

PRELIMINARY OFFICIAL STATEMENT DATED APRIL 21, 2011

NEW ISSUE AND CONVERSION — BOOK-ENTRY ONLY

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Agency, (i) under existing statutes and court decisions, and assuming continuing compliance with certain tax covenants described herein, (a) interest on the Related Bonds (defined below) is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code") and (b) under the Code, interest on the Related Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations and is not included in the adjusted current earnings of corporations for purposes of the alternative minimum tax; and (ii) under existing statutes, interest on the Related Bonds is exempt from personal income taxes imposed by the State of California. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Agency in connection with the Related Bonds, and Bond Counsel has assumed compliance by the Agency with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Related Bonds from gross income under Section 103 of the Code. See "Tax Matters."



\$220,000,000*

**CALIFORNIA HOUSING FINANCE AGENCY
Residential Mortgage Revenue Bonds**

New Issue
\$88,000,000* 2011 Series A (Non-AMT)

Conversion[†]
\$132,000,000* 2009 Series A-4 (Non-AMT)

Dated: 2011 Series A Bonds: Date of delivery

Due: See inside front cover page

2009 Series A-4 Bonds: December 30, 2009 (interest to accrue from Release Date)

Price: See inside front cover page

This cover page contains selected information for quick reference only. It is not a summary of relevant information. Potential investors must read the Official Statement to obtain information essential to making an informed investment decision. Capitalized terms are defined inside.

The 2011 Series A Bonds (the "Market Bonds") and the 2009 Series A-4 Bonds (the "Program Bonds"; together with the Market Bonds, the "Related Bonds") will mature on the dates and in the amounts listed on the inside front cover page and will bear interest at the rates set forth on the inside front cover page. Interest is payable on the Market Bonds on August 1, 2011, and thereafter on each February 1 and August 1. Interest is payable on the Program Bonds on July 19, 2011, August 1, 2011, and thereafter on each February 1 and August 1.

The Market Bonds are issuable in denominations of \$5,000 principal amount or any integral multiple thereof. The authorized denominations of the Program Bonds are as described herein. DTC will hold the Related Bonds in book-entry form. Purchasers will not receive certificates representing their interests in the Related Bonds. Interest on and principal of the Related Bonds are payable on behalf of the Agency by U.S. Bank National Association, as Trustee under the Indenture, to DTC. So long as DTC or its nominee remains the registered owner of the Related Bonds, disbursement of payments to DTC Participants is the responsibility of DTC and disbursement of payments to the Beneficial Owners of the Related Bonds is the responsibility of DTC Participants and Indirect Participants. See "The Related Bonds — DTC and Book-Entry."

The Related Bonds are subject to redemption prior to maturity as described herein. See "The Related Bonds."

Proceeds of the Related Bonds will provide moneys to enable the Agency to purchase mortgage-backed securities guaranteed as to timely payment of principal and interest by the Government National Mortgage Association ("GNMA") or by the Federal National Mortgage Association ("Fannie Mae"), backed by mortgage loans to eligible borrowers as described herein.

The Related Bonds are special limited obligations of the Agency, payable solely from the revenues, assets and properties pledged therefor under the Indenture. The Agency has no taxing power. The Related Bonds shall not be deemed to constitute a debt or liability of the State of California or any political subdivision thereof, other than the Agency, or a pledge of the faith and credit of the State of California or any such political subdivision, other than the Agency as provided in the Indenture. The Related Bonds are not a debt of the United States of America or any agency thereof, GNMA or Fannie Mae, and are not guaranteed by the full faith and credit of the United States of America.

The Market Bonds (except to the extent not reoffered) are offered when, as and if received by the underwriters set forth below (the "Underwriters"), subject to (i) prior sale, or withdrawal or modification of the offer without notice, (ii) approval of legality by Hawkins Delafield & Wood LLP, Bond Counsel to the Agency, and (iii) certain other conditions. Certain legal matters will be passed upon for the Underwriters by their counsel, Kutak Rock LLP. The Market Bonds are expected to be available for delivery through the facilities of DTC in New York, New York on or about May 19, 2011.

BofA Merrill Lynch

J.P. Morgan

May __, 2011

[†] Not reoffered.

* Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment without notice. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities, in any jurisdiction in which such offer, solicitation, or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

MATURITY SCHEDULE*

NEW ISSUE

\$88,000,000 2011 Series A Bonds

\$46,010,000 2011 Series A Serial Bonds

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>CUSIP</u> [†]
February 1, 2012	\$ 600,000	%	%	
August 1, 2012	1,600,000			
February 1, 2013	2,225,000			
August 1, 2013	2,230,000			
February 1, 2014	2,240,000			
August 1, 2014	2,255,000			
February 1, 2015	2,275,000			
August 1, 2015	2,295,000			
February 1, 2016	2,320,000			
August 1, 2016	2,345,000			
February 1, 2017	2,375,000			
August 1, 2017	2,410,000			
February 1, 2018	2,450,000			
August 1, 2018	2,485,000			
February 1, 2019	2,530,000			
August 1, 2019	2,575,000			
February 1, 2020	2,620,000			
August 1, 2020	2,675,000			
February 1, 2021	2,725,000			
August 1, 2021	2,780,000			

\$41,990,000 ____% 2011 Series A Term Bonds due February 1, 2028
Price: ____% CUSIP[†]: _____

CONVERSION^{††}

\$132,000,000 2009 Series A-4 Bonds

\$132,000,000 2009 Series A-4 Term Bonds due August 1, 2041 CUSIP[†]: _____

Interest rate from and including May 19, 2011 to but not including July 19, 2011:
Short-Term Rate (as described herein under “The Related Bonds — General Description”).

Interest rate from and including July 19, 2011:
Permanent Rate (as described herein under “The Related Bonds — General Description”)

[†] CUSIP is a registered trademark of American Bankers Association. CUSIP data herein is provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. CUSIP data herein is set forth for convenience of reference only. Neither the Agency nor the Underwriters of the Market Bonds assume any responsibility for the accuracy of such data.

^{††} Not reoffered.

* Preliminary, subject to change.

No dealer, broker, sales person or other person has been authorized by the Agency or the Underwriters to give any information or to make any representations, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Market Bonds, by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been furnished by the Agency and by other sources that are believed to be reliable. The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made pursuant hereto shall, under any circumstances, create any implication that there has been no change in the affairs of the Agency since the date hereof.

Part 1 and Part 2 of this Official Statement, including their respective appendices, are to be read together, and together Part 1 and Part 2, including their respective appendices, constitute this Official Statement.

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IN CONNECTION WITH THIS OFFERING THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE MARKET BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITERS MAY OFFER AND SELL THE MARKET BONDS TO CERTAIN DEALER BANKS AND BANKS ACTING AS AGENT AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE INSIDE FRONT COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

OFFICIAL STATEMENT PART 1

CALIFORNIA HOUSING FINANCE AGENCY

Residential Mortgage Revenue Bonds, 2011 Series A and 2009 Series A-4

This Official Statement Part 1 (“Part 1”) provides information as of its date (*except* where otherwise expressly stated) concerning the Agency’s Related Bonds. It contains only a part of the information to be provided by the Agency in connection with the issuance and sale of the Market Bonds and the Release applicable to the Program Bonds. Additional information concerning the Agency, security for the Bonds, the Program and the Agency’s other financing programs is contained in the Official Statement Part 2 (“Part 2”) and is subject in all respects to the information contained herein.

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OFFICIAL STATEMENT PART 1
of the
California Housing Finance Agency
relating to
\$220,000,000*
RESIDENTIAL MORTGAGE REVENUE BONDS
\$88,000,000* 2011 Series A (Non-AMT)
\$132,000,000* 2009 Series A-4 (Non-AMT)†

INTRODUCTION

This Official Statement consists of Part 1 and Part 2 and provides information concerning the California Housing Finance Agency (the “Agency”), its Residential Mortgage Revenue Bonds Program (the “Program”) and the following series and subseries of its Residential Mortgage Revenue Bonds, together with certain related features.

Bond Series or Subseries Designation	Initial Principal Amount	Federal Tax Character of Interest	Interest Rate Character	New Issue or Conversion	Defined Term Used in this Official Statement
2011 Series A	\$88,000,000*	Non-AMT	Fixed	New Issue	“Market Bonds”
2009 Series A-4	\$132,000,000*	Non-AMT	Fixed	Conversion†	“Program Bonds”

The Agency is issuing the Market Bonds pursuant to Parts 1 through 4 of Division 31 of the California Health and Safety Code (the “Act”), a resolution of the Board of Directors of the Agency (the “Board”) (the “2011 Resolution”), an Indenture, dated as of December 1, 2009, as amended (the “General Indenture”), by and between the Agency and U.S. Bank National Association, as trustee (the “Trustee”), and the 2011 Series A Series Indenture, dated as of May 1, 2011 (the “Market Bonds Series Indenture”), by and between the Agency and the Trustee. The Program Bonds are a subseries of the Agency’s Residential Mortgage Revenue Bonds, 2009 Series A (the “2009 Series A Bonds”) previously issued pursuant to the Act, certain resolutions of the Board (the “2009 Resolution”; together with the 2011 Resolution, the “Resolution”), the General Indenture and the 2009 Series A Series Indenture, dated as of December 1, 2009 (the “Program Bonds Series Indenture”; together with the Market Bonds Series Indenture, the “Related Bonds Series Indenture”), by and between the Agency and the Trustee. All bonds outstanding under the General Indenture (including additional bonds that may hereafter be issued) are herein called “Bonds.” Each series of Bonds is issued pursuant to a Series Indenture. The General Indenture, collectively with all Series Indentures, is herein called the “Indenture.” The Market Bonds are the third series of Bonds issued under the Indenture. The Bonds, including the 2009 Series A Bonds, issued under the Indenture prior to the issuance of the Market Bonds are collectively herein called the “Prior Series of Bonds.” Capitalized terms used in this Official Statement and not otherwise defined have the respective meanings ascribed thereto in the Indenture. See Part 2 of this Official Statement under “Summary of Certain Provisions of the General Indenture — Certain Defined Terms.”

†Not reoffered.

*Preliminary, subject to change.

Bonds may be issued for any lawful authorized purpose, including but not limited to (i) the purchase of Mortgage-Backed Securities, (ii) the making of deposits into Funds established under the Indenture, or (iii) the refunding of bonds or other obligations issued by the Agency or another issuer.

The underwriters listed on the cover page (the “Underwriters”) will act as underwriters with respect to the Market Bonds. The Program Bonds are described in this Official Statement but are not being offered for sale by the Agency or the Underwriters. The obligation of the Underwriters to purchase the Market Bonds is conditioned on the Release (defined below) of the Program Bonds (see “Underwriting”). The Program Bonds and the Market Bonds will constitute a single composite issue for Federal tax purposes.

The Agency issued the 2009 Series A Bonds, in the aggregate principal amount of \$1,016,440,000, as part of the New Issue Bond Program (the “NIBP”) of the United States Department of the Treasury (the “Treasury”). The Federal National Mortgage Association (“Fannie Mae”) and the Federal Home Loan Mortgage Corporation (collectively, the “GSEs”) purchased the 2009 Series A Bonds under the NIBP. Upon the issuance of the 2009 Series A Bonds, the proceeds thereof were deposited in an escrow fund (the “2009 Series A Escrow Fund”). Upon satisfaction of certain conditions, moneys can be released from the 2009 Series A Escrow Fund (each such event, a “Release”) to fund Mortgage-Backed Securities, to make deposits to the Debt Reserve Fund or the Loan Loss Fund, to refund the Agency’s variable-rate debt (subject to certain limitations set forth in the 2009 Series A Series Indenture), or to redeem 2009 Series A Bonds, and to pay costs of issuance of the 2009 Series A Bonds. The Agency may effect a Release of such proceeds on one or more (not to exceed six) dates (each a “Release Date”). There has previously been one Release by the Agency with respect to 2009 Series A Bonds in the aggregate principal amount of \$36,000,000 on December 15, 2010. The Release with respect to the Program Bonds will be the second by the Agency. The 2009 Series A Bonds with respect to which a Release has not occurred currently bear a short-term interest rate equal to the investment earnings on the proceeds of such Bonds. Any proceeds remaining in escrow on January 1, 2012 will be applied to redeem 2009 Series A Bonds with respect to which a Release has not occurred.

In connection with each Release, the Agency will designate the applicable 2009 Series A Bonds as an additional subseries of the 2009 Series A Bonds, as it will do with respect to the Program Bonds. Beginning on its Release Date, interest on such subseries of the 2009 Series A Bonds will be changed to an interim rate for two months, then to a long-term rate until maturity or prior redemption. The GSEs will retain ownership of the Program Bonds following the Release.

One of the conditions to each Release is that the Agency sell Bonds in a principal amount equal to at least two-thirds of the amount of 2009 Series A Bond proceeds being released. The issuance of the Market Bonds will satisfy this condition with respect to the Program Bonds.

If there is no Release with respect to the Program Bonds, the issuance of the Market Bonds will be canceled.

No assurance can be given that the Agency will continue to issue Bonds or release proceeds of the 2009 Series A Bonds subsequent to the issuance of the Market Bonds and Release of the Program Bonds described herein. The Agency has previously issued and in the future may issue bonds under other indentures to finance its homeownership programs.

The amounts to be withdrawn from the 2009 Series A Escrow Fund on the Release Date with respect to the Program Bonds, together with the proceeds of the Market Bonds, will provide moneys to enable the Agency to purchase Mortgage-Backed Securities or participations therein. The Mortgage-Backed Securities and participation interests in Mortgage-Backed Securities purchased with such moneys are referred to herein as the “Related Mortgage-Backed Securities.” The Agency expects that all Related Mortgage-Backed Securities will be mortgage-backed securities guaranteed by the Government National Mortgage Association (“GNMA”) or Fannie Mae. The mortgage loans backing the Related Mortgage-Backed Securities are referred to herein as the “Related Underlying Mortgage Loans.” The Agency expects that all Related Underlying Mortgage Loans will have substantially level monthly payments and will be fully amortizing over 30 years. See Part 2, “Security for the Bonds — Mortgage-Backed Securities,” “GNMA Mortgage-Backed Securities,” “Fannie Mae Mortgage-Backed Securities” and “The Program.”

The Mortgage-Backed Securities are to be issued, or caused to be issued, pursuant to a Second Amended and Restated California Housing Finance Agency MBS Program Servicing Agreement, dated as of February 10, 2010 (the “Servicing Agreement”), among the Agency, the Trustee and Bank of America, N.A. (the “Servicer”). The Related Underlying Mortgage Loans and any other mortgage loans underlying Mortgage-Backed Securities that from time to time may be held under the Indenture are referred to herein collectively as the “Underlying Mortgage Loans.” All Underlying Mortgage Loans are to be secured by mortgages on newly constructed or existing single family homes in California, originated by qualified lenders (the “Lenders”) and serviced by the Servicer. See Part 2, “Security for the Bonds — Mortgage-Backed Securities,” “GNMA Mortgage-Backed Securities,” “Fannie Mae Mortgage-Backed Securities,” “The Servicer” and “The Program.”

The maturities and Sinking Fund Requirements with respect to the Related Bonds have been established assuming that there will be no Principal Prepayments with respect to the Related Mortgage-Backed Securities and that payments of principal and interest on the Mortgage-Backed Securities and earnings on investments in accounts established under the Indenture, together with other available Revenues, will be sufficient to pay scheduled debt service on the Related Bonds, subject to the realization of certain assumptions made by the Agency in structuring the Related Bonds. See “The Related Bonds — Redemption — Special Redemption” and “Assumptions Regarding Revenues, Debt Service Requirements, and Program Expenses” herein.

The Related Bonds are special limited obligations of the Agency, payable solely from the revenues, assets and properties pledged therefor under the Indenture. The Agency has no taxing power. The Related Bonds shall not be deemed to constitute a debt or liability of the State of California or any political subdivision thereof, other than the Agency, or a pledge of the faith and credit of the State of California or any such political subdivision, other than the Agency as provided in the Indenture. The Related Bonds are not a debt of

the United States of America or any agency thereof, GNMA or Fannie Mae, and are not guaranteed by the full faith and credit of the United States of America.

The Agency has covenanted in the General Indenture to furnish to the Trustee, within 120 days after the close of each Fiscal Year so long as any of the Bonds are Outstanding, a statement of the Agency’s revenues, expenses and changes in net assets during the previous period.

Descriptions of the Agency, the security for the Bonds, the Related Bonds, GNMA, Fannie Mae and mortgage-backed securities guaranteed by GNMA and Fannie Mae, the Program and the Indenture are included in this Official Statement. All summaries or descriptions in this Official Statement of documents and agreements are qualified in their entirety by reference to such documents and agreements and all summaries in this Official Statement of the Related Bonds are qualified in their entirety by reference to the Indenture and the provisions with respect thereto included in the aforesaid documents and agreements, copies of which are available for inspection at the offices of the Agency.

APPLICATION OF FUNDS

Moneys on deposit in the funds and accounts relating to the Related Bonds (including certain amounts contributed by the Agency) are expected to be applied and deposited approximately as follows:

Acquisition Fund	
to purchase Mortgage-Backed Securities.....	\$
Revenue Fund	
to pay capitalized interest.....	
Costs of Issuance Fund	
to pay Underwriters’ fees.....	
to pay other Costs of Issuance	_____
Total	\$ _____

THE RELATED BONDS

General Description

The Market Bonds will be dated and interest thereon will be payable on the dates, as set forth on the cover page. The Market Bonds will mature on the dates and in the amounts, and will bear interest (calculated on the basis of a 360-day year of twelve 30-day months) from their dated date to their maturity (or prior redemption) at the applicable rates, all as set forth on the inside front cover page. The Market Bonds will be issuable in the denominations set forth on the cover page.

The Program Bonds will mature on the date and in the amount set forth on the inside front cover page. The authorized denominations of the Program Bonds are \$5,000 and integral multiples thereof and, for purposes of redemption of Program Bonds, \$10,000 and integral multiples thereof. Interest on the Program Bonds will be payable on the dates set forth on the cover page. The Program Bonds will bear interest (calculated on the basis of a 360-day year of

twelve 30-day months) (i) from May 19, 2011 to but not including July 19, 2011 at the per annum rate (the “Short Term Rate”) equal to the sum of 60 basis points (0.60%) plus the lesser of (A) the Four Week T-Bill Rate reported by the Federal Reserve on its website as of the second business day prior to the Release Date applicable to the Program Bonds, or (B) a fixed rate, not to exceed 2.95%, determined in accordance with the terms of the NIBP (the “NIBP Fixed Rate”), and (ii) from July 19, 2011 to their maturity (or prior redemption) at the per annum rate (the “Permanent Rate”) equal to the sum of 60 basis points (0.60%) plus the NIBP Fixed Rate.

The Indenture provides that neither the Agency nor the Trustee shall be required to make any transfer or exchange of any Related Bond during the 15 days preceding each Interest Payment Date or with respect to a Related Bond for which notice of its redemption has been given.

The Related Bonds are issued only as fully-registered bonds without coupons, in book-entry form only, registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the Related Bonds. See “The Related Bonds — DTC and Book-Entry.” U.S. Bank National Association is the Trustee.

Redemption*

Mandatory Redemption of Related Bonds from Prepayments

The Related Bonds are subject to mandatory redemption on the first day of each month, at a Redemption Price equal to the principal amount of each such Bond or portion thereof to be redeemed, without premium, together with accrued interest to the date of redemption, from Principal Prepayments received with respect to Related Mortgage-Backed Securities. Such redemption will be pro rata between the Program Bonds and the Market Bonds based on the respective principal amounts of such Bonds then Outstanding and such redemption of Market Bonds will be on a pro rata basis amongst the respective maturities thereof (*unless* the Agency delivers a Cash Flow Statement reflecting such redemption of Market Bonds on another basis), *provided, however*, that such Bonds may be redeemed only in their respective authorized denominations, and *provided further, however*, that proceeds of the voluntary sale of Mortgage-Backed Securities are not permitted to be applied to the redemption of Market Bonds as described under this heading.

Special Redemption

The Related Bonds are subject to redemption, at the option (*except* as otherwise described below) of the Agency, from amounts on deposit in the Special Redemption Account, in whole or in part, at any time, in accordance with the provisions of the General Indenture described under “General Provisions as to Purchase or Redemption of Bonds” below, at a Redemption Price equal to the principal amount of each such Bond or portion thereof to be redeemed, without premium, together with accrued interest to the date of redemption, in an amount not exceeding the following:

* Preliminary, subject to change.

(i) moneys on deposit in the Related Bonds Acquisition Account representing unexpended proceeds of the Related Bonds. Amounts referred to in this clause (i) will be applied to redeem Market Bonds and Program Bonds pro rata (based upon the respective principal amounts of such Bonds then Outstanding). Any such redemption of Market Bonds will be pro rata amongst the respective maturities thereof. Unexpended proceeds of the Related Bonds in excess of \$33,000,000 remaining in the Related Bonds Acquisition Account on October 1, 2011 are required to be applied to redeem Related Bonds on November 1, 2011 as described herein, *unless* the Agency extends such dates in accordance with the Indenture, which requires, among other things, the filing of a Cash Flow Statement. All unexpended proceeds of the Related Bonds remaining in the Related Bonds Acquisition Account on June 1, 2012 are required to be applied to redeem Related Bonds on July 1, 2012 as described herein, *unless* the Agency extends such dates in accordance with the Indenture, which requires, among other things, the filing of a Cash Flow Statement.

(ii) Principal Prepayments of Mortgage-Backed Securities *other than* proceeds of the voluntary sale of Mortgage-Backed Securities. Amounts referred to in this clause (ii) may be applied, *subject* to the provisions of each Series Indenture, by the Agency to redeem any Bond of any Series and of any maturity, *except* as otherwise required for compliance with the Agency's tax covenants, and *except* that Principal Prepayments with respect to the Related Mortgage-Backed Securities are required to be applied to redeem Related Bonds as described under "The Related Bonds — Redemption — Mandatory Redemption of Related Bonds from Prepayments" above.

(iii) Revenues (other than Principal Prepayments), including investment earnings transferred from other Funds held under the Indenture derived in connection with the Related Bonds and any Additional Bonds. Amounts referred to in this clause (iii) may be applied, *subject* to the provisions of each Series Indenture, by the Agency to redeem any Bond of any Series and of any maturity, *except* as otherwise required for compliance with the Agency's tax covenants.

Optional Redemption

The Market Bonds are subject to redemption at the option of the Agency on and after August 1, 2020, in whole or in part, at any time from any moneys (including the proceeds of the voluntary sale of Mortgage-Backed Securities) made available for such purpose, at a Redemption Price equal to the principal amount thereof to be redeemed, without premium, plus interest, if any, accrued to the redemption date.

The Program Bonds are subject to redemption at the option of the Agency, in whole or in part, on the first business day of any month from any moneys made available for such purpose, at a Redemption Price equal to the principal amount thereof to be redeemed, without premium, plus interest, if any, accrued to the redemption date.

Sinking Fund Redemption

The Market Bonds that are Term Bonds are subject to mandatory redemption in part on the respective dates and in the respective amounts as set forth below. The Redemption Price for any redemption described under this subheading will be equal to the principal amount of the Bonds being redeemed plus accrued interest to the date of redemption. Such redemptions will be in a principal amount equal to the applicable Sinking Fund Requirement for such date (subject to reduction as discussed under “The Related Bonds — General Redemption Provisions Applicable to Related Bonds — Adjustments to and Credits against Sinking Fund Requirements”).

<u>Date</u>	2011 Series A Bonds Maturing February 1, 2028
February 1, 2022	\$2,835,000
August 1, 2022	2,900,000
February 1, 2023	2,970,000
August 1, 2023	3,040,000
February 1, 2024	3,110,000
August 1, 2024	3,185,000
February 1, 2025	3,260,000
August 1, 2025	3,335,000
February 1, 2026	3,415,000
August 1, 2026	3,495,000
February 1, 2027	3,575,000
August 1, 2027	3,665,000
February 1, 2028	3,205,000 [†]

[†] Stated maturity.

The Program Bonds are subject to mandatory redemption in part on the respective dates and in the respective amounts as set forth below. The Redemption Price for any redemption described under this subheading will be equal to the principal amount of the Bonds being redeemed plus accrued interest to the date of redemption. Such redemptions will be in a principal amount equal to the applicable Sinking Fund Requirement for such date (subject to reduction as discussed under “General Redemption Provisions Applicable to Related Bonds — Adjustments to and Credits against Sinking Fund Requirements”).

<u>Date</u>	2009 Series A-4 Bonds Maturing August 1, 2041
February 1, 2028	\$ 540,000
August 1, 2028	3,830,000
February 1, 2029	3,900,000
August 1, 2029	3,980,000
February 1, 2030	4,040,000
August 1, 2030	4,120,000
February 1, 2031	4,180,000
August 1, 2031	4,270,000
February 1, 2032	4,340,000
August 1, 2032	4,410,000
February 1, 2033	4,500,000
August 1, 2033	4,570,000
February 1, 2034	4,660,000
August 1, 2034	4,740,000
February 1, 2035	4,820,000
August 1, 2035	4,910,000
February 1, 2036	5,000,000
August 1, 2036	5,080,000
February 1, 2037	5,180,000
August 1, 2037	5,260,000
February 1, 2038	5,370,000
August 1, 2038	5,450,000
February 1, 2039	5,560,000
August 1, 2039	5,650,000
February 1, 2040	5,760,000
August 1, 2040	5,850,000
February 1, 2041	5,960,000
August 1, 2041	6,070,000 [†]

[†] Stated maturity.

General Redemption Provisions Applicable to Related Bonds

Certain Federal Tax Law Matters

Applicable Federal tax law requires redemption of the Related Bonds on or before certain dates and in certain amounts in order to maintain the exclusion from gross income for Federal income tax purposes of interest on the Related Bonds. These Federal tax law requirements also include a requirement that certain principal prepayments and scheduled principal repayments of mortgage loans must be applied to pay the principal of bonds either at maturity or by redemption (the “Ten-Year Rule”). The Ten-Year Rule applies to mortgage loan principal prepayments and scheduled principal repayments, in excess of a *de minimis* amount, received, generally, ten years after the date of issuance of the related bonds that financed the applicable mortgage loans. If the Ten-Year Rule is not repealed or amended, the approximate percentage, for each applicable period, of principal prepayments and scheduled principal repayments of Related Mortgage

Backed Securities expected to be subject to such requirement (“Related Bonds Restricted Principal”) is reflected in the following table:

Period (dates inclusive)	Percentage
May 19, 2011 to May 18, 2021	0%
May 19, 2021 and thereafter	100

To the extent that the amount of Related Bonds Restricted Principal exceeds the principal amount of Related Bonds maturing or being redeemed from Sinking Fund Requirements, the Code requires the Agency to redeem Related Bonds. The Agency also has the right to use Principal Prepayments and scheduled principal repayments of Mortgage-Backed Securities, including Related Mortgage Backed Securities, to redeem Related Bonds in excess of the amounts required by the Code, and Principal Prepayments of Related Mortgage-Backed Securities are required to be applied to the redemption of Related Bonds as described under “The Related Bonds — Redemption — Mandatory Redemption of Related Bonds from Prepayments” above.

Principal Prepayments

The General Indenture defines “Principal Prepayment” to mean any amounts received in connection with a Mortgage-Backed Security that reflect any payment by a mortgagor or other recovery of principal of an Underlying Mortgage Loan which is not applied to a scheduled installment of principal or interest on an Underlying Mortgage Loan and the portion of any Insurance Proceeds, Liquidation Proceeds or other payments representing such principal amounts, including from the sale of an Underlying Mortgage Loan, and the proceeds of the sale of Mortgage-Backed Securities. *However*, Principal Prepayments described in clause (ii) under “The Related Bonds — Redemption — Special Redemption” above that can be applied by the Agency to the redemption of the Market Bonds or that must be applied to the redemption of Market Bonds as described under “The Related Bonds — Redemption — Mandatory Redemption of the Related Bonds from Prepayments” do not include the proceeds of the voluntary sale of Mortgage-Backed Securities.

Revenues

The General Indenture defines “Revenues” to mean all moneys received by or on behalf of the Agency or Trustee representing (1) principal and interest payments on Mortgage-Backed Securities including all Principal Prepayments representing the same and all prepayment premiums or penalties received by or on behalf of the Agency in respect to the Mortgage-Backed Securities, and (2) interest earnings, amortization of discount, and gain, all as received as cash on the investment of amounts in any Account or Fund. In addition, amounts in excess of the Debt Reserve Requirement and the Loan Loss Requirement and transferred from the Debt Reserve Fund and the Loan Loss Fund, respectively, to the Revenue Fund or the Special Redemption Account in accordance with the Indenture, and excess amounts in the Costs of Issuance Fund, the

Expense Fund or the Redemption Fund transferred to the Revenue Fund at the direction of the Agency in accordance with the Indenture, are defined as Revenues under the Indenture.

Adjustments to and Credits against Sinking Fund Requirements

Pursuant to the Indenture, if less than all of the Term Bonds Outstanding of any maturity of a Series (or subseries, if applicable) is purchased or called for redemption (other than in satisfaction of Sinking Fund Requirements), the principal amount of such Term Bonds that are so purchased or redeemed will be credited as directed by the Agency against all remaining Sinking Fund Requirements for the Term Bonds of such Series and maturity, if no direction is given, to the extent practicable against all remaining Sinking Fund Requirements for the Term Bonds of such Series (or subseries, if applicable) and maturity in the proportion which the then remaining balance of each such Sinking Fund Requirement bears to the total of all Bonds of such Series (or subseries, if applicable) and maturity then Outstanding.

General Provisions as to Purchase or Redemption of Bonds

Pursuant to the General Indenture, the Trustee may at any time purchase Bonds:

(i) that are subject to Sinking Fund Requirements on the next date such payments are scheduled, upon direction of any Authorized Officer, from moneys on deposit in the Revenue Fund prior to being transferred to the Principal Account in satisfaction of such Sinking Fund Requirements, at a price, *except* as described below, not to exceed the Redemption Price (plus accrued interest to the date of redemption, if any) that would be payable on the next redemption date; no such purchase may be made, *however*, by the Trustee after the giving of notice of redemption by the Trustee; and

(ii) from moneys on deposit in the Special Redemption Account and the Optional Redemption Account, upon direction of any Authorized Officer, at a price, *except* as described below, not to exceed the Redemption Price (plus accrued interest to the date of redemption, if any) that would be payable on the next redemption date; no such purchase may be made, *however*, after the giving of notice by the Trustee that such Bonds are subject to redemption, *except* (a) from moneys other than moneys set aside for such redemption or (b) if such purchase is from the party that has received such notice.

Subject to applicable law, notwithstanding the maximum purchase price set forth in (i) and (ii) above, if at any time the investment earnings on the moneys available for such purchase shall be less than the interest accruing on the Bonds to be redeemed, then the Trustee may pay a purchase price for any such Bond in excess of the Redemption Price that would be payable on the next redemption date to the Owner of such Bond under the applicable Series Indenture, if an Authorized Officer certifies to the Trustee that the amount paid in excess of said Redemption Price is less than the interest that is to accrue on said Bond less any investment earnings on such available moneys for the period from the settlement date of the proposed purchase to the redemption date.

Selection of Bonds for Redemption

The Trustee will select the Bonds or portions of Bonds to be redeemed or purchased in accordance with the General Indenture and the applicable Series Indenture. *Except* as otherwise stated in the Series Indenture authorizing a Series of Bonds with respect to all or any part of the Series of Bonds authorized thereunder, moneys will, upon direction by an Agency Request to the Trustee, be applied by the Trustee to the purchase or the redemption of Bonds selected from among the Series (and subseries, if applicable), maturities, and interest rates on the basis specified by the Agency in such Agency Request accompanied by a Cash Flow Certificate or Cash Flow Statement (see “The Related Bonds — Redemption” above). *Except* as otherwise provided in a Series Indenture, the Agency Request relating to each redemption of Bonds will be filed with the Trustee at least 30 days prior to the date fixed for redemption or such lesser number of days as shall be acceptable to the Trustee.

Except as otherwise provided in a Series Indenture, if less than all of the Bonds of one Series (and subseries, if applicable) and one maturity bearing the same interest rate (and otherwise of like tenor) are called for redemption, the particular Bonds of such Series (and subseries, if applicable) and maturity bearing the same interest rate (and otherwise of like tenor) to be redeemed will be selected not later than 20 days prior to the date fixed for redemption in such manner as directed by the Agency pursuant to an Agency Request or, if no such direction is received by the Trustee, by lot or in such manner as the Trustee in its discretion may determine; *provided, however*, that the portion of Bonds of any such maturity and Series (and subseries, if applicable) to be redeemed will be in the minimum principal amount or an integral multiple thereof established for such Bonds in the applicable Series Indenture, and that in selecting Bonds for redemption, the Trustee will treat each Bond as representing that number of Bonds that is obtained by dividing the principal amount of such Bond by said minimum principal amount.

The Related Bonds Series Indenture provides that so long as all of the Related Bonds are registered in the name of Cede & Co., as nominee of DTC, the Trustee will select the particular Related Bonds of a Series, subseries (if applicable) and maturity bearing the same interest rate to be redeemed not later than 25 days prior to the date fixed for redemption or such lesser number of days as shall be acceptable to the Trustee.

Notice of Redemption

Unless otherwise provided in the applicable Series Indenture or waived by the Bondowner, notice of any redemption will be mailed at least 3 days but no more than 90 days prior to the date set for redemption to the registered Owners of Bonds to be redeemed at their addresses as they appear in the registration books kept by the Bond Registrar. In the case of redemption that is conditioned on the occurrence of certain events, the notice of redemption will set forth, among other things, the conditions precedent to the redemption. Once a redemption notice is sent in accordance with the provisions of the Indenture, any such notice shall be effective with respect to a Related Bond to be redeemed whether or not received by the Bondowner thereof.

The Related Bonds Series Indenture provides that so long as all of the Related Bonds are immobilized in the custody of DTC, (i) notice of redemption of Related Bonds will be delivered

by the Agency to the Trustee at least 30 days prior to the date set for redemption (or such lesser number of days acceptable to the Trustee), and (ii) notice of redemption of Related Bonds will be delivered by the Trustee to DTC at least 20 days but not more than 60 days prior to the date set for redemption. *DTC is responsible for notifying Direct Participants, and Direct Participants and Indirect Participants are responsible for notifying Beneficial Owners. Neither the Trustee nor the Agency is responsible for sending notices to Beneficial Owners or for the consequences of any action or inaction by the Agency as a result of the response or failure to respond by DTC or its nominee as Bondowner.* (“Direct Participants,” “Indirect Participants,” and “Beneficial Owners” are defined under the heading “DTC and Book-Entry.”)

DTC and Book-Entry

General. The Related Bonds will be issued as fully-registered bonds in the name of Cede & Co., as nominee of DTC, as registered owner of the Related Bonds. Purchasers of such Bonds will not receive physical delivery of bond certificates. For purposes of this Official Statement, so long as all of the Related Bonds are immobilized in the custody of DTC, references to holders or owners of the Related Bonds (except under “Tax Matters”) mean DTC or its nominee.

The information in this section concerning DTC and the DTC book-entry system has been obtained from DTC, and neither the Agency nor the Underwriters takes responsibility for the accuracy or completeness thereof.

DTC will act as securities depository for the Related Bonds. The Related Bonds are issued as fully-registered securities registered in the name of Cede & Co., DTC’s partnership nominee (“Cede”), or such other name as may be requested by an authorized representative of DTC. One fully-registered Related Bond certificate is issued for each maturity of each subseries thereof in the aggregate principal amount of each such maturity, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing

corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission.

Purchases of the Related Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Related Bonds on DTC’s records. The ownership interest of each actual purchaser of each Related Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Related Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Related Bonds, except in the event that use of the book-entry system for the Related Bonds is discontinued.

To facilitate subsequent transfers, all Related Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede, or such other name as may be requested by an authorized representative of DTC. The deposit of the Related Bonds with DTC and their registration in the name of Cede or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Related Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Related Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Related Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Related Bonds, such as redemptions, defaults, and proposed amendments to the Indenture. For example, Beneficial Owners of Related Bonds may wish to ascertain that the nominee holding the Related Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners.

Redemption notices shall be sent to DTC. If less than all of a maturity of a Series of the Related Bonds is being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede (nor any other DTC nominee) will consent or vote with respect to the Related Bonds unless authorized by a Direct Participant in accordance with DTC’s Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Agency as soon as possible after the record date. The Omnibus Proxy assigns Cede’s consenting or voting rights to

those Direct Participants to whose accounts the Related Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of and interest on the Related Bonds will be made to Cede, or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Agency or the Trustee on a payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Agency, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee or the Agency, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants. NEITHER THE AGENCY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH PARTICIPANTS, TO THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE RELATED BONDS, OR TO ANY BENEFICIAL OWNER IN RESPECT OF THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT OR INDIRECT PARTICIPANT, THE PAYMENT BY DTC OR ANY DIRECT OR INDIRECT PARTICIPANT OF ANY AMOUNT IN RESPECT OF THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE RELATED BONDS, ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO BONDOWNERS UNDER THE INDENTURE, THE SELECTION BY DTC OR ANY DIRECT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE RELATED BONDS OR ANY OTHER ACTION TAKEN BY DTC AS REGISTERED BONDOWNER.

DTC may discontinue providing its services as securities depository with respect to the Related Bonds at any time by giving reasonable notice to the Agency or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Related Bond certificates are required to be printed and delivered as described in the Indenture.

The Agency may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Related Bond certificates will be required to be printed and delivered as described in the Indenture.

In the event that the book-entry system with respect to the Related Bonds is discontinued as described above, the following requirements of the Indenture will apply. The Indenture provides for issuance of bond certificates directly to registered owners of the Related Bonds other than DTC or its nominee at the expense of such registered owners. Interest on such Related Bonds will be payable by check or draft mailed to the persons whose names appear on the registration books of the Agency maintained by the Trustee. Principal of each Related Bond will be payable to the registered owner thereof upon surrender of such Related Bond at the office of the Trustee in San Francisco, California or, at the option of the registered owner, at the office of U.S. Bank National Association, St. Paul, Minnesota. Notwithstanding the foregoing, upon

written request of a registered owner of \$5,000,000 or more in aggregate principal amount of the Related Bonds, interest on, and upon surrender, principal of such Bonds will be payable by wire transfer from the Trustee to the registered owner thereof. The Related Bonds may be exchanged by the registered owners thereof in person or by duly authorized attorney. Any Related Bond may be transferred with a written instrument of transfer, in form and with a medallion guarantee of signature satisfactory to the Trustee, duly executed by the registered owner or his or her duly authorized attorney, at the principal office of the Trustee, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender and cancellation of the Related Bonds to be exchanged or transferred. No transfer or exchange of any Related Bond shall be required to be made during the 15 days next preceding each Interest Payment Date or with respect to a Related Bond for which notice of redemption has been given. Upon such exchange or transfer, a new Related Bond or Bonds, as applicable, of the same or any other authorized denomination or denominations for the same aggregate principal amount, will be issued to the owner or transferee, as the case may be, in exchange therefor.

ASSUMPTIONS REGARDING REVENUES, DEBT SERVICE REQUIREMENTS, AND PROGRAM EXPENSES*

General

The Agency has made, or will make, certain assumptions, including those set forth under this caption “Assumptions Regarding Revenues, Debt Service Requirements, and Program Expenses,” in establishing the principal amounts of the Related Bonds, the maturities and Sinking Fund Requirements with respect to the Market Bonds and the Sinking Fund Requirements with respect to the Program Bonds and in preparing the Cash Flow Statement to be delivered in connection with the issuance of the Market Bonds and the Release applicable to the Program Bonds (the “Related Bonds Cash Flow Statement”). The assumptions include that all proceeds of the 2009 Series A Bonds remaining on deposit following the Release with respect to the Program Bonds will be applied to redeem the related 2009 Series A Bonds on February 1, 2012 and that the investment earnings on such Bonds are equal to the interest due on such Bonds.

The Agency expects payments under the Related Mortgage-Backed Securities and moneys and securities held under the Indenture and the income thereon to be sufficient to pay, when due, the principal (including Sinking Fund Requirements) of and interest on the Related Bonds. In arriving at the foregoing, the Agency has not considered the issuance of Additional Bonds or the application or investment of the proceeds thereof; *however*, a condition in the Indenture to issuing such Additional Bonds is the filing of a Cash Flow Statement. Since all Bonds issued under the General Indenture will rank equally and ratably with the Related Bonds with respect to the security afforded by the Indenture, availability of money for repayment of the Related Bonds could be affected by the issuance, application, and investment of proceeds of Additional Bonds. The maturities of the Market Bonds and the Sinking Fund Requirements of Related Bonds were determined on the assumption that there will be no Principal Prepayments with respect to the Related Mortgage-Backed Securities.

* Preliminary, subject to change.

The Agency believes it is reasonable to make these assumptions regarding the Related Bonds, but can give no assurance that the actual receipt of money will correspond with the estimates of money available to pay the debt service on the Bonds and the expenses of the Agency and the Trustee incurred in connection with the Program.

Mortgage-Backed Securities

The Related Bonds Cash Flow Statement will include the information that the Agency expects to use available proceeds of the Related Bonds and other amounts as described below to purchase approximately \$235.9 million aggregate principal amount of Mortgage-Backed Securities (all of which are expected to be guaranteed by GNMA) during the period from May 19, 2011 to June 1, 2012, having a weighted average pass-through rate of approximately 3.83% per annum and backed by Related Underlying Mortgage Loans with 30-year terms. The Related Bonds Cash Flow Statement will also assume that Related Bonds will be redeemed (i) on November 1, 2011 from amounts on deposit in the Related Bonds Acquisition Account on October 1, 2011 representing unexpended proceeds of the Related Bonds in excess of \$33,000,000 and (ii) on July 1, 2012 from amounts on deposit in the Related Bonds Acquisition Account on June 1, 2012 representing all remaining unexpended proceeds of the Related Bonds.

Such Mortgage-Backed Securities are expected to be purchased, pursuant to a participation agreement, with available proceeds of the Related Bonds in the amount of approximately \$220,000,000 and approximately \$15,900,000 of other available amounts. A portion of each principal payment (including a prepayment) of a Mortgage-Backed Security purchased pursuant to such participation agreement, corresponding to the percentage of the purchase price of such Mortgage-Backed Security funded by proceeds of Related Bonds, will be allocated to the Related Bonds and received by the Trustee under the Indenture, and the remainder of each principal payment (including a prepayment) will be allocated to the other source of the purchase price of such Mortgage-Backed Security. The entire amount of each interest payment on a Mortgage-Backed Security purchased pursuant to such participation agreement will be allocated to the Related Bonds and received by the Trustee under the Indenture.

The Related Bonds Cash Flow Statement will assume that there will be no losses with respect to such Mortgage-Backed Securities.

The Agency reserves the right, at its option, to change the interest rate or rates offered for its Related Underlying Mortgage Loans (and thereby change the pass-through rate on the Related Mortgage-Backed Securities) in its management of the Program, including to assist the Agency in complying with requirements imposed by the Code or to adjust to changing mortgage market conditions. The Agency also reserves the right to change the amounts of money it will make available for Related Underlying Mortgage Loans at different interest rates.

Certain Investments

Amounts allocable to the Related Bonds on deposit in the Acquisition Fund are expected to be invested in Investment Obligations.

For purposes of the Related Bonds Cash Flow Statement, it has been assumed that amounts allocable to the Related Bonds in all Funds (other than the Rebate Fund) and Accounts will be invested at an interest rate of 0% per annum.

Expenses

The annual Trustee fee in connection with the Related Bonds will be assumed to be equal to 0.013% of the Outstanding Related Bonds.

The Indenture provides that during a Fiscal Year the Agency may withdraw as Expenses (which includes items in addition to those described in the preceding paragraph) amounts supported by a Cash Flow Statement filed by the Agency with the Trustee, not to exceed the aggregate of the amounts set forth therefor in all Series Indentures. See “Summary of Certain Provisions of the General Indenture — Certain Definitions — Expenses,” “Summary of Certain Provisions of the General Indenture — Revenue Fund; Application of Revenues” and “Summary of Certain Provisions of the General Indenture — Cash Flow Statements” in Part 2. The amount so established in the Related Bonds Series Indenture is 0.40% of the outstanding aggregate principal amount of the Related Mortgage-Backed Securities.

Cash Flow Statements

Cash Flow Statements delivered pursuant to the General Indenture include certain assumptions about the receipt of principal and interest on Mortgage-Backed Securities and the receipt of investment income as projected. While the Agency believes the assumptions used in the Related Bonds Cash Flow Statement are reasonable, there can be no assurance that the actual receipt of money will correspond with the estimates of money available to pay the debt service on the Bonds and the expenses of the Agency and the Trustee incurred in connection with the Program.

TAX MATTERS

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Agency, (i) under existing statutes and court decisions, and assuming continuing compliance with certain tax covenants described herein, (a) interest on the Related Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Code and (b) under the Code, interest on the Related Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations and is not included in the adjusted current earnings of corporations for purposes of the alternative minimum tax; and (ii) under existing statutes, interest on the Related Bonds is exempt from personal income taxes imposed by the State of California. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Agency in connection with the Related Bonds, and Bond Counsel has assumed compliance by the Agency with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Related Bonds from gross income under Section 103 of the Code.

The opinions of Bond Counsel with respect to the Market Bonds and the Program Bonds are expected to be delivered in substantially the forms set forth in Appendix A and Appendix B, respectively, to this Part 1.

Bond Counsel expresses no opinion regarding any other Federal or state tax consequences with respect to the Related Bonds. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update, revise or supplement its opinion to reflect any action thereafter taken or not taken, or any facts or circumstances that may thereafter come to its attention, or changes in law or in interpretations thereof that may thereafter occur, or for any other reason.

Bond Counsel expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Related Bonds, or under state and local tax law.

Although Bond Counsel will render its opinion that interest on the Related Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, such Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depend upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

The Code establishes certain requirements that must be met subsequent to the issuance of the Related Bonds in order that interest thereon be and remain excluded from gross income under the Code. These requirements include, but are not limited to, requirements relating to use and expenditures of gross proceeds of the Related Bonds, yield and other restrictions on investment of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the Related Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The Agency has adopted documents with respect to its program that establish procedures under which, if followed, such requirements can be met. The Agency has covenanted in the Indenture to at all times perform all acts and things permitted by law and necessary and desirable in order to assure that interest paid on the Related Bonds shall not be included in gross income for Federal income tax purposes under the Code. Bond Counsel has relied upon such covenant and has assumed compliance by the Agency with and enforcement by the Agency of the provisions of the Indenture and such documents. In rendering its opinion, Bond Counsel also has relied on certain representations, certification of fact, and statements of the reasonable expectations made by the Agency and others in connection with the Related Bonds. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Related Bonds may adversely affect the value of, or the tax status of interest on, the Related Bonds.

Information reporting requirements apply to interest paid on tax-exempt obligations, including the Related Bonds. In general, such reporting requirements are satisfied if the interest

recipient completes, and provides the payor with, a Form W-9, “Request for Taxpayer Identification Number and Certification,” or if the recipient is one of a limited class of exempt recipients. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to “backup withholding,” which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a “payor” generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Related Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Related Bonds from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner’s Federal income tax once the required information is furnished to the Internal Revenue Service.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel’s judgment as to the proper treatment of the Related Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service (“IRS”) or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Agency, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Agency has covenanted, however, to comply with the requirements of the Code.

Unless separately engaged, Bond Counsel is not obligated to defend the Agency or the Beneficial Owners regarding the tax-exempt status of the Related Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Agency and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Agency legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Related Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Related Bonds, and may cause the Agency or the Beneficial Owners to incur significant expense.

Tax legislation, administrative actions taken by tax authorities, and court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the Related Bonds under federal law or the tax-exempt status of interest on the Related Bonds under state law and could affect the market price or marketability of the Related Bonds.

Prospective purchasers of the Related Bonds should consult their own tax advisors regarding the foregoing matters.

LEGAL MATTERS

Certain legal matters incident to the authorization, issuance and delivery of the Market Bonds and the Release with respect to the Program Bonds are subject to the approval of Hawkins Delafield & Wood LLP, Bond Counsel to the Agency. The proposed forms of legal opinions of Bond Counsel to be delivered upon the delivery of the Market Bonds and the Release with respect to the Program Bonds undertake no responsibility for the accuracy, completeness or fairness of this Official Statement or other offering material relating to the Related Bonds and express therein no opinion with respect thereto. Certain legal matters with respect to the Market Bonds will be passed upon for the Underwriters by their counsel, Kutak Rock LLP.

LITIGATION

There is no pending (with service of process on the Agency completed) litigation of any nature restraining or enjoining or seeking to restrain or enjoin the issuance or delivery of the Market Bonds, or the Release with respect to the Program Bonds, or contesting the validity of the Related Bonds, the Indenture or other proceedings of the Agency taken with respect to the authorization, issuance or sale of the Related Bonds, or the pledge or application of any money under the Indenture, or the existence or powers of the Agency to implement the Program.

While at any given time, including the present, there are or may be civil actions pending against the Agency, which could, if determined adversely to the Agency, affect the Agency's expenditures and in some cases its revenues, the Agency is of the opinion that no pending actions are likely to have a material adverse effect on the Agency's ability to pay principal of, premium, if any, and interest on the Related Bonds when due.

LEGALITY FOR INVESTMENT

Under the Act, the Related Bonds are legal investments for all public officers and public bodies of the State of California or its political subdivisions, all municipalities and municipal subdivisions, all insurance companies or banks, savings and loan associations, building and loan associations, trust companies, savings banks, savings associations and investment companies, and administrators, guardians, conservators, executors, trustees and other fiduciaries, and may be used as security for public deposits.

RATING

Moody's is expected to assign the Market Bonds a rating of "Aaa". The Agency has furnished to Moody's certain information and materials with respect to the Market Bonds. Generally, rating agencies base their ratings on such information and materials, and on investigations, studies and assumptions made by the rating agencies. The Underwriters' obligation to purchase the Market Bonds is conditioned on Moody's giving the aforementioned rating to the Market Bonds. Such rating assigned to the Market Bonds reflects only the views of Moody's and an explanation of the significance of such rating may be obtained from Moody's. There is no assurance that the rating assigned to the Market Bonds will continue for any given period of time or that it will not be revised or withdrawn entirely, if in the judgment of Moody's,

circumstances so warrant. A downward revision or withdrawal of the rating may have an adverse effect on the market price of the Market Bonds.

INDEPENDENT AUDITORS

The combined financial statements of the California Housing Finance Fund (which is administered by the California Housing Finance Agency), as of June 30, 2010 and for the years ended June 30, 2010 and June 30, 2009, included in this Official Statement have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report appearing herein.

Assets pledged under the respective programs referenced in the financial statements, other than Pledged Property (as described in Part 2 under “Summary of Certain Provisions of the General Indenture — Certain Defined Terms”), are not pledged to and should not be considered as a source of payment for the Bonds.

CONTINUING DISCLOSURE

The Agency has covenanted for the benefit of the Holders and Beneficial Owners (each as defined in Appendix C to this Part 1) of the Market Bonds to provide certain financial information and operating data relating to the General Indenture by not later than 180 days following the end of each of the Agency’s Fiscal Years (the “Annual Report”), and to provide notices (“Event Notices”) of the occurrence of certain enumerated events. The Annual Report will be filed by the Agency with the Municipal Securities Rulemaking Board (the “MSRB”). The Event Notices will be filed by the Trustee on behalf of the Agency with the MSRB. The specific nature of the information to be contained in the Annual Report and the Event Notices is summarized in Appendix C to this Part 1 — “Summary of Certain Provisions of the Continuing Disclosure Agreement.”

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase the Market Bonds at the respective initial offering prices set forth on the inside front cover page (including any applicable original issue premium), plus accrued interest, if any. The Underwriters will be paid a fee of \$_____ with respect to the Market Bonds. The obligations of the Underwriters are subject to certain conditions precedent, and the Underwriters will be obligated to purchase all the Market Bonds if any are purchased. The initial offering prices of the Market Bonds may be changed from time to time by the Underwriters. The Underwriters may offer and sell the Market Bonds to certain dealers (including dealers depositing the Market Bonds into investment trusts) and certain dealer banks and banks acting as agents at prices lower than the initial offering prices set forth on the inside front cover page hereof.

In addition, the Underwriters will receive a special structuring fee equal to \$_____ as compensation for the additional structuring considerations necessary to ensure that the Market Bonds meet the requirements necessary to permit the Release of proceeds of the 2009 Series A Bonds in conformity with the NIBP. The Underwriters are not offering the Program Bonds and

are not acting as financial advisors and have not provided any services with respect to the Program Bonds or the holders thereof.

If there is no Release with respect to the Program Bonds, the issuance of the Market Bonds will be canceled.

The Servicer, Bank of America, N.A., is the parent company of Merrill Lynch, Pierce, Fenner & Smith Incorporated, one of the Underwriters of the Market Bonds.

J.P. Morgan Securities LLC (“JPMS”), one of the Underwriters of the Market Bonds, has entered into negotiated dealer agreements (each, a “Dealer Agreement”) with each of UBS Financial Services Inc. (“UBSFS”) and Charles Schwab & Co., Inc. (“CS&Co.”) for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement (if applicable to this transaction), each of UBSFS and CS&Co. will purchase Market Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Market Bond such firm sells.

MISCELLANEOUS

The agreements of the Agency with the owners of the Related Bonds are fully set forth in the Indenture, and this Official Statement is not to be construed as a contract with the purchasers of the Related Bonds. Any statements made in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended merely as such and not as representations of fact.

The execution and delivery of this Official Statement have been duly authorized by the Agency.

CALIFORNIA HOUSING FINANCE AGENCY

By: _____
Director of Financing

Dated: May __, 2011

PROPOSED FORM OF LEGAL OPINION FOR THE MARKET BONDS

Upon the delivery of the Market Bonds, Bond Counsel proposes to issue an approving opinion in substantially the following form:

California Housing Finance Agency
Sacramento, California

We have acted as Bond Counsel to the California Housing Finance Agency (the “Agency”), and in such capacity we have examined a record of proceedings in connection with the issuance by the Agency of its Residential Mortgage Revenue Bonds, 2011 Series A, in the aggregate principal amount of \$ _____ (the “Bonds”).

The Bonds are issued under and pursuant to (i) Parts 1 through 4 of Division 31 of the Health and Safety Code of the State of California (the “Act”), (ii) the Residential Mortgage Revenue Bonds Indenture, dated as of December 1, 2009, as amended and restated (the “General Indenture”), by and between the Agency and U.S. Bank National Association, as trustee (the “Trustee”), and (iii) the related Residential Mortgage Revenue Bonds Series Indenture, dated as of May 1, 2011 (the “Series Indenture”; together with the General Indenture, the “Indenture”), by and between the Agency and the Trustee. The Bonds are dated, mature on the dates in the principal amounts, bear interest, if any, and are payable as provided in the Series Indenture. The Bonds are subject to redemption prior to maturity in whole or in part, as provided in the Indenture. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

The Internal Revenue Code of 1986, as amended (the “Code”), establishes certain requirements that must be met subsequent to the issuance of the Bonds and the release of moneys, in an amount corresponding to the aggregate principal amount of the Agency’s Residential Mortgage Revenue Bonds, 2009 Series A-4 (together with the Bonds, the “Related Bonds”), from an escrow account into which the proceeds of the Agency’s Residential Mortgage Revenue Bonds, 2009 Series A were deposited upon the issuance thereof in order that interest on the Bonds be and remain excluded from gross income under the Code. These requirements include, but are not limited to, requirements relating to use and expenditures of gross proceeds of the Related Bonds, yield and other restrictions on investment of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The Agency has adopted documents with respect to its program (the “Program Documents”) that establish procedures under which, if followed, such requirements can be met. The Agency has covenanted in the Indenture to at all times perform all acts and things permitted by law and necessary and desirable in order to assure that interest paid on the Bonds shall not be included in gross income for Federal income tax purposes under the Code. We have relied upon such

covenant and have assumed compliance by the Agency with and enforcement by the Agency of the provisions of the Indenture and the Program Documents. In rendering this opinion, we also have relied on certain representations, certification of fact, and statements of the reasonable expectations made by the Agency and others in connection with the Related Bonds.

We are of the opinion that:

(1) The Agency has been duly created and validly exists with good right and lawful authority to perform its obligations in accordance with law and the terms and conditions of the Indenture.

(2) The Bonds have been duly authorized and constitute valid and binding special obligations of the Agency, payable solely from the Revenues and other assets pledged therefor under the Indenture which shall have been lawfully appropriated therefor.

(3) The Indenture has been duly authorized, executed and delivered by, and is a valid and binding obligation of, the Agency. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the rights, title, and interest of the Agency in, to, and under the Mortgage-Backed Securities, all of the Revenues, all proceeds of the sale of Bonds, and all Funds and Accounts (other than the Rebate Fund) and the moneys and securities therein, in each case subject to the provisions of the Indenture permitting the use and application thereof for or to the purposes and on the terms and conditions set forth in the Indenture.

(4) The Bonds do not constitute a debt or liability of the State of California or any political subdivision thereof, other than the Agency, or a pledge of the faith and credit of the State of California or any such political subdivision, other than the Agency, to the extent provided in the Indenture. Neither the faith and credit nor the taxing power of the State of California is pledged to the payment of the principal of or interest on the Bonds.

(5) Under existing statutes and court decisions and assuming continuing compliance with certain tax covenants referred to herein, (i) interest on the Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Code; and (ii) under the Code, interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations and is not included in the adjusted current earnings of corporations for purposes of the alternative minimum tax.

(6) Under existing statutes, interest on the Bonds is exempt from personal income taxes imposed by the State of California.

We express no opinion regarding any other Federal or state tax consequences with respect to the Bonds. We render our opinion under existing statutes and court decisions as of the issue date, and assume no obligation to update, revise or supplement our opinion to reflect any action hereafter taken or not taken, or any facts or circumstances that may hereafter come to our attention, or changes in law or in interpretations thereof that may hereafter occur, or for any other reason. We express no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Bonds, or under state and local tax law. We undertake no

responsibility for the accuracy, completeness, or fairness of any official statement or other offering materials relating to the Bonds and express herein no opinion relating thereto.

We have assumed, without undertaking to verify, the genuineness of all documents, certificates and opinions presented to us (whether as originals or as copies) and of the signatures thereon, the accuracy of the factual matters represented, warranted, or certified therein, and the due and legal execution thereof by, and the validity against, any parties other than the Agency.

In rendering this opinion, we are advising you that the rights and obligations under the Bonds and the Indenture and their enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium, arrangement, fraudulent conveyance, or other laws affecting creditors' rights or remedies and is subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law), to the exercise of judicial discretion in appropriate cases, and to limitations on legal remedies. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, waiver, or severability provisions contained in the documents described herein.

Very truly yours,

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APPENDIX B

PROPOSED FORM OF LEGAL OPINION FOR THE PROGRAM BONDS

Upon the Release of the Program Bonds, Bond Counsel proposes to issue an opinion in substantially the following form:

California Housing Finance Agency
Sacramento, California

We have acted as Bond Counsel to the California Housing Finance Agency (the “Agency”), and in such capacity we have examined a record of proceedings in connection with the Release (as defined below) of a portion of the proceeds of the Agency’s Residential Mortgage Revenue Bonds, 2009 Series A (the “2009 Series A Bonds”), in the aggregate principal amount of \$ _____, such portion constituting the Agency’s Residential Mortgage Revenue Bonds, 2009 Series A-4 (the “Bonds”).

The Bonds were issued under and pursuant to (i) Parts 1 through 4 of Division 31 of the Health and Safety Code of the State of California (the “Act”), (ii) the Residential Mortgage Revenue Bonds Indenture, dated as of December 1, 2009, as amended and restated (the “General Indenture”), by and between the Agency and U.S. Bank National Association, as trustee (the “Trustee”), and (iii) the related Residential Mortgage Revenue Bonds Series Indenture, dated as of December 1, 2009 (the “Series Indenture”; together with the General Indenture, the “Indenture”), by and between the Agency and the Trustee. The Bonds are dated, mature on the dates in the principal amounts, bear interest, if any, and are payable as provided in the Series Indenture. The Bonds are subject to redemption prior to maturity in whole or in part, as provided in the Indenture. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture. Upon the issuance of the 2009 Series A Bonds, the proceeds thereof, less certain fees, were deposited into an escrow fund. The Agency has elected to cause the release of moneys from such fund, in accordance with the terms of the Indenture, in an amount corresponding to the aggregate principal amount of the Bonds (the “Release”).

The Internal Revenue Code of 1986, as amended (the “Code”), establishes certain requirements that must be met subsequent to the Release and the issuance of the Agency’s Residential Mortgage Revenue Bonds, 2011 Series A (together with the Bonds, the “Related Bonds”) in order that interest on the Bonds be and remain excluded from gross income under the Code. These requirements include, but are not limited to, requirements relating to use and expenditures of gross proceeds of the Related Bonds, yield and other restrictions on investment of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the Bonds to become included in gross income for Federal income tax purposes retroactive to the date of the Release, irrespective of the date on which such noncompliance occurs or is discovered. The Agency has adopted documents with respect to its program (the “Program Documents”) that establish procedures under which, if followed, such requirements can be met. The Agency has covenanted in the Indenture to at all times perform all acts and

things permitted by law and necessary and desirable in order to assure that interest paid on the Bonds shall not be included in gross income for Federal income tax purposes under the Code. We have relied upon such covenant and have assumed compliance by the Agency with and enforcement by the Agency of the provisions of the Indenture and the Program Documents. In rendering this opinion, we also have relied on certain representations, certification of fact, and statements of the reasonable expectations made by the Agency and others in connection with the Related Bonds.

We are of the opinion that:

(1) The Agency has been duly created and validly exists with good right and lawful authority to perform its obligations in accordance with law and the terms and conditions of the Indenture.

(2) The Bonds have been duly authorized and constitute valid and binding special obligations of the Agency, payable solely from the Revenues and other assets pledged therefor under the Indenture which shall have been lawfully appropriated therefor.

(3) The Indenture has been duly authorized, executed and delivered by, and is a valid and binding obligation of, the Agency. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the rights, title, and interest of the Agency in, to, and under the Mortgage-Backed Securities, all of the Revenues, all proceeds of the sale of Bonds, and all Funds and Accounts (other than the Rebate Fund) and the moneys and securities therein, in each case subject to the provisions of the Indenture permitting the use and application thereof for or to the purposes and on the terms and conditions set forth in the Indenture.

(4) The Bonds do not constitute a debt or liability of the State of California or any political subdivision thereof, other than the Agency, or a pledge of the faith and credit of the State of California or any such political subdivision, other than the Agency, to the extent provided in the Indenture. Neither the faith and credit nor the taxing power of the State of California is pledged to the payment of the principal of or interest on the Bonds.

(5) Under existing statutes and court decisions and assuming continuing compliance with certain tax covenants referred to herein, (i) interest on the Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Code; and (ii) under the Code, interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations and is not included in the adjusted current earnings of corporations for purposes of the alternative minimum tax.

(6) Under existing statutes, interest on the Bonds is exempt from personal income taxes imposed by the State of California.

We express no opinion regarding any other Federal or state tax consequences with respect to the Bonds. We render our opinion under existing statutes and court decisions as of the date of the Release, and assume no obligation to update, revise or supplement our opinion to reflect any action hereafter taken or not taken, or any facts or circumstances that may hereafter come to our attention, or changes in law or in interpretations thereof that may hereafter occur, or

for any other reason. We express no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Bonds, or under state and local tax law. We undertake no responsibility for the accuracy, completeness, or fairness of any official statement or other offering materials relating to the Bonds and express herein no opinion relating thereto.

We have assumed, without undertaking to verify, the genuineness of all documents, certificates and opinions presented to us (whether as originals or as copies) and of the signatures thereon, the accuracy of the factual matters represented, warranted, or certified therein, and the due and legal execution thereof by, and the validity against, any parties other than the Agency.

In rendering this opinion, we are advising you that the rights and obligations under the Bonds and the Indenture and their enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium, arrangement, fraudulent conveyance, or other laws affecting creditors' rights or remedies and is subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law), to the exercise of judicial discretion in appropriate cases, and to limitations on legal remedies. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, waiver, or severability provisions contained in the documents described herein.

Very truly yours,

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**SUMMARY OF CERTAIN PROVISIONS OF THE
CONTINUING DISCLOSURE AGREEMENT**

Certain provisions of the Master Continuing Disclosure Agreement between the Agency and the Trustee (the “Disclosure Agreement”) not previously discussed in this Official Statement are summarized below. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Disclosure Agreement.

The Disclosure Agreement is being executed and delivered by the Agency and the Trustee for the benefit of the Holders and Beneficial Owners of the Market Bonds (the “Subject Bonds”).

Certain Definitions

Defined terms used in the Disclosure Agreement and not otherwise defined therein have the meanings set forth in the Indenture.

“Annual Report” means any Annual Report provided by the Agency pursuant to, and as described in, the Disclosure Agreement.

“Beneficial Owner” means any person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Subject Bonds, including persons holding such Bonds through nominees or depositories.

“Disclosure Representative” means the Director of Financing of the Agency or his or her designee, or such other officer or employee as the Agency shall designate in writing to the Trustee from time to time.

“Dissemination Agent” means the Agency, acting in its capacity as Dissemination Agent under the Disclosure Agreement, or any successor Dissemination Agent designated in writing by the Agency and which has filed with the Trustee a written acceptance of such designation.

“Holders” means either the registered owners of the Subject Bonds or, if the Subject Bonds are registered in the name of a recognized depository, any applicable participant in its depository system.

“Listed Event” means any of the events listed below under the heading “Reporting of Significant Event.”

“MSRB” means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, or any successor thereto or to the function of the MSRB contemplated by the Disclosure Agreement.

“Rule” means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Provision of Annual Reports

The Dissemination Agent will, not later than 180 days after the end of the Agency's Fiscal Year, provide to the MSRB an Annual Report which is consistent with the requirements of the Disclosure Agreement. The audited financial statements referred to below may be submitted separately from the balance of the Annual Report, and later than the date required for the filing of the Annual Report if not available by that date. If the Agency's fiscal year changes, it will give notice of such change in the same manner as for a Listed Event.

The Dissemination Agent will file a report with the Trustee certifying that the Annual Report has been provided pursuant to the Disclosure Agreement, stating the date it was provided.

Not later than 15 Business Days prior to the date specified above for providing the Annual Report, the Dissemination Agent will provide the Annual Report to the Trustee, in the manner described in the Disclosure Agreement. If by the date specified above for providing the Annual Report to the MSRB, the Trustee has not received a copy of the Annual Report, the Trustee is required to contact the Dissemination Agent to determine if the Agency is in compliance with the Disclosure Agreement. If the Trustee is unable to verify that an Annual Report has been provided to the MSRB by such date, the Trustee must send a notice to the MSRB indicating that the Annual Report has not been filed and when the Dissemination Agent anticipates it will file the Annual Report.

Content of Annual Reports

The Agency's Annual Report shall contain or include by reference the following:

(a) the audited financial statements of the Agency's Residential Mortgage Revenue Bonds Indenture (which, at the option of the Agency, may be included within audited financial statements of the Agency) for the Fiscal Year ended on the previous June 30, prepared in accordance with generally accepted accounting principles applicable to governmental entities; provided that if audited financial statements are not available by the time the Annual Report is required to be filed pursuant to the Disclosure Agreement, the Annual Report shall contain unaudited financial statements and the audited financial statements shall be filed in the same manner as the Annual Report when they become available;

(b) a description of the Bonds issued by the Agency and outstanding as of the date of such report;

(c) amounts in the Debt Reserve Fund, amounts in the Loan Loss Fund and amounts in the Supplementary Reserve Fund;

(d) a schedule of Bond redemptions and the sources of funds for such redemptions; and

(e) the status of the Agency's Mortgage-Backed Securities portfolio, including the interest rates on the Mortgage-Backed Securities, the principal amount of

Mortgage-Backed Securities purchased and the principal amount of the current Mortgage-Backed Securities portfolio.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Agency or related public entities, either (1) available to the public on the MSRB internet web site or (2) filed with the Securities and Exchange Commission.

No mortgagor would be an obligated person (as defined in the Rule) for whom financial information or operating data would be presented in the final official statement relating to the Subject Bonds had such mortgagor been known at the time of the offering of the Subject Bonds.

Reporting of Significant Events

The Agency will give, or cause to be given, notice to the MSRB of the occurrence of any of the following events with respect to the Subject Bonds, in a timely manner not in excess of ten (10) Business Days after the occurrence of such event:

- (1) principal and interest payment delinquencies;
- (2) non-payment related defaults, if material;
- (3) unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) substitution of credit or liquidity providers, or their failure to perform;
- (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices of determinations with respect to the tax status of such Bonds, or other material events affecting the tax status of such Bonds;
- (7) modifications to rights of Bondholders, if material;
- (8) Bond calls, if material, and tender offers;
- (9) defeasances;
- (10) release, substitution or sale of property securing repayment of such Bonds, if material;
- (11) rating changes;
- (12) bankruptcy, insolvency, receivership or similar event of the Agency;

Note to clause (12): For the purposes of the event identified in clause (12) above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Agency in a proceeding under

the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or government authority has assumed jurisdiction over substantially all of the assets or business of the Agency, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Agency.

- (13) the consummation of a merger, consolidation, or acquisition involving the Agency or the sale of all or substantially all of the assets of the Agency, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (14) appointment of a successor or additional trustee or the change of name of a trustee, if material.

The Trustee will, within one Business Day of obtaining actual knowledge of the occurrence of (i) an event that is a Notice Event only if material or (ii) any other event that is a Notice Event, contact the Agency's Disclosure Representative and inform such person of the event and, in the case of an event referred to in clause (i), request that the Agency promptly notify the Trustee in writing whether or not to report the event to the MSRB, or, in the case of an event referred to in clause (ii), report the event to the MSRB.

Whenever the Agency obtains knowledge of the occurrence of an event referred to in clause (i) above, the Agency will determine if such event is material under applicable federal securities laws. If the Agency determines that knowledge of the occurrence of such event is material, the Agency will promptly notify the Trustee in writing and instruct the Trustee to report the event in accordance with the Disclosure Agreement. If in response to a request from the Trustee the Agency determines that the event is not material, the Agency will so notify the Trustee in writing and instruct the Trustee not to report the occurrence.

Notwithstanding the foregoing, notice of a Bond call or a defeasance need not be given any earlier than when the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Indenture.

Transmission of Information and Notices.

Unless otherwise required by law, all notices, documents and information provided to the MSRB shall be provided in an electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

Amendment of Disclosure Agreement

The Agency and the Trustee may amend the Disclosure Agreement, and any provision of the Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the date the Annual Report is to be filed, the contents of the Annual Report or the reporting of Listed Events, such amendment or waiver may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Subject Bonds;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Subject Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Subject Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Holders, or (ii) does not, in the opinion of the Trustee or nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Subject Bonds.

In the event of any amendment or waiver of a provision of the Disclosure Agreement, the Agency will describe such amendment in the next Annual Report, and include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type of financial information or operating data being presented by the Agency. If the amendment relates to the accounting principles to be followed in preparing financial statements, the Annual Report for the year in which the change is made will present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Default

In the event of a failure of the Agency or the Trustee to comply with any provision of the Disclosure Agreement, the Trustee may (and, at the request of the Holders of at least 25% aggregate principal amount of Outstanding Subject Bonds, shall), or any Holder or Beneficial Owner of Subject Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Agency or Trustee, as the case may be, to comply with its obligations under the Disclosure Agreement. A default under the Disclosure Agreement shall not be deemed an Event of Default under the Indenture, and the sole remedy under the Disclosure Agreement in the event of any failure of the Agency or the Trustee to comply with the Disclosure Agreement shall be an action to compel performance.

Termination of Reporting Obligation

The Agency's obligations under the Disclosure Agreement terminate upon legal defeasance under the Indenture, prior redemption or payment in full of all of the Subject Bonds.

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CALIFORNIA HOUSING FINANCE AGENCY

OFFICIAL STATEMENT PART 2

Relating to

Residential Mortgage Revenue Bonds

This Part 2 of this Official Statement provides certain information concerning the Agency, the Program and the Bonds in connection with the issuance of certain Series of Bonds by the Agency. It contains only a part of the information to be provided by the Agency in connection with such Series of Bonds. The terms of the Series of Bonds being issued, including the designation, principal amount, authorized denominations, price, maturity, interest rate and time of payment of interest, redemption provisions, and any other terms or information relating thereto are set forth in Part 1 of this Official Statement with respect to such Series. Additional information concerning the Agency is contained in Part 1 of this Official Statement. The information contained herein may be supplemented or otherwise modified by Part 1 of this Official Statement and is subject in all respects to the information contained therein.

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OFFICIAL STATEMENT PART 2
of the
CALIFORNIA HOUSING FINANCE AGENCY
relating to
Residential Mortgage Revenue Bonds

INTRODUCTION

The purpose of this Part 2 of this Official Statement, which includes the cover page and the appendices hereto, is to set forth certain information concerning the Agency, the Program and the Bonds in connection with the issuance of certain Series of Bonds by the Agency. Each Series of Bonds is issued pursuant to the Act, the General Indenture and a related Series Indenture. All capitalized terms used in this Part 2 and not otherwise defined shall have the respective meanings ascribed thereto in Part 1 of this Official Statement.

All references in this Official Statement to the Act, the General Indenture, and any Series Indenture are qualified in their entirety by reference to each such document, copies of which are available from the Agency, and all references to the Bonds are qualified in their entirety by reference to the definitive forms thereof and the information with respect thereto contained in the General Indenture, the applicable Series Indenture and this Official Statement.

THE AGENCY

Powers

The Agency was created in 1975 by the Act as a public instrumentality and a political subdivision of the State of California (the "State") within the Business, Transportation and Housing Agency, for the primary purpose of meeting the housing needs of persons and families of low or moderate income. The Agency is authorized to issue its bonds, notes and other obligations for a variety of purposes, including (1) making development loans, construction loans, mortgage loans and property improvement loans to qualified borrowers to finance housing developments and other residential structures; (2) purchasing such loans through qualified mortgage lenders; and (3) making loans to qualified mortgage lenders under terms and conditions requiring the proceeds thereof to be used for certain loans.

The Agency may also provide consulting and technical services in connection with the financing of housing developments and may act as a State representative in receiving and allocating federal housing subsidies.

The Act currently provides the Agency with the authority to have outstanding bonds or notes, at any one time, in the aggregate principal amount of \$13,150,000,000, excluding refunding issues and certain taxable securities. As of April 1, 2011, approximately \$7,960,174,000 aggregate principal amount of such bonds and notes were outstanding.

Management

The Agency is administered by the Board, which consists of 11 voting members when all positions are filled. The State Treasurer, the Secretary of the Business, Transportation and Housing Agency, and the Director of the Department of Housing and Community Development, or their designees, are voting ex officio members. Six members are appointed by the Governor and confirmed by the Senate. One member is appointed by the Speaker of the Assembly. One member is appointed by the Senate Rules Committee. All such appointments are for six-year terms. In addition, the Act provides that the Director of the Department of Finance, the Director of the Governor's Office of Planning and Research, and the Executive Director of the Agency shall serve as non-voting ex officio members of the Board. The Chairperson of the Board is selected by the Governor from among his appointees. Members of the Board are:

<u>Name</u>	<u>Term Expires</u>	<u>Principal Occupation</u>
<i>Voting Board Members</i> ^{†, ††}		
Peter N. Carey ^{††}	September 26, 2013	President/Chief Executive Officer, Self-Help Enterprises
Michael A. Gunning	September 26, 2015	Vice President, Personal Insurance Federation of California
Jonathan C. Hunter	November 18, 2013	Managing Director, Region II Corporation for Supportive Housing
Jack Shine	September 26, 2013	Chairman, American Beauty Development Co.
Ruben A. Smith	September 26, 2013	Partner, AlvaradoSmith
Bill Lockyer	*	State Treasurer
Traci Stevens	*	Acting Undersecretary, Business, Transportation and Housing Agency
Cathy Creswell	*	Acting Director, Department of Housing and Community Development

[†] There are currently three vacancies on the Board, two of which are to be filled by appointment by the Governor and confirmation by the Senate and one of which is to be filled by appointment by the Speaker of the Assembly.

^{††} Peter N. Carey is currently serving as Acting Board Chair.

<u>Name</u>	<u>Term Expires</u>	<u>Principal Occupation</u>
<i>Non-Voting Board Members</i>		
Claudia Cappio ^{†††}	*	Executive Director, California Housing Finance Agency
Ana Matosantos	*	Director, Department of Finance
Ken Alex	*	Director, Governor's Office of Planning and Research

Organization and Staff

The Agency is organized into the following divisions under the Executive Director: Homeownership Programs, Multifamily Programs, Mortgage Insurance Services, Financing, Fiscal Services, Office of General Counsel, Legislative, Marketing, Administration, Information Technology, and Asset Management.

The Homeownership Programs Division is responsible for directing and administering all of the Agency's single family mortgage purchase and loan programs. The Homeownership Programs Division has a staff of 29 persons.

The Multifamily Programs Division is responsible for underwriting all multifamily direct loans, preparing documentation for loan closings and monitoring the construction of developments financed by direct loans from the Agency. The Multifamily Programs Division has a staff of 31 persons, including loan underwriters, architects and construction inspectors.

The Mortgage Insurance Division is responsible for providing a program of loan insurance for mortgage loans to finance single family housing and portfolio management. Portfolio Management is responsible for Quality Assurance, REO Administration, REO Sales, Loss Mitigation, and Service Administration/Short Sales. The Mortgage Insurance Division has a staff of 35 persons.

The Financing Division is responsible for all of the Agency's financing activities, including the supervision of note and bond sales, issuances and redemptions, cash flow analyses of the Agency's obligations and the investment of the Agency's funds. The Financing Division has a staff of 12 persons.

^{†††} Subject to confirmation by the Senate.
* *ex officio.*

The Fiscal Services Division is overseen by the Agency's Comptroller and is responsible for accounting activities, fiscal operations, in-house servicing of loans, and preparation of Agency financial statements. The Fiscal Services Division has a staff of 65 persons.

The Office of General Counsel is responsible for all legal matters that affect the Agency, including review of all contracts and legislation and supervision of loan closings for multifamily developments. The Office of General Counsel also provides legal advice to the Agency's Board of Directors. The office is headed by a General Counsel and an Assistant Chief Counsel, and has 8 staff attorneys and 10 other staff members.

The Legislative Division is responsible for monitoring, tracking, and lobbying legislation impacting the housing arena, both on the State and Federal level. The Legislative Division has a staff of 3 persons.

The Marketing Division is responsible for developing and implementing the Agency's marketing programs and for managing all public information activities such as preparation of the annual report and press releases. The Marketing Division has a staff of 7 persons.

The Administration Division is responsible for directing and administering the Agency's personnel, training, and business services, and preparing the annual budget of the Agency. The Administration Division has a staff of 18 persons.

The Information Technology Division has responsibility for developing, implementing and maintaining the IT infrastructure and application systems supporting the Agency. The Information Technology Division has a staff of 16 persons.

The Asset Management Division is responsible for monitoring the financial and physical status of the Agency's multifamily loan portfolio of 518 projects, as well as occupancy compliance for Section 8 and low income units. The Asset Management Division has a staff of 29 persons.

The Agency's senior staff are listed below.

Claudia Cappio, *Executive Director* since April 2011. B.A., Ohio Wesleyan University. Previously: Principal at Sparticles LLC, a planning and development consulting firm (December 2008 – March 2011); City of Oakland – Director of Planning, Building, Major Projects and the Oakland Base Reuse Authority (2000-2007); City of Emeryville Planning and Building Director (1995-2000); City of Albany Planning Director (1985-1995); Town of Corte Madera Planner (1980 – March 1985.)

L. Steven Spears, *Chief Deputy Director* since April 2011. B.S., Southern Adventist University; M.B.A., University of Tennessee, Knoxville; J.D., University of the Pacific, McGeorge School of Law. Previously: Executive Director (April 2010 – April 2011); Acting Executive Director (December 2008 – April 2010); Chief Deputy Director (January 2006 – December 2008); Managing Director, The SAER Group – Kahl/Pownall Companies (2003-2005); Managing Director, The SAER Group – Metropolitan West Securities (1998-2003); California Deputy State Treasurer – Public Finance (1995-1998); Legal Counsel to State Board of Equalization Member, Matthew K. Fong (1991-1995); Senior Consultant to Rebecca A.

Morgan – California State Senate (1990-1991); Senior Manager, KPMG Peat Marwick (1985-1990).

Margaret Alvarez, *Director of Asset Management* since March 1996. B.A., California State University, Chico. Previously: Asset Management Specialist, Federal Home Loan Mortgage Corporation (1994-1996); Senior Asset Manager, FWC Realty Services Corporation (1987-1993); Property Manager, American Development Corporation (1986-1987); Property Manager, Far West Management Corporation (1980-1986).

Robert L. Deaner II, *Director of Multifamily Programs* since September 2007. BBA, Accounting, Western Michigan University, Kalamazoo. Previously: Vice President and Relationship Manager for US Bank (2006-2007); Pacific National Bank and CW Capital, Vice President, Affordable and Market Rate Housing (2004-2006); Key Bank Real Estate Capital, Vice President, National Multifamily Affordable Housing, (1999-2004); various positions in the affordable housing lending industry (1985-1999).

Kenneth H. Giebel, *Director of Marketing* since September 2002. B.S. and M.B.A., University of Santa Clara. Previously: Senior Marketing Manager at the California Lottery (1996-2002); various marketing positions for private sector corporations and advertising agencies.

Bruce D. Gilbertson, *Director of Financing* since July 2004. B.S., California State University, Sacramento. Previously: Comptroller (October 1996 – October 2004); Financing Officer (January 1994 – September 1996); Mortgage Loan Accounting Administrator (February 1988 – December 1993); held various accounting positions with the California State Department of Transportation (1978-1988).

Timothy Hsu, *Financing Risk Manager* since January 2005. B.A. Wesleyan University. Previously: Vice President at a major Wall Street investment bank (2003-2004); Financing Officer (2002); Senior Consultant at a leading quantitative consultancy (1995-2001). He earned the Chartered Financial Analyst designation in 2007, and he earned the Financial Risk Manager designation in 2008.

Thomas C. Hughes, *General Counsel* since February 2001. B.A., State University of New York; J.D., University of the Pacific, McGeorge School of Law. Previously: private practice, Kronick, Moskovitz, Tiedemann & Girard, Sacramento (1982-2001); private practice, Iwama & Castro, Sacramento (1978-1982).

Howard Iwata, *Director of Administration* since January 2009. B.A., Political Science, U.C. Berkeley. Previously: Bureau Chief, State Controller's Office (2005-2008); Assistant Executive Director, San Francisco Bay Conservation and Development Commission (1997-2005); Division Administrative Officer, Department of Fish and Game (1991-1997); and various administrative positions for a variety of State agencies (1980-1991).

Charles K. McManus, *Director of Mortgage Insurance* since December 2006. B.A., Harvard University; M.B.A., Harvard Graduate School of Business Administration. Previously: Acting Director of Mortgage Insurance (May 2006 – September 2006); Owner McManus Financial Services (2005-2006); SVP Branch Operations for Home American Mortgage (2005);

VP Retail Mortgage Production for Ohio Savings Bank FSB (2003-2004); SVP National Account for NCS (2002-2003); VP Real Estate for American Invsco (2001-2002); SVP Variable Annuities for Annuity Investors Life Insurance (1995-2000); Various mortgage banking and consulting positions (1991-1994); Chief Operating Officer of Mortgage Guaranty Insurance Corporation (1980-1991); SVP Marketing of Verex Mortgage Insurance (1975-1980).

Diane Richardson, *Director of State Legislation* since January 1999. Previously: Deputy Legislative Secretary for Governor Wilson (1998); Director of Legislation for the California Environmental Protection Agency (1997); Deputy Director for Legislation and other positions, Office of Planning and Research (1983-1996); Legislative Aide, California State Assembly (1981-1983).

The position of Director of Homeownership Programs is currently vacant. The function of the Director of Homeownership Programs is being performed by an experienced person under contract to the Agency. This position must ultimately be filled by appointment by the Governor.

The position of Comptroller is currently vacant. Howard Iwata, Director of Administration, is currently fulfilling the day-to-day duties of the Comptroller as Acting Director of Fiscal Services.

The position of Chief Information Officer is currently vacant. Liane Morgan, a Senior Programmer Analyst with the Agency, is currently fulfilling the day-to-day duties of the Chief Information Officer as Acting Chief Information Officer. This position must ultimately be filled by appointment by the Governor.

The Agency's principal office is located at 500 Capitol Mall, Suite 1400, Sacramento, California 95814, (916) 322-3991.

Recent Developments

Over the past two fiscal years, the Agency has experienced financial operating losses and certain ratings downgrades (no such downgrades relate to the Bonds). See generally, Appendix A – “Financial Statements of the Agency for the Years Ended June 30, 2010 and 2009,” and in particular the Management Discussion and Analysis on pages 3 through 13 thereof and Note 15 thereto on page 46 thereof. On February 10, 2011, Standard & Poor's placed the Agency's issuer credit rating, bonds secured by the Agency's general obligation, and the Agency's Home Mortgage Revenue Bonds on CreditWatch with negative implications. On February 22, 2011, Moody's Investors Service placed the senior unsecured issuer rating of the Agency and the unenhanced long-term rating of the Agency's Home Mortgage Revenue Bonds on watch for possible downgrade. None of such ratings actions relates to the Bonds.

At a hearing on August 4, 2010, the Joint Legislative Audit Committee of the California State Legislature approved a discretionary audit regarding the financial position of the Agency. The California Bureau of State Audits completed this audit and issued its report, Number 2010-123, on February 24, 2011. The report and summaries of the report are available at the California Bureau of State Audit website, <http://www.bsa.ca.gov>.

SECURITY FOR THE BONDS

Special Obligation; Pledge of the Indenture

The Bonds are special obligations of the Agency payable solely from and secured by the Pledged Property. The Agency has no taxing power. The Bonds shall not be deemed to constitute a debt or liability of the State or of any political subdivision of the State, other than the Agency, or a pledge of the faith and credit of the State, but shall be payable solely from the Pledged Property. Neither the faith and credit nor the taxing power of the State is pledged to the payment of the principal of or interest on the Bonds. The issuance of the Bonds shall not directly or indirectly or contingently obligate the State or any political subdivision of the State to levy or to pledge any form of taxation whatever therefor or to make any appropriation for their payment. The Bonds are not a debt of the United States of America or any agency thereof, GNMA or Fannie Mae, and are not guaranteed by the full faith and credit of the United States of America.

See the definition of Pledged Property under “Summary of Certain Provisions of the General Indenture — Certain Defined Terms.”

Amounts in the Funds and Accounts may be applied only as provided in the General Indenture. Amounts in the General Fund may, *however*, at the request of the Agency, be withdrawn free and clear of the pledge of the General Indenture if permitted pursuant to a Cash Flow Statement filed with the Trustee. See “Summary of Certain Provisions of the General Indenture — Cash Flow Statements.”

Outstanding Bonds

The Agency has issued Prior Series of Bonds in an aggregate original principal amount of \$1,040,440,000. As of April 1, 2011, such Bonds in the aggregate principal amount of \$1,040,440,000 were Outstanding, including \$980,440,000 principal amount of 2009 Series A Bonds the proceeds of which are held in escrow and which bear a short-term interest rate equal to the earnings on such proceeds, as described under “Introduction” in Part 1. The remaining \$60,000,000 principal amount of Bonds Outstanding as of April 1, 2011 is comprised of \$36,000,000 principal amount of Outstanding Bonds designated “2009 Series A-3”, which were issued in the original principal amount of \$36,000,000 (the “2009 Series A-3 Bonds”), and \$24,000,000 principal amount of Outstanding Bonds designated “2010 Series A”, which were issued in the original principal amount of \$24,000,000 (the “2010 Series A Bonds”).

Certain Investments

As of April 1, 2011, all amounts held in the Funds and Accounts under the Indenture (other than the 2009 Series A Escrow Fund) were invested in U.S. government or other government agency security repurchase agreements with U.S. Bank National Association pursuant to which U.S. Bank National Association pays interest on invested amounts at a variable rate and invested amounts may be withdrawn at any time without penalty.

See “Summary of Certain Provisions of the General Indenture—Security for Deposits; Investment of Moneys” and the definition of Investment Obligations under “Summary of Certain Provisions of the General Indenture—Certain Defined Terms.”

Mortgage-Backed Securities

Under the General Indenture, there are no general requirements for the characteristics of Mortgage-Backed Securities or Underlying Mortgage Loans other than as set forth in the definitions of such terms under “Summary of Certain Provisions of the General Indenture — Certain Defined Terms.” The General Indenture provides that certain requirements and certain matters with respect to Mortgage-Backed Securities and Underlying Mortgage Loans (the “Series Program Determinations”) be determined (or provisions for determining the Series Program Determinations at certain specified times in the future be set forth) with respect to each Series of Bonds that will finance Mortgage-Backed Securities in the Series Indenture authorizing the issuance of such Series (or, if each Rating Agency has confirmed that doing so will not adversely affect the then-existing rating of the Bonds by such Rating Agency, pursuant to an Agency Request).

The Series Program Determinations set forth in the Related Bonds Series Indenture include the following requirements that must be met with respect to the Related Mortgage-Backed Securities and the Related Underlying Mortgage Loans: (i) each Related Mortgage-Backed Security shall be guaranteed by GNMA or Fannie Mae, (ii) each Related Underlying Mortgage Loan shall be secured by a first lien mortgage; (iii) each Related Underlying Mortgage Loan shall have approximately equal monthly payments and shall have a fixed rate of interest; (iv) the maximum term to maturity of each Related Underlying Mortgage Loan shall be 30 years; (v) each residence to which each Related Underlying Mortgage Loan relates shall be a principal residence; (vi) each Related Underlying Mortgage Loan that will underlie a Mortgage-Backed Security guaranteed by GNMA shall be insured by the Federal Housing Administration (“FHA”) and each Related Underlying Mortgage Loan that will underlie a Mortgage-Backed Security guaranteed by Fannie Mae shall be insured to the extent required by Fannie Mae; and (vii) each Related Underlying Mortgage Loan must relate to a single-family, one-unit residence, including a unit in a condominium.

The Series Program Determinations set forth in the Series Indentures applicable to the 2009 Series A-3 Bonds and the 2010 Series A Bonds include the same such requirements with respect to Mortgage-Backed Securities and Underlying Mortgage Loans financed or to be financed with proceeds of such Bonds.

Certain information as of March 31, 2011 with respect to Mortgage-Backed Securities purchased with proceeds of Bonds is set forth in Appendix B to this Part 2 — “Mortgage-Backed Securities Purchased with Proceeds of Bonds.”

Debt Reserve Fund; Loan Loss Fund; Supplementary Reserve Fund

The General Indenture requires that no Series of Bonds may be issued unless the amount on deposit in the Debt Reserve Fund is at least equal to the Debt Reserve Requirement. The Debt Reserve Requirement means, as of any particular date of calculation, an amount equal to the aggregate of all amounts established for all Series of Bonds Outstanding in the Series Indentures authorizing the issuance of such Bonds, or a lesser amount if each Rating Agency has confirmed that such lesser amount will not adversely affect the then-existing rating of the Bonds by such Rating Agency. The Related Bonds Series Indenture establishes such amount as zero

with respect to the Related Bonds. Currently, there are no amounts on deposit in the Debt Reserve Fund as no amounts were deposited in the Debt Reserve Fund in connection with the issuance of the 2009 Series A Bonds or the 2010 Series A Bonds, and no amounts will be deposited in the Debt Reserve Fund in connection with the issuance of the Market Bonds. See “Summary of Certain Provisions of the General Indenture — Debt Reserve Fund.”

The General Indenture requires that no Series of Bonds may be issued unless the amount on deposit in the Loan Loss Fund is at least equal to the Loan Loss Requirement. The Loan Loss Requirement means, as of any particular date of calculation, an amount equal to the aggregate of all amounts established for all Series of Bonds Outstanding in the Series Indentures authorizing the issuance of such Bonds, or a lesser amount if each Rating Agency has confirmed that such lesser amount will not adversely affect the then-existing rating of the Bonds by such Rating Agency. The Related Bonds Series Indenture establishes such amount as zero with respect to the Related Bonds. Currently, there are no amounts on deposit in the Loan Loss Fund as no amounts were deposited in the Loan Loss Fund in connection with the issuance of the 2009 Series A Bonds or the 2010 Series A Bonds, and no amounts will be deposited in the Loan Loss Fund in connection with the issuance of the Market Bonds. See “Summary of Certain Provisions of the General Indenture — Loan Loss Fund.”

The Agency has not previously transferred any amounts to the Supplementary Reserve Fund, and the Related Bonds Series Indenture does not require any such transfers. See “Summary of Certain Provisions of the General Indenture — Supplementary Reserve Fund — Series Accounts.”

Additional Bonds

The General Indenture provides that the Agency may issue additional Bonds, including refunding Bonds (“Additional Bonds”). See “Summary of Certain Provisions of the General Indenture — Issuance of Bonds.” The General Indenture also provides that the Agency, so long as any Bonds shall be Outstanding, shall not issue any other obligations secured by any pledge of or other lien or charge on the Pledged Property, nor shall the Agency create or cause to be created any such lien or charge on the Pledged Property. However, under the General Indenture the Agency shall not be prevented from issuing any obligations that are payable from or secured by a lien on and pledge of the Pledged Property so long as such lien and pledge shall be in all respects subordinate to the lien and pledge created by the General Resolution.

Additional Bonds may have interest payment dates that differ from such dates for the Related Bonds.

Cash Flow Statements

The General Indenture provides that, while any Bonds are Outstanding, the Agency shall file with the Trustee a Cash Flow Statement (i) whenever any Series of Bonds is issued, if the most recently filed Cash Flow Statement was filed more than twelve months prior to the date of issuance; (ii) at least once during each Fiscal Year; (iii) upon purchase or redemption of Bonds in a manner materially inconsistent with the last Cash Flow Statement filed by the Agency with the

Trustee; and (iv) prior to applying amounts in the General Fund for payment to the Agency free and clear of the lien of the Indenture.

See “Summary of Certain Provisions of the General Indenture — Cash Flow Statements.”

THE PROGRAM

General

The purpose of the Agency’s Program is to assist low- and moderate-income homebuyers to purchase newly constructed and existing, moderately priced, single family homes by providing mortgage loans at below-market interest rates. The primary objectives of the Program are: (1) to enable low and moderate income persons and families to purchase homes on affordable terms; (2) to make available home mortgage financing in mortgage deficient areas; and (3) to stimulate the housing construction industry by making attractive permanent mortgage financing available through Lenders.

The Agency suspended its program of financing single-family mortgage loans with mortgage revenue bonds in December 2008 due to the disruption in the municipal bond market and deteriorating California real estate market and resumed taking reservations for loans so financed in September 2010. As of April 1, 2011, other than proceeds of the 2009 Series A Bonds on deposit in the 2009 Series A Escrow Fund, there were unexpended proceeds of Prior Series of Bonds in the amount of \$10,678,788 available to purchase Mortgage-Backed Securities, including \$9,684,482 set aside for the financing of Underlying Mortgage Loans in Targeted Areas (defined below). Certain information as of March 31, 2011 with respect to Mortgage-Backed Securities purchased with proceeds of Bonds is set forth in Appendix B to this Part 2 — “Mortgage-Backed Securities Purchased with Proceeds of Bonds.” As of April 19, 2011, mortgage-backed securities in the aggregate principal amount of \$12,708,198 have been financed with proceeds of a line of credit and are available to be purchased with proceeds of the Related Bonds and other available amounts.

The Internal Revenue Code of 1986, as amended (the “Code”) and other applicable law impose substantial requirements with respect to bonds issued to finance single-family, owner-occupied housing or issued to refund bonds that were issued for such purpose. These requirements must be satisfied with respect to the Bonds in order for interest on such Bonds to be excluded from gross income for federal income tax purposes. The Agency has structured the Program to comply with such requirements and has established procedures under which the Agency expects such requirements to be met.

Income Limits. The federal income limits for borrowers in one or two person households are set at 100% of county or State median income and for borrowers in three or more person households are set at 115% of county or State median income, except for borrowers purchasing homes within census tracts and other geographical locations designated by the Agency as Targeted Areas in accordance with Section 143(j) of the Code (“Targeted Areas”), for whom the limits are 120% and 140%, respectively, of the applicable median income, and except for borrowers purchasing homes in “high housing cost areas” for whom certain income limit adjustments may be established in accordance with the Code. The Agency currently establishes

income limits for borrowers at 100% of the federal income limits. The Agency may, in the future, establish different income limits as State law and federal tax law permit or require.

Eligible Homes and Sales Prices. Eligible homes may be either newly constructed or existing single-family residences located anywhere in the State. Single-family residences include detached housing in standard subdivisions and planned unit developments built using conventional construction techniques. Manufactured housing is not currently permitted. Attached housing includes individual units located primarily in low-rise condominiums and attached planned unit developments with homeowners associations to support maintenance of the common areas.

The Agency currently establishes Sales Price limits using a formula based on FHA loan limits for each area in compliance with Internal Revenue Service guidelines and procedures. The limits for each such category of residences for each county are calculated at 90% (110% in Targeted Areas) of the higher of either (i) the Average Area Purchase Prices determined by the survey, or (ii) the “Safe Harbor” limits published pursuant to the Code, in each case with respect to residences in such category. Separate limits are published for newly constructed and resale residences for both Targeted and Non-targeted areas for each county. Sales Prices within such limits so established always will be equal to or less than those imposed by the Code.

The Agency may offer loans from its available funds or administer the offering of loans or grants under various State-sponsored programs, subject to borrower eligibility, including the California Homebuyer’s Downpayment Assistance Program and the School Facility Fee Down Payment Assistance Program. Such loans and any related liens would be subordinate to the first lien mortgage.

Recapture Provisions; Statutory Restrictions. The Code provides for the recapture under certain circumstances of all or a portion of the “subsidy” provided by qualified mortgage bonds upon disposition by a borrower of a financed property. The recapture provisions remain in place for 9 years after loan origination. The amount of recapture (which is based upon the amount financed with tax-exempt bonds) increases from year 1 through year 5 of the mortgage loan on a straight-line basis from 1.25% in year 1 to a maximum of 6.25% of the original mortgage balance and decreases from year 6 through year 9 of the mortgage loan from the maximum rate back to 1.25%. Recapture may not exceed 50% of the gain resulting from the sale of the financed property. Recapture is to be reduced (but not below zero) for borrowers to the extent that a borrower’s income (at the time of disposition) is below certain income limits.

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (“PRWORA”) restricts the distribution of federal, state, and local public benefits to U.S. citizens, nationals and qualified aliens. PRWORA defines “state public benefits” to include loans provided by an agency of state government, and thereby includes mortgage loans provided by the Agency. In accordance with the provisions of PRWORA and Executive Order W-135-96, issued on August 27, 1996, the Agency has adopted regulations to implement the provisions of PRWORA as applicable to mortgage loans. These regulations apply to all mortgage loans received by the Agency for conditional approval on or after August 1, 1998 and to certain mortgage loan assumptions submitted to the Agency for approval on or after that date.

Lender Applications

Under the Program, the Agency currently operates a single loan reservation process, which offers funds on a continuous basis, at stated interest rates, accepting reservations on a first-come, first-served basis.

Each Lender will be permitted to submit requests for Underlying Mortgage Loan reservations individually on a first-come, first-served basis with a 90-day delivery requirement (120 days for new construction loans) from the date of reservation. Lenders directly access the single loan reservation system, via the internet, to initiate and/or cancel single loan reservations through the Lender Access System (“LAS”). Upon initiating a reservation or at any time during the reservation period, a Lender may lock an interest rate for the loan for the lesser of 90 days or the remainder of the reservation period. The Lender must submit a fully underwritten loan package for conditional approval by the Agency. Approval of this loan package creates an obligation on the part of the Agency to cause the Servicer to purchase the Underlying Mortgage Loan and on the part of the Lender to close, fund, and deliver the Underlying Mortgage Loan upon the terms and the procedures prescribed during the Agency’s Underlying Mortgage Loan approval process and by the Mortgage Purchase Agreement (defined below), which incorporates by reference the Agency’s Lender Program Manual. The Agency will rescind individual Underlying Mortgage Loan reservations if certain delivery progress requirements are not met.

Upon closing and funding of the loan, the Lender will deliver the Underlying Mortgage Loan for purchase by the Servicer. Delivery of the loan for purchase is to be made in sufficient time to permit the Servicer to review and purchase the Underlying Mortgage Loan within the 90-day (or 120-day) reservation period and before the expiration of the rate lock. The Servicer will accept delivery of the loan for purchase up to 30 days after the end of the rate lock period for a charge of one percent (1.00%) of the principal amount of the loan, in which case the reservation period is also extended. Failure by the Lender to deliver prescribed loan documents in sufficient time to permit purchase by the end of the reservation period, or any such extension, will result in cancellation of the reservation. Loans closed for a period of more than 90 days are ineligible for purchase under the Program.

All funds allocated through the single loan reservation process are managed in conformance with the production goals for the Program as set forth in the Agency’s Business Plan by making periodic adjustments to the interest rate schedule or modifications to the borrower, property or loan eligibility parameters as necessary.

The Agency also offers a Builder-Lock (“BLOCK”) loan allocation process for single family new construction loans. The BLOCK process enables non-profit developers to purchase (through Lenders) at the interest rates in effect on any business day, a pool of first mortgage funds in forward commitments at fees based on the length of the term of the commitment. The Agency allocated \$50 million and initially offered 9-, 10- and 11-month forward commitments. Following approval of such a BLOCK commitment, individual Underlying Mortgage Loans would be reserved against the commitment and Lenders would be required to close, fund and deliver such Underlying Mortgage Loans to the Servicer in sufficient time to permit purchase before expiration of the BLOCK commitment. It is expected that any cash commitment fees paid up front will be retained by the Agency on unused commitment amounts. As of April 19, 2011,

there have been no commitments made under this process and the availability of this process is expected to end on December 31, 2011. Any commitments will have a termination date of December 31, 2011.

Origination of Underlying Mortgage Loans

Each Agency-approved Lender is required to execute an agreement (a “Mortgage Purchase Agreement”) pursuant to which the Lender agrees to use its best efforts to originate Underlying Mortgage Loans meeting the requirements of the Program to be purchased by, and with servicing released to, the Servicer under an agreement between the applicable Lender and the Servicer. The Servicer will also purchase Underlying Mortgage Loans from Agency-approved Lenders, where the loans have been originated or packaged by loan brokers or correspondents under arrangements with the Agency-approved Lenders.

The Agency’s Lender Program Manual provides that Lenders originating Underlying Mortgage Loans may charge borrowers or sellers an origination fee of up to one and one-half percent (1.5%) of the principal amount of the Underlying Mortgage Loan, plus a fixed amount for processing the Underlying Mortgage Loan application, as established by the Agency from time to time.

The Mortgage Purchase Agreement permits the builder, seller or purchaser of the home to temporarily “buy down” the borrower’s monthly mortgage payments. However, the Agency currently does not allow buy-downs.

The Lender is obligated to use its best efforts to originate Underlying Mortgage Loans in accordance with the terms of the Mortgage Purchase Agreement, the Act, the posted underwriting guidelines on the Agency’s website, the Lender Program Manual, applicable Program Bulletins and Loan Program Handbooks, the requirements of, as applicable, FHA or the respective mortgage insurer (if any) and Fannie Mae, and, unless the Agency approves an exception, Section 143. In accordance with such requirements, unless the Agency approves an exception, each Underlying Mortgage Loan originated by a Lender must be made to a borrower (i) who intends to occupy the residence financed by such Underlying Mortgage Loan as such borrower’s principal place of residence (and not in a trade or business or as an investment property or recreational home) within 60 days after the date of such Underlying Mortgage Loan, (ii) who has not had a present ownership interest in a principal residence at any time during the three years preceding the date of the Underlying Mortgage Loan (except for Underlying Mortgage Loans made for residences located in Targeted Areas or, under certain circumstances, to veterans or for the refinancing of an existing mortgage loan), and (iii) whose maximum household income does not exceed the income limits of the Program and Section 143. In addition, the purchase price (or, in certain circumstances, market value) of a home may not exceed the sale price limits established by the Agency which are within the applicable limits set by the Code and by FHA or Fannie Mae, as applicable. Underlying Mortgage Loans for which the Agency has approved an exception to the requirements of Section 143 will be allocated entirely to bonds the interest on which is not excludable from gross income for federal income tax purposes.

The Lender will solicit and receive from potential borrowers applications for Underlying Mortgage Loans. Homebuyer education (completed online, in person or by telephone) is required for each borrower. The Agency will accept a homebuyer education counseling certificate of completion issued through Fannie Mae or Freddie Mac counseling administration agencies, mortgage insurance companies, or HUD-approved homebuyer counselors.

After the loan application has been submitted to the Lender by a potential borrower, the Lender will request a reservation from the Agency, subject to the availability of funds on a first-come, first-served basis through the CalHFA LAS. Each potential borrower has an affirmative obligation under the Program to furnish the Lender with such documentary evidence as shall establish to the Lender's satisfaction that an Underlying Mortgage Loan to such potential borrower will comply with all requirements of the Program. In addition to obtaining the required documentary evidence from the potential borrowers, the Lender is also required to verify the accuracy of such information by undertaking a review of such documentation and other supporting materials to determine their completeness and internal consistency by establishing such procedures as may be necessary to verify adequate information contained in such application.

Documentary evidence that the Lender is required to obtain from potential borrowers includes, but is not limited to, an affidavit setting forth the information required to establish such borrower's eligibility for an Underlying Mortgage Loan under the Program, and, to the extent available, such other documentation and supporting materials which verify the information contained in the application such as the borrower's federal income tax returns for the prior three (3) years, current wage statements, purchase contracts and any other appropriate corroborative materials. Each affidavit will also describe the consequences to the borrower of any material misstatements made therein, which, under the Program, may include a default and acceleration of the Underlying Mortgage Loan, and, potentially, civil or criminal penalties such as a fine or jail sentence. In the event that the described documentation is unavailable or inappropriate in any particular case, the Lender will require such potential borrower to furnish such other independent corroborative evidence as is necessary, in the Lender's opinion, to assure the Lender that an Underlying Mortgage Loan to such potential borrower will comply with all Program requirements. If the Lender determines, in its discretion, that the evidence produced by the potential borrower is in any respect inadequate, inconclusive, inconsistent or incomplete or that it fails in any other respect to adequately establish a potential borrower's eligibility for an Underlying Mortgage Loan, the Lender will not originate an Underlying Mortgage Loan to such potential borrower.

The Lender must forward to the Agency a completed Underlying Mortgage Loan application package of items not previously submitted for the Agency's review, and the Agency must issue a conditional approval prior to the Lender's closing and submitting the Underlying Mortgage Loan to the Servicer for purchase. The Agency will determine whether the proposed Underlying Mortgage Loan meets the requirements of the Program by evaluating, among other things, the amount of the proposed Underlying Mortgage Loan, the purchase price of the single family residence being purchased, whether such residence is located in a Targeted Area or rural area and the income of the potential borrower. The Agency will review all of the documents delivered to determine compliance with the Program requirements, for internal consistency and to determine whether the borrower is eligible under the Act and (with certain exceptions) Section

143, the acquisition cost or value is within limitations established under Section 143 and the real estate which will be the subject of the Mortgage Loan produces no income other than incidentally. To the extent that these requirements are not complied with, the Lender will be asked to provide sufficient additional explanation or documentation to enable the Agency to determine the status of the application. When the Agency determines that the proposed Underlying Mortgage Loan meets the requirements of the Program, it will notify the Lender of its conditional approval. After the Lender has secured a conditional approval for an Underlying Mortgage Loan from the Agency, the Lender may close and fund the Underlying Mortgage Loan and deliver the Underlying Mortgage Loan for purchase by the Servicer.

In each case where the Lender receives or discovers information which indicates uncertainty as to Section 143 compliance, the Lender is required either to reject the application or to proceed to obtain additional information and to corroborate data sufficient to indicate compliance. All information is to be verified for consistency with other information gathered or received.

Prior to the origination of an Underlying Mortgage Loan that will underlie a Mortgage-Backed Security guaranteed by GNMA, a Lender must arrange for approval of FHA insurance. Each such Underlying Mortgage Loan must be insured by FHA upon delivery for purchase by the Servicer. Prior to the origination of an Underlying Mortgage Loan that will underlie a Mortgage-Backed Security guaranteed by Fannie Mae, a Lender must arrange for approval of mortgage insurance to the extent required by Fannie Mae. Each such Underlying Mortgage Loan must be insured to the extent so required upon delivery for purchase by the Servicer.

Underlying Mortgage Loans will be serviced by the Servicer in accordance with the Servicing Agreement and the applicable servicing procedures described in “GNMA Mortgage-Backed Securities” and “Fannie Mae Mortgage-Backed Securities” below.

GNMA MORTGAGE-BACKED SECURITIES

The following summary of GNMA custom-pool, fully-modified mortgage-backed securities (the “GNMA Securities”) and the other documents referred to herein does not purport to be comprehensive and is qualified in its entirety by reference to the GNMA Mortgage-Backed Securities Guide: GNMA Handbook 5500.3 (the “GNMA Guide”) published by GNMA and to said documents for full and complete statements of their provisions. The procedures described below and the GNMA Guide are those presently in effect and are subject to change at any time by GNMA.

GNMA Mortgage-Backed Securities Programs

GNMA is a wholly-owned corporate instrumentality of the United States of America (the “U.S.”) within the Department of Housing and Urban Development with its principal office in Washington, D.C.

There are two GNMA mortgage-backed securities programs, the GNMA I Program and the GNMA II Program. Each GNMA Security will be issued under either the GNMA I Program or the GNMA II Program. The principal differences between the two programs pertain to the

minimum Mortgage Pool size established by GNMA, the permitted interest rate structure of the mortgages backing the GNMA Securities, and the means of payment of principal of and interest on the GNMA Securities to the holders thereof. Those differences would not affect the availability of Revenues for the payment of principal of and interest on the Bonds.

Each GNMA Security is to be backed by a pool (a "Mortgage Pool") consisting of Underlying Mortgage Loans in a minimum aggregate amount of \$1,000,000 (or such lesser amount as may be approved by GNMA). Under the GNMA I Program, the Servicer will be required to pay to the Trustee, as the holder of the GNMA Securities issued by the Servicer, the regular monthly installments of principal and interest on the Underlying Mortgage Loans which back such GNMA Securities (less the Servicer's servicing fee, which includes the GNMA guaranty fee). Under the GNMA II Program, the Servicer will be required to pay such amounts to J.P. Morgan Chase Bank, as Central Paying and Transfer Agent for the GNMA II Program (the "CPTA"), and the CPTA will be required to pay to the Trustee, as the holder of the GNMA Security, the regular monthly installments of principal and interest on the Underlying Mortgage Loans backing such GNMA Security. Under either GNMA Program, whether or not the Servicer receives such installments, the Servicer is required to make such payment, and to transfer any mortgage prepayments received by such Servicer in the previous month. GNMA guarantees the timely payment of the principal of and interest on the GNMA Securities.

Underlying Mortgage Loans underlying a particular security issued pursuant to the GNMA I Program (a "GNMA I Security") must have the same annual interest rate. The annual pass-through rate on each GNMA I Security is 0.5% less than the annual interest rate on the Underlying Mortgage Loans included in the Mortgage Pool backing such GNMA I Security. Underlying Mortgage Loans underlying a particular security issued pursuant to the GNMA II Program (a "GNMA II Security") may have annual interest rates that vary from each other by up to 1 %. Currently, the annual pass-through rate on the GNMA II Securities issued pursuant to the Agency's Program will be 0.5% less than the annual interest rate on the Underlying Mortgage Loans. Each Mortgage Loan underlying a GNMA Security, at the time GNMA issues its guarantee commitment, must be originated no more than 12 months prior to such commitment date.

In order to issue the GNMA Securities, the Servicer must first apply to and receive from GNMA a commitment to guarantee mortgage-backed securities (a "GNMA Commitment") which authorizes the Servicer to issue GNMA Securities up to a stated amount during a one-year period following the date of the GNMA Commitment. The Servicer is required to pay the application fee to GNMA for such commitments. The amount of GNMA Commitments that GNMA can approve in any federal fiscal year is limited by statute and administrative procedures. No assurance can be given that in the future the Servicer will be authorized by GNMA's administrative procedures to obtain GNMA Commitments with respect to some or all of the Underlying Mortgage Loans, or that GNMA has or will have any authority remaining to approve GNMA Commitments during the federal fiscal year in which the Servicer submits a request for GNMA Commitments.

The issuance of each GNMA Security by the Servicer is subject to the following conditions, among others: (i) the purchase by the Servicer from Mortgage Lenders of Underlying Mortgage Loans in a minimum aggregate principal amount at least equal to the minimum size

permitted by GNMA for each GNMA Security (such origination being subject, among other conditions, to the availability of FHA mortgage insurance or, if permitted under the Agency's Program in the future, the VA or RD guarantees referred to below), (ii) the submission by the Servicer to GNMA of certain documents required by GNMA in form and substance satisfactory to GNMA, (iii) the Servicer's continued compliance, on the date of issuance of Security, with all of GNMA's eligibility requirements, specifically including, but not limited to, certain net worth requirements, (iv) the Servicer's continued approval by GNMA to issue GNMA Securities, and (v) the Servicer's continued ability to issue, execute and deliver the GNMA Security, as such ability may be affected by the Servicer's bankruptcy, insolvency or reorganization. In addition, the issuance of a GNMA Security by the Servicer is subject to the condition that GNMA must have entered into a guaranty agreement with the Servicer. The conditions to GNMA entering into such an agreement may change from time to time, and there can be no assurance that the Servicer will be able to satisfy all such requirements in effect at the time a GNMA Security is to be issued. Moreover, there can be no assurance that all of the above conditions will be satisfied at the time a GNMA Security is to be purchased by the Trustee.

GNMA Securities

GNMA is authorized by Section 306(g) of Title II of the National Housing Act to guarantee the timely payment of the principal of and interest on securities which are based on and backed by, among other things, a mortgage insured by FHA under the National Housing Act, guaranteed by Rural Development (formerly a service of the Farmer's Home Administration) ("RD") of the United States Department of Agriculture under Section 502 of Title V of the Housing Act of 1949, as amended, or guaranteed by the United States Department of Veterans Affairs ("VA") pursuant to the Servicemen's Readjustment Act of 1944, as amended, or Chapter 37 of Title 38 of the United States Code. Said Section 306(g) further provides that ". . . the full faith and credit of the United States is pledged to the payment of all amounts which may be required to be paid under any guaranty under this subsection." An opinion dated December 9, 1969, of an assistant Attorney General of the United States that such guaranties under said Section 306(g) of mortgage-backed securities of the type to be delivered to the Trustee by the Servicer are authorized to be made by GNMA and ". . . would constitute general obligations of the United States backed by its full faith and credit."

GNMA Borrowing Authority

In order to meet its obligations under such guaranty, GNMA, in its corporate capacity under Section 306(d) of Title II of the National Housing Act, may issue its general obligations to the United States Department of the Treasury (the "Treasury") in an amount outstanding at anyone time sufficient to enable GNMA, with no limitations as to amount, to perform its obligations under its guaranty of the timely payment of the principal of and interest on the GNMA Securities. The Treasury is authorized to purchase any obligations so issued by GNMA and has indicated in a letter dated February 13, 1970, from the Secretary of the Treasury to the Secretary of Housing and Urban Development that the Treasury will make loans to GNMA, if needed, to implement the aforementioned guaranty.

GNMA will warrant to the Trustee, as the holder of the GNMA Securities, that, in the event it is called upon at any time to make good its guaranty of the payment of principal and

interest on any GNMA Security, it will, if necessary, in accordance with the aforesaid Section 306(d), apply to the Treasury for a loan or loans in amounts sufficient to make such payment.

Servicing of the Underlying Mortgage Loans Securing GNMA Securities

Under the Servicing Agreement, the Servicer will be responsible for servicing and otherwise administering the Underlying Mortgage Loans in accordance with generally accepted practices of the mortgage lending industry, the GNMA Servicer's Guide, and the servicing requirements of FHA, VA or RD, as applicable.

The monthly remuneration of the Servicer, for servicing and administrative functions, and the guaranty fee charged by GNMA, are based on the unpaid principal amount of the GNMA Securities outstanding. In compliance with GNMA regulations and policies, the total of these servicing and guaranty fees equals 0.50% per annum, for both the GNMA I Securities and the GNMA II Securities under the GNMA Program, calculated on the principal balance of each GNMA Security outstanding on the last day of the month preceding such calculation. Currently, each GNMA Security carries an interest rate that is fixed at 0.50% per annum below the interest rate on the Underlying Mortgage Loans because the servicing and guaranty fee is deducted from payments on the Underlying Mortgage Loans before such payments are forwarded to the Trustee.

It is expected that interest and principal payments on the Underlying Mortgage Loans received by the Servicer will be the source of money for payments on the GNMA Securities. If such payments are less than the amount then due, the Servicer is obligated to advance its own funds to ensure timely payment of all scheduled payments of principal and interest due on the GNMA Securities. GNMA guarantees such timely payment in the event of the failure of the Servicer to pass through an amount equal to such scheduled payments (whether or not made by the mortgagors).

The Servicer will be required to advise GNMA in advance of any impending default on scheduled payments so that GNMA, as guarantor, will be able to continue such payments as scheduled. However, if such payments are not received as scheduled, the Trustee will have recourse directly to GNMA.

Removal of Underlying Mortgage Loans from Mortgage Pools; Application of Partial Insurance Claims

The GNMA Guide permits the Servicer to purchase an Underlying Mortgage Loan from a Mortgage Pool if the borrower makes no payment for three consecutive months. Pursuant to the loss mitigation procedures of FHA, VA or RD, as applicable, the Servicer may be required to modify Underlying Mortgage Loans that are in default or facing imminent default. If required by such procedures to modify an Underlying Mortgage Loan, the Servicer, pursuant to the GNMA Guide, must first purchase the Underlying Mortgage Loan from the Mortgage Pool for an amount equal to 100% of the loan's remaining principal balance, resulting in an earlier than scheduled payment of principal of the related GNMA Security in equal amount.

Additionally, pursuant to certain loss mitigation procedures, including those of FHA, the Servicer may be required to arrange partial insurance claims with respect to such Underlying Mortgage Loans to be applied to reduction of the remaining principal balance of the loan. Any

such application will be a Principal Prepayment of the Underlying Mortgage Loans required to be paid to the Trustee under the related GNMA Security as described under “Payment of Principal of and Interest on the GNMA Securities” below.

Guaranty Agreement

The GNMA guaranty agreement to be entered into by GNMA and the Servicer upon issuance of the GNMA Security (the “GNMA Guaranty Agreement”) will provide that, in the event of a default by the Servicer, including (i) a request to GNMA to make a payment of principal or interest on a GNMA Security when a mortgagor is in default under his mortgage note, (ii) insolvency of the Servicer, or (iii) default by the Servicer under any other guaranty agreement with GNMA, GNMA shall have the right, by letter to the Servicer, to effect and complete the extinguishment of the Servicer’s interest in the Underlying Mortgage Loans, and the Underlying Mortgage Loans shall thereupon become the absolute property of GNMA, subject only to the unsatisfied rights of the holder of the GNMA Security. In such event the GNMA Guaranty Agreement will provide that on and after the time GNMA directs such a letter of extinguishment to the Servicer, GNMA shall be the successor in all respects to the Servicer in its capacity under the GNMA Guaranty Agreement and the transaction and arrangements set forth or arranged for therein, and shall be subject to all responsibilities, duties, and liabilities (except the Servicer’s indemnification of GNMA), theretofore placed on the Servicer by the terms and provisions of the GNMA Guaranty Agreement, provided that at any time, GNMA may enter into an agreement with any other eligible issuer of GNMA securities under which the latter undertakes and agrees to assume any part or all such responsibilities, duties or liabilities of GNMA in its capacity as guarantor of the GNMA Security.

Payment of Principal of and Interest on the GNMA Securities

Regular monthly installment payments on each GNMA Security are required to begin in the first month following the date of issuance of such GNMA Security. In the case of a GNMA I Security, such payment is to be made to the Trustee on the fifteenth day of each month and, in the case of a GNMA II Security, such payment is required to be mailed by the CPTA to the Trustee on the twentieth day of each month. Each payment will be equal to the aggregate amounts of the scheduled monthly principal and interest payments on each Underlying Mortgage Loan in the Mortgage Pool backing the GNMA Security, less the current monthly servicing and guaranty fees of one-twelfth of 0.50% (in the case of a GNMA I Security or a GNMA II Security under the Agency’s Program) of the outstanding principal balance. In addition, each payment is required to include any principal prepayments on Underlying Mortgage Loans underlying the GNMA Security that were received during the preceding calendar month.

FANNIE MAE MORTGAGE-BACKED SECURITIES

The following summary, including the information under the heading “Federal Housing Finance Agency Actions” below, includes summaries of certain selected statements made by Fannie Mae in its Single-Family MBS Prospectus and elsewhere. The following does not purport to be comprehensive and is qualified in its entirety by reference to Fannie Mae’s Single-Family MBS Prospectus, the Fannie Mae Single Family Selling and Servicing Guides and the other documents referred to herein.

Fannie Mae

Fannie Mae is a federally chartered and stockholder-owned corporation organized and existing under the Federal National Mortgage Association Charter Act, as amended. Fannie Mae was originally established in 1938 as a United States government agency to provide supplemental liquidity to the mortgage market and was transformed into a stockholder-owned and privately managed corporation by legislation enacted in 1968.

On September 6, 2008, pursuant to the Federal Housing Finance Regulatory Reform Act of 2008 (the “Regulatory Reform Act”), Fannie Mae was placed into conservatorship and the Federal Housing Finance Agency (the “FHFA”) was appointed conservator. See “Federal Housing Finance Agency Actions” below for certain information regarding the Regulatory Reform Act, FHFA’s conservatorship of Fannie Mae and related actions of the United States Department of Treasury (“Treasury”).

The Fannie Mae Securities described below and payments of principal and interest on such Fannie Mae Securities are not guaranteed by the United States and do not constitute a debt or obligation of the United States or any of its agencies or instrumentalities other than Fannie Mae.

Fannie Mae Mortgage-Backed Security Program

Fannie Mae has implemented a mortgage-backed securities program (the “Fannie Mae MBS Program”) pursuant to which Fannie Mae issues securities (“Fannie Mae Securities”) backed by pools of mortgage loans.

The terms of the Fannie Mae MBS Program are governed by the Fannie Mae Single Family Selling and Servicing Guides (the “Fannie Mae Guides”), as modified by the applicable Pool Purchase Contract between Fannie Mae and the respective Fannie Mae MBS Program seller-servicer and, in the case of single-family mortgage loans, a 2009 Single-Family Master Trust Agreement dated as of January 1, 2009 (the “Trust Agreement”), and a supplement thereto to be issued by Fannie Mae in connection with each pool.

It is expected that, prior to Fannie Mae Securities first being purchased with proceeds of Bonds under the Agency’s Program, the Servicer will have entered into a Pool Purchase Contract with Fannie Mae. The Pool Purchase Contract will provide for the purchase by Fannie Mae of mortgage loans from the Servicer in exchange for Fannie Mae Securities issued to the Servicer backed by such mortgage loans.

The Pool Purchase Contract will obligate the Servicer to service such mortgage loans underlying Fannie Mae Securities in accordance with the requirements of the Fannie Mae Guides and the Pool Purchase Contract.

Fannie Mae Securities

Each Fannie Mae Security will represent the entire interest in a specified pool of mortgage loans purchased by Fannie Mae from the Servicer and identified in records maintained by Fannie Mae. Each Fannie Mae Security carries a pass-through interest rate that is fixed below

the interest rate on the mortgage loans in an amount equal to the per annum percentage of the total of the servicing fee and Fannie Mae's guaranty fee.

Fannie Mae will guarantee to each Fannie Mae Security trust that Fannie Mae will supplement amounts received by the Fannie Mae Security trust as required to permit the timely distribution to registered holders of the Fannie Mae Security of amounts representing scheduled principal and interest at the applicable pass-through rate on the mortgage loans in the pools represented by such Fannie Mae Securities, whether or not received, and the full principal balance of any foreclosed or other finally liquidated mortgage loan, whether or not such principal balance is actually received.

The obligations of Fannie Mae under such guarantees are obligations solely of Fannie Mae and are not backed by, nor entitled to the faith and credit of the United States. If Fannie Mae were unable to satisfy such obligations, distributions to the Trustee, as the registered holder of the Fannie Mae Securities, would consist solely of payments and other recoveries on the underlying mortgage loans and, accordingly, monthly distributions to the Trustee, as the holder of the Fannie Mae Securities, and payments on Outstanding Bonds would be affected by delinquent payments and defaults on such mortgage loans.

Payments on Mortgage Loans; Distributions on Fannie Mae Securities

Payments on a Fannie Mae Security will be made on the 25th day of each month (beginning with the month following the month such Fannie Mae Security is issued), or, if such 25th day is not a business day, on the first business day next succeeding such 25th day. With respect to each Fannie Mae Security, Fannie Mae will distribute to the Trustee an amount equal to the total of (i) the principal due on the mortgage loans in the related pool underlying such Fannie Mae Security during the period beginning on the second day of the month prior to the month of such distribution and ending on the first day of such month of distribution, (ii) the stated principal balance of any mortgage loan that was prepaid in full during the month preceding the month of such distribution (including as prepaid for this purpose at Fannie Mae's election any mortgage loan repurchased by Fannie Mae because of Fannie Mae's election to repurchase the mortgage loan after it is delinquent, in whole or in part, with respect to four consecutive installments of principal and interest; or because of Fannie Mae's election to repurchase such mortgage loan under certain other circumstances), (iii) the amount of any partial prepayment of a mortgage loan received in the month preceding the month of distribution, and (iv) one month's interest at the pass-through rate on the principal balance of the Fannie Mae Security as reported to the Trustee (assuming the Trustee is the registered holder) in connection with the previous distribution (or, respecting the first distribution, the principal balance of the Fannie Mae Security on its issue date). For purposes of distributions, a mortgage loan will be considered to have been prepaid in full if, in Fannie Mae's reasonable judgment, the full amount finally recoverable on account of such mortgage loan has been received, whether or not such full amount is equal to the stated principal balance of the mortgage loan.

Federal Housing Finance Agency Actions

In accordance with the Regulatory Reform Act, the FHFA was named as the conservator of Fannie Mae on September 6, 2008. The FHFA immediately succeeded to (1) all rights, titles,

powers and privileges of Fannie Mae, and of any stockholder, officer or director of Fannie Mae with respect to Fannie Mae and its assets, and (2) title to all books, records and assets of Fannie Mae held by any other legal custodian or third party. Under the Regulatory Reform Act, the FHFA is authorized to repudiate contracts entered into by Fannie Mae prior to the FHFA's appointment as conservator if FHFA determines, in its sole discretion, that performance of the contract is burdensome and that repudiation of the contract promotes the orderly administration of Fannie Mae. This right must be exercised within a reasonable period of time after FHFA's appointment as conservator.

On September 7, 2008, Treasury entered into a "Senior Preferred Stock Purchase Agreement" with Fannie Mae. This agreement was amended and restated on September 26, 2008, and subsequently amended on May 6, 2009 and December 24, 2009. Such agreement is indefinite in duration and has a maximum capacity of \$200 billion, which amount will increase as necessary to accommodate any cumulative reduction in net worth calculated on a quarterly basis through December 31, 2012. If the FHFA determines that Fannie Mae's liabilities have exceeded its assets under generally accepted accounting principles, the Treasury is required by the agreement to contribute cash capital to Fannie Mae in an amount equal to the difference between liabilities and assets.

So long as Fannie Mae remains in its current conservatorship and is not placed into receivership, (i) FHFA has no authority to repudiate any contracts entered into after Fannie Mae was placed into conservatorship, including the Fannie Mae's guaranties related to Fannie Mae Securities it issued during its conservatorships, and (ii) the rights of holders of Fannie Mae Securities issued during such conservatorship are not restricted.

As conservator, FHFA has the right to transfer or sell any asset or liability of Fannie Mae without any approval, assignment or consent. If FHFA, as conservator, were to transfer Fannie Mae's guaranty obligation to another party, holders of Fannie Mae Securities would have to rely on that party for satisfaction of the guaranty obligation and would be exposed to the credit risk of that party.

Under the Regulatory Reform Act, FHFA must place Fannie Mae into receivership if the FHFA's Director makes a determination that the Fannie Mae's assets are, and for a period of 60 days have been, less than Fannie Mae's obligations, or Fannie Mae is unable to pay its debts and have been unable to do so for a like period. The FHFA Director may also place Fannie Mae into receivership in his or her discretion for certain other reasons. A receivership would terminate the FHFA's current conservatorship. If FHFA were to become the receiver of Fannie Mae, it could exercise certain powers that could adversely affect holders of Fannie Mae Securities, as explained below.

As receiver, FHFA could repudiate any contract entered into by Fannie Mae prior to its appointment as receiver if FHFA determines, in its sole discretion, that performance of the contract is burdensome and that repudiation of the contract promotes the orderly administration of Fannie Mae's affairs. The Regulatory Reform Act requires that any exercise by FHFA of its right to repudiate any contract occur within a reasonable period following its appointment as receiver. If FHFA, as receiver, were to repudiate the guaranty obligations of Fannie Mae, the receivership estate would be liable for actual direct compensatory damages as of the date of

receivership under the Regulatory Reform Act. Any such liability could be satisfied only to the extent Fannie Mae's assets were available for that purpose. Moreover, if Fannie Mae's guaranty obligations were repudiated, payments of principal and/or interest to holders of Fannie Mae Securities would be reduced as a result of borrowers' late payments or failure to pay or a servicer's failure to remit borrower payments to the trust. In that case, trust administration fees would be paid from mortgage loan payments prior to distributions to holders of Fannie Mae Securities. Any actual direct compensatory damages owed due to the repudiation of the Fannie Mae guaranty obligations may not be sufficient to offset any shortfalls experienced by holders of Fannie Mae Securities.

In its capacity as receiver, FHFA would have the right to transfer or sell any asset or liability of Fannie Mae without any approval, assignment or consent. If FHFA, as receiver, were to transfer Fannie Mae's guaranty obligation to another party, holders of Fannie Mae Securities would have to rely on that party for satisfaction of the guaranty obligation and would be exposed to the credit risk of that party.

During a receivership, certain rights of Fannie Mae Securities may not be enforceable against FHFA, or enforcement of such rights may be delayed. The Regulatory Reform Act also provides that no person may exercise any right or power to terminate, accelerate or declare an event of default under certain contracts to which Fannie Mae is a party, or obtain possession of or exercise control over any property of Fannie Mae, or affect any contractual rights of Fannie Mae, without the approval of FHFA as receiver, for a period of 90 days following the appointment of FHFA as receiver. If Fannie Mae is placed into receivership and does not or cannot fulfill its guaranty to holders of Fannie Mae Securities, such holders could become unsecured creditors of Fannie Mae with respect to claims made under Fannie Mae's guaranty.

If Fannie Mae emerges from conservatorship and, at a later date, FHFA again were to place Fannie Mae into conservatorship, (i) FHFA would have all of the authority of a new conservator, including the authority to repudiate the guaranty associated with Fannie Mae Securities issued by Fannie Mae during the current conservatorship, and (ii) certain rights of holders of Fannie Mae Securities issued during the current conservatorship would again be restricted or eliminated. FHFA currently has all of the authority of a conservator as to Fannie Mae Securities issued before September 6, 2008, the date Fannie Mae was placed into conservatorship.

Although Treasury owns Fannie Mae senior preferred stock and has made a commitment under the Senior Preferred Stock Purchase Agreement to provide Fannie Mae with funds under specified conditions to maintain a positive net worth, the U.S. government does not guarantee Fannie Mae's securities or other obligations.

Fannie Mae currently is required to file periodic financial disclosures with the U.S. Securities and Exchange Commission (the "SEC"), including Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K, together with any required exhibits. These reports and other information can be read and copied at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. The SEC currently maintains a web site (<http://www.sec.gov>) that contains reports, proxy statements and other information that Fannie Mae has filed with the SEC. The Agency makes no representation regarding the

content, accuracy or availability of any such reports or information filed by Fannie Mae with the SEC, or any information provided at such web site. The SEC's web site is not part of this Official Statement.

THE SERVICER

The information under this caption was provided solely by Bank of America, N.A. ("BANA"). The Agency assumes no responsibility for the accuracy of statements made in this section (except the immediately following paragraph).

BANA will serve as servicer to service Underlying Mortgage Loans originated by each Lender with proceeds of the Related Bonds pursuant to the Servicing Agreement.

As of March 31, 2011, BANA (either by itself or through its subsidiary BAC Home Loans Servicing, LP) provided servicing for approximately \$2.039 trillion aggregate principal amount of mortgage loans. BANA is (i) a GNMA approved servicer of mortgage loans, (ii) a Fannie Mae approved servicer of Fannie Mae Certificates and (iii) a Freddie Mac approved servicer of Freddie Mac Certificates.

BANA has not participated in the structuring of the Program or the Related Bonds or the preparation of this Official Statement, except to the extent of providing the information contained under the heading "The Servicer." BANA accepts no responsibility for the accuracy or completeness of this Official Statement or for the Related Bonds or the creditworthiness of the Related Bonds.

OTHER PROGRAMS OF THE AGENCY

In addition to the Program, the Agency is currently operating the financing programs described below. For certain information regarding the indentures of the Agency, including the Indenture, see the financial statements attached as Appendix A to this Part 2.

Other Homeownership Programs. The Agency has issued bonds pursuant to its Home Mortgage Revenue Bonds indenture to provide funds for the Agency to purchase eligible mortgage loans, and mortgage-backed securities backed by such mortgage loans, secured by first mortgage liens on newly constructed or existing single family homes, condominiums, planned unit developments and manufactured housing permanently attached to the land and originated and serviced by qualified lenders. Mortgage loans purchased under this program (other than certain of such mortgage loans underlying mortgage-backed securities) will be insured either by FHA, the California Housing Loan Insurance Fund, the VA or a private mortgage guaranty insurance policy covering a loss of up to 50% of the outstanding principal amount of the mortgage loans.

Multifamily Housing Revenue Bond II Program. The Multifamily Housing Revenue Bond II Program provides for the construction and/or permanent financing of loans insured by FHA or that underlie a mortgage-backed security for multifamily housing developments through the issuance of Multifamily Housing Revenue Bonds II. The Multifamily Housing Revenue Bonds II are general obligations of the Agency. The Agency has not issued bonds under the

Multifamily Housing Revenue Bonds II Indenture since 1996 and currently does not expect to issue bonds thereunder.

Multifamily Housing Revenue Bond III Program. The Multifamily Housing Revenue Bond III Program provides for the construction and/or permanent financing of uninsured loans, loans insured by FHA or loans that underlie a mortgage-backed security for multifamily housing developments through the issuance of Multifamily Housing Revenue Bonds III. The Multifamily Housing Revenue Bonds III are general obligations of the Agency.

Affordable Multifamily Housing Revenue Bonds Indenture. The Agency developed this indenture in connection with the New Issue Bond Program sponsored by Fannie Mae, the Federal Home Loan Mortgage Corporation, the Federal Housing Finance Agency and the United States Department of the Treasury (“Treasury”) as part of the program for housing finance agencies announced by Treasury on October 19, 2009 (the “HFA Initiative”). Proceeds of bonds issued under this indenture will provide for the construction and/or permanent financing of loans insured by FHA or that underlie a mortgage-backed security for multifamily housing developments. The Affordable Multifamily Housing Revenue Bonds are limited obligations of the Agency.

SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL INDENTURE

The following is a summary of certain provisions of the General Indenture. This summary does not purport to be comprehensive or definitive and is subject to all of the terms and provisions of the General Indenture, to which reference is made and copies of which are available from the Trustee or the Agency.

Certain Defined Terms

The following are definitions in summary form of some of the terms contained in the General Indenture and used therein:

“Agency Request” means a written request or direction of the Agency signed by an Authorized Officer.

“Amortized Value” means (i) for securities purchased at par, par; and (ii) for securities purchased at a premium above or a discount below par, the value as of any given date obtained by dividing the total amount of the premium or the discount at which such securities were purchased by the number of days remaining to maturity on such securities at the time of such purchase and by multiplying the amount so calculated by the number of days having passed from the date of such purchase; and (a) in the case of securities purchased at a premium, by deducting the product thus obtained from the purchase price, and (b) in the case of securities purchased at a discount, by adding the product thus obtained to the purchase price.

“Appreciated Amount” means with respect to a Deferred Interest Bond, (i) as of any date of computation with respect to any Deferred Interest Bond up to the date, if any, set forth in the Series Indenture authorizing such Deferred Interest Bond as the date on which such Deferred Interest Bond shall commence to bear interest payable thereafter on applicable interest payment

dates, an amount equal to the initial principal amount of such Deferred Interest Bond plus the interest accrued on such Deferred Interest Bond from the date of original issuance of such Deferred Interest Bond to the applicable interest payment date next preceding the date of computation or the date of computation if an applicable interest payment date, such increased amount to accrue at the rate per annum set forth in the Series Indenture authorizing such Deferred Interest Bonds, compounded on each applicable interest payment date, plus, if such date of computation shall not be an applicable interest payment date, a portion of the difference between the Appreciated Amount as of the immediately preceding applicable interest payment date (or the date of original issuance if the date of computation is prior to the first applicable interest payment date succeeding the date of original issuance) and the Appreciated Amount as of the immediately succeeding applicable interest payment date, calculated based upon an assumption that the Appreciated Amount accrues in equal daily amounts on the basis set forth in the Series Indenture authorizing such Deferred Interest Bonds; and (ii) as of any date of computation on and after the date, if any, set forth in the Series Indenture authorizing such Deferred Interest Bond as the date on which such Deferred Interest Bond shall commence to bear interest payable thereafter on applicable interest payment dates, the Appreciated Amount as of such current interest payment commencement date.

For the purposes of actions, requests, notifications, consents or directions of Bondowners under the General Indenture, the calculation of the Appreciated Amount shall be as of the applicable interest payment dates preceding such date of calculation (unless such date of calculation shall be an applicable interest payment date, in which case, as of the date of calculation).

“Bond Counsel’s Opinion” means an opinion signed by any attorney or firm of attorneys of nationally recognized standing in the field of state and local debt issuance.

“Cash Flow Certificate” means a certificate of the Agency signed by an Authorized Officer to the effect that the action proposed to be taken is consistent with the assumptions set forth in the Cash Flow Statement last filed with the Trustee.

“Code” means applicable provisions of the Internal Revenue Code of 1954, as amended, and the Internal Revenue Code of 1986, as amended, and the applicable regulations thereunder.

“Costs of Issuance” means all items of expense payable or reimbursable directly or indirectly by the Agency and related to the authorization, sale, issuance and remarketing of the Bonds, as certified by an Authorized Officer.

“Debt Reserve Requirement” means, as of any particular date of calculation, an amount equal to the aggregate of all amounts established for all Series of Bonds Outstanding in the Series Indentures authorizing the issuance of such Bonds, or a lesser amount if each Rating Agency has confirmed that such lesser amount will not adversely affect the then-existing rating of the Bonds by such Rating Agency. The Trustee may rely upon a certificate from an Authorized Officer of the Agency which states the Debt Reserve Requirement as of the date of said certificate.

“Deferred Interest Bond” means any Bond designated as such by the Series Indenture authorizing the issuance of such Bond.

“Expenses” means any moneys required by the Agency to pay the expenses of the Trustee and any expenses which the Agency may lawfully pay, except as limited with respect to any Series of Bonds by the applicable Series Indenture. Expenses deposited in any Fiscal Year to the credit of the Expense Fund shall not exceed the aggregate of all such amounts set forth for all Series of Bonds in the respective Series Indentures.

“Fiscal Year” means the year beginning on the first day of July and ending on the last day of June in the next succeeding year.

“Government Obligations” means obligations of the United States of America (including obligations issued or held in book-entry form on the books of the U.S. Department of the Treasury) or obligations the principal of and interest on which are guaranteed by the United States of America.

“Insurance Proceeds” means payments received with respect to the Underlying Mortgage Loans or Mortgage-Backed Securities under any insurance policy or guarantee or under any fidelity bond, to the extent not applied to the repair or restoration of any mortgaged premises.

“Investment Obligations” means, to the extent authorized by law for investment of moneys of the Agency at the time of such investment, (i)(A) Government Obligations or (B) obligations rated in either of the two highest rating categories of each Rating Agency of any state of the United States of America or any political subdivision of such a state, payment of which is secured by an irrevocable pledge of Government Obligations; (ii)(A) bonds, debentures or other obligations issued by Federal Home Loan Banks, Tennessee Valley Authority, Federal Farm Credit System Obligations, World Bank, International Bank for Reconstruction and Development and Inter-American Development Bank; or (B) bonds, debentures or other obligations issued by Fannie Mae and Federal Home Loan Mortgage Corporation (*excluding* mortgage securities which are valued greater than par on the portion of unpaid principal or mortgage securities which represent payments of principal only or interest only with respect to the underlying mortgage loans); (iii) obligations issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States of America, or temporary notes, preliminary loan notes or project notes issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America, in each case rated in either of the two highest rating categories (or the highest rating of short-term obligations if the investment is a short-term obligation) by each Rating Agency; (iv) time deposits, certificates of deposit or any other deposit with a bank, trust company, national banking association, savings bank, federal mutual savings bank, savings and loan association, federal savings and loan association or any other institution chartered or licensed by any state or the U.S. Comptroller of the Currency to accept deposits in such state (as used herein, “deposits” shall mean obligations evidencing deposit liability which rank at least on a parity with the claims of general creditors in liquidation), which are (a) fully secured by any of the obligations described in (i) above having a market value (exclusive of accrued interest) not less than the uninsured amount of such deposit

or (b)(1) unsecured or (2) secured to the extent, if any, required by the Agency and, in both (1) and (2), made with an institution whose unsecured debt securities are rated in either of the two highest rating categories and the highest short-term rating category (or the highest rating of short-term obligations if the investment is a short-term obligation) by each Rating Agency; (v) repurchase agreements backed by or related to obligations described in (i) or (ii) above with any institution whose unsecured debt securities are rated in either of the two highest rating categories (or the highest rating of short-term obligations if the investment is a short-term obligation) by each Rating Agency; (vi) investment agreements, secured or unsecured as required by the Agency, with any institution whose debt securities are rated in either of the two highest rating categories (or the highest rating of short-term obligations if the investment is a short-term obligation) by each Rating Agency; (vii) direct and general obligations of or obligations unconditionally guaranteed by the State, the payment of the principal of and interest on which the full faith and credit of the State is pledged, and certificates of participation in obligations of the State which obligation may be subject to annual appropriations, which obligations are rated in either of the two highest rating categories by each Rating Agency; (viii) direct and general obligations of or obligations unconditionally guaranteed by any state, municipality or political subdivision or agency thereof, which obligations are rated in either of the two highest rating categories by each Rating Agency; (ix) bonds, debentures, or other obligations issued by any insurance company, corporation, government or governmental entity (foreign or domestic), *provided* that such bonds, debentures or other obligations are (a) payable in any coin or currency of the United States of America which at the time of payment will be legal tender for the payment of public and private debts, and (b) rated in either of the two highest rating categories by each Rating Agency; (x) commercial paper (having original maturities of not more than 365 days) rated in the highest rating category by each Rating Agency; (xi) money market funds which invest in Government Obligations and which funds have been rated in the highest rating category by each Rating Agency; (xii) deposits in the Surplus Money Investment Fund referred to in Section 51003 of the Act or any successor fund thereto if each Rating Agency has confirmed that investment therein, in and of itself, will not adversely affect the then-existing rating of the Bonds by such Rating Agency; or (xiii) any investments authorized in a Series Indenture authorizing Bonds, as long as the related Bonds are rated by each Rating Agency. *Provided*, that it is expressly understood that the definition of Investment Obligations shall be, and be deemed to be, expanded, or new definitions and related provisions shall be added to the General Indenture by a Supplemental Indenture or an Authorized Officer's Determination, thus permitting investments with different characteristics from those permitted which the Board of Directors or the Executive Director of the Agency deems from time to time to be in the interests of the Agency to include as Investment Obligations if at the time of inclusion such inclusion will not, in and of itself, impair, or cause the Bonds to fail to retain, the then-existing rating assigned to them by each Rating Agency. For purposes of this definition, "institution" means an individual, partnership, corporation, trust or unincorporated organization, or a government or agency, instrumentality, program, account, fund, political subdivision or corporation thereof.

"Liquidation Proceeds" means amounts (*except* Insurance Proceeds) received in connection with the liquidation of a defaulted Underlying Mortgage Loan, whether through foreclosure, trustee's sale, repurchase by a Mortgage Lender, or otherwise.

"Loan Loss Requirement" means, as of any particular date of calculation, an amount equal to the aggregate of all amounts established for the Series of Bonds Outstanding in the

Series Indentures authorizing the issuance of such Bonds, or a lesser amount if each of the Rating Agencies has confirmed that such lesser amount will not adversely affect the then-existing rating of the Bonds by such Rating Agency. The Trustee may rely upon a certificate from an Authorized Officer of the Agency which states the Loan Loss Requirement as of the date of said certificate.

“Mortgage-Backed Securities” means (i) obligations representing undivided beneficial ownership interests (and any other interest therein allowed by the Act) in mortgage loans, which obligations are issued by or guaranteed by the Government National Mortgage Association, Fannie Mae, Federal Home Loan Mortgage Corporation or, to the extent set forth in a Series Indenture, a Supplemental Indenture, or an Authorized Officer’s Determination, (a) any other agency or instrumentality of or chartered by the United States to which the powers of any of them have been transferred or which have similar powers to purchase mortgage loans and (b) any financial institution provided each of the Rating Agencies has confirmed that acquisition of such mortgage-backed securities will not adversely affect its then-existing rating of the Bonds and (ii) any evidence of an ownership interest in such obligations. Unless otherwise provided in a Series Indenture, a Supplemental Indenture, or an Authorized Officer’s Determination, “Mortgage-Backed Securities” does not include any mortgage-backed securities that are not financed from moneys on deposit in the Acquisition Fund.

“Outstanding Bonds” means, as of any date, all Bonds theretofore authenticated and delivered by the Trustee under the Indenture, *except*:

(a) any Bond, following its maturity date, if sufficient moneys or Government Obligations are held in trust for the owner of such Bond by the Trustee on such maturity date to pay the principal amount of and accrued interest on such Bond;

(b) any Bond canceled by, or delivered for cancellation to, the Trustee because of payment at maturity or redemption or purchase prior to maturity;

(c) any Bond deemed paid in accordance with the redemption provisions of the General Indenture;

(d) any Bond deemed paid in accordance with the defeasance provisions of the General Indenture; and

(e) any Bond in lieu of or in substitution for which another Bond shall have been authenticated and delivered pursuant to the General Indenture, unless proof satisfactory to the Trustee is presented that any Bond for which a Bond in lieu thereof or in substitution therefor shall have been authenticated and delivered is held by a bona fide purchaser, as that term is defined in the Uniform Commercial Code-Investment Securities of the State (Sections 8101-8116 of the California Commercial Code), as amended (or any similar successor provision), in which case both the Bond so substituted and replaced and the Bond or Bonds authenticated and delivered in lieu thereof or in substitution therefor shall be deemed Outstanding.

“Pledged Property” means the proceeds of the sale of the Bonds, Revenues and all other moneys in all Funds (except the Rebate Fund) and Accounts established under the General

Indenture, including the investments, if any, thereof, and the earnings, if any, thereon until applied in accordance with the terms of the General Indenture; and all right, title and interest of the Agency in and to the Mortgaged-Backed Securities, and related notes, *but excluding* Mortgage-Backed Securities accrued interest not purchased by the Agency; *except* that the pledge of assets or property in a Series Indenture may be limited in purpose and time, as set forth in said Series Indenture.

“principal” means (a) as such term references the principal amount of a Deferred Interest Bond or Deferred Interest Bonds, the Appreciated Amount thereof, and (b) as such term references the principal amount of any other Bond or Bonds, the principal amount at maturity of such Bond or Bonds.

“Principal Prepayment” means any amounts received in connection with a Mortgage-Backed Security that reflect any payment by a mortgagor or other recovery of principal of an Underlying Mortgage Loan which is not applied to a scheduled installment of principal or interest on an Underlying Mortgage Loan and the portion of any Insurance Proceeds, Liquidation Proceeds or other payments representing such principal amounts, including from the sale of an Underlying Mortgage Loan, and the proceeds of the sale of Mortgage-Backed Securities.

“Rating Agency” means each nationally recognized securities rating agency that is maintaining the rating on the Bonds at the request of the Agency.

“Revenues” means all moneys received by or on behalf of the Agency or Trustee representing (i) principal and interest payments on the Mortgage-Backed Securities including all Principal Prepayments representing the same and all prepayment premiums or penalties received by or on behalf of the Agency in respect to the Mortgage-Backed Securities, (ii) interest earnings, amortization of discount, and gain, all as received as cash on the investment of amounts in any Account or Fund, (iii) amounts transferred to the Revenue Fund in accordance with the General Indenture, (iv) amounts transferred to the Special Redemption Account from the Debt Reserve Fund or the Loan Loss Fund, and (v) amounts deposited in the Revenue Fund pursuant to the General Indenture.

“Serial Bonds” means the Bonds which are not Term Bonds.

“Series Program Determinations” means determinations by the Agency relating to Underlying Mortgage Loans and Mortgage-Backed Securities and certain other matters required in connection with a Series of Bonds under the Program to be set forth (or provided to be determined at certain specified times in the future) in a Series Indenture (or, if each Rating Agency has confirmed that doing so will not adversely affect the then-existing rating of the Bonds by such Rating Agency, pursuant to an Agency Request) and shall include the following: (i) the types of Mortgage-Backed Securities to be financed by such Bonds, (ii) whether each Underlying Mortgage Loan shall be secured by a first lien mortgage, a subordinate lien mortgage or a combination; (iii) whether each Underlying Mortgage Loan shall have approximately equal monthly payments or shall be a graduated payment mortgage loan or have a fixed or variable rate of interest; (iv) the maximum term to maturity of each Underlying Mortgage Loan; (v) whether each residence to which each Underlying Mortgage Loan relates shall be a principal residence; (vi) required primary mortgage insurance, if any, and the levels of coverage thereof;

(vii) limitations, if any, applicable to purchases of Underlying Mortgage Loans relating to planned unit developments, and/or cooperatives or condominiums, geographic concentration, and type of principal and interest characteristics; (viii) Supplemental Mortgage Coverage, if any; (ix) provisions relating to Principal Prepayments, including application thereof for redemption or financing new Mortgage-Backed Securities; (x) maximum Expenses for such Series; (xi) restrictions, if any, on the applications of the proceeds of the voluntary sale of Mortgage-Backed Securities, if any; and (xii) any other provision deemed advisable by the Agency not in conflict with the General Indenture.

“Sinking Fund Requirement” means, as of any particular date of calculation, with respect to the Term Bonds of any Series and maturity, the amount of money required to be applied on any applicable date to the redemption prior to maturity or the purchase of the Term Bonds, except as such Requirement shall have been previously reduced by the principal amount of such Term Bonds with respect to which such Sinking Fund Requirement is payable which are to be purchased or redeemed (except out of Sinking Fund Requirements). Sinking Fund Requirements may be established as fixed dollar amounts or as method(s) of calculation thereof.

“Supplemental Mortgage Coverage” means the coverage, if any, of loss from Underlying Mortgage Loan defaults provided in a Series Indenture which supplements any primary mortgage insurance.

“Term Bonds” means the Bonds with respect to which Sinking Fund Requirements have been established.

“Underlying Mortgage Loan” means a mortgage loan underlying any Mortgage-Backed Securities.

Payment Due or Acts to be Performed on Weekends and Holidays

If the date for making any payment of principal or premium, if any, or interest or the last date for performance of any act or the exercising of any right, as provided in the General Indenture, shall be a legal holiday or a day on which banking institutions in the city where the Trustee is located are authorized by law to remain closed, such payment may be made or act performed or right exercised on the next succeeding day not a legal holiday or not a day on which such banking institutions are authorized by law to remain closed, unless otherwise provided in a Series Indenture, with the same force and effect as if done on the nominal date provided in the General Indenture.

General Indenture to Constitute Contract

In consideration of the purchase and acceptance of any and all of the Bonds issued under the General Indenture by those who shall own the same from time to time, the General Indenture shall be deemed to be and shall constitute a contract among the Agency and the owners of the Bonds. The pledges made in the General Indenture and the covenants and agreements set forth in the General Indenture to be performed by the Agency shall be for the equal benefit, protection and security of the owners of any and all of the Bonds, all of which, without regard to the time or times of their issue or maturity, shall be of equal rank without preference, priority or distinction

of any of the Bonds over any other thereof, except as expressly provided in or permitted by the General Indenture or by a Series Indenture.

Special Obligation; Pledge of the Indenture

The Bonds are special obligations of the Agency payable solely from and secured by the Pledged Property. The Agency has no taxing power. The Bonds shall not be deemed to constitute a debt or liability of the State or of any political subdivision of the State, other than the Agency, or a pledge of the faith and credit of the State, but shall be payable solely from the Pledged Property. Neither the faith and credit nor the taxing power of the State is pledged to the payment of the principal of or interest on the Bonds. The issuance of the Bonds shall not directly or indirectly or contingently obligate the State or any political subdivision of the State to levy or to pledge any form of taxation whatever therefor or to make any appropriation for their payment.

Issuance of Bonds

The Bonds shall be executed substantially in the form and manner set forth in the General Indenture and shall be deposited with the Trustee for authentication, but before Bonds shall be authenticated and delivered by the Trustee, there shall be on file with the Trustee the following:

- (a) a copy, duly certified by an Authorized Officer, of the General Indenture and the Series Indenture for such Series of Bonds;
- (b) a Bond Counsel's Opinion stating in the opinion of such counsel that the General Indenture and the applicable Series Indenture have been duly authorized, executed and delivered by, and are valid and binding obligations of, the Agency;
- (c) a Cash Flow Statement, if required by the General Indenture, conforming to the requirements of the General Indenture;
- (d) a request and authorization to the Trustee on behalf of the Agency, signed by an Authorized Officer, to authenticate and deliver said Bonds to the purchaser or purchasers therein identified upon payment to the Trustee for the account of the Agency of the purchase price therefor; and
- (e) evidence that the issuance of said Bonds will not adversely affect the then-existing ratings of any of the Bonds by any Rating Agency.

Simultaneously with the delivery of the Bonds, the Trustee shall deposit or credit the proceeds of said Bonds into the applicable Series Bond Proceeds Account of the Bond Proceeds Fund. Unless otherwise provided in the applicable Series Indenture the Trustee shall apply such proceeds, together with any other available funds, as follows:

- (i) an amount shall be transferred to and deposited to the credit of the Debt Reserve Fund such that the amount on deposit in such Fund will at least equal the Debt Reserve Requirement;

(ii) an amount shall be transferred to and deposited to the credit of the Loan Loss Fund such that the amount on deposit in such Fund will at least equal the Loan Loss Requirement;

(iii) the total amount of such proceeds designated by the Agency as accrued interest and capitalized interest shall be transferred to and deposited to the credit of the Revenue Fund;

(iv) an amount equal to the Costs of Issuance for such Bonds shall be transferred to and deposited to the credit of the Series Account in the Costs of Issuance Fund established for such Series;

(v) an amount to the extent set forth in the applicable Series Indenture shall be transferred to and deposited in the Expense Fund;

(vi) an amount to be transferred to and deposited into any Fund or Account not referred to in clauses (i)-(v) above or (vii) below as provided in the applicable Series Indenture; and

(vii) the balance of such moneys shall be transferred to and deposited to the credit of the Acquisition Account in the Acquisition Fund established for such Series.

Refunding Bonds

Refunding Bonds of the Agency may be issued under and secured by the General Indenture for the purpose of providing funds, with any other available funds, for (i) redeeming (or purchasing in lieu of redemption) prior to their maturity or maturities, or retiring at their maturity or maturities, all or any part of the Outstanding Bonds of any Series, including the payment of any redemption premium (or premium, to the extent permitted by law, included in the purchase price if purchased in lieu of redemption), (ii) making any required deposits to the Debt Reserve Fund and the Loan Loss Fund, (iii) if deemed necessary by the Agency, for paying the interest to accrue on the refunding Bonds or refunded Bonds to the date fixed for their redemption (or purchase) and (iv) any expenses in connection with such refunding. Before any Bonds shall be issued under the provisions of this paragraph, the Agency shall execute a Series Indenture authorizing the issuance of such Series of Bonds, fixing the amount and the details thereof and describing the Bonds to be refunded. Except as may otherwise be provided in the applicable Series Indenture and *except* as to any differences in the maturities thereof or interest payment dates or the rate or rates of interest or the provisions for redemption, such refunding Bonds shall be on a parity with and shall be entitled to the same benefit and security of the General Indenture as all other Bonds issued under the General Indenture.

Prior to or simultaneously with the authentication and delivery of such refunding Bonds by the Trustee to or upon the order of the purchasers thereof there shall be filed with the Trustee the following:

(a) a copy, duly certified by an Authorized Officer, of the General Indenture and the Series Indenture for such Series of refunding Bonds;

(b) a Bond Counsel's Opinion stating in the opinion of such counsel that the General Indenture and the applicable Series Indenture have been duly authorized, executed, and delivered by, and are valid and binding obligations of, the Agency;

(c) a Cash Flow Statement, if required by the General Indenture, conforming to the requirements of the General Indenture;

(d) a certificate of an Authorized Officer stating that the proceeds (excluding accrued interest but including any premium) of such refunding Bonds, together with any moneys to be withdrawn from the Debt Service Fund by the Trustee and any other moneys which have been made available to the Trustee for such purposes, or the principal of and the interest on the investment of such proceeds or any such moneys, will be not less than an amount sufficient to pay the principal of and the redemption premium, if any, on the Bonds to be refunded and the interest which will become due and payable on or prior to the date of their payment or redemption, the expenses in connection with such refunding and to make any required deposits to the Debt Reserve Fund and the Loan Loss Fund and specifying transfers, if any, from the Series Acquisition Accounts applicable to the Series of Bonds to be refunded and the refunding Bonds;

(e) if all or part of the refunded Bonds are to be redeemed prior to maturity, irrevocable instructions from an Authorized Officer of the Agency to the Trustee to redeem the applicable Bonds;

(f) a request and authorization to the Trustee on behalf of the Agency, signed by an Authorized Officer, to authenticate and deliver Bonds to the purchaser or purchasers therein identified upon payment to the Trustee for the account of the Agency of the purchase price therefor; and

(g) evidence that the issuance of said Bonds will not adversely affect the then-existing rating of any of the Bonds by any Rating Agency.

Issuance of Additional Obligations

The Agency may issue any obligations which are payable from or secured by a lien on and pledge of the Pledged Property, so long as such lien and pledge shall be in all respects subordinate to the lien and pledge created by the General Indenture.

Bonds No Longer Outstanding

Bonds shall no longer be treated as Outstanding (a) if they have been duly called for redemption or irrevocable instructions to call such Bonds for redemption shall have been given by the Agency to the Trustee and (b) with respect to which the Trustee holds money or Government Obligations sufficient to pay the Principal and Redemption Price of and interest on such on their respective interest payment, stated maturity or prescribed redemption dates.

Funds and Accounts

The following Funds and Accounts are created and designated as set forth below:

Bond Proceeds Fund	Redemption Fund
Series Bond Proceeds Accounts	Special Redemption Account
Acquisition Fund	Optional Redemption Account
Series Acquisition Accounts	Expense Fund
Costs of Issuance Fund	Debt Reserve Fund
Series Costs of Issuance Accounts	Loan Loss Fund
Revenue Fund	General Fund
Debt Service Fund	Principal Prepayment Fund
Interest Account	Series Principal Prepayment Accounts
Principal Account	Rebate Fund
	Supplementary Reserve Fund

Additional Funds and Accounts (including for the purpose of depositing amounts required to be rebated to the United States, *i.e.*, a Rebate Account within the Rebate Fund) may be created and designated in Series Indentures.

Bond Proceeds Fund—Series Bond Proceeds Accounts

Upon the issuance of a Series of Bonds, the Trustee shall establish a Series Account within the Bond Proceeds Fund applicable to such Series of Bonds and may deposit amounts received in connection with the issuance of such Bonds into such Account and thereupon apply such proceeds at the times and in the amounts set forth in the Series Indenture authorizing the issuance of such Bonds.

Acquisition Fund—Series Acquisition Accounts

Upon the issuance of a Series of Bonds, unless otherwise provided in the applicable Series Indenture, the Trustee shall establish a Series Acquisition Account (which may relate to more than one Series of Bonds) within the Acquisition Fund applicable to such Series of Bonds. Moneys in the Acquisition Fund shall be applied by the Trustee to finance the acquisition of Mortgage-Backed Securities (the characteristics of which conform to the applicable Series Program Determinations) upon Agency Request or as otherwise provided in the Series Indenture. The Trustee shall transfer from any Series Acquisition Account to the Special Redemption Account any amount specified by the Agency from time to time in an Agency Request for the purpose of redeeming or purchasing Bonds of the Series for which such Series Acquisition Account was established unless otherwise provided in the applicable Series Indenture.

The Trustee shall transfer any amount representing Principal Prepayments deposited in a Series Acquisition Account to the Principal Prepayment Fund, upon an Agency Request in the amount and at the time(s) stated in such Agency Request.

Moneys held for the credit of the Acquisition Fund shall be transferred to the Interest or Principal Account, in that order, pursuant to the General Indenture.

Costs of Issuance Fund—Series Costs of Issuance Accounts

Upon the issuance of a Series of Bonds, unless otherwise provided in the applicable Series Indenture, the Trustee shall establish a Series Account within the Costs of Issuance Fund applicable to such Series of Bonds and shall transfer amounts from the Bond Proceeds Fund received in connection with the issuance of such Bonds into such Account in the amount set forth in the applicable Series Indenture authorizing the issuance thereof. In addition, the Agency may deposit other amounts available therefor in such Account. Moneys held in a Series Account in the Costs of Issuance Fund shall be disbursed to pay the Costs of Issuance related to the applicable Series of Bonds upon a requisition, signed by an Authorized Officer of the Agency, identifying generally the nature and amount of such Costs of Issuance. Upon Agency Request any amount remaining in a Series Costs of Issuance Account shall be transferred to the Revenue Fund and treated as Revenues, to the Acquisition Fund or to the Special Redemption Account of the Redemption Fund.

Revenue Fund; Application of Revenues

All Revenues shall be deposited in the Revenue Fund as received by the Trustee.

No later than one month following the deposit of Principal Prepayments into the Revenue Fund, the Trustee shall transfer Revenues in an amount equal to and representing such Principal Prepayments received to the Principal Prepayment Fund.

At any time, upon Agency Request, the Trustee shall apply amounts in the Revenue Fund to pay for accrued interest in connection with the Trustee's purchase of Investment Obligations for deposit in any Fund or Account maintained under the Indenture and to pay accrued interest with respect to the financing of Mortgage-Backed Securities.

Upon deposit in the Revenue Fund, the Trustee shall transfer to the credit of the applicable Series Acquisition Account amounts equal to the amounts expended from such Account to pay accrued interest with respect to the financings of Mortgage-Backed Securities funded from amounts on deposit in such Account.

The Trustee shall transfer Revenues in the Revenue Fund in the amounts specified in an Agency Request, on the dates therein specified, to the credit of the Funds and Accounts in, and in the priority of, clauses (1) - (9) below:

(1) To any Account in the Rebate Fund, the amount(s), if any, specified by the Agency;

(2) Principal payments, including Principal Prepayments, of Mortgage-Backed Securities in an amount equal to the amounts required by the Code to be applied to pay principal of Bonds shall be transferred to the Principal Account or the Special Redemption Account, as directed by the Agency;

(3) To the Interest Account, in the amount necessary to pay interest due on the next succeeding debt service payment date on the Bonds;

(4) To the Principal Account, in the amount necessary, after taking into account the amount transferred pursuant to clause (2) and the amount applied to the purchase of Bonds at the times, in the manner and for the purposes set forth in the General Indenture, to pay principal due on the next succeeding debt service payment date on the Bonds;

(5) To the credit of the Debt Reserve Fund, an amount sufficient to cause the amount on deposit in and credited to said Fund to equal the Debt Reserve Requirement;

(6) To the credit of the Expense Fund, an amount of Expenses specified in the Agency Request which shall not exceed the remainder of (i) the product of (A) the maximum amount of Expenses which may be deposited in the Expense Fund during the then-current Fiscal Year and (B) the fraction whose numerator is the number of days from the beginning of such Fiscal Year to the next succeeding debt service payment date on the Bonds and whose denominator is 365 or 366, whichever represents the number of days in such Fiscal Year, less (ii) the aggregate amount of Expenses previously deposited into the Expense Fund during such Fiscal Year. In no event in any Fiscal Year can the amount deposited on any date, when aggregated with amounts already deposited during such Fiscal Year, cause the aggregate amount deposited in any Fiscal Year to exceed the maximum amount of Expenses which may be deposited in the Expense Fund in a Fiscal Year;

(7) To the credit of the Loan Loss Fund, an amount sufficient to cause the amount on deposit in and credited to said Fund to equal the Loan Loss Requirement;

(8) To the credit of the Expense Fund, the amount of Expenses specified in an Agency Request accompanied by a Cash Flow Certificate but only to the maximum allowable pursuant to the Series Indentures; and

(9) To the General Fund, the balance.

Revenues in the Revenue Fund shall be applied to the purchase of Bonds at the times, in the manner and for the purposes set forth in the General Indenture.

Debt Service Fund—Interest Account

The Trustee shall, on each interest payment date, withdraw from the Interest Account and remit by such method of transfer acceptable to the Agency, to each owner of Bonds the amounts required for paying the interest on Bonds as such interest becomes due and payable.

Debt Service Fund—Principal Account

The Trustee shall, on each principal payment date, set aside in the Principal Account the amounts required for paying the principal of all Bonds as such principal becomes due and payable.

Amounts on deposit in the Revenue Fund prior to being deposited to the credit of the Principal Account in satisfaction of Sinking Fund Requirements shall be applied as applicable to

the purchase of Term Bonds of each Series then Outstanding subject to Sinking Fund Requirements on the next date such payments are scheduled as provided in this paragraph. The Trustee, upon direction of an Authorized Officer, shall endeavor to purchase the Term Bonds or portions of Term Bonds of each Series stated to mature on the next maturity date or to be redeemed pursuant to Sinking Fund Requirements for Term Bonds of such Series then Outstanding at a price not to exceed the Redemption Price (plus accrued interest to the date of redemption) which would be payable on the next redemption date to the owners of such Term Bonds under the provisions of the applicable Series Indenture if such Term Bonds or portions of Term Bonds should be called for redemption on such date. *Provided, however,* that subject to applicable law, notwithstanding the maximum purchase price set forth in the preceding sentence, if at any time the investment earnings on the moneys in the Revenue Fund equal to the Sinking Fund Requirements for the next date such payments are scheduled shall be less than the interest accruing on the Bonds to be redeemed on such date from such Sinking Fund Requirement, then the Trustee may pay a purchase price for any such Bond in excess of the Redemption Price which would be payable on the next redemption date to the owner of such Bond under the provisions of the applicable Series Indenture, if an Authorized Officer certifies to the Trustee that the amount paid in excess of said Redemption Price is expected to be less than the interest which is expected to accrue on said Bond less any investment earnings on such available moneys during the period from the settlement date of the proposed purchase to the redemption date. The Trustee shall pay the interest accrued on such Term Bonds or portions of Term Bonds to the date of settlement therefor from the Revenue Fund or the Interest Account of the Debt Service Fund. Notwithstanding the foregoing, no such purchase shall be made by the Trustee after the giving of notice of redemption by the Trustee.

Any purchase or redemption of Bonds shall be made pursuant to the provisions of Article III of the General Indenture. Upon the retirement of any Term Bonds by purchase or redemption pursuant to the provisions of the General Indenture, the Trustee shall file with the Agency a statement identifying such Bonds and setting forth the date of their purchase or redemption, the amount of the purchase price or the Redemption Price of such Bonds and the amount paid as interest thereon. The expenses in connection with the purchase or redemption of any such Bonds shall be paid by the Trustee from the Expense Fund or from any other moneys available therefor.

Moneys held for the credit of the Principal Account shall be transferred to the Interest Account pursuant to the General Indenture.

Redemption Fund

The Trustee shall apply all moneys deposited to the credit of the Special Redemption Account and the Optional Redemption Account to the purchase or redemption of Bonds issued pursuant to the General Indenture as follows:

- (a) The Trustee, upon the direction of the Agency, shall endeavor to purchase Bonds or portions of Bonds then Outstanding, whether or not such Bonds or portions of such Bonds shall then be subject to redemption, at a price not to exceed the Redemption Price (plus accrued interest, if any, to the date of redemption) which would be payable on the next redemption date. Such maximum purchase price may be exceeded in accordance with the terms of the General Indenture. The Trustee shall pay the interest accrued on

such Bonds to the date of settlement therefor from the Revenue Fund or the Interest Account of the Debt Service Fund and the balance of the purchase price from the Special Redemption Account or Optional Redemption Account, as applicable, but no such purchase shall be contracted for by the Trustee after the giving of notice by the Trustee that such Bonds have been called for redemption except from moneys other than moneys set aside in the Special Redemption Account or Optional Redemption Account, as applicable, for the redemption of such Bonds unless such purchase is from the party that has received such notice.

(b) The Trustee, having endeavored to purchase Bonds pursuant to paragraph (a) above, shall call for redemption on the earliest practicable date on which Bonds are subject to redemption from moneys in the Special Redemption Account or Optional Redemption Account, as applicable, and, with respect to accrued interest on such Bonds payable upon redemption, the Revenue Fund or the Interest Account of the Debt Service Fund, such amount (computed on the basis of Redemption Prices) of Bonds as will exhaust the moneys held for the credit of the Special Redemption Account or Optional Redemption Account, as applicable, as nearly as may be practicable.

Moneys held for the credit of the Redemption Fund shall be transferred to the Interest or Principal Account, in that order, pursuant to the General Indenture.

Any amounts deposited in the Redemption Fund for the redemption of Bonds which remain on deposit after the payment in full of the Redemption Price of the applicable Bonds shall be transferred to the Revenue Fund at the times and in the amounts set forth in an Agency Request and shall continue to be treated as Revenues.

Expense Fund

Moneys held for the credit of the Expense Fund shall be applied by the Trustee for the following purposes in any order of priority:

(a) the payment of the fees and expenses of the Trustee and fees of the providers of credit enhancement on Bonds, Funds and Mortgage-Backed Securities; and

(b) for transfer to the Interest or Principal Accounts, pursuant to the Indenture; and

(c) upon requisition by Agency Request, the payment or reimbursement of any Expenses; and

(d) upon Agency Request, for transfer to the Revenue Fund and thereafter to be treated as Revenues.

Debt Reserve Fund

Moneys held for the credit of the Debt Reserve Fund shall be transferred or drawn upon for transfer, as applicable, by the Trustee to the Interest or Principal Account, in that order, as described under "Deficiencies in Debt Service Fund" below.

Moneys held for the credit of the Debt Reserve Fund as of any date in excess of the Debt Reserve Requirement upon Agency Request shall be transferred to the Revenue Fund or the Special Redemption Account.

Loan Loss Fund

Moneys held for the credit of the Loan Loss Fund shall be transferred or drawn upon for transfer, as applicable, by the Trustee to the Interest or Principal Account, in that order, as described under “Deficiencies in Debt Service Fund” below.

Moneys held for the credit of the Loan Loss Fund as of any date in excess of the Loan Loss Requirement upon Agency Request shall be transferred to the Revenue Fund or the Special Redemption Account.

General Fund

Except as otherwise provided in a Series Indenture, moneys held for the credit of the General Fund shall be transferred by the Trustee in the following order of priority listed in subsections (i) through (iv) and thereafter at any time upon Agency Request to the following Funds and Accounts:

- (i) to the credit of the Interest Account, an amount sufficient to cause the amount on deposit in said Account to equal any interest previously due and unpaid on Bonds;
 - (ii) to the credit of the Principal Account, an amount sufficient to make the amount then on deposit in said Account equal to any regularly scheduled principal of the Bonds previously due and unpaid;
 - (iii) to the credit of the Debt Reserve Fund, an amount sufficient to cause the amount on deposit in said Fund to equal the Debt Reserve Requirement;
 - (iv) to the credit of the Loan Loss Fund, an amount sufficient to cause the amount on deposit in said Fund to equal the Loan Loss Requirement;
 - (v) to the credit of the Expense Fund;
 - (vi) to the credit of the Optional Redemption Account for the redemption or purchase of Bonds;
 - (vii) to the credit of the Special Redemption Account for redemption or purchase of Bonds;
 - (viii) to any specified Series Acquisition Account in the Acquisition Fund;
 - (ix) to the credit of any Series Account in the Costs of Issuance Fund;
- or

(x) unless provided otherwise in a Series Indenture, to the Agency, for any other purpose authorized or required under the Act free and clear of the pledge and lien of the General Indenture; *provided, however*, that no such payment shall be made under this clause unless permitted pursuant to a Cash Flow Statement filed with the Trustee pursuant to the General Indenture.

Principal Prepayment Fund—Series Principal Prepayment Accounts

Upon the issuance of a Series of Bonds the Trustee shall establish a Series Principal Prepayment Account within the Principal Prepayment Fund applicable to such Series of Bonds. Unless provided otherwise in a Series Indenture, the Trustee shall transfer amounts in the Principal Prepayment Fund at any time upon Agency Request to the Principal Account, the Special Redemption Account, the Optional Redemption Account or an Acquisition Account(s) of the Acquisition Fund. Moneys held for the credit of the Principal Prepayment Fund shall be transferred by the Trustee to the Interest Account or Principal Account in that order, pursuant to the Indenture. If the Trustee does not receive an Agency Request with respect to a mandatory redemption from Principal Prepayments set forth in a Series Indenture, the Trustee shall transfer Principal Prepayments in an amount sufficient to accomplish such mandatory redemption from the applicable Series Principal Prepayment Account of the Principal Prepayment Fund to the Special Redemption Account and shall call Bonds for redemption (subject to any other priority set forth in the applicable Series Indenture) on a pro rata basis, as nearly as practicable, from among each maturity of the Series (and subseries, if applicable) of Bonds that financed the Mortgage-Backed Security that was prepaid.

Supplementary Reserve Fund—Series Accounts

Upon the issuance of a Series of Bonds, unless otherwise provided in the applicable Series Indenture, the Trustee shall establish a Series Account within the Supplementary Reserve Fund applicable to such Series of Bonds. Such Series Account shall be held by the Trustee and applied as set forth in said Series Indenture. Such Series Account shall be funded by transfers from the Supplementary Bond Security Account created by Section 51368 of the Act, or from other legally available moneys of the Agency, in the amounts, at the times and in the manner set forth in said Series Indenture. Income earned on the investment of amounts in such Series Account shall be paid, transferred, retained or otherwise treated as set forth in said Series Indenture. Notwithstanding the foregoing or anything in the General Indenture to the contrary, amounts on deposit in any Series Account of the Supplementary Reserve Fund may be withdrawn and paid to the Agency free and clear of the lien and pledge of the General Indenture if each Rating Agency has confirmed that such withdrawal, in and of itself, will not adversely affect the then-existing rating of the Bonds by such Rating Agency.

Deficiencies in Debt Service Fund

In the event that amounts in the Debt Service Fund shall be insufficient on any interest payment date or principal payment date to pay the principal of and interest on the Bonds due and unpaid on such date, the Trustee shall withdraw amounts from the following Funds and Accounts in the following order of priority to the extent necessary to eliminate such deficiency; *provided, however*, that no amounts on deposit in the Special Redemption Account, the Optional

Redemption Account, the Principal Prepayment Fund or the Principal Account shall be used for such purpose to the extent that such amounts have been set aside for the payment of Bonds which have been identified for purchase or called for redemption, and no amounts on deposit in any Series Acquisition Account shall be used for such purpose to the extent that the Agency is contractually obligated to finance or originate identified Mortgage-Backed Securities acceptable for financing with amounts on deposit in such Series Acquisition Account:

- (a) Revenue Fund;
- (b) General Fund;
- (c) Optional Redemption Account;
- (d) Principal Prepayment Fund;
- (e) Special Redemption Account;
- (f) Loan Loss Fund;
- (g) Expense Fund;
- (h) Acquisition Fund (but only if the Agency has received a Bond Counsel's Opinion that such use will not adversely affect the exclusion (if excluded) of interest on the Bonds from gross income of the Owners thereof for Federal income tax purposes);
- (i) Bond Proceeds Fund (but only if the Agency has received a Bond Counsel's Opinion that such use will not adversely affect the exclusion (if excluded) of interest on the Bonds from gross income of the Owners thereof for Federal income tax purposes);
- (j) Costs of Issuance Fund;
- (k) Debt Reserve Fund;
- (l) Principal Account;
- (m) Acquisition Fund (if the Bond Counsel's Opinion referred to in (h) above has not been received); and
- (n) Bond Proceeds Fund (if the Bond Counsel's Opinion referred to in (i) above has not been received).

Security for Deposits; Investment of Moneys

All amounts held by the Trustee under the General Indenture, except as otherwise expressly provided in the General Indenture, shall be held in trust.

Moneys deposited for the credit of the Funds and Accounts under the General Indenture shall, as nearly as may be practicable, be continuously invested and reinvested by the Trustee

upon the direction of an Authorized Officer (promptly confirmed by delivery of an Agency Request) in Investment Obligations which shall be in such amounts and bear interest at such rates with the objective that sufficient money will be available to pay the interest due on Bonds and shall mature, or which shall be subject to redemption by the holder thereof, at the option of such holder, with the objective that sufficient moneys will be available for the purposes intended.

Any Investment Obligations purchased as investment of moneys in any such Fund or Account shall be deemed at all times to be part of such Fund or Account. Any interest paid as cash, amortization of discount received as cash, or gain received as cash on the investment in any Fund or Account (except the Rebate Fund) shall be credited to the Revenue Fund when received and thereafter treated as Revenues. Any interest paid on the investment of the Rebate Fund shall be credited to the Rebate Fund. In computing the amount on deposit to the credit of any Account or Fund, obligations in which money in such Account or Fund shall have been invested shall be valued at Amortized Value plus the amount of interest on such obligations purchased with moneys in such Account or Fund.

Cash Flow Statements

The General Indenture provides that, while any Bonds are Outstanding, the Agency shall file with the Trustee a Cash Flow Statement (i) whenever any Series of Bonds is issued, if the most recently filed Cash Flow Statement was filed more than twelve months prior to the date of issuance (provided that no Cash Flow Statement shall be required to be filed in connection with the issuance of the first Series of Bonds issued under the General Indenture); (ii) at least once during each Fiscal Year; (iii) upon purchase or redemption of Bonds in a manner materially inconsistent with the last Cash Flow Statement filed by the Agency with the Trustee; and (iv) prior to applying amounts in the General Fund for payment to the Agency free and clear of the lien of the Indenture.

The General Indenture provides that a Cash Flow Statement shall consist of a certificate of an Authorized Officer of the Agency giving effect to the action proposed to be taken and demonstrating in the current and each succeeding Fiscal Year in which Bonds are scheduled to be Outstanding that, as of each date on which principal or interest will be due on Bonds in each such Fiscal Year, (x) Pledged Property then expected to be on deposit in the Funds and Accounts maintained under the General Indenture will be at least equal to all amounts required by the General Indenture to be on deposit in such Funds and Accounts for the timely payment of Bonds and for the funding of, or crediting to, the Debt Reserve Fund and Loan Loss Fund to their respective Requirements, *except* that, to the extent specified in a Series Indenture or Supplemental Indenture, a Fund or Account or assets or property shall not be taken into account when preparing such Cash Flow Statement; and (y) the aggregate of the Pledged Property on deposit in all Funds and Accounts under the General Indenture, other than the Cost of Issuance Fund, Expense Fund and Interest Account, plus the aggregate principal balances of all Mortgage-Backed Securities, shall at least equal the sum of the aggregate principal amount of the Bonds Outstanding plus accrued interest.

The Cash Flow Statement shall set forth the assumptions upon which the estimates therein are based. The General Indenture requires that a Cash Flow Statement assume that all amounts held under the General Indenture with respect to which an investment arrangement is

not in effect that guarantees a certain rate or rates are invested at a rate that does not exceed the applicable assumed interest rates determined by the then-current requirements of the Rating Agencies for bonds which bear the same rating as the then-current rating on the Bonds. In addition, the General Indenture provides that, in preparing a Cash Flow Statement, the Agency shall utilize with respect to Bonds the cash flow assumptions and tests required by the Rating Agencies in order to obtain or maintain a rating on the Bonds.

The General Indenture provides that except with respect to the annual Cash Flow Statement and actions being taken contemporaneously with the delivery of a Cash Flow Statement, facts reflected in a Cash Flow Statement may be as of a date or reasonably adjusted to the date of the most recently available data as determined by the Agency.

If any Cash Flow Statement shall show a deficiency in any Fiscal Year in the amount of funds expected to be available for the purposes described in the General Indenture during such Fiscal Year, the Agency shall not be in default under the General Indenture but shall take all reasonable actions to eliminate such deficiency.

Tax Covenants

The Agency shall at all times comply with the applicable tax covenants contained in any applicable Series Indenture. If applicable and unless otherwise provided in the applicable Series Indenture, the Agency shall pay moneys in any Account in the Rebate Fund to the United States of America as required by the Code.

The Agency covenants and agrees that it will not make or permit any use of the proceeds of the Bonds which, if such use had been reasonably expected on the day of the issuance of Bonds, the interest on which is excluded from gross income under the Code, would have caused the Tax-Exempt Bonds to be “arbitrage bonds” within the meaning of the Code and further covenants that it will observe and not violate the arbitrage provisions of the Code.

Books and Records

The Trustee shall keep proper books of record and account in which complete and correct entries shall be made of all transactions relating to the receipts, disbursements, allocations and applications of all moneys received by the Trustee under the General Indenture, and such books shall be available for inspection by the Agency and any Bondowner during business hours, upon reasonable notice and under reasonable conditions.

On or before the tenth business day of each month the Trustee shall furnish to the Agency a statement of the Agency’s revenues and expenditures and of the changes in its fund balances during the previous month.

The Agency shall keep proper books of record and account for all its transactions, other than those recorded in the books maintained by the Trustee described above, and such books shall be available for inspection by the Trustee and any Bondowner during business hours and upon reasonable notice.

Annual Audit and Report

Within 120 days of the end of each June 30 (the period from the immediately preceding July 1 to and including June 30, the “reporting period”), the Agency shall furnish to the Trustee (i) a statement of its revenues, expenses and of the changes in net assets during the previous reporting period, certified to by an Accountant, (ii) a report of its activities during the previous reporting period, and (iii) a certificate from an Authorized Officer stating that there is no current Event of Default and that no Event of Default occurred during the preceding reporting period (or if there has been an Event of Default, providing the details thereof and describing the steps the Agency took, or is taking, to cure such Event of Default).

Program Covenants

The Agency warrants and covenants (a) that no Underlying Mortgage Loan shall be financed by the Agency under the Program unless the Underlying Mortgage Loan complies in all respects with the Act in effect on the date of financing and (b) to comply with any additional program covenants contained in any Series Indenture.

Events of Default

Each of the following events constitutes an Event of Default under the General Indenture:

(i) payment of the principal or Redemption Price of any of the Bonds (other than subordinated Bonds) shall not be made when the same shall become due and payable, either at maturity or by proceedings for redemption or otherwise; or

(ii) payment of any installment of interest on any Bonds shall not be made when the same shall become due and payable; or

(iii) the entry of a decree or order for relief by a court having jurisdiction in the premises in respect of the Agency in an involuntary case under the Federal bankruptcy laws, as now or hereafter constituted, or any other applicable Federal or State bankruptcy, insolvency or other similar law, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of the Agency or for any substantial part of its property, or ordering the winding-up or liquidation of its affairs and the continuance of any such decree or order unstayed and in effect for the period of 60 consecutive days; or

(iv) the commencement by the Agency of a voluntary case under the Federal bankruptcy laws, as now constituted or hereafter amended, or any other applicable Federal or State bankruptcy, insolvency or other similar law, or the consent by it to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator (or other similar official) of the Agency or for any substantial part of its property, or the making by it of any assignment for the benefit of creditors, or the taking of action by the Agency in furtherance of any of the foregoing; or

(v) the Agency defaults in the due and punctual performance of any other covenants or agreements contained in the Bonds or in the General Indenture and such default continues for 90 days after written notice requiring same to be remedied shall

have been given to the Agency by the Trustee, which may give such notice in its discretion and shall give such notice at the written request of the owners of not less than 25% in aggregate principal amount of the Bonds then Outstanding; provided, however, that so long as following such notice the Agency is diligently taking actions to remedy such default, such default shall not be an Event of Default.

Acceleration of Maturity

Upon the happening and continuance of any Event of Default, then and in every such case (*except* as may be limited in a Series Indenture with respect to covenants set forth in such Series Indenture), the Trustee may and, subject to the Trustee's right to indemnification, upon the written direction of the owners of not less than 51% in aggregate principal amount of Bonds then Outstanding, shall, by notice in writing to the Agency, declare the principal of all the Bonds then Outstanding (if not then due and payable) to be due and payable immediately; and upon such declaration the same shall become immediately due and payable, anything contained in the Bonds or in the General Indenture to the contrary notwithstanding. The Trustee may, and upon the written request of the owners of not less than 51% in aggregate principal amount of the Bonds not then due and payable by their terms and then Outstanding shall, by written notice to the Agency, rescind and annul such declaration and its consequences, but no such rescission or annulment shall extend to or affect any subsequent default or impair any right consequent thereon.

Enforcement of Remedies

Upon the happening and continuance of any Event of Default under the General Indenture, then and in every such case the Trustee may, and upon the written direction of the owners of not less than 25% in aggregate principal amount of the Bonds then Outstanding shall, proceed, subject to the right of the Trustee to indemnification, to protect and enforce its rights and the rights of the Bondowners under applicable laws or under the General Indenture for the specific performance of any covenant or agreement contained in the General Indenture or in aid or execution of any power granted in the General Indenture or for the enforcement of any proper legal or equitable remedy, as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights.

In the enforcement of any remedy under the General Indenture, the Trustee shall be entitled to sue for, enforce payment of and recover judgment for any and all amounts then or after any default becoming, and at any time remaining, due from the Agency for principal of the Bonds, premium, if any, on the Bonds, interest on the Bonds or otherwise and unpaid, with, to the extent permitted by the applicable law, interest on overdue payments of principal of the Bonds and of interest on the Bonds at the rate or rates of interest specified in the Bonds, together with any and all costs and expenses.

Regardless of the happening of an Event of Default, the Trustee may, and, subject to the right of indemnification, if requested in writing by the owners of not less than 25% in aggregate principal amount of the Bonds then Outstanding shall, institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient (i) to prevent any impairment of the Pledged Property by any acts which may be unlawful or in violation of the General Indenture

or of any resolution authorizing the Bonds or Series Indenture, or (ii) to preserve or protect the interest of the Bondowners, provided that such request is in accordance with law and the provisions of the General Indenture and, in the sole judgment of the Trustee, is not unduly prejudicial to the interests of the owners of the Bonds not making such request.

If a covenant is set forth in a Series Indenture, limitations on the remedies available upon an Event of Default related to such covenant may be set forth in said Series Indenture.

Pro Rata Application of Funds

Anything in the General Indenture to the contrary notwithstanding, any time the money in the Funds and Accounts maintained under the General Indenture shall not be sufficient to pay the principal of or interest on the Bonds as the same shall become due and payable (either by their terms or by acceleration of maturities under the General Indenture) such money, together with any money then available, or thereafter becoming available for such purpose, shall be applied, following the satisfaction of any payments due to the Trustee, as follows:

(i) If the principal on the Bonds shall not have become or shall not have been declared due and payable, all such money shall be applied:

FIRST: to the payment to the persons entitled thereto of all installments of interest on Bonds other than subordinated Bonds (*except* interest on overdue principal) then accrued and unpaid in the chronological order in which such installments of interest accrued and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment, ratably, according to the amounts due on such installment, to the persons entitled thereto as owners of Bonds other than subordinated Bonds, without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds other than subordinated Bonds;

SECOND: to the payment to the persons entitled thereto of the unpaid principal of any of the Bonds other than subordinated Bonds which shall have become due and payable (*except* Bonds other than subordinated Bonds called for redemption for the payment of which money is held pursuant to the provisions of the General Indenture) in the order of their stated payment dates, with interest on the principal amount of such Bonds other than subordinated Bonds at the respective rates specified therein from the respective dates upon which such Bonds other than subordinated Bonds became due and payable, and, if the amount available shall not be sufficient to pay in full the principal of the Bonds other than subordinated Bonds by their stated terms due and payable on any particular date, together with such interest, then to the payment first of such interest, ratably, according to the amount of such interest due on such date, with such payment being made to owners of Bonds other than subordinated Bonds, and then to the payment of such principal, ratably, according to the amount of such principal due on such date, to the persons entitled thereto as owners of Bonds other than subordinated Bonds, without any discrimination or preference except as to any

difference in the respective rates of interest specified in the Bonds other than subordinated Bonds;

THIRD: to the payment when due of the interest on and the principal of the Bonds other than subordinated Bonds, to the purchase and retirement of Bonds other than subordinated Bonds and to the redemption of the Bonds other than subordinated Bonds;

FOURTH: to the payment to the persons entitled thereto of interest on subordinated Bonds (except interest on overdue principal) then accrued and unpaid in the chronological order in which such installments of interest accrued and, if the amount available shall not be sufficient to pay in full any particular daily installment, then to the payment, ratably, according to the amounts due on such daily installment, to the persons entitled thereto as owners of subordinated Bonds, without any discrimination or preference except as to any difference in the respective rates of interest specified in the subordinated Bonds;

FIFTH: to the payment to the persons entitled thereto of the unpaid principal of any of the subordinated Bonds which shall have become due and payable (except subordinated Bonds called for redemption for the payment of which, money is held pursuant to the provisions of the General Indenture) in the order of their stated payment dates, with interest on the principal amount of such subordinated Bonds at the respective rates specified therein from the respective dates upon which such subordinated Bonds became due and payable, and, if the amount available shall not be sufficient to pay in full the principal of the subordinated Bonds by their stated terms due and payable on any particular date, together with such interest, then to the payment first of such interest, ratably, according to the amount of such interest due on such date, with such payment being made to owners of subordinated Bonds, and then to the payment of such principal, ratably, according to the amount of such principal due on such date, to the persons entitled thereto as owners of subordinated Bonds, without any discrimination or preference except as to any difference in the respective rates of interest specified in the subordinated Bonds; and

SIXTH: to the payment of the interest on and the principal of the subordinated Bonds, to the purchase and retirement of subordinated Bonds and to the redemption of subordinated Bonds.

(ii) If the principal of all the Bonds shall have become or shall have been declared due and payable, all such money shall be applied:

FIRST: to the payment of the principal and premium, if any, and interest then accrued and unpaid upon the Bonds which are not subordinated Bonds, without preference or priority of principal over interest or of interest over principal, or of any daily accrual of interest over any other daily accrual of interest, or of any Bond which is not a subordinated Bond over any other Bond which is not a subordinated Bond, ratably, according to the amounts due

respectively for principal and interest, to the persons entitled thereto without any discrimination or preference except as to the respective rates of interest specified in the Bonds which are not subordinated Bonds; and

SECOND: to the payment of the principal and premium, if any, and interest then accrued and unpaid upon the subordinated Bonds, without preference or priority of principal over interest or of interest over principal, or of any daily accrual of interest over any other daily accrual of interest, or of any subordinated Bond over any other subordinated Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference except as to the respective rates of interest specified in the subordinated Bonds.

(iii) If the principal of all the Bonds shall have been declared due and payable and if such declaration shall thereafter have been rescinded and annulled, then, subject to (ii) above in the event that the principal of all the Bonds shall later become or be declared due and payable, the money remaining in and thereafter accruing to the Debt Service Fund and the Debt Reserve Fund, together with any other money held by the Trustee under the General Indenture, shall be applied in accordance with the provisions of (i) above.

Restrictions Upon Actions by Individual Bondowner

No owner of any of the Bonds shall have any right to institute any suit, action or proceeding in equity or at law on any Bond or for the execution of any trust under the Indenture or for the enforcement of any remedy under the General Indenture unless such owner previously shall have given to the Trustee written notice of the Event of Default on account of which such suit, action or proceeding is to be instituted, and unless also the owners of not less than fifteen per centum (15%) in aggregate principal amount of the Bonds then Outstanding shall have made written request of the Trustee after the right to exercise such powers or right of action, as the case may be, shall have accrued, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted in the General Indenture or to institute such action, suit or proceeding in its or their name, and unless, also, there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time; and such notification, request and offer of indemnity are declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers and trusts of the General Indenture or to any other remedy under the General Indenture; *provided, however,* that notwithstanding the foregoing and without complying therewith, the owners of not less than 25% in aggregate principal amount of the Bonds then Outstanding may institute any such suit, action or proceeding in their own names for the benefit of all owners of Bonds.

Trustee Entitled to Indemnity

The Trustee shall be under no obligation to institute any suit, or to take any remedial proceeding under the General Indenture, or to enter any appearance or in any way defend in any

suit in which it may be named a defendant, or to take any steps in the execution of the trusts created by the General Indenture or in the enforcement of any rights and powers under the General Indenture, until it shall be indemnified to its satisfaction against any and all costs and expenses, outlays and counsel fees and other reasonable disbursements, and against all liability; the Trustee may, nevertheless, begin suit, or appear in and defend suit, or do anything else in its judgment proper to be done by it as such Trustee, without indemnity, and in such case the Agency shall reimburse the Trustee for all costs and expenses, outlays and counsel fees and other reasonable disbursements properly incurred in connection therewith.

Compensation and Indemnification of Trustee

Subject to the provisions of any contract between the Agency and the Trustee relating to the compensation of the Trustee, the Agency shall pay, from the Pledged Property, to the Trustee reasonable compensation for all services performed by it under the General Indenture and also all its reasonable expenses, charges and other disbursements and those of its attorneys, agents and employees incurred in and about the administration and execution of the trusts created by the General Indenture and the performance of its powers and duties under the General Indenture, and, from such source only, shall, if and to the extent permitted by law, indemnify and save the Trustee harmless against any liabilities which it may incur in the exercise and performance of its powers and duties under the General Indenture.

Resignation and Removal of Trustee

The Trustee may resign by notice in writing to be given to the Agency and mailed, first-class postage prepaid, to all registered owners of Bonds at their addresses as they appear on the registration books kept by the Bond Registrar(s), not less than 60 days before such resignation is to take effect, and such resignation shall take effect immediately upon the appointment of a new Trustee.

The Trustee may be removed upon 30 days' written notice (i) at any time by an instrument in writing executed by the owners of not less than a majority in principal amount of the Bonds then Outstanding or (ii) by the Agency in its sole and absolute discretion at any time except during the continuance of an Event of Default by filing with the Trustee notice of removal in the form of an Agency Request. The Trustee may also be removed at any time for reasonable cause by any court of competent jurisdiction upon the application of the Agency pursuant to resolution or of the owners of not less than 10% in principal amount of Bonds then Outstanding.

No resignation or removal of the Trustee or appointment of a successor Trustee shall become effective until the acceptance of appointment under the General Indenture by the successor Trustee.

Appointment of Successor Trustee

If the Trustee shall resign, be removed, be dissolved, or otherwise become incapable of acting under the General Indenture or if the position of Trustee becomes vacant for any other reason, then the Agency shall appoint a Trustee to fill such vacancy and shall cause notice of such appointment to be mailed, first-class postage prepaid, to all registered owners of Bonds at their addresses as they appear on the registration books kept by the Bond Registrar(s). At any

time within one year after any such vacancy shall have occurred the owners of a majority in principal amount of the Bonds Outstanding may appoint a successor Trustee by an instrument in writing filed with the Agency, which Trustee shall supersede any Trustee theretofore appointed by the Agency. If no appointment of a successor Trustee shall be made pursuant to the foregoing provisions within 10 days after the vacancy shall have occurred, the owner of any Bond Outstanding under the General Indenture or any retiring Trustee may apply to any court of competent jurisdiction to appoint a successor Trustee. Such court may thereupon, after such notice, if any, as such court may deem proper and prescribed, appoint a successor Trustee. Any successor Trustee must be a bank or trust company having a corporate trust office in the State, duly authorized to exercise corporate trust powers and subject to examination by Federal or State authority, of good standing, and having at the time of its appointment a combined capital and surplus of not less than \$50,000,000 as shown on its most recently published report of its financial condition.

Notwithstanding the foregoing, no successor Trustee shall be appointed without the prior written consent of The Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation (each a “GSE” and, together, the “GSEs”).

Supplemental Indentures

The Agency, without obtaining the consent of the owners of the Bonds, from time to time and at any time, may execute such indentures supplemental to the provisions of the General Indenture:

- (a) to make provisions to cure any ambiguity or correct, cure or supplement any defect or omission in the General Indenture or in regard to questions arising under the General Indenture which the Agency may deem desirable or necessary and not inconsistent with the General Indenture; or
- (b) to grant to or confer upon the Trustee for the benefit of the Bondowners any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Bondowners or the Trustee; or
- (c) to include as pledged revenues or money under, and subject to the provisions of, the General Indenture any additional revenues or money legally available therefor; or
- (d) to cure any ambiguity, to correct or supplement any provision of the General Indenture which may be inconsistent with any other provision thereof, or to make any other provisions with respect to matters or questions arising under the General Indenture which shall not be inconsistent with the provisions thereof, provided such action shall not adversely affect the interest of the Bondowners; or
- (e) to add to the covenants and agreements of the Agency in the General Indenture other covenants and agreements thereafter to be observed by the Agency or to surrender any right or power in the General Indenture reserved to or conferred upon the Agency; or

(f) to add provisions relating to coupon Bonds or Bonds issued with full book-entry delivery; or

(g) to modify any of the provisions of the General Indenture in any respect whatever; *provided, however*, that either (i) such modification shall apply only to Series of Bonds issued after the effective date of the Supplemental Indenture and shall not materially adversely affect the interests of the owners of Bonds of any Series Outstanding on the effective date of the Supplemental Indenture or (ii)(a) such modification shall be effective only after all Bonds then Outstanding shall cease to be Outstanding, and (b) such Supplemental Indenture shall be specifically referred to in the text of all Bonds authenticated and delivered after the execution of such Supplemental Indenture and of Bonds issued in exchange therefor or in place thereof; or

(h) to modify, amend or supplement the General Indenture in such manner as to permit, if presented, the qualification thereof under the Trust Indenture Act of 1939 or any similar Federal statute hereafter in effect or under any state Blue Sky Law; or

(i) to surrender any right, power or privilege reserved to or conferred upon the Agency by the terms of the General Indenture, provided that the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of the Agency contained in the General Indenture; or

(j) to add to the definition of Investment Obligations pursuant to the last proviso of the definition thereof; or

(k) to modify, amend or supplement the General Indenture in such manner as to permit a trustee (other than the Trustee) with respect to any subordinated Bonds issued under the General Indenture; or

(l) to modify, amend or supplement the General Indenture in order to maintain the tax-exempt status of any Bonds; or

(m) to make any other change that does not materially adversely affect the interest of the Bondowners (as to any change relating to security for the Bonds, evidence that such change, at the time of such change, will not, in and of itself, impair, or cause the Bonds to fail to retain, the then-existing rating(s) assigned to them by the Rating Agencies, shall constitute sufficient evidence that such change does not materially adversely affect the interest of the Bondowners).

Anything contained in the General Indenture to the contrary *notwithstanding*,

(i) the Owners of not less than fifty-one per centum (51%) in aggregate principal amount of the Bonds then Outstanding,

(ii) if less than all of the Bonds then Outstanding are affected, the Owners of greater than fifty per centum (50%) in principal amount of Bonds so affected then Outstanding, and

(iii) in case the terms of any Sinking Fund Requirements are changed, the Owners of greater than fifty per centum (50%) in principal amount of the Bonds of the particular Series and maturity entitled to such Sinking Fund Requirements and then Outstanding,

shall have the right, from time to time, to consent to and approve the execution by the Agency and the Trustee of such indenture or indentures supplemental to the General Indenture as shall be deemed necessary or desirable by the Agency for the purpose of modifying, altering, amending, adding to, repealing or rescinding, in any particular, any of the terms or provisions contained in the General Indenture; *provided, however,* no Supplemental Indenture shall permit, or be construed as permitting, any of the following without the consent of all of the adversely affected Bondowners: (a) a change in the terms of redemption or of the maturity of the principal of or the interest on any Bonds, or (b) a reduction in the principal amount of any Bond or the redemption premium or the rate of interest on any Bond, or (c) the creation of a lien upon or pledge of Revenues, or any part thereof, other than the lien and pledge created or permitted by the General Indenture, or (d) a preference or priority of any Bond or Bonds over any other Bond or Bonds, except as may be permitted by the applicable Series Indenture(s), or (e) a reduction in the aggregate principal amount or classes of the Bonds required for consent to such Supplemental Indenture. A Series shall be deemed to be affected by a modification or amendment of the General Indenture if the same adversely affects or diminishes the rights of the Owner of Bonds of such Series. The Trustee may in its discretion determine whether or not in accordance with the foregoing powers of amendment, Bonds of any particular Series and maturity would be affected by any modification or amendment of the General Indenture and any such determination shall be binding and conclusive on the Agency and all Owners of Bonds.

Upon the execution of any Supplemental Indenture pursuant to the provisions described above, the General Indenture shall be and be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the General Indenture of the Agency, the Trustee and all Bondowners shall thereafter be determined, exercised and enforced in all respects under the provisions of the General Indenture as so modified and amended.

Notice of any proposed Supplemental Indenture to be effective with consent of Bondowners will be mailed to all Bondowners, but any failure to mail such notice shall not affect the validity of such Supplemental Indenture when consented to as described above.

Notwithstanding the foregoing, the Agency may not amend, supplement, or modify the Indenture in any material respects without the prior written consent of the GSEs. The determination of the GSEs as to materiality shall be controlling.

Defeasance

If, when the Bonds secured by the General Indenture shall have become due and payable in accordance with their terms or otherwise as provided in the General Indenture, and all Bonds not described in the prior clause shall have been duly called for redemption or irrevocable instructions to call such Bonds for redemption shall have been given by the Agency to the Trustee, and the whole amount of the principal of, Redemption Price, and the interest on all of such Bonds shall be paid or the Trustee shall hold money or Government Obligations or shall

hold money and Government Obligations sufficient to pay the principal of, Redemption Price, and interest on all Outstanding Bonds or which when due will provide sufficient moneys to pay the principal of, Redemption Price, and the interest on such Bonds, and provisions shall also be made for paying all other sums payable under the General Indenture by the Agency, then and in that case, the right, title and interest of the Trustee under the General Indenture shall thereupon cease, terminate and become void, and the Trustee in such case, on demand of the Agency, shall release the General Indenture and shall release the security and shall execute such documents to evidence such release as may be reasonably required by the Agency, and shall turn over to the Agency or to such officer, board or body as may then be entitled to receive the same, all the remaining property held by the Trustee under the General Indenture.

Governing Law

The laws of the State shall govern the construction of the General Indenture.

GSEs as Third-Party Beneficiaries

To the fullest extent permitted by the General Indenture, each GSE is intended to be and shall be a third-party beneficiary of the General Indenture and shall have the right (but not the obligation) to enforce, separately or jointly with the Trustee or cause the Trustee to enforce, provisions of the Series Indenture authorizing the issuance of the Agency's 2009 Series A Bonds.

APPENDIX A

**FINANCIAL STATEMENTS OF THE AGENCY FOR
THE YEARS ENDED JUNE 30, 2010 AND 2009**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
California Housing Finance Agency
Sacramento, California

We have audited the accompanying combined balance sheets of 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, as of June 30, 2010 and 2009, and the related combined statements of revenue, expenses, and changes in fund equity, and of cash flows for the years then ended. The accompanying combined financial statements of the Fund are not intended to present the financial position or the results of the operations of the Agency. These combined financial statements are the responsibility of the management of the Agency. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such combined financial statements present fairly, in all material respects, the financial position of the Fund, as of June 30, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the combined financial statements, the Fund adopted Governmental Accounting Standards Board ("GASB") No. 53, *Accounting and Financial Reporting for Derivative Instruments*, as of July 2009.

The Management's Discussion and Analysis on pages 3 through 13 is not a required part of the combined financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Agency. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information, and we do not express an opinion on it.

Our audits were conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The supplemental combining program information as of and for the year ended June 30, 2010, on pages 47 through 67 is presented for the purpose of additional analysis and is not a required part of the combined 2010 financial statements of the Fund. The supplemental combining program information is the responsibility of the Agency's management. Such information has been subjected to the auditing procedures applied in our audits of the combined 2010 financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic 2010 financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2010, on our consideration of the Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Deloitte + Touche LLP

October 28, 2010

CALIFORNIA HOUSING FINANCE FUND
Management Discussion and Analysis
of Financial Position and Results of Operations
As of and for the fiscal years ended June 2010 and 2009

Introduction – The California Housing Finance Agency

The California Housing Finance Agency (“Agency”) was created in 1975 by an act of the California Legislature and commenced operations in 1976. The Agency is a component unit of the State of California (“State”) and is included in the State’s Comprehensive Annual Financial Report. The Agency is authorized to administer the activities of the California Housing Finance Fund (“Fund”), the California Housing Loan Insurance Fund (“Mortgage Insurance Fund”) and two state general obligation bond funds. The following Management Discussion and Analysis applies only to the activities of the California Housing Finance Fund and should be read in conjunction with the Fund’s combined financial statements and the notes to the combined financial statements. Operations of the Fund include the issuance of Agency bonds and notes to fund loans to qualified borrowers for single family houses and multifamily developments. The Agency is entirely self-funded and does not draw upon the general taxing authority of the State.

The combined financial statements present the totals of the Fund. The supplemental combining information of the Fund is organized by the following major categories: Homeownership Programs, Multifamily Rental Housing Programs, and Other Programs and Accounts. This information and information for specific programs and accounts is reported after the Notes to the combined financial statements.

The Homeownership Programs provide low cost mortgage capital to a network of approved lenders from whom the Agency purchases previously funded and closed loans secured by single family homes purchased by individual borrowers. The Multifamily Rental Housing Programs are typically used to directly fund loans to developers and housing sponsors for the construction or acquisition of multifamily rental housing developments. Interest rates on Agency loans are generally below market rate; however, the programs are operated to be self-supporting. The Agency issues its own bonds and uses other available monies to provide the funding for these loan programs. Interest paid to bondholders is generally exempt from both state and federal tax; however, the Agency also issues federally-taxable bonds.

The Other Programs and Accounts category includes the Agency’s Housing Assistance Trust, funded periodically from a portion of the Fund’s operating income before transfers. The Housing Assistance Trust provides a source of funding for low or very low income multifamily developments and other special purpose loans. Loans for these purposes generally would not produce sufficient revenues to support payments to bondholders. These loans typically accrue simple interest with repayment of principal and interest deferred for the term of the loan or until certain events occur, such as a sale of the property. Also included in this category are certain State-funded programs, which the Agency has been asked to administer for the State on a contract basis. Operating expenses of the Agency’s loan and bond programs are paid from an Operating Account that is replenished from the Fund’s operating income before transfers. Other accounts maintained by the Agency provide security for the issuance of bonds, emergency contingencies, loan servicing operations and loan warehousing activities.

Summary of Financial Results 2010-2009

- Operating loss before transfers was \$188.5 million for fiscal year 2010 compared to an operating loss of \$146.1 million for fiscal year 2009. The decrease is mostly due to the decline of the California real estate market, basis mismatch on variable rate bonds and the charges against income for the market value adjustment of unmatched swaps, early termination of interest rate swaps, gap claim payments and anticipated losses of the loan portfolio. The continued rise in loan delinquencies, increases in foreclosures and additional home price depreciation in California have contributed directly to increases in allowances for loans losses and gap reserves. In 2010, the allowance for loan loss reserve was increased by a net of \$4.7 million to \$117.2 million. There were \$16.4 million of losses which were recorded in 2010 on the sale of foreclosed properties (net of insurance payment). The remaining foreclosed properties were written down by \$26.5 million to reflect anticipated losses, net of insurance payment, upon sale of the foreclosed properties. During the year, the Agency placed a limit on the future obligations of the Agency’s general obligation capital in relation to the gap insurance reserve held in the Supplementary Bond Security Account (“SBSA”). The Fund established this reserve to cover anticipated indemnification payments to the California Housing Loan Insurance Fund for loans subject to “gap” insurance. The indemnification payments are for losses up to 50% of the outstanding principal balance of each loan for which either the primary mortgage insurance covers less than 50% of loan principal or primary mortgage insurance may not be required because the loan-to-value ratio was below 80% at origination or the borrower demonstrated equity of 20% or more in the property. Previously, the gap insurance loss reserves and gap claim payments were charged only to the SBSA, an account that is part of the Agency’s general obligation capital base, not the Home Mortgage Revenue Bonds (“HMRB”) Indenture. On March 25, 2010, the Agency established a cap of up to \$135 million on the Agency’s indemnification payments to the California Housing Loan Insurance Fund. Once the cap is reached in the SBSA account, the gap insurance loss reserves and gap claim payments will be charged to the HMRB indenture. As of June 30, 2010, a total of \$55.8 million in gap claim payments were paid from fiscal years 2008 through 2010. The gap insurance loss reserve at June 30, 2010 was \$118.8 million, of which \$78.6 million was charged to the Supplementary Bond Security Account and \$40.2 million was charged to the HMRB indenture.

- Home mortgage delinquencies and foreclosures have continued to rise nationally, especially for borrowers who took out subprime mortgages. Although the Agency does not make subprime loans, the overall delinquency ratio of the Agency's single family loan portfolio (Federal Guaranty: 30.7% and Conventional: 69.3%) was 17.1% or 4,706 loans as of June 30, 2010. By comparison, the delinquency ratio for the Agency's single family portfolio was 14% or 4,669 loans as of June 30, 2009. Overall, the total number of delinquent loans remained relatively the same. However, the increase in delinquency ratio can be attributed to the Agency's decision to pool 2,586 current Federal Housing Administration ("FHA") whole loans into Ginnie Mae ("GNMA") securities in March 2010. Subsequently, in April 2010, the Agency sold approximately \$255.7 million of the \$326.8 million in GNMA securities at a premium. The net premium on the sale of securities was \$10 million. The sale of the GNMA securities immediately created liquidity for the Agency which was largely used to retire debt.
- In addition to losses attributable to the California real estate market, the Agency incurred losses due to basis mismatch, which is the difference between actual interest rates paid to bondholders on floating rate securities (variable rate demand obligations and auction rate securities) and the variable rates received from swap counterparties on interest rate swaps that hedge the Agency's variable rate exposure. The mismatch is a result of higher interest rate resets on variable rate bonds, including rates resulting from failed auctions and rates paid to liquidity banks when bondholders put their variable rate demand obligations to the remarketing agents and other investors are unwilling to purchase the securities. In addition, a dysfunctional municipal bond market resulted in an unusually high Securities Industry and Financial Markets Association "SIFMA"/London Interbank Offered Rate "LIBOR" ratio and interest rate compression has continued this relationship. The basis mismatch for the period from July 1, 2009 to June 30, 2010 was \$18.4 million and is reflected in the income statements for Multifamily Rental Housing Programs and Other Programs and Accounts. By comparison, the basis mismatch for the period from July 1, 2008 to June 30, 2009 was \$37.9 million. The decrease is primarily a result of the Agency's participation in the Federal Government's HFA initiative program - Temporary Credit and Liquidity Program "TCLP" which provides replacement credit and facilities for existing variable rate debt for State and local Housing Finance Agencies. The program helps reduce the cost of maintaining existing HFA financing and will expire in December 2012. The Agency replaced all of its liquidity facilities (principal balance of \$3.49 billion) and eliminated the Agency's inventory of bank bonds.
- In July 2009, in response to rating agency requirements that the Agency have sufficient capital or liquidity available in the event of a two notch downgrade of the Agency's Issuer Credit Rating "ICR", the Agency terminated \$237.8 million of swap notional with Citigroup Financial Products and Merrill Lynch and paid \$39 million to terminate the swaps. Citigroup Financial Products was paid \$12 million for the termination of \$102.5 million of swap notional and Merrill was paid \$27 million for the termination of \$135.3 swap notional. At the same time, the Agency posted mortgage backed securities and cash in the amount of \$18 million to JP Morgan Chase Bank as upfront collateral, and transferred all of the Bear Sterns swap contracts to the JP Morgan Chase Bank International Swap Derivative Agreement. The Agency received higher collateral thresholds from each bank serving as swap counterparty in exchange for terminating swap notional or posting immediate collateral.
- The Agency had \$104.1 million in new loans receivable during fiscal year 2010. Overall, program loans receivable decreased by close to \$1.18 billion at fiscal year end. Decreases in program loans receivable for the homeownership loan portfolio were primarily due to the securitization of 2,586 FHA whole loans into GNMA Mae securities, increases in loan prepayments and decrease in new loans receivable from the previous year.
- During fiscal year 2010, the Agency issued \$1.4 billion of bonds. The bonds were issued as variable rate debt and all but \$1.4 million was placed into an escrow account as part of the Federal Government's HFA initiative program - New Issue Bond Program ("NIBP"). While held in the escrow account, the rate is variable and the bonds will convert to fixed rate debt upon release from escrow. Under NIBP, the Agency issued close to \$1.4 billion of Program Bonds with both a taxable and tax-exempt component under two new indentures, Residential Mortgage Revenue Bonds ("RMRB") and Affordable Multifamily Housing Revenue Bonds ("AMHRB"). Under the RMRB indenture, the Agency expects to use the proceeds of the bonds to purchase mortgage-back securities backed by underlying loans that have been originated by Agency lenders. The mortgage-backed securities will be guaranteed by Fannie Mae, Freddie Mac or GNMA. Under the AMHRB indenture, the Agency issued bonds to finance the purchase of GNMA Mae mortgage-back securities, the proceeds of which are used to finance the construction, acquisition or development of affordable rental housing developments.
- The Agency continued to actively manage the Fund's interest expense and exposures within the debt portfolio and redeemed \$607.2 million of bonds during fiscal year 2010.
- During fiscal year 2010, \$14.4 million was transferred into the Fund by the State pursuant to the Housing and Emergency Shelter Trust Fund Act of 2002 and Mental Health Services Act of 2004. The funds were used to make loans and grants to borrowers and homeowners through programs administered by the Agency on a contract basis.
- In April 2010, Moody's Investors Services downgraded the rating on the Agency's HMRB from Aa3 to A3 and remains on watch for possible downgrade. The downgrade reflects a combination of factors including the severe deterioration of the California housing market, significant increases in delinquencies and foreclosures of HMRB loans, the Agency's recent decision to limit CalHFA's indemnification of the California Housing Loan Insurance Fund, and changes in the credit profile of providers of private mortgage insurance.

- In April 2010, Standard and Poor's Ratings Services ("S&P") lowered its rating and underlying rating to A from AA- on the Agency's bonds issued under the HMRB indenture and the ratings remained on credit watch. The lowered ratings reflect S&P's opinion of a loan portfolio of moderate to high risk, the weak California housing market, and financial challenges facing the Agency resulting from the significant use of variable-rate debt and swaps. In May 2010, S&P affirmed its A rating and underlying rating on the bonds and removed the HMRB indenture from credit watch. The outlook was changed to negative.
- In April 2010, S&P lowered CalHFA's issuer credit rating to A from AA- and lowered the long-term rating and underlying rating on CalHFA's outstanding general obligation debt to A from AA- with outlook negative. The rating actions reflect S&P's opinion of the following factors: a significant decline in CalHFA's profitability and unrestricted fund balance due to large operating losses, the weak California housing market, financial challenges facing the Agency resulting from the significant use of variable-rate debt and swaps, and challenges in providing affordable housing financing in a low-interest rate environment. These factors are partially offset with S&P's opinion of the Agency's effectiveness in accomplishing its mission in a high-cost real estate market and seasoned and proactive financial management.
- In July 2010, Moody's placed the A1 issuer credit rating of the Agency under review for possible downgrade. The action is based on the potential effects of continuing high levels of delinquencies and foreclosures on single family mortgage loans, stresses related to the Agency's variable rate debt and interest rate swaps, short-term borrowing and other factors that may have negative effects on the Agency's capital resources, profitability and liquidity.
- In February 2010, the U.S. Treasury Department announced nearly \$700 million in federal funding under the Housing Finance Agency Hardest-Hit Fund Program ("HHF") to help California families hit hard by the economic and housing market downturn. The program objectives will include preserving homeownership for low and moderate income homeowners in California by reducing the number of delinquencies, preventing avoidable foreclosures and assisting in the stabilization of California communities. The Agency intends to participate in the program.

Condensed Financial Information:

Combined Balance Sheet

The following table presents condensed combined balance sheets for the Fund as of June 30, 2010 and 2009 and the change from the prior year (dollars in millions):

	<u>2010</u>	<u>2009</u>	<u>Change</u>
Assets			
Cash and investments	\$3,784	\$2,236	1,548
Program loans receivable-net	7,144	8,321	(1,177)
Other	635	204	431
Total Assets	<u>\$11,563</u>	<u>\$10,761</u>	<u>802</u>
Liabilities			
Bonds payable – net	\$8,906	\$8,244	662
Notes payable	94	0	94
Other	1,009	770	239
Total Liabilities	<u>\$10,009</u>	<u>\$9,014</u>	<u>995</u>
Fund Equity			
Invested in capital assets	\$1	\$1	
Restricted equity	1,553	1,746	(193)
Total Fund Equity	<u>\$1,554</u>	<u>\$1,747</u>	<u>(193)</u>
Total Liabilities and Fund Equity	<u>\$11,563</u>	<u>\$10,761</u>	<u>802</u>

Assets

Of the Fund's assets, 94.5% is represented by cash and investments and program loans receivable. The Fund does not have a significant investment in capital assets, holding less than \$0.9 million in furniture and equipment.

Total assets increased by \$802.1 million during fiscal year 2010. The Fund's cash and investments were \$3.78 billion as of June 30, 2010, an increase of \$1.55 billion from June 30, 2009. The cash and investments balance increase was primarily a result of the Agency's participation in NIBP during the fiscal year. Under this program, the Agency issued \$1.4 billion in new housing bonds to fund new mortgages and the bond proceeds are currently being invested in a global escrow investment comprised of four AAA rated money market funds.

Of the Fund's assets, 32.7% is in the form of cash and investments at fiscal year end. Of the Fund's investment balance, 14.7% is in investment agreements. The amount of funds invested in investment agreements during the 2010 fiscal year increased by \$69.8 million. In addition, \$1.69 billion of the Fund's investments are held in the State's Surplus Money Investment Fund "SMIF" and earn a variable rate of interest. The amount of funds invested in SMIF during fiscal year 2010 increased by \$48.8 million.

The composition of cash and investments as of June 30, 2010 and 2009 and the changes from the prior year are shown in the table below (dollars in millions):

Cash and Investments

	<u>2010</u>	<u>2009</u>	<u>Change</u>
Investment agreements	\$303	\$234	69
SMIF	1,687	1,638	49
Securities	282	245	37
Cash	1,512	119	1,393
Total Cash and Investments	<u>\$3,784</u>	<u>\$2,236</u>	<u>1,548</u>

Program loans receivable decreased by \$1.18 billion during fiscal year 2010 compared to fiscal year 2009. This decrease is primarily due to the large decrease in the number of new loans for the homeownership loan portfolio, the Agency's decision to pool of 2,586 current FHA loans into GNMA securities (\$326.8 million) along with an increase in loan prepayments in fiscal year 2010. Loan prepayments increased to \$441.8 million during fiscal year 2010 compared to \$176.4 million received in fiscal year 2009. Real estate owned ("REO") properties increased to \$200.6 million during fiscal year 2010 compared to \$95.7 million in fiscal year 2009.

For the fiscal year ended June 30, 2010, the Agency adopted Governmental Accounting Standards Board Statement ("GASB") No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB 53 requires the reporting of derivative instruments at fair value. The Agency's interest rate swaps, which were primarily used to hedge changes in cash flows, are considered to be derivative instruments under GASB 53. GASB 53 requires the fair value of a derivative to be reported as of the end of the fiscal year in the balance sheet. However, annual changes in the fair value of a hedging derivative instrument are required to be deferred – reported as deferred inflows and deferred outflows on the balance sheet. As of June 30, 2010 and June 30, 2009, the fair value of interest rate swaps were in the negative position of \$329.4 million and \$273.5 million, respectively. The cumulative effect from the adoption of GASB 53 and the annual change in fair value at June 30, 2010, have been recorded in the deferred outflow of resources account, derivative swap liability account and as an adjustment to beginning year fund equity balance. Since the Agency is not restating the prior year comparative financials, the beginning year fund equity balance has been adjusted by \$19.3 million to show the cumulative effect of GASB 53 for prior years. For interest rate swaps associated with or redesignated to another bond series, the Agency recorded an adjustment to beginning fund equity and established a borrowing payable for the same amount. The borrowing payable will be amortized over the remaining life of the interest rate swap.

Other Assets increased by \$431.5 million during fiscal year 2010 compared to fiscal year 2009. The increase is primarily due to the Agency's adoption of GASB 53, increase in the REO properties, and increase cash collateral held by swap counterparties.

Liabilities

The Fund's liabilities were \$10.01 billion as of June 30, 2010, an increase of \$1 billion from June 30, 2009. Of the Fund's liabilities, over 89% is in the form of bond indebtedness. The Fund's bonds payable at June 30, 2010 increased by \$662.2 million from the prior year as the \$1.4 billion in new issuances in 2010 were offset by scheduled principal payments and \$607.2 million in bond redemptions. The Agency's governing statutes impose a cap of \$13.15 billion for bonds and notes issued and outstanding within the Fund.

All of the bonds issued by the Agency are reported within the Fund. The Agency issued a total of \$1.4 billion of Agency bonds during fiscal year 2010, an increase from \$310.9 million issued during fiscal year 2009. During fiscal year 2010, the Agency issued only variable rate debt and all but \$1.4 million of bond proceeds were placed into an escrow account under NIBP. During the escrow period, the interest rate is variable. Upon release from escrow, the bonds will bear a rate of 3.49% plus a spread of 60-75 basis points. This rate was locked on December 18, 2009.

The Agency issues both tax-exempt and federally taxable bonds. During the 2010 fiscal year, federally taxable bonds increased by \$1.17 billion and as of June 30, 2010 represent 31.6% of all bonds outstanding, while tax-exempt bonds decreased by \$486.7 million and as of June 30, 2010 represent 68.4% of all bonds outstanding. The use of federally taxable bonds allows the Agency to leverage its allocation of the Private Activity Bond volume cap for the Homeownership Programs. This limitation is imposed by the federal government to regulate the issuance of tax-exempt bonds for private purposes. During fiscal year 2010, the Agency issued \$1.28 billion of taxable bonds.

Shown below are the amounts of variable and fixed rate indebtedness, by tax status, as of June 30, 2010 and 2009 and the changes from the prior year (dollars in millions):

	Bonds Payable		
	<u>2010</u>	<u>2009</u>	<u>Change</u>
Tax-Exempt Bonds			
*Variable Rate	\$3,568	\$3,887	(319)
Fixed Rate	2,518	2,686	(168)
Total Tax-Exempt Bonds	<u>\$6,086</u>	<u>\$6,573</u>	<u>(487)</u>
Federally Taxable Bonds			
*Variable Rate	\$2,371	\$1,167	1,204
Fixed Rate	438	469	(31)
Total Federally Taxable Bonds	<u>\$2,809</u>	<u>\$1,636</u>	<u>1,173</u>
Total Bonds Outstanding	<u>\$8,895</u>	<u>\$8,209</u>	<u>686</u>

* Certain variable rate bonds have been swapped to a fixed rate (see Note 7 to the Combined Financial Statements).

All other liabilities increased by \$309.5 million during fiscal year 2010. The increase was primarily due to the recording of the fair value of derivatives for GASB 53, increase to the gap insurance loss reserves, increase to the revolving line of credit payable and decrease to the Pooled Money Investment Account loan payable.

Equity

All of the Fund's equity is restricted pursuant to trust agreements with bondholders and the Agency's enabling legislation or invested in capital assets. Total equity of the Fund decreased by \$193.5 million primarily as a result of transfers to the Fund in the amount of \$14.4 million pursuant to the Mental Health Services Act of 2004 and Housing and Emergency Shelter Trust Fund Acts of 2002 and 2006 and was offset by operating losses of the Fund in the amount of \$188.5 million and the restatement of the Fund equity at the beginning of the year from \$1.75 billion to \$1.73 billion, which represents the cumulative effect on equity from the adoption of GASB 53 during fiscal year 2010.

Revenues, Expenses, and Changes in Fund Equity

The following table presents condensed combined statements of revenues, expenses, and changes in fund equity for the Fund for the fiscal years ended June 30, 2010 and June 30, 2009 and the changes from the prior year (dollars in millions):

Condensed Combined Statements of Revenues, Expenses, and Changes in Fund Equity

	<u>2010</u>	<u>2009</u>	<u>Change</u>
Operating Revenues:			
Interest income program loans – net	\$393	\$450	(57)
Interest income investments – net	40	66	(26)
Increase in fair value of investments	19	11	8
Other loan and commitment fees	29	16	13
Other revenues	49	107	(58)
Total Operating Revenues	<u>\$530</u>	<u>\$650</u>	<u>(120)</u>
Operating Expenses:			
Interest	\$318	\$427	(109)
Mortgage servicing fees	16	20	(4)
Operating expenses	93	40	53
Other expenses	291	309	(18)
Total Operating Expenses	<u>\$718</u>	<u>\$796</u>	<u>(78)</u>
Operating Income before transfers	<u>(188)</u>	<u>(146)</u>	<u>(42)</u>

Operating Revenues

Total operating revenues of the Fund were \$530 million during fiscal year 2010 compared to \$650.1 million during fiscal year 2009, a decrease of \$120.1 million or 18.5%.

Interest income on program loans was \$393 million during fiscal year 2010 compared to \$449.5 million during fiscal year 2009, a decrease of \$56.5 million. The decrease in interest income on program loans is primarily a result of a decrease in interest income on program loans and a net increase in the yield reduction liability for the Fund's homeownership and multifamily loan portfolios. Overall, program loans receivable decreased \$1.18 billion or 14.1% at June 30, 2010 compared to June 30, 2009.

Interest income from investments decreased 39.3% to \$40.2 million in fiscal year 2010 from \$66.3 million in fiscal year 2009. This decrease is due primarily to declining interest rates for SMIF.

Other loan and commitment fees increased \$12.8 million to \$29.1 million in fiscal year 2010 compared to \$16.3 million for fiscal year 2009. The increase was primarily due to the reinstatement of administrative fees in the HMRB indenture.

Other revenues decreased by \$58.2 million to \$48.8 million during fiscal year 2010 compared to \$106.9 million in fiscal year 2009. The decrease was primarily due to the implementation of GASB 53 and the result of not incurring a gain on termination of swaps in fiscal year 2010.

Operating Expenses

Total operating expenses of the Fund were \$718.6 million during fiscal year 2010 compared to \$796.2 million during fiscal year 2009, a decrease of \$77.6 million or 9.8%. The decrease is primarily due to the decrease in interest and swap expenses, decrease in loan write-off expenses, decrease in swap termination expenses offset by increases in administrative fees expense, liquidity provider fees expense and foreclosed properties expenses.

Bonds payable at June 30, 2010 increased by \$662.2 billion from June 30, 2009 and bond interest and swap expense, which represents 44.3% of the Fund's total operating expenses, decreased by \$109.3 million or 25.6% compared to fiscal year 2009. The decrease in bond interest and swap expense is attributed to the Agency's participation in the TCLP which provides replacement credit and facilities for existing variable rate debt for State and local Housing Finance Agencies.

Operating expenses increased from \$39.7 million during fiscal year 2009 to \$42.5 million during fiscal year 2010 (as shown in the condensed combined statements of revenues, expenses and changes in fund equity), resulting from an increase in general expenses offset by a slight decrease in staff salary expenses during fiscal year 2010.

Operating Income before Transfers

Operating loss before transfers for fiscal year 2010 was \$188.5 million compared to an operating loss of \$146.1 million for fiscal year 2009. The \$42.5 million decrease in operating income before transfers is reflective of the activities mentioned above.

Summary of Financial Results 2009– 2008

- Operating loss before transfers was \$146.1 million for fiscal year 2009 compared to an operating gain of \$9.8 million for fiscal year 2008. The decrease is mostly due to the decline of the California real estate market, basis mismatch on variable rate bonds and the charges against income for the market value adjustment of unmatched swaps, early termination of interest rate swaps, gap claim payments and anticipated losses of the loan portfolio. The continued rise in loan delinquencies, increases in foreclosures and additional home price depreciation in California have contributed directly to increases in allowances for loans losses and gap reserves. In 2009, the allowance for loan loss reserve was increased by a net of \$31.5 million to \$112.5 million. There were \$4.1 million of losses which were recorded in 2009 on the sale of foreclosed properties (net of insurance payment). The remaining foreclosed properties were written down by \$15.1 million to reflect anticipated losses, net of insurance payment, upon sale of the foreclosed properties. In addition, the Agency maintains its Emergency Reserve Account at approximately one percent of the net program loans receivable and has established a gap insurance loss reserve in the amount of \$80.1 million. The Fund established this reserve to cover anticipated indemnification payments to the California Housing Loan Insurance Fund for loans subject to “gap” insurance. The indemnification payments are for losses up to 50% of the outstanding principal balance of each loan for which either the primary mortgage insurance covers less than 50% of loan principal or primary mortgage insurance may not be required because the loan-to-value ratio was below 80% at origination or the borrower demonstrated equity of 20% or more in the property. The gap insurance loss reserves and gap claim payments are charged to the Supplementary Bond Security Account, an account that is part of the Agency’s general obligation capital base, not the Home Mortgage Revenue Bonds “HMRB” Indenture.
- Home mortgage delinquencies have been increasing nationally, especially for borrowers who took out subprime mortgages. Although the Agency does not make subprime loans, the overall delinquency ratio of the Agency’s single family loan portfolio (Federal Guaranty: 47.2% and Conventional: 52.8%) was 14% as of June 30, 2009. By comparison, the delinquency ratio for the Agency’s single family portfolio was 7% as of June 30, 2008.
- In addition to losses attributable to the California real estate market, the Agency incurred losses due to basis mismatch, which is the difference between actual interest rates paid to bondholders on floating rate securities (variable rate demand obligations and auction rate securities) and the variable rates received from swap counterparties on interest rate swaps that hedge the Agency’s variable rate exposure. The mismatch is a result of higher interest rate resets on variable rate bonds, including rates resulting from failed auctions and rates paid to liquidity banks when bondholders put their variable rate demand obligations to the remarketing agents and other investors are unwilling to purchase the securities. In addition, a dysfunctional municipal bond market resulted in an unusually high Securities Industry and Financial Markets Association “SIFMA”/London Interbank Offered Rate “LIBOR” ratio and interest rate compression has continued this relationship. The basis mismatch for the period from July 1, 2008 to June 30, 2009 was \$37.9 million and is reflected in the income statements for Multifamily Rental Housing Programs and Other Programs and Accounts. By comparison, the basis mismatch for the period from July 1, 2007 to June 30, 2008 was \$11.9 million.
- In response to Lehman Brothers’ bankruptcy filing, the Agency terminated all \$482.7 million of swap notional with Lehman Brothers and paid Lehman Brothers \$42.6 million to terminate the swaps. At the same time, the Agency elected to replace some of the Lehman Brothers swap contracts with counterparties that are more highly rated. The Agency received payments of \$28.9 million from the replacement counterparties. The net effect of the termination event resulting from the Lehman Brothers’ bankruptcy was an operating loss of \$13.7 million. In addition, GAAP requires the Agency to record the current market value of the unmatched portion or overhedged interest rate swap position as an adjustment to other expenses or other revenues, on the income statement. The swap expense (net current market value) for these overhedged positions as of June 30, 2009 was \$9.4 million.
- The Agency had \$496.4 million in new loans receivable during fiscal year 2009. Overall, program loans receivable decreased \$113.5 million to \$8.32 billion at fiscal year end. Decreases in program loans receivable for the homeownership loan portfolio were the result of the decline of the California real estate market and declining economic conditions.
- During fiscal year 2009, the Agency issued \$310.9 million of bonds. All but \$10.9 million was issued as fixed rate debt and the \$10.9 million of variable rate debt issued was synthetically swapped to fixed.
- The Agency continued to actively manage the Fund’s interest expense and exposures within the debt portfolio, redeeming, and in some cases refunding, \$564.7 million of bond indebtedness during fiscal year 2009.

- During fiscal year 2009, \$448.4 million was transferred into the Fund by the State pursuant to the Mental Health Services Act of 2004 and Housing and Emergency Shelter Trust Fund Acts of 2002 and 2006. The funds were used to make loans and grants to borrowers and homeowners through programs administered by the Agency on a contract basis.
- In July 2009, Moody's Investors Services downgraded the Agency's Home Mortgage Revenue Bonds "HMRB" from Aa2 to Aa3 with a negative outlook. The downgrade reflects the decline in the performance of the Agency's single family loan portfolio in the California real estate market, reduced credit quality of private mortgage insurance and ongoing risks related to the HMRB variable rate debt.
- In July 2009, Moody's Investors Services downgraded the Agency's issuer rating from Aa3 to A1 with a negative outlook. The downgrade is based upon the potential effects of increasing delinquencies and foreclosures in the Agency's single family mortgage portfolio, ongoing risks related the Agency's variable rate debt and uncertainty about future business activity given the status of tax exempt housing bond markets.

Condensed Financial Information:

Combined Balance Sheet

The following table presents condensed combined balance sheets for the Fund as of June 30, 2009 and 2008 and the change from the prior year (dollars in millions):

Condensed Combined Balance Sheets			
	<u>2009</u>	<u>2008</u>	<u>Change</u>
Assets			
Cash and investments	\$2,236	\$2,278	(42)
Program loans receivable-net	8,321	8,434	(113)
Other	204	156	48
Total Assets	<u>\$10,761</u>	<u>\$10,868</u>	<u>(107)</u>
Liabilities			
Bonds payable – net	\$8,244	\$8,618	(374)
Other	770	805	(35)
Total Liabilities	<u>\$9,014</u>	<u>\$9,423</u>	<u>(409)</u>
Fund Equity			
Invested in capital assets	\$1	\$1	
Restricted equity	1,746	1,444	302
Total Fund Equity	<u>\$1,747</u>	<u>\$1,445</u>	<u>302</u>
Total Liabilities and Fund Equity	<u>\$10,761</u>	<u>\$10,868</u>	<u>(107)</u>

Assets

Of the Fund's assets, 98.1% is represented by cash and investments and program loans receivable. The Fund does not have a significant investment in capital assets, holding less than \$0.7 million in furniture and equipment.

Total assets decreased by \$107.4 million during fiscal year 2009. The Fund's cash and investments were \$2.24 billion as of June 30, 2009, a decrease of \$42.1 million from June 30, 2008. The cash and investments balance remained relatively the same due to the decrease in bond activity during the fiscal year.

Of the Fund's assets, 20.8% is in the form of cash and investments at fiscal year end. Of the Fund's investment balance, 11.4% is in investment agreements. Consistent with the Agency's investment policy, bond proceeds are normally invested in investment agreements with highly rated providers of such instruments because the agreements provide a low level of counterparty risk, a fixed rate of return and complete liquidity. The amount of funds invested in investment agreements during the 2009 fiscal year decreased by \$251.0 million. In addition, over \$1.64 billion of the Fund's investments are held in the State's Surplus Money Investment Fund "SMIF" and earn a variable rate of interest. The amount of funds invested in SMIF during fiscal year 2009 increased by \$228.7 million.

The composition of cash and investments as of June 30, 2009 and 2008 and the changes from the prior year are shown in the table below (dollars in millions):

Cash and Investments

	<u>2009</u>	<u>2008</u>	<u>Change</u>
Investment agreements	\$234	\$485	(251)
SMIF	1,638	1,409	229
Securities	245	219	26
Cash	119	165	(46)
Total Cash and Investments	\$2,236	\$2,278	(42)

Program loans receivable decreased by \$113.5 million or 1.4% during fiscal year 2009 compared to fiscal year 2008. This decrease is due primarily to the decrease in the number of new loans for the homeownership loan portfolio. Within the Fund, the Agency had \$496.4 million of new loans during the fiscal year compared to almost \$1.43 billion in the previous year. Of the new loans during the fiscal year, \$379.6 million were single family first mortgages. Fewer borrowers refinanced their Agency loans resulting in a 5.0% decrease in loan prepayments to \$176.4 million during fiscal year 2009 compared to \$185.6 million received in fiscal year 2008. The Agency does not offer home refinance opportunities to its borrowers as the homeownership loan programs are restricted to first time homebuyers.

Liabilities

The Fund's liabilities were \$9.01 billion as of June 30, 2009, a decrease of \$409.8 million from June 30, 2008. Of the Fund's liabilities, over 91.5% is in the form of bond indebtedness. The Fund's bonds payable at June 30, 2009 decreased by \$373.3 million from the prior year as the \$310.9 million in new issuances in 2009 were offset by scheduled principal payments and \$564.7 million in bond redemptions. The Agency's governing statutes impose a cap of \$13.15 billion for bonds and notes issued and outstanding within the Fund.

All of the bonds issued by the Agency are reported within the Fund. The Agency issued a total of \$310.9 million of Agency bonds during fiscal year 2009, a decrease from the \$1.86 billion issued during fiscal year 2008. Of the bonds issued during fiscal year 2009, all but \$10.9 million were issued as fixed interest rate bonds, and the \$10.9 million of variable rate debt issued was swapped to provide synthetically fixed interest rates. As of June 30, 2009, the estimated "net" variable interest rate exposure of the Fund's total bond indebtedness was \$938 million. The estimated "net" variable interest rate exposure excludes all variable interest rate bonds swapped to fixed interest rates or directly backed by complementary variable interest rate assets. This "net" variable interest rate exposure provides an internal hedge against today's low interest rate environment evidenced by low short-term investment rates and increased loan prepayments. Interest costs on variable interest rate bonds that are swapped to a fixed interest rate have generally provided a lower total interest cost to the Fund than interest costs of traditional fixed interest rate products.

The Agency issues both tax-exempt and federally taxable bonds. During the 2009 fiscal year, federally taxable bonds decreased by \$216.1 million and as of June 30, 2009 represent 19.9% of all bonds outstanding, while tax-exempt bonds decreased by \$157.2 million and as of June 30, 2009 represent 80.1% of all bonds outstanding. The use of federally taxable bonds allows the Agency to leverage its allocation of the Private Activity Bond volume cap for the Homeownership Programs. This limitation is imposed by the federal government to regulate the issuance of tax-exempt bonds for private purposes. During fiscal year 2009, the Agency did not issue taxable bonds.

Shown below are the amounts of variable and fixed rate indebtedness, by tax status, as of June 30, 2009 and 2008 and the changes from the prior year (dollars in millions):

Bonds Payable

	<u>2009</u>	<u>2008</u>	<u>Change</u>
Tax-Exempt Bonds			
*Variable Rate	\$3,887	\$4,321	(434)
Fixed Rate	2,686	2,409	277
Total Tax-Exempt Bonds	<u>\$6,573</u>	<u>\$6,730</u>	<u>(157)</u>
Federally Taxable Bonds			
*Variable Rate	\$1,167	\$1,280	(113)
Fixed Rate	469	572	(103)
Total Federally Taxable Bonds	<u>\$1,636</u>	<u>\$1,852</u>	<u>(216)</u>
* * Total Bonds Outstanding	<u>\$8,209</u>	<u>\$8,582</u>	<u>(373)</u>

* Certain variable rate bonds have been swapped to a fixed rate (see Note 7 to the Combined Financial Statements).

* * The HUD debenture is not included (see Note 7 to the Combined Financial Statements).

Other liabilities decreased by \$35.8 million during fiscal year 2009. This decrease is due primarily to the decrease in the line of credit for the purchase of loans offset by the increase in gap insurance loss reserves.

Equity

All of the Fund's equity is restricted pursuant to trust agreements with bondholders and the Agency's enabling legislation or invested in capital assets. Total equity of the Fund grew by \$302.3 million primarily as a result of transfers to the Fund in the amount of \$448.4 million pursuant to the Mental Health Services Act of 2004 and Housing and Emergency Shelter Trust Fund Acts of 2002 and 2006 and was offset by operating losses of the Fund in the amount of \$146.1 million.

Revenues, Expenses, and Changes in Fund Equity

The following table presents condensed combined statements of revenues, expenses, and changes in fund equity for the Fund for the fiscal years ended June 30, 2009 and June 30, 2008 and the changes from the prior year (dollars in millions):

Condensed Combined Statements of Revenues, Expenses, and Changes in Fund Equity

	<u>2009</u>	<u>2008</u>	<u>Change</u>
Operating Revenues:			
Interest income program loans – net	\$450	\$400	\$50
Interest income investments – net	66	91	(25)
Increase in fair value of investments	11	(4)	15
Other loan and commitment fees	16	16	0
Other revenues	107	78	29
Total Operating Revenues	<u>\$650</u>	<u>\$581</u>	<u>\$69</u>
Operating Expenses:			
Interest	427	392	35
Mortgage servicing fees	20	19	1
Operating expenses	40	39	1
Other expenses	309	121	188
Total Operating Expenses	<u>\$796</u>	<u>\$571</u>	<u>\$225</u>
Operating Income before transfers	<u>(146)</u>	<u>10</u>	<u>(156)</u>

Operating Revenues

Total operating revenues of the Fund were \$650.1 million during fiscal year 2009 compared to \$581.1 million during fiscal year 2008, an increase of \$69.1 million or 11.9%.

Interest income on program loans was \$449.5 million during fiscal year 2009 compared to \$399.9 million during fiscal year 2008, an increase of \$49.6 million. The increase in interest income on program loans is primarily a result of a decrease in the yield reduction liability for the Fund's homeownership and multifamily loan portfolios which is offset against the interest income on program loans. Overall, program loans receivable decreased \$113.5 million or 1.4% at June 30, 2009 compared to June 30, 2008.

Interest income from investments decreased 26.9% to \$66.3 million in fiscal year 2009 from \$90.7 million in fiscal year 2008. This decrease is due primarily to declining interest rates and redirecting funds from investment agreements to SMIF.

Other loan and commitment fees remained the same at \$16.3 million for fiscal year 2009 when compared to fiscal year 2008.

Other revenues increased by \$28.3 million to \$106.9 million during fiscal year 2009 compared to \$78.6 million in fiscal year 2008, primarily due to the gain on termination of interest rate swaps in November 2008.

Operating Expenses

Total operating expenses of the Fund were \$796.2 million during fiscal year 2009 compared to \$571.3 million during fiscal year 2008, an increase of \$224.9 million or 39.4%. The increase is primarily due to the increase in gap insurance loss reserve expenses, gap claim payments expense, loan write-off expenses, foreclosed properties expenses, swap expense (fair value), and swap termination expenses.

Bonds payable at June 30, 2009 decreased by \$374.0 million from June 30, 2008 and bond interest and swap expense, which represents 53.7% of the Fund's total operating expenses, increased by \$34.7 million or 8.8% compared to fiscal year 2008. The increase in bond interest and swap expense is attributed to the overall drop in interest rates requiring higher swap payments to our counterparties.

Operating expenses increased from \$38.9 million during fiscal year 2008 to \$39.7 million during fiscal year 2009 (as shown in the condensed combined statements of revenues, expenses and changes in fund equity), resulting from slight increases in staff salary expenses and expenses to support our Agency programs.

Operating Income before Transfers

The overall operating results of the Fund for fiscal year 2009 are reflective of the activity in the operating revenues and expenses discussed above. Operating loss before transfers for fiscal year 2009 was \$146.1 million compared to an operating gain of \$9.8 million for fiscal year 2008. The \$155.8 million decrease in operating income before transfers is primarily due to increase in bond and swap related expenses, provision for estimated loan losses, gap insurance loss reserve expenses, and gap claim payment expenses.

**CALIFORNIA HOUSING FINANCE FUND
COMBINED BALANCE SHEETS
June 30, 2010 and June 30, 2009**

(Dollars in Thousands)

	2010	2009
	Combined	Combined
	<u>Totals</u>	<u>Totals</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,512,415	\$ 119,128
Investments	2,061,589	1,875,314
Current portion - program loans receivable, net of allowance	253,749	307,512
Interest receivable:		
Program loans, net	35,408	37,095
Investments	7,861	11,791
Accounts receivable	28,782	20,048
Other assets	34,001	651
Total current assets	<u>3,933,805</u>	<u>2,371,539</u>
Noncurrent assets:		
Investments	209,728	241,648
Program loans receivable, net of allowance	6,890,719	8,013,055
Deferred financing costs	34,156	38,343
Other assets and deferred outflow	494,593	96,475
Total noncurrent assets	<u>7,629,196</u>	<u>8,389,521</u>
Total assets	<u>\$ 11,563,001</u>	<u>\$ 10,761,060</u>
LIABILITIES AND FUND EQUITY		
Current liabilities:		
Current portion - bonds payable, net	\$ 158,969	\$ 136,370
Interest payable	123,211	163,574
Due to other government entities, net	97,748	255,219
Compensated absences	4,358	2,317
Deposits and other liabilities	393,464	298,899
Total current liabilities	<u>777,750</u>	<u>856,379</u>
Noncurrent liabilities:		
Bonds and debenture notes payable, net	8,840,703	8,107,250
Due to other government entities, net	19,388	19,431
Other liabilities and deferred inflow	342,016	-
Deferred revenues	29,161	30,532
Total noncurrent liabilities	<u>9,231,268</u>	<u>8,157,213</u>
Total liabilities	<u>10,009,018</u>	<u>9,013,592</u>
Commitments and contingencies (see notes 11 and 13)		
Fund equity:		
Invested in capital assets	866	806
Restricted by indenture	430,948	534,440
Restricted by statute	1,122,169	1,212,222
Total fund equity	<u>1,553,983</u>	<u>1,747,468</u>
Total liabilities and fund equity	<u>\$ 11,563,001</u>	<u>\$ 10,761,060</u>

See notes to combined financial statements.

CALIFORNIA HOUSING FINANCE FUND
COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY
June 30, 2010 and June 30, 2009
(Dollars in Thousands)

	2010 Combined <u>Totals</u>	2009 Combined <u>Totals</u>
OPERATING REVENUES		
Interest income:		
Program loans, net	\$ 392,990	\$ 449,486
Investments, net	40,222	66,314
Increase (decrease) in fair value of investments	18,894	11,033
Loan commitment fees	1,273	2,207
Other loan fees	27,845	14,130
Other revenues	48,797	106,950
Total operating revenues	<u>530,021</u>	<u>650,120</u>
OPERATING EXPENSES		
Interest	318,021	427,297
Amortization of bond premium and deferred losses on refundings of debt	(611)	(461)
Mortgage servicing expenses	16,477	19,573
Provision for program loan losses	51,533	57,221
Operating expenses	42,536	39,773
Other expenses	290,603	252,786
Total operating expenses	<u>718,559</u>	<u>796,189</u>
Operating income/(loss) before transfers	(188,538)	(146,069)
Transfers, interfund	14,350	448,433
Increase in fund equity	(174,188)	302,364
Fund equity at beginning of year, as originally stated	1,747,468	1,445,104
Cumulative effect of adoption of GASB 53	(19,297)	-
Fund equity at beginning of year, as restated	<u>1,728,171</u>	<u>1,445,104</u>
Fund equity at end of year	<u>\$ 1,553,983</u>	<u>\$ 1,747,468</u>

See notes to combined financial statements.

**CALIFORNIA HOUSING FINANCE FUND
COMBINED STATEMENTS OF CASH FLOWS
June 30, 2010 and June 30, 2009**

(Dollars in Thousands)

	2010 Combined Totals	2009 Combined Totals
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 394,676	\$ 453,574
Payments to suppliers	(34,690)	(34,031)
Payments to employees	(26,045)	(26,523)
Other receipts (payments)	578,408	(82,217)
Net cash provided by operating activities	<u>912,349</u>	<u>310,803</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Due to other government entities	<u>(157,471)</u>	<u>(97,387)</u>
Net cash used for noncapital financing activities	<u>(157,471)</u>	<u>(97,387)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from sales of bonds and notes payable	1,492,815	310,945
Payment of bond principal	(132,069)	(122,819)
Early bond redemptions	(607,195)	(564,753)
Interest paid on debt	(358,385)	(412,536)
Interfund transfers	14,350	448,433
Additions to deferred costs	(1,502)	(1,924)
Net cash provided by (used for) capital and related financing activities	<u>408,014</u>	<u>(342,654)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturity and sale of investments	33,289,823	3,834,619
Purchase of investments	(33,103,579)	(3,827,161)
Interest on investments, net	44,151	76,135
Net cash (used for) provided by investing activities	<u>230,395</u>	<u>83,593</u>
Net increase (decrease) in cash and cash equivalents	1,393,287	(45,645)
Cash and cash equivalents at beginning of year	119,128	164,773
Cash and cash equivalents at end of year	<u>\$ 1,512,415</u>	<u>\$ 119,128</u>
Reconciliation of operating income to net cash provided by (used in) operating activities:		
Operating (loss) income	\$ (188,538)	\$ (146,069)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Interest expense on debt	318,021	427,297
Interest on investments	(40,222)	(66,314)
Changes in fair value of investments	(18,894)	(11,033)
Accretion of capital appreciation bonds	3,110	3,335
Amortization of bond discount	64	62
Amortization of deferred losses on refundings of debt	1,024	509
Amortization of bond issuance costs	5,690	4,639
Amortization of bond premium	(1,700)	(1,237)
Amortization of deferred revenue	(1,273)	(2,207)
Depreciation	218	201
Provision for program loan losses	51,533	57,221
Provision for yield reduction payments	2,576	(13,540)
Provision for nonmortgage investment excess	(2,618)	(1,947)
Changes in certain assets and liabilities:		
Sale (Purchase) of program loans-net	(104,228)	(454,826)
Collection of principal from program loans, net	802,116	455,547
Interest receivable	1,687	4,087
Accounts receivable	(9,059)	(9,359)
Other assets and deferred outflow	(326,387)	(56)
Compensated absences	2,041	(158)
Deposits and other liabilities	94,565	65,134
Other liabilities and deferred inflow	322,623	(483)
Net cash provided by operating activities	<u>\$ 912,349</u>	<u>\$ 310,803</u>

See notes to combined financial statements.

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**CALIFORNIA HOUSING FINANCE FUND
NOTES TO COMBINED FINANCIAL STATEMENTS
Fiscal Years Ended June 30, 2010 and 2009**

Note 1 – AUTHORIZING LEGISLATION AND ORGANIZATION

The California Housing Finance Fund (“Fund”) is one of two continuously appropriated funds administered by the California Housing Finance Agency (“Agency”). The Agency was created by the Zenovich-Moscone-Chacon Housing and Home Finance Act (“Act”), as amended, as a public instrumentality, a political subdivision and a component unit of the State of California (“State”), and administers the activities of the Fund and the California Housing Loan Insurance Fund (“Mortgage Insurance Fund”). These funds allow the Agency to carry out its purpose of financing the housing needs of persons and families of low and moderate income within the State. The Agency is authorized to issue its bonds, notes and other obligations to fund loans to qualified borrowers for single family houses and multifamily developments. The Agency has no taxing power and is exempt from federal income taxes and state franchise taxes. Funding of loan programs on an on-going basis is derived principally from bond proceeds and interest earned on loans and investments.

The Agency may also provide administrative, consulting and technical services in connection with the financing of housing developments; act as a State representative in receiving and allocating federal housing subsidies; and make grants, under certain circumstances, to housing sponsors (providing that grants may not be made with proceeds from the sale of bonds or notes).

The Agency is the administrator of the Home Purchase Assistance Fund, established by Section 51341 of the Health and Safety Code *et seq.* which is a state general obligation bond program, the funds of which are neither generated nor held within the Fund, and therefore, not included in the accompanying combined financial statements.

The accompanying combined financial statements are the combined financial statements of the Fund and do not include the financial position or the results of operations of the Mortgage Insurance Fund which insures loans owned by the Agency and others to finance the acquisition, new construction or rehabilitation of residential structures in California. As of December 31, 2009, the Mortgage Insurance Fund had total assets of \$66,780,146 and equity of \$194,527, respectively (not covered by this Independent Auditors’ Report).

As a component unit of the State, the financial information of the Fund is included in the State’s Comprehensive Annual Financial Report.

Programs and accounts are as follows:

Home Mortgage Revenue Bonds: The Home Mortgage Revenue Bonds provide financing for the Agency’s Home Mortgage Program which purchases eligible mortgage loans, secured by trust deeds on newly constructed or existing single family homes, condominiums, planned unit developments and manufactured housing permanently attached to the land and originated and serviced by qualified lending institutions. All mortgage loans purchased under this program will be insured either by the FHA, the Mortgage Insurance Fund, the Department of Veterans Affairs (“VA”), a private mortgage guaranty insurance policy, or a combination thereof, covering a loss of up to fifty percent (50%), one hundred percent (100%) in the case of a FHA insured loan, of the outstanding principal amount of the mortgage loans.

Single Family Mortgage Bonds II: The Single Family Mortgage Bonds II, a parity indenture, provide financing for the Agency’s Home Mortgage Program which purchases eligible mortgage loans, secured by trust deeds on newly constructed or existing single family homes, condominiums, planned unit developments and manufactured housing permanently attached to the land and originated and serviced by qualified lending institutions. All mortgage loans purchased under this program will be insured either by the FHA, the Mortgage Insurance Fund, the VA or a private mortgage guaranty insurance policy covering a loss of up to fifty percent (50%), one hundred percent (100%) in the case of a FHA insured loan, of the outstanding principal amount of the mortgage loans.

Draw Down Bonds: The Draw Down Bonds are a low cost means for preserving tax exempt borrowing authority; they were issued in lieu of short term notes. The bonds are unrated and are issued in variable rate form and have monthly or weekly rate resets based on certain indices. The bonds are secured solely by their proceeds which are invested in investment agreements or the SMIF. These investments bear interest rates equal to or slightly in excess of the rates on the bonds.

Housing Program Bonds: The Housing Program Bonds Indenture was created to provide a vehicle for issuing debt to finance either multifamily or single family programs of the Agency. Bonds issued under this indenture are backed by the Agency’s general obligation. As of June 30, 2008, the Agency has three series of bonds issued and outstanding under this indenture. These bonds were issued to finance deferred payment, simple interest loans originated under certain of the Agency’s down payment assistance programs, as well as to finance certain multifamily loans.

Housing Mortgage Bonds: The Housing Mortgage Bonds are issued to enable the Agency to make or purchase Mortgage Loans and Mortgage Backed Securities secured by first liens on newly constructed or existing single family homes in California.

Residential Mortgage Revenue Bonds: The Residential Mortgage Revenue Bonds are issued by the Agency pursuant to a national initiative of the United States Treasury to assist state and local housing finance authorities by the Federal Program. The

Bonds, issued as escrow bonds pursuant to the Indenture, are to be converted to long-term fixed-rate bonds. The Treasury has agreed, through government-sponsored agencies, to purchase certain mortgage revenue bonds at rate lower than the prevailing market intended to reduce the costs of funds to issuers to the making or financing of mortgage loans.

Multifamily Loan Purchase Bonds: On July 26, 2000, the Agency purchased 278 Department of Housing and Urban Development (“HUD”) Section 236 loans with an aggregate unpaid principal balance of approximately \$270 million. The purpose of this transaction was to enhance the ability of the Agency to assist affordable housing sponsors to refinance their projects and extend the period during which the units are offered at affordable rents to very-low-income and lower-income tenants. The Agency expects to provide the financing for many of these transactions.

Multifamily Housing Revenue Bonds II: The Multifamily Housing Revenue Bonds II are fixed rate bonds collateralized by the GNMA mortgage-backed securities and/or FHA insured loans. The bonds were issued to provide financing for multi-unit rental housing developments which are utilized for occupancy by persons and families of low and moderate income. The loans may provide acquisition, construction (both for new construction and rehabilitation) and permanent financing for developments.

Multifamily Housing Revenue Bonds III: The Multifamily Housing Revenue Bonds III are fixed or variable rate bonds collateralized by GNMA mortgage-backed securities and/or FHA insured loans and/or uninsured loans. The bonds provide financing for multi-unit rental housing developments which are utilized for occupancy by persons and families of low and moderate income. The loans may provide acquisition, construction (both for new construction and rehabilitation), and permanent financing for developments.

Variable Rate Demand Limited Obligation Multifamily Housing Revenue Bonds (Mission Gardens Apartments Project): This Bond is issued pursuant and in compliance with the Zenovich Moscone Chacon Housing and Home Finance Act, consisting of Parts 1 through 4 of Division 31 of the California Health and Safety Code, and a resolution of the Issuer. The Bonds are special, limited obligations of the Issuer payable solely from and secured by the Trust Estate pledged therefore pursuant to the Indenture. The Bonds are issued to provide funds to finance a multifamily housing project located in the City of Santa Cruz, California, owned by Mission Gardens Affordable, L.P., a California limited partnership.

Variable Rate Demand Limited Obligation Multifamily Housing Revenue Bonds (Montecito Village Apartments Project): This Bond is issued pursuant and in compliance with the Zenovich Moscone Chacon Housing and Home Finance Act, consisting of Parts 1 through 4 of Division 31 of the California Health and Safety Code, and a resolution of the Issuer. The Bonds are special, limited obligations of the Issuer payable solely from and secured by the Trust Estate pledged therefore pursuant to the Indenture. The Bonds are issued to provide funds to finance a multifamily housing project located in the City of Ramona, California, owned by Montecito Village Affordable, L.P., a California limited partnership.

Variable Rate Demand Limited Obligation Multifamily Housing Revenue Bonds (Fairmont Apartments Project): The bonds are issued to finance a loan to the borrower for acquisition, rehabilitation and development of a 31-unit multifamily rental housing project located in the City of Oakland, California, and known as Fairmont Apartments.

Affordable Multifamily Housing Revenue Bonds: The Affordable Multifamily Housing Revenue Bonds are issued under the Indenture in connection with the New Issue Bond Program of the HFA Initiative pursuant to the Memorandum of Understanding dated October 19, 2009 among Treasury, the Federal Housing Finance Agency, Fannie Mae and Freddie Mac to facilitate financing for various state and local housing finance agencies to serve homebuyers and low and moderate income renter.

Housing Assistance Trust: The Housing Assistance Trust (“HAT”) is comprised of Agency investments in special purpose mortgage loans promoting both rental housing and homeownership, remaining investments in mortgage loans from fully redeemed bond indentures, and funds to assist in the development of single and multifamily projects through various low-interest loan and technical assistance programs. Also, included within HAT are the debenture note payable related to the claim filed under the FHA Risk Sharing Act discussed in note 7, as well as funds held in trust representing Earned Surplus and Financial Adjustment Factor (“FAF”) Savings from HUD Section 8 projects. Earned Surplus is to be used in lowering the rents for persons and families of low or moderate income in accordance with state law. FAF Savings are to be used in providing decent, safe, and sanitary housing, which is available for very-low income families and persons qualifying in accordance with federal law.

Contract Administration Programs: The Agency administers loan and grant programs for the Rental Housing Construction Program, the School Facilities Fee Assistance Program, the California Homebuyer’s Down payment Assistance Program, National Foreclosure Mitigation Counseling Program, Mental Health Services Act Housing Program, and programs offered pursuant to the Housing and Emergency Shelter Trust Fund Act of 2002 and 2006. Funding of these programs was appropriated by the legislature or provided by voter authorized State bond programs to other departments and agencies within the State that have contracted with the Agency for this purpose. All monies transferred in accordance with the agreements and for the purposes of the program are considered assets of the Fund. The Fund received transfers in the amount of \$14,350,055 during fiscal year 2010.

Supplementary Bond Security Account: This account was established exclusively to secure issuances of bonds. This security may be accomplished by creating supplementary reserve accounts to provide for payment of the principal, interest, redemption premiums or sinking fund payments on bonds, or by insuring mortgage loans made with the proceeds of bond issues or to indemnify the Mortgage Insurance Fund for losses.

Emergency Reserve Account: This account was established by the Agency to meet its obligations and liabilities incurred in connection with its housing loan programs. This reserve is maintained at approximately one percent (1%) of the aggregate amount of the Agency's net program loans receivable.

Loan Servicing: The Agency services nearly all multifamily program loans, a small portion of the homeownership program loans in first lien position, all junior or subordinate lien homeownership program loans and certain other loans for the California State Teachers Retirement System. Loan servicing agreements require that the Agency hold and maintain escrow and reserve accounts, on behalf of borrowers, that are reported as "Deposits and other Liabilities".

Loan Warehousing: The Agency borrowed \$90,000,000 from the State's Pooled Money Investment Account "PMIA" for short-term warehousing of Agency loans. Homeownership loans are typically warehoused as they are purchased from originating lenders and subsequently transferred to individual bond financings on a monthly basis. The borrowing, which is reapplied for and approved in six-month intervals, requires that interest be paid on the loan at a rate equal to the earnings rate on SMIF on the date of the new loan. In December 2008, the Pooled Money Investment Board "PMIB" advised that additional draws on PMIA short term credit line were frozen due to the state's strained cash position. As of June 30, 2010, the draw on PMIA still remains frozen.

The Agency also has a revolving credit agreement "RCA" with a financial institution to provide a line of credit for short-term borrowings of up to \$100,000,000, which may be increased up to \$150,000,000. Under the terms of the agreement the Agency elects a fixed or variable rate of interest dependent on the expected duration of the draw and determined on the date of the draw as a stated spread to an associated index. The line of credit is available to the Agency until February 28, 2011. The proceeds of this credit facility are to be used for working capital purposes, including warehousing of multifamily program loans or homeownership program loans and making counterparty payments for various financial contracts. At June 30, 2010 draws totaling \$88,571,845 were outstanding. Both PMIA and RCA credit lines are general obligations of the Agency and repayment is secured by the Agency's general reserves.

Citigroup Global Markets: The Loan Agreements were made and entered into by and between the Agency and Citibank, N.A., as lender, under the Zenovich-Moscone-Chacon Housing and Home Finance Act. Pursuant to the Loan Agreements, the proceeds of the Agency Loans will be used to retire certain indebtedness of the Agency including to refund and redeem all or a portion of certain Multifamily Rental Housing Bonds of the Agency that were originally issued to finance the Projects, and for other valid purposes of the Agency under the Act.

Operating Account: The Operating Account was established for purposes of depositing funds available to the Agency for payment of operating and administrative expenses of the Agency and financing expenditures not associated with specific bond funds.

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Accounting: The Fund is accounted for as an enterprise fund. Accordingly, the accompanying combined financial statements have been prepared using the accrual method of accounting and on the basis of accounting principles generally accepted in the United States of America (hereinafter referred to as "Generally Accepted Accounting Principles").

Accounting and Reporting Standards: The Agency follows the Standards of Governmental Accounting and Financial Reporting, as promulgated by GASB. The Agency has adopted the option under GASB No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Funds Accounting*, which allows the Agency to apply all GASB pronouncements and only Financial Accounting Standards Board ("FASB") pronouncements which date prior to November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Use of Estimates: The preparation of combined financial statements in conformity with Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates are used in determining the gap insurance loss reserve. Based on factors such as reported delinquency categories, claim frequency percentages, severity of loss percentages and level of mortgage insurance coverage, the Agency records the estimated gap insurance losses for the delinquent mortgage loan portfolio. Actual results could differ materially from those estimates.

Cash and Cash Equivalents: The Agency considers cash on hand, cash on deposit with financial institutions and cash held in money market funds to be cash and cash equivalents.

Investments: All investments are reported at fair value as determined by financial services providers or financial publications, except for certain non-participating fixed interest investment contracts which are valued using cost based measures. The net increase (decrease) in the fair value of investments includes both realized and unrealized gains and losses.

Interest Rate Swap Agreements: The Agency enters into interest rate swap agreements with swap counterparties to manage variable interest rate risk exposure resulting from the issuance of variable rate bonds. The interest rate swap agreements provide synthetic fixed rates of interest on the underlying bonds and are accounted for as matched swaps in accordance with settlement accounting. An interest rate swap is considered to be a matched swap if it is linked through designation with an asset or liability that is on the balance sheet, provided that it has the opposite interest characteristics of such balance sheet item. Under settlement accounting, periodic net cash settlements under the swap agreements are treated as an increase or decrease in interest expense of the related bond liability over the lives of the agreements. There is an accounting change in the recording of HMRB hedging activity in year ended June 30, 2009. Swap expenses, swap expenses (fair value), swap termination fees and the gain on termination of swaps previously recorded in Homeownership Programs have been reclassified and are now being recorded in Other Programs and Accounts. This change did not affect the Agency's total net equity although it has affected the overall presentation of operating results within the financial statement categories. While these swap contracts hedge floating rate bonds issued within the HMRB indenture, hedging expenses are a general obligation of the Agency that is often reimbursed with excess revenue transfers from the HMRB indenture. The interest rate swap agreements allow the Agency to manage the interest rate risk associated with variable rate debt. The Agency adopted GASB 53 in fiscal year 2010. GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments. The Agency has restated the beginning fund equity at July 1, 2009, reducing from \$1,747,467,790 to \$1,728,170,239 (see note 14). The adoption of GASB 53 decreased the Agency's financial position by \$39,369,584 as of June 30, 2010 and decreased results of operations by \$20,072,034 for the year ended June 30, 2010, (see note 7). Because it is impractical to do so, the Agency did not restate prior year comparative financial statements.

Program Loans Receivable, net: Loans receivables are carried at their outstanding principal balances, less an allowance for loan losses.

Allowance for Program Loan Losses: The Agency's policy is to charge expenses for estimated probable losses which are established as an allowance for loan losses. The allowance is an amount that management believes will be adequate to absorb losses inherent in existing loans based on evaluations of collectability and prior loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the portfolio, overall portfolio quality, loan concentrations, specific problem loans, delinquencies, and anticipated economic and other conditions that may affect the borrowers' ability to repay the loans. While management uses the best information available to evaluate the adequacy of its allowance, future adjustments to the allowance may be necessary if actual experience differs from the factors used in making the evaluations.

Other Real Estate Owned ("REO"): Property acquired by the Agency through foreclosure is recorded at the lower of estimated fair value less estimated selling costs (fair value) or the carrying value of the related loan at the date of foreclosure and is included in "Other Assets" on the accompanying combined financial statements. At the time the property is acquired, if the fair value is less than the loan amounts outstanding, any difference is charged against the allowance for loan losses. After acquisition, valuations are periodically performed and, if the carrying value of the property exceeds the current fair value, a valuation allowance is established by a charge to operations. Subsequent increases in the fair value may reduce or eliminate the allowance. Operating costs on foreclosed real estate are expensed as incurred. Costs incurred for physical improvements to foreclosed real estate are capitalized if the value is recoverable through future sale.

Bonds Payable, net: Bonds Payable, Debenture Notes Payable, and Notes Payable are carried at their outstanding principal balances, plus unamortized bond premiums, less unamortized bond discounts, unamortized underwriters discounts and deferred losses on refundings.

Bond Premium, Discount and Deferred Financing Costs: Premium, discount and financing costs on bonds are deferred and amortized over the life of the related bond issue using the straight line method of amortization.

Capital Appreciation Bonds: Capital appreciation bonds are payable upon redemption or at maturity in an amount equal to the initial principal amount of such bond plus an amount of interest which, based on semi-annual compounding from the original issuance date, will produce a given yield to the stated maturity. This "Accreted Value" is accrued as bond interest, thereby increasing the original issuance amount of the capital appreciation bond which is not paid until redemption or maturity.

Compensated Absences: Agency employees accrue vacation or annual leave in varying amounts for each monthly period worked. Employees may accumulate leave time, subject to certain limitations, and upon retirement, termination, or death may be compensated for certain accumulated amounts at their then current rates of pay. The Agency records an expense for all accumulated leave that the Agency would be required to pay if all employees terminated their employment.

Deferred Revenue: Deferred revenue represents the receipt of certain loan commitment fees and other fees from lenders and borrowers, which is generally recognized as revenue over the life of the associated loans. Also included in deferred revenue is the cumulative amount by which pass-through revenues exceed expenses and allowable costs of issuance of certain programs.

Fund Equity: Fund equity is classified as invested in capital assets or restricted equity. Invested in capital assets represents investments in office equipment and furniture net of depreciation. Restricted equity represents equity balances under the lien of bond indentures that are therefore pledged to bondholders. State statutes further restrict other net assets of the Fund solely for purposes of the Agency and provide for a continuing appropriation of such assets for the benefit of bondholders.

Extinguishment of Debt: The Agency accounts for gains and losses associated with debt refundings by deferring such gains or losses and recognizing them as revenues or expenses over the shorter of the term of the bonds extinguished or the term of the refunding bonds. Gains or losses associated with debt redemptions and maturing principal, other than refundings, are recognized as income or expense at the date of the extinguishment.

Operating Revenues and Expenses: The Fund's primary operating revenue is derived from the investment of bond proceeds in the loan programs and investment securities. The primary expense is interest expense on bonds outstanding. Net interest income is an important measure of performance for the Fund. "Interest income program loans" and "interest income investments-net" are shown as operating revenues in the statements of Revenue, Expenses and Changes in Fund Equity.

Other Operating Revenues and Expenses: The Agency administers certain Section 8 contracts under the HUD guidelines of New Construction and Substantial Rehabilitation. Included in most contracts is an administrative fee earned by the Agency which totaled \$1,692,400 and \$1,605,564 the years ended June 30, 2010 and 2009, respectively. The Agency also administers National Foreclosure Mitigation Counseling Program ("FMC"). The HUD/FMC pass-through payments aggregated \$79,851,397 and \$72,832,268 for the years ended June 30, 2010 and 2009, respectively, and are reported as other operating revenues and expenses within Other Programs and Accounts.

Note 3 – CASH, CASH EQUIVALENTS AND INVESTMENTS

The Fund utilizes a cash and investment pool maintained by the State Treasurer's office. Each program and account's portion of this pool is included in investments on the balance sheet. In addition, other types of investments are separately held by most of the programs and accounts.

Cash and Cash Equivalents: At June 30, 2010 and 2009, all cash and cash equivalents, totaling \$1,512,415,000 and \$119,128,000, respectively, were covered by federal depository insurance or by collateral held by the Agency's agent in the Agency's name.

Investments: Investment of funds is restricted by the Act and the various bond resolutions and indentures of the Agency, generally, to certain types of investment securities, including direct obligations of the U.S. Government and its agencies, the State Treasurer's Pooled Money Investment Account, long term investment agreements which are issued by institutions rated within the top two ratings of a nationally recognized rating service, and other financial instruments. The Fund's investments are categorized to give an indication of the level of risk assumed by the Agency at June 30, 2010. Category 1 includes investments that are insured or registered or for which the securities are held within the Fund by the Agency's agent in the Agency's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Agency's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agency but not in the Agency's name.

In connection with some of the cancellation of insurance on Home Mortgage Revenue Bonds, the Agency is required to post collateral on the swap associated with these bonds. As of June 30, 2010, the total cash and fair market value of investment securities posted as collateral was \$76,276,934.

Investments at June 30, 2010 and 2009 are as follows (dollars in thousands):

	Category			Fair Value June 30, 2010	Fair Value June 30, 2009
	1	2	3		
U.S. Agency Securities --- GNMA's	\$ 77,070			\$ 77,070	\$ 6,034
Federal Agency Securities	204,419			204,419	239,659
Investment Agreements --- Financial Institutions (at cost)		\$ 168,453		168,453	144,782
Total	<u>\$ 281,489</u>	<u>\$ 168,453</u>	<u>\$ -</u>		
Other Investments (not subject to categorization):					
Surplus Money Investment Fund --- State of California				1,686,471	1,637,710
Other Investment Agreements (at cost)				134,904	88,777
Total Investments				<u>\$ 2,271,317</u>	<u>\$ 2,116,962</u>
Current portion				2,061,589	1,875,314
Noncurrent portion				209,728	241,648
Total				<u>\$ 2,271,317</u>	<u>\$ 2,116,962</u>

Note 4 – INVESTMENT RISK FACTORS

Investments by type at June 30, 2010 and 2009 consist of the following (dollars in thousands):

	2010 Combined Totals	2009 Combined Totals
U.S. Agency Securities --- GNMA's	\$ 77,070	\$ 6,034
Federal Agency Securities	204,419	239,659
Investment Agreements --- Financial Institutions (at cost)	303,357	233,559
Surplus Money Investment Fund --- State of California	1,686,471	1,637,710
Total Investments	<u>\$ 2,271,317</u>	<u>\$ 2,116,962</u>

There are many factors that can affect the value of investments. Some, such as credit risk, custodial credit risk, and concentration of credit risk and interest rate risk, may affect both equity and fixed income securities. Equity and debt securities respond to such factors as economic conditions, individual company earnings performance and market liquidity, while fixed income securities are particularly sensitive to credit risks and changes in interest rates. It is the investment policy of the Agency to invest substantially all of its funds in fixed income securities, which limits the Agency's exposure to most types of risk.

Credit Risk: Fixed income securities are subject to credit risk, which is the chance that an issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. Certain fixed income securities, including obligations of the U.S. government or those explicitly guaranteed by the U.S. government are not considered to have credit risk.

The credit risk profile for fixed income securities at June 30, 2010 is as follows (dollars in thousands):

	2010 Combined Totals	2009 Combined Totals
Fixed income securities:		
U.S. government guaranteed	\$ 281,489	\$ 245,693
Guaranteed interest contracts:		
Rated Aaa/AAA	16,602	55,121
Rated Aaa/AA-	-	954
Rated Aaa/NR	24,822	-
Rated Aa3/A+	23,332	11,012
Rated Aa2/AA+	857	9,717
Rated Aa2/AA-	-	3,344
Rated Aa2/A+	122,057	84,126
Rated NR/AA+	15,935	-
Rated A3/A	512	3,140
Rated A1/AA-	95,621	63,294
Rated A1/A+	3,619	2,851
Total fixed income securities	<u>\$ 584,846</u>	<u>\$ 479,252</u>

Custodial Credit Risk: Custodial credit risk is the risk that in the event of the failure of the custodian, the investments may not be returned. At June 30, 2010, the Agency did not have any investments exposed to custodial credit. All investments are held by the State of California or a pledging financial institutions in the name of the Agency.

Concentration of Credit Risk: Concentration of credit risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers, thereby exposing the Agency to greater risks resulting from adverse economic, political, regulatory, geographic, or credit developments. Investments issued or guaranteed by the U.S. government and investments in external investment pools, such as the commingled funds managed by the Agency are not considered subject to concentration of credit risk. At June 30, 2010, no investments in any one issuer exceed 5% of the net assets, except for securities issued by the U.S. government or its agencies.

Interest Rate Risk: Interest rate risk is the risk that the value of fixed income securities will decline due to decreasing interest rates. The terms of a debt investment may cause its fair value to be highly sensitive to interest rate changes. At June 30, 2010, the Agency does not have any debt investments that are highly sensitive to changes in interest rates.

Effective duration is the approximate change in price of a security resulting from a 100 basis points (1 percentage point) change in the level of interest rates. It is not a measure of time. The effective duration for fixed income securities at June 30, is as follows:

	2010	2009
Fixed income securities:		
U.S. government guaranteed	15.72	11.71
Commercial Paper	N/A	N/A

Note 5 – PROGRAM LOANS RECEIVABLE

Changes in program loans receivable for the years ended June 30, 2010 and 2009 are as follows (dollars in thousands):

	2010	2009
	Combined	Combined
	Totals	Totals
Beginning of year balance	\$ 8,532,033	\$ 8,557,404
Loans purchased/funded	104,070	496,376
Amortized principal repayments	(243,720)	(319,718)
Prepayments	(558,396)	(176,350)
Chargeoffs	(46,838)	(25,679)
Subtotal	<u>7,787,149</u>	<u>8,532,033</u>
Unamortized Mortgage Discount	(3,148)	(3,307)
Transfer to mortgage-backed securities	(321,705)	-
Transfer to REO-net	(200,641)	(95,669)
Allowance for loan loss	(117,186)	(112,491)
End of year balance	<u>\$ 7,144,469</u>	<u>\$ 8,320,566</u>
Current portion	\$ 253,749	\$ 307,511
Noncurrent portion	6,890,720	8,013,055
Total	<u>\$ 7,144,469</u>	<u>\$ 8,320,566</u>

Note 6 – ALLOWANCE FOR PROGRAM LOAN LOSSES

Changes in the allowance for program loan losses for the year ended June 30, 2010 and 2009 are as follows (dollars in thousands):

	2010	2009
	Combined	Combined
	Totals	Totals
Beginning of year balance	\$ 112,491	\$ 80,948
Provisions for program loan losses	51,533	57,221
Chargeoffs	(46,838)	(25,678)
End of year balance	<u>\$ 117,186</u>	<u>\$ 112,491</u>

Note 7 – BONDS, DEBENTURE NOTES, AND NOTES PAYABLE AND ASSOCIATED INTEREST RATE SWAPS

The Act empowers the Agency, on behalf of the Fund, to issue both federally taxable and tax exempt bonds and notes. Bonds and notes issued by the Agency are not debts of the State but are special and general obligations of the Agency payable solely from and collateralized by the revenues and other assets pledged under the respective indentures. The Act provides the Agency with the authority to have outstanding bonds or notes, at any one time, in the aggregate principal amount of \$13.15 billion excluding refunding issues and certain taxable securities.

The Agency, on behalf of the Fund, as part of its interest rate risk management program, has entered into interest rate swap agreements with various counterparties wherein the Agency has agreed to pay fixed or variable rates of interest and receive floating rate payments.

Bonds payable and the terms and outstanding notional amounts and fair value of associated interest rate swaps as of June 30, 2010 are as follows (dollars in thousands):

<u>Bond Issue</u>	<u>Type of Bond</u>	<u>Interest Rate Range</u>		<u>Bonds</u>			<u>Total</u>
				<u>Final Maturity Date</u>	<u>Outstanding Fixed</u>	<u>Outstanding Variable</u>	
Home Mortgage Revenue Bonds:							
1982 Series A	Tax-Exempt			2014	\$ 1,325		\$ 1,325
1982 Series B	Tax-Exempt			2014	415		415
1983 Series A	Tax-Exempt			2015	15,406		15,406
1983 Series B	Tax-Exempt			2015	3,066		3,066
1984 Series B	Tax-Exempt			2016	443		443
1985 Series A	Tax-Exempt			2016	767		767
1985 Series B	Tax-Exempt			2017	3,475		3,475
1997 Series O	Tax-Exempt			2027	3,875		3,875
1998 Series F	Tax-Exempt	4.700%	-	5.000%	2016	8,110	8,110
1998 Series J	Tax-Exempt			2027	480		480
1998 Series M	Taxable			2023		\$ 9,175	9,175
1999 Series F	Tax-Exempt			2028	3,429		3,429
1999 Series G	Taxable			2011	5,090		5,090
1999 Series N	Tax-Exempt	5.100%	-	5.300%	2031	13,540	13,540
1999 Series O	Taxable			2012		8,830	8,830
2000 Series B	Tax-Exempt			2019	2,119		2,119
2000 Series D	Taxable			2023		26,060	26,060
2000 Series H	Taxable			2017		9,885	9,885
2000 Series H	Taxable			2017		17,075	17,075
2000 Series J	Tax-Exempt			2031		15,800	15,800
2000 Series K	Taxable						
2000 Series N	Tax-Exempt			2031		28,190	28,190
2000 Series V	Taxable			2032		46,350	46,350
2000 Series X-2	Tax-Exempt			2031		23,190	23,190
2000 Series Z	Taxable			2031		37,200	37,200
2000 Series Z	Taxable			2031		3,715	3,715
2001 Series D	Taxable			2022		62,485	62,485
2001 Series G	Taxable			2029		51,310	51,310
2001 Series J	Tax-Exempt			2032		41,170	41,170
2001 Series K	Taxable			2032		59,895	59,895
2001 Series N	Tax-Exempt						
2001 Series O	Taxable			2032		65,535	65,535
2001 Series S	Taxable			2023		44,895	44,895

Swaps

<u>Type</u>	Fixed Rate Paid By Agency	Floating Rate Received By Agency	Effective Date	Termination Date	Outstanding Notional/Applicable Amount	Fair Value
Fixed payer	6.6550%	LIBOR	12/9/99	8/1/12	\$ 5,335	\$ (320)
Fixed payer	7.1950%	LIBOR	1/27/00	2/1/13	6,965	(461)
Fixed payer	7.2600%	LIBOR @ 65%	4/6/00	8/1/10	310	(2)
Fixed payer	4.9000%	LIBOR @ 65%	5/25/00	8/1/30	23,545	(5,036)
Fixed payer	5.1600%	LIBOR @ 65%	5/25/00	8/1/22	29,915	(125)
Fixed payer	7.0960%	6 mo LIBOR	10/5/00	8/1/14	25,860	(2,675)
Fixed payer	4.5100%	LIBOR @ 65%	12/13/00	8/1/31	28,165	(5,187)
Fixed payer	6.8430%	3 mo LIBOR	12/13/00	8/1/16	28,965	(3,915)
Fixed payer	6.2150%	3 mo LIBOR+.26%	1/25/01	8/1/19	46,315	(6,595)
Fixed payer	6.0100%	3 mo LIBOR+.20%	4/5/01	2/1/16	25,825	(3,037)
Fixed payer	4.1430%	LIBOR @ 65%	5/31/01	8/1/24	39,670	(4,504)
Fixed payer	3.9910%	LIBOR @ 65%	7/26/01	8/1/18	10,780	(925)
Fixed payer	6.3600%	3 mo LIBOR+.27%	7/26/01	8/1/20	50,250	(7,766)
Fixed payer	5.5300%	3 mo LIBOR+.31%	10/10/01	8/1/18	33,540	(3,549)

Bonds

<u>Bond Issue</u>	<u>Type of Bond</u>	<u>Interest Rate Range</u>	<u>Final Maturity Date</u>	<u>Outstanding Fixed</u>	<u>Outstanding Variable</u>	<u>Total</u>
2001 Series U	Tax-Exempt	0.250%	2032		49,610	49,610
2001 Series V	Taxable	0.430%	2031		16,345	16,345
2002 Series B	Tax-Exempt	0.250%	2033		39,170	39,170
2002 Series C	Taxable	0.550%	2033		36,760	36,760
2002 Series D	Taxable	0.470%	2030		33,350	33,350
2002 Series F	Tax-Exempt					
2002 Series H	Taxable	0.550%	2022		23,935	23,935
2002 Series J	Tax-Exempt	0.250%	2033		76,425	76,425
2002 Series L	Taxable	0.550%	2024		24,710	24,710
2002 Series M	Tax-Exempt	0.250%	2032		41,600	41,600
2002 Series M	Tax-Exempt	0.250%	2032		2,450	2,450
2002 Series M	Tax-Exempt	0.250%	2033		30,105	30,105
2002 Series O	Taxable	0.520%	2033		23,550	23,550
2002 Series P	Tax-Exempt					
2002 Series Q	Tax-Exempt	0.250%	2033		12,975	12,975
2002 Series U	Tax-Exempt	0.250%	2032		34,360	34,360
2002 Series U	Tax-Exempt	0.250%	2031		34,800	34,800
2002 Series U	Tax-Exempt	0.250%	2031		34,800	34,800
2003 Series D	Tax-Exempt	0.240%	2033		46,710	46,710
2003 Series D	Tax-Exempt	0.250%	2022		35,640	35,640
2003 Series F	Tax-Exempt	0.250%	2022		44,210	44,210
2003 Series F	Tax-Exempt	0.250%	2034		75,770	75,770
2003 Series G	Taxable	0.450%	2034		19,295	19,295
2003 Series H	Tax-Exempt	0.250%	2032		48,610	48,610
2003 Series H	Tax-Exempt	0.250%	2033		53,500	53,500
2003 Series I	Taxable	0.480%	2033		34,360	34,360
2003 Series K	Tax-Exempt	0.250%	2033		61,400	61,400
2003 Series K	Tax-Exempt	0.250%	2034		42,310	42,310
2003 Series L	Taxable	0.480%	2034		32,420	32,420
2003 Series M	Tax-Exempt	0.250%	2024		47,790	47,790
2003 Series M	Tax-Exempt	0.250%	2034		74,740	74,740
2003 Series N	Taxable	0.510%	2034		37,060	37,060
2004 Series A	Tax-Exempt	0.250%	2033		35,545	35,545
2004 Series A	Tax-Exempt	0.250%	2034		33,560	33,560
2004 Series B	Taxable	0.470%	2034		4,235	4,235
2004 Series E	Tax-Exempt	0.280%	2035		50,690	50,690
2004 Series E	Tax-Exempt	0.280%	2035		67,860	67,860
2004 Series F	Taxable	0.490%	2035		46,690	46,690
2004 Series G	Tax-Exempt	0.250%	2034		57,995	57,995
2004 Series G	Tax-Exempt	0.250%	2035		22,285	22,285
2004 Series H	Taxable	0.530%	2035		6,935	6,935
2004 Series I	Tax-Exempt					
2004 Series I	Tax-Exempt					
2005 Series A	Tax-Exempt	0.250%	2035		140,590	140,590
2005 Series B	Tax-Exempt	0.250%	2016		37,640	37,640
2005 Series B	Tax-Exempt	0.250%	2035		95,220	95,220
2005 Series B	Tax-Exempt	0.250%	2035		9,260	9,260
2005 Series B	Tax-Exempt	0.250%	2035		4,100	4,100
2005 Series C	Tax-Exempt	3.350% - 3.700%	2013	19,575		19,575
2005 Series D	Tax-Exempt	0.250%	2038		63,590	63,590
2005 Series D	Tax-Exempt	0.250%	2040		105,375	105,375
2005 Series E	Tax-Exempt	3.250% - 3.350%	2011	3,980		3,980
2005 Series F	Tax-Exempt	0.250%	2037		70,715	70,715
2005 Series F	Tax-Exempt	0.250%	2038		86,685	86,685
2005 Series F	Tax-Exempt	0.250%	2040		16,170	16,170
2005 Series G	Tax-Exempt					

Swaps

<u>Type</u>	<u>Fixed Rate Paid By Agency</u>	<u>Floating Rate Received By Agency</u>	<u>Effective Date</u>	<u>Termination Date</u>	<u>Outstanding Notional/Applicable Amount</u>	<u>Fair Value</u>
Fixed payer	4.1300%	SIFMA less .15%	12/6/01	8/1/32	51,040	(5,714)
Fixed payer	3.8880%	LIBOR @ 65%	4/18/02	8/1/27	38,780	(5,891)
Fixed payer	5.6000%	3 mo LIBOR+.25%	5/1/02	8/1/12	17,220	(649)
Fixed payer	5.8000%	3 mo LIBOR+.17%	8/1/02	2/1/11	8,310	(113)
Fixed payer	3.9940%	LIBOR @ 65%	6/6/02	2/1/24	45,070	(5,391)
Fixed payer	5.5350%	3 mo LIBOR+.25%	11/1/02	2/1/13	7,325	(309)
Fixed payer	3.8630%	LIBOR @ 65%	8/8/02	8/1/32	75,950	(8,346)
Fixed payer	5.1000%	3 mo LIBOR+.25%	12/1/02	2/1/13	12,990	(491)
Fixed payer	3.7280%	LIBOR @ 65%	10/17/02	8/1/22	41,600	(5,448)
Fixed payer	3.9890%	3 mo LIBOR+.22%	2/3/03	2/1/12	9,335	(197)
Fixed payer	3.1480%	LIBOR @ 65%	12/12/02	8/1/22	53,670	(4,858)
Fixed payer	3.8200%	LIBOR @ 65%	2/1/06	8/1/32	13,310	(1,073)
Fixed payer	3.9100%	LIBOR @ 60%+.26%	3/6/03	2/1/31	5,665	(264)
Fixed payer	3.2400%	LIBOR @ 60%+.26%	3/6/03	2/1/31	33,135	(1,307)
Fixed payer	3.7750%	LIBOR @ 60%+.26%	4/10/03	8/1/33	40,315	(1,552)
Fixed payer	3.1300%	LIBOR @ 60%+.26%	4/10/03	8/1/19	35,725	(1,141)
Fixed payer	3.1250%	LIBOR @ 60%+.26%	3/26/03	2/1/18	44,680	(1,452)
Fixed payer	3.7000%	LIBOR @ 60%+.26%	3/26/03	2/1/34	71,265	(2,811)
Fixed payer	2.6750%	LIBOR @ 60%+.26%	8/7/03	8/1/30	47,860	(1,622)
Fixed payer	3.4270%	LIBOR @ 60%+.26%	8/7/03	8/1/33	9,100	(23)
Fixed payer	3.2700%	LIBOR @ 60%+.26%	8/1/04	2/1/18	58,455	(3,235)
Fixed payer	4.2450%	LIBOR @ 60%+.26%	8/1/04	8/1/30	13,120	(43)
Fixed payer	3.2250%	LIBOR @ 60%+.26%	2/2/04	8/1/19	48,270	(2,368)
Fixed payer	3.8900%	LIBOR @ 60%+.26%	2/4/04	8/1/34	49,340	(2,868)
Fixed payer	3.0875%	LIBOR @ 60%+.26%	8/1/04	8/1/30	33,725	(2,280)
Fixed payer	4.0450%	LIBOR @ 60%+.26%	8/1/04	2/1/34	3,080	(103)
Fixed payer	3.5400%	LIBOR @ 60%+.26%	4/1/05	8/1/20	51,755	(3,444)
Fixed payer	4.1330%	LIBOR @ 60%+.26%	4/1/05	2/1/35	54,625	(4,798)
Fixed payer	3.6100%	LIBOR @ 60%+.26%	2/1/05	2/1/34	56,195	(6,007)
Fixed payer	4.0821%	LIBOR @ 60%+.26%	8/1/04	2/1/35	17,510	(369)
Fixed payer	3.5600%	LIBOR @ 60%+.26%	8/4/04	2/1/33	17,065	(1,834)
Fixed payer	4.0750%	LIBOR @ 60%+.26%	8/4/04	2/1/35	5,305	(83)
Fixed payer	3.8040%	LIBOR @ 60%+.26%	4/5/05	8/1/35	140,590	(20,234)
Fixed payer	3.0490%	LIBOR @ 60%+.26%	7/1/05	2/1/16	37,830	(1,885)
Fixed payer	3.7260%	LIBOR @ 60%+.26%	7/1/05	2/1/35	39,645	(1,822)
Fixed payer	3.1580%	LIBOR @ 60%+.26%	5/19/05	2/1/36	55,565	(4,269)
Fixed payer	3.6040%	LIBOR @ 60%+.26%	5/19/05	2/1/40	56,895	(550)
Fixed payer	3.2200%	LIBOR @ 60%+.26%	7/28/05	8/1/31	65,915	(915)
Fixed payer	3.3860%	LIBOR @ 60%+.26%	7/28/05	2/1/38	86,685	(4,407)
Fixed payer	4.4540%	97% SIFMA & HR	12/15/05	2/1/34	19,060	(443)

Bonds

<u>Bond Issue</u>	<u>Type of Bond</u>	<u>Interest Rate Range</u>		<u>Final Maturity Date</u>	<u>Outstanding Fixed</u>	<u>Outstanding Variable</u>	<u>Total</u>
2005 Series G	Tax-Exempt						
2005 Series H	Tax-Exempt		0.250%	2036		82,680	82,680
2005 Series H	Tax-Exempt		0.250%	2036		70,230	70,230
2006 Series A	Tax-Exempt						
2006 Series B	Tax-Exempt	3.800%	- 4.000%	2013	15,730		15,730
2006 Series C	Tax-Exempt		0.250%	2037		81,445	81,445
2006 Series C	Tax-Exempt		0.250%	2037		86,905	86,905
2006 Series D	Tax-Exempt	4.250%	- 4.400%	2017	20,000		20,000
2006 Series E	Tax-Exempt	4.300%	- 5.050%	2026	87,460		87,460
2006 Series F	Tax-Exempt		0.240%	2041		43,130	43,130
2006 Series F	Tax-Exempt		0.240%	2041		60,000	60,000
2006 Series G	Tax-Exempt	3.650%	- 3.875%	2016	29,490		29,490
2006 Series H	Tax-Exempt	4.000%	- 5.750%	2030	45,600		45,600
2006 Series I	Tax-Exempt	4.600%	- 4.875%	2041	151,570		151,570
2006 Series J	Tax-Exempt	3.750%	- 4.150%	2016	25,265		25,265
2006 Series K	Tax-Exempt	4.625%	- 4.800%	2042	243,710		243,710
2006 Series L	Tax-Exempt	3.750%	- 4.150%	2016	40,720		40,720
2006 Series M	Tax-Exempt	4.550%	- 4.750%	2042	207,190		207,190
2007 Series A	Taxable		5.720%	2032	90,000		90,000
2007 Series B	Taxable		0.480%	2042		40,000	40,000
2007 Series C	Taxable		0.480%	2042		20,000	20,000
2007 Series D	Tax-Exempt	3.850%	- 4.400%	2018	65,190		65,190
2007 Series E	Tax-Exempt	4.650%	- 4.800%	2042	186,245		186,245
2007 Series F	Tax-Exempt	4.050%	- 4.700%	2017	41,090		41,090
2007 Series G	Tax-Exempt	4.950%	- 5.050%	2029	109,025		109,025
2007 Series G	Tax-Exempt		5.500%	2042	77,450		77,450
2007 Series H	Tax-Exempt		0.240%	2033		50,000	50,000
2007 Series H	Tax-Exempt		0.240%	2042		50,000	50,000
2007 Series I	Tax-Exempt	3.750%	- 4.350%	2017	15,390		15,390
2007 Series J	Tax-Exempt	4.950%	- 5.050%	2027	53,500		53,500
2007 Series J	Tax-Exempt		5.750%	2047	33,950		33,950
2007 Series K	Tax-Exempt		0.240%	2037		25,000	25,000
2007 Series K	Tax-Exempt		0.240%	2038		25,000	25,000
2007 Series L	Taxable		5.530%	2027	48,485		48,485
2007 Series M	Taxable		5.835%	2032	86,465		86,465
2007 Series N	Taxable		0.480%	2043		60,000	60,000
2008 Series A	Tax-Exempt	3.200%	- 4.500%	2020	40,390		40,390
2008 Series B	Tax-Exempt		4.800%	2028	35,960		35,960
2008 Series C	Tax-Exempt		0.240%	2041		13,920	13,920
2008 Series C	Tax-Exempt		0.240%	2041		20,085	20,085
2008 Series C	Tax-Exempt		0.240%	2041		15,850	15,850
2008 Series C	Tax-Exempt		0.240%	2041		7,005	7,005
2008 Series C	Tax-Exempt		0.240%	2041		7,760	7,760
2008 Series C	Tax-Exempt		0.240%	2041		5,945	5,945
2008 Series D	Tax-Exempt		0.240%	2043		1,680	1,680
2008 Series D	Tax-Exempt		0.240%	2043		2,595	2,595
2008 Series D	Tax-Exempt		0.240%	2043		1,355	1,355
2008 Series D	Tax-Exempt		0.240%	2043		3,865	3,865
2008 Series D	Tax-Exempt		0.240%	2043		4,210	4,210
2008 Series D	Tax-Exempt		0.240%	2043		1,980	1,980
2008 Series D	Tax-Exempt		0.240%	2031		44,125	44,125
2008 Series D	Tax-Exempt		0.240%	2031		35,420	35,420
2008 Series E	Tax-Exempt		0.240%	2032		26,390	26,390
2008 Series E	Tax-Exempt		0.240%	2032		16,340	16,340
2008 Series E	Tax-Exempt		0.240%	2032		7,865	7,865
2008 Series F	Tax-Exempt		0.240%	2032		25,000	25,000

Swaps

<u>Type</u>	Fixed Rate Paid By Agency	Floating Rate Received By Agency	Effective Date	Termination Date	Outstanding Notional/Applicable Amount	Fair Value
Fixed payer	3.9320%	LIBOR @ 62%+.25%&HR	12/15/05	2/1/34	12,225	(217)
Fixed payer	3.6500%	LIBOR @ 62%+.25%	12/15/05	8/1/31	69,165	(1,109)
Fixed payer	3.8570%	LIBOR @ 62%+.25%	12/15/05	2/1/36	64,260	(4,917)
Fixed payer	4.3530%	97% SIFMA	2/2/06	8/1/35	31,535	(681)
Fixed payer	4.0180%	LIBOR @ 62%+.25%	4/19/06	8/1/30	80,885	(3,878)
Fixed payer	4.0590%	LIBOR @ 62%+.25%	4/19/06	2/1/37	76,265	(8,123)
Fixed payer	4.2550%	LIBOR @ 62%+.25%	7/27/06	8/1/40	60,000	(7,464)
Fixed payer	4.1360%	LIBOR @ 62%+.25%	7/27/06	2/1/41	60,000	(7,561)
Fixed payer	4.0480%	LIBOR @ 62%+.25%	8/8/07	2/1/31	50,000	(6,651)
Fixed payer	4.2360%	LIBOR @ 62%+.25%	8/8/07	2/1/38	50,000	(7,084)
Fixed payer	3.9870%	LIBOR @ 63%+.24%	11/7/07	8/1/32	25,000	(2,923)
Fixed payer	4.0400%	LIBOR @ 63%+.24%	11/7/07	2/1/38	25,000	(2,790)
Fixed payer	4.8000%	LIBOR @ 65%	4/6/00	2/1/23	3,750	(660)
Fixed payer	5.1600%	LIBOR @ 65%	5/25/00	8/1/22	20,085	(85)
Fixed payer	4.1430%	LIBOR @ 65%	5/31/01	8/1/24	15,735	(2,487)
Fixed payer	3.9940%	LIBOR @ 65%	6/6/02	2/1/24	7,005	(1,411)
Fixed payer	3.8630%	LIBOR @ 65%	8/8/02	8/1/32	7,760	(1,682)
Fixed payer	4.9500%	LIBOR @ 65%	11/18/08	8/1/23	5,945	(42)
Fixed payer	4.9000%	LIBOR @ 65%	5/25/00	8/1/30	1,680	(616)
Fixed payer	4.1430%	LIBOR @ 65%	5/31/01	8/1/24	2,595	(508)
Fixed payer	3.9910%	LIBOR @ 65%	7/26/01	8/1/18	1,355	(227)
Fixed payer	4.1300%	SIFMA less .15%	12/6/01	8/1/32	3,865	(599)
Fixed payer	4.8500%	LIBOR @ 65%	11/18/08	2/1/17	4,210	(846)
Fixed payer	4.8000%	LIBOR @ 65%	4/6/00	2/1/23	13,850	(2,122)
Fixed payer	4.8500%	LIBOR @ 65%	11/18/08	2/1/17	33,135	(3,634)
Fixed payer	4.5275%	LIBOR @ 65%	10/5/00	8/1/15	26,080	(2,473)
Fixed payer	4.6600%	LIBOR @ 65%	11/18/08	2/1/16	14,930	(1,402)
Fixed payer	4.9500%	LIBOR @ 65%	11/18/08	8/1/23	19,055	(77)
Fixed payer	3.8700%	LIBOR @ 65%	11/18/08	8/1/17	25,000	(2,321)

Bonds

<u>Bond Issue</u>	<u>Type of Bond</u>	<u>Interest Rate Range</u>		<u>Final Maturity Date</u>	<u>Outstanding Fixed</u>	<u>Outstanding Variable</u>	<u>Total</u>
2008 Series G	Taxable			2025	50,000		50,000
2008 Series H	Taxable			2020	93,825		93,825
2008 Series I	Taxable			2042		17,000	17,000
2008 Series I	Taxable			2042		13,990	13,990
2008 Series I	Taxable			2042		80,615	80,615
2008 Series J	Tax-Exempt	3.950%	-	5.125%	2018	75,545	75,545
2008 Series K	Tax-Exempt	5.300%	-	5.600%	2038	220,475	220,475
2008 Series L	Tax-Exempt	2.550%	-	5.550%	2038	186,980	186,980
2008 Series M	Tax-Exempt	5.750%	-	5.950%	2025	60,210	60,210
Housing Program Bonds:							
2004 Series A	Tax-Exempt			0.240%	2036	28,000	28,000
2006 Series A	Tax-Exempt	4.750%	-	4.950%	2036	47,090	47,090
2006 Series B - SF	Taxable			0.250%	2036		6,655
2006 Series B - MF	Taxable			0.250%	2036		44,450
Housing Mortgage Bonds:							
2009 Series A	Tax-Exempt	6.250%	-	12.000%	2038	49,370	49,370
Residential Mortgage Revenue Bonds:							
2009 Series A-1	Taxable			0.010%	2041	900,000	900,000
2009 Series A-2	Tax-Exempt			0.010%	2041	116,440	116,440
Multifamily Loan Purchase Bonds:							
2000 Series A	Taxable			Variable	2017	44,922	44,922
Variable Rate Demand Limited Obligation Multifamily Housing Revenue Bonds (Mission Gardens Apartments Project):							
2009 Series A	Tax-Exempt			0.290%	2041		4,620
Variable Rate Demand Limited Obligation Multifamily Housing Revenue Bonds (Montecito Village Apartments Project):							
2009 Series B	Tax-Exempt			0.290%	2043		6,325
Limited Obligation Multifamily Housing Revenue Bonds (Fairmont Apartments Project):							
2009 Series C	Tax-Exempt	4.250%	-	7.000%	2026	1,413	1,413
Multifamily Housing Revenue Bonds II:							
1995 Series A	Tax-Exempt			6.250%	2037	2,765	2,765
1995 Series C	Taxable	8.000%	-	8.100%	2037	19,560	19,560
1996 Series A	Tax-Exempt			6.050%	2027	16,920	16,920
1996 Series B	Tax-Exempt	5.850%	-	6.150%	2022	19,685	19,685
Multifamily Housing Revenue Bonds III:							
1997 Series A	Tax-Exempt	5.850%	-	6.050%	2038	60,040	60,040
1998 Series A	Tax-Exempt	4.850%	-	5.500%	2038	28,445	28,445
1998 Series B	Tax-Exempt	4.850%	-	5.500%	2039	70,260	70,260
1998 Series C	Tax-Exempt	4.600%	-	5.300%	2028	7,975	7,975
1999 Series A	Tax-Exempt	4.700%	-	5.375%	2036	31,635	31,635
2000 Series A	Tax-Exempt			0.352%	2035		73,690

Swaps

<u>Type</u>	Fixed Rate Paid By Agency	Floating Rate Received By Agency	Effective Date	Termination Date	Outstanding Notional/Applicable Amount	Fair Value
Fixed payer	6.1950%	LIBOR	8/1/02	8/1/14	17,000	(1,777)
Fixed payer	7.1100%	LIBOR	11/18/08	8/1/22	40,785	(10,270)

Bonds

<u>Bond Issue</u>	<u>Type of Bond</u>	<u>Interest Rate Range</u>	<u>Final Maturity Date</u>	<u>Outstanding Fixed</u>	<u>Outstanding Variable</u>	<u>Total</u>
2000 Series B	Tax-Exempt		2031		1,445	1,445
2000 Series B	Tax-Exempt		2031		4,695	4,695
2000 Series C	Tax-Exempt		2033		45,260	45,260
2000 Series D	Tax-Exempt		2031		13,495	13,495
2001 Series C	Taxable		2041		10,730	10,730
2001 Series D	Tax-Exempt		2022		720	720
2001 Series E	Tax-Exempt		2036		47,755	47,755
2001 Series F	Tax-Exempt		2032		13,240	13,240
2001 Series G	Tax-Exempt		2036		41,400	41,400
2001 Series G	Tax-Exempt		2036		9,435	9,435
2001 Series H	Taxable		2036		14,715	14,715
2002 Series A	Tax-Exempt		2037		9,330	9,330
2002 Series A	Tax-Exempt		2037		7,385	7,385
2002 Series B	Tax-Exempt		2035		24,670	24,670
2002 Series C	Tax-Exempt		2037		6,295	6,295
2002 Series C	Tax-Exempt		2037		15,805	15,805
2002 Series D	Tax-Exempt		2035		4,305	4,305
2002 Series E	Tax-Exempt		2037		15,045	15,045
2002 Series E	Tax-Exempt		2037		39,580	39,580
2003 Series C	Tax-Exempt		2038		13,930	13,930
2003 Series C	Tax-Exempt		2038		14,135	14,135
2003 Series C	Tax-Exempt		2038		14,205	14,205
2004 Series A	Tax-Exempt		2034		19,025	19,025
2004 Series B	Tax-Exempt		2039		12,260	12,260
2004 Series B	Tax-Exempt		2039		6,365	6,365
2004 Series B	Tax-Exempt		2039		5,415	5,415
2004 Series B	Tax-Exempt		2039		15,080	15,080
2004 Series B	Tax-Exempt		2039		1,725	1,725
2004 Series C	Tax-Exempt		2037		8,175	8,175
2004 Series D	Tax-Exempt		2039		49,830	49,830
2005 Series A	Tax-Exempt		2035		2,300	2,300
2005 Series B	Tax-Exempt		2038		2,620	2,620
2005 Series B	Tax-Exempt		2038		15,835	15,835
2005 Series B	Tax-Exempt		2038		3,895	3,895
2005 Series C	Tax-Exempt	3.300% -	4.900%	2036	8,545	8,545
2005 Series D	Tax-Exempt		0.308%	2038	17,700	17,700
2005 Series E	Tax-Exempt	3.700% -	5.125%	2038	21,585	21,585
2006 Series A	Tax-Exempt		0.308%	2041	7,485	7,485
2006 Series A	Tax-Exempt		0.308%	2041	9,280	9,280
2006 Series A	Tax-Exempt		0.308%	2041	4,215	4,215
2007 Series A	Tax-Exempt	3.850% -	4.750%	2034	4,510	4,510
2007 Series B	Tax-Exempt		0.352%	2040	2,655	2,655
2007 Series B	Tax-Exempt		0.352%	2040	6,180	6,180
2007 Series C	Tax-Exempt		0.352%	2042	7,075	7,075
2007 Series C	Tax-Exempt		0.352%	2040	14,080	14,080
2008 Series A	Tax-Exempt		0.223%	2040	8,390	8,390
2008 Series B	Tax-Exempt					
2008 Series B	Tax-Exempt		0.243%	2036	24,785	24,785
2008 Series B	Tax-Exempt		0.243%	2038	28,025	28,025
2008 Series B	Tax-Exempt		0.243%	2042	22,205	22,205
2008 Series C	Tax-Exempt		0.267%	2038	8,725	8,725
2008 Series C	Tax-Exempt		0.267%	2036	14,320	14,320
2008 Series C	Tax-Exempt		0.267%	2038	5,000	5,000

Swaps

<u>Type</u>	<u>Fixed Rate Paid By Agency</u>	<u>Floating Rate Received By Agency</u>	<u>Effective Date</u>	<u>Termination Date</u>	<u>Outstanding Notional/Applicable Amount</u>	<u>Fair Value</u>
Fixed payer	4.5850%	LIBOR @ 64%	7/12/00	2/1/31	1,445	(256)
Fixed payer	4.3950%	LIBOR @ 64%	11/16/00	2/1/31	14,345	(3,127)
Fixed payer	4.4520%	SIFMA less .20%	6/28/01	8/1/22	2,470	(362)
Fixed payer	4.7120%	SIFMA less .15%	6/28/01	2/1/36	47,755	(9,660)
Fixed payer	4.0290%	SIFMA less .20%	2/1/02	2/1/32	14,790	(1,629)
Fixed payer	4.2050%	SIFMA less .15%	2/1/02	8/1/36	43,125	(6,340)
Fixed payer	4.5950%	SIFMA less .15%	2/1/04	2/1/34	9,435	(1,793)
Fixed payer	4.5000%	SIFMA less .15%	8/1/02	8/1/32	16,980	(2,910)
Fixed payer	4.8900%	SIFMA less .15%	2/2/04	2/1/37	11,640	(2,662)
Fixed payer	4.0370%	SIFMA less .20%	2/1/03	2/1/35	24,670	(3,249)
Fixed payer	4.4050%	SIFMA less .15%	2/1/04	2/1/37	13,600	(2,413)
Fixed payer	4.6380%	SIFMA less .15%	8/1/05	8/1/37	16,030	(3,238)
Fixed payer	4.0850%	SIFMA less .20%	2/3/03	2/1/35	11,530	(1,648)
Fixed payer	4.1510%	SIFMA less .15%	2/3/03	2/1/34	15,045	(2,203)
Fixed payer	4.5710%	SIFMA less .15%	11/1/04	8/1/37	39,580	(8,088)
Fixed payer	3.5560%	LIBOR @ 60%+.26%	2/1/04	8/1/35	14,185	(866)
Fixed payer	4.0260%	LIBOR @ 60%+.26%	8/1/05	8/1/35	15,150	(1,197)
Fixed payer	4.1770%	LIBOR @ 60%+.26%	2/1/06	8/1/38	17,170	(1,471)
Fixed payer	3.0590%	LIBOR @ 60%+.21%	8/1/04	8/1/34	20,510	(1,744)
Fixed payer	3.6920%	LIBOR @ 60%+.26%	8/1/06	8/1/36	12,280	(1,531)
Fixed payer	3.3860%	LIBOR @ 60%+.26%	8/1/04	8/1/34	6,390	(290)
Fixed payer	3.3300%	LIBOR @ 60%+.26%	8/1/04	8/1/34	5,200	(421)
Fixed payer	4.9783%	SIFMA less .15%	8/1/06	2/1/39	14,790	(2,511)
Fixed payer	4.5390%	SIFMA less .15%	8/1/04	8/1/34	2,565	(340)
Fixed payer	3.4350%	LIBOR @ 60%+.21%	2/1/05	8/1/25	8,280	(925)
Fixed payer	3.5640%	SIFMA less .20%	7/1/05	8/1/35	2,300	(193)
Fixed payer	3.9540%	SIFMA less .15%	6/15/05	8/1/35	2,625	(239)
Fixed payer	4.0790%	SIFMA less .15%	2/1/07	2/1/37	24,960	(2,807)
Fixed payer	3.9570%	SIFMA less .15%	8/1/07	2/1/38	3,915	(355)
Fixed payer	3.7010%	LIBOR @ 60%+.26%	2/1/06	2/1/38	31,060	(4,716)
Fixed payer	4.042% + HR	97% SIFMA & HR	6/15/06	8/1/27	7,485	(845)
Fixed payer	4.381% + HR	97% SIFMA & HR	6/15/06	8/1/39	9,280	(1,121)
Fixed payer	4.492% + HR	97% SIFMA & HR	6/15/06	2/1/41	4,215	(523)
Fixed payer	3.9370%	LIBOR @ 64%+.25%	7/12/07	2/1/22	2,655	(307)
Fixed payer	4.2220%	LIBOR @ 64%+.25%	8/1/09	2/1/40	6,180	(1,125)
Fixed payer	3.7280%	LIBOR @ 63%+.30%	2/1/08	8/1/42	10,740	(830)
Fixed payer	3.9190%	LIBOR @ 63%+.30%	11/1/09	8/1/40	14,080	(2,196)
Fixed payer	3.2950%	LIBOR @ 61%+.24%	11/1/09	8/1/40	11,090	(1,373)
Fixed payer	2.3250%	SIFMA less .5%	8/1/08	8/1/10	16,130	(29)
Fixed payer	3.3850%	SIFMA less .15%	8/1/03	8/1/36	24,785	(1,679)
Fixed payer	4.2950%	SIFMA less .15%	11/18/08	2/1/38	28,060	(2,810)
Fixed payer	3.8830%	LIBOR @ 60%+.26%	12/1/04	8/1/38	8,725	(1,689)
Fixed payer	3.9680%	LIBOR @ 60%+.26%	7/1/05	2/1/36	14,320	(2,686)
Fixed payer	4.0600%	LIBOR @ 60%+.26%	2/1/06	8/1/38	9,075	(1,943)

<u>Bonds</u>						
<u>Bond Issue</u>	<u>Type of Bond</u>	<u>Interest Rate Range</u>	<u>Final Maturity Date</u>	<u>Outstanding Fixed</u>	<u>Outstanding Variable</u>	<u>Total</u>
Affordable Multifamily Housing Revenue Bonds: 2009 Series A	Taxable	0.010%	2051		380,530	380,530
				2,956,725	5,938,175	8,894,900
Unamortized discount						(722)
Unamortized premium						15,826
Unamortized deferred losses on refundings						(4,188)
Total Bonds				\$ 2,956,725	\$ 5,938,175	\$ 8,905,816

Swaps

<u>Type</u>	<u>Fixed Rate Paid By Agency</u>	<u>Floating Rate Received By Agency</u>	<u>Effective Date</u>	<u>Termination Date</u>	<u>Outstanding Notional/Applicable Amount</u>	<u>Fair Value</u>
					<u>\$ 3,427,210</u>	<u>\$ (329,683)</u>

Debenture Note Payable: In October 2004, a Development known as “Ridgeway Apartments,” situated in Marin City, California, defaulted on its loan, which was insured by FHA under the Risk Sharing Act, with 50% of the risk covered by FHA. In May 2005, the Agency submitted a claim under the Risk Sharing Act, which FHA paid on May 13, 2005, in the amount of \$23,133,890, representing the unpaid principal balance of this loan in the amount of \$22,117,043 plus unpaid interest of \$1,016,847. On June 8, 2005, the amount representing the unpaid principal balance of the loan was used to redeem the respective multifamily housing revenue bonds issued to fund the loan, and the loan has been transferred to the Agency’s HAT.

In place of the bonds the Agency’s obligation is to HUD in the form of a “debenture note payable”, due May 13, 2010 with annual interest payments at a rate of 6.75%. The debenture note payable may be paid earlier upon the loan default being resolved (which may include the loan default being cured). The debenture note was fully paid on September 15, 2009.

Bank Bonds: Under standby bond purchase agreements for the Agency’s variable rate demand obligations “VRDO”, if the Agency’s variable rate bonds cannot be remarketed, the banks under the agreement are required to buy the bonds from the bondholders. These bonds may be remarketed or may be subject to mandatory redemptions at a later date. As of June 30, 2009, the Agency had a total outstanding bank bond balance of \$325,970,000. As of June 30, 2010, the Agency had no outstanding bank bonds.

Note Payable: The Agency entered into a loan agreement with Citibank N.A. on March 1, 2010. The Agency received funds to use for special bond redemptions in exchange for a total note payable of \$95,073,353. The loan is collateralized by the Multifamily loan receivables. The Agency collects and remits the mortgage payments less servicing fees to Citibank on 35 Multifamily loans. As of June 30, 2010, the Citibank loans note payable balance is \$93,853,705, as included in Notes Payable in the combined balance sheets.

Changes in bonds and debenture notes payable for the year ended June 30, 2010 and 2009 are as follows (dollars in thousands):

	2010	2009
	Combined	Combined
	<u>Totals</u>	<u>Totals</u>
Beginning of year balance	\$ 8,243,621	\$ 8,617,579
New bonds issued	1,398,383	310,945
Scheduled maturities	(131,491)	(122,818)
Redemptions	(607,194)	(564,753)
Bond accretions	3,110	3,335
Amortized discount	64	61
Amortized premium	(1,700)	(1,238)
Amortized deferred loss	1,023	716
Additions to deferred loss		(179)
Reclassified premium as deferred loss		(27)
End of year balance	<u>\$ 8,905,816</u>	<u>\$ 8,243,621</u>
Current portion	\$ 158,969	\$ 136,370
Noncurrent portion	8,746,847	8,107,251
Total	<u>\$ 8,905,816</u>	<u>\$ 8,243,621</u>

Variable Rate Debt and Debt Service Requirements: The Agency’s variable rate debt is typically related to common indices such as the Securities Industry and Financial Markets Association (“SIFMA”) or the London Inter-Bank Offered Rate (“LIBOR”) and resets periodically. The interest calculations shown in the table below are based on the variable rate in effect at June 30, 2010, and may not be indicative of the actual interest expense that will be incurred by the Fund. As rates vary, variable rate bond interest payments and net swap payments will vary. The table below provides a summary of debt service requirements and net swap payments for the next five years and in five year increments thereafter (dollars in thousands).

Fiscal Year Ending June 30	Fixed/Variable Unswapped		Variable Swapped		Interest Rate Swaps, Net	Total
	Principal	Interest	Principal	Interest		
2011	\$ 124,368	\$157,375	\$ 34,607	\$ 13,022	\$ 126,431	\$ 455,803
2012	131,507	153,764	48,694	13,499	117,099	464,564
2013	126,590	151,936	62,277	13,229	108,230	462,261
2014	120,695	148,718	69,659	12,908	100,068	452,048
2015	123,664	144,718	76,828	12,581	92,493	450,284
2016-2020	707,654	635,342	473,054	57,229	365,998	2,239,277
2021-2025	738,804	489,248	556,237	46,340	242,689	2,073,318
2026-2030	786,414	338,427	686,709	34,932	159,558	2,006,039
2031-2035	758,582	212,541	785,363	18,203	77,068	1,851,758
2036-2040	573,226	88,660	314,419	4,706	14,652	995,663
2041-2045	1,162,328	15,869	49,946	513	358	1,229,014
2046-2050	2,745	4,995				7,740
2051-2055	380,530	1,504				382,034
Total	\$ 5,737,107	\$ 2,543,097	\$ 3,157,793	\$ 227,162	\$ 1,404,644	\$ 13,069,803

Objective of the Interest Rate Swaps: In order to protect against rising rates, the Agency primarily entered into swaps to establish synthetic fixed rates for a like amount of the Agency’s variable rate bond obligations. The majority of the Agency’s interest rate swap transactions are structured for the Agency to pay a fixed interest rate while receiving a variable interest rate (fixed payer swaps), the exceptions are listed under Basis Risk Associated with Interest Rate Swaps. Synthetic fixed rates provide the Agency with a significantly lower fixed cost of funds compared to issuing fixed-rate bonds; however, the increased risks related to the synthetic fixed rates have the effect of increasing costs to the Agency.

Terms, Fair Value and Credit Risk: The terms, including the fair values, of the outstanding fixed payer swaps as of June 30, 2010 are summarized in the previous bonds payable and swaps table. The terms, including fair values, of the outstanding basis swaps are summarized in the table under Basis Risk Associated with Interest Rate Swaps.

As of June 30, 2010, the fair value of the swaps is reported as “Derivative Swap Asset” within “Other assets and deferred outflow” in the combined balance sheets or as “Derivative Swap Liability” within “Other liabilities and deferred inflow.” The cumulative gain or loss on the fair value of the effective swaps is reported as “Other assets and deferred outflows” or “Other liabilities and deferred inflows” in the combined balance sheets. Alternatively, the gain or loss on the fair value of the ineffective swaps is reported as “Investment revenues” in “Other revenues” in the combined statements of revenues, expenses and changes in Fund equity. The Agency did not pay or receive any cash when the swap transactions were initiated except for in-substance assignments. The following table summarizes the swap fair value activity in the combined balance sheets and the combined statements of revenues, expenses, and changes in Fund equity (dollars in thousands):

	As of and for the Fiscal Year Ended June 30, 2010
Combined Balance Sheets:	
Derivative swap asset	\$ 287
Other assets and deferred outflows	292,762
Derivative swap liability	329,689
Combined Statements of Revenues, Expenses, and Changes in Fund Equity:	
Investment revenues	\$ (26,815)

Except as discussed under rollover risk, the Agency’s swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated “bonds payable” category.

As of June 30, 2010, the Agency executes interest rate swap transactions with 13 swap counterparties. All of the Agency's interest rate swap agreements require the Agency to post collateral if its general obligation credit ratings, as issued by Moody's and Standard and Poor's fall below a certain level or if the fair value of the swaps fall below a certain threshold. The collateral can be posted in several forms in the amount of the fair value of the interest rate swaps. If the Agency does not post collateral, the interest rate swap can be terminated by the counterparty. As of June 30, 2010, the Agency had a total cash and fair market value of Fannie Mae securities posted as collateral with swap counterparties in the amount of \$33,420,000 and \$42,856,934, respectively, as included in "Other assets" and "Investments" in the combined balance sheets.

Because interest rates are generally lower than the rates in effect at inception of the swap agreements, the Agency's fixed payer swap agreements had an aggregate negative fair value of \$329,683,000 as of June 30, 2010. Fair values are as reported by the Agency's dealer counterparties and are estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

As of June 30, 2010, the Agency's swap portfolio had an aggregate asset position of \$287,000. This represents the maximum loss that would be reported at the reporting date if all counterparties failed to perform as contracted. However, this maximum exposure is eliminated by \$329,688,000 in swap liabilities. Therefore, the Agency has no net exposure to credit risk.

The table below shows the number of fixed payer swaps and outstanding notional amounts by the counterparties' respective credit ratings (dollars in thousands).

<u>Moody's</u>	<u>Standard & Poors</u>	<u>Outstanding Notional Amount</u>	<u>Number of Swap Transactions</u>
Aaa	AA	\$ 25,000	1
Aa1	AAA	302,555	10
Aa1	AA-	862,380	22
Aa2	AA	73,705	2
Aa3	AAA	71,845	7
Aa3	A+	396,565	18
A1	A+	27,220	2
A2	A	980,350	37
A3	A	453,905	12
A3	A-	233,685	8
		<u>\$ 3,427,210</u>	<u>119</u>

Interest Rate Risk: The Agency is exposed to interest rate risk on its fixed payer swaps. As the LIBOR or the SIFMA swap index decreases, the Agency's net payments on the swaps increase.

Basis Risk: All of the Agency's interest rate swaps contain an element of basis risk, the risk that the floating rate component of the swap will not match the floating rate of the underlying bonds. This risk arises because floating rates paid by swap counterparties are based on indices, which consist of market-wide averages, while interest paid on the Agency's variable rate bonds is specific to individual bond issues.

Historically, the Agency's variable rate tax-exempt bonds trade at a slight discount to the SIFMA index. For those swaps associated with tax-exempt bonds for which the Agency receives a variable rate payment based on a percentage of LIBOR, the Agency is exposed to basis risk should the relationship between SIFMA and LIBOR converge.

Four swap formulas have been used by the Agency beginning with 65% of LIBOR, then 60% of LIBOR plus 0.26%, then 64% of LIBOR plus 0.25%, and finally, 63% plus of LIBOR plus 0.24%. As of June 30, 2010, the SIFMA rate was 0.25%, 65% of the one-month LIBOR was 0.22% and 63% of the one-month LIBOR plus 0.24% was 0.46%. The swap formula will continue to be monitored for its effectiveness in the case that the Agency chooses to enter into any future interest rate swaps. In addition, the Agency holds 8 basis swaps as a means to change the variable rate formula received for \$261,405,000 of swap notional amount. These basis swaps changed the variable rate formula received from counterparties from 65% of LIBOR to those described in the following table (dollars in thousands):

<u>Bond Issue</u>	<u>Variable Rate Paid By Agency</u>	<u>Floating Rate Received By Agency */**</u>	<u>Effective Date</u>	<u>Termination Date</u>	<u>Outstanding Notional/Applicable Amount</u>	<u>Fair Value</u>
Home Mortgage Revenue Bonds:						
2000 Series C	LIBOR @ 65%	LIBOR @ 85%-0.019%	2/1/04	2/1/17	\$ 37,345	\$ 73
2000 Series J	LIBOR @ 65%	LIBOR @ 85%-0.019%	2/1/04	8/1/30	25,225	
2000 Series U	LIBOR @ 65%	LIBOR @ 85%-0.019%	2/1/04	8/1/15	26,080	51
2000 Series X-2	LIBOR @ 65%	LIBOR @ 85%-0.019%	2/1/04	8/1/31	28,165	13
2001 Series N	LIBOR @ 65%	LIBOR @ 85%-0.019%	2/1/04	8/1/18	12,135	20
2002 Series B	LIBOR @ 65%	LIBOR @ 85%-0.019%	2/1/04	8/1/27	38,780	(3)
2002 Series F	LIBOR @ 65%	LIBOR @ 85%-0.019%	2/1/04	2/1/24	52,075	54
2002 Series M	LIBOR @ 65%	LIBOR @ 85%-0.019%	2/1/04	8/1/22	41,600	78
					<u>\$ 261,405</u>	<u>\$ 286</u>

* The notional amount and the amortization of these swaps mirror the initial 65% of LIBOR swaps, basically overlaying the swaps so that the effective rate received from the counterparties are the rates shown in the table above.

**The variable interest rate received by the counterparties is dependent on the LIBOR interest rate at the time of settlement. The rate shown in the table is the effective rate at June 30, 2010.

Termination Risk: Counterparties to the Agency's interest rate swap agreements have ordinary termination rights that require settlement payments by the Agency or the counterparty based on the fair value of the swap at the date of termination.

Rollover Risk: The Agency is exposed to rollover risk on interest rate swaps that are hedges of debt that mature or may be terminated prior to the maturity of the hedged debt. When these swaps terminate, the Agency will be re-exposed to the risks being hedged by the swaps. The fixed payer interest rate swaps' termination dates and associated debts' maturities are listed in the previous bonds payable and interest rate swap table.

Overhedged Bonds: All notional amounts (or “applicable amounts”) of the fixed payer swaps match the principal amounts of the associated debt with the following exceptions (dollars in thousands):

<u>Bond Issue</u>	<u>Bonds Outstanding</u>	<u>Swap Notional Amount</u>	<u>Unmatched Swap</u>	<u>Fair Value</u>
Home Mortgage Revenue Bonds				
2000 Series C *		\$ 37,345	\$ 37,345	\$ 73
2000 Series J *	\$ 15,800	23,545	7,745	(1,657)
2000 Series N	28,190	29,915	1,725	(7)
2000 Series U *		26,080	26,080	51
2000 Series X2 *	23,190	28,165	4,975	(914)
2001 Series N *		10,780	10,780	(906)
2001 Series U	49,610	51,040	1,430	(160)
2002 Series F *		45,070	45,070	(5,337)
2002 Series P		53,670	53,670	(4,858)
2002 Series Q	12,975	13,310	335	(27)
2003 Series D	35,640	35,725	85	(3)
2003 Series F	44,210	44,680	470	(15)
2003 Series M	47,790	48,270	480	(24)
2004 Series E	50,690	51,755	1,065	(71)
2004 Series I		5,305	5,305	(83)
2004 Series I		17,065	17,065	(1,834)
2005 Series B	37,640	37,830	190	(9)
2005 Series G		12,225	12,225	(217)
2005 Series G		19,060	19,060	(443)
2006 Series A		31,535	31,535	(681)
2006 Series F	43,130	60,000	16,870	(2,099)
2008 Series E	7,865	19,055	11,190	(45)
2008 Series I	13,990	40,785	26,795	(6,747)
Multifamily Housing Revenue Bonds III:				
2000 Series D	13,495	14,345	850	(185)
2001 Series D	720	2,470	1,750	(257)
2001 Series F	13,240	14,790	1,550	(171)
2001 Series G	41,400	43,125	1,725	(254)
2002 Series A	9,330	16,980	7,650	(1,311)
2002 Series A	7,385	11,640	4,255	(973)
2002 Series C	6,295	13,600	7,305	(45)
2002 Series C	15,805	16,030	225	(1,296)
2002 Series D	4,305	11,530	7,225	(1,033)
2003 Series C	13,930	14,185	255	(16)
2003 Series C	14,135	15,150	1,015	(80)
2003 Series C	14,205	17,170	2,965	(254)
2004 Series A	19,025	20,510	1,485	(126)
2004 Series B	12,260	12,280	20	(2)
2004 Series B	6,365	6,390	25	(1)
2004 Series B	1,725	2,565	840	(111)
2004 Series C	8,150	8,280	130	(15)
2005 Series B	2,620	2,625	5	
2005 Series B	15,835	24,960	9,125	(1,026)
2005 Series B	3,895	3,915	20	(2)
2005 Series D	17,700	31,060	13,360	(2,029)
2007 Series C	7,075	10,740	3,665	(283)
2008 Series A	8,390	11,090	2,700	(334)
2008 Series B		16,130	16,130	(29)
2008 Series B	28,025	28,060	35	(4)
2008 Series C	5,000	9,075	4,075	(873)
Total	\$ 701,030	\$ 1,120,905	\$ 419,875	\$ (36,723)

*Includes Basis Swap.

Borrowings Payable for Interest Rate Swaps: The Agency transfers excess interest rate swap notional (or applicable) amounts between variable rate bond series. Generally, the transfers result in derivative instruments with off-market terms. The Agency establishes a borrowing payable in the amount of the swap fair value at the time of transfer and amortizes it over the life of the swap. The borrowing payable is reported as “Other liabilities and deferred inflows” in the combined balance sheets and the amortization is reported as “Interest” in the combined statements of revenues, expenses, and changes in Fund equity. The borrowings payable as of June 30, 2010 are as follows (dollars in thousands):

	<u>Maturity Date</u>	<u>Outstanding</u>
Home Mortgage Revenue Bonds:		
2008 Series C	2/1/23	\$ 452
2008 Series C	8/1/22	1,425
2008 Series C	8/1/24	1,439
2008 Series C	2/1/24	764
2008 Series C	8/1/32	819
2008 Series D	2/1/21	1,246
2008 Series D	8/1/30	412
2008 Series D	8/1/20	292
2008 Series D	8/1/18	127
2008 Series D	8/1/32	344
2008 Series E	8/1/15	1,425
2008 Series I	8/1/14	791
Multifamily Housing Revenue Bonds III		
2008 Series C	8/1/38	699
2008 Series C	2/1/36	1,194
2008 Series C	8/1/38	899
		<hr/>
Total		\$ 12,328

The following table provides a summary of the amortization of the borrowings payable for the next five years and in five year increments thereafter (dollars in thousands):

<u>Fiscal Year</u>	<u>Ending June 30</u>	<u>Amortization</u>
	2011	\$ 1,646
	2012	1,464
	2013	1,226
	2014	968
	2015	776
	2016-2020	3,140
	2021-2025	1,961
	2026-2030	832
	2031-2035	271
	2036-2038	44
		<hr/>
Total		\$ 12,328

Note 8 – NONMORTGAGE INVESTMENT AND MORTGAGE YIELD

In accordance with Federal law, the Agency is required to rebate to the Internal Revenue Service (“IRS”) the excess of the amount actually earned on all nonmortgage investments (derived from investing the bond proceeds) over the amount that would have been earned had those investments borne a rate equal to the yield on the bond issue, plus any income attributable to such excess. As of June 30, 2010 and 2009, the Fund had liabilities to the IRS totaling \$4,972,000 and \$7,590,000 respectively reported in the combined balance sheets as “Due to other Government entities.” The net effect of changes in the liability account has been recorded as an increase in “Interest income from investments” in the combined statements of revenues, expenses and changes in Fund equity.

Additionally, the Agency has identified all the bond series that were issued as variable rate plans of finance and subject to review and monitoring of mortgage yield excess. Most of the excess yield occurred between 2000 and 2005 when bond variable rates were low compared to mortgage rates. As of June 30, 2010 and 2009, the Fund had liabilities to the IRS totaling \$14,417,000 and \$11,840,000 respectively reported in the combined balance sheets as "Due to other Government entities." The net effect of this change is recorded as an increase in "Interest income from program loans and loan agreements" in the combined statements of revenues, expenses and changes in Fund equity. The Agency will continue to monitor the status of mortgage yield compliance to mitigate further liability.

Note 9 – EXTINGUISHMENT OF DEBT

For the year ended June 30, 2010, the Agency did not economically refund any of its bond indebtedness and therefore incurred no loss on the extinguishment of debt. However, the Agency recorded a gain of \$3,130,935 on early extinguishment of debt. For the year ended June 30, 2009, the Agency extinguished certain Homeownership Program debt. A summary of the loss from the extinguishment of Homeownership Programs' debt is as follows (dollars in thousands):

Unmatured principal	\$ 38,390
Unamortized bond issuance costs	(61)
Unamortized underwriter's fees	(145)
Unamortized premiums	27
Net obligation defeased	38,211
Less proceeds disbursed	38,390
Deferred loss on defeasance	\$ (179)

Note 10 – PENSION PLAN AND OTHER EMPLOYEE BENEFITS

The Fund contributes to the Public Employees' Retirement Fund ("PERF") as part of the State of California, the primary government. The PERF is a cost-sharing multiple-employer defined benefit pension plan administered by the California Public Employment Retirement System ("CalPERS"). CalPERS provides retirement, death, disability and post retirement health care benefits to members as established by state statute. CalPERS issues a publicly available Comprehensive Annual Financial Report ("CAFR") that includes financial statements and required supplementary information for the Public Employees' Retirement Fund. A copy of that report may be obtained from CalPERS, Central Supply, P.O. Box 942715, Sacramento, CA 95229-2715 or via the internet at www.calpers.ca.gov.

For the CalPERS fiscal years ended June 30, 2010 and 2009 the employer contribution rates were 16.917% - 16.737% and 16.574% - 16.633%, respectively.

The Fund's contributions to the PERF for the years ended June 30, 2010 and 2009 were \$5,335,130 and \$2,551,982, respectively, equal to the required contributions for each fiscal year.

Required contributions are determined by actuarial valuation using the individual entry age normal actuarial cost method. The most recent actuarial valuation available is as of June 30, 2007 which actuarial assumptions included (a) 7.75% investment rate of return compounded annually, (b) projected salary increases that vary based on duration of service, and (c) overall payroll growth factor of 3.25% annually. Both (a) and (c) included an inflation component of 3% compounded annually and a .25% per annum productivity increase assumption.

The most recent actuarial valuation of the PERF indicated that there was an unfunded actuarial accrued liability. The amount of the under funded liability applicable to each agency or department cannot be determined. For trend information, which presents CalPERS progress in accumulating sufficient assets to pay benefits when due, please see the June 30, 2010 CalPERS CAFR.

GASB Statement 45 requires states and local governments to publicly disclose the future dollar amount of their obligations to pay for Other Postemployment Benefits "OPEB", like healthcare, that are provided to retired employees, including retired public employees. The OPEB is a cost-sharing multiple-employer defined benefit healthcare plan administered by CalPERS. The State of California is required to include the information in its financial reports. State Controller's Office sets the employer contribution rate based on the annual required contribution of the employers "ARC", an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. The Agency's estimated unfunded OPEB costs were \$7,382,000 and \$4,594,000 for the year ended June 30, 2010 and June 30, 2009. This liability was added to Personal Services at the end of fiscal year. CalPERS issues a publicly available CAFR that includes financial statements and required supplementary information for the OPEB.

Note 11 – COMMITMENTS

As of June 30, 2010, the Agency had outstanding commitments and conditionally approved loan reservation to fund Homeownership Program loans totaling \$670,160 and had no outstanding commitments to fund Multifamily Program loans. As of June 30, 2010, the Agency had proceeds available from bonds issued to fund \$57,440,115 of Homeownership Program loans and \$11,212,504 of Multifamily Program loans.

Note 12 – ARRANGEMENTS WITH THE MORTGAGE INSURANCE FUND

All operating and administrative expenses of the Agency are initially paid from the Fund including certain operating and administrative expenses in support of mortgage guaranty insurance programs which are reported in the Mortgage Insurance Fund. Quarterly the Fund charges the Mortgage Insurance Fund for these expenses.

The Agency Board of Directors approved Resolution 03-19 on March 20, 2003 authorizing the Agency to utilize the resources of the fund to support the mortgage guaranty insurance programs of the Agency in the following two ways: 1) the Executive Director of the Agency is authorized to create one or more supplementary reserve accounts within the Supplementary Bond Security Account of the Fund to indemnify the Mortgage Insurance Fund for losses incurred or to pay claims against the Mortgage Insurance Fund in connection with loans financed by the Agency, and 2) the Executive Director of the Agency may establish an inter-fund credit agreement by which the Mortgage Insurance Fund may borrow such sums from the Fund as may be required to maintain the claims paying rating of any credit rating service.

Subsequently, the Agency Executive Director established an inter-fund credit agreement in the amount of \$10,000,000 in which the Mortgage Insurance Fund may borrow from the Fund as needed for the purpose of paying claims arising out of policies of mortgage guaranty insurance and costs and expenses related to the payment of such claims. Interest rate(s) and repayment terms are determined upon receipt of a request to draw on this credit facility. The Mortgage Insurance Fund had not requested a draw on this credit through June 30, 2010.

In March 2010, the Acting Executive director, under authority provided in Board Resolution 03-19, amended the Interfund Indemnity Agreement. Resolution 03-19 authorized the Executive Director of the Agency to create one or more supplementary reserve accounts within the Supplementary Bond Security Account of CHFF to indemnify the Mortgage Insurance Fund for losses incurred or to pay claims 2010, the amendment places a limitation on the indemnity obligation to an aggregate amount not to exceed \$135 million.

On April 14, 2010, the Reinsurance Treaty with Genworth was amended. The amendment confirms Genworth will pay reinsurance amount (75% of net loss) payable under the Reinsurance Agreement directly to servicers acting on behalf of the Insureds and not to the Fund or the Agency.

Note 13 – LITIGATION

Certain lawsuits and claims arising in the ordinary course of business have been filed or are pending against the Agency. Based upon information available to the Agency, its review of such lawsuits and claims and consultation with counsel, the Agency believes the liability relating to these actions, if any, would not have a material adverse effect on the Fund's combined financial statements.

Note 14 – RESTATEMENT OF BEGINNING FUND EQUITY

The beginning fund equity balance at July 1, 2009 has been restated in fiscal year 2010 to reflect the cumulative effect of adoption of GASB 53 from prior years as shown on the Statements of Revenue, Expenses and Changes in Fund Equity. Beginning fund equity balance at July 1, 2009 has been restated as follows:

	July 1, 2009
Fund equity at beginning of year, as originally stated	\$ 1,747,468
Cumulative effect of adoption of GASB 53	<u>(19,297)</u>
Fund equity at beginning of year, as restated	<u>\$ 1,728,171</u>

Note 15 – SUBSEQUENT EVENTS

In August 2010, the HHF received an additional \$476,257,070 in federal funding for unemployment programs and another allocation of \$799,476,956 was added in September 2010. The HHF now has a total of \$1,975,334,026 for programs that will be able to assist struggling homeowners throughout the State. The programs under HHF will be voluntary. The Agency intends to participate in each program as is currently involved in beta testing a few of the programs.

On September 1, 2010, the Federal Government extended the deadline to draw funds from escrow for the NIBP program from December 31, 2010 to December 31, 2011 and increased the maximum number of permitted draws from escrow from three to six (no more than one draw is permitted in any 30-day period). Also, the Agency has the option to relock the current interest rate of 3.49% at a lower rate.

On October 26, 2010, Moody's Investors Services downgraded the Agency's issuer credit rating to A2 from A1 with negative outlook. The downgrade is based on the erosion of the Agency's fund balances, profitability and liquidity as a result of single family mortgage loan delinquencies and foreclosures, risks related to the Agency's high level exposure of variable rate debt, and uncertainty about future financial growth.

This does not affect the rating on the Agency's HMRB which was confirmed at A3 with a negative outlook and taken off of the watchlist. Despite a severe increase in mortgage delinquencies and foreclosures, Moody's expects the HMRB program will have sufficient resources to withstand stress losses at a level consistent with the current rating. Additionally, strong efforts by management to enhance the servicing of delinquent loans, a moderate improvement in delinquency trends over the past six months, and the availability of the \$1,975,334,026 of federal HHF aid being administered by CalHFA are factors that point to moderation of mortgage losses going forward.

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**CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL COMBINING BALANCE SHEET
WITH ADDITIONAL COMBINING INFORMATION**

June 30, 2010

(Dollars in Thousands)

	HOMEOWNERSHIP PROGRAMS	MULTIFAMILY RENTAL HOUSING PROGRAMS	OTHER PROGRAMS AND ACCOUNTS	COMBINED TOTALS
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 1,072,579	\$ 382,694	\$ 57,142	\$ 1,512,415
Investments	1,071,804	116,218	873,567	2,061,589
Current portion - program loans receivable	89,214	61,095	103,440	253,749
Interest receivable - Program loans	23,753	6,631	5,024	35,408
Interest receivable - Investments	5,702	703	1,456	7,861
Accounts receivable	20,480	-	8,302	28,782
Due from (to) other funds	(43,120)	(205)	43,325	-
Other assets	61	441	33,499	34,001
Total current assets	<u>2,240,473</u>	<u>567,577</u>	<u>1,125,755</u>	<u>3,933,805</u>
Noncurrent assets:				
Investments	154,175	12,134	43,419	209,728
Program loans receivable	5,209,348	1,083,656	597,715	6,890,719
Due from (to) other funds	-	-	-	-
Deferred financing costs	29,040	5,096	20	34,156
Other assets and deferred outflow	200,613	77,629	216,351	494,593
Total Noncurrent assets	<u>5,593,176</u>	<u>1,178,515</u>	<u>857,505</u>	<u>7,629,196</u>
Total Assets	<u>\$ 7,833,649</u>	<u>\$ 1,746,092</u>	<u>\$ 1,983,260</u>	<u>\$ 11,563,001</u>
LIABILITIES AND FUND EQUITY				
Current liabilities:				
Bonds payable	\$ 132,112	\$ 26,857	-	\$ 158,969
Interest payable	60,948	18,142	\$ 44,121	123,211
Due to (from) other government entities	(61)	-	97,809	97,748
Compensated absences	-	-	4,358	4,358
Deposits and other liabilities	45,951	602	346,911	393,464
Total current liabilities	<u>238,950</u>	<u>45,601</u>	<u>493,199</u>	<u>777,750</u>
Noncurrent liabilities:				
Bonds and debenture notes payable	7,238,650	1,508,199	93,854	8,840,703
Due to (from) other government entities	8,982	9,859	547	19,388
Other liabilities and deferred inflow	-	91,131	250,885	342,016
Deferred revenues	7,408	13	21,740	29,161
Total noncurrent liabilities	<u>7,255,040</u>	<u>1,609,202</u>	<u>367,026</u>	<u>9,231,268</u>
Total Liabilities	<u>7,493,990</u>	<u>1,654,803</u>	<u>860,225</u>	<u>10,009,018</u>
Fund equity				
Invested in capital assets	-	-	866	866
Restricted by indenture	339,659	91,289	-	430,948
Restricted by statute	-	-	1,122,169	1,122,169
Total Fund equity	<u>339,659</u>	<u>91,289</u>	<u>1,123,035</u>	<u>1,553,983</u>
Total Liabilities and Fund equity	<u>\$ 7,833,649</u>	<u>\$ 1,746,092</u>	<u>\$ 1,983,260</u>	<u>\$ 11,563,001</u>

CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL COMBINING STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN FUND EQUITY
WITH ADDITIONAL COMBINING INFORMATION

June 30, 2010

(Dollars in Thousands)

	HOMEOWNERSHIP PROGRAMS	MULTIFAMILY RENTAL HOUSING PROGRAMS	OTHER PROGRAMS AND ACCOUNTS	COMBINED TOTALS
OPERATING REVENUES				
Interest income:				
Program loans and loan agreements -- net	\$ 293,956	\$ 76,326	\$ 22,708	\$ 392,990
Interest income - Investments -- net	25,318	3,724	11,180	40,222
Increase (decrease) in fair value of investments	17,612	(33)	1,315	18,894
Loan commitment fees	165	-	1,108	1,273
Other loan fees	-	146	27,699	27,845
Other revenues	3,689	(11,492)	56,600	48,797
Total Operating revenues	<u>340,740</u>	<u>68,671</u>	<u>120,610</u>	<u>530,021</u>
OPERATING EXPENSES				
Interest	169,367	52,933	95,721	318,021
Amortization of bond discount and bond premium	(1,409)	798	-	(611)
Mortgage servicing fees	16,276	7	194	16,477
Provision (reversal) for estimated loan losses	39,731	(9,479)	21,281	51,533
Operating expenses	-	-	42,536	42,536
Other expenses	86,072	27,416	177,115	290,603
Total Operating expenses	<u>310,037</u>	<u>71,675</u>	<u>336,847</u>	<u>718,559</u>
Operating income (loss) before transfers	30,703	(3,004)	(216,237)	(188,538)
Transfers (interfund)	-	-	14,350	14,350
Transfers (intrafund)	(146,015)	17,780	128,235	-
Increase (decrease) in fund equity	<u>(115,312)</u>	<u>14,776</u>	<u>(73,652)</u>	<u>(174,188)</u>
Fund equity at beginning of year, as originally stated	454,971	79,469	1,213,028	1,747,468
Cumulative effect of adoption of GASB 53	-	(2,956)	(16,341)	(19,297)
Fund equity at beginning of year, as restated	<u>454,971</u>	<u>76,513</u>	<u>1,196,687</u>	<u>1,728,171</u>
Fund equity at end of year	<u>\$ 339,659</u>	<u>\$ 91,289</u>	<u>\$ 1,123,035</u>	<u>\$ 1,553,983</u>

**CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL COMBINING STATEMENT OF CASH FLOWS
WITH ADDITIONAL COMBINING INFORMATION**

June 30, 2010

(Dollars in Thousands)

	HOMEOWNERSHIP PROGRAMS	MULTIFAMILY RENTAL HOUSING PROGRAMS	OTHER PROGRAMS AND ACCOUNTS	COMBINED TOTALS
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 297,397	\$ 77,258	\$ 20,021	\$ 394,676
Payments to suppliers	(17,611)	(195)	(16,884)	(34,690)
Payments to employees	-	-	(26,045)	(26,045)
Internal activity - payments other funds	-	-	-	-
Other receipts (payments)	641,268	126,792	(189,652)	578,408
Net cash provided by (used for) operating activities	<u>921,054</u>	<u>203,855</u>	<u>(212,560)</u>	<u>912,349</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Intrafund transfers	(146,015)	17,780	128,235	-
Changes in due to (from) other government entities	2,191	-	(159,662)	(157,471)
Net cash provided by (used for) noncapital financing activities	<u>(143,824)</u>	<u>17,780</u>	<u>(31,427)</u>	<u>(157,471)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from sales of bonds and notes payable	1,016,440	381,943	94,432	1,492,815
Payment of bond principal	(92,734)	(38,757)	(578)	(132,069)
Early bond redemptions	(439,031)	(145,030)	(23,134)	(607,195)
Interest paid on debt	(194,050)	(58,257)	(106,078)	(358,385)
Interfund transfers	-	-	14,350	14,350
Decrease (increase) in deferred financing costs	(1,071)	(431)	-	(1,502)
Net cash provided by (used for) capital and related financing activities	<u>289,554</u>	<u>139,468</u>	<u>(21,008)</u>	<u>408,014</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from maturity and sale of investments	2,033,230	187,778	31,068,815	33,289,823
Purchase of investments	(2,067,378)	(174,518)	(30,861,683)	(33,103,579)
Interest on investments	26,030	4,058	14,063	44,151
Net cash provided by (used for) investing activities	<u>(8,118)</u>	<u>17,318</u>	<u>221,195</u>	<u>230,395</u>
Net increase (decrease) in cash and cash equivalents	1,058,666	378,421	(43,800)	1,393,287
Cash and cash equivalents at beginning of year	13,913	4,273	100,942	119,128
Cash and cash equivalents at end of year	<u>\$ 1,072,579</u>	<u>\$ 382,694</u>	<u>\$ 57,142</u>	<u>\$ 1,512,415</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:				
Operating income (loss)	30,703	(3,004)	(216,237)	(188,538)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Interest expense on debt	169,367	52,933	95,721	318,021
Interest on investments	(25,318)	(3,724)	(11,180)	(40,222)
Changes in fair value of investments	(17,612)	33	(1,315)	(18,894)
Accretion of capital appreciation bonds	3,110	-	-	3,110
Amortization of bond discount	36	28	-	64
Amortization of deferred losses	254	770	-	1,024
Amortization of bond issuance costs	4,263	1,417	10	5,690
Amortization of bond premium	(1,700)	-	-	(1,700)
Amortization of deferred revenue	(165)	-	(1,108)	(1,273)
Depreciation	-	-	218	218
Provision (reversal for estimated loan losses)	39,731	(9,479)	21,281	51,533
Provision for yield reduction payments	4,327	(1,751)	-	2,576
Provision for nonmortgage investment excess	(2,542)	(624)	548	(2,618)
Changes in certain assets and liabilities:				
Sale (Purchase) of program loans-net	635,342	65,833	(805,403)	(104,228)
Collection of principal from program loans - net	20,251	90,306	691,559	802,116
Interest receivable	3,441	932	(2,686)	1,687
Accounts receivable	(7,593)	-	(1,466)	(9,059)
Due from (to) other funds	19,890	(40)	(19,850)	-
Other assets and deferred outflow	30	(77,598)	(248,819)	(326,387)
Compensated absences	-	-	2,041	2,041
Deposits and other liab	40,476	(352)	54,441	94,565
Other liabilities and deferred inflow	4,763	88,175	229,685	322,623
Net cash provided by (used for) operating activities	<u>\$ 921,054</u>	<u>\$ 203,855</u>	<u>\$ (212,560)</u>	<u>\$ 912,349</u>

**CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL BALANCE SHEET
HOMEOWNERSHIP PROGRAMS**

June 30, 2010

(Dollars in Thousands)

	HOME MORTGAGE REVENUE BONDS	SINGLE FAMILY MORTGAGE BONDS II	DRAW DOWN BONDS	SINGLE FAMILY HOUSING PROGRAM BONDS
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 55,296	\$ -	\$ 22	\$ 32
Investments	1,058,051	-	89	3,091
Current portion - program loans receivable	88,519	-	-	-
Interest receivable - Program loans	23,333	-	-	165
Interest receivable - Investments	5,690	-	-	4
Accounts receivable	20,452	-	-	-
Due from (to) other funds	(43,031)	-	-	128
Other assets	61	-	-	-
Total current assets	<u>1,208,371</u>	<u>-</u>	<u>111</u>	<u>3,420</u>
Noncurrent assets:				
Investments	154,175	-	-	-
Program loans receivable	5,105,173	-	-	60,534
Due from (to) other funds	-	-	-	-
Deferred financing costs	27,852	-	-	559
Other assets and deferred outflow	200,073	-	-	-
Total Noncurrent assets	<u>5,487,273</u>	<u>-</u>	<u>-</u>	<u>61,093</u>
Total Assets	<u>\$ 6,695,644</u>	<u>\$ -</u>	<u>\$ 111</u>	<u>\$ 64,513</u>
LIABILITIES AND FUND EQUITY				
Current liabilities:				
Bonds payable	\$ 130,582	\$ -	\$ -	\$ -
Interest payable	57,087	-	-	1,107
Due to (from) other government entities	(61)	-	-	-
Compensated absences	-	-	-	-
Deposits and other liabilities	45,914	-	-	25
Total current liabilities	<u>233,522</u>	<u>-</u>	<u>-</u>	<u>1,132</u>
Noncurrent liabilities:				
Bonds and debenture notes payable	6,092,713	-	-	81,745
Due to (from) other government entities	8,982	-	-	-
Other liabilities and deferred inflow	-	-	-	-
Deferred revenues	7,380	-	-	-
Total noncurrent liabilities	<u>6,109,075</u>	<u>-</u>	<u>-</u>	<u>81,745</u>
Total Liabilities	<u>6,342,597</u>	<u>-</u>	<u>-</u>	<u>82,877</u>
Fund equity				
Invested in capital assets	-	-	-	-
Restricted by indenture	353,047	-	111	(18,364)
Restricted by statute	-	-	-	-
Total Fund equity	<u>353,047</u>	<u>-</u>	<u>111</u>	<u>(18,364)</u>
Total Liabilities and Fund equity	<u>\$ 6,695,644</u>	<u>\$ -</u>	<u>\$ 111</u>	<u>\$ 64,513</u>

SINGLE FAMILY HOME MORTGAGE BONDS	RESIDENTIAL MORTGAGE REVENUE BONDS	TOTAL HOMEOWNERSHIP PROGRAMS
\$ 276	\$ 1,016,953	\$ 1,072,579
10,573	-	1,071,804
695	-	89,214
255	-	23,753
8	-	5,702
28	-	20,480
(217)	-	(43,120)
-	-	61
<u>11,618</u>	<u>1,016,953</u>	<u>2,240,473</u>
-	-	154,175
43,641	-	5,209,348
-	-	-
107	522	29,040
540	-	200,613
<u>44,288</u>	<u>522</u>	<u>5,593,176</u>
<u>\$ 55,906</u>	<u>\$ 1,017,475</u>	<u>\$ 7,833,649</u>
\$ 1,530	\$ -	\$ 132,112
2,241	513	60,948
-	-	(61)
-	-	-
12	-	45,951
<u>3,783</u>	<u>513</u>	<u>238,950</u>
47,752	1,016,440	7,238,650
-	-	8,982
-	-	-
28	-	7,408
<u>47,780</u>	<u>1,016,440</u>	<u>7,255,040</u>
<u>51,563</u>	<u>1,016,953</u>	<u>7,493,990</u>
-	-	-
4,343	522	339,659
-	-	-
<u>4,343</u>	<u>522</u>	<u>339,659</u>
<u>\$ 55,906</u>	<u>\$ 1,017,475</u>	<u>\$ 7,833,649</u>

CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN FUND EQUITY
HOMEOWNERSHIP PROGRAM
June 30, 2010

(Dollars in Thousands)

	HOME MORTGAGE REVENUE BONDS	SINGLE FAMILY MORTGAGE BONDS II	DRAW DOWN BONDS	SINGLE FAMILY HOUSING PROGRAM BONDS
OPERATING REVENUES				
Interest income:				
Program loans and loan agreements -- net	\$ 288,245	\$ 2,339	\$ -	\$ 522
Interest income - Investments -- net	24,248	223	1	272
Increase (decrease) in fair value of investments	16,853	592	-	-
Loan commitment fees	153	10	-	-
Other loan fees	-	-	-	-
Other revenues	3,700	-	-	(11)
Total Operating revenues	<u>333,199</u>	<u>3,164</u>	<u>1</u>	<u>783</u>
OPERATING EXPENSES				
Interest	160,321	1,139	-	3,330
Amortization of bond discount and bond premium	(1,438)	17	-	-
Mortgage servicing fees	15,988	134	-	-
Provision (reversal) for estimated loan losses	30,794	(7)	-	8,900
Operating expenses	-	-	-	-
Other expenses	83,537	167	-	1,833
Total Operating expenses	<u>289,202</u>	<u>1,450</u>	<u>-</u>	<u>14,063</u>
Operating income (loss) before transfers	43,997	1,714	1	(13,280)
Transfers (interfund)	-	-	-	-
Transfers (intrafund)	(118,319)	(35,457)	-	6,344
Increase (decrease) in fund equity	(74,322)	(33,743)	1	(6,936)
Fund equity at beginning of year, as originally stated	427,369	33,743	110	(11,428)
Cumulative effect of adoption of GASB 53	-	-	-	-
Fund equity at beginning of year, as restated	<u>427,369</u>	<u>33,743</u>	<u>110</u>	<u>(11,428)</u>
Fund equity at end of year	<u>\$ 353,047</u>	<u>\$ -</u>	<u>\$ 111</u>	<u>\$ (18,364)</u>

SINGLE FAMILY HOME MORTGAGE BONDS	RESIDENTIAL MORTGAGE REVENUE BONDS	TOTAL HOMEOWNERSHIP PROGRAMS
\$ 2,850	\$ -	\$ 293,956
61	513	25,318
167	-	17,612
2	-	165
-	-	-
-	-	3,689
<u>3,080</u>	<u>513</u>	<u>340,740</u>
4,064	513	169,367
12	-	(1,409)
154	-	16,276
44	-	39,731
-	-	-
13	522	86,072
<u>4,287</u>	<u>1,035</u>	<u>310,037</u>
(1,207)	(522)	30,703
-	-	-
373	1,044	(146,015)
(834)	522	(115,312)
5,177	-	454,971
-	-	-
<u>5,177</u>	<u>-</u>	<u>454,971</u>
<u>\$ 4,343</u>	<u>\$ 522</u>	<u>\$ 339,659</u>

**CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL STATEMENT OF CASH FLOWS -
HOMEOWNERSHIP PROGRAMS**

June 30, 2010

(Dollars in Thousands)

	HOME MORTGAGE REVENUE BONDS	SINGLE FAMILY MORTGAGE BONDS II	DRAW DOWN BONDS	SINGLE FAMILY HOUSING PROGRAM BONDS
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 291,410	\$ 2,603	\$ -	\$ 532
Payments to suppliers	(17,272)	(156)	-	(20)
Payments to employees	-	-	-	-
Internal activity - payments other funds	-	-	-	-
Other receipts (payments)	584,661	53,130	-	(191)
Net cash provided by operating activities	<u>858,799</u>	<u>55,577</u>	<u>-</u>	<u>321</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Intrafund transfers	(118,319)	(35,457)	-	6,344
Changes in due to (from) other government entities	2,191	-	-	-
Net cash provided by (used for) noncapital financing activities	<u>(116,128)</u>	<u>(35,457)</u>	<u>-</u>	<u>6,344</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from sales of bonds and notes payable	-	-	-	-
Payment of bond principal	(89,509)	(2,595)	-	-
Early bond redemptions	(403,121)	(27,955)	-	(7,955)
Interest paid on debt	(185,970)	(1,836)	-	(3,944)
Interfund transfers	-	-	-	-
Decrease (increase) in deferred financing costs	(21)	-	-	-
Net cash provided by (used for) capital and related financing activities	<u>(678,621)</u>	<u>(32,386)</u>	<u>-</u>	<u>(11,899)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from maturity and sale of investments	1,979,985	34,837	-	12,025
Purchase of investments	(2,026,630)	(23,397)	-	(7,328)
Interest on investments	24,766	366	1	299
Net cash provided by (used for) investing activities	<u>(21,879)</u>	<u>11,806</u>	<u>1</u>	<u>4,996</u>
Net increase (decrease) in cash and cash equivalents	42,171	(460)	1	(238)
Cash and cash equivalents at beginning of year	13,125	460	21	270
Cash and cash equivalents at end of year	<u>\$ 55,296</u>	<u>\$ -</u>	<u>\$ 22</u>	<u>\$ 32</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:				
Operating income (loss)	\$ 43,997	\$ 1,714	\$ 1	\$ (13,280)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Interest expense on debt	160,321	1,139	-	3,330
Interest on investments	(24,248)	(223)	(1)	(272)
Changes in fair value of investments	(16,853)	(592)	-	-
Accretion of capital appreciation bonds	3,110	-	-	-
Amortization of bond discount	36	-	-	-
Amortization of deferred losses	226	17	-	-
Amortization of bond issuance costs	3,527	135	-	73
Amortization of bond premium	(1,700)	-	-	-
Amortization of deferred revenue	(153)	(10)	-	-
Depreciation	-	-	-	-
Provision (reversal) for estimated loan losses	30,794	(7)	-	8,900
Provision for yield reduction payments	4,327	-	-	-
Provision for nonmortgage investment excess	(1,243)	(944)	-	(355)
Changes in certain assets and liabilities:				
Sale (Purchase) of program loans-net	(31,377)	666,718	-	-
Collection of principal from program loans - net	632,297	(617,422)	-	2,044
Interest receivable	3,165	265	-	10
Accounts receivable	(7,763)	153	-	-
Due from (to) other funds	19,547	7	-	16
Other assets and deferred outflow	30	-	-	-
Compensated absences	-	-	-	-
Deposits and other liab	40,641	(18)	-	(145)
Other liabilities and deferred inflow	118	4,645	-	-
Net cash provided by operating activities	<u>\$ 858,799</u>	<u>\$ 55,577</u>	<u>\$ -</u>	<u>\$ 321</u>

SINGLE FAMILY HOME MORTGAGE BONDS	RESIDENTIAL MORTGAGE REVENUE BONDS	TOTAL HOMEOWNERSHIP PROGRAMS
\$ 2,852	\$ -	\$ 297,397
(163)	-	(17,611)
-	-	-
-	-	-
3,668	-	641,268
<u>6,357</u>	<u>-</u>	<u>921,054</u>
373	1,044	(146,015)
-	-	2,191
<u>373</u>	<u>1,044</u>	<u>(143,824)</u>
-	1,016,440	1,016,440
(630)	-	(92,734)
-	-	(439,031)
(2,300)	-	(194,050)
-	-	-
(6)	(1,044)	(1,071)
<u>(2,936)</u>	<u>1,015,396</u>	<u>289,554</u>
6,383	-	2,033,230
(10,023)	-	(2,067,378)
85	513	26,030
<u>(3,555)</u>	<u>513</u>	<u>(8,118)</u>
239	1,016,953	1,058,666
37	-	13,913
<u>\$ 276</u>	<u>\$ 1,016,953</u>	<u>\$ 1,072,579</u>
\$ (1,207)	\$ (522)	\$ 30,703
4,064	513	169,367
(61)	(513)	(25,318)
(167)	-	(17,612)
-	-	3,110
-	-	36
11	-	254
6	522	4,263
-	-	(1,700)
(2)	-	(165)
-	-	-
44	-	39,731
-	-	4,327
-	-	(2,542)
1	-	635,342
3,332	-	20,251
1	-	3,441
17	-	(7,593)
320	-	19,890
-	-	30
-	-	-
(2)	-	40,476
-	-	4,763
<u>\$ 6,357</u>	<u>\$ -</u>	<u>\$ 921,054</u>

**CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL BALANCE SHEET
MULTIFAMILY RENTAL HOUSING PROGRAMS
June 30, 2010**

(Dollars in Thousands)

	MULTIFAMILY LOAN PURCHASE BONDS	MULTIFAMILY HOUSING REVENUE BONDS II	MULTIFAMILY HOUSING REVENUE BONDS III	MULTIFAMILY HOUSING PROGRAM BONDS
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 1,380	\$ 28	\$ 555	\$ 9
Investments	-	8,730	97,158	10,330
Current portion - program loans receivable	13,500	1,143	45,612	840
Interest receivable - Program loans	-	365	5,140	1,123
Interest receivable - Investments	-	12	677	14
Accounts receivable	-	-	-	-
Due from (to) other funds	(1)	-	(252)	48
Other assets	-	63	378	-
Total current assets	<u>14,879</u>	<u>10,341</u>	<u>149,268</u>	<u>12,364</u>
Noncurrent assets:				
Investments	-	-	12,134	-
Program loans receivable	30,305	52,835	949,915	38,243
Due from (to) other funds	-	-	-	-
Deferred financing costs	-	78	4,587	214
Other assets and deferred outflow	-	-	77,629	-
Total Noncurrent assets	<u>30,305</u>	<u>52,913</u>	<u>1,044,265</u>	<u>38,457</u>
Total Assets	<u>\$ 45,184</u>	<u>\$ 63,254</u>	<u>\$ 1,193,533</u>	<u>\$ 50,821</u>
LIABILITIES AND FUND EQUITY				
Current liabilities:				
Bonds payable	\$ -	\$ 725	\$ 25,169	\$ -
Interest payable	264	1,657	15,972	46
Due to (from) other government entities	-	-	-	-
Compensated absences	-	-	-	-
Deposits and other liabilities	1	3	598	-
Total current liabilities	<u>265</u>	<u>2,385</u>	<u>41,739</u>	<u>46</u>
Noncurrent liabilities:				
Bonds and debenture notes payable	44,922	57,813	969,089	44,450
Due to (from) other government entities	-	-	9,859	-
Other liabilities and deferred inflow	-	-	91,131	-
Deferred revenues	-	-	13	-
Total noncurrent liabilities	<u>44,922</u>	<u>57,813</u>	<u>1,070,092</u>	<u>44,450</u>
Total Liabilities	<u>45,187</u>	<u>60,198</u>	<u>1,111,831</u>	<u>44,496</u>
Fund equity				
Invested in capital assets	-	-	-	-
Restricted by indenture	(3)	3,056	81,702	6,325
Restricted by statute	-	-	-	-
Total Fund equity	<u>(3)</u>	<u>3,056</u>	<u>81,702</u>	<u>6,325</u>
Total Liabilities and Fund equity	<u>\$ 45,184</u>	<u>\$ 63,254</u>	<u>\$ 1,193,533</u>	<u>\$ 50,821</u>

MULTIFAMILY CONDUITS	AFFORDABLE MULTIFAMILY HOUSING REVENUE BONDS	TOTAL MULTIFAMILY RENTAL HOUSING PROGRAMS
\$ -	\$ 380,722	\$ 382,694
-	-	116,218
-	-	61,095
3	-	6,631
-	-	703
-	-	-
-	-	(205)
-	-	441
<u>3</u>	<u>380,722</u>	<u>567,577</u>
-	-	12,134
12,358	-	1,083,656
-	-	-
-	217	5,096
-	-	77,629
<u>12,358</u>	<u>217</u>	<u>1,178,515</u>
<u>\$ 12,361</u>	<u>\$ 380,939</u>	<u>\$ 1,746,092</u>
\$ 963	\$ -	\$ 26,857
11	192	18,142
-	-	-
-	-	-
-	-	602
<u>974</u>	<u>192</u>	<u>45,601</u>
11,395	380,530	1,508,199
-	-	9,859
-	-	91,131
-	-	13
<u>11,395</u>	<u>380,530</u>	<u>1,609,202</u>
<u>12,369</u>	<u>380,722</u>	<u>1,654,803</u>
-	-	-
(8)	217	91,289
-	-	-
<u>(8)</u>	<u>217</u>	<u>91,289</u>
<u>\$ 12,361</u>	<u>\$ 380,939</u>	<u>\$ 1,746,092</u>

CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN FUND EQUITY
MULTIFAMILY PROGRAM
June 30, 2010

(Dollars in Thousands)

	MULTIFAMILY LOAN PURCHASE BONDS	MULTIFAMILY HOUSING REVENUE BONDS II	MULTIFAMILY HOUSING REVENUE BONDS III	MULTIFAMILY HOUSING PROGRAM BONDS
OPERATING REVENUES				
Interest income:				
Program loans and loan agreements -- net	\$ 3,621	\$ 4,302	\$ 65,719	\$ 2,646
Interest income - Investments -- net	-	49	3,432	51
Increase (decrease) in fair value of investments	-	-	(33)	-
Loan commitment fees	-	-	-	-
Other loan fees	-	-	146	-
Other revenues	-	-	(11,492)	-
Total Operating revenues	<u>3,621</u>	<u>4,351</u>	<u>57,772</u>	<u>2,697</u>
OPERATING EXPENSES				
Interest	3,607	3,992	44,348	748
Amortization of bond discount and bond premium	-	28	770	-
Mortgage servicing fees	-	-	7	-
Provision (reversal) for estimated loan losses	-	(18)	(9,419)	(42)
Operating expenses	-	-	-	-
Other expenses	14	186	26,744	256
Total Operating expenses	<u>3,621</u>	<u>4,188</u>	<u>62,450</u>	<u>962</u>
Operating income (loss) before transfers	-	163	(4,678)	1,735
Transfers (interfund)	-	-	-	-
Transfers (intrafund)	-	-	16,860	487
Increase (decrease) in fund equity	-	163	12,182	2,222
Fund equity at beginning of year, as originally stated	(3)	2,893	72,476	4,103
Cumulative effect of adoption of GASB 53	-	-	(2,956)	-
Fund equity at beginning of year, as restated	<u>(3)</u>	<u>2,893</u>	<u>69,520</u>	<u>4,103</u>
Fund equity at end of year	<u>\$ (3)</u>	<u>\$ 3,056</u>	<u>\$ 81,702</u>	<u>\$ 6,325</u>

MULTIFAMILY CONDUITS	AFFORDABLE MULTIFAMILY HOUSING REVENUE BONDS	TOTAL MULTIFAMILY RENTAL HOUSING PROGRAMS
\$ 38	\$ -	\$ 76,326
-	192	3,724
-	-	(33)
-	-	-
-	-	146
-	-	(11,492)
<u>38</u>	<u>192</u>	<u>68,671</u>
46	192	52,933
-	-	798
-	-	7
-	-	(9,479)
-	-	-
-	216	27,416
<u>46</u>	<u>408</u>	<u>71,675</u>
(8)	(216)	(3,004)
-	-	-
-	433	17,780
<u>(8)</u>	<u>217</u>	<u>14,776</u>
-	-	79,469
-	-	(2,956)
<u>-</u>	<u>-</u>	<u>76,513</u>
<u>\$ (8)</u>	<u>\$ 217</u>	<u>\$ 91,289</u>

CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL STATEMENT OF CASH FLOWS -
MULTIFAMILY RENTAL HOUSING PROGRAMS
June 30, 2010
(Dollars in Thousands)

	MULTIFAMILY LOAN PURCHASE BONDS	MULTIFAMILY HOUSING REVENUE BONDS II	MULTIFAMILY HOUSING REVENUE BONDS III	MULTIFAMILY HOUSING PROGRAM BONDS
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 3,621	\$ 4,306	\$ 66,443	\$ 2,852
Payments to suppliers	(7)	(17)	(171)	-
Payments to employees	-	-	-	-
Internal activity - payments other funds	-	-	-	-
Other receipts (payments)	13,668	967	106,825	7,107
Net cash provided by (used for) operating activities	<u>17,282</u>	<u>5,256</u>	<u>173,097</u>	<u>9,959</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Intrafund transfers	-	-	16,860	487
Changes in due to (from) other government entities	-	-	-	-
Net cash provided by noncapital financing activities	<u>-</u>	<u>-</u>	<u>16,860</u>	<u>487</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from sales of bonds and notes payable	-	-	-	-
Payment of bond principal	(13,787)	(675)	(24,295)	-
Early bond redemptions	-	-	(140,255)	(4,775)
Interest paid on debt	(3,724)	(4,010)	(48,778)	(1,707)
Interfund transfers	-	-	-	-
Decrease (increase) in deferred financing costs	-	-	2	-
Net cash provided by (used for) capital and related financing activities	<u>(17,511)</u>	<u>(4,685)</u>	<u>(213,326)</u>	<u>(6,482)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from maturity and sale of investments	-	4,842	177,008	5,928
Purchase of investments	-	(5,502)	(158,981)	(10,035)
Interest on investments	-	66	3,742	58
Net cash provided by (used for) investing activities	<u>-</u>	<u>(594)</u>	<u>21,769</u>	<u>(4,049)</u>
Net increase (decrease) in cash and cash equivalents	(229)	(23)	(1,600)	(85)
Cash and cash equivalents at beginning of year	1,609	51	2,155	94
Cash and cash equivalents at end of year	<u>\$ 1,380</u>	<u>\$ 28</u>	<u>\$ 555</u>	<u>\$ 9</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:				
Operating income (loss)	\$ -	\$ 163	\$ (4,678)	\$ 1,735
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Interest expense on debt	3,607	3,992	44,348	748
Interest on investments	-	(49)	(3,432)	(51)
Changes in fair value of investments	-	-	33	-
Accretion of capital appreciation bonds	-	-	-	-
Amortization of bond discount	-	28	-	-
Amortization of deferred losses	-	-	770	-
Amortization of bond issuance costs	-	6	1,162	33
Amortization of bond premium	-	-	-	-
Amortization of deferred revenue	-	-	-	-
Depreciation	-	-	-	-
Provision (reversal for estimated loan losses)	-	(18)	(9,419)	(42)
Provision for yield reduction payments	-	-	(1,751)	-
Provision for nonmortgage investment excess	-	-	(624)	-
Changes in certain assets and liabilities:				
Sale (Purchase) of program loans-net	-	-	62,842	4,766
Collection of principal from program loans - net	13,676	1,133	72,886	2,611
Interest receivable	-	3	724	207
Accounts receivable	-	-	-	-
Due from (to) other funds	-	-	8	(48)
Other assets and deferred outflow	-	(2)	(77,596)	-
Compensated absences	-	-	-	-
Deposits and other liab	(1)	-	(351)	-
Other liabilities and deferred inflow	-	-	88,175	-
Net cash provided by (used for) operating activities	<u>\$ 17,282</u>	<u>\$ 5,256</u>	<u>\$ 173,097</u>	<u>\$ 9,959</u>

MULTIFAMILY CONDUITS	AFFORDABLE MULTIFAMILY HOUSING REVENUE BONDS	TOTAL MULTIFAMILY RENTAL HOUSING PROGRAMS
\$ 36	\$ -	\$ 77,258
-	-	(195)
-	-	-
-	-	-
(1,775)	-	126,792
<u>(1,739)</u>	<u>-</u>	<u>203,855</u>
-	433	17,780
-	-	-
<u>-</u>	<u>433</u>	<u>17,780</u>
1,413	380,530	381,943
-	-	(38,757)
-	-	(145,030)
(38)	-	(58,257)
-	-	-
-	(433)	(431)
<u>1,375</u>	<u>380,097</u>	<u>139,468</u>
-	-	187,778
-	-	(174,518)
-	192	4,058
<u>-</u>	<u>192</u>	<u>17,318</u>
(364)	380,722	378,421
364	-	4,273
<u>\$ -</u>	<u>\$ 380,722</u>	<u>\$ 382,694</u>
\$ (8)	\$ (216)	\$ (3,004)
46	192	52,933
-	(192)	(3,724)
-	-	33
-	-	-
-	-	28
-	-	770
-	216	1,417
-	-	-
-	-	-
-	-	(9,479)
-	-	(1,751)
-	-	(624)
(1,775)	-	65,833
-	-	90,306
(2)	-	932
-	-	-
-	-	(40)
-	-	(77,598)
-	-	-
-	-	(352)
-	-	88,175
<u>\$ (1,739)</u>	<u>\$ -</u>	<u>\$ 203,855</u>

**CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL BALANCE SHEET
OTHER PROGRAMS AND ACCOUNTS
June 30, 2010**

(Dollars in Thousands)

	HOUSING ASSISTANCE TRUST	CONTRACT ADMINISTRATION PROGRAMS	SUPPLEMENTAL BOND SECURITY ACCOUNT	EMERGENCY RESERVE ACCOUNT
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 13,986	\$ 1,020	\$ -	\$ 1
Investments	144,843	416,974	81,541	32,159
Current portion - program loans receivable	47,762	70	-	-
Interest receivable - Program loans	1,022	3,145	-	-
Interest receivable - Investments	228	616	116	56
Accounts receivable	1,219	-	-	69
Due from (to) other funds	(280,295)	(1,528)	22,362	12,281
Other assets	23	-	-	-
Total current assets	<u>(71,212)</u>	<u>420,297</u>	<u>104,019</u>	<u>44,566</u>
Noncurrent assets:				
Investments	562	-	-	-
Program loans receivable	268,563	207,123	-	-
Due from (to) other funds	-	-	-	-
Deferred financing costs	-	-	-	-
Other assets and deferred outflow	156	-	-	-
Total Noncurrent assets	<u>269,281</u>	<u>207,123</u>	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 198,069</u>	<u>\$ 627,420</u>	<u>\$ 104,019</u>	<u>\$ 44,566</u>
LIABILITIES AND FUND EQUITY				
Current liabilities:				
Bonds payable	\$ -	\$ -	\$ -	\$ -
Interest payable	-	-	-	-
Due to (from) other government entities	5	685	(43)	-
Compensated absences	-	-	-	-
Deposits and other liabilities	44	5,935	78,588	-
Total current liabilities	<u>49</u>	<u>6,620</u>	<u>78,545</u>	<u>-</u>
Noncurrent liabilities:				
Bonds and debenture notes payable	-	-	-	-
Due to (from) other government entities	547	-	-	-
Other liabilities and deferred inflow	-	-	-	-
Deferred revenues	(4,758)	-	-	-
Total noncurrent liabilities	<u>(4,211)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>(4,162)</u>	<u>6,620</u>	<u>78,545</u>	<u>-</u>
Fund equity				
Invested in capital assets	-	-	-	-
Restricted by indenture	-	-	-	-
Restricted by statute	202,231	620,800	25,474	44,566
Total Fund equity	<u>202,231</u>	<u>620,800</u>	<u>25,474</u>	<u>44,566</u>
Total Liabilities and Fund equity	<u>\$ 198,069</u>	<u>\$ 627,420</u>	<u>\$ 104,019</u>	<u>\$ 44,566</u>

LOAN SERVICING	LOAN WAREHOUSING	HOMEOWNERSHIP SECONDARY MARKETING	CITIGROUP GLOBAL MARKETS	OPERATING ACCOUNT	TOTAL OTHER PROGRAMS AND ACCOUNTS
\$ 31,206	\$ 9,325	\$ 79	\$ 101	\$ 1,424	\$ 57,142
157,676	29,263	-	-	11,111	873,567
-	52,966	-	2,642	-	103,440
-	364	-	493	-	5,024
218	200	-	-	22	1,456
6,495	26	-	-	493	8,302
(7,132)	(12,379)	(50)	(80)	310,146	43,325
-	33,420	-	-	56	33,499
<u>188,463</u>	<u>113,185</u>	<u>29</u>	<u>3,156</u>	<u>323,252</u>	<u>1,125,755</u>
-	42,857	-	-	-	43,419
-	33,237	-	88,792	-	597,715
-	-	-	-	-	-
-	-	-	-	20	20
-	196	-	-	215,999	216,351
<u>-</u>	<u>76,290</u>	<u>-</u>	<u>88,792</u>	<u>216,019</u>	<u>857,505</u>
<u>\$ 188,463</u>	<u>\$ 189,475</u>	<u>29</u>	<u>91,948</u>	<u>\$ 539,271</u>	<u>\$ 1,983,260</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	172	-	508	43,441	44,121
43	90,000	-	-	7,119	97,809
-	-	-	-	4,358	4,358
168,736	88,630	-	-	4,978	346,911
<u>168,779</u>	<u>178,802</u>	<u>-</u>	<u>508</u>	<u>59,896</u>	<u>493,199</u>
-	-	-	93,854	-	93,854
-	-	-	-	-	547
-	-	-	-	250,885	250,885
-	53	-	-	26,445	21,740
<u>-</u>	<u>53</u>	<u>-</u>	<u>93,854</u>	<u>277,330</u>	<u>367,026</u>
<u>168,779</u>	<u>178,855</u>	<u>-</u>	<u>94,362</u>	<u>337,226</u>	<u>860,225</u>
-	-	-	-	866	866
-	-	-	-	-	-
19,684	10,620	29	(2,414)	201,179	1,122,169
<u>19,684</u>	<u>10,620</u>	<u>29</u>	<u>(2,414)</u>	<u>202,045</u>	<u>1,123,035</u>
<u>\$ 188,463</u>	<u>\$ 189,475</u>	<u>\$ 29</u>	<u>\$ 91,948</u>	<u>\$ 539,271</u>	<u>\$ 1,983,260</u>

CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN FUND EQUITY
OTHER PROGRAMS AND ACCOUNTS
June 30, 2010

(Dollars in Thousands)

	HOUSING ASSISTANCE TRUST	CONTRACT ADMINISTRATION PROGRAMS	SUPPLEMENTAL BOND SECURITY ACCOUNT	EMERGENCY RESERVE ACCOUNT
OPERATING REVENUES				
Interest income:				
Program loans and loan agreements -- net	\$ 17,435	\$ 3,251	\$ -	\$ -
Interest income - Investments -- net	963	2,896	675	727
Increase (decrease) in fair value of investments	14	-	-	-
Loan commitment fees	-	-	-	-
Other loan fees	213	-	-	-
Other revenues	4,094	8,708	-	-
Total Operating revenues	<u>22,719</u>	<u>14,855</u>	<u>675</u>	<u>727</u>
OPERATING EXPENSES				
Interest	267	-	-	-
Amortization of bond discount and bond premium	-	-	-	-
Mortgage servicing fees	45	-	-	-
Provision (reversal) for estimated loan losses	(2,138)	17,291	-	-
Operating expenses	-	-	-	-
Other expenses	34	36,217	41,717	-
Total Operating expenses	<u>(1,792)</u>	<u>53,508</u>	<u>41,717</u>	<u>-</u>
Operating income (loss) before transfers	24,511	(38,653)	(41,042)	727
Transfers (interfund)	-	14,350	-	-
Transfers (intrafund)	(246,651)	-	41,000	(40,995)
Increase (decrease) in fund equity	(222,140)	(24,303)	(42)	(40,268)
Fund equity at beginning of year, as originally stated	424,371	645,103	25,516	84,834
Cumulative effect of adoption of GASB 53	-	-	-	-
Fund equity at beginning of year, as restated	<u>424,371</u>	<u>645,103</u>	<u>25,516</u>	<u>84,834</u>
Fund equity at end of year	<u>\$ 202,231</u>	<u>\$ 620,800</u>	<u>\$ 25,474</u>	<u>\$ 44,566</u>

LOAN SERVICING	LOAN WAREHOUSING	HOMEOWNERSHIP SECONDARY MARKETING	CITIGROUP GLOBAL MARKETS	OPERATING ACCOUNT	TOTAL OTHER PROGRAMS AND ACCOUNTS
\$ -	\$ 2,022	\$ -	\$ -	\$ -	\$ 22,708
(10)	5,713	-	-	216	11,180
-	1,301	-	-	-	1,315
-	-	-	-	1,108	1,108
7,186	3	-	-	20,297	27,699
71,782	-	35	-	(28,019)	56,600
<u>78,958</u>	<u>9,039</u>	<u>35</u>	<u>-</u>	<u>(6,398)</u>	<u>120,610</u>
-	2,142	-	-	93,312	95,721
-	-	-	-	-	-
-	149	-	-	-	194
-	3,714	-	2,414	-	21,281
-	-	-	-	42,536	42,536
73,819	390	6	-	24,932	177,115
<u>73,819</u>	<u>6,395</u>	<u>6</u>	<u>2,414</u>	<u>160,780</u>	<u>336,847</u>
5,139	2,644	29	(2,414)	(167,178)	(216,237)
-	-	-	-	-	14,350
-	(98)	-	-	374,979	128,235
5,139	2,546	29	(2,414)	207,801	(73,652)
14,545	8,074	-	-	10,585	1,213,028
-	-	-	-	(16,341)	(16,341)
<u>14,545</u>	<u>8,074</u>	<u>-</u>	<u>-</u>	<u>(5,756)</u>	<u>1,196,687</u>
<u>\$ 19,684</u>	<u>\$ 10,620</u>	<u>\$ 29</u>	<u>\$ (2,414)</u>	<u>\$ 202,045</u>	<u>\$ 1,123,035</u>

**CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL STATEMENT OF CASH FLOWS -
OTHER PROGRAMS AND ACCOUNTS**

June 30, 2010

(Dollars in Thousands)

	HOUSING ASSISTANCE TRUST	CONTRACT ADMINISTRATION PROGRAMS	SUPPLEMENTAL BOND SECURITY ACCOUNT	EMERGENCY RESERVE ACCOUNT
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 17,293	\$ 803	\$ -	\$ -
Payments to suppliers	(34)	-	-	-
Payments to employees	-	-	-	-
Internal activity - payments other funds	-	-	-	-
Other receipts (payments)	212,781	(66,434)	(39,994)	2,324
Net cash provided by (used for) operating activities	<u>230,040</u>	<u>(65,631)</u>	<u>(39,994)</u>	<u>2,324</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Intrafund transfers	(246,651)	-	41,000	(40,995)
Due to (from) other government entities	-	-	(2,526)	-
Net cash provided by (used for) noncapital financing activities	<u>(246,651)</u>	<u>-</u>	<u>38,474</u>	<u>(40,995)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from sales of bonds and notes payable	-	-	-	-
Payment of bond principal	-	-	-	-
Early bond redemptions	(23,134)	-	-	-
Interest paid on debt	(464)	-	-	-
Interfund transfers	-	14,350	-	-
(Additions) deductions to deferred financing costs	-	-	-	-
Net cash provided by (used for) capital and related financing activities	<u>(23,598)</u>	<u>14,350</u>	<u>-</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from maturity and sale of investments	402,919	95,421	96,666	189,938
Purchase of investments	(408,146)	(49,124)	(95,856)	(152,202)
Interest on investments - net	1,550	3,977	710	935
Net cash provided by (used for) investing activities	<u>(3,677)</u>	<u>50,274</u>	<u>1,520</u>	<u>38,671</u>
Net increase (decrease) in cash and cash equivalents	(43,886)	(1,007)	-	-
Cash and cash equivalents at beginning of year	57,872	2,027	-	1
Cash and cash equivalents at end of year	<u>\$ 13,986</u>	<u>\$ 1,020</u>	<u>\$ -</u>	<u>\$ 1</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:				
Operating income (loss)	\$ 24,511	\$ (38,653)	\$ (41,042)	\$ 727
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Interest expense on debt	267	-	-	-
Interest on investments	(963)	(2,896)	(675)	(727)
Changes in fair value of investments	(14)	-	-	-
Accretion of capital appreciation bonds	-	-	-	-
Amortization of bond discount	-	-	-	-
Amortization of deferred losses	-	-	-	-
Amortization of bond issuance costs	-	-	-	-
Amortization of bond premium	-	-	-	-
Amortization of deferred revenue	-	-	-	-
Depreciation	-	-	-	-
Provision (reversal) for estimated loan losses	(2,138)	17,291	-	-
Provision for yield reduction payments	-	-	-	-
Provision for nonmortgage investment excess	548	-	-	-
Changes in certain assets and liabilities:				
Sale (Purchase) of program loans-net	(659,046)	(41,223)	-	-
Collection of principal from program loans - net	672,786	6,615	-	-
Interest receivable	(141)	(2,448)	-	-
Accounts receivable	(1,199)	-	-	-
Due from (to) other funds	200,148	(2,573)	3,268	2,324
Other assets and deferred outflow	-	-	-	-
Compensated absences	-	-	-	-
Deposits and other liab	39	(1,744)	(1,545)	-
Other liabilities and deferred inflow	(4,758)	-	-	-
Net cash provided by (used for) operating activities	<u>\$ 230,040</u>	<u>\$ (65,631)</u>	<u>\$ (39,994)</u>	<u>\$ 2,324</u>

LOAN SERVICING	LOAN WAREHOUSING	HOMEOWNERSHIP SECONDARY MARKETING	CITIGROUP GLOBAL MARKETS	OPERATING ACCOUNT	TOTAL OTHER PROGRAMS AND ACCOUNTS
\$ -	\$ 2,419	\$ -	\$ (494)	\$ -	\$ 20,021
-	(154)	-	-	(16,696)	(16,884)
-	-	-	-	(26,045)	(26,045)
-	-	-	-	-	-
14,525	50,290	29	(93,767)	(269,406)	(189,652)
<u>14,525</u>	<u>52,555</u>	<u>29</u>	<u>(94,261)</u>	<u>(312,147)</u>	<u>(212,560)</u>
-	(98)	-	-	374,979	128,235
43	(160,000)	-	-	2,821	(159,662)
<u>43</u>	<u>(160,098)</u>	<u>-</u>	<u>-</u>	<u>377,800</u>	<u>(31,427)</u>
-	-	-	94,432	-	94,432
-	-	-	(578)	-	(578)
-	-	-	-	-	(23,134)
-	(3,267)	-	508	(102,855)	(106,078)
-	-	-	-	-	14,350
-	-	-	-	-	-
<u>-</u>	<u>(3,267)</u>	<u>-</u>	<u>94,362</u>	<u>(102,855)</u>	<u>(21,008)</u>
41,280	237,024	-	-	30,005,567	31,068,815
(56,676)	(131,899)	-	-	(29,967,780)	(30,861,683)
308	6,191	-	-	392	14,063
<u>(15,088)</u>	<u>111,316</u>	<u>-</u>	<u>-</u>	<u>38,179</u>	<u>221,195</u>
(520)	506	29	101	977	(43,800)
31,726	8,819	50	-	447	100,942
<u>\$ 31,206</u>	<u>\$ 9,325</u>	<u>\$ 79</u>	<u>\$ 101</u>	<u>\$ 1,424</u>	<u>\$ 57,142</u>
\$ 5,139	\$ 2,644	\$ 29	\$ (2,414)	\$ (167,178)	(216,237)
-	2,142	-	-	93,312	95,721
10	(5,713)	-	-	(216)	(11,180)
-	(1,301)	-	-	-	(1,315)
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	10	10
-	-	-	-	-	-
-	-	-	-	(1,108)	(1,108)
-	-	-	-	218	218
-	3,714	-	2,414	-	21,281
-	-	-	-	-	-
-	-	-	-	-	548
-	(10,703)	-	(94,431)	-	(805,403)
-	11,574	-	584	-	691,559
-	397	-	(494)	-	(2,686)
174	20	-	-	(461)	(1,466)
247	28,796	-	80	(252,140)	(19,850)
-	(33,420)	-	-	(215,399)	(248,819)
-	-	-	-	2,041	2,041
8,955	54,422	-	-	(5,686)	54,441
-	(17)	-	-	234,460	229,685
<u>\$ 14,525</u>	<u>\$ 52,555</u>	<u>\$ 29</u>	<u>\$ (94,261)</u>	<u>\$ (312,147)</u>	<u>\$ (212,560)</u>

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APPENDIX B

MORTGAGE-BACKED SECURITIES PURCHASED WITH PROCEEDS OF BONDS

The following table provides certain information as of March 31, 2011 with respect to Mortgage-Backed Securities (or participations therein) purchased with Residential Mortgage Revenue Bond (“RMRB”) proceeds.

Security Settlement Date	GNMA Pool Number	CUSIP	Underlying Mortgage Rate	Pass- through Rate	Original Certificate Amount ¹	Certificate Remaining Principal Balance ¹	RMRB Series	Participation Percentage Owned and Funded with RMRB Proceeds
01/01/11	759378	36230UM30	3.875%	3.375%	\$1,705,851.00	\$1,698,147.05	2010A/2009A-3	89.08%
01/13/11	759423	36230UPG8	3.875%	3.375%	3,214,440.00	3,198,852.57	2010A/2009A-3	81.58%
02/08/11	759557	36230UTN9	3.875%	3.375%	4,630,433.00	4,615,728.00	2010A/2009A-3	81.58%
02/08/11	759558	36230UTP4	4.000%	3.500%	564,481.00	562,708.20	2010A/2009A-3	84.21%
02/08/11	759559	36230UTQ2	3.875%	3.375%	523,529.00	521,811.97	2010A/2009A-3	81.58%
02/16/11	759281	36230UJ26	3.875%	3.375%	8,735,034.00	8,707,260.61	2010A/2009A-3	81.58%
03/03/11	762681	36176DCS0	3.875%	3.375%	6,284,544.00	6,270,569.25	2010A/2009A-3	81.58%
03/03/11	762684	36176DCV3	4.000%	3.500%	73,859.00	73,751.74	2010A/2009A-3	84.21%
03/03/11	762691	36176DC43	4.000%	3.500%	2,410,243.00	2,406,281.45	2010A/2009A-3	84.21%
03/03/11	762692	36176DC50	3.875%	3.375%	667,532.00	666,148.66	2010A/2009A-3	81.58%
03/07/11	762690	36176DC35	3.750%	3.250%	573,440.00	572,565.12	2010A/2009A-3	78.95%
03/22/11	762763	36176DFC2	3.875%	3.375%	9,633,576.00	9,618,179.72	2010A/2009A-3	81.58%
03/22/11	762764	36176DFD0	4.000%	3.500%	4,479,186.00	4,471,042.21	2010A/2009A-3	84.21%
03/22/11	762765	36176DFE8	4.125%	3.625%	6,839,737.00	6,809,496.40	2010A/2009A-3	86.84%
03/22/11	762773	36176DFN8	4.000%	3.500%	762,866.00	761,695.07	2010A/2009A-3	84.21%
03/22/11	762774	36176DFP3	3.875%	3.375%	568,961.00	568,109.03	2010A/2009A-3	81.58%
03/22/11	762800	36176DGH0	4.125%	3.625%	201,631.00	201,346.02	2010A/2009A-3	86.84%
03/30/11	762935	36176DLQ4	4.000%	3.500%	2,452,465.00	2,448,914.20	2010A/2009A-3	84.21%
03/30/11	762936	36176DLR2	4.125%	3.625%	3,735,373.00	3,728,344.00	2010A/2009A-3	86.84%
03/30/11	762951	36176DL84	4.250%	3.750%	1,113,165.00	1,109,345.33	2010A/2009A-3	89.47%

¹ Source: Ginnie Mae MBS Tax, Pool, RPB and Factor Data Search Page at <http://structuredginniemae.ginnienet.com/factorreporting/>. Amounts in these columns must be multiplied by the applicable percentage under “Participation Percentage Owned and Funded with RMRB Proceeds” to derive the amount thereof allocable to the Indenture.