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MEMORANDUM
State Of California

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To: CHFA Board Members

Date: May 3, 2001


Gerald Smart, Homeownership Programs Director

From: CALIFORNIA HOUSING FINANCE AGENCY

Subject: SCHOOL FACILITY FEE DOWN PAYMENT ASSISTANCE PROGRAM
MARKETING CAMPAIGN

Resolution **00-42** adopted at the December, **2000** Board Meeting required that prior to entering into a contract for marketing the School Facility Fee Program Down Payment Assistance Program, Theresa Parker, Executive Director, would discuss the proposal with Mr. Wallace and Ms. Hawkins. Both Board members reviewed the proposal from the marketing ~~firm~~ Goddard Claussen Porter Novelli along with additional requirements by CHFA. The resolution also required that CHFA report on the progress of the marketing plan to the Board.

The Agency selected Goddard Claussen Porter Novelli to market the School Facility Fee Down Payment Assistance Program based upon their experience in similar statewide campaigns, and the quality of their proposal. Furthermore, Goddard Claussen agreed to provide marketing services in phases with the continuing phase dependent upon the demonstrated results of the previous phase.

Goddard Claussen's marketing plan commenced with Phase One on May **1,2001** and continues to July **31,2001**. The objectives of the Phase One plan are:

- Research: conducted with focus groups within the parameters of Program **1--** Economically Distressed Areas, and Program **3 -** First-time, Moderate Income Homebuyer.
Time Frame: May **1,2001** to May **31,2001**
- Materials: after research, develop and deploy a variety of marketing materials to key audiences.
Time Frame: May **15,2001** to June **1,2001**
- Earned Media: promote the programs through contacts with real estate reporters in targeted areas. Develop articles, press releases, feature stories for broadcast, opportunity time for radio talk shows, press conferences, editorials, etc.
Time Frame: June **1,2001** to July **31,2001**
- Web Site Development: create a user friendly, clickable map for consumers to navigate the benefits of the programs within their communities.
Time Frame: Development: May **1,2001** to May **31,2001**
Maintenance: Duration of the campaign

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- Advertising: increase awareness of the program to target audiences through new home magazines, Pennysaver, etc. Additional place pro-bono ads in real estate sections of target area newspapers.
June to July **31,2001**
- Allies and Partners: in addition to earned media, create and maintain relationships with builders, Realtors, lenders and housing advocacy groups. Distribute material and make key presentations.
Time Frame: May **1,2001** to July **31,2001**

The total timeline for the first phase of the marketing plan is from May **1,2001** to July **31,2001**. The total budget for Phase One is **\$218,960**.

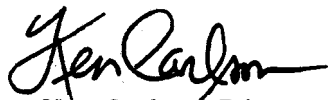
Upon completion of Phase One, CHFA and Goddard Claussen will evaluate the effectiveness of the campaign, and the impact of potential legislative changes to the program before contracting for Phase Two expansion of the marketing plan. Phase **Two** is dependent upon the demonstrated results from Phase One, and if accepted, would expand on the successes of the first phase.

The Agency will report to the Board prior to making a decision to proceed to Phase Two.

MEMORANDUM

To: Board of Directors

Date: May 2, 2001



Ken Carlson, Director of Financing

From: CALIFORNIA HOUSING FINANCE AGENCY

Subject: REPORT OF BOND SALE **AND** RELATED INTEREST RATE SWAPS
HOME MORTGAGE REVENUE BONDS 2001 SERIES EFG

On March 13* we determined the rates for \$20 million of fixed-rate bonds and arranged fixed rates through the swap market for \$130 million of variable rate bonds, for a total of \$150 million of bonds delivered on April 5. The tax-exempt variable rate bonds' initial rates were set on April 3 with weekly resets occurring thereafter. The taxable bonds' rates are set quarterly based on the LIBOR index.

The fixed-rate tax-exempt bonds were structured as serial bonds and capital appreciation term bonds. All of the taxables and \$25 million of the tax-exempts were issued in variable rate form and swapped to fixed rates. These swapped bonds are structured as "planned amortization class" bonds, and the swap amortizations match that of the corresponding bonds.

Proceeds of the bonds will be used to purchase approximately 1,160 new loans with rates ranging from 5.75% to 7.75%.

This issue is the third we have done where 70% (\$105 million) of the bonds are taxable. The benefit of using a higher percentage of taxable bonds (70% versus 60%) is that we can save approximately \$15 million of tax-exempt authority for another transaction later this year. This is our fourth issuance in which the Federal Home Loan Bank of San Francisco has purchased all (\$105 million) of our taxable bonds, and their cumulative investments in our bonds now total \$421 million. We anticipate that the FHLB will be able to continue to purchase our taxable bonds throughout the year.

By mid-March bond interest rates had increased and swap rates had decreased since our previous bond issue in January. For example, our tax-exempt capital appreciation bonds (Series E) priced at 6.00% as compared to 5.625% in January, and our taxable bonds (Series G) obtained a swap rate of 6.01% as compared with 6.215% in January.

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The Bank of New York has partnered with the California State Teachers' Retirement System to provide liquidity in the unlikely event that the **\$25** million of tax-exempt variable rate bonds are put back to us by investors and new investors cannot be found. All bonds are insured by FSA and therefore rated triple-A by both Moody's and **Standard & Poor's**.

Series	Amounts	Interest Rates	Maturities	Tax Status
Series E	\$19,999,564	4.25-6.00%	8/1/09-02/01/32	AMT
Series F	25,000,000	3.87%*	2/1/32	AMT
Series G	105,000,000	6.01%*	2/1/29	Taxable
	\$149,999,564			

*swap rates

State of California

MEMORANDUM

To: Board of Directors

Date: May 3, 2001



Ken Carlson, Director of Financing

From: CALIFORNIA HOUSING FINANCE AGENCY

Subject: UPDATE ON VARIABLE RATE BONDS AND INTEREST RATE SWAPS

The following report is accurate as of its date but does not include a large Home Mortgage Revenue Bond transaction scheduled for sale the week of the May 17 Board meeting. A report of the sale and an update to the figures in the tables below will be provided at the meeting.

Variable Rate Exposure

The total amount of CHFA variable rate debt outstanding is approximately \$2.11 billion, some 29% of our \$7.3 billion of total indebtedness. As shown in the table below, our "net" variable rate exposure is now \$518 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 <u>Loans</u>	Swapped to <u>Fixed Rate</u>	Not Swapped or Tied to Variable Rate <u>Loans</u>	Total Variable <u>Rate Debt</u>
Single Family	\$32	\$1,339	\$481	\$1,852
Multifamily	<u>16</u>	<u>209</u>	<u>37</u>	<u>262</u>
Total	\$48	\$1,548	\$518	\$2,114

As discussed previously, our \$518 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 and fast loan prepayments. As examples, we expect that new bond proceeds would have to be invested at an interest rate as low as 4%, and we have seen the monthly incidence of single family loan prepayments doubling from a \$30 million average to \$54 million in March and \$63 million in April. At the same time, we hope to offset the economic consequences of these effects with debt service savings on our unswapped variable rate bonds. As an example, the interest rates on our \$232 million of taxable variable rate bonds have dropped from last year's 6.5% range to 4.5% in step with the Federal Reserve's 200 basis points of rate cuts.

The table below summarizes this current risk position.

NET VARIABLE RATE DEBT
(*\$ in millions*)

	<u>Tax-Exempt</u>	<u>Taxable</u>	<u>Totals</u>
Short average life	\$248	\$ 89	\$337
Long average life	<u>38</u>	<u>143</u>	<u>181</u>
TOTALS	\$286	\$232	\$518

Interest Rate Swaps

We now have 32 swaps with, four different counterparties for a combined notional amount exceeding \$1.5 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*)

	<u>Tax-Exempt</u>	<u>Taxable</u>	<u>Totals</u>
Single family	\$378	\$961	\$1,339
Multifamily	<u>209</u>	<u>0</u>	<u>209</u>
TOTALS	\$587	\$961	\$1,548

It should be noted that, for **\$514** million of the **\$587** 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. We do not believe that the federal tax law changes currently proposed will have any significant effect on the interest rates we pay on these 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.

TYPES OF VARIABLE RATE DEBT (*\$ in millions*)

	Auction Rate <u>Bonds</u>	Indexed Rate <u>Bonds</u>	Variable Rate Demand <u>Obligations</u>	Total Variable Rate <u>Debt</u>
Single Family	\$87	\$449	\$1,316	\$1,852
Multifamily	<u>0</u>	<u>0</u>	<u>262</u>	<u>262</u>
Total	\$87	\$449	\$1,578	\$2,114

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 four transactions completed to date, the FHLB has purchased **\$421** million of these indexed rate bonds.

Liquidity Providers

The following table shows the financial institutions currently providing CHFA with liquidity in the form of standby bond purchase agreements for our VRDOs. Under these agreements, if our variable rate bonds are put back to us and cannot be remarketed, these institutions are obligated to buy the bonds from our remarketing agents.

LIQUIDITY PROVIDERS
(*\$ in millions*)

<u>Financial Institution</u>	<u>\$ Amount of Bonds</u>	<u>Type of Bonds</u>
Commerzbank	\$328.3	SF
CalSTRS	280.0	SF/MF
Westdeutsche Landesbank	218.9	SF/MF
KBC	157.9	SF
Bayerische Landesbank	145.8	SF
Landesbank Hessen-Thuringen	187.1	MF
Morgan Guaranty	62.3	SF/MF
State Street	60.9	SF
Lloyds TSB	55.6	SF
Bank of America	46.6	SF
Bank of New York	<u>18.8</u>	SF
Total	\$1,562.2	

We are currently negotiating extensions to the 3-year agreements we entered into in 1998 and 1999 with Bank of America, Westdeutsche Landesbank, Morgan Guaranty, Commerzbank, and CalSTRS. In addition, we are expecting final approval of Fannie Mae **to** provide up to \$250 million of liquidity for our multifamily program. This would be the first time that Fannie Mae has provided liquidity without **also** providing credit enhancement, **as** they do for their normal multifamily conduit programs with local issuers and mortgage companies.

Additional Workshop

We would propose to present the third of the three workshops on variable rate bonds and interest rate risk at the June **26** Board meeting. David Notkin, Director, **Merrill Lynch & Co.**, will be available to present the results of an interest rate sensitivity analysis of CHFA's bond and swap portfolios. This analysis will have been presented **to** both Moody's and Standard & Poor's the previous week during the annual rating agency visits made by the Executive Director and the Director of Financing. We look forward to this third opportunity to **share** information on this important topic with the Board.