

CALIFORNIA HOUSING FINANCE AGENCY
2007 - 2008 ANNUAL REPORT

AUDITED FINANCIAL STATEMENT

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California Housing Finance Agency

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
California Housing Finance Agency
Sacramento, California

We have audited the accompanying combined balance sheets of the California Housing Finance Fund (“Fund”), which is administered by the California Housing Finance Agency (“Agency”), a component unit of the State of California, as of June 30, 2008 and 2007, and the related combined statements of revenue, expenses and changes in fund equity, and of cash flows for the years then ended. The accompanying financial statements of the Fund are not intended to present the financial position or the results of the operations of the Agency. These combined financial statements are the responsibility of the management of the Agency. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits 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 consideration of internal control over financial reporting as a basis for designing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such combined financial statements present fairly, in all material respects, the financial position of the Fund, as of June 30, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management’s Discussion and Analysis on pages 3 through 11 is not a required part of the combined financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Agency. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information, and we do not express an opinion on it.

Our audits were conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The supplemental combining program information as of and for the year ended June 30, 2008 on pages 42 through 59 is presented for the purpose of additional analysis and is not a required part of the combined 2008 financial statements of the Fund. The supplemental combining program information is the responsibility of the Agency's management. Such information has been subjected to the auditing procedures applied in our audits of the combined 2008 financial statements and, in our

opinion, is fairly stated in all material respects when considered in relation to the basic 2008 financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2008, on our consideration of the Agency's internal control over financial reporting and 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.

Deloitte + Touche LLP

October 13, 2008

CALIFORNIA HOUSING FINANCE FUND
Management Discussion and Analysis
of Financial Position and Results of Operations
As of and for the fiscal years ended June 2008 and 2007

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 two state general obligation bond funds. The following Management Discussion and Analysis applies only to the activities of the California Housing Finance Fund and should be read in conjunction with the Fund’s combined financial statements and the notes to the combined 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 combined financial statements present the totals 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 information and information for specific programs and accounts is reported after the Notes to the combined financial statements.

The Homeownership Programs provide low cost mortgage capital to a network of approved lenders from whom the Agency purchases previously funded and closed loans secured by single family homes purchased by individual borrowers. 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. Interest rates on Agency 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, funded periodically from a portion of the Fund’s operating income before transfers. The Housing Assistance Trust 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, which the Agency has been asked to administer for the State on a contract basis. Operating expenses of the Agency’s loan and bond programs are paid from an Operating Account that is replenished from the Fund’s operating income before transfers. Other accounts maintained by the Agency provide security for the issuance of bonds, emergency contingencies, loan servicing operations and loan warehousing activities.

Financial Highlights 2008– 2007

- Operating income before transfers was \$10 million for fiscal year 2008 compared to \$85 million for fiscal year 2007. The decrease is mostly due to 2007 \$27 million gain on sale of multifamily REO’s, a \$27 million increase in bond interest and swap expenses in 2008 and a decrease of \$32 million in 2008 from investment income.
- The Agency originated \$1.4 billion in new loans receivable during fiscal year 2008. Overall, program loans receivable increased \$925 million to \$8.4 billion at fiscal year end. Increases in loans receivables were the result of growth in the homeownership loan portfolio.
- Home mortgage delinquencies have been surging nationally, especially for borrowers who took out subprime mortgages. Although the Agency does not make subprime loans, the Agency continues to review its loan loss reserves. In 2008 the reserve was increased by a net of \$5.4 million to \$80.9 million. In addition, the Agency maintains its Emergency Reserve Account at approximately one percent of the net program loans receivable.
- During fiscal year 2008, \$42 million was transferred into the Fund by the State pursuant to the Housing and Emergency Shelter Trust Fund Act 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.
- During fiscal year 2008, the Agency issued \$1.9 billion of notes and bonds. All but \$828 million was issued as fixed rate debt and \$633 million of variable rate debt was synthetically swapped to fixed.
- The Agency continued to actively manage the Fund’s interest expense and exposures within the debt portfolio, redeeming, and in some cases refunding, \$734 million of bond indebtedness during fiscal year 2008.

Condensed Financial Information:

Combined Balance Sheet

The following table presents condensed combined balance sheets for the Fund as of June 30, 2008 and 2007 and the change from the prior year (dollars in millions):

Condensed Combined Balance Sheets			
	<u>2008</u>	<u>2007</u>	<u>Change</u>
Assets			
Cash and investments	\$2,278	\$2,068	\$210
Program loans receivable-net	8,434	7,509	925
Other	156	125	31
Total Assets	<u>\$10,868</u>	<u>\$9,702</u>	<u>\$1,166</u>
Liabilities			
Bonds payable – net	\$8,618	\$7,579	\$1,039
Other	805	730	75
Total Liabilities	<u>\$9,423</u>	<u>\$8,309</u>	<u>\$1,114</u>
Fund Equity			
Invested in capital assets	1	1	
Restricted equity	1,444	1,392	52
Total Fund Equity	<u>1,445</u>	<u>1,393</u>	<u>52</u>
Total Liabilities and Fund Equity	<u>\$10,868</u>	<u>\$9,702</u>	<u>\$1,166</u>

Assets

Of the Fund’s assets, 99% is represented by cash and investments and program loans receivable. The Fund does not have a significant investment in capital assets, holding less than \$1 million in furniture and equipment.

Total assets increased by \$1.2 billion during fiscal year 2008. The Fund’s cash and investments were \$2.3 billion as of June 30, 2008, an increase of \$210 million from June 30, 2007. The 10% increase in cash and investments is related to the increase in bond and investment activity during the fiscal year.

Of the Fund’s assets, 21% is in the form of cash and investments at fiscal year end. Of the Fund’s investment balance, 21% is in investment agreements. Consistent with the Agency’s investment policy, bond proceeds are normally invested in investment agreements with highly rated providers of such instruments because the agreements provide a low level of counterparty risk, a fixed rate of return and complete liquidity. The amount of funds invested in investment agreements during the 2008 fiscal year decreased by \$325 million, due primarily to the investment in homeownership loans. In addition, over \$1.4 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 2008 increased by \$315 million.

The composition of cash and investments as of June 30, 2008 and 2007 and the changes from the prior year are shown in the table below (dollars in millions):

Cash and Investments			
	<u>2008</u>	<u>2007</u>	<u>Change</u>
Investment agreements	\$485	\$810	(\$325)
SMIF	1,409	1,094	315
Securities & Commercial paper	219	115	104
Cash	165	49	116
Total	<u>\$2,278</u>	<u>\$2,068</u>	<u>\$210</u>

Program loans receivable increased by \$925 million or 12% during fiscal year 2008 compared to fiscal year 2007. This increase is due primarily to the increase in the homeownership loan portfolio. Within the Fund, the Agency originated almost \$1.4 billion in new loans of which over \$1.2 billion were single family first mortgages. Fewer borrowers refinanced their Agency loans resulting in a 55% decrease in loan prepayments to \$185 million during fiscal year 2008 compared to \$414 million received in fiscal year 2007. The Agency does not offer home refinance opportunities to its borrowers as the homeownership loan programs are restricted to first time homebuyers.

Liabilities

The Fund’s liabilities were \$9.4 billion as of June 30, 2008, an increase of \$1.1 billion from June 30, 2007. Of the Fund’s liabilities, over 91% is in the form of bond indebtedness. The Fund’s bonds payable at June 30, 2008 increased by \$1 billion from the prior year as the \$1.9 billion in new issuances in 2008 were offset by scheduled principal payments and \$734 million in bond redemptions. The Agency’s governing statutes impose a cap of \$13.15 billion for bonds and notes issued and outstanding within the Fund.

All of the bonds issued by the Agency are reported within the Fund. The Agency issued a total of \$1.9 billion of Agency bonds during fiscal year 2008, an increase from the \$1.5 billion issued during fiscal year 2007. Of the bonds issued during fiscal year 2008, all but \$828 million were issued as fixed interest rate bonds, and \$633 million of variable rate debt was swapped to provide synthetically fixed interest rates. As of June 30, 2008, the estimated “net” variable interest rate exposure of the Fund’s total bond indebtedness was \$806 million. The estimated “net” variable interest rate exposure excludes all variable interest rate bonds swapped to fixed interest rates or directly backed by complementary variable interest rate assets. This “net” variable interest rate exposure provides an internal hedge against today’s low interest rate environment evidenced by low short-term investment rates and increased loan prepayments. Interest costs on variable interest rate bonds that are swapped to a fixed interest rate have generally provided a lower total interest cost to the Fund than interest costs of traditional fixed interest rate products.

The Agency issues both tax-exempt and federally taxable bonds. During the 2008 fiscal year, federally taxable bonds increased by \$25 million and as of June 30, 2008 represent 22% of all bonds outstanding, while tax-exempt bonds increased by 18% and as of June 30, 2008 represent 78% 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 2008, the Agency issued \$500 million of taxable bonds to further leverage tax-exempt issuance authority.

Shown below are the amounts of variable and fixed rate indebtedness, by tax status, as of June 30, 2008 and 2007 and the changes from the prior year (dollars in millions):

	<u>2008</u>	<u>2007</u>	<u>Change</u>
Bonds Payable			
Tax-Exempt Bonds			
*Variable Rate	\$4,321	\$4,163	\$158
Fixed Rate	2,409	1,559	850
Total Tax-Exempt Bonds	<u>\$6,730</u>	<u>\$5,722</u>	<u>\$1,008</u>
Federally Taxable Bonds			
*Variable Rate	\$1,280	\$1,315	(\$35)
Fixed Rate	572	512	60
Total Federally Taxable Bonds	<u>\$1,852</u>	<u>\$1,827</u>	<u>\$25</u>
* * Total Bonds Outstanding	<u>\$8,582</u>	<u>\$7,549</u>	<u>\$1,033</u>

* Certain variable rate bonds have been swapped to a fixed rate (see Note 7 to the Combined Financial Statements).
 * * The HUD debenture is not included (see Note 7 to the Combined Financial Statements).

Other liabilities increased by \$75 million during fiscal year 2008. This increase is due primarily to the increase in the amounts owed to the IRS for mortgage yield excess liability and to our line of credit for the purchase of loans.

Equity

All of the Fund's equity is restricted pursuant to trust agreements with bondholders and the Agency's enabling legislation or invested in capital assets. Total equity of the Fund grew by \$52 million as a result of operating income of the Fund, in the amount of \$10 million and transfers to the Fund in the amount of \$42 million pursuant to the Housing and Emergency Shelter Trust Fund Act of 2002 and 2006.

Revenues, Expenses, and Changes in Fund Equity

The following table presents condensed combined statements of revenues, expenses, and changes in fund equity for the Fund for the fiscal years ended June 30, 2008 and June 30, 2007 and the changes from the prior year (dollars in millions):

Condensed Combined Statements of Revenues, Expenses, and Changes in Fund Equity

	<u>2008</u>	<u>2007</u>	<u>Change</u>
Operating Revenues:			
Interest income program loans – net	\$400	\$375	\$25
Interest income investments – net	91	122	(31)
Increase in fair value of investments	(4)	(4)	0
Other loan and commitment fees	16	19	(3)
Other revenues	78	105	(27)
Total Operating Revenues	<u>\$581</u>	<u>\$617</u>	<u>(\$36)</u>
Operating Expenses:			
Interest	392	365	27
Mortgage servicing fees	19	17	2
Operating expenses	39	32	7
Other expenses	121	118	3
Total Operating Expenses	<u>\$571</u>	<u>\$532</u>	<u>\$39</u>
Operating Income before transfers	<u>\$10</u>	<u>\$85</u>	<u>(\$75)</u>

Operating Revenues

Total operating revenues of the Fund were \$581 million during fiscal year 2008 compared to \$617 million during fiscal year 2007, a decrease of \$36 million or 6%.

Interest income on program loans was \$400 million during fiscal year 2008 compared to \$375 million during fiscal year 2007, an increase of \$25 million. The increase in interest income on program loans is a result of an increase in the Fund's homeownership loan portfolio. Overall, program loans receivable increased \$925 million or 12% at June 30, 2008 compared to June 30, 2007, due to the growth in the homeownership loan portfolio.

Interest income from investments decreased 25% to \$91 million in fiscal year 2008 from \$122 million in fiscal year 2007. This decrease is due primarily to declining interest rates and redirecting funds from investment agreements to SMIF.

Other loan and commitment fees decreased \$3 million to \$16 million for fiscal year 2008 compared to \$19 million during fiscal year 2007. This was the result of decreased collection of administrative fees, commitment fees, and multifamily prepayment fees.

Other revenues decreased by \$27 million to \$78 million during fiscal year 2008 compared to \$105 million in fiscal year 2007, primarily due to the sale of multifamily REO's in 2007.

Operating Expenses

Total operating expenses of the Fund were \$571 million during fiscal year 2008 compared to \$532 million during fiscal year 2007, an increase of \$39 million or 7%.

Bonds payable at June 30, 2008 increased by over \$1 billion from June 30, 2007 and bond interest and swap expense, which represents 69% of the Fund's total operating expenses, increased by \$27 million or 7% compared to fiscal year 2007. The increase in bond interest and swap expense is attributed to the overall drop in interest rates requiring higher swap payments to our counterparties.

The 22% growth in operating expenses from \$32 million during fiscal year 2007 to \$39 million during fiscal year 2008 (as shown in the condensed combined statements of revenues, expenses and changes in fund equity), resulted from increased staff salary expenses and other expenses to support the growth in Agency programs.

Operating Income before Transfers

The overall operating results of the Fund for fiscal year 2008 are reflective of the activity in the operating revenues and expenses discussed above. Operating income before transfers for fiscal year 2008 was \$10 million compared to \$85 million for fiscal year 2007. The \$75 million decrease in operating income before transfers is primarily due to a comparison with last year's gain on sale multifamily REO's, increase in bond interest and swap expenses and decrease in investment income.

Financial Highlights 2007 – 2006

- Operating income before transfers was \$85 million for fiscal year 2007 compared to \$37 million for fiscal year 2006. The increase in Operating income before transfers is reflective of more earnings in homeownership interest income, the sale of subordinate loans and sale of our multifamily REO loans.
- The Agency originated \$1.9 billion in new loans receivable during fiscal year 2007. Overall, program loans receivable increased \$1.2 billion to \$7.5 billion at fiscal year end as homeownership loan receivables increased by over \$1.1 billion and multifamily loan receivables increased by \$68 million.
- Home mortgage delinquencies have been surging nationally, especially for borrowers who took out subprime mortgages. Although the Agency does not make subprime loans, the Agency continues to review its loan loss reserves. This year the reserve was increased by a net of \$8.3 million to \$75.5 million. In addition, the Agency maintains its Emergency Reserve Account at approximately one percent of the net program loans receivable.
- During fiscal year 2007, \$40 million was transferred into the Fund by the State pursuant to the Housing and Emergency Shelter Trust Fund Act of 2002. The funds were used to make loans and grants to borrowers and homeowners through programs administered by the Agency on a contract basis.
- During fiscal year 2007, the Agency issued \$1.5 billion of notes and bonds. All but \$180 million was issued as fixed rate debt and \$120 million of variable rate debt was synthetically swapped to fixed.
- The Agency continued to actively manage the Fund's interest expense and exposures within the debt portfolio, redeeming, and in some cases refunding, \$1.3 billion of bond indebtedness during fiscal year 2007.
- During the fiscal year 2007, the Agency sold 6,039 subordinate loans to Fannie Mae for \$66 million. The sale resulted in a \$6 million increase in interest income on program loans.
- During the fiscal year 2007, the Agency sold its remaining multifamily REO's. The sale resulted in a \$27 million increase in other revenues.

Condensed Financial Information:**Combined Balance Sheet**

The following table presents condensed combined balance sheets for the Fund as of June 30, 2007 and 2006 and the change from the prior year (dollars in millions):

Condensed Combined Balance Sheets

	<u>2007</u>	<u>2006</u>	<u>Change</u>
Assets			
Cash and investments	\$2,068	\$3,057	\$ (989)
Program loans receivable-net	7,509	6,271	1,238
Other	125	125	
Total Assets	<u>\$9,702</u>	<u>\$9,453</u>	<u>\$249</u>
Liabilities			
Bonds payable – net	\$7,579	\$7,445	\$134
Other	730	740	(10)
Total Liabilities	<u>8,309</u>	<u>8,185</u>	<u>124</u>
Fund Equity			
Invested in capital assets	1	1	
Restricted equity	1,392	1,267	125
Total Fund Equity	<u>1,393</u>	<u>1,268</u>	<u>125</u>
Total Liabilities and Fund Equity	<u>\$9,702</u>	<u>\$9,453</u>	<u>\$249</u>

Assets

Of the Fund's assets, 99% is represented by cash and investments and program loans receivable. The Fund does not have a significant investment in capital assets.

Total assets increased by \$249 million during fiscal year 2007. The Fund's cash and investments were \$2.1 billion as of June 30, 2007, a decrease of \$989 million from June 30, 2006. The 32% decrease in cash and investments is related to the increase in program loans receivables and the increase in bond redemptions during the fiscal year.

Of the Fund's assets, 21% is in the form of cash and investments at fiscal year end. Of the Fund's investment balance, 39% is in investment agreements. Consistent with the Agency's investment policy, bond proceeds are normally invested in investment agreements with highly rated providers of such instruments because the agreements provide a low level of counterparty risk, a fixed rate of return and complete liquidity. The amount of funds invested in investment agreements during the 2007 fiscal year decreased by over \$1 billion, due primarily to the investment in homeownership loans. In addition, over \$1 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 2007 increased by \$169 million.

The composition of cash and investments as of June 30, 2007 and 2006 and the changes from the prior year are shown in the table below (dollars in millions):

Cash and Investments

	<u>2007</u>	<u>2006</u>	<u>Change</u>
Investment agreements	\$810	\$1,866	\$ (1,056)
SMIF	1,094	925	169
Securities & Commercial paper	115	125	(10)
Cash	49	141	(92)
Total	<u>\$2,068</u>	<u>\$3,057</u>	<u>\$ (989)</u>

Program loans receivable increased by \$1.2 billion or 20% during fiscal year 2007 compared to fiscal year 2006. This increase is due primarily to the increase in the homeownership loan portfolio. Multifamily Rental Housing Program loan originations were \$238 million during fiscal year 2007, compared to \$345 million loans originated during fiscal year 2006. The Agency had a very active year originating new Homeownership program loans. Within the Fund, the Agency originated almost \$1.9 billion in new loans of which over \$1.7 billion were single family first mortgages. As interest rates increased fewer borrowers refinanced their Agency loans resulting in a 50% decrease in loan prepayments to \$414 million during fiscal year 2007 compared to \$826 million received in fiscal year 2006. The Agency does not offer home refinance opportunities to its borrowers as the homeownership loan programs are restricted to first time homebuyers.

Liabilities

The Fund's liabilities were \$8.3 billion as of June 30, 2007, an increase of \$124 million from June 30, 2006. Of the Fund's liabilities, over 91% is in the form of bond indebtedness. The Fund's bonds payable at June 30, 2007 increased by \$134 million from the prior year as the \$1.5 billion in new issuances in 2007 were offset by scheduled principal payments and \$1.3 billion in bond redemptions. The Agency's governing statutes impose a cap of \$11.15 billion for bonds and notes issued and outstanding within the Fund. This debt cap is revisited every few years and on October 5, 2007 a bill was signed by the Governor to increase the cap to \$13.15 billion.

All of the bonds issued by the Agency are reported within the Fund. The Agency issued a total of \$1.5 billion of Agency bonds during fiscal year 2007, an increase from the \$1.2 billion issued during fiscal year 2006. Of the bonds issued during fiscal year 2007, all but \$180 million were issued as fixed interest rate bonds, and \$120 million of variable rate debt was swapped to provide synthetically fixed interest rates. As of June 30, 2007, the estimated "net" variable interest rate exposure of the Fund's total bond indebtedness was \$632 million. The estimated "net" variable interest rate exposure excludes all variable interest rate bonds swapped to fixed interest rates or directly backed by complementary variable interest rate assets. This "net" variable interest rate exposure provides an internal hedge against today's low interest rate environment evidenced by low short-term investment rates and increased loan prepayments. Interest costs on variable interest rate bonds that are swapped to a fixed interest rate have generally provided a lower total interest cost to the Fund than interest costs of traditional fixed interest rate products.

The Agency issues both tax-exempt and federally taxable bonds. During the 2007 fiscal year, federally taxable bonds increased by 10% and as of June 30, 2007 represents 24% of all bonds outstanding, while tax-exempt bonds decreased by 1% and as of June 30, 2007 represents 76% 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 2007, the Agency issued \$420 million of taxable bonds to further leverage tax-exempt issuance authority.

Shown below are the amounts of variable and fixed rate indebtedness, by tax status, as of June 30, 2007 and 2006 and the changes from the prior year (dollars in millions):

Bonds Payable			
	<u>2007</u>	<u>2006</u>	<u>Change</u>
Tax-Exempt Bonds			
*Variable Rate	\$4,163	\$5,144	\$ (981)
Fixed Rate	1,559	624	935
Total Tax-Exempt Bonds	<u>\$5,722</u>	<u>\$5,768</u>	<u>\$ (46)</u>
Federally Taxable Bonds			
*Variable Rate	\$1,315	\$1,455	\$ (140)
Fixed Rate	512	204	308
Total Federally Taxable Bonds	<u>\$1,827</u>	<u>\$1,659</u>	<u>\$ 168</u>
** Total Bonds Outstanding	<u><u>\$7,549</u></u>	<u><u>\$7,427</u></u>	<u><u>\$ 122</u></u>

- * Certain variable rate bonds have been swapped to a fixed rate (see Note 7 to the Combined Financial Statements).
- * * The HUD debenture is not included (see Note 7 to the Combined Financial Statements).

Other liabilities decreased by \$10 million during fiscal year 2007. This decrease is due primarily to the decrease in the amount owed to the IRS.

Equity

All of the Fund's equity is restricted pursuant to trust agreements with bondholders and the Agency's enabling legislation or invested in capital assets. Total equity of the Fund grew by \$125 million as a result of operating income of the Fund, in the amount of \$85 million and transfers to the Fund in the amount of \$40 million pursuant to the Housing and Emergency Shelter Trust Fund Act of 2002.

Revenues, Expenses, and Changes in Fund Equity

The following table presents condensed combined statements of revenues, expenses, and changes in fund equity for the Fund for the fiscal years ended June 30, 2007 and June 30, 2006 and the changes from the prior year (dollars in millions):

Condensed Combined Statements of Revenues, Expenses, and Changes in Fund Equity

	<u>2007</u>	<u>2006</u>	<u>Change</u>
Operating Revenues:			
Interest income program loans – net	\$ 375	\$ 314	\$ 61
Interest income investments – net	122	139	(17)
Increase in fair value of investments	(4)	(3)	(1)
Other loan and commitment fees	19	13	6
Other revenues	<u>105</u>	<u>87</u>	<u>18</u>
Total Operating Revenues	<u>617</u>	<u>550</u>	<u>67</u>
Operating Expenses:			
Interest	365	345	20
Mortgage servicing fees	17	14	3
Operating expenses	32	31	1
Other expenses	<u>118</u>	<u>123</u>	<u>(5)</u>
Total Operating Expenses	<u>532</u>	<u>513</u>	<u>19</u>
Operating Income before transfers	<u>\$ 85</u>	<u>\$ 37</u>	<u>\$ 48</u>

Operating Revenues

Total operating revenues of the Fund were \$617 million during fiscal year 2007 compared to \$550 million during fiscal year 2006, an increase of \$67 million or 12%.

Interest income on program loans was \$375 million during fiscal year 2007 compared to \$314 million during fiscal year 2006, an increase of \$61 million. The increase in interest income on program loans is a result of an increase in the Fund's homeownership loan portfolio. Overall, program loans receivable increased \$1.2 billion or 20% at June 30, 2007 compared to June 30, 2006, and the Homeownership loan portfolio increased by over \$1 billion.

Interest income from investments decreased 12% to \$122 million in fiscal year 2007 from \$139 million in fiscal year 2006. This decrease is due primarily to the investment in homeownership loans as the fund's investment portfolio decreased by \$897 million or 31% during fiscal year 2007.

The fair value of the Fund's \$115 million investment in securities and commercial paper decreased by \$10 million during fiscal year 2007. The decrease in the fair value is attributable to both realized and unrealized gains and losses during the fiscal year.

Other loan and commitment fees increased \$6 million to \$19 million for fiscal year 2007 compared to \$13 million during fiscal year 2006. The increase is primarily attributable to an increase in servicing fee income from Agency loan servicing and multifamily prepayment fees.

Other revenues increased by \$18 million to \$105 million during fiscal year 2007 compared to \$87 million in fiscal year 2006, primarily due to the sale of multifamily REO's.

Operating Expenses

Total operating expenses of the Fund were \$532 million during fiscal year 2007 compared to \$513 million during fiscal year 2006, an increase of \$19 million or 4%.

Bonds payable at June 30, 2007 increased by \$134 million from June 30, 2006 and bond interest expense, which represents 68% of the Fund's total operating expenses, increased by \$20 million or 6% compared to fiscal year 2006. The increase in bond interest expense is attributed to the rise in interest rates of our variable rate bonds, plus the increase in bonds payable.

The 3% growth in operating expenses from \$31 million during fiscal year 2006 to \$32 million during fiscal year 2007 (as shown in the condensed combined statements of revenues, expenses and changes in fund equity), resulted from increased staff salary expenses.

Operating Income before Transfers

The overall operating results of the Fund for fiscal year 2007 are reflective of the activity in the operating revenues and expenses discussed above. Operating income before transfers for fiscal year 2007 was \$85 million compared to \$37 million for fiscal year 2006. The \$48 million increase in operating income before transfers is primarily due to the increase in interest income from program loans, the sale of subordinate loans, and the sale of multifamily REO's.

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**CALIFORNIA HOUSING FINANCE FUND
COMBINED BALANCE SHEETS
June 30, 2008 and June 30, 2007**

(Dollars in Thousands)

	<u>2008</u> <u>Combined</u> <u>Totals</u>	<u>2007</u> <u>Combined</u> <u>Totals</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 164,773	\$ 49,444
Investments	1,897,672	1,966,049
Current portion - program loans receivable, net of allowance	323,751	316,709
Interest receivable:		
Program loans, net	41,182	36,604
Investments	21,612	31,429
Accounts receivable	10,689	13,676
Other assets	762	818
Total current assets	<u>2,460,441</u>	<u>2,414,729</u>
Noncurrent assets:		
Investments	215,715	52,188
Program loans receivable, net of allowance	8,110,363	7,192,123
Deferred financing costs	41,058	37,345
Other assets	40,904	5,375
Total noncurrent assets	<u>8,408,040</u>	<u>7,287,031</u>
Total assets	<u>\$ 10,868,481</u>	<u>\$ 9,701,760</u>
LIABILITIES AND FUND EQUITY		
Current liabilities:		
Current portion - bonds payable, net	\$ 111,737	\$ 79,536
Interest payable	148,813	147,850
Due to other government entities, net	352,607	350,326
Compensated absences	2,475	2,223
Deposits and other liabilities	233,765	180,857
Total current liabilities	<u>849,397</u>	<u>760,792</u>
Noncurrent liabilities:		
Bonds and debenture notes payable, net	8,505,841	7,499,692
Due to other government entities, net	34,917	11,003
Deferred revenue	33,222	37,360
Total noncurrent liabilities	<u>8,573,980</u>	<u>7,548,055</u>
Total liabilities	<u>9,423,377</u>	<u>8,308,847</u>
Commitments and contingencies (see notes 11 and 13)		
Fund equity:		
Invested in capital assets	838	866
Restricted by indenture	505,370	731,330
Restricted by statute	938,896	660,717
Total fund equity	<u>1,445,104</u>	<u>1,392,913</u>
Total liabilities and fund equity	<u>\$ 10,868,481</u>	<u>\$ 9,701,760</u>

See notes to combined financial statements.

CALIFORNIA HOUSING FINANCE FUND
COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY
June 30, 2008 and June 30, 2007
(Dollars in Thousands)

	<u>2008</u> <u>Combined</u> <u>Totals</u>	<u>2007</u> <u>Combined</u> <u>Totals</u>
OPERATING REVENUES		
Interest income:		
Program loans, net	\$ 399,896	\$ 374,756
Investments, net	90,689	122,584
Increase (decrease) in fair value of investments	(3,746)	(3,694)
Loan commitment fees	1,626	3,266
Other loan fees	13,983	15,793
Other revenues	<u>78,620</u>	<u>104,735</u>
Total operating revenues	<u>581,068</u>	<u>617,440</u>
OPERATING EXPENSES		
Interest	392,647	364,688
Amortization of bond discount/(premium) and deferred losses on refundings of debt	(264)	483
Mortgage servicing expenses	18,788	16,708
Provision for program loan losses	10,882	8,766
Operating expenses	38,895	32,270
Other expenses	<u>110,346</u>	<u>109,549</u>
Total operating expenses	<u>571,294</u>	<u>532,464</u>
Operating income before transfers	9,774	84,976
Transfers, interfund	<u>42,417</u>	<u>39,730</u>
Increase in fund equity	52,191	124,706
Fund equity at beginning of year	<u>1,392,913</u>	<u>1,268,207</u>
Fund equity at end of year	<u>\$ 1,445,104</u>	<u>\$ 1,392,913</u>

See notes to combined financial statements.

CALIFORNIA HOUSING FINANCE FUND
COMBINED STATEMENTS OF CASH FLOWS
June 30, 2008 and June 30, 2007

(Dollars in Thousands)

	<u>2008</u> <u>Combined</u> <u>Totals</u>	<u>2007</u> <u>Combined</u> <u>Totals</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 395,317	\$ 368,566
Payments to suppliers	(32,370)	(28,862)
Payments to employees	(26,166)	(21,460)
Other receipts (payments)	(905,382)	(1,298,687)
Net cash used for operating activities	<u>(568,601)</u>	<u>(980,443)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Due to other government entities	<u>2,280</u>	<u>49,412</u>
Net cash provided by (used for) noncapital financing activities	<u>2,280</u>	<u>49,412</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sales of bonds and debenture notes	1,864,927	1,536,229
Payment of bond principal	(93,870)	(98,890)
Early bond redemptions	(734,042)	(1,306,701)
Interest paid on debt	(391,684)	(342,055)
Interfund transfers	42,417	39,730
Additions to deferred costs	(7,707)	(10,304)
Net cash used for capital and related financing activities	<u>680,041</u>	<u>(181,991)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturity and sale of investments	4,780,095	6,212,279
Purchase of investments	(4,878,991)	(5,317,897)
Interest on investments, net	100,505	127,566
Net cash provided by (used for) investing activities	<u>1,609</u>	<u>1,021,948</u>
Net increase (decrease) in cash and cash equivalents	115,329	(91,074)
Cash and cash equivalents at beginning of year	49,444	140,518
Cash and cash equivalents at end of year	<u>\$ 164,773</u>	<u>\$ 49,444</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 9,774	\$ 84,976
Adjustments to reconcile operating income to net cash provided by operating activities:		
Interest expense on debt	392,647	364,688
Interest on investments	(90,689)	(122,584)
Changes in fair value of investments	3,746	3,695
Accretion of capital appreciation bonds	3,480	3,744
Amortization of bond discount	152	94
Amortization of deferred losses on refundings of debt	(1,260)	800
Amortization of bond issuance costs	3,992	4,358
Amortization of bond premium	(1,035)	(412)
Amortization of deferred revenue	(1,625)	(3,266)
Depreciation	182	189
Provision for program loan losses	10,882	8,767
Provision for yield reduction payments	23,926	(14,492)
Provision for nonmortgage investment excess	(13)	(13,807)
Changes in certain assets and liabilities:		
Purchase of program loans	(1,425,415)	(1,993,406)
Collection of principal from program loans, net	453,698	742,319
Interest receivable	(4,578)	(6,190)
Accounts receivable	2,986	(1,077)
Due from (to) other funds	-	-
Due to other government entities	-	(719)
Other assets	(98)	12,052
Compensated absences	252	387
Deposits and other liabilities	52,907	(47,749)
Deferred revenue	(2,512)	(2,810)
Net cash provided by operating activities	<u>\$ (568,601)</u>	<u>\$ (980,443)</u>

See notes to combined financial statements.

**CALIFORNIA HOUSING FINANCE FUND
NOTES TO COMBINED FINANCIAL STATEMENTS
Fiscal Years Ended June 30, 2008 and 2007**

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 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 combined financial statements.

The accompanying combined financial statements are the combined financial statements of the Fund and do not include the financial position or the results of operations of the Mortgage 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, 2007, the Mortgage Insurance Fund had total assets of \$76,577,273 and equity of \$71,023,046, respectively (not covered by this Independent Auditors’ Report).

As 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.

Single Family Mortgage Bonds 1995 Issue A: The Single Family Mortgage Bonds 1995 Issue A 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 FHA, the Mortgage Insurance Fund, the VA or a private mortgage guaranty insurance policy 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.

Single Family Mortgage Bonds 1995 Issue B: The Single Family Mortgage Bonds 1995 Issue B 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 FHA, the Mortgage Insurance Fund, the VA or a private mortgage guaranty insurance policy 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.

Single Family Mortgage Bonds II: The Single Family Mortgage Bonds II, a parity indenture, 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 FHA, the Mortgage Insurance Fund, the VA or a private mortgage guaranty insurance policy 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.

Draw Down Bonds: The Draw Down Bonds are a low cost means for preserving tax exempt borrowing authority; they were issued in lieu of short term notes. The bonds are unrated and are issued in variable rate form and have monthly or weekly rate resets based on certain indices. The bonds are secured solely by their proceeds which are invested in investment agreements or the SMIF. These investments bear interest rates equal to or slightly in excess of the rates on the bonds.

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 backed by the Agency's general obligation. As of June 30, 2008, the Agency has three series of bonds issued and outstanding 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.

Multi-Unit Rental Housing Revenue Bonds (I & II): These bonds, issued in two phases under the Multi-Unit Rental Housing Program, provide for the permanent financing of newly constructed or substantially rehabilitated multi-unit rental housing developments. Housing developments financed under this program are designed primarily for occupancy by persons and families of low or moderate income.

Multifamily Loan Purchase Bonds: On July 26, 2000, the Agency purchased 278 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 II: The Multifamily Housing Revenue Bonds II are fixed rate bonds collateralized by the Government National Mortgage Association ("GNMA") mortgage-backed securities and/or FHA insured loans. The bonds were issued to 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.

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.

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 the debenture note payable related to the claim filed under the FHA Risk Sharing Act discussed in note 7, as well as 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 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 received transfers in the amount of \$42,417,124 during fiscal year 2008.

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, a small portion of the homeownership program loans in first lien position, all junior or subordinate lien homeownership program loans and certain other loans for the California State Teachers Retirement System. 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".

Loan Warehousing: The Agency borrowed \$350,000,000 from the State's Pooled Money Investment Account for short-term warehousing of Agency loans. Homeownership loans are typically warehoused as they are purchased from originating lenders and subsequently transferred to individual bond financings on a monthly basis. The borrowing, which is reapplied for and approved in six-month intervals, requires that interest be paid on the loan at a rate equal to the earnings rate on the State's Surplus Money Investment Fund ("SMIF") on the date of the new loan.

The Agency also entered into a revolving credit agreement with a financial institution to provide a line of credit for short-term borrowings of up to \$100,000,000, which may be increased up to \$150,000,000. Under the terms of the agreement the Agency elects a fixed or variable rate of interest dependent on the expected duration of the draw and determined on the date of the draw as a stated spread to an associated index. The line of credit is available to the Agency until February 28, 2011. The proceeds of this credit facility are to be used for working capital purposes, including warehousing of multifamily program loans or homeownership program loans and making counterparty payments for various financial contracts. At June 30, 2008 draws totaling \$40,129,960 were outstanding.

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 combined financial statements have been prepared using the accrual method of accounting and on the basis of accounting principles generally accepted in the United States of America (hereinafter referred to as "Generally Accepted Accounting Principles").

Accounting and Reporting Standards: The Agency follows the Standards of Governmental Accounting and Financial Reporting, as promulgated by the Governmental Accounting Standards Board ("GASB"). The Agency has adopted the option under GASB No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Funds Accounting*, which allows the Agency to apply all GASB pronouncements and only Financial Accounting Standards Board ("FASB") pronouncements which date prior to November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Use of Estimates: The preparation of combined 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 combined 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 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 balance sheet, provided that it has the opposite interest characteristics of such balance sheet 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.

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

Bond Premium, Discount and Deferred Financing Costs: Premium, discount and financing costs on bonds are deferred and amortized over the life of the related bond issue using the straight line method of amortization.

Capital Appreciation Bonds: Capital appreciation bonds are payable upon redemption or at maturity in an amount equal to the initial principal amount of such bond plus an amount of interest which, based on semi-annual compounding from the original issuance date, will produce a given yield to the stated maturity. This "Accreted Value" is accrued as bond interest, thereby increasing the original issuance amount of the capital appreciation bond which is not paid until redemption or maturity.

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.

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

Fund Equity: Fund equity is classified as invested in capital assets or restricted equity. Invested in capital assets represents investments in office equipment and furniture net of depreciation. Restricted equity represents equity balances under the lien of bond indentures that are therefore pledged to bondholders. State statutes further restrict other net assets 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 Fund Equity.

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 \$1,614,728 and \$1,870,519 the years ended June 30, 2008 and 2007, respectively. HUD pass-through payments aggregated \$73,532,713 and \$74,505,313 for the years ended June 30, 2008 and 2007, respectively, and are reported as other operating revenues and expenses within Other Programs and Accounts.

Recently Adopted Accounting Standard: In fiscal year 2007-08, the Agency adopted new statements issued by the Government Accounting Standards Board ("GASB").

Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* effective for the fiscal periods beginning after December 15, 2006. GASB Statement No. 45 establishes standards for the accrual-based measurement, recognition, and disclosure of other postemployment benefits (OPEB), and, if applicable, required supplementary information in the financial reports of state and local governmental employers. OPEB includes postemployment healthcare, as well as other forms of postemployment benefits, when provided separately from a pension plan over the employees' years of service, along with the related liability, net of any plan assets. GASB 45 improves the relevance and the usefulness of financial reporting by: (i) recognizing the cost of benefits in periods when the related services are received by the employer; (ii) providing information about the actuarial accrued liabilities for promised benefits associated with past services and whether and to what extent those benefits have been funded; (iii) providing information useful in assessing potential demands on the employer's future cash flows.

The financial reporting impact resulting from the implementation of GASB 45 was the recognition of an additional expense and liability of \$2.3 million in the Agency's financial statements for fiscal year 2008 (see disclosure in Note 10).

Statement No. 50, *Pension Disclosures: an amendment of GASB Statements No. 25 and No. 27*, effective for periods beginning after June 15, 2007, with an earlier implementation encouraged. GASB Statement No. 50 requires disclosure of the methods used to fairly value investments; disclosure of contributions and reserves as well as contribution rates; and, information about the funded status of the plan including actuarial information. The statement was adopted by the Agency in the 2008 fiscal year and the statement did not have any material impact on the Agency's financial position or result of operations (see disclosure in Note 10).

New Accounting Standard: GASB issued a Statement for the future reporting periods that will be applicable to the Agency.

In June 2008, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, effective for period beginning after June 15, 2009, with earlier application encouraged. GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments. The Agency is currently evaluating the impact on the Agency's financial position and result of operations that will result from adopting GASB Statement No. 53.

Note 3 – CASH, CASH EQUIVALENTS AND INVESTMENTS

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 balance sheet. In addition, other types of investments are separately held by most of the programs and accounts.

Cash and Cash Equivalents: At June 30, 2008 and 2007, all cash and cash equivalents, totaling \$164,773,000 and \$49,444,000, 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. The Fund's investments are

categorized to give an indication of the level of risk assumed by the Agency at June 30, 2008. Category 1 includes investments that are insured or registered or for which the securities are held within the Fund by the Agency's agent in the Agency's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Agency's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agency but not in the Agency's name.

Investments at June 30, 2008 and 2007 are as follows (dollars in thousands):

	1	Category 2	3	Fair Value June 30, 2008	Fair Value June 30, 2007
U.S. Treasury Securities	\$ 1,291			\$ 1,291	\$ 1,206
U.S. Agency Securities --- GNMA's	6,670			6,670	6,780
Federal Agency Securities	211,816			211,816	46,980
Investment Agreements --- Financial Institutions (at cost)		\$ 285,739		285,739	524,002
Commercial Paper	-			-	59,679
Total	<u>\$ 219,777</u>	<u>\$ 285,739</u>	<u>\$ -</u>		
Other Investments (not subject to categorization):					
Surplus Money Investment Fund --- State of California				1,409,058	1,093,857
Other Investment Agreements (at cost)				198,812	285,733
Total Investments				<u>\$ 2,113,386</u>	<u>\$ 2,018,237</u>
Current portion				1,897,671	1,966,049
Noncurrent portion				215,715	52,188
Total				<u>\$ 2,113,386</u>	<u>\$ 2,018,237</u>

Note 4 – INVESTMENT RISK FACTORS

Investments by type at June 30, consist of the following (dollars in thousands):

	2008 Combined Totals	2007 Combined Totals
U.S. Treasury Securities	\$ 1,291	\$ 1,206
U.S. Agency Securities --- GNMA's	6,670	6,780
Federal Agency Securities	211,816	46,980
Commercial Paper - GE Cap	0	7,630
Commercial Paper - CitiGroup	0	52,049
Investment Agreements --- Financial Institutions (at cost)	484,551	809,735
Surplus Money Investment Fund --- State of California	1,409,058	1,093,857
Total Investments	<u>\$ 2,113,386</u>	<u>\$ 2,018,237</u>

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 a 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, is as follows (dollars in thousands):

	2008	2007
	Combined	Combined
	Totals	Totals
Fixed income securities:		
U.S. government guaranteed	\$ 219,777	\$ 54,965
Guaranteed interest contracts:		
Rated Aaa/AAA	99,114	175,097
Rated Aaa/AA+	-	9,059
Rated Aaa/AA-	6,754	13,060
Rated Aa3/AA	90,228	124,536
Rated Aa3/AA-	72,710	228,620
Rated Aa3/A+	43,528	-
Rated Aa2/AA	3,566	257,550
Rated Aa2/AA-	149,490	-
Rated Aa2/A+	-	-
Rated Aa2/A	-	-
Rated Aa2/A-	-	-
Rated Aa1/AA	4,051	1,813
Rated Aa1/AA-	15,109	-
Commercial Paper:		
Rated P1/A-1+	-	59,679
N/A	-	-
Total fixed income securities	<u>\$ 704,327</u>	<u>\$ 924,379</u>

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, 2008, the Agency did not have any investments exposed to custodial credit. All investments are held by the State of California or a 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, 2008, no investments in any one issuer exceed 5% of the net assets, 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, 2008, 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 effective duration for fixed income securities at June 30, is as follows:

	2008	2007
Fixed income securities:		
U.S. government guaranteed	11.80	9.38
Commercial Paper	n/a	0.10

Note 5 – PROGRAM LOANS RECEIVABLE

Changes in program loans receivable for the years ended June 30, 2008 and 2007 are as follows (dollars in thousands):

	2008	2007
	Combined	Combined
	<u>Totals</u>	<u>Totals</u>
Beginning of the year balance	\$ 7,590,381	\$ 6,338,223
Loans purchased/funded	1,426,120	1,994,978
Amortized principal repayments	(268,051)	(324,555)
Loan prepayments	(185,647)	(417,763)
Chargeoffs	<u>(5,399)</u>	<u>(502)</u>
Subtotal	8,557,404	7,590,381
Unamortized Mortgage Discount	(2,277)	(1,575)
Transfer REO to other assets	(40,065)	(4,509)
Allowance for loan losses	<u>(80,948)</u>	<u>(75,465)</u>
End of year balance	<u><u>\$ 8,434,114</u></u>	<u><u>\$ 7,508,832</u></u>
Current portion	\$ 323,751	\$ 316,709
Noncurrent portion	<u>8,110,363</u>	<u>7,192,123</u>
Total	<u><u>\$ 8,434,114</u></u>	<u><u>\$ 7,508,832</u></u>

Note 6 – ALLOWANCE FOR PROGRAM LOAN LOSSES

Changes in the allowance for program loan losses for the year ended June 30, 2008 and 2007 are as follows (dollars in thousands):

	2008	2007
	Combined	Combined
	<u>Totals</u>	<u>Totals</u>
Beginning of year balance	\$75,465	\$67,201
Provisions for program loan losses	10,882	8,766
Chargeoffs	<u>(5,399)</u>	<u>(502)</u>
End of year balance	<u><u>\$ 80,948</u></u>	<u><u>\$ 75,465</u></u>

Note 7 – BONDS AND DEBENTURE 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 and outstanding notional amounts and fair value of associated interest rate swaps as of June 30, 2008 are as follows (dollars in thousands):

Bonds and Debenture Notes						
<u>Bond Issue</u>	<u>Type of Bond</u>	<u>Interest Rate Range</u>	<u>Final Maturity Date</u>	<u>Outstanding Fixed</u>	<u>Outstanding Variable</u>	<u>Total</u>
Home Mortgage Revenue Bonds:						
1982 Series A	Tax-Exempt		2014	\$ 1,825		1,825
1982 Series B	Tax-Exempt		2014	575		575
1983 Series A	Tax-Exempt		2015	17,843		17,843
1983 Series B	Tax-Exempt		2015	3,816		3,816
1984 Series B	Tax-Exempt		2016	527		527
1985 Series A	Tax-Exempt		2016	834		834
1985 Series B	Tax-Exempt		2017	3,475		3,475
1994 Series D	Tax-Exempt		2034		7,350	7,350
1995 Series I	Tax-Exempt		2035		12,350	12,350
1997 Series O	Tax-Exempt		2027	6,335		6,335
1998 Series F	Tax-Exempt	4.700% -	2016	13,680		13,680
1998 Series J	Tax-Exempt		2027	2,830		2,830
1998 Series L	Taxable		2019	4,335		4,335
1998 Series M	Taxable		2023		10,015	10,015
1998 Series S	Taxable		2026	2,910		2,910
1999 Series F	Tax-Exempt		2028	4,369		4,369
1999 Series G	Taxable		2011	10,400		10,400
1999 Series N	Tax-Exempt	5.000% -	2031	19,504		19,504
1999 Series O	Taxable		2012		18,820	18,820
2000 Series B	Tax-Exempt		2019	2,280		2,280
2000 Series D	Taxable		2023		19,565	19,565
2000 Series D	Taxable		2023		13,095	13,095
2000 Series G						-
2000 Series G						-
2000 Series H	Taxable		2017		22,715	22,715
2000 Series H	Taxable		2017		5,365	5,365
2000 Series J	Tax-Exempt		2031		26,365	26,365
2000 Series K	Taxable		2031		57,375	57,375
2000 Series K	Taxable		2031		5,175	5,175
2000 Series N	Tax-Exempt		2031		29,915	29,915
2000 Series Q						-
2000 Series U						-
2000 Series V	Taxable		2032		43,655	43,655

SWAPS

<u>Fixed Rate Paid By Agency</u>	<u>Floating Rate Received By Agency</u>	<u>Effective Date</u>	<u>Termination Date</u>	<u>Outstanding Notional/Applicable Amount</u>	<u>Fair Value</u>
6.6550%	LIBOR	12/9/99	8/1/12	\$ 14,390	\$ (645)
7.1950%	LIBOR	1/27/00	2/1/13	\$ 19,565	\$ (1,009)
Fixed Amount	LIBOR @ 65%	4/6/00	8/1/08	\$ 785	\$ 1
4.8000%	LIBOR @ 65%	4/6/00	2/1/23	\$ 55	\$ (1)
7.2600%	LIBOR	4/6/00	8/1/10	\$ 22,715	\$ (583)
4.9000%	LIBOR @ 65%	5/25/00	8/1/30	26,365	(3,449)
7.5000%	LIBOR	5/25/00	2/1/17	57,375	(6,007)
5.1600%	LIBOR @ 65%	5/25/00	8/1/22	29,915	(4,628)
4.6600%	LIBOR @ 65%	7/27/00	2/1/16	165	-
4.5275%	LIBOR @ 65%	10/5/00	8/1/15	765	(2)
7.0960%	6 mo LIBOR	10/5/00	8/1/14	43,655	(3,250)

Bonds and Debenture Notes

<u>Bond Issue</u>	<u>Type of Bond</u>	<u>Interest Rate Range</u>	<u>Final Maturity Date</u>	<u>Outstanding Fixed</u>	<u>Outstanding Variable</u>	<u>Total</u>
2000 Series V	Taxable	3.290%	2032		5,380	5,380
2000 Series X-1	Tax-Exempt	1.680%	2015		3,975	3,975
2000 Series X-2	Tax-Exempt	1.970%	2031		32,280	32,280
2000 Series Z	Taxable	3.240%	2031		45,660	45,660
2000 Series Z	Taxable	3.240%	2031		3,150	3,150
2001 Series C	Tax-Exempt	1.960%	2031		4,900	4,900
2001 Series C	Tax-Exempt	1.960%	2031		1,205	1,205
2001 Series D	Taxable	3.320%	2022		61,850	61,850
2001 Series D	Taxable	3.320%	2022		3,790	3,790
2001 Series G	Taxable	3.260%	2029		43,510	43,510
2001 Series G	Taxable	3.260%	2029		9,575	9,575
2001 Series J	Tax-Exempt	1.750%	2032		47,425	47,425
2001 Series K	Taxable	3.300%	2032		68,950	68,950
2001 Series N	Tax-Exempt	1.680%	2021		13,690	13,690
2001 Series O	Taxable	3.330%	2032		66,730	66,730
2001 Series O	Taxable	3.330%	2032		1,725	1,725
2001 Series R	Tax-Exempt	3.170%	2023		15,685	15,685
2001 Series R	Tax-Exempt	3.170%	2032		3,255	3,255
2001 Series S	Taxable	3.370%	2023		45,685	45,685
2001 Series S	Taxable	3.370%	2023		1,260	1,260
2001 Series U	Tax-Exempt	3.770%	2032		53,620	53,620
2001 Series V	Taxable	3.190%	2031		22,655	22,655
2002 Series A	Tax-Exempt	5.900%	2022	115		115
2002 Series B	Tax-Exempt	1.860%	2033		43,020	43,020
2002 Series C	Taxable	3.310%	2033		34,890	34,890
2002 Series C	Taxable	3.310%	2033		4,250	4,250
2002 Series D	Taxable	3.230%	2030		30,185	30,185
2002 Series D	Taxable	3.230%	2030		4,480	4,480
2002 Series F	Tax-Exempt	5.080%	2033		49,495	49,495
2002 Series H	Taxable	3.310%	2022		21,635	21,635
2002 Series H	Taxable	3.310%	2022		5,055	5,055
2002 Series J	Tax-Exempt	3.590%	2033		84,565	84,565
2002 Series L	Taxable	3.310%	2024		26,405	26,405
2002 Series L	Taxable	3.310%	2024		955	955
2002 Series M	Tax-Exempt	1.350%	2032		41,600	41,600
2002 Series M	Tax-Exempt	1.350%	2032		5,260	5,260
2002 Series M	Tax-Exempt	1.800%	2033		30,300	30,300
2002 Series O	Taxable	3.280%	2033		21,745	21,745
2002 Series O	Taxable	3.280%	2033		3,100	3,100
2002 Series P	Tax-Exempt	3.020%	2027		57,015	57,015
2002 Series Q	Tax-Exempt	2.040%	2033		20,415	20,415
2002 Series U	Tax-Exempt	1.910%	2032		35,575	35,575
2002 Series U	Tax-Exempt	1.910%	2031		41,765	41,765
2002 Series V	Tax-Exempt	3.500% - 3.750%	2009	4,770		4,770
2003 Series B	Taxable	3.190%	2027		3,110	3,110
2003 Series D	Tax-Exempt	1.990%	2033		48,500	48,500
2003 Series D	Tax-Exempt	1.990%	2022		40,210	40,210
2003 Series E	Tax-Exempt	2.350%	2008	780		780
2003 Series F	Tax-Exempt	1.960%	2022		47,730	47,730
2003 Series F	Tax-Exempt	1.960%	2034		79,415	79,415
2003 Series G	Taxable	3.210%	2034		20,560	20,560
2003 Series H	Tax-Exempt	2.040%	2032		51,970	51,970
2003 Series H	Tax-Exempt	2.040%	2033		67,775	67,775
2003 Series I	Taxable	3.240%	2033		35,395	35,395
2003 Series K	Tax-Exempt	2.040%	2033		66,335	66,335

SWAPS

Fixed Rate Paid By Agency	Floating Rate Received By Agency	Effective Date	Termination Date	Outstanding Notional/Applicable Amount	Fair Value
4.3580%	LIBOR @ 64%	12/13/00	8/1/15	3,975	(173)
4.5100%	LIBOR @ 65%	12/13/00	8/1/31	32,280	(3,262)
6.8430%	3 mo LIBOR	12/13/00	8/1/16	45,660	(3,603)
3.9000%	LIBOR @ 65%	1/25/01	8/1/20	4,900	(175)
Fixed Amount	LIBOR @ 65%	1/25/01	8/1/16	1,205	(412)
6.2150%	3 mo LIBOR+.26%	1/25/01	8/1/19	61,850	(3,634)
6.0100%	3 mo LIBOR+.20%	4/5/01	2/1/16	43,510	(2,042)
4.1430%	LIBOR @ 65%	5/31/01	8/1/24	47,425	(2,865)
3.9910%	LIBOR @ 65%	7/26/01	8/1/18	13,690	(658)
6.3600%	3 mo LIBOR+.27%	7/26/01	8/1/20	66,730	(4,744)
3.6900%	LIBOR @ 65%	10/10/01	2/1/19	15,935	(591)
Fixed Amount	LIBOR @ 65%	10/10/01	8/1/11	3,255	(2,384)
5.5300%	3 mo LIBOR+.31%	10/10/01	8/1/18	45,685	(1,357)
4.1300%	SIFMA less .15%	12/6/01	8/1/32	53,620	(2,833)
3.8880%	LIBOR @ 65%	4/18/02	8/1/27	43,020	(2,741)
5.6000%	3 mo LIBOR+.25%	5/1/02	8/1/12	34,890	(957)
5.8000%	3 mo LIBOR+.17%	8/1/02	2/1/11	30,185	(739)
3.9940%	LIBOR @ 65%	6/6/02	2/1/24	50,925	(3,124)
5.5350%	3 mo LIBOR+.25%	11/1/02	2/1/13	21,635	(473)
3.8630%	LIBOR @ 65%	8/8/02	8/1/32	84,565	(5,408)
5.1000%	3 mo LIBOR+.25%	12/1/02	2/1/13	26,405	(449)
3.7280%	LIBOR @ 65%	10/17/02	8/1/22	41,600	(1,916)
Fixed Amount	LIBOR @ 65%	10/17/02	8/1/12	5,260	(1,287)
4.4800%	LIBOR @ 65%	10/17/02	8/1/33	30,300	14
3.9890%	3 mo LIBOR+.22%	2/3/03	2/1/12	21,745	(93)
3.1480%	LIBOR @ 65%	12/12/02	8/1/22	57,015	(614)
3.8200%	LIBOR @ 65%	12/12/02	8/1/32	20,415	(156)
3.9100%	LIBOR @ 60%+.26%	3/6/03	2/1/31	35,575	(188)
3.2400%	LIBOR @ 60%+.26%	3/6/03	2/1/31	41,765	3,846
3.7750%	LIBOR @ 60%+.26%	4/10/03	8/1/33	48,500	(165)
3.1300%	LIBOR @ 60%+.26%	4/10/03	8/1/19	40,210	(26)
3.1250%	LIBOR @ 60%+.26%	3/26/03	2/1/18	47,730	149
3.7000%	LIBOR @ 60%+.26%	3/26/03	2/1/34	79,415	(250)
2.6750%	LIBOR @ 60%+.26%	8/7/03	8/1/30	51,970	999
3.4270%	LIBOR @ 60%+.26%	8/7/03	8/1/33	67,775	1,440
3.2700%	LIBOR @ 60%+.26%	8/1/04	2/1/18	66,335	(1,005)

Bonds and Debenture Notes

<u>Bond Issue</u>	<u>Type of Bond</u>	<u>Interest Rate Range</u>	<u>Final Maturity Date</u>	<u>Outstanding Fixed</u>	<u>Outstanding Variable</u>	<u>Total</u>
2003 Series K	Tax-Exempt	2.040%	2034		54,685	54,685
2003 Series L	Taxable	3.240%	2034		32,990	32,990
2003 Series M	Tax-Exempt	1.990%	2024		54,985	54,985
2003 Series M	Tax-Exempt	1.680%	2034		74,740	74,740
2003 Series N	Taxable	3.270%	2034		38,660	38,660
2004 Series A	Tax-Exempt	1.980%	2033		39,295	39,295
2004 Series A	Tax-Exempt	1.980%	2034		33,870	33,870
2004 Series B	Taxable	3.230%	2034		5,790	5,790
2004 Series D	Tax-Exempt	2.700% - 2.900%	2009	2,385		2,385
2004 Series E	Tax-Exempt	1.980%	2035		56,150	56,150
2004 Series E	Tax-Exempt	1.980%	2035		69,040	69,040
2004 Series F	Taxable	3.250%	2035		48,075	48,075
2004 Series G	Tax-Exempt	2.070%	2034		62,015	62,015
2004 Series G	Tax-Exempt	2.070%	2035		25,950	25,950
2004 Series H	Taxable	3.290%	2035		8,210	8,210
2004 Series I	Tax-Exempt	2.070%	2034		17,065	17,065
2004 Series I	Tax-Exempt	2.070%	2035		12,935	12,935
2005 Series A	Tax-Exempt	1.990%	2035		158,260	158,260
2005 Series B	Tax-Exempt	1.850%	2016		51,720	51,720
2005 Series B	Tax-Exempt	1.850%	2035		95,220	95,220
2005 Series B	Tax-Exempt	1.850%	2035		24,555	24,555
2005 Series C	Tax-Exempt	3.100% - 3.700%	2013	32,830		32,830
2005 Series D	Tax-Exempt	2.090%	2038		64,395	64,395
2005 Series D	Tax-Exempt	2.090%	2040		106,130	106,130
2005 Series D	Tax-Exempt	2.090%	2038		2,090	2,090
2005 Series E	Tax-Exempt	3.000% - 3.350%	2011	13,640		13,640
2005 Series F	Tax-Exempt	1.980%	2037		69,935	69,935
2005 Series F	Tax-Exempt	1.980%	2038		86,685	86,685
2005 Series F	Tax-Exempt	1.980%	2040		19,150	19,150
2005 Series G	Tax-Exempt	1.820%	2034		20,660	20,660
2005 Series G	Tax-Exempt	1.820%	2034		13,255	13,255
2005 Series G	Tax-Exempt	1.820%	2034		480	480
2005 Series H	Tax-Exempt	1.820%	2036		82,830	82,830
2005 Series H	Tax-Exempt	1.820%	2036		76,710	76,710
2005 Series H	Tax-Exempt	1.820%	2036		1,620	1,620
2006 Series A	Tax-Exempt	1.820%	2035		34,035	34,035
2006 Series A	Tax-Exempt	1.820%	2035		390	390
2006 Series B	Tax-Exempt	3.550% - 4.000%	2013	22,815		22,815
2006 Series C	Tax-Exempt	1.680%	2037		84,950	84,950
2006 Series C	Tax-Exempt	1.680%	2037		89,005	89,005
2006 Series C	Tax-Exempt	1.680%	2037		585	585
2006 Series D	Tax-Exempt	4.250% - 4.400%	2017	20,000		20,000
2006 Series E	Tax-Exempt	4.125% - 5.050%	2026	97,565		97,565
2006 Series F	Tax-Exempt	1.660%	2041		60,000	60,000
2006 Series F	Tax-Exempt	1.660%	2041		60,000	60,000
2006 Series G	Tax-Exempt	3.650% - 3.875%	2016	29,490		29,490
2006 Series H	Tax-Exempt	3.770% - 5.750%	2030	69,500		69,500
2006 Series I	Tax-Exempt	4.600% - 4.875%	2041	165,310		165,310
2006 Series J	Tax-Exempt	3.550% - 4.150%	2016	30,275		30,275
2006 Series K	Tax-Exempt	4.550% - 5.500%	2042	264,610		264,610
2006 Series L	Tax-Exempt	3.500% - 4.150%	2016	49,150		49,150
2006 Series M	Tax-Exempt	4.550% - 5.000%	2042	219,020		219,020
2007 Series A	Taxable	5.720%	2032	90,000		90,000
2007 Series B	Taxable	3.240%	2042		40,000	40,000
2007 Series C	Taxable	3.240%	2042		20,000	20,000
2007 Series D	Taxable	3.700% - 4.400%	2018	74,905		74,905

SWAPS

Fixed Rate Paid By Agency	Floating Rate Received By Agency	Effective Date	Termination Date	Outstanding Notional/Applicable Amount	Fair Value
4.2450%	LIBOR @ 60%+.26%	8/1/04	8/1/30	54,685	(806)
3.2250%	LIBOR @ 60%+.26%	2/2/04	8/1/19	54,985	(353)
3.8900%	LIBOR @ 60%+.26%	2/2/04	2/1/34	74,740	(390)
3.0875%	LIBOR @ 60%+.26%	8/1/04	8/1/30	39,295	(269)
4.0450%	LIBOR @ 60%+.26%	8/1/04	2/1/34	33,870	(147)
3.5400%	LIBOR @ 60%+.26%	4/1/05	8/1/20	56,150	(1,218)
4.1330%	LIBOR @ 60%+.26%	4/1/05	2/1/35	69,040	(1,973)
3.6100%	LIBOR @ 60%+.26%	2/1/05	2/1/34	62,015	(2,357)
4.0821%	LIBOR @ 60%+.26%	8/1/04	2/1/35	25,950	(457)
3.5600%	LIBOR @ 60%+.26%	8/4/04	2/1/33	17,065	(645)
4.0750%	LIBOR @ 60%+.26%	8/4/04	2/1/35	12,935	(103)
3.8040%	LIBOR @ 60%+.26%	4/5/05	8/1/35	158,260	862
3.0490%	LIBOR @ 60%+.26%	7/1/05	2/1/16	51,720	(477)
3.7260%	LIBOR @ 60%+.26%	7/1/05	2/1/35	95,220	211
3.1580%	LIBOR @ 60%+.26%	5/19/05	2/1/36	64,395	(673)
3.6040%	LIBOR @ 60%+.26%	5/19/05	2/1/40	106,130	1,240
3.2200%	LIBOR @ 60%+.26%	7/28/05	8/1/31	69,935	68
3.3860%	LIBOR @ 60%+.26%	7/28/05	2/1/38	86,685	1,532
4.4540%	97% SIFMA & HR	12/15/05	2/1/34	20,660	(404)
3.9320%	LIBOR @ 62%+.25%&H	12/15/05	2/1/34	13,255	(153)
3.6500%	LIBOR @ 62%+.25%	12/15/05	8/1/31	82,830	(1,005)
3.8570%	LIBOR @ 62%+.25%	12/15/05	2/1/36	76,710	(591)
4.3530%	97% SIFMA	2/2/06	8/1/35	34,035	(501)
4.0180%	LIBOR @ 62%+.25%	4/19/06	8/1/30	84,950	(2,182)
4.0590%	LIBOR @ 62%+.25%	4/19/06	2/1/37	89,005	(2,375)
4.2550%	LIBOR @ 62%+.25%	7/27/06	8/1/40	60,000	(2,513)
4.1360%	LIBOR @ 62%+.25%	7/27/06	2/1/41	60,000	(1,501)

Bonds and Debenture Notes

<u>Bond Issue</u>	<u>Type of Bond</u>	<u>Interest Rate Range</u>		<u>Final</u>	<u>Outstanding Fixed</u>	<u>Outstanding Variable</u>	<u>Total</u>
				<u>Maturity Date</u>			
2007 Series E	Tax-Exempt	4.650%	-	5.00%	2042	193,990	193,990
2007 Series F	Tax-Exempt	3.800%	-	4.70%	2017	48,260	48,260
2007 Series G	Tax-Exempt	4.950%	-	5.50%	2042	201,740	201,740
2007 Series H	Tax-Exempt			1.80%	2033		50,000
2007 Series H	Tax-Exempt			1.80%	2042		50,000
2007 Series I	Tax-Exempt	3.700%	-	4.35%	2017	17,280	17,280
2007 Series J	Tax-Exempt	4.950%	-	5.75%	2047	92,720	92,720
2007 Series K	Tax-Exempt			1.68%	2037		25,000
2007 Series K	Tax-Exempt			1.68%	2038		25,000
2007 Series L	Taxable			5.53%	2027	50,000	50,000
2007 Series M	Taxable			5.84%	2032	90,000	90,000
2007 Series N	Taxable			3.24%	2043		60,000
2008 Series A	Tax-Exempt	3.000%	-	4.50%	2020	43,475	43,475
2008 Series B	Tax-Exempt	4.800%	-	5.00%	2028	35,960	35,960
2008 Series C	Tax-Exempt			1.61%	2041		13,920
2008 Series C	Tax-Exempt			1.61%	2041		20,085
2008 Series C	Tax-Exempt			1.61%	2041		5,945
2008 Series C	Tax-Exempt			1.61%	2041		15,850
2008 Series C	Tax-Exempt			1.61%	2041		7,005
2008 Series C	Tax-Exempt			1.61%	2041		7,760
2008 Series D	Tax-Exempt			1.50%	2043		4,210
2008 Series D	Tax-Exempt			1.50%	2043		1,680
2008 Series D	Tax-Exempt			1.50%	2043		2,595
2008 Series D	Tax-Exempt			1.50%	2043		1,355
2008 Series D	Tax-Exempt			1.50%	2043		3,865
2008 Series D	Tax-Exempt			1.50%	2043		38,290
2008 Series D	Tax-Exempt			1.50%	2043		46,025
2008 Series D	Tax-Exempt			1.50%	2043		1,980
2008 Series E	Tax-Exempt			1.40%	2032		17,950
2008 Series E	Tax-Exempt			1.40%	2032		19,055
2008 Series E	Tax-Exempt			1.40%	2032		28,450
2008 Series F	Tax-Exempt			1.40%	2032		25,000
2008 Series G	Taxable			6.00%	2025	50,000	50,000
2008 Series H	Taxable			4.95%	2020	100,000	100,000
2008 Series I	Taxable			5.25%	2042		17,000
2008 Series I	Taxable			5.25%	2042		52,385
2008 Series I	Taxable			5.25%	2042		80,615
2008 Series J	Tax-Exempt	3.375%	-	5.13%	2018	79,525	79,525
2008 Series K	Tax-Exempt	5.300%	-	5.60%	2038	220,475	220,475
Single Family Mortgage Bonds II:							
1997 Series A-1	Tax-Exempt	5.300%	-	6.000%	2020	6,730	6,730
1997 Series B-1	Tax-Exempt	4.850%	-	5.650%	2028	3,060	3,060
1997 Series B-3	Tax-Exempt	4.600%	-	5.400%	2029	7,750	7,750
1997 Series C-1	Tax-Exempt			5.050%	2011	1,230	1,230
1997 Series C-2	Tax-Exempt			5.625%	2020	2,260	2,260
1997 Series C-3	Taxable			6.790%	2029	680	680
1998 Series A	Tax-Exempt	4.650%	-	5.400%	2026	1,265	1,265
1998 Series B	Tax-Exempt	5.150%	-	5.200%	2030	540	540
1999 Series A-2	Tax-Exempt	4.800%	-	5.250%	2030	7,120	7,120
1999 Series A-3	Taxable			5.880%	2021	1,410	1,410
1999 Series D-2	Tax-Exempt			5.200%	2013	1,060	1,060
1999 Series D-3	Taxable			6.880%	2017	2,785	2,785

SWAPS

<u>Fixed Rate Paid By Agency</u>	<u>Floating Rate Received By Agency</u>	<u>Effective Date</u>	<u>Termination Date</u>	<u>Outstanding Notional/Applicable Amount</u>	<u>Fair Value</u>
4.2400%	LIBOR @ 62%+.25%	8/8/07	2/1/38	50,000	(2,848)
4.0500%	LIBOR @ 62%+.25%	8/8/07	2/1/31	50,000	(3,523)
3.3900%	LIBOR @ 63%+.24%	11/7/07	8/1/32	25,000	707
4.0400%	LIBOR @ 63%+.24%	11/7/07	2/1/38	25,000	(604)
4.8000%	LIBOR @ 65%	4/6/00	2/1/23	13,920	(1,556)
5.1600%	LIBOR @ 65%	5/25/00	8/1/22	20,085	(1,093)
4.9500%	LIBOR @ 65%	7/27/00	8/1/23	5,945	(310)
4.1430%	LIBOR @ 65%	5/31/01	8/1/24	15,850	(1,335)
3.9940%	LIBOR @ 65%	6/6/02	2/1/24	7,005	(2,214)
3.8630%	LIBOR @ 65%	8/8/02	8/1/32	7,760	(657)
4.8500%	LIBOR @ 65%	1/27/00	2/1/17	4,210	(557)
4.9000%	LIBOR @ 65%	5/25/00	8/1/30	1,680	(373)
4.1430%	LIBOR @ 65%	5/31/01	8/1/20	2,595	(251)
3.9910%	LIBOR @ 65%	7/26/01	8/1/18	1,355	(110)
4.1300%	SIFMA less .15%	12/6/01	8/1/32	3,865	(218)
4.8500%	LIBOR @ 65%	1/27/00	8/1/16	38,290	(3,252)
4.8000%	LIBOR @ 65%	4/6/00	2/1/21	46,025	(4,905)
4.6600%	LIBOR @ 65%	7/27/00	2/1/16	17,950	(1,301)
4.9500%	LIBOR @ 65%	7/27/00	8/1/22	19,055	(1,003)
4.5275%	LIBOR @ 65%	10/5/00	8/1/15	28,450	(2,080)
3.8700%	LIBOR @ 65%	4/5/01	2/1/17	25,000	(1,326)
6.1950%	1 mo LIBOR	8/1/02	8/1/14	17,000	(1,321)
7.1100%	LIBOR	7/27/00	8/1/22	52,385	(7,290)

Bonds and Debenture Notes

<u>Bond Issue</u>	<u>Type of Bond</u>	<u>Interest Rate Range</u>		<u>Final Maturity Date</u>	<u>Outstanding Fixed</u>	<u>Outstanding Variable</u>	<u>Total</u>
Housing Program Bonds:							
2004 Series A	Tax-Exempt			2036		50,000	50,000
2006 Series A	Tax-Exempt	4.750%	-	4.950%	2036	47,090	47,090
2006 Series B -SF	Taxable			2.800%	2036	11,110	11,110
2006 Series B - MF	Taxable			2.800%	2036	49,225	49,225
Multifamily Loan Purchase Bonds:							
2000 Series A	Taxable			Variable	2017	75,077	75,077
Multifamily Housing Revenue Bonds II:							
1995 Series A	Tax-Exempt			6.250%	2037	2,765	2,765
1995 Series C	Taxable	8.000%	-	8.100%	2037	19,940	19,940
1996 Series A	Tax-Exempt			6.050%	2027	16,920	16,920
1996 Series B	Tax-Exempt	5.650%	-	6.150%	2022	20,615	20,615
Multifamily Housing Revenue Bonds III:							
1997 Series A	Tax-Exempt	5.850%	-	6.050%	2038	64,385	64,385
1998 Series A	Tax-Exempt	4.750%	-	5.500%	2038	30,265	30,265
1998 Series B	Tax-Exempt	4.750%	-	5.500%	2039	74,135	74,135
1998 Series C	Tax-Exempt	4.450%	-	5.300%	2028	11,070	11,070
1999 Series A	Tax-Exempt	4.500%	-	5.375%	2036	33,605	33,605
2000 Series A	Tax-Exempt			1.963%	2026		47,940
2000 Series A	Tax-Exempt			1.963%	2035		33,335
2000 Series B	Tax-Exempt			1.320%	2031		6,915
2000 Series C	Tax-Exempt			1.478%	2033		63,300
2000 Series D	Tax-Exempt			1.152%	2031		15,420
2001 Series A	Tax-Exempt			1.478%	2032		11,620
2001 Series C	Taxable			2.463%	2041		12,960
2001 Series D	Tax-Exempt			1.746%	2022		2,700
2001 Series D	Tax-Exempt			1.746%	2022		1,525
2001 Series E	Tax-Exempt			2.042%	2036		49,760
2001 Series F	Tax-Exempt			1.885%	2032		16,010
2001 Series G	Tax-Exempt			2.039%	2036		44,515
2001 Series G	Tax-Exempt			2.039%	2036		9,875
2001 Series G	Tax-Exempt			2.039%	2036		210
2001 Series H	Taxable			3.042%	2036		15,595
2002 Series A	Tax-Exempt			2.042%	2037		17,835
2002 Series A	Tax-Exempt			2.042%	2037		12,250
2002 Series A	Tax-Exempt			2.042%	2037		320
2002 Series B	Tax-Exempt			1.888%	2035		26,260
2002 Series C	Tax-Exempt			2.041%	2037		14,100
2002 Series C	Tax-Exempt			2.041%	2037		16,650
2002 Series C	Tax-Exempt			2.041%	2037		135
2002 Series D	Tax-Exempt			1.737%	2035		11,970
2002 Series E	Tax-Exempt			2.042%	2037		15,545
2002 Series E	Tax-Exempt			2.042%	2037		40,625
2002 Series E	Tax-Exempt			2.042%	2037		935
2003 Series C	Tax-Exempt			4.414%	2038		15,170
2003 Series C	Tax-Exempt			4.414%	2038		16,220
2003 Series C	Tax-Exempt			4.414%	2038		18,120
2003 Series C	Tax-Exempt			4.414%	2038		17,065
2004 Series A	Tax-Exempt			5.536%	2034		21,440
2004 Series B	Tax-Exempt			6.085%	2039		12,670
2004 Series B	Tax-Exempt			6.085%	2039		6,870
2004 Series B	Tax-Exempt			6.085%	2039		5,390

SWAPS

<u>Fixed Rate Paid By Agency</u>	<u>Floating Rate Received By Agency</u>	<u>Effective Date</u>	<u>Termination Date</u>	<u>Outstanding Notional/Applicable Amount</u>	<u>Fair Value</u>
3.1450%	LIBOR @ 60%+.26%	11/4/04	11/1/19	35,000	(66)
4.6600%	LIBOR @ 65%	7/12/00	2/1/26	47,940	(6,164)
5.4550%	SIFMA less .15%	7/12/00	2/1/35	33,335	(7,853)
4.5850%	LIBOR @ 64%	7/12/00	2/1/31	6,915	(755)
4.4300%	LIBOR @ 65%	11/16/00	2/1/33	63,300	(8,831)
4.3950%	LIBOR @ 64%	11/16/00	2/1/31	15,420	(1,897)
4.6200%	SIFMA less .15%	2/22/01	2/1/32	11,620	(1,133)
4.4520%	SIFMA less .20%	6/28/01	8/1/22	2,700	(211)
4.7120%	SIFMA less .15%	6/28/01	2/1/36	49,760	(5,665)
4.0290%	SIFMA less .20%	2/1/02	2/1/32	16,010	(538)
4.2050%	SIFMA less .15%	2/1/02	8/1/36	44,515	(2,820)
4.5950%	SIFMA less .15%	2/1/04	2/1/34	9,875	(1,005)
4.5000%	SIFMA less .15%	8/1/02	8/1/32	17,835	(1,587)
4.8900%	SIFMA less .15%	2/2/04	2/1/37	12,250	(1,651)
4.0370%	SIFMA less .20%	2/1/03	2/1/35	26,260	(1,331)
4.4050%	SIFMA less .15%	2/1/04	2/1/37	14,100	(1,212)
4.6380%	SIFMA less .15%	8/1/05	8/1/37	16,650	(1,831)
4.0850%	SIFMA less .20%	2/3/03	2/1/35	11,970	(672)
4.1510%	SIFMA less .15%	2/3/03	2/1/34	15,545	(903)
4.5710%	SIFMA less .15%	11/1/04	8/1/37	40,625	(4,391)
3.5560%	LIBOR @ 60%+.26%	2/1/04	8/1/35	15,170	(186)
4.0260%	LIBOR @ 60%+.26%	8/1/05	8/1/35	16,220	(622)
4.1770%	LIBOR @ 60%+.26%	2/1/06	8/1/38	18,120	(842)
3.0590%	LIBOR @ 60%+.21%	8/1/04	8/1/34	21,880	3
3.6920%	LIBOR @ 60%+.26%	8/1/06	8/1/36	12,670	(470)
3.3860%	LIBOR @ 60%+.26%	8/1/04	8/1/34	6,870	62
3.3300%	LIBOR @ 60%+.26%	8/1/04	8/1/34	5,390	(1)

Bonds and Debenture Notes

<u>Bond Issue</u>	<u>Type of Bond</u>	<u>Interest Rate Range</u>	<u>Final Maturity Date</u>	<u>Outstanding Fixed</u>	<u>Outstanding Variable</u>	<u>Total</u>	
2004 Series B	Tax-Exempt		2039		16,060	16,060	
2004 Series B	Tax-Exempt		2039		2,750	2,750	
2004 Series B	Tax-Exempt		2039		14,530	14,530	
2004 Series C	Tax-Exempt		2037		8,920	8,920	
2004 Series C	Tax-Exempt		2037		4,125	4,125	
2004 Series D	Tax-Exempt		2039		13,070	13,070	
2004 Series D	Tax-Exempt		2039		6,120	6,120	
2004 Series D	Tax-Exempt		2039		7,050	7,050	
2004 Series D	Tax-Exempt		2039		38,485	38,485	
2004 Series D	Tax-Exempt		2039		32,505	32,505	
2005 Series A	Tax-Exempt		2035		2,380	2,380	
2005 Series B	Tax-Exempt		2038		2,715	2,715	
2005 Series B	Tax-Exempt		2038		26,115	26,115	
2005 Series B	Tax-Exempt		2038		4,060	4,060	
2005 Series B	Tax-Exempt		2038		15,895	15,895	
2005 Series C	Tax-Exempt	3.150% -	4.900%	2036	8,870	8,870	
2005 Series D	Tax-Exempt		3.696%	2038		32,580	32,580
2005 Series D	Tax-Exempt		3.696%	2038		34,605	34,605
2005 Series E	Tax-Exempt	3.400% -	5.125%	2038	22,820	22,820	
2006 Series A	Tax-Exempt		3.708%	2041		8,095	8,095
2006 Series A	Tax-Exempt		3.708%	2041		9,445	9,445
2006 Series A	Tax-Exempt		3.708%	2041		4,290	4,290
2006 Series A	Tax-Exempt		3.708%	2040		42,715	42,715
2007 Series A	Tax-Exempt	3.750% -	4.750%	2034	12,165	12,165	
2007 Series B	Tax-Exempt		1.606%	2022		6,345	6,345
2007 Series B	Tax-Exempt		1.606%	2040		6,220	6,220
2007 Series B	Tax-Exempt		1.606%	2040		3,700	3,700
2007 Series C	Tax-Exempt		1.606%	2042		11,345	11,345
2007 Series C	Tax-Exempt		1.606%	2040		14,125	14,125
2007 Series C	Tax-Exempt		1.606%	2034		2,475	2,475
2008 Series A	Tax-Exempt		1.255%	2040		11,370	11,370
2008 Series B	Tax-Exempt		1.562%	2036		26,785	26,785
2008 Series B	Tax-Exempt		1.562%	2038		29,035	29,035
2008 Series B	Tax-Exempt		1.562%	2043		25,415	25,415
2008 Series B	Tax-Exempt		1.562%	2043		23,655	23,655
2008 Series C	Tax-Exempt		1.455%	2038		8,995	8,995
2008 Series C	Tax-Exempt		1.455%	2036		15,035	15,035
2008 Series C	Tax-Exempt		1.455%	2038		9,360	9,360
					<u>2,981,735</u>	<u>5,600,515</u>	<u>8,582,250</u>
Unamortized discount							(848)
Unamortized premium							18,791
Unamortized deferred losses on refundings							(5,748)
Total Bonds							<u>8,594,445</u>
Housing Assistance Trust:							
Ridgeway Apartments (debenture note)		6.375%	2010		<u>23,134</u>		<u>23,134</u>
Total Bonds and Debenture Notes					<u><u>3,004,869</u></u>	<u><u>5,600,515</u></u>	<u><u>8,617,579</u></u>

SWAPS

<u>Fixed Rate</u> <u>Paid By</u> <u>Agency</u>	<u>Floating Rate</u> <u>Received By</u> <u>Agency</u>	<u>Effective</u> <u>Date</u>	<u>Termination</u> <u>Date</u>	<u>Outstanding</u> <u>Notional/Applicable</u> <u>Amount</u>	<u>Fair</u> <u>Value</u>
4.9783%	SIFMA less .15%	8/1/06	2/1/39	16,060	(1,694)
4.5390%	SIFMA less .15%	8/1/04	8/1/34	2,750	(185)
3.4350%	LIBOR @ 60%+.21%	2/1/05	8/1/25	8,920	(280)
3.5880%	LIBOR @ 60%+.21%	12/1/06	2/1/37	4,125	(229)
3.5900%	LIBOR @ 60%+.26%	2/1/05	2/1/35	13,070	(590)
3.5680%	LIBOR @ 60%+.26%	12/1/05	2/1/36	6,120	(181)
3.7780%	LIBOR @ 60%+.26%	11/1/06	2/1/37	7,050	(348)
3.9840%	LIBOR @ 60%+.26%	12/1/07	8/1/39	38,485	(2,640)
3.5640%	SIFMA less .20%	7/1/05	8/1/35	2,380	1
3.9540%	SIFMA less .15%	6/15/05	8/1/35	2,715	(55)
4.0790%	SIFMA less .15%	2/1/07	2/1/37	26,115	(1,024)
3.9570%	SIFMA less .15%	8/1/07	2/1/38	4,060	(72)
3.7010%	LIBOR @ 60%+.26%	2/1/06	2/1/38	32,580	(1,745)
4.042% + HR	97% SIFMA & HR	6/15/06	8/1/27	8,095	(363)
4.381% + HR	97% SIFMA & HR	6/15/06	8/1/39	9,445	(519)
4.492% + HR	97% SIFMA & HR	6/15/06	2/1/41	4,290	(265)
3.9370%	LIBOR @ 64%+.25%	7/12/07	2/1/22	6,345	(528)
4.2220%	LIBOR @ 64%+.25%	8/1/09	2/1/40	6,220	(39)
3.7280%	LIBOR @ 63%+.30%	2/1/08	8/1/42	11,345	(273)
3.9190%	LIBOR @ 63%+.30%	11/1/09	8/1/40	14,125	(432)
3.2950%	LIBOR @ 61%+.24%	11/1/09	8/1/40	11,180	3
3.3850%	SIFMA less .15%	8/1/03	8/1/36	26,785	201
4.2950%	SIFMA less .15%	9/1/05	2/1/38	29,035	(1,158)
2.325% + HR	SIFMA & HR +.05%	8/1/08	8/1/10	16,130	77
3.8830%	LIBOR @ 60%+.26%	12/1/04	8/1/38	8,995	(726)
3.9680%	LIBOR @ 60%+.26%	7/1/05	2/1/36	15,035	(1,258)
4.0600%	LIBOR @ 60%+.26%	2/1/06	8/1/38	9,360	(940)

<u>4,664,410</u>	<u>(183,883)</u>
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Changes in bonds and debenture notes payable for the year ended June 30, 2008 and 2007 are as follows (dollars in thousands):

	2008	2007
	Combined	Combined
	<u>Totals</u>	<u>Totals</u>
Beginning of year balance	\$7,579,228	\$7,444,363
New bonds issued	1,857,665	1,523,660
New debenture notes issued		
Scheduled maturities	(93,870)	(98,890)
Redemptions	(734,042)	(1,306,701)
Bond accretions	3,480	3,744
Amortized discount	152	94
Amortized premium	(1,035)	(412)
Amortized deferred loss	618	801
Additions to deferred loss	(1,879)	
Reclassified discount as deferred loss		
Additions to discount		(407)
Additions to premiums	<u>7,262</u>	<u>12,976</u>
End of year balance	<u>\$8,617,579</u>	<u>\$ 7,579,228</u>
Current portion	\$ 111,738	\$ 79,536
Noncurrent portion	<u>8,505,841</u>	<u>7,499,692</u>
Total	<u>\$ 8,617,579</u>	<u>\$ 7,579,228</u>

The Agency's variable rate debt is typically related to common indices such as the Securities Industry and Financial Markets Association ("SIFMA", formerly the Bond Market Association ("BMA")) 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, 2008, 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 Ending June 30	Fixed/Variable Unswapped		Variable Swapped		Interest Rate Swaps, Net	Total
	Principal	Interest	Principal	Interest		
2009	\$ 79,026	\$175,406	\$ 32,715	\$ 114,399	\$ 75,039	\$ 476,585
2010	102,593	180,341	58,004	119,809	77,547	538,294
2011	132,125	176,127	78,375	117,981	75,473	580,081
2012	112,963	171,372	97,395	115,499	72,911	570,140
2013	107,652	167,211	101,072	112,620	69,136	557,691
2014-2018	598,077	752,507	633,862	516,243	292,259	2,792,948
2019-2023	576,913	592,203	789,900	422,316	208,116	2,589,448
2024-2028	608,518	444,600	922,477	308,653	140,407	2,424,655
2029-2033	517,100	305,287	1,175,328	162,064	73,806	2,233,585
2034-2038	650,195	170,399	655,810	41,629	19,046	1,537,079
2039-2043	459,388	38,348	87,422	4,976	987	591,121
2044-2048	5,340	723				6,063
Total	<u>\$ 3,949,890</u>	<u>\$ 3,174,524</u>	<u>\$ 4,632,360</u>	<u>\$ 2,036,189</u>	<u>\$ 1,104,727</u>	<u>\$ 14,897,690</u>

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), the exceptions are listed below 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.

Terms, Fair Value and Credit Risk of Interest Rate Swaps: The terms of the outstanding fixed payer swaps as of June 30, 2008 are summarized in the table above. The terms of the outstanding basis swaps are summarized in the table under Basis Risk Associated with Interest Rate Swaps.

All notional amounts (or “applicable amounts”) of the fixed payer swaps match the principal amounts of the associated debt with the following exceptions (dollars in thousands):

<u>Bond Issue</u>	<u>Bonds Outstanding</u>	<u>Swap Notional Amount</u>	<u>Unmatched Swap</u>	<u>Fair Value</u>
Home Mortgage				
Revenue Bonds				
2000 Series C *	\$ -	\$ 42,500	\$ 42,500	\$ 37
2000 Series G	-	840	840	1
2000 Series J *	26,365	28,045	1,680	(7)
2000 Series Q	-	165	165	(1)
2000 Series U *	-	765	765	41
2001 Series J *	47,425	65,870	18,445	(73)
2001 Series N *	13,690	15,045	1,355	1
2001 Series R	15,685	15,935	250	(10)
2002 Series F *	49,495	50,925	1,430	(104)
2002 Series J *	84,565	92,325	7,760	(32)
Multifamily Housing				
Revenue Bonds III:				
2001 Series G	3,320	3,840	520	(32)
2004 Series A	21,440	21,880	440	1
2004 Series B	2,715	2,750	35	(3)
2004 Series B	12,660	12,670	10	(1)
2004 Series B	6,840	6,870	30	1
2005 Series B	3,780	4,060	280	(5)
Total	<u>\$ 287,980</u>	<u>\$ 364,485</u>	<u>\$ 76,505</u>	<u>\$ (186)</u>

* Includes Basis Swaps.

As of June 30, 2008 the fair value of the unmatched swaps is reported in the combined balance sheets as “Deposits and other liabilities” or “Accounts receivable” and as a gain or loss on the fair value of the swaps as “Other Revenues” or “Other Expenses” in the combined statements of revenues, expenses and changes in Fund equity. The Agency did not pay or receive any cash when the swap transactions were initiated.

The Agency utilizes eleven highly-creditworthy counterparties for its interest rate swap transactions. Seventy percent of the notional amount outstanding at June 30, 2008 is with four of the counterparties. The largest single exposure to any one counterparty is \$1,279,370,000. The Agency negotiated “asymmetrical” credit requirements for all interest rate swap transactions. These asymmetrical provisions impose higher credit standards on the counterparties than on the Agency. Counterparties are required to collateralize their exposure to the Agency when their credit ratings fall from double-A to the highest single-A category (A1/A+), whereas the Agency is not required to provide collateralization until its ratings fall to the mid-single-A category (A2/A).

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 \$183,883,000 as of June 30, 2008. Fair values are as reported by the Agency's dealer counterparties and are estimated using the zero-coupon method.

As of June 30, 2008, the Agency's swap portfolio has an aggregate negative fair value and the Agency is not exposed to credit risk. Should the negative fair value of the swap portfolio be reduced as a result of market fluctuations and the aggregate fair value eventually become positive, the Agency would become exposed to the counterparties' credit, since the counterparties would be obligated to make payments to the Agency in the event of termination.

The table below shows the number of fixed payer swaps and outstanding notional amounts by the counterparties' respective credit ratings (dollars in thousands).

<u>Moody's</u>	<u>Standard & Poors</u>	<u>Outstanding Notional Amount</u>	<u>Number of Swap Transactions</u>
Aaa	AAA	\$ 2,267,225,000	77
Aaa	AA+	206,810,000	5
Aaa	AA	211,055,000	8
Aaa	AA-	25,000,000	1
Aa1	AA+	87,965,000	2
Aa1	AA	27,310,000	2
Aa1	AA-	50,900,000	2
Aa2	AA	314,105,000	9
Aa3	AA-	834,265,000	24
A1	A+	639,775,000	24
		<u>\$ 4,664,410,000</u>	<u>154</u>

Basis Risk Associated with Interest Rate Swaps: 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.

Based on the historic relationship between short-term tax-exempt and taxable rates, the Agency initially chose to enter into many swaps at a ratio of 65% of LIBOR. However, with short-term rates at historic lows, the historic relationship between tax-exempt and taxable rates has not been maintained. Therefore, after considerable study of California tax-exempt variable rate history, the Agency settled on a new formula (60% of LIBOR plus a spread, currently .26%) that results in comparable fixed-rate economics but performs better when short-term rates are low and the SIFMA/LIBOR percentage is high. As of June 30, 2008, the SIFMA rate was 1.55%, 65% of one-month LIBOR was 1.60% and 60% of one-month LIBOR plus 26 basis points was 1.7375%. Since December of 2002 the Agency has used this new formula, and the Agency expects to continue to use this formula for LIBOR based swaps exclusively. In addition, the Agency entered into thirteen basis swaps as a means to change the variable rate formula received for \$603,185,000 outstanding notional amount. These basis swaps changed the variable rate formula received from counterparties from 65% of LIBOR to those described in the table below (dollars in thousands):

<u>Bond Issue</u>	<u>Variable Rate Paid By Agency</u>	<u>Floating Rate Received By Agency */**</u>	<u>Effective Date</u>	<u>Termination Date</u>	<u>Outstanding Notional/Applicable Amount</u>	<u>Fair Value</u>
Home Mortgage						
Revenue Bonds:						
2000 Series C	LIBOR @ 65%	LIBOR @ 70%-0.019%	02/01/04	2/1/17	\$ 42,500	\$ 37
2000 Series J	LIBOR @ 65%	LIBOR @ 70%-0.019%	02/01/04	8/1/30	28,045	(116)
2000 Series U	LIBOR @ 65%	LIBOR @ 70%-0.019%	02/01/04	8/1/15	29,215	43
2000 Series X-2	LIBOR @ 65%	LIBOR @ 70%-0.019%	02/01/04	8/1/31	32,280	(96)
2001 Series J	LIBOR @ 65%	LIBOR @ 50.6%+.494%	02/01/04	8/1/24	65,870	(259)
2001 Series N	LIBOR @ 65%	LIBOR @ 70%-0.019%	02/01/04	8/1/18	15,045	11
2002 Series B	LIBOR @ 65%	LIBOR @ 70%-0.019%	02/01/04	8/1/27	43,020	(196)
2002 Series F	LIBOR @ 65%	LIBOR @ 70%-0.019%	02/01/04	2/1/24	57,930	(112)
2002 Series J	LIBOR @ 65%	LIBOR @ 50.6%+.494%	02/01/04	8/1/32	92,325	(379)
2002 Series M	LIBOR @ 65%	LIBOR @ 70%-0.019%	02/01/04	8/1/22	41,600	(114)
2002 Series P	LIBOR @ 65%	LIBOR @ 50.6%+.494%	02/01/04	8/1/22	57,015	(239)
Multifamily Housing						
Revenue Bonds III:						
2000 Series A	LIBOR @ 65%	LIBOR @ 50.6%+.494%	02/01/04	2/1/26	47,940	(238)
2000 Series C	LIBOR @ 65%	LIBOR @ 50.6%+.494%+.012%	02/01/04	2/1/29	50,400	(273)
					<u>\$ 603,185</u>	<u>\$ (1,931)</u>

*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 6/30/08.

In addition to the basis swaps described above, the Multifamily Housing Revenue Bonds III Series 2000 C has two associated interest rate swaps, one for \$63,300,000, the total amount of the bonds outstanding, and the second on \$12,900,000 of the same bonds (the second swap is not reflected in the interest rate swap table above). Under the terms of the first swap the Agency pays a fixed interest rate and receives a variable interest rate; while under the second swap, the Agency elected to pay a variable rate of interest based on a percentage of LIBOR and receive a variable rate of interest based on SIFMA.

Termination Risk associated with Interest Rate Swaps: 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 Associated with Interest Rate Swaps: The Agency's interest rate swap agreements have limited rollover risk as the swap agreements contain scheduled reductions to outstanding notional amounts that are expected to follow scheduled and anticipated reductions in the associated bonds payable.

Debenture Note Payable: In October 2004, a Development known as "Ridgeway Apartments," situated in Marin City, California, defaulted on its loan, which was insured by FHA under the Risk Sharing Act, with 50% of the risk covered by FHA. In May 2005, the Agency submitted a claim under the Risk Sharing Act, which FHA paid on May 13, 2005, in the amount of \$23,133,890, representing the unpaid principal balance of this loan in the amount of \$22,117,043 plus unpaid interest of \$1,016,847. On June 8, 2005, the amount representing the unpaid principal balance of the loan was used to redeem the respective multifamily housing revenue bonds issued to fund the loan, and the loan has been transferred to the Agency's Housing Assistance Trust.

In place of the bonds the Agency's obligation is to HUD in the form of a "debenture note payable", due May 13, 2010 with annual interest payments at a rate of 6.75%. The debenture note payable may be paid earlier upon the loan default being resolved (which may include the loan default being cured).

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, 2008 and 2007, the Fund had liabilities to the IRS totaling \$9,537,000 and \$9,550,000 respectively reported in the combined balance sheets as

“Due to other Government entities.” The net effect of changes in the liability account has been recorded as an increase in “Interest income from investments” in the combined statements of revenues, expenses and changes in Fund equity.

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. Most of the excess yield occurred between 2000 and 2005 when bond variable rates were at historic lows compared to mortgage rates. As a result of our analyses, the Agency has included additional bond series in our mortgage yield excess liability. As of June 30, 2008 and 2007, the Fund had liabilities to the IRS totaling \$25,379,000 and \$1,453,000 respectively reported in the combined balance sheets as “Due to other Government entities.” The net affect of this change is recorded as a reduction of “Interest income from program loans and loan agreements” in the combined statements of revenues, expenses and changes in Fund equity. The Agency will continue to monitor the status of mortgage yield compliance to mitigate further liability.

Note 9 – EXTINGUISHMENT OF DEBT

During the fiscal year, the Agency issued nine (9) refunding bond series that were considered extinguishment of debt. On October 30, 2007, November 29, 2007, April 9, 2008, and May 14, 2008, the Agency issued Home Mortgage Revenue Bonds (2007M, 2007N, 2008DEF, and 2008GHI respectively) and in November 2007, March 2008, April 2008, May 2008, and June 2008 portions of the proceeds were used to refund prior Home Mortgage Revenue Bonds. Additionally on April 24, 2008, the Agency issued Multifamily Housing Revenue Bonds III Series A, Series B, and Series C and in May 2008 and June 2008 portions of the proceeds were used to refund prior Housing Program Bonds (multifamily) and Multifamily Housing Revenue Bonds III. The loss from the debt refundings were deferred and will be amortized as a component of interest expense over the shorter of the term of the bonds extinguished or the term of the refunding bonds.

A summary of the loss from the extinguishment of Single Family and Multifamily Programs’ debt for the year ended June 30, 2008 is as follows (dollars in thousands):

Unmatured principal	\$369,410
Unamortized bond issuance costs	(548)
Unamortized underwriter's fees	(1,331)
Unamortized underwriter's discount	(0)
Net obligation defeased	367,531
Less proceeds disbursed	369,410
Less premiums disbursed	0
Deferred loss on defeasance	<u>\$ (1,879)</u>

The refundings will decrease the debt service cash outflow for Single Family and Multifamily Programs by approximately \$44,833,786. The refundings may also provide for an economic gain (present value of the difference between new and old debt service requirements) for Single Family and Multifamily Programs, which is estimated to be approximately \$44,869,913.

For the year ended June 30, 2007, the Agency did not economically refund any of its bond indebtedness and therefore incurred no loss on the extinguishment of debt.

Note 10 – PENSION PLAN AND OTHER EMPLOYEE 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 post retirement 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 942715, Sacramento, CA 95229-2715 or via the internet at www.calpers.ca.gov.

For the CalPERS fiscal years ended June 30, 2008 and 2007 the employer contribution rates were 16.633% - 16.565% and 16.778% - 16.997%, respectively.

The Fund’s contributions to the PERF for the years ended June 30, 2008, 2007 and 2006 were \$2,473,612, \$2,284,320 and \$2,059,047, respectively, equal to the required contributions for each fiscal year.

Required contributions are determined by actuarial valuation using the individual entry age normal actuarial cost method. The most recent actuarial valuation available is as of June 30, 2007 which actuarial assumptions included (a) 7.75% investment rate of return compounded annually, (b) projected salary increases that vary based on duration of service, and (c) overall payroll growth factor of 3.25% annually. Both (a) and (c) included an inflation component of 3% compounded annually and a .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 under funded 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 is presented in the June 30, 2007 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. The State of California is required to include the information in its 2007-08 financial reports. 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 Agency's estimated unfunded OPEB cost was \$2,305,000 and this liability was added to Personal Services for the year. CalPERS issues a publicly available CAFR that includes financial statements and required supplementary information for the OPEB.

Note 11 – COMMITMENTS

As of June 30, 2008, the Agency had outstanding commitments to fund Homeownership Program loans totaling \$25,993,546 and had outstanding commitments to fund Multifamily Program loans totaling \$211,803,207. As of June 30, 2008, the Agency had proceeds available from bonds issued to fund \$365,097,047 of Homeownership Program loans and \$101,251,323 of Multifamily Program loans.

Note 12 – 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. Quarterly the Fund charges the Mortgage Insurance Fund for these expenses.

The Agency Board of Directors approved Resolution 03-19 on March 20, 2003 authorizing the Agency to utilize the resources of the fund 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 the Fund 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 inter-fund credit agreement by which the Mortgage Insurance Fund may borrow such sums from the Fund as may be required to maintain the claims paying rating of any credit rating service.

Subsequently, the Agency Executive Director established an inter-fund credit agreement in the amount of \$100,000,000 in which the Mortgage Insurance Fund may borrow from the Fund 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. Interest rate(s) and repayment terms are determined upon receipt of a request to draw on this credit facility. The Mortgage Insurance Fund had not requested a draw on this credit through June 30, 2008.

Note 13 – 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 combined financial statements.

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**CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL COMBINING BALANCE SHEET
June 30, 2008**

(Dollars in Thousands)

	<u>Homeownership Programs</u>	<u>Multifamily Rental Housing Programs</u>	<u>Other Programs and Accounts</u>	<u>Combined Totals</u>
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 78,382	\$ 5,884	\$ 80,507	\$ 164,773
Investments	1,072,048	282,681	542,943	1,897,672
Current portion - program loans receivable, net of allowance	97,944	170,258	55,549	323,751
Interest receivable:				
Program loans, net	28,750	6,600	5,832	41,182
Investments	13,004	3,315	5,293	21,612
Accounts receivable	8,441	-	2,248	10,689
Due from (to) other funds	(97,882)	(1,822)	99,704	-
Other assets	120	497	145	762
Total current assets	<u>1,200,807</u>	<u>467,413</u>	<u>792,221</u>	<u>2,460,441</u>
Noncurrent assets:				
Investments	161,053	16,493	38,169	215,715
Program loans receivable, net of allowance	6,171,181	1,194,724	744,458	8,110,363
Due from (to) other funds	-	-	-	-
Deferred financing costs	33,391	7,596	71	41,058
Other assets	40,065	-	839	40,904
Total noncurrent assets	<u>6,405,690</u>	<u>1,218,813</u>	<u>783,537</u>	<u>8,408,040</u>
Total assets	<u>\$ 7,606,497</u>	<u>\$ 1,686,226</u>	<u>\$ 1,575,758</u>	<u>\$ 10,868,481</u>
LIABILITIES AND FUND EQUITY				
Current liabilities:				
Current portion - bonds payable, net	\$ 82,187	\$ 29,550	\$ -	\$ 111,737
Interest payable	120,570	24,350	3,893	148,813
Due to other government entities, net	-	-	352,607	352,607
Compensated absences	-	-	2,475	2,475
Deposits and other liabilities	4,185	1,504	228,076	233,765
Total current liabilities	<u>206,942</u>	<u>55,404</u>	<u>587,051</u>	<u>849,397</u>
Noncurrent liabilities:				
Bonds and debenture notes payable, net	6,953,131	1,529,576	23,134	8,505,841
Due to other government entities	22,520	12,397	-	34,917
Deferred revenue	7,366	17	25,839	33,222
Total noncurrent liabilities	<u>6,983,017</u>	<u>1,541,990</u>	<u>48,973</u>	<u>8,573,980</u>
Total liabilities	<u>7,189,959</u>	<u>1,597,394</u>	<u>636,024</u>	<u>9,423,377</u>
Fund equity:				
Invested in capital assets	-	-	838	838
Restricted by indenture	416,538	88,832	-	505,370
Restricted by statute	-	-	938,896	938,896
Total fund equity	<u>416,538</u>	<u>88,832</u>	<u>939,734</u>	<u>1,445,104</u>
Total liabilities and fund equity	<u>\$ 7,606,497</u>	<u>\$ 1,686,226</u>	<u>\$ 1,575,758</u>	<u>\$ 10,868,481</u>

CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY
Fiscal Year Ended June 30, 2008
(Dollars in Thousands)

	<u>Homeownership Programs</u>	<u>Multifamily Rental Housing Programs</u>	<u>Other Programs and Accounts</u>	<u>Combined Totals</u>
OPERATING REVENUES				
Interest income:				
Program loans, net	\$ 299,031	\$ 78,971	\$ 21,894	\$ 399,896
Investments, net	43,300	11,941	35,448	90,689
Increase (decrease) in fair value of investments	(3,789)	342	(299)	(3,746)
Loan commitment fees	232	5	1,389	1,626
Other loan fees	920	-	13,063	13,983
Other revenues	196	(28)	78,452	78,620
Total operating revenues	<u>339,890</u>	<u>91,231</u>	<u>149,947</u>	<u>581,068</u>
OPERATING EXPENSES				
Interest	295,492	77,781	19,374	392,647
Amortization of bond discount/(premium) and deferred losses on refundings of debt	(753)	396	93	(264)
Mortgage servicing expenses	18,687	7	94	18,788
Provision for program loan losses	5,126	(2,304)	8,060	10,882
Operating expenses	-	-	38,895	38,895
Other expenses	5,796	5,685	98,865	110,346
Total operating expenses	<u>324,348</u>	<u>81,565</u>	<u>165,381</u>	<u>571,294</u>
Operating income (loss) before transfers	15,542	9,666	(15,434)	9,774
Transfers, interfund	-	-	42,417	42,417
Transfers, intrafund	(39,096)	247	38,849	-
Increase in fund equity	(23,554)	9,913	65,832	52,191
Fund equity at beginning of year	440,092	78,919	873,902	1,392,913
Fund equity at end of year	<u>\$ 416,538</u>	<u>\$ 88,832</u>	<u>\$ 939,734</u>	<u>\$ 1,445,104</u>

CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL COMBINING STATEMENT OF CASH FLOWS
Fiscal Year Ended June 30, 2008

(Dollars in Thousands)

	Homeownership Programs	Multifamily Rental Housing Programs	Other Programs and Accounts	Combined Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 295,091	\$ 79,124	\$ 21,102	\$ 395,317
Payments to suppliers	(19,422)	(203)	(12,745)	(32,370)
Payments to employees	-	-	(26,166)	(26,166)
Other receipts (payments)	(802,356)	21,276	(124,302)	(905,382)
Net cash provided by (used for) operating activities	<u>(526,687)</u>	<u>100,197</u>	<u>(142,111)</u>	<u>(568,601)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Intrafund transfers	(39,096)	247	38,849	-
Due to other government entities	-	-	2,280	2,280
Net cash provided by (used for) noncapital financing activities	<u>(39,096)</u>	<u>247</u>	<u>41,129</u>	<u>2,280</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from sales of bonds and debenture notes	1,670,677	194,250	-	1,864,927
Payment of bond principal	(51,934)	(41,416)	(520)	(93,870)
Early bond redemptions	(557,172)	(160,065)	(16,805)	(734,042)
Interest paid on debt	(284,780)	(78,333)	(28,571)	(391,684)
Interfund transfers	-	-	42,417	42,417
Additions to deferred costs	(6,810)	(897)	-	(7,707)
Net cash provided by (used for) capital and related financing activities	<u>769,981</u>	<u>(86,461)</u>	<u>(3,479)</u>	<u>680,041</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from maturity and sale of investments	2,469,318	426,384	1,884,393	4,780,095
Purchase of investments	(2,657,700)	(452,122)	(1,769,169)	(4,878,991)
Interest on investments, net	46,648	13,749	40,108	100,505
Net cash provided by (used for) investing activities	<u>(141,734)</u>	<u>(11,989)</u>	<u>155,332</u>	<u>1,609</u>
Net decrease in cash and cash equivalents	62,464	1,994	50,871	115,329
Cash and cash equivalents at beginning of year	15,918	3,890	29,636	49,444
Cash and cash equivalents at end of year	<u>\$ 78,382</u>	<u>\$ 5,884</u>	<u>\$ 80,507</u>	<u>\$ 164,773</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	\$ 15,542	\$ 9,666	\$ (15,434)	\$ 9,774
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Interest expense on debt	295,492	77,781	19,374	392,647
Interest on investments	(43,300)	(11,941)	(35,448)	(90,689)
Changes in fair value of investments	3,789	(342)	299	3,746
Accretion of capital appreciation bonds	3,480	-	-	3,480
Amortization of bond discount	30	29	93	152
Amortization of deferred losses on refundings of debt	(1,193)	(67)	-	(1,260)
Amortization of bond issuance costs	2,960	973	59	3,992
Amortization of bond premium	(1,035)	-	-	(1,035)
Amortization of deferred revenue	(232)	(4)	(1,389)	(1,625)
Depreciation	-	-	182	182
Provision for program loan losses	5,126	(2,304)	8,060	10,882
Provision for yield reduction payments	14,809	9,117	-	23,926
Provision (reversal) for nonmortgage investment excess	(1,117)	1,130	(26)	(13)
Changes in certain assets and liabilities:				
Purchase of program loans	(1,154,811)	(140,380)	(130,224)	(1,425,415)
Collection of principal from program loans, net	272,523	153,421	27,754	453,698
Interest receivable	(3,939)	153	(792)	(4,578)
Accounts receivable	4,298	82	(1,394)	2,986
Due from (to) other funds	71,151	1,497	(72,648)	-
Due from other government entities	-	-	-	-
Other assets	5	71	(174)	(98)
Compensated absences	-	-	252	252
Deposits and other liabilities	(6,416)	1,315	58,008	52,907
Deferred revenue	(3,849)	-	1,337	(2,512)
Net cash provided by (used for) operating activities	<u>\$ (526,687)</u>	<u>\$ 100,197</u>	<u>\$ (142,111)</u>	<u>\$ (568,601)</u>

**CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL COMBINING BALANCE SHEET -
HOMEOWNERSHIP PROGRAMS**

June 30, 2008

(Dollars in Thousands)

	Home Mortgage Revenue Bonds	Single Family Mortgage Bonds 1995 Issue A	Single Family Mortgage Bonds 1995 Issue B	Single Family Mortgage Bonds II	Draw Down Bonds	Housing Program Bonds	Total Homeownership Programs
ASSETS							
Current assets:							
Cash and cash equivalents	\$ 76,705	-	-	\$ 1,002	\$ 562	\$ 113	\$ 78,382
Investments	1,016,521	-	-	7,925	86	47,516	1,072,048
Current portion - program loans receivable, net of allowance	96,378	-	-	1,566	-	-	97,944
Interest receivable:							
Program loans, net	28,288	-	-	295	-	167	28,750
Investments	12,507	-	-	130	1	366	13,004
Accounts receivable	8,345	-	-	96	-	-	8,441
Due from (to) other funds	(98,044)	-	-	(26)	(102)	290	(97,882)
Other assets	118	-	-	2	-	-	120
Total current assets	<u>1,140,818</u>	<u>-</u>	<u>-</u>	<u>10,990</u>	<u>547</u>	<u>48,452</u>	<u>1,200,807</u>
Noncurrent assets:							
Investments	160,505	-	-	548	-	-	161,053
Program loans receivable, net of allowance	6,060,176	-	-	53,261	-	57,744	6,171,181
Due to other funds	-	-	-	-	-	-	-
Deferred financing costs	32,462	-	-	157	-	772	33,391
Other assets	39,962	-	-	103	-	-	40,065
Total noncurrent assets	<u>6,293,105</u>	<u>-</u>	<u>-</u>	<u>54,069</u>	<u>-</u>	<u>58,516</u>	<u>6,405,690</u>
Total assets	<u>\$ 7,433,923</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 65,059</u>	<u>\$ 547</u>	<u>\$ 106,968</u>	<u>\$ 7,606,497</u>
LIABILITIES AND FUND EQUITY							
Current liabilities:							
Current portion - bonds payable, net	\$ 78,267	-	-	\$ 3,920	-	-	\$ 82,187
Interest payable	118,155	-	-	819	-	\$ 1,596	120,570
Due to other government entities, net	-	-	-	-	-	-	-
Compensated absences	-	-	-	-	-	-	-
Deposits and other liabilities	4,151	-	-	19	-	15	4,185
Total current liabilities	<u>200,573</u>	<u>-</u>	<u>-</u>	<u>4,758</u>	<u>-</u>	<u>1,611</u>	<u>206,942</u>
Noncurrent liabilities:							
Bonds payable, net	6,812,984	-	-	31,947	-	108,200	6,953,131
Due to other government entities, net	21,099	-	-	928	-	493	22,520
Deferred revenue	10,657	-	-	(3,291)	-	-	7,366
Total noncurrent liabilities	<u>6,844,740</u>	<u>-</u>	<u>-</u>	<u>29,584</u>	<u>-</u>	<u>108,693</u>	<u>6,983,017</u>
Total liabilities	<u>7,045,313</u>	<u>-</u>	<u>-</u>	<u>34,342</u>	<u>-</u>	<u>110,304</u>	<u>7,189,959</u>
Fund equity:							
Invested in capital assets	-	-	-	-	-	-	-
Restricted by indenture	388,610	-	-	30,717	\$ 547	(3,336)	416,538
Restricted by statute	-	-	-	-	-	-	-
Total fund equity	<u>388,610</u>	<u>-</u>	<u>-</u>	<u>30,717</u>	<u>547</u>	<u>(3,336)</u>	<u>416,538</u>
Total liabilities and fund equity	<u>\$ 7,433,923</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 65,059</u>	<u>\$ 547</u>	<u>\$ 106,968</u>	<u>\$ 7,606,497</u>

CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY -
HOMEOWNERSHIP PROGRAMS
Fiscal Year Ended June 30, 2008
(Dollars in Thousands)

	Home Mortgage Revenue Bonds	Single Family Mortgage Bonds 1995 Issue A	Single Family Mortgage Bonds 1995 Issue B	Single Family Mortgage Bonds Bonds II	Draw Down Bonds	Housing Program Bonds	Total Homeownership Programs
OPERATING REVENUES							
Interest income:							
Program loans, net	\$ 294,770	-	-	\$ 3,734	-	\$ 527	\$ 299,031
Investments, net	40,771	-	-	544	\$ 219	1,766	43,300
Decrease in fair value of investments	(3,803)	-	-	14	-	-	(3,789)
Loan commitment fees	210	-	-	22	-	-	232
Other loan fees	920	-	-	-	-	-	920
Other revenues	196	-	-	-	-	-	196
Total operating revenues	<u>333,064</u>	<u>-</u>	<u>-</u>	<u>4,314</u>	<u>219</u>	<u>2,293</u>	<u>339,890</u>
OPERATING EXPENSES							
Interest	288,380	-	-	2,327	194	4,591	295,492
Amortization of bond discount/(premium) and deferred losses on refundings of debt	(767)	-	-	14	-	-	(753)
Mortgage servicing expenses	18,471	-	-	216	-	-	18,687
Provision (reversal) for program loan losses	3,835	-	-	(4)	-	1,295	5,126
Operating expenses	-	-	-	-	-	-	-
Other expenses	6,470	-	-	(963)	13	276	5,796
Total operating expenses	<u>316,389</u>	<u>-</u>	<u>-</u>	<u>1,590</u>	<u>207</u>	<u>6,162</u>	<u>324,348</u>
Operating income (loss) before transfers	16,675	-	-	2,724	12	(3,869)	15,542
Transfers, interfund	-	-	-	-	-	-	-
Transfers, intrafund	(39,102)	-	-	-	14	(8)	(39,096)
Increase (decrease) in fund equity	(22,427)	-	-	2,724	26	(3,877)	(23,554)
Fund equity at beginning of year	411,036	-	-	27,994	521	541	440,092
Fund equity (deficit) at end of year	<u>\$ 388,609</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,718</u>	<u>\$ 547</u>	<u>\$ (3,336)</u>	<u>\$ 416,538</u>

CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL COMBINING STATEMENT OF CASH FLOWS -
HOMEOWNERSHIP PROGRAMS

Fiscal Year Ended June 30, 2008

(Dollars in Thousands)

	Home Mortgage Revenue Bonds	Single Family Mortgage Bonds 1995 Issue A	Single Family Mortgage Bonds 1995 Issue B	Single Family Mortgage Bonds II	Draw Down Bonds	Housing Program Bonds	Total Homeownership Programs
CASH FLOWS FROM OPERATING ACTIVITIES							
Receipts from customers	\$ 290,774	-	-	\$ 3,772	-	\$ 545	\$ 295,091
Payments to suppliers	(19,172)	-	-	(229)	-	(21)	(19,422)
Payments to employees	-	-	-	-	-	-	-
Internal activity - payments to other funds	-	-	-	-	-	-	-
Other receipts (payments)	(812,513)	-	-	8,700	\$ (646)	2,103	(802,356)
Net cash provided by (used for) operating activities	(540,911)	-	-	12,243	(646)	2,627	(526,687)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES							
Intrafund transfers	(39,102)	-	-	-	14	(8)	(39,096)
Due to other government entities	-	-	-	-	-	-	-
Net cash provided by (used for) noncapital financing activities	(39,102)	-	-	-	14	(8)	(39,096)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
Proceeds from sales of bonds	1,657,717	-	-	-	12,960	-	1,670,677
Payment of bond principal	(48,519)	-	-	(3,415)	-	-	(51,934)
Early bond redemptions	(531,297)	-	-	(12,915)	(12,960)	-	(557,172)
Interest paid on debt	(277,369)	-	-	(2,700)	(194)	(4,517)	(284,780)
Interfund transfers	-	-	-	-	-	-	-
Additions to deferred costs	(6,797)	-	-	-	(13)	-	(6,810)
Net cash provided by (used for) capital and related financing activities	793,735	-	-	(19,030)	(207)	(4,517)	769,981
CASH FLOWS FROM INVESTING ACTIVITIES							
Proceeds from maturity and sale of investments	2,431,447	-	-	19,550	12,960	5,361	2,469,318
Purchase of investments	(2,625,996)	-	-	(13,263)	(12,964)	(5,477)	(2,657,700)
Interest on investments, net	43,685	-	-	698	223	2,042	46,648
Net cash provided by (used for) investing activities	(150,864)	-	-	6,985	219	1,926	(141,734)
Net increase (decrease) in cash and cash equivalents	62,858	-	-	198	(620)	28	62,464
Cash and cash equivalents at beginning of year	13,847	-	-	804	1,182	85	15,918
Cash and cash equivalents at end of year	\$ 76,705	\$ -	\$ -	\$ 1,002	\$ 562	\$ 113	\$ 78,382
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:							
Operating income (loss)	\$ 16,675	-	-	\$ 2,724	\$ 12	\$ (3,869)	\$ 15,542
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:							
Interest expense on debt	288,380	-	-	2,327	194	4,591	295,492
Interest on investments	(40,771)	-	-	(544)	(219)	(1,766)	(43,300)
Changes in fair value of investments	3,803	-	-	(14)	-	-	3,789
Accretion of capital appreciation bonds	3,480	-	-	-	-	-	3,480
Amortization of bond discount	29	-	-	1	-	-	30
Amortization of deferred losses on refundings of debt	(1,206)	-	-	13	-	-	(1,193)
Amortization of bond issuance costs	2,769	-	-	146	13	32	2,960
Amortization of bond premium	(1,035)	-	-	-	-	-	(1,035)
Amortization of deferred revenue	(209)	-	-	(23)	-	-	(232)
Depreciation	-	-	-	-	-	-	-
Provision (reversal) for program loan losses	3,835	-	-	(4)	-	1,295	5,126
Provision for yield reduction payments	14,809	-	-	-	-	-	14,809
Provision for nonmortgage investment excess	(558)	-	-	(186)	(674)	301	(1,117)
Changes in certain assets and liabilities:							
Purchase of program loans	(1,154,780)	-	-	-	-	(31)	(1,154,811)
Collection of principal from program loans, net	261,527	-	-	8,589	-	2,407	272,523
Interest receivable	(3,995)	-	-	38	-	18	(3,939)
Accounts receivable	3,902	-	-	375	-	21	4,298
Due from (to) other funds	71,504	-	-	(9)	28	(372)	71,151
Due to other government entities	-	-	-	-	-	-	-
Other assets	6	-	-	(1)	-	-	5
Compensated absences	-	-	-	-	-	-	-
Deposits and other liabilities	(6,413)	-	-	(3)	-	-	(6,416)
Deferred revenue	(2,663)	-	-	(1,186)	-	-	(3,849)
Net cash provided by (used for) operating activities	\$ (540,911)	\$ -	\$ -	\$ 12,243	\$ (646)	\$ 2,627	\$ (526,687)

**CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL COMBINING BALANCE SHEET -
MULTIFAMILY RENTAL HOUSING PROGRAMS
June 30, 2008**

(Dollars in Thousands)

	<u>Multi-Unit Rental Housing Revenue Bonds I</u>	<u>Multi-Unit Rental Housing Revenue Bonds II</u>	<u>Multifamily Loan Purchase Bonds</u>	<u>Housing Revenue Bonds (Insured)</u>	<u>Multifamily Housing Revenue Bonds II</u>
ASSETS					
Current assets:					
Cash and cash equivalents	-	-	\$ 1,643	-	\$ 25
Investments	-	-	-	-	10,969
Current portion - program loans receivable, net of allowance	-	-	24,000	-	954
Interest receivable:					
Program loans, net	-	-	-	-	375
Investments	-	-	1	-	276
Accounts receivable	-	-	-	-	-
Due to other funds	-	-	(1)	-	-
Other assets	-	-	-	-	(48)
Total current assets	<u>-</u>	<u>-</u>	<u>25,643</u>	<u>-</u>	<u>12,551</u>
Noncurrent assets:					
Investments	-	-	-	-	-
Program loans receivable, net of allowance	-	-	49,983	-	55,179
Due from (to) other funds	-	-	-	-	-
Deferred financing costs	-	-	-	-	90
Other assets	-	-	-	-	-
Total noncurrent assets	<u>-</u>	<u>-</u>	<u>49,983</u>	<u>-</u>	<u>55,269</u>
Total assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 75,626</u>	<u>\$ -</u>	<u>\$ 67,820</u>
LIABILITIES AND FUND EQUITY					
Current liabilities:					
Current portion - bonds payable, net	-	-	-	-	\$ 635
Interest payable	-	-	\$ 550	-	1,692
Due to other government entities, net	-	-	-	-	-
Compensated absences	-	-	-	-	-
Deposits and other liabilities	-	-	2	-	3
Total current liabilities	<u>-</u>	<u>-</u>	<u>552</u>	<u>-</u>	<u>2,330</u>
Noncurrent liabilities:					
Bonds payable, net	-	-	75,077	-	59,157
Due to other government entities, net	-	-	-	-	-
Deferred revenue	-	-	-	-	-
Total noncurrent liabilities	<u>-</u>	<u>-</u>	<u>75,077</u>	<u>-</u>	<u>59,157</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>75,629</u>	<u>-</u>	<u>61,487</u>
Fund equity:					
Invested in capital assets	-	-	-	-	-
Restricted by indenture	-	-	(3)	-	6,333
Restricted by statute	-	-	-	-	-
Total fund equity	<u>-</u>	<u>-</u>	<u>(3)</u>	<u>-</u>	<u>6,333</u>
Total liabilities and fund equity	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 75,626</u>	<u>\$ -</u>	<u>\$ 67,820</u>

Multifamily Housing Revenue Bonds III	Multifamily Draw Down Bonds	Multifamily Housing Program Bonds	Total Multifamily Rental Housing Programs
\$ 4,142	\$ 3	\$ 71	\$ 5,884
256,392	-	15,320	282,681
144,020	-	1,284	170,258
5,923	-	302	6,600
2,922	-	116	3,315
-	-	-	-
(1,821)	-	-	(1,822)
545	-	0	497
<u>412,123</u>	<u>3</u>	<u>17,093</u>	<u>467,413</u>
16,493	-	-	16,493
1,055,087	-	34,475	1,194,724
-	-	-	-
7,250	-	256	7,596
-	-	-	-
<u>1,078,830</u>	<u>-</u>	<u>34,731</u>	<u>1,218,813</u>
<u>\$ 1,490,953</u>	<u>\$ 3</u>	<u>\$ 51,824</u>	<u>\$ 1,686,226</u>
\$ 28,915	-	-	\$ 29,550
21,538	-	\$ 570	24,350
-	-	-	-
-	-	-	-
1,499	-	-	1,504
<u>51,952</u>	<u>-</u>	<u>570</u>	<u>55,404</u>
1,346,117	-	49,225	1,529,576
12,397	-	-	12,397
17	-	-	17
<u>1,358,531</u>	<u>-</u>	<u>49,225</u>	<u>1,541,990</u>
1,410,483	-	49,795	1,597,394
-	-	-	-
80,470	\$ 3	2,029	88,832
-	-	-	-
<u>80,470</u>	<u>3</u>	<u>2,029</u>	<u>88,832</u>
<u>\$ 1,490,953</u>	<u>\$ 3</u>	<u>\$ 51,824</u>	<u>\$ 1,686,226</u>

CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY -
MULTIFAMILY RENTAL HOUSING PROGRAMS
Fiscal Year Ended June 30, 2008
(Dollars in Thousands)

	<u>Multi-Unit Rental Housing Revenue Bonds I</u>	<u>Multi-Unit Rental Housing Revenue Bonds II</u>	<u>Multifamily Loan Purchase Bonds</u>	<u>Housing Revenue Bonds (Insured)</u>	<u>Multifamily Housing Revenue Bonds II</u>
OPERATING REVENUES					
Interest income:					
Program loans, net	-	-	\$ 7,141	-	\$ 4,462
Investments, net	-	-	44	-	647
Increase (Decrease) in fair value of investments	-	-	-	-	-
Loan commitment fees	-	-	-	-	-
Other loan fees	-	-	-	-	-
Other revenues	-	-	-	-	-
Total operating revenues	<u>-</u>	<u>-</u>	<u>7,185</u>	<u>-</u>	<u>5,109</u>
OPERATING EXPENSES					
Interest	-	-	7,162	-	4,074
Amortization of bond discount/(premium) and deferred losses on refundings of debt	-	-	-	-	29
Mortgage servicing expenses	-	-	-	-	-
Provision (reversal) for program loan losses	-	-	-	-	14
Operating expenses	-	-	-	-	-
Other expenses	-	-	23	-	252
Total operating expenses	<u>-</u>	<u>-</u>	<u>7,185</u>	<u>-</u>	<u>4,369</u>
Operating income (loss) before transfers	-	-	-	-	740
Transfers, interfund	-	-	-	-	-
Transfers, intrafund	-	-	-	-	(9)
Increase (decrease) in fund equity	-	-	-	-	731
Fund equity at beginning of year	-	-	(2)	-	5,602
Fund equity at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2)</u>	<u>\$ -</u>	<u>\$ 6,333</u>

Multifamily Housing Revenue Bonds III	Multifamily Draw Down Bonds	Multifamily Housing Program Bonds	Total Multifamily Rental Housing Programs
\$ 64,882	-	\$ 2,486	\$ 78,971
10,609	-	641	11,941
342	-	-	342
5	-	-	5
-	-	-	-
(28)	-	-	(28)
<u>75,810</u>	<u>-</u>	<u>3,127</u>	<u>91,231</u>
64,511	-	2,034	77,781
367	-	-	396
7	-	-	7
(2,330)	-	12	(2,304)
-	-	-	-
5,400	-	10	5,685
<u>67,955</u>	<u>-</u>	<u>2,056</u>	<u>81,565</u>
7,855	-	1,071	9,666
-	-	-	-
237	-	19	247
8,092	-	1,090	9,913
72,377	\$ 2	940	78,919
<u>\$ 80,469</u>	<u>\$ 2</u>	<u>\$ 2,030</u>	<u>\$ 88,832</u>

CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL COMBINING STATEMENT OF CASH FLOWS -
MULTIFAMILY RENTAL HOUSING PROGRAMS
Fiscal Year Ended June 30, 2008

(Dollars in Thousands)

	<u>Multi-Unit Rental Housing Revenue Bonds I</u>	<u>Multi-Unit Rental Housing Revenue Bonds II</u>	<u>Multifamily Loan Purchase Bonds</u>	<u>Housing Revenue Bonds (Insured)</u>	<u>Multifamily Housing Revenue Bonds II</u>
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	-	-	\$ 7,141	-	\$ 4,462
Payments to suppliers	-	-	(11)	-	(17)
Payments to employees	-	-	-	-	-
Internal activity - payments to other funds	-	-	-	-	-
Other receipts (payments)	-	-	19,962	-	807
Net cash provided by (used for) operating activities	<u>-</u>	<u>-</u>	<u>27,092</u>	<u>-</u>	<u>5,252</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Intrafund transfers	-	-	-	-	(9)
Due to other government entities	-	-	-	-	-
Net cash provided by (used for) noncapital financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(9)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from sales of bonds	-	-	-	-	-
Payment of bond principal	-	-	(20,386)	-	(595)
Early bond redemptions	-	-	-	-	-
Interest paid on debt	-	-	(7,387)	-	(4,090)
Interfund transfers	-	-	-	-	-
(Additions) deductions to deferred costs	-	-	-	-	-
Net cash provided by (used for) capital and related financing activities	<u>-</u>	<u>-</u>	<u>(27,773)</u>	<u>-</u>	<u>(4,685)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from maturity and sale of investments	-	-	-	-	4,331
Purchase of investments	-	-	-	-	(5,502)
Interest on investments, net	-	-	47	-	612
Net cash provided by (used for) investing activities	<u>-</u>	<u>-</u>	<u>47</u>	<u>-</u>	<u>(559)</u>
Net increase (decrease) in cash and cash equivalents	-	-	(634)	-	(1)
Cash and cash equivalents at beginning of year	-	-	2,276	-	26
Cash and cash equivalents at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,642</u>	<u>\$ -</u>	<u>\$ 25</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	-	-	-	-	\$ 740
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Interest expense on debt	-	-	\$ 7,162	-	4,074
Interest on investments	-	-	(44)	-	(647)
Changes in fair value of investments	-	-	-	-	-
Accretion of capital appreciation bonds	-	-	-	-	-
Amortization of bond discount	-	-	-	-	29
Amortization of deferred losses on refundings of debt	-	-	-	-	-
Amortization of bond issuance costs	-	-	-	-	6
Amortization of bond premium	-	-	-	-	-
Amortization of deferred revenue	-	-	-	-	-
Depreciation	-	-	-	-	-
Provision (reversal) for program loan losses	-	-	-	-	14
Provision for yield reduction payments	-	-	-	-	-
Provision (reversal) for nonmortgage investment excess	-	-	-	-	-
Changes in certain assets and liabilities:					
Purchase of program loans	-	-	-	-	-
Collection of principal from program loans, net	-	-	19,976	-	979
Interest receivable	-	-	-	-	-
Accounts receivable	-	-	-	-	-
Due from (to) other funds	-	-	(2)	-	-
Due to other government entities	-	-	-	-	-
Other assets	-	-	-	-	57
Compensated absences	-	-	-	-	-
Deposits and other liabilities	-	-	-	-	-
Deferred revenue	-	-	-	-	-
Net cash provided by (used for) operating activities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,092</u>	<u>\$ -</u>	<u>\$ 5,252</u>

Multifamily Housing Revenue Bonds III	Multifamily Draw Down Bonds	Multifamily Housing Programs Bonds	Total Multifamily Rental Housing Programs
\$ 65,082	-	\$ 2,439	\$ 79,124
(175)	-	-	(203)
-	-	-	-
-	-	-	-
(385)	\$ (41)	933	21,276
<u>64,522</u>	<u>(41)</u>	<u>3,372</u>	<u>100,197</u>
237	-	19	247
-	-	-	-
<u>237</u>	<u>-</u>	<u>19</u>	<u>247</u>
194,250	-	-	194,250
(20,435)	-	-	(41,416)
(159,290)	-	(775)	(160,065)
(64,299)	-	(2,557)	(78,333)
-	-	-	-
(901)	-	4	(897)
<u>(50,675)</u>	<u>-</u>	<u>(3,328)</u>	<u>(86,461)</u>
418,131	-	3,922	426,384
(441,945)	-	(4,675)	(452,122)
12,374	-	716	13,749
<u>(11,440)</u>	<u>-</u>	<u>(37)</u>	<u>(11,989)</u>
2,644	(41)	26	1,994
1,499	44	45	3,890
<u>\$ 4,143</u>	<u>\$ 3</u>	<u>\$ 71</u>	<u>\$ 5,884</u>
\$ 7,855	-	\$ 1,071	\$ 9,666
64,511	-	2,034	77,781
(10,609)	-	(641)	(11,941)
(342)	-	-	(342)
-	-	-	-
-	-	-	29
(67)	-	-	(67)
958	-	9	973
-	-	-	-
(4)	-	-	(4)
(2,330)	-	12	(2,304)
9,117	-	-	9,117
1,130	-	-	1,130
(139,814)	-	(566)	(140,380)
130,966	-	1,500	153,421
200	-	(47)	153
82	-	-	82
1,540	(41)	-	1,497
-	-	-	-
14	-	-	71
-	-	-	-
1,315	-	-	1,315
-	-	-	-
<u>\$ 64,522</u>	<u>\$ (41)</u>	<u>\$ 3,372</u>	<u>\$ 100,197</u>

**CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL COMBINING BALANCE SHEET -
OTHER PROGRAMS AND ACCOUNTS**

June 30, 2008

(Dollars in Thousands)

	Housing Assistance <u>Trust</u>	Contract Administration <u>Programs</u>	Revolving Credit <u>Agreement</u>	Supplementary Bonds Security <u>Account</u>	Emergency Reserve <u>Account</u>	Loan Servicing
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 8,112	\$ 323	-	\$ 1	\$ 509	\$ 29,922
Investments	150,870	69,992	-	41,175	62,806	150,942
Current portion - program loans receivable, net of allowance	15,349	-	-	-	-	-
Interest receivable:						
Program loans, net	4,316	302	-	-	-	-
Investments	1,208	626	-	335	485	1,132
Accounts receivable	14	-	-	-	5	1,879
Due from (to) other funds	37,826	(12,346)	-	25,012	18,809	(4,873)
Other assets	24	-	-	-	-	-
Total current assets	<u>217,719</u>	<u>58,897</u>	<u>-</u>	<u>66,523</u>	<u>82,614</u>	<u>179,002</u>
Noncurrent assets:						
Investments	2,943	-	-	-	-	-
Program loans receivable, net of allowance	311,125	172,629	-	-	-	-
Due from other funds	-	-	-	-	-	-
Deferred financing costs	27	-	-	-	-	-
Other assets	-	-	-	-	-	-
Total noncurrent assets	<u>314,095</u>	<u>172,629</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 531,814</u>	<u>\$ 231,526</u>	<u>\$ -</u>	<u>\$ 66,523</u>	<u>\$ 82,614</u>	<u>\$ 179,002</u>
LIABILITIES AND FUND EQUITY						
Current liabilities:						
Current portion - bonds payable, net	-	-	-	-	-	-
Interest payable	\$ 198	-	-	-	-	-
Due to (from) other government entities, net	5	\$ 685	-	-	-	-
Compensated absences	-	-	-	-	-	-
Deposits and other liabilities	5	6,819	-	\$ 7,716	-	\$ 171,160
Total current liabilities	<u>208</u>	<u>7,504</u>	<u>-</u>	<u>7,716</u>	<u>-</u>	<u>171,160</u>
Noncurrent liabilities:						
Debenture notes payable, net	23,134	-	-	-	-	-
Due from other government entities	-	-	-	-	-	-
Deferred revenue	-	-	-	-	-	-
Total noncurrent liabilities	<u>23,134</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>23,342</u>	<u>7,504</u>	<u>-</u>	<u>7,716</u>	<u>-</u>	<u>171,160</u>
Fund Equity:						
Invested in capital assets	-	-	-	-	-	-
Restricted by indenture	-	-	-	-	-	-
Restricted by statute	508,472	224,022	-	58,807	82,614	7,842
Total fund equity	<u>508,472</u>	<u>224,022</u>	<u>-</u>	<u>58,807</u>	<u>82,614</u>	<u>7,842</u>
Total liabilities and fund equity	<u>\$ 531,814</u>	<u>\$ 231,526</u>	<u>\$ -</u>	<u>\$ 66,523</u>	<u>\$ 82,614</u>	<u>\$ 179,002</u>

<u>Loan Warehousing</u>	<u>Operating Account</u>	<u>Total Other Programs and Accounts</u>
\$ 41,155	\$ 485	\$ 80,507
20,744	46,414	542,943
40,200	-	55,549
1,214	-	5,832
1,105	402	5,293
322	28	2,248
(1,670)	36,946	99,704
-	121	145
<u>103,070</u>	<u>84,396</u>	<u>792,221</u>
35,226	-	38,169
260,704	-	744,458
-	-	-
-	44	71
-	839	839
<u>295,930</u>	<u>883</u>	<u>783,537</u>
<u>\$ 399,000</u>	<u>\$ 85,279</u>	<u>\$ 1,575,758</u>
\$ 3,695	-	\$ 3,893
350,000	\$ 1,917	352,607
-	2,475	2,475
<u>40,427</u>	<u>1,949</u>	<u>228,076</u>
<u>394,122</u>	<u>6,341</u>	<u>587,051</u>
-	-	23,134
-	-	-
<u>49</u>	<u>25,790</u>	<u>25,839</u>
<u>49</u>	<u>25,790</u>	<u>48,973</u>
394,171	32,131	636,024
-	838	838
-	-	-
<u>4,829</u>	<u>52,310</u>	<u>938,896</u>
<u>4,829</u>	<u>53,148</u>	<u>939,734</u>
<u>\$ 399,000</u>	<u>\$ 85,279</u>	<u>\$ 1,575,758</u>

CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY -
OTHER PROGRAMS AND ACCOUNTS
Fiscal Year Ended June 30, 2008
(Dollars in Thousands)

	<u>Housing Assistance Trust</u>	<u>Contract Administration Programs</u>	<u>Revolving Credit Agreement</u>	<u>Supplementary Bonds Security Account</u>	<u>Emergency Reserve Account</u>	<u>Loan Servicing</u>
OPERATING REVENUES						
Interest income:						
Program loans, net	\$ 20,173	\$ 708	-	-	-	-
Investments, net	8,625	4,086	-	\$ 2,830	\$ 3,343	\$ 733
Increase in fair value of investments	43	-	-	-	-	-
Loan commitment fees	-	-	-	-	-	-
Other loan fees	1,357	-	-	-	-	7,977
Other revenues	2,196	2,051	-	-	-	73,996
Total operating revenues	<u>32,394</u>	<u>6,845</u>	<u>-</u>	<u>2,830</u>	<u>3,343</u>	<u>82,706</u>
OPERATING EXPENSES						
Interest	1,846	-	-	-	-	-
Amortization of bond discount/(premium) and deferred losses on refundings of debt	93	-	-	-	-	-
Mortgage servicing expenses	29	-	-	-	-	-
Provision (reversal) for program loan losses	833	4,615	-	-	-	-
Operating expenses	-	-	-	-	-	-
Other expenses	85	11,228	-	7,100	-	78,486
Total operating expenses	<u>2,886</u>	<u>15,843</u>	<u>-</u>	<u>7,100</u>	<u>-</u>	<u>78,486</u>
Operating income (loss) before transfers	29,508	(8,998)	-	(4,270)	3,343	4,220
Transfers, interfund	-	42,417	-	-	-	-
Transfers, intrafund	1,197	-	-	-	4,183	-
Increase (decrease) in fund equity	30,705	33,419	-	(4,270)	7,526	4,220
Fund equity at beginning of year	477,766	190,603	-	63,076	75,088	3,622
Fund equity (deficit) at end of year	<u>\$ 508,471</u>	<u>\$ 224,022</u>	<u>\$ -</u>	<u>\$ 58,806</u>	<u>\$ 82,614</u>	<u>\$ 7,842</u>

<u>Loan Warehousing</u>	<u>Operating Account</u>	<u>Total Other Programs and Accounts</u>
\$ 1,013	-	\$ 21,894
13,507	\$ 2,324	35,448
(342)	-	(299)
-	1,389	1,389
-	3,729	13,063
100	109	78,452
<u>14,278</u>	<u>7,551</u>	<u>149,947</u>
17,528	-	19,374
-	-	93
65	-	94
2,612	-	8,060
-	38,895	38,895
117	1,849	98,865
<u>20,322</u>	<u>40,744</u>	<u>165,381</u>
(6,044)	(33,193)	(15,434)
-	-	42,417
230	33,239	38,849
(5,814)	46	65,832
10,644	53,103	873,902
<u>\$ 4,830</u>	<u>\$ 53,149</u>	<u>\$ 939,734</u>

**CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL COMBINING STATEMENT OF CASH FLOWS -
OTHER PROGRAMS AND ACCOUNTS**

Fiscal Year Ended June 30, 2008

(Dollars in Thousands)

	Housing Assistance Trust	Contract Administration Programs	Revolving Credit Agreement	Supplementary Bonds Security Account	Emergency Reserve Account	Loan Servicing
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers	\$ 20,426	\$ 554	-	-	-	-
Payments to suppliers	(38)	-	-	-	-	-
Payments to employees	-	-	-	-	-	-
Internal activity - payments to other funds	-	-	-	-	-	-
Other receipts (payments)	(72,553)	(69,896)	-	\$ 4,085	\$ 8,329	\$ 17,106
Net cash provided by (used for) operating activities	<u>(52,165)</u>	<u>(69,342)</u>	<u>-</u>	<u>4,085</u>	<u>8,329</u>	<u>17,106</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Intrafund transfers	1,197	-	-	-	4,183	-
Due to other government entities	-	-	-	-	-	-
Net cash provided by (used for) noncapital financing activities	<u>1,197</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,183</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from sales of debenture notes	-	-	-	-	-	-
Payment of bond principal	(520)	-	-	-	-	-
Early bond redemptions	(16,805)	-	-	-	-	-
Interest paid on debt	(2,339)	-	-	-	-	-
Interfund transfers	-	42,417	-	-	-	-
(Additions) deductions to deferred costs	-	-	-	-	-	-
Net cash provided by (used for) capital and related financing activities	<u>(19,664)</u>	<u>42,417</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from maturity and sale of investments	244,057	81,979	-	7,966	4,670	47,187
Purchase of investments	(176,339)	(59,631)	-	(14,990)	(20,144)	(62,177)
Interest on investments, net	10,084	4,634	-	2,939	3,469	1,413
Net cash provided by (used for) investing activities	<u>77,802</u>	<u>26,982</u>	<u>-</u>	<u>(4,085)</u>	<u>(12,005)</u>	<u>(13,577)</u>
Net increase (decrease) in cash and cash equivalents	7,170	57	-	-	507	3,529
Cash and cash equivalents at beginning of year	943	267	-	-	2	26,393
Cash and cash equivalents at end of year	<u>\$ 8,113</u>	<u>\$ 324</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 509</u>	<u>\$ 29,922</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:						
Operating income (loss)	\$ 29,508	\$ (8,998)	-	\$ (4,270)	\$ 3,343	\$ 4,220
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:						
Interest expense on debt	1,846	-	-	-	-	-
Interest on investments	(8,625)	(4,086)	-	(2,830)	(3,343)	(733)
Changes in fair value of investments	(43)	-	-	-	-	-
Accretion of capital appreciation bonds	-	-	-	-	-	-
Amortization of bond discount	93	-	-	-	-	-
Amortization of deferred losses on refundings of debt	-	-	-	-	-	-
Amortization of bond issuance costs	43	-	-	-	-	-
Amortization of bond premium	-	-	-	-	-	-
Amortization of deferred revenue	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-
Provision (reversal) for program loan losses	833	4,615	-	-	-	-
Provision for yield reduction payments	-	-	-	-	-	-
Provision for nonmortgage investment excess	(26)	-	-	-	-	-
Changes in certain assets and liabilities:						
Purchase of program loans	(5,311)	(47,012)	-	-	-	-
Collection of principal from program loans, net	17,590	3,220	-	-	-	-
Interest receivable	252	(153)	-	-	-	-
Accounts receivable	4	-	-	-	7	(1,308)
Due from (to) other funds	(88,327)	(18,161)	-	4,274	8,322	(486)
Due to other government entities	-	-	-	-	-	-
Other assets	1	-	-	-	-	-
Compensated absences	-	-	-	-	-	-
Deposits and other liabilities	(3)	1,233	-	6,911	-	15,413
Deferred revenue	-	-	-	-	-	-
Net cash provided by (used for) operating activities	<u>\$ (52,165)</u>	<u>\$ (69,342)</u>	<u>\$ -</u>	<u>\$ 4,085</u>	<u>\$ 8,329</u>	<u>\$ 17,106</u>

<u>Loan Warehousing</u>	<u>Operating Account</u>	<u>Total Other Programs and Accounts</u>
\$ 122		\$ 21,102
(61)	\$ (12,646)	(12,745)
-	(26,166)	(26,166)
(20,169)	8,796	(124,302)
<u>(20,108)</u>	<u>(30,016)</u>	<u>(142,111)</u>
230	33,239	38,849
-	2,280	2,280
<u>230</u>	<u>35,519</u>	<u>41,129</u>
-	-	-
-	-	(520)
-	-	(16,805)
(26,232)	-	(28,571)
-	-	42,417
-	-	-
<u>(26,232)</u>	<u>-</u>	<u>(3,479)</u>
1,456,532	42,002	1,884,393
(1,386,229)	(49,659)	(1,769,169)
<u>15,045</u>	<u>2,524</u>	<u>40,108</u>
<u>85,348</u>	<u>(5,133)</u>	<u>155,332</u>
39,238	370	50,871
1,917	114	29,636
<u>\$ 41,155</u>	<u>\$ 484</u>	<u>\$ 80,507</u>
\$ (6,044)	\$ (33,193)	\$ (15,434)
17,528	-	19,374
(13,507)	(2,324)	(35,448)
342	-	299
-	-	-
-	-	93
-	-	-
-	16	59
-	-	-
-	(1,389)	(1,389)
-	182	182
2,612	-	8,060
-	-	-
-	-	(26)
(77,901)	-	(130,224)
6,944	-	27,754
(891)	-	(792)
(95)	(2)	(1,394)
15,331	6,399	(72,648)
-	-	-
-	(175)	(174)
-	252	252
35,202	(748)	58,008
371	966	1,337
<u>\$ (20,108)</u>	<u>\$ (30,016)</u>	<u>\$ (142,111)</u>

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
California Housing Finance Agency
Sacramento, CA

We have audited the accompanying balance sheets 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, 2007 and 2006, and the related statements of revenues, expenses, and changes in fund equity, and of cash flows for the years then ended. The accompanying financial statements are the statements of the Fund and do not include the financial position or the results of the operations of the Agency. These financial statements are the responsibility of the management of the Agency. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Fund as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Agency's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Deloitte + Touche LLP

April 23, 2008

CALIFORNIA HOUSING LOAN INSURANCE FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS YEARS ENDED DECEMBER 31, 2007 AND 2006

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' surpluses, 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 A+ by Standard & Poor's.

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.

FINANCIAL HIGHLIGHTS 2007 – 2006

- Insurance in force has increased by \$616 million, or 31%, to \$2.6 billion as of December 31, 2007, compared to \$2 billion as of December 31, 2006. This increase in insured loans is primarily a result of a continued emphasis on the agency's programs.
- Operating income increased \$1.2 million to \$6.4 million during fiscal year 2007 compared to operating income of \$5.2 million during fiscal year 2006. The Fund remains financially strong and has fund equity of \$71 million at December 31, 2007, compared with \$64.6 million in 2006.
- Home mortgage delinquencies have been surging nationally, especially in relation to subprime mortgages. Although the Agency does not make subprime loans, the delinquency ratio for the insured portfolio increased to 3.3% in December 2007 or \$84.8 million, up from 1.5% or \$30.7 million in December 2006. Insurance claim payments were \$692,000 and \$107,500 in fiscal years 2007 and 2006, respectively.

- In response to rising concern of risks of increasing foreclosures, the Agency has increased its reserve for loan losses by \$3.5 million to \$4 million as a result of the Fund's increase in insurance in force and higher loss reserves required to cover potential delinquencies. The Agency continues to monitor delinquencies closely and is proactive in its attempts to mitigate losses.
- The Fund continued the services of 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.
- Standard and Poor's Ratings Services (S&P) has downgraded its rating for many mortgage insurers recently because of concerns that rising unemployment and falling home prices could lead to more defaults. The California Housing Loan Insurance Fund has been one of the few insurers that S&P has taken no action on and has therefore maintained its A+ rating. In maintaining this rating S&P cited that although the insured portfolio is very geographically concentrated, disciplined underwriting guidelines have enabled it to generate strong underwriting profits.

Fiscal Year 2007 Compared to Fiscal Year 2006

Condensed Balance Sheets

The following table presents condensed balance sheets for the Fund as of December 31, 2007 and 2006, and the change from year to year (dollars in thousands):

	2007	2006	Change
ASSETS			
Cash, cash equivalents, and investments	\$ 72,994	\$ 64,096	\$ 8,898
Other assets	<u>3,583</u>	<u>2,591</u>	<u>992</u>
TOTAL ASSETS	<u>\$ 76,577</u>	<u>\$ 66,687</u>	<u>\$ 9,890</u>
LIABILITIES AND FUND EQUITY			
LIABILITIES:			
Unpaid losses and loss adjustment expenses	\$ 4,029	\$ 534	\$ 3,495
Unearned premiums	397	384	13
Accounts payable and other liabilities	<u>1,128</u>	<u>1,147</u>	<u>(19)</u>
Total liabilities	5,554	2,065	3,489
FUND EQUITY:			
Invested in capital assets	44	4	40
Restricted by statute	<u>70,979</u>	<u>64,618</u>	<u>6,361</u>
Total fund equity	<u>71,023</u>	<u>64,622</u>	<u>6,401</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 76,577</u>	<u>\$ 66,687</u>	<u>\$ 9,890</u>

Assets—Total assets of the Fund were \$76.6 million as of December 31, 2007, an increase of \$9.9 million or 15% from December 31, 2006. Of the Fund's assets, more than 95% are represented by cash and investments. The Fund does not have a significant investment in capital assets.

Cash, cash equivalents, and investments were \$73 million as of December 31, 2007, an increase of \$8.9 million from December 31, 2006. The increase is primarily due to an increase in premiums earned, investment income and other revenues. 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 \$3.6 million as of December 31, 2007, an increase of \$992,000 or 38% from December 31, 2006. The increase is the result of more interest receivable and accounts receivable from premiums and litigation.

Liabilities—The Fund's liabilities were \$5.6 million as of December 31, 2007, an increase of \$3.5 million or 169% from December 31, 2006.

The reserve for unpaid losses and loss adjustment expenses was \$4 million as of December 31, 2007, an increase of \$3.5 million from December 31, 2006. The increase in the loss reserve is the result of the Fund's increase in insurance in force and higher loss reserves required to cover potential delinquencies. As of December 31, 2007, 331 insured loans with balances aggregating \$84.8 million were either reported as delinquent by the lender or delinquent but not reported. As of December 31, 2006, 132 insured loans with balances aggregating \$31 million were either reported as delinquent by the lender or delinquent but not reported.

Unearned premiums were \$397,000 as of December 31, 2007, an increase of \$13,000 from December 31, 2006. The increase 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 \$1,128,000 as of December 31, 2007, a decrease of \$19,000 from December 31, 2006. This decrease is largely attributable to amounts owed to the CHFF for administration costs.

Fund Equity—All of the Fund's equity is restricted or invested in capital assets. The Fund's equity is restricted pursuant to the Agency's enabling legislation. Total equity of the Fund grew by \$6.4 million as a result of increased premiums earned, investment income and other revenues.

Condensed Statements of Revenues and Expenses

The following table presents condensed statements of revenues and expenses for the Fund for the fiscal years ended December 31, 2007 and 2006, and the change from year to year (dollars in thousands):

	2007	2006	Change
OPERATING REVENUES:			
Premiums earned	\$ 18,201	\$ 12,405	\$ 5,796
Investment income	3,534	2,858	676
Other revenues	<u>1,985</u>	<u>230</u>	<u>1,755</u>
Total operating revenues	<u>23,720</u>	<u>15,493</u>	<u>8,227</u>
OPERATING EXPENSES:			
Loss and loss adjustment expenses	3,692	190	3,502
Operating expenses	13,623	10,076	3,547
Other expenses (benefits)	<u>4</u>	<u>2</u>	<u>2</u>
Total operating expenses	<u>17,319</u>	<u>10,268</u>	<u>7,051</u>
OPERATING INCOME	<u>\$ 6,401</u>	<u>\$ 5,225</u>	<u>\$ 1,176</u>

Operating Revenues—Operating revenues were \$23.7 million during fiscal year 2007 compared to \$15.5 million during fiscal year 2006, an increase of \$8.2 million or 53%.

Premiums earned in fiscal year 2007 increased by \$5.8 million or 47% compared to premiums earned in fiscal year 2006. The increase in premiums earned corresponds with the increase in insurance in force. Insurance in force was \$2.6 billion and \$2 billion as of December 31, 2007 and 2006, respectively.

Investment income increased \$676,000 to \$3.5 million in fiscal year 2007 from \$2.9 million in fiscal year 2006. This increase was due to the increase in the investment portfolio and the increase in interest rates. SMIF interest rates for the past two years are shown in the following table:

<u>Interest Payment Periods</u>	<u>Fiscal Year 2007</u>	<u>Interest Payment Periods</u>	<u>Fiscal Year 2006</u>
January - March	5.172%	January - March	4.032 %
April - June	5.235%	April - June	4.529
July - September	5.236%	July - September	4.926
October - December	4.955%	October - December	5.106

Other revenues increased \$1.76 million to \$1.99 million in fiscal year 2007 from \$230,000 in fiscal year 2006. This increase was due to the receipt of a portion of the amounts owed from defendants in certain litigation.

Operating Expenses—Total operating expenses were \$17.3 million during fiscal year 2007 compared to \$10.3 million during fiscal year 2006, an increase of \$7 million or 41%.

Loss and loss adjustment recoveries increased by \$3.5 million. The increase is attributable to the increase of new insurance written for higher loan sizes and the increase in required reserves to cover potential delinquencies.

The Fund's operating expenses were \$13.6 million during fiscal year 2007 compared to \$10.1 million during fiscal year 2006, an increase of \$3.5 million or 26%. The increase is primarily in ceded premiums to the reinsurer.

Operating Income—Operating income for fiscal year 2007 was \$6.4 million compared to \$5.2 million in fiscal year 2006, an increase of \$1.2 million. The increase in operating income is a result of the increase in earned premiums, an increase in investment income and an increase in other revenues.

Fiscal Year 2006 Compared to Fiscal Year 2005

Condensed Balance Sheets

The following table presents condensed balance sheets for the Fund as of December 31, 2006 and 2005, and the change from year to year (dollars in thousands):

	2006	2005	Change
ASSETS			
Cash, cash equivalents, and investments	\$ 64,096	\$ 58,842	\$ 5,254
Other assets	<u>2,591</u>	<u>1,940</u>	<u>651</u>
TOTAL ASSETS	<u>\$ 66,687</u>	<u>\$ 60,782</u>	<u>\$ 5,905</u>
LIABILITIES AND FUND EQUITY			
LIABILITIES:			
Unpaid losses and loss adjustment expenses	\$ 534	\$ 379	\$ 155
Unearned premiums	384	484	(100)
Accounts payable and other liabilities	<u>1,147</u>	<u>522</u>	<u>625</u>
Total liabilities	2,065	1,385	680
FUND EQUITY:			
Invested in capital assets	4	6	(2)
Restricted by statute	<u>64,618</u>	<u>59,391</u>	<u>5,227</u>
Total fund equity	<u>64,622</u>	<u>59,397</u>	<u>5,225</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 66,687</u>	<u>\$ 60,782</u>	<u>\$ 5,905</u>

Assets—Total assets of the Fund were \$66.7 million as of December 31, 2006, an increase of \$5.9 million or 10% from December 31, 2005. Of the Fund's assets, more than 96% are represented by cash, cash equivalents, and investments. The Fund does not have a significant investment in capital assets.

Cash, cash equivalents, and investments were \$64 million as of December 31, 2006, an increase of \$5.3 million from December 31, 2005. The increase is primarily due to an increase in premiums earned and investment income. 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 \$2.6 million as of December 31, 2006, an increase of \$651,000 or 34% from December 31, 2005. The increase is the result of more interest receivable and accounts receivable from premiums.

Liabilities—The Fund's liabilities were \$2.1 million as of December 31, 2006, an increase of \$680,000 or 49% from December 31, 2005.

The reserve for unpaid losses and loss adjustment expenses were \$534,000 as of December 31, 2006, an increase of \$155,000 from December 31, 2005. The increase in the loss reserve is the result of the Fund's increase in insurance in force and higher loss reserves required to cover potential delinquencies. As of December 31, 2006, 132 insured loans with balances aggregating \$31 million were either reported as delinquent by the lender or delinquent but not reported, while 93 insured loans with balances aggregating \$17.2 million were reported or delinquent and not reported by lenders as of December 31, 2005.

Unearned premiums were \$384,000 as of December 31, 2006, a decrease of \$100,000 from December 31, 2005. The decrease in unearned premiums is the continuation of an expected trend 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 \$1,147,000 as of December 31, 2006, an increase of \$625,000 from December 31, 2005. This increase is largely attributable to amounts owed to the reinsurer and due to the CHFF for administration costs.

Fund Equity—All of the Fund's equity is restricted or invested in capital assets. The Fund's equity is restricted pursuant to the Agency's enabling legislation. Total equity of the Fund grew by \$5.2 million as a result of increased premiums earned and investment income.

Condensed Statements of Revenues and Expenses

The following table presents condensed statements of revenues and expenses for the Fund for the fiscal years ended December 31, 2006 and 2005, and the change from year to year (dollars in thousands):

	2006	2005	Change
OPERATING REVENUES:			
Premiums earned	\$ 12,405	\$ 7,081	\$ 5,324
Investment income	2,858	1,732	1,126
Other revenues	<u>230</u>	<u> </u>	<u>230</u>
Total operating revenues	<u>15,493</u>	<u>8,813</u>	<u>6,680</u>
OPERATING EXPENSES:			
Loss and loss adjustment expenses	190	76	114
Operating expenses	10,076	6,211	3,865
Other expenses (benefits)	<u>2</u>	<u>3</u>	<u>(1)</u>
Total operating expenses	<u>10,268</u>	<u>6,290</u>	<u>3,978</u>
OPERATING INCOME	<u>\$ 5,225</u>	<u>\$ 2,523</u>	<u>\$ 2,702</u>

Operating Revenues—Operating revenues were \$15.5 million during fiscal year 2006 compared to \$8.8 million during fiscal year 2005, an increase of \$6.7 million or 76%.

Premiums earned in fiscal year 2006 increased by \$5.3 million or 75% compared to premiums earned in fiscal year 2005. The increase in premiums earned corresponds with the increase in insurance in force. Insurance in force was \$2 billion and \$1.14 billion as of December 31, 2006 and 2005, respectively.

Investment income increased \$1.1 million to \$2.9 million in fiscal year 2006 from \$1.7 million in fiscal year 2005. This increase was due to the increase in the investment portfolio and the increase in interest rates. SMIF interest rates for the past two years are shown in the following table:

<u>Interest Payment Periods</u>	<u>Fiscal Year 2006</u>	<u>Interest Payment Periods</u>	<u>Fiscal Year 2005</u>
January - March	4.032 %	January - March	2.373 %
April - June	4.529	April - June	2.851
July - September	4.926	July - September	3.178
October - December	5.106	October - December	3.626

Operating Expenses—Total operating expenses were \$10.3 million during fiscal year 2006 compared to \$6.3 million during fiscal year 2005, an increase of \$4 million or 63%.

Loss and loss adjustment recoveries increased by \$114,000. The increase is attributable to the increase of new insurance written for higher loan sizes and the increase in required reserves to cover potential delinquencies.

The Fund's operating expenses were \$10.1 million during fiscal year 2006 compared to \$6.2 million during fiscal year 2005, an increase of \$3.9 million or 61%. The increase is primarily in ceded premiums to the reinsurer.

Operating Income—Operating income for fiscal year 2006 was \$5.2 million compared to \$2.5 million in fiscal year 2005, an increase of \$2.7 million. The increase in operating income is a result of the increase of earned premiums and an increase in investment income.

CALIFORNIA HOUSING LOAN INSURANCE FUND

BALANCE SHEETS DECEMBER 31, 2007 AND 2006

	2007	2006
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 25,027	\$ 20,060
Investment in Surplus Money Investment Fund	72,969,000	64,076,000
Interest receivable	900,214	816,412
Other current assets	<u>2,400,789</u>	<u>1,581,188</u>
Total current assets	76,295,030	66,493,660
NONCURRENT ASSETS — Other assets	<u>282,243</u>	<u>193,471</u>
TOTAL	<u>\$76,577,273</u>	<u>\$66,687,131</u>
 LIABILITIES AND FUND EQUITY		
CURRENT LIABILITIES:		
Reserves for unpaid losses and loss adjustment expenses	\$ 4,028,888	\$ 534,186
Unearned premiums	286,981	321,525
Reinsurance payable	730,806	547,074
Accounts payable and other liabilities	22,581	84,913
Due to California Housing Finance Fund	<u>374,600</u>	<u>514,955</u>
Total current liabilities	5,443,856	2,002,653
NONCURRENT LIABILITIES — Unearned premiums	<u>110,371</u>	<u>62,649</u>
Total liabilities	<u>5,554,227</u>	<u>2,065,302</u>
CONTINGENCIES (Note 8)		
FUND EQUITY:		
Invested in capital assets	44,304	4,132
Restricted by statute	<u>70,978,742</u>	<u>64,617,697</u>
Total fund equity	<u>71,023,046</u>	<u>64,621,829</u>
TOTAL	<u>\$76,577,273</u>	<u>\$66,687,131</u>

See notes to financial statements.

CALIFORNIA HOUSING LOAN INSURANCE FUND

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
OPERATING REVENUES:		
Premiums earned	\$ 18,201,194	\$ 12,404,598
Investment income	3,533,875	2,858,109
Other revenues	<u>1,984,931</u>	<u>229,778</u>
Total operating revenues	<u>23,720,000</u>	<u>15,492,485</u>
OPERATING EXPENSES:		
Loss and loss adjustment expenses (net of recoveries)	3,692,436	189,380
Operating expenses	13,622,572	10,076,162
Other expenses — net	<u>3,775</u>	<u>2,121</u>
Total operating expenses	<u>17,318,783</u>	<u>10,267,663</u>
OPERATING INCOME	6,401,217	5,224,822
FUND EQUITY — Beginning of year	<u>64,621,829</u>	<u>59,397,007</u>
FUND EQUITY — End of year	<u>\$ 71,023,046</u>	<u>\$ 64,621,829</u>

See notes to financial statements.

CALIFORNIA HOUSING LOAN INSURANCE FUND

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 17,840,647	\$ 11,848,862
Payments to suppliers	(12,946,272)	(9,275,097)
Payments to employees	(598,395)	(431,438)
Internal activity — payments (to) from other funds	(140,355)	336,459
Other receipts	<u>1,292,269</u>	<u>197,391</u>
Net cash provided by operating activities	<u>5,447,894</u>	<u>2,676,177</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	2,164,000	1,850,000
Purchase of investments	(11,057,000)	(7,121,000)
Interest on investments	<u>3,450,073</u>	<u>2,578,244</u>
Net cash used in investing activities	<u>(5,442,927)</u>	<u>(2,692,756)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,967	(16,579)
CASH AND CASH EQUIVALENTS — Beginning of year	<u>20,060</u>	<u>36,639</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 25,027</u>	<u>\$ 20,060</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 6,401,217	\$ 5,224,822
Adjustments to reconcile operating income to net cash provided by operating activities:		
Interest on investments	(3,533,875)	(2,858,109)
Unpaid loss and loss adjustment expenses	3,494,702	155,055
Depreciation expense	3,775	2,121
Deferred policy acquisition expense	317,614	332,519
Changes in certain operating assets and liabilities:		
Other assets	(1,229,762)	(705,703)
Unearned premiums	13,178	(99,349)
Reinsurance payable	183,732	225,081
Accounts payable and other liabilities	(62,332)	63,281
Due to California Housing Finance Fund	<u>(140,355)</u>	<u>336,459</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 5,447,894</u>	<u>\$ 2,676,177</u>

See notes to financial statements.

CALIFORNIA HOUSING LOAN INSURANCE FUND

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2007 AND 2006

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 (the “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, 2007, the Agency had total assets of \$9.5 billion and fund equity of \$1.3 billion (not covered by this independent auditors’ 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 \$959 million and \$770 million at December 31, 2007 and 2006, respectively. More than 83% of the insured first mortgage loans outstanding at December 31, 2007, have loan-to-value ratios, measured as of the funding date of the loan, equal to or greater than 90%.

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 and on the basis of 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.

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 \$460,170 and \$416,677 as of December 31, 2007 and 2006, respectively, and are included as part of other assets on the balance sheets.

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.

Fund Equity — Fund equity is classified as invested in capital assets or restricted equity. Invested in capital assets represents investments in office equipment and furniture net of depreciation. Restricted Equity represents equity that is restricted pursuant to the Agency's enabling legislation.

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.

Recognition of Premium Income — Primary mortgage insurance policies are contracts that are generally noncancelable 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 Financial (“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.

Recent Accounting Pronouncements — In December 2004, GASB issued GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation — an amendment of GASB Statement No 34*, effective for periods beginning after June 15, 2005. GASB Statement No. 46 clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government — such as citizens, public interest groups, or the judiciary — can compel a government to honor. The statement states that the legal enforceability of an enabling legislation restriction should be reevaluated if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if a government has other cause for reconsideration. The Fund adopted the new standard for the fiscal year beginning January 1, 2006. Adoption of this standard did not have any material effect on the Fund’s financial statements.

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 limits the Fund’s exposure to most types of risk.

Investments by type at December 31, 2007 and 2006, consist of the following:

	2007	2006
Surplus Money Investment Fund — State of California	<u>\$72,969,000</u>	<u>\$64,076,000</u>
Total Investments	<u>\$72,969,000</u>	<u>\$64,076,000</u>

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, 2007, 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, 2007, 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, 2007, 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, 2007, 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 (1 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, 2007 and 2006. 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	2007	2006
Gross reserve for loss and loss adjustment — beginning of year balance	\$ 2,133,288	\$ 1,428,856
Incurring (recovered) related to:		
Provision attributable to the current year	15,428,280	1,870,152
Change in provision attributable to prior years	<u>(774,148)</u>	<u>(1,058,185)</u>
Total incurred	<u>14,654,132</u>	<u>811,967</u>
Payments related:		
Current year	(418,496)	(98,901)
Prior years	<u>(273,212)</u>	<u>(8,634)</u>
Total payments	<u>(691,708)</u>	<u>(107,535)</u>
Gross reserve for loss and loss adjustment — end of year balance	\$ <u>16,095,712</u>	\$ <u>2,133,288</u>
Net of Reinsurance	2007	2006
Net reserve for loss and loss adjustment — beginning of year balance	\$ 534,186	\$ 379,131
Incurring (recovered) related to:		
Provision attributable to the current year	3,861,165	467,558
Change in provision attributable to prior years	<u>(168,729)</u>	<u>(278,178)</u>
Total incurred	<u>3,692,436</u>	<u>189,380</u>
Payments related:		
Current year	(129,432)	(32,167)
Prior years	<u>(68,302)</u>	<u>(2,158)</u>
Total payments	<u>(197,734)</u>	<u>(34,325)</u>
Net reserve for loss and loss adjustment — end of year balance	\$ <u>4,028,888</u>	\$ <u>534,186</u>

Reserves for loss and loss adjustment expenses relate to delinquent loans, net of reinsurance. Such estimates were based on historical experience, which management believed was 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 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 2007 and 2006 was \$11.7 million and \$7.9 million, respectively.

6. ARRANGEMENTS WITH THE CALIFORNIA HOUSING FINANCE FUND

Certain of the 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 quarterly for these expenses. Amounts payable to the CHFF were \$374,940 and \$735,106 at December 31, 2007 and 2006, respectively. The increase in the amount payable at December 31, 2006, was due to a change in the reimbursement procedures. Total amounts receivable from the CHFF were \$340 and \$220,151 at December 31, 2007 and 2006, respectively. For the years ended December 31, 2007 and 2006, total expenses allocated to the Fund by the Agency were \$1,586,680 and \$1,247,481, 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.

Subsequently, 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. Interest rates and repayment terms are determined upon receipt of a request to draw on this credit facility. The Fund had not requested a draw on this credit through December 31, 2007.

7. PENSION PLAN

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, and 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, 2008, 2007, and 2006, the employer contribution rates were as follows:

	Fiscal Year Ended		
	June 30, 2008	June 30, 2007	June 30, 2006
State Miscellaneous Member First Tier	16.633%	16.997 %	15.942 %
State Miscellaneous Member Second Tier	16.565%	16.778	15.890

The Fund's contributions to the PERF for the years ended December 31, 2007, 2006, and 2005, were \$92,531, \$94,440, and \$104,062, 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, 2007, 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, is presented in the June 30, 2007, CalPERS CAFR.

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 \$1,225,000 and \$230,000 during the year ended December 31, 2007 and 2006, respectively which is recorded as other revenue in the accompanying Statement of Revenues, Expenses, and Changes in Fund Equity. Although one additional amount of \$450,000 was received subsequent to December 31, 2007 and is recorded as an account receivable in the accompanying Balance Sheet, it is unknown at this time if 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.

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