California Housing Finance Agency

Board of Directors

Audit Committee

September 7, 2006
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Thursday, September 7, 2006

California Housing Finance Agency
Board of Directors
Audit Committee
Hilton Burbank Airport & Convention Center
2500 Hollywood Way
Burbank, California
(818) 843-6000

9:00 a.m.

1. Roll Call

2. Chairman comments.

3. Review and Discussion of Audit Committee Charter ..................................................5

4. Discussion of the current status of Audits at the Agency.

5. Discussion of the Fall 2006 Request for Proposal process for selecting independent auditors.

6. Public testimony.

7. Adjournment
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RESOLUTION 06-08

RESOLUTION APPROVING CREATION OF AUDIT COMMITTEE

WHEREAS, the California Housing Finance Agency (the "Agency") is required by law to have audited financial statements of both the California Housing Finance Fund, and the California Housing Loan Insurance Fund, and

WHEREAS, the staff of the Agency has recognized that both corporate and public boards are playing an increasingly direct role in the oversight of auditors and audited financial statements; and

WHEREAS, the staff of the Agency has recommended that the Board create an audit committee for the purpose of providing the Board with direct involvement with auditors in connection with the preparation and review of such financial statements, as well as the retention of auditors by the Agency; and

WHEREAS, the Board of Directors of the Agency recognizes that having a direct role in the audit process will constitute a sound financial practice that will assist both the auditors and staff in the preparation and review of the audits, and benefit the Board and the Agency generally;

WHEREAS, the Board has determined that the best method of providing such a role would be through the creation of an audit committee consisting of three voting members of the Board of Directors, to which the Board would delegate the authority to develop policies and procedures relating to the retention of auditors by the Agency, and which would otherwise act in an advisory capacity to the Board concerning audits and related financial matters;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors as follows:

1. There is hereby created an audit committee of the Board of Directors, consisting of three voting members of the Board, to be selected by the Chairman of the Board annually or as otherwise required, to fill vacancies.

2. The audit committee shall generally be advisory to the full Board of Directors, provided, however, that the Board delegates to the audit committee the
authority to create any internal procedures regarding the selection and retention of
auditors that the committee may deem appropriate.

3. The role of the audit committee shall be to meet with Agency staff and
outside auditors as necessary or desirable, to (i) develop any procedures necessary or
helpful in connection with the selection and retention of auditors; (ii) facilitate audits
of the Agency; (iii) review the scope of audits and any issues relating to such audits;
and (iv) to review proposed audit findings and other related financial issues. The
committee shall report to the full Board, at a regular meeting of the Board of Director
at least once a year, on the audit process and the results of such audits; and may take
such other actions as the Board may direct at such Board meetings.

4. All meetings of the audit committee shall be open public meetings.

I hereby certify that this is a true and correct copy of Resolution 06-08 adopted at a
duly constituted meeting of the Board of Directors of the Agency held on January 12,
2006, at Millbrae, California.

ATTEST: [Signature]
Secretary
RESOLUTION 06-15

RESOLUTION APPROVING AUDIT COMMITTEE CHARTER

WHEREAS, the California Housing Finance Agency (the "Agency") is required by law to have audited financial statements of both the California Housing Finance Fund, and the California Housing Loan Insurance Fund, and

WHEREAS, on January 12, 2006, the Board of Directors adopted Resolution 06-08, authorizing the creation of an audit committee of the Board; and

WHEREAS, the Chairman of the Board named Director Jack Shine as the Chairman of the audit committee, and Directors Carol Galante and Peter Carey as the additional members of the committee, as authorized by the terms of resolution 06-08; and

WHEREAS, the members of the committee and the staff of the Agency have developed a proposed charter for the committee;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors as follows:

1. The attached "Audit Committee Charter-May 2006" is hereby adopted by the Board.

I hereby certify that this is a true and correct copy of Resolution 06-15 adopted at a duly constituted meeting of the Board of Directors of the Agency held on July 6, 2006, at Sacramento, California.

ATTEST: 
Secretary
CALIFORNIA HOUSING FINANCE AGENCY
AUDIT COMMITTEE CHARTER
May, 2006

MISSION

The Audit Committee of the Board of Directors of the Agency will assist the Board of Directors in fulfilling its oversight responsibilities in the area of financial reporting and accounting integrity. In performing its duties, the Audit Committee will maintain effective working relationships with the Board of Directors, with Agency executive management and staff, and with the Agency's independent auditors. The Audit Committee has the authority to conduct any review appropriate to fulfilling its responsibilities. The committee will have direct access to independent auditors, as well as anyone in the organization.

COMPOSITION

The Audit Committee will be comprised of no less than three voting members of the Board, to be selected by the Chairman of the Board to serve on a rotational basis with staggered terms.

AUTHORITY

The Audit Committee has certain limited powers delegated to it by Board Resolution 06-08, and will act in an advisory capacity to the Board concerning audits and related financial matters. Management, staff and the independent auditor will serve as a resource to Committee in their understanding of the Agency's financial reporting responsibilities and any significant issues related to financial reporting and accounting policies. All employees of the Agency are directed to cooperate as requested by members of the Committee.

MEETING

The Audit Committee will meet at least twice per year. The committee will also report to the full Board, at a regular meeting of the Board of Directors at least once a year, on the audit process and results of such audits. All meetings of the committee shall be open public meetings subject to the same notice and agenda procedures as are regular meetings of the Board. Agency staff will serve as staff to the committee.

MINUTES

Minutes of each meeting will be prepared and sent to all members of the Board. The committee minutes need not be verbatim. Minutes of meetings are public records unless exempted under the California Public Records Act or other applicable law.
DUTIES

The Audit Committee will conduct its oversight activities by:

1. Periodically reviewing with the assistance of Agency management, staff and independent auditors the Agency’s policies and procedures. Part of this review shall include the direct inquiry of management and independent auditors about the significant risks or exposures and the steps management has taken to minimize such risk to the Agency.

2. Review with the staff and independent auditor the scope and general extent of the independent auditor’s examination. The Audit Committee’s review shall include an understanding from the independent auditor of the factors considered in determining the audit scope, including:
   a. Industry and business risk characteristics of the Agency
   b. External reporting requirements
   c. Materiality of the various segments of the Agency’s activities
   d. Quality of the Agency’s internal control structure
   e. Other areas to be covered during the audit engagement

3. Review with the Agency’s management, staff and independent auditors, upon the completion of their audit, financial results for the year. This Committee shall:
   a. Review the Agency’s annual financial statements and the opinion of the independent auditors;
   b. Discuss with management, staff and independent auditors any current accounting and reporting issues, including recent professional and regulatory pronouncements – Agency management and staff shall have the duty to inform Committee members of significant relevant issues and developments in accounting and financial reporting;
   c. Discuss with Agency management, staff and the independent auditor any significant changes from preceding years;
   d. Review the adequacy of disclosure of significant items;
   e. Discuss with Agency management, staff and the independent auditor the effect on financial statements of any proposed or implemented changes in accounting policies initiated by the Agency, independent auditors or pronouncements of standard boards or governmental authorities
   f. Presentation of financial statements
   g. Report to the Board any illegal, improper or sensitive transactions that have come to the attention of the Committee through information received by management, staff or the independent auditor or by any other means;
   h. Review significant adjustments proposed by the independent auditors.

4. Review all management letter items from the independent auditor and the written responses from management about each comment or finding. Discuss with the
independent auditors the level of professional competence of the Agency’s financial and accounting personnel, and any relevant recommendations, which the auditors may have.

5. Recommend to the Board of Directors any appropriate changes in the duties of the Committee. Review and update the Committee’s charter annually.

6. Review the Agency’s selection process in obtaining a multi-year auditing services contract with an independent auditor.

7. Review legal and regulatory matters that may have a material impact on the financial statements and related compliance policies and programs.

8. Review with management the Agency’s Conflict of Interest/Code of Ethics policy and the Agency’s system of enforcing the policy.
June 2, 2006

Ms. Theresa Parker
Agency Director
Mr. Dennis Meidinger
Comptroller
Mr. John A. Courson
Chairman of Board of Directors
California Housing Finance Fund
Administered by the California Housing Finance Agency
1121 L Street, 7th Floor
Sacramento, CA 95814

Dear Ms. Parker, Mr. Meidinger, and Mr. Courson:

Deloitte & Touche LLP ("D&T" or "we" or "us") is pleased to serve as independent auditors for the California Housing Finance Fund (the "Fund"), which is administered by the California Housing Finance Agency (the "Agency"), a component unit of the State of California, for the year ending June 30, 2006. Mr. Tim Stenwick will be responsible for the services that we perform for the Agency. He will be assisted by Mr. Troy Franklin in the performance of our services. Mr. Stenwick will, as he considers necessary, call on other individuals with specialized knowledge, either in this office or elsewhere in our firm, to assist in the performance of our services.

In addition to the audit services we are engaged to provide under this engagement letter, we would also be pleased to assist the Agency on issues as they arise throughout the year. Hence, we hope that you will call Mr. Stenwick whenever you believe D&T can be of assistance.

We will perform this engagement subject to the terms and conditions set forth herein and in the accompanying appendices.

Audit of Combined Financial Statements and Other Reporting

We will audit the combined balance sheet of the Fund as of June 30, 2006, and the related combined statements of revenues, expenses and changes in equity, and of cash flows for the year then ended. We will audit the Agency’s compliance with laws and regulations related to federal awards with respect to the Fund and report on the Fund’s schedule of expenditures of federal awards. In addition, we will audit and issue an opinion letter on the supplemental financial information that the Fund prepares. Our audits will be conducted in accordance with auditing standards generally accepted in the United States of America (hereinafter referred to as "generally accepted auditing standards"), standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and Office of Management and Budget ("OMB") Circular A-133, Audits of States, Local Governments and Non-profit Organizations.

We will plan and perform our audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement, whether caused by error or fraud, and we will perform tests of the Agency’s compliance with certain provisions of laws, regulations, contracts, and grants. However, because of the characteristics of fraud, a properly planned and performed audit may not detect a material misstatement. Therefore, an audit conducted in accordance with generally
accepted auditing standards is designed to obtain reasonable, rather than absolute, assurance that the combined financial statements are free of material misstatement. An audit is not designed to detect error or fraud that is immaterial to the combined financial statements or to detect immaterial instances of noncompliance.

As part of our audit, we will consider the Agency’s internal control and assess control risk, as required by generally accepted auditing standards and Government Auditing Standards, for the purpose of establishing a basis for determining the nature, timing, and extent of auditing procedures necessary for expressing an opinion on the combined financial statements, and not to provide assurance on the Agency’s internal control or to identify reportable conditions.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

Our auditing procedures will include tests of documentary evidence supporting the transactions recorded in the accounts and may include tests of the physical existence of inventories and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, creditors, and financial institutions. We will make audit inquiries and request written responses from your attorneys as part of the engagement, and they may bill you for responding to this inquiry.

As part of our audit of compliance with the requirements of major federal programs, we will obtain an understanding of the Agency’s internal control related to administering major federal programs and we will assess risk as required by OMB Circular A-133 for the purpose of establishing the nature, timing, and extent of auditing procedures necessary for expressing an opinion concerning compliance with laws and regulations related to major federal award programs.

As required by OMB Circular A-133, our audit of compliance will also include tests of transactions related to federal award programs for compliance with applicable laws and regulations. However, because of the concept of reasonable assurance and because we will not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or illegal acts may exist and not be detected by us. We will advise you, however, of any matters of that nature that come to our attention and will include such matters in the reports required for an audit in accordance with OMB Circular A-133. Our responsibility as auditors is limited to the period covered by our audit and does not extend to matters that arise during any subsequent periods for which we have not been engaged as auditors or for which we have performed no substantive auditing procedures.

The objectives of an audit carried out in accordance with the standards described above are (1) the expression of an opinion concerning whether the combined financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the Fund in conformity with accounting principles generally accepted in the United States of America (hereinafter referred to as “generally accepted accounting principles”), (2) reporting on the internal control relevant
to an audit of the combined financial statements, (3) reporting on the Agency's compliance with laws and regulations, which could have a material effect on the combined financial statements, (4) reporting on whether the schedule of expenditures of federal awards is fairly stated in all material respects when considered in relation to the basic combined financial statements taken as a whole, (5) the reporting on our determination as to whether the Agency's internal control provides reasonable assurance of compliance with federal laws and other laws and regulations, (6) the expression of an opinion on whether the Agency complied with specific terms and conditions of its major federal programs, and (7) preparation of a schedule of findings and questioned costs to summarize the results of the audit in accordance with the requirements of OMB Circular A-133.

The report on our understanding of the Agency's internal control and the assessment of control risk made as part of the Fund's financial statement audit will include (1) the scope of our work in obtaining an understanding of the Agency's internal control and in assessing the control risk and (2) the reportable conditions, including the identification of material weaknesses identified as a result of our work in understanding and assessing the control risk.

In addition, we will render a report on illegal acts, as required, depending on the results of our audit procedures.

We will complete and sign one copy of the auditor's information section of the Data Collection Form. The Agency's management must prepare all other sections of the form and sign the form prior to its submission to the Federal Bureau of the Census.

Our ability to express an opinion and render those reports, and the wording of our opinion and reports, will, of course, be dependent on the facts and circumstances at the date of such reports. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or decline to issue a report as a result of this engagement. If we are unable to complete our audit or if our auditors' reports require modification, the reasons therefor will be discussed with the Agency's management and the Board of Directors.

We understand that our reports on the Agency's internal control, as part of the financial statement audit and on compliance with laws and regulations, are intended for the information of the Board of Directors, management, and others within the Agency and officials of applicable federal and state grantor agencies.

The Board of Directors' Responsibility

The Board of Directors is responsible for informing us of its knowledge of any fraud or suspected fraud affecting the Agency.

Management's Responsibilities

Appendix A describes management's responsibilities for (1) the financial statements, (2) representation letters, (3) independence as a result of restrictions on providing certain services, and (4) independence matters relating to hiring.
Other Communications Arising From the Audit

Appendix B describes various matters that we are required by generally accepted auditing standards to communicate with the Board of Directors and management.

Fees

Our fees for these services will be based on the contract dated May 1, 2003, as may be amended. Based on the anticipated timing of the work, our fees will be invoiced approximately as follows:

<table>
<thead>
<tr>
<th>Service</th>
<th>Fee</th>
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<tbody>
<tr>
<td>Generally accepted accounting principles audit:</td>
<td></td>
</tr>
<tr>
<td>July—interim fieldwork</td>
<td>$45,300</td>
</tr>
<tr>
<td>September—progress payment</td>
<td>50,000</td>
</tr>
<tr>
<td>Report issuance date</td>
<td>4,000</td>
</tr>
<tr>
<td>Single audit:</td>
<td>99,300</td>
</tr>
<tr>
<td>July—interim fieldwork</td>
<td>14,000</td>
</tr>
<tr>
<td>Report issuance date</td>
<td>1,000</td>
</tr>
<tr>
<td>Opinion letter on supplemental financial information—</td>
<td>15,000</td>
</tr>
<tr>
<td>Report issuance date</td>
<td>2,700</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>$117,000</strong></td>
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</table>

Fees for the letters to underwriters related to the issuance of bonds will be invoiced upon issuance of the final letter related to each issuance.

Such fees do not include accounting, auditing, and other consultative services rendered during the year to assist you in areas including, but not limited to, the implementation of new accounting pronouncements and financial statement and footnote preparation. Fees related to these services will be based on services and terms mutually agreed upon on by D&T and the Agency’s management.

The estimate of our fees is based on certain assumptions. To the extent that certain circumstances, as listed in Appendix D, arise during the engagement, our fee estimate may be significantly affected and additional fees may be necessary. We will notify you promptly of any circumstances we encounter that could significantly affect our estimate and discuss with you any additional fees, as necessary. Additional services provided beyond the described scope of services will be billed separately.
Inclusion of D&T Reports or References to D&T in Other Documents or Electronic Sites

If the Agency intends to publish or otherwise reproduce in any document our report on the Agency’s financial statements, or otherwise make reference to D&T in a document that contains other information in addition to the audited financial statements (e.g., in a periodic filing with a regulator, in a debt or equity offering circular, or in a private placement memorandum), thereby associating D&T with such document, the Agency agrees that its management will provide D&T with a draft of the document to read and obtain our approval for the inclusion or incorporation by reference of our report, or the reference to D&T, in such document before the document is printed and distributed. The inclusion or incorporation by reference of our report in any such document would constitute the reissuance of our report. The Agency also agrees that its management will notify us and obtain our approval prior to including our report on an electronic site.

Our engagement to perform the services described herein does not constitute our agreement to be associated with any such documents published or reproduced by or on behalf of the Agency. Any request by the Agency to reissue our report, to consent to its inclusion or incorporation by reference in an offering or other document, or to agree to its inclusion on an electronic site will be considered based on the facts and circumstances existing at the time of such request. The estimated fees outlined herein do not include any services that would need to be performed in connection with any such request; fees for such services (and their scope) would be subject to the mutual agreement of the Agency and D&T at such time as D&T is engaged to perform the services and would be described in a separate engagement letter.

Access to Working Papers by Regulators

In accordance with the requirements of Government Auditing Standards and the Single Audit Act Amendments of 1996, we are required to provide access to our working papers and photocopies thereof to a federal agency or the Comptroller General of the United States upon their request for their regulatory oversight purposes. If such a request is made, we will inform you prior to providing such access. The working papers for this engagement are the property of D&T and constitute confidential information. Access to the requested working papers will be provided to representatives of the United States General Accounting Office or other appropriate government audit staffs under the supervision of D&T audit personnel and at a location designated by our firm. If photocopies are requested, we will mark all information as confidential and maintain control over the duplication of all information. All professional and administrative services relating to such access (including photocopying) will be charged, subject to the Agency's approval, as an additional expense to the engagement. The working papers relating to this audit will be retained by us for a minimum of three years from the date of the reports issued or such longer period as may be required to satisfy legal and administrative requirements.

* * * * *

We appreciate the opportunity to be of service to California Housing Finance Agency. If you have any questions, please let us know.
Ms. Theresa Parker  
Mr. Dennis Meidinger  
Mr. John A. Courson  
June 2, 2006  
Page 6

If the above terms are acceptable to you and the services outlined are in accordance with your understanding, please sign the enclosed copy of this letter in the space provided and return it to us.

Yours truly,

[Signature]

Deloitte & Touche LLP

Accepted and agreed to by the  
California Housing Finance Agency:

By: [Signature]  
Theresa A. Parker  
Title: Executive Director  
Date: 8/18/06
MANAGEMENT'S RESPONSIBILITIES
California Housing Finance Agency
Year Ending June 30, 2006

Financial Statements

The overall accuracy of the financial statements and their conformity with generally accepted accounting principles is the responsibility of the Agency’s management. In this regard, management has the responsibility for, among other things:

- Establishing and maintaining effective internal control over financial reporting
- Identifying and ensuring that the Agency complies with the laws and regulations applicable to its activities and informing us of any known material violations of such laws or regulations
- Adjusting the financial statements to correct material misstatements
- Making all financial records and related information available to us.

Representation Letters

We will make specific inquiries of the Agency’s management about the representations embodied in the financial statements. Additionally, we will request that management provide to us the written representations the Agency is required to provide to its independent auditors under generally accepted auditing standards. As part of our audit procedures, we will request that management provide us with a representation letter acknowledging management’s responsibility for the preparation of the financial statements and affirming management’s belief that the effects of any uncorrected financial statement misstatements aggregated by us during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We will also request that management confirm certain representations made to us during our audit. The responses to those inquiries and related written representations of management required by generally accepted auditing standards are part of the evidential matter that D&T will rely on in forming its opinion on the Agency’s financial statements. Because of the importance of management’s representations, the Agency agrees to release and indemnify D&T and its personnel from all claims, liabilities, and expenses relating to our services under this engagement letter attributable to any misrepresentation by management.

Independence Matters as a Result of Restrictions on Providing Certain Services

In connection with our engagement, D&T, management, and the Board of Directors will assume certain roles and responsibilities in an effort to assist D&T in maintaining independence. Management of the Agency will ensure that the Agency has policies and procedures in place for the purpose of ensuring that the Agency will not act to engage D&T or accept from D&T any service that under American Institute of Certified Public Accountants (“AICPA”) or other applicable rules would impair D&T’s independence. All potential services are to be discussed with Mr. Stenvick.
Independence Matters Relating to Hiring

Management will coordinate with D&T to ensure that D&T’s independence is not impaired by hiring former or current D&T partners, principals, or professional employees in a key position, as defined in the AICPA Code of Professional Conduct, that would cause a violation of the AICPA Code of Professional Conduct or other applicable independence rules. Any employment opportunities with the Agency for a former or current D&T partner, principal, or professional employee should be discussed with Mr. Stenwick before entering into substantive employment conversations with the former or current D&T partner, principal, or professional employee.

For purposes of the preceding two paragraphs, “D&T” shall mean Deloitte & Touche LLP and its subsidiaries; Deloitte Touche Tohmatsu, its member firms, the affiliates of Deloitte & Touche LLP, Deloitte Touche Tohmatsu and its member firms; and, in all cases, any successor or assignee.
OTHER COMMUNICATIONS ARISING FROM THE AUDIT
California Housing Finance Agency
Year Ending June 30, 2006

Fraud and Illegal Acts

We will report directly to the Board of Directors any fraud of which we become aware that involves senior management and any fraud (whether caused by senior management or other employees) of which we become aware that causes a material misstatement of the financial statements. We will report to senior management any fraud perpetrated by lower-level employees of which we become aware that does not cause a material misstatement of the financial statements; however, we will not report such matters directly to the Board of Directors, unless otherwise directed by the Board of Directors.

We will inform the appropriate level of management of the Agency and determine that the Board of Directors is adequately informed with respect to illegal acts that have been detected or have otherwise come to our attention in the course of our audit, unless the illegal acts are clearly inconsequential.

Internal Control Matters

We will report directly to the Board of Directors and the Agency’s management matters coming to our attention during the course of our audit that we believe are reportable conditions.

Reportable conditions are matters coming to D&T’s attention that, in our judgment, should be communicated to the Board of Directors because they represent significant deficiencies in the design or operation of internal control, which could adversely affect the Agency’s ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

Other Matters

In addition, we will communicate to the Board of Directors, or determine that the Board of Directors is informed, about certain other matters related to the conduct of our audit, including, when applicable:

- Our responsibility as auditors under generally accepted auditing standards, Government Auditing Standards, and OMB Circular A-133
- Significant accounting policies
- Management judgments and accounting estimates
- Audit adjustments
- Other information in documents containing audited financial statements
- Disagreements with management
- Consultation by management with other accountants on significant matters
• Difficulties encountered in performing the audit

• Major issues discussed with management prior to our retention as auditors.

We may also have other comments for the Board of Directors and the Agency’s management on matters we have observed and possible ways to improve the efficiency of the Agency’s operations or other recommendations concerning internal control.

With respect to these other communications, it is our practice to discuss all comments, if appropriate, with the level of management responsible for the matters prior to their communication to senior management and/or the Board of Directors.
**COORDINATION OF THE AUDIT**  
California Housing Finance Agency  
Year Ending June 30, 2006

**Coordination of the Audit**

We will plan the performance of our audit in accordance with the following timetable:

<table>
<thead>
<tr>
<th>Audit Performance Schedule:</th>
<th>Begin</th>
<th>Targeted for Completion</th>
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<tbody>
<tr>
<td>Planning, interim, and single audit procedures</td>
<td>June 26, 2006</td>
<td>July 14, 2006</td>
</tr>
<tr>
<td>Year-end</td>
<td>August 28, 2006</td>
<td>September 29, 2006</td>
</tr>
</tbody>
</table>

**Audit Communications:**
- Report on audit of combined financial statements  
- Report of findings and questioned costs and reportable conditions, if any  
- Report for Single Audit, A133  
- Other management comments  

<table>
<thead>
<tr>
<th>Audit Communications</th>
<th>Begin</th>
<th>Targeted for Completion</th>
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<tbody>
<tr>
<td>Report on audit of combined financial statements</td>
<td></td>
<td>October 13, 2006</td>
</tr>
<tr>
<td>Report of findings and questioned costs and reportable</td>
<td></td>
<td>October 13, 2006</td>
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<td>conditions, if any</td>
<td></td>
<td></td>
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<tr>
<td>Report for Single Audit, A133</td>
<td></td>
<td>October 13, 2006</td>
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<tr>
<td>Other management comments</td>
<td></td>
<td>October 13, 2006</td>
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CIRCUMSTANCES AFFECTING TIMING AND FEE ESTIMATE
California Housing Finance Agency
Year Ending June 30, 2006

The fees quoted for the audit are based on certain assumptions. Circumstances may arise during the engagement that may significantly affect the targeted completion dates and our fee estimate. As a result, additional fees may be necessary. Such circumstances include but are not limited to the following:

Audit Facilitation

1. Changes to the timing of the engagement at the Agency’s request. Changes to the timing of the engagement usually require reassignment of personnel used by D&T in the performance of services hereunder. However, because it is often difficult to reassign individuals to other engagements, D&T may incur significant unanticipated costs.

2. All audit schedules are not (a) provided by the Agency on the date requested, (b) completed in a format acceptable to D&T, (c) mathematically correct, or (d) in agreement with the appropriate the Agency records (e.g., general ledger accounts). D&T will provide the Agency with a separate listing of required schedules, information requests, and the dates such items are needed.

3. Significant delays in responding to our requests for information such as reconciling variances or providing requested supporting documentation (e.g., invoices, contracts, and other documents).

4. Deterioration in the quality of the Agency’s accounting records during the current-year engagement in comparison with the prior-year engagement.

5. A completed trial balance, referenced to the supporting analyses and schedules and financial statements, is not provided timely by the Agency.

6. Draft financial statements with appropriate supporting documentation are not prepared accurately and timely by the Agency’s personnel.

7. Electronic files in an appropriate format and containing the information requested are not provided by the Agency on the date requested for our use in performing file interrogation. D&T will provide the Agency with a separate listing of the required files and the dates the files are needed.

8. The engagement team, while performing work on the Agency’s premises, is not provided with high-speed access to the Internet via the Agency’s existing network or through a T1, DSL, or cable connection for purposes of conducting the engagement.

Significant Issues or Changes

9. Reportable conditions are identified in the Agency’s internal control that result in the expansion of our audit procedures.
10. A significant level of proposed audit adjustments is identified during our audit.

11. A significant number of drafts of the financial statements are submitted for our review or we identify a significant level of deficiencies in the draft financial statements.

12. Significant new issues or changes as follows:
   b. Significant changes in accounting policies or practices from those used in prior years.
   c. Significant changes or transactions not contemplated in our budgets.
   d. Significant changes in the Agency’s financial reporting process or IT systems.
   e. Significant changes in the Agency’s accounting personnel, their responsibilities, or their availability.
   f. Significant changes in auditing standards.
   g. Significant changes in the Agency’s use of specialists or the specialists or their work product does not meet the qualifications required by generally accepted auditing standards for our reliance upon their work.

13. Changes in audit scope caused by events that are beyond our control.
GENERAL BUSINESS TERMS
California Housing Finance Agency
Year Ending June 30, 2006

1. **Independent Contractor.** It is understood and agreed that D&T is an independent contractor and that D&T is not, and will not be considered to be, an agent, partner, fiduciary, or representative of the Agency or the Board of Directors.

2. **Survival.** The agreements and undertakings of the Agency and the Board of Directors contained in the engagement letter to which these terms are attached (the “engagement letter”), together with the appendices to the engagement letter including these terms, will survive the completion or termination of this engagement.

3. **Assignment.** Except as provided below, no party may assign, transfer, or delegate any of its rights or obligations relating to this engagement (including, without limitation, interests or claims relating to this engagement) without the prior written consent of the other parties. The Agency and the Board of Directors hereby consent to D&T assigning or subcontracting any of D&T’s rights or obligations relating to this engagement to any affiliate or related entity, whether located within or outside of the United States.

4. **Waiver of Jury Trial.** The parties hereby irrevocably waive, to the fullest extent permitted by law, all rights to trial by jury in any action, proceeding, or counterclaim (whether in contract, statute, tort (such as negligence), or otherwise) relating to this engagement.
The California Housing Finance Agency (CalHFA or the Agency), an agency of the State of California, is seeking the services of a highly qualified and experienced firm to carry out a senior executive salary survey using relevant labor pool throughout the U.S. The Agency is sponsoring legislation that allows its Board of Director to establish competitive senior executive salaries based on a salary survey. CalHFA seeks assistance establishing survey methodology, conducting the salary survey and analyzing the findings. (The methodology must be reviewed by The Department of Personnel Administration.) The Board of Directors has established a Compensation Committee to assist the Board with its role in setting competitive salaries.

CalHFA is a mortgage bank which provides loans and mortgage insurance for single family housing and finances the development of affordable rental housing. The Agency owns over $9 billion in assets; $7 billion in outstanding bonds and notes and has over $1.5 billion of mortgage insurance in force. CalHFA has its own credit rating from Wall Street independent of the State’s credit rating, and is solely responsible for repayment of its bonds and insurance obligations.

CalHFA is a self-supporting entity and is not a part of the Governor’s Budget and is not subject to the Budget Act. Investor capital through the sale of bonds provides the Agency’s source of revenue, not taxpayers’ dollars. Existing statutes and bond indentures clearly state that the Agency’s debts are not a debt or liability of the State or any political subdivision thereof and are not backed by the faith and credit of the State of California.

As the housing market in California has changed, so has the complexity and sophistication of the debt transactions and the volume of business conducted by CalHFA. The Agency must function at a level necessary to meet its responsibilities to its bondholders and other financial partners on Wall Street. It must also demonstrate an expertise in developing and executing new and innovative programs that can meet the needs of a rapidly changing housing market. Each new innovative program requires expertise to manage the credit, real estate and other related business risks. Wall Street investment credit rating firms demand competent and tenured management teams in order to maintain an excellent rating. Maintaining excellent bond and insurance credit ratings is critical to CalHFA’s ability to deliver its products and manage its $9 billion in assets.

CalHFA recruits for its senior executive management positions from the open labor market. A number of these positions are gubernatorial appointments and these positions are exempt from civil service compensation rules. These positions were established to allow the Agency the flexibility to attract expertise from the private sector markets.

Authority

Section 50909 of the California Health & Safety Code permits the Agency to contract with qualified firms to assist the Agency in its operations.
Scope of Work

Determine the relevant labor market and comparable positions. Analyze compensation data for relevant market sectors, including governmental/not-for-profit entities, mortgage banks and other financial institutions and companies in the general industry. Assess the competitiveness of the total cash compensation for seven senior management positions.

Objectives

Define the appropriate labor market for each position
Determine competitive base salary and total cash compensation for each position
Provide survey methodology
Present market trends related to incentive practices within the surveyed labor market
Present findings

Key Management Positions

Position Title

Executive Director
Chief Deputy Director
General Counsel
Director of Legislation
Director of Homeownership Programs
Director of Financing
Director of Multifamily Programs
Director of Insurance
Chief Information Officer, Information Technology
Financial Risk Management Director

Timeframe

Time is of the essence.

Survey methodology must be determined and provided to the Compensation Committee by ______(tbd)______
Survey must be completed and data presented to the Compensation Committee by ______(tbd)______ (In advance of November board meeting which is 11/9/06)
Cal HFA BOARD OF DIRECTORS
RESOLUTION INDEX

CalHFA RESOLUTION LIST

September 7, 2006

RESOLUTION 06-16 - Resolution Approving Compensation Committee Charter
Asset Management

Presentation for the CalHFA Board of Directors

September 7, 2006
CalHFA RESOLUTION LIST

September 7, 2006

RESOLUTION 06-16 - Resolution Approving Compensation Committee Charter
Asset Management

Presentation for the CalHFA Board of Directors

September 7, 2006
REO Sales Update

- **Kingsley** - 83 u. family, Mid-Wilshire, LA
  - Regulated to 2/1/2019
  - F/C value: $4.5M
  - Sold: $11.3M

- **North Hollywood** - 99 u. family, N. Hollywood
  - Regulated to 8/1/2018
  - F/C value: $4.2M
  - Sold: $14M

- **Dorjil** - 79 u. family, San Bernardino
  - Regulated to 2/1/2019
  - F/C value: $3.6M
  - Sold: $7.3M

- **Sunrise** - 152 u. family, Lancaster
  - Regulated to 1/28/2016
  - F/C value: $5.9M
  - Sale Pending: September close

- **Olive Tree** - 85 u. family, Livingston
  - Regulated to 7/1/2021
  - F/C value: $2.9M
  - Sale Pending: January 2007 close

- **Evergreen** - 25 u. family, Compton
  - Regulated to 6/1/2018
  - F/C value: $859,000
  - Asking price: $ To be determined
  - For sale
Financing Reports

- Recent Bond Sales and Swaps
  - Single Family Bonds
- Update on Draw Down Bonds Program
- Variable Rate Bonds and Swaps
# Recent Bond Issues

<table>
<thead>
<tr>
<th>Date of Sale</th>
<th>Bond Series</th>
<th>$ Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>6/28/06</td>
<td>Home Mortgage Revenue Bonds 2006 Series D, E &amp; F</td>
<td>$240,000,000</td>
</tr>
</tbody>
</table>
New Single Family Bonds

- $240 M HMRB 2006 DEF
- Proceeds for purchase of 900 new loans
- $155.3 M Interest Only Plus (IOP) loans
- $120 M Fixed-rate Insured Bonds
- $120 M Variable Rate Debt Obligations
  - Swapped to fixed rate
Draw Down Bonds

- $625 M outstanding
- Additional drawings of $62.9 M
- Refunded $305 M into long-term bonds
  - $285 M into single family bonds
  - $20 M into multifamily bonds
- Preserves tax-exempt bond authority
- Issued as variable rate bonds
- Privately placed
Report on Variable Rate Bonds and Swaps
Variable Rate Debt as of August 1, 2006

($ in Millions)

<table>
<thead>
<tr>
<th>Tied Directly to Variable Rate Assets</th>
<th>Swapped to Fixed Rate</th>
<th>Not Swapped or Tied to Variable Rate Loans</th>
<th>Total Variable Rate Debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>HMRB</td>
<td>$3</td>
<td>$3,889</td>
<td>$485</td>
</tr>
<tr>
<td>MHRB</td>
<td>222</td>
<td>857</td>
<td>175</td>
</tr>
<tr>
<td>HPB</td>
<td>0</td>
<td>35</td>
<td>76</td>
</tr>
<tr>
<td>DDB</td>
<td>625</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>TOTALS</strong></td>
<td><strong>$850</strong></td>
<td><strong>$4,781</strong></td>
<td><strong>$736</strong></td>
</tr>
</tbody>
</table>
## Types of Variable Rate Debt

($ in Millions )

<table>
<thead>
<tr>
<th></th>
<th>Auction Rate &amp; Similar Securities</th>
<th>Indexed Rate Bonds</th>
<th>Variable Rate Demand Obligations</th>
<th>Total Variable Rate Bonds</th>
</tr>
</thead>
<tbody>
<tr>
<td>HMRB</td>
<td>$162</td>
<td>$1,043</td>
<td>$3,172</td>
<td>$4,377</td>
</tr>
<tr>
<td>MHRB</td>
<td>475</td>
<td>0</td>
<td>779</td>
<td>1,254</td>
</tr>
<tr>
<td>HPB</td>
<td>0</td>
<td>0</td>
<td>111</td>
<td>111</td>
</tr>
<tr>
<td>DDB</td>
<td>0</td>
<td>625</td>
<td>0</td>
<td>625</td>
</tr>
<tr>
<td><strong>TOTALS</strong></td>
<td><strong>$637</strong></td>
<td><strong>$1,668</strong></td>
<td><strong>$4,062</strong></td>
<td><strong>$6,367</strong></td>
</tr>
</tbody>
</table>
# Fixed Payer Interest Rate Swaps

($ in Millions)

<table>
<thead>
<tr>
<th></th>
<th>Tax-Exempt</th>
<th>Taxable</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>HMRB</td>
<td>$3,117</td>
<td>$849</td>
<td>$3,966</td>
</tr>
<tr>
<td>MHRB</td>
<td>857</td>
<td>0</td>
<td>857</td>
</tr>
<tr>
<td>HPB</td>
<td>35</td>
<td>0</td>
<td>35</td>
</tr>
<tr>
<td>TOTALS</td>
<td>$4,009</td>
<td>$849</td>
<td>$4,858</td>
</tr>
</tbody>
</table>
Comparative Costs of Funds for Fixed-Rate Bonds and Synthetic Fixed-Rate Bonds (Variable Rate Bonds Swapped to Fixed) (All Rates as of August 23, 2006)

BMA-Based Swap: BMA Index x 101%
LIBOR-Based Swap: 64% LIBOR + 25 bps
California Housing Loan Insurance Fund

Presentation to the CalHFA Board of Directors

Charles K. McManus
Acting Director of Mortgage Insurance

September 7, 2006
# TABLE OF CONTENTS

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B. Frequency of Foreclosure by Other Risk Factors  
C. Condo Share of Policies Written  
D. FICO Segmentation – 1988 through 2006  
E. FICO Score Loss Rate Differential  
F. Frequency of Foreclosure by FICO and LTV  
G. Loss Rate by LTV and Condo/Non-Condo  
H. Percentage of Cumulative Losses Paid by Year  
I. Projected Claims Payments by Year  
J. Actual and Projected Loan Payoffs (Terminations)  
K. FICO Segmentation – 1988 through 2006  
L. Loans with Total Debt Ratio over 55.0% by Book Year  
M. Quality Control Plan
EXHIBIT A
California Housing Loan Insurance Fund

Expected Loss Rate - LTV and Condo Property Type\(^1\)

Data as of June 2006

<table>
<thead>
<tr>
<th>LTV</th>
<th>Premium Rate</th>
<th>Coverage</th>
<th>Expected Loss Rate</th>
<th>Expected Loss Ratio(^2)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>No Condo</td>
<td>Condo @ 50%</td>
</tr>
<tr>
<td>85%</td>
<td>0.40%</td>
<td>35.0%</td>
<td>2.7%</td>
<td>3.2%</td>
</tr>
<tr>
<td>90%</td>
<td>0.55%</td>
<td>35.0%</td>
<td>3.6%</td>
<td>4.3%</td>
</tr>
<tr>
<td>95%</td>
<td>0.75%</td>
<td>35.0%</td>
<td>4.9%</td>
<td>5.9%</td>
</tr>
<tr>
<td>97%</td>
<td>0.85%</td>
<td>35.0%</td>
<td>5.7%</td>
<td>6.8%</td>
</tr>
<tr>
<td>100%</td>
<td>0.85%</td>
<td>35.0%</td>
<td>6.8%</td>
<td>8.2%</td>
</tr>
</tbody>
</table>

\(^1\) Fixed Rate, 700 FICO, Owner Occupied, Single Family, Full Documentation Mortgage Insurance Policy

\(^2\) Assumes 325% PSA
### EXHIBIT B
California Housing Loan Insurance Fund

**Expected Frequency of Foreclosure by Other Risk Segments**

**Expected Claim Rate**
Data as of June 2006

<table>
<thead>
<tr>
<th>Amortization</th>
<th>Factor</th>
<th>Mix</th>
</tr>
</thead>
<tbody>
<tr>
<td>30 Year Fixed</td>
<td>1.00</td>
<td>100.0%</td>
</tr>
<tr>
<td>Fixed &lt; 30</td>
<td>0.90</td>
<td>0.0%</td>
</tr>
<tr>
<td>Fixed &gt; 30</td>
<td>1.10</td>
<td>0.0%</td>
</tr>
<tr>
<td>ARM 5/1 or longer</td>
<td>1.10</td>
<td>0.0%</td>
</tr>
<tr>
<td>ARM 5/1 (&lt;5 yr lock)</td>
<td>1.20</td>
<td>0.0%</td>
</tr>
<tr>
<td>Total/Average</td>
<td>1.00</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Interest Only</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-I/O or Option Pay</td>
<td>1.00</td>
<td>50.0%</td>
</tr>
<tr>
<td>I/O or Option Pay</td>
<td>1.15</td>
<td>50.0%</td>
</tr>
<tr>
<td>Total/Average</td>
<td>1.08</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Loan Purpose</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase</td>
<td>1.00</td>
<td>100.0%</td>
</tr>
<tr>
<td>Rate/Team Refinance</td>
<td>0.95</td>
<td>0.0%</td>
</tr>
<tr>
<td>O/I Refinance</td>
<td>1.25</td>
<td>0.0%</td>
</tr>
<tr>
<td>Total/Average</td>
<td>1.00</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Property Type</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Family</td>
<td>1.00</td>
<td>50.0%</td>
</tr>
<tr>
<td>2-4 Family</td>
<td>1.20</td>
<td>0.0%</td>
</tr>
<tr>
<td>Condo</td>
<td>1.40</td>
<td>50.0%</td>
</tr>
<tr>
<td>Total/Average</td>
<td>1.20</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Occupancy</th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Owner Occupied</td>
<td>1.00</td>
<td>100.0%</td>
</tr>
<tr>
<td>Second Home</td>
<td>1.25</td>
<td>0.0%</td>
</tr>
<tr>
<td>Investor</td>
<td>1.50</td>
<td>0.0%</td>
</tr>
<tr>
<td>Total/Average</td>
<td>1.00</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Documentation</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Full</td>
<td>1.00</td>
<td>100.0%</td>
</tr>
<tr>
<td>Alternative (incl. BS)</td>
<td>1.10</td>
<td>0.0%</td>
</tr>
<tr>
<td>SIVA</td>
<td>1.25</td>
<td>0.0%</td>
</tr>
<tr>
<td>SISA</td>
<td>1.50</td>
<td>0.0%</td>
</tr>
<tr>
<td>NINA Nc Ratio</td>
<td>2.00</td>
<td>0.0%</td>
</tr>
<tr>
<td>Total/Average</td>
<td>1.00</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Loan Size</th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Conforming</td>
<td>1.00</td>
<td>100.0%</td>
</tr>
<tr>
<td>Jumbo</td>
<td>1.50</td>
<td>0.0%</td>
</tr>
<tr>
<td>Total/Average</td>
<td>1.00</td>
<td>100.0%</td>
</tr>
</tbody>
</table>
EXHIBIT C
California Housing Loan Insurance Fund

Condo Percentage (Number of loans)

Data as of June 2006

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Number of Policies</th>
<th>Number of Condo/Other</th>
<th>Percent of Condo/Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>2,020</td>
<td>513</td>
<td>25.4%</td>
</tr>
<tr>
<td>2001</td>
<td>3,361</td>
<td>772</td>
<td>23.0%</td>
</tr>
<tr>
<td>2002</td>
<td>3,095</td>
<td>753</td>
<td>24.3%</td>
</tr>
<tr>
<td>2003</td>
<td>1,575</td>
<td>426</td>
<td>27.2%</td>
</tr>
<tr>
<td>2004</td>
<td>1,489</td>
<td>572</td>
<td>38.9%</td>
</tr>
<tr>
<td>2005</td>
<td>2,378</td>
<td>1,268</td>
<td>53.3%</td>
</tr>
<tr>
<td>2006</td>
<td>1,365</td>
<td>694</td>
<td>50.3%</td>
</tr>
</tbody>
</table>

California Housing Insurance Fund
Condominium/Other Multi-Unit New Insurance Written Percentage

![Bar chart showing percentage of Condo/Other multi-unit insurance written from 2000 to 2006.](chart.png)
## EXHIBIT D
California Housing Loan Insurance Fund

**FICO Segmentation First Mortgages - Percent New Insurance Written Dollars**

<table>
<thead>
<tr>
<th>Book Year</th>
<th>&lt;580</th>
<th>580 to 619</th>
<th>620 to 659</th>
<th>660 to 679</th>
<th>680 to 735</th>
<th>&gt;735</th>
<th>No FICO</th>
<th>Lease Purchase</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988</td>
<td>- %</td>
<td>- %</td>
<td>- %</td>
<td>- %</td>
<td>- %</td>
<td>- %</td>
<td>100.0 %</td>
<td>- %</td>
<td>100.0 %</td>
</tr>
<tr>
<td>1989</td>
<td>- %</td>
<td>- %</td>
<td>- %</td>
<td>- %</td>
<td>- %</td>
<td>- %</td>
<td>100.0 %</td>
<td>- %</td>
<td>100.0 %</td>
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<tr>
<td>1990</td>
<td>- %</td>
<td>- %</td>
<td>- %</td>
<td>- %</td>
<td>- %</td>
<td>- %</td>
<td>100.0 %</td>
<td>- %</td>
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<tr>
<td>1991</td>
<td>- %</td>
<td>- %</td>
<td>- %</td>
<td>- %</td>
<td>- %</td>
<td>- %</td>
<td>100.0 %</td>
<td>- %</td>
<td>100.0 %</td>
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<tr>
<td>1992</td>
<td>- %</td>
<td>- %</td>
<td>- %</td>
<td>- %</td>
<td>- %</td>
<td>- %</td>
<td>100.0 %</td>
<td>- %</td>
<td>100.0 %</td>
</tr>
<tr>
<td>1993</td>
<td>- %</td>
<td>- %</td>
<td>- %</td>
<td>- %</td>
<td>- %</td>
<td>- %</td>
<td>100.0 %</td>
<td>- %</td>
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<tr>
<td>1994</td>
<td>- %</td>
<td>- %</td>
<td>- %</td>
<td>- %</td>
<td>- %</td>
<td>- %</td>
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<tr>
<td>1995</td>
<td>- %</td>
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<td>- %</td>
<td>- %</td>
<td>- %</td>
<td>- %</td>
<td>100.0 %</td>
<td>- %</td>
<td>100.0 %</td>
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<tr>
<td>1996</td>
<td>- %</td>
<td>- %</td>
<td>- %</td>
<td>- %</td>
<td>- %</td>
<td>- %</td>
<td>100.0 %</td>
<td>- %</td>
<td>100.0 %</td>
</tr>
<tr>
<td>1997</td>
<td>3.5%</td>
<td>4.3%</td>
<td>7.4%</td>
<td>5.2%</td>
<td>27.3%</td>
<td>29.4%</td>
<td>22.9%</td>
<td>- %</td>
<td>100.0 %</td>
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<tr>
<td>1998</td>
<td>1.2%</td>
<td>3.5%</td>
<td>12.3%</td>
<td>9.7%</td>
<td>30.7%</td>
<td>26.0%</td>
<td>16.6%</td>
<td>- %</td>
<td>100.0 %</td>
</tr>
<tr>
<td>1999</td>
<td>1.5%</td>
<td>2.7%</td>
<td>16.2%</td>
<td>13.6%</td>
<td>37.7%</td>
<td>25.1%</td>
<td>3.2%</td>
<td>- %</td>
<td>100.0 %</td>
</tr>
<tr>
<td>2000</td>
<td>1.0%</td>
<td>5.4%</td>
<td>20.6%</td>
<td>13.0%</td>
<td>34.7%</td>
<td>22.6%</td>
<td>2.7%</td>
<td>- %</td>
<td>100.0 %</td>
</tr>
<tr>
<td>2001</td>
<td>0.8%</td>
<td>2.5%</td>
<td>14.9%</td>
<td>9.7%</td>
<td>32.3%</td>
<td>26.5%</td>
<td>12.7%</td>
<td>0.6%</td>
<td>100.0 %</td>
</tr>
<tr>
<td>2002</td>
<td>0.5%</td>
<td>2.7%</td>
<td>18.2%</td>
<td>10.7%</td>
<td>35.4%</td>
<td>27.3%</td>
<td>1.7%</td>
<td>3.5%</td>
<td>100.0 %</td>
</tr>
<tr>
<td>2003</td>
<td>0.3%</td>
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<td>100.0 %</td>
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<td>1.2%</td>
<td>- %</td>
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</table>
EXHIBIT E
California Housing Loan Insurance Fund
FICO Score Loss Rate Differential compared to Base 700 FICO Mortgage
(100% LTV)
### EXHIBIT F
California Housing Loan Insurance Fund

**Expected Frequency of Foreclosure by FICO & LTV**

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<th>760</th>
<th>780</th>
<th>800</th>
<th>820</th>
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<td>0.8%</td>
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<td>1.6%</td>
<td>1.2%</td>
<td>1.0%</td>
<td>0.9%</td>
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<td>1.2%</td>
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<td>2.0%</td>
<td>1.6%</td>
<td>1.3%</td>
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<td>2.6%</td>
<td>2.0%</td>
<td>1.6%</td>
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<td>1.0%</td>
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<tr>
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<td>3.6%</td>
<td>2.7%</td>
<td>2.0%</td>
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<tr>
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<td>3.6%</td>
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<td>1.2%</td>
<td>1.0%</td>
</tr>
<tr>
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<td>9.2%</td>
<td>6.7%</td>
<td>4.9%</td>
<td>3.6%</td>
<td>2.7%</td>
<td>2.1%</td>
<td>1.6%</td>
<td>1.4%</td>
<td>1.2%</td>
</tr>
<tr>
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<td>14.1%</td>
<td>10.5%</td>
<td>7.8%</td>
<td>5.7%</td>
<td>4.2%</td>
<td>3.1%</td>
<td>2.4%</td>
<td>1.8%</td>
<td>1.5%</td>
<td>1.2%</td>
</tr>
<tr>
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<td>9.3%</td>
<td>6.8%</td>
<td>5.0%</td>
<td>3.7%</td>
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<td>1.6%</td>
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EXHIBIT G
California Housing Loan Insurance Fund

Expected Loss Rate - LTV and Condo Property Type\(^1\)

Data as of June 2006

<table>
<thead>
<tr>
<th>LTV</th>
<th>Premium Rate</th>
<th>Coverage</th>
<th>Expected Loss Rate</th>
<th>Expected Loss Ratio(^2)</th>
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<tr>
<td></td>
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<td>No Condo</td>
<td>Condo @ 50%</td>
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<tr>
<td>100%</td>
<td>0.85%</td>
<td>35.0%</td>
<td>6.8%</td>
<td>8.2%</td>
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</table>

\(^1\)Fixed Rate, 700 FICO, Owner Occupied, Single Family, Full Documentation Mortgage Insurance Policy

\(^2\)Assumes 325% PSA
EXHIBIT I
California Housing Loan Insurance Fund

Projected Claims Payment Pattern

<table>
<thead>
<tr>
<th>Year</th>
<th>Incremental Payment Pattern</th>
<th>Cumulative Payment Pattern</th>
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<td>1</td>
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<td>6</td>
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EXHIBIT J
California Housing Loan Insurance Fund

CalHFA Termination Rate Comparison
Based on Loan Dollars Terminating

Percent Terminating
0.0%  10.0%  20.0%  30.0%  40.0%  50.0%  60.0%  70.0%  80.0%  90.0%  100.0%
Termination Period
EXHIBIT K
California Housing Loan Insurance Fund

FICO Segmentation First Mortgages - Percent New Insurance Written Dollars

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<th>Book Year</th>
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<th>580 to 619</th>
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EXHIBIT L
California Housing Loan Insurance Fund

Total Debt Ratio Greater Than 55.0% by Book Year

<table>
<thead>
<tr>
<th>Book Year</th>
<th>Total Number of Loans</th>
<th>Number of Loans &gt; 55%</th>
<th>Percentage of Total</th>
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<tr>
<td>2004</td>
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<td>5</td>
<td>0.52%</td>
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<td>2005</td>
<td>2285</td>
<td>176</td>
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<tr>
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<td>2116</td>
<td>230</td>
<td>10.87%</td>
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EXHIBIT M
QUALITY CONTROL PLAN
CALHFA MORTGAGE INSURANCE SERVICES
(Effective June 2006)

GOALS AND OBJECTIVES

- Verify compliance with CalHFA underwriting requirements.
- Identify underwriting trends that create increased risk of future defaults and losses and convey findings to management for corrective action.
- Evaluate the quality of loans submitted for mortgage insurance coverage.
- Verify the accuracy and veracity of documentation submitted.
- Identify those areas, concentrations, lenders and agents who contribute to losses, fraud or unacceptable levels of risk.
- Make recommendations for changes in underwriting procedures and guidelines.
California Housing Loan Insurance Fund

Presentation to the CalHFA Board of Directors

Charles K. McManus
Acting Director of Mortgage Insurance

September 7, 2006
California Housing Loan Insurance Fund

Presentation to the CalHFA Board of Directors

Charles K. McManus
Acting Director of Mortgage Insurance

September 7, 2006
## BAY AREA HOUSING PLAN

### SCHEDULE OF PROPERTIES

<table>
<thead>
<tr>
<th>Property Address</th>
<th>Board Comm. 09/01/05</th>
<th>Board Comm. 01/08/06</th>
<th>Agency Status</th>
<th>Approval Date</th>
<th>Estimated Purchase</th>
<th>NPO RC</th>
<th>OCCRV</th>
<th>Tax Status</th>
<th>Property Type</th>
<th>Purchase Price</th>
<th>Rehab Estimate</th>
<th>Reserve 1 YR DS</th>
<th>Reserve 5%</th>
<th>LTV</th>
<th>LTV minus all reserves</th>
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<td>06/16/06</td>
<td>06/24/06</td>
<td>BAHC-SARC</td>
<td>EXP</td>
<td>FTM Duplex</td>
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<td>$364,624</td>
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<td>2 1320 Baywood, San Jose</td>
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<td>$25,000,000</td>
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<td>EXP</td>
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<td>3 227 Prague, San Mateo</td>
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<td>183%</td>
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<td>4 5506 Jasmine, Castro Valley</td>
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</tr>
<tr>
<td>5 506 &amp; 508 Northlake Dr., San Jose</td>
<td>$1,837,000</td>
<td>$25,000,000</td>
<td>4.2 Approval</td>
<td>07/17/06</td>
<td>07/24/06</td>
<td>BAHC-SARC</td>
<td>EXP</td>
<td>FTM Duplex</td>
<td>$820,000</td>
<td>$425,466</td>
<td>$91,850</td>
<td>$218,563</td>
<td>$820,000</td>
<td>224%</td>
<td>179%</td>
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<tr>
<td>6 625 &amp; 627 Vasana, Los Gatos</td>
<td>$1,806,000</td>
<td>$25,000,000</td>
<td>4.2 Approval</td>
<td>07/25/06</td>
<td>07/28/06</td>
<td>BAHC-SARC</td>
<td>EXP</td>
<td>FTM Duplex</td>
<td>$860,000</td>
<td>$322,527</td>
<td>$90,300</td>
<td>$214,575</td>
<td>$860,000</td>
<td>210%</td>
<td>185%</td>
</tr>
<tr>
<td>7 629 &amp; 631 Vasana, Los Gatos</td>
<td>$1,819,000</td>
<td>$25,000,000</td>
<td>4.2 Approval</td>
<td>07/25/06</td>
<td>07/28/06</td>
<td>BAHC-SARC</td>
<td>EXP</td>
<td>FTM Duplex</td>
<td>$860,000</td>
<td>$356,456</td>
<td>$90,950</td>
<td>$216,622</td>
<td>$860,000</td>
<td>212%</td>
<td>186%</td>
</tr>
<tr>
<td>8 637 &amp; 639 Vasana, Los Gatos</td>
<td>$1,803,000</td>
<td>$25,000,000</td>
<td>4.2 Approval</td>
<td>07/26/06</td>
<td>07/28/06</td>
<td>BAHC-SARC</td>
<td>EXP</td>
<td>FTM Duplex</td>
<td>$860,000</td>
<td>$348,899</td>
<td>$90,150</td>
<td>$214,118</td>
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<tr>
<td>9 1920 Pierce St., San Mateo</td>
<td>$1,660,000</td>
<td>$25,000,000</td>
<td>4.2 Approval</td>
<td>08/27/06</td>
<td>09/17/06</td>
<td>WBHC-GBHC</td>
<td>Tax</td>
<td>SRH 3</td>
<td>$775,000</td>
<td>$335,701</td>
<td>$83,000</td>
<td>$197,304</td>
<td>$785,000</td>
<td>211%</td>
<td>176%</td>
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<tr>
<td>10 5402 Club Drive, San Mateo</td>
<td>$1,920,000</td>
<td>$25,000,000</td>
<td>Senior Staff</td>
<td>08/28/06</td>
<td>09/14/06</td>
<td>BAHC-SARC</td>
<td>EXP</td>
<td>962 Med 5</td>
<td>$860,000</td>
<td>$432,871</td>
<td>$96,000</td>
<td>$228,388</td>
<td>$860,000</td>
<td>223%</td>
<td>192%</td>
</tr>
</tbody>
</table>

CalHFA Approvals to Date: $18,087,000

Credit Remaining: $137,300

**Pending Acquisitions**

<table>
<thead>
<tr>
<th>Property Address</th>
<th>Board Comm. 09/01/05</th>
<th>Board Comm. 01/08/06</th>
<th>Agency Status</th>
<th>Approval Date</th>
<th>Estimated Purchase</th>
<th>NPO RC</th>
<th>OCCRV</th>
<th>Tax Status</th>
<th>Property Type</th>
<th>Purchase Price</th>
<th>Rehab Estimate</th>
<th>Reserve 1 YR DS</th>
<th>Reserve 5%</th>
<th>LTV</th>
<th>LTV minus all reserves</th>
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</thead>
<tbody>
<tr>
<td>11 2554 Chablis Way, Livermore</td>
<td>$1,858,000</td>
<td>$25,000,000</td>
<td>Prel Approval</td>
<td>09/05/06</td>
<td>HCEB-RCEB</td>
<td>x</td>
<td>Tax</td>
<td>962 Med 5</td>
<td>$870,000</td>
<td>$363,436</td>
<td>$90,900</td>
<td>$201,429</td>
<td>$860,000</td>
<td>216%</td>
<td>192%</td>
</tr>
<tr>
<td>12 14239 Mulberry, Los Gatos</td>
<td>$1,800,000</td>
<td>$25,000,000</td>
<td>Prel Approval</td>
<td>09/08/06</td>
<td>BAHC-SARC</td>
<td>EXP</td>
<td>962 Med 5</td>
<td>$749,950</td>
<td>$90,000</td>
<td>$210,293</td>
<td>$860,000</td>
<td>209%</td>
<td>165%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>13 2508 Regent Road, Livermore</td>
<td>$2,000,000</td>
<td>$25,000,000</td>
<td>Prel Approval</td>
<td>09/25/06</td>
<td>HCEB-RCEB</td>
<td>EXP</td>
<td>962 Med 5</td>
<td>$835,000</td>
<td>$100,000</td>
<td>$233,500</td>
<td>$840,000</td>
<td>238%</td>
<td>210%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>14 21763 ShadySprings Rd, Castro Valley</td>
<td>$1,820,000</td>
<td>$25,000,000</td>
<td>Prel Approval</td>
<td>10/03/06</td>
<td>BAHC-SARC</td>
<td>EXP</td>
<td>962 Med 5</td>
<td>$680,000</td>
<td>$91,000</td>
<td>$212,230</td>
<td>$660,000</td>
<td>205%</td>
<td>236%</td>
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<td></td>
</tr>
<tr>
<td>15 4865 Wellington Park, San Jose</td>
<td>$1,700,000</td>
<td>$25,000,000</td>
<td>Prel Approval</td>
<td>10/02/06</td>
<td>BAHC-SARC</td>
<td>EXP</td>
<td>962 Med 5</td>
<td>$782,000</td>
<td>$85,000</td>
<td>$198,510</td>
<td>$775,000</td>
<td>219%</td>
<td>194%</td>
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</tr>
<tr>
<td>16 1112 Sunnyside Drive, South San Jose</td>
<td>$1,800,000</td>
<td>$25,000,000</td>
<td>Prel Approval</td>
<td>10/12/06</td>
<td>WBHC-GBHC</td>
<td>EXP</td>
<td>962 Med 5</td>
<td>$680,000</td>
<td>$90,000</td>
<td>$210,293</td>
<td>$660,000</td>
<td>205%</td>
<td>223%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>17 1448 Fiera, San Jose</td>
<td>$1,800,000</td>
<td>$25,000,000</td>
<td>Prel Approval</td>
<td>10/20/06</td>
<td>BAHC-SARC</td>
<td>EXP</td>
<td>962 Med 5</td>
<td>$785,000</td>
<td>$90,000</td>
<td>$210,293</td>
<td>$785,000</td>
<td>222%</td>
<td>203%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>18 2324 Oak Flat Road, San Jose</td>
<td>$1,800,000</td>
<td>$25,000,000</td>
<td>Prel Approval</td>
<td>10/24/06</td>
<td>BAHC-SARC</td>
<td>EXP</td>
<td>962 Med 5</td>
<td>$770,000</td>
<td>$90,000</td>
<td>$210,293</td>
<td>$610,000</td>
<td>222%</td>
<td>196%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>19 633 Vanessa, San Mateo</td>
<td>$1,800,000</td>
<td>$25,000,000</td>
<td>Prel Approval</td>
<td>10/12/06</td>
<td>WBHC-GBHC</td>
<td>EXP</td>
<td>962 Med 5</td>
<td>$750,000</td>
<td>$90,000</td>
<td>$210,293</td>
<td>$610,000</td>
<td>222%</td>
<td>196%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>20 5374 Olympiad Court, Union City</td>
<td>$1,800,000</td>
<td>$25,000,000</td>
<td>Prel Approval</td>
<td>10/21/06</td>
<td>HCEB-RCEB</td>
<td>EXP</td>
<td>962 Med 5</td>
<td>$860,000</td>
<td>$90,000</td>
<td>$210,293</td>
<td>$860,000</td>
<td>205%</td>
<td>181%</td>
<td></td>
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</tr>
</tbody>
</table>

**All Current Approvals and Pending Acquisitions**

- CalHFA Taxable Rate: $18,178,000
- 110% Contingency Factor: $19,958,890
- Credit Remaining: $18,988,500
- Total of Commitments and Pending Acquisitions: $36,335,000
- 110% Contingency Factor: $30,856,500
- Total Credit Remaining: $5,141,500
**BAY AREA HOUSING PLAN**

**Difference in the Agency Approval Amounts and Hallmarks Projected Tracking of Costs**

<table>
<thead>
<tr>
<th>Agency Approved Properties/Acquisitions</th>
<th>Agency Commitment</th>
<th>Hallmark Tracking</th>
<th>Difference</th>
<th>%Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>1529 Eden, San Jose</td>
<td>$1,821,000</td>
<td>$1,745,842</td>
<td>$75,158</td>
<td>4.13%</td>
</tr>
<tr>
<td>1320 Baywood, San Jose</td>
<td>$2,008,000</td>
<td>$1,933,900</td>
<td>$74,100</td>
<td>3.69%</td>
</tr>
<tr>
<td>227 Prague, San Mateo</td>
<td>$1,689,000</td>
<td>$1,622,415</td>
<td>$66,585</td>
<td>3.94%</td>
</tr>
<tr>
<td>5508 Jasmine, Castro Valley</td>
<td>$1,694,000</td>
<td>$1,612,075</td>
<td>$81,925</td>
<td>4.84%</td>
</tr>
<tr>
<td>508 &amp; 508 Northlake Dr., San Jose</td>
<td>$1,837,000</td>
<td>$1,745,283</td>
<td>$91,717</td>
<td>4.99%</td>
</tr>
<tr>
<td>625 &amp; 627 Vasona, Los Gatos</td>
<td>$1,806,000</td>
<td>$1,718,935</td>
<td>$87,065</td>
<td>4.82%</td>
</tr>
<tr>
<td>629 &amp; 631 Vasona, Los Gatos</td>
<td>$1,819,000</td>
<td>$1,731,289</td>
<td>$87,711</td>
<td>4.82%</td>
</tr>
<tr>
<td>637 &amp; 639 Vasona, Los Gatos</td>
<td>$1,803,000</td>
<td>$1,716,012</td>
<td>$86,988</td>
<td>4.82%</td>
</tr>
<tr>
<td>1720 Pierce St., San Mateo</td>
<td>$1,660,000</td>
<td>$1,597,461</td>
<td>$62,539</td>
<td>3.77%</td>
</tr>
<tr>
<td>5402 Club Drive, San Mateo</td>
<td>$1,920,000</td>
<td>$1,815,000</td>
<td>$105,000</td>
<td>5.47%</td>
</tr>
<tr>
<td>CalHFA Approvals to Date</td>
<td>$18,057,000</td>
<td>$17,238,212</td>
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<td>110% Contingency Factor</td>
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</table>

**Pending Acquisitions**

<table>
<thead>
<tr>
<th>Agency Approved Properties/Acquisitions</th>
<th>Agency Commitment</th>
<th>Hallmark Tracking</th>
<th>Difference</th>
<th>%Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>2654 Chablis Way, Livermore</td>
<td>$1,858,000</td>
<td>$1,789,429</td>
<td>$68,571</td>
<td>3.69%</td>
</tr>
<tr>
<td>14239 Mulberry, Los Gatos</td>
<td>$1,800,000</td>
<td>$1,728,000</td>
<td>$72,000</td>
<td>4.00%</td>
</tr>
<tr>
<td>2508 Regent Road, Livermore</td>
<td>$2,000,000</td>
<td>$1,691,000</td>
<td>$309,000</td>
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<td>21763 Shadysprings Rd, Castro Valley</td>
<td>$1,820,000</td>
<td>$1,555,200</td>
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<td>14.55%</td>
</tr>
<tr>
<td>4865 Wellington Park, San Jose</td>
<td>$1,700,000</td>
<td>$1,632,000</td>
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<td>4.00%</td>
</tr>
<tr>
<td>1112 Sunnyside Drive, South SF</td>
<td>$1,800,000</td>
<td>$1,728,000</td>
<td>$72,000</td>
<td>4.00%</td>
</tr>
<tr>
<td>1446 Flora, San Jose</td>
<td>$1,800,000</td>
<td>$1,728,000</td>
<td>$72,000</td>
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<tr>
<td>2334 Oak Flat Road, San Jose</td>
<td>$1,800,000</td>
<td>$1,728,000</td>
<td>$72,000</td>
<td>4.00%</td>
</tr>
<tr>
<td>633 Vanessa, San Mateo</td>
<td>$1,800,000</td>
<td>$1,728,000</td>
<td>$72,000</td>
<td>4.00%</td>
</tr>
<tr>
<td>32744 Olympiad Court, Union City</td>
<td>$1,800,000</td>
<td>$1,728,000</td>
<td>$72,000</td>
<td>4.00%</td>
</tr>
<tr>
<td>Pending Approvals</td>
<td>$18,178,000</td>
<td>$17,035,629</td>
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<td>110% Contingency Factor</td>
<td>$19,995,800</td>
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**TOTAL COMMITMENTS AND PENDING ACQUISITIONS**

<table>
<thead>
<tr>
<th>Agency Approved Properties/Acquisitions</th>
<th>Agency Commitment</th>
<th>Hallmark Tracking</th>
<th>Difference</th>
<th>%Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Approvals &amp; Pending Acquisitions</td>
<td>$36,235,000</td>
<td>$34,273,841</td>
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<tr>
<td>110% Contingency Factor</td>
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<tr>
<td>Total Credit Remaining</td>
<td>$5,141,500</td>
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**TOTAL PROJECTED COSTS**

<table>
<thead>
<tr>
<th>Agency Approved Properties/Acquisitions</th>
<th>Agency Commitment</th>
<th>Hallmark Tracking</th>
<th>Difference</th>
<th>%Difference</th>
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</thead>
<tbody>
<tr>
<td>All 71 Properties</td>
<td>$127,935,000</td>
<td>$122,402,506</td>
<td>$5,532,494</td>
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<tr>
<td>110% Contingency Factor</td>
<td>$140,728,500</td>
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</tbody>
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MEMORANDUM

To: CalHFA Board of Directors  
Date: 5 September 2006

From: Di Richardson, Director of Legislation  
CALIFORNIA HOUSING FINANCE AGENCY

Subject: Legislative Report

The 2005-06 Legislative Session has come to an end. All bills introduced during this session are either dead, have been enacted, or are pending action by the Governor. The Governor has until the end of September to take final action. Unlike the federal government, which has a “pocket veto,” if the Governor does not take action on a bill, it becomes law without his signature. If there is something he does not want to take effect, he must be proactive and veto the bill. As always, if you have any questions, please feel free to contact me at 916.324.0801.

CalHFA Sponsor

SB 257  
(Chesbro) Special needs housing. (E-09/01/2006)  
Status: Enrolled – Pending Governor’s Action

Summary:  
This bill creates a new chapter within CalHFA statutes for funding special needs housing. It also clarifies the authority of the Board of Directors to set salaries for key exempt management positions.

Bonds

AB 2286  
(Torrico) Housing. (A-05/16/2006)  
Status: Held in Senate.

Summary:  
This bill would, contingent upon the approval of the 2006 Housing Bond by the voters (Prop 1C), require the Secretary of BT&H to adopt regulations to ensure that grants awarded from the Regional Planning, Housing, and Infill Incentive Account will result in increased housing production and proper planning and zoning for housing by local government entities.

SB 1689  
Summary:
This bill is an urgency measure that would authorize $2.85 billion in general obligation bonds to finance a spectrum of housing and land use related capital improvements, upon voter approval at the November 7, 2006 statewide general election. (Proposition 1C)

CEQA

AB 1387
(Jones) CEQA: residential infill projects.
Status: Enrolled – Pending Governor’s Action

Summary:
Would generally provide that if a residential project, not exceeding 100 units, with a minimum residential density of 20 units per acre, and within one-half mile of the transit stop, on an infill site in an urbanized area is in compliance with the traffic, circulation, and transportation policies of the general plan, applicable community plan, applicable specific plan, and applicable ordinances of the city or county, and the city or county with jurisdiction over the area where the project is located requires that the mitigation measures approved in a previously certified project area environmental impact report, as the bill would define that term, applicable to the project be incorporated into the project, the city or county is not required to comply with specified requirements with respect to the making of any findings regarding the significant environmental effects from impacts of the project on traffic at intersections, or on streets, highways, or freeways.

Land Use

AB 2511
(Jones) Land use: housing. (E-08/31/2006)
Status: Enrolled – Pending Governor’s Action

Summary:
Would make a number of changes to state law to promote the development of affordable housing and to prevent delays in processing applications for development projects that include a housing element.

Landlord Tenant

AB 1169
(Torrico) Real property: rentals. (E-08/31/2006)
Status: Enrolled – Pending Governor’s Action

Summary:
This bill would, until 2010, reenact provisions that were in effect until January 1, 2006 which included a requirement that an owner of a residential dwelling give at least 60 days' notice prior to termination or 30 days' notice prior to termination if the tenant had resided in the dwelling for less than one year or if other enumerated circumstances were satisfied. This bill would also revise these provisions to provide that an
owner may give 30 days' notice if any tenant or resident has resided in the dwelling for less than one year.

Misc

AB 1904  
Status: Held in the Assembly

Summary:  
This bill would generally require that all unclaimed money, including unclaimed money from a deceased person's estate, that is permanently escheated to the state, be deposited in the Housing Rehabilitation Loan Fund for the construction, rehabilitation or acquisition and rehabilitation of multifamily rental housing developments for elderly persons or households.

AB 2936  
Status: Enrolled – Pending Governor's Action

Summary:  
This bill enacts a MOU adopted for CHP employees. It also appropriates funding to pay for the pay package proposed for excluded employees (managers and supervisors - not exempts), and addresses compaction by increasing the pay for certain positions to make sure they are 5% above the highest step for those they supervise. In addition, this bill allows DPA to set higher salaries for certain exempt positions (generally defined as Agency Secretary and Department Directors. Under the terms of the bill, DPA must (a) consider the size and scope of the organization, (b) compensation paid to other similar positions in other public jurisdictions, (c) the scope of responsibility of the positions, (d) the need to avoid salary compaction, and (e) "other factors appropriate to the determination of compensation necessary to recruit and retain qualified employees in leadership positions for the state." The bill would cap the salary at 125% of the compensation recommended to be paid to the Governor by the Citizens Compensation Commission. DPA is required to notify the Legislature within 30 days of setting any salary pursuant to this authority.

AJR 47  
(Ridley-Thomas) California housing affordability. (C-08/24/2006) 
Status: CHAPTERED

Summary:  
This measure would memorialize the President and Congress of the United States to recognize the high cost of purchasing a home in California and to act to raise the Federal Housing Authority and conforming loan limits to make it more possible for Californians to own a home.
SB 521  (Torlakson) Recording fees: Contra Costa County. (A-08/24/2006)
Status: Held in Assembly.

Summary:
This bill would authorize the Contra Costa County Board of Supervisors until January 1, 2013, to additionally charge $1 for each page after the first page that is recorded for every real estate instrument, as defined, paper, or notice required or permitted by law to be recorded in Contra Costa County. The bill would require the Contra Costa County Board of Supervisors to establish a fund for deposit of the moneys raised by the increase, which shall be used to assist in the development of affordable housing for very low income households, lower income households, and moderate-income households. This bill would make legislative findings and declarations as to the necessity of a special statute.

Redevelopment
AB 2922  (Jones) Redevelopment: Low and Moderate Income Housing Fund. Status: Enrolled – Pending Governor’s Action

Summary:
This bill requires redevelopment agencies, in cases where agencies are already required to record affordability covenants or restrictions on a property, to also record a document that specifies the date on which the affordability restrictions will expire and describes the property that is subject to the restrictions. The bill also specifies that interested parties, including any person or family of low or moderate income that is eligible to reside at, or is displaced or threatened with displacement from, a property subject to affordability covenants or restrictions, may sue to enforce those covenants or restrictions against the property owner. The bill clarifies that existing statutes requiring redevelopment agencies to rehabilitate or construct specified percentages of affordable housing units are not met until an agency has recorded the required affordability covenants or restrictions against the relevant properties. The bill would also expand requirements for what a redevelopment agency must disclose under an implementation plan adopted every five years, requiring agencies to identify the affordability level of affordable housing units, to verify that required affordability covenants or restrictions were recorded, and to state the expiration date for covenants or restrictions.

Surplus Property
AB 1617  (Liu) Surplus residential property. (A-03/20/2006)
Status: Held in Senate.

Summary:
This bill would establish additional criteria under which the surplus property may be offered for sale to the current occupants, local
governments, or nonprofit entities. The bill would restrict the Department of Transportation in attaching terms or conditions to surplus property in its jurisdiction and require the department to compile a list of surplus properties on the 710 Freeway Right-of-Way and then offer the properties for sale, as specified.

AB 2483  (Baca) State highways: sale of excess property.  (A-05/26/2006)
Status: Held in Senate.

Summary:
This bill would authorize the Department of Transportation, prior to disposing of its excess real property, to first offer the property for sale, exchange, or lease at fair market value to a local agency for redevelopment purposes. The bill would specify that this provision does not supersede existing provisions governing surplus residential property and does not apply to land of notable environmental value or to commercial real property.

SB 625  (Battin) State and local surplus property: written offer to sell or lease: economic development purposes.  (A-05/27/2005)
Status: Held in Senate

Summary:
Existing law requires any state or local agency disposing of surplus land to first make it available for use for low and moderate income housing, park and recreation purposes, or high density mixed use development near major transit stations. This bill would add economic development purposes (projects designed to attract, retain, and expand business that promote economic growth and stability) to that list.

SB 710  (Torlakson) Surplus residential property.  (E-08/29/2006)
Status: Enrolled – Pending Governor’s Action

Summary:
Would require, in addition to certifying income, that buyers of state surplus residential property must also certify their assets to the selling agency. Single-family residences are required to be offered for sale to present occupants meeting specified conditions and then to housing-related private and public entities under specified conditions. This bill would add an asset limitation to the conditions that present occupants are required to meet to qualify to purchase those single-family residences. It would also prohibit a single-family residence from being offered to present occupants who are not the former owners of the property if the present occupants have had an ownership interest in real property in the last 3 years.
Tax Credits

(Laird) Housing trust fund. (E-08/29/2006)

Status: Enrolled – Pending Governor’s Action

Summary:
Amends the existing Local Housing Trust Fund Matching Grant (LHTF Program) Program, created in conjunction with Proposition 46, also allows expiring low-income housing tax credit developments to apply for a new allocation of tax credits to preserve the affordability of units.
Senate Bill No. 257

Passed the Senate August 30, 2006

Secretary of the Senate

Passed the Assembly August 23, 2006

Chief Clerk of the Assembly

This bill was received by the Governor this ________ day of ____________, 2006, at _____ o’clock ___m.

Private Secretary of the Governor
CHAPTER _______

An act to amend Section 50909 of, to add Section 51050.1 to, and to add Chapter 6.3 (commencing with Section 51312) to Part 3 of Division 31 of, the Health and Safety Code, relating to housing and community development.

LEGISLATIVE COUNSEL'S DIGEST

SB 257, Chesbro. Special needs housing.
Existing law creates the California Housing Finance Fund in the State Treasury, and authorizes the transfer of construction loan funds to the construction lender or to the contractor as necessary to meet draws for progress payments pursuant to rules and regulations of the California Housing Finance Agency. Existing law prescribes the powers and duties of the agency with regard to providing loans and subsidizing housing for persons and families of low or moderate income and authorizes the agency to utilize federal subsidies available to provide housing for those families and persons.
This bill would additionally authorize the agency to make loans to finance affordable housing, including residential structures, housing developments, multifamily rental housing, special needs housing, as defined, and other forms of housing permitted by provisions regulating housing and community development. The bill would authorize the agency, in addition to any other power conferred pursuant to specified laws governing housing and community development, to issue revenue bonds, in accordance with specified requirements, for the purpose of financing the acquisition, construction, rehabilitation, refinancing, or development of special needs housing, as defined.
Existing law requires the agency to be administered by a board of directors, and requires the board to determine the compensation for the executive director of the agency. Existing law prohibits the compensation for the executive director to exceed the salary of the Secretary of Business, Transportation and Housing.
This bill would also require the board to determine the compensation for all key exempt management, as prescribed, and
would remove the limitation on the executive director’s compensation as it relates to the salary of the Secretary of Business, Transportation and Housing. This bill would require the board to establish the compensation in the agency’s annual budget, and would require the Department of Personnel Administration to review the board’s methodology in establishing the compensation.

This bill would require the California Housing Finance Agency to present a plan to the Legislature for the development, acquisition, construction, and rehabilitation of supportive housing. The bill would require the Legislative Analyst’s Office to comment on the plan.

_The people of the State of California do enact as follows:_

SECTION 1. The Legislature finds and declares all of the following:

(a) There is a shortage of housing and related supportive services for persons with special needs, including persons with mental illnesses. These persons are at substantial risk of homelessness. Financing special needs housing is particularly difficult because this housing will not support large amounts of conventional long-term debt. The California Housing Finance Agency (CalHFA) has substantial expertise and experience in leveraging conventional financing with other secondary sources of financing, to facilitate the development of affordable housing.

(b) Financing special needs housing, as well as efficiently leveraging other funds available for this purpose, is complex and involves significant financial risks. CalHFA has the management, financial, and legal expertise to structure the transactions and to manage these risks over a long term. The ability of CalHFA to effectively and efficiently provide this special needs financing requires amendments to the agency’s statutes, including clear authority for the agency to issue bonds to raise capital for tax-exempt and taxable loans to finance special needs projects.

(c) The provision of additional financing through CalHFA provides significant advantages to the state. CalHFA is financially independent from the State of California. Its bond obligations are not a debt or liability of the state, nor does it require a pledge of the full faith and credit of the state. CalHFA
is a self-supporting entity, and raises all of its capital from private investors through the issuance of bonds.

(d) CalHFA's high quality credit rating depends in significant part on ratings agency and investor confidence in the ability of the management of the agency. Credit ratings agencies evaluate the expertise and effectiveness of CalHFA management in connection with the agency's issuer credit rating. CalHFA's current issuer rating specifically recognizes that CalHFA has experienced significant difficulty in attracting and retaining key management personnel as a result of compensation that is significantly less than is offered by other comparable housing finance agencies. The continued ability of the agency to meet its duties to bondholders, to maintain its high credit rating, and to manage the risk of complex real estate finance transactions such as those contemplated in this act, depends substantially on the ability of the agency to attract and retain key executive management over the long term.

(e) CalHFA must operate as a professional, self-supporting financial institution. Each fiscal year, the CalHFA Board of Directors (board) of the agency enacts a business plan, including an operating budget containing salaries. This act enables the board to attract and retain key personnel by clarifying the board's authority to establish compensation for key executive and management positions. This compensation will be competitive with that of other comparable state and local housing finance entities, according to salary survey methodology reviewed by the Department of Personnel Administration.

SEC. 2. Section 50909 of the Health and Safety Code is amended to read:

50909. (a) Notwithstanding Sections 19816 and 19825 of the Government Code, the compensation of key exempt management, including the executive director, the chief deputy director, the general counsel, the director of financing, the director of homeownership programs, the director of multifamily programs, the director of insurance and the financial risk management director shall be established by the board in the agency's annual budget, in amounts which are reasonably necessary, in the discretion of the board, to attract and hold a person of superior qualifications.
(b) (1) To determine the compensation for the positions described in this section, the agency shall cause to be conducted, through the use of independent outside advisors, salary surveys of both of the following:
   (A) Other state and local housing finance agencies that are most comparable to CalHFA.
   (B) Other relevant labor pools.
   (2) The salaries so set by the board shall not exceed the highest comparable salary for a position of that type, as determined by the survey.
   (c) The Department of Personnel Administration shall review the methodology used in these salary surveys.
   (d) Members of the board shall not receive a salary but shall be entitled to a per diem allowance of one hundred dollars ($100) for each day’s attendance at a meeting of the board or a meeting of a committee of the board, not to exceed three hundred dollars ($300) in any month, and reimbursement for expenses incurred in the performance of their duties under this part, including travel and other necessary expenses.

SEC. 3. Section 51050.1 is added to the Health and Safety Code, to read:

51050.1. The agency may make loans to finance affordable housing, including residential structures, housing developments, multifamily rental housing, special needs housing, and other forms of housing permitted by this part.

SEC. 4. Chapter 6.3 (commencing with Section 51312) is added to Part 3 of Division 31 of the Health and Safety Code, to read:

CHAPTER 6.3. SPECIAL NEEDS HOUSING

51312. (a) The primary purpose of this chapter is to provide an additional method of financing special needs housing.
   (b) (1) For purposes of this chapter, “special needs housing” means any housing, including supportive housing, intended to benefit, in whole or in part, persons identified as having special needs relating to any of the following:
   (A) Mental health.
   (B) Physical disabilities.
(C) Developmental disabilities, including, but not limited to, mental retardation, cerebral palsy, epilepsy, and autism.

(D) The risk of homelessness.

(2) Special needs housing shall also mean housing intended to meet the housing needs of persons eligible for mental health services funded in whole or in part by the Mental Health Services Fund, created by Section 5890 of the Welfare and Institutions Code.

51313. The exercise of the powers granted by this chapter shall be in all respects for the benefit of the people of this state and for their health and welfare. Therefore, any bonds issued by the agency, pursuant to this chapter, their transfer, and the income therefrom shall at all times be free from taxation by the state or any political subdivision or other instrumentality of the state, excepting inheritance and gift taxes.

51314. Subject only to the limitations of this chapter, the agency may, in addition to any other power conferred by this part, issue revenue bonds as provided in Chapter 7 (commencing with Section 51350) for the purpose of financing the acquisition, construction, rehabilitation, refinancing, or development of special needs housing, and for the provision of capital improvements in connection with, and determined necessary to, such housing.

51315. Subject only to the limitations prescribed in this chapter, the agency, in addition to any other power conferred by this part with respect to housing, may make or undertake commitments to make loans to finance the acquisition, construction, rehabilitation, refinancing, or development of special needs housing. For this purpose, the agency may enter into regulatory contracts and other agreements with the owners or operators of that housing to ensure compliance with this chapter.

51316. Subject only to the limitations prescribed in this chapter, the agency, in addition to any other power conferred by this part, may purchase, or undertake, directly or indirectly through lending institutions, commitments to purchase, construction loans, mortgage loans, or other types of loans originated in accordance with a financing agreement with the agency to finance the acquisition, construction, rehabilitation, refinancing, or development of special needs housing, and for the
provision of capital improvements in connection with, and
determined necessary to, such housing.
51317. For the purposes of this chapter, the agency shall have
the power to issue its bonds to defray, in whole or in part, the
costs of studies and surveys, insurance premiums, underwriting
fees, legal, accounting and marketing services incurred in
connection with the issuance and sale of bonds, including bond
and operating reserve accounts, trustee, custodian, and rating
agency fees, and such other costs as are reasonably related to the
foregoing.
51318. This chapter constitutes a complete, additional, and
alternative method to issue bonds to finance the costs of special
needs housing.
SEC. 5. (a) The California Housing Finance Agency
(CalHFA), in consultation with the Department of Mental Health
(DMH) and the Department of Housing and Community
Development (DHCD), and other agencies and interested parties,
shall prepare and present to the Legislature a plan for the
development, acquisition, construction, and rehabilitation of
supportive housing projects using up to seventy-five million
dollars ($75,000,000) annually in funding from the Mental
Health Services Act (MHSA), as provided under the Governor’s
Executive Order S-07-06. The plan shall include, but not be
limited to, the following components:
(1) How funds will be distributed, including any criteria to
evaluate projects.
(2) How funding for the supportive housing program will be
administered and the level of administrative costs.
(3) How effective coordination among CalHFA, DMH, and
DHCD will be assured for the duration of the program.
(4) The projected timetable for obtaining additional supportive
housing units, and an explanation as to how state agencies will
regularly monitor the activities of the program on an ongoing
basis to ensure that the goal of establishing 10,000 additional
supportive housing units is being met.
(5) How state agencies will regularly monitor and audit
expenditures on an ongoing basis to ensure that the funding for
the program is spent in a cost-effective manner.
(6) How state agencies will ensure that the design of any housing developed under the program meets the needs for special needs programs provided to its inhabitants.

(b) A copy of the plan shall be submitted to the Chair of the Joint Legislative Budget Committee, the chairs of the fiscal, housing, and health committees of each house of the Legislature, and the Legislative Analyst's Office.

(c) The Legislative Analyst's Office shall review and, to the extent it determines is warranted, comment on the plan. Any Legislative Analyst's Office comments shall be submitted to the parties specified in subdivision (b) and shall include, but shall not be limited to, the following aspects of the plan:

(1) Whether the plan is complete and consistent with the requirements of this section.

(2) Whether the plan for the development of 10,000 additional units of supportive housing is reasonable.

(d) The Executive Director of CalHFA is encouraged not to make a funding commitment for any supportive housing project proposed under the executive order prior to 30 days after the submission of the plan pursuant to subdivision (b), or any lesser time that the Chair of the Joint Legislative Budget Committee may determine.
<table>
<thead>
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<th>DATE</th>
<th>CITY</th>
<th>LOCATION</th>
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| January 18 (Thursday) | Millbrae | The Westin*  
San Francisco Airport  
One Old Bayshore Highway  
Millbrae, CA |
| March 8 (Thursday) | Sacramento | Hyatt Regency Sacramento*  
1209 L Street  
Sacramento, CA |
| May 10 (Thursday) | Burbank  | Hilton Burbank Airport & Convention Center*  
2500 Hollywood Way  
Burbank, CA |
| July 5 (Thursday) | Sacramento | Hyatt Regency Sacramento*  
1209 L Street  
Sacramento, CA |
| September 12 (Wednesday) | Burbank  | Hilton Burbank Airport & Convention Center*  
2500 Hollywood Way  
Burbank, CA |
| November 15 (Thursday) | Burbank  | Hilton Burbank Airport & Convention Center*  
2500 Hollywood Way  
Burbank, CA |

*TENTATIVE MEETING LOCATIONS