California Housing Loan Insurance Fund

Financial Statements and Supplementary Information
for the Years Ended December 31, 2011 and 2010,
and Independent Auditor's Report

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

Independent Auditor's Report

Board of Directors
California Housing Finance Agency
Sacramento, California

We have audited the accompanying balance sheet of the California Housing Loan Insurance Fund (the Fund), which is administered by the California Housing Finance Agency (the Agency), a component unit of the State of California, as of December 31, 2011, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the California Housing Loan Insurance Fund as of December 31, 2010 were audited by other auditors whose report dated May 5, 2011, expressed an unqualified opinion on these financial statements prior to the restatement discussed in Note 10.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only financial information about the Fund and are not intended to present fairly the net assets, revenues, expenses, and cash flows of the Agency in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of December 31, 2011, and changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2012 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 results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

The accompanying financial statements have been prepared assuming the Fund will continue as a going concern. As discussed in Note 2 to the financial statements, the Fund is experiencing difficulty in generating sufficient cash flow to meet its obligations and sustain its operations, which raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

CliftonLarsonAllen LLP

Baltimore, Maryland
April 30, 2012

CALIFORNIA HOUSING LOAN INSURANCE FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS YEARS ENDED DECEMBER 31, 2011 AND 2010

The California Housing Finance Agency (the "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 (the "State") and is included in the State's Comprehensive Annual Financial Report. The Agency is authorized to administer the activities of the California Housing Loan Insurance Fund (the "Fund"), the California Housing Finance Fund (the "CHFF"), and two State general obligation bond funds. The following Management Discussion and Analysis applies only to the activities of the California Housing Loan Insurance Fund and should be read in conjunction with the Fund's financial statements and the notes to the financial statements. The Agency is entirely self-funded and does not draw upon the general taxing authority of the State.

The Agency is authorized to use the Fund's assets as at-risk capital in support of mortgage insurance programs which finance the acquisition, new construction, or rehabilitation of residential structures in California. The Fund insures loans made by the Agency; loans made by lenders for securitization by the Federal National Mortgage Association (the "FNMA"), and Federal Home Loan Mortgage Corporation (the "FHLMC"); and loans made by localities, nonprofit agencies, and the California State Teachers' Retirement System. In conducting business the Agency is authorized to reinsure any risk undertaken by the Fund.

While the Fund is subject to the same statutory requirements as private mortgage insurance companies with respect to the maintenance of policyholders' surplus, the Fund is exempt from regulatory control by the State Department of Insurance. The claims-paying ability of the Fund has been assigned a rating of Caa3 by Moody's Investors Service.

Underwriting, acquisition, and issuance expenses are charged directly to the Fund as well as loss and loss adjustment expenses. Certain administrative and operating expenses, including office space, business services and supplies, legal services, accounting services, information technology support, and human resource support services, are provided by the Agency and indirectly charged to the Fund. The basic financial statements of the Fund include the balance sheet, statement of revenue, expenses and changes in net assets and statement of cash flows.

FINANCIAL RESULTS 2011 – 2010

- Insurance in force decreased by $484 million, or 20.8%, to $1.8 billion as of December 31, 2011, compared to $2.3 billion as of December 31, 2010. The Fund ceased committing to insure new loans in September 2009.

- The Fund had an operating income of $1.6 million for 2011. Net operating results of the Fund improved by approximately $26.5 million in 2011 compared to the operating loss of $24.9 million in 2010. This was primarily due to a decrease in losses incurred during 2011 as the rate of growth of delinquencies declined and the reserve for loan losses declined during 2011. The Fund has a net deficit balance of $91.8 million at December 31, 2011, compared to a net deficit balance of $93.4 million at December 31, 2010.

- Home mortgage delinquencies declined during the year, the delinquency ratio for the insured portfolio decreased to 19.3% in December 2011 or $356 million, down from 21.2% or $493 million in

December 2010. Gross insurance claim payments were $149.8 million and $167.3 million in 2011 and 2010, respectively, before reinsurance.

- The Fund's reserve for loan losses decreased by $14.0 million in 2011 to $35.6 million as a result of the Fund's decreased number of delinquencies outstanding. The Agency continues to monitor delinquencies closely and is proactive in its attempts to mitigate losses.

- The Fund continued the reinsurance treaty and administrative services agreement with Genworth Financial ("Genworth"), previously known as GE Mortgage Insurance Corporation ("GEMICO"). This insurance treaty cedes to Genworth a 75% quota share of the insurance risk and 64.5% of the premium collected for most loans insured by the Fund. The treaty was amended for loans insured on or after May 1, 2008 to 67% of premium collected and amended again on April 1, 2009 to 69% of premium collected on loans insured on or after that date.

- In May 2011, Moody's Investors Service downgraded Genworth to "Ba1" from Baa2" and the outlook is negative because of the continuing uncertainty and downside risk for significantly higher levels of delinquencies and losses over the next few years. In July 2011, Standard and Poor's Ratings Services ("S&P") downgraded the counterparty credit and financial strength ratings on Genworth to "BB-" from "BBB-".

- During 2011, Moody's rating of the Fund remained unchanged at "Caa3".

- During the fourth quarter of 2011, the funds available to pay claims and expenses of the Fund were temporarily depleted. The Fund continues to receive its share of premiums from policies still in force and will use the monthly premiums received along with any other available funds to pay the Fund's claims on a "first-in, first-out" basis in the order in which the claims are received after paying the monthly operating expenses of the Fund (see Note 2) and continues to remain dependent upon the ability of the Fund's reinsurer to pay its share of the claims. (see Note 5).

- The 2010 Financial Statements have been restated to reflect premium reserve deficiency previously not recorded. The result of this adjustment was to decrease net assets by $68.6 million in 2010.

2011 COMPARED TO 2010

CONDENSED BALANCE SHEETS

The following table presents condensed balance sheets for the Fund as of December 31, 2011 and 2010, and the change from year to year (dollars in thousands):

	2011	As Restated 2010	Change
ASSETS			
Cash, cash equivalents, and investments	$ 170	$ 28,081	$ (27,911)
Other assets	1,197	1,019	178
TOTAL	$ 1,367	$ 29,100	$ (27,733)
LIABILITIES AND NET DEFICIT			
LIABILITIES:			
Unpaid losses and loss adjustment expenses	$ 35,591	$ 49,596	$ (14,005)
Premium deficiency reserve	45,643	68,626	(22,983)
Unearned premiums	119	174	(55)
Accounts payable and other liabilities	11,803	4,065	7,738
Total liabilities	93,156	122,461	(29,305)
NET DEFICIT:			
Invested in capital assets	23	28	(5)
Unrestricted	(91,812)	(93,389)	1,577
Total net deficit, as restated	(91,789)	(93,361)	1,572
TOTAL	$ 1,367	$ 29,100	$ (27,733)

Assets — Total assets of the Fund were $1.4 million as of December 31, 2011, a decrease of $27.7 million or 95% from December 31, 2010. Of the Fund's assets, more than 12% are represented by cash and investments. The Fund does not have a significant investment in capital assets.

Cash, cash equivalents, and investments were $170 thousand as of December 31, 2011, a decrease of $27.9 million from December 31, 2010. The decrease is primarily due to an increase in claim payments. The Agency invests the Fund's cash in the State's Surplus Money Investment Fund ("SMIF"). SMIF provides the Fund a variable rate of return and complete liquidity. Cash invested in SMIF is deposited within the State's Centralized Treasury System and managed by the State Treasurer.

Other assets were $1.2 million as of December 31, 2011, an increase of $0.2 million or 17% from December 31, 2010. The increase is the result of changing the claim payment process. Genworth is only paying their share of the claim payments and remitted all the premium thus increasing the accounts receivable from Genworth.

Liabilities — The Fund's liabilities were $93.2 million as of December 31, 2011, a decrease of $29.3 million or 24% from December 31, 2010.

The reserve for unpaid losses and loss adjustment expenses was $35.6 million as of December 31, 2011, a decrease of $14.0 million from December 31, 2010. The decrease in the loss reserve is the result of the Fund's lower loss reserves required to cover potential losses. As of December 31, 2011, 1406 insured loans with balances aggregating $391 million were either reported as delinquent by the lender or assumed delinquent but not reported. As of December 31, 2010, 1927 insured loans with balances aggregating $542 million were either reported as delinquent by the lender or assumed delinquent but not reported.

Unearned premiums were $119,000 as of December 31, 2011, a decrease of $55,000 from December 31, 2010. The decrease was due to policy adjustments between the servicer and reinsurer. The expected trend of this account is to decrease over time due to a change in premium collection practices. Beginning in 1996, management adopted the mortgage insurance industry norm of collecting monthly premium payments in arrears for newly established loan insurance products as compared to past practices of collecting annual premiums in advance. As a result, each year a greater percentage of insured loans require monthly premium payments, which are earned when received, rather than annual payments, which are received in advance and deferred and earned over a one-year period.

Accounts payable and other liabilities were $11.8 million as of December 31, 2011, an increase of $7.7 million from December 31, 2010. This increase is due to the change in claim payments process by Genworth. Genworth is only paying their share of 75% claim payment and the Fund is paying 25% share of the claim payment. Also, the Fund's cash was temporarily depleted during the year so an accounts payable was set up for CaHLIF's share of the claim payment.

Net Assets — The Fund's net assets are classified as restricted, unrestricted or invested in capital assets. Total net assets of the Fund increased by $1.6 million as a result of the current year operating income.

CONDENSED STATEMENTS OF REVENUES AND EXPENSES

The following table presents condensed statements of revenues and expenses for the Fund for the years ended December 31, 2011 and 2010, and the change from year to year (dollars in thousands):

	2011	As Restated 2010	Change
OPERATING REVENUES:			
Premiums earned	$ 12,914	$ 16,502	$ (3,588)
Investment income	37	255	(218)
Other revenues	4	8	(4)
Total operating revenues	12,955	16,765	(3,810)
OPERATING EXPENSES:			
Loss and loss adjustment expenses	2,083	29,727	(27,644)
Operating expenses	9,380	11,958	(2,578)
Other expenses	(80)	10	(90)
Total operating expenses	11,383	41,695	(30,312)
OPERATING INCOME(LOSS)	$ 1,572	$ (24,930)	$ 26,502

Operating Revenues — Operating revenues were $13.0 million during 2011 compared to $16.8 million during 2010, a decrease of $3.8 million or 23%.

Premiums earned in 2011 decreased by $3.6 million or 22% compared to premiums earned in 2010. The decrease in premiums earned corresponds with the decrease in insurance in force. Insurance in force were $1.8 billion and $2.3 billion as of December 31, 2011 and 2010, respectively.

Investment income decreased $218,000 to $37,000 in 2011 from $255,000 in 2010. This decrease was due to the decrease in interest rates and decrease in investment in SMIF. SMIF interest rates for the past two years are shown in the following table:

Periods	Year 2011	Periods	Year 2010
January — March	0.508%	January — March	0.551%
April — June	0.480%	April — June	0.559%
July — September	0.377%	July — September	0.503%
October — December	0.378%	October — December	0.456%

Other revenues decreased by $4,000 to $4,000 in 2011 from $8,000 in 2010. Recoveries made on amounts owed from defendants in certain litigation increased from last year.

Operating Expenses — Total operating expenses were $11.4 million during 2011 compared to $41.7 million during 2010, a decrease of $30.3 million or 73%.

Loss and loss adjustment expenses decreased by $27.6 million in 2011. The decrease is attributable to the decrease in required reserves to cover potential losses and premium deficiency reserve.

The Fund’s operating expenses were $9.4 million during 2011 compared to $12.0 million during 2010, a decrease of $2.6 million or 22%. The decrease is primarily a result of lower ceded premiums to the reinsurer due to lower insurance in force and a decrease in salary expenses.

Operating Loss — Operating income for 2011 was $1.6 million compared to $24.9 million loss in 2010, a decrease of $26.5 million. The decrease in operating loss is a result of the decrease in loss and loss adjustment expenses.

Contact Information - If you would like additional information on the California Housing Loan Insurance Fund, please visit www.calhfa.ca.gov.

2010 COMPARED TO 2009

CONDENSED BALANCE SHEETS

The following table presents condensed balance sheets for the Fund as of December 31, 2010 and 2009, and the change from year to year (dollars in thousands):

	As Restated 2010	2009	Change
ASSETS			
Cash, cash equivalents, and investments	$ 28,081	$ 65,290	$ (37,209)
Other assets	1,019	1,490	(471)
TOTAL	$ 29,100	$ 66,780	$ (37,680)
LIABILITIES AND NET ASSETS (DEFICIT)			
LIABILITIES:			
Unpaid losses and loss adjustment expenses	$ 49,596	$ 62,962	$ (13,366)
Premium deficiency reserve	68,626	-	68,626
Unearned premiums	174	244	(70)
Accounts payable and other liabilities	4,065	3,380	685
Total liabilities	122,461	66,586	55,875
NET ASSETS (DEFICIT):			
Invested in capital assets	28	33	(5)
Restricted	-	161	(161)
Unrestricted	(93,389)	-	(93,389)
Total net assets (deficit), as restated	(93,361)	194	(93,555)
TOTAL	$ 29,100	$ 66,780	$ (37,680)

Assets — Total assets of the Fund were $29.1 million as of December 31, 2010, a decrease of $37.7 million or 56% from December 31, 2009. Of the Fund's assets, more than 96% are represented by cash and investments. The Fund does not have a significant investment in capital assets.

Cash, cash equivalents, and investments were $28.1 million as of December 31, 2010, a decrease of $37.2 million from December 31, 2009. The decrease is primarily due to an increase in claim payments. The Agency invests the Fund's cash in the State's Surplus Money Investment Fund ("SMIF"). SMIF provides the Fund a variable rate of return and complete liquidity. Cash invested in SMIF is deposited within the State's Centralized Treasury System and managed by the State Treasurer.

Other assets were $1.0 million as of December 31, 2010, a decrease of $0.5 million or 32% from December 31, 2009. The decrease is the result of a decline in interest receivable from decreased earning rates in the State's SMIF and decrease in reinsurance receivable as a result of higher number of claims being paid.

Liabilities — The Fund's liabilities were $122.5 million as of December 31, 2010, an increase of $55.9 million or 84% from December 31, 2009.

The reserve for unpaid losses and loss adjustment expenses was $49.6 million as of December 31, 2010, a decrease of $13.4 million from December 31, 2009. The decrease in the loss reserve is the result of the Fund's lower loss reserves required to cover potential losses. As of December 31, 2010, 1927 insured loans with balances aggregating $542 million were either reported as delinquent by the lender or assumed delinquent but not reported. As of December 31, 2009, 2505 insured loans with balances aggregating $661 million were either reported as delinquent by the lender or assumed delinquent but not reported.

Unearned premiums were $174,000 as of December 31, 2010, a decrease of $70,000 from December 31, 2009. The decrease was due to policy adjustments between the servicer and reinsurer. The expected trend of this account is to decrease over time due to a change in premium collection practices. Beginning in 1996, management adopted the mortgage insurance industry norm of collecting monthly premium payments in arrears for newly established loan insurance products as compared to past practices of collecting annual premiums in advance. As a result, each year a greater percentage of insured loans require monthly premium payments, which are earned when received, rather than annual payments, which are received in advance and deferred and earned over a one-year period.

Accounts payable and other liabilities were $4.1 million as of December 31, 2010, an increase of $0.7 million from December 31, 2009. This increase is largely attributable to amounts owed to the reinsurer for claim payments.

Net Assets — The Fund's net assets are classified as restricted, unrestricted or invested in capital assets. Total net assets of the Fund decreased by $93.6 million as a result of the current year operating loss and restatement for premium deficiency reserve.

CONDENSED STATEMENTS OF REVENUES AND EXPENSES

The following table presents condensed statements of revenues and expenses for the Fund for the years ended December 31, 2010 and 2009, and the change from year to year (dollars in thousands):

	As Restated 2010	2009	Change
OPERATING REVENUES:			
Premiums earned	$ 16,502	$ 20,894	$ (4,392)
Investment income	255	924	(669)
Other revenues	8	2	6
Total operating revenues	16,765	21,820	(5,055)
OPERATING EXPENSES:			
Loss and loss adjustment expenses	29,727	60,632	(30,905)
Operating expenses	11,958	14,940	(2,982)
Other expenses	10	207	(197)
Total operating expenses	41,695	75,779	(34,084)
OPERATING LOSS	$ (24,930)	$ (53,959)	$ 29,029

Operating Revenues — Operating revenues were $16.8 million during 2010 compared to $21.8 million during 2009, a decrease of $5.0 million or 23%.

Premiums earned in 2010 decreased by $4.4 million or 21% compared to premiums earned in 2009. The decrease in premiums earned corresponds with the decrease in insurance in force. Insurance in force were $2.3 billion and $2.8 billion as of December 31, 2010 and 2009, respectively.

Investment income decreased $669,000 to $255,000 in 2010 from $924,000 in 2009. This decrease was due to the decrease in interest rates and decrease in investment in SMIF. SMIF interest rates for the past two years are shown in the following table:

Periods	Year 2010	Periods	Year 2009
January — March	0.551%	January — March	1.903%
April — June	0.559%	April — June	1.512%
July — September	0.503%	July — September	0.889%
October — December	0.456%	October — December	0.594%

Other revenues increased by $6,000 to $8,000 in 2010 from $2,000 in 2009. Recoveries made on amounts owed from defendants in certain litigation increased from last year

Operating Expenses — Total operating expenses were $41.7 million during 2010 compared to $75.8 million during 2009, a decrease of $34.1 million or 45%.

Loss and loss adjustment expenses decreased by $30.9 million in 2010. The decrease is attributable to the decrease in required reserves to cover potential losses.

The Fund's operating expenses were $11.9 million during 2010 compared to $14.9 million during 2009, a decrease of $3.0 million or 20%. The decrease is primarily a result of lower ceded premiums to the reinsurer due to lower insurance in force and a decrease in salary expenses.

Operating Loss — Operating loss for 2010 was $24.9 million compared to $53.9 million loss in 2009, a decrease of $29 million. The decrease in operating loss is a result of the decrease in loss and loss adjustment expenses.

CALIFORNIA HOUSING LOAN INSURANCE FUND

BALANCE SHEETS
DECEMBER 31, 2011 AND 2010

	2011	As Restated 2010
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 144,185	$ 34,556
Investment in Surplus Money Investment Fund	26,000	28,046,000
Interest receivable	13	39,120
Other current assets	1,179,044	932,340
Total current assets	1,349,242	29,052,016
NONCURRENT ASSETS — Other assets	17,681	47,868
TOTAL	$ 1,366,923	$ 29,099,884
LIABILITIES AND NET DEFICIT		
CURRENT LIABILITIES:		
Reserves for unpaid losses and loss adjustment expenses	$ 35,591,608	$ 49,596,140
Premium deficiency reserve	45,643,000	68,626,000
Unearned premiums	118,659	167,412
Reinsurance payable	471,954	3,400,461
Claims payable	10,771,829	-
Accounts payable and other liabilities	56,042	36,437
Compensated absences	9,252	123,571
Due to other government entities	493,580	504,081
Total current liabilities	93,155,924	122,454,102
NONCURRENT LIABILITIES — Unearned premiums	-	7,250
Total liabilities	93,155,924	122,461,352
CONTINGENCIES (Note 8)		
NET DEFICIT		
Invested in capital assets	22,587	28,017
Unrestricted	(91,811,588)	(93,389,485)
Total net deficit, as restated	(91,789,001)	(93,361,468)
TOTAL	$ 1,366,923	$ 29,099,884

CALIFORNIA HOUSING LOAN INSURANCE FUND

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	As Restated 2010
OPERATING REVENUES		
Premium earned	$ 12,913,859	$ 16,502,060
Investment income	37,582	255,364
Other revenues	3,750	7,950
Total operating revenues	12,955,191	16,765,374
OPERATING EXPENSES		
Loss and loss adjustment expenses - net of recoveries	2,082,603	29,726,646
Operating expenses	9,380,104	11,958,518
Other expenses - net	(79,983)	10,205
Total operating expenses	11,382,724	41,695,369
OPERATING INCOME (LOSS)	1,572,467	(24,929,995)
NET ASSETS (DEFICIT) - Beginning of year as previously reported	-	194,527
Prior period adjustment	-	(68,626,000)
NET DEFICIT - Beginning of year - As restated	(93,361,468)	(68,431,473)
NET DEFICIT - End of year - As restated	$ (91,789,001)	$ (93,361,468)

CALIFORNIA HOUSING LOAN INSURANCE FUND

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	$ 12,520,412	$ 16,621,849
Payments to suppliers	(875,611)	(10,867,526)
Payments to employees	(554,976)	(461,021)
Payment to other government entities	(10,501)	256,078
Other payments	(39,066,384)	(43,076,730)
Net cash used in operating activities	(27,987,060)	(37,527,350)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	65,236,000	88,050,000
Purchase of investments	(37,216,000)	(50,845,000)
Interest on investments	76,689	318,204
Net cash provided by investing activities	28,096,689	37,523,204
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	109,629	(4,146)
CASH AND CASH EQUIVALENTS — Beginning of year	34,556	38,702
CASH AND CASH EQUIVALENTS — End of year	$ 144,185	$ 34,556
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating income (loss)	$ 1,572,467	$ (24,929,995)
Adjustments to reconcile operating income (loss) to net cash used in operating activities:		
Interest on investments	(37,582)	(255,364)
Unpaid loss and loss adjustment expenses	(14,004,532)	(13,366,325)
Premium deficiency reserve expense	(22,983,000)	-
Depreciation expense	5,429	5,429
Deferred policy acquisition expense	115,498	205,775
Effects of changes in certain operating assets and liabilities:		
Other assets	(337,444)	197,072
Unearned premiums	(56,003)	(68,991)
Reinsurance payable	(2,928,507)	473,238
Compensated absences	(114,319)	(39,281)
Claims payable	10,771,829	-
Accounts payable and other liabilities	19,605	(4,986)
Due to other government entities	(10,501)	256,078
NET CASH USED IN OPERATING ACTIVITIES	$ (27,987,060)	$ (37,527,350)

1. AUTHORIZING LEGISLATION AND ORGANIZATION

The California Housing Loan Insurance Fund (the “Fund”) is one of two continuously appropriated funds administered by the California Housing Finance Agency (the “Agency”). The Agency was created by the Zenovich-Moscone-Chacon Housing and Home Finance Act, as amended, as a public instrumentality, a political subdivision, and a component unit of the state of California (the “State”), and is in the State’s Annual Financial Report and administers the activities of the Fund and the California Housing Finance Fund (the “CHFF”). These funds allow the Agency to carry out its purpose of meeting the housing needs of persons and families of low and moderate income within the State. The Agency is authorized to insure mortgage loans and to issue 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.

The accompanying financial statements are the statements of the Fund and do not include the financial position or the results of operations of the Agency. As of June 30, 2011, the Agency had total assets of $10.22 billion and fund equity of $1.48 billion (not covered by this independent auditor’s report).

The Agency is also authorized to use the Fund to provide mortgage insurance for loans made by the Agency and others which finance the acquisition, new construction, or rehabilitation of residential structures in California. Total risk in-force was $653.9 million and $831.1 million at December 31, 2011 and 2010, respectively. Of the insured first mortgage loans outstanding at December 31, 2011, 85.7% have loan-to-value ratios, measured as of the funding date of the loan, equal to or greater than 90%.

The Fund’s reserve for loan losses decreased during 2011 as a result of the slight decrease in the number of insured California home mortgage delinquencies. In 2011, Moody’s Investors Service rating of the Fund remained at ”Caa3” while the counterparty credit and financial strength ratings of the Fund’s reinsurer, Genworth Mortgage Insurance Corporation (“Genworth”), was lowered to ”Ba1” in May 2011. In July 2011, Standard and Poor’s Ratings Services (“S&P”) lowered the counterparty credit and financial strength ratings on Genworth to “BB-”.

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 accrual method of accounting in accordance with accounting principles generally accepted in the United States of America (hereinafter referred to as “Generally Accepted Accounting Principles”), which differ from statutory accounting practices followed by insurance companies in reporting to insurance regulatory authorities.

The financial statements of the Fund were prepared using generally accepted accounting principles that are applicable to a going concern. Management of the Fund, however, has concluded that there is substantial doubt as to the Fund’s ability to continue to meet its designated purpose of paying claims and expenses. The financial statements of the Fund do not include any adjustments that might result from the outcome of this uncertainty. As of December 31, 2011, the Fund’s cash and cash equivalents are not sufficient to meet the Fund’s total anticipated cash requirements to pay its obligations over the next twelve months. Management believes that attempts to raise any additional capital will be unsuccessful and does not believe that, under the terms of the agreement with the CHFF, the Fund will be able to draw on the interfund credit agreement (see note 6). Subsequent to that event, the Fund will continue to receive its share of premiums from policies still in force and will use the premiums received along with any other available funds to pay the Fund's obligations on a "first-in, first-out" basis in the order in which the claims are received after paying the monthly expenses of the Fund.

Accounting and Reporting Standards — The Fund follows the Standards of Governmental Accounting and Financial Reporting, as promulgated by the Governmental Accounting Standards Board (GASB). The Fund has adopted the option under GASB Statement No. 20, which allows the Fund to apply all GASB pronouncements and only Financial Accounting Standards Board (FASB) pronouncements which date prior to November 30, 1989.

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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates.

Cash and Cash Equivalents — The Fund considers cash on hand and cash on deposit with the State Controller's office other than the investment in the State's Surplus Money Investment Fund (SMIF) to be cash and cash equivalents.

Investments — The Agency invests the Fund's excess cash in SMIF, which represents a portion of the State's Pooled Money Investment Account (PMIA). These PMIA funds are on deposit within the State's Centralized Treasury System and are managed in compliance with the California Government Code, according to a statement of investment policy which sets forth permitted investment vehicles, liquidity parameters, and maximum maturity of investments. Investments in SMIF are recorded at fair value. The Office of the State Treasurer of California issues a Pooled Money Investment Board Report with information on the PMIA's portfolio composition. A copy of that report may be obtained from the Office of the State Treasurer, 915 Capitol Mall, Room 106, Sacramento, CA 95814 or via the internet at www.treasurer.ca.gov.

Deferred Policy Acquisition Costs — The Fund defers certain costs related to the acquisition of new insurance policies and amortizes these costs over the expected life of the policies. These costs are associated with the acquisition, underwriting, and processing of new policies. Deferred policy acquisition costs were $25,280 and $140,779 as of December 31, 2011 and 2010, respectively, and are included as part of other assets on the balance sheets.

Other Current Assets — The Fund considers current accounts receivable, equipment, and deferred policy acquisition costs as other current assets. Of the total amount, $1,148,857 was current accounts receivable.

Claims Payable — The Fund establishes claims payable for claims received but not yet paid. As of December 31, 2011, the Fund's claims payable were $10,295,110 and $476,719 for CHFF and other external parties, respectively. There was no claims payable as of December 31, 2010.

Reserves for Unpaid Losses and Loss Adjustment Expenses — The Fund establishes reserves for losses and loss adjustment expenses, to recognize the estimated liability for potential losses and related loss expenses in connection with borrower default on mortgage payments. The liability for unpaid losses and loss adjustment expenses resulting from mortgage insurance is an estimate based upon the unpaid delinquent balance on mortgage loans reported by lenders as of the close of the accounting period, estimates of incurred but not reported (IBNR) claims, and historical and expected frequency and loss severity information.

There is a high level of uncertainty inherent in the evaluation of the required loss and loss adjustment expense reserves. Management has selected frequency of claims paid and severity loss ratios that it believes are reasonable and reflective of anticipated ultimate experience. The ultimate costs of claims are dependent upon future events, the outcomes of which are affected by many factors. The Fund's claim reserving procedures and settlement practices, economic inflation, court rulings, real estate market conditions, and many other economic, scientific, legal, political, and social factors all can have significant effects on the ultimate cost of claims.

Changes in operations and management practices may also cause actual developments to vary from past experience. Since the emergence and disposition of claims are subject to uncertainties, the net amounts that will ultimately be paid to settle the liability may vary significantly from the estimated amounts provided for in the accompanying financial statements. Any adjustments that may be material to reserves are reflected in the operating results of the periods in which they are made.

Premium Deficiency – The Fund establishes reserves for a premium deficiency wherein future paid losses and expenses on unexpired business exceed the related premium revenue for such business, along with the current loss reserves. A premium deficiency is therefore recognized in the balance sheet as an accrued liability, recorded as a Premium Deficiency Reserve for the excess amount. The liability for the premium deficiency reserve is an estimate based upon the delinquent balance on mortgage loans reported by lenders as of the close of the accounting period, historical claim payment and loss incurred pattern development, future estimated premium, and future estimated losses on currently performing mortgage loans.

Net Assets — Fund net assets are classified as invested in capital assets, restricted equity or unrestricted equity. Invested in capital assets represents investments in office equipment and furniture net of depreciation. Restricted net assets represent net assets that are restricted pursuant to the Agency's enabling legislation. Unrestricted net assets represent net assets not restricted for any purpose.

Operating Revenues and Expenses — The Fund's primary operating revenue is derived from premiums earned on private mortgage insurance written. The primary expenses are the expenses associated with the underwriting, acquisition, issuance, administration, and the reinsurance of private mortgage insurance products and policies, as well as the losses associated with these products and policies.

Recognition of Premium Income — Primary mortgage insurance policies are contracts that are generally non-cancelable by the insurer and provide payment of premiums on a monthly, annual, or single basis. Premiums written on a monthly basis are earned as coverage is provided. Premiums written on an annual basis are deferred as unearned premiums and amortized on a monthly pro rata basis over the year of coverage. Primary mortgage insurance premiums written on policies covering more than one year are referred to as single premiums. A portion of single premiums is recognized immediately in earnings, and the remaining portion is deferred as unearned premiums and amortized over the expected life of the policy.

Reinsurance — Effective March 1, 2003, the Fund entered into a reinsurance treaty and administrative services agreement with Genworth. This agreement cedes to Genworth a 75% quota share of the insurance risk for most loans insured by the Fund and provides for certain administrative services to be performed by Genworth. The Fund uses reinsurance to reduce net risk in force and optimize capital allocation.

3. INVESTMENT RISK FACTORS

There are many factors that can affect the value of investments. Some, such as credit risk, custodial credit risk, 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 earning 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 Fund to invest substantially all of its funds in fixed income securities, which limit the Fund's exposure to most types of risk. For the investments in the Surplus Money Investment Fund cost approximates market.

Investments by type at December 31, 2011 and 2010, consist of the following:

	2011	2010
Surplus Money Investment Fund — State of California	$ 26,000	$ 28,046,000
Total investments	$ 26,000	$ 28,046,000

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. At December 31, 2011, the Fund does not have any investments exposed to credit risk.

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 December 31, 2011, the Fund did not have any investments exposed to custodial credit. All investments are held by the State of California.

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 Fund to greater risks resulting from adverse economic, political, regulatory, geographic, or credit developments. At December 31, 2011, the Fund does not have any investments exposed to concentration of credit risk.

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 December 31, 2011, the Fund does not have any debt investments that are highly sensitive to changes in interest rates.

Effective Duration — The effective duration is the approximate change in price of a security resulting from a 100 basis points (one percentage point) change in the level of interest rates. It is not a measure of time. The Fund's investments are not affected by effective duration.

4. RESERVES FOR UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

The following tables summarize the changes in the reserves for unpaid losses and loss adjustment expenses for the years ended December 31, 2011 and 2010. The first table presents reserves on a gross basis (before reinsurance) and the second table presents the reserve on a net basis (after reinsurance). The total net reserve for loss and loss adjustment is reflected in the financial statements.

Gross	**2011**	**2010**
Gross reserve for loss and loss adjustment — beginning of year balance	$ 187,458,542	$ 241,981,953
Incurred (recovered) related to:		
Provision attributable to the current year	117,987,516	142,838,171
Change in provision attributable to prior years	(22,251,701)	(30,061,583)
Total incurred	95,735,815	112,776,588
Payments related to:		
Current year	(21,682,276)	(13,152,683)
Prior years	(128,122,228)	(154,147,316)
Total payments	(149,804,504)	(167,299,999)
Gross reserve for loss and loss adjustment — end of year balance	$ 133,389,853	$ 187,458,542

Net of Reinsurance	**2011**	**2010**
Net reserve for loss and loss adjustment — beginning of year balance	$ 49,596,140	$ 62,962,464
Incurred (recovered) related to:		
Provision attributable to the current year	30,912,318	37,679,992
Change in provision attributable to prior years	(5,846,715)	(7,953,346)
Total incurred	25,065,603	29,726,646
Payments related to:		
Current year	(5,563,964)	(3,557,738)
Prior years	(33,506,171)	(39,535,232)
Total payments	(39,070,135)	(43,092,970)
Net reserve for loss and loss adjustment — end of year balance	$ 35,591,608	$ 49,596,140

The change in provision attributable to prior year (net of reinsurance) decreased by $5.8 million for the year ended December 31, 2011 due to a decrease in loan delinquencies from the year ended December 31, 2010, while the change in provision attributable to prior year (net of reinsurance) decreased by $7.9 million for the year ended December 31, 2010 from the year ended December 31, 2009 is also due to a decrease in loan delinquencies.

Reserves for loss and loss adjustment expenses relate to delinquent loans, net of reinsurance. Such estimates were based on historical experience, which management believes is representative of expected future losses at the time of estimation. As a result of the extended period of time that may exist between the report of a delinquency and claim payment thereon, significant uncertainty and variation exist with respect to the ultimate amount to be paid because economic conditions and real estate markets will change.

5. REINSURANCE

Effective March 1, 2003, the Fund entered into a 75% quota share reinsurance agreement with Genworth to reinsure most (currently, approximately 96%) of the Fund's portfolio. Under the terms of this agreement, the reinsurer will indemnify the Fund for 75% of all losses paid on the insured loans to which the Fund cedes 64.5% of the related premiums. The treaty was amended for loans insured on or after May 1, 2008 to cede 67% of premiums collected and amended again on April 1, 2009 to cede 69% of premiums collected on loans insured on or after that date. However, there are no loans currently ceded at 69%. The Fund's reinsurance agreement typically provides for a recovery of a proportionate level of claim expenses from the reinsurer. The Fund remains liable to its policyholders if the reinsurer is unable to satisfy its obligations under the reinsurance agreement. The amount of earned premiums ceded to Genworth for the years ended 2011 and 2010 was $8.2 million and $10.4 million, respectively.

6. ARRANGEMENTS WITH THE CALIFORNIA HOUSING FINANCE FUND

Certain administrative and operating expenses charged to the Fund are provided by the Agency. These expenses, initially paid from the CHFF, include office space, business services, legal services, accounting services, information systems support, and human resource support services. The Fund is charged monthly for these expenses and a payable is recorded. For the years ended December 31, 2011 and 2010, total expenses allocated to the Fund by the Agency were $733,813 and $1,052,616, respectively.

As part of CalHFA's Loan Modification Program, Genworth remits pre-claim advance payments to the Fund. The payments received are remitted directly to the CHFF. The total pre-claim advance payments due to CHFF were $58,179 and $77,374 at December 31, 2011 and 2010, respectively.

The Agency Board of Directors approved Resolution 03-19 on March 20, 2003, authorizing the Agency to utilize the resources of CHFF to support the mortgage guaranty insurance programs of the Agency in the following two ways: (1) the Executive Director of the Agency is authorized to create one or more supplementary reserve accounts within the Supplementary Bond Security Account of CHFF to indemnify the Mortgage Insurance Fund for losses incurred or to pay claims against the Mortgage Insurance Fund in connection with loans financed by the Agency and (2) the Executive Director of the Agency may establish an interfund credit agreement by which the Fund may borrow such sums from CHFF as may be required to maintain the claims paying rating of any credit rating service.

Initially, the Agency Executive Director established an interfund credit agreement in the amount of $100,000,000 in which the Fund may borrow from CHFF as needed for the purpose of paying claims arising out of policies of mortgage guarantee insurance and costs and expenses related to the payment of such claims. The amount by which the fund may borrow was reduced to $10,000,000 from $100,000,000 during 2009. Interest rates and repayment terms are determined upon receipt of a request to draw on this credit facility. Pursuant to the terms of the Board Resolution and the interfund credit agreement, the credit line is no longer legally available to the Fund. The credit agreement stipulates that the amount of credit is determined to be an amount necessary to maintain or improve the claims paying rating of the Fund, which at the time was "A+", and such amount shall not impair or adversely affect the Agency credit rating or any CHFF bond credit rating. The claims paying rating of the Fund was "A+" until July 2009 when it was lowered to "BBB" and subsequently fell as low as "CCC-" during 2010. In September 2010, management of the Fund decided to withdraw the rating. Consequently, there is no credit line currently available under the interfund agreement as there is no rating to support and the $10 million would not resurrect the "CCC-" claims paying rating back to "A+".

7. PENSION PLAN AND POST RETIREMENT BENEFITS

The Fund contributes to the Public Employees' Retirement Fund (PERF) as part of the State of California, the primary government. The PERF is a cost-sharing multiple-employer defined benefit pension plan administered by the California Public Employment Retirement System (CalPERS). CalPERS provides retirement, death, disability, and postretirement health care benefits to members as established by state statute. CalPERS issues a publicly available Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information for the Public Employees' Retirement Fund. A copy of that report may be obtained from CalPERS, Central Supply, P.O. Box 942175, Sacramento, CA 95229-2715 or via the internet at www.calpers.ca.gov.

For the CalPERS fiscal years ended June 30, 2011, 2010, and 2009, the employer contribution rates were as follows:

	Jun-11	Dec-10	Jun-10	Jun-09
State Miscellaneous Member First Tier	17.528 %	19.922 %	16.917 %	16.574 %
State Miscellaneous Member Second Tier	16.442	19.622	16.737	16.470

The Fund's contributions to the PERF for the years ended December 31, 2011, 2010, and 2009, were $189,984, $136,045, and $67,463, respectively, equal to the required contributions for each year.

Required contributions are determined by actuarial valuation using the individual entry age normal cost method. The most recent actuarial valuation available is as of June 30, 2010, which actuarial assumptions included (a) 7.75% investment rate of return compounded annually, (b) projected salary increases that vary by duration of service, and (c) overall payroll growth factor of 3.25% annually. Both (a) and (c) included an inflation component of 3% and a 0.25% per annum productivity increase assumption.

The most recent actuarial valuation of the PERF indicated that there was an unfunded actuarial accrued liability. The amount of the underfunded liability applicable to each Agency or department cannot be determined. Trend information, which presents CalPERS progress in accumulating sufficient assets to pay benefits when due, are presented in the June 30, 2011, CalPERS CAFR.

GASB Statement 45 requires states and local governments to publicly disclose the future dollar amount of their obligations to pay for Other Postemployment Benefits (OPEB), like healthcare, that are provided to retired employees, including retired public employees. The OPEB is a cost-sharing multiple-employer defined benefit healthcare plan administered by CalPERS. State Controller's Office sets the employer contribution rate based on the annual required contribution of the employers (ARC), 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 Fund's estimated unfunded OPEB cost was $309,440 and $180,440 for the years ended December 31, 2011 and 2010, respectively, and this liability was added to Personal Services in the respective year. CalPERS issues a publicly available CAFR that includes financial statements and required supplementary information for the OPEB.

8. LITIGATION

On June 14, 2002, the Agency filed a complaint in the case of California Housing Finance Agency (CalHFA) v. Hanover California Management and Accounting Center Inc., (HC) et al, Orange County Superior court #02CC10634 (Action). The trial in this matter has concluded and the Agency prevailed on all causes of action. The jury awarded $6.7 million in damages, prejudgment interest of $1 million, and finally the jury found that the defendants acted with malice, and awarded total punitive damages of $1.5 million. The defendants appealed the judgment and the Court of Appeal issued a decision affirming the judgment in full. The decision is now final.

The amounts received from the defendants were $3,750 and $7,950 during the years ended December 31, 2011 and 2010, respectively which is recorded as other revenue in the accompanying Statements of Revenues, Expenses, and Changes in Net Assets. It is highly unlikely that any additional amounts will be received and as such no gain contingency has been recorded.

Certain other lawsuits and claims arising in the ordinary course of business have been filed or are pending against the Fund. 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.

9. SUBSEQUENT EVENTS

In January 2012, Standard and Poor's Ratings Services ("S&P") lowered the counterparty credit and financial strength ratings on Genworth from "BB-" to "B".

In April 2012, Moody's withdrew the ratings on the Fund at the Agency's request.

Management has evaluated subsequent events during the period from December 31, 2011 to April 30, 2012, the date the financial statements were available to be issued.

10. PRIOR PERIOD ADJUSTMENT

The beginning balance of net assets has been restated to reflect an adjustment for a correction of an error. A premium deficiency reserve has been recorded as of December 31, 2010 in the amount of $68,626,000 to correct the financial statements for future paid losses and expenses on unexpired business as of December 31, 2010 that exceed the related premium revenue.

The prior period adjustment results in a change to beginning unrestricted net assets as follows:

Balance, beginning of year as previously reported	$194,527
Prior period adjustment	(68,626,000)
Balance, beginning of year, as restated	$ (68,431,473)

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Independent Auditor's 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 Agency
Sacramento, California

We have audited the financial statements of the California Housing Loan Insurance Fund (the Fund), which is administered by the California Housing Finance Agency (the Agency) as of and for the year ended December 31, 2011, and have issued our report thereon dated April 30 2012. 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.

Internal Control Over Financial Reporting

Management of the Fund is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

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 over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of 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*.

This report is intended solely for the information and use of management, Board of Directors, and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

CliftonLarsonAllen LLP

Baltimore, Maryland
April 30, 2012