

**SUPPLEMENT DATED OCTOBER 1, 2024**  
**TO**  
**PRELIMINARY OFFICIAL STATEMENT DATED SEPTEMBER 26, 2024**  
**RELATING TO**  
**\$80,000,000\***  
**DEPARTMENT OF VETERANS AFFAIRS**  
**OF THE STATE OF CALIFORNIA**  
**Home Purchase Revenue Bonds**  
**2024 Series A**  
**(Non-AMT)**

This Supplement dated October 1, 2024 (the “Supplement”) supplements the Preliminary Official Statement dated September 26, 2024 (the “Preliminary Official Statement”), and should be read together with the Preliminary Official Statement. Except as expressly set forth herein, this Supplement does not update, modify or replace the information contained in the Preliminary Official Statement, which contains information only as of its date. Unless otherwise defined in this Supplement, all terms used herein shall have the same meanings as those terms have in the Preliminary Official Statement.

1. Within the Preliminary Official Statement, the reference to “Tiffany King, Deputy Secretary and Chief Counsel, Legal Affairs” on the third page following the cover page, should be deleted in its entirety and replaced with the following:

“Daniel Muallem  
Assistant Chief Counsel, Legal Affairs”

2. Within the Preliminary Official Statement, the following sentence is added under the section captioned “CONTINUING DISCLOSURE”:

“The Annual Reports for fiscal years ended June 30, 2021 and June 30, 2022 were not linked to two CUSIPs for the Department’s Home Purchase Revenue Bonds, 2019 Series A, which matured on June 1, 2023 and December 1, 2023. The issue was discovered after maturity of each of those CUSIPs and therefore no notice was posted to EMMA regarding same.”

3. Within the Preliminary Official Statement, in APPENDIX A under section captioned “THE DEPARTMENT – Administration of the Department,” the title “Tiffany King, Chief Counsel of Veterans Affairs since June 2023” and the immediately following paragraph are hereby deleted in their entirety and replaced with the following:

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\* Preliminary, subject to change.

*“Daniel Muallem  
Assistant Chief Counsel since December 2023*

Daniel Muallem returned to the Department as Assistant Chief Counsel in December 2023, having previously worked as Director of the California Legislature’s Workplace Conduct Unit. Mr. Muallem previously served as Chief Counsel for the Department from October 2021 to June 2023. Mr. Muallem is an attorney with over 30 years of experience representing and advising California state entities in diverse substantive legal matters. Due to a current vacancy in the Chief Counsel position, Mr. Muallem is the senior legal officer for the Department. Mr. Muallem completed his undergraduate studies at Brooklyn College and received his JD Degree from New York Law School.”

Investors must read this Supplement and the accompanying Preliminary Official Statement in their entirety to obtain information essential to the making of an informed investment decision. Statements in this Supplement, including matters of opinion, projections and forecasts, whether or not expressly so stated, are intended as such and not as representations of fact. This Supplement is not to be construed as a contract or agreement among the Department, the Underwriters, or the owners of the Offered Revenue Bonds. The Department has authorized the preparation, execution and distribution of this Supplement.

Dated: October 1, 2024

DEPARTMENT OF VETERANS AFFAIRS  
OF THE STATE OF CALIFORNIA  
Secretary of Veterans Affairs

**PRELIMINARY OFFICIAL STATEMENT DATED SEPTEMBER 26, 2024**

**NEW ISSUE - BOOK-ENTRY ONLY**

**RATINGS: (See "RATINGS" herein)**

*In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Department (as defined below), under existing statutes and court decisions and assuming continuing compliance with certain tax covenants, interest on the Offered Revenue Bonds (as 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 "Federal Tax Code") and is not treated as a preference item in calculating the alternative minimum tax under the Federal Tax Code; however, interest on the Offered Revenue Bonds is included in the "adjusted financial statement income" of certain corporations that are subject to the alternative minimum tax under Section 55 of the Federal Tax Code. In the opinion of Bond Counsel to the Department, under State (as defined below) law, interest on the Offered Revenue Bonds is exempt from State personal income taxes. See "TAX MATTERS."*

**\$80,000,000\***



**DEPARTMENT OF VETERANS AFFAIRS  
OF THE STATE OF CALIFORNIA  
Home Purchase Revenue Bonds  
2024 Series A  
(Non-AMT)**

**Dated: Date of Delivery**

**Due: As shown on the next page**

The Department of Veterans Affairs of the State of California Home Purchase Revenue Bonds, 2024 Series A (the "Offered Revenue Bonds") will be issued by the Department of Veterans Affairs of the State of California (the "Department") as fully-registered bonds which may be purchased in denominations of \$5,000 or any integral multiples thereof in book-entry form. The Offered Revenue Bonds will mature in the years and bear interest at the rates set forth on the page immediately following the cover page of this Official Statement.

Interest on the Offered Revenue Bonds is payable on June 1 and December 1 of each year, commencing June 1, 2025. The California State Treasurer's Office ("State Treasurer") will serve as agent for sale and trustee. The Offered Revenue Bonds are subject to redemption prior to maturity, as described herein. See "THE OFFERED REVENUE BONDS – Redemption."

The Offered Revenue Bonds are special obligations of the Department payable solely from, and equally and ratably secured with other Revenue Bonds (as defined in this Official Statement) by a secondary and subordinate (as described below) pledge of, (i) an undivided interest in the assets of the Veterans' Farm and Home Building Fund of 1943 (the "1943 Fund") (other than (x) proceeds of general obligation bonds issued by the State of California (the "State") under any and all present and future veterans general obligation bond acts (including commercial paper notes) (collectively, the "Veterans G.O. Bonds") and (y) any amounts in any Rebate Account (as defined in this Official Statement)), (ii) the Bond Reserve Account (as defined in this Official Statement) and (iii) the Loan Loss Account (as defined in this Official Statement).

The Offered Revenue Bonds are being issued for the purpose of (together with other available funds): (i) making deposits into funds, accounts or subaccounts as provided in the Resolution (as defined in this Official Statement) (including the Bond Reserve Account); (ii) reimbursing the Department for existing Contracts of Purchase (as defined in this Official Statement) previously funded from amounts on deposit in the 1943 Fund; (iii) funding Contracts of Purchase to be originated in the future; and (iv) funding deferred payment assistance loans with respect to Contracts of Purchase closing costs.

The Veterans' Revenue Debenture Act of 1970, as amended (the "Act"), provides that the undivided interest in the assets of the 1943 Fund of holders of the Revenue Bonds, including the Offered Revenue Bonds, is secondary and subordinate to any interest or right in the assets of the 1943 Fund of the people of the State and of the holders of the Veterans G.O. Bonds. The Department has no taxing power. Neither the faith and credit nor the taxing power of the State or any political subdivision thereof is pledged to the payment of the principal of or the interest on the Revenue Bonds, including the Offered Revenue Bonds.

**MATURITY DATES, PRINCIPAL AMOUNTS, INTEREST RATES, PRICES OR YIELDS, AND CUSIPS**

(See next page)

*The Offered Revenue Bonds are offered when, as and if issued and delivered by the Department to the Underwriters, subject to certain conditions, including the approval of validity by the Honorable Rob Bonta, Attorney General of the State of California, and by Hawkins Delafield & Wood LLP, Bond Counsel to the Department. In connection with the issuance of the Offered Revenue Bonds, Sheppard, Mullin, Richter & Hampton LLP is serving as Disclosure Counsel to the Department. Certain legal matters will be passed on for the Underwriters by their counsel, Kutak Rock LLP. Montague DeRose and Associates, LLC is serving as Municipal Advisor to the State Treasurer. It is expected that the Offered Revenue Bonds will be available for delivery through the facilities of The Depository Trust Company on or about October 17, 2024\*.*

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**HONORABLE FIONA MA**  
*Treasurer of the State of California*

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**Academy Securities**  
**(Joint Senior Manager)**

**Raymond James**  
**(Joint Senior Manager)**

**Amerivet Securities   American Veterans Group, PBC   Bancroft Capital   Mischler Financial Group, Inc.**

Date of this Official Statement: \_\_\_\_\_, 2024.

\* 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 DATES, PRINCIPAL AMOUNTS, INTEREST RATES,  
PRICES OR YIELDS, AND CUSIPS**

**\$80,000,000\*  
2024 SERIES A BONDS**

<u>Maturity Date*</u>	<u>Principal Amount*</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>CUSIP† (130658)</u>
June 1, 2025	\$ 205,000	%	%	
December 1, 2025	470,000			
June 1, 2026	490,000			
December 1, 2026	505,000			
June 1, 2027	525,000			
December 1, 2027	540,000			
June 1, 2028	555,000			
December 1, 2028	570,000			
June 1, 2029	590,000			
December 1, 2029	610,000			
June 1, 2030	625,000			
December 1, 2030	650,000			
June 1, 2031	665,000			
December 1, 2031	685,000			
June 1, 2032	710,000			
December 1, 2032	730,000			
June 1, 2033	750,000			
December 1, 2033	775,000			
June 1, 2034	800,000			
December 1, 2034	825,000			
June 1, 2035	850,000			
December 1, 2035	875,000			
June 1, 2036	905,000			
December 1, 2036	930,000			

\$6,220,000\* 2024 Series A Term Bond Due December 1, 2039\*, at \_\_\_\_\_%, Price or Yield \_\_\_\_\_%, CUSIP† \_\_\_\_\_

\$13,245,000\* 2024 Series A Term Bond Due December 1, 2044\*, at \_\_\_\_\_%, Price or Yield \_\_\_\_\_%, CUSIP† \_\_\_\_\_

\$17,950,000\* 2024 Series A Term Bond Due December 1, 2049\*, at \_\_\_\_\_%, Price or Yield \_\_\_\_\_%, CUSIP† \_\_\_\_\_

\$26,750,000\* 2024 Series A Term Bond Due December 1, 2054\*, at \_\_\_\_\_%, Price or Yield \_\_\_\_\_%, CUSIP† \_\_\_\_\_

\* Preliminary, subject to change.

† Copyright © 2024, CUSIP Global Services. CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by the CUSIP Service Bureau of CUSIP Global Services (CGS), operated on behalf of the American Bankers Association by FactSet Research Systems Inc. This information is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP numbers have been assigned by an independent company not affiliated with the Department and are included solely for the convenience of the registered owners of the Offered Revenue Bonds. The Department is not responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the Offered Revenue Bonds or as included in this Official Statement. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Offered Revenue Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Offered Revenue Bonds.

No dealer, broker, salesperson or other person has been authorized by the Department or the Underwriters to give any information or to make any representations with respect to the Department or the Offered Revenue Bonds 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, including any supplement or amendment of this Official Statement, is intended to be deposited with, and may be obtained from the Municipal Securities Rulemaking Board (“MSRB”) through the Electronic Municipal Market Access (“EMMA”) website of, the MSRB, currently located at <http://emma.msrb.org>.

A wide variety of information, including financial information, concerning the Department and the Program, is available from the Department’s publications and website. The information contained on any such website or any website mentioned in this Official Statement, is not a part of this Official Statement and is not incorporated in this Official Statement, whether or not the web address for such website appears as an active hyperlink. No website mentioned in this Official Statement is intended to be an active hyperlink. Readers should not rely upon information other than that provided in this Official Statement, including information presented on any such website, in determining whether to purchase the Offered Revenue Bonds.

This Official Statement is not to be construed as a contract with the purchasers of the Offered Revenue Bonds.

**THE UNDERWRITERS MAY OFFER AND SELL THE OFFERED REVENUE BONDS TO CERTAIN DEALERS, INSTITUTIONAL INVESTORS AND OTHERS AT YIELDS OR PRICES DIFFERENT FROM THE PUBLIC OFFERING PRICES OR YIELDS STATED ON THE PAGE IMMEDIATELY FOLLOWING THE COVER PAGE OF THIS OFFICIAL STATEMENT, AND SUCH PUBLIC OFFERING YIELDS OR PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.**

**THE OFFERED REVENUE BONDS WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE OFFERED REVENUE BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE. THE OFFERED REVENUE BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY, AND THE FOREGOING AUTHORITIES HAVE NEITHER REVIEWED NOR CONFIRMED THE ACCURACY OF THIS OFFICIAL STATEMENT.**

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.

This Preliminary Official Statement is available as public information through the State Treasurer’s investor relations website at <http://www.buycaliforniabonds.com>.

**STATE OF CALIFORNIA**

Gavin Newsom, Governor

**DEPARTMENT OF VETERANS AFFAIRS**

Lindsey Sin  
Secretary of Veterans Affairs

Keith Boylan  
Undersecretary of Veterans  
Affairs

Roberto Herrera  
Deputy Secretary,  
Administration

William Feigles  
Deputy Secretary,  
CalVet Home Loans

Coby Petersen  
Deputy Secretary,  
Veterans Homes

Tiffany King  
Deputy Secretary and Chief  
Counsel, Legal Affairs

Eric Tiche  
Assistant Deputy Secretary,  
Bond Finance and Investments

**VETERANS' DEBENTURE FINANCE COMMITTEE  
AND VETERANS FINANCE COMMITTEE OF 1943**

Gavin Newsom, Governor

Fiona Ma  
State Treasurer

Malia M. Cohen  
State Controller

Joe Stephenshaw  
Director of Finance

Lindsey Sin  
Secretary of Veterans Affairs

**CALIFORNIA VETERANS BOARD**

Hugh E. Crooks, Jr., Chair  
Robin Umberg, Vice Chair

Veronica Zerrer  
Sylvia Crockett  
Brandon Shepard  
Martin Juarez

# TABLE OF CONTENTS

	<u>Page</u>		<u>Page</u>
INTRODUCTION .....	1	Construction Contracts of Purchase .....	A-31
Home Purchase Revenue Bonds .....	2	Deferred Payment Assistance Loans .....	A-32
INFORMATION RELATED TO THE OFFICIAL		Pooled Self-Insurance Fund .....	A-32
STATEMENT .....	2	USDVA Guaranty Program; Other Loan Insurance .....	A-33
PLAN OF FINANCE .....	4	Property Insurance .....	A-36
Offered Revenue Bonds .....	4	Life and Disability Insurance .....	A-41
Other Department Financings .....	4	Legislative Protection of Veterans .....	A-41
THE DEPARTMENT AND THE PROGRAM .....	5	External Reviews of the Program .....	A-45
SECURITY FOR AND SOURCES OF PAYMENT OF		THE 1943 FUND .....	A-45
THE OFFERED REVENUE BONDS .....	5	General .....	A-45
General .....	5	Selected Financial Data of the 1943 Fund and the	
The 1943 Fund .....	6	Program and Department's Discussion .....	A-47
Bond Reserve Account .....	7	SELECTED FINANCIAL DATA .....	A-49
Loan Loss Account .....	8	Department's Discussion of Financial Data .....	A-51
Cash Flow Statements and Program Operating Procedures .....	8	Program Features Designed to Mitigate Market	
Cash Flow Statements to be Delivered in Connection with the		Downturns .....	A-55
Offered Revenue Bonds .....	10	Department Outlook .....	A-56
Maintenance of Fund Parity .....	12	Investments of the 1943 Fund .....	A-56
Additional Revenue Bonds .....	13	Excess Revenues .....	A-57
THE OFFERED REVENUE BONDS .....	13	Maintenance of Fund Parity .....	A-58
General .....	13	APPENDIX B REPORT OF INDEPENDENT	
Interest .....	14	AUDITORS AND FINANCIAL STATEMENTS –	
Redemption .....	14	CALVET HOME LOAN PROGRAM OF THE	
Redemption Notice .....	19	DEPARTMENT OF VETERANS AFFAIRS OF THE	
ESTIMATED SOURCES AND USES OF FUNDS .....	21	STATE OF CALIFORNIA FOR THE FISCAL	
TAX MATTERS .....	21	YEARS ENDED JUNE 30, 2023 AND 2022 .....	B-1
Federal Tax Matters .....	21	APPENDIX C CERTAIN DEPARTMENT FINANCIAL	
Original Issue Discount .....	23	INFORMATION AND OPERATING DATA .....	C-1
Bond Premium .....	24	APPENDIX D DTC AND BOOK-ENTRY ONLY	
State Tax Matters .....	24	SYSTEM .....	D-1
Miscellaneous .....	25	APPENDIX E FORM OF CONTINUING	
LITIGATION .....	25	DISCLOSURE UNDERTAKING .....	E-1
UNDERWRITING .....	25	APPENDIX F PROPOSED FORM OF OPINION OF	
CERTAIN LEGAL MATTERS .....	26	BOND COUNSEL TO THE DEPARTMENT TO BE	
REPORT OF INDEPENDENT AUDITORS AND		DELIVERED IN CONNECTION WITH THE	
FINANCIAL STATEMENTS OF THE PROGRAM .....	26	ISSUANCE OF THE OFFERED REVENUE BONDS ...	F-1
LEGALITY FOR INVESTMENT .....	26	APPENDIX G PROPOSED FORM OF OPINION OF	
RATINGS .....	27	THE ATTORNEY GENERAL TO BE DELIVERED	
CONTINUING DISCLOSURE .....	27	IN CONNECTION WITH THE ISSUANCE OF THE	
MISCELLANEOUS .....	28	OFFERED REVENUE BONDS .....	G-1
APPENDIX A THE DEPARTMENT OF VETERANS		APPENDIX H CERTAIN FEDERAL TAX CODE	
AFFAIRS OF THE STATE OF CALIFORNIA, THE		REQUIREMENTS .....	H-1
PROGRAM AND THE 1943 FUND .....	A-1	APPENDIX I SUMMARY OF CERTAIN PROVISIONS	
INTRODUCTION .....	A-1	OF RESOLUTION RB-1 .....	I-1
Forward-Looking Statements .....	A-1	APPENDIX J LETTERS FROM CERTAIN	
THE DEPARTMENT .....	A-2	UNDERWRITERS .....	J-1
General .....	A-2		
Governance of the Department .....	A-2		
Administration of the Department .....	A-2		
THE PROGRAM .....	A-5		
History .....	A-5		
General .....	A-6		
Program Financing .....	A-6		
Certain Statutory Requirements .....	A-6		
Allocation of Lendable Moneys .....	A-10		
Administration of the Program .....	A-12		
Contracts of Purchase .....	A-13		
Mobile Homes Contracts of Purchase .....	A-29		
Home Improvement Contracts of Purchase .....	A-30		

## OFFICIAL STATEMENT

**\$80,000,000\***

**Department of Veterans Affairs of the State of California  
Home Purchase Revenue Bonds  
2024 Series A  
(Non-AMT)**

### INTRODUCTION

*This Introduction contains only a brief summary of certain of the terms of the Offered Revenue Bonds (as defined below) and a brief description of the information in this Official Statement. A full review should be made of the entire Official Statement, including the cover page and the Appendices. Summaries of provisions of the laws of the State of California (the “State”) or any other documents referred to in this Official Statement do not purport to be complete and such summaries are qualified in their entirety by reference to the respective complete provisions. All capitalized terms used in this Official Statement and not defined herein have the meanings set forth in Resolution RB-1 (as defined below). See APPENDIX I – “SUMMARY OF CERTAIN PROVISIONS OF RESOLUTION RB-1 – Definitions (Section 103).”*

This Official Statement is being furnished to provide information in connection with the issuance of the Department of Veterans Affairs of the State of California (the “Department”) Home Purchase Revenue Bonds, 2024 Series A (the “Offered Revenue Bonds”), which will mature in the years and will bear interest at the rates set forth on the page immediately following the cover page of this Official Statement.

The Offered Revenue Bonds are being issued pursuant to (1) the Veterans’ Revenue Debenture Act of 1970, as amended (the “Act”), constituting Chapter 7 of Division 4 of the Military and Veterans Code (the “Veterans Code”) of the State; and (2) the Resolution of Issuance for Department of Veterans Affairs of the State of California Home Purchase Revenue Bonds, adopted March 19, 1980 (the “Original Resolution”), as amended, supplemented and restated by the Eighth Supplemental Resolution Providing for Amendments and Supplements to Resolution No. RB-1, adopted November 24, 1997, as amended (the “Eighth Supplemental Resolution”), and as further amended and supplemented (the Original Resolution, as amended, supplemented and restated by the Eighth Supplemental Resolution, and as further amended and supplemented, collectively, “Resolution RB-1”). The Twenty-Second Supplemental Resolution providing for the issuance of certain Revenue Bonds adopted March 18, 2020, is referred to as the “Offered Bonds Series Resolution.” Resolution RB-1 and the Offered Bonds Series Resolution are collectively referred to herein as the “Resolution.” The Treasurer of the State of California (the “State Treasurer”) is trustee (the “Trustee”) for Revenue Bonds (as defined below) pursuant to Resolution RB-1.

The Department has previously issued under Resolution RB-1 and separate Series Resolutions various series of its Home Purchase Revenue Bonds (collectively, the “Prior Revenue Bonds”) of which five series remain Outstanding. The Outstanding Prior Revenue Bonds, the Offered Revenue Bonds, and the bonds of any additional future series issued under Resolution

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\* Preliminary, subject to change.



RB-1 (“Additional Revenue Bonds”) are secured on a parity basis (except for bonds which are subordinate obligations as expressly provided in Resolution RB-1 or in a Series Resolution) and are collectively referred to herein as “Revenue Bonds.”

### **Home Purchase Revenue Bonds**

Revenue Bonds, including the Offered Revenue Bonds, are special obligations of the Department payable solely from, and equally and ratably secured with, other Revenue Bonds by a pledge of (i) an undivided interest in the assets of the Veterans’ Farm and Home Building Fund of 1943 (the “1943 Fund”) (other than (x) proceeds of general obligation bonds issued by the State under any and all present and future veterans general obligation bond acts (including commercial paper notes) (collectively, the “Veterans G.O. Bonds”) and (y) any amounts in any Rebate Account established by the Department pursuant to Resolution RB-1 (the “Rebate Account”)), (ii) the Bond Reserve Account established by the Department pursuant to Resolution RB-1 (the “Bond Reserve Account”) and (iii) the Loan Loss Account established by the Department pursuant to Resolution RB-1 (the “Loan Loss Account”). The Act provides that this undivided interest of holders of Revenue Bonds in the assets of the 1943 Fund is secondary and subordinate to any interest or right in the 1943 Fund of the people of the State and of the holders of Veterans G.O. Bonds. **The Department has no taxing power. Neither the faith and credit nor the taxing power of the State or any political subdivision thereof is pledged to the payment of the principal of or the interest on the Revenue Bonds, including the Offered Revenue Bonds.** See “SECURITY FOR AND SOURCES OF PAYMENT OF THE OFFERED REVENUE BONDS.”

Under the Department’s CalVet Home Loan Program (formerly known as the Farm and Home Purchase Program) (the “Program”), the Department acquires residential property to be sold to eligible veterans under contracts of purchase between the Department and such veterans (as more fully defined in Resolution RB-1, the “Contracts of Purchase”). The Program is financed principally with the proceeds of Veterans G.O. Bonds and Revenue Bonds and from other moneys available in the 1943 Fund.

See “PLAN OF FINANCE” for a discussion of the uses of the proceeds of the Offered Revenue Bonds.

### **INFORMATION RELATED TO THE OFFICIAL STATEMENT**

The information set forth in this Official Statement has been obtained from official sources that are believed to be reliable, but such information is not guaranteed as to accuracy or completeness. Estimates and opinions are included and should not be interpreted as statements of fact. Summaries of documents do not purport to be complete statements of their provisions and such summaries are qualified by reference to the entire contents of the summarized documents. The information and expressions of opinion in this Official Statement are subject to change without notice, and neither the delivery of this Official Statement nor any sale made by use of this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the Department since the date of this Official Statement.

All financial and other information presented or incorporated by reference in this Official Statement has been provided by the Department from its records, except for information expressly attributed to other sources. The presentation of historical information is intended to show recent historical information and is not intended to indicate future or continuing trends in the financial position or other affairs of the Department. No representation is made that past experience, as it

might be shown by such financial and other information, will necessarily continue or be repeated in the future. The statements contained in this Official Statement, including the appendices that are not purely historical, are forward-looking statements, including statements regarding the Department's expectations, hopes, intentions or strategies regarding the future. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget," "project," "maintain," "achieve," "forecast," "will likely result," "are expected to," "will continue," "is anticipated," "intend" or other similar words. Statements contained in this Official Statement which involve estimates, forecasts, or other matters of opinion, whether or not expressly so described in this Official Statement, including the appendices, are intended solely as such and are not to be construed as representations of fact. Prospective investors should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the Department on the date hereof and are subject to change without notice. All forward-looking statements are expressly qualified in their entirety by the cautionary statements in this section and elsewhere in the Official Statement. It is important to note that the Department's actual results likely will differ, and could differ materially, from those in such forward-looking statements.

The forward-looking statements herein are based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the Department. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate, and actual results, performance or achievements may differ materially from the expectations and forecasts described in this Official Statement.

A wide variety of other information, including financial information, concerning the Department and the Program is available from the Department's publications and website. The information contained on any such website or any website mentioned in this Official Statement is not a part of this Official Statement and is not incorporated in this Official Statement, whether or not the web address for such website appears as an active hyperlink. No website mentioned in this Official Statement is intended to be an active hyperlink. Readers should not rely upon information other than that provided in this Official Statement, including information presented on any such website, in determining whether to purchase the Offered Revenue Bonds.

The information in APPENDIX D – "DTC AND BOOK-ENTRY ONLY SYSTEM" regarding DTC and its book-entry system has been furnished by DTC and no representation is made by the Trustee or the Department as to the accuracy or completeness of such information.

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 Offered Revenue Bonds, by any person in any state or other jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale in such state or jurisdiction.

## PLAN OF FINANCE

### Offered Revenue Bonds

The Offered Revenue Bonds are being issued for the purpose of (together with other available funds): (i) making deposits into funds, accounts or subaccounts as provided in the Resolution (including the Bond Reserve Account); (ii) reimbursing the Department for existing Contracts of Purchase previously funded from amounts on deposit in the 1943 Fund; (iii) funding Contracts of Purchase to be originated in the future; and (iv) funding deferred payment assistance loans with respect to Contracts of Purchase closing costs. “Contracts of Purchase” as defined in Resolution RB-1 and as described herein include such deferred payment assistance loans. See “ESTIMATED SOURCES AND USES OF FUNDS.” The Contracts of Purchase financed (or for which the Department is to be reimbursed) with proceeds of the Offered Revenue Bonds, including any original issue premium, are referred to in this Official Statement as the “Offered Revenue Bonds Contracts of Purchase.”

See APPENDIX A – “THE DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA, THE PROGRAM AND THE 1943 FUND – THE PROGRAM – Contracts of Purchase – Interest Rates.” See APPENDIX C – “CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Veterans G.O. Bonds and Revenue Bonds – Selected Information with Respect to Veterans G.O. Bonds and Revenue Bonds” for information about the Revenue Bonds and Veterans G.O. Bonds. Also, see “SECURITY FOR AND SOURCES OF PAYMENT OF THE OFFERED REVENUE BONDS – General,” “—The 1943 Fund” and “—Cash Flow Statements and Program Operating Procedures.”

### Other Department Financings

The Department anticipates the issuance by the State, concurrently with the issuance by the Department of the Offered Revenue Bonds, of approximately \$150,000,000\* State of California Veterans General Obligations Bonds, Series CV (the “Fall 2024 G.O. Bonds”) which are expected to be used to, among other things, fund Contracts of Purchase to be originated in the future. The Offered Revenue Bonds and the Fall 2024 G.O. Bonds, if issued, are separate and independent issues, although, if, as anticipated, the respective sales of the Offered Revenue Bonds and the Fall 2024 G.O. Bonds occur within 15 days of each other, the Offered Revenue Bonds and the Fall 2024 G.O. Bonds will be treated as a single issue for certain Federal tax purposes. As a single issue for Federal tax purposes, the requirements of applicable Federal tax law must be satisfied with respect to the Offered Revenue Bonds and the Fall 2024 G.O. Bonds, respectively, in order that interest on the Offered Revenue Bonds not be included in gross income for Federal income tax purposes retroactive to the date of issuance thereof, irrespective of the date on which such noncompliance occurs or is discovered. See “TAX MATTERS.”

The Fall 2024 G.O. Bonds are not offered pursuant to this Official Statement and are described pursuant to a separate official statement. The issuance of the Offered Revenue Bonds is not dependent on the issuance of the Fall 2024 G.O. Bonds. See APPENDIX C – “CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Amounts Expected to be Available to Fund Contracts of Purchase and Related Investments” for information regarding the amount of money currently available and expected to become available to finance

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\* Preliminary, subject to change.

Contracts of Purchase upon the issuance of the Offered Revenue Bonds and the Fall 2024 G.O. Bonds.

The Fall 2024 G.O. Bonds will not be issued under Resolution RB-1 and will not constitute Revenue Bonds under Resolution RB-1. Contracts of Purchase purchased with the proceeds of the Fall 2024 G.O. Bonds will not constitute Offered Revenue Bonds Contracts of Purchase. The Fall 2024 G.O. Bonds will constitute Veterans G.O. Bonds. See “SECURITY FOR AND SOURCES OF PAYMENT OF THE OFFERED REVENUE BONDS.”

### **THE DEPARTMENT AND THE PROGRAM**

In 1921, the California Legislature (the “State Legislature”) created the Veterans’ Welfare Board and the Program. The Department became the successor to the Veterans’ Welfare Board under the Veterans’ Farm and Home Purchase Act of 1943 (the “1943 Act”). The Department is a subdivision of the State and constitutes a public corporation. One of the Department’s basic objectives is to provide eligible veterans the opportunity to acquire homes with long-term low-interest rate financing provided under the Program.

The Department began making low interest rate farm and home financing available to veterans after World War I, following the enactment by the State Legislature of the California Veterans Welfare Bond Act of 1921. In 1943, the State Legislature enacted the 1943 Act which modified the Program to meet the needs of veterans. The 1943 Act was superseded by the Veterans’ Farm and Home Purchase Act of 1974 (the “1974 Act”) which again modified the Program. The 1943 Act established the 1943 Fund in the State Treasury, which is the principal fund utilized by the Program. Under the Program, the Department acquires residential property to be sold to eligible veterans under Contracts of Purchase. Generally, a Contract of Purchase creates a land sale contract which is generally analogous to a mortgage loan from the Department to the veteran.

For more information about the Department, the Program (including, among other things delinquency and cancellation data) and selected financial data of the 1943 Fund and the Program, see APPENDIX A – “THE DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA, THE PROGRAM AND THE 1943 FUND.”

### **SECURITY FOR AND SOURCES OF PAYMENT OF THE OFFERED REVENUE BONDS**

#### **General**

Revenue Bonds, including the Offered Revenue Bonds, are special obligations of the Department payable solely from, and equally and ratably secured with other Revenue Bonds by a pledge of (i) an undivided interest in the assets of the 1943 Fund (other than (x) proceeds of Veterans G.O. Bonds and (y) any amounts in the Rebate Account), (ii) the Bond Reserve Account and (iii) the Loan Loss Account. The Act provides that the undivided interest of holders of Revenue Bonds in the assets of the 1943 Fund is secondary and subordinate to any interest or right in the 1943 Fund of the people of the State and of the holders of Veterans G.O. Bonds. **The Department has no taxing power. Neither the faith and credit nor the taxing power of the State or any political subdivision thereof is pledged to the payment of the principal of or the interest on the Revenue Bonds, including the Offered Revenue Bonds.**

## **The 1943 Fund**

The components of the 1943 Fund are (i) proceeds derived from the sale of Revenue Bonds; (ii) proceeds derived from the sale of Veterans G.O. Bonds; (iii) amounts receivable under all Contracts of Purchase and from sales of properties subject to cancelled Contracts of Purchase; (iv) temporary investments, cash and funds; and (v) certain other miscellaneous assets. Proceeds of Veterans G.O. Bonds may not be applied to payment of principal of, and interest or any redemption premium on, the Revenue Bonds. The holders of Veterans G.O. Bonds and Revenue Bonds are not entitled to compel the sale of Contracts of Purchase and the properties to which they relate. Holders of Revenue Bonds are entitled to receive payment out of the Revenues derived from those Contracts of Purchase and properties, subject to the prior claims of the holders of the Veterans G.O. Bonds and of the State for reimbursement of debt service payments made on Veterans G.O. Bonds.

In addition to financing Contracts of Purchase and paying or reimbursing debt service on the Veterans G.O. Bonds and paying debt service on the Revenue Bonds, moneys in the 1943 Fund are used to pay administrative costs of the Department, and to fund certain losses from and reserves for property insurance, mortgage losses and life and disability insurance described in APPENDIX A – “THE DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA, THE PROGRAM AND THE 1943 FUND – THE PROGRAM – Property Insurance” and “—Life and Disability Insurance.” However, amounts in the Pooled Self-Insurance Fund (which are used to pay certain disaster indemnity, fire and hazard, Legacy Plan Beneficiaries’ self-insured disability, and primary mortgage insurance benefits) are not held within the 1943 Fund and are not available to make payments on Revenue Bonds or Veterans G.O. Bonds. See APPENDIX A – “THE DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA, THE PROGRAM AND THE 1943 FUND – THE PROGRAM – Property Insurance,” “—Life and Disability Insurance” and “—Pooled Self-Insurance Fund” for information regarding pooling of certain funds and accounts and the ability of the Department to withdraw amounts from the 1943 Fund for deposit to the Pooled Self-Insurance Fund.

For financial information concerning the 1943 Fund, see APPENDIX B – “REPORT OF INDEPENDENT AUDITORS AND FINANCIAL STATEMENTS – CALVET HOME LOAN PROGRAM OF THE DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA FOR THE FISCAL YEARS ENDED JUNE 30, 2023 AND 2022.”

The Act within the Veterans Code provides that the undivided interest created by Resolution RB-1 in favor of the holders of Revenue Bonds in the assets of the 1943 Fund is secondary and subordinate to the interest of the people of the State and the holders of Veterans G.O. Bonds.

The Veterans Code establishes in the State Treasury the Veterans’ Bonds Payment Fund, a revolving special fund, and requires that on the dates when funds are to be remitted to bondholders for the payment of debt service on Veterans G.O. Bonds, there shall be transferred to the Veterans’ Bonds Payment Fund to pay the debt service on such Veterans G.O. Bonds all of the money in the 1943 Fund (but not in excess of the amount of debt service then due and payable). The Veterans Code states that moneys in the Veterans’ Bonds Payment Fund are required to be used solely to pay debt service when due on Veterans G.O. Bonds. The Veterans Code does not grant any lien on the 1943 Fund or the moneys therein to the holders of any Veterans G.O. Bonds. Debt service on Veterans G.O. Bonds is payable first from the moneys required under the

Veterans Code to be transferred from the 1943 Fund to the Veterans' Bonds Payment Fund and second, if the moneys transferred from the 1943 Fund to the Veterans' Bonds Payment Fund are less than debt service then due and payable, the balance is payable from the General Fund of the State (the "General Fund"). The 1943 Fund is required to transfer to the General Fund, as soon as it becomes available, the amount paid by the General Fund, if any, together with interest thereon from the remittance date until paid at the same rate of interest as borne by the applicable Veterans G.O. Bonds, compounded semiannually. Until such amounts are paid to the General Fund, no payments may be made on Revenue Bonds other than from amounts then in the Bond Reserve Account established for the benefit of Revenue Bonds and, if any, in the Loan Loss Account held in the Veterans Debenture Revenue Fund for the benefit of Revenue Bonds. The 1943 Fund is required to reimburse the General Fund for any debt service payments on the Veterans G.O. Bonds paid by the General Fund to the extent of any shortfalls in transfers from the 1943 Fund to the Veterans' Bonds Payment Fund, including to pay interest thereon to the General Fund as described above, before the 1943 Fund may make payments on Revenue Bonds (although payments on Revenue Bonds may be made from amounts on deposit in the Bond Reserve Account and, if any, in the Loan Loss Account).

As of June 30, 2024, (a) there are outstanding approximately \$634,445,000 aggregate principal amount of Veterans G.O. Bonds and there are no outstanding commercial paper notes, (b) \$636,235,000 of Veterans G.O. Bonds are authorized but not issued, (c) there are approximately \$387,265,000 aggregate principal amount of Revenue Bonds outstanding, and (d) \$605,880,000 aggregate principal amount of Revenue Bonds are authorized by a Supplemental Resolution but not issued (out of which capacity the Offered Revenue Bonds will be issued). Under the Act, Revenue Bonds in an aggregate principal amount not to exceed \$1,500,000,000, at any given time, may be outstanding. The State Legislature may increase the amount of Revenue Bonds that can be outstanding under the Act or may decrease such amount to an amount not less than the amount of Revenue Bonds then outstanding. Voters in the State or the State Legislature, as applicable, may authorize increases or decreases in the amount of Veterans G.O. Bonds authorized but not issued. Additional information about outstanding Veterans G.O. Bonds and Revenue Bonds is in APPENDIX C – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Veterans G.O. Bonds and Revenue Bonds."

For additional information regarding the existing interest rates of, and setting interest rates on, Contracts of Purchase, see APPENDIX A – "THE DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA, THE PROGRAM AND THE 1943 FUND – THE PROGRAM – Contracts of Purchase – Interest Rates" and APPENDIX C – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Contracts of Purchase Origination and Principal Repayment Experience."

### **Bond Reserve Account**

Resolution RB-1 requires the establishment and maintenance of a Bond Reserve Account from available Revenues, in an amount at least equal to the Bond Reserve Requirement (as defined below). Resolution RB-1 creates a lien in favor of the holders of Revenue Bonds on amounts in the Bond Reserve Account. Resolution RB-1 establishes the Bond Reserve Requirement as of any date of calculation to be an amount equal to the aggregate of the amounts established by each Series Resolution authorizing outstanding Revenue Bonds, at least equal in the aggregate to 3% of the aggregate Outstanding principal amount of Revenue Bonds with interest rates fixed to the maturity thereof (the "Bond Reserve Requirement"). For purposes of calculating the Bond

Reserve Requirement, the Series Resolutions established with respect to both Outstanding Revenue Bonds and the Offered Revenue Bonds, an amount equal to 3% of the respective Outstanding principal amount thereof. Amounts in the Bond Reserve Account shall be used solely for the purposes of paying the principal of and interest on Revenue Bonds or making Mandatory Sinking Account Payments (but only in the event that no other moneys other than certain moneys in the Revenue Bond Series Proceeds Subaccounts or Revenue Bond Series Proceeds Recycling Subaccounts are available therefor). Resolution RB-1 directs that amounts on deposit in the Bond Reserve Account as of any date in excess of the Bond Reserve Requirement be transferred at the request of the Department to the Loan Loss Account, the Revenue Account or the Proceeds Account.

As of June 30, 2024, the Bond Reserve Requirement was \$11,617,950 and the amount on deposit in the Bond Reserve Account was at least equal to the Bond Reserve Requirement. The Bond Reserve Requirement following the issuance of the Offered Revenue Bonds is expected to increase by \$2,400,000\*. See “ESTIMATED SOURCES AND USES OF FUNDS” regarding the deposit to the Bond Reserve Account from the proceeds of the Offered Revenue Bonds.

Although the Department has used cash to fund the Bond Reserve Requirement with respect to Outstanding Revenue Bonds, the Series Resolutions authorizing the issuance of the Outstanding Revenue Bonds and the Offered Revenue Bonds provide that Cash Equivalents may replace such cash in the future. Resolution RB-1 permits Series Resolutions authorizing Additional Revenue Bonds to provide that Cash Equivalents be used to fund the Bond Reserve Requirement with respect to the Series of Bonds so authorized. See APPENDIX C – “CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Additional Investments.”

For additional information see APPENDIX B – “REPORT OF INDEPENDENT AUDITORS AND FINANCIAL STATEMENTS – CALVET HOME LOAN PROGRAM OF THE DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA FOR THE FISCAL YEARS ENDED JUNE 30, 2023 AND 2022.”

### **Loan Loss Account**

As of the date of this Official Statement, there are no amounts on deposit or required to be on deposit in the Loan Loss Account. No deposits will be required in connection with the issuance of the Offered Revenue Bonds. See “—Additional Revenue Bonds” for a discussion of certain matters with regard to the Loan Loss Account. See also APPENDIX I – “SUMMARY OF CERTAIN PROVISIONS OF RESOLUTION RB-1 – Loan Loss Account (Section 408).”

### **Cash Flow Statements and Program Operating Procedures**

Resolution RB-1 requires that the Department file a Cash Flow Statement with the Trustee (i) upon adoption of each Series Resolution authorizing Additional Revenue Bonds and each Supplemental Resolution supplementing or amending Resolution RB-1, (ii) upon the issuance of any series of Veterans G.O. Bonds, (iii) when required pursuant to any Series Resolution or Supplemental Resolution, (iv) upon any change in the Program Operating Procedures described below and (v) in connection with compliance with the requirements described below under “SECURITY FOR AND SOURCES OF PAYMENT OF THE OFFERED REVENUE BONDS –

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\* Preliminary, subject to change.

Maintenance of Fund Parity.” Resolution RB-1 permits the Department to file a new or amended Cash Flow Statement conforming to these requirements at any time. Resolution RB-1 requires that any Cash Flow Statement shall be the subject of a Rating Confirmation if it does not include all the scenarios included in the Cash Flow Statement previously on file with the Trustee.

Resolution RB-1 requires that a Cash Flow Statement consist of a Certificate of the Department containing the conclusion of an Authorized Representative of the Department that projected Revenues will be sufficient to provide for timely payments of interest and principal on Revenue Bonds and Expenses, under each of the scenarios included in the cash flow projections attached thereto. Under Resolution RB-1, “Revenues” means all moneys received by or on behalf of the Department representing (i) principal and interest payments on the Contracts of Purchase including all prepayments representing the same and all prepayment premiums or penalties received by or on behalf of the Department in respect of the Contracts of Purchase, (ii) interest earnings received on the investment of amounts to the extent deposited in the Revenue Account under Resolution RB-1, (iii) amounts transferred to the Revenue Account from the Bond Reserve Account or the Loan Loss Account and (iv) any other amounts payable by parties executing Contracts of Purchase or private participants in the Program or related to recoveries on defaulted Contracts of Purchase, including origination and commitment fees, servicing acquisition fees, and Liquidation/Insurance Proceeds, except to the extent not included as “Revenues” pursuant to the provisions of any Series Resolution.

Resolution RB-1 requires that a Cash Flow Statement will (i) take into account the financial position of the 1943 Fund, the Bond Reserve Account, and the Loan Loss Account as of the stated starting date of the projection, (ii) reflect all the significant transactions that have occurred in the period commencing with such starting date and ending with a date no more than ninety (90) days prior to the date of such projections, (iii) be consistent with Resolution RB-1 and (iv) assume compliance with the then-current Program Operating Procedures. For each scenario included therein, Resolution RB-1 requires that the Cash Flow Statement set forth the assumptions on which it is based including, without limitation, the following:

- (a) the timing and terms of issuance or remarketing of Revenue Bonds and Veterans G.O. Bonds;
- (b) the timing of the acquisition of Contracts of Purchase and the interest rates thereon and maturities thereof;
- (c) the timing and amounts of the receipt of payments of scheduled principal of and interest on Contracts of Purchase;
- (d) the timing and amounts of prepayments on Contracts of Purchase;
- (e) the timing and amounts of defaults on Contracts of Purchase and disposition or recovery prices of defaulted Contracts of Purchase, which assumption may be based on a specified model of default frequency and loss severity as a function of Contract of Purchase portfolio characteristics;
- (f) the investment return on Accounts and subaccounts, to the extent that amounts on deposit will not be subject to an investment agreement;
- (g) the performance by the Department’s counterparty with respect to obligations under an enhancement agreement or arrangement for Supplemental Contract of Purchase Coverage or investment of funds;



(h) the types of Primary Contract of Purchase Coverage and Supplemental Contract of Purchase Coverage; and

(i) the Loan Loss Requirement.

According to Resolution RB-1, the Department will not be in default under Resolution RB-1 merely because a Cash Flow Statement shows that projected Revenues will be insufficient to provide for timely payments of interest on and principal of Revenue Bonds and Expenses, but is required to take all reasonable actions to eliminate such deficiency. Pursuant to Resolution RB-1, the adoption of a Series Resolution or Supplemental Resolution (for the authorization of Additional Revenue Bonds or for any other reason), any changes to the Program Operating Procedures, and the issuance of Veterans G.O. Bonds, are each precluded if the Cash Flow Statement on file with the Trustee shows that the taking of such action will cause a deficiency to occur or will increase any existing deficiency.

The Program Operating Procedures are operating policies of the Department governing discretionary activities under Resolution RB-1. Resolution RB-1 requires the Department to administer the Program and perform its obligations under Resolution RB-1 in accordance in all material respects with the then-current Program Operating Procedures. The Program Operating Procedures may be amended if (1) a Cash Flow Statement is delivered to the Trustee and (2) an opinion of nationally recognized bond counsel is delivered to the Trustee to the effect that such amendment or action taken pursuant to such amendment will not affect the exemption of interest on outstanding federally tax-exempt Revenue Bonds from the gross income of the holders thereof for Federal income tax purposes.

#### **Cash Flow Statements to be Delivered in Connection with the Offered Revenue Bonds**

As a condition to the issuance of the Offered Revenue Bonds, the Department will provide the Trustee with a Cash Flow Statement in the form required by Resolution RB-1. The Cash Flow Statement will consist of the conclusion by an Authorized Representative of the Department that projected Revenues will be sufficient to provide for timely payments of scheduled interest and principal on Revenue Bonds and Expenses, under each of the scenarios included in the cash flow projections attached thereto (the “Delivery Cash Flow Projections”). The Delivery Cash Flow Projections will be prepared by cfX Incorporated (“cfX”), pursuant to its engagement as Quantitative Consultant to the Department. The Delivery Cash Flow Projections and the conclusions of cfX contained in its accompanying cash flow letter will be based solely on information provided to cfX by the Department and certain assumptions provided to cfX by the Department and upon scenarios generally specified by the Rating Agencies to be tested; cfX makes no representation with respect to the accuracy of such information or as to the reasonableness of such assumptions and scenarios.

The Delivery Cash Flow Projections will be based on the financial condition of the 1943 Fund as of June 30, 2023 (as presented in the audited financial statements of the 1943 Fund as of June 30, 2023) and will reflect significant financial transactions within the 1943 Fund through June 30, 2024, as explained to cfX by the Department. The Delivery Cash Flow Projections will reflect (i) the assumed delivery of the Offered Revenue Bonds and the Fall 2024 G.O. Bonds as part of the overall financing plan, if both the Offered Revenue Bonds and Fall 2024 G.O. Bonds are delivered, or will assume delivery of only either the Offered Revenue Bonds, if delivered, or the Fall 2024 G.O. Bonds, if delivered (but no additional future issuance of either Revenue Bonds

or Veterans G.O. Bonds) and (ii) the initial application of proceeds of the Offered Revenue Bonds and the Fall 2024 G.O. Bonds in accordance with the Resolution.

The Delivery Cash Flow Projections will include each of the respective scenarios generally specified and included in the final presentations to the respective Rating Agencies in connection with the Department's application for ratings on the Offered Revenue Bonds. See "RATINGS." Such scenarios reflect a combination of assumptions required by the respective Rating Agencies to be used with respect to future market conditions and behavior of eligible and participating veterans under such market conditions. cfX makes no representation with respect to the sufficiency of Revenues to provide for timely payments of interest and principal on Revenue Bonds and Veterans G.O. Bonds or Expenses under any scenario not presented in the Delivery Cash Flow Projections. Among other assumptions, the Delivery Cash Flow Projections will include alternative scenarios as required by each Rating Agency under which:

- (i) A specified level of prepayments is received with respect to Contracts of Purchase, based on underlying annualized constant prepayment rates.
- (ii) As of specified dates, no additional Contracts of Purchase are funded and unexpended amounts are applied to the redemption of Revenue Bonds and Veterans G.O. Bonds.
- (iii) A specified level of unreimbursed losses is incurred with respect to defaulted Contracts of Purchase.

The Delivery Cash Flow Projections assume that the Department will not receive any payments under the Radian Policies (as defined in APPENDIX A – "THE DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA, THE PROGRAM AND THE 1943 FUND"), and assume that there will not be any transfers from the 1943 Fund to the Pooled Self-Insurance Fund.

Each scenario in the Delivery Cash Flow Projections will reflect future transactions expected to be executed by the Department and the Trustee (among others) with respect to: (i) the application for Program purposes of amounts in the Proceeds Account established under Resolution RB-1, (ii) the collection and deposit of Revenues, (iii) the investment of amounts on deposit in various Accounts in both specified and unspecified investments, (iv) the transfer of funds between Accounts, (v) the payment of Expenses and (vi) the redemption of Revenue Bonds and Veterans G.O. Bonds. All of the scenarios included in the Delivery Cash Flow Projections assume that the Department and the Trustee execute such transactions on a timely basis in conformance with the requirements of Resolution RB-1, the Offered Bonds Series Resolution, the Series Resolutions authorizing the issuance of prior and future Series of Revenue Bonds, the Program Operating Procedures, and the providers of third party investment contracts. cfX can provide no assurance that such actions will be timely taken.

Each scenario in the Delivery Cash Flow Projections will reflect future performance by third parties under investment and insurance contracts and will assume no default in performance.

Neither the Department's independent auditors, nor any other independent accountants, have compiled, examined or performed any procedures with respect to the Delivery Cash Flow Projections, nor have any such auditors or accountants expressed any opinion or any other form of assurance on such Delivery Cash Flow Projections or their achievability.

Certain information in this Official Statement is based upon projections and assumptions about, among other things, the rate of prepayment of Contracts of Purchase and the level of

defaults, foreclosures and losses on Contracts of Purchase. In addition, the structuring of each Series of Revenue Bonds and the preparation of Cash Flow Statements involve the making of similar projections and assumptions. These projections and assumptions are subject to risks and uncertainties, including risks and uncertainties outside the control of the Department. The accuracy of such projections and assumptions is subject to known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from such projections and assumptions. Differences in actual results from projections may be difficult to recognize in a timely manner for purposes such as the adjustment of requirements relating to Contracts of Purchase. Material differences could result in a variety of unpredictable consequences which could adversely affect the ability of the Department to pay debt service on Revenue Bonds.

### **Maintenance of Fund Parity**

Resolution RB-1 requires that the Department cause a calculation to be made of Fund Parity, as evidenced in a Certificate of the Department filed with the Trustee, as of the last day of each Fiscal Year (and upon receipt of the audited financial statements of the 1943 Fund), or more frequently in the discretion of the Department. If any such calculation shall not reflect that Fund Parity at least equals the “Applicable Fund Parity Percentage” set forth in the Program Operating Procedures (provided that any percentage which is less than 50% shall be the subject of a Rating Confirmation) of the then outstanding principal amount of Revenue Bonds, all Revenues in excess of Accrued Debt Service (as defined below) on Revenue Bonds and Veterans G.O. Bonds shall thereafter be applied to redeem Revenue Bonds of the Series and in the manner reflected in a current Cash Flow Statement, until (and if) the Department files with the Trustee a new Certificate of the Department reflecting a calculation of Fund Parity that at least equals such Applicable Fund Parity Percentage; *provided, further, however*, that no such Cash Flow Statement and no such redemption shall be required if the Department shall have provided a Rating Confirmation to the Trustee. The Program Operating Procedures established the Applicable Fund Parity Percentage as 25%. The Department Certificate for the Fiscal Year ended June 30, 2024 reflected Fund Parity in excess of the Applicable Fund Parity Percentage.

Under Resolution RB-1, “Fund Parity” means, on any determination date: (a) an amount equal to the difference between (i) all assets in the 1943 Fund and in the Accounts established under Resolution RB-1 and any Series Resolution or Supplemental Resolution and (ii) the aggregate principal amount of all Revenue Bonds Outstanding and all Veterans G.O. Bonds outstanding (plus accrued interest), reduced by (b) allowances and reserves for loss coverage on Contracts of Purchase, loss coverage on properties subject to Contracts of Purchase, and life and disability coverage on persons obligated under Contracts of Purchase, as specified in the Program Operating Procedures. See APPENDIX A – “THE DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA, THE PROGRAM AND THE 1943 FUND – THE PROGRAM – Life and Disability Insurance” regarding changes to the Department’s life and disability coverage.

Resolution RB-1 provides that “Accrued Debt Service” means, as of any date of determination and, as the context of Resolution RB-1 requires, with respect to all Revenue Bonds and Veterans G.O. Bonds, the sum of:

(a) the aggregate amount of scheduled interest and principal (except to the extent principal is otherwise to be redeemed pursuant to clause (b) or (c) below) to become due after such

date but on or before the end of the current Debt Service Year, less the product of (i) the number of whole months remaining in the current Debt Service Year and (ii) the Monthly Debt Service Requirement;

(b) the redemption price of bonds for which notice of redemption has been issued, provided such redemption price is to be paid from amounts on deposit in the Revenue Account; and

(c) the redemption price of bonds that the Department will be obligated to redeem prior to the end of the next succeeding Debt Service Year under the terms of any Series Resolution or Supplemental Resolution or resolution of issuance governing Veterans G.O. Bonds, to the extent that such obligation arises on account of amounts on deposit in the Revenue Account.

Under Resolution RB-1, “Monthly Debt Service Requirement” means, as of any date of determination, one-twelfth of the aggregate amount of scheduled interest and principal to become due during the Debt Service Year in which such date falls, as computed on the first day of such Debt Service Year.

### **Additional Revenue Bonds**

Resolution RB-1 permits the issuance of Additional Revenue Bonds to carry out the provisions of the Act, the 1974 Act and other statutes enacted in support of the Program or to refund all or part of the then Outstanding Revenue Bonds or then outstanding Veterans G.O. Bonds. Any Additional Revenue Bonds issued under Resolution RB-1 (except for bonds which are subordinate obligations) will be on a parity with the then Outstanding Revenue Bonds, and will be entitled to the equal benefit, protection and security of the provisions, covenants and agreements of Resolution RB-1. Additional Revenue Bonds may have payment dates which differ from those of the Outstanding Revenue Bonds and the Offered Revenue Bonds. Upon the issuance of any such Additional Revenue Bonds, Resolution RB-1 requires the deposit into the Bond Reserve Account and the Loan Loss Account of such amounts as are necessary to increase the amounts therein to, respectively, the Bond Reserve Requirement or the Loan Loss Requirement. Such deposit may be made from the 1943 Fund, the proceeds of sale of the Additional Revenue Bonds or any other lawful source, or through the use of Cash Equivalents as provided in the Series Resolution authorizing the issuance of the Additional Revenue Bonds. Under Resolution RB-1, issuance of Additional Revenue Bonds is conditioned upon delivery of a Cash Flow Statement and Rating Confirmation and upon certification that no Event of Default under Resolution RB-1 shall have occurred and be continuing.

In addition, Veterans G.O. Bonds authorized by the voters of the State may be issued by the State from time to time to provide funds for the Program or to refund outstanding Veterans G.O. Bonds, subject to the delivery of a Cash Flow Statement. See “SECURITY FOR AND SOURCES OF PAYMENT OF THE OFFERED REVENUE BONDS – The 1943 Fund” for a discussion of authorized but unissued bonds.

## **THE OFFERED REVENUE BONDS**

### **General**

The Offered Revenue Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the Offered Revenue Bonds. Beneficial interests in the Offered Revenue Bonds may be purchased in book-entry form only, in denominations of \$5,000 or any integral multiple

thereof. Principal and interest (including the redemption price, if any) are payable directly to DTC by the State Treasurer. Upon receipt of payments of principal and interest, DTC is to in turn remit such principal and interest to the Direct Participants in DTC for disbursement by the Participants to the Beneficial Owners of the Offered Revenue Bonds. Neither the State Treasurer nor the Department can give any assurances that DTC will distribute to Direct Participants, or that Participants or others will distribute to the Beneficial Owners, payment of principal of and interest on the Offered Revenue Bonds or any redemption or other notices or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. Neither the State Treasurer nor the Department is responsible or liable for any failure of DTC or any Direct Participant or Indirect Participant to make any payments or to give any notice to a Beneficial Owner with respect to the Offered Revenue Bonds or for any error or delay relating thereto. The information in this Official Statement concerning DTC and DTC's "Book-Entry System" has been provided by DTC for use in securities offering documents, and the Department takes no responsibility for the accuracy or completeness thereof. See APPENDIX D – "DTC AND BOOK-ENTRY ONLY SYSTEM." Direct Participants, Indirect Participants and Participants are defined in APPENDIX D – "DTC AND BOOK-ENTRY ONLY SYSTEM."

The Offered Revenue Bonds will be dated their date of delivery and will mature on the respective dates and in the respective amounts set forth on the page immediately following the cover page of this Official Statement.

### **Interest**

Interest on the Offered Revenue Bonds will accrue from the date of delivery, at the respective rates shown on the page immediately following the cover page of this Official Statement, and is payable on June 1 and December 1 of each year, commencing June 1, 2025, and upon the prior redemption thereof. Interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

### **Redemption\***

#### *Optional Redemption*

The Offered Revenue Bonds shall be subject to redemption at any time on or after December 1, 2033, at the option of the Department, from any source of available funds, in whole or in part, by such maturity or maturities as may be selected by the Department in its sole discretion (and by lot within a maturity) at a Redemption Price of 100% of the principal amount thereof to be redeemed, without premium, plus accrued interest thereon to the date fixed for redemption.

#### *Redemption from Mandatory Sinking Account Payments*

The Offered Revenue Bonds maturing on December 1, 2039 (the "2039 Term Bonds") are subject to mandatory redemption prior to their stated maturity date, in part, by lot, at a Redemption Price of 100% of the principal amount thereof to be redeemed, without premium, plus accrued interest thereon to the date fixed for redemption, from Mandatory Sinking Account Payments, on the respective dates and in the respective amounts shown below.

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\* Preliminary, subject to change.

<b>Mandatory Sinking Account Payment Dates</b>	<b>Mandatory Sinking Account Payments</b>
June 1, 2037	\$ 960,000
December 1, 2037	990,000
June 1, 2038	1,015,000
December 1, 2038	1,055,000
June 1, 2039	1,080,000
December 1, 2039 <sup>†</sup>	1,120,000

<sup>†</sup> Stated maturity.

The Offered Revenue Bonds maturing on December 1, 2044 (the “2044 Term Bonds”) are subject to mandatory redemption prior to their stated maturity date, in part, by lot, at a Redemption Price of 100% of the principal amount thereof to be redeemed, without premium, plus accrued interest thereon to the date fixed for redemption, from Mandatory Sinking Account Payments, on the respective dates and in the respective amounts shown below.

<b>Mandatory Sinking Account Payment Dates</b>	<b>Mandatory Sinking Account Payments</b>
June 1, 2040	\$ 1,150,000
December 1, 2040	1,185,000
June 1, 2041	1,225,000
December 1, 2041	1,260,000
June 1, 2042	1,300,000
December 1, 2042	1,340,000
June 1, 2043	1,380,000
December 1, 2043	1,425,000
June 1, 2044	1,465,000
December 1, 2044 <sup>†</sup>	1,515,000

<sup>†</sup> Stated maturity.

The Offered Revenue Bonds maturing on December 1, 2049 (the “2049 Term Bonds”) are subject to mandatory redemption prior to their stated maturity date, in part, by lot, at a Redemption Price of 100% of the principal amount thereof to be redeemed, without premium, plus accrued interest thereon to the date fixed for redemption, from Mandatory Sinking Account Payments, on the respective dates and in the respective amounts shown below.

<b>Mandatory Sinking Account Payment Dates</b>	<b>Mandatory Sinking Account Payments</b>
June 1, 2045	\$ 1,560,000
December 1, 2045	1,610,000
June 1, 2046	1,655,000
December 1, 2046	1,710,000
June 1, 2047	1,760,000
December 1, 2047	1,815,000
June 1, 2048	1,870,000
December 1, 2048	1,930,000
June 1, 2049	1,990,000
December 1, 2049 <sup>†</sup>	2,050,000

<sup>†</sup> Stated maturity.

The Offered Revenue Bonds maturing on December 1, 2054 (the “2054 Term Bonds”, and together with the 2039 Term Bonds, the 2044 Term Bonds and the 2049 Term Bonds, the “Term Bonds”) are subject to mandatory redemption prior to their stated maturity date, in part, by lot, at a Redemption Price of 100% of the principal amount thereof to be redeemed, without premium, plus accrued interest thereon to the date fixed for redemption, from Mandatory Sinking Account Payments, on the respective dates and in the respective amounts shown below.

<b>Mandatory Sinking Account Payment Dates</b>	<b>Mandatory Sinking Account Payments</b>
June 1, 2050	\$ 2,115,000
December 1, 2050	2,175,000
June 1, 2051	2,245,000
December 1, 2051	2,315,000
June 1, 2052	2,390,000
December 1, 2052	2,455,000
June 1, 2053	2,540,000
December 1, 2053	2,610,000
June 1, 2054	2,695,000
December 1, 2054 <sup>†</sup>	5,210,000

<sup>†</sup> Stated maturity.

Pursuant to the Resolution, if less than all of the Term Bonds of a maturity are purchased or called for redemption (other than in satisfaction of Mandatory Sinking Account Payments), the Trustee will credit the principal amount of such Term Bonds that are so purchased or redeemed against applicable remaining Mandatory Sinking Account Payments (including the principal amounts due on the respective stated maturity dates, as shown above) as directed by the Department or, if no direction is given, then against all applicable remaining Mandatory Sinking Account Payments in the proportion that the then-remaining balance of each such Mandatory Sinking Account Payment (including the principal amount due on the respective stated maturity date, as shown above) bears to the total of all applicable Mandatory Sinking Account Payments (including the principal amounts due on the respective stated maturity dates, as shown above).

### *Special Redemption from Unexpended Proceeds*

The Offered Revenue Bonds are subject to special redemption on any date prior to their respective stated maturity dates at the option of the Department, from proceeds of the Offered Revenue Bonds that have not been applied to finance Contracts of Purchase (a “Special Redemption from Unexpended Proceeds”).

In addition, the Federal Tax Code requires redemption of certain qualified mortgage bonds, including the Offered Revenue Bonds, from unexpended proceeds required to be used to make mortgage loans that have not been used within 42 months from the date of issuance (or the date of issuance of the original bonds in the case of refundings), except for a \$250,000 *de minimis* amount. As a result, the redemption of Revenue Bonds that are qualified mortgage bonds from proceeds attributable to such Revenue Bonds not used to make Contracts of Purchase may be required.

Any such Special Redemption from Unexpended Proceeds will be pro rata among outstanding maturities of the Offered Revenue Bonds and by lot within such maturity, at the principal amount thereof to be redeemed plus accrued interest to the date fixed for redemption, without premium.

Factors which may affect the demand for Contracts of Purchase and consequently the Department’s ability to use all of the proceeds of the Offered Revenue Bonds for the financing of Contracts of Purchase include not only general economic conditions, but also (among other factors) the relationship between alternative mortgage loan interest rates (including rates on mortgage loans insured or guaranteed by agencies of the Federal government, rates on conventional mortgage loans and the rates on other Contracts of Purchase available from the Department), the interest rates being charged on Contracts of Purchase by the Department, the general level of home purchase and construction activity in the State and the demographics of the eligible veterans population. These factors could cause a lack of demand for Contracts of Purchase financed by the Offered Revenue Bonds and could necessitate the exercise by the Department of its right to apply the unexpended proceeds to redeem the Offered Revenue Bonds. See APPENDIX C – “CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Contracts of Purchase Origination and Principal Repayment Experience” for information regarding the recent rate of originations of Contracts of Purchase, and “— Selected Principal Flows with respect to Contracts of Purchase Funded by both Veterans G.O. Bonds and Revenue Bonds” for the interest rates on Contracts of Purchase originated since January 1, 1990. For additional information, see APPENDIX A – “THE DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA, THE PROGRAM AND THE 1943 FUND – THE PROGRAM – Contracts of Purchase – Interest Rates.”

From time to time moneys may be or become available through the issuance of Veterans G.O. Bonds (such as the Fall 2024 G.O. Bonds) and Revenue Bonds and from other moneys available in the 1943 Fund to finance Contracts of Purchase. Since the Department has full discretion, subject to eligibility requirements and the requirements of the Federal Tax Code, in applying the proceeds of all of these bonds and other available moneys in the 1943 Fund to finance the Program, the proceeds of prior and future, if any, Veterans G.O. Bonds and Revenue Bonds and other available moneys in the 1943 Fund may be used to finance Contracts of Purchase before proceeds of the Offered Revenue Bonds are so used. See APPENDIX A – “THE DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA, THE PROGRAM AND THE 1943 FUND – THE PROGRAM – Certain Statutory Requirements” for information regarding



eligibility requirements for different moneys made available by the Department and APPENDIX C – “CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Amounts Expected to be Available to Fund Contracts of Purchase and Related Investments” for information regarding the amount of money currently available and expected to become available to finance Contracts of Purchase upon the issuance of the Offered Revenue Bonds and the Fall 2024 G.O. Bonds.

*Special Redemption from Excess Revenues*

The Offered Revenue Bonds are subject to special redemption at the option of the Department in whole or in part on any date, at a Redemption Price of 100% of the principal amount thereof to be redeemed, without premium, plus interest accrued thereon to the date fixed for redemption, from Excess Revenues (as defined below). Any such special redemption from Excess Revenues may be in whole or in part and of any Series of Revenue Bonds or Veterans G.O. Bonds of any series and maturity at the option of the Department, except Excess Revenues that are subject to the Ten-Year Rule Percentage (as defined below) can only be applied to redeem Offered Revenue Bonds.

“Excess Revenues” means, as of any date of calculation, the amount of all Revenues held in the Revenue Account in excess of Accrued Debt Service.

“Prepayments” means all moneys received in connection with Contracts of Purchase other than interest and scheduled repayments of principal. Prepayments on Contracts of Purchase include, but are not limited to, principal prepayments, prepayment premiums or prepayment penalties, hazard insurance payments, payments in respect of partial or complete condemnation and recoveries on defaulted Contracts of Purchase.

Excess Revenues can include Prepayments and repayments on Contracts of Purchase funded by Revenue Bonds and Veterans G.O. Bonds, investment earnings and insurance receipts, and amounts on deposit in the Bond Reserve Account and, if any, Loan Loss Account in excess of their respective requirements, and also includes Revenues which had been set aside to be recycled into new Contracts of Purchase. Revenues which had been set aside to be recycled into new Contracts of Purchase, if any, will be deposited to a Recycling Subaccount. All payments on Contracts of Purchase are deposited in the 1943 Fund and applied to pay debt service on the Veterans G.O. Bonds and Revenue Bonds (including mandatory redemptions of Veterans G.O. Bonds and Revenue Bonds), to finance Contracts of Purchase, to pay Program and Department expenses, and to pay certain insurance claims. The Department, subject to applicable bond authorizing resolutions, may apply Excess Revenues to redeem any Veterans G.O. Bonds or Revenue Bonds eligible for redemption. The Department’s decision to apply Excess Revenues to redeem bonds, to finance Contracts of Purchase, or for any other permitted purpose depends on many factors, including but not limited to applicable bond authorizing resolution requirements, demand for Contracts of Purchase, debt service cost savings, investment earnings, and Federal Tax Code requirements. See APPENDIX C – “CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Veterans G.O. Bonds and Revenue Bonds – Selected Information With Respect to Veterans G.O. Bonds and Revenue Bonds.” The Department also collects certain premiums from veterans in respect of the Fire and Hazard Insurance Program and Disaster Indemnity Program. See APPENDIX A – “THE DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA, THE PROGRAM AND THE 1943 FUND – THE PROGRAM – Property Insurance.”

The Department’s actual past prepayment experience for existing Contracts of Purchase is set forth in APPENDIX C – “CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Contracts of Purchase – Contracts of Purchase Origination and Principal Repayment Experience.”

For certain qualified mortgage bonds (which include Revenue Bonds such as the Offered Revenue Bonds), the Federal Tax Code prohibits the use of repayments (including Prepayments) of principal of Contracts of Purchase financed with the proceeds of an issue of such bonds to make additional Contracts of Purchase after 10 years from the date of issuance of such bonds (or the date of issuance of original bonds in the case of refundings), after which date such amounts must be used to redeem such bonds of the issue, except for a \$250,000 *de minimis* amount. See APPENDIX H – “CERTAIN FEDERAL TAX CODE REQUIREMENTS.” Repayments or Prepayments on the Offered Revenue Bonds Contracts of Purchase in an amount equal to the Ten-Year Rule Percentage (as defined below) will be required to be used to retire or redeem Offered Revenue Bonds at the times and to the extent required by the Federal Tax Code. The “Ten-Year Rule Percentage” means the percentage of repayments and Prepayments that are to be used to redeem or retire the Offered Revenue Bonds in the respective periods set forth as follows:

<b>Ten-Year Rule Detail</b>	
<b>Period (Dates Inclusive)</b>	<b>Approximate Ten-Year Rule Percentage</b>
October 17, 2024 <sup>†</sup> to October 16, 2034	0%
October 17, 2034 to Final Maturity of the Offered Revenue Bonds	100%

<sup>†</sup> Date of issuance of the Offered Revenue Bonds.

The information with respect to the Ten-Year Rule Percentage is based on the currently expected use of proceeds of the Offered Revenue Bonds and current tax law. The Department cannot predict the actual repayments and Prepayments of the Offered Revenue Bonds Contracts of Purchase it will receive or whether the Federal Tax Code provision governing the Ten-Year Rule Percentage may be repealed or modified, and no assurance can be given that any redemptions from repayments or Prepayments of the Offered Revenue Bonds Contracts of Purchase will occur.

In addition, the Federal Tax Code requires a payment to the United States from certain veterans whose Contracts of Purchase are originated after December 31, 1990 with the proceeds of qualified mortgage bonds (which include the Offered Revenue Bonds). Since such requirement remains in effect with respect to any Contracts of Purchase originated after December 31, 1990 with proceeds of the applicable Revenue Bonds, for a period ending nine years after the execution of such Contracts of Purchase, the Department is unable to predict what effect, if any, such requirement will have on the origination or prepayment of Contracts of Purchase to which such provision applies. See APPENDIX C – “CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA” regarding certain information relating to origination and prepayment of Contracts of Purchase.

### **Redemption Notice**

The Resolution requires that at least fifteen (15) but not more than ninety (90) days before a redemption date for Revenue Bonds, the Trustee must cause a notice of any such redemption, either in whole or in part, to be mailed, first class postage prepaid, to all registered owners of the

Revenue Bonds to be redeemed at their addresses as they appear on the registration books kept by the Trustee, as Bond Registrar. While DTC is the securities depository for the Offered Revenue Bonds, the Trustee shall cause the redemption notice to be given in accordance with the procedures of DTC, which currently requires at least twenty (20) days' notice of redemption. Each such notice shall set forth the date fixed for redemption, the Redemption Price to be paid, the place or places where amounts due upon such redemption will be payable and, if less than all of the Revenue Bonds then Outstanding shall be called for redemption, the Series (or subseries), the maturities and the distinctive numbers, if any, and CUSIPs of such Revenue Bonds to be redeemed and, in the case of Revenue Bonds to be redeemed in part only, the portion of the principal amount thereof to be redeemed. In case any Revenue Bond is to be redeemed in part only, the notice of redemption which relates to such Revenue Bond shall state also that on or after the redemption date, upon surrender of such Revenue Bond, a new Revenue Bond of the same maturity and Series (and subseries, if applicable), bearing interest at the same rate and in principal amount equal to the unredeemed portion of such Revenue Bond, will be issued.

If the notice of redemption is conditional, the notice shall set forth in summary terms, the conditions precedent to such redemption and that if such conditions shall not have been satisfied on or prior to the redemption date, said notice shall be of no force and effect and such Revenue Bonds shall not be redeemed. If the conditions are not satisfied, the redemption shall not be made and the Trustee shall within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such conditions were not satisfied. An affidavit of the Trustee of mailing shall be conclusive and binding upon the Department and owners of the Revenue Bonds. No defect in the notice of redemption or mailing thereof (including any failure to mail such notice) to any owner of Revenue Bonds will affect the validity of the redemption proceedings for any other owner of Revenue Bonds.

In accordance with the Offered Bonds Series Resolution, the Offered Revenue Bonds are being issued in book-entry form only, and redemption notices shall be given at the times and in the manner required by DTC, currently at least twenty (20) but not more than sixty (60) days before a redemption date for the Offered Revenue Bonds. DTC is responsible for notifying Direct Participants, and Direct Participants and Indirect Participants are responsible for notifying Beneficial Owners (as defined herein). Neither the Trustee nor the Department is responsible for sending notices to Beneficial Owners or for the consequences of any action or inaction by the Trustee or the Department as a result of the response or failure to respond by DTC or its nominee as Bondholder. See APPENDIX D – “DTC AND BOOK-ENTRY ONLY SYSTEM.”

**ESTIMATED SOURCES AND USES OF FUNDS**

The sources of funds and the uses thereof in connection with the Offered Revenue Bonds are expected to be approximately as set forth below.

**ESTIMATED SOURCES**

Offered Revenue Bonds Par Amount	\$
Plus/Less: Net Original Issue Premium/Discount	
Available Amounts in the 1943 Fund	
<b>TOTAL ESTIMATED SOURCES</b>	<b>\$</b>

**ESTIMATED USES**

Deposit to the Offered Revenue Proceeds Account for Contracts of Purchase	\$
Deposit to the Offered Revenue Proceeds Account for Deferred Payment Assistance Loans	
Deposit to Bond Reserve Account	
Underwriters' Discount <sup>(1)</sup>	
Costs of Issuance	
<b>TOTAL ESTIMATED USES</b>	<b>\$</b>

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<sup>(1)</sup> See "UNDERWRITING."

**TAX MATTERS**

**Federal Tax Matters**

If, as anticipated, the respective sales of the Offered Revenue Bonds and the Fall 2024 G.O. Bonds occur within 15 days of each other, the Offered Revenue Bonds and the Fall 2024 G.O. Bonds will be treated as a single issue for Federal income tax purposes. As a single issue for Federal tax purposes, the requirements of applicable Federal tax law must be satisfied with respect to the Offered Revenue Bonds and the Fall 2024 G.O. Bonds, respectively, in order that interest on the Offered Revenue Bonds not be included in gross income for Federal income tax purposes retroactive to the date of issuance thereof, irrespective of the date on which such noncompliance occurs or is discovered. The loan eligibility requirements described in APPENDIX H – "CERTAIN FEDERAL TAX CODE REQUIREMENTS" apply to the Contracts of Purchase to be financed with or reallocated to proceeds of the Offered Revenue Bonds. The Federal Tax Code establishes other requirements described below which will apply to the Offered Revenue Bonds. Failure to so use all of such proceeds and to comply with other requirements of the Federal Tax Code with respect to either the Offered Revenue Bonds and/or the Fall 2024 G.O. Bonds could cause interest on the Offered Revenue Bonds to be included in gross income for Federal income tax purposes retroactive to their date of issuance.

*Requirements Imposed on the Offered Revenue Bonds*

The first general requirement of the Federal Tax Code applicable to the Offered Revenue Bonds is that the aggregate amount of private activity bonds (exclusive of qualified veterans' mortgage bonds) that may be issued by the Department in any calendar year (or previous years' carried forward amount) must not exceed the portion of the private activity bond volume limit for the State for such calendar year that is allocated by the State to the Department. The Offered Revenue Bonds are within the applicable limit for the Department.

The Federal Tax Code requires that the effective interest rate on Contracts of Purchase financed with the lendable proceeds of qualified mortgage bonds (such as the Offered Revenue Bonds) may not exceed the yield on the issue by more than 1.125% (see “Other Requirements Imposed by the Federal Tax Code – Yield Limitations and Rebate” in APPENDIX H), and that certain investment earnings on non-mortgage investments, calculated based upon the extent such investment earnings exceed the amount that would have been earned on such investments if the investments were invested at a yield equal to the yield on the issue, be rebated to the United States. The Department has covenanted to comply with these requirements and has established procedures to determine the amount of excess earnings, if any, that must be rebated to the United States. See “SECURITY FOR AND SOURCES OF PAYMENT OF THE OFFERED REVENUE BONDS – The 1943 Fund” and APPENDIX A – “THE DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA, THE PROGRAM AND THE 1943 FUND – THE PROGRAM – Contracts of Purchase” for discussions of provisions of the Veterans Code which affect the Department’s ability to establish and to change interest rates on Contracts of Purchase.

The Department has covenanted in the Resolution to do and perform all acts and things permitted by law and necessary or desirable to assure that interest paid on the Offered Revenue Bonds shall not be included in gross income for Federal income tax purposes.

*Opinion of Bond Counsel to the Department*

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Department, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants, interest on the Offered Revenue Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Federal Tax Code and is not treated as a preference item in calculating the alternative minimum tax under the Federal Tax Code; however, interest on the Offered Revenue Bonds is included in the “adjusted financial statement income” of certain corporations that are subject to the alternative minimum tax under Section 55 of the Federal Tax Code. In rendering its opinion, Bond Counsel to the Department has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Department in connection with the Offered Revenue Bonds and the Fall 2024 G.O. Bonds, and Bond Counsel to the Department has assumed compliance by the Department with certain ongoing covenants to comply with applicable requirements of the Federal Tax Code to assure the exclusion of interest on the Offered Revenue Bonds from gross income under Section 103 of the Federal Tax Code.

Bond Counsel to the Department expresses no opinion regarding any other Federal or, except as stated below under “– State Tax Matters,” state or local tax consequences arising with respect to the Offered Revenue Bonds, or the ownership or disposition thereof. Bond Counsel to the Department 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, any fact or circumstance that may thereafter come to its attention, any change in law or in interpretation thereof that may thereafter occur, or for any other reason. Bond Counsel to the Department expresses no opinion as to the consequence of any of the events described in the preceding sentence or the likelihood of their occurrence. In addition, Bond Counsel to the Department expresses no opinion on the effect of any action taken or not taken in reliance upon an opinion of other counsel regarding Federal, state or local tax matters, including, without limitation, the exclusion from gross income for Federal income tax purposes of interest on the Offered Revenue Bonds.

### *Certain Collateral Federal Tax Consequences*

The following is a brief discussion of certain collateral Federal income tax matters with respect to the Offered Revenue Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of an Offered Revenue Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Offered Revenue Bonds.

Prospective owners of the Offered Revenue Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and Railroad Retirement benefits, individuals otherwise eligible for the earned income tax credit and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for Federal income tax purposes. Interest on the Offered Revenue Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Federal Tax Code.

Information reporting requirements apply to interest paid on tax-exempt obligations, including the Offered Revenue Bonds. In general, such 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 Federal Tax 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 an Offered Revenue 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 Offered Revenue 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.

### **Original Issue Discount**

"Original issue discount" ("OID") is the excess of the sum of all amounts payable at the stated maturity of an Offered Revenue Bond (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the "issue price" of a maturity (a bond with the same maturity date, interest rate, and credit terms) means the first price at which at least 10 percent of such maturity was sold to the public, i.e., a purchaser who is not, directly or indirectly, a signatory to a written contract to participate in the initial sale of the Offered Revenue Bonds (excluding sales to bond houses, brokers, or similar persons acting in the capacity as underwriters, placement agents, or wholesalers). In general, the issue price for each maturity of Offered Revenue Bonds is expected to be the initial public offering price set forth on the page immediately following the cover page

of the Official Statement. Bond Counsel further is of the opinion that, for any Offered Revenue Bonds having OID (a “Discount Bond”), OID that has accrued and is properly allocable to the owners of the Discount Bonds under Section 1288 of the Federal Tax Code is excludable from gross income for Federal income tax purposes to the same extent as other interest on the Offered Revenue Bonds.

In general, under Section 1288 of the Federal Tax Code, OID on a Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Bond. An owner’s adjusted basis in a Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Discount Bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond even though there will not be a corresponding cash payment.

Owners of Discount Bonds should consult their own tax advisors with respect to the treatment of original issue discount for Federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of Discount Bonds.

### **Bond Premium**

In general, if an owner acquires an Offered Revenue Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Offered Revenue Bond after the acquisition date (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates), that premium constitutes “bond premium” on that Offered Revenue Bond (a “Premium Bond”). In general, under Section 171 of the Federal Tax Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner’s yield over the remaining term of the Premium Bond determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner’s regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner’s original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

### **State Tax Matters**

Bond Counsel to the Department is of the opinion that, under existing law, interest on the Offered Revenue Bonds is exempt from personal income taxes of the State. A complete copy of

the proposed form of opinion to be rendered by Bond Counsel with respect to the Offered Revenue Bonds is contained in APPENDIX F.

### **Miscellaneous**

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Offered Revenue Bonds under Federal or state law or otherwise prevent beneficial owners of the Offered Revenue Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the Offered Revenue Bonds.

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

### **LITIGATION**

There is not now pending (with service of process on the Department having been accomplished) or threatened any material litigation seeking to restrain or enjoin the sale, issuance, or delivery of the Offered Revenue Bonds or challenging the authorization for or validity of the Offered Revenue Bonds.

From time to time there are litigation matters against the Department, which could, if determined adversely to the Department, affect the Department's expenditures and, in some cases, its revenues and cash flow, including litigation affecting the Department that does not directly relate to the Offered Revenue Bonds which, nonetheless, may relate to the 1943 Fund. While there can be no assurances as to the ultimate resolution and fiscal impact of such litigation, the Department believes that the resolution of such litigation is unlikely to materially adversely affect the 1943 Fund or the payment of principal of and interest on the Offered Revenue Bonds when due.

### **UNDERWRITING**

The Offered Revenue Bonds are being purchased by an underwriting syndicate consisting of the underwriters listed on the cover page hereof (the "Underwriters"). Academy Securities, Inc. and Raymond James & Associates, Inc. are each acting on behalf of themselves and together as the representatives of the Underwriters with respect to the Offered Revenue Bonds.

The Underwriters have agreed to purchase the Offered Revenue Bonds for an aggregate purchase price of \$ \_\_\_\_\_, which represents the aggregate principal amount of the Offered Revenue Bonds, plus original issue premium of \$ \_\_\_\_\_ and less original issue discount of \$ \_\_\_\_\_, less the Underwriters' discount of \$ \_\_\_\_\_.

The Purchase Contract relating to the Offered Revenue Bonds provides, among other things, that (i) the Underwriters will purchase all of the Offered Revenue Bonds if any of the Offered Revenue Bonds are purchased and (ii) the obligation to make such purchase is subject to certain terms and conditions set forth in such Purchase Contract including, among others, the approval of certain legal matters by counsel. The Underwriters may offer and sell the Offered Revenue Bonds to certain dealers (including dealers depositing the Offered Revenue Bonds to investment trusts) and others at prices lower than the offering prices stated on the page immediately following the cover page hereof. The initial offering prices of the Offered Revenue Bonds may be changed from time to time by the Underwriters.



Certain of the Underwriters have provided letters to the State Treasurer and the Department, which letters are attached hereto as APPENDIX J, relating to their respective third-party practices or other affiliations for inclusion in this Official Statement. Neither the State Treasurer nor the Department guarantees the accuracy or completeness of the information contained in such letters, and the information set forth in each letter is not construed as a representation of the State Treasurer, the Department or any Underwriter other than the Underwriters named therein.

### **CERTAIN LEGAL MATTERS**

The opinion of the Honorable Rob Bonta, Attorney General of the State of California (the “Attorney General”), approving the validity of the Offered Revenue Bonds, will be delivered concurrently with the issuance of the Offered Revenue Bonds. The opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Department (“Bond Counsel to the Department”), approving the validity of the Offered Revenue Bonds and addressing certain tax matters will be delivered concurrently with the issuance of the Offered Revenue Bonds. The proposed forms of the legal opinions of Bond Counsel to the Department and the Attorney General are set forth in APPENDIX F and APPENDIX G, respectively. Sheppard, Mullin, Richter & Hampton LLP is serving as Disclosure Counsel to the Department with respect to the Offered Revenue Bonds (“Disclosure Counsel”). Certain legal matters will be passed upon for the Underwriters by their counsel, Kutak Rock LLP.

The Attorney General, Bond Counsel to the Department and Disclosure Counsel to the Department undertake no responsibility for the accuracy, completeness or fairness of this Official Statement.

### **REPORT OF INDEPENDENT AUDITORS AND FINANCIAL STATEMENTS OF THE PROGRAM**

The Report of Independent Auditors and Financial Statements of the CalVet Home Loan Program of the Department of Veterans Affairs of the State of California as of and for the years ended June 30, 2023 and 2022 are attached as APPENDIX B to this Official Statement. These financial statements have been audited by Moss Adams LLP, independent auditors, as stated in their report appearing therein. Moss Adams LLP has not been engaged to perform, and has not performed since the date of the report included in APPENDIX B, any procedures on the financial statements addressed in that report. These financial statements are the most recent audited financial statements of the Program.

### **LEGALITY FOR INVESTMENT**

The Act provides that the Offered Revenue Bonds shall be legal investments in the State for all trust funds, funds of all insurance companies, banks (both commercial and savings), trust companies, state school funds, and pension funds, public or private. The Act also provides that any money or funds which may by law be invested in bonds of the State may be invested in the Offered Revenue Bonds and that whenever any bonds of the State may by law be used as security for the performance of any act or the deposit of any public money, the Offered Revenue Bonds may be so used.

## **RATINGS**

The Offered Revenue Bonds have received ratings of “Aa3” by Moody’s Investors Service, Inc., “AA” by S&P Global Ratings (“S&P”) and “AA-” by Fitch Ratings. An explanation of the significance and status of such credit ratings may be obtained from the rating agencies furnishing the same. There is no assurance that such ratings will continue for any given period of time or that they will not be revised, qualified or withdrawn entirely by any such rating agencies if, in their respective judgments, circumstances so warrant. Any revision or withdrawal of a credit rating could have an effect on the market prices and marketability of the Offered Revenue Bonds. The Department cannot predict the timing or impact of future actions by the rating agencies.

## **CONTINUING DISCLOSURE**

The Department will agree in a continuing disclosure undertaking (the “Continuing Disclosure Undertaking”), for the benefit of the Bondowners and Beneficial Owners (as defined in APPENDIX E) of the Offered Revenue Bonds, to provide certain financial information and operating data relating to the Department (the “Annual Financial Information”) by not later than April 1 of each year the Offered Revenue Bonds are outstanding following the end of the Department’s then-current fiscal reporting period, commencing with the reporting period ended June 30, 2024, and to provide notices of the occurrence of certain enumerated events. The Continuing Disclosure Undertaking requires that the Annual Financial Information and notices of enumerated events be filed by the Department with the Municipal Securities Rulemaking Board and the Trustee. The specific nature of the information to be contained in the Annual Financial Information and the notices is set forth in the Continuing Disclosure Undertaking, a copy of which is included as APPENDIX E — “FORM OF CONTINUING DISCLOSURE UNDERTAKING.” These covenants have been made in order to assist the Underwriters in complying with Rule 15c2-12(b)(5), as amended, promulgated by the Securities and Exchange Commission (the “Rule”).

On August 14, 2020, the Department (1) filed a notice on the Electronic Municipal Market Access (EMMA) website of the Municipal Securities Rulemaking Board that the CUSIPs for the State of California Veterans General Obligation Bonds, Series CR were not linked to certain financial information and operating data relating to the Department that was filed prior to its April 1, 2019 due date and that the Department had not given notice of such event, and (2) linked such information to the missing CUSIPs.

On March 30, 2021, the Department filed a notice on EMMA that the complete Annual Report for fiscal year ended June 30, 2020 would not be filed by April 1, 2021. On May 4, 2021, the Department filed its complete audited financial statements for fiscal year ended June 30, 2020.

On March 29, 2022, the Department filed a notice on EMMA that the complete Annual Report for fiscal year ended June 30, 2021 would not be filed by April 1, 2022. On August 5, 2022, the Department filed its complete audited financial statements for fiscal year ended June 30, 2021.

On March 30, 2023, the Department filed a notice on EMMA that the complete Annual Report for fiscal year ended June 30, 2022 would not be filed by April 1, 2023. On December 5, 2023, the Department filed its complete audited financial statements for fiscal year ended June 30, 2022.

On March 29, 2024, the Department filed a notice on EMMA that the complete Annual Report for fiscal year ended June 30, 2023 would not be filed by April 1, 2024. On July 22, 2024, the Department filed its complete audited financial statements for fiscal year ended June 30, 2023.

### **MISCELLANEOUS**

The information set forth herein is subject to change without notice and no implication should be derived therefrom or from the sale of the Offered Revenue Bonds that there has been no change in the affairs of the Department after the date hereof. The distribution of this Official Statement has been duly authorized by the Department. Any statement in this Official Statement involving matters of opinion, whether or not expressly so stated, is intended as such, and not as a representation of fact. The agreement of the Department with the holders of the Offered Revenue Bonds is set forth in the Resolution. This Official Statement is not to be construed as an agreement or contract between the Department and the purchaser or holder of any of the Offered Revenue Bonds. Additional information may be obtained from the Department at 1227 "O" Street, Room 200, Sacramento, California 95814, Attention: Bond Finance Division.

DEPARTMENT OF VETERANS AFFAIRS  
OF THE STATE OF CALIFORNIA  
Secretary of Veterans Affairs

## APPENDIX A<sup>†</sup>

### THE DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA, THE PROGRAM AND THE 1943 FUND

#### INTRODUCTION

This APPENDIX A includes information about the Department, the Program, the 1943 Fund and the Department's allocation of receipts from Contracts of Purchase, including Excess Revenues. APPENDIX B includes the June 30, 2023 and 2022 Report of Independent Auditors and Financial Statements of the Program. Capitalized terms not defined in this APPENDIX A shall have the meanings ascribed to them in the forepart of or elsewhere in this Official Statement.

#### Forward-Looking Statements

The presentation of historical information in this APPENDIX A is intended to show recent historical information and is not intended to indicate future or continuing trends in the financial position or other affairs of the Department, the Program or the 1943 Fund. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future. The statements contained in this APPENDIX A, that are not purely historical, are forward-looking statements, including statements regarding the Department's expectations, hopes, intentions or strategies regarding the future. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget," "project," "maintain," "achieve," "forecast," "will likely result," "are expected to," "will continue," "is anticipated," "intend" or other similar words. Statements contained in this APPENDIX A which involve estimates, forecasts, or other matters of opinion, whether or not expressly so described in this APPENDIX A, are intended solely as such and are not to be construed as representations of fact. Prospective investors should not place undue reliance on forward-looking statements. All forward-looking statements included in this APPENDIX A are based on information available to the Department on the date hereof and are subject to change without notice. All forward-looking statements are expressly qualified in their entirety by the cautionary statements in this section and elsewhere in this APPENDIX A. It is important to note that the Department's actual results likely will differ, and could differ materially, from those in such forward-looking statements.

The forward-looking statements herein are based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the Department. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this APPENDIX A will prove to be accurate, and actual results, performance or achievements may differ materially from the expectations and forecasts described in this APPENDIX A.

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<sup>†</sup> Source: Department of Veterans Affairs of the State of California.

## **THE DEPARTMENT**

### **General**

In 1921, the California Legislature (the “State Legislature”) created the Veterans’ Welfare Board and the Program. The Department became the successor to the Veterans’ Welfare Board under the Veterans’ Farm and Home Purchase Act of 1943 (the “1943 Act”). The Department is a subdivision of the State and constitutes a public corporation. One of the Department’s basic objectives is to provide eligible veterans the opportunity to acquire homes with long-term financing provided under the Program. See “THE PROGRAM.”

### **Governance of the Department**

The California Veterans Board (the “Board”) advises the Department and the Secretary of Veterans Affairs of the Department (the “Department Secretary”) on policies for operations of the Department. The Board is composed of seven members appointed by the Governor and subject to confirmation by the State Senate. Each member of the Board must be a veteran and a member in good standing with a congressionally chartered veteran service organization. In addition, one member must be retired from the active or reserve forces of the United States military service. One member must have substantial training, professional knowledge or experience in the issues faced by female veterans which may include, but are not limited to, the following issues: combat-related disorders, sexual trauma and homelessness. Six of the members serve four-year terms. Finally, one member must be a resident of one of the State veterans homes run by the Department which were established for qualified aged and disabled veterans and their spouses (or registered domestic partners). This member serves only a two-year term. Members of the Board sit on various committees of the Department including policy and procedures, legislative, communication, administrative, home and veterans services.

Certain actions of the Department (for example, certain actions relating to interest rates on Contracts of Purchase) require the approval of the Board and the Veterans’ Finance Committee of 1943, which is comprised of the Governor, the State Treasurer, the State Controller, the State Director of Finance and the Department Secretary. See “THE PROGRAM – Contracts of Purchase – Interest Rates.” Certain actions of the Department require the approval of the Veterans’ Debenture Finance Committee comprised of the Governor, the State Treasurer, the State Controller, the State Director of Finance and the Department Secretary.

Additionally, as the Department expands its housing options the Department has identified that property insurance coverage may be expanded to mitigate increased geographic concentration risks of its Contracts of Purchase. The Department periodically reviews risk-based pricing for high-density geographic concentration exposures and ways to keep insurance rates low and explore cost savings measures for the veteran, such as higher deductible options and group pricing based on geographic concentration risks. See “THE PROGRAM – Construction Contracts of Purchase,” and APPENDIX C – “CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Geographic Distribution of Contracts of Purchase.”

### **Administration of the Department**

There are four principal divisions within the Department: the Division of Veterans Services, the Division of Administration, the Veterans’ Home Division and the CalVet Home Loan Division. The Program, the 1943 Fund and the issuance and administration of Veterans G.O. Bonds and Revenue Bonds are administered by the CalVet Home Loan Division with support from

the Division of Administration and other Department support units. General administration, including fiscal, legal, personnel and other administrative functions, is performed at the Department's headquarters in Sacramento, California. See "THE PROGRAM."

The Department Secretary, who is the head of the Department, is appointed by the Governor, serves at the pleasure of the Governor and must be a veteran. The Department Secretary and other senior staff personnel of the Department principally responsible for the administration of the Program are listed below. As of June 30, 2024, the Department employed approximately 60 people in support of the Program.

*Lindsey Sin*  
*Secretary of Veterans Affairs since May 2023*

Lindsey Sin was appointed as Secretary of Veterans Affairs of the Department by Governor Gavin Newsom on May 26, 2023. She has served in several roles at the Department since 2011, including Deputy Secretary of Communications and Deputy Secretary of Women Veterans Affairs. Ms. Sin is the first woman to serve as Department Secretary since the appointment of Virginia Mae Days as Director in 1975. After graduating from high school in her hometown of Sacramento, Lindsey enlisted in the U.S. Navy and served from 1997 until 2005 as a Cryptologic Technician Interpretive in the Arabic language. She completed two flight tours in Rota, Spain during which time she deployed in support of Operations Northern Watch, Southern Watch, Enduring Freedom, and Iraqi Freedom, and achieved the rank of Petty Officer First Class with Naval Aviation and Naval Aircrew designations. After separating from the Navy, Ms. Sin returned to Sacramento and worked as the Lead Certifying Official for veterans services at American River College. She continued her work with veterans at Sacramento State University as the Veterans Benefit Advisor and Certifying Official, focusing on developing programs for student veterans. Ms. Sin has a B.A. in History, Magna Cum Laude, from Sacramento State and an M.B.A. from Drexel University.

*Keith Boylan*  
*Undersecretary of Veterans Affairs since August 2023*

Keith Boylan was appointed as Undersecretary of the Department on August 22, 2023 by Governor Gavin Newsom. He served as Deputy Secretary of Veterans Services for the Department since 2013. Mr. Boylan served in the U.S. Army from 1989-1992 as a Tactical Fire Specialist and was deployed to Iraq with the 2nd Armored Cavalry Regiment in support of Operations Desert Shield, Desert Storm, and Desert Calm. After graduating from San Francisco State University, Mr. Boylan began working with the Legal Unit at Swords to Plowshares, a nonprofit veterans service agency in San Francisco. During this time, he advocated for veterans and provided direct claim representation before the USDVA and Board of Veteran Appeals on their behalf. Mr. Boylan later served as the Government Relations and Community Education Director for the Institute for Veteran Policy. There his efforts focused on the development and implementation of the Combat to Community (C2C) program. The C2C program included cultural competency trainings for law enforcement, first responders, HR professionals, clinicians, post-secondary faculty, faith-based providers and legal advocates. He also served as the Government Relations Liaison for the California Association of Veteran Service Agencies (CAVSA), a consortium of nonprofit veterans service agencies throughout the State that provide housing, employment, and mental health services. Mr. Boylan has a B.A. in screen writing/film production from San Francisco State University.

*Tiffany King*  
*Chief Counsel of Veterans Affairs since June 2023*

Tiffany King was appointed as Deputy Secretary and Chief Counsel of the Legal Affairs Division for the Department by Governor Gavin Newsom on June 29, 2023. She previously served as Assistant Chief Counsel for the Legal Affairs Division. Prior to joining the Department, Ms. King served as an Administrative Law Judge for the Office of Administrative Hearings from 2015 to 2022 and for the State Personnel Board from 2011 to 2015. After several years in private practice, she began her State career as an Attorney with the Department of Toxic Substances Control in 2008. Ms. King served in the U.S. Army from 1992 to 1996 as an Arabic linguist and was stationed at Fort Gordon, Georgia. Thereafter, she was in the Army Reserve from 1996 to 1998 in Sacramento, California. Ms. King earned a B.A. in Government from the California State University, Sacramento and a J.D. from the University of California, Davis, School of Law.

*William Feigles*  
*Deputy Secretary, CalVet Home Loans, since August 2023*

Mr. Feigles is the Deputy Secretary for the Home Loan Division, responsible for the management and oversight of all units within the Division. He has over 30 years of executive level experience in residential real estate lending and loan servicing. Mr. Feigles joined the Department in February 2019 as a Strategic Initiatives Administrator and subsequently served as the Loan and Default Servicing Manager for more than three years prior to assuming the role of Deputy Secretary. Prior to joining the Department, Mr. Feigles spent more than seven years with the Keep Your Home California (KYHC) program, a federally funded foreclosure prevention program administered by a subsidiary of the California Housing Finance Agency (CalHFA). In his role as Compliance Manager, Mr. Feigles' responsibilities included the development, revision, and oversight of operational policies and procedures, quality control, risk management, audit, and compliance. His experience includes management over local, regional, state, and national lending organizations. Mr. Feigles earned an M.B.A. from Pepperdine University.

*Eric Tiche*  
*Assistant Deputy Secretary, Bond Finance and Investments, since January 2010*

Mr. Tiche is responsible for the management and oversight of the Department's debt portfolio, investments and cash management section and has been with the Department for more than 25 years. Prior to his current position, Mr. Tiche was Acting Assistant Deputy Secretary, Bond Finance and Investments and Manager of the Bond Finance Unit. Mr. Tiche graduated from California State University, Sacramento with a B.S. in Business Administration (Strategic Management).

*Mark Walbert*  
*Assistant Deputy Secretary, Program Servicing Operations, since July 2016*

Mr. Walbert is responsible for the management and oversight of Loan Origination, Loan Processing, Loan Closing, Loan Servicing and Default Servicing. He has been with the Department for 11 years and Mr. Walbert's experience includes over 28 years of executive management in the lending industry. This experience includes positions with VITEK Real Estate Industries Group, Accredited Home Lenders, HomeEq Loan Servicing and Wachovia National Bank (now Wells Fargo). Mr. Walbert earned an M.B.A. in Finance from Golden Gate University and a B.S. in Professional Aeronautics from Embry Riddle Aeronautical University. He was

previously certified as a Senior Professional in Human Resources (SPHR) from the Society for Human Resource Management and holds an active California Real Estate Broker's License from the California Department of Real Estate. Prior to his work in the lending industry, Mr. Walbert retired from the United States Air Force after a 16-year career.

*Gary Bonin*

*Loan Production Operations Manager since September 2009*

Mr. Bonin is the Loan Production Operations Manager for the Department, responsible for the management and oversight of the Department's loan sales, origination, processing, underwriting and closing. Mr. Bonin has over 38 years of experience in real estate and the home loan industry. Prior to joining the Department, Mr. Bonin held numerous management and senior management positions with both regional mortgage banks and large nationwide banking institutions, including First Union National Bank and IndyMac Bank. Prior to mortgage banking, Mr. Bonin was a licensed real estate broker who marketed and sold homes in Southern California and also underwrote home loans. Mr. Bonin earned a B.S. degree in Business Administration from California State University, Long Beach.

*Christopher Saenz*

*Cancellations/REO Manager since April 2023*

Mr. Saenz is the Cancellation/REO Manager for the Department, responsible for the management and oversight of the Department's Contract of Purchase cancellation, REO asset liquidation, and Loan Loss Reserve activities. He has over 30 years of experience in residential real estate lending and loan servicing. Prior to joining the Department in 2008, Mr. Saenz spent more than 17 years with a major private-sector banking institution working in Title Perfection, Customer Service, and Phone-based Loan Origination. Rising through the ranks within the CalVet Home Loans Collections Unit, Mr. Saenz works with veterans during the most difficult times in their lives to find a path to maintain their Contracts of Purchase and allow them to retain their homes. Mr. Saenz spearheaded developing the claim process for USDVA guaranteed loans, Radian insured loans, and the Keep Your Home California Program. Mr. Saenz earned a B.S. in Computer Programming from National University and uses his programming experience to develop the current automation for the Loan Loss Reserve process as well as other tools within the Department.

#### *Department Continuity Plans*

The CalVet Home Loan Division has implemented a Job Action Contingency Plan ("JACP") in order to prepare for unforeseen disruptions to the workplace. In particular, the JACP has a committee that meets periodically to identify critical functions of the CalVet Home Loan Division, review and update the operations manual and desk procedures, develop communication networks, formalize a list of interested retired staff, discuss training needs for emergency staff, and develop a job action related budget. The California Department of Technology Office of Information Security has also implemented a Technology Recovery Plan ("TRP") in conformity with the State procedures in order to reduce the risks associated with unanticipated outages for critical applications, systems and critical infrastructure.

## **THE PROGRAM**

### **History**

The Department began making low interest rate farm and home financing available to veterans after World War I, following the enactment by the State Legislature of the California



Veterans Welfare Bond Act of 1921. In 1943, the State Legislature enacted the 1943 Act which modified the Program to meet the needs of veterans. The 1943 Act was superseded by the Veterans' Farm and Home Purchase Act of 1974 (the "1974 Act") which again modified the Program. The 1943 Act established the 1943 Fund in the State Treasury, which is the principal fund utilized by the Program.

## **General**

Under the Program, the Department acquires residential property to be sold to eligible veterans under Contracts of Purchase (with the Department being the legal owner until the final principal payment is made on the Contract of Purchase). Generally, a Contract of Purchase creates a land sale contract which is analogous to a loan from the Department to the veteran. See "—Contracts of Purchase – General." The Veterans Code also authorizes the Department to provide financing so that a veteran may acquire a farm or a home. In addition, the Veterans Code authorizes the Department to assist veterans in the construction of a farm or a home. In the discussions pertaining to the Program, Contracts of Purchase and Federal Tax Code requirements which follow, Contracts of Purchase or land sale arrangements may be referred to as loans.

The description of the Program hereunder is a description of the Program as it currently exists under the Veterans Code and the Department's implementation thereof, both of which have changed over time and are subject to future changes. The Program is also subject to the Federal Tax Code, as noted below. Further, the Program comprises Contracts of Purchase that may be financed by Veterans G.O. Bonds and Revenue Bonds, payments for which Contracts of Purchase are made to the 1943 Fund, which is the first source of payment for Veterans G.O. Bonds, as described in the forepart of this Official Statement.

## **Program Financing**

Since its inception, the Program has been financed through the issuance of Revenue Bonds and Veterans G.O. Bonds, from time to time, as well as surplus revenues under the Program not needed at any given time to meet the then-current debt service schedules of Veterans G.O. Bonds and Revenue Bonds and operating costs of the Program. As of June 30, 2024, there were an estimated 4,442 Contracts of Purchase outstanding with a remaining principal balance of approximately \$988 million.<sup>†</sup> As of June 30, 2024, the Department had approximately 138 pending applications for Contracts of Purchase in the total principal amount of approximately \$41 million. Such estimate is based on unaudited data and is subject to update after reconciliation. See APPENDIX C – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Existing Contracts of Purchase" and "—Amounts Expected to be Available to Fund Contracts of Purchase and Related Investments."

## **Certain Statutory Requirements**

Certain requirements of the Veterans Code and the Federal Tax Code are discussed below.

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<sup>†</sup> Generally, in this APPENDIX A, references to the principal balance of Contracts of Purchase include the principal balance of deferred payment assistance loans, delinquent Contracts of Purchase, cancelled or foreclosed upon Contracts of Purchase and REO in inventory represented at fair market value.

## *Veterans Code*

To participate in the Program, an applicant must meet eligibility and qualifications established under the Veterans Code relating to status as a veteran. The Veterans Code currently allows the Department to finance Contracts of Purchase for:

(a) a citizen of the United States who served in the active military, naval or air service of the United States on or after April 6, 1917, and prior to November 12, 1918, and who received an honorable discharge or was released from active duty under honorable conditions;

(b) a person who served in the active military, naval or air service of the United States for a period of not less than ninety consecutive days (or was discharged from the service due to a service-connected disability within that ninety-day period), received an honorable discharge or was released from active duty under honorable conditions, and performed any portion of such service during any of the following periods:

(i) on or after December 7, 1941 and through December 31, 1946, including, but not limited to members of the Philippine Commonwealth Army, the Regular Scouts, and the Special Philippine Scouts; or on or after June 27, 1950 through January 31, 1955 (all veterans referred to in this clause (b)(i) and clause (a) above are “Earlier War Veterans”);

(ii) on or after February 28, 1961 through August 4, 1964 if the veteran served in the Republic of Vietnam during that period; or August 5, 1964 through May 7, 1975 (all veterans referred to in this clause (ii) are “Vietnam Era Veterans”); or

(iii) on or after August 2, 1990, to and including the date on which the territories in and around the Arabian Peninsula cease to be designated as a place where the Armed Forces of the United States are engaged in combat, as described in Executive Order 12744 of the President of the United States (the State legislature specified its intent that all veterans who were on active duty in the Armed Forces of the United States or who were called to active duty in the reserves or National Guard during the pendency of the deployment of forces for Operation Desert Shield or Desert Storm be included, irrespective of whether these veterans served overseas or in the United States); at any time, in a campaign or expedition for service in which a medal has been authorized by the government of the United States, regardless of the number of days served on active duty; or at any time in Somalia, or in direct support of the troops in Somalia, including, but not limited to, persons stationed on ships of the Armed Forces of the United States conducting support activities offshore in the vicinity of Somalia, during Operation Restore Hope, regardless of the number of days served (all veterans referred to in this clause (iii) are “Recent War Veterans”);

(c) a member of the reserves or National Guard who (i) is called to, and released from, active duty or active service, regardless of the number of days served, (ii) is called during any period when a presidential executive order specifies the United States is engaged in combat or homeland defense, and (iii) has received an honorable discharge or was released from active duty or active service under honorable conditions;

(d) a person who has served in the Merchant Marine Service of the United States and has been granted veteran status by the United States Secretary of Defense under Title IV of the GI Improvement Act of 1977 (Public Law 95-202, as amended);

(e) a person who qualifies under the Federal Tax Code for financing from Revenue Bonds or Pre-Ullman Moneys of the Department and who served in the active military, naval or air service of the United States for a period of not less than ninety consecutive days and who received an honorable discharge or was released from active duty or active service under honorable conditions (such veterans are referred to as “Peacetime Veterans”); and

(f) a person who qualifies under the Federal Tax Code for financing from Revenue Bonds or Pre-Ullman Moneys of the Department and is at the time of application for Department benefits a member of the California National Guard or a reserve component of any branch of the Armed Forces of the United States who has enlisted or been commissioned in that service for a period of not less than six years and has completed a minimum of one year of satisfactory service, or who was a member of the California National Guard or a reserve component of any branch of the Armed Forces of the United States who has completed not less than a six-year commitment and was released under honorable conditions.

Certain veterans who have served in the recent conflicts in Iraq and Afghanistan qualify for participation in the Program under the Veterans Code. The eligibility and qualifications specified in the Veterans Code are subject to change by the State Legislature.

#### *Federal Tax Code*

The Federal Tax Code prescribes limitations on the use of moneys from certain sources for the financing of Contracts of Purchase. Such Federal Tax Code limitations reduce the pool of veterans eligible to receive Contracts of Purchase financed from certain sources. See APPENDIX H – “CERTAIN FEDERAL TAX CODE REQUIREMENTS.” Based on the current Federal Tax Code, the moneys that may be available to finance Contracts of Purchase from time to time are separated into three classes:

(a) “Pre-Ullman Moneys” (derived from certain moneys in the 1943 Fund, certain proceeds of Pre-Ullman (as defined below) Revenue Bonds and Veterans G.O. Bonds, and certain future issues of taxable bonds, if any), which can finance Contracts of Purchase for those veterans who qualify under the applicable provisions of the Veterans Code. (“Pre-Ullman” refers to the period prior to enactment of Federal Tax Code programmatic restrictions on the use of proceeds of tax-exempt bonds to finance mortgage loans.) The QMB Loan Eligibility Requirements (as defined below) do not apply to Contracts of Purchase financed by Pre-Ullman Moneys. The Department has implemented a policy (which is subject to change) to make Pre-Ullman Moneys available for Earlier War Veterans, Vietnam Era Veterans, Recent War Veterans and Peacetime Veterans;

(b) “Qualified Veterans’ Mortgage Bond Proceeds” or “QVMB Proceeds” (derived exclusively from proceeds of Veterans G.O. Bonds), which can finance Contracts of Purchase for any veteran who (i) qualifies under the Veterans Code; (ii) served on active duty; and (iii) applied for financing before the day 25 years after the last date on which such veteran left active service. The QMB Loan Eligibility Requirements (as defined

below) do not apply to Contracts of Purchase financed by moneys derived exclusively from proceeds of Veterans G.O. Bonds. These proceeds can finance Contracts of Purchase for any qualifying veterans; and

(c) “Qualified Mortgage Bond Proceeds” or “QMB Proceeds” (derived principally from Revenue Bond proceeds other than Pre-Ullman Revenue Bond proceeds), which can finance Contracts of Purchase for any veteran who (i) qualifies under the Veterans Code and (ii) meets the QMB Loan Eligibility Requirements. “QMB Loan Eligibility Requirements” include, among other things, and subject to certain exceptions contained in the Federal Tax Code, that (i) either (y) borrowers have not had a present ownership interest in their principal residence during the three-year period preceding the date of financing or (z) have not previously received financing of their Contracts of Purchase from the proceeds of Qualified Mortgage Bonds or Qualified Veterans’ Mortgage Bonds or a Mortgage Credit Certificate issued in accordance with the Federal Tax Code in connection with its Contract of Purchase pursuant to an exception for veterans to the requirement described in (y) (the “First Time Home Buyer Requirement”) or meet certain waiver conditions to the First Time Home Buyer Requirement, (ii) the residence being financed has a purchase price not in excess of limits stated in the Federal Tax Code, (iii) the family income of the borrower is not in excess of limits stated in the Federal Tax Code, (iv) the proceeds of the financing are not being used to refinance an existing mortgage loan and (v) the proceeds of the financing are used solely for the purpose of financing one-family or one-to-four family dwelling units meeting certain criteria.

All financing with respect to targeted area residences and residences on land possessed under certain contract for deed agreements is treated as satisfying the First Time Home Buyer Requirement.

#### *Limits on Purchase Price*

##### *Veterans Code*

The amount that is paid for the purchase of farms and homes under the Program is reflected in the Contract of Purchase as the “purchase price.” Pursuant to the Veterans Code, the maximum purchase price of an existing home or the sum to be expended by the Department pursuant to a Contract of Purchase for a home to be constructed may not exceed 125% of the then-current maximum United States Department of Veterans Affairs loan limit (the United States Department of Veterans Affairs loan limits are the same as the Federal Housing Finance Agency loan limits). As of January 1, 2024, the United States Department of Veterans Affairs loan limit in the State for a single-family home ranges between \$766,550 and \$1,149,825 depending on the county. Current Department policy also limits the maximum purchase price of an existing home or for a home to be constructed to be 125% of the United States Department of Veterans Affairs conforming limits (resulting in maximum purchase prices of homes ranging from \$958,187.50 to \$1,437,281.25 depending on the county). Under the Veterans Code, the maximum sum to be expended by the Department pursuant to a Contract of Purchase for a farm may not exceed 150% of the then-current maximum United States Department of Veterans Affairs loan limit. Current Department policy also limits the maximum purchase price of a farm to be 150% of the United States Department of Veterans Affairs conforming limits (resulting in maximum purchase prices of farms ranging from \$1,149,825 to \$1,724,737.50 depending on the county). Under the Veterans Code (as well as current Department policy), the maximum purchase price of a mobile home located on or to be

located on a leased or rented site in a mobile home park is 50% of the Federal Housing Finance Agency conforming loan limit for the county in which the mobile home park is located (resulting in maximum purchase prices of such mobile homes ranging from \$383,275 to \$574,912.50 depending on the county). The maximum purchase price for any home may be increased by an additional \$5,000 for solar energy heating devices.

As of June 30, 2024, the average remaining principal balance of the outstanding individual Contracts of Purchase financed through the Program was an estimated \$247,716. Such estimate is based on unaudited data and is subject to update after reconciliation. As of June 30, 2024, the average remaining principal balance of the outstanding individual Contracts of Purchase originated in the last five fiscal years was an estimated \$385,128. Such estimate is based on unaudited data and is subject to update after reconciliation.

As of June 30, 2023, the average remaining principal balance of the outstanding individual Contracts of Purchase financed through the Program was approximately \$221,675. As of June 30, 2023, the average remaining principal balance of the outstanding individual Contracts of Purchase originated in the twelve-month period ended June 30, 2023 was approximately \$469,345.

#### *Federal Tax Code*

The Federal Tax Code imposes maximum purchase prices on properties that are the subject of Contracts of Purchase financed by QMB Proceeds, which are periodically adjusted when required by the Federal Tax Code. No Federal Tax Code purchase price limits apply to Contracts of Purchase financed from Pre-Ullman Moneys or QVMB Proceeds. These Federal Tax Code requirements vary depending upon where the property is located, if it is in a targeted or non-targeted area and whether it is a new or existing home.

The maximum purchase price under the Program is, therefore, the maximum amount permitted under the Veterans Code or, if the Contract of Purchase is being financed by QMB Proceeds, the lesser of the maximum amount permitted under the Veterans Code or the maximum amount permitted under the Federal Tax Code.

#### *Income Limits*

Although the Veterans Code does not impose maximum income limits, the Federal Tax Code imposes maximum income limits applicable only to veterans obtaining Contracts of Purchase financed by QMB Proceeds. The income limits vary by geographical statistical area, targeted and non-targeted areas and family size. No maximum income limits apply to veterans obtaining Contracts of Purchase financed by Pre-Ullman Moneys or QVMB Proceeds.

#### **Allocation of Lendable Moneys**

For veterans who qualify for Contracts of Purchase from two or more of the financing sources described under “—Certain Statutory Requirements – Federal Tax Code,” above, the Department may select the source of funds to be used in its sole discretion. As of the date of this Official Statement, Pre-Ullman Moneys are available through the prior issuance of Veterans G.O. Bonds to finance Contracts of Purchase, QVMB Proceeds are available through the prior issuance of Veterans G.O. Bonds to finance Contracts of Purchase, and QMB Proceeds are available through the prior issuance of Revenue Bonds to finance Contracts of Purchase.

Recently, the Department has used Excess Revenues to finance Contracts of Purchase. The Department’s current policy is as follows:

- Contracts of Purchase for all veterans who qualify for financing with QMB Proceeds are funded from QMB Proceeds, when available.
- Contracts of Purchase for all veterans who qualify for financing with QMB Proceeds and QVMB Proceeds will be funded with the lowest rate funds, when available.
- Contracts of Purchase for all other eligible veterans are funded first from QVMB Proceeds and then Pre-Ullman Moneys, when available.
- Available QMB Proceeds are used to fund Contracts of Purchase for National Guard or reserves members who are only eligible for those funds under State law. See “—Certain Statutory Requirements – Veterans Code.”

The Federal Tax Code includes certain procedures that an issuer of Qualified Mortgage Bonds may undertake to satisfy QMB Loan Eligibility Requirements, but requires that 95% or more of the proceeds of each bond issue be used in full compliance with the loan eligibility restrictions.

*Priorities in the Event of a Shortage of Lendable Moneys*

During any period in which the Department determines that a shortage of funds exists in any of the lendable moneys, the Veterans Code prescribes the following preference categories for the use of such funds by the Department:

- First to veterans who qualify for lendable moneys due to service during time of war and who were wounded or disabled as a result of their service;
- Second to the following groups: (i) the un-remarried spouse or registered domestic partners of veterans of the Armed Forces of the United States who were killed in the line of duty while on active duty; (ii) members of the Armed Forces of the United States who were held as prisoners of war; (iii) the un-remarried spouse or registered domestic partner of members of the Armed Forces of the United States who have been designated by the Armed Forces of the United States as missing in action;
- Third to veterans whose eligibility is derived from service on or after August 2, 1990 and prior to a date to be set by law or by a Presidential proclamation ending the Gulf War, and veterans with wartime service discharged or released from active duty within 10 years of their application to the Department;
- Fourth to active members of the California National Guard or reserve component of a branch of the Armed Forces of the United States who meet certain statutory requirements;
- Fifth to veterans with wartime service discharged or released from active duty more than 10 years prior to their application to the Department;
- Sixth to veterans who are qualified for lendable moneys and whose only military service was during a time of peace; and
- Seventh to veterans eligible for a subsequent loan under the Veterans Code.

## **Administration of the Program**

### *General*

Through the Program, the Department finances the purchase of new and existing single-family homes, condominiums, cooperative dwelling units, farms and mobile homes, the construction of dwellings, and the making of home improvements with respect to properties covered by existing Contracts of Purchase, subject to applicable restrictions. See “—Certain Statutory Requirements.”

### *Origination*

The Department originates Contracts of Purchase through Department staff at its headquarters and, from time to time, in coordination with mortgage brokers approved by the Department. The Department uses Calyx Path, a loan origination software platform, for origination and MITAS, an integrated loan processing and financial information system, for loan processing, closing and servicing of all Contracts of Purchase. All Contracts of Purchase are serviced by the Department. See “—Contracts of Purchase – Delinquencies and Cancellations.” The Department also uses the Calyx Path and MITAS systems to provide workflow management, document imaging and access to online account information. An origination begins with a loan application and purchase sales agreement, followed by collection and evaluation of data regarding the veteran and the property to be acquired under the Contract of Purchase. This evaluation includes an examination of the qualifications of the veteran applying for participation in the Program, a credit analysis of the veteran and the receipt of an appraisal for the applicable property. The appraisals reflect the market conditions at the time the appraisals were conducted, may not reflect values as of the date of this Official Statement, are not guarantees and may not be fully indicative of present or future values.

Certain information regarding the recent history of the Department’s originations of Contracts of Purchase is set forth in APPENDIX C – “CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Contracts of Purchase Origination and Principal Repayment Experience.”

### *Underwriting Credit Analysis*

The Department analyzes availability of financing to veterans on the basis of their personal credit status. The Department’s underwriting process is centralized at the Department’s headquarters and is comprised of the following tasks: (i) reviewing credit history, (ii) verifying liabilities, (iii) identifying and establishing sources of verifiable income, (iv) determining housing expenses, including assessments, maintenance, utilities and taxes, (v) determining debt-to-income ratio, (vi) determining amount and source of down payment, (vii) verifying assets required for costs to complete the transaction and (viii) verifying that the property being financed is acceptable collateral. In evaluating these factors, it is the Department’s policy to decide in favor of the veteran applicant if the Department determines that there is adequate security for and ability of the veteran to pay on the Contract of Purchase. See APPENDIX C – “CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Contracts of Purchase Origination and Principal Repayment Experience.”

Contracts of Purchase with United States Department of Veterans Affairs (“USDVA”) guarantees require additional documentation specific to USDVA entitlement and indebtedness that

are in addition to the documents required for other Contracts of Purchase transactions. See “—USDVA Guaranty Program; Other Loan Insurance.”

The Department’s underwriting requirements have resulted in average borrower Fair Isaac Corporation (“FICO”) credit scores at the time of origination, of approximately 711 for transactions originated over the last five fiscal years, ending June 30, 2024.

### *Subordinate Lending*

The Veterans Code permits the Department to finance permanent home and property improvements for veterans with no existing financing or subordinate to existing financing (provided by lenders other than the Department) through the use of a deed of trust, promissory note or other security interest as the financing instrument. However, at present the Department does not provide financing for permanent home and property improvements for veterans that is subordinate to existing financing provided by lenders other than the Department. The Department permits the financing of down payments with subordinate financing by lenders other than the Department.

## **Contracts of Purchase**

### *General*

Under a Contract of Purchase, the veteran has the benefits of ownership as the equitable owner of the property, but title to the property and improvements thereon is held by the Department as the legal owner until the final principal payment is made on the Contract of Purchase. Property subject to a Contract of Purchase may not be transferred, assigned, encumbered, leased, let or sublet in whole or in part without the written consent of the Department. Any such permitted encumbrance must be junior or secondary to the Department’s interest in the property.

### *Variation in the Terms of Contracts of Purchase*

The terms of the Contracts of Purchase funded by Pre-Ullman Moneys, QVMB Proceeds or QMB Proceeds are substantially identical except as follows:

- Interest rates on Contracts of Purchase originated after January 1, 2011 have been and are expected to be fixed for the entire term of the loan. Interest rates on Contracts of Purchase originated prior to January 1, 2011 are fixed, subject to periodic adjustment as described in “—Interest Rates” below.
- The Federal Tax Code requires that Contracts of Purchase financed with QMB Proceeds (and Excess Revenues related to such proceeds) include (a) more restrictions imposed on the right of a purchaser to assume the obligations under a Contract of Purchase than a Contract of Purchase financed by Pre-Ullman Moneys or QVMB Proceeds (and Excess Revenues related to such proceeds) and (b) certain Federal Tax Code recapture provisions not included in Contracts of Purchase funded from other sources.

See also QMB Loan Eligibility Requirements under “—Certain Statutory Requirements – Federal Tax Code.”



## *Down Payment Requirements – Term of Contracts of Purchase*

### *General*

The Veterans Code, in certain cases, requires a veteran obtaining a Contract of Purchase to make an initial payment of at least 2% of the purchase price or a higher amount determined based upon the creditworthiness of the veteran and with consideration of their military record, employment record, financial condition and other similar factors as determined by the Department. Department policy generally requires a veteran obtaining a Contract of Purchase to make an initial payment of at least 5% of the purchase price, unless the veteran obtains a full USDVA Guaranty. In either case, the Veterans Code permits the balance of the purchase price to be amortized over a period fixed by the Department not exceeding 40 years (30 years for mobile homes, including cooperative housing stock related to mobile homes located in mobile home parks). However, pursuant to Department policy, the Department issues all new Contracts of Purchase for a term of 30 years unless a shorter term is requested and except that certain Contracts of Purchase for mobile homes have shorter terms. See “—Mobile Homes Contracts of Purchase.”

The Department has never exercised the option described in the succeeding sentence and has no present intent to do so. The Veterans Code provides to the Department the option of postponing at the time of initial purchase the commencement of payment of the principal balance of a Contract of Purchase for a period not to exceed five years if the veteran’s current income meets the standards for purchase and if the Department determines that the veteran’s income can reasonably be expected to increase sufficiently within the five-year period to make the transition to fully amortized payments (so long as the total term of the Contract of Purchase does not exceed the above-described limits).

See also “—Deferred Payment Assistance Loans.”

### *USDVA Guaranteed Contracts of Purchase*

If a veteran obtains a USDVA Guaranty, subject to the Department’s underwriting criteria, the Veterans Code permits such veteran to obtain a Contract of Purchase which does not require a down payment. In such cases the purchase price, including USDVA Guaranty fees, may be amortized over a period fixed by the Department, not exceeding 30 years and 32 days.

### *Interest Rates*

The Veterans Code provides that the Department shall establish the interest rates payable under Contracts of Purchase, as described herein. The Department does not enter into Contracts of Purchase with low, adjustable introductory interest rates designed to attract potential borrowers (sometimes known as “teaser rates”) or with balloon payments. All outstanding Contracts of Purchase have been entered into with interest rates as follows:

### *Pre-January 1999 Contracts of Purchase*

Contracts of Purchase originated prior to January 1, 1999 (“pre-1999 Contracts of Purchase”) bear interest at a rate which is set by the Department and may be changed with the approval of the Board and the Veterans’ Finance Committee. Most pre-1999 Contracts of Purchase currently bear interest at a rate of 6.95%. The Veterans Code requires that, generally, all pre-1999 Contracts of Purchase bear the same interest rate and that such interest rate can be changed annually as deemed necessary. The effective date of a higher rate of interest on pre-1999 Contracts of Purchase may occur only once in any calendar year unless a finding is made by the Board and

the Veterans’ Finance Committee that such additional action is necessary to maintain the financial solvency of the 1943 Fund.

*January 1, 1999 – December 2010 Contracts of Purchase*

Contracts of Purchase originated on or after January 1, 1999 and prior to January 1, 2011 (“post-1998 Contracts of Purchase”) are not required to be uniform with respect to interest rates and the Department may modify interest rates applicable to post-1998 Contracts of Purchase, which may be fixed or variable, and the methodology and timing for determining or modifying interest rates applicable to post-1998 Contracts of Purchase, from time to time, subject to the approval of the Board and the Veterans’ Finance Committee. Pursuant to Department policy, the interest rates on post-1998 Contracts of Purchase may be adjusted by the Department up to 0.5% over the term of the post-1998 Contracts of Purchase. See APPENDIX C – “CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Selected Principal Flows with respect to Contracts of Purchase Funded by both Veterans G.O. Bonds and Revenue Bonds – Reservation Rates on New Contracts of Purchase” for historical interest rates applicable to post-1998 Contracts of Purchase.

*Post-December 2010 Contracts of Purchase*

Pursuant to Department policy all Contracts of Purchase entered into by the Department on or after January 1, 2011 have fixed interest rates, which may not be adjusted by the Department over the term of such Contracts of Purchase.

As of September 9, 2024, interest rates for new Contracts of Purchase are as follows:

**Interest Rates for New Contracts of Purchase**

Interest Rate	Funding Source
5.375% to 6.490% (30 year term)	QMB Proceeds
5.500% (20 year term)	QVMB Proceeds
5.625% to 6.750% (30 year term)	QVMB Proceeds
6.750% to 7.990% (30 year term)	Pre-Ullman Moneys <sup>(1)</sup>

<sup>(1)</sup> Until October 31, 2024, the Department is making available a maximum amount of \$8 million of Pre-Ullman moneys to fund Contracts of Purchase, subject to certain qualifications, at an interest rate of 7.990%.  
Source: Department of Veterans Affairs of the State of California.

Funding sources noted above include related Excess Revenues. See APPENDIX C – “CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Selected Principal Flows with respect to Contracts of Purchase Funded by both Veterans G.O. Bonds and Revenue Bonds – Reservation Rates on New Contracts of Purchase” for historical interest rates for Contracts of Purchase originated during the applicable stated period.

*Interest Rate Setting*

Interest rates on Contracts of Purchase are expected to be established, from time to time, based on various factors deemed appropriate by the Department, subject in all cases to the requirements of the Veterans Code and the Resolution governing the Revenue Bonds (referred to herein as the “Revenue Bond Resolution”), to the filing of a Cash Flow Statement and conformity with Program Operating Procedures. See APPENDIX C – “CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Selected Principal Flows with respect to Contracts of Purchase Funded by both Veterans G.O. Bonds and Revenue Bonds.” See

also “SECURITY FOR AND SOURCES OF PAYMENT OF THE OFFERED REVENUE BONDS” in the forepart of the Official Statement.

The Veterans Code authorizes the Department, for the sole purpose of stabilizing or preserving the Program portfolio, to refinance existing Program mortgage loans, provided both of the following apply: (A) the Department did not solicit the veteran borrower solely for the purpose of refinancing their loan except in response to clear evidence the borrower was seeking that refinancing and would resort to paying in full their loan through the Program through a third-party lender; and (B) for loans insured by the USDVA, the prospective refinanced loan meets all requirements of the USDVA regarding refinanced loans.

#### *Origination Fees for Contracts of Purchase*

The Department collects an origination fee equal to 1% of the purchase price of the property in addition to any down payment which may be required in connection with a Contract of Purchase. The origination fee is collected at close of escrow on all new Contracts of Purchase and must be paid in escrow. If the Contract of Purchase is originated through an approved mortgage broker, the origination fee is paid to the mortgage broker through the escrow. If the Contract of Purchase is originated through the Department, the origination fee is retained by the Department.

#### *No Prepayment Penalties*

There are no prepayment penalties on any Contracts of Purchase. The Department’s actual past prepayment experience for existing Contracts of Purchase is set forth in APPENDIX C – “CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Contracts of Purchase Origination and Principal Repayment Experience.”

#### *Delinquencies and Cancellations*

##### *Economic Considerations*

The mortgage and residential real estate markets periodically face uncertainties that create risk for market participants, including the Department. General market uncertainties that exist from time to time include interest rate volatility, changes in tolerance for credit risk, unavailability of certain mortgage products, decline or instability in residential real estate values, unemployment levels, concerns about the financial health and market involvement of secondary mortgage market participants, changes in legislative requirements relating to mortgage lending and servicing and the exercise of mortgage remedies, the health of various financial institutions, insurance companies and other market participants and the health of the residential construction industry.

Events in the national and global economy and financial markets, including falling home prices, rising inflation, limited credit availability, financial instability, failures of banks and other major financial institutions, a downturn in consumer spending, global pandemics or other significant public health issues, declining real property and investment values and increased job losses, among other factors, can weigh heavily on the global, national and state economies, particularly in the State housing market. Recent increases in mortgage interest rates have reduced the purchasing power of potential homebuyers and slowed the sales volume of California residential properties. Sustained pressure on sales volume could result in decreased property values as sellers allow pricing concessions in order to offset interest rate pressures. Declines in residential real estate values result in reduced home equity and higher loan-to-value ratios. Higher loan-to-value ratios generally result in lower recoveries on foreclosure, and an increase in losses above

those that would have been realized had property values remained stable or continued to increase after origination. Generally, the Department does not track the amount of home equity or loan-to-value ratio for a home under a Contract of Purchase following loan origination. A reduction in home equity or loan-to-value ratio may result in an increase in losses after the cancellation of a Contract of Purchase.

Past increases in delinquencies and foreclosures were not limited to so-called “subprime” mortgage loans, which are generally made to borrowers with impaired credit often with limited documentation, but had also affected mortgage loans generally and so-called “prime” mortgage loans, which are typically made to borrowers with relatively higher credit scores who often provided full documentation.

As state and national economies recovered following the Great Recession, which began in December 2007 and ended in June 2009, California saw greater availability of credit, consistent job growth, a sustained decline in unemployment rates, and a steady recovery in home prices that began, in earnest, in 2012. The State’s economic recovery following the Great Recession affected the overall economy in ways that resulted in decreased delinquencies, cancellations (foreclosures) of Contracts of Purchase, and real estate owned (“REO”) in inventory by the Department as a result of cancellation (foreclosures) of Contracts of Purchase.

Prior to the worldwide outbreak of coronavirus (the “COVID-19” pandemic) and related economic declines, economic growth within the State and national economies and comparatively low interest rates for residential mortgages had fueled, to varying degrees, increases in housing prices, improving the market value of residences, and spurred job creation, resulting in decreased delinquencies and cancellations of Contracts of Purchase and REO. During the height of the COVID-19 pandemic, housing prices increased significantly in many areas across the State in response to, among other things, stay-at-home orders which were implemented by state and local governments in 2020 and early 2021, increased competition for housing and comparatively low interest rates, the latter of which remained historically low through 2022. Interest rates began to increase throughout 2023, contributing to a decrease in rising home prices and volume of home sales across the State in late 2023 and early 2024.

The Department’s experience following past downturns may not be representative of the impact of the COVID-19 pandemic and other economic factors on the Department.

As a result of the COVID-19 pandemic (or other future pandemics) and similar issues, there may be adverse effects to local, state, national and global economies, which may affect the economy generally and thereby the ability of veterans to perform under a Contract of Purchase. The Department’s rights to enforce or foreclose on a loan or evict a defaulting borrower may be impacted by government orders resulting from pandemics and similar issues, including, loan delinquency and foreclosure and eviction restrictions. Such orders were issued by the USDVA, effective May 29, 2024. This guidance, and subsequent modifications, imposed a foreclosure (cancellation) moratorium, with limited exceptions, in favor of a variety of other loss mitigation and home retention options. Such government orders and guidance may affect the Department’s ability to expeditiously employ loss mitigation strategies, thereby elongating periods of advanced delinquency and delaying final resolution. The Department cannot predict the likelihood of further guidance or moratoria, nor the duration or extent of the resultant adverse economic effects.

With respect to USDVA guaranteed Contracts of Purchase which are protected under the USDVA foreclosure moratorium, as of June 30, 2023: approximately 0.94% of the outstanding

number of the Department's Contracts of Purchase guaranteed by the USDVA were protected by the foreclosure moratorium (or approximately 1.80% of the then outstanding principal amount of the Department's Contracts of Purchase guaranteed by the USDVA and approximately 1.52% of the then outstanding principal amount of the Department's Contracts of Purchase).

Contracts of Purchase not covered by a USDVA Guaranty or primary mortgage insurance amount to approximately 12.5% of the outstanding principal amount of the Department's Contracts of Purchase. See “—USDVA Guaranty Program; Other Loan Insurance” and APPENDIX C – “CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Existing Contracts of Purchase – Loan-to-Value Ratio of Contracts of Purchase Based on Original Appraised Value as of June 30, 2024.”

#### *Delinquency and Cancellation Data*

*All Contracts of Purchase.* As of June 30, 2024: (i) approximately 3.86% of the outstanding number of the Department's Contracts of Purchase were 30 to 60 days delinquent (or approximately 6.00% of the then outstanding principal amount of the Department's Contracts of Purchase); (ii) approximately 3.01% of the outstanding number of the Department's Contracts of Purchase were 60 days or more delinquent (or approximately 4.32% of the then outstanding principal amount of the Department's Contracts of Purchase); (iii) approximately 0.47% of the outstanding number of the Department's Contracts of Purchase had been cancelled or foreclosed upon (or approximately 0.49% of the then outstanding principal amount of the Department's Contracts of Purchase); and (iv) approximately 0.20% of the outstanding number of the Department's Contracts of Purchase were REO in inventory (or approximately 0.20% of the then outstanding principal amount of the Department's Contracts of Purchase). Such estimates are based on unaudited data and are subject to update after reconciliation.

As of June 30, 2023: (i) approximately 3.15% of the outstanding number of the Department's Contracts of Purchase were 30 to 60 days delinquent (or approximately 4.53% of the then outstanding principal amount of the Department's Contracts of Purchase); (ii) approximately 3.59% of the outstanding number of the Department's Contracts of Purchase were 60 days or more delinquent (or approximately 4.78% of the then outstanding principal amount of the Department's Contracts of Purchase); (iii) approximately 0.45% of the outstanding number of the Department's Contracts of Purchase had been cancelled or foreclosed upon (or approximately 0.44% of the then outstanding principal amount of the Department's Contracts of Purchase); and (iv) approximately 0.02% of the outstanding number of the Department's Contracts of Purchase were REO in inventory (or approximately 0.03% of the then outstanding principal amount of the Department's Contracts of Purchase).

Contracts of Purchase which had been cancelled (foreclosed upon) include those Contracts of Purchase where the Department has not yet obtained merchantable title to the subject property and/or possession of the property (i.e., the prior holder of the Contract of Purchase and all occupants have not vacated the subject property). Contracts of Purchase in REO inventory include those Contracts of Purchase where the Department has obtained merchantable title to the subject property and possession of the property (i.e., the prior holder of the Contract of Purchase and all occupants have vacated the subject property). The Department's delinquency statistics referred to above include Contracts of Purchase subject to Repayment Agreements. “Repayment Agreements” means agreements between the Department and a veteran that are used to implement a short-term restructuring of the payments under the Contract of Purchase to accommodate

temporary financial difficulties of the veteran. See “—Contracts of Purchase – Department Procedures for Addressing Delinquencies and Cancellations” and APPENDIX C – “CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Cancellations and Delinquencies.”

*USDVA Guaranteed Contracts of Purchase.* With respect to USDVA guaranteed Contracts of Purchase, as of June 30, 2024: (i) approximately 5.53% of the outstanding number of the Department’s Contracts of Purchase guaranteed by the USDVA were 30 to 60 days delinquent (or approximately 6.46% of the then outstanding principal amount of the Department’s Contracts of Purchase guaranteed by the USDVA and approximately 5.43% of the then outstanding principal amount of the Department’s Contracts of Purchase); (ii) approximately 4.67% of the outstanding number of the Department’s Contracts of Purchase guaranteed by the USDVA were 60 days or more delinquent (or approximately 4.66% of the then outstanding principal amount of the Department’s Contracts of Purchase guaranteed by the USDVA and approximately 3.92% of the then outstanding principal amount of the Department’s Contracts of Purchase); (iii) approximately 0.69% of the outstanding number of the Department’s Contracts of Purchase guaranteed by the USDVA had been cancelled, transferred and purchased by the USDVA (or approximately 0.53% of the then outstanding principal amount of the Department’s Contracts of Purchase guaranteed by the USDVA and approximately 0.44% of the then outstanding principal amount of the Department’s Contracts of Purchase); and (iv) approximately 0.30% of the outstanding number of the Department’s Contracts of Purchase guaranteed by the USDVA were REO in inventory (or approximately 0.23% of the then outstanding principal amount of the Department’s Contracts of Purchase guaranteed by the USDVA and approximately 0.20% of the then outstanding principal amount of the Department’s Contracts of Purchase). Such estimates are based on unaudited data and are subject to update after reconciliation.

With respect to USDVA guaranteed Contracts of Purchase, as of June 30, 2023: (i) approximately 4.43% of the outstanding number of the Department’s Contracts of Purchase guaranteed by the USDVA were 30 to 60 days delinquent (or approximately 4.98% of the then outstanding principal amount of the Department’s Contracts of Purchase guaranteed by the USDVA and approximately 4.06% of the then outstanding principal amount of the Department’s Contracts of Purchase); (ii) approximately 4.91% of the outstanding number of the Department’s Contracts of Purchase guaranteed by the USDVA were 60 days or more delinquent (or approximately 5.08% of the then outstanding principal amount of the Department’s Contracts of Purchase guaranteed by the USDVA and approximately 4.14% of the then outstanding principal amount of the Department’s Contracts of Purchase); (iii) approximately 0.61% of the outstanding number of the Department’s Contracts of Purchase guaranteed by the USDVA had been cancelled, transferred and purchased by the USDVA (or approximately 0.48% of the then outstanding principal amount of the Department’s Contracts of Purchase guaranteed by the USDVA and approximately 0.39% of the then outstanding principal amount of the Department’s Contracts of Purchase); and (iv) approximately 0.05% of the outstanding number of the Department’s Contracts of Purchase guaranteed by the USDVA were REO in inventory (or approximately 0.03% of the then outstanding principal amount of the Department’s Contracts of Purchase guaranteed by the USDVA and approximately 0.03% of the then outstanding principal amount of the Department’s Contracts of Purchase).

*Comparison to Mortgage Bankers Association Data.* The delinquency rates as of June 30, 2024 noted in the preceding paragraphs exceed 30-day and 60-days-or-greater delinquencies, as

reported in the June 30, 2024 National Delinquency Survey published by the Mortgage Bankers Association of America (the “Survey”) for USDVA guaranteed and conventional loans and are below Federal Housing Administration (“FHA”) delinquency levels for both 30-day and 60-day delinquencies in California and nationally for the same period.

Pursuant to the Survey, with respect to USDVA guaranteed loans as of June 30, 2024: (i) approximately 2.04% of the outstanding number of loans in California and 2.32% nationally were 30 to 60 days delinquent (the Survey does not report outstanding principal amounts), (ii) approximately 1.92% of the outstanding number of loans in California and 2.28% nationally were 60 days or more delinquent; and (iii) approximately 0.32% of the outstanding number of loans in California and 0.53% nationally were cancelled or foreclosed upon, transferred and purchased by USDVA.

Pursuant to the Survey, with respect to conventional loans as of June 30, 2024: (i) approximately 1.15% of the outstanding number of loans in California and 1.52% nationally were 30 to 60 days delinquent, (ii) approximately 0.76% of the outstanding number of loans in California and 1.13% nationally were 60 days or more delinquent; and (iii) approximately 0.16% of the outstanding number of loans in California and 0.36% nationally were foreclosures in inventory.

Pursuant to the Survey, with respect to FHA loans as of June 30, 2024: (i) approximately 5.83% of the outstanding number of loans in California and 6.27% nationally were 30 to 60 days delinquent, (ii) approximately 3.95% of the outstanding number of loans in California and 4.40% nationally were 60 days or more delinquent; and (iii) approximately 0.52% of the outstanding number of loans in California and 0.77% nationally were foreclosures in inventory. In comparison, the outstanding total number of the Department’s Contracts of Purchase that were foreclosures in inventory is less at approximately 0.20% as of June 30, 2024, compared to USDVA guaranteed, conventional and FHA loans nationally, and less than all save conventional loans in California. In the Survey, loans are categorized as conventional loans or otherwise based upon the Survey respondents’ internal classifications.

Pursuant to the Survey, with respect to USDVA guaranteed loans as of June 30, 2023: (i) approximately 1.48% of the outstanding number of loans in California and 1.79% nationally were 30 to 60 days delinquent (the Survey does not report outstanding principal amounts); (ii) approximately 1.75% of the outstanding number of loans in California and 1.95% nationally were 60 days or more delinquent; and (iii) approximately 0.42% of the outstanding number of loans in California and 0.78% nationally were cancelled or foreclosed upon, transferred and purchased by USDVA.

Pursuant to the Survey, with respect to conventional loans as of June 30, 2023: (i) approximately 0.93% of the outstanding number of loans in California and 1.24% nationally were 30 to 60 days delinquent; (ii) approximately 0.77% of the outstanding number of loans in California and 1.13% nationally were 60 days or more delinquent; and (iii) approximately 0.16% of the outstanding number of loans in California and 0.42% nationally were foreclosures in inventory.

Pursuant to the Survey, with respect to FHA loans as of June 30, 2023: (i) approximately 4.55% of the outstanding number of loans in California and 4.90% nationally were 30 to 60 days delinquent; (ii) approximately 3.99% of the outstanding number of loans in California and 4.31% nationally were 60 days or more delinquent; and (iii) approximately 0.50% of the outstanding

number of loans in California and 1.00% nationally were foreclosures in inventory. In comparison, the outstanding total number of the Department's Contracts of Purchase that were foreclosures in inventory is less at approximately 0.20% as of June 30, 2023, compared to USDVA guaranteed, conventional and FHA loans in California and nationally.

*Insured Under Original Radian Policy.* With respect to Contracts of Purchase insured under the Original Radian Policy (as defined below) as of June 30, 2024: (i) none of the Department's Contracts of Purchase insured under the Original Radian Policy were 30 to 60 days delinquent; (ii) approximately 1.43% of the outstanding number of the Department's Contracts of Purchase insured under the Original Radian Policy were 60 days or more delinquent (or approximately 2.43% of the then outstanding principal amount of the Department's Contracts of Purchase insured under the Original Radian Policy and approximately 0.00% of the then outstanding principal amount of the Department's Contracts of Purchase); (iii) none of the Department's Contracts of Purchase insured under the Original Radian Policy had been cancelled or foreclosed upon; and (iv) none of the Department's Contracts of Purchase insured under the Original Radian Policy were REO in inventory. Such estimates are based on unaudited data and are subject to update after reconciliation.

With respect to Contracts of Purchase insured under the Original Radian Policy (Groups 1-3 as shown in APPENDIX C – “CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Primary Mortgage Insurance Coverage”) as of June 30, 2023: (i) approximately 0.99% of the outstanding number of the Department's Contracts of Purchase insured under the Original Radian Policy were 30 to 60 days delinquent (or approximately 2.59% of the then outstanding principal amount of the Department's Contracts of Purchase insured under the Original Radian Policy and approximately 0.01% of the then outstanding principal amount of the Department's Contracts of Purchase); (ii) approximately 5.94% of the outstanding number of the Department's Contracts of Purchase insured under the Original Radian Policy were 60 days or more delinquent (or approximately 6.23% of the then outstanding principal amount of the Department's Contracts of Purchase insured under the Original Radian Policy and approximately 0.01% of the then outstanding principal amount of the Department's Contracts of Purchase); (iii) none of the Department's Contracts of Purchase insured under the Original Radian Policy had been cancelled or foreclosed upon; and (iv) none of the Department's Contracts of Purchase insured under the Original Radian Policy were REO in inventory.

The Department ceased entering into Contracts of Purchase to be insured by Radian Guaranty Inc. (“Radian”) in March of 2008. See “—USDVA Guaranty Program; Other Loan Insurance – Primary Mortgage Insurance.”

*Insured Under Additional Radian Policy.* With respect to Contracts of Purchase insured under the Additional Radian Policy Group 4 (as defined below) (as shown in APPENDIX C – “CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Primary Mortgage Insurance Coverage”) as of June 30, 2024: (i) approximately 3.05% of the outstanding number of the Department's Contracts of Purchase insured under the Additional Radian Policy were 30 to 60 days delinquent (or approximately 3.44% of the then outstanding principal amount of the Department's Contracts of Purchase insured under the Additional Radian Policy and approximately 0.13% of the then outstanding principal amount of the Department's Contracts of Purchase); (ii) approximately 2.77% of the outstanding number of the Department's Contracts of Purchase insured under the Additional Radian Policy were 60 days or more delinquent (or approximately 4.14% of the then outstanding principal amount of the Department's Contracts



of Purchase insured under the Additional Radian Policy and approximately 0.13% of the then outstanding principal amount of the Department's Contracts of Purchase); (iii) approximately 0.83% of the outstanding number of the Department's Contracts of Purchase insured under the Additional Radian Policy had been cancelled or foreclosed upon (or approximately 1.02% of the then outstanding principal amount of the Department's Contracts of Purchase insured under the Additional Radian Policy and approximately 0.03% of the then outstanding principal amount of the Department's Contracts of Purchase); and (iv) none of the Department's Contracts of Purchase insured under the Additional Radian Policy were REO in inventory. Such estimates are based on unaudited data and are subject to update after reconciliation.

With respect to Contracts of Purchase insured under the Additional Radian Policy Group 4 as of June 30, 2023: (i) approximately 2.96% of the outstanding number of the Department's Contracts of Purchase insured under the Additional Radian Policy were 30 to 60 days delinquent (or approximately 2.42% of the then outstanding principal amount of the Department's Contracts of Purchase insured under the Additional Radian Policy and approximately 0.10% of the then outstanding principal amount of the Department's Contracts of Purchase); (ii) approximately 4.69% of the outstanding number of the Department's Contracts of Purchase insured under the Additional Radian Policy were 60 days or more delinquent (or approximately 7.35% of the then outstanding principal amount of the Department's Contracts of Purchase insured under the Additional Radian Policy and approximately 0.31% of the then outstanding principal amount of the Department's Contracts of Purchase); (iii) approximately 0.99% of the outstanding number of the Department's Contracts of Purchase insured under the Additional Radian Policy had been cancelled or foreclosed upon (or approximately 0.59% of the then outstanding principal amount of the Department's Contracts of Purchase insured under the Additional Radian Policy and approximately 0.03% of the then outstanding principal amount of the Department's Contracts of Purchase); and (iv) none of the outstanding number of the Department's Contracts of Purchase insured under the Additional Radian Policy were REO in inventory.

See “—USDVA Guaranty Program; Other Loan Insurance – Primary Mortgage Insurance.”

*Mobile Homes.* As of June 30, 2024: (i) approximately 1.99% of the outstanding number of the Department's Contracts of Purchase financing mobile homes in a mobile home park were 30 to 60 days delinquent (or approximately 2.44% of the then outstanding principal amount of the Department's Contracts of Purchase financing such mobile homes and approximately 0.01% of the then outstanding principal amount of the Department's Contracts of Purchase); (ii) approximately 1.32% of the outstanding number of the Department's Contracts of Purchase financing mobile homes in a mobile home park were more than 60 days delinquent (or approximately 0.40% of the then outstanding principal amount of the Department's Contracts of Purchase financing such mobile homes and approximately 0.00% of the then outstanding principal amount of the Department's Contracts of Purchase); (iii) approximately 1.32% of the outstanding number of the Department's Contracts of Purchase financing mobile homes in a mobile home park had been canceled or foreclosed upon (or approximately 2.31% of the then outstanding principal amount of the Department's Contracts of Purchase financing mobile homes in a mobile home park and approximately 0.01% of the then outstanding principal amount of the Department's Contracts of Purchase); and (iv) none of the outstanding number of the Department's Contracts of Purchase financing mobile homes in a mobile home park were REO in inventory. Such estimates are based on unaudited data and are subject to update after reconciliation.

As of June 30, 2023: (i) approximately 2.79% of the outstanding number of the Department's Contracts of Purchase financing mobile homes in a mobile home park were 30 to 60 days delinquent (or approximately 2.67% of the then outstanding principal amount of the Department's Contracts of Purchase financing such mobile homes and approximately 0.02% of the then outstanding principal amount of the Department's Contracts of Purchase); (ii) approximately 2.23% of the outstanding number of the Department's Contracts of Purchase financing mobile homes in a mobile home park were more than 60 days delinquent (or approximately 1.94% of the then outstanding principal amount of the Department's Contracts of Purchase financing such mobile homes and approximately 0.02% of the then outstanding principal amount of the Department's Contracts of Purchase); (iii) approximately 1.12% of the outstanding number of the Department's Contracts of Purchase financing mobile homes in a mobile home park had been canceled or foreclosed upon (or approximately 1.67% of the then outstanding principal amount of the Department's Contracts of Purchase financing mobile homes in a mobile home park and approximately 0.01% of the then outstanding principal amount of the Department's Contracts of Purchase); and (iv) none of the outstanding number of the Department's Contracts of Purchase financing mobile homes in a mobile home park were REO in inventory.

For additional information regarding mobile homes Contracts of Purchase, see “—Mobile Homes Contracts of Purchase.”

*Home and Property Improvements.* With respect to Contracts of Purchase financing permanent home and property improvements as of June 30, 2024: (i) approximately 5.19% of the outstanding number of the Department's Contracts of Purchase financing permanent home and property improvements were 30 to 60 days delinquent (or approximately 5.58% of the then outstanding principal amount of the Department's Contracts of Purchase financing permanent home and property improvements and approximately 0.02% of the then outstanding principal amount of the Department's Contracts of Purchase); (ii) approximately 0.74% of the outstanding number of the Department's Contracts of Purchase financing permanent home and property improvements were more than 60 days delinquent (or approximately 1.05% of the then outstanding principal amount of the Department's Contracts of Purchase financing permanent home and property improvements and approximately 0.00% of the then outstanding principal amount of the Department's Contracts of Purchase); (iii) none of the Department's Contracts of Purchase financing permanent home and property improvements had been canceled or foreclosed upon; and (iv) none of the Department's Contracts of Purchase financing permanent home and property improvements were REO in inventory. Such estimates are based on unaudited data and are subject to update after reconciliation.

With respect to Contracts of Purchase financing permanent home and property improvements as of June 30, 2023: (i) approximately 4.55% of the outstanding number of the Department's Contracts of Purchase financing permanent home and property improvements were 30 to 60 days delinquent (or approximately 6.77% of the then outstanding principal amount of the Department's Contracts of Purchase financing permanent home and property improvements and approximately 0.03% of the then outstanding principal amount of the Department's Contracts of Purchase); (ii) approximately 4.55% of the outstanding number of the Department's Contracts of Purchase financing permanent home and property improvements were 60 days or more delinquent (or approximately 5.27% of the then outstanding principal amount of the Department's Contracts of Purchase financing permanent home and property improvements and approximately 0.03% of the then outstanding principal amount of the Department's Contracts of Purchase); (iii) none of

the Department's Contracts of Purchase financing permanent home and property improvements had been canceled or foreclosed upon; and (iv) none of the Department's Contracts of Purchase financing permanent home and property improvements were REO in inventory.

For additional information regarding home improvement Contracts of Purchase, see “—Home Improvement Contracts of Purchase.”

*Building Site and Home Construction.* With respect to Contracts of Purchase financing the purchase of a building site and construction of a home, as of June 30, 2024: (i) approximately 2.52% of the outstanding number of the Department's Contracts of Purchase financing the purchase of a building site and construction of a home were 30 to 60 days delinquent (or approximately 3.31% of the then outstanding principal amount of the Department's Contracts of Purchase financing the purchase of a building site and the construction of a home and approximately 0.12% of the then outstanding principal amount of the Department's Contracts of Purchase); (ii) approximately 0.42% of the outstanding number of the Department's Contracts of Purchase financing the purchase of a building site and construction of a home were 60 days or more delinquent (or approximately 0.31% of the then outstanding principal amount of the Department's Contracts of Purchase financing the purchase of a building site and the construction of a home and approximately 0.01% of the then outstanding principal amount of the Department's Contracts of Purchase); (iii) none of the Department's Contracts of Purchase financing the purchase of a building site and construction of a home had been cancelled or foreclosed upon; and (iv) none of the Department's Contracts of Purchase financing the purchase of a building site and construction of a home were REO in inventory. Such estimates are based on unaudited data and are subject to update after reconciliation.

With respect to Contracts of Purchase financing the purchase of a building site and construction of a home, as of June 30, 2023: (i) approximately 2.46% of the outstanding number of the Department's Contracts of Purchase financing the purchase of a building site and construction of a home were 30 to 60 days delinquent (or approximately 2.24% of the then outstanding principal amount of the Department's Contracts of Purchase financing the purchase of a building site and construction of a home and approximately 0.09% of the then outstanding principal amount of the Department's Contracts of Purchase); (ii) approximately 2.05% of the outstanding number of the Department's Contracts of Purchase financing the purchase of a building site and construction of a home were 60 days or more delinquent (or approximately 2.01% of the then outstanding principal amount of the Department's Contracts of Purchase financing the purchase of a building site and construction of a home and approximately 0.08% of the then outstanding principal amount of the Department's Contracts of Purchase); (iii) none of the Department's Contracts of Purchase financing the purchase of a building site and construction of a home had been cancelled or foreclosed upon; and (iv) none of the Department's Contracts of Purchase financing the purchase of a building site and construction of a home were REO in inventory.

For additional information regarding Contracts of Purchase financing the purchase of a building site and construction of a home, see “—Construction Contracts of Purchase.”

*Uninsured.* With respect to Contracts of Purchase neither guaranteed by the USDVA nor insured under a Radian Policy (“Uninsured Contracts of Purchase”), as of June 30, 2024: (i) approximately 0.72% of the outstanding number of the Department's Uninsured Contracts of Purchase were 30 to 60 days delinquent (or approximately 3.62% of the then outstanding principal

amount of the Department's Uninsured Contracts of Purchase and approximately 0.45% of the then outstanding principal amount of the Department's Contracts of Purchase); (ii) approximately 0.31% of the outstanding number of the Department's Uninsured Contracts of Purchase were 60 days or more delinquent (or approximately 2.17% of the then outstanding principal amount of the Department's Uninsured Contracts of Purchase and approximately 0.27% of the then outstanding principal amount of the Department's Contracts of Purchase); (iii) approximately 0.04% of the outstanding number of the Department's Uninsured Contracts of Purchase had been cancelled or foreclosed upon (or approximately 0.12% of the then outstanding principal amount of the Department's Uninsured Contracts of Purchase and approximately 0.01% of the then outstanding principal amount of the Department's Contracts of Purchase); and (iv) approximately 0.04% of the outstanding number of the Department's Uninsured Contracts of Purchase were REO in inventory (or approximately 0.07% of the then outstanding principal amount of the Department's Uninsured Contracts of Purchase and approximately 0.01% of the then outstanding principal amount of the Department's Contracts of Purchase). Such estimates are based on unaudited data and are subject to update after reconciliation.

With respect to Contracts of Purchase neither guaranteed by the USDVA, nor insured under a Radian Policy, as of June 30, 2023: (i) approximately 0.63% of the outstanding number of the Department's Uninsured Contracts of Purchase were 30 to 60 days delinquent (or approximately 2.63% of the then outstanding principal amount of the Department's Uninsured Contracts of Purchase and approximately 0.37% of the then outstanding principal amount of the Department's Contracts of Purchase); (ii) approximately 0.54% of the outstanding number of the Department's Uninsured Contracts of Purchase were 60 days or more delinquent (or approximately 2.21% of the then outstanding principal amount of the Department's Uninsured Contracts of Purchase and approximately 0.31% of the then outstanding principal amount of the Department's Contracts of Purchase); (iii) approximately 0.05% of the outstanding number of the Department's Uninsured Contracts of Purchase had been cancelled or foreclosed upon (or approximately 0.12% of the then outstanding principal amount of the Department's Uninsured Contracts of Purchase and approximately 0.02% of the then outstanding principal amount of the Department's Contracts of Purchase); and (iv) none of the outstanding number of the Department's Uninsured Contracts of Purchase were REO in inventory.

*REOs.* For the fiscal year ended June 30, 2024, the Department experienced approximately \$463,654.26 in gains resulting from REO sales and \$117,915.52 in charge offs resulting from short sales. Such estimates are based on unaudited data and are subject to update after reconciliation. For the fiscal year ended June 30, 2023, the Department experienced approximately \$80,522.98 in gains resulting from REO sales and approximately no charge offs resulting from short sales. Gains or losses on REO sales, short sales and USDVA Guaranty claims with losses can be expected to fluctuate based on the market and other considerations during the period that the Offered Revenue Bonds are outstanding. See “—USDVA Guaranty Program; Other Loan Insurance – USDVA Guaranty Program” regarding limitations of USDVA Guaranties and factors which may cause a lender to incur a loss on a Contract of Purchase guaranteed by the USDVA.

*Allowances for Uncollectible Contracts of Purchase.* The audited financial statements of the 1943 Fund, the Veterans Debenture Revenue Fund and the Pooled Self-Insurance Fund attached hereto reflect an allowance for uncollectible Contracts of Purchase established through a provision charged to operations. The allowance is an amount that the Department's management expects to be adequate to absorb losses with respect to Contracts of Purchase based, among other

things, on prior loss experience and the outstanding aggregate principal amount of Contracts of Purchase.

See APPENDIX B – “REPORT OF INDEPENDENT AUDITORS AND FINANCIAL STATEMENTS – CALVET HOME LOAN PROGRAM OF THE DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA FOR THE FISCAL YEARS ENDED JUNE 30, 2023 AND 2022,” and APPENDIX C – “CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Cancellations and Delinquencies.”

*Department Procedures for Addressing Delinquencies and Cancellations*

The following is a description of the Department’s general procedures for addressing delinquencies and cancellations, which procedures are subject to change while the Offered Revenue Bonds are outstanding. The Department may modify its procedures from time to time based on guidance issued by various government entities, in particular the USDVA. See “— Contracts of Purchase – Delinquencies and Cancellations.”

If a veteran fails to comply with any of the terms of a Contract of Purchase the Department may terminate the Contract of Purchase and be released from all obligations thereunder, at law or in equity. In such event, the veteran’s rights under the Contract of Purchase may be forfeited and all payments made by the veteran prior to termination of the Contract of Purchase by the Department would be deemed to be rental paid for occupancy of the property by the veteran. In the event the veteran’s rights under the Contract of Purchase are forfeited, the Department takes possession of the property for the purposes of reselling it. The Department may, for good cause, permit the postponement from time to time, and upon such terms as it deems proper, of the payment of the whole or any part of any installment under a Contract of Purchase (including impounds, fees, charges, or interest thereon). The amount postponed will be due and payable upon the payment in full of the Contract of Purchase or upon sale, refinance or transfer of the farm or home.

If a veteran does not make a payment by the 16<sup>th</sup> day of the month in which the payment is due, the payment is considered “late.” The MITAS system generates an initial reminder letter automatically if payment is not received by the 20<sup>th</sup> day of the month, which advises the veteran that payment has not been received. If payment is not received by the 30<sup>th</sup> day of the month, a second reminder letter is issued and the Contract of Purchase installment payment is considered “delinquent.” After the initial reminder letter is issued the Department’s staff also initiates telephone contact with the veteran. If the Contract of Purchase installment payment remains delinquent 60 days, a Notice of Intent to Cancel Contract (“NICC”) is issued to notify the veteran that the Contract of Purchase may be cancelled at the end of a 30-day notice period unless the Contract of Purchase installment payment is brought current. Department personnel continue to initiate telephone contact with veterans with delinquent Contract of Purchase installment payments. If the veteran has not paid by the 70<sup>th</sup> day of the delinquency, another letter is issued reminding the veteran of the need to bring the Contract of Purchase installment payment current within 30 days of the NICC date (the “70 Day Reminder Letter”). A schedule for liquidation of delinquent Contract of Purchase installment payments satisfactory to the Department is arranged during this period; however, if the Contract of Purchase installment payment remains delinquent 21 days after the issuance of the 70 Day Reminder Letter and no schedule for liquidation of delinquent installment payments has been agreed upon, the Department may begin cancellation of the Contract of Purchase. If a schedule of liquidation has been agreed to with respect to a Contract of Purchase and the veteran makes all regularly scheduled installment payments and liquidation

payments on a timely basis, the Department does not initiate cancellation of the Contract of Purchase.

The Collections, Cancellation and REO Unit at the Department's headquarters monitors the delinquency throughout this process, orders a title search to identify any junior lienholders and commences pre-cancellation processing in accordance with the California Code of Regulations. Junior lienholders are sent notices giving them 30 days (40 days in the case of Federal tax liens) to protect their interest by beginning foreclosure proceedings. If the Contract of Purchase installment payment is not brought current during the notice period to junior lienholders and no junior lienholder proceeds with a foreclosure action to protect its interest, the Department's Collections, Cancellation and REO Unit cancels the Contract of Purchase and a Notice of Cancellation is mailed to the veteran and recorded with the applicable county recorder. The Department's Cancellation Unit then takes steps to evict occupants and clear any remaining liens. If judicial action is required, the case is referred to the Department's Law Division for additional processing. In some cases, cancellation of defaulted Contracts of Purchase may be deferred or delayed due to high volume of cancellations or other factors.

If a Contract of Purchase guaranteed by the USDVA goes into default and is canceled, the related property either is sold to the USDVA for a percentage of the property's appraised value or becomes Department REO. After the sale of the property, either to USDVA or through Department REO, the USDVA is obligated to pay an amount based upon its USDVA Guaranty for reimbursement of any fees, costs, and losses associated with the termination of a guaranteed home loan, within USDVA-approved limits. The Department's policies regarding delinquencies and cancellations conform to USDVA Guaranty program requirements.

After all remaining liens are removed and the property is vacant, the repossessed property is repaired and improved, if necessary and feasible, and is marketed through the Department's Collections, Cancellation and REO Unit which uses a Pre-Advertising Listing ("PAL") program. Under the PAL program the property is listed for sale with a licensed real estate broker or agent, at an overall commission rate which typically does not exceed 6%. The property continues to be marketed by the listing real estate agent or broker until an acceptable offer is received and the property is sold. All sales of REO assets for the Department are required to be conducted in accordance with the California Code of Regulations.

As of June 30, 2024, the Department had Repayment Agreements in place for an estimated 1.84% of the total then outstanding number of Contracts of Purchase (or an estimated 2.58% of the then outstanding principal amount of the Department's Contracts of Purchase). Such estimates are based on unaudited data and are subject to update after reconciliation.

As of June 30, 2023, the Department had Repayment Agreements in place for approximately 1.39% of the total then outstanding number of Contracts of Purchase (or approximately 2.18% of the then outstanding principal amount of the Department's Contracts of Purchase).

Additionally, if a veteran is able to demonstrate financial hardship to the Department, the Department may modify the Contract of Purchase to assist the veteran. Modifications may extend the term of the Contract of Purchase up to a 40-year term for most Contracts of Purchase and up to a 30-year term for a Contract of Purchase financing a mobile home in a mobile home park. When extending the term of the Contract of Purchase the Department reduces the monthly installment payments. In cases where the veteran has already defaulted on the Contract of Purchase

at the time of the veteran's hardship assistance request, the Department may allow the veteran to make reduced payments under a Repayment Agreement for up to six months. Thereafter, the Department may approve a hardship deferral of the outstanding delinquent interest (and in rare cases, principal) on the Contract of Purchase. In such cases the delinquent interest (or principal) is due and payable upon the sale of the property, further encumbrance of the property or upon the maturity of the loan. In some cases the Department may also re-amortize the past due principal.

The Department permits a sale of a property in which the proceeds from the sale of the property will not be sufficient to pay the remaining amounts due under the Contract of Purchase (a distress sale or short sale) in situations where the Department determines significant hardship will occur if the holder of a Contract of Purchase is not permitted to enter into a short sale. Situations where short sale may be permitted include job relocation, a divorce which requires sale of the property, loss of employment, illness, or death of a borrower or co-borrower.

To be considered for a short sale, the Department requires a contract holder to submit a written explanation of the hardship and supporting documentation, including financial records. The Department reviews all estimated costs involved in the proposed short sale and only permits reasonable costs to be included in the short sale. In connection with the evaluation of a short sale the Department obtains the market value of the property through an appraisal, broker opinion of value or comparative market analysis report, as the Department determines appropriate. The Department compares the proposed short sale with the Department's projected recovery from the property as REO taking into consideration whether the Contract of Purchase is subject to a USDVA Guaranty or the Radian Policies (as defined below) and the amounts that may be realized in connection with a claim thereunder. USDVA approval is not required for a short sale and if the Contract of Purchase is subject to a USDVA Guaranty and the short sale is completed, the Department is permitted to submit a claim with the USDVA. If the Contract of Purchase is subject to a USDVA Guaranty and the Department sells the property as a Department REO, claim moneys can be received and are also considered in the analysis. If the Contract of Purchase is subject to the Radian Policies, then the short sale requires Radian approval. Once Radian approves the short sale, Radian informs the Department of the claim amount approved for payment. Claim moneys to be received for a Radian insured Contract of Purchase sold as a Department REO are also considered in the analysis. Upon consideration of the various options the Department pursues the most cost effective approach that provides the greatest benefit to the Department. The Department requires the parties to the short sale to execute, under the penalty of perjury, a transaction certification statement certifying that the sale is a true "arm's length" transaction. No sales proceeds are permitted to go to the holder of the Contract of Purchase.

For the fiscal year ended June 30, 2024, none of the Department's Contracts of Purchase were approved for short sales. For the fiscal year ended June 30, 2023, none of the Department's Contracts of Purchase were approved for short sales.

The Department's policies regarding delinquencies and cancellations conform to Radian guidelines.

The Federal Relief Act and the California Relief Act (each as described below) also require certain extensions of Contracts of Purchase terms. See "—Legislative Protection of Veterans" herein.

The federal government has undertaken a number of measures designed to address past and current economic difficulties facing the United States including, but not limited to, relief programs

established by the USDVA. In addition, some State law and State legislative proposals may revise the procedures for delinquencies and cancellations which could further impact the time for cancellation of Contracts of Purchase. Additional measures and legislation may be considered by the federal government, or the State Legislature, which measures may affect the Program, the Veterans G.O. Bonds, the Revenue Bonds or the Contracts of Purchase. While some of these measures may benefit the Program, no assurance can be given that the Program, the Veterans G.O. Bonds, the Revenue Bonds or the Contracts of Purchase will not be adversely affected by such measures. The Department monitors its policies and procedures and may update them from time to time to comply with State and federal law.

See APPENDIX C – “CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Cancellations and Delinquencies” for additional information regarding the status of Contracts of Purchase.

#### *Late Fees*

Late charges are applied to Contracts of Purchase that have a remaining amount due of \$25 or more at the close of any account month. The late charge imposed on Contracts of Purchase originated during and after October 1984 is currently 4% of the principal and interest portion of the installment, consistent with late charges authorized by the USDVA.

#### *Additional Financing*

Any veteran who qualifies under the Veterans Code and the Federal Tax Code may be granted a subsequent Contract of Purchase so long as any previous Contract of Purchase has been paid in full or the veteran lost their interest in the previous Contract of Purchase through divorce or dissolution of marriage so long as the Federal Tax Code requirements regarding first-time homebuyers are met. Only one farm or home purchased under the 1974 Act may be owned by a veteran (or a veteran and their spouse, which, under the Veterans Code, includes a registered domestic partner) at any one time.

### **Mobile Homes Contracts of Purchase**

The Veterans Code permits the Department to issue Contracts of Purchase for the purchase of mobile homes. The Federal Tax Code requires that any mobile home purchased with QVMB Proceeds or QMB Proceeds must be permanently affixed to land. If the mobile home is located on land for which the Department obtains title, the Contract of Purchase is treated by the Department in substantially the same manner as Contracts of Purchase to finance the purchase of single family residences. If the mobile home is located where the Department does not obtain title to the land, the Contract of Purchase is issued by the Department only where the mobile home is in a qualified mobile home park. In such cases the Contract of Purchase is issued with a term not exceeding twenty years and an interest rate which is higher than the interest rate for a Contract of Purchase issued to finance the purchase of a single family conventional residence or a mobile home sited on a lot owned by the purchaser. Pursuant to the Veterans Code, such interest rate shall be set by the Department to balance lending risk while maintaining a rate at or below the market rate for a mobile home in a mobile home park. Mobile home parks are qualified by Department underwriting staff on a case-by-case basis based on a review of the appraisal, condition of the park, other minimum property standards and the park’s rental agreement. The appraisals reflect the market conditions at the time the appraisals were conducted, may not reflect current values, are



not guarantees and may not be fully indicative of present or future values. The Department also requires the mobile home park management to approve the transaction.

Under Department policy, new single-wide mobile home units may be financed for up to 15 years and a 15% down payment is required. New multi-wide mobile home units may be financed for up to 20 years and a 10% down payment is required. Used multi-wide mobile home units may be financed for the lesser of 20 years or the economic life expectancy of the unit and a 15% down payment is required. No financing is available for used single-wide units or mobile homes which are over 20 years old.

As of June 30, 2024, approximately 3.7% of the then outstanding total number of the Department's Contracts of Purchase financed mobile homes in a mobile home park (or approximately 0.58% of the then outstanding principal amount of the Department's Contracts of Purchase). Such estimates are based on unaudited data and are subject to update after reconciliation. As of June 30, 2023, approximately 4.5% of the then outstanding total number of the Department's Contracts of Purchase financed mobile homes in a mobile home park (or approximately 0.81% of the then outstanding principal amount of the Department's Contracts of Purchase).

See APPENDIX C – “CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Existing Contracts of Purchase – Loan-to-Value Ratio of Contracts of Purchase Based on Original Appraised Value as of June 30, 2024” and “—Cancellations and Delinquencies” for additional information.

### **Home Improvement Contracts of Purchase**

The Veterans Code permits the Department to finance permanent home and property improvements. Currently, under Department policy, when a home improvement Contract of Purchase is issued, the amount of total financing, including the balance of the original Contract of Purchase, the amount of the improvement Contract of Purchase and any other encumbrances, is not permitted to exceed 90% of the improved market value of the property. The Department relies on current market data from a third party information provider to develop formal opinions of value for a determination of the improved market value of the property. Typically, the total loan-to-value ratio at origination of a home improvement Contract of Purchase is lower than 90%.

The Department distributes the proceeds from a home improvement Contract of Purchase either to the contractors (or vendors) directly as the improvements are completed or to the veteran as reimbursement for actual construction costs. For a home improvement Contract of Purchase which is subordinate to an existing Contract of Purchase, a separate Contract of Purchase covering only the improvements is executed. The subordinate Contract of Purchase bears interest at the same rate as the veteran's existing Contract of Purchase where the home improvement Contract of Purchase was entered into prior to January 1, 2005, or at current Department rates where the home improvement Contract of Purchase was entered into on or after January 1, 2005. Pursuant to Department policy, home improvement Contracts of Purchase are issued with a term of up to 25 years. Generally, the terms of the original Contract of Purchase and the home improvement Contract of Purchase mature separately. An origination fee of 1.5% of the home improvement Contract of Purchase amount is assessed. Except in the case of hardship or in connection with safety concerns, home improvement Contracts of Purchase, generally, are not approved for veterans who have had significant delinquencies in the 12 months immediately preceding the application.

The maximum home improvement Contract of Purchase funded with QMB Proceeds is \$15,000. Home improvement Contracts of Purchase funded with Pre-Ullman Moneys or QVMB Proceeds are available up to a maximum of \$150,000. Subsequent home improvement Contracts of Purchase may be granted, if funds are available to the Department, so long as there is only one home improvement Contract of Purchase per veteran outstanding at any time. As of June 30, 2024, the average principal balance of the Department's home improvement Contracts of Purchase then outstanding was approximately \$30,832. Such estimate is based on unaudited data and is subject to update after reconciliation. As of June 30, 2023, the average principal balance of the Department's home improvement Contracts of Purchase then outstanding was approximately \$31,768.

See APPENDIX C – “CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Existing Contracts of Purchase – Loan-to-Value Ratio of Contracts of Purchase Based on Original Appraised Value as of June 30, 2024” for additional information.

### **Construction Contracts of Purchase**

Contracts of Purchase entered into to finance the purchase of a building site and construction of a home are also available. Qualifying sites include undeveloped land, lots in subdivision developments and sites in non-profit self-help developments. Mobile homes in mobile home parks do not qualify. Construction of the improvements must be performed by a contractor licensed in the State. The Department does not submit Contracts of Purchase that finance home construction for USDVA Guaranty.

The Department has developed a program with a view to enriching residential neighborhoods (the “CalVet REN Program”) under which the Department works with affordable home builders to provide affordable homes for low income veterans. As part of the CalVet REN Program the Department, together with the affordable home builders, identifies project areas for the construction of a number of new affordable homes, and identifies and qualifies veterans for Contracts of Purchase for whom the Department could finance a portion of the construction of the homes, with the balance of the construction costs financed by the affordable home builders and/or other governmental entities such as the city or county. In connection with any such Contracts of Purchase, the Department distributes the proceeds from the Contract of Purchase to the affordable home builders at various milestones as the construction is completed.

As of June 30, 2024, approximately 6.0% of the then outstanding total number of the Department's Contracts of Purchase financed the purchase of a building site and construction of a home (or approximately 3.6% of the then outstanding principal amount of the Department's Contracts of Purchase). Such estimates are based on unaudited data and are subject to update after reconciliation. As of June 30, 2023, approximately 6.3% of the then outstanding total number of the Department's Contracts of Purchase financed the purchase of a building site and construction of a home (or approximately 4.1% of the then outstanding principal amount of the Department's Contracts of Purchase).

See APPENDIX C – “CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Existing Contracts of Purchase – Loan-to-Value Ratio of Contracts of Purchase Based on Original Appraised Value as of June 30, 2024” for additional information.

## **Deferred Payment Assistance Loans**

The Veterans Code permits the Department to provide purchase assistance to purchasers with limited assets, as defined by the Department, by providing a deferred-payment second loan, upon which simple interest is to be charged at a rate established by the Department and subject to all of the following conditions, the loan (i) may not exceed 5% of the selling price of the farm or home, (ii) must be secured by a deed of trust or, if authorized by the Department, another form of security and (iii) must be due and payable upon the payment in full of the Contract of Purchase or upon the sale, refinance or transfer of the farm or home.

As of June 30, 2024, approximately 12.4% of the then outstanding total number of the Department's Contracts of Purchase financed initial payment assistance for the purchase of a farm or home (or approximately 0.4% of the then outstanding principal amount of the Department's Contracts of Purchase). Such estimates are based on unaudited data and are subject to update after reconciliation. As of June 30, 2023, approximately 9.7% of the then outstanding total number of the Department's Contracts of Purchase financed initial payment assistance for the purchase of a farm or home (or approximately 0.3% of the then outstanding principal amount of the Department's Contracts of Purchase).

See APPENDIX C – “CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Existing Contracts of Purchase – Loan-to-Value Ratio of Contracts of Purchase Based on Original Appraised Value as of June 30, 2024” for additional information.

## **Pooled Self-Insurance Fund**

In 2009, the Veterans Code created a pooled self-insurance fund (the “Pooled Self-Insurance Fund”) in the State Treasury to allow the Department to pool certain of its funds and accounts. The Pooled Self-Insurance Fund includes the reserves and moneys held by the Department, as authorized in the Veterans Code, in the Disaster Indemnity Fund, the Fire and Hazard Insurance Account, the Legacy Self-Insured Disability Coverage Account and the Primary Mortgage Insurance Account, each as defined below. Under the Veterans Code, if claims under one Pooled Self-Insurance Fund account exceed the amount of funds available in such account, the Department is permitted to borrow from other Pooled Self-Insurance Fund accounts within the Pooled Self-Insurance Fund rather than draw on the 1943 Fund. The Department on behalf of the Pooled Self-Insurance Fund is permitted to borrow from the 1943 Fund upon declaration of emergency by the Department Secretary. The Veterans Code states that amounts borrowed from other Pooled Self-Insurance Fund accounts or from the 1943 Fund must be repaid within three years. As of the date of this Official Statement, the Department on behalf of the Pooled Self-Insurance Fund has not borrowed from the 1943 Fund as permitted by the Veterans Code. The Veterans Code also requires the Department to manage rates charged to the holders of Contracts of Purchase for each account in the Pooled Self-Insurance Fund, so that each account is self-sufficient. Under the Veterans Code, the Department is permitted to insure or reinsure the risks payable out of the Pooled Self-Insurance Fund. The Department has insured certain risks payable out of the Disaster Indemnity Fund and the Fire and Hazard Insurance Account. Moneys in the Pooled Self-Insurance Fund are not available to make payments on Revenue Bonds or Veterans G.O. Bonds.

See also “—USDVA Guaranty Program; Other Loan Insurance” and “—Life and Disability Insurance.”

## **USDVA Guaranty Program; Other Loan Insurance**

Significant principal amounts of Contracts of Purchase are not covered by a USDVA Guaranty or primary mortgage insurance. See APPENDIX C – “CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Existing Contracts of Purchase – Loan-to-Value Ratio of Contracts of Purchase Based on Original Appraised Value as of June 30, 2024.”

### *USDVA Guaranty Program*

The Servicemen’s Readjustment Act of 1944, as amended, permits a veteran (or in certain instances the veteran’s spouse) to obtain a guaranty from the USDVA covering mortgage financing for the purchase or construction of certain dwelling units at interest rates permitted by the USDVA (a “USDVA Guaranty”). The USDVA Guaranty program sets loan guaranty limits depending on the size of the loan and the location of the property and permits the guaranty of mortgage loans of up to 30 years and 32 days’ duration unless the USDVA, in its sole discretion, approves an extension. The Blue Water Navy Vietnam Veterans Act of 2019, effective January 1, 2020, eliminated county loan limits for certain veterans on loans greater than \$144,000. As of January 1, 2024, the USDVA loan limits are set to those established by the Federal Housing Finance Agency (and used by Fannie Mae) and the current maximum USDVA Guaranty for loans greater than \$144,000 originated on or after January 1, 2024 is (x) 25% of the loan amount for veterans with full USDVA home loan guaranty entitlement and (y) 25% of the Fannie Mae conforming loan limits for veterans who have previously used and not restored the guaranty entitlement, generally \$191,637.50 (equal to 25% of \$766,550, the general Fannie Mae loan limit for single-family homes); however the maximum USDVA Guaranty for such loans originated for homes in certain “high cost” counties, including many counties in California, on or after January 1, 2024, may generally be as high as \$287,456.25 (equal to 25% of \$1,149,825, the general Fannie Mae loan limit for single-family homes for such counties). The actual guaranty may be less than the maximum guaranty as described above in the event a veteran’s guaranty entitlement previously used for a guaranteed loan has not been restored by the USDVA. See “—Certain Statutory Requirements – Limits on Purchase Price.” In addition to such maximum USDVA Guaranty limits, the amount of the original USDVA Guaranty with respect to any particular loan is limited to 25% of the loan amount. Therefore, USDVA Guaranty is limited to the lesser of 25% of the applicable county loan limit or 25% of the loan amount. The liability on the USDVA Guaranty is reduced or increased *pro rata* with any reduction or increase in the amount of indebtedness, but in no event will the amount payable on the USDVA Guaranty exceed the amount of the original USDVA Guaranty. Notwithstanding the dollar and percentage limitations of the USDVA Guaranty, a mortgage holder will ordinarily suffer a monetary loss only where the difference between the unsatisfied indebtedness and the proceeds of a foreclosure sale of a mortgaged property is greater than the original USDVA Guaranty, as adjusted. Periods without interest payments prior to foreclosure increase the potential for losses. In the event of a default in the payment of a USDVA guaranteed loan, but prior to a suit or foreclosure, USDVA may, at its option, pay to the mortgage holder of such defaulted loan the unpaid balance of the obligation plus accrued interest and receive an assignment of the loan and the security for such loan. For information regarding the amount of Contracts of Purchase guaranteed by the USDVA, see “—Primary Mortgage Insurance” and APPENDIX C – “CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Existing Contracts of Purchase – Loan-to-Value Ratio of Contracts of Purchase Based on Original Appraised Value as of June 30, 2024.”

Prior to 1998, Contracts of Purchase were not insured or guaranteed by the USDVA or any private primary mortgage insurer. The Department took steps to reduce Program risk, and as of March 10, 1998, the Department was approved by the USDVA as a “supervised lender with automatic processing authority,” which approval allows the Department to underwrite and approve USDVA guaranteed loans without obtaining prior USDVA approval. Generally, for all new Contracts of Purchase the Department requires veterans to apply for a USDVA Guaranty except with respect to Contracts of Purchase for construction, for rehabilitation, for home improvement or for mobile homes in a mobile home park. See “—Primary Mortgage Insurance.”

The Department has obtained, and continues to obtain, USDVA Guarantees (i) since 2002 on all Contracts of Purchase with LTV ratios greater than 97% and (ii) since 2009 on Contracts of Purchase where the veteran qualifies for the USDVA Guaranty, regardless of LTV.

The USDVA is a department of the United States of America. On March 27, 2024, S&P Global Ratings (“S&P”) affirmed its long-term sovereign credit rating on the United States of America as “AA+.” S&P’s long-term rating outlook remains “stable.” On March 1, 2024, Fitch Ratings (“Fitch”) affirmed its long-term issuer default rating on the United States of America of “AA+.” Fitch’s long-term rating outlook remains “stable.” As of November 10, 2023, Moody’s Investors Service (“Moody’s”) affirmed its rating of the United States of America “Aaa” with a revised outlook of “negative.” The foregoing ratings were still in effect as of the date of this Official Statement.<sup>†</sup>

#### *Primary Mortgage Insurance*

The Department’s primary mortgage insurer was Radian, which is a wholly-owned subsidiary of Radian Group Inc., an insurance holding company listed on the New York Stock Exchange. On April 12, 2024, Fitch affirmed its “A-” rating of Radian and revised its outlook from positive to stable. On March 27, 2024, Moody’s affirmed the insurance financial strength rating of Radian at “A3” and indicated a stable outlook. On January 8, 2024, S&P upgraded its financial strength ratings on Radian to “A-” from “BBB+” with a stable outlook. The foregoing ratings were still in effect as of the date of this Official Statement.<sup>†</sup>

The Department purchased a policy of primary mortgage insurance from Radian (the “Original Radian Policy”) for a pool of certain then-existing Contracts of Purchase with LTVs exceeding 80% originated before February 1, 1998. Thereafter, the Department purchased an additional policy of primary mortgage insurance from Radian (the “Additional Radian Policy,” and together with the Original Radian Policy, the “Radian Policies”) which provides similar coverage on certain Contracts of Purchase issued after February 1, 1998 as provided in the Original Radian Policy. The Radian Policies provide coverage for aggregate losses incurred on covered Contracts of Purchase following property disposition, above an aggregate 2% deductible. Under the Radian Policies the aggregate 2% deductible is defined as the total loss remaining after property disposition of the applicable Contracts of Purchase of an applicable subgroup. As many of the Contracts of Purchase insured under the Original Radian Policy have high originally insured

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<sup>†</sup> Ratings as shown on the website of the respective rating agency as of the date of the Official Statement. Ratings and outlooks reflect each respective rating agency’s current assessment of the creditworthiness of the United States of America and Radian, as applicable. An explanation of the significance of such ratings and outlooks may be obtained from the respective rating agencies. There is no assurance that the ratings and outlooks will continue for any given period of time or that they will not be revised, qualified or withdrawn entirely by such ratings agencies if, in their judgment, circumstances so warrant.

balances but have been paid down significantly over the life of such Contracts of Purchase, the Department does not anticipate that it will incur significant losses on such Contracts of Purchase in excess of the 2% deductible. The aggregate 2% deductible under the Additional Radian Policy has been met, and Radian began paying claim proceeds effective August 29, 2013.

See APPENDIX C – “CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Primary Mortgage Insurance Coverage” for a table that describes the subgroups and outstanding Contracts of Purchase insured under Radian Policies as of June 30, 2024.

After meeting the aggregate 2% deductible and after an REO or short sale, in settlement of any claim Radian may at its option elect to pay the Department (i) the entire amount of the loss after the sale proceeds have been applied or (ii) a percentage of the loss, prior to the application of the sale proceeds, as specified in the applicable certificate of insurance and in accordance with the applicable mortgage coverage ratios under which the Contract of Purchase is insured. In both cases the Department will retain title to the applicable property until sold and transferred.

The coverage levels in the table below apply to Contracts of Purchase covered by the Additional Radian Policy. For these purposes, the loan-to-value ratio is calculated using the original appraised value of the applicable property. The appraisals reflect the market conditions at the time the appraisals were conducted, may not reflect current values, are not guarantees and may not be fully indicative of present or future values.

**Radian Mortgage Insurance Coverage Ratios**

LTV Category	% of Coverage
97.01% to 100.00%	35%
95.01% to 97.00%	35%
90.01% to 95.00%	30%
85.01% to 90.00%	25%
80.01% to 85.00%	17%

Source: Department of Veterans Affairs of the State of California.

On April 1, 2008, the Department ceased insuring new Contracts of Purchase with Radian. Instead, where primary mortgage insurance would have been used with respect to a Contract of Purchase the Department has charged the veteran an amount equal to the premium amount which would have been collected by the Department in respect of a Radian Policy, but has retained such payments in a primary mortgage insurance account (the “Primary Mortgage Insurance Account”) within the Pooled Self-Insurance Fund.

As of June 30, 2024, there was an estimated \$4.0 million in the Primary Mortgage Insurance Account. Such estimate is based on unaudited data and is subject to update after reconciliation. As of June 30, 2023, there was approximately \$3.7 million in the Primary Mortgage Insurance Account.

As of June 30, 2024, the balance of Contracts of Purchase to which the Primary Mortgage Insurance Account applies was an estimated \$68.0 million (or approximately 6.87% of the then outstanding principal amount of Department’s Contracts of Purchase). Such estimate is based on unaudited data and is subject to update after reconciliation. As of June 30, 2023, the balance of Contracts of Purchase to which the Primary Mortgage Insurance Account applies was

approximately \$60.9 million (or approximately 7.04% of the then outstanding principal amount of Department's Contracts of Purchase).

On an ongoing basis, the Department investigates options for primary mortgage insurance for new Contracts of Purchase and reinsuring the Pooled Self-Insurance Fund to diversify the portfolio. See “—Pooled Self-Insurance Fund.” No assurance can be given that the Department will be able to obtain replacement primary mortgage insurance or reinsurance, or whether such insurance or reinsurance will be available at commercially reasonable premiums.

For information regarding the principal amount of Contracts of Purchase covered by the Radian Policies, see APPENDIX C – “CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Existing Contracts of Purchase – Loan-to-Value Ratio of Contracts of Purchase Based on Original Appraised Value as of June 30, 2024.”

#### *Funding of the USDVA Guaranty or the Primary Mortgage Insurance Account*

At the time of origination of each Contract of Purchase the Department collects a funding fee of 1.25% to 3.3% of the Contract of Purchase amount based on the LTV to offset the cost of the USDVA Guaranty or for deposit in the Primary Mortgage Insurance Account. For USDVA guaranteed loans, the funding fee may be added to the purchase price provided it does not exceed the effective maximum loan amount. With respect to Contracts of Purchase eligible for a USDVA Guaranty, this fee is paid to the USDVA for the cost of the USDVA Guaranty. If the veteran or the property is not eligible for a USDVA Guaranty, the funding fee is retained by the Department, and such funding fees are deposited by the Department into the Primary Mortgage Insurance Account. Any change to the foregoing insurance and guaranty expectations may require an amendment to the Department's Program Operating Procedures and delivery of a new Cash Flow Statement.

### **Property Insurance**

The Veterans Code and long-standing Department policy have both required the holder of a Contract of Purchase to maintain certain insurance with respect to the property covered by a Contract of Purchase. Insurance must be in the amount, with the insurance companies (or as part of the Department's insurance and indemnity programs, described below) and under the terms and conditions specified by the Department. The Fire and Hazard Insurance Program and the Disaster Indemnity Program are described below:

#### *Fire and Hazard Coverage*

Subject to certain limitations and exceptions, the Department requires veterans holding a Contract of Purchase to obtain insurance for fire and hazard related physical losses under the Department's fire and hazard insurance (the “Fire and Hazard Insurance Program”).

The Department's Fire and Hazard Insurance Program replacement cost coverage may be adjusted periodically to reflect current construction costs. Coverage is maintained on a guaranteed replacement cost basis for homes and on an actual cash value basis for outbuildings. A tiered co-payment, payable by the holder of the Contract of Purchase, applies to each loss. This co-payment is based on the replacement cost of the homes, and increases upon subsequent paid claims. Co-payments are also increased if the veteran is not occupying the property. Claims must be submitted within 90 days from the date of loss to be considered for payment. Claims adjusting activities and capped remediation payments are made on behalf of the Department by a third party adjuster.

The Fire and Hazard Insurance Program does not cover mobile homes, manufactured homes, condominiums or planned unit development properties which are covered by blanket insurance policies maintained by a homeowners' association. Veterans financing condominiums or planned unit development properties that are not covered by blanket insurance policies maintained by homeowners' associations are covered by the Fire and Hazard Insurance Program. Veterans financing mobile homes or manufactured homes are required to secure their own coverage.

Participants in the Fire and Hazard Insurance Program pay an annual premium. The initial annual premium for the first twelve-month period is collected at escrow and subsequent annual premium payments are divided into twelve equal payments which are collected in monthly installments via an impound charge, and included with the monthly payments on the Contract of Purchase. The current annual premium is equal to \$2.95 per \$1,000 of insured value.

Premiums collected for the Fire and Hazard Insurance Program are deposited into the Fire and Hazard Insurance Account within the Pooled Self-Insurance Fund (the "Fire and Hazard Insurance Account"). Amounts in the Fire and Hazard Insurance Account are used to, among other things, (i) fund a reserve for liabilities of the Fire and Hazard Insurance Program that are not payable from the Excess Insurance Arrangements (as defined in and further described in "—Excess Insurance of Potential Fire and Hazard Insurance Program and Disaster Indemnity Program Liabilities" below), (ii) pay amounts attributable to costs of claims adjusting and (iii) pay the premiums for the Department's Excess Insurance Arrangements.

Liabilities of the Fire and Hazard Insurance Program are payable solely from the Fire and Hazard Insurance Account and may be reimbursed, in part, to the Fire and Hazard Insurance Account through the Excess Insurance Arrangements. Under the Veterans Code, if claims under one Pooled Self-Insurance Fund account exceed the amount of funds available in such account, the Department is permitted to borrow from other Pooled Self-Insurance Fund accounts within the Pooled Self-Insurance Fund rather than draw on the 1943 Fund. See "—Pooled Self-Insurance Fund" and "—Excess Insurance of Potential Fire and Hazard Insurance Program and Disaster Indemnity Program Liabilities." The amount in the Fire and Hazard Insurance Account, including amounts held in a claims reserve account of the Pooled Self-Insurance Fund, as of June 30, 2024, was approximately \$14.1 million, with \$8.7 million in accounts payable to reinsurers.

Gallagher Re Inc. ("Gallagher") performed an exceedance probability loss report analysis for the Department based on the portfolio of homes covered by the Department's Fire and Hazard program as of February 9, 2024. The wildfire exposure analysis concluded that the wildfire gross probabilistic loss prior to the application of reinsurance for a 250-year period is approximately \$10.2 million per occurrence. The Department can expect to incur approximately \$1.6 million of damage from wildfire on an average annual basis. The analysis and the catastrophe modeling upon which the conclusions in the analysis are based are subject to certain limitations and assumptions including assumptions with respect to inflationary costs, environmental facts, structures, insured values, occupancy vulnerability and certain historical loss data. No assurances can be given that the conclusion made in the analysis will be accurate.

Exclusive Risk Solutions prepared an Actuarial Analysis of Unpaid Loss (IBNR Accrual) Fire & Hazard Unpaid Losses and Allocated Loss Adjustment Expense as of June 30, 2024, in which developed estimates for the unpaid portion of losses for the Fire and Hazard program claims costs for the Department. The estimates are for the period of July 1, 2018 to July 1, 2024. The



Indicated Unpaid Loss and Allocated Loss Adjustment Expense valued at June 30, 2024 for the period of 2018 to 2024 is approximately \$3.5 million.

#### *Disaster Indemnity Coverage*

Holders of a Contract of Purchase must participate in the Department's Disaster Indemnity Program (the "Disaster Indemnity Program"). The Disaster Indemnity Program covers the cost of repairing structural damage caused by earthquakes, volcanic eruption, landslide, mudslide and floods.

Disaster Indemnity insurance provides guaranteed replacement cost coverage on the main structure and on an actual cash value basis for outbuildings and may be adjusted periodically to reflect current construction costs. The holder of a Contract of Purchase is required to pay a \$500 deductible for flood losses; the deductible for earthquake, volcanic eruption, landslide or mudslide losses is the greater of \$500 or 5% of the loss. Claims must be submitted within 60 days following the date of loss to be considered.

Holders of Contracts of Purchase are required to pay an annual premium for the Disaster Indemnity Program. The initial annual premium for the first twelve-month period is collected at escrow and subsequent annual premium payments are divided into twelve equal payments which are collected in monthly installments via an impound charge, and included with the monthly payments on the Contract of Purchase. The current annual premium for the Disaster Indemnity Program is \$1.40 per \$1,000 of insured value.

Premiums collected for the Disaster Indemnity Program are deposited into the Disaster Indemnity Account within the Pooled Self-Insurance Fund (the "Disaster Indemnity Account"). Amounts in the Disaster Indemnity Account are used to, among other things, (i) fund a reserve for liabilities of the Disaster Indemnity Program that are not payable from the Excess Insurance Arrangements, (ii) pay amounts attributable to costs of claims adjusting, and (iii) pay the premiums for the Department's Excess Insurance Arrangements.

Liabilities of the Disaster Indemnity Program are payable solely from the Disaster Indemnity Account and may be reimbursed, in part, to the Disaster Indemnity Account through the Excess Insurance Arrangements. See "—Pooled Self-Insurance Fund" and "—Excess Insurance of Potential Fire and Hazard Insurance Program and Disaster Indemnity Program Liabilities." The amount in the Disaster Indemnity Account as of June 30, 2024 was approximately \$15.8 million.

Gallagher performed an exceedance probability loss report analysis for the Department based on the portfolio of homes covered by the Department's Disaster Indemnity program as of February 9, 2024. The Earthquake exposure analysis concluded that earthquake shake and fire following gross probabilistic loss for a 250-year return period is as high as approximately \$34.6 million in the aggregate, including the risk of fire after damage following the earthquake event, and that in the long-term, the Department can expect to incur as high as approximately \$1.2 million of damage from earthquake on an average annual basis. The analysis and the catastrophe modeling upon which the conclusions in the analysis are based are subject to certain limitations and assumptions including assumptions with respect to inflationary costs, environmental facts, structures, insured values, occupancy vulnerability and certain historical loss data. No assurances can be given that the conclusion made in the analysis will be accurate.

*Excess Insurance of Potential Fire and Hazard Insurance Program and Disaster Indemnity Program Liabilities*

Effective March 1, 2024, the Department entered into excess insurance arrangements (collectively, the “Excess Insurance Arrangements” or each an “Excess Insurance Arrangement”) with several insurers (collectively, the “Insurers” or each an “Insurer”) in which two or more Insurers contribute coverage for certain layers of coverage in excess of certain amounts of loss, as further described below. Each of the Excess Insurance Arrangements follows the form of insurance for the Department’s Fire and Hazard Insurance Program and Disaster Indemnity Program, subject to certain terms, conditions, endorsements and exclusions set forth in the respective Excess Insurance Arrangements. Through the Excess Insurance Arrangements, the Department was able to achieve a total coverage limit of \$45,000,000 per occurrence for fire and other risks, which limit is available regardless of the number of losses. However, the coverage limit for certain disasters (including flood and earth movement) is limited to an annual aggregate of \$37,500,000. Covered losses will deplete the annual limit and are subject to certain exclusions and conditions in accordance with the terms of the respective Excess Insurance Arrangements. The Department is responsible for the primary coverage of \$2,000,000 per occurrence and participates in ten percent of all covered claims in excess of \$4,000,000, which responsibility is included in the overall coverage limit of \$45,000,000. As of September 1, 2024, each of the Insurers was rated at least A by A.M. Best Co.

Subject to the terms and conditions of the respective Excess Insurance Arrangements, the applicable Insurers have agreed to insure the Department for certain losses incurred during the term of the Excess Insurance Arrangements, each of which expires March 1, 2025. The total one-year premium paid by the Department for the Excess Insurance Arrangements is approximately \$3.3 million.

The table below outlines the coverage limits, excess capacity and responsibility as between the Department and the Insurers at each layer of excess.

**Summary of Excess Insurance Arrangements**

<b>Layer</b>	<b>Coverage Limit</b>	<b>Excess Of</b>	<b>Department</b>	<b>Insurer(s)<sup>1</sup></b>
Primary (Pooled Self Insurance Fund)	\$2,000,000	N/A	100%	None
2 <sup>nd</sup> Layer Excess	\$2,000,000	\$2,000,000	None	\$2,000,000
3 <sup>rd</sup> Layer Excess	\$26,000,000	\$4,000,000	10%	\$23,400,000 <sup>2</sup>
4 <sup>th</sup> Layer Excess	\$7,500,000	\$30,000,000	10%	\$6,750,000
5 <sup>th</sup> Layer Excess	\$7,500,000	\$37,500,000	10%	\$6,750,000

<sup>1</sup> One or more Insurers provide coverage in the total amounts shown in this column through their separate Excess Insurance Arrangements.

<sup>2</sup> The 3<sup>rd</sup> Layer Excess Insurance Arrangements are comprised of Insurers covering: (i) \$6 million in excess of \$4 million (total coverage \$3.9 million), (ii) \$20 million in excess of \$10 million (total coverage \$13 million), and (iii) \$26 million in excess of \$4 million (total coverage \$6.5 million), for a total coverage of \$23.4 million at the 3<sup>rd</sup> Layer.

The Department may not make a claim under the 2<sup>nd</sup> Layer Excess Insurance Arrangements (as reflected in the table above, the “2<sup>nd</sup> Layer Excess Insurance Arrangements”) until the Department has first sustained, by reason of any one loss occurrence, a loss in excess of \$2 million. Thereafter, those applicable Insurers are liable for their respective share of the amount of the net

losses of the Department in excess of \$2 million in any one loss occurrence, but the total limit of liability of those Insurers participating in the 2<sup>nd</sup> Layer Excess Insurance Arrangements will not exceed \$2 million, subject to applicable caps for the respective Insurers. In general, the respective Excess Insurance Arrangements for the 2<sup>nd</sup> Layer insure against all risks of direct physical loss to property, but exclude loss or damage caused by earth movement and flood, among other conditions and exclusions. It is also a condition, generally, of the 2<sup>nd</sup> Layer Excess Insurance Arrangements, that the Department maintain the underlying insurance in full force and effect during the term of the policy(ies). The Department currently maintains the required underlying insurance through its Pooled Self Insurance Fund. See “—Pooled Self-Insurance Fund.”

With respect to the 3<sup>rd</sup> Layer Excess Insurance Arrangements (as reflected in the table above, the “3<sup>rd</sup> Layer Excess Insurance Arrangements”), certain of the Insurers’ Excess Insurance Arrangements with the Department require: (i) the Department to have first sustained, by reason of any one loss in excess of \$4 million before it can make a claim on such policies, and of those (a) certain of the Insurers are liable for their respective share of the losses in excess of \$4 million, but not to exceed \$6 million (the “3<sup>rd</sup> Layer Arrangements for \$6M xs \$4M”) and (b) certain of the Insurers are liable for their respective share of the losses in excess of \$4 million, but not to exceed \$26 million (the “3<sup>rd</sup> Layer Arrangements for \$26M xs \$4M”); and (ii) the Department to have first sustained, by reason of any one loss occurrence, a loss in excess of \$10 million, but the total limit of liability of those Insurers will not exceed \$20 million (the “3<sup>rd</sup> Layer Arrangements for \$20M xs \$10M”). In general, the 3<sup>rd</sup> Layer Excess Insurance Arrangements cover all risks of direct physical loss to property, including flood and earth movement, subject to the specific conditions and exclusions of the respective policies, up to such Insurers’ respective share of the excess loss. It is also a condition, generally, of the 3<sup>rd</sup> Layer Excess Insurance Arrangements, that the Department maintain the underlying insurance, which includes the Department’s Pooled Self Insurance Fund as well as the 2<sup>nd</sup> Layer Excess Insurance Arrangements and other 3<sup>rd</sup> Layer Excess Insurance Arrangements, if any, in full force and effect during the term of the policy(ies). Coverage for flood and earth movement losses will deplete the full 3<sup>rd</sup> Layer limit of \$30 million.

With respect to the 4<sup>th</sup> Layer Excess Insurance Arrangements (as reflected in the table above, the “4<sup>th</sup> Layer Excess Insurance Arrangements”), certain of the Insurers’ Excess Insurance Arrangements with the Department require the Department to have first sustained, by reason of any one loss in excess of \$30 million before it can make a claim and the aggregate limit of such claim is not to exceed \$6.75 million. In general, the 4<sup>th</sup> Layer Excess Insurance Arrangements cover all risks of direct physical loss to property, including flood and earth movement, subject to the specific conditions and exclusions of the respective policies, up to such Insurers’ respective share of the excess loss. It is also a condition, generally, of the 4<sup>th</sup> Layer Excess Insurance Arrangements, that the Department maintain the underlying insurance, which includes the Department’s Pooled Self Insurance Fund as well as the 2<sup>nd</sup> Layer Excess Insurance Arrangements, the 3<sup>rd</sup> Layer Excess Insurance Arrangements and the other 4<sup>th</sup> Layer Excess Insurance Arrangements, if any, in full force and effect during the term of the policy(ies). In the event the flood and earth movement annual aggregate limits are exhausted in the policy year, the limits provided in this 4<sup>th</sup> Layer apply as excess of any remaining limits, subject to the underlying deductibles.

With respect to the 5<sup>th</sup> Layer Excess Insurance Arrangements (as reflected in the table above, the “5<sup>th</sup> Layer Excess Insurance Arrangements”), certain of the Insurers’ Excess Insurance Arrangements with the Department require the Department to have first sustained, by reason of

any one loss occurrence, a loss in excess of \$37.5 million before it can make a claim and the aggregate limit of such claim is not to exceed \$6.75 million. In general, the 5<sup>th</sup> Layer Excess Insurance Arrangements cover all risks of direct physical loss to property, excluding flood and earth movement, subject to the specific conditions and exclusions of the respective policies, up to such Insurers' respective share of the excess loss. It is also a condition, generally, of the 4<sup>th</sup> Layer Excess Insurance Arrangements, that the Department maintain the underlying insurance, which includes the Department's Pooled Self Insurance Fund as well as the 2<sup>nd</sup> Layer Excess Insurance Arrangements, the 3<sup>rd</sup> Layer Excess Insurance Arrangements, the 4<sup>th</sup> Layer Excess Insurance Arrangements and the other 5<sup>th</sup> Layer Excess Insurance Arrangements, if any, in full force and effect during the term of the policy(ies).

Generally under the Excess Insurance Arrangements liability attaches only after direct, physical loss or damage occurs to the property resulting directly from an insured peril. For all of the Excess Insurance Arrangements, the coverage under the respective policies attaches excess of the underlying insurance, which, in turn is subject to specific deductibles, requirements, terms, conditions and exclusions. The Excess Insurance Arrangements are written on a follow form basis, however, each Insurer's Excess Insurance Arrangement includes separate terms modifying the base form, including through specific mandatory treaty endorsements and exclusions. There can be no guarantee that in the event of a loss any Insurer will pay promptly, that all Insurers will cooperate or that the terms and conditions of the separate Excess Insurance Arrangements will be interpreted by the Insurers in such a manner so as to afford uniform or complete coverage for a specific loss occurrence or occurrences in the same manner or scope.

### **Life and Disability Insurance**

From 2003 to 2013, the Department required holders of Contracts of Purchase to obtain life insurance made available by the Department through The Standard Insurance Company ("Standard"), and also made available to holders of Contracts of Purchase optional disability insurance through Standard. In 2013 the Department's life and disability insurance requirements and offerings changed. Since 2013, the Department no longer makes available disability insurance for new holders of Contracts of Purchase and the Department no longer requires holders of Contracts of Purchase to obtain life insurance. Disability insurance remains available on a voluntary basis through Standard for those holders of Contracts of Purchase that were financed prior to February 1, 2003 and enrolled for disability insurance prior to 2013. Life insurance remains available on a voluntary basis through Standard to all new holders of Contracts of Purchase and to those holders of Contracts of Purchase that were financed prior to February 1, 2003, as further described below.

Currently, life insurance is made available by the Department through Standard to the primary holder of the Contract of Purchase and/or their spouse (or registered domestic partner) provided that certain requirements are met. To qualify to purchase life insurance, life insurance applicants must be under age 62. Life insurance is no longer made available after the insured reaches the age of 70. The availability of life insurance for a given life insurance applicant is also subject to the approval by Standard of an applicant's medical history statement. However, health conditions arising from a qualified military service-connected disability are not included in Standard's evaluation.

Life insurance benefits vary. For those insured under the previously mandatory life insurance requirement, the life insurance benefits pay the lesser of (i) the unpaid balance of the

Contract of Purchase, or (ii) the principal and interest on the Contract of Purchase for up to five years, depending on the insured's medical history statement evaluation and underwriting by Standard. For those insured on a voluntary basis, the life insurance benefits pay the entire balance of the Contract of Purchase. In either event, the payment is made in a lump sum to the Department.

Premiums for the life insurance change annually based upon age and the balance of the Contract of Purchase. Monthly premiums are charged to the holder of the Contract of Purchase and are included in the monthly Contract of Purchase payments.

Where still available, as described above, disability insurance is made available by the Department through Standard to the primary holder of the Contract of Purchase and/or their spouse (or registered domestic partner) provided that certain requirements are met. Disability insurance coverage is not available for purchase after the insured reaches the age of 62. Disability insurance benefits pay the principal and interest on the Contract of Purchase, property taxes, and other insurance premiums totaling the current monthly installment. Available disability insurance includes three coverage options. Under the first option, disability insurance benefits begin on the first day of the calendar month following 90 days of continuous disability and continue through the earliest of (i) the last day of the calendar month in which the insured becomes 70 years of age; (ii) the date the Contract of Purchase is terminated; (iii) (a) for a disability due to injury, provided disability occurs within 180 days of the accident, 60 months or (b) for any other disability, 24 months; or (iv) upon the death of the insured. Under the first option disability benefits can continue beyond the periods described above if the insured is unable to safely perform two or more specified activities of daily living. Notwithstanding the foregoing, disability benefits cease upon the earlier of death or termination of the related Contract of Purchase. Under the second option, disability insurance benefits begin on the first day of the calendar month following 90 days of continuous disability and continue through the earliest of (i) the last day of the calendar month in which the insured becomes 65 years of age or (ii) the date the related Contract of Purchase is terminated. Under the third option, benefits begin on the first day of the calendar month following 365 consecutive days of disability and will continue through the earliest of (i) the date that the insured becomes 70 years of age or (ii) the date the Contract of Purchase is terminated. To qualify for disability insurance, the applicant must be a veteran under the age of 62, provide evidence of good health and be actively working at least 30 hours per week.

Premiums for the disability insurance change annually based upon age and the balance of the Contract of Purchase. Monthly premiums are charged to the holder of the Contract of Purchase and are included in the monthly Contract of Purchase payments.

As of June 30, 2024, the Department held an estimated \$57,800 in a Legacy Self-Insured Disability Coverage Account within the Pooled Self-Insurance Fund (the "Legacy Self-Insured Disability Coverage Account"). As of June 30, 2024, there are no participants in the prior disability plan. As authorized by the Veterans Code, such money in the Legacy Self-Insured Disability Coverage Account will be transferred into the 1943 Fund, with an ending balance of \$0.00.

In connection with the life insurance and disability insurance coverage made available by the Department through Standard (the "Standard Group Policy"), the Department entered into an experience rating refund agreement with Standard (the "Experience Rating Refund Agreement") pursuant to which The Bank of New York Mellon, as trustee, administers a claim fluctuation reserve account. The Department initially funded, from the moneys of the 1943 Fund, a claim fluctuation reserve account in the amount of \$6 million. Funds held in the claim fluctuation reserve

account earn interest annually. The interest rate paid by Standard has varied over time and varies under the Experience Rating Refund Agreement based on the interest rate paid by The Bank of New York Mellon on funds in the claim fluctuation reserve account. As of January 31, 2024, the claims fluctuation reserve account held approximately \$14.3 million, primarily due to interest earned on claims reserves and positive claims paying experience. Under the Experience Rating Refund Agreement, an experience rating refund is calculated periodically (i.e., a refund or credit based on the premium collection and claims paying experience under the plan during the computation period). Based on these calculations, during a period where earned premiums, amounts charged by Standard for administration, and interest earned on claims reserves exceeds insured claims paid, Standard is required to make a deposit into the claim fluctuation reserve account. During a period where earned premiums, amounts charged by Standard for administration, and interest earned on claims reserves do not exceed insured claims paid, Standard is permitted to withdraw from the moneys on deposit in the claim fluctuation reserve account. In addition, under the Experience Rating Refund Agreement, the Department is permitted to make deposits to the claim fluctuation reserve account at any time. Under the Experience Rating Refund Agreement, if the claim fluctuation reserve account exceeds \$6 million the Department is permitted to withdraw money in excess of \$6 million. The Department expects that any excess funds so withdrawn will be returned to the 1943 Fund.

The Department may terminate the Experience Rating Refund Agreement by giving 31 days prior written notice of the termination to Standard. Standard may terminate the Experience Rating Refund Agreement if it determines that the Department has failed to promptly furnish any necessary information requested by Standard, or if the Department has failed to perform any other obligations relating to the Experience Rating Refund Agreement. Standard is required to give 31 days prior written notice of any such termination. Standard may terminate the Experience Rating Refund Agreement without cause at the end of the current rate guarantee period or any subsequent renewal period by providing 60 days prior written notice to the Department. Standard may also terminate the Experience Rating Refund Agreement on any anniversary date if the amount in the claim fluctuation reserve account falls below \$1 million. Standard is required to provide 60 days prior written notice of such termination. The Experience Rating Refund Agreement terminates automatically when the Standard Group Policy terminates. The Experience Rating Refund Agreement expires on January 31, 2027. Under the Experience Rating Refund Agreement, an experience rating refund calculation will be performed as of the termination date of the Experience Rating Refund Agreement, and a deposit to or withdrawal from the claim fluctuation reserve account is required to be made by Standard as required under the Experience Rating Refund Agreement. If funds are remaining in the claim fluctuation reserve account after the experience rating refund calculation as of the termination date of the Experience Rating Refund Agreement, the final experience rating refund calculation is required to be performed after a 12-month run-out period. If the result is negative, a withdrawal from the claim fluctuation reserve account is required to be made by Standard. If the result is positive, a deposit to the claim fluctuation reserve account is required to be made by Standard. Any amount remaining in the claim fluctuation reserve account is then required to be refunded to the Department. See “Additional Investments” in APPENDIX C – “CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA.”

## Legislative Protection of Veterans

Federal law provides certain protections to military personnel on active duty, and reservists and members of the National Guard ordered to report for military service under the Servicemembers Civil Relief Act of 2003, formerly known as The Soldiers' and Sailors' Civil Relief Act of 1940 (the "Federal Relief Act"). Under the Federal Relief Act, a servicemember may seek a stay (or a court may on its own motion grant a stay) of any court action or proceeding. The Federal Relief Act provides that if a servicemember incurred an obligation or liability consisting of a mortgage, trust deed or other security in the nature of a mortgage, such as a Contract of Purchase, bearing interest at a rate in excess of 6% per year, and is later recalled to active duty, then during the period of military service and one year thereafter, the interest rate on the Contract of Purchase cannot exceed 6% (unless in the opinion of a court the ability of the servicemember to pay interest in excess of 6% is not materially affected by such military service). Taking into account the interest rates on outstanding Contracts of Purchase, the effect of any application of the Federal Relief Act in most cases would be a reduction in the applicable interest rate of less than 1% or no reduction at all.

The Veterans Code also provides that no obligation or liability bearing interest at a rate in excess of 6% per year incurred by a servicemember before that person's current period of military service shall bear interest at a rate in excess of 6% per year, for an obligation or liability consisting of a mortgage, trust deed or other security in the nature of a mortgage (such as a Contract of Purchase), during any part of the period of military service and one year thereafter. Notwithstanding the foregoing, the Veterans Code provides that if in the opinion of a court upon application thereto by the obligee the ability of the servicemember to pay interest upon an obligation or liability at a rate in excess of 6% per year is not materially affected by reason of that service, the court may make that order as in its opinion may be just. Furthermore, the 1974 Act within the Veterans Code provides relief for Contract of Purchase holders called to active duty in the military service of the U.S. who qualify for relief under the Federal Relief Act by authorizing the Department to establish separate rates of interest (not greater than the rate provided for in the Federal Relief Act) payable on the amounts remaining unpaid under Contracts of Purchase, applicable to any Contract of Purchase from the date of entry into active duty to and including 90 days after the date of release from active duty.

Pursuant to the California Military Families Financial Relief Act (the "California Relief Act"), a reservist who is called to active duty may defer payments on obligations secured by mortgages or deeds of trust, including Contracts of Purchase, for the lesser of (i) 180 days or (ii) the period of active duty plus 60 calendar days. The total period of the deferment must not exceed 180 days within a 365-day period. The California Relief Act requires, among other things, that reservists desiring to take advantage of such deferments provide notice to their lender, and the deferral shall apply only to those payments due subsequent to the notice provided to the lender. The California Relief Act also requires lenders, such as the Department, to extend the term of loans subject to deferment by the amount of months of the deferral, and prohibits foreclosure or repossession of property during a deferment period (unless otherwise ordered by a court or agreed to by the parties to the obligation). In addition, no interest can be charged or accumulated on the principal or interest on which the payment was delayed, and no penalties shall be imposed on the nonpayment of principal or interest during the deferment period.

Under the Program, deferrals required by the California Relief Act are accounted for by the Department through the creation of a deferred balance on the loan account. The Department

anticipates that, of the loans affected by the California Relief Act that are not delinquent, foreclosed upon or canceled, most will be prepaid prior to the end of the regular term, making an extension of the Contract of Purchase term unnecessary. If a Contract of Purchase affected by the California Relief Act is covered by a USDVA Guaranty, the Department will request the USDVA's approval to extend the loan term, if necessary. As of June 30, 2024, eight Contracts of Purchase were subject to California Relief Act deferrals and there has been no material impact on the 1943 Fund. See “—Contracts of Purchase – Delinquencies and Cancellations” herein.

### **External Reviews of the Program**

The Program and the Department have been the subject of external reviews. The most recent reviews are briefly explained below.

#### *Bureau of State Audits*

The Bureau of State Audits (“BSA”) periodically audits the Department as part of the State’s regular Single Audit required under the Single Audit Act of 1984 and the California Government Code. The BSA completed an audit of the Department’s USDVA Guaranty program in February of 2019 and the BSA had no findings for the Department.

#### *USDVA*

The USDVA Loan Guaranty Monitoring Unit (the “USDVA Auditors”) periodically audits the Department to determine, among other things, whether the Department is compliant with the laws, regulations and policies governing USDVA guaranties. The most recent audit took place in 2009 and the Department responded to the findings and implemented new procedures in connection therewith. The USDVA Auditors accepted the Department’s responses as satisfactory and required no additional action. Reports of the USDVA Auditors and the Department’s responses thereto are available by contacting the Department’s Bond Finance Division at P.O. Box 942895, Sacramento, California 94295-0001, telephone (916) 503-8012. Nothing contained in such reports of the USDVA Auditors or the Department’s responses thereto is incorporated into this Official Statement.

#### *U.S. Department of Housing and Urban Development*

The United States Department of Housing and Urban Development (“HUD”) periodically conducts Compliance Reviews pursuant to the Department’s active status as an Approved Issuer in the Government National Mortgage Association (“Ginnie Mae”) mortgage-backed securities (“MBS”) program. HUD engages third-party accounting firms to conduct field reviews to determine that the Department is in compliance with the laws, regulations and policies governing Ginnie Mae MBS pools. Field Reviews are conducted virtually. The most recent review concluded on July 8, 2022. The Department responded to all findings requiring a response and has mitigated all findings. Nothing contained in such reports of the HUD auditors or the Department’s responses thereto is incorporated into this Official Statement.

## **THE 1943 FUND**

### **General**

The components of the 1943 Fund are (i) proceeds derived from the sale of Revenue Bonds; (ii) proceeds derived from the sale of Veterans G.O. Bonds; (iii) amounts receivable under all Contracts of Purchase and from sales of properties subject to cancelled Contracts of Purchase; (iv) temporary investments, cash and funds and (v) certain other miscellaneous assets. Proceeds of



Veterans G.O. Bonds may not be applied to payment of principal of, and interest or any redemption premium on, the Revenue Bonds. The holders of Veterans G.O. Bonds and Revenue Bonds are not entitled to compel the sale of Contracts of Purchase and the properties to which they relate. Holders of Revenue Bonds are entitled to receive payment out of the Revenues derived from those Contracts of Purchase and properties, subject to the prior claims of the holders of the Veterans G.O. Bonds for debt service payments on Veterans G.O. Bonds and of the State for reimbursement of debt service payments made by the State General Fund on Veterans G.O. Bonds.

In addition to financing Contracts of Purchase and paying or reimbursing debt service on the Veterans G.O. Bonds and paying debt service on the Revenue Bonds, as described below, moneys in the 1943 Fund are used to pay administrative costs of the Department, and to fund certain losses from and reserves for property insurance, mortgage losses and life and disability insurance described in “THE PROGRAM – Property Insurance – Life and Disability Insurance.” However, amounts in the Pooled Self-Insurance Fund (which are used to pay certain disaster indemnity, fire and hazard, and primary mortgage insurance benefits) are not held within the 1943 Fund. See “THE PROGRAM – Property Insurance,” “—Life and Disability Insurance” and “—Pooled Self-Insurance Fund” regarding pooling of certain funds and accounts.

For financial information concerning the 1943 Fund, see APPENDIX B – “REPORT OF INDEPENDENT AUDITORS AND FINANCIAL STATEMENTS – CALVET HOME LOAN PROGRAM OF THE DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA FOR THE FISCAL YEARS ENDED JUNE 30, 2023 AND 2022.”

The Veterans’ Revenue Debenture Act of 1970, as amended (the “Act”) within the Veterans Code provides that the undivided interest created by the Revenue Bond Resolution in favor of the holders of Revenue Bonds in the assets of the 1943 Fund is secondary and subordinate to the interest of the people of the State and the holders of Veterans G.O. Bonds. As described in “SECURITY FOR AND SOURCES OF PAYMENT OF THE OFFERED REVENUE BONDS,” the Veterans Code requires that on the dates when funds are to be remitted to bondholders for the payment of debt service on Veterans G.O. Bonds, there shall be transferred to the Veterans’ Bonds Payment Fund to pay the debt service on such Veterans G.O. Bonds all of the money in the 1943 Fund (but not in excess of the amount of debt service then due and payable). Debt service on Veterans G.O. Bonds is payable first from the moneys required under the Veterans Code to be transferred from the 1943 Fund to the Veterans’ Bonds Payment Fund and second, if the moneys transferred from the 1943 Fund to the Veterans’ Bonds Payment Fund are less than debt service then due and payable, the balance is payable from the General Fund. The 1943 Fund is required to transfer to the General Fund, as soon as it becomes available, an amount equal to the amount paid by the General Fund, if any, together with interest thereon from the remittance date until paid, at the same rate of interest as borne by the applicable Veterans G.O. Bonds, compounded semiannually. The Veterans Code does not grant any lien on the 1943 Fund or the moneys therein to the holders of any Veterans G.O. Bonds. The 1943 Fund is required to reimburse the General Fund for any debt service payments on the Veterans G.O. Bonds paid by the General Fund to the extent of any shortfalls in transfers from the 1943 Fund to the Veterans’ Bonds Payment Fund, including to pay interest thereon to the General Fund as described above, before the 1943 Fund may make payments on Revenue Bonds (although payments on Revenue Bonds may be made from amounts on deposit in any reserve accounts established for the benefit of Revenue Bonds and, if any, in the loan loss account held in the Veterans Debenture Revenue Fund).

As of June 30, 2024, (a) there are outstanding approximately \$634,445,000 aggregate principal amount of Veterans G.O. Bonds and there are no outstanding commercial paper notes, (b) \$636,235,000 of Veterans G.O. Bonds are authorized but not issued, (c) there are approximately \$387,265,000 aggregate principal amount of Revenue Bonds outstanding, and (d) \$605,880,000 aggregate principal amount of Revenue Bonds are authorized by a Supplemental Resolution but not issued (out of which capacity the Offered Revenue Bonds will be issued). Under the Act, Revenue Bonds in an aggregate principal amount not to exceed \$1,500,000,000, at any given time, may be outstanding. The State Legislature may increase the amount of Revenue Bonds that can be outstanding under the Act or may decrease such amount to an amount not less than the amount of Revenue Bonds then outstanding. Voters in the State or the State Legislature, as applicable, may authorize increases or decreases in the amount of Veterans G.O. Bonds authorized but not issued. Additional information about outstanding Veterans G.O. Bonds and Revenue Bonds is in APPENDIX C – “CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Veterans G.O. Bonds and Revenue Bonds.”

### **Selected Financial Data of the 1943 Fund and the Program and Department’s Discussion**

The following table (the “Selected Financial Data”) contains selected financial data of the Program and separately, the 1943 Fund, for fiscal years ended June 30, 2023, 2022, 2021, 2020 and 2019 which financial data for fiscal years ended June 30, 2023 and 2022 has been derived from the financial statements of the 1943 Fund, the Veterans Debenture Revenue Fund and the Pooled Self-Insurance Fund included in APPENDIX B and the Department’s accounting records.

**This Selected Financial Data should be read in conjunction with the audited financial statements of the 1943 Fund, the Veterans Debenture Revenue Fund and the Pooled Self-Insurance Fund and notes thereto contained in APPENDIX B and the Department’s Discussion of Financial Data contained herein.**

*The information presented in the Selected Financial Data and presented under “— Department’s Discussion of Financial Data” distinguishes between information relating to the Program (which includes the 1943 Fund, the Veterans Debenture Revenue Fund and the Pooled Self-Insurance Fund) and the separate funds thereunder. Investors should note the differences and recognize that the financial information of the 1943 Fund may not be, and in most cases, is not, the same as the financial information of the Program. As discussed in this Official Statement, the Veterans Debenture Revenue Fund is a source of payment for the Revenue Bonds but is not a source of payment of Veterans G.O. Bonds. Also see “THE PROGRAM – Pooled Self-Insurance Fund” for a discussion of the uses of monies in such fund.*

#### *Non-GAAP Financial Measurements*

In addition to the results reported in the following tables in accordance with generally accepted accounting principles for governmental units as presented by the Governmental Accounting Standards Board (“GASB”), as in effect from time to time in the United States (“GAAP”) included in this Official Statement, the Department has provided certain information regarding the Selected Financial Data. These non-GAAP measurements, when read in conjunction with the audited financial statements of the 1943 Fund, the Veterans Debenture Revenue Fund and the Pooled Self-Insurance Fund, provide information that may assist readers to:

- make period-to-period comparisons of the 1943 Fund’s and the Program’s ongoing operating results;

- identify trends in the 1943 Fund's and the Program's underlying business;
- gain additional information about how the Department plans and measures the 1943 Fund's and the Program's underlying business; and
- compare the 1943 Fund's and the Program's most recent results of operations against certain investor and analyst financial models.

Non-GAAP measurements should not be considered a substitute or an alternative to computations calculated in accordance with and required by GAAP.

**SELECTED FINANCIAL DATA**  
**(Dollars in Thousands)**

	June 30, 2023	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019
<b>ASSETS AND LIABILITIES RELATED TO LENDING AND FINANCING ACTIVITIES OF THE 1943 FUND:</b>					
<b>CASH AND INVESTMENTS</b>					
Cash and amounts on deposit in SMIF	\$ 324,195	\$ 148,730	\$ 189,390	\$ 205,536	\$ 273,525
Guaranteed Investment Contracts	-	-	-	-	-
Investments With Insurance Administrators <sup>(1)</sup>	11,273	19,562	20,108	20,024	19,582
Total Cash and Investments	\$ 335,468	\$ 168,291	\$ 209,498	\$ 225,560	\$ 293,107
Due From Other Funds <sup>(2)</sup>	8,281	7,822	6,571	5,522	3,294
Other Current Assets	7,034	4,437	6,156	5,948	6,038
Net Other Non-Current Assets	7,449	8,105	3,256	2,912	1,255
<b>CONTRACTS OF PURCHASE</b>					
Performing Contracts	\$ 863,920	\$ 832,601	\$ 894,143	\$ 1,047,123	\$ 1,043,052
Non Performing Contracts (REO)	293	39	150	270	407
Total	\$ 864,213	\$ 832,640	\$ 894,293	\$ 1,047,393	\$ 1,043,459
Allowance For Contract Losses <sup>(3)</sup>	\$ (3,250)	\$ (3,250)	\$ (3,250)	\$ (3,250)	\$ (3,258)
Reduction of REO to Fair Value	-	-	-	-	-
Total Valuation Allowances	\$ (3,250)	\$ (3,250)	\$ (3,250)	\$ (3,250)	\$ (3,258)
TOTAL ASSETS	\$ 1,219,880	\$ 1,018,731	\$ 1,116,108	\$ 1,284,085	\$ 1,343,895
Deferred Outflows of Resources	5,520	2,982	3,267	3,720	4,972
Total Assets and Deferred Outflows of Resources	\$ 1,225,400	\$ 1,021,713	\$ 1,119,376	\$ 1,287,805	\$ 1,348,867
<b>BONDS PAYABLE</b>					
Veterans G.O. Bonds and Notes	\$ (662,665)	\$ (525,490)	\$ (584,760)	\$ (768,235)	\$ (813,165)
Revenue Bonds	(418,775)	(355,545)	(389,555)	(371,515)	(389,495)
Unamortized Premiums/Discounts	(19,317)	(16,326)	(17,652)	(12,793)	(13,442)
Total	\$ (1,100,757)	\$ (897,361)	\$ (991,967)	\$ (1,152,543)	\$ (1,216,102)
Other Current Liabilities	\$ (13,944)	\$ (14,132)	\$ (14,037)	\$ (17,455)	\$ (17,539)
Non-Current Liabilities	(19,756)	(18,119)	(22,576)	(21,603)	(23,035)
TOTAL LIABILITIES	\$ (1,134,457)	\$ (929,612)	\$ (1,028,580)	\$ (1,191,601)	\$ (1,256,676)
Deferred Inflows of Resources	(8,933)	(15,548)	(16,163)	(20,515)	(24,843)
Total Liabilities and Deferred Inflows of Resources	(1,143,390)	(945,160)	(1,044,743)	(1,212,116)	(1,281,519)
<b>1943 Fund Net Assets Lending &amp; Financing Activities</b>	<b>\$ 82,010</b>	<b>\$ 76,553</b>	<b>\$ 74,632</b>	<b>\$ 75,689</b>	<b>\$ 67,348</b>
Net Position of the 1943 Fund	\$ 82,010	\$ 76,553	\$ 74,632	\$ 75,689	\$ 67,348
Net Position Veterans Debenture Fund <sup>(4)</sup>	8,057	9,953	9,953	9,953	9,953
Net Position Pooled Self-Insurance Fund <sup>(5)</sup>	18,977	19,644	21,011	22,483	22,490
Net Position of the Program <sup>(6)</sup>	\$ 108,743	\$ 106,150	\$ 105,538	\$ 108,125	\$ 99,791
<b>SUMMARY OF CERTAIN PROGRAM INFORMATION<sup>(7)</sup></b>					
Total Program Assets and Deferred Outflows of Resources <sup>(8)</sup>	\$ 1,264,560	\$ 1,055,750	\$ 1,154,270	\$ 1,323,268	\$ 1,383,540
Total Program Liabilities and Deferred Inflows of Resources <sup>(9)(10)</sup>	\$ (1,155,516)	\$ (949,600)	\$ (1,048,732)	\$ (1,215,143)	\$ (1,283,749)
Total Number of Contracts of Purchase	4,255	4,338	4,748	5,300	5,420
Total Program Assets to Liabilities Ratio <sup>(10)</sup>	1.09	1.11	1.10	1.09	1.08

<sup>(1)</sup> Consists of amounts held in accordance with the Experience Rating Refund Agreement with Standard for the Department's Life and Disability Plan.

<sup>(2)</sup> Consists of recognized receivables in favor of the 1943 Fund for amounts from the Pooled Self-Insurance Fund, the Veterans Debenture Revenue Fund and certain other funds.

<sup>(3)</sup> This allowance is an amount that Department management believes will be adequate to absorb payment losses inherent in existing Contracts of Purchase and commitments to extend credit based on various factors. See APPENDIX B.

<sup>(4)</sup> The Veterans Debenture Revenue Fund is not part of the 1943 Fund, consists of the bond reserve account and is pledged to the payment of Revenue Bonds.

<sup>(5)</sup> The Pooled Self-Insurance Fund is not part of the 1943 Fund and is comprised of moneys of the Department previously on deposit in the Disaster Indemnity Fund, the Fire and Hazard Insurance Account, the Legacy Self-Insured Disability Coverage Account and the Primary Mortgage Insurance Account. Moneys in the Pooled Self-Insurance Fund are not available to make payments on Revenue Bonds or Veterans G.O. Bonds. Amounts predate the anticipated claims described under "THE PROGRAM – Property Insurance."

<sup>(6)</sup> The 2023 Total Net Position of the Program includes approximately (\$193,000) from the Department's pilot program for Ginnie Mae loans, which program is not part of the 1943 Fund.

<sup>(7)</sup> See "THE PROGRAM – Pooled Self-Insurance Fund." The Program includes the 1943 Fund, the Veterans Debenture Revenue Fund and the Pooled Self-Insurance Fund. Of such funds, debt service on Veterans G.O. Bonds is payable from the 1943 Fund. See "SECURITY FOR AND SOURCES OF PAYMENT OF THE OFFERED REVENUE BONDS."

<sup>(8)</sup> Derived from APPENDIX B and includes Cash; Cash Equivalents and Investments; Receivables under Contracts of Purchase – Net; and other receivables and assets of the Program described therein.

<sup>(9)</sup> Derived from APPENDIX B and includes Bonds Payable and other payables of the Program described therein.

<sup>(10)</sup> Ratio of total Program assets to liabilities includes deferred outflows and inflows of resources.

**SELECTED FINANCIAL DATA**  
**(Dollars in Thousands)**

	June 30, 2023	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019
<b>NET OPERATING REVENUES (EXPENSE)</b>					
<b>FROM LENDING AND FINANCING</b>					
<b>ACTIVITIES OF THE 1943 FUND:</b>					
<b>INTEREST INCOME</b>					
Interest on Contracts of Purchase	\$ 33,846	\$ 34,184	\$ 40,766	\$ 44,916	\$ 44,257
Interest on Investments	6,489	0	1,272	4,635	4,381
Total	<u>\$ 40,335</u>	<u>\$ 34,184</u>	<u>\$ 42,038</u>	<u>\$ 49,551</u>	<u>\$ 48,638</u>
BOND INTEREST EXPENSE	<u>\$ (33,369)</u>	<u>\$ (28,168)</u>	<u>\$ (35,427)</u>	<u>\$ (38,696)</u>	<u>\$ (34,392)</u>
Net Interest Income	6,963	6,015	6,611	10,855	14,246
Amortization of Bond Premium/Discount	\$ 1,287	\$ 1,460	\$ 958	\$ 504	\$ 307
Insurance Reimbursement For Contract Losses	2	-	-	-	-
<b>CONTRACTS OF PURCHASE</b>					
Net Gain/(Loss) on Sale of REO	\$ 91	\$ 19	\$ 333	\$ 402	\$ 259
(Provision for)/Reversal of provision for Allowance for Contract Losses and REO	1	6	(44)	(192)	111
Total	<u>\$ 92</u>	<u>\$ 25</u>	<u>\$ 289</u>	<u>\$ 210</u>	<u>\$ 370</u>
Net Lending/Financing Activities Income	<u>\$ 8,343</u>	<u>\$ 7,500</u>	<u>\$ 7,858</u>	<u>\$ 11,569</u>	<u>\$ 14,923</u>
<b>NET OPERATING REVENUES (EXPENSE)</b>					
<b>FROM ADMINISTRATION ACTIVITIES</b>					
Operating Revenues	\$ 4,005	\$ 4,337	\$ 4,190	\$ 4,579	\$ 4,654
Operating Expenses (excluding OPEB)	(14,434)	(9,806)	(14,250)	(11,357)	(14,015)
Net Administration Activities Expense	<u>\$ (10,429)</u>	<u>\$ (5,469)</u>	<u>\$ (10,060)</u>	<u>\$ (6,778)</u>	<u>\$ (9,361)</u>
Total Lending/Financing Activities Net Income	<u>\$ (2,086)</u>	<u>\$ 2,031</u>	<u>\$ (3,870)</u>	<u>\$ 4,791</u>	<u>\$ 5,562</u>
<b>NON-LENDING/FINANCING ACTIVITIES</b>					
<b>CHANGES IN NET POSITION</b>					
Other postemployment benefits (expense) income (OPEB)	5,682	(188)	1,447	3,341	1,708
Interfund Transfers	1,861	(77)	(302)	209	158
Total	<u>\$ 7,543</u>	<u>\$ (265)</u>	<u>\$ 1,145</u>	<u>\$ 3,550</u>	<u>\$ 1,866</u>
Change In Net Position Of The 1943 Fund	<u>\$ 5,457</u>	<u>\$ 1,921</u>	<u>\$ (1,057)</u>	<u>\$ 8,341</u>	<u>\$ 7,428</u>
Total Change In Net Position of the Veterans Debenture Fund	<u>\$ (1,896)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Change In Net Position of the Pooled Self- Insurance Fund	<u>\$ (667)</u>	<u>\$ (1,365)</u>	<u>\$ (1,474)</u>	<u>\$ (7)</u>	<u>\$ (1,828)</u>
<b>NET POSITION OF THE PROGRAM –</b>					
<b>BEGINNING OF THE YEAR</b>					
	<u>\$ 106,042</u>	<u>\$ 105,538</u>	<u>\$ 108,125</u>	<u>\$ 99,791</u>	<u>\$ 94,191</u>
<b>NET POSITION OF THE PROGRAM – END OF</b>					
<b>THE YEAR</b>					
	<u>\$ 108,743</u>	<u>\$ 106,042</u>	<u>\$ 105,538</u>	<u>\$ 108,125</u>	<u>\$ 99,791</u>

<sup>(1)</sup> GASB 75 (as defined herein) adjustment.

## Department's Discussion of Financial Data

Included as part of the financial statements contained in APPENDIX B is the section entitled "Management's Discussion and Analysis" which presents management's discussion in relation to the financial statements of the 1943 Fund, the Veterans Debenture Revenue Fund and the Pooled Self-Insurance Fund for the fiscal years ended June 30, 2023 and 2022 and the changes from prior periods (the "Management Discussion and Analysis"). The Selected Financial Data appearing on the preceding two pages are presented only to provide a summary of the financial position and operations over a longer period of time, and a presentation of the significant changes that have occurred. Dollar amounts therein have been rounded. Certain limited aspects of the Selected Financial Data are discussed below; however, such discussion contains information that is not included in and is derived from sources other than the Selected Financial Data.

*As noted above, the information presented in the Selected Financial Data and presented under this subheading "—Department's Discussion of Financial Data" distinguishes between information relating to the Program (which includes the 1943 Fund, the Veterans Debenture Revenue Fund and the Pooled Self-Insurance Fund) and the separate funds thereunder. Investors should note the differences and recognize that the financial information of the 1943 Fund may not, and in most cases, is not the same as the financial information of the Program. Totals may not sum due to rounding.*

This discussion should be read in conjunction with the Management Discussion and Analysis and with APPENDIX C – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA."

### *Fiscal Years Ended June 30, 2023 and 2022*

#### *Assets, Liabilities and Net Position*

For the fiscal year ended June 30, 2023, the total assets of the 1943 Fund increased by approximately \$201.2 million from approximately \$1,018.7 million at June 30, 2022 to approximately \$1,219.9 million at June 30, 2023. For the fiscal year ended June 30, 2023, the total cash equivalents and investments of the 1943 Fund increased by approximately \$167.2 million from approximately \$168.3 million at June 30, 2022 to approximately \$335.5 million at June 30, 2023. These increases were primarily due to the Department's issuance of Veterans G.O. Bonds and Revenue Bonds totaling approximately \$255.5 million in the aggregate.

For the fiscal year ended June 30, 2023, the net (of the allowance for uncollectable Contracts of Purchase) receivables under outstanding Contracts of Purchase increased by approximately \$31.6 million from approximately \$829.4 million at June 30, 2022 to approximately \$861 million at June 30, 2023. This increase was a function of increased volume of new contracts. For the fiscal year ended June 30, 2023, other receivables and assets of the 1943 Fund (excluding cash equivalents, investments and Contracts of Purchase) increased by approximately \$2.4 million from approximately \$20.4 million at June 30, 2022 to approximately \$22.8 million at June 30, 2023. Deferred outflows of resources increased by approximately \$2.5 million from approximately \$3 million at June 30, 2022 to approximately \$5.5 million at June 30, 2023. For the fiscal year ended June 30, 2023, the total liabilities of the 1943 Fund increased by approximately \$204.9 million from approximately \$929.6 million at June 30, 2022 to approximately \$1,134.5 million at June 30, 2023. This increase was primarily due to the

Department's issuance of Veterans G.O. Bonds and Revenue Bonds of approximately \$255.5 million in the aggregate.

Accordingly, for the fiscal year ended June 30, 2023, the net position of the 1943 Fund increased by approximately \$5.5 million from approximately \$76.6 million at June 30, 2022 to approximately \$82 million at June 30, 2023. The increase is primarily due to higher SMIF investment rates and an adjusted OPEB total.

For the fiscal year ended June 30, 2023, the net position of the Veterans Debenture Revenue Fund, as shown in the supplementary information to the financial statements of the 1943 Fund, the Veterans Debenture Revenue Fund and the Pooled Self-Insurance Fund increased to \$8.1 million for the fiscal year ended June 30, 2023 as compared to \$10.0 million for the fiscal year ended June 30, 2022 due to a transfer of excess reserves. For the fiscal year ended June 30, 2023, the total cash and cash equivalents of the Veterans Debenture Revenue Fund decreased by approximately \$1.8 million from approximately \$15.2 million at June 30, 2022 to approximately \$13.4 million at June 30, 2023. For the fiscal year ended June 30, 2023, the net position of the Pooled Self-Insurance Fund, as shown in the supplementary information to the financial statements of the 1943 Fund, the Veterans Debenture Revenue Fund and the Pooled Self-Insurance Fund, increased by approximately \$667,000 from approximately \$19.6 million at June 30, 2022 to approximately \$19 million at June 30, 2023. For the fiscal year ended June 30, 2023, the total cash and cash equivalents of the Pooled Self-Insurance Fund decreased by approximately \$202,000 from approximately \$25.4 million at June 30, 2022 to approximately \$25.2 million at June 30, 2023.

Accordingly, for the fiscal year ended June 30, 2023, the net position of the Program (i.e., the 1943 Fund, the Veterans Debenture Revenue Fund and the Pooled Self-Insurance Fund) increased by approximately \$2.5 million from approximately \$106.2 million at June 30, 2022 to approximately \$108.7 million at June 30, 2023. At June 30, 2023, the total assets to liabilities ratio of the Program (which totals include deferred outflows and inflows of resources) increased to 1.09 as compared with 1.11 at June 30, 2022.

#### *Operations Revenues and Expenses*

For the fiscal year ended June 30, 2023, operations revenues of the 1943 Fund (comprised primarily of interest revenues of Contracts of Purchase, revenues from investments) increased by approximately \$6.1 million from approximately \$34.2 million for the fiscal year ended June 30, 2022 to approximately \$40.3 million for the fiscal year ended June 30, 2023.

For the fiscal year ended June 30, 2023, operations expenses of the 1943 Fund from administration activities (excluding OPEB) increased by approximately \$4.6 million from approximately \$9.8 million for the fiscal year ended June 30, 2022 to approximately \$14.4 million for the fiscal year ended June 30, 2023. The increase was primarily due to a retirement adjustment in fiscal year ended June 30, 2022.

#### *CalVet Home Loan Program Administration*

For the fiscal year ended June 30, 2023, total administration revenues of the 1943 Fund (i.e., origination fee, late payment fees, transfers and rent on REO) decreased by approximately \$332,000 from approximately \$4.3 million for the fiscal year ended June 30, 2022 to approximately \$4 million for the fiscal year ended June 30, 2023. For the fiscal year ended June 30, 2023, total 1943 Fund administration expenses decreased by approximately \$1.2 million from

approximately \$10 million for the fiscal year ended June 30, 2022 to approximately \$8.8 million for the fiscal year ended June 30, 2023.

For the fiscal year ended June 30, 2023, the total excess of revenues over expenses of the 1943 Fund increased by approximately \$3.6 million from \$1.9 million for the fiscal year ended June 30, 2022 to approximately \$5.5 million for the fiscal year ended June 30, 2023.

Based upon a change in the Department's proportionate share of the net postemployment benefits other than pensions ("OPEB") liability the Department's share of the liability decreased approximately \$3.4 million from approximately \$9.7 million at June 30, 2022 to approximately \$6.3 million at June 30, 2023.

#### *Fiscal Years Ended June 30, 2019 through 2023*

The following discussion illustrates certain information regarding performance of the 1943 Fund and the Program over the past five fiscal years.

#### *Assets, Liabilities and Net Position*

For the fiscal year ended June 30, 2023, the total assets of the 1943 Fund decreased by approximately \$124 million from approximately \$1,343.9 million at June 30, 2019 to approximately \$1,219.9 million at June 30, 2023. For the fiscal year ended June 30, 2023, the total cash equivalents and investments of the 1943 Fund increased by approximately \$50.7 million from approximately \$273.5 million for the fiscal year ended June 30, 2019 to approximately \$324.2 million at June 30, 2023. This decrease was primarily due to the increase of the prepayments of Contracts of Purchase.

For the fiscal year ended June 30, 2023, the total liabilities of the 1943 Fund decreased by approximately \$122.2 million from approximately \$1,256.7 million at June 30, 2019 to approximately \$1,134.5 million at June 30, 2023. This decrease was primarily due to a net increase in outstanding principal amounts of Veterans G.O. Bonds and Revenue Bonds.

For the fiscal year ended June 30, 2023, the net (of the allowance for uncollectable Contracts of Purchase) receivables under outstanding Contracts of Purchase of the 1943 Fund decreased by approximately \$176.3 million from approximately \$1,040.2 million at June 30, 2019 to approximately \$861 million at June 30, 2023. The decrease was a function of the increase of the prepayments of Contracts of Purchase.

Accordingly, for the fiscal year ended June 30, 2023, the net position of the 1943 Fund increased by approximately \$14.7 million from approximately \$67.3 million at June 30, 2019 to approximately \$82 million at June 30, 2023. This increase was due to reduced operating expenses and increased SMIF interest.

At June 30, 2023, the total assets of the Veterans Debenture Revenue Fund for financial statement presentation purposes increased by approximately \$3.5 million from approximately \$10 million at June 30, 2019 to approximately \$13.5 million at June 30, 2023. At June 30, 2023, the net position of the Veterans Debenture Revenue Fund for financial statement presentation purposes decreased to approximately \$1.9 million from June 30, 2019 to June 30, 2023. At June 30, 2023, the net position of the Pooled Self-Insurance Fund for financial statement presentation purposes decreased by approximately \$3.5 million from a net excess of approximately \$22.5 million at June 30, 2019 to a net excess of approximately \$19 million at June 30, 2023. This decrease was due to fire claims under the Fire and Hazard Insurance Program and liability for incurred, but not



reported, insurance claims. Accordingly, at June 30, 2023, the net position of the Program (i.e., the 1943 Fund, the Veterans Debenture Revenue Fund and the Pooled Self-Insurance Fund/reserves) increased by approximately \$8.9 million from approximately \$99.8 million at June 30, 2019 to approximately \$108.7 million at June 30, 2023. At June 30, 2023, the total assets to liabilities ratio of the Program (which totals include deferred outflows and inflows of resources) was approximately 1.09 and has varied in fiscal years ended June 30, 2019 through 2023 from as high as approximately 1.11 at fiscal year ended June 30, 2023 to as low as approximately 1.08 at fiscal year ended June 30, 2019.

#### *Operations Revenues and Expenses*

For the fiscal year ended June 30, 2023, operations revenues of the 1943 Fund totaled approximately \$40.3 million as compared with approximately \$48.6 million recognized for the fiscal year ended June 30, 2019, resulting in a decrease of approximately \$8.3 million.

For the fiscal year ended June 30, 2023, operations expenses of the 1943 Fund from operating activities decreased by approximately \$1 million from approximately \$34.4 million for the fiscal year ended June 30, 2019 to approximately \$33.4 million for the fiscal year ended June 30, 2023. This decrease was primarily due to the decrease of interest expense of the 1943 Fund.

#### *CalVet Home Loan Program Administration*

For the fiscal year ended June 30, 2023, total administration revenues of the 1943 Fund (i.e., origination fee, late payment fees, transfers and rent on REO) decreased by approximately \$649,000 from approximately \$4.6 million for the fiscal year ended June 30, 2019 to approximately \$4 million for the fiscal year ended June 30, 2023.

For the fiscal year ended June 30, 2023, total administration expenses of the 1943 Fund (excluding OPEB) increased by approximately \$419,000 from approximately \$14 million for the fiscal year ended June 30, 2019 to approximately \$14.4 million for the fiscal year ended June 30, 2023.

For the fiscal year ended June 30, 2023, total of net revenues over expenses of the 1943 Fund totaled approximately \$5.5 million. In contrast, for the fiscal year ended June 30, 2019, the 1943 Fund reported net revenues over expenses of approximately \$7.4 million, resulting in a decrease of approximately \$1.9 million when comparing these two periods. The decrease is primarily due to an OPEB adjustment in the fiscal year ended June 30, 2019.

#### *Summary*

Over the periods from fiscal year ended June 30, 2019 through fiscal year ended June 30, 2023, the Department utilized cash assets and the issuance of refunding bonds to redeem or refund certain of its higher interest maturities of Veterans G.O. Bonds and Revenue Bonds in order to, among other things, reduce its annual debt service. The Department, subject to applicable bond authorizing resolutions and the Federal Tax Code, may apply Excess Revenues to redeem any Veterans G.O. Bonds or Revenue Bonds eligible for redemption, and has done so and may continue to do so. Through this reduction of debt service, the Department has been able to lower the interest rate the Department can offer on Contracts of Purchase. See “THE PROGRAM – Contracts of Purchase – Down Payment Requirements – Term of Contract of Purchase,” “—Contracts of Purchase – Post-December 2010 Contracts of Purchase” and APPENDIX C – “CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA.”

When the interest rates offered on the Contracts of Purchase were higher than market lenders, the rate of origination of Contracts of Purchase was reduced as compared to previous periods. In response, the Department improved manual underwriting techniques which enabled the Department to expand product offerings over other lenders. The principal amount of Contracts of Purchase originated for the fiscal year ended June 30, 2023 and for the fiscal year ended June 30, 2019 were approximately \$116.7 million and approximately \$198.3 million, respectively, a decrease of approximately \$81.6 million over such period. See APPENDIX C – “CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Contracts of Purchase Origination and Principal Repayment Experience” for information regarding the recent rate of originations of Contracts of Purchase, and “— Selected Principal Flows with respect to Contracts of Purchase Funded by both Veterans G.O. Bonds and Revenue Bonds.”

The Department has endeavored to improve its origination and servicing processes in order to better manage Contracts of Purchase and to prepare the Department for an increased level of origination and servicing of Contracts of Purchase. For example, the Department has deployed resources within the Program to ensure adequate staffing and state of the art technology in its systems. The Department is also developing new avenues for origination opportunities.

### **Program Features Designed to Mitigate Market Downturns**

The following features of the Program are designed to mitigate and protect the Program from the negative effects of market downturns:

- Interest rates on Contracts of Purchase originated after January 1, 2011 are fixed for the entire term of the loan. Interest rates on Contracts of Purchase originated prior to January 1, 2011 are fixed, subject to periodic adjustment as described in “THE PROGRAM—Contracts of Purchase – Interest Rates.”
- The Department requires that, at the time of financing, Program participants reside in the home purchased under the Contracts of Purchase (although, in accordance with the Veterans Code, the Department may waive the occupancy requirement under certain circumstances).
- The Department’s underwriting requirements have resulted in average borrower FICO credit scores at the time of origination, of approximately 711 over the last five fiscal years.
- Since 2009, all new Contracts of Purchase require a minimum 1.25% funding fee to offset the cost of the USDVA Guaranty or for deposit in the Primary Mortgage Insurance Account.
- The majority of the Department’s Contracts of Purchase are guaranteed by the USDVA. See “THE PROGRAM – USDVA Guaranty Program; Other Loan Insurance” and APPENDIX C - “CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Existing Contracts of Purchase – Loan-to-Value Ratio of Contracts of Purchase Based on Original Appraised Value as of June 30, 2024.”

The Department cannot predict whether future disruptions in the housing and financial markets generally or difficulties in the national or California economies will occur in the future and, if so, whether the Department’s finances will be adversely impacted.

## **Department Outlook**

The ability of the Department to maintain an excess of revenues over expenses in future periods and the financial performance of the 1943 Fund depend upon a variety of factors including, among others: (a) the level of interest rates available on short-term investments (including the rate paid on the State’s Surplus Money Investment Fund (“SMIF”), an investment fund established under the California Government Code, which is part of the Pooled Money Investment Account (“PMIA”), which fund invests money according to an investment policy established by the State Treasurer’s Office, and including the rate paid on investment contracts as such contracts may be acquired) relative to the level of interest rates on outstanding Veterans G.O Bonds and Revenue Bonds; (b) the rate of origination and the rate of prepayment of Contracts of Purchase, which will directly affect the amount of bond proceeds, recycling funds and revenues held in such investments; (c) the interest rates established from time to time by the Department for newly originated Contracts of Purchase relative to the interest cost on bonds issued to finance such Contracts of Purchase; (d) the interest rates on outstanding Contracts of Purchase relative to the interest cost on outstanding bonds; (e) the Department’s ability to use special and optional redemption provisions to minimize the overall cost of outstanding debt; (f) the market prices that can be achieved upon the sale of repossessed properties relative to the balances of then outstanding Contracts of Purchase; (g) the level of administrative expenses relative to the rate of origination and outstanding balances of the Contracts of Purchase; (h) counterparty performance under the Department’s investment arrangements; (i) uncertainties, disruption or volatility in the financial markets, generally, and in the mortgage and residential real estate markets, specifically; (j) the accuracy of certain projections and assumptions upon which the Department’s financial planning may be based, including, among other things, the rate of repayment of Contracts of Purchase, levels of defaults and delinquencies and losses on Contracts of Purchase; (k) the issuance and structuring of any additional Veterans G.O. Bonds or additional Revenue Bonds; (l) the implementation of any new programs of the Department; (m) changes in law, including changes which may affect the timing and the amount the Department may recover from Contracts of Purchase; and (n) maintenance of adequate reinsurance to address claims under the Department’s fire and hazard insurance program and disaster indemnity program liabilities. The Department expects that there will be significant variations in results in future periods, including additional periods in which there may be a deficit of revenues over expenses. Consideration should be given to these factors, among others, in connection with the purchase of the Offered Revenue Bonds. See “INTRODUCTION – Forward-Looking Statements” in this APPENDIX A.

## **Investments of the 1943 Fund**

The Department currently invests nearly all of its cash of the 1943 Fund in the SMIF. The Department also invests certain moneys of the 1943 Fund as described under APPENDIX C – “CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Additional Investments.” All investments, including those in the SMIF, contain certain risks, some of which may be material. Such risks include, but are not limited to, a lower rate of return than expected and loss or delayed receipt of principal. These risks may be mitigated, but are not eliminated, by limitations imposed on the portfolio management process by the State Treasurer’s PMIA investment policy, which may change from time to time.

## Excess Revenues

The Department has covenanted with the holders of its Revenue Bonds to apply Revenues received with respect to Contracts of Purchase, after payment or reimbursement of debt service on Veterans G.O. Bonds, in a specified order of priority. The availability and use of Revenues may provide moneys for special redemption of the Offered Revenue Bonds (see “THE OFFERED REVENUE BONDS – Redemption – Special Redemption from Excess Revenues” in the forepart of this Official Statement). For this purpose, “Revenues” means all moneys received by or on behalf of the Department representing (i) principal and interest payments on the Contracts of Purchase including all prepayments representing the same and all prepayment premiums or penalties received by or on behalf of the Department in respect to the Contracts of Purchase, (ii) interest earnings received on the investment of amounts to the extent deposited in the revenue account established under the Revenue Bond Resolution, (iii) amounts transferred to the revenue account from the bond reserve account or the loan loss account established under the Revenue Bond Resolution, and (iv) any other amounts payable by parties executing Contracts of Purchase or private participants in the Program or related to recoveries on defaulted Contracts of Purchase, including origination and commitment fees, servicing acquisition fees, liquidation proceeds, and insurance proceeds, *except* to the extent not included as “Revenues” pursuant to the provisions of any resolution authorizing the issuance of a series of Revenue Bonds.

The Department has covenanted with the Revenue Bond holders to administer the Program and perform its obligations under the Revenue Bond Resolution in accordance in all material respects with the then-current Program Operating Procedures. The Program Operating Procedures are operating policies of the Department governing the discretionary activities of the Department under the Revenue Bond Resolution. The Department may amend the Program Operating Procedures. The Program Operating Procedures will affect the Excess Revenues that will become available to redeem the Offered Revenue Bonds.

The Department has covenanted with the Revenue Bond holders to apply Revenues in the following order, after paying, or reimbursing for payments of, debt service on Veterans G.O. Bonds, including the costs of liquidity and credit enhancement facilities related thereto, and setting aside moneys as required under the Federal Tax Code to preserve the tax-exempt status of certain Veterans G.O. Bonds and Revenue Bonds, (1) to pay debt service on Revenue Bonds, (2) to pay the costs associated with liquidity and credit enhancement facilities, if any, for Revenue Bonds, (3) to replenish certain reserve funds established for the Revenue Bonds, (4) if the Department elects, to pay Department expenses, (5) to set aside a monthly accrual of Veterans G.O. Bond debt service, (6) if the Department elects, to finance Contracts of Purchase, and (7) with respect to Excess Revenues and certain tax restricted moneys, to redeem Veterans G.O. Bonds and Revenue Bonds (including the Offered Revenue Bonds). For such purposes:

(a) “Excess Revenues” means, as of any date of calculation, Revenues in excess of Accrued Debt Service;

(b) “Accrued Debt Service” means, as of any date of determination and, as the context requires, with respect to all Revenue Bonds (including the Offered Revenue Bonds) and Veterans G.O. Bonds, the sum of:

(i) the aggregate amount of scheduled interest and principal (except to the extent otherwise to be redeemed pursuant to clause (ii) or (iii) below) to become due after such date but on or before the end of the current debt service year, *less* the product of (x) the number of

whole months remaining in the current debt service year and (y) the Monthly Debt Service Requirement;

(ii) the redemption price of bonds for which notice of redemption has been issued, provided such redemption price is to be paid from amounts on deposit in the revenue account created under the Revenue Bond Resolution; and

(iii) the redemption price of bonds that the Department will be obligated to redeem prior to the end of the next succeeding debt service year under the terms of any resolution governing Revenue Bonds or Veterans G.O. Bonds, to the extent that such obligation arises on account of amounts on deposit in the revenue account created under the Revenue Bond Resolution; and

(c) “Monthly Debt Service Requirement” means, as of any date of determination, one-twelfth of the aggregate amount of scheduled interest and principal to become due during the debt service year in which such date falls, as computed on the first day of such debt service year.

### **Maintenance of Fund Parity**

The Revenue Bond Resolution requires the Department to calculate “Fund Parity” at least annually. “Fund Parity” means, on any determination date (a) an amount equal to the difference between (i) all assets in the 1943 Fund and in the accounts established under the Revenue Bond Resolution, and (ii) the aggregate principal amount of all Revenue Bonds and Veterans G.O. Bonds outstanding (plus accrued interest); reduced by (b) defined allowances and reserves for loss coverage on Contracts of Purchase and life and disability coverage on persons obligated under Contracts of Purchase. If any such calculation shall not reflect that Fund Parity at least equals the applicable percentage of the then outstanding aggregate principal amount of Revenue Bonds required by the Revenue Bond Resolution, the Department may be required to expend Excess Revenues to redeem Revenue Bonds until its recalculations of Fund Parity meet the test required by the Revenue Bond Resolution. Currently the applicable required percentage of Fund Parity is 25%.

**APPENDIX B**

**REPORT OF INDEPENDENT AUDITORS AND FINANCIAL STATEMENTS –  
CALVET HOME LOAN PROGRAM OF THE DEPARTMENT OF VETERANS  
AFFAIRS OF THE STATE OF CALIFORNIA  
FOR THE FISCAL YEARS ENDED JUNE 30, 2023 AND 2022**



Report of Independent Auditors and Financial Statements

**CalVet Home Loan Program of  
the Department of Veterans Affairs, State of California  
(Veterans Farm and Home Building Fund of 1943,  
Veterans Debenture Revenue Fund, and  
Pooled Self-Insurance Fund)**

June 30, 2023 and 2022



# Table of Contents

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	<b>Page</b>
<b>Report of Independent Auditors</b>	<b>1</b>
Management's Discussion and Analysis	4
<b>Financial Statements</b>	
Statements of Net Position (in Thousands)	12
Statements of Revenues, Expenses, and Changes in Net Position (in Thousands)	14
Statements of Cash Flows (in Thousands)	15
Notes to Financial Statements	17
<b>Required Supplementary Information</b>	
Schedule of the Proportionate Share of the Net Pension Liability – Last Ten Years*	36
Schedule of Plan Contributions – Last Ten Years*	37
Notes to Schedule of Plan Contributions – Last Ten Years*	38
Schedule of the Proportionate Share of the Net OPEB Liability – Last Ten Years*	39
Schedule of Plan Contributions – Last Ten Years*	40



## Supplementary Information

Combining Statements of Net Position (In Thousands)	42
Combining Statements of Revenues, Expenses, and Changes in Net Position (in Thousands)	46
Computation of Adjusted Net Worth in Accordance with the Requirements of the Government National Mortgage Association (GNMA) (in Thousands)	48
Computation of Capital Requirement in Accordance with the Requirements of the GNMA (in Thousands)	49
Computation of Liquid Asset Requirement in Accordance with the Requirements of the GNMA (in Thousands)	50
Schedule of Insurance – GNMA Required Insurance Coverage (in Thousands) – Issuer Identification Number: 4387	51
<b>Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards</b>	<b>52</b>
<b>Report on Compliance for Major HUD Program and Report on Internal Control Over Compliance Required by the <i>Consolidated Audit Guide for Audits of HUD Programs</i></b>	<b>54</b>

## Report of Independent Auditors

The Steering Committee  
The CalVet Home Loan Program of the Department of Veteran Affairs  
State of California

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the financial statements of the CalVet Home Loan Program of the Department of Veteran Affairs, State of California (the Program) as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the CalVet Home Loan Program of the Department of Veteran Affairs, State of California as of June 30, 2023 and 2022, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinion*

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Program and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### *Emphasis of Matter*

As discussed in Note 1, the financial statements present the financial activity and balances of the Program's activity only, and do not purport to, and do not, present fairly the financial position of the California Department of Veteran Affairs or the State of California, as of June 30, 2023 and 2022, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Program's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Program's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Program's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 10, the schedule of the proportionate share of the net pension liability, schedule of plan contributions and schedule of proportionate share of the net OPEB liability on pages 36 through 40 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Program's basic financial statements. The combining statements of net position, combining statements of revenues, expenses and changes in net position, computation of adjusted net worth, computation of capital requirement, computation of liquid asset requirement, and schedule of insurance in accordance with the requirements of the GNMA are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements of net position, combining statements of revenues, expenses and changes in net position, computation of adjusted net worth, computation of capital requirement, computation of liquid asset requirement, and schedule of insurance in accordance with the requirements of the GNMA are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated July 22, 2024 on our consideration of the Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Program's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Program's internal control over financial reporting and compliance.



Sacramento, California  
July 22, 2024

# CalVet Home Loan Program

## Department of Veterans Affairs, State of California

### Management's Discussion and Analysis

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#### Introduction

The Department of Veterans Affairs (the Department) is a separate legal entity and a cabinet-level agency of the State of California. A seven-member California Veterans Board (the Board) has policy oversight of the operations of the Department, all of whom are appointed by the Governor, subject to confirmation by the State Senate.

The Department began making low interest rate farm and home financing available to veterans after World War I, following the enactment by the California Legislature of the Veterans' Farm and Home Purchase Act of 1921. In 1943, the Legislature enacted the Veterans' Farm and Home Purchase Act of 1943 (the 1943 Act) to meet new needs of California's veterans. The 1943 Act established in the state treasury the Veterans' Farm and Home Building Fund of 1943 (the 1943 Fund), which is the principal fund utilized for the CalVet Home Loan Program (the Program). Financing is provided as installment loans, which are referred to as Contracts of Purchase.

Financing for Contracts of Purchase are derived from the sales of Home Purchase Revenue bonds, Veterans General Obligations bonds, principal prepayments of Contracts of Purchase, and other Program revenues not needed to meet 1943 Fund operating costs and debt service requirements of the bond portfolio. Expenditures are primarily for debt service and administration of the Program.

The revenue bond resolution giving the Department authority to issue Revenue bonds requires a reserve fund in an amount equal to no less than 3% of the aggregate outstanding principal of all revenue bonds with interest rates fixed to maturity. The Veterans Debenture Revenue Fund (the VDRF) was established to segregate the bond reserve requirements.

The Department operates a Pooled Self-Insurance Fund (PIF), which provides segregation of insurance risk from the Program. In accordance with California state law, the Department is required to pay all insurance claims from the PIF. California state law further provides that each of the Department's insurance reserves be self-sufficient and adequately maintained.

The Department is operating a pilot program utilizing mortgage-backed securities (MBS) to finance United States Department of Veteran Affairs (USDVA) guaranteed loans in an effort to expand future channels of financing. The pilot program involves issuing and selling a single MBS, retaining servicing rights, and servicing the associated loans in-house.

The PIF has combined cash reserves of \$25.2 million as of June 30, 2023, which is divided into the following sub accounts:

- a. The Disaster Indemnity Fund, covering earthquake and flood risks;
- b. The Fire and Hazard Insurance Fund;
- c. The CalVet Legacy Self-Insurance and Disability Fund; and
- d. The CalVet Primary Mortgage Insurance Fund.

The following financial analysis of the Program includes the condensed consolidated information of the 1943 Fund, the VDRF, and the PIF.

**CalVet Home Loan Program**  
**Department of Veterans Affairs, State of California**  
**Management's Discussion and Analysis**

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**Financial Analysis**

**Condensed statements of net position** – The following table presents the condensed statements of net position for the Program as of June 30, 2023, 2022, and 2021 (in thousands):

	<u>2023</u>	<u>2022</u>	<u>2021</u>
<b>ASSETS</b>			
Cash, cash equivalents, and investments	\$ 374,159	\$ 208,968	\$ 249,079
Receivables under contracts of purchase – net	861,928	830,184	890,893
Other receivables and assets	<u>24,290</u>	<u>14,410</u>	<u>11,031</u>
<b>TOTAL ASSETS</b>	1,260,377	1,053,562	1,151,003
Deferred outflows of resources	<u>5,520</u>	<u>2,982</u>	<u>3,267</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 1,265,897</u>	<u>\$ 1,056,544</u>	<u>\$ 1,154,270</u>
<b>LIABILITIES AND NET POSITION</b>			
<b>LIABILITIES</b>			
Bonds payable	\$ 1,100,757	\$ 897,361	\$ 991,967
Security payable	1,247	826	845
Other payables and liabilities	<u>46,217</u>	<u>36,767</u>	<u>39,757</u>
Total liabilities	1,148,221	934,954	1,032,569
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>8,933</u>	<u>15,548</u>	<u>16,163</u>
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	1,157,154	950,502	1,048,732
<b>NET POSITION – RESTRICTED</b>	<u>108,743</u>	<u>106,042</u>	<u>105,538</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	<u>\$ 1,265,897</u>	<u>\$ 1,056,544</u>	<u>\$ 1,154,270</u>

**Total assets and deferred outflows of resources** – Total assets and deferred outflows of resources increased by approximately \$209 million from \$1.06 billion at June 30, 2022, to \$1.26 billion at June 30, 2023. This increase consisted primarily of the following items:

Total cash, cash equivalents, and investments increased by approximately \$165.2 million from \$208.9 million at June 30, 2022, to \$374.1 million at June 30, 2023. This increase was primarily due to the Department's issuance of State of California Veterans' Home Purchase General Obligation Bonds and State of California Veterans' Home Purchase Revenue Bonds in the aggregate principal amount of \$255.5 million being offset by maturities and redemptions of bonds totaling \$55.1 million.

**CalVet Home Loan Program**  
**Department of Veterans Affairs, State of California**  
**Management's Discussion and Analysis**

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Net receivables under contracts of purchase increased \$31.7 million from \$830.2 million at June 30, 2022, to \$861.9 million at June 30, 2023. The increase was a function of increased volume of new contracts insufficient to offset repayments of contracts of purchase during the year ended June 30, 2023.

Other receivables increased by \$9.9 million from \$14.4 million at June 30, 2022, to \$24.3 million at June 30, 2023.

Deferred outflows of resources increased by \$2.6 million from \$2.9 million at June 30, 2022, to \$5.5 million at June 30, 2023. This is related to the Department's pension and OPEB liability.

**Liabilities, deferred inflows of resources, and net position** – Total liabilities and deferred inflows of resources increased by approximately \$209 million from \$1.06 billion at June 30, 2022, to \$1.26 billion at June 30, 2023. This increase was primarily due to a net increase in Veterans' G.O. Bonds and Revenue Bonds payable of approximately \$256 million.

At June 30, 2023, the net position increased by approximately \$2.3 from approximately \$106.0 million at June 30, 2022, to approximately \$108.7 million at June 30, 2023. This increase was due to a net gain of revenues over expenses of \$2.7 million for fiscal year 2023.

**Condensed statements of revenues and expenses** – The following table presents condensed statements of revenues and expenses for the Program for fiscal years ended June 30, 2023, 2022, and 2021 (in thousands):

	2023	2022	2021
<b>REVENUES</b>			
Program operating revenues			
Contracts of purchase of properties	\$ 33,856	\$ 34,265	\$ 40,768
Investments and other	7,342	51	1,495
Insurance revenue and claim reimbursements	8,057	6,982	5,431
Program administration revenues	4,128	4,522	4,259
Total revenues	<u>53,383</u>	<u>45,820</u>	<u>51,953</u>
<b>EXPENSES</b>			
Program operating expenses			
Interest expense	32,082	26,708	34,469
(Reversal of) provision for program losses	1	(6)	44
Insurance premiums and claims paid	7,540	7,070	6,318
Program administration expenses	10,817	11,592	13,673
Total expenses	<u>50,440</u>	<u>45,364</u>	<u>54,504</u>
Net operating income (loss)	2,943	456	(2,551)
Gain on sale of repossessed property	91	19	333
Transfers	(333)	29	(369)
Excess (deficiency) of revenues over expenses	<u>\$ 2,701</u>	<u>\$ 504</u>	<u>\$ (2,587)</u>

**CalVet Home Loan Program**  
**Department of Veterans Affairs, State of California**  
**Management's Discussion and Analysis**

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**Program operations** – The program operations revenues over program operations expenses increased by approximately \$2.5 million from \$456 thousand for the year ended June 30, 2022, to \$2.9 million for the year ended June 30, 2023, due to the following:

Interest revenues from contracts of purchase decreased by approximately \$409 thousand from the prior period associated with a corresponding net decrease in average bonds outstanding.

Interest revenues on investments and other had a marginal increase of \$7.29 million from \$51 thousand for the year ended June 30, 2022, to \$7.34 million for the year ended June 30, 2023.

Insurance revenue increased by approximately \$1.07 million from \$6.9 million for the year ending June 30, 2022, to \$8.06 million for the year ending June 30, 2023. The increase in insurance revenue is primarily due to the increase in premium rates during the year ended June 30, 2023.

Interest expense increased by approximately \$5.4 million from \$26.7 million for the year ended June 30, 2022, to \$32.1 million for the year ended June 30, 2023. The increase in interest expense was primarily due to a net increase in average bonds outstanding during 2023 and higher rates paid on bonds than in prior years.

The provision for program losses increased by approximately \$7 thousand from a reversal for program losses of (\$6) thousand for the year ended June 30, 2022, to a provision for program losses of \$1 thousand for the year ended June 30, 2023. The increase in the provision for program losses was a function of management's evaluation of the overall adequacy of the Program's allowance for uncollectible contracts.

Insurance expenses increased by approximately \$400 thousand from \$7.1 million for the year ended June 30, 2022, to \$7.5 million for the year ended June 30, 2023. The increase in expenses was due to increases in reinsurance premiums and claims paid out.

**Program administration** – Total program administration revenues include loan origination fees paid to the Program, fees for late payments on contracts of purchase, and rent received on a property owned by the Program. Total program administration revenues decrease by approximately \$390 thousand from \$4.52 million for the year ended June 30, 2022, to \$4.13 million for the year ended June 30, 2023.

Total program administration expenses decreased by approximately \$800 thousand from \$11.6 million for the year ended June 30, 2022, to \$10.8 million for the year ended June 30, 2023. This is due to a decrease of payroll and related costs.

**Total excess of revenues over expenses** – Total gain of revenues over expenses increased by approximately \$2.2 million from \$504 thousand for the year ended June 30, 2022, to a gain of \$2.7 million for the year ended June 30, 2023. The total gain of revenues over expenses increased due to the reasons noted above, mainly due to decreased general, OPEB, and interest expenses.



# CalVet Home Loan Program

## Department of Veterans Affairs, State of California

### Management's Discussion and Analysis

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#### Overview of Loan Portfolio

**Single family home loans/condominiums/farm loans** – The Department makes loans to veterans for the purchase of individual residences. Approximately 99.11% of the dollar volume of the Department's loans is for home loans as of June 30, 2023. Currently, the maximum loan amount ranges from \$907,750 to \$1,361,625 for single family homes, and \$1,089,300 to \$1,633,950 for farms dependent upon the county, which represents 125% to 150% of the maximum loan limit for a single family home published by the Federal National Mortgage Association (Fannie Mae).

Loans are made after an underwriting process that includes, but is not limited to, a review of credit history, verifiable income, and the amount and source of down payment. In general, credit scores of approved applicants are above the average. Single family home loans are required to be insured, either through private mortgage insurance, an in-house mortgage insurance program, or through the guarantee program of the United States Department of Veterans Affairs (USDVA). Under the USDVA guarantee program, the Program is insured for up to the first 25% of loss for a fully entitled veteran in the event that they are required to cancel a contract of sale on a property and sell that property for less than the outstanding loan balance.

Interest rates for loans are determined when the loan is originated. As of June 30, 2023, interest rates on loans outstanding ranged from 2.49% to 9.75%. While the Program has the limited ability to adjust the interest rates, post-1999 through December 2010, loans can be adjusted by 0.5% if needed and pre-1999 loans can be adjusted with no rate cap. The policy of the Program has been to leave the interest rate fixed at the rate in effect when the loan was originated. Beginning on January 1, 2011, all contracts of purchase are issued with fixed interest rates.

**Manufactured homes in parks** – The Program makes loans to veterans for the purchase of manufactured homes in parks. Approximately 0.82% of the dollar volume of the Program's loans is for manufactured home loans in parks as of June 30, 2023. The interest rate of a mobile home loan may be 1% higher than an equivalent loan on a single family home.

**Home improvement loans** – The Program makes a limited amount of home improvement loans. Approximately 0.48% of the dollar volume of the Program's loans is for home loans as of June 30, 2023. These loans typically have a loan-to-value of lower than 90%.

**Allowances for uncollectible contracts** – The allowance for uncollectible contracts are established through a provision charged to operations. The allowance is an amount that management believes will be adequate to absorb losses inherent in existing contracts and commitments to extend credit, based on evaluations of the collectability and prior loss experience of contracts and commitments to extend credit. The evaluations take into consideration such factors as changes in the nature and volume of the portfolio, overall portfolio quality, specific problem contracts, commitments, and current and anticipated economic conditions that may affect the borrowers' ability to repay the obligation. Management updates its estimates periodically to align with changes in the economic environment. The allowance for uncollectible contracts was \$3.25 million and \$3.25 million as of June 30, 2023 and 2022, respectively.

# CalVet Home Loan Program

## Department of Veterans Affairs, State of California

### Management's Discussion and Analysis

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**Other real estate owned** – Real estate acquired by the Program by repossession is recorded at the lower of estimated fair value less estimated selling costs or the carrying value of the related loan at the date of contract cancellation. After repossession, the value of the underlying contract is written down through the allowance for uncollectible contracts to the estimated fair value of the real estate, if necessary. Any subsequent write-downs or gains on sales of associated properties are charged against nonoperating expenses. Operating expenses of such properties, net of any related income, are included in other expenses. Operating costs on real estate with cancelled contracts are expensed as incurred. Costs incurred for physical improvements to these properties are capitalized if the value is recoverable through future sale.

**Higher-risk loans (excluding home equity loans)** – The Program's higher risk loans, designated by having a loan-to-value ratio of 97% or greater, are evenly dispersed throughout the state. The LTV was determined by dividing the current loan balance by, depending on availability of data, the initial purchase price of the property, the original appraised value or the original loan amount. As of June 30, 2023, the Program had 4,259 active loans in its portfolio, of which 9.84% were determined to have a high LTV. As of June 30, 2023, 8.41% of the total portfolio has a high LTV and is insured with USDVA, and 0.19% of the total portfolio has a high LTV and is uninsured. The Program believes these factors adequately mitigate the risks inherent with loans which are considered to have a high LTV.

**Mitigating factors** – The following features of the Program are designed to mitigate and protect the Program from the negative effects of market downturns:

The Program does not provide variable rate loans.

The Program requires that Program participants reside in the home purchased under the contracts of purchase for the term of the loan.

The Program's underwriting requirements, according to an internal unaudited survey by the Department, have resulted in an average borrower FICO credit score of 700 for transactions originated during the last five years.

Certain of the Program's contracts of purchase are guaranteed through the USDVA guarantee program.

The Program cannot predict whether disruptions in the housing and financial markets or difficulties in the national or California economies will continue and, if so, whether the Program's finances will be adversely impacted.

# CalVet Home Loan Program

## Department of Veterans Affairs, State of California

### Management's Discussion and Analysis

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#### **Economic Factors Facing the CalVet Home Loan Program**

On June 30, 2023, the Program's gross receivables under contracts of purchase were \$861.9 million, an increase of \$30.7 million, or 3.7%, from \$831.2 on June 30, 2022. During the fiscal year ended June 30, 2023, cash, cash equivalents, and investments increased by approximately \$165.1 million, or 78.9%, from a balance of \$209.0 million on June 30, 2022, to \$374.1 million on June 30, 2023. Bonds payable, net of bond premiums and discounts, increased by approximately \$203.4 million, or 22.7%, from \$897.4 million on June 30, 2022, to \$1.1 billion on June 30, 2023. Bond ratings for the Department's G.O. Bonds are AA+ and Aa2 by the rating agencies Standard & Poor's and Moody's, respectively. Bond ratings for the Department's revenue bonds are AA and Aa3 by Standard & Poor's and Moody's, respectively.

**Program outlook** – The ability of the Program to maintain an excess of revenues over expenses in future periods and the financial performance of the Program depends upon a variety of factors, including, among others:

**Loan portfolio performance** – Significant factors generally include uncertainties, disruption, or volatility in the financial markets, and the market prices that can be achieved upon the sale of repossessed properties relative to the then-outstanding contract of purchase balances. For the fiscal years ended June 30, 2023, 2022, and 2021, the Program recognized a net gain on sales of repossessed properties of \$13,000; \$19,000; and \$333,000, respectively. The Program believes gains on sale of repossessed properties will continue given the ongoing appreciation in California housing values.

**Cost of bond portfolio** – The Program has strategically used principal proceeds from contracts of purchase to fund special and optional redemption to minimize the overall cost of outstanding debt. Principal repayments of contracts of purchase for the years ended June 30, 2023 and 2022, have been \$60.6 million and \$201.6 million, respectively, while special and optional redemption over the same period were \$39.1 million and \$179.5 million, respectively. The Program will continue to look for strategic opportunities to issue additional Veterans' G.O. bonds or Revenue bonds.

**Overall program administration** – The Program's financial performance is driven by the successful origination and maintenance of outstanding balances of contracts of purchases and the related maintenance of a net interest margin adequate to satisfy the Program's administrative expense obligations. Contracts of purchase represent the Programs highest yielding assets and the income generated from these assets are the primary means used to satisfy the Program's administrative expense obligations and its debt service obligations associated with outstanding Veterans' G.O. bonds and Revenue bonds.

## **Financial Statements**

**CalVet Home Loan Program**  
**Department of Veterans Affairs, State of California**  
**Statements of Net Position (in Thousands)**  
**June 30, 2023 and 2022**

	2023	2022
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash in the state treasury	\$ 15,368	\$ 23,033
State of California Surplus Money Investment Fund	347,500	166,373
Total cash and cash equivalents	362,868	189,406
Current portion of receivables under contracts of purchase - net of allowance for uncollectible contracts	26,586	26,742
Due from other funds	8,281	21
Interest receivable	7,324	4,505
Total current assets	405,059	220,674
<b>NONCURRENT ASSETS</b>		
Investments:		
Taxable municipal securities and other investments	11,291	19,562
Receivables under contracts of purchase – net of allowance for uncollectible contracts	835,342	803,442
Other real estate owned – net of valuation allowances of \$0 at June 30, 2023 and 2022	293	39
Capital assets – net	685	685
Other noncurrent assets	7,707	9,160
Total noncurrent assets	855,318	832,888
<b>TOTAL ASSETS</b>	<b>1,260,377</b>	<b>1,053,562</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred outflows related to pension and net other postemployment benefits (OPEB)	5,520	2,982
Total deferred outflows	5,520	2,982
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 1,265,897</b>	<b>\$ 1,056,544</b>

See accompanying notes

**CalVet Home Loan Program**  
**Department of Veterans Affairs, State of California**  
**Statements of Net Position (in Thousands)**  
**June 30, 2023 and 2022**

	2023	2022
<b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Bonds payable – current portion	\$ 27,830	\$ 21,495
Accrued interest and other liabilities	14,869	14,141
Due to other funds	8,746	2,204
Total current liabilities	51,445	37,840
<b>NONCURRENT LIABILITIES</b>		
Bonds payable – noncurrent portion	1,072,927	875,866
Security payable	1,247	826
Insurance claims reserves	2,846	2,303
Net OPEB liability	6,292	9,718
Net pension liability	13,464	8,401
Total noncurrent liabilities	1,096,776	897,114
Total liabilities	1,148,221	934,954
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows related to pension and net OPEB liability	8,933	15,548
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	1,157,154	950,502
<b>NET POSITION – RESTRICTED</b>	108,743	106,042
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	\$ 1,265,897	\$ 1,056,544

See accompanying notes

**CalVet Home Loan Program**  
**Department of Veterans Affairs, State of California**  
**Statements of Revenues, Expenses, and Changes in Net Position (in Thousands)**  
**Years Ended June 30, 2023 and 2022**

	2023	2022
<b>REVENUES</b>		
Program operations		
Contracts of purchase of properties	\$ 33,856	\$ 34,265
Investments and other	7,342	51
Insurance revenue and claim reimbursements	8,057	6,982
Program administrative		
Fees	1,384	1,803
Other revenue	2,744	2,719
	53,383	45,820
<b>EXPENSES</b>		
Program operations		
Interest expense	32,082	26,708
Provision for (reversal of) program loan losses	1	(6)
Insurance premiums and claims paid	7,540	7,070
Program administrative		
Payroll and related costs	6,813	4,512
Pension and OPEB expense (benefit)	(5,682)	188
General and administrative expenses	9,686	6,892
	50,440	45,364
<b>NET OPERATING INCOME</b>	2,943	456
<b>NONOPERATING (EXPENSE) REVENUE</b>		
Gain on sale of repossessed property	91	19
Transfers	(333)	29
	(242)	48
Excess of revenues over expenses	2,701	504
<b>NET POSITION - RESTRICTED, beginning of year</b>	106,042	105,538
<b>NET POSITION - RESTRICTED, end of year</b>	\$ 108,743	\$ 106,042

See accompanying notes

**CalVet Home Loan Program**  
**Department of Veterans Affairs, State of California**  
**Statements of Cash Flows (in Thousands)**  
**Years Ended June 30, 2023 and 2022**

	2023	2022
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from contract holders	\$ 135,296	\$ 228,049
Interest received	38,379	36,003
Interest payments	(32,082)	(26,708)
Payments made to other suppliers for goods and services	(18,259)	(11,559)
Payments made to employees for services	(1,131)	(4,700)
Payments made for new contracts of purchase	(167,204)	(167,204)
Insurance revenue and claim reimbursements	8,057	6,982
Insurance premiums and claims paid	(7,540)	(7,070)
Other receipts	5,248	(383)
	(39,236)	53,410
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investment securities	-	(2,675)
Proceeds from sales and maturities of investment securities	8,271	3,221
	8,271	546
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>		
Purchases of capital assets	-	(241)
	-	(241)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Maturities of bonds payable	(22,390)	(22,390)
Proceeds from issuance of bonds	259,527	108,565
Early redemption of bonds payable	(32,710)	(179,455)
	204,427	(93,280)
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	173,462	(39,565)
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	189,406	228,971
End of year	\$ 362,868	\$ 189,406

See accompanying notes



**CalVet Home Loan Program**  
**Department of Veterans Affairs, State of California**  
**Statements of Cash Flows (in Thousands)**  
**Years Ended June 30, 2023 and 2022**

	2023	2022
<b>RECONCILIATION OF STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION USED IN OPERATING ACTIVITIES</b>		
Net operating income	\$ 2,943	\$ 456
Adjustments to reconcile to net cash in operating activities:		
Bond accretion/amortization	(1,031)	(1,326)
Provision for (reversal of) program losses	1	(6)
Transfers	(333)	29
Effect of changes in assets and liabilities		
Decrease (increase) in interest receivable	(2,819)	1,687
Increase in receivables under contracts of purchase and other real estate owned	(31,908)	60,845
(Increase) decrease in other assets	1,453	(4,934)
(Decrease) increase in accrued interest payable and other liabilities	728	(388)
(Decrease) increase in deferred inflows and outflows of resources	(9,153)	(330)
Increase in bonds payable	421	(19)
Decrease in net pension liability	5,063	(5,007)
Increase in insurance claims reserves	543	656
Increase in due to other funds	(1,718)	1,197
Increase (decrease) in other postemployment benefits	(3,426)	550
<b>NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ (39,236)</b>	<b>\$ 53,410</b>
<b>NON CASH ACTIVITIES</b>		
Value of real estate received on foreclosed contracts of purchase	\$ 659	\$ 169
Bond accretion/ammortization	\$ 1,031	\$ 1,326

See accompanying notes

**CalVet Home Loan Program**  
**Department of Veterans Affairs, State of California**  
**Notes to Financial Statements**

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**Note 1 – Summary of Significant Accounting Policies**

**Organization and description** – The California Department of Veteran Affairs (the Department) is a separate legal entity and a cabinet-level agency of the State of California. A seven-member California Veterans Board (the Board) has policy oversight of the operations of the Department, all of whom are appointed by the Governor, subject to confirmation by the State Senate.

The CalVet Home Loan Program oversees the Veterans Farm and Home Building Fund of 1943 (the 1943 Fund). The 1943 Fund was established under the authority of the California Constitution to provide low-interest, long-term farm and home mortgage loan contracts to veterans living in California. The 1943 Fund is administered by the CalVet Home Loan Program and the contract loan program has been continuous since 1922. Proceeds from the sale of general obligation bonds, periodically authorized by the vote of the people of California, and revenue bonds, authorized by the legislature, are used for contract loans to veterans. Expenses are primarily for debt service and administration of the 1943 Fund. The 1943 Fund is tax exempt.

The Department established the Veterans Debenture Revenue Fund (the VDRF) and the Pooled Self-Insurance Fund (the PIF) to provide ancillary support for the 1943 Fund. These funds are also managed by the CalVet Home Loan Program of the California Department of Veteran Affairs. Notes 5 and 8 provide disclosures related to these funds.

The financial statements represent only the CalVet Home Loan Program of the California Department of Veteran Affairs, which include the 1943 Fund, the VDRF, the PIF, and the Mortgage Backed Securities Pilot Program (collectively, the Program), and are not intended to present the financial position of the Department and the results of its operations and its cash flows of its other proprietary funds. The financial statements of the Program are included in the financial statements of the State of California as the state represents the primary government and has ultimate oversight responsibility for the Program.

**Basis of accounting** – The Program has been classified as a proprietary fund for accounting purposes, and the financial statements are prepared on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of the timing of related cash flows.

The Program follows the standards of governmental accounting and financial reporting, as promulgated by the Governmental Accounting Standards Board (GASB).

## **CalVet Home Loan Program**

### **Department of Veterans Affairs, State of California**

#### **Notes to Financial Statements**

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In conjunction with the passage of Section 4013 of the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") in March 2020 and Section 541 of the Coronavirus Response and Relief Supplemental Appropriations Act of 2021 ("Coronavirus Relief Act") passed in January 2021, financial institutions have been provided the option, for loans meeting specific criteria, to temporarily suspend certain requirements under accounting principles generally accepted in the United States (U.S. GAAP) related to Troubled Debt Restructurings ("TDRs") for a limited time to assist borrowers experiencing financial hardship due to the COVID-19 pandemic (the "Pandemic"). This relief applies to loan modifications executed between March 1, 2020, and the earlier of 60 days after the national emergency related to the Pandemic is terminated, or January 1, 2022. Loans modified under the CARES Act are not required to be reported as delinquent, nonaccrual, impaired or criticized solely as a result of loan modification resulting from the economic effects of the Pandemic. In May 2020, the Program enacted a COVID-19 policy, in accordance with Section 4022 of the CARES Act, to provide forbearance to existing borrowers experiencing a financial hardship, directly or indirectly, related to the Pandemic. Under the Program's COVID-19 policy, modifications include impound only payment plans, reduced payment plans and full forbearance of all payments. The initial term for each modification is two months with additional one-month extensions available to the borrowers, up to a total forbearance of 360 days. The Program accrues and recognizes interest income on loans under payment relief based on the original contractual interest rates. When payments resume at the end of the relief period, the payments will generally be applied to accrued interest due until accrued interest is fully paid. Accrued interest balances are assessed for collectability on a periodic basis. The Program has not recognized eligible CARES Act loan modifications as TDRs.

**Use of estimates in the preparation of financial statements** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Restrictions on net position** – The proceeds of the General Obligation and Revenue bonds are restricted by the State of California Military and Veterans Code for the purpose of providing farm and home aid for veterans in accordance with the Veterans' Farm and Home Purchase Act of 1974 and of all acts amendatory thereof and supplemental thereto.

**Cash and cash equivalents** – The Program considers all cash and highly liquid investments purchased with original maturities of three months or less to be cash and cash equivalents. At June 30, 2023 and 2022, cash equivalents consisted of the State of California Surplus Money Investment Fund (the SMIF) and the California State Treasury (the Treasury), carried at cost, which approximate fair value.

**Investments** – The Program reports all investments at fair value. The fair value of investments is based on published market prices and quotations from major investment brokers.

**Fair value measurements** – The Program categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

**CalVet Home Loan Program**  
**Department of Veterans Affairs, State of California**  
**Notes to Financial Statements**

---

**Receivables under contracts of purchase** – Receivables under contracts of purchase consist of the remaining contract principal balance net of the allowance for uncollectible contracts.

**Allowance for uncollectible contracts** – The allowance for uncollectible contracts is established through a provision charged to operations. The allowance is an amount that management believes will be adequate to absorb losses inherent in existing contracts and commitments to extend credit, based on evaluations of the collectability and prior loss experience of contracts and commitments to extend credit. The evaluations take into consideration such factors as changes in the nature and volume of the portfolio, overall portfolio quality, specific problem contracts, commitments, and current and anticipated economic conditions that may affect the borrowers' ability to repay the obligation. The allowance for uncollectible contracts was approximately \$3.3 million as of June 30, 2023 and 2022.

**Contract guarantees and primary mortgage insurance** – The Program collects a contract guarantee fee on all contracts with down payments less than 20% of purchase price. Such contracts are classified as high loan-to-value (HLTV) contracts. For eligible borrowers, the fee is used to purchase contract guarantees from the U.S. Department of Veterans Affairs (USDVA) or primary mortgage insurance (PMI). The contract guarantee fee is forwarded to the PIF, where it is recognized as revenue when received. Prior to March 31, 2008, for certain HLTV contracts not eligible for USDVA guarantees, the Program purchased PMI from Radian Guaranty Inc., formerly the Commonwealth Mortgage Assurance Company. The PMI provides lifetime coverage on the HLTV contracts, not covered by USDVA guarantees, subject to an aggregate 2% deductible. The Program is responsible for any losses not covered by the USDVA guarantees or the PMI. Estimates of these losses are included in the allowance for uncollectible contracts.

**Other real estate owned** – Real estate acquired by the Program by repossession is recorded at the lower of estimated fair value, less estimated selling costs, or the carrying value of the related loan at the date of foreclosure. After repossession, the value of the underlying contract is written down to the estimated fair value of the real estate, if necessary. Any subsequent write-downs or gains on sales of foreclosed properties are charged against nonoperating expenses. Operating expenses of such properties, net of any related income, are included in other expenses. 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.

**Capital assets** – Capital assets are stated at cost less accumulated depreciation and reflect assets with an estimated useful life in excess of one year. Depreciation is provided for in amounts sufficient to relate the cost of capital assets over their estimated service lives using the straight-line method. Building improvements and equipment have an estimated useful life of five years.

**Deferred inflows and deferred outflows** – Revenues that are earned and measurable, but applicable to future reporting periods are reported as deferred inflows of resources in the funds until such time the revenue becomes available. Deferred outflows of resources are the consumption of assets that are applicable to future reporting periods. The increases (decreases) in the Program's net pension and other post-employment benefits (OPEB) liability and contributions to the plans, that are not included in pension and OPEB expense, are reported as either deferred inflows or outflows of resources. The Program's bond refunding gains and losses are amortized over the life of the bonds and are recognized as deferred outflows of resources.

**CalVet Home Loan Program**  
**Department of Veterans Affairs, State of California**  
**Notes to Financial Statements**

---

**Public Employees' Retirement Fund (PERF A)** – For purposes of measuring net pension liability, deferred outflows and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the PERF A and additions to/deductions from PERF's fiduciary net position have been determined on the same basis as they were reported by California Public Employees' Retirement System (CalPERS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Certain investments are reported at fair value.

**Other Post-employment Benefits (OPEB)** – For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB and additions to/deductions from OPEB's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, OPEB recognizes benefit payments when due and payable in accordance with benefit terms. Certain investments are reported at fair value.

**Amortization of bond premiums and discounts** – Premiums and discounts arising from the issuance of bonds are capitalized and amortized using a straight-line amortization method.

**Revenue recognition** – Interest and fees are recognized as revenue when earned according to the terms of the loans or investments. Interest accrual is only discontinued at the point of physical property repossession.

**Classification of operating revenues and expenses** – Revenues and expenses are classified as operating as they relate to the administration of the Program. Operating revenues include interest income, insurance fees, loan fees, and other fees received related to the origination and collection of contracts of purchase. Operating expenses include provisions for program loan losses, interest expense associated with the issuance of bonds payable, insurance premiums and claims paid, and general and administrative expenses, including payroll, associated with the administration the Program's objectives. Nonoperating revenues and expenses include gains or losses incurred in the disposition of repossessed property.

**Note 2 – Cash, Cash Equivalents, and Investments**

The Program's cash, cash equivalents, and investments held at cost as of June 30, 2023 and 2022, were as follows (in thousands):

	2023	2022
Cash in the state treasury	\$ 15,368	\$ 23,033
State of California Surplus Money Investment Fund (SMIF)	347,500	166,373
Total cash and cash equivalents	362,868	189,406
Taxable municipal securities and other investments	11,291	19,562
Total cash, cash equivalents, and investments	\$ 374,159	\$ 208,968

**CalVet Home Loan Program**  
**Department of Veterans Affairs, State of California**  
**Notes to Financial Statements**

---

**Cash in state treasury** – Cash in the state treasury represents amounts held in the Program’s general operating accounts with the state treasury. These monies are pooled with the monies of other state agencies and invested by the state treasurer’s office. These assets are not individually identifiable. For a complete description of the risks related to cash in state treasury, refer to the State of California Annual Comprehensive Financial Report (ACFR).

**SMIF** – Cash in the SMIF represents the value of the deposits in the state treasurer’s pooled investment program, which is equal to the dollars deposited in the program. The fair value of the position in the program may be greater or less than the value of the deposits, with the difference representing the unrealized gain or loss. As of June 30, 2023 and 2022, this difference was immaterial to the valuation of the SMIF. The pool is run with “dollar-in, dollar-out” participation. There are no share-value adjustments to reflect changes in fair value. For a complete description of the risks related to this program, refer to the ACFR that includes information about the state’s pooled investment program.

**Investments** – Investments from proceeds of bond issuances are restricted by applicable California law and the various bond resolutions associated with each issuance, generally, to certain types of investments. These investments include direct obligations of the U.S. government and its agencies and investment agreements with financial institutions or insurance companies rated within the top two ratings of a nationally recognized rating service. The investments with the insurance administrator, held as a deposit in accordance with a master agreement for the remaining active life and disability insurance program for disabled contract holders, are authorized by California law. The Program monitors the creditworthiness of all companies that hold investments of the Program.

The Program has the following recurring fair value measurements as of June 30: Municipal securities of \$11,291,000 and \$19,562,000 as of June 30, 2023 and 2022, respectively, are valued using a matrix pricing model (Level 2 inputs).

The Program’s investments include amounts held in trust by insurance administrators. The investments held by the insurance administrator include taxable municipal securities and money market funds. Additionally, the Program only invests in investment agreements issued by highly rated insurance companies, and management regularly monitors the credit rating of the insurance companies issuing such investment agreements as part of monitoring the Program’s exposure to credit risk.

**Investment risk factors** – Many factors can affect the value of investments. Some, such as credit risk, custodial credit risk, concentration of credit risk, and interest rate risk, may affect both equity and fixed-income securities. Equity and debt securities respond to factors, such 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 Program to invest substantially all of its funds within SMIF and the remainder in investment contracts or with insurance administrators to limit the Program’s exposure to most types of investment risk.

**CalVet Home Loan Program**  
**Department of Veterans Affairs, State of California**  
**Notes to Financial Statements**

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*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. At June 30, 2023, the investments held are all considered investment grade and are rated equal to or greater than Aa3 by Moody’s. The Program does not currently have a formal policy to manage credit risk associated with its investments.

*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, 2023, the Program did not have any investments exposed to custodial credit risk. The investments held by the insurance administrator are held in trust for the benefit of the Department and are held in the Department’s name. The Program does not currently have a formal policy to manage custodial credit risk associated with its investments.

*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 Program to greater risks resulting from adverse economic, political, regulatory, geographic, or credit developments. At June 30, 2023, the Program does not have a significant concentration of credit risk. The Program does not currently have a formal policy to manage concentration of credit risk associated with its investments.

*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. The interest rates on the underlying taxable municipal securities reflected as investments with insurance administrators range from 2.07% to 4.11% and mature from 2023 to 2032. The weighted average interest rate for the municipal securities at June 30, 2023, is 4.19% and the weighted average maturity date is 24 years. The Program does not currently have a formal policy to manage interest rate risk associated with its investments.

**Note 3 – Receivables Under Contracts of Purchase**

The Program retains title to all real property subject to contracts of purchase until the contract is satisfied. The veterans’ contracts have original terms of 20 to 30 years and bear interest at rates of 2.49% to 9.75%, depending on the age and type of contract and the classification of the contract holder. Receivables under contracts of purchase, net of allowance for uncollectible contracts as of June 30, 2023 and 2022, were as follows (in thousands):

	2023	2022
Receivables under contracts of purchase	\$ 865,178	\$ 833,434
Less allowance for uncollectible contracts of purchase	(3,250)	(3,250)
Total receivables	861,928	830,184
Less current portion, net	(26,586)	(26,742)
Noncurrent receivables under contracts of purchase, net	\$ 835,342	\$ 803,442

**CalVet Home Loan Program**  
**Department of Veterans Affairs, State of California**  
**Notes to Financial Statements**

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**Note 4 – Land, Buildings, and Equipment**

The changes in capital assets during the year ended June 30, 2023, were as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
<b>NONDEPRECIABLE</b>				
Land	\$ 444	\$ -	\$ -	\$ 444
Total nondepreciable	444	-	-	444
<b>DEPRECIABLE</b>				
Buildings	12,876	-	-	12,876
Equipment	3,625	-	-	3,625
Total depreciable	16,501	-	-	16,501
<b>ACCUMULATED DEPRECIATION</b>				
Buildings	(12,876)	-	-	(12,876)
Equipment	(3,384)	-	-	(3,384)
Total accumulated depreciation	(16,260)	-	-	(16,260)
Total capital assets being depreciated	241	-	-	241
Total capital assets, net of depreciation	<u>\$ 685</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 685</u>

The changes in capital assets during the year ended June 30, 2022, were as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
<b>NONDEPRECIABLE</b>				
Land	\$ 444	\$ -	\$ -	\$ 444
Total nondepreciable	444	-	-	444
<b>DEPRECIABLE</b>				
Buildings	12,876	-	-	12,876
Equipment	3,384	241	-	3,625
Total depreciable	16,260	241	-	16,501
<b>ACCUMULATED DEPRECIATION</b>				
Buildings	(12,876)	-	-	(12,876)
Equipment	(3,384)	-	-	(3,384)
Total accumulated depreciation	(16,260)	-	-	(16,260)
Total capital assets being depreciated	-	241	-	241
Total capital assets, net of depreciation	<u>\$ 444</u>	<u>\$ 241</u>	<u>\$ -</u>	<u>\$ 685</u>



**CalVet Home Loan Program**  
**Department of Veterans Affairs, State of California**  
**Notes to Financial Statements**

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**Note 5 – Bonds Payable**

The Veterans General Obligation bonds are general obligations of the State of California to which the full faith and credit of the state is pledged. Because the debt service requirements on the Veterans General Obligation bonds are payable first from the 1943 Fund of the Program, the bonds are included as obligations of the Program when the proceeds from the bond sales are received by the Program. To the extent that the 1943 Fund is not able to service the debt, the secondary repayment source would come from the General Fund of the state Treasury. The Program has been able to service all debt requirements and there have been no amounts paid by the state through the General Fund.

The Program has outstanding general obligation bonds payable with fixed annual interest rates ranging from 0.25% to 5.00% due in varying installments through December 2050, and subject to varying redemption provisions. In November 2000, California voters approved the Veterans Bond Act of 2000 (the 2000 Bond Act) totaling \$500 million. In November 2008, California voters approved the Veterans Bond Act of 2008 (the 2008 Bond Act) totaling \$900 million. In October 2013, Assembly Bill 639, Veterans Housing and Homeless Prevention Act of 2014, reduced the voter authorized amount from \$900 million to \$300 million. The total authorized and unissued general obligation bonds under the 2008 Bond Act at June 30, 2023 and 2022, was \$0. In November 2018, California voters approved the Veterans Bond Act of 2018 (the 2018 Bond Act) totaling \$1 billion. The total authorized and unissued general obligation bonds under the 2018 Bond Act at June 30, 2023 and 2022, were \$636.2 million.

Home purchase revenue bonds are generally used to fund contracts of purchase and represent special obligations of the Department payable solely from, and by a pledge of, an undivided interest in the assets and net revenues of the Program. The amount of the pledge is equal to the remaining principal and interest requirements associated with the outstanding revenue bonds and the term of the pledge coincides with the remaining term of the revenue bonds. The undivided interest in the net revenues of the Program is secondary and subordinate to any interest or right in the Program of the people of the State of California and of the holders of general obligation veterans bonds. The net revenues pledged represent the total net revenues of the Program. At any point in time, authorized and unissued revenue bonds equal the ceiling authorized in 1987 of \$1.5 billion, less revenue bonds outstanding at that time. At June 30, 2023 and 2022, authorized and unissued revenue bonds were \$1.2 billion.

In December 1997, the Program amended the revenue bond resolution provision regarding the Bond Reserve Account in the VDRF. The revenue bond resolution requires the establishment and maintenance of a Bond Reserve Account in an amount not less than 3% of the aggregate outstanding principal amount of all Revenue bonds with interest rates fixed to maturity. Amounts in the Bond Reserve Account shall be used solely for the purposes of paying the principal of and the interest on the Revenue bonds and for making mandatory sinking account payments on Revenue bonds. Amounts on deposit in the Bond Reserve Account in excess of the bond reserve requirement may be transferred out of the VDRF to the 1943 Fund at the request of the Program. Investment earnings of the VDRF are transferred to the 1943 Fund. The total amounts in the Bond Reserve Account were \$13.4 million and \$15.2 million at June 30, 2023 and 2022, respectively, and were held in the SMIF.

**CalVet Home Loan Program**  
**Department of Veterans Affairs, State of California**  
**Notes to Financial Statements**

The activity for bonds payable for the year ended June 30, 2023, is as follows (in thousands):

	Outstanding July 1, 2022	Issued	Matured / Redeemed During Year	Outstanding June 30, 2023	Due Within One Year
General obligation bonds	\$ 525,490	\$ 167,130	\$ 29,955	\$ 662,665	\$ 3,925
Home purchase revenue bonds	355,545	88,375	25,145	418,775	23,905
<b>Total bonds</b>	<b>881,035</b>	<b>255,505</b>	<b>55,100</b>	<b>1,081,440</b>	<b>27,830</b>
Less					
Discounts	(920)	-	105	(815)	-
Premium	17,246	4,022	(1,136)	20,132	-
<b>Bonds payable, net</b>	<b>\$ 897,361</b>	<b>\$ 259,527</b>	<b>\$ 54,069</b>	<b>\$ 1,100,757</b>	<b>\$ 27,830</b>

The activity for bonds payable for the year ended June 30, 2022, is as follows (in thousands):

	Outstanding July 1, 2021	Issued	Matured / Redeemed During Year	Outstanding June 30, 2022	Due Within One Year
General obligation bonds	\$ 584,760	\$ -	\$ 59,270	\$ 525,490	\$ 3,115
Home purchase revenue bonds	389,555	108,565	142,575	355,545	18,380
<b>Total bonds</b>	<b>974,315</b>	<b>108,565</b>	<b>201,845</b>	<b>881,035</b>	<b>21,495</b>
Less					
Discounts	(1,029)	-	109	(920)	-
Premium	18,681	-	(1,435)	17,246	-
<b>Bonds payable, net</b>	<b>\$ 991,967</b>	<b>\$ 108,565</b>	<b>\$ 200,519</b>	<b>\$ 897,361</b>	<b>\$ 21,495</b>

A summary of debt service requirements for the next five years and to maturity as of June 30, 2023, is as follows (in thousands):

<u>Fiscal Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2024	\$ 27,830	\$ 36,135
2025	30,005	35,662
2026	21,940	35,204
2027	36,525	34,519
2028	32,515	33,596
2029 to 2033	245,175	146,741
2034 to 2038	206,200	110,221
2039 to 2043	187,480	78,151
2044 to 2048	188,930	43,865
2049 to 2053	104,840	11,741
<b>Total debt service</b>	<b>\$ 1,081,440</b>	<b>\$ 565,835</b>

**CalVet Home Loan Program**  
**Department of Veterans Affairs, State of California**  
**Notes to Financial Statements**

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**Note 6 – Commitments and Contingencies**

**Commitments** – As of June 30, 2023 and 2022, the Program had loan commitments to veterans for the purchase of properties under contracts of sale of approximately \$36.0 million and \$47.0 million, respectively.

**Contingencies** – The Program is subject to a variety of legal actions arising out of the normal course of business. Based upon information available to the Program, its review of such lawsuits and consultation with legal counsel, the Program believes the liability relating to these actions, if any, would not have a material adverse effect on the Program's financial statements.

**Note 7 – Employee Benefit Plans**

**Public Employees' Retirement Fund (PERF A)**

*Plan description* – All of the employees of the Program are paid by the 1943 Fund. All qualified permanent and probationary employees of the 1943 Fund are eligible to participate in the separate Miscellaneous Plan (the Plan), an agent multiple-employer defined benefit pension plan administered by CalPERS, which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plan are established by state statute. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions, and membership information that can be found on the CalPERS website at [www.calpers.ca.gov](http://www.calpers.ca.gov). While the 1943 Fund participates in an agent-multiple employer defined benefit pension plan, guidance pertaining to cost sharing employer defined benefit pension plans is followed for financial reporting for the 1943 Fund's proportionate share of the Plan as the 1943 Fund's is part of the state of California and the state allocates its involvement to its various state agencies.

*Benefits provided* – CalPERS provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members, who must be public employees and beneficiaries. The benefit provisions for state employees are established by statute. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for nonduty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost-of-living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

**CalVet Home Loan Program**  
**Department of Veterans Affairs, State of California**  
**Notes to Financial Statements**

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The Plans' provisions and benefits in effect at June 30, 2023, are summarized as follows:

	Miscellaneous	
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Retirement age (minimum)	minimum 5 years service	minimum 5 years service
Benefit formula (based off above hire date and retirement age)	2% @ 55	2% @ 62
Benefit payments (unmodified allowance)	Monthly for life	Monthly for life
Monthly benefits, as a % of eligible compensation (based off formula above)	1.426% to 2.418%	1.000% to 2.500%
Required employee contribution rates	8.00%	7.25%
Required employer contribution rates	29.180%	29.180%

*Contributions* – Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1, following notice of a change in the rate. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30, by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The 1943 Fund is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

*Collective net pension liability* – The net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Plan is measured as of June 30, 2022, using an annual actuarial valuation as of June 30, 2021, rolled forward to June 30, 2022, using standard update procedures. At June 30, 2023, the 1943 Fund's proportionate share of the net pension liability is 0.034472% which was calculated using the 1943 Fund's share of the pensionable compensation as compared to the total pensionable compensation amounts for the state. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

**CalVet Home Loan Program**  
**Department of Veterans Affairs, State of California**  
**Notes to Financial Statements**

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**Actuarial assumptions** – The total pension liabilities in the June 30, 2021, actuarial valuation was determined using the following actuarial assumptions:

	Miscellaneous
Valuation date	6/30/2021
Measurement date	6/30/2022
Actuarial cost method	Entry Age Normal
Actuarial assumptions:	
Discount rate	6.900%
Inflation	2.300%
Salary increases	(1)
Payroll growth	2.750%
Investment rate of return	7.000% (2)
Mortality	(3)

(1) Varies by entry age and service

(2) Net of pension plan investment and administrative expenses; includes inflation

(3) Derived using CalPERS' membership data for all funds

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2021, valuation were based on the results of the 2021 CalPERS Experience Study for the period 2001 to 2019. Pre-retirement and post-retirement mortality rates include generational mortality improvement using 80% of Scale MP-2020 published by the Society of Actuaries. Further details of the CalPERS Experience Study and Review of Actuarial Assumptions report from November 2021, can found on the CalPERS website at [www.calpers.ca.gov](http://www.calpers.ca.gov).

**Discount rate** – The discount rate used to measure the total pension liability was 7.15% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 6.90% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 6.90% will be applied to all plans in the PERF. The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

**CalVet Home Loan Program**  
**Department of Veterans Affairs, State of California**  
**Notes to Financial Statements**

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In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations. Using historical returns of all of the funds' asset classes, expected compound (geometric) returns were calculated over the next 20 years using a building-block approach. The expected rate of return was then adjusted to account for assumed administrative expenses of 10 Basis points. The expected real rates of return by asset class are as follows:

<u>Asset Class</u>	<u>Current Target Allocation</u>	<u>Real Return Real Return (a)(b)</u>
Global Equity- Cap-weighted	30.0%	4.54%
Global Equity- Non-Cap-weighted	12.0%	3.84%
Private Equity	13.0%	7.28%
Treasury	5.0%	0.27%
Mortgage-backed Securities	5.0%	0.50%
Investment Grade Corporates	10.0%	1.56%
High Yield	5.0%	2.27%
Emerging Market Debt	5.0%	2.48%
Private Debt	5.0%	3.57%
Real Assets	15.0%	3.21%
Leverage	-5.0%	-0.59%

**Sensitivity of the proportionate share of the net pension liability to changes in the discount rate –** The following presents the net pension liability for the 1943 Fund, calculated using the discount rate for the 1943 Fund, as well as what the 1943 Fund's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>1% Decrease 5.90%</u>	<u>Current Discount Rate 6.90%</u>	<u>1% Increase 7.90%</u>
The Program's collective net pension liability	\$ 18,753,000	\$ 13,464,000	\$ 8,257,000

**Pension expenses and deferred outflows/inflows of resources related to pensions –** For the year ended June 30, 2023, the 1943 Fund recognized pension expense of \$1,749,482. At June 30, 2023, the 1943 Fund reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of assumptions	\$ 986,497	\$ -
Differences between expected and actual experience	206,000	295,072
Net differences between projected and actual earnings on plan investments	1,698,317	-
Contributions made subsequent to measurement date	1,631,766	-
<b>Total</b>	<u><u>\$ 4,522,580</u></u>	<u><u>\$ 295,072</u></u>

**CalVet Home Loan Program**  
**Department of Veterans Affairs, State of California**  
**Notes to Financial Statements**

---

The deferral for contributions of \$1,631,766 after the measurement date will be reported as a reduction in the net pension liability of the Program in the subsequent fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Year Ending June 30</u>	
2024	\$ 624,130
2025	523,993
2026	351,371
2027	<u>1,096,248</u>
Total deferral for contributions	<u>\$ 2,595,742</u>

**State of California Other Post-employment Benefit Plan (SCOPEB)**

*Plan description* – Plan benefits are approved by the CalPERS Board of Directors. The Program contributes to the SCOPEB as part of the State of California, the primary government. The SCOPEB is a cost-sharing, multiple-employer defined benefit postemployment health care plan administered by the State of California and CalPERS. CalPERS provides retirement, death, disability, and postretirement health care benefits to members as established by state statute. CalPERS issues a publicly available CAFR that includes financial statements and required supplementary information for the SCOPEB. A copy of that report may be obtained from CalPERS, Central Supply, P.O. Box 942715, Sacramento, CA 95229-2715, or via the CalPERS website.

*Benefits provided* – The State of California provides medical and prescription drug benefits to retired state employees and dependents through CalPERS under the Public Employees’ Medical and Hospital Care Act, and dental benefits under the State Employees’ Dental Care Act. The State, and certain bargaining units and judicial employees (valuation groups) have agreed to prefund retiree healthcare benefits. Assets are held in separate accounts by valuation group within the California Employers’ Retiree Benefit Trust (CERBT), an agent multiple-employer defined benefit other postemployment benefits plan administered by CalPERS. Assets within each valuation group benefit retirees and dependents associated with that valuation group.

*Contributions* – The State and employees in all bargaining units and Judicial employees have agreed to pre-fund retiree healthcare benefits. The State and all members make contributions into separate accounts for each respective bargaining unit and Judicial employee group. Contributions are based on a percentage of pensionable compensation with the ultimate goal of contributing 100 percent of the actuarially determined normal cost shared equally between the State and employees. Pre-funding contributions and investment income are not available to pay plan benefits until the earlier of 2046 or the year that actuarial accrued liabilities are fully funded. Contributions to the OPEB plan from the Department of Veterans’ Affairs were \$356,000 for the year ended June 30, 2023. Employees are not required to contribute to the OPEB plan.

**CalVet Home Loan Program**  
**Department of Veterans Affairs, State of California**  
**Notes to Financial Statements**

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**OPEB assets and liabilities; OPEB expense; deferred outflows of resources; and deferred inflows of resources related to OPEB** – At June 30, 2023, the 1943 Fund reported a liability of \$6,292,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2022, and the total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation date as of June 30, 2022. The 1943 Funds’ proportionate share of the CalPERS net OPEB liability has been determined based on the Department of Veterans’ Affairs’ contributions to the CalPERS program (as reported by CalPERS) during the measurement period ending on the corresponding measurement date. The Department of Veterans’ Affairs’ proportionate share at June 30, 2023, was 0.013662%.

For the year ended June 30, 2023, the 1943 Fund recognized an OPEB expense of \$2,594,000. At June 30, 2023, the 1943 Fund reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Inflows of Resources
Changes of assumptions	\$ 394,000	\$ 1,397,000
Differences between expected and actual experience	187,000	750,000
Net difference in projected and actual earnings	61,000	19,000
Changes in proportionate share and allocation basis	-	6,472,385
Contributions made subsequent to measurement date	356,000	-
Total OPEB deferred resources	\$ 998,000	\$ 8,638,385

Deferred outflows and inflows of resources related to differences between expected and actual experience and changes in assumptions are amortized over closed periods equal to the average expected remaining service lives for members of each valuation group. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ending June 30</u>			
2024		\$	4,530,083
2025			2,637,701
2026			190,322
2027			188,087
2028			197,536
Thereafter			252,656
Total deferred OPEB expense		\$	7,996,385



**CalVet Home Loan Program**  
**Department of Veterans Affairs, State of California**  
**Notes to Financial Statements**

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**Actuarial methods and assumptions** – The net OPEB liability in the June 30, 2022, actuarial valuation, was determined using the following actuarial methods and assumptions:

Valuation date	6/30/2022
Measurement date	6/30/2022
Actuarial cost method	Entry Age Normal
Actuarial assumptions:	
Discount rate	6.00% (1)
Inflation	2.30%
Salary increases	(2)
Investment rate of return	6.00% (3)
Healthcare cost trend rates	(4)
Mortality	(5)

- (1) Blended rate for each valuation group, consisting of 6.00% when assets are available to pay benefits, otherwise 20-year Municipal G.O. Bond AA Index rate of 3.69%
- (2) Varies by entry age and service
- (4) Net of OPEB plan investment expenses
- (5) Varies by coverage type and year
- (6) Derived using CalPERS' membership data for all members

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2021, valuation were based on the results of the 2021 CalPERS Experience Study for the period 2001 to 2019. Pre-retirement and post-retirement mortality rates include generational mortality improvement using 80% of Scale MP-2020 published by the Society of Actuaries. Further details of the CalPERS Experience Study and Review of Actuarial Assumptions report from November 2021, can found on the CalPERS website at [www.calpers.ca.gov](http://www.calpers.ca.gov).

*Discount rate* – The discount rate used to measure the net OPEB liability at June 30, 2023, was 6.00%. A discount rate of 6.00% can be supported for the actuarial valuation as of June 30, 2022, provided the sponsor makes pre-funding contributions as defined by statute and pre-funding contributions are invested in CalPERS CERBT Strategy 1. For purposes of financial reporting, the OPEB liabilities are discounted based on a blended rate for each valuation group. The cash flow projections used to calculate the discount rate were developed assuming that prefunding agreements in which actuarially determined normal cost are shared between employees and the State will continue and that the required contributions will be made on time and as scheduled in future years. The prefunding agreements are subject to collective bargaining and legislative approval.

*Depletion date projection* – GASB 75 generally requires that a blended discount rate be used to measure the net OPEB liability. The long-term expected return on OPEB plan investments was determined by CalPERS using a building-block method in which expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. Expected compound (geometric) returns were calculated over a closed period. Based on separate expected nominal returns for the short-term (first 10 years) and the long-term (11 to 60 years), as single expected return rate of 6.00% was calculated for years 1 to 60. If applied to expected cash flows during that period, the resulting present value of benefits is expected to be consistent with the present value of benefits that would be determined by applying the short and long-term expected rates to the same cash flows.

**CalVet Home Loan Program**  
**Department of Veterans Affairs, State of California**  
**Notes to Financial Statements**

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The following table reflects the long-term expected real rate of return by asset class:

Asset Class	Target Asset Allocation	Real Return Years 1 - 5	Real Return Years 6-20
Global equity	49.0%	4.40%	4.50%
Global fixed income	23.0%	-1.00%	2.20%
Inflation sensitive	5.0%	-1.80%	1.30%
Real estate	20.0%	3.00%	3.90%
Commodities	3.0%	0.80%	1.20%
Total	100.0%		

*Sensitivity of the net OPEB liability to changes in the discount rate* – The following presents the 1943 Fund's proportionate share of the net OPEB liability, as well as what the 1943 Fund's proportionate share of the net OPEB liability/(asset) would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher.

	1% Decrease	Discount Rate	1% Increase
Proportionate share of the net OPEB liability	\$ 7,351,000	\$ 6,292,000	\$ 5,431,000

*Sensitivity of the net OPEB liability to changes in the healthcare cost trend rate* – The following presents the 1943 Fund's proportionate share of the net OPEB liability, as well as what the 1943 Fund's proportionate share of the net OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percent lower or one percent higher.

	1% Decrease	Healthcare Cost Trend Rates	1% Increase
Proportionate share of the net OPEB liability	\$ 5,351,000	\$ 6,292,000	\$ 11,742,000

*OPEB plan fiduciary net position* – Detailed information about the OPEB plan's fiduciary net position is available in the separately issued CalPERS financial report.

**Note 8 – Pooled Self-Insurance Fund**

Effective July 1, 2010, pursuant to legislation enacted by the California State Legislature, the Department established the PIF. The PIF was established to help ensure that each of the Department's insurance programs, which include Fire and Reserve Hazard, Primary Mortgage, Disaster, and Life and Disability, is self-sufficient and adequately maintained for the benefit of the contract purchasers. The Program manages the PIF, and allocates the PIF related payroll expenses which the 1943 Fund incurs on its behalf.

The 1943 Fund is not legally bound to make any further advances to the PIF, although it is not precluded from doing so if circumstances warrant. The net position for the PIF, was \$24.5 million and \$19.6 million as of June 30, 2023 and 2022, respectively.

**CalVet Home Loan Program**  
**Department of Veterans Affairs, State of California**  
**Notes to Financial Statements**

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**Note 9 – Risk Management**

The Program is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; natural disasters for which the Program established the PIF and carries commercial insurance.

There have been no significant reductions in insurance coverage or settlements in excess of insurance coverage for the years ended June 30, 2023 and 2022.

## **Required Supplementary Information**

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**CalVet Home Loan Program**  
**Department of Veterans Affairs, State of California**  
**Schedule of the Proportionate Share of the Net Pension Liability – Last Ten Years\***

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	2023	2022	2021	2020	2019	2018
Employer proportion of the net pension liability the net pension liability	0.034472%	0.034260%	0.035318%	0.054861%	0.055659%	0.0578950%
Employer proportionate share of the net pension liability	\$ 13,032,000	\$ 7,637,000	\$ 12,777,000	\$13,918,000	\$ 17,234,000	\$ 20,335,000
Employer covered employee payroll	\$ 4,861,000	\$4,764,000	\$4,681,000	\$4,517,000	\$ 6,728,000	\$ 6,482,000
Employer proportion of the net pension liability as a percentage of covered employee payroll	268.09%	160.31%	272.95%	308.12%	256.15%	313.71%
Employer proportion of fiduciary net position as a percentage of the proportion of total pension liability	71.62%	82.39%	71.51%	68.34%	71.83%	66.42%

Notes to schedule:

Benefit changes: There were no changes in benefit terms for the year ended June 30, 2023.

\* Only years with available information are presented.

**CalVet Home Loan Program**  
**Department of Veterans Affairs, State of California**  
**Schedule of Plan Contributions – Last Ten Years\***

	2023	2022	2021	2020	2019	2018
Actuarial determined contribution <sup>1</sup>	\$ 1,458,000	\$ 1,290,000	\$1,476,000	\$1,351,000	\$1,883,000	\$1,716,000
Contributions in relation to the actuarially determined contribution <sup>2</sup>	<u>(1,762,000)</u>	<u>(1,294,000)</u>	<u>(1,769,000)</u>	<u>(1,355,000)</u>	<u>(3,865,000)</u>	<u>(1,723,000)</u>
Contribution excess	<u>\$ (304,000)</u>	<u>\$ (4,000)</u>	<u>\$ (293,000)</u>	<u>\$ (4,000)</u>	<u>\$ (1,982,000)</u>	<u>\$ (7,000)</u>
Employer's covered payroll <sup>3,4</sup>	\$ 4,861,000	\$4,764,000	\$4,681,000	\$4,517,000	\$6,603,000	\$6,728,000
Contributions as a percentage of covered payroll	36.25%	27.16%	37.79%	30.00%	58.53%	25.61%

<sup>1</sup> The actuarially determined contribution is based on the actuarially required employer contribution rate and the total contribution rate found in the June 30, 2015, 2016, 2017, 2018, 2019, 2020, 2021 and 2022, actuarial valuation reports.

<sup>2</sup> The actual contribution amount is based on the statutorily required contribution as outlined in Government Code Section 20683.2 based on actuarially determined amounts, which dictates that any excess employer contributions due to increased employee contributions must be allocated to the unfunded liability.

<sup>3</sup> Covered payroll represented above is based on pensionable earnings provided by the employer.

<sup>4</sup> Payroll from prior year was assumed to increase by the 3.00% payroll growth assumption.

**CalVet Home Loan Program**  
**Department of Veterans Affairs, State of California**  
**Notes to Schedule of Plan Contributions – Last Ten Years\***

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Notes to Schedule of Plan Contributions:

Methods and assumptions used to determine contribution rates:

<u>Actuarial cost method</u>	<u>Entry Age Normal</u>
Actuarial assumptions:	
Inflation	2.50%
Salary increases	(1)
Payroll growth	2.75%
Investment rate of return	7.00%
Retirement age	(3)
Mortality	(4)

(1) Varies by entry age and service

(2) Net of pension plan investment and administrative expenses; includes inflation

(3) Based on 2017 CalPERS experience study from 1997 to 2015

(4) Derived using CalPERS' membership data for all funds

\* Only years with available information are presented.

**CalVet Home Loan Program**  
**Department of Veterans Affairs, State of California**  
**Schedule of the Proportionate Share of the Net OPEB Liability – Last Ten Years\***

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	2023	2022	2021	2020	2019	2018
Employer proportion of the net OPEB liability	0.013662%	0.018170%	0.017324%	0.015060%	0.011588%	0.101020%
Employer proportionate share of the net OPEB liability	\$ 6,292,000	\$ 9,718,000	\$ 9,168,000	\$8,032,000	\$ 5,801,000	\$ 31,047,000
Employer covered employee payroll **	\$ 4,861,000	\$ 4,422,705	\$ 4,681,000	\$ 4,517,000	\$ 4,517,000	\$ 6,482,000
Employer proportionate share of the net OPEB liability as a percentage of covered employee payroll	129.44%	219.73%	195.86%	177.82%	128.43%	478.97%
Plan net position as a percentage of the net OPEB liability	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

\* Only years with available information are presented.

\*\* As of the measurement date, which is one year in arrears.





## **Supplementary Information**

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**CalVet Home Loan Program**  
**Department of Veterans Affairs, State of California**  
**Combining Statements of Net Position (In Thousands)**  
**June 30, 2023**

	<b>ASSETS</b>				
	Veterans Farm and Home Building Fund of 1943	Veterans Debenture Revenue Fund	Pooled Self- Insurance Fund	Mortgage Backed Securities Pilot Program	Total
<b>CURRENT ASSETS</b>					
Cash in the state treasury	\$ 14,141	\$ 2	\$ 1,161	\$ 64	\$ 15,368
State of California Surplus Money Investment Fund	310,054	13,399	24,047	-	347,500
Total cash and cash equivalents	324,195	13,401	25,208	64	362,868
Current portion of receivables under contracts of purchase – net of allowance for uncollectible contracts	26,586	-	-	-	26,586
Due from (to) other funds	8,281	-	-	-	8,281
Interest receivable	7,034	98	190	2	7,324
Total current assets	366,096	13,499	25,398	66	405,059
<b>NONCURRENT ASSETS</b>					
Investments:					
Taxable municipal securities and other investments	11,273	-	-	18	11,291
Receivables under contracts of purchase – net of allowance for uncollectible contracts	834,084	-	5	1,253	835,342
Other real estate owned	293	-	-	-	293
Capital assets – net	685	-	-	-	685
Other noncurrent assets	7,449	-	258	-	7,707
Total noncurrent assets	853,784	-	263	1,271	855,318
<b>TOTAL ASSETS</b>	<b>1,219,880</b>	<b>13,499</b>	<b>25,661</b>	<b>1,337</b>	<b>1,260,377</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Deferred outflows related to pension and Net other postemployment benefits liability (OPEB)	5,520	-	-	-	5,520
Deferred outflows related to loss on bond refunding	-	-	-	-	-
Total deferred outflows	5,520	-	-	-	5,520
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 1,225,400</b>	<b>\$ 13,499</b>	<b>\$ 25,661</b>	<b>\$ 1,337</b>	<b>\$ 1,265,897</b>

**CalVet Home Loan Program**  
**Department of Veterans Affairs, State of California**  
**Combining Statements of Net Position (in Thousands)**  
**June 30, 2023**

	<b>LIABILITIES AND NET POSITION</b>				<b>Total</b>
	Veterans Farm and Home Building Fund of 1943	Veterans Debenture Revenue Fund	Pooled Self- Insurance Fund	Mortgage Backed Securities Pilot Program	
<b>CURRENT LIABILITIES</b>					
Bonds payable – current portion	\$ 27,830	\$ -	\$ -	\$ -	\$ 27,830
Accrued interest and other liabilities	13,246	-	1,318	305	14,869
Due to other funds	698	5,442	2,520	86	8,746
<b>Total current liabilities</b>	<b>41,774</b>	<b>5,442</b>	<b>3,838</b>	<b>391</b>	<b>51,445</b>
<b>NONCURRENT LIABILITIES</b>					
Bonds payable – noncurrent portion	1,072,927	-	-	-	1,072,927
Security payable - noncurrent portion	-	-	-	1,247	1,247
Insurance claims reserves	-	-	2,846	-	2,846
Other postemployment benefits	6,292	-	-	-	6,292
Net pension liability	13,464	-	-	-	13,464
<b>Total noncurrent liabilities</b>	<b>1,092,683</b>	<b>-</b>	<b>2,846</b>	<b>1,247</b>	<b>1,096,776</b>
<b>Total liabilities</b>	<b>1,134,457</b>	<b>5,442</b>	<b>6,684</b>	<b>1,638</b>	<b>1,148,221</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<b>8,933</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,933</b>
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	<b>1,143,390</b>	<b>5,442</b>	<b>6,684</b>	<b>1,638</b>	<b>1,157,154</b>
<b>NET POSITION – RESTRICTED</b>	<b>82,010</b>	<b>8,057</b>	<b>18,977</b>	<b>(301)</b>	<b>108,743</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	<b>\$ 1,225,400</b>	<b>\$ 13,499</b>	<b>\$ 25,661</b>	<b>\$ 1,337</b>	<b>\$ 1,265,897</b>

**CalVet Home Loan Program**  
**Department of Veterans Affairs, State of California**  
**Combining Statements of Net Position (in Thousands)**  
**June 30, 2022**

	<b>ASSETS</b>				
	Veterans Farm and Home Building Fund of 1943	Veterans Debenture Revenue Fund	Pooled Self- Insurance Fund	Mortgage Backed Securities Pilot Program	Total
<b>CURRENT ASSETS</b>					
Cash in the state treasury	\$ 21,747	\$ 2	\$ 1,231	\$ 53	\$ 23,033
State of California Surplus Money Investment Fund	126,983	15,211	24,179	-	166,373
Total cash and cash equivalents	148,730	15,213	25,410	53	189,406
Current portion of receivables under contracts of purchase – net of allowance for uncollectible contracts	26,742	-	-	-	26,742
Due from (to) other funds	7,822	(5,285)	(2,429)	(87)	21
Interest receivable	4,437	25	41	2	4,505
Total current assets	187,731	9,953	23,022	(32)	220,674
<b>NONCURRENT ASSETS</b>					
Investments:					
Taxable municipal securities and other investments	19,562	-	-	-	19,562
Receivables under contracts of purchase – net of allowance for uncollectible contracts	802,609	-	7	826	803,442
Other real estate owned	39	-	-	-	39
Capital assets – net	685	-	-	-	685
Other noncurrent assets	8,105	-	1,055	-	9,160
Total noncurrent assets	831,000	-	1,062	826	813,326
<b>TOTAL ASSETS</b>	<b>1,018,731</b>	<b>9,953</b>	<b>24,084</b>	<b>794</b>	<b>1,053,562</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Deferred outflows related to pension and Net other postemployment benefits liability (OPEB)	2,982	-	-	-	2,982
Deferred outflows related to loss on bond refunding	-	-	-	-	-
Total deferred outflows	2,982	-	-	-	2,982
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 1,021,713</b>	<b>\$ 9,953</b>	<b>\$ 24,084</b>	<b>\$ 794</b>	<b>\$ 1,056,544</b>

**CalVet Home Loan Program**  
**Department of Veterans Affairs, State of California**  
**Combining Statements of Net Position (in Thousands)**  
**June 30, 2022**

	<b>LIABILITIES AND NET POSITION</b>				<b>Total</b>
	Veterans Farm and Home Building Fund of 1943	Veterans Debenture Revenue Fund	Pooled Self- Insurance Fund	Mortgage Backed Securities Pilot Program	
<b>CURRENT LIABILITIES</b>					
Bonds payable – current portion	\$ 21,495	\$ -	\$ -	\$ -	\$ 21,495
Accrued interest and other liabilities	11,928	-	2,137	76	14,141
Due to other funds	2,204	-	-	-	2,204
<b>Total current liabilities</b>	<b>35,627</b>	<b>-</b>	<b>2,137</b>	<b>76</b>	<b>37,840</b>
<b>NONCURRENT LIABILITIES</b>					
Bonds payable – noncurrent portion	875,866	-	-	-	875,866
Security payable - noncurrent portion	-	-	-	826	826
Insurance claims reserves	-	-	2,303	-	2,303
Other postemployment benefits	9,718	-	-	-	9,718
Net pension liability	8,401	-	-	-	8,401
<b>Total noncurrent liabilities</b>	<b>893,985</b>	<b>-</b>	<b>2,303</b>	<b>826</b>	<b>897,114</b>
<b>Total liabilities</b>	<b>929,612</b>	<b>-</b>	<b>4,440</b>	<b>902</b>	<b>934,954</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<b>15,548</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>15,548</b>
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	<b>945,160</b>	<b>-</b>	<b>4,440</b>	<b>902</b>	<b>950,502</b>
<b>NET POSITION – RESTRICTED</b>	<b>76,553</b>	<b>9,953</b>	<b>19,644</b>	<b>(108)</b>	<b>106,042</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<b>\$ 1,021,713</b>	<b>\$ 9,953</b>	<b>\$ 24,084</b>	<b>\$ 794</b>	<b>\$ 1,056,544</b>

**CalVet Home Loan Program**  
**Department of Veterans Affairs, State of California**  
**Combining Statements of Revenues, Expenses, and**  
**Changes in Net Position (in Thousands)**  
**Year Ended June 30, 2023**

	Veterans Farm and Home Building Fund of 1943	Veterans Debenture Revenue Fund	Pooled Self- Insurance Fund	Mortgage Backed Securities Pilot Program	Total
<b>REVENUES</b>					
Program operations					
Contracts of purchase of properties	\$ 33,846	\$ -	\$ -	\$ 10	\$ 33,856
Investments and other	6,487	298	547	10	7,342
Insurance revenue and claim reimbursements	2	-	8,055	-	8,057
Program administrative					
Fees	1,261	-	109	14	1,384
Other revenue	2,744	-	-	-	2,744
	<u>44,340</u>	<u>298</u>	<u>8,711</u>	<u>34</u>	<u>53,383</u>
Total revenues					
<b>EXPENSES</b>					
Program operations					
Interest expense	32,082	-	-	-	32,082
Provision for program loan losses	1	-	-	-	1
Insurance premiums and claims paid	-	-	7,509	31	7,540
Program administrative					
Payroll and related costs	6,813	-	-	-	6,813
Pension and OPEB benefit	(5,682)	-	-	-	(5,682)
General and administrative expenses	7,621	-	1,869	196	9,686
	<u>40,835</u>	<u>-</u>	<u>9,378</u>	<u>227</u>	<u>50,440</u>
Total expenses					
NET OPERATING INCOME (LOSS)	3,505	298	(667)	(193)	2,943
<b>NONOPERATING (EXPENSE) REVENUE</b>					
Gain on sale of repossessed property	91	-	-	-	91
Transfers	1,861	(2,194)	-	-	(333)
Total nonoperating (expense) revenue	<u>1,952</u>	<u>(2,194)</u>	<u>-</u>	<u>-</u>	<u>(242)</u>
Excess (deficiency) of revenues over (under) expenses	<u>5,457</u>	<u>(1,896)</u>	<u>(667)</u>	<u>(193)</u>	<u>2,701</u>
<b>NET POSITION - RESTRICTED</b>					
Beginning of year	76,553	9,953	19,644	(108)	106,042
Excess (deficiency) of revenues over (under) expenses	<u>5,457</u>	<u>(1,896)</u>	<u>(667)</u>	<u>(193)</u>	<u>2,701</u>
End of year	<u>\$ 82,010</u>	<u>\$ 8,057</u>	<u>\$ 18,977</u>	<u>\$ (301)</u>	<u>\$ 108,743</u>

**CalVet Home Loan Program**  
**Department of Veterans Affairs, State of California**  
**Combining Statements of Revenues, Expenses, and**  
**Changes in Net Position (in Thousands)**  
**Year Ended June 30, 2022**

	Veterans Farm and Home Building Fund of 1943	Veterans Debenture Revenue Fund	Pooled Self- Insurance Fund	Mortgage Backed Securities Pilot Program	Total
<b>REVENUES</b>					
Program operations					
Contracts of purchase of properties	\$ 34,265	\$ -	\$ -	\$ -	\$ 34,265
Investments and other	(81)	48	84	-	51
Insurance revenue and claim reimbursements	-	-	6,982	-	6,982
Program administrative					
Fees	1,623	-	180	-	1,803
Other revenue	2,714	-	-	5	2,719
	<u>38,521</u>	<u>48</u>	<u>7,246</u>	<u>5</u>	<u>45,820</u>
<b>Total revenues</b>	<b>38,521</b>	<b>48</b>	<b>7,246</b>	<b>5</b>	<b>45,820</b>
<b>EXPENSES</b>					
Program operations					
Interest expense	26,708	-	-	-	26,708
(Reversal of) provision for program loan losses	(6)	-	-	-	(6)
Insurance premiums and claims paid	-	-	7,070	-	7,070
Program administrative					
Payroll and related costs	4,512	-	-	-	4,512
Pension and OPEB benefit	188	-	-	-	188
General and administrative expenses	5,294	-	1,541	57	6,892
	<u>36,696</u>	<u>-</u>	<u>8,611</u>	<u>57</u>	<u>45,364</u>
<b>Total expenses</b>	<b>36,696</b>	<b>-</b>	<b>8,611</b>	<b>57</b>	<b>45,364</b>
<b>NET OPERATING INCOME (LOSS)</b>	<b>1,825</b>	<b>48</b>	<b>(1,365)</b>	<b>(52)</b>	<b>456</b>
<b>NONOPERATING REVENUE (EXPENSE)</b>					
Gain on sale of repossessed property	19	-	-	-	19
Transfers	77	(48)	-	-	29
	<u>96</u>	<u>(48)</u>	<u>-</u>	<u>-</u>	<u>48</u>
<b>Total nonoperating (expense) revenue</b>	<b>96</b>	<b>(48)</b>	<b>-</b>	<b>-</b>	<b>48</b>
<b>Excess (deficiency) of revenues over (under) expenses</b>	<b>1,921</b>	<b>-</b>	<b>(1,365)</b>	<b>(52)</b>	<b>504</b>
<b>NET POSITION - RESTRICTED</b>					
Beginning of year	74,632	9,953	21,009	(56)	105,538
<b>Excess (deficiency) of revenues over (under) expenses</b>	<b>1,921</b>	<b>-</b>	<b>(1,365)</b>	<b>(52)</b>	<b>504</b>
<b>End of year</b>	<b>\$ 76,553</b>	<b>\$ 9,953</b>	<b>\$ 19,644</b>	<b>\$ (108)</b>	<b>\$ 106,042</b>



**Veterans' Farm and Home Purchase Program**  
**Department of Veterans Affairs, State of California**  
**Computation of Adjusted Net Worth in Accordance with the Requirements of**  
**the Government National Mortgage Association (GNMA) (in Thousands)**  
**As of and for the Year Ended June 30, 2023**

---

**A. Adjusted net worth calculation:**

Net position per statement of net position at June 30, 2023 \$ 108,743

Less:

Itemized unacceptable assets

1. Other assets

\$ 8,681

Total unacceptable assets

\$ 8,681

Adjusted Net Worth

\$ 100,062

**B. Required net worth calculation:**

Unpaid principal balance of securities outstanding (Note: number of pools =2) \$ 1,246

Plus:

Outstanding balance of commitment authority issued and requested

\$ -

Total outstanding portfolio and authority

\$ -

Required net worth

\$ 2,504

**C. Excess (deficit) net worth:**

(Adjusted net worth - required net worth)

\$ 97,557

**Veterans' Farm and Home Purchase Program**  
**Department of Veterans Affairs, State of California**  
**Computation of Capital Requirement in Accordance with the**  
**Requirements of the GNMA (in Thousands)**  
**As of and for the Year Ended June 30, 2023**

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**A. Adjusted net worth calculation:**

Total adjusted net worth	\$	100,062
Total assets	\$	1,260,377

Meets requirement?

Total adjusted net worth-total assets	7.94%	Yes
---------------------------------------	-------	-----

**Veterans' Farm and Home Purchase Program**  
**Department of Veterans Affairs, State of California**  
**Computation of Liquid Asset Requirement in Accordance with**  
**the Requirements of the GNMA (in Thousands)**  
**As of and for the Year Ended June 30, 2023**

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**A. Liquid asset calculation**

Required net worth \$ 2,504

Acceptable liquid assets

- |  |                   |
|--|-------------------|
| 1. Cash in the state treasury                        | \$ 15,368         |
| 2. State of California Surplus Money Investment Fund | <u>\$ 347,500</u> |

Total liquid assets \$ 362,868

**B. Required liquid assets**

Single-family issuer liquidity requirement (Greater of \$1,000 or 0.10% of outstanding single-family securities)	<u>\$ 1,000</u>	Meets requirements? <u>Yes</u>
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**Veterans' Farm and Home Purchase Program**  
**Department of Veterans Affairs, State of California**  
**Schedule of Insurance – GNMA Required Insurance Coverage (in Thousands) –**  
**Issuer Identification Number: 4387**  
**As of and for the Year Ended June 30, 2023**

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**A. Identification of affiliated Ginnie Mae issuers**

Affiliated Ginnie Mae issuers:	None
Affiliated issuers on same insurance policies	None

**B. Required insurance calculation**

Servicing portfolio	
Ginnie Mae	\$ -
Fannie Mae	-
Freddie Mac	-
Conventional (other)	863,920
Total servicing portfolio	\$ 863,920
Required fidelity bond coverage	\$ 1,355
Required mortgage servicing errors and omissions coverage	\$ 1,355

**C. Verification of insurance coverage**

Fidelity bond coverage at June 30, 2023	\$ 2,000
Mortgage servicing errors and omissions coverage at June 30, 2023	\$ 2,000

**D. Excess (deficit) insurance coverage**

Fidelity bond coverage	\$ 645
Required mortgage servicing errors and omissions coverage	\$ 645

**E. Policies contain the required elements**

Fidelity bond coverage	Yes
Mortgage servicing errors and omissions coverage	Yes

## **Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards**

The Steering Committee  
The CalVet Home Loan Program of the Department of Veteran Affairs  
State of California

We have audited, in accordance with the 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, the financial statements of the CalVet Home Loan Program of the Department of Veteran Affairs, State of California (the Program) as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the CalVet Home Loan Program of the Department of Veteran Affairs, State of California's basic financial statements, and have issued our report thereon dated July 22, 2024.

### **Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Program's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Program's internal control. Accordingly, we do not express an opinion on the effectiveness of the Program's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Program's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of the Program's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Program's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Moss Adams LLP".

Sacramento, California  
July 22, 2024

## **Report on Compliance for Major HUD Program and Report on Internal Control Over Compliance Required by the *Consolidated Audit Guide for Audits of HUD Programs***

The Steering Committee  
The CalVet Home Loan Program of the Department of Veteran Affairs  
State of California

### **Report on Compliance for the Major HUD Program**

#### ***Opinion on the Major HUD Program***

We have audited the CalVet Home Loan Program of the Department of Veteran Affairs, State of California (the Program)'s compliance with the compliance requirements described in the *Consolidated Audit Guide for Audits of HUD Programs* (the Audit Guide) that could have a direct and material effect on the Program's major U.S. Department of Housing and Urban Development (HUD) program for the year ended June 30, 2023. The Program's major HUD program includes the Government National Mortgage Association (GNMA) II mortgage-backed securities program, and the related direct and material compliance requirements are as follows: Federal Financial Reports; Eligibility to Issue Mortgage-Backed Securities; Review of Custodial Documents; Issuer's Administration of Pooled Mortgage; Review of Monthly Accounting Reports and Quarterly Submissions; Adjusted Net Worth; Institution-wide Capital Requirements; and Liquid Asset Requirement.

In our opinion, the CalVet Home Loan Program of the Department of Veteran Affairs, State of California complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the major HUD program for the year ended June 30, 2023.

#### ***Basis for Opinion on the Major HUD Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*); and the Guide. Our responsibilities under those standards and the Guide are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the CalVet Home Loan Program of the Department of Veteran Affairs, State of California and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major HUD program. Our audit does not provide a legal determination of the Program's compliance with the compliance requirements referred to above.

### ***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, regulations, rules, and provisions of contracts or grant agreements applicable to its HUD programs.

### ***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Program's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Guide will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Program's compliance with the requirements of the major HUD program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Guide, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Program's compliance with the compliance requirements referred to above and performing such other procedures as we consider necessary in the circumstances.
- Obtain an understanding of the Program's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with Guide, but not for purpose of expressing an opinion on the effectiveness of the Program's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.



## **Report on Internal Control Over Compliance**

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a compliance requirement of a HUD program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a compliance requirement of a HUD program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a compliance requirement of a HUD program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Guide. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Moss Adams LLP".

Sacramento, California  
July 22, 2024



**APPENDIX C**  
**CERTAIN DEPARTMENT FINANCIAL INFORMATION**  
**AND OPERATING DATA**

Set forth below is certain financial information regarding Contracts of Purchase, as well as certain selected information with respect to Veterans G.O. Bonds, Revenue Bonds and certain additional investments. Capitalized terms not defined herein shall have the meanings ascribed to them in the forepart of this Official Statement.

**Existing Contracts of Purchase**

The following charts describe the LTV ratio of Contracts of Purchase based on the original appraised value of the applicable properties, geographic distribution, portfolio age data, and high LTV distribution of Contracts of Purchase financed under the Program as of June 30, 2024, using proceeds of Veterans G.O. Bonds and Commercial Paper Notes, Revenue Bonds and other amounts under the 1943 Fund.

LTV is based on Contracts of Purchase balance as of June 30, 2024 divided by original appraised value of the property, except where the Department has updated the appraised value of the applicable home after a veteran has applied for a home improvement loan. In such cases, the LTV is calculated with the new appraised value. Current appraised value may be higher or lower than original appraised value. For many properties financed with Contracts of Purchase, the appraised value as of June 30, 2024, is lower than the original appraised value. The appraisals reflect the market conditions at the time the appraisals were conducted, may not reflect current values, are not guarantees and may not be fully indicative of present or future values.

**Loan-to-Value Ratio of Contracts of Purchase Based on Original Appraised Value as of June 30, 2024<sup>(1)</sup>**

	<u>Uninsured</u>	<u>Original Radian Insured<sup>(2)</sup></u>	<u>Additional Radian Insured<sup>(2)</sup></u>	<u>VA Guaranteed</u>	<u>Total</u>
<b><u>Single Family Homes</u></b>					
Less than 30% LTV	\$ 16,321	1,431	1,942	11,142	30,836
30-49% LTV	22,616	1,090	14,595	11,977	50,277
50-59% LTV	8,407	22	6,167	9,850	24,447
60-69% LTV	9,960	-	5,404	19,864	35,228
70-79% LTV	12,527	-	1,177	49,026	62,730
80-84% LTV	2,891	-	-	74,348	77,240
85-89% LTV	3,363	-	135	79,972	83,470
90-94% LTV	1,584	-	-	114,621	116,205
95-97% LTV	-	-	-	17,335	17,335
Greater than 97% LTV	24,724	-	36	437,563	462,323
Sub-total	\$ 102,395	2,543	29,455	825,698	960,091
<b><u>Other Loan and Property Types</u></b>					
Farms	\$ 340	\$ 9	\$ 159	\$ -	\$ 508
Mobile Homes in Parks	4,154	8	1,028	388	5,579
Home Improvement Loans	8,564	-	-	-	8,564
Homes under Construction	2,942	-	12	-	2,954
Deferred Payment Assistance Loans	4,393	-	-	-	4,393
Sub-total	\$ 20,394	\$ 17	\$ 1,200	\$ 388	\$ 21,999
<b><u>Special Status Contracts of Purchase</u></b>					
Real Estate Owned <sup>(3)</sup>	\$ 1,034	\$ 141	-	\$ -	\$ 1,175
Cancelled	147	-	321	4,484	4,952
Disability Program <sup>(4)</sup>	40	17	-	87	144
Sub-total	\$ 1,221	\$ 157	\$ 321	\$ 4,571	\$ 6,270
Total Portfolio	\$ 124,010	\$ 2,718	\$ 30,977	\$ 830,657	\$ 988,360

Source: Department of Veterans Affairs of the State of California.

<sup>(1)</sup> Amounts in thousands.

<sup>(2)</sup> The primary mortgage insurance policies (the "Radian Policies") issued by Radian Guaranty Inc. ("Radian") provide coverage for aggregate losses incurred on covered Contracts of Purchase following property disposition, above an aggregate 2% deductible based upon the originally insured balances of the Contracts of Purchase originally included in the applicable group identified by Radian Policy coverage dates. As many of the Contracts of Purchase insured under the Original Radian Policy have high originally insured balances but have been paid down significantly over the life of such Contracts of Purchase, the Department does not anticipate that it will incur losses on Contracts of Purchase in excess of the aggregate 2% deductible in the Original Radian Policy. For the Additional Radian Policy, Radian's aggregate 2% deductible was met and Radian is now paying claims under the Additional Radian Policy. See APPENDIX A – "THE DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA, THE PROGRAM AND THE 1943 FUND – THE PROGRAM – USDVA Guaranty Program; Other Loan Insurance – Primary Mortgage Insurance" above and "Primary Mortgage Insurance Coverage" below.

<sup>(3)</sup> REO by the Department on financial statements.

<sup>(4)</sup> Contracts of Purchase where payments are made on behalf of veterans by the Department's life and disability coverage plan.

**Geographic Distribution of Contracts of Purchase**  
**Approximate Principal Balance Outstanding**  
**as of June 30, 2024<sup>(1)</sup>**

County	
Riverside	\$ 155,330
Los Angeles	110,566
Sacramento	80,533
San Diego	70,834
San Bernardino	59,566
Kern	40,065
Fresno	37,164
Solano	36,974
Orange	30,787
San Joaquin	23,242
El Dorado	19,761
Contra Costa	19,152
Shasta	19,124
Butte	17,921
Placer	16,381
Other Northern California Counties	145,358
Other Central California Counties	89,291
Other Southern California Counties	16,312
Statewide—California	\$ 988,360

Source: Department of Veterans Affairs of the State of California.

<sup>(1)</sup> Amounts in thousands. Approximate Principal Balance Outstanding of Contracts of Purchase includes the principal balance of delinquent Contracts of Purchase, cancelled or foreclosed upon Contracts of Purchase and REO in inventory.

**Portfolio Age Data for Outstanding Contracts of Purchase as of June 30, 2024**

Origination Date	Number of Contracts of Purchase	% of Outstanding Contracts of Purchase	Outstanding Principal Balance <sup>(1)</sup>	Outstanding Principal Balance as a Percent of Total Portfolio
2010 and Prior	1153	25.96%	\$ 96	9.67%
2011	19	0.43	1	0.16
2012	21	0.46	2	0.22
2013	26	0.58	4	0.45
2014	90	2.03	16	1.69
2015	189	4.25	40	4.10
2016	209	4.71	52	5.31
2017	230	5.18	57	5.73
2018	301	6.78	69	6.94
2019	286	6.44	62	6.23
2020	343	7.72	80	8.10
2021	483	10.87	138	13.99
2022	347	7.81	110	11.09
2023	460	10.36	168	16.91
2024	285	6.42	93	9.41
<b>Total</b>	4,442	100.00%	\$ 988	100.00%

Source: Department of Veterans Affairs of the State of California.

<sup>(1)</sup> Amounts in millions. Outstanding principal balance of Contracts of Purchase includes the principal balance of delinquent Contracts of Purchase, cancelled or foreclosed upon Contracts of Purchase and REO in inventory.

**Contracts of Purchase<sup>(1)</sup> with 97% LTV or Higher as of June 30, 2024**

<b>County</b>	<b>USDVA Guaranteed</b>	<b>No USDVA Guaranty or other Primary Mortgage Insurance</b>	<b>Total Contracts of Purchase with 97% or Higher LTV</b>	<b>Outstanding Balance of Contracts of Purchase with 97% or Higher LTV<sup>(2)</sup></b>
Riverside	202	4	206	\$ 73,070
Sacramento	145	3	148	44,681
Los Angeles	104	5	109	46,042
San Bernardino	98	1	99	29,491
San Diego	60	7	67	28,256
Fresno	66	1	67	17,819
All Other Counties <sup>(3)</sup>	648	31	679	214,617
<b>Total</b>	<b>1,323</b>	<b>52</b>	<b>1375</b>	<b>\$ 453,976</b>

Source: Department of Veterans Affairs of the State of California.

<sup>(1)</sup> Includes "Single Family Homes," "Other Property Types" and "Special Status Contracts of Purchase" as described in the table titled "Loan-to-Value Ratio of Contracts of Purchase Based on Original Appraised Value as of June 30, 2024." Excludes Home Improvement Loans, as described in the table titled "Loan-to-Value Ratio of Contracts of Purchase Based on Original Appraised Value as of June 30, 2024."

<sup>(2)</sup> Amounts in thousands.

<sup>(3)</sup> All counties not listed individually had less than 67 total contracts with a LTV of 97% or higher, as described above.

## Primary Mortgage Insurance Coverage

The Contracts of Purchase insured under Radian Policies are divided into four sub-groups. The following table describes the sub-groups and outstanding Contracts of Purchase, insured under Radian Policies, as of June 30, 2024.

Group	Approximate Contracts of Purchase Coverage Dates <sup>(4)</sup>	Total Contracts of Purchase	Percentage of Radian Insured Portfolio <sup>(1)</sup>	Percentage of Radian Insured Portfolio of Department Total Portfolio <sup>(1)</sup>	Loan-to- Value Ratio Radian Insured <sup>(2)</sup>	Original Aggregate Sub-group Deductible <sup>(3)</sup>	Remaining Aggregate Sub-group Deductible
<u>Original Radian Policy</u>							
1	Prior to 2/3/1998	62	2.82%	0.10%	10.18%	\$ 14,024,312	\$ 12,636,931
2	2/3/1998 – 11/30/1998	8	0.69%	0.02%	23.96%	2,101,257	2,027,113
3	12/1/1998 – 6/30/2000	1	0.09%	0.00%	23.26%	568,391	568,391
<u>Additional Radian Policy</u>							
4	7/1/2000 – 3/31/2008	362	96.40%	3.64%	41.53%	24,252,550	0 <sup>(3)</sup>
Total		433	100.00%	3.76%	38.00%		

Source: Department of Veterans Affairs of the State of California.

<sup>(1)</sup> Percentage based on outstanding Contract of Purchase principal amounts.

<sup>(2)</sup> Calculated as the ratio of the outstanding principal amount of the aggregate Contracts of Purchase during the applicable period as compared to the aggregate original appraised value of the properties subject to such Contracts of Purchase at origination. The appraisals reflect the market conditions at the time the appraisals were conducted, may not reflect current values, are not guarantees and may not be fully indicative of present or future values.

<sup>(3)</sup> The Radian Policies provide coverage for aggregate losses incurred on covered Contracts of Purchase following property disposition, above an aggregate 2% deductible based upon the originally insured balances of the Contracts of Purchase originally included in the applicable group identified by Radian policy coverage dates. As many of the Contracts of Purchase insured under the Original Radian Policy have high originally insured balances but have been paid down significantly over the life of such Contracts of Purchase, the Department does not anticipate that it will incur losses on Contracts of Purchase in excess of the aggregate 2% deductible in the Original Radian Policy. For the Additional Radian Policy, Radian's aggregate 2% deductible was met and Radian is now paying claims under the Additional Radian Policy. See APPENDIX A – "THE DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA, THE PROGRAM AND THE 1943 FUND – THE PROGRAM – USDVA Guaranty Program; Other Loan Insurance" and "Primary Mortgage Insurance Coverage."

<sup>(4)</sup> "Coverage Date" is the respective Radian Policy date. As of April 1, 2008, the Department discontinued purchase of Radian mortgage insurance coverage.

## Contracts of Purchase Origination and Principal Repayment Experience

The following tables represent, respectively, a historical picture of Contract of Purchase originations since the fiscal year ended June 30, 1990 and selected principal repayments with respect to Contracts of Purchase since the fiscal year ended June 30, 1990.

### *Contracts of Purchase Originated During the Fiscal Year*

Fiscal Year Ending June 30	<u>Veterans G.O. Bonds</u>		<u>Pre-Ullman Moneys</u>		<u>Revenue Bonds</u>		<u>Total</u>	
	Number <sup>(1)</sup>	Amount	Number <sup>(1)</sup>	Amount	Number <sup>(1)</sup>	Amount	Number <sup>(1)</sup>	Amount
1990	2,097	\$187,445,600	--	--	522	\$38,150,800	2,619	\$225,596,400
1991	1,927	200,393,500	--	--	359	29,189,600	2,286	229,583,100
1992	1,086	111,600,500	--	--	388	34,671,600	1,474	146,272,100
1993	740	94,417,100	--	--	286	27,443,800	1,026	121,860,900
1994	843	117,213,779	--	--	337	34,740,536	1,180	151,954,315
1995	2,109	286,178,376	--	--	822	84,860,894	2,931	371,039,270
1996	762	107,751,444	--	--	222	22,723,617	984	130,475,061
1997	766	118,344,636	--	--	201	21,853,933	967	140,198,569
1998	615	99,224,002	188	\$17,716,376	164	18,871,066	967	135,811,444
1999	758	129,521,359	575	92,728,280	274	33,284,343	1,607	255,533,982
2000	1,045	185,180,534	1,725	333,328,690	708	92,214,409	3,478	610,723,633
2001	844	135,498,480	1,211	232,445,146	697	101,175,512	2,752	469,119,138
2002	334	56,887,867	416	74,915,487	204	27,178,525	954	158,981,879
2003	357	68,105,508	508	99,105,265	123	16,285,625	988	183,496,398
2004	444	97,223,818	1,173	274,187,085	165	26,109,792	1,782	397,520,696
2005	285	72,958,181	702	181,075,275	178	37,152,048	1,165	291,185,504
2006	198	48,999,641	898	230,993,270	5	831,638	1,101	280,824,549
2007	74	19,751,777	764	173,744,639	68	11,349,372	906	204,845,788
2008	214	38,721,589	428	139,470,089	417	111,589,399	1,059	289,781,076
2009	255	83,697,271	161	42,079,390	263	66,032,084	679	191,808,746
2010	34	10,805,881	31	8,170,125	74	13,122,489	139	32,098,495
2011	23	5,741,933	92	7,235,231	41	7,027,890	156	20,005,054
2012	13	3,694,109	44	3,619,080	26	4,170,377	83	11,483,566
2013	7	2,821,875	29	2,619,739	13	3,686,085	49	9,127,700
2014	172	57,114,169	25	5,718,970	38	7,547,436	235	70,380,575
2015	307	104,057,536	108	17,620,828	70	15,103,528	485	136,781,892
2016	380	138,616,456	138	26,739,697	74	16,200,693	592	181,556,846
2017	290	128,080,426	181	45,274,878	204	49,375,869	675	222,731,173
2018	222	100,478,330	123	26,434,186	213	48,889,944	558	175,802,460
2019	221	98,696,887	130	36,138,420	339	64,270,315	690	199,105,622
2020	233	90,693,540	142	43,801,208	223	40,654,246	598	175,148,994
2021	371	72,332,949	283	22,343,963	522	50,223,695	1,176	144,900,607
2022	375	90,509,038	196	21,372,855	487	53,755,816	1,058	165,637,709
2023	242	62,296,372	271	26,961,827	263	26,688,067	776	115,946,266
2024	571	137,433,301	153	18,417,777	358	42,659,685	1082	198,510,763

Source: Department of Veterans Affairs of the State of California.

<sup>(1)</sup> Number of Contracts of Purchase originated does not include home improvement loans or construction loans not fully funded.



*Selected Principal Flows with respect to Contracts of Purchase Funded by both Veterans G.O. Bonds and Revenue Bonds (Dollar Amounts in Thousands)*

Fiscal Year Ending June 30	Contracts of Purchase Funded During Year <sup>(1)</sup>	Contracts of Purchase Prepayments During Year	Other Principal Receipts-Losses During Year	Contracts of Purchase Balance at End of Year	Average Rate on all Outstanding Contracts of Purchase	Average of Monthly FHLMC 30-year Conventional Loan Rate	Annual Average Prepayment Rate	Annual Average Origination Rate
1990	\$ 225,596	\$ 232,085	\$ 96,639	\$ 3,037,766	8.0%	10.1%	7.5%	7.3%
1991	229,583	191,895	92,722	2,982,732	8.0	9.9	6.4	7.6
1992	146,272	246,150	92,975	2,789,879	8.0	9.0	8.5	5.1
1993	121,861	273,817	105,629	2,532,294	8.0	8.0	10.3	4.6
1994	151,954	359,749	98,773	2,225,726	8.0	7.3	15.1	6.4
1995	371,039	111,984	74,706	2,410,075	7.8	8.7	4.8	16.0
1996	130,475	141,767	92,521	2,306,262	8.0	7.5	6.0	5.5
1997	140,199	111,254	106,027	2,229,180	8.0	7.9	4.9	6.2
1998	135,812	172,134	94,106	2,098,752	7.7	7.2	8.0	6.3
1999	255,534	183,776	101,254	2,069,256	6.9	6.9	8.8	12.3
2000	610,724	138,401	106,522	2,435,056	6.8	8.1	6.1	27.1
2001	469,119	189,902	91,033	2,623,241	6.8	7.5	7.5	18.5
2002	158,982	330,068	86,556	2,365,599	6.8	6.9	13.2	6.4
2003	183,496	701,785	74,643	1,772,667	6.7	5.9	33.9	8.9
2004	397,521	576,907	53,833	1,539,448	6.3	5.9	34.8	24.0
2005	291,186	272,044	70,564	1,488,026	5.9	5.8	18.0	19.2
2006	280,825	204,037	51,481	1,513,333	5.8	6.2	13.6	18.7
2007	204,846	132,207	50,403	1,535,569	5.8	6.4	8.7	13.4
2008	289,781	82,575	53,915	1,688,860	5.8	6.2	5.1	18.0
2009	191,809	84,010	56,756	1,739,903	5.9	5.6	4.9	11.2
2010	32,098	139,533	77,901	1,554,567	5.7	5.0	8.5	1.9
2011	20,005	123,520	74,199	1,376,853	5.7	4.6	8.4	1.4
2012	11,484	136,078	66,662	1,185,597	5.7	4.0	10.6	0.9
2013	9,128	187,623	54,740	952,362	5.6	3.5	17.6	0.9
2014	73,508	142,868	43,697	839,305	5.5	4.2	16.0	8.2
2015	143,538	129,325	32,669	820,849	5.2	3.9	15.6	17.3
2016	182,070	123,301	31,778	847,840	4.9	3.8	14.8	21.9
2017	217,397	122,236	29,821	913,180	4.6	3.9	13.9	24.7
2018	176,796	95,645	29,243	965,088	4.4	4.4	10.2	18.8
2019	198,314	87,166	32,195	1,044,041	4.2	4.7	8.7	19.8
2020	177,797	142,757	31,518	1,047,563	4.3	3.5	13.7	17.0
2021	136,251	273,179	16,935	893,700	4.1	2.9	28.1	14.0
2022	168,869	201,537	32,435	828,597	4.0	3.4	23.4	18.7
2023	116,710	60,581	20,906	863,820	4.2	6.8	7.2	6.4
2024	199,852	49,645	25,667	988,360	4.6	6.9	5.8	12.5
	\$ 6,850,431	\$ 6,751,541	\$ 2,470,389					

Source: Department of Veterans Affairs of the State of California.

<sup>(1)</sup> Number of Contracts of Purchase Funded includes disbursements for home improvement loans and constructions loans.

**Reservation Rates on New Contracts of Purchase:**

<u>Period</u>	<u>Veterans G.O. Bonds<sup>(1)</sup></u>	<u>Pre-Ullman Funds<sup>(1)</sup></u>	<u>Revenue Bonds</u>
Prior to January 1, 1999, substantially all newly originated Contracts of Purchase have the same rate as the then outstanding Contracts of Purchase.			
January 1, 1999 through June 30, 2000	6.65%	6.65%	5.95%
July 1, 2000 through February 28, 2001	7.50	7.95	6.95
March 1, 2001 through May 31, 2001	6.50	7.95	6.40
June 1, 2001 through August 31, 2001	6.50	7.10	6.40
September 1, 2001 through April 1, 2002	6.25	6.50	6.00
April 2, 2002 through July 31, 2002	5.90	5.50	5.80
August 1, 2002 through December 1, 2002	5.50	6.00	5.80
December 2, 2002 through June 15, 2003	4.99	5.40	5.25
June 16, 2003 through September 1, 2003	4.25	4.50	4.50
September 1, 2003 through September 15, 2003	4.25	4.99	4.50
September 16, 2003 through May 5, 2004	4.50	4.99	4.50
May 6, 2004 through June 1, 2004	4.75	5.25	4.75
June 2, 2004 through December 13, 2004	4.95	5.50	5.10
December 14, 2004 through April 3, 2005	4.95	5.50	5.50
April 4, 2005 through December 9, 2005	5.15	5.50	5.50
December 10, 2005 through February 5, 2006	5.50	5.50	5.50
February 6, 2006 through March 14, 2006	5.70	5.70	5.70
March 15, 2006 through April 25, 2006	6.00	6.00	6.00
April 26, 2006 through July 5, 2006	6.25	6.25	6.25
July 6, 2006 through December 19, 2006	6.50	6.50	6.50
December 20, 2006 through March 15, 2007	5.50	6.10	5.75
March 16, 2007 through July 9, 2007	5.50	6.10	5.25
July 10, 2007 through August 12, 2007	5.50	6.45	5.25
August 13, 2007 through October 14, 2007	5.50	6.55	5.25
October 15, 2007 through February 6, 2008	5.50	6.55	5.45
February 7, 2008 through June 25, 2008	5.50	6.10	5.45
June 26, 2008 through January 28, 2009	5.95	6.20	5.50
January 29, 2009 through February 13, 2011	5.95	6.20	5.75
February 14, 2011 through October 2, 2011	5.70	5.95	5.50
October 3, 2011 through February 29, 2012	5.50	5.95	5.25
March 1, 2012 through May 31, 2012	5.50	5.95	4.95
June 1, 2012 through July 31, 2012	4.95	5.95	4.60
August 1, 2012 through February 3, 2013	4.95	5.95	4.25
February 4, 2013 through February 28, 2013	4.50	5.50	4.25
March 1, 2013 through May 5, 2013	4.15	5.50	4.25
May 6, 2013 through November 30, 2014	3.90	5.50	4.25
December 1, 2014 through February 2, 2015	3.75	5.50	4.25
February 3, 2015 through June 14, 2015	3.50 <sup>(2)</sup> /3.75	5.50	4.25
June 15, 2015 through December 31, 2015	3.50 <sup>(2)</sup> /3.90	5.50	4.25
January 1, 2016 through February 7, 2016	3.25 <sup>(2)</sup> /3.99	5.50	4.25
February 8, 2016 through May 1, 2016	3.25 <sup>(2)</sup> /3.75	5.50	4.25
May 2, 2016 through June 30, 2016	3.00 <sup>(2)</sup> /3.50	5.50	4.00
July 1, 2016 through December 31, 2016	3.00 <sup>(2)</sup> /3.50	5.50	3.45
January 1, 2017 through December 3, 2017	3.00 <sup>(2)</sup> /3.875	5.50	3.75
December 4, 2017 through February 28, 2018	3.00 <sup>(2)</sup> /3.875	5.50	3.45
March 1, 2018 through April 30, 2018	3.00 <sup>(2)</sup> /3.99	5.50	3.75
May 1, 2018 through May 31, 2018	3.00 <sup>(2)</sup> /4.125	5.99	3.75
June 1, 2018 through June 30, 2018	3.25 <sup>(2)</sup> /4.25	5.99	3.99
July 1, 2018 through July 31, 2018	3.25 <sup>(2)</sup> /4.25	5.99	4.25
August 1, 2018 through September 30, 2018	3.50 <sup>(2)</sup> /4.50	5.99	4.375
October 1, 2018 through October 31, 2018	3.75 <sup>(2)</sup> /4.75	5.99	4.625
November 1, 2018 through December 31, 2018	3.99 <sup>(2)</sup> /4.875	5.99	4.75

<u>Period</u>	<u>Veterans G.O. Bonds<sup>(1)</sup></u>	<u>Pre-Ullman Funds<sup>(1)</sup></u>	<u>Revenue Bonds</u>
January 1, 2019 through March 31, 2019	3.75 <sup>(2)</sup> /4.375	5.99	4.25
April 1, 2019 through April 12, 2019	3.45 <sup>(2)</sup> /4.25	5.99	3.99
April 13, 2019 through June 30, 2019	3.45 <sup>(2)</sup> /3.99	5.99	3.75
July 1, 2019 through September 30, 2019	3.45 <sup>(2)</sup> /3.875	5.99	3.75
October 1, 2019 through May 31, 2020	3.45 <sup>(2)</sup> /3.875	5.99	3.875
June 1, 2020 through August 31, 2020	3.45 <sup>(2)</sup> /3.875	5.99	3.75
September 1, 2020 through September 30, 2020	2.99 <sup>(2)</sup> /3.25	5.99	3.20
October 1, 2020 through April 30, 2021	2.75 <sup>(2)</sup> /2.90	5.99	2.875
May 1, 2021 through September 30, 2021	2.65 <sup>(2)</sup> /2.75	5.99	2.70
October 1, 2021 through December 31, 2021	2.49 <sup>(2)</sup> /2.875	5.99	2.70
January 1, 2022 through January 31, 2022	2.75 <sup>(2)</sup> /3.125	5.99	3.125
February 1, 2022 through March 1, 2022	2.99 <sup>(2)</sup> /3.625 <sup>(4)</sup> /3.875 <sup>(5)</sup>	5.99	3.375 <sup>(4)</sup> /3.50 <sup>(5)</sup>
March 2, 2022 through March 20, 2022	3.50 <sup>(2)</sup> /3.875 <sup>(4)</sup> /3.99 <sup>(5)</sup> /4.35 <sup>(6)</sup>	5.99	3.75 <sup>(4)</sup> /3.90 <sup>(5)</sup> /4.30 <sup>(6)</sup>
March 21, 2022 through April 3, 2022	3.75 <sup>(2)</sup> /4.125 <sup>(4)</sup> /4.375 <sup>(5)</sup> /4.625 <sup>(6)</sup>	5.99	3.99 <sup>(4)</sup> /4.25 <sup>(5)</sup> /4.55 <sup>(6)</sup>
April 4, 2022 through April 14, 2022	4.05 <sup>(2)</sup> /4.425 <sup>(4)</sup> /4.675 <sup>(5)</sup> /4.925 <sup>(6)</sup>	5.99	4.29 <sup>(4)</sup> /4.55 <sup>(5)</sup> /4.85 <sup>(6)</sup>
April 15, 2022 through April 24, 2022	4.50 <sup>(2)</sup> /4.75 <sup>(4)</sup> /4.875 <sup>(5)</sup> /5.50 <sup>(6)</sup>	5.99	4.625 <sup>(4)</sup> /4.75 <sup>(5)</sup> /5.375 <sup>(6)</sup>
April 25, 2022 through May 8, 2022	4.75 <sup>(2)</sup> /4.99 <sup>(4)</sup> /5.125 <sup>(5)</sup> /5.75 <sup>(6)</sup>	6.25	4.825 <sup>(4)</sup> /4.99 <sup>(5)</sup> /5.625 <sup>(6)</sup>
May 9, 2022 through June 14, 2022	4.75 <sup>(2)</sup> /5.25 <sup>(4)</sup> /5.50 <sup>(5)</sup> /5.99 <sup>(6)</sup>	6.50	5.125 <sup>(4)</sup> /5.40 <sup>(5)</sup> /5.875 <sup>(6)</sup>
June 15, 2022 through July 13, 2022	4.99 <sup>(2)</sup> /5.75 <sup>(4)</sup> /6.00 <sup>(5)</sup> /6.25 <sup>(6)</sup>	6.50	5.60 <sup>(4)</sup> /5.90 <sup>(5)</sup> /6.125 <sup>(6)</sup>
July 14, 2022 through July 21, 2022	4.75 <sup>(2)</sup> /5.25 <sup>(7)</sup> /5.75 <sup>(4)</sup> /6.00 <sup>(5)</sup> /6.25 <sup>(6)</sup>	6.50	4.99 <sup>(7)</sup> /5.60 <sup>(4)</sup> /5.90 <sup>(5)</sup> /6.125 <sup>(6)</sup>
July 22, 2022 through August 7, 2022	4.75 <sup>(2)</sup> /5.25 <sup>(7)</sup> /5.625 <sup>(4)</sup> /5.875 <sup>(5)</sup> /6.125 <sup>(6)</sup>	6.50	4.99 <sup>(7)</sup> /5.40 <sup>(4)</sup> /5.70 <sup>(5)</sup> /6.00 <sup>(6)</sup>
August 8, 2022 to September 25, 2022	4.50 <sup>(2)</sup> /4.99 <sup>(7)</sup> /5.25 <sup>(4)</sup> /5.625 <sup>(5)</sup> /5.875 <sup>(6)</sup>	6.25	4.75 <sup>(7)</sup> /4.99 <sup>(4)</sup> /5.45 <sup>(5)</sup> /5.75 <sup>(6)</sup>
September 26, 2022 to November 20, 2022	5.25 <sup>(2)</sup> /6.25 <sup>(7)</sup> /6.49 <sup>(4)</sup> /6.625 <sup>(5)</sup> /6.99 <sup>(6)</sup>	7.25	5.99 <sup>(7)</sup> /6.25 <sup>(4)</sup> /6.49 <sup>(5)</sup> /6.75 <sup>(6)</sup>
November 21, 2022 to December 11, 2022	5.50 <sup>(2)</sup> /5.625 <sup>(7)</sup> /6.125 <sup>(4)</sup> /6.25 <sup>(5)</sup> /6.625 <sup>(6)</sup>	7.25	5.50 <sup>(7)</sup> /5.99 <sup>(4)</sup> /6.125 <sup>(5)</sup> /6.375 <sup>(6)</sup>
December 12, 2022 to March 26, 2023	5.00 <sup>(2)</sup> /5.50 <sup>(7)</sup> /5.99 <sup>(4)</sup> /5.99 <sup>(5)</sup> /6.375 <sup>(6)</sup>	7.25 <sup>(3)</sup>	5.375 <sup>(7)</sup> /5.90 <sup>(4)</sup> /6.125 <sup>(5)</sup> /6.50 <sup>(6)</sup>
March 27, 2023 to August 31, 2023	5.00 <sup>(2)</sup> /5.75 <sup>(7)</sup> /5.99 <sup>(4)</sup> /6.50 <sup>(5)</sup> /6.875 <sup>(6)</sup>	7.99 <sup>(3)</sup>	5.625 <sup>(7)</sup> /5.875 <sup>(4)</sup> /6.375 <sup>(5)</sup> /6.75 <sup>(6)</sup>
September 1, 2023 to November 16, 2023	5.99 <sup>(2)</sup> /6.375 <sup>(7)</sup> /6.75 <sup>(4)</sup> /6.99 <sup>(5)</sup> /7.125 <sup>(6)</sup>	7.99 <sup>(3)</sup>	6.25 <sup>(7)</sup> /6.625 <sup>(4)</sup> /6.875 <sup>(5)</sup> /6.99 <sup>(6)</sup>
November 17, 2023 to February 11, 2024	5.50 <sup>(2)</sup> /5.875 <sup>(7)</sup> /5.99 <sup>(4)</sup> /6.99 <sup>(5)</sup> /7.25 <sup>(6)</sup>	7.99 <sup>(3)</sup>	5.75 <sup>(7)</sup> /5.875 <sup>(4)</sup> /6.875 <sup>(5)</sup> /7.125 <sup>(6)</sup>
February 12, 2024 to April 7, 2024	5.50 <sup>(2)</sup> /5.875 <sup>(7)</sup> /5.99 <sup>(4)</sup> /6.75 <sup>(5)</sup> /6.99 <sup>(6)</sup>	7.99 <sup>(3)</sup>	5.75 <sup>(7)</sup> /5.875 <sup>(4)</sup> /6.375 <sup>(5)</sup> /6.625 <sup>(6)</sup>
April 8, 2024 to May 31, 2024	5.50 <sup>(2)</sup> /5.875 <sup>(7)</sup> /5.99 <sup>(4)</sup> /6.75 <sup>(5)</sup> /6.99 <sup>(6)</sup>	7.99 <sup>(3)</sup>	5.625 <sup>(7)</sup> /5.875 <sup>(4)</sup> /6.125 <sup>(5)</sup> /6.625 <sup>(6)</sup>
June 1, 2024 to July 23, 2024	5.50 <sup>(2)</sup> /5.99 <sup>(7)</sup> /6.25 <sup>(4)</sup> /6.75 <sup>(5)</sup> /6.99 <sup>(6)</sup>	7.99 <sup>(3)</sup>	5.875 <sup>(7)</sup> /6.125 <sup>(4)</sup> /6.50 <sup>(5)</sup> /6.75 <sup>(6)</sup>
July 24, 2024 to August 11, 2024	5.50 <sup>(2)</sup> /5.99 <sup>(7)</sup> /5.99 <sup>(4)</sup> /6.75 <sup>(5)</sup> /6.99 <sup>(6)</sup>	7.99 <sup>(3)</sup>	5.75 <sup>(7)</sup> /5.9 <sup>(4)</sup> /6.625 <sup>(5)</sup> /6.875 <sup>(6)</sup>
August 12, 2024 to September 8, 2024	5.50 <sup>(2)</sup> /5.75 <sup>(7)</sup> /5.875 <sup>(4)</sup> /6.50 <sup>(5)</sup> /6.75 <sup>(6)</sup>	7.99 <sup>(3)</sup>	5.50 <sup>(7)</sup> /5.75 <sup>(4)</sup> /6.25 <sup>(5)</sup> /6.49 <sup>(6)</sup>
September 9, 2024 to Present	5.50 <sup>(2)</sup> /5.625 <sup>(7)</sup> /5.75 <sup>(4)</sup> /6.50 <sup>(5)</sup> /6.75 <sup>(6)</sup>	7.99 <sup>(3)</sup>	5.375 <sup>(7)</sup> /5.625 <sup>(4)</sup> /6.25 <sup>(5)</sup> /6.49 <sup>(6)</sup>

Source: Department of Veterans Affairs of the State of California.

- (1) Rates for Contracts of Purchase for mobile homes in mobile home parks are 1% higher than the applicable established rates.
- (2) Rates for Contracts of Purchase with terms of up to 20 years.
- (3) Until October 31, 2024, the Department will make available not more than a total of \$8 million of Pre-Ullman Moneys to fund Contracts of Purchase, subject to certain qualifications, at an interest rate of 7.99%.
- (4) Rates for Contracts of Purchase for “Plus” qualifying credit scores.
- (5) Rates for Contracts of Purchase for “Standard” qualifying credit scores.
- (6) Rates for Contracts of Purchase for “Fixed” qualifying credit scores.
- (7) Rates for Contracts of Purchase for “Platinum” qualifying credit scores.

**Amounts Expected to be Available to Fund Contracts of Purchase and Related Investments**

The following table shows amounts expected to be available to fund Contracts of Purchase from funds related to Veterans G.O. Bonds and Revenue Bonds. Additional moneys may become available to finance Contracts of Purchase through the future issuances of Veterans G.O. Bonds and Revenue Bonds. The Department has full discretion, subject to eligibility requirements and the requirements of the Internal Revenue Code of 1986, as amended (the “Federal Tax Code”), in applying the proceeds of Veterans G.O. Bonds, Revenue Bonds and other available moneys in the 1943 Fund to finance the Program in any order of priority it chooses. As of June 30, 2024, the Department had approximately 138 pending applications for Contracts of Purchase in the aggregate amount of approximately \$41 million.

**Amounts Expected to be Available to Fund Contracts of Purchase<sup>(1) (2) (3)</sup>**

	Pre-Ullman Moneys				QVMB Moneys				QMB Moneys			
	Amount On Deposit on June 30, 2024	Amounts Expected to be Deposited through Oct. 31, 2024	Contracts of Purchase through Oct. 31, 2024	Amount Expected to be Available on Oct. 31, 2024	Amount On Deposit on June 30, 2024	Amounts Expected to be Deposited through Oct. 31, 2024	Amounts Expected to be Applied to Contracts of Purchase through Oct. 31, 2024	Amount Expected to be Available on Oct. 31, 2024	Amount On Deposit on June 30, 2024	Amounts Expected to be Deposited through Oct. 31, 2024	Amounts Expected to be Applied to Contracts of Purchase through Oct. 31, 2024	Amount Expected to be Available on Oct. 31, 2024
<b>Veterans G.O. Bond Proceeds and Recycling Subaccounts</b>												
Pre-Ullman Moneys.....	\$ 3,533	\$ 4,000	\$ (3,500)	\$ 4,033	\$ 0	\$ 0	\$ 0	\$ 0				
QVMB Reimbursement....	0	0	0	0	11,125	34,000*	(0)*	45,125*				
CJ G.O. Recycling.....	0	0	0	0	994	0	0	994				
CV G.O. Proceeds.....	0	0	0	0	0	150,000*	(90,000)*	60,000*				
<b>Total .....</b>	<b>\$ 3,533</b>	<b>\$ 4,000</b>	<b>\$ (3,500)</b>	<b>\$ 4,033</b>	<b>\$ 12,119</b>	<b>\$ 184,000*</b>	<b>\$ (90,000)*</b>	<b>\$ 106,119*</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>
<b>Revenue Bond Proceeds and Recycling Subaccounts</b>												
QMB Reimbursement.....	\$ 0	\$ 0	\$ 0	\$ 0					\$ 5,721	\$ 20,000*	\$ (0)*	\$ 25,721*
2022A Proceeds.....	0	0	0	0					3,235	0	(3,235)	0
2024A Proceeds.....	0	0	0	0					0	80,000*	(40,000)*	40,000*
<b>Total .....</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 8,956</b>	<b>\$ 100,000*</b>	<b>\$ (43,235)*</b>	<b>\$ 65,721*</b>
<b>Grand Total</b>	<b>\$ 3,533</b>	<b>\$ 4,000</b>	<b>\$ (3,500)</b>	<b>\$ 4,033</b>	<b>\$ 12,119</b>	<b>\$ 184,000*</b>	<b>\$ (90,000)*</b>	<b>\$ 106,119*</b>	<b>\$ 8,956</b>	<b>\$ 100,000*</b>	<b>\$ (43,235)*</b>	<b>\$ 65,721*</b>

Source: Department of Veterans Affairs of the State of California.

(1) Amounts in thousands.

(2) Current or expected investment of funds is in the Surplus Money Investment Fund (“SMIF”), at a variable rate. Amounts invested in SMIF may be withdrawn and reinvested at any time.

(3) Amounts labeled as reimbursement and expected to be available on October 31, 2024 may either be used for Contracts of Purchase or other allowable purposes under the Resolution.

\* Preliminary, subject to change. To be determined upon issuance of the Offered Revenue Bonds.

## Cancellations and Delinquencies

Set forth in the tables below are (i) a comparative chart of delinquent, cancelled and repossessed Contracts of Purchase and certain comparative information regarding USDVA guaranteed loans during the same period, and (ii) delinquencies with respect to Contracts of Purchase by origination date.

Percentage of Number of Contracts of Purchase in the Department's Portfolio which are Delinquent	2012 <sup>(1)(5)</sup>	2013 <sup>(1)(5)</sup>	2014 <sup>(1)(5)</sup>	2015 <sup>(1)(5)</sup>	2016 <sup>(1)(5)</sup>	2017 <sup>(1)(5)</sup>	2018 <sup>(1)(5)</sup>	2019 <sup>(1)(5)</sup>	2020 <sup>(1)(5)(6)</sup>	2021 <sup>(1)(5)(6)</sup>	2022 <sup>(1)(5)(6)</sup>	2023 <sup>(1)(5)</sup>	2024 <sup>(1)(5)</sup>
30-60 days <sup>(2)(3)</sup>	3.12%	3.70%	3.27%	2.74%	2.14%	1.80%	2.77%	2.60%	3.00%	3.46%	4.48%	3.15%	3.86%
60+ days <sup>(2)(3)</sup>	3.72	3.09	2.42	1.84	1.43	1.67	1.66	1.97	2.19	2.80	4.02	4.11	3.01
Foreclosures in inventory (Cancelled Contracts) <sup>(3)(4)</sup>	0.89	1.12	0.30	0.45	0.29	0.24	0.15	0.28	0.19	0.11	0.16	0.42	0.47
Real Estate in inventory	0.71	0.47	0.37	0.17	0.34	0.04	0.23	0.13	0.11	0.06	0.07	0.02	0.20
<b>Percentage of Number of USDVA Guaranteed Loans in the U.S. which are Delinquent<sup>(5)</sup></b>													
30-60 days	3.06	2.98	2.51	2.28	2.25	2.01	2.11	2.44	2.37	1.33	1.63	1.79	2.32
60+ days	3.38	2.99	2.70	2.31	2.03	1.67	1.80	1.67	5.31	5.14	2.68	1.95	2.28
Foreclosures in inventory	2.28	1.88	1.56	1.37	1.19	0.99	0.87	0.84	0.66	0.43	0.67	0.78	0.53
<b>Percentage of Number of USDVA Guaranteed Loans in California which are Delinquent<sup>(5)</sup></b>													
30-60 days	2.16	2.08	1.81	1.64	1.59	1.39	1.59	1.96	2.35	1.11	1.32	1.48	2.04
60+ days	2.53	2.18	1.70	1.41	1.12	0.95	0.96	1.17	5.49	4.83	2.26	1.75	1.92
Foreclosures in inventory	1.32	0.73	0.60	0.51	0.46	0.38	0.36	0.46	0.43	0.23	0.41	0.42	0.32
<b>Percentage of Number of Conventional Loans in the U.S. which are Delinquent<sup>(5)</sup></b>													
30-60 days	2.11	1.89	1.66	1.50	1.44	1.81	1.80	2.00	1.86	1.17	1.27	1.24	1.52
60+ days	2.59	1.96	1.81	1.50	1.24	1.66	1.64	1.50	4.63	2.85	1.51	1.13	1.13
Foreclosures in inventory	3.12	2.13	1.58	1.19	0.95	1.19	0.94	0.76	0.58	0.46	0.48	0.42	0.36
<b>Percentage of Number of Conventional Loans in California which are Delinquent<sup>(5)</sup></b>													
30-60 days	1.79	1.57	1.29	1.20	1.08	1.34	1.35	1.46	1.64	0.98	0.96	0.93	1.15
60+ days	3.27	2.21	1.44	1.09	0.88	1.11	0.96	0.91	4.35	2.51	1.02	0.77	0.76
Foreclosures in inventory	2.53	1.22	0.69	0.56	0.37	0.46	0.37	0.29	0.22	0.17	0.19	0.16	0.16
<b>Percentage of Number of Contracts of Purchase in the Department's Portfolio which are Delinquent, Subject to Repayment/Forbearance Agreements or Cancelled Contracts</b>													
	<b>2012<sup>(1)(5)</sup></b>	<b>2013<sup>(1)(5)</sup></b>	<b>2014<sup>(1)(5)</sup></b>	<b>2015<sup>(1)(5)</sup></b>	<b>2016<sup>(1)(5)</sup></b>	<b>2017<sup>(1)</sup></b>	<b>2018<sup>(1)</sup></b>	<b>2019<sup>(1)</sup></b>	<b>2020<sup>(1)</sup></b>	<b>2021<sup>(1)</sup></b>	<b>2022<sup>(1)</sup></b>	<b>2023<sup>(1)</sup></b>	<b>2024<sup>(1)</sup></b>
30-60 days (Delinquent) <sup>(2)(3)</sup>	2.99%	3.57%	3.08%	2.53%	1.98%	1.67%	2.64%	2.36%	2.81%	3.38%	4.23%	2.70%	3.28%
30-60 days (Repayment/Forbearance Agreement)	0.13	0.13	0.19	0.21	0.16	0.13	0.13	0.24	0.36	0.08	0.25	0.45	0.58
<b>Total</b>	3.12	3.70	3.27	2.74	2.14	1.80	2.77	2.60	3.00	3.46	4.48	3.15	3.86
60+ days (Delinquent) <sup>(2)(3)</sup>	2.87	2.32	1.99	1.58	1.28	1.40	1.47	1.40	1.92	2.58	3.44	2.94	2.20
60+ days (Repayment/Forbearance Agreement)	0.85	0.77	0.43	0.26	0.15	0.27	0.19	0.57	0.27	0.22	0.58	1.17	0.81
<b>Total</b>	3.72	3.09	2.42	1.84	1.43	1.67	1.66	1.97	2.19	2.80	4.02	4.11	3.01
Foreclosures in Inventory (Cancelled Contracts) <sup>(3)(4)</sup>	0.84	1.05	0.30	0.45	0.29	0.24	0.15	0.28	0.19	0.11	0.16	0.42	0.47
"Repayment/Forbearance Agreement"	0.05	0.07	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>Total</b>	0.89	1.12	0.30	0.45	0.29	0.24	0.15	0.28	0.19	0.11	0.16	0.42	0.47

Source: Department of Veterans Affairs of the State of California.

(1) For the Fiscal Year ended June 30.

(2) A status of delinquency means over \$3 delinquent.

(3) These figures include Contracts of Purchase that were the subject of forbearance or repayment agreements between the Department and the Contracts of Purchase holder. Data below represents the breakout of delinquent, repayment/forbearance agreements and cancelled Contracts of Purchase.

(4) Bankruptcies are included in cancelled Contracts of Purchase statistics and do not exceed in any period more than 1% of total cancellations in bankruptcy category. Federal bankruptcy law precludes repossession action of Contracts of Purchase when veteran is in bankruptcy proceedings until the automatic stay is lifted.

(5) Source: National Delinquency Survey published by the Mortgage Bankers Association of America (the "Survey"). Data reported prior to 2017, is for "Prime Loans." In subsequent Surveys, loans are categorized as "Conventional Loans."

(6) Contracts of Purchase requiring assistance pursuant to a financial hardship linked to the COVID-19 pandemic are reported based on their delinquency status at the time the assistance commenced.

*Distribution of Contracts of Purchase Delinquencies by County as of June 30, 2024<sup>(1)(2)</sup>*

<b>County</b>	<b>Contracts of Purchase Delinquent 30 days</b>	<b>Contracts of Purchase Delinquent 60 days</b>	<b>Contracts of Purchase Delinquent 90+ days</b>	<b>Total Delinquent Contracts of Purchase</b>	<b>Total Delinquent Account Balance<sup>(3)</sup></b>
Riverside	32	7	25	64	\$24,996,704.00
Los Angeles	14	5	14	33	\$10,468,792.00
Sacramento	14	2	14	30	\$8,475,570.00
San Bernardino	14	5	6	25	\$6,155,000.00
Kern	8	5	9	22	\$4,707,000.00
San Diego	11	2	5	18	\$6,712,000.00
Fresno	6	3	6	15	\$4,505,000.00
All Others <sup>(4)</sup>	77	23	54	154	\$39,303,184.00
<b>Total</b>	<b>176</b>	<b>52</b>	<b>133</b>	<b>361</b>	<b>\$105,323,250.00</b>

Source: Department of Veterans Affairs of the State of California.

<sup>(1)</sup> A status of delinquency means over \$3 delinquent.

<sup>(2)</sup> Includes REO and cancelled Contracts of Purchase.

<sup>(3)</sup> Amounts in thousands.

<sup>(4)</sup> Each county represented in "All Others" category had fewer than 11 delinquent Contracts of Purchase outstanding.

*Contracts of Purchase Delinquencies by Origination Date as of June 30, 2024<sup>(1)(2)</sup>*

<b>Origination Year</b>	<b>Contracts of Purchase Delinquent 30-60 days</b>	<b>Outstanding Balance of Contracts of Purchase Delinquent 30-60 days<sup>(3)</sup></b>	<b>Contracts of Purchase Delinquent 60-90 days</b>	<b>Outstanding Balance of Contract of Purchase Delinquent 60-90 days<sup>(3)</sup></b>	<b>Contracts of Purchase Delinquent 90+ days</b>	<b>Outstanding Balance of Contract of Purchase Delinquent 90+ days<sup>(3)</sup></b>	<b>Total Contracts of Purchase Delinquent</b>	<b>Total Outstanding Balance of Contracts of Purchase<sup>(3)</sup></b>
Pre-2008	42	\$ 2,816	5	\$ 582	20	\$ 2,150	67	\$ 5,548
2008	2	153	0	0	1	19	3	172
2009	0	0	0	0	0	0	0	0
2010	0	0	0	0	1	80	1	80
2011	0	0	0	0	0	0	0	0
2012	1	75	0	0	0	0	1	75
2013	1	7	0	0	0	0	1	7
2014	3	476	0	0	3	603	6	1,079
2015	9	2,296	3	344	8	1,316	20	3,956
2016	9	2,675	2	425	9	3,186	20	6,286
2017	8	3,003	2	1,006	6	1,599	16	5,608
2018	17	4,998	3	1,084	9	3,121	29	9,203
2019	10	2,836	7	2,701	14	4,031	31	9,568
2020	16	5,386	7	2,964	19	5,409	42	13,759
2021	26	10,515	8	3,091	22	8,489	56	22,095
2022	15	7,020	4	2,019	14	6,915	33	15,954
2023	8	3,925	8	2,734	6	2,311	22	8,970
2024	7	2,061	2	12	1	546	10	2,619
<b>Total</b>	<b>174</b>	<b>\$ 48,242</b>	<b>51</b>	<b>\$ 16,962</b>	<b>133</b>	<b>\$ 39,775</b>	<b>358</b>	<b>\$ 104,979</b>

Source: Department of Veterans Affairs of the State of California.

<sup>(1)</sup> Includes REO and cancelled Contracts of Purchase.

<sup>(2)</sup> A status of delinquency means over \$3 delinquent.

<sup>(3)</sup> Amounts in thousands.

## Veterans G.O. Bonds and Revenue Bonds

### Selected Information with Respect to Veterans G.O. Bonds and Revenue Bonds

Series	Bonds Outstanding <sup>(1)</sup> as of June 30, 2024	Expected Bonds Outstanding as of Oct. 31, 2024	Final Maturity Date of Series as of Oct. 31, 2024	Next Optional Call as of Oct. 31, 2024	Call Price on Such Date	Maximum Coupon subject to Optional Call	Bonds Subject to Special Redemption <sup>(2)</sup>
<b>Veterans G.O. Bonds</b>							
CJ.....	\$ 35,325,000	\$ 35,325,000	December 1, 2035	June 1, 2024	100%	3.625	Excess Revenues
CK.....	24,545,000	24,545,000	December 1, 2040	December 1, 2024	100	5.000	Excess Revenues <sup>(2)</sup>
CL.....	76,110,000	76,110,000	December 1, 2034	December 1, 2024	100	5.000	Excess Revenues <sup>(3)</sup>
CM.....	28,255,000	28,255,000	December 1, 2031	December 1, 2024	100	3.875	Excess Revenues/PAC
CN.....	62,925,000	62,925,000	December 1, 2046	December 1, 2025	100	3.500	Excess Revenues/PAC
CQ.....	79,115,000	79,115,000	December 1, 2047	December 1, 2027	100	4.000	Excess Revenues/PAC
CR.....	11,020,000	11,020,000	December 1, 2048	December 1, 2028	100	4.000	Excess Revenues/PAC
CS.....	74,890,000	74,890,000	December 1, 2049	December 1, 2028	100	4.000	Excess Revenues/PAC
CT.....	80,135,000	80,135,000	December 1, 2050	June 1, 2029	100	3.000	Excess Revenues/PAC
CU.....	162,125,000	162,125,000	December 1, 2052	December 1, 2031	100	5.500	Excess Revenues/PAC
CV.....	0	150,000,000*	--*	--*	100*	--*	Excess Revenues/Unexpended Proceeds*
Sub-total	\$ 634,445,000	\$ 784,445,000*					
Commercial Paper Notes	\$ 0	\$ 0	N.A.	N.A.	N.A.	N.A.	N.A.
<b>Total Veterans G.O. Bonds</b>	<b>\$ 634,445,000</b>	<b>\$ 784,445,000*</b>					
<b>Home Purchase Revenue Bonds Issued as Qualified Mortgage Bonds under the Federal Tax Code</b>							
2016 A.....	\$ 23,115,000	\$ 23,115,000	June 1, 2029	June 1, 2026	100%	3.000%	Excess Revenues
2016 B.....	80,405,000	80,405,000	December 1, 2046	June 1, 2026	100	3.500	Excess Revenues/PAC
2019 A.....	34,890,000	34,890,000	December 1, 2049	June 1, 2028	100	4.000	Excess Revenues/PAC
2020 A.....	81,870,000	81,870,000	December 1, 2050	June 1, 2029	100	3.000	Excess Revenues/PAC
2022 A.....	84,670,000	84,670,000	December 1, 2052	December 1, 2031	100	5.500	Excess Revenues/PAC
2024 A.....	0	80,000,000*	--*	--*	100*	--*	Excess Revenues/Unexpended Proceeds*
Sub-total	\$ 304,950,000	\$ 384,950,000*					
<b>Home Purchase Revenue Bonds Issued as Federally Taxable Bonds</b>							
2021 A.....	\$ 82,315,000	\$ 82,315,000	December 1, 2040	June 1, 2030	100%	2.622%	Excess Revenues
Sub-total	\$ 82,315,000	\$ 82,315,000					
<b>Total Revenue Bonds</b>	<b>\$ 387,265,000</b>	<b>\$ 467,265,000*</b>					

Source: Department of Veterans Affairs of the State of California.

<sup>(1)</sup> With respect to Revenue Bonds, "Outstanding" is as defined in the Revenue Bond Resolution.

<sup>(2)</sup> Excess Revenues includes, but is not limited to, principal prepayments on Contracts of Purchase. The Department, subject to applicable bond authorizing resolutions, may apply Excess Revenues to redeem any Veterans G.O. Bonds or Revenue Bonds eligible for redemption, and has done so and may continue to do so. A "PAC" redemption only applies to bonds within such series that are designated as "PAC Bonds".

<sup>(3)</sup> The Series CK Bonds maturing on December 1, 2029 and December 1, 2033 and the Series CL Bonds maturing on December 1, 2031 are not subject to special redemption from Excess Revenues prior to December 1, 2024 unless such special redemption prior to December 1, 2024 would be required to maintain the tax-exempt status of such Veterans G.O. Bonds.

\* Preliminary, subject to change.

**Additional Investments (as of June 30, 2024)**

As noted above under “Amounts Expected to be Available to Fund Contracts of Purchase and Related Investments,” the Department invests nearly all of the cash of the 1943 Fund in SMIF. Amounts invested in SMIF may be withdrawn and reinvested at any time.

In connection with life and disability insurance, the Department has entered into an Experience Rating Refund Agreement with Standard Insurance Company (“Standard”), pursuant to which The Bank of New York Mellon, as trustee (the “BONY”), administers a claims fluctuation reserve account. At June 30, 2024, that account held approximately \$14.1 million, \$12.1 million of which was invested in government securities with \$2 million in a money market account. Under the Experience Rating Refund Agreement, the annual interest rate used in determining the experience rating refund is (i) the rate paid by BONY plus 0.50% if the interest rate paid by BONY on funds in the claims fluctuation reserve account is less than 2.00%, (ii) 2.50% if the interest rate paid by BONY on funds in the claims fluctuation reserve account is at least 2.00% but less than 2.50%, and (iii) the rate paid by BONY if the interest rate paid by BONY on funds in the claims fluctuation reserve account is 2.50% or more. The Department’s Experience Rating Refund Agreement with Standard expires January 31, 2027.

All investments contain certain risks, some of which may be material. Such risks include, but are not limited to, a lower rate of return than expected and loss or delayed receipt of principal. For moneys invested in SMIF these risks may be mitigated, but are not eliminated, by limitations imposed on the portfolio management process by the State Treasurer’s investment policies, which may change from time to time.



## APPENDIX D

### DTC AND BOOK-ENTRY ONLY SYSTEM

The information concerning DTC and DTC's "Book-Entry System" has been provided by DTC for use in securities offering documents, and the Department takes no responsibility for the accuracy or completeness thereof. The Department and the Trustee cannot and do not give any assurances that DTC, or Direct Participants or Indirect Participants ("Participants") will distribute to the Beneficial Owners either (a) payments of interest, principal or redemption proceeds with respect to the Offered Revenue Bonds or (b) certificates representing ownership interest in or other confirmation of ownership interest in the Offered Revenue Bonds, or that they will so do on a timely basis or that DTC, Direct Participants or Indirect Participants will act in the manner described in this Official Statement. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Offered Revenue Bonds. Purchasers of beneficial ownership interests in the Offered Revenue Bonds will not receive certificates representing their interests in the purchased Offered Revenue Bonds. The Offered Revenue Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity and interest rate of the Offered Revenue Bonds, each in the aggregate principal amount of such maturity and interest rate, 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 3.6 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 a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com). Nothing contained on such web site is incorporated herein.

Purchases of Offered Revenue Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Offered Revenue Bonds on DTC's records. The ownership interest of each actual purchaser of each Offered Revenue Bond (a "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 Offered Revenue 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 bond certificates representing their ownership interests in the Offered Revenue Bonds, except in the event that use of the book-entry system for the Offered Revenue Bonds is discontinued.

To facilitate subsequent transfers, all Offered Revenue Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Offered Revenue Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Offered Revenue Bonds. DTC's records reflect only the identity of the Direct Participants to whose accounts such Offered Revenue 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. Neither the Department nor the Trustee have any responsibility or obligation to such Direct Participants and Indirect Participants or the persons for whom they act as nominees with respect to the Offered Revenue Bonds.

Beneficial Owners of the Offered Revenue Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Offered Revenue Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Offered Revenue Bond documents. For example, Beneficial Owners of the Offered Revenue Bonds may wish to ascertain that the nominee holding the Offered Revenue Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Offered Revenue Bonds within a maturity and interest rate are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity and interest rate to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Offered Revenue Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Department as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Offered Revenue Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Without limiting the generality of the foregoing, the Department, the Trustee and the Underwriters have no responsibility or liability for any aspects of the records relating to or payments made on account of beneficial ownership, or for maintaining, supervising or reviewing any records relating to beneficial ownership or interests in the Offered Revenue Bonds.

Principal, premium, interest payments and redemption proceeds on the Offered Revenue Bonds will be made to Cede & Co., 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 Department or the Trustee, on payment dates in accordance with their respective holdings shown on DTC's records. Payments by Direct Participants and Indirect 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 nor its nominee or the Department or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, interest and redemption proceeds, if any, to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Department or the Trustee, 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 Participants and Indirect Participants.

With respect to the Offered Revenue Bonds registered in the registration books of the Trustee in the name of the nominee, the Department and the Trustee shall have no responsibility or obligation to any Participant or to any person on behalf of which a Participant holds an interest in the Offered Revenue Bonds. Without limiting the immediately preceding sentence, the Department and the Trustee shall have no responsibility or obligation (unless the Trustee is at such time the Securities Depository) with respect to (i) the accuracy of the records of the Securities Depository, the nominee or any Participant with respect to any ownership interest in the Offered Revenue Bonds, (ii) the delivery to any Participant or any other person, other than a Bondowner as shown in the registration books of the Trustee, of any notice with respect to the Offered Revenue Bonds, or (iii) the payment to any Participant or any other person, other than a Bondowner as shown in the registration books of the Trustee, of any amount with respect to principal of or interest on the Offered Revenue Bonds. The Department and the Trustee may treat and consider the person in whose name each Bond is registered in the registration books of the Trustee as the Bondowner and absolute owner of such Offered Revenue Bond for the purpose of payment of principal of, premium, if any, and interest on such Offered Revenue Bond, for the purpose of giving notices and other matters with respect to such Offered Revenue Bond, and for all other purposes whatsoever.

The Trustee shall pay all principal of and interest on the Offered Revenue Bonds only to or upon the order of the respective Bondowners, as shown in the registration books of the Trustee or their respective attorneys, duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the obligations under Resolution RB-1 with respect to the payment of principal of, premium, if any, and interest on the Offered Revenue Bonds to the extent of the sum or sums so paid. No person other than a Bondowner, as shown in the registration books of the Trustee, shall receive a Bond evidencing the obligation to make payments of principal, premium, if any, and interest pursuant to Resolution RB-1 and any Supplemental Resolution. Upon delivery by the Securities Depository to the Trustee and the Department of written notice to

the effect that the Securities Depository has determined to substitute a new nominee in place of the nominee, and subject to the provisions in Resolution RB-1 with respect to record dates, the term nominee in Resolution RB-1 means such new nominee of the Securities Depository.

The Department, the Trustee and the Underwriters cannot and do not give any assurances that DTC, Direct Participants, Indirect Participants or others will distribute payments with respect to the Offered Revenue Bonds received by DTC or its nominee as the registered owner, or any redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis or that DTC will serve and act in the manner described in this Official Statement.

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

The Department may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Offered Revenue Bond certificates will be printed and delivered to DTC.

If the Department and the Trustee determine not to continue the DTC book-entry only system, or DTC discontinues providing its services with respect to the Offered Revenue Bonds and the Department and the Trustee do not select another qualified securities depository, the Trustee shall deliver physical Offered Revenue Bond certificates to the Beneficial Owners. The Offered Revenue Bonds may thereafter be transferred upon the books of the Trustee by the registered owners, in person or by authorized attorney, upon surrender of Offered Revenue Bonds at the Office of the Trustee in Sacramento, California, accompanied by delivery of an executed instrument of transfer in a form approved by the Trustee and upon payment of any charges provided for in the Resolutions. Certificated Offered Revenue Bonds may be exchanged for Offered Revenue Bonds of other authorized denominations of the same aggregate principal amount and maturity at the Office of the Trustee in Sacramento, California, upon payment of any charges provided for in the Resolutions.

THE DEPARTMENT AND THE TRUSTEE, AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE OFFERED REVENUE BONDS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES TO OWNERS TO DTC ONLY. ANY FAILURE OF DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DTC PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OR SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE OFFERED REVENUE BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

The foregoing description of the procedures and record keeping with respect to beneficial ownership interests in the Offered Revenue Bonds, payment of principal of and interest and other payments with respect to the Offered Revenue Bonds to Direct Participants, Indirect Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in such Offered Revenue Bonds and other related transactions by and between DTC, the Direct Participants, the Indirect Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the Direct Participants, the Indirect Participants nor the Beneficial Owners should rely on the foregoing

information with respect to such matters but should instead confirm the same with DTC or the Participants, as the case may be.

SO LONG AS CEDE & CO., AS NOMINEE OF DTC, IS THE REGISTERED OWNER OF ALL OF THE OFFERED REVENUE BONDS, REFERENCES HEREIN TO THE HOLDERS OF THE OFFERED REVENUE BONDS (OTHER THAN UNDER THE CAPTION “TAX MATTERS” OF THIS OFFICIAL STATEMENT) MEANS CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE OFFERED REVENUE BONDS.

According to DTC, the foregoing information with respect to DTC has been provided for informational purposes only and is not intended to serve as a representation, warranty or contract modification of any kind.

## APPENDIX E

### FORM OF CONTINUING DISCLOSURE UNDERTAKING

This Continuing Disclosure Undertaking dated as of \_\_\_\_\_, 2024 (this “**Undertaking**”), is made by the Department of Veterans Affairs of the State of California (the “**Department**”), with respect to the issuance by the Department of its Home Purchase Revenue Bonds, 2024 Series A (collectively, the “**Subject Bonds**”), and pursuant to and subject to the terms and conditions of this Undertaking, the Department hereby covenants and agrees as follows:

#### ARTICLE I

#### DEFINITIONS

Section 1.1. **Definitions.** Any capitalized terms not otherwise defined in this Undertaking have the respective meanings set forth in the Resolution (as defined below). The following terms used in this Undertaking have the following respective meanings:

(a) “**Annual Financial Information**” means, collectively, (1) financial information or operating data applicable to the Department’s most recent Fiscal Year on and after the Fiscal Year ending on or after June 30, 2024, of the types included in the Official Statement in APPENDIX C thereto, and (2) the information regarding amendments to this Undertaking required pursuant to Sections 4.2(c) and (d) of this Undertaking. Annual Financial Information also includes Audited Financial Statements, if available, or Unaudited Financial Statements.

(b) “**Audited Financial Statements**” means annual financial statements, if any, of the 1943 Fund, the Veterans Debenture Revenue Fund, and the Pooled Self-Insurance Fund, audited by such auditor as may then be required or permitted by State law or the Resolution. Audited Financial Statements must be prepared in accordance with GAAP applied on a consistent basis; *provided, however*, that the Department may from time to time, in order to comply with Federal or State legal requirements, modify the basis upon which its financial statements are prepared. Notice of any such modification must be provided to the Trustee and the MSRB, and must include a reference to the specific Federal or State law or regulation describing such accounting basis.

(c) “**Beneficial Owner**” means any person who has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Subject Bonds (including persons holding Subject Bonds through nominees, depositories or other intermediaries).

(d) “**Event**” means any of the following events with respect to the Subject Bonds:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults, if material;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) 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 or determinations with

- respect to the tax status of any Subject Bonds, or other material events affecting the tax status of any Subject Bonds;
- (vii) modifications to rights of Holders of the Subject Bonds, if material;
  - (viii) bond calls, if material, and tender offers;
  - (ix) defeasances;
  - (x) release, substitution, or sale of property securing repayment of the Subject Bonds, if material;
  - (xi) rating changes;
  - (xii) bankruptcy, insolvency, receivership or similar event of the Department;
  - (xiii) default, event of acceleration, termination event, modification of terms or other similar events under a Financial Obligation of the Department, if any such event reflects financial difficulties;
  - (xiv) the consummation of a merger, consolidation, or acquisition involving the Department or the sale of all or substantially all of the assets of the Department, 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;
  - (xv) appointment of a successor or additional trustee or the change of name of a trustee, if material; or
  - (xvi) incurrence of a Financial Obligation of the Department or agreement to covenants, events of default, remedies, priority rights or other similar terms of a Financial Obligation of the Department, any of which affect the Holders, if material.

For the purposes of the event identified in clause (xii) 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 Department in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Department, 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 Department.

(e) “**Event Notice**” means written or electronic notice of an Event.

(f) “**Financial Obligation**” means with respect to the 1943 Fund and the Veterans Debenture Revenue Fund a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term “**Financial Obligation**” does not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

(g) **“Fiscal Year”** means that period established by the Department with respect to which its, as applicable, Audited Financial Statements or Unaudited Financial Statements are prepared. As of the date of this Undertaking, the Department’s Fiscal Year begins on July 1 and ends on June 30 of the next calendar year.

(h) **“GAAP”** means generally accepted accounting principles as prescribed from time to time by the Financial Accounting Standards Board.

(i) **“Holder”** means any person listed on the registration books of the Trustee as the registered owner of any Subject Bonds.

(j) **“MSRB”** means the Municipal Securities Rulemaking Board or any other entity designated or authorized by the SEC to receive reports or notices pursuant to the Rule.

(k) **“1943 Fund”** means the Veterans’ Farm and Home Building Fund of 1943, established in the Treasury of the State by Section 988 of the Military and Veterans Code of the State of California.

(l) **“Notice”** means written notice, sent for overnight delivery via the United States Postal Service or a private delivery service which provides evidence of delivery.

(m) **“Notice Address”** means with respect to the Department:

Department of Veterans Affairs of the State of California  
1227 O Street  
Sacramento, CA 95814  
Attention: Bond Finance Division

(n) **“Official Statement”** means the Official Statement relating to the Subject Bonds, dated \_\_\_\_\_, 2024.

(o) **“Resolution”** means Resolution No. RB-1, adopted by the Department on March 19, 1980, entitled “Resolution of Issuance for Department of Veterans Affairs of the State of California Home Purchase Revenue Bonds including \$200,000,000 Principal Amount of 1980 Series A Bonds,” as amended, supplemented and restated on November 24, 1997, and as further amended and supplemented.

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

(q) **“SEC”** means the Securities and Exchange Commission.

(r) **“Securities Counsel”** means legal counsel with an expertise in Federal securities law.

(s) **“State”** means the State of California.

(t) **“Subject Bonds”** has the meaning set forth in the first paragraph of this Undertaking.

(u) **“Trustee”** means the Treasurer of the State of California, as Trustee under the Resolution.



(v) “**Unaudited Financial Statements**” means the same as Audited Financial Statements, except that they have not been audited.

(w) “**Underwriters**” means any original purchaser of the offering of the Subject Bonds required to comply with the Rule.

## **ARTICLE II THE UNDERTAKING**

Section 2.1. **Purpose.** This Undertaking is executed for the benefit of the Holders and the Beneficial Owners from time to time, and in order to assist the Underwriters in complying with the Rule, but will not be deemed to create any monetary liability on the part of the State, the Trustee or the Department to any other persons, including the Holders or the Beneficial Owners. As set forth in Section 4.3(c) of this Undertaking, the sole remedy in the event of any failure of the Department to comply with this Undertaking is an action to compel performance of any act required under this Undertaking.

### **Section 2.2. Annual Financial Information.**

(a) The Department must provide Annual Financial Information with respect to each Fiscal Year to the Trustee and to the MSRB, by no later than April 1 of each year the Subject Bonds are outstanding.

(b) The Department must provide, in a timely manner, notice of any failure by it to provide Annual Financial Information to the MSRB and the Trustee on or before the date required by Section 2.2(a) of this Undertaking.

(c) Annual Financial Information must be provided at least annually, *notwithstanding* any Fiscal Year longer than 12 calendar months. The Department must promptly notify the Trustee and the MSRB of any change in its Fiscal Year.

(d) Annual Financial Information may be provided in one document or multiple documents, and at one time or in part from time to time.

Section 2.3. **Audited Financial Statements.** If not provided as part of Annual Financial Information by the date required by Section 2.2(a) of this Undertaking, the Department must provide Audited Financial Statements, when and if available, to the Trustee and to the MSRB.

Section 2.4. **Event Notice.** The Department must provide, in a timely manner not in excess of ten business days after the occurrence of the respective Event, an Event Notice to the MSRB and the Trustee.

Section 2.5. **Additional Information.** Nothing in this Undertaking will be deemed to prevent the Department from disseminating any other information, using the means of dissemination set forth in this Undertaking or any other means of communication, or including any other information in any Annual Financial Information or Event Notice, in addition to that which is required by this Undertaking. If the Department chooses to include any information in any Annual Financial Information or Event Notice in addition to that which is specifically required by this Undertaking, the Department will have no obligation under this Undertaking to update such information or include it in any future Annual Financial Information or Event Notice.

### **ARTICLE III**

#### **OPERATING RULES**

Section 3.1. **Incorporation by Reference.** It will be sufficient for purposes of Section 2.2 of this Undertaking if the Department provides Annual Financial Information by specific reference to documents previously either (i) provided to the MSRB or (ii) filed with the SEC. If such a document is a final official statement within the meaning of the Rule, it must be available from the MSRB.

Section 3.2. **Transmission of Information and Notices.** *Unless* otherwise required by law and, in the Department's sole determination, subject to technical and economic feasibility, the Department may employ such methods of information and notice transmission as may be required, requested or recommended by the recipients of the Department's information and notices designated in this Undertaking. Until otherwise designated by the MSRB or the SEC, filings with the MSRB are to be made in an electronic format as prescribed by the MSRB, through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>, and all documents provided to the MSRB must be accompanied by identifying information as prescribed by the MSRB.

### **ARTICLE IV**

#### **TERMINATION, AMENDMENT AND ENFORCEMENT**

##### Section 4.1. **Termination.**

(a) The Department's obligations under this Undertaking with respect to the Subject Bonds will terminate upon the legal defeasance, prior redemption, or payment in full of all of the Subject Bonds or if less than all of the Subject Bonds are defeased, with respect to those Subject Bonds so defeased.

(b) This Undertaking, or any provision of this Undertaking, will be null and void to the extent set forth in an opinion of Securities Counsel obtained by the Department, and addressed to the Department and the Trustee, to the effect that those portions of the Rule which require the provisions of this Undertaking, or any of such provisions, do not or no longer apply to any or all of the Subject Bonds, whether because such portions of the Rule are invalid, have been repealed, or otherwise, as may be specified in such opinion, and the Department must deliver notice to such effect to the Trustee.

##### Section 4.2. **Amendment.**

(a) This Undertaking may be amended, and any provision of this Undertaking may be waived, without the consent of the Holders or Beneficial Owners, except to the extent required pursuant to clause (4)(ii) below, if all of the following conditions are satisfied: (1) such amendment or waiver is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the Department or the type of business conducted thereby, (2) this Undertaking as so amended or waived would have complied with the requirements of the Rule as of the date of the primary offering of the Subject Bonds affected by such amendment or waiver, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) the Department has obtained and delivered to the Trustee an opinion of Securities Counsel, addressed

to the Department and the Trustee, to the same effect as set forth in clause (2) above, (4) either (i) a party unaffiliated with the Department (such as bond counsel), acceptable to the Department and the Trustee, has determined that the amendment or waiver does not materially impair the interests of the Beneficial Owners, or (ii) the applicable Holders of 60% of the Subject Bonds outstanding consent to the amendment to or waiver of this Undertaking and (5) the Department has delivered copies of such amendment or waiver to the Trustee and to the MSRB.

(b) In addition to clause (a) above, the Department may amend this Undertaking, and any provision of this Undertaking may be waived, if (i) the Department and Trustee have received an opinion of Securities Counsel, addressed to the Department and the Trustee, to the effect that the adoption and the terms of such amendment or waiver would not, in and of themselves, cause the undertakings in this Undertaking to violate the Rule, taking into account any subsequent change in or official interpretation of the Rule or (ii) to the extent permitted by rule, order or other official pronouncement of the SEC.

(c) To the extent any amendment to this Undertaking results in a change in the type of financial information or operating data provided pursuant to this Undertaking, the first Annual Financial Information provided thereafter must include a narrative explanation of the reasons for the amendment, and the impact of the change.

(d) If a change is made to the basis on which financial statements are prepared, the Annual Financial Information for the year in which the change is made must present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison must include a qualitative and, to the extent reasonably feasible, quantitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

#### Section 4.3. **Benefit; Third-Party Beneficiaries; Enforcement.**

(a) The provisions of this Undertaking inure solely to the benefit of the Holders from time to time; *except* that Beneficial Owners will be third-party beneficiaries of this Undertaking.

(b) *Except* as provided in this subsection (b), the provisions of this Undertaking create no rights in any other person or entity. Except as limited by the succeeding sentence, the obligation of the Department to comply with the provisions of this Undertaking is enforceable (i) in the case of enforcement of obligations to provide financial statements, financial information, operating data and notices, by any Beneficial Owner of Outstanding Subject Bonds or by the Trustee on behalf of the Holders of the Outstanding Subject Bonds, or (ii) in the case of challenges to the adequacy of the financial statements, financial information and operating data so provided, by the Holders of not less than 25% in aggregate principal amount of the Subject Bonds at the time outstanding, or by the Trustee on behalf thereof.

(c) The right to enforce the provisions of this Undertaking is limited to a right, by action in mandamus or for specific performance, to compel performance of the Department's obligations under this Undertaking. Any failure by the Department to perform in accordance with this Undertaking does not constitute a default or any Event of Default under the Resolution or the Subject Bonds, and the rights and remedies provided by the Resolution and the Subject Bonds upon the occurrence of a default or an Event of Default do not apply to any such failure.

**ARTICLE V**  
**MISCELLANEOUS**

Section 5.1. **Counterparts.** This Undertaking may be executed in several counterparts, each of which will be an original and all of which constitute but one and the same instrument.

Section 5.2. **Governing Law.** The laws of the State govern this Undertaking, the interpretation thereof and any right or liability arising under this Undertaking. Any action or proceeding to enforce or interpret any provision of this Undertaking must be brought, commenced or prosecuted in any court of the State located in Sacramento County, California.

[Signature Page to Follow]

IN WITNESS WHEREOF, the Department has executed this Undertaking by its duly authorized representative, as of the date first above written.

**DEPARTMENT OF VETERANS AFFAIRS OF  
THE STATE OF CALIFORNIA**

By: \_\_\_\_\_  
Its: \_\_\_\_\_

*[Department of Veterans Affairs Continuing Disclosure Undertaking Signature Page]*

## APPENDIX F

### PROPOSED FORM OF OPINION OF BOND COUNSEL TO THE DEPARTMENT TO BE DELIVERED IN CONNECTION WITH THE ISSUANCE OF THE OFFERED REVENUE BONDS

[Closing Date]

Department of Veterans Affairs  
of the State of California  
1227 "O" Street, Room 200  
Sacramento, California 95814

Ladies and Gentlemen:

We have acted as bond counsel to the Department of Veterans Affairs of the State of California (the "Department"), and in such capacity we have examined upon request copies of proceedings taken by the Department in connection with the issuance of the Department's \$ \_\_\_\_\_ aggregate principal amount of Home Purchase Revenue Bonds, 2024 Series A (the "Bonds") and the sale of the Bonds to the initial purchasers thereof. The Bonds are issued pursuant to (1) the Veterans' Revenue Debenture Act of 1970, as amended, constituting Chapter 7 of Division 4 of the Military and Veterans Code of the State of California (the "Veterans Act"), (2) the Resolution of Issuance for Department of Veterans Affairs of the State of California Home Purchase Revenue Bonds including \$200,000,000 Principal Amount of 1980 Series A Bonds, adopted March 19, 1980 (the "Resolution of Issuance"), (3) the Eighth Supplemental Resolution Providing for Amendments and Supplements to Resolution No. RB-1, adopted November 24, 1997 (the "Eighth Supplemental Resolution"), (4) the Tenth Supplemental Resolution Providing for Amendments and Supplements to Resolution No. RB-1, adopted February 24, 1999 (the "Tenth Supplemental Resolution"), (5) the provisions of Section 2714 of the Eighteenth Supplemental Resolution Providing for the Issuance of An Amount Not to Exceed \$167,920,000 Principal Amount of Department of Veterans Affairs of the State of California Home Purchase Revenue Bonds, adopted November 21, 2007 (the "Eighteenth Supplemental Resolution"), (6) the provisions of Section 2815 of the Nineteenth Supplemental Resolution Providing for the Issuance of Department of Veterans Affairs of the State of California Home Purchase Revenue Bonds in the Principal Amount Not to Exceed \$737,240,000 for the Purposes of Refunding Outstanding Home Purchase Revenue Bonds and to Finance New Contracts of Purchase, and Establish Certain Terms of Such Bonds Pursuant to the Veterans Revenue Debenture Act of 1970, as Amended, adopted March 18, 2009 (the "Nineteenth Supplemental Resolution"), (7) the Twentieth Supplemental Resolution Providing for Amendments and Supplements to Resolution No. RB-9, adopted June 16, 2010 (the "Twentieth Supplemental Resolution"), (8) the Twenty-Second Supplemental Resolution Providing for the Issuance of Department of Veterans Affairs of the State of California Home Purchase Revenue Bonds in the Aggregate Principal Amount Not to Exceed \$900,000,000 for the Purposes of Refunding Outstanding Home Purchase Revenue Bonds and State of California Veterans General Obligation Bonds, Financing Contracts of Purchase and Establishing Certain Terms of Such Bonds Pursuant to the Veterans' Revenue Debenture Act of 1970, as Amended, adopted March 18, 2020 (the "Twenty-Second Supplemental Resolution"), and (9) the Series Certificate of the Department, dated as of \_\_\_\_\_, 2024 (the "Series Certificate"). The Resolution of Issuance, the Eighth Supplemental Resolution, the Tenth Supplemental Resolution, the Eighteenth Supplemental Resolution, the Nineteenth Supplemental Resolution, the Twentieth Supplemental Resolution,

the Twenty-Second Supplemental Resolution and the Series Certificate are collectively referred to herein as the “Resolution.”

The Bonds are dated, mature on the dates in the principal amounts, bear interest, if any, and are payable as provided in the Resolution. The Bonds are subject to redemption prior to maturity in whole or in part as provided in the Resolution.

The State of California (the “State”) intends to issue its Veterans General Obligation Bonds, Series CV (the “Fall 2024 G.O. Bonds”) on the date hereof. The Bonds and the Fall 2024 G.O. Bonds are treated as a single issue for certain Federal tax purposes under the Internal Revenue Code of 1986, as amended (the “Federal Tax Code”). Applicable Federal tax law establishes certain requirements that must be met subsequent to the issuance of the Bonds and the Fall 2024 G.O. Bonds in order that interest on the Bonds not be included in gross income for Federal income tax purposes under the Federal Tax Code. 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 Department has adopted documents with respect to its program (the “Program Documents”) that establish procedures under which, if followed, such requirements can be met. The Department has covenanted in the Resolution and in tax certificates and other documents applicable to the issuance of the Bonds and the Fall 2024 G.O. Bonds (collectively with the Program Documents, the “Documents”), 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 Federal Tax Code. In rendering this opinion, we have relied upon such covenants and have assumed compliance by the Department with the provisions of such Documents.

In connection with the issuance of the Bonds, we have examined (a) a copy of the Resolution, and (b) such other opinions, documents, certificates and letters as we deem relevant and necessary in rendering this opinion.

From such examination, we are of the opinion that:

1. Pursuant to the Veterans Act, the Department is empowered to issue the Bonds for the purposes specified in the Resolution, and to pledge the revenues and amounts in the funds and accounts established by the Resolution.
2. The Bonds have been validly authorized, executed and issued in accordance with the laws of the State of California (the “State”) and represent the legally valid and binding special obligations of the Department, enforceable in accordance with their terms and secured in the manner and to the extent set forth in the Resolution, and are entitled to the benefit, protection and security of the provisions, covenants and agreements contained therein.
3. The Resolution has been duly and lawfully adopted, is a valid resolution of the Department and is binding upon the Department in accordance with its terms.
4. The Resolution creates a valid pledge to secure, on an equal and pro rata basis, the payment, subject to lawful appropriation, of the principal of and interest on the Bonds of (i) an undivided interest in the assets of the Veterans’ Farm and Home Building Fund of 1943 (the “1943 Fund”), except proceeds of State veterans general obligation bonds and amounts in the Rebate Account established under the Resolution, which undivided interest is secondary and subordinate to any interest or right of the people of the State and the holders of general obligation bonds in the 1943 Fund, created in accordance with any general obligation veterans bond

act, (ii) any amounts held in the Bond Reserve Account established pursuant to the Resolution, and (iii) any amounts held in the Loan Loss Account established pursuant to the Resolution, which pledge is subject only to the provisions of the Resolution permitting the application of such assets and amounts for or to the purposes and on the terms and conditions set forth in the Resolution.

5. Under existing statutes and court decisions and assuming continuing compliance by the Department with certain tax covenants described herein, interest on the Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Federal Tax Code and is not treated as a preference item in calculating the alternative minimum tax under the Federal Tax Code; however, interest on the Bonds is included in the “adjusted financial statement income” of certain corporations that are subject to the alternative minimum tax under Section 55 of the Federal Tax Code. No opinion as to exclusion from gross income of interest on any of the Bonds is expressed subsequent to any date on which action is taken pursuant to the Resolution for which action the Resolution requires a legal opinion to the effect that taking such action will not adversely affect such exclusion, should the undersigned not deliver an opinion as of such date to such effect.
6. For any Bonds having original issue discount (the “Discount Bonds”), original issue discount that has accrued and is properly allocable to the owners of the Discount Bonds under Section 1288 of the Federal Tax Code is excludable from gross income for Federal income tax purposes to the same extent as other interest on the Bonds.
7. Interest on the Bonds is exempt from State personal income taxation under State law as of the issue date.

We express no opinion as to any other Federal, state or local tax consequences arising with respect to the Bonds, or the ownership or disposition thereof, except as stated in paragraphs 5, 6 and 7 above. We render our opinion under existing statutes and court decisions as of the date hereof, and assume no obligation to update, revise or supplement our opinion to reflect any action hereafter taken or not taken, any fact or circumstance that may hereafter come to our attention, any change in law or interpretation thereof that may hereafter occur, or for any other reason. We express no opinion as to the consequence of any of the events described in the preceding sentence or the likelihood of their occurrence. In addition, we express no opinion on the effect of any action taken or not taken in reliance upon an opinion of other counsel regarding Federal, state or local tax matters, including, without limitation, exclusion from gross income for Federal income tax purposes of interest on the Bonds. 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.

In rendering this opinion, we are advising you that the enforceability of the Bonds and the Resolution may be limited by bankruptcy, moratorium, insolvency, 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).

Very truly yours,



**APPENDIX G**

**PROPOSED FORM OF OPINION OF THE ATTORNEY GENERAL  
TO BE DELIVERED IN CONNECTION WITH THE ISSUANCE  
OF THE OFFERED REVENUE BONDS**

[Closing Date]

Department of Veterans Affairs  
of the State of California  
Sacramento, California

**§ \_\_\_\_\_  
Department of Veterans Affairs of the State of California  
Home Purchase Revenue Bonds  
2024 Series A  
(Non-AMT)**

We are providing this opinion as the Attorney General of the State of California in connection with the issuance by the Department of Veterans Affairs of the State of California (the “Department”) of its Home Purchase Revenue Bonds, 2024 Series A in the aggregate principal amount of \$ \_\_\_\_\_ (collectively, the “Bonds”). The Bonds are issued under (1) the Veterans’ Revenue Debenture Act of 1970, as amended, constituting Chapter 7 of Division 4 of the Military and Veterans Code of the State of California (the “Veterans’ Revenue Debenture Act”), (2) the Resolution of Issuance for Department of Veterans Affairs of the State of California Home Purchase Revenue Bonds, adopted March 19, 1980 (the “Resolution of Issuance”), (3) the Eighth Supplemental Resolution Providing for Amendments and Supplements to Resolution No. RB-1, adopted November 24, 1997 (the “Eighth Supplemental Resolution”), (4) the Tenth Supplemental Resolution Providing for Amendments and Supplements to Resolution No. RB-1, adopted February 24, 1999 (the “Tenth Supplemental Resolution”), (5) the Eighteenth Supplemental Resolution Providing for the Issuance of Department of Veterans Affairs of the State of California Home Purchase Revenue Bonds, adopted November 21, 2007 (the “Eighteenth Supplemental Resolution”), (6) the Nineteenth Supplemental Resolution Providing for the Issuance of Department of Veterans Affairs of the State of California Home Purchase Revenue Bonds, adopted March 18, 2009 (the “Nineteenth Supplemental Resolution”), (7) the Twentieth Supplemental Resolution Providing for Amendments and Supplements to Resolution No. RB-9, adopted June 16, 2010 (the “Twentieth Supplemental Resolution”), and (8) the Twenty-Second Supplemental Resolution Providing for the Issuance of Department of Veterans Affairs of the State of California Home Purchase Revenue Bonds, adopted March 18, 2020 (the “Twenty-Second Supplemental Resolution”). The Resolution of Issuance, the Eighth Supplemental Resolution, the Tenth Supplemental Resolution, the Eighteenth Supplemental Resolution, the Nineteenth Supplemental Resolution, the Twentieth Supplemental Resolution, and the Twenty-Second Supplemental Resolution are herein collectively referred to as the “Resolution.”

In such connection, we have reviewed the Resolution, certifications of the Department, the Treasurer of the State of California and others, opinions of counsel to the Department, and such

other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. 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 in the documents, certificates and opinions, the correctness of the legal conclusions contained in the opinions, the due and legal execution of the documents and certificates by, and validity thereof against, any parties other than the Department, and compliance with all covenants and agreements contained in the Resolution.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. We disclaim any obligation to update this opinion.

We call attention to the fact that the rights and obligations under the Bonds and the Resolution and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against the State of California and its departments. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, severability or waiver provisions contained in the foregoing documents nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in or subject to the lien of the Resolution or the accuracy or sufficiency of the description of any such property contained therein of, or the remedies available to enforce liens on, any such property. We express no opinion as to whether interest on the Bonds is excluded or exempt from gross income for federal income tax purposes or is exempt from State of California personal income taxes, or as to any other tax consequence relating to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement dated \_\_\_\_\_, 2024, pertaining to the Bonds, or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the opinion that:

1. The Bonds have been validly authorized, executed and issued in accordance with the laws of the State of California and constitute the valid and binding special obligations of the Department payable solely from and secured by the Pledged Property (as defined in the Resolution) under the Resolution. The Bonds are not a lien, charge or liability against the State of California, or against the Department, or against the property or funds of either, except only as to the Department and its property or funds as set forth in the Resolution. The owners of the Bonds cannot compel the exercise of the taxing power of the State of California or the forfeiture of its property to pay the Bonds or the interest thereon.

2. The Resolution has been duly and lawfully adopted, is a valid resolution of the Department and is binding upon the Department in accordance with the terms of the Resolution.

3. The Resolution creates a valid pledge to secure, on an equal and pro rata basis, the payment, subject to lawful appropriation, of the principal of and interest on the Bonds of (1) an undivided interest in the assets of the Veterans' Farm and Home Building Fund of 1943 (the "1943 Fund"), except proceeds of Veterans General Obligation Bonds (as defined in the Resolution) and amounts in the Rebate Account established under the Resolution, which undivided interest is secondary and subordinate to any interest or right of the people of the State of California and the holders of Veterans General Obligation Bonds in the 1943 Fund under any general obligation veterans bond act; and (2) any amounts held in the Bond Reserve Account and the Loan Loss Account established pursuant to the Resolution within the Veterans Debenture Fund (as defined in the Resolution); which pledge is subject only to the provisions of the Resolution permitting the application of such assets and amounts for or to the purposes and on the terms and conditions set forth in the Resolution.

Sincerely,

## APPENDIX H

### CERTAIN FEDERAL TAX CODE REQUIREMENTS

The Federal Tax Code substantially restricts the use of proceeds of tax-exempt obligations used to finance mortgage loans for single family housing or to refund such obligations.

Those Federal Tax Code restrictions are not the same for all such tax-exempt bonds. There are three types of such tax-exempt bonds: (i) qualified mortgage bonds, which provide QMB Proceeds, (ii) qualified veterans' mortgage bonds, which provide QVMB Proceeds, and (iii) Pre-Ullman bonds, which provide Pre-Ullman Moneys. Tax-exempt Revenue Bonds may be either qualified mortgage bonds or Pre-Ullman bonds. ("Pre-Ullman bonds" are bonds issued before 1981, or bonds issued to refund such bonds.) Tax-exempt Veterans G.O. Bonds may be either qualified veterans' mortgage bonds or Pre-Ullman bonds. The principal Federal Tax Code restrictions relate to: (i) the use of proceeds of the bond issue, (ii) the yield on the financed mortgage loans and from certain non-mortgage investments related to the issue, (iii) for qualified mortgage bonds and qualified veterans' mortgage bonds, loan eligibility requirements, (iv) for qualified mortgage bonds, the availability of proceeds of the issue for financing housing located in "targeted areas," and (v) certain matters relating to the issue itself.

The Offered Revenue Bonds are qualified mortgage bonds, and the proceeds thereof are QMB Proceeds. See also "TAX MATTERS" in the forepart of this Official Statement for information regarding the requirements applicable to the Offered Revenue Bonds.

Failure to comply with the applicable provisions of the Federal Tax Code may result in interest on the applicable issue of bonds being included in gross income for Federal income tax purposes retroactive to the date of issuance thereof.

#### ***Loan Eligibility Requirements Imposed by the Federal Tax Code on QMB Proceeds and QVMB Proceeds***

##### *QMB Proceeds*

The Federal Tax Code contains the following loan eligibility requirements with respect to QMB Proceeds, except that the requirements described under "First-Time Homebuyer Requirement," "Purchase Price Limitation," and "Other Requirements Imposed by the Federal Tax Code – Recapture Provision Applicable to Qualified Mortgage Bonds" do not apply to home improvement loans, and the requirements described under "Qualified Home Improvement Loans" do not apply to loans for the acquisition of single family homes. None of these requirements applies to Pre-Ullman bonds or qualified veterans' mortgage bonds.

**Residence Requirement.** The Federal Tax Code requires that each of the premises financed with the lendable proceeds of qualified mortgage bonds be a one-to-four-family residence, one unit of which can reasonably be expected to become the principal residence of the veteran within a reasonable time after the financing is provided. Certain documents adopted by the Department establish procedures to be followed in connection with Contracts of Purchase which finance the acquisition of single family homes in order to assure that interest paid on the qualified mortgage bonds not be included in gross income for Federal income tax purposes under the Federal Tax Code (the "Single Family Program Documents"). Certain documents adopted by the Department establish procedures to be followed in connection with Contracts of Purchase to finance home improvement loans intended to assure that interest paid on the qualified mortgage bonds is not

included in gross income for Federal income tax purposes under the Federal Tax Code (the “Home Improvement Program Documents,” together with the Single Family Program Documents, the “Program Documents”).

First-Time Homebuyer Requirement. The Federal Tax Code requires that, subject to certain exceptions, the lendable proceeds of qualified mortgage bonds be used to provide financing to borrowers who have not had a present ownership interest in their principal residence during the three-year period prior to execution of the mortgage loan. Veterans are excluded from the foregoing requirement but may only receive financing once pursuant to such exception. All financing with respect to targeted area residences and residences on land possessed under certain contract for deed agreements is treated as satisfying the first time homebuyer requirement.

New Mortgage Requirement. The Federal Tax Code requires that, with certain limited exceptions, the lendable proceeds of qualified mortgage bonds finance new mortgage loans only and that no proceeds may be used to acquire or replace an existing mortgage loan, which would include the refinancing of a pre-existing mortgage loan.

Purchase Price Limitation. The Federal Tax Code requires that the purchase price of the residence financed with the lendable proceeds of qualified mortgage bonds may not exceed 90% of the average area purchase price applicable to such residence or 110% of the applicable average area purchase price in the case of residences located in targeted areas.

Income Limitation. The Federal Tax Code requires that all mortgage loans made from the lendable proceeds of qualified mortgage bonds be made only to borrowers whose family income does not exceed 115% (for mortgage loans made to families with fewer than three members, 100%) of the applicable median family income. An exception is provided for mortgage loans financed with the lendable proceeds of qualified mortgage bonds made with respect to targeted area residences that permits two-thirds in aggregate amount of such mortgage loans to be made with respect to borrowers whose family income does not exceed 140% (for mortgage loans made to families with fewer than three members, 120%) of the applicable median family income and one-third in aggregate amount of such loans to be made without regard to any income limitation.

Federal tax law permits higher income limits for persons financing residences located in certain “high housing cost areas.” A high housing cost area is a statistical area for which the ratios of the area’s average purchase price for single family houses to the area’s median income exceed 120% of the same ratios determined on a national basis. An area is a high housing cost area only if the ratios for both new and existing houses meet the 120% test. In high housing cost areas, the veteran income limits are increased above 115% (or 100%, as applicable) by one percent for each percentage point (1%) by which the new or existing housing price ratio, whichever is smaller, exceeds 120%. However, the new limit cannot exceed 140% (or 120%, as applicable) of the income limits otherwise applicable. Certain areas of the State may qualify as high housing cost areas.

Family income includes income of all individuals executing both the note and mortgage and occupying the dwelling as their principal residence.

Requirements as to Assumptions. The Federal Tax Code provides that a mortgage loan may be assumed only if each of the then applicable residence requirements, first-time-homebuyer requirement, purchase price limitation, and income limitation is met with respect to such assumption.

Qualified Home Improvement Loans. The Federal Tax Code requires that a home improvement loan financed with the lendable proceeds of qualified mortgage bonds not exceed \$15,000, be made only with respect to an owner-occupied residence, and finance alterations, repairs, and improvements on or in connection with an existing one-to-four-family residence by the owner thereof, but only if such alterations, repairs and improvements substantially protect or improve the basic livability or energy efficiency of the property.

General. Qualified mortgage bonds treated under the Federal Tax Code as one bond issue for Federal tax purposes (“qualified mortgage issue”) are deemed to meet the loan eligibility requirements of the Federal Tax Code if (i) the issuer in good faith attempted to meet all the loan eligibility requirements before the mortgage loans were executed, (ii) any failure to comply with the loan eligibility requirements is corrected within a reasonable period after such failure is first discovered, and (iii) 95% or more of the proceeds of the issue used to make mortgage loans was used to finance residences that met all such requirements at the time the mortgage loans were executed.

#### *QVMB Proceeds*

The Federal Tax Code requires that each mortgagor to whom financing is provided under a qualified veterans’ mortgage bond issue have served on active duty and apply for financing before the date 25 years after the last date on which such veteran left active duty. The Department has established and has covenanted to comply with such requirements.

Generally, only the loan eligibility requirements stated above under “QMB Proceeds – Residence Requirement,” “– New Mortgage Requirement” and “– Qualified Home Improvement Loans” (except the \$15,000 maximum loan amount) apply to QVMB Proceeds.

#### ***Other Requirements Imposed by the Federal Tax Code***

General. The Federal Tax Code provides that gross income for Federal income tax purposes does not include interest on a mortgage revenue bond if it is a qualified mortgage bond or a qualified veterans’ mortgage bond. A qualified mortgage bond is a part of an issue of a state or political subdivision all the proceeds of which (net of amounts applied to any costs of issuance thereof and to fund a reasonably required reserve) are used to finance (or to refund bonds all of such net proceeds of which were used to finance) owner-occupied residences. A qualified veterans’ mortgage bond is part of an issue 95 percent or more of the net proceeds of which are used to provide residences to veterans. In addition, in order to be a qualified mortgage bond or a qualified veterans’ mortgage bond, a bond must be part of an issue that meets certain (i) general requirements, (ii) arbitrage restrictions on the use and investment of proceeds of the issue, and (iii) loan eligibility requirements set forth in the Federal Tax Code and as more fully described above under “Loan Eligibility Requirements Imposed by the Federal Tax Code.” Furthermore, in order to be a qualified veterans’ mortgage bond, the payment of the principal and interest thereof must be secured by a pledge of the full faith and credit of a qualifying issuing state.

Volume Limitation, Targeted Area and Required Reports. The first general requirement of the Federal Tax Code, applicable to qualified mortgage bonds, is that the aggregate amount of private activity bonds (exclusive of qualified veterans’ mortgage bonds) that may be issued by the Department in any calendar year (or previous years’ carried forward amount) must not exceed the portion of the private activity bond volume limit for the State for such calendar year that is allocated by the State to the Department. With respect to qualified veterans’ mortgage bonds, a

separate limit is based on statutory formulae. The second general requirement of the Federal Tax Code applicable to qualified mortgage bonds is that at least 20% of the lendable proceeds of an issue of bonds which are not refunding bonds (if such set-aside was satisfied with respect to the bonds being refunded) must be made available (and applied with reasonable diligence) for owner-financing of residences in targeted areas (as defined by the Federal Tax Code) for at least one year after the date on which such funds are first available for such owner-financing (the “targeted area requirement”). The third general requirement of the Federal Tax Code requires the issuer of qualified mortgage bonds and qualified veterans’ mortgage bonds to file with the Internal Revenue Service reports on the issuance of its qualified mortgage bonds or qualified veterans’ mortgage bonds following such issuance, as well as an annual qualified mortgage loan information report.

Yield Limitations and Rebate. The Federal Tax Code requires that the effective interest rate on mortgage loans financed with the lendable proceeds of qualified mortgage bonds and qualified veterans’ mortgage bonds may not exceed the yield on the issue by more than 1.125% (1.50% for Pre-Ullman bonds), and that certain investment earnings on non-mortgage investments, calculated based upon the extent such investment earnings exceed the amount that would have been earned on such investments if the investments were invested at a yield equal to the yield on the issue, be rebated to the United States or to veterans. These requirements apply to both Revenue Bonds and Veterans G.O. Bonds, except that for Revenue Bonds, rebate is paid to the United States and that for Veterans G.O. Bonds, rebate, absent an election to pay to the United States, is paid to veterans. See APPENDIX A – “THE DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA, THE PROGRAM AND THE 1943 FUND – THE PROGRAM – Contracts of Purchase” for discussions of provisions of the Veterans Code which affect the Department’s ability to establish and to change interest rates on Contracts of Purchase.

Recapture Provision Applicable to Qualified Mortgage Bonds. For certain mortgage loans made after December 31, 1990 from the lendable proceeds of qualified mortgage bonds issued after August 15, 1986, and for assumptions of such mortgage loans, the Federal Tax Code requires a payment to the United States from certain borrowers upon sale or other disposition of their homes (the “Recapture Provision”). The Recapture Provision requires that an amount determined to be the subsidy provided by a qualified mortgage bond financing to a borrower be paid to the United States on disposition of the residence (but not in excess of 50% of the gain realized by the borrower). The recapture amount (i) increases over the period of ownership, with full recapture occurring if the residence is sold between four and five full years after the closing of the mortgage loan and (ii) decline ratably to zero with respect to sales occurring between five and nine full years after the closing of the mortgage loan. An exception excludes from recapture part or all of the subsidy in the case of certain borrowers whose incomes are less than prescribed amounts at the time of the disposition. The Federal Tax Code requires an issuer to inform borrowers of certain information with respect to the Recapture Provision.

Required Redemptions. For qualified mortgage bonds issued after 1988, the Federal Tax Code requires redemption of certain qualified mortgage bonds issued after 1988 from unexpended proceeds required to be used to make mortgage loans that have not been used within 42 months from the date of issuance (or the date of issuance of the original bonds in the case of refundings of unexpended proceeds), except for a \$250,000 de minimis amount. As a result, the redemption of Revenue Bonds that are qualified mortgage bonds from proceeds attributable to such Revenue Bonds not used to make Contracts of Purchase may be required. Additionally, for qualified

mortgage bonds issued after 1988, the Federal Tax Code permits repayments (including prepayments) of principal of mortgage loans financed with the proceeds of an issue of such bonds to be used to make additional mortgage loans for only 10 years from the date of issuance of the bonds (or the date of issuance of the original bonds in the case of refundings), after which date such amounts must be used to redeem bonds, except for a \$250,000 *de minimis* amount. As a result, the Department is required by the Federal Tax Code to redeem Revenue Bonds which are qualified mortgage bonds from repayments (including prepayments) of principal of certain Contracts of Purchase not later than the close of the semiannual period after the payment is received.

Compliance. The Federal Tax Code states that an issuer will be treated as meeting the targeted area requirement, the arbitrage restrictions on mortgage loans, and the recapture information requirements if it in good faith attempted to meet all such requirements and any failure to meet such requirements was due to inadvertent error after taking all reasonable steps to comply with such requirements.



## APPENDIX I

### SUMMARY OF CERTAIN PROVISIONS OF RESOLUTION RB-1

This Appendix I contains a summary of certain provisions of Resolution RB-1 and should be read in conjunction with the information set forth in the forepart of this Official Statement contained under the captions “INTRODUCTION – Home Purchase Revenue Bonds,” “SECURITY FOR AND SOURCES OF PAYMENT OF THE OFFERED REVENUE BONDS – The 1943 Fund,” “—Bond Reserve Account,” “—Loan Loss Account,” “—Cash Flow Statements and Program Operating Procedures,” “—Cash Flow Statements to be Delivered in Connection with the Offered Revenue Bonds,” “—Maintenance of Fund Parity,” “—Additional Revenue Bonds,” “THE OFFERED REVENUE BONDS – Redemption,” “—Redemption Notice,” and APPENDIX A – “THE DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA, THE PROGRAM AND THE 1943 FUND –Excess Revenues.”

**This summary is only a brief description of limited provisions of Resolution RB-1, does not purport to be comprehensive and is qualified in its entirety by reference to the full text of Resolution RB-1. Reference should be made to Resolution RB-1 for a full and complete statement of its provisions.**

#### **Resolution to Constitute Contract (Section 101)**

In consideration of the purchase and acceptance of any and all of the Bonds issued under Resolution RB-1 by those who shall own the same from time to time, Resolution RB-1 shall be deemed to be and shall constitute a contract between the Department, the Trustee and the owners of the Bonds, and the pledges made in Resolution RB-1 and the covenants and agreements in Resolution RB-1 set forth to be performed by the Department or the Trustee 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 of Resolution RB-1, except as expressly provided in or permitted by Resolution RB-1 or by the applicable Series Resolution.

#### **Pledge Effected by Resolution RB-1 (Section 102)**

For the purpose of fixing and declaring the terms and conditions upon which the Bonds are to be issued, executed, delivered, secured and accepted by the owners of the Bonds, and in order to secure the payment of all Bonds at any time issued and Outstanding under Resolution RB-1 and the interest thereon according to their tenor, purport and effect, and in order to secure the performance and observance of all the covenants, agreements and conditions therein and in Resolution RB-1 contained, the Department has adopted Resolution RB-1, has pledged, conveyed and assigned, and, subject to the subordination provisions in favor of other debt holders of the Department contained in the definition in Resolution RB-1 of Pledged Property, does by Resolution RB-1 pledge, convey and assign the Pledged Property to the Trustee as security for the payment of the principal of, including redemption premium, if any, on the Bonds and the interest thereon for the equal and proportionate benefit and security, from time to time, of the owners of the Bonds, without preference, priority or distinction as to lien or otherwise, *except* as otherwise provided in Resolution RB-1 or as provided in an applicable Series Resolution, of any one Bond over any other Bond, by reason of priority in the issue, sale or negotiation thereof or otherwise, all in accordance with the terms of Resolution RB-1.

The Bonds are special obligations of the Department payable solely from and secured by the Pledged Property under Resolution RB-1 and are not a lien, charge or liability against the State of California, or against the Department, or against the property or funds of either, except only to the extent of the aforesaid pledge as provided in Resolution RB-1.

### **Definitions (Section 103)**

In Resolution RB-1 and any resolution supplemental to Resolution RB-1 the following terms shall have the following meanings:

“Account” means an Account (and any subaccounts therein) created by or pursuant to Resolution RB-1 or a Series Resolution.

“Accountant” means an independent certified public accountant or firm of independent certified public accountants of national reputation selected by the Department, who may be the accountant or firm of accountants who regularly audit the books of the Department.

“Accrued Debt Service” means, as of any date of determination and, as the context of Resolution RB-1 requires, with respect to all Bonds and/or all Veterans G.O. Bonds, the sum of:

(a) the aggregate amount of scheduled interest and principal (except to the extent principal is otherwise to be redeemed pursuant to clause (b) or (c) hereof) to become due after such date but on or before the end of the current Debt Service Year, less the product of (i) the number of whole months remaining in the current Debt Service Year and (ii) the Monthly Debt Service Requirement;

(b) the redemption price of bonds for which notice of redemption has been issued, provided such redemption price is to be paid from amounts on deposit in the Revenue Account; and

(c) the redemption price of bonds that the Department will be obligated to redeem prior to the end of the next succeeding Debt Service Year under the terms of any Series Resolution or Supplemental Resolution or resolution of issuance governing Veterans G.O. Bonds, to the extent that such obligation arises on account of amounts on deposit in the Revenue Account.

“Additional Bonds” means any additional Bonds issued pursuant to Section 209 of Resolution RB-1.

“Amortized Value” means the purchase price of securities, excluding accrued interest, plus an amortization of any discount or less an amortization of any premium included in the purchase price. The premium or discount shall be amortized on an actuarial basis, such that the Amortized Value at any time equals the price at which the yield on a security equals the yield of such security as of its original purchase. In the case of an Investment Obligation callable at the option of the issuer thereof, the original yield and Amortized Value shall be computed on the assumption that, (i) for securities purchased at a premium, such security is redeemed as of the first possible redemption date, provided, that after such redemption date, such value of the Investment Security shall be computed at par; or (ii) for securities purchased at a discount, such security is held to maturity.

“Applicable Fund Parity Percentage” means 50% or such other percentage set forth in the Program Operating Procedures. But see “SECURITY FOR AND SOURCES OF PAYMENT OF THE OFFERED REVENUE BONDS – Maintenance of Fund Parity” in this Official Statement for current percentage.

“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 Resolution 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 Resolution authorizing such Deferred Interest Bond, 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 Resolution 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 Resolution 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 Resolution RB-1, 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).

“Authorized Representative” or “Authorized Officer” means the Secretary of Veterans Affairs, Undersecretary of Veterans Affairs, Deputy Secretary of Operations, Deputy Secretary of Administration or any other authorized representative as from time to time may be designated by the Secretary in writing to the Trustee as authorized to act under Resolution RB-1 on behalf of the Department.

“Bond Act” means the Veterans’ Revenue Debenture Act of 1970 (constituting Chapter 7 of Division 4 of the Veterans Code), as now in effect and as it may from time to time hereafter be amended or supplemented.

“Bond Registrar” means the Trustee as the party responsible for maintenance of the Bond registration books of the Department pursuant to Section 208 of Resolution RB-1.

“Bond Reserve Account” means the Bond Reserve Account established pursuant to Section 401 of Resolution RB-1.

“Bond 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 Resolutions authorizing the issuance of such Bonds, at least equal in the aggregate to three per centum (3%) of the aggregate Outstanding principal amount of the Bonds with interest rates fixed to the maturity thereof.

“Bondowner” or “owner of Bonds” or “Holder” or “Bondholder” means the registered owner of any registered Bond.

“Bonds” means Revenue Bonds.

“Cash Equivalent” means a Letter of Credit, Insurance Policy, Surety, Guarantee or other Security Arrangement (as defined and provided for in a Series Resolution providing for the issuance of Bonds or in a Supplemental Resolution), provided by an institution which has received a rating of its claims paying ability from each of the Rating Agencies at least equal to the then-existing respective rating on the Bonds or whose unsecured debt securities are rated at least the then-existing respective rating on the Bonds (or the highest rating of short-term obligations if the Cash Equivalent is a short-term instrument) by the Rating Agencies.

“Cash Flow Statement” means a Cash Flow Statement conforming to the requirements of Section 607 of Resolution RB-1.

“Certificate of the Department” means an instrument in writing signed by an Authorized Representative.

“Committee” means the Veterans’ Debenture Finance Committee created by the Bond Act.

“Contract of Purchase” means any contract of purchase entered into by the Department and a veteran or other eligible person covering any property (whether residential or otherwise) purchased or acquired by the Department with moneys in the 1943 Fund or any other obligation representing a program investment of such moneys irrespective of the form of such obligation.

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

“Counsel’s Opinion” means an opinion signed by an attorney or firm of attorneys selected by the Department; any such attorney may be a lawyer in the regular employment of the Department.

“Credit and Liquidity Support Expenses” means, with respect to a Series of Bonds or a series of Veterans G.O. Bonds (as the context requires), as set forth in a Series Resolution or Supplemental Resolution, or resolution of issuance governing such series of Veterans G.O. Bonds, respectively, the amounts necessary to pay any fees and reimbursement in connection with tender option features, letters of credit, standby bond purchase agreements, bond insurance and other forms of credit and liquidity support related thereto.

“Debt Service Year” means the year beginning on the second day of October and ending on the first day of October in the next succeeding year, or any other twelve-month period hereafter selected and designated as such in the Program Operating Procedures.

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

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

“Event of Default” means any of the events of default described in Section 702 of Resolution RB-1.

“Excess Revenues” means, as of any date of calculation, the amount of all Revenues held in the Revenue Account in excess of Accrued Debt Service (as adjusted for any use of Revenues contemplated at the time of such calculation).

“Expenses” means any moneys required by the Department to pay, or to be set aside to pay, the expenses of the Trustee and any expenses which the Department may lawfully pay from the 1943 Fund (whether or not related to the Bonds), except (i) as limited with respect to any Series of Bonds by the applicable Series Resolution and (ii) that Credit and Liquidity Support Expenses shall not be included in the definition of “Expenses”; *provided, however*, that such expenses related to Cash Equivalents shall not be excluded.

“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, or any other twelve-month period selected and designated as the official fiscal year period of the Department.

“Fitch” means Fitch IBCA, Inc., and includes any successor thereto.

“Fund Parity” means, on any determination date: (a) an amount equal to the difference between (i) all assets in the 1943 Fund and in the Accounts established under Resolution RB-1 and any Series Resolution or Supplemental Resolution and (ii) the aggregate principal amount of all Revenue Bonds Outstanding and all Veterans G.O. Bonds outstanding (plus accrued interest), reduced by (b) allowances and reserves for loss coverage on Contracts of Purchase, loss coverage on properties subject to Contracts of Purchase, and life and disability coverage on persons obligated under Contracts of Purchase, as specified in the Program Operating Procedures.

“Government Obligations” means bonds or interest-bearing notes or obligations of the United States, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.

“Investment Obligations” means, any of the following which at the time of purchase are legal investments under the laws of the State of California for moneys held under Resolution RB-1 and then proposed to be invested therein:

- (1) Government Obligations;
- (2) Bonds, consolidated bonds, collateral trust debentures, consolidated debentures, or other obligations issued by federal land banks or federal intermediate credit banks established under the Federal Farm Loan Act, as amended, debentures and consolidated debentures issued by the Central Bank for Cooperatives and banks for cooperatives established under the Farm Credit Act of 1933, as amended, bonds or debentures of the Federal Home Loan Banks, stock, bonds, debentures and other obligations of the Government National Mortgage Association or the Federal National Mortgage Association established under the National Housing Act as amended, obligations of the Federal Home Loan Mortgage Corporation, and bonds, notes and other obligations issued by the Tennessee Valley Authority under the Tennessee Valley Authority Act as amended;
- (3) interest-bearing demand or time deposits in banks or savings and loan associations, which, to the extent they are not insured by federal deposit insurance, are collateralized by securities eligible to secure public deposits in the State, or which are issued by an institution, the senior unsecured debt of which is rated in one of the top two rating categories of a Rating Agency;
- (4) negotiable certificates of deposit issued by a nationally or state-chartered bank or savings and loan association or by a state-licensed branch of a foreign bank which, to the extent they are not insured by federal deposit insurance, are collateralized by

securities eligible to secure public deposits in the State, or which are issued by an institution the senior unsecured debt of which is rated in one of the top two rating categories by a Rating Agency;

(5) repurchase agreements backed by or related to obligations described in (1) or (2) above with any institution whose unsecured debt securities are rated, or which agreements are rated, at least equal to the then existing rating on the Bonds (or the highest rating of short-term obligations if the investment is a short-term obligation) by a Rating Agency;

(6) (1) investment agreements, secured (by collateralization, guaranty or otherwise) or unsecured, with any institution, or fully guaranteed by any institution, whose unsecured debt securities are rated at least equal to the then existing rating on the Bonds (or the highest rating of short-term obligations if the investment is a short-term obligation) by a Rating Agency; or (2) any investment agreement that is secured (by collateralization, guaranty or otherwise), to such extent that the investment agreement itself is the subject of such a rating or the Bonds are the subject of written confirmation from a Rating Agency that investment of amounts in such an investment agreement will not cause the outstanding rating of the Bonds by such Rating Agency to be withdrawn, downgraded or suspended;

(7) commercial paper (having original maturities of not more than 180 days) rated in the highest rating category by a Rating Agency;

(8) direct and general obligations of or obligations unconditionally guaranteed by any state or political subdivision thereof, the payment of the principal of and interest on which the full faith and credit of the state or such political subdivision is pledged, and certificates of participation in any such obligations (which obligations may be subject to annual appropriations), which obligations or certificates of participation, respectively, are rated at least equal to the then existing rating of the Bonds by a Rating Agency;

(9) investments in any mutual fund the portfolio of which is limited to Investment Obligations, including any proprietary mutual fund of the Trustee or co-Trustee for which the Trustee or co-Trustee or an affiliate is investment advisor or provided other services to such mutual fund and receives reasonable compensation for such services (and if such mutual fund consists solely of Government Obligations, then such fund will constitute "Government Obligations" for the purposes of Resolution RB-1);

(10) obligations of any state, political subdivision, political corporation or agency, the payment of principal, redemption price, if any, and interest on which is irrevocably secured by Government Obligations;

(11) deposits in the Surplus Money Investment Fund in the Treasury of the State;

(12) interest-bearing demand or time deposits in banks or savings and loan associations, that, to the extent they are not insured by federal deposit insurance, are collateralized by securities eligible to secure public deposits in the State, or that are issued by an institution, that has a rating for its source of payment of such investment that is rated in one of the top two rating categories by a Rating Agency;

(13) negotiable certificates of deposit issued by a nationally or state-chartered bank or savings and loan association or by a state-licensed branch of a foreign bank that, to the extent they are not insured by federal deposit insurance, are collateralized by

securities eligible to secure public deposits in the State, or that are issued by an institution that has a rating for its source of payment of such investment that is rated in one of the top two rating categories by a Rating Agency;

(14) repurchase agreements backed by or related to obligations described in (1) or (2) above with any institution that has a rating for its source of payment of such investment, or that agreements are rated, at least equal to the then existing rating on the Bonds (or the highest rating of short-term obligations if the investment is a short-term obligation) by a Rating Agency; and

(15) (1) investment agreements, secured (by collateralization, guaranty or otherwise) or unsecured, with any institution, or fully guaranteed by any institution, that has a rating for its source of payment of such investment at least equal to the then existing rating on the Bonds (or the highest rating of short-term obligations if the investment is a short-term obligation) by a Rating Agency, or (2) any investment agreement that is secured (by collateralization, guaranty or otherwise), to such extent that the investment agreement itself is the subject of such a rating or the Bonds are the subject of written confirmation from a Rating Agency that investment of amounts in such an investment agreement will not cause the outstanding rating of the Bonds by such Rating Agency to be withdrawn, downgraded or suspended.

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 Resolution RB-1 by a Supplemental Resolution adopted and filed in accordance with Section 1001(j) of Resolution RB-1 thus permitting investments with different characteristics from those permitted which the Department deems from time to time to be in the interests of the Department to include as Investment Obligations;

For purposes of the 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.

If the rating of any Investment Obligation purchased pursuant to Resolution RB-1 is downgraded, suspended or withdrawn by any Rating Agency, the Trustee is not required to sell such Investment Obligation but may retain the same under Resolution RB-1.

“Liquidation/Insurance Proceeds” means amounts representing proceeds of (1) the sale or other disposition of any property subject to any Contract of Purchase, whether upon cancellation of said Contract of Purchase (on account of default or any other cause) or for any other cause, exclusive of amounts so recovered and required by law, contract or resolution of the Department to be otherwise applied; and (2) compensation for losses incurred with respect to the property subject to any Contract of Purchase from the proceeds of condemnation, title insurance, hazard insurance, or primary or pool insurance of the Contracts of Purchase (including Veterans Administration guarantees), exclusive of amounts recovered in respect of such losses to the extent required to be otherwise applied pursuant to applicable law, contract or resolution of the Department.

“Loan Loss Account” means the Loan Loss Account established pursuant to Section 401 of Resolution RB-1.

“Loan Loss Requirement” means, as of any particular date of calculation, an amount established in the current Cash Flow Statement which, when added to the Bond Reserve Requirement, shall not exceed ten percent (10%) of the initial principal amount of all Series of which any Bonds are Outstanding or such larger amount as may be provided in a Supplemental Resolution adopted pursuant to Section 1001(m) of Resolution RB-1.

“Mandatory Sinking Account Payments” 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 any Term Bonds of such Series and maturity with respect to which such Mandatory Sinking Account Payments are payable which are to be purchased or redeemed (except out of Mandatory Sinking Account Payments). Mandatory Sinking Account Payments may be established as fixed dollar amounts or as method(s) of calculation thereof.

“Monthly Debt Service Requirement” means, as of any date of determination, one-twelfth (1/12) of the aggregate amount of scheduled interest and principal to become due during the Debt Service Year in which such date falls, as computed on the first day of such Debt Service Year.

“Moody’s” means Moody’s Investors Service, Inc., and includes any successor thereto.

“1943 Fund” means the Veterans’ Farm and Home Building Fund of 1943, established in the Treasury of the State by Section 988 of the Veterans Code.

“Outstanding” as used in relation to Bonds means, as of any date, all Bonds theretofore authenticated and delivered by the Trustee under Resolution RB-1, except:

- (a) any Bond deemed paid in accordance with Section 411(b) of Resolution RB-1;
- (b) any Bond cancelled 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 provisions of Section 303 of Resolution RB-1;
- (d) any Bond deemed paid in accordance with the provisions of Section 1101 of Resolution RB-1; and
- (e) any Bond in lieu of or in substitution for which another Bond shall have been authenticated and delivered pursuant to Section 211 of Resolution RB-1, 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 Article Eight of the Uniform Commercial Code of the State, as amended, 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 (a) an undivided interest in the assets of the 1943 Fund, other than any GO Bond Series Bond Proceeds Subaccount, which undivided interest shall be secondary and subordinate to the rights of the holders of Veterans G.O. Bonds to receive payment of debt service thereon, directly or indirectly, from amounts in the 1943 Fund under any general obligation veterans bond act, (b) any amounts held in the Bond Reserve Account, and (c) any amounts in the Loan Loss Account, *except* amounts in any Rebate Account and *except* that the pledge established in a Series Resolution may be limited in purpose and time, as set forth in the Series Resolution.



“Primary Contract of Purchase Coverage” means coverage in the form of primary mortgage insurance, guaranty (including by United States Department of Veterans Affairs guaranty) or otherwise of loss from Contract of Purchase defaults as provided in the Program Operating Procedures.

“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.

“Proceeds Account” means the Proceeds Account established pursuant to Section 401 of Resolution RB-1.

“Program” means the finance program of the Department pursuant to which the Department will issue the Bonds and Veterans G.O. Bonds and apply the proceeds thereof to finance Contracts of Purchase.

“Program Acts” means the Veterans’ Farm and Home Purchase Act of 1943 (constituting Article 3 of Chapter 6 of Division 4 of the Veterans Code) and the Veterans’ Farm and Home Purchase Act of 1974 (constituting Article 3.1 of Chapter 6 of Division 4 of the Veterans Code), as now in effect and as they may from time to time hereafter be amended or supplemented.

“Program Operating Procedures” means, at any time, the Department’s program operating procedures governing the discretionary activities of the Department, in the then current form, as described in Section 606 of Resolution RB-1.

“Rating Agency” means, at any time, any bond rating agency, including Fitch, Moody’s and S&P, that shall have rated any of the Bonds at the request of the Department and shall be maintaining ratings on such Bonds at such time.

“Rating Confirmation” means, with respect to any action or financial condition described in Resolution RB-1, written confirmation from each of the Rating Agencies that the taking of such action or the existence of such financial condition shall not cause the outstanding ratings by such respective Rating Agencies of all Bonds which are not rated based solely on the credit of a bond insurer or other guarantor to be withdrawn, downgraded or suspended.

“Rebate Account” means any Account of that name established by the Department pursuant to Section 401(c) of Resolution RB-1.

“Redemption Price” means, with respect to a Bond or portion thereof, the portion of the principal amount of such Bond or portion plus the applicable premium, if any, payable upon redemption thereof in the manner contemplated in accordance with its terms pursuant to the provisions of Resolution RB-1 and any Series Resolution.

“Restricted Recoveries” means, as set forth or referenced in the Series Resolution authorizing a Series of Bonds or in a resolution of issuance authorizing a series of Veterans G.O. Bonds, or as otherwise designated in the Program Operating Procedures, that portion of prepayments and scheduled repayments of principal on Contracts of Purchase financed (directly or indirectly) by or credited to such Series of Bonds or series of Veterans G.O. Bonds, respectively, to the extent such amounts are required by the Federal Tax Code or by the terms of such Series Resolution or resolution of issuance, respectively, to be applied to a redemption of Bonds or Veterans G.O. Bonds.

“Revenue Account” means the Revenue Account established pursuant to Section 401 of Resolution RB-1.

“Revenues” means all moneys received by or on behalf of the Department representing (i) principal and interest payments on the Contracts of Purchase including all prepayments representing the same and all prepayment premiums or penalties received by or on behalf of the Department in respect to the Contracts of Purchase, (ii) interest earnings received on the investment of amounts to the extent deposited in the Revenue Account pursuant to Section 502 of Resolution RB-1, (iii) amounts transferred to the Revenue Account from the Bond Reserve Account or the Loan Loss Account and (iv) any other amounts payable by parties executing Contracts of Purchase or private participants in the Program or related to recoveries on defaulted Contracts of Purchase, including origination and commitment fees, servicing acquisition fees, and Liquidation/Insurance Proceeds, except to the extent not included as “Revenues” pursuant to the provisions of any Series Resolution.

“S&P” means Standard & Poor’s Ratings Services, a division of The McGraw Hill Companies, Inc. and includes any successor thereto.

“Securities Depository” means DTC, unless a successor has been appointed to act as the Securities Depository under Resolution RB-1.

“Series Certificate” means a Certificate of the Department which shall be dated as of the date of sale and shall be executed (or re-executed in final form) and delivered on the date of issuance of the applicable Series of Bonds.

“Series Proceeds Subaccounts” means, collectively, the Revenue Bond Series Proceeds Subaccounts and the GO Bond Series Proceeds Subaccounts.

“Series Recycling Subaccounts” means, collectively, the Revenue Bond Series Recycling Subaccounts and the GO Bond Series Recycling Subaccounts.

“Series Resolution” means a Supplemental Resolution of the Committee authorizing the issuance of a Series of Bonds and including any Series Certificate delivered pursuant thereto.

“Series Restricted Recoveries Subaccounts” means, collectively, the Revenue Bond Series Restricted Recoveries Subaccounts and the GO Bond Series Restricted Recoveries Subaccounts.

“Series Revenue Subaccounts” means, collectively, the Revenue Bond Series Revenue Subaccounts and GO Bond Series Revenue Subaccounts.

“State” means the State of California.

“Supplemental Contract of Purchase Coverage” means the coverage, if any, of loss from Contract of Purchase defaults provided in the Program Operating Procedures which supplements any Primary Contract of Purchase Coverage.

“Supplemental Resolution” means any resolution of the Committee supplementing or amending Resolution RB-1.

“Federal Tax Code” or “Tax 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.

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

“Trustee,” as used under “Summary of Certain Provisions of Resolution RB-1,” means the Treasurer of the State, whenever acting as Trustee in accordance with Resolution RB-1 and the Bond Act, and, except as set forth in Section 801 of Resolution RB-1, any corporation or association which may be co-Trustee with the Treasurer under Resolution RB-1 pursuant to Article VIII of Resolution RB-1, or the successor to the co-Trustee under Resolution RB-1 as provided in Article VIII of Resolution RB-1.

“Veterans’ Bonds Payment Fund” means the revolving special fund established in the State Treasury by Section 988.6(a) of the Veterans Code.

“Veterans Code” means the Military and Veterans Code of the State of California.

“Veterans Debenture Fund” means the Veterans Debenture Revenue Fund established in the Treasury of the State by Section 1003.11 of the Veterans Code.

“Veterans General Obligation Bonds” means, as of any given time, general obligation bonds of the State the proceeds of which were required to be deposited in the 1943 Fund (or returned to the General Fund or the Pooled Money Investment Account in the State Treasury in repayment of amounts withdrawn from said General Fund or the Pooled Money Investment Account and deposited in the 1943 Fund) and which are at such given time outstanding. Veterans General Obligation Bonds are referred to in this Official Statement as “Veterans G.O. Bonds.”

#### **Miscellaneous Definitions (Section 104)**

Unless the context shall otherwise indicate, words which import the singular shall include the plural, and words which import the plural shall include the singular. The word “person” means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof. The words “of Resolution RB-1,” “in Resolution RB-1,” “to Resolution RB-1,” “by Resolution RB-1” and “under Resolution RB-1” refer to the entire Resolution RB-1. The words “interest payment date” mean with respect to any Series of Bonds, the interest payment date(s) established in the applicable Series Resolution, regardless of whether the referenced Bonds are interest-bearing or not. Any reference to a rating category means the category published by a Rating Agency without reference to numbered or lettered annotations or pluses and minuses.

#### **Authentication of Bonds (Section 205)**

Only such of the definitive Bonds as shall have endorsed thereon a certificate of authentication substantially in the form set forth in the applicable Series Resolution, duly executed by the Trustee, shall be entitled to any benefit or security under Resolution RB-1. No definitive Bond shall be valid or obligatory for any purpose unless and until such certificate of authentication shall have been duly executed by the Trustee, and such certificate of the Trustee upon any such Bond shall be conclusive evidence that such Bond has been duly authenticated and delivered under Resolution RB-1. The Trustee’s certificate of authentication on any definitive Bond shall be deemed to have been duly executed if signed by an authorized officer of the Trustee, but it shall not be necessary that the same officer sign the certificate of authentication on all of the Bonds that may be issued under Resolution RB-1 at any one time.

### **Exchange of Bonds (Section 206)**

Subject to, and in accordance with, Section 207 of Resolution RB-1, Bonds, upon surrender thereof at the principal office of the Trustee in Sacramento California, together with an assignment duly executed by the registered owner or his attorney or legal representative in such form as shall be satisfactory to the Trustee, may, at the option of the registered owner thereof, be exchanged for an equal aggregate principal amount of Bonds of like tenor and of the same Series (and subseries, if applicable) and maturity, bearing interest at the same rate, of any denomination or denominations authorized by Resolution RB-1.

### **Negotiability, Registration and Registration of Transfer of Bonds (Section 207)**

The transfer of any Bond may be registered only upon the books kept for the registration of, and registration of transfers of, Bonds upon surrender thereof to the Trustee together with an assignment duly executed by the registered owner or his attorney or legal representative in such form as shall be satisfactory to the Trustee. Upon any such registration of transfer of a Bond, the Department shall execute and the Trustee shall authenticate and deliver in exchange for such Bond a new Bond or Bonds, registered in the name of the transferee, in any denomination or denominations authorized by Resolution RB-1, in an aggregate principal amount equal to the principal amount of such Bond of like tenor and of the same Series (and subseries, if applicable) and maturity and bearing interest at the same rate.

### **Issuance of the Bonds (Section 209)**

Each Series Resolution authorizing the issuance of a Series of Bonds shall specify and determine:

- (a) The authorized principal amount of such Series of Bonds;
- (b) The purposes for which such Series of Bonds are being issued which shall be one or more of the following purposes: (i) the financing of Contracts of Purchase; (ii) the making of such deposits in amounts, if any, required by Resolution RB-1 or the Series Resolution to be paid into various Accounts or the direct payment of Costs of Issuance; or (iii) the refunding of all or any part of the Bonds of any Series (including any Bonds not deemed Outstanding under Resolution RB-1 pursuant to Section 411(b)) or, to the extent permitted by law, Veterans G.O. Bonds, including the payment of any redemption premium thereon (or premium, to the extent permitted by law, included in the purchase price if purchased in lieu of redemption);
- (c) The maturity date or dates, the amounts of each maturity, and the interest payment dates of the Bonds of such Series;
- (d) The interest payment dates, and rate or rates, of the Bonds of such Series or method of determining the same;
- (e) The denomination or denominations of, and the manner of dating, numbering and lettering the Bonds of each Series;
- (f) In the case of Term Bonds, if any, provision for Mandatory Sinking Account Payments;
- (g) The Redemption Price or Redemption Prices, if any, the time or times and the terms and conditions upon which the Bonds of such Series may be redeemed prior to their maturities, including without limitation the method of selection for redemption as among maturities;

(h) The amounts to be deposited from the proceeds of such Series of Bonds in the Accounts created and established by Resolution RB-1 and the Series Resolution;

(i) That *notwithstanding* any other provision of the Series Resolution, upon issuance, sale and delivery of such Series of Bonds, so much of such proceeds of the Bonds of such Series shall be credited to the Bond Reserve Account so that the amount in such fund shall be at least equal to the Bond Reserve Requirement calculated immediately after the delivery of such Series of Bonds;

(j) That *notwithstanding* any other provision of the Series Resolution, upon sale and delivery of such Series of Bonds, so much of such proceeds of the Bonds of such Series shall be credited to the Loan Loss Account so that the amount in such fund shall be at least equal to the Loan Loss Requirement calculated immediately after the delivery of such Series of Bonds;

(k) The manner in which Bonds of such Series are to be sold and provisions for the sale thereof;

(l) The form of any credit enhancement or liquidity support for such Series of Bonds; and

(m) Any other provisions deemed advisable by the Department not in conflict with the provisions of Resolution RB-1.

Said Bonds shall be executed substantially in the form and manner set forth in Resolution RB-1 and shall be deposited with the Trustee for authentication, but before said 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 Representative, of Resolution RB-1 and the Series Resolution for such Series of Bonds;

(b) A Certificate of the Department to the effect that no Event of Default shall have occurred and then be continuing;

(c) An opinion of nationally recognized bond counsel stating in the opinion of such counsel that (i) Resolution RB-1 and the applicable Series Resolution have been duly adopted and are valid and binding upon the Department and (ii) said Bonds are valid and legally binding special obligations of the Department secured in the manner and to the extent set forth in Resolution RB-1 and the applicable Series Resolution and are entitled to the benefit, protection and security of the provisions, covenants and agreements contained therein;

(d) A Cash Flow Statement conforming to the requirements of Section 607 of Resolution RB-1;

(e) With respect to refunding Bonds, a certificate of an Authorized Representative stating that the proceeds (excluding accrued interest but including any premium) of such refunding Bonds, together with any moneys to be withdrawn from the Bond Reserve Account by the Trustee, and any other moneys which have been made available to the Trustee for such purposes, and 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 Bond Reserve Account and the Loan Loss Account and specifying

transfers, if any, from the Series Proceeds Subaccount applicable to the Series of Bonds to be refunded and the refunding Bonds;

(f) With respect to refunding Bonds, if all or part of the refunded Bonds are to be redeemed prior to maturity, irrevocable instructions from an Authorized Representative of the Department to the Trustee to redeem the applicable Bonds;

(g) A Rating Confirmation; and

(h) A request and authorization to the Trustee on behalf of the Department, signed by an Authorized Representative, to authenticate and deliver the Bonds to the purchaser or purchasers therein identified upon payment to the Trustee for the account of the Department of the purchase price therefor.

When the documents mentioned in clauses (a) to (h), inclusive, of Section 209 shall have been filed with the Trustee and when the Bonds described in the Series Resolution mentioned in clause (a) above shall have been executed and authenticated as required by Resolution RB-1, the Trustee shall deliver such Bonds at one time to or upon the order of the purchaser or purchasers named in the request and authorization mentioned in clause (h) of Section 209, but only upon payment to the Trustee of the purchase price of said Bonds. The Trustee shall be entitled to rely upon such request and authorization as to the amount of such purchase price.

Simultaneously with the delivery of such Bonds the Trustee shall deposit or credit the proceeds of said Bonds into the applicable Revenue Bond Series Proceeds Subaccount of the Proceeds Account. Unless otherwise provided in the applicable Series Resolution, 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 Bond Reserve Account such that the amount on deposit in such Account will at least equal the Bond Reserve Requirement (with respect to refunding Bonds, after giving effect to the refunding);

(ii) an amount shall be transferred to and deposited to the credit of the Loan Loss Account such that the amount on deposit in such Account will at least equal the Loan Loss Requirement (with respect to refunding Bonds, after giving effect to the refunding); and

(iii) an amount to be transferred to and deposited into any Account or for any purpose not referred to in clauses (i) or (ii) above as provided in the applicable Series Resolution.

#### **Transfers Outside Book-Entry System (Section 214)**

In the event (i) the Securities Depository (*i.e.*, initially, DTC) determines not to continue to act as Securities Depository for any Series of the Bonds or (ii) the Department and the Trustee determine that the Securities Depository shall no longer so act and the Department delivers a written certificate to the Trustee to that effect, then the Department will discontinue the book-entry system with the Securities Depository with respect to such Series. If the Department and the Trustee determine to replace the Securities Depository with another qualified securities depository, the Department shall prepare or direct the preparation of a new, single, separate, fully registered bond for each of the maturities of the Bonds of such Series, registered in the name of such successor or substitute qualified securities depository or its nominee, or make such other

arrangements acceptable to the Department and the Securities Depository as are not inconsistent with the terms of Resolution RB-1 or any Supplemental Resolution. If the Department and the Trustee fail to identify another qualified securities depository to replace the Securities Depository, then the Bonds of such Series shall no longer be restricted to being registered in the registration books of the Trustee in the name of the Nominee, but shall be registered in whatever name or names the Bondowner of Bonds transferring or exchanging Bonds shall designate in accordance with Resolution RB-1. Notwithstanding anything in Section 214 of Resolution RB-1 to the contrary, the book-entry system may not be discontinued within the period commencing 15 days prior to the date of mailing a notice of redemption and ending on the redemption date specified in such notice.

### **Payments and Notices to the Nominee (Section 215)**

Notwithstanding any other provision of Resolution RB-1 or any Supplemental Resolution to the contrary, so long as any Bond is registered in the name of the Nominee, all payments with respect to principal of, premium, if any, and interest on such Bond and all notices with respect to such Bond shall be made and given, respectively, as provided in the applicable Representation Letter or as otherwise instructed by the Securities Depository.

### **Redemption of Bonds (Section 301)**

The Trustee shall select the Bonds or portions of Bonds to be redeemed or purchased in accordance with Resolution RB-1 and the applicable Series Resolution. Except as otherwise stated in the Series Resolution authorizing a Series of Bonds under Resolution RB-1 with respect to all or any part of the Series of Bonds authorized thereunder, moneys shall upon direction by Department 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 Department in such Department Request. Except as otherwise provided in a Series Resolution, the Department Request relating to each redemption of Bonds shall be filed with the Trustee at least thirty (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 Resolution, 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) shall be called for redemption, the particular Bonds of such Series (and subseries if applicable) and maturity bearing the same rate of interest (and otherwise of like tenor) to be redeemed shall be selected in such manner based upon Series, maturity, principal amount and interest rate as directed by the Department 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 Series (and subseries, if applicable) to be redeemed shall be in the minimum principal amount or some integral multiple thereof established for such Bonds in the applicable Series Resolution, and that in selecting Bonds for redemption, the Trustee shall treat each Bond as representing that number of Bonds which is obtained by dividing the principal amount of such Bond by said minimum principal amount. If less than all of the Term Bonds Outstanding of any one maturity of a Series (or subseries, if applicable) shall be purchased or called for redemption (other than in satisfaction of Mandatory Sinking Account Payments), the principal amount of such Term Bonds that are so purchased or redeemed shall be credited, to the extent practicable, except as otherwise provided in a Department Request, against all remaining Mandatory Sinking Account Payments for the Term Bonds of such Series (and subseries, if

applicable) and maturity in the proportion which the then remaining balance of each such Mandatory Sinking Account Payments bears to the total of all Bonds of such Series (and subseries, if applicable) and maturity then Outstanding.

**Effect of Calling for Redemption (Section 303)**

On the date so designated for redemption if the conditions precedent, if any, to such redemption have been satisfied, any required notice which has not been waived having been given in the manner and under the conditions in Resolution RB-1 above provided, the Bonds or portions of Bonds so called for redemption shall become and be due and payable at the Redemption Price provided for redemption of such Bonds or portions thereof on such date, and, if sufficient money or Government Obligations (the principal of and interest on which will provide sufficient money for payment of the Redemption Price and the accrued interest) are held by the Trustee in trust for the owners of the Bonds or portions thereof to be redeemed, as provided in Resolution RB-1, such Bonds or portions thereof shall cease to be Outstanding under the provisions of Resolution RB-1, interest on the Bonds or portions of Bonds so called for redemption shall cease to accrue, such Bonds or portions of Bonds shall cease to be entitled to any benefit or security under Resolution RB-1 and the owners of such Bonds or portions of Bonds shall have no rights in respect of Resolution RB-1, except to receive payment of the Redemption Price thereof and the accrued interest thereon to the date of redemption and, to the extent provided in Section 304 of Resolution RB-1, to receive Bonds for any unredeemed portion of Bonds.

**Establishment of Accounts (Section 401)**

- (a) Resolution RB-1 creates the following Accounts within the 1943 Fund:

- Proceeds Account

- Revenue Bond Series Proceeds Subaccounts

- Revenue Bond Series Recycling Subaccounts

- GO Bond Series Proceeds Subaccounts

- GO Bond Series Recycling Subaccounts

- Revenue Account

- Revenue Bond Series Restricted Recoveries Subaccounts

- Revenue Bond Series Revenue Subaccounts

- GO Bond Series Restricted Recoveries Subaccounts

- GO Bond Series Revenue Subaccounts

- (b) Resolution RB-1 creates the following Accounts within the Veterans Debenture Fund and designated as set forth below:

- Bond Reserve Account

- Series Bond Reserve Subaccounts

- Loan Loss Account

- Series Loan Loss Subaccounts

- (c) Additional Accounts (including for the purpose of depositing amounts required to be rebated to mortgagors or the United States, *i.e.*, a Rebate Account) may be created and



designated in Series Resolutions. Any Series Proceeds Subaccount, Series Recycling Subaccount, Series Restricted Recoveries Subaccount and Series Revenue Subaccount may be established with respect to more than one Series of the Bonds, or more than one series of Veterans G.O. Bonds, as set forth in the Series Resolution or Supplemental Resolution or any resolution of issuance governing a series of Veterans G.O. Bonds. Each such Account established with respect to Bonds shall be held by the Trustee, in trust, separate and apart from all other funds of the Department, for the purposes provided in this Resolution, provided that in Series Resolutions, the Department may provide for the deposit of amounts in Accounts, which amounts shall be subject to the lien of this Resolution only for the purposes and period of time set forth in the applicable Series Resolution.

#### **Proceeds Account (Section 402)**

(a) Upon the issuance of a Series of Bonds or a series of Veterans G.O. Bonds, unless otherwise provided in the applicable Series Resolution or resolution of issuance governing such Veterans G.O. Bonds, respectively, the Trustee shall establish a Series Proceeds Subaccount and a Series Recycling Subaccount within the Proceeds Account applicable to such Series of Bonds or series of Veterans G.O. Bonds. The Trustee shall deposit amounts received in connection with the issuance of Bonds or Veterans G.O. Bonds into the Proceeds Account or any such Subaccount in the amount(s) and at the time(s) set forth in the Series Resolution or resolution of issuance, respectively, authorizing the issuance thereof. Amounts shall also be deposited in the Proceeds Account from a transfer of funds from the Revenue Account pursuant to the provisions of Section 403(c)(11) of Resolution RB-1. Amounts on deposit in the Proceeds Account may be transferred between various Series Proceeds Subaccounts and Series Recycling Subaccounts, as set forth in the Program Operating Procedures.

(b) Moneys in the Proceeds Account shall be withdrawn or transferred therefrom in accordance with law upon requisition of the Department for the purpose of carrying out the provisions of the Bond Act and the Program Acts, including by entering into Contracts of Purchase, and by paying administrative expenses of the Department, including Costs of Issuance.

(c) The Trustee shall transfer from the Proceeds Account any amount specified by the Department from time to time in a Department Request for the purpose of redeeming or purchasing Bonds or Veterans G.O. Bonds or for the purpose of funding the Bond Reserve Account as provided in the applicable Series Resolution, or resolution of issuance, and Program Operating Procedures.

(d) The Trustee shall transfer any amount deposited in a Series Recycling Subaccount to the related Series Restricted Recoveries Subaccount or to the related Series Revenue Subaccount, upon a Department Request in the amount and at the time(s) stated in such Department Request.

(e) Moneys held for the credit of the Proceeds Account shall be transferred to be applied for payment of Bonds or Veterans G.O. Bonds pursuant to Section 410 of Resolution RB-1.

#### **Revenue Account; Application of Revenues (Section 403)**

(a) The Department shall transfer all Revenues to the Trustee for deposit in the Revenue Account upon the Department's identification and receipt thereof. Upon transfer, the Department shall identify the amount of Restricted Recoveries included in such Revenues and deposit the same, unless otherwise provided in the applicable Series Resolution or any resolution

of issuance governing a series of Veterans G.O. Bonds, in the related Series Restricted Recoveries Subaccount. The balance shall be deposited in the related Series Revenue Subaccount.

(b) Pursuant to a Department Request, based on the Department's determination that certain Revenues previously deposited in a Series Revenue Subaccount constitute Restricted Recoveries, the Trustee shall transfer Revenues in an amount equal to and representing such Restricted Recoveries from the Series Revenue Subaccount to the related Series Restricted Recoveries Subaccount (if any).

(c) From time to time as required or as otherwise directed by Department Request, the Department shall cause to be transferred, applied, or retained all Revenues in the Revenue Account (not including Series Restricted Recoveries Subaccounts, which shall be governed by Section 409 of Resolution RB-1) for the following purposes (subject, in the case of any deficiency in available Revenues to meet the requirements of one or more of clauses (1) through (6), to the provisions as to deficiency contained in Section 410):

(1) In accordance with the applicable Series Resolution, to transfer to any Rebate Account, or otherwise to the U.S. Treasury, the amount(s) if any, specified by Department Request;

(2) From the GO Bond Series Revenue Subaccounts, to reimburse the General Fund for amounts previously paid out of the General Fund (and not previously reimbursed pursuant to this provision) for principal of and interest on the Veterans G.O. Bonds of the related series (together with interest at the same rate as borne by said bonds, compounded semiannually, from the due date of such principal and interest to the date of such reimbursement);

(3) From the GO Bond Series Revenue Subaccounts, to transfer to the Veterans' Bonds Payment Fund the amount of the principal of and interest then due on the Veterans G.O. Bonds of the related series and to transfer to the General Fund or Veterans' Bonds Payment Fund, as applicable, the amount of Credit and Liquidity Support Expenses then due and related thereto;

(4) From the Revenue Bond Series Revenue Subaccounts, to pay interest due on the Bonds of the related Series;

(5) From the Revenue Bond Series Revenue Subaccounts, to pay principal (including by operation of Mandatory Sinking Account Payments) due on the Bonds of the related Series;

(6) From the Revenue Bond Series Revenue Subaccounts, to pay any Credit and Liquidity Support Expenses then due and related to the Bonds of the related Series;

(7) From the Revenue Bond Series Revenue Subaccounts, upon Department Request and (without Department Request) at least once every month, to deposit to the credit of the Bond Reserve Account an amount sufficient to cause the amount on deposit in said Account to equal the Bond Reserve Requirement (to be allocated among any Revenue Bond Series Bond Reserve Subaccounts in accordance with the Program Operating Procedures);

(8) From the Revenue Bond Series Revenue Subaccounts, pursuant to the terms of a Series Resolution upon the issuance of a Series of Bonds, to transfer such amount as

is required to cause the amount in the Loan Loss Account to equal the Loan Loss Requirement;

(9) From all Series Revenue Subaccounts pursuant to Program Operating Procedures to transfer an amount to the Department for deposit to any operating or other account, free and clear of the lien of Resolution RB-1, equal to Expenses specified in a Department Request as contemplated by the Program Operating Procedures;

(10) From the GO Bond Series Revenue Subaccounts, on the first day of each month, to accumulate in the GO Bond Series Revenue Subaccounts collectively (in such respective allocations made at such times as are required by the Program Operating Procedures), an amount equal to Accrued Debt Service on the Veterans G.O. Bonds of all series;

(11) From any Series Revenue Subaccount, upon Department Request, to transfer amounts for credit to the related Series Recycling Subaccount; and

(12) With respect to amounts constituting Excess Revenues or Restricted Recoveries, to redeem any Series of Bonds or series of Veterans G.O. Bonds upon Department Request and in accordance with the provisions of a Series Resolution or Supplemental Resolution, or resolution of issuance governing such Veterans G.O. Bonds, respectively.

(d) Revenues in the Revenue Account shall be applied to the purchase of Bonds at the times, in the manner and for the purposes set forth in Section 406 of Resolution RB-1.

(e) Amounts on deposit in the Revenue Account upon Department Request may be transferred between any Series Restricted Recoveries Subaccount or Series Revenue Subaccount and any other Series Restricted Recoveries Subaccount or Series Revenue Subaccount, as set forth in the Program Operating Procedures.

#### **Interest (Section 404)**

In payment of interest on Bonds, the Trustee shall remit (or other method of transfer acceptable to the Department and to any Securities Depository) (i) by mail to each owner of Bonds the amounts required for paying the interest on such Bonds as such interest becomes due and payable and (ii) payment for any Credit and Liquidity Support Expenses relating to such Bonds as described in Section 403(c)(6) of Resolution RB-1. An Authorized Representative of the Department shall advise the Trustee regarding the amount of any such Credit and Liquidity Support Expenses and when payment is due.

#### **Principal (Section 405)**

(a) **Principal Payments.** The Trustee shall set aside in the Revenue Account for remittance to Bondowners the amounts required for paying the principal of all Bonds as such principal becomes due and payable.

(b) **Mandatory Sinking Account Payments Redemption.** Amounts on deposit in any Revenue Bond Series Revenue Subaccount prior to being applied in satisfaction of Mandatory Sinking Account Payments shall be applied as applicable to the purchase of Term Bonds of the related Series then Outstanding subject to Mandatory Sinking Account Payments on the next date such payments are scheduled as provided in this paragraph. The Trustee, upon direction of an Authorized Representative, 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 Mandatory Sinking Account Payments 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 Resolution 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 Account equal to the Mandatory Sinking Account Payments 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 Mandatory Sinking Account Payments, 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 Resolution, if an Authorized Representative 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 Account. *Notwithstanding* the foregoing, no such purchase shall be made by the Trustee after the giving of notice of redemption by the Trustee.

(c) Any purchase or redemption of Bonds shall be made pursuant to the provisions of Article III of Resolution RB-1. Upon retirement of any Term Bonds by purchase or redemption pursuant to the provisions of Section 405 of Resolution RB-1, the Trustee shall file with the Department 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 any moneys available therefor in the Revenue Account.

#### **Redemption (Section 406)**

(a) The Trustee shall apply all amounts in Revenue Bond Series Restricted Recoveries Subaccounts, and all moneys otherwise set aside in the Revenue Account for the redemption of Bonds pursuant to Section 403(c)(12) of Resolution RB-1, to the purchase or redemption of Bonds issued under the provisions of Resolution RB-1, as follows:

(1) The Trustee, upon direction of an Authorized Representative, shall endeavor to purchase Bonds or portions of Bonds then Outstanding, whether or not such Bonds or portions of 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 to the owners of such Bonds if such Bonds or portions of Bonds should be called for redemption on such date from the moneys in the respective Account. Such maximum purchase price may be exceeded in accordance with the proviso in Section 405(b) of Resolution RB-1. The Trustee shall pay the interest accrued on such Bonds to the date of settlement therefor from the Revenue Account, 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 the moneys set aside for the redemption of such Bonds.

(2) The Trustee, having endeavored to purchase Bonds pursuant to subsection (1) of this subsection (a), shall call for redemption, on the earliest practicable date on which Bonds are subject to redemption from such moneys, such amount (computed on the basis of Redemption Prices) of Bonds as will exhaust the moneys set aside for such redemption, as nearly as may be practicable.

(b) Any purchase or redemption of Bonds shall be made pursuant to the provisions of Article III of Resolution RB-1. Prior to calling Bonds or portions of Bonds for redemption, the Trustee shall set aside the respective amounts required for paying the interest on and the Redemption Price of the Bonds or portions of Bonds so called for redemption. Upon the retirement of any Bonds under Section 406 of Resolution RB-1 by purchase or redemption, the Trustee shall file with the Department a statement briefly describing 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 any moneys available therefor in the Revenue Account.

#### **Bond Reserve Account (Section 407)**

(a) Moneys held for the credit of the Bond Reserve Account shall be transferred by the Trustee to be applied for payment of Bonds pursuant to Section 410 of Resolution RB-1.

(b) Moneys held for the credit of the Bond Reserve Account as of any date in excess of the Bond Reserve Requirement upon Department Request shall be transferred to the Loan Loss Account, the Revenue Account or the Proceeds Account.

(c) A Series Resolution may provide that the Bond Reserve Requirement with respect to the applicable Series of Bonds may be funded through Cash Equivalents. In connection with any discussion in Resolution RB-1 of “moneys” on deposit in or held for the credit of the Bond Reserve Account, “moneys” shall be deemed to include said Cash Equivalents.

(d) Upon Department Request, the Trustee shall transfer an amount required to cause the Bond Reserve Account to equal the Bond Reserve Requirement from available amounts in the 1943 Fund.

#### **Loan Loss Account (Section 408)**

(a) Pursuant to the Program Operating Procedures, moneys held for the credit of the Loan Loss Account as of any date upon Department Request shall be transferred to the Revenue Account, the Bond Reserve Account, the Proceeds Account or any GO Bond Series Revenue Subaccount.

(b) A Series Resolution may provide that the Loan Loss Requirement with respect to the applicable Series of Bonds may be funded through Cash Equivalents. In connection with any discussion in Resolution RB-1 of “moneys” on deposit in or held for the credit of the Loan Loss Account, “moneys” shall be deemed to include said Cash Equivalents.

(c) Moneys held for the credit of the Loan Loss Account shall be transferred by the Trustee to be applied for payment of Bonds, pursuant to Section 410 of Resolution RB-1.

(d) Upon Department Request, the Trustee shall transfer an amount required to cause the Loan Loss Account to equal the Loan Loss Requirement from available amounts in the 1943 Fund.

(e) To the extent set forth in a Department Request, the Trustee shall apply amounts in the Loan Loss Account to remedy shortfalls in recoveries on Contracts of Purchase financed by or otherwise allocable to the Veterans G.O. Bonds of any series.

**Restricted Recoveries (Section 409)**

Upon the issuance of a Series of Bonds or series of Veterans G.O. Bonds, if so required by the terms of the Series Resolution or resolution of issuance governing the Veterans G.O. Bonds, the Trustee shall establish a Series Restricted Recoveries Subaccount within the Revenue Account applicable to such Series of Bonds or series of Veterans G.O. Bonds. If the Trustee does not receive a Department Request with respect to a mandatory redemption from Restricted Recoveries set forth in a Series Resolution, the Trustee shall apply Restricted Recoveries in an amount sufficient to accomplish such mandatory redemption to a redemption of Bonds (subject to any other priority set forth in the applicable Series Resolution) on a *pro rata* basis, as nearly as practicable, from among each maturity of the Series (and subseries, if applicable) of Bonds which financed the related Contracts of Purchase. Upon Department Request, the Trustee shall transfer amounts in any Series Restricted Recoveries Subaccount to the related Series Revenue Subaccount.

**Deficiencies in Debt Service (Section 410)**

In the event that amounts in the Revenue Account shall be insufficient on any interest payment date or principal payment date for the Bonds or the Veterans G.O. Bonds to pay the principal of and interest on such Bonds, or provide for payment with respect to Veterans G.O. Bonds pursuant to the provisions of Section 403(c)(2) or (3) of Resolution RB-1 in each case if payment is due and unpaid on such date, whether at the stated payment or maturity date or by the retirement thereof by Mandatory Sinking Account Payments (or sinking account retirement with respect to the Veterans G.O. Bonds) therefor, the Trustee shall withdraw amounts from the following Accounts in the following order of priority to the extent necessary to eliminate such deficiency; *provided, however*, that no amounts shall be used for such purpose to the extent that such amounts have been set aside for the payment of Bonds or Veterans G.O. Bonds which have been identified for purchase pursuant to Section 403 or 406 of Resolution RB-1 or called for redemption, and no amounts on deposit in the Proceeds Account shall be used for such purpose to the extent that the Department is contractually obligated to enter into Contracts of Purchase acceptable for financing with such amounts:

(a) With respect to deficiencies in payments related to Veterans G.O. Bonds, in the following order of priority:

- (i) GO Bond Series Recycling Subaccounts;
- (ii) GO Bond Series Proceeds Subaccounts;
- (iii) GO Bond Series Restricted Recoveries Subaccounts;
- (iv) Revenue Bond Series Revenue Subaccounts;
- (v) Revenue Bond Series Recycling Subaccounts;
- (vi) Revenue Bond Series Proceeds Subaccounts; and
- (vii) Revenue Bond Series Restricted Recoveries Subaccounts.

(b) With respect to deficiencies in debt service related to Bonds, in the following order of priority:

- (i) Revenue Bond Series Recycling Subaccounts;
- (ii) Revenue Bond Series Proceeds Subaccounts;
- (iii) Revenue Bond Series Restricted Recoveries Subaccounts;
- (iv) GO Bond Series Revenue Subaccounts;
- (v) GO Bond Series Recycling Subaccounts;
- (vi) GO Bond Series Proceeds Subaccounts;
- (vii) GO Bond Series Restricted Recoveries Subaccounts;
- (viii) Loan Loss Account; and
- (ix) Bond Reserve Account.

### **Moneys Held in Trust (Section 411)**

(a) All moneys which the Trustee shall have withdrawn or set aside for the purpose of payment of any of the Bonds secured by Resolution RB-1, either at the maturity thereof or upon call for redemption, shall be held in trust for the respective owners of such Bonds and such moneys shall not be subject to lien or attachment by any creditor of the Department or the Trustee. Any moneys which shall be so set aside by the Trustee and which shall remain unclaimed by the owners of such Bonds for the period of two (2) years after the date on which such Bonds or the interest thereon shall have become due and payable shall be paid to the Department or to such officer, board or body as may then be entitled by law to receive the same, and thereafter the owners of such Bonds shall look only to the Department or to such officer, board or body, as the case may be, for payment and then only to the extent of the amounts so received without any interest thereon, and the Trustee shall have no responsibility with respect to such moneys.

(b) If sufficient money or Government Obligations (the principal of or interest on which will provide sufficient money for payment of the principal amount or accrued interest on the Bonds on their maturity date or each date thereafter that they become due by redemption or otherwise) are held by the Trustee in trust for the Owners of Bonds, such Bonds shall cease to be Outstanding under the provisions of Resolution RB-1, interest on the Bonds which have matured shall cease to accrue, such Bonds shall cease to be entitled to any benefit or security under Resolution RB-1, and the owners of such Bonds shall have no rights in respect thereof, except to receive payment of the principal amount thereof and accrued interest thereon to the maturity date. Notwithstanding any provision of Resolution RB-1 to the contrary, the Department may issue refunding Bonds to refund the liabilities remaining on any such Bonds, despite their characterization for other purposes as not Outstanding under Resolution RB-1.

### **Security for Deposits (Section 501)**

All money deposited with a co-Trustee in any Account created under Resolution RB-1 shall, unless invested in Investment Obligations in accordance with Section 502 (except, to the extent applicable, the last paragraph of Section 502) of Resolution RB-1, to the extent such deposits are in excess of the amount guaranteed by the Federal Deposit Insurance Corporation or other Federal agency, be continuously secured (if permitted by law), for the benefit of the

Department and the owners of the Bonds either (a) by lodging with a bank or trust company selected by the Department as custodian, or, if then permitted by law, by setting aside under control of the trust department of the bank holding such deposit as collateral security, Government Obligations or, with the approval of the Department, other marketable securities eligible as security for the deposit of trust funds under regulations of the Comptroller of the Currency of the United States of America, having a market value at all times (exclusive of accrued interest) not less than the amount of such deposit; or (b) if the furnishing of security as provided in clause (a) of Section 501 of Resolution RB-1 is not permitted by applicable law, then in such other manner as may then be required or permitted by applicable State or Federal laws and regulations regarding the security for, or granting a preference in the case of, the deposit of trust funds; *provided, however*, that it shall not be necessary, *except* as otherwise expressly provided, for the Trustee to give security for any money which shall be represented by obligations purchased under the provisions of Article V of Resolution RB-1 as an investment of such money.

### **Investment of Moneys (Section 502)**

The Revenue Bond Series Proceeds Subaccounts, Series Recycling Subaccounts, Series Restricted Recoveries Subaccounts, Series Revenue Subaccounts, Loan Loss Account and Bond Reserve Account shall, as nearly as is practicable, be fully and continuously invested or reinvested in Investment Obligations.

Any Investment Obligations so purchased in any Account shall be deemed at all times to be part of such Account. Any interest paid on the investment in any Account (*except* any Rebate Account) shall be credited to the Revenue Account and thereafter treated as Revenues. Any interest paid on the investment of any Rebate Account shall be credited to such Rebate Account. Any profit or loss resulting from such investment shall be credited to or charged against the Account. The Trustee shall sell or present for redemption any obligations so purchased whenever it shall be necessary so to do in order to provide money to meet any payment or transfer from any such Account. Neither the Trustee nor the Department shall be liable or responsible for any loss resulting from any such investment.

In computing the amount on deposit to the credit of any Account, obligations in which money in such Account shall have been invested shall be valued at Amortized Value plus accrued interest.

### **No Extension of Maturities or Claims for Interest (Section 603)**

The Department will not directly or indirectly extend or assent to the extension of the time for the payment of any principal of or claim for interest on any Bond and will not directly or indirectly be a party to any arrangement therefor without the consent of any Bondowner materially adversely affected thereby.

### **Covenant Against Encumbrances (Section 605)**

The Department covenants that, except as expressly permitted in Resolution RB-1, it will not sell, convey, mortgage, encumber or otherwise dispose of the money held for the credit of any Account created under Resolution RB-1 except the pledge created by Resolution RB-1 and any interest or right to which such pledge is by its terms secondary and subordinate or take any other action which would adversely affect the security of the Bondowners stated in Resolution RB-1.



### **Program Operating Procedures (Section 606)**

(a) The Department shall have on file with the Trustee at all times during which Bonds are Outstanding current Program Operating Procedures accompanied by a Counsel's Opinion that the same are consistent with the provisions of Resolution RB-1.

(b) Upon adoption of Program Operating Procedures, the Department shall thereafter administer the Program and perform its obligations under Resolution RB-1 in accordance in all material respects with the Program Operating Procedures. Any action taken by the Department with respect to Contracts of Purchase, Bonds and Pledged Property shall be deemed a representation and warranty by the Department under Resolution RB-1 that such action is in conformance with any provision of the current Program Operating Procedures applicable thereto.

(c) The Program Operating Procedures may be amended only if (1) a Cash Flow Statement is delivered to the Trustee and (2) an opinion of nationally recognized bond counsel is delivered to the Trustee to the effect that such amendment or action taken pursuant to such amendment will not affect the exemption of interest on the Bonds from the gross income of the holders thereof for federal income tax purposes.

### **Cash Flow Statements (Section 607)**

(a) The Department shall file with the Trustee a current Cash Flow Statement (i) upon adoption of each Series Resolution and each Supplemental Resolution, (ii) upon issuance of any series of Veterans G.O. Bonds, (iii) when required pursuant to any Series Resolution or Supplemental Resolution, (iv) upon any change in the Program Operating Procedures and (v) whenever required pursuant to the provisions of Section 608 of Resolution RB-1. The Department may file a new or amended Cash Flow Statement conforming to the requirements of Section 607 of Resolution RB-1 at any time. Any Cash Flow Statement shall be the subject of a Rating Confirmation if it does not include all the scenarios included in the Cash Flow Statement previously on file with the Trustee.

(b) A Cash Flow Statement shall consist of a Certificate of the Department containing the conclusion of an Authorized Representative of the Department that projected Revenues will be sufficient to provide for timely payments of interest and principal on the Bonds and Expenses, under each of the scenarios included in the cash flow projections attached to Resolution RB-1. The Cash Flow Statement shall include each scenario included in the immediately prior Cash Flow Statement except as may be required by any Rating Agency in connection with a Rating Confirmation. A Cash Flow Statement shall (i) take into account the financial position of the 1943 Fund, the Bond Reserve Account and the Loan Loss Account as of the stated starting date of the projection; (ii) reflect all the significant transactions that have occurred in the period commencing with such starting date and ending with a date no more than ninety (90) days prior to the date of such projections; (iii) be consistent with Resolution RB-1; and (iv) assume compliance with the Program Operating Procedures.

(c) The Cash Flow Statement shall set forth for each scenario included therein the sets of assumptions on which it is based including, without limitation, the following:

(i) the timing and terms of issuance or remarketing of Bonds and Veterans G.O. Bonds;

(ii) the timing of the acquisition of Contracts of Purchase and the interest rates thereon and maturities thereof;

- (iii) the timing and amounts of the receipt of payments of scheduled principal or interest on Contracts of Purchase;
- (iv) the timing and amounts of prepayments on Contracts of Purchase;
- (v) the timing and amount of defaults on Contracts of Purchase and disposition or recovery prices of defaulted Contracts of Purchase, which assumption may be based on a specified model of default frequency and loss severity as a function of Contract of Purchase portfolio characteristics;
- (vi) the investment return on Accounts and subaccounts, to the extent that amounts on deposit will not be subject to an investment agreement;
- (vii) the performance by the Department's counterparty with respect to obligations under an enhancement agreement or arrangement for Supplemental Contract of Purchase Coverage or investment of funds;
- (viii) the types of Primary Contract of Purchase Coverage and Supplemental Contract of Purchase Coverage; and
- (ix) the Loan Loss Requirement.

(d) If any Cash Flow Statement shall show that projected Revenues shall be insufficient to provide for timely payments of interest on and principal of the Bonds and Expenses, the Department shall not be in default under Resolution RB-1 but shall take all reasonable actions to eliminate such deficiency. The Department shall be precluded from taking the actions described or referenced in clauses (i) through (iv) of subsection (a) of the first paragraph of this section — “Cash Flow Statements” — if the Cash Flow Statement on file with the Trustee in accordance with the requirements of the first paragraph of this section shall show that the taking of such action shall cause a deficiency to occur or shall increase any existing deficiency.

### **Maintenance of Fund Parity (Section 608)**

The Department shall cause a calculation to be made of Fund Parity, as evidenced in a Certificate of the Department filed with the Trustee as of the last day of each Fiscal Year (and upon receipt of the audited financial statements of the 1943 Fund), or more frequently in the discretion of the Department. If any such calculation shall not reflect that Fund Parity at least equals the Applicable Fund Parity Percentage\* (provided that any Applicable Fund Parity Percentage which is less than 50% shall be the subject of a Rating Confirmation) of the then Outstanding aggregate principal amount of Bonds, all Excess Revenues shall thereafter be applied to redeem Bonds of the Series and in the manner reflected in the current Cash Flow Statement until (and if) the Department files with the Trustee a new Certificate of the Department reflecting a calculation of Fund Parity that at least equals such 50% (or such other percentage) level; *provided, however,* that no such Cash Flow Statement and no such redemption shall be required under Resolution RB-1 if the Department shall have provided a Rating Confirmation to the Trustee. But see “SECURITY FOR AND SOURCES OF PAYMENT OF THE OFFERED REVENUE BONDS — Maintenance of Fund Parity” in the forepart of this Official Statement for the current percentage.

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<sup>†</sup> Currently, the applicable Fund Parity Percentage is 25%. Such Applicable Fund Parity Percentage has been subject to Rating Agency Confirmation. See “SECURITY FOR AND SOURCES OF PAYMENT OF THE OFFERED REVENUE BONDS — Maintenance of Fund Parity” in the forepart of this Official Statement.

### **Tax Covenants (Section 609)**

The Department shall at all times perform the applicable tax covenants contained in any applicable Series Resolution. In addition, the Department shall not amend the interest rates on any existing Contracts of Purchase unless the Department shall have provided the Trustee with an opinion of nationally recognized bond counsel to the effect that such action will not impair any exclusion of interest on the Bonds issued with the intent that such interest be excluded from gross income for federal income tax purposes. The Department shall prohibit any person (or any related person, as defined in Section 147(a)(2) of the Tax Code) for whom the Department may finance Contracts from purchasing Bonds or any other obligations issued by the Department to carry out the purposes of the Program in an amount related to the amount of the Contracts to be financed under the Program for such person by the Department.

### **Books and Records (Section 611)**

(a) 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 Resolution RB-1, and such books shall be available for inspection by the Department and any Bondowner during business hours, upon reasonable notice and under reasonable conditions.

(b) The Department shall keep proper books of records and account for all its transactions, other than those recorded in the books maintained by the Trustee pursuant to subsection (a) of Section 611 of Resolution RB-1, and such books shall be available for inspection by the Trustee and any Bondowner during business hours and upon reasonable notice.

### **Annual Audit, Report and No-Default Certificate (Section 612)**

By the first day of the tenth month after the end of each Fiscal Year, the Department shall furnish to the Trustee (i) a statement of the revenues and expenses and of the changes in the fund balances during the previous Fiscal Year, in each case with respect to the 1943 Fund, the Bond Reserve Account and the Loan Loss Account, certified to by an Accountant; and (ii) a certificate from an Authorized Representative stating that there is no current Event of Default and that no Event of Default occurred during the preceding Fiscal Year (or if there has been an Event of Default, providing the details of Resolution RB-1 and describing the steps the Department took, or is taking, to cure such Event of Default).

### **Program Covenants (Section 614)**

The Department shall from time to time, with all practical dispatch and in a sound and economical manner consistent in all respects with the Bond Act, the Program Acts, Resolution RB-1 and all other applicable laws and regulations and with sound banking practices and principles, use and apply the amounts held in the 1943 Fund and available to the financing of Contracts of Purchase and to other uses permitted under Resolution RB-1 and the law, and shall take all steps, actions and proceedings reasonable and necessary in the judgment of the Department to enforce the terms, covenants and conditions of each Contract of Purchase.

### **Issuance of Additional Obligations and Subordinate Obligations (Section 615)**

The Department, so long as any Bonds shall be Outstanding under Resolution RB-1, shall not issue any bonds, notes or other evidences of indebtedness, other than the Bonds, secured by any pledge of or other lien or charge on the Pledged Property nor shall the Department create or

cause to be created any lien or charge on the Pledged Property, other than the lien and pledge created under Resolution RB-1 and other than the rights of the State or the holders of the Veterans G.O. Bonds. Nothing contained in Section 615 of Resolution RB-1 shall prevent the Department from issuing any bonds, notes or other evidences of indebtedness which are payable from or secured by a lien and pledge on the Pledged Property provided that payment of such evidences of indebtedness and such lien and pledge shall be in all respects subordinate to the provisions of Resolution RB-1 and the lien and pledge created by Resolution RB-1 and any such evidences of indebtedness shall contain an appropriate recital with respect to such subordination.

### **Events of Default Defined (Section 702)**

Each of the following events is by Resolution RB-1 declared an “Event of Default,” that is to say: If

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

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

(c) the entry of a decree or order for relief by a court having jurisdiction in the premises in respect of the Department 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 Department 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

(d) the commencement by the Department of a voluntary case under the Federal bankruptcy laws, as constituted under Resolution RB-1 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 Department 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 Department in furtherance of any of the events under Section 702 of Resolution RB-1; or

(e) failure by the Department to pay, when due or within any applicable grace period, any amount owing on account of indebtedness for money borrowed or for deferred purchases of property, or the failure by the Department to observe or perform any covenant or undertaking on its part to be observed or performed in any agreement evidencing, securing or relating to such indebtedness, resulting, in any such case, in an event of default or acceleration by the holder of such indebtedness of the date on which such indebtedness would otherwise be due and payable; or

(f) the Department defaults in the due and punctual performance of any other covenants or agreements contained in the Bonds or in Resolution RB-1 and such default continues for 90 days after written notice requiring the same to be remedied shall have been given to the Department 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 twenty per centum (20%) in aggregate principal amount of Bonds then Outstanding; *provided, however*, that so long as following such notice the

Department is diligently taking actions to remedy such default, such default shall not be an Event of Default.

#### **Enforcement of Remedies (Section 704)**

Upon the happening and continuance of any Event of Default specified in Section 702 of Resolution RB-1, then and in every such case the Trustee may, and upon the written direction of the owners of not less than twenty per centum (20%) in aggregate principal amount of the Bonds then Outstanding under Resolution RB-1 shall, proceed, subject to the provisions of Section 802 of Resolution RB-1, to protect and enforce its rights and the rights of the Bondowners under applicable laws or under Resolution RB-1 by such suits, actions or special proceedings in equity or at law, or by proceedings in the office of any board or officer having jurisdiction, either for the specific performance of any covenant or agreement contained in Resolution RB-1 or in aid or execution of any power in Resolution RB-1 granted 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 Resolution RB-1 the Trustee shall be entitled to sue for, enforce payment of and recover judgment for, in its own name as Trustee of an express trust, any and all amounts then or after any default becoming, and at any time remaining, due from the Department for principal, premium, if any, interest or otherwise under any of the provisions of Resolution RB-1 or the Bonds and unpaid, with, to the extent permitted by the applicable law, interest on overdue payments of principal of and interest at the rate or rates of interest specified in the Bonds, together with any and all costs and expenses of collection and of all proceedings under Resolution RB-1 and under the Bonds, without prejudice to any other right or remedy of the Trustee or of the Bondowners, and to recover and enforce any judgment or decree against the Department, but solely as provided in Resolution RB-1 and in the Bonds, for any portion of such amounts remaining unpaid and interest, costs and expenses as above provided, and to collect, in any manner provided by law, the money adjudged or decreed to be payable.

Regardless of the happening of an Event of Default, the Trustee may, and, subject to Section 802 of Resolution RB-1, if requested in writing by the owners of not less than twenty per centum (20%) 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 Resolution RB-1 or of any Series Resolution or (ii) to preserve or protect the interest of the Bondowners, provided that such request is in accordance with law and the provisions of Resolution RB-1 and, in the sole judgment of the Trustee, is not unduly prejudicial to the interests of the owners of Bonds not making such request.

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

#### ***Pro Rata Application of Funds (Section 706)***

Anything in Resolution RB-1 to the contrary notwithstanding, if at any time the money in the Accounts maintained under Resolution RB-1 (other than any Rebate Account) shall not be sufficient to pay the principal of or interest on the Bonds as the same shall become due and payable such money, together with all amounts then on deposit in the 1943 Fund other than Veterans G.O. Bonds proceeds, together with any money then available or thereafter becoming available for such

purpose, whether through the exercise of the remedies provided for in Article VII or otherwise, shall be applied, following the satisfaction of any payments due to the Trustee under the provisions of Section 802 and 805 of Resolution RB-1, as follows:

(a) Except in the case of amounts on deposit in the Bond Reserve Account and the Loan Loss Account and interest, profit or other income derived from the investment of such amounts, for transfer in accordance with and at the times stated in Sections 403(c)(2) and (3) of Resolution RB-1.

(b) After application pursuant to clause (a) of Section 706 of Resolution RB-1, all such money shall be applied:

First: to the payment to the persons entitled thereto of all installments of interest on 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 Bonds, without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds;

Second: to the payment to the persons entitled thereto of the unpaid principal of any of the Bonds which shall have become due and payable (*except* Bonds called for redemption for the payment of which money is held pursuant to the provisions of Resolution RB-1) in the order of their stated payment dates, with interest on the principal amount of such Bonds at the respective rates specified in Resolution RB-1 from the respective dates upon which such Bonds became due and payable, and, if the amount available shall not be sufficient to pay in full the principal of the 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, 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, without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds;

Third: to the payment of the interest on and the principal of the Bonds, to the purchase and retirement of Bonds and to the redemption of the Bonds, all in accordance with the provisions of Article III of Resolution RB-1.

The provisions of subsection (a) of Section 706 of Resolution RB-1 are in all respects subject to the provisions of Section 701 of Resolution RB-1.

(c) Whenever money is to be applied by the Trustee pursuant to the provisions of Section 706 of Resolution RB-1, such money shall be applied by the Trustee at such times, and from time to time, as the Trustee in its sole discretion shall determine, having due regard to the amount of such money available for application and the likelihood of additional money becoming available for such application in the future; the deposit of such money with any paying agent, or otherwise setting aside such money, in trust for the proper purpose shall constitute proper application by the Trustee; and the Trustee shall incur no liability whatsoever to the Department, to any Bondowner or to any other person for any delay in applying any such money, so long as the Trustee acts with reasonable diligence, having due regard to the circumstances, and ultimately

applies the same in accordance with such provisions of Resolution RB-1 as may be applicable at the time of application by the Trustee. Whenever the Trustee shall exercise such discretion in applying such money, it shall fix the date (which shall be an interest payment date unless the Trustee shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue. The Trustee shall give such notice as it may deem appropriate of the fixing of any such date, and shall not be required to make payment to the owner of any Bond until such Bond shall be surrendered to the Trustee for appropriate endorsement, or for cancellation if fully paid.

#### **Owners of Majority in Principal Amount of Bonds May Control Proceedings (Section 708)**

Anything in Resolution RB-1 to the contrary *notwithstanding*, the owners of a majority in principal amount of the Bonds then Outstanding under Resolution RB-1 shall have the right, subject to the provisions of Section 802 of Resolution RB-1, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting all remedial proceedings to be taken by the Trustee under Resolution RB-1 or exercising any trust or power conferred upon the Trustee, provided that such direction shall not be otherwise than in accordance with law and the provisions of Resolution RB-1, and the Act and, in the sole judgment of the Trustee, is not unduly prejudicial to the interests of Bondowners not joining in such direction and *provided, further*, that nothing in Section 708 of Resolution RB-1 shall impair the right of the Trustee in its discretion to take any other action under Resolution RB-1 which it may deem proper and which is not inconsistent with such direction by Bondowners.

#### **Restrictions Upon Actions by Individual Bondowner (Section 709)**

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 Resolution RB-1 or for the enforcement of any remedy under Resolution RB-1 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 Resolution RB-1 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 by Resolution RB-1, 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 by Resolution RB-1 declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers and trusts of Resolution RB-1 or to any other remedy under Resolution RB-1; *provided, however*, that *notwithstanding* the foregoing provisions of Section 709 of Resolution RB-1 and without complying therewith, the owners of not less than twenty per centum (20%) 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 under Resolution RB-1. It is understood and intended that, *except* as otherwise provided in Resolution RB-1, no one or more owners of the Bonds by Resolution RB-1 secured shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of Resolution RB-1, or to enforce any right under Resolution RB-1 except in the manner in Resolution RB-1 provided, that all suits, actions and proceedings at law or in equity shall be instituted, had and maintained in the manner provided in

Resolution RB-1 and for the benefit of all owners of such Outstanding Bonds, and that any individual right of action or other right given to one or more of such owners by law is restricted by Resolution RB-1 to the rights and remedies provided in Resolution RB-1.

### **Waiver of Defaults (Section 713)**

The Trustee may, and upon written direction of the owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding shall, waive any default which in their opinion shall have been remedied before the entry of final judgment or decree in any suit, action or proceeding instituted by them under the provisions of Resolution RB-1 or before the completion of the enforcement of any other remedy under Resolution RB-1, but no such waiver shall extend to or affect any other existing or any subsequent default or defaults or impair any rights or remedies consequent thereon.

### **Notice of an Event of Default (Section 714)**

The Trustee shall mail to the Department and to all Bondowners written notice of the occurrence of any Event of Default set forth in Section 702 of Article VII of Resolution RB-1 within thirty (30) days after the Trustee shall have received written notice thereof from the Department, subject to the provisions of Section 708 of Resolution RB-1, that any such Event of Default shall have occurred. The Trustee shall not, *however*, be subject to any liability to any Bondowner by reason of a failure to mail any such notice.

### **Acceptance of Trusts (Section 801)**

(a) The Treasurer of the State shall act as trustee for the Department and the owners of the Bonds to receive and disburse all Revenues and other moneys applicable to the payment of the principal of or interest on the Bonds, including moneys in the 1943 Fund and the Veterans Debenture Fund, and otherwise to hold all the offices and to perform all the functions and duties provided in Resolution RB-1 to be held and performed by the Trustee, including acting as Bond Registrar pursuant to Section 208 of Resolution RB-1. For purposes of Article VIII of Resolution RB-1 only, the term "Trustee" does not include any co-Trustee appointed pursuant to Section 801 of Resolution RB-1.

(b) Upon the occurrence and continuance of an Event of Default, the Department shall, upon the request of the Trustee or of the owners of twenty percent (20%) in aggregate principal amount of the Bonds at the time Outstanding, appoint a co-Trustee to represent and enforce the rights of the owners of the Bonds during the continuance of such or any other concurrent Event of Default.

(c) The Trustee shall, prior to an Event of Default, and after the curing of all Events of Default which may have occurred, perform such duties and only such duties as are specifically set forth in Resolution RB-1. The Trustee and the co-Trustee shall, during the continuance of any Event of Default (which has not been cured), exercise such of the rights and powers vested in the Trustee and co-Trustee by Resolution RB-1, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

(d) The Department may at any time or from time to time appoint one or more Paying Agents, in addition to the Trustee and the co-Trustee, for the purpose of paying the principal or Redemption Price of and the interest on the Bonds of any Series. Each Paying Agent shall signify its acceptance of the duties and obligations imposed on it by Resolution RB-1 by executing and



delivering to the Department and to the Trustee a written acceptance of Resolution RB-1. The Department may remove any Paying Agent at any time by giving written notice of such removal to such Paying Agent and to the Trustee. Any Paying Agent may at any time resign by giving notice of such resignation to the Department. In the event of the resignation or removal of any Paying Agent, such Paying Agent shall pay over, transfer, assign and deliver any moneys held by it to its successor or, if there be no successor then appointed, to the Trustee. The Department shall give prompt notice to Bondowners of the acceptance of appointment by any successor Paying Agent.

#### **Trustee or Co-Trustee Entitled to Indemnity (Section 802)**

The Trustee or co-Trustee shall be under no obligation to institute any suit, or to take any remedial proceeding under Resolution RB-1, or to enter any appearance or in any way defend in any suit in which it may be named as a defendant, or to take any steps in the execution of the trusts created by Resolution RB-1 or in the enforcement of any rights and powers under Resolution RB-1, 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 or co-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 or co-Trustee, without indemnity, and in such case the Department shall reimburse the Trustee or co-Trustee for all costs and expenses, outlays and counsel fees and other reasonable disbursements properly incurred in connection therewith.

#### **Limitation on Obligations and Responsibilities of Trustee or Co-Trustee (Section 803)**

The Trustee or co-Trustee shall be under no obligation (a) to effect or maintain insurance or to renew any policies of insurance or to inquire as to the sufficiency of any policies of insurance carried by the Department; (b) to report, or make or file claims or proof of loss for, any loss or damage insured against or which may occur; or (c) to keep itself informed or advised as to the payment of any taxes or assessments, or to require any such payment to be made. The Trustee or co-Trustee shall be under no obligation to record or file Resolution RB-1, or any other security instruments and financing statements, or continuation statements with respect thereto, except pursuant to directions from the Department, in form and substance satisfactory to the Trustee or co-Trustee, set forth in a Department Request. The Trustee or co-Trustee shall have no responsibility in respect of the validity, sufficiency, due execution or acknowledgment by the Department of this Resolution, or, except as to the authentication thereof, in respect of the validity of the Bonds or the due execution or issuance thereof. The Trustee or co-Trustee shall be under no obligation to see that any duties imposed in Resolution RB-1 upon the Department or any party other than itself, or any covenants contained in Resolution RB-1 on the part of any party other than itself to be performed, shall be done or performed, and the Trustee or co-Trustee shall be under no obligation for failure to see that any such duties or covenants are so done or performed.

#### **Trustee or co-Trustee Not Liable for Failure of Department to Act (Section 804)**

The Trustee or co-Trustee shall not be liable or responsible because of the failure of the Department or of any of its employees or agents to make any collections or deposits or to perform any act required of the Department in Resolution RB-1 or, except as provided in Resolution RB-1, because of the loss of any moneys arising through the insolvency or the act or default or omission of any other depository in which such moneys shall have been deposited under the provisions of Resolution RB-1. The Trustee or co-Trustee shall not be responsible for the application of any of the proceeds of the Bonds or any other moneys deposited with it and paid out, withdrawn or

transferred under Resolution RB-1 if such application, payment, withdrawal or transfer shall be made in accordance with the provisions of Resolution RB-1. The immunities and exemptions from liability of the Trustee and co-Trustee under Resolution RB-1 shall extend to its directors, officers, employees and agents.

### **Compensation and Indemnification of Trustee and Co-Trustee (Section 805)**

The Department shall pay, from the Pledged Property, to the Trustee and co-Trustee reasonable compensation for all services performed by it under Resolution RB-1 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 Resolution RB-1 and the performance of its powers and duties under Resolution RB-1, and from such source only, shall indemnify and save the Trustee and co-Trustee harmless against any liabilities which it may incur in the exercise and performance of its powers and duties under Resolution RB-1.

### **Notice of Default (Section 807)**

Except upon the happening of any Event of Default specified in clauses (a) and (b) of Section 702 of Resolution RB-1, the Trustee or co-Trustee shall not be obliged to take notice or be deemed to have notice of any Event of Default, unless specifically notified in writing of such Event of Default by the Department or by the owners of not less than twenty per centum (20%) in aggregate principal amount of the Bonds secured by Resolution RB-1 and then Outstanding.

### **Trustee or Co-Trustee Protected in Relying on Certain Documents (Section 810)**

The Trustee and co-Trustee shall be protected and shall incur no liabilities in acting or proceeding, or in not acting or not proceeding, in good faith, reasonably and in accordance with the terms of Resolution RB-1, upon any resolution, order, notice, request, consent, waiver, certificate, statement, affidavit, requisition, bond or other paper or document which it shall in good faith reasonably believe to be genuine and to have been adopted or signed by the proper board or person to have been prepared and furnished pursuant to any of the provisions of Resolution RB-1, or upon the written opinion of any attorney, engineer or accountant believed by the Trustee or co-Trustee to be qualified in relation to the subject matter, and the Trustee or co-Trustee shall be under no duty to make any investigation or inquiry as to any statement contained or matters referred to in such instrument. The Trustee or co-Trustee shall not be under any obligation to see to the recording or filing of Resolution RB-1.

### **Resignation and Removal of Co-Trustee Subject to Appointment of Successor (Section 811)**

No resignation or removal of the co-Trustee and no appointment of a successor co-Trustee pursuant to Article VIII of Resolution RB-1 shall become effective until the acceptance of appointment by the successor co-Trustee under Section 814 of Resolution RB-1.

### **Resignation of Co-Trustee (Section 812)**

Subject to Section 811 of Resolution RB-1, the co-Trustee may resign and by Resolution RB-1 become discharged from the trusts created by Resolution RB-1, by notice in writing to be given to the Department and mailed, first class postage prepaid, to all owners of Bonds at their addresses as they appear on the registration books kept by the Trustee, not less than sixty (60) days before such resignation is to take effect, but such resignation shall take effect immediately upon the appointment of a new co-Trustee under Resolution RB-1, if such new Trustee or co-Trustee

shall be appointed before the time limited by such notice and shall then accept the trusts of Resolution RB-1.

### **Removal of Co-Trustee (Section 813)**

Subject to Section 811 of Resolution RB-1, the co-Trustee may be removed at any time by an instrument or concurrent instruments in writing executed by the Department without the consent of Bondowners or by the owners of not less than a majority in principal amount of the Bonds secured by Resolution RB-1 and then Outstanding and filed with the Department. A facsimile copy of each such instrument shall be delivered promptly by the Department to the co-Trustee. The co-Trustee may also be removed at any time for reasonable cause by any court of competent jurisdiction upon the application of the owners of not less than ten per centum (10%) in aggregate principal amount of the Bonds then Outstanding under Resolution RB-1.

### **Appointment of Successor Co-Trustee (Section 814)**

(a) If at any time the co-Trustee shall resign, be removed, be dissolved or otherwise become incapable of acting, or the bank or trust company acting as co-Trustee shall be taken over by any governmental official, agency, department or board, the position of co-Trustee shall thereupon become vacant. If the position of co-Trustee shall become vacant for any of the foregoing reasons or for any other reason, the Department shall cause notice of such appointment to be mailed, first class postage prepaid, to all owners of Bonds at their addresses as they appear on the registration books kept by the Bond Registrar(s).

(b) At any time within one year after any such vacancy shall have occurred, the owners of a majority in principal amount of the Bonds secured by Resolution RB-1 and then Outstanding, by an instrument or concurrent instruments in writing, executed by such Bondowners and filed with the Department, may appoint a successor co-Trustee, which shall supersede any co-Trustee theretofore appointed by the Department. Facsimile copies of each such instrument shall be delivered promptly by the Department to the predecessor co-Trustee and to the co-Trustee so appointed by the Bondowners.

(c) If no appointment of a successor co-Trustee shall be made pursuant to the provisions of Section 813 of Resolution RB-1 within ten (10) days after the vacancy shall have occurred, the owner of any Bond Outstanding under Resolution RB-1 or any retiring co-Trustee may apply to any court of competent jurisdiction to appoint a successor co-Trustee. Such court may thereupon, after such notice, if any, as such court may deem proper and prescribed, appoint a successor co-Trustee.

(d) Any co-Trustee hereafter appointed shall be a bank or trust company duly qualified to do business 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 aggregating not less than Fifty Million Dollars (\$50,000,000) as shown on its most recently published report of its financial condition.

### **No Implied Duty; Standard of Care (Section 816)**

The Trustee or co-Trustee shall have no duty or obligation *except* as expressly provided in Resolution RB-1 and no implied duties or obligations shall be read into Resolution RB-1 against the Trustee or co-Trustee. The Trustee or co-Trustee shall not incur any liability for any act or omission in performing its duties under Resolution RB-1, *except* in the case of its own negligence or willful misconduct.

### **Bondowners' Consent Not Required (Section 1001)**

The Department may, from time to time and at any time, adopt such resolutions supplemental to Resolution RB-1 which are filed with the Trustee (which Supplemental Resolutions shall thereafter form a part of Resolution RB-1):

- (a) to cure any ambiguity or defect or omission in Resolution RB-1; 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, Resolution RB-1 any additional revenues or money legally available therefor; or
- (d) to make any other provisions with respect to matters or questions arising under Resolution RB-1 which shall not be inconsistent with the provisions of Resolution RB-1, provided such action shall not materially adversely affect the interests of the Bondowners; or
- (e) to add to the covenants and agreements of the Department in Resolution RB-1 other covenants and agreements thereafter to be observed by the Department or to surrender any right or power in Resolution RB-1 reserved to or conferred upon the Department; or
- (f) to add provisions relating to Bonds with coupons appertaining thereto or Bonds issued with full book-entry delivery, if necessary, if the Department shall determine to so issue Bonds in such form under Resolution RB-1; or
- (g) to modify any of the provisions of Resolution RB-1 in any respect whatever not otherwise set forth in the Section 1001 of Resolution RB-1; *provided, however*, that either (i) such modification shall apply only to Series of Bonds issued after the effective date of the Supplemental Resolution and shall not materially adversely affect the interests of the owners of Bonds of any Series Outstanding on the effective date of the Supplemental Resolution; or (ii) (a) such modification shall be, and be expressed to be, effective only after all Bonds of any Series Outstanding at the date of the adoption of such Supplemental Resolution shall cease to be Outstanding; and (b) such Supplemental Resolution shall be specifically referred to in the text of all Bonds of any Series authenticated and delivered after the date of the adoption of such Supplemental Resolution and of Bonds issued in exchange therefor or in place thereof; or
- (h) to modify, amend or supplement Resolution RB-1 or any Supplemental Resolution in such manner as to permit, if presented, the qualification of Resolution RB-1 and of the Supplemental Resolution 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 Department by the terms of Resolution RB-1, provided that the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of the Department contained in Resolution RB-1; or
- (j) if the subject of a Rating Confirmation and if approved by the Trustee, to add to the definition of Investment Obligations pursuant to the last proviso of the definition thereof; or
- (k) [reserved]; or

(l) accompanied by a Rating Confirmation, to make any amendment or supplement necessary to accommodate credit enhancement or liquidity support for any or all Series of Bonds; or

(m) to increase the amount of the combined Bond Reserve Requirement and Loan Loss Requirement to an amount greater than ten percent (10%) of the initial principal amount of all Series of which any Bonds are Outstanding Bonds; or

(n) to amend and supplement provisions of Resolution RB-1 regarding the Trustee, and the rights of the Department and the owners of Bonds with respect to appointment and replacement of the Trustee, in the event and to the extent the laws of the State are amended to allow an institution other than the State Treasurer to act as Trustee, provided, that any such institution shall meet the qualifications set forth in Section 814(d) of Resolution RB-1 as if such institution were acting as co-Trustee under Resolution RB-1; or

(o) to make any other change which, in the judgment of the Trustee, does not materially adversely affect the interests of the Bondowners.

### **Supplements and Amendments Requiring Consent of Owners of a Majority in Principal Amount of Bonds (Section 1002)**

Subject to the terms and provisions contained in Section 1002 of Resolution RB-1, and not otherwise, (i) the owners of not less than fifty-one per centum (51%) in aggregate principal amount of the Bonds then Outstanding; and (ii) if less than all of the Bonds then Outstanding are affected, the owners of not less than fifty-one per centum (51%) in principal amount of Bonds so affected then Outstanding, shall have the right, from time to time, anything contained in Resolution RB-1 to the contrary *notwithstanding*, to consent to and approve the adoption by the Department and the Trustee of such resolution or resolutions supplemental to Resolution RB-1 as shall be deemed necessary or desirable by the Department for the purpose of modifying, altering, amending, adding to, repealing or rescinding, in any particular, any of the terms or provisions contained in Resolution RB-1 or in any Supplemental Resolution. Notwithstanding the foregoing, nothing in Resolution RB-1 contained shall permit, or be construed as permitting, without the consent of all materially adversely affected Bondowners, (a) any change in the terms of redemption or of the maturity of the principal of or the interest on any Bond issued under Resolution RB-1; or (b) a reduction in the principal amount of any Bond or the redemption premium or the rate of interest thereon; or (c) the creation of a lien upon or a pledge of the Pledged Property, or any part thereof, other than the lien and pledge created or permitted by Resolution RB-1; 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 Resolution(s); or (e) a reduction in the aggregate principal amount or classes of the Bonds required for consent to such Supplemental Resolution; or (f) an amendment or modification of the rights or obligations of the Trustee without the written consent of the Trustee. Nothing in Resolution RB-1 contained, however, shall be construed as making necessary the approval by Bondowners of the execution of any Supplemental Resolution as authorized in Section 1001 of Article X of Resolution RB-1. If any such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified like Series and maturity remain Outstanding, the consent of the owners of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under Section 1002 of Resolution RB-1. For the purpose of Section 1002 of Resolution RB-1, a Series shall be deemed to be affected by a modification or amendment of Resolution RB-1 or a Supplemental Resolution 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 Resolution RB-1 or a Supplemental Resolution and any such determination shall be binding and conclusive on the Department and all owners of Bonds.

Whenever, at any time within one year after the date of the first giving of such notice, the Department shall deliver to the Trustee an instrument or instruments in writing purporting to be executed by the owners of not less than fifty-one per centum (51%) in aggregate principal amount of the affected Bonds then Outstanding, which instrument or instruments shall refer to the proposed Supplemental Resolution described in such notice and shall specifically consent to and approve the execution thereof in substantially the form of the copy thereof referred to in such notice, thereupon, but not otherwise, the Trustee may perform its duties under such Supplemental Resolution in substantially such form, without liability or responsibility to any Bondowner, whether or not such Bondowner shall have consented thereto.

#### **Discretion of Trustee in Performing Under Supplemental Resolutions (Section 1004)**

In each and every case provided for in Article X of Resolution RB-1, the Trustee shall be entitled to exercise its discretion in determining whether or not to perform under any proposed Supplemental Resolution, or any term or provision therein contained, if the rights, obligations and interests of the Trustee would be affected, having in view the purposes of such instrument, the rights and interests of the Bondowners, the respective rights and interests of the Department and the rights, obligations and interests of the Trustee, and the Trustee shall not be under any responsibility or liability to the Department, any Bondowner or to anyone whomsoever for its refusal in good faith to perform under any such Supplemental Resolution, if such Supplemental Resolution is deemed by it to be contrary to the provisions of Article X of Resolution RB-1. The Trustee shall be entitled to receive, and shall be fully protected in relying upon, the opinion of any counsel approved by it, who may be counsel for the Department, as conclusive evidence that any such proposed Supplemental Resolution does or does not comply with the provisions of Resolution RB-1, and that it is or is not proper for it, under the provisions of Article X of Resolution RB-1, to perform under such Supplemental Resolution.

#### **Defeasance (Section 1101)**

If, when the Bonds secured by Resolution RB-1 shall have become due and payable in accordance with their terms or otherwise as provided in Resolution RB-1, or shall have been duly called for redemption or irrevocable instructions to call the Bonds for redemption shall have been given by the Department to the Trustee and (a) the whole amount of the principal of, Redemption Price and the interest on all of such Bonds shall be paid; or (b) 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 on their respective interest payment, stated maturity or prescribed redemption dates, provided that such Government Obligations shall be in such amount that the principal of and the interest on such Government Obligations so held by the Trustee, when due and payable, will provide sufficient money which, with any and all other money held by the Trustee for such purpose under the provisions of Resolution RB-1, shall be sufficient to pay such principal of, Redemption Price, and the interest on such Bonds and, if sufficient funds shall also have been provided for paying all other obligations payable under Resolution RB-1 by the Department, then and in that case the right, title and interest

of the Trustee under Resolution RB-1 shall thereupon cease, terminate and become void, and the Trustee in such case, on demand of the Department, shall release Resolution RB-1 and shall release the security, and shall execute such documents to evidence such release as may be reasonably required by the Department, and shall turn over to the Department 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 Resolution RB-1. Otherwise, Resolution RB-1 shall be, continue and remain in full force and effect; provided, however, that in the event money or Government Obligations shall be deposited with and held by the Trustee as provided in Resolution RB-1, applicable provisions of Resolution RB-1, particularly Articles II, III, VII and XI, pertaining to the payment of the principal and Redemption Price of, or interest on the Bonds issued under Resolution RB-1 and other obligations payable under Resolution RB-1 by the Department, shall be continued in force until such Bonds and other obligations have been fully paid.

**Payment Due or Acts to be Performed on Weekends and Holidays (Section 1207)**

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 Resolution RB-1, 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 Resolution, with the same force and effect as if done on the nominal date provided in Resolution RB-1.

**APPENDIX J**  
**LETTERS FROM CERTAIN UNDERWRITERS**





September 5, 2024

Mr. Blake Fowler  
Director, Public Finance Division  
Office of the Treasurer of the State of California  
901 P Street, Suite 313-A  
Sacramento, CA 95814

CC: Mr. Eric Tiche  
Assistant Deputy Secretary of Bond Finance  
Department of Veterans Affairs of the State of California  
1227 "O" Street, Room 200  
Sacramento, CA 95814

Re: Department of Veterans Affairs of the State of California  
2024 Series A Home Purchase Revenue Bonds (the "Bonds")

Dear Sirs:

Academy Securities, Inc., a Joint Senior Managing Underwriter of the Bonds, intends to enter into a Third-Party Distribution Agreement with InspereX LLC for the retail distribution of certain municipal securities offerings, at the original issue prices. Pursuant to this Third-Party Distribution Agreement (if applicable for this transaction), Academy Securities, Inc. may share a portion of its underwriting compensation with this firm.

**ACADEMY SECURITIES, INC.**



# AMERICAN VETERANS GROUP

Wall Street's First and Only  
Public Benefit Corporation

July 31, 2024

Mr. Blake Fowler  
Director - Public Finance Division  
California State Treasurer's Office  
915 Capitol Mall, Room 261  
Sacramento, CA 95814

Re: State of California Department of Veteran Affairs  
Home Purchase Revenue Bonds, Series 2024A (the "Bonds")

Dear Mr. Fowler:

American Veterans Group, PBC is providing the following disclosure language for inclusion in the Official Statement for the above referenced bond issuance:

American Veterans Group, PBC ("AVG"), one of the Underwriters of the Bonds, has entered into a negotiated dealer agreement ("Dealer Agreement") with Charles Schwab & Co., Inc. ("CS&Co."), for the retail distribution of certain fixed income securities offerings at the original issue prices. Pursuant to the Dealer Agreement, CS&Co. will purchase the Bonds from AVG at the original issue price less a negotiated portion of selling concession applicable to any of the Bonds that such firm sells.

Sincerely,

American Veterans Group, PBC