the document custodian's documented procedures for the monthly QC include details on how to determine the loan sample size. Verification should include the method used for the regular monthly QC sample and the method(s) used when additional sampling is required (added) if:
   a. The previous three months QC identified systemic errors or errors related to an individual certifier.
   b. The overall error rate exceeds 3% for three consecutive months.
4. Provide a summary of the method(s) used to determine sample size.
5. Verify that the monthly QCs for the previous 12 months meet the sample size requirements outlined in the document custodian's documented procedures.

**Results**

We obtained and reviewed the monthly QC procedures put in place by the Document Custodian. Since CalHFA has not had any new loans since 2007, they are exempt from performing the monthly loan testing. We obtained and reviewed documentation of this exemption.

**Disaster Recovery**

**Procedures**

1. Request evidence of the existence of the custodian's (or affiliated entity's) written business continuity/disaster recovery plan.
2. Ensure through review that the plan:

a. Identifies critical functions and resources.
b. Covers procedures and responsibility assignments, including a "Call Tree" to identify whom to call during an emergency and in what order.
c. Includes provisions for off-site retention of critical systems and data file resources.
d. Outlines a plan for the existing documents in the vault in the event of fire, water damage or any other disaster such that there is a need to move documents to a back-up facility or restore the documents.
e. Includes alternate processing facilities, and network and telecommunication capabilities.
f. Covers restoration of facilities and backup and recovery of data processing systems.

3. Request evidence to show that the business continuity/disaster recovery plan is tested at least annually and note the date of the last test.

**Results**
We obtained and reviewed CalHFA's written Business Continuity Plan and Technology Recovery plan.

We ensured the plan included all required information identified in the procedure above. We obtained confirmation that CalHFA is in compliance with all FNMA Security Reporting requirements and noted their most recent plan was submitted in October 2014. We verified that the disaster recovery plan is tested annually, noting the date of the last test was September, 30, 2014.

* * *

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on compliance and financial reporting of the California Housing Finance Agency. Accordingly, we did not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of California Housing Finance Agency and Fannie Mae and is not intended to be and should not be used by anyone other than these specified parties.

CliftonLarsonAllen LLP

Bellevue, Washington
July 9, 2015

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**Major Changes to TCAC Regulations**

*Increasing Basis*

1. Allow use of assumed debt as acquisition basis
2. Eliminate the cap on developer fees for 4% projects but require any increase over $2.5 million to be deferred, except that the deferral threshold shall increase by $10,000 per unit for each tax credit unit over 100
3. Grandfather in Difficult Development Area status for one year for 9% projects

*Reducing Costs*

4. Incentivize larger projects with 9% tiebreaker size factor (starting in 2017) and 4% the increased developer fee deferral threshold described above
5. Count land donations and soft loans from private sources towards 9% tiebreaker
6. Relax site amenity distances for 4% and 9% projects
7. Deemphasize sustainability category in 9% projects and allow construction to code for 4% new construction projects
8. Reduce the percentage of 3-bedroom units required in large-family housing
9. Relax the requirement for special needs projects to meet a second housing type
10. Clarify that rehabilitation projects do not need to replace still serviceable doors, flooring, roofs, water heaters, insulation, and landscaping
11. Increase flexibility to combine the rehabilitation of multiple projects into a single application
12. Eliminate the need for a market study for existing developments with low vacancy rates
13. Stagger construction start deadlines for 9% projects
14. Allow 4% plus state credit projects to apply to CDLAC after receiving TCAC award

*Accountability*

15. Provide a right of first refusal for new 9% non-profit project owners to purchase the property at year 15 for debt plus taxes
16. Require that projects being sold or refinanced fund rehabilitation needs before equity is distributed
17. Increase minimum rehabilitation standard for 4% projects to $15,000
18. Require resyndication projects to maintain current affordability for 55 years with some exceptions
19. Allow negative points for projects that exceed updated high cost standard at placed in service

*Other*

20. Provide points for projects that use greywater, recycled water, or rainwater for irrigation
21. Provide points for projects near transit that provide reduced-cost transit passes to residents
22. Increase the special needs housing goal to 25%
23. 25. Continue Native American apportionment and ignore site amenity points with this apportionment
24. Require projects to provide services for 15 years, as opposed to 10
25. For the 9% tiebreaker, add back credit reductions that are less than public funds
26. Allow appraisal review if it would change tiebreaker outcome
27. Allow use of hold harmless rents

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**State of California**

# M E M O R A N D U M

**To:** Board of Directors

Date: October 22, 2015

Timothy Hsu, Director of Financing

**From**: **CALIFORNIA HOUSING FINANCE AGENCY**

**Subject:** UPDATE OF CONDUIT ISSUANCE PROGRAM

The CalHFA Conduit Issuer Program (Conduit Program) is designed to facilitate both for-profit and non-profit developers in accessing tax-exempt and taxable bonds for the financing of family and senior affordable and mixed-income housing developments. The goals of the program are to increase and preserve the supply of affordable rental housing, maintain a quality living environment, leverage private sector funds to the greatest extent possible, and to cooperate with local jurisdictions to advance affordable housing goals.

CalHFA made numerous program changes in March 2015 to be more competitive on fees and added a locality review process in place to address any of the locality concerns. In addition to generating fee income for the Agency, the Conduit Program is an entry point for developers, lenders, bond counsels, and financial advisors to become more familiar with all of CalHFA multifamily programs and resources.

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***Conduits Completed in FY15-16:***

| | Project Name | City | Project Type | Units | Date Closed | Loan Amount |
|---|---|---|---|---|---|---|
| 1 | Betel Apartments | San Francisco | Family | 50 | 7/15/2015 | $ 18,000,000 |
| 2 | Park Sunset Apartment | San Francisco | Senior | 30 | 10/22/2015 | $ 10,000,000 |
| | | | | 80 | | $ 28,000,000 |

***Conduit Pipeline:***

| | Project Name | City | Project Type | Units | Closing Date | Loan Amount |
|---|---|---|---|---|---|---|
| *(In process)* | | | | | | |
| *-March 2016 CDLAC Meeting* | | | | | | |
| 1 | Courtyard Plaza | San Jose | Family | 81 | 4/1/2016 | $ 14,000,000 |
| *-December 2015 CDLAC Meeting* | | | | | | |
| 1 | Morh I | Oakland | Family | 126 | 12/31/2015 | 61,600,000 |
| 2 | Oak Center | Oakland | Family | 77 | 12/31/2015 | 29,260,000 |
| 3 | Arbors Terraces | San Jose | Senior | 86 | 12/31/2015 | 10,551,259 |
| 4 | The Verandas | San Jose | Family | 92 | 12/31/2015 | 13,430,000 |
| 5 | Ortiz Plaza | Santa Rosa | Farm Worker/Family | 30 | 3/1/2016 | 8,000,000 |
| *(In Process to Close)* | | | | | | |
| 1 | Grove at Manzanita | Carmichael | Family | 89 | 11/10/2015 | 10,000,000 |
| 2 | Kenneth Park | Carmichael | Family | 97 | 11/10/2015 | 11,250,000 |
| 3 | Summit at Fair Oaks | Fair Oaks | Family | 70 | 11/10/2015 | 10,000,000 |
| 4 | Sunrise Meadows | Rancho Cordova | Family | 95 | 11/10/2015 | 10,500,000 |
| 5 | Plum Tree West | Gilroy | Senior | 70 | 12/1/2015 | 22,849,036 |
| 6 | Rowland Heights | Rowland Heights | Family | 144 | 12/1/2015 | 30,114,881 |
| 7 | O'Farrell Towers | San Francisco | Family | 101 | 11/15/2015 | 28,777,648 |
| 8 | Downtown Hayward Senior Apts | Hayward | Senior | 60 | 11/30/2015 | 17,500,000 |
| | | | | 1,218 | | $ 277,832,824 |

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**State of California**

# M E M O R A N D U M

**To:** Board of Directors **Date:** October 21, 2015

Tim Hsu, Director of Financing

**From:** **CALIFORNIA HOUSING FINANCE AGENCY**

**Subject:** Homeownership Loan Portfolio Report and Highlights for September 30, 2015

- The overall delinquency rate has decreased from a high of 17.94% in January 2010 to 7.44% in September 2015.
  - The delinquency rate for FHA loans has decreased from a high of 19.86% in January 2010 to 8.89% in September 2015.
  - The delinquency rate for Conventional loans has decreased from a high of 16.31% in January 2010 to 6.18% in September 2015.
- Conventional MI loans with no reinsurance have the highest delinquency rate at 13.21% (comparing all conventional and FHA loans)
- The REO inventory reached its peak of 1,391 loans, between the third and fourth quarters of 2010 (315 FHA loans and 1,076 Conventional loans) it is now 35 loans (3 FHA loans and 32 Conventional loans).
- The annualized foreclosure rate for Conventional loans is 1.1% compared to a high of 10% in 2010.
- As of September 2015, loans modified starting in 2011 have a lower default rate, which parallels the introduction of the Keep Your Home California (KYHC) Program. The loans modified starting in 2012 have an even lower default rate, which parallels the increase in the principal reduction program (PRP) maximum payment from $50,000 to $100,000.
- Since 2011 we have modified 634 loans (FHA and conventional) that received KYHC's Principal Reduction Program (PRP) funds, for a total of $39 million. "Cure" rates for modified loans (current at time of modification): 84%
- "Cure" rates for modified loans (delinquent at time of modification): 70%

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CalHFA California Housing Finance Agency

# HOMEOWNERSHIP LOAN PORTFOLIO DELINQUENCY, REO & SHORT SALE, UNINSURED LOSS, AND LOAN MODIFICATION REPORT

## September 30, 2015

### Reconciled Loan Delinquency Summary
### All Active Loans By Insurance Type

| | Loan Count | Balance | % of Balance | DELINQUENCY RATIOS - % of Loan Count | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Loan Count | 30-Day | Loan Count | 60-Day | Loan Count | 90(+) Day | Totals Count | Totals % |
| **Federal Guaranty** | | | | | | | | | | | |
| FHA | 6,379 | $ 618,123,661 | 31.12% | 312 | 4.89% | 100 | 1.57% | 155 | 2.43% | 567 | 8.89% |
| VA | 135 | 11,973,359 | 0.60% | 8 | 5.93% | 1 | 0.74% | 1 | 0.74% | 10 | 7.41% |
| RHS | 70 | 11,609,671 | 0.58% | 2 | 2.86% | 0 | 0.00% | 0 | 0.00% | 2 | 2.86% |
| **Conventional loans** | | | | | | | | | | | |
| **with MI** | | | | | | | | | | | |
| MI with Reinsurance | 1,872 | 460,040,566 | 23.16% | 82 | 4.38% | 14 | 0.75% | 71 | 3.79% | 167 | 8.92% |
| No Reinsurance | 333 | 75,249,033 | 3.79% | 20 | 6.01% | 7 | 2.10% | 17 | 5.11% | 44 | 13.21% |
| **without MI** | | | | | | | | | | | |
| Originated with no MI | 3,259 | 541,681,469 | 27.27% | 83 | 2.55% | 16 | 0.49% | 58 | 1.78% | 157 | 4.82% |
| MI Cancelled* | 1,593 | 267,844,505 | 13.48% | 46 | 2.89% | 9 | 0.56% | 13 | 0.82% | 68 | 4.27% |
| **Total CalHFA** | 13,641 | $ 1,986,522,264 | 100.00% | 553 | 4.05% | 147 | 1.08% | 315 | 2.31% | 1,015 | 7.44% |
| *Weighted average of conventional loans:* | | | | 231 | 3.27% | 46 | 0.65% | 159 | 2.25% | 436 | 6.18% |

*Cancelled per Federal Homeowner Protection Act of 1998, which grants the option to cancel the MI with 20% equity.

Note: In accordance with CalHFA's policy, *no trustee sale is permitted between December 15 and January 5 of any year without CalHFA's prior written approval.*

### Reconciled Loan Delinquency Summary
### All Active Loans By Loan Type

| | Loan Count | Balance | % of Balance | DELINQUENCY RATIOS - % of Loan Count | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Loan Count | 30-Day | Loan Count | 60-Day | Loan Count | 90(+) Day | Totals Count | Totals % |
| **30-yr level amort** | | | | | | | | | | | |
| FHA | 6,379 | $ 618,123,661 | 31.12% | 312 | 4.89% | 100 | 1.57% | 155 | 2.43% | 567 | 8.89% |
| VA | 135 | 11,973,359 | 0.60% | 8 | 5.93% | 1 | 0.74% | 1 | 0.74% | 10 | 7.41% |
| RHS | 70 | 11,609,671 | 0.58% | 2 | 2.86% | 0 | 0.00% | 0 | 0.00% | 2 | 2.86% |
| Conventional - with MI | 914 | 194,985,924 | 9.82% | 47 | 5.14% | 12 | 1.31% | 31 | 3.39% | 90 | 9.85% |
| Conventional - w/o MI | 4,320 | 693,345,389 | 34.90% | 115 | 2.66% | 19 | 0.44% | 51 | 1.18% | 185 | 4.28% |
| **40-yr level amort** | | | | | | | | | | | |
| Conventional - with MI | 210 | 55,166,211 | 2.78% | 9 | 4.29% | 2 | 0.95% | 11 | 5.24% | 22 | 10.48% |
| Conventional - w/o MI | 164 | 31,530,549 | 1.59% | 4 | 2.44% | 4 | 2.44% | 9 | 5.49% | 17 | 10.37% |
| ***5-yr IOP, 30-yr amort** | | | | | | | | | | | |
| Conventional - with MI | 1,081 | 285,137,465 | 14.35% | 46 | 4.26% | 7 | 0.65% | 46 | 4.26% | 99 | 9.16% |
| Conventional - w/o MI | 368 | 84,650,036 | 4.26% | 10 | 2.72% | 2 | 0.54% | 11 | 2.99% | 23 | 6.25% |
| **Total CalHFA** | 13,641 | $ 1,986,522,264 | 100.00% | 553 | 4.05% | 147 | 1.08% | 315 | 2.31% | 1,015 | 7.44% |
| *Weighted average of conventional loans:* | | | | 231 | 3.27% | 46 | 0.65% | 159 | 2.25% | 436 | 6.18% |

*As of August 1, 2015 all IOP loans (except 1 loans which were modified) were converted to fixed (amortizing) loans.

# September 30, 2015

## Reconciled Loan Delinquency Summary
## All Active Loans By Servicer

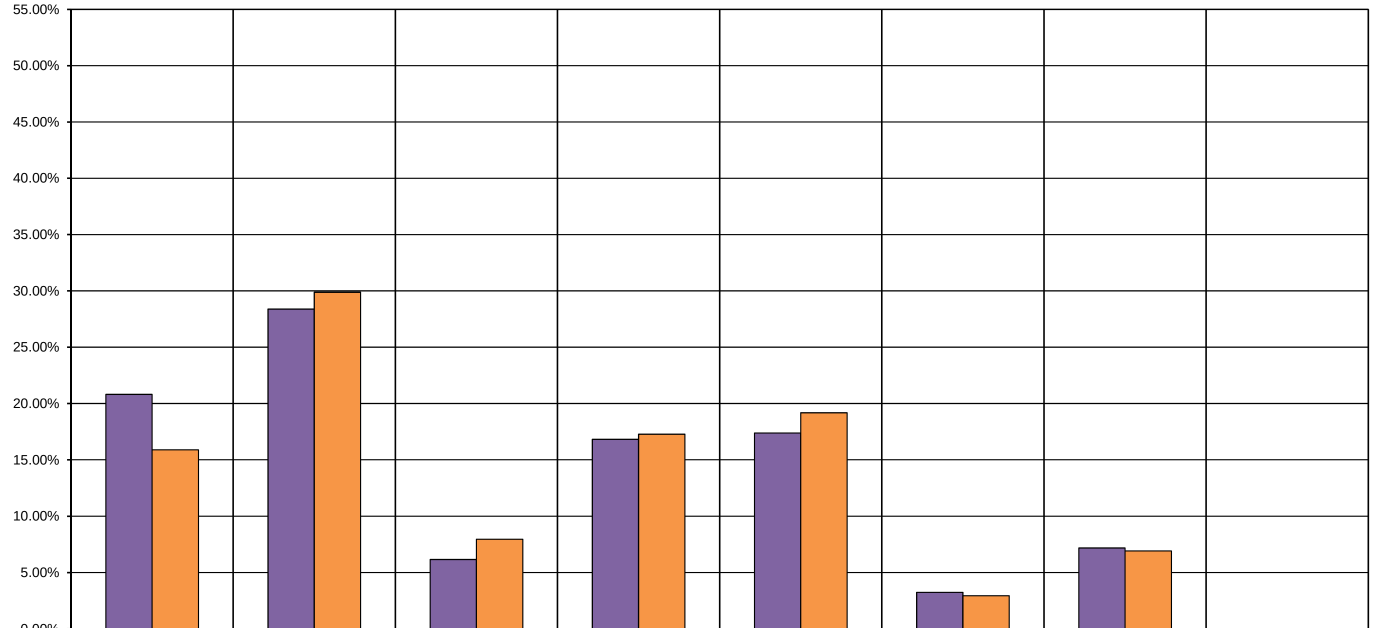
| | Loan Count | | Balance | % of Balance | DELINQUENCY RATIOS - % of Loan Count | | | | | | Totals | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Loan Count | 30-Day | Loan Count | 60-Day | Loan Count | 90(+) Day | Count | % |
| CALHFA - LOAN SERVICING | 5,088 | * | $ 954,529,708 | 48.05% | 146 | 2.87% | 33 | 0.65% | 108 | 2.12% | 287 | 5.64% |
| GUILD MORTGAGE | 3,241 | | 441,375,790 | 22.22% | 174 | 5.37% | 47 | 1.45% | 74 | 2.28% | 295 | 9.10% |
| WELLS FARGO HOME MORTGAGE | 1,543 | | 142,526,509 | 7.17% | 57 | 3.69% | 21 | 1.36% | 49 | 3.18% | 127 | 8.23% |
| EVERHOME MORTGAGE COMPANY | 1,392 | | 109,083,071 | 5.49% | 84 | 6.03% | 18 | 1.29% | 27 | 1.94% | 129 | 9.27% |
| CALHFA - LOAN SERVICING - BAC HOME LOANS | 1,344 | | 198,556,479 | 10.00% | 59 | 4.39% | 10 | 0.74% | 32 | 2.38% | 101 | 7.51% |
| OCWEN MORTGAGE | 555 | | 59,396,444 | 2.99% | 21 | 3.78% | 12 | 2.16% | 9 | 1.62% | 42 | 7.57% |
| FIRST MORTGAGE CORP | 447 | | 75,115,849 | 3.78% | 11 | 2.46% | 5 | 1.12% | 15 | 3.36% | 31 | 6.94% |
| CITIMORTGAGE, INC. | 31 | | 5,938,414 | 0.30% | 1 | 3.23% | 1 | 3.23% | 1 | 3.23% | 3 | 9.68% |
| Total CalHFA | 13,641 | | $ 1,986,522,264 | 100.00% | 553 | 4.05% | 147 | 1.08% | 315 | 2.31% | 1,015 | 7.44% |

*Dovenmuehle's loans transferred to CalHFA Loan Servicing in September 2015.

## Reconciled Loan Delinquency Summary
## All Active Loans By County

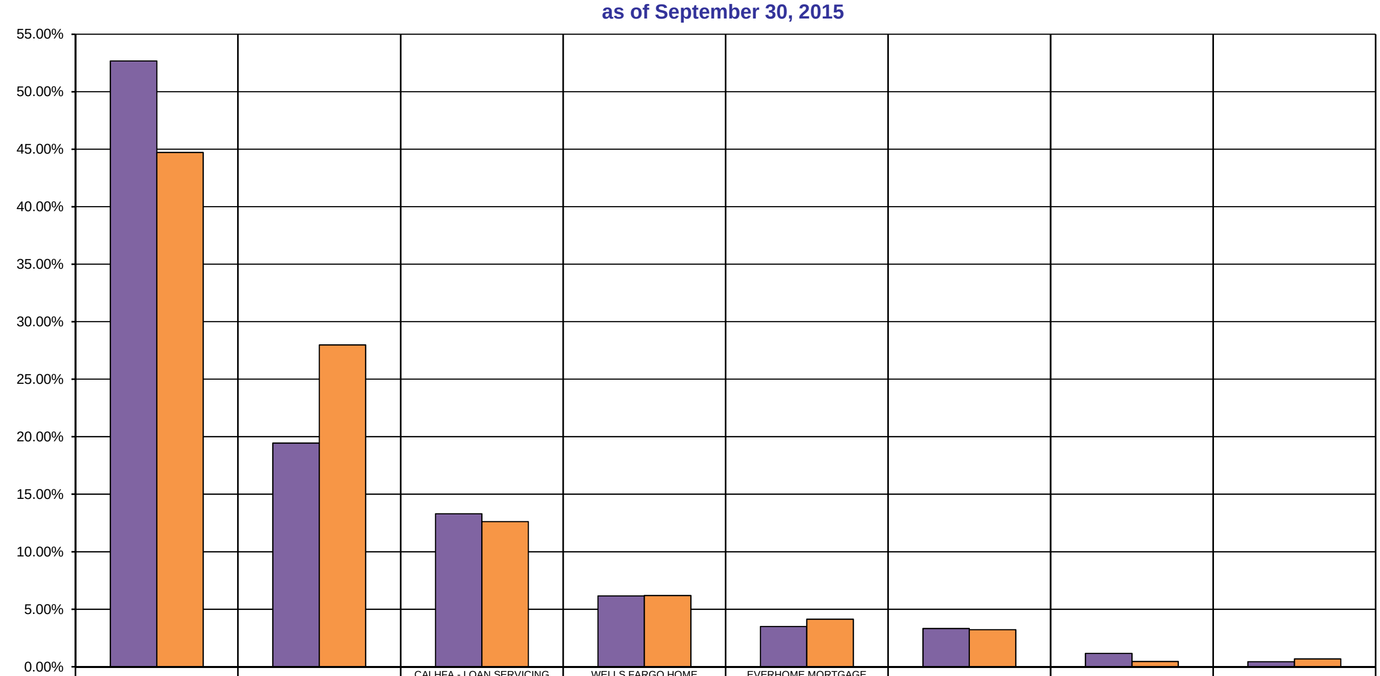
| | Loan Count | Balance | % of Balance | DELINQUENCY RATIOS - % of Loan Count | | | | | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Loan Count | 30-Day | Loan Count | 60-Day | Loan Count | 90-Day+ | Count | % |
| LOS ANGELES | 2,273 | $ 407,780,614 | 20.53% | 83 | 3.65% | 22 | 0.97% | 50 | 2.20% | 155 | 6.82% |
| SAN DIEGO | 1,060 | 192,148,083 | 9.67% | 44 | 4.15% | 6 | 0.57% | 28 | 2.64% | 78 | 7.36% |
| KERN | 940 | 80,057,018 | 4.03% | 46 | 4.89% | 15 | 1.60% | 20 | 2.13% | 81 | 8.62% |
| FRESNO | 834 | 61,521,497 | 3.10% | 37 | 4.44% | 12 | 1.44% | 18 | 2.16% | 67 | 8.03% |
| TULARE | 821 | 60,889,975 | 3.07% | 45 | 5.48% | 11 | 1.34% | 22 | 2.68% | 78 | 9.50% |
| SANTA CLARA | 763 | 163,782,037 | 8.24% | 16 | 2.10% | 3 | 0.39% | 8 | 1.05% | 27 | 3.54% |
| SAN BERNARDINO | 596 | 83,926,703 | 4.22% | 25 | 4.19% | 7 | 1.17% | 20 | 3.36% | 52 | 8.72% |
| RIVERSIDE | 595 | 77,332,894 | 3.89% | 40 | 6.72% | 12 | 2.02% | 23 | 3.87% | 75 | 12.61% |
| SACRAMENTO | 586 | 89,072,204 | 4.48% | 22 | 3.75% | 8 | 1.37% | 18 | 3.07% | 48 | 8.19% |
| ALAMEDA | 551 | 111,202,261 | 5.60% | 10 | 1.81% | 4 | 0.73% | 9 | 1.63% | 23 | 4.17% |
| ORANGE | 544 | 101,338,379 | 5.10% | 17 | 3.13% | 5 | 0.92% | 5 | 0.92% | 27 | 4.96% |
| CONTRA COSTA | 460 | 88,475,213 | 4.45% | 14 | 3.04% | 6 | 1.30% | 12 | 2.61% | 32 | 6.96% |
| IMPERIAL | 402 | 34,648,594 | 1.74% | 27 | 6.72% | 8 | 1.99% | 11 | 2.74% | 46 | 11.44% |
| VENTURA | 314 | 70,821,392 | 3.57% | 15 | 4.78% | 1 | 0.32% | 7 | 2.23% | 23 | 7.32% |
| BUTTE | 303 | 29,008,495 | 1.46% | 16 | 5.28% | 3 | 0.99% | 10 | 3.30% | 29 | 9.57% |
| OTHER COUNTIES | 2,599 | 334,516,902 | 16.84% | 96 | 3.69% | 24 | 0.92% | 54 | 2.08% | 174 | 6.69% |
| Total CalHFA | 13,641 | $ 1,986,522,264 | 100.00% | 553 | 4.05% | 147 | 1.08% | 315 | 2.31% | 1,015 | 7.44% |

## CalHFA FHA Loan Portfolio Performance Comparison by Servicer
## (% of Total Loan Count vs. % of Total Delinquent Loan Count)
## as of September 30, 2015




| | CALHFA - LOAN SERVICING | GUILD MORTGAGE | CALHFA - LOAN SERVICING - BAC HOME LOANS | WELLS FARGO HOME MORTGAGE | EVERHOME MORTGAGE COMPANY | FIRST MORTGAGE CORP | OCWEN MORTGAGE | CITIMORTGAGE, INC. |
|---|---|---|---|---|---|---|---|---|
| % of Total Loan Count | 20.82% | 28.39% | 6.15% | 16.83% | 17.39% | 3.24% | 7.18% | 0.00% |
| % of Total Delinquent Loan Count | 15.89% | 29.88% | 7.94% | 17.27% | 19.17% | 2.94% | 6.91% | 0.00% |

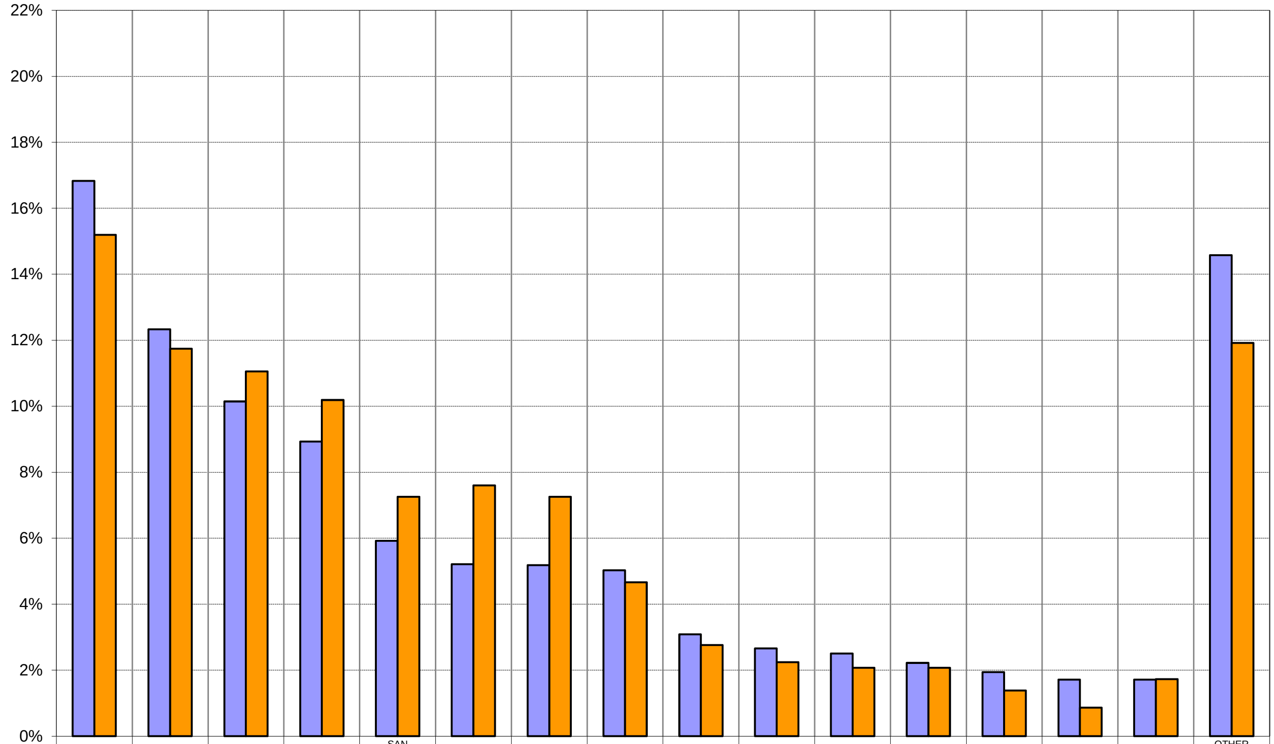
## CalHFA Conventional Loan Portfolio Performance Comparison by Servicer
## (% of Total Loan Count vs. % of Total Delinquent Loan Count)
## as of September 30, 2015




| | CALHFA - LOAN SERVICING | GUILD MORTGAGE | CALHFA - LOAN SERVICING - BAC HOME LOANS | WELLS FARGO HOME MORTGAGE | EVERHOME MORTGAGE COMPANY | FIRST MORTGAGE CORP | OCWEN MORTGAGE | CITIMORTGAGE, INC. |
|---|---|---|---|---|---|---|---|---|
| % of Total Loan Count | 52.67% | 19.44% | 13.31% | 6.16% | 3.50% | 3.32% | 1.16% | 0.44% |
| % of Total Delinquent Loan Count | 44.72% | 27.98% | 12.61% | 6.19% | 4.13% | 3.21% | 0.46% | 0.69% |

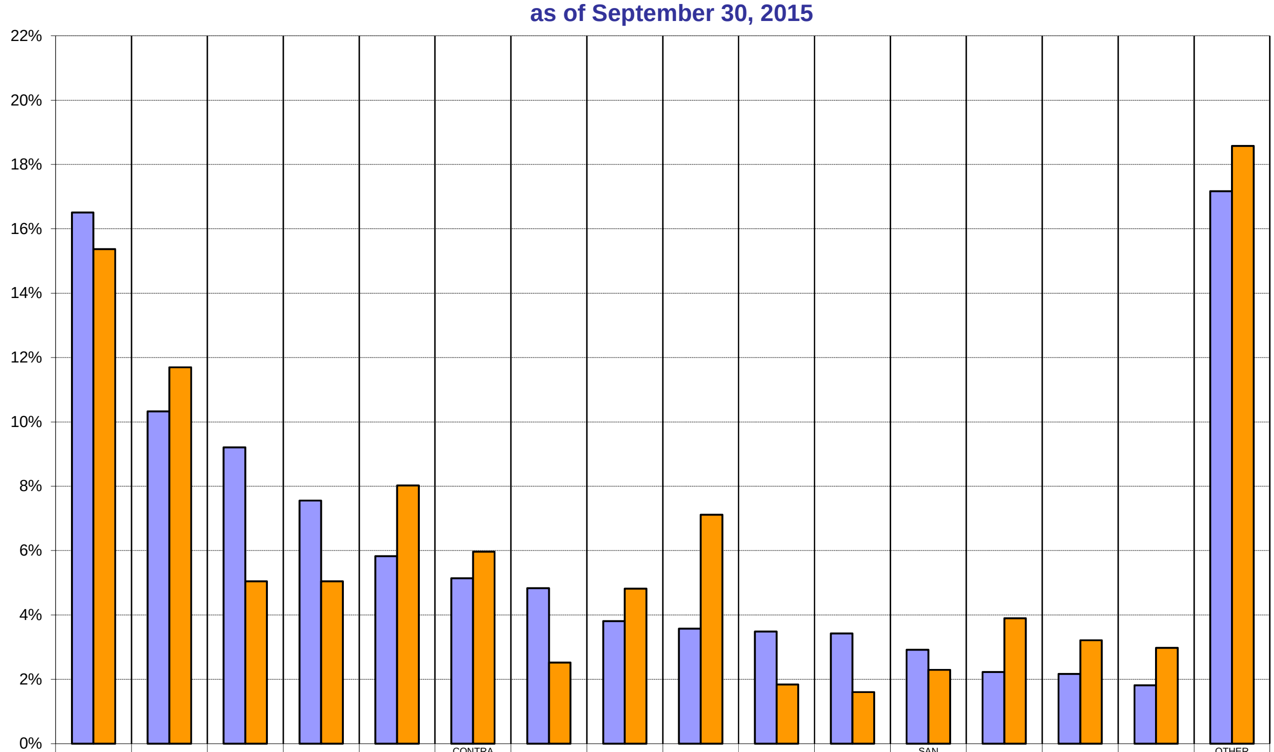
Cal HFA California Housing Finance Agency

## CalHFA FHA Loan Portfolio Performance Comparison by County
## (% of Total Loan Count vs. % of Total Delinquent Loan Count)
## as of September 30, 2015



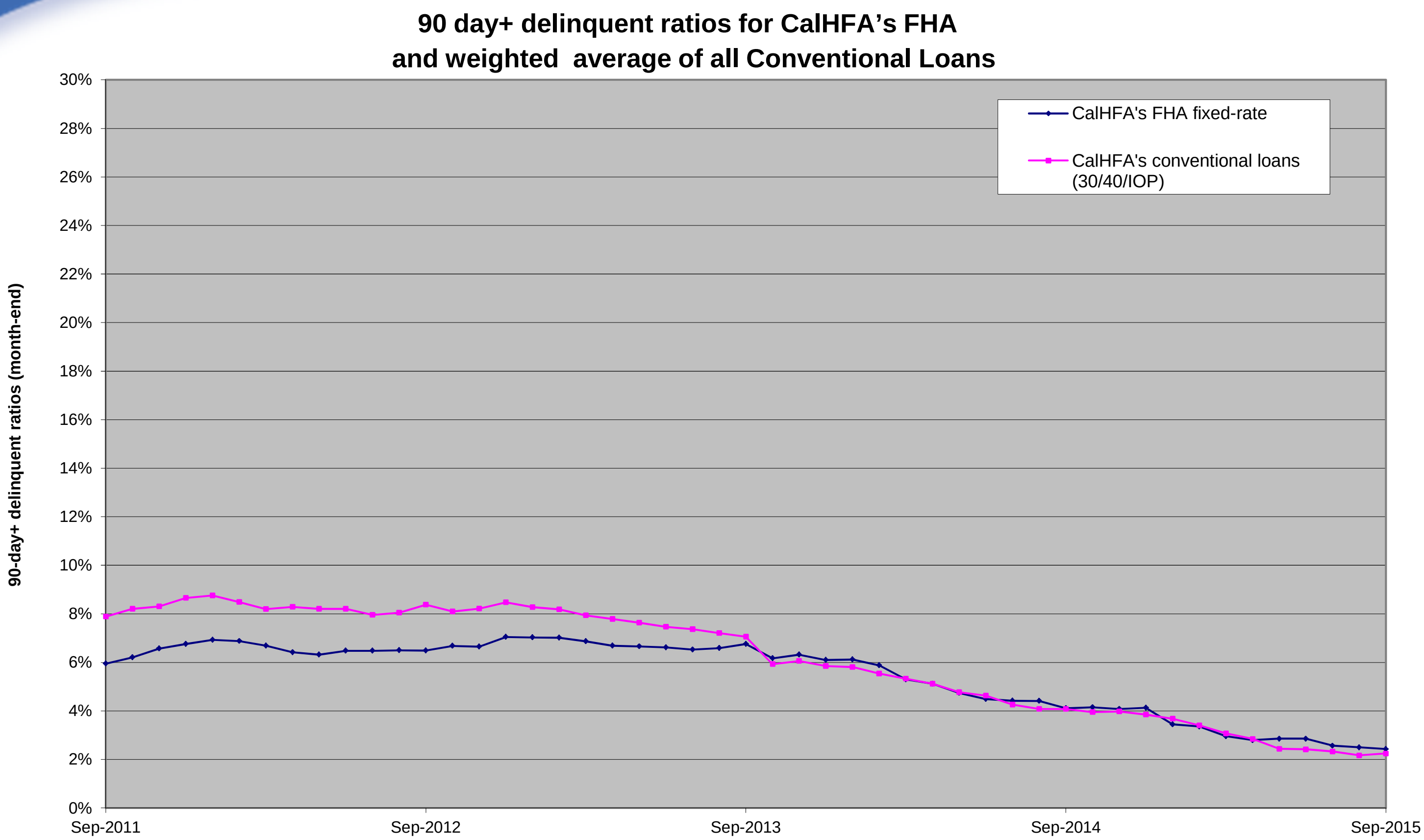

| | LOS ANGELES | KERN | TULARE | FRESNO | SAN BERNARDINO | RIVERSIDE | IMPERIAL | SAN DIEGO | ORANGE | SACRAMENTO | KINGS | BUTTE | MONTEREY | SANTA CLARA | SAN JOAQUIN | OTHER COUNTIES |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| % of Total Loan Count | 16.83% | 12.33% | 10.15% | 8.93% | 5.92% | 5.21% | 5.18% | 5.03% | 3.08% | 2.66% | 2.51% | 2.22% | 1.94% | 1.72% | 1.72% | 14.58% |
| % of Total Delinquent Loan Count | 15.20% | 11.74% | 11.05% | 10.19% | 7.25% | 7.60% | 7.25% | 4.66% | 2.76% | 2.25% | 2.07% | 2.07% | 1.38% | 0.86% | 1.73% | 11.92% |

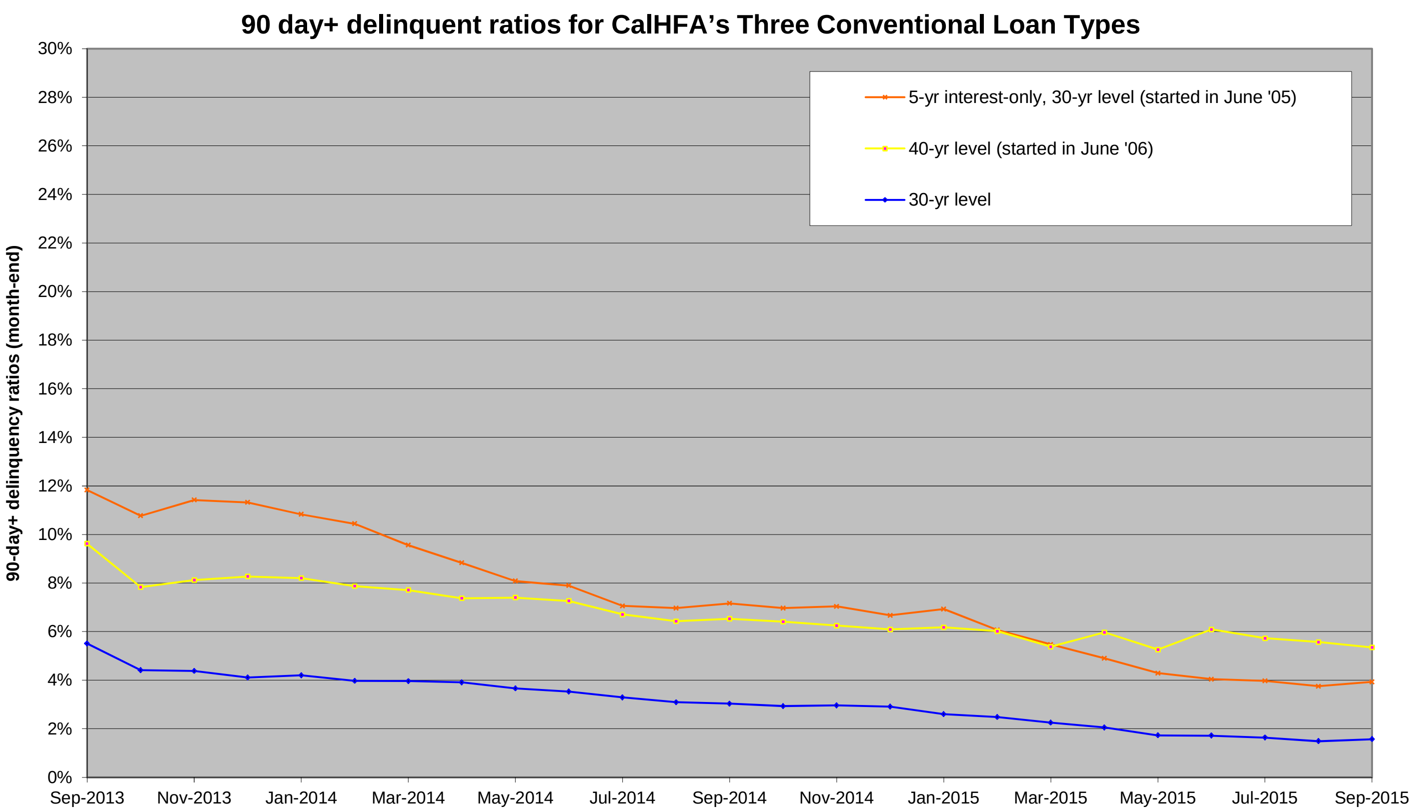
## CalHFA Conventional Loan Portfolio Performance Comparison by County
## (% of Total Loan Count vs. % of Total Delinquent Loan Count)
## as of September 30, 2015




| | LOS ANGELES | SAN DIEGO | SANTA CLARA | ALAMEDA | SACRAMENTO | CONTRA COSTA | ORANGE | VENTURA | RIVERSIDE | FRESNO | SONOMA | SAN BERNARDINO | BUTTE | TULARE | KERN | OTHER COUNTIES |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| % of Total Loan Count | 16.51% | 10.33% | 9.21% | 7.55% | 5.82% | 5.14% | 4.83% | 3.81% | 3.57% | 3.49% | 3.43% | 2.92% | 2.22% | 2.17% | 1.81% | 17.17% |
| % of Total Delinquent Loan Count | 15.37% | 11.70% | 5.05% | 5.05% | 8.03% | 5.96% | 2.52% | 4.82% | 7.11% | 1.83% | 1.61% | 2.29% | 3.90% | 3.21% | 2.98% | 18.58% |

Cal HFA California Housing Finance Agency



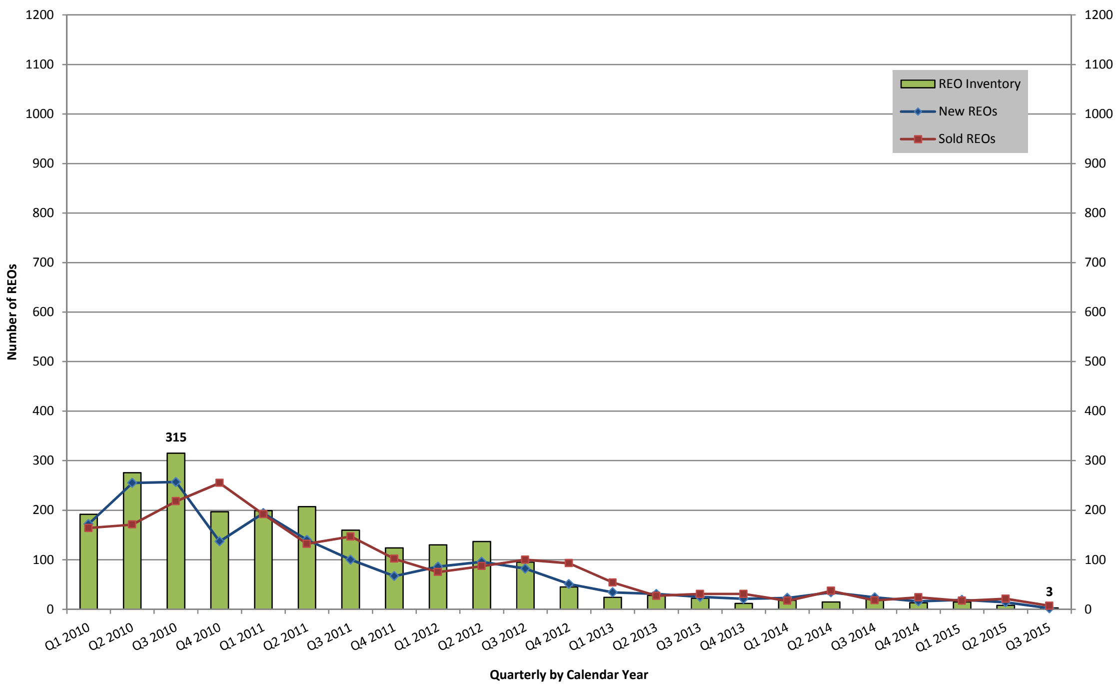



## Real Estate Owned

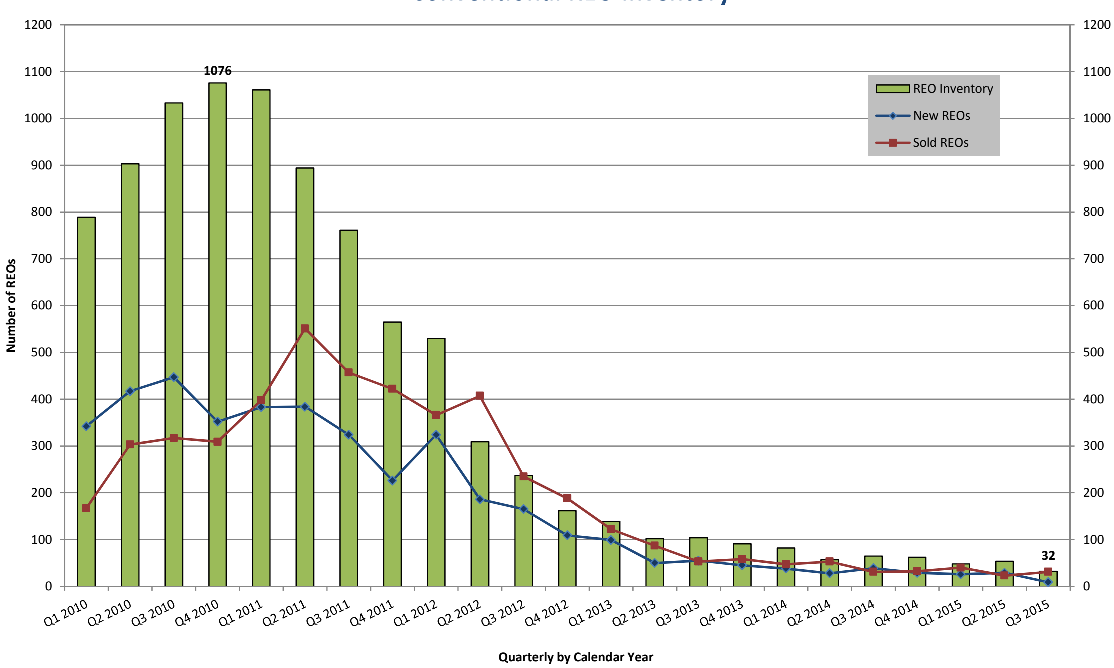
| Calendar Year 2015 (As of September 30, 2015) | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | *Trustee Sales | | | Disposition of REO(s) | | | | | | |
| Loan Type | Beginning Balance # of Loans | Prior Calendar Adj. | Reverted to CalHFA Jan-Aug | Reverted to CalHFA Sept | Total Trustee Sales | Repurchased by Lender Jan-Aug | Market Sale(s) Jan-Aug | Repurchased by Lender Sept | Market Sale(s) Sept | Total Disposition of REO(s) | Ending Balance # of Loans | UPB of REO's Owned |
| FHA/RHS/VA | 15 | (2) | 34 | | 34 | 44 | | | | 44 | 3 | $ 482,842 |
| Conventional | 60 | 2 | 62 | 2 | 64 | | 86 | | 8 | 94 | 32 | 7,310,027 |
| Total | 75 | 0 | 96 | 2 | 98 | 44 | 86 | 0 | 8 | 138 | 35 | $ 7,792,868 |

*3rd party trustee sales are not shown in this table (title to these loans were never transferred to CalHFA). There were eight (8) 3rd party sales in calendar year 2008, eighteen (18) 3rd party sales in calendar year 2009, thirty nine (39) 3rd party sales in calendar year 2010, twenty two (22) 3rd party sales in calendar year 2011, fourty one (41) 3rd party sales in calendar year 2012, fifty nine (59) 3rd party sales in calendar year 2013, fourty three (43) 3rd party sales in calendar 2014, and there are seventeen (17) 3rd party sales to date 2015.

### FHA REO Inventory



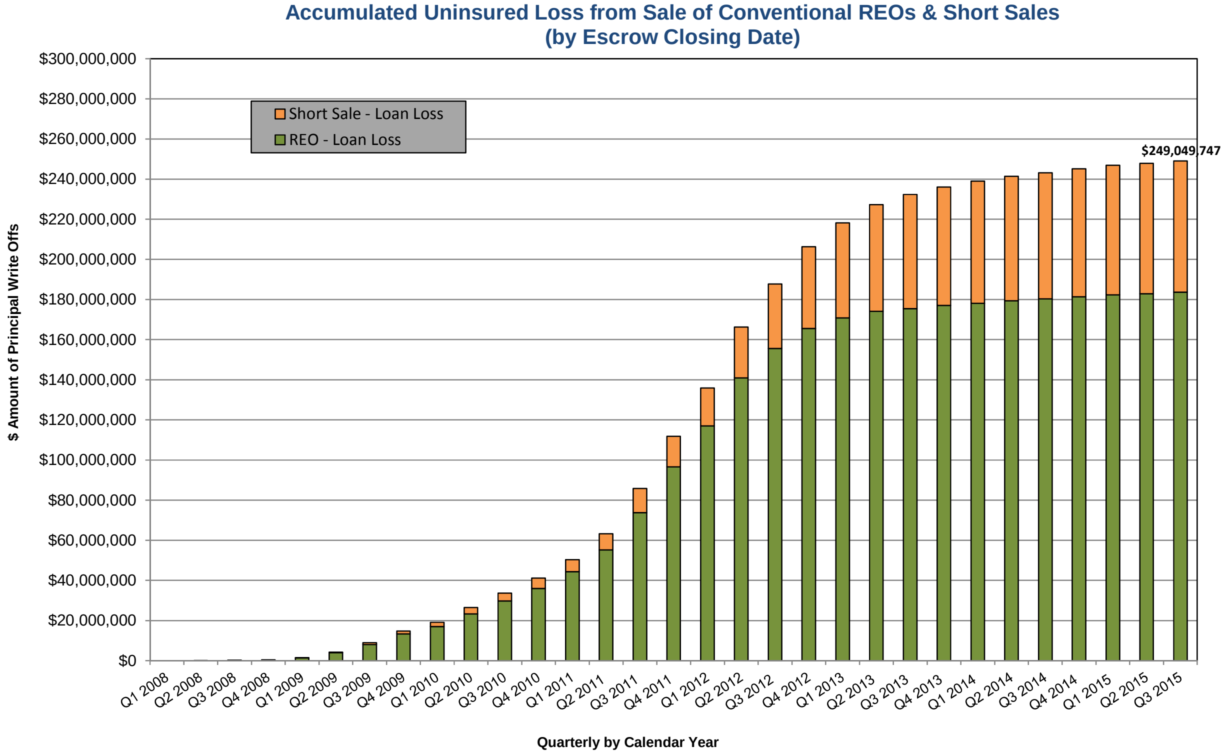

### Conventional REO Inventory

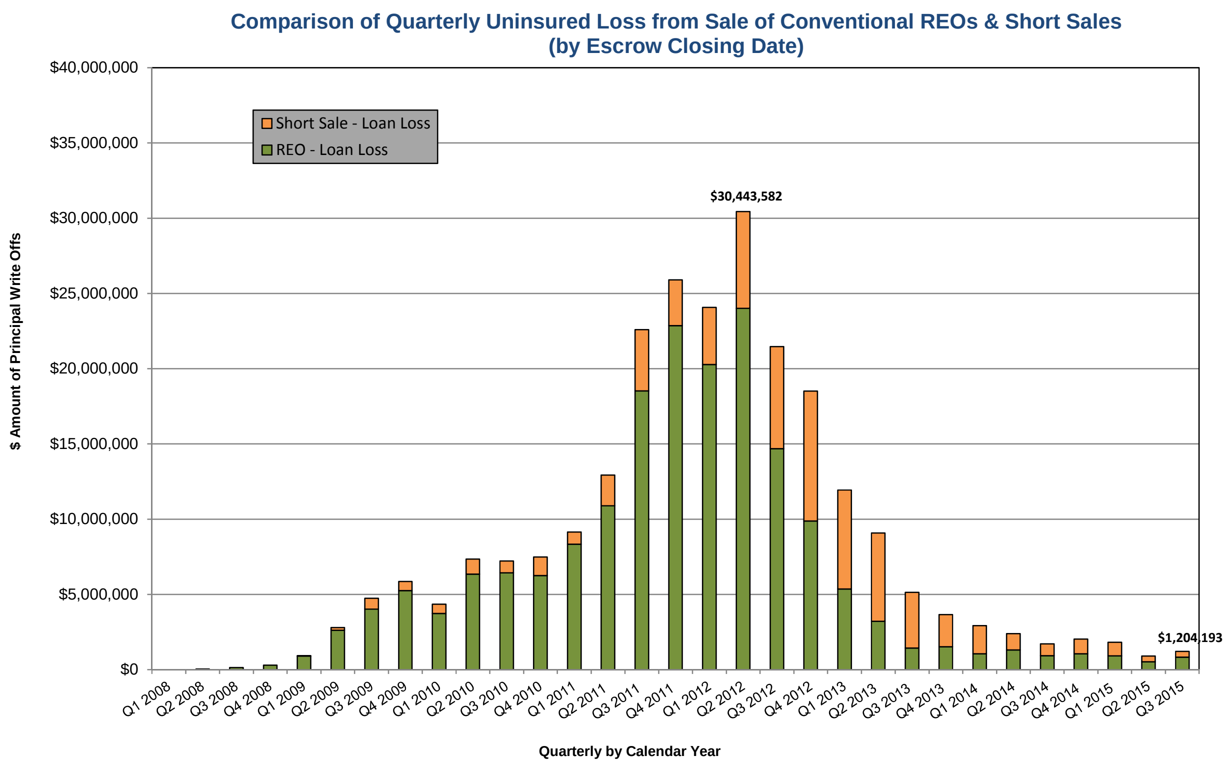


Cal HFA California Housing Finance Agency

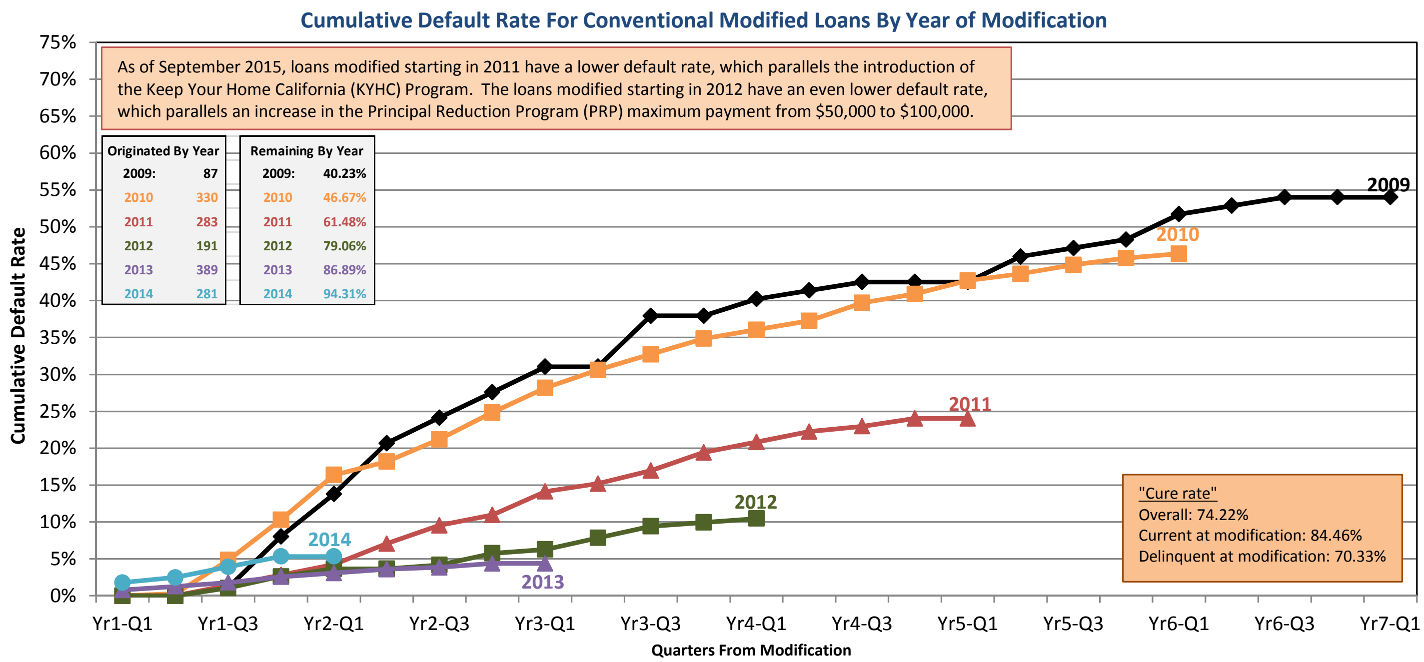
**2015 Year to Date Composition of 1st Trust Deed Loss**
**(As of September 30, 2015)**

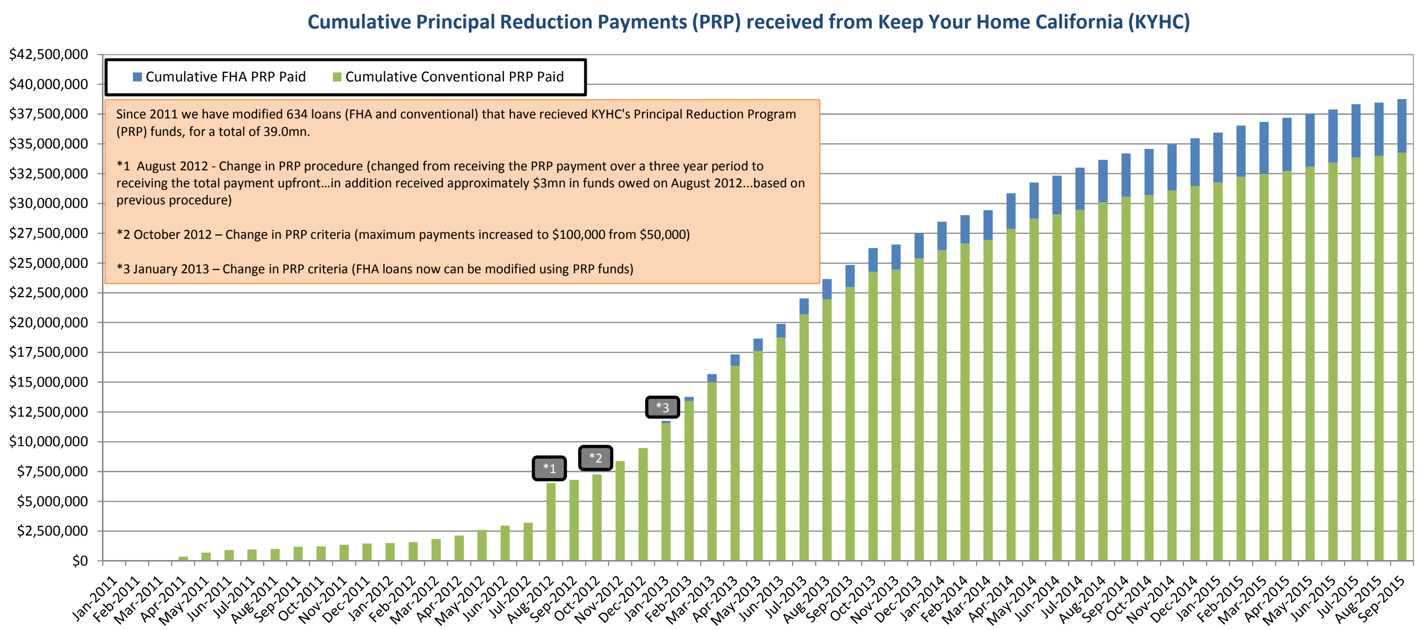
| Loan Type | Disposition: Repurchased by Lender | Market Sales | Short Sales | Loan Balance at Sales | Principal Write-Offs |
|---|---|---|---|---|---|
| FHA/RHS/VA | 44 | | 7 | $ 1,138,318 | |
| Conventional | | 94 | 51 | 14,380,492 | $ (3,918,813) |
| | 44 | 94 | 58 | $ 15,518,810 | $ (3,918,813) |



CalHFA California Housing Finance Agency



**State of California**

# M E M O R A N D U M

**To:** Board of Directors **Date:** November 10, 2015

Tim Hsu, Director of Financing

**From:** **CALIFORNIA HOUSING FINANCE AGENCY**

**Subject:** ANNUAL INVESTMENT REPORT

In 2012 the Board adopted an investment policy and asked for a periodic investment report. Attached for your information is an investment report as of June 30, 2015, the end date for the most recent fiscal year. This report shows that CalHFA moneys continue to be invested in accordance with the Board-approved investment policy.

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# INVESTMENT REPORT
# JUNE 30, 2015

## SUMMARY

As of June 30, 2015, CalHFA had $1.4 billion of cash equivalents and investments (together “investments”).

When comparing the investment balance as of June 30, 2015 to the investment balance as of June 30, 2014, there is a $117 million decrease. The primary reason for the decrease is the use of investment funds to redeem variable rate bonds.

The portfolio is still heavily concentrated in the State Investment Pool (75% of the total), which means the investment earnings are likely to remain very low. The State Investment Pool’s year-to-date yield at June 30, 2015 was 0.269%.

The persistence of lower interest rates is the key risk of the investment portfolio. Looking at the entire balance sheet, however, the interest rate risk on the investments is partially offset by the Agency’s unhedged variable rate bonds, which benefit from lower interest rates.

**Amount Invested**
**($ in millions)**

| Investment Type | Bond Indentures | CalHFA G-O | Admin | Total |
|---|---|---|---|---|
| Investment Agreements | $ 43.6 | $ 0.0 | $ 0.0 | $ 43.6 |
| State Investment Pool | 311.9 | 173.5 | 592.3 | 1,077.7 |
| Securities (Fair market value) | 269.3 | 18.8 | 0.0 | 288.1 |
| U.S. Bank N.A. Open CP | 18.0 | 0.1 | 0.0 | 18.1 |
| Money Market and Bank Deposit | 1.4 | 0.0 | 0.0 | 1.4 |
| Totals | $ 644.2 | $ 192.4 | $ 592.3 | $ 1,428.9 |

## INVESTMENT AGREEMENTS

As stated in the Investment Policy, we have always strived to invest bond moneys in investment agreements. Such agreements give us a high level of security of principal, a fixed rate of return to match the fixed cost of our debt, and complete liquidity so that we can use them like interest-bearing checking accounts and make deposits and withdrawals on short notice. Balances invested in investment agreements decreased to $43.6 million ($66.2 million as of June 30, 2014). This decrease is primarily due to 1) the withdrawal of proceeds that were used to make debt service payments and to redeem bonds during the fiscal year; and 2) the decrease of investment mortgage proceeds and the decrease in reserve requirements due to the decline of the mortgage loan portfolio.

It is worth noting that the universe of investment agreement providers has diminished greatly due to credit rating downgrades and lower interest rates. The Agency will monitor this marketplace and attempt to acquire more eligible investment agreements as the opportunities arise.

**Investment Agreement Balances**
**($ in millions)**

| | Bond Proceeds (For Loan Purchases) | Reserve Funds | Debt Service Funds | Totals |
|---|---|---|---|---|
| Single Family | $ 0.0 | $ 15.3 | $ 23.0 | $ 38.3 |
| Multifamily | 0.0 | 0.0 | 5.3 | 5.3 |
| Totals | $ 0.0 | $ 15.3 | $ 28.3 | $ 43.6 |

The first two attachments show information about our $43.6 million of deposits with financial institutions providing us with investment agreements. If the financial institution's credit ratings were to fall below a certain threshold level, we have the right to request collateralization or the return of our deposits. In recent years, the Agency has liquidated its position in investment agreements provided by DEPFA bank, AIG, MBIA, Aegon and certain Westdeutsche LB investment agreements. The liquidated proceeds were invested in the State Investment Pool

On July 8, 2015, upon the consent of the Agency, the rights and obligations of the GICS we have with Trinity Funding Company, LLC ("Trinity") were transferred and assumed by Massachusetts Mutual Life Insurance Company ("MassMutual"). Trinity ceased issuing GICs in 2010 and has been winding down their businesses. MassMutual's ratings are Aa2/AA+ for Moody's and S&P respectively, which are better than Trinity's ratings.

**STATE INVESTMENT POOL (SURPLUS MONEY INVESTMENT FUND "SMIF")**

As shown in the table on page 2, we have $1.1 billion invested in the State Investment Pool, also referred to as Surplus Money Investment Fund ("SMIF"), which, over time, has given us security, a relatively competitive return (relative to similar investment vehicles such as Money Market Funds), complete liquidity, and administrative simplicity.

As stated in the Investment Policy, we invest most of the non-bond indenture moneys (funds invested under our Housing Assistance Trust, Contract Administration Programs, money received from HUD for the Section 8 projects, servicing impound account moneys, funds held in the Agency's operating account and general reserves of the Agency), in the SMIF. In recent years the Agency has been investing an increasing amount of bond moneys in the State Investment Pool.

The State's treasury operations are managed in compliance with the California government code and according to a statement of investment policy which sets forth permitted investment vehicles, liquidity parameters and maximum maturity of investments. The Pooled Money Investment Account (PMIA) operates with the oversight of the Pooled Money Investment Board (consisting of the State Treasurer, the State Controller and Director of Finance).

**SECURITIES**

The third attachment provides additional information about the $288.1 million (fair market value) of securities held by the Agency, which are Fannie Mae and Ginnie Mae securities backed by loans originated for our single family and multifamily programs.

**U.S. BANK N.A. COMMERCIAL PAPER**

The Agency invests funds under the Residential Mortgage Revenue Bond and the Affordable Multifamily Housing Revenue Bond indentures in U.S. Bank Open Commercial Paper (CP). On these transactions, U.S. Bank also serves as the bond trustee. The Open CP agreements are unsecured promissory notes issued by U.S. Bank National Association and are not insured by Federal Deposit Insurance Corporation ("FDIC") or guaranteed by any governmental agency or authority, or by U.S. Bank N.A. The Open CP has a short term rating of A1+/P1 and a long term rating of AA- . At June 30, 2015, the amount deposited in CP was $18.1 million.

**MONEY MARKET AND BANK DEPOSITS**

Occasionally the Agency will have on deposit, with our bond trustee, bond (indenture) funds which the bond trustee sweeps, nightly, into a U.S. Treasury money market fund. At June 30, 2015, the amount deposited in the MMF was $1.4 million.

Attachments (3)

Attachment #1

**SUMMARY OF CALIFORNIA HOUSING FINANCE AGENCY FUNDS DEPOSITED IN INVESTMENT AGREEMENTS - June 30, 2015**

| INVESTMENT AGREEMENT PROVIDER | COUNTRY | MOODY'S RATING | STANDARD & POOR'S RATING | AMOUNT INVESTED |
|---|---|---|---|---|
| Societe Generale | France | A2 | A | $ 22,168,085 |
| Transamerica Life Insurance Company | Netherlands | A1 | AA- | 13,945,226 |
| *Bayerische Landesbank (State of Bavaria Guarantee) | Germany | A3 | NR | 2,028,276 |
| Rabobank Int. | Netherlands | Aa2 | A+ | 2,995,891 |
| Trinity Funding Company, LLC | US | A1 | AA+ | 2,461,029 |
| Total Funds Invested in Investment Agreements | | | | $ 43,598,507 |
| Foreign Sovereign Ratings | | | | |
| France | | Aa1 | AA | $ 22,168,085 |
| *State of Bavaria (Germany) | | Aaa | AAA | 2,028,276 |
| Netherlands | | Aaa | AA+ | 16,941,117 |
| U.S. Sovereign Rating | | Aaa | AA+ | 2,461,029 |
| | | | | $ 43,598,507 |

*Institution's ratings based on state/government guarantee
"NR" Not Rated

Attachment #2

**California Housing Finance Agency**
**Funds Invested in Investment Agreements**
**June 30, 2015**
**Totals by Financial Institution Ratings**

| Moody's Ratings | Amount Invested | Percentage of Total Invested |
|---|---|---|
| Aa2 | $ 2,995,891 | 6.87% |
| A1 | 16,406,255 | 37.63% |
| A2 | 22,168,085 | 50.85% |
| A3 | 2,028,276 | 4.65% |
| Total | $ 43,598,507 | 100.00% |
| **S & P Ratings** | | |
| A+ | $ 2,995,891 | 6.87% |
| AA+ | 2,461,029 | 5.64% |
| AA- | 13,945,226 | 31.99% |
| A | 22,168,085 | 50.85% |
| NR | 2,028,276 | 4.65% |
| Total | $ 43,598,507 | 100.00% |

Attachment #3

Summary of CalHFA Investments in Securities As of June 30, 2015

By Type of Security

| Type of Investment | Par Value Program Account | Par Value Reserve Account | Par Value Unencumbered Assets | Total Par Value | Book Value | Market Value | Weighted Average Coupon | Weighted Average Remaining Maturity |
|---|---|---|---|---|---|---|---|---|
| GNMA Securities | $ 137,822,185 | $ 3,709,944 | $ 4,279,995 | $ 145,812,125 | $ 145,812,125 | $ 153,473,638 | 3.78% | 25.68 Years |
| FNMA Securities | 71,655,609 | 44,006,068 | 13,711,695 | 129,373,372 | 129,373,372 | 134,609,916 | 3.04% | 17.34 Years |
| Totals | $ 209,477,795 | $ 47,716,012 | $ 17,991,690 | $ 275,185,496 | $ 275,185,496 | $ 288,083,553 | | |

Summary of CalHFA Investments in Securities As of June 30, 2015

By Indenture or Account

| Indenture or Account Description | Par Value Program Account Assets | Par Value Reserve Account Assets | Par Value Unencumbered Assets | Total Par Value | Market Value |
|---|---|---|---|---|---|
| Home Mortgage Revenue Bonds | $ 19,278,890 | $ 42,315,763 | | $ 61,594,653 | $ 63,665,782 |
| Residential Mortgage Revenue Bonds | 134,116,863 | 5,400,248 | | 139,517,111 | 146,806,150 |
| Multifamily Housing Revenue Bonds III | 19,642,266 | | | 19,642,266 | 21,846,342 |
| Affordable Multifamily Housing Rev. Bonds | 36,439,776 | | | 36,439,776 | 36,975,638 |
| Housing Assistance Trust | | | $ 17,991,690 | 17,991,690 | 18,789,641 |
| Totals | $ 209,477,795 | $ 47,716,012 | $ 17,991,690 | $ 275,185,496 | $ 288,083,553 |

State of California

MEMORANDUM

To: CalHFA Board of Directors Date: October 23, 2015

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

Subject: Legislative Report

Attached please find the final legislative report for 2015. The Legislature has recessed for 2015, as Members return to their districts to finish out the year. The Governor has completed all actions, and the statuses below reflect final actions for the year. As always, if you have any questions, I'm happy to provide any additional information I may have.

## Affordable Housing

**AB 668** **(Gomez D) Property taxation: assessment: affordable housing.**
**Status: Chaptered by Secretary of State - Chapter 698, Statutes of 2015.**

**Summary** Requires a county assessor to consider, when valuing real property for property taxation purposes, a recorded contract with a nonprofit corporation that meets prescribed requirements, including requirements that the nonprofit corporation has received a welfare exemption for properties intended to be sold to low-income families who participate in a special no-interest loan program, and that the contract includes a restriction on the use of the land for at least 30 years to owner-occupied housing available at affordable housing cost.

**Notes**: According to the author, "this bill creates consistency throughout the state by authorizing the county assessors, when determining the value of a property for tax purposes for affordable housing sold to low-income families, to consider the effect of the recorded contracts and deed restrictions on affordability between the buyer and a nonprofit organization in assessment of that land."

## Building Standards/Codes

**SB 7** **(Wolk D) Housing: water meters: multiunit structures.**

**Status: 2 YEAR BILL**

**Summary**: Would express the intent of the Legislature to encourage the conservation of water in multifamily residential rental buildings through means either within the landlord's or the tenant's control, and to ensure that the practices involving the sub-metering of dwelling units for water service are just and reasonable, and include appropriate safeguards for both tenants and landlords.

## Dedicated Source

**AB 1335** **(Atkins D) Building Homes and Jobs Act.**
**Status: 2 YEAR BILL**

**Summary**: This bill would impose a $75 fee for the recording of every real estate instrument, paper, or notice required or permitted by law to be recorded. Revenue generated from the fee would be deposited into the Building Homes and Jobs Trust Fund (Fund), which the bill would create, to be used for affordable housing purposes. The bill would require the Department of Housing and Community Development (HCD) to develop a plan for the investment of moneys derived from the fee. This bill would also state the intent of the Legislature to create the position of Secretary of Housing within State government.

## Density Bonus

**AB 744** **(Chau D) Planning and zoning: density bonuses.**
**Status: Chaptered by Secretary of State - Chapter 699, Statutes of 2015.**

**Summary**: Prohibits, at the request of the developer, a city, county, or city and county from imposing a vehicular parking ratio in excess of 0.5 spaces per bedroom on a development that includes the maximum percentage of low- and very low income units, and is located within one-half mile of a major transit stop if there is unobstructed access to the transit stop.

**Notes**: According to the author, AB 744 aligns local land use decisions more closely with the goals of AB 32 and SB 375 by reducing the parking required for housing developments that include affordable units and are close to transit or are home to seniors or special needs individuals. Much of California's existing parking requirements are based on low-density and single-purpose land use designations. Parking is costly to build and maintain and can increase the cost of projects in existing development areas.

## Homeless

**AB 870** **(Cooley D) Homelessness: rapid rehousing.**
**Status: 2 YEAR BILL**

**Summary**: Would establish a 2-year enhancement program within the Department of Housing and Community Development for awarding grants to counties and private nonprofit organizations that operate a rapid rehousing program. The bill would require the department to develop guidelines to select 4 counties and private nonprofit organizations to receive these grant funds and require that eligible counties and private nonprofit organizations include those that are eligible to receive funds from the state pursuant to the Emergency Solutions Grants Program with a demonstrated high funding need.

## Housing Finance

**AB 90** **(Atkins D) Federal Housing Trust Fund.**
**Status: Chaptered by Secretary of State - Chapter 686, Statutes of 2015.**

**Summary**:
Designates the Department of Housing and Community Development as the state agency responsible for administering funds received by the state from the federal Housing Trust Fund. This bill requires the department to administer the funds through programs that produce, preserve, rehabilitate, or support the operation of rental housing for extremely low income and very low income households, except that up to 10% of funding may be used to support homeownership for extremely low income and very low income households.

## Miscellaneous

**AB 447** **(Maienschein R) Property insurance: discrimination.**
**Status: Chaptered by Secretary of State - Chapter 432, Statutes of 2015**

**Summary**: Current law provides that sex, race, color, religion, ancestry, national origin, disability, medical condition, genetic information, marital status, or sexual orientation shall not, of itself, constitute a condition or risk for which a higher rate, premium, or charge may be required of the insured. This bill, for specified types of real property, adds certain other facts relating to the insured or the insured property to the categories that may not be used by an insurer for the purposes described above, including, under certain circumstances, the level or source of income and the receipt of government or public assistance by an individual or group of individuals residing or intending to reside upon the property.

**Notes**: This bill, sponsored by Housing California, is intended to prohibit any company that provides residential property insurance from refusing to issue a policy to tenants of Section 8 housing.

**AB 1056** **(Atkins D) Housing assistance: formerly incarcerated tenants.**
**Status: Chaptered by Secretary of State - Chapter 438, Statutes of 2015**

**Summary**: Requires the Board of State and Community Corrections to administer a competitive grant program that focuses on community-based solutions for reducing recidivism. The bill would establish minimum criteria for the grant program and would require the board to establish an Executive Steering Committee, composed of 13 members, including a housing expert, to adopt guidelines for the submission of proposals for the grant program, including threshold or scoring criteria, or both.

**Notes**: According to the author's staff, this bill was introduced to create the Second Chance Community Re-Entry Program to provide post-incarceration housing supports using a rapid-rehousing model.

**AB 1545** **(Irwin D)** **State of California Housing Agency Act.**
**Status: 2 YEAR BILL**

**Summary:** Would establish in state government the Housing Agency, comprised of the Department of Housing and Community Development; the Bureau of Real Estate (which this bill would redesignate as the Department of Real Estate) the Contractors' State License Board; the Structural Pest Control Board; and the Department of Real Estate Finance, which this bill would also establish. The bill would redesignate the Business, Consumer Services, and Housing Agency as the Business and Consumer Services Agency, transfer certain duties of that agency to the Housing Agency, and make other conforming changes.

**Notes:** Bill sponsored by California Association of Realtors. Not expected to move this year – newly introduced for discussion purposes.

## Mortgage Lending

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**AB 139** **(Gatto D)** **Nonprobate transfers: revocable transfer upon death deeds.**
**Status: Chaptered by Secretary of State - Chapter 293, Statutes of 2015.**

**Summary**: Creates, until January 1, 2021, the revocable transfer on death deed (revocable TOD deed), as defined, which would transfer real property on the death of its owner without a probate proceeding. The bill would require that a person have testamentary capacity to make or revoke the deed and would require that the deed be in a statutory form provided for this purpose. The revocable TOD deed must be signed, dated, acknowledged, and recorded, as specified, to be effective.

**Notes**: This bill, following recommendations by the California Law Revision Commission (CLRC), allows owners of real property, until January 1, 2021, to transfer their property upon death, outside the normal probate procedure, through a written instrument known as a "revocable transfer upon death deed" (RTDD).

## Tax Credits

**AB 35** **(Chiu D) Income taxes: credits: low-income housing: allocation increase.**
**Status: VETOED**

**Summary**: This bill, for calendar years beginning 2015, would increase the aggregate housing credit dollar amount that may be allocated among low-income housing projects by $300,000,000, as specified. The bill, under the insurance taxation law, the Personal Income Tax Law, and the Corporation Tax Law, would modify the definition of applicable percentage relating to qualified low-income buildings that meet specified criteria.

**Notes**: Governor's Veto Message: I am returning the following nine bills without my signature: Assembly Bill 35, Assembly Bill 88, Assembly Bill 99, Assembly Bill 428, Assembly Bill 437, Assembly Bill 515, Assembly Bill 931, Senate Bill 251, and Senate Bill 377. Each of these bills creates a new tax credit or expands an existing tax credit. Despite strong revenue performance over the past few years, the state's budget has remained precariously balanced due to unexpected costs and the provision of new services. Now, without the extension of the managed care organization tax that I called for in special session, next year's budget faces the prospect of over $1 billion in cuts. Given these financial uncertainties, I cannot support providing additional tax credits that will make balancing the state's budget even more difficult. Tax credits, like new spending on programs, need to be considered comprehensively as part of the budget deliberations. Sincerely, Edmund G. Brown Jr.

**SB 377** **(Beall D) Income taxes: insurance taxes: credits: low-income housing: sale of credit.**
**Status: VETOED**

**Summary**: Would, for taxable years beginning on or after January 1, 2016, and before January 1, 2026, allow a taxpayer that is allowed a low-income housing tax credit to elect to sell all or a portion of that credit to one or more unrelated parties for each taxable year in which the credit is allowed for not less than 80% of the amount the credit to be sold, as provided.

**Notes**: Governor's Veto Message: I am returning the following nine bills without my signature: Assembly Bill 35, Assembly Bill 88, Assembly Bill 99, Assembly Bill 428, Assembly Bill 437, Assembly Bill 515, Assembly Bill 931, Senate Bill 251, and Senate Bill 377. Each of these bills creates a new tax credit or expands an existing tax credit. Despite strong revenue performance over the past few years, the state's budget has remained precariously balanced due to unexpected costs and the provision of new services. Now, without the extension of the managed care organization tax that I called for in special session, next year's budget faces the prospect of over $1 billion in cuts. Given these financial uncertainties, I cannot support providing additional tax credits that will make balancing the state's budget even more difficult. Tax credits, like new spending on programs, need to be considered comprehensively as part of the budget deliberations. Sincerely, Edmund G. Brown Jr.

## Veterans Homeless and Housing Program

**AB 388** **(Chang R)** **Housing: homeless veterans: reports.**
**Status: Chaptered by Secretary of State - Chapter 692, Statutes of 2015.**

**Summary**: The Department of Housing and Community Development is required to submit an annual report to the Governor and both houses of the Legislature on the operations and accomplishments during the previous fiscal year of the housing programs administered by the department and an evaluation, in collaboration with the Department of Veterans Affairs, of any program established by the department pursuant to the Veterans Housing and Homeless Prevention Act of 2014. This bill additionally requires the evaluation to include information relating to the effectiveness in helping homeless veterans of any programs that were funded pursuant to that act.

**Notes**: According to the author, "[r]ecent program guidelines established place reporting requirements on the sponsors of Proposition 41 housing programs. The content of those reports is currently permissive and therefore leaves room for these reports to leave out information measuring the success level of these programs."

**State of California**

**M E M O R A N D U M**

**To:** **CalHFA Board of Directors** **Date:** November 10, 2015

Tia Boatman Patterson, Executive Director
**From:** **CALIFORNIA HOUSING FINANCE AGENCY**

**Subject:** AUTHORITY TO SET SALARY FOR KEY EXEMPT STAFF AND PROCESS FOR EVALUATING AND PROVIDING SALARY ADJUSTMENTS

Background:

Following the June and September 2015 board meetings, several board members requested a report back on the process for evaluating key exempt staff and board authority to make salary adjustments. This memorandum is a report back to the board to provide that information.

Board Authority to Set Salary:

Effective January 2007 Health and Safety Code section 50909 was amended to broaden the board's salary setting authority to include "key exempt" staff in addition to the executive director. On January 18, 2007 the board took action to set the salaries for the following key exempt staff: the executive director, the chief deputy director, the finance director, the director of multifamily programs, director of homeownership, the general counsel, the director of mortgage insurance, the chief information officer, the finance risk manager and the director of legislation.

Prior to determining the salary levels, as required by the statute, the board commissioned a salary survey conducted by an independent firm. The methodology for the survey was reviewed by the Department of Personnel Administration (DPA), now the California Department of Human Resources (CalHR). The survey sampled both public and private sector financial institutions including other housing finance agencies.

After the board took action setting the salary ranges, the information was forwarded to DPA, at which point DPA inserted the salary ranges for each key exempt staff member into its data base, where it continues to be maintained. Attachment 1 is a copy of the current salary schedule for CalHFA key exempt staff maintained by CalHR.

Process for Evaluating Key Exempt Staff and Authority to make salary adjustments:

The executive director evaluates key exempt staff annually on the anniversary of their appointment. Additionally, if there is an opportunity for promotion or if the exempt employee demonstrates exceptional service, an interim evaluation may be prepared to support a promotion or salary adjustment sooner than the employee's anniversary. Limited by the process to set salary ranges and the caps on the salary of key exempt staff, the CalHFA Board may adjust the salaries of key exempt staff annually through its adoption of the agency's annual operating budget. The executive director has discretion to provide merit increases to key exempt staff based upon their performance during the course of the year, subject to the limits set forth in the board approved operating budget[1].

At the March 8, 2016 meeting I will present the board with a mid-year update on the operating budget which will include all FY 15/16 salary adjustments for key exempt staff. However in the interim, I have included Attachment 2, a listing of current salaries for all key exempt staff with a notation as to when the salary was adjusted and on what basis the salary was adjusted.

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[1] The executive director's discretion to make a salary adjustment is not applicable to the director of Multifamily Programs because that position is a board appointed position (Article 7 section 4(e) of the California Constitution). Thus, after completing an evaluation of the director of Multifamily Programs, if the executive director believes a salary adjustment is warranted, the executive director may make a recommendation to the board that salary of the director of Multifamily Programs be adjusted. Approval of that salary adjustment is however, subject to the salary caps set forth in Attachment 1 and is made by board resolution. Similarly, with regard to the executive director over whom the board has direct supervisory authority, the board may adjust the salary of the executive director through board resolution.

**Exempt Class Information Database**
**Search results**

Please report any errors you find to the Exempt Unit at CalHR.

| Class ID Schem / Title / Compensation | Alternate Range Criteria | Exempt Level | Auth/Entit. | WWG | MCR | CBID | Footnotes |
|---|---|---|---|---|---|---|---|
| **2176 CN00** **ASSISTANT DEPUTY DIRECTOR OF HOMELESS AND HOUSING POLICY, HOUSING AND COMMUNITY DEVELOPMENT** 7,616.00 - 8,484.00 | - | | G/HS51618 | E | NONE | E97 | E9 |
| **2267 CN00** **DIRECTOR OF HOMEOWNERSHIP PROGRAM** 10,333.00 - 15,833.00 | - | | F/GC12010.6 | E | NONE | E99 | E1 E8 |
| **3492 CN00** **DIRECTOR OF MORTGAGE INSURANCE** 10,788.00 - 14,167.00 | - | | F/HS51618 | E | NONE | E99 | E1 |
| **5821 CN00** **MEMBER OF THE BOARD/CALIFORNIA HOUSING FINANCE AGENCY** 100.00 DAY | - | | D/HS50901 | | 1 | E | S2 |
| **5824 CN00** **EXECUTIVE DIRECTOR/CALIFORNIA HOUSING FINANCE AGENCY** 12,500.00 - 17,500.00 | - | | F/HS50908 | E | NONE | E99 | A1 E1 |
| **5825 CN00** **DIRECTOR, FINANCING/CALIFORNIA HOUSING FINANCE AGENCY** 11,524.00 - 15,833.00 | - | | F/HS50912 | E | NONE | E99 | E1 |
| **5826 CN00** **DIRECTOR OF MULTIFAMILY PROGRAMS, CALHFA** 11,667.00 - 17,500.00 | - | | E/HS50901 | E | NONE | E99 | E1 |
| **5827 CN00** **GENERAL COUNSEL/CALIFORNIA HOUSING FINANCE AGENCY** 10,833.00 - 14,167.00 | - | | G/HS50911 | E | NONE | E99 | E1 |
| **5828 CN00** **CHIEF DEPUTY DIRECTOR/CALIFORNIA HOUSING FINANCE AGENCY** 11,522.00 - 15,833.00 | - | | G/HS50912 | E | NONE | E99 | |
| **7920 CN00** **DIRECTOR,CALHFA LEGISLATION & MORTGAGE ASSISTANCE CORPORATION** 11,458.00 - 14,167.00 | - | | F/GC12010.6 | E | NONE | E99 | E1 E8 |
| **9075 CN00** **RISK MANAGER-FINANCING** 8,333.00 - 11,458.00 | - | | G/GC12010.6 | E | NONE | E99 | E8 |
| **9534 CN00** **CHIEF INFORMATION OFFICER, CALIFORNIA HOUSING FINANCE AGENCY** 8,333.00 - 11,458.00 | - | | G/GC12010.6 | E | NONE | E99 | E8 |

Number of records found: 12

| Name | Appointment Date | Title | Current Salary | Last Salary Increase | MAX Salary of the Range | Basis for Salary Adjustment |
|---|---|---|---|---|---|---|
| Tia Patterson | 8/8/2014 | Executive Director | $16,041.00 | 9/1/2015 | $17,500.00 | Merit increase by action of Board of Directors |
| Don Cavier | 2/9/2015 | Chief Deputy Director | $15,073.00 | 7/1/2015 | $15,833.00 | Merit increase by action of the Executive Director |
| Di Richardson | 7/27/2012 | Director of CalHFA Legislation & Mortgage Assistance Corporation | $12,844.00 | 7/1/2014 | $14,167.00 | Merit increase by action of the Executive Director |
| | | Previously Director of Legislation | $7,966.00 | | $7,966.00 | |
| Tony Sertich | 7/15/2015 | Director of Multifamily Programs | $13,177.00 | 7/15/2015 | $15,833.00 | Promoted to Director of Multifamily Programs by action of Board of Directors |
| | | Previously Risk Manager - Financing | $11,458.00 | | $11,458.00 | |
| Tim Hsu | 7/27/2012 | Director of Financing | $15,833.00 | 7/27/2012 | $15,833.00 | Promoted to Director of Financing |
| | | Previously Risk Manager - Financing | $11,458.00 | | $11,458.00 | |
| Liane Rhodes | 7/27/2012 | Chief Information Officer | $11,458.00 | 7/27/2012 | $11,458.00 | Promoted to Chief Information Officer |
| | | Previously Senior Programmer Analyst (Supervisor) | $7,465.00 | | $8,039.00 | |
| Victor James | 7/27/2012 | General Counsel | $14,167.00 | 7/27/2012 | $14,167.00 | Promoted to General Counsel |
| | | Previously Assistant Chief Counsel | $10,043.00 | | $10,815.00 | |
| Ken Giebel | 4/3/2015 | Director of Homeownership | $10,591.00 | 7/1/2015 | $15,833.00 | Merit increase by action of the Executive Director |
| | | Previously Director of Marketing | $9,051.00 | | $14,409.00 | |

**State of California**

# MEMORANDUM

**To:** Board of Directors **Date:** November 10, 2015

**From:** Victor James, General Counsel
**CALIFORNIA HOUSING FINANCE AGENCY**

**Subject:** ELECTRONIC FILING OF FORM 700 AND ETHICS CERTIFICATION

CalHFA has a new software application designed to manage the Statement of Economic Interest (Form 700) filings. The software offers convenience and flexibility to CalHFA filing officials (Board Members, staff, and consultant filers) completing their Form 700 online and submitting it electronically. Filers will no longer need to complete a paper form and send a "wet-signature" copy to the filing officer. The software will verify that all boxes are checked and all blanks are filled in before filers click to submit their filing, and it will prompt filers to make corrections if needed. Each filer's previous years' electronically submitted information will be securely stored, and in subsequent years filers may automatically upload their prior year filings to streamline the process.

Filers will receive an email containing a link to the software, and a separate email with a logon and password, in January 2016. The 2016 annual Form 700 filing is due April 01, 2016. The name and contact information of a CalHFA staff member will be provided to assist filers who have any questions.

CalHFA's ethics training is now available electronically. Filers are able to complete their required ethics training and sign the self-certification entirely electronically. Paper "wet-signed" certificates are no longer required. Form 700 filers who are due to complete their ethics training in 2016 will receive a link to the ethics webpage in January 2016. Ethics certificates are due the same date as Form 700 (April 01, 2016).

CalHFA supports efforts to move from a paper-based reporting system to a more transparent electronic system. We believe electronic filing makes it easier for officials to comply with reporting obligations and provides the public with the information in a more accessible and consistent format.

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