CHFA REPORTS 2000

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State of California

MEMORANDUM

2002

To: Board of Directors

Date: February 22,2001

From: Ken Carlson, Director of Financing
CALIFORNIA HOUSING FINANCE AGENCY

Subject: UPDATE ON VARIABLE RATE BONDS AND INTEREST RATE SWAPS

Variable Rate Exposure

After adding the $50 million February multifamily transaction, the total amount of CHFA variable rate debt outstanding is approximately $1.98 billion, some 27.6% of our $7.2 billion of total indebtedness. As shown in the table below, we now estimate our "net" variable rate exposure to be $517 million. The net amount of variable rate bonds is that amount that is not backed by complementary variable rate loans or not swapped to fixed rates. This net amount remains at approximately 7% of our indebtedness.

VARIABLE RATE DEBT
($ in millions)

	Tied Directly to Variable Rate Loans	Swapped to Fixed Rate	Not Swapped or Tied to Variable Rate Loans	Total Variable Rate Debt
Single Family	$33	$1,209	$480	$1,722
Multifamily	16	209	37	262
Total	$49	$1,418	$517	$1,984

As discussed previously, our $517 million of net exposure provides the Agency with a useful internal hedge against a low interest rate scenario, where we would suffer financially from low short-term investment rates, fast loan prepayments, reduced demand for new loans, and (conceivably) stagnant or falling apartment rents. Now that the Federal Reserve, with its concern about the possibility of economic recession, has cut short-tern rates by 100 basis points, we could save approximately $5 million per year in debt service for these unswapped variable rate bonds should this rate reduction hold.

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On the other hand, if interest rates rise, high short-term investment rates and slow prepayments will provide a hedge against our higher variable rate bond costs. As described at previous meetings, much of this balance should be steadily declining as old high-rate single family loans pay off.

The table below summarizes this current risk position.

NET VARIABLE RATE DEBT
($ in millions)

	Tax-Exempt	Taxable	Totals
Short average life	$248	$89	$337
Long average life	$ 37	$143	$180
TOTALS	$285	$232	$517

Interest Rate Swaps

We now have 29 swaps with four different counterparties for a combined notional amount exceeding $1.4 billion. These interest rate swaps generate significant debt service savings in comparison to our alternative of issuing fixed-rate bonds. This savings will help us continue to offer exceptionally low interest rates to multifamily sponsors and to serve a great many additional homebuyers.

The table below provides a summary of our current notional swap amounts.

INTEREST RATE SWAPS
($ in millions)

	Tax-Exempt	Taxable	Totals
Single family	$353	$856	$1,209
Multifamily	$209	$ 0	$209
TOTALS	$562	$856	$1,418

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It should be noted that, for $489 million of the $562 million of tax-exempt bonds swapped to a fixed rate, CHFA remains exposed to certain tax-related risks. In return for significantly higher savings (approximately 0.75% per year), 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 addition, we bear this same risk for $318 million of our tax-exempt variable rate bonds which we have not swapped to a fixed rate. This risk of tax law changes is the same risk that investors take every time they purchase our fixed-rate tax-exempt bonds.

Types of Variable Rate Debt

The table below shows the current amount of outstanding variable rate debt, sorted by type, i.e., whether it is 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. Nine banks and the California State Teachers Retirement System are currently providing the liquidity to cover the put risk on our $1.55 billion of VRDOs.

TYPES OF VARIABLE RATE DEBT
($ in millions)

	Auction Rate Bonds	Indexed Rate Bonds	Variable Rate Demand Obligations	Total Variable Rate Debt
Single Family	$87	$344	$1,291	$1,722
Multifamily	0	0	262	262
Total	$87	$344	$1,553	$1,984

Since September of 2000 we have been able to sell all of our taxable single family variable rate bonds to the Federal Home Loan Bank of San Francisco. These bonds are designed as indexed rate securities and thus have no put feature. For the three transactions completed to date, the FHLB has purchased $316 million of these indexed rate bonds.

Recently Tem Parker and I were invited to San Francisco to meet with staff of the FHLB and discuss the future of the CHFA/FHLB relationship. The ensuing discussion with the FHLB staff was very positive; they are pleased with the FHLB's role as investor in our bonds and desire to see the amount of their investment continue to grow. However, as they explained, the FHLB's member institutions will need to continue to support the concept and provide financial support to it as well, as required under new regulations. Continued support will depend on two factors: (1) the extent to which the FHLB's investment in our bonds helps members meet their community investment objectives, and (2) the extent to which investment in our bonds remains profitable enough to justify members' financial support.

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MEMORANDUM

To: Board of Directors Date: February 22,2001

Kenneth R. Carlson, Director of Financing

From: CALIFORNIA HOUSING FINANCE AGENCY

Subject: REPORT OF MULTIFAMILY BOND SALE
MULTIFAMILY HOUSING REVENUE BONDS III, 2001 SERIES A B & C

On February 22nd the Agency delivered *$50* million of variable rate multifamily bonds in three series as shown in the table below:

Series	Amounts	Maturities	Interest Rates	Tax Status
2001 A	$17,240,000	2/1/2032	4.620%*	AMT
2001 B	9,170,000	2/1/2033	4.590%*	Non-AMT
2001 C	23,590,000	2/1/2041	Variable	Taxable
Total	$50,000,000			

* Swap rates

Series A consists of $5 million of new private activity bond allocation received from CDLAC in December for a loan to the Tice Oaks project and $12.2 million for the refunding of CHFA variable rate bonds previously issued in 1998. Three loans and the proceeds for two additional loans will be transferred to the 2001 Series A bonds as a result of the refunding.

Series B in the amount of $9.2 million will finance two previously funded loans we are warehousing for one 501(c)(3) non-profit project.

Series C in the amount of $23.5 million was issued in taxable form without amortization. Initially five loans or loan participations currently being warehoused will be funded with the proceeds, and as loans are repaid the proceeds will be used for other loans or participations.

The bonds were issued under the Multifamily Housing Revenue Bonds III indenture, which is secured by CHFA's general obligation. The rating on the bonds is the same as the long-term rating on CHFA's general obligation: AA- by Standard and Poor's and Aa3 by Moody's. The bonds are not insured.

All bonds were issued in variable rate form, and the initial interest rates were set on February 20th. The tax-exempt Series A and B will reset daily and the taxable Series C will reset weekly. As with our other variable rate obligations, we have the option to change the length of the

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remarketing period. A highly rated German bank is providing the liquidity facility for these variable rate demand obligations.

In connection with the bonds, we entered into two swap agreements for Series A and B which will result in a synthetic fixed rate liability for the bonds. For both series we will receive variable rate payments based on a tax-exempt index provided by the Bond Market Association ("BMA"). This kind of swap, unlike many of our other swaps against tax-exempt bonds, eliminates the risk of changes to incremental federal income tax rates. Series C is not swapped; however, we may consider a swap in the future to take advantage of current relatively low interest rates.

The following tables describe the expected loan terms for the new and transferred loans:

2001 Series A Loans

Project Name	Loan Amount	Interest Rate	Actual/Projected Loan Origination Date
Tice Oaks	$5,015,000	6.20%	30-Mar-01
The ARC Apartments	1,615,000	1.00%	15-Jul-01
Creekside Apartments	1,523,000	6.35%	30-Mar-01
Britton Street	1,022,686	6.00%	15-Nov-00
Chelsea Gardens	3,798,452	5.90%	23-Dec-99
West Capitol Courtyard	4,269,726	6.20%	30-Dec-99
Total	$17,243,864		

2001 Series B Loans

Project Name	ban Amount	Interest Rate	Loan Origination Date
Vista del Monte	$8,000,000	5.90%	22-Dec-00
Vista del Monte	1,173,250	5.75%	22-Dec-00
Total	$9,173,250		

2001 Series C Loans

Project Name	Loan Amount	Interest Rate	Loan Origination Date
Citrus Tree Apartments	$1,344,696	6.25%	22-Jul-99
Coy de Estes	2,126,879	8.50%	03-Dec-97
Doretha Mitchell	1,223,677	9.00%	10-Sep-97
North Hills Apartments	3,914,437	6.25%	22-Jul-99
Ridgeway Apartments	14,980,310	7.50%	30-Dec-97
Total	$23.589.999		