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MEMORANDUM

To: Board of Directors

Date: October 19, 1999

Kenneth R. Carlson, Director of Financing

From: CALIFORNIA HOUSING FINANCE AGENCY

Subject: REPORT OF SINGLE FAMILY BOND SALE

On October 7, 1999, the Agency delivered $149,998,362 of Home Mortgage Revenue Bonds priced by the Agency and State Treasurer on September 15th. Lendable proceeds of about $148.2 million will be used to fund over 1,340 loans which are being originated by our lenders at interest rates ranging from 6.50% to 7.25%.

The bonds consist of three fixed-rate series of bonds as shown in the table below. The Series K and L are tax-exempt bonds. The Series M bonds are taxable and structured as a single term bond. The taxable bonds provide half of the lendable proceeds making this transaction the fourth in a row with a 50-50 split between tax-exempts and taxables. All bonds are insured by MBIA and therefore rated triple-A by both Moody's and Standard & Poor's.

As with the previous three transactions, we structured most (74%) of the tax-exempt bonds as capital appreciation bonds (CABs), also known as "zero-coupon bonds". The CABs allow us to defer payment of interest to our tax-exempt investors. Mortgage interest receipts are then used to retire the principal of the higher-rate taxable bonds, reducing their average life to 5.42 years. Early retirement of the taxable bonds is the key to reducing our overall cost of funds. It more than compensates us for having to pay approximately 0.35% of additional yield on our tax-exempt bonds because of the CAB structure.

<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 K</td>
<td>$20,204,625</td>
<td>6.125%</td>
<td>8/1/24</td>
<td>Non-AMT</td>
</tr>
<tr>
<td>1999 Series L</td>
<td>54,793,737</td>
<td>4.05-6.25%</td>
<td>2/1/01-2/1/31</td>
<td>AMT</td>
</tr>
<tr>
<td>1999 Series M</td>
<td>75,000,000</td>
<td>7.12%</td>
<td>2/1/12</td>
<td>Taxable</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$149,998,362</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
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To: Board of Directors  

Jen Carlson, Director of Financing  

From: CALIFORNIA HOUSING FINANCE AGENCY  

Date: October 20, 1999  

Subject: Update on Variable Rate Bonds  

The amount of CHFA variable rate debt remains unchanged from the previous Board meeting. We currently have a total of $384.1 million of variable rate debt outstanding that supports fixed rate loans. This represents approximately 6.5% of our indebtedness. As seen in the table on the next page, 65% of our variable rate debt is associated with economic refundings and thus is categorized as having a “shorter average life”, and thus less interest rate risk. Most of our variable rate debt resets interest rates weekly. Current interest rates on our taxable variable rate debt range from 5.25% to 5.41%. Our tax-exempt variables currently range from 2.65% to 2.95%.

We are continuing to work with our swap advisor and investment bankers to analyze the extent of our overall existing internal hedges versus our total variable rate debt and determine whether it would be desirable to purchase any external hedges (and if so, the optimum size and form.)

For the last five years our multifamily financing strategy has depended on our ability to issue variable rate bonds in the event that our aggressive loan rates could not support fixed bond interest rates. However, because interest rates trended lower over this period, we were able to fund almost all of our multifamily loans with fixed-rate bonds. As a part of this variable rate strategy, five years ago we purchased various financial instruments designed to hedge our bond interest rates. These instruments had five-year terms and are now expiring.

In keeping with our overall strategy of trying to keep long-range variable rate risks to a minimum, we are now also exploring the use of financial instruments that can be employed in connection with long-term fixed-rate bonds. The purpose of these instruments would be to reduce our borrowing costs in exchange for shorter-term risks.

We anticipate using variable rate debt as part of our November single family transaction in two possible ways. First, we are planning to sell approximately $50 million of tax-exempt variable rate bonds as part of an economic refunding. Secondly, we are analyzing the potential benefits (and risks) of selling the approximately $80 million taxable component of bonds sold for new loans as variable rate in conjunction with an interest rate swap. This would result in “synthetic fixed rate bonds” which sometimes offer significant interest rate savings in comparison to the traditional fixed rate alternative.
This week we also received bids from commercial banks wishing to provide us with liquidity agreements for up to $250 million of future variable rate bonds for either our single family or multifamily program. We look forward to negotiating an acceptable agreement with the winning bidder, Commerzbank AG, a German bank with double-A ratings. Commerzbank AG has indicated its intention to partner with the California State Teachers’ Retirement System as the co-provider of the liquidity facility.

CHFA Variable Rate Debt
As of 8/02/99
(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>$122.8 million</td>
<td>$250.5 million</td>
</tr>
<tr>
<td>Long Average Life</td>
<td>$13.6 million</td>
<td>$120.0 million</td>
<td>$133.6 million</td>
</tr>
<tr>
<td>Totals</td>
<td>$141.3 million</td>
<td>$242.8 million</td>
<td>$384.1 million</td>
</tr>
</tbody>
</table>
MEMORANDUM

To: Board of Directors
   California Housing Finance Agency

From: Di Richardson, Director of State Legislation

Date: 20 October 1999

Subject: STATE LEGISLATIVE REPORT

The first year of the 1999-2000 Legislative session is now behind us. This year, the Governor was presented 1,277 bills. Of that number, 1031 were chaptered (enacted), and 246 were vetoed. That means approximately 19% of those bills sent to the Governor by the Legislature did not become law. The messages accompanying the vetoed bills are now being reviewed and discussed (and I'm sure dissected) by interested parties up and down the state. I've attached the veto messages for the bills I've been including in this report. If there are any others you are interested in and are having trouble finding, either give me a call (916-324-0801) or e-mail me (drichardson@chfa.ca.gov) and I'll be happy to find them and send them to you.

I. CHFA Sponsored Legislation

AB 1404 (Dutra) - would increase by $2.2 billion (to $8.95 billion) the limit on the maximum amount of debt CHFA may have outstanding. STATUS: SIGNED BY THE GOVERNOR. Chapter 264, Statutes of 1999.

II. 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 (7-4), passed Assembly Appropriations 5/28 (14-7); passed Assembly Floor 6/21/99 (45-20); pending before the Senate Housing and Community Development 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 included 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. (Note: Similar to AB 398 above, in order to make the bill a majority vote vehicle and secure its passage from the Senate Floor, on July 12, language was added that declared that the current provisions of the bill "shall not become operative and are for display purposes only, unless this provision is deleted or repealed." This allowed the bill to be taken up and passed off the Senate Floor by a majority vote.) While the distribution of funds is still being discussed, the initial break down contained in the bill is as follows:

- $65 million for first-time homebuyers programs, with 20% setaside 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); passed Senate Appropriations 6/30/99 (8-4); passed the Senate Floor 7/15/99 (22-7); currently pending before the Assembly Housing and Community Development Committee.

III. 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: SIGNED BY THE GOVERNOR. Chapter 893, Statutes of 1999.

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 require HCD to make grants to property owners in downtown Los Angeles to reimburse the owners for rehabilitation expenses incurred in
converting commercial property into property suitable for residential, live-work, and mixed residential and commercial purposes. STATUS: VETOED BY THE GOVERNOR. See attached veto message.

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: SIGNED BY THE GOVERNOR. Chapter 391, Statutes of 1999.

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 1396 (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 require state agencies to establish a minimum participation goal of not less than 30% for small business enterprises with respect to contracts for construction, professional services and other state contracts in general. STATUS: VETOED BY THE GOVERNOR. See attached veto message.

SB 948 (Alarcón) - amends the Ellis Act regarding the withdrawal of rent-controlled housing units from the market. STATUS: SIGNED BY THE GOVERNOR. Chapter 968, Statutes 1999.

SB 1121 (Alarcón) - sponsored by HCD, streamlines existing multifamily categorical programs into a single, consolidated program. STATUS: SIGNED BY THE GOVERNOR. Chapter 637, Statutes 1999.
To Members of the California State Senate:

I am returning Senate Bill No. 73 without my signature.

This bill would raise California's current small business participation goal from 25 to 30 percent. It also creates a five-step process that would require all suppliers who do not achieve the 30% goal to demonstrate that they made a "good faith effort" to subcontract with certified small businesses.

California's current goal of 25% is among the highest in the nation. Yet, when I became Governor in January, California was achieving only an 8.5% small business participation level.

One of the most significant problems we have in achieving the 25% small business goal is the lack of small businesses willing to compete on state contracts. Another is that state agencies have not been aggressively striving to achieve the goal. Several laws become effective in January that should help address these problems. Additionally, I have directed the Department of General Services to draft proposed legislation for introduction next year that will streamline the contracting process so that small businesses can compete with greater ease.

Small businesses are a vital component of California's economy. State government should strive to meet the goals we have already set for ourselves before setting new goals. I am determined to see that we meet our stated goals. When that occurs, we can discuss raising our expectations and setting higher goals.

Sincerely,

GRAY DAVIS
October 9, 1999

To the Members of the California Assembly:

I am returning Assembly Bill No. 601 without my signature.

This bill would appropriate $6 million from the General Fund to the Department of Housing and Community Development for grants to property owners in the cities of Los Angeles and Compton to convert commercial property into housing or mixed residential and commercial use.

As California moves into the next century, revitalization of its numerous urban core areas is of vital importance to every community of this state. I fully support the intent of this bill; however, the funding source and limited scope of the bill is inappropriate. I would support a similar program to be included in the housing bond proposed for the November 2000 ballot and expansion of the program to allow participation by other California Communities facing downtown revitalization challenges.

Sincerely,

GRAY DAVIS