

Description of the Department's Bonds

Under the Program, the Department acquires residential property, selected by eligible veteran, to be sold to such eligible veterans under contracts of purchase between the Department and such veterans ("Contracts of Purchase"). Such acquisitions are financed principally with the proceeds of bonds and commercial paper, including State of California Veterans General Obligation Bonds ("Veterans G.O. Bonds") and Department of Veterans Affairs of the State of California Home Purchase Revenue Bonds ("Revenue Bonds"). The Department's ability to utilize tax-exempt municipal bonds generally, historically, has produced below-market interest rate funds. An investor's interest income from municipal bonds generally is exempt from federal, state, and local taxes. Interest rates on "tax-exempt" municipal bonds, therefore, generally historically, have been lower than interest rates on comparable "taxable" bonds sold to investors at the same time. A spread between tax-exempt and taxable bond interest rates creates interest rate subsidy that typically produces the below-market mortgage interest rates provided by the Department to veterans.

The Department's authority to issue bonds is derived from its enabling legislation. The tax exemption of Department bonds is permitted under the provisions of federal tax law. On an annual basis, the Department may issue only a limited amount of tax-exempt Veterans G.O. Bonds (other than refunding bonds) due to Internal Revenue Code imposed maximums and State voter imposed limitations. The Department's capacity to issue Revenue Bonds is subject to State allocations of tax-exempt bond volume cap and is also subject to a State law maximum on outstanding Revenue Bonds.

Revenue Bonds

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 proceeds of Veterans G.O. Bonds and any amounts in any Rebate Account (which account holds monies that are subject to rebate to the United States pursuant to federal tax law), (ii) the Bond Reserve Account and (iii) the Loan Loss Account. The undivided interest 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 for reimbursement of amounts paid from the State General Fund for debt service on Veterans G.O. Bonds 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.

Veterans G.O. Bonds

The Veterans G.O. Bonds are general obligations of the State. The issuance is authorized by Bond Acts approved by the voters of the State of California and by resolutions of the Veterans Finance Committee of 1943. State law requires that on the dates when funds are required for the payment of debt service on Veterans G.O. Bonds, a transfer of the required amount must be made from the 1943 Fund to the Veterans' Bond Payment Fund, a revolving special fund in the State Treasury, to pay the debt service on such Veterans G.O. Bonds. Debt service on Veterans

G.O. Bonds is first payable from the monies in the Veterans' Bond Payment Fund and second, to the extent that monies in the Veterans' Bond Payment Fund are insufficient, from the State General Fund. Principal of and interest on all State general obligation bonds, including the Veterans G.O. Bonds to the extent that the monies in the Veterans' Bond Payment Fund are insufficient to pay the amount of debt service then due, are payable from any monies in the support of the public school system and public institutions of higher education.