BOARD OF DIRECTORS

California Housing Finance Agency
Board of Directors

January 21, 2010

Burbank Airport Marriott Hotel
& Convention Center
2500 Hollywood Way
Burbank, California
(818) 843-6000

9:30 a.m.

1. Roll Call.

2. Approval of the minutes of the November 19, 2009 Board of Directors meeting.

3. Chairman/Executive Director comments.

4. Closed session under Government Code §§ 11126 (e) (1) and 11126 (e) (2) (B) (i) to confer with and receive advice from counsel regarding litigation.

5. Discussion, recommendation and possible action regarding the adoption of a resolution authorizing the Agency's single family bond indentures, the issuance of single family bonds, short term credit facilities for homeownership purposes, and related financial agreements and contracts for services. (Bruce Gilbertson)
Resolution 10-01 141

6. Discussion, recommendation and possible action regarding the adoption of a resolution authorizing the Agency's multifamily bond indentures, the issuance of multifamily bonds, short term credit facilities for multifamily purposes, and related financial agreements and contracts for services. (Bruce Gilbertson)
Resolution 10-02 155

7. Discussion, recommendation and possible action regarding the adoption of a resolution authorizing applications to the California Debt Limit Allocation Committee for private activity bond allocations for the Agency's homeownership and multifamily programs. (Bruce Gilbertson)
Resolution 10-03 169

8. Discussion, recommendation and possible action regarding amendments to board resolutions authorizing the financing of loans in connection with the Bay Area Housing Plan. (Bruce Gilbertson)
Resolution 10-04 175

9. Report, discussion and possible action regarding the Agency's financing and program strategies and implementation, and loan portfolio performance, in light of financial marketplace disruptions.
(Steve Spears/Bruce Gilbertson/Lori Hamahashi) 181

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13. Discussion of other Board matters.

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

15. Handouts

****NOTES****

HOTEL PARKING: Cash @ $14.00 per car, per entry, pay at gate with no in and out privileges.

FUTURE MEETING DATES: Next CalHFA Board of Directors Meeting will be March 11, 2010, at the Holiday Inn Capitol Plaza, Sacramento, California.

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STATE OF CALIFORNIA

CALIFORNIA HOUSING FINANCE AGENCY

BOARD OF DIRECTORS

PUBLIC MEETING

The Westin
San Francisco Airport
One Old Bayshore Highway
Millbrae, California

Thursday, November 19, 2009
10:05 a.m. to 3:08 p.m.

Reported by: DANIEL P. FELDHAUS, CSR #6949, RDR, CRR

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A P P E A R A N C E S

Board of Directors Present

PETER N. CAREY
(Acting Board Chair)
President/CEO
Self-Help Enterprises

KATIE CARROLL
for BILL LOCKYER
State Treasurer
State of California

MICHAEL A. GUNNING
Vice President
Personal Insurance Federation of California

PAUL C. HUDSON
Chairman/CEO
Broadway Federal Bank

JONATHAN HUNTER
Managing Partner, Region II
Corporation for Supportive Housing

LYNN L. JACOBS
Director
Department of Housing and Community Development
State of California

HEATHER PETERS
for DALE E. BONNER, Secretary
Business, Transportation, and Housing Agency
State of California

RUBEN A. SMITH
Partner
Adorno Yoss Alvarado & Smith
A Professional Corporation

A P P E A R A N C E S

Board of Directors Present
Continued

L. STEVEN SPEARS
Acting Executive Director
California Housing Finance Agency
State of California

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Participating CalHFA Staff:

MARGARET ALVAREZ
Director of Asset Management

GARY M. BRAUNSTEIN
Special Advisor to Executive Director
and
Acting Director of Homeownership

ROBERT L. DEANER II
Director of Multifamily Programs

BRUCE D. GILBERTSON
Director of Financing

LORI HAMAHASHI
Fiscal Services

TIMOTHY HSU
Financing Risk Manager
Financing Division

THOMAS C. HUGHES
General Counsel

HOWARD IWATA
Acting Director of Administration
and
Acting Director of Fiscal Services

A P P E A R A N C E S

Participating CalHFA Staff:
continued

CHARLES K. McMANUS
Director of Mortgage Insurance Services

JOJO OJIMA
Office of the General Counsel

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1 BE IT REMEMBERED that on Thursday, November 19,
2 2009, commencing at the hour of 10:05 a.m., at the
3 Westin, San Francisco Airport, One Old Bayshore Highway,
4 Millbrae, California, before me, DANIEL P. FELDHAUS,
5 CSR #6949, RDR and CRR, the following proceedings were
6 held:
7 --oOo--
8 CHAIR CAREY: I would like to welcome everyone
9 to the November 19th meeting of the California Housing
10 Finance Agency Board of Directors.
11 Fortunately, no one is flying in; or if they
12 were, their flight wasn't delayed. But we are here.
13 And our first order of business is the *Roll*
14 *Call.*
15 --o0o--
16 **Item 1. Roll Call**
17 MS. OJIMA: Ms. Peters for Mr. Bonner?
18 MS. PETERS: Here.
19 MS. OJIMA: Mr. Gunning?
20 MR. GUNNING: Here.
21 MS. OJIMA: Mr. Hudson?
22 MR. HUDSON: Here.
23 MS. OJIMA: Mr. Hunter?
24 MR. HUNTER: Here.
25 MS. OJIMA: Ms. Jacobs?

1 MS. JACOBS: Here.

2 MS. OJIMA: Mr. Lockyer?

3 Oh, Ms. Carroll for Mr. Lockyer?

4 MS. CARROLL: Here.

5 MS. OJIMA: Thank you.

6 Mr. Shine?

7 *(No response)*

8 MS. OJIMA: Mr. Smith?

9 MR. SMITH: Here.

10 MS. OJIMA: Ms. Bryant?

11 *(No response)*

12 MS. OJIMA: Mr. Genest?

13 *(No response)*

14 MS. OJIMA: Mr. Spears?

15 MR. SPEARS: Here.

16 MS. OJIMA: Mr. Carey?

17 CHAIR CAREY: Here.

18 MS. OJIMA: We have a quorum.

19 --o0o--

20 **Item 2. Approval of Minutes**

21 CHAIR CAREY: The next order of business is

22 *Approval of the Minutes of the July 9th Board of*

23 *Directors Meeting*.

24 MS. JACOBS: Move approval.

25 MR. SMITH: Second.

1 CHAIR CAREY: Moved and seconded.
2 Any further discussion?
3 *(No response)*
4 CHAIR CAREY: All in favor?
5 Oh, I'm sorry. Roll call.
6 MS. OJIMA: Ms. Peters?
7 MS. PETERS: Aye.
8 MS. OJIMA: Mr. Gunning?
9 MR. GUNNING: Aye.
10 MS. OJIMA: Mr. Hudson?
11 MR. HUDSON: Aye.
12 MS. OJIMA: Mr. Hunter?
13 MR. HUNTER: Yes.
14 MS. OJIMA: Ms. Jacobs?
15 MS. JACOBS: Yes.
16 MS. OJIMA: Ms. Carroll?
17 MS. CARROLL: Yes.
18 MS. OJIMA: Mr. Smith?
19 MR. SMITH: Yes.
20 MS. OJIMA: Mr. Carey?
21 CHAIR CAREY: Yes.
22 MS. OJIMA: The minutes have been approved.
23 //
24 //
25 //

1 **Item 3. Chairman/Executive Director Comments**

2 CHAIR CAREY: Okay, I would like to very

3 sincerely welcome our three new Board members: Michael

4 Gunning, Paul Hudson, and Jonathan Hunter.

5 It is great to have a nearly full team. And

6 these are certainly challenging times, but the mission is

7 important. So I'm sure we all are thrilled to have you

8 here.

9 Thanks for being here.

10 I would like to announce that as we move

11 forward, I have taken the Chair's prerogative to

12 restructure the Audit Committee, and have asked Ruben

13 Smith if he would be willing to be the chair of the

14 committee, and he's accepted. I appreciate that. And

15 I've asked Michael Gunning if he would join the

16 committee, and he does agree.

17 So the Audit Committee has some new strength,

18 new structure, and ready to go.

19 Let me just mention how our agenda will go a

20 little bit today. It's probably a long agenda. We will

21 be in closed session at the appropriate time on the

22 agenda. And also, we'll take about a 30-minute break for

23 lunch, and then come right back to work. And that will

24 work within the flow -- the break for lunch will probably

25 be about 12:30.

1 I also want to appreciate the fact that our
2 birthday person is here today. I understand it's
3 Ms. Jacobs' birthday today.
4 *(Applause)*
5 MS. JACOBS: And I'm spending it with my
6 favorite group.
7 MS. PETERS: Last year, I spent mine with
8 Maxine Waters, testifying. It could be worse.
9 CHAIR CAREY: And the only other thing I'd like
10 to say is, that has been -- as you know, we canceled our
11 meeting two months ago. It has not been a quiet period
12 of time at CalHFA. And some of what we will hear today
13 is the result of very hard, dogged work and leadership by
14 the leadership of this Agency. Our acting executive
15 director, Steve Spears, and the whole team have worked
16 very hard. And I would say that, from my perspective,
17 that the federal package that will be discussed today
18 shows their fingerprints, and the results are positive.
19 It was fun to be in Washington, D.C., on
20 Tuesday, when everybody was saying, "Did you see the
21 story in the Washington POST? CalHFA is the big winner
22 on the federal program." So that looked -- it was good.
23 And with that, we will move on the agenda. And
24 this is the point for the Executive Director's comments.
25 MR. SPEARS: Thank you, Mr. Chairman.

1 A lot has happened since July. And I would
2 also, by the way, like to add my welcome to the three new
3 members. Thank you so much.
4 We have provided some individual briefings, so
5 that these folks are sort of in the process of catching
6 up. And I hope that was helpful.
7 And also, happy birthday to Lynn. Thank you
8 for joining us.
9 It is a very big agenda. We're going to try to
10 move through this as quickly as possible. But I'd like
11 to also add my thanks to some folks on the senior staff
12 that worked very, very hard on the biggest item, the
13 Federal Assistance Plan. These folks have not gotten the
14 national recognition that they deserve.
15 Peter is right that our fingerprints are all
16 over this. We were behind the scenes. Mainly, though,
17 it's Bruce Gilbertson and Tim Hsu and Tom Hughes that
18 have done a tremendous amount of work on this plan.
19 I'd just like to say "thank you," and perhaps a
20 round of applause is in order.
21 *(Applause)*
22 MR. SPEARS: I can't even -- others have helped
23 because there were little drills along the way where we
24 had to have information immediately. You know, some of
25 our investment banking and legal partners from outside

1 the agency, also very helpful. Stan Dirks and Howard
2 Zucker both have been helpful in the whole process of
3 what can and can't be done and how is it going to get
4 done. So thank you to those folks as well.
5 So without further ado, let me do a little
6 housekeeping.
7 You have several things that have been given to
8 you. An envelope of this color *(indicating)*, which I
9 would set this aside. This is the secret envelope for
10 the closed session, with the closed session memo from
11 Tom, and also the slides that will be presented in closed
12 session. So I would just set that aside.
13 The white envelope that you have is our annual
14 report, which you may have already opened up. There's
15 nothing secret in this one. You can open it up, perhaps
16 on the flight home, if you actually get your flight
17 home -- Ruben, Paul and Jon, and others who may have to
18 battle the air traffic control FAA problems.
19 So that's for future reading.
20 And then you were given a set of slides, I
21 think, like so, 3-hole punch, it's beautiful in color.
22 And please don't be frightened by the number of slides.
23 If you all did your reading homework, I think we can
24 certainly move through these as quickly as possible.
25 I don't want to rush today. Please, you know,

1 stop us anywhere along the way with questions that you
2 have.
3 But some of this will be familiar to you.
4 We're trying not to backtrack. We're trying to strike a
5 balance between reminding you of issues that were in the
6 past, that are now being corrected. But these can be
7 organized by your tabs later on if you like. That's the
8 way I have them in my book. But I wouldn't worry about
9 that right now. Just, you know, things to follow along.
10 MS. JACOBS: Keep it handy.
11 MR. SPEARS: Keep it handy. We'll be moving
12 along.
13 So what I want to do first is, if Steve will
14 bring up that first slide.
15 MR. POGOZELSKI: It's going to be a minute.
16 The laptop just crashed.
17 MR. SPEARS: Oh, great.
18 Then in that case --
19 MS. JACOBS: The packet.
20 MR. SPEARS: -- refer to your packet, this
21 colorful slide that Bruce made me reorganize the colors
22 on because the original colors were garish, I think this
23 is how we're going to approach the topics today, starting
24 from the top and moving down.
25 The blue box at the top -- what I want to give

1 you, first of all, this is the biggest news that we got,
2 and it's some of the most complex. And we'll get to some
3 of our complex financial structure issues, is the federal
4 HFA initiative. I want to keep it high, an overview,
5 "This is what it is, this is how it works."
6 But then we'll go to the seafoam-green box on
7 the right top, and talk about the liabilities part of our
8 portfolio, which as you know is part of our capital
9 structure, our bond structure. How does that blue
10 box help the seafoam-green box. This program also gives
11 us the opportunity to issue new bonds that will be
12 purchased by not only the federal government, but also
13 the private sector.
14 And then move over to the light-yellow box and
15 talk about the asset side. Part of this discussion on
16 the asset side is that the blue box doesn't yet help the
17 yellow box very much. You know, we'd love for the
18 federal government to tack on to the end of the program,
19 "Oh, yes, here's a giant check to help you with your loan
20 loss problem." But it doesn't.
21 What it does do, though, is allow us to do
22 lending. And we'll get into how that helps us in the
23 long run, in the financial position of the Agency.
24 And then we move to the -- well, salmon-colored
25 box, I guess. And what we want to talk about is, how

1 we're moving reserves that have been held in the fund
2 balance of the Agency over to offset loans that are
3 delinquent and that we're losing money on, transferring
4 those over to the assets.
5 And at that point, we'll also talk about the --
6 have the report of the Audit Committee come in and talk
7 about the Agency's operating loss for the year.
8 And at that point, it's a good time to call
9 time-out. That may be lunchtime right there, or maybe
10 just before that, and go into closed session, and talk
11 about some things that Tom wants to talk about.
12 And then sometime in there is lunch. We come
13 back out and talk about a business plan update. What
14 does the top blue box -- what does the federal initiative
15 mean for our business plan for the remainder of this
16 fiscal year and for the 2010-2011 fiscal year? And
17 finally, what impacts are there on the operating budget?
18 Do we know yet? What about staffing issues? And that's
19 where we'll wrap up today.
20 Included in the business plan, by the way, are
21 the two items about the Citibank transaction and also the
22 Performance-Based Contract Administration. Those are
23 Items 9 and 10.
24 So it's a very full topic -- I mean, a very
25 full agenda. Lots of topics. So we should start right

1 away, unless someone has a question about order and that
2 sort of thing.
3 CHAIR CAREY: Go.
4 --o0o--
5 **Item 4. Discussion, recommendation, and possible action**
6 **regarding the Agency's participation in the**
7 **United State Treasury Department's HFA**
8 **initiative**
9 MR. SPEARS: All right. Item 4. I'd like to
10 bring Bruce and Tim up.
11 We'll give you an overview, perhaps a little
12 more detail.
13 And then finally, there is a resolution, and
14 this requires Board action to allow us to proceed with
15 participation in this program, to enter into agreements,
16 to change indentures, to issue and to come up with a new
17 indenture.
18 So, Bruce, let me start with this first slide.
19 This is a quick overview.
20 This process started in February, at least,
21 probably before that, in the transition. Several
22 housing -- national housing leaders got in touch with the
23 Obama Administration and asked for help, because at that
24 point in time, after the Lehman Brothers bankruptcy, the
25 tax-exempt bond market was nonexistent and the tax-exempt

1 housing bond market was more than nonexistent. That's
2 why.
3 The Obama Administration expressed interest,
4 and they made this plan part of the Making Home
5 Affordable program. And it took quite a while, but
6 we finally got a way to do it. The authority is based on
7 the HERA authority from the previous year, which allows
8 the Treasury to buy securities of Fannie Mae and
9 Freddie Mac.
10 So the bottom line is, in the New Issue Bond
11 Program, we will be issuing bonds that will be purchased
12 by Fannie Mae and Freddie Mac. They will issue
13 securities that are backed by those, and that will be
14 what the U.S. Treasury will buy in the New Issue Bond
15 Program.
16 It also includes another element that's badly
17 needed by us. We have $3.8 billion of variable-rate
18 bonds that are supported by the liquidity agreements with
19 banks. We applied and were granted permission for
20 participation for all of that. And it will replace all
21 of the liquidity agreements that we have on all of those
22 bonds. We'll get into more detail about that.
23 Bruce, why don't you go ahead and take over and
24 start moving on through the details?
25 MR. GILBERTSON: Thank you, Steve.

1 Good morning, Members of the Board.
2 Just by a little way of background, the last
3 time CalHFA went to market to really sell bonds for
4 lending purposes was August of 2008. You know, we'd love
5 to get back to that place. That's a long time ago --
6 15 months.
7 And at that time, you might recall, it was
8 because of HERA that we had newfound tools. We were able
9 to issue non-AMT bonds for the first time, which would
10 give us a further advantage in the marketplace.
11 But shortly after the issuance of those bonds,
12 we entered into September of 2008 the Lehman Brothers
13 bankruptcy, and our world changed dramatically at that
14 point.
15 So on page 5, what the Treasury and the GSE
16 initiative has done for us is allow us to access the bond
17 market again, primarily because of the support from the
18 U.S. Treasury buying bonds directly. Not directly from
19 the HFAs, but from the HFAs with a wrap from the GSEs.
20 Clearly, for the first time now we have defined
21 terms for what kind of interest rate we would achieve in
22 a bond market. These are all spreads of the ten-year
23 Treasury. We do have some decisions to make over the
24 next few months as to when we rate-lock and things like
25 that. But this is a huge benefit for the Agency.

1 We will have two different types of new lending
2 programs or bond programs to finance the lending
3 programs: One for single-family, one for multifamily.
4 We're creating two new indentures as a part of this
5 initiative. And, you know, probably we'll change our
6 risk profile somewhat as a result of what's happened over
7 the last couple years.
8 But certainly as we go forward, we think this
9 is a tool to really make us relevant again in the
10 affordable housing finance marketplace.
11 The bonds have a requirement, fixed-rate bonds
12 only. If it's under the single-family new-issue bond
13 program, GSEs, ultimately Treasury, are willing to buy
14 60 percent of a financing. So 40 percent of the bonds,
15 we'll retain an underwriter. We'll use conventional
16 marketplace and sell the remaining 40 percent of the
17 issuance to the marketplace, likely to be serial bonds
18 and perhaps intermediate term bonds.
19 No bells and whistles. No, the Treasury wants
20 this to be a pretty straightforward pro rata redemption
21 activity. Housing issuers have oftentimes put some
22 additional structure into these things, taking
23 prepayments and targeting specific bonds.
24 The interest rate, as I mentioned earlier, will
25 be a spread to the ten-year Treasury. And the spread

1 depends on the credit rating of the new bond indenture.
2 We expect at this point -- although we do not have
3 ratings in hand -- that those would be solid AA credit
4 ratings from either one or both of the rating agencies.
5 And ultimately, to convert the short-term bonds
6 to long-term bonds, we will have to have received from
7 California Debt Limit Allocation Committee tax-exempt
8 issuance authority.
9 By way of background, we currently have a
10 significant amount of authority for the single-family
11 bond issuance program. But as we think about the
12 Multifamily Program, we'll have to go back to CDLAC --
13 we have application in currently for carryforward
14 allocation. But we'll have to be awarded tax-exempt
15 issuance authority by CDLAC as part of this initiative.
16 The timeline, quickly -- and I want to correct
17 one of the dates on here. The amount -- we need to
18 complete everything by the end of December 2009. That
19 means that we need to close the bonds and have delivered
20 the bonds to the GSEs, and then they're going to go
21 through a process to securitize the bonds, because it's
22 only a GSE security that Treasury can buy. They can't
23 buy an HFA bond directly.
24 The whole intent is we create the bonds, issue
25 the bonds, create an escrow that we will hold at a

1 neutral reinvestment rate. We're going to be charged by
2 Treasury the 28-day T-Bill rate for a period of time
3 while we hold these bonds, until we have reason -- a
4 pipeline of lending to finance, to go along with the
5 bonds, and then we'll convert them to a long-term
6 financing.
7 The one correction I want to make is that the
8 conversions -- the last bullet under "Timeline" should
9 really be December 31, 2010. We have the entire calendar
10 year of 2010 to make the conversions from escrow-bond
11 proceeds to a long-term financing suitable for the
12 financing of first-time home buyer loans or loans to
13 rental housing developers.
14 Lynn?
15 MS. JACOBS: Do you have to get the CDLAC
16 authorization before December 31st, 2009?
17 MR. GILBERTSON: No, we can receive CDLAC
18 volume cap in 2010. But it's a precondition to
19 converting the bonds swap.
20 MS. JACOBS: Okay, thanks.
21 MR. GILBERTSON: So the use of proceeds --
22 for the single-family program, the plan is to create
23 mortgage-backed securities. You know, because of the
24 recent events of CalHFA, we just think it's a more sound
25 approach, not take the real-estate risk, at least for a

1 period of time. Make us all feel more comfortable inside
2 of the Agency as well. But we'll create MBS, add the
3 full guarantee from Ginnie Mae or Fannie Mae or
4 Freddie Mac on those. We'll get guaranteed payments on a
5 monthly basis. And if there were defaults downstream, we
6 don't take that risk in any way, shape, or form.
7 We're still looking at different alternatives
8 to financing the Multifamily Program. Bob Deaner will
9 talk a little bit more about that later in the
10 presentation today.
11 But again, probably reverting back to an FHA
12 risk-share model or some other form of credit enhancement
13 or the specific underwriting criteria allowed by the
14 GSEs.
15 And then a third use of the proceeds, it will
16 still be considering and probably make a determination in
17 early 2010, is that the initiative allows us to do some
18 fixed-rate refunding of existing variable-rate bonds.
19 You'll see during the course of the day, we
20 have $3.8 billion of variable-rate demand obligations.
21 We have to make it work economically. We have to make it
22 work and find investors in the single-family program that
23 will be willing to buy 40 percent of the market-rate
24 bonds as well. So something we're going to probably push
25 off into January to try to make a determination.

1 The last kind of slide on this, and I'll
2 quickly run through this, it shows you the amount that we
3 applied for and the amount that we were actually
4 allocated in the last week.
5 As we went through and decided upon an amount
6 to apply for the new bond program, the $1.1 billion
7 really relates to the volume cap that has previously been
8 awarded to us at CalHFA. It has an expiration date at
9 the end of December 2010, so it matches this program
10 pretty nicely.
11 Multifamily was sized for some other reasons.
12 It was a $600 million request. We're hopeful in this
13 that there might be an opportunity to do a fixed-rate
14 refunding of $185 million of auction-rate securities.
15 And if you were to do the math, you'd determine
16 that six thirteen is the number we need to have
17 30 percent of the new bond program eligible for this
18 fixed-rate refunding. So there's really no magic in
19 these numbers.
20 We were awarded almost all of it. Just over
21 a billion dollars for the single-family program.
22 $580 million for the Multifamily Program. And we would
23 expect the long-term rate payable to Treasury on the bond
24 purchases they make to be equal to the ten-year Treasury
25 bond plus 75 basis points.

1 By way of reference today or this week, the
2 ten-year Treasury has been trading in the 3.35 range. So
3 this would be a long-term bond rate of, like, 4.10.
4 Any questions on that before we go?
5 MS. CARROLL: The portion that has to be sold
6 to investors, how will that get priced?
7 MR. GILBERTSON: So we will use, actually --
8 we'll appoint an investment banker to perform an
9 underwriting role, new disclosure document. Because by
10 then, we will have an accumulated pipeline. And it will
11 be the traditional market sale, if you will. Yes, full
12 underwriting.
13 MS. CARROLL: So different rates?
14 MR. GILBERTSON: Yes. And what triggers at
15 that point, you know, for the single-family program, it's
16 a little clearer. The 60 percent of the single-family
17 new-bond program will convert to the long-term rate,
18 ten-year Treasury plus the 75 basis points, at that time.
19 It's actually 60 days after we close the transaction,
20 because they're allowing us an even further benefit of
21 not having to have negative carry on the bond proceeds
22 until the loans are actually in place. And then we will
23 close the 40 percent.
24 But it's based off the amount of market-rate
25 bonds sold that you convert the Treasury bonds.

1 MR. GUNNING: Bruce?

2 MR. GILBERTSON: Yes.

3 MR. GUNNING: What's your sense of the private

4 market, given what's happened in the past and your

5 ability to sell?

6 MR. GILBERTSON: Well, I look to what Katie's

7 been doing over at the Treasurer's Office. They're

8 finding a lot of investors, you know, retail, and --

9 MR. GUNNING: They sell to insurance companies.

10 MR. GILBERTSON: Exactly. I think we'll have

11 some demand because we've been out of the bond market for

12 so long.

13 You know, housing bonds are a unique creature.

14 Certainly, if we have an MBS as collateral to the

15 bondholders, I think we'll have pretty good results.

16 MR. HSU: And these indentures for these new

17 bonds, there would be new indentures in a special

18 obligation indenture, so it's as if we're starting anew,

19 and separating these bonds from the bonds that we have

20 in existence now, which could be associated with more

21 challenged assets, if you will.

22 MR. GILBERTSON: Yes, we're, in some respects,

23 starting anew. A new program, certainly a new

24 marketplace. You know, real estate values have been

25 reset significantly lower within the state.

1 So we think all of those are positive
2 attributes as we face that new marketplace and try to
3 find new investors.
4 MR. SPEARS: And the new indenture will own
5 mortgage-backed securities guaranteed by Fannie Mae and
6 Freddie Mac and Ginnie Mae, not whole loans.
7 MR. GILBERTSON: Well, let's move along then.
8 And Tim is going to go over the temporary credit and
9 liquidity program that is the other component of the HFA
10 initiative.
11 MR. HSU: While Bruce talked about the new
12 business plans that we might have in terms of selling
13 bonds to finance our new lending programs, Steve had
14 talked about earlier that there is a part of the federal
15 initiative that would help us deal with the existing
16 capital structure that we have.
17 We have actually spent quite a bit of time over
18 the last 18 months briefing the Board over some of the
19 troubles that we have in our existing capital structure.
20 The composition of the Board has changed a lot. But,
21 briefly, we used to show these charts that shows how our
22 capital structure is based on selling variable-rate bonds
23 and putting, let's say, an interest rate hedge on top of
24 the variable-rate bonds. And we used to color these
25 variable-rate bonds by the banks that support the

1 liquidities of these bonds in different colors. And we
2 made the case that if these foundations or these
3 variable-rate bonds are, let's say, impaired for some
4 reason -- let's say the credit of the bank that's
5 supporting those facilities are impaired, then the entire
6 capital structure is weakened, irrespective of how some
7 of the things that stack on top are doing.
8 And what this temporary credit and liquidity
9 program is attempting to address is that very foundation
10 of our existing capital structure, which are the banks
11 that provide the liquidities to support the constant
12 reset of interest rates of these variable-rate bonds.
13 The Agency's plan currently is to use all of
14 the Temporary Credit and Liquidity Program -- we call it
15 TCLP -- to use all that's been granted to the Agency to
16 replace every single liquidity facility that we have.
17 And this does four things. I only listed two
18 things here, but there's four things.
19 For one thing, as I mentioned, it deals with
20 some of these banks that we have signed on over the last
21 five or six years, to provide a liquidity to support
22 these bonds. But their credits are no longer what they
23 once were. So it will replace a lot of these
24 credit-impaired banks, one.
25 Two, is that we have banks who used to be in

1 this space of business who are exiting this space, and
2 they have been extending their facilities with the notion
3 that there is going to be a federal assistance package
4 coming in. So these are otherwise, if you will, expiring
5 facilities that will be replaced.
6 And then thirdly, we will have some facilities
7 that are coming up over the next couple years that are
8 going to be challenged in terms of rollovers, that the
9 banks have already -- some banks have already sent out
10 notices saying they won't roll over, which is well --
11 they have 60-day notices but they're giving us 180-day
12 notices, for whatever reason.
13 And the last thing is, that is a bit more
14 subtle, is that this TCLP actually has a credit wrap on
15 the standby purchase agreement as well, meaning, that
16 it's sort of a hybrid of a letter of credit and the
17 standby purchase agreement. And this credit wrap could
18 be very useful for the Agency because some of these
19 existing indentures that we have which are associated
20 with more challenged assets, is under some credit
21 pressures from the rating agencies.
22 So this credit component, once we use it,
23 would also ensure that these bonds will continue to get
24 remarketed in the marketplace, even if our underlying
25 credit is downgraded for whatever reason at whenever.

1 So, ultimately -- you may step back and say,
2 "What is all of this going to do?" Well, ultimately,
3 what we hope this will all do is lower our cost of funds,
4 and also take out an element of liquidity risk that we
5 talked about at some point. Because if some of these
6 facilities don't get renewed, they become bank bonds, and
7 bank bonds have certain accelerated payments which can
8 cause cash crunch or liquidity pressure on the Agency.
9 So those are the two overarching things that we have
10 accomplished by doing this.
11 And some of the more salient things that are
12 really great features about this TCLP that we're getting
13 from the fed, are that once we're implement it, there's
14 really no rating triggers inside the documents that would
15 make us pay a higher fee if we were to get downgraded in
16 the future, which is a great feature.
17 And as I mentioned, there is no accelerated
18 term-out payments, unlike all the existing facilities
19 that we have. There is a ten-year balloon, but that's
20 a much better feature than what we have currently.
21 As Bruce was saying about the new bond program,
22 likewise here, all the documents have to get executed and
23 signed before year-end. And basically, some of the
24 events trickle into January for execution mode.
25 The way I think of it is that beyond January

1 the program has to be on auto pilot. You're sort of in
2 execution mode, and things just happen. All the
3 commitments, all the documents have to get signed in
4 December.
5 And as I mentioned, we basically got everything
6 we applied for. We applied for 2.9 in the single-family
7 world and $900 million in the multifamily world, and we
8 got everything we applied for.
9 The fee structure is worth talking about. In
10 the single-family world, we're going to pay a slightly
11 lower fee than in the multifamily world because going
12 into the program, your existing rating determines how
13 much you pay over the next three years. So it is an
14 escalating fee structure in which we pay slightly more
15 every year. So you can see that we start at 50, 75, and
16 100 for the single-family world. And in the multifamily
17 world, it's basically about 20 basis points higher every
18 year.
19 You could also look at this and then say,
20 "Well, is this a fantastic fee that we are getting into?"
21 Well, as it turns out, a lot of our fee structures we
22 have, in our existing portfolio, they have been entered
23 into when the risk premium was very, very low. So some
24 of the facilities that we have, actually have a fee
25 structure of 8 basis points for five years.

1 So on the average, our portfolio has a fee of
2 about 20 to 25 basis points, which is close to what we
3 were expecting when we went into this program. So on
4 average, these fees are higher than what we have
5 currently. But we expect, with this facility, our bonds
6 will trade through what they've been trading at, so that
7 the higher fee may justify itself by the fact that these
8 bonds are traded better than what they've been trading
9 at.
10 MR. GILBERTSON: Just a couple other thoughts
11 to chime in on this whole notion.
12 We're showing you the current ratings of the
13 two indentures that we have. We have AA-, Aa3 for the
14 Home Mortgage Revenue Bond indenture.
15 You know, the individual bond series that
16 attach this facility will now be AAA, because we have the
17 gold standard for credit and liquidity support in the
18 bond world. We have the U.S. Treasury backstopping it.
19 So the individual resets on those bonds for the
20 term of this facility should be the best you could ever
21 imagine. So I think there are some significant benefits
22 there.
23 The downside is the escalating fee. Clearly,
24 Treasury wants this to be temporary. That's why there's
25 an incentive for us, as the fee escalates, that we

1 continue to look for other options to rid ourselves of
2 the situation that we find ourselves in today.
3 MR. HSU: There's one other thing that's worth
4 pointing out. It's that while these fees are higher than
5 our portfolio's average fees now, these fees are better
6 than what the market charges now.
7 MS. CARROLL: Going back to the term-out on
8 these, if for some reason the market doesn't come back
9 and you can't find replacement facilities, you said the
10 term-out provisions are better. Does that mean that if
11 the federal government holds your debt, that there's
12 really -- you don't get into this escalating term-out
13 that is such a problem now?
14 MR. GILBERTSON: Yes, I don't know that that's
15 a good solution but, you know…because to have the federal
16 government be the holder of all your debt may not be
17 ideal.
18 MS. CARROLL: I agree with that, but just in a
19 worst-case scenario.
20 MR. GILBERTSON: Yes, as you know, though,
21 Katie, our typical term-out provisions under most of
22 these banks average five years.
23 MS. CARROLL: Right.
24 MR. GILBERTSON: So we had ten semiannual debt
25 service cycles to kind of repay all of the principal.

1 And again, as we've talked with the Board
2 before, the intent was to pay off the bondholders over a
3 30-year time horizon because we're making 30- and 35-year
4 loans.
5 So we do get a significant benefit by having no
6 accelerated amortization for a full ten years from the
7 end of the facility. So it's 13 years from today, and
8 then there is a balloon payment, of course, through
9 natural amortization, prepayments of loans, and other
10 things, the principal amount will be significantly lower
11 in 13 years.
12 I don't hazard to guess at that amount.
13 Tim, I don't know if you have --
14 MR. HSU: Well, it depends on the prepayment
15 fees on it.
16 MR. GILBERTSON: And so many other things.
17 You have normal amortization or scheduled
18 amortization as well as the prepayment aspect.
19 And the one other thing -- Tim touched on
20 this -- market facilities today, if we could find one,
21 we would clearly be over 100 basis points today. Some
22 of the renewals we have done have been 125, 150, and
23 higher.
24 So this is -- from that perspective, it's
25 better than the market is providing. Clearly, there's

1 incentives to get out of this.
2 I think the key thing in all of this is the
3 temporary nature of both of the programs. They're not in
4 it for the long haul. They're in it for a short period
5 of time.
6 MR. HSU: I think, Katie, in large part, that
7 ten-year balloon versus the five-year term-out,
8 accommodated that request, in large part, because they
9 knew that the rating agencies were stressing out cash
10 flows. They were assuming that a billion or two of our
11 portfolio will go into bank bonds and whether or not we
12 need the term-out payments.
13 So I think that accommodation wasn't a hint
14 that they're willing to take in all the bonds, but it
15 was, rather, an attempt to help us deal with the rating
16 concerns.
17 MS. CARROLL: Right. Now, I fully understand
18 that they wouldn't want to have to take in all of your
19 bonds. I'm just kind of trying to figure out what this
20 would mean in an absolute worst-case scenario.
21 MR. HSU: It's an embrace, not a bear hug.
22 MR. GILBERTSON: Yes, that's a good one.
23 MS. CARROLL: Good word for that.
24 MR. GILBERTSON: So with that, on page 114 of
25 your binder, there is a resolution, Resolution 09-14,

1 that is --
2 MR. SPEARS: Is there a page? The resolution
3 is on page 114.
4 MR. GILBERTSON: Yes.
5 Clearly, what we're asking the Board to do
6 is to support the Agency, Steve Spears as Executive
7 Director, in entering into these agreements with the GSEs
8 and Treasury.
9 MR. SPEARS: Acting executive director.
10 MR. GILBERTSON: Acting executive director.
11 MS. PETERS: I'd like to move adoption of
12 Resolution 09-14.
13 MS. JACOBS: Second.
14 CHAIR CAREY: It's been moved and seconded.
15 Is there any further discussion?
16 MR. SMITH: I just had a quick question on the
17 bond indenture.
18 How will it change? What's the significance of
19 it?
20 MR. HUGHES: As I think Bruce or Tim pointed
21 out, there will be new indentures created for this
22 program.
23 What historically happens is that each January,
24 the Board enters into a series of financing resolutions
25 that authorize the staff to take a very, very broad range

1 of financing actions. And those authorities also approve
2 specific forms of indenture that we can use. And there's
3 a whole long list of approved indentures.
4 This program is evolving daily. We're getting
5 documents every day. And what the second component of
6 this authority does, is to allow us to take the
7 previously approved forms of indentures and modify them
8 however is necessary to fit into this new federal
9 program.
10 MR. SMITH: There's no negotiations? Pretty
11 much, take it as it is?
12 MR. HUGHES: No, it's -- I have been told
13 personally, and the Agency knows, that we're not going to
14 be negotiating these. We have, nonetheless, tried to fit
15 in our little bits, and that's here and there.
16 But I think one of the main takeaways, you can
17 tell from Tim and Bruce's presentation, is there is a
18 gigantic amount of work to be done by December 31st.
19 Because after December 31st, all federal authority for
20 this goes away and it will not be extended.
21 So this is a very practical exercise of trying
22 to get all this implemented in a very, very short amount
23 of time. And, frankly, we won't be in the position that
24 we normally are to try and get the bear hug rather than
25 the embrace. I like that a lot.

1 MR. GILBERTSON: That was great.
2 MR. SPEARS: Let me make one comment in
3 response to that.
4 This will give us the ability to form this new
5 indenture, according to whatever they come up with. It's
6 not negotiable, I get that. We have made objections to
7 various things, including the legal fees that they told
8 us -- the fee schedule that came with this thing.
9 We had a phone call yesterday, that said that
10 we object strenuously. But it doesn't force us to
11 participate if this winds up to be something that we
12 really shouldn't do. And, I mean, at that point, I would
13 just back down.
14 I don't anticipate that happening. But if the
15 indenture winds up to be injurious to the Agency from
16 some standpoint that we really shouldn't do, we will just
17 simply back away.
18 But, again, I don't anticipate that happening.
19 CHAIR CAREY: Further discussion?
20 Roll call.
21 MR. HUGHES: Mr. Chairman, we just have to make
22 sure that we solicit any public comments as well before
23 going on, before action.
24 CHAIR CAREY: Thank you.
25 If anyone in the public would care to comment

1 on this item before we take action, please step forward.

2 *(No response)*

3 CHAIR CAREY: Seeing none, roll call.

4 MS. OJIMA: Thank you.

5 Ms. Peters?

6 MS. PETERS: Yes.

7 MS. OJIMA: Mr. Gunning?

8 MR. GUNNING: Yes.

9 MS. OJIMA: Mr. Hudson?

10 MR. HUDSON: Yes.

11 MS. OJIMA: Mr. Hunter?

12 MR. HUNTER: Yes.

13 MS. OJIMA: Ms. Jacobs?

14 MS. JACOBS: Yes.

15 MS. OJIMA: Ms. Carroll?

16 MS. CARROLL: Yes.

17 MS. OJIMA: Mr. Smith?

18 MR. SMITH: Yes.

19 MS. OJIMA: Mr. Carey?

20 CHAIR CAREY: Yes.

21 MS. OJIMA: Resolution 09-14 has been approved.

22 MS. PETERS: Mr. Chairman, just before we move

23 on to our next agenda item, I want to take a moment to

24 fill Board members in on a little more detail of what a

25 herculean effort this was on behalf of this staff.

1 I know that when it gets to our level, we see
2 five slides, and we move on to resolution. And that's
3 only due to the fact that the staff has moved mountains.
4 I was involved with this very early on, on
5 behalf of the Governor's office and the Agency, when we
6 understood that the Housing Finance Agency Association,
7 that's our national group of housing finance agencies,
8 was not necessarily articulating California's unique
9 aspect to the degree that we would like it to be heard in
10 Washington; and introduced Steve to the Treasury contact
11 that I had dealt with on numerous occasions, and watched
12 this progress.
13 It was intense, intense labor of creating
14 something that had never been seen before in the midst
15 of the financial crisis, in the midst of a transition
16 of presidency, and the Treasury looking at very many
17 other programs that had higher priorities for them.
18 The Agency was able to really get in there,
19 roll up their sleeves, and help write this, to make sure
20 that it was a success for California. And I really can't
21 say enough about the efforts that went forward.
22 It's very rare that the Agency will step back
23 and not even participate on phone calls. When Treasury
24 would call me, I'd say, "Call Steve," and that speaks
25 volumes of the ability and quality of folks that we have

1 working for us. So just because it's five slides here
2 doesn't mean it wasn't a childbirth moment many, many
3 months.
4 Thank you, all.
5 CHAIR CAREY: Thank you, Heather.
6 --o0o--
7 **Item 5. Report, discussion, and possible action**
8 **regarding the Agency's financing and**
9 **program strategies and implementation, and**
10 **loan portfolio performance, in light of**
11 **financial marketplace disruptions**
12 CHAIR CAREY: We will move on now to Item 5,
13 which is an overview of current issues and challenges.
14 MR. SPEARS: Well, the first part is how the
15 federal plan helps meet some of those challenges.
16 The second half is the loan portfolio, which
17 presents an ongoing challenge that we'll get to in just a
18 minute.
19 MR. GILBERTSON: Thanks, Steve.
20 So clearly, at this point in the Board meeting,
21 the tone changes a little bit, yes. We had the energy of
22 the federal initiative, and it is going to be helpful.
23 And now, we have to get back to a little bit
24 of reality and some of the challenges that we have talked
25 so often to the Board about. We took a little different

1 approach this time. Even for us, it becomes very
2 repetitive, the types of things that we were sharing with
3 you. Hopefully, this will be meaningful. And I know we
4 have some new members on the Board as well.
5 The first concept -- and "basis mismatch" is a
6 phrase we use inside the Agency a lot. I want to step
7 back. I don't expect everybody to grasp that and say,
8 "Wow, I get it." But the point on the first bullet here
9 is that for our fiscal year that ended June 30, 2008,
10 basic mismatch amounted to $12 million on some
11 $3.8 billion or $4 billion of variable-rate debt.
12 On a percentage basis, or if you calculate the
13 amount of basis points, it's not all that large. It grew
14 to $38 million in the fiscal year that ended June 30,
15 2009. So a tripling -- and I think that everybody gets
16 that.
17 I'm going to ask Tim to slip forward to
18 slide 17.
19 So here's a bar chart depicting basis mismatch
20 since we started our variable-rate financing program.
21 Just to be clear, the blue bar is the cumulative total
22 of dollars -- okay, basis mismatch.
23 You can see the furthest-right bar, a little
24 over $100 million basis mismatch on a large amount of
25 variable-rate debt over a ten-year period.

1 The gold bar is the periodic mismatch. So you
2 can see the dollars. You can see the bar for the 2009
3 time period. That's reflecting -- it shows more than
4 40 -- we measure this on a bond year rather than a fiscal
5 year, so we're just -- we have a little timing
6 difference, because we're doing the payment year from
7 August 1 to July 31, so it's off by 30 days. Clearly,
8 that tells you that July of this year was much worse than
9 July of the prior year.
10 So I just want to show you, this is the issue
11 we're talking about. And then I'll go back and define,
12 what is "basis mismatch"? So basis mismatch is the
13 difference between the interest rate we pay to -- I'm
14 sorry, it's equal to the interest rate we pay to our
15 bondholders on these variable-rate instruments,
16 variable-rate demand obligations, auction-rate
17 securities, that are hedged with an interest-rate swap,
18 okay. So we elected to not leave them floating. We
19 wanted to put a hedge in place to create what we call
20 a "synthetic fixed rate."
21 So the interest rate on the bond payments minus
22 the variable-rate payment we receive from the swap
23 counterparty.
24 All of our interest-rate swaps are fixed-payer
25 swaps. We pay a fixed payment in exchange for a

1 variable-rate payment from our counterparty.
2 Two reasons basis mismatch has really blown out
3 in the last couple years. The first one is the
4 underperformance of the bonds. I'll show you the other
5 chart in a moment that shows you the history of our bank
6 bonds. You know, bank bonds are the bonds that aren't
7 accepted by the marketplace. An investor doesn't want
8 them, so the liquidity bank takes the responsibility on
9 and owns them.
10 But the business transaction that we entered
11 into with the liquidity bank was such that they get a
12 higher rate. They didn't want to take this on for
13 nothing. They're getting a small fee and they want to
14 get a higher rate. So underperformance of the actual
15 bonds themselves.
16 And then the significant change in the
17 relationship between short-term taxable rates and
18 short-term tax-exempt rates. Tax-exempt rates should
19 always be set at a rate lower than the taxable rate, one
20 would think, because you don't have to pay income tax on
21 it. However, we're in an environment today where
22 short-term tax-exempt rates are higher than a short-term
23 taxable rate.
24 You know, market dysfunction. You know, a
25 higher-rate environment overall will help that situation.

1 We hope that will come back in the new term.
2 This chart -- let's stay on that one for a
3 moment. The purpose of this -- and we've shown this to
4 the Board repeatedly over the last 15 months --
5 beginning with the Lehman Brothers bankruptcy in
6 September of 2008 we started to get these bank bonds.
7 You know, investors were tendering their bonds back to
8 the tender agent and the bank was having to buy these
9 bonds. It grew very, very quickly in early October of
10 last year, to over $1.1 billion. We worked hard in
11 dialogue with the remarketing agents, and then the market
12 in general became better. And so that's been a much
13 lower amount.
14 Then the low point was February of this year.
15 It kind of ballooned up a little bit for a variety of
16 reasons. And now we're at an amount that's just under
17 $200 million.
18 All of the bank bonds we have today are the
19 result of the liquidity bank not willing to extend the
20 facility. So it's expired. Can't find a replacement.
21 The federal program won't resolve this because we're
22 going to have that facility in place in January.
23 Okay, let's go back to page 14.
24 Just the other bullet then that I want to talk
25 about here is because of the interest-rate swaps, we

1 faced a couple of situations over the last year, year and
2 a half, where we had to deal with the underlying
3 interest-rate swaps themselves. The Lehman Brothers
4 bankruptcy caused us to face a termination event under
5 interest-rate swaps. We had to pay net payment of about
6 $16 million to that entity to get out of our swap
7 contract with them.
8 We pay a termination payment when the market
9 value of the contract is a negative value to us. It's a
10 market-based pricing. We went through this exercise in
11 November of 2008.
12 We included in the back of your board binder a
13 two, two-and-a-half-page memo on that subject.
14 It's complicated. We try to do justice in the
15 form of that with a written report. So certainly later
16 or now, if there's questions, we'll respond to those.
17 So let's -- again, we've talked about some of
18 this already. But with the Treasury's TCLP program,
19 CalHFA will be able to accomplish several things.
20 Replace the $197 million of expired liquidity
21 facilities we have today. Again, that represents all of
22 the bank bonds that we currently have, ad will alleviate
23 the accelerated term-outs required by these banks. And
24 we talked about that in the earlier agenda item. Most of
25 our liquidity agreements require a five-year term-out

1 provision, in addition to a higher interest rate.
2 So once we get to the end of January and all
3 the new facilities are in place, we certainly expect a
4 lower cost of funds going forward. We expect very high
5 demand for these securities. All of those things will
6 improve the basis mismatch. Wide acceptance, lower
7 rates.
8 These are bonds that if they were in place
9 today, we would expect these bonds to reset on a weekly
10 basis at 25 basis points, .25 of a percent, or 30 basis
11 points. Very, very low interest rate.
12 The other thing to keep in mind without the
13 TCLP program from Treasury, we'd be looking to replace
14 or extend a total of almost $2 billion of liquidity
15 support over the next 13 months, something that the
16 marketplace simply isn't willing to do in this
17 environment for CalHFA.
18 So Tim is going to just take us through. And
19 we're going to take a look at a composite snapshot of our
20 debt portfolio today and then what it will look like once
21 we put these new facilities in place.
22 MR. HSU: This is a chart that we started
23 developing after the credit or liquidity crisis started.
24 Across the top here, you see some of the
25 headline news, if you will, about the bond insurers going

1 sour and causing havoc in the financial market. So you
2 see the AMBAC and the MBIA and FSAs of the world across
3 the top and we also have some uninsured bonds.
4 And on the left-hand side here, you see from
5 top to bottom, a different dimension of the capital
6 structure. You see if we had used variable-rate
7 financing or used index bonds or used fixed-rate bonds.
8 And it's really at the nexus of the components
9 going across the top and the components going from top
10 to bottom, that you can see where the really troublesome
11 spots are.
12 So this is a snapshot as of October 1st, and
13 it's representing where we are today. And you can see
14 that we have some red numbers here. These are
15 auction-rate securities which, when the credit crisis
16 started, they seemed really, really horrible. But in
17 today's life, without the federal assistance initiative,
18 they actually are relatively less troublesome than some
19 of these blue numbers that we have. And the reason is
20 that some of these auction-rate securities, they have
21 formulaic maximum rate reset formulas to make their
22 resets not as high as some of these blue variable-rate
23 demand obligations are sitting at.
24 So you can see that if you look on the bottom
25 right-hand corner here, that in total, you're roughly

1 looking at about 18 percent of the bonds that are being
2 either colored red or blue or dark red. And this dark
3 red of $197 million is the number that Bruce had alluded
4 to earlier, are sitting in bank-bond mode.
5 And on the next page, this is again the same
6 chart, but it's meant to give you a before-and-after of
7 what our composition looks like after we put on the
8 Federal Assistance Package's TCLP program.
9 So the TCLP does not allow us to convert the
10 auction-rate securities into VRDOs, so they'll stay red.
11 But many of the blues that you saw will get converted to
12 green. And we are working with FSA to strip their
13 insurance as part of this process, we left them in there,
14 the $549 million in blue, because it's still a process we
15 have to go through to strip them. We hope to move that
16 $549 million into the green as well.
17 You will note that on the bottom right-hand
18 corner again, that 2 percent plus 7 percent is 9 percent.
19 So it will seem as if the benefit here ostensibly is to
20 move from 18 percent of color bonds, into 9 percent of
21 color bonds. But I would note that this green here, is
22 greener than the green on the last page, in the sense
23 that we have now dealt with many of the risks that we
24 often talk to you about, like the expiring facilities and
25 the rollover risk, and also that we expect these bonds to

1 trade much better with the TCLP in place.
2 MR. GILBERTSON: So that kind of wraps up the
3 debt side of the challenges.
4 I think Steve and Chuck and maybe others are
5 going to go over some of the portfolio aspects as well.
6 CHAIR CAREY: Questions before we move on?
7 MR. SPEARS: A federal program will be helpful.
8 I hate to understate that, but it will be.
9 All right, the mood changes slightly more.
10 But we're now on to the yellow box, if you
11 remember the discussion box up front.
12 And CalHFA's main income-producing asset, of
13 course, is its loan portfolio.
14 I will start with some bright news and tell you
15 that the multifamily portfolio is performing well. We do
16 not have significant issues there.
17 We have seen an increase in vacancies. And
18 anecdotally, we believe that's because people are
19 eschewing apartment living for living in the homes that
20 are out there, vacant, that have been purchased by
21 investors, that are now for rent at very reasonable
22 rates. I can't prove that exactly, but that's what we
23 hear anecdotally.
24 The single-family portfolio is another story,
25 of course; and that's where we'll spend most of our time

1 right here.
2 What you see on page 21 of your slides -- and
3 there is also a more detailed report back in the
4 appendix, under "reports." It is behind Tab B, starting
5 on page 147. If you want to refer to that for more
6 detail at some point.
7 I think what you'll see is a picture that as
8 unemployment numbers have increased in this state, our
9 delinquencies have gone right along with that and
10 increased dramatically over the last four months. They
11 had increased from about 10+ percent in December of 2008,
12 and had steadily increased until about August, and then
13 they really increased since then.
14 The report that you see before you on page 21
15 is the last reconciled report. We have reconciled to the
16 penny exactly what payments have come in from borrowers.
17 I have asked, starting a few months ago, for
18 unreconciled reports, so that we could get a better clue.
19 And they're not materially different, usually.
20 And this 15.8 percent number that you see on
21 the bottom right-hand corner has now increased to just
22 slightly over 17 percent as of the end of October.
23 Pretty much along the same lines.
24 A couple things to point out. One is that, of
25 course, the federal guarantee loans that you see up at

1 the top, the first three lines, those are not the ones
2 that we're concerned about. We're very concerned that
3 people in those homes will be probably not paying;
4 probably have to leave those homes. And that's not our
5 mission, and we're not happy about that.
6 But from a financial standpoint, those are
7 100 percent guaranteed by the federal government. The
8 ones that we are concerned about are the conventional
9 loans on the bottom three lines.
10 And if you turn to the next page, you'll see
11 that all conventional loans, the percent delinquency --
12 total delinquency on those is on the very bottom line of
13 page 22. And they are at 14.57 percent, reconciled as
14 of October 31.
15 That number is slightly above 15, I believe,
16 Chuck, for the conventional ones.
17 MR. McMANUS: At least, yes.
18 They're all unreconciled that I'm looking at,
19 so…
20 MR. SPEARS: Right.
21 I'm also looking at an article from the
22 Wall Street Journal the day before yesterday, which says
23 that mortgage delinquencies across the country rose in
24 the third quarter again. And the two things they point
25 to are the two things we've been talking to you about all

1 along. And they say, several months of home value
2 appreciation and the unemployment rate improves mortgage
3 delinquencies -- unless that happens, mortgage
4 delinquencies will continue to rise.
5 We don't see that happening in California in
6 the near future.
7 Yes?
8 MS. JACOBS: Since you already gave me a
9 birthday present of the federal program -- an excellent
10 present -- could you indulge me for a moment to reinforce
11 the unemployment issue?
12 I am such a good HCD director, that when I took
13 office in 2006, residential construction was the
14 number-one industry in the state, accounting for 960,000
15 jobs.
16 It's down 72 percent, to 163,000 jobs. And
17 it's one-third of all the unemployment in California. So
18 it is kind of a double help when we can get government
19 money out to build new affordable housing, because we are
20 a big percentage of the unemployment rate. So if we can
21 put people back to work with our money, whether it's HCD
22 or CalHFA or Proposition 1C, that would be great.
23 MR. SPEARS: Those are the two factors, there's
24 no question.
25 What I'd like for you to do is to turn to

1 page 25, if you will.
2 Our delinquencies vary a great deal by product.
3 And so what you have is -- a green line there is the
4 Mortgage Banker Association's California prime
5 delinquency rate.
6 I would caution you that those are not the kind
7 of loans that you see for all these different types.
8 The orange line are interest-only. They would
9 not consider a prime. Even though it's a fixed-rate
10 loan, it is an interest-only loan for a period of time,
11 so you would see a different benchmark there. But it is
12 a benchmark that we have used in the past.
13 What you see is that the 30-year loans are
14 edging up. 40-year loans have really taken off since
15 August, and interest-only loans have really taken off
16 since August.
17 The interest-only loans don't start
18 resetting -- the first ones start resetting, I believe,
19 in May of -- next year?
20 MR. McMANUS: That's correct.
21 MR. SPEARS: So their payments are remaining
22 low. I think what's happening there is that people are
23 seeing that there's a payment jump down the road. Their
24 home price is far below their loan balance. And I think,
25 Heather, this is the correct term, a strategic default is

1 happening, and they're simply making the decision to not
2 be in the home.
3 So this is the picture, it is resulting in loan
4 losses which we will get to in a minute. But what I want
5 to do first on page 26, is to talk to you about what
6 we're doing to try to combat this.
7 I'll say right off the bat, that it's difficult
8 when you call a borrower, they don't answer the phone,
9 and you eventually go to their house and they have been
10 gone for a couple of months or several weeks. A lot of
11 folks just simply are making that strategic decision to
12 walk away. But for those borrowers that are still in the
13 homes and will talk to us -- and it's very difficult to
14 communicate -- we have shifted, as we talked before,
15 staff from loan production, where we had -- you know,
16 we've been idle for a while. A lot of the staff have
17 been moved over to loan servicing. Our own loan
18 servicing department that Rhonda Barrow runs, to loan
19 modifications, which is a combination of Rhonda, plus
20 Chuck's shop, which works with other loan services.
21 Loss mitigation and REO management, which is
22 Chuck's responsibility. We've shifted a large number of
23 people over there. In fact, just -- when I sent news
24 out -- just so you get an idea of employee, I'll call it
25 "morale." When I send a note out that the federal plan

1 had been finalized, that we were now going to
2 participate, that we were going to be able to lend again,
3 hopefully in the coming year, I got more than one e-mail
4 from an employee that said, "Thank heavens, I'm going to
5 be underwriting loans again."
6 And they didn't mean it necessarily in the
7 sense that what they were working on now is not vital to
8 the Agency. It was that they really want to get back to
9 the lending; they really want to get back to putting
10 people in homes and homeownership and working on that
11 side instead of their reassigned duty.
12 It's difficult work for these folks. And as
13 much as we praise Bruce and Tim and Tom and others for
14 working on the federal plan, these folks need
15 encouragement on their own. They are doing the difficult
16 work that we have to do to manage this portfolio. And I
17 just want to give them recognition of that at this point.
18 Here's some other things that we're doing. We
19 have two loan modification programs that we'll talk about
20 on the next page, one for FHA and one for conventional
21 loans.
22 Unfortunately, we are not able to follow the
23 President's modification programs because of our bond
24 indentures. We have tried to map, as closely as we can,
25 to that program, and still keep our bond investors happy

1 and our bond counsel happy.
2 We've started a "Keep Your Home" campaign. It
3 started being called as the "Stay in Your Home" campaign,
4 but it sounded like meteors were about to hit the earth,
5 so Ken convinced me of a different name.
6 But the idea is that we contact folks --
7 MR. HUDSON: I think Ken was right.
8 MR. SPEARS: Yes.
9 MS. PETERS: That's why he gets the big bucks.
10 MR. SPEARS: But Heather and I visited a couple
11 of outfits that are interested in this idea of strategic
12 defaults, folks that are in that category, identifying
13 those people.
14 What we've done is a broad-scatter distribution
15 of people that are likely to walk away and send them
16 something, and say, "Think about it before you do that.
17 There are consequences that you may not have thought
18 about, tax consequences, credit consequences. Talk to us
19 first. Now, we're not trying to threaten you, we're not
20 trying to" -- all we're trying to do is educate them on
21 the consequences of walking away from their home.
22 We have reorganized. We are in the process of
23 relocating our own CalHFA loan servicing staff. We've
24 provided training and we've got them better equipment.
25 We have had problems. I'll be frank and admit

1 it. We've had problems from going to a loan-servicing
2 operation which was simply processing checks and the
3 occasional call from borrowers to 30-, 45-minute,
4 hour-long phone calls trying to work with them and doing
5 personal financial counseling over the phone.
6 Some of our folks weren't trained for that.
7 We're getting training to them. We're putting in a new
8 phone system. We are hiring more managers, and we're
9 moving them to a location which we'll talk about at the
10 very end of the day that allows for expansion and allows
11 for better equipment and better organization.
12 And the final thing that we have done is, when
13 we started getting information in from outside services,
14 something that Heather's talked about before in Board
15 meetings, we found that, here again, when delinquency
16 rates are 1 percent and 2 percent, they probably don't
17 pay as much attention to this. But what we found is
18 people were reporting at different times in the month.
19 Some of them were literally printing out thick computer
20 paper with little stripes on it -- you know, the
21 old-fashioned type -- and putting those in a box and
22 mailing them to us, and they were getting here about the
23 20th or whatever.
24 And a variety of information was being
25 recorded. Not much of it standardized.

1 We have standardized all that. We now require
2 them to report electronically by the 5th of the month.
3 And we are in the process of developing metrics, where we
4 can go to them and say, "You're not standard on this or
5 that performance measure."
6 What we would like to be able to do is have a
7 bit of a lever, hammer -- call it whatever you want --
8 so that if they're not performing, we're going to take
9 those loans away from you and do a better job ourselves.
10 I'll have to tell you that we're not in a
11 position to do that right now because we're in the midst
12 of this reorganization and relocation project for our own
13 loan servicing. We don't have the staff to do it.
14 If we did take the loans back at this point in
15 loan service, then we would have to find a subservicer to
16 do that and probably deal with some of the other problems
17 that we already have. So those are some of the things
18 we're doing.
19 Any questions on that before we move on?
20 MR. GUNNING: How is the training received?
21 MR. SPEARS: Well.
22 The one problem we've had -- and not to rain on
23 the furlough program, but --
24 MS. JACOBS: Please don't. Please don't.
25 MR. SPEARS: But it has been difficult. We

1 have hired temp help. Some of those folks coming in are
2 experienced in collecting mortgage payments, some are
3 bill collectors that we've hired. There's a huge
4 difference. And those are the folks that we have put
5 through the training because it's very different. They
6 all need to understand our mission.
7 And again, this is the tougher side of what we
8 do, but we still have to be compassionate.
9 And if it turns out that a homeowner cannot
10 stay in a home because they have lost their job, they've
11 had a major illness, they've had a change in marital
12 status, they've been cut back in their hours or
13 something, our goal is to view this on as a compassionate
14 basis, on as fast a basis as possible. And that's a
15 little bit different than calling up and collecting an
16 auto payment. But it's been well received. It really
17 has.
18 MR. HUDSON: How is your loss experience
19 instructing your new origination? I mean, what have you
20 learned from your delinquencies that could help you with
21 your new origination?
22 MR. SPEARS: As we move forward with the new
23 lending?
24 MR. HUDSON: Correct.
25 MR. SPEARS: There is no question that FICO

1 scores are the absolute key.
2 I’m going to let Chuck talk for a bit -- one
3 of the things that I need to -- there are two things that
4 I need to give staff credit for.
5 Long before I ever got here, Chuck improved
6 this after we hired him from the private sector. One is,
7 we have reserves to put against losses only because this
8 has been well managed in the past. And we didn’t spend
9 all the reserves on one program or another. We have the
10 reserves that we’re going to talk about, moving from fund
11 equity over into offset losses.
12 The other is that we have -- we did not do the
13 subprime loans, we did not do the no-doc, low-doc loans.
14 They were properly underwritten. We were berated, I’ll
15 use that word, for taking so long to get a CalHFA loan,
16 and everybody else was getting a loan overnight. “Oh,
17 don’t go to CalHFA. They take forever to get all that
18 work done.”
19 Well, it turned out that all that work, that
20 was underwriting work that everybody should have.
21 So let me let Chuck comment briefly, and I
22 think he will probably agree.
23 MR. McMANUS: I think he doubts an Irishman can
24 be brief, but I’ll try, okay.
25 We began tightening -- first of all, putting in

1 minimum FICO scores in July of 2006. Maximum total debt
2 ratios, the same date, we went to 620 minimum, 55 total
3 debt ratio. We had been accepting Fannie Mae DU
4 approvals. I found 7 percent of those approvals had
5 total debt ratios over 55 percent. Unacceptable. It's
6 not fair to the borrower, et cetera.
7 So we attempted to give them -- we only wanted
8 to make loans to people we thought could afford to make
9 the payments. However, we did not anticipate a 40 to
10 50 percent drop in real-estate values.
11 What has resulted is, it's just like people
12 have made -- gotten a loan on a car. The house is now
13 worth less than when you bought it. You have no
14 fallback. You cannot get a second mortgage to bail you
15 out because you overspent, you did something wrong. So
16 the safety net of equity in housing does not exist in our
17 market.
18 Our down payments for the first year I was here
19 average 1½ percent out-of-pocket, okay. They may have
20 had downpayment assistance and so forth, but our average
21 LTV was 98 and a half.
22 So we had a borderline customer. And when the
23 safety net of the value of the house fell down, that's
24 where we are today, that's why we're dealing with the
25 foreclosure rates and the losses. But we have done full

1 underwriting, full documentation. And that has helped
2 us.
3 And so relative to others who don't do full
4 docs, we're performing well, even though it's terrible.
5 And our 2006 book may go out at 35 to 40 per
6 hundred, when you project out to the life of the loan.
7 We're at, today, about thirty- -- if you have
8 all the delinquencies, 34 percent.
9 So I'm not saying they're all going to go to
10 claim. But we've got a very tough book.
11 The prices peaked December of 2005, January of
12 2006 overall in California. And we had our biggest year
13 in 2006. We did $1.7 billion of single-family loans.
14 So that --
15 MR. HUDSON: Let me ask specifically about
16 page 25.
17 Is this instructing you in any way, this
18 product mix that you have?
19 MR. McMANUS: Yes. But I want to show some --
20 underneath the sheets, here are some secrets.
21 The orange line, the interest-only product,
22 which is maligned tremendously, those payments have not
23 changed. They're fixed, flat-line payments. There is no
24 equity buildup. But equity has dropped 40 percent. So
25 if you've had a 2 percent, you'd have a 38 percent drop

1 in value.

2 But that is the marginal buyer. This is a

3 self-selection thing. That was the lowest monthly

4 payment. So our customer that wanted the lowest monthly

5 payment took the IOP loan. It was lower than the 40-year

6 amortizing or the 30-year.

7 If you look at the 30-year, that's a standard

8 30-year product. That is the conservative borrower that

9 picked it, and it's performing better than the rest of

10 the California market. So it's a self-selection process

11 in this mix.

12 We had our weakest borrowers taking the IOP.

13 And those changes in price, which are about 16 percent

14 payment shock, come next May, June, and July, and on for

15 the next two years -- or three years. We've got to do

16 something about that. We're making plans to do

17 something; we just haven't settled on what, how we're

18 going to try and avoid that shock. But that's a

19 self-selection process, I believe.

20 MR. HUDSON: How about going forward, are you

21 still going to have these products going forward?

22 MR. McMANUS: We do not offer the IOP. We have

23 the 30-year. Right now, we have only a 30-year product.

24 MR. GUNNING: I thought we had a 40-year.

25 MR. SPEARS: Not anymore. No.

1 MR. McMANUS: No. We do not have the 40-year.
2 MR. SPEARS: On a going-forward basis, we're
3 going to have two basic products: 30-year FHA, 30-year
4 conventional.
5 MR. HUDSON: And what about down payments?
6 Going forward, what are the down payments going to be?
7 MR. SPEARS: Well, we have -- and we'll get to
8 this more in the business-plan update -- but at present,
9 we have only access to general obligation -- state G.O.
10 bond funded downpayment assistance, as opposed to our own
11 internal programs that we had before.
12 So it's somewhat limited, but local
13 localities -- cities, counties -- have downpayment
14 programs that they have used before with our products,
15 and we're going to partner with them and do that again.
16 CHAIR CAREY: Are you asking about what we can
17 require, what we're requiring or what we're offering?
18 MR. HUDSON: I'm not sure. What's the
19 difference?
20 Answer both questions, because I didn't know
21 there was a difference.
22 MR. McMANUS: Can I -- the 3 percent cash is a
23 new thing we put in. I don't know if we're going to
24 maintain it.
25 MR. HUDSON: So 3 percent cash is the current

1 program, and it used to be as low as 1 --
2 MR. McMANUS: Zero. We didn't require any
3 borrower cash because they could get downpayment
4 assistance. Our mission was to promote homeownership,
5 and that's what we were doing.
6 MR. HUDSON: I understand.
7 MR. McMANUS: We just did it in a market that
8 fell 40 percent.
9 MR. SPEARS: Right. And that's the discussion
10 at the business plan update, that Fannie Mae is offering
11 a 100 percent LTV product where they provide the mortgage
12 insurance.
13 If we use that in combination with a
14 mortgage-backed securities program as opposed to owning
15 the whole loan, does that change our business strategy?
16 MR. HUDSON: Yes, and I'm asking these
17 questions, I think you have to balance your mission with
18 people's ability to sustain -- affordability can be
19 defined -- make it affordable, so people that maybe can't
20 sustain it can get in.
21 MR. SPEARS: Right.
22 MR. HUDSON: Worry about sustaining it later.
23 And you're addressing that kind of with your
24 underwriting. But then your products, actual products
25 can be designed in a way that -- from policy legislation

1 and everything else that says zero down payment, you
2 know…
3 So if you're getting people into houses that
4 they can't stay in, I'm not sure the mission is
5 accomplished.
6 MR. SPEARS: Right.
7 MR. HUDSON: So the balance between making it
8 affordable and yet making it so that people can pay it
9 over a period of time, through emergencies and all sorts
10 of things, is the issue that they -- because if you have
11 delinquencies, then you can't do more lending, and you
12 have more problems because it's more affordable, so it's
13 a cycle.
14 But I get it. It sounds like you guys are
15 making adjustments based upon the experience you've had
16 with the portfolio you currently have.
17 MR. SPEARS: Yes.
18 MR. HUDSON: Good.
19 MR. SPEARS: One other thing, quickly -- or,
20 I'm sorry, two other things, quickly, and then maybe it's
21 time for a break for Dan.
22 On slide 27, I just want to give a quick
23 report on what we've seen so far. So far, we have
24 275 applications that we've received, 150 approved,
25 88 were denied or declined based on the criteria.

1 And we are working with folks right down to
2 what we required, a surplus in their monthly budget, and
3 fit that down so their monthly budget is balanced. And
4 they can still qualify.
5 Twenty-five of these 150 have been accepted by
6 the borrower, they've been executed, and we're receiving
7 payments now. They just started. So I can't tell you
8 that we've received three months in a row, but they've
9 accepted.
10 Twenty-two of those have been declined. And
11 the fundamental reason is, "I thought you were going to
12 write my balance down," and we can't do that.
13 Seventy-eight are still in the process with
14 servicers. We're not really sure -- what we do, we send
15 them back out. They're in the process of getting in
16 touch with the borrowers, finding out whether they're
17 going to accept or reject, and that sort of thing.
18 And 25 are still being looked at by Genworth.
19 For the new members, our loan modification were
20 conventional loans. The terms are being funded by
21 Genworth. In other words, if we lower the interest rate
22 for a temporary period of time, if we extend the term and
23 it changes the cash flow that would have been flowing to
24 the indenture, Genworth is giving us an advanced claim of
25 paying for that, so the bondholders are happy folks.

1 So that's a quick --
2 MR. HUDSON: Out of how many -- 75 applications
3 out of how many? I mean, the percentage?
4 MR. McMANUS: Are you asking reapproval rate?
5 MS. PETERS: Out of delinquencies.
6 MR. SPEARS: Out of number of delinquencies.
7 MR. HUDSON: The percentage of totality. Out
8 of a thousand delinquents?
9 MR. SPEARS: Now, these are -- I'm trying to do
10 quick math here.
11 MR. HUDSON: I always mess up when I do quick
12 math.
13 MR. SPEARS: I'm afraid of that.
14 These are conventional loans only, because we
15 just started our FHA loan.
16 MR. HUDSON: Okay.
17 MR. SPEARS: There are more in the hopper as
18 soon as we get the official word from FHA that we can
19 proceed. We're working that part.
20 But I'm looking at approximately 15,000,
21 16,000 loans that are conventional loans. And we've got
22 15 percent delinquency, roughly, in those right now. So
23 that would be 1,500 plus --
24 MR. McMANUS: About 2,200.
25 MR. SPEARS: Yes, 2,200 that are everywhere

1 from 30 days to over 120 days. But that's total
2 delinquencies.
3 Now, they don't even qualify until they get to
4 sixty-plus. So it may be more accurate to use that
5 sixty-plus. But I would say that's anywhere from 1,500
6 to 2,000 borrowers.
7 MR. HUDSON: Thank you.
8 MR. GUNNING: I've still got a question.
9 MR. SPEARS: If my math is in error, I'll let
10 you know.
11 MR. GUNNING: Some studies so far are showing
12 that modifications aren't really helping the people that
13 ultimately do go delinquent. Have we factored that in?
14 Are we thinking about that as we go through this, or is
15 there not enough experience to see whether these are
16 helping or hurting?
17 MR. SPEARS: We've factored it into the model.
18 We don't have enough experience to know yet whether or
19 not it's coming true or not. We certainly hope it's not.
20 MR. GUNNING: Given the underwriting criteria,
21 you would hope because your borrowers are stronger, that
22 you're really going to help that these aren't marginal
23 borrowers who just delay --
24 MR. SPEARS: Some of this is expectations
25 management up front.

1 There may be a lot of those folks, Paul, that
2 have had conversations with us that "I would like to have
3 my loan balance reduced to the current market value of
4 the house." And we can't do that. And they may just not
5 apply right off the bat.
6 MR. HUDSON: So this 275 doesn't reflect all
7 the people you may have --
8 MR. SPEARS: Had contact with?
9 MR. HUDSON: -- talked about it?
10 MR. SPEARS: Yes, those are folks who have gone
11 through the paperwork, applied, they've sent something
12 in.
13 MR. McMANUS: And I would estimate, more than
14 double have been contacted and accumulated.
15 The servicer is taking the first look. And
16 then when there is no chance, they say you don't have a
17 job, you don't have income, they don't have a positive
18 surplus. So the servicers turn down the majority of the
19 declines. These are ones the servicers have taken all
20 the information and they send it in. And all we're
21 looking for is $150 to $200 of positive cash flow over
22 above the bills we know they have. And now, we've
23 reduced that to zero. We'll let a zero try if it looks
24 like they really wanted to stay. We try to keep them in
25 their houses.

1 MR. SPEARS: It's a good point about contact,
2 though. We have contacted every single delinquent
3 borrower about the loan-modification program.
4 Have we gone beyond that, Ken?
5 MR. GIEBEL: We contact everybody who both
6 CalHFA serviced first, because we know those first, and
7 then the servicers, we contact that on Day 32. And I
8 think the servicers are, like, 40 days. Once they're
9 30 days late, within two days they're getting contacted
10 by Rhonda's people. And then we send the post -- the "to
11 keep your home" postcards out.
12 The next set of postcards will go out right
13 after Thanksgiving, for example, to the borrowers who are
14 newly 30 days late, plus we're also going to add -- we
15 have noticed that some of our people, borrowers, are
16 starting to go to people to modify their loans, the scam
17 people, we've run into a couple of that. That's the next
18 set of postcards that are also going out.
19 Every 30 days, every 60 days, we're contacting
20 them, both on the phone -- a lot of them don't answer the
21 phone, but they do get their postcards.
22 MR. SPEARS: We are trying to stay current on
23 the latest scam schemes that are out there, and keep
24 folks posted on that.
25 MS. PETERS: There's some good news on the

1 loan-modification scam front: The Governor just signed a
2 bill that prevents any advance fees being collected by
3 these folks. So, effectively, they're out of business.
4 Now, we're dealing with cleaning up the mess of what came
5 before. But we should see pretty much zero activity on
6 that front moving forward.
7 MR. SPEARS: I wanted to mention one more thing
8 and now it slipped my mind. And maybe it will come back.
9 There is a map -- let's go to that.
10 And, Paul, you asked about things that we've
11 learned. What we've learned is that -- and these are --
12 MR. HUDSON: We shouldn't lend in the state of
13 California.
14 MR. SPEARS: An excellent point. It is
15 something that the rating agencies pay attention to that
16 we are geographically restricted and geographically not
17 diverse.
18 These are -- the yellow numbers here are our
19 top 10 locations where we have loans. Pick, if you will,
20 San Diego, and see what pops up there. And I hope you
21 can read this.
22 MR. POGOZELSKI: Click on San Diego.
23 MR. SPEARS: I'm having trouble from here.
24 CHAIR CAREY: Negative 42 percent.
25 MR. HUGHES: I could read it.

1 MR. HUDSON: And 2,900 loans.
2 MR. SPEARS: We have 2,900 loans. We have
3 15 percent delinquency there. We have 118 REOs in
4 San Diego County alone.
5 Let's go to another one.
6 One thing that we found out, by the way, is
7 that we don't have a lot of loans in the Stockton area.
8 The reason being, subprime, the products were -- our
9 borrowers were taken away from us there.
10 It is a point that I want to bring up about our
11 interest-only product. This product was offered, in
12 part, in response to some of the products that were out
13 there. And we're trying to keep people from going into
14 subprime products, to variable-rate interest-only loans
15 that will really escalate down the road.
16 The performing part of that interest-only
17 portfolio, which is 75 percent of it, are folks that
18 probably would have gone off to some inappropriate
19 product. But that's just an estimation.
20 CHAIR CAREY: Lynn?
21 MS. JACOBS: Is the median price figure, where
22 is that from? Is that just the median price of CalHFA
23 loans, or is that the median price from where?
24 MR. SPEARS: That's from the marketplace.
25 MR. McMANUS: That's from the marketplace, that

1 statement.

2 MR. SPEARS: Again that's the last one we have.

3 And, Chuck, when was that?

4 MR. McMANUS: It was for year end 2008. And we

5 get it annually. It's a contractual thing. We tracked

6 the change in price.

7 But those, as you saw, it's a 42 percent drop

8 in price in San Diego, 44 percent in LA County. Once

9 you're over 20 percent, you're in trouble.

10 So people have to want to stay in their homes.

11 MS. JACOBS: I was just wondering whether it

12 was just your portfolio.

13 MR. McMANUS: And we want to help those that

14 want to stay in their homes, those are the only ones we

15 can keep there.

16 MR. SPEARS: We could spend a lot more time on

17 this map, showing where we have loans and don't have

18 loans. You can see where the top ten counties are, and

19 that's where most of our exposure is and where most of

20 our REOs are.

21 MR. McMANUS: If I could, I have the REO

22 department.

23 You have San Diego, San Bernardino, Riverside,

24 even Imperial. Those -- that is the epicenter of our

25 REO.

1 LA is growing. We had an underperforming share
2 of market in LA. We are now growing there. And
3 Sacramento.
4 If you go with those five counties, you've got
5 probably 75 percent of our REO.
6 We're also growing in Oakland, but it hasn't
7 hit the numbers we have down south.
8 MR. HUDSON: As a new Board member, if you
9 could briefly give me the history on the interest-only
10 product.
11 How does a new product get introduced? And --
12 because I heard you say the interest-only was really kind
13 of in response to subprime, to give subprime borrowers
14 an alternative, a better alternative, a positive
15 alternative. How, what is the process for us deciding to
16 do that, developing a product, and then getting the
17 product to market? Really the first two are the most
18 important. How do you decide if you want to address that
19 problem, and then how are you going to address that
20 problem? Is that all done internally?
21 CHAIR CAREY: Could I just suggest? That the
22 Board would be involved, that is a future issue. I'm
23 just -- I'm a little concerned about moving us along.
24 MR. HUDSON: Sure, we can come back to that.
25 CHAIR CAREY: If you don't mind. We can

1 certainly come back to that. We have a lot of ground to
2 cover and I'd like to keep us going, if I can.
3 Would that be all right?
4 MR. SPEARS: Right.
5 I think the short answer is, the Board is
6 involved in the approval; the design of the program and
7 the reactions of the marketplace is internal to staff
8 that would develop something to bring to the Board for
9 approval.
10 Moving on beyond the map, trying to keep moving
11 along, when we get to the "what does this translate
12 into," and what happens, of course, is, there are
13 foreclosures, there are -- you know, we get REO
14 properties, they get put on the market and sold and that
15 sort of thing. And it begins a discussion that's going
16 to carry on about how much pain is there in the
17 portfolio.
18 You're going to hear next in a report of the
19 Audit Committee that a lot of this pain was carried this
20 year because we increased loan-loss reserves by quite a
21 bit, by $155 million.
22 We have primary insurance on the conventional
23 loan for loans that were originated with above 80 percent
24 LTV.
25 We have insurance to the bondholders that we

1 have to cover and coverage beyond the primary insurance
2 on all loans like that, it's called gap insurance. And
3 then there are loan-loss provisions and write-down of
4 REO, that actually go down to the indenture itself.
5 The total all for the year, $155 million.
6 Now, Ruben asked a very good question in the
7 Audit Committee that may come up again: Does this mean
8 we wrote $155 million in checks? Does this mean that all
9 of these loans were -- all of these losses were incurred
10 during the year? It does not.
11 What it means is that loan-loss reserves were
12 increased by this amount over the year.
13 You can see on the bottom bullet there, REO
14 inventory has gone up dramatically during the year. It
15 will increase further and dramatically in this coming
16 year.
17 When we're sitting here next year, that number
18 will be even higher, I can guarantee it.
19 If we can go to the next page -- and I think
20 we had a slight modification but just for the sake of
21 time, here is the history of setting loan losses aside in
22 the last few months. You can see that a year ago, total
23 loan-loss reserve were $164.2 million. And we've
24 increased that to $358 million. Again, these are the
25 conventional losses.

1 So if you're looking at exposure to CalHFA, you
2 need to look at not the six and a half billion total in
3 single-family loans, about two and a half, roughly, is
4 FHA. So we're really talking about the $4 billion
5 conventional loan portfolio. And of those, what's been
6 set aside here is an accounting number, which requires us
7 to look at the loans that are currently delinquent today,
8 at this point in time. And that's what we've set aside
9 on the books.
10 Lori Hamahashi, we will see next in the Audit
11 Committee agenda item, is the one who is working with
12 Chuck. And together, they come up with these numbers
13 based on what we've got outstanding. So that's the whole
14 picture.
15 Now, the one thing that's not on our books, you
16 will not find it on our balance sheet, is $161 million on
17 the Genworth line. We have no idea if Genworth has this
18 on their balance sheet or not. But regardless, that's
19 what Genworth will owe us if all of this comes true and
20 those losses actually occur. We will be relying on
21 Genworth to pay us $161 million. We don't record that on
22 the balance sheet until the claim is actually filed, but
23 it is a number that we watch closely because we want to
24 know how much are we relying on those folks for cash.
25 I'll have you know, Genworth is auditing every

1 single claim that we file with them on every file. They
2 are asking for the origination file in its entirety
3 before they pay any claim. It's not surprising at all.
4 Everybody is hanging on.
5 We also have some problem with some servicers
6 in paying FHA claims. The servicers are required to pay
7 us, then they get reimbursed from the Federal Government
8 on our outside services, our non-CalHFA services. Some
9 of those folks are having cash problems, and we're having
10 trouble getting that money in the door. But we're
11 pursuing it diligently, and it's not surprising again
12 just because of the economic condition.
13 So there is a lot of reliance on Genworth to
14 stay -- to remain able to make those cash payments to us
15 on claims. And we have surveillance on Genworth's
16 financial health all the time.
17 I think if anything ever popped up in the news
18 about Genworth, Chuck sends it to me almost immediately.
19 So between he and Bruce's group, we have pretty good
20 surveillance on it.
21 So those are big numbers and those are big
22 increases.
23 I just would stop there and ask if anybody has
24 questions.
25 We're getting to the point where we should take

1 a break, Mr. Carey.
2 CHAIR CAREY: Yes.
3 MS. CARROLL: Can I ask, in the business plan,
4 are we going to talk about how long you can sustain those
5 losses? How long --
6 MR. SPEARS: We'll get to it long before that.
7 MS. CARROLL: Okay.
8 CHAIR CAREY: We have overrun our commitment to
9 our reporter. We're going to take a ten-minute break and
10 we will come back.
11 *(Recess taken from 11:42 a.m. to 11:55 a.m.)*
12 CHAIR CAREY: We are back in session.
13 And we'd like to remind folks that when they're
14 talking, please speak into the microphone. It makes the
15 transcription for the reporter so much easier.
16 All right, you're still on, Steve.
17 MR. SPEARS: Great.
18 To wrap up Item 5, Bruce is going to give us a
19 quick update of where we are on the rating agencies,
20 obviously a very important issue.
21 MR. GILBERTSON: Thanks, Steve.
22 So we have ratings from both Moody's and
23 Standard & Poor's.
24 This slide is really showing you that the two
25 ratings that are most significant to the Agency and to

1 the marketplace is the CalHFA issuer credit rating.
2 That's really a general-obligation rating of the Agency.
3 We use it for a variety of purposes, including in support
4 of our multifamily lending program and the Home Mortgage
5 Revenue Bond program indenture, our large single-family
6 indenture. You can see the ratings there.
7 The recent activity from the rating agency is
8 back in July, Moody's did downgrade our G.O. rating one
9 notch, Aa3 to A1 and the HMRB rating from Aa2 to Aa3.
10 Currently still on negative outlook, which means they'll
11 be reassessing things over the coming 12 months. And so
12 they haven't really reached out, they've been busy.
13 But this is a time of year that we give them
14 updates on a lot of financial information based off the
15 financial audit. We update consolidated cash flows.
16 We'll be sharing that with them, I would expect in the
17 spring. We'll have some more serious discussions with
18 them regarding that.
19 S & P, some more recent activity there.
20 And just a little bit of additional history,
21 not on the slide. In late June of this year, S & P, who
22 is the only rating agency that rates the claims-paying
23 ability of our Mortgage Insurance Fund, downgraded the
24 A+ rating to BBB as shown here. That led, within about
25 ten days, S & P bond analysts placing the Agency's

1 general-obligation rating, as well as the HMRB rating, on
2 CreditWatch with a negative outlook.
3 So that we spent three months working through
4 a lot of loss scenarios with S & P, only to get to the
5 point where the mortgage insurance analysts within S & P
6 decided to place the entire mortgage insurance industry
7 on CreditWatch negative, including our insurance fund.
8 And that happened on October 27th.
9 So as the bond analysts were gearing up to go
10 back to committee to determine where our ratings should
11 be, they decided they couldn't do it without knowing
12 where the MI fund's rating is ultimately going to end up.
13 Quite honestly, it's good news for us because
14 we had these other things, we're going to get these
15 initiatives in place. The initiatives are based off of
16 ratings, ironically. And I don't think they're looking
17 to raise our rating at S & P. It's more likely to go
18 down. So we're buying time, we'll get these things in
19 place, the fees will be set based off the ratings at that
20 time, and we'll see where we end up late January or
21 February with S & P.
22 So the other thing, the rating action then
23 specifically that S & P took was to reaffirm the ratings
24 and continue us on CreditWatch negative outlook. It kind
25 of triggers or resets another 90-day period.

1 Here's just a pictorial of all the ratings
2 that are important to the Agency. You heard several
3 times this morning, the three real ratings: The
4 general-obligation rating, the limited-obligation rating
5 of the Home Mortgage Revenue Bond indenture, and then the
6 claims-paying rating of the Mortgage Insurance Fund.
7 A little bit busy, but we have historically
8 been an AA credit-rated entity, all of our programs. So
9 this is the first the G.O. has ever slipped into the
10 single A category. And over twenty-some years, I think
11 the Mortgage Insurance Fund was always rated A+ until
12 this last year.
13 So that's -- unless there are some questions,
14 that's kind of the status of where we are with the rating
15 agencies. There will be more information about that in
16 the coming months.
17 And I'd turn it over to Lori, I guess; is that
18 right, Steve?
19 --o0o--
20 **Item 6. Report from the Chair of the Audit Committee**
21 MR. SPEARS: Yes. I think it's time for the
22 report of the Audit Committee. So I suppose I will hand
23 it back to the chair for proper handling.
24 MR. SMITH: Well, thank you. We reviewed that
25 in the Audit Committee this morning, and I think we're

1 going to have a little more detail.
2 Do you want to proceed with the detail on this?
3 MR. SPEARS: Go to the next slide there, Lori.
4 MS. HAMAHASHI: Just for the year, just our
5 balance sheet, we're showing that we have $10.7 billion
6 in assets and liabilities over fund equity. In that, the
7 cash and investments amount, what happened in that area
8 during the year was that we did move a lot of amounts
9 that were invested in the GICs over to SMIF, and we had a
10 reduction of about $42 million in total in cash and
11 investments.
12 As far as home loan receivable, that amount did
13 not go up as high. What happened with that number was
14 that, you know, back in -- as Steve has explained prior,
15 that in September of 2008, we were having trouble -- you
16 know, we didn't get to issue bonds since that time. So
17 we had no new loan programs to go out there and increase
18 that balance. And also in December of 2008, we had
19 the warehouse -- our PMIB warehouse line of credit was
20 frozen.
21 As far as the bonds payable, that amount did go
22 down. We were able to do some refundings during the year
23 and, you know, regular redemptions.
24 As far as our equity, our equity did go up
25 during the year. The result was about a $302 million

1 increase. But $446 million, approximately that amount
2 came in through transfers from either HCD or Department
3 of Mental Health. And that was offset by a $146 million
4 loss. So it was about an increase of about $302 million.
5 MR. SPEARS: Can I just make one note before
6 you leave the balance sheet?
7 Over the past several years, if you've been
8 sitting here, the loans receivable net had been going up
9 by at least a billion dollars a year. This is the first
10 year it's declined. I believe last year it was about
11 eight-point-four-something. It's declined to about
12 $113 million for a variety of reasons. One is payoffs,
13 but also loan losses, loans that have been written off
14 over that period of time.
15 So that's significant. It just basically
16 remained flat from one year to the next, instead of
17 growing like it has in the past.
18 And the other is, on the equity, it's true that
19 the equity did go up. Those funds are restricted, so
20 they're not available to put against loan losses.
21 The other thing that's in that equity number is
22 that we have taken balances out of that equity number and
23 put them over against loan losses, so the net includes
24 more loan-loss reserves in that number. So there's some
25 moving around.

1 But when I talked about before that reserves
2 had been managed heretofore, they're in that equity
3 number. They're in that $1.7 billion.
4 What we could have done previously is spent
5 part of that equity on downpayment assistance or other
6 programs and that sort of thing. We haven't. In the
7 past, those have been allowed to stay there in case
8 something like we have today, something like loan losses,
9 that need to be offset.
10 Now, we can move on to the --
11 MS. HAMAHASHI: Okay, in this slide, we're
12 showing that this year, in our operating revenue side,
13 we did have an increase in the interest-income programs
14 net of about $50 million. And the interest income over
15 investments dropped, primarily due to the fact that we
16 did move over some higher-earning funds, from the GICs
17 over to SMIF, which is paying a little bit lower.
18 As far as on the operating-expense side of the
19 income statement, we had higher interest amounts to pay
20 out related to the debt service of the bonds. And the
21 swap expenses increased dramatically. There has been
22 about $188 million increase in the other expenses line
23 item. And that was primarily due to all the swap
24 expenses, the fair value, the termination payments that
25 went on with all the hedging activity of the Agency.

1 At the end of the year, we're looking at
2 $146.1 million loss.
3 MR. HUDSON: When you take an actual loss on
4 the property, where does it show up?
5 MS. HAMAHASHI: It is over here on the balance
6 sheet. We're showing the write-off for the REO
7 portfolio, is about 4.1 for the year, and we --
8 MR. HUDSON: So you have to take it as an
9 expense? If you take a loss on a property, you don't
10 have to show it as an expense?
11 MS. HAMAHASHI: We've already reserved for
12 that, throughout -- while the loan is delinquent.
13 MR. HUDSON: So you've already reserved for it.
14 So the reserves show up as an expense then?
15 MR. SPEARS: Yes.
16 MS. HAMAHASHI: Yes.
17 MR. HUDSON: Where would they be? Are they on
18 the --
19 MS. HAMAHASHI: The reserve, it's in the "Other
20 programs and accounts."
21 MR. SPEARS: Well, but on this, it would be
22 under "Other expenses."
23 MS. HAMAHASHI: "Other expenses." Yes.
24 MR. HUDSON: And how much of the other expenses
25 is loan-loss reserves?

1 MS. HAMAHASHI: It’s $80,132,000 is what the
2 gap reserve is.
3 MR. HUDSON: June 30th is our year-end?
4 MR. SPEARS: Yes. We have a different year-end
5 for the Mortgage Insurance Fund. It’s 12/31. There is a
6 separate fund for that. It’s independently audited by
7 Deloitte. So we’ll get a report of that in the spring.
8 It’s not combined with this fund in the consolidated
9 financial statements because they are two completely
10 different operations.
11 MR. SMITH: If there are no other questions,
12 I just want to commend the staff. I know we may not like
13 the numbers, but the audit does reflect that it is a fair
14 representation of the condition of the Agency and the
15 funds. So it’s nice to know that our staff has done a
16 good job, even though we may not like the numbers.
17 So congratulations.
18 MS. HAMAHASHI: Thank you.
19 CHAIR CAREY: Any other questions or concerns?
20 MR. SPEARS: No, I just hope it’s not a
21 personal reflection on my acting directorship.
22 CHAIR CAREY: And for the record, the acting
23 chair joins you in that.
24 //
25 //

1 **Item 7. Closed Session**

2 CHAIR CAREY: With that, we are going to go

3 into closed session under Government Code 11126(e)(1) and

4 11126(e)(2)(B)(i) to confer with and receive advice from

5 counsel.

6 And with that, we are in closed session.

7 *(The Board of Directors met in closed*

8 *session from 12:07 p.m. to 2:09 p.m.)*

9 CHAIR CAREY: We're back in open session.

10 --o0o--

11 **Item 8. Report, discussion, and possible action**

12 **regarding the adoption of a resolution**

13 **approving the Two-Year Business Plan**

14 CHAIR CAREY: And we're up to Item 8 on the

15 agenda. As we get there, I will just ask, out of

16 consideration for everyone, if we could keep things to

17 the point from the presentation point of view.

18 And also, I'd like to say that I think that the

19 memos in the packet were helpful this time in explaining

20 the issues as we got here.

21 Okay, Steve, Item 8?

22 MR. SPEARS: All right. If I could ask Bob

23 Deaner and Gary Braunstein, and probably Margaret -- we

24 might as well go ahead, if we can do that now.

25 And, Bruce, if you will be on-call for the

1 Item 10 issue.
2 MS. ALVAREZ: I get to be the rose.
3 MR. SPEARS: If somebody could hit the "page
4 down" button there.
5 This is a slide that we presented, I believe at
6 the May Board meeting, where it talked about the way we
7 used to do business in the left-hand box, the way we need
8 to do business in the future in the right-hand box, and
9 the things that we were going to be doing between now and
10 then.
11 Most of these things we are still working on.
12 A couple of the transitional activities have gone by the
13 wayside. But I think what we want to do today is focus
14 on what impact the federal program will have on business
15 going forward and our business planning going forward for
16 the rest of this year and all of the following year.
17 So to move things forward, I think what I'll
18 try to do is get through the slides -- Bob and Margaret
19 and Gary are here to answer your questions.
20 Let's go to the next slide, if you will.
21 And this is a debate that we need to have. On
22 the homeownership side, remember that the new-issue bond
23 program element of the federal package allocated -- or
24 the U.S. Treasury has agreed to purchase a billion
25 dollars of bonds for the homeownership program. Another

1 40 percent would have to be issued to the private sector.
2 That gives us quite a huge number for capacity over the
3 next two fiscal years.
4 Gary is working on developing, revising -- I
5 think that's probably the correct term at this point --
6 of three first-mortgage products, and really sort of
7 returning to the basics, and that is fixed-rate, fully
8 amortizing, 30-year mortgages. An FHA product that has
9 96½ percent LTV, that's up to that, and two conventional
10 loan products. One that has 100 percent LTV. It is
11 offered by Fannie Mae. It is insurance-type product
12 that they will offer up to 100 percent LTV. But also we
13 could continue to offer a conventional product where the
14 person would go out and get non-CalHFA private mortgage
15 insurance. I think at this point in time, most private
16 mortgage insurers will only insure up to 90 percent LTV.
17 Lynn, do you have a question?
18 MS. JACOBS: On the Fannie Mae 100 percent
19 program --
20 MR. SPEARS: Yes.
21 MS. JACOBS: -- at what point does CalHFA have
22 any liability for the loan? At what dollar amount? At
23 what percentage of the loan?
24 MR. SPEARS: I believe it's a 35 percent
25 primary coverage. But remember that all of these

1 products, rather than us owning the loan in this new
2 scenario, the indenture will not own whole loans. So we
3 use the loan proceeds to buy mortgage-backed securities
4 that are guaranteed by Fannie Mae, Freddie Mac, or Ginnie
5 Mae, in the case of FHAs.
6 MS. JACOBS: Okay, so what would CalHFA's
7 liability be on these products?
8 MR. SPEARS: None.
9 MS. JACOBS: None?
10 MR. SPEARS: Because we would own --
11 MS. JACOBS: Okay, I'll remember you said that.
12 MR. SPEARS: -- we would own -- yes, write that
13 down somewhere.
14 But because we own the mortgage-backed security
15 that's guaranteed by GSE, the responsibility for the
16 whole loan losses go to the owner of the loan, which is
17 not us.
18 MS. JACOBS: So you're just a pass-through,
19 basically?
20 MR. SPEARS: We're a pass-through --
21 MS. JACOBS: Where you process the loan --
22 MR. SPEARS: Yes, and the payments go --
23 MS. JACOBS: -- and you sell the loan
24 basically? Or you're underwriting for them?
25 MR. SPEARS: Right. At any point that that

1 pass-through stream is interrupted by --
2 MS. JACOBS: Flood, fire, or famine.
3 MR. SPEARS: -- the GSEs pick up the tab.
4 MS. JACOBS: Okay, excellent.
5 CHAIR CAREY: Do you want to add something,
6 Gary?
7 MR. BRAUNSTEIN: Well, I was going to say,
8 because it's an MBS business model versus a whole loan
9 business model, Steve answered that the risk does get
10 deferred off to the GSE. There's some other parts to
11 the loan product that are being developed by Fannie Mae
12 that will be coming out down the road that completely
13 hasn't yet been vetted out. But on an initial term
14 sheet we received from Fannie Mae, it's a 100 percent
15 loan-to-value that is not including the requirement of
16 mortgage insurance.
17 My take is that Fannie is self-insuring that
18 loan and will be priced within the loan, which we in turn
19 will be pricing our loan accordingly.
20 MR. SPEARS: On downpayment assistance, it's
21 going to be more limited -- limited availability from
22 CalHFA, let me put it that way.
23 CHDAP loans are subordinate loans. They're
24 funded by state G.O. bond funds. SFF stands for "school
25 facility fee." That's also many funded by the G.O. bond.

1 At present, that program is suspended. We would like to
2 get more funds in there. We're either going to look to
3 more bond funds in the future, which may be difficult, or
4 we may go and talk to Lynn for Prop. 1C money. But
5 either way, we're going to do the best we can to revive
6 that program.
7 But importantly, localities -- cities, local
8 redevelopment agencies -- have downpayment-assistance
9 money available. And we're going to partner with those
10 folks, like we have done in the past, but probably a
11 stronger partnership because of that.
12 MS. PETERS: Steve, do you know which
13 localities actually have the funds versus have the
14 possibility of the funds? A lot of localities have
15 downpayment assistance, but --
16 MR. SPEARS: Right. Let me let Gary --
17 MS. PETERS: -- but they've become victims of
18 budget, like everyone else, and the window is closed, as
19 far as I know.
20 MR. BRAUNSTEIN: Heather, if I can just answer
21 that briefly.
22 In our division, we are reaching out currently
23 to the localities and surveying them on an individual
24 reach-out to cross-reference do they have monies, when is
25 their allocation coming through? And we're tiering that

1 down through the 350 programs that are part of our
2 Affordable Housing Partnership Program, which is the
3 locality downpayment assistance.
4 MS. PETERS: Great.
5 MR. SPEARS: So we're working on setting up
6 these programs so that we're timed and ready to go when
7 bonds are available in the new program.
8 The thought is that -- of course, right now the
9 Federal Reserve, through the U.S. Treasury, are buying
10 about a trillion and a quarter of mortgage securities to
11 stabilize the market. That buying spree, if you will, is
12 scheduled to be over next spring. At that point, the
13 general thought is that mortgage rates will drift up, or
14 immediately bounce up, anywhere from a half a point to,
15 you know, 80 basis points, something on that order.
16 Besides that, as noted in the last time the
17 Federal Open Market Committee met, they seemed to
18 indicate that they would be open to a general level of
19 interest-rate increases into next year. So the general
20 thought is that interest rates on mortgages are going to
21 move up as the year progresses next year.
22 The other general feeling is that not until
23 possibly late next year, but we could begin to see a
24 turnaround in home prices. A flattening out and moving
25 up in certain markets. And we should never forget that

1 California is a collection of a number of different real
2 estate markets around the state. And many of those
3 markets are doing poorly at this point, and will turn
4 around -- some are not doing secondly at all and some are
5 doing very well. A few are doing very well.
6 Between those two signals, you started to see
7 increases in mortgage rates and starting to see increases
8 in home prices. I believe that's going to trigger a lot
9 of interest in first-time home buyers who have been
10 sitting on the sidelines, who are going to get in the
11 game and want to buy their first house, and that is, will
12 be customers of ours.
13 So I would see demand picking up as the year
14 progresses into 2010.
15 So I don't think we'll see a lot of volume in
16 the first -- you know, the rest of this fiscal year --
17 not tons, but it will build, this projection, down the
18 road, as we get into late next year.
19 MR. BRAUNSTEIN: I just want to make a comment
20 to the newer Board members, and I'll keep it brief.
21 I just wanted to point out that CalHFA is not
22 a direct lender to the general public. We're an investor
23 like the other GSEs. And we have a network of approved
24 lenders that we work with. So, in essence, they are our
25 client, our customer.

1 So when we look at loan programs, we also take
2 into account what value-adds do we need to incorporate
3 in those loan programs to allow that network of lenders
4 to be interested in using our loan programs instead of
5 their own loan programs themselves as individual mortgage
6 lenders or mortgage bankers.
7 So as we look at these different programs,
8 we'll vet out further internally how we could add
9 additional value-adds to these products to allow those
10 lenders to consider using CalHFA loan programs.
11 And just one other point we didn't mention in
12 the bullet is that we'll be using a master servicer and,
13 therefore, will not be servicing these loans ourselves.
14 So additionally, reps and warranties in using a master
15 servicer also do get passed off to that master servicer
16 in that scenario.
17 MR. HUDSON: But why do lenders go to us if
18 they can go directly to Fannie Mae or FHA?
19 MR. BRAUNSTEIN: Typically, in the past, when
20 there was a larger spread in the taxes and bonds versus
21 the taxable bonds, they would come to us because we were
22 offering a much lower interest rate on either an FHA
23 product or a conventional product.
24 We also have downpayment assistance available
25 as a government agency that the banks and mortgage

1 lenders that are part of our network do not have.
2 MR. HUDSON: But today, why would they?
3 MR. BRAUNSTEIN: A, the downpayment assistance.
4 And as we look at pricing out the FHA product and the
5 conventional product, we're looking at being below market
6 rate on both of those.
7 MR. SPEARS: With the U.S. Treasury program
8 buying our bonds, that should result in a lower cost,
9 lower rate.
10 MR. HUDSON: So a real number would be a
11 mortgage broker can do a loan through us at a rate X, and
12 then we turn around and sell it with a spread to Fannie
13 and Freddie?
14 MR. BRAUNSTEIN: Well, a mortgage broker would
15 go to one of our approved lenders through their wholesale
16 channel.
17 MR. HUDSON: Right.
18 MR. BRAUNSTEIN: That lender would choose to
19 use our lending program versus their own because the
20 rate is lesser than what they can get themselves, A; or,
21 B, the downpayment assistance opportunity that we
22 provide, that they cannot provide, would also drive them
23 to use our loan products.
24 MR. HUDSON: Okay, and then we -- so they
25 originated the loan because it's cheaper, the pricing is

1 lower. We have the bonds. But I thought we were
2 delivering all this stuff to --
3 MR. SPEARS: No, not for cash. We're
4 delivering for MBS.
5 MR. HUDSON: Oh, so the cash program we're
6 portfolioing?
7 MR. SPEARS: In the past what we did, we used
8 the bond proceeds to buy whole loans.
9 In this particular, we're going to use
10 master servicers to package those loans, create a
11 mortgage-backed security, which we buy with the bond
12 proceeds. The loans go on to Fannie Mae and Freddie Mac
13 and Ginnie Mae.
14 MR. BRAUNSTEIN: One more piece for clarity.
15 MR. HUDSON: Whoa, hold on. I'm not done yet.
16 So I'm a lender that works with CHFA, I get
17 a rate -- so you issue a bond, you have these proceeds
18 that you've invested in loans.
19 MR. SPEARS: Uh-huh.
20 MR. HUDSON: I have a borrower that wants to
21 use your product. They qualify, but they don't get those
22 bond proceeds?
23 MR. SPEARS: They qualified?
24 MR. HUDSON: Yes.
25 MR. SPEARS: The loan is closed.

1 MR. HUDSON: Yes.

2 MR. SPEARS: Funded.

3 MR. HUDSON: With whose money?

4 MR. SPEARS: With the bank's money.

5 MR. HUDSON: The bank's money? Yes.

6 MR. SPEARS: The bank's money.

7 The loan then is delivered to the master
8 servicer, where they're pooled into securities. Then we
9 use the bond proceeds to buy those securities from the
10 master servicer.

11 MR. HUDSON: Yes, and so we hold those
12 securities?

13 MR. SPEARS: Yes, right.

14 In the past, we held whole loans, which is the
15 source of our previous conversations.

16 MR. HUDSON: And why is this advantageous to us
17 to do it this way?

18 MR. SPEARS: Because for a guaranteed fee paid
19 to the GSEs, they own the whole loan, take the risk,
20 guarantee the income stream to the bondholders.

21 MR. HUDSON: So -- wait. So we buy these
22 securities and then we pass them on to Fannie Mae?

23 MR. SPEARS: No, we hold them ourselves.

24 MR. HUDSON: Okay, then why do you say Fannie
25 Mae -- how is Fannie Mae even involved in it if we hold

1 them?
2 MS. JACOBS: Well, they get the loan -- the
3 underlying loan; right?
4 MR. SPEARS: Yes.
5 MR. HUDSON: Oh, so the securitizing is sold to
6 Fannie Mae?
7 MR. SPEARS: Yes, yes, yes.
8 MR. HUDSON: I thought -- ah.
9 I thought we were --
10 MR. SPEARS: We're buying Fannie Mae MBS
11 securities and Ginnie Mae securities.
12 MR. HUDSON: Okay, so it's our rate, but
13 Fannie Mae will securitize them and buy them at our rate,
14 and then we turn around and buy them right back from
15 Fannie Mae?
16 MR. SPEARS: Yes.
17 MR. HUDSON: And what that gives us is the
18 protection of Fannie Mae?
19 MR. SPEARS: Yes, exactly. And Freddie Mac.
20 MS. PETERS: And no more real-estate risk.
21 MR. SPEARS: And Ginnie Mae.
22 MR. HUDSON: And we can design our own
23 underwriting guidelines, as long as they're not more
24 liberal than Fannie Mae; no? Yes?
25 MR. BRAUNSTEIN: Well, yes. For example, if

1 the loan is -- for the conventional loan product that
2 we're delivering to Fannie Mae, we would be following
3 their underwriting guideline, or put on more restrictive
4 guidelines, and our lenders would use the more
5 restrictive underwriting guideline between our CalHFA
6 underwriting guidelines or Fannie Mae's guideline.
7 MR. HUDSON: So why would we do 100 percent
8 Fannie Mae LTVs?
9 MR. BRAUNSTEIN: Well, for one, this product
10 newly offered by Fannie Mae is exclusive only to HFAs.
11 MR. HUDSON: Okay. You make it sound like they
12 are giving us a bargain. Does that mean it's a bargain
13 because they're only given to HFAs?
14 MR. BRAUNSTEIN: Well, yes, because the general
15 public mortgage -- the general public and the mortgage
16 lenders would not have access to this loan program,
17 hence, they would not have access to 100 percent
18 loan-to-value program with no M.I.
19 MS. PETERS: More borrowers would come to us
20 rather than when they went to subprime lenders.
21 MR. HUDSON: Oh, that part I get. That part I
22 get.
23 But as a lender, I'd say you can have all that
24 market. I'll take the market that --
25 MS. JACOBS: As a down payment.

1 MR. HUDSON: Yes, as a down payment.
2 MS. JACOBS: Yes. But it removes the risk to
3 CalHFA the way these are being booked; right?
4 MR. SPEARS: Yes, the real-estate risk.
5 MS. JACOBS: Yes.
6 MR. HUDSON: Because Fannie Mae had it?
7 MR. SPEARS: Yes.
8 MR. HUDSON: Do you believe Fannie Mae is going
9 to be around for it? You've underwritten Fannie Mae. Do
10 you believe Fannie Mae is going to be here?
11 MR. SPEARS: My personal feeling is that
12 Fannie Mae and Freddie Mac will exist as a combined
13 organization somewhere down the road.
14 MR. HUDSON: Okay.
15 MR. BRAUNSTEIN: Another point of reference is,
16 our typical borrower as a first-time homebuyer for low-
17 and moderate-income families typically will have a lesser
18 down payment available to them. So the higher
19 loan-to-values, such as an FHA loan product or the new
20 Fannie Mae product at 100 percent without mortgage
21 insurance, becomes a unique product capable of benefiting
22 our current borrower base for our mortgage lenders who
23 target that type of low- and moderate-income family in
24 California.
25 MR. HUDSON: And so you've distinguished this

1 from subprime lending because it's -- you verified
2 incomes and you verified they can make the monthly
3 payment and it's amortized?
4 MS. PETERS: And the FICO score.
5 MR. BRAUNSTEIN: 30-year amortized loans.
6 They're all underwritten to a Fannie Mae
7 MyCommunityMortgage loan product, underwritten model,
8 with debt service and the necessary verification of
9 income, assets, et cetera, and FICO scores that are
10 dictating the underwriting component of this particular
11 product.
12 So the conventional loan product that you
13 probably are most familiar with at 80 percent or below
14 with no mortgage insurance, or a conventional product
15 with mortgage insurance included, we would still have
16 that product available in the bullet -- the second bullet
17 under where it says, "conventional loans." That's still
18 an 80 percent to 90 percent loan-to-value conventional
19 product with outside private mortgage insurance,
20 underwritten to Fannie Mae underwritten guidelines.
21 The 100 percent new loan-to-value product by
22 Fannie Mae is, again, geared off of their underwriting
23 model at 100 percent loan-to-value.
24 MR. HUDSON: Everything we're doing is going to
25 be securitized in Freddie Mac and Fannie Mae?

1 MR. SPEARS: Yes, sir, Fannie or Freddie or
2 Ginnie.
3 MR. HUDSON: Right, okay.
4 MR. SPEARS: Right.
5 MS. PETERS: Everything, or just this new
6 100 percent product?
7 MR. SPEARS: Everything.
8 MS. PETERS: Everything?
9 MR. SMITH: And even if Fannie and Freddie are
10 not around, it's not our liability.
11 MR. HUDSON: Well, yes, it is. It's not our
12 liability, but --
13 MR. SMITH: Our stock would be worthless.
14 MR. HUDSON: -- we're like a bondholder.
15 MR. SMITH: Yes, our stock would be worthless.
16 MR. HUDSON: If they don't send us those
17 monthly payments, we've got a big problem.
18 MR. SPEARS: That is correct.
19 It's better than holding whole loans, but it
20 does take on additional --
21 MR. HUDSON: That's what our bondholders said
22 about us.
23 MR. SPEARS: Yes, sir.
24 Okay, the next slide, unless someone has
25 another question about the homeownership.

1 On the multifamily side, the MHSA program for
2 the newer bondholders is the Mental Health Services Act,
3 which was a proposition on the ballot in -- I want to say
4 2004; right? -- and dedicates a certain amount of money
5 for housing for the chronically mentally ill homeless.
6 Jonathan has personal experience with this
7 because when we went to his office to brief him, he had
8 a nice, big opening –- or tombstone, I guess is the word
9 for it -- in the corner of his office.
10 It's a terrific program. We are the
11 administrator of these funds. We had another
12 additional -- we had an additional $350 million this year
13 to do that. We mentioned that before in the financial
14 statements. We're going to continue with that. But
15 also focus on new loans through this newish -- new bond
16 program from the U.S. Treasury. It provides us
17 $380 million in commitments to buy CalHFA bonds.
18 But here again, we're not going to take
19 100 percent risk on multifamily loans on a going-forward
20 basis. We're going to do risk-share because we don't
21 believe that we can take 100 percent risk on our balance
22 sheet.
23 What that means on the profitability side is,
24 if we do risk-share, we're going to have to share the
25 profit with someone else, and that will be a little more

1 expensive down the road. But that's the situation we
2 find ourselves in.
3 For the time being, we're just cutting back on
4 the real-estate risk on the balance sheet.
5 The final item there, the final bullet, is the
6 Tax Credit Allocation Committee was given administration
7 responsibilities on two programs under our -- a tax
8 credit of --
9 MS. JACOBS: Exchange.
10 MR. SPEARS: -- exchange program. But there's
11 also the TCAP program.
12 The tax-credit market has basically not
13 collapsed, but substantially declined. And many projects
14 that planned on tax-credit equity now find themselves
15 with a planned-on price in the low 90 percent range,
16 they're down in the 70 percent range, they need -- gap
17 financing does that. But also, they can turn in tax
18 credits that were allocated before in exchange for cash
19 to be used on projects.
20 The Tax Credit Allocation Committee does not
21 have staff that do that sort of thing. They've asked
22 CalHFA if they would help out.
23 So we are assisting, for a fee, to approve
24 these on behalf of the Tax Credit Allocation Committee
25 and send them back over.

1 We already have 35 of these projects. We've
2 already turned around four or five of them, and so that
3 work has already started. So that's an additional fee
4 revenue source for us in the future.
5 Speaking of which, on to the next -- I'm sorry,
6 Jon?
7 MR. HUNTER: It may just be me fantasizing when
8 I was reading the descriptions of this. But the
9 $380 million, is there any chance that that could be
10 structured in a way that would help with construction
11 loans, to move some of these stalled projects?
12 MR. DEANER: Unfortunately, no. I've got real
13 strong connections with Fannie Mae. I used to be a
14 Fannie Mae DUS lender. And the way they've structured
15 this program, Fannie and Freddie -- because, again,
16 they're the overseers of this money, it goes through them
17 and Treasury buys the bonds -- they're structuring a
18 program where there's no construction risk. And what
19 that means is, they want a letter of credit from a bank
20 to back the bonds during construction. That's their
21 typical model.
22 We've been a construction perm lender, and
23 that's what we prefer to do. But they will not take our
24 general obligation as -- almost like a letter of credit.
25 I've asked them, "Would you take our G.O. as the letter

1 of credit so we can be the construction perm lender?”
2 Their answer is, “No, because this program is for all
3 HFAs, and it said such that we want a letter of credit to
4 back during the construction phase.”
5 What that really means is, the letter of credit
6 is in favor of Fannie Mae. In the event the deal doesn’t
7 convert, they collapse the bonds and they get paid off.
8 And so they do want letters of credit. That’s going to
9 be the biggest stepping-stone in this program, is getting
10 banks to step up and provide letters of credit on
11 construction deals.
12 MR. SPEARS: Asset Management is the next
13 slide.
14 The great thing about Margaret’s division is
15 that their work keeps increasing. As loans are closed in
16 Bob’s division, those properties move over and Margaret
17 has more and more work to do all the time for her. And
18 we now have about 500 properties that they inspect, they
19 audit, they oversee.
20 The problem, though, is that the portfolio is
21 aging. We have projects that need rehab,
22 recapitalization. We need to work out a prepayment
23 policy, which we’ve been debating and debating and
24 debating. We’re trying to get a rational way to do that.
25 And we’re working on that right now.

1 But one thing that actually HUD has expressed
2 interest in us doing, even though it's an open contract
3 competition, and that is to participate in the
4 Performance-Based Contract Administration. We are
5 responding -- in the process of responding to an RFP --
6 or that doesn't come out until January, I'm sorry.
7 MS. ALVAREZ: Not until January.
8 MR. SPEARS: We've sent out an RFP for someone
9 to help us with that.
10 MS. ALVAREZ: Right.
11 MR. SPEARS: But that takes us to Item 9.
12 Is that right, Mr. Chairman? Do we move on?
13 MS. JACOBS: You haven't done anything on 8;
14 right?
15 MR. SPEARS: It's just an update. Obviously,
16 we'll have much more to talk about in January, when all
17 of the federal program is in place.
18 Gary's work is done and Bob's work is done on
19 the new loan products.
20 CHAIR CAREY: We'll plan on a long meeting
21 then.
22 MR. SPEARS: Right, right.
23 MS. JACOBS: Yes, instead of a short one like
24 this one.
25 //

1 **Item 9. Discussion, recommendation, and possible**
2 **action regarding the bidding for a contract**
3 **to perform Performance-Based Contract**
4 **Administration (PBCA) services on behalf of HUD**
5 MR. SPEARS: So this Performance-Based Contract
6 Administration is Margaret's baby. It is something that
7 HUD specifically expressed interest in us doing. It is
8 now going to be open for rebidding through an RFP process
9 in January. And we are coming to the Board for authority
10 to pursue this program.
11 It's an additional revenue source. So we're in
12 a bit of a quandary about whether this comes to the Board
13 or not.
14 Contracts where we spend more than a million
15 dollars a year come to the Board. We weren't sure about
16 contracts that bring in more than a million dollars a
17 year. So we played it safe and decided to bring it in.
18 So, Margaret, do you want to make a couple of
19 comments about this, and go show your slides, and we'll
20 get the resolution?
21 MS. ALVAREZ: Sure.
22 As a contract administrator, our Agency has
23 been a contract administrator for HUD since 1975, when we
24 came into existence with the Section 8 program.
25 There's two different Section 8 programs under

1 HUD for housing. One is the voucher program that is
2 transportable that go to an individual. We're not
3 talking about the voucher program at all. We don't do
4 anything at all with vouchers. This is all project-based
5 Section 8, where the actual apartment community gets the
6 HUD subsidy, and then the contract administrator oversees
7 it.
8 So we're right now what you call a "traditional
9 contract administrator," which all the housing finance
10 agencies are termed that. And that simply means that we
11 have the contract administration obligations for those
12 properties where we are also the lender.
13 The PBCA program, you become the contract
14 administrator for everybody else's properties where you
15 are not the lender. So that's where the distinguishings
16 are.
17 Our overall duties as a contract administrator
18 is that you oversee the use of the subsidy that HUD gives
19 to the lower-income tenants for the rents or that they
20 use for that.
21 We make sure the tenant compliance is met. We
22 do physical inspections and also the financial review on
23 behalf of HUD, which means the rent increases, budget
24 approvals, annual audits, owner distributions, capital
25 improvements -- all that type of work. So in general,

1 that's what a contract administrator does.
2 We already get paid as a traditional contract
3 administrator. Our fees annually are about $1.6 million
4 for the 130 properties that we oversee. So all this PBCA
5 that I'm going to be talking about is a new program in
6 addition to our traditional contract administration
7 duties.
8 So the PBCA program started in 2000, like the
9 slide shows. And at that time, our Agency did not pursue
10 being the PBCA. I wrote a memo in the Board binder that
11 kind of explains our reasons why.
12 But the Federal Government created the PBCA
13 program hopefully as a cost-saving to the Federal
14 Government, and also to standardize the oversight, so
15 that everybody was doing it the same.
16 One of the by-products of the PBCA program is
17 that the traditional contract administrators have been
18 more and more required to act as if they were a PBCA.
19 We no longer kind of do things our way and PBCAs do
20 things their way. It's all pretty much done the PBCA
21 way. So already, we're kind of doing it, if you will.
22 So as the program was envisioned, all 50 states
23 have a PBCA -- and the District of Columbia. And 33
24 state housing finance agencies signed up in 2000 to be
25 PBCAs. And the 17 states that didn't do it, most of us

1 are bidding for it now in this next round.

2 So when we were considering the PBCA, one of

3 the things that we realized is that we really need to

4 partner with an outside organization.

5 I would point out that we don't really know

6 from HUD what their RFP is exactly. It gets published in

7 January. There's been a lot of rumblings of what it will

8 include and what the duties will be required and what the

9 fees will be. But it's really not known until their RFP

10 comes out in January. So some of this, we just have to

11 take our best guess.

12 And the other thing I would point out is that a

13 public housing agency has to be a PBCA. So if we don't

14 do it, another housing finance agency from another state

15 would likely come and ask to do it for California or a

16 local housing finance -- local housing authority, that

17 type of thing.

18 But it's really proven to be a very good

19 resource for the housing finance agencies who did sign up

20 for it and been really quite a good financial resource

21 for creating other programs through the Agency with the

22 fees that they earn from the program.

23 So like I said, we would partner with an

24 outside organization. We have sent out our own RFP,

25 asking for someone to partner with us.

1 As best we can tell now by looking at the
2 current PBCA contract, it's about 1,300 contracts, almost
3 90,000 units. And the base fee would be somewhere in the
4 ballpark of $14 million a year. So, obviously, that's
5 the gross fee. We would have to pay our vendor some
6 split of that. And all that's unknown until we get
7 further down the road.
8 So our RFP hopes to engage a vendor sometime in
9 the month of December, so that in January, when the RFP
10 gets published by HUD, we can hit the ground running and
11 our vendor can help us put that application together.
12 The application period to HUD, we understand,
13 will be sometime in March. And then they, by September
14 of 2010, would notify the successful bidders. And then
15 you have until the end of 2010 to ramp up, to start the
16 actual work, which would begin on January 1st, 2011. And
17 it's to be a five-year contract with some one-year
18 renewals.
19 So that's what we know.
20 And I would just point out that, in closing,
21 that we already perform this work, so this is something
22 that we can very easily oversee with the vendor.
23 We would have the vendor do all 100 percent of
24 the work of the PBCA. Some states, housing finance
25 agencies, do the work themselves. It's clearly a much

1 smaller business in those states. Some do some of it
2 with the vendor and some of it on their own. And other
3 states, like Michigan, contract out the whole shebang.
4 And we would probably take that model and contract out
5 the whole shebang.
6 And, again, it would provide money for our
7 much-needed financial programs for affordable housing.
8 And if we don't do it, another HFA will. For
9 instance, Georgia is likely to be one of our bidders on
10 this with the RFP process. But I personally wouldn't be
11 surprised if they also bid for the contract.
12 So it's not a done deal that if we bid, we
13 would get it. There will be many, many people wanting
14 this contract because at $14 million, it's the biggest
15 PBCA contract in the country, and it's a plum prize. And
16 I would expect many, many agencies and HFAs will also be
17 bidding for the work.
18 I'm happy to answer any questions.
19 CHAIR CAREY: Lynn?
20 MS. JACOBS: I think it's great. I have no
21 problem with you guys doing it.
22 Since we act as the housing authority for a
23 number of counties, I would like it if you would
24 coordinate with our housing department to make sure you
25 cover our stuff.

1 Okay, we're the Section 8 administrator, and
2 it's mostly vouchers, which I know you'd love to take if
3 you could. But some of it is project-based, so I want to
4 make sure that we get in your --
5 MS. ALVAREZ: Oh, okay.
6 MS. JACOBS: -- you know, make sure that you
7 cover us. Okay?
8 MS. ALVAREZ: All right.
9 CHAIR CAREY: Other questions?
10 MR. HUDSON: $14 million is the gross number.
11 What would be the net number to us?
12 MS. ALVAREZ: I can't answer that. I think you
13 had stepped out when I answered that HUD hasn't
14 published their RFP. It comes out sometime in January.
15 This last ten-year period, it was a 1 percent
16 base fee, which is where we get the $14 million. And
17 then each of the PBCAs could earn an additional 1 percent
18 on top of that as an incentive fee. So it actually was
19 more like $28 million these last ten years.
20 Every one of the PBCAs got the 1 percent
21 incentive fee. So, in essence, everybody was earning
22 2 percent of the contract amount.
23 HUD has decided, we think -- we don't know yet
24 because the RFP has not come out -- but they've decided
25 to not give the incentive fee but to, instead, give a

1 disincentive penalty if you do something wrong. So
2 they're going to --
3 MR. HUDSON: If we're getting 14 -- you're
4 talking about outsourcing it; right?
5 MS. ALVAREZ: Yes.
6 MR. HUDSON: So we would net. What's the net
7 then?
8 MR. SPEARS: Do we know yet?
9 MS. ALVAREZ: We don't know yet.
10 MR. SPEARS: The RFP is out right now to the
11 contractors. So we're finding out what that price would
12 be.
13 MR. HUDSON: But I'm assuming if you outsource
14 the whole nut, it's not at big numbers to us? I mean, I
15 assume they would take 80 to 90 percent of it, or do you
16 think it would be less?
17 MS. ALVAREZ: I am reluctant to say because the
18 RFP is out and these minutes are public. So I do not
19 want to give away what we would give away. But, you
20 know, my staff asked that question, too, and we kicked
21 that around.
22 MR. HUDSON: Okay.
23 MS. ALVAREZ: Anything more than what we make,
24 is more than what we make.
25 MR. HUDSON: Very true. I like your math.

1 MR. SPEARS: We do have a Board action item on
2 this.
3 MS. JACOBS: Move approval of the recommended
4 item.
5 May I or not?
6 CHAIR CAREY: You may.
7 MR. HUNTER: Second.
8 CHAIR CAREY: It's been moved and seconded.
9 Before we act, is there anyone in the public
10 who would like to comment on this action item?
11 *(No response)*
12 CHAIR CAREY: Seeing none, we'll take roll
13 call.
14 MS. OJIMA: Thank you.
15 Ms. Peters?
16 MS. PETERS: Yes.
17 MS. OJIMA: Mr. Gunning?
18 *(No response)*
19 MS. OJIMA: Mr. Hudson?
20 MR. HUDSON: Yes.
21 MS. OJIMA: Mr. Hunter?
22 MR. HUNTER: Yes.
23 MS. OJIMA: Ms. Jacobs?
24 MS. JACOBS: Yes.
25 MS. OJIMA: Ms. Carroll?

1 MS. CARROLL: Yes.
2 MS. OJIMA: Mr. Smith?
3 MR. SMITH: Yes.
4 MS. OJIMA: Mr. Carey?
5 CHAIR CAREY: Yes.
6 MS. OJIMA: Resolution 09-15 has been approved.
7 --o0o--
8 **Item 10. Discussion, recommendation, and possible**
9 **action regarding a refinancing of a portion**
10 **of the multifamily loan portfolio**
11 CHAIR CAREY: And we're on to Item 10,
12 multifamily's loan portfolio.
13 MR. GILBERTSON: Thank you, Mr. Chairman. I
14 think we can do this relative quickly.
15 In front of you is Resolution 09-16. This
16 would authorize the Agency to enter into a form of a
17 refinancing of certain of the multifamily loans.
18 Let me just step back and give you a little bit
19 of background. We've been in front of the Board several
20 times this year regarding loan sales of different things.
21 At one point, we presented to you the concept
22 that we were considering doing a much larger loan sale
23 on the multifamily side. And it was this, you know, TEBS
24 transaction that Citigroup was in the middle of helping
25 us with. This would have been a securitization thing

1 with Freddie Mac. It ultimately wasn't something that we
2 wanted to proceed once we became more aware of costs and
3 related elements.
4 But out of that came this notion because Citi
5 had actually received an entire loan tape for all of our
6 multifamily loans, they were looking for CRA credits.
7 And so they identified approximately $105 million of our
8 loans that they would be interested in acquiring in one
9 form or another so that they could meet their ongoing CRA
10 needs in the state. Ultimately, that led to more serious
11 discussions with them.
12 We've bifurcated that portfolio into two
13 pieces: A $70 million component and a $35 million
14 component. The reasons behind all that really relate to
15 business terms that we felt that we needed because we
16 were uncertain where our borrowers would go as far as
17 requesting prepayment under their loan with us over time.
18 So we're very comfortable giving a five-year
19 lock-out to Citi for the $70 million piece.
20 The $35 million piece, we've told Citi that we
21 couldn't honor that same business term. We would have to
22 have the ability to prepay our loan from them on any day.
23 Okay, so there would be no form of a lock-out.
24 The purpose of this is really to do a couple of
25 simple things: One is, in large part, these loans are

1 financed with those variable-rate demand obligations that
2 we spent a lot of time talking about today. If we
3 refinance it in a new form with Citi, it would be a
4 fixed-rate obligation, we would be able to use the
5 proceeds from the sale to redeem bonds, and we'd lessen
6 that total that we have outstanding.
7 It would pay us an ongoing servicing fee
8 because Margaret and her crew would still have the
9 Asset Management oversight, because we were the original
10 lender to the borrower, and we would service the loans.
11 The same rules that we play today. We'd receive the
12 20-basis-point fee for that purpose.
13 Certain of the loans -- a relatively small
14 amount, I believe it's $15 million -- are unencumbered
15 today. So we'd be raising converting loans to cash,
16 increasing the liquidity of the Agency by approximately
17 $15 million.
18 The resolution in front of you is just to make
19 clear that we have full authority to enter into a binding
20 agreement with Citi between now and February. It's
21 expected to close probably by mid to late February. It's
22 very similar to some of the other authorizations, but it
23 has a little -- a slight difference. It's always best to
24 come back to the Board and making sure that we're fully
25 explaining this to you.

1 With that, I'll stop and see if there's any
2 questions that I can respond to.
3 CHAIR CAREY: Questions from the Board?
4 MS. PETERS: Move to adopt Resolution 09-16.
5 CHAIR CAREY: Thank you.
6 MS. JACOBS: I have a question. I'm happy
7 to --
8 CHAIR CAREY: Let's have a second, and then --
9 MS. JACOBS: I'll second and ask a question.
10 CHAIR CAREY: Sure.
11 MS. JACOBS: It says "executive director" all
12 the way through this. Do we have to add "acting"?
13 MR. HUGHES: We continue to use the "executive
14 director" term. The Board has delegated to Steve all the
15 powers of the executive director. If they were appointed
16 ones, we'd use the same term.
17 MS. JACOBS: Okay, thanks.
18 CHAIR CAREY: Okay, it's been moved and
19 seconded.
20 Is there any further discussion from the Board?
21 *(No response)*
22 CHAIR CAREY: This is an action. If there is
23 anyone in the audience who wishes to speak to this item,
24 please indicate.
25 *(No response)*

1 CHAIR CAREY: Seeing none, let's call the roll.
2 MS. OJIMA: Thank you.
3 Ms. Peters?
4 MS. PETERS: Yes.
5 MS. OJIMA: Mr. Hudson?
6 MR. HUDSON: Yes.
7 MS. OJIMA: Mr. Hunter?
8 MR. HUNTER: Yes.
9 MS. OJIMA: Ms. Jacobs?
10 MS. JACOBS: Yes.
11 MS. OJIMA: Ms. Carroll?
12 MS. CARROLL: Yes.
13 MS. OJIMA: Mr. Smith?
14 MR. SMITH: Yes.
15 MS. OJIMA: Mr. Carey?
16 CHAIR CAREY: Yes.
17 MS. OJIMA: Resolution 09-16 has been approved.
18 --o0o—
19 **Item 11. Budget update**
20 CHAIR CAREY: Okay, we're up to the update on
21 the budget, a brief update on the budget.
22 MR. SPEARS: A brief update on the budget,
23 just to let you know how we finished last year and how
24 we're doing so far this year.
25 So, first of all, the operating budget that was

1 adopted for last fiscal year, 2008-09 was $46.2 million.
2 311 positions not all filled. And actual expenditures
3 wound up $7 million under that, attributable to the fact
4 that we did not spend as much on strategic projects,
5 including systems work that we've been talking about,
6 deferred to later times. Impact of the furlough plan,
7 at least through February to June, at I think pretty much
8 a two-day-a-month pace.
9 MR. IWATA: Yes.
10 MR. SPEARS: Increased staff vacancies over
11 what we thought there would be.
12 But we did do a lot of soul-searching about who
13 went to what conference, what travel was involved, and
14 cut back on that substantially.
15 The next slide, in July 2009, this Board
16 approved a $47.9 million budget. Again, 311 positions.
17 That assumed a two-day-a-month furlough plan. It assumed
18 30 staff positions would remain vacant until we knew more
19 about the federal plan, and then at that point, then we
20 would come back to the Board and let you guys know what
21 we thought was going to happen volumewise in lending and
22 staffing and that sort of thing.
23 The actual results are as follows:
24 We've spent, in the first 25 percent of the
25 year, only 17 percent of the budget, $8 million. But

1 there are a lot of contracts on deliverables for the
2 strategic projects and other things that had not been
3 billed at September 30. And instead of having 30 vacant
4 positions at this point, we have 44. And some of that is
5 due to retirements, which I'm sure, Lynn, you've had some
6 of the same experiences of people who have said because
7 of the furlough program, we're contributing to the state
8 instead of our retirement, so we're going to retire.
9 The exam process, though, has been difficult.
10 And I understand the State Personnel Board exams system
11 was down for some time, which hampered us --
12 MS. JACOBS: And nobody noticed.
13 MR. SPEARS: We noticed because we were trying
14 to fill some positions and could not.
15 So now I would go to this last bullet here with
16 a little bit of caution.
17 Based on our spending so far, if we kept doing
18 what we are doing today, we would spend about
19 $38.5 million for the entire year of the $47.9 million.
20 But that's not taking into account additional lending
21 that we will do, now that we know that the federal plan
22 is in place. So I take that with kind of a grain of
23 salt, if you will. And we can move on to the next slide.
24 We pretty much talked about this. So I don't
25 think there's a lot more to be said. But the additional

1 lending opportunities that are possible with the federal
2 program will mean that we are doing all the things that
3 we've talked about on loan servicing, loan modifications,
4 loss mitigation, REO management; and add to that new
5 lending.
6 So all the people that we moved from loan
7 production over to those other activities while we were
8 not lending, will now have to go back, and we will now
9 have to take a look at filling positions and doing this
10 work.
11 MR. HUDSON: So you're not going to shrink
12 Asset Management, Loss Mitigation?
13 MR. SPEARS: No, sir. We'll have to fill
14 vacancies as we go along.
15 Here again, I don't --
16 MR. HUDSON: Because the future of the Agency
17 is based more on what we do with our loss mitigation than
18 what we do with our production?
19 MR. SPEARS: Yes, it is. Yes, it is. We will
20 not lose sight of the fact that that basket of assets
21 that we have in the form of loans has got to be managed,
22 and it has got to be managed in a very, very attentive
23 way.
24 MR. HUDSON: And if you ask the Board for an
25 increase in that staffing, there's nothing that the

1 State's doing that could impact that; right? I mean,
2 could you do that?
3 MR. SPEARS: Other than the furlough plan?
4 MR. HUDSON: Other than the furlough plan.
5 MR. SPEARS: No, they are not throwing up any
6 roadblocks to that.
7 We have additional ability that other agencies
8 and the state departments don't have a hiring of
9 temporary employees, of authorizing overtime, that sort
10 of thing, because of our operational independence.
11 MR. HUDSON: I was just asking the question.
12 MR. SPEARS: Yes, right.
13 So we have ability to fill these vacancies --
14 we'll have to do it through the exam process and the
15 civil-service process, and it does take time. But what
16 I'm hoping is that we can all time this correctly to meet
17 the increased demand for lending.
18 For example, with Gary's folks, he's going to
19 need folks back to start dealing with the increased
20 volume. I'm thinking that's probably going to happen
21 towards the latter part of the calendar year next year,
22 not right off the bat. So that will give us some time to
23 manage the staffing.
24 MR. HUDSON: You know, I make the assumption,
25 which may be wrong, that if asset quality continues to

1 trend negative, that putting more resources towards it is
2 a responsible thing to do.
3 MR. SPEARS: Yes. Yes, sir.
4 MR. HUDSON: Okay.
5 MR. SPEARS: So I don't know if there are any
6 questions at this point on where we are.
7 MR. HUDSON: Is this a typical budget update,
8 that just talks about expenses and staffing?
9 MR. SPEARS: On the operating budget, yes, sir.
10 MR. HUDSON: The operating budget?
11 Isn't there an income side of the operating
12 budget?
13 MR. SPEARS: That's an excellent question.
14 Because this is a quasi state agency -- it is
15 a state department -- there has been an emphasis on
16 adopting a budget in the way that other state departments
17 do.
18 The review of the financial statements and the
19 management of the balance sheet -- my experience has
20 been, since I've been here, it has been a separate
21 discussion.
22 MR. HUDSON: Yes, but I assume we use this
23 budget -- this is a budget not only to manage our fiscal,
24 but it's also to manage the expectations of management;
25 right?

1 MR. SPEARS: Yes.
2 MR. HUDSON: So regardless of what the State
3 does, it seems like there ought to be some tracking of
4 what we think we're going to do in terms of asset
5 quality, what we actually do, or what we do in terms of
6 collections and what we thought we were going to do in
7 terms of collections, or some other, other than how we're
8 doing with our expense reduction, which is excellent, I
9 must say.
10 MR. SPEARS: Well, I made the point before,
11 that we could be under operating budget, and that's a bad
12 thing because we're not -- for example, not putting the
13 kind of resources we need to into the Asset Management of
14 the loss mitigation and those sort of activities.
15 We could be under budget because we're not
16 doing any lending. That's not a good thing. So I
17 understand what you're talking about.
18 Just the fact that we're over/under operating
19 budget isn't necessarily a reflection of performance of
20 the group.
21 CHAIR CAREY: Lynn?
22 MS. JACOBS: Since everyone here knows I'm
23 getting old, I thought that we asked to get quarterly
24 budgets, quarterly budget updates, income and expense,
25 so we could see if we were ahead of budget or behind

1 budget. That might have been when I was younger. But
2 that's something that I would like to see in the future
3 in the packet. It doesn't have to be necessarily a big
4 agenda item.
5 MR. SPEARS: Income?
6 MS. JACOBS: Yes. Income and expense --
7 quarterly --
8 CHAIR CAREY: Quarterly financials.
9 MS. JACOBS: Quarterly financials, yes, income
10 and expense.
11 MR. SPEARS: Well, if I had September 30th
12 financials, I would be happy to share them with you. We
13 don't have those yet. When we arrive in January --
14 MS. JACOBS: So we'd like to continue to
15 receive the quarterly --
16 MR. SPEARS: The quarterly that you got this
17 time --
18 MS. JACOBS: We saw the June -- well, we saw
19 the June --
20 MR. SPEARS: -- was for June 30th.
21 MS. JACOBS: -- which is the annual, which is
22 fine.
23 MR. SPEARS: Yes.
24 MS. JACOBS: I didn't know whether the
25 September 30th was ready or not.

1 MR. SPEARS: No. I see what you mean.
2 MS. JACOBS: But we would like to see those
3 because --
4 CHAIR CAREY: And that was agreed to.
5 MS. JACOBS: Yes. Okay, see, age doesn't
6 totally destroy you.
7 MS. PETERS: No, no, you're younger than you
8 think.
9 MS. JACOBS: That would be nice.
10 MR. HUDSON: I think I'm going to say this one
11 more time.
12 So we don't have a budget that -- our only
13 budget -- we're only tracking this $46.2 million, is the
14 only thing we're tracking?
15 MS. JACOBS: Oh, no, we have a whole budget.
16 You just don't have it in there.
17 MR. HUDSON: Oh, okay.
18 CHAIR CAREY: This is really a follow-up from
19 the last meeting, at which we had a fair amount of
20 discussion about how we should be meeting the current
21 demands.
22 MR. HUDSON: Got it, okay. Thank you.
23 //
24 //
25 //

1 **Item 12. Office relocation update**
2 MR. SPEARS: On the same lines, operationally,
3 we've been talking for some time, again for the benefit
4 of the new Board members, about office relocations. One
5 is to relocate the loan servicing; and the other was to
6 consolidate the Sacramento headquarters.
7 We are in two buildings in Sacramento: The old
8 Senator Hotel and the Meridian Building. And we'd like
9 to get into one location.
10 So first, the loan servicing. We have a
11 five-year lease on the location in West Sacramento.
12 Estimated move-in date is January 25. It will give us a
13 lot of room to expand and take on our own servicing over
14 the years to come.
15 One of the biggest things is, it means better
16 facilities, better ability to answer the phones, and
17 respond to borrower requests, and that sort of thing.
18 And when we get to the new location, we're going to
19 expand hours as well.
20 So it is moving from $2.60 space to $0.83 space
21 in a call-center-type environment as opposed to a class A
22 or high-rent district offices right across the street
23 from the Capitol where lobbyists would love to pay a
24 premium price to be. It makes a lot of sense. It's free
25 parking for the staff and an easier commute.

1 Maybe we could go to the next slide.
2 Here's our new space, which doesn't match the
3 address that I gave you at some point. So just in case
4 you Google Earth the address, it will not come up with
5 that building.
6 MR. IWATA: The address is 1040 Riverside
7 Parkway, West Sacramento.
8 MR. HUDSON: Why wouldn't we consolidate
9 everything in one place?
10 MR. SPEARS: That's a second phase.
11 One thing is, if we go to the next slide, I
12 think it's part of the answer.
13 This is slide 59.
14 Our agency headquarters has to be located in
15 the city limits -- within the city limits of Sacramento,
16 by law.
17 MR. HUDSON: West Sacramento is not in the city
18 limits?
19 MR. SPEARS: No, sir. It's an
20 unincorporated --
21 MS. JACOBS: No. It's another city.
22 MR. HUDSON: We're foreigners, sorry.
23 MS. JACOBS: It's got a mayor and everything.
24 MR. SPEARS: We suggested this as legislation.
25 It was not approved. And it is what it is. We're going

1 to find a location.
2 Our goals are to consolidate --
3 MR. HUDSON: That whole independent thing is
4 quasi-independent.
5 MR. SPEARS: I believe I said that.
6 MR. HUDSON: Okay.
7 MR. SPEARS: We're shooting for a cost in the
8 $2.10 range. We're looking for a free rent period, which
9 various folks are offering at this point.
10 And because we're able to move the loan
11 servicing folks out, we're no longer looking for 100,000
12 to 120,000 square foot; we're looking for 80,000 to
13 85,000. And, of course, parking and commute and public
14 transit considerations are high on the list.
15 We could stay where we are and renew our leases
16 in the two buildings. It's dysfunctional. It's tough on
17 staff during the summertime, when they're moving back and
18 forth between buildings and the heat, or in the
19 wintertime, during the cold and rain.
20 555 Capitol Mall is a place that we've been
21 looking at, and we're in serious conversations with.
22 700 I Street is an old Bank of America
23 building.
24 And we've just received a proposal from
25 2020 L Street, which is unfortunately a long ways from

1 light rail and some other convenient transit facilities.
2 So that’s not high on the list.
3 But these are some of the options that we look
4 at. We need to bring this to closure fairly quickly.
5 One possibility is -- Howard, stop me if I’m
6 wrong -- but the conversations with 555 have been fairly
7 serious. If we were to get them to the point where they
8 were willing to sign on the dotted line on something that
9 was very beneficial to the Agency, I’m afraid that I
10 would ask for a special meeting in December, possibly.
11 MR. HUDSON: “Very beneficial,” meaning like a
12 dollar a square foot or something?
13 MS. JACOBS: Well, no. $2.10 a square foot is
14 really good.
15 MR. HUDSON: $2.10?
16 MS. JACOBS: Yes.
17 MR. SPEARS: And what we had talked about
18 before is, T.I.’s were very generous. Enough to pay for
19 a move, free rent, things like that.
20 MR. HUDSON: Got it.
21 MR. SPEARS: And if they were to come through
22 on some terms like that and they said, “Well, it’s now or
23 never,” I may be ringing up the Chair and asking for an
24 emergency meeting.
25 MS. JACOBS: I know you guys don’t do phone

1 meetings.

2 MS. PETERS: Is it possible to give you some

3 authority that is just a skosh above what you think you

4 can get that space for and avoid a second meeting?

5 MS. JACOBS: It's not agendized.

6 MR. SPEARS: It's not agendized, so the answer

7 is no.

8 MS. JACOBS: But it's a great idea.

9 CHAIR CAREY: We never have taken any action on

10 this specifically. We talked about it last July, but we

11 didn't take action.

12 MR. SPEARS: I believe some action was taken to

13 at least give us the power to enter into serious talks,

14 not to finalize negotiations.

15 MR. HUGHES: Right. It was preliminary, and we

16 were supposed to bring a deal back. We don't have a deal

17 yet.

18 MR. HUDSON: I thought under the Brown Act,

19 some people could call in if you give the address where

20 they are, and --

21 MR. HUGHES: We're not subject to the Brown

22 Act; we're subject to the Bagley-Keene Act. There

23 actually is a provision for teleconference meetings.

24 There are a lot of challenges to it, and we haven't done

25 them generally. They are very difficult to make under

1 the legal requirements.

2 CHAIR CAREY: We tried it once or twice, and it

3 created great difficulty for us.

4 --o0o—

5 **Item 13. Reports**

6 CHAIR CAREY: Okay, with that, are there any

7 reports that aren't self-explanatory?

8 MR. SPEARS: I believe at one time or another,

9 that we have referred to every report that's in the back.

10 I would urge the Board members to take those home for

11 interesting and exciting bedtime reading. But I don't

12 believe that we're going to spend more time on it today.

13 --o0o--

14 **Item 15. Public Testimony**

15 CHAIR CAREY: With that, this is the moment we

16 set aside for public testimony.

17 If there's anyone in the audience who wishes to

18 address the Board, please indicate.

19 *(No response)*

20 CHAIR CAREY: Seeing none, our next meeting is

21 January 21st in Burbank.

22 And with that, we are adjourned.

23 *(The meeting concluded at 3:08 p.m.)*

24 --o0o--

25

REPORTER'S CERTIFICATE

I hereby certify that the foregoing proceedings were duly reported by me at the time and place herein specified;

That the testimony of said witnesses was reported by me, a duly certified shorthand reporter and a disinterested person, and was thereafter transcribed into typewriting.

I further certify that I am not of counsel or attorney for either or any of the parties to said deposition, nor in any way interested in the outcome of the cause named in said caption.

IN WITNESS WHEREOF, I have hereunto set my hand on the 9th of December 2009.

____
DANIEL P. FELDHAUS
California CSR #6949
Registered Diplomate Reporter
Certified Realtime Reporter

State of California

M E M O R A N D U M

To: Board of Directors **Date:** January 12, 2010

From: Bruce D. Gilbertson, Director of Financing
CALIFORNIA HOUSING FINANCE AGENCY

Subject: ANNUAL SINGLE FAMILY BOND REAUTHORIZATION RESOLUTION 10-01

Resolution 10-01 would authorize the sale and issuance of CalHFA single family bonds with related financial agreements, as necessary, for another year. In addition, the resolution would authorize the Agency to borrow for homeownership purposes using short-term credit facilities.

Annual reauthorization, a practice approved by the Board every year since 1987, enables the staff to schedule and size our bond transactions to meet demand for loan funds throughout the year without regard to the timing of individual Board meetings.

Resolution 10-01 would authorize single family bonds to be issued in various amounts by category, as follows:

(1) Equal to the amount of prior single family bonds being retired, including eligible bonds of other issuers;

(2) Equal to the amount of private activity bond volume cap made available for our single family program by the California Debt Limit Allocation Committee; and

(3) Up to $900 million of federally-taxable single family bonds (in addition to any taxable bonds issued under the first category).

Bonds would be authorized to be issued under any of the previously-approved forms of indenture as listed in the resolution. On December 30, 2009 the Agency successfully issued over $1 billion of Residential Mortgage Revenue Bonds ("RMRB") under the New Issue Bond Program ("Program") sponsored by Fannie Mae, Freddie Mac, the Federal Housing Finance Agency and the United States Department of the Treasury as part of the program for housing finance agencies announced by Treasury on October 19, 2009. On up to three dates during calendar year 2010 bond proceeds are eligible to be released from escrow, transferred to the indenture's program account for purposes of financing loans and converted into a bond with terms and rates consistent with the Program. In addition, the Program

requires additional bonds to be issued in public markets so that 40% of all bond proceeds derive from private investors. This Program will produce total lendable proceeds of approximately $1.7 billion that could be used to purchase loan collateral over the next 15 to 16 months. Our current plans are to pool loans (both conventional loans and FHA insured loans) into mortgage backed securities and purchase the securities with proceeds of the RMRB indenture.

The resolution would also authorize the full range of related financial agreements, including contracts for investment of bond proceeds, for warehousing of mortgages or mortgage securities pending the availability of bond proceeds, for interest rate hedging and for forward delivery of bonds through August 1, 2012. The resolution would also authorize contracts for consulting services or information services related to the financial management of the Agency, including advisors or consultants on interest rate swaps, cash flow management, contracts for financial printing and other financial services.

The resolution would also authorize all documents and agreements required in connection with our homeownership lending programs including mortgage purchase agreements, mortgage servicing agreements, mortgage-backed security pooling agreements, contracts for the sale of mortgages or the purchase or sale of mortgage-backed securities with lenders and servicers and agreements with government-sponsored enterprises and other secondary market participants.

The resolution would also reauthorize short-term credit facilities in an aggregate amount not to exceed $1 billion for operating capital and for the Homeownership Programs, Multifamily Programs and Bay Area Housing Plan. This authorization would allow us to continue to utilize our warehouse line from the State's Pooled Money Investment Board, the Bank of America credit line and other such facilities that may become available to the Agency.

In addition, the resolution would reauthorize cooperation with local agencies similar to that accomplished in recent years with the Southern California Home Financing Authority, the City of Los Angeles Department of Housing and the CRHMFA Homebuyers Fund.

In order to allow for necessary overlap of authority for bond issues scheduled during the time that reauthorization is being considered, Resolution 10-01 would not expire until 30 days after the first Board meeting in the year 2011 at which there is a quorum. Likewise, last year's single family resolution (09-01) will not expire until 30 days after this meeting.

Attachment

RESOLUTION NO. 10-01

RESOLUTION OF THE CALIFORNIA HOUSING FINANCE AGENCY AUTHORIZING THE AGENCY'S SINGLE FAMILY BOND INDENTURES, THE ISSUANCE OF SINGLE FAMILY BONDS, CREDIT FACILITIES FOR HOMEOWNERSHIP PURPOSES, AND RELATED FINANCIAL AGREEMENTS AND CONTRACTS FOR SERVICES

WHEREAS, the California Housing Finance Agency (the "Agency") has determined that there exists a need in California for providing financial assistance, directly or indirectly, to persons and families of low or moderate income to enable them to purchase or refinance moderately priced single family residences ("Residences");

WHEREAS, the Agency has determined that it is in the public interest for the Agency to assist in providing such financing by means of various programs, including whole loan and mortgage-backed securities programs (collectively, the "Program") to make loans to such persons and families, or to developers, for the acquisition, development, construction and/or permanent financing of Residences (the "Loans");

WHEREAS, pursuant to Parts 1 through 4 of Division 31 of the Health and Safety Code of the State of California (the "Act"), the Agency has the authority to issue bonds to provide sufficient funds to finance the Program, including the purchase of Loans and mortgage-backed securities, the payment of capitalized interest on the bonds, the establishment of reserves to secure the bonds, and the payment of other costs of the Agency incident to, and necessary or convenient to, the issuance of the bonds;

WHEREAS, the Agency, pursuant to the Act, has from time to time issued various series of its Single Family Mortgage Purchase Bonds (the "SFMP Bonds"), its Home Ownership and Home Improvement Revenue Bonds (the "HOHI Bonds"), its Home Mortgage Revenue Bonds (the "HMP Bonds"), its Home Ownership Mortgage Bonds (the "HOM Bonds"), its Single Family Mortgage Bonds (the "SFMor Bonds"), its Housing Program Bonds (the "HP Bonds"), and its Residential Mortgage Revenue Bonds (the "RMR Bonds"), and is authorized pursuant to the Act to issue additional SFMP Bonds, HOHI Bonds, HMP Bonds, HOM Bonds, SFMor Bonds, HP Bonds, and RMR Bonds (collectively with bonds authorized under this resolution to be issued under new indentures, the "Bonds") to provide funds to finance the Program;

WHEREAS, pursuant to the Act, the Agency has the authority to enter into credit facilities for the purpose of financing the Program, including the making of Loans and the payment of other costs of the Agency incident to, and necessary or convenient to, the issuance of the bonds;

WHEREAS, pursuant to Chapter 6 of Part 5 of Division 31 (Sections 52060 *et seq.*) of the Health and Safety Code of the State of California (the "Local Agency Assistance Act"), the Agency also has the authority to enter into agreements with cities, counties and joint powers authorities created by cities and counties (collectively, "Local Agencies"), which provide that the Agency shall sell bonds on behalf of such Local Agencies for the purpose of providing

1 funds for home mortgages financing residences within the respective jurisdictions of such Local
2 Agencies; and

3 WHEREAS, the Local Agency Assistance Act provides that although such bonds
4 are to be bonds of the Local Agency ("Local Agency Bonds"), the proceeds of such Local
5 Agency Bonds may be utilized in the Agency's Program, including borrowing such proceeds
6 through the issuance of Bonds to the Local Agency;

7 NOW, THEREFORE, BE IT RESOLVED by the Board of Directors (the
8 "Board") of the California Housing Finance Agency as follows:

9 Section 1. **Determination of Need and Amount.** The Agency is of the
10 opinion and hereby determines that the issuance of one or more series of Bonds, in an aggregate
11 amount not to exceed the sum of the following amounts, is necessary to provide sufficient funds
12 for the Program:

13 (a) the aggregate amount of Bonds and/or other qualified mortgage bonds
14 (including bonds of issuers other than the Agency) to be redeemed or maturing in
15 connection with such issuance,

16 (b) the aggregate amount of private activity bond allocations under federal tax
17 law heretofore or hereafter made available to the Agency (including any such allocations
18 made available to a Local Agency in connection with the issuance of Local Agency
19 Bonds) for such purpose, and

20 (c) if and to the extent interest on one or more of such series of Bonds is
21 determined by the Executive Director to be intended not to be excludable from gross
22 income for federal income tax purposes, $900,000,000.

23 Section 2. **Authorization and Timing.** The Bonds are hereby authorized to
24 be issued in such aggregate amount at such time or times on or before the day 30 days after the
25 date on which is held the first meeting of the Board in the year 2011 at which a quorum is
26 present, as the Executive Director of the Agency (the "Executive Director") deems appropriate,
27 upon consultation with the Treasurer of the State of California (the "Treasurer") as to the timing
28 of each such issuance; provided, however, that if the bonds are sold at a time on or before the
29 day 30 days after the date on which is held such meeting, pursuant to a forward purchase or
30 drawdown agreement providing for the issuance of such Bonds on or before August 1, 2012
31 upon specified terms and conditions, such Bonds may be issued on such later date.

32 Section 3. **Approval of Forms of Indentures.** The Executive Director and
33 the Secretary of the Board of Directors of the Agency (the "Secretary") are hereby authorized
34 and directed, for and on behalf and in the name of the Agency in connection with the issuance of
35 Bonds, to execute and acknowledge and to deliver to the Treasurer as trustee and/or, if
36 appropriate, to a duly qualified bank or trust company selected by the Executive Director to act,
37 with the approval of the Treasurer, as trustee or co-trustee, fiscal agent or paying agent of the
38 Agency (collectively, the "Trustees"), one or more new indentures, trust agreements or similar
39 documents providing for the issuance of bonds (the "New Indentures"), in one or more forms
40 similar to one or more of the following (collectively, the "Prior Indentures"):

(a) that certain indenture pertaining to the SFMP Bonds (the "SFMP Indenture");

(b) that certain indenture pertaining to the HOHI Bonds (the "HOHI Indenture");

(c) that certain indenture pertaining to the HOM Bonds (the "HOM Indenture");

(d) those certain indentures pertaining to the HMP Bonds (the "HMP Indentures");

(e) that form of general indenture approved by Resolution No. 92-41, adopted November 12, 1992 (the "SHOP Indenture");

(f) that form of master trust indenture proposed by Fannie Mae ("Fannie Mae") in connection with their "MRB Express" program and approved by Resolution No. 93-30, adopted September 7, 1993 (the "Fannie Mae MRB Express Program Indenture");

(g) that form of general indenture designed for the Fannie Mae Index Option Program and approved by Resolution No. 94-01, adopted January 13, 1994 (the "Fannie Mae Index Option Program Indenture");

(h) those certain indentures pertaining to the SFMor Bonds (the "SFMor Indentures");

(i) the form of draw down bond indenture approved by Resolution No. 01-04, as amended by Resolution No. 01-39, adopted November 8, 2001;

(j) the form of bond indenture approved by Resolution No. 02-01, as amended by Resolution No. 02-17, adopted June 6, 2002;

(k) that certain indenture pertaining to the HP Bonds (the "HP Indenture"); and/or

(l) that certain indenture relating to the RMR Bonds.

Each such New Indenture may be executed, acknowledged and delivered with such changes therein as the officers executing the same approve upon consultation with the Agency's legal counsel, such approval to be conclusively evidenced by the execution and delivery thereof. Changes reflected in any New Indenture may include, without limitation, provision for a supplemental pledge of Agency moneys or assets (including but not limited to, a deposit from the Supplementary Bond Security Account created under Section 51368 of the Act) and provision for the Agency's general obligation to additionally secure the Bonds if appropriate in furtherance of the objectives of the Program.

Section 4. **Approval of Forms of Series and Supplemental Indentures.** The Executive Director and the Secretary are hereby authorized and directed, for and on behalf and in the name of the Agency, to execute and acknowledge and to deliver with respect to each series of Bonds, if and to the extent appropriate, series and/or supplemental indentures (each a "Supplemental Indenture") under either one of the Prior Indentures or a New Indenture and in substantially the form of the respective supplemental indentures previously executed and delivered or approved, each with such changes therein as the officers executing the same approve upon consultation with the Agency's legal counsel, such approval to be conclusively evidenced by the execution and delivery thereof. Changes reflected in any Supplemental Indenture may include, without limitation, provision for a supplemental pledge of Agency moneys or assets (including but not limited to, a deposit from the Supplementary Bond Security Account created under Section 51368 of the Act) and provision for the Agency's general obligation to additionally secure the Bonds if appropriate in furtherance of the objectives of the Program.

The Executive Director is hereby expressly authorized and directed, for and on behalf and in the name of the Agency, to determine in furtherance of the objectives of the Program those matters required to be determined under the applicable Prior Indenture or any New Indenture, as appropriate, in connection with the issuance of each such series, including, without limitation, any reserve account requirement or requirements for such series.

Section 5. **Approval of Forms and Terms of Bonds.** The Bonds shall be in such denominations, have such registration provisions, be executed in such manner, be payable in such medium of payment at such place or places within or without California, be subject to such terms of redemption (including from such sinking fund installments as may be provided for) and contain such terms and conditions as each Supplemental Indenture as finally approved shall provide. The Bonds shall have the maturity or maturities and shall bear interest at the fixed, adjustable or variable rate or rates deemed appropriate by the Executive Director in furtherance of the objectives of the Program; provided, however, that no Bond shall have a term in excess of fifty years or bear interest at a stated rate in excess of fifteen percent (15%) per annum or in the case of variable rate bonds, a maximum floating interest rate of twenty-five percent (25%) per annum. Any of the Bonds and the Supplemental Indenture(s) may contain such provisions as may be necessary to accommodate an option to put such Bonds prior to maturity for purchase by or on behalf of the Agency or a person other than the Agency, to accommodate the requirements of any provider of bond insurance or other credit enhancement or liquidity support or to accommodate the requirements of purchasers of Dutch auction bonds or indexed floaters.

Section 6. **Authorization of Disclosure.** The Executive Director is hereby authorized to circulate one or more Preliminary Official Statements relating to the Bonds and, after the sale of the Bonds, to execute and circulate one or more Official Statements relating to the Bonds, and the circulation of such Preliminary Official Statements and such Official Statements to prospective and actual purchasers of the Bonds is hereby approved. The Executive Director is further authorized to hold information meetings concerning the Bonds and to distribute other information and material relating to the Bonds. Circulation of Preliminary Official Statements and Official Statements and distribution of information and material as provided above in this Section may be accomplished through electronic means or by any other means approved therefor by the Executive Director, such approval to be conclusively evidenced by such circulation or distribution.

Section 7. **Authorization of Sale of Bonds.** The Bonds are hereby authorized to be sold at negotiated or competitive sale or sales. The Executive Director is hereby authorized and directed, for and in the name and on behalf of the Agency, to execute and deliver one or more purchase contracts (including one or more forward purchase agreements) relating to the Bonds, by and among the Agency, the Treasurer and such underwriters or other purchasers (including, but not limited to, Fannie Mae) as the Executive Director may select (the "Purchasers"), in the form or forms approved by the Executive Director upon consultation with the Agency's legal counsel, such approval to be evidenced conclusively by the execution and delivery of said purchase contract by the Executive Director.

The Treasurer is hereby authorized and requested, without further action of the Board and unless instructed otherwise by the Board, to sell each series of Bonds at the time and place and pursuant to the terms and conditions set forth in each such purchase contract as finally executed. The Treasurer is hereby further authorized and requested to deposit the proceeds of any good faith deposit to be received by the Treasurer under the terms of a purchase contract in a special trust account for the benefit of the Agency, and the amount of said deposit shall be retained by the Agency, applied at the time of delivery of the applicable Bonds as part of the purchase price thereof, or returned to the Purchasers, as provided in such purchase contract.

Section 8. **Authorization of Execution of Bonds.** The Executive Director is hereby authorized and directed to execute, and the Secretary is hereby authorized to attest, for and on behalf and in the name of the Agency and under its seal, the Bonds, in an aggregate amount not to exceed the amount authorized hereby, in accordance with the Prior Indenture(s), the Supplemental Indenture(s) or the New Indenture(s) and in one or more of the forms set forth in the Prior Indenture(s), the Supplemental Indenture(s) or the New Indenture(s), as appropriate.

Section 9. **Authorization of Delivery of Bonds.** The Bonds, when so executed, shall be delivered to the Trustees to be authenticated by, or caused to be authenticated by, the Trustees. The Trustees are hereby requested and directed to authenticate, or cause to be authenticated, the Bonds by executing the certificate of authentication and registration appearing thereon, and to deliver the Bonds when duly executed and authenticated to the Purchasers in accordance with written instructions executed on behalf of the Agency by the Executive Director, which instructions said officer is hereby authorized and directed, for and on behalf and in the name of the Agency, to execute and deliver. Such instructions shall provide for the delivery of the Bonds to the Purchasers upon payment of the purchase price or prices thereof.

Section 10. **Authorization of Related Financial Agreements.** The Executive Director and the other officers of the Agency are hereby authorized to enter into, for and in the name and on behalf of the Agency, any and all agreements and documents designed (i) to reduce or hedge the amount or duration of any payment, interest rate, spread or similar risk, (ii) to result in a lower cost of borrowing when used in combination with the issuance or carrying of bonds or investments, or (iii) to enhance the relationship between risk and return with respect to the Program or any portion thereof. To the extent authorized by law, including Government Code Section 5922, such agreements or other documents may include (a) interest rate swap agreements; (b) forward payment conversion agreements; (c) futures or other contracts providing for payments based on levels of, or changes in, interest rates or other indices; (d) contracts to exchange cash flows for a series of payments; (e) contracts, including, without limitation, interest

1 rate floors or caps, options, puts or calls to hedge payment, interest rate, spread or similar
2 exposure; or (f) contracts to obtain guarantees, including guarantees of mortgage-backed
3 securities or their underlying loans; and in each such case may be entered into in anticipation of
4 the issuance of bonds at such times as may be determined by such officers. Such agreements and
5 other documents are authorized to be entered into with parties selected by the Executive
6 Director, after giving due consideration for the creditworthiness of the counterparties, where
7 applicable, or any other criteria in furtherance of the objectives of the Program.

8 Section 11. **Authorization of Program Documents.** The Executive Director
9 and the other officers of the Agency are hereby authorized to enter into, for and in the name and
10 on behalf of the Agency, all documents they deem necessary or appropriate in connection with
11 the Program, including, but not limited to, one or more mortgage purchase and servicing
12 agreements (including mortgage-backed security pooling agreements) and one or more loan
13 servicing agreements with such lender or lenders or such servicer or servicers as the Executive
14 Director may select in accordance with the purposes of the Program, and any such selection of a
15 lender or lenders or a servicer or servicers is to be deemed approved by this Board as if it had
16 been made by this Board. The mortgages to be purchased may be fixed rate, step rate, adjustable
17 rate, graduated payment, deferred payment or any combination of the foregoing, may have terms
18 of 40 years or less and may be insured by such mortgage insurers as are selected by the
19 Executive Director in furtherance of the objectives of the Program.

20 The Executive Director and the other officers of the Agency are hereby authorized
21 to enter into, for and in the name and on behalf of the Agency, one or more mortgage sale
22 agreements with such purchasers as the Executive Director may select in accordance with the
23 objectives of the Program, including but not limited to such agreements with Fannie Mae,
24 Freddie Mac or other government-sponsored enterprise or similar entity for such sales in bulk or
25 otherwise. Any such sale of Loans may be on either a current or a forward purchase basis.

26 The Executive Director and the other officers of the Agency are hereby authorized
27 to enter into, for and in the name and on behalf of the Agency, contracts to conduct foreclosures
28 of mortgages owned or serviced by the Agency with such attorneys or foreclosure companies as
29 the Executive Director may select in accordance with the objectives of the Program.

30 The Executive Director and the other officers of the Agency are hereby authorized
31 to enter into, for and in the name and on behalf of the Agency, contracts for the sale of
32 foreclosed properties with such purchasers as the Executive Director may select in accordance
33 with the objectives of the Program. Any such sale of foreclosed properties may be on either an
34 all cash basis or may include financing by the Agency. The Executive Director and the other
35 officers of the Agency are also authorized to enter into any other agreements, including but not
36 limited to real estate brokerage agreements and construction contracts necessary or convenient
37 for the rehabilitation, listing and sale of such foreclosed properties.

38 The Executive Director and the other officers of the Agency are hereby authorized
39 to enter into, for and in the name and on behalf of the Agency, (i) contracts or agreements for the
40 purchase or sale of mortgage-backed securities; (ii) servicing agreements, including master
41 servicing agreements, in connection with the operation of a program of mortgage-backed
42 securities; (iii) agreements with government-sponsored enterprises, or other secondary market

1 issuers or guarantors of mortgage-backed securities; and (iv) such other program documents as
2 are necessary or appropriate for the operation of a program of mortgage-backed securities.

3 Section 12. **Authorization of Credit Facilities.** The Executive Director and
4 the other officers of the Agency are hereby authorized to enter into, for and in the name and on
5 behalf of the Agency, one or more short-term or long-term credit facilities for the purposes of
6 (i) financing the purchase of Loans and/or mortgage-backed securities on an interim basis, prior
7 to the financing thereof with Bonds, whether issued or to be issued; (ii) financing expenditures of
8 the Agency incident to, and necessary or convenient to, the issuance of Bonds, including, but not
9 limited to, Agency expenditures to pay costs of issuance, capitalized interest, redemption price of
10 prior bonds of the Agency, costs relating to credit enhancement or liquidity support, costs
11 relating to investment products, or net payments and expenses relating to interest rate hedges and
12 other financial products; and (iii) enabling the Agency to restructure existing debt and related
13 purposes, including, but not limited to, the redemption of existing bonds and the acquisition of
14 bonds that have been put to liquidity providers as bank bonds. Any such credit facility may be
15 from any appropriate source, including, but not limited to, the Pooled Money Investment
16 Account pursuant to Government Code Section 16312; provided, however, that the aggregate
17 outstanding principal amount of credit facilities authorized under this resolution or
18 Resolution No. 10-02 (the multifamily financing resolution adopted at the same meeting) or
19 Resolution No. 06-06 (the Bay Area Housing Plan resolution), as amended from time to time,
20 may not at any time exceed $1,000,000,000 (separate and apart from the amount of Bonds
21 authorized by Section 1 of this resolution).

22 The Executive Director and the other officers of the Agency are hereby authorized
23 to use available Agency moneys (other than and in addition to the proceeds of bonds) (i) to make
24 or purchase Loans and/or mortgage-backed securities to be financed by bonds (including bonds
25 authorized by prior resolutions of this Board) in anticipation of draws on a credit facility, the
26 issuance of Bonds or the availability of Bond proceeds for such purposes and (ii) to purchase
27 Agency bonds to enable the Agency to restructure its debt and for related purposes as authorized
28 under Resolution No. 08-42 and any future Board resolutions thereto amendatory or
29 supplemental.

30 Section 13. **Local Agency Cooperation.** (a) The Executive Director is
31 hereby authorized and directed, for and in the name and on behalf of the Agency, to execute and
32 deliver one or more agreements with one or more Local Agencies providing that the Agency
33 shall sell Local Agency Bonds for the purpose of providing funds for the Program for the
34 purchase of Loans financing Residences (or mortgage-backed securities underlain by loans
35 financing such Residences) within the jurisdiction of the applicable Local Agency. Each such
36 agreement shall contain the provisions required by Section 52062 of the Local Agency
37 Assistance Act and shall provide that the method by which the Agency shall utilize the proceeds
38 of Local Agency Bonds in the Agency's Program shall be for the Agency to borrow such
39 proceeds by the issuance of Bonds to the Local Agency. The Bonds shall be in the form and
40 shall be issued under the terms and conditions authorized by this resolution, applied as
41 appropriate under the circumstances. The Bonds shall serve as the primary source of payment of
42 and as security for the Local Agency Bonds.

The Local Agency Bonds are hereby authorized to be sold at such time or times, on or before the day 30 days after the date on which is held the first meeting of the Board in the year 2011 at which a quorum is present, as the Executive Director deems appropriate, upon consultation with the Treasurer as to the timing of each such sale.

(b) The Executive Director is hereby authorized to circulate one or more Preliminary Official Statements relating to the Local Agency Bonds and, after the sale of the Local Agency Bonds, to execute and circulate one or more Official Statements relating to the Local Agency Bonds, and the circulation of such Preliminary Official Statements and such Official Statements to prospective and actual purchasers of the Local Agency Bonds is hereby approved. The Executive Director is further authorized to hold information meetings concerning the Local Agency Bonds and to distribute other information and material relating to the Local Agency Bonds.

(c) The Local Agency Bonds are hereby authorized to be sold at negotiated or competitive sale or sales. The Executive Director is hereby authorized and directed, for and in the name and on behalf of the Agency and the Local Agency, to execute and deliver one or more purchase contracts (including one or more forward purchase agreements) relating to the Local Agency Bonds, by and among the Agency, the Treasurer, the Local Agency (if appropriate) and such underwriters or other purchasers (including, but not limited to, Fannie Mae) as the Executive Director may select (the "Local Agency Bond Purchasers"), in the form or forms approved by the Executive Director upon consultation with the Agency's legal counsel, such approval to be evidenced conclusively by the execution and delivery of said purchase contract by the Executive Director.

(d) The Treasurer is hereby authorized and requested, without further action of the Board and unless instructed otherwise by the Board, to sell each series of Local Agency Bonds at the time and place and pursuant to the terms and conditions set forth in each such purchase contract as finally executed. The Treasurer is hereby further authorized and requested to deposit the proceeds of any good faith deposit to be received by the Treasurer under the terms of a purchase contract in a special trust account for the benefit of the Agency and the Local Agency, and the amount of said deposit shall be applied at the time of delivery of the applicable Local Agency Bonds, as the case may be, as part of the purchase price thereof or returned to the Local Agency Bond Purchasers as provided in such purchase contract.

Section 14. **Ratification of Prior Actions.** All actions previously taken by the Agency relating to the implementation of the Program, the issuance of the Bonds, the issuance of any prior bonds, the execution and delivery of related financial agreements and related program agreements and the implementation of any credit facilities as described above, including, but not limited to, such actions as the distribution of the Agency's Lender Program Manual, Mortgage Purchase and Servicing Agreement, Servicing Agreement, Developer Agreement, Servicer's Guide, Program Bulletins and applications to originate and service loans, and the sale of any foreclosed property, are hereby ratified.

Section 15. **Authorization of Related Actions and Agreements.** The Treasurer, the Executive Director and the officers of the Agency, or the duly authorized deputies thereof, are hereby authorized and directed, jointly and severally, to do any and all things and to

1 execute and deliver any and all agreements and documents which they deem necessary or
2 advisable in order to consummate the issuance, sale, delivery, remarketing, conversion and
3 administration of Bonds and otherwise to effectuate the purposes of this resolution, including
4 declaring the official intent of the Agency for purposes of U.S. Treasury Regulations
5 Section 1.150-2, and including executing and delivering any amendment or supplement to any
6 agreement or document relating to Bonds in any manner that would be authorized under this
7 resolution if such agreement or document related to Bonds is authorized by this resolution. Such
8 agreements may include, but are not limited to, remarketing agreements, tender agreements or
9 similar agreements regarding any put option for the Bonds, broker-dealer agreements, market
10 agent agreements, auction agent agreements or other agreements necessary or desirable in
11 connection with the issuance of Bonds in, or the conversion of Bonds to, an auction rate mode or
12 an indexed rate mode, agreements for the investment of moneys relating to the Bonds,
13 reimbursement agreements relating to any credit enhancement or liquidity support or put option
14 provided for the Bonds, continuing disclosure agreements and agreements for necessary services
15 provided in the course of the issuance of the bonds, including but not limited to, agreements with
16 bond underwriters and placement agents, bond trustees, bond counsel and financial advisors and
17 contracts for consulting services or information services relating to the financial management of
18 the Agency, including advisors or consultants on interest rate swaps, cash flow management, and
19 similar matters, and contracts for financial printing and similar services. The Agency's
20 reimbursement obligation under any such reimbursement agreement may be a special, limited
21 obligation or a general obligation and may, subject to the rights of the Bondholders, be secured
22 by a pledge of the same revenues and assets that may be pledged to secure Bonds or by a pledge
23 of other revenues and assets.

24 This resolution shall constitute full, separate, complete and additional authority
25 for the execution and delivery of all agreements and instruments described in this resolution,
26 without regard to any limitation in the Agency's regulations and without regard to any other
27 resolution of the Board that does not expressly amend and limit this resolution.

28 Section 16. **Additional Delegation.** All actions by the Executive Director
29 approved or authorized by this resolution may be taken by the Chief Deputy Director of the
30 Agency, the Director of Financing of the Agency, the Comptroller of the Agency or any other
31 person specifically authorized in writing by the Executive Director, and except to the extent
32 otherwise taken by another person shall be taken by the Chief Deputy Director during any period
33 in which the office of the Executive Director is vacant.

1 SECRETARY'S CERTIFICATE

2 I, Thomas C. Hughes, Secretary of the Board of Directors of the California
3 Housing Finance Agency, hereby certify that the foregoing is a full, true, and correct copy of
4 Resolution No. 10-01 duly adopted at a regular meeting of the Board of Directors of the
5 California Housing Finance Agency duly called and held on the 21st day of January, 2010, of
6 which meeting all said directors had due notice; and that at said meeting said Resolution was
7 adopted by the following vote:

8 AYES:

9 NOES:

10 ABSTENTIONS:

11 ABSENT:

12 IN WITNESS WHEREOF, I have executed this certificate and affixed the seal of
13 the Board of Directors of the California Housing Finance Agency hereto this 21st day of January,
14 2010.

15 ______________________________
16 [SEAL] Thomas C. Hughes
17 Secretary of the Board of Directors of the
18 California Housing Finance Agency

1 SECRETARY'S CERTIFICATE

2 I, Thomas C. Hughes, Secretary of the Board of Directors of the California
3 Housing Finance Agency, hereby certify that the foregoing is a full, true, and correct copy of
4 Resolution No. 10-01 duly adopted at a regular meeting of the Board of Directors of the
5 California Housing Finance Agency duly called and held on the 21st day of January, 2010, of
6 which meeting all said directors had due notice; and that at said meeting said Resolution was
7 adopted by the following vote:

8 AYES:

9 NOES:

10 ABSTENTIONS:

11 ABSENT:

12 I further certify that I have carefully compared the foregoing copy with the
13 original minutes of said meeting on file and of record in my office; that said copy is a full, true,
14 and correct copy of the original Resolution adopted at said meeting and entered in said minutes;
15 and that said Resolution has not been amended, modified or rescinded in any manner since the
16 date of its adoption, and the same is now in full force and effect.

17 IN WITNESS WHEREOF, I have executed this certificate and affixed the seal of
18 the Board of Directors of the California Housing Finance Agency hereto this ___ day of
19 ________________, ____.

20 ____________________________________
21 [SEAL] Thomas C. Hughes
22 Secretary of the Board of Directors of the
23 California Housing Finance Agency

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State of California

M E M O R A N D U M

To: Board of Directors **Date:** January 12, 2010

Bruce D. Gilbertson, Director of Financing

From: **CALIFORNIA HOUSING FINANCE AGENCY**

Subject: ANNUAL MULTIFAMILY BOND REAUTHORIZATION RESOLUTION 10-02

Resolution 10-02 would authorize the sale and issuance of CalHFA multifamily bonds with related financial agreements, as necessary, for another year. In addition, the resolution would authorize the Agency to borrow for multifamily purposes using short-term credit facilities.

Annual reauthorization, a practice approved by the Board every year since 1987, enables the staff to schedule and size our bond transactions to meet the demand for loan funds throughout the year without regard to the timing of individual Board meetings.

Resolution 10-02 would authorize multifamily bonds to be issued in various amounts by category, as follows:

(1) Equal to the amount of prior multifamily bonds being retired, including eligible bonds of other issuers;

(2) Equal to the amount of private activity bond volume cap made available for the multifamily program by the California Debt Limit Allocation Committee (CDLAC);

(3) Up to $800 million for the combined amount of 501(c)(3) bonds, "governmental purpose" bonds, and federally-taxable multifamily bonds (in addition to any taxable bonds issued under the first category);

Bonds would be authorized to be issued under any of the previously-approved forms of indenture as listed in the resolution. On December 30, 2009 the Agency successfully issued $380 million of Affordable Multifamily Housing Revenue Bonds (AMHRB) under the New Issue Bond Program ("Program") sponsored by Fannie Mae, Freddie Mac, the Federal Housing Finance Agency and the United States Department of the Treasury as part of the program for housing finance agencies announced by Treasury on October 19, 2009. On up to three dates during calendar year 2010 bond proceeds are eligible to be released from escrow, transferred to the indenture's program account for purposes of financing construction and/or permanent

loans and converted into a bond with terms and rates consistent with the Program. In addition, the Program allows for limited amounts of additional bonds to be issued in public markets under the indenture, any additional bonds that may be issued are currently planned to be issued under the AMHRB indenture.

The resolution would also authorize the full range of related financial agreements, including contracts for investment of bond proceeds, for warehousing of mortgages pending the availability of bond proceeds, for interest rate hedging, and for forward delivery of bonds through August 1, 2012. The resolution would also authorize contracts for consulting services or information services related to the financial management of the Agency, including advisors or consultants on interest rate swaps, cash flow management, contracts for financial printing and other financial services.

The resolution would also authorize documents and agreements in connection with the Agency's multifamily lending programs including regulatory agreements, loan origination and servicing agreements, developer agreements, financing agreements and mortgage sale agreements.

In addition the resolution would reauthorize short-term credit facilities in an aggregate amount not to exceed $1 billion for operating capital and for the Homeownership Programs, Multifamily Programs and Bay Area Housing Plan. This authorization would allow us to continue to utilize our warehouse line from the State's Pooled Money Investment Board, the Bank of America credit line and other such facilities that may become available to the Agency.

In order to allow for necessary overlap of authority for bond issues scheduled during the time that reauthorization is being considered, Resolution 10-02 would not expire until 30 days after the first Board meeting in the year 2011 at which there is a quorum. Likewise, last year's multifamily resolution (09-02) will not expire until 30 days after this meeting.

Attachments

RESOLUTION NO. 10-02

RESOLUTION OF THE CALIFORNIA HOUSING FINANCE AGENCY AUTHORIZING THE AGENCY'S MULTIFAMILY BOND INDENTURES, THE ISSUANCE OF MULTIFAMILY BONDS, CREDIT FACILITIES FOR MULTIFAMILY PURPOSES, AND RELATED FINANCIAL AGREEMENTS AND CONTRACTS FOR SERVICES

WHEREAS, the California Housing Finance Agency (the "Agency") has determined that there exists a need in California for the financing of mortgage loans for the construction or development of multi-unit rental housing developments for the purpose of providing housing for persons and families of low or moderate income (the "Developments");

WHEREAS, the Agency has determined that it is in the public interest for the Agency to assist in providing such financing by means of an ongoing program (the "Program") to make or acquire, or to make loans to lenders to make or acquire, mortgage loans, for the purpose of financing such Developments (the "Loans");

WHEREAS, pursuant to Parts 1 through 4 of Division 31 of the Health and Safety Code of the State of California (the "Act"), the Agency has the authority to issue bonds to provide sufficient funds to finance the Program, including the making of Loans, the payment of capitalized interest on the bonds, the establishment of reserves to secure the bonds, and the payment of other costs of the Agency incident to, and necessary or convenient to, the issuance of the bonds; and

WHEREAS, pursuant to the Act, the Agency has the authority to enter into credit facilities for the purpose of financing the Program, including the making of Loans and the payment of other costs of the Agency incident to, and necessary or convenient to, the issuance of the bonds;

NOW, THEREFORE, BE IT RESOLVED, by the California Housing Finance Agency as follows:

Section 1. **Determination of Need and Amount.** The Agency is of the opinion and hereby determines that the offer, sale and issuance of one or more series of multifamily housing revenue bonds (the "Bonds"), in an aggregate amount not to exceed the sum of the following amounts is necessary to provide sufficient funds for the Program:

(a) the aggregate amount of prior multifamily bonds of the Agency (or of other issuers to the extent permitted by law) to be redeemed or maturing in connection with such issuance;

(b) the aggregate amount of private activity bond allocations under federal tax law heretofore or hereafter made available to the Agency for such purpose; and

(c) if and to the extent the Bonds are “qualified 501(c)(3) bonds” under federal tax law, are not “private activity bonds” under federal tax law, or are determined by the Executive Director of the Agency (the “Executive Director”) to be intended not to be tax-exempt for federal income tax purposes, $800,000,000.

Section 2. **Authorization and Timing.** The Bonds are hereby authorized to be issued at such time or times on or before the day 30 days after the date on which is held the first meeting in the year 2011 of the Board of Directors of the Agency at which a quorum is present, as the Executive Director deems appropriate, upon consultation with the Treasurer of the State of California (the “Treasurer”) as to the timing of each such issuance; *provided, however,* that if the Bonds are sold at a time on or before the day 30 days after the date on which is held such meeting, pursuant to a forward purchase or drawdown agreement providing for the issuance of such Bonds on a later date on or before August 1, 2012, upon specified terms and conditions, such Bonds may be issued on such later date.

Section 3. **Approval of Indentures, Supplemental Indentures and Certain Other Financing Documents.** (a) The Executive Director and the Secretary of the Board of Directors of the Agency (the “Secretary”) are hereby authorized and directed, for and on behalf and in the name of the Agency in connection with the issuance of Bonds, to execute and acknowledge and to deliver to a duly qualified bank or trust company selected by the Executive Director to act, with the approval of the Treasurer, as trustee, fiscal agent or paying agent of the Agency (the “Trustee”), one or more new indentures, trust agreements or similar documents providing for the issuance of bonds (the “New Indentures”), in one or more forms similar to one or more of the following (collectively, the “Prior Indentures”):

(1) the Multi-Family Revenue Bonds (Federally Insured Loans) Indenture, dated as of April 17, 1979;

(2) the Multi-Unit Rental Housing Revenue Bonds Indenture, dated as of July 12, 1979;

(3) the Rental Housing Revenue Bonds (FHA Insured Loans) Indenture, dated as of June 1, 1982;

(4) the Multi-Unit Rental Housing Revenue Bonds II Indenture, dated as of September 1, 1982;

(5) the Multifamily Rehabilitation Revenue Bonds, 1983 Issue A Indenture, dated as of December 1, 1983;

(6) the Multifamily Housing Revenue Bond (Insured Letter of Credit 1984-I) Indenture, dated as of March 1, 1984;

(7) the Housing Revenue Bond Indenture, dated as of July 1, 1984;

(8) the Multifamily Rehabilitation Revenue Bond, 1985 Issue A, Indenture, dated as of March 1, 1985;

(9) the form of indenture approved by the Board of Directors of the Agency at its May 11, 1989 meeting for the Financial Guaranty Insurance Company program;

(10) the Housing Revenue Bond II Indenture, dated as of July 1, 1992;

(11) the Multifamily Housing Revenue Refunding Bond Indentures, dated as of July 1, 1993 (including as originally delivered and as amended and restated);

(12) the Multifamily Housing Revenue Bond (Tara Village Apartments), 1994 Series A, Indenture, dated as of November 1, 1994;

(13) the Multifamily Housing Revenue Bond (FHA Insured Mortgage Loans) Indenture, dated February 1, 1995;

(14) the Multifamily Housing Revenue Bond II Indenture, dated as of October 1, 1995;

(15) the Multifamily Housing Revenue Bond III Indenture, dated as of March 1, 1997;

(16) the form of commercial paper note indenture presented to the May 11, 2000 meeting of the Agency;

(17) the Multifamily Loan Purchase Bond Indenture, dated as of July 1, 2000;

(18) the form of draw down bond indenture approved by Resolution No. 01-05, as amended by Resolution No. 01-39, adopted November 8, 2001;

(19) the form of bond indenture approved by Resolution No. 02-02, as amended by Resolution 02-17, adopted June 6, 2002;

(20) the Housing Program Bond Indenture, dated as of November 1, 2004;

(21) the form of Fannie Mae stand-alone Indenture approved by Resolution No. 09-02;

(22) the form of Freddie Mac stand-alone Indenture approved by Resolution No. 09-02;

(23) the form of Master Pledge and Assignment approved by Resolution No. 09-02; or

(24) the Affordable Multifamily Housing Revenue Bonds Indenture, dated as of December 1, 2009.

Each such New Indenture may be executed, acknowledged and delivered with such changes therein as the officers executing the same approve upon consultation with the Agency's legal counsel, such approval to be conclusively evidenced by the execution and delivery thereof.

(b) For each series of Bonds, the Executive Director and the Secretary are hereby authorized and directed, for and on behalf and in the name of the Agency, if appropriate, to execute and acknowledge and to deliver with respect to each series of Bonds, a supplemental

1 indenture (a "Supplemental Indenture") under a Prior Indenture or a New Indenture and in
2 substantially the form of any supplemental indenture or series indenture executed or approved in
3 connection with any of the Prior Indentures, in each case, with such changes therein as the
4 officers executing the same approve upon consultation with the Agency's legal counsel, such
5 approval to be conclusively evidenced by the execution and delivery thereof.

6 The Executive Director is hereby expressly authorized and directed, for and on
7 behalf and in the name of the Agency, to determine in furtherance of the objectives of the
8 Program those matters required to be determined under the applicable Prior Indenture or New
9 Indenture in connection with the issuance of each such series.

10 (c) For each series of Bonds, the Executive Director is hereby authorized and
11 directed to execute, and the Secretary is hereby authorized to attest, for and in the name and on
12 behalf of the Agency and under its seal, if and to the extent appropriate, a reimbursement
13 agreement, a letter of credit agreement or any other arrangement with respect to credit
14 enhancement or liquidity support, and any intercreditor agreement related thereto, in
15 substantially the forms of the reimbursement agreements, letter of credit agreements or other
16 such arrangements, and intercreditor agreements, contemplated under the Prior Indentures or
17 New Indentures or used in connection with the bonds issued under one or more of the Prior
18 Indentures.

19 (d) Any New Indenture, Supplemental Indenture, reimbursement agreement,
20 letter of credit agreement or other such arrangement, or intercreditor agreement, as finally
21 executed may include such modifications as the Executive Director may deem necessary or
22 desirable in furtherance of the objectives of the Program, including, but not limited to, one or
23 more of the following provisions:

24 (1) for the Agency's insured or uninsured, limited or general, obligation to pay any
25 debt secured thereby,

26 (2) for a pledge of an amount of the Supplementary Bond Security Account to the
27 extent necessary to obtain an appropriate credit rating or appropriate credit
28 enhancement,

29 (3) for a pledge of additional revenues which may be released periodically to the
30 Agency from the lien of one or more indentures heretofore entered into by the
31 Agency, including but not limited to one or more of the following:

32 (A) the Prior Indentures,

33 (B) the Home Mortgage Revenue Bond Indenture, dated as of September 1,
34 1982, as amended, and

35 (C) the indentures under which are issued the Single Family Mortgage Bonds,

36 (4) for a deposit of such other available assets of the Agency in an appropriate
37 amount in furtherance of the Program,

(5) for risk sharing provisions dividing between the Agency and any credit provider, mortgage lender, commercial bank or other financial institution and/or FHA, in such manner as the Executive Director may deem necessary or desirable in furtherance of the objectives of the Program, the credit and financing risks relating to the Bonds and the Developments financed by the Bonds,

(6) for liquidity support,

(7) for contingent or deferred interest,

(8) for the subordination of any pledge of or lien on revenues or other collateral to any pledge or lien securing other obligations, and

(9) for the use or application of payments or receipts under any arrangement entered into under Section 9 of this resolution.

Section 4. **Approval of Forms and Terms of Bonds.** The Bonds shall be in such denominations, have such registration provisions, be executed in such manner, be payable in such medium of payment at such place or places within or without California, be subject to such terms of redemption (including from such sinking fund installments as may be provided for) and contain such terms and conditions as each Indenture as finally approved shall provide. The Bonds shall have the maturity or maturities and shall bear interest at the fixed, adjustable or variable rate or rates deemed appropriate by the Executive Director in furtherance of the objectives of the Program; *provided, however,* that no Bond shall have a term in excess of fifty years or bear interest at a stated rate in excess of fifteen percent (15%) per annum, or in the case of variable rate bonds, a maximum floating interest rate of twenty-five percent (25%) per annum. Commercial paper shall be treated for these purposes as variable rate bonds. Any of the Bonds and the Supplemental Indenture(s) may contain such provisions as may be necessary to accommodate an option to put such Bonds prior to maturity for purchase by or on behalf of the Agency or a person other than the Agency, to accommodate the requirements of any provider of bond insurance or other credit enhancement or liquidity support or to accommodate the requirements of purchasers of Dutch auction bonds or indexed floaters.

Section 5. **Authorization of Disclosure.** The Executive Director is hereby authorized to circulate one or more preliminary official statements relating to the Bonds and to execute and circulate one or more official statements relating to the Bonds, and the circulation of such preliminary official statement and such official statement to prospective and actual purchasers of the Bonds is hereby approved. The Executive Director is further authorized to hold information meetings concerning the Bonds and to distribute other information and material relating to the Bonds, including by posting of such information on one or more websites maintained by or at the direction of the Agency.

Section 6. **Authorization of Sale of Bonds.** The Bonds are hereby authorized to be sold at negotiated or competitive sale or sales. The Executive Director is hereby authorized and directed, for and in the name and on behalf of the Agency, to execute and deliver one or more agreements, by and among the Agency, the Treasurer and such purchasers or underwriters as the Executive Director may select (the "Purchasers"), relating to the sale of the Bonds, in such

1 form as the Executive Director may approve upon consultation with the Agency's legal counsel,
2 such approval to be evidenced conclusively by the execution and delivery of said agreements by
3 the Executive Director.

4 The Treasurer is hereby authorized and requested, without further action of this
5 Board and unless instructed otherwise by this Board, to sell the Bonds pursuant to the terms and
6 conditions set forth in each such agreement as finally executed on behalf of the Agency. The
7 Treasurer is hereby further authorized and requested to deposit the proceeds of any good faith
8 deposit to be received by the Treasurer under the terms of such agreement in a special trust
9 account for the benefit of the Agency, and the amount of such deposit shall be retained by the
10 Agency, applied at the time of delivery of the applicable Bonds as part of the purchase price
11 thereof, or returned to the Purchasers, as provided in such agreement.

12 Section 7. **Authorization of Execution of Bonds.** The Executive Director is
13 hereby authorized and directed to execute, and the Secretary of this Board is hereby authorized
14 and directed to attest, for and on behalf and in the name of the Agency and under its seal, the
15 Bonds, in an aggregate amount not to exceed the amount authorized hereby, in accordance with
16 each New Indenture or Supplemental Indenture in one or more of the forms set forth in such
17 New Indenture or Supplemental Indenture.

18 Section 8. **Authorization of Delivery of Bonds.** The Bonds when so executed,
19 shall be delivered to the Trustee to be authenticated by or caused to be authenticated by the
20 Trustee. The Trustee is hereby requested and directed to authenticate, or cause to be
21 authenticated, the Bonds by the execution of the certificate of authentication and registration
22 appearing thereon, and to deliver or cause to be delivered the Bonds when duly executed and
23 authenticated to the Purchasers in accordance with written instructions executed on behalf of the
24 Agency by the Executive Director, which instructions said officer is hereby authorized and
25 directed, for and on behalf and in the name of the Agency, to execute and deliver to the Trustee.

26 Section 9. **Authorization of Related Financial Agreements.** The Executive
27 Director and the other officers of the Agency are hereby authorized to enter into, for and in the
28 name and on behalf of the Agency, any and all agreements and documents designed (i) to reduce
29 or hedge the amount or duration of any payment, interest rate, spread or similar risk, (ii) to result
30 in a lower cost of borrowing when used in combination with the issuance or carrying of bonds or
31 investments, or (iii) to enhance the relationship between risk and return with respect to the
32 Program or any portion thereof. To the extent authorized by Government Code Section 5922,
33 such agreements or other documents may include (a) interest rate swap agreements, (b) forward
34 payment conversion agreements, (c) futures or other contracts providing for payments based on
35 levels of, or changes in, interest rates or other indices, (d) contracts to exchange cash flows for a
36 series of payments, or (e) contracts, including, without limitation, interest rate floors or caps,
37 options, puts or calls to hedge payment, interest rate, spread or similar exposure, and in each
38 such case may be entered into in anticipation of the issuance of bonds at such times as may be
39 determined by such officers. Such agreements and other documents are authorized to be entered
40 into with parties selected by the Executive Director, after giving due consideration for the
41 creditworthiness of the counterparties, where applicable, or any other criteria in furtherance of
42 the objectives of the Program.

1 Section 10. **Authorization of Program Documents.** The Executive Director
2 and the other officers of the Agency are hereby authorized and directed to execute all documents
3 they deem necessary or appropriate in connection with the Program, including, but not limited to,
4 regulatory agreements, loan agreements, origination and servicing agreements (or other loan-to-
5 lender documents), servicing agreements, developer agreements, financing agreements,
6 investment agreements, agreements to enter into escrow and forward purchase agreements,
7 escrow and forward purchase agreements, refunding agreements and continuing disclosure
8 agreements, in each case with such other parties as the Executive Director may select in
9 furtherance of the objectives of the Program.

10 The Executive Director and the other officers of the Agency are hereby authorized
11 to enter into, for and in the name and on behalf of the Agency, one or more mortgage sale
12 agreements with such purchasers as the Executive Director may select in accordance with the
13 objectives of the Program. Any such sale of Loans may be on either a current or a forward
14 purchase basis.

15 The Executive Director and the other officers of the Agency are hereby authorized
16 to enter into, for and in the name and on behalf of the Agency, contracts to conduct foreclosures
17 of mortgages owned or serviced by the Agency with such attorneys or foreclosure companies as
18 the Executive Director may select in accordance with the objectives of the Program.

19 The Executive Director and the other officers of the Agency are hereby authorized
20 to enter into, for and in the name and on behalf of the Agency, contracts for the sale of
21 foreclosed properties with such purchasers as the Executive Director may select in accordance
22 with the objectives of the Program. Any such sale of foreclosed properties may be on an all cash
23 basis or may include financing by the Agency. The Executive Director and the other officers of
24 the Agency are also authorized to enter into any other agreements, including but not limited to
25 real estate brokerage agreements and construction contracts, necessary or convenient for the
26 rehabilitation, listing and sale of such foreclosed properties.

27 Section 11. **Authorization of Credit Facilities.** In addition, the Executive
28 Director and the other officers of the Agency are hereby authorized to enter into, for and in the
29 name and on behalf of the Agency, one or more short-term or long-term credit facilities for the
30 purposes of (i) financing the purchase of Loans on an interim basis, prior to the financing of such
31 Loans with Bonds, whether issued or to be issued; (ii) financing expenditures of the Agency
32 incident to, and necessary or convenient to, the issuance of Bonds, including, but not limited to,
33 Agency expenditures to pay costs of issuance, capitalized interest, redemption price of prior
34 bonds of the Agency, costs relating to credit enhancement or liquidity support, costs relating to
35 investment products, or net payments and expenses relating to interest rate hedges and other
36 financial products; and (iii) enabling the Agency to restructure existing debt and related
37 purposes, including, but not limited to, the redemption of existing bonds and the acquisition of
38 bonds that have been put to liquidity providers as bank bonds. Any credit facility entered into
39 pursuant to this Section 11 may be from any appropriate source, including, but not limited to, the
40 Pooled Money Investment Account pursuant to Government Code Section 16312; *provided,*
41 *however,* that the aggregate outstanding principal amount of credit facilities authorized under this
42 Section 11 or the comparable sections of Resolution No. 10-01 (the single family financing
43 resolution adopted at the same meeting) and Resolution No. 06-06, as amended (the Bay Area

Housing Plan resolution) may not at any time exceed $1,000,000,000 (separate and apart from the amount of bonds authorized by Section 1 of this resolution and such other resolutions).

The Executive Director and the other officers of the Agency are hereby authorized to use available Agency moneys (other than and in addition to the proceeds of bonds) to make or purchase loans to be financed by bonds (including bonds authorized by prior resolutions of this Board) in anticipation of draws on a credit facility, the issuance of Bonds or the availability of Bond proceeds for such purposes.

The Executive Director and the other officers of the Agency are hereby authorized to use available Agency moneys to purchase Agency bonds to enable the Agency to restructure its debt and for related purposes. Any Agency bonds so purchased shall remain outstanding for all purposes except to the extent that the Executive Director or the other officers of the Agency expressly provide for the retirement or redemption, and cancellation, of such bonds. Any Agency bonds so purchased may be purchased and resold, in each case on such terms as may be determined by the Executive Director and the other officers of the Agency in the best interests of the Agency. The agency may establish any account or accounts as may be necessary or desirable in connection with the purchase of such bonds.

Section 12. **Ratification of Prior Actions.** All actions previously taken by the officers of the Agency in connection with the implementation of the Program, the issuance of the Bonds, the issuance of any prior bonds (the "Prior Bonds"), the execution and delivery of related financial agreements and related program agreements and the implementation of any credit facilities as described above are hereby approved and ratified.

Section 13. **Authorization of Related Actions and Agreements.** The Treasurer, the Executive Director and the officers of the Agency, or the duly authorized deputies thereof, are hereby authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all agreements and documents which they deem necessary or advisable in order to consummate the issuance, sale, delivery, remarketing, conversion and administration of Bonds and Prior Bonds and otherwise to effectuate the purposes of this resolution, including declaring the official intent of the Agency for purposes of U.S. Treasury Regulations Section 1.150-2, and including executing and delivering any amendment or supplement to any agreement or document relating to Bonds or Prior Bonds in any manner that would be authorized under this resolution if such agreement or document related to Bonds authorized by this resolution. Such agreements may include, but are not limited to, remarketing agreements, tender agreements or similar agreements regarding any put option for Bonds or Prior Bonds, broker-dealer agreements, market agent agreements, auction agent agreements or other agreements necessary or desirable in connection with the issuance of Bonds in, or the conversion of Bonds or Prior Bonds to, an auction rate mode or an indexed rate mode, agreements for the investment of moneys relating to the Bonds or Prior Bonds, reimbursement agreements relating to any credit enhancement or liquidity support or put option provided for the Bonds or the Prior Bonds, continuing disclosure agreements and agreements for necessary services provided in the course of the issuance of the bonds, including but not limited to, agreements with bond underwriters, remarketing agents, placement agents, bond trustees, bond counsel and financial advisors and contracts for consulting services or information services relating to the financial management of the Agency, including advisors or consultants on interest rate swaps, cash flow management, and similar matters, and

1 contracts for financial printing and similar services. The Agency's reimbursement obligation
2 under any such reimbursement agreement may be a special, limited obligation or a general
3 obligation and may, subject to the rights of the Bondholders, be secured by a pledge of the same
4 revenues and assets that may be pledged to secure Bonds or by a pledge of other revenues and
5 assets.

6 This resolution shall constitute full, separate, complete and additional authority
7 for the execution and delivery of all agreements and instruments described in this resolution,
8 without regard to any limitation in the Agency's regulations and without regard to any other
9 resolution of the Board that does not expressly amend and limit this resolution.

10 Section 14. **Additional Delegation.** All actions by the Executive Director
11 approved or authorized by this resolution may be taken by the Chief Deputy Director of the
12 Agency, the Director of Financing of the Agency, the Comptroller of the Agency or any other
13 person specifically authorized in writing by the Executive Director, and except to the extent
14 otherwise taken by another person shall be taken by the Chief Deputy Director during any period
15 in which the office of the Executive Director is vacant.

1 SECRETARY'S CERTIFICATE
2
3 I, Thomas C. Hughes, Secretary of the Board of Directors of the California
4 Housing Finance Agency, hereby certify that the foregoing is a full, true, and correct copy of
5 Resolution No. 10-02 duly adopted at a regular meeting of the Board of Directors of the
6 California Housing Finance Agency duly called and held on the 21st day of January, 2010, of
7 which meeting all said directors had due notice; and that at said meeting said resolution was
8 adopted by the following vote:
9
10 AYES:
11
12 NOES:
13
14 ABSTENTIONS:
15
16 ABSENT:
17
18 IN WITNESS WHEREOF, I have executed this certificate and affixed the seal
19 of the Board of Directors of the California Housing Finance Agency hereto this 21st day of
20 January, 2010.
21
22
23
24 ______________________________________
25 [SEAL] Thomas C. Hughes
26 Secretary of the Board of Directors of the
27 California Housing Finance Agency

SECRETARY'S CERTIFICATE

I, Thomas C. Hughes, Secretary of the Board of Directors of the California Housing Finance Agency, hereby certify that the foregoing is a full, true, and correct copy of the Resolution No. 10-02 duly adopted at a regular meeting of the Board of Directors of the California Housing Finance Agency duly called and held on the 21st day of January, 2010, of which meeting all said directors had due notice; and that at said meeting said resolution was adopted by the following vote:

AYES:

NOES:

ABSTENTIONS:

ABSENT:

I further certify that I have carefully compared the foregoing copy with the original minutes of said meeting on file and of record in my office; that said copy is a full, true, and correct copy of the original resolution adopted at said meeting and entered in said minutes; and that said resolution has not been amended, modified, or rescinded in any manner since the date of its adoption, and the same is now in full force and effect.

IN WITNESS WHEREOF, I have executed this certificate and affixed the seal of the Board of Directors of the California Housing Finance Agency hereto this ____ day of __________________, _____.

[SEAL]

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

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State of California

M E M O R A N D U M

To: Board of Directors **Date:** January 12, 2010

Bruce D. Gilbertson, Director of Financing

From: **CALIFORNIA HOUSING FINANCE AGENCY**

Subject: AUTHORIZATION TO MAKE APPLICATION TO THE CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE RESOLUTION 10-03

The California Debt Limit Allocation Committee ("CDLAC") is the State entity which, under California law, allocates the federal volume cap for "private activity bonds" to be issued each year by State and local bond issuers. Private activity bonds are federally tax-exempt bonds which are issued to benefit non-governmental borrowers such as first-time homebuyers or owners of affordable rental housing developments.

Resolution 10-03 would authorize application to CDLAC for a maximum of $900 million of single family allocation and $400 million of multifamily allocation. Such authorization would be in effect during the period of time in which Resolutions 10-01 and 10-02, which authorize the issuance of bonds for the Homeownership Program and Multifamily Program, are themselves in effect.

The amounts proposed in Resolution 10-03 are greater than we would expect to apply for. However, the presumption is that the Board would want CalHFA to be authorized to apply and eligible to do so under CDLAC rules if allocation is available.

The attached table shows the amount of volume cap allocated to housing purposes over the past five years and the amounts that were allocated to CalHFA.

Attachments

CDLAC ALLOCATIONS 2005 - 2009

		MULTIFAMILY ALLOCATIONS			SINGLE FAMILY ALLOCATIONS		
Year	***Volume Cap for all Programs***	***All Multifamily***	***To CalHFA***	***% of Volume Cap***	***All Single Family***	***To CalHFA***	***% of Volume Cap***
2005	$2,871,503,920	$1,669,700,000	$168,155,000	5.9%	$646,000,000 *	$1,015,521,544	35.4%
2006	$2,890,571,760	$1,635,000,000	$56,550,000	2.0%	$610,000,000 *	$618,625,729	21.4%
2007	$3,098,891,665	$1,740,891,665	$39,940,000	1.3%	$640,000,000	$468,257,154	15.1%
2008	$3,107,023,275	$1,722,023,275	$132,920,000	4.3%	$610,000,000	$450,000,000	14.5%
2008	$1,144,564,324 **	$194,575,935	$0	0.0%	$949,988,389	$878,361,228	76.7%
2009	$3,308,099,940	$532,652,993	$199,920,000	6.0%	$500,000,000	$225,000,000	6.8%

* Includes MRBs and Extra Credit Teacher Home Purchase Program.
** HR 3221 Special Allocation

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RESOLUTION NO. 10-03

RESOLUTION OF THE CALIFORNIA HOUSING FINANCE AGENCY
APPROVING APPLICATIONS TO THE CALIFORNIA DEBT LIMIT ALLOCATION
COMMITTEE FOR PRIVATE ACTIVITY BOND ALLOCATIONS
FOR THE AGENCY'S HOMEOWNERSHIP AND MULTIFAMILY PROGRAMS

WHEREAS, the California Housing Finance Agency (the "Agency") has determined that there exists a need in California for providing financial assistance to persons and families of low or moderate income to enable them to purchase moderately priced single family residences (the "Residences");

WHEREAS, the Agency has determined that it is in the public interest for the Agency to provide such financial assistance by means of ongoing programs (collectively, the "Homeownership Program") to make lower-than-market rate loans for the permanent financing of Residences;

WHEREAS, pursuant to Parts 1 through 4 of Division 31 of the Health and Safety Code of the State of California (the "Act"), the Agency has the authority to issue bonds to provide sufficient funds to finance the Homeownership Program;

WHEREAS, the Agency has by its Resolution No. 10-01 authorized the issuance of bonds for the Homeownership Program and desires to authorize application to the California Debt Limit Allocation Committee for private activity bond allocations to be used in connection with the issuance of all or a portion of such bonds in order for interest on such bonds to be excludable from gross income for federal income tax purposes;

WHEREAS, the Agency has also determined that there exists a need in California for the financing of mortgage loans for the construction or development of multifamily rental housing developments (the "Developments") for the purpose of providing housing for persons and families of low or moderate income;

WHEREAS, the Agency has determined that it is in the public interest for the Agency to assist in providing such financing by means of an ongoing program (the "Multifamily Program") to make or acquire, or to make loans to lenders to make or acquire, mortgage loans, for the purpose of financing such Developments;

WHEREAS, pursuant to the Act, the Agency has the authority to issue bonds to provide sufficient funds to finance the Multifamily Program; and

WHEREAS, the Agency has by its Resolution No. 10-02 authorized the issuance of bonds for the Multifamily Program and desires to authorize application to the California Debt Limit Allocation Committee for private activity bond allocations to be used in connection with the issuance of all or a portion of such bonds in order for interest on such bonds to be excludable from gross income for federal income tax purposes;

1 NOW, THEREFORE, BE IT RESOLVED by the Board of Directors (the
2 "Board") of the California Housing Finance Agency as follows:

3 Section 1. **Authorization to Apply to CDLAC for the Homeownership**
4 **Program.** The officers of the Agency are hereby authorized to apply from time to time to the
5 California Debt Limit Allocation Committee ("CDLAC") for private activity bond allocations in
6 an aggregate amount of up to $900,000,000 per year to be used in connection with bonds issued
7 under Resolution No. 10-01 or resolutions heretofore or hereafter adopted by the Agency for the
8 Homeownership Program. In the alternative, subject to the approval of CDLAC and under such
9 terms and conditions as may be established by CDLAC, any such allocation received is
10 authorized by this Board to be used in connection with a mortgage credit certificate program or
11 in connection with a teacher home purchase program.

12 Section 2. **Authorization to Apply to CDLAC for the Multifamily Program.**
13 The officers of the Agency are hereby authorized to apply from time to time to CDLAC for
14 private activity bond allocations in an aggregate amount of up to $400,000,000 per year, to be
15 used in connection with bonds issued under Resolution No. 10-02 or resolutions heretofore or
16 hereafter adopted by the Agency for the Multifamily Program.

17 Section 3. **Authorization of Related Actions and Agreements.** The officers of
18 the Agency, or the duly authorized deputies thereof, are hereby authorized and directed, jointly
19 and severally, to do any and all things and to execute and deliver any and all agreements and
20 documents which they may deem necessary or advisable in order to effectuate the purposes of
21 this resolution, including but not limited to satisfying in the best interests of the Agency such
22 conditions as CDLAC may establish for private activity bond allocation applications. Such
23 officers and deputies are also hereby expressly authorized to accept on behalf and in the best
24 interests of the Agency any private activity bond allocations offered by CDLAC over and above
25 those which may be granted pursuant to any application authorized hereinabove or in any prior
26 resolution of the Board.

1 SECRETARY'S CERTIFICATE

2
3 I, Thomas C. Hughes, Secretary of the Board of Directors of the California
4 Housing Finance Agency, hereby certify that the foregoing is a full, true, and correct copy of
5 Resolution No. 10-03 duly adopted at a regular meeting of the Board of Directors of the
6 California Housing Finance Agency duly called and held on the 21st day of January, 2010, of
7 which meeting all said directors had due notice; and that at said meeting said Resolution was
8 adopted by the following vote:
9
10 AYES:
11
12 NOES:
13
14 ABSTENTIONS:
15
16 ABSENT:
17
18 IN WITNESS WHEREOF, I have executed this certificate and affixed the seal of
19 the Board of Directors of the California Housing Finance Agency hereto this 21st day of January,
20 2010.
21
22
23 ________________________________
24 [SEAL] Thomas C. Hughes
25 Secretary of the Board of Directors of the
26 California Housing Finance Agency

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State of California

M E M O R A N D U M

To: Board of Directors **Date:** January 12, 2010

Bruce D. Gilbertson, Director of Financing

From: CALIFORNIA HOUSING FINANCE AGENCY

Subject: RESOLUTION AMENDING BOND AUTHORIZATION FOR THE PURPOSE OF FINANCING LOANS IN CONNECTION WITH THE BAY AREA HOUSING PLAN RESOLUTION 10-04

On January 12, 2006 the Board of Directors adopted Resolution 06-06 authorizing, among other things, the sale and issuance of CalHFA bonds for the purpose of financing loans in connection with the Bay Area Housing Plan.

On September 12, 2007 and November 13, 2008 the Board of Directors adopted Resolutions 07-28 and 08-44, respectively, which amended Resolution 06-06 to extend the period during which bonds may be issued, authorized the Bay Area Housing Program Bonds Indenture as an approved form of indenture for purposes of financing loans in connection with the Bay Area Housing Plan and increased the maximum interest rate that the bonds may bear.

Resolution 10-04 would authorize an additional one year extension for the issuance of bonds in connection with this program so that the authority would not expire until 30 days after the first Board meeting in the year 2011 at which there is a quorum.

Attachments

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RESOLUTION NO. 10-04

RESOLUTION AMENDING RESOLUTION NO. 06-06, AS PREVIOUSLY AMENDED, OF THE CALIFORNIA HOUSING FINANCE AGENCY AUTHORIZING THE ISSUANCE OF THE AGENCY'S BONDS, SHORT- AND LONG-TERM CREDIT FACILITIES, AND RELATED FINANCIAL AGREEMENTS AND CONTRACTS OF SERVICES FOR THE PURPOSE OF FINANCING LOANS IN CONNECTION WITH THE BAY AREA HOUSING PLAN

WHEREAS, the Agnews Developmental Center was a residential medical facility in Santa Clara County, California, and housed a large population of severely developmentally disabled persons in need of care ranging from intermediate to skilled to acute care;

WHEREAS, the California Department of Developmental Services ("DDS") adopted a plan to close the Agnews Developmental Center, pursuant to which plan (the "Bay Area Housing Plan") approximately half of its residents have been relocated to other existing residential facilities, and the remainder have been relocated to residential facilities that have been acquired, constructed and/or rehabilitated (the "New Facilities");

WHEREAS, under the Bay Area Housing Plan, each New Facility was permanently financed by a loan (each, a "Loan") made or purchased by the California Housing Finance Agency (the "Agency");

WHEREAS, on January 12, 2006, this Board of Directors (the "Board") of the Agency adopted Resolution No. 06-06 (as amended as described below, the "BAHP Bond Resolution"), authorizing, among other things, the issuance of bonds (the "Bonds") and the execution and delivery of related financial agreements (including certain forms of the indentures to provide for the issuance of and securing the Bonds) for the purpose of financing Loans in connection with the Bay Area Housing Plan;

WHEREAS, on September 12, 2007, the Board adopted Resolution No. 07-28 amending Resolution No. 06-06 to extend the period during which Bonds may be issued and to authorize the issuance of limited obligation Bonds, if appropriate;

WHEREAS, on November 13, 2008, the Board adopted Resolution No. 08-44 amending Resolution No. 06-06, as previously amended, to extend the period during which Bonds may be issued and to increase the maximum interest rate that the Bonds may bear;

WHEREAS, the Agency has determined to amend the BAHP Bond Resolution to extend further the period during which Bonds may be issued;

NOW, THEREFORE, BE IT RESOLVED, by the California Housing Finance Agency as follows:

1 Section 1. **Extension of the Period for the Issuance of the Bonds.** Section
2 2 of the BAHP Bond Resolution is hereby amended and restated to read in its entirety as
3 follows:
4
5 "Section 2. **Authorization and Timing.** The Bonds are hereby
6 authorized to be issued at such time or times on or before the day 30 days
7 after the date on which is held the first meeting in the year 2011 of the Board
8 of Directors of the Agency at which a quorum is present, as the Executive
9 Director deems appropriate, upon consultation with the Treasurer of the State
10 of California (the "Treasurer") as to the timing of each such issuance;
11 provided, however, that if the Bonds are sold at a time on or before the day
12 30 days after the date on which is held such meeting, pursuant to a forward
13 purchase or drawdown agreement providing for the issuance of such Bonds
14 on a later date on or before August 1, 2012, upon specified terms and
15 conditions, such Bonds may be issued on such later date."
16
17 Section 2. **Ratification of BAHP Bond Resolution.** As amended hereby,
18 the BAHP Bond Resolution is in all respects confirmed; and Resolution No. 06-06,
19 Resolution No. 07-28, Resolution No. 08-44 and this resolution shall be read, taken and
20 considered as one instrument.
21
22 Section 3. **Resolution to Constitute Authorization For Purposes of**
23 **Validation Statutes.** This resolution shall constitute the authorization of Bonds for
24 purposes of California Government Code Section 17700 and California Code of Civil
25 Procedure Title 10, Chapter 9 (Section 860 et seq.). As a result, under California Code of
26 Civil Procedure Section 863, any action by any interested person to challenge the validity of
27 any Bonds must be brought within 60 days of the adoption hereof.

1 SECRETARY'S CERTIFICATE
2
3
4 I, Thomas C. Hughes, Secretary of the Board of Directors of the California
5 Housing Finance Agency, hereby certify that the foregoing is a full, true, and correct copy of
6 Resolution No. 10-04 duly adopted at a regular meeting of the Board of Directors of the
7 California Housing Finance Agency duly called and held on the 21st day of January, 2010, of
8 which meeting all said directors had due notice; and that at said meeting said resolution was
9 adopted by the following vote:
10
11 AYES:
12
13 NOES:
14
15 ABSTENTIONS:
16
17 ABSENT:
18
19 IN WITNESS WHEREOF, I have executed this certificate and affixed the seal
20 of the Board of Directors of the California Housing Finance Agency hereto this 21st day of
21 January, 2010.
22
23
24
25 ______________________________
26 [SEAL] Thomas C. Hughes
27 Secretary of the Board of Directors of the
28 California Housing Finance Agency

1 SECRETARY'S CERTIFICATE
2
3
4 I, Thomas C. Hughes, Secretary of the Board of Directors of the California
5 Housing Finance Agency, hereby certify that the foregoing is a full, true, and correct copy of
6 the Resolution No. 10-04 duly adopted at a regular meeting of the Board of Directors of the
7 California Housing Finance Agency duly called and held on the 21st day of January, 2010, of
8 which meeting all said directors had due notice; and that at said meeting said resolution was
9 adopted by the following vote:
10
11 AYES:
12
13 NOES:
14
15 ABSTENTIONS:
16
17 ABSENT:
18
19 I further certify that I have carefully compared the foregoing copy with the
20 original minutes of said meeting on file and of record in my office; that said copy is a full,
21 true, and correct copy of the original resolution adopted at said meeting and entered in said
22 minutes; and that said resolution has not been amended, modified, or rescinded in any manner
23 since the date of its adoption, and the same is now in full force and effect.
24
25 IN WITNESS WHEREOF, I have executed this certificate and affixed the seal
26 of the Board of Directors of the California Housing Finance Agency hereto this ____ day of
27 __________________, _____.
28
29 ____________________________________
30 [SEAL] Thomas C. Hughes
31 Secretary of the Board of Directors of the
32 California Housing Finance Agency

State of California

M E M O R A N D U M

To Board of Directors **Date:** January 14, 2010

From: L. Steven Spears, Acting Executive Director
CALIFORNIA HOUSING FINANCE AGENCY

Subject: ITEM 9 -- UPDATE ON FINANCIAL CHALLENGES

The purpose of this agenda item is to update Board members on CalHFA's financial challenges. The Financing Division has prepared memos for Items 5, 6 and 7 that will update Board members on the positive impact to the Agency from the assistance received under the Federal assistance plan. In addition to those memos, reports under Item 12, Tabs B, C, D, and E will provide more detail.

Unfortunately, as we have discussed before, none of the provisions of the Federal HFA Initiative will directly assist CalHFA with the growing delinquency and loan loss issue. As the Board discussed at length at its November 2009 meeting, the California economy, unemployment specifically, and the downturn in the residential real estate market, severe decline in home prices specifically, have had a significant impact on the performance of CalHFA's single family loan portfolio. Under Item 12, Tab G is a summary of the current status of the loan portfolio. In summary, we continue to see an increase in overall delinquencies, especially in the 90+ day category.

Additional costs associated with "underperforming" bonds (prior to the implementation of the Federal assistance plan in December 2009) and the continued significant increase in loan loss reserves are reflected in the Agency's financial statements for the first quarter of the Agency's current fiscal year. I have attached a copy of the summary memo prepared by the Fiscal Services Division. This memo outlines the financial results of operations for the three month period ended September 30, 2009.

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State of California

January 13, 2010

Interested Parties;

Subject: Summary of California Housing Finance Fund Financial Statements –
As of and for the period ending September 30, 2009

Operating Results

The Agency is reporting an operating loss of $76.6 million in the combined statements of revenue, expenses and changes in fund equity for the California Housing Finance Fund (Finance Fund) for the quarter ending September 30, 2009. Operating results of the Finance Fund fell by approximately $54.5 million when comparing the three month results as of September 30, 2009 to the operating loss of $22.1 million for the three month results ending September 30, 2008. The operating loss for the quarter is primarily attributable to the continuing decline of the California real estate market, basis mismatch on variable rate bonds and the early termination of interest rate swap agreements as explained below.

Last fiscal year, the Agency made an accounting change in the recording of Home Mortgage Revenue Bonds (HMRB) hedging activity. Swap expenses, swap expenses (fair value), swap termination fees and the gain of termination of swaps previously recorded in homeownership programs have been reclassified and are now being recorded in other programs and accounts. This change did not affect the Agency's total net equity although it has affected the overall presentation of operating results within the financial statement categories. 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.

Operating results for the first quarter by program were as follows: The homeownership bond programs realized net gain of $17.1 million (with the Agency's HMRB Indenture accounting for $19.4 million gain, HPB Indenture accounting for $2.2 million loss, SF2 Indenture accounting for $0.4 million gain, and HMB Indenture accounting for $0.5 million loss), the multifamily bond programs realized net gain of $0.9 million and other programs and accounts recorded an operating loss of $94.6 million.

The California Real Estate Market

Throughout calendar year 2009, single family loan delinquencies have been on the increase and 5,434 borrowers, or 16.7% of single family borrowers, were delinquent on one or more first mortgage payments on September 30, 2009. By comparison, 2,949 borrowers, or 8.7% of all single family borrowers, were delinquent on their first mortgages as of September 30, 2008. In addition, the number of foreclosures has increased significantly from recent years and for the period from January 1, 2008 through December 31, 2008, 486 CalHFA borrowers had lost their homes through foreclosure (231 loans that were insured by FHA and 255 loans that were conventionally insured or without mortgage insurance). For the period January 1, 2009 through September 30, 2009, 1,045 CalHFA borrowers lost their homes through foreclosure (454 loans that were insured by FHA and 591 loans that were conventionally insured or without mortgage insurance).

The continued rise in loan delinquencies, increases in foreclosures and additional home price depreciation in California have contributed directly to increased allowances for loan losses and other reserves. For the quarter ending September 30, 2009 for homeownership programs, the allowance for loan losses on delinquent loans was

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P.O. Box 4034
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(916) 322-3991

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Culver City, CA 90230
(310) 342-1250

www.calhfa.ca.gov

increased by $1 million and foreclosed properties were written down by $3.3 million to reflect anticipated losses, net of insurance payment, upon sale of the properties.

The Finance Fund has also established loss reserves to cover anticipated indemnification payments to the California Housing Loan Insurance Fund for loans subject to what is frequently referred to as "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 loan origination or because the borrower demonstrated equity of 20% or more in the property. The gap insurance loss reserve expense was increased by $26.3 million during the quarter. The actual gap insurance claims paid during the first quarter of this fiscal year were $2.2 million. The reserves and payments are charged to the Supplementary Bond Security Account, an account that is part of the Agency's general obligation capital base, not the HMRB Indenture.

Basis Mismatch

In addition to losses attributable to the California real estate market, the Finance Fund incurred losses due to basis mismatch, the difference between the 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 entered into to 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 SIFMA/LIBOR ratio and interest rate compression has continued this relationship. The basis mismatch for the September 30, 2009 quarter was $11.3 million, and is reflected in the income statements for the Other Program and Accounts (Operating) and the Multifamily Housing Revenue Bond III Indenture. By comparison, the basis mismatch for the period from July 1, 2008 to September 30, 2008 was $9.3 million.

Early Termination of Interest Rate Swaps

On July 14, 2009 the Agency terminated $237.8 million of swap notional with two counterparties: Citigroup Financial Products and Merrill Lynch. Citigroup Financial Products was paid $12 million for termination of $102.5 million swap notional and Merrill Lynch was paid $27 million for the termination of $135.3 swap notional. The terminations were in response to rating agency requirements that the Agency have sufficient capital or liquidity available for collateral postings under swap contracts in the event of a rating downgrade of the CalHFA's issuer credit rating.

Balance Sheet Results

During the quarter ending September 30, 2009 the Finance Fund's total assets decreased by $390.2 million primarily due to the disbursement of funds for the August 1, 2009 debt service, the early redemption of bonds and payment to HUD on an outstanding debenture. Cash and investments decreased by $223.9 million and Program Loans Receivable decreased by $180 million. The Finance Fund's total liabilities were decreased by $323.5 million for the first quarter. Bonds outstanding decreased by $219.2 million and loss reserves increased by $26.3 million for the quarter. Fund equity decreased by $66.7 million to $1.68 billion for the three month period.

Summary

While fiscal year operating results as of September 30, 2009 were disappointing, the Finance Fund would have realized an operating gain of approximately $1 million for the first three month period were it not for charges for loan losses and insurance reserves, experiencing extraordinarily high basis mismatch, and early termination of interest rate swaps.

State of California

M E M O R A N D U M

To: Board of Directors **Date:** January 14, 2010

From: L Steven Spears, Acting Executive Director
CALIFORNIA HOUSING FINANCE AGENCY

Subject: ITEM 10 -- BUSINESS PLAN UPDATE

Background:

In July 2009, the Board adopted a two year (as opposed to the traditional five year) business plan due to the uncertainties associated with 1) the credit and liquidity markets; 2) the bond market for tax-exempt housing bonds; 3) the California economy and real estate markets; and 4) the pending announcement pertaining to a Federal initiative to assist state and local HFAs around the country.

Although uncertainty still swirls around the California economy and real estate markets, the Federal assistance plan as implemented provides CalHFA with a significant opportunity to reestablish Homeownership and Multifamily lending activities. As discussed in other agenda items, $1.4 billion has been escrowed by the Federal government and can be drawn by CalHFA during 2010 to support the Agency's lending programs. Now that the exact amount of Federal assistance and the details of Federal plan are known, Agency staff are in the process of developing specific loan products that will be offered to our potential borrowers.

Homeownership Division:

On December 18, 2009, the Financing Division locked in the rate on slightly over $1 billion of long-term debt under the Federal Assistance package NIBP. This will provide access to slightly under $1.7 B for single family lending.

Senior Management decided to proceed with conducting Focus Group sessions relating to Homeownership Loan Programs that are in development. We seek to gain further insight or confirmation from our business partners of loan products available in the private sector and their view of where they see CalHFA's value-add for them to use CalHFA loan products to meet the mission of providing affordable financing for first-time homebuyers.

Our objective is to have direct response from these CalHFA Housing Partners of their acceptance and/or suggestions of those value-adds necessary for them to consider using CalHFA loan products. Such as but not limited to; rates, proposed loan features, requirements, and underwriting in Homeownership's proposed new loan programs, and current CalHFA down payment assistance

(CHDAP).

These Focus Groups will be with Lenders/Loan Officer and Realtors, and another group with Corporate Contacts from CalHFA approved-Lenders. The dates are Jan 12th/13th and Jan 18th/19th respectively.

We anticipate results and senior management review by the first week in February. Once this review is complete, loan product features will be balanced to meet the Agency's risk assessment and loan volume consideration. The Agency anticipates roll-out of these new loan products March 2010.

As previously discussed with the Board, CalHFA will not purchase and hold whole loans. All proposed loan products will use a master servicer(s) to securitize the loans and all of our lenders will deliver CalHFA loans to the master servicer(s). The master servicer(s) will warehouse the loans and exchange the loans for a security that guarantees the income stream from the underlying loans. CalHFA will purchase these mortgage backed securities (Fannie Mae for conventional loans and Ginnie Mae for FHA loans) with bond proceeds. Fannie Mae and Ginnie Mae will provide the guarantee for the securities purchased by CalHFA. By using this securitization process, CalHFA will transfer the real estate risk on these loans to Fannie Mae and Ginnie Mae.

Multifamily Division:

New Issue Bond Program

United States Department of Treasury ("Treasury") with the assistance of HFHA, Fannie Mae and Freddie Mac (GSE) provided a term sheet for a Multifamily New Issue Bond Program ("NIBP"). The program states that a housing finance agency can issue tax exempt and taxable bonds for the financing of multifamily loans to be sold to Treasury via the GSE.

CalHFA multifamily did receive $380 million of new issue bonds under the NIBP. The new issue bonds can be utilized in 2010 for new construction, permanent loans, bridge loans, preservation deals for acquisition and rehabilitation of projects in the CalHFA portfolio or conduit "issuer only" lending. In addition, CalHFA received $200 million of 2009 carry forward tax exempt bond allocation from the California Debt Allocation Committee to be utilized with the 2010 NIBP. Under the NIBP a housing agency can underwrite loans to either the GSE underwriting guidelines or utilize an agency's FHA risk share agreement with HUD to provide financing for a project. An agency can also act purely as a conduit lender for a fee where the developer seeks a better credit enhancement and construction loan from another lender. In this scenario, CalHFA would act only as a conduit issuer.

Based on CalHFA current credit constraints it is only feasible that we procede with lending under the FHA risk share program for permanent loans, provide CalHFA bridge loans with bond proceeds and become a conduit issuer to try to fully utilize these funds by the end of 2010. Although CalHFA would like to be the construction lender as it has in the past, it is not feasible at this time. In addition, the term sheet from the GSE requires a letter of credit during construction as the GSE will not assume construction risk. CalHFA is not a letter of credit provider.

Risk-share agreement with the Department of Housing and Urban Development

CalHFA multifamily has had a 50/50 FHA risk share agreement with HUD for several years. Although not utilized for a number of years, for a number of reasons it is still in place. Multifamily has had a number of conversations with the Regional heads of FHA to "re-start" the risk share program. They have gone very well and we have finalized the details to start originating projects under the program again. CalHFA will receive a loan fee and servicing spread on an on-going basis.

Multifamily is also engaged in discussions with a pension fund to buy our bonds directly (private placement) with a FHA risk wrap. This would be outside of the NIBP.

Fannie Mae Seller/Servicer

Multifamily has been working with Fannie Mae to become an HFA multifamily seller/servicer. This would allow for Fannie Mae credit enhancement via tax exempt bonds or allow CalHFA to issue taxable debt through a mortgage-backed security. CalHFA would receive an origination fee and on-going servicing fees based on the amount of risk share it plans to take under the HFA agreement.

Multifamily did receive approval by Fannie's Mae's credit team in early 2009 to move forward with the FHA seller servicer agreement however Fannie Mae and CalHFA still need to enter into a counterparty risk agreement and negotiate term sheet for "risk share." Based on market conditions and other priorities we did not finalize a counterparty risk agreement. CalHFA plans to restart negotiations with Fannie Mae to finalize and move forward with a counterparty risk agreement and become a HFA seller servicer.

Current Multifamily Programs

Mental Health Services Act

Multifamily will continue to lend, underwrite and process deals under the MHSA program. To date we have closed or committed 44 deals with 48 in the pipeline. It is estimated we could fund more than 150 projects over the next two years.

Tax Credit Assistance Program

Under the American Recovery and Reinvestment Act of 2009 ("ARRA"), Tax Credit Allocation Committee ("TCAC") was awarded funds to provide loans and grant funding for capital of investment in Low Income Housing Tax Credit projects via a formula-based allocation. CalHFA multifamily is an administrator under a contract with TCAC to provide underwriting and document expertise for the new gap and exchange tax credit programs. CalHFA's role is to underwrite, provide loan documents and close the loans. For this, CalHFA receives a fee. Currently we have closed a number of deals and have more than 50 projects in the pipeline and expect up to a 150 deals to be underwritten over the next year.

Asset Management Division:

Currently the agency has over 500 multi-family properties that the Asset Management Division oversees. It is our job to make sure the properties are financially sound, in good physical condition, and being made available for rent to low and lower-income tenants according to each property's Regulatory Agreement. We are just beginning to oversee the capital operating subsidies for the Mental Health Services Act properties. The first MHSA project with a subsidy to oversee closed in December. There will be many more to follow.

Overall, the portfolio remains in very good condition. There is only one property in default, San Antonio Terrace, located in Oakland. Its loan balance is under $1million and the agency is in the process of selling the Note.

There are several concerns for Asset Management going forward:

- HUD continues to impose greater subsidy oversight responsibilities on all its contract administrators placing a greater burden on the staff. Currently the agency oversees 8,952 Section 8 units.
- The Division continues to be short-staffed with 6 of our 32 positions vacant. Several retirements loom over the next 12-24 months.
- 51 Section 8 properties have loans that terminate between now and 2015, mostly in 2013. The agency offers a preservation program for owners that involve a sale of the property, however, many owners want to remain in place and are requesting an opportunity for an equity-take out-refinance.
- Although agency loan funds through the Housing Assistance Trust (HAT) are unavailable, the agency does have Earned Surplus funds available for Section 8 properties that want to do rehabilitation work at their properties. No Earned Surplus funds have been requested so far this fiscal year.

The focus for Asset Management in 2010 includes the following:

- PBCA – Performance Based Contract Administration. The agency hopes to be successful in becoming the PBCA on behalf of HUD for the entire state of California. HUD will be publishing a Request for Proposal some time in February. The agency is working to select a third party contractor to assist with preparation of the RFP and perform the PBCA duties on behalf of the agency beginning in 2011.
- Citi Bank Loan – The agency is using 33 properties as security for a $100M loan with Citi Bank. The due diligence is being performed during the month of January and it is anticipated that the loan with Citi Bank will close in February, 2010.
- Borrowers on the Margins – Although only one property is in default asset management has stepped up its oversight of lower performing properties paying particular attention to those with higher vacancies, in difficult rental markets, and where ownerships are struggling, particularly the non-profits.
- Asset Management is ready to assist Multi-family Programs as new lending starts up by reviewing budgets, management companies, and marketing plans, as well as rehabilitation plans and in any other way its expertise will be useful.

State of California

M E M O R A N D U M

To: Board of Directors **Date:** January 14, 2010

From: L Steven Spears, Acting Executive Director
CALIFORNIA HOUSING FINANCE AGENCY

Subject: ITEM 11 -- FACILITIES UPDATE

Background:

Since our last Board Meeting of November 19, 2009, we have progressed with the Loan Servicing move and continue to explore options for the rest of the Agency. The commercial real estate market is still unstable. In moving forward, we are finding that we have to be careful to make sure we are entering into a stable lease. That is why we have hired CresaPartners and Downey Brand to look after our welfare in helping us find the best possible location and lease terms. Our objectives are to:

- Consolidate Headquarters
- Location must be with the City of Sacramento
- 80,000 to 90,000 SF of Class A LEED Certified
- Lowest long term occupancy rate
- Ample parking; proximity to Light Rail and public transportation
- Efficient building systems

Some of the market factors we are facing are the 2008-2010 commercial real estate market collapse; increase in landlord's loan equity requirements; increase in foreclosures; tenant's increased financial risk with landlords; and better economic lease terms.

Loan Servicing (1040 Riverside Parkway, West Sacramento):

The Loan Servicing move is scheduled to begin Friday, February 5, 2010. The first day of business in the new office will be Monday, February 8, 2010. The building is almost fully finished, with the final inspection and punch list walk thru scheduled for Tuesday, January 12, 2010. Office, conference and training room furniture will be moved January 14th. Cubicle installation will take place the week of January 18th. The new phone system will be installed the following week; testing and training will continue through February 4th. Cutover to the new systems will take place at close of business February 5th.

Financial Highlights:

- Original budget assumptions for move are still accurate - $514,000* (includes furniture, equipment, technology, telecom, moving and security expenses; does not include staff and other general administrative expenses)
- Pricing invoices on par with budget estimates
- Majority of capital investments will be paid in Nov & Dec '09

Restructure Highlights:

- New Call Center system scheduled for install in new building – Jan 2010. Will provide CalHFA customers with improved service levels in the following areas:
  - Increase average speed of answer
  - Decrease # of calls abandoned
  - Improved reporting tools
  - Flexible call flow management
  - Introduce skill-based routing
- Enhanced Interactive Voice Response ("IVR") script scheduled to go live in Jan 2010
  - Increase customer utilization – common customer information requests such as mailing address, hours of operation are provided by IVR not staff - results in decrease staff costs
- Staff Improvements
  - 2 new Supervisors - both internal promotions for collection and default units
  - Continued focus on variable rate expense management
  - 10 temporary employees -1 yr limited term – offers Agency ability to retain investment and hire staff as needed
- General Improvements
  - October delinquency rate decreased 11 basis points (CalHFA in-house)
  - Implemented weekly Loan Servicing support meetings – focus on immediate improvements and short-term needs
  - Developed new escalation tracking log
  - Online payment system testing in process – estimated live date January 1, 2010. Provides customers with ability to make payments 24/7 through secure online portal.

The Loan Servicing division is working on implementing the following activities to strengthen its core business functions and improve service levels, which will positively impact investors, insurers and customers:

- New phone system – the new system will enable Loan Servicing to capture, track and report all call activities, which will lead to improved customer service and staffing levels. The system has an open and flexible infrastructure that works hand-in-hand with the IVR system to intelligently route calls based on employee skill-levels and customer requests. This same technology captures and sends customer account information directly to the service agent's computer screens thereby eliminating several search steps. This is important because LPS,

the servicing system of record, charges the Agency for each key stroke entered by Loan Servicing employee. This efficiency alone will save the division thousands of dollars each year. The division will also be able to modify its hours of operation as needed without assistance from the IVR vendor; as is the case with today's system.

- Adding supervisors to help train, mentor, and effectively manage and monitor staffs workload;
- Hold exams to hire permanent employees to help develop better workforce continuity;
- New facility will help consolidate to help build teamwork;
- Developing workload and performance standards;
- Developing a training program for new employees; and
- Working 6 days a week (M-F 8am-7pm, Sat 8am-12pm).

Sacramento Headquarters Office:

Our current lease deadline is quickly approaching and we'll need to make a decision soon. Like Loan Servicing, we are tying to consolidate our headquarters office and still keep our lease at a reasonable rate. We have reviewed over 20 prospective sites and reduced our options to a few. We have documented the Agency's functional space requirements which will help us to move more quickly when a new building location is finalized.

In working with CresaPartners, have been in discussions with the following:

- Meridian and Senator Hotel – They are our current landlords. We have received and reviewing offers from both site. We are assessing our consolidation options. Since Loan Servicing will vacate the Senator Hotel, we are looking how we can take advantage of the space and any other space that may become available.
- Plaza 555 at 555 Capitol Mall – Negotiations are not moving as expected. This is a 16 story class A building in downtown Sacramento.
- The Bank of America building at 700 I Street - This is not an option as tenant improvement costs are too high.
- Bank of the West Tower at 500 Capitol Mall – We are waiting for an offer. This is a 25 story class A building in downtown Sacramento.
- Natomas Gateway Tower East at 2020 West El Camino Avenue – we are reviewing their offer. This building is on the outskirts of downtown Sacramento, five minutes to the State Capitol. This is a new Class A, LEED Gold office building with free parking.

We are hoping to negotiate an agreement soon as time is running out. As soon as an agreement is reached, we will need Board approval. This may require an emergency meeting.

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State of California

M E M O R A N D U M

To: Board of Directors Date: January 12, 2010

Bruce D. Gilbertson, Director of Financing

From: **CALIFORNIA HOUSING FINANCE AGENCY**

Subject: REPORT OF BOND SALE – LIMITED OBLIGATION MULTIFAMILY HOUSING REVENUE BONDS, 2009 ISSUE C

Fairmount Apartments Project $5,650,000

In 2008 the board of directors authorized final loan commitments for acquisition, rehabilitation and permanent financing for Fairmount Apartments. Additional information regarding the affordable rental housing development can be found below.

In September 2008 the municipal bond market became illiquid and dysfunctional severely compromising CalHFA's ability to access the capital markets to finance unfunded multifamily loan commitments. On September 29, 2008 the situation became worse when Moody's placed the Agency's issuer credit rating on watch for possible downgrade. Each of the multifamily loan commitments was anticipated to be credit enhanced with CalHFA's Aa3/AA-issuer credit rating.

When market conditions did not improve, CalHFA offered to issue bonds on a conduit basis for those developers that had received an award of private activity bond volume cap, a final loan commitment from the board and other financing / equity to close the real estate transaction. The multifamily conduit financing model differs from CalHFA's traditional pooled financing model in many significant ways. Of most significance, CalHFA assigns loans to a third-party lender, assumes no credit risk and is not liable to bondholders for debt service.

The project sponsor for Fairmount Apartments accepted the conduit financing alternative and the Agency's bonds were closed on December 1, 2009.

The bonds are limited obligations of the Agency, payable solely from the revenues and other funds and moneys pledged and assigned under the Master Pledge and Assignment agreement.

Projects:

The 2009 Issue C was used for acquisition/rehabilitation and permanent financing for a 31 unit family project known as Fairmount Apartments, located at 90 Grandview Street, Santa Cruz, California. Mission Gardens Apartments was an existing portfolio loan owned by Santa Cruz Mission Gardens, a California General Partnership.

State of California

M E M O R A N D U M

To: Board of Directors　　　　　　　　　　　　　　　　　　　Date: January 12, 2010

Bruce D. Gilbertson, Director of Financing
From: **CALIFORNIA HOUSING FINANCE AGENCY**

Subject: REPORT OF BOND SALE
AFFORDABLE MULTIFAMILY HOUSING REVENUE BONDS, 2009 SERIES A

On October 19, 2009, the administration announced an initiative for state and local housing finance agencies (HFAs). The initiative, which was announced jointly by the Department of Treasury, the Department of Housing and Urban Development, and the Federal Housing Finance Agency, along with Fannie Mae and Freddie Mac (the GSEs), is based on authority provided to the Department of Treasury under the Housing and Economic Recovery Act of 2008 (HERA). The plan consists of two parts: the New Issue Bond Program (NIBP) and the Temporary Credit and Liquidity Program (TCLP). The NIBP program was designed to provide a temporary market for new single and multifamily housing bonds that HFAs issue to finance new mortgages. Under the Multifamily NIBP program, the Treasury will purchase Fannie Mae and Freddie Mac securities backed by the new HFA bonds.

On December 30, 2009 the Agency issued $380,530,000 of taxable variable rate escrowed program bonds under the Affordable Multifamily Housing Revenue Bonds Indenture. The 2009 Series A bonds are the first series of bonds issued under the Indenture. On December 18, 2009 the Agency locked the rate on these bonds at 3.49%. The net proceeds of the sale of the 2009 Series A bonds are deposited in the Escrow Fund until released to the 2009 Series A Program account for the purpose of financing loans, or until applied to the redemption of 2009 Series A bonds. The proceeds are invested in a global escrow investment comprised of four AAA rated money market funds. The Agency may establish, subject to the approval of the GSEs, up to three release dates and the respective amounts of bond proceeds to be released on such release date. Once the bonds are converted from escrow bonds to program bonds on each release date, these variable rate bonds become tax-exempt fixed rate bonds and bear a rate of 3.49% plus a spread of 75 bps.

The 2009 Series A bonds are special, limited obligations of the Agency. Moody's has assigned a rating of Aa2 to these bonds.

The 2009 Series A bond proceeds are eligible to be used for the following purposes: (a) finance (i) loans insured by FHA, including loans under the FHA risk-sharing program, (ii) loans guaranteed by GNMA, (iii) loans guaranteed by either GSE, and (iv) loans originated pursuant to underwriting criteria agreed to by the GSEs; (b) refund, on a fixed rate basis, any of the Agency's outstanding variable rate debt issued on or before October 19, 2009; (c) finance construction loans which are guaranteed by either GSEs or originated pursuant to underwriting criteria agreed to by the GSEs.

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State of California

M E M O R A N D U M

To Board of Directors **Date:** January 12, 2010

Bruce D. Gilbertson, Director of Financing

From: CALIFORNIA HOUSING FINANCE AGENCY

Subject: REPORT OF BOND SALE
RESIDENTIAL MORTGAGE REVENUE BONDS 2009 SERIES A-1 and A-2

On December 18, 2009, the Agency entered into an agreement with the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac") (together referred to as the "GSEs") to issue and sell bonds ("Program Bonds") in the amount of $1,016,440,000 as part of the Federal Government's HFA Initiatives New Issue Bond Program ("NIBP") announced in October 2009. The Program Bonds were closed on December 30, 2009 with both a taxable and tax-exempt (Non-AMT) component under a new indenture as reflected in the summary which appears at the end of this report.

Under the NIBP, the GSEs exchanged the Program Bonds for securities issued by the GSEs which were then simultaneously purchased from the Agency by the US Treasury allowing the proceeds of the Program Bonds to be sent to the Agency. The GSE securities will settle on January 12, 2010 at which time the Agency will receive bond proceeds. The proceeds are invested in a global escrow investment comprised of four AAA rated money market funds. The bonds will be variable rate during the escrow period. Upon release from escrow, the bonds will bear a rate of 3.49% plus a spread of 60-75 bps. This rate was locked on December 18, 2009.

The NIBP requires that the principal amount of Program Bonds issued may not be more than 60% of overall issuance under the program between the closing date of the Program Bonds and December 31, 2010. The NIBP allows up to three issuances of bonds offered for public or private sale to investors ("Market Bonds") during this time to meet the 60% requirement. With the successful issuance of Market Bonds, the program will total almost $1.7 billion. If any Program Bond proceeds remain in the escrow investment on January 1, 2011, they must be used to redeem outstanding Program Bonds at par on February 1, 2011.

The bonds were issued under the Residential Mortgage Revenue Bond indenture which was previously approved by the Board. The Agency expects to use the proceeds of the bonds to purchase mortgage-backed securities backed by underlying loans that have been originated by Agency lenders consistent with Agency loan terms and underwriting guidelines. The mortgage-backed securities will be guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae.

SUMMARY OF THE BONDS

BOND SERIES	**2009 A-1**	**2009 A-2**
Par Amount	$900,000,000	$116,440,000
Type of Bonds	Term	Term
Tax Treatment	TAXABLE	Non-AMT
Maturities	12/30/2041	12/30/2041
Credit Rating Moody's S&P	 Aaa AAA	 Aaa AAA
Interest Rate During Escrow Period	Variable	Variable
Interest Rate Upon Release from Escrow	3.49% plus 60-75 bps.	3.49% plus 60-75 bps.

State of California

M E M O R A N D U M

To: Board of Directors **Date:** January 13, 2010

Timothy Hsu, Financing Risk Manager
From: CALIFORNIA HOUSING FINANCE AGENCY

Subject: REPORT ON UTILIZATION OF THE GSE TEMPORARY CREDIT AND LIQUIDITY SUPPORT

On December 23, 2009, the Agency successfully closed a series of transactions that legally bound various interested parties in the implementation of the Temporary Credit and Liquidity Program ("TCLP"); however, the actual substitutions of the credit enhancements (replacing the existing standby bond purchase agreements ("SBPAs") with the Temporary Credit and Liquidity Facilities ("TCLFs")) are forward dated to six different tender days in January 2010.

As of the date of this report, the Agency has successfully completed two substitutions. Below is a complete summary of all the scheduled substitutions:

Date	Remarketing Agent	Amount	Status
January 6, 2010	Merrill Lynch	$736,965,000	Completed
January 7, 2010	JP Morgan	$778,050,000	Completed
January 13, 2010	De La Rosa / Citi	$482,585,000	Completed
January 14, 2010	Barclays	$287,870,000	Completed
January 20, 2010	Goldman	$699,075,000	Pending
January 21, 2010	Wells Fargo	$505,710,000	Pending
	Total	*$3,490,255,000*	

These substitutions significantly improve the short-term and long-term financial viability of the Agency for four reasons.

1. Eliminate near-term roll-over risk. Prior to implementing the TCLP, the Agency had $197 million of bank bonds and needed to replace or extend a total of $2 billion of SBPAs by the end of calendar year 2010. The TCLF expires in three years. This provides the Agency an invaluable time window to explore strategies to deleverage the balance sheet and allow the loan portfolio to stabilize.

2. Eliminate accelerated repayments for bank bonds. In general, the Agency is required to repay bank bonds in ten equal payments over 5 years. These accelerated repayments can cause acute cashflow mismatches. In 2009, the Agency repaid a total of $16.4 million due to acceleration. The TCLF has no accelerated repayments, but it has a balloon payment due 10 years after the expiration date.

3. Restore the reimbursements from a special obligation entity (Home Mortgage Revenue Bond indenture) to a general obligation entity (Housing Finance Fund) for the net swap payments that the Housing Finance Fund advances on behalf of the Home Mortgage Revenue Bond indenture. The restoration of this reimbursement relationship is critical to the ongoing cash management of the Agency.

4. Eliminate higher cost of capital caused by credit impairments. The Agency's variable rate bonds have traded very poorly recently due to the credit impairments of the SBPA providers and the Agency itself. Since September 2008 (Lehman Brothers declared bankruptcy on September 14, 2008), the Agency has experienced $51.9 million (or 133 basis points) of basis mismatch. In contrast, for the eight years prior to September 2008, the total basis mismatch was $51.9 million (or 26 basis points per annum). Basis mismatch is the difference between the cost of funds from variable rate bonds and the floating rate received from interest rate swaps. The TCLF is a standby letter of credit which bears both the short-term and long-term ratings of Fannie Mae and Freddie Mac who currently carry the highest possible ratings from the rating agencies as it operates under the conservatorship of the U.S. Government. We fully expect the implementation of TCLF will dramatically reduce the Agency's basis mismatch risk.

Our early estimates, based on the pricings of the completed substitutions, produced approximately $20 million of total savings over three years. Net of the additional incurred costs, the net savings is approximately $18 million over three years.

State of California

M E M O R A N D U M

To: Board of Directors **Date:** January 13, 2010

Bruce D. Gilbertson, Director of Financing

From: **CALIFORNIA HOUSING FINANCE AGENCY**

Subject: SUMMARY OF CALENDAR YEAR 2009 BOND FINANCINGS

Attached are tables and pie charts summarizing calendar year 2009 bond issuance activity and showing bond amounts issued over the last five years. During 2009 the Agency issued more than $1.4 billion of bonds compared to $1.3 billion during calendar year 2008. Of the bonds issued in 2009, all but $66 million were issued as part of the New Issue Bond program sponsored by Fannie Mae, Freddie Mac, the Federal Housing Finance Agency and the United States Department of Treasury as part of the program for housing finance agencies announced by Treasury in October 2009. The New Issue Bond program was designed to provide a temporary market for new single family and multifamily housing bonds that HFAs issue to finance new affordable housing mortgages.

The past year had been difficult for CalHFA by many measures including the amount of bonds issued to finance affordable housing programs. These issues were not unique to CalHFA, but were shared by the entire housing industry. Disruptions in municipal bond markets and credit issues further challenged the Agency and prevented the Agency from accessing capital to fund the purchases of new loans at competitive interest rates. Until the announcement of the HFA Initiative by Treasury the Agency bond issuance activity was limited to a few transactions as detailed below.

During the year we issued $50 million of tax-exempt bonds under the Agency's Housing Mortgage Bond indenture. These bonds were privately placed with a bank without the assistance of an underwriter. The Agency also issued approximately $16.6 million of bonds in three issues of tax-exempt conduit financings. In these instances, CalHFA assigns loans to third-party lenders, assumes no credit risk and is not liable to bondholders for debt service.

Agency indebtedness (bonds and notes) totaled just under $9.4 billion as of December 31, 2009, an increase from $8.5 billion as of the end of 2008.

Attachments

CALIFORNIA HOUSING FINANCE AGENCY
FIVE-YEAR BOND ISSUANCE SUMMARY
BOND ISSUED FROM 2005 TO 2009

YEAR	*PROGRAM*	*PRIVATE ACTIVITY BOND ALLOCATION RECEIVED*	*BONDS SOLD*			*END OF YEAR BONDS OUTSTANDING*
			TAX-EXEMPT	*TAXABLE*	*TOTAL*	
2005	Single Family	$1,015,521,544 [1]	$1,566,506,000	$0	$1,566,506,000	$5,932,309,379
	Multifamily	$168,155,000 [2]	$239,200,000	$0	$239,200,000	$1,754,767,470
	Other Programs *	$0	$0	$0	$0	$50,000,000
	SUBTOTAL	$1,183,676,544	$1,805,706,000	$0	$1,805,706,000	$7,737,076,849
2006	Single Family	$594,000,000 [3]	$1,087,524,500	$0	$1,087,524,500	$5,647,483,156
	Multifamily	$56,550,000 [4]	$97,280,000	$0	$97,280,000	$1,663,196,486
	Other Programs *	$0	$47,090,000	$61,110,000	$108,200,000	$158,200,000
	SUBTOTAL	$650,550,000	$1,231,894,500	$61,110,000	$1,293,004,500	$7,468,879,642
2007	Single Family	$468,257,154 [5]	$1,062,960,000	$350,000,000	$1,412,960,000	$6,363,942,007
	Multifamily	$39,940,000	$52,105,000	$0	$52,105,000	$1,517,697,488
	Other Programs *	$0	$0	$0	$0	$158,200,000
	SUBTOTAL	$508,197,154	$1,115,065,000	$350,000,000	$1,465,065,000	$8,039,839,495
2008	Single Family	$450,000,000	$890,455,000	$300,000,000	$1,190,455,000	$7,000,024,482
	SF HR 3221	$878,361,228 [6]	$0	$0	$0	$0
	Multifamily	$125,495,000	$149,650,000	$0	$149,650,000	$1,337,795,535
	Other Programs *	$0	$0	$0	$0	$142,425,000
	SUBTOTAL	$1,821,890,000	$122,090,000	$1,280,530,000	$1,340,105,000	$8,480,245,017
2009	Single Family	$225,000,000 [7]	$50,000,000	$0	$50,000,000	$6,633,775,772
	Single Family-NIBP	$1,016,440,000	$116,440,000	$900,000,000	$1,016,440,000	$1,016,440,000
	Multifamily	$199,920,000	$5,650,000	$0	$16,595,000	$1,226,546,745
	Multifamily-NIBP	$380,530,000		$380,530,000	$380,530,000	$380,530,000
	Other Programs *	$0	$0	$0	$0	$135,425,000
	SUBTOTAL	$1,821,890,000	$172,090,000	$1,280,530,000	$1,463,565,000	$9,392,717,517
	5-YEAR TOTALS	$7,169,880,242	$6,252,551,500	$2,972,170,000	$9,173,151,500	

* Includes bonds issued under the Housing Program Bond Indenture to finance single family down payment assistance loans, and to securitize Multifamily loans held in the Housing Assistance Trust

(1) Includes $756,521,544 of single family carryforward
(2) Includes $20,365,000 of multifamily carryforward
(3) Includes $258,625,729 of single family carryforward
(4) Includes $12,165,000 of multifamily carryforward
(5) Includes $158,257,154 of single family carryforward
(6) Carryforward of 2008 Housing Act Volume Cap

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CALIFORNIA HOUSING FINANCE AGENCY

2009 CALENDAR YEAR
BOND ISSUANCE SUMMARY

	SINGLE FAMILY		SINGLE FAMILY	MULTIFAMILY		MHRBIII	
	HMB	RMRB	TOTALS	MHRB	AMHRB	MULTIFAMILY	TOTALS
TAX-EXEMPT BONDS							
Variable Rate							
VRDO's	$0	$0	$0	$16,595,000	$0	$16,595,000	**$16,595,000**
Fixed Rate	$50,000,000	$0	$50,000,000		$0	$0	**$50,000,000**
Subtotals	*$50,000,000*	*$0*	*$50,000,000*		*$0*	*$16,595,000*	***$66,595,000***
ESCROW BONDS							
Taxable	$0	$900,000,000	$900,000,000	$0	$380,530,000	$380,530,000	**$1,280,530,000**
Non-AMT	$0	$116,440,000	$116,440,000	$0	$0	$0	**$116,440,000**
Subtotals	*$0*	*$1,016,440,000*	*$1,016,440,000*	*$0*	*$380,530,000*	*$380,530,000*	***$1,396,970,000***
TOTALS	**$50,000,000**	**$1,016,440,000**	**$1,066,440,000**			**$397,125,000**	**$1,463,565,000**

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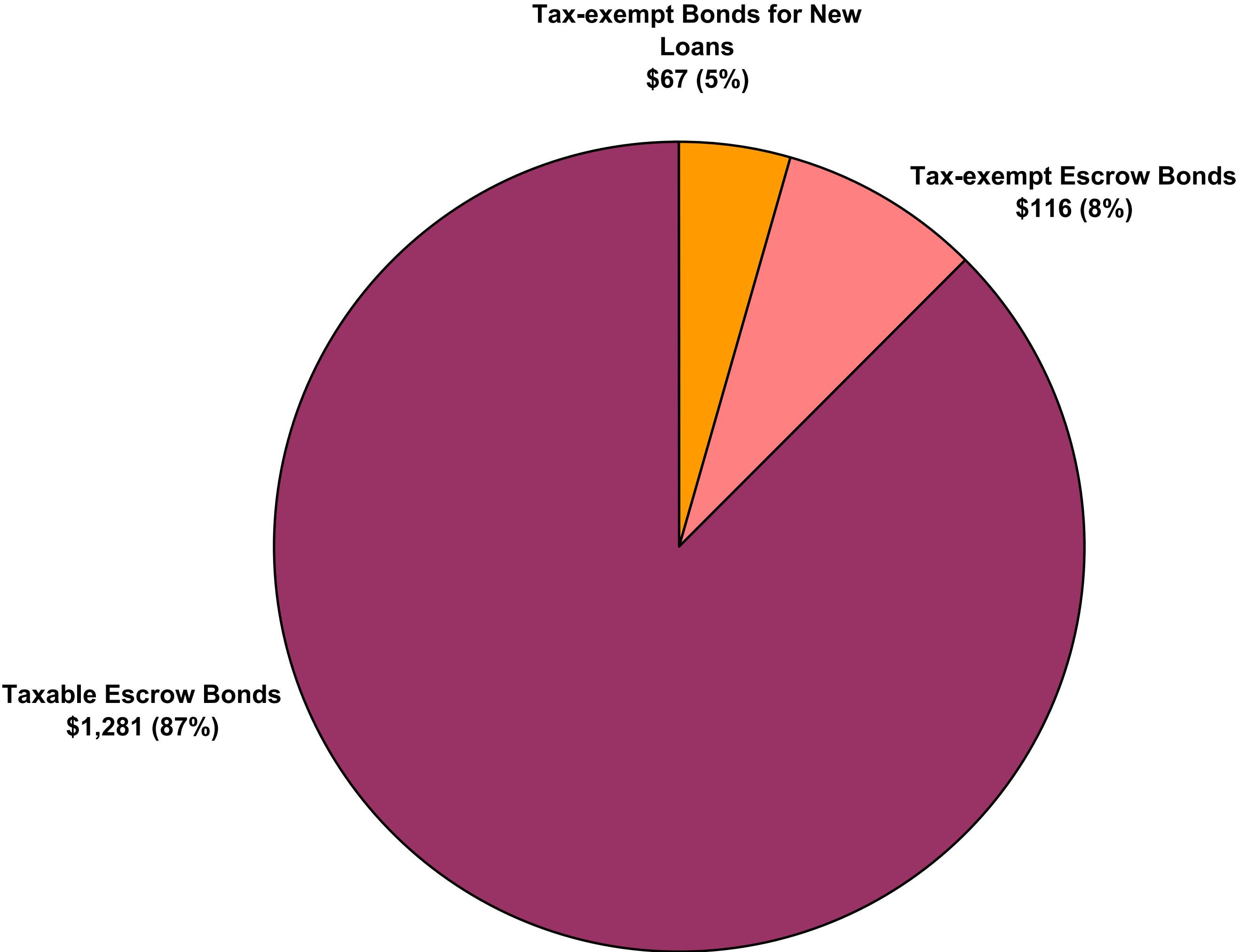
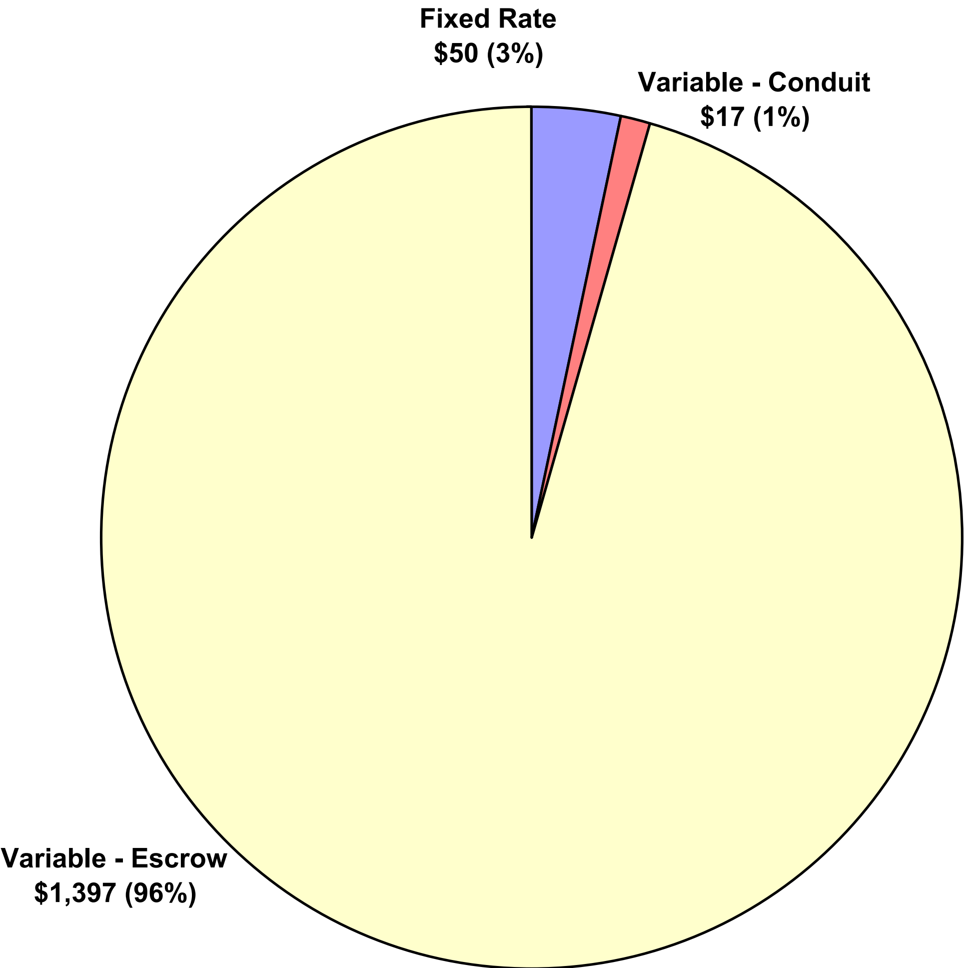
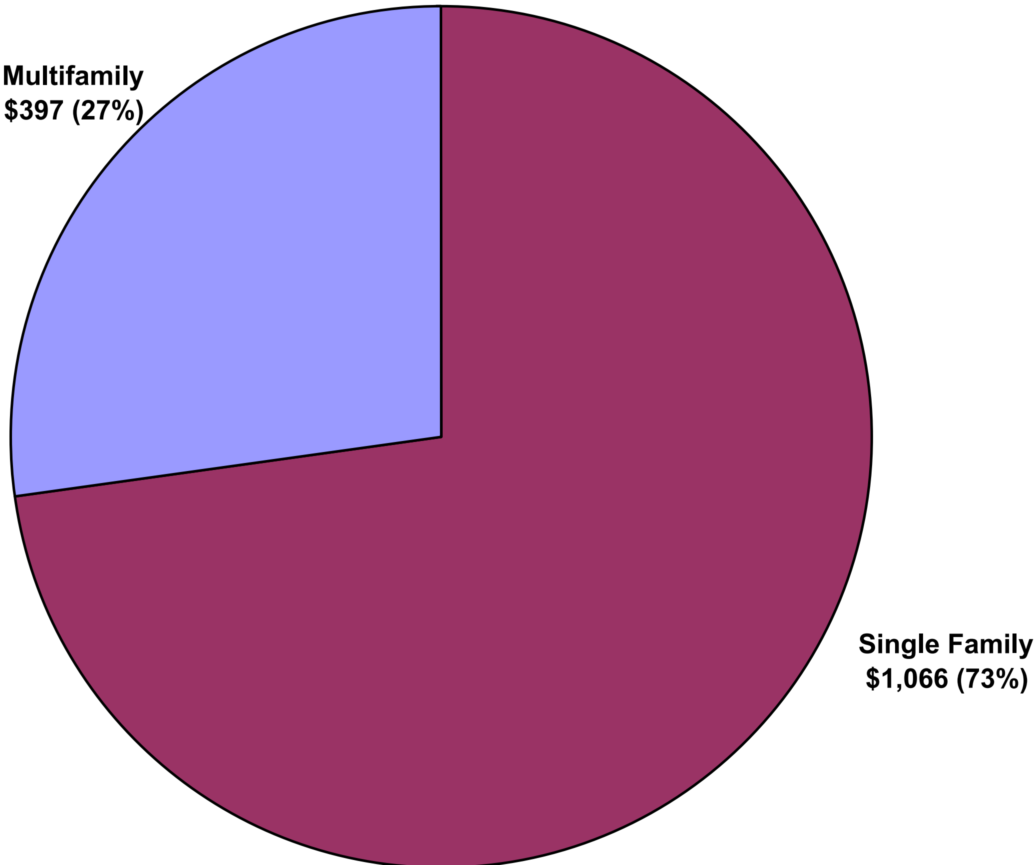
CalHFA Tax-exempt and Taxable Bonds Issued in Calendar Year 2009 ($ in millions)



CalHFA Fixed Rate and Variable Rate Bonds
Issued in Calendar Year 2009
($ in millions)



CalHFA Bonds
2009 Calendar Year
($ in millions)



State of California

M E M O R A N D U M

To: Board of Directors **Date:** January 13, 2010

Bruce D. Gilbertson, Director of Financing

From: **CALIFORNIA HOUSING FINANCE AGENCY**

Subject: ANNUAL INVESTMENT REPORT

In 1995 the Board adopted an investment policy and asked for a periodic investment report. Attached for your information is an investment report as of June 30, 2009, the end date for the most recent fiscal year. This report shows that CalHFA moneys continue to be invested conservatively and in accordance with the Board-approved investment policy.

INVESTMENT REPORT
JUNE 30, 2009

SUMMARY

As of June 30, 2009, CalHFA had $10.8 billion of assets, of which $2.2 billion (21%) consisted of investments (not mortgages). When comparing the investment balance as of June 30, 2008 to the investment balance as of June 30, 2009, there is a $42.1 million decrease.

The following table shows the types of investments we hold for different categories of funds.

	AMOUNT INVESTED ($ in millions)		
Investment Type	**Bond Moneys**	**Non-Bond Moneys**	**Total**
Investment agreements	$ 233.6	$ 0.0	$ 233.6
State investment pool	579.5	1,058.2	1,637.7
Securities (Fair market value)	191.5	54.2	245.7
Money market and Bank deposit	18.2	100.9	119.1
Totals	$1,022.8	$ 1,213.3	$2,236.1

INVESTMENT AGREEMENTS

As stated in the Investment Policy, we have always strived to invest bond moneys in investment agreements. Such agreements give us a high level of security of principal, a fixed rate of return to match the fixed cost of our debt, and complete liquidity so that we can use them like interest-bearing checking accounts and make deposits and withdrawals on short notice. Investment agreement balances have continued to decrease. For fiscal year 2007/2008 the investment agreement balances decreased by $325 million when compared to fiscal year 2006/2007 and the balances decreased by $251million for fiscal year 2008/2009 when compared to last fiscal year. The primary reasons for the decrease are that we were unable to obtain investment agreements with fixed rate yields at or above the cost of our debt issuance and the Agency had to liquidate investment agreements, due to credit rating downgrades. In both instances the Agency elected to reinvest the proceeds in the State's Investment Pool ("SMIF"). The Agency continuously monitors market conditions and continues to search for alternative effective investments for bond monies. SMIF continues to be a good hedge against our unhedged variable rate debt.

The following table shows the types of bond moneys that are deposited into investment agreements.

INVESTMENT AGREEMENT BALANCES
($ in millions)

	Bond Proceeds (For Loan Purchases)	Drawdown Bond Proceeds	Reserve Funds	Debt Service Funds	Totals
Single Family	$ 0	$ 0	$79.0	$121.8	$200.8
Multifamily	0	0	0	32.8	32.8
Totals	$ 0	$ 0	$79.0	$154.6	$233.6

The first two attachments show information about our $233.6 million of deposits with financial institutions providing us with investment agreements. Note the high credit ratings of the institutions. If these credit ratings were to fall below a certain threshold level, we have the right to request collateralization or the return of our deposits. During the 2007/2008 fiscal year Depfa Bank's ratings fell below an acceptable level and the Agency requested Depfa Bank to transfer the funds invested in the investment agreements to collateralized repurchase agreements. During fiscal year 2008/2009 we liquidated the repurchase agreements with Depfa Bank and invested the funds in SMIF. In addition in fiscal year 2008/2009 the credit ratings of AIG and MBIA fell below acceptable levels and as a result we liquidated those investment agreements and invested the funds in SMIF.

State Investment Pool (Surplus Money investment fund "SMIF")

As shown in the table on the first page, we have $1.637 billion invested with the State Treasurer in the SMIF, which, over time, has given us security, a fair return, complete liquidity, and administrative simplicity.

As stated in the Investment Policy, we invest most non-bond moneys (Funds invested under our Housing Assistance Trust, Contract Administration Programs, money received from HUD for the Section 8 projects, servicing impound account moneys, funds set aside for warehousing of loans, funds held in the Agency's operating account and general reserves of the Agency), in the SMIF. In recent years the Agency has been investing an increasing amount of bond moneys in the State Investment Pool.

The State's treasury operations are managed in compliance with the California government code and according to a statement of investment policy which sets forth permitted investment vehicles, liquidity parameters and maximum maturity of investments. The Pooled Money Investment Account (PMIA) operates with the oversight of the Pooled Money Investment Board (consisting of the State Treasurer, the State Controller and State Director of Finance).

Securities

The third attachment provides additional information about the $245.7 million (fair market value) of securities held by the Agency. All but $264 thousand are Fannie Mae or Ginnie Mae securities backed by loans meeting the terms and underwriting guidelines of the Agency's single family and multifamily programs.

Money Market and Bank Deposits

Our bond trustee sweeps overnight deposits into a U.S. Treasury money market fund. The amount invested in the money market includes some bond program moneys which we expect to use to purchase loans or to pay costs of issuance. In addition, this category includes loan servicing revenues held in commercial bank deposit accounts.

ATTACHMENT 1

SUMMARY OF CALIFORNIA HOUSING FINANCE AGENCY FUNDS DEPOSITED IN INVESTMENT AGREEMENTS - JUNE 30, 2009

INVESTMENT AGREEMENT PROVIDER	MOODY'S RATING	STANDARD & POOR'S RATING	AMOUNT INVESTED
Societe Generale	Aa2	A+	$ 84,125,724
Aegon Institutional Markets *	A1	AA-	63,293,555
Bayern LB (German Government Guarantee)	Aaa	AAA	32,707,449
Rabobank International	Aaa	AAA	16,445,796
NATIXIS (French Government Guarantee)	Aaa	AAA	5,966,921
NATIXIS (underlying)	Aa3	A+	7,710,682
Trinity Funding Company, LLC	Aa2	AA+	8,859,460
Westdeutsche LB (German Government Guarantee)	Aa2	AA-	3,344,441
Bank of America, NA	Aa3	A+	3,301,675
Citibank, NA	A1	A+	2,851,155
Citicorp *	A3	A	2,006,073
Pacific Life Insurance Company	A3	A	1,134,116
RBC Capital Markets (Royal Bank of Canada)	Aaa	AA-	954,417
GE Funding Capital Market Services, Inc.	Aa2	AA+	857,373
Total Funds Invested in Investment Agreements			$ 233,558,837

*Ratings reflected are for parent company.

ATTACHMENT 2

California Housing Finance Agency

Funds Invested in Investment Agreements

As of June 30, 2009

Totals by Financial Institution Ratings

Moody's Ratings	Amount Invested	Percentage of Total Invested
Aaa	$ 56,074,583	24.01%
Aa2	97,186,998	41.61%
Aa3	11,012,357	4.72%
A1	66,144,710	28.32%
A3	3,140,189	1.34%
Total	$ 233,558,837	100.00%
S & P Ratings		
AAA	$ 55,120,166	23.60%
AA+	9,716,833	4.16%
A+	97,989,236	41.95%
A	3,140,189	1.34%
AA-	67,592,413	28.95%
Total	$ 233,558,837	100.00%

ATTACHMENT 3

Summary of CalHFA Investments in Securities

As of June 30, 2009

Type of Investment	Type of Investment	Book Value	Market Value	Weighted Average Coupon	Weighted Average Remaining Maturity
GNMA Securities	$ 5,868,404	$ 5,868,404	$ 6,033,739	5.46%	21.77 Years
FNMA Securities	238,576,294	237,483,621	239,394,464	4.98%	30.44 Years
LNMA Securities*	246,957	246,957	264,619	3.00%	2.33 Years
Totals	$244,691,655	$243,598,981	$245,692,821		

*Linda Mae Securities: securities associated with habitat for humanity loans

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State of California

M E M O R A N D U M

To: Board of Directors **Date:** January 8, 2010

Bruce D. Gilbertson, Director of Financing

From: **CALIFORNIA HOUSING FINANCE AGENCY**

Subject: Homeownership Loan Portfolio Update

Attached for your information is a report summarizing the Agency's Homeownership loan portfolio:

- Delinquencies as of October 31, 2009 by insurance type,
- Delinquencies as of October 31, 2009 by product (loan) type,
- Delinquencies as of October 31, 2009 by loan servicer,
- Delinquencies as of October 31, 2009 by county,
- A graph of CalHFA's 90-day+ ratios for FHA and Conventional loans (for the period of October 1999 through October 2009),
- A graph of 90-day+ ratios for CalHFA's three Conventional loan (products) types, for the period of October 2007 through October 2009,
- Real Estate Owned (REO) at November 30, 2009,
- Gains/ (Losses) on the Disposition of 1st Trust Deeds, January 1 through December 31, 2008, and January 1 through November 30, 2009, and
- Write-Offs of subordinate loans, January 1 through December 31, 2008, and January 1 through November 30, 2009,

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California Housing Finance Agency

CalHFA

HOMEOWNERSHIP LOAN PORTFOLIO DELINQUENCY, REO and LOSS REPORT

Reconciled Loan Delinquency Summary
All Active Loans By Insurance Type
As of October 31, 2009

	Loan Count	Balance	Percent	DELINQUENCY RATIOS 30-Day	60-Day	90(+) Day	Total
Federal Guaranty							
FHA	14,760	$ 2,039,922,363	33.10%	5.43%	2.76%	10.16%	18.35%
VA	408	64,691,959	1.05%	2.70%	1.72%	9.31%	13.73%
RHS	99	19,610,527	0.32%	3.03%	1.01%	12.12%	16.16%
Conventional loans							
with MI							
CalHFA MI Fund	9,331	2,554,144,945	41.45%	3.73%	2.60%	15.49%	21.82%
without MI							
Orig with no MI	6,005	1,254,747,095	20.36%	2.31%	1.33%	4.83%	8.48%
MI Cancelled*	1,603	228,888,435	3.71%	1.93%	0.94%	2.37%	5.24%
Total CalHFA	32,206	$ 6,162,005,323	100.00%	4.14%	2.34%	10.31%	16.80%

*Cancelled per Federal Homeowner Protection Act of 1998, which grants the option to cancel the MI with 20% equity.

Reconciled Loan Delinquency Summary
All Active Loans By Loan Type
As of October 31, 2009

	Loan Count	Balance	Percent	DELINQUENCY RATIOS 30-Day	60-Day	90(+) Day	Total
30-yr level amort							
FHA	14,760	$ 2,039,922,363	33.10%	5.43%	2.76%	10.16%	18.35%
VA	408	64,691,959	1.05%	2.70%	1.72%	9.31%	13.73%
RHS	99	19,610,527	0.32%	3.03%	1.01%	12.12%	16.16%
Conventional - with MI	4,458	1,108,295,360	17.99%	3.10%	1.97%	10.99%	16.06%
Conventional - w/o MI	6,627	1,249,190,251	20.27%	2.04%	1.16%	3.58%	6.78%
40-yr level amort							
Conventional - with MI	713	210,210,321	3.41%	4.49%	3.37%	15.71%	23.56%
Conventional - w/o MI	233	47,233,456	0.77%	2.58%	2.15%	5.15%	9.87%
5-yr IOP, 30-yr amort							
Conventional - with MI	4,160	1,235,639,263	20.05%	4.28%	3.15%	20.26%	27.69%
Conventional - w/o MI	748	187,211,822	3.04%	3.88%	1.74%	10.56%	16.18%
Total CalHFA	32,206	$ 6,162,005,323	100.00%	4.14%	2.34%	10.31%	16.80%
		Weighted average of conventional loans:		3.06%	2.00%	10.47%	15.52%

California Housing Finance Agency

CalHFA

Reconciled Loan Delinquency Summary
All Active Loans By Loan Servicer
As of October 31, 2009

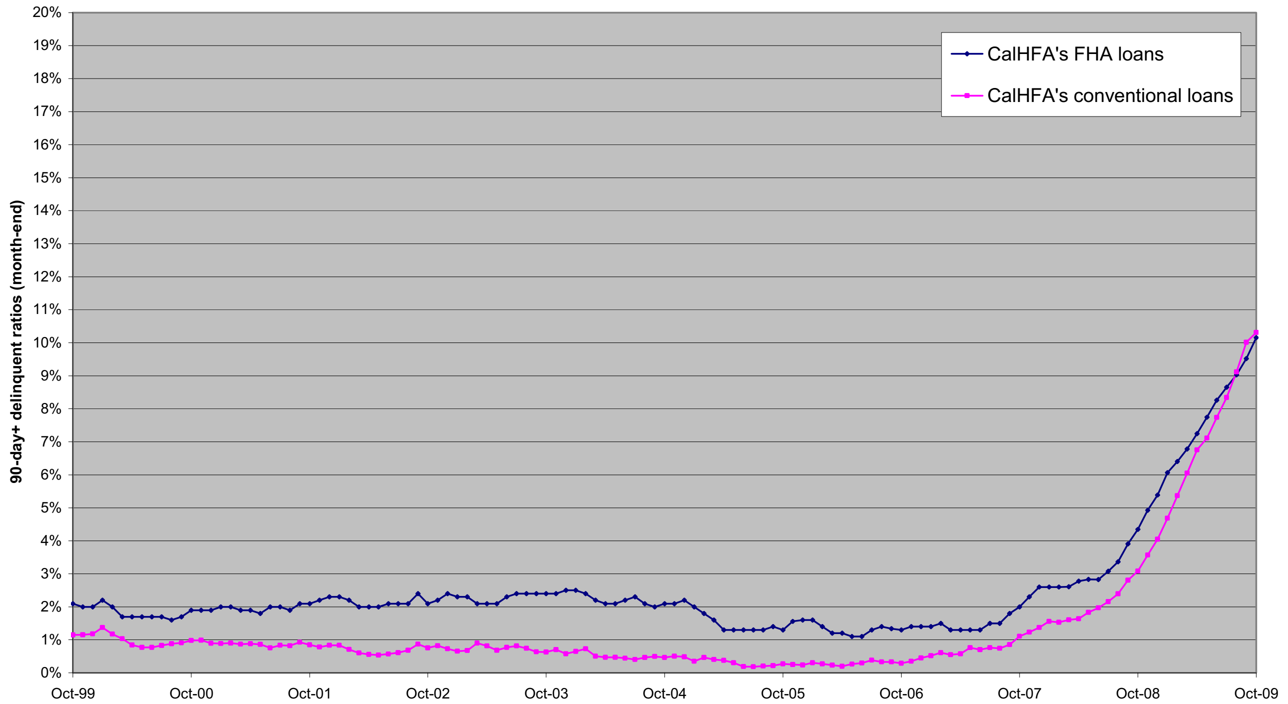
	Loan Count	Balance	Percent	DELINQUENCY RATIOS 30-Day	60-Day	90(+) Day	Total
CALHFA - LOAN SERVICING	11,274	$ 2,681,664,534	43.52%	3.18%	1.46%	10.46%	15.10%
GUILD MORTGAGE	7,076	1,347,218,829	21.86%	4.49%	3.25%	11.98%	19.73%
BAC HOME LOANS SERVICING, LP	5,710	967,066,099	15.69%	5.18%	2.96%	5.85%	19.70%
WELLS FARGO HOME MORTGAGE	2,754	350,827,516	5.69%	3.92%	2.00%	5.74%	11.66%
EVERHOME MORTGAGE COMPANY	2,393	248,862,656	4.04%	4.60%	2.01%	5.56%	12.16%
FIRST MORTGAGE CORP	1,219	261,950,690	4.25%	4.84%	3.20%	14.36%	22.40%
GMAC MORTGAGE CORP	1,082	161,715,520	2.62%	6.38%	2.96%	9.33%	18.67%
BANK OF AMERICA, NA	322	57,725,426	0.94%	2.48%	1.86%	11.80%	16.15%
WASHINGTON MUTUAL BANK	247	63,432,661	1.03%	2.02%	2.02%	8.10%	12.15%
CITIMORTGAGE, INC.	69	16,760,786	0.27%	1.45%	5.80%	13.04%	20.29%
DOVENMUEHLE MORTGAGE, INC.	51	1,982,584	0.03%	1.96%	0.00%	0.00%	1.96%
WESCOM CREDIT UNION	8	2,475,757	0.04%	12.50%	12.50%	12.50%	37.50%
PROVIDENT CREDIT UNION	1	322,266	0.01%	0.00%	0.00%	0.00%	0.00%
Total CalHFA	32,206	$ 6,162,005,323	100.00%	4.14%	2.34%	10.31%	16.80%

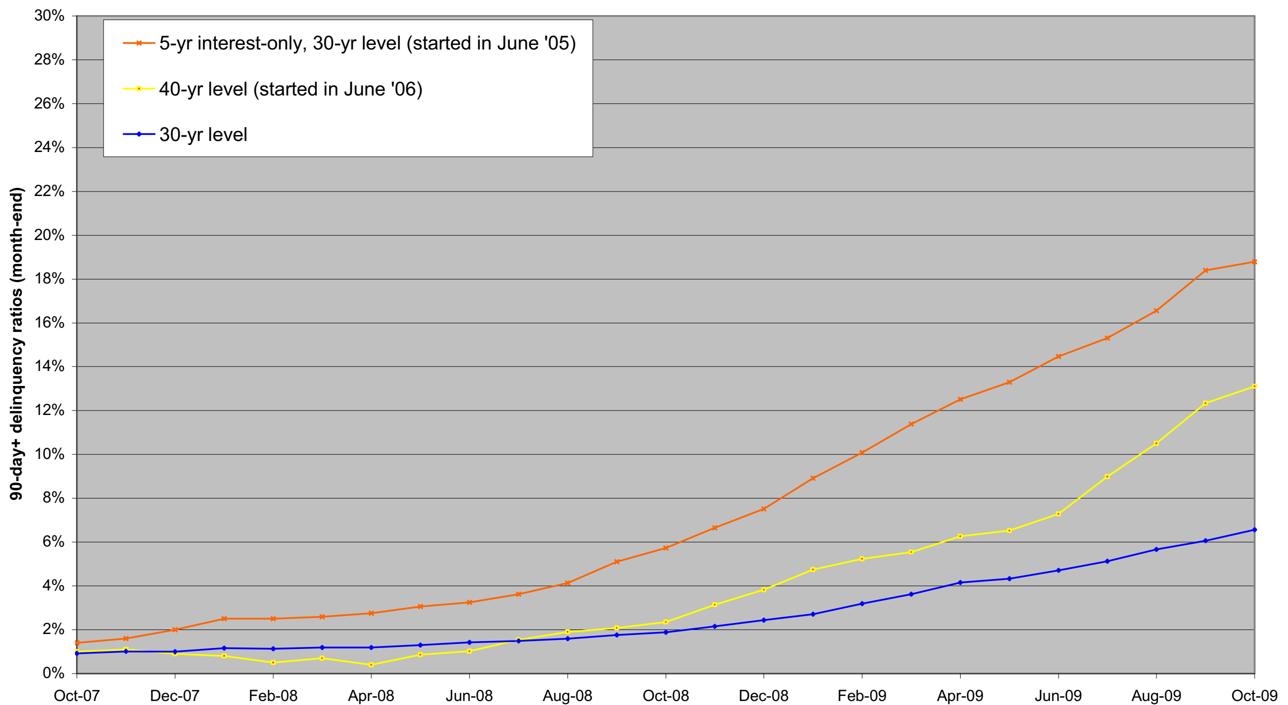
Reconciled Loan Delinquency Summary
All Active Loans By County
As of October 31, 2009

	Loan Count	Balance	Percent	DELINQUENCY RATIOS 30-Day	60-Day	90-Day+	Total
LOS ANGELES	4,960	$ 1,058,566,523	17.18%	4.01%	2.10%	8.06%	14.17%
SAN DIEGO	3,318	753,464,288	12.23%	3.56%	3.04%	13.89%	20.49%
KERN	2,017	240,844,822	3.91%	6.64%	2.73%	11.20%	20.58%
SANTA CLARA	1,965	558,939,516	9.07%	1.73%	0.92%	4.43%	7.07%
RIVERSIDE	1,876	329,526,336	5.35%	5.17%	3.62%	18.12%	26.92%
SAN BERNARDINO	1,810	331,477,164	5.38%	5.69%	3.37%	19.01%	28.07%
SACRAMENTO	1,691	332,659,403	5.40%	3.84%	2.54%	13.36%	19.75%
ORANGE	1,671	387,605,548	6.29%	3.35%	1.56%	6.22%	11.13%
TULARE	1,637	166,041,842	2.69%	6.90%	2.81%	8.80%	18.51%
FRESNO	1,589	158,544,764	2.57%	5.03%	2.71%	7.87%	15.61%
ALAMEDA	1,246	317,717,421	5.16%	1.61%	1.04%	5.54%	8.19%
CONTRA COSTA	1,059	252,180,590	4.09%	2.93%	2.08%	11.61%	16.62%
VENTURA	745	209,217,424	3.40%	2.55%	1.74%	10.20%	14.50%
IMPERIAL	721	78,134,888	1.27%	5.96%	4.02%	10.68%	20.67%
SONOMA	567	125,309,147	2.03%	3.70%	1.06%	7.05%	11.82%
OTHER COUNTIES	5,334	861,775,646	13.99%	3.77%	1.99%	9.00%	14.75%
Total CalHFA	32,206	$ 6,162,005,323	100.00%	4.14%	2.34%	10.31%	16.80%

California Housing Finance Agency

CalHFA





California Housing Finance Agency

CalHFA

Real Estate Owned

Calendar Year 2009 (As of November 30, 2009)											
		*Trustee Sales			Disposition of REO(s)						
Loan Type	Beginning Balance # of Loans	Reverted to CalHFA Jan-Oct	Reverted to CalHFA Nov	Total Trustee Sales	Repurchased by Lender Jan-Oct	Market Sale(s) Jan-Oct	Repurchased by Lender Nov	Market Sale(s) Nov	Total Disposition of REO(s)	Ending Balance # of Loans	UPB of REO's Owned
FHA/RHS/VA	51	494	56	550	377		44		421	180	$ 38,674,704
Conventional	226	706	172	878		404		60	464	640	152,087,400
Total	277	1200	228	1,428	377	404	44	60	885	820	$ 190,762,104

Calendar Year 2008						
		*Trustee Sales	Disposition of REO(s)			
Loan Type	Beginning Balance # of Loans	Reverted to CalHFA 2008	Repurchased by Lender 2008	Market Sale(s) 2008	Ending Balance # of Loans	UPB of REO's Owned
FHA/RHS/VA	33	231	212	1	51	$ 11,206,593
Conventional	42	255		71	226	52,475,997
Total	75	486	212	72	277	$ 63,682,590

Calendar Year 2007						
		*Trustee Sales	Disposition of REO(s)			
Loan Type	Beginning Balance # of Loans	Reverted to CalHFA 2007	Repurchased by Lender 2007	Market Sale(s) 2007	Ending Balance # of Loans	UPB of REO's Owned
FHA/RHS/VA	8	57	32		33	$ 6,601,840
Conventional	2	42		2	42	10,081,744
Total	10	99	32	2	75	$ 16,683,584

**3rd party trustee sales are not shown in the table (tltle to these loans were never transferred to CalHFA). There were twenty-one (21) 3rd party sales in calendar year 2007 and eight (8) 3rd party sales in calendar year 2008, and there are sixteen (16) 3rd party sales year to date for 2009.*

California Housing Finance Agency

CalHFA

Calendar Year 2008[1] / 2009[2] Year to Date REO Uninsured Losses[3]	2008	2009
1st TD Sale Estimated Gain/(Loss)	$ (500,796)	$ (10,297,720)
Subordinate Write-Off	(6,421,515)	(17,212,825)
Total Gain(Loss)/Write-Offs	$ (6,922,311)	$ (27,510,545)

(1) For the period of January 1, 2008 thru December 31, 2008.
(2) For the period of January 1, 2009 thru November 30, 2009.
(3) Includes both reconciled and unreconciled gains/losses to date.

2009 Year to Date Composition of 1st Trust Deed Gain/(Loss)
(As of November 30, 2009)

	Disposition				
Loan Type	Repurchased by Lender	Market Sales	Loan Balance at Trustee Sale	Estimated Indenture Gain/(Loss)	[1]Estimated GAP Loss
FHA/RHS/VA	421		$ 87,214,235		
Conventional		464	119,537,143	$ (10,297,720)	$ (17,665,827)
	421	464	$206,751,378	$ (10,297,720)	$ (17,665,827)

(1) The California Housing Loan Insurance Fund (the "MI Fund") provides GAP insurance to meet HMRB bond indenture requirements that all loans have 50% of the unpaid principal balance insured by a mortgage insurance policy for the life of the loan. The insurance may be provided by any combination of government insurance, private mortgage insurance, or a policy from the MI Fund. The Agency has currently agreed, pursuant to an internal interfund agreement, to indemnify the MI Fund for claims paid for principal losses under the GAP insurance policy. The indemnification is currently payable from available funds held in a sub account within the California Housing Finance Fund. The interfund agreement may be modified or terminated by the Agency at any time.

2009 Year to Date Composition of Subordinate Write-Offs by Loan Type[1]
(As of November 30, 2009)

	Active Loans		Write-Offs			
Loan Type	**Active Loans**	**Dollar Amount**	**Number of Write-Offs**	**% (of Portfolio)**	**Dollar Amount**	**% (of Portfolio)**
CHAP/HiCAP	12,359	$132,086,752	907	7.34%	$10,162,220	7.69%
CHDAP/ECTP/HiRAP	21,720	182,259,325	899	4.14%	7,050,605	3.87%
Other [2]	292	3,827,915	0	0.00%	0	0.00%
	34,371	$318,173,992	1,806	5.25%	$17,212,825	5.41%

(1) Does not include FNMA and CalSTRS subordinates (non-agency loans serviced by in house loan servicing)
(2) Includes HPA, MDP, OHPA, and SSLP.

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State of California

M E M O R A N D U M

To: Board of Directors **Date:** January 7, 2010

Bruce D. Gilbertson, Director of Financing

From: **CALIFORNIA HOUSING FINANCE AGENCY**

Subject: UPDATE ON VARIABLE RATE BONDS AND INTEREST RATE SWAPS

Over a number of years the Agency has integrated the use of variable rate debt as a primary issuance strategy in providing capital to support its programmatic goals. Most of our interest rate exposure from variable rate debt is hedged in the swap market. This strategy has enabled us to achieve a significantly lower cost of funds and a better match between assets and liabilities.

The following report describes our variable rate bond and interest rate swap positions as well as the related risks associated with this financing strategy. The report is divided into sections as follows:

- Variable Rate Debt Exposure
- Fixed-Payer Interest Rate Swaps
- Basis Risk and Basis Swaps
- Risk of Changes to Tax Law
- Amortization Risk
- Termination Risk
- Types of Variable Rate Debt
- Liquidity Providers
- Bond and Swap Terminology

VARIABLE RATE DEBT EXPOSURE

This report describes the variable rate bonds and notes of CalHFA and is organized programmatically by indenture as follows: HMRB (Home Mortgage Revenue Bonds--CalHFA's largest single family indenture), MHRB (Multifamily Housing Revenue Bonds III--CalHFA's largest multifamily indenture), and HPB (Housing Program Bonds--CalHFA's multipurpose indenture, used to finance a variety of loans including the Agency's downpayment assistance loans), The total amount of CalHFA variable rate debt is $4.8 billion, 61% of our $7.9 billion of total indebtedness as of January 1, 2010. These totals do not include $1.4 billion of bonds issued in accordance with the federal government's New Issue Bond Program for state and local housing finance agencies because the bonds were issued with a forward settlement date of January 12, 2010.

VARIABLE RATE DEBT
($ in millions)

	Tied Directly to Variable Rate Assets	Swapped to Fixed Rate	Not Swapped or Tied to Variable Rate Assets	Total Variable Rate Debt
HMRB	$0	$2,810	$1,093	$3,903
MHRB	39	610	214	863
HPB	0	0	88	88
Total	$39	$3,420	$1,395	$4,854

As shown in the table above, our "net" variable rate exposure is $1.4 billion, 17.6% of our indebtedness. The net amount of variable rate bonds is the amount that is neither swapped to fixed rates nor directly backed by complementary variable rate loans or investments. The $1.4 billion of net variable rate exposure ($751 million taxable and $644 million tax-exempt) is offset by the Agency's balance sheet and excess swap positions. While our current net exposure is not tied directly to variable rate assets, we have approximately $654 million (six month average balance as of 7/31/09) of other Agency funds invested in the State Treasurer's investment pool (SMIF) earning a variable rate of interest. From a risk management perspective, the $654 million is a balance sheet hedge for the $1.4 billion of net variable rate exposure.

In order to maintain a certain level of confidence that the balance sheet hedge is effective, we have reviewed the historical interest rates earned on investments in the SMIF and LIBOR interest rate resets (most of our unhedged taxable bonds are index floaters that adjust at a spread to LIBOR). Using the data for the last ten years, we determined that there is a high degree of correlation between the two asset classes (SMIF and LIBOR) and that for every $1 invested in SMIF we can potentially hedge $1 of LIBOR-based debt.

The net variable rate exposure is further reduced by two other considerations: 1) as mentioned in the Amortization Risk section of this report, we have $114 million notional amount of interest rate swaps in excess of the original bonds they were to hedge, and 2) a portion of our unhedged exposure is tax-exempt debt which resets at the theoretical ratio of 65% of Libor. These two

considerations serve to reduce the net effective variable rate exposure to the equivalent of $1.1 billion of LIBOR-based debt. As a result, the $654 million of other Agency funds invested in SMIF effectively hedges approximately 59.7% of our current net variable rate exposure.

In addition, taking unhedged variable rate exposure mitigates the amortization risk without the added cost of purchasing swap optionality. Our unhedged variable rate bonds are callable on any date and allow for bond redemption or loan recycling without the cost of par termination rights or special bond redemption provisions. In addition, taking unhedged variable rate exposure diversifies our interest rate risks by providing benefits when short-term interest rates rise slower than the market consensus. In a liability portfolio that is predominately hedged using long-dated swaps, the unhedged exposure balances the interest rate profile of the Agency's outstanding debt.

FIXED-PAYER INTEREST RATE SWAPS

Currently, we have a total of 119 "fixed-payer" swaps with thirteen different counterparties for a combined notional amount of $3.6 billion. All of these fixed-payer swaps are intended to establish synthetic fixed rate debt by converting our variable rate payment obligations to fixed rates. The table below provides a summary of our swap notional amounts.

FIXED PAYER INTEREST RATE SWAPS
(notional amounts)
($ in millions)

	Tax-Exempt	Taxable	Totals
HMRB	$2,536	$387	$2,923
MHRB	639	0	639
HPB	0	0	0
TOTALS	$3,175	$387	$3,562

The following table shows the diversification of our fixed payer swaps among the thirteen firms acting as our swap counterparties. Note that our swaps with Goldman Sachs are with a highly-rated structured subsidiary that is a special purpose vehicle used only for derivative products. Note also that our most recent swaps with Merrill Lynch are either with their highly-rated structured subsidiary or we are benefiting from the credit of this triple-A structured subsidiary through a guarantee.

SWAP COUNTERPARTIES

Swap Counterparty	Credit Ratings Moody's	Credit Ratings S & P	Notional Amounts Swapped (*$ in millions)*	Number of Swaps
JP Morgan Chase Bank	Aa1	AA-	$ 894.0	22
			269.1*	8*
Merrill Lynch Derivative Products, AG	Aa3	AAA	511.3	28
Citigroup Financial Products Inc.	A3	A	479.0	12
Merrill Lynch Capital Services Inc.	A2	A	438.5	14
Goldman Sachs Mitsui Marine Derivative Products, L.P.	Aa1	AAA	310.3	10
Deutsche Bank AG	Aa1	A+	257.9	11
AIG Financial Products Corp.	A3	A-	243.8	8
Bank of America, N.A.	Aa3	A+	122.0	5
Morgan Stanley Capital Services Inc	A2	A	136.7	2
BNP Paribas	Aa1	AA	79.3	2
UBS AG	Aa3	A+	36.6	2
Dexia Credit Local	A1	A	27.3	2
The Bank of New York	Aaa	AA	25.0	1
			$3,561.7	119

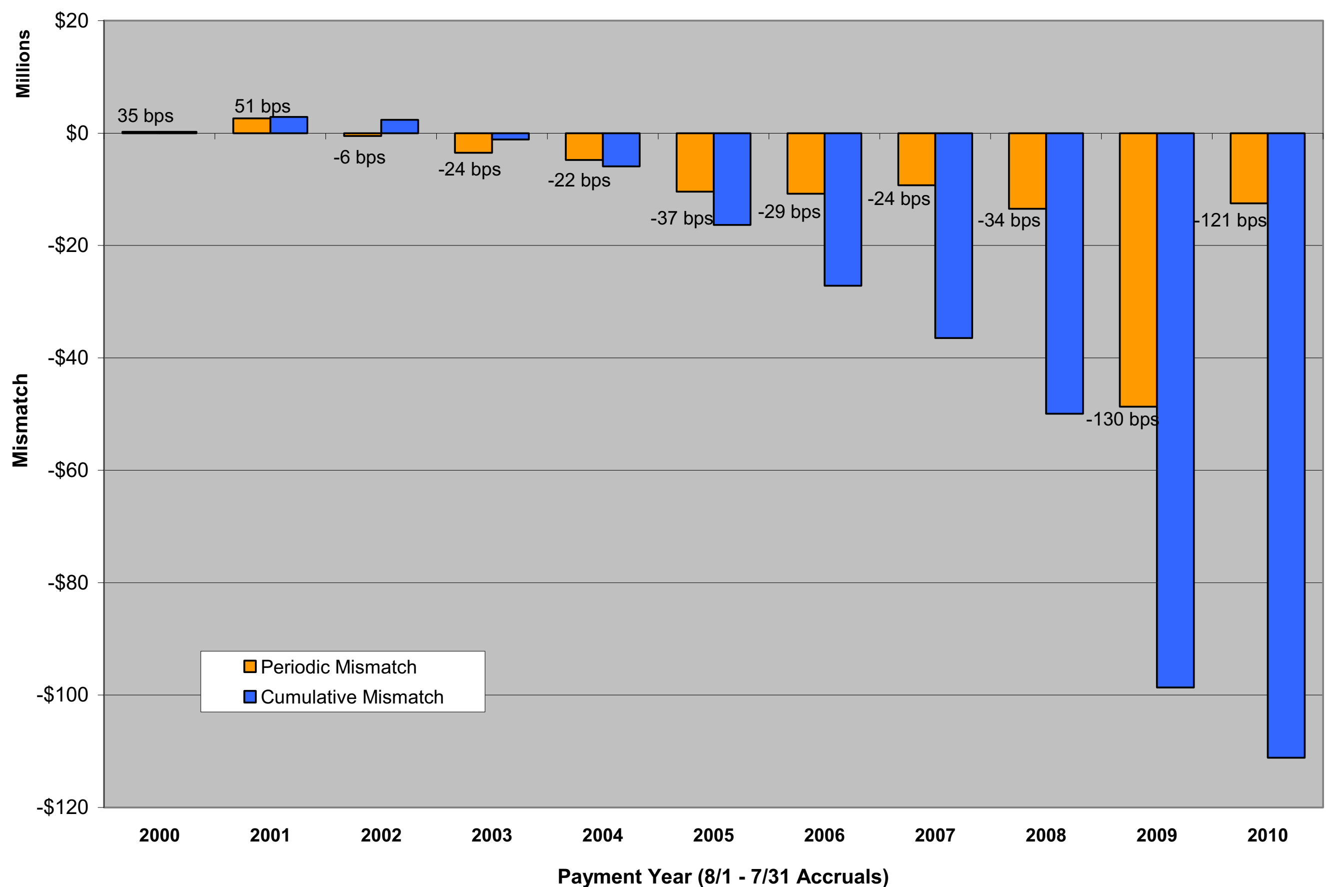
* *Basis Swaps (not included in totals)*

With interest rate swaps, the "notional amount" (equal to the principal amount of the swapped bonds) itself is not at risk. Instead, the risk is that a counterparty would default and, because of market changes, the terms of the original swap could not be replicated without additional cost.

For all of our fixed-payer swaps, we receive floating rate payments from our counterparties in exchange for a fixed-rate obligation on our part. In today's market, the net periodic payment owed under these swap agreements is from us to our counterparties. As an example, on our August 1, 2009 semiannual debt service payment date we made a total of $70.8 million of net payments to our counterparties. Conversely, if short-term rates were to rise above the fixed rates of our swap agreements, then the net payment would run in the opposite direction, and we would be on the receiving end.

<u>Basis Risk and Basis Swaps</u>

Almost all of our swaps contain an element of what is referred to as "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 our swap floating rates are based on indexes, which consist of market-wide averages, while our bond floating rates are specific to our individual bond issues. The only exception is where our taxable floating rate bonds are index-based, as is the case of the taxable floaters we have sold to the Federal Home Loan Banks. The chart below is a depiction of the basis mismatch that we have encountered since 2000 when we entered the swap market.



As the chart shows, the relationship between the two floating rates changes as market conditions change. Basis mismatch for our 2008 bond year (August 1, 2007 – July 31, 2008) has been primarily due to the collapse of the auction rate securities market and the impact of bond insurer downgrades on variable rate demand obligations. Auction rate securities account for 55% of the total mismatch and insured variable rate demand obligations have accounted for 45% of the total mismatch for 2008. We have responded to the market disruption by refunding, converting, or otherwise modifying many of the under performing auction rate securities and insured VRDOs.

In 2009, the basis mismatch was further compounded by bank bonds and the disparity between the SIFMA to LIBOR ratio. The rate on bank bonds are much higher than the rate that we receive on swaps, and the SIFMA/LIBOR ratio has been at historically high levels over 100% for the past six months.

These same factors have continued to contribute to our basis mismatch into the 2010 bond year. The new Temporary Liquidity and Credit Program from the federal government and the GSEs should significantly reduce or eliminate any basis mismatch. As part of this process, all bond insurance has been removed from VRDOs and the federal government will now provide direct credit support on all CalHFA VRDOs. We expect that this will allow CalHFA VRDOs to reset with little or no spread to SIFMA. The main risk that exists is that the SIFMA/LIBOR ratio continues to be high and as market rates rise our basis mismatch may remain higher than expected due to general market conditions.

Over the lifetime of our swaps we have experienced approximately $111 million of additional interest expense due to this basis mismatch. Over time, we have mitigated some of this risk by changing our swap formulas. The earliest swaps entered into utilized a floating rate formula of 65% of LIBOR, the London Inter-Bank Offered Rate which is the index used to benchmark taxable floating rate debt. These percentage-of-LIBOR swaps afforded great savings with minimal basis risk compared to fixed rate bonds when the average SIFMA/LIBOR ratio was steady at 65%. Short-term interest rates can be volatile and as short-term rates fall, the SIFMA/LIBOR ratio tends to increase. When short-term interest rates rise the SIFMA/LIBOR ratio usually falls to the theoretical ratio of one minus the marginal federal income tax rate. The SIFMA (Securities Industry and Financial Markets Association) index is the index used to benchmark tax-exempt variable rates. The following table displays the SIFMA/LIBOR ratio for the past eight years.

Average SIFMA/LIBOR Ratio			
2002	77.9%	2006	67.6%
2003	85.4%	2007	69.1%
2004	81.7%	2008	83.7%
2005	72.5%	2009	122.8%

When the SIFMA/LIBOR ratio is very high the swap payment we receive falls short of our bond payment, and the all-in rate we experience is somewhat higher. The converse is true when the percentage is low. We continually monitor the SIFMA/LIBOR relationship and the performance of our swap formulas and make adjustments to the formula as necessary.

The table on the next page shows the diversification of variable rate formulas used for determining the payments received from our interest rate swap counterparties.

BASIS FOR VARIABLE RATE PAYMENTS
RECEIVED FROM SWAP COUNTERPARTIES
(notional amounts)
($ in millions)

	Tax-Exempt	Taxable	Totals
60% of LIBOR + 26bps	$1,356	$0	$1,356
62% of LIBOR + 25bps	537	0	537
SIFMA – 15bps	374	0	374
65% of LIBOR	352	0	352
Stepped % of LIBOR [1]	269	0	269
3 mo. LIBOR + spread	0	244	244
1 mo. LIBOR	0	80	80
97% of SIFMA	73	0	73
SIFMA – 20bps	57	0	57
63% of LIBOR + 24bps	50	0	50
3 mo. LIBOR	0	33	33
6 mo. LIBOR	0	30	30
60% of LIBOR + 21bps	30	0	30
63% of LIBOR + 30bps	25	0	25
64% of LIBOR	16	0	16
SIFMA – 5bps	16	0	16
61% of LIBOR + 21bps	11	0	11
64% of LIBOR + 25bps	9	0	9
TOTALS	$3,175	$387	$3,562

[1] Stepped % of LIBOR – This formula has seven incremental steps where at the low end of the spectrum the swap counterparty would pay us 85% of LIBOR if rates should fall below 1.25% and at the high end, they would pay 60% of LIBOR if rates are greater than 6.75%.

Risk of Changes to Tax Law

For an estimated $2.7 billion of the $3.2 billion of tax-exempt bonds swapped to a fixed rate, we remain exposed to certain tax-related risks, another form of basis risk. In return for significantly higher savings, we have chosen through these interest rate swaps to retain exposure to the risk of changes in tax laws that would lessen the advantage of tax-exempt bonds in comparison to taxable securities. In these cases, if a tax law change were to result in tax-exempt rates being more comparable to taxable rates, the swap provider's payment to us would be less than the rate we would be paying on our bonds, again resulting in our all-in rate being higher.

We bear this same risk for $714 million of our tax-exempt variable rate bonds which we have not swapped to a fixed rate. Together, these two categories of variable rate bonds total $3.4 billion, 42% of our $7.9 billion of bonds outstanding. This risk of tax law changes is the same risk that investors take when they purchase our fixed-rate tax-exempt bonds.

Amortization Risk

Our bonds are generally paid down (redeemed or paid at maturity) as our loans are prepaid. Our interest rate swaps amortize over their lives based on assumptions about the receipt of prepayments, and the single family transactions which include swapped bonds have generally been designed to accommodate prepayment rates between two and three times the “normal” rate. In other words, our interest rate swaps generally have had fixed amortization schedules that can be met under what we have believed were sufficiently wide ranges of prepayment speeds.

As market conditions change, we modify the structuring of new swaps by widening the band of expected prepayments. In addition, with the introduction of our interest only loan product we structured swap amortization schedules and acquired swap par termination rights to coincide with the loan characteristics and expectations of borrower prepayment.

Also of interest is an $114 million forced overswap mismatch between the notional amount of certain of our swaps and the outstanding amount of the related bonds. This mismatch has occurred as a result of the interplay between loan prepayments and the “10-year rule” of federal tax law. Under this rule, prepayments received 10 or more years beyond the date of the original issuance of bonds cannot be recycled into new loans and must be used to redeem tax-exempt bonds. In the case of many single family bond issues, a portion of the authority to issue them on a tax-exempt basis was related to older bonds.

While this mismatch has occurred (and will show up in the tables of this report), the small semiannual cost of the mismatch will be more than offset by the large interest cost savings from our “net” variable rate debt. In other words, while some of our bonds are “over-swapped”, there are significantly more than enough unswapped variable rate bonds to compensate for the mismatch. We will continue to monitor the termination value of our “excess swap” position looking for opportunities to unwind these positions when market terminations would be at minimal cost or a positive value to us. In addition we plan to reuse unrestricted loan prepayments to purchase new loans when financially prudent to do so.

TERMINATION RISK

Termination risk is the risk that, for some reason, our interest rate swaps must be terminated prior to their scheduled maturity. Our swaps have a market value that is determined based on current interest rates. When current fixed rates are higher than the fixed rate of the swap, our swaps have a positive value to us (assuming, as is the case on all of our swaps today, that we are the payer of the fixed swap rate), and termination would result in a payment from the provider of the swap (our swap "counterparty") to us. Conversely, when current fixed rates are lower than the fixed rate of the swap, our swaps have a negative value to us, and termination would result in a payment from us to our counterparty.

Our swap documents allow for a number of termination "events", i.e., circumstances under which our swaps may be terminated early, or (to use the industry phrase) "unwound". One circumstance that would cause termination would be a payment default on the part of either counterparty. Another circumstance would be a sharp drop in either counterparty's credit ratings and, with it, an inability (or failure) of the troubled counterparty to post sufficient collateral to offset its credit problem. It should be noted that, if termination is required under the swap documents, the market determines the amount of the termination payment and who owes it to whom. Depending on the market, it may be that the party who has caused the termination is owed the termination payment.

Currently, the Government Accounting Standards Board only requires that our balance sheet and income statement be adjusted for the market value of our swaps in excess of the bonds being hedged. However, it does require that the market value be disclosed for all of our swaps in the notes to our financial statements.

Monthly we monitor the termination value of our swap portfolio as it grows and as interest rates change. The table below shows the history of the fluctuating negative value of our swap portfolio for the past year.

TERMINATION VALUE HISTORY

Date	Termination Value ($ in millions)
10/31/08	($238.1)
11/30/08	($370.2)
12/31/08	($502.5)
1/31/09	($385.3)
2/28/09	($345.0)
3/31/09	($406.6)
4/30/09	($377.6)
5/31/09	($308.0)
6/30/09 *	($276.8)
7/31/09	($225.8)
8/31/09	($270.0)
9/30/09	($295.5)

** As reported in the Financial Statements*

TYPES OF VARIABLE RATE DEBT

The following table shows our variable rate debt sorted by type, i.e., whether auction rate, indexed rate, or variable rate demand obligations (VRDOs). Auction and indexed rate securities cannot be "put" back to us by investors; hence they typically bear higher rates of interest than do "put-able" bonds such as VRDOs.

TYPES OF VARIABLE RATE DEBT
($ in millions)

	Auction Rate & Similar Securities	Indexed Rate Bonds	Variable Rate Demand Obligations	Total Variable Rate Debt
HMRB	$0	$1,051	$2,852	$3,903
MHRB	172	0	691	863
HPB	0	0	88	88
DDB	0	0	0	0
Total	$172	$1,051	$3,631	$4,854

LIQUIDITY PROVIDERS

The table below shows the financial institutions providing liquidity in the form of standby bond purchase agreements for our VRDOs.

LIQUIDITY PROVIDERS
($ in millions)

Financial Institution	$ Amount of Bonds	Indenture
Dexia Credit Local	$740.6	HMRB
Bank of America	381.2	HMRB/MHRB
Fannie Mae	350.9	HMRB/MHRB
Lloyds TSB	336.9	HMRB
KBC	230.6	HMRB
BNP Paribas	226.9	HMRB
Bank of Nova Scotia	183.9	HMRB
Calyon	168.6 [2]	HMRB
Bank of New York	147.1	HMRB
JP Morgan Chase Bank	132.7	HMRB
Landesbank Hessen-Thuringen	125.3	MHRB
Bayerische Landesbank	103.2	HMRB
Westdeutsche Landesbank	103.2	HMRB
Fortis	103.1	HMRB
DEPFA Bank	86.7	MHRB
State Street Bank	78.6	HMRB
LBBW	60.3	HPB
CalSTRS	43.7	HMRB/MHRB
Citibank	28.0 [1]	HPB
Total	$3,631.5	

1. *$31.5 million of liquidity with Citibank expired on Nov. 3, 2008 and was not extended.($28m bonds ourstanding)*
2. *$174.2 million of liquidity with Calyon expired on April 18, 2009 and was not extended.(168.6m bonds outstanding)*

On October 19, 2009, the United States Treasury (Treasury) announced a new initiative for state and local housing finance agencies (HFAs) to provide a new bond purchase program to support new lending by HFAs and to provide a temporary credit and liquidity program (TCLP) to improve access of HFAs to liquidity for outstanding HFA bonds. On October 26, 2009, the Agency applied to Treausry for TCLP allocation to replace all of the Agency's liquidity banks. On December 23, 2009, the Agency closed eight TCLP transactions with Treasury to replace the liquidity for $3.5 billion of variable rate bonds. The new liquidity will become effective in January 2010 on the mandatory tender dates of the bonds and will expire on December 23, 2012.

BOND AND SWAP TERMINOLOGY

COUNTERPARTY
One of the participants in an interest rate swap

DATED DATE
Date from which first interest payment is calculated.

DELAYED START SWAP
A swap which delays the commencement of the exchange of interest rate payments until a later date.

DELIVERY DATE, OR ISSUANCE DATE
Date that bonds are actually delivered to the underwriters in exchange for the bond proceeds.

GENERAL OBLIGATION BOND
A type of security which is evidence of a debt secured by all revenues and assets of an organization.

INDENTURE
The legal instrument that describes the bonds and the pledge of assets and revenues to investors. The indenture often consists of a general indenture plus separate series indentures describing each issuance of bonds.

INTEREST RATE CAP
A financial instrument which pays the holder when market rates exceed the cap rate. The holder is paid the difference in rate between the cap rate and the market rate. Used to limit the interest rate exposure on variable rate debt.

INTEREST RATE SWAP
An exchange between two parties of interest rate exposures from floating to fixed rate or vice versa. A fixed-payer swap converts floating rate exposure to a fixed rate.

LIBOR
London Interbank Offered Rate. The interest rate highly rated international banks charge each other for borrowing U.S. dollars outside of the U.S. Taxable swaps often use LIBOR as a rate reference index. LIBOR swaps associated with tax-exempt bonds will use a percentage of LIBOR as a proxy for tax-exempt rates.

MARK-TO-MARKET
Valuation of securities or swaps to reflect the market values as of a certain date. Represents liquidation or termination value.

MATURITY
Date on which the principal amount of a bond is scheduled to be repaid.

NOTIONAL AMOUNT
The principal amount on which the exchanged swap interest payments are based.

OFFICIAL STATEMENT
The "prospectus" or disclosure document describing the bonds being offered to investors and the assets securing the bonds.

PRICING DATE
Date on which issuer agrees (orally) to sell the bonds to the underwriters at certain rates and terms.

REDEMPTION
Early repayment of the principal amount of the bond. Types of redemption: "special", "optional", and "sinking fund installment".

REFUNDING
Use of the proceeds of one bond issue to pay for the redemption or maturity of principal of another bond issue.

REVENUE BOND (OR SPECIAL OBLIGATION BOND) (OR LIMITED OBLIGATION BOND)
A type of security which is evidence of a debt secured by revenues from certain assets (loans) pledged to the payment of the debt.

SIFMA INDEX
Securities Industry and Financial Markets Association Municipal Swap Index. A weekly index of short-term tax-exempt rates.

SALE DATE
Date on which purchase contract is executed evidencing the oral agreement made on the pricing date.

SERIAL BOND
A bond with its entire principal amount due on a certain date, without scheduled sinking fund installment redemptions. Usually serial bonds are sold for any principal amounts to be repaid in early (10 or 15) years.

SERIES OF BONDS
An issuance of bonds under a general indenture with similar characteristics, such as delivery date or tax treatment. Example: "Name of Bonds", 1993 Series A. Each series of Bonds has its own series indenture.

SWAP CALL OPTION
The right (but not the obligation) to terminate a predetermined amount of swap notional amount, occurring or starting at a specific future date.

SYNTHETIC FIXED RATE DEBT
Converting variable rate debt into a fixed rate obligation through the use of fixed-payer interest rate swaps.

SYNTHETIC FLOATING RATE DEBT
Converting fixed rate debt into a floating rate obligation through the use of fixed-receiver interest rate swaps.

TERM BOND
A bond with a stated maturity, but which may be subject to redemption from sinking fund installments. Usually of longer maturity than serial bonds.

VARIABLE RATE BOND
A bond with periodic resets in its interest rate. Opposite of fixed rate bond.

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