Agenda Item No. 4.
September 3, 2008

THE CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE

September 3, 2008

CONSIDERATION AND APPROVAL OF THE APPORTIONMENT OF THE H.R. 3221 SPECIAL 2008 VOLUME CAP AMONG ELIGIBLE STATE CEILING POOLS
(Agenda Item No. 4.)

ACTION:

Establish the Special 2008 Volume Cap reservation amounts for eligible state ceiling pools in accordance with H.R. 3221.

BACKGROUND:

On July 30, 2008 the Housing Assistance Tax Act of 2008 (the "Act") was enacted. The Act modifies certain rules (the "Qualified Mortgage Bond Rules") in the Internal Revenue Code of 1986 (the "Code") that apply to tax-exempt qualified mortgage bonds and qualified veterans' mortgage bonds, issued to finance mortgage loans for single-family residences. In addition, the Act provides additional volume cap for the issuance of qualified mortgage bonds, to be shared with tax-exempt bonds issued to finance qualified residential rental projects, and temporarily exempts interest on Qualified Mortgage Bonds and Tax-Exempt Multifamily Housing Bonds from the alternative minimum tax ("AMT"). The Act also creates a category of mortgage loans defined as "qualified subprime loans" and temporarily liberalizes certain Qualified Mortgage Bond Rules in connection with the refinancing of qualified subprime loans.

General Modifications to Qualified Mortgage Bond Rules are as follows:

1. Temporary Increase in Volume Cap
   The Act provides for $11 billion in additional 2008 volume cap for the purpose of issuing bonds for qualified mortgage bonds or for the purpose of issuing bonds to finance qualified residential rental projects ("Special 2008 Volume Cap"). **California's share of the $11 billion cap is $1,177.5 billion.**

   Special 2008 Volume Cap that remains unused at the end of 2008 may be carried forward through December 31, 2010.

2. Qualified Subprime Loans Refinancings Permitted
   The Code generally prohibits the use of any proceeds of an issue to acquire or replace existing single family mortgage loans. The Act temporarily lifts this restriction for proceeds used to refinance a mortgage on a residence that was originally financed by the mortgagor through a "qualified subprime loan." "Qualified subprime loan" is defined as "an adjustable-rate single family residential mortgage loan made after December 31, 2001, and before January 1, 2008, that the bond issuer determines would be reasonably likely to cause financial hardship to the borrower if not refinanced." Note that this rule imposes on the issuer of the bonds a duty to determine potential financial hardship to the mortgagor. The Act provides no express guidance as to how this determination may be made.

   a. No First-Time Homebuyer Rule (for subprime loans)
      In addition to prohibiting refinancing of existing mortgage loans, the Code generally requires that at least 95% of the proceeds of an issue of qualified

mortgage bonds be used to finance residences of "first-time homebuyers", defined as "mortgagors who had no present ownership interest in their principal residences at any time during the three-year period ending on the date their [bond-financed] mortgage is executed." The Act exempts the issue from this requirement to the extent of any refinancings of qualified subprime loans.

b. Purchase Price Requirement Based on Market Value (for subprime loans)
Qualified mortgage bonds are generally subject to a requirement that mortgage loans finance only residences having a purchase price not in excess of 90% of the average purchase price for single family residences in the statistical area over the previous 12-month period. The Act provides that in the case of qualified subprime loans, the purchase price requirement will be applied based on the market value of the residence at the time of refinancing, in lieu of the purchase price.

c. Proceeds Must Be Used Within 12 Months of Issuance (for subprime loans)
The Act changes the "42 Month Rule" of Section 143(a) (D) (i) to a "12-Month Rule" for the refinancing of qualified subprime loans. Proceeds of an issue of qualified mortgage bonds used to refinance qualified subprime loans must therefore be used within the 12-month period beginning on the date of issuance of the issue (or, in the case of a refunding bond, within the 12-month period beginning on the date of issuance of the original bond) to refinance qualified subprime loans or, to the extent not so used, applied to call bonds. Note that an issue may include proceeds used both to refinance qualified subprime loans within 12 months of the issuance date and to finance new qualified mortgage loans within 42 months of the issuance date.

Effective Date of this Provision: Applies to bonds issued after the date of enactment of the Act.
Sunset Date of this Provision: Does not apply to any bonds issued after December 31, 2010. Note that there is no prohibition on recycling repayments of qualified subprime loans received after December 31, 2010, either to finance new qualified mortgage loans or to refinance additional qualified subprime loans. Repayments on all loans, including qualified subprime loans, received more than 10 years after the date of issuance of the issue must be applied to redeem bonds.

3. Repeal of Alternative Minimum Tax Limitations on Qualified Mortgage Bonds and Tax-Exempt Multifamily Housing Bonds
Prior to the Act, interest on tax-exempt bonds issued to finance mortgage revenue bond programs and finance or refinance qualified residential rental projects was a specific preference item for purposes of the alternative minimum tax and was included in the adjusted current earnings of corporate bondholders. The Act reverses the rules described in the preceding sentence. The Act provides that interest on tax-exempt bonds issued to finance or refinance qualified residential rental projects and mortgage revenue bond programs is not a specific preference item for purposes of the alternative minimum tax and is not included in the adjusted current earnings of corporate bondholders.

Effective Date of this Provision: Applies to bonds issued after July 30, 2008, that do not refund, directly or indirectly, bonds issued prior to July 31, 2008.

CDLAC Implementation Plan

The California Debt Limit Allocation Committee (CDLAC) will have to allocate the entire $1,177.5 billion allocation prior to December 31, 2008. Staff recommends the following plan of action to insure the December 31st timetable is met.

July 2008: Develop a plan for implementation of the additional allocation as defined by H.R. 3221.

September 3, 2008: Hold CDLAC Authority meeting to request board approval of the allocation implementation plan.

September 2008: Post on CDLAC website, HR 3221 application guidelines and Issuer deadlines for application submittal.

October 3, 2008: Applications for HR 3221 allocation due date.

December 3, 2008: CDLAC Authority to approve HR 3221 allocation disbursement.

December 3, 2008 - December 31, 2010: CDLAC will monitor allocation disbursed to California Issuers.

DISCUSSION:

Staff recommendations reflect the following H.R. 3221 priorities to:

1. Provide refinancing options that would enable qualifying Californians that currently have sub-prime loans to stay in their homes (Single Family Housing Program);

2. Revitalize communities by providing reduced interest rate mortgages to first time homebuyers via programs such as REO home purchase programs
(Single Family Housing Program);

3. Promote additional housing for lower income families and individuals
(Qualified Residential Rental Program);

4. Preserve and rehabilitate existing governmental assisted housing for lower income families and individuals (Qualified Residential Rental Program).

In making recommendations for the distribution of the Special 2008 volume cap, staff surveyed interested parties to determine estimated Single Family Housing (SFH) and Qualified Residential Rental Program (QRRP) demand for the December 3 allocation meeting.

Based on the survey, **Qualified Residential Program Pool** applicants anticipate a demand of $407.9 million in the General Pool; $47 million in the Rural Pool and $858.2 million in the Mixed Income Pool. While several applicants indicated that survey amounts provided were somewhat preliminary, staff expects demand in the QRRP Pool to far exceed available allocation. As a result, staff recommends reserving 20% ($235.5 million) of the available allocation for the Qualified

Residential Rental Program Pool. Allocation will be awarded to those projects providing the greatest public benefit as evidenced in the total project score. Projects that meet the minimum point threshold, but fail to obtain an allocation in December will be deferred to the 2009, January allocation meeting where they will be merged into the January staff recommendations according to their score.

Based on the survey, **Single Family Housing Program Pool** applicants anticipate a demand of $1,177.5 billion. Staff recommends reserving 80% ($942 million) of the available allocation for the Single Family Program Pool. The pool amount will be split evenly between CalHFA and local MRB program applicants to administer REO and Refinancing programs. Please see exhibit B for County Fair Share amounts. The detailed recommendation is as follows:

1. CALHFA will receive a statewide allocation of the HR 3221 allocation in the amount of $471 million. Local county governments will receive allocation based on their Fair Share allocation (SEE EXHIBIT A)

2. Fairshare allocation that is not requested by local county governments in October 2008 will be awarded to CalHFA in December 2008 to be utilized on a statewide basis.

3. Mortgage Revenue Bond Program applicants <u>must</u> identify a proposed REO and/or Refinancing program in their CDLAC application to be eligible for an award of allocation.

<u>RECOMMENDATIONS:</u>

Staff recommends reservation amounts that reflect the H.R. 3221 legislative emphasis of providing loans to first-time homebuyers to encourage community revitalization, the refinancing of sub-prime loans, and the promotion of affordable multifamily housing. Staff recommends a reservation amount of $942 million for the Single Family Housing Program Pool and $235.5 million for the Qualified Residential Program Pool.

CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE

EXHIBIT A
Agenda Item No. 4.
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2008 SPECIAL VOLUME CAP
COUNTY FAIR SHARE AMOUNTS FOR
LOCAL ISSUERS OF SINGLE-FAMILY HOUSING PROGRAMS

COUNTY	2007 COUNTY POPULATION	COUNTY % OF STATE POPULATION	2008 COUNTY FAIR SHARE AMOUNTS
CALIFORNIA	**37,662,518**	**100.0000000%**	**$471,000,000**
ALAMEDA	1,526,148	4.0521667%	$19,085,705
ALPINE	1,261	0.0033482%	$15,770
AMADOR	38,435	0.1020511%	$480,661
BUTTE	218,069	0.5790080%	$2,727,128
CALAVERAS	46,028	0.1222117%	$575,617
COLUSA	21,951	0.0582834%	$274,515
CONTRA COSTA	1,042,341	2.7675818%	$13,035,310
DEL NORTE	29,341	0.0779050%	$366,933
EL DORADO	178,674	0.4744080%	$2,234,462
FRESNO	917,515	2.4361489%	$11,474,261
GLENN	28,915	0.0767739%	$361,605
HUMBOLDT	131,959	0.3503722%	$1,650,253
IMPERIAL	172,672	0.4584717%	$2,159,402
INYO	18,383	0.0488098%	$229,894
KERN	801,648	2.1285035%	$10,025,251
KINGS	151,381	0.4019407%	$1,893,141
LAKE	64,276	0.1706630%	$803,823
LASSEN	36,375	0.0965814%	$454,899
LOS ANGELES	10,331,939	27.4329481%	$129,209,185
County of Los Angeles	[6,313,859]	[61.2978763%]	[$42,039,536]
City of Los Angeles	[4,018,080]	[38.7021236%]	[$26,542,834]
MADERA	148,721	0.3948780%	$1,859,875
MARIN	255,982	0.6796731%	$3,201,260
MARIPOSA	18,254	0.0484673%	$228,281
MENDOCINO	90,291	0.2397370%	$1,129,161
MERCED	251,510	0.6677992%	$3,145,334
MODOC	9,721	0.0258108%	$121,569
MONO	13,985	0.0371324%	$174,894
MONTEREY	425,960	1.1309918%	$5,326,971
NAPA	135,969	0.3610194%	$1,700,401
NEVADA	99,766	0.2648947%	$1,247,654
ORANGE	3,098,121	8.2260060%	$38,744,488
PLACER	324,495	0.8615860%	$4,058,070
PLUMAS	21,128	0.0560982%	$264,223
RIVERSIDE	2,031,625	5.3942888%	$25,407,100
SACRAMENTO	1,406,804	3.7352893%	$17,593,213
SAN BENITO	57,803	0.1534762%	$722,873
SAN BERNARDINO	2,028,013	5.3846984%	$25,361,929

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COUNTY	2007 COUNTY POPULATION	COUNTY % OF STATE POPULATION	2008 COUNTY FAIR SHARE AMOUNTS
CALIFORNIA	**37,662,518**	**100.0000000%**	**$471,000,000**
SAN DIEGO	3,098,269	8.2263990%	$38,746,339
City of Oceanside	[176,644]	[5.7380836%]	[$1,180,094]
City of San Diego	[1,316,837]	[42.7930573%]	[$8,800,819]
County of San Diego	[1,604,788]	[51.4688589%]	[$10,585,084]
SAN FRANCISCO	808,844	2.1476100%	$10,115,243
SAN JOAQUIN	679,687	1.8046775%	$8,500,031
SAN LUIS OBISPO	264,900	0.7033518%	$3,312,787
SAN MATEO	733,496	1.9475490%	$9,172,956
SANTA BARBARA	424,425	1.1269162%	$5,307,775
SANTA CLARA	1,808,056	4.8006774%	$22,611,191
SANTA CRUZ	264,125	0.7012941%	$3,303,095
SHASTA	181,401	0.4816486%	$2,268,565
County of Shasta	[91,356]	[50.3588724%]	[$606,382]
City of Redding	[90,045]	[49.6411275%]	[$597,740]
SIERRA	3,485	0.0092532%	$43,583
SISKIYOU	45,953	0.1220126%	$574,679
SOLANO	424,823	1.1279729%	$5,312,752
County of Solano	[328,334]	[77.0583673%]	[$2,172,994]
City of Vacaville	[96,489]	[22.9416326%]	[$646,938]
SONOMA	481,765	1.2791630%	$6,024,858
STANISLAUS	521,497	1.3846578%	$6,521,738
SUTTER	93,919	0.2493699%	$1,174,532
TEHAMA	61,774	0.1640198%	$772,533
TRINITY	14,171	0.0376263%	$177,220
TULARE	429,006	1.1390794%	$5,365,064
TUOLUMNE	57,223	0.1519362%	$715,620
VENTURA	825,512	2.1918662%	$10,323,690
YOLO	193,983	0.5150558%	$2,425,913
YUBA	70,745	0.1878393%	$884,723
TOTALS:	**37,662,518**	**100.0000000%**	**$471,000,000**

For the Single-Family Housing Program, the Committee relies upon population estimates released by the Demographic Research Unit in the Department of Finance, which is designated as the single official source of demographic data for State planning and budgeting. This number differs from the population estimate released by the U.S. Census Bureau which the Committee uses to determine the annual State Ceiling as required by federal statute. The Department of Finance data is used to determine local issuers' fair share because it includes a complete breakdown of California's population by city and county, which the U.S. Census Bureau data does not include.