Standard & Poor's Ratings Services said today lowered its counterparty credit and financial strength ratings on California Housing Loan Insurance Fund (CalHLIF) to 'CCC-' from 'BBB'. These ratings remain on CreditWatch, where they had been placed on Oct. 27, 2009, with negative implications.

"We believe that CalHLIF is likely facing negative net worth and ultimately might not have the resources necessary to pay mortgage insurance claims without additional cash infusions," said Standard & Poor's credit analyst Ron Joas. Given the state-sponsored nature of the entity, any such cash infusions beyond the $10 million line of credit from the California Housing Finance Agency (CalHFA) would likely require action by the California state legislature and, as such, are unlikely to occur in the near term.

The three-category downgrade of CalHLIF primarily reflects the rapid erosion of the organization's capital, which stemmed from the substantial rise in mortgage delinquencies and the expectation of further losses. CalHLIF's delinquencies rose to 18.5% at the end of the third quarter of 2009 from 8.6% as of Dec. 31, 2008. At the same time, operating losses rose to $42.5 million as of Sept. 30, 2009, from approximately $16.9 million as of Dec. 31, 2008, and surplus declined to $11.9 million from $53.6 million (including $25.9 million in contingency reserves) over this same period. No contingency reserves remained as of the end of the third quarter. The nature of CalHLIF's portfolio—which is overly weighted in ultra-high loan-to-value, interest-only, condominium, and geographically concentrated loans—resulted in high delinquency rates that have not moderated as we had expected.

The magnitude and trend of operating losses is such that we believe CalHLIF's surplus for year-end 2009 could be 0 or somewhat negative, which calls into question whether CalHLIF will be able to pay all mortgage insurance claims that develop from its current book of business. CalHLIF effectively ceased writing new business in early 2009. Therefore, it is unable to benefit from the tighter underwriting conditions and higher pricing in the mortgage insurance sector since the second half of 2008.

Standard & Poor's believes CalHLIF has limited sources of additional capital, particularly because it would have to obtain legislative approval to receive new capital or redirect capital from other funds. In addition, the State of California's current budgetary restrictions appear to make it unlikely that the state could use other sources of funding in the near term to recapitalize CalHLIF. As a result, we have not ascribed any support to CalHLIF from its relationship with the California Housing Finance Agency (CalHFA).

We have kept the ratings on CreditWatch negative. "We will likely lower the ratings again if we believe that CalHLIF's claim-paying resources will be exhausted by the end of 2010," Mr. Joas added. "We will likely affirm the ratings if claim payments moderate or if CalHLIF receives further funding through legislation or other sources."

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RELATED RESEARCH

- Interactive Ratings Methodology, April 22, 2009.

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CURRENT BOARD VACANCY

1 Governor’s Appointee
California Housing Finance Agency

Relationships among the three main CalHFA entities:

California Housing Finance Agency (CalHFA)

California G-O

CalHFA MI Fund

Fannie Mae

HMRE Indenture

Funding Agreement

Underwritten Loan

Origination Fee

Prime Rate Loan

Losses on MBS
Agenda 5:  
Financing Resolution – Single Family

Resolution 10-01

- Board annually authorizes Staff to:
  - Issue bonds
  - Utilize previously Approved Bond Indentures
  - Decide timing and structure

- Amounts Not to Exceed:
  - Eligible bond principal being redeemed in connection with new bond issuance; plus
  - CDLAC Allocation; plus
  - Up to $500 million of taxable bonds

- Available CDLAC Allocation:
  - $1.2 billion for use by 12/31/2010
  - $450 million for use by 12/31/2011
  - $225 million for use by 12/31/2012
Resolution 10-01 (Continued)

- Reauthorizes Staff to Utilize Related Financial Agreements for:
  - Investment of Bond Proceeds
  - Hedging of Interest Rates
  - Consulting Services, Financial Advisors, Etc.
- Reauthorizes Short-Term Credit Facilities up to an aggregate of $2 billion for:
  - Warehousing Mortgages (both Multifamily and Single Family
  - Operating Capital
- Reauthorizes all Program Documents and Program
  Agreements related to Homeownership Lending Programs

Resolution 10-01 (Continued)

- Single Family Bond Financing Plans
  - Issued $1.0 billion under NIBP in December 2009
  - Requires additional issuance of bonds in Public
    Markets to Private investors
  - NIBP Proceeds Initially held in Escrow
  - Proceeds Released on up to 3 dates from NIBP
    Escrow upon Issuance of Market Bonds in the
    following ratio:
    - $3 of NIBP proceeds (60%)
    - for each $2 of Market Proceeds (40%)
  - Residential Mortgage Revenue Bond Indenture
    requires Proceeds to be used to purchase Mortgage
    Backed Securities

Agenda 6:
Financing Resolution – MultiFamily
Resolution 10-02

- Authorizes Staff to:
  - Issue bonds
  - Utilize previously Approved Bond indentures
  - Determine timing and structure
  - Amounts not to exceed
    - Eligible bond principal being redeemed in connection with new bond issuance; plus
    - CDLAC Allocation; plus
    - Up to $800 million of 501(c)(3) and/or taxable bonds
  - Available CDLAC Allocation
    - $200 million for use by 12/31/2012

Resolution 10-02 (Continued)

- Reauthorizes Staff to Utilize Related Financial Agreements for:
  - Investment of Bond Proceeds
  - Hedging of Interest Rates
  - Consulting Services, Financial Advisors, etc.

- Reauthorizes Short-Term Credit Facilities up to an aggregate of $1 billion for:
  - Warehousing Mortgages (both Multifamily and single Family)
  - Operating Capital

- Reauthorizes all Program Documents and Program Agreements related to Multifamily Lending Programs

Resolution 10-02 (Continued)

- Multifamily Bond Financing Plans
  - Issued $350 million under NIBP in December 2009
  - NIBP Proceeds initially held in Escrow
  - Proceeds Released on up to 3 dates from NIBP Escrow
  - Affordable Multifamily Housing Revenue Bonds requires Proceeds to be used to purchase loans
    - Issued by FHA
    - Guaranteed by Fannie Mae or Freddie Mac
    - Underwritten to GSE Guidelines

Resolution 10-02 (Continued)
Authorize Staff to Apply to the California Debt Limit Allocation Committee Resolution 10-03

Application would be limited to:

- Single Family Bonds $900 Million
- Multifamily Bonds $400 Million

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<th>Year</th>
<th>Requested</th>
<th>Appropriated</th>
<th>Single</th>
<th>Multif.</th>
<th>Total</th>
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<td>11,789,880</td>
<td>11,793,860</td>
<td>1,041</td>
<td>11,790,304</td>
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<td>2011</td>
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<td>12,044,786</td>
<td>1,840</td>
<td>12,046,626</td>
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<td>11,401,533</td>
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<td>11,803,000</td>
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<td>2014</td>
<td>12,303,000</td>
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<td>2015</td>
<td>12,503,000</td>
<td>12,503,000</td>
<td>1,842</td>
<td>12,504,542</td>
<td>18,146</td>
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* Rental Housing and Adult Foster Home Program
** HUD 203 Specialized Needs
Agenda 8: Financing Resolution – Bay Area Housing Plan

Resolutions in Connection with Bay Area Housing Plan
Resolution 10-04
Background

- Bay Area Housing Plan was authorized by the California Legislature

- The legislation is designed to facilitate the closure of Agnews Center and to transition approx. 228 individuals currently residents at Agnews into community based housing located throughout the San Francisco Bay Area

- Agnews was one of five developmental centers in the State that provide programs, treatment and supervision for residents in a 24-hour structured health care facility

Resolutions in Connection with Bay Area Housing Plan
Resolution 10-04
History of Board Actions

- Resolution 06-06, adopted by the Board on 1/12/06 allowed for the sale and issuance of CalHFA bonds for the purpose of financing loans in connection with the Bay Area Housing Plan

- Resolution 07-28, adopted by the Board on 9/12/07 authorized a one year extension and the Bay Area Housing Program Bonds Indenture

- Resolution 08-44, adopted by the Board on 11/13/08 authorized a one year extension and authorized bonds to bear interest at a stated rate of up to 25% per annum
Temporary Credit Liquidity Program ("TCLP")

- The Agency substituted $3.4 billion of SBPAs with TCLFs over six different mandatory tender dates in January.

- These substitutions significantly improve the short-term and long-term viability of the Agency for four reasons:
  - Eliminate short-term rollover risk
  - Replace $1.9 billion of expiring facilities
  - Replace $2 billion of expiring facilities in 2010
  - Eliminate accelerated repayments for bond bonds
    - In 2009, repaid $15 million due to acceleration
  - Reduce the reimbursement from a special obligation entity to a general obligation entity

- On 7/17/10, the total expected reimbursement is $120 million.
- Eliminate higher costs of capital caused by credit impairments
  - Approximately, $16 million of net savings over three years.
History of bank bonds from 9/14/08 to 1/21/10

(Lehman filed bankruptcy on 9/14/08)

Agency's actual and projected basis mismatch

CalHFA's debt portfolio as of 10/1/09 and 2/1/10
Components of the Operating Loss

- Increase in allowance for loan losses: $263 million
- Basis mismatch: $113 million
- Termination of interest rate swaps: $39 million

Total $766 million
RESERVES FOR DELINQUENT LOANS AND REAL ESTATE OWNED (REO)

<table>
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<tr>
<th>Date</th>
<th>Mar-09</th>
<th>Jun-09</th>
<th>Sep-09</th>
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<tr>
<td>CalHFA Home Loan Reserve</td>
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<td>Conventional Loss Reserve</td>
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<td>Total Reserve</td>
<td>$46,838,150</td>
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</tbody>
</table>

*The CalHFA Home Loan Reserve includes CalHFA owned and servicer owned REO and documented losses.

**Agenda 10:**

**Business Plan Update**

**Homeownership Business Plan Update – Jan 2010**

- Focus Group Meetings on below three First Mortgage Products: scheduled with Loan Officer/Realtor/Leender Corp Contacts: Jan 12th/13th and Jan 15th/16th
- Two First Mortgage Products – Anticipate roll out March/April 2010.
  - 30-year fixed rate fully amortizing loans
  - FHA – Up to a Max 96.5% LTV
  - Conventional Loans
    - Fannie Mae up to a Max 100% LTV with Fannie Mae MLI
- Downpayment Assistance
  - Focus Group - DPA is very important
- Volume – Too early to tell
- MBS Business Model and with a Master Servicer
Multifamily

- Multifamily Business Models:
  - Continue lending on MHSA program
  - TCAC consulting/underwriting role to assist the roll out of ARRA funds into tax credit projects
  - Focus on New Production/Loans through the HFA New Issuance Bond Program (NIBP) which will include:
    - Loans guaranteed by Fannie Mae or Freddie Mac
    - FHA risk share
    - Preservation Program to finance of risk projects in CalHFA's portfolio

Over 500 properties to oversee

HUD imposed greater subsidy oversight responsibilities on all its contract administrators (8,952 CalHFA Section 8 units)

Earned Surplus funds remain available for Section 8 rehab. No funds requested this FY to date

Concerns:
- Short staffed. 32 budgeted positions. 6 vacant.
- Several retirements loom over next 12-24 months
- 51 Section 8 properties have loans that terminate between now and 2015. Most in 2013.
  - Many owners want equity-take out-refinance vs. sale

Asset Management Update

2010 Focus for Asset Management

- PBCA – Performance Based Contract Administration Bid Status
  - HUD delay in publishing RFP. Expect to start process in February-March
  - Sub-contractor to agency to be selected this month

- Citibank loan sale
  - 33 properties, loan value approx $100M
  - Due Diligence in January
  - Close before March
Agenda 11: Sacramento Office Relocation Update

Loan Servicing Relocation

Facility Facts:
- Address: 7540 Rovirosa Parkway, West Sacramento
- Total Square Footage: 16,663
- Terms: 5 years, 8 months lease; $13,722 (0.63 per square foot)
- Free Parking
- Critical Dates:
  - Move In Date: February 5, 2010
  - First Day of Business: February 8, 2010
  - Opening Ceremony: February 3, 2010
- Highlights:
  - On Budget with Great Lease Term
  - New Call Center System
  - Online Payment System
  - Staffing Up (Supervisors and Permanent Staff versus Temporary)
  - Consolidation of Staff With Room to Grow (Full Service)
  - Extended Hours (6 Days a Week: M-F 8am-7pm, Sat 8am-12pm)

Agency Headquarters Move

Objective:
- Consolidate Headquarters
- Location must be within the City of Sacramento
- 70,000 to 80,000 square feet of Class A LEED certified
- Ample parking; proximity to Light Rail and Public Transit

Critical Dates:
- Senator Hotel lease expires August 31, 2010
- Meridian lease expires September 30, 2010

Location Options:
- Senator Hotel (1121 L Street)
- Meridian (1415 L Street)
- Bank of the West Tower (200 Capitol Mall)
- Natomas Gateway Tower East (2020 West El Camino Avenue)