2010-2011 Changing with the times

CALIFORNIA HOUSING FINANCE AGENCY 2010-11 ANNUAL REPORT
AUDITED FINANCIAL STATEMENTS

$11.39 Million
Multifamily Bond Issuance

August

December

Single Family Bond Issuance $24 Million

March

Financed 1,000th Home-ownership New Product Loan

April

Launched New CalHFA Web Site

May

Mortgage Insurance 300th Loan Modification

Cal HFA

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When printing this file, the Table of Contents is to be considered the cover, rather than the first page. Therefore, when assembling please refer to the page numbers at the bottom of each page and assemble back-to-back in a book format.

Table of Contents

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

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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 and for the years ended June 30, 2011 and 2010, and the related combined statements of revenue, expenses, and changes in fund equity, and cash flows for the years then ended. The accompanying combined 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 audit 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements An audit also includes assessing the accounting principles used and the 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, the combined financial statements referred to above present fairly, in all material respects, the respective financial position of the Fund, as of June 30, 2011 and 2010, 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.

As discussed in Note 2 to the combined financial statements, the Fund adopted Governmental Accounting Standards Board ("GASB") No. 53, *Accounting and Financial Reporting for Derivative Instruments,* as of July 2009.

The Management's Discussion and Analysis on pages 3 through 13 is not a required part of the basic financial statements but is supplementary information required by 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 required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the combined financial statements taken as a whole. The supplemental combining program information, as of and for the year ended June 30, 2011 on pages 47 through 67, is presented for purposes of additional analysis and is not a required part of the basic combined 2011 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 the audit of the combined 2011 financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic 2011 financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2011, 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 14, 2011

CALIFORNIA HOUSING FINANCE FUND
Management Discussion and Analysis
of Financial Position and Results of Operations
As of and for the fiscal years ended June 2011 and 2010

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 Fund 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 the Fund loans are generally below market rate; however, the programs are operated to be self-supporting. The Agency issues its own bonds and uses other available monies to provide the funding for these loan programs. Interest paid to bondholders is generally exempt from both state and federal tax; however, the Agency also issues federally-taxable bonds.

The Other Programs and Accounts category includes the Agency's Housing Assistance Trust ("HAT"), funded periodically from a portion of the Fund's operating income before transfers. The HAT provides a source of funding for low or very low income multifamily developments and other special purpose loans. Loans for these purposes generally would not produce sufficient revenues to support payments to bondholders. These loans typically accrue simple interest with repayment of principal and interest deferred for the term of the loan or until certain events occur, such as a sale of the property. Also included in this category are certain State-funded programs, 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.

Summary of Financial Results 2011-2010

- Operating loss before transfers was $116.9 million for fiscal year 2011 compared to an operating loss of $188.5 million for fiscal year 2010. The Agency has been primarily focused on loss mitigation while continuing to provide loan availability and down-payment assistance for qualified first time homebuyers through the securitization of federally insured and guaranteed loans using Ginnie Mae "GNMA" securities and the Federal New Issue Bond Program "NIBP".

- The Fund's mortgage loan delinquencies have declined over the past year. The Fund's single family loan portfolio consists of 44% Federally guaranteed and 56% conventional loans. The overall delinquency ratio of the Fund's single family loan portfolio was 14.7% or 3,546 delinquent loans as of June 30, 2011. By comparison, the delinquency ratio for the Agency's single family portfolio was 17.1% or 4,706 loans as of June 30, 2010. Overall, the total number of delinquent loans declined by 24.6% or 1,160 loans.

- In fiscal year 2011, the total allowance for loan loss reserve was decreased by a net of $22.9 million to $94.3 million. Under the Home Mortgage Revenue Bonds ("HMRB") indenture, there was a total of $41 million of loans written-off during fiscal year 2011 due to the sale of foreclosed properties (net of insurance payment received) and on short sales (net of insurance payment received), $35.7 million and $5.3 million, respectively. The remaining HMRB foreclosed properties were written down by $36.7 million to reflect anticipated losses, net of anticipated insurance payment, upon sale of the foreclosed properties. Last fiscal year, the Agency established a cap of up to $135 million on the Agency's indemnification payments to the Mortgage Insurance Fund. Once the cap is reached in the Supplementary Bond Security Account ("SBSA") account, the gap insurance loss reserves and gap claim payments will be charged to the HMRB indenture. As of June 30, 2011, a total of $127.6 million in gap claim payments had been paid from fiscal years 2008 through 2011 leaving a balance of $7.4 million to be paid out of the SBSA. The gap insurance loss reserve established under the HMRB indenture increased $45.6 million from $40.2 million to $85.8 million in fiscal year 2011. As of June 30, 2011, the balance remaining in the Mortgage Insurance Fund to pay outstanding claim payments was $7.7 million. The Fund established a reserve during the year to cover the anticipated shortfall for Fund's loans insured by the Mortgage Insurance Fund. As of June 30, 2011, the Mortgage Insurance Fund loan loss reserve established under HMRB indenture was $29.5 million.

- The Fund had $301.3 million in new loans receivable during fiscal year 2011. Total Program loans receivable decreased by close to $823.4 million at fiscal year end. Decreases in programs loans receivable for the homeownership loan portfolio were primarily due to the increase in loan prepayments. Loan prepayments include all unscheduled principal payments applied to the unpaid principal balance of a loan.

- The Agency continued to actively manage the Fund's interest expense and exposures within the debt portfolio and redeemed $994.3 million of bonds during fiscal year 2011.

- During fiscal year 2011, the Agency issued $111.6 million of new bonds. The majority of the new bonds were issued under the Residential Mortgage Revenue Bonds ("RMRB") indenture and the amount issued represented only 40% of the total issue. Under the NIBP, the Agency was required to issue 40% or $96 million, to the general public. The remaining 60% or $144 million in bonds were already being held in escrow and were converted to fixed rate debt on the bond issuance date. During fiscal year 2011, $189 million of mortgage-backed securities were purchased under the RMRB indenture.

- During fiscal year 2011, $42.9 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.

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

Condensed Financial Information:

Condensed Combined Schedule of Assets, Liabilities, and Fund Equities

The following table presents condensed combined Schedule of Assets, Liabilities, and Fund Equities for the Fund as of June 30, 2011 and 2010 and the change from the prior year (dollars in millions):

	2011	2010	Change
Assets			
Cash and investments	$3,336	$3,784	(448)
Program loans receivable-net	6,321	7,144	(823)
Other	562	635	(73)
Total Assets	$10,219	$11,563	(1,344)
Liabilities			
Bonds payable – net	$7,851	$8,906	(1,055)
Notes payable	91	94	(3)
Other	797	1,009	(212)
Total Liabilities	$8,739	$10,009	(1,270)
Fund Equity			
Invested in capital assets	$1	$1	
Restricted equity	1,479	1,553	(74)
Total Fund Equity	$1,480	$1,554	(74)
Total Liabilities and Fund Equity	$10,219	$11,563	(1,344)

Assets

Of the Fund's assets, 94.5% is represented by cash and investments and program loans receivable. The Fund does not have a significant investment in capital assets, holding $1.1 million in furniture and equipment.

Total assets decreased by $1.34 billion during fiscal year 2011. The Fund's cash and investments were $3.34 billion as of June 30, 2011, a decrease of $447.6 million from June 30, 2010. The cash and investments balance decrease is primarily due to the increased in bond redemption activity in Homeownership Programs.

Of the Fund's assets, 32.7% is in the form of cash and investments at fiscal year end. Of the Fund's investment balance, 10.8% is in investment agreements. The amount of funds invested in investment agreements during the 2011 fiscal year decreased by $66.1 million. In addition, $1.51 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 2011 decreased by $174.8 million.

The composition of cash and investments as of June 30, 2011 and 2010 and the changes from the prior year are shown in the table below (dollars in millions):

Cash and Investments

	2011	2010	Change
Investment agreements	$237	$303	(66)
SMIF	1,512	1,687	(175)
Securities	456	282	174
Cash	1,131	1,512	(381)
Total Cash and Investments	$3,336	$3,784	(448)

Program loans receivable decreased by $823.4 million during fiscal year 2011 compared to fiscal year 2010. This decrease is primarily due to an increase in loan prepayments along with an increase in loan write-offs in fiscal year 2011. Loan prepayments increased to $776.9 million during fiscal year 2011 compared to $441.8 million received in fiscal year 2010. Real estate owned ("REO") properties decreased $8.1 million to $192.5 million during fiscal year 2011 compared to $200.6 million in fiscal year 2010.

As of June 30, 2011 and June 30, 2010, the fair values of interest rate swaps were in the negative position of $252.4 million and $329.4 million, respectively.

Other Assets decreased by $70 million during fiscal year 2011 when compared to fiscal year 2010. The decrease is primarily due to the recording of the deferred outflow of resources related to interest rate swaps, and a decrease in REO properties offset by the increase in cash collateral held by the swap counterparties.

Liabilities

The Fund's liabilities were $8.74 billion as of June 30, 2011, a decrease of $1.27 billion from June 30, 2010. Of the Fund's liabilities, 89.8% is in the form of bond indebtedness. The Fund's bonds payable at June 30, 2011 decreased by $1.05 billion from the prior year mainly due to the scheduled principal payments and $994.3 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 for the year ended June 30, 2011 and 2010.

All of the bonds issued by the Agency are reported within the Fund. The Agency issued a total of $111.6 million of bonds during fiscal year 2011, a decrease of $1.29 billion from $1.4 billion of bonds issued during fiscal year 2010. During fiscal year 2011, the Agency issued only fixed rate debt.

The Agency issues both tax-exempt and federally taxable bonds. During the 2011 fiscal year, federally taxable bonds outstanding decreased by $436.9 million and as of June 30, 2011 represent 30.2% of all bonds outstanding, while tax-exempt bonds outstanding decreased by $614.6 million and as of June 30, 2011 represent 69.8% of all bonds outstanding. The use of federally taxable bonds allows the Agency to leverage its allocation of the Private Activity Bond volume cap for the Homeownership Programs. This limitation is imposed by the federal government to regulate the issuance of tax-exempt bonds for private purposes. During fiscal year 2011, the Agency did not issue any taxable bonds.

Shown below are the amounts of variable and fixed rate indebtedness, by tax status, as of June 30, 2011 and 2010 and the changes from the prior year (dollars in millions):

Bonds Payable

	2011	2010	Change
Tax-Exempt Bonds			
*Variable Rate	$3,226	$3,568	(342)
Fixed Rate	2,245	2,518	(273)
Total Tax-Exempt Bonds	$5,471	$6,086	(615)
Federally Taxable Bonds			
*Variable Rate	$2,014	$2,371	(357)
Fixed Rate	358	438	(80)
Total Federally Taxable Bonds	$2,372	$2,809	(437)
Total Bonds Outstanding	$7,843	$8,895	(1,052)

* Certain variable rate bonds have been swapped to a fixed rate (see Note 7 to the Combined Financial Statements).

All other liabilities decreased by $212.7 million during fiscal year 2011. The decrease was primarily due to the recording of the decrease in fair value of interest rate swap, decrease on the revolving line of credit payable of Revolving Credit Agreement (:RCA"), and decrease in Pooled Money Investment Account loan payable. The RCA line of credit agreement ended February 28, 2011, and there was no outstanding balance at June 30, 2011.

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 decreased by $74 million primarily as a result of transfers to the Fund in the amount of $42.9 million pursuant to the Housing and Emergency Shelter Trust Fund Acts of 2002 and 2006 and was offset by operating losses of the Fund in the amount of $116.9 million.

Revenues, Expenses, and Changes in Fund Equity

The following table presents condensed combined schedules of revenues, expenses, and changes in fund equity for the Fund for the fiscal years ended June 30, 2011 and June 30, 2010 and the changes from the prior year (dollars in millions):

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

	2011	2010	Change
Operating Revenues:			
Interest income program loans – net	$346	$393	(47)
Interest income investments – net	32	40	(8)
Increase (Decrease) in fair value of investments	(5)	19	(24)
Other loan and commitment fees	31	29	2
Other revenues	100	49	51
Total Operating Revenues	$504	$530	(26)
Operating Expenses:			
Interest	$249	$318	(69)
Mortgage servicing fees	14	16	(2)
Operating expenses	43	93	(50)
Other expenses	315	291	24
Total Operating Expenses	$621	$718	(97)
Operating Loss before transfers	(117)	(188)	71

Operating Revenues

Total operating revenues of the Fund were $504.2 million during fiscal year 2011 compared to $530 million during fiscal year 2010, a decrease of $25.8 million or 4.9%.

Interest income on program loans was $346.4 million during fiscal year 2011 compared to $393 million during fiscal year 2010, a decrease of $46.6 million. The decrease in interest income on program loans is primary a result of a decrease in interest income on program loans and a net increase in the yield reduction liability for the Fund's homeownership and multifamily loan portfolios. Overall, program loans receivable decreased $823.4 million or 11.5% at June 30, 2011 compared to June 30, 2010.

Interest income from investments decreased 21.4% to $31.6 million in fiscal year 2011 from $40.2 million in fiscal year 2010. The decrease is primarily due to the decrease in interest income from Investment Agreements and SMIF. Investment Agreements decreased $66.1 million from $303.4 million at June 30, 2010 to $237.3 million as of June 30, 2011, while SMIF decreased $174.8 million from $1.69 billion to $1.51 billion.

The decrease in the total fair value of investments was $23.7 million in fiscal year 2011. The decrease in fair value of investments was $14.9 million and the decrease in gain of sale of securities was $8.9 million.

Other loan and commitment fees increased $2.2 million to $31.3 million in fiscal year 2011 compared to $29.1 million for fiscal year 2010. The increase was primarily due to the application fees received by the Fund.

Other revenues increased by $51 million to $99.8 million during fiscal year 2011 compared to $48.8 million in fiscal year 2010. The increase was primarily due to the gain on debt extinguishment and the increase in fair value of investment swap revenue.

Operating Expenses

Total operating expenses of the Fund were $621.1 million during fiscal year 2011 compared to $718.6 million during fiscal year 2010, a decrease of $97.4 million or 13.6%. The decrease is primarily due to the decrease in bond interest expenses, swap expenses and decrease in swap termination expenses.

Bonds payable at June 30, 2011 decreased by $1.05 billion from June 30, 2010 and bond interest and swap expense, which represents 40.1% of the Fund's total operating expenses, decreased by $68.8 million or 21.6% compared to fiscal year 2010. The decrease in bond interest and swap expense is attributed to the increased bond redemption activity and the Agency's participation in the Temporary Credit and Liquidity Program ("TCLP") which provides replacement credit and facilities for existing variable rate debt for State and local Housing Finance Agencies.

Operating expenses slightly increased from $42.5 million during fiscal year 2010 to $42.7 million during fiscal year 2011 (as shown in the condensed combined statements of revenues, expenses and changes in fund equity).

Operating Loss before Transfers

Operating loss before transfers for fiscal year 2011 was $116.9 million compared to an operating loss of $188.5 million for fiscal year 2010. The $71.6 million decrease in operating loss before transfers is reflective of the activities mentioned above.

Summary of Financial Results 2010-2009

- Operating loss before transfers was $188.5 million for fiscal year 2010 compared to an operating loss of $146.1 million for fiscal year 2009. The decrease is mostly due to the decline of the California real estate market, basis mismatch on variable rate bonds and the charges against income for the market value adjustment of unmatched swaps, early termination of interest rate swaps, gap claim payments and anticipated losses of the loan portfolio. The continued rise in loan delinquencies, increases in foreclosures and additional home price depreciation in California have contributed directly to increases in allowances for loans losses and gap reserves. In 2010, the allowance for loan loss reserve was increased by a net of $4.7 million to $117.2 million. There were $16.4 million of losses which were recorded in 2010 on the sale of foreclosed properties (net of insurance payment). The remaining foreclosed properties were written down by $26.5 million to reflect anticipated losses, net of insurance payment, upon sale of the foreclosed properties. During the year, the Agency placed a limit on the future obligations of the Agency's general obligation capital in relation to the gap insurance reserve held in the Supplementary Bond Security Account ("SBSA"). The Fund established this reserve to cover anticipated indemnification payments to the California Housing Loan Insurance Fund for loans subject to "gap" insurance. The indemnification payments are for losses up to 50% of the outstanding principal balance of each loan for which either the primary mortgage insurance covers less than 50% of loan principal or primary mortgage insurance may not be required because the loan-to-value ratio was below 80% at origination or the borrower demonstrated equity of 20% or more in the property. Previously, the gap insurance loss reserves and gap claim payments were charged only to the SBSA, an account that is part of the Agency's general obligation capital base, not the Home Mortgage Revenue Bonds ("HMRB") Indenture. On March 25, 2010, the Agency established a cap of up to $135 million on the Agency's indemnification payments to the California Housing Loan Insurance Fund. Once the cap is reached in the SBSA account, the gap insurance loss reserves and gap claim payments will be charged to the HMRB indenture. As of June 30, 2010, a total of $55.8 million in gap claim payments were paid from fiscal years 2008 through 2010. The gap insurance loss reserve at June 30, 2010 was $118.8 million, of which $78.6 million was charged to the Supplementary Bond Security Account and $40.2 million was charged to the HMRB indenture.

- Home mortgage delinquencies and foreclosures have continued to rise nationally, especially for borrowers who took out subprime mortgages. Although the Agency does not make subprime loans, the overall delinquency ratio of the Agency's single family loan portfolio (Federal Guaranty: 30.7% and Conventional: 69.3%) was 17.1% or 4,706 loans as of June 30, 2010. By comparison, the delinquency ratio for the Agency's single family portfolio was 14% or 4,669 loans as of June 30, 2009. Overall, the total number of delinquent loans remained relatively the same. However, the increase in delinquency ratio can be attributed to the Agency's decision to pool 2,586 current Federal Housing Administration ("FHA") whole loans into Ginnie Mae ("GNMA") securities in March 2010. Subsequently, in April 2010, the Agency sold approximately $255.7 million of the $326.8 million in GNMA securities at a premium. The net premium on the sale of securities was $10 million. The sale of the GNMA securities immediately created liquidity for the Agency which was largely used to retire debt.

- In addition to losses attributable to the California real estate market, the Agency incurred losses due to basis mismatch, which is the difference between actual interest rates paid to bondholders on floating rate securities (variable rate demand obligations and auction rate securities) and the variable rates received from swap counterparties on interest rate swaps that hedge the Agency's variable rate exposure. The mismatch is a result of higher interest rate resets on variable rate bonds, including rates resulting from failed auctions and rates paid to liquidity banks when bondholders put their variable rate demand obligations to the remarketing agents and other investors are unwilling to purchase the securities. In addition, a dysfunctional municipal bond market resulted in an unusually high Securities Industry and Financial Markets Association "SIFMA"/London Interbank Offered Rate "LIBOR" ratio and interest rate compression has continued this relationship. The basis mismatch for the period from July 1, 2009 to June 30, 2010 was $18.4 million and is reflected in the income statements for Multifamily Rental Housing Programs and Other Programs and Accounts. By comparison, the basis mismatch for the period from July 1, 2008 to June 30, 2009 was $37.9 million. The decrease is primarily a result of the Agency's participation in the Federal Government's HFA initiative program - Temporary Credit and Liquidity Program "TCLP" which provides replacement credit and facilities for existing variable rate debt for State and local Housing Finance Agencies. The program helps reduce the cost of maintaining existing HFA financing and will expire in December 2012. The Agency replaced all of its liquidity facilities (principal balance of $3.49 billion) and eliminated the Agency's inventory of bank bonds.

- In July 2009, in response to rating agency requirements that the Agency have sufficient capital or liquidity available in the event of a two notch downgrade of the Agency's Issuer Credit Rating "ICR", the Agency terminated $237.8 million of swap notional with Citigroup Financial Products and Merrill Lynch and paid $39 million to terminate the swaps. Citigroup Financial Products was paid $12 million for the termination of $102.5 million of swap notional and Merrill was paid $27 million for the termination of $135.3 swap notional. At the same time, the Agency posted mortgage backed securities and cash in the amount of $18 million to JP Morgan Chase Bank as upfront collateral, and transferred all of the Bear Sterns swap contracts to the JP Morgan Chase Bank International Swap Derivative Agreement. The Agency received higher collateral thresholds from each bank serving as swap counterparty in exchange for terminating swap notional or posting immediate collateral.

- The Agency had $104.1 million in new loans receivable during fiscal year 2010. Overall, program loans receivable decreased by close to $1.18 billion at fiscal year end. Decreases in programs loans receivable for the homeownership loan portfolio were primarily due to the securitization of 2,586 FHA whole loans into GNMA Mae securities, increases in loan prepayments and decrease in new loans receivable from the previous year.

- During fiscal year 2010, the Agency issued $1.4 billion of bonds. The bonds were issued as variable rate debt and all but $1.4 million was placed into an escrow account as part of the Federal Government's HFA initiative program – New Issue Bond Program ("NIBP"). While held in the escrow account, the rate is variable and the bonds will convert to fixed rate debt upon release from escrow. Under NIBP, the Agency issued close to $1.4 billion of Program Bonds with both a taxable and tax-exempt component under two new indentures, Residential Mortgage Revenue Bonds ("RMRB") and Affordable Multifamily Housing Revenue Bonds ("AMHRB"). Under the RMRB indenture, the Agency expects to use the proceeds of the bonds to purchase mortgage-back securities backed by underlying loans that have been originated by Agency lenders. The mortgage-backed securities will be guaranteed by Fannie Mae, Freddie Mac or GNMA. Under the AMHRB indenture, the Agency issued bonds to finance the purchase of GNMA Mae mortgage-back securities, the proceeds of which are used to finance the construction, acquisition or development of affordable rental housing developments.

- The Agency continued to actively manage the Fund's interest expense and exposures within the debt portfolio and redeemed $607.2 million of bonds during fiscal year 2010.

- During fiscal year 2010, $14.4 million was transferred into the Fund by the State pursuant to the Housing and Emergency Shelter Trust Fund Act of 2002 and Mental Health Services Act of 2004. The funds were used to make loans and grants to borrowers and homeowners through programs administered by the Agency on a contract basis.

- In April 2010, Moody's Investors Services downgraded the rating on the Agency's HMRB from Aa3 to A3 and remains on watch for possible downgrade. The downgrade reflects a combination of factors including the severe deterioration of the California housing market, significant increases in delinquencies and foreclosures of HMRB loans, the Agency's recent decision to limit CalHFA's indemnification of the California Housing Loan Insurance Fund, and changes in the credit profile of providers of private mortgage insurance.

- In April 2010, Standard and Poor's Ratings Services ("S&P") lowered its rating and underlying rating to A from AA- on the Agency's bonds issued under the HMRB indenture and the ratings remained on credit watch. The lowered ratings reflect S&P's opinion of a loan portfolio of moderate to high risk, the weak California housing market, and financial challenges facing the Agency resulting from the significant use of variable-rate debt and swaps. In May 2010, S&P affirmed its A rating and underlying rating on the bonds and removed the HMRB indenture from credit watch. The outlook was changed to negative.

- In April 2010, S&P lowered CalHFA's issuer credit rating to A from AA- and lowered the long-term rating and underlying rating on CalHFA's outstanding general obligation debt to A from AA- with outlook negative. The rating actions reflect S&P's opinion of the following factors: a significant decline in CalHFA's profitability and unrestricted fund balance due to large operating losses, the weak California housing market, financial challenges facing the Agency resulting from the significant use of variable-rate debt and swaps, and challenges in providing affordable housing financing in a low-interest rate environment. These factors are partially offset with S&P's opinion of the Agency's effectiveness in accomplishing its mission in a high-cost real estate market and seasoned and proactive financial management.

- In July 2010, Moody's placed the A1 issuer credit rating of the Agency under review for possible downgrade. The action is based on the potential effects of continuing high levels of delinquencies and foreclosures on single family mortgage loans, stresses related to the Agency's variable rate debt and interest rate swaps, short-term borrowing and other factors that may have negative effects on the Agency's capital resources, profitability and liquidity.

- In February 2010, the U.S. Treasury Department announced nearly $700 million in federal funding under the Housing Finance Agency Hardest-Hit Fund Program ("HHF") to help California families hit hard by the economic and housing market downturn. The program objectives will include preserving homeownership for low and moderate income homeowners in California by reducing the number of delinquencies, preventing avoidable foreclosures and assisting in the stabilization of California communities. The Agency intends to participate in the program.

Condensed Financial Information:

Combined Balance Sheet

The following table presents condensed combined balance sheets for the Fund as of June 30, 2010 and 2009 and the change from the prior year (dollars in millions):

	2010	2009	Change
Assets			
Cash and investments	$3,784	$2,236	1,548
Program loans receivable-net	7,144	8,321	(1,177)
Other	635	204	431
Total Assets	$11,563	$10,761	802
Liabilities			
Bonds payable – net	$8,906	$8,244	662
Notes payable	94	0	94
Other	1,009	770	239
Total Liabilities	$10,009	$9,014	995
Fund Equity			
Invested in capital assets	$1	$1	
Restricted equity	1,553	1,746	(193)
Total Fund Equity	$1,554	$1,747	(193)
Total Liabilities and Fund Equity	$11,563	$10,761	802

Assets

Of the Fund's assets, 94.5% is represented by cash and investments and program loans receivable. The Fund does not have a significant investment in capital assets, holding less than $0.9 million in furniture and equipment.

Total assets increased by $802.1 million during fiscal year 2010. The Fund's cash and investments were $3.78 billion as of June 30, 2010, an increase of $1.55 billion from June 30, 2009. The cash and investments balance increase was primarily a result of the Agency's participation in NIBP during the fiscal year. Under this program, the Agency issued $1.4 billion in new housing bonds to fund new mortgages and the bond proceeds are currently being invested in a global escrow investment comprised of four AAA rated money market funds.

Of the Fund's assets, 32.7% is in the form of cash and investments at fiscal year end. Of the Fund's investment balance, 14.7% is in investment agreements. The amount of funds invested in investment agreements during the 2010 fiscal year increased by $69.8 million. In addition, $1.69 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 2010 increased by $48.8 million.

The composition of cash and investments as of June 30, 2010 and 2009 and the changes from the prior year are shown in the table below (dollars in millions):

Cash and Investments

	2010	2009	Change
Investment agreements	$303	$234	69
SMIF	1,687	1,638	49
Securities	282	245	37
Cash	1,512	119	1,393
Total Cash and Investments	$3,784	$2,236	1,548

Program loans receivable decreased by $1.18 billion during fiscal year 2010 compared to fiscal year 2009. This decrease is primarily due to the large decrease in the number of new loans for the homeownership loan portfolio, the Agency's decision to pool of 2,586 current FHA loans into GNMA securities ($326.8 million) along with an increase in loan prepayments in fiscal year 2010. Loan prepayments increased to $441.8 million during fiscal year 2010 compared to $176.4 million received in fiscal year 2009. Real estate owned ("REO") properties increased to $200.6 million during fiscal year 2010 compared to $95.7 million in fiscal year 2009.

For the fiscal year ended June 30, 2010, the Agency adopted Governmental Accounting Standards Board Statement ("GASB") No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB 53 requires the reporting of derivative instruments at fair value. The Agency's interest rate swaps, which were primarily used to hedge changes in cash flows, are considered to be derivative instruments under GASB 53. GASB 53 requires the fair value of a derivative to be reported as of the end of the fiscal year in the balance sheet. However, annual changes in the fair value of a hedging derivative instrument are required to be deferred – reported as deferred inflows and deferred outflows on the balance sheet. As of June 30, 2010 and June 30, 2009, the fair value of interest rate swaps were in the negative position of $329.4 million and $273.5 million, respectively. The cumulative effect from the adoption of GASB 53 and the annual change in fair value at June 30, 2010, have been recorded in the deferred outflow of resources account, derivative swap liability account and as an adjustment to beginning year fund equity balance. Since the Agency is not restating the prior year comparative financials, the beginning year fund equity balance has been adjusted by $19.3 million to show the cumulative effect of GASB 53 for prior years. For interest rate swaps associated with or redesignated to another bond series, the Agency recorded an adjustment to beginning fund equity and established a borrowing payable for the same amount. The borrowing payable will be amortized over the remaining life of the interest rate swap.

Other Assets increased by $431.5 million during fiscal year 2010 compared to fiscal year 2009. The increase is primarily due to the Agency's adoption of GASB 53, increase in the REO properties, and increase cash collateral held by swap counterparties.

Liabilities

The Fund's liabilities were $10.01 billion as of June 30, 2010, an increase of $1 billion from June 30, 2009. Of the Fund's liabilities, over 89% is in the form of bond indebtedness. The Fund's bonds payable at June 30, 2010 increased by $662.2 million from the prior year as the $1.4 billion in new issuances in 2010 were offset by scheduled principal payments and $607.2 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 $1.4 billion of Agency bonds during fiscal year 2010, an increase from $310.9 million issued during fiscal year 2009. During fiscal year 2010, the Agency issued only variable rate debt and all but $1.4 million of bond proceeds were placed into an escrow account under NIBP. During the escrow period, the interest rate is variable. Upon release from escrow, the bonds will bear a rate of 3.49% plus a spread of 60-75 basis points. This rate was locked on December 18, 2009.

The Agency issues both tax-exempt and federally taxable bonds. During the 2010 fiscal year, federally taxable bonds increased by $1.17 billion and as of June 30, 2010 represent 31.6% of all bonds outstanding, while tax-exempt bonds decreased by $486.7 million and as of June 30, 2010 represent 68.4% 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 2010, the Agency issued $1.28 billion of taxable bonds.

Shown below are the amounts of variable and fixed rate indebtedness, by tax status, as of June 30, 2010 and 2009 and the changes from the prior year (dollars in millions):

Bonds Payable

	2010	2009	Change
Tax-Exempt Bonds			
*Variable Rate	$3,568	$3,887	(319)
Fixed Rate	2,518	2,686	(168)
Total Tax-Exempt Bonds	$6,086	$6,573	(487)
Federally Taxable Bonds			
*Variable Rate	$2,371	$1,167	1,204
Fixed Rate	438	469	(31)
Total Federally Taxable Bonds	$2,809	$1,636	1,173
Total Bonds Outstanding	$8,895	$8,209	686

* Certain variable rate bonds have been swapped to a fixed rate (see Note 7 to the Combined Financial Statements).

All other liabilities increased by $309.5 million during fiscal year 2010. The increase was primarily due to the recording of the fair value of derivatives for GASB 53, increase to the gap insurance loss reserves, increase to the revolving line of credit payable and decrease to the Pooled Money Investment Account loan payable.

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 decreased by $193.5 million primarily as a result of transfers to the Fund in the amount of $14.4 million pursuant to the Mental Health Services Act of 2004 and Housing and Emergency Shelter Trust Fund Acts of 2002 and 2006 and was offset by operating losses of the Fund in the amount of $188.5 million and the restatement of the Fund equity at the beginning of the year from $1.75 billion to $1.73 billion, which represents the cumulative effect on equity from the adoption of GASB 53 during fiscal year 2010.

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, 2010 and June 30, 2009 and the changes from the prior year (dollars in millions):

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

	2010	2009	Change
Operating Revenues:			
Interest income program loans – net	$393	$450	(57)
Interest income investments – net	40	66	(26)
Increase in fair value of investments	19	11	8
Other loan and commitment fees	29	16	13
Other revenues	49	107	(58)
Total Operating Revenues	$530	$650	(120)
Operating Expenses:			
Interest	$318	$427	(109)
Mortgage servicing fees	16	20	(4)
Operating expenses	93	40	53
Other expenses	291	309	(18)
Total Operating Expenses	$718	$796	(78)
Operating Income before transfers	(188)	(146)	(42)

Operating Revenues

Total operating revenues of the Fund were $530 million during fiscal year 2010 compared to $650.1 million during fiscal year 2009, a decrease of $120.1 million or 18.5%.

Interest income on program loans was $393 million during fiscal year 2010 compared to $449.5 million during fiscal year 2009, a decrease of $56.5 million. The decrease in interest income on program loans is primary a result of a decrease in interest income on program loans and a net increase in the yield reduction liability for the Fund's homeownership and multifamily loan portfolios. Overall, program loans receivable decreased $1.18 billion or 14.1% at June 30, 2010 compared to June 30, 2009.

Interest income from investments decreased 39.3% to $40.2 million in fiscal year 2010 from $66.3 million in fiscal year 2009. This decrease is due primarily to declining interest rates for SMIF.

Other loan and commitment fees increased $12.8 million to $29.1 million in fiscal year 2010 compared to $16.3 million for fiscal year 2009. The increase was primarily due to the reinstatement of administrative fees in the HMRB indenture.

Other revenues decreased by $58.2 million to $48.8 million during fiscal year 2010 compared to $106.9 million in fiscal year 2009. The decrease was primarily due to the implementation of GASB 53 and the result of not incurring a gain on termination of swaps in fiscal year 2010.

Operating Expenses

Total operating expenses of the Fund were $718.6 million during fiscal year 2010 compared to $796.2 million during fiscal year 2009, a decrease of $77.6 million or 9.8%. The decrease is primarily due to the decrease in interest and swap expenses, decrease in loan write-off expenses, decrease in swap termination expenses offset by increases in administrative fees expense, liquidity provider fees expense and foreclosed properties expenses.

Bonds payable at June 30, 2010 increased by $662.2 billion from June 30, 2009 and bond interest and swap expense, which represents 44.3% of the Fund's total operating expenses, decreased by $109.3 million or 25.6% compared to fiscal year 2009. The decrease in bond interest and swap expense is attributed to the Agency's participation in the TCLP which provides replacement credit and facilities for existing variable rate debt for State and local Housing Finance Agencies.

Operating expenses increased from $39.7 million during fiscal year 2009 to $42.5 million during fiscal year 2010 (as shown in the condensed combined statements of revenues, expenses and changes in fund equity), resulting from an increase in general expenses offset by a slight decrease in staff salary expenses during fiscal year 2010.

Operating Income before Transfers

Operating loss before transfers for fiscal year 2010 was $188.5 million compared to an operating loss of $146.1 million for fiscal year 2009. The $42.5 million decrease in operating income before transfers is reflective of the activities mentioned above.

CALIFORNIA HOUSING FINANCE FUND
COMBINED BALANCE SHEETS
June 30, 2011 and June 30, 2010
(Dollars in Thousands)

	2011 Combined Totals	2010 Combined Totals
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,130,977	$ 1,512,415
Investments	1,826,513	2,061,589
Current portion - program loans receivable, net of allowance	172,027	253,749
Interest receivable:		
Program loans, net	38,114	35,408
Investments	7,008	7,861
Accounts receivable	29,128	28,782
Other assets	52,435	34,001
Total current assets	3,256,202	3,933,805
Noncurrent assets:		
Investments	378,608	209,728
Program loans receivable, net of allowance	6,149,078	6,890,719
Deferred financing costs	28,689	34,156
Other assets and deferred outflow	406,146	494,593
Total noncurrent assets	6,962,521	7,629,196
Total assets	$ 10,218,723	$ 11,563,001
LIABILITIES AND FUND EQUITY		
Current liabilities:		
Current portion - bonds payable, net	$ 173,961	$ 158,969
Interest payable	100,679	123,211
Due to other government entities, net	22,889	97,748
Compensated absences	4,365	4,358
Deposits and other liabilities	346,780	393,464
Total current liabilities	648,674	777,750
Noncurrent liabilities:		
Bonds and debenture notes payable, net	7,768,042	8,840,703
Due to other government entities, net	33,156	19,388
Other liabilities and deferred inflow	261,845	342,016
Deferred revenues	26,931	29,161
Total noncurrent liabilities	8,089,974	9,231,268
Total liabilities	8,738,648	10,009,018
Commitments and contingencies (see notes 11 and 13)		
Fund equity:		
Invested in capital assets	1,114	866
Restricted by indenture	339,441	430,948
Restricted by statute	1,139,520	1,122,169
Total fund equity	1,480,075	1,553,983
Total liabilities and fund equity	$ 10,218,723	$ 11,563,001

See notes to combined financial statements.

CALIFORNIA HOUSING FINANCE FUND
COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY
June 30, 2011 and June 30, 2010
(Dollars in Thousands)

	2011 Combined Totals	2010 Combined Totals
OPERATING REVENUES		
Interest income:		
Program loans, net	$ 346,355	$ 392,990
Investments, net	31,614	40,222
(Decrease) increase in fair value of investments	(4,851)	18,894
Loan commitment fees	2,507	1,273
Other loan fees	28,821	27,845
Other revenues	99,753	48,797
Total operating revenues	504,199	530,021
OPERATING EXPENSES		
Interest	249,253	318,021
Amortization of bond discount and bond premium	(3,297)	(611)
Mortgage servicing expenses	13,685	16,477
Provision for program loan losses	62,858	51,533
Operating expenses	42,668	42,536
Other expenses	255,888	290,603
Total operating expenses	621,055	718,559
Operating loss before transfers	(116,856)	(188,538)
Transfers, interfund	42,948	14,350
Decrease in fund equity	(73,908)	(174,188)
Fund equity at beginning of year, as originally stated	1,553,983	1,747,468
Cumulative effect of adoption of GASB 53	0	(19,297)
Fund equity at beginning of year, as restated	1,553,983	1,728,171
Fund equity at end of year	$ 1,480,075	$ 1,553,983

See notes to combined financial statements.

CALIFORNIA HOUSING FINANCE FUND
COMBINED STATEMENTS OF CASH FLOWS
June 30, 2011 and June 30, 2010
(Dollars in Thousands)

	2011 Combined Totals	2010 Combined Totals
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 343,650	$ 394,676
Payments to suppliers	(27,283)	(34,690)
Payments to employees	(30,206)	(26,045)
Other receipts	590,261	578,408
Net cash provided by operating activities	876,422	912,349
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Due from other government entities	(64,920)	(157,471)
Net cash used for noncapital financing activities	(64,920)	(157,471)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sales of bonds	111,627	1,492,815
Payment of bond principal	(174,161)	(132,069)
Early bond redemptions	(994,314)	(607,195)
Interest paid on debt	(271,784)	(358,385)
Interfund transfers	42,948	14,350
Increase to deferred costs	(1,067)	(1,502)
Net cash (used for) provided by capital and related financing activities	(1,286,751)	408,014
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturity and sale of investments	3,833,563	33,289,823
Purchase of investments	(3,772,221)	(33,103,579)
Interest on investments, net	32,469	44,151
Net cash provided by (used for) investing activities	93,811	230,395
Net (decrease) increase in cash and cash equivalents	(381,438)	1,393,287
Cash and cash equivalents at beginning of year	1,512,415	119,128
Cash and cash equivalents at end of year	$ 1,130,977	$ 1,512,415
Reconciliation of operating income to net cash provided by (used in) operating activities:		
Operating loss	$ (116,856)	$ (188,538)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Interest expense on debt	249,253	318,021
Interest on investments	(31,615)	(40,222)
Changes in fair value of investments	4,852	(18,894)
Accretion of capital appreciation bonds	2,478	3,110
Amortization of bond discount	330	64
Amortization of deferred losses on refundings of debt	485	1,024
Amortization of bond issuance costs	6,533	5,690
Amortization of bond premium	(4,112)	(1,700)
Amortization of deferred revenue	(2,507)	(1,273)
Depreciation	248	218
Provision for program loan losses	62,858	51,533
Provision for yield reduction payments	6,475	2,576
Provision for nonmortgage investment excess	(2,646)	(2,618)
Changes in certain assets and liabilities:		
(Purchase) Sale of program loans-net	(299,259)	(104,228)
Collection of principal from program loans, net	1,067,889	802,116
Interest receivable	(2,706)	1,687
Accounts receivable	(161)	(9,059)
Other assets and deferred outflow	61,456	(326,387)
Compensated absences	7	2,041
Deposits and other liabilities	(46,683)	94,565
Other liabilities and deferred inflow	(79,897)	322,623
Net cash provided by operating activities	$ 876,422	$ 912,349
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Noncash transfer of program loan to REO	$ 4,217	-

See notes to combined financial statements.

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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, 2010, the Mortgage Insurance Fund had total assets of $29,099,884 and deficit of $24,735,468 (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 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, 2011, 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.

Housing Mortgage Bonds: The Housing Mortgage Bonds are issued to enable the Agency to make or purchase Mortgage Loans and Mortgage Backed Securities secured by first liens on newly constructed or existing single family homes in California.

Residential Mortgage Revenue Bonds: The Residential Mortgage Revenue Bonds are issued by the Agency pursuant to a national initiative of the United States Treasury to assist state and local housing finance authorities by the Federal Program. The

Bonds, issued as escrow bonds pursuant to the Indenture, are to be converted to long-term fixed-rate bonds. The Treasury has agreed, through government-sponsored agencies, to purchase certain mortgage revenue bonds at rate lower than the prevailing market intended to reduce the costs of funds to issuers to the making or financing of mortgage loans.

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

Multifamily Housing Revenue Bonds II: The Multifamily Housing Revenue Bonds II are fixed rate bonds collateralized by the 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.

Variable Rate Demand Limited Obligation Multifamily Housing Revenue Bonds (Mission Gardens Apartments Project): This Bond is issued pursuant and in compliance with the Zenovich Moscone Chacon Housing and Home Finance Act, consisting of Parts 1 through 4 of Division 31 of the California Health and Safety Code, and a resolution of the Issuer. The Bonds are special, limited obligations of the Issuer payable solely from and secured by the Trust Estate pledged therefore pursuant to the Indenture. The Bonds are issued to provide funds to finance a multifamily housing project located in the City of Santa Cruz, California, owned by Mission Gardens Affordable, L.P., a California limited partnership.

Variable Rate Demand Limited Obligation Multifamily Housing Revenue Bonds (Montecito Village Apartments Project): This Bond is issued pursuant and in compliance with the Zenovich Moscone Chacon Housing and Home Finance Act, consisting of Parts 1 through 4 of Division 31 of the California Health and Safety Code, and a resolution of the Issuer. The Bonds are special, limited obligations of the Issuer payable solely from and secured by the Trust Estate pledged therefore pursuant to the Indenture. The Bonds are issued to provide funds to finance a multifamily housing project located in the City of Ramona, California, owned by Montecito Village Affordable, L.P., a California limited partnership.

Limited Obligation Multifamily Housing Revenue Bonds (Fairmont Apartments Project): The bonds are issued to finance a loan to the borrower for acquisition, rehabilitation and development of a 31-unit multifamily rental housing project located in the City of Oakland, California, and known as Fairmont Apartments.

Limited Obligation Multifamily Housing Revenue Bonds (Belovida Apartment Project): The Bonds are issued pursuant to a Trust Indenture dated as of August 1, 2010 between the Agency and U.S. Bank National Association, as Trustee. The proceeds of the Bonds are used by the Agency to finance a mortgage loan, to Belovida at Newbury Park, L.P., for the purpose of financing a portion of the cost of the acquisition, construction and development of a multifamily rental housing development located in the city of San Jose, California.

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

Housing Assistance Trust: The Housing Assistance Trust ("HAT") is comprised of Agency investments in special purpose mortgage loans promoting both rental housing and homeownership, remaining investments in mortgage loans from fully redeemed bond indentures, and funds to assist in the development of single and multifamily projects through various low-interest loan and technical assistance programs. Also, included within HAT are 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, National Foreclosure Mitigation Counseling Program, Mental Health Services Act Housing Program, and programs offered pursuant to the Housing and Emergency Shelter Trust Fund Act of 2002 and 2006. Funding of these programs was appropriated by the legislature or provided by voter authorized State bond programs to other departments and agencies within the State that have contracted with the

Agency for this purpose. All monies transferred in accordance with the agreements and for the purposes of the program are considered assets of the Fund. The Fund received transfers in the amount of $42,948,315 and $14,350,055 for fiscal year 2011 and 2010, respectively.

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 $22,500,000 from the State's Pooled Money Investment Account ("PMIA") 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 SMIF on the date of the new loan. In December 2008, the Pooled Money Investment Board ("PMIB") advised that additional draws on PMIA short term credit line were frozen due to the state's strained cash position. As of June 30, 2011, the draw on PMIA still remains frozen.

The Agency also has a Revolving Credit Agreement ("RCA") 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 ended on February 28, 2011, as such there was no outstanding balance at June 30, 2011. Both PMIA and RCA credit lines are general obligations of the Agency and repayment is secured by the Agency's general reserves.

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

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

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Accounting: The Fund is accounted for as an enterprise fund. Accordingly, the accompanying 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 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. Significant estimates are used in determining the gap insurance loss reserve. Based on factors such as reported delinquency categories, claim frequency percentages, severity of loss percentages and level of mortgage insurance coverage, the Agency records the estimated gap insurance losses for the delinquent mortgage loan portfolio. 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. While these swap contracts hedge floating rate bonds issued within the HMRB indenture, hedging expenses are a general obligation of the Agency that is often reimbursed with excess revenue transfers from the HMRB indenture. The interest rate swap agreements allow the Agency to manage the interest rate risk associated with variable rate debt. The Agency adopted GASB Statement No. 53 – *Accounting and Financial Reporting for Derivative Instruments* in fiscal year 2010. GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments.

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

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

Other Real Estate Owned ("REO"): Property acquired by the Agency through foreclosure is recorded at the lower of estimated fair value less estimated selling costs (fair value) or the carrying value of the related loan at the date of foreclosure and is included in "Other Assets" on the accompanying 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, Debenture Notes Payable, and 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 $1.7 million and $1.7 million the years ended June 30, 2011 and 2010, respectively. The Agency also administers National Foreclosure Mitigation Counseling Program ("FMC"). The HUD and FMC pass-through payments aggregated $76.4 million and $79.9 million for the years ended June 30, 2011 and 2010, respectively, and are reported as other operating revenues and expenses within Other Programs and Accounts.

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, 2011 and 2010, all cash and cash equivalents, totaling $1.13 billion and $1.51 billion, 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, 2011. 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.

In December 2010, the Agency entered into a U. S. Bank National Association Open Repurchase agreement with U.S. Bank through its Money Center for most of the programs except HMRB. Although the repurchase agreements are not insured by Federal Deposit Insurance Corporation ("FDIC") or guaranteed by any governmental agency or authority, or by U.S. Bank, the securities purchased are U.S. government or other government agency securities at a specified price and U.S. Bank has the obligation to repurchase those securities back at a higher price after a specified period, or at the demand of the Agency. As of June 30, 2011, the par value and market value of U.S. Bank open repurchase agreements was $77.6 million.

In connection with some of the cancellation of insurance on Home Mortgage Revenue Bonds, the Agency is required to post collateral on the swap associated with these bonds. The total cash and fair market value of investment securities posted as collateral was $78.1 million and $76.3 million at June 30, 2011 and 2010, respectively.

Investments at June 30, 2011 and 2010 are as follows (dollars in thousands):

	Category 1	Category 2	Category 3	Fair Value June 30, 2011	Fair Value June 30, 2010
U.S. Agency Securities -— GNMA's	$ 209,762			$ 209,762	$ 77,070
Federal Agency Securities	168,846			168,846	204,419
Investment Agreements -— Financial Institutions (at cost)		$ 149,307		149,307	168,453
Total	$ 378,608	$ 149,307	$ -		
Other Investments (not subject to categorization):					
Surplus Money Investment Fund -— State of California				1,511,662	1,686,471
US Bank NA Open Repurchase Agreement				77,598	-
Other Investment Agreements (at cost)				87,946	134,904
Total Investments				$ 2,205,121	$ 2,271,317
Current portion				1,826,513	2,061,589
Noncurrent portion				378,608	209,728
Total				$ 2,205,121	$ 2,271,317

Note 4 – INVESTMENT RISK FACTORS

Investments by type at June 30, 2011 and 2010 consist of the following (dollars in thousands):

	2011 Combined Totals	2010 Combined Totals
U.S. Treasury Securities		
U.S. Agency Securities -— GNMA's	$ 209,762	$ 77,070
Federal Agency Securities	168,846	204,419
Investment Agreements -— Financial Institutions (at cost)	237,253	303,357
US Bank NA Open Repurchase Agreement	77,598	-
Surplus Money Investment Fund -— State of California	1,511,662	1,686,471
Total Investments	$ 2,205,121	$ 2,271,317

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

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

The credit risk profile for fixed income securities at June 30, 2011 and 2010 are as follows (dollars in thousands):

	2011 Combined Totals	2010 Combined Totals
Fixed income securities:		
U.S. government guaranteed	$ 378,608	$ 281,489
Guaranteed interest contracts:		
Rated Aaa/AAA	13,997	16,602
Rated Aaa/NR	32,977	24,822
Rated Aa3/A+	92,024	23,332
Rated Aa2/AA+	857	857
Rated Aa2/A+	96,739	122,057
Rated NR/AA+	5,027	15,935
Rated A3/A	483	512
Rated A1/AA-	69,559	95,621
Rated A1/A+	3,188	3,619
Total fixed income securities	$ 693,459	$ 584,846

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, 2011, 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, 2010, 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, 2011, 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, 2011 and 2010 are as follows:

	2011	2010
Fixed income securities:		
U.S. government guaranteed	16.91	15.72

Note 5 – PROGRAM LOANS RECEIVABLE

Changes in program loans receivable for the years ended June 30, 2011 and 2010 are as follows (dollars in thousands):

	2011 Combined Totals	2010 Combined Totals
Beginning of year balance	$ 7,787,149	$ 8,532,033
Loans purchased/funded	301,332	104,070
Amortized principal repayments	(291,985)	(243,720)
Prepayments	(776,943)	(558,396)
Principal Reduction Program	(932)	-
Chargeoffs	(85,718)	(46,838)
Subtotal	6,932,903	7,787,149
Unamortized Mortgage Discount	(3,249)	(3,148)
Transfer to mortgage-backed securities	(321,705)	(321,705)
Transfer to REO-net	(192,518)	(200,641)
Allowance for loan loss	(94,326)	(117,186)
	$ 6,321,105	$ 7,144,469
Current portion	$ 172,027	$ 253,749
Noncurrent portion	6,149,078	6,890,720
Total	$ 6,321,105	$ 7,144,469

Note 6 – ALLOWANCE FOR PROGRAM LOAN LOSSES

Changes in the allowance for program loan losses for the year ended June 30, 2011 and 2010 are as follows (dollars in thousands):

	2011 Combined Totals	2010 Combined Totals
Beginning of year balance	$ 117,186	$ 112,491
Provisions for program loan losses	62,858	51,533
Chargeoffs	(85,718)	(46,838)
End of year balance	$ 94,326	$ 117,186

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

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

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

Bonds payable and the terms and outstanding notional amounts and fair value of associated interest rate swaps as of June 30, 2011 are as follows (dollars in thousands):

	Bonds					
Bond Issue	**Type of Bond**	**Interest Rate Range**	**Final Maturity Date**	**Outstanding Fixed**	**Outstanding Variable**	**Total**
Home Mortgage Revenue Bonds:						
1982 Series A	Tax-Exempt	10.250%	2014	$ 1,030		$ 1,030
1982 Series B	Tax-Exempt	10.625%	2014	320		320
1983 Series A	Tax-Exempt	10.263%	2015	12,912		12,912
1983 Series B	Tax-Exempt	10.751%	2015	2,635		2,635
1984 Series B	Tax-Exempt	11.493%	2016	397		397
1985 Series A	Tax-Exempt	10.989%	2016	679		679
1985 Series B	Tax-Exempt	9.876%	2017	3,475		3,475
1998 Series M	Taxable	0.520%	2023		$ 7,095	7,095
1999 Series F	Tax-Exempt	5.200%	2028	3,343		3,343
1999 Series G	Taxable	6.870%	2011	1,745		1,745
1999 Series N	Tax-Exempt	5.300%	2031	10,713		10,713
1999 Series O	Taxable	0.440%	2012		5,360	5,360
2000 Series D	Taxable	0.450%	2023		23,895	23,895
2000 Series H	Taxable	0.410%	2017		24,285	24,285
2000 Series J	Tax-Exempt					
2000 Series N	Tax-Exempt	0.240%	2031		23,940	23,940
2000 Series V	Taxable	0.560%	2032		43,905	43,905
2000 Series X-2	Tax-Exempt	0.210%	2031		19,220	19,220
2000 Series Z	Taxable	0.480%	2031		23,495	23,495
2000 Series Z	Taxable	0.480%	2031		17,420	17,420
2001 Series D	Taxable	0.560%	2022		59,040	59,040
2001 Series G	Taxable	0.500%	2029		48,945	48,945
2001 Series J	Tax-Exempt	0.220%	2032		38,135	38,135
2001 Series K	Taxable	0.530%	2032		53,190	53,190
2001 Series N	Tax-Exempt					
2001 Series O	Taxable	0.560%	2032		65,535	65,535
2001 Series S	Taxable	0.600%	2023		44,320	44,320
2001 Series U	Tax-Exempt	0.220%	2032		47,325	47,325
2001 Series V	Taxable	0.420%	2031		16,345	16,345
2002 Series B	Tax-Exempt	0.210%	2033		37,705	37,705
2002 Series C	Taxable	0.540%	2033		32,735	32,735
2002 Series D	Taxable	0.460%	2030		32,095	32,095
2002 Series F	Tax-Exempt					

Swaps

Type	Fixed Rate Paid By Agency	Floating Rate Received By Agency	Effective Date	Termination Date	Outstanding Notional/Applicable Amount	Fair Value
Fixed payer	6.6550%	LIBOR	12/9/99	8/1/12	$ 3,160	$ (111)
Fixed payer	7.1950%	LIBOR	1/27/00	2/1/13	4,045	(158)
Fixed payer	4.9000%	LIBOR @ 65%	5/25/00	8/1/30	20,675	(4,328)
Fixed payer	7.0960%	6 mo LIBOR	10/5/00	8/1/14	18,605	(1,708)
Fixed payer	4.5100%	LIBOR @ 65%	12/13/00	8/1/31	24,905	(4,392)
Fixed payer	6.8430%	3 mo LIBOR	12/13/00	8/1/16	23,495	(2,863)
Fixed payer	6.2150%	3 mo LIBOR+.26%	1/25/01	8/1/19	39,710	(5,355)
Fixed payer	6.0100%	3 mo LIBOR+.20%	4/5/01	2/1/16	21,265	(2,293)
Fixed payer	4.1430%	LIBOR @ 65%	5/31/01	8/1/24	34,855	(3,702)
Fixed payer	3.9910%	LIBOR @ 65%	7/26/01	8/1/18	9,140	(705)
Fixed payer	6.3600%	3 mo LIBOR+.27%	7/26/01	8/1/20	43,085	(6,378)
Fixed payer	5.5300%	3 mo LIBOR+.31%	10/10/01	8/1/18	27,825	(2,864)
Fixed payer	4.1300%	SIFMA less .15%	12/6/01	8/1/32	47,460	(5,007)
Fixed payer	3.8880%	LIBOR @ 65%	4/18/02	8/1/27	36,440	(5,034)
Fixed payer	5.6000%	3 mo LIBOR+.25%	5/1/02	8/1/12	8,850	(171)
Fixed payer	3.9940%	LIBOR @ 65%	6/6/02	2/1/24	41,990	(4,442)

	Bonds					
Bond Issue	Type of Bond	Interest Rate Range	Final Maturity Date	Outstanding Fixed	Outstanding Variable	Total
2002 Series H	Taxable	0.540%	2022		22,610	22,610
2002 Series J	Tax-Exempt	0.210%	2033		72,695	72,695
2002 Series L	Taxable	0.550%	2024		24,710	24,710
2002 Series M	Tax-Exempt	0.210%	2032		41,600	41,600
2002 Series M	Tax-Exempt	0.250%	2032		25,030	25,030
2002 Series O	Taxable	0.510%	2033		21,370	21,370
2002 Series P	Tax-Exempt					
2002 Series Q	Tax-Exempt	0.210%	2033		10,365	10,365
2002 Series U	Tax-Exempt	0.210%	2032		29,340	29,340
2002 Series U	Tax-Exempt	0.210%	2031		29,400	29,400
2003 Series D	Tax-Exempt	0.210%	2033		44,435	44,435
2003 Series D	Tax-Exempt	0.210%	2022		33,360	33,360
2003 Series F	Tax-Exempt	0.210%	2022		42,305	42,305
2003 Series F	Tax-Exempt	0.210%	2034		70,200	70,200
2003 Series G	Taxable	0.440%	2034		18,920	18,920
2003 Series H	Tax-Exempt	0.210%	2032		45,770	45,770
2003 Series H	Tax-Exempt	0.210%	2033		52,490	52,490
2003 Series I	Taxable	0.470%	2033		33,875	33,875
2003 Series K	Tax-Exempt	0.190%	2033		55,875	55,875
2003 Series K	Tax-Exempt	0.190%	2034		39,600	39,600
2003 Series L	Taxable	0.470%	2034		32,420	32,420
2003 Series M	Tax-Exempt	0.220%	2024		44,915	44,915
2003 Series M	Tax-Exempt	0.220%	2034		71,295	71,295
2003 Series N	Taxable	0.500%	2034		36,525	36,525
2004 Series A	Tax-Exempt					
2004 Series A	Tax-Exempt					
2004 Series E	Tax-Exempt	0.190%	2035		48,010	48,010
2004 Series E	Tax-Exempt	0.190%	2035		63,070	63,070
2004 Series F	Taxable	0.048%	2035		46,655	46,655
2004 Series G	Tax-Exempt					
2004 Series G	Tax-Exempt					
2004 Series I	Tax-Exempt					
2004 Series I	Tax-Exempt					
2005 Series A	Tax-Exempt	0.210%	2035		118,810	118,810
2005 Series B	Tax-Exempt	0.190%	2016		31,135	31,135
2005 Series B	Tax-Exempt	0.190%	2035		21,985	21,985
2005 Series B	Tax-Exempt	0.190%	2035		81,580	81,580
2005 Series C	Tax-Exempt	3.500% - 3.700%	2013	12,785		12,785
2005 Series D	Tax-Exempt	0.210%	2038		57,820	57,820
2005 Series D	Tax-Exempt	0.210%	2040		101,570	101,570
2005 Series F	Tax-Exempt	0.190%	2037		66,135	66,135
2005 Series F	Tax-Exempt	0.190%	2038		86,685	86,685
2005 Series F	Tax-Exempt	0.190%	2040		16,170	16,170
2005 Series H	Tax-Exempt	0.210%	2036		82,100	82,100
2005 Series H	Tax-Exempt	0.210%	2036		69,155	69,155
2006 Series C	Tax-Exempt	0.210%	2037		79,815	79,815
2006 Series C	Tax-Exempt	0.210%	2037		85,075	85,075
2006 Series D	Tax-Exempt	4.250% - 4.400%	2017	20,000		20,000
2006 Series E	Tax-Exempt	4.300% - 5.050%	2026	54,350		54,350
2006 Series F	Tax-Exempt	0.210%	2040		35,435	35,435
2006 Series F	Tax-Exempt	0.210%	2041		60,000	60,000
2006 Series G	Tax-Exempt	3.650% - 3.875%	2016	29,490		29,490
2006 Series H	Tax-Exempt	4.050% - 5.750%	2030	32,310		32,310
2006 Series I	Tax-Exempt	4.600% - 4.875%	2041	82,195		82,195
2006 Series J	Tax-Exempt	3.900% - 4.150%	2016	22,535		22,535

Swaps

Type	Fixed Rate Paid By Agency	Floating Rate Received By Agency	Effective Date	Termination Date	Outstanding Notional/Applicable Amount	Fair Value
Fixed payer	5.5350%	3 mo LIBOR+.25%	11/1/02	2/1/13	2,655	(147)
Fixed payer	3.8630%	LIBOR @ 65%	8/8/02	8/1/32	70,660	(6,748)
Fixed payer	5.1000%	3 mo LIBOR+.25%	12/1/02	2/1/13	6,890	(173)
Fixed payer	3.7280%	LIBOR @ 65%	10/17/02	8/1/22	41,600	(4,777)
Fixed payer	3.9890%	3 mo LIBOR+.22%	2/3/03	2/1/12	4,020	(33)
Fixed payer	3.1480%	LIBOR @ 65%	12/12/02	8/1/22	51,795	(4,353)
Fixed payer	3.8200%	LIBOR @ 65%	2/1/06	8/1/32	13,310	(665)
Fixed payer	3.9100%	LIBOR @ 60%+.26%	3/6/03	2/1/31	5,665	(107)
Fixed payer	3.2400%	LIBOR @ 60%+.26%	3/6/03	2/1/31	29,400	(683)
Fixed payer	3.7750%	LIBOR @ 60%+.26%	4/10/03	8/1/33	37,500	(604)
Fixed payer	3.1300%	LIBOR @ 60%+.26%	4/10/03	8/1/19	33,360	(489)
Fixed payer	3.1250%	LIBOR @ 60%+.26%	3/26/03	2/1/18	42,305	(625)
Fixed payer	3.7000%	LIBOR @ 60%+.26%	3/26/03	2/1/34	69,465	(1,095)
Fixed payer	2.6750%	LIBOR @ 60%+.26%	8/7/03	8/1/30	45,770	(1,246)
Fixed payer	3.2700%	LIBOR @ 60%+.26%	8/1/04	2/1/18	54,270	(2,399)
Fixed payer	3.2250%	LIBOR @ 60%+.26%	2/2/04	8/1/19	44,915	(1,589)
Fixed payer	3.8900%	LIBOR @ 60%+.26%	2/4/04	8/1/34	40,705	(1,519)
Fixed payer	3.0875%	LIBOR @ 60%+.26%	8/1/04	8/1/30	30,890	(1,836)
Fixed payer	4.0450%	LIBOR @ 60%+.26%	8/1/04	2/1/34	3,080	(10)
Fixed payer	3.5400%	LIBOR @ 60%+.26%	4/1/05	8/1/20	48,010	(2,712)
Fixed payer	4.1330%	LIBOR @ 60%+.26%	4/1/05	2/1/35	50,470	(3,091)
Fixed payer	3.6100%	LIBOR @ 60%+.26%	2/1/05	2/1/34	52,880	(4,940)
Fixed payer	4.0821%	LIBOR @ 60%+.26%	8/1/04	2/1/35	10,455	(385)
Fixed payer	3.5600%	LIBOR @ 60%+.26%	8/4/04	2/1/33	17,020	(1,508)
Fixed payer	4.0750%	LIBOR @ 60%+.26%	8/4/04	2/1/35	2,250	(7)
Fixed payer	3.8040%	LIBOR @ 60%+.26%	4/5/05	8/1/35	118,810	(13,086)
Fixed payer	3.0490%	LIBOR @ 60%+.26%	7/1/05	2/1/16	31,135	(1,434)
Fixed payer	3.7260%	LIBOR @ 60%+.26%	7/1/05	2/1/35	21,985	(943)
Fixed payer	3.1580%	LIBOR @ 60%+.26%	5/19/05	2/1/36	51,790	(3,542)
Fixed payer	3.6040%	LIBOR @ 60%+.26%	5/19/05	2/1/40	16,730	(46)
Fixed payer	3.3860%	LIBOR @ 60%+.26%	7/28/05	2/1/38	77,930	(2,458)
Fixed payer	3.8570%	LIBOR @ 62%+.25%	12/15/05	2/1/36	62,145	(3,103)
Fixed payer	4.0180%	LIBOR @ 62%+.25%	4/19/06	8/1/30	78,785	(1,573)
Fixed payer	4.0590%	LIBOR @ 62%+.25%	4/19/06	2/1/37	71,120	(5,705)
Fixed payer	4.2550%	LIBOR @ 62%+.25%	7/27/06	8/1/40	60,000	(4,350)
Fixed payer	4.1360%	LIBOR @ 62%+.25%	7/27/06	2/1/41	60,000	(5,511)

Bond Issue	Type of Bond	Interest Rate Range			Final Maturity Date	Outstanding Fixed	Outstanding Variable	Total
	Bonds							
2006 Series K	Tax-Exempt	4.550%	-	5.500%	2042	174,285		174,285
2006 Series L	Tax-Exempt	3.850%	-	4.150%	2016	34,970		34,970
2006 Series M	Tax-Exempt	4.550%	-	5.000%	2042	139,720		139,720
2007 Series A	Taxable			5.720%	2032	90,000		90,000
2007 Series B	Taxable			0.420%	2042		40,000	40,000
2007 Series C	Taxable			0.470%	2042		20,000	20,000
2007 Series D	Tax-Exempt	3.950%	-	4.400%	2018	58,040		58,040
2007 Series E	Tax-Exempt	4.650%	-	4.800%	2042	135,815		135,815
2007 Series F	Tax-Exempt	4.200%	-	4.700%	2017	37,090		37,090
2007 Series G	Tax-Exempt	4.950%	-	5.050%	2029	65,615		65,615
2007 Series G	Tax-Exempt			5.500%	2042	63,045		63,045
2007 Series H	Tax-Exempt			0.210%	2033		50,000	50,000
2007 Series H	Tax-Exempt			0.210%	2042		50,000	50,000
2007 Series I	Tax-Exempt	3.800%	-	4.350%	2017	13,940		13,940
2007 Series J	Tax-Exempt			5.750%	2047	27,715		27,715
2007 Series K	Tax-Exempt			0.210%	2037		25,000	25,000
2007 Series K	Tax-Exempt			0.210%	2038		25,000	25,000
2007 Series L	Taxable			5.530%	2027	46,530		46,530
2007 Series M	Taxable			5.835%	2032	83,335		83,335
2007 Series N	Taxable			0.470%	2043		60,000	60,000
2008 Series A	Tax-Exempt	3.400%	-	4.500%	2020	37,120		37,120
2008 Series B	Tax-Exempt	4.800%	-	5.000%	2028	12,280		12,280
2008 Series C	Tax-Exempt			0.210%	2041		13,920	13,920
2008 Series C	Tax-Exempt			0.210%	2041		15,850	15,850
2008 Series C	Tax-Exempt			0.210%	2041		7,005	7,005
2008 Series C	Tax-Exempt			0.210%	2041		7,760	7,760
2008 Series C	Tax-Exempt			0.210%	2041		26,030	26,030
2008 Series D	Tax-Exempt			0.210%	2043		1,680	1,680
2008 Series D	Tax-Exempt			0.210%	2043		2,595	2,595
2008 Series D	Tax-Exempt			0.210%	2043		1,355	1,355
2008 Series D	Tax-Exempt			0.210%	2043		3,865	3,865
2008 Series D	Tax-Exempt			0.210%	2043		39,630	39,630
2008 Series D	Tax-Exempt			0.210%	2031		42,075	42,075
2008 Series D	Tax-Exempt			0.210%	2043		1,980	1,980
2008 Series E	Tax-Exempt			0.210%	2032		22,835	22,835
2008 Series E	Tax-Exempt			0.210%	2032		11,990	11,990
2008 Series F	Tax-Exempt			0.210%	2032		21,745	21,745
2008 Series G	Taxable			6.000%	2025	50,000		50,000
2008 Series H	Taxable			4.950%	2020	86,085		86,085
2008 Series I	Taxable			1.750%	2042		17,000	17,000
2008 Series I	Taxable			1.750%	2042		13,990	13,990
2008 Series I	Taxable			1.750%	2042		80,615	80,615
2008 Series J	Tax-Exempt	4.125%	-	5.125%	2018	69,330		69,330
2008 Series K	Tax-Exempt	5.300%	-	5.555%	2038	107,185		107,185
2008 Series L	Tax-Exempt	5.200%	-	5.550%	2033	177,815		177,815
Housing Program Bonds:								
2004 Series A	Tax-Exempt			0.147%	2036		28,000	28,000
2006 Series A	Tax-Exempt	4.750%	-	4.950%	2036	42,890		42,890
2006 Series B	Taxable			0.220%	2036		51,105	51,105
Housing Mortgage Bonds:								
2009 Series A	Tax-Exempt	6.250%	-	12.000%	2038	47,840		47,840

Swaps

Type	Fixed Rate Paid By Agency	Floating Rate Received By Agency	Effective Date	Termination Date	Outstanding Notional/Applicable Amount	Fair Value
Fixed payer	4.0480%	LIBOR @ 62%+.25%	8/8/07	2/1/31	50,000	(5,426)
Fixed payer	4.2360%	LIBOR @ 62%+.25%	8/8/07	2/1//38	50,000	(5,438)
Fixed payer	3.9870%	LIBOR @ 63%+.24%	11/7/07	8/1/32	25,000	(1,870)
Fixed payer	4.0400%	LIBOR @ 63%+.24%	11/7/07	2/1/38	25,000	(1,870)
Fixed payer	4.8000%	LIBOR @ 65%	4/6/00	2/1/23	2,625	(550)
Fixed payer	4.1430%	LIBOR @ 65%	5/31/01	8/1/24	15,675	(2,014)
Fixed payer	3.9940%	LIBOR @ 65%	6/6/02	2/1/24	7,005	(1,219)
Fixed payer	3.8630%	LIBOR @ 65%	8/8/02	8/1/32	7,760	(1,374)
Fixed payer	4.9000%	LIBOR @ 65%	5/25/00	8/1/30	1,680	(533)
Fixed payer	4.1430%	LIBOR @ 65%	5/31/01	8/1/24	2,595	(447)
Fixed payer	3.9910%	LIBOR @ 65%	7/26/01	8/1/18	1,355	(204)
Fixed payer	4.1300%	SIFMA less .15%	12/6/01	8/1/32	3,865	(548)
Fixed payer	4.8500%	LIBOR @ 65%	11/18/08	2/1/17	32,795	(3,433)
Fixed payer	4.8000%	LIBOR @ 65%	4/6/00	2/1/23	12,950	(1,744)
Fixed payer	4.5275%	LIBOR @ 65%	10/5/00	8/1/15	22,835	(1,790)
Fixed payer	4.6600%	LIBOR @ 65%	11/18/08	2/1/16	11,990	(1,000)
Fixed payer	3.8700%	LIBOR @ 65%	11/18/08	8/1/17	21,745	(1,863)
Fixed payer	6.1950%	LIBOR	8/1/02	8/1/14	15,295	(1,098)
Fixed payer	7.1100%	LIBOR	11/18/08	8/1/22	37,190	(8,632)

	Bonds							
Bond Issue	**Type of Bond**	**Interest Rate Range**			**Final Maturity Date**	**Outstanding Fixed**	**Outstanding Variable**	**Total**
Residential Mortgage Revenue Bonds:								
2009 Series A-1	Taxable			0.075%	2041		756,000	756,000
2009 Series A-2	Tax-Exempt			0.075%	2041		116,440	116,440
2009 Series A-3	Tax-Exempt			3.100%	2041	35,980		35,980
2009 Series A-4	Tax-Exempt			0.630%	2041	108,000		108,000
2010 Series A	Tax-Exempt	0.950%	-	4.625%	2027	23,990		23,990
2011 Series A	Tax-Exempt	0.375%	-	4.750%	2028	72,000		72,000
Multifamily Loan Purchase Bonds:								
2000 Series A	Taxable			Variable	2017		27,776	27,776
Variable Rate Demand Limited Obligation Multifamily Housing Revenue Bonds (Mission Gardens Apartments Project):								
2009 Series A	Tax-Exempt			0.290%	2041		4,620	4,620
Variable Rate Demand Limited Obligation Multifamily Housing Revenue Bonds (Montecito Village Apartments Project):								
2009 Series B	Tax-Exempt			0.290%	2043		6,325	6,325
Limited Obligation Multifamily Housing Revenue Bonds (Fairmont Apartments Project):								
2009 Series C	Tax-Exempt	4.250%	-	7.000%	2026	5,650		5,650
Limited Obligation Multifamily Housing Revenue Bonds (Belovida Apartments Project):								
2010 Series A	Tax-Exempt			2.375%	2014	11,390		11,390
Multifamily Housing Revenue Bonds II:								
1996 Series A	Tax-Exempt			6.050%	2027	16,920		16,920
1996 Series B	Tax-Exempt	5.950%	-	6.150%	2022	19,175		19,175
Multifamily Housing Revenue Bonds III:								
1997 Series A	Tax-Exempt	5.850%	-	6.050%	2038	60,040		60,040
1998 Series A	Tax-Exempt	5.050%	-	5.500%	2038	27,465		27,465
1998 Series B	Tax-Exempt	5.050%	-	5.500%	2039	68,170		68,170
1998 Series C	Tax-Exempt	4.800%	-	5.300%	2028	7,330		7,330
1999 Series A	Tax-Exempt	5.200%	-	5.375%	2036	30,560		30,560
2000 Series A	Tax-Exempt			0.098%	2035		71,725	71,725
2000 Series B	Tax-Exempt			0.088%	2031		1,345	1,345
2000 Series B	Tax-Exempt			0.088%	2031		4,375	4,375
2000 Series C	Tax-Exempt			0.098%	2033		45,260	45,260
2000 Series D	Tax-Exempt			0.088%	2031		12,940	12,940
2001 Series C	Taxable			0.162%	2041		10,730	10,730
2001 Series D	Tax-Exempt			0.185%	2022		650	650
2001 Series E	Tax-Exempt			0.201%	2036		46,480	46,480
2001 Series F	Tax-Exempt			0.186%	2032		12,620	12,620
2001 Series G	Tax-Exempt			0.201%	2036		40,540	40,540
2001 Series G	Tax-Exempt			0.201%	2036		9,200	9,200
2001 Series H	Taxable			0.212%	2036		14,715	14,715
2002 Series A	Tax-Exempt			0.201%	2037		9,100	9,100
2002 Series A	Tax-Exempt			0.201%	2037		7,100	7,100
2002 Series B	Tax-Exempt			0.180%	2035		23,830	23,830

Swaps

Type	Fixed Rate Paid By Agency	Floating Rate Received By Agency	Effective Date	Termination Date	Outstanding Notional/Applicable Amount	Fair Value
Fixed payer	4.5850%	LIBOR @ 64%	7/12/00	2/1/31	1,345	(218)
Fixed payer	4.3950%	LIBOR @ 64%	11/16/00	2/1/31	13,770	(2,659)
Fixed payer	4.4520%	SIFMA less .20%	6/28/01	8/1/22	2,340	(330)
Fixed payer	4.7120%	SIFMA less .15%	6/28/01	2/1/36	46,480	(8,892)
Fixed payer	4.0290%	SIFMA less .20%	2/1/02	2/1/32	14,140	(1,496)
Fixed payer	4.2050%	SIFMA less .15%	2/1/02	8/1/36	42,160	(5,819)
Fixed payer	4.5950%	SIFMA less .15%	2/1/04	2/1/34	9,200	(1,648)
Fixed payer	4.5000%	SIFMA less .15%	8/1/02	8/1/32	16,495	(2,678)
Fixed payer	4.8900%	SIFMA less .15%	2/2/04	2/1/37	11,310	(2,436)
Fixed payer	4.0370%	SIFMA less .20%	2/1/03	2/1/35	23,830	(2,976)

				Bonds				
		Interest			Final			
	Type of	Rate			Maturity	Outstanding	Outstanding	
Bond Issue	Bond	Range			Date	Fixed	Variable	Total
2002 Series C	Tax-Exempt			0.192%	2037		6,135	6,135
2002 Series C	Tax-Exempt			0.192%	2037		15,470	15,470
2002 Series D	Tax-Exempt			0.186%	2033		4,160	4,160
2002 Series E	Tax-Exempt			0.201%	2037		14,775	14,775
2002 Series E	Tax-Exempt			0.201%	2037		39,025	39,025
2003 Series C	Tax-Exempt			0.628%	2038		13,670	13,670
2003 Series C	Tax-Exempt			0.628%	2038		13,860	13,860
2003 Series C	Tax-Exempt			0.628%	2038		13,925	13,925
2004 Series A	Tax-Exempt			3.809%	2034		18,285	18,285
2004 Series B	Tax-Exempt			4.220%	2039		12,045	12,045
2004 Series B	Tax-Exempt			4.220%	2039		6,110	6,110
2004 Series B	Tax-Exempt			4.220%	2039		5,320	5,320
2004 Series B	Tax-Exempt			4.220%	2039		14,300	14,300
2004 Series B	Tax-Exempt			4.220%	2039		1,650	1,650
2004 Series C	Tax-Exempt			0.467%	2037		7,810	7,810
2004 Series D	Tax-Exempt			0.467%	2039		48,850	48,850
2005 Series A	Tax-Exempt			0.186%	2035		2,255	2,255
2005 Series B	Tax-Exempt			0.186%	2038		2,570	2,570
2005 Series B	Tax-Exempt			0.186%	2038		15,390	15,390
2005 Series B	Tax-Exempt			0.186%	2038		3,805	3,805
2005 Series C	Tax-Exempt	3.650%	-	4.900%	2036	8,375		8,375
2005 Series D	Tax-Exempt			0.238%	2038		17,125	17,125
2005 Series E	Tax-Exempt	4.100%	-	5.125%	2038	20,875		20,875
2006 Series A	Tax-Exempt			0.192%	2041		7,080	7,080
2006 Series A	Tax-Exempt			0.192%	2041		9,120	9,120
2006 Series A	Tax-Exempt			0.192%	2041		4,145	4,145
2007 Series A	Tax-Exempt	4.000%	-	4.750%	2034	2,985		2,985
2007 Series B	Tax-Exempt			0.098%	2040		2,480	2,480
2007 Series B	Tax-Exempt			0.098%	2040		6,050	6,050
2007 Series C	Tax-Exempt			0.980%	2042		6,830	6,830
2007 Series C	Tax-Exempt			0.980%	2040		13,930	13,930
2008 Series A	Tax-Exempt			0.186%	2040		8,255	8,255
2008 Series B	Tax-Exempt			0.700%	2036		23,725	23,725
2008 Series B	Tax-Exempt			0.700%	2038		27,500	27,500
2008 Series B	Tax-Exempt			0.700%	2043		22,205	22,205
2008 Series C	Tax-Exempt			0.150%	2038		8,585	8,585
2008 Series C	Tax-Exempt			0.150%	2036		13,935	13,935
2008 Series C	Tax-Exempt			0.150%	2038		4,945	4,945
Affordable Multifamily Housing Revenue Bonds:								
2009 Series A	Taxable			0.075%	2051		187,780	187,780
2009 Series A-1	Tax-Exempt			4.090%	2043	12,500		12,500
2009 Series A-2	Tax-Exempt			3.210%	2042	4,830		4,830
2009 Series A-3	Tax-Exempt			3.210%	2042	5,740		5,740
2009 Series A-4	Tax-Exempt			3.210%	2042	5,090		5,090
2009 Series A-5	Tax-Exempt			3.210%	2042	4,650		4,650
2009 Series A-6	Tax-Exempt			3.010%	2044	5,100		5,100
2009 Series A-7	Tax-Exempt			3.010%	2051	14,570		14,570
2009 Series A-8	Tax-Exempt			3.010%	2051	13,060		13,060
2009 Series A-9	Tax-Exempt			3.010%	2044	10,850		10,850
2009 Series A-10	Tax-Exempt			3.010%	2044	48,660		48,660
2009 Series A-11	Tax-Exempt			3.010%	2040	10,000		10,000
2009 Series A-12	Tax-Exempt			3.010%	2041	6,650		6,650
2009 Series A-13	Tax-Exempt			3.010%	2041	5,910		5,910

Swaps

Type	Fixed Rate Paid By Agency	Floating Rate Received By Agency	Effective Date	Termination Date	Outstanding Notional/Applicable Amount	Fair Value
Fixed payer	4.4050%	SIFMA less .15%	2/1/04	2/1/37	13,335	(2,203)
Fixed payer	4.6380%	SIFMA less .15%	8/1/05	8/1/37	15,695	(2,970)
Fixed payer	4.0850%	SIFMA less .20%	2/3/03	2/1/35	11,285	(1,511)
Fixed payer	4.1510%	SIFMA less .15%	2/3/03	2/1/34	14,775	(2,022)
Fixed payer	4.5710%	SIFMA less .15%	11/1/04	8/1/37	39,025	(7,382)
Fixed payer	3.5560%	LIBOR @ 60%+.26%	2/1/04	8/1/35	13,670	(1,301)
Fixed payer	4.0260%	LIBOR @ 60%+.26%	8/1/05	8/1/35	14,580	(829)
Fixed payer	4.1770%	LIBOR @ 60%+.26%	2/1/06	8/1/38	16,665	(1,024)
Fixed payer	3.0590%	LIBOR @ 60%+.21%	8/1/04	8/1/34	19,760	(1,379)
Fixed payer	3.6920%	LIBOR @ 60%+.26%	8/1/06	8/1/36	12,060	(1,234)
Fixed payer	3.3860%	LIBOR @ 60%+.26%	8/1/04	8/1/34	6,130	(195)
Fixed payer	3.3300%	LIBOR @ 60%+.26%	8/1/04	8/1/34	5,090	(326)
Fixed payer	4.9783%	SIFMA less .15%	8/1/06	2/1/39	14,125	(2,273)
Fixed payer	4.5390%	SIFMA less .15%	8/1/04	8/1/34	2,465	(313)
Fixed payer	3.4350%	LIBOR @ 60%+.21%	2/1/05	8/1/25	7,930	(773)
Fixed payer	3.5640%	SIFMA less .20%	7/1/05	8/1/35	2,255	(174)
Fixed payer	3.9540%	SIFMA less .15%	6/15/05	8/1/35	2,575	(223)
Fixed payer	4.0790%	SIFMA less .15%	2/1/07	2/1/37	24,335	(2,600)
Fixed payer	3.9570%	SIFMA less .15%	8/1/07	2/1/38	3,850	(315)
Fixed payer	3.7010%	LIBOR @ 60%+.26%	2/1/06	2/1/38	30,230	(3,872)
Fixed payer	4.042% + HR	97% SIFMA & HR	6/15/06	8/1/27	7,080	(774)
Fixed payer	4.381% + HR	97% SIFMA & HR	6/15/06	8/1/39	9,120	(1,043)
Fixed payer	4.492% + HR	97% SIFMA & HR	6/15/06	2/1/41	4,145	(479)
Fixed payer	3.9370%	LIBOR @ 64%+.25%	7/12/07	2/1/22	2,480	(264)
Fixed payer	4.2220%	LIBOR @ 64%+.25%	8/1/09	2/1/40	6,050	(919)
Fixed payer	3.7280%	LIBOR @ 63%+.30%	2/1/08	8/1/42	6,710	(573)
Fixed payer	3.9190%	LIBOR @ 63%+.30%	11/1/09	8/1/40	13,930	(1,722)
Fixed payer	3.2950%	LIBOR @ 61%+.24%	11/1/09	8/1/40	10,805	(1,007)
Fixed payer	3.3850%	SIFMA less .15%	8/1/03	8/1/36	23,725	(1,548)
Fixed payer	4.2950%	SIFMA less .15%	11/18/08	2/1/38	27,535	(2,616)
Fixed payer	3.8830%	LIBOR @ 60%+.26%	12/1/04	8/1/38	8,585	(1,392)
Fixed payer	3.9680%	LIBOR @ 60%+.26%	7/1/05	2/1/36	13,935	(2,237)
Fixed payer	4.0600%	LIBOR @ 60%+.26%	2/1/06	8/1/38	8,915	(1,625)

	Bonds					
Bond Issue	**Type of Bond**	**Interest Rate Range**	**Final Maturity Date**	**Outstanding Fixed**	**Outstanding Variable**	**Total**
2009 Series A-14	Tax-Exempt	3.010%	2044	10,370		10,370
2009 Series A-15	Tax-Exempt	3.010%	2051	7,060		7,060
2009 Series A-16	Tax-Exempt	3.550%	2044	4,250		4,250
2009 Series A-17-1	Tax-Exempt	3.550%	2044	12,870		12,870
2009 Series A-17-2	Tax-Exempt	0.590%	2044	1,130		1,130
2009 Series A-18	Tax-Exempt	3.550%	2044	9,460		9,460
				2,603,214	5,240,191	7,843,405
Unamortized discount						(392)
Unamortized premium						11,714
Unamortized deferred losses on refundings						(3,702)
Total Bonds				$ 2,603,214	$ 5,240,191	$ 7,851,025

			Swaps			
	Fixed Rate	**Floating Rate**			**Outstanding**	
	Paid By	**Received By**	**Effective**	**Termination**	**Notional/Applicable**	**Fair**
Type	**Agency**	**Agency**	**Date**	**Date**	**Amount**	**Value**
					$ 2,806,555	$ (252,326)

Bank Bonds: Under standby bond purchase agreements for the Agency's Variable Rate Demand Obligations "VRDO", if the Agency's variable rate bonds cannot be remarketed, the banks under the agreement are required to buy the bonds from the bondholders. These bonds may be remarketed or may be subject to mandatory redemptions at a later date. As of June 30, 2010 and 2011, the Agency had no outstanding bank bonds.

Note Payable: The Agency entered into a loan agreement with Citibank N.A. on March 1, 2010. The Agency received funds to use for special bond redemptions in exchange for a total note payable of $95.1 million. The loan is collateralized by the Multifamily loan receivables. The Agency collects and remits the mortgage payments less servicing fees to Citibank on 35 Multifamily loans. The Citibank loans note payable balance are $90.1 million and $93.9 million at June 30, 2011 and 2010, respectively, as included in Notes Payable in the combined balance sheets. The maturity dates of the note payable are various and ranges from March 1, 2012 to January 1, 2046. The range of the interest rates for the note payable are from 5.25% to 9.15%.

Reconciliation of Bonds Payable: Changes in bonds payable for the year ended June 30, 2011 and 2010 are as follows (dollars in thousands):

	2011 Combined Totals	**2010 Combined Totals**
Beginning of year balance	$ 8,905,816	$ 8,243,621
New bonds issued	111,627	1,398,383
Scheduled maturities	(171,286)	(131,491)
Redemptions	(994,314)	(607,194)
Bond accretions	2,478	3,110
Amortized discount	331	64
Amortized premium	(4,112)	(1,700)
Amortized deferred loss	485	1,023
End of year balance	$ 7,851,025	$ 8,905,816
Current portion	$ 173,960	$ 158,969
Noncurrent portion	7,677,065	8,746,847
Total	$ 7,851,025	$ 8,905,816

Variable Rate Debt and Debt Service Requirements: The Agency's variable rate debt is typically related to common indices such as the Securities Industry and Financial Markets Association ("SIFMA") or the London Inter-Bank Offered Rate ("LIBOR") and resets periodically. The interest calculations shown in the table below are based on the variable rate in effect at June 30, 2011, and may not be indicative of the actual interest expense that will be incurred by the Fund. As rates vary, variable rate bond interest payments and net swap payments will vary. The table below provides a summary of debt service requirements and net swap payments for the next five years and in five year increments thereafter (dollars in thousands).

Fiscal Year	Fixed/Variable Unswapped		Variable Swapped		Interest Rate	
Ending June 30	Principal	Interest	Principal	Interest	Swaps, Net	Total
2012	$ 140,507	$132,610	$ 33,453	$ 6,579	$ 105,574	$ 418,723
2013	134,088	130,863	37,111	5,080	97,514	404,656
2014	135,659	127,189	46,430	4,922	89,892	404,092
2015	153,459	123,092	53,141	4,761	82,920	417,373
2016	143,299	117,257	62,044	4,592	76,482	403,674
2017-2021	724,583	509,738	356,210	20,202	303,890	1,914,623
2022-2026	698,648	390,041	418,155	15,311	208,261	1,730,416
2027-2031	726,069	280,355	641,814	10,524	135,608	1,794,370
2032-2036	679,664	188,440	570,856	4,380	59,065	1,502,405
2037-2041	521,681	100,629	199,304	816	8,492	830,922
2042-2046	1,118,143	34,183	24,947	54	52	1,177,379
2047-2051	1,670	10,012				11,682
2052-2056	222,470	957				223,427
Total	$ 5,399,940	$ 2,145,366	$ 2,443,465	$ 77,221	$ 1,167,750	$ 11,233,742

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 under Basis Risk Associated with Interest Rate Swaps. Synthetic fixed rates provide the Agency with a significantly lower fixed cost of funds compared to issuing fixed-rate bonds; however, the increased risks related to the synthetic fixed rates have the effect of increasing costs to the Agency.

Terms, Fair Value and Credit Risk*:* The terms, including the fair values, of the outstanding fixed payer swaps as of June 30, 2011 are summarized in the previous bonds payable and swaps table. The terms, including fair values, of the outstanding basis swaps are summarized in the table under Basis Risk Associated with Interest Rate Swaps.

The fair value of the swaps is reported as "Derivative Swap Asset" within "Other assets and deferred outflow" in the combined balance sheets or as "Derivative Swap Liability" within "Other liabilities and deferred inflow." The cumulative gain or loss on the fair value of the effective swaps is reported as "Other assets and deferred outflows" or "Other liabilities and deferred inflows" in the combined balance sheets. Alternatively, the gain or loss on the fair value of the ineffective swaps is reported as "Investment revenues" in "Other revenues" 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 except for in-substance assignments. The following table summarizes the swap fair value activity in the combined balance sheets as of June 30, 2011 and 2010 and the combined statements of revenues, expenses, and changes in Fund equity for the years ended June 30, 2011 and 2010 (dollars in thousands):

	2011	2010
Combined Balance Sheets:		
Derivative swap asset	$ 113	$ 287
Other assets and deferred outflows	212,374	292,762
Derivative swap liability	252,486	329,689
Combined Statements of Revenues, Expenses, and Changes in Fund Equity:		
Investment revenues	$ (3,360)	$ (26,815)

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

As of June 30, 2011, the Agency executes interest rate swap transactions with 13 swap counterparties. All of the Agency's interest rate swap agreements require the Agency to post collateral if its general obligation credit ratings, as issued by Moody's and Standard and Poor's fall below a certain level or if the fair value of the swaps breach a certain threshold. The collateral can be posted in several forms in the amount of the fair value of the interest rate swaps. If the Agency does not post collateral, the interest rate swap can be terminated by the counterparty. As of June 30, 2011, the Agency had a total cash and fair market value of Fannie Mae securities posted as collateral with swap counterparties in the amount of $51.9 million and $26.2 million, respectively, as included in "Other assets" and "Investments" in the combined balance sheets. As of June 30, 2010, the Agency had a total cash and fair market value of Fannie Mae securities posted as collateral in the amount of $33.4 million and $42.9 million, respectively

Because interest rates are generally lower than the rates in effect at inception of the swap agreements, the Agency's fixed payer swap agreements had an aggregate negative fair value of $252.3 million as of June 30, 2011 and $329.7 million as of June 30, 2010. Fair values are as reported by the Agency's dealer counterparties and are estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

As of June 30, 2011, the Agency's swap portfolio had an aggregate asset position of $0.1 million. This represents the maximum loss that would be reported at the reporting date if all counterparties failed to perform as contracted. However, this maximum exposure is eliminated by $252.5 million in swap liabilities. Therefore, the Agency has no net exposure to credit risk.

The table below shows the number of fixed payer swaps and outstanding notional amounts by the counterparties' respective credit ratings as of June 30, 2011 (dollars in thousands).

Moody's	Standard & Poors	Outstanding Notional Amount	Number of Swap Transactions
Aaa	AA	$ 25,000	1
Aa1	AAA	244,695	8
Aa1	AA-	782,170	21
Aa2	AA	63,335	2
Aa3	AAA	67,295	7
Aa3	A+	319,135	18
A1	A	10,805	1
A2	A	730,495	31
A3	A	355,160	10
A3	A-	208,465	7
		$ 2,806,555	106

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

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

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

Multiple swap formulas have been used by the Agency. As of June 30, 2011, the formulas for the swap portfolio utilized the SIFMA, the 1 month LIBOR, the 3 month LIBOR, and the 6 month LIBOR rates. As of June 30, 2011, rates for the SIFMA, the 1 month LIBOR, the 3 month LIBOR, and the 6 month LIBOR were 0.09%, 0.19%, 0.25% and 0.40% respectively. The swap formulas will continue to be monitored for its effectiveness in the case that the Agency chooses to enter into any future interest rate swaps. In addition, the Agency holds 8 basis swaps as a means to change the variable rate formula received for $240.4 million of swap notional amount. These basis swaps changed the variable rate formula received from counterparties from 65% of LIBOR to those described in the following table as of June 30, 2011 (dollars in thousands):

Bond Issue	Variable Rate Paid By Agency	Floating Rate Received By Agency */**	Effective Date	Termination Date	Outstanding Notional/Applicable Amount	Fair Value
Home Mortgage Revenue Bonds:						
2000 Series C	LIBOR @ 65%	LIBOR @ 85%-0.019%	2/1/04	2/1/17	$ 32,795	$ 41
2000 Series J	LIBOR @ 65%	LIBOR @ 85%-0.019%	2/1/04	8/1/30	22,355	(44)
2000 Series U	LIBOR @ 65%	LIBOR @ 85%-0.019%	2/1/04	8/1/15	22,835	27
2000 Series X-2	LIBOR @ 65%	LIBOR @ 85%-0.019%	2/1/04	8/1/31	24,905	(30)
2001 Series N	LIBOR @ 65%	LIBOR @ 85%-0.019%	2/1/04	8/1/18	10,495	12
2002 Series B	LIBOR @ 65%	LIBOR @ 85%-0.019%	2/1/04	8/1/27	36,440	(74)
2002 Series F	LIBOR @ 65%	LIBOR @ 85%-0.019%	2/1/04	2/1/24	48,995	(12)
2002 Series M	LIBOR @ 65%	LIBOR @ 85%-0.019%	2/1/04	8/1/22	41,600	33
					$ 240,420	$ (47)

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

**The variable interest rate received by the counterparties is dependent on the LIBOR interest rate at the time of settlement. The rate shown in the table is the effective rate at June 30, 2011.

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

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

Over Hedged Bonds: All notional amounts (or "applicable amounts") of the fixed payer swaps match the principal amounts of the associated debt with the following exceptions as of June 30, 2011 (dollars in thousands):

Bond Issue	Bonds Outstanding	Swap Notional Amount	Unmatched Swap	Fair Value
Home Mortgage Revenue Bonds				
2000 Series C *		$ 32,795	$ 32,795	$ 41
2000 Series J *		20,675	20,675	(4,371)
2000 Series U*		22,835	22,835	27
2000 Series X2 *	$ 19,220	24,905	5,685	(1,009)
2001 Series N *		9,140	9,140	(693)
2001 Series U	47,325	47,460	135	(14)
2002 Series F *		41,990	41,990	(4,454)
2002 Series P		51,795	51,795	(4,353)
2002 Series Q	10,365	13,310	2,945	(147)
2004 Series A		30,890	30,890	(1,836)
2004 Series A		3,080	3,080	(10)
2004 Series G		52,880	52,880	(4,940)
2004 Series G		10,455	10,455	(385)
2004 Series I		2,250	2,250	(7)
2004 Series I		17,020	17,020	(1,508)
2006 Series F	35,435	60,000	24,565	(1,781)
2008 Series I	13,990	37,190	23,200	(5,385)
Multifamily Housing Revenue Bonds III:				
2000 Series D	12,940	13,770	830	(160)
2001 Series D	650	2,340	1,690	(238)
2001 Series F	12,620	14,140	1,520	(161)
2001 Series G	40,540	42,160	1,620	(224)
2002 Series A	9,100	16,495	7,395	(1,200)
2002 Series A	7,100	11,310	4,210	(907)
2002 Series C	15,470	15,695	225	(43)
2002 Series C	6,135	13,335	7,200	(1,190)
2002 Series D	4,160	11,285	7,125	(954)
2003 Series C	13,860	14,580	720	(41)
2003 Series C	13,925	16,665	2,740	(168)
2004 Series A	18,285	19,760	1,475	(103)
2004 Series B	12,045	12,060	15	(2)
2004 Series B	6,110	6,130	20	(1)
2004 Series B	1,650	2,465	815	(104)
2004 Series C	7,800	7,930	130	(13)
2005 Series B	2,570	2,575	5	
2005 Series B	15,390	24,335	8,945	(956)
2005 Series B	3,805	3,850	45	(4)
2005 Series D	17,125	30,230	13,105	(1,679)
2008 Series A	8,255	10,805	2,550	(238)
2008 Series B	27,500	27,535	35	(3)
2008 Series C	4,945	8,915	3,970	(724)
Total	$ 388,315	$ 807,035	$ 418,720	$ (39,938)

*Includes Basis Swap.

Borrowings Payable for Interest Rate Swaps: The Agency transfers excess interest rate swap notional (or applicable) amounts between variable rate bond series. Generally, the transfers result in derivative instruments with off-market terms. The Agency establishes a borrowing payable in the amount of the swap fair value at the time of transfer and amortizes it over the life of the swap. The borrowings payable is reported as "Other liabilities and deferred inflows" in the combined balance sheets and the amortization is reported as "Interest" in the combined statements of revenues, expenses, and changes in Fund equity. The borrowings payable as of June 30, 2011 and 2010 are as follows (dollars in thousands):

		Outstanding Borrowings Payable	
	Swap Maturity Date	2011	2010
Home Mortgage Revenue Bonds:			
2008 Series C	2/1/23	$ 406	$ 452
2008 Series C	8/1/22		1,425
2008 Series C	8/1/24	1,274	1,439
2008 Series C	2/1/24	716	764
2008 Series C	8/1/32	787	819
2008 Series D	2/1/21	1,010	1,246
2008 Series D	8/1/30	397	412
2008 Series D	8/1/20	267	292
2008 Series D	8/1/18	113	127
2008 Series D	8/1/32	332	344
2008 Series E	8/1/15	961	1,425
2008 Series I	8/1/14	446	791
Multifamily Housing Revenue Bonds III			
2008 Series C	8/1/38	667	699
2008 Series C	2/1/36	1,126	1,194
2008 Series C	8/1/38	857	899
Total		$ 9,359	$ 12,328

The following table provides a summary of the amortization of the borrowings payable for the next five years and in five year increments thereafter (dollars in thousands):

Fiscal Year Ending June 30	Amortization
2012	$ 1,337
2013	1,077
2014	839
2015	672
2016	574
2017-2021	2,551
2022-2026	1,368
2027-2031	715
2032-2036	199
2037-2041	27
Total	$ 9,359

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, 2011 and 2010, the Fund had liabilities to the IRS totaling $2.3 million and $5.0 million 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. As of June 30, 2011 and 2010, the Fund had liabilities to the IRS totaling $20.9 million and $14.4 million respectively reported in the combined balance sheets as "Due to other Government entities." The net effect of this change is recorded as a reduction in "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

For the years ended June 30, 2011 and 2010, the Agency did not economically refund any of its bond indebtedness and therefore incurred no loss on the extinguishment of debt. However, for the year ended June 30, 2011 and 2010, the Agency recorded a gain on the early extinguishment of debt of $35.5 million and $3.1 million, respectively.

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, 2011 the employer contribution rates were 17.528 - 16.442% for the period from July 2010 to December 2010 and 19.922% - 19.622% for the period from January 2011 to June 2011. The employer contribution rates were 16.917% - 16.737% for fiscal year ended June 30, 2010.

The Fund's contributions to the PERF for the years ended June 30, 2011 and 2010 were $5.9 million and $5.3 million, 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, 2009 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. For trend information, which presents CalPERS progress in accumulating sufficient assets to pay benefits when due, please see the June 30, 2011 CalPERS CAFR.

The Other Postemployment Benefits ("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 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 costs were $9.9 million and $7.4 million for the year ended June 30, 2011 and June 30, 2010. This liability was added to personal services at the end of fiscal 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, 2011, the Agency had no outstanding commitments and conditionally approved loan reservation to fund Homeownership Program and Multifamily Program loans. As of June 30, 2011, the Agency had proceeds available from bonds issued to fund $12.7 million of Homeownership Program loans and $3.3 million 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. Monthly, 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 ("SBSA")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 $10 million 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, 2011.

Resolution 03-19 authorized the Executive Director of the Agency to create one or more supplementary reserve accounts within the SBSA of the California Housing Finance Fund to indemnify the Mortgage Insurance Fund for losses incurred or to pay claims, the amendment places a limitation on the indemnity obligation to an aggregate amount not to exceed $135 million. As of June 30, 2011, a total of $127.6 million in gap claim payments has been paid from May 2008 through June 2011 leaving a balance of $7.4 million to be paid out of the SBSA (see Note 14 – Subsequent Events). As of June 30, 2011, the gap reserve established under the HMRB indenture increased $45.6 million from $40.2 million to $85.8 million.

Prior to February 2011, Genworth was paying the full amount of the loss (100%) to the insured and was billing the Mortgage Insurance Fund for its portion of the loss (25%) each month. Effective February 1, 2011, Genworth is paying for their portion of the loss (75%) directly to the insured and the Mortgage Insurance Fund is paying for its portion of the loss (25%) directly to the insured. As of June 30, 2011, the amount of cash and investments remaining in the Mortgage Insurance Fund to pay outstanding claims was $7.7 million. The California Housing Finance Fund has already established a reserve to cover the anticipated shortfall for the loans insured by the Mortgage Insurance Fund. As of June 30, 2011, the reserve amount established under the HMRB indenture was $29.5 million.

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.

Note 14 – SUBSEQUENT EVENTS

Last year, the Agency established a cap of $135 million on the Fund's indemnification payment to the Mortgage Insurance Fund. In August 2011, the cap was reached and the aggregate total of $135 million in gap claim payments was paid from May 2008 to August 2011.

On September 13, 2011, the Agency received a notice of intent from the Department of the Treasury to extend the Temporary Credit and Liquidity Program ("TCLP") for a period of three years. The expiration date would change from December 31, 2012 to December 31, 2015. TCLP provides replacement credit and liquidity facilities for outstanding HFA variable rate debt.

On September 19, 2011, Moody's Investor Services downgraded the Agency's issuer credit rating to A3 from A2 with negative outlook and downgraded the Agency's HMRB to Baa2 from Baa1 with negative outlook. The rating actions did not trigger any additional collateral postings.

The recent S&P downgrade of the long-term U.S. sovereign debt did not materially affect the Fund's investment portfolio. The fair market value of the Fund's securities as of September 22, 2011 was increased compared to June 30, 2011.

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CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL COMBINING BALANCE SHEET
WITH ADDITIONAL COMBINING INFORMATION
June 30, 2011
(Dollars in Thousands)

	HOMEOWNERSHIP PROGRAMS	MULTIFAMILY RENTAL HOUSING PROGRAMS	OTHER PROGRAMS AND ACCOUNTS	COMBINED TOTALS
ASSETS				
Current assets:				
Cash and cash equivalents	$ 916,524	$ 188,406	$ 26,047	$ 1,130,977
Investments	860,528	108,617	857,368	1,826,513
Current portion - program loans receivable	86,185	70,590	15,252	172,027
Interest receivable - Program loans	25,582	7,745	4,787	38,114
Interest receivable - Investments	4,958	879	1,171	7,008
Accounts receivable	17,489	1,054	10,585	29,128
Due (to) from other funds	(28,422)	(11,563)	39,985	-
Other assets	55	8,089	44,291	52,435
Total current assets	1,882,899	373,817	999,486	3,256,202
Noncurrent assets:				
Investments	340,305	14,498	23,805	378,608
Program loans receivable	4,351,477	1,232,605	564,996	6,149,078
Deferred financing costs	24,166	4,512	11	28,689
Other assets and deferred outflow	192,533	69,161	144,452	406,146
Total Noncurrent assets	4,908,481	1,320,776	733,264	6,962,521
Total Assets	$ 6,791,380	$ 1,694,593	$ 1,732,750	$ 10,218,723
LIABILITIES AND FUND EQUITY				
Current liabilities:				
Bonds payable	$ 137,888	$ 36,073	-	$ 173,961
Interest payable	47,551	18,224	$ 34,904	100,679
Due (from) to other government entities	(1,457)	-	24,346	22,889
Compensated absences	-	-	4,365	4,365
Deposits and other liabilities	119,493	49	227,238	346,780
Total current liabilities	303,475	54,346	290,853	648,674
Noncurrent liabilities:				
Bonds and notes payable, net	6,227,159	1,449,904	90,979	7,768,042
Due to other government entities	5,678	17,539	9,939	33,156
Other liablities and deferred inflow	-	80,921	180,924	261,845
Deferred revenues	7,497	13	19,421	26,931
Total noncurrent liabilities	6,240,334	1,548,377	301,263	8,089,974
Total Liabilities	6,543,809	1,602,723	592,116	8,738,648
Fund equity				
Invested in capital assets	-	-	1,114	1,114
Restricted by indenture	247,571	91,870	-	339,441
Restricted by statute	-	-	1,139,520	1,139,520
Total Fund equity	247,571	91,870	1,140,634	1,480,075
Total Liabilities and Fund equity	$ 6,791,380	$ 1,694,593	$ 1,732,750	$ 10,218,723

CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL COMBINING STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN FUND EQUITY WITH ADDITIONAL COMBINING INFORMATION
June 30, 2011
(Dollars in Thousands)

	HOMEOWNERSHIP PROGRAMS	MULTIFAMILY RENTAL HOUSING PROGRAMS	OTHER PROGRAMS AND ACCOUNTS	COMBINED TOTALS
OPERATING REVENUES				
Interest income:				
Program loans and loan agreements -- net	$ 263,768	$ 61,164	$ 21,423	$ 346,355
Interest income - Investments -- net	22,494	3,740	5,380	31,614
Decrease in fair value of investments	(4,412)	(184)	(255)	(4,851)
Loan commitment fees	168	-	2,339	2,507
Other loan fees	39	-	28,782	28,821
Other revenues	36,031	(1,176)	64,898	99,753
Total Operating revenues	318,088	63,544	122,567	504,199
OPERATING EXPENSES				
Interest	129,500	45,103	74,650	249,253
Amortization of bond discount and bond premium	(3,748)	451	-	(3,297)
Mortgage servicing fees	13,559	6	120	13,685
Provision (reversal) for estimated loan losses	51,111	(1,442)	13,189	62,858
Operating expenses	-	-	42,668	42,668
Other expenses	128,413	7,982	119,493	255,888
Total Operating expenses	318,835	52,100	250,120	621,055
Operating (loss) income before transfers	(747)	11,444	(127,553)	(116,856)
Transfers interfund	-	-	42,948	42,948
Transfers intrafund	(91,341)	(10,863)	102,204	-
(Decrease) Increase in fund equity	(92,088)	581	17,599	(73,908)
Fund equity at beginning of year	339,659	91,289	1,123,035	1,553,983
	339,659	91,289	1,123,035	1,553,983
Fund equity at end of year	$ 247,571	$ 91,870	$ 1,140,634	$ 1,480,075

CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL COMBINING STATEMENT OF CASH FLOWS
WITH ADDITIONAL COMBINING INFORMATION
June 30, 2011
(Dollars in Thousands)

	HOMEOWNERSHIP PROGRAMS	MULTIFAMILY RENTAL HOUSING PROGRAMS	OTHER PROGRAMS AND ACCOUNTS	COMBINED TOTALS
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	$ 261,940	$ 60,050	$ 21,660	$ 343,650
Payments to suppliers	(14,596)	(177)	(12,510)	(27,283)
Payments to employees	-	-	(30,206)	(30,206)
Other receipts (payments)	793,714	(157,363)	(46,090)	590,261
Net cash provided by (used for) operating activities	1,041,058	(97,490)	(67,146)	876,422
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Intrafund transfers	(91,341)	(10,863)	102,204	-
Changes in due from other government entities	(1,396)	-	(63,524)	(64,920)
Net cash provided by (used for) noncapital financing activities	(92,737)	(10,863)	38,680	(64,920)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from sales of bonds	96,000	15,627	-	111,627
Payment of bond principal	(128,239)	(43,047)	(2,875)	(174,161)
Early bond redemptions	(972,204)	(22,110)	-	(994,314)
Interest paid on debt	(142,898)	(45,021)	(83,865)	(271,784)
Interfund transfers	-	-	42,948	42,948
Increase in deferred financing costs	(1,006)	-	(61)	(1,067)
Net cash used for capital and related financing activities	(1,148,347)	(94,551)	(43,853)	(1,286,751)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from maturity and sale of investments	2,679,265	187,195	967,103	3,833,563
Purchase of investments	(2,658,532)	(182,143)	(931,546)	(3,772,221)
Interest on investments	23,238	3,564	5,667	32,469
Net cash provided by investing activities	43,971	8,616	41,224	93,811
Net decrease in cash and cash equivalents	(156,055)	(194,288)	(31,095)	(381,438)
Cash and cash equivalents at beginning of year	1,072,579	382,694	57,142	1,512,415
Cash and cash equivalents at end of year	$ 916,524	$ 188,406	$ 26,047	$ 1,130,977
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:				
Operating (loss) income	(747)	11,444	(127,553)	(116,856)
Adjustments to reconcile operating (loss) income to net cash provided by (used for) operating activities:				
Interest expense on debt	129,500	45,103	74,650	249,253
Interest on investments	(22,494)	(3,740)	(5,381)	(31,615)
Changes in fair value of investments	4,413	184	255	4,852
Accretion of capital appreciation bonds	2,478	-	-	2,478
Amortization of bond discount	111	219	-	330
Amortization of deferred losses	253	232	-	485
Amortization of bond issuance costs	5,879	584	70	6,533
Amortization of bond premium	(4,112)	-	-	(4,112)
Amortization of deferred revenue	(168)	-	(2,339)	(2,507)
Depreciation	-	-	248	248
Provision (reversal) for estimated loan losses	51,111	(1,442)	13,189	62,858
Provision for yield reduction payments	(2,504)	8,979	-	6,475
Provision for nonmortgage investment excess	(800)	(1,298)	(548)	(2,646)
Changes in certain assets and liabilities:				
Purchase of program loans-net	(33,527)	(219,278)	(46,454)	(299,259)
Collection of principal from program loans - net	851,212	62,277	154,400	1,067,889
Interest receivable	(1,829)	(1,114)	237	(2,706)
Accounts receivable	3,176	(1,054)	(2,283)	(161)
Due (from) to other funds	(14,698)	11,358	3,340	-
Other assets and deferred outflow	5	820	60,631	61,456
Compensated absences	-	-	7	7
Deposits and other liab	73,543	(553)	(119,673)	(46,683)
Other liabilities and deferred inflow	256	(10,211)	(69,942)	(79,897)
Net cash provided by (used for) operating activities	$ 1,041,058	$ (97,490)	$ (67,146)	$ 876,422
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION				
Noncash transfer of program loan to REO	$ 4,665	$ -	$ (448)	$ 4,217

CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL BALANCE SHEET
HOMEOWNERSHIP PROGRAMS
June 30, 2011
(Dollars in Thousands)

	HOME MORTGAGE REVENUE BONDS	DRAW DOWN BONDS	SINGLE FAMILY HOUSING PROGRAM BONDS
ASSETS			
Current assets:			
Cash and cash equivalents	$ 42,413	$ -	$ 2
Investments	791,903	90	2,508
Current portion - program loans receivable	85,202	-	-
Interest receivable - Program loans	25,042	-	166
Interest receivable - Investments	4,391	-	3
Accounts receivable	17,238	-	-
Due (to) from other funds	(28,361)	-	155
Other assets	55	-	-
Total current assets	937,883	90	2,834
Noncurrent assets:			
Investments	159,553	-	-
Program loans receivable	4,255,584	-	49,187
Deferred financing costs	22,575	-	501
Other assets and deferred outflow	191,652	-	-
Total Noncurrent assets	4,629,364	-	49,688
Total Assets	$ 5,567,247	$ 90	$ 52,522
LIABILITIES AND FUND EQUITY			
Current liabilities:			
Bonds payable	$ 135,008	$ -	$ -
Interest payable	41,367	-	1,017
Due from other government entities	(1,457)	-	-
Deposits and other liabilities	119,466	-	4
Total current liabilities	294,384	-	1,021
Noncurrent liabilities:			
Bonds and notes payable, net	4,992,322	-	77,545
Due to other government entities	5,678	-	-
Deferred revenues	7,471	-	-
Total noncurrent liabilities	5,005,471	-	77,545
Total Liabilities	5,299,855	-	78,566
Fund equity			
Invested in capital assets	-	-	-
Restricted by indenture	267,392	90	(26,044)
Restricted by statute	-	-	-
Total Fund equity	267,392	90	(26,044)
Total Liabilities and Fund equity	$ 5,567,247	$ 90	$ 52,522

SINGLE FAMILY HOME MORTGAGE BONDS	RESIDENTIAL MORTGAGE REVENUE BONDS	TOTAL HOMEOWNERSHIP PROGRAMS
$ 9	$ 874,100	$ 916,524
3,954	62,073	860,528
983	-	86,185
374	-	25,582
5	559	4,958
251	-	17,489
(216)	-	(28,422)
-	-	55
5,360	936,732	1,882,899
877	179,875	340,305
46,706	-	4,351,477
101	989	24,166
881	-	192,533
48,565	180,864	4,908,481
$ 53,925	$ 1,117,596	$ 6,791,380
$ 1,880	$ 1,000	$ 137,888
2,201	2,966	47,551
-	-	(1,457)
19	4	119,493
4,100	3,970	303,475
45,882	1,111,410	6,227,159
-	-	5,678
26	-	7,497
45,908	1,111,410	6,240,334
50,008	1,115,380	6,543,809
-	-	-
3,917	2,216	247,571
-	-	-
3,917	2,216	247,571
$ 53,925	$ 1,117,596	$ 6,791,380

CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN FUND EQUITY
HOMEOWNERSHIP PROGRAM
June 30, 2011
(Dollars in Thousands)

	HOME MORTGAGE REVENUE BONDS	DRAW DOWN BONDS	SINGLE FAMILY HOUSING PROGRAM BONDS
OPERATING REVENUES			
Interest income:			
Program loans and loan agreements -- net	$ 260,366	$ -	$ 608
Interest income - Investments -- net	20,329	-	15
Decrease in fair value of investments	(2,576)	-	-
Loan commitment fees	166	-	-
Other loan fees	39	-	-
Other revenues	35,771	-	260
Total Operating revenues	314,095	-	883
OPERATING EXPENSES			
Interest	121,601	-	2,381
Amortization of bond discount and bond premium	(3,758)	-	-
Mortgage servicing fees	13,418	-	-
Provision for estimated loan losses	41,680	-	9,386
Operating expenses	-	-	-
Other expenses	127,514	-	326
Total Operating expenses	300,455	-	12,093
Operating income (loss) before transfers	13,640	-	(11,210)
Transfers interfund	-	-	-
Transfers intrafund	(99,295)	(21)	3,530
(Decrease) increase in fund equity	(85,655)	(21)	(7,680)
Fund equity at beginning of year	353,047	111	(18,364)
	353,047	111	(18,364)
Fund equity at end of year	$ 267,392	$ 90	$ (26,044)

SINGLE FAMILY HOME MORTGAGE BONDS	RESIDENTIAL MORTGAGE REVENUE BONDS	TOTAL HOMEOWNERSHIP PROGRAMS
$ 2,794	$ -	$ 263,768
44	2,106	22,494
(26)	(1,810)	(4,412)
2	-	168
-	-	39
-	-	36,031
2,814	296	318,088
3,024	2,494	129,500
10	-	(3,748)
141	-	13,559
45	-	51,111
-	-	-
20	553	128,413
3,240	3,047	318,835
(426)	(2,751)	(747)
-	-	-
-	4,445	(91,341)
(426)	1,694	(92,088)
4,343	522	339,659
4,343	522	339,659
$ 3,917	$ 2,216	$ 247,571

CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL STATEMENT OF CASH FLOWS -
HOMEOWNERSHIP PROGRAMS
June 30, 2011
(Dollars in Thousands)

	HOME MORTGAGE REVENUE BONDS	DRAW DOWN BONDS	SINGLE FAMILY HOUSING PROGRAM BONDS
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	$ 258,658	$ -	$ 607
Payments to suppliers	(14,426)	-	(15)
Payments to employees	-	-	-
Other receipts (payments)	795,761	-	1,919
Net cash provided by operating activities	1,039,993	-	2,511
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Intrafund transfers	(99,295)	(21)	3,530
Changes in due from other government entities	(1,396)	-	-
Net cash (used for) provided by noncapital financing activities	(100,691)	(21)	3,530
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from sales of bonds	-	-	-
Payment of bond principal	(126,709)	-	-
Early bond redemptions	(967,974)	-	(4,200)
Interest paid on debt	(137,323)	-	(2,470)
Interfund transfers	-	-	-
Increase in deferred financing costs	-	-	-
Net cash (used for) provided by capital and related financing activities	(1,232,006)	-	(6,670)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from maturity and sale of investments	2,412,532	-	4,192
Purchase of investments	(2,154,339)	(1)	(3,609)
Interest on investments	21,628	-	16
Net cash provided by (used for) investing activities	279,821	(1)	599
Net decrease in cash and cash equivalents	(12,883)	(22)	(30)
Cash and cash equivalents at beginning of year	55,296	22	32
Cash and cash equivalents at end of year	$ 42,413	$ -	$ 2
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:			
Operating income (loss)	$ 13,640	$ -	$ (11,211)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Interest expense on debt	121,601	-	2,381
Interest on investments	(20,329)	-	(15)
Changes in fair value of investments	2,576	-	-
Accretion of capital appreciation bonds	2,478	-	-
Amortization of bond discount	111	-	-
Amortization of deferred losses	243	-	-
Amortization of bond issuance costs	5,277	-	57
Amortization of bond premium	(4,112)	-	-
Amortization of deferred revenue	(166)	-	-
Provision for estimated loan losses	41,679	-	9,386
Provision for yield reduction payments	(2,504)	-	-
Provision for nonmortgage investment excess	(800)	-	-
Changes in certain assets and liabilities:			
Purchase of program loans-net	(26,272)	-	-
Collection of principal from program loans - net	845,737	-	1,960
Interest receivable	(1,709)	-	(1)
Accounts receivable	3,399	-	-
Due from other funds	(14,671)	-	(26)
Other assets and deferred outflow	5	-	-
Compensated absences	-	-	-
Deposits and other liab	73,554	-	(20)
Other liabilities and deferred inflow	256	-	-
Net cash provided by (used for) operating activities	$ 1,039,993	$ -	$ 2,511
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Noncash transfer of program loan to REO	$ 5,039	$ -	$ -

SINGLE FAMILY HOME MORTGAGE BONDS	RESIDENTIAL MORTGAGE REVENUE BONDS	TOTAL HOMEOWNERSHIP PROGRAMS
$ 2,675	$ -	$ 261,940
(146)	(9)	(14,596)
-	-	-
(3,966)	-	793,714
(1,437)	(9)	1,041,058
-	4,445	(91,341)
-	-	(1,396)
-	4,445	(92,737)
-	96,000	96,000
(1,530)	-	(128,239)
-	(30)	(972,204)
(3,063)	(42)	(142,898)
-	-	-
-	(1,006)	(1,006)
(4,593)	94,922	(1,148,347)
15,910	246,631	2,679,265
(10,194)	(490,389)	(2,658,532)
47	1,547	23,238
5,763	(242,211)	43,971
(267)	(142,853)	(156,055)
276	1,016,953	1,072,579
$ 9	$ 874,100	$ 916,524
$ (425)	$ (2,751)	$ (747)
3,023	2,495	129,500
(44)	(2,106)	(22,494)
27	1,810	4,413
-	-	2,478
-	-	111
10	-	253
6	539	5,879
-	-	(4,112)
(2)	-	(168)
46	-	51,111
-	-	(2,504)
-	-	(800)
(7,255)	-	(33,527)
3,515	-	851,212
(119)	-	(1,829)
(223)	-	3,176
(1)	-	(14,698)
-	-	5
-	-	-
5	4	73,543
-	-	256
$ (1,437)	$ (9)	$ 1,041,058
$ (374)	$ -	$ 4,665

CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL BALANCE SHEET
MULTIFAMILY RENTAL HOUSING PROGRAMS
June 30, 2011
(Dollars in Thousands)

	MULTIFAMILY LOAN PURCHASE BONDS	MULTIFAMILY HOUSING REVENUE BONDS II	MULTIFAMILY HOUSING REVENUE BONDS III	MULTIFAMILY HOUSING PROGRAM BONDS
ASSETS				
Current assets:				
Cash and cash equivalents	$ 1	$ 1	$ 235	$ 10
Investments	1,237	6,826	88,917	11,637
Current portion - program loans receivable	17,111	1,041	51,273	1,011
Interest receivable - Program loans	-	192	4,974	1,245
Interest receivable - Investments	-	8	855	16
Accounts receivable	-	-	1,054	-
Due (to) from other funds	-	-	(11,611)	48
Other assets	-	32	8,057	-
Total current assets	18,349	8,100	143,754	13,967
Noncurrent assets:				
Investments	-	-	14,498	-
Program loans receivable	9,583	31,458	935,232	35,773
Deferred financing costs	-	40	4,266	206
Other assets and deferred outflow	-	-	69,161	-
Total Noncurrent assets	9,583	31,498	1,023,157	35,979
Total Assets	$ 27,932	$ 39,598	$ 1,166,911	$ 49,946
LIABILITIES AND FUND EQUITY				
Current liabilities:				
Bonds payable	$ -	$ 550	$ 30,323	$ -
Interest payable	158	915	15,420	40
Deposits and other liabilities	1	2	46	-
Total current liabilities	159	1,467	45,789	40
Noncurrent liabilities:				
Bonds and notes payable, net	27,776	35,371	938,992	44,450
Due to other government entities	-	-	17,539	-
Other liablities and deferred inflow	-	-	80,921	-
Deferred revenues	-	-	13	-
Total noncurrent liabilities	27,776	35,371	1,037,465	44,450
Total Liabilities	27,935	36,838	1,083,254	44,490
Fund equity				
Invested in capital assets	-	-	-	-
Restricted by indenture	(3)	2,760	83,657	5,456
Restricted by statute	-	-	-	-
Total Fund equity	(3)	2,760	83,657	5,456
Total Liabilities and Fund equity	$ 27,932	$ 39,598	$ 1,166,911	$ 49,946

MULTIFAMILY CONDUITS	AFFORDABLE MULTIFAMILY HOUSING REVENUE BONDS	TOTAL MULTIFAMILY RENTAL HOUSING PROGRAMS
$ 22	$ 188,137	$ 188,406
-	-	108,617
154	-	70,590
136	1,198	7,745
-	-	879
-	-	1,054
-	-	(11,563)
-	-	8,089
312	189,335	373,817
-	-	14,498
27,809	192,750	1,232,605
-	-	4,512
-	-	69,161
27,809	192,750	1,320,776
$ 28,121	$ 382,085	$ 1,694,593
$ 5,200	$ -	$ 36,073
136	1,555	18,224
-	-	49
5,336	1,555	54,346
22,785	380,530	1,449,904
-	-	17,539
-	-	80,921
-	-	13
22,785	380,530	1,548,377
28,121	382,085	1,602,723
-	-	-
-	-	91,870
-	-	-
-	-	91,870
$ 28,121	$ 382,085	$ 1,694,593

CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN FUND EQUITY
MULTIFAMILY PROGRAM
June 30, 2011
(Dollars in Thousands)

	MULTIFAMILY LOAN PURCHASE BONDS	MULTIFAMILY HOUSING REVENUE BONDS II	MULTIFAMILY HOUSING REVENUE BONDS III	MULTIFAMILY HOUSING PROGRAM BONDS
OPERATING REVENUES				
Interest income:				
Program loans and loan agreements -- net	$ 2,566	$ 3,556	$ 51,146	$ 2,356
Interest income - Investments -- net	-	38	3,735	58
Decrease in fair value of investments	-	-	(184)	-
Loan commitment fees	-	-	-	-
Other loan fees	-	-	-	-
Other revenues	-	-	(1,176)	-
Total Operating revenues	2,566	3,594	53,521	2,414
OPERATING EXPENSES				
Interest	2,556	3,513	37,481	111
Amortization of bond discount and bond premium	-	219	232	-
Mortgage servicing fees	-	-	6	-
Provision (reversal) for estimated loan losses	-	180	(748)	(874)
Operating expenses	-	-	-	-
Other expenses	10	205	7,035	516
Total Operating expenses	2,566	4,117	44,006	(247)
Operating (loss) income before transfers	-	(523)	9,515	2,661
Transfers interfund	-	-	-	-
Transfers intrafund	-	227	(7,560)	(3,530)
(Decrease) increase in fund equity	-	(296)	1,955	(869)
Fund equity at beginning of year	(3)	3,056	81,702	6,325
	(3)	3,056	81,702	6,325
Fund equity at end of year	$ (3)	$ 2,760	$ 83,657	$ 5,456

MULTIFAMILY CONDUITS	AFFORDABLE MULTIFAMILY HOUSING REVENUE BONDS	TOTAL MULTIFAMILY RENTAL HOUSING PROGRAMS
$ 342	$ 1,198	$ 61,164
-	(91)	3,740
-	-	(184)
-	-	-
-	-	-
-	-	(1,176)
342	1,107	63,544
334	1,108	45,103
-	-	451
-	-	6
-	-	(1,442)
-	-	-
-	216	7,982
334	1,324	52,100
8	(217)	11,444
-	-	-
-	-	(10,863)
8	(217)	581
(8)	217	91,289
(8)	217	91,289
$ -	$ -	$ 91,870

CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL STATEMENT OF CASH FLOWS -
MULTIFAMILY RENTAL HOUSING PROGRAMS
June 30, 2011
(Dollars in Thousands)

	MULTIFAMILY LOAN PURCHASE BONDS	MULTIFAMILY HOUSING REVENUE BONDS II	MULTIFAMILY HOUSING REVENUE BONDS III	MULTIFAMILY HOUSING PROGRAM BONDS
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	$ 2,566	$ 3,729	$ 51,311	$ 2,234
Payments to suppliers	(5)	(15)	(157)	-
Other receipts (payments)	17,105	21,177	10,043	2,667
Net cash provided by (used for) operating activities	19,666	24,891	61,197	4,901
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Intrafund transfers	-	227	(7,560)	(3,530)
Net cash provided by (used for) noncapital financing activities	-	227	(7,560)	(3,530)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from sales of bonds	-	-	-	-
Payment of bond principal	(17,147)	(725)	(25,175)	-
Early bond redemptions	-	(22,110)	-	-
Interest paid on debt	(2,662)	(4,256)	(38,032)	(117)
Increase (decrease) in deferred financing costs	-	-	1	(1)
Net cash (used for) provided by capital and related financing activities	(19,809)	(27,091)	(63,206)	(118)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from maturity and sale of investments	1,987	31,696	149,348	4,164
Purchase of investments	(3,223)	(29,792)	(143,657)	(5,471)
Interest on investments	-	42	3,558	55
Net cash (used for) provided by investing activities	(1,236)	1,946	9,249	(1,252)
Net (decrease) increase in cash and cash equivalents	(1,379)	(27)	(320)	1
Cash and cash equivalents at beginning of year	1,380	28	555	9
Cash and cash equivalents at end of year	$ 1	$ 1	$ 235	$ 10
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH (USED FOR) PROVIDED BY OPERATING ACTIVITIES:				
Operating (loss) income	$ -	$ (523)	$ 9,513	$ 2,662
Adjustments to reconcile operating (loss) income to net cash provided by (used for) operating activities:				
Interest expense on debt	2,557	3,513	37,481	111
Interest on investments	-	(37)	(3,735)	(58)
Changes in fair value of investments	-	-	184	-
Amortization of bond discount	-	219	-	-
Amortization of deferred losses	-	-	232	-
Amortization of bond issuance costs	-	38	321	9
Provision (reversal) for estimated loan losses	-	180	(748)	(874)
Provision for yield reduction payments	-	-	8,979	-
Provision for nonmortgage investment excess	-	-	(1,298)	-
Changes in certain assets and liabilities:				
Sale (Purchase) of program loans-net	-	20,682	(31,583)	-
Collection of principal from program loans - net	17,110	617	41,354	3,173
Interest receivable	-	173	165	(122)
Accounts receivable	-	-	(1,054)	-
Due (from) to other funds	(1)	-	11,359	-
Other assets and deferred outflow	-	30	790	-
Deposits and other liab	-	(1)	(552)	-
Other liabilities and deferred inflow	-	-	(10,211)	-
Net cash provided by (used for) operating activities	$ 19,666	$ 24,891	$ 61,197	$ 4,901
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION				
Noncash transfer of program loan to REO	$ -	$ -	$ -	$ -

MULTIFAMILY CONDUITS	AFFORDABLE MULTIFAMILY HOUSING REVENUE BONDS	TOTAL MULTIFAMILY RENTAL HOUSING PROGRAMS
$ 210	$ -	$ 60,050
-	-	(177)
(15,605)	(192,750)	(157,363)
(15,395)	(192,750)	(97,490)
-	-	(10,863)
-	-	(10,863)
15,627	-	15,627
-	-	(43,047)
-	-	(22,110)
(210)	256	(45,021)
-	-	-
15,417	256	(94,551)
-	-	187,195
-	-	(182,143)
-	(91)	3,564
-	(91)	8,616
22	(192,585)	(194,288)
-	380,722	382,694
$ 22	$ 188,137	$ 188,406
$ 8	$ (216)	$ 11,444
334	1,107	45,103
-	90	(3,740)
-	-	184
-	-	219
-	-	232
-	216	584
-	-	(1,442)
-	-	8,979
-	-	(1,298)
(15,627)	(192,750)	(219,278)
23	-	62,277
(133)	(1,197)	(1,114)
-	-	(1,054)
-	-	11,358
-	-	820
-	-	(553)
-	-	(10,211)
$ (15,395)	$ (192,750)	$ (97,490)
$ -	$ -	$ -

CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL BALANCE SHEET
OTHER PROGRAMS AND ACCOUNTS
June 30, 2011
(Dollars in Thousands)

	HOUSING ASSISTANCE TRUST	CONTRACT ADMINISTRATION PROGRAMS	SUPPLEMENTAL BOND SECURITY ACCOUNT	EMERGENCY RESERVE ACCOUNT
ASSETS				
Current assets:				
Cash and cash equivalents	$ 13	$ 3,404	$ -	$ 1
Investments	201,100	360,198	16,115	31,823
Current portion - program loans receivable	12,383	-	-	-
Interest receivable - Program loans	1,054	3,293	-	-
Interest receivable - Investments	251	446	31	38
Accounts receivable	70	-	-	95
Due from (to) other funds	26,801	(1,628)	18,202	11
Other assets	21	-	-	-
Total current assets	241,693	365,713	34,348	31,968
Noncurrent assets:				
Investments	460	-	-	-
Program loans receivable	221,552	253,670	-	-
Deferred financing costs	-	-	-	-
Other assets and deferred outflow	125	-	-	-
Total Noncurrent assets	222,137	253,670	-	-
Total Assets	$ 463,830	$ 619,383	$ 34,348	$ 31,968
LIABILITIES AND FUND EQUITY				
Current liabilities:				
Interest payable	$ -	$ -	$ -	$ -
Due to other government entities	5	685	1,124	-
Compensated absences	-	-	-	-
Deposits and other liabilities	12	7,256	7,395	-
Total current liabilities	17	7,941	8,519	-
Noncurrent liabilities:				
Bonds and notes payable, net	-	-	-	-
Due to other government entities	-	-	-	-
Other liabilities and deferred inflow	-	-	-	-
Deferred revenues	(4,871)	-	-	-
Total noncurrent liabilities	(4,871)	-	-	-
Total Liabilities	(4,854)	7,941	8,519	-
Fund equity				
Invested in capital assets	-	-	-	-
Restricted by indenture	-	-	-	-
Restricted by statute	468,684	611,442	25,829	31,968
Total Fund equity	468,684	611,442	25,829	31,968
Total Liabilities and Fund equity	$ 463,830	$ 619,383	$ 34,348	$ 31,968

LOAN SERVICING	LOAN WAREHOUSING	HOMEOWNERSHIP SECONDARY MARKETING	CITIGROUP GLOBAL MARKETS	OPERATING ACCOUNT	TOTAL OTHER PROGRAMS AND ACCOUNTS
$ 20,138	$ 1,982	$ 96	$ 169	$ 244	$ 26,047
201,689	11,641	-	-	34,802	857,368
-	-	-	2,869	-	15,252
-	37	-	403	-	4,787
235	121	-	-	49	1,171
4,304	27	-	-	6,089	10,585
(3,982)	28,559	(50)	-	(27,928)	39,985
-	-	-	-	44,270	44,291
222,384	42,367	46	3,441	57,526	999,486
-	-	-	-	23,345	23,805
-	4,094	-	85,680	-	564,996
-	-	-	-	11	11
-	-	-	-	144,327	144,452
-	4,094	-	85,680	167,683	733,264
$ 222,384	$ 46,461	46	89,121	$ 225,209	$ 1,732,750
$ -	$ 28	$ -	$ 492	$ 34,384	$ 34,904
-	22,500	-	-	32	24,346
-	-	-	-	4,365	4,365
210,613	5	-	-	1,957	227,238
210,613	22,533	-	492	40,738	290,853
-	-	-	90,979	-	90,979
-	-	-	-	9,939	9,939
-	-	-	-	180,924	180,924
-	10	-	-	24,282	19,421
-	10	-	90,979	215,145	301,263
210,613	22,543	-	91,471	255,883	592,116
-	-	-	-	1,114	1,114
-	-	-	-	-	-
11,771	23,918	46	(2,350)	(31,788)	1,139,520
11,771	23,918	46	(2,350)	(30,674)	1,140,634
$ 222,384	$ 46,461	$ 46	$ 89,121	$ 225,209	$ 1,732,750

CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN FUND EQUITY
OTHER PROGRAMS AND ACCOUNTS
June 30, 2011
(Dollars in Thousands)

	HOUSING ASSISTANCE TRUST	CONTRACT ADMINISTRATION PROGRAMS	SUPPLEMENTAL BOND SECURITY ACCOUNT	EMERGENCY RESERVE ACCOUNT
OPERATING REVENUES				
Interest income:				
Program loans and loan agreements -- net	$ 19,057	$ 1,481	$ -	$ -
Interest income - Investments -- net	912	1,918	355	275
Increase (decrease) in fair value of investments	10	-	-	-
Loan commitment fees	13	-	-	-
Other loan fees	589	-	-	-
Other revenues	2,560	3,391	-	-
Total Operating revenues	23,141	6,790	355	275
OPERATING EXPENSES				
Interest	84	-	-	-
Mortgage servicing fees	120	-	-	-
(Reversal) provision for estimated loan losses	(2,245)	17,627	-	-
Operating expenses	-	-	-	-
Other expenses	23	41,469	646	-
Total Operating expenses	(2,018)	59,096	646	-
Operating income (loss) before transfers	25,159	(52,306)	(291)	275
Transfers interfund	-	42,948	-	-
Transfers intrafund	241,294	-	646	(12,873)
Increase (decrease) in fund equity	266,453	(9,358)	355	(12,598)
Fund equity at beginning of year	202,231	620,800	25,474	44,566
	202,231	620,800	25,474	44,566
Fund equity at end of year	$ 468,684	$ 611,442	$ 25,829	$ 31,968

LOAN SERVICING	LOAN WAREHOUSING	HOMEOWNERSHIP SECONDARY MARKETING	CITIGROUP GLOBAL MARKETS	OPERATING ACCOUNT	TOTAL OTHER PROGRAMS AND ACCOUNTS
$ -	$ 885	$ -	$ -	$ -	$ 21,423
5	1,755	-	-	160	5,380
-	(265)	-	-	-	(255)
-	-	-	-	2,326	2,339
6,315	-	4	-	21,874	28,782
73,914	-	15	-	(14,982)	64,898
80,234	2,375	19	-	9,378	122,567
-	779	-	-	73,787	74,650
-	-	-	-	-	120
-	(2,129)	-	(64)	-	13,189
-	-	-	-	42,668	42,668
78,147	3	2	-	(797)	119,493
78,147	(1,347)	2	(64)	115,658	250,120
2,087	3,722	17	64	(106,280)	(127,553)
-	-	-	-	-	42,948
(10,000)	9,576	-	-	(126,439)	102,204
(7,913)	13,298	17	64	(232,719)	17,599
19,684	10,620	29	(2,414)	202,045	1,123,035
19,684	10,620	29	(2,414)	202,045	1,123,035
$ 11,771	$ 23,918	$ 46	$ (2,350)	$ (30,674)	$ 1,140,634

CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL STATEMENT OF CASH FLOWS -
OTHER PROGRAMS AND ACCOUNTS
June 30, 2011
(Dollars in Thousands)

	HOUSING ASSISTANCE TRUST	CONTRACT ADMINISTRATION PROGRAMS	SUPPLEMENTAL BOND SECURITY ACCOUNT	EMERGENCY RESERVE ACCOUNT
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	$ 19,025	$ 1,333	$ -	$ -
Payments to suppliers	(124)	-	-	-
Payments to employees	-	-	-	-
Other (payments) receipts	(218,768)	(100,762)	(67,679)	12,244
Net cash (used for) provided by operating activities	(199,867)	(99,429)	(67,679)	12,244
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Intrafund transfers	241,294	-	646	(12,873)
Due to (from) other government entities	-	-	1,167	-
Net cash provided by (used for) noncapital financing activities	241,294	-	1,813	(12,873)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Payment of bond principal	-	-	-	-
Interest paid on debt	(84)	-	-	-
Interfund transfers	-	42,948	-	-
Increase in deferred financing costs	(61)	-	-	-
Net cash provided by (used for) capital and related financing activities	(145)	42,948	-	-
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from maturity and sale of investments	386,349	132,710	69,895	7,820
Purchase of investments	(442,495)	(75,934)	(4,469)	(7,484)
Interest on investments - net	891	2,089	440	293
Net cash (used for) provided by investing activities	(55,255)	58,865	65,866	629
Net (decrease) increase in cash and cash equivalents	(13,973)	2,384 -	-	-
Cash and cash equivalents at beginning of year	13,986	1,020	-	1
Cash and cash equivalents at end of year	$ 13	$ 3,404	$ -	$ 1
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH (USED FOR) PROVIDED BY OPERATING ACTIVITIES:				
Operating income (loss)	$ 25,160	$ (52,307)	$ (291)	$ 275
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Interest expense on debt	84	-	-	-
Interest on investments	(913)	(1,918)	(355)	(275)
Changes in fair value of investments	(10)	-	-	-
Amortization of bond issuance costs	61	-	-	-
Amortization of bond premium	-	-	-	-
Amortization of deferred revenue	(13)	-	-	-
Depreciation	-	-	-	-
(Reversal) provision for estimated loan losses	(2,245)	17,628	-	-
Provision for nonmortgage investment excess	(548)	-	-	-
Changes in certain assets and liabilities:				
Sale (Purchase) of program loans-net	32,558	(77,365)	-	-
Collection of principal from program loans - net	52,108	13,260	-	-
Interest receivable	(32)	(148)	-	-
Accounts receivable	1,151	-	-	(27)
Due (from) to ther funds	(307,096)	100	4,160	12,271
Other assets and deferred outflow	1	-	-	-
Compensated absences	-	-	-	-
Deposits and other liab	(32)	1,321	(71,193)	-
Other liabilities and deferred inflow	(101)	-	-	-
Net cash (used for) provided by operating activities	$ (199,867)	$ (99,429)	$ (67,679)	$ 12,244
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION				
Noncash transfer of program loan to REO	$ (651)	$ -	$ -	$ -

LOAN SERVICING	LOAN WAREHOUSING	HOMEOWNERSHIP SECONDARY MARKETING	CITIGROUP GLOBAL MARKETS	OPERATING ACCOUNT	TOTAL OTHER PROGRAMS AND ACCOUNTS
$ -	$ 1,211	$ -	$ 91	$ -	$ 21,660
-	(9)	-	-	(12,377)	(12,510)
-	-	-	-	(30,206)	(30,206)
42,998	(11,746)	17	2,868	294,738	(46,090)
42,998	(10,544)	17	2,959	252,155	(67,146)
(10,000)	9,576	-	-	(126,439)	102,204
(42)	(67,500)	-	-	2,851	(63,524)
(10,042)	(57,924)	-	-	(123,588)	38,680
-	-	-	(2,875)	-	(2,875)
-	(923)	-	(16)	(82,842)	(83,865)
-	-	-	-	-	42,948
-	-	-	-	-	(61)
-	(923)	-	(2,891)	(82,842)	(43,853)
54,655	270,115	-	-	45,559	967,103
(98,668)	(209,901)	-	-	(92,595)	(931,546)
(11)	1,834	-	-	131	5,667
(44,024)	62,048	-	-	(46,905)	41,224
(11,068)	(7,343)	17	68	(1,180)	(31,095)
31,206	9,325	79	101	1,424	57,142
$ 20,138	$ 1,982	$ 96	$ 169	$ 244	$ 26,047
$ 2,087	$ 3,721	$ 17	$ 64	$ (106,279)	(127,553)
					-
					-
-	779	-	-	73,787	74,650
(5)	(1,754)	-	-	(161)	(5,381)
-	265	-	-	-	255
-	-	-	-	9	70
-	-	-	-	-	-
-	-	-	-	(2,326)	(2,339)
-	-	-	-	248	248
-	(2,130)	-	(64)	-	13,189
-	-	-	-	-	(548)
				-	
-	(1,647)	-	-	-	(46,454)
-	86,084	-	2,948	-	154,400
-	326	-	91	-	237
2,189	-	-	-	(5,596)	(2,283)
(3,150)	(40,939)	-	(80)	338,074	3,340
-	33,420	-	-	27,210	60,631
-	-	-	-	7	7
41,877	(88,625)	-	-	(3,021)	(119,673)
-	(44)	-	-	(69,797)	(69,942)
$ 42,998	$ (10,544)	$ 17	$ 2,959	$ 252,155	$ (67,146)
$ -	$ 203	$ -	$ -	$ -	$ (448)

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California Housing Loan Insurance Fund

Financial Statements and Supplementary Information
for the Years Ended December 31, 2010 and 2009,
and Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

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

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, 2010 and 2009, and the related statements of revenues, expenses, and changes in fund equity, and 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, 2010 and 2009, 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 accompanying financial statements for the year ended December 31, 2010 have been prepared assuming that the Fund will continue as a going concern. As discussed in Note 2 to the financial statements, the Fund is experiencing difficulty in generating sufficient cash flow to meet its obligations and sustain its operations, which raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also discussed in Note 2 to the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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

May 5, 2011

Member of
Deloitte Touche Tohmatsu

CALIFORNIA HOUSING LOAN INSURANCE FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS YEARS ENDED DECEMBER 31, 2010 AND 2009

The California Housing Finance Agency (the "Agency") was created in 1975 by an act of the California Legislature and commenced operations in 1976. The Agency is a component unit of the State of California (the "State") and is included in the State's Comprehensive Annual Financial Report. The Agency is authorized to administer the activities of the California Housing Loan Insurance Fund (the "Fund"), the California Housing Finance Fund (the "CHFF"), and two State general obligation bond funds. The following Management Discussion and Analysis applies only to the activities of the California Housing Loan Insurance Fund and should be read in conjunction with the Fund's financial statements and the notes to the financial statements. The Agency is entirely self-funded and does not draw upon the general taxing authority of the State.

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

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

Underwriting, acquisition, and issuance expenses are charged directly to the Fund as well as loss and loss adjustment expenses. Certain administrative and operating expenses, including office space, business services and supplies, legal services, accounting services, information technology support, and human resource support services, are provided by the Agency and indirectly charged to the Fund.

FINANCIAL RESULTS 2010 – 2009

- Insurance in force decreased by $518 million, or 22%, to $2.3 billion as of December 31, 2010, compared to $2.8 billion as of December 31, 2009. The Fund ceased committing to insure new loans in September 2009.

- The Fund had an operating loss of $24.9 million for 2010. Net operating results of the Fund improved by approximately $29 million in 2010 compared to the operating loss of $54 million in 2009. This was primarily due to a decrease in losses incurred during 2010 as the rate of growth of delinquencies declined and the reserve for loan losses declined during 2010. The Fund has negative fund equity balance of $24.7 million at December 31, 2010, compared to a positive fund equity balance of $194 thousand at December 31, 2009.

- Home mortgage delinquencies declined during the year, the delinquency ratio for the insured portfolio decreased to 20.6% in December 2010 or $493 million, down from 22% or $638 million in December 2009. Gross insurance claim payments were $167.3 million and $94.3 million in 2010 and 2009, respectively, before reinsurance.

- The Fund’s reserve for loan losses decreased by $13.4 million in 2010 to $49.6 million as a result of the Fund’s decreased number of delinquencies outstanding. The Agency continues to monitor delinquencies closely and is proactive in its attempts to mitigate losses.

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

- In February 2010, Moody’s Investors Service reaffirmed the current rating of Baa2 for Genworth and changed the outlook to negative. In September 2010, Standard and Poor’s Ratings Services (“S&P”) affirmed the counterparty credit and financial strength ratings on Genworth at “BBB-”.

- In September 2010, S&P lowered the Fund’s rating to “CC” from “CCC-” and withdrew the ratings on the Fund at the Agency’s request. The rating was lowered due to continued elevated level of notices of default and erosion of capital.

- In December 2010, Moody’s lowered the Fund’s rating to “Caa3” from “B2”. The rating was lowered based on a sharp decline in performance of the insured portfolio, a decline in the fund capital position due to an increase in insurance claims paid, and projections that future claims may lead to shortfalls in funds available for claim payments in the future.

- Based on its projections, management of the Fund believes that the Fund will not be able to meet all of its obligations as they become due in 2011. The Agency has forecasted it may intermittently deplete its available funds for paying claims and expenses during the third quarter of 2011 (see Note 2) and continues to remain dependent upon the ability of the Fund’s reinsurer to pay its share of the claims (see Note 5).

2010 COMPARED TO 2009

CONDENSED BALANCE SHEETS

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

	2010	2009	Change
ASSETS			
Cash, cash equivalents, and investments	$ 28,081	$ 65,290	$ (37,209)
Other assets	1,019	1,490	(471)
TOTAL	$ 29,100	$ 66,780	$ (37,680)
LIABILITIES AND FUND EQUITY (DEFICIT)			
LIABILITIES:			
Unpaid losses and loss adjustment expenses	$ 49,596	$ 62,962	$ (13,366)
Unearned premiums	175	244	(69)
Accounts payable and other liabilities	4,065	3,380	685
Total liabilities	53,836	66,586	(12,750)
FUND EQUITY (DEFICIT):			
Invested in capital assets	28	33	(5)
Restricted		161	(161)
Unrestricted	(24,764)		(24,764)
Total fund equity (deficit)	(24,736)	194	(24,930)
TOTAL	$ 29,100	$ 66,780	$ (37,680)

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

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

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

Liabilities — The Fund's liabilities were $53.8 million as of December 31, 2010, a decrease of $12.8 million or 19% from December 31, 2009.

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

Unearned premiums were $175,000 as of December 31, 2010, a decrease of $69,000 from December 31, 2009. The decrease was due to policy adjustments between the servicer and reinsurer. The expected trend of this account is to decrease over time due to a change in premium collection practices. Beginning in 1996, management adopted the mortgage insurance industry norm of collecting monthly premium payments in arrears for newly established loan insurance products as compared to past practices of collecting annual premiums in advance. As a result, each year a greater percentage of insured loans require monthly premium payments, which are earned when received, rather than annual payments, which are received in advance and deferred and earned over a one-year period.

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

Fund Equity — The Fund's equity is classified as restricted, unrestricted or invested in capital assets. Total equity of the Fund decreased by $24.9 million as a result of the current year operating loss.

CONDENSED STATEMENTS OF REVENUES AND EXPENSES

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

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

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

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

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

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

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

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

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

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

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

2009 COMPARED TO 2008

CONDENSED BALANCE SHEETS

The following table presents condensed balance sheets for the Fund as of December 31, 2009 and 2008, and the change from year to year (dollars in thousands):

	2009	2008	Change
ASSETS			
Cash, cash equivalents, and investments	$ 65,290	$ 78,552	$ (13,262)
Other assets	1,490	3,227	(1,737)
TOTAL	$ 66,780	$ 81,779	$ (14,999)
LIABILITIES AND FUND EQUITY			
LIABILITIES:			
Unpaid losses and loss adjustment expenses	$ 62,962	$ 25,995	$ 36,967
Unearned premiums	244	316	(72)
Accounts payable and other liabilities	3,380	1,315	2,065
Total liabilities	66,586	27,626	38,960
FUND EQUITY:			
Invested in capital assets	33	39	(6)
Restricted by statute	161	54,114	(53,953)
Total fund equity	194	54,153	(53,959)
TOTAL	$ 66,780	$ 81,779	$ (14,999)

Assets — Total assets of the Fund were $66.8 million as of December 31, 2009, a decrease of $15 million or 18% from December 31, 2008. Of the Fund's assets, more than 98% are represented by cash and investments. The Fund does not have a significant investment in capital assets.

Cash, cash equivalents, and investments were $65.3 million as of December 31, 2009, a decrease of $13.3 million from December 31, 2008. The decrease is primarily due to an increase in claim payments. The Agency invests the Fund's cash in the State's Surplus Money Investment Fund ("SMIF"). SMIF provides the Fund a variable rate of return and complete liquidity. Cash invested in SMIF is deposited within the State's Centralized Treasury System and managed by the State Treasurer.

Other assets were $1.5 million as of December 31, 2009, a decrease of $1.7 million or 54% from December 31, 2008. The decrease is the result of a decline in interest receivable from decreased earning rates in the State's SMIF and decrease in reinsurance receivable as a result of higher number of claims being paid.

Liabilities — The Fund's liabilities were $66.6 million as of December 31, 2009, an increase of $39 million or 141% from December 31, 2008.

The reserve for unpaid losses and loss adjustment expenses was $63 million as of December 31, 2009, an increase of $37 million from December 31, 2008. The increase in the loss reserve is the result of the Fund's higher loss reserves required to cover potential losses. As of December 31, 2009, 2505 insured loans with balances aggregating $661 million were either reported as delinquent by the lender or delinquent but not reported. As of December 31, 2008, 1076 insured loans with balances aggregating $292.6 million were either reported as delinquent by the lender or delinquent but not reported.

Unearned premiums were $244,000 as of December 31, 2009, a decrease of $72,000 from December 31, 2008. The decrease was due to policy adjustments between the servicer and reinsurer. The expected trend of this account is to decrease over time due to a change in premium collection practices. Beginning in 1996, management adopted the mortgage insurance industry norm of collecting monthly premium payments in arrears for newly established loan insurance products as compared to past practices of collecting annual premiums in advance. As a result, each year a greater percentage of insured loans require monthly premium payments, which are earned when received, rather than annual payments, which are received in advance and deferred and earned over a one-year period.

Accounts payable and other liabilities were $3.4 million as of December 31, 2009, an increase of $2.1 million from December 31, 2008. This increase is largely attributable to amounts owed to the reinsurer for claim payments.

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 decreased by $54 million as a result of increased reserves for unpaid losses and loss adjustment expenses.

CONDENSED STATEMENTS OF REVENUES AND EXPENSES

The following table presents condensed statements of revenues and expenses for the Fund for the years ended December 31, 2009 and 2008, and the change from year to year (dollars in thousands):

	2009	2008	Change
OPERATING REVENUES:			
Premiums earned	$ 20,894	$ 22,062	$ (1,168)
Investment income	924	2,406	(1,482)
Other revenues	2	935	(933)
Total operating revenues	21,820	25,403	(3,583)
OPERATING EXPENSES:			
Loss and loss adjustment expenses	60,632	26,068	34,564
Operating expenses	14,940	16,171	(1,231)
Other expenses	207	34	173
Total operating expenses	75,779	42,273	33,506
OPERATING LOSS	$ (53,959)	$ (16,870)	$ (37,089)

Operating Revenues — Operating revenues were $21.8 million during 2009 compared to $25.4 million during 2008, a decrease of $3.6 million or 14%.

Premiums earned in 2009 decreased by $1.2 million or 5% compared to premiums earned in 2008. The decrease in premiums earned corresponds with the decrease in insurance in force. Insurance in force was $2.8 billion and $3.1 billion as of December 31, 2009 and 2008, respectively.

Investment income decreased $1.5 million to $924,000 in 2009 from $2.4 million in 2008. This decrease was due to the decrease in interest rates. SMIF interest rates for the past two years are shown in the following table:

Periods	Year 2009	Periods	Year 2008
January — March	1.903%	January — March	4.174%
April — June	1.512%	April — June	3.108%
July — September	0.889%	July — September	2.769%
October — December	0.594%	October — December	2.533%

Other revenues decreased by $933,000 to $2,000 in 2009 from $935,000 in 2008. Recoveries made on amounts owed from defendants in certain litigation declined from last year

Operating Expenses — Total operating expenses were $75.8 million during 2009 compared to $42.3 million during 2008, an increase of $33.5 million or 79%.

Loss and loss adjustment expenses increased by $34.6 million in 2009. The increase is attributable to the increase in required reserves to cover potential losses.

The Fund's operating expenses were $14.9 million during 2009 compared to $16.2 million during 2008, a decrease of $1.3 million or 7.6%. The decrease is primarily a result of lower ceded premiums to the reinsurer due to lower insurance in force and a decrease in salary expenses.

Operating Loss — Operating loss for 2009 was $53.9 million compared to $16.9 million loss in 2008, a decrease of $37 million. The decrease in operating income is a result of the increase in loss and loss adjustment expenses.

CALIFORNIA HOUSING LOAN INSURANCE FUND

BALANCE SHEETS
DECEMBER 31, 2010 AND 2009

	2010	2009
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 34,556	$ 38,702
Investment in Surplus Money Investment Fund	28,046,000	65,251,000
Interest receivable	39,120	101,960
Other current assets	932,340	1,219,689
Total current assets	29,052,016	66,611,351
NONCURRENT ASSETS — Other assets	47,868	168,795
TOTAL	$29,099,884	$66,780,146
LIABILITIES AND FUND EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Reserves for unpaid losses and loss adjustment expenses	$49,596,140	$62,962,465
Unearned premiums	167,412	210,244
Reinsurance payable	3,400,461	2,927,223
Accounts payable and other liabilities	36,437	41,423
Compensated absences	123,571	162,852
Due to other government entities	504,081	248,003
Total current liabilities	53,828,102	66,552,210
NONCURRENT LIABILITIES — Unearned premiums	7,250	33,409
Total liabilities	53,835,352	66,585,619
CONTINGENCIES (Note 8)		
FUND EQUITY (DEFICIT)		
Invested in capital assets	28,017	33,446
Restricted		161,081
Unrestricted	(24,763,485)	
Total fund equity (deficit)	(24,735,468)	194,527
TOTAL	$29,099,884	$66,780,146

See notes to financial statements.

CALIFORNIA HOUSING LOAN INSURANCE FUND

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY
YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
OPERATING REVENUES:		
Premiums earned	$ 16,502,060	$ 20,894,083
Investment income	255,364	924,475
Other revenues	7,950	1,708
Total operating revenues	16,765,374	21,820,266
OPERATING EXPENSES:		
Loss and loss adjustment expenses — net of recoveries	29,726,646	60,632,179
Operating expenses	11,958,518	14,939,801
Other expenses	10,205	207,062
Total operating expenses	41,695,369	75,779,042
OPERATING LOSS	(24,929,995)	(53,958,776)
FUND EQUITY — Beginning of year	194,527	54,153,303
FUND EQUITY (DEFICIT) — End of year	$ (24,735,468)	$ 194,527

See notes to financial statements.

CALIFORNIA HOUSING LOAN INSURANCE FUND

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	$ 16,621,849	$ 21,256,237
Payments to suppliers	(10,867,526)	(12,363,168)
Payments to employees	(461,021)	(322,490)
Due to California Housing Finance Fund	256,078	(224,144)
Other payments	(43,076,730)	(22,931,801)
Net cash used in operating activities	(37,527,350)	(14,585,366)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	88,050,000	35,089,000
Purchase of investments	(50,845,000)	(21,800,000)
Interest on investments	318,204	1,322,720
Net cash provided by investing activities	37,523,204	14,611,720
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(4,146)	26,354
CASH AND CASH EQUIVALENTS — Beginning of year	38,702	12,348
CASH AND CASH EQUIVALENTS — End of year	$ 34,556	$ 38,702
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (24,929,995)	$ (53,958,776)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Interest on investments	(255,364)	(924,475)
Unpaid loss and loss adjustment expenses	(13,366,325)	36,967,898
Depreciation expense	5,429	5,429
Deferred policy acquisition expense	205,775	268,589
Changes in certain operating assets and liabilities:		
Other assets	197,072	1,064,057
Unearned premiums	(68,991)	(72,253)
Reinsurance payable	473,238	2,118,299
Compensated absences	(39,281)	162,852
Accounts payable and other liabilities	(4,986)	7,158
Due to California Housing Finance Fund	256,078	(224,144)
NET CASH USED IN OPERATING ACTIVITIES	$ (37,527,350)	$ (14,585,366)

1. AUTHORIZING LEGISLATION AND ORGANIZATION

The California Housing Loan Insurance Fund (the "Fund") is one of two continuously appropriated funds administered by the California Housing Finance Agency (the "Agency"). The Agency was created by the Zenovich-Moscone-Chacon Housing and Home Finance Act , as amended, as a public instrumentality, a political subdivision, and a component unit of the state of California (the "State"), and is in the State's Annual Financial Report and administers the activities of the Fund and the California Housing Finance Fund (the "CHFF"). These funds allow the Agency to carry out its purpose of meeting the housing needs of persons and families of low and moderate income within the State. The Agency is authorized to insure mortgage loans and to issue bonds, notes, and other obligations to fund loans to qualified borrowers for single-family houses and multifamily developments. The Agency has no taxing power and is exempt from federal income taxes and state franchise taxes.

The accompanying financial statements are the statements of the Fund and do not include the financial position or the results of operations of the Agency. As of June 30, 2010, the Agency had total assets of $11.56 billion and fund equity of $1.55 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 $831.1 million and $1.02 billion at December 31, 2010 and 2009, respectively. Of the insured first mortgage loans outstanding at December 31, 2010, 85.7% have loan-to-value ratios, measured as of the funding date of the loan, equal to or greater than 90%.

The Fund's reserve for loan losses decreased during 2010 as a result of the slight decrease in the number of insured California home mortgage delinquencies. In December 2010, Moody's Investors Service lowered the Fund's rating to "Caa3" from "B2" primarily due to the continued level of home mortgage delinquencies which leads to uncertainty over the levels of potential claims to be experienced. In September 2010, S&P lowered the Fund's rating to "CC" from "CCC-" and withdrew the ratings on the Fund at the Agency's request. The counterparty credit and financial strength ratings of the Fund's reinsurer, Genworth Mortgage Insurance Corporation ("Genworth"), remained at Moody's rating of "Baa2". In September 2010, Standard and Poor's Ratings Services ("S&P") affirmed the counterparty credit and financial strength ratings on Genworth at "BBB-".

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.

The financial statements of the Fund were prepared using generally accepted accounting principles that are applicable to a going concern. Management of the Fund, however, has concluded that there is substantial doubt as to the Fund's ability to continue to meet its designated purpose of paying claims and expenses. The financial statements of the Fund do not include any adjustments that might result from the outcome of this uncertainty. As of December 31, 2010, the Fund's cash and cash equivalents are not sufficient to meet the Fund's total anticipated cash requirements to pay its obligations over the next twelve months. Management believes that attempts to raise any additional capital will be unsuccessful and does not believe that, under the terms of the agreement with the CHFF, the Fund will be able to draw on the interfund credit agreement (see note 6). It is anticipated that the Fund will first deplete its available funds to pay claims and expenses sometime during the third quarter of 2011. Subsequent to that event, the Fund will continue to receive its share of premiums from policies still in force and will use the premiums received along with any other available funds to pay the Fund's obligations on a "first-in, first-out" basis in the order in which the claims and expenses are received.

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 $140,779 and $346,554 as of December 31, 2010 and 2009, 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, restricted equity or unrestricted 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. Unrestricted equity represents equity not restricted for any purpose.

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

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

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

3. INVESTMENT RISK FACTORS

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

Investments by type at December 31, 2010 and 2009, consist of the following:

	2010	2009
Surplus Money Investment Fund — State of California	$28,046,000	$65,251,000
Total investments	$28,046,000	$65,251,000

Credit Risk — Fixed income securities are subject to credit risk, which is the chance that an issuer will fail to pay interest or principal in a timely manner or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. Certain fixed income securities, including obligations of the U.S. government or those explicitly guaranteed by the U.S. government, are not considered to have credit risk. At December 31, 2010, 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, 2010, 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, 2010, 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, 2010, the Fund does not have any debt investments that are highly sensitive to changes in interest rates.

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

4. RESERVES FOR UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

The following tables summarize the changes in the reserves for unpaid losses and loss adjustment expenses for the years ended December 31, 2010 and 2009. 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	**2010**	**2009**
Gross reserve for loss and loss adjustment — beginning of year balance	$ 241,981,953	$ 102,625,159
Incurred (recovered) related to:		
Provision attributable to the current year	142,838,171	225,315,250
Change in provision attributable to prior years	(30,061,583)	8,363,936
Total incurred	112,776,588	233,679,186
Payments related to:		
Current year	(13,152,683)	(11,507,215)
Prior years	(154,147,316)	(82,815,177)
Total payments	(167,299,999)	(94,322,392)
Gross reserve for loss and loss adjustment — end of year balance	$ 187,458,542	$ 241,981,953

Net of Reinsurance	**2010**	**2009**
Net reserve for loss and loss adjustment — beginning of year balance	$ 62,962,464	$ 25,994,567
Incurred (recovered) related to:		
Provision attributable to the current year	37,679,992	58,695,589
Change in provision attributable to prior years	(7,953,346)	1,936,589
Total incurred	29,726,646	60,632,178
Payments related to:		
Current year	(3,557,738)	(2,962,534)
Prior years	(39,535,232)	(20,701,747)
Total payments	(43,092,970)	(23,664,281)
Net reserve for loss and loss adjustment — end of year balance	$ 49,596,140	$ 62,962,464

The change in provision attributable to prior year (net of reinsurance) decreased by $7.9 million for the year ended December 31, 2010 due to a decrease in loan delinquencies from the year ended December 31, 2009, while the change in provision attributable to prior year (net of reinsurance) increased by $1.9 million for the year ended December 31, 2009 from the year ended December 31, 2008 due to an increase in loan delinquencies.

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

5. REINSURANCE

Effective March 1, 2003, the Fund entered into a 75% quota share reinsurance agreement with Genworth to reinsure most (currently, approximately 96%) of the Fund's portfolio. Under the terms of this agreement, the reinsurer will indemnify the Fund for 75% of all losses paid on the insured loans to which the Fund cedes 64.5% of the related premiums. The treaty was amended for loans insured on or after May 1, 2008 to cede 67% of premiums collected and amended again on April 1, 2009 to cede 69% of premiums collected on loans insured on or after that date. However, there are no loans currently ceded at 69%. The Fund's reinsurance agreement typically provides for a recovery of a proportionate level of claim expenses from the reinsurer. The Fund remains liable to its policyholders if the reinsurer is unable to satisfy its obligations under the reinsurance agreement. The amount of earned premiums ceded to Genworth for the years ended 2010 and 2009 was $10.4 million and $13.2 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 $323,640 and $132,693 at December 31, 2010 and 2009, respectively. For the years ended December 31, 2010 and 2009, total expenses allocated to the Fund by the Agency were $1,349,755 and $1,052,616, respectively.

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

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

7. .PENSION PLAN AND POST RETIREMENT BENEFITS

The Fund contributes to the Public Employees' Retirement Fund (PERF) as part of the State of California, the primary government. The PERF is a cost-sharing multiple-employer defined benefit pension plan administered by the California Public Employment Retirement System (CalPERS). CalPERS provides retirement, death, disability, and postretirement health care benefits to members as established by state statute. CalPERS issues a publicly available Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information for the Public Employees' Retirement Fund. A copy of that report may be obtained from CalPERS, Central Supply, 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, 2011, 2010, and 2009, the employer contribution rates were as follows:

	June 30		
	2011	**2010**	**2009**
State Miscellaneous Member First Tier	19.922 %	16.917 %	16.574 %
State Miscellaneous Member Second Tier	19.622	16.737	16.470

The Fund's contributions to the PERF for the years ended December 31, 2010, 2009, and 2008, were $136,045, $67,463, and $95,849, 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, 2009, which actuarial assumptions included (a) 7.75% investment rate of return compounded annually, (b) projected salary increases that vary by duration of service, and (c) overall payroll growth factor of 3.25% annually. Both (a) and (c) included an inflation component of 3% and a 0.25% per annum productivity increase assumption.

The most recent actuarial valuation of the PERF indicated that there was an unfunded actuarial accrued liability. The amount of the underfunded liability applicable to each Agency or department cannot be determined. Trend information, which presents CalPERS progress in accumulating sufficient assets to pay benefits when due, are presented in the June 30, 2010, CalPERS CAFR.

GASB Statement 45 requires states and local governments to publicly disclose the future dollar amount of their obligations to pay for Other Postemployment Benefits (OPEB), like healthcare, that are provided to retired employees, including retired public employees. The OPEB is a cost-sharing multiple-employer defined benefit healthcare plan administered by CalPERS. State Controller's Office sets the employer contribution rate based on the annual required contribution of the employers (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. The Fund's estimated unfunded OPEB cost was $180,440 and $115,310 for the years ended December 31, 2010 and 2009 respectively, and this liability was added to Personal Services in the respective year. CalPERS issues a publicly available CAFR that includes financial statements and required supplementary information for the OPEB.

8. LITIGATION

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

The amounts received from the defendants were $7,950 and $1,895 during the years ended December 31, 2010 and 2009, respectively which is recorded as other revenue in the accompanying Statements of Revenues, Expenses, and Changes in Fund Equity. It is highly unlikely that any additional amounts will be received and as such no gain contingency has been recorded.

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

9. SUBSEQUENT EVENTS

Prior to February 2011, Genworth was paying the full amount of the loss (100%) to the insured and was billing CaHLIF for its portion of the loss (approximately 25%) each month. Effective February 1, 2011, Genworth is paying for their portion of the loss (generally 75%) directly to the insured and the Fund is paying for its portion of the loss (generally 25%) directly to the insured.

On February 2, 2011, Standard and Poor's lowered the rating of Genworth to "BB+" from "BBB-". The rating was lowered due to reported fourth quarter and full-year losses that significantly exceeded expectations.

On February 3, 2011, Moody's placed the current rating of "Baa2" for Genworth on review for possible downgrade.

Management has evaluated subsequent events during the period from December 31, 2010 to May 5, 2011, the date the financial statements were available to be issued.

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Cal HFA

The California Housing Finance Agency does not discriminate on any prohibited basis in employment or in the admission and access to its programs or activities.

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