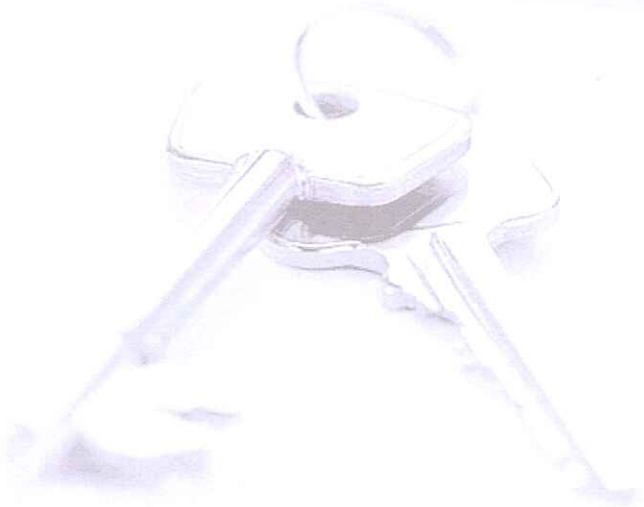
California Housing Finance Agency

CalHFA Board Meeting

November 19, 2009



CalHFA℠
California Housing Finance Agency

Today's Discussion

Federal HFA Initiative – NIBP and TCLP

Assets

Loan Portfolio
Delinquencies
Loan losses
New Lending

Liabilities

Bond Portfolio – Existing Bonds and New Bonds

Fund Equity – Operating Loss

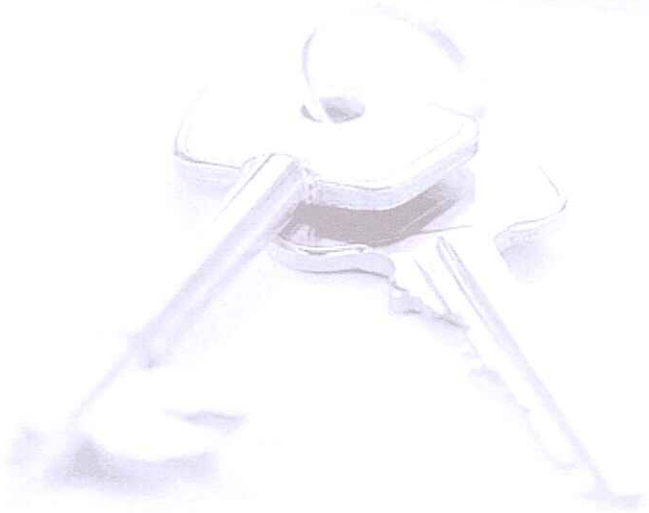
Closed Session

Business Plan Update

Operating Budget and Staffing

AGENDA ITEM 4:

Update on Federal Assistance Initiative



CalHFA℠
California Housing Finance Agency

Federal initiative announced on October 19

- Initiative is part of the Obama Administration's *Making Home Affordable program*
- Supported by Fannie Mae, Freddie Mac, Federal Housing Finance Agency, and the U.S. Treasury
- The Authority for the initiative is derived from Housing and Economic Recovery Act of 2008 (HERA) and expires on December 31, 2009
- Two components of the initiative
  - New Issue Bond Program
  - Temporary Credit and Liquidity Program

New Issue Bond Program

- Objective: allow CalHFA access to bond proceeds to re-establish its lending programs (SF and MF)
- General parameters:
  - Fixed rate bonds only
  - For single-family, 60% of each financing (long-term bonds) to be purchased by the GSEs. For multifamily, the GSEs can purchase up to 100%.
    - Interest rate will be set at a spread to 10-year Treasury note
    - Spread depends on the credit rating of the bond indenture
  - Require previously awarded tax exempt bond volume cap allocated by CDLAC

New Issue Bond Program (continued)

- Timeline:
  - Allocated amount must be escrowed by Dec 31, 2009
  - Convert escrow into lendable proceeds up to three times in 2010
  - Upon conversion, the GSEs will securitize the HFA bonds and sell the securities to Treasury
  - All conversions must be made by Dec 31, 2009
- Use of proceeds:
  - Purchase SF MBSs
  - Finance MF loans
  - Refund outstanding bonds

New Issue Bond Program (continued)

- Amount applied:
  - SF: $1,123M
  - MF: $613M
- Amount allocated:
  - SF: $1,016M
  - MF: $580M
- Expected spread to 10-yr T-note (AA credit): 75 bps

Temporary Credit and Liquidity Program

- Objective: replace credit-impaired liquidity providers and expiring facilities
- General parameters:
  - 3-yr facility with annual escalating fee
  - Fee based on the credit rating of indenture at the initial implementation of the program
  - No rating triggers to increase fees
  - No refundings
  - If the facility is drawn upon
    - No accelerated term out payments (customarily 5-yr level amortization)
    - Ten-year balloon

Temporary Credit and Liquidity Program (continued)

- Timeline:
  - Irrevocable mandatory tender notices must be issued by Dec 31, 2009
  - Tender dates must occur by Jan 29, 2010
- Use of facility:
  - SF VRDOs
  - MF VRDOs

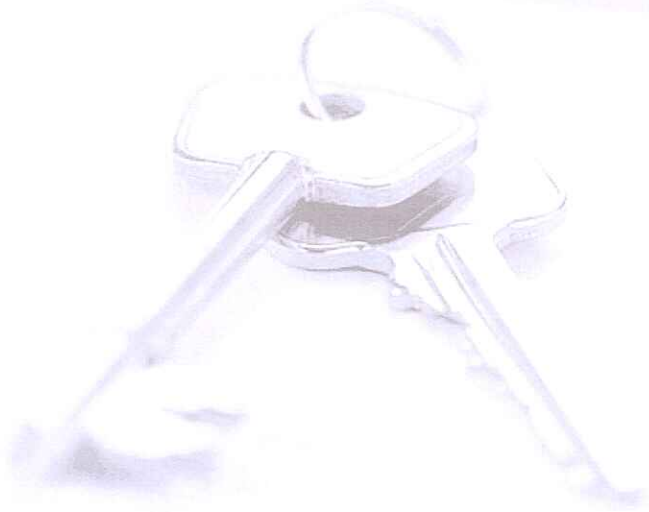
Temporary Credit and Liquidity Program (continued)

- Amount applied:
  - SF: $2,919M
  - MF: $942M
- Amount allocated:
  - SF: $2,919M
  - MF: $942M
- Expected fee structure for HMRB (AA-/Aa3):
  - Yr-1: 50 bps
  - Yr-2: 75 bps
  - Yr-3: 100 bps
- Expected fee structure for G-O (AA-/A1):
  - Yr-1: 70 bps
  - Yr-2: 100 bps
  - Yr-3: 120 bps

Board Action
Resolution 09-14

AGENDA ITEM 5:

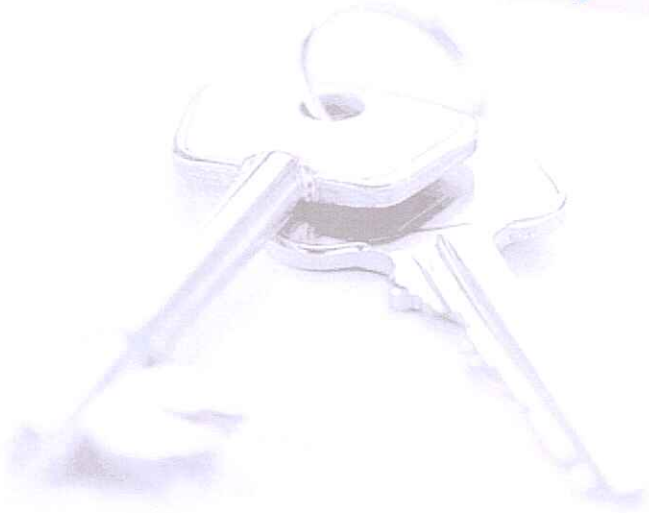
Summary of Recent Financial Challenges



CalHFA℠
California Housing Finance Agency

AGENDA ITEM 5a:

Variable Rate Debt and Swap Exposure



CalHFA℠
California Housing Finance Agency

Variable rate debt and swap exposure

- Basis mismatch: $12M in fiscal year 2008 and $38M in fiscal year 2009

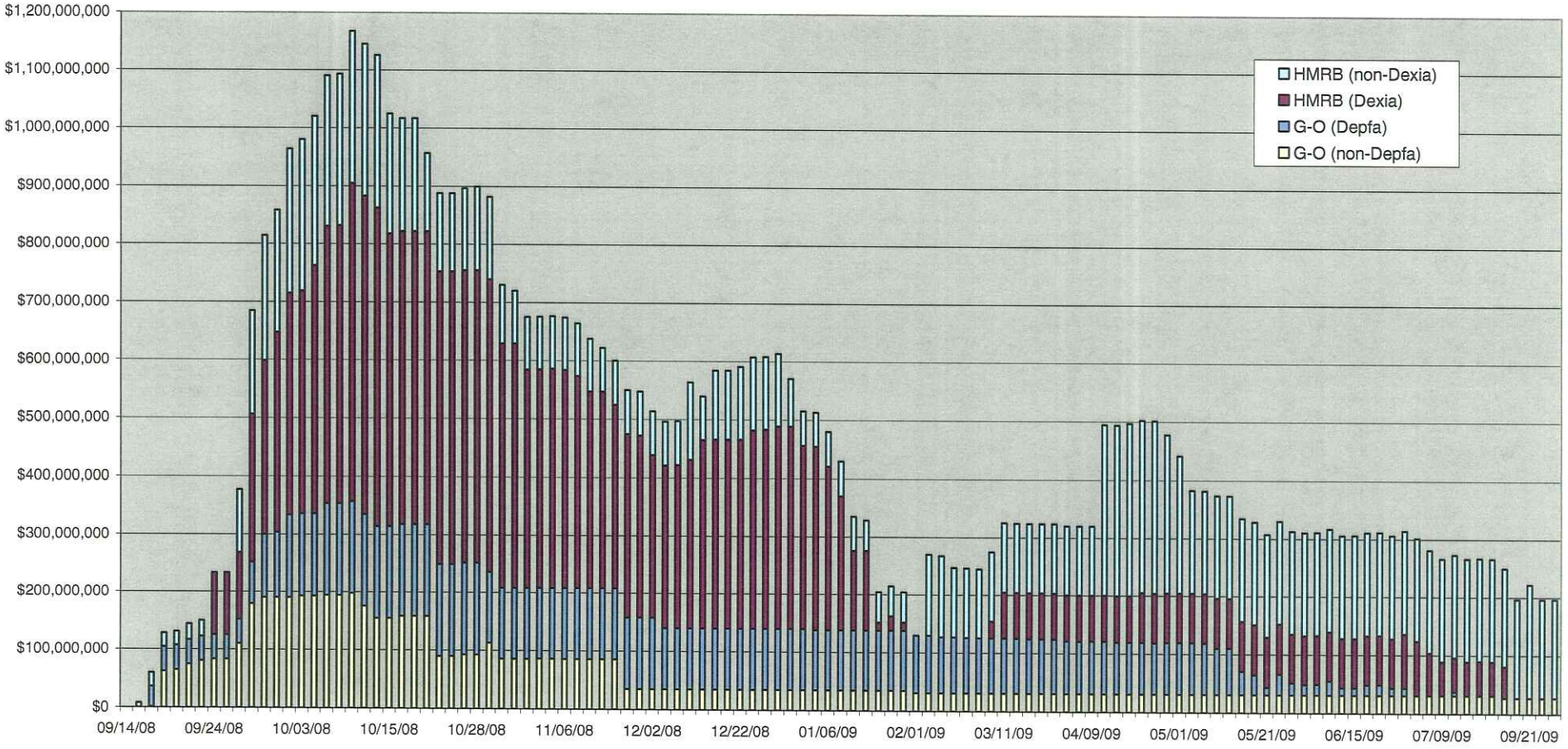
- Termination of swaps: $16M of termination expenses related to the bankruptcy of Lehman, and $39M of termination expenses related to the restructuring of swap collateral thresholds

Variable rate debt and swap exposure (continued)

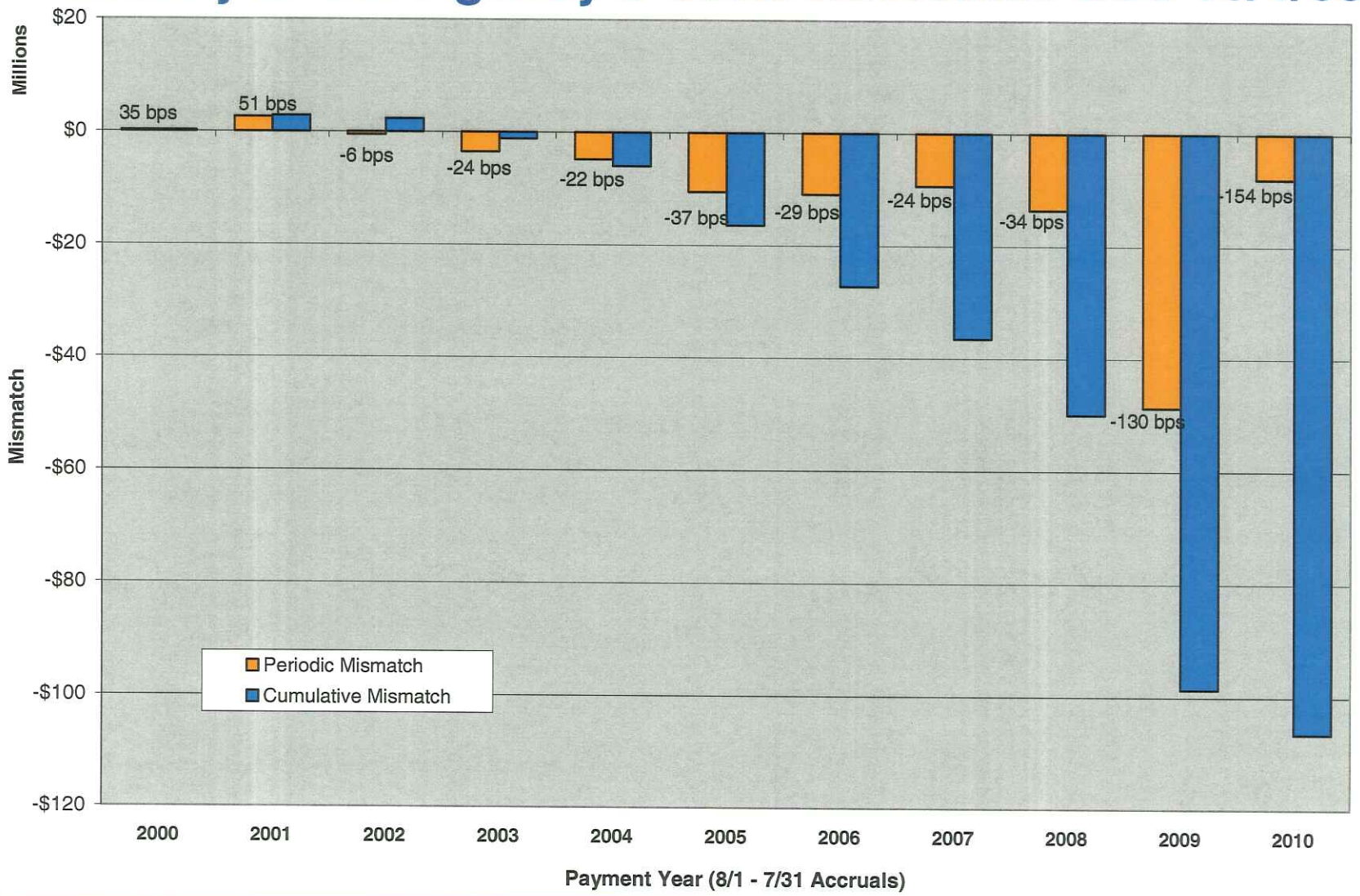
- Treasury's TCLP will allow CalHFA to accomplish the following:
  - Replace $197M of expired facilities
    - Alleviate the accelerated term outs required by bank bonds
  - Lower cost of funds due to high demand for securities guaranteed by the US Treasury
    - Improvement in basis mismatch
- Without Treasury's TCLP, CalHFA would need to replace or extend a total of $2B of liquidity support from now until the end of calendar year 2010

History of bank bonds from 9/14/08 to 11/10/09

(Lehman filed bankruptcy on 9/14/08)



History of the Agency's basis mismatch thru 10/1/09



CalHFA's debt portfolio as of 10/1/09

	AMBAC FGIC MBIA	FSA	uninsured	Total
Variable-rate bonds				
Auction-Rate	$46	$138		$184
VRDOs				
- AMBAC/MBIA	$46			$46
- Dexia		$384	$364	$748
- Depfa			$87	$87
- Expired SBPA			$197	$197
- remaining		$165	$2,436	$2,601
Index Floaters	$557	$236	$269	$1,062
Fixed-rate bonds	$880	$135	$1,938	$2,953
	$1,528	$1,058	$5,291	$7,878

Auction-Rate Securities:	Red	$184	*2%*
Poorly performing VRDOs:	Blue	$1,045	*13%*
VRDOs in Bank Bond mode:	Dark Red	$197	*3%*
	Green	$2,436	*31%*
	Black	$4,015	*51%*

CalHFA's projected debt portfolio as of 2/1/10

	AMBAC FGIC MBIA	FSA	uninsured	Total
Variable-rate bonds				
Auction-Rate	$46	$138		$184
VRDOs				
- AMBAC/MBIA				
- Dexia				
- Depfa				
- Expired SBPA				
- TCLP		$549	$3,025	$3,574
Index Floaters	$557	$236	$269	$1,062
Fixed-rate bonds	$880	$135	$1,938	$2,953
	$1,483	$1,058	$5,232	$7,773

Auction-Rate Securities:	Red	$184	*2%*
FSA-insured VRDOs:	Blue	$549	*7%*
VRDOs in Bank Bond mode:	Dark Red	$0	*0%*
	Green	$3,025	*38%*
	Black	$4,015	*51%*

AGENDA ITEM 5b:

Real Estate Losses and Mortgage Insurance Claim Payments

CalHFA℠
California Housing Finance Agency

Entire loan portfolio as of 8/31/09 sorted by mortgage insurance type

	# of loans	Balance	%	Delinquency Ratios 30-Day	60-Day	90-Day+	Total
Federal Guaranty							
FHA	14,970	$2,083,625,521	*33.1%*	5.57%	2.68%	9.03%	17.28%
VA	414	$65,644,212	*1.0%*	3.14%	1.93%	8.45%	13.53%
RHS	99	$19,665,343	*0.3%*	6.06%	2.02%	8.08%	16.16%
Conventional loans							
with MI							
CalHFA MI Fund	9,595	$2,630,250,952	*41.8%*	4.36%	2.91%	13.54%	20.80%
without MI							
Originated with no MI	6,057	$1,269,097,979	*20.2%*	2.15%	1.22%	4.00%	7.36%
MI Cancelled*	1,618	$228,429,213	*3.6%*	2.04%	0.43%	2.10%	4.57%
Total CalHFA	32,753	$6,296,713,220	*100.0%*	4.38%	2.35%	9.07%	15.80%

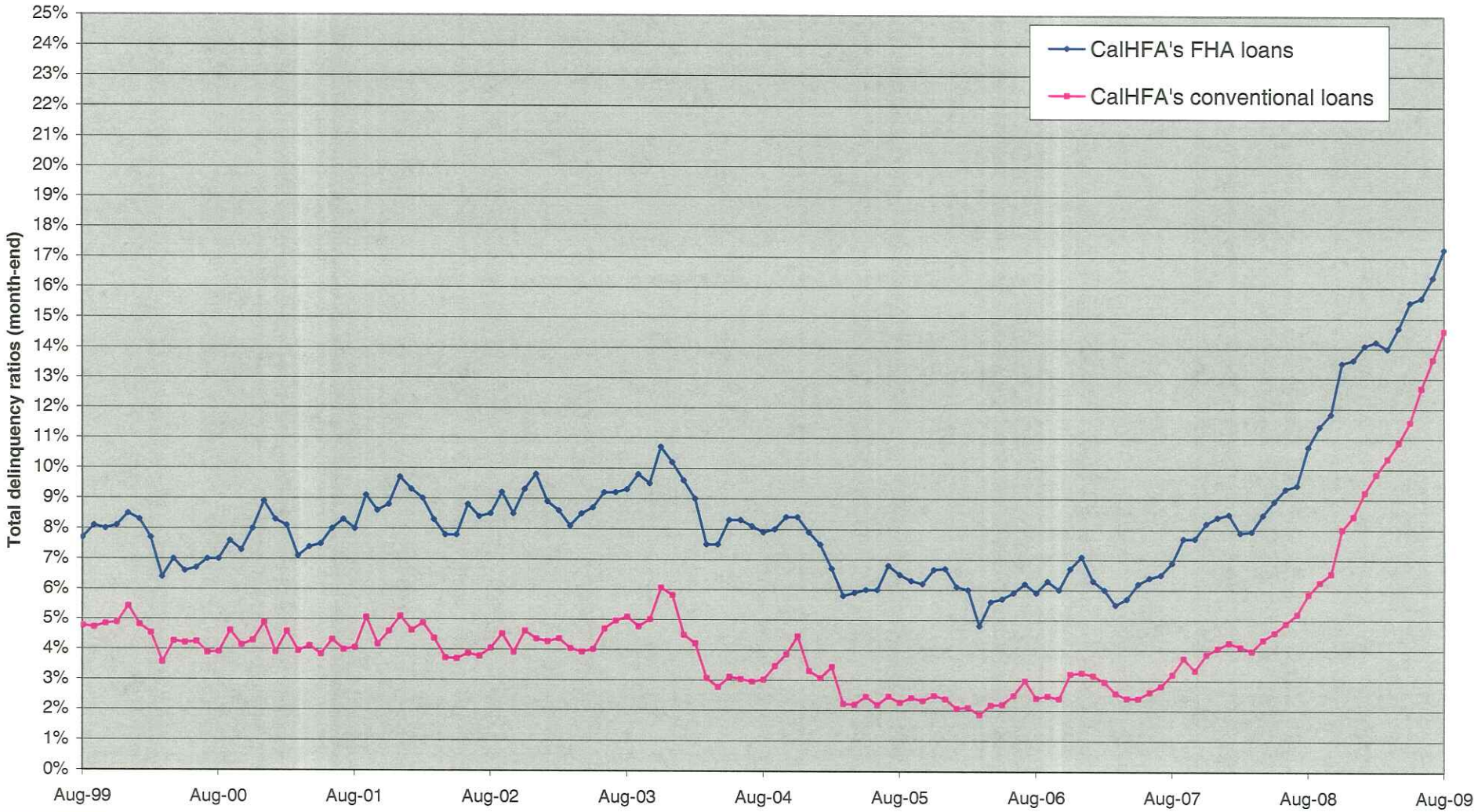
** Cancelled per Federal Homeowner Protection Act of 1998, which grants the option to cancel the MI with 20% equity*

Entire loan portfolio as of 8/31/09 sorted by loan type

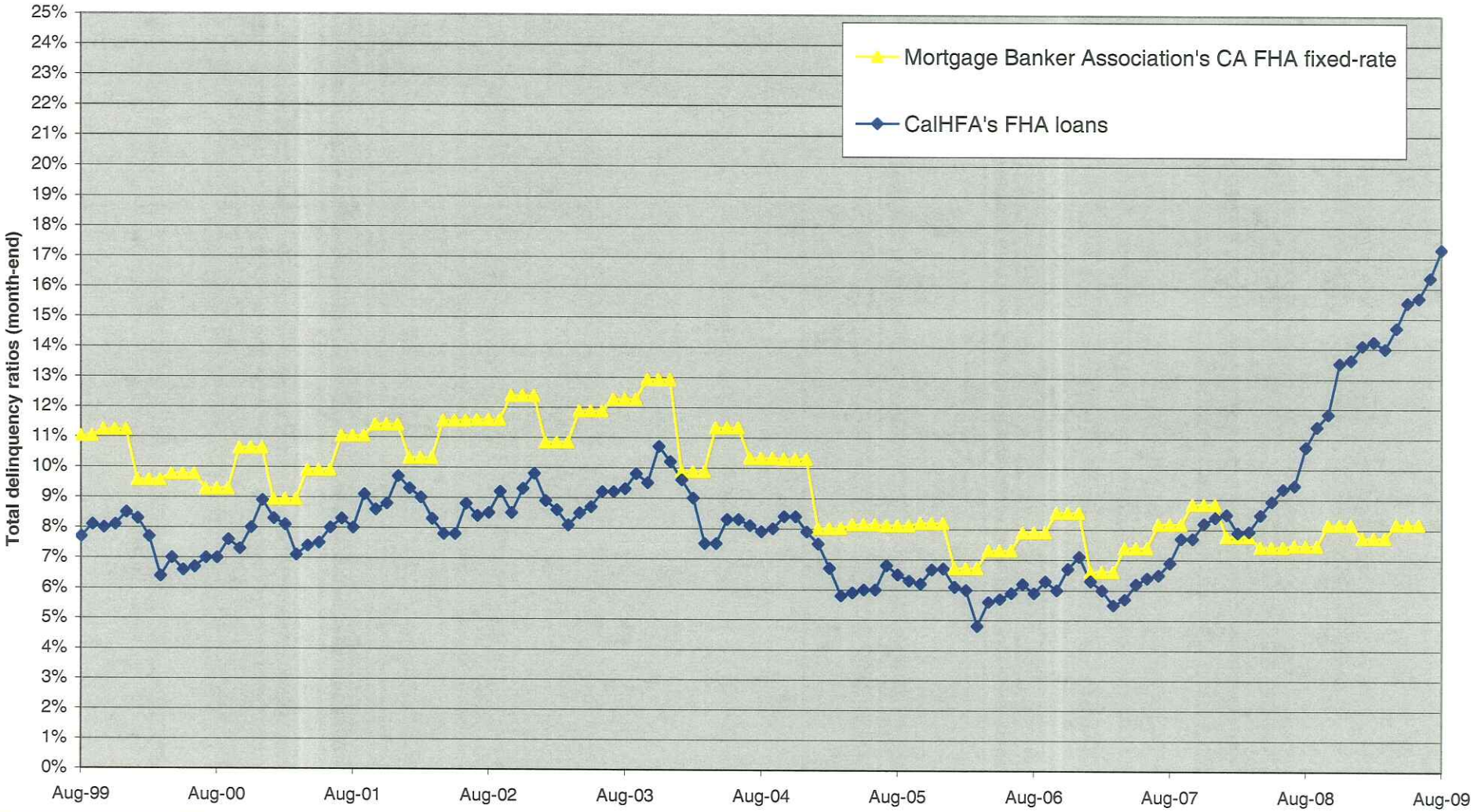
	# of loans	Balance	%	Delinquency Ratios 30-Day	60-Day	90-Day+	Total
30-yr level amort							
FHA	14,970	$2,083,625,521	*33.1%*	5.57%	2.68%	9.03%	17.28%
VA	414	$65,644,212	*1.0%*	3.14%	1.93%	8.45%	13.53%
RHS	99	$19,665,343	*0.3%*	6.06%	2.02%	8.08%	16.16%
Conventional w/ MI	4,569	$1,138,820,071	*18.1%*	3.92%	2.12%	9.41%	15.45%
Conventional w/o MI	6,682	$1,260,445,227	*20.0%*	1.96%	0.85%	3.10%	5.91%
40-yr level amort							
Conventional w/ MI	726	$214,062,123	*3.4%*	5.10%	3.44%	12.26%	20.80%
Conventional w/o MI	236	$47,764,074	*0.8%*	2.97%	1.27%	5.08%	9.32%
5-yr IO, 30-yr level amort							
Conventional w/ MI	4,300	$1,277,368,758	*20.3%*	4.70%	3.65%	18.14%	26.49%
Conventional w/o MI	757	$189,317,891	*3.0%*	3.30%	2.77%	7.53%	13.61%
Total CalHFA	32,753	$6,296,713,220	*100.0%*	4.38%	2.35%	9.07%	15.80%
All conventional loans:	17,270	$4,127,778,144		*3.36%*	*2.08%*	*9.12%*	*14.57%*

** 5-year interest-only and 30-year level amortization thereafter (same fixed-rate in both periods).*

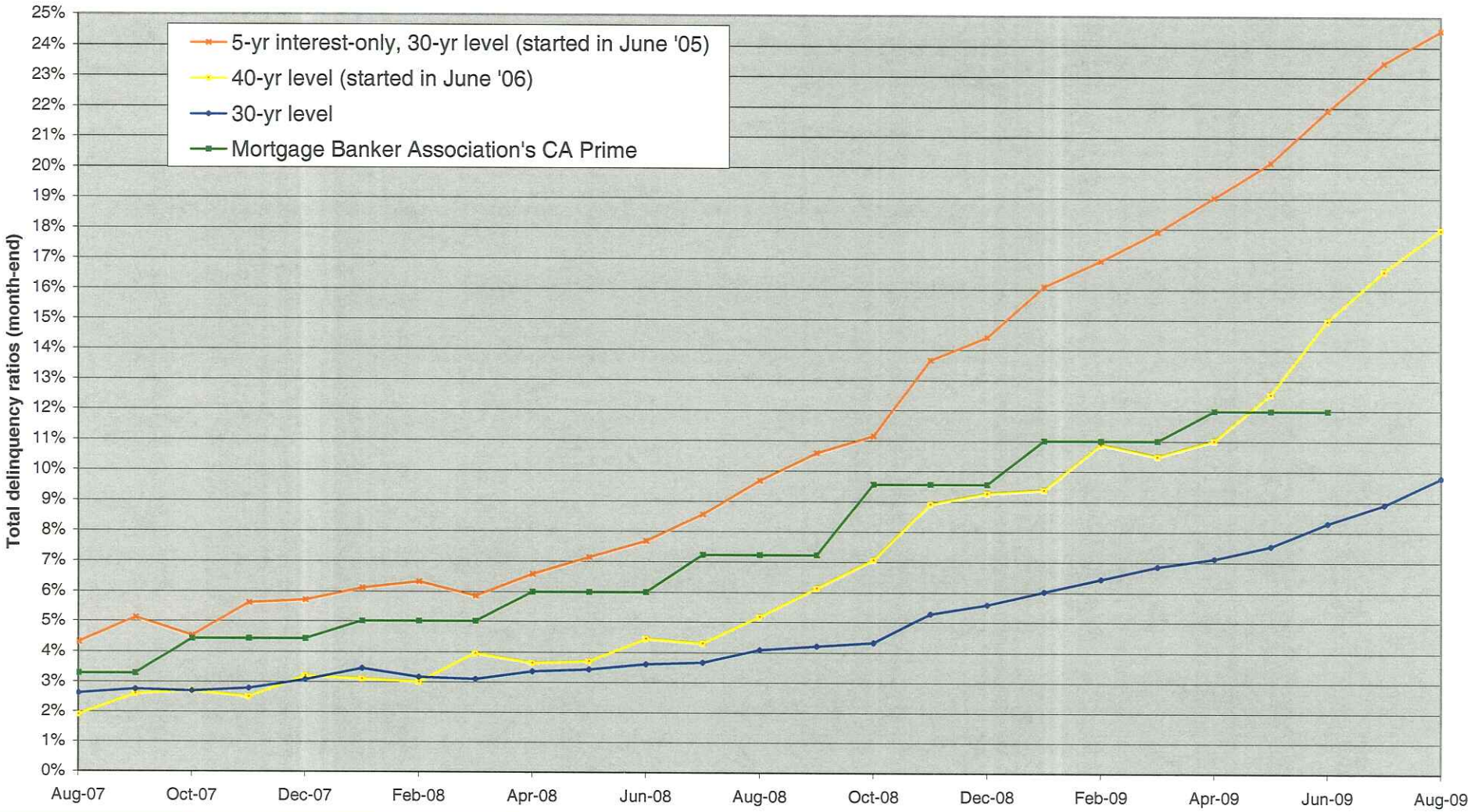
Total delinquent ratios for FHA loans and all conventional loans



Total delinquent ratios for CalHFA FHA loans



Total delinquent ratios
CalHFA conventional loans



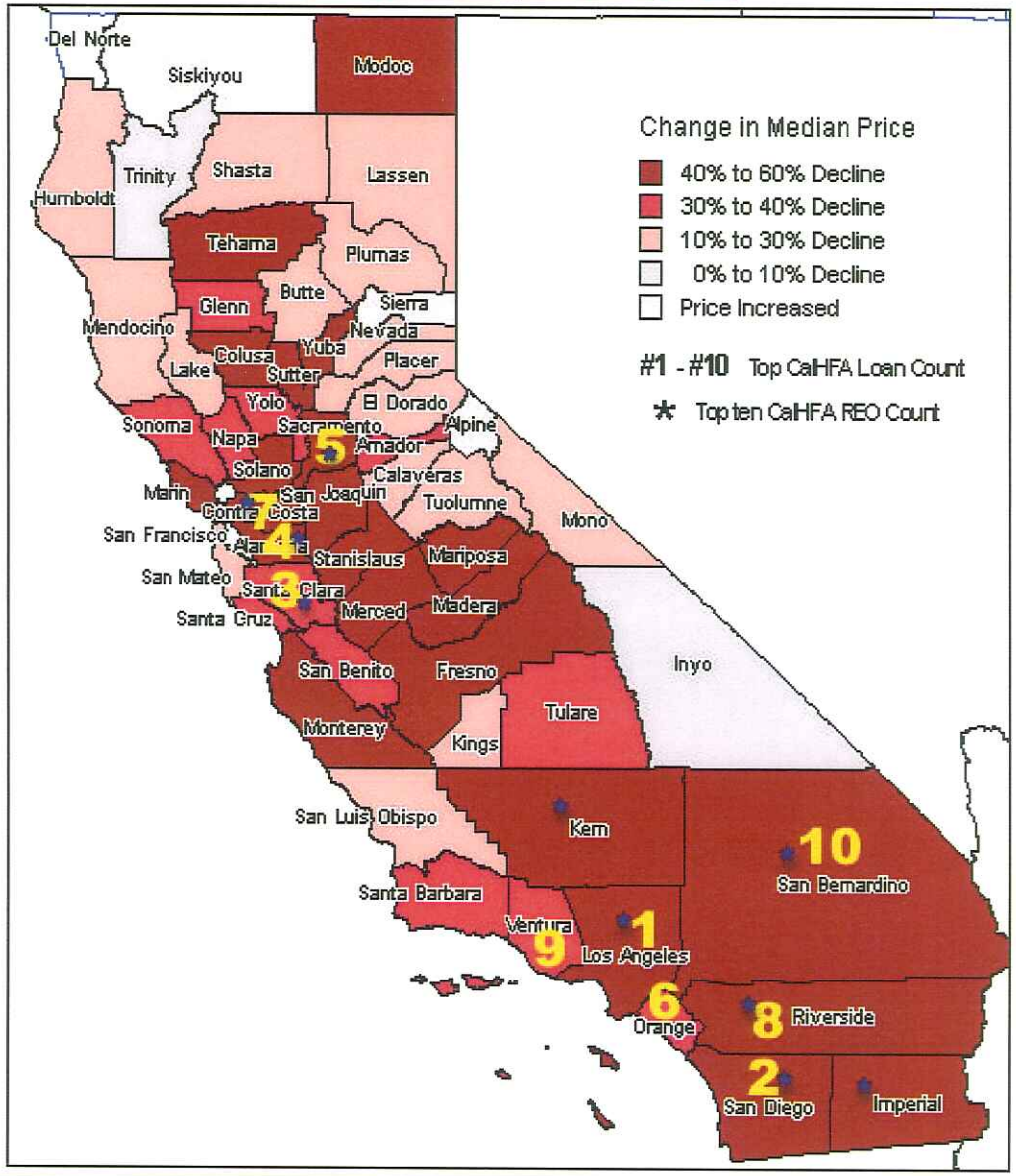
Efforts to reduce delinquencies and mitigate losses to CalHFA

- Staff shifted from loan production activities to loan servicing, loan modifications, loss mitigation and REO management
- Two loan modification programs developed
- "Keep Your Home" campaign
- Reorganization and relocation of loan servicing staff – training and better equipment
- Improved reporting from outside loan servicers and metrics for performance measurement

Loan modifications

- For both FHA and Conventional loans
  - Lower interest rates for limited period
  - Longer terms on conventional loans
- Report on loan modifications so far
  - 275 applications received; 150 approved, 88 declined
  - Of the 150 approved by CalHFA underwriters
    - 25 accepted/executed by borrower – payments received
    - 22 declined by borrower
    - 78 in process with servicers
    - 25 being approved by Genworth (funding the program)

Click map to open



Real estate losses

- Loan related losses in FY 08/09 totaled $155M:
  - Primary insurance (MI Fund): $35M
  - Gap insurance (GO): $85M
  - Loan loss provision: $30M
  - Write-down of REO: $5M
- Total delinquency ratio for single family borrowers:
  - As of Dec 2008: 10.8%
  - As of Aug 2009: 15.8%
- Total REOs
  - As of Dec 2008: 277
  - As of Sep 2009: 480 (73% increase)

California Housing Finance Agency
Housing Finance Fund

RESERVES FOR DELINQUENT LOANS AND REAL ESTATE OWNED (REO)

	Dec-08	Mar-09	Jun-09	Sep-09 (Estimated)
CaHLIF Primary Loss Reserves	$ 25,994,567	$ 4,684,531	$ 44,946,593	$ 56,769,141
Genworth Loss Reserves (estimated)	76,630,592	102,133,355	131,472,856	161,658,663
GAP Insurance Loss Reserves *	44,906,156	61,973,985	80,132,586	106,442,883
Loan Loss Reserves (HMRB only)	11,065,601	12,051,018	13, 617,468	14,764,221
REO – Estimated Losses	5,639,632	9,931,395	15,089,899	18,377,728
Total Reserves	$ 164,236,548	$ 220,774,284	$ 285,093,154	$ 358,012,636

* "GAP Insurance Loss Reserves" include GAP reserve for Insured loans, REO and Uninsured loans

Rating Agency Update

CalHFA℠
California Housing Finance Agency

Recent rating actions

- Moody's
  - On July 22, downgraded
    - GO from Aa3 to A1 (with negative outlook)
    - HMRB from Aa2 to Aa3 (with negative outlook)
- S&P's
  - On Oct 27, placed the CalHFA MI Fund (BBB) on
    - CreditWatch with negative implications
  - On Oct 29, affirmed
    - GO at AA-
    - HMRB at AA-
    - Maintained both credits on CreditWatch with negative implications

Ratings of CalHFA's three credits

S&P's	Moody's	*G-O*	*HMRB*	*MI Fund*
AAA	Aaa			
AA+	Aa1			
AA	Aa2			
AA-	Aa3	*AA-*	*AA-/Aa3*	
A+	A1	*A1*		
A	A2			
A-	A3			
BBB+	Baa1			
BBB	Baa2			*BBB*
BBB-	Baa3			

AGENDA ITEM 6:

Report of the Audit Committee

CalHFA℠
California Housing Finance Agency

California Housing Finance Agency (CalHFA)
Housing Finance Fund

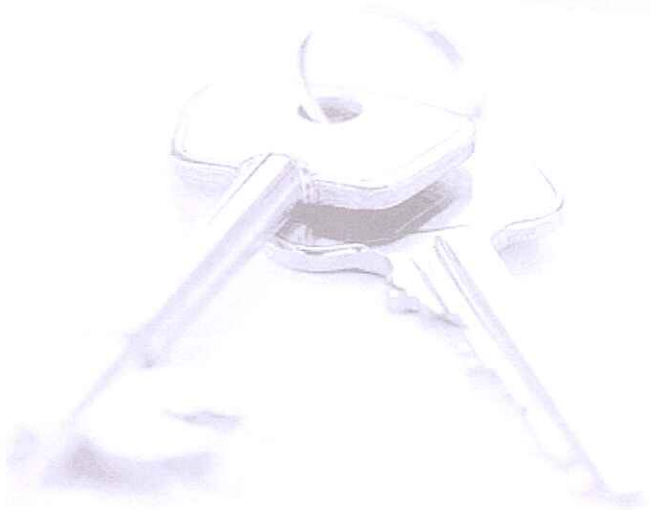
Balance Sheet as of June 30, 2009			
ASSETS		**LIABILITIES AND EQUITY**	
Cash and Investments	$ 2,236,089,228	Bonds Payable	$ 8,243,620,780
Loan Receivable, net	8,320,566,987	Other Liabilities	769,972,361
Other Assets	204,404,716	Equity	1,747,467,790
Total Assets	$ 10,761,060,931		$10,761,060,931

California Housing Finance Agency
Housing Finance Fund

Revenues, Expenses, and Changes in Fund Equity as of June 30, 2009

OPERATING REVENUES		OPERATING EXPENSES	
Interest Income program loans, net	$ 449,485,291	Interest	$ 427,297,000
Interest Income investments, net	66,314,423	Mortgage servicing fees	19,574,027
Increase in fair value of investments	11,034,313	Operating expenses	39,772,579
Other loan and commitment fees	16,336,882	Other expenses	309,546,197
Other revenues	106,949,847		
Total Operating Revenues	$ 650,120,756	Total Operating Expenses	$ 796,189,803
Operating Income (Loss) before transfers			**($146,069,047)**

CLOSED SESSION



CalHFA℠
California Housing Finance Agency

AGENDA ITEM 8:

Business Plan Update

CalHFA℠
California Housing Finance Agency

Single Family
Purchase Whole Loans
100% Risk on Balance Sheet
CalHFA Mortgage Insurance
High LTV Loans
High % of Conventional Loans
100% Reliance on Bonds

Multifamily Loans
Portfolio Lender
100% Risk on Balance Sheet
100% Reliance on Bonds

Financing
Heavy Reliance on VRDBs
Reliance on PMIB

TRANSITION

Single Family
Purchase MBS
Loans Owned by GSEs
No Real Estate Risk to CalHFA
No CalHFA Mortgage Insurance
Lower LTV Loans
More FHA Lending
Flow Delivery of Loans

Multifamily Loans
Loans Delivered to GSEs
Reduced Risk on Balance Sheet
Reduced Reliance on Bonds

Financing
Less Reliance on VRDBs
Other Sources of Liquidity

Transition Actitivities

Resecuritization of Multifamily Loans
Sale of Bay Area Housing Plan Bonds
"Swap and Hold" Transaction for Single Family Loans
Small Bulk Sale of Single Family Loans
Federal Assistance

Homeownership business plan update

- Three first mortgage products
  - All 30-year fixed rate fully amortizing loans
  - FHA – 96.5% LTV
  - Conventional loans
    - Fannie Mae 100% LTV with Fannie Mae MI
    - Outside private mortgage insurance or no MI
- Down payment assistance
  - CHDAP
  - SFF – need more bond funds
  - Locality DPA
- Volume – approximately $1.0B over next 15 months

Multifamily business plan update

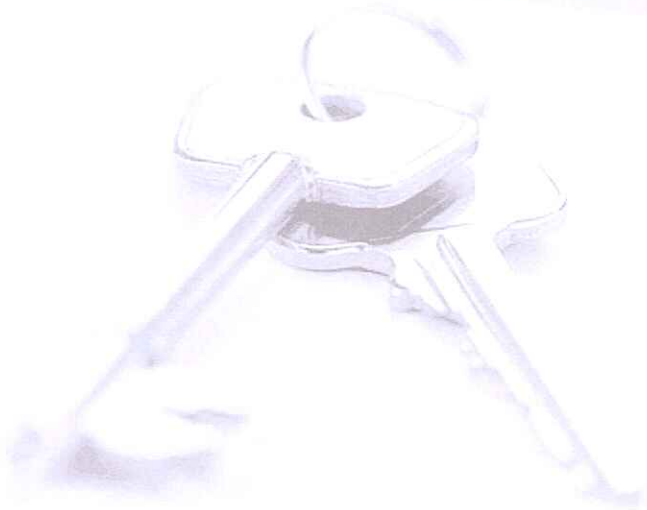
- Continue lending on MHSA program
- Focus on new production/loans through the HFA New Issuance Bond Program (NIBP) which will include up to $380M in bonds for program that:
  - Delivers loans to GSEs (Fannie Mae and Freddie Mac);
  - Shares real estate risk;
  - Finances a Preservation Program to finance at-risk projects in CalHFA's existing portfolio of multifamily properties
- TCAC consulting/underwriting roll to assist the roll out of ARRA funds into tax credit projects

Asset Management business plan update

- Asset Management workload continues to increase
  - MF loans closed during FY 2008/09 added to CalHFA Asset Management portfolio
  - Up to approximately 500 properties
- Portfolio is aging:
  - Loan terms are expiring
  - Projects need rehabilitation, recapitalization
- Performance Based Contract Administration
  - RFP to become HAP Administrator in California
  - See agenda item #9

AGENDA ITEM 9:

Performance Based Contract Administration



CalHFA℠
California Housing Finance Agency

PBCA bid overview

- U.S. Department of Housing and Urban Development (HUD) will re-bid all Section 8 PBCA contracts
- PBCA program initially began in 2000
  - Eligible entities must be a Public Housing Authority (PHA) as defined by the Housing Act of 1937 to make a bid
- All 50 states and the District of Columbia have a PBCA Administrator
- Thirty-three State Housing Finance Agencies currently serve as HUD PBCAs
  - Most of the 17 states that previously did not bid PBCA in 2000 are doing so now

PBCA bid overview (continued)

- CalHFA has successfully performed contract administration duties since 1975
  - Currently CalHFA serves as a Traditional Contract Administrator (TCA) for 131 properties totaling 8,329 units earning $1.6M in fees annually
  - PBCA will be an additional program
- CalHFA to partner with outside organization with proven PBCA experience
- PBCA contract consists of:
  - Northern CA: 547 contracts and 40,704 units
  - Southern CA: 749 contracts and 46,078 units
- Potential gross earnings as PBCA = $14M
  - Contract services to be paid from PBCA fee

PBCA bid timeline

- Jan-Mar 2010: Application period to HUD
- Sept 2010: HUD notifies successful bidders
- Oct-Dec 2010: Ramp up period for new PBCAs
- Jan 1, 2011: Begin 5-year PBCA contract

CalHFA's role

- HUD to publish RFP on or about Jan. 1, 2010

  Between now and then CalHFA will:
  - Use RFP process to solicit and award contract services to assist CalHFA with PBCA bid process and duties if selected as PBCA
  - Actual PBCA duties and fee structure unknown until HUD RFP is published, however gross fees of approximately $14M annually are anticipated

- PBCA contract expected to be for 5-year term with one year renewals

Board Action
Resolution 09-15

AGENDA ITEM 10:

Refinancing Portion of Multifamily Loan Portfolio

CalHFA℠
California Housing Finance Agency

Refinancing of MF loans

- General terms:
  - Refinancing of approx. $70M of MF loans at par
    - Citi retains option on another $35M of MF loans
  - In addition to pledging the Agency's GO, all existing loan-level credit enhancements will remain:
    - $18M of risk-sharing
    - $2M of Section 8
  - Benefits:
    - CalHFA retains servicing and will be paid 20 bps per annum
    - redemption of underperforming variable rate bonds
    - raising additional liquidity on sale of unencumbered loans
  - Expected closing date: February 2010

Board Action
Resolution 09-16

AGENDA ITEM 11:

Budget and Staffing Update

CalHFA℠
California Housing Finance Agency

FY 2008-09 operating budget - results

- Adopted operating budget for FY 2008-09
  - Budget $46.2M (311 positions)
  - Actual expenditures $39.2M

- Budget savings attributed to:
  - Deferred spending on strategic projects
  - Impact of furlough plan (Feb – June)
  - Increased staff vacancies
  - Reduced conference attendance, travel and training

FY 2009-10 budget plan

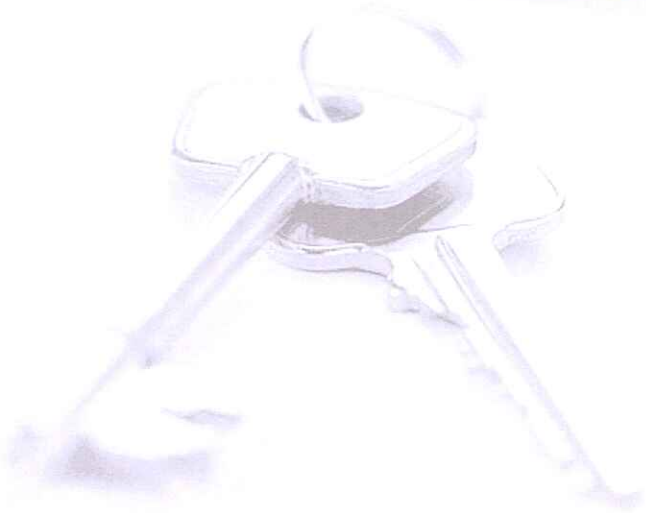
- July 2009 - Budget plan approved by Board
  - $47.9 million (311 employee positions)
  - Assumed 2 day/month furlough plan
  - Assumed 30 staff vacancies until more known about Federal assistance plan and lending opportunities
- Actual results so far
  - First quarter spending -- $8.1M (17%)
  - Contracts unbilled at Sept 30
  - 44 staff vacancies (retirements, exam process)
- Projected total for FY 2009-10 is $38.5M
  - Impact of third furlough day
  - Impact of additional lending activities

Impact of Federal assistance

- Additional lending activities
  - Requires staff to be reassigned to loan processing – for Single Family and Multifamily
- Cost of implementing Federal plan
  - Legal costs
  - Transactions costs
- With new lending activity and continuing loss mitigation activity
  - Staff vacancies will need to be filled
  - Overtime costs and temp help costs will also be impacted

AGENDA ITEM 12:

Sacramento Offices -- Relocation Update



CalHFA℠
California Housing Finance Agency

Relocation and Expansion of Loan Servicing

- New location
  - Five-year lease on location in West Sacramento
  - Estimated move in date: January 25, 2010
  - Approximately 16,533 square feet of space in an approximately 47,630 square foot building
    - Negotiated option to expand
    - Base rent at $.83/sq.ft.
    - 4 months of free rent
- Equipment and operations
  - $257,000 worth of free furniture from Franchise Tax Board
  - New VoIP call center phone system and Interactive Voice Response (IVR) provides better borrower service
  - Online payment system to provide customers with ability to make payments 24/7 through secure online portal
  - Expand hours to evenings and weekends

Loan Servicing, West Sacramento location

Sacramento HQ consolidation

- Agency must be located within the City of Sacramento
  - 2 locations now: Senator Hotel & Meridian Building
  - Current cost: approximately $2.65/sq.ft.
  - Current leases expire fall of 2010
- Goals:
  - Consolidate into a single location
  - Cost of approximately $2.10/sq.ft.
  - Free rent period
  - Looking to rent space around 80,000 to 85,000 square feet.
  - Space needs ample parking and public transit
- Options:
  - Stay at current location; 700 I street; Plaza 555; 2020 L Street; and others