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MEMORANDUM

To: Board of Directors

From: CALIFORNIA HOUSING FINANCE AGENCY

Date: June 23, 1999

Subject: REPORT OF SINGLE FAMILY BOND SALE

This month the Agency sold $263 million of single family bonds in a two-part sale. On June 8 the State Treasurer and the Agency priced $100 million of our Home Mortgage Revenue Bonds in three fixed-rate series (E, F, and G) as shown in the table below. In addition, on June 21 three variable rate series (H, I and J) were priced, and the entire $263 million transaction is scheduled to close on June 24. All bonds will be insured by MBIA and therefore rated triple-A by both Moody's and Standard & Poor's.

The $100 million fixed-rate portion, issued to provide funds for new loans, is structured very much like our most previous single family bond issue. The tax-exempt bonds are primarily in the form of capital appreciation bonds ("CAB's"), also known as "zero-coupon" bonds. CAB's work like U.S. Savings Bonds in that investors receive no interest payments. Instead, the interest component is added semiannually to the principal amount, which is said to "accrete" in value. CAB's are sold at their discounted amounts; hence the "odd change" in the principal amounts of Series E and F bonds. Each individual CAB accretes to $5,000 at maturity.

Since mortgage interest payments will not be needed to pay semiannual interest on the Series E and F CAB's, a substantial portion of the total mortgage interest receipts can instead be used to help retire the Series G taxable bonds. As a consequence, the Series G taxables, comprising $50 million, can be retired more quickly, resulting in a lower overall cost of funds for the composite transaction. This enabled us to structure all of Series G in fixed rate form.

Series H, I and J in the amount of $163 million comprise an economic refunding of CHFA bonds originally issued in 1988 and 1989 with interest rates as high as 8.30%. The associated seasoned mortgage portfolio, with rates as high as 8.85%, will be transferred to Series H, I, and J, resulting in an economic savings that will be used to subsidize new loans financed with taxable bonds.
Structuring the $163 million of Series H, I, and J as variable rate bonds (with a weekly rate reset by our remarketing agent) has allowed us to significantly increase the amount of savings resulting from these economic refundings. The use of variable rate debt greatly reduces our cost of funds and thus maximizes the amount of subsidy available to offset the higher cost of future taxable bonds. In the unlikely event that bonds are put back to us and cannot be remarshaled, two highly-rated banks, Westdeutsche Landesbank and Morgan Guaranty Trust Co., will provide the liquidity to pay investors.

As discussed in the Business Plan, we have the economic resources to assume some variable rate risk in order to implement our aggressive volume objectives and still provide borrowers with low interest rates.

<table>
<thead>
<tr>
<th>series</th>
<th>Amounts</th>
<th>Interest Rates</th>
<th>Maturities</th>
<th>Tax Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999 Series E</td>
<td>$5,999,233.68</td>
<td>5.50%</td>
<td>8/1/17</td>
<td>Non-AMT</td>
</tr>
<tr>
<td>1999 Series F</td>
<td>44,000,542.55</td>
<td>3.75-5.70%</td>
<td>2/1/01-8/1/30</td>
<td>AMT</td>
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<td>1999 Series G</td>
<td>50,000,000.00</td>
<td>6.87%</td>
<td>8/1/11(1)</td>
<td>Taxable</td>
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<tr>
<td>1999 Series H</td>
<td>35,265,000.00</td>
<td>Variable - 5.0%(2)</td>
<td>8/1/19</td>
<td>Taxable</td>
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<tr>
<td>1999 Series I</td>
<td>22,460,000.00</td>
<td>Variable - 3.30%(2)</td>
<td>8/1/17</td>
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<tr>
<td>1999 Series J</td>
<td>105,250,000.00</td>
<td>Variable - 3.35%(2)</td>
<td>8/1/20</td>
<td>AMT</td>
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<tr>
<td>Total</td>
<td>262,974,776.23</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(1) 5.7 years average life.  
(2) Initial rate; thereafter resets weekly
MEMORANDUM

To:         Board of Directors

From:      CALIFORNIA HOUSING FINANCE AGENCY

Subject:  Update on Variable Rate Bonds

Date:     June 23, 1999

In May I reported on the total amount of CHFA variable rate bonds and our plans for managing the interest rate risk associated with this form of debt.

With the addition of $163 million variable rate bonds in our June single family bond sale, CHFA now has a total of $477.2 million in variable rate debt outstanding. This represents approximately 7.8% of our entire $6.1 billion indebtedness. Subtracting the $74 million backed by variable rate loan assets, leaves $403.2 million, or approximately 6.6% of our indebtedness in the form of variable rate debt supporting fixed rate loans.

We are pleased with the results of our June single family transaction. This deal employed our strategy to use variable rate debt for economic refundings and fixed rate debt for the new money portion of the transaction. We believe this provides us the most “bang for the buck” in using variable rate debt. In addition to utilizing variables in the area where we believe we enjoy the maximum benefit from interest rate savings, this application also results in the least interest rate risk. This is because variable rate bonds for an economic refunding of older high rate debt (and faster prepaying loans) results in bonds with a short average life compared to debt sold to fund new loans. As seen in the attached table, 67% of our variable rate debt is in this “shorter average life” category.

We are working with our recently hired advisors, Swap Financial Group, over the next few months to further analyze additional internal hedges and external hedging alternatives through swapping to a fixed rate or the procurement of interest rate caps. In particular, we are exploring the feasibility of procuring a succession of shorter interest rate caps as a relatively cost effective external hedge to be applied primarily against our longer life variable rate debt. We are told that Fannie Mae and Freddie Mac have both used this approach. The Executive Director and I discussed this strategy with both Moody’s and Standard & Poor’s during our recent trip to New York.

In addition, we are considering the use of “synthetic fixed rate debt”, i.e., variable rate bonds in conjunction with an interest rate swap resulting in fixed rate debt service costs, for a portion of our next single family transaction. This structure might be used if it proves to offer significant debt service savings over our other alternatives.
CHFA Variable Rate Debt
As of 6/24/99*
(excluding bonds sold to fund variable rate loans)

<table>
<thead>
<tr>
<th></th>
<th>Tax-Exempt</th>
<th>Taxable</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short Average Life</td>
<td>$127.7 million</td>
<td>$142.1 million</td>
<td>$269.8 million</td>
</tr>
<tr>
<td>Long Average Life</td>
<td>$13.6 million</td>
<td>$119.8 million</td>
<td>$133.4 million</td>
</tr>
<tr>
<td>Totals</td>
<td>$141.3 million</td>
<td>$261.9 million</td>
<td>$403.2 million</td>
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</table>

*Includes HMRB 99 Series EFGHIJ closing 6/24/99
MEMORANDUM

To: Board of Directors
California Housing Finance Agency

Date: 22 June 1999

Subject: STATE LEGISLATIVE REPORT

It is definitely summer in the Capitol City, with the mercury heading towards the 100 degree mark with increasing frequency. While it may be hot outside, it seems relatively cool within the Capitol Building itself. The Legislature has sent a $81.7 billion Budget to the Governor, freeing them to concentrate on those bills that moved to the second house, and make plans for their first summer break in a number of years. Below you will find a brief description of the housing-related augmentations the Legislature included in the Budget. At this time, it is unknown which augmentations will be sustained, reduced or deleted. As those decisions are likely to occur before the July 8 Board meeting, an update will be provided at that time.

I. Budget Issues

As stated above, the Legislature included a number of housing-related augmentations to the Governor's proposed Budget. Of particular significance is the fact that the Legislature has not proposed the creation of any new housing programs. Instead, following the Governor's lead, they have proposed utilizing a modest amount of the additional resources provided by the May to augment those programs that the Governor recognized as pivotal in crafting his original budget. Specifically, the Legislature has included:

- $12.5 million to the Department of Housing and Community Development (HCD) for the rehabilitation and acquisition of multifamily housing and local code enforcement programs, creating new opportunities for the State to partner with local governments to invest in communities to ensure they remain vital and healthy places for people to live, work and raise a family;

- $2 million to the Department of Mental Health for housing and supportive services to help at-risk populations (including elderly, mentally ill, developmentally disabled,
substance abusers, and young adults leaving foster care break the cycle of homelessness or institutional care and live independently with dignity. Existing studies confirm that delivering services in this manner is a more effective and much less expensive approach that decreases hospital costs, jail costs, detoxification costs, and supports a higher rate of sobriety and employment. CHFA currently offers a below-market interest rate loan program that covers the capital costs of this type of housing. However, the number of facilities that can be built is limited by the availability of a "partner" willing to provide and finance the relevant social service components. If this augmentation is approved, CHFA would work with the Health and Welfare Agency, the Department of Mental Health and supportive housing funding applicants in an effort to provide permanent financing for such developments;

- $3 million to HCD for the Farmworker Housing Grant Program. Last year, there were 21 applications seeking $7.7 million but only $3 million in available general program funds. Federal farmworker housing funds have been capped for years, creating a backlog of applications in excess of $200 million. The augmentation proposed by the Legislature for this program will provide additional revenues needed to help farmworker families bridge the housing affordability gap; and

- $1.3 million to HCD for the Emergency Housing Assistance Program to help pay for locally operated emergency shelters for the homeless which include other needed services such as job counseling, job skill development, mental health counseling, and drug rehabilitation referrals. The purpose of this program is help families and individuals permanently exit homelessness.

III. Housing Bonds

AB 398 (Migden) - would create the Housing and Homeless Bond Act of 2000, including $600 million for various rental programs administered by HCD, and $150 million for the Home Purchase Assistance Program administered by CHFA. STATUS: Passed Assembly Committee on Housing and Community Development 4/14/99 (9-2); passed Assembly Appropriations Committee 4/28/99 (21-0); passed the Assembly Floor 5/13/99 (56-13); passed Senate Housing and Community Development Committee 6/21/99 (5-0); pending before Senate Appropriations Committee.

(Note: Of all the bond bills heard on the Floor that day, this was clearly the most contentious. Recognizing that a 2/3 vote was not attainable at this
time, the author had to include language to make this a majority vote bill. The new language specifically states that notwithstanding any other provision of the bill, no funds can be created, no bonds sold, no appropriations made, no portion submitted to the voters, and no debt or liability created. By including this language, the bill was able to advance as a “placeholder” while discussions continue.)

SB 510 (Alarcón) - currently a spot bill stating the Legislature’s intent to enact a Housing Bond Act. The author is currently having amendments prepared to split the bonds over four election cycles (November 7, 2000, November 5, 2002, November 2, 2004, and November 7, 2006) at $245 million each. The total amount of the four bond acts, if approved by the voters, would be $980 million. While the distribution of funds is still being discussed, the initial break down will be as follows:

- $65 million for first-time homebuyers programs, with 20% set aside for public safety (CHFA)
- $35 million for rental housing (HCD)
- $12.5 million for welfare to work housing (HCD)
- $50 million for senior and disabled housing (HCD)
- $5 million for self-help housing (HCD)
- $50 million for rehabilitation/code enforcement of single and multi family housing (HCD)
- $25 million for farmworker housing programs (HCD)

STATUS: Passed Senate Housing and Community Development Committee 4/19/99 (5-2); currently pending Senate Appropriations Suspense File.

IV. Miscellaneous

AB 97 (Torlakson) - would extend the authorization for the California Tax Credit Allocation Committee to allocate up to $50 million in low income housing tax credits. STATUS: Passed Assembly Revenue and Taxation Committee 4/5/99 (7-0); passed Assembly Housing and Community Development Committee 4/14/99 (11-0); passed Assembly Appropriations 5/26/99 (21-0); passed Assembly Floor 5/27/99 (79-0); pending before Senate Housing and Community Development Committee.

AB 431 (Dutra) - would clarify that a trustee can invalidate a sale and refuse to issue a trustees deed if the deed is invalidated by a pending bankruptcy or otherwise. STATUS: Passed Assembly Judiciary Committee 4/6/99 (13-0); passed Assembly Appropriations 5/19/99 (consent); passed Assembly Floor 5/27/99 (79-0); pending before Senate Judiciary Committee.

AB 499 (Aroner) - sponsored by the California Association of Homes and Services for the Aging - would require the Department of Health Services to develop a demonstration project to test the efficacy of providing an assisted living benefit to low-
income beneficiaries under the Medi-Cal program. STATUS: Passed Assembly Health Committee 3/23/99 (5-0); currently pending on Assembly Appropriations Suspense File (2-year bill).

**AB 601 (Cedillo)** - would create the Urban Initiatives Act to encourage the reuse of underutilized buildings through the designation of urban incentive zones by the Trade and Commerce Agency and designation of qualified buildings by the affected local agency. Incentives included in the bill include property tax relief and income tax credits for qualified buildings. STATUS: Passed Assembly Committee on Consumer Protection, Governmental Efficiency and Economic Development 4/6/99 (6-0); passed Assembly Appropriations Committee 5/26/99 (15-5); passed Assembly Floor 6/3/99 (56-19); passed Senate Housing and Community Development Committee 6/21/99 (5-0); currently pending before Senate Appropriations Committee.

**AB 869 (Keeley)** - would create the Community Reinvestment Act establishing a continuing and affirmative obligation for insurers to make economically targeted investments in low income and very low income communities. STATUS: Passed Assembly Insurance Committee 4/14/99 (7-5); passed Assembly Appropriations Committee 6/2/99 (12-3); pending on the Assembly Floor Inactive File (2-year bill).

**AB 942 (Dutra)** - Previously a spot bill dealing with the importance of all levels of government and the private sector cooperating to ensure an adequate supply of housing is available to meet the needs of all Californians, recent amendments change focus and now require local enforcement agencies to post copies of repair notices in a conspicuous place on the property, and would further require the notice to identify the issuing agency, include information related to any related public hearing or proceeding, and state that the lessee cannot retaliate against the lessor. STATUS: Passed Assembly Housing and Community Development Committee 5/12/99 (11-0); passed Assembly Appropriations Committee 5/26/99 (consent); passed Assembly Floor 6/4/99 (79-0); currently pending before Senate Housing and Community Development Committee.

**AB 943 (Dutra)** - currently a spot bill dealing with the California Debt Limitation Allocation Committee and the state ceiling on private activity bonds. STATUS: Pending referral to committee (2-year bill).

**AB 13% (Lowenthal)** - would establishes criteria for HCD to consider when making loans from the Housing Rehabilitation Loan Fund to assisting help preserve affordability of multifamily housing units previously subsidized by the federal government. STATUS: Passed Assembly Committee on Housing and Community Development 4/14/99 (7-3); passed Assembly Appropriations 4/28/99 (14-7); passed Assembly Floor 5/24/99 (56-20); passed Senate Housing and Community Development Committee 6/21/99 (5-0); pending before Senate Appropriations Committee.
SB 73 (Murray) - would establish a statewide participation goal of not less than 30% for small business enterprises with respect to professional bond services and state contracts in general. STATUS: Passed Senate Governmental Organization Committee 3/23/99 (8-0); passed Senate Local Government 4/21/99 (4-1); passed Senate Appropriations Committee 5/28/99 (8-5) passed the Senate Floor 6/1/99 (24-14); double referred to Senate Consumer Protection, Government Efficiency & Economic Development and Local Government Committees.

SB 109 (Knight) - would allow first time homebuyers to deduct the costs of their private mortgage insurance from their personal income tax for the first five years they own the dwelling. STATUS: Failed passage before Senate Revenue and Taxation committee 4/7/99 (4-3).

SB 1106 (Hayden) - would allow local jurisdictions to impose rent control restrictions on low or moderate income units created specifically to preserve and sustain affordable housing through inclusionary programs and other unspecified means, and would require local jurisdictions to include a provision regarding the preservation of affordable housing within their housing elements. STATUS: Heard before Senate Housing and Community Development 4/5/99; testimony taken but no vote.

SB 1121 (Amarcón) - sponsored by HCD, currently a spot bill that could be used for a variety of purposes, including housing task force recommendations, restructuring of HCD's multifamily housing program, or other Administration sponsored housing related issues. STATUS: Passed Senate Committee on Housing and Community Development 4/19/99 (7-0); passed Senate Floor 5/6/99 (23-6); currently pending committee assignment in the Assembly.
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